CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2010





CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

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

OBJECTIVES

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

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

THE COUNCIL OF EUROPE AND THE CEB

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

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

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

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

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

ACTIVITIES

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

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

Since the Bank was set up fifty years ago, the scope of its activity has gradually broadened to other sectors:

education and vocational training, health, social housing, employment in SMEs, improving living conditions in disadvantaged urban areas and rural modernisation, protection of the environment, preservation of historic and cultural heritage, and infrastructure of administrative and judicial public services.

FINANCIAL RESOURCES

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

Established in 1956 with a capital equivalent to 5.7 million euros, the Bank had a subscribed capital of 3.3 billion euros * as at 31 December 2010. Leverage is particularly impressive: since its inception, the Bank has been able to pay out more than 30 billion euros in loans.

* On 4 February 2011, the Governing Board approved the Institution's 6th capital increase, at the outcome of which the subscribed capital could reach 5.5 billion euros.

RATING

For its long-term operations the Bank has been awarded the best rating by the three agencies Fitch Ratings (AAA), Moody's (Aaa) and Standard & Poor's (AAA).

MANAGEMENT

The Bank's organs are:

- The Governing Board, comprising one representative per Member State. The position of Chairman ad interim has been occupied successively by Ambassador Margaret HENNESSY, in 2010, and by Ambassador Joseph LICARI, as of 27 November.

- The Administrative Council, comprising one representative per Member State. Its Chairman is Mr. Rainer STECKHAN, who was re-elected on 28 March 2008.

- The Governor, Mr. Raphaël ALOMAR, re-elected on 15 September 2005. He is assisted by Mr. Nunzio GUGLIELMINO, re-elected as Vice-Governor on 27 November 2009 and Vice-Governor Delegate until 31 October 2010, Mr. Apolonio RUIZ-LIGERO, re-elected as Vice-Governor on 15 September 2005 and Vice-Governor Delegate since 1 November 2010, and Mr. Imre TARAFÁS, elected Vice-Governor on 30 March 2007.

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

Key figures

in million euros

	2010	2009	2008
Loans disbursed during the year	1 782	1 806	1 505
Projects approved during the year	2 267	2 665	1 861
Financing commitments signed during the year	2 311	2 050	1 958
Loans outstanding	11 988	12 198	12 423
Own funds (after allocation of profit)	4 987	4 887	4 718
Equity (after allocation of profit)	2 054	1 953	1 785
Total assets	24 721	22 731	21 403
Net profit	115.9	107.0	95.8
Selective Trust Account			
Social dividends cumulated since the STA 's inception	104.4	99.4	93.4
Balance available (after allocation of profit)	34.5	28.7	26.4

2010



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REPORT OF THE GOVERNOR

Financial year 2010

The Bank's Member States (year of accession)

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



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Membership of the Bank's organs as at 31 December 2010*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Joseph LICARI *(Vice-Chairman, Acting Chairman)* Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg	**Chairman**	**Rainer STECKHAN** Former Director of the World Bank
	Vice-Chairs	**Inta VASARAUDZE** Director, Department of Economic Analysis, Ministry of Finance, Riga
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
Jan DEVADDER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg **Alain COOLS** *(since 3 February 2011)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	**Belgium**	**Franciscus GODTS** Administrator, International and European Financial Affairs, Federal Public Service Finances, Brussels
Zdenko MARTINOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bosnia and Herzegovina to the Council of Europe, Strasbourg	**Bosnia and Herzegovina**	**Ljerka MARIĆ** Director, Directorate for Economic Planning, Council of Ministers, Sarajevo
Andrey TEHOV Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	**Bulgaria**	**Jenya DINKOVA** Director of International Financial Institutions and Cooperation Directorate, Ministry of Finance, Sofia
Anica DJAMIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	**Croatia**	**Zdravko MARIĆ** State Secretary, Ministry of Finance, Zagreb
Euripides EVRIVIADES Ambassador Extraordinary and Plenipotentiary, 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, Debt and Financial Assets Management Department, Ministry of Finance, Prague
Karsten PETERSEN Ambassador, Ministry of Foreign Affairs, Copenhagen	**Denmark**	**Thomas BØRNER** Senior Advisor, Department of Finance, Ministry of Finance, Copenhagen

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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Sulev KANNIKE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg **Karen TIKENBERG** *(since 21 February 2011)* Chargé d'Affaires *a.i.,* Permanent Representation of Estonia to the Council of Europe, Strasbourg	**Estonia**	**Martin PÕDER** Head of the EU and International Affairs Department, Ministry of Finance, Tallinn
Irma ERTMAN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	**Finland**	**Kristina SARJO** Financial Counsellor, Financial Markets Department, Unit for International Affairs, Ministry of Finance, Helsinki
Laurent DOMINATI Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	**France**	**Jean BOISSINOT** Head of Bilateral Relations and European Financial Instruments, Treasury Department, Ministry of Economy, Finance and Industry, Paris
Zurab TCHIABERASHVILI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Georgia to the Council of Europe, Strasbourg **Mamuka JGENTI** *(since 1 February 2011)* Ambassador, Permanent Representative of Georgia to the Council of Europe, Strasbourg	**Georgia**	**Dimitri GVINDADZE** Deputy Minister, Ministry of Finance, Tbilisi
Hans-Dieter HEUMANN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Germany to the Council of Europe, Strasbourg	**Germany**	**Holger FABIG** Head of Division, Multilateral Development Banks, Ministry of Finance, Berlin
Athanasios DENDOULIS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Greece to the Council of Europe, Strasbourg	**Greece**	**Paraskevi PROTOPAPPA** *(substitute)* Head of Department for International Financial Organisations, Ministry of Economy and Finance, Athens
Mgr Aldo GIORDANO Special Envoy of the Holy See, Permanent Observer to the Council of Europe, Strasbourg	**Holy See**	**Reverend Christian GOUYAUD** Attaché, Permanent Mission of the Holy See to the Council of Europe, Strasbourg
Judit JÓZSEF Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	**Hungary**	**László ÖRLŐS** Head of Department, Department for International Finance, Ministy for National Economy, Budapest
Thórir IBSEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Paris **Berglind ÁSGEIRSDÓTTIR** *(since 9 March 2011)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Paris	**Iceland**	**Jón Baldvin HANNIBALSSON** Former Minister of Finance, Foreign Affairs and External Trade, Reykjavik
Margaret HENNESSY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Ireland to the Council of Europe, Strasbourg	**Ireland**	**Niamh CAMPBELL** Principal Officer, Department of Finance, Dublin
Sergio BUSETTO Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Italy to the Council of Europe, Strasbourg	**Italy**	**Bruno MANGIATORDI** Director General, Directorate VI of the Treasury Department, Ministry of Economy and Finance, Rome

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Aiga LIEPIŅA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	**Latvia**	**Inta VASARAUDZE** Director, Department of Economic Analysis, Ministry of Finance, Riga
Liechtenstein **Daniel OSPELT** Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg		
Gediminas ŠERKŠNYS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Lithuania to the Council of Europe, Strasbourg	**Lithuania**	**Rolandas KRIŠČIŪNAS** Undersecretary, Ministry of Finance, Vilnius
Ronald MAYER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	**Luxembourg**	**Arsène JACOBY** Senior Advisor, Ministry of Finance, Luxembourg
Malta **Joseph LICARI** Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg		
Tatiana PÂRVU Ambassador, Permanent Representative of Moldova to the Council of Europe, Strasbourg	**Moldova**	**Victor BODIU** State Minister, Chişinău
Zoran JANKOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Montenegro to the Council of Europe, Strasbourg **Ana VUKADINOVIĆ** *(since 15 February 2011)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Montenegro to the Council of Europe, Strasbourg	**Montenegro**	**Milorad KATNIĆ** Deputy Minister, Ministry of Finance, Podgorica **Nemanja PAVLIČIĆ** *(since 21 January 2011)* Assistant Minister for Budget, Ministry of Finance, Podgorica
Ellen BERENDS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg	**Netherlands**	**Jan HEIDSMA** Advisor to the Ministry of Foreign Affairs, The Hague
Petter WILLE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Norway to the Council of Europe, Strasbourg	**Norway**	**Carola BJØRKLUND** Coordinator for Council of Europe Affairs, Ambassador, Ministry of Foreign Affairs, Oslo
Jacek GRABOWSKI Chargé d'Affaires a.i., Permanent Representation of Poland to the Council of Europe, Strasbourg **Urszula GACEK** *(since 3 February 2011)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Poland to the Council of Europe, Strasbourg	**Poland**	**Jacek DOMINIK** Undersecretary of State, Ministry of Finance, Warsaw
Américo MADEIRA BÁRBARA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Portugal to the Council of Europe, Strasbourg	**Portugal**	**Helder REIS** Deputy Director General at the Office for Strategic Planning, Economic Policy and International Affairs, Ministry of Finance and Public Administration, Lisbon
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Guido BELLATTI CECCOLI Ambassador, Permanent Representative of the Republic of San Marino to the United Nations in Geneva and other International Organisations in Switzerland	**San Marino**	**Raffaele GIARDI** Counsellor, Ministry of Finance, Republic of San Marino

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Dragana FILIPOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Serbia to the Council of Europe, Strasbourg	**Serbia**	**Zoran ĆIROVIĆ** Assistant Minister, Department of International Financial Relations, Ministry of Finance, Belgrade
Emil KUCHÁR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg	**Slovak Republic**	**Vladimir TVAROŠKA** State Secretary, Ministry of Finance, Bratislava
Damjan BERGANT Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	**Slovenia**	**Martin ZDOVC** Undersecretary, International Finance Department, Ministry of Finance, Ljubljana
Marta VILARDELL COMA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg	**Spain**	**Carmen LAÍN** Deputy Director General for European Financial Institutions, Ministry of Economy and Finance, Madrid
Carl Henrik EHRENKRONA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	**Sweden**	**Eva HAGHANIPOUR** Director, International Department, Ministry of Finance, Stockholm
Paul WIDMER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg	**Switzerland**	**Raymund FURRER** Head of Division, Multilateral Cooperation, State Secretariat for Economic Affairs, Bern
Vladimir RISTOVSKI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of "the former Yugoslav Republic of Macedonia" to the Council of Europe, Strasbourg	**"the former Yugoslav Republic of Macedonia"**	**Natasa STOJMANOVSKA** State Secretary, Ministry of Finance, Skopje
Daryal BATIBAY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	**Turkey**	**Evren DILEKLI** Acting Director General, General Directorate of Foreign Economic Relations, Undersecretariat of the Treasury, Ankara

GOVERNOR

Raphaël ALOMAR

VICE-GOVERNORS

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

AUDITING BOARD

Romania: Eden ALI, Vice-President of the Romanian Chamber of Financial Auditors, Bucharest
Slovenia: Nataša PRAH, Director of the Budget Supervisory Office, Ljubljana
Turkey: Ali ACU, Senior Treasury Controller, Undersecretariat of Treasury, Ankara



THE MANAGEMENT TEAM

In front: **Raphaël ALOMAR,** Governor

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

Second row, from left to right, **Thierry POIREL,** Director General for Loans; **Roberto CACCIOLA,** Director of Technical Advisors; **Jacques MIRANTE-PÉRÉ,** Chief Financial Officer; **Martin WEIGAND,** Chief Risk Officer; **Arnaud VIOLETTE,** Central Director for Information Systems and Control; **Bernd FRIEDRICH,** Inspector General; **Luigi LA MARCA,** Chief Compliance Officer; **Maria Lucia ORISTANIO,** Director of Human Resources, **Rachel MEGHIR,** Director for Ex Post Evaluation; **Richard VENEAU,** Director for General Administration; **Michael ROESKAU,** Central Director for Legal Affairs and Prospective Analysis; **Jan DE BEL,** General Counsel

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Thierry Poirel
Stephan Sellen, dep.

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OPERATIONS SUPPORT
Melanie Wieschollek-Lacroix

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

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Roberto Cacciola

TECHNICAL ADVISORS

PROJECT ECONOMIST
Victor Agius

INFRASTRUCTURE AND PREVENTION OF NATURAL DISASTERS
Barış Trak

HOUSING AND URBAN RENOVATION
Dorota Blazejewicz

EDUCATION AND VOCATIONAL TRAINING
Yaël Duthilleul

ENVIRONMENT
Sara de Pablos

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Karina Quintar Ferrer

SUSTAINABLE DEVELOPMENT
Anton Spierenburg

PROCUREMENT
Kitty Villani-Haman

FINANCIAL DIRECTORATE
Jacques Mirante-Péré

TREASURY
Michel Semertzidis

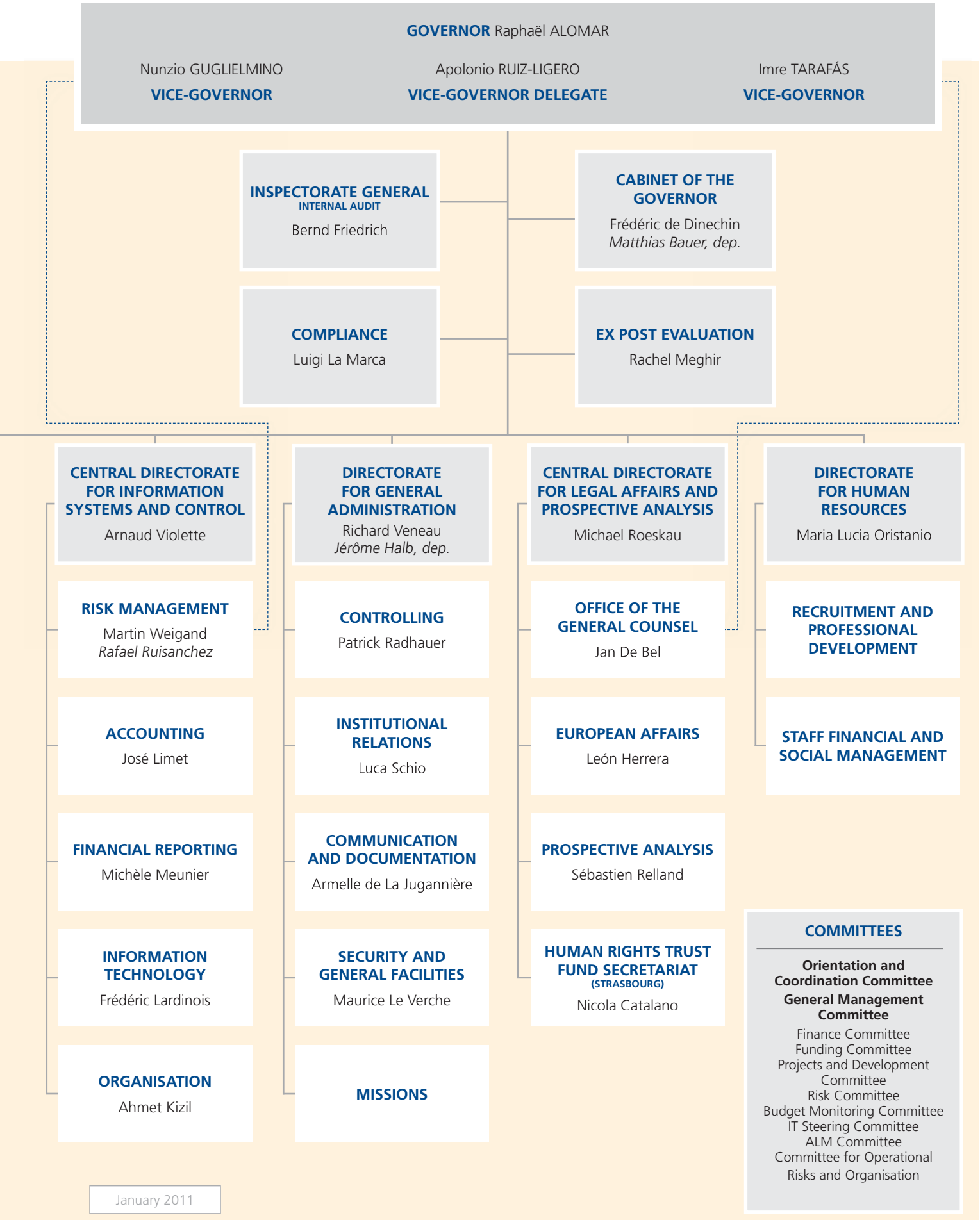
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MIDDLE-OFFICE
Alain Sayagh

BACK-OFFICE
Ioannis Velvitsanos

ORGANISATION CHART



January 2011

Strategic Review

Within the framework of the Strategic Review, during 2010 the Council of Europe Development Bank (CEB) continued to push forward the process of in-depth reflection on its priority missions and effectiveness. The process was initiated by the shareholders at the Bank's Joint Meeting in Prague in June 2007 and has since then been carried through by the Management in close collaboration with the members of the Administrative Council and Governing Board.

In March 2008, the Governing Board appointed a "Committee of Eminent Persons", in accordance with the good practices used for similar exercises in other international organisations. The Committee was composed of Mr. Enrique Iglesias, former President of the Inter-American Development Bank, Mr. Jón Sigurðsson, former resident of Nordic Investment Bank and, as Special Advisor to the Committee, Mr. Jacques de Larosière, former Director General of the International Monetary Fund and former President of the European Bank for Reconstruction and Development. The Committee's mission consisted in objectively and independently reflecting on the CEB's mandate, international positioning and governance.

Their reflections resulted notably in the publication of the Report by the Committee of Eminent Persons in October 2008.

The Strategic Review has already led to the implementation of several concrete measures, among which the following are of particular note: the substantial increase in the volume of activity; the increase in the number of projects in favour of the target group countries (60% of all disbursements was the objective set forth in the Development Plan for 2010-2014); the creation of a Human Rights Trust Fund; strengthened cooperation at European level (Western Balkans Investment Framework, Neighbourhood Investment Facility, the JESSICA initiative) and at international level (enlargement of the Memorandum of Understanding with the United Nations Agency for Refugees to all the CEB's countries of operations).

The Strategic Review has also enabled the introduction of a performance assessment system, the adoption of an environmental policy, the strengthening of the Technical Advisory Directorate and the effective implementation of new codes of conduct in January 2010.

The year ended with the unanimous approval of the project for the reform of the CEB's governance by the members of the Governing Board on 26 November 2010.

In particular, the reform of the CEB's Articles of Agreement introduces two specific new measures in terms of governance: on the one hand, the abolition of the Executive Committee and, on the other hand, modifications in the provisions for selecting and appointing the Vice-Governors.

Together with the changes it has brought about, the Strategic Review process has thus contributed to providing a clearer long-term vision of the Institution and of its roadmap. These transformations, which are so essential for the Bank, are evidence of its ability to evolve and will further strengthen its capacity to positively fulfil its role in the service of development and social cohesion in Europe.

Although the decisions made by the Governing Board in matters of governance represent a significant step towards greater efficiency, this issue will be coming under further scrutiny by the Bank in the future.

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MESSAGE FROM THE GOVERNOR



2010 brought confirmation of the CEB's good results and of its capacity to reach the objectives set forth in the Development Plan for 2010-2014. In a still difficult economic and financial context, the Bank continued to provide support for projects promoting European solidarity and complying with the values of the Council of Europe.

During this first year of implementation of the guidelines contained in the Development Plan for 2010-2014, 31 projects totalling € 2 267 million were approved, of which 20 were for the benefit of countries in the CEB's target group, which comprises the countries of Central, Eastern and South Eastern Europe. The stock of projects reached the historic level of € 5.54 billion, 66% of which were in favour of target group countries. At end 2010, the loans outstanding remained at a high level, namely € 12 billion.

Accounting for 50% of the projects approved, the strengthening of social integration once again constituted the main sectoral line of action this year, in particular through the development of financing programmes in favour of small and medium-sized businesses in the countries of Central, Eastern and South Eastern Europe, but also through active support for the financing of housing for low-income populations.

Moreover, the sectors of the environment and public infrastructure with a social vocation each represented 25% of the activity in 2010. Among the projects approved, it is particularly important to note the development of operations involving judiciary and prison infrastructure in Serbia, Ireland and in "the former Yugoslav Republic of Macedonia", the CEB's participation in the ISMEP programme in Turkey, aimed at better preparing the City of Istanbul to protect itself against the seismic risk, and the CEB's renewed support for the *Acceder* programme, which is aimed at improving employment opportunities for Roma in Spain through cycles of training courses.

In 2010, the net profit reached its highest level for 15 years and standing at € 115.9 million, was significantly up (8.2%) in relation to 2010. The Institution's own funds before the allocation of profits thus reached almost € 5 billion. The CEB's financial base also depends on the quality of its counterparties, 82.3% of which were rated *investment grade* at 31 December 2010, against 86% at end 2009. The Bank's prudential framework was scrupulously respected. It is also interesting to note that the Bank's balance-sheet total reached € 24.7 billion, up 8.8% in relation to 2009.

In 2010, the CEB fully fulfilled its mandate in the service of social cohesion and in compliance with the principles and values of the Council of Europe.

Despite the crisis, the CEB reached its objectives and continued to redeploy its activities in favour of the target group countries of Central, Eastern and South-Eastern Europe.

Its social contribution is made possible due to…

… outstanding results, including a net profit of € 116 million,…

… its financial soundness, as evidenced by its AAA rating,…

Thanks to its AAA rating, confirmed by the agencies Moody's, Standard & Poor's and Fitch Ratings, the CEB is able to raise funds at very competitive costs on the international financial markets and thus propose loans to its Member States on very favourable terms.

… the excellent assessment of its signature on the international financial markets…

In the world financial markets, the CEB's issues enjoy very wide notoriety. Over and above its traditional sources of funding, notably the major Asian countries, Australia and New Zealand, the range of its investors has further widened to include the Middle East, Latin America, the United States and Canada.

Moreover, in 2010, the CEB obtained shelf registration with the US SEC *(Securities and Exchange Commission)*, commonly known as *Global Program,* which has enabled it to increase its potential investor base for its issues on the American market.

The Bank's issues carrying maturities of more than 1 year amounted to € 3 billion in 2010, in compliance with the issuance programme, and issues were denominated in several currencies (EUR, AUD, USD, GBP).

The soundness of its results evidences not only the good financial health of our Institution, but also its dynamism and the confidence it inspires in the markets. Such results are first and foremost the fruit of the mobilisation of all the Bank's staff in the service of social development and of their constant efforts to strengthen the CEB's operational effectiveness.

… and a strengthening of the cooperation and synergies with other development stakeholders in Europe.

In addition to this, the strengthening of synergies with the other actors of social development in Europe and throughout the world has been pursued. In Europe, with the framework of the European Union, it is particularly interesting to note the Bank's participation in the Western Balkans Investment Framework, in the Neighbourhood Investment Facility and in JESSICA, the Community Mechanism for sustainable urban development. Participation in such instruments enables better coordination of the aid provided with other European multilateral banks, including the EIB and the EBRD, and with bilateral development agencies. Also of note was the signing of a Memorandum of Understanding with KfW Bankengruppe in October 2010. Lastly, the CEB has broadened and strengthened its cooperation with the major United Nations specialised agencies (PNUD, HCR, UNICEF, etc.) as well as its relations with the principal international financial institutions throughout the world.

CEB's commitment in favour of sustainable social development intensified…

The CEB and the Council of Europe have pursued their efforts to ensure a better match between their objectives and their actions. By adopting Resolution 1937 (2010), based on the report entitled "The Strategy, Governance and Functioning of the Council of Europe Development Bank", the Council of Europe Parliamentary Assembly highlighted the Bank's potential and its impact on socio-economic cohesion and solidarity in European societies. The CEB's participation in the Council of Europe High Level Meeting on Roma, organised on 20 October 2010 in Strasbourg, is just one of many concrete illustrations of this.

The publication in April 2010 of the Second Report on Corporate Social Responsibility constitutes an additional commitment by the CEB in favour of socially sustainable development. It confirms that the Institution is pursuing the efforts undertaken to ensure more efficient, more transparent and more responsible running of its operations.

The CEB's Councils also approved an Environmental Policy that underpins its commitment to implement appropriate environmental management recommendations and which applies both to the Bank as a whole and to the projects it finances. This environmental policy also made it necessary to update the Public Information Policy, which is structured around three guiding principles: transparency, responsibility and balance.

… in particular with the adoption of a new Environmental Policy.

Implementation of the Strategic Review reached its conclusion on 26 November 2010 with the adoption of the project for the reform of the Bank's governance. The decisions adopted by the Governing Board in these matters correspond to transformations that are necessary for the CEB and bear witness to its capacity for change. They represent an important step forward, but this question will be coming under further scrutiny on the part of the Bank in the future.

While pursuing the efforts toward the modernisation of its governance…

2010 also saw confirmation of the CEB's capacity to achieve its priority objectives, as set out in the Development Plan 2010-2014 and whose principal aim is to take up the social challenges now made more pressing by the financial crisis.

On 4 February 2011, the Governing Board approved the Institution's 6th capital increase, which will raise the level of its own funds from € 4.9 to € 6.8 billion (representing a 40% increase), when fully subscribed. This strengthening of the Bank's financial structure illustrates the support and confidence of its shareholders and will enable the Institution rapidly to mobilise additional means of action, notably in favour of its least advantaged Member States.

… the CEB obtained a strengthening of its means by a capital increase that will bring its own funds from € 4,9 to € 6,8 billion.

The grave economic and financial crisis experienced since the summer of 2007 has led to a worsening situation in Europe and throughout the rest of the world. The crisis has taken successive forms: following on from the upheavals in the banking system came the sovereign debt crisis. This situation is leading to an increase in poverty and inequality throughout Europe. Within this context, the multilateral development banks will have a core role to play in facing future social challenges; the enhanced means at the CEB's disposal today places the Institution in a good position to make an important contribution to development and social cohesion in Europe in the forthcoming years.

This it will do within the framework of Council of Europe policies in order to still more efficiently put its ideals of democratic values and human rights into practical effect through projects with a high social added value.

Backed by the support of its shareholders, the Bank will be, in the future, fully capable of playing its role as a player of social development in Europe.

