CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2009





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 2009. Leverage is particularly impressive: since its inception, the Bank has been able to pay 30 billion euros in loans.

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. Its chairman is Mr. Lars KOLTE, who was re-elected on 14 June 2008*.
- 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 the Vice-Governor Delegate, Mr. Nunzio GUGLIELMINO, who was re-elected on 27 November 2009, and two Vice-Governors, Mr. Apolonio RUIZ-LIGERO, re-elected on 15 September 2005 and Mr. Imre TARAFÁS, elected on 30 March 2007.
- The Auditing Board, which has three members chosen from among the Member States in turn.

The Executive Committee comprises 14 members of the Administrative Council and is chaired by the Council's Chairman.

** Since 1 January 2010, following the resignation of Mr. Lars Kolte, the Governing Board is chaired ad interim by the Vice-Chair, Ambassador Margaret Hennessy.*

KEY FIGURES

in million euros

	2009	2008	2007
Loans disbursed during the year	1 806	1 505	1 590
Projects approved during the year	2 665	1 861	2 414
Commitments signed during the year	2 050	1 958	2 621
Loans outstanding	12 198	12 423	12 007
Own funds (after allocation of profit)	4 887	4 718	4 754
Shareholders'equity (after allocation of profit)	1 953	1 785	1 821
Total assets	22 731	21 403	18 509
Net profit	107.0	95.8	93.3
Selective Trust Account Social dividends cumulated since the STA 's inception	99.4	93.4	93.4
Balance available (after allocation of profit)	28.7	26.4	26.1

2009

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REPORT OF THE GOVERNOR

Financial year 2009



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 and Montenegro*	*2004*
Cyprus	1962	Latvia	1998	Serbia	2004
Czech Republic	1999	Liechtenstein	1976	Slovak Republic	1998
Denmark	1978	Lithuania	1996	Slovenia	1994
Estonia	1998	Luxembourg	1956	Spain	1978
Finland	1991	Malta	1973	Sweden	1977
France	1956	Moldova	1998	Switzerland	1974
Georgia	2007	Montenegro	2007	"the former Yugoslav Republic of Macedonia"	1997
Germany	1956	Netherlands	1978	Turkey	1956
Greece	1956	Norway	1978		



CONTENTS

Membership of the CEB's organs 4
Approval of the new Development Plan for 2010-2014 8

MESSAGE FROM THE GOVERNOR 9

CEB ACTIVITIES IN 2009 12

■ **PROJECTS AND LOANS** 13
I. Key factors for 2009 13
II. Means of action 13
1. Sectoral lines of action 13
2. Financing and monitoring modalities 15
III. Projects and loans activity in 2009 16
1. Strengthening social integration 17
2. Managing the environment 25
3. Supporting public infrastructure with a social vocation 27

■ **EX POST EVALUATION** 35

■ **FINANCIAL ACTIVITIES** 36
I. Economic review of 2009 36
II. Securities portfolios 37
III. Derivatives 38
IV. Funding in 2009 38
1. Debt issuance 38
2. Trend in debt position 39
V. Profit and balance sheet 40
1. Trend in profits 40
2. Trend in the balance sheet 40

■ **CONTROL AND INTEGRATED RISK MANAGEMENT** 42
I. A structured, dynamic function 42
1. Dedicated departments 42
2. Decision-making committees 43
3. Controlling bodies 43
II. Situation at 31 December 2009 44
1. Credit risk 44
2. Market risk 45
3. Operational risk 46
III. Prudential framework 46
IV. Compliance 46

■ **ADMINISTRATION** 48
I. Human resources management 48
II. Communication 49
III. Organisation chart 50

FINANCIAL STATEMENTS 53
Financial statements 55
Notes to the financial statements 61
External auditor's report 96
Auditing Board's report 98
Approval of the accounts by the Administrative Council 99
Approval of the accounts by the Governing Board 99
Balance sheet after allocation of profit 100

NOTES FOR THE READER 3rd cover

Membership of the Bank's organs

as at 31 December 2009*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Lars KOLTE Economist, Copenhagen	**Chairmen**	**Rainer STECKHAN** Former Director of the World Bank
Margaret HENNESSY *(Acting Chair since 1 January 2010)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Ireland to the Council of Europe, Strasbourg	**Vice-Chairs**	**Inta VASARAUDZE** Deputy State Secretary, Ministry of Finance, Riga
Magarita GEGA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	**Albania**	**Sherefedin SHEHU** Deputy Minister Ministry of Finance, Tirana **Nezir HALDEDA** *(since 6 January 2010)* Deputy Minister, Ministry of Finance, Tirana
Jan DEVADDER 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 of Economic Planning, Council of Ministers, Sarajevo
Andrey TEHOV Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	**Bulgaria**	**Latchezar STEFANOV** Director of External Finance 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
Pavel HRNČÍŘ Chargé d'Affaires, Permanent Representation of the Czech Republic to the Council of Europe, Strasbourg **Tomáš BOČEK** *(since 29 January 2010)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	**Jiří FRANTA** Director, Debt and Financial Assets Management Department, Ministry of Finance, Prague
Christian OLDENBURG Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Denmark to the Council of Europe, Strasbourg **Karsten PETERSEN** *(since 18 March 2010)* 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 Development Bank" at the Council of Europe 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	**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
Paul DAHAN Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	**France**	**Sandrine GAUDIN** Head of Unit, European Strategy and Coordination, Treasury Department, Ministry of Economy, Industry and Employment, Paris
Zurab TCHIABERASHVILI Ambassador Extraordinary and Plenipotentiary, 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**	**Dimitrios GIANNOS** Director General for International Economic Policy, 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 Florian KOLFHAUS** Deputy Permanent Observer to the Council of Europe, Strasbourg **Reverend Christian GOUYAUD** *(since 18 February 2010)* 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** Deputy Director General, Department of International Relations, Ministry of Finance, Budapest
Thórir IBSEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Paris	**Iceland**	**Árni GUNNARSSON** Special Adviser in the Ministry of Foreign Affairs, 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**	**Antimo PROSPERI** Director General, Directorate VI of the Treasury Department, Ministry of Economy and Finance, Rome
Aiga LIEPIŅA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	**Latvia**	**Inta VASARAUDZE** Deputy State Secretary, 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 of the Ministry, 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

VIOLETA AGRICI Chargé d'Affaires a.i., Permanent Representation 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	**Montenegro**	**MILORAD KATNIĆ** Deputy Minister, Ministry of Finance, Podgorica
JACOBUS VAN DER VELDEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg	**Netherlands**	**JOS DE VRIES** 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**	**EVAN C. KITTELSEN** Senior Advisor, Ministry of Foreign Affairs, Oslo
PIOTR ŚWITALSKI 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**	**JOSÉ FERNANDO MORENO** Deputy Director at the Office for Strategic Planning, Economic Policy and International Affairs, Ministry of Finance, Lisbon
STELIAN STOIAN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Romania to the Council of Europe, Strasbourg	**Romania**	**BOGDAN ALEXANDRU DRĂGOI** Secretary of State, Ministry of Public Finance, Bucharest
GUIDO BELLATTI CECCOLI Ambassador, Permanent Representative of San Marino to the Council of Europe, Strasbourg	**San Marino**	**RAFFAELE GIARDI** Counsellor, Ministry of Finance, Republic of San Marino
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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Emil KUCHÁR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg	**Slovak Republic**	**František PALKO** Deputy Minister, Ministry of Finance, Bratislava
Jakob BRENČIČ Chargé d'Affaires a.i., Permanent Representation 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
Per SJÖGREN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	**Sweden**	**Anna BJÖRNERMARK** *(substitute)* Deputy Director, International Financial Institutions, 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**	**Memduh Aslan AKÇAY** Director General, General Directorate of Foreign Economic Relations, Undersecretariat of the Treasury, Ankara

GOVERNOR

Raphaël ALOMAR

VICE-GOVERNORS

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

AUDITING BOARD

Romania: Eden ALI, Vice-President of the Romanian Chamber of Financial Auditors, Bucharest
San Marino: Nicola CECCAROLI, Member of the Chartered Accountants Association of the Republic of San Marino
Turkey: Ali ACU, Senior Treasury Controller, Undersecretariat of Treasury, Ankara

Approval of the new Development Plan for 2010-2014

A new Development Plan has just been approved unanimously by the Collegial organs for the period 2010-2014. It sets forth the strategic orientations for the activity in the medium term, adopted in accordance with the operational context in which the Bank operates.

These orientations reaffirm and strengthen those set forth in the Development Plan for 2005-2009, which notably aimed to significantly increase the activity in favour of a target group of countries in Central, Eastern and South Eastern Europe[1].

The new Plan thus provides for:

- a **15% increase in the overall volume of loans** in relation to the period 2005-2009
- a **continued effort in favour of the Bank's target group countries** in order to reach up to 60% of the total loans outstanding by 2014
- **strengthened collaboration with the European Union and with donor countries** in order to increase the CEB's capacity for action and the added value of its operations.

The Councils have also reaffirmed the priority the Bank gives to **financing social public infrastructure,** whose economic and social impact has proven decisive in the current period of crisis, thus giving priority to infrastructure projects rather than to overall budgetary support. Within the framework of its mandate, this means strengthening the Bank's participation in investment programmes in the housing, education, health and municipal infrastructure sectors.

As of January 2010 and for the next five years, the CEB proposes to ensure **enhanced mobilisation of all its resources,** notably in order to:

- compensate for the drop in financing available from the private sector and from specialised financial institutions in favour of such projects
- enable its borrowers, in particular local authorities, to benefit from its expertise and specially tailored financing terms.

It will be recalled that the CEB contributes to the implementation of investment projects corresponding to the priorities and values of the Council of Europe through **three sectoral lines of action**, namely:

- strengthening social integration
- managing the environment
- supporting public infrastructure with a social vocation.

As regards support for social public infrastructure, at the outcome of the Third Council of Europe Summit of Heads of State and Government in Warsaw (2005), the CEB introduced a new sector of action relating to the financing of buildings or infrastructure intended for use by administrative and judicial public services.

The actions conducted by the Bank in the key sectors of health, education, vocational training and administrative and judicial public services provide important synergies and play a vital role not only in efforts to achieve balanced regional development, but also in supporting the rule of law and the European system of human rights protection.

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

COUNCIL OF EUROPE DEVELOPMENT BANK



Message from the Governor

In a particularly difficult environment linked to the consequences of the economic and financial crisis, during 2009 the CEB reinforced its financial leverage mission in the service of social cohesion in Europe and continued to support projects complying with the priorities and values of the Council of Europe.

2009 was first marked by the successful completion of the Development Plan for 2005-2009, whose objectives were achieved and in certain cases even exceeded. The Bank met its commitment to achieve an annual average volume of disbursements of € 1.6 billion over the 5-year period and **consolidated its actions in favour of a target group comprising 21 countries in Central, Eastern and South Eastern Europe**. Over the same period, operations in these countries made up 58% of all the loans disbursed, which was significantly more than the initial objective of 50% set forth in the Development Plan.

During 2009, **the amount of disbursements increased significantly in relation to 2008, reaching € 1.8 billion (+20%) and including € 1.4 billion in favour of the target group countries most particularly affected by the crisis**. At end 2009, the loan outstanding remained at € 12 billion and the stock of projects reached a historic level of € 4.9 billion, 67% of which was in favour of the target group countries.

The structure of the projects and loans activity reflects the CEB's commitment to serving sustainable development. The new projects and programmes approved in 2009 are spread among the Bank's three sectoral lines of actions, representing respectively 48% in favour of strengthening social integration, 37% for supporting public infrastructure with a social vocation and 15% for environmental management.

Among the high social impact initiatives it is important to mention the Bank's support for government sectoral policies in favour of education and vocational training in Germany and in Portugal, the financing of a housing project in "the former Yugoslav Republic of Macedonia" in favour of the most vulnerable population groups, support for job creation in small and medium sized enterprises in Bulgaria, Croatia and Hungary, and the Mia Milia/Haspolat "dual-community" project in Cyprus to extend and modernise the wastewater treatment and drainage installations in the Greater Nicosia Region; also of note are the Bank's enhanced support for social public infrastructure in Poland where the CEB has pursued its policy of support for the cities of Krakow, Gdańsk, Szczecin and Warsaw and for the Region of Pomerania, as well as the implementation of a project in Estonia for improving energy efficiency in housing.

Faced with the consequences of the economic crisis, the Bank fulfilled its mission in the service of social cohesion in its Member States.

The amount of disbursements increased significantly in relation to 2008 to reach € 1.8 billion (+20%)…

…including € 1.4 billion in the target group countries of Central, Eastern and South Eastern Europe.

The structure of the loans and projects activity reflects the CEB's commitment to promoting ecologically and socially sustainable development.

In spite of a particularly difficult economic and financial context, the Bank efficiently accomplished its mandate thanks to…

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

…the investor confidence it inspires…

…its cooperation with the other actors in social development in Europe...

…and its commitments in the corporate social responsibility.

The intensification of the Bank's social contribution has been made possible thanks **to its financial soundness, the continued adaptation of its means of action and its prudential risk management**, in a very uncertain international financial and economic situation.

The net profit, which reached € 107 million in 2009, remained at a high level and represented a marked increase (+ 11,7%) in relation to 2008. **Own funds this year reached almost € 4.9 billion**. The soundness of the CEB's financial base also stems from the quality of its counterparties, 86% of which were *investment-grade*-rated at 31 December 2009. In these conditions, the Bank naturally continued to comply with the prudential framework ratios introduced within the context of the medium-term Development Plan. The Bank's balance-sheet total again increased in relation to 2008 to reach € 22.7 billion.

The AAA rating, confirmed by the rating agencies Moody's, Standard & Poor's and Fitch Ratings at the outcome of a very grave financial crisis, reflects the excellent assessment of the CEB's signature on the international financial markets.

These results bear witness to the financial soundness of our Institution and to the confidence that it inspires. They are also the fruit of the mobilisation of all the Bank's staff in the service of social development and of the constant efforts deployed to strengthen the CEB's operational effectiveness.

At the same time, the Bank this year strengthened its audit and control system by creating, as of 1 September 2009, an Inspectorate General that will enhance the technical expertise of the internal audit, particularly in the field of IT security. The Bank was also active in matters of compliance and organised the 1st European Forum of multilateral development banks in this field.

The Bank's reinforced cooperation with the other actors in social development in Europe was given concrete form in 2009 by the establishment of several important partnerships, including:

- the Bank's participation, with the European Commission and other regional development banks, in the Western Balkans Investment Framework and the Neighbourhood Investment Fund, both of which will help to better coordinate the aid given to the Western Balkans and to the countries neighbouring the European Union.
- the CEB's participation, together with the European Commission and the European Investment Bank, in developing the community mechanism JESSICA, aimed at financing urban development projects
- lastly, the setting up and strengthening of trust funds, which will make it possible to increase the provision of technical assistance, in particular to the target group countries.

The funding policy continued to be conducted in accordance with the objectives defined in recent years and adjusted to the volume of activity.

In 2009, the Bank's issues with maturities of one year or more amounted to € 2.5 billion. As a result of an effort to diversify, the Bank's borrowings in 2009 were denominated in several currencies (HKD, GBP, USD, AUD, NZD, CHF).

The Corporate Social Responsibility Report, published for the first time in 2009, is an additional commitment by the CEB in favour of ecologically and socially sustainable development. Following on from the public information policy approved the previous year and the accompanying continued enhancement of the website, the report reflects the emphasis placed by the Bank on transparency well understood by all its stakeholders. In accordance with its mandate, the report confirms the constant

attention the CEB pays to implementing socially responsible financing and to the sustainable management of the Institution. **Another element that contributes to this is the performance assessment system**, made fully operational on 1 January 2009.

Lastly, **in 2009, the CEB continued to make progress in the process of in-depth reflection on the Bank's priority missions and effectiveness, carried out within the framework of the Strategic Review**. This review enjoyed the benefit of contributions from very high-level personalities. Numerous recommendations in matters of sectors of action, operational instruments and for deepening European and international cooperation have already been implemented. The review, which is such a vital exercise for the Bank, should conclude in the forthcoming months with the implementation of recommendations concerning the Bank's governance.

*

In all, 2009, like each year since 2005, fully met the priority objective set by the Development Plan for 2005-2009 to redeploy the loans and projects activity in favour of the target group countries in Central, Eastern and South Eastern Europe, based on its continuously consolidated financial structure and ever increasingly efficient system of risk management.

The world crisis has thrown millions of people in Europe into unemployment and poverty and will continue to do so. A crisis such as this can lead to serious social, humanitarian and political consequences. The multilateral banks, including the CEB, will have a key role to play in facing these challenges.

The aim of the new Development Plan, which was adopted by the Councils in 2009 and defines the framework for the Bank's activity for 2010-2014, is to respond to the challenges linked to the crisis. It notably provides for an increase in the volume of CEB activity in favour of the Central, Eastern and South Eastern European countries.

As evidenced by the quality of its results, the CEB came through 2009 well in spite of an unfavourable environment. Thanks to all the means at its disposal, the Institution is well positioned to continue to make a significant contribution to strengthening social cohesion in Europe in the forthcoming years.

Paris, 1 March 2010



Raphaël ALOMAR

The Bank achieved and sometimes even exceeded the commitments of the Development Plan for 2005-2009…

…and embarking in good conditions on the new Development Plan for 2010-2014 whose main objective is to step up the activity towards the target group countries.

CEB cooperation with the European Union

A **strategic alliance for the CEB:** following the enlargement of the European Union (EU) from 15 members to 27 between 2004 and 2007, the European Commission's geographic scope of action increasingly coincides with that of the CEB, thereby increasing potential synergies. Cooperation with the EU makes it possible to combine the Bank's loans with EU grants. It also guarantees better coordination with the other financial institutions that cooperate with the EU.

In autumn 2009, the CEB became a fully-fledged member of the **JESSICA** *(Joint European Support for Sustainable Investment in City Areas)* Steering Committee. Launched in 2006, the purpose of JESSICA is to promote the renewable use of resources made available to Member States in the form of structural funds in the urban development sector. The CEB participates in the JESSICA initiative by virtue of a *Memorandum of Understanding* (MoU), signed on 30 May 2006. The aim of this MoU is to facilitate a coordinated approach in matters of urban development.

Alongside the European Commission, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the CEB participated in the official launching of the ***Western Balkans Investment Framework*** (WBIF), on 9 December 2009 in Brussels. The WBIF is a coordination system aimed at facilitating access to European financings for the countries in the Western Balkans. It combines loans from the EIB, the EBRD and the CEB with grants from the EU, Member States as well as grants made by the EIB, the EBRD and the CEB within the framework of their respective procedures. The participation of the CEB in the WBIF comes within the framework of the MoU signed on 11 April 2006. The purpose of this MoU is to facilitate a coordinated support to countries that are candidates or potential candidates to EU accession.

The ***Neighbourhood Investment Facility*** (NIF) ***Framework Arrangement,*** to which the CEB is a co-signatory, came into effect on 21 December 2009. This text sets forth the provisions for cooperation between NIF member institutions and the Commission. The purpose of the NIF is to combine grants from the EU and donor countries (via the *NIF Trust Fund*) with loans from financial institutions, including the EIB, the EBRD and the CEB, in favour of countries eligible for support under the European Neighbourhood Policy. This collaboration comes within the framework of the MoU signed by the CEB on 13 July 2007. This MoU promotes coordination of interventions in favour of countries eligible to the European Neighbourhood Policy.

The - very favourable - conclusions of the ***Four-Pillar Compliance Assessment*** of the CEB are currently being approved by the European Commission. When this procedure has been completed, the CEB will be habilitated to disburse funds on behalf of the EU. The *Four-Pillar Compliance Assessment* is an assessment to which the EU submits any organisation likely to manage funds on its behalf.

Cooperation results between the CEB and the EU are very positive, both in quantitative and qualitative terms. At end 2009, EU grants in favour of projects financed by the Bank stood at **€ 238 million**, which facilitated associated loans worth **€ 785 million.**



40 Member States which are also:

- EU Members
- Members of EFTA/ EEA
- EU (potential) candidates
- EU neighbours
- CEB target group countries

CEB activities in 2009

Projects and loans



I - KEY FACTORS FOR 2009

In operational terms, 2009 was characterised by:

■ the conclusion of the Bank's Development Plan for the period 2005-2009, which in particular aimed at significantly increasing the activity in favour of a target group of countries of Central, Eastern and South Eastern Europe[1] (see box entitled "Summary of the achievements of the Development Plan for 2005-2009" on page 14).

■ the greater part of the projects approved were in favour of strengthening social integration (€ 1 293 million, representing 48% of the projects approved), in particular in the sectors concerned with the *improvement of living conditions in urban and rural areas, housing for low-income persons* and the *creation and preservation of viable jobs.* Moreover, projects concerned with *managing the environment* amounted to a total of € 395 million. Lastly, the Bank approved projects to support the development of public infrastructure with a social vocation in the *health, education and vocational training,* and *infrastructure of administrative and judicial public service* sectors for a total € 976 million, representing almost 37% of the total amount of projects approved.

■ several operational adaptations were made to the "Policy for loan and project financing". This reference document sets out provisions for the appraisal, approval, financing and monitoring of the Bank's projects. Thanks to these adaptations, the readability of the CEB's social mandate has been improved by better defining the scope of several CEB sectors of action, the financing instruments have been adapted to borrower needs in terms of project preparation and monitoring and the CEB's guidelines concerning environmental aspects have been clarified.

■ CEB's intensified support for social public infrastructure, namely by providing support for projects whose economic and social impact has proven decisive in the current period of crisis. Thus, in 2009, the Bank voluntarily maintained the level of its activity by intensifying its action:

- at *geographical* level, in the target group countries (see box on page 22 concerning cooperation with local and regional authorities in Poland)
- at sectoral level, in favour of large-scale investment programmes notably in the sectors of *education* (see box on page 29 concerning support for government sectoral policies on education), *protection of the environment* and *housing for low-income persons.*



CROATIA
Primary school

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.

1. Sectoral lines of action

Set up in 1956 by eight Member States of the Council of Europe[2] in order to provide solutions to the problems of refugees, the Bank has since then adapted to changes in social priorities in Europe in order to better contribute to **promoting social cohesion.**

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

Summary of the achievements of the Development Plan for 2005-2009

The Bank's Development Plan for the 2005-2009 period made provision, in particular, for:

- an increase in the CEB's action in Central and South-Eastern Europe so that 50% of the Bank's annual disbursements over the period covered by the Plan go to that target group of countries
- a reasonable growth in outstanding loans, based on average annual disbursements of a maximum of € 1.6 billion
- a relatively balanced breakdown of disbursements from 2005 to 2009 between the Bank's three sectoral lines of action
- an active policy of cooperation with other international institutions, in particular the European Union, in order to enhance the Bank's capacity for action as well as the complementarity and added value of its operations.

