CEB

COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

Risk Management Disclosure Report

2024

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About the CEB

The Council of Europe Development Bank (CEB) is a multilateral development bank with an exclusively social mandate from its 43 member states. The CEB finances investment in social sectors, including education, health and affordable housing, with a focus on the needs of vulnerable people. Borrowers include governments, local and regional authorities, public and private banks, non-profit organisations and others. As a multilateral bank with a triple-A credit rating, the CEB funds itself on the international capital markets. It approves projects according to strict social, environmental and governance criteria, and provides technical assistance. In addition, the CEB receives funds from donors to complement its activities.

The CEB was originally established as a resettlement fund in 1956 by eight of the 15 member states that made up the Council of Europe at the time. The CEB is Europe's oldest multilateral development bank and is a legally and financially separate entity from the Council of Europe.

For more about CEB, visit **coebank.org/en/about/**

Disclaimer:
The information presented in this report has not been subject to external audit.

Table of Contents

EXECUTIVE SUMMARY **4**

1. RISK MANAGEMENT FRAMEWORK **6**

1.1 Risk Management objective and principles 6
1.2 Risk culture and Appetite 6
1.3 Risk policies and reports 7
1.4 Risk processes 7
1.5 Risk organisation and governance 8
1.6 Risk Appetite Framework 10

2. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY **11**

2.1 Capital Adequacy under Standardised approach 11
2.2 Regulatory Leverage Ratio 14
2.3 Gearing Ratio 15
2.4 Capital Adequacy under 'Internal Ratings-Based' approach 15
2.5 Economic capital 15
2.6 Capital planning and capital stress testing 15

3. CREDIT RISK **16**

3.1 Credit Risk identification and assessment 16
3.2 Internal ratings 16
3.3 Credit Risk Mitigation 18
3.4 Credit Risk Exposure overview 18
3.5 Loan portfolio 20
3.6 Stock of projects 24
3.7 Social Impact Account guarantee window 26
3.8 Finance portfolio 27
3.9 Concentration risk - Large exposures 31
3.10 Credit provisionning and credit impairment 33

4. COUNTERPARTY CREDIT RISK **35**

4.1 Counterparty Credit Risk Mitigation 35
4.2 Counterparty Credit Risk Assessment 35
4.3 Credit Valuation Adjustment 36

5. MARKET RISK **38**

5.1 Interest rate risk management framework 38
5.2 Sensitivity of Economic Value of Equity to interest rate shocks 38
5.3 Sensitivity of revenues to interest rate shocks 38
5.4 Sensitivity of market value of securities to interest rate and credit spread shocks 39
5.5 Interest rate repricing gaps 39
5.6 Exchange rate risk management framework 39

6. LIQUIDITY RISK **40**

6.1 Liquidity risk management framework 40
6.2 Survival horizon 40
6.3 Regulatory Liquidity Ratios - LCR and NSFR 41
6.4 Liquidity ratios based on rating agency methodologies 42
6.5 Liquidity gaps 42

7. OPERATIONAL RISK **43**

8. CLIMATE RISK **44**

APPENDIX **46**

Glossary 46
Abbreviations 47
List of figures 47

EXECUTIVE SUMMARY

The Council of Europe Development Bank ("the CEB" or "the Bank") Risk Management Disclosure Report provides further information on the Bank's approach to risk management and the assessment of its capital adequacy. To implement its Strategic Framework, the Bank takes credit, market and liquidity risks to a level compatible with its risk appetite and public mission. The CEB's financial strength, as reflected by its triple-A credit rating, is key to the Bank's business model as it enables favourable access to the capital markets and low funding costs. Solid key risk measures are essential to sustaining the CEB's financial strength.

The CEB follows a prudent risk management framework serving the primary purpose of ensuring the Bank's long-term financial sustainability and operational resilience while enabling it to fulfil its social mandate. Being a multilateral development bank (MDB), the CEB does not fall within the scope of application of the EU legislation on credit institutions. However, the CEB applies international best banking practices that are anchored in the EU directives on banking regulation, the Basel Committee on Banking Supervision recommendations and its status as an MDB.

The CEB has a prudent liquidity management approach, maintaining a strong liquidity position to ensure flexibility in the execution of its funding programme. In terms of market risk, the Bank has no trading activities and uses derivatives only to hedge against interest and foreign exchange risks. The CEB also possesses the required operational resilience as proven by its strong capacity to face challenging financial environments.

In 2024, the CEB increased its lending activity while retaining a sound risk profile and an adequate capital buffer. Loan outstanding reached €22.9 billion (an increase of 6.4% compared to year-end 2023) with new disbursements over the year reaching €3.5 billion, a decrease of 5.7% compared to 2023.

The credit quality of the CEB's loan portfolio remains sound, supported by adequate security, guarantees and standard protective contractual clauses. Thus far, no counterparty in the portfolio presents signs of distress and all of their payment obligations towards the Bank are up to date. Nevertheless, geopolitical events or adverse developments in the financial markets could have an impact on the risk profile, although current stress test results show that the Bank is in an adequate position to cope with such events. The CEB continues to monitor the situation of its borrowers closely.

Following the historic approval of the CEB's first-ever capital increase with paid-in capital in 2022, the capital increase's subscription period closed on 31 December 2024 bringing the paid-in capital to €1.8 billion. The very high participation rate (over 95%) underscores the shareholders' abiding support and confidence in the exclusively social mandate that distinguishes the CEB from other multilateral development banks.

Ukraine became the Bank's 43rd member state on 15 June 2023. In line with the implementation of the CEB Strategic Framework 2023-2027, the Bank approved €303 million -for the period January to December 2024- in projects to provide direct support to Ukraine to repair war-damaged homes and restore its health services. For an overview of the Bank's cooperation with Ukraine over the last financial year please refer to the Report of the Governor 2024.

Social and climate actions go hand in hand: climate action must be inclusive, while social actions can in turn lead to climate-friendly outcomes. As a social development bank, the CEB addresses the social impacts of climate change and seeks to achieve climate co-benefits in social projects, notably for the most vulnerable. For more information on climate risk management, please refer to the 2024 Task Force on Climate-Related Financial Disclosure Report.

Despite the challenging financial environment, the CEB's triple-A credit rating (stable outlook) was reaffirmed by the leading rating agencies Fitch, Moody's, S&P Global and Scope (unsolicited rating) in 2024. This rating reflects the CEB's strong capital base, solid asset quality, the excellent track record of asset performance and the solidified institutional profile as a socially focused bank in Europe.

Risk highlights at year-end 2024

➢ **High Asset Quality**

- **89.8%** of the Bank's risk portfolio was rated at **Investment Grade** level (at least BBB-/Baa3 equivalent rating):
  - 86.9% for the loan portfolio;
  - 79.3% for the financing commitments;
  - 100.0% for the Treasury portfolio (deposits, securities and derivatives).
- The **average rating** of the **loan** portfolio was 6.99, close to **A-** (7.0), after credit risk mitigation (6.88 at year-end 2023).
- **30.7%** of the Bank's **loan portfolio** benefits from **credit enhancement**.

➢ **Strong capital adequacy**

The **Capital Adequacy Ratio** (EU CRR[1]) reached **29.3%**, within the 25%-30% comfort zone targeted by CEB to maintain a Triple-A rating by the major credit rating agencies.

➢ **Prudent leverage**

The **Leverage Ratio** (EU CRR) reached **10.4%**, well above the regulatory floor of 3%, and the CEB's Risk Appetite Framework conservative floor of 7%.

➢ **Ample liquidity**

The **high levels of liquidity** indicators and ratios protect the Bank from the risks generated by its intrinsic characteristics of absence of collecting deposits and no access to the central bank refinancing.

Figure 1: **Key risk metrics**

Amounts in € million	2024	2023
Loan outstanding*	**22 894**	**21 527**
Financial assets*	**12 782**	**11 401**
High-Quality Liquid Assets (HQLA)	**4 166**	**4 202**
Risk-Weighted Assets of Lending activity	**9 846**	**9 406**
Risk-Weighted Assets of Treasury activity	**3 575**	**2 187**
Outstanding Debt*	**31 112**	**29 023**
Own funds	**12 622**	**8 474**
Balance sheet	**38 613**	**34 418**
Prudential Equity	**4 128**	**3 519**

** After swap, i.e. considering the impact of exchange rate fluctuations on hedging currency swaps*

	2024	2023
Capital Adequacy Ratio (EU CRR)	**29.3%**	**29.0%**
Gearing Ratio	**1.81**	**2.54**
Leverage Ratio (EU CRR)	**10.4%**	**9.7%**
Treasury Asset Ratio	**3.10**	**3.24**
Survival Horizon (months)	**20**	**17**
LCR* (EU CCR)	**606%**	**415%**
NSFR (EU CRR)	**134%**	**136%**
Sensitivity of Economic Value of Equity (EVE)	**-10.7%**	**-11.5%**

** Average of the last twelve month-end LCR*

1 EU CRR: European Union - Capital Requirements Regulation and delegated acts.

1. RISK MANAGEMENT FRAMEWORK

1.1 Risk Management objective and principles

The primary purpose of risk management is to ensure the Bank's long-term financial sustainability and operational resilience while enabling the CEB to fulfil its social mandate. The Bank implements international best banking practices and promotes a sound and prudent risk culture across its business lines. The CEB's risk policies observe the following principles:

- **Prudent risk approach:** As a Multilateral Development Bank (MDB), the CEB sets its financial risk tolerance at a prudent level as defined by approved limits and has established a cautious financial and risk management framework. Therefore, the Bank aims to mitigate all material financial risks and does not engage in speculative exposures to financial risks.
- **Robust financial position:** The CEB gears its financial policies to ensure a robust financial position to support its core lending activity. In particular, this objective translates into the preservation of the Bank's capital base.
- **Adherence to best practice methods:** The Bank applies best practices for financial risk management. The objective is to obtain the strongest protection for its assets, its financial results and, consequently, its capital. While the Bank, as an MDB, is not subject to prudential regulation, it nevertheless considers the relevant Basel Committee on Banking Supervision (BCBS) recommendations as transposed into EU banking directives (Basel/EU regulation), notably the EU Capital Requirement Directives and the guidelines of the European Banking Authority (EBA), adapting these when necessary to its MDB status.
- **Segregation of duties:** Following the "four eyes" principle of internal controls, the Bank adopts a system of checks and balances whereby the risk management function exercises independent control and supervision of the operational departments' activity.
- **Control framework:** The Bank's Risk Management Framework includes policies, procedures, limits and controls that provide adequate identification, measurement and mitigation of the risks arising from the Bank's activities and allows for their appropriate monitoring and reporting.

1.2 Risk culture and Appetite

The CEB develops and fosters a sound risk culture across the whole organisation.

- The CEB is consistent in building appropriate risk awareness and in promoting behaviours and judgements about risk-taking.
- The CEB develops effective risk management, promotes sound risk-taking and ensures that risks are identified, assessed, monitored, reported and managed.
- The risk management function is independent of the business and support functions. It constitutes the point of reference in spreading a high-quality risk culture throughout the organisation.

The CEB establishes its Risk Appetite Framework as a strategic decision tool for monitoring its risk profile.

- Risk appetite is the aggregate level and types of risk that the CEB is willing to assume to fulfil its mandate and objectives, and succesfully execute its Strategic Framework.
- The CEB establishes its risk appetite to maximise the fulfilment of its mandate, taking into account the Bank's capital endowment and risk capacity. The Bank finances projects with high social impact while preserving a financial profile that enables it to raise funds in the capital markets to provide loans at advantageous conditions for the final beneficiaries.
- The Risk appetite cascades down through the organisation and is translated into operational limits that are adhered to at origination and monitored throughout the life cycle of operations.
- Risk appetite is an essential pillar in the CEB's Strategic Framework, aligning business objectives with risk objectives and feeding into the capital planning process. The definition of risk appetite covers, inter alia, the following items:

- capital, which aims to absorb unexpected losses in line with best banking practices. The higher the available capital, the stronger the Bank's financial standing, as assessed by the different stakeholders, including the rating agencies;
- liquidity risk, which is managed prudently to ensure the regular functioning of the institution's core activities;
- leverage and gearing, which allow achievement of an adequate balance-sheet size for the Bank commensurate with the Strategic Framework objectives.

- The CEB's large exposures, as defined by EU regulation and the BCBS recommendations, are monitored according to core activity (loans) and treasury activity guidelines.

1.3 Risk policies and reports

The decision-making processes are supported by a set of policies defining the governance framework, business activities and risk management to comply with all the applicable best banking practices.

The Bank's risk management architecture is set out as follows:

- **The Risk Management Charter** codifies the core risk management principles and defines the CEB's Risk Management Framework, ensuring appropriate consistency with international best banking practices and prudential requirements. The Charter enshrines the prudent approach that has always characterised the CEB and ensures that its shareholders' resources are safeguarded while the Bank fulfils its social mandate, managing risks effectively and consistently at all times and in all its products and activities. The Charter is approved by the CEB's Administrative Council.
- **The Financial and Risk Policy (FRP)** sets out the general principles guiding the CEB's financial and risk policies within the context of the Bank's mission, taking into account its capacity to manage the risks inherent in its operations. While containing elements of flexibility in financial management, the Financial and Risk Policy is guided by a prudent approach that has always characterised the Bank's business model and management strategy. The FRP is approved by the Administrative Council.
- **The Financial and Risk Policy Guidelines (FRPG)** develop the orientations and principles set out in the FRP relating to the identification, measurement and monitoring of its financial risks. The FRPG are presented to the Administrative Council for information.
- **The Financial and Risk Policy Handbook (FRPH)** ensures that the Bank's operations comply with the FRP. The FRPH is a living document that translates the FRP into operational details and is regularly presented to the Credit Risk Committee for approval.

The Risk & Control Directorate (R&C) submits a quarterly Report on Risk Management to the Administrative Council and the Governing Board providing information to the shareholders about the changes in the CEB's exposure to the main types of risk: credit, market, liquidity, operational risk and compliance with the Risk Appetite Framework as defined internally.

Finally, the annual Financial Report takes stock of the risk management processes and practices, thus contributing to external risk reporting.

1.4 Risk processes

The CEB identifies, understands and assesses all material risks inherent to its activities, products, funding sources and transactions on an ongoing basis.

- The CEB establishes policies supported by appropriate control procedures and processes.
- The processes and procedures ensure that the Bank's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with its size, complexity and risk profile.
- Risk guidelines for the main types of risk (credit, market, liquidity and operational risk) are developed in line with the principles set out in the Risk Management Charter.
- Internal risk models correctly identify, assess and report the risks incurred by the CEB.
- The risk profile is assessed according to the relevant governance framework, enabling the organisation's smooth functioning under a range of adverse conditions.

Figure 2: **Risk processes at the CEB**

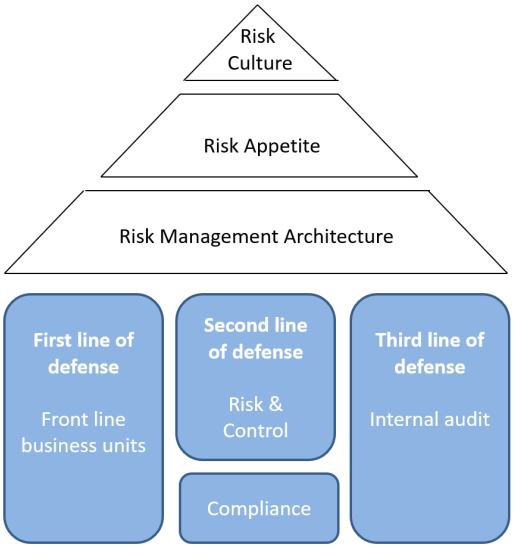
	Risk Identification, Assessment and Measurement	Risk Monitoring	Risk Controls
Capital Adequacy and Stress Testing	• Capital adequacy assessment • ICAAP • Economic capital • Stress testing	• Quarterly Report on Risk Management • Capital Adequacy Review Report • ICAAP Report	• Financial and Risk Policy (FRP) • Risk Appetite Framework (RAF) • FRP Guidelines • FRP Handbook
Loss Provisioning	• Credit Impairment model	• Report on credit impairment provisions	
Credit Risk	• Sovereign rating model • Local and regional government rating model • Financial institution rating model • Corporate rating model • GRE rating • Transaction credit rating	• Annual counterparty reviews • Credit Risk Limits • Quarterly Report on Risk Management • Collateral Management Report • Clauses and Covenants Report • Large Exposures and Concentration Report • Credit Valuation Adjustment Report	
Counterparty Credit Risk	• Counterparty credit risk • Exposure at default model • Credit valuation adjustment model		
Market Risk	• EVE and NII • Value at risk model • Valuation model (derivatives)	• Report on the Risk Appetite Framework • Quarterly Report on Risk Management • ALCO reports • Report on instruments at fair value • Report on Collateral Requirements on derivatives • Regulatory Liquidity Ratios Report (LCR & NSFR)	
Liquidity Risk	• Liquidity risk assessment • Survival Horizon, Self Sufficiency Period • Regulatory liquidity ratios (LCR&NSFR) • Short term liquidity ratios • ILAAP • Liquidity risk modelling (collateral requirements on derivatives)		
Operational Risk	• Risk and Control Assessment • Internal Control Framework • Operational Risk Event collection • Business Continuity Management	• Internal Control Annual Assertion Report • Half-year Operational Risk Management Report	

1.5 Risk organisation and governance

The risk management function is independent of the business and other support functions.
Risk governance within the CEB is established on the 'Three Lines of Defence' concept, setting out lines of responsibility and appropriate segregation of powers and duties:

1. The first line of defence lies with **business or activity functions** performed by staff. Risk arising from operations must not exceed the Bank's pre-defined risk appetite.
2. The second line of defence consists of the **risk supervision and control function** in line with applicable policies and rules. This includes the R&C, Legal and Compliance functions. R&C ensures that risks are controlled effectively and are managed in line with the risk appetite.
3. The third line of defence consists of the independent **Internal Audit**, which regularly assesses the adequacy of the Bank's policies, methods and procedures and examines their effective implementation.