Paris, 23 February 2011



Raphaël ALOMAR

CEB activities in favour of Roma

The Roma[1] constitute one of the oldest population groups in Europe. Following the 2004 and 2007 enlargements, some 6 million Roma became citizens of the European Union[2]. Estimated to be 10 million in the CEB Member States, they constitute over 8% of the population in five countries: Bulgaria, "the former Yugoslav Republic of Macedonia", Slovak Republic, Romania and Serbia.

These figures highlight the importance of this community, which suffers - to varying degrees according to the country of residence - from exclusion, unemployment, difficulties concerning school attendance and access to healthcare and housing. Contributing to improving the living conditions of this marginalised population comes naturally within the mandate of the CEB, whose **financial contribution over the past 10 years** (in South Eastern Europe and in Spain) has been directed to the following actions:

- **Five projects** in the housing and vocational training sectors, representing **loans amounting to € 25.9 million**
- **Six donations** for a **total of € 2.67 million,** linked to projects in the sectors of education and training, housing and local development (drinking water, transport).

A brochure entitled "CEB Activities in favour of Roma" is available on the Bank's website.



In **2010,** the CEB's commitment in favour of the Roma resulted in the approval, in June, of a project worth € 8 million for the ***Acceder*** **programme** in **Spain,** through Caja Madrid. In view of the needs of this population group, which has been badly affected by the economic crisis, the CEB thus renewed its support for this initiative that it had already financed in 2001 with a loan worth € 4.2 million. The aim of the *Acceder* programme, run by the non-profit organisation *Fundación Secretariado Gitano* (FSG), is to set up individual pathways and training courses to enhance Roma employability. The programme functions with the support of mediators from the Roma community and thanks to partnerships with administrations and businesses generating local jobs for the Roma population[3]. In term of quantitative results, the *Acceder* programme has proven its efficiency and even gone beyond its initial objectives. In effect, since 2000, almost 36 000 Roma have benefitted from the possibilities offered by *Acceder,* including a high proportion of women (54%) and young people, with youths under 30 representing 52% of the beneficiaries. This programme is not reserved exclusively for the Roma; other non-Roma individuals, in danger of marginalisation, have also benefitted from it.

As well as providing financial support for Roma inclusion, the CEB is also present at **institutional level.** In cooperation with the Council of Europe, the Bank plays an observer role in the Committee of Experts on Roma and Travellers. It has taken part in two initiatives stemming from the conference organised by the World Bank in Budapest in July 2003: the Decade of Roma Inclusion 2005-2015 and the Fund for Roma Education. Over and above its collaboration with the European Commission, the Bank enjoys bilateral relations with specialised NGOs as well as with a number of UN agencies (HCR, PNUD and UNICEF).

In 2010, the CEB participated in two major European events:

- The Second European Summit on Roma in Cordoba on 8 and 9 April
- The Council of Europe High-Level Meeting on Roma in Strasbourg on 20 October.

In compliance with its social mission and in collaboration with all the interested parties, the Bank will continue to lend its support to initiatives in favour of Roma. Insofar as its possibilities allow, the CEB therefore stands ready to finance projects with a high added value and adapted to its functional tools.

1. The term "Roma" designates the Roma, Sinti, Kale, Travellers and related population groups in Europe, and aims to cover the wide diversity of groups concerned, including groups that identify themselves as "Gypsies".
2. Source: The Council of Europe and Roma: 40 years of action (J.P. Liégois).
3. *Acceder* constitutes a reference in matters of Roma vocational integration and as a tool to combat prejudice. This programme was designed, in particular, as a model of good practices and the European Commission's High-Level Advisory Group on Social Integration of Ethnic Minorities has recommended its transposition to the countries of Central and Eastern Europe (2007).



Projects and loans

I - KEY FACTORS FOR 2010

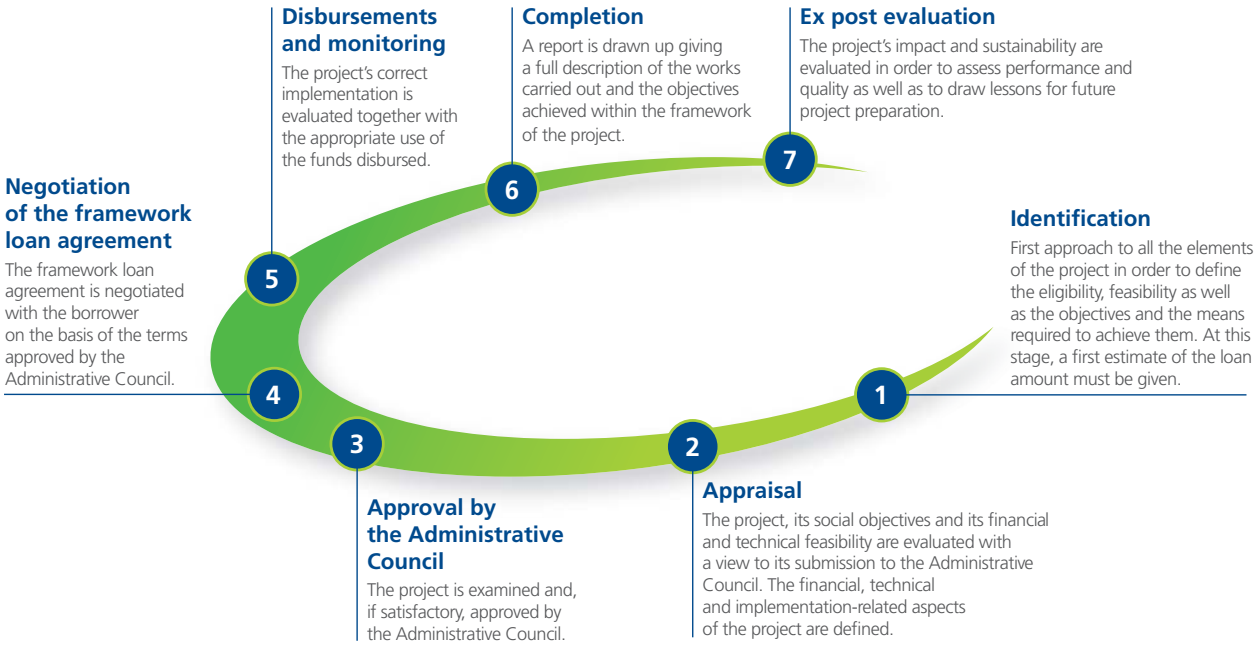
In operational terms, 2010 was characterised by the following:

- The Bank continued to pursue its objective of facilitating improvements in living conditions and promoting social cohesion in its Member States. Notwithstanding the persistently challenging economic environment, the **results for the year were fully in line with the objectives set in the CEB's Development Plan 2010-2014.** Projects approved in 2010 amounted to € 2 267 million and disbursements for the year came to € 1 782 million.

- In 2010, the CEB concentrated its activity on those sectoral lines of action with the greatest potential to generate added value. The sectoral breakdown of the projects approved and loans disbursed during 2010 continued the trend of **support for project approvals** in favour of **strengthening social integration** (€ 1 126 million, representing 50% of projects approved for the year) in the fields of improving living conditions in urban and rural areas, housing for low-income persons and the creation and preservation of viable jobs. Moreover, the Bank approved projects **supporting public infrastructure with a social vocation** in the health, education and vocational training, and administrative and judicial public service infrastructure sectors for a total of € 572 million, representing 25% of the total amount of projects approved. In particular, the year was marked by a substantial amount of projects approved for penitentiary facilities (€ 177 million in total), in line with the Action Plan of the 3rd Summit of Heads of State and Government of the Council of Europe (see box on page 35). As for projects concerned with **managing the environment,** projects approved in 2010 in this sectoral line of action amounted to a total of € 570 million.



POLAND
Modelling workshop in a school





Borrowing from the CEB

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

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

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

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

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

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

- One of the important elements of 2010 was the **continued strengthening of the Bank's partnership with the European Union** (EU). Finding synergies and pooling know-how to make the work of the actors of European development more effective have been the guiding principles underpinning the CEB's cooperation with the EU over the last several years. The CEB's active role in the different joint financing facilities – including the Western Balkans Investment Framework (WBIF), the Neighbourhood Investment Facility (NIF), and the JESSICA instrument – enables the Bank to continually reaffirm its social vocation (see box on page 22).

- The CEB's Administrative Council **adopted the CEB's Environmental Policy** in September 2010. This policy draws upon the relevant Council of Europe conventions and the EPE (European Principles for the Environment) Charter which is based on EU environmental policy and regulations. As a reference document for the Bank's staff, borrowers and other stakeholders, it further develops the environmental management principles described under the Policy for Loan and Project Financing and widens their perspective to the CEB's activities as a whole. It underlines the Bank's contribution to building sustainable communities and describes the environmental and social principles that guide the conduct of its project-related operations.

II - MEANS OF ACTION

Acknowledged for its expertise and know-how in the financing of social projects, the CEB enjoys a unique and original position in Europe, on account of the nature of the projects it finances, the sectors in which it engages its action and the scope of its shareholder base.

The Bank's distinctive operating features include its:

- flexible functioning, which adapts the CEB's structured approach to project financing to the specific needs of its borrowers and the social nature of the financed projects
- constant efforts to enhance project quality both upstream, during project preparation, and downstream, during implementation and monitoring
- the accent placed on its prudential financial framework, its risk management policies and the wide scope of its internal/external control mechanisms.



SECTORAL LINES OF ACTION	SECTORS OF ACTION
Strengthening social integration	- Aid to refugees, migrants and displaced persons - 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 historic and cultural heritage
Supporting public infrastructure with a social vocation	- Health - Education and vocational training - Administrative and judicial public service infrastructure

1. Sectoral lines of action

Set up 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 then adapted to changes in social priorities in Europe in order to better contribute to **strengthening social cohesion.**

In compliance with its social vocation, the Bank structures its projects and loans activities around the following three sectoral lines of action:

- strengthening social integration

- managing the environment

- supporting public infrastructure with a social vocation

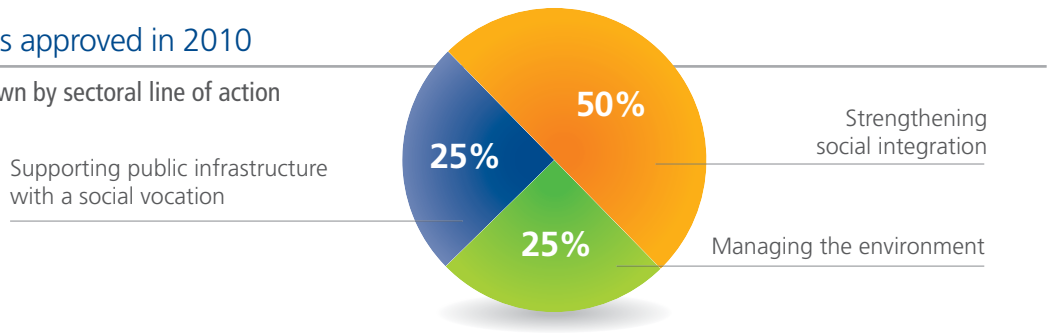
as further detailed in the table above.

2. Financing and monitoring modalities

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

Projects approved in 2010

Breakdown by sectoral line of action



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



Trust funds managed by the CEB

Trust funds, fed by voluntary contributions from the Member States, constitute one of the means of action available to the Bank, in compliance with Article VII.3 of its Articles of Agreement and following authorisation by the Administrative Council.

These instruments present advantages not only for the donors, but also for the CEB. They enable donors:

- to focus on the social projects that their country wishes to support, while creating a leverage effect thanks to the combination of their contributions and loans for very much higher amounts.
- to establish effective links with the end beneficiaries within a reasonable timeframe
- to rely on CEB procurement procedures, thereby guaranteeing appropriate allocation of their contributions

Thanks to these additional resources, the CEB, on the other hand, can:

- finance the technical assistance required in preparing and steering its projects
- enhance the social impact of its projects thanks to more advantageous financing conditions
- demonstrate its specific social vocation, which is unique among IFIs.

Since 2001, the CEB has managed the following trust funds:

- **The Finland Trust Account:** Finland was the first Member State to entrust the Bank, in 2001, with management of a trust account. Endowed with € 168 000, the purpose of this account was to finance technical assistance linked to the preparation of projects in the Baltic States. This account was closed in 2005 and the balance transferred to the Roma Education Fund.

- **The Norway Trust Account,** set up in 2003, on the initiative of the Norwegian Authorities, to finance the technical assistance required for the implementation of socio-economic reforms in the Western Balkans. Its initial endowment of € 1 million was supplemented in 2005 and 2007 by two additional amounts of € 1 million each. At end 2010, approved donations amounted to € 2.95 million, of which € 2.57 million had been disbursed. In 2010, an amount of € 349 200 was disbursed for technical assistance and feasibility reports concerning four projects: Tirana Hospital; rehabilitation of rural roads in Albania; collective housing for vulnerable persons in Bosnia and Herzegovina; access to microcredits in the Western Balkans. At 31 December 2010, the available balance stood at € 278 859.

- **The Human Rights Trust Fund,** set up in 2008 by Norway, the Council of Europe and the CEB in order to facilitate application of the decisions of the 3rd Summit of Heads of State and Government of the Council of Europe in Warsaw (2005). The aim of this account is to contribute to consolidating the rule of law and protection of human rights, thanks to the financing of technical assistance.

  The total amount of contributions stands at € 4.45 million (Norway, € 1.7 million; Germany, € 1.6 million; Netherlands, € 750 000; Finland, € 200 000 and Switzerland, € 200 000 in January 2011). This has enabled the approval of donations worth € 3 million, of which a total of € 2.5 million has been disbursed. A donation amounting to € 1.11 million was approved in 2010 for the *HELP Programme* (training for legal professionals) implemented in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Moldova, Montenegro, Serbia, "the former Yugoslav Republic of Macedonia" and Ukraine. After taking into account the Swiss contribution, received in January 2011, the available balance stands at € 1.34 million.

- **The Spanish Social Cohesion Account,** set up in 2009 on the joint initiative of Spain and the CEB. This account is endowed with € 2 million and its aim is to finance technical assistance linked to the Bank's projects, mainly in the target group countries. At 31 December 2010, approvals amounted to € 202 100, including € 41 045 already disbursed for projects in Albania (reform of the education system), Georgia (construction of a prison to European standards) and Moldova (water supply). The available balance at 31 December 2010 was € 1.71 million.

At the end of each year, these accounts are audited by the CEB's External Auditors within the framework of the annual auditing of the Financial Statements.

*

The Bank also has a Selective Trust Account (STA) through which it can grant interest rate subsidies for certain high social impact loans and, in exceptional cases, make donations. It is fed mainly from the CEB's annual profits. Since its creation in 1995, the STA has enabled the financing of interest rate subsidies worth € 87.5 million and of donations amounting to € 13.6 million.





"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"
Job creation in the SME sector

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

Once the project has been approved by the Administrative Council, a framework loan agreement is signed with the borrower. Paying particular attention to the quality of the projects it finances, and striving to optimise their social impact, the CEB focuses on assistance and monitoring throughout the whole project cycle (see chart on page 15) as key factors for effective project implementation.

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

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

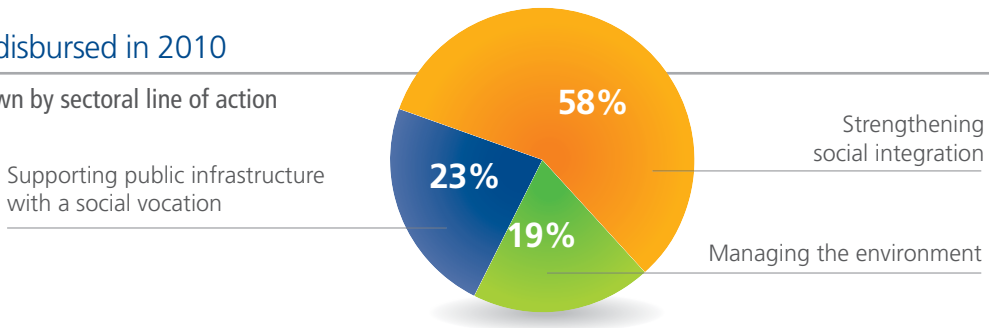
III - PROJECTS AND LOANS ACTIVITY IN 2010

In 2010, the CEB's Administrative Council approved **31 projects,** for a total amount of **€ 2 267 million.** 20 projects were approved for target group countries[2], for a sub-total of € 1 259 million, representing 56% of the total amount approved during the year.

Over the past five years, the CEB approved **180 projects** amounting to an accumulated total of **€ 11 667 million** (including € 7 002 million in favour of the target group countries), representing an annual approval average of € 2 333 million over the period 2006-2010. These new operations are spread between **the Bank's three sectoral lines of action** (see chart on page 17).

Loans disbursed in 2010

Breakdown by sectoral line of action



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



The breakdown of approvals per country and per sector is given in the table on page 37.

The total of the new financing commitments (i.e., projects approved for which a framework loan agreement has been signed) as at 31 December 2010 was **€ 2 311 million,** of which 62% were in favour of the target group countries.

At end 2010, disbursements totalled **€ 1 782 million** (including € 1 056 million in favour of the target group countries, representing 59% of all disbursements made during the year), spread over 104 loan tranches and 76 projects.

In the past five years, the CEB has disbursed an accumulated amount of **€ 8 323 million** (including € 4 981 million in favour of the target group countries), representing an annual disbursement average of € 1 665 million over the period 2006-2010.

Disbursements were broken down between **the Bank's three sectoral lines of action** (see chart on page 19).

At 31 December 2010, the loans outstanding amounted to **€ 11 988 million,** spread over 33 countries.

The breakdown of loans disbursed per country and per sector is given in the table on page 39.

1. Strengthening social integration

For the CEB, contributing to social integration and thus attacking the roots of exclusion at operational level means acting in favour of refugees, migrants and displaced persons, social housing, job creation and preservation and improving the living conditions in urban and rural areas.

From 2006 to 2010, this sectoral line of action represented an accumulated amount of **€ 6 280 million** in terms of **projects approved** (representing 54% of all projects approved since 2006). For 2010 alone, project approvals amounted to **€ 1 126 million** (representing 50% of all approvals), of which € 606 million in favour of target group countries.

In parallel, over the period 2006-2010, **loans disbursed** in favour of social integration amounted to an accumulated total of **€ 4 751 million,** representing 57% of all disbursements made since 2006. In 2010, the Bank disbursed **€ 1 024 million** in favour of social integration, including € 669 million, or 65% of all projects in this sectoral line, in favour of target group countries.

Aid to refugees, migrants and displaced persons

Aid to refugees, migrants and displaced persons is one of the CEB's statutory priorities. 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.

Over the past five years, the CEB has responded to requests made by its Member States for the implementation of projects in favour of refugees and displaced persons. In effect, since 2006, the CEB approved a total of **€ 177 million** for new operations in this sector; disbursements made in this sector in 2010 reached a total of **€ 15 million.**

The CEB can also grant donations in this field, reserved for "aid to victims of natural or ecological disasters" and limited to a ceiling of € 250 000 per operation, within the framework of an annual global amount of € 500 000. The donations are granted through international organisations or approved Non-Governmental Organisations, which are responsible to the Bank for their implementation and for monitoring the use of the funds.

In 2010, on a proposal by the Governor, the CEB's Administrative Council approved a € 100 000 donation of an exceptional nature for children victims of the earthquake which hit Haiti on 12 January 2010. It was agreed that the donation, paid to UNICEF, would be earmarked for Earthquake Emergency relief efforts in the field of education as it represents one of the Bank's core sectors of action and would help facilitate resumption of school activities for the children of Haiti.



BULGARIA
Job creation in the SME sector



Housing for low-income persons

The provision of decent and affordable housing is an effective means of supporting the Bank's mission of strengthening social cohesion in its Member States and contributing to improving the living environment in both urban and rural areas.

The projects financed by the CEB in this sector relate to renovating, building or refurbishing housing and converting 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.

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

Co-operation with other European institutions, in particular with the European Union has been gaining importance in this field as it ensures better efficiency, complementarities and sharing of experience. In this spirit, the tripartite agreement the CEB signed in 2006 with the European Commission and the European Investment Bank (EIB) defines a cooperation framework for implementation of the European Union's integrated urban development policy for the period 2007-2013 as well as implementation of the JESSICA (Joint European Support for Sustainable Investment in City Areas) initiative and places the issue of housing at the very heart of European urban regeneration policies (see box on page 22).

In the period from 2006 to 2010, the CEB approved projects in the housing sector for an accumulated amount of **€ 1 800 million,** representing 15% of all approvals for the period 2006-2010. For 2010 alone, the CEB approved operations for a total of **€ 342 million** in this sector (representing 15% of all projects approved during the year). Disbursements amounted to almost **€ 255 million,** or 14% of all disbursements for the year.

Among the operations approved in 2010 is a € 125 million programme in Belgium with the Walloon Housing Association (SWL, *Société Wallonne du Logement*) that will provide for the financing of energy efficiency investments in social housing, in particular through improvements in heating and ventilation systems, hot water production and insulation. The aim of the project is to substantially reduce the service charges paid by social housing tenants and to control, on a lasting basis, the energy bills in social dwellings.

Also in **Belgium,** the Bank approved a programme with the Flemish Social Housing Company (VMSW, *Vlaamse Maatschappij voor Sociaal Wonen*) for an overall amount of € 150 million. As part of the VMSW's multi-annual mortgage programme, the project will comprise mortgage loans to low-income households owning no other property for the purchase or construction of new energy efficient dwellings or for the acquisition of dwellings that are over 30 years old with a view to improving their energy performance. The aim of the project is to support the Flemish Government's policy to reduce energy consumption expenditure and to boost social cohesion.



HUNGARY
Improving energy efficiency in housing



CEB involvement in favour of sustainable urban development: the JESSICA instrument

Launched in 2006, the purpose of JESSICA (Joint European Support for Sustainable Investment in City Areas) is to promote the use of renewable resources made available to EU Member States in the form of Structural Fund grants in the urban development sector. Designed to facilitate the use of financial engineering instruments to support the funding of urban renewal and regeneration schemes in the context of EU Cohesion Policy, JESSICA is envisaged as a tool for leveraging EU Structural Fund contributions to project financing and for stimulating private sector investments in integrated urban development projects.

Thanks to the participation of international financial institutions (IFIs) and the private sector through contributions in the form of both funding resources and sector expertise, the JESSICA initiative is expected to mitigate some of the risks associated with complex urban development projects. The CEB participates in the JESSICA instrument by virtue of a Memorandum of Understanding signed in May 2006 alongside the European Commission and the European Investment Bank (EIB). The aim of this framework is to facilitate a coordinated approach in matters of urban development. Since April 2008, the CEB has been contributing one staff member on a full-time basis to the JESSICA Task Force headquartered at the EIB in Luxembourg.

As a fully-fledged member, the CEB organised the 7th JESSICA Steering Committee meeting in Paris in November 2010. In collaboration with the European Commission and the EIB, it was also involved in the launch of the JESSICA Networking Platform as a tool to promote the exchange of best practices about the instrument among all the stakeholders. In particular, reinforcing cooperation with local and regional governments and national development or promotional banks should further strengthen the ability of the system to reconcile the aims of Europe 2020 agenda with the need to operate closer to the final beneficiaries at the local level, especially in the current environment of increasingly scarce public budget resources.

Within the urban agenda, the anticipated reinforcement of energy-focused investments underscores the relevance of projects such as the Credit and Export Guarantee Fund (KredEx) programme in Estonia, approved by the CEB's Administrative Council in 2008, as a reference for potential actions within the JESSICA framework. The KredEx programme made € 35 million of CEB funds available for the part-financing of energy efficiency investments in Estonian multi-apartment buildings carried out by housing associations, housing co-operatives or communities of apartment owners. Operating through selected Estonian commercial banks, KredEx on-lends CEB funds, together with resources from the EU Structural Funds, to the final beneficiaries and acts as the CEB's borrower and fund manager. The CEB disbursed € 5 million for this programme in 2010.

In **Montenegro,** the Bank approved a € 25 million operation with the Government to co-finance a subsidised mortgage scheme allowing access to property for around 1 000 eligible households throughout Montenegro. The implementation of this project will contribute to addressing the pressing need for affordable housing and help alleviate the difficult situation in the construction sector following the recent crisis (see box on page opposite).

In **Serbia,** the CEB approved a project worth € 10 million with the Government that will provide resources for the partial financing of rental housing for young researchers. Eligible investment projects will concern the construction of over 130 dwellings for rent in Belgrade. The scheme will give strong preference to housing young researchers in order to improve their living conditions and avoid economic migration (see box on page 33).

Also in Serbia, the Bank approved a € 32 million project with the Government. As the first initiative under the new Social Housing Law, the project will support the Serbian authorities in their efforts to improve living conditions for targeted populations by facilitating access to credit for the construction of both low-cost 'public rental' and reasonably priced 'owner-occupied' dwellings. In certain instances, the CEB funds may also be used to finance improvements in housing-related basic infrastructure.



MONTENEGRO
Priority to social housing financing

The residential sector in Montenegro remains marked by a severe shortage of affordable housing as the largest segment of multi-apartment building construction over the last ten years mostly reflected foreign and market oriented investments. The housing shortage was exacerbated in 2009 when, due to the global financial crisis and the consequent lack of funding, a considerable amount of construction works had to be halted throughout the country.

Increasing the availability of social housing has been underlined as a priority in the Housing Policy Action Plan adopted by the Government. This Action Plan also identifies certain categories of the population (such as family welfare beneficiaries, pensioners, Roma, refugees, internally displaced persons and young people) as target groups for social housing.

The € 25 million project approved by the CEB will support the initial efforts by the Government in the field of social housing. By contributing to the part financing of a subsidised mortgage scheme, the aim is to achieve the twofold objective of increasing access to permanent housing for eligible households and alleviating the effects of the crisis on the construction industry.

