CEB
COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2011

The Council of Europe Development Bank (CEB) was set up on 16 April 1956 in order to provide solutions to the problem of refugees. Since then it has adapted to changes in social priorities in Europe. Its mission is to contribute to strengthening social cohesion in Europe.

OBJECTIVES

The CEB is a multilateral development bank with a social vocation. With its 40 Member States, it represents a major instrument of solidarity policy in Europe.

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

THE COUNCIL OF EUROPE AND THE CEB

The Bank is legally and financially independent. It is based on a Partial Agreement among Council of Europe Member States and is subject to the Council's overall authority. Its administrative headquarters are in Paris.

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

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

The Council of Europe Development Bank (CEB), first known as the "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe" and then as the "Council of Europe Social Development Fund", was the subject of the first Partial Agreement, which was signed by eight countries on 16 April 1956. Today, the Bank has 40 Member States.

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

ACTIVITIES

The Bank grants loans to finance projects with a social purpose. Its activities complement those of the other intergovernmental financial institutions; it plays a key role in the financing of social infrastructure.

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

Since the Bank was set up fifty years ago, the scope of its activity has gradually broadened to other sectors: education and vocational training, health, social housing, employment in SMEs, improving living conditions in disadvantaged urban areas and rural modernisation, protection of the environment, preservation of historic and cultural heritage, and infrastructure of administrative and judicial public services.

FINANCIAL RESOURCES

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

Established in 1956 with a capital equivalent to 5.7 million euros, the Bank had a subscribed capital of 5 billion euros as at 31 December 2011. Leverage is particularly impressive: since its inception, the Bank has been able to pay out more than 30 billion euros in loans.

RATING

For its long-term operations the Bank has been awarded AAA by the three major agencies: Moody's (Aaa, outlook stable, 8 September 2011), Standard & Poor's (AAA, outlook negative, 18 January 2012), Fitch Ratings (AAA, on credit watch negative, 19 December 2011).

MANAGEMENT

The Bank's organs are:

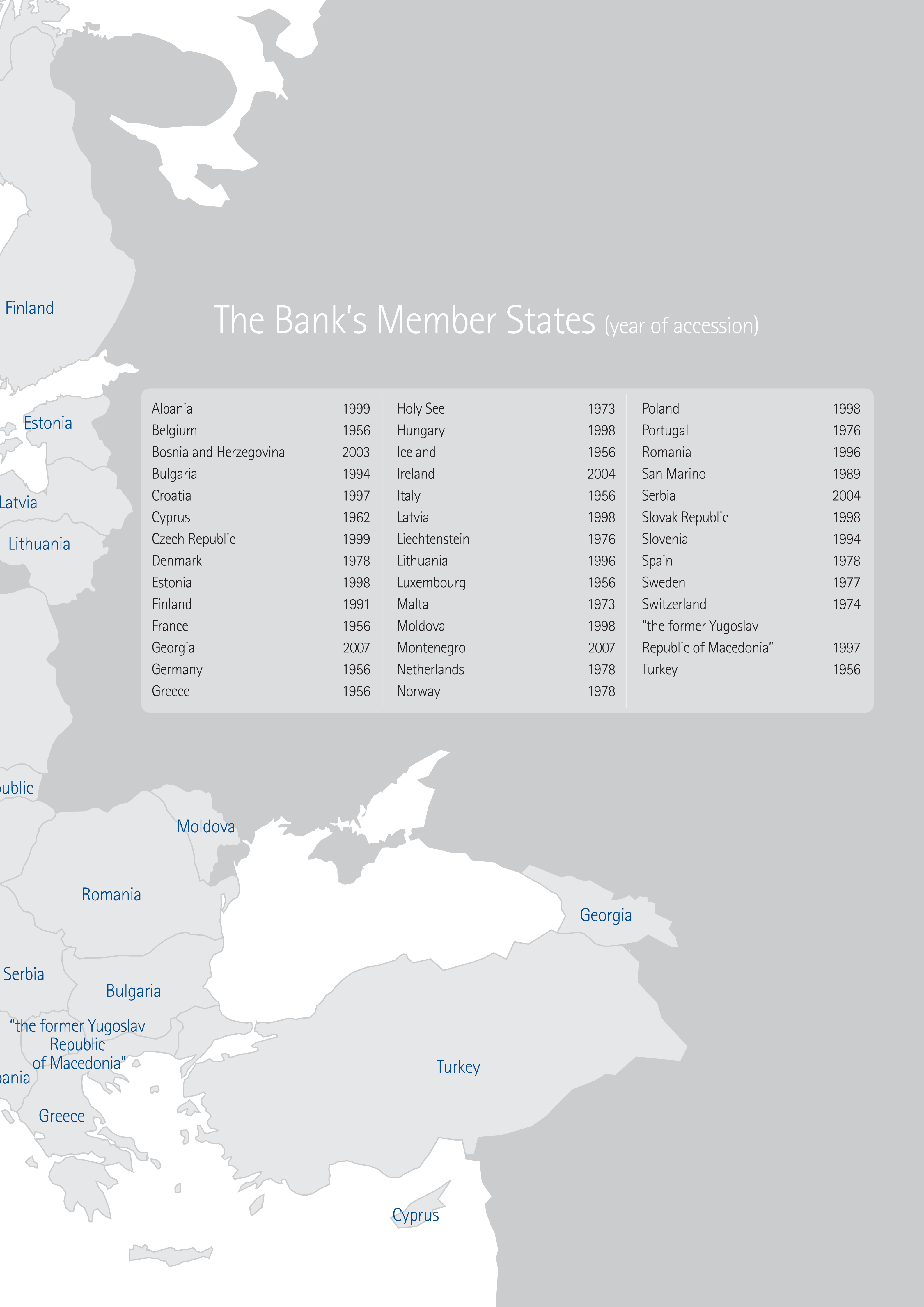
- The Governing Board, comprising one representative per Member State. Its Chairman is Mr. Raphaël ALOMAR, elected on 10 June 2011.

- The Administrative Council, comprising one representative per Member State. Its Chairman is Ambassador Joseph LICARI, elected on 10 June 2011.

- The Governor, Mr. Rolf WENZEL, elected on 8 April 2011. He is assisted by the Vice-Governor Delegate, Mr. Apolonio RUIZ-LIGERO, who was re-elected as Vice-Governor on 10 June 2011, and by two Vice-Governors, Mr. Nunzio GUGLIELMINO, re-elected on 27 November 2009, and Mr. Imre TARAFÁS, elected on 30 March 2007.

- The Auditing Board, which has three members chosen among the Member States in turn.


Iceland
Sweden
Norway
Denmark
Ireland
Netherlands
Germany
Poland
Belgium
Luxembourg
Czech Republic
Slovak Rep
Liechtenstein
France
Switzerland
Hungary
Slovenia
Croatia
Italia
Bosnia and Herzegovina
San Marino
Portugal
Spain
Montenegro
Holy See
Alb
Malta



The Bank's Member States (year of accession)

Albania	1999	Holy See	1973	Poland	1998
Belgium	1956	Hungary	1998	Portugal	1976
Bosnia and Herzegovina	2003	Iceland	1956	Romania	1996
Bulgaria	1994	Ireland	2004	San Marino	1989
Croatia	1997	Italy	1956	Serbia	2004
Cyprus	1962	Latvia	1998	Slovak Republic	1998
Czech Republic	1999	Liechtenstein	1976	Slovenia	1994
Denmark	1978	Lithuania	1996	Spain	1978
Estonia	1998	Luxembourg	1956	Sweden	1977
Finland	1991	Malta	1973	Switzerland	1974
France	1956	Moldova	1998	"the former Yugoslav Republic of Macedonia"	1997
Georgia	2007	Montenegro	2007	Turkey	1956
Germany	1956	Netherlands	1978		
Greece	1956	Norway	1978		

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2011

Key figures

in million euros	2011	2010	2009
Loans disbursed during the year	1 855	1 782	1 806
Projects approved during the year	2 110	2 267	2 665
Financing commitments signed during the year	1 798	2 311	2 050
Loans outstanding	12 075	11 988	12 198
Own funds (after allocation of profit)	6 509	4 987	4 887
Equity (after allocation of profit)	2 111	2 054	1 953
Total assets	26 083	24 721	22 731
Net profit	106.4	115.9	107.0
Selective Trust Account			
Social dividends cumulated since the STA's inception	105.4	104.4	99.4
Balance available (after allocation of profit)	31.7	34.5	28.7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Membership of the Bank's organs as at 31 December 2011*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Raphaël ALOMAR Former Governor of the CEB	**Chairpersons**	**Joseph LICARI** Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg
Aiga LIEPIŅA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	**Vice-Chairs**	**Inta VASARAUDZE** Director, Department of Economic Analysis, Ministry of Finance, Riga **Zoran ĆIROVIĆ** *(since 12 March 2012)* Chairman, Securities Commission of the Republic of Serbia, Belgrade
Margarita GEGA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	**Albania**	**Nezir HALDEDA** Deputy Minister, Ministry of Finance, Tirana
Alain COOLS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	**Belgium**	**Franciscus GODTS** Administrator, International and European Financial Affairs, Federal Public Service Finances, Brussels
Zdenko MARTINOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bosnia and Herzegovina to the Council of Europe, Strasbourg	**Bosnia and Herzegovina**	**Ljerka MARIĆ** Director, Directorate for Economic Planning, Council of Ministers, Sarajevo
Andrey TEHOV Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	**Bulgaria**	**Jenya DINKOVA** Director of International Financial Institutions and Cooperation, Ministry of Finance, Sofia
Anica DJAMIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	**Croatia**	**Zdravko MARIĆ** State Secretary, Ministry of Finance, Zagreb **Boris LALOVAC** *(since 19 January 2012)* Deputy Minister, Ministry of Finance, Zagreb
Euripides EVRIVIADES Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Cyprus to the Council of Europe, Strasbourg **Theodora CONSTANTINIDOU** *(since 1 February 2012)* Ambassador, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	**Cyprus**	**Christos PATSALIDES** Permanent Secretary, Ministry of Finance, Nicosia
Tomáš BOČEK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	**Petr PAVELEK** Director of the Debt and Financial Assets Management Department, Ministry of Finance, Prague
Karsten PETERSEN Ambassador, Ministry of Foreign Affairs, Copenhagen	**Denmark**	**Thomas BØRNER** Senior Advisor, Department of Finance, Ministry of Finance, Copenhagen

* The Bank's organs are: the Governing Board, the Administrative Council, the Governor and the Auditing Board.

In accordance with Article XIII, the secretariat of the Bank's organs is provided by the Secretariat of the Partial Agreement on the Council of Europe Development Bank in Strasbourg (Head of the Partial Agreement: **Ms Giusi PAJARDI**; Executive Secretary to the Organs: **Mr György BERGOU**).

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Gea RENNEL Ambassador Extraordinary and Plenipotentiary Permanent Representative of Estonia to the Council of Europe, Strasbourg	**Estonia**	**Martin PÕDER** Head of the EU and International Affairs Department, Ministry of Finance, Tallinn
Pekka HYVÖNEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	**Finland**	**Kristina SARJO** Financial Counsellor, Financial Markets Department, Unit for International Affairs, Ministry of Finance, Helsinki
Laurent DOMINATI Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	**France**	**Christophe BORIES** Head of Bilateral Relations and European Financial Instruments, Treasury Department, Ministry of Economy, Finance and Industry, Paris
Mamuka JGENTI Ambassador, Permanent Representative of Georgia to the Council of Europe, Strasbourg	**Georgia**	**Konstantine KINTSURASHVILI** Deputy Minister, Ministry of Finance, Tbilisi
Julius Georg LUY Ambassador Extraordinary and Plenipotentiary Permanent Representative of Germany to the Council of Europe, Strasbourg	**Germany**	**Elke KALLENBACH** Head of Division, Ministry of Finance, Berlin
Athanasios DENDOULIS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Greece to the Council of Europe, Strasbourg	**Greece**	**Paraskevi PROTOPAPPA** *(substitute)* Head of Department for International Financial Organisations, Ministry of Economy and Finance, Athens
Mgr Aldo GIORDANO Special Envoy of the Holy See, Permanent Observer to the Council of Europe, Strasbourg	**Holy See**	**Reverend Christian GOUYAUD** Attaché, Permanent Mission of the Holy See to the Council of Europe, Strasbourg
Judit JÓZSEF Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	**Hungary**	**Endre TÖRÖK** *(substitute)* Head of Unit, Department for International Finance, Ministry for National Economy, Budapest
Ferenc ROBÁK *(since 9 January 2012)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg		
Berglind ÁSGEIRSDÓTTIR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Paris	**Iceland**	**Jón Baldvin HANNIBALSSON** Former Minister of Finance, Foreign Affairs and External Trade, Reykjavik
Peter GUNNING Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Ireland to the Council of Europe, Strasbourg	**Ireland**	**Niamh CAMPBELL** Principal Officer, Department of Finance, Dublin
Sergio BUSETTO Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Italy to the Council of Europe, Strasbourg	**Italy**	**Bruno MANGIATORDI** Director General, Directorate VI of the Treasury Department, Ministry of Economy and Finance, Rome
Aiga LIEPIŅA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	**Latvia**	**Inta VASARAUDZE** Director, Department of Economic Analysis, Ministry of Finance, Riga

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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Gediminas ŠERKŠNYS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Lithuania to the Council of Europe, Strasbourg	**Lithuania**	**Rolandas KRIŠČIŪNAS** Vice-Minister, Ministry of Finance, Vilnius
Ronald MAYER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	**Luxembourg**	**Arsène JACOBY** Senior Advisor, Ministry of Finance, Luxembourg
	Malta **Albert GHIGO** Deputy Permanent Representative of Malta to the Council of Europe, Strasbourg	
Tatiana PÂRVU Ambassador, Permanent Representative of Moldova to the Council of Europe, Strasbourg	**Moldova**	**Victor BODIU** State Minister, Chişinău
Ana VUKADINOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Montenegro to the Council of Europe, Strasbourg	**Montenegro**	**Nemanja PAVLIČIĆ** Assistant Minister for Budget, Ministry of Finance, Podgorica
Ellen BERENDS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg	**Netherlands**	**Jan HEIDSMA** Advisor, Ministry of Foreign Affairs, The Hague
Petter F. WILLE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Norway to the Council of Europe, Strasbourg	**Norway**	**Carola BJØRKLUND** Coordinator for Council of Europe Affairs, Ambassador, Ministry of Foreign Affairs, Oslo
Urszula GACEK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Poland to the Council of Europe, Strasbourg	**Poland**	**Jacek DOMINIK** Undersecretary of State, Ministry of Finance, Warsaw
Paulo NEVES POCINHO Chargé d'affaires a.i., Permanent Representation of Portugal to the Council of Europe, Strasbourg **Luís Filipe CASTRO MENDES** *(since 6 March 2012)* Ambassador, Permanent Representative of Portugal to the Council of Europe, Strasbourg	**Portugal**	**Helder REIS** Deputy Director General at the Office for Strategic Planning, Economic Policy and International Affairs, Ministry of Finance and Public Administration, Lisbon
Stelian STOIAN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Romania to the Council of Europe, Strasbourg	**Romania**	**Bogdan Alexandru DRĂGOI** Secretary of State, Ministry of Public Finance, Bucharest **Christian Marius SPORIŞ** *(since 29 February 2012)* Secretary of State, Ministry of Public Finance, Bucharest
Barbara PARA Ambassador, Permanent Representative of San Marino to the Council of Europe, Strasbourg	**San Marino**	**Nicola CECCAROLI** Counsellor, Ministry of Finance, San Marino
Dragana FILIPOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Serbia to the Council of Europe, Strasbourg	**Serbia**	**Zoran ĆIROVIĆ** Chairman, Securities Commission of the Republic of Serbia, Belgrade

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Emil KUCHÁR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg **Lubica ERDELSKÁ** *(since 1 February 2012)* Chargé d'Affaires a.i., Permanent Representation of the Slovak Republic to the Council of Europe, Strasbourg	**Slovak Republic**	**Vladimir TVAROŠKA** State Secretary, Ministry of Finance, Bratislava
Damjan BERGANT Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	**Slovenia**	**Martin ZDOVĆ** Undersecretary, International Finance Department, Ministry of Finance, Ljubljana
Fernando ALVARGONZÁLEZ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg	**Spain**	**Carmen LAÍN** Deputy Director General for European Financial Institutions, Ministry of Economy and Finance, Madrid
Carl-Henrik EHRENKRONA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	**Sweden**	**Eva HAGHANIPOUR** Director, International Department, Ministry of Finance, Stockholm
Charles-Edouard HELD Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg	**Switzerland**	**Raymund FURRER** Head of Division, Multilateral Cooperation, State Secretariat for Economic Affairs, Bern
Dragica ZAFIROVSKA Chargé d'Affaires a.i., Permanent Representation of "the former Yugoslav Republic of Macedonia" to the Council of Europe, Strasbourg	**"the former Yugoslav Republic of Macedonia"**	**Natasa STOJMANOVSKA** State Secretary, Ministry of Finance, Skopje
Rauf Engin SOYSAL Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	**Turkey**	**Evren DILEKLI** Director General of Foreign Economic Relations, Undersecretariat of the Treasury, Ankara

GOVERNOR

Rolf WENZEL

VICE-GOVERNORS

Apolonio RUIZ-LIGERO (Vice-Governor Delegate)
Nunzio GUGLIELMINO
Imre TARAFÁS

AUDITING BOARD

Lithuania: Darius MATUSEVIČIUS, Director of the Internal Audit and Financial Control Methodology Department, Ministry of Finance, Vilnius
Slovenia: Nataša PRAH, Director of the Budget Supervisory Office, Ljubljana
Turkey: Ali ACU, Economic Counsellor, Turkish Embassy, The Hague

In front, left: **Rolf WENZEL,** Governor

First row, from left to right: **Imre TARAFÁS,** Vice-Governor; **Apolonio RUIZ-LIGERO,** Vice-Governor Delegate; **Nunzio GUGLIELMINO,** Vice-Governor

Second row, from left to right: **Martin WEIGAND,** Chief Risk Officer; **Arnaud VIOLETTE,** Central Director for Information Systems and Control; **Roberto CACCIOLA,** Director of Technical Advisors; **Thierry POIREL,** Director General for Loans; **Maria Lucia ORISTANIO,** Director of Human Resources; **Jacques MIRANTE-PÉRÉ,** Chief Financial Officer; **Rachel MEGHIR,** Director of Ex Post Evaluation; **Jan DE BEL,** General Counsel

DIRECTORATE GENERAL FOR LOANS
Thierry Poirel
Stephan Sellen, dep.

PROJECTS PREPARATION – QUALITY
Théodore Ivanov

OPERATIONS SUPPORT
Melanie Wieschollek-Lacroix

PROJECTS
Cristian Tabacaru

COUNTRY MANAGERS

Sylvie Anagnostopoulos: *Croatia, Cyprus, Greece, Malta*
Diana Cakule: *Estonia, Latvia, Lithuania*
Valeriu Cosuleanu: *Romania, "the former Yugoslav Republic of Macedonia"*
Gyorgyi Kacsandi: *Hungary*
Michael Lixenfeld: *Bulgaria, Denmark, Ireland, Liechtenstein, Slovenia, Switzerland*
Rainer Lovato: *Czech Republic, Germany, Holy See, Italy, Portugal, San Marino*
Makedonka Mateska: *Moldova, Montenegro*
Christophe Mróz: *Poland*
Vitomir Raguz: *Albania, Bosnia and Herzegovina, Georgia*
Holger Seifert: *Belgium, France, Luxembourg, Netherlands, Slovak Republic*
Marja Seppälä: *Finland, Iceland, Norway, Serbia, Sweden*
Elif Timur: *Turkey*
Arnaud de Verdière: *Serbia, Spain*

TECHNICAL ADVISORY DIRECTORATE
Roberto Cacciola

TECHNICAL ADVISORS
Victor Agius

INFRASTRUCTURE AND PREVENTION OF NATURAL DISASTERS
Barış Trak

HOUSING AND URBAN RENOVATION
Dorota Błażejewicz

HEALTH AND PENITENTIARY ADMINISTRATION
Karina Quintar Ferrer

EDUCATION AND VOCATIONAL TRAINING
Yaël Duthilleul

SUSTAINABLE DEVELOPMENT
Anton Spierenburg

ENVIRONMENT
Sara de Pablos

CIVIL ENGINEERING
Isabelle Brun

PROCUREMENT
Kitty Villani-Haman

FINANCIAL DIRECTORATE
Jacques Mirante-Péré

TREASURY

FUNDING
Arturo Seco Presencio

ALM
Isabelle Damez

MIDDLE-OFFICE
Alain Sayagh

BACK-OFFICE
Ioannis Velvitsanos

ORGANISATION CHART

GOVERNOR Rolf WENZEL

Nunzio GUGLIELMINO
VICE-GOVERNOR

Apolonio RUIZ-LIGERO
VICE-GOVERNOR DELEGATE

Imre TARAFÁS
VICE-GOVERNOR

CABINET OF THE GOVERNOR
Frédéric de Dinechin
Matthias Bauer, dep.

INSPECTORATE GENERAL
INTERNAL AUDIT
Carlo Mangosi, a.i.

OFFICE OF THE GENERAL COUNSEL
Jan De Bel

COMPLIANCE
Jan De Bel, a. i.

EX POST EVALUATION
Rachel Meghir

CENTRAL DIRECTORATE FOR INFORMATION SYSTEMS AND CONTROL
Arnaud Violette

- **RISK MANAGEMENT** – Martin Weigand, *Rafael Ruisanchez*
- **ACCOUNTING** – José Limet
- **FINANCIAL REPORTING** – Michèle Meunier
- **INFORMATION TECHNOLOGY** – Frédéric Lardinois
- **ORGANISATION** – Ahmet Kizil

DIRECTORATE FOR GENERAL ADMINISTRATION
Arnaud Violette, a.i.
Jérôme Halb, dep.

- **CONTROLLING** – Patrick Radhauer
- **COMMUNICATION AND DOCUMENTATION** – Armelle de La Juganniѐre
- **SECURITY AND GENERAL FACILITIES** – Maurice Le Verche
- **MISSIONS**

CENTRAL DIRECTORATE FOR STUDIES AND INTERNATIONAL RELATIONS
León Herrera, a.i.

- **INTERNATIONAL RELATIONS** – Luca Schio
- **ECONOMIC, SOCIAL AND STRATEGIC STUDIES** – Sébastien Relland
- **EUROPEAN RELATIONS** – León Herrera
- **RELATIONS WITH DONORS, FIDUCIARY ACCOUNTS** – León Herrera, a.i.
- **HUMAN RIGHTS TRUST FUND (HRTF) SECRETARIAT** (STRASBOURG) – Nicola Catalano

DIRECTORATE FOR HUMAN RESOURCES
Maria Lucia Oristanio

- **HUMAN RESOURCES POLICIES**
- **RECRUITMENT AND PROFESSIONAL DEVELOPMENT**
- **STAFF FINANCIAL AND SOCIAL MANAGEMENT**

COMMITTEES

Orientation and Coordination Committee
General Management Committee
Finance Committee
Funding Committee
Projects and Development Committee
Risk Committee
Budget Monitoring Committee
IT Steering Committee
ALM Committee
Committee for Organisation and Operational Risks

The Governor has appointed Michael Roeskau as "Special Advisor to the Governor".

MESSAGE FROM THE GOVERNOR

Despite a challenging economic and financial environment, results continued to be robust for 2011. Indeed, even though prospects for global growth were revised downwards throughout the year, the CEB was able to stay firmly on course and reach the objectives of the 2010-2014 Development Plan, in particular towards its target group countries of Central, Eastern and South Eastern Europe, while achieving sound financial results.

This was made possible thanks to the work and commitment of the CEB's staff and management under the leadership of my predecessor, Raphaël Alomar, who held the position of Governor for eighteen years and is largely responsible for the fine reputation CEB enjoys today in the financial markets and with its member countries. I look forward to working with him closely in his new position as Chairman of the CEB's Governing Board.

Alignment with the values of the Council of Europe, good management, financial soundness, forward vision and team work have been, and will remain, the CEB's hallmark.

In this second year of implementation of the Development Plan for 2010-2014, the CEB's activities in 2011 can be summarized as follows: 34 projects totalling € 2.11 billion were approved, 61% of which went to the CEB's target group countries; the stock of projects reached € 5.27 billion, of which two-thirds were in favour of target group countries.

Social integration once again constituted the Bank's main sectorial line of action with 56.6% of the projects approved, representing € 1.19 billion. Managing the environment and public infrastructure with a social vocation represented respectively 21.8% (€ 461 million) and 21.6% (€ 456 million) of projects approved in 2011.

Thanks to a cautious risk management policy and an adequate level of liquidity closely linked to the loan activity, the Bank maintained its financial solidity. Excluding the exceptional profit of € 16 million due to a financial settlement in 2010, profits rose in 2011by 6.6% to € 106.4 million, with a € 9.3 million increase in the net banking income.

The CEB's 6th capital increase became effective on 31 December 2011, reaching a subscription rate of 75%, thereby exceeding the minimum threshold of 67%. Subsequently, the CEB's subscribed capital rose by 50%, from € 3.3 billion to € 5 billion, and the paid-in capital from € 370 million to € 554 million.

This capital increase illustrates the strong shareholder support for the Bank's social mandate. It also sends a positive signal to the international financial markets and will enable the CEB to raise funds at competitive costs and thus to provide loans to its Member States on favourable terms.

As a Partial Agreement of the Council of Europe, the CEB has always worked towards a strong partnership with its parent institution. The Bank's focus in favour of democracy and human rights has in particular been driven by the conclusions of the Third Summit of Heads of State and Government of the Council of Europe held in Warsaw in 2005. This illustrates our desire to work together and has led to the financing of several projects concerning judicial and penitentiary infrastructures.

The Bank has also strengthened its cooperation with other development partners, multilateral development banks, United Nations agencies and the European Union to enhance its activities in favour of the most vulnerable populations, especially refugees, displaced persons and migrants.

In this context, the CEB is participating in the Regional Housing Programme (RHP), a major initiative in support of refugees and internally displaced persons in the Western Balkans. Prepared in coordination with the four countries concerned (Bosnia and Herzegovina, Croatia, Montenegro and Serbia) and with the European Commission and the United Nations High Commissioner for Refugees, this programme aims at providing durable housing solutions for thousands of persons displaced during the 1990s armed conflicts in the Western Balkans.

In 2011, the Bank continued its efforts to enhance its effectiveness, transparency and compliance with good practices. The publication of the CEB's third Corporate Social Responsibility report in April 2011 reflects its strong commitment to responsible behaviour. The CEB also launched important human resources reforms to improve staff motivation and engagement.

Multilateral development banks and institutions continue to play a decisive part in contributing to the reduction of poverty and inequality and thus to strengthening social cohesion in Europe. Indeed, at a time when many CEB member countries face severe economic challenges and the need to consolidate their public budgets, the Bank's support to the most disadvantaged populations is more crucial than ever. The CEB's reinforced capital structure and strong results will enable it to mobilise sufficient resources so as to efficiently fulfil its mandate.

The Bank will continue supporting the most vulnerable populations and the development of the poorest areas of our continent. Doing so, it will do its utmost to preserve its overall financial soundness, maintain and strengthen efficient partnerships with other development actors and guarantee both transparency and visibility.

Paris, 23 February 2012

Rolf WENZEL

SIXTH CAPITAL INCREASE

The Council of Europe Development Bank's sixth capital increase took effect on 31 December 2011. The CEB's subscribed capital has risen by 50% from € 3.3 to € 5 billion and the called capital from € 370 to € 554 million through an incorporation of reserves. Own funds have thus increased from € 5.0 to € 6.5 billion.

Subscription by 30 of the 40 Member States represents 75% of the participating certificates on offer, thereby exceeding the minimum threshold of 67% required by Resolution 386 (2011) of the Governing Board adopted on 4 February 2011. The subscription period runs until 30 June 2012.

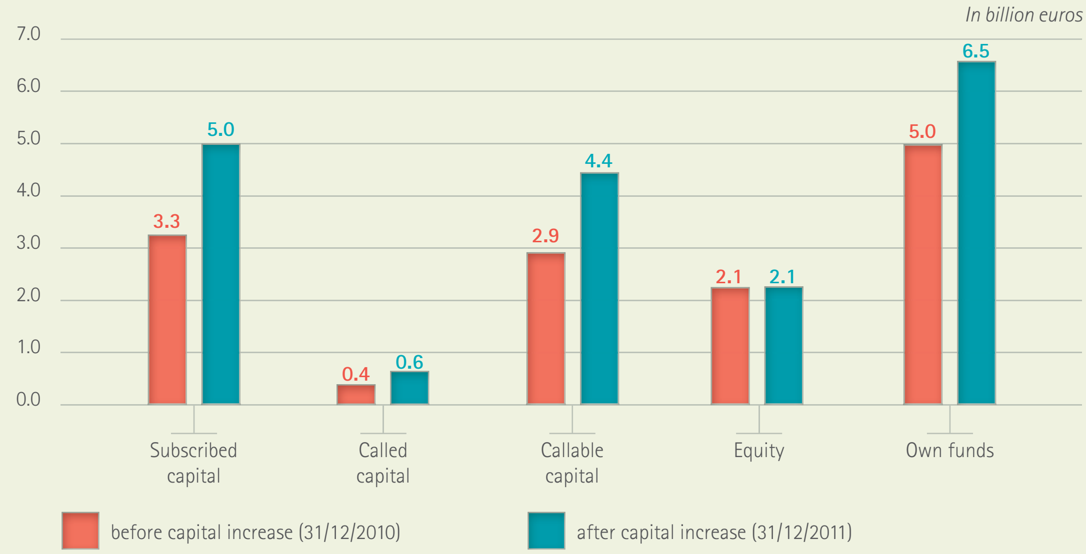
If all the Member States confirm their participation, the subscribed capital will reach € 5.5 billion, an increase of 67% compared to year-end 2010. If this occurs, own funds should rise to € 7 billion. The called capital would remain unchanged at 11.19%.

This capital increase evidences the strong support that the Bank enjoys from its Member States. The CEB thus joins the group of other IFIs that have recently strengthened their financial base in order to support their development efforts in a persisting economic and financial crisis.

A reinforced capital base will secure the Bank's financial robustness and strengthen its prudential framework at a crucial time when the risk profile of its counterparties is seriously deteriorating due to the worsening financial environment in Europe. This decision will guarantee sufficient capital to meet the Development Plan 2010-2014 objectives, and ensure overall performance to achieve the Bank's mission.

With its sixth capital increase, the Bank will be able to vigorously pursue its mandate in the years to come, particularly for the benefit of the most disadvantaged populations in its Member States.

Capital situation as at 31 December 2011



Projects and loans

I KEY FACTORS FOR 2011

In operational terms, 2011 was characterised by the following elements:

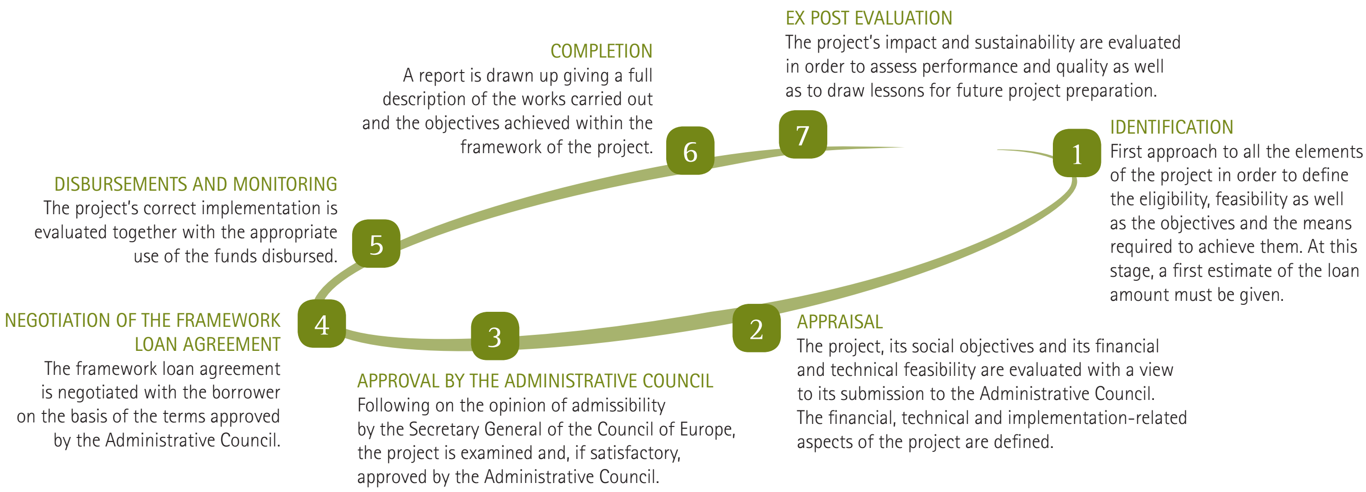
- The results were consistent with the objectives set in the CEB's Medium-term Development Plan 2010-2014, in spite of the continually challenging economic and financial environment. Projects approved in 2011 amounted to € 2 110 million and disbursements for the year came to € 1 855 million. The stock of projects reached an historical high at € 5 270 million (with two thirds, € 3 518 million, earmarked for target group countries[1]), underscoring the importance of the availability of the Bank's lending for the Member States and constituting a solid base for the expansion of the CEB's operations in the years to come. While the needs for social investment programmes remain strong across the Bank's membership base, the implementation of projects may at times be reflective of the individual Member States' budgetary constraints.