Figure 3: **The three lines of defence**



R&C is responsible for implementing the risk management framework. It makes proposals for risk policies and methodologies, supervises their implementation and undertakes risk reporting. It is independent of other operational and business directorates and reports directly to the Governor. The different R&C units address specific risk areas such as credit risk, market risk (including asset and liability management from a risk perspective) and operational risk.

Credit risk assessment is conducted by the Credit Risk Unit (CRU) independently of lending or treasury officers with the aim of providing (i) appropriate checks and balances to ensure that credit is extended in accordance with risk principles, and (ii) an independent judgment, uninfluenced by relationships with the borrower or intermediaries. Credit exposure is measured, monitored and controlled on a daily basis. Breach of limit, if any, is reported to senior management.

Market and liquidity risk and ALM are a shared responsibility between the Asset & Liability Management Unit (ALM Unit) and the Market Risk and Capital Management Unit (MRC). The ALM Unit acts as the first line of defence and carries out the asset and liability management and day-to-day management of market and liquidity risks. The MRC Unit acts as a second line of defence and has the overall responsibility for identifying, measuring, assessing, monitoring and providing an independent oversight of market and liquidity risks to the Administrative Council.

The following decision-making committees, chaired by the Governor, are in charge of defining and overseeing risk management policies:

- The Credit Risk Committee (CRC) meets weekly to approve credit risk decisions concerning lending and treasury exposure, based on internal credit risk assessments and recommendations.
- The Asset & Liability Committee (ALCO) meets monthly - or more frequently when necessary - to formulate strategic orientations and address, on a forward-looking basis, interest rate, foreign exchange and liquidity risk.
- The Committee for Operational Risks & Organisation (CORO) discusses operational risk issues on a semi-annual basis. It ensures that adequate measures are taken to mitigate, monitor and control these risks.

Controlling Bodies

- Internal Audit is a permanent, autonomous body within the CEB's internal control system. It provides independent and objective assurance of effective and controlled businesses, operational activities and performance in compliance with existing policies, procedures and best practices. It also proposes recommendations for potential improvements in the Bank's operations.

- The Office of the Chief Compliance Officer (OCCO) addresses money laundering/financing of terrorism and tax evasion risks and integrity, corruption and fraud issues. OCCO safeguards the CEB's integrity in its financial and loan operations, prevents reputational risks and promotes ethical business standards.
- The Chief Information Security Officer (CISO) defines the Bank's security policy by designing the security framework and developing processes across the CEB to reduce information technology (IT) risks.
- The Auditing Board certifies that the Bank is managed according to sound financial management principles, examines the Bank's accounts, and checks their accuracy. The Governing Board appoints three representatives from the member states on a rotating basis for a three-year term (outgoing members act as advisors for an additional year). The Auditing Board's report, an excerpt of which is appended to the financial statements, is presented to the CEB's governing bodies when the annual financial statements are submitted for approval.
- The External Audit is responsible for auditing the Bank's financial statements according to International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), and for reviewing its internal control and risk management processes. The External Audit drafts various reports, including the Opinion Report. The External Audit is appointed by the Governing Board for a four-year term - renewable once for three years following a tender procedure - based on the Auditing Board's opinion and recommendations by the Administrative Council.

1.6 Risk Appetite Framework

While the CEB, as an MDB, is not formally subject to legislation applicable to credit institutions, it nevertheless aims to comply with relevant EU banking regulation ('CRD/CRR package") and Basel Committee on Banking Supervision (BCBS) recommendations, adapting them when necessary to its MDB business model and status.

CEB's risk policy is defined in the Risk Appetite Framework, which summarises a set of risk indicators and ratios with their associated limits as regards credit risk (capital and leverage), liquidity risk, interest rate risk, foreign exchange risk, and market credit risk. The ratios and indicators are as follows, and are presented in this document in the relevant section.

Figure 4: **Risk Appetite framework**

Purposes	Indicators / Ratios
Capital	Regulatory Capital Adequacy Ratio (CAR) - EU CRR
	Gearing Ratio (GR)
Leverage	Regulatory Leverage Ratio (LR) - EU CRR
	Treasury Assets Ratio (TAR)
Liquidity Risk	Survival Horizon (SH)
	Regulatory Liquidity Coverage Ratio (LCR) - EU CRR
	Regulatory Net Stable Funding Ratio (NSFR) - EU CRR
Interest Rate Risk	Regulatory Sensitivity of the Economic Value of Equity (EVE)
Foreign Exchange Risk	Spot Net Open Position
Market Credit Risk	Minimum Internal Rating

EU CRR : Regulatory Ratio - European Union Capital Requirements Regulation and delegated acts

2. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

Although not subject to international banking supervision and regulations, the Bank manages its capital with the aim of ensuring that capital adequacy standards are met, which is essential for maintaining the confidence of external stakeholders.

The Bank manages its capital in accordance with its statutory obligations, its risk profile, and the macroeconomic environment so that its solvency is always compatible with the following objectives:

- compliance with the limits of the Risk Appetite Framework;
- achievement of the objectives of the Strategic Framework;
- preservation of financial strength and maintainance of resilience in crisis scenarios.

The main elements of the CEB's capital management framework are :

1. **The CEB's Risk Appetite Framework**: approved by the Administrative Council, it comprises three ratios: the Capital Adequacy Ratio (CAR) according to the Basel Standardised approach, the Regulatory Leverage Ratio, and the Gearing Ratio (which is not a regulatory ratio but a benchmark used by MDBs).
2. **The CEB's Internal Capital Adequacy Assessment Process (ICAAP):** it is used for monitoring purposes; it ensures that the CEB has sufficient capital to cover all significant risks; it incorporates the assessment of capital adequacy using an 'Internal Ratings-Based' (IRB) approach, an economic capital approach, capital planning and capital stress testing.

2.1 Capital Adequacy under Standardised approach

The Capital Adequacy Ratio (CAR) aims to ensure that the CEB holds sufficient capital to absorb unexpected losses embedded in its operations. It is calculated by dividing the Bank's **Prudential Equity** (paid-in, reserves, and net profit of the year) by total **Risk-Weighted Assets (RWA)** for credit, market, counterparty and operational risks.

The Risk Appetite Framework sets a floor for this ratio at 10.5%. However, the Bank aims to maintain a ratio above 20% to ensure first-rank financial fundamentals. Additionally, the Bank targets a higher CAR and considers a level above 25% to be a comfort zone that will enable it to maintain a AAA rating by the main credit rating agencies.

The CAR reached 29.3% at the end of December 2024, slightly higher than in 2023 (29.0%). Prudential Equity increased due to the capital increase but RWA also increased due to an increase in activities. The major part of RWA comes from credit risk (95.4% at end of December 2024).

Figure 5: **Annual evolution in Capital Adequacy Ratio**

Figures in M€	2024	2023
Capital Adequacy Ratio = A/B	**29.3%**	**29.0%**
A - Prudential Equity	**4 128**	**3 519**
Credit RWAs on lending activity	9 846	9 406
Credit RWAs on treasury activity	3 575	2 187
Other RWA*	655	555
B – Total RWAs	**14 076**	**12 148**

** Counterparty Credit Value Adjustment, Operational Risk and, Other. There is not capital charge for market risk as there is no trading activities and minimal FX risk*

2.1.1 Regulatory Capital

Prudential equity is equivalent to the Common Equity Tier 1 (CET1) capital. It comprises the paid-in portion of the capital subscribed by member countries, the reserves accumulated through internal profit generation, the profit to be allocated, and the unrealised gains or losses on instruments at fair value through equity (securities, derivatives, pension scheme and other post-employment benefits).

Figure 6: **Annual evolution in Prudential Equity**

Figures in M€	2024	2023
Prudential Equity	**4 128**	**3 519**
Called-up and paid-up capital	1 175	624
Reserves	2 875	2 786
Current year net profit	124	106
Unrealised gains/losses on instruments at fair value through equity	-46	0

2.1.2 Risk-weighted assets

Risk-weighted assets (RWA) are determined in accordance with Basel/EU regulations, by assigning risk weights to exposures for credit, market, counterparty and operational risk.

Credit risk RWA are calculated based on the **Pillar I standardised approach.** The credit risk weights to be applied to each exposure are taken from a table and derived from the Basel / UE regulation (cf. Figure 7 below). They depend on the counterparty's external ratings (the CEB takes the second-best external rating of the coutnerparty after CRM). Credit exposures take into account credit risk mitigation measures (guarantees and collateral). Off-balance sheet credit exposures related to financing commitments are adjusted by a Credit Conversion Factors (CCF) of 50%.

Figure 7: **Risk weight factors for the standardised approach**

Counterparty Type	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Non-rated
Sovereigns	0%	20%	50%	100%	150%	100%
Banks	20%	50%	50%	100%	150%	50%
Short Term	*20%*	*20%*	*20%*	*50%*	*150%*	*20%*
Corporates	20%	50%	100%	150%	150%	100%

Figure 8 shows the breakdown of risk-weighted assets by risk exposure under the standardised approach.

Figure 8: **RWA by exposure class**

31.12.2024	RWA (in M€)	% of Total RWA
Credit Risk	**13 271**	**94.3%**
Loans and financing commitments	9 846	70.0%
Treasury (Deposits and Securities)	3 425	24.3%
Counterparty Credit Risk (CCR)	**427**	**3.0%**
Derivatives CCR (SA-CCR approach)	150	1.1%
Credit Valuation Adjustment (CVA)	277	2.0%
Operational Risk	**320**	**2.3%**
Other assets	**58**	**0.4%**
TOTAL	**14 076**	**100.0%**

Figure 9 shows their evolution since 2020.

Figure 9: **Development of RWA by exposure class**

€ Million	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**11 759**	**11 089**	**11 306**	**12 148**	**14 076**	***15.9%***
Loans	8 011	7 271	7 412	7 873	8 391	*6.6%*
Stock	2 325	1 294	1 434	1 534	1 456	*-5.1%*
Treasury	875	2 012	1 921	2 187	3 575	*63.5%*
Other assets	59	57	55	55	58	*5.4%*
Operational Risk	279	276	273	287	320	*11.4%*
CVA	210	178	211	213	277	*30.3%*

❖ **<u>Remark about the following tables</u>**: from this point on, Other assets, Operational risk, and CVA risk-weighted assets are excluded. Therefore, the total reference RWA is now **€13 421 million**.

Figure 10 shows the effect of credit risk mitigation (before and after CRM) on the risk-weighted assets of the overall CEB portfolio at the end of 2023 and 2024.

Figure 10: **Effect of CRM on Risk-Weighted Assets**

	2023			2024		
M€	**Before**	**After**		**Before**	**After**	
Sovereign*	7 053	6 564	*-6.9%*	6 897	6 364	*-7.7%*
Sub-sovereign**	1 479	1 194	*-19.3%*	1 766	1 488	*-15.8%*
Banks and Financial Institutions	4 225	3 456	*-18.2%*	5 879	5 119	*-12.9%*
Other	397	378	*-4.6%*	468	450	*-3.8%*
Total	**13 153**	**11 593**	***-11.9%***	**15 010**	**13 421**	***-10.6%***

** "Sovereign" class includes Public Agencies and national promotional banks, i.e. financial institutions set up and sponsored by a central government.*
***** "Sub-sovereign" class includes regional governments, local authorities and regional promotional financial institutions.***

The following figure shows the sectoral breakdown of risk-weighted assets at end of December 2024, with the distribution between Finance activity (FIN) and Loan & Development activity (L&D).

Figure 11: **Sectoral breakdown of RWA by activity and product**

M€	FIN			Total FIN	L&D		Total L&D	Total
Counterparty's type	**Securities**	**Deposits**	**Derivatives**		**Loans**	**Stock**		
Sovereign	83	20		103	5 235	1 026	6 261	6 364
Sub-sovereign	140			140	1 151	197	1 348	1 488
Banks and Financial Institutions	725	2 402	150	3 277	1 723	119	1 842	5 119
Other	55			55	282	114	395	450
Total	**1 003**	**2 422**	**150**	**3 575**	**8 391**	**1 456**	**9 846**	**13 421**
% of total	*7.5%*	*18.0%*	*1.1%*	***26.6%***	*62.5%*	*10.8%*	***73.4%***	*100.0%*

Figure 12 below shows the geographical breakdown of risk-weighted assets as of December 2024, with the distinction between FIN and L&D, by type of product.

Figure 12: **Geographical breakdown of RWA by product as of 31 December 2024**

	FIN			Total FIN	L&D		Total L&D	Total	
M€	**Deposits**	**Securities**	**Derivatives**		**Loans**	**Stock**			
Member countries	**1 094**	**488**	**60**	**1 642**	**8 365**	**1 456**	**9 821**	**11 463**	***85.4%***
Türkiye	0			0	1 436	239	1 675	**1 675**	*12.5%*
Italy					1 031	106	1 136	**1 136**	*8.5%*
France	109	180	55	344	686	82	769	**1 113**	*8.3%*
Serbia					768	249	1 017	**1 017**	*7.6%*
Spain	236			236	641	34	675	**910**	*6.8%*
Poland	0			0	719	58	777	**777**	*5.8%*
Netherlands	225	23	4	251	400		400	**652**	*4.9%*
Germany	251	53	1	304	163	45	208	**512**	*3.8%*
Slovak Republic					315	88	403	**403**	*3.0%*
Hungary					363	6	369	**369**	*2.8%*
Romania					258	110	369	**369**	*2.7%*
Switzerland	188	140	0	328				**328**	*2.4%*
Ukraine					174	63	237	**237**	*1.8%*
Lithuania					223	7	230	**230**	*1.7%*
Bulgaria					112	31	143	**143**	*1.1%*
Greece					109	33	142	**142**	*1.1%*
Croatia					138		138	**138**	*1.0%*
Moldova (Republic of)					58	77	135	**135**	*1.0%*
Sweden	85	19		104	11		11	**116**	*0.9%*

	FIN			Total FIN	L&D		Total L&D	Total	
M€	**Deposits**	**Securities**	**Derivatives**		**Loans**	**Stock**			
North Macedonia					78	38	116	**116**	*0.9%*
Albania					106		106	**106**	*0.8%*
Portugal					53	35	89	**89**	*0.7%*
Bosnia and Herzegovina					83	4	87	**87**	*0.6%*
Montenegro					81	4	85	**85**	*0.6%*
Slovenia					67	6	73	**73**	*0.5%*
Belgium		1		1		63	63	**64**	*0.5%*
Cyprus					57	7	63	**63**	*0.5%*
Kosovo					45	13	58	**58**	*0.4%*
Estonia					50	6	56	**56**	*0.4%*
Iceland					32	23	55	**55**	*0.4%*
Finland		22		22	33		33	**55**	*0.4%*
Denmark	0	50		50				**50**	*0.4%*
Czech Republic	0			0	25	21	46	**46**	*0.3%*
Malta					15		15	**15**	*0.1%*
Latvia					9	6	14	**14**	*0.1%*
Georgia					14		14	**14**	*0.1%*
San Marino					8		8	**8**	*0.1%*
Ireland					3	2	5	**5**	*0.0%*
Andorra					3		3	**3**	*0.0%*
Norway		1		1				**1**	*0.0%*
Luxembourg	0			0				**0**	***0.0%***
Other countries	**1 308**	**513**	**90**	**1 911**	**25**		**25**	**1 936**	***14.4%***
Great Britain	455	150	8	614				**614**	*4.6%*
Canada	275	249	42	567				**567**	*4.2%*
Japan	332			332				**332**	*2.5%*
United States of America	60	50	40	149				**149**	*1.1%*
Hong Kong	90			90				**90**	*0.7%*
South Korea	23	34		57				**57**	*0.4%*
Australia	38	13	0	51				**51**	*0.4%*
Singapore	35			35				**35**	*0.3%*
Austria					25		25	**25**	*0.2%*
New Zealand		16		16				**16**	*0.1%*
Supra	**20**	**2**		**22**				**22**	***0.2%***
Supranational	20	2		22				**22**	*0.2%*
TOTAL	**2 422**	**1 003**	**150**	**3 575**	**8 391**	**1 456**	**9 846**	**13 421**	***100.0%***
	18.0%	*7.5%*	*1.1%*	***26.6%***	*62.5%*	*10.8%*	***73.4%***	***100%***	

2.2 Regulatory Leverage Ratio

The **Leverage Ratio** is defined by Basel/EU regulations. It compares regulatory capital (paid-in, reserves, and net profit of the year) to balance-sheet exposure and off-balance-sheet loan financing commitments. The Leverage Ratio is an indicator that limits excessive volume activity. It complements the Capital Adequacy Ratio, but without weighting exposures according to the type and rating of the counterparty. The CEB's Risk Appetite Framework floor for this ratio is 7% to ensure first-rank financial fundamentals.

At end of December 2024, the leverage ratio was 10.4% (9.7% at year-end 2023).

Figure 13: **Annual evolution in Leverage Ratio**

Figures in M€	**2024**	**2023**
Leverage Ratio = A/B	**10.4%**	**9.7%**
A - Prudential Equity	**4 128**	**3 519**
L&D	**26 219**	**24 786**
Loans *(before swap)*	22 915	21 530
Commitments *(50% of gross amount)*	3 304	3 256
FIN	**13 512**	**11 469**
Securities	5 706	4 773
Nostro & Money Market	7 403	6 365
FX & Derivatives	403	331
B - Total Exposures	**39 731**	**36 255**

2.3 Gearing Ratio

The **Gearing Ratio** is not a regulatory ratio but a benchmark used by MDBs. It compares the loan exposure to own funds[2] and thus establishes a volume ceiling to the Bank's loan activity. This ratio primarily provides a benchmark with other MDBs.