The social impact of the project is expected to be significant, as about 1 000 households should benefit from access to affordable housing, especially at the time when the liquidity of the banking system and public finances have come under increased strain. In addition, the project should provide viable jobs in the construction sector, particularly in the less developed regions of the country. By addressing the housing shortages throughout Montenegro, the project is also expected to contribute to slowing migration from smaller municipalities and most cities to the country's capital, thus improving living conditions countrywide and boosting local development and economy.



MONTENEGRO
Social housing

Creation and preservation of viable jobs

The CEB lends its support to productive investment projects providing for the creation and preservation of viable jobs by facilitating access to credit. These projects are intended for micro, small and medium-sized enterprises (SMEs) as well as for entities exercising a craft activity or family businesses carrying out regular economic activity.

Over the past five years, the Bank has approved projects in this sector for a total of **€ 2 841 million,** representing 24% of all project approvals during the period 2006-2010. For 2010, the projects approved amounted to **€ 400 million** (representing 18% of all projects approved during the year). Disbursements in this sector amounted to **€ 428 million,** representing 24% of all disbursements made during the year.

Among these projects, the CEB approved a programme in **Bulgaria** with the Bulgarian Development Bank (BDB) that will provide € 20 million for the partial financing of productive investment projects in SMEs throughout the country. Due to the key role SMEs play in economic growth and job creation, the Bulgarian Government has taken steps to improve their legal and policy framework and to reinforce the role of the BDB as a provider of long-term lending to economically, technically and financially feasible as well as environmentally sound projects launched by SMEs throughout the country.



Also in Bulgaria, the Bank approved a € 5 million programme with Société Générale Expressbank for the partial financing of productive investment projects in SMEs throughout the country with a view to strengthening their competitiveness, fostering creation of new permanent and seasonal jobs and preserving the existing ones. The project is to support a range of SMEs with high job creating potential, especially in the manufacturing and high value added service sectors with strong linkages to other firms and high export content.

In **Finland,** the Bank approved a new programme with Finnvera, a specialised State-owned financing company serving to supplement the local financial market, which will devote € 100 million for the partial financing of productive investment projects for the creation and preservation of viable jobs in Finnish SMEs. This new operation, particularly targeted to the smaller end of SME spectrum as well as to companies located in disadvantaged areas with limited access to capital, will build on the success of the three previous CEB facilities granted to Finnvera (see box opposite).

The CEB also approved a new programme in **Hungary** with the Hungarian Development Bank (MFB, *Magyar Fejlesztési Bank*). This operation, representing a continuation of the ongoing CEB cooperation with MFB, will provide € 75 million to support MFB's strengthened "New Hungary Enterprise Development Loan Programme". The aim is to make long-term funding available in order to enable investments in production premises, machinery and equipment and allow Hungarian SMEs to expand their operations, implement technological changes and boost their competitiveness, thereby encouraging the creation and preservation of viable jobs.



PORTUGAL
Water treatment plant

FINLAND
Supporting productive investment projects in SMEs

The recent global financial crisis and the consequent weakening of the banking sector led to a considerable deterioration in the availability of bank loans to SMEs across most CEB Member States, combining difficult access to finance with rising interest rates, more onerous collateral requirements and increased charges, fees and commissions.

As a specialised State-owned financing company, Finnvera plays a unique role in Finland by supplementing the financial market through providing funds to enterprises with difficult access to commercial bank loans and through channelling interest rate subsidies to the most needy end-borrowers.

The CEB approved a € 100 million programme with Finnvera for the partial financing of productive investments undertaken by existing and start-up SMEs – in particular the smaller end of SME spectrum as well as those located in remote areas and with limited access to capital – to invest and thereby create or maintain jobs in a country which, although a well-developed economy, still suffers from relatively high unemployment rates, especially long-term unemployment among certain population groups. The large number of final beneficiaries will include micro-enterprises and start-ups obtaining investment and development loans, environmental loans or loans for women entrepreneurs.

On the basis of successful co-operation between the two institutions to date and the demonstrated institutional strength and capacity of Finnvera, the project will be implemented as a "Conditional financing instrument" with project monitoring relying on regular reporting by Finnvera.



In **Poland,** a € 150 million programme approved with PKO Bank Polski (PKO BP) will involve the financing of productive investments in SMEs throughout Poland. By supporting local entrepreneurial activity and new product development, this programme should contribute to job creation and maintenance and alleviate the negative social and economic effects of high structural unemployment and the associated risks of poverty and social exclusion.

The CEB also approved a € 50 million programme in **Turkey** in favour of Türkiye Kalkınma Bankası A.Ş. ("Kalkınma"), the country's only State-owned development bank, for the partial financing of productive investment projects in micro enterprises and SMEs throughout the country, with special focus on less developed regions. Although the primary goal of the project is job creation, CEB funding will also contribute to strengthening Kalkınma's institutional framework and its lending capacity through a network of domestic banks.

Improving 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 can involve the construction or rehabilitation of infrastructure in urban or rural areas in favour of public entities at national or local level, such as:

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



SLOVENIA
Improving living conditions

CYPRUS
Urban revitalisation of Nicosia

The CEB approved a project in Cyprus with the Municipality of Nicosia that will devote € 40 million to urban investment, infrastructure upgrading and rehabilitation projects in the Nicosia Area. The investments mainly fall in the following four categories:

- initiatives to revitalise Nicosia City centre, especially along its partitioning buffer zone
- improvements to basic city infrastructure, including road construction, pavements and rainwater drainage systems
- upgrades to the urban environment in order to stimulate economic development and business competitiveness
- renovation of historic buildings and protection of cultural heritage in the historic city centre.

The project is expected to have a positive effect on the economic development, living conditions and social cohesion of the city's inhabitants by facilitating access to credit for the upgrade of local infrastructure.

In its approach, the project follows the spirit of the report from the Council of Europe's High-Level Task Force on Social Cohesion (TFSC) *"Towards an Active, Fair and Socially Cohesive Europe"* which stresses that "policies on culture and environment, urban and housing policies, anti-poverty and exclusion policies, those on demographic movements and sustainable development and co-development" should be included in the transversal approach, as a way to enhance social cohesion through cross-disciplinary activity.



ROMANIA
Strengthening the river banks

Over the period 2006-2010, the Bank approved projects to improve living conditions in urban and rural areas for a total of over **€ 1 462 million.** For 2010, the total amount of projects approved in this sector reached **€ 384 million** (representing 17% of all projects approved during the year). Disbursements reached **€ 325 million,** representing 18% of all disbursements made during the year.

Among these new operations, the CEB approved a € 40 million project in **Cyprus** with the Municipality of Nicosia for the partial financing of urban investment projects in the city and its surroundings. The project is expected to have positive effects on the economic development, living conditions and social cohesion of the city's inhabitants by facilitating access to credit for the upgrade of local infrastructure (see box on page 25).

In **France,** a € 20 million programme with Crédit Coopératif will part-finance social infrastructure investments in rundown neighbourhoods lacking in social and cultural amenities such as basic education, healthcare centres and welfare facilities. The investments will be aimed, in particular, at vulnerable groups, including elderly people and disabled, as well as young people and adults in difficulty. This programme will contribute to reinforcing the network of voluntary associations and small service providers in fields linked to the improvement of living conditions and to sustainable social development.

In **Germany,** the CEB approved a € 30 million programme with Investitionsbank Schleswig-Holstein (IBSH) for the partial financing of physical facilities throughout the Federal State of Schleswig-Holstein, including eligible municipal investments in energy saving and efficiency measures, school-related infrastructure as well as sewage facilities and district heating networks. Municipal investments that increase connections to dark fibre networks in order to enable certain on-line services (such as eGovernment, eHealth and eLearning) will also fall within the scope of the project, specifically in rural and remote areas.

Also in Germany, the CEB approved a programme with the KfW Bankengruppe (KfW) that will enable it to provide € 7.5 million, in the form of a transit loan, for the financing of municipal investments in Albania within the Municipal Window of the Infrastructure Project Facility (IPF-MW), established by the European Commission (EC). This particular cooperation will comprise two distinct infrastructure projects: improving water and sanitation systems in the city of Kamza, and promoting rural economies through improvement of the rural roads network of three counties in Northern Albania.

The Bank also approved a € 50 million programme in **Hungary** with the Hungarian Development Bank (MFB, *Magyar Fejlesztési Bank*) for the partial financing of investments within the framework of MFB's "Municipal Infrastructure Development Loan Programme." The goal of the project is to help Hungarian local authorities, especially smaller municipalities in less developed regions, to finance investments aimed at improving local public infrastructure.

In **Poland,** the CEB approved a € 35 million operation with Bank Ochrony Środowiska (BOS) for the partial financing of investment projects undertaken by local and regional authorities throughout the country. The programme will finance the construction or rehabilitation of infrastructure, such as road network infrastructure and maintenance, local transportation networks, basic educational and medical facilities, socio-cultural or sports centres, and the development of industrial estates.



Again in Poland, the CEB approved a € 34 million programme in favour of the Region of Podkarpackie. The programme consists of the partial financing of investments undertaken by the region itself or entities controlled by it in the areas of transport and communication, cultural infrastructure and healthcare. It is expected to result in higher standards and better access to services and equipment, thus contributing to strengthening solidarity among the inhabitants and to reducing disparities between urban and rural areas.

Also in Poland, the Bank approved a € 22 million operation with the City of Warsaw. The aim of the programme is to create better conditions for sustained economic development and better living conditions for the inhabitants of the City by facilitating access to credit for the upgrade of local infrastructure. The planned investments are part of the City's long-term strategic objectives and also fall under several sectoral policies and EU Operational Programmes.

The CEB approved a € 60 million programme with Banco Espírito Santo S.A. (BES) for the partial financing of eligible investment projects throughout **Portugal.** The programme will finance municipal investments in the construction, rehabilitation and modernisation of, among other, public utilities, basic educational facilities, medical centres, retirement homes, socio-cultural and sports centres as well as irrigation networks in rural areas.

A CEB-approved programme with Vseobecna Uverova Banka in the **Slovak Republic** will make € 30 million available for the partial financing of investment projects undertaken by local and regional authorities throughout the Czech Republic and the Slovak Republic. The programme will finance a range of investments for the construction or rehabilitation of local roads and communications, public utilities, as well as providing for the development of industrial estates and other municipal infrastructure.

The Bank also approved a € 20 million programme in **Slovenia** with Slovenska izvozna in razvojna Banka, (SID Banka), to part finance eligible projects throughout the country's rural areas which, according to the Slovenian National Development Plan, are to be targeted for investments in the fields of environmental protection and improvement of living conditions in order to redress the gap between urban and rural Slovenia.

The CEB also approved a € 35 million programme in **Spain** with Caja Madrid to part-finance eligible investment projects in water infrastructure undertaken by local and regional authorities and related entities throughout Spain. The aim of the programme is to improve living conditions for targeted populations by upgrading local and regional water infrastructure through the rehabilitation or construction of water networks and other water-related investments, including irrigation infrastructure.



TURKEY
Water infrastructure

2. Managing the environment

Contributing to managing the environment involves not only systematically responding to emergency situations in the event of natural or ecological disasters, but also undertaking sustainable action promoting prevention and protection of the environment or the preservation of historic and cultural heritage.

Over the past five years, projects approved in this sectoral line of action represented an accumulated amount of **€ 2 859 million.** For 2010 alone, the projects approved amounted to **€ 570 million** (representing 25% of all projects approved).

In parallel to this, since 2006, loans disbursed in favour of environmental management amounted to an accumulated total of over **€ 1 734 million,** representing 21% of all disbursements made over the past five years. In 2010, the Bank disbursed **€ 341 million,** including € 240 million, or 70% of all disbursements for this line of action in 2010, for the benefit of the target group countries.



Natural or ecological disasters

Projects in this sector are eligible when they concern the reconstruction or rehabilitation of destroyed or damaged public structures and basic infrastructure facilities such as water supply, the treatment of wastewater and solid waste, electricity and gas supplies.

The aim of the actions undertaken 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, in particular floods, fires, avalanches, earthquakes and landslides.

During the period 2006-2010, the Bank approved projects in this sector for a total amount of **€ 422 million.** In 2010 alone, the Bank approved an operation of considerable importance in this sector for an amount of **€ 250 million.** Disbursements this year amounted to almost **€ 34 million,** while, over the last five years, disbursements under this sectoral line of action amounted to **€ 345 million.**

TURKEY
Confronting the earthquake risk: the ISMEP project

One of the CEB's priorities is to provide aid to the victims of natural or ecological disasters. While continuing to respond to emergency situations, over time, the Bank has come to place emphasis on financing actions in favour of disaster prevention and the protection of populations in risk situations. Thus, alongside the World Bank and the European Investment Bank (EIB), the CEB is actively participating in an important seismic risk mitigation and emergency preparedness project, providing financing to the Turkish government worth € 250 million.

Within the nation's high-risk context, Istanbul is the most vulnerable metropolitan area because of its seismic-prone location on the North Anatolian Fault and its high population and industrial/commercial densities. 20% of the Turkish population is concentrated in the metropolitan area of Istanbul. Against this critical background, the Turkish authorities are mobilising resources from various international financial institutions and bilateral donors in order to leverage the ongoing earthquake mitigation efforts.

The overall goal of the Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (ISMEP) is to save lives and reduce the social, economic and financial effects of future earthquakes. The specific objective of the project is to improve the City of Istanbul's preparedness for a potential earthquake by enhancing the institutional and technical capacity for disaster management and emergency response, strengthening critical public facilities for earthquake resistance, and supporting measures for better enforcement of building codes and land use plans.

Leveraging its social vocation and its longstanding role in supporting projects aimed at protecting populations and livelihoods from natural disaster damage, the actions co-financed by the CEB will focus on public buildings essential to the disaster response and recovery operations or otherwise serving important public functions for the community. They will mainly concern seismic risk mitigation through the reconstruction of two student dormitory campuses and around 90 public schools.

The technical approach aims to ensure that selected priority public buildings are made earthquake resistant through retrofitting of the existing structures or full reconstruction where a reasonable retrofit is not technically possible and the facility is of key importance.

Due to its objectives and type of activities, the project features prominently within the CEB's historical mandate and social vocation. By focusing on investments related to the education sector, the CEB increases the impact of its financing on children as one of the most vulnerable populations in the event of an earthquake. More than 150 000 children and students are expected to benefit directly from this CEB investment.



CEB Environmental Policy

The specific mandate of the CEB is to conduct its operations in favour of socially and environmentally sustainable development. Its approach to development is to foster a sustainable relationship between populations and their environment, both in urban and rural settings. Therefore, the contribution of the CEB towards building sustainable communities can only be meaningful through full integration of environmental considerations in its lending operations.

In 2006 the CEB confirmed its commitment to promoting good environmental practices by signing the Declaration of European Principles for the Environment (EPE). The EPE promote a common European approach in matters of environmental policy among the multilateral financial institutions (MFI) operating within the same geographical area as the CEB: European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB), and Nordic Environmental Financing Council (NEFCO).

The CEB's Environmental Policy (EP), adopted in September 2010, specifies the Bank's commitment to promoting social responsibility and sustainable development, both in the projects it finances and in the internal functioning of the Institution. It underlines the Bank's contribution to building sustainable communities and describes the environmental and social principles that guide the conduct of its project-related operations.

The new EP is intended as a reference document for the Bank's staff, borrowers and other stakeholders. It further develops the environmental management principles described under the Policy for Loan and Project Financing and widens their perspective to the CEB's activities as a whole. It seeks to ensure that the projects the CEB finances are designed and implemented - via its appraisal and monitoring mechanisms - in such a way as to:

- optimise social and environmental benefits
- minimise negative environmental impacts
- comply with appropriate social and environmental standards.

This policy document further develops the environmental and social principles underlying the conduct of the Bank's operations by clarifying the legal basis for environmental requirements and project screening. The EP also presents the Bank's position on specific issues including climate change, the protection of nature and biodiversity and its approach to sectors involving particular environmental and social risks.

The EP draws upon the relevant Council of Europe conventions and the EPE Charter and enhances compatibility of sustainability guidelines with those of other multilateral financial institutions. The policy will be updated as appropriate to reflect the evolving needs of the CEB's Member States and new developments in MFI best practices.

Thus, in 2010 the Bank approved a project in **Turkey** that will provide € 250 million to the Government of Turkey for the partial financing of the Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (ISMEP). The CEB's contribution will mainly involve investments to strengthen the seismic resistance of essential public buildings and supporting measures for better reinforcement of the most recent building codes and land use plans (see box on page opposite).

Protection of the environment

The CEB finances projects that contribute to protecting and improving the environment and thus to improving the living environment. Projects in this field 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 and air pollution prevention, excluding installation of an industrial nature
- protection and development of biodiversity
- cleaner transport means and networks.





CROATIA
Rehabilitating historic heritage in Vukovar

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 (see box on page 29).

The initiatives that have been taken in the environmental protection sector are today widely diverse both in terms of the fields of action and in geographical terms. Over the past five years, the Bank has approved projects in this sector for an accumulated amount of **€ 2 291 million,** or 20% of all projects approved over that period.

In 2010, the projects approved in favour of environmental protection amounted to a total of **€ 315 million,** representing 14% of all projects approved, and disbursements in the sector reached **€ 295 million,** representing almost 17% of all disbursements made during the year.

Among the new operations approved in 2010, a € 130 million project in **Cyprus** with the Sewerage Board of Limassol – Amathus will enable partial financing of environmental investments in the Greater Limassol area, the second largest urban area and one of the principal tourist sites in the country. The main objective of the project is to upgrade and expand the existing infrastructure in order to create additional capacity and improve the system's reliability as well as to extend drainage and sewerage networks and treatment facilities to surrounding areas.

The CEB also approved a € 20 million programme with Investitionsbank Schleswig-Holstein (IBSH), in **Germany,** for the partial financing of municipal investments in the field of environmental protection, ranging from energy saving and efficiency measures, district heating and power distribution networks to the production of renewable energy of a non-industrial nature, recovery of post-industrial and post-military areas and the protection of biodiversity.

In **France,** a new programme with Crédit Agricole, through its subsidiary, Auxifip, will provide € 50 million to finance works and equipment needed to achieve the environmental protection objectives of local authorities and other public bodies. Within these objectives, the creation of highly energy efficient public infrastructure facilities will respond to the national, regional and municipal priorities in terms of development of sustainable, high-quality public services throughout France.

An operation in **Poland** with Bank Ochrony Środowiska (BOS) will provide € 15 million to part finance investment projects undertaken by local and regional authorities for the construction and modernisation of public utilities. Other eligible investments will, inter alia, include reclamation of post-industrial and post-military areas, prevention of ecological threats through the recovery and modernisation of hydro-technical premises, reinforcement of sea banks as well as investments aimed at improving energy efficiency in public facilities.

In **Portugal**, a € 40 million programme with Banco Espírito Santo (BES) will provide for the partial financing of eligible municipal investments contributing to preservation of the environment. The investments will primarily concern those linked to the production of renewable energy on a non-industrial scale. Eligible projects will also include, in line with EU Directives, the treatment of solid and liquid waste geared towards reintroducing waste into the production cycle.



A CEB-approved programme with Vseobecna Uverova Banka (VUB), in the **Slovak Republic,** will provide € 15 million to part finance municipal investment projects undertaken by local and regional authorities throughout the Czech Republic and the Slovak Republic for the protection of the environment, mostly through action targeted to utilities such as water mains, electricity and gas supplies, sewers, and the treatment of solid and liquid waste.

In **Slovenia,** the CEB approved a € 20 million project with Slovenska izvozna in razvojna Banka (SID Banka), for the partial financing of eligible investment projects throughout the country. Apart from the projects generated by municipalities in the field of environmental protection, the programme will also support investments with positive environmental impacts in the industrial and manufacturing tissue of the country.

Under a new programme approved in **Spain** with Caja Madrid, the CEB will devote € 25 million for the partial financing of eligible water infrastructure investments by local and regional authorities and related entities. In this context, the National Water Quality Plan aims to achieve quality compliance of all water bodies with the EU Water Framework Directive requirements by 2015.

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 2006-2010, the Bank approved a total of **€ 147 million** for the protection and rehabilitation of elements of historic and cultural heritage. In 2010, the Bank approved a new operation in this sector for a total of **€ 5 million,** and disbursements amounted to **€ 12 million.**

Within the programme approved this year with Vseobecna Uverova Banka (VUB) in the **Slovak Republic,** € 5 million will be made available to finance works for the preservation and rehabilitation of historic and cultural heritage undertaken by local and regional authorities or other related public sector entities throughout the Czech Republic and the Slovak Republic.

3. Supporting public infrastructure with a social vocation

The CEB's integrated approach to supporting the development of public infrastructure with a social vocation in the key sectors of health, education, vocational training and administrative and judicial



MOLDOVA
Blood transfusion centre

public services facilitates, over the long term, more dynamic and more equitable economic growth and social cohesion. Indeed, the provision of modern public services is an essential tool in promoting more balanced regional and national development in Europe, thereby reducing inequalities.

During the period from 2006 to 2010, projects approved in this sectoral line of action represented an accumulated amount of **€ 2 526 million** or 22% of all approvals over this period. In 2010, projects approved amounted to **€ 572 million,** representing 25% of all projects approved.

In parallel to this, loans disbursed in favour of this line of action reached an accumulated total of **€ 1 838 million,** representing 22% of all disbursements made over the period 2006-2010. For 2010 alone, the Bank disbursed a total of **€ 418 million,** including € 147 million for the benefit of the target group countries.

Health

In the health sector, the CEB notably contributes to financing projects involving the construction, renovation and modernisation of health infrastructure, such as hospitals, neighbourhood healthcare centres (including those specialised in providing assistance to vulnerable populations), university hospitals or centres specialising in healthcare for the elderly and the disabled.

Over the 2006-2010 period, the CEB has approved operations totalling over **€ 795 million** in the health sector.

In 2010, the Bank approved projects in this sector for a total of almost **€ 163 million,** representing 7% of all projects approved in the year; disbursements amounted to **€ 114 million,** representing 6% of all disbursements made in the year.





CYPRUS
Primary school

The CEB approved a programme in **France** with Crédit Agricole that will make € 50 million available to finance the building and renovation of retirement homes. The projects financed by the CEB loan will notably concern EHPAD[3] nursing homes for elderly people in need of permanent assistance which offer a full range of institutionalised care services from accommodation to personal and medical care and meals. The programme will contribute to the French Government's Solidarity Plan for Old Age, whose aim is to provide 5 000 new places a year in such institutions until 2012.

Also in France, the Bank approved € 40 million with Crédit Coopératif for partial financing of projects aimed to increase the availability of long-term resources to public-interest bodies and services (OSIGs). The ageing of the French population is generating additional needs year on year in terms of access to health care, specialist accommodation and professional services for the elderly in their residence or in retirement homes. The programme will provide backing for Crédit Coopératif's efforts to support the modernisation of French hospitals under the Health Ministry's 2012 Hospitals Plan and Mental Health Plan.

A programme approved in **Poland** with the Region of Podkarpackie will make € 17 million available to finance healthcare-related investment projects undertaken by the regional authorities and aimed at improving the standards and availability of medical services. The scope of the project will include the renovation and extension of several regional hospital facilities and specialised units.

Also in Poland, the Bank approved a programme with the City of Warsaw, including € 16 million to be devoted to part-financing projects aimed at improving the quality and availability of medical services, principally through the construction of a hospital facility in the Ursynow peripheral district and the upgrade of an existing hospital facility.

In **Spain,** a new project approved with la Caixa will provide € 40 million to part-finance new facilities for the Research Institute at the Sant Pau Hospital in Barcelona. By concentrating the hospital's research activity into two new buildings, the project aims to create better working conditions for some 200 researchers and to improve efficiency. Barcelona's Sant Pau Hospital, which has been in operation for over 600 years, is the oldest hospital in the country and one of the top-level university hospitals in Spain. Its hospital complex has been a UNESCO World Heritage Site since 1997.

Education and vocational training

The CEB takes action at different levels of the education system, whether in preschool, primary schools, secondary schools or universities. The Bank thus finances the construction and modernisation of school, university and vocational training infrastructure as well as investments in teaching equipment.

As regards vocational training, alternating theoretical training with on-the-job practical experience 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 as well as professional reconversion programmes away from declining economic sectors.

Over the past five years, the CEB has approved operations in this sector for an accumulated amount of over **€ 1 462 million.**

In 2010, six new projects were approved in this sector for a total of **€ 228 million** (representing 10% of all projects approved in the year) and disbursements reached **€ 302 million,** representing 17% of all disbursements made in the year.

Among the operations approved in 2010, the CEB will provide € 95 million to the Government of **Cyprus** for the partial financing of projects to refurbish and upgrade schools in order to respond effectively to modern requirements in education. The project, comprising the construction, extension and rehabilitation of school infrastructure throughout the country, provides support to Government strategies in the education field through actions to increase capacity, allow better access for handicapped students and improve safety through anti-earthquake measures.

[3] *EHPAD - Établissement d'Hébergement pour Personnes Agées Dépendantes*



SERBIA
Investing in research and development (R&D) infrastructure

The € 35 million CEB project with the Government of Serbia will provide partial financing of the first phase of the Serbian Research and Development (R&D) Infrastructure Investment Initiative (the "R&D Initiative") aimed at revitalising public research and development activity in Serbia. The CEB loan will partially finance two components of the R&D Initiative:

- **purchasing modern equipment for public research** laboratories with the goal of bringing them up to European standards, improving working conditions for scientists and creating new opportunities for joint projects with the industrial sector
- **building of rental housing for researchers** with around 130 new dwellings to be constructed with the goal of improving living conditions, particularly for young researchers.

These investments form part of the broader National Strategy of Science and Technological Development 2010-2015 and its ultimate goal of steering Serbian science and education infrastructure and equipment to match European standards.

