CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2008





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 2008. Leverage is particularly impressive: since its inception, the Bank has been able to pay 28 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).

GOVERNANCE

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 10 December 2004, 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.

Key figures

in million euros

	2008	2007	2006
Loans disbursed during the year	1 505	1 590	1 640
Projects approved during the year	1 861	2 414	2 460
Commitments signed during the year	1 958	2 621	1 564
Loans outstanding	12 423	12 007	11 965
Own funds (after allocation of profit)	4 718	4 754	4 692
Shareholders' equity (after allocation of profit)	1 785	1 821	1 767
Total assets	21 403	18 509	18 232
Net profit	95.8	93.3	88.1
Selective Trust Account Social dividends cumulated since the STA's inception	93.4	93.4	88.4
Balance available (after allocation of profit)	26.4	26.1	23.2

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REPORT OF THE GOVERNOR

Financial year 2008



The Bank's Member States (year of accession)

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



Contents

Membership of the CEB's organs 4
Organisation chart 8
Strategic review 10

MESSAGE FROM THE GOVERNOR 11
The CEB's communication strategy 14

CEB ACTIVITIES IN 2008 16
■ **PROJECTS AND LOANS** 17
I. Key factors for 2008 17
II. Means of action 18
1. Sectoral lines of action 18
2. Financing and monitoring modalities 18
III. Projects and loans activity in 2008 19
1. Strengthening social integration 20
2. Managing the environment 30
3. Developing human capital 34

■ **EX POST EVALUATION** 41

■ **FINANCIAL ACTIVITIES** 42
I. Economic environment in 2008 42
II. Securities portfolios 43
III. Derivatives 43
IV. Funding in 2008 45
1. Borrowings 45
2. Trend in debt position 46
V. Profit and balance sheet 47
1. Trend in profits 47
2. Trend in the balance sheet 47

■ **INTEGRATED RISK MANAGEMENT** 49
I. A structured, dynamic function 49
II. Situation at 31 December 2008 51
1. Credit risk 51
2. Market risk 52
3. Operational risk 53
III. Prudential framework 53

■ **COMPLIANCE** 54

■ **HUMAN RESOURCES MANAGEMENT** 55

FINANCIAL STATEMENTS 57
Financial statements 59
Notes to the Financial statements 65
External auditor's report 99
Auditing Board's report 101
Approval of the accounts by the Administrative Council 102
Approval of the accounts by the Governing Board 103
Balance sheet after allocation of profit 104

NOTES FOR THE READER 3rd cover

Membership of the Bank's organs

as at 31 December 2008*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Lars KOLTE Economist, Copenhagen	**Chairmen**	**Rainer STECKHAN** Former Director of the World Bank
Meta BOLE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	**Vice-Chairs**	**Inta VASARAUDZE** Deputy State Secretary, Ministry of Finance, Riga
Margarita GEGA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	**Albania**	**Sherefedin SHEHU** 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
Borislav MARIĆ 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
Ivan PETKOV 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
Daniel BUČAN 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 SVOBODA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Czech Republic to the Council of Europe, Strasbourg **Pavel HRNČÍŘ** *(since 19 February 2009)* Chargé d'Affaires, Permanent Representation of Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	**Petr PAVELEK** Deputy 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	**Denmark**	**Peter Brix KJELGAARD** Senior Advisor, Department of Finance, Ministry of Finance, Copenhagen **Thomas BØRNER** *(since 19 January 2009)* 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
Bruno GAIN 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
Eberhard KÖLSCH 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**	**Gerassimos FLOROS** Director for International Economic Organisations, Ministry of Economy and Finance, Athens
Mgr Aldo GIORDANO Special Envoy of the Holy See, Permanent Observer to the Council of Europe, Strasbourg	**Holy See**	**Reverend Father Florian KOLFHAUS** Deputy Permanent Observer 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
Elín FLYGENRING Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Strasbourg	**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**	**Dermot KEANE** Principal Officer, Department of Finance, Dublin **Brendan RYAN** *(since 1st January 2009)* Principal, Finance Directorate, 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
Pēteris Kārlis ELFERTS 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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Gediminas ŠERKŠNYS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Lithuania to the Council of Europe, Strasbourg	**Lithuania**	**Rolandas KRIŠCIUNAS** 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**	**Georges HEINRICH** Government Adviser, Ministry of Finance, Luxembourg
	Malta	**Joseph LICARI** Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg
Andrei NEGUTA Permanent Representative of Moldova to the Council of Europe, Strasbourg **Eugenia KISTRUGA** *(since 3 February 2009)* Ambassador, Permanent Representative of Moldova to the Council of Europe, Strasbourg	**Moldova**	**Ion CHICU** Deputy Minister, Ministry of Finance, 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 F. 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**	**Eugen Orlando TEODOROVICI** Secretary of State, Ministry of Public Finance, Bucharest **Bogdan Alexandru DRĂGOI** *(since 9 January 2009)* 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
Sladjana PRICA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Serbia to the Council of Europe, Strasbourg **Dragana FILIPOVIĆ** *(since 24 March 2009)* 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
Meta BOLE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	**Slovenia**	**Andrej KAVČIČ** Undersecretary of State, 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**	**Björn FRITJOFSSON** 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
Eleonora PETROVA-MITEVSKA 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"**	**Maja PARNARDZIEVA** State Advisor, 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

