











CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2012

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

OBJECTIVES

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

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

THE COUNCIL OF EUROPE AND THE CEB

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

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

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

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

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

ACTIVITIES

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

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

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

FINANCIAL RESOURCES

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

Established in 1956 with a capital equivalent to 5.7 million euros, the Bank had a subscribed capital of 5.5 billion euros as at 31 December 2012. Leverage is particularly impressive: since its inception, the Bank has been able to pay out 35 billion euros in loans.

RATING

For its long-term operations the Bank has been awarded Aaa/AA+ ratings by the three major agencies: Moody's (Aaa, outlook negative, 8 December 2012), Fitch Ratings (AA+, outlook stable, 25 September 2012) and Standard & Poor's (AA+, outlook stable, 27 December 2012).

MANAGEMENT

The Bank's organs are:

- The Governing Board, comprising one representative per Member State. Its Chairman is Mr. Raphaël ALOMAR, elected on 10 June 2011.
- The Administrative Council, comprising one representative per Member State. Its Chairman is Ambassador Joseph LICARI, elected on 10 June 2011.
- The Governor, Mr. Rolf WENZEL, elected on 8 April 2011. He is assisted by three Vice-Governors: Mr. Nunzio GUGLIELMINO, re-elected on 27 November 2009, Mr. Apolonio RUIZ-LIGERO, re-elected on 10 June 2011 and Mr. Mikołaj DOWGIELEWICZ, elected on 30 March 2012.
- The Auditing Board, which has three members chosen among the Member States in turn.

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2012

Key figures

in million euros	2012	2011 (restated*)	2011	2010
Loans disbursed during the year	1 584	1 855	1 855	1 782
Projects approved during the year	1 798	2 110	2 110	2 267
Financing commitments signed during the year	1 019	1 798	1 798	2 311
Loans outstanding	12 131	12 075	12 075	11 988
Own funds (after allocation of profit)	7 116	6 491	6 509	4 987
Equity (after allocation of profit)	2 262	2 093	2 111	2 054
Total assets	26 858	26 083	26 083	24 721
Net profit	120.2	106.9	106.4	115.9
Selective Trust Account				
Social dividends cumulated since the STA's inception	105.4	105.4	105.4	104.4
Balance available (after allocation of profit)	36.3	31.7	31.7	34.5

* Further to the anticipated implementation to 1 January 2012 of the amended IAS 19 and in accordance with IAS 8, the figures for 2011 have been restated.


Iceland
Sweden
Finland
Norway
Estonia
Latvia
Denmark
Lithuania
Ireland
Netherlands
Poland
Belgium
Germany
Luxembourg
Czech Republic
Slovak Republic
Liechtenstein
France
Switzerland
Hungary
Slovenia
Romania
Croatia
Italia
Bosnia and Herzegovina
Serbia
San Marino
Montenegro
Portugal
Spain
Holy See
Albania
"the Yugoslav of Mace
Greece
Malta

THE BANK'S MEMBER STATES (year of accession)

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




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MESSAGE FROM THE GOVERNOR

The year 2012 once again proved challenging for the Council of Europe Development Bank (CEB) as the financial and economic crisis in many European countries continued. However, the Bank managed to remain financially sound and to keep a solid loan portfolio. While disbursements have slightly decreased, the Bank continues to be on course to reach the medium-term objectives set by its shareholders in the context of the development plan 2010-2014. The CEB's prudent financial policies, its excellent reputation and the constant dedication of its staff contributed to a high level of activity and secured access to low cost funding.

CEB's strong results in 2012 can be summarized as follows: 28 projects were approved for a total of € 1.8 billion, 50% of which was devoted to the target group countries of Central, Eastern and South-Eastern Europe; and € 3.2 billion in funding was raised on international capital markets at very competitive rates - a decisive advantage passed on to Member States and their populations most in need.

The CEB is a key social development instrument for Europe. As a Partial Agreement of the Council of Europe, it is responsible for embodying the latter's values in the economic sphere. In order to fulfil its mandate, the Bank allocates its loans according to the following three sectoral lines of action: strengthening social integration (63% of 2012 disbursements), managing the environment (23%) and supporting public infrastructure with a social vocation (14%). This distribution, in my view, reflects the desire of many Member States to strengthen employment and social cohesion at a time of sluggish economic growth and fiscal consolidation.

The Bank's financial results were also satisfactory in 2012. Thanks to strong shareholder backing, a cautious risk management policy and a sufficient level of liquidity, it enjoys financial stability and an excellent reputation on the financial markets. Compared to 2011, profit rose by 12.5% to an exceptional € 120 million, with a € 13 million (or 9.1%) increase in the net banking income.

Last year's changes in the rating agencies' methodologies have had their effect on the CEB's rating: Moody's confirmed the Bank's "Aaa with a negative outlook" while Standard & Poor's and Fitch Ratings downgraded the Bank one notch to "AA+ with a stable outlook". As was highlighted by the rating agencies, these rating changes do not reflect any recent deterioration in the Bank's financial situation but rather the widespread downgrading of a number of CEB shareholders and borrowers. Therefore, the downgrades were a direct consequence of the European financial crisis, which has hit our Member States hard.

At the same time, the 6th capital increase of the CEB was concluded by year end. With 38 countries participating, it enabled the subscribed capital to rise by 65.5% from € 3.3 billion to € 5.5 billion. The paid-in capital rose from € 370 million to € 612 million through an incorporation of reserves, which now stand at € 1.3 billion. This measure represents an important step for the Bank and its shareholders.

Ensuring the continuation of such sound results in the years to come constantly requires us to reconsider, re-think and evolve. The need for adjustment has led the CEB's management to undertake a broad reflection process on the challenges that lie ahead. With the support of the Boards, our aim is to increase the efficiency and effectiveness of our activities.

Firstly, we are sharpening the social focus of the CEB. To this end, screening of projects and programmes is being refined and improved by combining project rating with country rating. We have developed a new approach for loan applications with an emphasis on their social added value. This includes new templates, monitoring tools for project risk and "lessons learned", and enhanced selection of intermediaries. In the same vein, we have also embarked on a review of our Selective Trust Account, the CEB's "social dividend", to meet increasing needs for non-lending support, such as financing technical assistance to borrowing countries.

Secondly, in order to be in line with new international standards on capital, leverage and liquidity (Basel III recommendations), the CEB is also reshaping its prudential framework. This will lead us to adopt a more sustainable and global approach in the definition and use of prudential ratios.

Thirdly, to heighten the impact of CEB's support to the poorest, we have greatly developed cooperation with other social development actors, in particular the European Union. I had the privilege of meeting several times with the European Commissioners concerned to discuss further avenues of collaboration. This reaffirms the CEB's importance as the only international financial instrument solely devoted to social development in Europe.

The most striking example of this extended collaboration is the launch in April 2012 of the Regional Housing Programme (RHP) at the Sarajevo Donors Conference. Based on the "Sarajevo process on refugees and displaced persons", this regional initiative will provide around 74 000 victims of the 1990's Western Balkans conflicts with durable housing solutions. The programme is supported by numerous international donors, including the European Union, which has pledged € 230 million to the RHP. In this ambitious programme, the CEB manages the multi-donor fund and assists countries in preparing and implementing their projects.

More traditional contacts have also been pursued in 2012: the CEB participated in numerous major international events, such as the Annual Meetings of the World Bank and the International Monetary Fund.

Finally, in 2012, the Bank continued its efforts to enhance its effectiveness, transparency and compliance with good practices. The publication of the CEB's fourth Corporate Social Responsibility Report in April 2012 reflects its strong commitment to responsible behaviour. The CEB also renewed its commitment to improving staff working conditions and engagement, the results of which should bear fruit in the months to come.

In a Europe in crisis, social cohesion and equitable development are crucial. Although significant actions are being taken by Governments and International Financial Institutions (IFIs), large pockets of poverty remain. Disparities both within and across countries continue to grow. At the end of 2012, over a tenth of CEB Member States' workforce were unemployed - around 28 million people. At the same time, many of our Member States strive to reduce large public debts.

This is a time of reflection and adjustment for International Financial Institutions and for the CEB in particular. Our ability to respond to the needs of our Member States and ultimately to improve the lives of their most vulnerable citizens is constantly put to the test. Our mandate, the support we provide and the expertise of our teams make the CEB a singular and essential tool for fostering social cohesion and encouraging balanced growth.

You can rest assured that we will continue to play our role in the years to come. And we will do so without jeopardizing our institution's basic strengths: efficiency, transparency, financial soundness, flexibility, team work and forward vision. These have been and will remain the CEB's hallmark.

Paris, 1 March 2013



Rolf WENZEL

ECONOMIC CONTEXT IN 2012

Growth slowed down in all regions of the world in 2012 as compared with 2011. The European Union (EU) economy dipped into contraction in the second quarter of 2012 and showed further weakening for the remainder of the year. In the US, GDP growth decelerated over the first half of the year, but labour and housing market developments indicate improvement during the third quarter of 2012, reaching an estimated yearly rate of 2.3%. Economic activity lost momentum in emerging market economies, mainly in China, India and Brazil. Overall, global GDP growth is estimated to have reached 3.2% in 2012, down from 3.9% in 2011 and 5.1% in 2010, before recovering to a projected 3.5% in 2013.

A fragile economic situation across the European continent

Throughout 2012, the European economy continued to deal with a difficult post-crisis correction weighing heavily on its growth and employment performance. Divergences in economic activity and labour market dynamics across EU countries further widened in 2012, resulting from varying adjustment needs following imbalances in the run-up to the crisis and large disparities in financing conditions. Real GDP is estimated to have contracted by 0.3% in the EU and 0.5% in the euro area in 2012, down from + 1.6% and + 1.4% respectively in 2011. This anaemic growth performance reflects several factors such as the aggravation of the sovereign-debt crisis in the first half of the year and, to a lesser extent, the slowdown in non-EU GDP growth and global trade. Unemployment increased further in 2012, particularly in the periphery countries hardest hit by the sovereign-debt crisis. It could peak at 11% on average in the EU and 12% in the euro area in 2013. The already high youth unemployment rates across much of the European continent continued to rise further throughout 2012, with peaks between 30% and over 50% in the Mediterranean countries.

Although strongly affected by the euro area crisis, many of the Eastern European countries, the CEB's so-called "target countries", avoided recession in 2012. Growth in the region's aggregate real GDP is estimated to have decreased from 4.7% in 2011 to less than 2% in 2012, reflecting weaker foreign demand constraining exports, and fiscal retrenchment as well as bank deleveraging restraining domestic spending. That being said, performance varied widely among countries, with growth rates between - 2% and 6% recorded in 2012.

Strained financial markets in Europe

During the course of 2012, varying concerns about the resolution of the sovereign-debt crisis shaped developments in the already volatile European financial markets. In particular, sovereign-bond yields increased substantially for some countries while safe-haven capital flows pushed benchmark sovereign-bond yields to new historic lows in Germany and certain other EU Member States. In contrast to 2008, risk contagion from the euro area crisis remained limited in Eastern Europe and credit default swap spreads for most Central and Eastern European countries remained well below those for the economies of the euro area periphery.

Market tensions have eased since mid-2012 thanks to policy measures at the European level, such as the entry into force of the European Stability Mechanism, the ECB's decision to undertake Outright Monetary Transactions in secondary markets for sovereign bonds of euro area Member States, and the legislative proposal for a single supervisory mechanism for banks in the euro area. Benchmark yields edged up and spreads narrowed considerably at both the short and the long end of the yield curve. Nonetheless, conditions in the sovereign bond markets remained strained at the end of 2012.

A modest, but uncertain growth outlook for 2013

The greatest challenge for 2013 will be to restore growth. Projections foresee a modest return to growth at varying speeds in CEB member countries in 2013, assuming a gradual reacceleration of the global economy, easing financial stress and the progressive return of confidence. At the aggregate level, real GDP is projected to stagnate in the EU and to slightly accelerate to above 2% in the CEB's target countries in 2013. With weak labour markets and fiscal consolidation holding back domestic demand, net exports are likely to remain the most important growth driver in the EU economies in 2013. This outlook is nevertheless surrounded by high uncertainty and downside risks.

Source: IMF, World Economic Outlook (October 2012, January 2013); Eastern Europe Consensus Forecasts (January 2013); Eurostat (February 2013).



Projects and loans

I OVERVIEW

In 2012, the CEB's Administrative Council approved 28 loan applications for a total amount of € 1 798 million and two grants for a combined amount of € 0.9 million. As many as 23 out of 30 operations approved during 2012 were for the CEB's target group of countries[1], representing € 904 million in total and more than half of all approvals during the year. Demonstrating the importance of social investment programmes across the Bank's membership base despite the unrelentingly challenging economic and financial environment, the Bank's 2012 results are consistent with the objectives set in the CEB's Medium-term Development Plan 2010-2014.

During the 2008 to 2012 period, the CEB approved 168 projects amounting to an aggregate of € 10 701 million. In line with the objectives of the Development Plan, € 6 038 million or 56% of all projects approved over the 5-year period were in favour of the target group countries.

At year-end 2012, disbursements totalled € 1 584 million; a significant part of this, representing € 989 million or 62.4% of all disbursements made during the year, was in favour of the target group countries. Disbursements for the year were spread over 98 loan tranches for 69 projects/programmes.

During the 2008-2012 period, the CEB disbursed an accumulated amount of € 8 532 million, including € 5 595 million, or 65.6%, in favour of the target group countries.

Project approvals and loan disbursements for the year, broken down among the Bank's three sectoral lines of action, are presented in the charts below.

The stock of projects stood at € 4 867 million - with € 3 090 million, or 63% of the total stock, in favour of the target group countries - underscoring the importance of the availability of the Bank's lending for all its Member States and constituting a base for expansion of the CEB's operations in the years to come. As of year-end 2012, 61.6% of the stock of projects was committed, meaning that the respective framework loan agreements had already been signed.

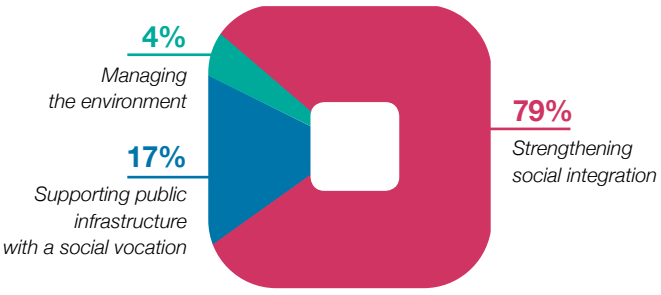
Loans outstanding remained relatively stable and, at 31 December 2012, amounted to € 12 131 million spread across 33 countries.



SPAIN
Education infrastructure

1. The CEB's Medium-term Development Plan 2010-2014 focused the Bank's activity particularly on its 'target group of countries' in Central, Eastern and South-Eastern Europe comprising: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey. According to the CEB's Development Plan, these countries are expected to reach up to 60% of loans outstanding by 2014.

Projects approved in 2012
Breakdown by sectoral line of action



Loans disbursed in 2012
Breakdown by sectoral line of action



ADDRESSING CHALLENGES FOR THE CEB

How to increase the Bank's social added value while preserving its financial soundness

The social value of the CEB's activities is a constant concern for shareholders and Management. The financial crisis, which broke out in 2008 and has been lingering ever since, has added to the gravity of the issue.

Upon taking office in December 2011, the Governor called for a broad-based reflection on these issues at the meeting of the Administrative Council on 27 January 2012. A number of questions were raised and Members were invited to circulate their views on these. An in-depth discussion then took place at the Administrative Council meeting on 16 March 2012.

A number of individual areas for strengthening CEB policies were identified. They are presented below, each with their state of play:

1. Improved screening of projects ("two-pronged approach")

A new methodology has been developed for the appraisal of emerging loan projects. Their social value will be scrutinised on the basis a detailed "project loan screening sheet". In a "two-pronged approach", this project rating will be combined with a country rating. The final result will be a transparent rating process that will also guide the Administrative Council in its decisions on the loan requests. At the same time, the list of target group countries and the overall objective of the Group achieving a 60% share of the loans outstanding will remain intact.

2. Better targeting of global loans

Global loans (or programme loans) are an indispensable tool for all development banks. However, the challenge is to clearly define both their objectives and the final beneficiaries, in agreement with the intermediary financial institutions. In order to ensure better appreciation of these issues in the appraisal process, a "programme loan screening sheet" has been developed as part of the "two-pronged approach".

3. Increased grant support for beneficiaries

Non-lending services and the management of grant funds are an increasing part of the CEB's activities. They strengthen the Bank's ability to provide social value. To allow for more flexibility in the choice of the CEB's grant interventions, the objectives of the existing Selective Trust Account will be enlarged to finance technical assistance, interest subsidies, guarantee schemes, and individual grant contributions. As the main funding sources of the Selective Trust Account are allocations from the CEB's annual profits, the account will be renamed Social Dividend Account.

4. Better information on projects

The format of loan documents has been restructured so as to ensure better and more transparent information on the social value of a project or programme loan for the Administrative Council. The "screening sheets", mentioned above, will be attached to the loan documentation.

5. Enhanced feedback from evaluation

The role of the CEB's evaluation unit will be broadened beyond ex-post scrutiny of earlier loan operations. A strengthened interface with the operational units will enable timely use of evaluation findings throughout the project cycle and facilitate harmonization of indicators and criteria across the appraisal, monitoring and evaluation stages. Moreover, the rules underlying the evaluation function will be consolidated in a comprehensive Evaluation Policy.

6. Improved communication on mandate

The strengthened social value of the CEB's activities should go hand in hand with enhanced communication efforts on its social mandate. A "mission statement" could be developed, conveying some basic messages on the Bank's mandate and on its sectoral activities. Initial discussions on such basic messages took place within the Governing Board and the Administrative Council at their meetings in Chišinau in June 2012. The process towards a "mission statement" could be pursued in the context of the forthcoming review of the CEB's Development Plan.

Key factors for 2012

Some of the key factors characterising the CEB's operations in 2012 are summarised below.

- The current unprecedented debt crisis has had serious social and economic consequences leading to a considerable weakening of the financial soundness of many of the CEB's borrowers and to a significant deterioration in the social situation in a number of the Bank's Member States. This situation is made more critical by the fact that, despite increased social needs, social investments have continued to diminish in the wake of fiscal consolidation both at national as well as local government level.
- In accordance with its social mission, its own funds reinforced through a capital increase and the key principles of its Development Plan 2010-2014, the Bank demonstrated resilience of its operations in 2012. The proportion of the Bank's stock of projects in favour of target group countries in Central, Eastern and South Eastern Europe underline the Bank's commitment to the strategic orientations of its Development Plan and to working closely with all of its borrowers to develop projects that most effectively address their vital social needs.
- The Bank also continued its commitment to those sectoral lines of action with the greatest potential to generate added value. In this context, projects in favour of strengthening social integration amounted to € 1 411 million and represented 78.5% of all project approvals for the year. Underscoring the importance of the availability of CEB funding for its borrowers, it is of note that more than half of this amount (€ 826 million) was dedicated to operations supporting job creation and preservation in micro, small- and medium-sized enterprises, which have been particularly hard-hit in the current environment of financial turmoil and more constrained access to financing. Continued support for job creation and preservation in MSMEs is taking centre stage in the Bank's efforts to strengthen social cohesion across its membership base.



POLAND
Improving living conditions in urban areas

- The CEB continued its active involvement in the Regional Housing Programme (RHP), a cornerstone of the regional initiative aimed at achieving durable solutions to the question of refugees and displaced persons following the armed conflicts in the Western Balkans during the 1990s. The initiative was developed jointly by Bosnia and Herzegovina, Croatia, Montenegro and Serbia with wide support from the European Commission, the United Nations High Commissioner for Refugees, the Organisation for Security and Co-operation in Europe and international donors. The RHP, which is to be implemented over the next five years, is to provide sustainable housing solutions for 27 000 households or 74 000 individuals identified as the most vulnerable refugees and internally displaced persons. Participating in this programme provides the CEB with a valuable opportunity to further strengthen its original mandate of aiding refugees, migrants and displaced persons and to affirm yet again its sectoral know-how and technical management in supporting such initiatives (see box on page 20).

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

II MEANS OF ACTION

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

Founded in 1956 by eight Member States of the Council of Europe [1] in order to provide solutions to the problems of refugees, the Bank has since adapted to changes in social priorities in Europe and enlarged its scope of action in order to better contribute to strengthening social cohesion and promoting inclusive growth.

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

The CEB operates within an institutional framework established under the supreme authority of the Council of Europe and therefore supports the Council's social and environmental priorities and principles aimed at protecting human rights and the environment.

The Bank's approach in terms of social responsibility draws upon the principles set forth in the Council of Europe Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter (see Corporate Social Responsibility, page 46).

The structure of CEB projects and loans reflects its commitment to supporting socially sustainable development in the sectors of action detailed in the table on page 11.

The CEB's principal activity consists of granting loans that enable part-financing of economically and socially viable projects. The Bank mainly offers flexible long-term loans at favourable interest rates, in specific cases along with interest rate subsidies, to its Member States, their regional or local authorities, and public or private financial institutions (see box opposite). As a complement to this, in order to more fully support its borrowers, the Bank increasingly provides Technical Assistance for project preparation and implementation from different sources, either bilateral (such as the Spanish Social Cohesion Account) or multilateral (for example, the Western Balkans Investment Framework). The Bank also provides grants, especially in the case of emergency aid.

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

BORROWING FROM THE CEB

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

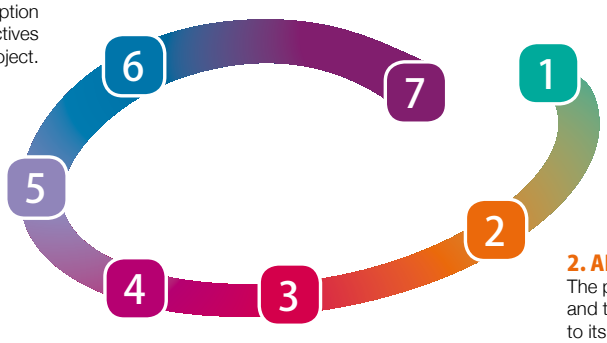
The eligibility criteria and general procedures for projects financed by the CEB are presented in the Policy for Loan and Project Financing (available on the CEB's website), a reference document setting out provisions for the appraisal, approval, financing and monitoring of the Bank's projects.

In close collaboration with the borrower, the Bank's operational services prepare loan applications reflecting both the specific characteristics of each potential borrower, such as governments, municipalities or financial institutions, as well as the features of each proposed project/programme. In order to determine a borrower's eligibility for financing, the CEB assesses the strength of their financial profile. It also analyses all aspects of the project's financial and technical sustainability. All loan applications are submitted to the Administrative Council for approval.

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

Projects with borrowers that have, through previous co-operation with the CEB, demonstrated clear mandates, well-established and effective operational and financial policies and procedures, and the capacity to provide timely and comprehensive reports to CEB on the relevant financial, physical and social aspects of project implementation may benefit from the "Conditional Financing Instrument" procedures which allow for adjusted on-site monitoring procedures.

The project cycle



7. EVALUATION
The project's impact and sustainability are evaluated in order to assess performance and quality as well as to draw lessons for future project preparation.

6. COMPLETION
A report is drawn up giving a full description of the works carried out and the objectives achieved within the framework of the project.

1. IDENTIFICATION
First approach to all the elements of the project in order to define the eligibility, feasibility as well as the objectives and the means required to achieve them. At this stage, a first estimate of the loan amount must be given.

5. DISBURSEMENTS AND MONITORING
The project's correct implementation is evaluated together with the appropriate use of the funds disbursed.

2. APPRAISAL
The project, its social objectives and its financial and technical feasibility are evaluated with a view to its submission to the Administrative Council. The financial, technical and implementation-related aspects of the project are defined.

4. NEGOTIATION OF THE FRAMEWORK LOAN AGREEMENT
The framework loan agreement is negotiated with the borrower on the basis of the terms approved by the Administrative Council.

3. APPROVAL BY THE ADMINISTRATIVE COUNCIL
Following on the opinion of admissibility by the Secretary General of the Council of Europe, the project is examined and, if satisfactory, approved by the Administrative Council.

PROCUREMENT

The CEB's procurement policy is based on the principles of public procurement set forth in EU law and regulation. The ultimate objective of EU law on public procurement is to ensure that public money is spent in an efficient manner and that the business generated through this expenditure is open to all economic operators without discrimination and respecting competition.

The CEB applies the same policy to operations financed through its loans and grants. The CEB' Guidelines for Procurement are a set of rules aimed at ensuring that the principles of proportionality, equal treatment, mutual recognition, non-discrimination and transparency are respected in all the operations financed with its resources.

Operating within the Technical Advisory Directorate, the Procurement Department is responsible for establishing and enforcing these "Guidelines" and so plays a key role in this respect. Through its action, the CEB scrutinizes the procurement procedures carried out by borrowers, thus guaranteeing and ensuring that the principles enshrined in the policy are applied and respected.

The Guidelines for Procurement require local legislation to be applied for procurement in those countries where EU legislation has been incorporated into the national legal framework. For countries whose legislation has not yet been adapted to the EU framework, tenders must be conducted in accordance with the CEB Guidelines. In most of these cases, the CEB's Procurement Department recommends that countries carry out tenders using the Harmonized Tender Documents agreed on by the Multilateral Development Banks. In these cases, the CEB Procurement Department can provide assistance in adapting tenders to that framework, and also with the publication of Tender Notices in the Official Journal of the EU.

The CEB Procurement Department plays also a controlling role by conducting verifications of tender procedures. In some cases the controls are performed before contracts are awarded and in other cases after the award of contracts. This task is essential in providing the Bank with reasonable assurance that operations have been carried out in accordance with the established policies. In the very few cases in which, after verification, the CEB finds that the policy for procurement has not been respected, any operations financed under those contracts are declared non-eligible and therefore may not be financed using the CEB resources. The CEB procurement policy is a key to its fulfilment of its fiduciary responsibilities. It ensures that best practices and international standards are followed in the use of CEB loan and grant funds.

THE CEB ACTIVITIES IN FAVOUR OF ROMA

In Europe, the Roma[1] are amongst one of the most disadvantaged minorities. They suffer the highest unemployment rates, low levels of education and healthcare as well as difficult housing conditions.

The CEB's policy is aimed in particular at:

- supporting governments and/or local authorities in their efforts to foster Roma integration by means of medium/long-term investment loans on favourable terms, particularly in the education, housing, health and job creation sectors
- promoting Roma participation in the design and implementation of projects
- monitoring the social impact of such projects, which are by nature sensitive and difficult to implement
- improving the living conditions of Roma communities, which is a sector in which the CEB has been involved for the last fifteen years

The CEB actively supported the creation of the Roma Education Fund by co-organising the Donors' Conference held in Paris in December 2004 and by providing financial support to launch this new institution.

The Bank participates in the Council of Europe's Intergovernmental Ad hoc Committee of Experts on Roma Issues known as CAHROM, and in the Alliance of Cities and Regions for Roma Inclusion. The two institutions are complementary: the Council of Europe works towards ensuring necessary capacity building at local and regional level while the CEB supports governments by co-financing priority projects at national and local levels.

The Bank also cooperates with:

- The European Commission, closely following up implementation of the National Roma Integration Strategies (NRIS) and seeking new ways for bringing the NRIS into practical workable projects.