- The CEB continued to concentrate its activity in 2011 on those sectoral lines of action with the greatest potential to generate added value. Projects in favour of strengthening social integration thus amounted to € 1 194 million, representing over 56% of all project approvals for the year.

- The Bank's continuous focus on strengthening cooperation with its international partners found its practical application this year in the CEB's participation in a regional initiative aimed at achieving durable solutions to the question of refugees and displaced persons in the Western Balkans. This initiative reflects the joint commitment of Bosnia and Herzegovina, Croatia, Montenegro and Serbia, to facilitate the return of refugees and persons displaced as a result of the armed conflicts in the Western Balkan region during the 1990s to their areas of origin or their integration in their host communities. In 2011, the CEB was invited by the European Commission, the United Nations High Commissioner for Refugees and the United States of America, to play an active role in the Regional Housing Programme (RHP), launched within the framework of this initiative. The RHP, which is to be implemented over the next five years, aims to provide durable housing solutions for the most vulnerable refugees and displaced persons and is expected to directly assist 74 000 people. Participating in this programme provides the CEB with a valuable opportunity to further strengthen its original mandate of aiding refugees, migrants and displaced persons and to affirm yet again its sectoral know-how and technical management in supporting such initiatives (see box on page 18).

SLOVENIA
Primary school

1. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.



II MEANS OF ACTION

Endowed from its creation with an exclusively social mandate, the CEB enjoys a unique and original position in Europe on account of the nature of the projects it finances, the sectors in which it engages its action and the scope of its shareholder base. As a financial instrument of solidarity in Europe, the CEB has dedicated significant lending volumes to financing social investment projects in its Member States, thus contributing to improving living conditions and strengthening social cohesion.

1. Sectoral lines of action

Set up in 1956 by eight Member States of the Council of Europe[2] in order to provide solutions to the problems of refugees, the Bank has since adapted to changes in social priorities in Europe and enlarged its scope of action in order to better contribute to strengthening social cohesion and promoting inclusive growth.

The CEB's membership base has also expanded considerably over the years, with 19 out of the 40 current Member States having joined the Institution since 1994. The Bank's medium-term development plan particularly focuses on developing the CEB's operations in the 21 target group countries located in Central, Eastern and South-Eastern Europe as a priority geographical area for the Bank's financings.

The structure of CEB's projects and loans activity reflects its commitment to supporting socially sustainable development. In compliance with its social vocation, the Bank structures its operations around the following three sectoral lines of action:

- strengthening social integration
- managing the environment
- supporting public infrastructure with a social vocation, as further detailed in the table opposite.

2. Financing and monitoring modalities

The CEB's chief activity consists in granting loans that enable part financing of economically and socially viable projects. The Bank primarily offers flexible long-term loans at favourable interest rates, in specific cases along with interest rate subsidies, to its Member States, their regional or local authorities, and public or private financial institutions (see box opposite). Moreover, resources can be granted through the CEB's trust accounts in order to finance technical assistance (see box on page 18). The Bank also provides grants, especially in the case of emergency aid.

2. Belgium, France, Germany, Greece, Iceland, Italy, Luxembourg and Turkey

BORROWING FROM THE CEB

The CEB can grant loans in its 40 Member States in order to finance projects that promote social cohesion and sustainable economic, social and ecological development and meet a certain number of sectoral, geographical, social and financial criteria.

The eligibility criteria and general procedures for projects financed by the CEB are presented in the Policy for Loan and Project Financing (*) - a reference document setting out provisions for the appraisal, approval, financing and monitoring of the Bank's projects.

The requests for financing are adapted to the specific characteristics of each project for which a loan is requested. Potential borrowers (**) prepare their loan applications in close collaboration with the Bank's services. In order to determine a borrower's eligibility for financing, the CEB carries out a systematic assessment of their solvency and of the project's financial and technical sustainability. All loan applications are submitted to the Administrative Council for approval.

CEB loans are granted for tenors that take into account the nature of the project; they are disbursed in several tranches and more often than not carry a grace period. The Bank's activity thus makes it possible to alleviate the constraints weighing upon access to long-term credit for projects generating positive externalities.

The review of the CEB's Policy for Loan and Project Financing in 2009 introduced the "Conditional Financing Instrument" as one of the best ways of adapting to borrower needs by allowing for less frequent on-site monitoring of projects with borrowers that have, through previous co-operation with the CEB, demonstrated clear mandate, well-established and effective operational and financial policies and procedures, and the capacity to provide timely and comprehensive reports to CEB on the relevant financial, physical and social aspects of project implementation.

* Available on the CEB's website.
** Governments, local authorities, financial institutions or any legal entity approved and guaranteed by a Member State.

The CEB performs an in-depth evaluation of the debt sustainability of the borrower and, where necessary, of the guarantor. On the basis of the loan request formulated by the borrower, the Bank assesses the project's objectives and financing plan by carefully analysing its socio-economic impact, technical aspects and costs, the institutional capacity to manage the project as well as the project's impact on the environment.

Following on from the Opinion on Admissibility by the Secretary General of the Council of Europe and subsequent project approval by the CEB's Administrative Council, the project financing can start once the framework loan agreement has been negotiated between the Bank and the borrower.

SECTORAL LINES OF ACTION	SECTORS OF ACTION
Strengthening social integration	- Aid to refugees, migrants and displaced persons - Social housing for low-income persons - Creation and preservation of viable jobs - Improvement of living conditions in urban and rural areas
Managing the environment	- Natural or ecological disasters - Protection of the environment - Protection and rehabilitation of the historic and cultural heritage
Supporting public infrastructure with a social vocation	- Health - Education and vocational training - Infrastructure of administrative and judicial public services

Paying particular attention to the quality of the projects it finances and striving to optimise their social impact, the CEB focuses on assistance and monitoring throughout the whole project cycle (see diagram on page 13) as key factors for effective project implementation.

Given the increasing complexity of the projects financed by the CEB, the Bank teams are becoming increasingly involved in the process of project design and preparation with a view to optimising the quality and social added value of projects. Within the framework of regular monitoring and on-site visits during the project implementation phase, the Bank's services check on the physical progress of the works, compliance with costs and procurement procedures, and the achievement of the project's anticipated social objectives. The Bank also plays a role in resolving any potential difficulties that could jeopardise the success of the project.

Once a project is completed, a final report drawn up by the borrower details the use of the funds and compliance with the objectives approved by the Administrative Council and provides information on the material and social results obtained. An independent assessment of completed projects and programmes by the Bank's Ex Post Evaluation Department enables the CEB to measure their medium-term socio-economic impact and to improve the quality of on-going and forthcoming projects through the learning effect.

III PROJECTS AND LOANS ACTIVITY IN 2011

In 2011, the CEB's Administrative Council approved 34 projects, for a total amount of € 2 110 million and a grant worth € 616 thousand. 26 projects were approved for target group countries for a sub-total of € 1 290 million, representing 61% of the total amount approved during the year.

Over the past five years, the CEB has approved 177 projects amounting to an accumulated total of € 11 317 million (including € 6 326 million in favour of target group countries), representing an annual average of € 2 263 million in approvals over the period 2007-2011. These new operations are spread between the Bank's three sectoral lines of action (see chart below).

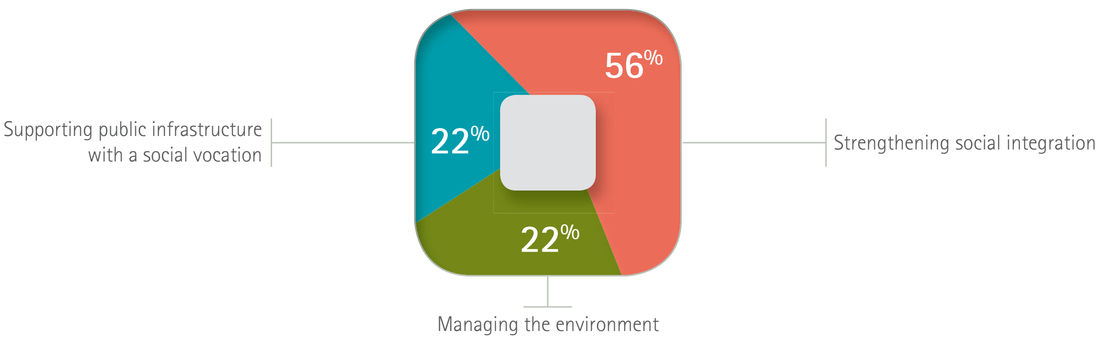
The breakdown of approvals per country and per sector is given in the table on page 32.

At 31 December 2011, new financing commitments (projects approved for which a framework loan agreement has been signed) amounted to a total of € 1 798 million, of which 43% were in favour of the target group countries.

At end 2011, disbursements totalled € 1 855 million, including € 1 105 million in favour of target group countries (60% of all disbursements made during the year). Disbursements for the year were spread over 110 loan tranches and 77 projects/programmes.

Projects approved in 2011

Breakdown by sectoral line of action



SECTORAL PERSPECTIVE ON THE CEB'S HOUSING DEVELOPMENT OPERATIONS

The CEB considers the housing sector as key to strengthening social cohesion, ensuring the well-being of the population and stimulating more inclusive growth. Since its creation, the Bank has made a significant contribution to financing housing and urban renewal projects aimed at developing sustainable communities across Europe.

The main objective of CEB financing in the social housing sector is to support the construction of new dwellings, the renovation or refurbishing of existing housing stock and the conversion of buildings into dwellings so as to provide decent and affordable housing for low-income, socio-economically vulnerable population groups. Beyond improving living conditions for those who are poorly housed, the provision of housing also enables the Bank to reach vulnerable populations such as refugees, migrants, victims of natural disasters or other economically and/or socially disadvantaged groups such as the elderly, ethnic minorities or handicapped persons. From a broader perspective, the Bank also plays a role in urban renewal and in the "sustainable communities" agenda through the financing of housing-related municipal infrastructure, including investments linked to environmental sustainability and energy efficiency.

One of the main challenges linked to the financing of social housing and to improving living conditions stems from the diversity of social problems and from the multitude of actors and factors that impact on the quality of life in urban and rural areas. The needs are today especially urgent in the CEB's target group countries, where a large portion of the housing stock remains dilapidated.

Amid the profound social and demographic changes affecting Europe today, population ageing represents one of the key dimensions. Translated into housing requirements, this process will increase demand for housing that addresses the specific needs of the elderly in terms of accessibility, infrastructure, health conditions and income level. Other increasingly vulnerable groups facing difficulties in accessing housing are young, low- and middle-income persons/families, as well as immigrants. The current financial and economic crisis exacerbated the issue of lack of supply and limited access to housing, not only in terms of a drastic reduction in the availability of financing but also given growing unemployment and a sharp increase in risk-at-poverty rates.

The CEB's multi-sector, integrated approach - taking into consideration housing in its closely-interrelated social, economic and environmental dimensions - favours investment programmes that:

- increase housing supply, both private and public, in order to respond to the shortage in supply of housing for low-income persons, by facilitating access to homeownership or rental housing

- develop social housing and housing for vulnerable population groups such as refugees, displaced persons and migrants, victims of natural or ecological disasters, ethnic minorities, the elderly and the disabled

- enable investments in housing-related and municipal infrastructure aimed at improving living conditions in urban areas, including social and cultural infrastructure, urban transport, public spaces, water mains, wastewater treatment or electricity and gas supplies

- contribute to urban regeneration and the development of sustainable urban communities, given that run-down urban areas and outdated large-scale social housing estates are in acute need of modernised infrastructure

- promote "green housing" by integrating energy efficiency objectives, including energy-efficient refurbishment and retrofitting of existing housing stock.

A full account of the Bank's experience to date in the field of housing is available in a study entitled "*Housing and Urban Development: the CEB's Contribution*" (2010), accessible on the CEB's website.

In the past five years, the CEB has disbursed an accumulated amount of € 8 538 million (including € 5 276 million or 62% in favour of the target group countries), representing an annual average of € 1 708 million in disbursements over the period 2007-2011.

Disbursements for the year are broken down among the Bank's three sectoral lines of action as presented in the graph below.

The breakdown of loans disbursed per country and per sector is given in the table on page 34.

At 31 December 2011, the loans outstanding amounted to € 12 075 million, spread over 34 countries.

1. Strengthening social integration

Social integration has always been central to the Bank's mandate. For the CEB, contributing to social cohesion and thus attacking the roots of exclusion at the operational level means acting in favour of refugees, migrants and displaced persons, contributing to the provision of housing for low-income persons, facilitating job creation and preservation, and improving living conditions in urban and rural areas.

From 2007 to 2011, this sectoral line of action represented an accumulated amount of € 6 052 million in terms of projects approved (representing 53% of all projects approved since 2007). Of these, € 3 573 million or 59% of all operations in this sector were approved for target group countries. For 2011 alone, project approvals amounted to € 1 194 million, representing 56% of all approvals.

In parallel, over the period 2007-2011, loans disbursed in favour of social integration amounted to an accumulated total of € 4 678 million, representing 55% of all disbursements made since 2007. Target group countries received € 3 018 million, or 65% of all disbursements in this sector over the period 2007-2011.

In 2011, the Bank disbursed € 933 million in favour of social integration, or 50% of all disbursements made in the year.

Aid to refugees, migrants and displaced persons

Aid to refugees, migrants and displaced persons is one of the CEB's statutory priorities. Increasingly, the CEB's action in this field focuses on the reintegration of returning refugees, migrants or internally-displaced persons within a Member State as well as on contributing to the lasting integration of migrants and refugees in the host countries.

Projects financed in this sector mainly concern:

- reconstruction and repair of reception facilities (such as reception centres, temporary and permanent social housing)

- programmes for preventive and curative medicine, education and vocational training

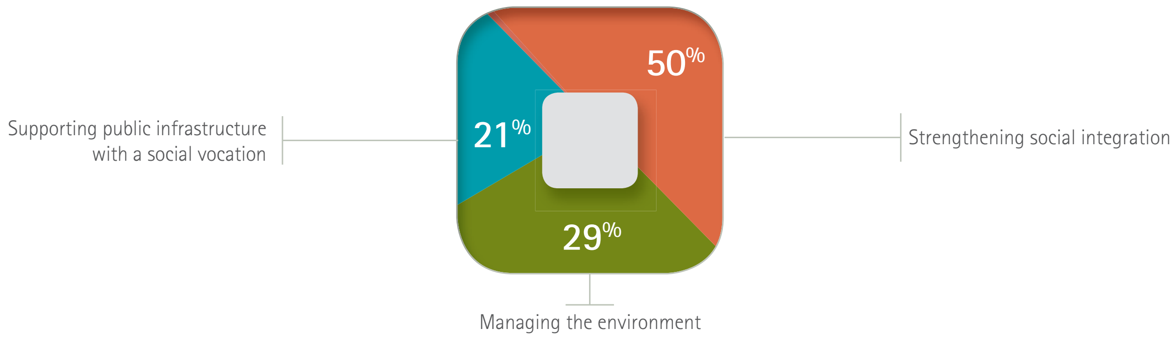
- technical infrastructure and basic amenities required to meet the immediate needs of victims of exceptional situations.

Since 2007, the CEB has approved a total of € 37 million for new operations in this sector. During the year 2011, project approvals amounted to € 10 million while disbursements reached € 5 million.

In 2011, on a proposal by the Governor, the CEB's Administrative Council approved a grant of € 616 000 for **Montenegro** to fund a project aimed at improving the living conditions of refugee families. The grant will be paid to the Office of the United Nations High Commissioner for Refugees (UNHCR) to enable continuation of shelter activities funded by the UNHCR and its partners in the country as an integral part of the support to the Government's commitments to resolve the problems of

Loans disbursed in 2011

Breakdown by sectoral line of action



KEY ROLE FOR THE CEB IN THE SARAJEVO PROCESS

Since 2011, the CEB has been playing an active part in a regional initiative aimed at achieving just, comprehensive and durable solutions for refugees and internally displaced persons in the Western Balkans.

The armed conflict that occurred in this region in the 1990s displaced hundreds of thousands of people. However, despite the substantial efforts undertaken, a considerable number of those people have still not been able to either voluntary return and reintegrate or integrate locally.

Bosnia and Herzegovina, Croatia, Montenegro and Serbia have therefore made a joint commitment to end their displacement and to enable them to live as equal citizens in the four countries, free from any form of discrimination. This regional initiative is known as the "Sarajevo Process" or "Belgrade Initiative". It was consecrated by the signing of a joint Declaration at a Ministerial Conference held in Belgrade on 7 November 2011.

Within the framework of this initiative, the four countries have notably launched a Regional Housing Programme in order to provide housing for the most vulnerable. This programme concerns almost 74 000 persons, spread over the four countries. According to the first estimates, its overall cost should amount to almost € 600 million.

This four-country initiative has the political and financial backing of the international community, notably that of the European Commission, the UNHCR, the OSCE and the United States.

The Regional Housing Programme will thus be financed in part by contributions from the international community raised during a donors' conference held on 24 April 2012 in Sarajevo. The European Commission is already committed to granting a significant contribution, drawn from its programmes, in particular from IPA (Instrument for Pre-adhesion Assistance) funds.

The CEB will play a threefold role within the framework of this Programme:

- supervising the technical assistance provided to the countries throughout the Programme. The CEB is to assist the four countries in the preparation and implementation of their housing projects

- managing the Fund that will be receiving the grants. The CEB is to manage the contributions paid in by the international community and monitor the way the grants are used

- providing loans, where appropriate. The Bank could, where necessary, offer loans with which to finance the countries' own contributions to the Regional Housing Programme.

The size of the Programme and the complexity of the responsibilities entrusted to the CEB constitute a major challenge for the Institution. At the same time, the CEB's participation in this initiative is further evidence that the Bank's original mission, defined fifty-five years ago, still remains fully relevant today. In effect, the CEB was set up in 1956 to cope with the movement of populations triggered by the partition of Europe at the beginning of the Cold War. Since that time, its mandate has broadened to include other social fields, but aid to refugees and displaced persons remains a priority mission.

internally displaced persons in Montenegro. Overall, the project will provide a sound basis for the refugees' socio-economic integration into Montenegrin society.

In 2011, the Bank approved a € 10 million programme in **Spain** with MicroBank - Banco Social de La Caixa to facilitate access to microcredits throughout the country as an important tool for reducing the vulnerability of disadvantaged people by targeting population with limited access to formal financing, such as immigrants or disabled persons. The programme represents the continuation of an effective and successful relationship with MicroBank aimed at promoting job creation and self-employment and enhancing income maintenance/growth and social cohesion.

Housing for low-income persons

Providing decent and affordable housing is an effective means of supporting the Bank's mission to strengthen social cohesion in its Member States and contribute to improving living environments in both urban and rural areas.

Projects financed by the CEB in this sector involve the renovation, construction or refurbishment of housing and the conversion of existing buildings to residential use in order to provide decent housing for people on low incomes. Eligible projects may target access to property ownership, rental accommodation or associated infrastructure.

In a broader perspective, the Bank also plays a role in urban renewal through the financing of housing-related municipal infrastructure, including investments linked to environmental sustainability and energy efficiency. In this respect, the CEB provides financing for urban renewal programmes designed to address a number of economic, social and environmental challenges in urban areas.

During the period 2007-2011, the CEB approved projects in the housing sector for an accumulated amount of € 1 919 million, representing 17% of all approvals for the period.

For 2011 alone, the CEB approved operations for a total of € 319 million in this sector (representing 15% of all projects approved during the year). Disbursements during 2011 amounted to € 279 million, or 15% of all disbursements for the year.

In Belgium, the CEB approved a € 80 million follow-up programme with Fonds du Logement des Familles Nombreuses de Wallonie (FLW) to part-finance investments in the Walloon Region by granting around 1 500 social mortgage loans and some 500 zero-interest "green loans" *(écoprêts)* to large, low-income families and other vulnerable groups for the purchase, construction, renovation or transformation of dwellings as well as for energy-saving works. The aim of the project is to provide support for the Government of the Walloon Region's policies to reduce inequalities and reinforce social cohesion.

Also in Belgium, the Bank has continued its cooperation with the Société Wallonne du Logement (SWL) by approving a € 190 million programme to part-finance the last phase of the Walloon Region's Extraordinary Investment Programme aimed at funding investments to improve the safety, stability and weatherproofing of the social housing stock and to make social housing units both better equipped and more energy-efficient.

As a continuation of an on-going cooperation initiative in **Moldova**, the CEB has approved a € 13.4 million programme with the Government. In a national context of high rental rates and unsatisfied housing demand, the objective of the project is to improve and increase the stock of rental housing for the benefit of families from low-income and socially vulnerable segments of the population throughout Moldova, including young families with children.

A programme with Bank Ochrony Środowiska in **Poland** will make € 4.5 million available for the co-financing of eligible public infrastructure investments undertaken by local governments and other public-sector entities in the social housing field within the framework of urban revitalisation projects carried out under the JESSICA (Joint European Support for Sustainable Investment in City Areas) initiative. Housing for low-income persons represents one of the inter-linked elements of integrated urban development schemes aimed at generating lasting improvements in the economic, physical, social and environmental conditions of a given city or area.

FINLAND
Social housing

The Bank also approved a € 21 million project with the Government in **Serbia** to part-finance eligible investments in order to provide affordable rental housing for young researchers as part of the second phase of the Serbian research and development infrastructure investment initiative. In all, 583 new housing units will be constructed in the cities of Belgrade, Kragujevac, Niš and Novi Sad and, after a minimum five-year prior rental occupancy requirement, the rental dwellings will be available for purchase by the researchers concerned.

The CEB approved a € 10 million programme with Československá obchodni banka (ČSOB) in the **Slovak Republic** to part-finance investment schemes undertaken by Slovak municipalities throughout the country and aimed at strengthening the capacity of local authorities to better respond to community needs through the construction and rehabilitation of rental social housing units.

Creation and preservation of viable jobs

The CEB lends its support to productive investment programmes providing for the creation and preservation of viable jobs by facilitating access to credit. These projects are intended for micro, small and medium-sized enterprises (SMEs) as well as for entities exercising a craft activity or family businesses carrying out regular economic activity. The SME sector has been recognised as playing an important role in promoting sustainable economic and social development due to its potential for generating employment, strengthening competitiveness, promoting technology transfers and export diversification, as well as lowering disparities among regions.

CEB OPERATIONS IN THE TARGET COUNTRIES

The CEB and the target countries: a review

In early 2012, the CEB published a new study entitled "Financing Social Projects in CEB Target Countries: Achievements and Challenges".

First and foremost, this new study responds to a geographical logic. Covering all the Bank's sectors of action, the study shows the CEB's gradual commitment and the diversity of its activities in the 21 target countries located in Central, Eastern and South Eastern Europe, which constitute a priority geographical area for the Bank's financings. Over twenty years after the fall of the Berlin wall, the study retraces, both quantitatively and qualitatively, the action undertaken by the Bank in this region.

Over the period, the Bank's activities in favour of the target countries have amounted to a total of € 17 billion in projects approved, broken down across the CEB's three sectoral lines of action: strengthening social integration (57% of the total), managing the environment (28% of the total) and supporting public infrastructure with a social vocation (15% of the total).

The Bank is to continue to intensify its action in favour of the target countries: the CEB's Development Plan provides for their share of the loans outstanding to reach 60%by 2014. The major part of the CEB's lending will thus be mobilised for the benefit of countries representing 17% of the Institution's capital.

The study is part of a series of publications targeted to providing communication, analysis and accessibility to the Bank's institutional memory. For information, three other sectoral studies have recently been published, namely: "Migration in Europe: the CEB's Experience" (2008, update envisaged), "Evaluation of Public Health Services in South Eastern Europe" (2009) and "Sustainable Housing and Urban Development: the CEB's Contribution" (2010).

All these studies are accessible on the CEB's website.

Leasing operations in target countries

Efforts to stimulate job creation go hand in hand with creating the conditions for further development of the small and medium-sized enterprise (SME) sector, which is a major source of jobs and invariably accounts for a majority of private-sector enterprises and a large part of the turnover and value added of any national economy. SMEs have also played a crucial role in the economic and social transformation of the target countries; experience shows that, in fostering initiative and entrepreneurship as well as investment, the SME sector is key to creating jobs and raising incomes, thus improving overall socio-economic welfare.

However, access to financing remains a critical issue for the development of SMEs, in particular for micro- and small-sized enterprises, which account for a large share of the SME segment in the target countries. Limited availability of long-term funding for investment poses a major constraint to the growth and stability of SMEs. The global financial crisis has limited commercial bank lending to SMEs even further due to factors such as increased costs of funding, heightened economic risk and tighter lending policies.

Because of the security given by retained ownership of the leased assets, leasing enables support to small firms on a financially sound and sustainable basis. In particular for micro- and small-sized enterprises, leasing is often the only accessible form of investment financing.

In line with its social mandate, the rationale for the CEB's involvement and the value added of supporting leasing operations, especially in the target countries, are based on some of the following considerations:

- provision of financial resources commensurate with the anticipated funding requirements of the borrowers for the implementation of their activities in favour of SMEs

- proven expertise in appraising and setting up this type of projects with a number of borrowers operating in the same sector of action

- collaboration with the borrower helps the CEB respond better to the needs of a large number of SMEs that it would otherwise not be able to reach

- programme effectiveness and the attainment of social objectives are enhanced by the borrower's acceptance of the CEB's requirements for project implementation in terms of environmental, technical and financial monitoring and control.

Over the past five years, the Bank has approved projects in this sector for a total of € 2 610 million, representing 23% of all project approvals during the period 2007-2011. For 2011, projects approved amounted to € 586 million, (28% of all operations approved for the year). Disbursements in this sector amounted to € 381 million, or 21% of all disbursements for the year.

In 2011, faced with the consequences of the crisis, the CEB continued to lend its support to investment programmes implemented by commercial banks in order to promote employment and strengthen the productive fabric in small and medium sized enterprises. In total, the CEB approved 14 operations in favour of job creation and preservation in SMEs. An overwhelming majority of these programmes, representing 12 out of 14 operations and totalling € 396 million (68% of all projects approved in the sector) were approved in the Bank's target countries. Of this, as many as 5 operations, representing a total amount of € 200 million, were approved for the part-financing of leasing programmes (see box on page 20).

Operations approved in 2011, listed below, vary in scale and means of action and enable the Bank to contribute to part-financing productive investment projects in small and medium-sized enterprises:

- in **Bulgaria**, a € 30 million programme with Raiffeisenbank Bulgaria
- a € 12 million project with Privredna Banka Zagreb in **Croatia**
- a € 100 million programme with OSEO Financement in **France**
- 3 operations in **Poland** comprising a € 4.5 million programme with Bank Ochrony Środowiska, a € 50 million programme with Bankowy Fundusz Leasingowy and a € 35 million programme with SG Equipment Leasing Polska
- a € 95 million programme with UniCredit Leasing Corporation IFN in **Romania**
- 3 operations in **Serbia**, including a € 20 million programme with Banca Intesa Beograd, a € 10 million programme with Intesa Leasing Beograd and a € 10 million programme with Raiffeisen Leasing Beograd
- a € 25 million programme with Vseobecna Uverova Banka in the **Slovak Republic**
- a € 90 million programme with MicroBank - Banco Social de La Caixa to facilitate access to microcredits throughout **Spain**

CEB-ELENA, A NEW FACILITY FOR ENERGY EFFICIENCY

To help public entities implement energy efficiency projects, in 2011 the CEB set up a new grant facility called CEB-ELENA (European Local Energy Assistance Facility), supported by European Union funds.

The purpose of this facility is to cover the cost of technical assistance to public entities that wish to implement energy efficiency and/or renewable energy projects but do not have the sufficient capacity to prepare them in detail. Thus, CEB-ELENA can provide financing, in the form of grants, to cover up to 90% of the costs related to feasibility studies, tendering processes or the unit in charge of preparing and implementing such projects. These grants may be allocated directly by the CEB or through the intermediary of partner banks.

This technical assistance facility is targeted in priority to energy efficiency projects in social housing or public entity buildings. For example, the grants allocated can serve to finance the preparatory work relative to the changing of windows, the renovation of facades and roofs and the modernisation of urban heating networks.

The facility was created in partnership with the European Commission (DG ENERGY), which has already set up similar facilities with the EIB and KfW. It is funded by the European programme "Intelligent Energy Europe" (IEE), whose objective is to promote energy efficiency and renewable energies. As is the case for other programmes implemented in cooperation with the European Union (Western Balkans Investment Framework, Neighbourhood Investment Facility), the countries that are eligible for financings under this programme are those countries that are members of both the CEB and the IEE programme.

The initial CEB-ELENA endowment, which will be placed on a trust account at the CEB, amounts to € 5 million. This amount is to be used up between now and end 2014 with a leverage effect of 20. The cost of the investments benefiting from this support must therefore be at least 20 times greater than the cost of the technical assistance financed by CEB-ELENA. These investments may be financed up to 50% by CEB loans.

In all, the CEB-ELENA facility provides the Bank with additional means with which notably to fight against energy poverty (inability of households to heat their homes adequately), thereby contributing to more inclusive growth. Public entities and financial institutions interested in this facility are invited to contact the Bank.

LOCAL GOVERNMENT FINANCING: THE CEB PERSPECTIVE

The decentralisation process under way across Europe has assigned a growing responsibility for funding and managing local infrastructure and social investment projects to sub-national government tiers. In the CEB's target group countries, the need for investments is particularly pronounced due to decades of under-funding, widening disparities among regions and the need to meet EU requirements in a number of domains.

Despite central government investment grants for the co-financing of certain projects and the increasing availability of EU funds for regional and local authorities under eligible programmes, fulfilling the new funding imperatives by the local authorities could be impeded by their often constrained financial base and limited access to capital markets. This situation has been further exacerbated by the effects of the recent economic and financial crisis which has made access to long-term financing more difficult.

In utilising the extensive experience it has already acquired in lending to the local government sector and in supporting flexible ways to fund municipal infrastructure projects that foster social development, especially in its target countries of operation, the CEB is able to operate in a field where local authorities have a real need for assistance.

In terms of financing modalities and in order to provide financial resources compatible with local government budgetary sustainability and financial reporting requirements, the CEB has developed different ways of reaching this type of borrower. The CEB's approach allows for co-financing of eligible investment costs that are covered by one or several budgetary/financial years and, given the wide competencies of local authorities, enable the Bank to act in a variety of sectors.

Either the central government borrows on behalf of local authorities or, much more commonly, financing is extended directly to local governments, either as borrowers on a stand-alone basis or, if required, with a guarantee from the regional/sovereign government tier. A public-sector entity, usually incorporated by the regional or local authority to manage and develop its assets and often majority-owned by the local government, can also serve as the borrower, often with a guarantee provided by the local authority. Operations with national development banks or local commercial banks enable on-lending by these financial institutions to a network of smaller municipalities that the Bank could not necessarily reach.

Moreover, the Bank also takes part in several coordination arrangements that make it possible to jointly prepare and finance projects under the aegis of cooperation with the EU, such as the JESSICA financial instrument. In addition, the CEB has been working alongside the European Commission and KfW Bankengruppe to implement several tripartite financing facilities, including the Municipal Finance Facility dedicated to local authorities' financing.

When making stable financing adapted to the creation of public social infrastructure available to local and regional governments, the CEB contributes to the quality of the projects it finances because of its know-how in evaluating, setting up and monitoring projects in direct cooperation with local and regional authorities. While responding to the expectations of the populations concerned, the projects carried out contribute to improving living conditions and to achieving sustainable economic development.

- in **"the former Yugoslav Republic of Macedonia"**, a € 4 million programme with ProCredit Bank Skopje
- a € 100 million programme with Türkiye Halk Bankası (Halkbank) in **Turkey**.

Importantly, many of the programmes listed above represent a continuation of already long-established cooperation between the CEB and its partner banks.

■ Improvement of living conditions in urban and rural areas

The CEB takes action in urban areas in favour of rundown neighbourhoods or cities lacking in urban infrastructure and social and cultural amenities. At the same time, in rural areas, the Bank finances projects located in low population density regions and activities in sectors such as agriculture, forestry, aquaculture and fishing.

The projects financed may concern the construction or rehabilitation of infrastructure in urban or rural areas in favour of public entities at national or local level, such as:

- development of industrial estates
- utilities such as water mains, electricity and gas supplies, sewers, treatment of solid and liquid waste
- road network infrastructure
- local transport networks in rural areas
- basic educational and medical amenities
- socio-cultural or sports centres such as recreation areas, green spaces, exhibition halls, theatres and libraries
- irrigation networks in rural areas.

Over the period 2007-2011, the Bank approved projects aimed at improving living conditions in urban and rural areas for a total of over € 1 485 million or 13% of all approvals. For 2011, the total amount of projects approved in this sector reached € 279 million (representing 13% of all projects approved during the year). Disbursements during 2011 reached € 268 million, representing 14% of all disbursements for the year.

Among these operations, the CEB approved a project worth € 18 million with Privredna Banka Zagreb to part-finance investments undertaken by local and regional authorities or related public sector entities throughout **Croatia**. Eligible subprojects will include a wide range of small to medium-sized community infrastructure such as local roads, bridges, wastewater and solid waste treatment networks and facilities, as well as basic health, educational and socio-cultural infrastructure.

Through a programme approved with Komerční Banka, the CEB is to devote € 70 million to co-financing subprojects involving the construction or upgrading of urban infrastructure and the modernisation of rural zones throughout the **Czech Republic**. The overall aim of the programme is to improve conditions for sustained economic development and to create better living conditions for the inhabitants of small and medium sized Czech municipalities by facilitating access to credit for the upgrade of local infrastructure.