The historical ceiling limit of the Risk Appetite Framework is 2.5. In April 2023, the Administrative Council approved a temporary increase of the Gearing Ratio to 2.6 until June 2024 or the effectiveness of the capital increase, whichever occurs first. The latter finally took effect in February 2024.

Following the entry into force of the capital increase in February 2024, the ratio declined to 1.81 at end-December 2024, after reaching 2.54 at the end of 2023.

Figure 14: Annual evolution in Gearing Ratio

Figures in M€	2024	2023
Gearing Ratio = A/B	**1.81**	**2.54**
Loan outstanding (after swap)	22 894	21 527
Guarantees given	0	0
A - Total Loans & Guarantees	**22 894**	**21 527**
B - Own Funds	**12 622**	**8 474**

2.4 Capital Adequacy under 'Internal Ratings-Based' approach

For monitoring purposes and to enable comparison with peers, the CEB calculates a Capital Adequacy Ratio using the 'Internal Rating-Based' (IRB) approach. This approach better reflects the underlying risks of each counterparty, as the risk weights assigned to exposures are based on the risk characteristics of the counterparties such as the probability of default. This approach also draws on the CEB's internal credit risk assessment, as it is based on the CEB's internal ratings. As of the end of December 2024, CEB's Capital Adequacy Ratio based on the "Internal Rating-Based Foundation" (IRBF) approach was 30.2%.

Figure 15: **Capital Adequacy Ratio under the 'Internal Ratings-Based Foundation' approach**

Figures in M€	2024
Capital Adequacy Ratio = A/B	**30.2%**
A - Prudential Equity	**4 128**
Credit RWAs on lending activity	10 447
Credit RWAs on treasury activity	2 590
Other RWA	655
B – Total RWAs	**13 691**

2.5 Economic capital

As part of its ICAAP, the CEB estimates capital requirements for credit and market risk using an economic capital approach. This approach ensures that the CEB's available capital is sufficient to cover all significant risks, including those not adequately captured by the regulatory Pillar I such as credit concentration risk, market risk in the banking book, and pension risk.

The CEB has developed an economic capital model for credit risk and for market risk in the banking book and pension risk. Both models estimate potential losses for a given probability of occurrence and time horizon. They are calibrated to preserve CEB's AAA rating.

2.6 Capital planning and capital stress testing

As part of its ICAAP, the CEB conducts a capital planning exercice to ensure business continuity over the Strategic Framework period even in adverse situations. This exercise consists in projecting the CEB's capital adequacy based on the asumptions of the Strategic Framwork under different macroeconomic scenarios. It also includes stress tests to measure the potential impact of a series of crisis scenarios. This projection aims to ensure that the CEB will be able to maintain its CAR within the comfort zone during the period of the Strategic Framework.

[2] CEB's own funds: subscribed capital, reserves and net profit.

3. CREDIT RISK

3.1 Credit Risk identification and assessment

Credit risk is defined as the potential loss arising from a bank borrower or counterparty failing to meet their obligations in accordance with agreed terms. The Bank is exposed to credit risk in both its lending and treasury activities, as borrowers and treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become impaired. Credit risk may also materialise in the form of a rating downgrade that may negatively affect the Bank's capital or provisioning against credit losses. Credit risk also covers settlement and pre-settlement risk. Similarly, the collateral risk is considered as part of credit risk (collateral is essentially a credit risk mitigation technique). Overall, credit risk is a function of the amount of credit exposure and the credit quality of the borrower or transaction.

Credit risk management identifies all potential sources of credit risk inherent in all products and activities arising from the Bank's lending and treasury activities across its balance sheet and off-balance sheet operations. The Bank ensures that the risk of new products and activities is subject to adequate risk management procedures and controls before being introduced or undertaken. Credit risk may materialise in the form of rating downgrades, (cross-) default on payment obligations or during the transaction settlement process.

3.2 Internal ratings

Internal credit ratings are the result of the Bank's independent internal credit risk assessment. They are an opinion on the ability and willingness of a borrower to pay its obligations in full and in a timely manner. They are generally based on a qualitative and quantitative assessment of risk factors and potential scenarios that may ultimately lead to a default situation. Internal credit ratings are assigned to all counterparties at the Finance Directorate (FIN) and at the Loans & Social Development Directorate (L&D). The Bank may use external ratings for specific transactions, products or counterparties while ensuring a sound understanding of the underlying risk incurred. The defined limits for monitoring credit risk arising from lending and treasury operations are regularly reviewed. The internal rating methodologies are regularly reviewed and calibrated. Internal ratings are mapped to the rating scale of international credit rating agencies, and each internal rating thus corresponds to a rating on the scale, as described in Figure 16:

Figure 16: **Internal rating classification**

		Long Term		Short Term	
	Internal rating	Moody's	S&P / Fitch	Moody's	S&P / Fitch
Investment Grade (I.G.)	**10**	Aaa	AAA	P-1	A-1+
	9.5	Aa1	AA+	P-1	A-1+
	9	Aa2	AA	P-1	A-1+
	8.5	Aa3	AA-	P-1	A-1+
	8	A1	A+	P-1	A-1
	7.5	A2	A	P-1	A-1
	7	A3	A-	P-1/P-2	A-2
	6.5	Baa1	BBB+	P-2	A-2
	6	Baa2	BBB	P-2/P-3	A-3
	5.5	Baa3	BBB-	P-3	A-3
Non-Investment Grade (Non-I.G.)	**5**	Ba1	BB+	N-P	B
	4.5	Ba2	BB	N-P	B
	4	Ba3	BB-	N-P	B
	3.5	B1	B+	N-P	B
	3	B2	B	N-P	B
	2.5	B3	B-	N-P	B
	2	Caa1	CCC+	N-P	C
	1.5	Caa2	CCC	N-P	C
	1	Caa3	CCC-	N-P	C
	0.5	Ca	CC	N-P	C
	0.25	C	C	N-P	C
Default	**0**	D	D	D	C

The Bank uses the standardised method to calculate its RWA. The Bank also calculates RWA using the "internal ratings- based" (IRB) foundation approach for internal benchmarking purposes. The IRB foundation approach allows internal ratings be used for assigning the risk weight, whereas the standardised method imposes external ratings for risk weights.

To ensure consistency and quality of ratings, internal ratings are scored with rating models each adapted to the type of borrower (sovereigns, banks, local and regional governments and others) and subject to a specific governance framework. The rating methodologies follow the generally accepted principles for through-the-cycle ratings whereby the rating is a function of both a qualitative and a quantitative assessment.

The risk model is based on a qualitative and quantitative risk assessment of risk factors typically considered as driving the creditworthiness of the counterparty. The risk assessment is the result of analysis of the counterparty's financial and economic information, governance and management structure.

Currently, the CEB uses internal rating models for the following instrument/counterparty categories:

- Sovereigns
- Local and regional governments
- Financial institutions
- Corporates
- Government-related entities (GREs)
- Covered bonds

All internal rating models at the CEB follow an expert system approach, meaning the ratings are primarily based on scorecards, which rely on quantitative factors and an analyst's opinion for qualitative factors, but also allow adjustments to the rating based on judgmental factors to an explicitly limited degree.

The internal rating model for **sovereign counterparties** evaluates the economic, institutional and fiscal strength as well as the external position of the sovereign in order to assess the risk profile of each of the four risk components. The risk profiles of the four risk components are then used by the model to perform three intermediate horizontal calculations in order to arrive at a final score and assign a sovereign credit rating. The resulting score for each calculation step falls within a bucket (three-notch range) and the actual score is subject to the expert judgement of the model user.

The rating methodology for **local and regional governments (LRGs)** evaluates 11 intrinsic risk factors that are deemed relevant for assessing the intrinsic creditworthiness of the LRG. The relevant risk factors included in the model are scored on either a quantitative or a qualitative basis and relate to the economic fundamentals, institutional framework, governance and management, budgetary performance and indebtedness of a given local or regional government. The resulting rating is scaled to the sovereign rating and, finally, extraordinary support from the central government, if any, is factored in, and any necessary analyst overrides are applied.

The internal rating model for **corporate counterparties** assesses business risk and financial risk factors (including industry risks, company specifics, corporate governance, capital structure and debt service capacity) on a quantitative and qualitative basis by taking into account sector and country specific factors to determine an initial rating. Expert adjustments are made by considering each legal entity's shareholder or government support.

Most **financial institution counterparties** are rated by external credit rating agencies. Nevertheless, an internal rating will be derived for all such counterparties. The internal rating process is very similar to that for corporates, although the rating criteria used differ and, on the one hand, measure qualitative criteria such as management experience and the effectiveness of internal controls, the robustness of information systems, the quality of bank supervision, the bank's franchise and diversification, systemic importance, and potential shareholder or state support while, on the other hand, financial criteria are assessed to evaluate the institution's financial soundness (asset quality, profitability, capitalisation and liquidity and funding based on nine financial ratios). The final rating allows for judgemental overrides.

A **government-related entity ('GRE')** is an entity with full or partial government ownership or control, a special charter, or a public policy mandate from the national, regional or local government. There are two approaches for rating GREs, the bottom-up approach and the top-down approach. Under the bottom-up approach, the borrower's 'standalone' rating is first computed, and then a rating uplift is added to account for the probability of extraordinary

government support. Under the top-down approach, the borrower's rating is derived directly from the supporting government rating, by notching down to account for different factors indicating the strength of the linkages between the two entities.

The **covered bond** rating model uses a notching-up approach. The starting point is the internal rating of the issuer, which can be notched up based on several steps and assessments. The overall possible uplift is a maximum 6 notches. It considers factors such as each jurisdiction's resolution framework, probability of government support in the jurisdiction, legal aspects of over-collateralisation, presence of a secondary market for the assets of the cover pool.

3.3 Credit Risk Mitigation

The CEB actively uses credit risk mitigation (CRM) techniques to monitor and mitigate credit risk during the life of its transactions. CRM techniques can take the form of a guarantee, collateral, or contractual safeguards (contractual covenants).

CRM techniques for new transactions are proposed by the CRU and are subject to the approval of the Credit Risk Committee (CRC). Credit risk mitigation techniques for existing transactions are presented to the CRC at the annual counterparty review.

The credit risk of a new project is assessed during the appraisal process and requires approval from the relevant internal committees. All projects are submitted to the Administrative Council for approval, which in turn establishes an overall framework for financial operations through the Bank's Financial and Risk Policy. Within this framework, treasury transactions are assessed by the CRU and submitted to the CRC for approval.

Finally, large exposure and concentration limits are also defined and reported to the CRC.

3.4 Credit Risk Exposure overview

Exposure breakdown by product, counterparty type and country

Throughout the report, data sorted by rating category is presented using the second best rating or, when an entity is not rated by international credit rating agencies, using the internal rating. Exposure after CRM is presented unless specified otherwise.

The figure below presents the Bank's total credit risk exposure. It displays exposure both at L&D (loans and financing commitments) and FIN (deposits, securities and derivatives) levels as at 31 December 2024 and 31 December 2023.

Figure 17: **Overall exposure by product and rating category[3] (after CRM)**

	2024				2023			
In M€	AAA/AA	A/BBB	Non-IG	Total	AAA/AA	A/BBB	Non-IG	Total
Loans	4 897	15 020	2 998	22 915	4 433	14 310	2 787	**21 530**
Financing commitments	1 357	3 880	1 371	6 609	1 012	4 077	1 423	**6 513**
Nostro & Money Market	2 158	5 245	0	7 403	2 701	3 664		**6 365**
Securities	4 275	1 430		5 705	4 040	731		**4 771**
Swap & FX Forward	169	235		403	181	151		**331**
Total	**12 855**	**25 811**	**4 369**	**43 034**	**12 367**	**22 933**	**4 210**	**39 510**

- *Rating as recommended by the Basel Committee (second best rating) or, when not rated by international rating agencies, internal rating.*
- *Loans and financing commitments are reported after CRM.*
- *Loans, deposits and securities are reported at nominal value and excluding accrued interest.*

Figure 18 presents the Bank's credit risk exposure split by activity (loans and treasury) and per counterparty type (sector) at year-end 2024 and 2023. Note that "Sovereign" includes Public Sector Agencies and national promotional banks, i.e. financial institutions set up and sponsored by a central government. "Sub-sovereign" class includes regional governments, local authorities and regional promotional financial institutions.

[3] The rating of a loan is the second-best out of the three major Credit Rating Agencies (CRAs) Fitch, Moody's and Standard & Poor's, or the internal rating if unrated by the CRAs.

Figure 18: **Credit risk exposure by activity and type of counterparty**

	2024			2023		
In M€	**Loan**	**Finance**	**Total**	**Loan**	**Finance**	**Total**
Sovereign	15 647	3 152	**18 799**	15 070	3 756	**18 826**
Sub-sovereign	8 574	903	**9 476**	7 846	511	**8 357**
Banks	3 617	9 180	**12 798**	3 786	6 951	**10 737**
Other	1 685	275	**1 960**	1 339	250	**1 589**
Total	**29 523**	**13 510**	**43 034**	**28 042**	**11 467**	**39 510**

Figure 19 below presents the Bank's overall credit risk exposure (all products) as at 31 December 2024 per counterparty type and per country.

Figure 19: **Geographical distribution of credit risk exposures (in M€)**

Country	Sovereign	Sub-sovereign	Banks	Other	Total
Member countries	**17 176**	**9 158**	**8 285**	**1 960**	**36 581**
France	1 613	1 191	1 805	734	**5 342**
Germany	248	1 592	950	738	**3 528**
Spain	403	1 992	1 101		**3 495**
Poland	1 167	395	708	5	**2 274**
Italy	1 451	186	359	239	**2 236**
Türkiye	1 914				**1 914**
Slovak Republic	1 237	172	199	80	**1 689**
Netherlands	656		963		**1 619**
Belgium	96	1 520			**1 615**
Serbia	1 267				**1 267**
Switzerland			1 226		**1 226**
Sweden		642	487	22	**1 152**
Lithuania	702	240	35	29	**1 004**
Finland	84	834	50	1	**969**
Romania	684	148			**832**
Hungary	751				**751**
Croatia	691				**691**
Czech Republic	504		111	59	**673**
Portugal	585	14		0	**599**
Ireland	537	34		0	**570**
Cyprus	351	0			**351**
Greece	350				**350**
Bulgaria	346				**346**
Denmark		52	250		**302**
Estonia	200	20		25	**245**
Slovenia	212		8		**220**
Moldova (Republic of)	212				**212**
Ukraine	200				**200**
Iceland		127		30	**157**
North Macedonia	153				**153**
Luxembourg	132				**132**
Albania	106				**106**
Bosnia and Herzegovina	91				**91**
Montenegro	90				**90**
Kosovo	70				**70**
Latvia	40				**40**
Malta			29		**29**
Georgia	14				**14**
Andorra	13				**13**
San Marino	8				**8**
Norway			5		**5**
Non-Member Countries	**265**	**318**	**4 512**		**5 095**
Canada		236	1 256		**1 492**

Country	Sovereign	Sub-sovereign	Banks	Other	Total
Great Britain			1 228		**1 228**
Japan			682		**682**
Hong Kong			451		**451**
United States of America			368		**368**
Australia	1		257		**258**
South Korea	171		45		**216**
Singapore			175		**175**
Austria	93		51		**144**
New Zealand		82			**82**
Supranational	**1 358**				**1 358**
Total	**18 799**	**9 476**	**12 798**	**1 960**	**43 034**

3.5 Loan portfolio

3.5.1 Credit risk profile of loan portfolio

At year-end 2024, loans outstanding reached **€22.9 billion**, increasing by **6.4%** compared to year-end 2023.

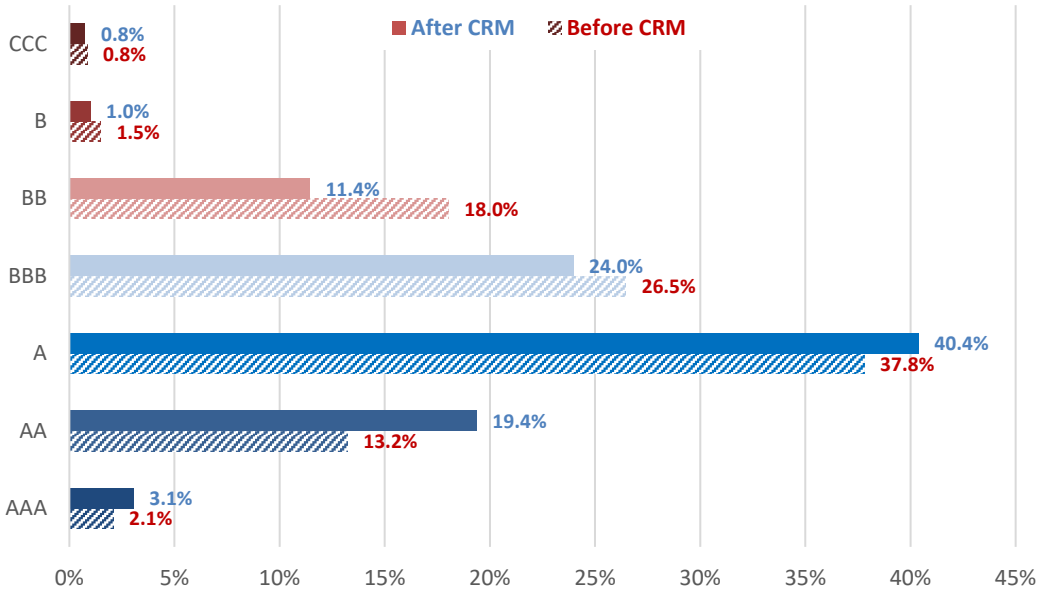
The **credit quality** of the loan portfolio remains **robust**, with exposures **Investment Grade**[4] of **79.6% before CRM** and **86.8% after CRM** (78.6% and 87.1% respectively at year-end 2023).