Finland: **Aunus SALMI**, Chartered Public Accountant, Former Member of the European Court of Auditors, Helsinki
Romania: **Horia NEAMTU**, Vice-President of the Romanian Chamber of Financial Auditors, Bucharest
San Marino: **Nicola CECCAROLI**, General Director, Fin-Alternative Investments SA, Dogana



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,** Director for Internal Audit; **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, Romania

Laszlo Lengyel: Cyprus, Hungary

Michael Lixenfeld: Germany, Liechtenstein, Luxembourg, Switzerland

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

Christophe Mroz: Poland

Javier de la Peña: Spain

Vitomir Miles Raguz: Bosnia and Herzegovina, Montenegro, Netherlands, Slovenia, "the former Yugoslav Republic of Macedonia"

Eva Schwebel: Bulgaria, Czech Republic, Georgia, Slovak Republic

Holger Seifert: Belgium, Ireland, France

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

Cristian Tabacaru: Albania, Moldova, Serbia

Elif Timur: Turkey

TECHNICAL ADVISORY DIRECTORATE
Roberto Cacciola

TECHNICAL ADVISORS

HOUSING AND URBAN RENOVATION
Dorota Blazejewicz

HEALTH
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

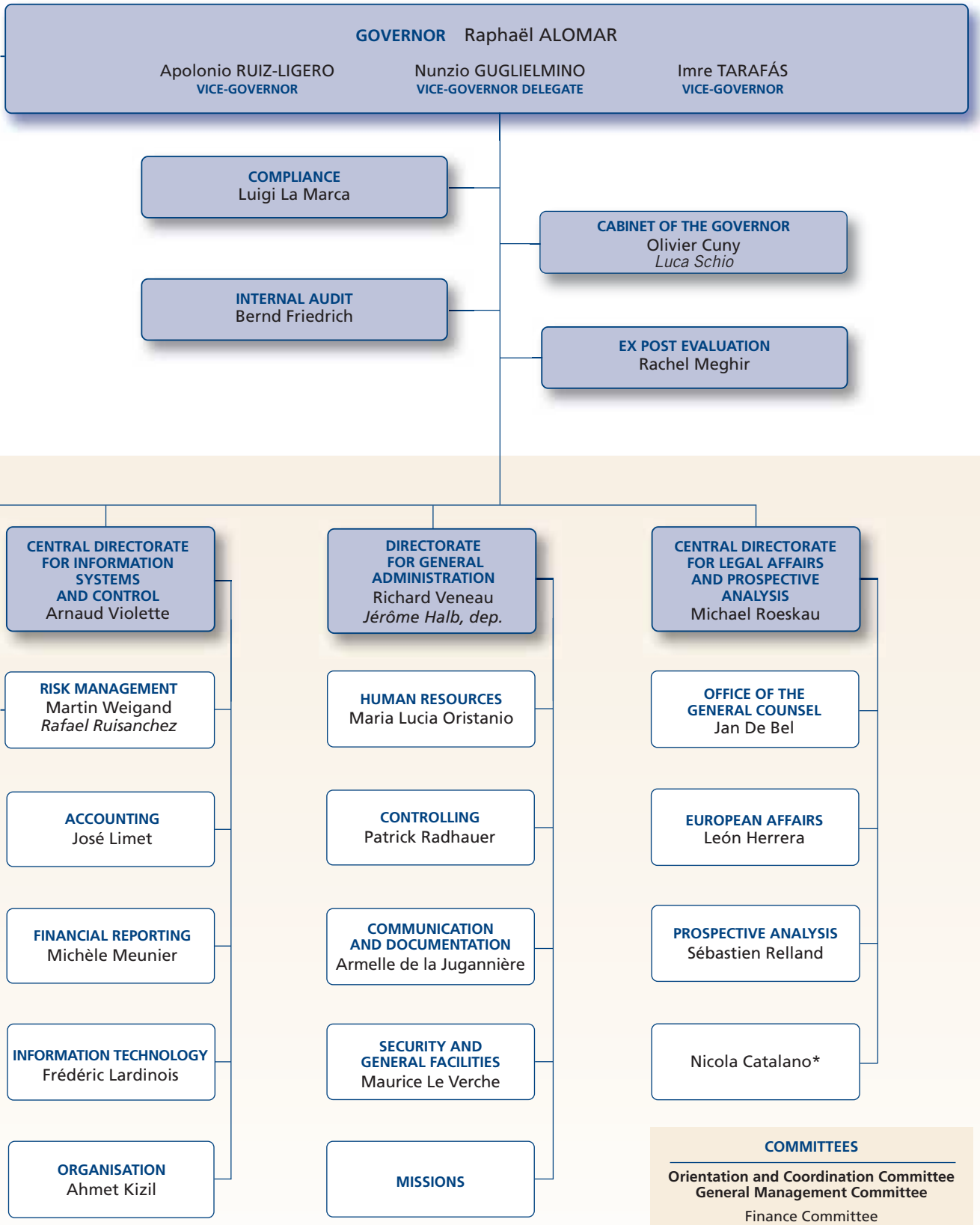
FUNDING
Arturo Seco Presencio

ALM
Isabelle Damez

MIDDLE-OFFICE
Alain Sayagh

BACK-OFFICE
Ioannis Velvitsanos

Organisation chart



* On secondment at the Office of the Commissioner for Human Rights, Council of Europe, Strasbourg

February 2009

Strategic review

Launched by the Governing Board in Prague in June 2007, on a proposal by the Governor, the CEB's Strategic Review led the Governing Board to appoint a "Committee of Eminent Persons" in March 2008, in accordance with the good practices used for similar exercises in other international organisations.

Composed of Mr. Enrique Iglesias, former President of the Inter-American Development Bank, and of Mr. Jón Sigurðsson, former President of the Nordic Investment Bank, and advised by Mr. Jacques de Larosière, former Managing Director of the International Monetary Fund and former President of the European Bank for Reconstruction and Development, as Special Advisor, the Committee of Eminent Persons was entrusted with the task of reflecting, with objectivity and independence, on the questions of the CEB's mandate, international positioning and governance. The Committee handed over its report to the Chairman of the Governing Board, in the presence of the Governor, in Paris on 20 October 2008. The report first observes that the Bank functions well and then goes on to make a number of recommendations notably concerning the scope of its mandate, its action in the target group countries, its international cooperation, its close links with the Council of Europe and its governance.

As the Committee recommended, at its meeting on 28 November 2008, the Governing Board asked the Governor to "prepare a plan of action providing different options and a timetable for implementing the CEP proposals, as well as a cost analysis of the proposed measures". As emphasised in the Committee's Report, the goal is to modernise the Bank's structure in order to enable it to fulfil its mandate more effectively. The recent events that have affected the world economy and the financial markets have effectively brought to the forefront the need for social development financing for the benefit of the Member States.