These operational objectives were backed up by a **strengthened prudential framework**, introduced following an extensive dialogue with the Governing Board and Administrative Council, the rating agencies and several banking supervision authorities. The new prudential framework involves **three main thrusts**:

- limiting the default risk to available own funds by linking utilisation of capital with the Bank's risk exposure; a capital adequacy ratio has been introduced
- limiting the *below investment grade* rated outstandings and hence the Bank's exposure to the highest risks
- taking probabilities of default within the loan portfolio into consideration for the calculation of the liquidity ratio

Several measures have also been proposed since the adoption of the 2005-2009 Development Plan in order to **back up the strategic priorities in favour of the target group countries**, namely:

- possibility of using the Bank's Selective Trust Account (STA) to subsidise projects in favour of countries covered by Poverty Reduction Strategy Papers (PRSPs)
- increased support for job creation in target group countries
- possibility, assessed on a case-by-case basis, of exceeding the financing share of 50% for projects in target group countries.

Against a general background of cost controls, major efforts were made in the past five years to ensure that the objectives set were achieved, while the quality of projects and their value added were increased.

Therefore, over the period from 2005 to 2009, **the CEB approved 191 projects** totalling **€ 11 916 million**, or an average amount of over € 2 billion per year (€ 1.8 billion over the period from 2001 to 2004). The increase in activity in favour of the target group countries provided for in the 2005-2009 Development Plan was significant since **the projects approved for target group countries** amounted to **€ 7 141 million**, or 60% of the total approved since 2005, with their number totalling 135.

Disbursements were in line with objectives:

- over the period from 2005 to 2009, disbursements amounted to **€ 8 101 million**, or an annual average of € 1 620 million, in line with the objectives of the 2005-2009 Development Plan.
- in keeping with the Plan's objectives, a significant share went to the target group countries, which received a total of **€ 4 724 million** over the period, or 58% of all disbursements.

Finally, a sharp rise was observed in the target group countries' share in outstanding loans:

- at the end of 2009, the outstanding loans spread over 33 countries stood at **€ 12 198 million**, representing a 13% increase over the period from 2005 to 2009 in relation to 2004.
- over the same period, outstanding loans to target group countries rose by over **50%** to reach € 5 870 million by end 2009, as against only € 2 870 million at the end of 2004.

It is in the light of these sound achievements that, for the 2010-2014 period, the CEB proposes to further enhance its social priorities, in both geographical and sectoral terms, and, in particular, to intensify its action in Central and South Eastern Europe (see box on page 8 concerning the approval of the Bank's new Development Plan for the 2010-2014 period).



The Bank's projects and loans activity is structured around three sectoral lines of action, namely: **strengthening social integration, managing the environment and supporting public infrastructure with a social vocation** (see table on page 16).

This approach corresponds to a **twofold requirement**:

- to ensure better readability of the Bank's activity by homogeneously grouping together its eligible sectors
- to reaffirm the CEB's mission in favour of sustainable social development.

2. Financing and monitoring modalities

The CEB's action mainly consists in granting loans to finance projects that are economically and socially viable (see box opposite). To achieve this, the Bank evaluates the debt sustainability of the borrower and, where necessary, of the guarantor. The Bank can also act by issuing guarantees and through the use of trust accounts (see box on page 18).

The CEB's 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

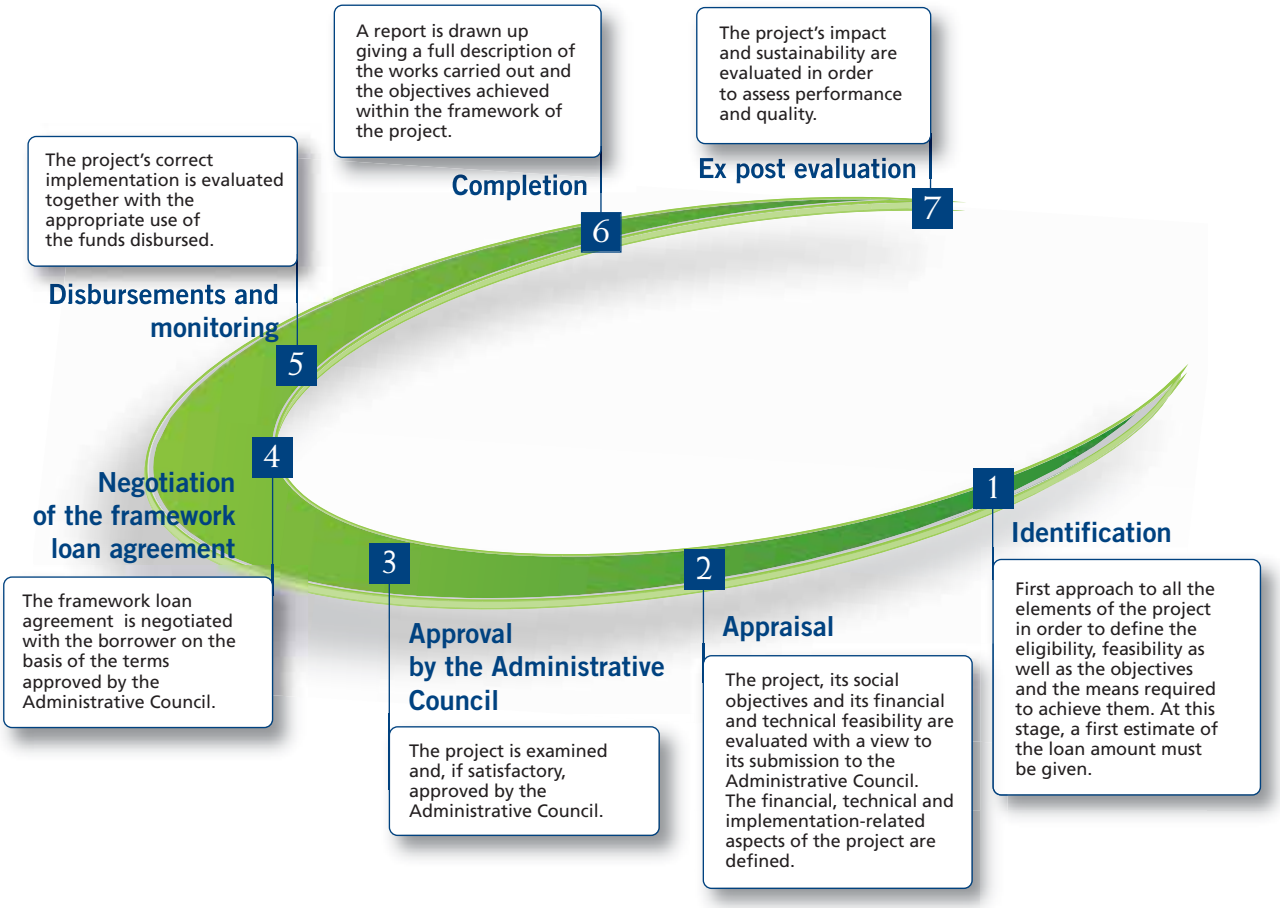
Borrowing from the CEB

The CEB can grant loans in its 40 Member States to finance projects corresponding to a certain number of sectoral, geographic, 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". This document* is the reference base for all the activities associated with the appraisal, approval, financing and monitoring of the projects presented to the Bank for financing.

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. The loan applications are submitted to the Administrative Council for approval.

* *Available on the CEB's website*
** *Governments, local authorities, financial institutions.*



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 - Improving 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 - Infrastructure of administrative and judicial public services

alleviate the constraints weighing upon access to long-term credit for projects generating positive externalities.

The CEB pays particular attention to the quality of the projects it finances, with a view to optimising their social impact. Therefore assistance and monitoring throughout the whole project cycle (see chart on page 15) are key factors for effective project implementation.

On the basis of the loan application formulated by the borrower, the Bank evaluates the project and its financing plan. To do this, a careful analysis is performed of the project's socio-economic impact, technical aspects, costs, institutional and management capacity as well as of its effects on the environment.

Once the project has been approved by the Administrative Council, a framework loan agreement is signed with the borrower. After the first disbursement, the Bank's services carry out regular monitoring and on-site visits in order to verify the physical progress of the works, compliance with costs, implementation of procurement procedures and achievement of the anticipated social objectives. A completion report is drawn up when the project is finished.

Furthermore, the Bank continues to enhance its contribution:

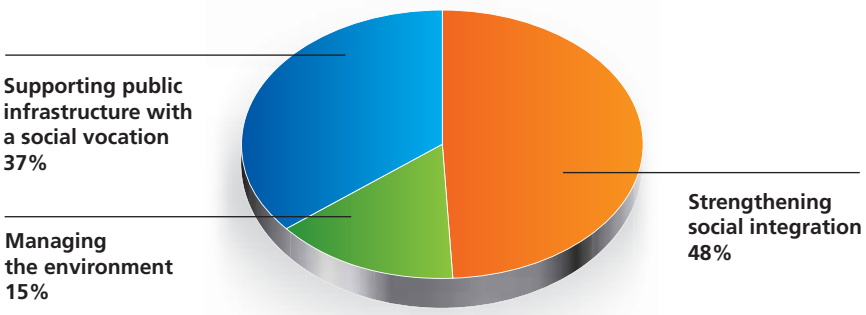
- *upstream* of projects, by introducing operational frameworks drawn up in collaboration with the countries concerned. Based on the Bank's three sectoral lines of action, these plans define, within a determined horizon, the priorities for action and investment in a given country
- *downstream* of projects, by focusing on ex post evaluation, which enables the CEB to measure the medium-term social impact of completed projects and programmes, and to improve the quality of ongoing and forthcoming projects through the learning effect.

III - PROJECTS AND LOANS ACTIVITY IN 2009

In 2009, The CEB's Administrative Council approved 36 projects, for a total amount of **€ 2 665 million**. 23 projects were approved for target group countries, for a sub-total of € 1 385 million, representing 52% of the total amount approved during the year.

Over the past five years, the CEB has approved **191 projects** amounting to an accumulated total of **€ 11 916 million** (including € 7 142 million in favour of the target group countries) representing an annual

Projects approved in 2009 - Breakdown by sectoral line of action





approval average of € 2 383 million over the period 2005-2009.

The total of the new financing commitments as at 31 December was **€ 2 050 million**, of which 65% were in favour of the target group countries.

These new operations are spread between **the Bank's three sectoral lines of action** (see the chart on page 16).

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

At end 2009, disbursements totalled **€ 1 806 million** (including € 1 385 million in favour of the target group countries, or 77% of all disbursements made during the year), spread over 120 loan tranches and 88 projects.

In the past five years, the CEB has disbursed an accumulated amount of **€ 8 100 million** (including € 4 724 million in favour of the target group countries), or an annual average of € 1 620 million over the period 2005-2009.

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

At 31 December 2009, the loans outstanding amounted to **€ 12 198 million**, spread over 33 countries.

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

The Bank's objective is to facilitate improvements in living conditions and to promote social cohesion. The sectoral breakdown of the projects approved and loans disbursed in 2009 reflects this determination.

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.

Over the past five years, this sectoral line of action represented an accumulated amount of **€ 6 565 million** in terms of projects approved (or 55% of all projects approved since 2005). For 2009 alone, project approvals amounted to **€ 1 293 million** (or 48% of all approvals).

In parallel, during the past five years, loans disbursed in favour of social integration amounted to an accumulated total of **€ 4 768 million**, or almost 59% of all disbursements made since 2005. In 2009, the Bank disbursed **€ 912 million**, including € 693 million in favour of target group countries.

Aid to refugees, migrants and displaced persons

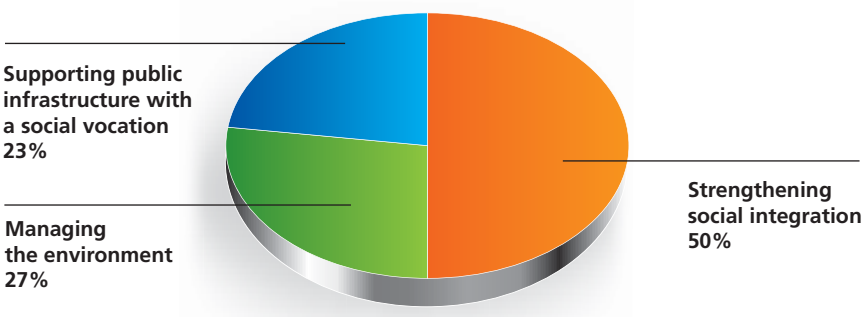
Aid to refugees, migrants and displaced persons is one of the CEB's statutory priorities. Projects financed in this sector mainly concern:

- 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
- the 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 2005, the CEB has approved a total of **€ 502 million** for new operations in this sector; disbursements made in this sector in 2009 reached a total of **€ 20 million**.

In 2009, the CEB approved a programme in **Spain** with MicroBank - Banco Social de la Caixa, following on from a previous operation approved in 2008. This programme will provide € 27 million in support of a target population that has very little or no access to traditional lending channels. The funds granted by the

Loans disbursed in 2009 - Breakdown by sectoral line of action



Creation of a new trust account: the Spanish Social Cohesion Account

Trust accounts (or trust funds) set up with certain Member States constitute a very important additional means of action for the CEB and contribute to enhancing the social added value of its operations.

In effect, the use of these accounts has proven to be of major interest for the appraisal and preparation phases of increasingly complex projects, primarily in favour of the 21 countries in Central and South Eastern Europe that comprise the Bank's target group, as well as for accompanying projects during their implementation.

For donor countries, trust accounts with the CEB represent an opportunity to contribute to social cohesion in Europe. Member countries may thus pursue their political objectives in a context of multilateral visibility with the assurance of well-targeted projects.

It is with this in mind that, on 17 September 2009, Spain and the CEB created a trust account to promote social cohesion in Europe, entitled Spanish "Social Cohesion Account".

The account will be endowed with € 2 million by Spain. In particular, it will serve to finance technical assistance for projects in the target group countries. In order to facilitate the management of this trust account, an expert in such matters is to be seconded to the Bank by the Spanish Government for an initial period of one year.

This new trust account thus comes to complement the Norway Trust Account for the Western Balkans, set up in 2003, and the Human Rights Trust Fund, set up in 2008 by Norway, the Council of Europe and the CEB and financed by Norway, Germany and the Netherlands.

CEB will make it possible to reach the targeted vulnerable populations by means of social micro-credits (granted to persons with self-employment projects in need of assistance/mentoring from "social entities" such as associations, in order to develop their business ideas) and family assistance micro-credits (loans aimed at covering households' needs and loans granted to women victims of violence, persons with disabilities and vulnerable individuals).

Following on from the **CEB's contribution to the programme of international aid** to Georgia, two donations were approved this year in favour of projects whose implementation is to be placed under the responsibility of the Council of Europe. These projects concern respectively:

- support for internally displaced persons in Georgia, for an amount of € 75 000, targeted to training social services and local administration staff on inter-community relations.
- psychological assistance for children traumatised by the summer 2008 conflict in Georgia, for an amount of € 98 000 targeted to combating the increasing violence in schools.

It will be remembered that, in September 2008, the Bank approved the allocation of € 1 million in favour of Georgia, in close cooperation with three United Nations agencies (UNHCR, UNDP and UNICEF). This donation made it possible to undertake rapid emergency operations with the different partner UN agencies.

■ Housing for low-income persons

The housing sector is an effective vector for supporting the Bank's mission to strengthen social cohesion in its Member States and to contribute to improving living conditions in urban and rural areas.

The CEB's principal activity is to finance projects aimed at providing decent housing for low-income persons and the associated infrastructure such as water supply and the collection and treatment of wastewater. To encourage an integrated multisectoral approach in its operations, the Bank also includes housing within the framework of wider sectoral issues such as, for example, in the case of the reconstruction of housing destroyed by natural disasters, the construction of medicalised accommodation for the elderly or the renovation of student residences.

Additionally, in order to further enhance the thrust of its operations in matters of housing, in 2006 the CEB signed a tripartite agreement with the European Commission and the European Investment Bank (EIB) that defines a cooperation framework for the implementation of the European Union's integrated urban development policy during the 2007-2013 period and well as implementation of the JESSICA initiative (Joint European Support for Sustainable Investment in City Areas). This agreement places the housing issue at the very heart of European urban regeneration policies.



Sustainable housing and urban development: the CEB's experience

Housing is a basic need for every human person. As a decisive factor in social cohesion, housing is a condition for access to employment and the realisation of fundamental human and social rights. Housing represents one of the main areas of expenditure of European households. Affordable and decent housing constitutes an essential part of the quality of life. The CEB possesses great expertise in the financing of projects in this field.

Endowed from its inception more than fifty years ago with an exclusively social mandate, the CEB has dedicated € 16 billion, i.e. more than half of its total lending, to housing and associated infrastructure projects. The leverage effect of CEB financing is considerable and can be estimated at a factor of 2.5, given that the amounts approved by the CEB represent on average 40% of the total volume of the actual investments. It can be therefore assumed that CEB loans of € 16 billion have mobilised € 40 billion of total investments.

Pursuing an integrated approach in its operations, the CEB brings its competence on housing to bear in a larger cross-sector perspective, such as in the case of the reconstruction of housing destroyed by natural disasters, the provision of housing for refugees, displaced persons or migrants, the provision of shelter for children in vulnerable situations, the construction of accommodation for the elderly or persons with disabilities. The financing of housing projects is also an important part of comprehensive urban renewal programmes. Finally, the CEB pays particular attention to the residential sector as a potential vector for environmental sustainability through improvements in energy efficiency.

In the years to come, demographic, socio-economic and environmental developments will have an immediate and medium-term impact on housing markets throughout Europe. Overall demand will diversify, raising significant investment needs. Environmental concerns will undoubtedly constitute a challenge in the vast majority of integrated urban renewal programmes. As a social development bank, the CEB will be expected to promote and integrate environmental and energy efficiency standards into all its activities, in particular with respect to investment in "green" housing and urban renewal.



"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"
Social housing

Co-operation with other European institutions, in particular with the European Union, will be part of the appropriate strategy as it ensures better efficiency, complementarities and sharing of experience. The CEB will also seek to strengthen co-operation with individual donor countries in order to increase external sources of financing for technical assistance. Indeed, the complexity of projects integrating housing investments with new environmental standards requires a continuously growing input in terms of technical assistance.

A full account of the Bank's historical experience to date in the field of housing is now available in the form of a study entitled "Sustainable Housing and Urban Development: the CEB's Contribution". The study also examines future trends and needs in the housing markets and provides some reflections on the CEB's activities in the coming years. The full text of the study is available on the CEB's website.



HUNGARY
Renovating housing in Budapest

Supporting employment and strengthening the productive fabric

In 2009, faced with the consequences of the crisis, the CEB lent its support to large-scale investment programmes implemented by different national development banks in the target group countries in order to support employment and strengthen the productive fabric in small and medium sized enterprises (SMEs).

Thus, among the different operations approved this year, of particular note are:

- a € 15 million programme in **Bulgaria** with the Bulgarian Development Bank (BDB) aimed at enhancing SME competitiveness. SMEs represent the major part of the country's entrepreneurial fabric and provide almost 80% of all jobs.
- a € 50 million programme in **Croatia** with the Croatian Bank for Reconstruction and Development (HBOR) to finance productive investments undertaken by SMEs throughout the country. Some 100 SME projects should thus benefit from the CEB loan.
- a € 25 million programme in **Hungary** with Magyar Fejlesztési Bank Rt. (MFB) to finance productive investments in SMEs.
- a € 100 million programme in **Turkey** with Türkiye Sınai Kalkınma Bankası (TSKB) to part-finance productive investment projects in SMEs throughout the country.

The projects financed in this sector concern the renovation, construction or rehabilitation of housing units, as well as the conversion of buildings into housing blocks to provide decent housing for low-income persons. Eligible projects can be aimed at access to home-ownership, rental housing or related infrastructure (such as water, gas and electricity supplies, collection and treatment of wastewater and solid waste, commercial premises, recreation areas); rural housing, limited to the principal residence within the framework of family-style farm holdings, is also eligible.

During the past five years, the CEB has approved projects in the housing sector for an accumulated amount of **€ 1 768 million**, or 15% of all approvals for the period 2005-2009. For 2009 alone, the CEB approved new operations for a total of **€ 470 million** (or 18% of all projects approved during the year). Disbursements amounted to almost **€ 200 million**, or 11% of all disbursements for the year.

Among the operations approved this year is a programme worth € 110 million in **Germany** with NRW.Bank that will provide funds for the financing of social needs and support for government housing policies in the Federal State of North Rhine-Westphalia within the framework of the programme entitled "Social housing and dwelling units in North Rhine-Westphalia". This government programme is targeted, in particular, to immigrant households, the disabled, the elderly, persons living in less advantaged socio-economic environments in (large) cities and families in situations of financial distress.

The Bank also approved two programmes in **Belgium** for an overall amount of € 85 million. The first programme (€ 35 million), implemented with the Public Centre for Social Action (CPAS, *Centre Public d'Action Sociale*) of the City of Brussels, will provide financing for the construction of high energy efficiency dwellings (intended in part for the elderly and the disabled) and for the renovation of a certain number of existing social dwellings. The second programme (€ 50 million), with the Walloon Housing



Fund for Large Families (FLW, *Fonds du Logement des familles nombreuses de Wallonie*), will provide co-financing for social mortgage loans in favour of large low-income families (for the purchase or renovation of their principal residence or to adapt their dwelling to the needs of the more elderly members of their family) or to implement measures aimed at improving housing energy efficiency.

In **Spain**, the Bank approved a € 50 million programme with the development company of the Autonomous Community of Castilla La Mancha, GICAMAN S.A., to part finance a social housing programme of the VPO type (*Vivienda de Protección Oficial*, Officially subsidised housing) to be implemented throughout the Autonomous Community.

In **Finland**, the CEB approved a programme worth € 100 million with the City of Helsinki that will provide financing for the renovation and construction of rental social housing situated in the Helsinki region. The aim of the programme is to contribute to meeting the acute need for additional social housing in the region around the capital despite the country's overall prosperity. It will firstly be targeted to less advantaged low-income populations in need of adequate housing, which will contribute to reducing disparities and to strengthening social cohesion.

The Bank also approved a new programme in **Ireland** with the Housing Finance Agency plc (HFA) so as to contribute to financing (€ 100 million) its *Paths to Home Ownership* programme whose aim is to support local authority investments meeting the following objectives: offer of affordable housing; shared ownership; incremental purchase of housing units owned by local authorities; purchase by the tenants, at discount prices, of housing units owned by local authorities; and low-rent housing.

Lastly, the CEB approved a € 25 million project in **"the former Yugoslav Republic of Macedonia"** to co-finance the construction of housing blocks situated in various municipalities throughout the country (see box above).

Financing a housing programme in favour of low-income populations in "the former Yugoslav Republic of Macedonia"

The Bank has approved a programme with the Government in **"the former Yugoslav Republic of Macedonia"** (€ 25 million) in the sector of housing for low-income persons.

The aim of the programme is to co-finance the construction of almost 40 housing blocks in 19 cities throughout the country. In most cases, it is planned that the municipalities shall provide the land and finance its servicing.