Figure 20: **Credit risk profile of loan portfolio after credit enhancement**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**17 427**	**18 916**	**19 887**	**21 530**	**22 915**	***6.4%***
Investment Grade	15 104	16 295	17 175	18 743	19 889	*6.1%*
AAA/AA	*3 109*	*3 760*	*4 357*	*4 433*	*5 140*	*16.0%*
A/BBB	*11 995*	*12 535*	*12 818*	*14 310*	*14 749*	*3.1%*
Non-I.G.	2 323	2 621	2 712	2 787	3 026	*8.6%*
% I.G.	*86.7%*	*86.1%*	*86.4%*	*87.1%*	***86.8%***	
% Non-IG	*13.3%*	*13.9%*	*13.6%*	*12.9%*	*13.2%*	

Figure 21 below shows the detailed breakdown of the loan portfolio by rating, with the **A/BBB class** representing **64.3% before CRM** and **64.4% after CRM**.

Figure 21: **Credit risk profile of loan portfolio by rating**



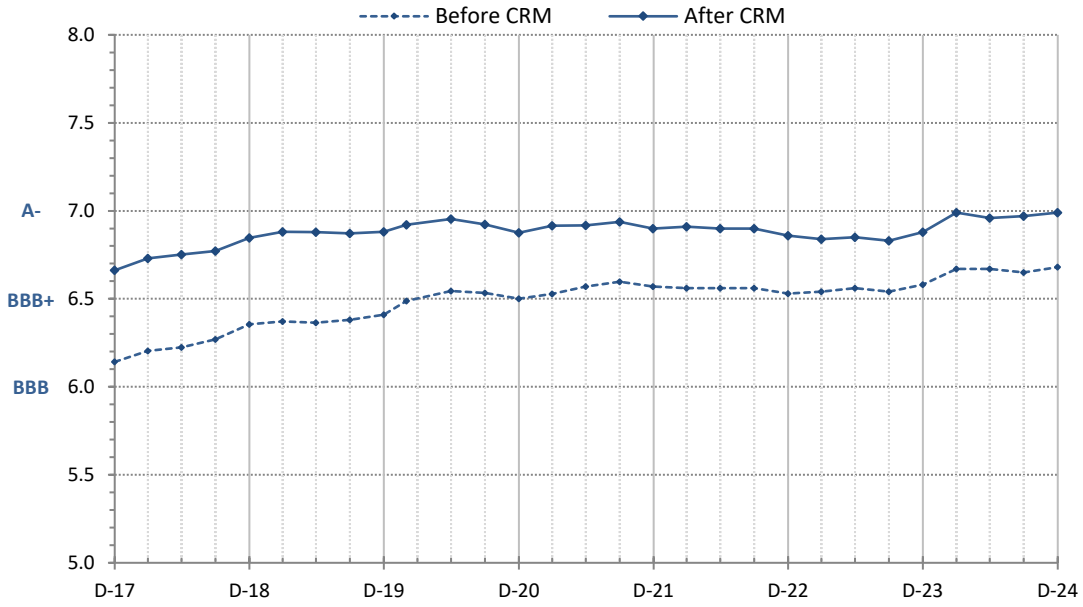
[4] At least BBB- (S&P) or Baa3 (Moody's) ratings. See rating scale in the Appendix.

It is worth recalling that the credit quality of the loan portfolio may be subject to sudden changes in the event of counterparties with sizeable exposure being downgraded or upgraded. The Bank manages such concentrations by defining guidelines to monitor them at different levels: counterparties, groups of counterparties, country/geographic distribution and portfolios of activity (loans and treasury). Consequently, **€1.1 billion** of outstanding loans was rated **BBB-** after CRM (5.5 on the internal rating scale), potentially impacting the capital adequacy ratio if downgraded to "Non-Investment Grade". However, there is reasonable diversification with **14 counterparties** rated **BBB-** (after CRM) representing a limited **share of the portfolio of 4.8%.**

The weighted **average rating of the loan portfolio** was at the **6.68 before CRM** (above BBB+ in S&P equivalent) and **6.99 after CRM** (nearly A-) at the end of 2024, compared to respectively 6.58 and 6.88 at year-end 2023.

Figure 22 below presents the evolution of this **loan portfolio's average ratings** and the historical impact of credit risk mitigation.

Figure 22: **Average rating development of the loan portfolio**



The loan portfolio breakdown by **counterparty type** in Figure 23 below reflects the **predominance** of "**Public Sector**[5]"-related exposures: at the end of December 2024, **75.9% before CRM** and **82.1% after CRM**.

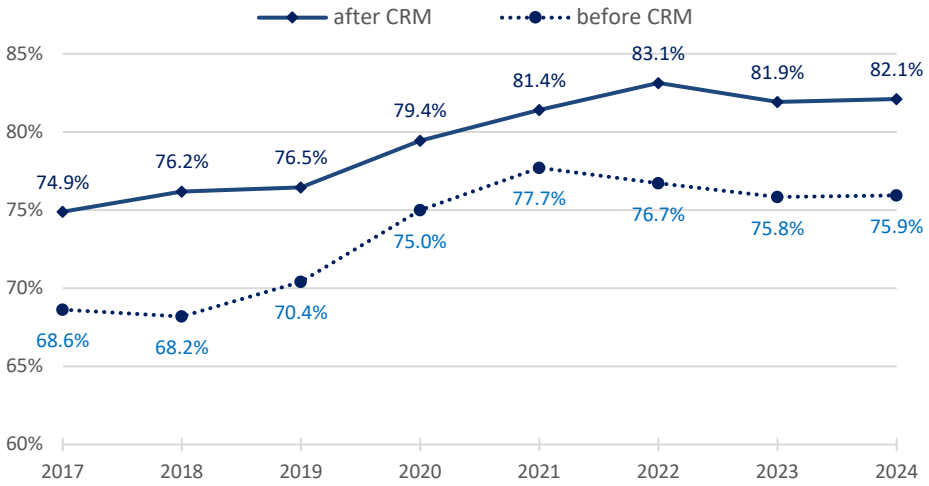
Figure 23: **Credit risk exposure of the loan portfolio by type of counterparty (after CRM)**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**17 427**	**18 916**	**19 887**	**21 530**	**22 915**	***6.4%***
Sovereign	9 107	9 956	10 623	11 090	11 896	*7.3%*
Sub Sovereign	4 738	5 443	5 911	6 546	6 920	*5.7%*
Banks	3 268	3 190	2 834	3 178	3 153	*-0.8%*
Other	313	327	519	715	946	*32.3%*
% Public Sector	*79.4%*	*81.4%*	*83.1%*	*81.9%*	***82.1%***	

Figure 24 presents the evolution of the loan portfolio's **"Public Sector" share** and the historical impact of credit risk mitigation.

[5] Defined here as Sovereigns, Regional and Local Authorities, Public Agencies and Promotional Financial Institutions.

Figure 24: **Average rating development of the loan portfolio**



3.5.2 Credit enhancement

Figures 22 and 24 above have already illustrated the **important role of credit risk mitigation** in defining the risk profile of the loan portfolio and thus in improving its credit quality.

At the end of December 2024, the CEB benefited from **€6.9 billion in guarantees** and **€78 million in collateral** consisting of bonds pledged (the two types of credit risk enhancements used by the Bank to mitigate risk in its loan activities), **covering 30.7%** of the loan portfolio.

In particular, the Bank manages a portfolio of loans partially covered by the **European Commission InvestEU guarantee**. At the end of December 2024, the CEB's InvestEU portfolio amounted to €401.4 million[6], and the guarantee covered by the European Commission amounted to **€127.8 million**. The InvestEU portfolio is set to grow to €500 million loans, with a guarantee of €159 million.

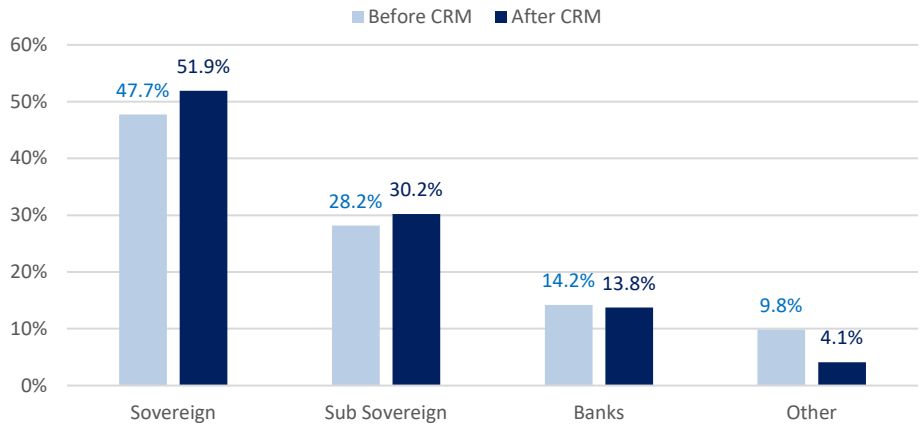
- **Impact on rating** (Figure 25 below): at the end of December 2024, **7.2% of the portfolio shifted** from Non-I.G. to the Investment Grade category when applying credit risk mitigation techniques.

Figure 25: **Loan portfolio before versus after CRM by rating**

M€	*Before CRM*	*%*	*After CRM*	*%*	*Change*
TOTAL	**22 915**		**22 915**		
Investment Grade	**18 244**	***79.6%***	**19 889**	***86.8%***	***7.2%***
AAA/AA	3 514	*15.3%*	5 140	*22.4%*	*7.1%*
A/BBB	14 730	*64.3%*	14 749	*64.4%*	*0.1%*
Non - Investment Grade	**4 671**	***20.4%***	**3 026**	***13.2%***	***-7.2%***

- **Impact on counterparty type** (Figure 26 below): the total share of exposure to sovereign and sub-sovereign counterparties (including public financial and supranational institutions) increases from 75.9% to 82.1%.

Figure 26: **Loan portfolio before versus after CRM by type of counterparty**



[6] This amount is the outstanding loan approved and for which a Framework Loan Agreement has been signed with the counterparty.

3.5.3 *Loan portfolio breakdown by country and by rating class*

The loan portfolio breakdown by country and by rating class of counterparty is described below in Figure 27.

Figure 27: **Credit risk exposure of the loan portfolio by country and rating class (after CRM)**

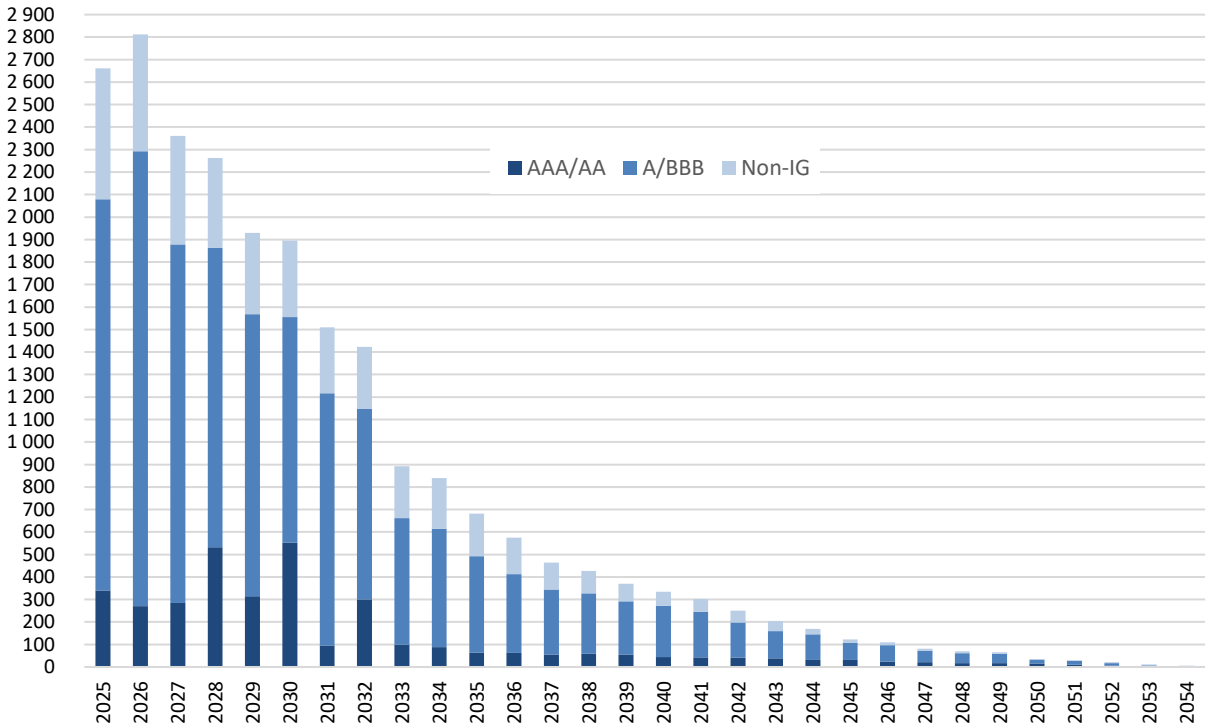
2024 – After CRM - *M€*	AAA/AA	A/BBB	Non-IG	Total	%
Member countries					
Spain		2 497	38	**2 534**	*11.1%*
France	823	1 396	35	**2 254**	*9.8%*
Poland		2 043	1	**2 044**	*8.9%*
Italy		1 774		**1 774**	*7.7%*
Germany	1 169	490		**1 659**	*6.3%*
Türkiye			1 436	**1 436**	*7.2%*
Slovak Republic		1 156		**1 156**	*5.0%*
Netherlands	890	98	5	**993**	*4.3%*
Belgium	180	783		**962**	*4.2%*
Lithuania		897	35	**931**	*4.1%*
Serbia			768	**768**	*3.3%*
Finland	487	248	1	**735**	*3.2%*
Hungary		726		**726**	*3.2%*
Croatia		691		**691**	*3.0%*
Sweden	520	22		**542**	*2.4%*
Ireland	480	13		**494**	*2.2%*
Czech Republic	379	55		**434**	*1.9%*
Romania		299	120	**420**	*1.8%*
Cyprus		283		**283**	*1.2%*
Portugal		246		**246**	*1.1%*
Bulgaria		224		**224**	*0.9%*
Estonia		220		**220**	*1.0%*
Greece		218		**218**	*0.9%*
Slovenia		195		**195**	*1.0%*
Ukraine			116	**116**	*0.5%*
Albania			106	**106**	*0.4%*
Bosnia and Herzegovina			83	**83**	*0.4%*
Montenegro			81	**81**	*0.3%*
North Macedonia			78	**78**	*0.5%*
Iceland		65		**65**	*0.3%*
Moldova (Republic of)			58	**58**	*0.3%*
Kosovo			45	**45**	*0.2%*
Malta		29		**29**	*0.1%*
Latvia		18		**18**	*0.1%*
Georgia			14	**14**	*0.1%*
Andorra		13		**13**	*0.1%*
San Marino			8	**8**	*0.0%*
Luxembourg					
Sub-Total I	**4 929**	**14 698**	**3 026**	**22 652**	
Non-member countries					
Supranational	212			212	*0.9%*
Austria		51		51	*0.2%*
Sub-Total II	**212**	**51**		**263**	
Total	**5 140**	**14 749**	**3 026**	**22 915**	*100.0%*
	22.4%	*64.4%*	*13.2%*	*100.0%*	

3.5.4 *Loan portfolio scheduled reimbursements*

To assess the future development of the loan portfolio, the credit risk profile of scheduled reimbursements is compared with potential inflows arising from new loans. The current stock of projects is used as a proxy for new loans.

The residual **average life** of the loan porfolio is **6.2 years** at year-end 2024.

Figure 28: **Loan portfolio reimbursements by rating (in M€)**



3.6 Stock of projects

3.6.1 Credit risk of the overall stock

- **Overall stock**

The stock of projects encompasses all projects approved by the Administrative Council awaiting financing.

At end of December 2024, the stock of projects amounted to **€9.2 billion**, down **-0.3%** compared to year-end 2023.

- The Investment Grade category down -1.6% before CRM (-€104 million) and up +0.4% after CRM (+€31 million);
- The Non-I.G. category increased by +2.6% before CRM (+€74 million), and down -2.6% after CRM (-€60 million).

Figure 29: **Credit risk profile of the stock of projects (after CRM)**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**9 514**	**8 915**	**9 093**	**9 251**	**9 221**	***-0.3%***
Investment Grade	7 320	7 277	7 323	6 959	6 989	*0.4%*
AAA/AA	1 611	1 453	1 382	1 342	1 127	*-16.0%*
A/BBB	5 709	5 824	5 941	5 616	5 862	*4.4%*
Non-I.G.	2 194	1 638	1 770	2 292	2 232	*-2.6%*
% Investment Grade	*76.9%*	*81.6%*	*80.5%*	*75.2%*	***75.8%***	
% Committed	*88.8%*	*70.8%*	*71.8%*	*70.4%*	***71.7%***	

3.6.2 Credit risk of the financing commitments

Financing commitments are projects still awaiting financing, and for which a framework loan agreement has been signed.

At the end of 2024, the financing commitments reached **€6.6 billion** (**71.7%** of the total stock of projects), increasing by **+1.5%** compared to year-end 2023.

The credit quality of the financing commitments, with a weighted average rating of 6.64 (after CRM), is lower than that of the loan portfolio (6.99). The share of Investment Grade counterparties was at 79.3% (after CRM), compared to the 86.8% share of Investment Grade counterparties in the loan portfolio.

Figure 30: **Credit risk profile of the financing commitments (after CRM)**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**8 453**	**6 316**	**6 532**	**6 513**	**6 609**	***1.5%***
Investment Grade	6 740	5 087	5 297	5 090	5 237	*2.9%*
AAA/AA	1 411	1 403	952	1 012	1 127	*11.3%*
A/BBB	5 329	3 684	4 345	4 077	4 110	*0.8%*
Non-I.G.	1 713	1 228	1 235	1 423	1 371	*-3.6%*
% Invest. Grade	*79.7%*	*80.5%*	*81.1%*	*78.1%*	***79.3%***	

Figure 31 below presents the geographical breakdown before CRM, and by rating class.