Creating an effective and efficient national innovation system, including the adoption of measures for strengthening the ties between public research and development (R&D) is regarded as a driving force for Serbia's future competitiveness and development. Moreover, the amended law on R&D activities defines several programmes of special interest, including "programmes for co-financing apartments for young scientists and researchers in Serbia".



ALBANIA
Secondary school

The CEB also approved a new programme in **France** with Crédit Agricole. This operation will make € 50 million available to finance projects to improve the compliance of French schools and universities with the latest health and safety standards. The National Agency for Urban Renewal (ANRU) has included a policy to refurbish and modernise schools and universities in the national urban renewal programme in order to offer pupils, students and staff better conditions and to meet the need for school premises resulting from the increase in population in certain regions.

In a similar vein, a new programme in France, approved with Crédit Coopératif, will devote € 40 million to the construction and renovation of educational infrastructure with the aim of upgrading health and safety standards in schools and universities throughout the country. The programme is expected to improve the social infrastructure while strengthening the link between private investors and public service providers (such as "*organismes et services d'intérêt general,* OSIG[4]").

As part of a programme the CEB approved in **Poland** with the City of Warsaw, € 10 million will be made available to finance investment expenditures undertaken by the city, aimed at adapting the network of schools and educational institutions to demographic trends and to the urban expansion. The investments are also expected to take into account the relevant related measures and infrastructure, especially as regards thermal modernisation.

[4] OSIG can be public or private entities, incorporating associations, cooperatives or *SCIC (Société Coopérative d'Intérêt Collectif).*



FINLAND
Vocational training centre

In **Serbia,** a project approved with the Government will devote € 25 million to financing investments aimed at improving and upgrading science and education infrastructure through the purchase of modern research equipment for public research laboratories and, in certain instances, modernisation of existing resources. The main goal of the project is to improve working conditions for scientists and researchers, bring Serbian research institutions up to European standards and create better conditions for sustained economic development by increasing opportunities for joint projects with the industrial sector (see box on page 33).

Lastly, the CEB also approved a € 8 million programme, in **Spain,** with Caja Madrid to facilitate access to jobs for Roma youths through the provision of vocational training, counselling and related services carried out by the *Fundación Secretariado Gitano* (FSG) via its *Acceder* Programme. Following-on from the success of the previous cooperation, the CEB's funds will be devoted to promoting the fundamental objective of *Acceder* to provide Roma people with access to the labour market, mainly through labour insertion actions such as individual employment pathways and the development and improvement of human resources (see box on page 14).

Infrastructure of administrative and judicial public services

In line with the Action Plan of the 3rd Summit of Heads of States and Government of the Council of Europe (Warsaw 2005), the CEB introduced *infrastructure of administrative and judicial public services* as a new sector of action. 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 (see box opposite) 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 2007, the CEB has approved a total of 12 operations in this sector of action for a total of **€ 270 million.** In 2010 alone, a total of **€ 181 million** was approved for 4 new operations. Implementation of these complex projects has started to advance and disbursements made in this sector in 2010 amounted to **€ 2 million.**

A new project with the Government of **Croatia** will provide € 6 million for the partial financing of the extension and rehabilitation of the Zagreb Prison. Through the provision of additional capacity and the refurbishment of the existing premises, the project aims to improve living conditions for around 900 inmates and ensure their basic rights in accordance with the Croatian Constitution and International Conventions ratified by Croatia. In addition, by creating adequate capacities for rehabilitation programmes for inmates, the project should provide improved conditions for their future re-socialisation.

In **Ireland,** a newly approved project with the subsidiary of the Irish National Development Finance Agency will devote € 125 million to part financing the construction of a new detention centre at Thornton Hall, near Dublin, as a replacement for the outdated complex, built in 1850, currently operating at Mountjoy. The project should significantly improve the organisation and functioning of Ireland's administrative and judicial public services by expanding their capacity and by implementing EPR concerning prison infrastructure. The replacement of the entire Mountjoy complex with the new prison campus at Thornton Hall is to play a central part in this capacity expansion and modernisation programme.



CEB's contribution to the reform of penitentiary infrastructure

The Bank has always accorded particular importance to human rights' issues, the rule of law and support for the judiciary system. These considerations have found enhanced practical application since the Warsaw Summit of the Council of Europe, held in 2005. The Bank's support for projects in the judicial field, evidencing its originality with regard to its peer international financial institutions, enables it to contribute to improving the organisation and functioning of these specific public services of its Member States.

In developing this objective, the Bank has since acquired particular know-how in the field, especially concerning the specificities of financing prison infrastructure. The CEB's activity in this sector is at the heart of its mandate, since the social cohesion of a society finds its expression primarily in the way it treats its weakest segments. Consequently, each European country seeks to establish suitable conditions of detention for its prison populations, in conformity with the recommendations on the European Prison Rules.

The Bank can provide specific input to the relevant authorities in the preparation and implementation phases of construction or rehabilitation of prison facilities. This advisory role covers a whole array of specific requirements concerning, for instance, the minimum space per detainee, security, medical care, and reinsertion programmes; all these and others must be taken into consideration for this specialised type of infrastructure.

Although it is an important pre-requisite for improved prison administration and better organisation and functioning of administrative and judicial public services, modern prison infrastructure is only one element contributing to humane conditions and the positive treatment of prisoners. Another is prison staff training and development. This is why the Bank also encourages close cooperation with the Council of Europe, especially its European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), when discussing possible projects in this sector. In addition, placing appropriate emphasis on creating adequate capacity for inmate activities and their rehabilitation programmes is also an important element in project set-up in order to create improved conditions for the future re-socialisation of inmates and thus enhance security for the wider community.

To date, the CEB approved € 196 million to finance prison infrastructure in several of its Member States. Projects partially financed by the Bank in this domain, some benefitting from interest rate subsidies from the CEB's Selective Trust Account (STA), are as follows:

- a € 19 million project with the Government of Bosnia and Herzegovina, approved in 2009, and aimed at co-financing the construction of the country's first high security state prison
- a € 6 million project with the Government of Croatia for the extension and rehabilitation of Zagreb Prison, approved in 2010
- a project worth € 125 million, approved in 2010 with the subsidiary of the Irish National Development Finance Agency, to finance the construction of a new detention centre at Thornton Hall, near Dublin
- a € 46 million project with the Government of "the former Yugoslav Republic of Macedonia" to part finance the rehabilitation or construction of several prisons and a Juvenile Educational Correction Facility, also approved this year.

Several other prison projects, primarily in target countries, are at different stages of preparation.





GERMANY
School renovation

A programme in **Poland** with the City of Warsaw will make € 3 million available for the partial financing of investment expenditures undertaken by the city to modernise and develop its administrative and judicial public services infrastructure. Planned investments will include modernisation of the seat of the Warsaw Board for City Development as well as the development, in line with EU standards, of an Integrated Coordination and Response Unit as an efficient crisis management system responsible for public order and safety and responding to emergency situations.

The CEB approved a € 46 million project with the Government of **"the former Yugoslav Republic of Macedonia"** to part finance the reconstruction of the Idrizovo Penal Correctional Facility and Skopje Prison as well as the construction of Kumanovo Prison, and the Tetovo Juvenile Educational Correctional Facility. The CEB funds will also be used for capacity building of the law enforcement agencies for the appropriate treatment of detained and sentenced persons, and for the creation of a probation service.

***

In 2010, the breakdown of both projects approved and loans disbursed bears witness to the CEB's fidelity to its three major lines of action, namely *strengthening social integration, managing the environment and supporting public infrastructure with a social vocation.*

The financings carried out this year brought the loans outstanding to **€ 11 988 million** and the stock of projects awaiting financing to **€ 5 192 million** (including **€ 3 441 million** for the target group of countries in Central and South Eastern Europe). At the end of the first year of the implementation of the new Medium-term Development Plan for 2010-2014, the stock of projects naturally constitutes for the CEB a solid reserve of projects in favour of its Member States for the forthcoming years.



PROJECTS APPROVED
per country and per sectoral line of action, from 2006 to 2010

In thousand euros

COUNTRIES	2010		2009		Accumulated total 2006-2010	
	Amounts	%	Amounts	%	Amounts	%
Albania			40 000	1.5	95 000	0.8
Belgium	275 000	12.1	100 000	3.7	375 000	3.2
Bosnia and Herzegovina			19 300	0.7	129 300	1.1
Bulgaria	25 000	1.1	15 000	0.6	90 000	0.8
Croatia	6 480	0.3	50 000	1.9	151 712	1.3
Cyprus	265 000	11.7	68 000	2.6	455 523	3.9
Czech Republic			50 000	1.9	95 000	0.8
Denmark					200 000	1.7
Estonia					35 000	0.3
Finland	100 000	4.4	100 000	3.8	575 000	4.9
France	250 000	11.0	100 000	3.8	800 000	6.9
Germany *	57 500	2.6	408 500	15.3	819 900	7.0
Hungary	125 000	5.5	190 000	7.1	954 000	8.2
Iceland					264 000	2.3
Ireland	125 000	5.5	100 000	3.7	335 000	2.9
Italy					827 000	7.1
Latvia			50 000	1.9	171 000	1.5
Lithuania			130 000	4.9	140 000	1.2
Moldova					18 900	0.2
Montenegro	25 000	1.1			25 000	0.2
Poland	302 400	13.3	275 600	10.3	1 373 100	11.8
Portugal	100 000	4.4	300 000	11.3	668 165	5.7
Romania					829 000	7.1
Serbia	67 000	3.0			127 000	1.1
Slovak Republic	50 000	2.2			50 000	0.4
Slovenia	40 000	1.8	50 000	1.9	160 000	1.4
Spain	108 000	4.8	200 000	7.5	688 000	5.9
Sweden **			100 000	3.7	309 000	2.6
"the former Yugoslav Republic of Macedonia"	46 000	2.0	48 350	1.8	118 850	1.0
Turkey	300 000	13.2	270 100	10.1	787 100	6.7
TOTAL	**2 267 380**	**100.0**	**2 664 850**	**100.0**	**11 666 550**	**100.0**

* of which € 7.5 million for projects approved in favour of target group countries in 2010 and € 28.5 million in 2009
** for projects in favour of target group countries in 2009

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

In thousand euros

SECTORAL LINES OF ACTION ***	2010		2009		Accumulated total 2006-2010	
	Amounts	%	Amounts	%	Amounts	%
Strengthening social integration	**1 125 830**	**49.7**	**1 293 430**	**48.6**	**6 280 222**	**53.8**
Aid to refugees, migrants and displaced persons			27 000	1.0	177 000	1.5
Housing for low-income persons	342 000	15.1	470 350	17.7	1 800 170	15.4
Creation and preservation of viable jobs	400 000	17.7	323 000	12.1	2 840 920	24.4
Improvement of living conditions in urban and rural areas	383 830	16.9	473 080	17.8	1 462 132	12.5
Managing the environment	**570 000**	**25.1**	**395 492**	**14.8**	**2 859 857**	**24.5**
Natural or ecological disasters	250 000	11.0	2 696	0.1	421 896	3.6
Protection of the environment	315 000	13.9	389 796	14.6	2 291 223	19.6
Protection and rehabilitation of historic and cultural heritage	5 000	0.2	3 000	0.1	146 738	1.3
Supporting public infrastructure with a social vocation ****	**571 550**	**25.2**	**975 928**	**36.6**	**2 526 471**	**21.7**
Health	162 810	7.2	234 750	8.8	794 731	6.8
Education and vocational training	228 200	10.0	715 678	26.8	1 461 550	12.6
Infrastructure of administrative and judicial public services	180 540	8.0	25 500	1.0	270 190	2.3
TOTAL	**2 267 380**	**100.0**	**2 664 850**	**100.0**	**11 666 550**	**100.0**

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



PROJECTS APPROVED per counterparty, in 2010

In thousand euros

COUNTRIES	COUNTERPARTIES	SECTORS	AMOUNTS
Belgium	Vlaamse Maatschappij voor Sociaal Wonen (VMSW) Bruxelles	Housing for low-income persons	150 000
	Société Wallonne du Logement	Housing for low-income persons	125 000
Bulgaria	Bulgarian Development Bank	Creation and preservation of viable jobs	20 000
	Société Générale Expressbank	Creation and preservation of viable jobs	5 000
Croatia	Government	Infrastructure of administrative and judicial public services	6 480
Cyprus	Sewerage Board of Limassol-Amathus	Protection of the environment	130 000
	Government	Education and vocational training	95 000
	Municipality of Nicosia	Improvement of living conditions in urban and rural areas	40 000
Finland	Finnvera plc	Creation and preservation of viable jobs	100 000
France	Crédit Agricole	Education and vocational training	50 000
		Protection of the environment	50 000
		Health	50 000
	Crédit Coopératif	Education and vocational training	40 000
		Health	40 000
		Improvement of living conditions in urban and rural areas	20 000
Germany	Investitionsbank Schleswig-Holstein	Improvement of living conditions in urban and rural areas	30 000
		Protection of the environment	20 000
	KfW Bankengruppe*	Improvement of living conditions in urban and rural areas	7 500
Hungary	Magyar Fejlesztési Bank (MFB)	Creation and preservation of viable jobs	75 000
		Improvement of living conditions in urban and rural areas	50 000
Ireland	Irish National Development Finance Agency	Infrastructure of administrative and judicial public services	125 000
Montenegro	Government	Housing for low-income persons	25 000
Poland	Bank Ochrony Srodowiska (BOS)	Improvement of living conditions in urban and rural areas	35 000
		Protection of the environment	15 000
	PKO Bank Polski	Creation and preservation of viable jobs	150 000
	Podkarpackie Region	Improvement of living conditions in urban and rural areas	34 400
		Health	17 000
	City of Warsaw	Improvement of living conditions in urban and rural areas	21 930
		Health	15 810
		Education and vocational training	10 200
		Infrastructure of administrative and judicial public services	3 060
Portugal	Banco Espírito Santo (BES)	Improvement of living conditions in urban and rural areas	60 000
		Protection of the environment	40 000
Serbia	Government	Housing for low-income persons	32 000
		Education and vocational training	25 000
		Housing for low-income persons	10 000
Slovak Republic	Vseobecna Uverova Banka a.s. (VUB)	Improvement of living conditions in urban and rural areas	30 000
		Protection of the environment	15 000
		Protection and rehabilitation of historic and cultural heritage	5 000
Slovenia	Slovenska izvozna in razvojna Banka (SID)	Protection of the environment	20 000
		Improvement of living conditions in urban and rural areas	20 000
Spain	Caja Madrid	Improvement of living conditions in urban and rural areas	35 000
		Protection of the environment	25 000
		Education and vocational training	8 000
	La Caixa	Health	40 000
"the former Yugoslav Republic of Macedonia"	Government	Infrastructure of administrative and judicial public services	46 000
Turkey	Government	Natural or ecological disasters	250 000
	Türkiye Kalkinma Bankasi	Creation and preservation of viable jobs	50 000
TOTAL			**2 267 380**

* in favour of target group countries



LOANS DISBURSED
per country and per sectoral line of action, from 2006 to 2010

In thousand euros

COUNTRIES	2010		2009		Accumulated total 2006-2010	
	Amounts	%	Amounts	%	Amounts	%
Albania	21 303	1.2	21 828	1.2	67 425	0.8
Belgium	35 000	2.0	25 000	1.4	60 000	0.7
Bosnia and Herzegovina	1 718	0.1	3 395	0.2	102 909	1.2
Bulgaria	7 500	0.4	7 500	0.4	54 311	0.7
Croatia	31 053	1.7	54 010	3.0	177 252	2.1
Cyprus	114 562	6.5	102 949	5.7	408 912	4.9
Czech Republic	5 000	0.3			43 000	0.5
Denmark					200 000	2.4
Estonia	5 000	0.3			5 000	0.1
Finland	100 000	5.6	50 000	2.7	567 500	6.8
France	100 000	5.6	50 000	2.7	550 000	6.6
Germany *	252 500	14.2	133 370	7.4	787 250	9.5
Greece					52 719	0.6
Hungary	160 726	9.0	324 863	18.0	906 190	10.9
Iceland	32 003	1.8	35 649	2.0	215 207	2.6
Ireland			55 100	3.1	74 870	0.9
Italy **	20 000	1.1	151 100	8.3	602 100	7.2
Latvia			25 000	1.4	175 000	2.1
Lithuania			28 000	1.6	43 681	0.5
Moldova	300	0.02	2 810	0.2	9 313	0.1
Norway					126 500	1.6
Poland	395 717	22.2	303 394	16.8	944 685	11.3
Portugal	105 000	5.9	51 730	2.9	206 730	2.5
Romania	147 767	8.3	206 150	11.4	599 392	7.2
Serbia			9 900	0.5	52 683	0.6
Slovak Republic	4 126	0.2			4 706	0.1
Slovenia	54 000	3.0	36 000	2.0	149 130	1.8
Spain	124 000	7.0	52 332	2.9	640 307	7.7
Sweden					151 054	1.8
"the former Yugoslav Republic of Macedonia"	9 500	0.5	12 000	0.7	33 930	0.4
Turkey	55 375	3.1	63 708	3.5	311 470	3.8
TOTAL	**1 782 150**	**100.0**	**1 805 788**	**100.0**	**8 323 226**	**100.0**

* of which € 22.5 million for projects approved in favour of target group countries in 2010 and € 33.8 million in 2009
** of which € 20 million for projects approved in favour of target group countries in 2010 and € 150 million in 2009

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

In thousand euros

SECTORAL LINES OF ACTION	2010		2009		Accumulated total 2006-2010	
	Amounts	%	Amounts	%	Amounts	%
Strengthening social integration	**1 023 629**	**57.4**	**911 547**	**50.5**	**4 750 928**	**57.1**
Aid to refugees, migrants and displaced persons	15 197	0.9	19 550	1.1	360 581	4.3
Housing for low-income persons	254 590	14.3	199 734	11.1	1 297 649	15.6
Creation and preservation of viable jobs	428 427	24.0	451 791	25.0	2 113 716	25.4
Improvement of living conditions in urban and rural areas	325 415	18.2	240 472	13.3	978 982	11.8
Managing the environment	**340 905**	**19.2**	**484 049**	**26.8**	**1 734 491**	**20.8**
Natural or ecological disasters	33 845	1.9	92 134	5.1	344 698	4.1
Protection of the environment	295 001	16.6	353 827	19.6	1 279 920	15.4
Protection and rehabilitation of historic and cultural heritage	12 059	0.7	38 088	2.1	109 873	1.3
Supporting public infrastructure with a social vocation * **	**417 616**	**23.4**	**410 192**	**22.7**	**1 837 807**	**22.1**
Health	113 712	6.4	164 184	9.1	652 032	7.8
Education and vocational training	302 035	16.9	240 681	13.3	1 119 928	13.5
Infrastructure of administrative and judicial public services	1 869	0.1	5 327	0.3	65 847	0.8
TOTAL	**1 782 150**	**100.0**	**1 805 788**	**100.0**	**8 323 226**	**100.0**

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



Ex post evaluation

The Ex Post Evaluation Department (DEP) and its peers

The DEP is an observer member of the Evaluation Cooperation Group (ECG), where the independent evaluation departments of multilateral development banks endeavour to develop common evaluation standards and seek greater harmonisation of evaluation policies and methodologies. The DEP participated in 2010 in a stocktaking exercise of Members' practices with regard to evaluation of public sector operations compared to Good Practice Standards. The process identified various areas for further reflection relative to, *inter alia,* the mandate and independence of the evaluation function; self-evaluation systems of the operational units; evaluation criteria, rating systems and sampling; tracking of operational units' response to and action on lessons learnt and recommendations; disclosure policies, etc.

The activities of the ECG also enhance member institutions' visibility through publication of joint reports and press releases. Examples include work on Microfinance and MDBs' responses to the financial crisis.

DEP support to CEB's external relations

The experience of the DEP was called upon in several meetings with external institutions/partners to reflect on the use of evaluation findings in a broader context. Such cases included meetings with the European Court of Auditors (reviewing the use of grant funds for SME promotion) and with the Rapporteur of the Parliamentary Assembly of the Council of Europe. In addition, the DEP participated in the European Evaluation Society's biennial conference and an experts' meeting on evaluation findings in the water and sanitation sector, organized by the World Bank and KfW in Berlin.

Project and Programme Evaluations

Social housing: the challenge of aligning social targeting and sound fiscal practices

Satisfying the housing needs of poorer strata of the population is traditionally an important concern of the CEB. As the financing of these needs almost inevitably entails an element of public subsidy, beneficiary selection and efficient use of public funds for social ends requires increased attention, given the fact that the CEB is not engaged in policy-based lending or support for reform of public policies. A last series of three evaluations in Southern, Central and Eastern Europe was ongoing during 2010. Completion of the evaluations proved to be a challenge, in part due to public policy frameworks wanting in fiscal efficiency.

Protection of the environment: different country-approaches to financing municipal infrastructure

Evaluation work continued on water supply and sanitation-related investments. The latest evaluation was carried out in a northern European country and, thanks to the multi-sectoral nature of the programme, also enabled the launching of an evaluation in the field of solid waste management. The findings on water supply and sanitation confirmed the positive environmental outcomes and impacts found in the previous evaluations, which were complemented in this case by very sound fiscal practices for the financing of such municipal infrastructure. The continuation of this evaluation programme will contribute additional insights into project realities in other CEB Member States, before closure of said programme with a synthesis document.

CEB grants: high social added value, but need for clearer guidelines on visibility and reporting mechanisms

Stand-alone grant projects are a distinct project-type drawing on the Selective Trust Account, with a particularly strong potential to enhance CEB visibility thanks to their high social added value, notwithstanding the relatively modest grant amounts in comparison to the interest rate subsidies drawn from the CFS. The grant evaluations were completed in 2010 and the main findings for one case were presented to the Implementing Agency which expressed its appreciation of the evaluation process and agreed with its findings. CEB support helped victims of conflict return to their place of origin and start social re-integration. Going forward, it will be an operational task to establish, with the implementing agencies, suitable reporting instruments which could further enhance CEB visibility, given the high social added value that was noted for these projects.



Financial activities

I - ECONOMIC REVIEW OF 2010

The economic support measures implemented by national governments led to a global economic recovery in 2009. The situation remained stable in 2010 thanks to a normalisation in the behaviour of economic agents (inventory levels, savings rates, etc.) and the maintenance of flexible monetary policies.

Growth continued to be driven by emerging countries as a result of dynamism in the production sector, alongside a rise in domestic consumption. In the end, these countries emerged from the crisis stronger than they were at the beginning, bringing developed exporting nations such as Germany, Australia and northern European countries in their wake. The latter helped Europe to achieve steady growth (>2%) for 2010, particularly in the second half of the year.

2010 will also have seen increasing awareness of deeper deficits. Levels of indebtedness as a result of public expenditure have reached a critical level for many investors, leading to the credit ratings of a number of countries being downgraded. Greece, in the spring, followed by Ireland, at the end of the year, were forced to seek emergency funding from countries in the euro zone, with support from the IMF. Since, the main mechanism created, the European Financial Stability Facility, is designed to prevent any further risk of default by other euro zone countries in 2011.

Against this tense background, the Central Banks in developed countries initially maintained extremely flexible monetary policies (characterised by low interest rates and the provision of increased liquidity to the banks through quantitative easing, or QE). The second half of the year, however, was marked by an increasing divergence between the European Central Bank, which decided to normalise its monetary policy in the second half (though not to the full extent, due to the crisis in Ireland), and the US Federal Reserve which announced a new wave of QE in August which it implemented in November. Conversely, emerging countries have had to work to contain inflationary pressure associated with an increase in consumer demand, and with the impact of excessive liquidity as a consequence of QE. As a result, Australia, China, Korea and India embarked on a policy of monetary contraction at the end of the year.

The concerns around sovereign debt were inevitably reflected in the very marked disparities in *refinancing rates* between euro-zone countries from April onwards. Greek, Irish and Portuguese rates were hit particularly hard. Germany, however, thanks to its position as an economic leader and the dynamism of its export sector, was able to take advantage of a very significant reduction in interest rates on its sovereign debt.

The excess liquidity referred to above also prompted a sharp rise in raw materials prices, after a first half of the year that suffered from fears of a further economic slowdown. This affected markets for agricultural products, oil (USD 92 a barrel at end 2010, although forecasting organisations were revising their consumption forecasts upwards) and gold (with the economic situation favouring low-risk assets). The price of an ounce of gold thus increased from a low of USD 1 063 in early February to USD 1 400 in December.

At the same time, the equity markets increased in value over the course of the year, supported by attractive valuation levels and company results that proved better than expected. Whilst the CAC 40 index struggled to get back to its level of early 2010, the larger Stoxx Europe 600 index and the S&P 500 gained around 10%. Stocks with a high level of exposure to emerging countries, in particular in the automobile, luxury goods and industrial products sectors, performed very well.

On the currency markets, the US dollar fluctuated at several points, from 1 euro = 1.4510 US dollar in early 2010 to 1.1920 in June, when the markets were concerned about the sovereign crisis in the euro zone. The announcement of additional flexibility measures in the United States at the end of the summer resulted in a further increase in the value of the euro against the dollar in September. The increase was only a temporary phenomenon, however, as fresh fears emerged in the euro zone and prompted a further period of decline, with the US dollar stabilising at around 1.30 by the end of the year. In spite of its promises, China failed to alter its foreign exchange policy, leaving the renminbi pegged to the dollar US.

Finally, there was a stabilisation in the decline in long-term interest rates at the end of the year in Europe and the United States, against a background of a risk of further inflation over a two- to three-year time frame and the maintenance of historically low base rates.



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 a maturity 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 2010, the total value of securities in this portfolio with a maturity of more than one year amounted to € 2 billion.

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

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

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

At 31 December 2010, the total value of this portfolio amounted to € 2.2 billion.

III - DERIVATIVES

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

At 31 December 2010, the breakdown of derivatives by type of hedge was 82% for bond issuance, 15% for loans and 3% for securities.

To guard against the risks inherent in these financial instruments, the Bank implements a strict management policy whose principles are described in the section entitled "Integrated Risk Management" on page 46.