The CEB loan will contribute to strengthening social cohesion by providing some 1 700 beneficiary families (representing some 6 000 persons) with access to decent housing. The end beneficiaries of this new programme are low-income persons, in priority the inhabitants of areas affected by natural disasters, orphans, Roma who are threatened with social exclusion and persons with disabilities.

■ 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 (see box on page 20).

Over the past five years, the Bank has approved projects in this sector for a total of **€ 2 993 million**, or almost 25% of all project approvals during the period 2005-2009. For 2009, the projects approved amounted to **€ 323 million** (or 12% of all projects approved during the year). Disbursements in this sector amounted to **€ 452 million**, or 25% 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 € 15 million to finance productive investment projects in SMEs throughout the country.

In **Croatia**, the Bank approved a programme with the Croatian Bank for Reconstruction and Development (HBOR) for a total amount of € 50 million. The aim of this operation is to finance productive investment projects – such as the purchase of office and production premises, machinery and equipment, vehicles, office and computer equipment – undertaken by SMEs throughout the country.

The Bank also approved a new programme in **Spain** with MicroBank-Banco Social de la Caixa. This new operation, which follows on from a previous programme approved in 2008, will provide € 23 million to support employment

POLAND
Cooperating with local and regional authorities: enhanced support for social public infrastructure

Faced with the impact of the crisis in the Central and South Eastern European countries, which has brought about a reduction in tax revenue and more restricted access to the capital markets for local authorities, in 2009 the CEB continued its policy of support for local and regional authorities in Poland in their implementation of social public infrastructure projects. Five new operations representing a total of **€ 276 million** were approved in favour of the Cities of Kraków, Gdańsk, Szczecin and Warsaw and the Region of Pomerania.

The CEB loans come within a large-scale long-term investment programme aimed at making optimal use of European Union (EU) structural funds. Thus, over the period 2005-2009, the CEB's direct support to local and regional authorities in Poland reached a total of **€ 530 million**, or 38% of the total amount approved in Poland during the past five years. Through these operations, the CEB accompanies the transfer of investment and management responsibilities from central to local level.

Given the wide range of competencies of Polish local authorities, the projects financed in cooperation with this type of borrower enables the Bank to act in different sectors, in particular in improving living conditions in urban areas, developing local transport networks, cultural and sports facilities, social services structures, reception centres for children and the elderly, protection of historic and cultural heritage, education and health, infrastructure for administrative and judicial public services, protection of the environment and flood prevention.

Project objectives

The CEB's approach in matters of local authority financing consists in setting up a loan with which to co-finance the eligible investment costs covering one or several financial years, in one or several of the Bank's sectors of action.

The borrower ensures that the funds allocated by the CEB for a given year do not exceed 50% of the total cost of the eligible investment costs for that year, with the balance being covered by their own resources, EU funds and other possible loans.

For example, in 2009 the Bank approved the following loans:

- **City of Kraków** (€ 30 million): this project will provide financing for investments involving the construction, extension and renovation of public amenities, in particular in the areas of local transport networks, education and health
- **City of Gdańsk** (€ 67 million): this project will, in particular, finance cultural amenities including the construction of a European centre and museum devoted to the history of the *Solidarność* movement
- **City of Szczecin** (€ 73 million): this project will, in particular, finance cultural and leisure amenities including the construction of a philharmonic hall and a multi-purpose hall
- **City of Warsaw** (€ 49 million): this projects follows on from a previous € 75 million operation that was successfully completed. The purpose of this second project approved is to part-finance investments in the education and social services sectors, such as day care centres, schools and their sports facilities, reception centres for children and elderly persons, including a number of medicalised units
- **Region of Pomerania** (€ 56 million): this project will, in particular, finance the construction and equipment of a regional hospital and the extension of a trauma centre.

The CEB's added value and anticipated social impact

When making available stable financing adapted to the creation of public social infrastructure, the CEB contributes to the quality of the projects it finances because of its know-how in evaluating, setting up and monitoring projects in direct cooperation with local and regional authorities.

While responding to the expectations of the populations concerned, the projects carried out will contribute to improving living conditions and to achieving sustainable economic development in accordance with the EU's convergence criteria.





ALBANIA
Rural modernisation

Improvement of living conditions in urban and rural areas

The CEB takes action in urban areas in favour of rundown neighbourhoods or cities lacking in urban infrastructure and social and cultural amenities. With regards to improving living conditions in rural areas, the Bank finances projects located in regions characterised by a low population density or activities in fields such as agriculture, forestry, acquaculture 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

and to strengthen the productive fabric in the form of financial micro-credits granted to small entrepreneurs creating or expanding a micro-enterprise.

Another operation in **Hungary** with Magyar Fejlesztési Bank Rt. (MFB) will provide € 25 million to finance financing productive investment projects in local SMEs. The CEB funds will contribute to enhancing the competitiveness of the beneficiary enterprises and their ability to implement technological changes, thereby maintaining and enhancing their ability to provide populations with much needed jobs.

In **Slovenia**, a programme approved with Nova Ljubljanska Banka (NLB) will involve the financing of productive investments in SMEs (€ 50 million). The CEB funds will contribute to enhancing the competitiveness of the beneficiary enterprises, to facilitating the creation of permanent and seasonal jobs and to preserving existing jobs.

The CEB also approved a new programme in favour of the three Baltic States (**Estonia, Latvia, Lithuania**), through the Skandinaviska Enskilda Banken Group (Sweden). This programme follows on from a previous operation approved in 2007; it will provide € 60 million to finance productive investment projects in local SMEs, thus contributing to the process of economic recovery in these countries.

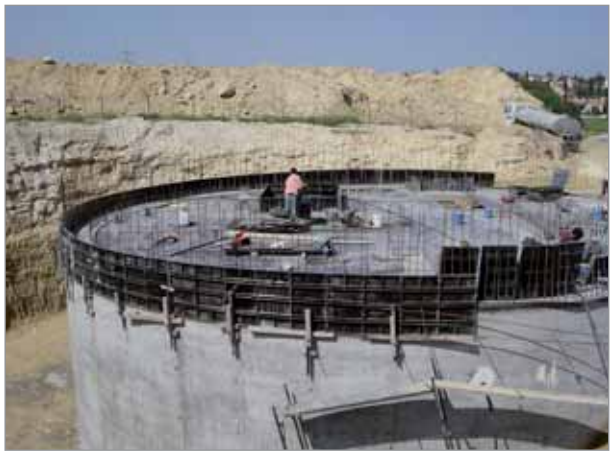
Lastly, the CEB approved a programme in **Turkey** (€ 100 million) with Türkiye Sınai Kalkınma Bankası (TSKB) involving the part-financing of productive investment projects in SMEs.

ESTONIA
Improving energy efficiency in housing

The KredEx (Credit and Export Guarantee Fund) and the CEB this year signed a loan agreement providing for € 29 million to be devoted to financing a programme in the protection of the environment sector; the loan will be targeted to financing the work of improving the energy efficiency of housing blocks built before 1993.

This operation comes within the framework of Estonia's "Operational Programme 2007-2013", under the chapter "Development of living environment". KredEx will mix grant funds from the Structural Funds (ERDF) and its own funds with the CEB loan, and channel them further through commercial banks on preferential terms to end-borrowers (housing associations, housing cooperatives or communities of apartment owners in eligible housing) with but little access to traditional financing channels.

Through this operation, which has benefited from technical assistance from KfW Bankengruppe (Germany), the CEB can contribute to improving housing energy efficiency. In effect, the project should make it possible to achieve a minimum 20% saving in energy.



CYPRUS
Pumping station in Nicosia

- local transport networks in rural areas
- basic educational and medical amenities
- socio-cultural or sports centres such as recreation areas, green spaces, exhibition halls, theatres and libraries
- irrigation networks in rural areas.

Over the period 2005-2009, the Bank approved projects to improve living conditions in urban and rural areas for a total of over **€ 1 302 million**. For 2009, the total amount of projects approved in this sector reached **€ 473 million** (or 18% of all projects approved during the year). Disbursements reached **€ 240 million**, or 13% of all disbursements made during the year.

Among these new operations, the CEB approved a project (€ 40 million) in **Albania**, implemented with the Albanian Development Fund (ADF). The main objective of the project is to improve access to essential services and economic markets by providing the population with all weathers roads. The whole project is expected to encompass between 1 000 and 1 500 km of roads (out of a total of approximately 12 000 km of secondary and local roads).

The CEB also approved a programme (€ 28.5 million) implemented with the European Union through KfW Bankengruppe (Germany) to part-finance sub-projects pertaining to the Municipal Window of the Infrastructure Project Facility (*IPF-MW*). The selected sub-projects concern environmental infrastructure, in particular in the water and water treatment sectors in **Albania**, **Bosnia and Herzegovina** and **Serbia**.

In **France**, the CEB approved a new programme with Crédit Coopératif, in line with a previous operation approved in 2007. This programme will be devoting € 10 million to financing renovation work in rundown neighbourhoods or in urban areas with insufficient social amenities (basic educational and medical infrastructure, cultural or sports centres, for example).

The Bank also approved a new programme in **Hungary** with Magyar Fejlesztési Bank (MFB), following on from a previous operation approved in 2006. Under this programme, a total of € 56 million will be allocated to financing investments in municipal infrastructure throughout the country. The CEB funds will be used to finance projects within the framework of the Municipal Infrastructure Development Loan Programme, launched by the MFB in 2004 for an overall amount of € 840 million.

A programme approved with the Government in **Latvia** will enable the Bank to devote € 25 million to financing investments to improve rural and urban infrastructure.

The Bank also approved a new programme (€ 74 million) with the Government in **Lithuania**, targeted to financing investments in public infrastructure. This operation comes within the framework of the Lithuanian National Investment Programme for the 2009-2011period, whose purpose is to finance the renovation or construction of public infrastructure throughout the country.

In addition to this, the Bank approved five new programmes in **Poland** with different local and regional authorities for a total amount of € 190 million (see box on page 22). These programmes approved with the Region of Pomerania and the Cities of Gdańsk, Szczecin, Warsaw and Krakow aim to create better conditions for local and regional economic development and to improve living conditions for the inhabitants of the beneficiary cities and regions by facilitating access to credit for the modernisation of infrastructure.

In the **Czech Republic**, the CEB approved a project with the Czech Moravian Guarantee and Development Bank (CMZRB) which will provide € 25 million to create municipal infrastructure in the areas of transport, cultural and educational amenities, and social services (social centres, day-care centres, schools, homes for the elderly, etc.).

Lastly, a programme approved in favour of the three Baltic States (**Estonia**, **Latvia**, **Lithuania**), through the Skandinaviska Enskilda Banken Group (Sweden), will target € 25 million to financing works for the rehabilitation of the road and transport networks as well as basic educational, medical and socio-cultural amenities.



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 **€ 3 058 million**. For 2009 alone, the projects approved amounted to **€ 395 million** (or 15% of all projects approved).

In parallel to this, since 2005, loans disbursed in favour of environmental management amounted to an accumulated total of over **€ 1 624 million**, or 20% of all disbursements made over the past five years. In 2009, the Bank disbursed **€ 484 million**, including € 429 million 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, more precisely, 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. As far as the prevention of natural or ecological disaster is concerned, projects concerned with the construction of water-retaining dykes are eligible on the condition that they do not involve forced movements of populations or movements of populations without adequate compensatory measures, and when provision is made for the introduction of environmental control measures.

During the 2005-2009 period, the Bank approved projects in this sector for a total amount of **€ 492 million**. In 2009, the Bank approved a total of almost **€ 3 million** in this sector and disbursements amounted to almost **€ 92 million**, or 5% of all disbursements made during the year.

Thus, the Bank this year approved a new programme in **Poland** with the City of Gdańsk that will provide almost € 3 million to finance the construction and renovation of flood-prevention infrastructure located in the city area.

CYPRUS
Project to extend and modernise the sewerage and drainage installations in the Greater Nicosia Region

The CEB approved a new project worth € 68 million in **Cyprus**, with the Sewerage Board of Nicosia, in the protection of the environment sector. The aim of the project is to finance the continuation of works for expanding and upgrading of sewerage and drainage facilities in the Greater Nicosia Area in order to improve the quality of life of the population, safeguard the economic development for one of Cyprus' main commercial and tourism centres and protect the environment as a major asset of the tourism industry.

This new project will include three components:

- **the expansion and construction of wastewater treatment facilities** (collection systems, force mains, pumping stations) in the surrounding villages not yet covered in the Greater Nicosia Area. The Anthoupolis and Vathia Gonia wastewater treatment plants will serve the area.
- **re-asphalting of the excavated roads where sewerage collection systems are being installed**
- **construction of the Mia Milia/Haspolat wastewater treatment plant** (located in the Northern part of the island) which will serve the two Cypriot communities. This new plant in the Greater Nicosia Area will make it possible to meet the projected demand for the next 10 years, in line with European Union requirements and standards on wastewater treatment and water conservation.

The project will contribute to enhance the quality of life of the targeted population, improve their economic standards, control pollution and protect the shared natural resources and, most importantly, create a concrete platform for cooperation between the two communities.

It is estimated that 300 000 people living in the municipalities of the Greater Nicosia Area will use the completed re-asphalted roads, 235 000 persons will be served by the Mia Milia/Haspolat wastewater treatment plant; and more than 60 000 inhabitants by connecting surrounding villages to the sewerage networks.



ROMANIA
Renovating historic heritage

■ Protection of the environment

The CEB finances projects that contribute to protecting and improving the environment and, thus to improving the living environment. The projects notably involve:

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

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

The initiatives that have been taken in the environmental protection sector are today widely diverse in geographical terms. Over the past five years, the Bank has approved projects in this sector for an accumulated amount of **€ 2 388 million**.

In 2009, the projects approved in favour of environmental protection amounted to a total of almost **€ 390 million**, or 15% of all projects approved, and disbursements in the sector reached **€ 354 million**, or 20% of all disbursements made during the year.

Among the new operations approved this year, the CEB approved a € 68 million project in **Cyprus** (see box on page 25). The aim of this project is to extend and modernise drainage and sewerage networks and treatment facilities in the Greater Nicosia Area (which includes Nicosia and the surrounding villages) so as to improve the quality of life of the population, preserve the economic development for one of the island's main commercial and tourism areas and protect the environment.

The CEB also approved a programme worth € 100 million in **Spain** with the Xunta de Galicia to finance investments aimed at improving the quality and reliability of the drinking water supply networks, consolidating regional water infrastructure, connecting isolated or badly supplied communities and reducing the quantity of pollutants still being discharged into receiving basins, thereby curbing environmental pollution. Over and above the anticipated general improvements and benefits, the fall-out from the project in the coastal areas affected by the oil tanker *Prestige* disaster in 2006 should be particularly substantial for the local populations who depend on fishing and agriculture more strongly than in other areas of Spain.

In **Hungary**, a new programme with Magyar Fejlesztési Bank Rt. (MFB) will provide € 14 million to finance investments in environmental infrastructure, in particular to improve the quality of drinking water, to renovate the sewerage and wastewater treatment networks, to prevent floods and protect inland waters, and to treat solid waste.

A programme approved with the City of Gdańsk in **Poland** will provide almost € 3 million to finance the construction and renovation of water management infrastructure.

Under a new programme approved in the **Czech Republic** with the Czech Moravian Guarantee and Development Bank (CMZRB), the CEB will devote € 25 million to finance the construction, upgrading and modernisation of water distribution pipelines, water treatment plants, waste water purification stations, sewerage networks and other related systems.

A new programme approved in favour of the three Baltic States (**Estonia**, **Latvia**, **Lithuania**), through the Skandinaviska Enskilda Banken Group (Sweden) will contribute € 10 million to financing projects concerned, in particular, with waste collection and treatment, modernisation of sewerage networks, and the introduction of housing energy-saving measures.

Lastly, the Bank approved a total of € 170 million to continue financing the Marmaray Project, whose objective is to improve the urban transportation system in Istanbul, **Turkey**'s largest city with over 12 million inhabitants. This



involves the provision of a rail link across the Bosphorus Strait in order to reduce the volume of commuting by road and ferry. The project consists in upgrading existing commuter railway lines along the Marmara Sea on the Asian and European sides of Istanbul and in connecting them through a railway tunnel to be built at the southern entrance to the Bosphorus Strait.

■ 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 2005-2009, the Bank approved a total of **€ 177 million** for the protection and rehabilitation of elements of historic and cultural heritage. In 2009, the Bank approved a new operation in this sector for a total of **€ 3 million**, and disbursements amounted to **€ 38 million**, or 2% of all disbursements for the year.

The programme approved in **Poland**, with the City of Krakow, will provide € 3 million to finance works for the preservation and rehabilitation of the city's historic and cultural heritage. With some 750 000 habitants, Krakow is the third largest city in Poland in terms of population, after Warsaw, the capital, and Łódź.

3. Supporting public infrastructure with a social vocation

Support for social public infrastructure in the key sectors of health, education, vocational training and administrative and judicial public services in the long term fosters more dynamic and more equitable economic and social growth for the benefit of individual self-fulfilment and collective well-being.

It will be recalled that these three sectors play a vital role in achieving balanced development and enhanced social cohesion in Europe. In effect, modern public services are essential in promoting economic growth, regional and national development in Europe, and in reducing inequalities.
During the past five years, projects approved in this sectoral line of action represented an accumulated amount of **€ 2 293 million**. In 2009, projects approved amounted to **€ 976 million**, or almost 37% of all projects approved.

In parallel to this, loans disbursed in favour of this line of action reached an accumulated total of **€ 1 707 million**, or 21% of all disbursements made over the past five years. For 2009 alone, the Bank disbursed a total of **€ 410 million**, including € 263 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 past five years, the CEB has approved operations totalling over **€ 889 million**.

In 2009, the Bank approved projects in this sector for a total of almost **€ 235 million**, or 9% of all projects approved in the year; disbursements amounted to **€ 164 million**, or 9% of all disbursements made in the year.

Among the operations approved this year, a programme in **Belgium**, with the Public Centre for Social Action (CPAS, *Centre Public d'Action Sociale*) of the City of Brussels, will provide € 15 million to finance renovation works on one part of the network of healthcare establishments and nursing homes administered by the CPAS in order to bring them into compliance with the new legislation on health infrastructure and physical accessibility for persons with disabilities.

In **France**, a new programme approved with Crédit Coopératif (see box on page 28) will provide € 70 million to finance projects undertaken by organisations and services of general interest (OSIG) involving assistance to the elderly (construction of medicalised homes for dependent persons), help for the disabled (installation of specially adapted equipment) and social assistance to persons in difficulty (purchase of premises for child welfare associations).

The CEB also approved a programme with the Government in **Hungary** that will make € 33 million available to finance health projects within the framework of the Social Renewal Operational Programme for the 2007-2013 period, partly financed by the European Union. The projects financed by the CEB loan will notably concern the development of home healthcare for less advantaged population groups, physiotherapy programmes for disabled persons and the creation of information centres on health and hygiene, training programmes for health specialists and teachers, and awareness programmes in hospitals, schools and in the workplace, screening programmes (cancer, cardio-vascular diseases) and the training of general practitioners and home nurses.



SPAIN
Renovating the Esperit Sant Hospital in Barcelona

The CEB approved a € 23 million project with the Government aimed at financing the reconstruction and rehabilitation of some twenty healthcare establishments throughout **"the former Yugoslav Republic of Macedonia"**. This project constitutes the first phase of a wider programme that will be carried out in three stages and will provide for the redevelopment, reconstruction or extension of some fifty healthcare establishments as well as for the construction of a small number of new amenities. Phase I involves renovation work. Phase II will be devoted to more complex reconstruction and extension work and Phase III will consist in rebuilding and extending Skopje University Hospital, the largest hospital in the country.

A programme approved with the Government in **Lithuania** will make € 23 million available to finance investment projects in the health sector, undertaken by the Government within the framework of its National Investment Programme for 2009-2011. This operation will provide for the renovation or construction of healthcare establishments throughout the country, such as hospitals, clinics, sanatoriums as well as healthcare equipment.

In **Poland**, the Bank is to participate in the financing of four new programmes to improve the quality of health infrastructure and services approved with various different local and regional authorities: with the Region of Pomerania (€ 19 million), with the City of Krakow (€ 900 000), with the City of Szczecin (€ 4 million) and with the City of Warsaw (€ 2 million). Through these operations, the CEB will contribute to creating better conditions for sustainable economic development and for improving the living conditions of the inhabitants of the beneficiary regions and cities, thereby strengthening social cohesion.

Continued cooperation with Crédit Coopératif to strengthen the social fabric in France

This year, the CEB approved a new programme with Crédit Coopératif that will provide € 100 million to finance social investments in the health, education and vocational training sectors as well as to improve living conditions in urban and rural areas throughout France.

This programme follows on from a previous operation approved by the Bank in 2007. Through Crédit Coopératif, the CEB funds will strengthen the long-term resources made available to organisations and services of general interest (OSIG), often organised in the form of non-profit associations, which are particularly active in several priority sectors promoting social cohesion in France.

The end beneficiaries of this project are vulnerable persons for whom the services provided by the OSIGs are intended. The projects involved will notably consist in assisting population groups such as the elderly, the disabled, sick or dependent persons, as well as young people and adults in precarious social situations. Apart from helping these people in difficulty, the investment projects in the education and vocational training sectors will more widely benefit diverse categories of the population.

Lastly, the Bank approved a programme worth € 45 million in **Portugal** with Caixa Geral de Depósitos for the part-financing of projects aimed at extending and improving coverage of the social services networks under the PARES Programme (a programme to expand the Portuguese social services network) and healthcare infrastructure under the RNCCI Programme (a national long-term care network). The actions to be financed will be implemented throughout the country. They will provide for improvements in the quality and capacity (number of users) of the services, which will have significant impact, particularly in day-care centres, individual care, housing for the disabled and the elderly, and integrated healthcare structures.



Supporting government sectoral policies in the education sector

In 2009, the support the CEB lends to the implementation of government sectoral policies steadily increased. This approach has resulted notably in the approval of several large-scale investment programmes in the education sector in which the Bank complements the financing of projects implemented by the Government or by local and regional authorities.

Thus, among the new operations approved this year in the education sector of special note are:

- two programmes approved in **Germany** with LTH - Bank für Infrastruktur for a total of € 270 million, targeted to financing social needs and to supporting the government policies in the Federal State of Hesse concerning the construction, renovation and modernisation of education infrastructure. The first operation will devote € 20 million to financing the construction, renovation and modernisation of kindergartens and similar establishments (day-care centres). The second will make € 250 million available to part-finance the Special Investment Programme "Construction of schools and universities" launched in 2008 in order to improve learning conditions for the State's pupils. This programme will provide for improvements to school buildings so as to bring them into compliance with current standards in matters of environmental protection, health and safety and to make them accessible to disabled persons.

- a programme worth € 250 million approved in **Portugal** with Parque Escolar EPE providing for the part-financing of investment costs, within the framework of the National Programme for the modernisation of equipment in state secondary schools. The CEB loan will finance an exceptional plan to modernise and improve the efficiency of 166 establishments, thus impacting 190 000 pupils and 24 500 teachers. The ultimate objective is to create more attractive spaces that can improve well being, create the necessary conditions for teaching and contribute to learning and to the quality and safety of pupils and teachers alike.