Figure 31: **Financing commitments by country and by rating class (before CRM)**

2024 - *M€*	AAA/AA	A/BBB	Non-IG	Total	%
France	420.0	190.0	53.2	663.2	*10.0%*
Belgium		550.0	15.0	565.0	*8.5%*
Germany	190.0	310.0	60.7	560.7	*8.5%*
Slovak Republic		533.0		533.0	*8.1%*
Serbia			499.0	499.0	*7.6%*
Romania		385.0	98.3	483.3	*7.3%*
Türkiye			478.0	478.0	*7.2%*
Italy		370.7	16.0	386.7	*5.9%*
Poland		230.3	138.3	368.6	*5.6%*
Portugal		150.0	202.7	352.7	*5.3%*
Spain		257.2	61.2	318.4	*4.8%*
Czech Republic	120.6	118.7		239.3	*3.6%*
Moldova (Republic of)			153.8	153.8	*2.3%*
Greece		132.5		132.5	*2.0%*
Bulgaria		122.5	2.5	125.0	*1.9%*
Iceland		92.0		92.0	*1.4%*
Ukraine			84.2	84.2	*1.3%*
Ireland		71.6	12.0	83.6	*1.3%*
Sweden	80.0			80.0	*1.2%*
North Macedonia			76.6	76.6	*1.2%*
Lithuania		67.5	5.5	73.0	*1.1%*
Cyprus		20.0	48.0	68.0	*1.0%*
Finland		50.0		50.0	*0.8%*
Hungary		25.0		25.0	*0.4%*
Estonia		25.0		25.0	*0.4%*
Slovenia		25.0		25.0	*0.4%*
Kosovo			25.0	25.0	*0.4%*
Latvia		22.0		22.0	*0.3%*
Bosnia and Herzegovina			11.0	11.0	*0.2%*
Montenegro			8.5	8.5	*0.1%*
Luxembourg			0.4	0.4	*0.0%*
Total	**810.6**	**3 748.1**	**2 049.8**	**6 608.5**	***100.0%***
	12.3%	*56.7%*	*31.0%*	*100.0%*	

3.7 Social Impact Account guarantee window

The Social Impact Account (SIA) guarantee is an internal credit risk mitigation mechanism that secures a pool of CEB loan exposures with part of the funds deposited on the CEB's SIA.

New loans can be added to the SIA guarantee scheme as long as the anticipated credit losses on the pool of SIA-guaranteed loans (within a one-year time horizon and at a 99% confidence level) do not exceed the SIA guarantee endowment. If the anticipated credit losses exceed 80% of the SIA guarantee endowment, new loan additions will be restricted.

Figure 32: **SIA guarantees by country (in M€)**

Country	2024	2023
Existing Loans	**29.6**	**22.9**
Bosnia and Herzegovina	8.9	8.6
Serbia	6.0	-
Lithuania	5.8	6.0
Italy	2.9	3.0
Luxembourg	2.6	1.1
North Macedonia	1.5	0.5
Greece	0.7	1.3
Romania	0.7	1.2
Ireland	0.3	0.3
Georgia	0.2	0.8
Spain	0.1	-
Bulgaria	0.0	-
Committed loans	**8.5**	**3.1**
Spain	2.5	1.0
Bosnia and Herzegovina	2.5	-
Belgium	0.8	-
Italy	0.8	-
North Macedonia	0.7	-
Ireland	0.6	-
Luxembourg	0.4	1.9
Romania	0.3	0.3
Bulgaria	0.1	-
Uncommitted loans	**6.0**	**2.0**
Bosnia and Herzegovina	3.0	-
Ukraine	3.0	-
North Macedonia	-	2.0
TOTAL	**44.2**	**28.0**

As of end of December 2024:

- the total endowment of the SIA was €37.0 million;
- the current amount of loans outstanding was €29.6 million;
- the stock of projects committed awaiting disbursement was €8.5 million;
- the stock of projects uncommitted was €6.0 million;
- the pipeline of projects approved under SIA guarantee is € 59.0 million.

The expected shortfall (ES), with a 99% confidence level and a one-year time horizon, reached €9.5 million at the end of 2024. The ES level is well below the threshold of 80% of the endowment, i.e. €29.6 million.

The risk borne under the SIA guarantee window is monitored on a regular basis and reported to the CRC.

3.8 Finance portfolio

3.8.1 Global overview of credit risk

Credit risk exposure in Finance operations arises from positions in **securities**, **deposits** either with commercial banks via the interbank market or with central banks (**nostro**), and positions in **hedging derivatives**.

The Treasury and ALM Division (TALM) manages the treasury activity of the Bank through portfolios as follow:

- The **Treasury Monetary portfolio** (TM) of short-term **interbank deposits and nostro**;
- Three **Securities portfolios**, namely the Amortised Cost Portfolio (ACP), the Fair-value through Equity (FVOCI) portfolio and the Short-Term Liquidity (STL) portfolio.

At the end of December 2024, the credit risk arising from **finance operations** amounted to **€13.5 billion, increasing by 17.8%** compared to €11.5 billion at year-end 2023.

Figure 33: **Credit risk profile of Finance operations**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**8 733**	**9 524**	**10 139**	**11 467**	**13 510**	***17.8%***
AAA	1 203	991	1 254	1 493	1 839	*23.2%*
AA	3 697	4 425	4 163	5 429	4 701	*-13.4%*
A	3 372	3 389	4 572	4 545	6 971	*53.4%*
BBB	460	721	150			
% AAA/AA	*56.1%*	*56.9%*	*53.4%*	*60.4%*	*48.4%*	
% A/BBB	*43.9%*	*43.1%*	*46.6%*	*39.6%*	*51.6%*	

The overall credit quality in finance operations remained sound, with exposure to counterparties **rated AAA/AA representing 48.4% of the total**. This portion of the portfolio can be volatile in some years due to the scarcity of highly rated counterparties and the increase in lower-rated counterparties for short-term activity, namely deposits and short-term bonds. In contrast to long-term activity, which mainly involves investments in highly-rated sovereign or quasi-sovereign counterparties, shorter-term transactions, essentially liquidity management and hedging via derivatives, are carried out through lower-rated banks.

At end of 2024, **deposits** accounted for **54.8%** and **securities** for **42.2%** of the total exposure in finance operations**.**

Figure 34: **Finance operations by type of transaction**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**8 733**	**9 524**	**10 139**	**11 467**	**13 510**	***17.8%***
Deposits	2 629	4 146	5 352	6 365	7 403	*16.3%*
Securities	5 579	5 085	4 493	4 771	5 705	*19.6%*
Swaps & FX Forward[7]	516	294	294	331	403	*21.7%*

The Treasury and ALM Division (TALM) manages the treasury activity of the Bank through different portfolios: The Treasury Monetary portfolio (TM) of short-term deposits, and three Securities portfolios, namely the Amortised Cost Portfolio (ACP), the Fair-value through Equity (FVOCI) portfolio and the Short-Term Liquidity (STL) portfolio.

3.8.2 Credit risk profile of the deposit portfolios

The Treasury monetary portfolio (TM) consists of short-term placements: “Nostro” accounts, interbank deposits up to one year, cash received as collateral from derivative, and repo.

The portfolio’s objective is to manage day-to-day cash-flow in all different currencies. Counterparties must have a minimum internal rating defined in the CEB’s Risk Appetite Framework. Exposure development over time fluctuates with business activity, optimising return while maintaining an adequate credit risk profile.

At the end of 2024, the nominal value **of Money Market and “Nostro” deposits** was **€7.4 billion** (€6.8 billion in Money Market deposits and €614 million in “Nostro” accounts) compared to €6.4 billion at the end of 2023.

[7] SA-CCR methodology for Swaps and FX Forwards was implemented in October 2021 for the calculation of exposures.

Figure 35: **Money Market transactions by rating**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**1 562**	**2 094**	**4 195**	**5 328**	**6 789**	***27.4%***
AAA			50	159	446	*181.2%*
AA	80		623	1 921	1 091	*-43.2%*
A	1 482	2 044	3 522	3 248	5 252	*61.7%*
BBB		50				
% AAA/AA	*5%*		*16%*	*39%*	*23%*	
% A/BBB	*95%*	*100%*	*84%*	*61%*	*77%*	

Figure 36: **Nostro exposure by rating**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**1 067**	**2 052**	**1 157**	**1 037**	**614**	***-40.8%***
AAA	291	280	406	306	237	*-22.5%*
AA	521	1 457	335	315	186	*-41.1%*
A	254	315	416	416	191	*-54.0%*
BBB	2					
% AAA/AA	*76%*	*85%*	*64%*	*60%*	*69%*	
% A/BBB	*24%*	*15%*	*36%*	*40%*	*31%*	

3.8.3 Credit risk profile of the securities portfolios

The CEB manages three bond portfolios according to the initial holding intention and subsequent arbitrages, whose **total nominal value** at the end of December 2024 was **€5.7 billion**, increasing by **+19.6%** from year-end 2023.

Figure 37: **Securities breakdown by rating (all portfolios)**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**5 579**	**5 085**	**4 493**	**4 771**	**5 705**	***19.6%***
AAA	882	711	797	1 021	1 156	*13.2%*
AA	2 743	2 786	3 021	3 020	3 224	*6.8%*
A	1 499	919	525	731	1 325	*81.3%*
BBB	455	670	150			
% AAA	*15.8%*	*14.0%*	*17.7%*	*21.4%*	*20.3%*	
% AA	*49.2%*	*54.8%*	*67.2%*	*63.3%*	*56.5%*	
% A	*26.9%*	*18.1%*	*11.7%*	*15.3%*	*23.2%*	
% BBB	*8.2%*	*13.2%*	*3.3%*			

- **The Amortised Cost Portfolio (ACP)**, which includes investments with maturity up to 30 years, aims to:
  - establish a liquidity reserve of high-quality liquid assets as defined by Basel/EU regulation for LCR;
  - enhance profitability by collecting contractual cash flows (principal and interest) until maturity;
  - contribute to managing the Bank's interest rate risk position in line with the applicable ALM strategy.

  At the end of Q4 2024, the ACP reached **€2.3 billion** in nominal value (**+31.4%** compared to end of 2023), representing **41.0%** of total securities portfolio. Its credit quality is robust, with 100.0% in the AAA/AA category.

Figure 38: **Amortised Cost Portfolio by rating**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**1 703**	**1 499**	**1 550**	**1 781**	**2 341**	***31.4%***
AAA	615	514	652	890	1 036	*16.3%*
AA	998	945	857	851	1 305	*53.5%*
A	40	40	40	40		*-100.0%*
BBB	50					
% AAA/AA	*94.7%*	*97.3%*	*97.4%*	*97.8%*	*100.0%*	
% A/BBB	*5.3%*	*2.7%*	*2.6%*	*2.2%*		

- **The Fair Value through Equity (FVOCI) Portfolio** has objectives close to ACP, but with the difference of being able to generate capital gains by selling before maturity, hence its accounting differentiation.

  At the end of December 2024, its assets increased to **€2.0 billion** (**+10.8%** compared to year-end 2023), representing **35.7%** of total securities portfolio. Its credit quality is strong, with 100.0% of AAA/AA class assets.

Figure 39: **Fair Value through Equity Portfolio by rating**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**1 975**	**2 000**	**1 991**	**1 840**	**2 039**	***10.8%***
AAA	267	197	145	131	120	*-7.9%*
AA	1 595	1 730	1 846	1 615	1 918	*18.8%*
A	113	74		95		*-100.0%*
BBB						
% AAA/AA	*94.3%*	*96.3%*	*100.0%*	*94.8%*	*100.0%*	
% A/BBB	*5.7%*	*3.7%*		*5.2%*		

- The **Short-Term Liquidity Portfolio (STL)** includes short-term securities with a maturity up to 370 days. This portfolio is managed with the Treasury Monetary Portfolio, aiming to strengthen the short-term liquidity position and optimise its profitability.

  At the end of December 2024, the STL portfolio reached **€1.3 billion** (up **+15.2%** compared to year-end 2023), i.e. **23.2%** of total securities portfolio. The credit quality aligns with its short-term nature and liquidity management purposes (majority of rating A).

Figure 40: **Short-term portfolio by rating**

M€	2020	2021	2022	2023	2024	/ End 2023
TOTAL	**1 900**	**1 586**	**952**	**1 150**	**1 325**	***15.2%***
AAA						
AA	150	111	317	554		*-100.0%*
A	1 345	805	485	596	1 325	*122.4%*
BBB	405	670	150			
% AAA/AA	*7.9%*	*7.0%*	*33.3%*	*48.2%*		
% A/BBB	*92.1%*	*93.0%*	*66.7%*	*51.8%*	*100.0%*	

The charts below (figures 41 and 42) provide an illustrative comparison of the three securities portfolios according to rating and residual life, in line with their respective objectives and features in terms of credit risk level and maturity.

Figure 41: **Breakdown of ratings in each portfolio**

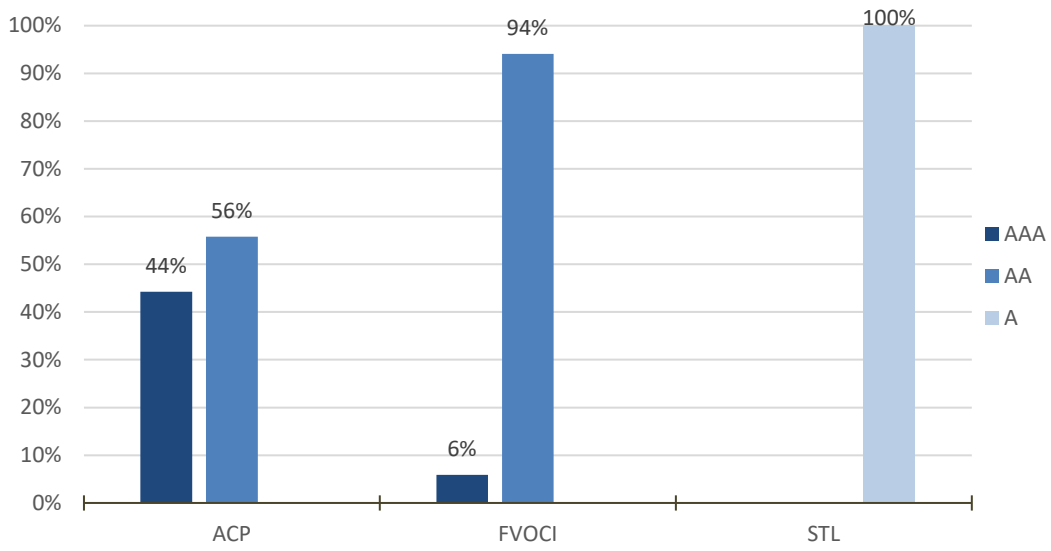
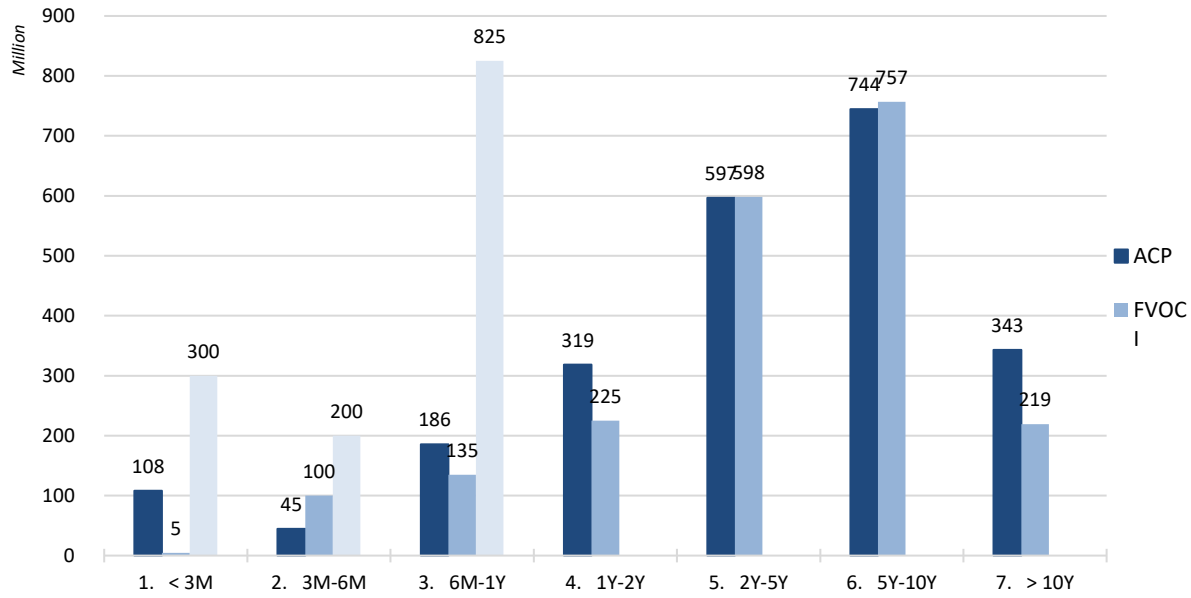