In **Poland**, the CEB approved a new programme with the City of Katowice that will devote € 20 million to financing the city's urban renewal programme. The programme will focus on the regeneration of brownfield areas that hamper the efficient functioning of the city centre, raising housing standards, improving communication systems and, overall, strengthening the city's competitiveness.

Also in Poland, the CEB approved a € 50 million programme with the Region of Łódzkie to part-finance investments for the upgrading and development of the regional road network and associated infrastructure in order to improve the accessibility and competitiveness of the region through better connections to national roads and Trans-European road corridors.

HUNGARY
Improving living conditions

Again in Poland, the Bank's € 40 million programme with the City of Łódz will support the city's long-term urban planning and strategic objectives aimed at revitalising the city centre. The programme will include investments such as conversion of a former heating plant into a cultural and artistic centre, extension of the municipal theatre, creation of an interactive exhibition within the textile museum and the renovation of a historical building as the municipal art gallery.

Lastly, in line with previous operations approved with Bank Ochrony Środowiska, the Bank's € 41 million programme will serve to co-finance eligible public infrastructure investments undertaken by local governments and other public-sector entities in Poland. Expected outcomes under the programme include extensive improvements to secondary roads as well as investments to promote environmentally sustainable transport networks, and accessibility to public transportation services for the elderly and the disabled.

The Bank also approved a new programme in the **Slovak Republic** with Československá obchodni banka. Under this programme, a total of € 40 million will be allocated to financing investments undertaken by medium- and large-sized municipalities, regions and other public entities throughout the country with a view to modernising municipal environmental infrastructure and achieving lasting improvements in local social infrastructure.

THE CEB AND THE WESTERN BALKANS INVESTMENT FRAMEWORK (WBIF): ACTIVITIES IN 2011

The WBIF is an instrument intended to **facilitate access to European sources of financing for the countries of the Western Balkans** in order to support them in their adhesion process to the European Union. The facility was set up in December 2009 by the European Commission, the CEB, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

The grants allocated by the WBIF are used to finance the cost of technical assistance and investments in relation to projects. The WBIF thus helps the CEB to optimise allocation of the amounts approved for the implementation of its projects in the region, which is part of the Bank's target area. The WBIF currently covers five sectors: Social, Energy, Environment and Transport, completed in 2011 by Private Sector Development (SMEs). During the past year, the WBIF has strengthened its role as coordinator of the actions of the Commission, IFIs, donors and beneficiaries.

Resources

The WBIF receives funds from several sources:

- Funds allocated by the European Commission within the framework of its Instruments for Pre-Accession Assistance (IPAs)
- Contributions from partner IFIs according to each institution's own specific internal procedures
- Grants from donor countries through the EWBJF.

Governance

The Steering Committee, the WBIF's decision-making body, is composed of members of the Commission, representatives of partner IFIs and contributor countries to the European Western Balkans Joint Fund (EWBJF). It approves requests for grants at its two annual meetings. At end 2011, total contributions received for the EWBJF amounted to € 43.2 million, including € 33.2 million from 19 donor countries and € 10 million from the EU.

Update on CEB-WBIF activity as at 31 December 2011	*In million euros*
Total CEB projects receiving contributions from the WBIF	337.8
WBIF contributions on CEB-approved projects	56.4
Total projects currently under appraisal	126.3
WBIF contributions to projects currently under appraisal	13.43

The Project Financiers' Group (PFG) is the WBIF's operational arm. It is responsible for screening and assessing requests for grants from beneficiary countries, initiators of the projects, with a view to possibly presenting them to the Steering Committee. The PFG is co-chaired by the Commission and one of the participating international financial institutions on a rotating basis. During the 1st semester 2011, the CEB co-chaired the PFG. It thus coordinated the activity of the WBIF jointly with the Commission.

In 2011, the Steering committee approved 41 grant requests, representing a total of € 41.3 million. The social sector represents 17% of the approved grants. The 5 CEB projects for which contributions from the WBIF were approved in 2011 are as follows:

- **Albania**: a rural and urban modernisation project in the Albanian Alps, currently under appraisal, will receive a grant of € 1 million to finance the technical assistance required to prepare a master plan and feasibility studies

- **"the former Yugoslav Republic of Macedonia"**: 3 grants for a total amount of € 6 million in support of 2 projects in the education sector and 1 in the health sector, currently in the process of implementation

- **Bosnia and Herzegovina**: a water treatment project co-financed with the EIB, combined with a € 0.5 million grant, for which assessment is on-going.

Prospects

The WBIF has shown that it responds to a real need in the region. It gives pragmatic and coherent substance to the cooperation efforts undertaken by the different development actors.

On the strength of the experience gained at the end of the first two years of operational cooperation with its WBIF partners, the CEB is pleased to be associated with this initiative. The Bank will be pursuing its efforts to ensure that an increasing number of social projects may benefit from this financial support. A study devoted to the financing of social projects in the Western Balkans, to which the CEB has contributed actively, is to be published in June 2012. This report should present the twofold advantage of (1) providing an overview of the situation in the social sector in the region and (2) recommending possible channels for WBIF action in this sector.

2. Managing the environment

For the CEB, sustainable management of the environment is not only a sectoral line of action but also a constant requirement as the Bank strives to foster a sustainable relationship between populations and their environment by fully integrating environmental considerations in all its lending operations. Within this sustainability perspective, the CEB's actions have steadily evolved from emergency response to environmental disasters and immediate post-disaster reconstruction to prevention against the loss of life and livelihoods due to natural and ecological disasters as well as protection of the environment and preservation of historic and cultural heritage.

Over the period 2007-2011, projects approved in this sectoral line of action represented an accumulated amount of € 2 559 million or 23% of all approvals made over the last five years. A total of € 1 822 million, or 71% of all approvals over the period, was dedicated to operations in target group countries. For 2011 alone, projects approved amounted to € 461 million (representing 22% of all projects approved).

In parallel to this, since 2007, loans disbursed in favour of environmental management have amounted to an accumulated total of € 1 960 million, representing 23% of all disbursements made over the past five years. Of this, target group countries accounted for € 1 576 million or 80% of all disbursements in this sector. In 2011, the Bank disbursed € 528 million for environmental management, or 29% of all the year's disbursements.

Natural or ecological disasters

Together with aid to refugees, migrants and displaced persons, aid to victims of natural or ecological disasters constitutes one of the CEB's two statutory priorities. The purpose of the actions undertaken in this field is, on the one hand, to provide national and local authorities with assistance in the reconstruction of the disaster-affected areas and, on the other hand, to develop means for the prevention of natural or ecological disasters. Globally speaking, the Bank's projects strive to enable sustainable development in the Member States by providing lasting solutions for reducing vulnerability to natural disasters, reversing environmental degradation and promoting adherence to environmental standards.

During the period 2007-2011, the Bank approved projects in this sector for a total amount of € 583 million. In 2011 alone, the projects approved totalled € 270 million. Disbursements in 2011 amounted to € 174 million, whereas, over the last five years, they amounted to € 431 million.

SERBIA
Earthquake damage

The Bank this year approved a new programme in the **Czech Republic** with Komerční Banka that will provide € 10 million to finance municipal investments in the reconstruction or rehabilitation of public structures destroyed or damaged by recurring floods, in particular basic infrastructure such as water mains, waste water and solid waste treatment facilities, electricity and gas supplies.

In **Hungary,** the Bank approved a € 150 million programme with the Government to part-finance reconstruction work after the two major disasters that hit Hungary in 2010: a natural disaster due to floods caused by extreme weather conditions, and an ecological disaster due to a toxic sludge spill following the collapse of a reservoir in an alumina plant in Ajka, in Western Hungary. The programme aims to repair the severe natural, ecological and economic damage these disasters caused, especially as a large proportion of the affected areas are among the least economically developed.

In **Spain**, the CEB approved a € 50 million project with the Autonomous Community of the Murcia Region to part-finance reconstruction and rehabilitation of public infrastructure, dwellings and monuments affected by the earthquake that occurred in May 2011 in Lorca. Unstable geological ground conditions have aggravated the destruction, making this earthquake the most damaging incident of its kind to have occurred in Spain in recent years (see box on page 26).

Again in Spain, the Bank approved a new operation with the Junta de Castilla y León that will make € 60 million available for the partial financing of fire prevention infrastructure throughout the region. The CEB's loan will finance investments to prevent wildfire through silvicultural treatment and measures to stop the spread of fire through diversification of tree species and the spacing of vegetation. The anticipated positive environmental

"THE FORMER YUGOLSAV REPUBLIC OF MACEDONIA"
Sport infrastructure in schools

impact will stem not only from the protection of natural wooded areas from the threat of fire, but also from the preservation of the region's biodiversity and improvements in its adaptability to climate change (see box opposite).

Protection of the environment

The CEB finances projects that contribute to protecting and improving the environment, thereby improving the overall living conditions of the population. Projects notably involve:

- reduction and treatment of solid and liquid waste
- clean-up and protection of surface and underground water
- protection against noise nuisance
- production of renewable energy on a non-industrial scale and air pollution prevention
- protection and development of biodiversity
- cleaner transport means and networks.

In parallel to its specific actions, the CEB systematically takes into account the environmental aspects of all the projects it appraises, regardless of the sector concerned.

The initiatives that have been taken in the environmental protection sector are today widely diverse both in terms of the fields of action involved and their geographical scope. Over the period 2007-2011, the Bank approved projects in this sector for an accumulated amount of € 1 927 million, representing 17% of all projects approved over the period. For 2011, approvals in this field amounted to € 180 million.

Disbursements over the last five years accounted for € 1 436 million or 17% of all disbursements over the period. In 2011, disbursements totalled € 344 million.

Among the new operations the CEB approved this year is a € 75 million project with the Government in **Croatia.** The main objective of the project is to support the implementation of priority investments

SPAIN

Helping the regions address environmental challenges

In 2011, the CEB approved € 150 million for two operations in Spain in the Bank's "Managing the Environment" sectoral line of action, enabling it to provide support to the Spanish regions by addressing a number of important and varied environmental challenges.

Aid to regions hit by natural or ecological disasters is one of CEB's statutory fields of action and the € 50 million project with the Autonomous Community of the Murcia Region will finance one of the most important post-earthquake operations in Spain, enabling the regional government to rehabilitate and reconstruct damaged infrastructure in the areas affected by the earthquake. It is expected that some 25 000 dwellings will be rehabilitated along with 29 education centres, while at the same time 31 historical buildings will be restored and basic infrastructure such as electricity, gas, water, roads and other local infrastructure repaired.

The € 100 million project with the Junta de Castilla y León will have two components. A € 60 million component dedicated to investments in fire prevention infrastructure (the CEB's "Natural or Ecological Disasters" sector of action) is part of the Regional Government's specific programme aimed at preventing deforestation by fire in Castilla y León. The plan is consistent with the National Forest Policy whose objective is to preserve forest and wooded areas from seasonal fires and to ensure their protection, improved quality and sustainability.

The € 40 million component that will provide for the partial financing of investment projects in water and wastewater (the CEB's "Protection of the Environment" sector of action) focuses on improving the living conditions of targeted populations by upgrading local and regional water infrastructure throughout the region. Adequate management, treatment and provision of quality water to local populations constitute a precondition for further social and economic development and lasting improvements in public health.

aimed at developing and upgrading water and wastewater infrastructure in localities where the existing facilities are still inadequate or insufficiently developed. The project is expected to result in updated infrastructure, increased service coverage and enhanced ecological quality of surface and groundwater resources. The project aims to reduce risks to public health, as well as improving the quality of life and economic opportunities for the beneficiary populations.

The CEB also approved a programme worth € 20 million with Komerční Banka in the **Czech Republic** for the partial financing of investments undertaken by small and medium-sized local authorities throughout the country and associated local entities, such as schools, medical centres and utility companies. Eligible subprojects under this programme will fall within the overall framework of the Czech Republic's EU Accession Treaty which commits the country to taking action in favour of environmental protection.

In **Poland**, the Bank approved a € 20 million programme with Bank Ochrony Środowiska to part finance eligible public infrastructure investments undertaken by local governments and other public sector entities. The programme follows on from three previous projects in favour of BOŚ and will serve to finance sub-projects involving the prevention of ecological threats through the recovery and modernisation of hydro-technical premises, investments in renewable energy sources and improved energy effectiveness and efficiency in public facilities.

Under a new programme approved with Vseobecna Uverova Banka in the **Slovak Republic**, the CEB will be providing € 25 million to support housing co-operatives and flat owners' associations in the rehabilitation of panel housing so as to improve energy efficiency. Investments to address inadequate insulation should result in a 30% reduction in the energy consumption for each rehabilitated building.

Lastly, in **Spain**, the Bank approved a total of € 40 million with Junta de Castilla y León to part-finance water and wastewater investment projects such as water infrastructure and sewage networks, collectors and basins as well as wastewater treatment facilities throughout the region. As regional water management policies encourage the reutilization of wastewater, projects for the recycling of rainwater and other water saving actions will also be financed.

Protection and rehabilitation of historic and cultural heritage

The CEB can finance the restructuring and rehabilitation of historic and cultural heritage, classified as such by UNESCO or by the Member States concerned.

Over the period 2007-2011, the Bank approved a total of € 49 million for this sector. In 2011, the Bank approved new operations in this sector for a total of € 11 million, and disbursements for the year also amounted to € 11 million.

The programme approved in **Poland** with the City of Łódz will provide € 6 million to finance investment expenditures in this field undertaken by the municipal authorities within the city area.

Also in Poland, a programme with Bank Ochrony Środowiska will devote € 4.5 million to part-finance eligible public infrastructure investments undertaken by local governments and other public-sector entities during the implementation of the city's urban revitalisation schemes.

3. Supporting public infrastructure with a social vocation

The CEB's integrated approach to supporting the development of public infrastructure with a social vocation in the key sectors of health, education, vocational training and administrative and judicial public services facilitates more dynamic and more equitable economic growth and social cohesion over the long term. Indeed, the provision of modern public services is an essential tool in promoting more balanced regional and national development in Europe, thereby reducing inequalities.

During the period 2007-2011, projects approved in this sectoral line of action represented an accumulated amount of € 2 706 million or 24% of all project approvals over the period. Of this, project approvals for the benefit of target group countries amounted to € 931 million. In 2011, projects approved amounted to € 456 million, representing 22% of all projects approved for the year.

In parallel to this, loans disbursed in favour of this line of action reached an accumulated total of € 1 900 million, representing 22% of all disbursements made over the period 2007-2011. Of this, disbursements to target group countries accounted for € 682 million. For 2011 alone, the Bank disbursed a total of € 394 million or 21% of all disbursements for the year.

Health

The CEB provides the means for financing various types of projects that concern health and related infrastructure, most notably involving the construction, renovation and modernisation of infrastructure such as hospitals, neighbourhood healthcare centres (including those specialised in providing assistance to vulnerable populations), university hospitals or centres specialising in healthcare for the elderly and the disabled. In addition, the CEB can contribute to the financing of technical and management training programmes for specialised staff in the social welfare and healthcare fields.

BOSNIA AND HERZEGOVINA

Improving the primary healthcare provision

Bosnia and Herzegovina has embarked on an in-depth reform of its health sector model. In addition to upgrading infrastructure, modernising equipment and building up management capacities, the authorities are seeking ways to resolve the issue of crowding in the secondary and tertiary care segments by patients requiring primary care. In order to mitigate this concern, the authorities have sought to introduce the family care model of medicine throughout the country, notably by refurbishing the out-dated network of primary care facilities, known as ambulantas, and by investing in soft components such as doctor and management training.

Already, the objective of the previous CEB co-financed project was to enhance the efficiency of the health system by introducing the family medicine model of primary health care via refurbished infrastructure, modern equipment, staff training, management development, and strengthened policy-making processes. Whereas previously scarcely practiced in Bosnia and Herzegovina, about half the population should now have access to family medicine. Thanks to this new project, the proportion of potential beneficiaries should increase to about 70% of the population.

The new funds will be used to expand the three original components. Thus, the objectives of the new project are streamlined as follows: (1) widening and enhancing the family medicine model of primary care through education and training, information systems and equipment, as well as the refurbishment, reconstruction and new construction of primary health care units; (2) building up management capacity in the sector; and, (3) strengthening the policy-making process through the development and implementation of a system for monitoring and evaluating sector performances.

ALBANIA
Tirana hospital

Over the period 2007-2011, the CEB approved operations totalling € 803 million in this sector of action. In 2011, the Bank approved € 129 million in this sector, whilst disbursements for the year amounted to € 72 million.

Among the operations approved this year, a project with the Government in **Bosnia and Herzegovina** will provide € 9.2 million to part finance primary care infrastructure throughout the country. Following on from a previous cooperation initiative in this field, the project will support the Government's efforts to introduce the family medicine model of primary health care through the refurbishing and construction of infrastructure as well as through the provision of medical and information-technology equipment (see box opposite).

The CEB also approved a programme with Crédit Agricole in **France** that will make € 100 million available to part-finance social infrastructure facilities throughout the country. The projects financed will notably concern the infrastructure and facilities required for the development of home services, day care and temporary accommodation facilities as well as the provision of new places and the extension and renovation of existing ones in homes and nursing homes for dependent elderly people in need of permanent assistance (see box opposite).

A programme approved with SG Equipment Leasing Polska (SGELP) will make € 15 million available to part-finance the leasing of medical equipment in the healthcare sector throughout **Poland**. The CEB's involvement will provide flexible and cost-effective funding to beneficiaries that it would otherwise not be able to reach, and for whom leasing is often the only form of available investment financing.

FRANCE

Old-age dependency health and care programme

Care for dependent elderly persons has become a major concern for the French authorities. France is expected to have almost 15% of its population aged over 75 years by 2050, mostly due to the continuing increase in life expectancy and the fact that the first baby-boom generations will soon be entering the age group concerned. But it is the very elderly who are most at risk of becoming dependent.

Having long been confined to purely medical aspects, care for dependent elderly people is now more multidimensional and involves changes and adjustments to the provision of institutional and residential care, as well as to the care and support delivered locally and in people's own homes.

The project will enable the provision of additional resources to public and voluntary sector entities operating in this field in order to support their investments in the medical and welfare sector, aimed more particularly at reducing the risk of dependency among the elderly. By developing solutions to help people stay in their own accommodation as well as building residential homes for dependent elderly in need of permanent daily assistance, the project should contribute to lasting improvements in the quality of life of dependent persons, especially in rural areas.

Among other things, the investments will provide direct support for the French Government's Solidarity Plan for Old Age, the aim of which is to provide 5 000 new places a year by 2012. Based on average cost estimates, the project, part-financed by the CEB, is to contribute to providing some 1 200 new beds.

Another leasing operation, this time in **Romania** with UniCredit Leasing Corporation, will provide € 5 million to part-finance the leasing of medical equipment for healthcare sector entities, such as medical practices, clinics and hospitals throughout the country. Overall, the project aims at increasing the provision of healthcare services by improving their range and quality and facilitating their accessibility to the population.

Education and vocational training

The CEB takes action at different levels of the education system, whether in preschools, primary schools, secondary schools or universities. The Bank thus finances the construction and modernisation of school, university and vocational training infrastructure as well as investments in teaching equipment and related educational infrastructure such as sports and cultural equipment or housing for school and university students. It can also finance investments in scientific research and development.

As regards vocational training, alternating theoretical training with on-the-job practice of a profession constitutes a response that is well-adapted not only to the needs of enterprises, particularly SMEs, but also to the expectations of those who are about to join the working world. Within this framework, the CEB finances programmes providing assistance in the training of specialised staff in the social and education sectors, programmes for professional reconversion away from declining economic sectors as well as various training programmes for civil servants and government officials.

Over the period 2007-2011, the CEB approved operations in this sectoral line of action for an accumulated amount of € 1 514 million. In 2011, approvals in this sector reached € 208 million, while disbursements represented € 318 million.

In **Serbia**, the CEB approved a new programme with the Government. This operation will make € 49 million available to part-finance projects aimed at improving and upgrading the country's science and education infrastructure. The proposed project represents the second phase of Serbia's research and development initiative and will include the creation of several Centres of Excellence in priority research areas as well as the establishment of a Science and Technology Park in Novi Sad.

Also in Serbia, with the support of the Spanish Social Cohesion Account managed by the CEB, a new programme approved with the Government will devote € 28.5 million to financing investments within the framework of the first phase of the Government's "Education for Social Inclusion" (ESI) project, which identifies as a priority the need to provide adequate accommodation for secondary school pupils and university students. The ESI project also seeks to upgrade the skills of teachers and professional staff working in early education and to contribute to mainstreaming children from vulnerable groups and those with special needs by preparing the teachers and staff who work with them.

In **Spain**, the CEB approved € 100 million with the Autonomous Community of Madrid to part-finance the construction, renovation and extension of pre-university schools and related infrastructure. The project aims to create a better learning

CYPRUS
University

environment for pupils in the Autonomous Community, to improve working conditions for teachers and staff and to expand the capacity of pre-university schools in order to reflect the rapid change in population distribution across the region.

The CEB is to contribute € 30 million to the Government of **"the former Yugoslav Republic of Macedonia"** to part-finance the construction of physical education facilities in primary schools and the rehabilitation of primary and secondary schools throughout the country (see box opposite).

Infrastructure of administrative and judicial public services

In 2006, the scope of the Bank's operations was broadened to include the upgrading of infrastructure for administrative and judicial services. In effect, the CEB introduced this new sector of action in line with the Action Plan of the 3rd Summit of Heads of States and Government of the Council of Europe (Warsaw 2005). Under this heading, the CEB can finance projects for the construction or rehabilitation of infrastructure as well as for the conversion of buildings into premises intended for public service use, in particular to improve the organisation and functioning of administrative and judicial public services.

Eligible projects in this field may include penitentiary infrastructure, fire/police stations, training centres or buildings connected to municipal/local/regional administrations. With regard to prison infrastructure in particular, the projects financed by the CEB must respect the principles contained in the Recommendations made in 2006 by the Committee of Ministers of the Council of Europe concerning European Prison Rules.

"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"

Physical education facilities and school rehabilitation

The project is part of a much larger effort to improve the education system in the country including, notably: increasing basic education from eight to nine years, making secondary education compulsory; increasing the number of hours of physical health education in schools, improving student access to information technology, and increasing ratios of budgetary allocations for education to EU levels.

The CEB initiated cooperation in the education sector with the Government in a previous project aimed at part-financing the construction and equipping of 33 Physical Education Facilities (PEFs) for secondary schools. While the previous cooperation also included a funding component for repairs in schools where PEFs were built, an important part of the remaining needs will be addressed under the new project approved in 2011.

The first component of the newly-approved project aims at the construction and equipment of seventy PEFs in primary schools in order to improve the physical condition of pupils and thus their learning capacity. The second component focuses on the rehabilitation of primary and secondary schools so as to provide a decent learning environment for pupils.

It is of note that this project also benefits from an investment grant under the Western Balkans Investment Framework (WIBF) that will be administered by CEB to finance additional rehabilitation works in schools.

The project is expected to have a positive impact on the health, physical fitness and learning performance of the beneficiaries. Local populations should also benefit from the PEF installations for leisure activities outside school hours, and sports teams will be able to practice regularly in up-to-date and well-equipped facilities.

Since 2007, the CEB has approved a total of € 389 million in this sector. In 2011 alone, € 119 million was approved for 4 new operations. Implementation of these complex projects has started to go ahead and disbursements in this sector amounted to € 4 million in 2011.

Thus, in **Croatia**, the CEB approved a € 50 million project with the Government to part finance the construction of a new penitentiary complex near the city of Šibenik, on the Dalmatian coast. Through the provision of additional capacity, the project aims to help develop decent living conditions for around 1 300 inmates while at the same time lessening the burden on existing infrastructure. In addition, the project will address regional imbalances in terms of penitentiary infrastructure distribution and provide improved conditions for the eventual re-socialisation of inmates and, consequently, enhanced security for the wider community.

A new project with the Government in **Georgia** will provide € 60 million to co-finance, with the support of the Spanish Social Cohesion Account managed by the CEB, the construction of a prison complex for 2 000 inmates in the village of Laituri, in the southwest of the country. The project is expected to significantly improve the capacity and functioning of Georgia's judicial public services not only directly, by increasing cell availability, but also indirectly, by establishing new standards in the construction of prison facilities, prisoner programs and staff training.

A programme with the City of Katowice in **Poland** will make € 5 million available to part-finance investment expenditures undertaken by the municipal authorities within the city area involving the modernisation of infrastructure for administrative public services. The project should result in improved services for the city's inhabitants and better working conditions for municipal civil servants.

Also in Poland, a programme with the City of Łódz will devote € 4 million to providing higher standards and better access to municipal infrastructure and services. In particular, the programme will make funds available for the modernisation of a building that will host the municipal and regional geodesic and cartography administration.

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In 2011, the breakdown of both projects approved and loans disbursed bears witness to the CEB's fidelity to its three major lines of action, namely *strengthening social integration, managing the environment and supporting public infrastructure with a social vocation.*

The financings carried out this year brought the loans outstanding to € 12 075 million and the stock of projects awaiting financing to € 5 270 million (including € 3 518 million for the target group of countries in Central, Eastern and South Eastern Europe). At the end of the second year of implementation of the Medium-term Development Plan for 2010-2014, these last figures naturally constitute for the CEB a solid reserve of projects in favour of its Member States for the forthcoming years.

PROJECTS APPROVED
per country and per sectoral line of action

In thousand euros

Countries	2011 Amounts	2011 %	2010 Amounts	2010 %	Accumulated total 2007-2011 Amounts	Accumulated total 2007-2011 %
Albania					66 000	0.6
Belgium	270 000	12.8	275 000	12.1	645 000	5.7
Bosnia and Herzegovina	9 200	0.4			138 500	1.2
Bulgaria	30 000	1.4	25 000	1.1	100 000	0.9
Croatia	155 000	7.3	6 480	0.3	261 480	2.3
Cyprus			265 000	11.7	455 523	4.0
Czech Republic	100 000	4.7			195 000	1.7
Denmark					100 000	0.9
Estonia					35 000	0.3
Finland			100 000	4.4	375 000	3.3
France	200 000	9.5	250 000	11.0	1 000 000	8.8
Georgia	60 000	2.8			60 000	0.5
Germany (*)			57 500	2.6	727 400	6.4
Hungary	150 000	7.1	125 000	5.5	904 000	8.0
Iceland					224 000	2.0
Ireland			125 000	5.5	335 000	3.0
Italy					352 000	3.1
Latvia					150 000	1.3
Lithuania					140 000	1.2
Moldova	13 400	0.6			27 400	0.2
Montenegro			25 000	1.1	25 000	0.2
Poland	300 000	14.2	302 400	13.3	1 553 100	13.7
Portugal			100 000	4.4	665 000	5.9
Romania	100 000	4.7			100 000	0.9
Serbia	138 500	6.6	67 000	3.0	255 500	2.3
Slovak Republic	100 000	4.7	50 000	2.2	150 000	1.3
Slovenia			40 000	1.8	140 000	1.2
Spain	350 000	16.6	108 000	4.8	888 000	7.8
Sweden					209 000	1.8
"the former Yugoslav Republic of Macedonia"	34 000	1.6	46 000	2.0	152 850	1.4
Turkey	100 000	4.7	300 000	13.2	887 100	7.8
TOTAL	**2 110 100**	**100.0**	**2 267 380**	**100.0**	**11 316 853**	**100.0**

(*) Of which € 7.5 million for projects approved in favour of target group countries in 2010.

NB - Information presented in this table regarding amounts approved reflects the location of the registered office of the borrower and not that of the ultimate beneficiary, who may be based in another country. Consequently, the figures provide information on the risk profile of the Bank's borrowers and not that of the ultimate beneficiaries of its lending operations.

Sectoral lines of action (**)	2011 Amounts	2011 %	2010 Amounts	2010 %	Accumulated total 2007-2011 Amounts	Accumulated total 2007-2011 %
Strengthening social integration	**1 193 650**	**56.6**	**1 125 830**	**49.7**	**6 051 772**	**53.5**
Aid to refugees, migrants and displaced persons	10 000	0.5			37 000	0.3
Housing for low-income persons	318 900	15.1	342 000	15.1	1 919 170	17.0
Creation and preservation of viable jobs	585 500	27.7	400 000	17.7	2 610 420	23.1
Improvement of living conditions in urban and rural areas	279 250	13.2	383 830	16.9	1 485 182	13.1
Managing the environment	**460 750**	**21.8**	**570 000**	**25.1**	**2 559 107**	**22.6**
Natural or ecological disasters	270 000	12.8	250 000	11.0	582 696	5.1
Protection of the environment	180 250	8.5	315 000	13.9	1 927 373	17.0
Protection and rehabilitation of historic and cultural heritage	10 500	0.5	5 000	0.2	49 038	0.4
Supporting public infrastructure with a social vocation (***)	**455 700**	**21.6**	**571 550**	**25.2**	**2 705 974**	**23.9**
Health	129 200	6.1	162 810	7.2	802 534	7.1
Education and vocational training	207 500	9.8	228 200	10.0	1 514 250	13.4
Infrastructure of administrative and judicial public services	119 000	5.6	180 540	8.0	389 190	3.4
TOTAL	**2 110 100**	**100.0**	**2 267 380**	**100.0**	**11 316 853**	**100.0**

(**) Amounts as estimated at the time of project approval.

(***) Following the adoption of Resolution 1522 (2009), the sectoral line of action "Supporting public infrastructure with a social vocation" contains the same components as the sectoral line of action formerly referred to as "Developing human capital", but now also includes the sector "Infrastructure of administrative and judicial public services".

NB - Percentages may not add up to 100 due to rounding.

PROJECTS APPROVED
per counterparty in 2011

In thousand euros

Countries	Counterparties	Sectors	Amounts
Belgium	Fonds Logement Familles Wallonie	Housing for low-income persons	80 000
	Société Wallonne du Logement	Housing for low-income persons	190 000
Bosnia and Herzegovina	Government	Health	9 200
Bulgaria	Raiffeisen Bank Bulgaria	Creation and preservation of viable jobs	30 000
Croatia	Government	Protection of the environment	75 000
		Infrastructure of administrative and judicial public services	50 000
	Privredna Banka Zagreb (PBZ)	Improvement of living conditions in urban and rural areas	18 000
		Creation and preservation of viable jobs	12 000
Czech Republic	Komerční Banka	Natural or ecological disasters	10 000
		Protection of the environment	20 000
		Improvement of living conditions in urban and rural areas	70 000
France	Crédit Agricole SA	Health	100 000
	OSEO S.A.	Creation and preservation of viable jobs	100 000
Georgia	Government	Infrastructure of administrative and judicial public services	60 000
Hungary	Government	Natural or ecological disasters	150 000
Moldova	Government	Housing for low-income persons	13 400
Poland	Bank Ochrony Środowiska S.A. (BOŚ)	Protection of the environment	20 250
		Improvement of living conditions in urban and rural areas	41 250
		Protection and rehabilitation of historic and cultural heritage	4 500
		Creation and preservation of viable jobs	4 500
		Housing for low-income persons	4 500
	Bankowy Fundusz Leasingowy (BFL)	Creation and preservation of viable jobs	50 000
	Region of Łódz	Improvement of living conditions in urban and rural areas	50 000
	SG Equipment Leasing Polska	Creation and preservation of viable jobs	35 000
		Health	15 000
	City of Katowice	Improvement of living conditions in urban and rural areas	20 000
		Infrastructure of administrative and judicial public services	5 000
	City of Łódz	Improvement of living conditions in urban and rural areas	40 000
		Protection and rehabilitation of historic and cultural heritage	6 000
		Infrastructure of administrative and judicial public services	4 000
Romania	UniCredit Leasing Corporation IFN SA	Creation and preservation of viable jobs	95 000
		Health	5 000
Serbia	Banca Intesa A.D. Beograd	Creation and preservation of viable jobs	20 000
	Intesa Leasing d.o.o. Beograd	Creation and preservation of viable jobs	10 000
	Raiffensen Leasing Serbia	Creation and preservation of viable jobs	10 000
	Government	Education and vocational training	77 500
		Housing for low-income persons	21 000
Slovak Republic	Československá obchodni banka a.s.	Improvement of living conditions in urban and rural areas	40 000
	(ČSOB)	Housing for low-income persons	10 000
		Protection of the environment	25 000
	Vseobecna Uverova Banka a.s. (VUB)	Creation and preservation of viable jobs	25 000
Spain	Autonomous Community of Madrid	Education and vocational training	100 000
	Autonomous Community of Murcia	Natural or ecological disasters	50 000
	Junta de Castilla y León	Natural or ecological disasters	60 000
		Protection of the environment	40 000
	MicroBank	Aid to refugees, migrants and displaced persons	10 000
		Creation and preservation of viable jobs	90 000
"the former Yugoslav Republic of Macedonia"	Government	Education and vocational training	30 000
	ProCredit Bank (Skopje)	Creation and preservation of viable jobs	4 000
Turkey	Türkiye Halk Bankasi A.S.	Creation and preservation of viable jobs	100 000
TOTAL			**2 110 100**

LOANS DISBURSED
per country and per sectoral line of action

In thousand euros

Countries	2011 Amounts	2011 %	2010 Amounts	2010 %	Accumulated total 2007-2011 Amounts	Accumulated total 2007-2011 %
Albania	25 137	1.4	21 303	1.2	92 078	1.1
Belgium	235 000	12.7	35 000	2.0	295 000	3.5
Bosnia and Herzegovina	547	0.03	1 718	0.1	101 056	1.2
Bulgaria	12 000	0.6	7 500	0.4	32 928	0.4
Croatia	10 000	0.5	31 053	1.7	152 413	1.8
Cyprus	71 274	3.8	114 562	6.5	394 485	4.6
Czech Republic			5 000	0.3	27 000	0.3
Denmark					100 000	1.2
Estonia	16 542	0.9	5 000	0.3	21 542	0.3
Finland			100 000	5.6	380 000	4.5
France	87 500	4.7	100 000	5.6	637 500	7.5
Germany (*)	131 863	7.1	252 500	14.2	742 363	8.7
Greece					52 719	0.6
Hungary	204 257	11.0	160 726	9.0	946 445	11.1
Iceland			32 003	1.8	195 439	2.3
Ireland					74 870	0.9
Italy (**)	16 000	0.9	20 000	1.1	378 100	4.4
Latvia					136 500	0.4
Lithuania					39 448	0.5
Moldova	1 024	0.1	300	0.02	8 337	0.1
Montenegro	10 000	0.5			10 000	0.1
Norway					65 000	0.8
Poland	202 044	10.9	395 717	22.2	1 043 287	12.2
Portugal	100 000	5.4	105 000	5.9	306 730	3.6
Romania	146 364	7.9	147 767	8.3	694 169	8.1
Serbia	32 500	1.8			75 583	0.9
Slovak Republic	29 126	1.6	4 126	0.2	33 252	0.4
Slovenia			54 000	3.0	134 130	1.6
Spain	164 000	8.8	124 000	7.0	551 532	6.5
Sweden	56 200	3.0			207 254	2.4
"the former Yugoslav Republic of Macedonia"	3 700	0.2	9 500	0.5	30 930	1.6
Turkey	300 086	16.2	55 375	3.1	578 094	6.8
TOTAL	**1 855 164**	**100.0**	**1 782 150**	**100.0**	**8 538 184**	**100.0**

(*) Of which € 24.5 million in favour of target group countries (2011) and € 22.5 million in 2010.
(**) In favour of target group countries (2011) and € 20 million in 2010.