These operations in the education sector confirm the CEB's commitment to assist central or regional government authorities in implementing their sectoral policies, in accordance with its mandate and objectives to support social cohesion in Europe.

Education and vocational training

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

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

Over the past five years, the CEB has approved operations for an accumulated amount of over **€ 1 314 million**.

In 2009, new projects were approved in this sector for a total of almost **€ 716 million** (or 27% of all projects approved in the year) and disbursements reached € 241 million, or 13% of all disbursements made in the year.

Among the operations approved this year, the CEB is to participate in financing two programmes in



SERBIA
Renovating a kindergarten

Germany, or a total of € 270 million approved with LTH - Bank für Infrastruktur, which comes within the framework of the project "Promotion of Reconstruction and Equipment of Educational Institutions in Hesse" (see box on page 29).

The CEB also approved a **donation** in **Bosnia and Herzegovina** for a total of € 200 000, to provide for completion of the renovation works on the Mostar Gymnasium, a building of substantial historic, cultural and educational importance that was partially destroyed during the war in the early 1990s. The works were co-financed by a CEB loan and donations from several international donors, including six of the Bank's Member States: Germany, Italy, Netherlands, Norway, Spain and Turkey.

The CEB also approved a new programme in **France** with Crédit Coopératif. This operation will make € 20 million available to finance projects to improve the social services intended for certain vulnerable population groups such as the elderly, the disabled, children and adults facing family or school-related difficulties.

In **Hungary**, a new programme approved with the Government will devote € 62 million to financing education projects within the framework of the Social Renewal Operational Programme for the 2007-2013 period, partly financed by the European Union. The projects financed by the CEB loan will include pre-school and school programmes for vulnerable children, training programmes for the reinsertion of the unemployed, training programmes for social workers for the rehabilitation and integration into society of disadvantaged populations (the disabled, visually impaired, elderly), training for staff on initiatives devoted to crime prevention (particularly child and juvenile crime) and prevention of becoming a victim, the training of staff working for the reintegration of persons with criminal record and convicts and programmes to promote anti-discrimination, and integration measures in favour of the Roma.

A new programme approved with the Government in **Latvia** will provide € 25 million to finance loans and subsidies granted by the Government to municipalities so that they can invest in the education sector: school renovation works (in particular with a view to improving their energy efficiency), extensions and new buildings, notably elementary schools and day-care centres (that come under the responsibility of municipalities).

The CEB also approved a programme with the government in **Lithuania** (€ 33 million) to finance the construction or renovation of school buildings throughout the country, including equipment such as school buses.

Similarly, in **Poland**, a programme approved with the City of Warsaw will devote € 45 million to financing investments aimed at adapting the school and educational establishment network to demographic trends and to urban expansion (construction of new units in peripheral neighbourhoods and modernisation of existing units in central neighbourhoods). Also in Poland, the CEB is to participate in financing several programmes for improving education infrastructure approved with different local authorities: the City of Krakow (€ 900 000), the City of Gdańsk (€ 1.3 million) and the City of Szczecin (€ 4 million).

Lastly, of particular note among the operations approved in this sector this year is the Bank's participation in the financing of two new programmes in **Portugal**. The first, approved with Parque Escolar EPE, will make € 250 million available to part-finance a very important plan that should provide for the modernisation of equipment in public secondary schools throughout the country so as to improve their effectiveness, efficiency and maintenance (see box on page 29). The second programme, approved with Caixa Geral de Depósitos, will devote € 5 million to improving the quality of day-care centres and nursery schools, within the framework of the PARES Programme (*Programme for the expansion of the social facilities network*) for the protection of the most vulnerable.



Infrastructure of administrative and judicial public services

Following the 3rd Council of Europe Summit in Warsaw (2005), as of 2006 the CEB introduced a new sector of action: the financing of projects for the construction, rehabilitation or transformation of infrastructure or buildings intended for use by public services, so as to contribute to improving the organisation and functioning of the administrative and judicial public services of its Member States. Projects eligible for CEB financing in this sector must be exclusively concerned with buildings connected to national, regional or local government, or to technical agencies in which these bodies have a majority interest.

In the same spirit, on 13 March 2008, the CEB, Norway and the Council of Europe signed an agreement in Oslo setting up a Human Rights Trust Fund supported by financial contributions by Norway, Germany and the Netherlands. This Fund will provide the Bank with additional means with which to support activities such as the financing of infrastructure for administrative and judicial public services.

Since 2007, the CEB has approved 8 operations in this sector of action for a total of **€ 90 million**. In 2009, a total of € 26 million was approved for three programmes that will be implemented in Bosnia and Herzegovina, Poland and Sweden. In parallel to this, disbursements made in this sector this year amounted to **€ 5 million**.

Thus, the CEB approved a programme with the Government in **Bosnia and Herzegovina** that will provide € 19 million to finance the construction of the country's first high security prison and to make it operational and viable. Thanks to this project, significant improvements will be made to the organisation and functioning of the country's administrative and public services by increasing its prison capacity and, for the first time in a transition country, enabling the implementation of the European Prison Rules (EPR) concerning prison construction and detention conditions.

A new programme in **Poland**, with the City of Krakow, will provide € 1 million for the construction and rehabilitation of infrastructure as well as the conversion of buildings for public service use, in particular for the organisation and functioning of administrative and judicial public services.

Lastly, the CEB approved a new programme in the three Baltic States (**Estonia**, **Latvia**, **Lithuania**), through the Skandinaviska Enskilda Banken Group (Sweden) that will devote € 5 million to financing projects for the rehabilitation of public services buildings and for the purchase of ambulances and police vehicles.

■ ■ ■

In 2009, 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 loan outstanding to **€ 12 198 million** and the stock of projects awaiting financing to **€ 4 931 million** (including **€ 3 316 million** for the target group countries). Now that the Bank's Development Plan for 2005-2009 has reached its term, for the CEB this last figure naturally constitutes 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 2005 to 2009

in thousand euros

COUNTRIES	2009		Accumulated total 2005-2009	
	Amounts	%	Amounts	%
Albania	40 000	1.5	118 170	1.0
Belgium	100 000	3.7	100 000	0.8
Bosnia and Herzegovina	19 300	0.7	141 134	1.2
Bulgaria	15 000	0.6	80 000	0.7
Croatia	50 000	1.9	167 893	1.4
Cyprus	68 000	2.6	190 523	1.6
Czech Republic	50 000	1.9	115 000	1.0
Denmark			300 000	2.5
Estonia			35 000	0.3
Finland	100 000	3.8	700 000	5.9
France	100 000	3.8	550 000	4.6
Germany*	408 500	15.3	1 220 900	10.2
Hungary	190 000	7.1	1 014 000	8.5
Iceland			264 000	2.2
Ireland	100 000	3.7	210 000	1.8
Italy			987 000	8.3
Latvia	50 000	1.9	271 000	2.3
Lithuania	130 000	4.9	142 500	1.2
Moldova			18 900	0.2
Poland	275 600	10.3	1 396 700	11.7
Portugal	300 000	11.3	638 165	5.3
Romania			1 029 000	8.6
Serbia			89 600	0.8
Slovenia	50 000	1.9	150 000	1.2
Spain	200 000	7.5	907 500	7.6
Sweden**	100 000	3.7	309 000	2.6
"the former Yugoslav Republic of Macedonia"	48 350	1.8	82 850	0.7
Turkey	270 100	10.1	687 100	5.8
TOTAL	**2 664 850**	**100.0**	**11 915 935**	**100.0**

* *of which € 28.5 million for projects approved in favour of target group countries (2009)*
** *in favour of target group countries (2009)*

SECTORAL LINES OF ACTION***	2009		Accumulated total 2005-2009	
	Amounts	%	Amounts	%
Strengthening social integration	**1 293 430**	**48.6**	**6 565 392**	**55.1**
Aid to refugees, migrants and displaced populations	27 000	1.0	502 000	4.2
Housing for low-income persons	470 350	17.7	1 768 170	14.9
Creation and preservation of viable jobs	323 000	12.1	2 992 920	25.1
Improvement of living conditions in urban and rural areas	473 080	17.8	1 302 302	10.9
Managing the environment	**395 492**	**14.8**	**3 057 869**	**25.7**
Natural or ecological disasters	2 696	0.1	492 496	4.1
Protection of the environment	389 796	14.6	2 388 473	20.0
Protection and rehabilitation of historic and cultural heritage	3 000	0.1	176 900	1.6
Supporting public infrastructure with a social vocation**	**975 928**	**36.6**	**2 292 674**	**19.2**
Health	234 750	8.8	889 239	7.5
Education and vocational training	715 678	26.8	1 313 785	11.0
Infrastructure of administrative and judicial public services	25 500	1.0	89 650	0.7
TOTAL	**2 664 850**	**100.0**	**11 915 935**	**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 "Developing human capital", but now also includes the sector "Infrastructure of administrative and judicial public services"*



PROJECTS APPROVED
per counterparty, in 2009

in thousand euros

COUNTRIES	COUNTERPARTIES	SECTORS	AMOUNTS
Albania	Government	Urban and rural modernisation	40 000
Germany	KfW Bankengruppe	Urban and rural modernisation	28 500
	LTH - Bank für Infrastruktur	Education and vocational training	270 000
	NRW.Bank	Housing for low-income persons	110 000
Belgium	CPAS of the City of Brussels	Housing for low-income persons, Health	50 000
	Walloon Housing Fund for Large Families (FLW)	Housing for low-income persons	50 000
Bosnia and Herzegovina	Government	Infrastructure of administrative and judicial public services	19 300
Bulgaria	Bulgarian Development Bank	Creation and preservation of viable jobs	15 000
Croatia	Croatian Bank for Reconstruction and Development (HBOR)	Creation and preservation of viable jobs	50 000
Cyprus	Sewerage Board of Nicosia	Protection of the environment	68 000
Czech Republic	Czech Moravian Guarantee and Development Bank (CMZRB)	Protection of the environment, Urban and rural modernisation	50 000
Finland	City of Helsinki	Housing for low-income persons	100 000
France	Crédit Coopératif	Education, Health, Urban and rural modernisation	100 000
Hungary	Magyar Fejlesztési Bank Rt. (MFB)	Protection of the environment, Urban and rural modernisation, Creation and preservation of viable jobs	95 000
	Government	Education and vocational training, Health	95 000
Ireland	Housing Finance Agency plc (HFA)	Housing for low-income persons	100 000
Latvia	Government	Education, Urban and rural modernisation	50 000
Lithuania	Government	Education, Health, Urban and rural modernisation	130 000
Poland	Region of Pomerania	Urban and rural modernisation, Health	56 000
	City of Krakow	Multi-sector	30 000
	City of Gdańsk	Multi-sector	67 400
	City of Szczecin	Multi-sector	73 200
	City of Warsaw	Multi-sector	49 000
Portugal	Caixa Geral de Depósitos (CGD)	Education, Health	50 000
	Parque Escolar EPE	Education and vocational training	250 000
Slovenia	Nova Ljubljanska Banka (NLB)	Creation and preservation of viable jobs	50 000
Spain	GICAMAN S.A.	Housing for low-income persons	50 000
	MicroBank - Banco social de la Caixa	Aid to refugees, migrants and displaced populations, Creation and preservation of viable jobs	50 000
	Xunta de Galicia	Protection of the environment	100 000
Sweden	Skandinaviska Enskilda Banken (SEB)	Multi-sector	100 000
"the former Yugoslav Republic of Macedonia"	Government	Housing for low-income persons, Health	48 350
Turkey	Türkiye Sınai Kalkınma Bankası (TSKB)	Creation and preservation of viable jobs	100 000
	Government	Protection of the environment	170 100
TOTAL			**2 664 850**

LOANS DISBURSED
per country and per sectoral line of action, from 2005 to 2009

in thousand euros

COUNTRIES	2009		Accumulated total 2005-2009	
	Amounts	%	Amounts	%
Albania	21 828	1.2	52 314	0.6
Belgium	25 000	1.4	25 000	0.3
Bosnia and Herzegovina	3 395	0.2	101 191	1.3
Bulgaria	7 500	0.4	52 070	0.6
Croatia	54 010	3.0	187 762	2.3
Cyprus	102 949	5.7	309 350	3.8
Czech Republic			50 000	0.6
Denmark			300 000	3.7
Finland	50 000	2.8	610 000	7.5
France	50 000	2.8	450 000	5.6
Germany*	133 370	7.4	796 000	9.8
Greece			52 719	0.7
Hungary	324 863	18.0	890 201	11.0
Iceland	35 649	2.0	189 179	2.3
Ireland	55 100	3.0	74 870	0.9
Italy**	151 100	8.3	782 100	9.7
Latvia	25 000	1.4	175 500	2.2
Lithuania	28 000	1.5	47 914	0.6
Moldova	2 810	0.2	9 013	0.1
Norway			126 500	1.6
Poland	303 394	16.8	681 198	8.4
Portugal	51 730	2.9	124 230	1.5
Slovak Republic			7 887	0.1
Romania	206 150	11.4	489 035	6.1
Serbia	9 900	0.5	52 684	0.7
Slovenia	36 000	2.0	115 130	1.4
Spain	52 332	2.9	702 782	8.7
Sweden			203 861	2.5
"the former Yugoslav Republic of Macedonia"	12 000	0.7	24 430	0.3
Turkey	63 708	3.5	416 691	5.1
TOTAL	**1 805 788**	**100.0**	**8 099 611**	**100.0**

* *of which € 33.8 million in favour of the target group countries (2009)*
** *of which € 150 million in favour of the target group countries (2009)*

SECTORAL LINES OF ACTION	2009		Accumulated total 2005-2009	
	Amounts	%	Amounts	%
Strengthening social integration	**911 547**	**50.5**	**4 767 952**	**58.8**
Aid to refugees, migrants and displaced populations	19 550	1.1	518 941	6.4
Housing for low-income persons	199 734	11.1	1 209 219	14.9
Creation and preservation of viable jobs	451 791	25.0	2 161 430	26.7
Improvement of living conditions in urban and rural areas	240 472	13.3	878 362	10.8
Managing the environment	**484 049**	**26.8**	**1 624 198**	**20.1**
Natural or ecological disasters	92 134	5.1	352 789	4.4
Protection of the environment	353 827	19.6	1 142 934	14.1
Protection and rehabilitation of historic and cultural heritage	38 088	2.1	128 475	1.6
Supporting public infrastructure with a social vocation* **	**410 192**	**22.7**	**1 707 461**	**21.1**
Health	164 184	9.1	703 261	8.7
Education and vocational training	240 681	13.3	940 223	11.6
Infrastructure of administrative and judicial public services	5 327	0.3	63 977	0.8
TOTAL	**1 805 788**	**100.0**	**8 099 611**	**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 "Developing human capital", but now also includes the sector "Infrastructure of administrative and judicial public services"*

CEB activities in 2009

Ex post evaluation



In 2009, the Ex Post Evaluation Department (DEP) carried out evaluations in several of the CEB's sectors of action:

Job creation

The year 2009 marked the conclusion of evaluations in the field of job creation, with the finalization of two last studies. A synthesis of the 7 evaluation reports covering 12 programmes is near completion. The CEB supports investments by SMEs in Member Countries through its on-lending via financial intermediaries.

The evaluations found that, overall, the expected social objective - creation and/or preservation of viable jobs - was achieved and in some cases even exceeded, though the relevance of CEB support in the pre-crisis context that was covered was found to be on the wane (this may no longer be the case in a crisis-ridden context). Emerging issues relate to the definition and the targeting of SMEs (smaller companies or special social groups). Very broadly defined SME programmes tend to lead to lower relevance ratings at completion, while more targeted programmes with a narrower social objective have a higher value added, but may imply smaller lending volumes. In terms of job creation and preservation effects, it was found that during programme implementation, some countries actually came up against a growing shortage of skilled labour; the trade-off between number of jobs and quality of the employment fostered by loans to SMEs is a germane issue to be addressed.

CEB grants

The final four grant projects within this evaluation programme were evaluated in 2009 in two Central European countries. These projects supported ongoing activities of an international organisation and were implemented by local partners. The projects' objectives were to address the needs of refugees and/or internally displaced persons seeking to leave their emergency accommodation and start social reintegration. This was realised through the provision of building materials to enable the beneficiaries to rebuild their houses destroyed by war or complete new constructions. It was found that most final beneficiaries were indeed able to move into their homes and that the grant funds helped social integration. In one country, the evaluation revealed an adjustment of eligibility criteria during implementation.

Social housing

Three evaluations in Southern, Central and South-Eastern Europe were launched in 2009. Most fieldwork has been completed and the evaluation reports are underway. Emerging issues relate to the importance of aligning the programmes' social objectives with national social housing policies and local developments; ensuring sufficiently detailed documentation to ascertain effective social targeting; and approaching such programmes from a perspective of sustainable development principles, in particular financial sustainability at the local level.

Protection of the environment

Evaluation work began under the first constituent in this sector, namely water supply and sanitation, with two evaluations covering three projects. All three concerned the establishment of sewerage networks and treatment plants in order to improve local environmental conditions and prevent water quality degradation in the Mediterranean, which would affect the tourism sector. Findings show that the successful operation of the treatment plants resulted in maintaining bathing water quality. The evaluation highlighted issues pertaining to the financial sustainability of such investments, such as ensuring prompt connection of users to the network and stimulating income generation by broadening cost recovery from user fees and adjusted tariffs.

Rural modernisation

An evaluation of a social development fund-type project was initiated, jointly with the World Bank and KfW, which financed similar projects with the same borrower. The aim of the CEB project was to support the financing capacities of a social development fund for municipalities, which resulted in improved infrastructure investment, primarily roads and water and sanitation facilities. Pursuant to an inception mission during 2009, the cooperation will continue in 2010 to assess the outcome and impact of the local investments.

The DEP and its peers

The DEP participates as an observer member in the Evaluation Cooperation Group (ECG), which brings together the independent evaluation departments of 7 multilateral development banks and 5 observer members. Members develop common standards for evaluation work and seek greater harmonization of evaluation policies and methodologies. As one practical instrument of sharing experience, members endeavour to carry out at least one joint evaluation per year.

Financial activities

I - ECONOMIC REVIEW OF 2009

After a catastrophic year in 2008, most Northern economies emerged from recession in the third quarter of 2009. Agreement between States paved the way for large-scale concerted action that significantly helped to shore up the economy. Now, however, the sustainability of this growth is in question as the government stimulus packages draw to an end and public finances show levels of debt never reached before. The risk of the downgrading of the debt of some of the world's largest economies is forcing them to curb their spending. Consumption will therefore have to take over as the growth driver, but this is far from certain given the present situation in the employment market. Emerging economies have experienced a slowdown in growth compared with recent years, due in particular to the slump in international trade. Their recovery is nonetheless proving stronger and faster than in Europe or the United States.

Central banks have implemented extremely accommodative monetary policies keeping key financing rates very low throughout the year and introducing liquidity policies unprecedented in terms of scale. The upturn in the equity markets could prompt central banks to gradually cease the massive provision of liquidity to the markets, but in view of the present still vulnerable situation they may well pursue accommodating monetary policies in 2010. It should be noted, however, that monetary policies began to diverge towards the end of the year: key rates cut in Eastern Europe and Russia whereas Australia was the first large economy to raise its key rate against the backdrop of a marked economic recovery.

In the bond markets, the average spread on medium-term blue chip bonds against government bonds narrowed from 300bp to 80bp in 2009 in the United States and from 200bp to 70bp in Europe, revealing renewed appetite for risk among market operators.

A general rise in commodities prices enabled many emerging countries, which had been severely affected by the fall in prices in 2008, to forge ahead, as was the case for Brazil (+80%) and Australia (+30%). After slumping in 2008, the price of oil began to pick up, rising from USD 40 per barrel in January to USD 80 per barrel in December 2009. Gold regained its safe haven status, particularly in the face of a weakening dollar, as can be seen in the rise in price, which soared from USD 802.59/oz in January to USD 1,226.56/oz at the beginning of December.

The equity markets all recorded strong gains for the year as a whole, after the crash in 2008 and with volatility returning to a more normal level after a very turbulent year in 2009. Emerging country markets recorded gains of 50% on average for the year, whereas the stock markets in Northern countries gained an average of around 25%. Cyclical and financial stocks were the main drivers of the stock market recovery in the first six months of the year, while the more defensive stocks performed better in the second half.

In the foreign exchange markets, the US dollar lost ground against the euro up to the beginning of December, hitting a low at € 1 = USD 1.51 before appreciating strongly in the last month of the year, boosted by uncertainty as to the solidity of European public finances, to end 2009 at € 1 = USD 1.44. Although the JPY/USD exchange rate trend was more erratic, it confirmed the dollar's renewed attractiveness at the end of the year, ending 2009 at a level similar to that at the beginning of the year.

All in all, short-term interest rates remained extremely low, steered by ultra-accommodating monetary policies: the United States, United Kingdom and Japan maintained their key rates at close to zero throughout the year. The ECB maintained its key rate at 1.0%, leaving the EONIA overnight rate well below the reference rate. In a sharp steepening of the curve, yields on long rates rose strongly: from a low of 2.5% at the beginning of the year, the yield on 10-year T notes soared to 3.95% in June and ended the year at 3.8%, its worst performance in nearly thirty years.

Debt issued in 2009

Date of payment	Maturity date	Currency	Term	Nominal amount (in millions)	Lead manager
02/03/2009	02/03/2012	HKD	3 years	1 000	HSBC
17/04/2009	17/04/2014	HKD	5 years	200	HSBC
17/04/2009	22/04/2013	USD	4 years*	75	Royal Bank of Canada
07/05/2009	07/02/2014	CHF	4 years and 9 months	425	Credit Suisse
07/05/2009	07/02/2014	CHF	4 years and 9 months*	75	Credit Suisse
07/05/2009	07/02/2014	CHF	4 years and 9 months*	100	Credit Suisse
13/05/2009	08/12/2014	GBP	5 years and 7 months	300	Royal Bank of Canada
26/05/2009	26/05/2014	HKD	5 years	2 000	HSBC
27/05/2009	27/05/2013	AUD	4 years	300	Royal Bank of Canada Commonwealth Bank of Australia
05/06/2009	05/06/2014	USD	5 years	100	Goldman Sachs
12/06/2009	12/06/2014	NZD	5 years	150	Australia & New Zealand Bank
16/09/2009	16/09/2014	AUD	5 years	300	Commonwealth Bank of Australia Toronto Dominion Bank
16/10/2009	16/09/2014	AUD	4 years and 11 months*	200	Commonwealth Bank of Australia
27/11/2009	14/12/2015	AUD	5 years and 11 months*	400	Commonwealth Bank of Australia Toronto Dominion Bank Westpac
01/12/2009	01/12/2014	HKD	5 years	750	HSBC
11/12/2009	11/12/2013	GBP	4 years	200	Royal Bank of Canada
11/12/2009	11/12/2013	GBP	4 years*	100	Royal Bank of Canada

** new issuance of existing bonds*

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) as an alternative to bank deposits.