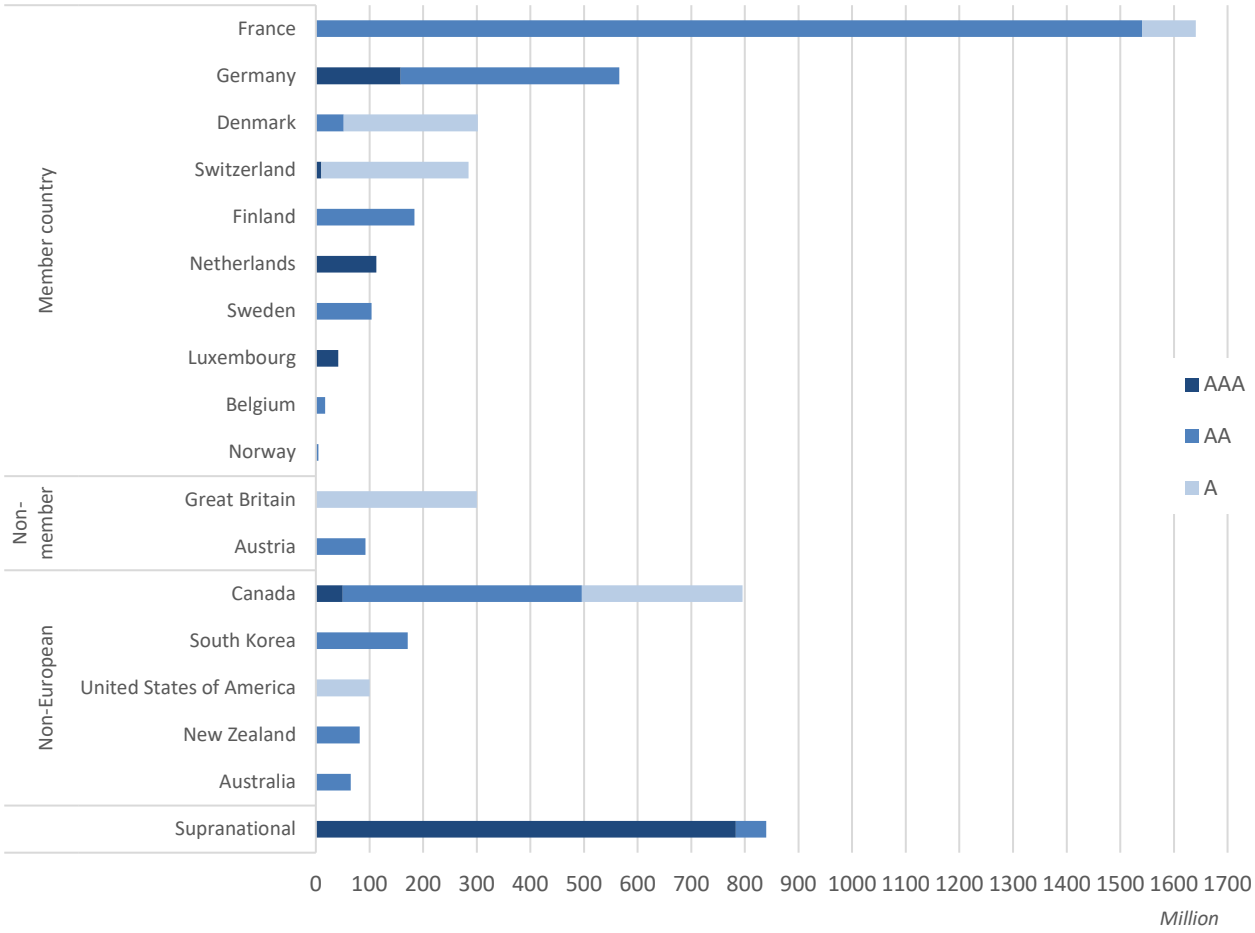
Figure 42: **Outstanding of securities portfolio by residual maturity**



	ACP	FVOCI	STL
Average life spans (in years)	5.7	5.6	0.6

Figure 43 below presents a breakdown of all securities portfolios by country and rating of issuer.

Figure 43: **Securities nominal by issuer country and by rating**



3.9 Concentration risk - Large exposures

Large Exposure is defined as the overall exposure (Loans, Securities, Deposits and Derivatives) to a single counterparty or a group of connected counterparties, exceeding the **threshold of 10% of prudential equity**.

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

Sovereign exposure is excluded from the large exposure calculation.

The risk concentration criteria used are as follows:

- Direct exposure: within a group of connected counterparties by a control relationship (subsidiaries and branches), even when there is no guarantee;
- Indirect exposure: when an entity has provided its guarantee to another, even if they are not connected by a control relationship.

As at 31 December 2024:

- Prudential equity amounted to **€4 128 million** (compared to €3 519 million at year-end 2023);
- **thirteen** counterparties or groups of counterparties were considered as Large Exposure (twelve at end-2023);
- no counterparty or group of connected counterparties exceeded the limit of 25% of the CEB's prudential equity (as at year-end 2023);
- the total amount outstanding to these counterparties stood at **€6.9 billion, i.e. 167%** of the CEB's prudential equity, well below the 800% limit (at year-end 2023: €6.2 billion, i.e. 177% of the CEB's prudential equity);
- 51.6% of the total large exposures stem from Finance activities.

Figure 44: **Large Exposures after Credit Risk Mitigation**

	2024	2023
Number of counterparties in Large Exposure	13	12
Total Large Exposures in % of Equity	167%	177%
Total Large Exposures (M€)	6 886	6 216
of which Loans (M€)	*3 334*	*3 900*
of which Finance (M€)	*3 552*	*2 317*

Figure 45: **Detailed list of large exposures after CRM (in M€)**

	Counterparty		Exposures Loan	Exposures Finance	Exposures Total	% of Equity	RWA	%RWA /Equity
1	BANCO SANTANDER SA	ES	423.5	300.0	723.5	17.5%	336.3	8.1%
2	AUTONOMOUS COMMUNITY OF MADRID	ES	684.9		684.9	16.6%	137.0	3.3%
3	BPCE	FR	239.5	438.1	677.7	16.4%	183.2	4.4%
4	CAISSE DES DEPOTS ET CONSIGNATIONS	FR	542.8	5.0	547.8	13.3%	16.0	0.4%
5	EUROPEAN UNION	ZZ	183.2	363.1	546.2	13.2%	0.0	0.0%
6	LAND NORDRHEIN-WESTFALEN	DE	400.0	107.0	507.0	12.3%	0.0	0.0%
7	SVENSKA HANDELSBANKEN	SE		487.5	487.5	11.8%	97.5	2.4%
8	COMUNIDAD AUTONOMA DE ANDALUCIA	ES	468.2		468.2	11.3%	93.6	2.3%
9	ZUERCHER KANTONALBANK	CH		456.0	456.0	11.0%	91.2	2.2%
10	BANK OF CHINA LIMITED *	CN		450.0	450.0	10.9%	90.0	2.2%
11	LANDESBANK BADEN WURTTEMBERG	DE		450.0	450.0	10.9%	210.6	5.1%
12	NATIONAL BANK OF CANADA	CA		449.5	449.5	10.9%	224.7	5.4%
13	CREDIT AGRICOLE S.A.	FR	392.1	45.6	437.7	10.6%	218.6	5.3%
	Total		**3 334.2**	**3 551.8**	**6 886.0**	**166.8%**		

** Exposure with Bank of China Hong Kong (HK). There is no exposure in mainland China.*

3.10 Credit provisionning and credit impairment

The CEB calculates expected credit losses (ECL) provisions and impairment of financial assets and commitments in accordance with IFRS 9. The calculation of ECL computation is given by the following formula:

ECL = Exposure At Default (EAD) x Probability of Default (PD) x Loss Given Default (LGD)

The IFRS 9 impairment model requires recognition of an impairment amount of 12-month expected credit losses for all relevant financial instruments from their origination or acquisition day. Then, at subsequent remeasurement dates, lifetime credit losses are then recognised if there has been a significant increase in a financial instrument's credit risk.

At each reporting date, the financial assets under scope are allocated into three categories (stages):

- Stage 1: Financial assets which are performing and for which no significant increase in credit risk has been identified since initial recognition. The ECL is calculated over a one-year time horizon;
- Stage 2: Financial assets which are performing but include exposures having experienced "credit deterioration"[8] since origination. The ECL is calculated over the full life of the exposure (until maturity date);
- Stage 3: Exposures in default (90 days past due). The provision is set to EAD·LGD, using a 100% PD.

Consistent with IFRS 9, ECLs are calculated using different forward-looking scenarios based on potential macroeconomic scenarios. Three scenarios are considered: best, base and worst. These three scenarios are defined by two macroeconomic variables: the gross domestic product (GDP) and the stock market performance in the eurozone. ECLs are calculated as a weighted average of ECLs in each scenario with respective weighting of 20%, 60% and 20%. For this ECL calculation, the CEB uses the internal credit ratings.

As at year-end 2024, the **amount of provision** (ECL) reached **€27.8 million**, up from €18.7 million at year-end 2023.

Figure 46: **IFRS provisioning overview**

	M€	2020	2021	2022	2023	2024	/ End 2023
	TOTAL	**22.7**	**14.9**	**25.47**	**18.69**	**27.76**	***+48.5%***
Weighted scenario ECL	Stage 1	22.7	14.9	25.32	18.56	27.76	*+49.6%*
	Stage 2	-	-	0.15	0.14	-	*-100.0%*

By product type, the main source of provision stemmed from L&D activity, representing 82.6% (loans 70.9% and committed stock 11.7%). Meanwhile, Finance activity accounted for 17.4% (see Figure 47 below).

Figure 47: **IFRS provisioning by product type as at 31.12.2024**

M€		*Outstanding*	*Provision*	*%*
Loan	Stage1	22 915	19.69	70.9%
Financing commitments	Stage1	3 304	3.25	11.7%
Bond	Stage1	5 734	2.51	9.0%
Money Market	Stage1	6 789	1.74	6.3%
Collateral Cash given	Stage1	441	0.37	1.3%
Nostro	Stage1	614	0.20	0.7%
Other assets	Stage1	1	0.00	0.0%
TOTAL		**39 798**	**27.76**	**100.0%**

The 20 largest ECL account for 59.7% of the total provision.

Total outstanding (EAD) increased by 8.7% over the year 2024 while the **provision increased by +48.5%**.

By product type, loans represent the major changes in ECL (+€6.21 million).

[8] **Credit deterioration** is assessed by the downgrade of the internal rating to a level equal to or below 3.5 from origination to reporting date.

Figure 48: **ECL by product type as at 31.12.2024**

M€		ECL				Outstanding			
		2024	2023	Change (M€)	Change (%)	2024	2023	Change (M€)	Change (%)
Loan	Stage1	19.69	13.48	6.21	*46.1%*	22 915	21 481	1 434	*6.7%*
Financing commitments	Stage1	3.25	2.30	0.95	*41.2%*	3 304	3 256	48	*1.5%*
Bond	Stage1	2.51	1.36	1.16	*85.3%*	5 734	4 857	877	*18.1%*
Money Market	Stage1	1.74	0.68	1.05	*153.8%*	6 789	5 328	1 461	*27.4%*
Collateral Cash given	Stage1	0.37	0.42	-0.05	*-11.9%*	441	596	-155	*-26.0%*
Nostro	Stage1	0.20	0.32	-0.11	*-36.4%*	614	1 037	-423	*-40.8%*
Other assets	Stage1	0.00	0.002	0.00	*103.7%*	1	1	0	*0.0%*
TOTAL		**27.76**	**18.69**	**9.07**	***48.5%***	**39 798**	**36 605**	**3 193**	***8.7%***

The table below further elaborates on the breakdown by product and provides some insight into the average rating of each product. It also adds the lifetime ECL which is a good proxy for the provision that would be required if all exposures moved to Stage 2.

Figure 49: **Product type stage allocation and average rating as at 31.12.2024**

M€		Provision	One Year ECL	Lifetime ECL	Outstanding	Avg. Rating Weighted by Exposure	Average PD*LGD
Loan	Stage1	19.69	19.69	138.95	22 914.8	6.96	0.086%
Financing commitments	Stage1	3.25	3.25	3.25	3 304.3	6.56	0.098%
Bond	Stage1	2.51	2.51	20.54	5 734.5	8.98	0.044%
Money Market	Stage1	1.74	1.74	1.74	6 788.7	7.98	0.026%
Collateral Cash given	Stage1	0.37	0.37	0.37	441.0	7.66	0.084%
Nostro	Stage1	0.20	0.20	0.20	613.9	8.93	0.033%
Other assets	Stage1	0.00	0.00	0.00	1.4	6.00	0.364%
TOTAL		**27.76**	**27.76**	**165.06**	**39 798.4**	**7.43**	**0.070%**

Figure 50 shows the main drivers impacting the change in provisions since the end of last year with their relative weights. It can be observed that the new deals and the update of macroeconomic scenarios is the main driver of the change.

Figure 50: **Main sources of ECL change in 2024**

Source of Change	Weight	Impact on provision
New deals	62%	Increase
Matured deals	-17%	Decrease
Amortisation of notional	-15%	Decrease
Passage of time	-24%	Decrease
PD	30%	Increase
LGD	0%	Decrease
Internal Ratings	0%	No impact
Macroeconomic Scenarios	64%	Increase
Correlations	0%	No impact
FX rate	0%	Increase
Total	**100%**	

4. COUNTERPARTY CREDIT RISK

Counterparty credit risk is the translation of the credit risk embedded in CEB financial transactions such as derivative contracts or (reverse) repurchase agreements. It materialises in the event that a counterparty defaults on its obligations to pay the Bank the full present value of the flows relating to a transaction or a portfolio for which the Bank is a net receiver. It is linked to the replacement cost of a derivative or portfolio in the event of counterparty default. As this cost may vary over time in line with changing market parameters, counterparty risk can be seen as a market risk in case of a counterparty default.

4.1 Counterparty Credit Risk Mitigation

The CEB uses Interest Rate Swaps (IRS), Currency Interest Rate Swaps (CIRS) and Foreign Exchange (Forex) swaps to hedge market risk on its lending, investment and funding transactions.

The minimum rating required for swap counterparties at the trade date must be 6.5 (BBB+).

Derivatives transactions require prior credit clearance of the counterparty by the Credit Risk Committee and the signing of an ISDA[9] Master Agreement and a Credit Support Annex (CSA) collateral agreement with the counterparty. Thus, the CEB has signed ISDA agreements and CSA with all its derivative counterparties, of which seventeen are two-way contracts that allow to adapt to market conditions and ensure the best possible funding cost. While the two-way contracts allow to mitigate the credit risk of the derivative positions in case of favourable variations in their market value, they may increase the potential liquidity needs in case of unfavourable changes. Eligible collateral identified in the CSA agreements may be cash-euro or debt securities whose market price is discounted by applying a haircut, and whose minimum rating must be 7.0 (A-). All swap transactions are valued at their net present value, and positions per counterparty are monitored daily so that additional collateral can be called according to the CSA margin call options ranging from daily to three times per month.

In accordance with CRR2-CRDV[10] regulation to assess the counterparty credit risk (CRR) on derivatives exposures, the CEB uses the SA-CCR method considering the nettings agreements and the collateral flows.

At the end of December 2024:

- the **derivatives' notional** amount reached **€59.0 billion** (up +16.8% compared to €50.5 billion at year-end 2023);
- their **credit risk exposure** (Exposure at Default - EAD) was **€403 million** (up +21.7% compared to €331 million at year-end 2023);
- the Bank had received €788 million and provided €441 million as cash collaterals, covering net present values (negative and positive) of the swaps' portfolio.

Figure 51: **Notional Derivatives outstanding by maturity and by derivative type as at 31.12.2024**

M€	< 1 year	1 to 5 Y	5 to 10 Y	> 10 years	Total
Total	**12 583**	**24 490**	**13 853**	**8 064**	**58 991**
Interest Rate Swap	6 877	13 744	13 226	7 913	**41 761**
Currency Interest Rate Swap	4 173	10 746	627	151	**15 697**
Forex Swap	1 532				**1 532**
% of Total	*21.3%*	*41.5%*	*23.5%*	*13.7%*	*100.0%*

4.2 Counterparty Credit Risk Assessment

The CEB applies the Standardised Approach to Counterparty Credit Risk (SA-CCR) published by the Basel Committee in 2014. Indeed, Basel requires the use of this method for exposures arising from OTC derivatives, exchange-traded derivatives, and long settlement transactions.

The SA-CCR method is a "risk-sensitive methodology", that differentiates between margined and non-margined trades and recognises netting benefits. Under the SA-CCR method, the counterparty credit risk exposure, or EAD, is calculated separately for each netting set, using the following formula:

$$EAD = \alpha * (RC + PFE)$$

9 International Swaps and Derivatives Association.

10 Capital Requirements Regulation (EU) No. 2019-876 / Capital Requirements Directive (UE) No. 2018-878.

Where :

- $\alpha = 1.4$
- RC is the Replacement Cost; it intends to capture the loss that would occur if a counterparty were to default at the present time or at a future time, assuming that the closeout and replacement of transactions occur instantaneously. However, there may be a period (the margin period of risk) between the last exchange of collateral before default and the replacement of the trades in the market. It is defined as the greatest exposure that would not trigger a call for variation margin, taking into account the mechanics of collateral exchanges in margining agreements.
- PFE is the Potential Future Exposure add-on; it represents the potential change in value of trades during this margin period of risk.

4.3 Credit Valuation Adjustment

Credit valuation adjustment

The CEB calculates a regulatory credit valuation adjustment (CVA) for each counterparty that captures the risk of incurring expected credit losses on derivatives. This adjustment amount is determined by assessing the potential credit risk exposure on each counterparty and takes into account the collateral exchanged, the effect of netting arrangements, the expected loss given default, and the risk of default of each counterparty based on available market information. The standard formula for computing CVAs is:

$$CVA_{Cpty} = \left(1 - RR_{Cpty}\right) \sum_{i=1}^{n} EPE(t_i) \cdot PD_{Cpty}(t_{i-1}, t_i) \cdot Df(t_i)$$

Where :

- RR is the recovery rate or percentage amount of the exposure expected not to be lost. In accordance with the current market practice, the recovery rate is assumed to be 40%.
- EPE (t_i) is the expected positive exposure from the Bank's view for the relevant dates in the future given by t_i with i = 1,…n. It takes into account the details of the CSA with the counterparty, namely the exchange of collateral.
- PD (t_{i-1}, t_i) is the probability that the counterparty defaults between t(i-1) and t(i). The PD is derived from CDS market quotes of the corresponding counterparty.
- Df (t_i) is the discount factor at time t(i).