NB - Information presented in this table regarding amounts disbursed reflects the location of the registered office of the borrower and not that of the ultimate beneficiary, who may be based in another country. Consequently, the figures provide information on the risk profile of the Bank's borrowers and not that of the ultimate beneficiaries of its lending operations.

Sectoral lines of action (**)	2011 Amounts	2011 %	2010 Amounts	2010 %	Accumulated total 2007-2011 Amounts	Accumulated total 2007-2011 %
Strengthening social integration	**933 126**	**50.3**	**1 023 629**	**57.4**	**4 678 031**	**54.8**
Aid to refugees, migrants and displaced persons	5 000	0.3	15 197	0.9	123 418	1.4
Housing for low-income persons	279 297	15.1	254 590	14.3	1 347 482	15.8
Creation and preservation of viable jobs	380 956	20.5	428 427	24.0	2 165 833	25.4
Improving living conditions in urban and rural areas	267 873	14.4	325 415	18.2	1 041 298	12.2
Managing the environment	**528 189**	**28.5**	**340 905**	**19.2**	**1 960 429**	**23.0**
Natural or ecological disasters	173 690	9.4	33 845	1.9	431 458	5.1
Protection of the environment	343 826	18.5	295 001	16.6	1 435 561	16.8
Protection and rehabilitation of historic and cultural heritage	10 673	0.6	12 059	0.7	93 410	1.1
Supporting public infrastructure with a social vocation (***)	**393 849**	**21.2**	**417 616**	**23.4**	**1 899 724**	**22.2**
Health	71 548	3.9	113 712	6.4	604 585	7.1
Education and vocational training	318 130	17.1	302 035	16.9	1 225 121	14.3
Infrastructure of administrative and judicial public services	4 171	0.2	1 869	0.1	70 018	0.8
TOTAL	**1 855 164**	**100.0**	**1 782 150**	**100.0**	**8 538 184**	**100.0**

(***) Following the adoption of Resolution 1522 (2009), the sectoral line of action "Supporting public infrastructure with a social vocation" contains the same components as the sectoral line of action formerly referred to as "Developing human capital", but now also includes the sector "Infrastructure of administrative and judicial public services".

NB - Percentages may not add up to 100 due to rounding.

Ex Post Evaluation

Ex Post Evaluation Department (DEP) Main developments in 2011

The CEB has entrusted to the DEP the core function of evaluating individual projects and programmes, which has resulted in the independent assessment of 44 CEB operations in 27 reports between 2004 and 2011, covering disbursements of almost € 2 billion.

The primary role of independent evaluation at the CEB is to support institutional learning in order to enhance the performance and impact of the CEB's operations as a development bank, in the wake of its broadened membership and expanded level of activity over the last two decades.

While acknowledging CEB specificities, the DEP is committed to aligning the evaluation function at the CEB with those of multilateral development banks (MDBs) of the Evaluation Cooperation Group (ECG), where the CEB participates as an observer. In this regard, it has particularly focused on ECG Good Practice Standards for public sector investments, given the characteristics of the CEB's lending activity.

Procedures for follow-up with the CEB's operational directorates on the implementation of recommendations issued in evaluation reports continue to be refined in order to make this tool even more suitable for institutional learning.

The DEP contributes to the CEB's visibility through various means: besides exposure at country level through evaluation work and the publishing of evaluation abstracts, the CEB's updated Public Information Policy now allows for the publication, under certain conditions, of the full evaluation reports.

With a new recruitment in 2011, the DEP has regained its previous staffing level.

Project and Programme Evaluations

The evaluation work at DEP is organized by evaluation cycles, structured around the CEB's sectors of action or on specific themes. Individual evaluations are the key building blocks, culminating in a Synthesis Report focusing on emerging overarching issues. In 2011, the DEP issued seven evaluation reports on twelve CEB operations in five countries.

Job Creation: The Synthesis Report on evaluations of job creation programmes will be completed after the CEB's operational directorates and management have submitted their observations. The Report underlines the importance for the CEB to strategically determine its positioning in this field, with the objective of strengthening the social relevance of its operations.

Grants: The evaluation cycle of CEB grant-financed projects was concluded with the release of the last report in the series, which confirmed the successful relocation of vulnerable households while recommending better reporting on applied eligibility criteria. A Synthesis Report on overall findings will follow accordingly, based on the evaluation of eight projects financed by CEB grants through its Selective Trust Account.

Environment: Three evaluations on *water supply and sanitation* investments highlighted a positive environmental impact, but also underscored the importance of managerial efficiency and financial performance, which should receive closer attention at the project approval stage. Indeed, those programmes that were deemed highly successful were based on sound fiscal management policies, including the user pays principle. A DEP Working Paper on *energy efficiency* was initiated to define indicators and performance criteria for the upcoming evaluations, in the absence of guidelines specifying performance expectations of such programmes at approval. Plans are underway with another MDB for a joint evaluation of energy efficiency investments.

Housing: Two separate evaluation cycles have been defined. The first cycle focuses on *social housing* operations and is at the completion stage. The three evaluation reports issued in 2011 indicated an overall satisfactory performance, but highlighted the need for the CEB to consider the fiscal implications of *social housing* programmes, especially if these operations result in a growing level of local debt but limited social development outcomes. A Synthesis Report is under preparation and preliminary findings were presented to CEB staff. The second cycle, *housing for social integration*, currently being launched, and for which the Analytical Framework is under preparation, focuses on CEB housing operations aimed at the social integration of migrants, Roma and returnees.

Financial activities

I ECONOMIC CONTEXT IN 2011

In 2011, the global recovery lost momentum as general concern with Europe's sovereign debts and financial markets increased. More than usual, the outlook for 2012 seems uncertain and subject to "confidence building policy action", as underscored by the OECD.

Emerging market economies were the main drivers of global growth, and are likely to remain so even albeit at a potentially weakened pace. The Chinese and Indian economies continued to expand rapidly in 2011; emerging markets overall have experienced significant GDP growth.

In most advanced countries, the economy stalled and the slow pace of growth has made the improvement of labour markets a difficult objective to meet. Among the G-9 for example, only Germany and Canada have seen employment rise above levels recorded before the crisis. Fostering growth and creating jobs in the near term are thus crucial issues for most European countries as well as for the USA.

In Europe, the sovereign crisis deepened during 2011 and had an important economic and financial impact on many countries.

Credit and confidence in the eurozone were shaken. The slowing of growth has weighed further on fiscal finances in the affected economies and the European crisis is dampening the global recovery. Most of the major eurozone economies have committed to reducing their general government budget deficits to less than 3% of GDP by 2013.

The intensification of the eurozone sovereign debt crisis was also linked to banking sector weakness. While bank funding problems became evident during the year, policymakers and market participants are increasingly preoccupied by the issues of bank solvency. In line with 2010, primary markets worked quite smoothly in the first part of 2011 and capital market issuances were absorbed by the investors. The second half of 2011, on the other hand, was dominated by high volatility, which led many market participants to adopt an extreme aversion to risk. Many European financial institutions faced difficulties raising financing in the market during the second part of the year. The market and rating agency pressure on European countries in the second part of 2011 stepped up. The strong rise in credit spreads and new issue premiums after the summer primarily affected funding costs for borrowers with weaker ratings. Another consequence of volatility in 2011 was a decrease in interest for transactions with long maturities.

The Euro fluctuation against the US dollar was very significant during the year as a consequence of risk aversion associated with financial stresses in the eurozone. Attractive interest rate differentials drove the euro higher against the dollar in the first four months of 2011, but, with renewed concerns about European sovereign debt sustainability, the appreciation was reversed in the second part of 2011. Fluctuation in the course of 2011 ranged from 1 euro = 1.29 US dollar to 1 euro = 1.48 US dollar. Beginning in the second half of 2011, as risk aversion increased, downward pressures emerged on emerging market economies and on several currencies.

During 2011, the European Central Bank continued to provide liquidity to eurozone financial institutions. The ECB announced measures to enhance its liquidity efforts, including the re-activation of dollar swap lines with foreign central banks, Long Term Repo Operations (ECB's offer for 3-year financing was taken up by eurozone banks in an amount of € 489 billion, which in turn may have eased constraints on the demand for eurozone government bonds) the Securities Markets Program and loosening eligibility criteria on collateral. After raising its main refinancing rate by 50 basis points earlier this year to 1.5%, the ECB's November policy meeting led to a 25 basis point cut. The ECB reduced the main refinancing rate by an additional 25 basis points to 1% on 8 December, in an effort to support growth.

II SECURITIES PORTFOLIOS

The Bank's balance sheet assets include two securities portfolios: available-for-sale financial assets and financial assets held to maturity.

- **The available-for-sale financial assets consist of securities with maturities of up to 15 years.**

In order to limit exposure to interest rate risk, securities with maturities in excess of one year are floating-rate, through asset swaps where applicable. Short-term instruments, with maturities of less than one year, also include Euro Commercial Paper (ECP). These represent an alternative to bank deposits.

Long-term securities, with maturities in excess of one year, must have an AA or Aa2 rating at the time of purchase. They are capped at € 2 billion. For instruments maturing in less than one year, the minimum rating required is A-1 or P-1.

At 31 December 2011, the total value of securities in this portfolio with a maturity of more than one year amounted to € 1 795 million.

- **The portfolio of financial assets held to maturity consists of euro-denominated plain vanilla fixed-rate bonds with a maximum maturity of 30 years.**

Securities in this portfolio are required to have a minimum rating of AA or Aa2 when purchased. Securitisation products and other specialised vehicles are, however, required to have AAA/Aaa ratings and are capped at € 500 million. The value of the held-to-maturity portfolio must not exceed the available capital (paid-in capital and reserves) plus the Selective Trust Account and provisions for post-employment benefits.

The strategic objective is to achieve a satisfactory long-term return on these funds. The portfolio is recorded in the accounts at amortised cost. Except in exceptional circumstances, the securities in this portfolio may not be exchanged or sold.

At 31 December 2011, the total value of this portfolio amounted to € 2 243 million.

III DERIVATIVES

In accordance with the policy adopted by the Administrative Council, the Bank uses derivatives to systematically hedge the market risks on its lending, investment and financing transactions. The Bank, as an end user, uses derivatives solely for hedging purposes.

At 31 December 2011, the breakdown of derivatives by type of hedge was 80% for bond issuances, 17% for loans and 3% for securities.

To guard against the risks inherent in these financial instruments, the Bank implements a strict management policy the principles of which are described in the section entitled Control and Integrated Risk Management, on page 41.

To limit credit risk, the Bank has signed collateral agreements with all of its counterparties. Accordingly, at 31 December 2011, all the CEB's swaps contracts were collateralised. The residual credit risk, calculated as the amount of the positive market values not covered by collateral received, remains marginal.

IV FUNDING IN 2011

1. Debt issurance

Subject to the annual borrowing authorisation set by the Administrative Council, the CEB issues debt in the international capital markets. In 2011, the Bank borrowed a total of € 3.95 billion in 11 financing operations, including six new re-opening transactions of existing lines with a maturity of one year or more. This amount is higher than the volume of financing in 2010, which stood at € 3 billion and consisted of 12 funding operations including 7 re-openings of existing issues. The 2011 funding programme fulfilled two main objectives:

- to cover the requirements arising from lending activity

- to enable the Bank to honour its debt maturities.

The volume of funds raised in 2011 also enabled the Bank to maintain liquidity at the level set by the Administrative Council. In this context, the stock of projects approved is taken into account in the projected cash requirements. In accordance with its prudent liquidity policy, the Bank's reinforced liquidity ratio requires at least 50% of projected cash requirements for the coming three years to be available in cash. These projected requirements include the funding of approved projects and the additional liquidity requirements covering the risk of default over three years.

To ensure the necessary funding to finance its activities, the Bank continues to combine benchmark operations on major currencies targeting a broad range of institutional investors with debt issues in a given currency or with a more specific structure designed to meet specific demands.

In 2011, 54% of the funds raised by the Bank were denominated in US dollars, 25% in euros, 12% in Australian dollars, 5% in Brazilian reals and 4% in British pounds. These transactions enabled the Bank to diversify the markets in which its activities are financed while at the same time allowing for broadening of its investor base.

The CEB was active on the US dollar market with three benchmark bond issues of USD 1 billion each. These transactions were launched under a "Global Format", two of them maturing in 2016 and the third in 2015. The US dollar market was the CEB's most important market in terms of financing volumes in 2011. Concerning the euro market in 2011, the CEB completed a benchmark transaction of € 1 billion which will mature in 2021. This transaction made the euro the CEB's second leading currency in terms of financing volume. Under its Euro Medium Term Note programme (EMTN), the CEB carried out a re-opening transaction of the February 2015 Australian Dollar line of AUD 50 million.

CEB USD GLOBAL BENCHMARK TRANSACTIONS IN 2011

Since 2010, the CEB has been able to issue bonds within the global program's framework documentation. For that purpose, the CEB has regularly filed a "Shelf Registration Statement" with the US Securities and Exchange Commission. In 2010, with the issue of a USD 1 billion five-year bond, the CEB launched its first USD benchmark using the global format.

In 2011, three benchmark transactions of USD 1 billion each were carried out in a global format. The first of these transactions was launched in February with a five-year maturity and a fixed coupon of 2.625%. The second followed in May, maturing in January 2015, with a fixed coupon of 1.5%. The third of these benchmark transactions, with a fixed coupon of 1.25%, was launched in September and constituted the second five-year benchmark transaction of the year in US Dollars.

Despite financial and economic uncertainty and the resulting high volatility in international capital markets, the CEB's USD benchmark transactions in 2011 were characterized by the high quality of the investor base and their diversity, both geographically and in terms of investor category.

The CEB's issuance in US Dollars, with 54% of total funds raised, represented the major market of issuance in 2011.

Through its domestic Kangaroo programme in Australia, the CEB re-opened two existing lines in 2011. A first transaction amounting to AUD 250 million was launched in February maturing in December 2015, a second transaction of AUD 125 million was launched in May maturing in September 2014 and, finally, a third transaction of AUD 200 million was launched in June, also maturing in September 2014.

In the Australian dollar market, the CEB has four existing transactions large enough in terms of volume to be considered benchmark issues. These issues have helped build the CEB's benchmark curve in the Australian market and, in 2011, made the Australian dollar the third-largest currency for the CEB in terms of financing volume and the second-largest in terms of its total outstanding debt.

An Uridashi transaction, targeted to Japanese domestic investors, was launched in July 2011. This transaction, which amounted to Brazilian Real 409 million, is the first transaction carried out in this currency by the CEB and will mature in July 2015.

The CEB completed its 2011 funding activity with two transactions carried out in the GBP market. The existing November 2015 line was re-opened on two occasions during the month of January, first by a transaction amounting to GBP 50 million and second by a transaction amounting to GBP 100 million. These transactions made the GBP market the fifth largest in terms of financing volume in 2011.

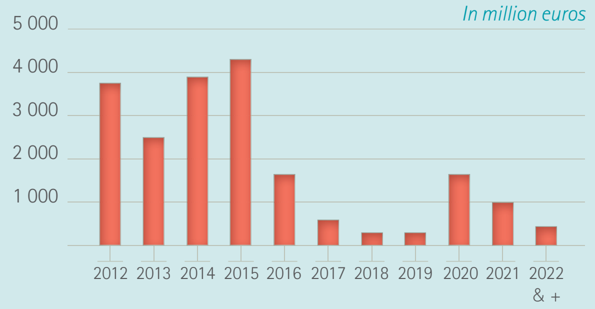
All the financing operations carried out in 2011 were hedged with swaps to eliminate both interest rate and currency risks. After such swaps, the total amount of funds borrowed was converted into euros.

Debt issued in 2011

Payment date	Maturity date	Currency	Term	Nominal amount (in millions)	Lead manager
14/01/2011	29/11/2015	GBP	4 years & 10 months *	50	HSBC
28/01/2011	29/11/2015	GBP	4 years & 10 months *	100	Deutsche Bank / Royal Bank of Canada
10/02/2011	14/12/2015	AUD	4 years & 10 months *	250	HSBC
16/02/2011	16/02/2016	USD	5 years	1 000	HSBC / BNP Paribas / JP Morgan / Royal Bank of Canada
17/03/2011	10/02/2015	AUD	3 years & 11 month *	50	Deutsche Bank
11/05/2011	15/01/2015	USD	3 years & 8 months *	1 000	HSBC / JP Morgan / Credit Suisse / Goldman Sachs
01/06/2011	16/09/2014	AUD	3 years & 4 months *	125	Goldman Sachs
28/06/2011	16/09/2014	AUD	3 years & 3 months *	200	JP Morgan
15/07/2011	23/07/2015	BRL	4 years	409	Daiwa
31/08/2011	31/08/2021	EUR	10 years	1 000	Credit Suisse / Deutsche Bank / Crédit Agricole / Rabobank
22/09/2011	22/09/2016	USD	5 years	1 000	HSBC / Goldman Sachs / JP Morgan / UBS

** new issuance of existing bonds*

Debt outstanding by maturity as at 31 December 2011



The average maturity of the issues launched in 2011 was 6 years, compared with 7 years in 2010. The table page 38 shows funds raised in their original currencies.

In 2011, 71% of the issues carried out under the borrowing programme had final maturities of five years or more, compared with 93% in 2010, in order to ensure the refinancing of the Bank's loans and avoid cash gaps in the coming years.

The multi-currency EMTN programme was updated in November 2010 to adapt the legal framework of the Bank's issues to changes in financial market regulations. The Australian and New Zealand Dollar MTN (Australian programme) was updated in July 2010. The CEB's Euro-Commercial Paper Programme was updated in December 2011.

2. Trend in debt position

At 31 December 2011, the outstanding debt represented by securities, excluding interest payable, amounted to € 19.8 billion, up from € 18.8 billion in the previous year.

In 2011, the Bank did not repurchase any of its long term debt whereas it did make a repurchase to the value of € 28 million in 2010. On the other hand, it made early repayments totalling € 32 million, compared with € 6 million in 2010. Taking these operations and the new issues into account, the breakdown of debt by maturity is as shown in the chart below.

V PROFIT AND BALANCE SHEET

The CEB's financial statements are prepared in accordance with IFRS standards as adopted by the European Union.

1. Trend in profits

In a very difficult environment, marked by the on-going effects of the economic and financial crisis, net income for 2011 totalled € 106.4 million, compared with € 115.9 million in 2010. Excluding an exceptional profit of € 16.1 million in 2010 (recorded as "cost of risk"), following the final settlement of a dispute with a paying agent, profits increased by € 6.6 million, or + 6.6%. This change was driven by the following:

- **An increase in net banking income of + € 9.3 million, or + 7.0%, including:**

- a positive variation in premiums and discounts on securities in the portfolio of available-for-sale financial assets (AFS), following the introduction of depreciation on these items of + € 4.3 million.

- a positive variation in the mark-to-market valuation of hedging derivatives not recognised as such in IAS 39 for + € 5.0 million.

- **An increase in general operating expenses (including depreciation) of + € 2.7 million, or + 7.9%, including:**

- higher staff costs, including post-employment benefits, + € 2.2 million, in accordance with the provisions of the Staff Regulations, and an increase in the number of employees (171 at end 2011 compared with 159 at end 2010).

- an increase in operating costs of + € 0.5 million.

Consequently, the cost-to-income ratio (general operating expenses/net banking income) was 25.6% in 2011 compared with 25.4% in 2010.

Trend in profits

In million euros

	2011	2010	Change	%
Net banking income	143.0	133.7	+ 9.3	+ 7.0%
General operating expenses	- 36.6	- 33.9	- 2.7	+ 7.9%
Gross operating income	106.4	99.8	+ 6.6	+ 6.6%
Cost of risk		+ 16.1	- 16.1	
Net income	106.4	115.9	- 9.5	- 8.2%

2. Trend in the balance sheet

At 31 December 2011, total assets came to € 26 083 million, up by + 5.5% from € 24 721 million at 31 December 2010.

Assets

Outstanding loans were up slightly, by + 1.4%, year-on-year. Disbursements totalled € 1 855 million including 60% in favour of the target group countries, up by + 4.1% compared with 2010 (€ 1 782 million). At the same time, repayments for 2011 came to € 1 714 million.

Treasury assets grew by 9.2% to € 8 612 million compared with € 7 885 million at end 2010, primarily because of the increase in collateral received on financial derivatives (see "Other liabilities"). This increase helps to maintain a level of liquidity reserves in a context of severe crisis in the financial markets.

Liabilities

Debt securities in issue increased by € 1 102 million, or + 5.5%, taking into account issues with maturities of one year or more totalling € 4 159 million (€ 3 938 million at the exchange rate on the date of issue), repayments totalling € 4 103 million and the impact of a positive exchange rate variation of € 557 million.

The **other liabilities** item recorded a very sharp increase of € 892 million, or + 98.5%, for collateral received on hedging derivatives.

Equity, including income for the year (before allocation of profit) came to € 2 112 million, up by + 2.6% relative to 2010. This change resulted on the one hand from the net income for 2011 (€ 106.4 million) and on the other hand from a decrease in gains or losses recognised directly in equity on the available-for-sale portfolio, which amounted to - € 162 million at end 2011 compared with - € 114 million at end 2010. The 6th capital increase, which came into effect on 31 December 2011, had no impact on equity but increased subscribed capital by € 1 649 million through the incorporation of € 185 million of reserves into the paid-in capital, which was increased to € 554 million in order to maintain the level of called capital at 11.19%.

Finally, the balance sheet shows a marked variation in "Financial Assets and Liabilities at fair value through profit/loss and hedging derivatives", respectively + € 440 million (+18%) and - € 658 million (- 38%). These items mainly represent the fair value, either positive (asset) or negative (liability) of the currency component of CIRS swap contracts where the counterparty currency has been revalued for the various items on the balance sheet (increase in value of the USD against the EUR).

Trend in the balance sheet

In million euros

ASSETS	2011	2010	Variation	%
Loans	12 284	12 115	+ 169	+1.4%
Treasury assets	8 612	7 885	+ 728	+ 9.2%
Financial assets held to maturity	2 268	2 242	+ 26	+ 1.2%
Financial assets at fair value through profit/loss and hedging derivatives	2 882	2 443	+ 440	+ 18.0%
Other assets	37	36	+ 1	+ 1.4%
Total	**26 083**	**24 721**	**+ 1 362**	**+ 5.5%**

LIABILITIES	2011	2010	Variation	%
Debt securities in issue	20 958	19 856	+ 1 102	+ 5.5%
Treasury funds	151	180	- 29	- 16%
Financial liabilities at fair value through profit/loss and hedging derivatives	1 064	1 722	- 658	- 38%
Other liabilities	1 798	906	+ 892	+ 99%
Total debt	*23 971*	*22 662*	*+ 1 309*	*+ 5.8%*
Equity	2 112	2 059	+ 53	+ 2.6%
Total	**26 083**	**24 721**	**+ 1 362**	**+ 5.5%**

Control and integrated risk management

The CEB has an integrated risk management system that is separate from its operational activities, with rigorous supervision standards. A clearly defined framework has been provided for managing credit risk, market risk, liquidity risk and operational risk, with special attention given to the application of best banking practices in the area of risk management. The Bank's Management has analysed best banking practices implemented by international financial institutions and assessed the controls and procedures recommended in the framework of KYC (*Know Your Customer*) procedures.

Within the Central Directorate for Information Systems and Control (CDISC), which is entirely independent from the Bank's operational activities, the Risk Management Department is responsible for identifying, assessing and managing all credit risks arising from the CEB's activities. In this context, the Chief Risk Officer reports directly to the Governor.

In accordance with best banking practices, the CEB assigns internal ratings to all its counterparties and transactions. The methodology applied for internal ratings is based on in-house models, ratings assigned by the international agencies and, if necessary, on due diligence missions. These assessments allow the CEB's risk analysts to deepen their knowledge of how their borrowers manage their business and risks. A detailed questionnaire to be filled in by the counterparties is systematically forwarded prior to each on-site evaluation and provides the basis for discussions during the meetings. The findings are part of the project approval process. The Risk Committee meets weekly and takes credit risk decisions based on the Risk Management Department's analyses and recommendations.

As a supranational financial institution, the CEB is not subject to Member States' regulatory ratios, Basel Committee Recommendations or European Union directives. However, the CEB has decided to observe these regulations as framework guidelines for its risk management and control policy.

To date, the CEB has coped with the financial crisis satisfactorily. Its prudent credit risk policy has proved effective. In-depth assessment and monitoring combined with a conservative management approach are the cornerstones of this policy (a minimum rating is required for the available-for-sale and held-to-maturity asset portfolios, as well as for Western European banks in the context of project financing).

I A STRUCTURED AND DYNAMIC FUNCTION

1. Dedicated departments

- **The Risk Management Department** identifies, assesses and manages all the credit risks inherent in the CEB's operations, as a result of both on- and off- balance sheet transactions. For each new project, the Department analyses the transaction, taking into account the counterparty's creditworthiness, outstanding transactions and country risk, and, if necessary, recommends guarantees to be obtained. The Department also constantly monitors the implementation of portfolio management policies (loans, securities, derivatives) and oversees the Bank's position with regard to large exposure. A risk management report (credit, market, liquidity and operational risks) is sent to the members of the Administrative Council and Governing Board each quarter.

- **The ALM Department** regularly monitors the market risk (interest rate risk, currency risk) and liquidity risk incurred by the Bank. It presents its conclusions in a quarterly report to the ALM Committee. This report uses stress tests to analyse different interest rate scenarios and their impact on the Bank's profitability and draws up liquidity projections based on a variety of borrower default assumptions. When applicable, it reports any actual or foreseeable breaches of limits and issues recommendations to the ALM Committee so as to reduce the identified risks.

- **The Organisation Department** is responsible for activities designed to protect the Bank from operational risks. It identifies all events that could result in operating losses. It manages the business continuity plan (updates, tests with transfer to the back-up site), governs the Bank's filing system and reviews the internal procedures for all activities that present operational risks. More specifically, the Department implements the CEB's operational risk policy and, to this end, maps all processes and associated operational risks. In addition to this, training courses are provided during the year to heighten the staff's awareness of security issues.

2. Decision-making committees

The Governor has established, in addition to the *General Management Committee*, a number of decision-making committees responsible for defining and overseeing risk management policies in their respective fields (see financial statements, note B). The Governor chairs all these committees.

- *The Risk Committee* is the cornerstone of the Bank's credit risk management framework. It meets weekly and takes decisions based on the Risk Management Department's analyses and recommendations.

- *The Finance Committee* reviews all aspects of the Bank's financial activity (cash management, debt, trends on the financial markets, liquidity) on a weekly basis.

- *The Funding Committee* addresses the funding strategy and the pricing policy on a quarterly basis.

- *The ALM Committee* decides on the Bank's asset and liability management strategy on a quarterly basis.

- *The Committee for Organisation and Operational Risks* (CORO) meets annually to validate the Bank's security policy and make decisions related to the prevention and monitoring of operational risks.

3. Controlling bodies

- **Internal control:** each directorate monitors risks specific to its activity (self-assessment).

- *The Office of the General Counsel* validates, prior to signature, all contracts committing the CEB (loans, debt issues, derivatives, etc.) in order to control the Bank's legal risks, particularly those it faces as a multilateral development bank.

- *The Inspectorate General (see box opposite).*

- *The Compliance Department* is responsible for the procedures drawn up in order to limit the CEB's exposure to legal and administrative risks, regulatory sanctions, financial loss or risk to its reputation. The Department also pays particular attention to ensure compliance with standards in respect of governance and ethics and to protect the Bank from the risk of money laundering, financial terrorism and other areas that could damage its reputation.

- Lastly, in accordance with the Articles of Agreement, the *Auditing Board*, composed of three representatives from among the Member States appointed on a rotating basis by the Governing Board for a three-year term (outgoing members act as advisors for an additional year), examines the Bank's accounts and checks their accuracy.

THE INSPECTORATE GENERAL

The Inspectorate General (IG), an independent and higher-level control surveillance function, plays an important role in the CEB's overall control system. Independent from any direct management, business or operational functions, the IG performs its objective to provide proper assurance to CEB's Executive Business Management and Controlling Organs that established policies and procedures are adhered to and process inherent controls are carried out effectively.

Set up in its present form in 2009, the IG is composed of two departments: the *Internal Audit* and the *System Security Control*. Both carry out second and third level controls without any management or process responsibilities, thus allowing for an unbiased opinion in their periodic activity reporting. The two units carry out their assigned individual objectives independently of each other to avoid conflicts in policy and process matters during their field work.

The periodic *Internal Audit* missions are based on a 4-year audit plan composed of auditable entities (processes, organizational units) which are audited on the basis of predetermined cycles triggered by assigned operational risk levels. Additionally, *the Internal Audit* conducts ad-hoc investigations if needed and performs yearly tracing of outstanding transactions. The Internal Audit also administers the CEB's management follow-up tool on audit related recommendations for improvement, the Corrective Action Plan (CAP), and provides control expertise during process and business implementation planning in a proactive guidance role without participating in management decisions.

The Auditing Board, one of the CEB's organs, guarantees the Internal Audit's independence as it is described in the CEB's Internal Audit Charter and documented in relevant Articles of Agreement of the Bank.

The Chief Information Security Officer (CISO) exercises second tier controls to ensure that IT-based processing inherent controls are activated and executed. Systems and applications access allocated by management to users are screened for plausibility and user profile adherence. Systems security incidents are investigated and closely monitored, event logs concerning servers and network appliances are observed. The system security control officer administers and periodically updates the Bank's IT-systems user charters and monitors their actual implementation.

The Auditing Board's report, an excerpt of which is appended to the financial statements, is presented to the Bank's governing bodies when the annual financial statements are presented for approval.

- **External control:** as a multilateral development bank, the CEB is not subject to any national or international regulatory authority. However, in accordance with the statutory provisions and pursuant to best banking practices, the Bank is liable to following external assessments:

- *The External Auditor* is appointed by the Governing Board for a three-year term, based on the Auditing Board's opinion and recommendations of the Administrative Council, following a tender procedure. The External Auditor is responsible for auditing the Bank's financial statements and reviewing internal control and risk management processes. At the end of each financial year, the External Auditor examines the Bank's accounts and issues an audit report (see the financial statements). The External Auditor also prepares an interim report for the governing bodies outlining findings related to the Bank's procedures and internal control, together with a detailed report on the Bank's financial statements and risk status.

- In addition, the Bank is strictly evaluated by the *International Rating Agencies*, Moody's, Standard & Poor's and Fitch Ratings, which carry out an in-depth analysis of its financial situation and long-term solidity and assign it a credit rating every year. In the second half of 2011, all three agencies confirmed the top ratings (AAA/Aaa) they have consistently assigned to the CEB for many years. Standard & Poor's put the CEB's long term AAA rating on creditwatch negative on 7 December 2011, but then confirmed its AAA with negative outlook on 19 January 2012. Fitch Ratings put the CEB's long term AAA rating on creditwatch negative on 19 December 2011. These rating actions had no operational impact.

II RISK EXPOSURE

Within the context of its lending and treasury activities, the CEB is exposed to different types of risks: credit risk, market risk, liquidity risk and operational risk.

1. Credit risk

Credit risk is defined as the risk of potential loss to the Bank that occurs because a counterparty could default on its contractual obligations, and arises mainly from lending and treasury activities. With regard to the loan portfolio, credit enhancement is taken into account. The Bank's overall credit risk exposure on all its transactions (loans, financing commitments, securities, deposits and derivatives) at 31 December 2011 is shown in chart 1.