To limit credit risk, the Bank has signed collateral agreements with all of its counterparties. Accordingly, at 31 December 2010 all the CEB's swaps contracts were collateralised. The residual credit risk, calculated as the sum of the positive market values not covered by collateral received, remains marginal.

IV - FUNDING IN 2010

1. Debt issuance

Subject to the annual borrowing authorisation set by the Administrative Council, the CEB issues debt in the international capital markets. In 2010, the Bank borrowed a total of € 3 billion in 12 financing operations, including seven new issues of existing bonds with a maturity of one year or more. This amount is higher than the volume of financing in 2009, that stood at € 2.5 billion consisting of 17 funding operations including 6 re-openings of existing issues. The 2010 funding programme fulfilled two main objectives:

- to cover the requirements arising from the lending activity
- to enable the Bank to honour its debt maturities.

The volume of funds raised in 2010 also enabled the Bank to maintain liquidity at the level set by the Administrative Council. In this context, the stock of projects approved is taken into account in the projected cash requirements. In accordance with its prudent liquidity policy, the Bank's reinforced liquidity ratio requires at least 50% of projected cash requirements for the coming three years to be available in cash. These projected requirements include the funding of approved projects and the additional liquidity requirements covering the risk of default over three years.



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

In 2010, 34% of the funds raised by the Bank were denominated in euros, 31% in Australian dollars, 25% in US dollars and 10% in British pounds. These transactions enabled the Bank to diversify the markets in which its finances its activities and broaden its investor base.

In 2010 the CEB completed a benchmark transaction of € 1 billion with a maturity date of 2015. This transaction made the euro its leading currency in terms of financing volumes.

On its Euro Medium Term Note programme, the CEB completed a new transaction for AUD 150 million maturing in 2015. This line was subsequently reopened and increased to AUD 200 million.

Through its domestic Kangaroo programme in Australia, the CEB launched a new bond issue in 2010 and added to four existing lines. The new issue amounted to AUD 300 million, maturing in 10 years. This transaction was subsequently reopened and increased to AUD 500 million. Two new issues on the 2014 line, of AUD 250 and 125 million respectively, brought its total outstanding to AUD 875 million. An increase in the 2015 line of AUD 300 million increased its volume to AUD 1.3 billion.

In the Australian dollar market, CEB has four existing transactions large enough in terms of volume to be considered benchmark issues. These issues have helped build CEB's benchmark curve in the Australian market and, in 2010, made the Australian dollar the second-largest currency for the CEB in terms of financing volumes as well as in terms of its total debt.

The CEB was active on the US dollar market with a benchmark issue of USD 1 billion, its first "Global Format" issue with a five-year maturity date. A new issue of USD 50 million was also completed on the 2015 line. The US dollar was the third market in terms of financing volumes in 2010.

The CEB completed two transactions on the GBP market: a new line of GBP 150 million, maturing in 2015, and an increase in the 2013 line of GBP 100 million, increasing it to GBP 400 million. These transactions made the GBP market the fourth-largest in terms of financing volumes in 2010.

All the financing operations carried out in 2010 were hedged with swaps thereby eliminating 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 2010 was 7 years, compared with 5 years in 2009. The table below shows funds raised in their original currencies.

Debt issued in 2010

Payment date	Maturity date	Currency	Term	Nominal amount (in millions)	Lead manager
21/01/2010	11/12/2013	GBP	3 years and 11 months *	100	HSBC
27/01/2010	16/09/2014	AUD	4 years and 8 months *	250	Toronto Dominion Bank/ Commonwealth Bank of Australia
10/02/2010	10/02/2015	AUD	5 years	150	Toronto Dominion Bank/ Royal Bank of Canada
10/02/2010	10/02/2015	USD	5 years	1 000	HSBC/BNP Paribas/ Morgan Stanley/Credit Suisse
24/03/2010	15/04/2015	USD	5 years and 1 month *	50	Goldman Sachs
29/03/2010	16/09/2014	AUD	4 years and 6 months *	125	Toronto Dominion Bank
30/04/2010	14/12/2015	AUD	5 years and 8 months *	300	Commonwealth Bank of Australia
06/07/2010	10/02/2015	AUD	4 years and 7 months *	50	Deutsche Bank
13/07/2010	13/07/2020	EUR	10 years	1 000	Deutsche Bank/Crédit Agricole CIB
08/10/2010	08/10/2020	AUD	10 years	300	Commonwealth Bank of Australia/ Royal Bank of Canada/UBS
17/11/2010	08/10/2020	AUD	9 years and 11 months *	200	Commonwealth Bank of Australia/ Australia & New Zealand Bank
29/11/2010	29/11/2015	GBP	5 years	150	JP Morgan

* new issuance of existing bonds



In 2010, 93% of the issues carried out under the programme had end maturities of five years or more, compared with 96% in 2009, in order to ensure the refinancing of the Bank's loans and avoid cash gaps in the coming years.

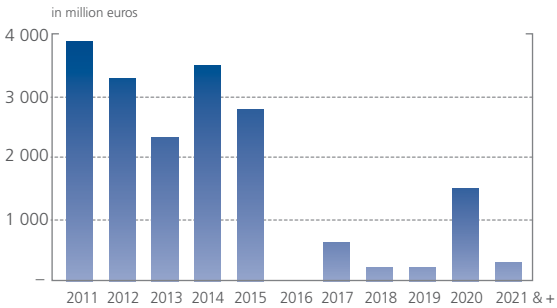
The multi-currency EMTN programme was updated in November 2010 to adapt the legal framework of the Bank's issues to changes in financial market regulations. The Australian and New Zealand Dollar MTN (Australian programme) was updated in July 2010.

2. Trend in debt position

At 31 December 2010, the outstanding debt represented by securities, excluding interest payable, came to € 18.8 billion, up from € 16.5 billion in the previous year.

In 2010, the Bank repurchased its own debt to the value of € 28 million, compared with € 76 million in 2009, and made early repayments totalling € 6 million, compared with € 8 million in 2009. Taking these operations and the new issues into account, the breakdown of debt by maturity is as shown in the chart below.

Issues by maturity at 31 December 2010



V - PROFIT AND BALANCE SHEET

The CEB's financial statements are prepared according to IFRS standards as adopted by the European Union.

1. Trend in profits

In a highly volatile environment, still marked by the ongoing effects of the economic and financial crisis, net income for 2010 rose to € 115.9 million compared with € 107 million in 2009.

The increase in profits of € 8.9 million or 8.2% is the result of the following changes:

- **An exceptional profit of + € 16.1 million, linked to the final outcome of a dispute with a paying agent (Banco Urquijo), recorded under the cost of risk item.**
- **A reduction in net banking income of - € 5.2 million, or - 3.8%, resulting from:**

- a significant, non-recurring contribution recorded in the net interest margin in 2009 as a result of the sharp drop in interest rates (Euribor and Libor)
- a reallocation of short-term investments of bank deposits to the portfolio of available-for-sale (AFS) financial assets, generating higher returns for the same risk profile
- an increase in the average amounts outstanding in the held-to-maturity (HTM) portfolio as a result of the investments made and with a fixed rate of return that remained attractive.

Trend in profits

in million euros

	2010	2009	Change	%
Net banking income	**133.7**	**138.9**	**- 5.2**	**- 3.8%**
General and administrative expenses	*- 33.9*	*- 30.9*	*+ 3.0*	*+ 9.7%*
Gross operating income	**99.8**	**108.0**	**- 8.2**	**- 7.6%**
Cost of risk	+ 16.1	- 0.9	+ 15.2	
Net income	**115.9**	**107.0**	**8.9**	**+ 8.2%**



An increase in general operating expenses (including amortisation) of + € 3 million, or + 9.7%, resulting from:

- higher staff costs, in accordance with the provisions of the Articles of Agreement, and due to an increase in the number of employees (159 at end 2010 compared with 150 at end 2009)
- a change in the book charge for post-employment benefits (discount rate of 4.5% in 2010 compared with 5.7% in 2009).

Consequently, the cost-to-income ratio (general and administrative expenses/net banking income) sums up to 25.4% in 2010 compared with 22.3% in 2009.

2. Trend in the balance sheet

At 31 December 2010, total assets came to € 24 721 million, up by + 8.8% from € 22 731 million at 31 December 2009.

Assets

Outstanding loans were down slightly, by - 1.8%, year-on-year. Disbursements totalled € 1 782 million (including 59% in favour of the target group countries), down by - 1.3% compared with 2009 (€ 1 806 million). At the same time, repayments for 2010 came to € 2 099 million.

Cash deposits grew by a substantial 22.5% to € 7 654 million compared with € 6 248 million at end 2009. This increase reflects on the one hand, the decisions taken by the Management in 2007 with a view to increasing the CEB's liquidity reserves in a context of severe crisis in the financial markets and on the other hand, the necessity of anticipating substantial issue repayments by 2014. This resulted in a significant increase in 2010 in the portfolio of available-for-sale (AFS) assets, which offer better returns than bank deposits.

Liabilities

Debts represented by a security increased by € 2 175 million, or + 12.3%, taking into account issues with maturities of one year or more totalling € 3 123 million (€ 2 980 million at the exchange rate on the date of issue), repayments totalling € 2 410 million and the exchange rate for € 1 617 million.

The **other liabilities** item recorded a very sharp increase of € 644 million, or + 246%, for collateral received on hedging derivatives.

Equity, including income for the year (before allocation of profit) came to € 2 059 million, up by + 5.1% relative to 2009. This change resulted partly from the net income for 2010 (€ 115.9 million) and partly from a slight increase in losses recognised directly in equity on the available-for-sale portfolio, which amounted to € 114 million at end 2010 compared with € 104 million at end 2009.

Finally, the balance sheet shows a marked variation in **Financial Assets and Liabilities at fair value through profit and loss,** of + € 902 million (+ 287%) and - € 1 037 million (- 45%) respectively. These items mainly represent the fair value, either positive (asset) or negative (liability) of the currency component of CIRS swaps contracts used as rate hedges for loans, AFS securities or bond securities, where the counterparty currency has been revalued for the various items on the balance sheet (increase in value of the USD against the EUR).

Trend in the balance sheet

in million euros

ASSETS	2010	2009	Variation	%
Loans	12 115	12 326	- 211	- 1.8%
Cash deposits	7 654	6 248	+ 1 406	+ 22.5%
Financial assets held to maturity	2 242	2 123	+ 119	+ 5.6%
Financial assets at fair value through profit/loss and hedging derivatives	2 443	1 610	+ 833	+ 51.7%
Other assets	267	424	- 157	- 37.0%
TOTAL	**24 721**	**22 731**	**+ 1 990**	**+ 8.8%**

LIABILITIES	2010	2009	Variation	%
Debt securities in issue	19 856	17 681	+ 2 175	+ 12.3%
Treasury funds	179	143	+ 36	+ 25.2%
Financial liabilities at fair value through profit/loss and hedging derivatives	1 721	2 686	- 965	- 35.9%
Other liabilities	906	262	+ 644	+ 245.8%
Total debt	*22 663*	*20 772*	*+ 1 891*	*+ 9.1%*
Equity	2 059	1 959	+ 100	+ 5.1%
TOTAL	**24 721**	**22 731**	**+ 1 990**	**+ 8.8%**



Control and integrated risk management

The CEB has an integrated risk management system that is separate from its operating activities, with rigorous supervision standards. A clearly defined framework has been provided for managing credit risk, market risk, operational risk and liquidity/financing 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, which is entirely independent from the Bank's operational activities, the Risk Management Department is responsible for identifying, assessing and managing all credit risk arising from the CEB's activities. In this context, the Chief Risk Officer reports directly to the Governor.

In accordance with best banking practices, internal ratings are assigned to all counterparties/transactions based on internal models developed by the Risk Management Department and supported by the due diligence missions carried out by the Risk Management Department and by the ratings assigned by international rating agencies where they exist. The Risk Committee meets weekly and takes credit risk decisions based on the Risk Management Department's analysis and recommendations.

At the same time, the Bank's Management has analysed best banking practices implemented by international financial institutions and assessed the controls and procedures recommended in the framework of Know Your Customer (KYC) procedures. Within the framework of its activity, and in addition to the information supplied by country managers, the Bank has established a due diligence system to ensure that it fully understands its borrowers' activities and risks. Due diligence missions are based on detailed questionnaires sent out in advance and discussed on site. The conclusions arising from these reviews form an integral part of the loan approval process.

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

To date, the CEB has coped with the financial crisis satisfactorily. Prudent credit risk policies have proved effective. Exhaustive assessment and monitoring together with prudent management are the cornerstone of this policy (a minimum rating is required for available-for-sale and held-to-maturity asset portfolios, as well as for the Western European banks in the context of project financing).

I - A STRUCTURED AND DYNAMIC FUNCTION

1. Dedicated departments

- The **Risk Management Department** identifies, assesses and manages all the risks inherent in the CEB's operations, as a result of both on- and off-balance sheet transactions. For each new loan, the Department analyses the transaction, taking into account the counterparty's creditworthiness, outstanding transactions and country risk, and, if necessary, recommends that guarantees be obtained. The Department also constantly monitors the implementation of portfolio management policies (loans, securities, derivatives) and monitors the Bank's position with regard to large exposure. A risk management report (credit, market and operational risks) is sent to the members of the Administrative Council each quarter.
- The **ALM Department** regularly monitors the market risk (interest rate risk, currency risk) and liquidity risk incurred by the Bank. It presents its conclusions in a quarterly report to the ALM Committee. This report analyses, using stress tests, 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. It reports, when necessary, 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 the events that could result in operating losses. It manages the business continuity plan (updates, tests with transfer to the back-up site), manages the Bank's filing system and reviews the internal procedures for all the activities that present operational risks. More specifically, the Department implements the CEB's operational risk policy and, to this end, maps all processes and associated operational risks. In addition to this, training courses are provided during the year to heighten the staff's awareness of security issues.

2. Decision-making committees

The Governor has established 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 analysis 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 **ALM Committee** decides on the Bank's asset and liability management strategy once a quarter.
- The **Committee for Operational Risks and Organisation (CORO**) meets annually to validate the Bank's security policy and take all decisions relating to the prevention and monitoring of operational risks.

3. Controlling bodies

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

- Prior to signature, the *Central Directorate for Legal Affairs and Prospective Analysis* validates all contracts committing the CEB (loans, debt issues, derivatives, etc.) in order to control all the Bank's legal risks, particularly those it faces as a multilateral development bank.
- The *Inspectorate General* 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 Inspectorate General consists of two departments: the Internal Audit Department and the System Security Control Department.

  The Internal Audit Department carries out independent periodic internal reviews of the CEB's activities and ensures they comply systematically with operational policies and procedures.

  The System Security Control Department assures that the management controls inherent in IT operations are properly implemented.

  The work of the Inspectorate General is carried out independently of the operational activities of the CEB, in accordance with best practices and international audit and professional standards.
- The *Compliance Department*. The CEB created a compliance function in February 2008 in order to limit its exposure to legal and administrative risks, regulatory sanctions, financial loss or risk to its reputation. The Compliance Department is responsible for the procedures drawn up to ensure compliance with optimal standards in respect of governance and ethics and to protect the Bank from the risk of money laundering, financial terrorism or other areas that could damage the reputation of the CEB. The Department also pays particular attention to combating fraud and corruption, not only in terms of the projects funded by the CEB, but also in relation to its purchases of goods and services. A Chief Compliance Officer reports to the Bank's various bodies in order to achieve these objectives.



- Lastly, in accordance with the Articles of Agreement, the *Auditing Board,* composed of three members from 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 of which is appended to the financial statements, is presented to the Bank's governing bodies when the annual financial statements are presented for approval.

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

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

- In addition, the Bank is strictly assessed by the *international rating agencies,* Moody's, Standard & Poor's and Fitch Ratings, which carry out an in-depth analysis of its financial situation and long-term solidity and assign it a credit rating every year. In the second half of 2010, all three agencies confirmed the top ratings (AAA/Aaa) they have consistently assigned to the CEB for many years.

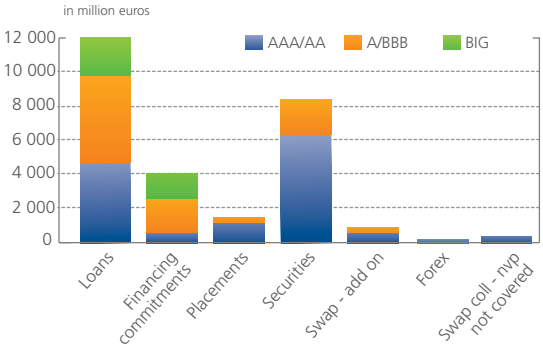
II - SITUATION AT 31 DECEMBER 2010

Within the context of its financing project 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 loss to the Bank that could occur if a counterparty fails to meet its contractual obligations, and arises mainly from financing project and treasury activities. Note that, with regard to the loan portfolio, credit enhancement is taken into account. The Bank's overall credit risk exposure on all its transactions (loans, financing commitments, deposits, securities and derivatives) as at 31 December 2010 is detailed in chart 1.

Chart 1 - Credit risk exposure

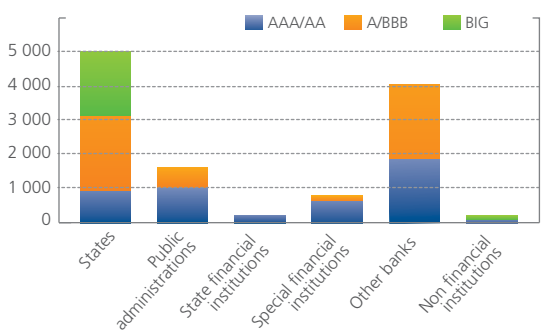


BIG: *below investment grade*

■ Loan portfolio

Loans outstanding declined slightly in 2010, by - 1.8% year-on-year compared with 2009, to € 12.0 billion. The breakdown of credit risk by type of counterparty in 2010 was as follows: sovereign or public administrations, 63.0%, compared with 59.2% in 2009; financial institutions, 34.3%, compared with 38.2% in 2009; other counterparties, 2.7%, compared with 2.6% in 2009 (chart 2). Loans outstanding rated *investment grade* represented 82% of the total portfolio, compared to 86% at the end of 2009 (chart 3).

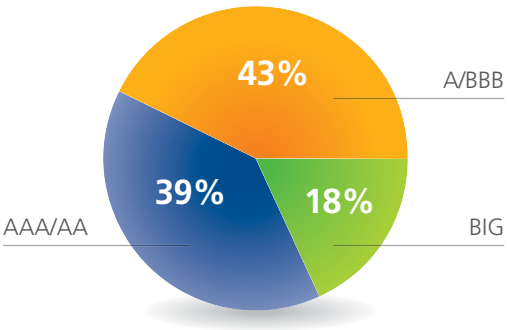
Chart 2 - Credit risk by counterparty type



BIG: *below investment grade*



Chart 3 - Risk profile of the loan portfolio



BIG: *below investment grade*

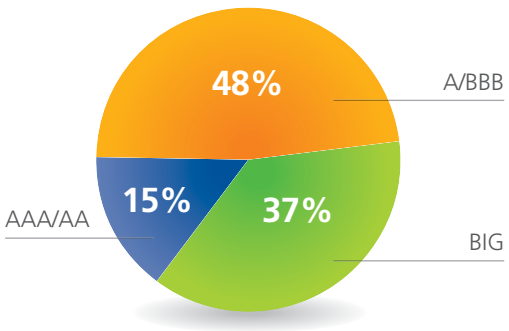
Credit enhancement

At end December 2010, credit enhancement in the loan portfolio allowing for a 100% transfer of risk came to € 3.2 billion versus € 2.7 billion at end 2009 and consisted of € 2.7 billion of guarantees and € 0.5 billion of collateral (see financial statements, note B).

Financing commitments

Financing commitments correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Project financing commitments increased by 12.7% in 2010. Total financing commitments rose from € 3.6 billion at end 2009 to € 4.0 billion at end 2010. In terms of credit risk, the quality of the financing commitments remains satisfactory with 63.0% of counterparties rated *investment grade* compared with 66.9% at end 2009 (see financial statements, note B and chart 4).

Chart 4 - Risk profile of the financing commitments

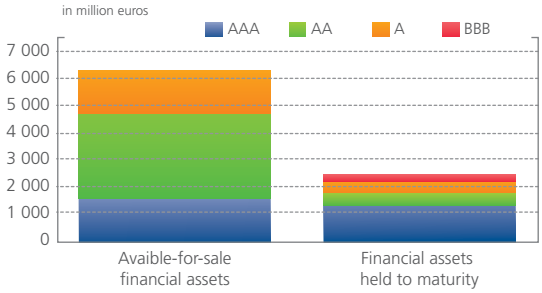


BIG: *below investment grade*

Securities portfolios

The Bank manages two securities portfolios: financial assets held to maturity and available-for-sale financial assets (see page 42, Financial Activities). The breakdown by rating of each portfolio's assets at 31 December 2010 is shown in the chart 5 (see financial statements, note B).

Chart 5 - Credit risk of security portfolios



Derivatives

The Bank uses derivatives to hedge the interest rate and foreign exchange risk on its lending and borrowing activities (see page 42, Derivatives).

In all cases, derivatives transactions require prior credit clearance of the issuer counterparty by the Risk Committee and the signature of a framework agreement (for example, ISDA Master Agreement). For transactions with a maturity of over five years, the counterparty must have a minimum AA rating or have signed a Credit Support Annex (CSA) collateral agreement with the CEB.

All swap transactions are valued at their net present value and the positions per counterparty are monitored daily so that additional margin calls can be made if necessary.

On 31 December 2010, the CEB signed a CSA collateral agreement with all of its counterparties involved in its swap activities. As a result, all outstanding derivatives were collateralised, as in 2009 (see financial statements, note B).

Large exposure

A large exposure is defined as the overall exposure, plus firm financing commitments, to a counterparty (or group of counterparties) when it exceeds 10% of the sound capital. For this purpose, the CEB defines sound capital as paid-in capital, reserves, gains or losses recognised directly in equity, as well as uncalled capital of triple-A or double-A rated Member States (according to Moody's, Standard & Poor's and Fitch Ratings).

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

As at 31 December 2010, total outstanding on counterparties representing large exposure amounted to € 4.8 billion or 114% of the Bank's sound capital (see financial statements, note B).



2. Market risk

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

■ Interest rate risk

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

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

■ Currency risk

With reference to currency risk, the CEB's strategy is not to take any position and to finance assets and liabilities in a single currency. The residual risk arising from gains or losses in currencies other than the euro is systematically monitored and hedged on a monthly basis. The net open position by currency is limited to the equivalent of € 1 million. As at 31 December 2010, the net open position was almost nil (see financial statements, note B).

3. Liquidity risk

The liquidity risk refers to a shortfall in liquidity for covering future requirements and reflects the Bank's projected cash position. 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 a daily monitoring. It is supplemented by quarterly stress tests presented to the ALM Committee, based on borrower default assumptions.

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

4. Operational risk

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

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

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

As at 31 December 2010, the operational risk amounted to € 20.0 million, up from € 19.4 million at end 2009 (see financial statements, note B).

III - PRUDENTIAL FRAMEWORK

The Bank has defined a prudential framework based on the Basel Committee Recommendations, notably with regard to capital adequacy. This prudential framework, approved by the CEB's Administrative Council in June 2004, took effect on 1 January 2005.

The prudential framework is internal to the Bank. As an international financial institution, the CEB is not subject to its Member States' regulatory framework, Basel Committee Recommendations or European Union directives. As a result there are no statutory, regulatory or other requirements for its ratios and these may therefore not equate to similar ratios used by other international financial institutions.

Although the CEB follows the recommendations of the Basel Committee under the Basel II framework, its prudential framework is based on its own ratios. The capital adequacy ratio, although based on the recommendations of the Basel Committee, differs from the capital adequacy ratio laid down by Basel II. The risk asset coverage ratio has been added to the CEB's prudential framework and the liquidity ratio strengthened.

The aim of these three ratios is to: limit the risk of default on the loan portfolio in relation to the CEB's equity; limit the amount of outstanding loans rated as *below investment grade* and therefore the Bank's exposure to the most significant risks; contribute to strengthening requirements in terms of liquidity. They are supplemented by two other ratios: the indebtedness ratio and the portfolio ratio.



Ratios function as "early warning" systems. Any variation from one period to another is analysed by the departments in charge and communicated to the decision-making committees. In the event of a deterioration in one or more ratios, the departments responsible analyse the reasons for this, identifying the underlying factors. The result of this analysis is presented to the decision-making committees, which may propose corrective actions to the General Management Committee.

Capital adequacy ratio

The purpose of this prudential ratio is to show that the level of capital is sufficient to absorb any potential losses from the financing activity. Risks are weighted on the basis of Basel II standards.

The limit is fixed at 100%. At end 2010, the ratio was 23.5%, compared with 20.3% at end 2009, following a deterioration in the quality of the loan portfolio and an increase in the default probability.

CAPITAL ADEQUACY RATIO =

$$\frac{\text{Risk weighted loans portfolio}}{\text{Usable capital}}$$

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

Risk asset coverage ratio

This ratio provides an additional limit on the volume of loans outstanding. In accordance with the analysis methodology already applied by the rating agencies, it limits the portion of the loan portfolio rated *below investment grade* to the sound capital.

The limit is 66%, i.e. € 2.8 billion. At the end of December 2010, the ratio was 50.7%, compared with 40.5% at end 2009, resulting from an increase in the portfolio rated as *below investment grade* (as a consequence of the deterioration in Greece's credit rating, new transactions with *below investment grade* counterparties and exchange rate movements).