A debit valuation adjustment (DVA) reflects the credit risk that CEB counterparties carry on the CEB. The formula is similar to the one above. CEB probability of default is estimated based on historic probabilities for entities with similar ratings.
At the end of December 2024, the amount for CVA reached €1.83 million and DVA stood at €0.146 million.

CVA capital charge

To protect banks against the risk of losses due to CVA variations, Regulation (EU) No. 575/2013 introduced a dedicated capital charge on CVA, namely the CVA Capital Charge. This charge aims at capitalising the risk of losses due to a change in the default probability of a counterparty, which is not provided for in the CVA provisions.
The CEB calculates a capital charge for credit valuation adjustment risk (CVA) under the standardised approach using the following formula.

$$K = 2.33 \cdot \sqrt{h} \cdot \sqrt{\left(\sum_i 0.5 \cdot w_i \cdot \left(M_i \cdot EAD_i^{total} - M_i^{hedge} B_i\right) - \sum_{ind} w_{ind} \cdot M_{ind} \cdot B_{ind}\right)^2 + \sum_i 0.75 \cdot w_i^2 \cdot \left(M_i \cdot EAD_i^{total} - M_i^{hedge} B_i\right)^2}$$

Where:

- h is the one-year risk horizon; h = 1.
- w_i is the weight applicable to counterparty 'i'. Counterparty 'i' must be mapped to one of the seven weights w_i based on its external rating, as shown in Figure 52 below. In the absence of an external rating for a counterparty, the Bank maps the internal rating of the counterparty to one of the external ratings.
- EAD_i total is the exposure at default of counterparty 'i' (summed across its netting sets), including the effect of collateral as per the existing SA-CCR rules and as applicable to the calculation of counterparty risk capital charges for that counterparty by the Bank.
- M_i is the effective maturity of the transactions with counterparty 'i'.

The weights are given in the table below, and are based on the external rating of the counterparty:

Figure 52: **Weight by counterparty rating**

Rating	Weight w_i
AAA	0.70%
AA	0.70%
A	0.80%
BBB	1.00%
BB	2.00%
B	3.00%
CCC	10.00%

At year-end 2024 , the **CVA capital charge reached €22.2 million** (€277 million of RWA), compared to €17.0 million in 2023 (€213 million of RWA).

5. MARKET RISK

Market risk is the risk of incurring losses due to adverse movements in financial markets such as interest rates and foreign exchange rates.

5.1 Interest rate risk management framework

Interest rate risk in the banking book is the current or future risk to the Bank's capital and income arising from adverse changes in interest rates. The Bank is exposed to this risk in the course of its activities due to the potential **mismatch between the interest rate characteristics of assets and liabilities.**

The CEB manages interest rate risk prudently across the balance sheet with the aim of preserving its financial stability and protecting its income and capital. To this end, the CEB uses micro or macro hedging derivatives, which convert assets and liabilities into variable-rate instruments denominated in euro. To optimise its funding cost, the Bank may also decide to maintain assets and liabilities at fixed rate in euros.

The CEB is exposed to a structural interest rate risk on its own funds as these are not sensitive to interest rates and therefore cannot be matched with interest rate sensitive instruments on the assets side. To this end, the Bank adopts a conventional interest rate repricing profile and duration for its own funds. This convention is reviewed regularly in line with the CEB's risk appetite and financial market trends. Currently, the CEB assigns a conventional duration of six years to equity.

Exposure to interest rate risk and compliance with limits is managed by the Finance Directorate and monitored by the Risk & Control Directorate on a monthly basis. The Asset and Liability Committee (ALCO) oversees the Bank's interest rate position and guides decisions related to interest rate risk.

The Bank measures interest rate risk in line with Basel/EU/European Banking Authority (EBA) regulations.

5.2 Sensitivity of Economic Value of Equity to interest rate shocks

The key metric for measuring interest rate risk is the Regulatory Sensitivity of the **Economic Value of Equity (EVE)**. This indicator is included in the CEB's Risk Appetite Framework. It measures the sensitivity to interest rate shocks of the net present value of the balance sheet, excluding equity. It is calculated according to the methodologies established by the Basel/EU regulation and the European Banking Authority (EBA).

The CEB limits the impact on EVE to the most severe interest rate shock prescribed by the EBA (out of six scenarios), in absolute terms, at 20% of prudential equity.

Figure 53: **Sensitivity of the EVE to the supervisory interest rate shocks as at 31.12.2024**

		Supervisory Interest rate shocks		Change in the EVE (% of Equity Tier 1)
	Scenario	Overnight rate	10-year rate	
1	Parallel up	+2.0%	+2.0%	**-10.7%**
2	Parallel down	-2.0%	-2.0%	**+12.6%**
3	Steepener (short-term rates down, long-term rates up)	-1.6%	+0.7%	**-1.5%**
4	Flattener (short-term rates up, long-term rates down)	+2.0%	-0.4%	**+0.4%**
5	Short rates up	+2.5%	+0.2%	**-3.0%**
6	Short rates down	-2.5%	-0.2%	**+3.4%**

5.3 Sensitivity of revenues to interest rate shocks

The CEB monitors the Regulatory Sensitivity of the **Net Interest Income (NII)** to interest rate shocks to ensure that its revenues are not significantly downwardly affected by interest rate movements. This metric is calculated according to the methodologies established by the EBA, using a one-year horizon, a constant balance sheet assumption and the two supervisory interest rate shock scenarios.

Figure 54: **Sensitivity of the NII to supervisory interest rate shocks as at 31.12.2024**

		Supervisory Interest rate shocks		Change in the NII over a one-year horizon (in M€)
	Scenario	Overnight rate	10-year rate	
1	Parallel up	+2.0%	+2.0%	**-5.4**
2	Parallel down	-2.0%	-2.0%	**+8.0**

5.4 Sensitivity of market value of securities to interest rate and credit spread shocks

The Bank monitors the sensitivity of the market value of securities to interest rate and credit spread shocks to measure the potential impacts on the CEB's capital base or liquidity position. At the end of December 2024:

- The market value of the Short-Term Liquidity Portfolio (STL) and the Fair Value through Equity Portfolio (FVOCI), which are both recorded at FVOCI, would decrease by: i) €192 million for a +200bp parallel shift of credit spreads, and ii) €13 million for a +200bp parallel shift of interest rates.
- The market value of the Amortised Cost Portfolio, which is recorded at amortised cost, would decrease by €225 million for a +200bp parallel shift of interest rates or credit spreads.

Figure 55: **Sensitivity of the market value of securities to 200bp shocks on interest rates and credit spreads**

End of December	200bp shock on interest rates (M€)	200bp shock on credit spreads (M€)
Portfolios recorded at fair value through equity	13	192
Portfolio recorded at amortised cost	225	225

5.5 Interest rate repricing gaps

The CEB monitors interest rate exposure using interest rate repricing gaps. These gaps measure, for each future period, the potential impact of interest rate movements on earnings due to mismatched rate characteristics between assets and liabilities. The following table shows the euro interest rate repricing gap as at 31/12/2024.

Figure 56: **Interest rate risk amortising profile**

31 December 2024 *In thousand euros*	Up to 1 month	1 to 3 months	3 months up to 1 year	1 to 5 years	Over 5 years	Undefined	Net book value
Assets							
Cash in hand, balances with central banks	608 615						608 615
Financial assets at fair value through equity*	1 186 143	2 118 610	51 366			(64 795)	3 291 324
Financial assets at amortised cost							
Loans*	5 382 970	15 233 499	586 450	709 282	981 485	(592 055)	22 301 631
Advances	3 249 582	3 500 774				122 430	6 872 787
Debt securities	63 400	93 700	230 285	1 001 138	952 404	(2 635)	2 338 292
Deposits of guarantees paid	442 189					(370)	441 820
Other assets						2 758 816	2 758 816
Sub-total of assets	**10 932 899**	**20 946 584**	**868 101**	**1 710 420**	**1 933 889**	**2 221 392**	**38 613 285**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to credit institutions and to customers	(95 546)	(57)	(1 070)	(1 239)	(338)		(98 251)
Debt securities in issue*	(17 421 164)	(13 555 110)	(37 504)			140 566	(30 873 212)
Deposits of guarantees received	(790 434)						(790 434)
Provisions	(600)	(1 200)	(5 400)	(39 604)	(289 473)		(336 277)
Other liabilities						(1 795 679)	(1 795 679)
Sub-total of liabilities	**(18 307 744)**	**(13 556 367)**	**(43 975)**	**(40 843)**	**(289 811)**	**(1 655 113)**	**(33 893 853)**
Equity						**(4 719 432)**	**(4 719 432)**
Net during the period	**(7 374 845)**	**7 390 217**	**824 126**	**1 669 577**	**1 644 078**	**(4 153 153)**	
Cumulative net during the period	**(7 374 845)**	**15 372**	**839 498**	**2 509 075**	**4 153 153**		

**after hedging*

5.6 Exchange rate risk management framework

The foreign exchange risk is managed by FIN and monitored by R&C.

The CEB's strategy is not to take any position and systematically hedge assets and liabilities into euros by resorting to derivative instruments.

The Bank measures the residual currency exposures -arising mainly from net interest cash flows in currencies- by calculating spot net open currency positions: assets minus liability per currency including both on- and off- balance sheet positions. The limit for the net open position is relatively low (€1 million for each foreign currency). It is measured at the end of each month and there is a five-working-day period to cover the position.

6. LIQUIDITY RISK

Liquidity risk is the risk of incurring losses resulting from the inability to meet payment obligations in full and in a timely manner when they become due. It can be classified into:

i) *funding liquidity risk,* which arises if the Bank is unable to meet its payment obligations because of an inability to obtain new funding;

ii) *market liquidity risk,* which arises if the Bank is unable to sell or convert its liquid assets into cash without incurring significant losses.

Liquidity risk is inherent to the Bank's business and arises from maturity mismatches between assets and liabilities. It may be significant for CEB because, unlike commercial banks, **the CEB does not collect customer deposits, and does not have access to refinancing through central banks.**

6.1 Liquidity risk management framework

Liquidity risk management plays a crucial role in safeguarding the Bank's financial flexibility, especially when adverse market conditions limit access to long-term funding in the markets.

The Bank manages liquidity risk in a prudent manner, establishing liquidity indicators at different time horizons and holding sufficient liquid assets to be able to continue its regular activity in periods of extreme market conditions when access to the market for new funding is not possible.

Diversification is a major objective of the Bank's funding and liquidity management. The Bank strives to diversify its debt issuance programs, funding markets, and investor base to avoid excessive reliance on individual markets or funding sources. The Bank also seeks to diversify the maturity profile of its issues to ensure that there are no significant mismatches between the maturity profiles of assets and liabilities. This funding strategy is pursued within the annual borrowing authorisation approved by the Administrative Council.

The Bank manages liquidity by holding a **liquidity buffer** containing highly rated and liquid securities that can be sold or monetised without significant losses in stressed conditions.

The Bank ensures it adequately quantifies all significant risks using **internal models to stress margin calls on collateralised derivatives** and the market value of the liquidity buffer**.**

The CEB also has an internal **Contingency Funding Plan (CFP)** that sets out the strategies to address serious liquidity shortfalls in emergency situations. This CFP also includes escalation, communication and decision-making procedures.

Liquidity risk and compliance with limits is managed by the Finance Directorate and monitored by the Risk & Control Directorate on a daily basis. The Asset and Liability Committee (ALCO) supervises the evolution of the Bank's funding and liquidity position and addresses liquidity risks.

The Bank measures liquidity using **internal metrics,** and **regulatory metrics** based on Basel/EU regulations.

6.2 Survival horizon

The **Survival Horizon (SH) is the key metric for managing liquidity risk.** This internal metric is included in the CEB's Risk Appetite Framework. It measures the period during which the Bank can meet its payment obligations arising from ongoing business operations in a severe stress scenario **using all available liquidity including liquid assets.**

The SH is based on internal stress scenarios. These scenarios include the inability to access the market for new funding, planned loan disbursement, disruptions in loan repayment, valuation haircuts on the market value of liquid assets, and extra margin calls on collateralised derivatives, the latter two being based on internal models.

Figure 57: **Annual evolution of SH**

End of December	Limit	2024	2023
Survival Horizon (month)	12	18	17

For monitoring purposes, the CEB also calculates a Self-sufficiency period (SSP), which is not included in the CEB's Risk Appetite Framework. The SSP measures the period during which the Bank can meet its payment obligations arising from ongoing business operations under a severe stress scenario **using available liquidity but excluding non-matured liquid assets**.

Figure 58: **Annual evolution of SSP**

End of December	Limit	2024	2023
Self-sufficiency period (month)	6	14	9

6.3 Regulatory Liquidity Ratios - LCR and NSFR

Although not subject to the international regulatory framework, the Bank complies with the regulatory liquidity ratios prescribed by the Basel/EU regulations, namely the **Liquidity Coverage Ratio (LCR)** and the **Net Stable Funding Ratio (NSFR)**. Both ratios are included in CEB's Risk Appetite Framework, with its regulatory minimum of 100%.

- The **LCR measures the short-term resilience to liquidity risk**. It aims to ensure the Bank holds a sufficient buffer of high-quality liquid assets (HQLA) to meet its net liquidity outflows during a 30-day stress period, with expected cash inflows capped at 75% of expected cash outflows.

  Two main features explain levels and changes in the CEB's LCR:

  - a comfortable level reflecting the Bank's intrinsic characteristics: absence of collecting deposits and no access to central bank refinancing;
  - a significant volatility due to the cyclicality and size of debt repayments (outflows) backed by interbank loan repayments (inflows), as well as to the effect of capping inflows at 75% of outflows.

Figure 59: **Annual evolution of LCR**

End of December	Limit	2024	2023
Liquidity Coverage Ratio (LCR)	100%	860%	378%
Annual average of month-end LCR		606%	415%

Figure 60: **Detailed data of the LCR at year-end 2024**

	Gross Amount	Weight	Weighted Amount
LEVEL 1 - Central bank reserves	606 332 314	100%	606 332 314
LEVEL 1 - Securities portfolio	3 038 240 010	100%	3 038 240 010
LEVEL 2A - Securities portfolio	613 747 783	85%	521 685 616
Total HQLA =			**4 166 257 940**
Deposits by financial customers	60 195 433	100%	60 195 433
Deposits by other customers	38 055 399	40%	15 222 160
Credit Facility to non-financial customers other than retail customers	5 117 871 848	10%	511 787 185
Credit Facility to regulated credit institutions	1 346 678 463	40%	538 671 385
Credit Facility with value date within 30 days	143 970 492	100%	143 970 492
Others Liabilities (Bond issued by CEB)	147 484 375	100%	147 484 375
Outflows from derivatives	127 747 082	100%	127 747 082
Additional outflow for adverse scenario on derivatives	392 340 000	100%	392 340 000
Total Outflows =			**1 937 418 112**
Due from other financial customers (Money Market)	2 141 002 598	98%	2 090 065 786
Due from other financial customers (Nostro excl. Central Bank)	6 466 154	100%	6 466 154
Due from SOV, MDB and public sector entities	254 668 735	50%	127 334 368
Due from other financial customers (Loan Ord)	89 752 794	100%	89 752 794
Due from securities maturing within 30 days	1 000 117	100%	1 000 117
Inflows from derivatives	169 375 255	100%	169 375 255
Total Inflows =			**2 483 994 474**
Net Outflows after capping =			**484 354 528**
Liquidity Coverage Ratio =			**860%**

- The **NSFR measures the long-term resilience to liquidity risk.** It aims to ensure that the Bank maintains a stable funding (ASF) in relation to its activities (RSF). It requires that long-term assets over one year period be financed by long-term stable resources, thus limiting short-term wholesale financing and maturity transformation risk.

  The CEB's NSFR is comfortable, reflecting the Bank's stable financing capacity. Its level is highly dependent on the outstanding of debt issued (the Bank's main source of stable financing), and its residual maturity (more or less than 1 year, or 6 months to a lesser extent).

Figure 61: **Annual evolution of NSFR**

End of December	Limit	2024	2023
Net stable Funding Ratio (NSFR)	100%	134%	136%
Annual average of month-end NSFR		143%	137%

Figure 62: **Detailed data of the NSFR at year-end 2024 (in M€)**

AVAILABLE STABLE FUNDING - ASF	< 6M	6-12M	> 12M	Weight	
Regulatory Capital Tier 1			4 128	100%	**4 128**
Bond issued > 1Y			26 821	100%	**26 821**
Bond issued 6M to 1Y		1 165		50%	**583**
Bond issued < 6M	3 425			0%	**0**
ECP issued 6M to 1Y		0		50%	**0**
ECP issued < 6M	0			0%	**0**
Term Deposit > 1Y			0	100%	**0**
Demand Deposit from **non-financial** entity < 1Y	38			50%	**19**
Demand Deposit from **financial** entity < 6M	60			0%	**0**
All other liabilities	2 975			0%	**0**
Net Derivative Liabilities	0			0%	**0**
Non weighed total + Average weighting	**38 613**			**82%**	**31 551**

REQUIRED STABLE FUNDING - RSF	< 6M	6-12M	> 12M	Weight	
Central Bank reserves	607			0%	**0**
Unencumbered HQLA L1 assets with RW = 0%	3 038			0%	**0**
Unencumbered HQLA L1 assets with RW > 0%	0			5%	**0**
Unencumbered HQLA L2A assets with RW = 20%	614			15%	**92**
Unencumbered non HQLA assets < 12M	1 422			50%	**711**
Unencumbered non HQLA assets > 12M			557	85%	**473**
Unencumbered loans to **financial** customers < 6M with HQLA L1 (RR)	0			0%	**0**
Unencumbered loans to **financial** customers < 6M	5 365			10%	**537**
Unencumbered loans to **financial** customers 6M to 1Y		1 682		50%	**841**
Unencumbered loans to **financial** customers > 1Y			5 204	100%	**5 204**
Unencumbered loans to **non-financial** customers < 1Y	675			50%	**337**
Unencumbered loans to **non-financial** customers > 1Y with RW < 35%			11 307	65%	**7 350**
Unencumbered loans to **non-financial** customers > 1Y with RW > 35%			5 477	85%	**4 655**
All other assets	2 665			100%	**2 665**
Committed credit facilities	6 609			5%	**330**
Net Derivative Assets + Add-on	365			100%	**365**
Non weighed total + Average weighting	**45 587**			**52%**	**23 560**
				NSFR =	**133.9%**

6.4 Liquidity ratios based on rating agency methodologies

For monitoring purposes, the CEB estimates liquidity ratios based on the methodologies of rating agencies, in particular Standard & Poor's (S&P). These ratios are not part of the CEB's Risk Appetite Framework. They measure the CEB's ability to meet its liquidity needs over a period of one to twelve months in the event of market disruption or economic downturn.