Financial risks increased substantially during the year. As a result of Europe's debt crisis and the subsequent rating downgrades, the average risk quality decreased for both lending and treasury counterparties. However, as a result of its prudent risk management, the CEB's overall risk profile remained satisfactory at year-end 2011. It must be emphasised that the Bank's overall credit risk exposure on all its transactions in the eurozone represented 61% of its total exposure at 31 December 2011 (chart 2, page 44).

Chart 1 - Exposure by transaction

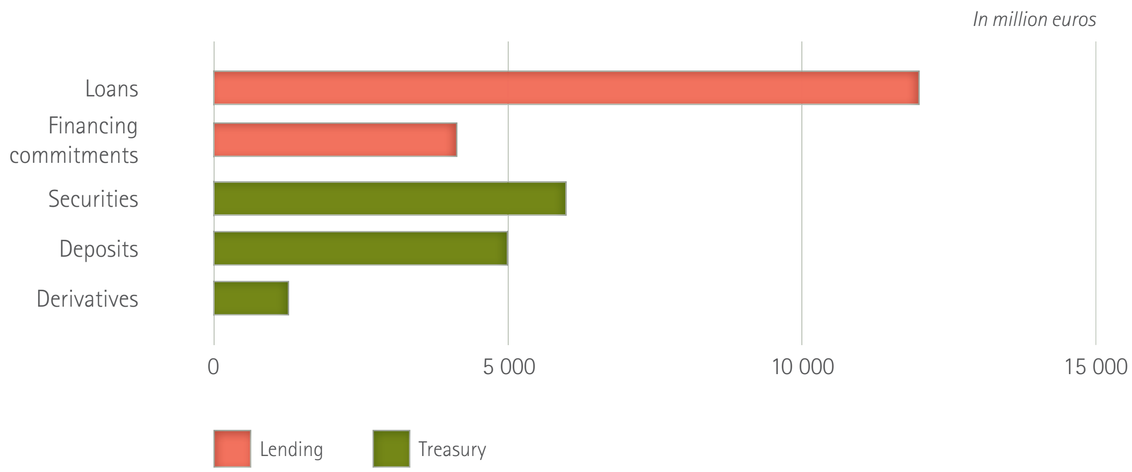
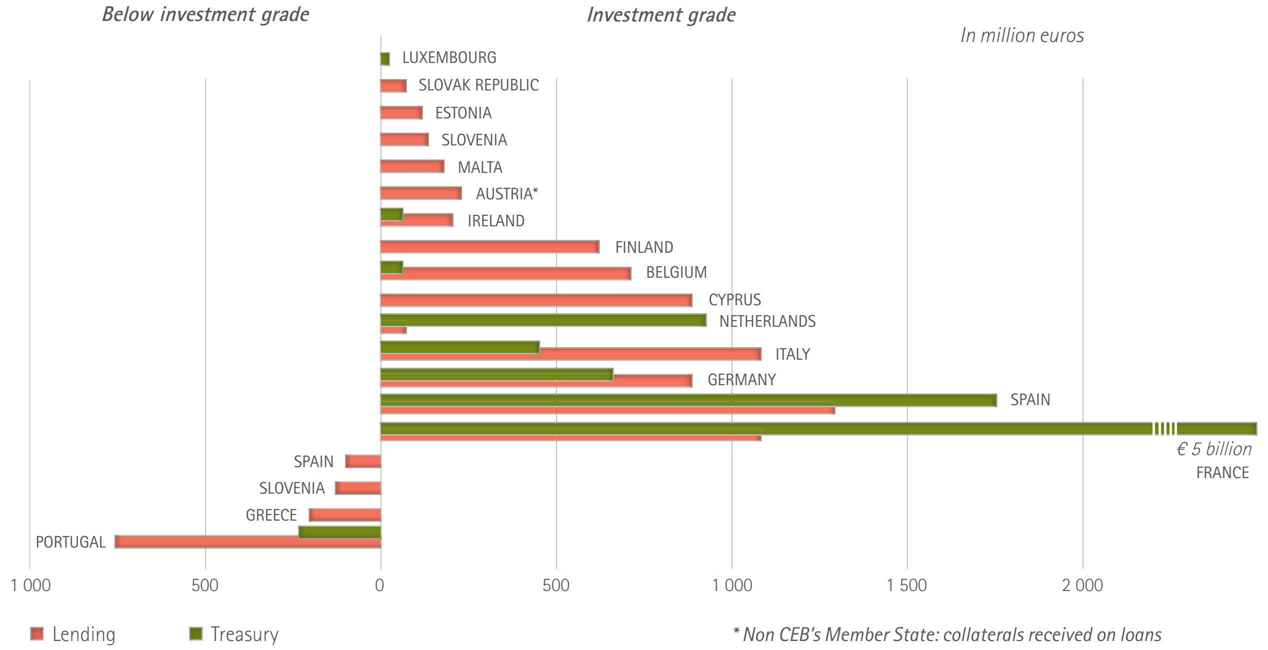


Chart 2 - Exposure in the eurozone



* Non CEB's Member State: collaterals received on loans

Large exposure is defined as an overall exposure, plus financing commitments, to a counterparty (or group of counterparties) that exceeds 10% of sound equity. The CEB defines sound equity as paid-in capital, reserves, gains or losses recognised directly in equity, as well as uncalled capital of triple-A or double-A rated Member States (according to second best rating by Moody's, Standard & Poor's and Fitch Ratings).

In accordance with Basel Committee Recommendations and European Union directives, the CEB ensures that no exposure to a counterparty (or group of counterparties) exceeds the limit of 25% of sound equity, and that the cumulative total of large exposures does not exceed 800% of said equity. As an international financial institution, the CEB excludes "sovereign" risks of OECD member countries from this analysis.

At 31 December 2011, nine counterparties were accounted as large exposure with a total of € 5.8 billion outstanding or 121% of the Bank's sound equity (chart 3 and financial statements, note B).

Loans outstanding remained stable over the year and stood at € 12.1 billion at year-end 2011. The breakdown of credit risk by type of counterparty in 2011 was as follows: states or public administrations, 68.8% (63.0% in 2010), financial institutions, 28.8% (34.3% in 2010), other counterparties, 2.4% (2.7% in 2010) (chart 4).

Chart 3 - Large exposure

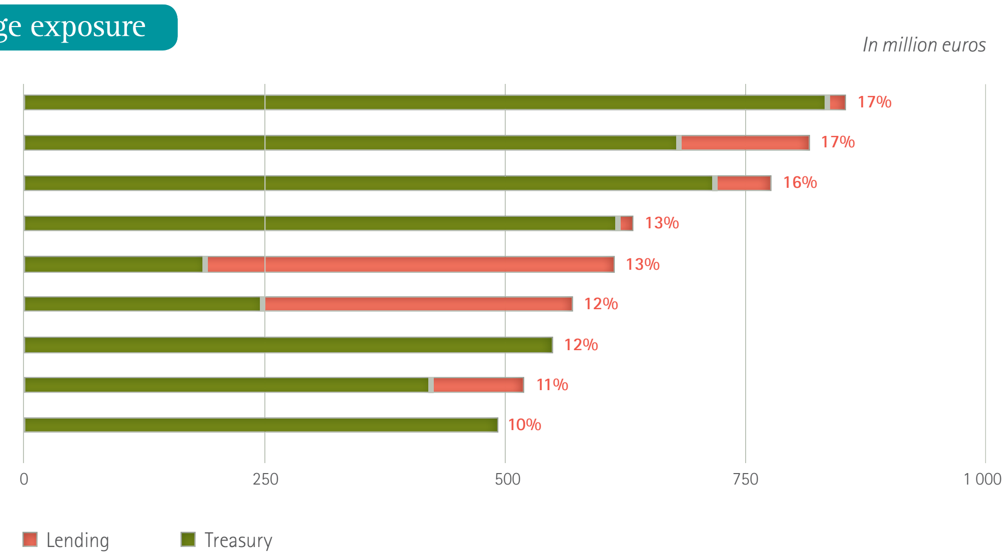
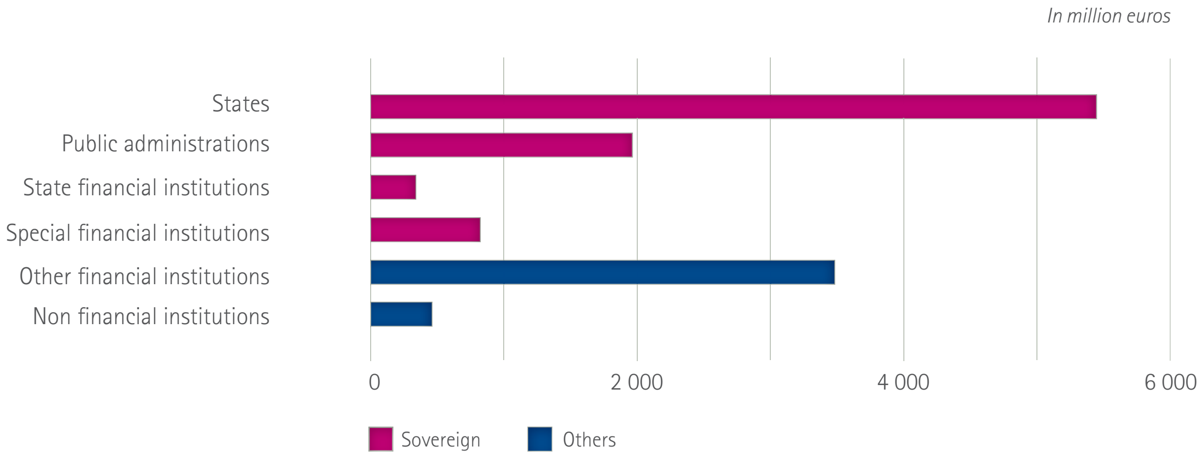


Chart 4 - Exposure by counterparty type



Loans outstanding rated *investment grade* represented 71.3% of the total portfolio, compared to 82.3% at year-end 2010. This decrease in credit quality mirrors the overall deterioration resulting from Europe's debt crisis and the subsequent rating downgrades. Credit enhancement in the loan portfolio allowing for a 100% transfer of risk stood at € 3.8 billion (€ 3.2 billion in 2010) and consisted of € 3.3 billion of guarantees and € 0.5 billion of collateral (chart 5, page 46 and financial statements, note B).

- **Financing commitments** correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments decreased slightly during the year from € 4.0 billion at 31 December 2010 to € 3.9 billion at 31 December 2011. The increase of the counterparties rated *investment grade* (68% of total commitments in 2011 versus 63% in 2010) is mainly due to credit enhancements taken into account as of 2011 (chart 5, page 46 and financial statements, note B).

- The Bank manages two **securities** portfolios: financial assets held to maturity and available-for-sale financial assets (see page 36, Financial Activities). The breakdown by rating of each assets portfolio at 31 December 2011 is shown in chart 6, page 47 (see financial statements, note B).

- The Bank mainly uses **derivatives** to hedge the interest rate and currency exchange risks on its lending and borrowing activities (see page 37, Derivatives).

In all cases, derivatives transactions require prior credit clearance of the issuer counterparty by the Risk Committee and the signing of a framework agreement (for example, ISDA Master Agreement). For transactions with a maturity of over five years, the counterparty must have a minimum AA rating or have signed a CSA (*Credit Support Annex*) collateral agreement with the CEB. All swap transactions are valued at their net present value and the positions per counterparty are monitored daily so that additional margin calls can be made if necessary.

At 31 December 2011, the derivatives exposure included a *swap add-on* of € 920 million and a non-covered NPV *(Net Present Value)* after credit enhancement of € 189 million. The collateral received, 84% "cash" and 16% collateral *(US Treasury bonds and France OAT)*, enabled a reduction of the position by € 1 791 million. The CEB signed a CSA collateral agreement with all of its counterparties involved in its swap activities, as in 2010 (see financial statements, note B).

2. Market risk

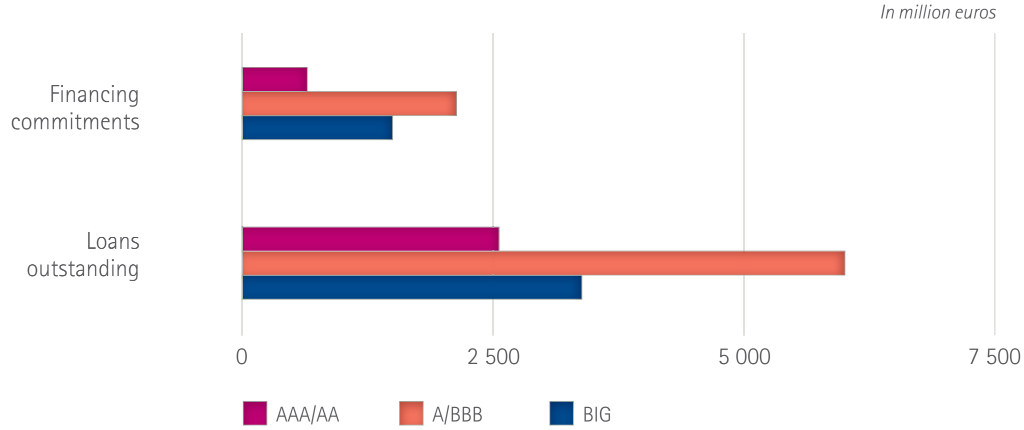
Market risk consists, notably, of the risk of a loss being incurred as a result of an unfavourable change in interest or currency exchange rates. The Bank uses derivatives to hedge against interest rate and currency exchange risks on its lending and borrowing operations. It may also have recourse to macro-hedging when necessary. Moreover, since the Bank has no trading activities, no allocation of equity is required, in accordance with Basel Committee Recommendations.

- With reference to the **interest rate risk**, the governing bodies have adopted a strategy which consists in systematically hedging positions in order to reduce the risk to a minimum.

The interest rate risk in the CEB's balance sheet is limited to the portfolio of fixed-rate financial assets held to maturity, backed by the Bank's usable capital, plus the cash balance of the Selective Trust Account (STA) and provisions for post-employment benefits.

- With reference to **currency exchange risk**, the CEB's strategy is not to take any position and to finance assets and liabilities in a single currency. The residual risk arising from gains or losses in currencies other than the euro is systematically monitored and hedged on a monthly basis. The net open position by currency is limited to the equivalent of € 1 million. At 31 December 2011, the net open position was almost nil (see financial statements, note B).

Chart 5 - Exposure on loan portfolios



3. Liquidity risk

Liquidity risk refers to a shortfall in liquidity for covering future requirements. The Bank's liquidity must meet a strengthened liquidity ratio. The Bank's cash position must not be less than 50% of net liquidity requirements for the next three years. The projected liquidity position is subject to daily monitoring. This is supplemented by quarterly stress tests presented to the ALM Committee, based on borrower default assumptions.

The stress tests carried out plan the liquidity situation before and after anticipated prepayments (see financial statements, note B).

4. Operational risk

The CEB defines operational risk as the risk of direct or indirect losses resulting from inadequate or failed structures, procedures, people or systems, including legal and reputational risk, as well as from external events.

By deliberately choosing to apply the Basel Committee Recommendations, the Bank has undertaken to constantly assess its operational risk and to implement the appropriate preventive measures. The system is reviewed at the annual meeting of the Committee for Organisation and Operational Risks (CORO) and the extent of operational risk is calculated and presented in the quarterly risk report.

The Basic Indicator Approach (BIA) method is adopted to calculate the operational risk charge against the Bank's equity. The Bank calculates this charge on the basis of the average net banking income over the previous three years.

At 31 December 2011, the operational risk charge amounts to € 20.8 million, up from € 20.0 million at end 2010 (see financial statements, note B).

III PRUDENTIAL FRAMEWORK

As an international financial institution, the CEB is not subject to its Member States' regulatory framework, Basel Committee Recommendations or European Union directives. Although the CEB follows recommendations of the Basel Committee under the Basel II framework, its prudential framework is based on its own ratios and is internal to the Bank. As a result, there are no statutory, regulatory or other requirements for its ratios and these may therefore not be compared to similar ratios used by other international financial institutions.

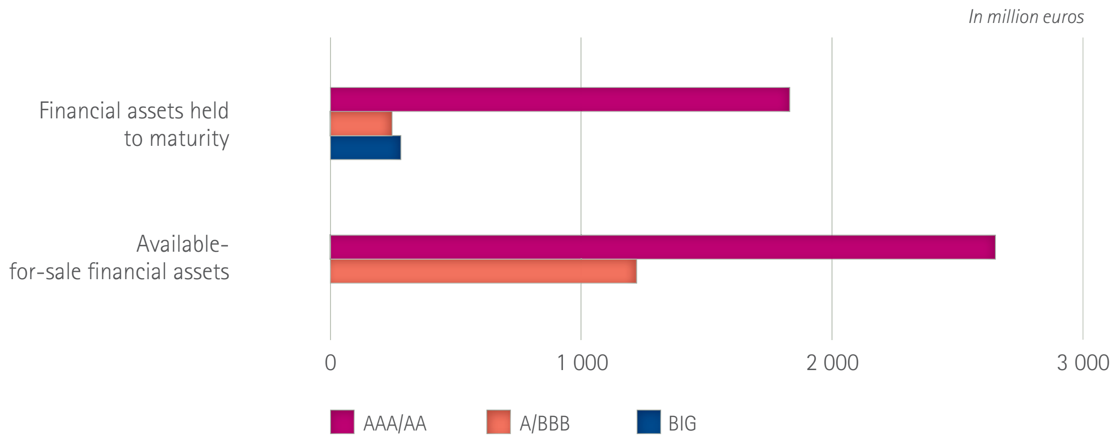
Ratios, as well as stress tests of these ratios, function as *"early warning"* indicators. Any variation from one period to another is analysed by the department in charge. In the event of deterioration in one or more ratios, the responsible department analyses its causes by determining the underlying factors. The result of these analyses is presented to the decision-making committees, which may propose corrective actions to the General Management Committee.

- **Capital adequacy ratio** is a measure of the risk weighted loan portfolio expressed as a percentage of the CEB's usable equity. The CEB defines and monitors this ratio to ensure that its usable equity can absorb a reasonable amount of any potential loss arising from its lending activity. The CEB defines usable equity as paid-in capital, reserves, gains or losses recognised directly in equity (see financial statements, note B).

The limit is fixed at 100% of the CEB's usable equity, i.e. € 2.0 billion. The ratio increased during the year from 23.5% at 31 December 2010 to 30.4% at 31 December 2011, following a deterioration in the quality of the loan portfolio and an increase in the default probability.

- **Risk asset coverage ratio** measures the share of the loan portfolio rated *below investment grade* - that is the Bank's exposure on its most risky assets - in relation to its sound equity. It provides

Chart 6 - Exposure on securities portfolios



an additional limit on the volume of loans outstanding and is used in conjunction with other prudential ratios in order to get a clearer picture of the CEB's financial strengths and weaknesses. The CEB's sound equity is defined as paid-in capital, reserves, gains or losses recognised directly in equity, as well as uncalled capital of triple-A or double-A rated Member States (according to the second best rating by Moody's, Standard & Poor's and Fitch Ratings) (see financial statements, note B).

The limit is fixed at 66% of the CEB's sound equity, i.e. € 3.2 billion. The ratio increased during the year from 50.7% at 31 December 2010 to 72.1% at 31 December 2011 as a consequence of the overall credit deterioration impacting both the portfolio rated *below investment grade* and the CEB's sound equity. The risk asset coverage ratio now exceeds its limit, despite the rise in the CEB's sound equity resulting from the 6th capital increase. There is no financial impact. The Boards are informed and loan disbursements are closely monitored.

- **Strengthened liquidity ratio** is designed to measure the Bank's capacity to meet its net liquidity requirements. Net liquidity requirements take into account the total stock of projects awaiting financing and net cash flow for a three-year period. The liquidity ratio is said to be "reinforced" because the amount of default risk on the loan portfolio rated *below investment grade* for the next three-year period is included in the net liquidity requirements. The Bank's liquid assets are deposits and available-for-sale financial assets with a residual maturity of less than 18 months (see financial statements, note B).

The Bank's liquid assets must not fall under 50% of net liquidity requirements for the next three years. At 31 December 2011, the strengthened liquidity ratio stood at 128.8%, nearly matching its 2010 level, i.e. 121.1%. This liquidity surplus reflects the Bank's decision to increase its liquidity reserves in the wake of the current severe financial markets crisis, and the necessity of anticipating significant issue repayments.

- **Indebtedness ratio** is a supplementary indicator that compares the total debt outstanding after swap to own funds. The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year (see financial statements, note B).

The limit is fixed at 4 (four times the CEB's own funds), i.e. € 26 billion. The ratio improved significantly from 3.78 at 31 December 2010 to 2.89 at 31 December 2011, due to growth in CEB's own funds following the 6th capital increase, while debt outstanding remained stable.

- **Portfolio ratio** is a supplementary indicator that compares the total financial assets after swap to own funds. Total financial assets comprise the outstanding amounts in both securities portfolios (held-to-maturity and available-for-sale) and treasury transactions not in issue (bank deposits, repos). The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year (see financial statements, note B).

The limit is fixed at 2 (twice the CEB's own funds), i.e. € 13 billion. The ratio improved significantly from 1.86 at 31 December 2010 to 1.41 at 31 December 2011, due to growth in the CEB's own funds following the 6th capital increase, while financial assets remained stable.

Compliance

The mission of the Compliance Department is to "ensure that the Bank conducts its activities in compliance with its own rules, current legislation, the codes of conduct as well as with good practices in order to avoid any risk of irregularity in the functioning of the Institution, of its Organs or of its Staff". The Compliance function was introduced in February 2008 when the Chief Compliance Officer took up his functions at the CEB.

Within the framework of its everyday activity:

The Department has drawn up and implemented "Integrity Due Diligence Guidelines and Procedures" concerning the fight against money laundering and the financing of terrorism. The CEB thus applies the criteria for client identity and risk assessment contained in the recommendations put forward by the Financial Action Task Force (FATF), then taken up in European Union (EU) legislation and used as best standards by a good number of International Financial Institutions (IFIs).

This control, which applies to the CEB's lending operations and financial activities, is carried out thanks to the use of international databases. Like other IFIs and multilateral development banks (MDBs), the CEB has also established cooperation relations with the different international bodies responsible for the fight against corruption, fraud and money laundering (OLAF - the European Anti-Fraud Office, Moneyval - the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, and GRECO - the Council of Europe Group of States against Corruption, etc.) in order to strengthen collaboration and to participate in the work of these Council of Europe and EU institutions.

Three Codes of Conduct (one for the Management, staff members and service providers, one for the Collegial Bodies and one for the Auditing Board) approved by the Councils at end 2009, represent the main documents providing the ethical framework within which the CEB operates.

Since the signing of a "Joint Statement on the Uniform Framework for Preventing and Combating Fraud and Corruption" by the major MDBs in 2006 and the Declaration by the Governor of the CEB adhering to this common framework, the CEB has shared the principles and joint actions set forth in the "Joint Statement" and has taken part in the joint efforts of the other IFIs in this field.

The Compliance Department has drawn up and implemented "Guidelines on handling requests from the public relating to the Bank's operations in the field of procurement for projects financed by the CEB". The aim of the guidelines is to provide the CEB with quite a complete framework for dealing with the requests it receives from participants in the calls for tender launched by the promoters of Projects Financed by the Bank and for ensuring that complaints from outside are correctly dealt with.

The activities of the Compliance Department are the subject of an annual Compliance Report, drawn up for the intention of the CEB's organs.

Human resources management

Developing Human Resources Tools

Guided by the ideals and principles of the Council of Europe, the CEB's general human resources policy is targeted to creating a working environment that enhances the level of staff fulfilment and promotes implementation of the Institution's mandate.

The human resources projects were thus organised around three major thrusts:

- promoting in-house communication
- increasing actions for professional development
- improving working conditions.

Within this framework, the Directorate for Human Resources has focused on the classification of jobs in order to define "reference" jobs for all the Bank's staff. At the same time, regulations have been drawn up for the introduction of a mediator function at the CEB. A call for interest launched in January will enable the Bank to fill the mediator function in the course of 2012.

Lastly, to strengthen professional development, staff members have been offered a series of training sessions on the theme of leadership in addition to the usual language and technical training courses. The purpose of these training courses is to enable Directors and Heads of Departments to develop their knowledge and know-how and to accompany them in the management of their teams.

Staff reinforcement, diversity and gender parity

Over the years, the CEB has increased its staff numbers in accordance with the development of its activities. Thus, at end 2011, the Bank had a total of 175 permanent staff members and Appointed Officials.

At the same time, the Bank has also taken care to ensure that its staff reflects as closely as possible the different nationalities represented by its Member States. The number of nationalities represented at the Bank has thus grown from 14 in 1994 to 27 at end December 2011. It is important to note that, with an average age of 47, an average length of service of 10 years and a low rate of turnover standing at around 3%, the Bank enjoys a high level of experience and expertise among its staff.

Particular attention is also paid to the question of gender parity. At end December 2011, the breakdown among the staff was 53% women and 47% men. Among the professional staff, assigned to study, design and leadership activities, the proportion of women stood at 43%.

NEW JOB CLASSIFICATION

One of the major Human Resources projects undertaken in 2011 was the job classification project.

The aim of this exercise is to ensure that the grade corresponding to a given job is in conformity with the level of responsibility attached to the job and to provide the CEB with a fair, coherent and up-to-date job management system.

To carry this exercise successfully through, the Directorate for Human Resources called upon a consultant specialised in this field, who proposed a customised methodology especially tailored to the Bank's jobs.

Staff participation has been central to the project, with staff members having the opportunity to express themselves freely on the contents of their jobs. In all, 77% of the staff have participated actively in this exercise and all the jobs at the Bank have been studied.

This has involved analysing each "reference" job according to a whole series of specific criteria, namely: level of roles and responsibilities related to the job; level of professional experience and training required; level of risk and impact of the activities attached to the job; managerial and teamwork skills; financial management; degree of autonomy; complexity of situations and problem-solving involved in the job; relational skills and internal/external contacts; language skills and drafting ability required; working conditions.

It is important to point out that this project is based on an analysis of the jobs and not on the individual performances of the incumbents.

Once fully completed, this exercise will provide the Directorate for Human Resources with a series of reference jobs and skills, which will greatly facilitate career management.

Communication

As a multilateral development bank, and especially one with a social purpose and placed under the supreme authority of the Council of Europe, the CEB strives to be accountable for its action to the general public. To achieve this, the CEB regularly enriches its website www.coebank.org with a wide range of information so that each and every one may fully appreciate the Institution's mission and the effectiveness of its contribution.

The CEB has structured this commitment in a Public Information Policy, updated as needed and itself based on the principles of transparency, responsibility and balance. The publication, every year since 2009, of a Corporate Social Responsibility Report in addition to the Annual Report (Report of the Governor), shows the importance the Bank accords to transparency and to the merits of constructive dialogue with all its stakeholders.

At the same time, in order to better consolidate the institution's reputation, the CEB has put in place a communication strategy that highlights its original position as a development bank with a social purpose and gives priority to those stakeholders most closely linked to its activity. In so doing, with albeit modest dedicated resources, the Bank strives to capitalise on the confidence it enjoys on the part of its lenders, its borrowers and the international organisations with which it has woven links of cooperation.

Within this framework, the CEB has adopted an overall institutional communication approach, relayed by means of more operational communication actions which concern, first and foremost, the projects that it finances. Particular attention is paid to putting into practical effect the contractual clauses agreed upon with borrowers concerning "visibility", in particular "on site" visibility for projects, with monitoring the object of one of the Institution's twenty-eight key corporate performance indicators. In future, efforts will also be directed to improving the Bank's visibility.

In practical terms, the Bank's communication is deployed via a wide variety of different tools and supports. These range from information sites – the external website, the Human Resources intranet site for the intention of CEB staff members – to the organisation of events and include the production of publications, notably the quarterly newsletter CEB *Info*, brochures and studies.

Some noteworthy examples for the year 2011 are:

- federating events such as the Bank's Joint Meeting, held this year in Albania on 10 and 11 June and which provided an opportunity for official meetings with the main governmental authorities of the host country

- several seminars and conferences that the Bank either organised or to which it was closely associated. The CEB notably participated in the Summit of Mayors on Roma, held on 22 September under the aegis of the Council of Europe, and also organised a seminar on the institution's control and evaluation systems which took place on 17 November and was open not only to the shareholders but also to the Bank's staff

- the publication of several brochures, all accessible on line on the Institution's website,

concerning "CEB activities in favour of Roma", "The Human Rights Trust Fund". In addition to this, the three brochures presenting the Bank's activities per sectoral line of action were updated.

CORPORATE SOCIAL RESPONSIBILITY AT THE CEB

Since 2009, the Bank has provided an account of its overall contribution to socially and ecologically sustainable development in a dedicated document, which is approved by the Collegial Organs before being posted on line on the Institution's website. The Annual Report on Corporate Social Responsibility at the CEB thus responds to the principles of accountability and transparency with regard not only to the shareholders but also, more widely, to all the Bank's stakeholders.

As in previous years, the report comprises three major sections that successively present, from a sustainable development perspective, the specific nature of a multilateral financial institution with a social purpose such as the CEB "Part 1 - the CEB: the Social Development Bank in Europe", the way the Bank runs its financial activity "Part 2 - Socially Responsible Financing" and its operational approach "Part 3 - Sustainable Management of the Institution". In this way, the document supplements the information provided in the Report of the Governor by endeavouring to give an accurate account of the approach based on the long-term action that is characteristic of the CEB as well as of the progress made from one year to the next. Emphasis is thus placed on the most significant changes recorded since the publication of the previous report.

The difficult financial and economic context with which Europe, and particularly the eurozone, remains confronted highlights the usefulness of the CEB's social mandate, the need for its financial soundness to be preserved and the overall requirement for the Bank's action to be oriented to promoting resolutely sustainable social development. In 2011, the CEB succeeded in consolidating its role and major equilibriums, showing not only solid results but also high levels of activity, notably in favour of the target group of countries in Central, Eastern and South Eastern Europe. And all this was achieved in compliance with the objectives of the medium-term Development Plan for the period 2010-2014.

Over and above the general imperative of good management to ensure the sustainability of the business, several important measures were implemented in 2011. First and foremost, it is important to note the coming into effect of the 6th capital increase which, as at 31 December, brought the Bank's own assets from € 5 to € 6.5 billion.

As regards the running of the Institution, the following are of particular note: the entry into office of the CEB's new Governor, Mr Rolf Wenzel, on 18 December; the holding of a seminar on the CEB's control and evaluation systems for the intention of the Collegial Organs; implementation of a first carbon footprint study, which is to be updated in early 2012 and then followed by action plans aimed at improving the institutional anchoring of sustainable development at the Bank; the projects undertaken by the Directorate for Human Resources, including the introduction of a mediator, preparation of a *staff engagement survey* in addition to the existing satisfaction surveys, and the progress made in the process of classifying jobs at the CEB. Moreover, continued emphasis was placed on the diversification of nationalities – 27 at end December 2011 – and on the future attainment of a more balanced representation of women in executive or management positions.

As far as the Bank's activity was concerned, the Environmental Policy is now systematically applied, with special mention being made of a first publication on the website, for public consultation, of a so-called category "A" project with a potentially significant environmental impact. The policy of partnerships woven by the CEB was consolidated by the renewal of the framework cooperation agreements with the UNDP and Unicef, and the signing of a Memorandum of Understanding with the Asian Development Bank. Of particular note among these high value added initiatives is the creation of a new facility known as "CEB-ELENA", fed by European Union funds to help public authorities implement energy efficiency projects, and the key role played by the CEB in the Sarajevo Process – in particular in the "Regional Housing Programme" launched by the four countries concerned – with a view to resolving the issue of refugees and displaced persons in the Western Balkans.

Naturally, corporate social responsibility remains a daily challenge and a constantly renewed commitment as well as a long-term perspective. Although the dynamics are now well established, efforts must be pursued in order to make progress in this direction, in the well-understood interests of the CEB and its stakeholders.

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR

Financial statements 2011

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FINANCIAL STATEMENTS

Prepared in compliance with IFRS adopted by the European Union

The Bank's objectives

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

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

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

(Articles of Agreement, Article II).

Sectors of action

The Bank (CEB) contributes to the implementation of socially-orientated investment projects in favour of social cohesion through three major sectoral lines of action, namely the strengthening of social integration, management of the environment and supporting public infrastructure with a social vocation.

Its actions comply with eligibility criteria specific to each sectoral line of action, thus reflecting not only the CEB's specific social vocation, but also the development logic underpinning all its activity.

In accordance with resolution 1522 (2009) approved by the Administrative Council on 20 November 2009, each of these three action lines involves the following fields:

- Strengthening of social integration

To contribute to strengthening social integration and thus to attack the roots of exclusion means, at operational level, acting in favour of refugees, migrants and displaced persons, promoting social housing and the creation and preservation of jobs, improving living conditions in urban and rural areas.

- Management of the environment

To contribute to managing the environment means not only systematically responding to emergency situations in the event of natural or ecological disasters, but also promoting protection of the environment and preservation of historic and cultural heritage.

- Supporting public infrastructure with a social vocation

An integrated approach to support the development of public infrastructure with a social vocation in the key sectors of health, education, vocational training and administrative and judicial public services in the long term facilitates more dynamic and more equitable social and economic growth, thus promoting individual fulfilment and collective well-being.