During their meeting on 16 November 2012, EU Commissioner for Employment, Social Affairs and Inclusion, László Andor and Governor Rolf Wenzel agreed that there are clear opportunities for cooperation, particularly in countries where Roma issues are very relevant. Likewise, during a meeting with Governor Wenzel on 4 December 2012, EU Commissioner for Regional Policy Johannes Hahn agreed on the need for all parties concerned to enhance collaboration and said that in some member countries there now exists the necessary political will to address Roma issues.

- The World Bank. The CEB and the World Bank are exploring methods of cooperation where the capacities and expertise of each of these institutions could be leveraged.
- UN agencies such as the United Nations Development Programme (UNDP), the United Nations High Commissioner for Refugees (UNHCR) and UNICEF. These institutions have acted as implementing agencies for the projects approved and financed with CEB donations.
- Non-Governmental Organisations active on Roma issues, such as the Open Society Initiatives and the Roma Education Fund.

1. The term "Roma" used at the Council of Europe refers to Roma, Sinti, Kale and related groups in Europe, including Travellers and the Eastern groups (Dom and Lom), and covers the wide diversity of the groups concerned, including persons who identify themselves as "Gypsies".



LATVIA
Education facility

Potential borrowers address their loan requests to the CEB which, in turn, assesses their creditworthiness as well as the social objectives and financing plan of each project by thoroughly analysing the envisaged socio-economic impacts, the technical aspects and costs, the institutional capacity to manage a project as well as the project's impact on the environment.

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

The Bank maintains close involvement throughout the entire project cycle (see diagram on page 13) so as to optimise the relevance, quality and social added value of projects. Regular monitoring and on-site visits during project implementation evaluate the physical progress of the works, compliance with costs, environmental policy and procurement procedures, as well as the achievement of the project's anticipated social objectives. In close cooperation with the borrower, the Bank also plays a role in resolving any potential difficulties that could jeopardise the successful implementation of a project.

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

III STRENGTHENING SOCIAL INTEGRATION

The results for the year demonstrate once again how important social integration is to the Bank's mandate. For 2012 alone, project approvals in the field of strengthening social integration amounted to € 1 411 million, representing as much as 78.5% of all approvals in the year. Of this, € 826 million was in favour of target group countries. In 2012, the Bank disbursed € 1 billion in favour of social integration, representing 63.1% of all disbursements made in the year. This included € 576 million or 57.7% of all projects in this sectoral line for the benefit of target group countries.

From 2008 to 2012, this sectoral line of action represented an accumulated amount of € 6 246 million in terms of projects approved (representing 58.4% of all projects approved since 2008). Of this, € 3 883 million or 62.2% of all projects in this sector were approved for target group countries. In parallel, over the period 2008-2012, loans disbursed in favour of social integration amounted to an accumulated total of € 4 847 million, representing 56.8% of all disbursements made since 2008. Over the period 2008-2012, target group countries received € 3 275 million, representing 67.6% of all disbursements in this sector.

At operational level, the CEB contributes to social cohesion by acting in favour of refugees, migrants and displaced persons, financing the provision of housing for low-income persons, facilitating job creation and preservation, and improving living conditions in urban and rural areas.

MONTENEGRO:
Grant to fund temporary housing for Roma refugees

In 2012, the CEB approved a € 400 000 grant to the Montenegrin authorities in order to fund temporary housing for some 800 Roma refugees in the Konik 1 settlement, Montenegro, which was destroyed by fire. The project, of emergency nature, will provide temporary housing solutions and improve living conditions for the 150 families affected by the fire through the provision of containers with basic furniture and household utilities.

In the longer-term, the residents of the Konik settlement will be provided with durable housing solutions within the framework of the Regional Housing Programme, as previously decided by the Government, independently of the dire consequences of the fire.

SPAIN:
Strengthening social inclusion and professional integration

The programme with CaixaBank's La Caixa Obra Social is intended to partially finance eligible social programmes and activities aimed at strengthening the social inclusion and participation of vulnerable populations. This will also include developing – through vocational training, counselling and related services – the necessary skills and aptitudes of people with particular difficulties in finding employment. In the current context of austerity, supporting the provision of dedicated social care support and services for social groups most in need has taken on very strong significance.

In line with its social mandate, the CEB's involvement is expected to add value by supporting programmes and initiatives aimed at breaking the vicious circle of social exclusion and poverty. The CEB funds will thus help in the implementation of a number of La Caixa Foundation's multidimensional actions in three complementary areas: "Education and integration into work", "Improved access to healthcare services" and "Poverty reduction and social inclusion". The programme will be implemented throughout Spain either directly or in partnership with partner organisations and institutions, including local and regional administrations, and will particularly target beneficiaries such as children in vulnerable situations, the elderly, the disabled or ethnic minorities.

1. Aid to refugees, migrants and displaced persons

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

Projects financed in this sector mainly concern:

- reconstruction and repair of reception facilities (such as reception centres, temporary and permanent social housing)
- programmes for preventive and curative medicine, education and vocational training
- technical infrastructure and basic amenities required to meet the immediate needs of victims of exceptional situations.

During the 2008-2012 period, the CEB approved projects in this sector for an accumulated amount of € 107 million. In 2012, the CEB approved one programme for an amount of € 70 million in this sector. Disbursements during 2012 amounted to € 5 million.

On a proposal by the Governor, the Administrative Council also approved in 2012 a grant of € 400 000 for temporary refugee housing to be provided by the Montenegrin authorities (see box on page 15).

The table below presents details of the programme in the sector of aid to refugees, migrants and displaced persons approved in 2012.



ALBANIA
Social housing

AID TO REFUGEES, MIGRANTS AND DISPLACED PERSONS

Country	Borrower	Project/Programme	Amount
Spain	CaixaBank	Improving access to education and healthcare services for excluded social groups and developing the employability and labour insertion capacity of people with particular difficulties in finding jobs (see box above).	€ 70 million



PORTUGAL
Retirement home

2. Housing for low-income persons

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

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

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

During the 2008-2012 period, the CEB approved projects in the housing sector for an accumulated amount of € 1 479 million, representing 13.8% of all approvals for the five-year period. For 2012 alone, the CEB approved operations for a total of € 222 million in this sector, representing 12.3% of all projects approved during the year. Disbursements during 2012 amounted to € 294 million, representing 18.6% of all disbursements for the year.

The table below provides examples of some of the projects approved by the CEB in the sector of housing for low-income persons during 2012.

FRANCE:
Adaptation of social housing for elderly persons

By part-financing a programme through Crédit Mutuel ARKEA, a co-operative society specialising in financing social housing providers, the CEB will contribute to improving approximately 12 000 existing social housing units so as to reduce the number of accidents and help elderly people stay in their homes. Works to adapt the dwellings to the needs of the elderly and to comply with accessibility standards for people with disabilities will go hand in hand with more general work to improve energy efficiency in buildings, thereby reducing tenants' heating bills and increasing their well-being.

The bodies eligible for carrying out the implementation of subprojects under the programme will be social housing organisations (HLMs) and semi-public companies (SEMs) that contribute to the guarantee fund for rented social housing (CGLLS) within the context of adapting existing housing to the needs of the ageing population in France.

Particularly given the current difficult context due to economic and financial crisis, the CEB's long-term funding should serve to encourage Crédit Mutuel ARKEA, as the intermediary institution, to keep up the momentum of its lending in a sector vital for social cohesion in France.

HOUSING FOR LOW-INCOME PERSONS

Country	Borrower	Project/Programme	Amount
Belgium	Société Wallonne du Crédit Social (SWCS)	Providing mortgage loans benefitting first-time buyers from low income households as well as enabling financing for the rehabilitation and energy efficiency improvement of dwellings.	€ 105 million
France	Crédit Mutuel ARKEA	Adapting social housing dwellings to the needs of the elderly, especially as regards accessibility standards for people with disabilities, and general energy efficiency improvement works in buildings (see box above).	€ 100 million

3. Creation and preservation of viable jobs

The CEB lends its support to productive investment programmes providing for the creation and preservation of viable jobs as an effective means for strengthening social integration across its Member States. These projects are intended to facilitate access to credit for micro, small and medium-sized enterprises (MSMEs) as well as for entities exercising a craft activity or family businesses carrying out regular economic activity.

The MSME sector has been recognised as playing an important role in promoting sustainable economic and social development due to its potential for generating employment, strengthening competitiveness, promoting technology transfers and export diversification, as well as lowering disparities among regions.

Given its social orientation, the CEB tailors its projects in this field especially to the smaller end of the MSME sector; in this context, supporting leasing programmes through participating financial institutions is seen by the Bank as a particularly well-suited tool for reaching micro and small enterprises.

In 2012, faced with the consequences of the crisis, the CEB continued to lend its support to investment programmes implemented by commercial banks, development banks and other financial institutions. Over the past five years, the Bank has approved projects in this sector for a total of € 3 035 million, representing 28.4% of all project approvals during the period 2008-2012.

For 2012, operations supporting job creation and preservation amounted to € 826 million and represented 45.9% of all projects approved for the year. A large majority of these programmes, representing € 728 million or 88% of all operations in this sectoral line of action, were approved in the Bank's target countries.



HUNGARY
SME

Disbursements in this sector amounted to € 475 million during 2012, representing 30% of all disbursements for the year.

The table below provides an overview of the institutions and programmes that the CEB supported in 2012 in the field of job creation and preservation.

CREATION AND PRESERVATION OF VIABLE JOBS

Country	Borrower	Amount
Bosnia and Herzegovina	Intesa Sanpaolo BIH	€ 30 million
	Raiffeisen Leasing doo BiH	€ 20 million
Bulgaria	ProCredit Bank (Bulgaria)	€ 10 million
Croatia	Hrvatska banka za obnovu i razvoj (HBOR)	€ 35 million
Georgia	JSC ProCredit Bank	€ 11.7 million
Germany	Investitionsbank des Landes Brandenburg (ILB)	€ 50 million
Poland	Bank Gospodarki Zywnosciowej (BGZ)	€ 50 million
	Bank Polskiej Spółdzielczości (BPS)	€ 10 million
	Europejski Fundusz Leasingowy (EFL), Wrocław	€ 130 million
	Raiffeisen Leasing Polska SA, Poland (RLPL)	€ 50 million
	SGB Bank	€ 10 million
Romania	Raiffeisen Bank, Romania	€ 35 million
	Raiffeisen Leasing IFN, Romania (RLRO)	€ 30 million
Slovak Republic	ČSOB Leasing, a.s.	€ 37.5 million
	Slovenská sporiteľňa, a. s. (SLSP)	€ 19.5 million
Spain	CaixaBank	€ 30 million
Turkey	Türklye Halk Bankasl A.S.	€ 50 million
	Türklye Slnal Kalkinma Bankasl (TSKB)	€ 100 million
	Yapl ve Kredl Bankasl A.S.	€ 100 million

FINANCING JOB CREATION AND PRESERVATION

...Providing support for a woman-entrepreneur to expand her textile business in Lithuania; part-financing a medium-sized enterprise in Slovak Republic for the partial replacement of its truck fleet to provide upgraded transportation services in line with current EU regulations; financing a supplier of microcomputer systems for control automation management and monitoring of distributed infrastructure in Poland; helping a Turkish SME enhance its international competitiveness through the purchase of a high-tech carbon yarn machine to manufacture materials used in aviation and boating industries...

These are just a few examples of different types of projects in Micro, Small and Medium-sized Enterprises (MSMEs) supported by the CEB, in its commitment to contribute to the economic and social benefits of job creation and preservation in its Member States.

MSMEs are the key engine of job growth and account for the vast majority of enterprises in the private sector. The expansion of the MSME sector is closely linked to economic growth. As a group, they also represent an important part of the value added of an economy. Experience demonstrates that the MSME sector, by fostering initiative and entrepreneurship, as well as investment, contributes to strengthening social cohesion.

Since its creation in 1956, the CEB has approved approximately € 9 billion in favour of projects in its job creation and preservation sectoral line of action. Its activity in favour of this sector particularly intensified as of 1995 and, again, with the onset of the global financial crisis which served to aggravate some of the difficulties faced by MSMEs.

Access to financing remains a critical issue for the development of MSMEs, in particular for micro- and small-sized enterprises, which account for a large share of the MSME segment, particularly in countries with shallow financial systems such as those in Central, Eastern and South-Eastern Europe. Limited availability of long-term funding for investment poses a major constraint on the growth and stability of MSMEs. The global financial crisis has further impeded commercial bank lending to MSMEs due to increased funding costs, heightened economic risk and tightened lending policies.

By facilitating access to funding (through tailored loan and leasing products) and strengthening the competitive position of these beneficiaries, the CEB can contribute to the creation and maintenance of permanent and seasonal jobs. In the current economic cycle, higher capacity utilisation of previously built-up fixed assets is also triggering increased working capital needs, while decisions on new instruments may be delayed.

Through its collaboration with carefully chosen financial institutions with considerable local presence, the Bank can better respond to the needs of MSMEs that it would otherwise not be able to reach. The CEB's experience in the appraisal and set-up of these types of projects and the financial institutions' acceptance of CEB requirements for project implementation in terms of environmental, technical and financial monitoring and control ensure programme effectiveness and the achievement of their sustainable social objectives.

The CEB's recently prepared study entitled "Micro, Small and Medium Sized Enterprises: CEB Financing and Its Social Value" traces the history of the Bank's activities in favour of the creation and preservation of viable jobs over the period since the Bank's creation in 1956 until 2012. The study presents the socio-economic rationale for the CEB's support for MSMEs and raises awareness of the CEB's lending in this sectoral line of action as one of its major fields of activity. It also highlights the important factors of additionality, namely value beyond the contributions of the private sector, the high social added value and the catalytic effects that the Bank's MSME lending often produces in the financial sectors in the Bank's target countries of operation in Central, Eastern and South-Eastern Europe.



REGIONAL HOUSING PROGRAMME: STEPS FORWARD

Since 2011, the CEB has played an active part in the Joint Regional Programme developed by Bosnia and Herzegovina, Croatia, Montenegro and Serbia – with the wide support of the European Commission, the United Nations High Commissioner for Refugees (UNHCR), the Organization for Security and Co-Operation in Europe (OSCE) and the United States of America (USA) – aimed at implementing fair, comprehensive and durable solutions for refugees and internally displaced persons stemming from the armed conflicts within the region in the 1990s.

The Regional Housing Programme (RHP) represents a cornerstone of this regional initiative focused on ending the protracted displacement in the Western Balkans; the RHP is to provide sustainable housing solutions to 27 000 households or 74 000 individuals identified as the most vulnerable refugees and internally displaced persons.

The total investment cost of the RHP, to be implemented in parallel in the four countries over a projected five-year period, has been estimated at € 584 million and is to be mostly financed by the international community's donor contributions. The CEB's involvement within the framework of the Regional Housing Programme is threefold, as it will:

- act as Fund Manager responsible for managing contributions paid in by the Donors, monitoring the way the grants are used, and reporting on the activities financed with the Fund resources, for the approval of Donors. The Fund will also keep track and record the disbursements of the Fund resources.
- serve as Finance Institution that offers technical expertise in the appraisal, implementation and supervision of Partner Countries' sub-projects as well as management and supervision of the technical assistance provided to the countries throughout the programme. The Finance Institution could also offer loans to complement the Partner Countries' own contributions to the RHP.
- provide Secretariat services to facilitate coordination and efficient cooperation between CEB, the Partner Countries, the Donors (including the European Commission) and other international stakeholders, during RHP preparation and implementation phases.

During 2012, in coordination with the four Partner Countries and the international community, the Bank continued to work on finalising the governance framework of the RHP and preparing the modalities of project implementation. A number of milestones have already been reached:

- Donors' Conference – resulting in € 261 million in pledges – took place on 24 April 2012 in Sarajevo. The most significant contribution, in the amount of € 231 million, has been pledged by the European Commission from its programmes, in particular from IPA (Instrument for Pre-adhesion Assistance) funds.
- the first Donor Consultation Meeting was held in Paris in June 2012 and the first meeting of the RHP Technical Committee and the first Assembly of Donors and RHP Steering Committee meeting took place, respectively, in October and November 2012; this has allowed the finalisation of the legal framework of the RHP Fund which is now fully operational and receiving donations.
- the United States of America were able to sign a contribution of 10 million US dollars to the RHP Fund in September 2012, marking not only the first contribution to the RHP Fund but also the very first contribution from the USA ever to be managed by the CEB.
- At the end of 2012, the RHP Fund had already received € 16 million in paid-in contributions from Norway and Germany, in addition to the USA (as mentioned above).
- A dedicated RHP team, responsible for overseeing the preparation and implementation of the RHP, has been assembled by the CEB and is fully operational as of November 2012.
- The Terms of Reference to establish a Regional Coordination Forum between PCs and international stakeholders was agreed on 30 November 2012. This Forum signals the formal institutionalization of the fruitful collaboration that has been established between the Partner Countries, international stakeholders and the CEB since the RHP was launched in 2011.

While the Partner Countries started setting up project implementation structures and preparing sub-projects, significant Technical Assistance (TA), financed by the European Commission and managed by the CEB, has been put in place in order to assist the four countries in preparing and implementing each country housing project. The first wave of sub-project proposals is expected to be submitted for approval to the Assembly of Donors in April 2013.

4. Improvement of living conditions in urban and rural areas

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

The projects financed may concern the construction or rehabilitation of infrastructure, such as industrial estates, utilities, road network infrastructure, local transport networks in rural areas, basic educational and medical amenities, socio-cultural or sports centres or irrigation networks in rural areas.

Over the period 2008-2012, the Bank approved projects aimed at improving living conditions in urban and rural areas for a total of over € 1 624 million, representing 15.2% of all approvals. For 2012, the total amount of projects approved in this sector reached € 294 million (representing 16.3% of all projects approved during the year). Disbursements during 2012 reached € 226 million, representing 14.3% of all disbursements for the year.

Operations approved in this sector in 2012 are detailed in the table below.

IMPROVEMENT OF LIVING CONDITIONS IN URBAN AND RURAL AREAS

Country	Borrower	Project/Programme	Amount
Bosnia and Herzegovina	Government	Extending the municipal water distribution network to allow for wider coverage by municipal providers and expanded supply of high quality water (see box on page 23).	€ 11 million
Croatia	Hrvatska banka za obnovu i razvoj (HBOR)	Co-financing municipal investments in order to improve the standards of public infrastructure and the provision of public services.	€ 15 million
Germany	Investitionsbank des Landes Brandenburg (ILB)	Financing municipal investments – such as re-development of derelict industrial estates, utilities, socio-cultural, health and education facilities – aimed at fostering more balanced regional development within the Federal State of Brandenburg.	€ 140 million
Poland	Bank Polskiej Spółdzielczości (BPS)	Co-financing public infrastructure upgrades that create improved conditions for sustained economic development and better living conditions for target populations.	€ 10 million
	SGB Bank	Facilitating access to credit for public investments by smaller municipalities throughout the country to upgrade local infrastructure such as local roads, schools and vocational training facilities, water-supply networks or local agro-tourism activities.	€ 10 million
Romania	Raiffeisen Bank	Part-financing investment projects in public service infrastructure with a view to improving the economic, physical, social and environmental conditions in the targeted localities.	€ 15 million
Slovak Republic	ČSOB Leasing, a.s.	Modernising and renewing bus fleets and related equipment of urban/rural public transport companies so as to improve the safety and efficiency of the bus fleets and fulfil EU requirements by decreasing fuel consumption and air-polluting emissions.	€ 26.2 million
	Slovenská sporiteľňa, a.s. (SLSP)	Financing investments that improve conditions for sustained economic development and better living standards for targeted populations by facilitating access to credit for the construction and upgrading of local infrastructure.	€ 10.5 million
Spain	Banco Bilbao Vizcaya Argentaria (BBVA Madrid)	Co-financing a multi-faceted investment programme in the framework of the JESSICA (Joint European Support for Sustainable Investment in the City Areas) initiative aimed at facilitating more dynamic and equitable economic and social growth by revitalising targeted run-down urban areas.	€ 140 million*

* The total loan amount was to be split as follows: 40% for improving living conditions in urban and rural areas and 12% each for housing for low-income persons, job creation and preservation, protection of the environment, protection of historic and cultural heritage and infrastructure of administrative and judicial public services.

IV MANAGING THE ENVIRONMENT

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

Over the period 2008-2012, projects approved in this sectoral line of action represented an accumulated amount of € 1 827 million, representing 17.1% of all approvals during the period. A total of € 1 250 million, or 68.4% of all approvals in this sectoral line of action over the period, was dedicated to operations in target group countries. In 2012 alone, new project approvals in this sectoral line of action amounted to € 79 million, representing 4.4% of all projects approved in the year.

In parallel to this, since 2008, loans disbursed in favour of environmental management have amounted to an accumulated total of € 1 972 million, representing 23.1% of all disbursements made over the past five years. Of this, target group countries accounted for € 1 645 million or 83.4% of all disbursements in this sector. In 2012, the Bank disbursed € 368 million for environmental management, representing 23.2% of all disbursements for the year.

1. Natural or ecological disasters

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

Over the period 2008-2012, the Bank approved projects in this sector for a total amount of € 557 million (representing 5.2% of all project approvals during the period). Loan disbursements over the last five years amounted to € 536 million.

WESTERN BALKANS INVESTMENT FRAMEWORK (WBIF)

The WBIF is a coordination instrument to facilitate access to European funding for the Western Balkans countries. It covers five sectors (Energy, Environment, Social, Transport, Private Sector Development). The CEB is one of the co-founding IFI partners to this framework, created in December 2009, which combines grants from the European Union and from bilateral donors and IFIs (according to their respective internal rules) with loans from IFIs and bilateral development agencies.

Against the background of the economic crisis, the WBIF continued to be active in 2012 with a slightly total number of grants approved of € 59.5 million. At 31 December 2012, 137 projects were supported by the WBIF, representing a total investment of € 13 billion.

In 2012 three grants concerning CEB projects were approved for a total of € 2.4 million. At end 2012, the total amount of WBIF grants allocated to CEB projects stood at € 48.8 million for a total investment of € 990 million.

During the second half of 2012, the CEB co-chaired the WBIF Project Financiers Group (the operational body of the WBIF) and hosted the WBIF Steering Committee meeting in Paris on 6 December 2012.

The European Commission and the EU Member States have renewed their financial support for the WBIF for 2013 by earmarking some IPA funds (Instrument for Pre-accession Assistance). This endorsement will enable the WBIF to continue to play its leverage role in the region covering six of the CEB's target countries.

While there were no new projects approved in the natural or ecological disasters sector of action in 2012, loan disbursements in this sector reached € 154 million representing 9.7% of all disbursements during the year.

2. Protection of the environment

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



ROMANIA
Protection de l'environnement

The projects notably involve:

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

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

The initiatives that have been taken in the environmental protection sector are today widely diverse in terms of both fields of action and geographical scope. Over the period 2008-2012, the Bank approved projects in this sector for an accumulated amount of € 1 224 million, representing 11.4% of all projects approved over the period. For 2012, approvals in this field amounted to € 62 million or 3.4% of all projects approved during the year. Disbursements during 2012 totalled € 191 million, representing 12% of all disbursements for the year.

Examples of the operations approved for the protection of the environment in 2012 are detailed in the table below.

BOSNIA AND HERZEGOVINA: Upgrading the quality of drinking water

The Plava Voda regional water supply system was planned as a pilot project enabling the reconstruction of the water intake facility at the Plava Voda source in the Municipality of Travnik, and the construction of a 33-kilometer main transport pipeline from the water source to the Municipality of Zenica. The pipeline is designed to provide services to three other municipalities located along its route through the construction of connection facilities to the existing water distribution networks in the neighbouring municipalities. Other segments of the project will focus on enhancing water quality, lowering leakage ratios and correcting other system inefficiencies through improvements in management and infrastructure.

The proposed project will benefit some 250 000 residents, representing about 6% of the country's population, living in the central Bosnia region, also known as Lasva Valley. Together with the EBRD, the CEB worked on raising two international grants for an amount of € 0.9 million for the preparation of the project and has since been involved in overseeing the work of international and local consultants who are providing the necessary technical assistance.

3. Protection and rehabilitation of historic and cultural heritage

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

Over the period 2008-2012, the Bank approved a total of € 47 million for the protection and rehabilitation of elements of historic and cultural heritage, and € 16.8 million in 2012. Disbursements during 2012 amounted to € 23 million, representing 1.4% of all disbursements for the year.

PROTECTION OF THE ENVIRONMENT

Country	Borrower	Project/Programme	Amount
France	Banque Populaire Caisse d'Epargne (BPCE)	Renovating and modernising current infrastructure with a view to improving energy efficiency in residential care homes and medical structures for aged dependent populations (EHPAD).	€ 15 million
Slovak Republic	Slovenská sporiteľňa, a. s. (SLSP)	Co-financing small-scale energy-saving insulation and other retrofitting works to reduce energy consumption and improve living conditions for inhabitants of panel buildings and old multi-apartment houses in Slovakia.	€ 30 million

V SUPPORTING PUBLIC INFRASTRUCTURE WITH A SOCIAL VOCATION

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

REPUBLIC OF MOLDOVA: Grant to improve the healthcare delivery system

The CEB approved a € 500 000 grant for the Ministry of Health of the Republic of Moldova in 2012 in order to enable completion of the project aimed at ensuring safe blood transfusion in the country. The project remains an integral part of the support for the Government's commitments to enhancing the quality and efficiency of its healthcare delivery system by improving the supply, quality and safety of blood and blood products at all stages of the process, from collection to transfusion.

During the period 2008-2012, projects approved in this sectoral line of action represented an accumulated amount of € 2 628 million or 24.6% of all project approvals over the period.



CROATIA
Health infrastructure

Of this, project approvals for the benefit of target group countries amounted to € 905 million, representing 34.4% of all approvals in this sectoral line of action over the period. In 2012, projects approved amounted to € 308 million representing 17.1% of all projects approved.

In parallel to this, loans disbursed in favour of this line of action reached an accumulated total of € 1 713 million, representing 20.1% of all disbursements made over the period 2008-2012. Of this, disbursements to target group countries accounted for € 675 million. For 2012 alone, the Bank disbursed a total of € 217 million, representing 13.7% of all disbursements for this line of action.

1. Health

The CEB provides the means for financing various types of projects that concern health and related infrastructure, most notably involving the construction, renovation and modernisation of infrastructure such as hospitals, neighbourhood healthcare centres (including those specialised in providing assistance to vulnerable populations), university hospitals or centres

HEALTH

Country	Borrower	Project/Programme	Amount
Belgium	Institut Jules Bordet	Part-financing the relocation of the Institut Jules Bordet alongside the Erasmus Hospital on the campus of the Université Libre de Bruxelles in Anderlecht, and the creation of a new, merged centre of excellence in the field of oncology by improving the effectiveness of its medical facilities and the working conditions of its medical staff.	€ 110 million
France	Banque Populaire Caisse d'Epargne (BPCE)	Rehabilitating, extending and upgrading to current standards community services for reliant/dependent persons in France, thereby directly benefitting some 15,000 persons placed in Residential Care Homes for Reliant Persons (EHPAD) and in residential care services such as medico-social foster homes for people with disabilities (children and adults) and specialised residential and day care units.	€ 135 million
Slovak Republic	ČSOB Leasing, a.s.	Facilitating access to leased assets for healthcare services in order to upgrade the infrastructure of different medical establishments and facilitate the development of higher standards in the provision of healthcare services.	€ 11.2 million

specialising in healthcare for the elderly and the disabled. In addition, the CEB can contribute to financing technical and management training programmes for specialised staff in the social welfare and healthcare fields.