RISK ASSET COVERAGE RATIO =

$$\frac{\text{Loans portfolio rated } \textit{below investment grade}}{\text{Sound capital}}$$

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

Reinforced liquidity ratio

The liquidity level must meet a reinforced liquidity ratio. This ratio results from dividing the Bank's available cash, bank deposits and available-for-sale financial assets with a residual maturity of less than 18 months by its net liquidity requirement. This takes into account the total stock of projects awaiting financing and net cash flow for a three-year period, including the increased liquidity requirement accounted for the default risk on the loan portfolio. The Bank's liquidity must not fall to less than 50% of its net liquidity requirements for the next three years.

At end 2010, the strengthened liquidity ratio stood at 121.1%, up from 102.2% in 2009. This reflects the Bank's decision to increase the CEB's liquidity reserves in a context of severe crisis in the financial markets, and the necessity of anticipating significant issue repayments by 2014.

Indebtedness ratio

This ratio results from dividing total debt outstanding after swap by total equity (subscribed capital, reserves, gains or losses recognised directly in equity, profit for the year). The limit for the indebtedness ratio is fixed at 4.

At 31 December 2010, this ratio was 3.78 (94% of the authorised limit), and remained relatively stable compared to 3.80 at end 2009. This is a consequence of the Bank's decision to increase liquidity as a result of the financial crisis.

Portfolio ratio

This ratio results from dividing the outstanding amounts in both securities portfolios and treasury transactions not in issue (bank deposits and repos) by total equity (subscribed capital, reserves, gains or losses recognised directly in equity, profit for the year). The limit for the portfolio ratio is fixed at 2.

At 31 December 2010, this ratio was 1.86 compared with 1.79 at end 2009. This is a consequence of the Bank's decision to increase liquidity as a result of the financial crisis.



Compliance

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

Within the framework of its everyday activity, the most significant achievements of the Compliance Department are listed below.

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

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

Three new Codes of Conduct (one for the Management, staff members and service providers, one for the Collegial Bodies and one for the Auditing Board) approved by the Councils at end 2009, now make up the ethical framework within which the CEB operates. Among the most important subjects raised in these Codes of Conduct, it is important to mention the new rules concerning conflicts of interests and external activities; gifts and other advantages or invitations from outside; the policy on insider dealing; as well as the policy on reporting in cases of fraud, corruption and money laundering.

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

The Compliance Department has also established a network of stable relations with those in charge of questions of integrity at the other IFIs. The CEB has been officially associated with the "Integrity Forum Group", bringing together all those responsible for Integrity (Compliance and Investigation) in the European MDBs. Since 2009, the Chief Compliance Officer has been invited to participate in the Group's meetings, including, among others, the "MDB Integrity Forum" and the "Conference of International Investigators."

The Compliance Department also took the initiative of bringing together the Chief Compliance Officers of European MDBs so as to establish a joint round table for discussion and together to evaluate their respective approaches with a view to standardising and simplifying their working methods. The First European MDB Compliance Forum, which constituted a first in this sector of activity, was held in Paris in July 2009. This Forum evidenced the effort of coordination and cooperation between the different IFIs at European level concerning the methods and procedures to be used in the application of standards in the fight against money laundering and the financing of terrorism. The activity of the Forum has continued to develop and constitutes a very useful basis for cooperation in the Compliance Department's operational activity.

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

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



Human resources management

Increased flexibility in human resources management

The Bank regularly undergoes changes aimed at increasing its efficiency. Given the strategic importance of the human resources function, since 1 July 2010 it has been placed under the direct responsibility of the Governor.

2010 also enabled the CEB the benefit of a more modern, more flexible system of human resources management through the introduction of "grade banding", in accordance with the policy approved in 2009 concerning the grouping of jobs.

The aim was to classify the grades into five big groups, thus providing the necessary tools with which to better control the overall payroll over time and to offer greater transparency regarding career development prospects as well as more homogeneity in the classification of activities. Following on from the introduction of this grade banding system, a job evaluation exercise was launched at end 2010 in order to ensure conformity between a given job grade and the level of responsibility attached to it. This exercise will enable the CEB to dispose of a system of reference jobs, each with their respective evaluation criteria.

The evaluation criteria for each reference job should take into account the level of responsibilities, the managerial supervision, the autonomy of the job, the degree of internal and external communication, the linguistic and technical skills, and the experience of staff members.

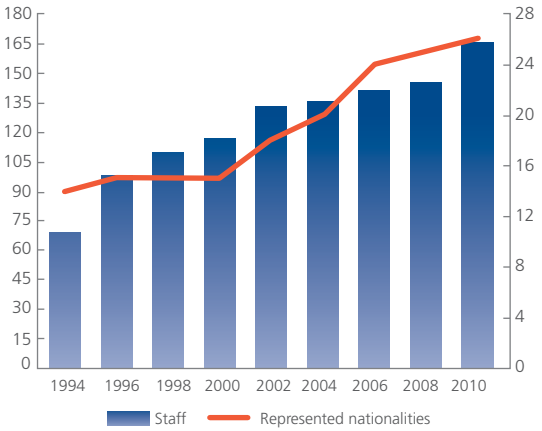
This specific tool will make it possible to ensure that employment management is fair, coherent and up-to-date.

Lastly, within the framework of the introduction of a human resources policy that strengthens professional development, in addition to the usual linguistic and technical training courses, the Directorate for Human Resources is now offering its staff members a training programme on the theme of "leadership". These courses, which will be taking place in 2011, will not only enable Directors and Department Heads to develop their managerial skills but will also accompany them in their management of their teams.

Staff increases, diversification and parity

In order to adapt to the Bank's increasing volumes of activity, the CEB has steadily increased its staff numbers over the years. Thus, at end 2010, the Bank had a total of 163 permanent staff members and appointed officials.

At the same time, throughout its development, the Bank has always been careful to ensure that its staff reflected as closely as possible the different nationalities represented by its Member States. The number of nationalities represented at the Bank thus increased from 14 in 1994 to 26 at end December 2010. In 2010, the Bank recruited from 8 different nationalities.



Particular attention has also been given to the question of parity between men and women. At end 2010, the breakdown of staff members was 54% women and 46% men. It should be noted that, within the Group II, made up of professional staff members from categories A1-A5, the representation of women stood at 46%.



Communication

The CEB endeavours to respond to the wider public's increasing need for information while taking into account its own particular resources and position.

Within this framework, the Bank places emphasis on the principle of transparency, taking inspiration from the good practices adopted by the international financial institutions, which it then adjusts to its own specific characteristics and modest size. The Bank has set forth this commitment in a Public Information Policy, adopted in 2008 by the Governing Board on a recommendation by the Administrative Council, and updated in 2010. In recognition of the advantages of constructive dialogue with all its stakeholders, the Institution has made available a dedicated e-mail address and publishes an annual report on corporate social responsibility.

In terms of tools, the CEB focuses the greater part of its communication on the Internet. It thus modernised its website in 2010, notably the home page, so as to provide the general public with improved access to the relevant information. Moreover, the content of the website is regularly enriched. It also features the film presenting the Bank's activities, which has now been translated into several non-official languages of its Member States, notably those of the target group countries.

At the same time, the Bank deploys its institutional communication across a broad spectrum of media, namely:

- the annual report, whose image the CEB has endeavoured to revamp over the years



"Treasury Management" Seminar
Paris, 18 November 2010



Audience with the Pope on 12 June 2010
Speech delivered by Mr. Raphaël Alomar, Governor of the CEB, before His Holiness Pope Benedict XVI

- a whole collection of varied publications, ranging from general brochures on the Institution to more sectoral studies
- major federating events (such as the Bank's Joint Meeting, which in 2010 was held at the Vatican and provided an opportunity for an audience with Pope Benedict XVI).

In addition to this, particular attention is given to the in-house side of corporate communication. This notably includes:

- the human resources Intranet site, dedicated to the staff and continually updated
- the quarterly newsletter, CEB *Info,* which received a makeover in the first half of 2010



- the annual staff satisfaction survey concerning the Institution's crosscutting support functions (information technology, human resources and general facilities), the results of which are reflected in the report on the Bank's performance
- technical seminars, open to shareholders as well as to CEB staff members (the latest to date, on treasury management, was held on 18 November 2010).



Corporate Social Responsibility at the CEB

Sustainable development lies at the intersection of three imperatives: social equity, economic development and protection of the environment. The CEB therefore interprets "corporate social responsibility" as being its overall contribution to socially and environmentally sustainable development.

In this perspective, even though the CEB, as the "naturally social" bank, places its mission at the very heart of sustainable development, it still has to take up the challenge of this position in operational terms. This has therefore been the reason underpinning the efforts made over the past years to integrate its own sustainable development requirements not only into its project financing activity, but also into the management and functioning of the Institution itself. And this has been done taking into account the CEB's specific characteristics and size.

The crisis and its consequences, still acutely felt throughout Europe, make it all the more necessary for the Bank to ever increasingly root its action within this common horizon, namely sustainable development. In the face of the crisis, the CEB has capitalised on its strong points: its prudent financial and risk management, so indissociable from the banking nature of its activity, the originality of its mandate to promote social cohesion, and its capacity for adaptation and rapid response. Within the tense context prevailing in Europe, the Bank thus continued to show sound results in 2010 and to consolidate its role as the financial instrument of solidarity in Europe.

In a well-understood spirit of transparency, the CEB endeavours to report to all its stakeholders on the whole range of its contribution to sustainable development. The privileged channel for this is the Annual Report devoted to Corporate Social Responsibility, approved by the Institution's Collegial Bodies at the Joint Meeting. This reference document sets forth the Bank's long-term action logic, placing emphasis on the progress achieved from one year to the next. It thus not only reflects the CEB's method of action and reason for being, but also constitutes a tool with which to make progress in the desired direction. The content of the report is structured into three major sections that successively present the Institution ("CEB: the naturally social European bank"), its projects and loans activity ("Socially responsible financing") and its method of functioning ("Sustainable management of the Institution").



In 2010, the CEB gave new impetus to the efforts undertaken to ensure enhanced efficiency and responsibility in the way it operates. To illustrate this, it is important to note the positive conclusion given to the Strategic Review, which resulted in a substantial reform of the Bank's governance following in-depth dialogue with the Councils; the adoption of an Environmental Policy in the middle of the year combined with the updating of the Public Information Policy; additional emphasis placed on efficient management of human resources; adaptation of the communication tools through a make-over of the website home page and the new quarterly newsletter CEB *Info*; completion of an environmental diagnosis of the Bank's headquarters followed, at the end of the year, by the launch of a "carbon balance" mission.

Naturally, corporate responsibility remains just as much a day-to-day challenge as a long-term perspective. Much has still to be done to facilitate its appropriation and acculturation in everyday management. Discussions with a number of social and environmental rating agencies have also provided an opportunity to explore several channels for improvement. International standards (GRI, ISO 26000) are being established. In all, the dynamic is launched and, in continuing to maintain its balances, the CEB appears well armed to continue to move forward along this path.

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR

Financial Statements 2010



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FINANCIAL STATEMENTS

Prepared in compliance with IFRS adopted by the European Union

The Bank's objectives

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

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

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

(Articles of Agreement, Article II).

Sectors of action

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

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

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

- Strengthening of social integration

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

- Management of the environment

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

- Supporting public infrastructure with a social vocation

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

Balance sheet

In thousand euros

	Notes	31/12/2010	31/12/2009
Assets			
Cash in hand, balances with central banks		230 316	386 883
Financial assets at fair value through profit or loss	D	1 216 278	314 346
Hedging derivative instruments	D	1 226 344	1 295 361
Available-for-sale financial assets	E	6 332 058	4 965 778
Loans and advances to credit institutions and to customers			
Loans	F	12 115 390	12 326 370
Advances	F	1 322 336	1 281 996
Financial assets held to maturity	E	2 241 862	2 123 226
Tangible and intangible assets	G	31 297	31 215
Other assets	H	5 125	5 405
Total assets		**24 721 006**	**22 730 580**
Liabilities			
Financial liabilities at fair value through profit or loss	D	1 275 923	2 312 949
Hedging derivative instruments	D	445 669	372 974
Amounts owed to credit institutions and to customers	I	100 809	67 747
Debt securities in issue	I	19 855 536	17 680 780
Other liabilities	H	823 133	188 047
Selective Trust Account (STA)	J	78 733	75 420
Provisions	K	82 548	73 891
Total liabilities		**22 662 351**	**20 771 808**
Capital	L		
Subscribed		3 303 450	3 303 450
Uncalled		(2 933 712)	(2 933 712)
Called		369 738	369 738
General reserve		1 686 636	1 585 587
Gains or losses recognised directly in equity	E	(113 584)	(103 602)
Net profit for the year		115 865	107 049
Total equity		**2 058 655**	**1 958 772**
Total liabilities and equity		**24 721 006**	**22 730 580**

Income statement

In thousand euros

	Notes	2010	2009
Interest and similar income			
Available-for-sale financial assets		40 007	58 532
Loans and advances to credit institutions and to customers		135 696	259 042
Financial assets held to maturity		92 580	88 524
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(6 592)	(5 404)
Debt securities in issue		(120 701)	(255 836)
Other interest expenses and similar charges		(4 405)	(3 377)
Interest margin	M	**136 585**	**141 481**
Net gains or losses from financial instruments at fair value through profit or loss	N	(1 050)	(1 225)
Net gains or losses from available-for-sale financial assets	O	62	183
Commissions and other net expenses	P	(1 941)	(1 573)
Net banking income		**133 656**	**138 866**
General operating expenses	Q	(32 062)	(29 081)
Net depreciation and amortisation charges of fixed assets	G	(1 838)	(1 823)
Gross operating income		**99 756**	**107 962**
Cost of risk	R	16 109	(913)
Net profit		**115 865**	**107 049**

Statement of comprehensive income

In thousand euros

	2010	2009
Net profit	**115 865**	**107 049**
Changes in value of available-for-sale financial assets	(9 982)	68 024
Changes in value of available-for-sale financial assets recognised in the income statement for the period		(1 030)
Other elements of comprehensive income	**(9 982)**	**66 994**
Total	**105 883**	**174 043**

Statement of changes in equity

In thousand euros

	Called capital	Reserves and result	Gains or losses recognised directly in equity	Total equity
Equity as at 1 January 2009	**369 738**	**1 585 587**	**(170 596)**	**1 784 729**
Profit for the 2009 financial year		107 049		107 049
Changes in value of assets and liabilities recognised directly in equity			66 994	66 994
Equity as at 31 December 2009	**369 738**	**1 692 636**	**(103 602)**	**1 958 772**
Appropriation of profit for the 2009 financial year		(6 000)		(6 000)
Profit for the 2010 financial year		115 865		115 865
Changes in value of assets and liabilities recognised directly in equity			(9 982)	(9 982)
Equity as at 31 December 2010	**369 738**	**1 802 501**	**(113 584)**	**2 058 655**

Statement of cash flows

In thousand euros

For the year ended 31 December	Notes	2010	2009
Profit for the year		115 865	107 049
+/- Net depreciation charges of tangible and intangible assets	G	1 838	1 823
+/- Net provision charges		15	913
+/- Net loss/net profit from investing operations		26 198	3 035
+/- Other movements		(1 717)	(13 051)
Total of non-monetary items included in the result		*26 334*	*(7 280)*
+/- Cash flows related to operations with credit institutions and customers		329 702	202 571
+/- Cash flows related to other operations affecting financial assets or liabilities		(1 161 266)	(2 458 902)
+/- Cash flows related to operations affecting non-financial assets or liabilities		(4 048)	(100 426)
Net decrease / (increase) of assets and liabilities resulting from operating activities		*(835 612)*	*(2 356 757)*
Total net cash flows from operating activities (a)		**(693 413)**	**(2 256 988)**
+/- Cash flows related to financial assets held to maturity		(123 212)	(148 376)
+/- Cash flows related to tangible and intangible assets	G	(1 920)	(1 300)
Total net cash flows from investing operations (b)		**(125 132)**	**(149 676)**
+/- Cash flows from/to Member States		3 452	3 797
+/- Cash flows from debt securities in issue		677 708	1 905 518
Total net cash flows from financing operations (c)		**681 160**	**1 909 315**
Effects of changes in foreign exchange rates on cash and cash equivalents (d)		**1 041**	**(390)**
Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**(136 344)**	**(497 739)**
Cash and cash equivalents at the beginning of the financial year		**1 668 517**	**2 166 256**
Cash in hand, balances with central banks		*386 883*	*194 275*
Advances repayable on demand and term deposits with credit institutions	F	*1 281 634*	*1 971 981*
Cash and cash equivalents at the end of the financial year		**1 532 173**	**1 668 517**
Cash in hand, balances with central banks		*230 316*	*386 883*
Advances repayable on demand and term deposits with credit institutions		*1 301 857*	*1 281 634*
Changes in cash and cash equivalents		**(136 344)**	**(497 739)**

NOTES TO THE FINANCIAL STATEMENTS

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

1. Applicable accounting norms

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

The entry into force of standards with mandatory application after 1 January 2010, in particular the annual improvements to IFRSs (April 2009) and the amendment to IAS 39 regarding the terms of a cash flow hedge and the hedging of inflation risk, had no significant impact on the financial statements as at 31 December 2010.

The Bank did not anticipate the implementation of new standards, amendments or interpretations adopted by the European Union when their implementation was only optional in 2010.

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

2. Financial assets and liabilities

2.1. Foreign currency transactions

The financial statements are presented in euros.

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

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

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

(*) 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

2.2. Loans

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

The item "Advances" under category "Loans and advances to credit institutions and customers" consist of advances repayable on demand with credit institutions (except central banks) and interbank advances granted by the 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 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.

2.3. Securities

Securities held by the Bank are classified under two categories:

- Financial assets held to maturity

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

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

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

- Available-for-sale financial assets

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

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

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

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

- Date and accounting criteria

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

2.4. Depreciation of financial assets

- Financial assets valued at amortised cost

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

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

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

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

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

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

- Available-for-sale financial assets

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

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

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

2.5. Debt securities in issue

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

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

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

2.6. Derivative instruments

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

Derivatives are classified under two categories:

- Transaction derivatives

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

- Derivatives and hedge accounting

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

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

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

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

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

2.7. Fair value assessment

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

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

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

2.8. Interest income and expense

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

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

2.9. Cost of risk

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

3. Fixed assets

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

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

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

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

- Tangible assets

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

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

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

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

- Intangible assets

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

4. Post-employment staff benefits

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

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

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

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

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

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

5. Selective Trust Account (STA)

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

The STA essentially targets population groups such as:

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

- Interest rate subsidies

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

- Donations

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

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

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

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

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

6. Related parties

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

7. Compensation for chairpersons and appointed officials

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

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

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

The Governor is appointed by the Governing Board for a 5-year term and may be re-appointed. He is assisted by the Vice-Governor Delegate and two other Vice-Governors. They are appointed by the Governing Board upon the Governor's proposal, for a 5-year term and may be re-appointed. Their emoluments are fixed by the Administrative Council, within the framework of the approval of the annual budget of the Bank.

By Resolution 384 (2010) dated 26 November 2010, the Governing Board has amended the CEB's Articles of Agreement such that in the future, the Vice-Governors will be appointed by the Governing Board based on a proposal from the Governor, following an opinion on conformity from the Administrative Council and after consultation with the members of the Governing Board. In addition, in the future the Governor and the Vice-Governors will be appointed for a 5-year term that is renewable once.

In summary, the gross compensation for the CEB's Chairpersons and Appointed Officials is analysed as follows:

In thousand euros

	2010	2009
Office allowances		
Chairperson of the Governing Board (*)		45
Chairperson of the Administrative Council	45	45
Vice-Chairperson of the Governing Board (**)	0.5	3
Vice-Chairperson of the Administrative Council	6	6
Emoluments		
Governor	331	325
Vice-Governor Guglielmino	267	262
Vice-Governor Ruiz-Ligero	252	247
Vice-Governor Tarafás	252	247

(*) The seat of the Chairperson of the Governing Board was vacant in 2010.

(**) Allowances of € 500 are paid monthly. The Vice-Chairperson of the Governing Board, whose term ended at the end of November 2010, has waived her allowances.

The CEB's Chairpersons and Elected 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% up to 50% of their last basic salary, for a maximum of 3-year period. This allowance is limited in a way that its amount, cumulated with other possible emoluments, does 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 allowance pay 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 cover and pension scheme of the CEB.

8. Taxation

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

Note B - Financial risk and capital management

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

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

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

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

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

- Decision-making committees

The Governor has created a number of decision-making committees which are responsible for defining and monitoring 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. The Risk Committee meets weekly to take decisions based on the Risk Management Department's analyses and recommendations.
- The Funding Committee addresses on a quarterly basis the funding strategy and the pricing policy. On the basis of the Bank's estimated liquidity requirements and in conformity with the annual levels of debt authorised by the Administrative Council, and following proposal by the Governor, it also decides on the strategy relating to debt issuances (amounts, currencies, conditions and schedule).
- 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 ALM Committee decides on the Bank's asset and liability management strategy. 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 Operational Risks and Organisation (CORO) validates the Bank's security policy and takes decisions relating to operational risk. It meets annually.

- The reporting on credit risk management

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

1. Credit risk

- Overview of the assessment process

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

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

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

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

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

The rating process: two types of internal ratings are assigned: counterparty ratings and transaction ratings. In accordance with best banking practices, the Risk Management department assigns an internal rating to all counterparties based on analyses 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 which make it possible to apply different ratios depending on the type of counterparty (sovereign, regional or local authority, financial institution, corporate). Specific internal rating grids are used when counterparty has not been rated by an international rating agency.

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

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

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

- Overview of total credit risk exposure

The risk exposure represented by all of the Bank's transactions (loans, financing commitments, deposits, securities, derivatives), excluding accrued interest at 31 December 2010 and 31 December 2009 is shown in the table below. With reference to the loan portfolio, credit enhancement measures have been taken into account.

in million euros

	2010				2009			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Loans	4 706	5 154	2 128	**11 988**	5 213	5 280	1 706	**12 198**
Financing commitments	603	1 920	1 480	**4 003**	825	1 555	1 176	**3 556**
Placements	1 215	368		**1 583**	1 316	353		**1 668**
Securities	6 496	1 977		**8 473**	5 683	1 313		**6 996**
Swap - add on	679	205		**884**	678	190		**868**
Forex	11			**11**	14	8		**23**
Swap coll - net present value not covered	122	19		**141**	19	4		**23**
Total	**13 832**	**9 643**	**3 608**	**27 084**	**13 748**	**8 703**	**2 882**	**25 333**

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

- Loan portfolio

At 31 December 2010, compared to 2009, loans outstanding fell by -1.8% to € 12.0 billion. In 2010 no other delay or missed payments have been recorded.

As is the case for other multilateral financial institutions, the Bank's policy is not to reschedule debt agreements (capital or interest on loans).

Credit enhancements in the loans outstanding

At end December 2010, credit enhancements in the loan portfolio allowing for a 100% risk transfer reach € 3.2 billion vs. €2.7 billion at end 2009. Credit enhancements are broken down into guarantees for € 2.7 billion and collateral (securities) for € 0.5 billion. As shown in the table below, loans outstanding rated *investment grade* stand for 82% of total loans (vs. 86% at end 2009).

The overall impact of credit enhancements on the Bank's risk profile is shown below:

in million euros

	2010				2009			
	before		*after*		*before*		*after*	
	Amount	%	Amount	%	Amount	%	Amount	%
AAA/AA	3 532	29%	4 706	39%	4 168	34%	5 213	43%
A/BBB	6 180	52%	5 154	43%	6 181	51%	5 280	43%
BIG	2 276	19%	2 128	18%	1 849	15%	1 706	14%
Total	**11 988**	**100%**	**11 988**	**100%**	**12 198**	**100%**	**12 198**	**100%**

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

Only 5.9% of total loans outstanding are not rated by international rating agencies. Internal ratings for these counterparties are in the range of 1.5 to 9.5.

Breakdown of loans outstanding by counterparty type

Credit risk mitigation techniques brought about a sector reallocation. Thus, sovereign counterparties' outstanding increased by +31%.

in million euros

	2010				2009			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
States	919	2 203	1 852	4 974	938	2 346	1 453	4 738
Public administrations	1 037	543	9	1 589	915	406	12	1 333
State financial institutions	228			228	268			268
Special financial institutions	617	100	43	760	728	120	31	878
Other banks	1 882	2 208	24	4 114	2 292	2 307	57	4 656
Non financial institutions	23	100	200	323	73	100	152	324
Total	**4 706**	**5 154**	**2 128**	**11 988**	**5 213**	**5 280**	**1 706**	**12 198**

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

Breakdown of the loans outstanding with the 10 main borrowers, by type and rating

in million euros

	2010						2009					
	AAA/AA	A/BBB	BIG	Total	%		AAA/AA	A/BBB	BIG	Total	%
1 STATE A		1 136		1 136	9%	STATE A		1 048		1 048	9%
2 STATE B			765	765	6%	STATE D			648	648	5%
3 STATE C	639			639	5%	STATE B			633	633	5%
4 STATE D			616	616	5%	STATE C	560			560	5%
5 STATE E		529		529	4%	Other bank A	555			555	5%
6 Other bank A	463			463	4%	STATE E		513		513	4%
7 Other bank B		285		285	2%	Other bank C		352		352	3%
8 Specialised financial institution	280			280	2%	STATE F		343		343	3%
9 STATE F			271	271	2%	Other bank D		332		332	3%
10 STATE G		267		267	2%	Other bank B		318		318	3%
Sub-total	**1 382**	**2 216**	**1 652**	**5 251**	**44%**	**Sub-total**	**1 115**	**2 907**	**1 280**	**5 302**	**43%**
Others	3 324	2 938	476	6 737	56%	Others	4 098	2 373	425	6 896	57%
Total	**4 706**	**5 154**	**2 128**	**11 988**	**100%**	**Total**	**5 213**	**5 280**	**1 706**	**12 198**	**100%**

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

- Financing commitments

Total financing commitments rose by 13% from € 3.6 billion at end 2009 to € 4.0 billion at end 2010. The breakdown by rating group is shown in the table below:

in million euros

	2010	2009	Change 2010-2009
AAA/AA	603	825	**-27%**
A/BBB	1 920	1 555	**24%**
BIG	1 480	1 176	**26%**
Total	**4 003**	**3 556**	**13%**

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

- Securities portfolios

The CEB manages two securities portfolios: financial assets held to maturity and available-for-sale financial assets. The securities are primarily denominated in euro: 97% at end 2010 rose from 94% at end 2009. The breakdown of the nominal value of these securities by rating as at 31 December 2010 and 31 December 2009 is shown in the table below:

in million euros

	2010					2009			
	AAA	AA	A	BBB	Total	AAA	AA	A	Total
Available-for-sale financial assets	1 513	3 161	1 687		6 361	1 106	2 660	1 233	4 999
Financial assets held to maturity	1 397	426	280	10	2 113	1 527	391	80	1 998
Total	**2 910**	**3 587**	**1 967**	**10**	**8 473**	**2 633**	**3 050**	**1 313**	**6 996**
	34%	42%	23%	0.1%	100%	38%	44%	19%	100%

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

Breakdown by country of issuers of the securities in the two portfolios

in million euros

	2010		2009	
Financial assets held to maturity				
France	1 317	62%	1 417	71%
Spain	245	12%	50	3%
Portugal	200	9%	200	10%
Italy	161	8%	161	8%
Germany	145	7%	125	6%
Other countries	45	2%	45	2%
Sub-total	**2 113**		**1 998**	
Available-for-sale financial assets				
France	1 021	16%	1 014	20%
Netherlands	925	15%	639	13%
Germany	923	15%	183	4%
United States	774	12%	768	15%
Norway	507	8%	339	7%
Other countries	2 211	35%	2 057	41%
Sub-total	**6 361**		**4 999**	
Total	**8 473**		**6 996**	

- Derivatives

The CEB uses Interest Rate Swaps (IRS) and Currency Interest Rate Swaps (CIRS) to hedge market risk on its financing operations, portfolio of available-for-sale financial assets and bond issuances.