Balance sheet

In thousand euros

Assets	Notes	31/12/2011	31/12/2010
Cash in hand, balances with central banks		242 980	230 316
Financial assets at fair value through profit or loss	D	1 658 168	1 216 278
Hedging derivative instruments	D	1 224 143	1 226 344
Available-for-sale financial assets	E	3 649 876	6 332 058
Loans and advances to credit institutions and to customers			
Loans	F	12 283 910	12 115 390
Advances	F	4 719 503	1 322 336
Financial assets held to maturity	E	2 267 665	2 241 862
Tangible and intangible assets	G	31 896	31 297
Other assets	H	5 041	5 125
Total assets		**26 083 182**	**24 721 006**

Liabilities	Notes	31/12/2011	31/12/2010
Financial liabilities at fair value through profit or loss	D	587 231	1 275 923
Hedging derivative instruments	D	477 267	445 669
Amounts owed to credit institutions and to customers	I	70 794	100 809
Debt securities in issue	I	20 958 367	19 855 536
Other liabilities	H	1 705 262	823 133
Selective Trust Account (STA)	J	80 285	78 733
Provisions	K	92 311	82 548
Total liabilities		**23 971 517**	**22 662 351**
Capital	L		
Subscribed		4 952 513	3 303 450
Uncalled		(4 398 245)	(2 933 712)
Called		554 268	369 738
General reserve		1 612 971	1 686 636
Gains or losses recognised directly in equity	E	(161 925)	(113 584)
Net profit for the year		106 351	115 865
Total equity		**2 111 665**	**2 058 655**
Total liabilities and equity		**26 083 182**	**24 721 006**

Income statement

In thousand euros

	Notes	2011	2010
Interest and similar income			
Available-for-sale financial assets		62 133	40 007
Loans ans advances to credit institutions and to customers		241 103	135 696
Financial assets held to maturity		90 969	92 580
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(12 555)	(6 592)
Debt securities in issue		(236 631)	(120 701)
Other interest expenses and similar charges		(4 347)	(4 405)
Interest margin	M	**140 672**	**136 585**
Net gains or losses from financial instruments at fair value through profit or loss	N	3 788	(1 050)
Net gains or losses from available-for-sale financial assets	O	54	62
Commissions and other net expenses	P	(1 556)	(1 941)
Net banking income		**142 958**	**133 656**
General operating expenses	Q	(34 614)	(32 062)
Net depreciation and amortisation charges of fixed assets	G	(1 993)	(1 838)
Gross operating income		**106 351**	**99 756**
Cost of risk	R		16 109
Net profit		**106 351**	**115 865**

Statement of comprehensive income

In thousand euros

	2011	2010
Net profit	**106 351**	**115 865**
Changes in value of available-for-sale financial assets	(48 341)	(9 982)
Other elements of comprehensive income	**(48 341)**	**(9 982)**
Total	**58 010**	**105 883**

Statement of changes in equity

In thousand euros

	Called capital	Reserves and result	Gains or losses recognised directly in equity	Total equity
Equity as at 1 January 2010	**369 738**	**1 692 636**	**(103 602)**	**1 958 772**
Appropriation of profit for the 2009 financial year		(6 000)		(6 000)
Profit for the 2010 financial year		115 865		115 865
Changes in value of assets and liabilities recognised directly in equity			(9 982)	(9 982)
Equity as at 31 December 2010	**369 738**	**1 802 501**	**(113 584)**	**2 058 655**
Capital increase	184 530	(184 530)		
Appropriation of profit for the 2010 financial year		(5 000)		(5 000)
Profit for the 2011 financial year		106 351		106 351
Changes in value of assets and liabilities recognised directly in equity			(48 341)	(48 341)
Equity as at 31 December 2011	**554 268**	**1 719 322**	**(161 925)**	**2 111 665**

Statement of cash flows

In thousand euros

For the year ended 31 December	Notes	2011	2010
Profit for the year		106 351	115 865
+/- Net depreciation charges of tangible and intangible assets	G	1 993	1 838
+/- Net provision charges			15
+/- Net loss/net profit from investing operations		16 074	26 198
+/- Other movements		29 086	(1 717)
Total of non-monetary items included in the result		*47 153*	*26 334*
+/- Cash flows related to operations with credit institutions and customers		(151 399)	329 702
+/- Cash flows related to other operations affecting financial assets or liabilities		3 414 678	(1 161 266)
+/- Cash flows related to operations affecting non-financial assets or liabilities		(8 228)	(4 048)
Net decrease / (increase) of assets and liabilities resulting from operating activities		*3 255 051*	*(835 612)*
Total net cash flows from operating activities (a)		**3 408 555**	**(693 413)**
+/- Cash flows related to financial assets held to maturity		(38 002)	(123 212)
+/- Cash flows related to tangible and intangible assets	G	(2 510)	(1 920)
Total net cash flows from investing operations (b)		**(40 512)**	**(125 132)**
+/- Cash flows from/to Member States		3 642	3 452
+/- Cash flows from debt securities in issue		53 626	677 708
Total net cash flows from financing operations (c)		**57 268**	**681 160**
Effects of changes in foreign exchange rates on cash and cash equivalents (d)		**885**	**1 041**
Net increase / (decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**3 426 196**	**(136 344)**
Cash and cash equivalents at the beginning of the financial year		**1 532 173**	**1 668 517**
Cash in hand, balances with central banks		*230 316*	*386 883*
Advances repayable on demand and term deposits with credit institutions		*1 301 857*	*1 281 634*
Cash and cash equivalents at the end of the financial year		**4 958 369**	**1 532 173**
Cash in hand, balances with central banks		*242 980*	*230 316*
Advances repayable on demand and term deposits with credit institutions	F	*4 715 389*	*1 301 857*
Changes in cash and cash equivalents		**3 426 196**	**(136 344)**

NOTES TO THE FINANCIAL STATEMENTS

Note A Summary of principal accounting methods applied by the Bank (CEB)

1. Applicable accounting norms

The International Financial Reporting Standards (IFRS) have been applied to the Bank's financial statements since 1 January 2005 (date of the first application), in conformity with the recommendations of IFRS 1, "First-time adoption of International Financial Reporting Standards" and in keeping with the other standards of the IFRS, taking into account the version and the interpretations of the standards as adopted by the European Union (*). These exclude several provisions of the IAS 39 as approved by IASB regarding hedge accounting.

The amendments to IAS 19 "Employee benefits", with mandatory application at 1 January 2013 (and not yet approved by the European Union) will be translated particularly for the Bank by the recognition in equity of the actuarial differences not currently recognised (see Note K – Provisions).

The other norms and amendments published by the IASB, not yet under mandatory application and not yet approved by the European Union (IFRS 10, 11, 12, 13, amendments to IAS 1, amendments to IFRS 7 and IAS 32) should have no significant impact for the Bank.

Moreover, the financial instruments project (in replacement of IAS 39) is still ongoing at IASB. The application date of IFRS 9 (one of its components) has been postponed to 1 January 2015. On the other hand, the European Union has differed the approval of this standard.

Within the context of IFRS application, the main area of assessment relates to credit risk assessment. Except these aspects, the CEB's nature of operations do not necessitate, in terms of judgement and valuation complexity, significant estimates or defining assumptions in preparing its financial statements. However, economic and demographic assumptions are used to value the post-employment social commitments.

2. Financial assets and liabilities

2.1. Foreign currency transactions

The financial statements are presented in euros.

Monetary assets and liabilities denominated in foreign currencies are translated into euros (CEB's functional currency) at the market exchange rate applicable at the end-date of the accounting period. Exchange variations resulting from this translation are accounted for in the income statement.

Non-monetary assets denominated in foreign currencies, particularly shares and other variable-yield securities which are classified as "Available-for-sale financial assets" are translated into euros at the exchange rate applicable at end-date except if this financial asset is subject to a fair value hedge for the foreign exchange risk. In such case, exchange variations resulting from translation into euros are recorded under equity and are accounted for in the income statement only at the disposal of the security, or in the eventuality of its depreciation.

Forward currency transactions are valued at market value by using the forward exchange rate applicable for the remaining period for the currency concerned. Exchange spot positions are valued at the spot exchange rate at the end of the period. The resulting exchange differences are recorded in the income statement.

2.2. Loans

The category "Loans and advances to credit institutions and to customers" consists of non-derivative financial assets with fixed or determinable payments non-quoted on an active market and that are nor held for trading, neither intended to be sold when granted.

The item "Loans" under category "Loans and advances to credit institutions and to customers" include loans granted by the Bank.

The item "Advances" under category "Loans and advances to credit institutions and to customers" consists of advances repayable on demand with credit institutions (except central banks) and interbank advances granted by CEB. Advances repayable on demand with credit institutions allow settling and receiving payments from financial transactions related to its activities.

Loans given out by the Bank are first recorded at their market value which in general is the equivalent of the net amount initially disbursed.

Thereafter, loans are valued at amortised cost and interest is calculated on the basis of the global effective interest rate method.

Financing commitments are recorded in the off-balance sheet for the amount not yet used.

In application of IAS 39, within the ambit of fair value hedge transactions, the loan book value is adjusted for the profits or losses relative to the hedged risk.

(*) A complete reference guide of standards adopted within the European Union is available on the European Commission website: http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

2.3. Securities

Securities held by the Bank are classified under two categories:

- Financial assets held to maturity

The category "Financial assets held to maturity" includes securities at fixed income and fixed maturity that the Bank has the intention and ability to hold to maturity.

After acquisition, securities classified under this category are accounted for at amortised cost in accordance with the effective interest rate method, which includes the amortisation of the premium or discount equivalent to the difference between their purchase price and their reimbursement value.

Income from these securities is recorded under the heading "Interest and similar income" in the income statement.

- Available-for-sale financial assets

The "Available-for-sale financial assets" category includes fixed income or variable-yield securities which do not fall under the previous category.

Securities under this category are initially valued at their market value inclusive of transaction charges. At end-date, securities are valued at their market value, and whose variations, exclusive of accrued income are presented under a specific heading in equity "Gains or losses recognised directly in equity", except for securities covered by a fair value hedge. In such case, the profits and losses relative to hedged risks are recorded in the income statement under the same heading as the changes in value of hedging instrument, in conformity with IAS 39.

At the disposal, maturity or depreciation of the securities (in cases of durable depreciation), these deferred gains or losses, previously recorded under equity, are accounted for in the income statement under the heading "Net gains or losses from available-for-sale financial assets".

Income from fixed income securities under this category, which is accounted for on the basis of the effective interest rate method, is presented under the heading "Interest and similar income" in the income statement. Dividends received from variable-rate securities are recorded under the aggregate "Net gains or losses from available-for-sale financial assets".

- Date and accounting criteria

Securities classified under the two categories above are recorded at the trade date.

2.4. Depreciation of financial assets

- Financial assets valued at amortised cost

Depreciation of loans and financial assets held to maturity is accounted for when there is an objective indication of a measurable loss in value following an event that occurred after loan approval or security purchase. These principles also apply to provisions relating to financing commitments.

Any observable data being related to the following events represents an objective indication of a loss in value:

- the existence of at least a three month unpaid amount
- awareness or observation of significant financial difficulties of the counterparty leading to the conclusion of a proven existing risk, whether an unpaid amount has been noted or not
- the concessions yielded with the terms of the loans, which would not have been granted without financial difficulties of the borrower.

The amount of provision is equivalent to the difference between the book value of the asset and the present value of estimated future recoverable cash flows, taking into account guaranties, discounted at the financial asset's original effective interest rate. Changes in value of such depreciated assets are recorded under the heading "Cost of risk" in the income statement.

After the asset depreciation, a theoretical revenue from asset's net book value, calculated on the basis of the original effective interest rate used for discounting the estimated future cash flows, is recorded in the income statement under the heading "Interest and similar income". Loan depreciation is recorded in a separate provision account, thus reducing its original value recorded under assets.

Provisions related to a financing commitment, a guaranty or litigation are recorded under liabilities.

- Available-for-sale financial assets

At CEB, "Available-for-sale financial assets", mainly composed of fixed income securities, are depreciated on an individual basis by counterparty of income statement in case of an objective indication of durable depreciation resulting from one or more events subsequent to the purchase.

Criteria for depreciation of these securities are similar to those applied for depreciation of financial assets valued at amortised cost.

A depreciation of a fixed income security is recorded under the income statement heading "Cost of risk" and may be released in case of subsequent improvement of security's market value.

2.5. Debt securities in issue

Securities issued by CEB qualify as debt instruments by reason of a contractual obligation for the Bank to settle their holder.

Debt securities in issue are initially recorded at their issuance value inclusive of transaction charges and are subsequently valued at their amortised cost by using the effective interest rate method.

In application of IAS 39, within the ambit of fair value hedge transactions, the book value of issues is adjusted for the profits or losses relative to the hedged risk.

2.6. Derivative instruments

All derivative instruments are accounted for in the balance sheet at trade date at their transaction price. At end-date they are revalued at their market value.

Derivatives are classified under two categories:

- Transaction derivatives

Derivative instruments are by default considered to be transaction instruments, except if they can qualify as hedging instruments. They are recorded in the balance sheet under the heading "Financial assets at fair value through profit or loss" in cases of positive market value and under the heading "Financial liabilities at fair value through profit or loss" when the market value is negative. Profits or losses are recorded in the income statement under the heading "Net gains or losses from financial instruments at fair value through profit or loss".

- Derivatives and hedge accounting

Fair value hedge is used by the Bank to cover namely the interest rate risk of assets and liabilities with fixed interest rate, for identified financial instruments (loans, available for sale assets, issues and borrowings).

In order to qualify a financial instrument as hedging derivative, the Bank keeps information on the hedge from its initial application. This information specifies the designated asset or liability, the hedged risk, the type of derivative instrument used and the evaluation method which will be employed in assessing the retrospective and prospective effectiveness of the hedge.

The derivative instrument designated as hedge has to be highly effective in order to compensate for the value variations resulting from the hedged risk; this effectiveness has to be ensured from the hedging's initial application and subsequently throughout its life.

In the case of fair value hedge relationship, derivatives are revalued in the balance sheet at their fair value, whilst fair value variations are recorded in the income statement under the heading "Net gains or losses from financial instruments at fair value through profit or loss", symmetrically to the revaluation of the instruments hedged for the estimated risk. In the balance sheet, in the case of hedging relationship of identified assets or liabilities, revaluation of the hedged item is accounted for in conformity with the classification of the instrument hedged. The impact recorded in the income statement represents the eventual ineffectiveness of the hedge.

In cases where a hedge is interrupted or it no longer satisfies the effectiveness tests, hedging derivatives are transferred to the trading portfolio and accounted for in accordance with the policies applicable to this category. In the case of interest rate instruments initially identified as hedged, the revaluation amount with respect to these instruments recorded in the balance sheet is amortised at the effective interest rate for its residual life duration. If the hedged items no longer figure in the balance sheet, particularly due to early redemption, this amount is immediately transferred to income statement.

2.7. Fair value assessment

The financial assets and liabilities under categories "Financial instruments at fair value through profit or loss", "Hedging derivative instruments" and "Available-for-sale financial assets" are valued and recorded at their market value. The market value is equivalent to the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Securities held are quoted on an active market. The quoted prices are used to determine their market value.

Derivative instruments (foreign exchange, interest rate and currency swaps) are valued by using observable parameters on the basis of valuation models commonly accepted (discounted cash flow method, Black and Scholes model, interpolation techniques).

2.8. Interest income and expense

Interest income and expense are recognised in the income statement for all the financial instruments using the effective interest rate method.

The effective interest rate is the rate that discounts exactly the estimated future cash payments or receipts through the expected life of the financial instrument to the net book value of the financial asset or liability. This calculation includes commissions paid or received, when similar to interests, transaction charges and all premiums and discounts.

2.9. Cost of risk

In terms of credit risk, cost of risk includes net depreciation provisions related to loans, fixed income securities, net depreciation charges related to financing commitments and guaranties given, losses on irrecoverable receivables and recoveries of amortised receivables. Charges for litigations inherent to banking activity are also accounted for in cost of risk.

3. Fixed assets

Fixed assets recorded in the Bank's balance sheet include tangible and intangible operating assets.

The fixed assets are recorded at their purchase price to which expenses directly connected are added.

Depreciation is calculated according to the estimated useful life of the asset expected by the Bank using the straight-line method, the residual value of the asset being deducted from its depreciable basis.

At every end-date, fixed assets are valued at their amortised cost (cost less depreciation and any possible impairment) and in which case, an accounting adjustment is carried out with respect to the duration of the useful life and the residual value.

- Tangible assets

The following is the breakdown of the "building" part of the operational premises, every element being depreciated according to its own useful life:

- Main works	50 years
- Façade and roofing	50 years
- General and technical installations	10 years
- Fixtures and fittings	10 years

Land is not depreciated. The other tangible fixed assets are depreciated according to the following durations:

- Fittings and furniture	10 years
- Vehicles	4 years
- Office and IT equipment	3 years

- Intangible assets

Intangible assets (IT software) are amortised by using the straight-line method over either 1 year (office software) or 5 years (application software).

4. Post-employment staff benefits

The Bank's pension scheme is a defined benefit scheme, funded by contributions made both by the Bank and by the employees. Benefits are calculated based on the number of years of service and a percentage of the basis remuneration of the last year of service.

The other two post-employment benefit schemes (possibility for retired staff to maintain the medical insurance if they wish so and fiscal adjustment) are likewise defined benefit schemes.

These schemes, which are valued and for which provisions are set up, represent a commitment on the part of the Bank.

In conformity with IAS 19, actuarial valuations are carried out on these commitments, taking into account both financial and demographic assumptions.

The amount of the provision in relation to these commitments is determined by an independent actuary in accordance with the projected unit credit method.

The Bank applies the "corridor" method to calculate changes in the level of its actuarial variations relating to post-employment benefits. This method leads to the amortisation, in the income statement, of the actuarial variances over the average number of expected average remaining working lives of the beneficiaries when it exceeds 10% of the discounted value of the commitment.

5. Selective Trust Account (STA)

The Selective Trust Account aims at providing rate subsidies for loans or donations granted by the Bank in favour of eligible countries such as those defined by the Administrative Council. Its general operating principles are confirmed by the Resolution 1522 (2009) approved by the Administrative Council on 20 November 2009.

The STA essentially targets population groups such as:

Priority target groups:	- refugees, displaced populations, migrants - populations victims of natural or ecological disasters
Vulnerable target groups:	- populations below the poverty threshold (less than 60% of median national income) - abandoned children and disabled persons - ethnic minorities

- Interest rate subsidies

A project financed by the Bank, may, upon the Governor's proposal, be granted rate subsidies relative to the STA following approval by the Administrative Council. The resources of the STA are used for projects with a high social value, in eligible countries.

- Donations

Donations are aimed at funding projects that correspond to priority objectives in favour of priority or vulnerable target groups, within eligible countries.

The Account is funded with allocations perceived from the Bank's Member States, through dividends of a social nature allocated upon appropriation of the Bank's result. It may also be funded by voluntary contributions from the Bank's Member States and the Council of Europe.

Interest rate subsidies and donations are subject to approval by the Bank's Administrative Council.

Donations are granted to the beneficiaries and interest rate subsidies are recorded in the income statement under "Interest and similar income" and are spread over the life of the respective loans.

References to the Selective Trust Account can be found in an appendix note (Note J).

6. Related parties

With respect to IAS 24, the Bank does not control any entity and has no share investments. Moreover, the Bank is not a subsidiary of any entity. The financial statements are not affected by related party relationships.

7. Compensation for Chairpersons and Appointed Officials

The Articles of Agreement of the CEB lay down that the organisation, administration and supervision of the Bank are divided between the following organs:

- the Governing Board
- the Administrative Council
- the Governor
- the Auditing Board.

The Governing Board and the Administrative Council each consist of a Chairperson and one representative appointed by each Member State. A Vice-Chairperson is elected among the members of each body. The Chairperson of the Governing Board and the Chairperson of the Administrative Council are elected by the Governing Board for a 3-year term, and may be re-elected for a further 3-year term. The annual allowances of the Chairpersons and the Vice-Chairpersons are fixed by the Administrative Council for the duration of their terms of office.

The Governor is appointed by the Governing Board for a 5-year term and may be re-appointed once. He is assisted by the Vice-Governor Delegate and two other Vice-Governors. They are appointed by the Governing Board, for a 5-year term renewable once (1), upon the Governor's proposal, following an opinion on conformity from the Administrative Council and after consultation with the members of the Governing Board. Their emoluments are fixed by the Administrative Council, within the framework of the approval of the annual budget of the Bank.

The gross compensation for the CEB's Chairpersons and Appointed Officials can be summarised as follows:

In thousand euros

	2011	2010
Office allowances		
Chairperson of the Governing Board (2)	1.5	
Chairperson of the Administrative Council (3)	45	45
Vice-Chairperson of the Governing Board (4)	6	0.5
Vice-Chairperson of the Administrative Council	6	6
Emoluments		
Governor Alomar (until 17 December 2011) (5)	319	331
Governor Wenzel (from 18 December 2011) (6)	12	
Vice-Governor Delegate Ruiz-Ligero	251	252
Vice-Governor Guglielmino	267	267
Vice-Governor Tarafás	251	252

(1) This applies to Vice-Governors elected for the first time after 26 November 2010.
(2) The seat of the Chairperson of the Governing Board was vacant until 17 December 2011.The Chairperson has waived his allowances for the period 18-31 December 2011, upon his request this amount was directly transferred by the CEB to the STA as a voluntary contribution.
(3) The incumbent of the seat has changed on 28 June 2011. The allowances for 2011 have been split into equal amounts between the two incumbents.
(4) Allowances of € 500 are paid monthly. Three successive Vice-Chairpersons held the seat in 2011. The Vice-Chairperson of the Governing Board, whose term ran from July to November 2011, has waived her allowances which were transferred to a charitable organization at her request.
(5) Governor until 17 December 2011, received an additional payment of € 65 900 (compensation for leave not taken).
(6) Governor as of 18 December 2011, received an additional payment of € 24 400 (statutory settling-in allowance).

The CEB's Chairpersons and Appointed Officials do not receive any stock options or any other kind of bonus. At the end of their mandate, the Governor and Vice-Governors receive either a retirement pension or a tax exempt temporary allowance equivalent to 40% to 50% of their last basic salary, for a period of up to 3 years. This allowance is limited in the sense that its amount, cumulated with possible emoluments from other sources, may not exceed, in any case, the amount of the last basic salary received from the CEB.

In addition, the Governing Board, by its Resolution 383 (2010), has decided to abolish this temporary allowance for the new officials (Governor and Vice-Governors) appointed for the first term after 30 March 2010, the date of its adoption.

The Governor and Vice-Governors are affiliated to the medical and social cover as well as to pension scheme of the CEB. They benefit from other allowances as the staff members (paid leave, home leave, settling-in allowance and other allowances related to expatriation).

8. Taxation

The Third Protocol to the General Agreement on Privileges and Immunities of the Council of Europe states that the Bank's assets, income and other property are exempt from all direct taxes.

Note B Financial risk and capital management

Within the context of its lending and treasury activities, the CEB is exposed to four main types of risk: credit risk, market risk, liquidity risk and operational risk.

This Note gives information about the Bank's exposure to these different types of risks, as well as about the objectives, policies and procedures which enable it to assess and manage such risks, and about capital management.

Risk management and control are of paramount importance to the creditworthiness of a financial institution. Therefore, the CEB regularly reviews its risk management and monitoring procedures on the basis of the principle of methodology continuity in order to comply with best banking practices.

As a supranational financial institution, the CEB is not subject to the regulatory ratios of its Member States, the Basel Committee's recommendations or European Union directives. Nonetheless, the CEB uses these regulations as a point of reference in its risk management and control policy.

The Bank's administrative bodies have overall responsibility for defining and overseeing the risk management framework.

■ Decision-making committees

The Governor has established a number of decision-making committees responsible for defining and overseeing risk management policies in their respective fields. The Governor chairs all these committees.

- The **Risk Committee** is the cornerstone of the Bank's credit risk management framework. Risk management policies are established to identify and analyse the risks faced by the Bank, to set the appropriate risk limits and controls and to monitor the respect of those limits. It meets weekly and takes decisions based on the Risk Management Department's assessments and recommendations.
- The **Finance Committee** reviews on a weekly basis all aspects of the Bank's financial activity (cash management, debt, trends on the financial markets, liquidity).
- The **Funding Committee** addresses the funding strategy and the pricing policy on a quarterly basis. It also decides on the strategy relating to debt issuance (amounts, currencies, conditions and schedule) on the basis of the Bank's estimated liquidity requirements and in conformity with the annual levels of debt authorised by the Administrative Council following proposal by the Governor.
- The **ALM Committee** decides on the Bank's asset and liability management strategy on a quarterly basis. It takes the necessary decisions withregard to financial risks on the basis of the Bank's quarterly ALM report and in accordance with the financial policies approved by the Administrative Council.
- The **Committee for Operational Risks and Organisation (CORO)** meets annually to validate the Bank's security policy and takes decisions related to prevention and monitoring of operational risks.

Reporting on risk management

On a weekly basis, the members of the Risk Committee are informed about the Bank's exposure to credit risk. In addition, a quarterly Risk Management Report (credit, market, liquidity, operational risks) is sent both to the members of the Administrative Council and Governing Board. Lastly, the Governor's Annual Report includes an extensive chapter on risk management at the Bank as well as providing detailed information on its exposure at the end of the financial year.

1. Credit risk

Overview of the assessment process

Credit risk is defined as the risk of loss which may occur if counterparty fails to meet its contractual obligations, and arises principally from lending and treasury activities.

The Risk Management department identifies, assesses and manages all credit risks arising from the CEB's activities, whether loans, deposits, securities and derivatives. For all potential projects, the department analyses the operation on the basis of the counterparty's creditworthiness, the outstanding transactions with the counterparty as well as the country risk and, if necessary recommends credit enhancement measures (guarantees). Furthermore, the Risk Management department monitors compliance with portfolio management policies (loans, securities, derivatives) on a continuous basis, as well as overseeing the Bank's large exposures.

The outstanding approval process: The procedure for approving new transactions makes the distinction between lending activities and treasury operations. When the Directorate General for Loans has identified a project, the Risk Management department assesses the transaction and assigns an internal rating. Then, the Risk Committee approves, modifies or rejects the limits proposed. Lastly, the project is submitted to the Administrative Council for its approval.

With reference to the transactions carried out by the Financial Directorate, the Administrative Council establishes the framework for such financial operations on the basis of the definition of the Bank's investment policy. The Risk Management department assesses the different counterparties, assigns internal ratings, proposes limits and submits them to the Risk Committee which approves, modifies or rejects the limits.

The process of limits' assignment: at the request of operational divisions, the Risk Management department establishes limits for the counterparties, which the Risk Committee validates. These limits are reviewed annually, unless it is necessary to do so within a shorter period of time. Limits are established at their nominal value.

The rating process: two types of internal ratings are assigned: counterparty ratings and transaction ratings. In accordance with best banking practices, the Risk Management department assigns an internal rating to all counterparties based on due diligence carried out on site or in-house. The internal rating scale ranges from 1 to 10, 10 being the best grade. Each internal rating corresponds to a rating on the scale used by international rating agencies (e.g.10 = AAA, 9.5 = AA+).

The internal counterparty rating is based on qualitative and quantitative criteria. When the international rating agencies have assigned ratings, the internal rating takes them into account, in combination with other criteria. The Bank has developed its own scoring models that permit it to apply different ratios depending on the type of counterparty (sovereign, regional or local authority, financial institution, corporate). Specific internal rating grids are used when counterparty has not been rated by an international rating agency.

The internal transaction rating, given for project financing operations only, is based on the internal counterparty rating. If applicable, it also takes into account credit enhancement measures (collaterals, guarantees, letter of comfort, assignment of receivables as well as any other structures that reduce the final risk).

The Bank has established a methodology for validating the internal rating system, based on an analysis of the difference between its own internal rating and that of the international rating agencies. Any difference of more than two notches between the two systems will automatically lead to a total revision of the internal rating.

According to international rating agencies, a rating which is equal to or higher than Baa3/BBB-, is *investment grade* and, if it is equal to or lower than Ba1/BB+, is *below investment grade* (BIG).

Overall credit risk exposure

The Bank's credit risk exposure on all its transactions excluding accrued interest (loans, financing commitments, deposits, securities, derivatives) at 31 December 2011 and 31 December 2010 is shown in the table below. With reference to the loan portfolio, credit enhancement measures have been taken into account.

In million euros

	2011				2010			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Loans	2 543	6 071	3 461	12 075	4 706	5 154	2 128	11 988
Financing commitments	410	2 204	1 237	3 852	603	1 920	1 480	4 003
Deposits	3 549	1 409		4 958	1 215	368		1 583
Securities	4 364	1 288	200	5 852	6 496	1 977		8 473
Swap - add on	610	310		920	679	205		884
Forex	38			38	11			11
Swap coll - NPV not covered	129	60		189	122	19		141
Total	**11 644**	**11 341**	**4 898**	**27 884**	**13 832**	**9 643**	**3 608**	**27 084**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating

Concentration-Large exposure

Large exposure is the overall exposure (loans, securities, deposits, derivatives and financing commitments) to counterparty or group of connected counterparties, exceeding 10% of sound equity.

The CEB defines sound equity as paid-in capital, reserves, gains or losses recognised directly in equity, as well as uncalled capital of triple-A or double-A rated member countries (according to second best rating by Moody's, Standard & Poor's and Fitch Ratings).

In line with Basel Committee recommendations and European Union directives, the CEB ensures that no exposure to a counterparty or group of connected counterparties exceeds the limit of 25% of sound equity, and that the cumulative total of large exposures does not exceed 800% of said equity.

At 31 December 2011, no counterparty exceeded the limit of 25% of the CEB's sound equity (as in 2010) and seven groups and two counterparties overstepped 10%. The total outstanding on these counterparties came to € 5.8 billion, i.e. 121% of the Bank's sound equity (end 2010, € 4.8 billion, 114%) on an 800% limit. As an international financial institution the CEB excludes "*sovereign*" risks of OECD member countries from this analysis.

CEB's exposure to sovereigns (1) for loans and securities portfolios

In million euros

	2011		
	Loans	Securities	Total
EU countries (a)	**6 976**	**1 802**	**8 778**
France	140	920	1 060
Germany	735	153	888
Spain	416	348	765
Cyprus	652		652
Portugal	198	200	398
Belgium	369	10	379
Italy	209	160	369
Finland	256		256
Greece	196		196
Malta	68		68
Ireland	45	10	55
Estonia	23		23
Slovak Republic	18		18
Austria (2)	14		14
Slovenia	1		1
Sub-total eurozone	3 339	1 802	5 141
Hungary	1 228		1 228
Poland	972		972
Romania	889		889
Denmark	257		257
Sweden	191		191
Lithuania	42		42
Latvia	35		35
Bulgaria	23		23
Sub-total Others	3 637		3 637

	2011		
	Loans	Securities	Total
Non EU countries (b)	**1 331**		**1 331**
Turkey	823		823
Croatia	247		247
Albania	101		101
Serbia	46		46
Iceland	45		45
"the former Yugoslav Republic of Macedonia"	30		30
Bosnia and Herzegovina	19		19
Moldova	10		10
Montenegro	10		10
San Marino	1		1
Total (a)+(b)	**8 306**	**1 802**	**10 108**

(1) Sovereigns include: States, Public administrations, State financial institutions, Special financial institutions
(2) Non CEB's Member State: collateral received on loans

Loan portfolio

At 31 December 2011, loans outstanding stood at € 12 billion, stable compared with the outstanding at 31 December 2010. In 2011 no delay or missed payments have been recorded. As a multilateral financial institution, the Bank's policy is not to reschedule debt agreements (capital or interest on loans).

The following table displays the breakdown of the loan portfolio by rating and type of counterparty:

In million euros

	2011				2010			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
States	93	2 603	2 612	5 308	919	2 203	1 852	4 974
Public administrations	1 002	982	33	2 017	1 037	543	9	1 589
State financial institutions	247	3		250	228			228
Special financial institutions	610	33	88	731	617	100	43	760
Other financial institutions	586	2 350	538	3 474	1 882	2 208	24	4 114
Non financial institutions	5	100	190	294	23	100	200	323
Total	**2 543**	**6 071**	**3 461**	**12 075**	**4 706**	**5 154**	**2 128**	**11 988**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating

Credit enhancements allowing for a 100% risk transfer increased from € 3.2 billion at 31 December 2010 to € 3.8 billion at 31 December 2011; these enhancements include guarantees for € 3.3 billion (compared to € 2.7 billion at the end of 2010) and of 0.5 billion in collateral (stable compared to the end of 2010).

The impact of credit enhancements on the risk profile of loans outstanding is shown below:

In million euros

	2011				2010			
	before		*after*		*before*		*after*	
	Amount	%	Amount	%	Amount	%	Amount	%
AAA/AA	1 991	16%	2 543	21%	3 532	29%	4 706	39%
A/BBB	6 016	50%	6 071	50%	6 180	52%	5 154	43%
BIG	4 068	34%	3 461	29%	2 276	19%	2 128	18%
Total	**12 075**	**100%**	**12 075**	**100%**	**11 988**	**100%**	**11 988**	**100%**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating

At 31 December 2011 loans outstanding rated *investment grade* represented 71.3% of total loan portfolio, compared to 82.3% at the end of 2010. Credit risk mitigation techniques changed the distribution by type of counterparty. Thus, sovereigns' portfolio increased by +34%. Loans outstanding to counterparties not rated by international rating agencies represent 6% of the total loan portfolio. Internal ratings assigned to these counterparties are spread between 1.5 to 9.5.