Over the period 2008-2012, the CEB approved € 894 million for operations in the health sector. In 2012, the Bank approved € 256 million representing 14.3% of all project approvals in this sector of action. Disbursements for 2012 amounted to € 111 million or 7.0% of all disbursements for the year.

In 2012, on a proposal by the Governor, the Administrative Council approved a € 500 000 grant for the Ministry of Health of the Republic of Moldova to finalise the project for safe blood transfusion (see box on page 24).

Details of projects approved in 2012 for healthcare-related operations are presented in the table on page 24.

2. Education and vocational training

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

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

Over the period 2008-2012, the CEB approved projects in this sectoral line of action for an accumulated amount of € 1 352 million representing 12.6% of all approvals over the period. While there were no new operations approved in this sector in 2012, disbursements for the year amounted to € 103 million representing 6.5% of all disbursements for the year.

INFRASTRUCTURE OF ADMINISTRATIVE AND JUDICIAL PUBLIC SERVICES

Country	Borrower	Project/Programme	Amount
Serbia	Government	Partial financing the construction and equipment of the new Pancevo prison facility for 500 inmates as part of a programme aimed at alleviating prison overcrowding and adjusting the inmates' living, safety and hygiene conditions to the European Prison Rules (EPR).	€ 18 million
		Financing the construction and equipment of the new high security prison facility in Kragujevac for 400 detainees. Apart from improving the facilities and lessening the burden on existing infrastructure, the project will help to develop better living conditions for the inmates and better working conditions for the prison staff.	€ 17 million

3. Infrastructure of administrative and judicial public services

Under this heading, the CEB can finance projects for the construction or rehabilitation of infrastructure as well as the conversion of buildings into premises intended for public service use, in particular to improve the organisation and functioning of administrative and judicial public services.

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

Since 2008, the CEB has approved a total of € 381 million in this sector. In 2012 alone, € 52 million was approved for new operations in this sector of action. Disbursements made in this sector in 2012 amounted to € 3 million, reflecting the difficulty of putting in place these complex projects.

Examples of projects approved in 2012 in this sector are presented in the table on page 25.

* * *

The financings carried out in 2012 brought the loans outstanding to € 12.1 billion and the stock of projects awaiting financing to € 4.9 billion, constituting a solid reserve of projects for the forthcoming years.

SERBIA:
Modernising the prison infrastructure

Partial financing for the construction and equipment of the new Pancevo prison facility for 500 inmates and a new high security prison in Kragujevac for 400 detainees, both approved by the CEB in 2012, make up part of a wider government programme designed to support implementation of the on-going penal reform strategy and modernisation of the country's prison system.

The projects will contribute to improving the efficiency of the Serbian penal system, among other things by strengthening prison capacity, alleviating prison overcrowding and improving living, safety and hygiene conditions for inmates. While contributing to improved conditions for sentence serving, these investments will also combine education and training activities for the benefit of both inmates and prison staff.

Beyond providing stable long-term financial resources tailored to the nature of this priority social investment, the CEB's involvement is also expected to add value through the Bank's experience in the appraisal and set-up of judiciary infrastructure projects. Among other, this includes the Bank providing support and advice during the project preparation phase, putting in place specific technical and financial monitoring and control mechanisms as well as co-ordinating and supervising external consultancy services financed by a grant from the Western Balkans Investment Framework.

in thousand euros

PROJECTS APPROVED per country and per sectoral line of action

Countries	2012		2011		Accumulated total 2008-2012	
	Amounts	%	Amounts	%	Amounts	%
Albania					50 000	0.5
Belgium	215 000	12.0	270 000	12.8	860 000	8.0
Bosnia and Herzegovina	61 000	3.4	9 200	0.4	139 500	1.3
Bulgaria	10 000	0.6	30 000	1.4	110 000	1.0
Croatia	50 000	2.8	155 000	7.3	311 480	2.9
Cyprus					333 000	3.1
Czech Republic			100 000	4.7	150 000	1.4
Estonia					35 000	0.3
Finland					200 000	1.9
France	250 000	13.9	200 000	9.5	900 000	8.4
Georgia	11 719	0.7	60 000	2.8	71 719	0.7
Germany	190 000	10.6			671 400	6.3
Hungary			150 000	7.1	724 000	6.8
Iceland					50 000	0.5
Ireland					335 000	3.1
Italy					200 000	1.9
Latvia					150 000	1.4
Lithuania					130 000	1.2
Moldova (Republic of)			13 400	0.6	27 400	0.3
Montenegro					25 000	0.2
Poland	270 000	15.0	300 000	14.2	1 543 400	14.4
Portugal					665 000	6.2
Romania	80 000	4.5	100 000	4.7	180 000	1.7
Serbia	35 000	1.9	138 500	6.6	240 500	2.2
Slovak Republic	135 000	7.5	100 000	4.7	285 000	2.7
Slovenia					120 000	1.1
Spain	240 000	13.4	350 000	16.6	1 033 000	9.7
Sweden					100 000	0.9
"the former Yugoslav Republic of Macedonia"			34 000	1.6	140 350	1.3
Turkey	250 000	13.9	100 000	4.7	920 100	8.6
TOTAL	**1 797 719**	**100.0**	**2 110 100**	**100.0**	**10 700 849**	**100.0**

Sectoral lines of action *	2012		2011		Accumulated total 2008-2012	
	Amounts	%	Amounts	%	Amounts	%
Strengthening social integration	**1 411 069**	**78.5**	**1 193 650**	**56.6**	**6 245 891**	**58.4**
Aid to refugees, migrants and displaced persons	70 000	3.9	10 000	0.6	107 000	1.0
Housing for low-income persons	221 800	12.3	318 900	15.1	1 479 470	13.8
Creation and preservation of viable jobs	825 519	45.9	585 500	27.7	3 034 939	28.4
Improvement of living conditions in urban and rural areas	293 750	16.3	279 250	13.2	1 624 482	15.2
Managing the environment	**78 600**	**4.4**	**460 750**	**21.8**	**1 827 434**	**17.0**
Natural or ecological disasters			270 000	12.8	556 696	5.2
Protection of the environment	61 800	3.4	180 250	8.5	1 223 650	11.4
Protection and rehabilitation of historic and cultural heritage	16 800	0.9	10 500	0.5	47 088	0.4
Supporting public infrastructure with a social vocation	**308 050**	**17.1**	**455 700**	**21.6**	**2 627 524**	**24.6**
Health	256 250	14.3	129 200	6.1	894 284	8.4
Education and vocational training			207 500	9.8	1 352 250	12.6
Infrastructure of administrative and judicial public services	51 800	2.9	119 000	5.7	380 990	3.6
TOTAL	**1 797 719**	**100.0**	**2 110 100**	**100.0**	**10 700 849**	**100.0**

** amounts as estimated at the time of project approval.*
NB - Percentages may not add up to 100 due to rounding.

PROJECTS APPROVED per counterparty in 2012

in thousand euros

Countries	Counterparties	Sectors	Amounts
Belgium	Institut Jules Bordet	Health	110 000
	Société Wallonne du Crédit Social (SWCS)	Housing for low-income persons	105 000
Bosnia and Herzegovina	Government	Improvement of living conditions in urban and rural areas	11 000
	Intesa Sanpaolo BIH	Creation and preservation of viable jobs	30 000
	Raiffeisen Leasing doo BiH	Creation and preservation of viable jobs	20 000
Bulgaria	ProCredit Bank (Bulgaria)	Creation and preservation of viable jobs	10 000
Croatia	Hrvatska banka za obnovu i razvoj (HBOR)	Improvement of living conditions in urban and rural areas	15 000
		Creation and preservation of viable jobs	35 000
France	Banque Populaire Caisse d'Epargne S.A. (BPCE)	Protection of the environment	15 000
		Health	135 000
	Crédit Mutuel ARKEA	Housing for low-income persons	100 000
Georgia	JSC ProCredit Bank	Creation and preservation of viable jobs	11 719
Germany	Investitionsbank des Landes Brandenburg (ILB)	Improvement of living conditions in urban and rural areas	140 000
		Creation and preservation of viable jobs	50 000
Poland	Bank Gospodarki Żywnościowej (BGZ)	Creation and preservation of viable jobs	50 000
	Bank Polskiej Spółdzielczości (BPS)	Improvement of living conditions in urban and rural areas	10 000
		Creation and preservation of viable jobs	10 000
	Europejski Fundusz Leasingowy SA (EFL), Wrocław	Creation and preservation of viable jobs	130 000
	Raiffeisen Leasing Polska SA, Poland (RLPL)	Creation and preservation of viable jobs	50 000
	SGB Bank SA	Improvement of living conditions in urban and rural areas	10 000
		Creation and preservation of viable jobs	10 000
Romania	Raiffeisen Bank SA, Roumanie	Improvement of living conditions in urban and rural areas	15 000
		Creation and preservation of viable jobs	35 000
	Raiffeisen Leasing IFN SA, Romania (RLRO)	Creation and preservation of viable jobs	30 000
Slovak Republic	ČSOB Leasing, a.s.	Improvement of living conditions in urban and rural areas	26 250
		Creation and preservation of viable jobs	37 500
		Health	11 250
	Slovak Guarantee and Development Bank (SZRB)	Improvement of living conditions in urban and rural areas	10 500
		Creation and preservation of viable jobs	19 500
	Slovenská sporitel'ňa, a. s. (SLSP)	Protection of the environment	30 000
Serbia	Government	Infrastructure of administrative and judicial public services	35 000
Spain	Banco Bilbao Vizcaya Argentaria S.A. (BBVA Madrid)	Protection of the environment	16 800
		Improvement of living conditions in urban and rural areas	56 000
		Protection and rehabilitation of historic and cultural heritage	16 800
		Creation and preservation of viable jobs	16 800
		Housing for low-income persons	16 800
		Infrastructure of administrative and judicial public services	16 800
	CaixaBank	Aid to refugees, migrants and displaced persons	70 000
		Creation and preservation of viable jobs	30 000
Turkey	Türkıye Halk Bankası A.S.	Creation and preservation of viable jobs	50 000
	Türkıye Sınaı Kalkinma Bankası (TSKB)	Creation and preservation of viable jobs	100 000
	Yapı ve Kredı Bankası A.S.	Creation and preservation of viable jobs	100 000
TOTAL			**1 797 719**

LOANS DISBURSED(*) per country and per sectoral line of action

in thousand euros

Countries	2012		2011		Accumulated total 2008-2012	
	Amounts	%	Amounts	%	Amounts	%
Albania	8 678	0.5	25 137	1.3	92 355	1.1
Belgium	290 000	18.3	235 000	12.6	585 000	6.9
Bosnia and Herzegovina	61	0.004	547	0.03	74 263	0.9
Bulgaria	35 500	2.2	12 000	0.6	64 640	0.8
Croatia	59 267	3.7	10 000	0.5	192 630	2.3
Cyprus	22 000	1.4	71 274	3.8	374 785	4.4
Czech Republic	5 842	0.4			25 842	0.3
Estonia	7 258	0.5	16 542	0.9	28 800	0.3
Finland					287 500	3.4
France	160 000	10.1	87 500	4.7	522 500	6.1
Germany			131 863	7.1	592 733	6.9
Hungary	160 435	10.1	204 257	11.0	1 003 859	11.8
Iceland					92 943	1.1
Ireland					74 870	0.9
Italy(**)	100 000	6.3	16 000	0.9	403 100	4.7
Latvia					75 000	0.9
Lithuania	55 000	3.5			83 000	1.0
Moldova (Republic of)	3 304	0.2	1 024	0.1	10 641	0.1
Montenegro			10 000	0.5	10 000	0.1
Poland	203 938	12.9	213 088	11.4	1 205 285	14.1
Portugal			100 000	5.4	306 730	3.6
Romania	70 000	4.4	146 364	7.8	689 451	8.1
Serbia	5 452	0.3	32 500	1.7	71 939	0.8
Slovak Republic	50 000	3.2	29 126	1.6	83 252	1.0
Slovenia	20 000	1.3			145 000	1.7
Spain	145 000	9.2	164 000	8.8	574 032	6.7
Sweden			56 200	3.0	156 200	1.8
"the former Yugoslav Republic of Macedonia"	13 689	0.9	3 700	0.2	44 618	0.5
Turkey	168 545	10.6	298 975	16.0	661 436	7.8
TOTAL	**1 583 968**	**100.0**	**1 865 096**	**100.0**	**8 532 403**	**100.0**

** After 1 January 2012, the loans in currencies other than euro are converted at the exchange rate at the disbursement date rather than the exchange rate at the financial statement date. For comparison purposes, historical data have been recalculated and can differ from previously published data.*
*** in favour of target group countries (2012) and € 16 million in 2011.*
NB - Information regarding amounts disbursed reflects the location of the registered office of the borrower and not that of the ultimate beneficiary, who may be based in another country. Consequently, the figures provide information on the risk profile of the Bank's borrowers and not that of the ultimate beneficiaries of its lending operations.

Sectoral lines of action	2012		2011		Accumulated total 2008-2012	
	Amounts	%	Amounts	%	Amounts	%
Strengthening social integration	**999 737**	**63.1**	**940 978**	**50.5**	**4 847 112**	**56.8**
Aid to refugees, migrants and displaced persons	5 000	0.3	5 000	0.3	46 797	0.6
Housing for low-income persons	294 377	18.6	279 297	15.0	1 207 264	14.1
Creation and preservation of viable jobs	474 548	30.0	386 885	20.7	2 389 609	28.0
Improving living conditions in urban and rural areas	225 812	14.3	269 796	14.5	1 203 442	14.1
Managing the environment	**367 611**	**23.2**	**528 194**	**28.3**	**1 972 337**	**23.1**
Natural or ecological disasters	154 062	9.7	173 693	9.3	535 892	6.3
Protection of the environment	190 783	12.0	343 828	18.4	1 333 044	15.6
Protection and rehabilitation of historic and cultural heritage	22 766	1.4	10 673	0.6	103 401	1.2
Supporting public infrastructure with a social vocation	**216 620**	**13.7**	**395 924**	**21.2**	**1 712 954**	**20.1**
Health	111 148	7.0	72 883	3.9	552 126	6.5
Education and vocational training	102 575	6.5	318 697	17.1	1 116 646	13.1
Infrastructure of administrative and judicial public services	2 897	0.2	4 344	0.2	44 182	0.5
TOTAL	**1 583 968**	**100.0**	**1 865 096**	**100.0**	**8 532 403**	**100.0**

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



Financial activities and risk management

I FINANCIAL ACTIVITIES IN 2012

I. Financial markets comment

In 2012 international capital markets continued to be very volatile. Financial markets reflected a difficult global recovery and major concern with Europe's sovereign debt. Although in principle more stable than in the two previous years, the outlook for 2013 seems uncertain and still highly subject to "confidence building policy action".

In line with previous years, primary market activity was very concentrated within the first half of 2012 and issuance transactions were well absorbed by investors.

The Euro fluctuation against the US dollar was very significant in the course of 2012 ranging from 1 euro = 1.21 US dollar to 1 euro = 1.35 US dollar.

During 2012, the European Central Bank continued to provide liquidity to eurozone financial institutions and, at year end, in an effort to support growth, kept its main refinancing rate at 0.75%.

II. Securities portfolios

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

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

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

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

At 31 December 2012, the total value of securities in this portfolio with a maturity of more than one year amounted to € 1 928 million.

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

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

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

At 31 December 2012, the total value of this portfolio amounted to € 2 461 million.

III. Derivatives

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

At 31 December 2012, the breakdown of derivatives by type of hedge was 78% for bond issuances, 18% for loans and 4% for securities.

To guard against the risks inherent in these financial instruments, the Bank implements a strict management policy the principles of which are described in the section entitled Control and Integrated Risk Management, on page 34.

To limit credit risk, the Bank has signed collateral agreements with all of its counterparties. Thus, at 31 December 2012, all the CEB's swaps contracts were collateralised. The residual credit risk, calculated as the amount of the positive market values not covered by collateral received, remains marginal.

IV. Funding in 2012

1. Debt issuance

Subject to the annual borrowing authorisation set by the Administrative Council, the CEB issues debt in the international capital markets. In 2012, the Bank borrowed a total of € 3.2 billion in 8 financing operations, including two new re-opening transactions of existing lines with maturities of one year or more. This amount is lower than the volume of financing in 2011, which stood at € 3.9 billion and consisted of 11 funding operations including 6 re-openings of existing issues. The 2012 funding programme fulfilled two main objectives:

- to cover the requirements arising from lending activity

- to enable the Bank to honour its debt maturities.

The volume of funds raised in 2012 also enabled the Bank to maintain liquidity at the level set by the Administrative Council. In this context, the stock of projects approved is taken into account in the projected cash requirements. In accordance with its prudent liquidity policy, the Bank's reinforced liquidity ratio requires at least 50% of projected cash requirements for the coming three years to be available in cash. These projected requirements include the funding of approved projects and the additional liquidity requirements covering the risk of default over three years.

CEB USD GLOBAL BENCHMARK TRANSACTIONS

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

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

In 2012, two benchmark transactions of USD 1 billion each were carried out in a global format. The first of these transactions was launched in February with a five-year maturity and a fixed coupon of 1.5%. The second USD 1bn benchmark transaction was executed in June, also with a five-year maturity and a 1.5% coupon.

These six USD benchmark transactions executed under a Global format, during the last three years, have contributed to the consolidation of the CEB's benchmark curve in the USD market. Despite 2010-2012 being a period of financial and economic uncertainty and the resulting high volatility in international capital markets, the CEB's USD benchmark transactions were characterized by the high quality of the investor base and their diversity, both geographically and in terms of investor category.

The CEB's issuance in US Dollars, with 79% of total funds raised, represented the major market of issuance in 2012.

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

In 2012, 79% of the funds raised by the Bank were denominated in US dollars and 21% in British pounds. These transactions enabled the Bank to diversify the markets in which its activities are financed while at the same time allowing for broadening of its investor base.

In USD, two issues were launched under a Global format: a 1 billion benchmark with five-year maturity was executed in February, inaugurating the 2012 borrowing programme, and a second 1 billion benchmark was launched in June, also with a five-year maturity.

Two other USD issues, of USD 500 million each, were launched under CEB's EMTN programme (Euro Medium Term Note). The first of these transactions arrives at maturity in September 2013, the second in March 2016.

Two re-openings of existing lines completed the 2012 USD funding. The first transaction amounted to 100 million and was launched in March with maturity in April 2017. The second transaction amounted for 200 million and was launched in May with maturity in April 2015 The US dollar market was the CEB's most important market in terms of financing volumes in 2012.

DEBT ISSUED IN 2012

Payment date	Maturity Date	Currency	Term	Nominal amount (in millions)	Lead manager
22/02/2012	22/02/2017	USD	5 years	1 000	Barclays / Daiwa / HSBC / Royal Bank of Canada
21/03/2012	23/09/2013	USD	18 months	500	UBS / Citigroup
22/03/2012	23/03/2016	USD	4 years	500	Goldman Sachs / JP Morgan
28/03/2012	07/12/2015	GBP	2 years and 9 months	300	Royal Bank of Canada / Barclays
27/03/2012	20/04/2017	USD	5 years and 1 month (*)	100	Morgan Stanley
08/05/2012	19/12/2016	GBP	4 years and 7 months	250	HSBC / Royal Bank of Canada
23/05/2012	15/04/2015	USD	3 years and 11 months (*)	200	Credit Agricole
19/06/2012	19/06/2017	USD	5 years	1 000	Citigroup / BNP Paribas / Barclays / Royal Bank of Canada

(*) *New issuance of existing bonds*

The CEB completed its 2012 funding activity with two transactions carried out in the GBP market. A first issue of GBP 300 million was raised by mid-March with maturity in December 2015. A second GBP 250 million transactions followed in the beginning of May with maturity in December 2016. These transactions made the GBP market the second largest in terms of financing volume in 2012.

All the financing operations carried out in 2012 were hedged with swaps to eliminate both interest rate and currency risks. After such swaps, the total amount of funds borrowed was converted into euros.

The average maturity of the issues launched in 2012 was 4 years, compared with 6 years in 2011. The table on page 31 shows funds raised in their original currencies.

In 2012, 51% of the issues carried out under the borrowing programme had final maturities of five years or more, compared with 71% in 2011, in order to ensure the refinancing of the Bank's loans and avoid cash gaps in the coming years.

The multi-currency EMTN programme was updated in November 2012 to adapt the legal framework of the Bank's issues to changes in financial market regulations. The Australian and New Zealand Dollar MTN (Australian programme) was updated in July 2010. The CEB's Euro-Commercial Paper Programme was updated in December 2011.

2. Trend in debt position

At 31 December 2012, the outstanding debt represented by securities, excluding interest payable, amounted to € 20.2 billion, up from € 19.8 billion in the previous year.

In 2012, as in the previous year, the Bank did not repurchase any of its long term debt. On the other hand, it made early repayments totalling € 61 million, compared with € 32 million in 2011. Taking these operations and the new issues into account, the breakdown of debt by maturity is as shown in the chart below.

V. Profit and balance sheet

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

Further to its adoption by the European Union on 6 June 2012, the CEB has decided to anticipate the implementation to 1 January 2012 of the amended IAS 19 "Employee benefits", mandatory as of 1 January 2013. In accordance with IAS 8, this change in accounting method has been applied retroactively for comparison purposes between the financial years. As a result, the financial year figures 2011 have been restated.

1. Trends in profits

In a challenging environment due to the persistence of the economic and financial crisis in Europe, the net income for 2012 reaches € 120.2 million compared to € 106.9 million in 2011. This significant growth of + € 13.3 million (+ 12.5%) was driven by the following developments:

- **An increase in the net banking income of + € 13.1 million (+ 9.2%) including:**

- an increase of the net interest margin from loans and treasury assets of + € 16.7 million (+ 11.8%) within a general context of interest rate decrease

- a negative variation of - € 4.2 million in the hedging derivative financial instruments' market value.

- **A decrease of the general operating expenses of - € 0.2 million (- 0.5%), including:**

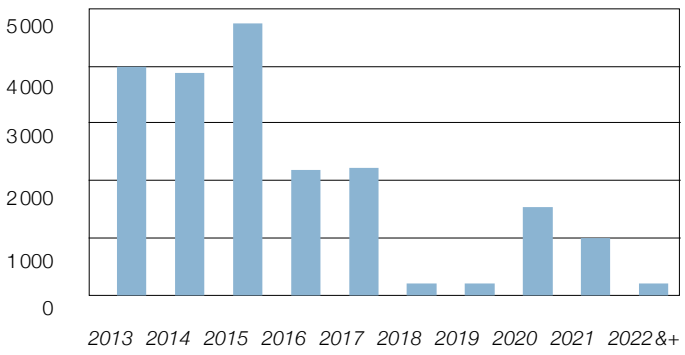
- evolution in staff costs, including post-employment benefits in accordance with the provisions of the staff regulations

- stable operating expenses due to savings in office rentals and consultancy fees, compensating a slight increase in depreciation.

Subsequently, the cost-to-income ratio (general operating expenses/net banking income) improved significantly from 25.4% at end 2011 (restated) to 23.1% in 2012.

Debt outstanding by maturity as at 31 December 2012

in million euros



TRENDS IN PROFITS

in million euros

	2012	2011 (restated)	Change	%
Net banking income	156.4	143.2	+ 13.1	+ 9.2%
General operating expenses	*- 36.1*	*- 36.3*	*- 0.2*	*- 0.5%*
Net income	120.2	106.9	+ 13.3	+ 12.5%

2. Trends in the balance sheet

At 31 December 2012, total assets came to € 26 858 million against € 26 083 million at 31 December 2011, up by + 3%.

Assets

Outstanding loans were up slightly (+ 1.3%) year-on-year. Disbursements totaled € 1 584 million, decreasing by - 14.6% compared to 2011 (€ 1 855 million), including 62% in favor of the target group countries. At the same time, repayments for 2012 reached € 1 584 million.

Treasury assets grew to € 9 278 million from € 8 612 million end 2011, or + 7.7%, mainly because of the increase of the available-for-sale financial assets reaching € 4 930 million compared to € 3 650 million end 2011 (+ 35.1%) compensating the decrease in the advance deposits to commercial banks from € 4 720 million end of 2011 down to € 4 021 million end of 2012. This evolution helps to maintain a level of liquidity reserves in a context of severe crisis in the financial markets.

Financial assets held to maturity also contribute to the assets' growth increasing from € 2 268 million in 2011 to € 2 478 million in 2012, representing a growth of + 9.3%, following acquisitions for € 295.6 million and maturities of € 78.3 million.

Liabilities

Debt securities in issue increased by € 600 million, or + 2.9%. This development is due to:

- short-term issues of Euro Commercial Papers (ECP) for an amount of € 3 247 million, reimbursements totaling € 2 433 million and a negative impact of the exchange rate variation of € 8 million.
- issues with maturities of one year and more totaling € 3 219 million, reimbursements totaling € 3 482 million and a negative impact of the exchange rate variation of € 173 million.

Equity, including profit for the year 2012 (before allocation), increased from € 2 093 million at 31 December 2011 to € 2 262 million (+ 8.1%). This change is due to the following developments:

- the 6th capital increase, which took effect end of 2011 and was closed end of 2012. This capital increase had no impact on equity, but permitted the subscribed capital to be increased to € 5 466 million (+ 65%) and paid-in capital to € 612 million through incorporation of reserves to maintain the level of called capital at 11.19%.
- an increase in the "gains or losses recognized directly in equity", of + € 49.4 million (+ 27.3%) resulting on the one hand from the positive variation of the net potential loss of the available-for-sale portfolio (- € 74 million versus - € 162 million at end 2011) and on the other hand from the negative impact of the adjusted provision for post-employment benefits further to the adoption of the amended IAS 19 (- € 57.3 million end of 2012 and - € 19.2 million end of 2011 retroactively).

Finally, the balance sheet showed a variation in "Financial Assets and Liabilities at fair value through profit/loss and hedging derivatives" of respectively - € 279 million (- 9.7%) and - € 40 million (- 3.8%). These items mainly represent the fair value, either positive (asset) or negative (liability) of the currency component of CIRS swaps contracts where the counterparty currency has been revalued for the various items on the balance.

TRENDS IN THE BALANCE SHEET

in million euros

Assests	2012	2011 (restated)	Change	%
Loans	12 448	12 284	+ 165	+ 1.3%
Treasury assets	9 278	8 612	+ 666	+ 7.7%
Financial assets held to maturity	2 478	2 268	+ 210	+ 9.3%
Financial assets at fair value through profit/loss and hedging derivatives	2 603	2 882	- 279	- 9.7%
Other assets	50	37	+ 13	+ 34.2%
TOTAL	**26 858**	**26 083**	**+ 774**	**+ 3.0%**

Liabilities	2012	2011 (restated)	Change	%
Debt securities in issue	21 558	20 958	+ 600	+ 2.9%
Treasury Funds	161	151	+ 10	+ 6.9%
Financial liabilities at fair value through profit/loss and hedging derivatives	1 024	1 064	- 40	- 3.8%
Other liabilities	1 852	1 816	+ 36	+ 2.0%
Total debt	*24 595*	*23 990*	*+ 605*	*+ 2.5%*
Equity	2 262	2 093	+ 169	+ 8.1%
TOTAL	**26 858**	**26 083**	**+ 774**	**+ 3.0%**

II CONTROL AND INTEGRATED RISK MANAGEMENT

The CEB has an integrated risk management system that is separate from its operational activities, with rigorous supervision standards. A clearly defined framework has been provided for managing credit risk, market risk, liquidity risk and operational risk, with special attention given to the application of best banking practices in the area of risk management.