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

At 31 December 2009, 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 2009, the total value of this portfolio amounted to € 2.082 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 2009, the breakdown of derivatives by type of hedge was 83% for bond issuance, 14% 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 42.

To limit credit risk, the Bank has signed collateral agreements with all of its counterparties. Accordingly, at 31 December 2009 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 2009

1. Debt issuance

Subject to the annual borrowing authorisation set by the Administrative Council, the CEB issues debt in the international capital markets. In 2009, the Bank borrowed a total of € 2.5 billion in 17 financing operations, including six new issues of existing bonds with maturities of one year or more. This amount, which is lower than the volume of financing in 2008 (€ 3.3 billion), 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 2009 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 2009, 31% of the funds raised by the Bank were denominated in Australian dollars, 28% in British pounds, 17% in Swiss francs, 16% in Hong Kong dollars, 5% in US dollars and 3% in New Zealand dollars. These transactions enabled the Bank to diversify the markets in which its finances its activities and broaden its investor base.

Through its domestic Kangaroo programme in Australia, the CEB launched two new bond issues and added to two existing lines. The new issues amounted to AUD 300 million each and concerned maturities of four years and five years, respectively. New issues of existing bonds amounted to AUD 200 million for the 2014 line and AUD 400 million for the 2015 line.

In the Australian dollar market, CEB has three 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 2009, made the Australian dollar the leading currency for the CEB in terms of financing volumes and the second in terms of its total debt.

Adapting the documentation for its Australian programme to the New Zealand market, the Bank also launched a NZD150 million issue maturing in 2014.

The Bank completed three operations in the GBP market: a first issue for GBP300 million maturing in 2014 and a second issue maturing in 2013 - initially for GBP 200 million but subsequently increased by GBP

100 million to GBP 300 million. These transactions made the GBP market the second in terms of financing volumes in 2009.

In the Swiss franc market, the Bank launched an issue in three tranches totalling CHF 600 million with a maturity of 2014. The Swiss franc was the third market in terms of financing volumes in 2009.

The Bank also completed four new issues in the Hong Kong dollar market. The first concerned an issue of HKD 1 billion with a three-year maturity. The other three issues all concerned 5-year maturities, in amounts of HKD 200 million, HKD 2 billion and HKD 750 million respectively. These four issues made the Hong Kong dollar the fourth currency in terms of financing volumes in 2009.

All the financing operations carried out in 2009 were hedged with swaps thereby eliminating both interest rate and foreign exchange risks. After swap, the total amount of funds borrowed was converted into euro.

The average maturity of the issues launched in 2009 was five years, unchanged relative to 2008. The table on page 37 shows funds raised in their original currencies.

Although investor demand focused on the short portion of the yield curve in 2009, 96% of the issues carried out under the programme had end maturities of five years or more 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 2008 to adapt the legal framework of the Bank's issues to changes in financial market regulations. The AMTN (Australian programme) was updated in June 2007.

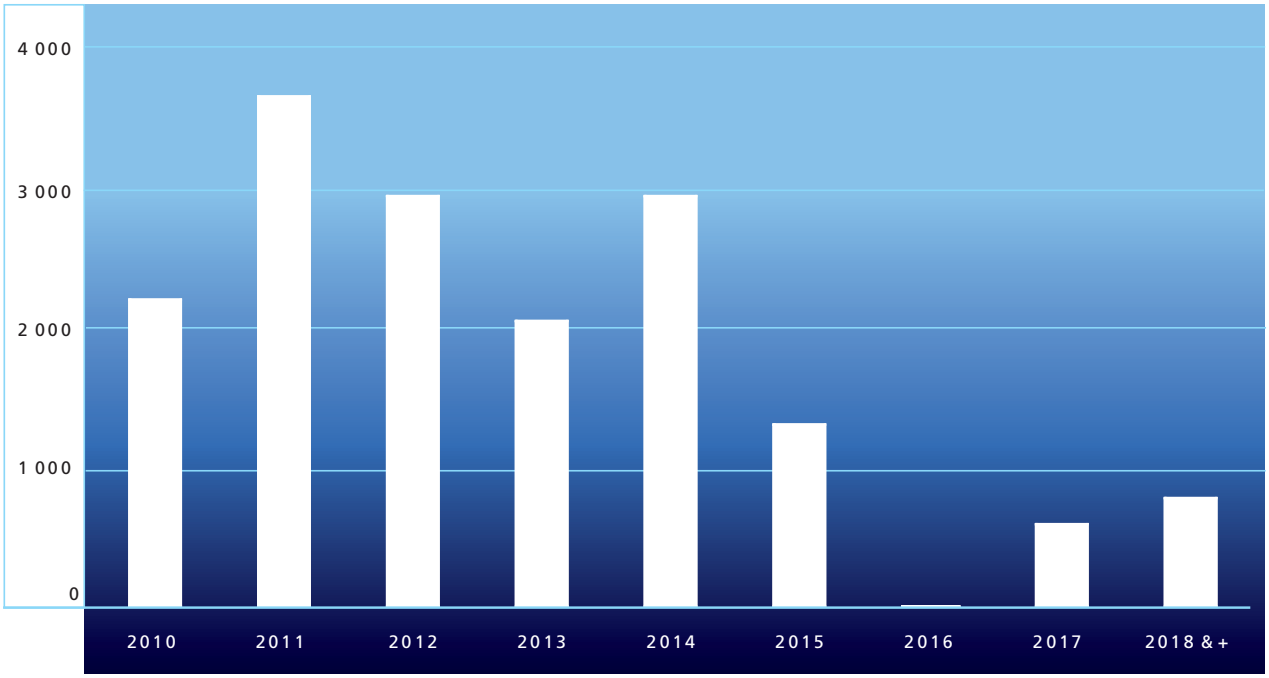
2. Trend in debt position

At 31 December 2009, the outstanding debt represented by securities, excluding interest payable, came to € 16.5 billion, up from € 14.6 billion at end 2008.

In 2009, the Bank repurchased its own debt to the value of € 76 million and made early repayments totalling € 8 million. 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 2009

in million euros



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

Against the backdrop of an ongoing economic and financial crisis, net income for 2009 rose by € 11.2 million or 11.7% to € 107.0 million compared with € 95.8 million in 2008, reflecting:

A € 12.6 million, or 10%, increase in net banking income, resulting from:

- the trend in interest rate curves (Euribor and Libor) in 2009, which facilitated a significant increase in the interest margin thanks to the more favourable interest rate differential between refinancing conditions (debt securities) and asset investment conditions (cash, loans),

and conversely,

- the negative impact of the fair value recognition of forward financial instruments and, in particular, of transactions whose hedges do not qualify as such under IFRS.

A € 1.4 million or 4.7% rise in general and administrative expenses (including depreciation), reflecting:

- higher staff costs, in accordance with the provisions of the Articles of Agreement, and due to an increase in the number of employees (150 compared with 142 at end 2008)

and conversely,

- efficient control of operating costs, which decreased slightly.

Consequently, the cost-to-income ratio (general and administrative expenses/net banking income) improved to 22.3% in 2009 compared with 23.4% in 2008.

A cost of risk charge

An additional provision for credit risk on the loan granted to an Icelandic counterparty, bringing the provisioning rate to 100% of the loan.

2. Trend in the balance sheet

At 31 December 2009, total assets came to € 22 730.6 million, up by 6.2% from € 21 403.0 million at end 2008.

Balance sheet assets

- **Outstanding loans** were down slightly, by 2.2%, year-on-year. Disbursements, of which 77% were granted to target group countries, were up by 20% from € 1 505 million in 2008 to € 1 805.8 million, while repayments came to € 2 013.9 million.
- **Cash deposits** grew by a substantial 35.6% to € 6 247.8 million compared with € 4 607.4 million at end 2008. This increase reflects 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. This resulted in

Trend in profits

in million euros

	2009	2008	Change	%
Net banking income	**138.9**	**126.3**	**+ 12.6**	**+ 10.0%**
General and administrative expenses	*- 30.9*	*- 29.5*	*+ 1.4*	*+ 4.7%*
Gross operating income	**108.0**	**96.7**	**+ 11.2**	**+ 11.6%**
Cost of risk	**- 0.9**	**- 0.9**		
Net income	**107.0**	**95.8**	**11.2**	**+ 11.7%**

2009 in an increase in available-for-sale financial assets with the highest possible ratings, and offering attractive returns.

Balance sheet liabilities

- **Debt represented by a security** increased by € 1 509.8 million, or 9.3%, taking into account issues with maturities of one year or more totalling € 2 484.6 million, repayments totalling € 1 336.8 million and the impact of their recognition at fair value for € 362 million.
- **Shareholders' equity**, including income for the year (before allocation of profit) came to € 1 958.8 million, up by 9.8% relative to 2008. This change resulted from the net income for 2009 (€ 107.0 million) and the decrease in losses recognized directly in equity on the available-for-sale portfolio, which amounted to € 103.6 million at end 2009 compared with € 170.6 million at end 2008.

Trend in the balance sheet

in million euros

ASSETS	2009	2008	Change	%
Loans	12 326	12 601	- 275	- 2.2%
Cash deposits	6 248	4 607	+ 1 641	+ 35.6%
Financial assets held to maturity	2 123	1 976	+ 147	+ 7.4%
Financial assets at fair value through profit/loss and hedging derivatives	1 610	1 983	- 373	- 18.8%
Other assets	424	235	+ 189	+ 80.3%
TOTAL	**22 731**	**21 403**	**+ 1 328**	**+ 6.2%**

LIABILITIES	2009	2008	Change	%
Debt securities in issue	17 681	16 171	+ 1 510	+ 9.3%
Treasury funds	143	152	- 9	+ 5.8%
Financial liabilities at fair value through profit/loss and hedging derivatives	2 686	2 950	- 264	- 9.0%
Other liabilities	262	345	- 83	- 24.1%
Total debt	*20 772*	*19 618*	*+ 1 154*	*+ 5.9%*
Shareholders' equity	1 959	1 785	+ 174	+ 9.8%
TOTAL	**22 731**	**21 403**	**+ 1 328**	**+ 6.2%**



Control and integrated risk management

The current financial crisis has highlighted the importance of sound risk management. On a global scale, many banks suffered from the serious imbalance of the international financial system, due in particular to inadequate risk management systems.

Long before the crisis, the CEB had established an integrated risk management system that is separate from 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 practices in the area of risk management.

Within the Central Directorate for Information Systems and Control (DCSIC), 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 and 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 when 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) programmes. 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).

Given the ongoing crisis, the Risk Management Department has reinforced its monitoring of the credit risks represented by the Bank's counterparties.

I - A STRUCTURED AND DYNAMIC FUNCTION

1. Dedicated departments

- The **Risk Management Department** identifies, assesses and manages all risks arising from the Bank's activities, resulting from both balance sheet and off balance sheet transactions. For each of the new loans, the Department analyses the operation, taking into account the counterparty's creditworthiness, outstanding transactions and country risk, and, if necessary, recommends that guarantees should 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/forex 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 protecting the Bank from operational risks; it identifies all the events that could result in operating losses; 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.
- **Information Systems Security Officer**: in line with best banking practices, in 2008 CEB created the position of Information Systems Security Officer to strengthen control in this sensitive area. In 2009, this function was transferred to Inspectorate General.

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** meets on a weekly basis to examine all aspects of the Bank's financial activity (cash management, debt, trends on the financial markets, liquidity).
- The **Funding Committee** meets once a quarter to decide the funding strategy and the pricing policies.
- The **ALM Committee** decides on the Bank's asset and liability management strategy.
- 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 department monitors the risks specific to its activity (self-assessment).

- Before they are signed, 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 *Internal Audit Department* (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.
- 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 is reviewed by the following external bodies:

- An *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 credit risk.
- In addition, the Bank is strictly assessed by the *international rating agencies,* Moody's, Standard & Poor's and Fitch, which carry out an in-depth analysis of its financial situation and long-term solidity and assign it a credit rating. In September 2009, all three agencies confirmed the top ratings (AAA/Aaa) they have consistently assigned to CEB for many years.

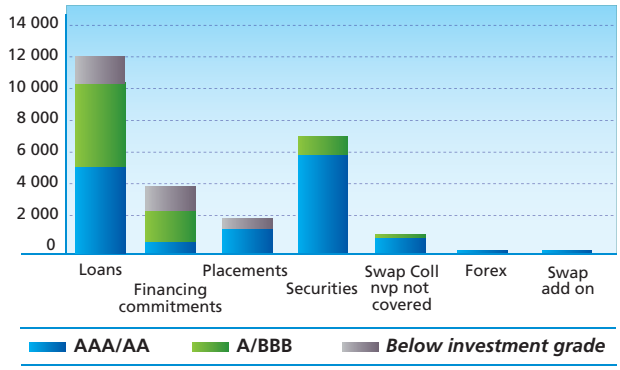
II - SITUATION AT 31 DECEMBER 2009

The CEB is exposed to different types of risks in the context of its financing project and cash management activities: 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 2009 is analysed in the chart 1).

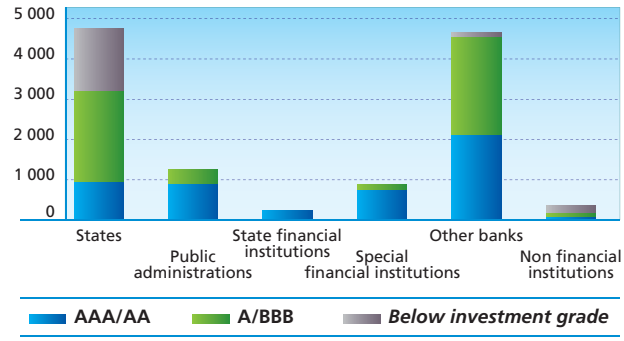
Chart 1 - Credit risk exposure *in million euros*



Loan portfolio

Loans outstanding slightly declined by - 1.7% year-on-year in 2009 to € 12.2 billion. The breakdown of credit risk by type of counterparty in 2009 was as follows: sovereign or public administrations, 59.2%; financial institutions, 38.2%; other counterparties, 2.6% (chart 2).

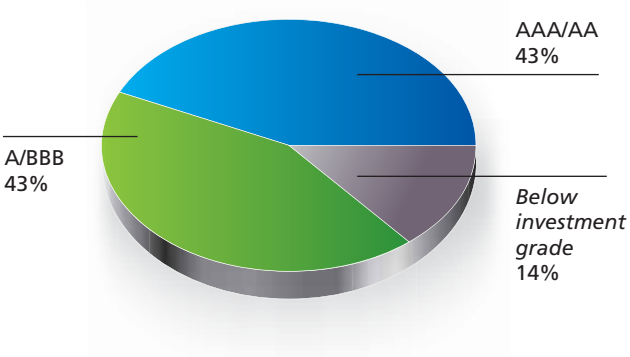
Chart 2 - Credit risk by type of counterparty *in million euros*



Credit enhancement

At end December 2009, credit enhancement in the loan portfolio allowing for a 100% transfer of risk came to € 2.7 billion versus € 2.1 billion at end 2008 and consisted of € 0.4 billion of collateral and € 2.3 billion of guarantees (see financial statements, Note B and chart 3).

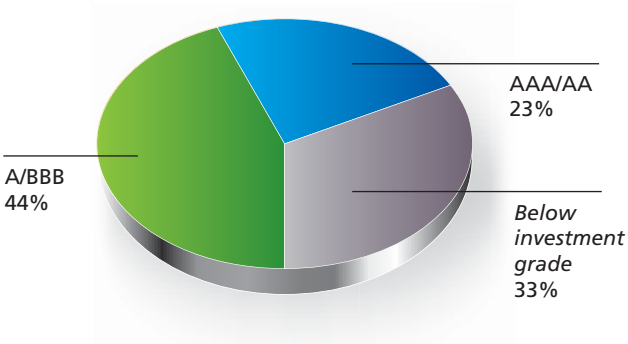
Chart 3 - Risk profile of the loan portfolio



Financing commitments

Financing commitments correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. In 2009, financing commitments increased by 4.5% to € 3.6 billion at year end from € 3.4 billion at the end of 2008. In terms of credit risk, the quality of the financing commitments remains satisfactory with 66.9% of counterparties rated investment grade compared with 61.6% at end of 2008 (see financial statements, Note B and chart 4).

Chart 4 - Risk profile of the commitments

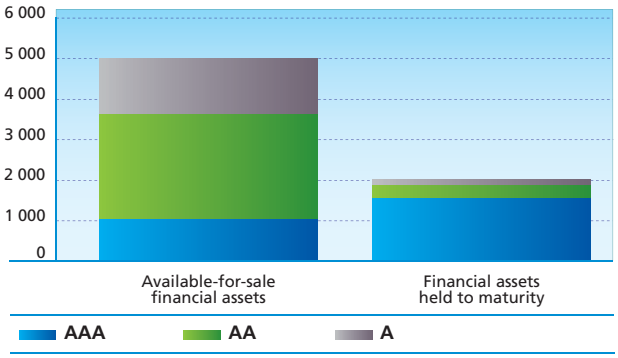


Securities portfolios

The Bank manages two securities portfolios: financial assets held to maturity and available-for-sale financial assets (see page 37, Financial Activities). The breakdown by rating of each portfolio's assets at 31 December 2009 is shown in the chart 5 (see financial statements, note B).

Chart 5 - Credit risk of securities portfolios

in million euros



Derivatives

The CEB uses derivatives to hedge the interest rate and foreign exchange risk on its financing and treasury activities (see page 38, 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.

As at 31 December 2009, the entire of the outstanding derivatives was collateralised, versus 99.98% in 2008 (see financial statements, note B).

Large exposures

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 equity. For this purpose, the CEB defines equity 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 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 equity as defined above, and that the cumulative total of large exposures does not exceed 800% of said equity.

As at 31 December 2009, total outstanding on counterparties representing large exposures amounting to € 4.6 billion or 110% of the Bank's equity (see financial statements, note B).

2. Market risk

Interest rate and currency risks

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.

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 Bank uses derivatives to hedge against interest and currency risks on its financing and treasury 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. In sum, the interest rate risk in the CEB's balance sheet is limited to the portfolio of fixed-rate financial assets held to maturity, backed by the Bank's usable capital, plus the cash balance of the Selective Trust Account (STA) and provisions for post-employment benefits.

With reference to currency 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 per currency. As at 31 December 2009, the net open position was almost nil (see financial statements, note B).

Liquidity risk

The liquidity risk 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 3 years (see financial statements, note B).

As at 31 December 2009, the strengthened liquidity ratio stands at 102.2% down from 103.7% at end 2008.

3. 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 Basic Indicator Approach (BIA) method is adopted to calculate the operational risk charge against the Bank's equity. As at 31 December 2009, the operational risk amounted to € 19.4 million, up from € 18.2 million at end 2008 (see financial statements, note B).

III - PRUDENTIAL FRAMEWORK

In parallel with the 2005 - 2009 Development Plan and in order to define a precise framework for its new strategic guidelines, the Bank has defined a prudential framework based on 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 and is based principally on the following ratios:

■ Capital adequacy ratio

This ratio limits default risk to usable capital.

CAPITAL ADEQUACY RATIO =

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

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

The limit is fixed at 100%. This ratio was 20.3% at end 2009 compared with 20.4% at end 2008.

■ Risk asset coverage ratio

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

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 66%, i.e. € 2.8 billion. At end December 2009, this ratio stood at 40.5% versus 33.1% at end 2008.

■ Other prudential ratios

- **Indebtness ratio**: this ratio is obtained by dividing total debt by total equity in its broadest sense (subscribed capital, reserves, gains or losses recognised directly in equity, profit for the year). Year-on-year, this ratio rose from 3.66 at end 2008 to 3.80 at end 2009, with a limit of 4.
- **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 in its broadest sense (subscribed capital, reserves, gains or losses recognised directly in equity, profit for the year). At end 2009, this ratio came to 1.79 versus 1.45 at end 2008, with a limit of 2.

IV - 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.

In addition to its current activity, the most significant achievements of the Compliance Department are listed below.

The Compliance Department has drawn up the "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 set up cooperation with the different international bodies responsible for the fight against corruption, fraud and money laundering (OLAF - the European Anti-Fraud Office, Moneyval – the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering and Anti-Terrorist Financing Measures, and GRECO - the Council of Europe Group of States against Corruption, etc.) in order to establish strengthened cooperation and to participate in the work of these Council of Europe and EU institutions.

The Compliance Department undertook to review and update the Code of Conduct so as to enable it also to apply to the CEB's Collegial organs, including the Auditing Board. 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) were thus approved by the Councils in 2009. Among the most important subjects, the following are of particular note: the new rules concerning conflicts of interests and external activities; gifts and other favours or invitations received from outside; the policy on insider information; and the policy on reporting for cases of fraud, corruption and money laundering.

Following the signing, in 2006, by the major MDBs of a "Joint Statement on the Uniform Framework for preventing and combating fraud and corruption", the Governor of the CEB issued a Declaration reaffirming his attachment to the common principles and actions set out in the "Joint Statement" and confirming his determination to participate in the joint efforts of the other IFIs in these matters.

The Compliance Department has also set up a network of stable relations with those responsible for questions of integrity in the other IFIs. The CEB has become officially associated with the Integrity Forum Group, which brings together all those responsible for Integrity (Compliance and Investigation) in European MDBs. In 2009, the Chief Compliance Officer was invited to participate in these meetings, notably the MDBs Integrity Forum and the Conference of International Investigators.

Moreover, the Compliance Department 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 the respective approaches with a view to standardising and simplifying their working methods. The First European MDBs Compliance Forum, which was 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 application of anti-money laundering and anti-terrorist financing standards.

Lastly, the Compliance Department has drawn up "Guidelines on handling requests from the public relating to the Bank's operations in the field of procurement", aimed at providing the CEB with quite a complete framework for dealing with requests made to it by participants in the bids 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 in 2008 and the prospects for 2009 are the subject of the Annual Compliance Report, drawn up for the intention of the CEB's organs.

Setting up an Inspectorate General and strengthening Internal Audit means of function

In order to ensure that the Bank has a permanent up-to-date control framework, in accordance with rapid developments within the Information Technology and following a recommendation by the Auditing Board to reinforce Internal Audit IT-expertise, it has been decided to establish an Inspectorate General combining two basic independent control pillars: the Internal Audit Department and the System Security Control function.

The Inspectorate General became fully operational as of 2010.



Administration

I - HUMAN RESOURCES MANAGEMENT

Steady increase in staff numbers and diversification of nationalities

In order to accompany the sectoral and geographical redeployment of its activity, to adapt its instruments for action to the expectations of its Member States and to comply with ever increasingly rigorous operational standards, the CEB has regularly increased its staff numbers in recent years.

Thus, with staff increases averaging 5% per year between 1994 and 2009, the CEB has more than doubled its payroll. In addition to this, the number of nationalities represented among the Bank's staff increased from 14 in 1994 to 26 by end December 2009, which bears witness to the diversification effort undertaken in this field. Thus, for 2009 alone, the Bank recruited 14 different nationalities.