Derivative transactions, in all cases, require prior credit clearance of the counterparty by the Risk Committee and prior signature of a framework agreement (for example, the 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.

Within the context of swap transactions, the CEB signed with all of its counterparties the collateral agreement (CSA). At end 2010 as at end 2009, the entire of the outstanding derivatives was collateralised.

All swap transactions are valued at their net present value and positions per counterparty are monitored daily so that additional margin calls can be made if necessary. Within the context of swap transactions, the CEB may receive cash deposits and/or triple-A rated securities (US, German and French bonds) as collateral for derivatives.

Breakdown of the nominal value of swaps instruments by maturity

in million euros

	2010					2009				
	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)	**4 205**	**12 174**	**5 092**	**1 408**	**22 878**	**1 917**	**12 708**	**4 639**	**1 251**	**20 515**
Currency	3 402	11 550	2 617	662	18 231	1 818	11 234	3 206	722	16 980
Interest-rate	803	623	2 475	746	4 647	99	1 474	1 434	529	3 535
thereof: collateralised (b)	*4 205*	*12 174*	*5 092*	*1 408*	*22 878*	1 917	12 708	4 639	1 251	20 515
(b)/(a)	100%	100%	100%	100%		100%	100%	100%	100%	

- Large exposures/Concentration

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

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

In line with the Basel Committee recommendations and European Union directives, the CEB ensures that no counterparty (or group of connected counterparties) exceeds the limit of 25% of sound capital as defined above, and that the cumulative total of large exposures does not exceed 800% of said capital.

As at 31 December 2010, no counterparty exceeded the limit of 25% of the CEB's sound capital (as in 2009) and only six groups and two counterparties overstepped 10%. The total outstanding on these counterparties came to € 4.8 billion, i.e. 114% of the Bank's sound capital (end 2009, € 4.6 billion, 110%) on an 800% limit. In accordance with current banking practice, sovereign risks are not included for this analysis.

2. Market risk

- Interest rate and currency risk

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

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

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

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

At 31 December 2010, as at 31 December 2009, currency exchange and interest rate contracts are exclusively used as micro-hedging.

Due to this strategy adopted, the interest rate risk in the Bank's balance sheet is limited to the amount of held-to-maturity financial assets portfolio. This portfolio is equivalent in volume to the sum of equity, the Selective Trust Account and of provisions for post-employment social commitments.

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

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

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

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

- Currency risk

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

In thousand euros

Breakdown by currency	Assets	Liabilities	Derivative instruments	**Net position 2010**	Assets	Liabilities	Derivative instruments	**Net position 2009**
Euro	22 508 945	7 160 149	(15 415 139)	(66 343)	20 504 503	6 368 186	(16 139 523)	(2 003 206)
Japanese Yen	135 645	168 345	33 791	1 091	142 955	168 061	25 874	768
US Dollar	787 270	10 762 415	9 975 375	230	961 692	11 168 067	10 207 164	789
Pound Sterling	44 525	1 350 971	1 306 565	119	45 587	1 199 030	1 153 474	31
Hungarian Forint	224 257	842	(223 361)	54	232 264	964	(231 245)	55
Other currencies	1 020 364	5 278 284	4 258 180	260	843 579	3 826 272	2 982 887	194
Total	**24 721 006**	**24 721 006**	**(64 589)**	**(64 589)**	**22 730 580**	**22 730 580**	**(2 001 369)**	**(2 001 369)**

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

- Interest rate risk

Interest rate risk management

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

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

The Bank neutralizes interest rate fluctuations on its margin by matching assets and liabilities in terms of rate characteristics. In particular, the Bank invests its equity in held-to-maturity financial assets. This portfolio comprises fixed rate securities, generally long-term ones, denominated in euros and issued by countries or similar institutions with a minimal rating of AA or Aa2 at the time of purchase.

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

Appraisal of interest rate risk hedging

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

Breakdown of 2010 outstanding balances by interest rate type and interest rate risk hedging evaluation

In thousand euros

Interest rate type	Before hedging			Hedging financial instruments			After hedging		
	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total
ASSETS									
Fixed rate	9 545 710	102 311	9 648 021	(2 844 033)	461 245	(2 382 788)	6 701 677	563 556	7 265 233
Scheduled outstanding	*7 249 842*	*102 311*	*7 352 153*	*(2 844 033)*	*461 245*	*(2 382 788)*	*4 405 809*	*563 556*	*4 969 365*
Non scheduled outstanding	*2 295 868*		*2 295 868*				*2 295 868*		*2 295 868*
Variable rate	14 640 285	22 726	14 663 011	2 786 663	6 099	2 792 762	17 426 948	28 825	17 455 773
Total assets	**24 185 995**	**125 037**	**24 311 032**	**(57 370)**	**467 344**	**409 974**	**24 128 625**	**592 381**	**24 721 006**
LIABILITIES									
Fixed rate	(22 750 528)	(461 302)	(23 211 830)	18 302 991	(38 207)	18 264 784	(4 447 537)	(499 509)	(4 947 046)
Scheduled outstanding	*(18 326 694)*	*(461 302)*	*(18 787 996)*	*18 302 991*	*(38 207)*	*18 264 784*	*(23 703)*	*(499 509)*	*(523 212)*
Non scheduled outstanding	*(4 423 834)*		*(4 423 834)*				*(4 423 834)*		*(4 423 834)*
Variable rate	(1 435 541)	(304)	(1 435 845)	(18 306 607)	(31 508)	(18 338 115)	(19 742 148)	(31 812)	(19 773 960)
Scheduled outstanding	*(537 967)*	*(304)*	*(538 271)*	*(18 306 607)*	*(31 508)*	*(18 338 115)*	*(18 844 574)*	*(31 812)*	*(18 876 386)*
Non scheduled outstanding	*(897 574)*		*(897 574)*				*(897 574)*		*(897 574)*
Total liabilities	**(24 186 069)**	**(461 606)**	**(24 647 675)**	**(3 616)**	**(69 715)**	**(73 331)**	**(24 189 685)**	**(531 321)**	**(24 721 006)**

The outstanding fixed-rate assets before hedging amounts to € 9 546 million, hedging instruments allow the exposure to drop to € 6 702 million.

Reciprocally, the fixed-rate liability exposure of € 22 751 million before hedging is reduced to € 4 448 million after hedging.

Sensitivity to interest rate risks

The ALM Department is studying the level of net interest margin for the coming year (2011) based on certain scenario assumptions of interest rate (+/- 10 bp, +/- 100 bp, +/- 200 bp).

Sensitivity measurement of the net interest margin to interest rate risks

At 31 December 2010, the level of the short term market rates in the main currencies of reference, on which the scenarios of rate shocks are based, are unusually low. The stress test presented below is based on maintaining a uniform translation of 10 bp. Indeed, a downward shock of greater magnitude, combined with very low current interest rates, involves the application of interest rates close to zero and even negative in some cases. Maintaining a uniform translation of 10 bp ensures consistency between the obtained results and the particularly low rate environment.

In thousand euros

	Parallel translation + 10 bp	Parallel translation - 10 bp
31/12/2010	-710	709

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

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

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

Based upon balance sheet at 31 December 2010 and renewal assumptions, the net interest margin would increase by € 0.7 million if interest rates decreased by 10 bp. Conversely, the net interest margin would decrease by € 0.7 million if rates increased by 10 bp. The effect of the magnitude of the stress test on the net interest margin sensitivity is almost linear. The CEB is therefore slightly exposed to increase in interest rates.

3. Liquidity risk

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

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

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

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

In thousand euros

	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	Current oustanding	1 to 5 years	More than 5 years	Non-current oustanding	Total
Assets								
Cash in hand, balances with central banks	230 316			230 316				230 316
Available-for-sale financial assets	381 422	1 973 917	2 245 740	4 601 079	900 221	1 118 526	2 018 747	6 619 826
Loans and advances to credit institutions and to customers								
Loans	81 033	300 085	1 519 076	1 900 194	5 745 111	5 705 221	11 450 331	13 350 525
Advances	1 540 477	5 019	7 537	1 553 033				1 553 033
Financial assets held to maturity	14 258	99 094	108 978	222 330	971 071	1 880 728	2 851 799	3 074 128
Total assets	**2 247 505**	**2 378 115**	**3 881 332**	**8 506 952**	**7 616 403**	**8 704 474**	**16 320 877**	**24 827 828**
Liabilities								
Amounts owed to credit institutions and to customers	88 287	5 016	7 529	100 832				100 832
Debt securities in issue	1 559 572	79 476	3 138 274	4 777 322	13 710 601	3 484 850	17 195 450	21 972 772
Selective Trust Account (STA)	78 733			78 733				78 733
Total liabilities	**1 726 592**	**84 492**	**3 145 803**	**4 956 887**	**13 710 601**	**3 484 850**	**17 195 450**	**22 152 338**
Off-balance sheet								
Financing commitments	88 063	300 000	1 223 937	1 612 000	1 990 533	400 281	2 390 814	4 002 814
Term financial instruments								
To be received	1 373 349	101 930	2 981 160	4 456 440	14 533 412	2 774 714	17 308 125	21 764 565
To be paid	(1 734 034)	(45 944)	(2 509 421)	(4 289 399)	(13 119 631)	(2 491 017)	(15 610 648)	(19 900 047)
Off-balance sheet total	**(272 622)**	**355 986**	**1 695 677**	**1 779 041**	**3 404 313**	**683 978**	**4 088 291**	**5 867 332**
Liquidity position 2010	**248 291**	**2 649 608**	**2 431 205**	**5 329 105**	**(2 689 885)**	**5 903 602**	**3 213 717**	**8 542 822**
Assets								
Cash in hand, balances with central banks	386 883			386 883				386 883
Available-for-sale financial assets	426 426	780 155	1 882 318	3 088 899	973 731	1 197 585	2 171 316	5 260 215
Loans and advances to credit institutions and to customers								
Loans	19 563	416 358	1 822 422	2 258 343	5 970 924	5 095 179	11 066 103	13 324 446
Advances	1 669 007			1 669 007				1 669 007
Financial assets held to maturity	10 150	20 314	188 703	219 167	708 333	2 095 858	2 804 191	3 023 358
Total assets	**2 512 029**	**1 216 827**	**3 893 443**	**7 622 299**	**7 652 988**	**8 388 622**	**16 041 610**	**23 663 909**
Liabilities								
Amounts owed to credit institutions and to customers	67 747			67 747				67 747
Debt securities in issue	1 738 068	243 035	1 044 352	3 025 455	13 279 759	3 176 000	16 455 759	19 481 214
Selective Trust Account (STA)	75 420			75 420				75 420
Total liabilities	**1 881 235**	**243 035**	**1 044 352**	**3 168 622**	**13 279 759**	**3 176 000**	**16 455 759**	**19 624 381**
Off-balance sheet								
Financing commitments	10 618	185 709	1 419 106	1 615 433	1 549 198	391 117	1 940 315	3 555 748
Term financial instruments								
To be received	1 740 761	538 631	1 165 743	3 445 135	13 451 849	3 371 905	16 823 754	20 268 889
To be paid	(1 879 661)	(534 859)	(927 943)	(3 342 463)	(13 785 847)	(3 232 621)	(17 018 468)	(20 360 931)
Off-balance sheet total	**(128 282)**	**189 481**	**1 656 906**	**1 718 105**	**1 215 200**	**530 401**	**1 745 601**	**3 463 706**
Liquidity position 2009	**502 512**	**1 163 273**	**4 505 997**	**6 171 782**	**(4 411 571)**	**5 743 023**	**1 331 452**	**7 503 234**

4. Operational risk

The operational risk is the risk of direct or indirect loss resulting from inadequate or failed structures, procedures, people or systems as well as from external events.

By deliberately choosing to operate within the framework of the Basel Committee recommendations, the Bank has undertaken to assess constantly its operational risks and to implement the appropriate preventive measures. The Basic Indicator Approach (BIA) method is adopted to calculate operational risk charge against the Bank's equity. The Bank calculates this charge on the basis of the average net banking income over the previous three years. At 31 December 2010, the charge amounted to € 20.0 million up from € 19.4 million at 31 December 2009.

5. Capital management

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

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

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

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

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

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

6. Prudential framework

Capital adequacy ratio

The objective of this ratio is to show that the level of capital is sufficient to absorb potential losses relating to the lending activity. It is obtained from the following calculation:

$$\text{Capital adequacy ratio} = \frac{\text{Risk weighted loans portfolio}}{\text{Usable capital}}$$

- Risk weighted loans portfolio: Σ [(principal + interest) x default probability]

- Usable capital: paid-in capital, reserves, gains or losses recognised directly in equity

The limit of the capital adequacy ratio is fixed at 100%.

Year-on-year, the ratio increases from 20.3% at end 2009 to 23.5% at end 2010.

Risk asset coverage ratio

This ratio is an additional limit to the increase of its share of the loan portfolio rated *below investment grade*. This ratio arises from:

$$\text{Risk asset coverage ratio} = \frac{\text{Loans portfolio rated } \textit{below investment grade}}{\text{Sound capital}}$$

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

The limit is fixed at 66%, that is € 2.8 billion at end 2010.

Year-on-year, the ratio rose from 40.5% at end 2009 to 50.7% at end 2010.

Strengthened liquidity ratio

The Bank's liquidity must comply with an internal "Strengthened liquidity ratio". This ratio results from dividing (i) the Bank's available liquidity (bank deposits, available-for-sale financial assets with a residual maturity of less than 18 months) by (ii) the net liquidity requirements (stock of projects awaiting financing, three-year net cash flow including the additional liquidity requirement to account for counterparty risk of default for the same three-year period).

At the end of each fiscal year, the Bank's liquidity must not be less than 50% of net liquidity requirements for the next three years. At end 2010, the Strengthened liquidity ratio stands at 121.1% (up from 102.2% at end 2009).

Indebtedness ratio

This ratio results from dividing total debt after swap by total equity (subscribed capital, reserves, gains or losses recognised directly in equity, profit for the year).

Year-on-year, the ratio lowers down from 3.80 at end 2009 to 3.78 at 31 December 2010 for the limit of 4. On the basis of total equity at end 2010, the authorised debt limit amounts € 20.0 billion, which is headroom of € 1.1 billion, i.e. 94% of the authorised limit.

Portfolio ratio

This ratio results from dividing (i) treasury operations after swap by (ii) total equity (subscribed capital, reserves, gains or losses recognised directly in equity, profit for the year). Treasury operations are composed of (i) outstanding financial assets held to maturity and available-for-sale financial assets and (ii) financial transactions not represented by a security (deposits, repurchase agreements).

Year-on-year, the ratio rose from 1.79 in 2009 to 1.86 at end 2010, which is 93% of the authorised limit of 2.

On the basis of the total level of capital at end 2010, the authorised portfolio limit was € 10.0 billion, which leaves a margin for manoeuvre of € 0.7 billion.

Note C - Financial assets and liabilities

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

The mentioned market value comprises accrued interest.

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

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

In thousand euros

	Carrying value	Fair value
31 December 2010		
Assets		
Cash in hand, balances with central banks	230 316	230 316
Financial assets at fair value through profit and loss	1 216 278	1 216 278
Hedging derivative instruments	1 226 344	1 226 344
Available-for-sale financial assets	6 332 058	6 332 058
Loans and advances to credit institutions and to customers	13 437 726	12 325 684
Financial assets held to maturity	2 241 862	2 316 154
Total assets	**24 684 584**	**23 646 834**
Liabilites		
Financial liabilities at fair value through profit and loss	1 275 923	1 275 923
Hedging derivative instruments	445 669	445 669
Amounts owed to credit institutions and to customers	100 809	100 809
Debt securities in issue	19 855 536	20 003 788
Selective Trust Account (STA)	78 733	78 733
Total liabilities	**21 756 670**	**21 904 922**
31 December 2009		
Assets		
Cash in hand, balances with central banks	386 883	386 883
Financial assets at fair value through profit and loss	314 346	314 346
Hedging derivative instruments	1 295 361	1 295 361
Available-for-sale financial assets	4 965 778	4 965 778
Loans and advances to credit institutions and to customers	13 608 366	12 442 620
Financial assets held to maturity	2 123 226	2 218 997
Total assets	**22 693 960**	**21 623 985**
Liabilities		
Financial liabilities at fair value through profit and loss	2 312 949	2 312 949
Hedging derivative instruments	372 974	372 974
Amounts owed to credit institutions and to customers	67 747	67 747
Debt securities in issue	17 680 780	17 451 319
Selective Trust Account (STA)	75 420	75 420
Total liabilities	**20 509 870**	**20 280 409**

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

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

All the Bank's micro-hedging operations recognised under IAS 39, are fair value hedges and are recorded in the balance sheet under the heading "Hedging derivative instruments". These operations hedge the fair value risk 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

	31/12/2010		31/12/2009	
	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	210	(3 248)	191	(2 916)
Exchange rate derivative instruments	1 216 068	(1 272 675)	314 155	(2 310 033)
Total	**1 216 278**	**(1 275 923)**	**314 346**	**(2 312 949)**
Hedging derivative instruments				
Interest rate derivative instruments	149 537	(248 431)	124 890	(208 145)
Exchange rate derivative instruments	1 076 807	(197 238)	1 170 471	(164 829)
Total	**1 226 344**	**(445 669)**	**1 295 361**	**(372 974)**

Note E - Securities portfolio

In thousand euros

	31/12/2010		31/12/2009	
	Balance sheet value (*)	***of which gains or losses recognised directly in equity***	**Balance sheet value (*)**	***of which gains or losses recognised directly in equity***
Available-for-sale financial assets				
Treasury bills and similar securities	967 094		189 110	
Debt securities and other fixed income securities	5 364 019	(114 003)	4 775 794	(103 950)
Shares and other variable-yield securities	1 380	419	1 380	348
Provisions for depreciation	(435)		(506)	
Total	**6 332 058**	**(113 584)**	**4 965 778**	**(103 602)**
Financial assets held to maturity				
Treasury bills and similar securities	1 230 872		988 243	
Debt securities and other fixed income securities	1 010 990		1 134 983	
Total	**2 241 862**		**2 123 226**	
Total securities portfolio	**8 573 920**	**(113 584)**	**7 089 004**	**(103 602)**

(*) including interest receivable

None of the securities classified under the available-for-sale financial assets or financial assets held to maturity categories have been given as a guarantee in 2010 and 2009.

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

Note F - Loans and advances to credit institutions and to customers

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

In thousand euros

Breakdown of loans by category of borrower	**31/12/2010**	**31/12/2009**
Loans to credit institutions		
Loans	7 040 588	7 551 171
Interest receivable	15 680	11 758
Unpaid receivables	436	221
Depreciation on loans to credit institutions (Note R)	(1 837)	(1 822)
Sub-total	**7 054 867**	**7 561 328**
Loans to customers		
Loans	4 947 375	4 647 132
Interest receivable	25 976	26 354
Sub-total	**4 973 351**	**4 673 486**
Value adjustment of loans hedged by derivative instruments	87 172	91 556
Total loans	**12 115 390**	**12 326 370**
Other loans and advances		
Advances repayable on demand	4 405	11 634
Advances with agreed maturity dates or periods of notice	1 317 420	1 270 000
Sub-total	**1 321 825**	**1 281 634**
Interest receivable	511	362
Total other advances	**1 322 336**	**1 281 996**

At 31 December 2010, loans are guaranteed up to the amount of € 3 214 803 thousand (31 December 2009: € 2 682 620 thousand). These guarantees could be either in the form of securities or signed commitments.

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

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

In thousand euros

	Outstanding				Financing commitments	
Breakdown by borrowers' country location	**31/12/2010**	**%**	**31/12/2009**	**%**	**31/12/2010**	**31/12/2009**
Poland	1 304 019	10.88	955 900	7.84	514 767	612 258
Spain	1 213 110	10.12	1 605 783	13.16	159 000	96 300
Hungary	1 168 614	9.75	1 083 812	8.88	114 390	180 116
Italy [1]	1 010 316	8.43	1 157 932	9.49	234 900	254 900
France	951 224	7.93	1 264 185	10.36	100 000	100 000
Romania	765 403	6.38	632 513	5.19	479 953	627 720
Germany [2]	678 008	5.66	660 856	5.42	292 400	412 000
Finland	673 042	5.61	707 875	5.80		100 000
Cyprus	639 268	5.33	560 152	4.59	322 323	103 885
Turkey	615 970	5.14	647 747	5.31	749 733	341 190
Portugal	471 598	3.93	431 098	3.53	345 000	100 000
Denmark	280 000	2.34	303 333	2.49		
Greece	270 858	2.26	343 485	2.82		
Croatia	266 640	2.22	256 536	2.10	64 146	46 148
Iceland	237 535	1.98	196 482	1.61	10 173	39 386
Sweden [3]	234 022	1.95	227 276	1.86	57 774	50 524
Latvia	173 735	1.45	187 213	1.53	25 000	25 000
Slovenia	156 391	1.30	113 373	0.93		54 000
Norway	126 500	1.06	126 500	1.04		
Belgium	120 750	1.01	93 332	0.77	40 000	25 000
Ireland	106 189	0.89	116 554	0.96	50 000	50 000
Bosnia and Herzegovina	85 477	0.71	94 352	0.78	25 647	27 220
Malta	78 250	0.65	88 350	0.72		
Albania	76 164	0.64	54 842	0.45	40 743	62 011
Bulgaria	71 667	0.60	75 442	0.62	2 903	10 403
Lithuania	54 029	0.45	56 211	0.46	102 000	104 172
Serbia	50 923	0.42	57 993	0.48	21 100	28 076
"the former Yugoslav Republic of Macedonia"	39 099	0.33	34 209	0.28	92 350	7 500
Czech Republic	31 333	0.26	28 042	0.23	45 000	50 000
Slovak Republic	20 151	0.17	22 889	0.19	54 126	8 252
Moldova	9 313	0.08	9 013	0.07	10 587	10 887
Estonia	7 435	0.06	3 745	0.03	23 800	28 800
San Marino	930	0.01	1 278	0.01		
Montenegro					25 000	
Total	**11 987 963**	**100.00**	**12 198 303**	**100.00**	**4 002 815**	**3 555 748**

[1] of which € 504 502 thousand outstanding in favour of target countries as at 31 December 2010 (31 December 2009: € 545 887 thousand)
[2] of which € 222 500 thousand outstanding in favour of target countries as at 31 December 2010 (31 December 2009: € 261 250 thousand)
[3] of which € 100 000 thousand outstanding in favour of target countries as at 31 December 2010 (31 December 2009: € 100 000 thousand)

In thousand euros

	Outstanding				Financing commitments	
Breakdown by sector-based activities	**31/12/2010**	**%**	**31/12/2009**	**%**	**31/12/2010**	**31/12/2009**
Strengthening social integration						
Aid to refugees, migrants and displaced populations	131 228		150 167		8 000	25 359
Social housing for low-income persons	2 575 277		2 719 835		310 512	391 052
Creation and preservation of viable jobs	2 443 803		2 407 816		553 102	714 057
Improving living conditions in urban and rural areas	1 534 222		1 410 997		519 949	510 251
Sub-total	**6 684 530**	**56**	**6 688 815**	**55**	**1 391 563**	**1 640 719**
Managing the environment						
Natural or ecological disasters	812 654		1 019 750		535 223	319 049
Protection of the environment	1 574 498		1 526 079		1 101 529	800 050
Protection and rehabilitation of the historic and cultural heritage	224 808		243 196		60 376	68 292
Sub-total	**2 611 960**	**22**	**2 789 025**	**23**	**1 697 128**	**1 187 391**
Supporting public infrastructure with a social vocation						
Education and vocational training	1 566 271		1 442 934		631 886	527 537
Health	1 111 538		1 264 864		234 368	198 575
Infrastructures of administrative and judicial public services	13 664		12 665		47 870	1 526
Sub-total	**2 691 473**	**22**	**2 720 463**	**22**	**914 124**	**727 638**
Total	**11 987 963**	**100**	**12 198 303**	**100**	**4 002 815**	**3 555 748**

Financing and guarantee commitments

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

In thousand euros

Breakdown by year of approval	**2008 and before**	**2009**	**2010**	**Total**
Projects				
With signed framework loan agreements	1 827 933	1 148 732	1 011 019	3 987 684
With at least one financing	15 131			15 131
Total	**1 843 064**	**1 148 732**	**1 011 019**	**4 002 815**

The Bank guarantees loans granted by a financial institution for an amount of € 129 thousand (€ 211 thousand in 2009). This guarantee is offset by the counter-guarantee received from a Member State for an identical amount.