Within the Central Directorate for Information Systems and Control (CDISC), the Risk Management Department performs its responsibilities independently from the Bank's operational activities. As the Chief Risk Officer, the Director of the Department reports directly to the Governor.

The main activity of the Risk Management Department is to evaluate all credit risks arising from the CEB's activities and to assign internal ratings to all its counterparties and transactions. The findings are part of the project approval process. It also evaluates and implements risk assessment rules, methods and general risk control follow-up processes to assure that the Bank's risk policies are in line with international guidelines.

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

To date, the CEB has coped with the financial crisis satisfactorily. Its prudent credit risk policy has proved effective. In-depth assessment and monitoring combined with a conservative management approach are the cornerstones of this policy.

I. A structured and dynamic function

1. Dedicated departments

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

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

- The **Organisation Department** is responsible for activities designed to protect the Bank from operational risks. It identifies all events that could result in operating losses. It manages the business continuity plan (updates, tests with transfer to the back-up site), governs the Bank's archiving system and reviews the internal procedures for all activities from an operational risks perspective.

2. Decision-making committees

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

- The *Risk Committee* is the cornerstone of the Bank's credit risk management framework. It meets weekly and takes decisions based on the Risk Management Department's analyses and recommendations.
- The *Finance Committee* reviews all aspects of the Bank's financial activity (cash management, debt, trends on the financial markets, liquidity) on a weekly basis.
- The *Funding Committee* addresses the funding strategy and the pricing policy on a quarterly basis.
- The *ALM Committee* decides on the Bank's asset and liability management strategy on a quarterly basis.
- The *Committee for Organisation and Operational Risks* (CORO) meets biannually to validate the Bank's security policy and takes decisions related to the prevention and monitoring of operational risks.
- The *IT Steering Committee* covers all issues related to information systems and IT infrastructure to ensure business continuity and meets twice a year.

3. Controlling bodies

- **Internal control:** each Directorate monitors risks specific to its activity (self-assessment).
- The *Office of the General Counsel* validates, prior to signature, all contracts committing the CEB (loans, debt issues, derivatives, etc.) in order to control the Bank's legal risks, particularly those it faces as a multilateral development bank.
- The *Internal Audit Department,* independent from any direct management, rounds off the Bank's internal control system with regular reviews of all its activities to ensure that the procedures are systematically complied with.
- The *Compliance Department* is responsible for the procedures drawn up in order to limit the CEB's exposure to legal and administrative risks, regulatory sanctions, financial loss or risk to its reputation. The Department also pays particular attention to ensuring compliance with standards in respect of governance and ethics and to protect the Bank from the risk of money laundering, financing terrorism and other areas that could damage its reputation. The Chief Compliance Officer, head of the Compliance Department, reports directly to the Governor.

Within the Compliance Department, *the Chief Information Security Officer (CISO),* is responsible for ensuring that IT-based processing inherent controls are activated and executed. The CISO periodically updates the Bank's IT-systems user charters and monitors their effective implementation.

- Lastly, in accordance with the Articles of Agreement, *the Auditing Board,* composed of three representatives from among the Member States appointed on a rotating basis by the Governing Board for a three-year term (outgoing members act as advisors for an additional year), examines the Bank's accounts and checks their accuracy. The Auditing Board's report, an excerpt from which is appended to the financial statements, is presented to the Bank's governing bodies when the annual financial statements are presented for approval.

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

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

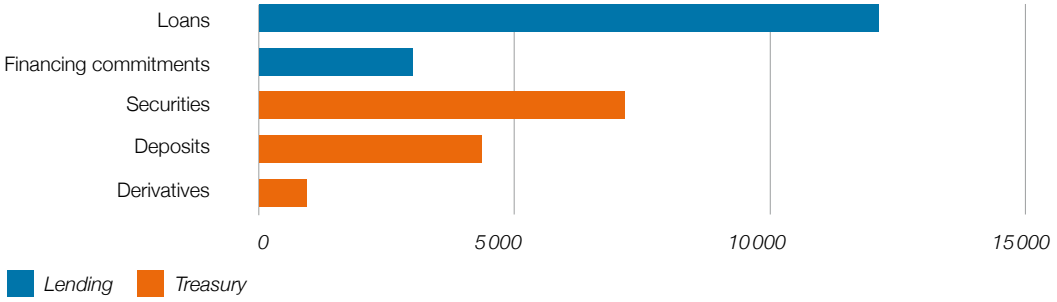
- In addition, the Bank is assessed by the three *International Rating Agencies,* Moody's, Standard & Poor's and Fitch Ratings, which carry out in-depth analyses of its financial situation and long-term creditworthiness and assign it a credit rating every year. On 8 December 2012, Moody's confirmed the CEB's Aaa rating, however with a negative outlook. Both Fitch Ratings and Standard & Poor's downgraded CEB from AAA to AA+, outlook stable, on 25 September and 27 December 2012, respectively. These rating actions have not had any operational impacts as of yet.

INTERNAL AUDIT

The Internal Audit is a self-contained, higher level control function that plays an important role in the CEB's internal control system. The scope of the Internal Audit is to provide the CEB's Executive Business Management and Controlling Organs with an objective and relevant assurance of effective and controlled business and operational activities. Independent from any direct management, business or operational functions, the Internal Audit examines the CEB's activities and transactions and evaluates their conformity with existing policies, procedures and best practices as well as their associated risks. It also verifies that internal controls are efficiently and consistently applied as well as proposing recommendations for potential improvements.

Chart 1 - Exposure by transaction

in million euros



II. Risk exposure

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

1. Credit risk

Credit risk is defined as the risk of potential loss to the Bank that occurs because a counterparty could default on its contractual obligations, and arises mainly from lending and treasury activities. With regard to the loan portfolio, credit enhancement was taken into account. The Bank's overall credit risk exposure on all its transactions (loans, financing commitments, securities, deposits and derivatives) at 31 December 2012 is shown in chart 1.

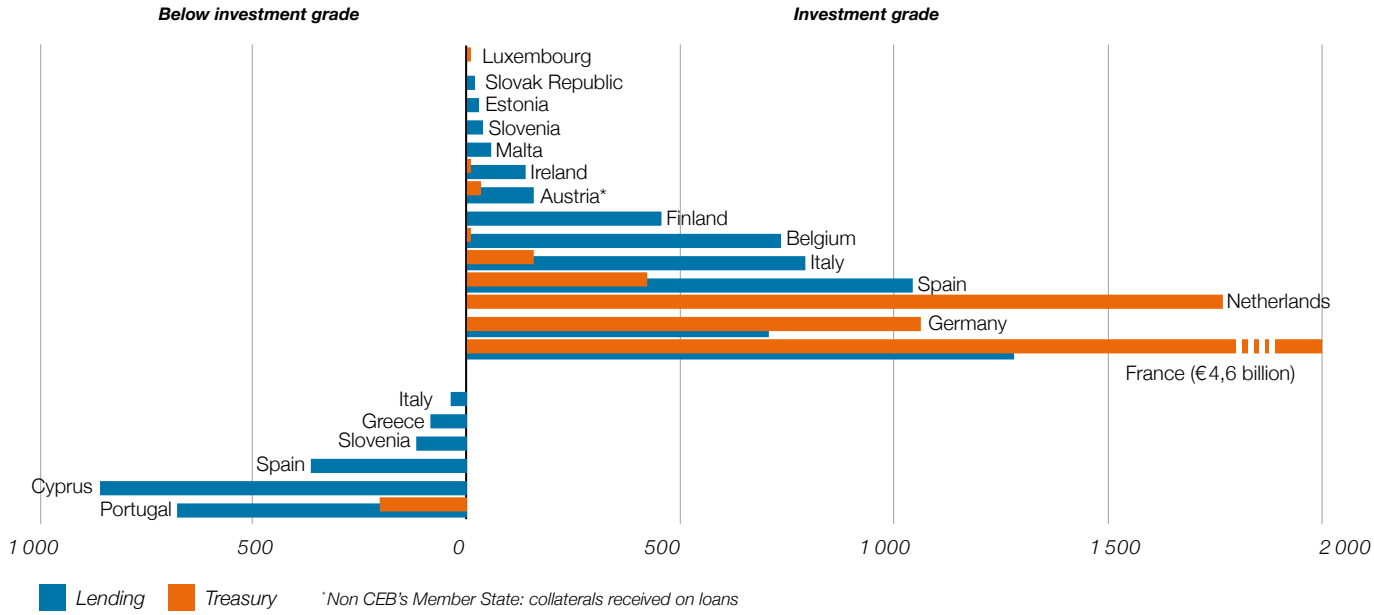
The Bank's credit risk exposure on all its transactions in the eurozone represented 57.4% of its total exposure at 31 December 2012 (see chart 2) compared to 61% at 31 December 2011. As a result of Europe's debt crisis and the subsequent rating downgrades, the average risk quality decreased for both lending and treasury counterparties, as reflected in the deterioration of the risk asset coverage ratio and the capital adequacy ratio (see Prudential framework on page 39). However, the CEB's overall risk profile remained satisfactory at year-end 2012.

- **Large exposure** is defined as an overall exposure, including financing commitments, to a counterparty (or group of counterparties) that exceeds 10% of sound equity. In accordance with Basel Committee recommendations and European Union directives, the CEB ensures that no exposure to a counterparty (or group of counterparties) exceeds the limit of 25% of sound equity, and that the cumulative total of large exposures does not exceed 800% of sound equity. As a multilateral development bank, the CEB excludes the "sovereign" risks of OECD member countries from this analysis.

At 31 December 2012, the exposure of seven counterparties, ranging between 11% and 19% of the Bank's sound equity, were accounted as large exposure with a total of € 4.6 billion outstanding (€ 5.8 billion in 2011), i.e. 102% of said equity (122% restated in 2011) (see chart 3 and financial statements, note B).

Chart 2 - Exposure in the eurozone

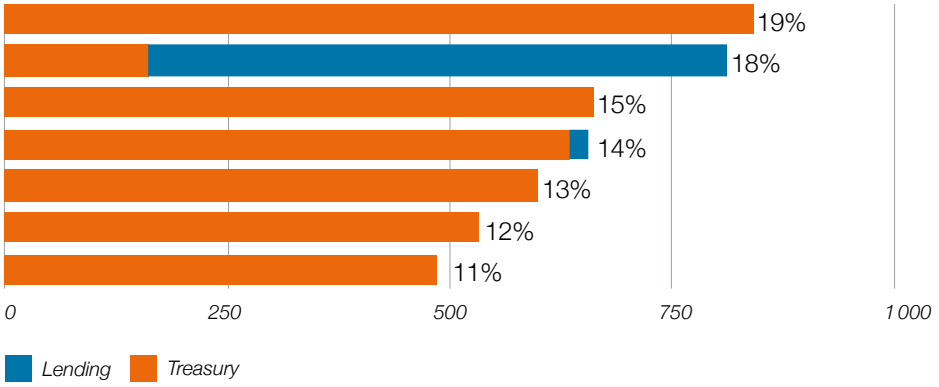
in million euros



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

Chart 3 - Large exposure

in million euros



- **Loans outstanding** remained stable over the year and stood at € 12.1 billion at year-end 2012. The breakdown of credit risk by type of counterparty in 2012 was as follows: states or public administrations and special financial institutions, 71.7% (68.8% in 2011), other financial institutions, 26.0% (28.8% in 2011), non-financial institutions, 2.3% (2.4% in 2011) (see chart 4).

Loans outstanding rated *investment grade* represented 64.8% of the total portfolio, compared to 71.3% at year-end 2011 (see chart 5, page 38 and financial statements, note B). This decrease in credit quality mirrors the overall deterioration resulting from Europe's debt crisis and the subsequent rating downgrades. Credit enhancement in the loan portfolio allowing for a 100% transfer of risk stood at € 4.3 billion (€ 3.8 billion in 2011) and consisted of € 3.7 billion in guarantees and € 0.6 billion in collateral.

- **Financing commitments** correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments decreased by -21% from € 3.9 billion at 31 December 2011 to € 3.0 billion at 31 December 2012. Financing commitments rated *investment grade* represented 59.6% of the total portfolio, compared to 67.9% at year-end 2011 (see chart 5, page 38 and financial statements, note B).

- The Bank manages two **securities portfolios**: financial assets held to maturity and financial assets available for sale (see page 30, Financial Activity). The breakdown by rating of each assets portfolio at 31 December 2012 is shown in chart 6, page 38 (see financial statements, note B).

- The Bank mainly uses **derivatives** to hedge the interest rate and currency exchange rate risks on its lending, investment and funding transactions (see page 30, Derivatives).

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

At 31 December 2012, the derivatives exposure included a swap add-on for € 910 million and a non-covered NPV (Net Present Value) after credit enhancement of € 16 million. The collateral received, 90% "cash" and 10% collateral (US Treasury bonds, France OAT and German bund), enabled a reduction of the position by € 1 840 million (see financial statements, note B).

Chart 4 - Exposure by counterparty type

in million euros

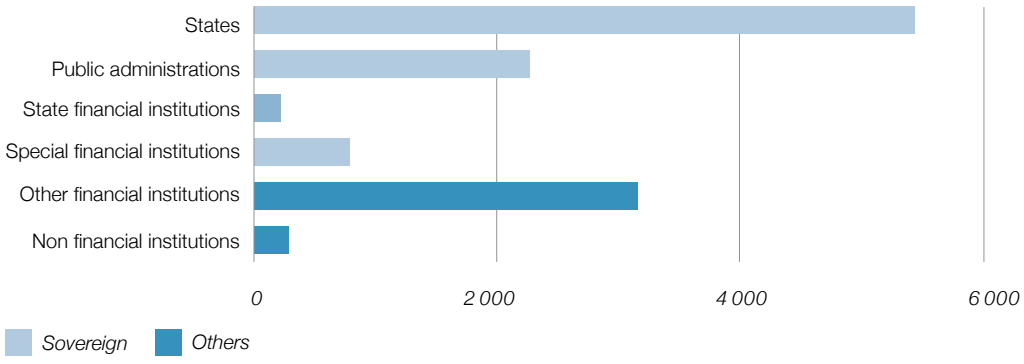
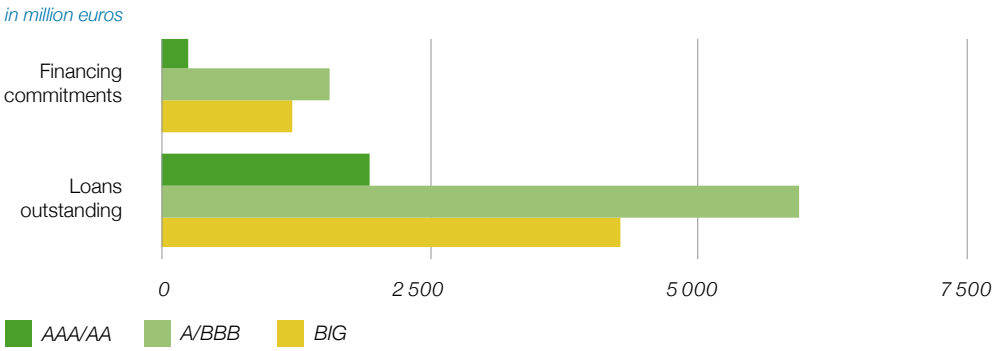


Chart 5 - Exposure on loans portfolios



2. Market risk

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

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

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

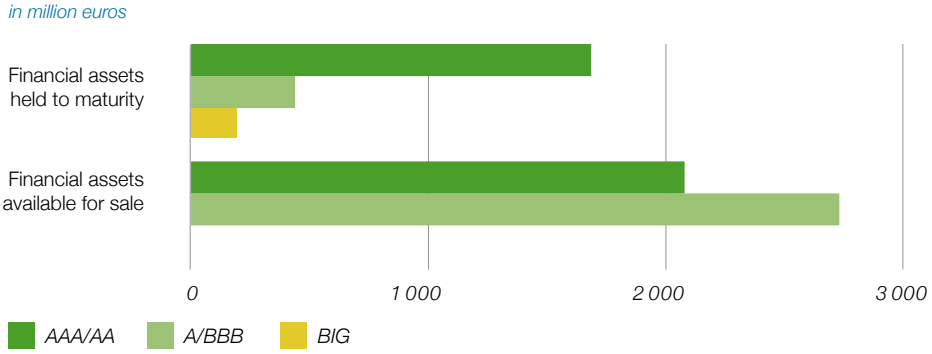
- With reference to **currency exchange rate risk**, the CEB's strategy is not to take any position and to finance assets and liabilities in a single currency. The residual risk arising from gains or losses in currencies other than the euro is systematically monitored and hedged on a monthly basis. The net open position per currency is limited to the equivalent of € 1 million. At 31 December 2012, the net open position was almost nil (see financial statements, note B).

3. Liquidity risk

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

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

Chart 6 - Exposure on securities portfolios



4. Operational risk

The CEB defines operational risk as the potential loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk. Moreover, the CEB, in its operational risk management process, takes into account reputational risks linked to its activities.

By deliberately choosing to apply the Basel Committee recommendations, the Bank has undertaken to constantly assess its operational risk and to implement the appropriate preventive measures.

At 31 December 2012, the operational risk charge amounted to € 21.6 million, up from € 20.8 million (restated) at year-end 2011 (see financial statements, note B).

III. Prudential framework

As a multilateral development bank, the CEB is not subject to its Member States' regulatory framework, Basel Committee recommendations or European Union directives. Although the CEB follows recommendations of the Basel Committee under the Basel II framework, its prudential framework is based on its own ratios and is internal to the Bank.

Ratios, as well as stress tests of these ratios, function as "warning" indicators and are regularly reported to the Boards. Any variation from one period to another is analysed by the department in charge.

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

The limit is fixed at 100% of the CEB's usable equity, i.e. € 2.1 billion. The ratio increased during the year from 30.7% (restated) at 31 December 2011 to 45.3% at 31 December 2012, following a deterioration in the quality of the loan portfolio and an increase in the default probability.

- **Risk asset coverage ratio** measures the share of the loan portfolio rated *below investment grade* - that is the Bank's exposure on its most risky assets - in relation to its sound equity. It provides an additional limit on the volume of loans outstanding and is used in conjunction with other prudential ratios in order to get a clearer picture of the CEB's financial strengths and weaknesses (see financial statements, note B).

The limit is fixed at 66% of the CEB's sound equity, i.e. € 3.0 billion. The ratio increased during the year from 72.4% (restated) at 31 December 2011 to 94.8% at 31 December 2012 as a consequence of the overall credit deterioration impacting both the portfolio rated *below investment grade* and the CEB's sound equity. The risk asset coverage ratio exceeds its limit. The Boards are periodically informed and loan disbursements are closely monitored.

- **Strengthened liquidity ratio** is designed to measure the Bank's capacity to meet its net liquidity requirements (see financial statements, note B).

The Bank's liquid assets must not fall under 50% of net liquidity requirements for the next three years. At 31 December 2012, the strengthened liquidity ratio stood at 96.4%, against 128.8% at year-end 2011.

- **Indebtedness ratio** is a supplementary indicator that compares the total debt outstanding after swap to own funds (see financial statements, note B).

The limit is fixed at 4 (four times the CEB's own funds), i.e. € 28.5 billion. The ratio stood at 2.75 at 31 December 2012, down from 2.89 (restated) at 31 December 2011, as the increase in debt outstanding was largely offset by significant growth in the CEB's own funds.

- **Portfolio ratio** is a supplementary indicator that compares the total financial assets after swap to own funds (see financial statements, note B).

The limit is fixed at 2 (twice the CEB's own funds), i.e. € 14.2 billion. The ratio stood at 1.37 at 31 December 2012, down from 1.41 (restated) at 31 December 2011, as the increase in financial assets was largely offset by significant growth in the CEB's own funds.



Governance and corporate responsibility

I MEMBERSHIP OF THE BANK'S ORGANS AS AT 31 DECEMBER 2012*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Raphaël ALOMAR Former Governor of the CEB	Chairpersons	**Joseph LICARI** Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg
Aiga LIEPIŅA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	Vice-Chairs	**Zoran ĆIROVIĆ** Chairman, Securities Commission of the Republic of Serbia, Belgrade
Margarita GEGA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	Albania	**Nezir HALDEDA** Deputy Minister, Ministry of Finance, Tirana
Alain COOLS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	Belgium	**Franciscus GODTS** Administrator, International and European Financial Affairs, Federal Public Service Finances, Brussels
Almir SĂHOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bosnia and Herzegovina to the Council of Europe, Strasbourg	Bosnia and Herzegovina	**Ljerka MARIĆ** Director, Directorate for Economic Planning, Council of Ministers, Sarajevo
Andrey TEHOV Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	Bulgaria	**Jenya DINKOVA** Director of International Financial Institutions and Cooperation, Ministry of Finance, Sofia
Anica DJAMIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	Croatia	**Boris LALOVAC** Deputy Minister, Ministry of Finance, Zagreb
Theodora CONSTANTINIDOU Ambassador, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	Cyprus	**Christos PATSALIDES** Permanent Secretary, Ministry of Finance, Nicosia
Tomáš BOČEK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	Czech Republic	**Petr PAVELEK** Director of the Debt and Financial Assets Management Department, Ministry of Finance, Prague
Poul Erik Dam KRISTENSEN Ambassador, Permanent Representative of Denmark to the OECD, Paris	Denmark	**Thomas BØRNER** Senior Advisor, Department of Finance, Ministry of Finance, Copenhagen

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

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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Gea RENNEL Ambassador Extraordinary and Plenipotentiary Permanent Representative of Estonia to the Council of Europe, Strasbourg	Estonia	**Martin PÕDER** Head of the EU and International Affairs Department, Ministry of Finance, Tallinn
Pekka HYVÖNEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	Finland	**Kristina SARJO** Director, Financial Markets Department, Unit for International Affairs, Ministry of Finance, Helsinki
Laurent DOMINATI Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	France	**Christophe BORIES** Head of Bilateral Relations and European Financial Instruments, Treasury Department, Ministry of Economy and Finance, Paris
Mamuka JGENTI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Georgia to the Council of Europe, Strasbourg	Georgia	**Konstantine KINTSURASHVILI** Deputy Minister, Ministry of Finance, Tbilisi **David LEZHAVA** *(since 1 January 2013)* Deputy Minister, Ministry of Finance, Tbilisi
Julius Georg LUY Ambassador Extraordinary and Plenipotentiary Permanent Representative of Germany to the Council of Europe, Strasbourg	Germany	**Elke KALLENBACH** Head of Division, Ministry of Finance, Berlin
Athanasios DENDOULIS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Greece to the Council of Europe, Strasbourg **Iraklis ASTERIADIS** *(since 31 January 2013)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Greece to the Council of Europe, Strasbourg	Greece	**Paraskevi PROTOPAPPA** *(Substitute)* Head of Department for International Financial Organisations, Ministry of Development, Competitiveness, Infrastructure and Networks, Athens
Mgr Aldo GIORDANO Special Envoy of the Holy See, Permanent Observer to the Council of Europe, Strasbourg	Holy See	**Reverend Christian GOUYAUD** Attaché, Permanent Mission of the Holy See to the Council of Europe, Strasbourg
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GOVERNOR

Rolf WENZEL

VICE-GOVERNORS

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Vice-Governor Social Development Strategy: **Apolonio RUIZ-LIGERO**
Vice-Governor Target Group Countries: **Mikołaj DOWGIELEWICZ**

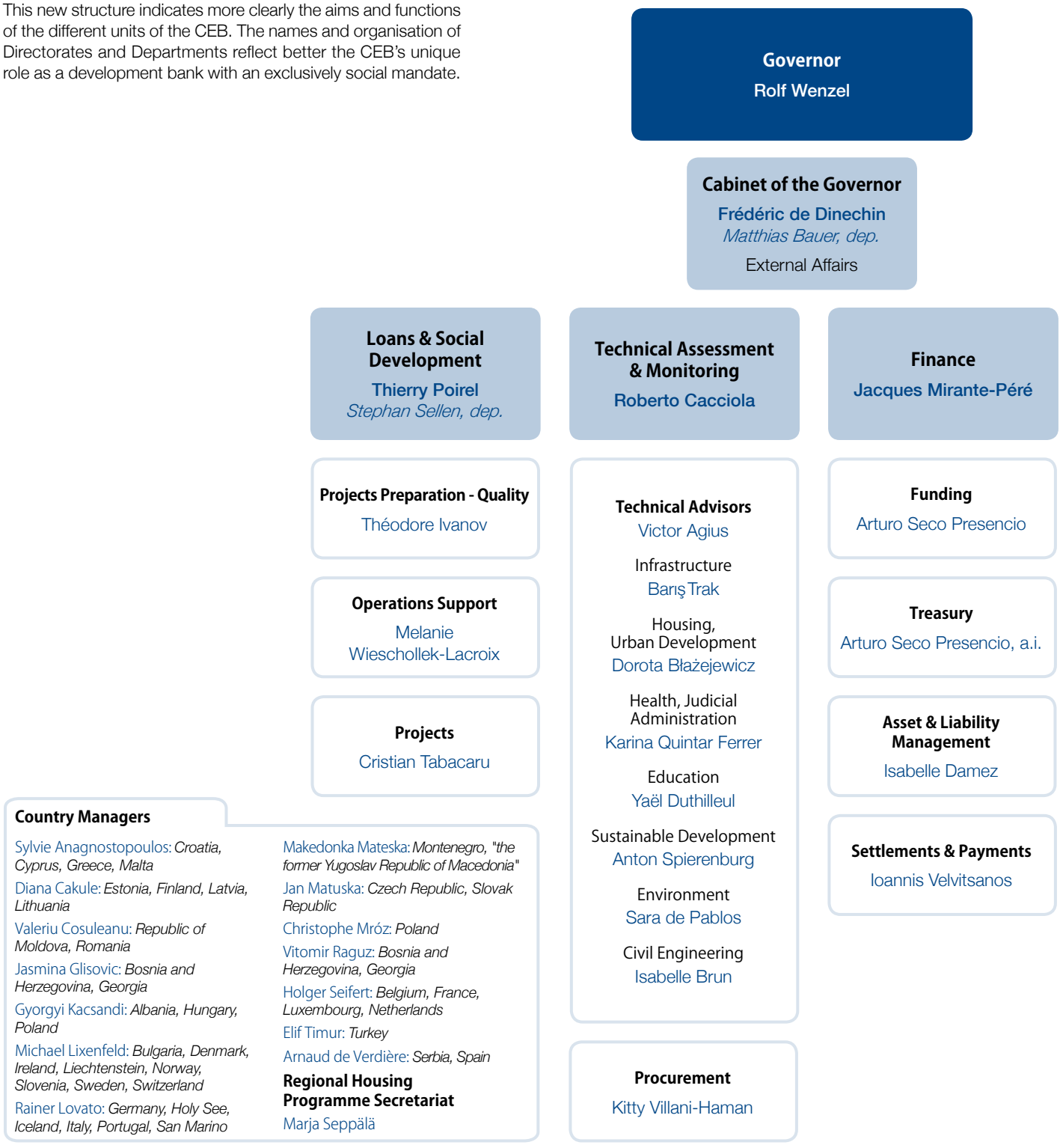
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II ORGANISATION CHART

The CEB's new organisational chart came into force on 1 February 2013. Changes have been introduced in order to further strengthen the CEB's operational capacities and to align the Bank with international best practices. They should allow the Bank to serve more efficiently and effectively its Member States and final beneficiaries.

This new structure indicates more clearly the aims and functions of the different units of the CEB. The names and organisation of Directorates and Departments reflect better the CEB's unique role as a development bank with an exclusively social mandate.