At the same time, particular attention was paid to the question of gender parity among the staff which, at end December 2009, stood at 51% women and 49% men.

Modernisation of human resources management methods

2009 was the second year of human resources management under the new Staff Regulations, approved by the Administrative Council in November 2007 and effective as of 1 January 2008.

The introduction of "functions" at the Bank was one of the essential measures contained in the modernisation of the Staff Regulations. The introduction of the notion of "functions" makes it possible to replace temporary staff contracts by offering fixed-term contracts covered by clearly defined rules.

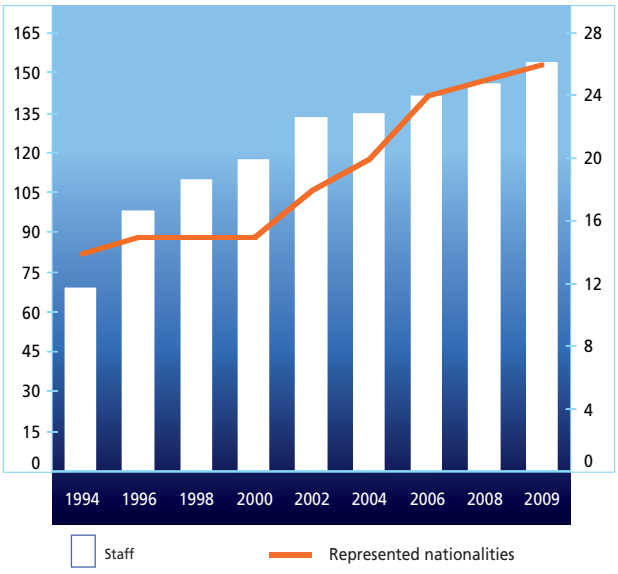
The replacement of temporary posts by functions will be definitive as of 1 January 2011, at the end of a 3-year transition period, established in order to be able to take the necessary budgetary measures. These made it possible to proceed with the first recruitment of staff members on functions as of 2009.

In addition to this, in 2009 the Bank undertook to group posts and functions into "grade bands" so as to better reflect the responsibilities of its staff members and to enjoy the benefits of more modern and flexible human resources management.

The aim of this reform is to group the grades into five grade bands. Once it is effectively in place, this new system should make it possible to achieve a twofold objective:

- at budget level, to provide the necessary tools for, in the long-term, better controlling the wage bill
- in terms of human resources policy, to show more transparency in career development possibilities and more homogeneity in the classification of activities.

It will be recalled that the CEB is statutorily bound to apply the system of remuneration, allowances and benefits applicable at the Council of Europe, which is itself a member of the Coordinated Organisations; that system is based on a scale of 24 grades for 4 different staff categories.





II - COMMUNICATION

The Bank has acquired a large capital of confidence with the actors most closely linked to its activity: lenders, borrowers and other international organisations. At the same time, as a public institution, it endeavours to be appropriately accountable for its activity to all its stakeholders. The priorities central to the CEB's information and communication policy are thus to consolidate the Institution's reputation and to place emphasis on fair transparency.

To achieve this, in 2009 the Bank continued to further the initiatives undertaken to promote its action in favour of sustainable development in Europe. The content of the Institution's web site, modernised the previous year, was further enriched according to the guidelines fixed by the public information policy. Diffusion of the film presenting the CEB is now possible in languages other than the Institution's two official languages. Communication on projects is given particular attention throughout the whole project cycle, from the appraisal stage up to completion; indeed, a special effort has been made with regard to the framework loan agreement which now contains a systematic "visibility clause" also committing the borrower in this communication approach.

Moreover, in 2009 the CEB published its first report on corporate social responsibility (see box) in order to shed additional light on how the Institution operates in the service of socially and ecologically sustainable development.

Naturally, while taking into consideration the means available to it, the Bank will in the future be continuing to adapt its communication tools and to implement targeted initiatives for the sake of well understood transparency and visibility.

The CEB's Corporate Social Responsibility Report

The key word of responsibility underpins the way the Bank acts: responsibility to its shareholder Member States, of course, and, more widely, responsibility to all its stakeholders.

The publication of this first Corporate Social Responsibility Report (CSR) thus responds to a priority objective: to be accountable to the general public for the CEB's overall contribution to socially and ecologically sustainable development. Moreover, it is in a way the *raison d'être* of IFIs, in accordance with their respective specific characteristics, to reconcile market efficiency and the collective interest in order to keep the promise of more viable, liveable and equitable globalisation - a requirement rendered all the more acute in view of the crisis.

Faithful to the Institution's own mandate, the report underlines the constant quest for a fair balance between deeper commitment to the CEB's social mission and the banking nature of its activity, between the search for projects with a high social added value and rigorous risk management. The report also defines itself as a further commitment to transparency as much as a new communication and information tool.

In summary, the document is structured into three successive parts:

- first, the Institution itself: "CEB: the naturally social European bank", a title that refers back to the title of the film about the Bank
- then, its projects and loans activity: "Socially responsible financing"
- lastly, the Bank's functioning: "Sustainable management of the Institution"

In all, this report on corporate social responsibility not only reflects the efforts deployed by the CEB in the service of sustainable development, but also represents a further step towards progress in this direction, in the appropriate conditions.





THE MANAGEMENT TEAM

In front: **Raphaël ALOMAR**, Governor
First row, left: **Apolonio RUIZ-LIGERO,** Vice-Governor; *right,* **Nunzio GUGLIELMINO,** Vice-Governor Delegate; **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; **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

DIRECTORATE GENERAL FOR LOANS
Thierry Poirel
Stephan Sellen, dep.

OPERATIONS SUPPORT
Melanie Wieschollek-Lacroix

PROJECTS
Théodore Ivanov

COUNTRY MANAGERS

Sylvie Anagnostopoulos: Croatia, Greece, Malta

Valeriu Cosuleanu: Romania, "the former Yugoslav Republic of Macedonia"

Laszlo Lengyel: Bulgaria, Cyprus, Hungary

Michael Lixenfeld: Denmark, Liechtenstein, Luxembourg, Netherlands, Switzerland

Rainer Lovato: Germany, Holy See, Italy, Portugal, San Marino, Slovenia

Makedonka Mateska: Moldova, Montenegro

Christophe Mroz: Poland

Vitomir Raguz: Bosnia and Herzegovina, Georgia

Eva Schwebel: Czech Republic, Slovak Republic

Holger Seifert: Belgium, France, Ireland

Marja Seppälä: Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Cristian Tabacaru: Albania, Serbia

Elif Timur: Turkey

Arnaud de Verdière *a.i.*: Spain

TECHNICAL ADVISORY DIRECTORATE
Roberto Cacciola

TECHNICAL ADVISORS

HOUSING AND URBAN RENOVATION
Dorota Blazejewicz

HEALTH INFRASTRUCTURE OF ADMINISTRATIVE AND JUDICIAL PUBLIC SERVICES
Karina Quintar Ferrer

INFRASTRUCTURE
Baris Trak

ENVIRONMENT
Anton Spierenburg

PROJECT ECONOMIST
Victor Agius

EDUCATION
Yaël Duthilleul

PROCUREMENTS
Kitty Villani-Haman

FINANCIAL DIRECTORATE
Jacques Mirante-Péré

TREASURY
Michel Semertzidis

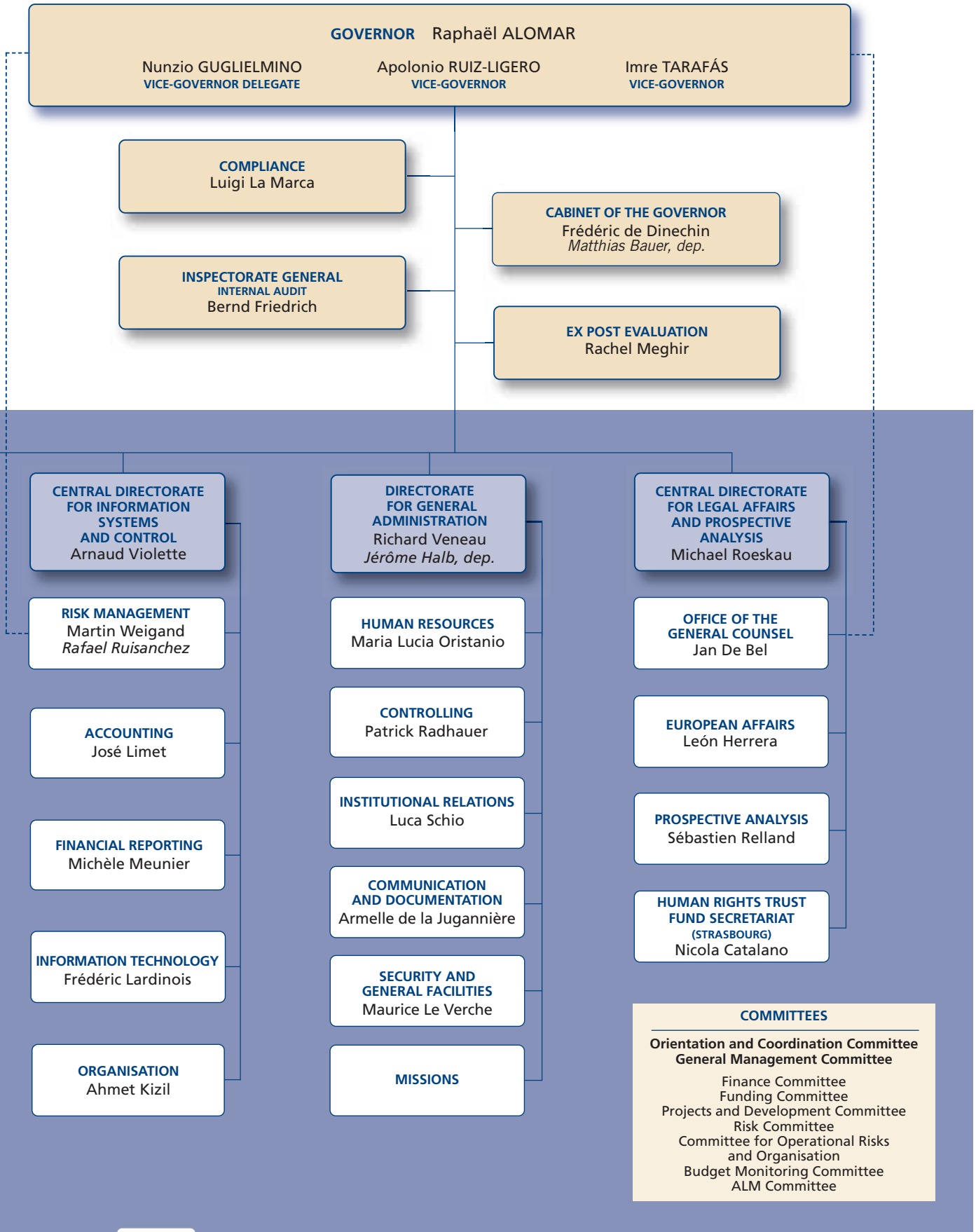
FUNDING
Arturo Seco Presencio

ALM
Isabelle Damez

MIDDLE-OFFICE
Alain Sayagh

BACK-OFFICE
Ioannis Velvitsanos

III - ORGANISATION CHART



February 2010

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR

Financial Statements 2009



CONTENTS

FINANCIAL STATEMENTS 55

The Bank's objectives 56
Sectors of action 56
Balance sheet 57
Income statement 58
Statement of comprehensive income 59
Statement of changes in equity 59
Statement of cash flows 60

NOTES TO THE FINANCIAL STATEMENTS 61

Note A - Summary of principal accounting methods applied by the Bank 61
Note B - Financial risk and capital management68
Note C - Financial assets and liabilities 79
Note D - Hedging derivatives 80
Note E - Securities portfolio 80
Note F - Loans and advances to credit institutions and to customers 81
Note G - Fixed assets 84
Note H - Amounts owed to customers and debt securities in issue 85
Note I - Selective Trust Account (STA) 86
Note J - Provisions 89
Note K - Capital 91
Note L - Interest margin 92
Note M - Net gains or losses from financial instruments at fair value through profit and loss 94
Note N - Net gains or losses from available-for-sale financial assets 94
Note O - Commissions and other net expenses 94
Note P - General operating expenses 95
Note Q - Cost of risk 95
Note R - Other information and post-balance sheet events 95

EXTERNAL AUDITOR'S REPORT 96

AUDITING BOARD'S REPORT 98

APPROVAL OF THE ACCOUNTS BY THE ADMINISTRATIVE COUNCIL 99

APPROVAL OF THE ACCOUNTS BY THE GOVERNING BOARD 99

BALANCE SHEET AFTER ALLOCATION OF PROFIT 100

FINANCIAL STATEMENTS
prepared in compliance with IFRS adopted by the European Union

The Bank's objectives

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

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

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

Sectors of action

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

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

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

- Strengthening of social integration

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

- Management of the environment

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

- Supporting public infrastructure with a social vocation

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

Balance sheet

in thousand euros

Assets	Notes	31/12/2009	31/12/2008
Cash in hand, balances with central banks		386 883	194 275
Financial assets at fair value through profit or loss		314 346	289 582
Hedging derivatives	D	1 295 361	1 693 822
Available-for-sale financial assets	E	4 965 778	2 628 227
Loans and advances to credit institutions and to customers			
Loans	F	12 326 370	12 601 277
Advances	F	1 281 996	1 979 204
Financial assets held to maturity	E	2 123 226	1 975 983
Fixed assets	G	31 215	31 738
Other assets		5 405	8 932
Total assets		**22 730 580**	**21 403 040**
Liabilities			
Financial liabilities at fair value through profit or loss		2 312 949	2 515 544
Hedging derivatives	D	372 974	434 793
Amounts owed to customers	H	67 747	73 281
Debt securities in issue	H	17 680 780	16 171 014
Other liabilities		188 047	277 269
Selective Trust Account (STA)	I	75 420	78 684
Provisions	J	73 891	67 726
Total liabilities		**20 771 808**	**19 618 311**
Capital	K		
Subscribed		3 303 450	3 303 450
Uncalled		(2 933 712)	(2 933 712)
Called		369 738	369 738
General reserve		1 585 587	1 489 760
Gains or losses recognised directly in equity	E	(103 602)	(170 596)
Net profit for the year		107 049	95 827
Total equity		**1 958 772**	**1 784 729**
Total liabilities and equity		**22 730 580**	**21 403 040**

Income statement

in thousand euros

	Notes	2009	2008
Interest and similar income			
Available-for-sale financial assets		58 532	131 029
Loans and advances to credit institutions and to customers*		259 042	678 415
Financial assets held to maturity		88 524	92 554
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(5 404)	(8 589)
Debt securities in issue		(255 836)	(767 179)
Other interest expenses and similar charges		(3 377)	(3 098)
Interest margin	**L**	**141 481**	**123 132**
Net gains or losses from financial instruments at fair value through profit or loss*	M	(1 225)	4 665
Net gains or losses from available-for-sale financial assets	N	183	(626)
Commissions and other net expenses**	O	(1 573)	(914)
Net banking income		**138 866**	**126 257**
General operating expenses**	P	(29 081)	(27 898)
Net depreciation and amortisation charges of fixed assets	G	(1 823)	(1 623)
Gross operating income		**107 962**	**96 736**
Cost of risk	Q	(913)	(909)
Net profit		**107 049**	**95 827**

** The net interest related to foreign exchange swaps is recorded under "Interest margin" since 1 January 2009. This classification allows isolating the impact of the fair value of financial instruments, excluding accrued interest, under the heading "Net gains or losses from financial instruments at fair value through profit or loss" and has no impact on the amount of the "Net banking income". Pro-forma reclassification was performed on 31 December 2008 (€ 5 150 thousand) between the "Net gains or losses from financial instruments at fair value through profit or loss" and "Loans and advances to credit institutions and to customers" headings.*

*** The Bank's expenses related to debt securities (rating, consulting, audit, legal) are classified under "Net banking income" since 1 January 2009. Pro-forma reclassification was performed on 31 December 2008 (€ 496 thousand) between "General operating expenses" and "Commissions and other net expenses" headings.*

Statement of comprehensive income

in thousand euros

	2009	2008
Net profit	**107 049**	**95 827**
Changes in value of available-for-sale financial assets	68 024	(131 346)
Changes in value of available-for-sale financial assets recognised in the income statement for the period	(1 030)	(437)
Changes in value of assets and liabilities recognised directly in equity	**66 994**	**(131 783)**
Total	**174 043**	**(35 956)**

Statement of changes in equity

in thousand euros

	Called capital	Reserves and result	Gains or losses of available-for-sale financial assets recognised directly in equity	Total equity
Equity as at 1 January 2008	**369 738**	**1 494 760**	**(38 813)**	**1 825 685**
Appropriation of profit for the 2007 financial year		(5 000)		(5 000)
Profit for the 2008 financial year		95 827		95 827
Changes in value of assets and liabilities recognised directly in equity			(131 783)	(131 783)
Equity as at 31 December 2008	**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**

Statement of cash flows

in thousand euros

For the year ended 31 December	Notes	2009	2008
Profit for the year		**107 049**	**95 827**
+/- Net depreciation charges of tangible and intangible fixed assets	G	1 823	1 624
+/- Net provision charges		913	909
+/- Net loss/net profit from investing operations		3 035	3 160
+/- Other movements		(13 051)	(23 066)
Total of non-monetary items included in the result		**(7 280)**	**(17 373)**
+/- Cash flows related to operations with credit institutions and customers		202 571	(370 760)
+/- Cash flows related to other operations affecting financial assets or liabilities		(2 458 902)	(564 581)
+/- Cash flows related to operations affecting non-financial assets or liabilities		(100 426)	229 477
Net decrease /(increase) of assets and liabilities resulting from operating activities		**(2 356 757)**	**(705 864)**
Total net cash flows from operating activities (a)		**(2 256 988)**	**(627 410)**
+/- Cash flows related to financial assets held to maturity		(148 376)	(11 320)
+/- Cash flows related to tangible and intangible fixed assets	G	(1 300)	(2 901)
Total net cash flows from investing operations (b)		**(149 676)**	**(14 221)**
+/- Cash flows from/to Member States		3 797	9 001
+/- Net cash flows from financing operations		1 905 518	1 856 134
Total net cash flows from financing operations (c)		**1 909 315**	**1 865 135**
Effects of changes in foreign exchange rates on cash and cash equivalents (d)		**(390)**	**11 294**
Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**(497 739)**	**1 234 798**
Cash and cash equivalents at the beginning of the financial year		**2 166 256**	**931 458**
Cash in hand, balances with central banks		*194 275*	*185 983*
Loans repayable on demand and term deposits with credit institutions	F	*1 971 981*	*745 475*
Cash and cash equivalents at the end of the financial year		**1 668 517**	**2 166 256**
Cash in hand, balances with central banks		*386 883*	*194 275*
Loans repayable on demand and term deposits with credit institutions	F	*1 281 634*	*1 971 981*
Changes in cash and cash equivalents		**(497 739)**	**1 234 798**

Financing activities consist of cash flows arising from debt securities in issue.

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.

In 2008 and 2009, the Bank did not apply the amendment to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008 regarding reclassification of financial assets.

In the financial statements at 31 December 2009, the Bank applies the provisions of IAS 1 revised and therefore presents a new "Statement of comprehensive income". Other standards that came into force, in particular IFRS 8 "Operating segments" and the amendment to IFRS 7 related to improving disclosures about financial instruments, did not have significant impact on the financial statements at 31 December 2009.

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 2008 and in 2009.

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 discretion 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 adjustments resulting from this foreign currency 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

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 original 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 "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 "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 "Interest and similar income" in the income statement. Dividends received from variable-rate securities are recorded under "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 "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 "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 in the 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 to 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. Derivatives

All derivatives 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

Derivatives are by default considered to be transaction instruments, except if they can qualify as hedging instruments. They are recorded in the balance sheet under "Financial assets at fair value through profit or loss" in cases of positive market value and under "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 "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 used and the evaluation method which will be employed in assessing the retrospective and prospective effectiveness of the hedge.

The hedging derivative 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, derivatives are revalued in the balance sheet at their fair value, whilst fair value variations are recorded in the income statement under "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 transfered to income statement.

2.7. Fair value assessment

The financial assets and liabilities under "Fair value through profit and loss", "Hedging derivatives" 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 by the Bank are quoted on an active market. The quoted prices are used to determine their market value.

Derivatives (foreign exchange, interest and currency rate 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 and 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 under "Cost of risk".

3. Fixed assets

Fixed assets recorded in the Bank's balance sheet include tangible and intangible fixed 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 fixed 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 partly both by the Bank and partly 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 and fiscal adjustment if they wish so) 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 expenses and similar charges" and are spread over the life of the respective loans.

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

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.

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

in thousand euros

Office allowances	**2009**	**2008**
Chairperson of the Governing Board	45	45
Chairperson of the Administrative Council	45	45
Vice-Chairperson of the Governing Board	3	6
Vice-Chairperson of the Administrative Council	6	6
Emoluments		
Governor	325	315
Vice-Governor Delegate	262	254
Vice-Governor Ruiz-Ligero	247	240
Vice-Governor Tarafás	247	240

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.

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 organs 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

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 ratings 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 ratings agency.

The transaction rating 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.

We recall that, 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.*

- Credit risk exposure

The risk exposure represented by the Bank's transactions (loans, financing commitments, deposits, securities, derivatives), excluding accrued interest and in nominal value at 31 December 2009 and 31 December 2008 is shown in the table below. With reference to the loan portfolio, credit enhancement measures have been taken into account.

in million euros

	2009				2008			
	AAA/AA	A/BBB	*Below investment grade*	TOTAL	AAA/AA	A/BBB	*Below investment grade*	TOTAL
Loans	5 213	5 280	1 706	12 198	6 646	4 438	1 339	12 423
Financing commitments	825	1 555	1 176	3 556	594	1 502	1 306	3 402
Placements	1 316	353		1 668	2 165	1		2 166
Securities	5 683	1 313		6 996	4 005	595		4 600
Swap - add on	678	190		868	648	202		850
Forex	14	8		23	21			21
Swap coll - net present value not covered	19	4		23	14			14
Total	**13 748**	**8 703**	**2 882**	**25 333**	**14 093**	**6 738**	**2 645**	**23 476**

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

- Loan portfolio

At 31 December 2009, compared to 2008, loans outstanding fell by -1.7% to € 12.2 billion. As shown in the table below, loans outstanding rated *investment grade* represent 86% of total loans (vs. 89% at end 2008).

In 2009 and for the first time since inception (arrears on former Yugoslavia excepted), the Bank has recorded a default. An Icelandic counterparty failed to meet its commitments on capital and interest representing a total amount of € 221 thousand as at 31 December 2009, an additional provision has been set aside to cover the total debt (i.e. € 913 thousand). As at 31 December 2009, 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 loan portfolio

At end December 2009, credit enhancements in the loan portfolio allowing for a 100% risk transfer totalled € 2.7 billion vs. € 2.1 billion at end 2008. The enhancements consist of guarantees on € 2.3 billion and collaterals on € 0.4 billion.