Note G - Tangible and intangible assets

In thousand euros

	Land and buildings	Fixtures and equipment	Other	Intangible assets	Total
Gross book value					
At 1 January 2009	23 748	15 018	5 776	5 030	**49 572**
Additions		66	364	870	**1 300**
Disposals					
Other movements		(73)	104	(31)	
At 31 December 2009	**23 748**	**15 011**	**6 244**	**5 869**	**50 872**
Gross book value					
At 1 January 2010	23 748	15 011	6 244	5 869	**50 872**
Additions		520	288	1 112	**1 920**
Disposals					
Other movements					
At 31 December 2010	**23 748**	**15 531**	**6 532**	**6 981**	**52 792**
Depreciation					
At 1 January 2009		(9 594)	(4 607)	(3 633)	**(17 834)**
Charge for the year		(921)	(524)	(378)	**(1 823)**
Disposals					
At 31 December 2009		**(10 515)**	**(5 131)**	**(4 011)**	**(19 657)**
Depreciation					
At 1 January 2010		(10 515)	(5 131)	(4 011)	**(19 657)**
Charge for the year		(798)	(476)	(564)	**(1 838)**
Disposals					
At 31 December 2010		**(11 313)**	**(5 607)**	**(4 575)**	**(21 495)**
Net book value					
At 31 December 2010	**23 748**	**4 218**	**925**	**2 406**	**31 297**
At 31 December 2009	23 748	4 496	1 113	1 858	31 215

Note H - Other assets and other liabilities

In thousand euros

	31/12/2010	31/12/2009
Other assets		
Other accrued income and sundry debtors	1 898	631
Prepaid expenses	1 614	1 674
Sundry debtors	1 613	2 068
Subscribed, called and unpaid capital and reserves to be paid		1 032
Total	**5 125**	**5 405**
Other liabilities		
Deposits of guarantees received (*)	816 989	173 590
Sundry creditors	3 407	3 161
Other accruals and sundry creditors	2 737	11 296
Total	**823 133**	**188 047**

(*) Deposits of guarantees received are related to the swap operations called "collateralised" as the Bank benefits from collateralisation contracts with almost all of its counterparties for on-going contracts as of 31 December 2010 and 31 December 2009.

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

In thousand euros

	31/12/2010	31/12/2009
Amounts owed to credit institutions and to customers		
Interest-bearing accounts	80 784	67 747
of which, European Community	*76 592*	*64 161*
Borrowings and term deposits	19 968	
Interest payable	57	
Total	**100 809**	**67 747**
Debt securities in issue		
Bonds	18 840 958	16 547 393
Interest payable	426 967	478 531
Value adjustment of debt securities in issue hedged by derivative instruments	587 611	654 856
Total	**19 855 536**	**17 680 780**

Development of customers' interest-bearing accounts

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

- Seven accounts to receive the European Union contributions ("Contribution Arrangement in respect of a SME Finance Facility Phase 2 Special Fund") for partial financing of productive investment projects designed to create or safeguard jobs in SMEs located in thirteen of the CEB member countries in Central and Eastern Europe.
  - In 2001, setting-up of "EC-Contribution Fund Phare Account"
  - In 2002, contribution to Turkey "EC-Contribution Fund MEDA Account"
  - In 2004, increase of "SME Finance Facility (SMEFF) 2002 Special Account"
  - In 2004, contribution to Cyprus "SME Finance Facility (SMEFF) Cyprus Special Account"
  - In 2005, increase of "SME Finance Facility (SMEFF) 2003 Special Account"
  - In 2006, increase of "SME Finance Facility (SMEFF) 2005 Special Account, Bulgaria, Croatia, Romania and Turkey"
  - In 2007, increase of "SME Finance Facility (SMEFF) 2006 Special Account, Bulgaria, Croatia, Romania and Turkey"

  At 31 December 2010, the balance of these accounts amounts to € 36 422 thousand (2009: € 35 908 thousand).

- Four accounts to partially finance local infrastructural projects in favour of the municipalities of ten Central and Eastern European countries, also applicant countries to European Union accession at the time of the project (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia), within the ambit of the EU Programme "EU Municipal Finance Facility".
  - In 2004, setting-up of "EU Municipal Finance Facility Special Account"
  - In 2005, increase and geographical extension of the programme "EU Municipal Finance Facility 2003 Special Account"
  - In 2007, increase and geographic extension of "EU Municipal Finance Facility 2005 Special Account Bulgaria, Croatia, Romania and Turkey" and "EU Municipal Finance Facility 2006, Special Account Bulgaria, Croatia, Romania and Turkey"

  At 31 December 2010, the balance of these accounts amounts to € 8 897 thousand (2009: € 11 626 thousand).

- Two accounts for the partial financing of productive investment projects of small and medium-sized enterprises and in particular micro-enterprises, known as the "Preparatory Action Programme" aimed at creating or safeguarding jobs, in eight new EU Member States in Central and Eastern Europe.
  - In 2007, increase of "Preparatory Action Special Account 2005"
  - In 2008, increase of "Preparatory Action Special Account 2006"

  The account "Preparatory Action Special Account 2004" set up in 2005 was closed in 2010.

  The balance of these accounts amounts to € 1 951 thousand at 31 December 2010 (2009: € 2 027 thousand).

- Two accounts for the partial financing of projects related to environmental protection and for energy efficiency in Croatia, Bulgaria, Romania and Turkey, called "Energy Efficiency Finance Facility".
  - In 2007, setting-up of "Energy Efficiency Finance Facility 2006 Special Account"
  - In 2008, increase with focus on the countries within the framework of Pre-adhesion Aid Instrument (PAI) of the European Commission, "Energy Efficiency Finance Facility 2007 Special Account".

  At 31 December 2010, the balance of these accounts amounts to € 14 911 thousand (2009: € 11 437 thousand).

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

  The balance of this account amounts to € 3 240 thousand as at 31 December 2010 (2009: € 610 thousand).

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

  The balance of these accounts amounts to € 2 577 thousand at 31 December 2010 (2009: € 2 553 thousand).

- Two accounts were opened for the partial financing of rural roads and water supply and sewerage systems in Albania in the framework of the European Commission's Instrument of Pre-accession (IPA).
  - "IPA 2009 Rural Roads Albania Special Account"
  - "IPA 2009 Water Supply Kamza Albania Special Account"

  The balance of these accounts amounts to € 8 594 thousand at 31 December 2010.

In addition the CEB manages the three following trust accounts:

- The Norway Trust Account, a mechanism set up on the initiative of the Norwegian Authorities in order to finance assistance activities, in particular technical assistance to support social and economic reforms in the Western Balkan countries.

  The balance of this account amounts to € 549 thousand at 31 December 2010 (2009: € 930 thousand).

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

  The balance of this account amounts to € 1 770 thousand at 31 December 2010 (2009: € 1 655 thousand).

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

  The balance of this account amounts to € 1 873 thousand at 31 December 2010 (2009: € 1 001 thousand).

Note J - Selective Trust Account (STA)

- General operating principles

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

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

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

- Funding

The STA is supplied with:

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

b) Voluntary contributions from Member States of the Bank

c) Voluntary contributions from the Council of Europe Members

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

- Accounting treatment

The STA is divided into two sub-accounts:

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

In thousand euros

1) Member States sub-account	Debit	Credit
Balance as at 1 January 2009		**50 071**
Payment by Member States for the financial year 2008		
Credit interest paid into the STA		2 331
Subsidies on disbursed loans	9 115	
Donations granted	923	
Balance as at 31 December 2009 [a]		**42 364**
Payment by Member States for the financial year 2009		6 000
Credit interest paid into the STA		2 419
Subsidies on disbursed loans	3 446	
Donations granted	81	
Balance as at 31 December 2010 [b]		**47 256**

2) Subsidised projects sub-account		
Balance as at 1 January 2009		**28 613**
Subsidies on loans disbursed in 2009		9 115
Payment of subsidies	4 672	
Balance as at 31 December 2009 [c]		**33 056**
Subsidies on loans disbursed in 2010		3 446
Payment of subsidies	5 025	
Balance as at 31 December 2010 [d]		**31 477**

STA as at 31 December 2009 [a] + [c]		**75 420**
STA as at 31 December 2010 [b] + [d]		**78 733**

Donations

Since its creation, in 1995, donations for a total amount of € 13.4 million have been granted from the STA in 2010 (2009: € 13.3 million).

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

In thousand euros

Payments	2010	2009
Haiti (UNICEF): Emergency aid with the victims of Haiti touched by the seism: Education, health, nutrition, protection and water, cleansings and hygiene (WASH – Water, Sanitation and Hygiene)	100	
Bosnia and Herzegovina (UNHCR) : repayment	(19)	
Georgia (UNHCR) : project of reconstruction of Collective Centers part of the "Shelter and winterization strategy"		500
Georgia (UNDP) : project of reconstruction of infrastructures damaged during summer 2008 event		250
Georgia (Council of Europe) : project aimed at decreasing physical violence in schools through training of teachers in conflict solving methods		98
Georgia (Council of Europe) : project "Support to Internally Displaced Persons-Training on inter-community relations"		75
Total	**81**	**923**

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

In thousand euros

	Outstanding		Financing commitments	
Breakdown by borrowers' country location	**31/12/2010**	**31/12/2009**	**31/12/2010**	**31/12/2009**
Romania	307 415	290 606	27 271	49 780
Hungary	177 607	201 567		
Croatia	130 270	144 554		5 173
Albania	71 520	52 283	38 743	58 011
Poland	60 720	63 417	238 000	245 000
Serbia	28 500	28 500	21 100	21 100
Bosnia and Herzegovina	18 294	16 257	647	2 220
Bulgaria	13 910	14 596	2 903	2 903
Slovak Republic	12 118	17 461		
Moldova	9 313	9 013	10 587	10 887
Lithuania	5 946	6 632		2 172
"the former Yugoslav Republic of Macedonia"	5 000		20 350	
Slovenia	1 196	1 977		
Turkey			250 000	
Total	**841 809**	**846 863**	**609 601**	**397 246**

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

Note K - Provisions

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

In thousand euros

	31/12/2010	31/12/2009
Provision for pension commitments	66 577	59 710
Provision for other post-employment benefits	15 971	14 181
Total	**82 548**	**73 891**

The Bank administers a pension scheme and other related post-employment benefits (particularly medical insurance). The commitment in relation to the different post-employment benefits is determined separately using the projected unit credit actuarial valuation method. The last actuarial valuation was carried out on 31 December 2010 based on individual data as at 30 June 2010.

Pension scheme

The following is the pension scheme financial situation:

In thousand euros

	31/12/2010	31/12/2009
Financial situation as at 31 December		
Actuarial liability	(80 415)	(63 925)
Actuarial surplus / (deficit)	(80 415)	(63 925)
Stock of unrealised actuarial gains / (losses)	13 838	4 215
Provision as at 31 December	**(66 577)**	**(59 710)**
Provision movements as at 31 December		
Provision as at 1 January	**(59 710)**	**(54 232)**
Service cost	(4 431)	(3 663)
Interest cost related to discounting commitments	(3 610)	(2 895)
Amortisation of actuarial differences		
Book charge for the year	(8 041)	(6 558)
Benefits paid	1 174	1 080
Provision as at 31 December	**(66 577)**	**(59 710)**

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

Other information	2010	2009
Interest rate	4.50%	5.70%
Inflation rate	2.00%	2.00%
Pensions revaluation rate	2.00%	2.00%
Salary increase rate	4.00%	5.00%
Staff average number of remaining working lives as at 31 December	13	13

The rate of salary increase has been revised downwards (4.00% vs. 5.00%) to reflect the changes made to the step advancement scheme.

Pension scheme - related post-employment benefits

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

In thousand euros

	31/12/2010	31/12/2009
Financial situation as at 31 December		
Actuarial liability	(19 427)	(15 630)
Actuarial surplus / (deficit)	(19 427)	(15 630)
Stock of unrealised actuarial gains / (losses)	3 456	1 449
Provision as at 31 December	**(15 971)**	**(14 181)**
Provision movements as at 31 December		
Provision as at 1 January	**(14 181)**	**(13 494)**
Service cost	(1 154)	(655)
Interest cost related to discounting commitments	(795)	(482)
Amortisation of actuarial differences	18	325
Book charge for the year	(1 931)	(812)
Benefits paid	141	125
Provision as at 31 December	**(15 971)**	**(14 181)**

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

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

Note L - Capital

Capital allocation by Member State is presented below:

In thousand euros

Members	Subscribed capital	Uncalled capital	Called capital	Percentage of subscribed capital
Germany	549 692	489 000	60 692	16.640%
France	549 692	489 000	60 692	16.640%
Italy	549 692	489 000	60 692	16.640%
Spain	358 504	318 922	39 582	10.852%
Turkey	233 077	207 344	25 733	7.056%
Netherlands	119 338	106 161	13 177	3.613%
Belgium	98 634	87 746	10 888	2.986%
Greece	98 634	87 746	10 888	2.986%
Portugal	83 538	74 315	9 223	2.529%
Sweden	83 538	74 315	9 223	2.529%
Poland	76 988	68 488	8 500	2.331%
Switzerland	53 824	43 229	10 595	1.629%
Denmark	53 823	47 879	5 944	1.629%
Norway	41 889	37 264	4 625	1.268%
Finland	41 889	37 264	4 625	1.268%
Bulgaria	37 491	33 352	4 139	1.135%
Romania	35 963	31 993	3 970	1.089%
Ireland	28 998	25 797	3 201	0.878%
Hungary	26 884	23 916	2 968	0.814%
Czech Republic	25 833	22 981	2 852	0.782%
Luxembourg	20 849	18 547	2 302	0.631%
Serbia	15 511	13 799	1 712	0.470%
Croatia	12 831	11 414	1 417	0.388%
Cyprus	11 934	10 617	1 317	0.361%
Slovak Republic	11 380	10 123	1 257	0.344%
Albania	8 034	7 147	887	0.243%
Latvia	7 688	6 840	848	0.233%
Estonia	7 637	6 794	843	0.231%
"the former Yugoslav Republic of Macedonia"	7 637	6 794	843	0.231%
Lithuania	7 556	6 722	834	0.229%
Slovenia	7 380	6 565	815	0.223%
Iceland	6 089	5 417	672	0.184%
Malta	6 089	5 417	672	0.184%
Georgia	5 928	5 274	654	0.179%
Bosnia and Herzegovina	5 816	5 174	642	0.176%
Montenegro	3 952	3 516	436	0.120%
Moldova	3 294	2 930	364	0.100%
San Marino	2 921	2 478	443	0.088%
Liechtenstein	2 921	2 374	547	0.088%
Holy See	82	58	24	0.002%
Total 2010	**3 303 450**	**2 933 712**	**369 738**	**100.000%**
Total 2009	**3 303 450**	**2 933 712**	**369 738**	

Earnings per participating certificate for 2010 amount to € 35.07 (€ 32.41 for 2009).

Note M - Interest margin

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

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

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

In thousand euros

	2010	2009
Available-for-sale financial assets		
Securities transactions	57 277	77 138
Hedging derivatives	(17 270)	(18 606)
Sub-total	**40 007**	**58 532**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	220 210	303 462
Advances	7 537	27 494
Hedging derivatives	(92 051)	(71 914)
Sub-total	**135 696**	**259 042**
Financial assets held to maturity		
Securities transactions	92 580	88 524
Sub-total	**92 580**	**88 524**
Amounts owed to credit institutions and to customers		
Deposits	(142)	(17)
Interest-bearing accounts	(6 450)	(5 387)
Sub-total	**(6 592)**	**(5 404)**
Debt securities in issue		
Bonds	(846 535)	(743 323)
Hedging derivatives	725 834	487 487
Sub-total	**(120 701)**	**(255 836)**
Other interest expenses and similar charges	(4 405)	(3 377)
Interest margin	**136 585**	**141 481**

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

In thousand euros

Breakdown by borrowers' country location	2010	2009
Poland	33 875	31 782
Hungary	23 812	23 077
Turkey	21 005	29 131
Greece	15 056	18 605
Italy	14 972	26 559
Romania	14 355	14 400
Spain	13 268	33 963
Croatia	10 419	10 329
Germany	10 311	14 105
Finland	10 192	17 310
Cyprus	9 806	14 094
France	9 602	20 945
Portugal	4 405	9 381
Malta	3 957	4 437
Latvia	2 742	4 289
Iceland	2 139	3 917
Lithuania	2 068	1 380
Denmark	2 049	5 249
Slovenia	2 041	2 105
Bosnia and Herzegovina	1 901	2 755
Belgium	1 825	1 693
Albania	1 686	1 284
Sweden	1 658	3 544
Serbia	1 627	1 488
Bulgaria	1 308	1 825
Ireland	1 282	1 263
Norway	875	1 937
"the former Yugoslav Republic of Macedonia"	671	674
Moldova	442	368
Slovak Republic	304	586
Czech Republic	297	683
Estonia	209	235
San Marino	51	69
Total	**220 210**	**303 462**

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

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

In thousand euros

	2010	2009
Net result from fair value of hedging instruments	(76 922)	(438 097)
Revaluation of hedged items attributable to covered risk	76 826	438 247
Result from financial instruments at fair value through profit and loss	(1 194)	(1 387)
Revaluation of exchange positions	240	12
Total	**(1 050)**	**(1 225)**

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

In thousand euros

	2010	2009
Net gains or losses from available-for-sale financial assets		120
Dividends received	62	63
Total	**62**	**183**

Note P - Commissions and other net expenses

The table below shows the breakdown of net commissions:

In thousand euros

	2010	2009
Sundry banking income	253	255
Banking charges	(2 194)	(1 828)
Total	**(1 941)**	**(1 573)**

Note Q - General operating expenses

In thousand euros

	2010	2009
Staff costs		
Wages and salaries	18 166	16 894
Social charges and pension costs	5 511	4 091
Other general operating expenses	8 385	8 096
Total	**32 062**	**29 081**

At 31 December 2010, the Bank staff was composed of: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 159 professional staff. At 31 December 2009: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 150 professional staff.

Note R - Cost of risk

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

In thousand euros

Cost of risk for the financial year	2010	2009
Net depreciation charges	15	913
Recoveries of amortised loans and advances		
Irrecoverable receivables not covered by depreciations		
Other	(16 124)	
Total	**(16 109)**	**913**

In thousand euros

Cost of risk for the financial year by nature of assets	2010	2009
Loans and advances to credit institutions	15	913
Loans and advances to customers		
Available-for-sale financial assets		
Other assets		
Commitments by signature and other	(16 124)	
Total	**(16 109)**	**913**

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

In thousand euros

Depreciations resulting from credit risk	2010	2009
Total depreciations at the beginning of the financial year	1 822	909
Net depreciations charges	15	913
Use of depreciations		
Total	**1 837**	**1 822**

Note S - Post-balance sheet events

Following a recommendation by the Administrative Council on 4 February 2011, the Governing Board has approved the Institution's 6th capital increase. If all the CEB's Member States subscribe to the capital increase, the subscribed capital will rise from € 3.3 to a maximum of € 5.5 billion (representing a 67% increase), accompanied by the incorporation of € 246 million into the reserves in the form of paid-in capital and without any disbursement on the part of the Member States. The percentage share of paid-in capital will remain unchanged at 11.19% of the subscribed capital.

No other material events that would require disclosure or adjustment to these financial statements occurred between 31 December 2010 and the authorisation date of the accounts by the Governor on 22 February 2011.

External auditor's report

Deloitte.

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Council of Europe Development Bank

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75116 Paris

External Auditor's Report
on the Financial Statements
Year ended December 31st, 2010

To the Members of the Governing Board and Administrative Council,

In compliance with the assignment entrusted to us by the Governing Board, we have audited the accompanying financial statements of The Council of Europe Development Bank, which comprise the balance sheet as at December 31st, 2010, and the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory notes.

Governor's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Société anonyme au capital de 1 723 040 €
Société d'Expertise Comptable inscrite au Tableau de l'Ordre du Conseil Régional de Paris Ile-de-France
Société de Commissaires aux Comptes, membre de la Compagnie régionale de Versailles
572 028 041 RCS Nanterre
TVA : FR 02 572 028 041

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The Council of Europe Development Bank as of December 31st, 2010, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted for use by the European Union.

Neuilly-sur-Seine, February 23th, 2011

Deloitte & Associés

José-Luis Garcia

Sylvie Bourguignon

Auditing Board's report on the balance sheet and the profit and loss account and the Notes to the financial statements for 2010

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 2010 and from 21-24 February 2011 in order to audit the CEB's balance sheet and profit and loss account and the Notes to the financial statements for the year ended 31 December 2010.

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

The Auditing Board carried out the audit of the CEB for the year 2010 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff

- Examining the financial statements of the CEB for the year 2010, including the balance sheet as at 31 December 2010, 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 22 February 2011

- Consulting the Internal Audit Department and examining its reports

- Consulting the External Auditor of the CEB and examining his interim report and his detailed report for the year 2010

- Obtaining the opinion signed by the External Auditor on 23 February 2011

- Obtaining all necessary documents, information and explanations which the Auditing Board deemed necessary. These were readily given by the Governor, the Vice-Governors, the Internal Auditor, the Directors and other pertinent staff.

The Auditing Board certifies, on the basis of the information which was made available to it and to the best of its understanding, that the CEB's balance sheet and profit and loss account including the Notes to the financial statements are in agreement with the books and other records and give a true and fair view, in all material respects, of the state of the CEB's affairs as at 31 December 2010 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 24 February 2011

Eden ALI

Ali ACU

Nataša PRAH

Extract of the minutes of the 269th meeting of the Administrative Council of the CEB

Resolution 1533 (2011) **CA/PV 269 (2011)**

Paris, 18 March 2011

The Administrative Council,
Having regard to Article XI, Section 2 of the Bank's Articles of Agreement
Having regard to Rule 1, paragraph 2 of the Administrative Council's Rules of Procedure
Having regard to the balance sheet, profit and loss account and notes to the financial statements as at 31 December 2010
Having taken note of the external auditor's report dated 23 February 2011
Having taken note of the Auditing Board's report dated 24 February 2011
Having taken note of the Governor's Memorandum dated 25 February 2011

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 2010
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2010
3. resolves to allocate the 2010 net profit (+ € 115 864 716) as follows:
   - € 110 864 716 to the general reserve,
   - € 5 000 000 as social dividend to fund the Selective Trust Account
4. recommends that the Governing Board approve point 3 above.

Extract from the minutes of the 198th meeting of the Governing Board of the CEB

Resolution 388 (2011) **CA/PV 198 (2011)**

Paris, 8 April 2011

The Governing Board,
Having regard to Article IX, Section 3, paragraph 1, litt. e of the Articles of Agreement
Having regard to Rule 5, paragraph 1 of the Governing Board's Rules of Procedure
Having regard to the balance sheet, profit and loss account and the notes to the financial statements as at 31 December 2010
Having taken note of the certification by the external auditor, dated 23 February 2011
Having regard to the reports of the Bank's statutory organs, viz:
- the Report of the Governor for the financial year 2010
- the Auditing Board's report dated 24 February 2011

Having regard to Resolution 1533 (2011) of the Administrative Council
Having heard the Auditing Board

Decides:
- to approve the Bank's annual report, accounts and other financial statements for 2010
- to discharge the Administrative Council from its responsibility for the financial year 2010
- to endorse point 3 of Resolution 1533 (2011) of the Administrative Council of 18 March 2011, by which the Administrative Council allocated the net profit for 2010, amounting to € 115 864 716 as follows:
- € 110 864 716 to the general reserve.
- € 5 000 000 as social dividend to fund the Selective Trust Account.

Balance sheet as at 31 December 2010 after allocation of profit

In thousand euros

Assets	31/12/2010	31/12/2009
Cash in hand, balances with central banks	230 316	386 883
Financial assets at fair value through profit or loss	1 216 278	314 346
Hedging derivative instruments	1 226 344	1 295 361
Available-for-sale financial assets	6 332 058	4 965 778
Loans and advances to credit institutions and to customers		
Loans	12 115 390	12 326 370
Advances	1 322 336	1 281 996
Financial assets held to maturity	2 241 862	2 123 226
Tangible and intangible assets	31 297	31 215
Other assets	5 125	5 405
Total assets	**24 721 006**	**22 730 580**

Liabilities		
Financial liabilities at fair value through profit or loss	1 275 923	2 312 949
Hedging derivative instruments	445 669	372 974
Amounts owed to credit institutions and to customers	100 809	67 747
Debt securities in issue	19 855 536	17 680 780
Other liabilities	823 133	188 047
Selective Trust Account (STA)	83 733	81 420
Provisions	82 548	73 891
Total liabilities	**22 667 351**	**20 777 808**
Capital		
Subscribed	3 303 450	3 303 450
Uncalled	(2 933 712)	(2 933 712)
Called	369 738	369 738
General reserve	1 797 501	1 686 636
Gains or losses recognised directly in equity	(113 584)	(103 602)
Total equity	**2 053 655**	**1 952 772**
Total liabilities and equity	**24 721 006**	**22 730 580**

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 2010, the Bank had 40 Member States: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey. From 1989 to 1991, a contract of association linked the former Yugoslavia to the Bank as an Associate Member.

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

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

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

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

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

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

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

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

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

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

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

Photos: cover and pictures insert p. 1, 15 - 55 HASHLAMOUN/epa/Corbis - p. 54 (high): L'Osservatore Romano - Other photos: CEB photographic library



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