In front, **Rolf WENZEL**, Governor
First row, from left to right: **Nunzio GUGLIELMINO**, Vice-Governor Financial Strategy; **Apolonio RUIZ-LIGERO**, Vice-Governor Social Development Strategy; **Mikołaj DOWGIELEWICZ**, Vice-Governor Target Group Countries
Second row, from left to right: **Johannes M. BÖHMER**, Director for Human Development & Internal Services; **León HERRERA**, Director for European Cooperation & Strategy; **Roberto CACCIOLA**, Director for Technical Assessment & Monitoring; **Martin WEIGAND**, Chief Risk Officer; **Arnaud VIOLETTE**, Central Director for Risk & Control; **Frédéric de DINECHIN**, Head of Cabinet of the Governor; **Thierry POIREL,** Director General for Loans & Social Development; **Carlo MANGOSI**, Director for Internal Audit; **Rachel MEGHIR**, Director for Evaluation; **Jan De BEL**, General Counsel; **Maria Lucia ORISTANIO**, Director for Human Resources; **Jacques MIRANTE-PÉRÉ**, Chief Financial Officer

Vice-Governor
Financial Strategy
Nunzio Guglielmino

Vice-Governor
Social Development Strategy
Apolonio Ruiz-Ligero

Vice-Governor
Target Group Countries
Mikołaj Dowgielewicz

Internal Audit
Carlo Mangosi

Compliance
Jan De Bel, a.i.
System Security Control

Evaluation
Rachel Meghir

Risk & Control
Arnaud Violette

European Cooperation & Strategy
León Herrera

Human Development & Internal Services
Johannes M. Böhmer

Office of the General Counsel
Jan De Bel

Global Risk Management
Martin Weigand

Financial Risk & Control (Collateral)
Alain Sayagh

Operational Risk
Ahmet Kizil

Controlling
Patrick Radhauer

Accounting
José Limet

Financial Reporting
Michèle Meunier

Corporate Responsibility & Studies
Jérôme Halb

European & International Cooperation
Luca Schio

Donor Relations & Fiduciary Accounts
Sébastien Relland

Human Resources
Maria Lucia Oristanio

Staff Policies & Recruitment

Staff Benefits & Missions

Information Technology
Frédéric Lardinois

General Facilities & Security
Maurice Le Verche

Operations, Loans

Operations, Finance

Administrative Issues

Committees
Committee on Orientation and Coordination
General Management Committee
Finance and Risk Committee
ALM Committee
Funding Committee
Development and Project Committee
IT Steering Committee
Committee for Operational Risks and Organisation
Committee for European Cooperation

III CORPORATE SOCIAL RESPONSIBILITY

As a multilateral financial institution with a social vocation, statutorily placed under the "supreme authority" of the Council of Europe, the CEB gives high priority to enhancing its contribution to socially and environmentally sustainable development. Corporate social responsibility therefore lies at the heart of the Bank's objectives and modus operandi. And this is clearly in the best interest of the Institution and of society as a whole.

Communicating on CSR

The CEB's commitment to transparency and disclosure of information concerning its activities is a strong and continuing engagement. This is reflected first in its Internet site www.coebank.org, which constitutes the Bank's main institutional communication tool alongside its reference publications. It is also more specifically borne out by the web page devoted to corporate social responsibility and, even more so, by the publication of a CSR report every year without exception since 2009.

In line with the web page of the same name, this report on corporate social responsibility has from the very beginning corresponded to a priority objective: to inform the widest possible public about the CEB's overall contribution to socially and environmentally sustainable development. To achieve this, the document is structured into three sections that present: the very nature of the Institution itself (Part 1-The CEB: the social development bank in Europe), the way the Bank develops its projects/loans activity (Part 2-Socially Responsible Financing) and its operational approach (Part 3-Sustainable Management of the Institution).

This structure has remained unchanged since 2009, thereby making it possible to more easily appreciate how the report has evolved from year to year and over the long term. Likewise, the underlying principles used in producing the CSR report have also remained unchanged. Thus, as indicated in the last report to date, published in June 2012 after being presented to the Bank's Collegial Organs, the document draws primarily on information already in the public domain. In addition, particular attention is given to: (i) drawing comparisons with the practices and standards currently in force, by considering the equivalent reports published by other IFIs, (ii) reflecting the CEB's specific characteristics (mandate, resources, operating method, etc.) and (iii) ensuring coherence between the internal (operational) and external (funding activity) aspects of CSR.

At the same time, the content of the report has continued to evolve, which also evidences the efforts deployed by the Bank to promote sustainable development. As an illustration of this, it will be noted that the document published in 2012 has been made more interactive, through the inclusion of hypertext links, and that, for the first time, it incorporates the GRI (Global Reporting Initiative) referential, which is the most widely used sustainability reporting framework.

In addition to the publication of a specific report, the restructuring of the Annual Report 2012 (Report of the Governor) into three main sections, including one entitled "Governance and corporate responsibility" which contains a chapter devoted to CSR, bears witness to the importance and visibility that the Institution gives to these issues. In so doing, the Bank's intention is to better report on the action it consistently undertakes to promote sustainable social development.

An increasing effort has also been undertaken to promote awareness among the staff as a whole of the implications of CSR and sustainable development. In 2012, with the over-haul of the HR/Intranet site intended for CEB staff members, a newly renovated "CSR and Sustainable Development" section has been included, which features a sustainable development charter as well as links to the main reference sources.

Among the actions under consideration for 2013 is a large-scale general information meeting opened by the Management that should facilitate appropriation and responsibilisation among the Bank's teams. In such matters, the collective commitment remains inseparable from the development of individual attitudes and behaviour. It is also important to mention that, since 2010, the annual in-house staff satisfaction survey concerning the main support functions at the Bank has systematically measured the sustainable development dimension as an entity in itself.

Communication on CSR also implies strengthened dialogue with all the CEB's stakeholders, notably those that are, by definition, the most involved in this field, such as the extra-financial rating agencies and socially responsible investors. The Bank is fully aware of the progress that still remains to be made, while striving to provide a balanced response to the increasing need for information on the part of civil society and its representatives.



COMMUNICATION

The CEB's information and communication policy is primarily aimed at consolidating the Institution's reputation and at guaranteeing fair transparency with regard to its activities and its functioning.

The Bank has acquired a sound capital of confidence with the actors most closely linked to its activity, namely: lenders, borrowers and the other international organisations. At the same time, as a public institution, it has to be appropriately accountable for its action to all its stakeholders.

To achieve this, (i) the CEB relies on an internal reference framework constituted by its "Public Information Policy"; (ii) emphasis is placed on a wide range of communication instruments and their modernisation, deployed around the showcase web site; and (iii) the institutional communication policy, aimed at promoting the CEB's original position, is relayed by means of more operational communication approaches targeted to each of its stakeholders. The objectives are established accordingly. With regard to its shareholders, the Bank's communication falls in priority under the aegis of good governance. For the attention of actors closely linked to its activity, the objective is to capitalise on the confidence the CEB enjoys. Within the Institution, internal communication focuses on promoting staff cohesiveness. With regard to the general public and to representatives of civil society, the Bank strives to provide a balanced response to an increasing need for information. Communication on CSR contributes very specifically to achieving all these objectives.

Enhanced momentum in 2012

Several initiatives were undertaken last year under the leadership of the Management.

The CEB provided itself with number of new communication tools in the form of two new electronic newsletters, one targeted to the outside and the other reserved for the Bank's staff. The first of these, namely the new CEB e-newsletter, is accessible to all on the website. The aim of this newsletter is to report on the Institution's latest news in terms of its activity as a multilateral development bank promoting social cohesion in Europe, with priority given to the most emblematic projects financed by the Bank. With an expected six to seven issues per calendar year, this e-newsletter is intended as a complement to the existing quarterly magazine, CEB Info. In parallel, an e-newsletter for internal use, entitled HR Info, has been bought out following the over-haul of the Human Resources/Intranet Site devoted to CEB staff members. This e-newsletter is presented in the form of an online diary about the life of the Institution and, in particular, movements of staff. In all, the CEB today has a complementary set of publications that must be now made to thrive and evolve in appropriate conditions. The creation, in 2012, of an internal network of communication correspondents representing each of the Bank's directorates will directly contribute to achieving this.

At the same time, the CEB continued to widen its visibility during the year, notably by working to strengthen the links woven with its social development actor partners. This is illustrated by the intensification of contacts with the European Union, as evidenced by the Governor meeting with several European Commissioners and the Bank hosting the meeting of the Steering Committee of the "Western Balkans Investment Framework" (WBIF). Within this context, the Regional Housing Programme (RHP), a flagship initiative with a high social value in which the CEB plays an eminent role, deserves to be especially highlighted. One of the key moments in this process was the Bank's participation in the International Donors' Conference that was held in Sarajevo on 24 April 2012 (see box page 20).

A federating event such as the Bank's Joint Meeting also contributes to consolidating the CEB's reputation. Organised in 2012 in Moldova, on 15 and 16 June, this event notably provided an opportunity for official meetings with the host country's highest authorities, which were given very wide national media coverage.

In addition to this, the CEB has been the subject of several articles in the press, including, in particular, an in-depth interview given by the Governor to La Lettre Diplomatique, a well-regarded quarterly review on international and diplomatic relations published in France.



Governor Rolf Wenzel and László Andor, European Commissioner for Employment, Social Affairs and Inclusion

Acting in favour of sustainable social development

By definition, the CEB considers CSR to be an integral part of its mandate and values; all its investments are evaluated against and chosen for their positive environmental and social impact. Corporate responsibility nevertheless remains a daily operational challenge for the CEB as well as a long-term perspective, whose multiple implications range from socially responsible financings to sustainable management of the Institution itself.

As the social development bank in Europe, the CEB already has several key strengths on which to build. These are (i) a unique social mission among the multilateral development banks; (ii) interaction with the Council of Europe, which promotes Human Rights, democracy and the pre-eminence of the rule of law; (iii) an articulated and balanced system of governance that confers upon the Bank's Member States, represented within the Collegial Organs, the key role of steering and controlling the Institution. What is more, over time, the CEB has consolidated these strengths by choosing to position itself as a responsible organisation in the long term. Also contributing to this is the network of close partnerships the CEB has woven with other financial and non-financial international organisations, within which the constant strengthening of cooperation with the European Union not only constitutes a strategic thrust but is also a tangible reality.

The emphasis it places on financial soundness and on stability contributes to the Institution's resilience in the face of the financial and economic crisis that continues to affect Europe. This crisis makes the financial leverage role played by the CEB all the more necessary. Although the Bank cannot remain immune to the deterioration in credit status of its borrowers or of its shareholders, it continues to show strong results. Like its peer institutions, the Bank seeks to ensure that it complies with the good practices established by the reference "standard setting" organisations in the various different areas of its activity. Over the past years, this requirement for exemplarity has led to continued strengthening of its provisions for prevention and control in matters of integrity and good conduct.

Within this framework, several important initiatives and measures were taken in 2012 in order to better translate the CEB's commitments to CSR issues.

The first of these is the creation of an internal network of dedicated correspondents, representing all the directorates. This collegial style network currently plays a triple role: (i) serving as a forum for watch and reflection as well as a driving force fuelling proposals (ii) achieving a certain number of specific deliverables required of it by the Management; (iii) carrying out monitoring of the whole CSR project, which is by nature cross-cutting at the Bank, under the supervision of the General Management Committee. At an individual level, each correspondent contributes to ensuring that CSR permeates more deeply into the activities and functioning of their respective directorates.

In its core business of financing social investment projects the CEB has pursued its implementation of the strategic guidelines contained in the Development Plan, notably in favour of the target group countries. In the face of the crisis, aid to financing MSMEs and employment has become a major priority for the Bank. In addition to the Regional Housing Programme (RHP), several other emblematic projects have also been approved for the benefit of the most vulnerable populations, which are also those made most fragile by the crisis in Europe. At the same time, the increasing emphasis placed on the quality and social value of projects has not weakened: the measures taken upstream of the project cycle to improve preparation testify to this (see box page 10). Moreover, the systematic inclusion of the environmental dimension in the design and monitoring of projects, in compliance with the provisions of the Policy approved in September 2010, is a tangible reality.

As far as its own functioning is concerned, the CEB strives to control its direct environmental impact and to work in an ever increasingly responsible manner. Concerning the first point, since 2010, the Bank has carried out an annual carbon footprint inventory, whose results are summarised in a scoreboard (see the last report on corporate social responsibility to date). As regards 2012, the approach adopted throughout the 1st quarter 2013 is henceforth based on a specific software platform, the objective being to have a reliable audit trail, to be able to establish target values and carry out simulations, while at the same time integrating action plans.

The Bank's human capital, on the other hand, was the subject of special attention characterised by: (i) a very substantial recruitment effort; (ii) completion of a structuring job classification project; (iii) implementation of a satisfaction survey on staff engagement and motivation, aimed at assessing and improving the social climate, and (iv) the appointment of a Mediator.

In all, the CEB is continuing to move forward on CSR issues in an increasingly demanding environment, with the ultimate aim of enhancing its contribution to sustainable social development.

IV EX POST EVALUATION

Main Developments in 2012

During 2012, the Ex Post Evaluation Department (DEP) was involved in a series of activities related to the "Addressing Challenges" initiative (see box on page 10). In this context, the DEP's contribution was mainly focused on ways and means of enhancing the social added value of CEB operations and generating more evidence on social outcomes. Particular attention was paid to issues affecting the clarity of project objectives and increased harmonization of monitoring practices with evaluation standards.

An inter-departmental working group addressed the subject of how evaluation recommendations from individual evaluations and synthesis reports could be better captured in new operations. Fostering a broader awareness of the evaluability of projects at appraisal, presenting evaluation "lessons learned" in approval documents, and developing a wider range of evaluation products will ensure strengthened feedback from evaluation, going forward. Concurrently with the broadening of the role of the CEB's evaluation unit beyond the "ex post" scrutiny of completed loan operations, the DEP will be renamed "Evaluation Department".

At end 2012, an independent review of the evaluation system at the CEB was undertaken with support from International Financial Institution peers. This review complemented the DEP's self-assessment of how the CEB's evaluation system could be improved in terms of scope, objectivity and credibility.

One of the key recommendations of said review is already being taken up through the commitment to prepare a CEB Evaluation Policy that will consolidate the guiding principles of the evaluation function in line with international good practice. The policy will underpin the revision of internal guidelines and procedures and will complement the existing CEB policies on Loans, Environment and Public Information.

Project and Programme Evaluations

Evaluation work at the DEP is organized in evaluation "cycles", structured around the CEB's sectors of action or on specific themes. Individual evaluations constitute the key building blocks for a synthesis report focussed on overarching issues against the backdrop of a contextual/sectoral analysis.

Job Creation: The synthesis report on this important sector of action was released at end 2012. Since most programmes reviewed within this evaluation cycle were implemented prior to the financial crisis, the relevance of the programmes supporting the SME sector was found to be somewhat low in the context of the thriving economies at the time. The programmes could have been better targeted in order to enhance CEB social value added. The monitoring arrangements and indicators normally used by the CEB proved insufficient to capture the social effects of CEB programmes. The report acknowledges the potential for generating social value added and encourages further reflection on possible approaches for so doing, inter alia through a broadened range of instruments or alternative ways for increased targeting, in preparation for the post-crisis period.

Housing for Social Integration: This new evaluation cycle draws on a sample of programmes focused on the housing needs of immigrants, returnees and Roma. A first evaluation, completed in 2012, concerning mortgage loans to immigrants showed that the programme had resulted in a large share of the beneficiaries no longer owning the residences for which they had received financing. This evaluation emphasized the importance of mobilising sectoral expertise during programme design in order to enable a better understanding of the risks that could affect the realization of development outcomes. The evaluation cycle will be pursued in 2013, and will cover one programme dealing with immigrants, one supporting returnees and another related to housing for Roma.

Social Housing: The last evaluation of this cycle has now been released. It highlights mixed performance across the components that comprise the programme, ranging from the effective provision of grant support to persons with disabilities, at one end of the scale, to a weak approach to rental housing at the other.

Environment: The evaluation cycle of projects related to water supply and sanitation services was pursued. One of the projects also comprised a large energy efficiency component for public and residential buildings, which provided the opportunity to launch the evaluation cycle on energy efficiency. To this end, the DEP finalised a working paper aimed at defining suitable indicators and performance criteria for these types of projects.

V HUMAN RESOURCES MANAGEMENT

A solid staff structure in a challenging environment

At year-end 2012, the CEB counts 182 permanent staff. The Elected Officials are composed of the Governor and 3 Vice-Governors. Among these, Vice-Governor Mikolaj Dowgielewicz (Poland) succeeded Vice-Governor Imre Tarafás (Hungary) in May 2012.

The Bank now counts 28 nationalities represented and employs nationals of at least 70% of the CEB's 40 Member States at end 2012. Its staff is composed of 96 women (53%) and 86 men (47%).

In 2012, the CEB continued its significant recruitment effort in order to accompany the Bank's activities; thereby, filling the vacant posts approved by the Administrative Council. The CEB concluded 16 recruitments (15 people recruited externally and 1 of whom was recruited internally from 13 nationalities). Within this framework, the representation of female applicants slightly rose (42%) and the average length of the recruitment process stood at 6.5 months. During the same period, 3 staff members left the Bank, including 1 retirement knowing that the CEB counts at year-end 2012 a total of 30 pensioners.

The recruitment campaign for the Regional Housing Programme (RHP), a joint initiative by Bosnia and Herzegovina, Croatia, Montenegro and Serbia with the objective of providing durable housing solutions for some 74 000 refugees or displaced persons living in the four Partner Countries, symbolised a major recruitment effort.

Wide advertising of vacancies by the Directorate for Human Resources (DHR) and organisation of interviews with the participation of the Staff Committee have characterized a recruitment process which was successfully finalised in early November 2012. In total 7 positions were filled to form the RHP team, with members from different countries and various backgrounds.

As far as external mobility is concerned, the CEB is currently working on the establishment of guidelines for the practical implementation of more regular exchanges of staff between organisations. Working for another IFI for a limited period of time could become a key element in career advancement and continuous learning at the Bank. The programme is planned to be piloted in 2013.

Overall, the CEB strives to find the right balance in the management of its staff. On the one hand, the Bank can rely on its existing staff's high level of expertise, with an average age of 47 years, as well as on its staff's loyalty, with an average turnover rate limited to about 3%. On the other hand, the Bank continues to adapt its tools and find new talent in order to sustain the fulfilment of its mission in the most appropriate conditions.



Governor Rolf Wenzel and Vice-Governor Mikołaj Dowgielewicz with the RHP team

Driving change through innovative HR projects

A number of HR projects focusing on the cohesion and engagement of its staff were initiated over the last year and have shown significant progress or are about to be concluded. Particular attention has been paid to staff well-being and to refocusing on career management.

In order to continue the efforts made to improve the social climate at the CEB, an external consultancy company was assigned to conduct a staff engagement and motivation survey. The key rationale was to initiate a continuous improvement process that engages management and staff to reflect on organisational priorities and staff feedback in order to implement improvement actions that will drive overall well-being, staff engagement and performance. The response rate stood at 76%.

Following presentation of the results during a town hall meeting and meetings organised within the different Directorates, action teams were formed at the Directorate level as well as at the CEB level. The action plans were then consolidated and harmonised at a corporate level.

The job classification exercise was successfully finalised at end 2012. The underlying principle was to determine the relative worth or size of a job in relation to the assigned roles and responsibilities. A clear distinction had to be made between the position and the person occupying it. More than 100 job descriptions were elaborated, based on answers gained through questionnaires and interviews as well as extensive analysis of job vacancies, processes, procedures, and the organisational structure of the CEB.

Following this analytical exercise, the DHR validated each reference job description with Directors, Heads of Departments and Spokespersons. The DHR also weighted each reference job according to 8 generally used criteria which were customised to meet CEB specificities.

The criteria for job weighting included levels of roles and responsibilities of the job, professional and training experience requested for the job, level of risk and their impact, managerial competencies and the management of teams, financial management, degree of autonomy, complexity of situations and problem solving skills, development of internal and external relations, required linguistic skills, required writing skills and working conditions.

DHR also worked on the impact of the job classification for each staff member and started elaborating possible career paths. These career paths will be further analysed and developed along with the elaboration of a coherent promotion policy.

DHR will continue working on career management issues as well as clear policies on the matter while contributing to the promotion of continuous improvement actions with an impact on the social climate of the Bank.

Resolving conflicts and encouraging lifelong learning

Another HR highlight was the selection and appointment of a Mediator. In line with a General Rule adopted in 2011 and in agreement with the staff representatives, the Bank has engaged a Mediator, whose function is to contribute to informal conflict resolution by seeking friendly settlements to all kinds of disputes.

The Mediator acts as an impartial intermediary between CEB staff members and the Bank's administration. These duties are performed in a fully independent manner.

A special selection committee was appointed by the Governor at the beginning of 2012 to proceed with the engagement process and prepare a shortlist of the most qualified candidates. With the support of the Human Resources Directorate and the Staff Committee, the Governor personally participated in the selection panel interviewing the shortlisted candidates. The selected candidate holds both Swiss and French nationality. She is a trained and sworn Mediator for several mediation institutions and has previously worked in a number of high-level positions in other international organisations.

The Mediator has already visited the Bank three times in 2012 and will continue to be present on a regular basis in 2013 confirming the CEB's commitment to resolving conflicts in a friendly manner or to solving misunderstandings before problems can emerge.

Finally, the Directorate for Human Resources continued to encourage staff of all categories to engage in training activities in the spirit of lifelong learning. Particular emphasis was and will be given to management and leadership training as well to individual coaching in order to help Directors and Heads of Departments to maintain and reinforce their know-how and skills in team management.

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2012

Financial statements 2012



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FINANCIAL STATEMENTS

Prepared in compliance with IFRS adopted by the European Union

The Bank's objectives

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

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

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

(Articles of Agreement, Article II).

Sectors of action

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

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

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

- Strengthening of social integration

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

- Management of the environment

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

- Supporting public infrastructure with a social vocation

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

In thousand euros

Balance sheet

	Notes	31/12/2012	31/12/2011 Restated (*)	01/01/2011 Restated (*)
Assets				
Cash in hand, balances with central banks		327 373	242 980	230 316
Financial assets at fair value through profit or loss	C, E	1 200 675	1 658 168	1 216 278
Hedging derivative instruments	C, E	1 402 383	1 224 143	1 226 344
Available-for-sale financial assets	E	4 930 030	3 649 876	6 332 058
Loans and advances to credit institutions and to customers				
Loans	F	12 448 526	12 283 910	12 115 390
Advances	F	4 021 106	4 719 503	1 322 336
Financial assets held to maturity	E	2 477 909	2 267 665	2 241 862
Tangible and intangible assets	G	44 909	31 896	31 297
Other assets	H	4 665	5 041	5 125
Total assets		**26 857 576**	**26 083 182**	**24 721 006**
Liabilities and equity				
Liabilities				
Financial liabilities at fair value through profit or loss	C, E	428 908	587 231	1 275 923
Hedging derivative instruments	C, E	595 059	477 267	445 669
Amounts owed to credit institutions and to customers	I	83 352	70 794	100 809
Debt securities in issue	I	21 558 288	20 958 367	19 855 536
Other liabilities	H	1 693 417	1 705 262	823 133
Selective Trust Account (STA)	J	77 654	80 285	78 733
Provisions	K	159 259	110 981	99 842
Total liabilities		**24 595 937**	**23 990 187**	**22 679 645**
Equity				
Capital	L			
Subscribed		5 465 660	4 952 513	3 303 450
Uncalled		(4 853 971)	(4 398 245)	(2 933 712)
Called		611 689	554 268	369 738
General reserve		1 661 462	1 612 971	1 686 636
Net profit		120 230	106 912	115 865
Total capital, general reserve and net profit		**2 393 381**	**2 274 151**	**2 172 239**
Gains or losses recognised directly in equity		(131 742)	(181 156)	(130 878)
Total equity		**2 261 639**	**2 092 995**	**2 041 361**
Total liabilities and equity		**26 857 576**	**26 083 182**	**24 721 006**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures as at 1 January 2011 and 31 December 2011. The changes are detailed in Note A paragraph 9.

In thousand euros

Income statement

	Notes	2012	2011 Restated (*)
Interest and similar income			
Available-for-sale financial assets		42 204	62 133
Loans and advances to credit institutions and to customers		167 541	241 103
Financial assets held to maturity		94 301	90 969
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(7 290)	(12 555)
Debt securities in issue		(134 268)	(236 631)
Other interest expenses and similar charges		(4 884)	(4 071)
Interest margin	M	**157 604**	**140 948**
Net gains or losses from financial instruments at fair value through profit or loss	O	(407)	3 788
Net gains or losses from available-for-sale financial assets		58	54
Commissions (income)		725	258
Commissions (expenses)		(1 609)	(1 814)
Net banking income		**156 371**	**143 234**
General operating expenses	P	(33 908)	(34 329)
Depreciation and amortisation charges of fixed assets	G	(2 233)	(1 993)
Gross operating income		**120 230**	**106 912**
Cost of risk			
Net profit		**120 230**	**106 912**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures for the period 2011. The changes are detailed in Note A paragraph 9.

Statement of comprehensive income

In thousand euros

	2012	2011 Restated (*)
Net profit	**120 230**	**106 912**
Changes in value of available-for-sale financial assets	87 502	(48 341)
Changes in actuarial differences related to the pension scheme	(25 913)	950
Changes in actuarial differences related to the other post-employment benefits	(12 175)	(2 887)
Total other elements of comprehensive income	**49 414**	**(50 278)**
Comprehensive income	**169 644**	**56 634**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures for the period 2011. The changes are detailed in Note A paragraph 9.

Statement of changes in equity

In thousand euros

	Capital and reserves			Gains or losses recognised directly in equity			
	Called capital	Reserves and result	Total	Available for sale financial assets	Actuarial differences	Total	Total equity
Equity as at 1 January 2011	**369 738**	**1 802 501**	**2 172 239**	**(113 584)**		**(113 584)**	**2 058 655**
Impact of anticipated application of the revised IAS 19					(17 294)	(17 294)	(17 294)
Equity as at 1 January 2011 Restated (*)	**369 738**	**1 802 501**	**2 172 239**	**(113 584)**	**(17 294)**	**(130 878)**	**2 041 361**
Capital increase	184 530	(184 530)					
Appropriation of profit for the 2010 financial year		(5 000)	(5 000)				(5 000)
Net profit 2011		106 912	106 912				106 912
Changes in value of assets and liabilities recognised directly in equity				(48 341)	(1 937)	(50 278)	(50 278)
Equity as at 31 December 2011 Restated (*)	**554 268**	**1 719 883**	**2 274 151**	**(161 925)**	**(19 231)**	**(181 156)**	**2 092 995**
Capital increase	57 421	(57 421)					
Appropriation of profit for the 2011 financial year		(1 000)	(1 000)				(1 000)
Net profit 2012		120 230	120 230				120 230
Changes in value of assets and liabilities recognised directly in equity				87 502	(38 088)	49 414	49 414
Equity as at 31 December 2012	**611 689**	**1 781 692**	**2 393 381**	**(74 423)**	**(57 319)**	**(131 742)**	**2 261 639**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures as at 1 January 2011 and 31 December 2011. The changes are detailed in Note A paragraph 9.