The global impact of such enhancements on the Bank's risk profile is shown below:

in million euros

	2009				2008			
	Before		After		Before		After	
	Amount	%	Amount	%	Amount	%	Amount	%
AAA/AA	4 168	34%	5 213	43%	5 783	47%	6 646	53%
A/BBB	6 181	51%	5 280	43%	5 141	41%	4 438	36%
Below investment grade	1 849	15%	1 706	14%	1 499	12%	1 339	11%
Total	**12 198**	**100%**	**12 198**	**100%**	**12 423**	**100%**	**12 423**	**100%**

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

The loans outstanding on counterparties not rated by international rating agencies represents for 6.2% of total loans outstanding. The internal ratings assigned to these counterparties range from 1.5 to 9.5.

- Financing commitments

Total financing commitments rose by 4.5% from € 3.4 billion at end 2008 to € 3.6 billion at end 2009. The breakdown by rating group is shown in the table below:

in million euros

	2009	2008	Change 2009-2008
AAA/AA	825	595	39%
A/BBB	1 555	1 502	4%
Below investment grade	1 176	1 306	-10%
Total	**3 556**	**3 402**	**5%**

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

- Breakdown of loans outstanding by counterparty type and rating

in million euros

	2009				2008			
	AAA/AA	A/BBB	*Below investment grade*	TOTAL	AAA/AA	A/BBB	*Below investment grade*	TOTAL
States	938	2 346	1 453	4 738	887	2 093	1 214	4 194
Public administrations	915	406	12	1 333	577	264	17	859
State financial institutions	268			268	525			525
Special financial institutions	728	120	31	878	862	206	39	1 106
Other banks	2 292	2 307	57	4 656	3 723	1 689	39	5 451
Non financial institutions	73	100	152	324	73	185	30	288
Total	**5 213**	**5 280**	**1 706**	**12 198**	**6 646**	**4 438**	**1 339**	**12 423**

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

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

in million euros

2009						2008					
	AAA/AA	A/BBB	*Below investment grade*	TOTAL	%		AAA/AA	A/BBB	*Below investment grade*	TOTAL	%
STATE A		1 048		1 048	9%	STATE A		768		768	6%
STATE B			648	648	5%	STATE B			672	672	5%
STATE F			633	633	5%	Other bank A	600			600	5%
STATE E	560			560	5%	STATE C		517		517	4%
Other bank A	555			555	5%	State financial inst.	514			514	4%
STATE C		513		513	4%	STATE E	501			501	4%
Other bank D		352		352	3%	STATE F			441	441	4%
STATE D		343		343	3%	STATE D		421		421	3%
Other bank C		332		332	3%	Other bank C	414			414	3%
Other bank E		318		318	3%	Other bank B	391			391	3%
Sub-total	**1 115**	**2 907**	**1 280**	**5 302**	**43%**	**Sub-total**	**2 419**	**1 706**	**1 114**	**5 239**	**42%**
Others	4 098	2 373	425	6 896	57%	Others	4 227	2 732	225	7 184	58%
Total	**5 213**	**5 280**	**1 706**	**12 198**	**100%**	**Total**	**6 646**	**4 438**	**1 339**	**12 423**	**100%**

Rating as recommended by the Basel Committee (second best rating), and, when not rated by international ratings 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: 94% at end 2009 down from 95% at end 2008. The breakdown of the nominal value of these securities by rating as at 31 December 2009 and 31 December 2008 is shown in the table below:

in million euros

	2009				2008			
	AAA	AA	A	TOTAL	AAA	AA	A	TOTAL
Available-for-sale financial assets	1 106	2 660	1 233	4 999	902	1 324	515	2 741
Financial assets held to maturity	1 527	391	80	1 998	1 399	380	80	1 859
Total	**2 633**	**3 050**	**1 313**	**6 996**	**2 301**	**1 704**	**595**	**4 600**
	38%	*44%*	*19%*	*100%*	*50%*	*37%*	*13%*	*100%*

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

The breakdown by country of issuers of the securities in the two portfolios is as follows:

in million euros

	2009		2008	
Financial assets held to maturity				
France	1 417	71%	1 163	62%
Portugal	200	10%	200	11%
Italy	161	8%	161	9%
Germany	125	6%	148	8%
Spain	50	3%	93	5%
Other countries	45	2%	95	5%
Sub-total	**1 998**		**1 859**	
Available-for-sale financial assets				
France	1 014	20%	944	35%
United States	768	15%	771	28%
Netherlands	639	13%	337	12%
Spain	612	12%	310	11%
Canada	585	12%		
Other countries	1 382	28%	380	13%
Sub-total	**4 999**		**2 741**	
Total	**6 996**		**4 600**	

- 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 Credit Support Annex (CSA) collateral agreement with the CEB.

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

As at 31 December 2009, the entire of the outstanding derivatives was collateralised (CSA signed), vs. 99.98% in 2008.

Within the context of swap transactions, the CEB may receive cash deposits and/or triple-A rated securities (US Treasuries or German bund) as collateral for derivatives. At end 2009 all the collateral was in the form of deposits (as at end 2008).

- Large exposures

Large exposure is understood as being the overall exposure (loans, securities, deposits, derivatives and firm financing commitments) to a counterparty (or group of connected counterparties) when its value is equal to or exceeds 10% of equity.

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

In accordance 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 equity as defined above, and that the cumulative total of large exposures does not exceed 800% of said equity.

As at 31 December 2009, no counterparty exceeded the limit of 25% of the CEB's equity (as in 2008) and only seven groups and 1 counterparty overstepped 10%. The total outstanding on these counterparties came to € 4.6 billion, i.e. 110% of the Bank's equity (end 2008, € 3.8 billion, 92%) 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 2009, as at 31 December 2008, 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 market risks 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 2009**	Assets	Liabilities	Derivative instruments	**Net position 2008**
Euro	20 504 503	6 368 186	(16 139 523)	(2 003 206)	19 433 206	6 834 474	(14 821 964)	(2 223 232)
US Dollar	961 692	11 168 067	10 207 164	789	1 118 630	11 893 079	10 775 827	1 378
Japanese Yen	142 955	168 061	25 874	768	183 166	185 763	2 872	275
Hungarian Forint	232 264	964	(231 245)	55	13 821	39 452	25 684	53
Pound Sterling	45 587	1 199 030	1 153 474	31	23 758	493 316	469 605	47
Other currencies	843 579	3 826 272	2 982 887	194	630 459	1 956 956	1 326 674	177
Total	**22 730 580**	**22 730 580**	**(2 001 369)**	**(2 001 369)**	**21 403 040**	**21 403 040**	**(2 221 302)**	**(2 221 302)**

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 Income 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 "Financial assets held-to-maturity". 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 2009 outstanding balances by interest rate type and interest rate risk hedging evaluation

in thousand euros

	Before hedging			Hedging financial instruments			After hedging		
	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total
Assets									
Fixed rate	**7 733 532**	**92 425**	**7 825 957**	**(2 711 639)**	**502 032**	**(2 209 607)**	**5 021 893**	**594 457**	**5 616 350**
Scheduled outstanding	6 233 628	92 425	6 326 053	(2 711 639)	502 032	(2 209 607)	3 521 989	594 457	4 116 446
Non scheduled outstanding	1 499 904		1 499 904				1 499 904		1 499 904
Variable rate	**14 334 317**	**18 398**	**14 352 715**	**2 757 069**	**4 446**	**2 761 515**	**17 091 386**	**22 844**	**17 114 230**
Total assets	**22 067 849**	**110 823**	**22 178 672**	**45 430**	**506 478**	**551 908**	**22 113 279**	**617 301**	**22 730 580**
Liabilities									
Fixed rate	**(19 545 274)**	**(502 030)**	**(20 047 304)**	**16 209 423**	**(38 317)**	**16 171 106**	**(3 335 851)**	**(540 347)**	**(3 876 198)**
Scheduled outstanding	(16 209 946)	(502 030)	(16 711 976)	16 209 423	(38 317)	16 171 106	(523)	(540 347)	(540 870)
Non scheduled outstanding	(3 335 328)		(3 335 328)				(3 335 328)		(3 335 328)
Variable rate	**(579 281)**	**(119)**	**(579 400)**	**(18 255 786)**	**(19 196)**	**(18 274 982)**	**(18 835 067)**	**(19 315)**	**(18 854 382)**
Scheduled outstanding	(337 970)	(119)	(338 089)	(18 255 786)	(19 196)	(18 274 982)	(18 593 756)	(19 315)	(18 613 071)
Non scheduled outstanding	(241 311)		(241 311)				(241 311)		(241 311)
Total liabilities	**(20 124 555)**	**(502 149)**	**(20 626 704)**	**(2 046 363)**	**(57 513)**	**(2 103 876)**	**(22 170 918)**	**(559 662)**	**(22 730 580)**

The outstanding fixed-rate assets before hedging amounts to 7 734 million euros, hedging instruments allow the exposure to drop to 5 022 million euros.

Reciprocally, the fixed-rate liability exposure of 19 545 million euros before hedging is reduced to 3 336 million euros after hedging.

Sensitivity to interest rate risks

The ALM Department examines prospective profit build-up 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

in thousand euros

	Parallel translation +10 bp	Parallel translation -10 bp
31/12/2009	- 1 424	1 420

At 31 December 2009, 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. Therefore, the stress test presented below is based on a uniform translation of +/- 10 bp, which ensures consistency between the obtained results and the level of current rates.

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.

This indicator is computed as the variation of net interest income 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 is implemented for each balance sheet item thanks to algorithms of a dedicated application program. This program applies shifts according to parametered scenarios on the occasion of rate fixing for floating rate operations.

Net interest margin sensitivity is computed on the scope of the balance sheet operations. It takes into account assumptions of aggregated renewal of the main balance sheet items at the current market rates.

Based upon balance sheet at 31 December 2009 and renewal assumptions, the net interest margin would increase by € 1.4 million if interest rates decreased by 10 bp. Conversely, the net interest margin would decrease by € 1.4 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 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 prepayments. They calculate, in accordance with the Basle II logic and its differentiated approach to risk, borrower default on the basis of outstanding loans weighted by the probability of default rate published by rating agencies for a given maturity and rating class. An internal rating is assigned on counterparties non-rated by rating agencies.

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

Liquidity position

The liquidity risk represents the projected treasury situation of the Bank at 31 December 2009.

The table below features the whole future and non-discounted contractual flows, including non accrued interests, classified by maturity according to the outstanding duration between the year-end date and the contract maturity date.

in thousand euros

	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	Current oustanding	More than 1 year up to 5 years	More than 5 years	Non-current oustanding	Total
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								
Off-balance sheet 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	**(138 900)**	**3 772**	**237 800**	**102 672**	**(333 998)**	**139 284**	**(194 714)**	**(92 042)**
Liquidity position 2009	**491 894**	**977 564**	**3 086 891**	**4 556 349**	**(5 960 769)**	**5 351 906**	**(608 863)**	**3 947 486**
Assets								
Cash in hand, balances with central banks	194 275			194 275				194 275
Available-for-sale financial assets	564 502	100 303	522 724	1 187 529	777 899	1 203 601	1 981 500	3 169 029
Loans and advances to credit institutions and to customers								
Loans	110 412	663 295	1 752 036	2 525 743	7 224 155	5 276 273	12 500 428	15 026 171
Advances	1 359 526	829 948	(3 813)	2 185 661				2 185 661
Financial assets held to maturity	61 600	18 394	170 278	250 272	674 256	1 919 705	2 593 961	2 844 233
Total assets	**2 290 315**	**1 611 940**	**2 441 225**	**6 343 480**	**8 676 310**	**8 399 579**	**17 075 889**	**23 419 369**
Liabilities								
Amounts owed to credit institutions and to customers	73 281			73 281				73 281
Debt securities in issue	239 489	127 743	804 239	1 171 471	11 989 163	4 628 179	16 617 342	17 788 813
Selective Trust Account (STA)	78 684			78 684				78 684
Total liabilities	**391 454**	**127 743**	**804 239**	**1 323 436**	**11 989 163**	**4 628 179**	**16 617 342**	**17 940 778**
Off-balance sheet								
Off-balance sheet financial instruments								
To be received	258 038	297 171	1 048 740	1 603 949	12 315 876	4 734 625	17 050 501	18 654 450
To be paid	(148 699)	(310 461)	(1 396 287)	(1 855 447)	(13 926 806)	(4 841 167)	(18 767 973)	(20 623 420)
Off-balance sheet total	**109 339**	**(13 290)**	**(347 547)**	**(251 498)**	**(1 610 930)**	**(106 542)**	**(1 717 472)**	**(1 968 970)**
Liquidity position 2008	**2 008 200**	**1 470 907**	**1 289 439**	**4 768 546**	**(4 923 783)**	**3 664 858**	**(1 258 925)**	**3 509 621**

Strengthened liquidity ratio

The Bank's liquidity must meet a prudential strengthened liquidity ratio.

This ratio results from dividing the Bank's available cash (bank deposits and available-for-sale financial assets with a residual maturity less than 18 months) by its net liquidity requirements (financing commitments, net cash flow in the next three years including the increased liquidity requirement due to the default risk on the loan portfolio for the same three-year period).

The Bank's liquidity must not fall to less than 50% of its net liquidity requirements for the next 3 years.

At end 2009, the strengthened liquidity ratio stands at 102.2% (down from 103.7% at end 2008).

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 2009, the charge amounted to € 19.4 million up from € 18.2 million at 31 December 2008.

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.

Capital adequacy ratio

The purpose of this prudential ratio is to show that the level of capital is high enough to absorb any potential losses from the financing 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: ∑ [(capital + interest)xDefault 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 decreased from 20.4% at end 2008 to 20.3% at end 2009.

Risk asset coverage ratio

This prudential ratio provides an additional limit to the increase in the share of loans 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 2009.

Year-on-year, the ratio rose from 33.1% at end 2008 to 40.5% at end 2009.

Indebtedness ratio

This prudential ratio is obtained by dividing total debt by total equity in its broadest sense (subscribed capital, paid-in reserves, gains or losses recognised directly in equity, profit for the year).

Year-on-year the ratio rose from 3.66 at end 2008 to 3.80 at 31 December 2009, which is 95% of the authorised limit of 4.

On the basis of total equity at end 2009, the authorised debt limit amounts € 19.6 billion, which is headroom of € 1 billion.

Portfolio ratio

This ratio results from dividing the outstanding amount in treasury operations by total equity in its broadest sense (subscribed capital, paid-in reserves, gains or losses recognised directly in equity, profit for the year). The outstanding amount on treasury operations consist of the outstanding amount in both portfolios (financial assets held to maturity and available-for-sale financial assets) and treasury transactions not in issue (bank deposits, repos).

Year-on-year, the ratio rose from 1.45 in 2008 to 1.79 at end 2009, which is 89% of the authorised limit of 2.

On the basis of the total level of capital at end 2009, the authorised portfolio limit was € 9.8 billion, which leaves a margin for manoeuvre of € 1 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 2009		
Assets		
Cash in hand, balances with central banks	386 883	
Financial assets at fair value through profit and loss	314 346	
Hedging derivatives	1 295 361	
Available-for-sale financial assets	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**	**14 661 617**
Liabilities		
Financial liabilities at fair value through profit and loss	2 312 949	
Hedging derivatives	372 974	
Amounts owed to credit institutions and to customers	67 747	
Debt securities in issue	17 680 780	17 451 319
Selective Trust Account (STA)	75 420	
Total liabilities	**20 509 870**	**17 451 319**
31 December 2008		
Assets		
Cash in hand, balances with central banks	194 208	
Financial assets at fair value through profit and loss	289 582	
Hedging derivatives	1 693 822	
Available-for-sale financial assets	2 628 227	
Loans and advances to credit institutions and to customers	14 580 482	12 402 809
Financial assets held to maturity	1 975 983	2 088 021
Total assets	**21 362 304**	**14 490 830**
Liabilities		
Financial liabilities at fair value through profit and loss	2 515 544	
Hedging derivatives	434 793	
Amounts owed to credit institutions and to customers	73 281	
Debt securities in issue	16 171 014	16 108 478
Selective Trust Account (STA)	78 684	
Total liabilities	**19 273 316**	**16 108 478**

(*) Fair value of items accounted for at amortised cost, in conformity with IFRS 7.

Note D - Hedging derivatives

All the Bank's micro-hedging operations, as recognised under IAS 39, are fair value hedges. These operations hedge the fair value risk of the fixed rate financial assets and liabilities exposures (loans, available-for-sale assets, debt securities in issue).

Financial instruments qualified as hedging derivatives comprise interest rate, currency and forward exchange swaps.

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

in thousand euros

	31/12/2009		31/12/2008	
	Positive market value	**Negative market value**	**Positive market value**	**Negative market value**
Interest rate derivatives	124 890	(208 145)	140 830	(222 262)
Exchange rate derivatives	1 170 471	(164 829)	1 552 992	(212 531)
Total	**1 295 361**	**(372 974)**	**1 693 822**	**(434 793)**

Note E - Securities portfolio

in thousand euros

	31/12/2009		31/12/2008	
	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	181 774		216 238	
Debt securities and other fixed income securities	4 752 761	(103 950)	2 382 855	(170 868)
Shares and other variable-yield securities	874	348	799	272
Sub-total	**4 935 409**	**(103 602)**	**2 599 892**	**(170 596)**
Fair value adjustment of securities hedged by hedging derivatives	30 369		28 335	
Total available-for-sale financial assets	**4 965 778**	**(103 602)**	**2 628 227**	**(170 596)**
Financial assets held to maturity				
Treasury bills and similar securities	988 243		1 085 270	
Debt securities and other fixed income securities	1 134 983		890 713	
Total financial assets held to maturity	**2 123 226**		**1 975 983**	
Total securities portfolio	**7 089 004**	**(103 602)**	**4 604 210**	**(170 596)**

(*) 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 2009 and 2008.

The Bank holds only one line of depreciated securities. It amounts to € 1.4 million and is classified as available-for-sale financial assets. The provision amounts to € 0.51 million at 31 December 2009 (€ 0.58 million at 31 December 2008).

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

This heading covers loans to credit institutions and to customers, and deposits to credit institutions.

in thousand euros

Breakdown by category of borrower	31/12/2009	31/12/2008
Loans to credit institutions		
Loans	7 551 171	8 299 797
Interest receivable	11 758	48 731
Unpaid receivables	221	
Depreciation on loans to credit institutions (Note Q)	(1 822)	(909)
Sub-total	**7 561 328**	**8 347 619**
Loans to customers		
Loans	4 647 132	4 123 452
Interest receivable	26 354	36 168
Sub-total	**4 673 486**	**4 159 620**
Value adjustment of loans hedged by hedging derivatives	91 556	94 038
Total loans	**12 326 370**	**12 601 277**
Other loans and advances		
Advances repayable on demand	11 634	11 981
Advances with agreed maturity dates or periods of notice	1 270 000	1 960 000
Sub-total	**1 281 634**	**1 971 981**
Interest receivable	362	7 223
Total other advances	**1 281 996**	**1 979 204**

At 31 December 2009, loans are guaranteed up to the amount of € 2 682 620 thousand (31 December 2008: € 2 139 987 thousand). These guarantees could be either in the form of securities or signed commitments.

At 31 December 2009, the Bank set up a provision for depreciation of € 1 822 thousand for an identified risk counterparty (31 December 2008: € 909 thousand).

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 I.

in thousand euros

	Outstanding				Financing commitments	
Breakdown by country	**31/12/2009**	**%**	**31/12/2008**	**%**	**31/12/2009**	**31/12/2008**
Spain	1 605 783	13.16	2 097 344	16.88	96 300	98 632
France	1 264 185	10.36	1 222 386	9.84	100 000	50 000
Italy(1)	1 157 932	9.49	1 233 733	9.93	254 900	206 000
Hungary	1 083 812	8.88	807 775	6.50	180 116	273 572
Poland	955 900	7.84	751 489	6.05	612 258	586 605
Finland	707 875	5.80	751 149	6.05	100 000	50 000
Germany(2)	660 856	5.42	911 468	7.34	412 000	200 870
Turkey	647 747	5.31	686 521	5.53	341 190	327 466
Romania	632 513	5.19	441 475	3.55	627 720	836 510
Cyprus	560 152	4.59	500 901	4.03	103 885	208 034
Portugal	431 098	3.53	516 133	4.15	100 000	114 660
Greece	343 485	2.82	420 584	3.39		
Denmark	303 333	2.49	326 667	2.63		
Croatia	256 536	2.10	221 305	1.78	46 148	99 890
Sweden(3)	227 276	1.86	280 403	2.26	50 524	47 652
Iceland	196 482	1.61	168 636	1.36	39 386	73 259
Latvia	187 213	1.53	164 501	1.32	25 000	50 000
Norway	126 500	1.04	126 500	1.02		
Ireland	116 554	0.96	64 583	0.52	50 000	5 230
Slovenia	113 373	0.93	89 437	0.72	54 000	40 000
Bosnia and Herzegovina	94 352	0.78	97 651	0.79	27 220	30 724
Belgium	93 332	0.77	148 220	1.19	25 000	
Malta	88 350	0.72	98 450	0.79		
Bulgaria	75 442	0.62	78 147	0.63	10 403	6 779
Serbia	57 993	0.48	53 664	0.43	28 076	17 975
Lithuania	56 211	0.46	29 371	0.24	104 172	2 172
Albania	54 842	0.45	33 211	0.27	62 011	38 828
"the former Yugoslav Republic of Macedonia"	34 209	0.28	25 252	0.20	7 500	19 500
Czech Republic	28 042	0.23	33 760	0.27	50 000	5 000
Slovak Republic	22 889	0.19	28 647	0.23	8 252	8 252
Moldova	9 013	0.07	6 203	0.05	10 887	4 697
Estonia	3 745	0.03	6 055	0.05	28 800	
San Marino	1 278	0.01	1 627	0.01		
Total	**12 198 303**	**100.00**	**12 423 248**	**100.00**	**3 555 748**	**3 402 307**

(1) Of which € 545 887 thousand outstanding in favour of the target group countries as at 31 December 2009 (31 December 2008: € 453 688 thousand)

(2) Of which € 261 250 thousand outstanding in favour of the target group countries as at 31 December 2009 (31 December 2008: € 288 750 thousand)

(3) Of which € 100 000 thousand outstanding in favour of the target group countries as at 31 December 2009 (31 December 2008: € 100 000 thousand)

in thousand euros

Breakdown by sector-based activities	Outstanding 31/12/2009	%	Outstanding 31/12/2008	%	Financing commitments 31/12/2009	Financing commitments 31/12/2008
Strengthening social integration						
Aid to refugees, migrants and displaced populations	150 167		178 868		25 359	17 896
Social housing for low-income persons	2 719 835		2 966 311		391 052	344 156
Creation and preservation of viable jobs	2 407 816		2 272 921		714 057	700 812
Improving living conditions in urban and rural areas	1 410 997		1 318 318		510 251	397 897
Sub-total	**6 688 815**	**55**	**6 736 418**	**54**	**1 640 719**	**1 460 761**
Managing the environment						
Natural or ecological disasters	1 019 750		1 172 166		319 049	358 243
Protection of the environment	1 526 079		1 520 362		800 050	1 043 518
Protection and rehabilitation of the historic and cultural heritage	243 196		224 376		68 292	96 961
Sub-total	**2 789 025**	**23**	**2 916 904**	**24**	**1 187 391**	**1 498 722**
Supporting public infrastructure with a social vocation*						
Education and vocational training	1 442 934		1 458 990		527 537	292 748
Health	1 264 864		1 302 986		198 575	144 416
Infrastructures of administrative and judicial public services	12 665		7 950		1 526	5 660
Sub-total	**2 720 463**	**22**	**2 769 926**	**22**	**727 638**	**442 824**
Total	**12 198 303**	**100**	**12 423 248**	**100**	**3 555 748**	**3 402 307**

** Following the adoption of the Resolution 1522 (2009), sectoral line of action "Supporting public infrastructure with a social vocation" regroups the components of the sectoral line of action "Developing human capital" as well as the sector "Infrastructure of administrative and judicial public services".*

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	2007 and before	2008	2009	Total
Projects				
With signed framework loan agreements	1 779 136	736 340	1 011 768	3 527 244
With at least one financing	28 504			28 504
Total	**1 807 640**	**736 340**	**1 011 768**	**3 555 748**

The Bank guarantees loans granted by a financial institution for an amount of € 211 thousand (€ 432 thousand in 2008). This guarantee is offset by the counter-guarantee received from a Member State for an identical amount.