The table below highlights the share of the loans outstanding with the ten main counterparties:

In million euros

	2011					2010					
	AAA/AA	A/BBB	BIG	Total	%		AAA/AA	A/BBB	BIG	Total	%
1. Hungary			1 228	1 228	10%	Hungary		1 136		1 136	9%
2. Romania		889		889	7%	Romania			765	765	6%
3. Turkey			823	823	7%	Cyprus	639			639	5%
4. Cyprus		652		652	5%	Turkey			616	616	5%
5. Poland		456		456	4%	Poland		529		529	4%
6. Crédit Agricole		338		338	3%	Crédit Agricole	463			463	4%
7. Intesa Sanpaolo		299		299	2%	Unicredit		285		285	2%
8. Caixabank		258		258	2%	Kommunekredit	280			280	2%
9. Kommunekredit	257			257	2%	Greece			271	271	2%
10. Unicredit		254		254	2%	Croatia		267		267	2%
Sub-total	**257**	**3 146**	**2 051**	**5 454**	**45%**	**Sub-total**	**1 382**	**2 216**	**1 652**	**5 251**	**44%**
Others	2 287	2 925	1 410	6 621	55%	Others	3 324	2 938	476	6 737	56%
Total	**2 543**	**6 071**	**3 461**	**12 075**	**100%**	**Total**	**4 706**	**5 154**	**2 128**	**11 988**	**100%**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating

Financing commitments

Financing commitments correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments slightly decreased during the year from € 4.0 billion at 31 December 2010 to € 3.9 billion at 31 December 2011. The increase of the counterparties rated *investment grade* (68% of total financing commitments in 2011 versus 63% in 2010) is mainly due to credit enhancements taken into account as of 2011.

The table below highlights the share of financing commitments belonging to the Eurozone:

In million euros

	2011				2010			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Eurozone countries								
Belgium	75	250		325		40		40
Italy		259		259	135	100		235
Cyprus		251		251	48	275		322
Portugal			245	245		345		345
Spain	50	115	30	195	70	89		159
Germany	145	20		165	292			292
France		163		163		100		100
Finland	100			100				
Ireland		50		50		50		50
Slovenia	40			40				
Austria[1]		18		18				
Estonia		7		7		24		24
Slovak Republic						54		54
Sub-total	**410**	**1 133**	**275**	**1 818**	**545**	**1 077**		**1 622**
Others		1 071	962	2 033	58	843	1 480	2 381
Total	**410**	**2 204**	**1 237**	**3 852**	**603**	**1 920**	**1 480**	**4 003**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating

(1) Non CEB's Member State: collateral to be received

Securities portfolios

The CEB manages two securities portfolios: financial assets held to maturity and available-for-sale financial assets. Securities in both portfolios are essentially denominated in euro, i.e. 95% of total securities portfolios.

The table below highlights the share of securities portfolios belonging to the eurozone and displays the breakdown by ratings of the outstanding nominal value of each of these portfolios:

In million euros

	2011				2010			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Financial assets held to maturity								
France	1 237			1 237	1 237	80		1 317
Spain	245			245	245			245
Portugal			200	200		200		200
Italy		160		160	161			161
Germany	115			115	145			145
Netherlands	110			110	10			10
Belgium	10			10	20			20
Ireland		10		10		10		10
Other countries	55			55	5			5
Sub-total	**1 772**	**170**	**200**	**2 142**	**1 823**	**290**		**2 113**
Available-for-sale financial assets								
Netherlands	793			793	925			925
France	557	187		744	846	200		1 021
Germany	366			366	674			923
Spain	303	10		313	289	100		389
Italy		50		50	49			49
Portugal						300		300
Belgium					66			66
Other countries	573	871		1 444	1 826	1 087		2 689
Sub-total	**2 593**	**1 118**		**3 710**	**4 674**	**1 687**		**6 361**
Total	**4 364**	**1 288**	**200**	**5 852**	**6 496**	**1 977**		**8 473**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating

Derivatives

The CEB uses Interest Rate Swaps (IRS) and Currency Interest Rate Swaps (CIRS) to hedge market risk on its lending operations, assets and borrowing activities.

In all cases, derivatives transactions require prior credit clearance of the issuing counterparty by the Risk Committee and the signing of a framework agreement (for example, ISDA Master Agreement). In addition, for transactions with a maturity of over five years, the counterparty must have a minimum AA rating or have signed a CSA (Credit Support Annex) collateral agreement with the CEB. All swap transactions are valued at their net present value and positions per counterparty are monitored daily so that additional collateral can be requested where necessary.

At 31 December 2011, the derivatives' exposure included swap add-on for € 920 million and non-covered NPV (Net Present Value) after credit enhancement for € 189 million. The Bank received cash deposits: 84% and sovereign securities: 16% (US Treasury bonds and France OAT) as collateral for derivatives. The CEB signed CSA collateral agreement with all of its counterparties involved in swap activities, as in 2010.

The breakdown of the nominal value of swaps by instrument and by maturity is shown in table below:

In million euros

	2011					2010				
	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total
Total (a)	**3 540**	**13 128**	**5 220**	**2 014**	**23 903**	**4 205**	**12 174**	**5 092**	**1 408**	**22 878**
Currency swap	3 458	12 654	1 654	709	18 475	3 402	11 550	2 617	662	18 231
Interest-rate swap	82	474	3 566	1 305	5 428	803	623	2 475	746	4 647
thereof: collateralised (b)	3 540	13 128	5 220	2 014	23 903	4 205	12 174	5 092	1 408	22 878
(b)/(a)	100%	100%	100%	100%		100%	100%	100%	100%	

2. Market risk

Interest rate and currency risk

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

The Bank is exposed, within the ambit of its ordinary operations (loans, borrowings, treasury operations) to interest rate and currency risks. The key principle adopted is the almost systematic hedging of positions, in order to maintain interest rate risks and currency risks as low as possible. The Bank manages its overall balance sheet at variable rates (except for its held-to-maturity assets portfolio), either directly or through a hedging swap.

The Bank therefore resorts to derivatives, mainly currency exchange and interest rate contracts. The Bank uses these instruments within the ambit of micro-hedging or macro-hedging operations:

- Micro-hedging operations: derivatives used to hedge market risk deriving from a specific element of the asset (loan, security) or the liability (borrowing)
- Macro-hedging operations: derivatives used to cover global market risks measured through balance sheet evaluation.

At 31 December 2011 and 2010, currency exchange and interest rate contracts are exclusively used as micro-hedging.

Interest rate risk and currency risk are measured and followed-up by the ALM Department, placed under the authority of the Chief Financial Officer.

The ALM Department regularly issues a report on the interest rate, currency and liquidity risks incurred by the Bank. This report analyses in particular the consequences of a fluctuation in the interest rates on the Bank's economic value. It also produces an analysis on the projected liquidity situation.

If necessary, the ALM Department informs about effective or projected limit overrun and proposes actions to the ALM Committee in view of restraining the nature and amount of identified risks.

At any time, the ALM Department may call for an extraordinary meeting of the ALM Committee in case of an exceptional situation.

Currency risk

In terms of currency risk, the CEB's strategy is to tend toward zero risk. To this end, the Bank must cover all exposure to currency risk, since residual risk stems out of cumulated results in currencies others than the euro. Such a risk is systematically hedged on a monthly basis. At the end of each month, the Bank issues an accounting statement of its results by currency and converts into euro any countervalue position exceeding € 1 million through spot currency purchase or sale.

In thousand euros

Breakdown by currency	Assets	Liabilities	Derivative instruments	Net position 2011	Assets	Liabilities	Derivative instruments	Net position 2010
Euro	23 603 780	8 269 950	(14 283 676)	1 050 154	22 508 945	7 160 149	(15 415 139)	(66 343)
US Dollar	1 055 368	10 210 106	9 155 505	767	787 270	10 762 415	9 975 375	230
Japanese Yen	104 927	137 055	32 809	681	135 645	168 345	33 791	1 091
Canadian Dollar	213 770	120 074	(93 536)	160	210 916	117 742	(93 147)	27
Swiss Franc	175 316	646 922	471 654	48	194 341	629 017	434 741	65
Other currencies	930 021	6 699 075	5 769 275	221	883 889	5 883 338	4 999 790	341
Total	**26 083 182**	**26 083 182**	**1 052 032**	**1 052 032**	**24 721 006**	**24 721 006**	**(64 589)**	**(64 589)**

The table above shows that exposure to residual exchange rate, after taking into account hedging instruments is not significant.

Interest rate risk

Interest rate risk management

Interest rate risk can affect the profitability or the economic value of the Bank according to interest rate fluctuations. This risk mainly stems from de-synchronisations of rate type (fixed vs. floating) or rate index (Euribor vs. Libor...) between assets and liabilities.

Due to the principle of micro-hedging adopted on its positions:

- the CEB's exposure to interest rate risk is low,

- the exposure comes from unhedged residual operations that present an interest rate risk, that is to say primarily very short term deposits.

The ALM Department measures this risk in volume (interest rate gap), in margin (Net interest margin sensitivity) and in value (Net Present Value sensitivity).

The CEB's margin is very little exposed to fluctuations in market rates because it matches assets and liabilities in terms of rate characteristics. In particular, the Bank invests its equity in fixed income held-to-maturity securities. This portfolio comprises fixed rate securities, generally long-term ones, denominated in euros and issued by countries or similar institutions with a minimal rating of AA or Aa2 at the time of purchase.

The amounts allocated to the Selective Trust Account and the provisions for post-employment social commitments are also invested in the held-to-maturity securities portfolio.

Appraisal of interest rate risk hedging

The table below comprises the overall CEB's balance sheet operations. It provides a static view of interest rate risk and its hedging, as at the end-date of the accounting period, through a breakdown of assets and liabilities by interest rate type (fixed rate and variable rate). It outlines the hedging effect of interest rate risk.

Appraisal of interest risk hedging

In thousand euros

	Before hedging			Hedging financial instruments			After hedging		
Interest rate type	Outstanding	Accrued Interest	Total	Outstanding	Accrued Interest	Total	Outstanding	Accrued Interest	Total
Assets									
Fixed rate	13 083 096	98 688	13 181 784	(3 136 206)	409 375	(2 726 831)	9 946 890	508 063	10 454 953
Scheduled outstanding	10 304 746	98 688	10 403 434	(3 136 206)	409 375	(2 726 831)	7 168 540	508 063	7 676 603
Non scheduled outstanding	2 778 350		2 778 350				2 778 350		2 778 350
Variable rate	12 446 899	28 296	12 475 195	3 143 363	9 671	3 153 034	15 590 262	37 967	15 628 229
Total assets	**25 529 995**	**126 984**	**25 656 979**	**7 157**	**419 046**	**426 203**	**25 537 152**	**546 030**	**26 083 182**
Liabilities									
Fixed rate	(24 135 410)	(409 204)	(24 544 614)	18 718 477	(41 245)	18 677 232	(5 416 933)	(450 449)	(5 867 382)
Scheduled outstanding	(19 124 090)	(409 204)	(19 533 294)	18 718 477	(41 245)	18 677 232	(405 613)	(450 449)	(856 062)
Non scheduled outstanding	(5 011 320)		(5 011 320)				(5 011 320)		(5 011 320)
Variable rate	(2 505 050)	(586)	(2 505 636)	(17 658 479)	(51 685)	(17 710 164)	(20 163 529)	(52 271)	(20 215 800)
Scheduled outstanding	(734 916)	(564)	(735 480)	(17 658 479)	(51 685)	(17 710 164)	(18 393 395)	(52 249)	(18 445 644)
Non scheduled outstanding	(1 770 134)	(22)	(1 770 156)				(1 770 134)	(22)	(1 770 156)
Total liabilities	**(26 640 460)**	**(409 790)**	**(27 050 250)**	**1 059 998**	**(92 930)**	**967 068**	**(25 580 462)**	**(502 720)**	**(26 083 182)**

The outstanding fixed rate assets before hedging amounts to € 13 083 million, hedging instruments allow the exposure to drop to € 9 947 million.

This exposure of € 9 947 million consists of:

- scheduled outstandings (€ 7 169 million), mainly very short-term deposits (€ 4 713 million), insensitive to variations in market rates and considered as fixed rate, the fixed rate held-to-maturity securities portfolio (€ 2 242 million) matched to equity, and marginally, unhedged fixed rate loans (€ 202 million).
- non-scheduled outstandings (€ 2 778 million), in particular swaps valuations that, by nature, cannot be covered.

Consequently, interest rate hedging on the asset side is highly effective: it greatly reduces the risks on fixed-rate operations and respects the Bank's ALM principles (held-to-maturity securities matched to equity).

Reciprocally, the fixed-rate liability exposure of € 24 135 million before hedging is reduced to € 5 417 million after hedging.

This exposure of € 5 417 million consists of:

- non-scheduled outstanding (€ 5 011 million), mainly equity (€ 2 112 million) to which the fixed rate held-to-maturity securities are matched, and swap valuations that, by nature, cannot be covered.
- scheduled outstanding (€ 406 millions), particularly fixed-rate Euro Commercial Papers (ECP).

Consequently, interest rate hedging on the liability side is highly effective: it cancels all the risks associated with the long-term borrowing operations and respects the CEB's ALM principles.

Sensitivity to interest rate risks

The ALM Department is studying the level of net interest margin for the coming year based on certain scenario assumptions of interest rate (+/- 10 bp, +/- 100 bp, +/- 200 bp).

Sensitivity measurement of the Net interest margin to interest rate risks

At 31 December 2011, the level of the short term market rates in the main currencies of reference, on which the scenarios of rate shocks are based, are low. The stress test presented below is based on maintaining a uniform translation of 10 bp. However, due to the fact that non-linear products are little used, doubling the shock applied results in a double impact on the net interest margin.

In thousand euros

	Parallel translation + 10 bp	Parallel translation – 10 bp
31/12/2011	(803)	779

Net interest margin sensitivity measures the CEB's exposure to interest rate risk, which is due to minor asymmetry between rate types and fixing frequency of the Assets and Liabilities.

This indicator is computed as the variation of net interest margin one year after the reporting date in the event of up -or downwards parallel shift of 10 bp applied to all interest rate curves.

This simulation of +/- 10 bp is implemented for each balance sheet item thanks to algorithms of a dedicated application program. Net interest margin sensitivity is measured dynamically on the perimeter of the balance sheet operations: we evaluate the expected interest margin (statically increased by upcoming productions) per month over the future year after the reporting date. Accordingly, the sensitivity of the net interest margin reflects both flows from the stock of operations and assumptions of aggregated renewal of the main balance sheet items. These renewals are indexed on the FWD rates calculated for the simulation.

Based upon balance sheet at 31 December 2011 and renewal assumptions, the net interest margin would increase by € 0.8 million if interest rates decreased by 10 bp. Conversely, the net interest margin would decrease by € 0.8 million if rates increased by 10 bp. The effect of the magnitude of the stress test on the net interest margin sensitivity is almost linear. As in 2010, the CEB is therefore slightly exposed to increase in interest rates.

3. Liquidity risk

The Bank's liquidity level needs to respect a prudential strengthened liquidity ratio (see prudential ratios).

The projected liquidity position is subject to a daily monitoring. It is supplemented by quarterly stress tests presented to the ALM Committee, based on borrower default scenarios.

The stress tests carried out forecast liquidity situation before and after prepayments. They calculate, in accordance with the Basle II logic and its differentiated approach to risk, borrower default on the basis of outstanding loans weighted by the probability of default rate published by rating agencies for a given maturity and rating class. An internal rating is assigned on counterparties non-rated by rating agencies.

The CEB also evaluates the financial impact of the crash scenario where the default probability applied to borrowers *below investment grade* is 100% without possibility of recovery.

In thousand euros

	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	Current oustanding	1 to 5 years	More than 5 years	Non-current oustanding	Total
Assets								
Cash in hand, balances with central banks	242 980			242 980				242 980
Available-for-sale financial assets	605 694	619 482	1 053 485	2 278 660	1 087 031	562 284	1 649 315	3 927 976
Loans and advances to credit institutions and to customers								
Loans	37 356	123 532	1 676 325	1 837 213	5 500 479	6 571 354	12 071 833	13 909 046
Advances	4 725 682	242 263		4 967 945				4 967 945
Financial assets held to maturity	16 320	14 194	150 574	181 088	1 140 044	1 720 605	2 860 649	3 041 736
Total assets	**5 628 032**	**999 471**	**2 880 383**	**9 507 886**	**7 727 554**	**8 854 243**	**16 581 797**	**26 089 683**
Liabilities								
Amounts owed to credit institutions and to customers	70 794			70 794				70 794
Debt securities in issue	2 297 191	992 271	1 273 914	4 563 376	13 721 033	4 518 174	18 239 207	22 802 583
Selective Trust Account (STA)	80 285			80 285				80 285
Total liabilities	**2 448 270**	**992 271**	**1 273 914**	**4 714 454**	**13 721 033**	**4 518 174**	**18 239 207**	**22 953 661**
Off-balance sheet								
Financing commitments	281 280	369 200	1 119 520	1 770 000	1 554 519	526 996	2 081 515	3 851 515
Term financial instruments								
To be received	2 439 574	752 985	1 467 428	4 659 987	14 646 903	2 942 788	17 589 691	22 249 678
To be paid	(2 293 211)	(712 928)	(1 176 851)	(4 182 990)	(12 970 897)	(2 711 210)	(15 682 107)	(19 865 097)
Total off-balance sheet	**427 642**	**409 258**	**1 410 096**	**2 246 997**	**3 230 525**	**758 573**	**3 989 098**	**6 236 095**
Liquidity position 2011	**3 607 404**	**416 458**	**3 016 566**	**7 040 428**	**(2 762 954)**	**5 094 642**	**2 331 688**	**9 372 117**
Assets								
Cash in hand, balances with central banks	230 316			230 316				230 316
Available-for-sale financial assets	381 422	1 973 917	2 245 740	4 601 079	900 221	1 118 526	2 018 747	6 619 826
Loans and advances to credit institutions and to customers								
Loans	81 033	300 085	1 519 076	1 900 194	5 745 111	5 705 221	11 450 331	13 350 525
Advances	1 540 477	5 019	7 537	1 553 033				1 553 033
Financial assets held to maturity	14 258	99 094	108 978	222 330	971 071	1 880 728	2 851 799	3 074 128
Total assets	**2 247 505**	**2 378 115**	**3 881 332**	**8 506 952**	**7 616 403**	**8 704 474**	**16 320 877**	**24 827 828**
Liabilities								
Amounts owed to credit institutions and to customers	88 287	5 016	7 529	100 832				100 832
Debt securities in issue	1 559 572	79 476	3 138 274	4 777 322	13 710 601	3 484 850	17 195 450	21 972 772
Selective Trust Account (STA)	78 733			78 733				78 733
Total liabilities	**1 726 592**	**84 492**	**3 145 803**	**4 956 887**	**13 710 601**	**3 484 850**	**17 195 450**	**22 152 338**
Off-balance sheet								
Financing commitments	88 063	300 000	1 223 937	1 612 000	1 990 533	400 281	2 390 814	4 002 814
Term financial instruments								
To be received	1 373 349	101 930	2 981 160	4 456 440	14 533 412	2 774 714	17 308 125	21 764 565
To be paid	(1 734 034)	(45 944)	(2 509 421)	(4 289 399)	(13 119 631)	(2 491 017)	(15 610 648)	(19 900 047)
Total off-balance sheet	**(272 622)**	**355 986**	**1 695 677**	**1 779 041**	**3 404 313**	**683 978**	**4 088 291**	**5 867 332**
Liquidity position 2010	**248 291**	**2 649 608**	**2 431 205**	**5 329 105**	**(2 689 885)**	**5 903 602**	**3 213 717**	**8 542 822**

4. Operational risk

The CEB defines operational risk as the risk of direct or indirect losses resulting from inadequate or failed structures, procedures, people or systems, including legal and reputation risk, as well as from external events.

By deliberately choosing to apply the Basel Committee Recommendations, the Bank has undertaken to assess constantly its operational risk and to implement the appropriate preventive measures. The system is reviewed at the annual meeting of the Committee for Operational Risks and Organisation (CORO) and the extent of operational risk is calculated and presented in the quarterly risk report.

The BIA (Basic Indicator Approach) method is adopted to calculate the operational risk charge against the Bank's own funds. The Bank calculates this charge on the basis of the average net banking income over the previous three years.

At 31 December 2011, the operational risk amounts to € 20.8 million, up from € 20.0 million at end 2010.

5. Capital management

In conformity with its Articles of Agreement (Article III), any European State (Member or non-Member State of the Council of Europe) and/or Europe-oriented International Institution may, according to Directives established by the Governing Board, become a Member of the Bank.

The Bank issues participating certificates denominated in euros to which Members subscribe. Each certificate has the same nominal value of € 1 000.

The Governing Board establishes the provisions for subscription and liberation of capital as well as provisions regarding any capital increase and potential withdrawal of a Member State.

The adhesion procedures consist in addressing a declaration to the Secretary General of the Council of Europe, a statement mentioning that the applicant endorses the Bank Articles of Agreement, in accordance with the financial conditions agreed on by the Governing Board. Any State becoming a member of the Bank shall confirm in its declaration its intention:

- to accede at the earliest opportunity, to the Third Protocol to the General Agreement on Privileges and Immunities of the Council of Europe;
- pending such accession, to apply the legal arrangements resulting from the Protocol to the property, assets and operations of the Bank and to grant to the organs and staff of the Bank the legal status resulting from the Protocol (Articles of Agreement, Article III).

The subscription to the Bank's capital and reserves by applicant countries shall be calculated on the basis of the contribution rate to the budget of the Partial Agreement on the CEB.

6. Prudential framework

Although the CEB follows recommendations of the Basel Committee under the Basel II framework, its prudential framework is based on its own ratios and therefore these may not be compared to similar ratios used by other international financial institutions.

■ **Capital adequacy ratio** ensures that CEB's usable equity can absorb a reasonable amount of any potential loss arising from its lending activity. This ratio is calculated as follows:

$$\textbf{Capital adequacy ratio} = \frac{\textbf{Risk weighted loan portfolio}}{\textbf{Usable equity}}$$

- Risk weighted loan portfolio: Σ [(principal + interest) x default probability]
- Usable equity: paid-in capital, reserves, gains or losses recognised directly in equity

The limit is fixed at 100% of CEB's usable equity, i.e. € 2.0 billion. The ratio increased during the year from 23.5% at 31 December 2010 to 30.4% at 31 December 2011 following deterioration in the quality of the loan portfolio and an increase in the default probability.

- **Risk asset coverage ratio** provides an additional limit on loans rated *below investment grade* and is used in conjunction with other prudential ratios in order to get a clearer picture of the CEB's financial strengths and weaknesses. This ratio is calculated as follows:

$$\textbf{Risk asset coverage ratio} = \frac{\textbf{Loan Portfolio rated } \textbf{\textit{below investment grade}}}{\textbf{Sound equity}}$$

- Sound equity: paid-in capital, reserves, gains or losses recognised directly in equity, uncalled capital AAA/AA

The limit is fixed at 66% of CEB's sound equity, i.e. € 3.2 billion. The ratio increased during the year from 50.7% at 31 December 2010 to 72.1% at 31 December 2011 as a consequence of the overall credit deterioration impacting both the portfolio rated *below investment grade* and CEB's sound equity. The risk asset coverage ratio now exceeds its limit, despite the rise in CEB's sound equity, resulting from the 6th capital increase.

- **Strengthened liquidity ratio** is designed to measure the Bank's capacity to meet its net liquidity requirements. Net liquidity requirements take into account the total stock of projects awaiting financing and net cash flow for a three-year period. The liquidity ratio is said to be "reinforced" because the amount of default risk on loan portfolio rated *below investment grade* for the next three-year period is included in the net liquidity requirements. The Bank's liquid assets are deposits and available-for-sale financial assets with a residual maturity of less than 18 months.

The Bank's liquid assets must not fall under 50% of net liquidity requirements for the next three years. At 31 December 2011, the strengthened liquidity ratio stood at 128.8%, nearly matching its early 2011 level, i.e. 121.1%. This liquidity surplus reflects the Bank's decision to increase its liquidity reserves in the wake of the current financial markets' severe crisis, and the necessity of anticipating significant issue repayments.

- **Indebtedness ratio** is a supplementary indicator that compares the total debt outstanding after swap to the Bank's own funds. The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year.

The limit is fixed at 4 (four times CEB's own funds), i.e. € 26 billion. Year-on-year, the ratio improved significantly from 3.78 in 2010 to 2.89 in 2011, due to growth in CEB's own funds following the 6th capital increase, while debt outstanding remained stable.

- **Portfolio ratio** is another supplementary indicator that compares the total financial assets after swap to the Bank's own funds. Total financial assets comprises the outstanding amounts in both securities portfolios (held-to-maturity and available-for-sale) and treasury transactions not in issue (bank deposits, repos). The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year.

The limit is fixed at 2, (twice CEB's own funds) i.e. € 13 billion. Year-on-year, the ratio improved significantly from 1.86 in 2010 to 1.41 in 2011, due to growth in CEB's own funds following the 6th capital increase, while financial assets remained stable.

Note C Financial assets and liabilities

The assets and liabilities are presented below according to their carrying value and fair value.

The mentioned market value comprises accrued interest.

Conditions for loan disbursement are equivalent to those implemented by other financial institutions that operate in the supranational bank market.

The fair value calculation for the Bank's loans does not take into account the credit risks, since such a risk is deemed very low, due to the privileged credit status granted to the Bank by Member States, the nature of the counterparty and the collateral quality received from the borrowers. Movements of the credit risk pricing are otherwise immaterial during the funding of a project.

In thousand euros

	Carrying value	Fair value
31 December 2011		
Assets		
Cash in hand, balances with central banks	242 980	242 980
Financial assets at fair value through profit and loss	1 658 168	1 658 168
Hedging derivative instruments	1 224 143	1 224 143
Available-for-sale financial assets	3 649 876	3 649 876
Loans and advances to credit institutions and to customers	17 003 413	17 240 687
Financial assets held to maturity	2 267 665	2 288 856
Total assets	**26 046 245**	**26 304 710**
Liabilites		
Financial liabilities at fair value through profit and loss	587 231	587 231
Hedging derivative instruments	477 267	477 267
Amounts owed to credit institutions and to customers	70 794	70 794
Debt securities in issue	20 958 367	21 693 869
Selective Trust Account (STA)	80 285	80 285
Total liabilities	**22 173 944**	**22 909 446**
31 December 2010		
Assets		
Cash in hand, balances with central banks	230 316	230 316
Financial assets at fair value through profit and loss	1 216 278	1 216 278
Hedging derivative instruments	1 226 344	1 226 344
Available-for-sale financial assets	6 332 058	6 332 058
Loans and advances to credit institutions and to customers	13 437 726	12 325 684
Financial assets held to maturity	2 241 862	2 316 154
Total assets	**24 684 584**	**23 646 834**
Liabilities		
Financial liabilities at fair value through profit and loss	1 275 923	1 275 923
Hedging derivative instruments	445 669	445 669
Amounts owed to credit institutions and to customers	100 809	100 809
Debt securities in issue	19 855 536	20 003 788
Selective Trust Account (STA)	78 733	78 733
Total liabilities	**21 756 670**	**21 904 922**

Note D Financial instruments at fair value through profit and loss and hedging derivative instruments

All the Bank's micro-hedging financial derivative instruments for which the hedging relationship is not admitted by IAS 39 are recorded under the balance sheet headings "Financial assets at fair value through profit and loss" or "Financial liabilities at fair value through profit and loss".

All the Bank's micro-hedging operations recognised under IAS 39 are fair value hedges and are recorded in the balance sheet under the heading "Hedging derivative instruments". These operations hedge the fair value of the fixed rate financial assets and liabilities (loans, available-for-sale assets, debt securities in issue).

Term financial instruments comprise interest rate, currency and forward exchange swaps. They are valued with a method referring to valuation models using observable parameters.

The following table represents the fair value (including interest) of these financial instruments.

In thousand euros

	31/12/2011		31/12/2010	
	Positive market value	Negative market value	Positive market value	Negative market value
Financial instruments at fair value through profit or loss				
Interest rate derivative instruments	603	(596)	210	(3 248)
Foreign exchange derivative instruments	1 657 565	(586 635)	1 216 068	(1 272 675)
Total	**1 658 168**	**(587 231)**	**1 216 278**	**(1 275 923)**
Hedging derivative instruments				
Interest rate derivative instruments	248 818	(321 070)	149 537	(248 431)
Foreign exchange derivative instruments	975 325	(156 197)	1 076 807	(197 238)
Total	**1 224 143**	**(477 267)**	**1 226 344**	**(445 669)**

Note E Securities portfolio

In thousand euros

	31/12/2011		31/12/2010	
	Balance sheet value (*)	*of which gains or losses recognised directly in equity*	Balance sheet value (*)	*of which gains or losses recognised directly in equity*
Available-for-sale financial assets				
Treasury bills and similar securities	150 455	(18 932)	967 094	
Debt securities and other fixed income securities	3 498 469	(143 420)	5 364 019	(114 003)
Shares and other variable-yield securities	1 379		1 380	
Provisions for depreciation	(427)	427	(435)	419
Total	**3 649 876**	**(161 925)**	**6 332 058**	**(113 584)**
Financial assets held to maturity				
Treasury bills and similar securities	1 089 511		1 230 872	
Debt securities and other fixed income securities	1 178 154		1 010 990	
Total	**2 267 665**		**2 241 862**	
Total securities portfolio	**5 917 541**	**(161 925)**	**8 573 920**	**(113 584)**

(*) Including interest receivable

None of the securities classified under the available-for-sale financial assets or financial assets held to maturity categories have been given as a guarantee in 2011 and 2010.

Available-for-sale financial assets are valued according to their quotation price.

Note F Loans and advances to credit institutions and to customers

This heading covers loans to credit institutions and to customers as well as deposits to credit institutions.

In thousand euros

Breakdown of loans by category of borrower	31/12/2011	31/12/2010
Loans to credit institutions		
Loans	6 821 882	7 040 588
Interest receivable	21 504	15 680
Unpaid receivables	657	436
Depreciation on loans to credit institutions (Note R)	(1 859)	(1 837)
Sub-total	**6 842 184**	**7 054 867**
Loans to customers		
Loans	5 253 107	4 947 375
Interest receivable	30 409	25 976
Sub-total	**5 283 516**	**4 973 351**
Value adjustment of loans hedged by derivative instruments	158 210	87 172
Total loans	**12 283 910**	**12 115 390**
Other loans and advances		
Advances repayable on demand	2 391	4 405
Advances with agreed maturity dates or periods of notice	4 712 998	1 317 420
Sub-total	**4 715 389**	**1 321 825**
Interest receivable	4 114	511
Total other advances	**4 719 503**	**1 322 336**

At 31 December 2011, loans are guaranteed up to the amount of € 3 802 million (31 December 2010: € 3 215 million). These guarantees could be either in the form of securities or signed commitments.

The breakdown of outstanding loans and financing commitments by borrower country, subsidised or not by the Selective Trust Account, is included in the table below.

Outstanding loans and financing commitments subsidised by the Selective Trust Account are presented under Note J.