In thousand euros

Statement of cash flows

For the year ended 31 December

	Notes	2012	2011 Restated (*)
Net profit		**120 230**	**106 912**
+/- Depreciation charges of tangible and intangible assets	G	2 233	1 993
+/- Net loss/net profit from investing operations		13 996	16 074
+/- Change in interest receivable		114 080	45 443
+/- Change in interest payable		(130 776)	(23 625)
+/- Other movements		9 253	6 707
Total of non-monetary items included in the result		*8 786*	*46 592*
+ Reimbursements related to operations with credit institutions and customers		1 596 998	1 713 755
- Disbursements related to operations with credit institutions and customers		(3 372 549)	(1 865 154)
+ Reimbursements related to other operations affecting financial assets or liabilities		2 423 147	7 126 507
- Disbursements related to other operations affecting financial assets or liabilities		(3 487 844)	(3 711 829)
+/- Cash flows related to operations affecting non-financial assets or liabilities		3 441	(8 228)
Net decrease /(increase) of assets and liabilities resulting from operating activities		*(2 836 807)*	*3 255 051*
Total net cash flows from operating activities (a)		**(2 707 791)**	**3 408 555**
+ Reimbursements related to financial assets held to maturity		78 340	117 176
- Disbursements related to financial assets held to maturity		(295 593)	(155 178)
+/- Cash flows related to tangible and intangible assets	G	(15 042)	(2 510)
Total net cash flows from investing operations (b)		**(232 295)**	**(40 512)**
+/- Cash flows from or to Member States		(2 915)	3 642
+ Reimbursements related to debt securities in issue		6 466 526	4 158 762
- Disbursements related to debt securities in issue		(5 914 781)	(4 105 136)
Total net cash flows from financing operations (c)		**548 830**	**57 268**
Effect of changes in foreign exchange rates on cash and cash equivalents (d)		**(7 687)**	**885**
Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**(2 398 943)**	**3 426 196**
Cash and cash equivalents at the beginning of the financial year		**4 958 369**	**1 532 173**
Cash in hand, balances with central banks		*242 980*	*230 316*
Advances repayable on demand and term deposits with credit institutions		*4 715 389*	*1 301 857*
Cash and cash equivalents at the end of the financial year		**2 559 426**	**4 958 369**
Cash in hand, balances with central banks		*327 373*	*242 980*
Advances repayable on demand and term deposits with credit institutions		*2 232 053*	*4 715 389*
Changes in cash and cash equivalents		**(2 398 943)**	**3 426 196**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures for the period 2011. The changes are detailed in Note A paragraph 9.

NOTES TO THE FINANCIAL STATEMENTS

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

1. Applicable accounting norms

The Bank's separate accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (*). In this regard, certain provisions of IAS 39 relating to hedge accounting have been excluded, and no adoption procedure of certain recent texts has yet begun.

The CEB applied by anticipation on 1 January 2012 the amendment to the IAS 19 "Employee benefits", adopted by the European Union on 6 June 2012. Hence, the provision regarding post-employment benefits, adjusted for actuarial gains and losses, is included in the Bank's balance sheet (see Note K - Provisions). Following the IASB's decision regarding the first retroactive application of the standard in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", concerned balance sheet items have been restated as at 1 January 2011 and 31 December 2011 (see paragraph 9 of this chapter).

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

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

The financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities, which are accounted for at fair value. The main accounting principles applied by the CEB are summarised below.

2. Financial assets and liabilities

2.1. Foreign currency transactions

The financial statements are presented in euros.

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

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

2.2. Loans and advances to credit institutions and to customers

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

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

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

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

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

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

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

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

2.3. Securities

Securities held by the Bank are classified under two categories:

- Financial assets held to maturity

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

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

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

- Available-for-sale financial assets

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

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

At the disposal, maturity or depreciation of the securities (in cases of a significant or prolonged decline in the fair value below the cost), these deferred gains or losses, previously recorded under equity, are accounted for in the income statement under the heading “Net gains or losses from available-for-sale financial assets”.

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

- Date and accounting criteria

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

2.4. Depreciation of financial assets, financing and guaranty commitments

- Financial assets valued at amortised cost

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

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

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

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

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

The impairment relating to financing and guaranty commitments follows similar principles and are recorded under liabilities.

- Available-for-sale financial assets

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

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

A depreciation of a fixed income security is recorded under the income statement heading “Cost of risk” and may be released in case of subsequent improvement of security.

2.5. Debt securities in issue

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

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

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

2.6. Derivative instruments

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

Derivatives are classified under two categories:

- Transaction derivatives

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

- Derivatives and hedge accounting

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

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

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

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

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

2.7. Fair value assessment

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

Market value is determined as follows:
- using quoted prices in an active market; or
- applying a valuation technique incorporating:
  - mathematical calculation methods based on recognised financial assumptions, and
  - parameters whose value is determined either by using prices of instruments traded in active markets, or based on statistical estimates or other quantitative methods in the absence of an active market.

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

2.8. Interest income and expense

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

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

2.9. Cost of risk

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

3. Fixed assets

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

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

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

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

- Tangible assets

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

- Main works and façade	- [1]
- General and technical installations	10 years
- Fixtures and fittings	10 years

[1] Given the Bank's headquarters location in the centre of Paris, its residual value is assigned to the component "main works and façade" which is not subject to depreciation.

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

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

- Intangible assets

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

4. Post-employment staff benefits

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

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

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

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

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

The Bank applied by anticipation on 1 January 2012 the amendment to IAS 19 "Employee benefits", adopted by the European Union on 6 June 2012. Hence, the provision regarding post-employment benefits recorded in the Bank's balance sheet is fully equal to the commitment with respect to post-employment staff benefits. In relation to this first application, the provision as at 1 January 2011 and 31 December 2011 are presented in the columns entitled "2011 Restated".

5. Selective Trust Account (STA)

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

The STA essentially targets population groups such as:

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

- Interest rate subsidies

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

- Donations

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

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

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

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

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

6. Related parties

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

The information concerning chairpersons and appointed officials of the Bank is presented in paragraph 7 below.

7. Compensation for Chairpersons and Appointed Officials

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

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

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

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

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

In thousand euros

	2012	2011
Office allowances		
Chairperson of the Governing Board [2]	45	1.5
Chairperson of the Administrative Council [3]	45	45
Vice-Chairperson of the Governing Board [4]	6	6
Vice-Chairperson of the Administrative Council	6	6
Emoluments		
Governor Wenzel (from 18 December 2011)	338	12
Governor Alomar (until 17 December 2011) [5]		319
Vice-Governor Guglielmino	273	267
Vice-Governor Ruiz-Ligero	257	251
Vice-Governor Dowgielewicz (from 2 May 2012) [6]	171	
Vice-Governor Tarafás (until 1 May 2012) [7]	86	251

[1] This applies to Vice-Governors elected for the first time after 26 November 2010.

[2] The Chairman of the Governing Board has waived his allowances for the period running from 1 January to 31 December 2012. At his request the corresponding amounts have been directly transferred by the CEB to the STA and charitable organisations. In 2011, the seat of the Chairperson of the Governing Board was vacant until 17 December. For the period running from 18 to 31 December, the Chairperson of the Governing Board waived his allowances and at his request this amount had been transferred directly to the STA in form of a voluntary contribution.

[3] The incumbent of the seat has changed on 28 June 2011. The allowances for 2011 have been split into equal amounts between the two incumbents.

[4] Allowances of € 500 are paid monthly. Three successive Vice-Chairpersons held the seat in 2011. The Vice-Chairperson of the Governing Board, whose term ran from July to November 2011, has waived her allowances which were transferred to a charitable organisation at her request.

[5] In 2012, the outgoing Governor received a temporary allowance of € 155 thousand (Resolution CD 383 (2010)).

[6] At the beginning of his term on 2 May 2012 the incoming Vice-Governor received in addition a statutory settling-in allowance of € 32 thousand.

[7] In 2012, the outgoing Vice-Governor received a temporary allowance of € 67 thousand (Resolution CD 383 (2010)).

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

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

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

8. Taxation

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

9. Effects of the application of the revised IAS 19

The anticipated application of the amendment to the IAS 19 "Employee benefits" had the following impact in the 2011 balance sheet and income statement:

- in the balance sheet as at 1 January 2011, an increase in "Provisions" and a decrease in "Gains or losses recognised directly in equity" of € 17 294 thousand,
- in the balance sheet as at 31 December 2011, an increase in the "Net profit for the year" of € 561 thousand, an increase in "Provisions" of € 18 670 thousand and a decrease in "Gains or losses recognised directly in equity" of € 19 231 thousand,
- in the income statement as at 31 December 2011, a decrease in the "Other interest expenses and similar charges" of € 276 thousand and a decrease in the "General operating expenses" of € 285 thousand.

Note B Financial risk and capital management

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

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

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

As a multilateral development bank, the CEB is not subject to Member States' regulatory ratios, the Basel Committee recommendations or European Union directives. Nonetheless, the CEB has decided to observe these regulations as a point of reference for its risk management and control policy.

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

Decision-making committees

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

- The **Risk Committee** is the cornerstone of the Bank's credit risk management framework. Risk management policies are established to identify and analyse the risks faced by the Bank, to set the appropriate risk limits and controls and to monitor the respect of those limits. It meets weekly and takes decisions based on the Risk Management Department's assessments and recommendations.

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

- The **Funding Committee** addresses the funding strategy and the pricing policy on a quarterly basis. It also decides on the strategy relating to debt issuance (amounts, currencies, conditions and schedule) on the basis of the Bank's estimated liquidity requirements and in conformity with the annual levels of debt authorised by the Administrative Council following proposal by the Governor.

- The **ALM Committee** decides on the Bank's asset and liability management strategy on a quarterly basis. It takes the necessary decisions with regard to financial risks on the basis of the Bank's quarterly ALM report and in accordance with the financial policies approved by the Administrative Council.

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

- The **IT Steering Committee** meets on a biannual basis and covers all issues related to information systems and IT infrastructure to ensure business continuity.

Internal and external reporting on risk management

A report, providing the Bank's detailed exposure to credit risk, is sent out to the members of the Risk Committee on a weekly basis. However, within the present financial context, this information is completed whenever an event or decision occurs that raises concern about the prudential ratios or the quality of the CEB's counterparties, which are kept under constant surveillance.

The quarterly Risk Management Report presented both to the members of the Administrative Council and Governing Board aims to inform the shareholders about the development of the CEB's exposure to main types of risks: credit, market, liquidity, operational risks and the prudential framework.

In terms of external reporting on risk management, the Bank provides extensive information to the rating agencies as a support for their annual assessment. A specific reporting highly focused on risk management is also prepared in order to file an annual report on Form 18-K in connection with the registration statement filed with the Securities and Exchange Commission.

Finally, CEB's annual report of the Governor gives a fair view of the risk management processes and practices in place at the Bank and its year-end financial statements disclose publicly data on its risk exposure.

1. Credit risk

Overview of the assessment process

Credit risk is defined as the risk of loss which may occur if counterparty fails to meet its contractual obligations. The Risk Management Department identifies, assesses and manages all credit risks inherent in the CEB's operations, as a result of both on- and off- balance sheet transactions. The department also monitors compliance with portfolio management policies (loans, securities, derivatives) on a continuous basis, as well as overseeing the Bank's concentration risk.

The outstanding approval process: the procedure for approving new transactions makes the distinction between lending activities and treasury operations.

For all potential projects, the department assesses the transaction on the basis of the counterparty's creditworthiness and current exposure as well as the country risk and, if necessary, recommends credit enhancement measures (guarantees). After approval by the Risk Committee, the project is submitted to the Administrative Council.

With reference to the transactions carried out by the Financial Directorate, the Administrative Council establishes the framework for such financial operations on the basis of the definition of the Bank's investment policy.

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

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

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

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

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

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

Overall credit risk exposure

The Bank's credit risk exposure on all its transactions excluding accrued interest (loans, financing commitments, deposits, securities, derivatives) at 31 December 2012 and 31 December 2011 is shown in the table below. With reference to the loan portfolio, credit enhancement measures have been taken into account.

In million euros

	2012				2011			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Loans	1 931	5 936	4 264	12 131	2 543	6 071	3 461	12 075
Financing commitments	233	1 554	1 214	3 001	410	2 204	1 237	3 852
Deposits	2 074	2 274		4 348	3 549	1 409		4 958
Securities	3 766	3 180	200	7 146	4 364	1 288	200	5 852
Swap - add on	402	509		910	610	310		920
Forex		2		2	38			38
Swap coll - NPV not covered	16			16	129	60		189
Total	**8 420**	**13 456**	**5 678**	**27 554**	**11 644**	**11 341**	**4 898**	**27 884**

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

Concentration - Large exposure

Large exposure is the overall exposure (loans, securities, deposits, derivatives and financing commitments) to counterparty or group of connected counterparties, exceeding 10% of sound equity.
The CEB defines sound equity as paid-in capital, reserves, gains or losses recognised directly in equity, as well as uncalled capital of triple-A or double-A rated member countries (second best rating by Moody's, Standard & Poor's and Fitch Ratings).
In line with Basel Committee recommendations and European Union directives, the CEB ensures that no exposure to a counterparty or group of connected counterparties exceeds the limit of 25% of sound equity, and that the cumulative total of large exposures does not exceed 800% of said equity.
At 31 December 2012, no counterparty exceeded the limit of 25% of the CEB's sound equity (as in 2011) and five groups and two single counterparties overstepped 10%. The total outstanding on these counterparties stood at € 4.6 billion, i.e. 102% against € 5.8 billion, 122% (restated) at the end of 2011. As a multilateral development bank, the CEB excludes *"sovereign"* risks of OECD member countries from this analysis.

CEB's exposure to sovereigns[1] for loans and securities portfolios

	2012		
	Loans	Securities	Total
EU countries (a)	**7 271**	**2 215**	**9 486**
France	373	1 025	1 399
Germany	583	207	789
Spain	430	274	704
Belgium	647	10	657
Cyprus	627		627
Portugal	189	200	389
Italy	169	160	329
Finland	164		164
Greece	84		84
Malta	58		58
Ireland	43	10	53
Estonia	28		28
Slovenia	20		20
Slovak Republic	13		13
Austria[2]	11		11
Sub-total eurozone	3 438	1 886	5 324
Hungary	1 313		1 313
Poland	1 035		1 035
Romania	922		922
Supranational institutions[3]		329	329
Denmark	233		233
Sweden	151		151
Lithuania	94		94
Bulgaria	51		51
Latvia	33		33
Sub-total Others	3 833	329	4 162

In million euros

	2012		
	Loans	Securities	Total
Non EU countries (b)	**1 427**		**1 427**
Turkey	892		892
Croatia	271		271
Albania	108		108
Serbia	45		45
"the former Yugoslav Republic of Macedonia"	40		40
Iceland	28		28
Bosnia and Herzegovina	19		19
Moldova (Republic of)	13		13
Montenegro	9		9
San Marino	0.2		0.2

Total (a) + (b)	**8 698**	**2 215**	**10 912**

[1] *Sovereigns include: States, Public administrations, State financial institutions, Special financial institutions*
[2] *Non CEB's Member State: collateral received on loans*
[3] *Organisations composed of several nations, operating beyond the authority of one national government*

Loan portfolio

At 31 December 2012, loans outstanding stood at € 12.1 billion, stable compared with the outstanding at 31 December 2011. In 2012 no delay or missed payments have been recorded. As a multilateral financial institution, the Bank's policy is not to reschedule debt agreements (capital or interest on loans).

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

In million euros

	2012				2011			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
States	91	2 040	3 301	5 432	93	2 603	2 612	5 308
Public administrations	767	1 474	27	2 268	1 002	982	33	2 017
State financial institutions	213	2		215	247	3		250
Special financial institutions	668	29	86	783	610	33	88	731
Other financial institutions	192	2 295	665	3 152	586	2 350	538	3 474
Non financial institutions		97	185	281	5	100	190	294
Total	**1 931**	**5 936**	**4 264**	**12 131**	**2 543**	**6 071**	**3 461**	**12 075**

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

The amount of credit enhancements in the loan portfolio ensuring a 100% risk transfer totalled € 4.3 billion consisting of guarantees and collaterals for € 3.7 billion and € 0.6 billion respectively.

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

In million euros

	2012				2011			
	before		*after*		*before*		*after*	
	Amount	%	Amount	%	Amount	%	Amount	%
AAA/AA	1 299	11%	1 931	16%	1 991	16%	2 543	21%
A/BBB	5 673	47%	5 936	49%	6 016	50%	6 071	50%
BIG	5 159	43%	4 264	35%	4 068	34%	3 461	29%
Total	**12 131**	**100%**	**12 131**	**100%**	**12 075**	**100%**	**12 075**	**100%**

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

At 31 December 2012, loans outstanding rated *investment grade* represented 64.8% of total loan portfolio, compared to 71.3% at year-end 2011. Credit risk mitigation techniques changed the distribution by type of counterparty thus increasing "sovereign" portfolio by +22%. Loans outstanding to counterparties not rated by international rating agencies represented 3.5% of the total portfolio with internal ratings spread from 4 to 9.

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

In million euros

	2012						2011					
	AAA/AA	A/BBB	BIG	Total	%		AAA/AA	A/BBB	BIG	Total	%
1. Hungary			1 313	1 313	11%	Hungary			1 228	1 228	10%
2. Romania		922		922	8%	Romania		889		889	7%
3. Turkey			892	892	7%	Turkey			823	823	7%
4. Cyprus			627	627	5%	Cyprus		652		652	5%
5. Poland		456		456	4%	Poland		456		456	4%
6. Crédit Agricole		402		402	3%	Crédit Agricole		338		338	3%
7. Région Wallonne		392		392	3%	Intesa Sanpaolo		299		299	2%
8. Unicredit		326		326	3%	CaixaBank		258		258	2%
9. CaixaBank		294		294	2%	Kommunekredit	257			257	2%
10. Intesa Sanpaolo		286		286	2%	Unicredit		254		254	2%
Sub-total		**3 078**	**2 832**	**5 910**	**49%**	**Sub-total**	**257**	**3 146**	**2 051**	**5 454**	**45%**
Others	1 931	2 858	1 432	6 221	51%	Others	2 287	2 925	1 410	6 621	55%
Total	**1 931**	**5 936**	**4 264**	**12 131**	**100%**	**Total**	**2 543**	**6 071**	**3 461**	**12 075**	**100%**

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

Financing commitments

Financing commitments correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments decreased during the year from € 3.9 billion at 31 December 2011 to € 3.0 billion at 31 December 2012. Financing commitments rated *investment grade* represented 59.6% of the total portfolio, compared to 67.9% at year-end 2011.

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

In million euros

	2012				2011			
Eurozone countries	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
France	50	253		303		163		163
Portugal			245	245			245	245
Spain		200	30	230	50	115	30	195
Cyprus			229	229		251		251
Germany	83	22		105	145	20		165
Finland	100			100	100			100
Belgium		60		60	75	250		325
Ireland		50		50		50		50
Slovenia		20		20	40			40
Austria[1]		15		15		18		18
Italy		10		10		259		259
Estonia						7		7
Sub-total	**233**	**630**	**504**	**1 366**	**410**	**1 133**	**275**	**1 818**
Others		925	710	1 634		1 071	962	2 033
Total	**233**	**1 554**	**1 214**	**3 001**	**410**	**2 204**	**1 237**	**3 852**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international rating agencies, internal rating
[1] Non CEB's Member State: collateral to be received

Securities portfolios

The CEB manages two securities portfolios: financial assets held to maturity and financial assets available for sale. Securities in both portfolios are essentially denominated in euro, i.e. 97% of total.

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

In million euros

	2012				2011			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Financial assets held to maturity								
France	1 319			1 319	1 237			1 237
Spain		205		205	245			245
Portugal			200	200			200	200
Italy		160		160		160		160
Germany	89	70		159	115			115
Netherlands	135			135	110			110
Ireland		10		10		10		10
Belgium	10			10	10			10
Austria	10			10				
Other countries	124			124	55			55
Sub-total	**1 687**	**445**	**200**	**2 332**	**1 772**	**170**	**200**	**2 142**
Financial assets availaible for sale								
France	362	739		1 101	557	187		744
Netherlands	872			872	793			793
Germany	158	250		408	366			366
Spain		210		210	303	10		313
Austria	25			25				
Italy						50		50
Other countries	661	1 536		2 197	573	871		1 444
Sub-total	**2 079**	**2 735**		**4 814**	**2 593**	**1 118**		**3 710**
Total	**3 766**	**3 180**	**200**	**7 146**	**4 364**	**1 288**	**200**	**5 852**

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

■ Derivatives

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

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

At 31 December 2012, the derivatives' exposure included swap add-on for € 910 million and non-covered NPV (Net Present Value) after credit enhancement of € 16 million. The Bank received collateral cash deposits: 90% and sovereign securities: 10% (US Treasury bonds, France OAT and German bund). The CEB signed CSA collateral agreement with all of its counterparties involved in swap activities, as in 2011.

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

In million euros

	2012					2011				
	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total
Total (a)	**2 900**	**14 371**	**4 592**	**2 215**	**24 079**	**3 540**	**13 128**	**5 220**	**2 014**	**23 903**
Currency-rate swaps	2 812	13 554	1 025	633	18 025	3 458	12 654	1 654	709	18 475
Interest-rate swaps	88	817	3 567	1 582	6 054	82	474	3 566	1 305	5 428
thereof: collateralised (b)	2 900	14 371	4 592	2 215	24 079	3 540	13 128	5 220	2 014	23 903
(b)/(a)	100%	100%	100%	100%		100%	100%	100%	100%	

2. Market risk: FX, interest rate and liquidity risks

2.1. Managing balance sheet exposures

Management of the balance sheet is carried out by the ALM department under the authority of the Chief Financial Officer. It is based in particular on an analysis of indicators for managing the risks incurred by all the CEB's activities. These risks are:

- FX risk, stemming from unfavourable variations in FX rates,
- interest rate risk, stemming from asymmetry over time between rate types for uses (loans, securities and deposits) and resources (borrowings) and their reset frequencies,
- liquidity risk, defined as the risk of being unable to meet one's commitments or of being unable to unwind a position on account of unfavourable market conditions.

The ALM Department regularly issues a report on the interest rate, currency and liquidity risks incurred by the Bank. Within the framework of normal and stressed market conditions, it evaluates in particular:

- the Bank's exposure to rate variations,
- the level of sensitivity of the economic value,
- the level of sensitivity of the Net Interest Margin.

It also produces an analysis of the projected liquidity situation, before and after stress tests.

2.2. Management principles

Within the ambit of its operations (loans, borrowings, treasury operations), the Bank is exposed to FX, interest rate and liquidity risks.

a) Managing FX and interest rate risks

The key principle adopted is the almost systematic hedging of positions, in order to maintain interest rate risks and currency risks as low as possible. The Bank manages its overall balance sheet at variable rates (except for its Held-To-Maturity assets portfolio), either directly or through a hedging swap.

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

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

At 31 December 2012, currency exchange and interest rate contracts were exclusively used as micro-hedging.

b) Managing liquidity risk

The Bank's principal objective is to meet its commitments fully and punctually. Liquidity risk is prudently managed because, unlike commercial banks, the Bank has no customer deposits nor access to refinancing by the Central Bank.

Liquidity risk is assessed by generating static and dynamic liquidity gaps and by calculating the projected liquidity ratio according to different stress scenarios: various levels of counterparty default according to their rating for loans and/or securities, discounts on securities for resale, partial or total default on loans and securities by all counterparties from a given country, absence of opportunities for refinancing.

The Bank's refinancing and investment policies are adjusted according to liquidity risk assessments, thus enabling the CEB to meet its commitments and to respect the limits of its steering ratios, even in the case of a very unfavourable scenario.

2.3. Assessing FX, interest rate and liquidity risks

a) Measuring FX risk

The Bank hedges any exposure to FX risk, the residual risk stemming from cumulated results in currencies other than the euro. The risk is systematically hedged on a monthly basis. At the end of each month, the Bank produces an accounting statement of its results per currency and converts them into euros; any position with a countervalue in excess of € 1 million is reduced through spot currency purchase or sale.

In thousand euros

Breakdown by currency	Assets	Liabilities	Derivative instruments	**Net position 2012**	Assets	Liabilities	Derivative instruments	**Net position 2011**
US Dollar	1 591 928	11 750 621	10 159 737	1 044	1 055 368	10 210 106	9 155 505	767
Japanese Yen	55 836	106 802	51 501	535	104 927	137 055	32 809	681
Canadian Dollar	215 543	7 874	(207 506)	163	213 770	120 074	(93 536)	160
Pound Sterling	33 081	1 901 738	1 868 736	79	45 746	1 571 940	1 526 219	25
Other currencies	1 124 243	4 317 552	3 193 523	214	1 059 591	5 774 057	4 714 710	244
Total	**3 020 631**	**18 084 587**	**15 065 991**	**2 035**	**2 479 402**	**17 813 232**	**15 335 707**	**1 877**

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

b) Measuring interest rate risk

Because of the principle of micro-hedging adopted on its positions, the CEB's exposure to interest rate risk is small.

The ALM Department assesses the interest rate risk in volume (rate gap), in margin (sensitivity of the Net Interest Margin), and in value (sensitivity of the Net Present Value).

The CEB's Net Interest Margin is very little exposed to market fluctuations because the Bank's assets and liabilities are rate matched. In particular, the Bank's equity is invested in a Held-To-Maturity securities portfolio. This portfolio is made up of fixed-rate securities, generally long-term, denominated in euros and issued by countries or similar institutions with a minimal rating of AA or Aa2 at the date of purchase.

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

- Appraising interest rate risk hedging

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

In thousand euros

	Before hedging			Hedging instruments			After hedging		
Interest rate type	Outstanding	Accrued Interest	Total	Outstanding	Accrued Interest	Total	Outstanding	Accrued Interest	Total
Assets									
Fixed rate	14 173 181	104 026	14 277 207	(3 902 097)	287 002	(3 615 095)	10 271 084	391 028	10 662 112
Scheduled outstanding	10 961 481	104 026	11 065 507	(3 902 097)	287 002	(3 615 095)	7 059 384	391 028	7 450 412
Non scheduled outstanding	3 211 700		3 211 700				3 211 700		3 211 700
Variable rate	12 338 190	12 981	12 351 171	3 839 493	4 800	3 844 293	16 177 683	17 781	16 195 464
Total assets	**26 511 371**	**117 007**	**26 628 378**	**(62 604)**	**291 802**	**229 198**	**26 448 767**	**408 809**	**26 857 576**
Liabilities									
Fixed rate	(24 885 952)	(287 211)	(25 173 163)	18 335 299	(45 789)	18 289 510	(6 550 653)	(333 000)	(6 883 653)
Scheduled outstanding	(19 531 875)	(287 211)	(19 819 086)	18 335 299	(45 789)	18 289 510	(1 196 576)	(333 000)	(1 529 576)
Non scheduled outstanding	(5 354 077)		(5 354 077)				(5 354 077)		(5 354 077)
Variable rate	(2 452 327)	(439)	(2 452 766)	(17 506 910)	(14 247)	(17 521 157)	(19 959 237)	(14 686)	(19 973 923)
Scheduled outstanding	(682 706)	(439)	(683 145)	(17 506 910)	(14 247)	(17 521 157)	(18 189 616)	(14 686)	(18 204 302)
Non scheduled outstanding	(1 769 621)		(1 769 621)				(1 769 621)		(1 769 621)
Total liabilities	**(27 338 279)**	**(287 650)**	**(27 625 929)**	**828 389**	**(60 036)**	**768 353**	**(26 509 890)**	**(347 686)**	**(26 857 576)**

The outstanding fixed-rate assets before hedging amounts to € 14 173 million, hedging instruments allow the exposure to drop to € 10 271 million.