Note G – Fixed assets

in thousand euros

	Tangible fixed assets				Intangible assets	
	Land	Buildings	Fixtures and equipment	Other		Total
Gross book value						
At 1 January 2008	13 046	10 700	13 301	5 135	4 489	**46 671**
Additions		2	3 741	694	787	**5 224**
Disposals / Write-offs				(1)		**(1)**
Other movements			(2 024)	(52)	(246)	**(2 322)**
At 31 December 2008	**13 046**	**10 702**	**15 018**	**5 776**	**5 030**	**49 572**
Gross book value						
At 1 January 2009	13 046	10 702	15 018	5 776	5 030	**49 572**
Additions			66	364	870	**1 300**
Disposals / Write-offs						
Other movements			(73)	104	(31)	
At 31 December 2009	**13 046**	**10 702**	**15 011**	**6 244**	**5 869**	**50 872**
Depreciation						
At 1 January 2008			(8 669)	(4 123)	(3 418)	**(16 210)**
Charge for the year			(925)	(484)	(215)	**(1 624)**
Disposals / Write-offs						
At 31 December 2008			**(9 594)**	**(4 607)**	**(3 633)**	**(17 834)**
Depreciation						
At 1 January 2009			(9 594)	(4 607)	(3 633)	**(17 834)**
Charge for the year			(921)	(524)	(378)	**(1 823)**
Disposals / Write-offs						
At 31 December 2009			**(10 515)**	**(5 131)**	**(4 011)**	**(19 657)**
Net book value						
At 31 December 2009	**13 046**	**10 702**	**4 496**	**1 113**	**1 858**	**31 215**
At 31 December 2008	13 046	10 702	5 424	1 169	1 397	31 738

Note H – Amounts owed to customers and debt securities in issue

in thousand euros

	31/12/2009	31/12/2008
Amounts owed to customers		
Interest-bearing accounts	67 747	73 281
of which, European Community	*64 161*	*70 274*
Total amounts owed to customers	**67 747**	**73 281**
Debt securities in issue		
Bonds	16 547 393	14 627 200
Interest payable	478 531	477 723
Value adjustment of debt securities in issue hedged by hedging derivatives	654 856	1 066 091
Total debt securities in issue	**17 680 780**	**16 171 014**

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 2009, the balance of these accounts amounts to € 35 908 thousand (2008: € 44 378 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 2009, the balance of these accounts amounts to € 11 626 thousand (2008: € 11 536 thousand).

- Three 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 2005, setting-up of "Preparatory Action Special Account 2004"
  - In 2007, increase of "Preparatory Action Special Account 2005"
  - In 2008, increase of "Preparatory Action Special Account 2006"

The balance of these accounts amounts to € 2 027 thousand at 31 December 2009 (2008: € 3 015 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 2009, the balance of these accounts amounts to € 11 437 thousand (2008: € 11 345 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 € 610 thousand as at 31 December 2009.

- Two further accounts were opened 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 € 2 553 thousand at 31 December 2009.

In addition:

- The CEB also manages, since 2003, 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 € 930 thousand at 31 December 2009.

- In 2008, a new assistance instrument, the Human Rights Trust Fund, aimed at supporting the consolidation of the State of Law and the European system of human rights protection in Europe, was set up, in collaboration with the Council of Europe and the initial financial initiative of the Norwegian Authorities, with additional contributions from Germany and Netherlands.

The balance of this account amounts to € 1 655 thousand at 31 December 2009.

- In 2009, the Bank and Spain agreed to set up a new trust account to promote social cohesion in Europe, entitled "Spanish Social Cohesion Account", which will be initially endowed with € 2 million to be paid in 2009 and 2010.

The balance of this account amounts to € 1 001 thousand at 31 December 2009.

Note I - Selective Trust Account (STA)

- General operating principles

Interest rate subsidies and granting of donations 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**
Sub-account balance as at 1 January 2008		**52 426**
Payment by Member States for the financial year 2008		5 000
Credit interest paid into the STA		3 403
Subsidies on disbursed loans	9 778	
Donations granted	980	
Sub-account balance as at 31 December 2008 [a]		**50 071**
Credit interest paid into the STA		2 331
Subsidies on disbursed loans	9 115	
Donations granted	923	
Sub-account balance as at 31 December 2009 [b]		**42 364**
2) Subsidised projects sub-account		
Sub-account balance as at 1 January 2008		**23 038**
Subsidies on loans disbursed in 2008		9 778
Payment of subsidies	4 203	
Sub-account balance as at 31 December 2008 [c]		**28 613**
Subsidies on loans disbursed in 2009		9 115
Payment of subsidies	4 672	
Sub-account balance as at 31 December 2009 [d]		**33 056**
STA balance as at 31 December 2008 [a] + [c]		**78 684**
STA balance as at 31 December 2009 [b] + [d]		**75 420**

Donations

Since its creation, in 1995, donations for a total amount of € 13.3 million have been granted from the STA (2008: € 12.4 million).

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

in thousand euros

Payments	2009	2008
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 August 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	
Bosnia and Herzegovina (UNHCR): project aimed at facilitating the return of displaced persons, victims of the war, who are still living in Collective Centers		265
Serbia (UNHCR): project aimed at Provision of Housing Micro Loans in favour of locally integrating displaced persons from Kosovo		265
Georgia (UNICEF): project aimed to set up and equip a community centre in favour of displaced and conflict affected children as well as their families		250
Moldova (UNICEF): project aimed at improving survival, growth and development for premature new-borns with very low birth weight nationwide		200
Total	**923**	**980**

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

in thousand euros

	Outstanding		Financing commitments	
Breakdown by borrower country	**31/12/2009**	**31/12/2008**	**31/12/2009**	**31/12/2008**
Romania	290 606	194 356	49 780	154 030
Hungary	201 567	221 927		2 000
Croatia	144 554	155 643	5 173	11 765
Poland	63 417	68 115	245 000	250 000
Albania	52 283	31 597	58 011	38 828
Serbia	28 500	18 600	21 100	11 000
Slovak Republic	17 461	21 698		
Bosnia and Herzegovina	16 257	15 079	2 220	5 724
Bulgaria	14 596	15 291	2 903	6 779
Moldova	9 013	6 203	10 887	4 697
Lithuania	6 632	7 332	2 172	2 172
Slovenia	1 977	3 324		
Total	**846 863**	**759 165**	**397 246**	**486 995**

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

Note J - Provisions

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

in thousand euros

	31/12/2009	31/12/2008
Provision for pension commitments	59 710	54 232
Provision for other post-employment benefits	14 181	13 494
Total	**73 891**	**67 726**

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 2009 based on individual data as at 30 June 2009.

Pension scheme

The following is the pension scheme financial situation:

in thousand euros

	31/12/2009	31/12/2008
Financial situation as at 31 December		
Actuarial liability	(63 925)	(49 995)
Actuarial surplus / (deficit)	(63 925)	(49 995)
Stock of unrealised actuarial gains / (losses)	4 215	(4 237)
Provision as at 31 December	**(59 710)**	**(54 232)**
Provision movements as at 31 December		
Provision as at 1 January	**(54 232)**	**(48 867)**
Service cost	(3 663)	(3 676)
Interest cost related to discounting commitments	(2 895)	(2 604)
Amortisation of actuarial gains / (losses)		
Book charge for the year	(6 558)	(6 280)
Benefits paid	1 080	915
Provision as at 31 December	**(59 710)**	**(54 232)**

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

Other information	2009	2008
Interest rate	5.70%	5.85%
Inflation rate	2.00%	2.00%
Pensions revaluation rate	2.00%	2.00%
Salary increase rate	5.00%	5.00%
Staff average number of remaining working lives as at 31 December	13	14

Pension scheme - related post-employment benefits

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

in thousand euros

	31/12/2009	31/12/2008
Pension scheme financial situation as at 31 December		
Actuarial liability	(15 630)	(8 299)
Actuarial surplus / (deficit)	(15 630)	(8 299)
Stock of unrealised actuarial gains / (losses)	1 449	(5 195)
(Provision) / surplus as at 31 December	**(14 181)**	**(13 494)**
Provision development as at 31 December		
(Provision) / surplus as at 1 January	**(13 494)**	**(12 586)**
Service cost	(655)	(757)
Interest cost related to discounting commitments	(482)	(494)
Amortisation of actuarial gains / (losses)	325	224
Book charge for the year	(812)	(1 027)
Benefits paid	125	119
(Provision) / surplus as at 31 December	**(14 181)**	**(13 494)**

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

Moreover, as in 2008, the Bank's commitment related to medical insurance for pensioners was valuated on the basis of a 7.50% yearly increase rate of the Bank's contributions. This rate is constant up to end 2010 and of 6.00% thereafter.

Note K - Capital

Capital allocation by Member State is presented below:

in thousand euros

Members	Subscribed capital	Uncalled capital	Called capital
Germany	549 692	489 000	60 692
France	549 692	489 000	60 692
Italy	549 692	489 000	60 692
Spain	358 504	318 922	39 582
Turkey	233 077	207 344	25 733
Netherlands	119 338	106 161	13 177
Belgium	98 634	87 746	10 888
Greece	98 634	87 746	10 888
Portugal	83 538	74 315	9 223
Sweden	83 538	74 315	9 223
Poland	76 988	68 488	8 500
Switzerland	53 824	43 229	10 595
Denmark	53 823	47 879	5 944
Norway	41 889	37 264	4 625
Finland	41 889	37 264	4 625
Bulgaria	37 491	33 352	4 139
Romania	35 963	31 993	3 970
Ireland	28 998	25 797	3 201
Hungary	26 884	23 916	2 968
Czech Republic	25 833	22 981	2 852
Luxembourg	20 849	18 547	2 302
Serbia	15 511	13 799	1 712
Croatia	12 831	11 414	1 417
Cyprus	11 934	10 617	1 317
Slovak Republic	11 380	10 123	1 257
Albania	8 034	7 147	887
Latvia	7 688	6 840	848
Estonia	7 637	6 794	843
"the former Yugoslav Republic of Macedonia"	7 637	6 794	843
Lithuania	7 556	6 722	834
Slovenia	7 380	6 565	815
Iceland	6 089	5 417	672
Malta	6 089	5 417	672
Georgia	5 928	5 274	654
Bosnia and Herzegovina	5 816	5 174	642
Montenegro	3 952	3 516	436
Moldova	3 294	2 930	364
San Marino	2 921	2 478	443
Liechtenstein	2 921	2 374	547
Holy See	82	58	24
Total 2009	**3 303 450**	**2 933 712**	**369 738**
Total 2008	**3 303 450**	**2 933 712**	**369 738**

Subscribed, called and unpaid capital, as well as reserves to be paid are detailed below:

in thousand euros

Members	Capital	Reserves	Total
Georgia	164	434	598
Montenegro	109	325	434
Total	**273**	**759**	**1 032**

Earnings per participating certificate for 2009 amount to € 32.41 (€ 29.01 for 2008).

Note L - 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 M).

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

	2009	2008
Available-for-sale financial assets		
Securities transactions	77 138	123 452
Hedging derivatives	(18 606)	7 577
Sub-total	**58 532**	**131 029**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	303 462	595 308
Other loans and advances (*)	27 494	88 110
Hedging derivatives	(71 914)	(5 003)
Sub-total	**259 042**	**678 415**
Financial assets held to maturity		
Securities transactions	88 524	92 554
Sub-total	**88 524**	**92 554**
Amounts owed to credit institutions and to customers		
Issues	(17)	(10)
Interest-bearing accounts	(5 387)	(8 579)
Sub-total	**(5 404)**	**(8 589)**
Debt securities		
Debt securities in issue	(743 323)	(684 810)
Hedging derivatives	487 487	(82 369)
Sub-total	**(255 836)**	**(767 179)**
Other interest expenses and similar charges	(3 377)	(3 098)
Interest margin	**141 481**	**123 132**

(*) The net interest related to foreign exchange swaps is recorded under "Interest margin" since 1 January 2009. This classification allows isolating the impact of the fair value of financial instruments, excluding accrued interest, under the heading "Net gains or losses from financial instruments at fair value through profit or loss" and has no impact on the amount of the "Net banking income". Pro-forma reclassification was performed on 31 December 2008 (€ 5 150 thousand) between the "Net gains or losses from financial instruments at fair value through profit or loss" and "Loans and advances to credit institutions and to customers" headings.

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

in thousand euros

Breakdown by borrower country	2009	2008
Spain	33 963	106 282
Poland	31 782	44 375
Turkey	29 131	37 329
Italy	26 559	59 576
Hungary	23 077	35 603
France	20 945	54 429
Greece	18 605	21 421
Finland	17 310	34 218
Romania	14 400	18 260
Germany	14 105	45 623
Cyprus	14 094	24 252
Croatia	10 329	8 459
Portugal	9 381	24 590
Denmark	5 249	16 205
Malta	4 437	4 794
Latvia	4 289	6 304
Iceland	3 917	6 140
Sweden	3 544	11 787
Bosnia and Herzegovina	2 755	3 031
Slovenia	2 105	3 728
Norway	1 937	6 758
Bulgaria	1 825	3 813
Belgium	1 693	7 233
Serbia	1 488	1 566
Lithuania	1 380	1 430
Albania	1 284	1 108
Ireland	1 263	2 198
Czech Republic	683	1 313
"the former Yugoslav Republic of Macedonia"	674	1 195
Slovak Republic	586	1 660
Moldova	368	206
Estonia	235	335
San Marino	69	87
Total	**303 462**	**595 308**

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

Net gains or losses 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 L).

in thousand euros

	2009	2008
Net results on fair value hedge	(438 097)	772 274
Revaluation of hedged items attributable to covered risk	438 247	(773 234)
Results on derivatives (*)	(1 387)	4 942
Revaluation of exchange positions	12	683
Total	**(1 225)**	**4 665**

(*) Profit relative to the Bank's hedging derivatives whose hedging is not recognised under IAS 39.
The net interest related to foreign exchange swaps is recorded under "Interest margin" since 1 January 2009. This classification allows isolating the impact of the fair value of financial instruments, excluding accrued interest, under the heading "Net gains or losses from financial instruments at fair value through profit or loss" and has no impact on the amount of the "Net banking income". Pro-forma reclassification was performed on 31 December 2008 (€ 5 150 thousand) between the "Net gains or losses from financial instruments at fair value through profit or loss" and "Loans and advances to credit institutions and to customers" headings.

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

in thousand euros

	2009	2008
Net gains or losses from available-for-sale financial assets	120	(684)
Dividends received	63	58
Total	**183**	**(626)**

Note O - Commissions and other net expenses

The table below shows the breakdown of net commissions:

in thousand euros

	2009	2008
Sundry banking income	255	266
Banking charges (*)	(1 828)	(1 180)
Commissions and other net expenses	**(1 573)**	**(914)**

(*) The Bank's expenses related to debt securities (rating, consulting, audit, legal) are classified under "Net banking income" since 1 January 2009. Pro-forma reclassification was performed on 31 December 2008 (€ 496 thousand) between "General operating expenses" and "Commissions and other net expenses" headings.

Note P - General operating expenses

in thousand euros

	2009	2008
Staff costs		
Wages and salaries	16 894	15 301
Social charges and pension costs	4 091	4 290
Other general operating expenses (*)	8 096	8 307
Total	**29 081**	**27 898**

(*) The Bank's expenses related to debt securities (rating, consulting, audit, legal) are classified under "Net banking income" since 1 January 2009. Pro-forma reclassification was performed on 31 December 2008 (€ 496 thousand) between "General operating expenses" and "Commissions and other net expenses" headings.

At 31 December 2009, the Bank staff was composed of: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 150 professional staff. At 31 December 2008: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 142 professional staff.

Note Q - 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	2009	2008
Net depreciation charges	913	909
Recoveries of amortised loans and advances		
Irrecoverable receivables not covered by depreciations		
Total cost of risk for the financial year	**913**	**909**

in thousand euros

Cost of risk for the financial year by nature of assets	2009	2008
Loans and advances to credit institutions	913	909
Loans and advances to customers		
Available-for-sale financial assets		
Other assets		
Commitments by signature and others		
Total cost of risk for the financial year	**913**	**909**

in thousand euros

Depreciations resulting from credit risk	2009	2008
Total depreciations at the beginning of the financial year	909	
Net depreciations charges	913	909
Use of depreciations		
Total depreciations at the end of the financial year	**1 822**	**909**

Note R - Other information and post-balance sheet events

On 7 December 2009 the Spanish Supreme Court delivered a judgement, in a case started in 2001 between the Bank and one of its paying agents: the paying agent was sentenced to pay to the CEB the amount of € 16.2 million for the non-execution of its contractual obligations plus interest running from the date of the decision as well as expenses of the first instance proceedings. The execution of the judgement is under way and an amount of € 16.3 million was paid on 19 February 2010.

No material events that would require disclosure or adjustment to these financial statements occurred between 31 December 2009 and the authorisation date of the accounts by the Governor on 23 February 2010.

External auditor's report

Deloitte.

Deloitte & Associés
185, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine Cedex
France
Téléphone : + 33 (0) 1 40 88 28 00
Télécopieur : + 33 (0) 1 40 88 28 28
www.deloitte.fr

Council of Europe Development Bank

55, avenue Kléber
75116 Paris

External Auditor's Report on the Financial Statements

Year ended December 31st, 2009

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, 2009, 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.

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

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

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, 2009, 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 24th, 2010.

Deloitte & Associés

Jose-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 2009

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 2009 and from 22-25 February 2010 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 2009.

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 2009 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2009, including the balance sheet at 31 December 2009, the profit and loss account and the Notes to the financial statements, which had been prepared by the Accounting Department of the CEB and signed by the Governor on 23 February 2010
- 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 2009
- Obtaining the opinion signed by the External Auditor on 24 February 2010
- 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 2009 and the results of its operations and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 25 February 2010

Nicola CECCAROLI
Eden ALI
Ali ACU

Extract from the minutes of the 263rd meeting of the Administrative Council of the CEB

Resolution 1527 (2010) **CA/PV 263 (2010)**

Paris, 26 March 2010

The Administrative Council,

Having regard to Article XI, Section 2 of the Bank's Articles of Agreement
Having regard to the balance sheet, profit and loss account and Notes to the financial statements as at 31 December 2009
Having taken note of the external auditor's report dated 24 February 2010
Having taken note of the Auditing Board's report dated 25 February 2010
Having taken note of the Governor's Memorandum dated 26 February 2010

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 2009
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2009
3. resolves to allocate the net profit for 2009 (+ € 107 049 332) as follows:
   - € 101 049 332 to the general reserve
   - € 6 000 000 as social dividend to fund the Selective Trust Account.
4. recommends that the Governing Board approves point 3 above.

Extract from the minutes of the 194th meeting of the Governing Board of the CEB

Resolution 381 (2010) **CD/PV 194 (2010)**

Paris, 30 March 2010

The Governing Board,

Having regard to Article IX, Section 3, paragraph 1, litt. e of the Articles of Agreement
Having regard to the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2009
Having taken note of the certification by the external auditor, dated 24 February 2010
Having regard to the reports of the Bank's statutory organs, viz:
- the Report of the Governor for the financial year 2009
- the Auditing Board's report dated 25 February 2010

Having regard to Resolution 1527 (2010) of the Administrative Council
Having heard the Auditing Board

Decides:

- to approve the Bank's annual report, accounts and other financial statements for 2009
- to discharge the Administrative Council from its responsibility for the financial year 2009
- to endorse point 3 of Resolution 1527 (2010) of the Administrative Council of 26 March 2010, by which the Administrative Council agreed to allocate the net profit for 2009, amounting to € 107 049 332 as follows:
  - € 101 049 332 to the general reserve
  - € 6 000 000 as a social dividend to fund the Selective Trust Account.

Balance sheet as at 31 December 2009 after allocation of profit

in thousand euros

Assets	31/12/2009	31/12/2008
Cash in hand, balances with central banks	386 883	194 275
Financial assets at fair value through profit or loss	314 346	289 582
Hedging derivatives	1 295 361	1 693 822
Available-for-sale financial assets	4 965 778	2 628 227
Loans and advances to credit institutions and to customers		
Loans	12 326 370	12 601 277
Advances	1 281 996	1 979 204
Financial assets held to maturity	2 123 226	1 975 983
Fixed assets	31 215	31 738
Other assets	5 405	8 932
Total assets	**22 730 580**	**21 403 040**
Liabilities		
Financial liabilities at fair value through profit or loss	2 312 949	2 515 544
Hedging derivatives	372 974	434 793
Amounts owed to customers	67 747	73 281
Debt securities in issue	17 680 780	16 171 014
Other liabilities	188 047	277 269
Selective Trust Account (STA)	81 420	78 684
Provisions	73 891	67 726
Total liabilities	**20 777 808**	**19 618 311**
Capital		
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	(103 602)	(170 596)
Total equity	**1 952 772**	**1 784 729**
Total liabilities and equity	**22 730 580**	**21 403 040**

Notes for the reader

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 2009, the Bank had 40 Member States: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey. From 1989 to 1991, a contract of association linked the former Yugoslavia to the Bank as an Associate Member.

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

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

Project approved: A project that has been submitted to the Administrative Council and approved for funding.
Loan disbursed: A loan that has actually been paid to the borrower.

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

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

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

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

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

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

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

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55, avenue Kléber
FR-75116 PARIS, France

Telephone: +33 (0)1 47 55 55 00
Fax: +33 (0)1 47 55 03 38
Swift: CEFPFRPP

www.coebank.org

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