In thousand euros

	Outstanding				Financing commitments	
Breakdown by borrowers' country location	31/12/2011	%	31/12/2010	%	31/12/2011	31/12/2010
Poland	1 354 364	11.22	1 304 019	10.88	502 604	514 767
Hungary	1 242 756	10.29	1 168 614	9.75	185 134	114 390
Spain	1 145 901	9.49	1 213 110	10.12	195 000	159 000
Romania	888 863	7.36	765 403	6.38	332 929	479 953
France	824 881	6.83	951 224	7.93	162 500	100 000
Turkey	822 782	6.81	615 970	5.14	550 196	749 733
Germany (1)	746 696	6.18	678 008	5.66	165 400	292 400
Italy (2)	732 219	6.06	1 010 316	8.43	218 900	234 900
Cyprus	651 662	5.40	639 268	5.33	251 049	322 323
Portugal	552 098	4.57	471 598	3.93	245 000	345 000
Finland	483 042	4.00	673 042	5.61	100 000	
Belgium	349 750	2.90	120 750	1.01	325 000	40 000
Sweden (3)	290 545	2.41	234 022	1.95		57 774
Denmark	256 667	2.13	280 000	2.34		
Croatia	246 965	2.04	266 640	2.22	53 596	64 146
Iceland	233 626	1.93	237 535	1.98	10 173	10 173
Greece	195 707	1.62	270 858	2.26		
Latvia	159 967	1.32	173 735	1.45	25 000	25 000
Slovenia	145 830	1.21	156 391	1.30	40 000	
Albania	100 550	0.83	76 164	0.64	15 622	40 743
Ireland	97 823	0.81	106 189	0.89	50 000	50 000
Serbia	73 166	0.61	50 923	0.42	53 600	21 100
Bulgaria	72 682	0.60	71 667	0.60	28 000	2 903
Bosnia and Herzegovina	68 625	0.57	85 477	0.71	19 364	25 647
Malta	68 150	0.56	78 250	0.65		
Norway	65 000	0.54	126 500	1.06		
Lithuania	50 618	0.42	54 029	0.45	102 000	102 000
Slovak Republic	41 460	0.34	20 151	0.17	25 000	54 126
"the former Yugoslav Republic of Macedonia"	38 753	0.32	39 099	0.33	118 650	92 350
Czech Republic	30 257	0.25	31 333	0.26	45 000	45 000
Estonia	22 667	0.19	7 435	0.06	7 258	23 800
Moldova	10 337	0.09	9 313	0.08	9 540	10 587
Montenegro	10 000	0.08			15 000	25 000
San Marino	581	0.01	930	0.01		
Total	**12 074 990**	**100.00**	**11 987 963**	**100.00**	**3 851 515**	**4 002 815**

(1) of which € 247 million outstanding in favour of target countries as at 31 December 2011 (31 December 2010: € 223 million)
(2) of which € 459 million outstanding in favour of target countries as at 31 December 2011 (31 December 2010: € 505 million)
(3) of which € 100 million outstanding in favour of target countries as at 31 December 2011 (31 December 2010: € 100 million)

In thousand euros

Breakdown by sector-based activities	Outstanding 31/12/2011	%	Outstanding 31/12/2010	%	Financing commitments 31/12/2011	Financing commitments 31/12/2010
Strengthening social integration						
Aid to refugees, migrants and displaced populations	110 304		131 228		5 000	8 000
Social housing for low-income persons	2 381 164		2 575 277		561 192	310 512
Creation and preservation of viable jobs	2 541 085		2 443 803		640 864	553 102
Improving living conditions in urban and rural areas	1 480 723		1 534 222		431 102	519 949
Sub-total	**6 513 276**	**54**	**6 684 530**	**56**	**1 638 158**	**1 391 563**
Managing the environment						
Natural or ecological disasters	723 649		812 654		518 286	535 223
Protection of the environment	1 983 695		1 574 498		846 048	1 101 529
Protection and rehabilitation of the historic and cultural heritage	208 207		224 808		54 879	60 376
Sub-total	**2 915 551**	**24**	**2 611 960**	**22**	**1 419 213**	**1 697 128**
Supporting public infrastructure with a social vocation						
Education and vocational training	1 676 413		1 566 271		502 340	631 886
Health	953 432		1 111 538		220 894	234 368
Infrastructures of administrative and judicial public services	16 318		13 664		70 910	47 870
Sub-total	**2 646 163**	**22**	**2 691 473**	**22**	**794 144**	**914 124**
Total	**12 074 990**	**100**	**11 987 963**	**100**	**3 851 515**	**4 002 815**

Financing and guarantee commitments

Financing commitments comprise, on the one hand, projects for which a framework loan agreement has been signed, and on the other hand projects which have been granted with at least one disbursement.

In thousand euros

Breakdown by year of approval	2009 and before	2010	2011	Total
Projects				
With signed framework loan agreements	2 028 702	1 272 651	537 949	**3 839 302**
With at least one financing	12 213			**12 213**
Total	**2 040 915**	**1 272 651**	**537 949**	**3 851 515**

The Bank guarantees loans granted by a financial institution for an amount of € 56 thousand (€ 129 thousand in 2010). This guarantee is offset by the counter-guarantee received from a Member State for an identical amount.

Note G Tangible and intangible assets

In thousand euros

	Land and buildings	Fixtures and equipment	Other	Intangible assets	Total
Gross book value					
At 1 January 2010	23 748	15 011	6 244	5 869	**50 872**
Additions		520	288	1 112	**1 920**
Disposals					
Other movements					
At 31 December 2010	**23 748**	**15 531**	**6 532**	**6 981**	**52 792**
Gross book value					
At 1 January 2011	23 748	15 531	6 532	6 981	**52 792**
Additions		1 383	661	548	**2 592**
Disposals			(82)		**(82)**
Other movements					
At 31 December 2011	**23 748**	**16 914**	**7 111**	**7 529**	**55 302**
Depreciation					
At 1 January 2010		(10 515)	(5 131)	(4 011)	**(19 657)**
Charge for the year		(798)	(476)	(564)	**(1 838)**
Disposals					
At 31 December 2010		**(11 313)**	**(5 607)**	**(4 575)**	**(21 495)**
Depreciation					
At 1 January 2011		(11 313)	(5 607)	(4 575)	**(21 495)**
Charge for the year		(845)	(475)	(673)	**(1 993)**
Disposals			82		**82**
At 31 December 2011		**(12 158)**	**(6 000)**	**(5 248)**	**(23 406)**
Net book value					
At 31 December 2011	**23 748**	**4 756**	**1 111**	**2 281**	**31 896**
At 31 December 2010	23 748	4 218	925	2 406	**31 297**

Note H Other assets and other liabilities

In thousand euros

	31/12/2011	31/12/2010
Other assets		
Sundry debtors	2 823	1 613
Prepaid expenses	1 881	1 614
Other accrued income and sundry debtors	337	1 898
Total	**5 041**	**5 125**
Other liabilities		
Deposits of guarantees received (*)	1 700 006	816 989
Sundry creditors	4 179	3 407
Other accruals and sundry creditors	1 077	2 737
Total	**1 705 262**	**823 133**

(*) Deposits of guarantees received are related to the swap operations called "collateralised" as the Bank benefits from collateralisation contracts with almost all of its counterparties for ongoing contracts as of 31 December 2011 and 31 December 2010.

Note I Amounts owed to credit institutions and to customers and debt securities in issue

In thousand euros

	31/12/2011	31/12/2010
Amounts owed to credit institutions and to customers		
Interest-bearing accounts	70 794	80 784
of which, European Community	*65 170*	*76 592*
Borrowings and term deposits		19 968
Interest payable		57
Total	**70 794**	**100 809**
Debt securities in issue		
Bonds	19 453 393	18 840 958
Euro Commercial Paper	390 067	
Interest payable	387 753	426 967
Value adjustment of debt securities in issue hedged by derivative instruments	727 154	587 611
Total	**20 958 367**	**19 855 536**

Development of customers' interest-bearing accounts

The Bank opened interest-bearing accounts funded by contributions from the European Union:

- Five accounts to receive the European Union contributions ("Contribution Arrangement in respect of a SME Finance Facility Phase 2 Special Fund") for partial financing of productive investment projects designed to create or safeguard jobs in SMEs located in thirteen of the CEB member countries in Central and Eastern Europe.

  - In 2001, setting-up of "EC-Contribution Fund Phare Account"
  - In 2004, increase of "SME Finance Facility (SMEFF) 2002 Special Account"
  - In 2005, increase of "SME Finance Facility (SMEFF) 2003 Special Account"
  - In 2006, increase of "SME Finance Facility (SMEFF) 2005 Special Account, Bulgaria, Croatia, Romania and Turkey"
  - In 2007, increase of "SME Finance Facility (SMEFF) 2006 Special Account, Bulgaria, Croatia, Romania and Turkey"

  The accounts "EC-Contribution Fund MEDA Account" set up in 2002 and "SME Finance Facility (SMEFF) Cyprus Special Account" set up in 2004 were closed at the end of 2011.

  At 31 December 2011, the balance of these accounts amounts to € 30 010 thousand (2010: € 36 422 thousand).

- Four accounts to partially finance local infrastructural projects in favour of the municipalities of ten Central and Eastern European countries, also applicant countries to European Union accession at the time of the project (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia), within the ambit of the EU Programme "EU Municipal Finance Facility".

  - In 2004, setting-up of "EU Municipal Finance Facility Special Account"
  - In 2005, increase and geographical extension of the programme "EU Municipal Finance Facility 2003 Special Account"
  - In 2007, increase and geographical extension of the programme "EU Municipal Finance Facility 2005 Special Account Bulgaria, Croatia, Romania and Turkey" and "EU Municipal Finance Facility 2006, Special Account Bulgaria, Croatia, Romania and Turkey"

  At 31 December 2011, the balance of these accounts amounts to € 8 048 thousand (2010: € 8 897 thousand).

- Two accounts for the partial financing of productive investment projects of small and medium-sized enterprises and in particular micro-enterprises, known as the "Preparatory Action Programme" aimed at creating or safeguarding jobs, in eight new EU Member States in Central and Eastern Europe.

  - In 2007, increase of "Preparatory Action Special Account 2005"
  - In 2008, increase of "Preparatory Action Special Account 2006"

  These accounts were closed in 2011 (2010: € 1 951 thousand).

- Two accounts for the partial financing of projects related to environmental protection and for energy efficiency in Croatia, Bulgaria, Romania and Turkey, called "Energy Efficiency Finance Facility".

  - In 2007, setting-up of "Energy Efficiency Finance Facility 2006 Special Account"
  - In 2008, increase with focus on the countries within the framework of "Instrument of Pre-Accession" (IPA) of the European Commission, "Energy Efficiency Finance Facility 2007 Special Account".

  At 31 December 2011, the balance of these accounts amounts to € 13 140 thousand (2010: € 14 911 thousand).

- One account for the partial financing of municipal investments projects in Albania, Bosnia and Herzegovina and Serbia within the framework of the European Commission's "Instrument of Pre-Accession" (IPA) and called "IPF 2008 Municipal Window Special Account".

  The balance of this account amounts to € 2 787 thousand as at 31 December 2011 (2010: € 3 240 thousand).

- Two further for receiving grants from the European Union to finance priority projects: one within the "Western Balkans Investment Framework" and one in the context of the "Neighbourhood Investment Facility".

  The balance of these accounts amounts to € 2 610 thousand at 31 December 2011 (2010: € 2 577 thousand).

- Two accounts for the partial financing of rural roads and water supply and sewerage systems in Albania in the framework of the European Commission's Instrument of Pre-accession (IPA).

  - "IPA 2009 Rural Roads Albania Special Account"

  - "IPA 2009 Water Supply Kamza Albania Special Account"

  The balance of these accounts amounts to € 8 576 thousand at 31 December 2011 (2010: € 8 594 thousand).

- The "Special Account Sweden" was opened in 2010 to receive a grant from the Embassy of Sweden for the financing of a priority project in Bosnia and Herzegovina.

  The balance of this account amounts to € 1 057 thousand at 31 December 2011 (2010: nil).

In addition the CEB manages the three following trust accounts:

- The Norway Trust Account, a mechanism set up in 2003 on the initiative of the Norwegian Authorities in order to finance assistance activities, in particular technical assistance to support social and economic reforms in the Western Balkan countries. Norwegian contributions amount to € 3 000 thousand (4 endowments: one in 2004, one in 2005 and two in 2007).

  The balance of this account amounts to € 535 thousand at 31 December 2011 (2010: € 549 thousand).

- The Human Rights Trust Fund, an assistance instrument aimed at supporting the consolidation of the State of Law and the European system of human rights protection in Europe, set up in 2008 in collaboration with the Council of Europe. This trust fund is financed through contributions from several Member States: Norway (4 endowments: one upon inception in 2008, the second in 2009 and 2 in 2011), Germany (4 endowments respectively in 2008, 2009, 2010 and 2011), the Netherlands (4 endowments respectively in 2008, 2009, 2010 and 2011), Finland (one endowment in 2010) and Switzerland (2 endowments in 2011).

  The balance of this account amounts to € 2 443 thousand at 31 December 2011 (2010: € 1 770 thousand).

- The Spanish Social Cohesion Account: in 2009, Spain and the Bank agreed to set up this trust account to promote social cohesion in Europe. The € 2 million endowment from Spain has been paid in two equal parts in December 2009 and June 2010 respectively.

  The balance of this account amounts to € 1 588 thousand at 31 December 2011 (2010: € 1 873 thousand).

Note J Selective Trust Account (STA)

- General operating principles

Interest rate subsidies are the basis of the underlying operating principle of this account. The Selective Trust Account covers the interest rate differential between the rate usually applied by the Bank and the rate proposed to the borrower. The account may also be used to make donations.

A project financed by the Bank may, following the Governor's proposal, be granted rate subsidies relative to the STA after a case by case approval from the Administrative Council. The STA resources are invested in projects with high social value and within eligible countries.

Any proposal for an interest rate subsidy is specified in the loan application submitted by the Governor to the Administrative Council for approval.

- Funding

The STA is supplied with:

a) Grants received from the CEB's Member States through dividends of a social nature allocated at the time of the Bank's appropriation of annual profits

b) Voluntary contributions from Member States of the Bank

c) Voluntary contributions from the Council of Europe Members

d) Voluntary contributions from non-Member States or international institutions upon approval from the Governing Board and the Administrative Council

e) Voluntary contributions from the CEB: in 2011, the Bank transferred directly to the STA a voluntary contribution by the Chairperson of the Governing Board, i.e. his waived allowances for the period 18-31 December 2011.

- Accounting treatment

The STA is divided into two sub-accounts:

- Member States sub-account recording the amount of available funds: contributions received from Member States as well as interest on the STA's funds are recorded on the credit side; donations granted and total interest rate subsidies granted on the day of disbursement of every loan concerned are recorded on the debit side.
- Subsidised projects' sub-account recording interest rate subsidies: the amount of interest rate subsidies recorded under credit in the Bank's income statement is recorded on the debit side simultaneously with interest payments made by the borrower; interest rate subsidies granted on the day of disbursement of the subsidised loan are recorded on the credit side.

In thousand euros

1. Member States sub-account	Debit	Credit
Balance as at 1 January 2010		**42 364**
Payment by Member States for the financial year 2009		6 000
Credit interest paid into the STA		2 419
Subsidies on disbursed loans	3 446	
Donations granted	81	
Balance as at 31 December 2010 (a)		**47 256**
Payment by Member States for the financial year 2010		5 000
Bank's contributions (*)		2
Credit interest paid into the STA		2 182
Subsidies on disbursed loans	2 929	
Donations granted	613	
Balance as at 31 December 2011 (b)		**50 898**
2. Subsidised projects sub-account		
Balance as at 1 January 2010		**33 056**
Subsidies on loans disbursed in 2010		3 446
Payment of subsidies	5 025	
Balance as at 31 December 2010 (c)		**31 477**
Subsidies on loans disbursed in 2011		2 929
Payment of subsidies	5 019	
Balance as at 31 December 2011 (d)		**29 387**
STA as at 31 December 2010 (a) + (c)		**78 733**
STA as at 31 December 2011 (b) + (d)		**80 285**

(*) In 2011, the Bank transferred directly to the STA a voluntary contribution by the Chairperson of the Governing Board, i.e. his waived allowances for the period 18-31 December 2011.

Donations

Since its creation in 1995, donations for a total amount of € 14.0 million have been granted from the STA in 2011 (2010: € 13.4 million).

The following is the breakdown of donations granted during the last two financial years:

In thousand euros

Payments	2011	2010
Montenegro (UNHCR): project aimed at improving the living conditions of refugees families in Montenegro	616	
Georgia (Council of Europe): repayment	(2)	
Haiti (UNICEF): repayment / emergency aid with the victims of Haiti touched by the seism: education, health, nutrition, protection and water, cleansings and hygiene (WASH – Water, Sanitation and Hygiene)	(1)	100
Bosnia and Herzegovina (UNHCR): repayment		(19)
Total	**613**	**81**

Loans outstanding and financing commitments by country with STA interest rate subsidies

In thousand euros

	Outstanding		Financing commitments	
Breakdown by borrowers' country location	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Romania	303 754	307 415	22 672	27 271
Hungary	159 447	177 607		
Croatia	105 959	130 270		
Albania	93 940	71 520	15 621	38 743
Turkey	70 000		180 000	250 000
Poland	51 022	60 720	238 000	238 000
Serbia	28 500	28 500	21 100	21 100
Bosnia and Herzegovina	19 010	18 294	19 364	647
Bulgaria	12 893	13 910		2 903
Moldova	10 337	9 313	9 540	10 587
Slovak Republic	7 347	12 118		
Lithuania	5 358	5 946		
"the former Yugoslav Republic of Macedonia"	5 000	5 000	20 350	20 350
Slovenia	598	1 196		
Total	**873 165**	**841 809**	**526 647**	**609 601**

These outstanding loans are included in the Bank's loan portfolio (Note F).

Note K Provisions

The Bank set up the following provisions with respect to its post-employment benefits:

In thousand euros

	31/12/2011	31/12/2010
Provision for pension commitments	74 142	66 577
Provision for other post-employment benefits	18 169	15 971
Total	**92 311**	**82 548**

The Bank administers a pension scheme and other related post-employment benefits (particularly medical insurance). The commitment in relation to the different post-employment benefits is determined separately using the projected unit credit actuarial valuation method. The last actuarial valuation was carried out on 31 December 2011 based on individual data as at 30 June 2011.

Pension scheme

The following is the pension scheme financial situation:

In thousand euros

	31/12/2011	31/12/2010
Financial situation as at 31 December		
Actuarial liability	(86 584)	(80 415)
Actuarial surplus / (deficit)	(86 584)	(80 415)
Stock of unrealised actuarial gains / (losses)	12 442	13 838
Provision as at 31 December	**(74 142)**	**(66 577)**
Provision movements as at 31 December		
Provision as at 1 January	**(66 577)**	**(59 710)**
Service cost	(4 853)	(4 431)
Interest cost related to discounting commitments	(3 423)	(3 610)
Amortisation of actuarial differences	(445)	
Book charge for the year	(8 721)	(8 041)
Benefits paid	1 156	1 174
Provision as at 31 December	**(74 142)**	**(66 577)**

The main assumptions used in assessing the commitment relative to the pension scheme are shown below:

Other information	2011	2010
Interest rate	4.40%	4.50%
Inflation rate	2.00%	2.00%
Pensions revaluation rate	2.00%	2.00%
Salary increase rate	4.00%	4.00%
Staff average number of remaining working lives as at 31 December	13	13

The assumption regarding the average retirement age has been increased from 62 years to 63 years to reflect an evolution in population behaviour.

Pension scheme - related post-employment benefits

The following is the financial situation with respect to pension scheme-related commitments:

In thousand euros

	31/12/2011	31/12/2010
Financial situation as at 31 December		
Actuarial liability	(24 397)	(19 427)
Actuarial surplus / (deficit)	(24 397)	(19 427)
Stock of unrealised actuarial gains / (losses)	6 228	3 456
Provision as at 31 December	**(18 169)**	**(15 971)**
Provision movements as at 31 December		
Provision as at 1 January	**(15 971)**	**(14 181)**
Service cost	(1 296)	(1 154)
Interest cost related to discounting commitments	(925)	(795)
Amortisation of actuarial differences	(116)	18
Book charge for the year	(2 337)	(1 931)
Benefits paid	139	141
Provision as at 31 December	**(18 169)**	**(15 971)**

The economic assumptions used in assessing the commitments relative to related benefits are similar to those used for the pension scheme.

The Bank's commitment related to medical insurance for pensioners was valuated on the basis of a 6.00% yearly increase rate of the Bank's contributions. The assumption regarding the Bank's contribution to medical insurance for pensioners has been raised to reflect an increase which took effect on 1 January 2011.

Note L Capital

Following a recommendation by the Administrative Council, on 4 February 2011 the Governing Board has approved the Bank's 6th capital increase [Resolution 386 (2011)] which entered into force on 31 December 2011. The subscription rate reached 75%, therefore exceeding the minimum threshold of 67%. The subscription period runs until 30 June 2012.

At 31 December 2011 the subscriptions registered for an amount of € 1 649 063 thousand of which € 184 530 thousand were called and paid up by incorporation of reserves. The CEB's subscribed capital has thus increased from € 3 303 450 at 31 December 2010 to € 4 952 513 thousand at 31 December 2011.

Capital allocation by Member State is presented below:

In thousand euros

Members	Subscribed capital	Uncalled capital	Called capital	Percentage of subscribed capital
Germany	915 770	814 114	101 656	18.491%
France	915 770	814 114	101 656	18.491%
Spain	597 257	530 958	66 299	12.060%
Italy	549 692	489 000	60 692	11.099%
Turkey	388 299	345 197	43 102	7.840%
Belgium	164 321	146 083	18 238	3.318%
Greece	164 321	146 083	18 238	3.318%
Portugal	139 172	123 724	15 448	2.810%
Sweden	139 172	123 724	15 448	2.810%
Poland	128 260	114 023	14 237	2.590%
Netherlands	119 338	106 161	13 177	2.410%
Finland	69 786	62 039	7 747	1.409%
Norway	69 786	62 039	7 747	1.409%
Bulgaria	62 459	55 526	6 933	1.261%
Romania	59 914	53 264	6 650	1.210%
Switzerland	53 824	43 229	10 595	1.087%
Denmark	53 823	47 879	5 944	1.087%
Hungary	44 788	39 816	4 972	0.904%
Czech Republic	43 037	38 260	4 777	0.869%
Luxembourg	34 734	30 878	3 856	0.701%
Ireland	28 998	25 797	3 201	0.586%
Serbia	25 841	22 973	2 868	0.522%
Croatia	21 376	19 003	2 373	0.432%
Cyprus	19 882	17 676	2 206	0.401%
Slovak Republic	18 959	16 854	2 105	0.383%
Latvia	12 808	11 387	1 421	0.259%
"the former Yugoslav Republic of Macedonia"	12 723	11 311	1 412	0.257%
Lithuania	12 588	11 191	1 397	0.254%
Slovenia	12 295	10 930	1 365	0.248%
Iceland	10 144	9 018	1 126	0.205%
Malta	10 144	9 018	1 126	0.205%
Georgia	9 876	8 780	1 096	0.199%
Bosnia and Herzegovina	9 689	8 614	1 075	0.196%
Albania	8 034	7 147	887	0.162%
Estonia	7 637	6 794	843	0.154%
Montenegro	6 584	5 853	731	0.133%
Moldova	5 488	4 878	610	0.111%
Liechtenstein	2 921	2 374	547	0.059%
San Marino	2 921	2 478	443	0.059%
Holy See	82	58	24	0.002%
Total 2011	**4 952 513**	**4 398 245**	**554 268**	**100.000%**
Total 2010	**3 303 450**	**2 933 712**	**369 738**	

Earnings per participating certificate for 2011 amount to € 21.47 (€ 35.07 for 2010).

Note M Interest margin

Income and expenses are accounted for in accordance with the effective interest rate method (interest, commissions and charges).

Changes in value calculated exclusive of accrued interest on financial instruments are accounted for under "Net gains or losses from financial instruments at fair value through profit or loss" (Note N).

Interest income and expenses from fair value hedging derivatives are shown together with the income and expenses arising from those items for which they provide risk coverage.

In thousand euros

	2011	2010
Available-for-sale financial assets		
Securities transactions	75 690	57 277
Hedging derivatives	(13 557)	(17 270)
Sub-total	**62 133**	**40 007**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	279 662	220 210
Advances	41 024	7 537
Hedging derivatives	(79 583)	(92 051)
Sub-total	**241 103**	**135 696**
Financial assets held to maturity		
Securities transactions	90 969	92 580
Sub-total	**90 969**	**92 580**
Amounts owed to credit institutions and to customers		
Deposits	(64)	(142)
Interest-bearing accounts	(12 491)	(6 450)
Sub-total	**(12 555)**	**(6 592)**
Debt securities in issue		
Bonds	(807 634)	(846 535)
Hedging derivatives	571 003	725 834
Sub-total	**(236 631)**	**(120 701)**
Other interest expenses and similar charges	(4 347)	(4 405)
Interest margin	**140 672**	**136 585**

The following is the breakdown of interest on loans relative to the financial year:

In thousand euros

Breakdown by borrowers' country location	2011	2010
Poland	46 241	33 875
Hungary	31 088	23 812
Romania	20 991	14 355
Turkey	19 307	21 005
Spain	18 173	13 268
Italy	17 270	14 972
Germany	14 971	10 311
France	14 053	9 602
Cyprus	13 403	9 806
Finland	12 465	10 192
Greece	11 513	15 056
Croatia	10 641	10 419
Portugal	9 895	4 405
Belgium	4 352	1 825
Sweden	3 772	1 658
Malta	3 476	3 957
Denmark	3 416	2 049
Latvia	3 320	2 742
Slovenia	2 948	2 041
Iceland	2 913	2 139
Albania	2 518	1 686
Lithuania	2 050	2 068
Bosnia and Herzegovina	1 983	1 901
Ireland	1 769	1 282
Serbia	1 654	1 627
Bulgaria	1 576	1 308
Norway	874	875
"the former Yugoslav Republic of Macedonia"	861	671
Slovak Republic	546	304
Czech Republic	489	297
Estonia	471	209
Moldova	467	442
Montenegro	162	
San Marino	34	51
Total	**279 662**	**220 210**

Note N Net gains or losses from financial instruments at fair value through profit and loss

Net gains from financial instruments at fair value through profit and loss cover the profit and loss items relative to financial instruments, except for the interest income and charges presented under "Interest margin" (Note M).

In thousand euros

	2011	2010
Net result from fair value of hedging instruments	38 857	(76 922)
Revaluation of hedged items attributable to covered risk	(38 306)	76 826
Result from financial instruments at fair value through profit and loss	3 136	(1 194)
Revaluation of exchange positions	101	240
Total	**3 788**	**(1 050)**

Note O Net gains or losses from available-for-sale financial assets

In thousand euros

	2011	2010
Dividends received	54	62
Total	**54**	**62**

Note P Commissions and other net expenses

The table below shows the breakdown of net commissions:

In thousand euros

	2011	2010
Sundry banking income	258	253
Banking charges	(1 814)	(2 194)
Total	**(1 556)**	**(1 941)**

Note Q General operating expenses

In thousand euros

	2011	2010
Staff costs		
Wages and salaries	19 244	18 166
Social charges and pension costs	6 637	5 511
Other general operating expenses	8 733	8 385
Total	**34 614**	**32 062**

At 31 December 2011, the Bank staff was composed of: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 171 professional staff. At 31 December 2010: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 159 professional staff.

Note R Cost of risk

The cost of risk covers depreciation charges incurred as a result of credit risk inherent to the Bank's activities.

In thousand euros

Cost of risk for the financial year	**2011**	**2010**
Net depreciation charges of loans and advances to credit institutions		15
Commitments by signature and other		(16 124)
Total		**(16 109)**

The heading "Commitments by signature and other" concerns the execution of the judgement delivered by the Spanish Supreme Court in a case between the Bank and one of its paying agents. The amount of € 16.5 million has been paid to the Bank by the condemned paying agent for the non-execution of its contractual obligations. Legal fees for this case amount to € 0.4 million.

In thousand euros

Depreciations resulting from credit risk	**2011**	**2010**
Total depreciations at the beginning of the financial year	1 837	1 822
Net depreciations charges	22	15
Total	**1 859**	**1 837**

Note S Post-balance sheet events

No material events that would require disclosure or adjustment to these financial statements occurred between 31 December 2011 and the closing date of the accounts by the Governor on 23 February 2012.

External auditor's report

Deloitte.

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Council of Europe Development Bank

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75116 Paris

External Auditor's Report on the Financial Statements

Year ended December 31st, 2011

To the Members of the Governing Board and Administrative Council,

In compliance with the assignment entrusted to us by the Governing Board, we have audited the accompanying financial statements of The Council of Europe Development Bank, which comprise the balance sheet as at December 31st, 2011, and the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory notes.

Governor's Responsibility for the Financial Statements

The Governor is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Deloitte.

Council of Europe Development Bank 2 / 2

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Governor, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The Council of Europe Development Bank as of December 31st, 2011, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted for use by the European Union.

Neuilly-sur-Seine, February 23, 2012

Deloitte & Associés

José-Luis Garcia Sylvie Bourguignon

Auditing Board's report on the balance sheet and the profit and loss account and the Notes to the financial statements for 2011

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Development Bank and Article I of its Rules of Procedure, the Auditing Board met in Paris on several occasions in 2011 and from 20-24 February 2012 in order to audit the CEB's balance sheet and profit and loss account and the Notes to the financial statements for the year ended 31 December 2011.

Based on Resolution 343 (2002) of the Governing Board clarified by its decision taken at its meeting of 10 December 2004, following the Administrative Council's recommendation on this issue and on the Auditing Board's previous years' findings, the External Auditor, Deloitte & Associés, presented his statement and gave, when needed, evidence in detail of the performance of the audit.

The Auditing Board carried out the audit of the CEB for the year 2011 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2011, including the balance sheet as at 31 December 2011, the profit and loss account and the Notes to the financial statements, which had been prepared by the accounting department of the CEB and signed by the Governor on 23 February 2012
- Consulting the Internal Audit Department and examining its reports
- Consulting the External Auditor of the CEB and examining his interim report and his detailed report for the year 2011
- Obtaining the opinion signed by the External Auditor on 23 February 2012
- Obtaining all necessary documents, information and explanations which the Auditing Board deemed necessary. These were readily given by the Governor, the Vice-Governors, the Internal Auditor, the Directors and other pertinent staff.

The Auditing Board certifies, on the basis of the information which was made available to it and to the best of its understanding, that the CEB's balance sheet and profit and loss account including the Notes to the financial statements are in agreement with the books and other records and give a true and fair view, in all material respects, of the state of the CEB's affairs as at 31 December 2011 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 24 February 2012

Ali ACU

Nataša PRAH

Darius MATUSEVIČIUS

Extract from the minutes of the 275th meeting of the Administrative Council of the CEB

Resolution 1544 (2012) CA/PV/275/2012

Paris, 16 March 2012

The Administrative Council,

Having regard to Article XI, Section 3 of the Bank's Articles of Agreement
Having regard to Rule 1, paragraph 2 of the Administrative Council's Rules of Procedure
Having regard to the balance sheet, profit and loss account and notes to the financial statements as at 31 December 2011
Having taken note of the Governor's Memorandum dated 23 February 2012
Having taken note of the external auditor's report dated 23 February 2012
Having taken note of the Auditing Board's report dated 24 February 2012

1. recommends that the Governing Board approve the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2011
2. discharges respectively Governor Mr Raphaël Alomar for the period running from 1st January 2011 to 17 December 2011, and Governor Mr Rolf Wenzel for the period running from 18 December 2011 to 31 December 2011 from their responsibility for financial management in respect of the financial year 2011
3. resolves to allocate the 2011 net profit (+ € 106 350 734) as follows:
   - € 105 350 734 to the general reserve
   - € 1 000 000 as social dividend to fund the Selective Trust Account
4. recommends that the Governing Board approve point 3 above.

Extract from the minutes of the 201st meeting of the Governing Board of the CEB

Resolution 396 (2012) CD/PV/201/2012

Paris, 30 March 2012

The Governing Board,

Having regard to Article IX, Section 3, paragraph 1, litt. e of the Bank's Articles of Agreement
Having regard to Rule 5, paragraph 1 of the Governing Board's Rules of Procedure
Having regard to the balance sheet, the profit and loss account and the notes to the financial statements as at 31 December 2011
Having taken note of the certification by the external auditor, dated 23 February 2012
Having regard to the reports of the Bank's statutory organs, viz:
- the Report of the Governor for the financial year 2011
- the Auditing Board's report dated 24 February 2012

Having regard to Resolution 1544 (2012) of the Administrative Council
Having heard the Auditing Board

Decides:
- to approve the Bank's annual report, accounts and other financial statements for 2011
- to discharge the Administrative Council from its responsibility for the financial year 2011
- to endorse point 3 of Resolution 1544 (2012) of the Administrative Council of 16 March 2012, by which the Administrative Council allocated the net profit for 2011, amounting to € 106 350 734 as follows:
  - € 105 350 734 to the general reserve
  - € 1 000 000 as social dividend to fund the Selective Trust Account.

Balance sheet after allocation of profit

In thousand euros

	31/12/2011	31/12/2010
Assets		
Cash in hand, balances with central banks	242 980	230 316
Financial assets at fair value through profit or loss	1 658 168	1 216 278
Hedging derivative instruments	1 224 143	1 226 344
Available-for-sale financial assets	3 649 876	6 332 058
Loans and advances to credit institutions and to customers		
Loans	12 283 910	12 115 390
Advances	4 719 503	1 322 336
Financial assets held to maturity	2 267 665	2 241 862
Tangible and intangible assets	31 896	31 297
Other assets	5 041	5 125
Total assets	**26 083 182**	**24 721 006**
Liabilities		
Financial liabilities at fair value through profit or loss	587 231	1 275 923
Hedging derivative instruments	477 267	445 669
Amounts owed to credit institutions and to customers	70 794	100 809
Debt securities in issue	20 958 367	19 855 536
Other liabilities	1 705 262	823 133
Selective Trust Account (STA)	81 285	83 733
Provisions	92 311	82 548
Total liabilities	**23 972 517**	**22 667 351**
Capital		
Subscribed	4 952 513	3 303 450
Uncalled	(4 398 245)	(2 933 712)
Called	554 268	369 738
General reserve	1 718 322	1 797 501
Gains or losses recognised directly in equity	(161 925)	(113 584)
Total equity	**2 110 665**	**2 053 655**
Total liabilities and equity	**26 083 182**	**24 721 006**

Title: Since its creation in 1956, the Bank has been known successively under three different titles. Since 1 November 1999, it has been known as the CEB-Council of Europe Development Bank.

Member States: As at 31 December 2011, the Bank had 40 Member States: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey. From 1989 to 1991, a contract of association linked the former Yugoslavia to the Bank as an Associate Member.

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

Target group countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.

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

Loan disbursed: A loan that has actually been paid to the borrower.

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

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

Selective Trust Account (STA): A special account set up in 1995 to provide interest rate subsidies for projects that comply with the Bank's priority objectives and have a high social value. The account is fed with allocations from the Bank's profits and voluntary contributions from Member States. This account may be used to make donations, donated by the Administrative Council.

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

Subscribed capital: Participating certificates issued by the CEB and subscribed by its members.

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

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

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