This exposure after hedging of € 10 271 million consists of:

- scheduled outstandings (€ 7 059 million), mainly very short-term deposits (€ 3 853 million), insensitive to variations in market rates and considered as fixed rate, the fixed rate Held-To-Maturity securities portfolio (€ 2 459 million) and marginally, ECP securities (€ 498 million) and unhedged fixed rate loans (€ 208 million).
- non scheduled outstandings (€ 3 212 million), in particular swaps valuations that, by nature, cannot be covered.

Consequently, interest rate hedging on the asset side is highly effective: it greatly reduces the risks on fixed-rate operations and respects the CEB's ALM principles.

Reciprocally, the fixed-rate liability exposure of € 24 886 million before hedging is reduced to € 6 551 million after hedging.

This exposure of € 6 551 million consists of:

- non scheduled outstanding (€ 5 354 million), mainly equity, Selective Trust Account and provisions for post-employment social commitments (€ 2 459 million) to which the held to maturity securities are matched, and swap valuations that, by nature, cannot be covered.
- scheduled outstanding (€ 1 197 million), made-up exclusively of fixed-rate Euro Commercial Papers (ECP).

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

- Measuring the sensitivity of the Net Interest Margin to interest rate risk

The ALM Department studies the level of Net Interest Margin for the coming year based on certain interest rate scenario assumptions (+/- 10 bps, +/- 100 bps, +/- 200 bps).

At 31 December 2012, the levels of the short term market rates in the main reference currencies, on which the rate shock scenarios are based, are low. Consequently, the selected stress tests presented below are based on maintaining a uniform translation of +10 bps and +100 bps. In effect, in the case of a stress test 10 bps lower *(a fortiori* 100 bps lower*)*, the low interest rate level leads to biased results due to a floor applied by the software and to the application of clauses that differ from one contract to another.

The sensitivity of the Net Interest Margin measures the variation in the net interest margins over one year following the reporting date in the case of a uniform increase of 10 bps and 100 bps applied to all interest rate curves.

Calculation method

The Net Interest Margin sensitivity is calculated dynamically, on the basis of the following hypotheses:

- volume of new activity for 2013 on the main balance sheet items,
- characteristics of the new activity (*in fine* or linear amortizing rule, maturity, projected spread …). In particular, future rates on contracts stem from forward rates calculated at the reporting date increased by assumptions on interest rate spreads for each balance sheet item.

A dedicated tool enables us to:

- create new contracts on the basis of new activity assumptions,
- generate cash-flows on all contracts (stock of operations and new activity),
- determinate the volume of cash-flows to invest or borrow in order to adjust the balance sheet on a monthly basis in the coming year.

In fine, the Net Interest Margin at the end of 2013 and its sensitivity to shocked rates are determined on the basis of a balanced forecast balance sheet.

Result

In thousand euros

	Parallel translation + 10 bps	Parallel translation + 100 bps
Sensitivity of the forecast 2013 Net Interest Margin as at 31/12/2012	(437)	(4 723)

Analysing the result

Based on the balance sheet at 31 December 2012 and the new business assumptions, the Net Interest Margin would decrease by € 0.4 million if interest rates increased by 10 bps. It would fall by € 4.7 million if interest rates increased by 100 bps.

Sensitivity to changes in interest rates applies mainly to floating rate operations (loans/borrowings and treasury operations). In effect, for fixed rate operations, only future transactions are sensitive to changes in interest rates whereas stock operations are not sensitive to such changes.

Given that fixed rate stock operations represent almost the whole volume of the fixed rate Net Interest Margin in 2013 (revenues from the Held-To-Maturity portfolio), the sensitivity of the CEB's Net Interest Margin is low.

Due to the low use of non-linear products, an increase in rate shock results in a corresponding increase in the sensitivity of the Net Interest Margin (see rate shock of 100 bps).

In summary, the low unfavourable exposure of the Net Interest Margin to an increase in interest rates shows that:

- the policy of hedging changes in market interest rates implemented by the Bank is effective,
- the CEB remains negatively exposed to rising interest rates.

c) Measuring the liquidity risk

The level of the Bank's liquidity must respect a strengthened prudential liquidity ratio (see prudential ratios).

The liquidity situation is monitored daily. Monitoring is supplemented by quarterly stress tests incorporating:

a) counterparty default scenarios, based on their credit rating or a defined country risk,

b) scenarios including discount on securities held by the CEB for resale,

c) scenarios based on a lack of opportunities for refinancing,

d) a combination of the above scenarios.

Consequently, the CEB's liquidity needs are evaluated according to several scenarios. These liquidity needs correspond to the projected liquidity in each given stress scenario. They are compared to the Bank's "liquidity cushion" set against liquid assets.

a) Counterparty default scenarios

The liquidity requirement is projected taking into account borrower default. In accordance with the Basel II logic and its differentiated approach to risk, borrower default is calculated on the basis of outstanding loans, weighted by the default probability rates published by the rating agencies for a given maturity and rating class. An internal rating is assigned to counterparties not rated by rating agencies.

The CEB also evaluates the financial impact of catastrophic scenarios in which the probability of default applied to *below investment grade* borrowers is 100% without any possibility of recovery.

Finally, selective "country" scenarios evaluate the increased need for liquidity resulting from a partial or total default of counterparties coming from the same country.

b) Scenarios including discount on securities held by the CEB for resale

The Bank's "liquidity cushion" is reduced by applying a discount on Available-For-Sale and Held-To-Maturity securities.

c) Scenarios based on a lack of opportunities for refinancing

The Bank's liquidity needs are assessed by taking into account transactions from the stock and operations from the new activity (including lending activity) without refinancing.

In summary, the stress scenarios described above are used to assess the period during which the Bank, subject to various adverse events, can meet its obligations while respecting the minimum imposed by its liquidity ratio.

By estimating survival horizons and variation in indicators under different stress scenarios, the CEB can manage its liquidity by adjusting its policy for short term and long term refinancing.

d) Combining scenarios

The scenarios combine, for example, a reduction in the "liquidity cushion" resulting from the discounts on securities with an increase in liquidity needs due to counterparty defaults.

d) Balance sheet position by maturity

The balance sheet structure by maturity at 31 December 2012 and 31 December 2011 is shown below:

In thousand euros

31 December 2012	Current oustanding			Non-current oustanding		
	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Cash in hand, balances with central banks	327 373					327 373
Available-for-sale financial assets	757 096	716 059	1 537 992	1 404 660	668 321	5 084 128
Loans and advances to credit institutions and to customers						
Loans	42 629	164 179	1 254 196	5 935 842	6 059 340	13 456 186
Advances	1 069 710	1 163 378	1 789 617			4 022 705
Financial assets held to maturity	111 883	15 545	214 430	1 131 679	1 780 074	3 253 611
Sub-total of assets	**2 308 691**	**2 059 161**	**4 796 234**	**8 472 181**	**8 507 735**	**26 144 002**
Liabilities						
Amounts owed to credit institutions and to customers	83 352					83 352
Debt securities in issue	49 395	985 735	3 580 519	14 299 721	3 639 325	22 554 695
Deposits of guarantees received	1 686 270					1 686 270
Selective Trust Account (STA)	77 654					77 654
Sub-total of liabilities	**1 896 671**	**985 735**	**3 580 519**	**14 299 721**	**3 639 325**	**24 401 971**
Off-balance sheet						
Financing commitments	152 168	243 000	1 364 832	753 903	486 719	3 000 622
Term financial instruments						
To be received	57 747	132 237	3 414 535	15 125 158	1 923 091	20 652 767
To be paid	(26 529)	(57 147)	(3 106 651)	(13 675 782)	(1 889 113)	(18 755 221)
Sub-total of off-balance sheet	**183 386**	**318 090**	**1 672 716**	**2 203 279**	**520 698**	**4 898 168**
Total by maturity 2012	**595 405**	**1 391 516**	**2 888 431**	**(3 624 260)**	**5 389 107**	**6 640 199**

In thousand euros

31 December 2011	Current oustanding			Non-current oustanding		
	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Cash in hand, balances with central banks	242 980					242 980
Available-for-sale financial assets	605 694	619 482	1 053 485	1 087 031	562 284	3 927 976
Loans and advances to credit institutions and to customers						
Loans	37 356	123 532	1 676 325	5 500 479	6 571 354	13 909 046
Advances	4 725 682	242 263				4 967 945
Financial assets held to maturity	16 320	14 194	150 574	1 140 044	1 720 605	3 041 736
Sub-total of assets	**5 628 032**	**999 471**	**2 880 383**	**7 727 554**	**8 854 243**	**26 089 683**
Liabilities						
Amounts owed to credit institutions and to customers	70 794					70 794
Debt securities in issue	2 297 191	992 271	1 273 914	13 721 033	4 518 174	22 802 583
Deposits of guarantees received	1 699 340					1 699 340
Selective Trust Account (STA)	80 285					80 285
Sub-total of liabilities	**4 147 610**	**992 271**	**1 273 914**	**13 721 033**	**4 518 174**	**24 653 001**
Off-balance sheet						
Financing commitments	281 280	369 200	1 119 520	1 554 519	526 996	3 851 515
Term financial instruments						
To be received	2 439 574	752 985	1 467 428	14 646 903	2 942 788	22 249 678
To be paid	(2 293 211)	(712 928)	(1 176 851)	(12 970 897)	(2 711 210)	(19 865 097)
Sub-total of off-balance sheet	**427 642**	**409 258**	**1 410 096**	**3 230 525**	**758 573**	**6 236 095**
Total by maturity 2011	**1 908 064**	**416 458**	**3 016 566**	**(2 762 954)**	**5 094 642**	**7 672 777**

3. Operational risk

The CEB defines operational risk as the risk of potential loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk. Moreover, the CEB, in its operational risk management process, takes into account reputational risks linked to its activities.

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

The BIA (Basic Indicator Approach) method is adopted to calculate the operational risk charge against the Bank's own funds. The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year. The Bank calculates this charge on the basis of the average net banking income over the previous three years.

At 31 December 2012, the operational risk charge amounted to € 21.6 million, up from € 20.8 million (restated) at year-end 2011.

4. Capital management

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

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

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

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

The Governing Board establishes the provisions for the subscription and paying in of capital as well as provisions regarding any capital increase. The terms and conditions for the potential withdrawal of a Member State are defined in the CEB's Articles of Agreement (article XV). The Bank has never received this kind of request. Based on this and according to the amended IAS 32 in February 2008, these securities are classified as equity instruments.

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

The Bank's participating certificates are composed of paid-in capital and callable capital. The paid-in capital is the portion of the capital to be paid at the accession to the Bank upon the Governing Board's decision following a proposal by the Administrative Council. With regard to the callable capital, it is worth mentioning that the Bank has never called any capital.

For CEB's detailed capital situation as at 31 December 2012 please refer to appendix Note L "Capital".

The Bank's capital adequacy in terms of risks linked to its operations is assessed through a prudential framework organized around various ratios (see paragraph 5 below).

5. Prudential framework

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

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

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

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

The limit is fixed at 100% of CEB's usable equity, i.e. € 2.1 billion. The ratio increased during the year from 30.7% (restated) at 31 December 2011 to 45.3% at 31 December 2012, following deterioration in the quality of the loan portfolio and an increase in the default probability.

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

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

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

The limit is fixed at 66% of CEB's sound equity, i.e. € 3.0 billion. The ratio increased during the year from 72.4% (restated) at 31 December 2011 to 94.8% at 31 December 2012 as a consequence of the overall credit deterioration impacting both the portfolio rated *below investment grade* and the CEB's sound equity. The risk asset coverage ratio exceeds its limit.

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

At 31 December 2012, the strengthened liquidity ratio, which fixes the minimum level of liquid assets at 50% of net liquidity requirements for the next three years, stood at 96.4%, against 128.8% at year-end 2011. This decrease stems from substantial loan disbursements (nearly € 1 billion) over the last six months and no long-term borrowing during the same period.

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

The limit is fixed at 4 (four times CEB's own funds), i.e. € 28.5 billion. The ratio stood at 2.75 at 31 December 2012, down from 2.89 (restated) at 31 December 2011, as the increase in debt outstanding was largely offset by significant growth in the CEB's own funds.

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

The limit is fixed at 2 (twice CEB's own funds), i.e. € 14.2 billion. The ratio stood at 1.37 at 31 December 2012, down from 1.41 (restated) at 31 December 2011, as the increase in financial assets was largely offset by significant growth in the CEB's own funds.

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

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

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

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

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

In thousand euros

	31/12/2012		31/12/2011	
	Positive market value	Negative market value	Positive market value	Negative market value
Financial instruments at fair value through profit or loss				
Interest rate derivative instruments	3 545	(137)	603	(596)
Foreign exchange derivative instruments	1 197 130	(428 771)	1 657 565	(586 635)
Total	**1 200 675**	**(428 908)**	**1 658 168**	**(587 231)**
Hedging derivative instruments				
Interest rate derivative instruments	445 045	(480 030)	248 818	(321 070)
Foreign exchange derivative instruments	957 338	(115 029)	975 325	(156 197)
Total	**1 402 383**	**(595 059)**	**1 224 143**	**(477 267)**

Note D Financial assets and liabilities

Financial assets and liabilities are presented in the table below according to their accounting valuation rules and their fair values.

Conditions for loan disbursement are equivalent to those implemented by other financial institutions that operate on the supranational banks market. Reflecting its preferred creditor status, the Bank does not intend to sell this type of receivables. Furthermore, development of market rates has very little impact on the fair value of these operations as the majority of loans are at variable interest rate (including hedging transactions). The Bank therefore estimates that the fair value of these assets corresponds to their net carrying value (the unrealised plus value shown as at 31 December 2011 is purely theoretical).

In thousand euros

31 December 2012	At fair value through profit or loss	At fair value through equity	Amortised cost	Carrying value	Fair value
Assets					
Cash in hand, balances with central banks			327 373	327 373	327 373
Financial assets at fair value through profit or loss	1 200 675			1 200 675	1 200 675
Hedging derivative instruments	1 402 383			1 402 383	1 402 383
Available-for-sale financial assets		4 930 030		4 930 030	4 930 030
Loans and advances to credit institutions and to customers			16 469 632	16 469 632	16 469 632
Financial assets held to maturity			2 477 909	2 477 909	2 748 805
Total assets	**2 603 058**	**4 930 030**	**19 274 914**	**26 808 002**	**27 078 898**
Liabilites					
Financial liabilities at fair value through profit or loss	428 908			428 908	428 908
Hedging derivative instruments	595 059			595 059	595 059
Amounts owed to credit institutions and to customers			83 352	83 352	83 352
Debt securities in issue			21 558 288	21 558 288	21 568 172
Selective Trust Account (STA)			77 654	77 654	77 654
Total liabilities	**1 023 967**		**21 719 294**	**22 743 261**	**22 753 145**

In thousand euros

31 December 2011	At fair value through profit or loss	At fair value through equity	Amortised cost	Carrying value	Fair value
Assets					
Cash in hand, balances with central banks			242 980	242 980	242 980
Financial assets at fair value through profit or loss	1 658 168			1 658 168	1 658 168
Hedging derivative instruments	1 224 143			1 224 143	1 224 143
Available-for-sale financial assets		3 649 876		3 649 876	3 649 876
Loans and advances to credit institutions and to customers			17 003 413	17 003 413	17 240 687
Financial assets held to maturity			2 267 665	2 267 665	2 288 856
Total assets	**2 882 311**	**3 649 876**	**19 514 058**	**26 046 245**	**26 304 710**
Liabilites					
Financial liabilities at fair value through profit or loss	587 231			587 231	587 231
Hedging derivative instruments	477 267			477 267	477 267
Amounts owed to credit institutions and to customers			70 794	70 794	70 794
Debt securities in issue			20 958 367	20 958 367	21 693 869
Selective Trust Account (STA)			80 285	80 285	80 285
Total liabilities	**1 064 498**		**21 109 446**	**22 173 944**	**22 909 446**

None of the securities classified under the available-for-sale financial assets or financial assets held to maturity categories has been pledged in 2012 and 2011.

Note E Market value measurement of financial instruments

In accordance with IFRS 7, the Bank shall disclose the financial instruments using a three-level hierarchy reflecting the reliability of their valuation basis.

Level 1 - Financial instruments with quoted market price
Level 2 - Financial instruments measured using valuation techniques based on observable data
Level 3 - Financial instruments measured using valuation techniques based on unobservable data

All operations shown below are valued with a level 1 or 2 reliability.

In thousand euros

31 December 2012	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments at fair value through profit or loss		1 200 675		**1 200 675**
Hedging derivative instruments		1 402 383		**1 402 383**
Available-for-sale financial assets	4 430 683	499 347		**4 930 030**
Liabilities				
Financial instruments at fair value through profit or loss		428 908		**428 908**
Hedging derivative instruments		595 059		**595 059**

In thousand euros

31 December 2011	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments at fair value through profit or loss		1 658 168		**1 658 168**
Hedging derivative instruments		1 224 143		**1 224 143**
Available-for-sale financial assets	3 649 876			**3 649 876**
Liabilities				
Financial instruments at fair value through profit or loss		587 231		**587 231**
Hedging derivative instruments		477 267		**477 267**

Note F Loans and advances to credit institutions and to customers

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

In thousand euros

Breakdown of loans by category of borrower	31/12/2012	31/12/2011
Loans to credit institutions		
Loans	6 792 344	6 821 882
Interest receivable	13 732	21 504
Unpaid receivables	870	657
Depreciation of loans to credit institutions (*)	(1 871)	(1 859)
Sub-total	**6 805 075**	**6 842 184**
Loans to customers		
Loans	5 338 705	5 253 107
Interest receivable	24 934	30 409
Sub-total	**5 363 639**	**5 283 516**
Value adjustment of loans hedged by derivative instruments	279 812	158 210
Total loans	**12 448 526**	**12 283 910**
Other loans and advances		
Advances repayable on demand	167 458	2 391
Advances with agreed maturity dates or periods of notice	3 852 763	4 712 998
Sub-total	**4 020 221**	**4 715 389**
Interest receivable	885	4 114
Total other advances	**4 021 106**	**4 719 503**

(*) Change in this balance concerns accrued interest of an impaired loan

At 31 December 2012, loans are guaranteed up to the amount of € 4 288 million (31 December 2011: € 3 802 million). These guarantees could be either in the form of securities or signed commitments.

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

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

In thousand euros

	Outstanding				Financing commitments	
Breakdown by borrowers' country location	**31/12/2012**	**%**	**31/12/2011**	**%**	**31/12/2012**	**31/12/2011**
Poland	1 490 833	12.29	1 354 364	11.22	512 444	502 604
Hungary	1 323 897	10.91	1 242 756	10.29	24 698	185 134
Spain	1 179 529	9.72	1 145 901	9.49	230 000	195 000
Romania	922 361	7.60	888 863	7.36	262 929	332 929
Turkey	892 113	7.35	822 782	6.81	384 154	550 196
France	868 807	7.16	824 881	6.83	202 500	162 500
Italy [1]	723 393	5.96	732 219	6.06		218 900
Cyprus	626 877	5.17	651 662	5.40	229 049	251 049
Germany [2]	592 768	4.89	746 696	6.18	102 600	165 400
Belgium	573 294	4.73	349 750	2.90	35 000	325 000
Portugal	432 221	3.56	552 098	4.57	245 000	245 000
Finland	355 292	2.93	483 042	4.00	100 000	100 000
Croatia	271 037	2.23	246 965	2.04	125 759	53 596
Sweden [3]	251 368	2.07	290 545	2.41		
Denmark	233 333	1.92	256 667	2.13		
Iceland	212 429	1.75	233 626	1.93		10 173
Slovenia	155 019	1.28	145 830	1.21	20 000	40 000
Latvia	138 245	1.14	159 967	1.32	25 000	25 000
Albania	108 238	0.89	100 550	0.83	6 934	15 622
Lithuania	100 743	0.83	50 618	0.42	47 000	102 000
Bulgaria	99 615	0.82	72 682	0.60	27 500	28 000
Ireland	89 458	0.74	97 823	0.81	50 000	50 000
Slovak Republic	83 874	0.69	41 460	0.34	25 000	25 000
Greece	83 534	0.69	195 707	1.62		
Serbia	70 481	0.58	73 166	0.61	158 000	53 600
Bosnia and Herzegovina	59 659	0.49	68 625	0.57	19 300	19 364
Malta	58 050	0.48	68 150	0.56		
"the former Yugoslav Republic of Macedonia"	48 225	0.40	38 753	0.32	108 961	118 650
Czech Republic	35 106	0.29	30 257	0.25	39 158	45 000
Estonia	28 498	0.23	22 667	0.19		7 258
Moldova (Republic of)	13 441	0.11	10 337	0.09	19 636	9 540
Montenegro	9 079	0.07	10 000	0.08		15 000
San Marino	232	0.01	581	0.01		
Norway			65 000	0.54		
Total	**12 131 049**	**100.00**	**12 074 990**	**100.00**	**3 000 622**	**3 851 515**

[1] of which € 502 million outstanding in favour of target countries as at 31 December 2012 (31 December 2011: € 459 million)
[2] of which € 213 million outstanding in favour of target countries as at 31 December 2012 (31 December 2011: € 247 million)
[3] of which € 100 million outstanding in favour of target countries as at 31 December 2012 (31 December 2011: € 100 million)

In thousand euros

Breakdown by sector-based activities	Outstanding				Financing commitments	
	31/12/2012	%	31/12/2011	%	31/12/2012	31/12/2011
Strengthening social integration						
Aid to refugees, migrants and displaced populations	87 783		110 304		70 000	5 000
Social housing for low-income persons	2 410 993		2 381 164		213 815	561 192
Creation and preservation of viable jobs	2 661 730		2 541 085		484 915	640 864
Improving living conditions in urban and rural areas	1 709 362		1 480 723		304 464	431 102
Sub-total	**6 869 868**	**57**	**6 513 276**	**54**	**1 073 194**	**1 638 158**
Managing the environment						
Natural or ecological disasters	760 586		723 649		403 621	518 286
Protection of the environment	1 933 155		1 983 695		748 138	846 048
Protection and rehabilitation of the historic and cultural heritage	207 813		208 207		37 045	54 879
Sub-total	**2 901 554**	**24**	**2 915 551**	**24**	**1 188 804**	**1 419 213**
Supporting public infrastructure with a social vocation						
Education and vocational training	1 495 775		1 676 413		475 387	502 340
Health	845 670		953 432		188 064	220 894
Infrastructures of administrative and judicial public services	18 182		16 318		75 173	70 910
Sub-total	**2 359 627**	**19**	**2 646 163**	**22**	**738 624**	**794 144**
Total	**12 131 049**	**100**	**12 074 990**	**100**	**3 000 622**	**3 851 515**

Note G Tangible and intangible assets

In thousand euros

	Land and buildings	Fixtures	Other	Intangible assets	Total
Gross book value					
At 1 January 2012	23 748	16 914	7 111	7 529	**55 302**
Additions	12 596	1 406	345	899	**15 246**
Disposals			(205)		**(205)**
At 31 December 2012	**36 344**	**18 320**	**7 251**	**8 428**	**70 343**
Depreciation					
At 1 January 2012		(12 158)	(6 000)	(5 248)	**(23 406)**
Charge for the year		(1 026)	(464)	(743)	**(2 233)**
Disposals			205		**205**
At 31 December 2012		**(13 184)**	**(6 259)**	**(5 991)**	**(25 434)**
Net book value					
At 31 December 2012	**36 344**	**5 136**	**992**	**2 437**	**44 909**

In thousand euros

	Land and buildings	Fixtures	Other	Intangible assets	Total
Gross book value					
At 1 January 2011	23 748	15 531	6 532	6 981	**52 792**
Additions		1 383	661	548	**2 592**
Disposals			(82)		**(82)**
At 31 December 2011	**23 748**	**16 914**	**7 111**	**7 529**	**55 302**
Depreciation					
At 1 January 2011		(11 313)	(5 607)	(4 575)	**(21 495)**
Charge for the year		(845)	(475)	(673)	**(1 993)**
Disposals			82		**82**
At 31 December 2011		**(12 158)**	**(6 000)**	**(5 248)**	**(23 406)**
Net book value					
At 31 December 2011	**23 748**	**4 756**	**1 111**	**2 281**	**31 896**

Note H Other assets and other liabilities

In thousand euros

	31/12/2012	31/12/2011
Other assets		
Prepaid expenses	2 005	1 881
Sundry debtors	1 980	2 823
Sundry assets	680	337
Total	**4 665**	**5 041**
Other liabilities		
Deposits of guarantees received (*)	1 686 314	1 700 006
Sundry creditors	4 203	4 179
Sundry liabilities	2 900	1 077
Total	**1 693 417**	**1 705 262**

(*) *In relation to collateralisation contracts, the Bank benefits from guarantees received in the form of deposits or securities. As at 31 December 2012, the Bank received € 1 686.3 million of guarantees in the form of deposits (31 December 2011: € 1 700.0 million) and € 905.7 million in the form of securities (31 December 2011: € 763.4 million).*

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

In thousand euros

	31/12/2012	31/12/2011
Amounts owed to credit institutions and to customers		
Interest-bearing accounts	83 352	70 794
of which European Union	*60 639*	*65 170*
Total	**83 352**	**70 794**
Debt securities in issue		
Bonds	19 018 005	19 453 393
Euro Commercial Paper	1 196 576	390 067
Interest payable	312 248	387 753
Value adjustment of debt securities in issue hedged by derivative instruments	1 031 459	727 154
Total	**21 558 288**	**20 958 367**