This exercise, which will be conducted in parallel and as a natural complement to the preparation of the next Development Plan for 2010-2014, will certainly contribute to better outlining the shape of the Institution and its road map for the long term. In effect, as the Report points out, it is on the basis of simplified but strengthened governance, in line with the recommendations of the Basel Committee and the practices that have evolved over the past years in the other multilateral development banks, that the CEB will be in a better position to respond effectively to the new challenges stemming from the financial crisis. This response will also be underpinned, among other things, by an increase in financings and by the deployment of new tools in the service of social development in each of its Member States and, in particular, in the Central and South Eastern European countries.

Handing over of the report by the Committee of Eminent Persons
Paris, 20 October 2008

From left to right:
Mr. Raphaël Alomar, *Governor*
Mr. Enrique Iglesias, *former President of the Inter-American Development Bank*
Mr. Lars Kolte, *Chairman of the Governing Board*
Mr. Jón Sigurðsson, *former President of the Nordic Investment Bank*
Mr. Jacques de Larosière, *former Managing Director of the International Monetary Fund, former President of the European Bank for Reconstruction and Development, Special Advisor to the Committee of Eminent Persons*



COUNCIL OF EUROPE DEVELOPMENT BANK

Message from the Governor



During 2008, just two years after its 50th anniversary and in a particularly volatile and difficult environment linked to the current crisis, the CEB was determined to further strengthen its financial leverage mission in the service of social cohesion in Europe.

- This first meant pursuing and, in 2008, very clearly accelerating the **geographical redeployment of the Bank's actions in favour of the target group** of 21 Central and South Eastern European countries, in compliance with the strategic orientations contained in the Development Plan for 2005-2009.

  In spite of the crisis, the **total amount of disbursements** was maintained, although it took a slight downward turn at the end of the year to stand at 1.5 billion euros, which at the same time enabled the loan outstanding to continue to grow and, for the first time, to go beyond the 12.4 billion euro mark by end 2008, representing a record level since the CEB's creation. In all, with an average contribution of 40% per project, the Bank enabled the financing of some 30 billion euros worth of social investment in Europe. The Bank's balance sheet, on the other hand, for the first time reached a total amount of 21.4 billion euros.

  In this context, and given the increasing social needs in the target group countries, the CEB significantly increased (+ 58%) its disbursements in favour of these countries in 2008: the total amount of these disbursements thus reached 1.1 billion euros, representing 70% of all loans disbursed in the year. Moreover, 65% of the projects approved in 2008 were implemented in these target group countries and 81% of the projects in stock are for this same group of countries. Lastly, over the period 2005-2008, operations in this group represented 53% of the loans disbursed and 62% of the projects approved; at this stage, these figures go significantly beyond the objectives of the Development Plan 2005-2009.

- The structure of the projects/loans activity reflects **the CEB's commitment to fostering sustainable social development.** As in 2007 and in similar proportions, the new projects and programmes broke down according to **three major sectoral lines of action**: social integration, representing 66% of the total approved in 2008, management of the environment (17%) and support for human capital (17%). Among the **very high social intensity initiatives**, of particular note are the financing of renovation work on Chişinău Hospital, the largest hospital in Moldova, support for the creation and preservation of jobs in micro-enterprises in Spain by means of micro-credits, and three new programmes in Hungary, in the Northern and Southern Great Plains regions and in the South Transdanubia region.

Despite the crisis, the level of disbursements was maintained and the loan outstanding went over the 12.4 billion euro mark, representing a record level since the CEB's creation.

At the same time, the CEB substantially increased (+ 58%) its disbursements in favour of the target group countries in Central and South Eastern Europe...

...while deepening its commitment to fostering social integration and sustainable development.

This intensification of the Bank's social contribution was made possible...

...thanks to the Institution's financial soundness, as reflected in its AAA signature,...

...to the positive assessment of the Bank's management, functioning and strategy made by the Committee of Eminent Persons in their report on the Strategic Review,...