These ratios are based on S&P's stress scenarios. These scenarios include the inability to access the market for new funding, the disbursements on planned/committed loans, disruptions in loan repayment, valuation haircuts on the market value of liquid assets, and extra margin calls on collateralised derivatives.

At the end of December 2024, these ratios were above 100%.

6.5 Liquidity gaps

The CEB monitors the liquidity risk in terms of static liquidity gaps. These gaps measure, for each future period, the potential mismatches between the maturity profile of assets and liabilities. Figure 62 shows the maturity profile assets and liabilities, namely the undiscounted principal and interest cash flows of financial instruments until their maturity.

Figure 63: **Maturity profile of financial assets and liabilities (in M€)**

31 December 2024	Current outstanding			Non-current outstanding		Total
	Up to 1 month	1 to 3 months	3 months up to 1 year	1 to 5 years	More than 5 years	
Assets						
Cash in hand, balances with central banks	609					609
Financial assets at fair value through equity	5	314	1 291	968	1 112	3 690
Financial assets at amortised cost						
Loans	87	125	2 580	10 693	12 537	26 022
Advances	2 189	1 767	2 988			6 944
Debt securities	17	105	282	1 104	1 272	2 780
Deposits of guarantees paid	442					442
Sub-total of assets	**3 349**	**2 312**	**7 141**	**12 765**	**14 922**	**40 488**
Liabilities						
Financial liabilities at amortised cost						
Amounts owed to credit institutions and to customers	1	2	10	54	38	106
Debt securities in issue	147	1 533	3 451	20 215	8 420	33 766
Deposits of guarantees received	790					790
Social Impact Account	50					50
Sub-total of liabilities	**989**	**1 535**	**3 462**	**20 269**	**8 458**	**34 713**
Off-balance sheet						
Financing commitments	-310	-646	-1 846	-3 063	-743	-6 609
Term financial instruments						
To be received	1 449	1 510	4 020	13 392	2 491	22 862
To be paid	-1 406	-1 451	-4 124	-12 897	-2 225	-22 103
Sub-total of off-balance sheet	**-267**	**-587**	**-1 949**	**-2 568**	**-478**	**-5 849**
Total	**2 092**	**189**	**1 731**	**-10 072**	**5 987**	**-74**

7. OPERATIONAL RISK

The CEB implemented an Operational Risk Management Policy to codify its approach to identifying, measuring, controlling, and reporting operational risks. The policy lays out sound practices to ensure effective and consistent operational risk management across the CEB.

Operational risk is the risk of potential loss resulting from inadequate or failed internal processes, people and systems or external events. Moreover, the CEB also considers reputational and legal risks that may adversely impact its activities.

Inspired by the Basel Committee on Banking Supervision principles and international best practices, the Bank is committed to continuously assessing its operational risk and implementing the appropriate mitigating measures.

The CEB's operational risk framework is reviewed and approved by the Committee for Operational Risks and Organisation (CORO) at their semi-annual meetings. Chaired by the Governor and composed of Senior Management, CORO sets acceptable levels for the operational risks faced by the CEB and ensures that directors take the necessary steps to monitor and control these risks within their respective directorates.

In close co-operation with business lines, the Operational Risk Unit (ORU) manages the implementation of the operational risk framework centrally and electronically: risks identification, evaluation and mitigation follow a predefined methodology and a targeted action plan. The operational risk incidents, including "near misses", are also integrated to ensure the control framework's effectiveness and completeness through risk mapping and assessment.

ORU ensures the adequate design and effectiveness of the internal control framework through regular testing of key controls covering the main risks in each business line. The results are reported to the CORO. Each business unit annually asserts the efficiency of its respective permanent control environment.

To maintain a comprehensive procedure and control map, ORU is also responsible for modelling procedures in collaboration with the business lines. A dedicated intranet site provides all staff access to such procedures.

The CEB has a Business Continuity Plan (BCP) to hedge against disruptions in its business activities. The BCP comprises a crisis management plan and an underlying technical framework, including data centres, an emergency dealing room, user back-up positions, telecommuting solutions and business line-specific plans.

The risk capital charge for operational risk is part of the Bank's capital adequacy ratio, within its Risk Appetite Framework. The CEB has adopted the Basic Indicator Approach based on the average net banking income over the previous three years.

As at 31 December 2024, the operational risk capital charge amounted to €25.6 million, compared to €23.0 million as at 31 December 2023.

8. CLIMATE RISK

The CEB views climate-related risks as an interconnected set of risks and opportunities with the potential to impact other risk categories, such as credit risk, interest rate risk, foreign exchange risk, liquidity risk, and operational risk, rather than as a stand-alone type of risk. Climate-related risks are divided into two major categories:

- Physical risks which are related to the physical impacts of climate change. Physical risks resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns.
- Transition risks which are related to the transition to a lower-carbon economy. Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.

The CEB conducts risk mapping exercises to identify and assess how climate risk drivers impact its risk profile and development opportunities. Various risk categories for CEB such as credit risk, market risk, liquidity risk, operational risk and reputational risk, are impacted in the following way:

- **Credit risk**. Impact on credit risk due physical and transition risks could impact the Bank's clients' source of income/revenue, expenditure/cost of capital, asset value, business continuity/economic growth, resulting in reduced ability to pay and lower creditworthiness.
- **Market risk**. Severe physical events or a disorderly transitioning to a lower-carbon economy may lead to shifts in market expectations and could result in a sudden repricing of CEB's assets, liabilities, and off-balance sheet financial instruments, which would impact CEB's capital position and earnings.
- **Liquidity risk**. Impact on liquidity from climate risks can result in increased cash outflows, decreased liquidity buffers, increased demand for CEB's lending facilities and reduced access to stable funding sources.
- **Operational risk**. Physical acute events can affect the Bank's operations directly. Physical hazards may result in the disruption of business activities and may reduce the Bank's operational ability. Delay or loss of business might cause financial loss in addition to potential repair costs.
- **Reputational risk** is the risk arising from negative perception on the part of counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Negative perception from stakeholders may arise if the CEB is perceived as not adhering to its commitment on Paris alignment.

CEB is continuously sharpening its risk management approach and thus keeps enhancing its climate risk management efforts. Ongoing initiatives include refining the integration of climate-related risks into the risk management framework, expanding the climate scorecard to encompass additional counterparty types, and preparing to conduct scenario analysis to evaluate the Bank's resilience to climate risks.

Given the Bank is mandated by its member states to finance social projects in their countries, the CEB's loan portfolio is materially exposed to national and regional government risk across Europe. As such, the CEB developed sovereign and sub-sovereign climate scorecards to systematically score transition and physical climate risks.

As of 31 December 2024, after accounting for credit risk mitigation measures[11], 44.9% of the Bank's loan outstanding exposures are associated with sovereign counterparties. The climate scorecard for sovereign counterparties evaluates and scores three elements: readiness and two climate risk categories—physical risk and transition risk. Each element is assigned a specific climate score ranging from 1 (very high risk) to 5 (very low risk). Overall, the Bank's average exposure weighted sovereign loan exposure to physical climate risk is considered to be medium, as most of the CEB's member countries have a high capacity to mitigate specific physical hazards. Similarly, the Bank's

[11] i.e. Direct government guarantees.

average exposure weighted sovereign loan exposure to transition risk and readiness level respectively are considered to be medium. The medium readiness level reflects the Bank's exposure to countries assessed based on their ability to use investments for adaptation actions.

As of 31 December 2024, 29.2% of the Bank's loan exposures belong to local or regional government (LRG) counterparties. Climate scorecard for local or regional government counterpartiesassesses and scores two elements for climate risk categories - the physical risk and the transition risk. The Bank's overall exposure weighted average loan LRG exposure to physical climate risk and transition risk is considered to be medium.

For more on climate risk management, please refer to the 2024 Task Force on Climate-Related Financial Disclosure Report.

APPENDIX

Glossary

Called capital
Total capital paid in and to be paid in.

Financing commitment
Projects still awaiting financing and for which a framework loan agreement has been signed.

Loan disbursed
A loan that has actually been disbursed to the borrower.

Loan tranche
Loans are disbursed in tranches, depending on the progress of the project, up to the maximum amount approved by the Administrative Council.

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

Member States
At 31 December 2024, the CEB had 43 member states: Albania, Andorra, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova (Republic of), Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Türkiye and Ukraine.

Own funds
Paid-in capital, reserves, net profit, amount on the Social Impact Account and provisions for post-employment benefits.

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

Social Impact Account (SIA)
Funded mainly by the earmarked portion of the Bank's shareholder approved annual results and used to finance grants in favour of high social impact projects. These grants may take the form of interest rate subsidies, technical assistance grants, loan guarantees or grant contributions.

Subscribed capital
Participating certificates issued by the CEB and subscribed by its members.

Swap add-on
To obtain the potential future credit exposure, the swap notional amounts are multiplied by a percentage based on residual maturity and contract type.

Target Group Countries
Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic, Slovenia, Türkiye and Ukraine.

Uncalled capital
Difference between the subscribed capital and the called capital.

Abbreviations

AC	Administrative Council	**IFAC**	International Federation of Accountants
AFS	Available for Sale	**IFRS**	International Financial Reporting Standard
ALCO	Asset & Liability Committee	**ILAAP**	Internal Liquidity Adequacy Assessment Process
ALM	Asset & Liability Management	**IR**	Interest Rate
BBB	Best Banking Practices	**IRB**	Internal Ratings based approach
BCBS	Basel Committee on Banking Supervision	**IRRBB**	Interest rate risk in the Banking Book
BIA	Basic Indicator Approach	**IRS**	Interest Rate Swaps
CAR	Capital Adequacy Ratio	**ISDA**	International Swaps and Derivatives Association
CCP	Central Counterparty	**L&D**	Loans & Social Development Directorate
CDS	Credit Default Swap	**LCR**	Liquidity Coverage Ratio
CEB	Council of Europe Development Bank	**LGD**	Loss Given Default
CET1	Common equity Tier 1 (Capital)	**LRGs**	Local and Regional Governments
CIRS	Currency Interest Rate Swaps	**MDB**	Multilateral Development Bank
CISO	The Chief Information Security Officer	**MR**	Market Risk
CORO	Committee for Operational Risks & Organisation	**MRC**	Market Risk and Capital Management Unit
CRC	Credit Risk Committee	**MTM**	Marked to Market
CRM	Credit Risk Mitigation	**NII**	Net Interest Income
CRU	Credit Risk Unit	**NPV**	Net Present Value
CSA	Credit Support Annex	**NSFR**	Net Stable Funding Ratio
CV	Countervalue	**OBS**	Off-balance sheet
CVA	Credit Valuation Adjustment	**OCCO**	Office of the Chief Compliance Officer
DF	Discount factor	**OCI**	Other Comprehensive Income
DVA	Debit Valuation Adjustment	**OTC**	Over-The-Counter
EAD	Exposure at Default	**P&L**	Profit and Loss account
ECAP	Economic Capital	**PD**	Probability of Default
ECL	Expected Credit Loss	**PFE**	Potential future exposure
ECPs	European Commercial Paper	**R&C**	Risk & Control Directorate
EP	Prudential Equity	**RAF**	Risk appetite framework
EPE	Expected positive exposure	**RC**	Replacement cost
ES	Earnings Sensitivity	**REPO**	Repurchase Agreement Transaction
EVS	Economic Value of Equity Sensitivity	**RR**	Recovery rate
FIN	Finance Directorate	**RWA**	Risk-weighted Assets
FO	Front Office	**S&PC**	Settlements, Payments & Collateral
FRP	Financial & Risk Policy	**SA-CCR**	Standardised approach for counterparty credit risk
FRPG	Financial & Risk Policy Guidelines	**SIA**	Social Impact Account
FRPH	Financial & Risk Policy Handbook	**SH**	Survival Horizon
FX	Foreign exchange	**SSP**	Self-Sufficiency Period
GDP	Gross Domestic Product	**STD**	Standardised approach
GMC	General Management Committee	**STLR**	Short-Term Liquidity Ratios
GR	Gearing Ratio	**TAR**	Treasury Assets Ratio
GRE	Government-related entity	**TDE**	Target Duration of Equity
HQLA	High-Quality Liquid Assets	**TM**	Treasury monetary portfolio
HTM	Held to Maturity	**UL**	Unexpected Loss
ICAAP	Internal Capital Adequacy Assessment Process		

List of figures

Figure 1: Key risk metrics 5
Figure 2: Risk processes at the CEB 8
Figure 3: The three lines of defence 9
Figure 4: Risk Appetite framework 10
Figure 5: Annual evolution in Capital Adequacy Ratio 11
Figure 6: Annual evolution in Prudential Equity 12
Figure 7: Risk weight factors for the standardised approach 12
Figure 8: RWA by exposure class 12
Figure 9: Development of RWA by exposure class 12
Figure 10: Effect of CRM on Risk-Weighted Assets 13
Figure 11: Sectoral breakdown of RWA by activity and product 13
Figure 12: Geographical breakdown of RWA by product as of 31 December 2024 13

Figure 13: Annual evolution in Leverage Ratio 14
Figure 14: Annual evolution in Gearing Ratio 15
Figure 15: Capital Adequacy Ratio under the 'Internal Ratings-Based Foundation' approach 15
Figure 16: Internal rating classification 16
Figure 17: Overall exposure by product and rating category (after CRM) 18
Figure 18: Credit risk exposure by activity and type of counterparty 19
Figure 19: Geographical distribution of credit risk exposures (in M€) 19
Figure 20: Credit risk profile of loan portfolio after credit enhancement 20
Figure 21: Credit risk profile of loan portfolio by rating 20
Figure 22: Average rating development of the loan portfolio 21
Figure 23: Credit risk exposure of the loan portfolio by type of counterparty (after CRM) 21
Figure 24: Average rating development of the loan portfolio 22
Figure 25: Loan portfolio before versus after CRM by rating 22
Figure 26: Loan portfolio before versus after CRM by type of counterparty 22
Figure 27: Credit risk exposure of the loan portfolio by country and rating class (after CRM) 23
Figure 28: Loan portfolio reimbursements by rating (in M€) 24
Figure 29: Credit risk profile of the stock of projects (after CRM) 24
Figure 30: Credit risk profile of the financing commitments (after CRM) 25
Figure 31: Financing commitments by country and by rating class (before CRM) 25
Figure 32: SIA guarantees by country (in M€) 26
Figure 33: Credit risk profile of Finance operations 27
Figure 34: Finance operations by type of transaction 27
Figure 35: Money Market transactions by rating 28
Figure 36: Nostro exposure by rating 28
Figure 37: Securities breakdown by rating (all portfolios) 28
Figure 38: Amortised Cost Portfolio by rating 28
Figure 39: Fair Value through Equity Portfolio by rating 29
Figure 40: Short-term portfolio by rating 29
Figure 41: Breakdown of ratings in each portfolio 30
Figure 42: Outstanding of securities portfolio by residual maturity 30
Figure 43: Securities nominal by issuer country and by rating 31
Figure 44: Large Exposures after Credit Risk Mitigation 32
Figure 45: Detailed list of large exposures after CRM (in M€) 32
Figure 46: IFRS provisioning overview 33
Figure 47: IFRS provisioning by product type as at 31.12.2024 33
Figure 48: ECL by product type as at 31.12.2024 34
Figure 49: Product type stage allocation and average rating as at 31.12.2024 34
Figure 50: Main sources of ECL change in 2024 34
Figure 51: Notional Derivatives outstanding by maturity and by derivative type as at 31.12.2024 35
Figure 52: Weight by counterparty rating 37
Figure 53: Sensitivity of the EVE to the supervisory interest rate shocks as at 31.12.2024 38
Figure 54: Sensitivity of the NII to supervisory interest rate shocks as at 31.12.2024 38
Figure 55: Sensitivity of the market value of securities to 200bp shocks on interest rates and credit spreads 39
Figure 56: Interest rate risk amortising profile 39
Figure 57: Annual evolution of SH 40
Figure 58: Annual evolution of SSP 40
Figure 59: Annual evolution of LCR 41
Figure 60: Detailed data of the LCR at year-end 2024 41
Figure 61: Annual evolution of NSFR 41
Figure 62: Detailed data of the NSFR at year-end 2024 (in M€) 42
Figure 63: Maturity profile of financial assets and liabilities (in M€) 43

Member countries

The CEB has 43 member states who are the Bank's shareholders. All countries that are members of the Council of Europe are eligible to join the CEB.

Albania ★
Andorra
Belgium
Bosnia and Herzegovina ★
Bulgaria ★
Croatia ★
Cyprus ★
Czech Republic ★
Denmark
Estonia ★
Finland
France
Georgia ★
Germany
Greece
Holy See
Hungary ★
Iceland
Ireland
Italy
Kosovo ★
Latvia ★
Liechtenstein
Lithuania ★
Luxembourg
Malta ★
Republic of Moldova ★
Montenegro ★
Netherlands
North Macedonia ★
Norway
Poland ★
Portugal
Romania ★
San Marino
Serbia ★
Slovak Republic ★
Slovenia ★
Spain
Sweden
Switzerland
Türkiye ★
Ukraine ★

★ Target Group countries

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