Development of customers' interest-bearing accounts

In thousand euros

Programme/Instrument designation & purpose of the fiduciary accounts	Account Name	Donor(s)	Opening year	Contributions received	31/12/2012	31/12/2011
Programme / Instrument: Energy Efficiency Finance Facility						
Environmental protection and energy efficiency in Croatia, Bulgaria, Romania and Turkey	Energy Efficiency Finance Facility 2006 Special Account	European Union	2007	23 000	7 318	9 014
Environmental protection and energy efficiency in Croatia, Bulgaria, Romania and Turkey with increased focus on countries under Instrument for Pre-Accession (IPA)	Energy Efficiency Finance Facility 2007 Special Account	European Union	2008	5 000	4 155	4 126
ENPI / Neighbourhood Investment Facility (NIF)						
To support project 1620-Clinical Hospital Chisinau	EU Contribution - F/P 1620 MD Republican Clinical Hospital	European Union	2009	95	90	90
EU Municipal Finance Facility						
Partial financing of infrastructural projects in favour of the municipalities of 10 Central and Eastern European countries, also applicant countries to European Union accession at the time of the project (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia)	EU Municipal Finance Facility Special Account	European Union	2004	14 000	3 752	3 735
	EU Municipal Finance Facility 2003 Special Account	European Union	2005	5 000	791	955
	Municipal Finance Facility (MFF) 2005 Special Account	European Union	2007	3 000	3 369	3 346
	EU Municipal Finance Facility 2006, Special Account Bulgaria, Croatia, Romania and Turkey	European Union	2007	5 000		12
Instrument for Pre-Accession (IPA)						
Partial financing of investments projects in Albania, Bosnia and Herzegovina and Serbia within the framework of the European Commission's Instrument for Pre-Accession (IPA)	IPF 2008 Municipal Window Special Account	European Union	2009	3 777	703	2 787
Partial financing of rural roads in Albania	IPA 2009 Rural Roads Albania Special Account	European Union	2010	6 300	6 180	6 137
Partial financing of water supply and sewerage systems in Albania	IPA 2009 Water Supply Kamza Albania Special Account	European Union	2010	2 450	2 412	2 439
Intelligent Energy Europe						
To support energy efficiency investments through grants (EU "20-20-20 Initiative")	CEB-ELENA	European Union	2012	1 000	1 002	
IPA / WBIF						
Investment grant to support project 1689 (Health sector in the former Yugoslav Republic of Macedonia)	EWBJF-HEALTH PROVIDERS FYROM-PHASE1	(1) EWBJF	2012	3 000		
Investment grant to support project 1611 (Education in the former Yugoslav Republic of Macedonia)	EWBJF-PHYSICAL EDUCATION1-FYROM1611	(1) EWBJF	2012	1 000		
Investment grant to support project 1732 (Education in the former Yugoslav Republic of Macedonia)	EWBJF-PHYSICAL EDUCATION2-FYROM1732	(1) EWBJF	2012	2 000		
Technical assistance grant to support project 17208 (Environment - Tirana Landfill in Albania)	EWBJF-TIRANA REGIONAL LANDFILL	EWBJF	2012	550	535	
IPA /REGIONAL HOUSING PROGRAMME						
To finance Regional Housing Programme in Bosnia and Herzegovina, Croatia, Montenegro, Serbia	RHP FUND REGIONAL ACCOUNT	(2) USA	2012	7 816	7 618	
To finance Regional Housing Programme in Bosnia and Herzegovina, Montenegro, Serbia	RHP FUND SUB-REGIONAL ACCOUNT	(2) Norway	2012	5 458	5 320	
To finance Regional Housing Programme in Bosnia and Herzegovina	RHP FUND SUB-REGIONAL ACCOUNT-BIH	(2) Germany	2012	2 700	2 632	
REGIONAL HOUSING PROGRAMME (RHP)						
To support setting up of the RHP Fund and technical assistance	PREPARATION OF RHP AND RHP FUND	European Union	2012	1 556	376	
To finance costs associated with the Regional Housing Programme	SPECIAL ACCOUNT RHP REP OF CYPRUS	Cyprus	2012	50	49	
To finance costs associated with the Regional Housing Programme	SPECIAL ACCOUNT RHP ROMANIA	Romania	2012	50	49	
To finance costs associated with the Regional Housing Programme	SPECIAL ACCOUNT RHP SLOVAK REPUBLIC	Slovak Republic	2012	40	39	

In thousand euros

Programme/Instrument designation & purpose of the fiduciary accounts	Account Name	Donor(s)	Opening year	Contributions received	31/12/2012	31/12/2011
SME Finance Facility Phase 2 Special Fund						
Partial financing of productive investment projects designed to create or safeguard jobs in SMEs located in 13 of the CEB member countries in Central and Eastern Europe	EC Contribution Fund Phare Account	European Union	2001	49 000	8 628	8 568
	SME Finance Facility (SMEFF) 2002 Special Account	European Union	2004	14 895	2 970	2 949
	SME Finance Facility (SMEFF) 2003 Special Account	European Union	2005	15 000	6 519	6 473
	SME Finance Facility (SMEFF) 2005 Special Account	European Union	2006	8 350	5 457	5 796
	SME Finance Facility (SMEFF) 2006 Special Account, Bulgaria, Croatia, Romania and Turkey	European Union	2007	20 000	4 379	6 224
WBIF						
To finance technical assistance on project 1688 (State Prison in Bosnia and Herzegovina)	EU Contribution- F/P 1688 BA State Prison	European Union	2009	2 560	2 538	2 520
Other fiduciary accounts						
To support priority project 1688 in Bosnia and Herzegovina (State Prison)	Special Account Sweden	Embassy of Sweden	2010	1 099	1 064	1 057
To finance assistance activities, in particular technical assistance to support social and economic reforms in the Western Balkan countries	Norway Trust Account (NTA)	Norway	2003	3 000	226	535
Assistance instrument aimed at supporting the consolidation of the Rule of Law and the European system of human rights protection in Europe, set up in 2008 in collaboration with the Council of Europe. This trust fund is financed through contributions from several Member States	Human Rights Trust Fund (HRTF)	(3) Norway, Germany, the Netherlands, Finland, Switzerland, United Kingdom	2008	9 074	3 710	2 443
To promote social cohesion in Europe	Spanish Social Cohesion Account	Spain	2009	2 000	1 471	1 588
Total					**83 352**	**70 794**

(1) Accounts opened, funded and fully used in 2012
(2) Multi-donor account
(3) Detail of contributions made by donors to the HRTF (in thousand €)

Norway	*3 100*
Germany	*3 400*
Netherlands	*1 350*
Finland	*500*
Switzerland	*402*
United Kingdom	*322*

Note J Selective Trust Account (STA)

- General operating principles

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

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

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

- Funding

The STA is supplied with:

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

b) Voluntary contributions from Member States of the Bank

c) Voluntary contributions from the Council of Europe Members

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

e) Voluntary contributions from the CEB: in 2011 and in 2012, the Bank transferred directly to the STA the voluntary contributions of the Governing Board's Chairperson, i.e. his waived allowances for the periods 18 till 31 December 2011 and 1 January 2012 till 31 March 2012.

- Accounting treatment

The STA is divided into two sub-accounts:

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

In thousand euros

1/ Member States sub-account	Debit	Credit
Balance as at 1 January 2011		**47 256**
Payment by Member States for the financial year 2010		5 000
Contributions of the CEB (*)		2
Credit interest paid into the STA		2 182
Subsidies on disbursed loans	2 929	
Donations granted	613	
Balance as at 31 December 2011 (a)		**50 898**
Payment by Member States for the financial year 2011		1 000
Contributions of the CEB (*)		11
Credit interest paid into the STA		2 152
Subsidies on disbursed loans	3 050	
Donations granted	876	
Balance as at 31 December 2012 (b)		**50 135**
2/ Subsidised projects sub-account		
Balance as at 1 January 2011		**31 477**
Subsidies on loans disbursed in 2011		2 929
Payment of subsidies	5 019	
Balance as at 31 December 2011 (c)		**29 387**
Subsidies on loans disbursed in 2012		3 050
Payment of subsidies	4 918	
Balance as at 31 December 2012 (d)		**27 519**
STA as at 31 December 2011 (a) + (c)		**80 285**
STA as at 31 December 2012 (b) + (d)		**77 654**

(*) The Bank transferred directly to the STA the voluntary contributions of the Governing Board's Chairperson, i.e. his waived allowances for the periods 18 December 2011 till 31 December 2011 and 1 January 2012 till 31 March 2012.

Donations

Since its creation in 1995, donations for a total amount of € 14.9 million have been granted from the STA at the end of 2012 (2011: € 14.0 million).

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

In thousand euros

Payments	2012	2011
Moldova (Republic of): Save Blood Transfusion Programme	500	
Montenegro: Roma refugees Konik Settlement	400	
Georgia (Council of Europe): repayment	(24)	
Montenegro (UNHCR): project aimed at improving the living conditions of refugees families in Montenegro		616
Georgia (Council of Europe): repayment		(2)
Haiti (UNICEF): repayment / emergency aid to the victims of the earthquake in Haiti: education, health, nutrition, protection and water, cleansings and hygiene (WASH – Water, Sanitation and Hygiene)		(1)
Total	**876**	**613**

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

In thousand euros

	Outstanding		Financing commitments	
Breakdown by borrowers' country location	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Romania	286 435	303 754	22 671	22 672
Hungary	146 087	159 447		
Turkey	130 000	70 000	120 000	180 000
Albania	101 786	93 940	6 934	15 621
Croatia	80 037	105 959		
Poland	65 324	51 022	214 000	238 000
Serbia	27 992	28 500		21 100
Bosnia and Herzegovina	18 799	19 010	19 300	19 364
Moldova (Republic of)	13 441	10 337	19 636	9 540
Bulgaria	11 686	12 893		
"the former Yugoslav Republic of Macedonia"	5 747	5 000		20 350
Lithuania	4 808	5 358		
Slovak Republic	4 184	7 347		
Slovenia		598		
Total	**896 326**	**873 165**	**402 541**	**526 647**

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

Note K Provisions

The Bank administers a pension scheme and other related post-employment benefits (particularly medical insurance). The amount of commitment in relation to the various post-employment benefits is determined separately using the projected unit credit actuarial valuation method. The last actuarial valuation was carried out on 31 December 2012 based on individual data as at 30 June 2012.

The Bank set up these provisions in accordance with the revised IAS 19, with early application at 1 January 2012. Following the IASB's decision regarding the first retroactive application in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", comparative information has been prepared for 2011. The amount recorded as a correction as at 1 January 2011 amounts to € 13 837 thousand for the pension scheme and € 3 457 thousand for the other post-employment benefits.

Thus, the Bank set up the following provisions with respect to post-employment benefits:

In thousand euros

	31/12/2012	31/12/2011 Restated (*)	01/01/2011 Restated (*)
Provision for pension commitments	120 208	86 584	80 414
Provision for other post-employment benefits	39 051	24 397	19 428
Total	**159 259**	**110 981**	**99 842**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures as at 1 January 2011 and 31 December 2011. The changes are detailed in Note A paragraph 9.

Pension scheme

The following is the pension scheme financial situation:

In thousand euros

Financial situation as at 31 December	31/12/2012	31/12/2011 Restated (*)
Provision movements		
Provision as at 1 January	**86 584**	**66 577**
Impact of change in accounting policy (revised IAS 19)		13 837
Provision as at 1 January restated	**86 584**	**80 414**
Service cost	5 147	5 071
Interest cost related to discounted commitments	3 810	3 205
Book charge for the year	8 957	8 276
Changes in actuarial differences for the period	25 913	(950)
Benefits paid	(1 246)	(1 156)
Provision as at 31 December	**120 208**	**86 584**
Changes in actuarial differences		
Balance as at 1 January	**12 887**	**13 837**
Actuarial differences from liabilities for the period - impact of data	(2 585)	(1 222)
Actuarial differences from liabilities for the period - impact of assumptions	28 498	272
Sub-total	25 913	(950)
Balance as at 31 December	**38 800**	**12 887**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures as at 1 January 2011 and 31 December 2011. The changes are detailed in Note A paragraph 9.

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

Other information	2012	2011
Interest discount rate	3.00%	4.40%
Inflation rate	2.00%	2.00%
Pensions revaluation rate	2.00%	2.00%
Salary increase rate	2.30%	4.00%
Staff average remaining working life as at 31 December	13	13
Average retirement age	63	63

Pension scheme - related post-employment benefits

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

In thousand euros

	31/12/2012	31/12/2011 Restated (*)
Financial situation as at 31 December		
Provision movements		
Provision as at 1 January	**24 397**	**15 971**
Impact of change in accounting policy (revised IAS 19)		3 457
Provision as at 1 January restated	**24 397**	**19 428**
Service cost	1 582	1 354
Interest cost related to discounted commitments	1 073	867
Book charge for the year	2 655	2 221
Changes in actuarial differences for the period	12 176	2 886
Benefits paid	(177)	(138)
Provision as at 31 December	**39 051**	**24 397**
Changes in actuarial differences		
Balance as at 1 January	**6 343**	**3 457**
Actuarial differences from liabilities for the period - impact of data	438	(50)
Actuarial differences from liabilities for the period - impact of assumptions	11 738	2 936
Sub-total	12 176	2 886
Balance as at 31 December	**18 519**	**6 343**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures as at 1 January 2011 and 31 December 2011. The changes are detailed in Note A paragraph 9.

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

The Bank's commitment related to medical insurance for pensioners was valuated on the basis of a 6.00% adjustment rate of the Bank's contributions.

Sensitivity test

The table below provides information on the sensitivity of the commitment (Projected Benefit Obligation - PBO) relating to the post-employment benefits as evaluated at 31 December 2012, as well as the service cost for the year, the interest cost and the estimated benefits for the year 2013, calculated based on a variation of discount rate assumption of +/- 0.25%:

In thousand euros

Pension scheme	PBO 31/12/2012	Service cost 2013	Interest cost on PBO 2013	Interest on service cost 2013	Estimated benefits 2013	PBO 31/12/2013
Discount rate + 0.25%	**114 281**	6 468	3 714	210	(2 953)	**121 720**
Discount rate - 0.25%	**126 569**	7 228	3 481	199	(2 960)	**134 516**

At 31 December 2012, a decrease in the discount rate of 0.25% would have resulted in an increase of the pension commitment of 5.3%. A 0.25% increase in the discount rate would have resulted in a decrease of this commitment of 4.9% at this date.

In thousand euros

Pension scheme - related post - employment benefits	PBO 31/12/2012	Service cost 2013	Interest cost on PBO 2013	Interest on service cost 2013	Estimated benefits 2013	PBO 31/12/2013
Discount rate + 0.25%	**36 547**	2 266	1 188	74	(245)	**39 829**
Discount rate - 0.25%	**41 772**	2 632	1 149	72	(245)	**45 380**

At 31 December 2012, a decrease in the discount rate of 0.25% would have resulted in an increase of the commitment relating to other post-employment benefits of 7.0%. A 0.25% increase in the discount rate would have resulted in a decrease of this commitment of 6.4% at this date.

Note L Capital

Following a recommendation by the Administrative Council, on 4 February 2011 the Governing Board has approved the Bank's 6th capital increase [Resolution 386 (2011)] which entered into force on 31 December 2011. The subscription rate reached 98%, therefore exceeding the minimum threshold of 67%. The subscription period ran until 31 December 2012.

At 31 December 2012, registered subscriptions amount to € 2 162 210 thousand (31 December 2011: € 1 649 063 thousand), of which € 241 951 thousand (31 December 2011: € 184 530 thousand) were called and paid up by incorporation of reserves. The Bank's subscribed capital has thus increased to € 5 465 660 thousand at 31 December 2012 from € 4 952 513 thousand at 31 December 2011.

Capital breakdown by Member State is presented below:

In thousand euros

Members	Subscribed capital	Uncalled capital	Called capital	Percentage of subscribed capital
Germany	915 770	814 114	101 656	16.755%
France	915 770	814 114	101 656	16.755%
Italy	915 770	814 114	101 656	16.755%
Spain	597 257	530 958	66 299	10.927%
Turkey	388 299	345 197	43 102	7.104%
Netherlands	198 813	176 743	22 070	3.637%
Belgium	164 321	146 083	18 238	3.006%
Greece	164 321	146 083	18 238	3.006%
Portugal	139 172	123 724	15 448	2.546%
Sweden	139 172	123 724	15 448	2.546%
Poland	128 260	114 023	14 237	2.347%
Denmark	89 667	79 712	9 955	1.641%
Finland	69 786	62 039	7 747	1.277%
Norway	69 786	62 039	7 747	1.277%
Bulgaria	62 459	55 526	6 933	1.143%
Romania	59 914	53 264	6 650	1.096%
Switzerland	53 824	43 229	10 595	0.985%
Ireland	48 310	42 948	5 362	0.884%
Hungary	44 788	39 816	4 972	0.819%
Czech Republic	43 037	38 260	4 777	0.787%
Luxembourg	34 734	30 878	3 856	0.635%
Serbia	25 841	22 973	2 868	0.473%
Croatia	21 376	19 003	2 373	0.391%
Cyprus	19 882	17 676	2 206	0.364%
Slovak Republic	18 959	16 854	2 105	0.347%
Albania	13 385	11 899	1 486	0.245%
Latvia	12 808	11 387	1 421	0.234%
Estonia	12 723	11 311	1 412	0.233%
"the former Yugoslav Republic of Macedonia"	12 723	11 311	1 412	0.233%
Lithuania	12 588	11 191	1 397	0.230%
Slovenia	12 295	10 930	1 365	0.225%
Iceland	10 144	9 018	1 126	0.186%
Malta	10 144	9 018	1 126	0.186%
Georgia	9 876	8 780	1 096	0.181%
Bosnia and Herzegovina	9 689	8 614	1 075	0.177%
Montenegro	6 584	5 853	731	0.120%
Moldova (Republic of)	5 488	4 878	610	0.100%
San Marino	4 867	4 206	661	0.089%
Liechtenstein	2 921	2 374	547	0.053%
Holy See	137	107	30	0.003%
Total 2012	**5 465 660**	**4 853 971**	**611 689**	**100.000%**
Total 2011	**4 952 513**	**4 398 245**	**554 268**	

Earnings per participating certificate for 2012 amount to € 22.00 (€ 21.59 for 2011 restated).

Note M Interest margin

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

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

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

In thousand euros

	2012	2011 Restated (*)
Available-for-sale financial assets		
Securities transactions	61 826	75 690
Hedging derivatives	(19 622)	(13 557)
Sub-total	**42 204**	**62 133**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	252 819	279 662
Hedging derivatives	(104 081)	(79 583)
Advances	18 803	41 024
Sub-total	**167 541**	**241 103**
Financial assets held to maturity		
Securities transactions	94 301	90 969
Sub-total	**94 301**	**90 969**
Amounts owed to credit institutions and to customers		
Deposits	(2)	(64)
Interest-bearing accounts	(7 288)	(12 491)
Sub-total	**(7 290)**	**(12 555)**
Debt securities in issue		
Bonds	(692 017)	(807 634)
Hedging derivatives	557 749	571 003
Sub-total	**(134 268)**	**(236 631)**
Other interest expenses and similar charges	(4 884)	(4 071)
Interest margin	**157 604**	**140 948**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures for the period 2011. The changes are detailed in Note A paragraph 9.

Note N Segment information

The CEB is a multilateral development bank with a social vocation. It grants loans to finance projects in its Member States. This activity is funded by public issues and private placements.

Within this ambit, the Bank holds a single operational field of activity. It intervenes in geographical areas where its contribution is most needed, particularly in central and eastern European countries, which constitute the target group countries.

Its activity of project financing is conducted exclusively in Europe. However, for other financial operations, in particular its public issues, the CEB operates in Europe as well as in other continents. Therefore, these operations are not shown in the table below.

The headquarters belonging to the Bank are situated in Paris, France. The CEB does not own any other property besides its Paris headquarters.

The interest on loans is broken down by borrowers' country location as follows:

In thousand euros

Breakdown by borrowers' country location	2012	2011
Poland	48 566	46 241
Hungary	30 475	31 088
Romania	22 954	20 991
Turkey	21 987	19 307
Cyprus	11 119	13 403
Croatia	9 977	10 641
Lithuania	3 831	2 050
Malta	2 996	3 476
Albania	2 902	2 518
Latvia	2 604	3 320
Slovenia	2 216	2 948
Serbia	1 740	1 654
Bulgaria	1 569	1 576
Bosnia and Herzegovina	1 568	1 983
Slovak Republic	968	546
"the former Yugoslav Republic of Macedonia"	836	861
Estonia	786	471
Moldova (Republic of)	514	467
Czech Republic	390	489
Montenegro	178	162
Sub-total target group countries	**168 176**	**164 192**
Spain	12 917	18 173
Germany	10 350	11 938
Belgium	9 920	4 352
Portugal	9 025	9 895
France	8 629	14 053
Greece	6 724	11 513
Italy	6 248	9 648
Finland	4 496	12 465
Iceland	2 701	2 913
Sweden	2 068	2 450
Denmark	1 706	3 416
Ireland	1 129	1 769
Norway	395	874
San Marino	16	34
Sub-total other countries	**76 324**	**103 493**
Target group countries through other countries	**8 319**	**11 977**
Total	**252 819**	**279 662**

Outstanding loans by country are presented in Note F.

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

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

In thousand euros

	2012	2011
Net result from fair value hedging instruments	122 774	38 857
Revaluation of hedged items attributable to hedged risks	(126 527)	(38 306)
Result from financial instruments at fair value through profit or loss	3 462	3 136
Revaluation of exchange positions	(116)	101
Total	**(407)**	**3 788**

Note P General operating expenses

In thousand euros

	2012	2011 Restated (*)
Staff costs		
Wages and salaries	19 134	19 244
Social charges and pension costs	6 318	6 352
Other general operating expenses	8 456	8 733
Total	**33 908**	**34 329**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures for the period 2011. The changes are detailed in Note A paragraph 9.

At 31 December 2012, the Bank staff was composed of: 4 appointed officials (Governor and Vice-Governors) and 182 professional staff. At 31 December 2011: 4 appointed officials (Governor and Vice-Governors) and 171 professional staff.

Note Q Post-balance sheet events

No material events that would require disclosure or adjustment to these financial statements occurred between 31 December 2012 and the closing date of the accounts by the Governor on 27 February 2013.

External auditor's report

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Council of Europe Development Bank (CEB)

55, avenue Kléber
75116 Paris

External Auditor's Report on the Financial Statements

Year ended 31 December 2012

To the Members of the Governing Board and Administrative Council,

We have audited the accompanying financial statements of the Council of Europe Development Bank (CEB) which comprise the balance sheet as at 31 December 2012 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in notes A to Q.

Management's Responsibility for the Financial Statements

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

KPMG S.A.
Société française membre du réseau KPMG constitué de cabinets indépendants adhérents de KPMG International Coopérative, une entité de droit suisse.

Société anonyme d'expertise comptable et de commissariat aux comptes à directoire et conseil de surveillance.
Inscrite au Tableau de l'Ordre à Paris sous le n° 14-30080101 et à la Compagnie Régionale des Commissaires aux Comptes de Versailles.

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Capital : 5 497 100 €
Code APE 6920Z
775 726 417 R.C.S. Nanterre
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FR 77 775 726 417

KPMG

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the European Union.

Paris La Défense, 28th February 2013

KPMG Audit
A division of KPMG S.A.

Pascal Brouard
Partner

Auditing Board's report on the balance sheet and the profit and loss account and the Notes to the financial statements for 2012

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Development Bank and Article I of its Rules of Procedure, the Auditing Board met in Paris on several occasions in 2012 and from 25 February-1 March 2013 in order to certify the CEB's balance sheet and profit and loss account and the Notes to the financial statements for the year ended 31 December 2012.

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

The Auditing Board carried out the review of the CEB's activities for the year 2012 by:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2012, including the balance sheet as at 31 December 2012, the profit and loss account and the Notes to the financial statements, which had been prepared by the Accounting Department of the CEB and signed by the Governor on 27 February 2013
- Consulting the Internal Audit Department and examining its reports
- Consulting the External Auditor of the CEB and examining his interim report and his long form report for the year 2012
- Obtaining the opinion signed by the External Auditor on 28 February 2013
- Obtaining all necessary documents, information and explanations which the Auditing Board deemed necessary. These were readily given by the Governor, the Vice-Governors, the Internal Auditor, the Directors and other pertinent staff.

The Auditing Board certifies, on the basis of the information which was made available to it and to the best of its understanding, that the CEB's balance sheet and profit and loss account including the Notes to the financial statements are in agreement with the books and other records and present fairly, in all material respects, the state of the CEB's affairs as at 31 December 2012 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 1 March 2013

Nataša PRAH
Darius MATUSEVIČIUS
Maria POULAKI

Extract from the minutes of the 281st meeting of the Administrative Council of the CEB

Resolution 1553 (2013) **CA/PV/281/2013**

Paris, 21 March 2013

The Administrative Council,

Having regard to Article XI, Section 3 of the Bank's Articles of Agreement
Having regard to Article 1, paragraph 2 of the Rules of Procedure of the Administrative Council
Having regard to the balance sheet, profit and loss account and notes to the financial statements as at 31 December 2012
Having taken note of the Governor's Memorandum dated 27 February 2013
Having taken note of the external auditor's report dated 28 February 2013
Having taken note of the Auditing Board's report dated 1 March 2013

1. recommends that the Governing Board approve the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2012

2. discharges the Governor from his responsibility for financial management in respect of the financial year 2012

3. resolves to allocate the 2012 net profit (+ € 120 230 411) as follows:

    - € 120 230 411 to the general reserve

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

Extract from the minutes of the 204th meeting of the Governing Board of the CEB

Resolution 402 (2013) **CD/PV/204/2013**

Paris, 5 April 2013

The Governing Board,

Having regard to Article IX, Section 3, paragraph 1, litt. e of the Bank's Articles of Agreement
Having regard to Rule 5, paragraph 1 of the Governing Board's Rules of Procedure
Having regard to the balance sheet, the profit and loss account and the notes to the financial statements as at 31 December 2012
Having taken note of the certification by the external auditor, dated 28 February 2013
Having regard to the reports of the Bank's statutory organs, viz:
- the Report of the Governor for the financial year 2012
- the Auditing Board's report dated 1 March 2013
Having regard to Resolution 1553 (2013) of the Administrative Council

Having heard the Auditing Board

Decides:
- to approve the Bank's annual report, accounts and other financial statements for 2012
- to discharge the Administrative Council from its responsibility for the financial year 2012
- to endorse point 3 of Resolution 1553 (2013) of the Administrative Council of 21 March 2013, by which the Administrative Council allocated the net profit for 2012, amounting to € 120 230 411 as follows:

    - € 120 230 411 to the general reserve.

Balance sheet after allocation of profit

In thousand euros

Assets	31/12/2012	31/12/2011 Restated (*)	01/01/2011 Restated (*)
Cash in hand, balances with central banks	327 373	242 980	230 316
Financial assets at fair value through profit or loss	1 200 675	1 658 168	1 216 278
Hedging derivative instruments	1 402 383	1 224 143	1 226 344
Available-for-sale financial assets	4 930 030	3 649 876	6 332 058
Loans and advances to credit institutions and to customers			
Loans	12 448 526	12 283 910	12 115 390
Advances	4 021 106	4 719 503	1 322 336
Financial assets held to maturity	2 477 909	2 267 665	2 241 862
Tangible and intangible assets	44 909	31 896	31 297
Other assets	4 665	5 041	5 125
Total assets	**26 857 576**	**26 083 182**	**24 721 006**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	428 908	587 231	1 275 923
Hedging derivative instruments	595 059	477 267	445 669
Amounts owed to credit institutions and to customers	83 352	70 794	100 809
Debt securities in issue	21 558 288	20 958 367	19 855 536
Other liabilities	1 693 417	1 705 262	823 133
Selective Trust Account (STA)	77 654	81 285	83 733
Provisions	159 259	110 981	99 842
Total liabilities	**24 595 937**	**23 991 187**	**22 684 645**
Equity			
Capital			
Subscribed	5 465 660	4 952 513	3 303 450
Uncalled	(4 853 971)	(4 398 245)	(2 933 712)
Called	611 689	554 268	369 738
General reserve	1 781 692	1 718 883	1 797 501
Total capital and general reserve	**2 393 381**	**2 273 151**	**2 167 239**
Gains or losses recognised directly in equity	(131 742)	(181 156)	(130 878)
Total equity	**2 261 639**	**2 091 995**	**2 036 361**
Total liabilities and equity	**26 857 576**	**26 083 182**	**24 721 006**

(*) In accordance with the anticipated application of the revised IAS 19, the CEB restated the accounting figures as at 1 January 2011 and 31 December 2011. The changes are detailed in Note A paragraph 9.

Title: Since its creation in 1956, the Bank has been known successively under three different titles. Since 1 November 1999, it has been known as the CEB-Council of Europe Development Bank.

Member States: As at 31 December 2012, the Bank had 40 Member States: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova (Republic of), Montenegro, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey.

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

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

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

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

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

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

Selective Trust Account (STA): A special account set up in 1995 to provide interest rate subsidies for projects that comply with the Bank's priority objectives and have a high social value. The account is fed with allocations from the Bank's profits and voluntary contributions from Member States. This account may be used to make donations, donated by the Administrative Council.

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

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

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

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

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