...to the strengthening of its international partnership policy...

- The intensification of the Bank's social contribution was made possible thanks to the **Institution's financial soundness and the continuing adaptation of its means of action in spite of a steadily deteriorating international economic context and a very grave financial crisis since the summer of 2007**, the consequences of which are not yet fully known.

  Standing at 95.8 million euros in 2008, the net profit remained at a high level, showing a marked increase (+ 2.7%) in relation to 2007. Own funds this year reached almost 4.7 billion euros. The CEB's financial base was also consolidated by the **quality of its counterparties**, over 80% of which were rated A or more at 31 December 2008. In these conditions, the ratios of the prudential framework put in place within the context of the Medium-Term Development Plan continued to be in a very favourable situation. Thus, the risk asset coverage ratio, which in particular limits the outstanding rated *below investment grade*, stands at 33% whereas the ceiling authorised by the Collegial Bodies is fixed at 66%.

  The AAA rating confirmed by the agencies Moody's, Standard & Poor's and Fitch Ratings in the very eye of the financial storm in October 2008 reflects this excellent assessment of the CEB's signature on the international financial markets.

  These results bear witness to the financial soundness of our Institution, to the rigorous nature of its control system and to the confidence 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 further strengthen the CEB's operational effectiveness.

  The scope of the worldwide financial and economic crisis calls for an increasingly acute capacity to react and to adapt. The deterioration in the ratings of several of the Bank's countries of operations and the reticence shown by now weakened traditional banking partners with regard to any further risk taking are all challenges that must be met by our Institution that is seeking to maximise its value added, in particular in the target group countries, as indicated above.

  In wider terms, the crisis also provides an opportunity for in-depth reflection as to the Bank's priority missions: this was precisely the task the CEB immediately set itself on the basis of the **Report submitted on 20 October last by the Committee of Eminent Persons within the framework of the Strategic Review**, then examined by the Administrative Council and the Governing Board at their meetings in November (see page 10). **The Plan of Action on Governance**, inspired by the recommendations contained in the report, on the one hand, and the **preparation of the next Development Plan for 2010-2014** throughout the coming year, on the other, will together contribute to shaping the CEB and outlining its road map for the long term. The conditions are thus met to make 2009 a turning-point year in the development of our Bank.

- In this context, the Bank has endeavoured to **further strengthen its cooperation with the other social development actors in Europe**. The CEB thus approved the financing of several projects in partnership with the European Union within the framework of the *Western Balkans Investment Framework and Neighbourhood Investment Facility* programmes. Furthermore, a joint statement on cooperation was signed with the EIB on 2 June 2008. The Bank also renewed a framework agreement on cooperation with the UNHCR and, in close cooperation with this organisation and with UNICEF and the UNDP, granted a substantial donation in favour of the populations in Georgia.

- During the year, the CEB also implemented **a series of specific communication actions.** Thus, the Internet site was completely re-designed and substantially enhanced (in particular, an innovative institutional film was put on line). The Bank naturally took part in a number of highlights events of European communication corresponding to its mandate: Open Days at the Council of Europe, European Union Open Days, Symposium on Migration under the aegis of the OECD, etc.
- Lastly, the **funding policy** was conducted in accordance with the objectives defined over several years now and adjusted to the volume of activity.

  In 2008, the Bank's issues with maturities of one year or more amounted to **3.3 billion euros**, with 67% of these borrowings denominated in the United States dollar (against 87% in 2007). Borrowings in the Australian dollar, on the other hand, represented 9% of the volume of issues.

*

In all, in my opinion, as a year in which the role of international financial institutions and multilateral development banks returned to the forefront, 2008, like 2005, 2006 and 2007, fully responded to the priority objective set by the Medium-Term Development Plan: to redeploy the projects and loans activity in favour of the target group countries in Central and South Eastern Europe, based on a steadily consolidated financial structure and an ever increasingly efficient risk management framework.

The CEB has also taken on its rightful place in the current crisis situation, based on its mandate and its specific qualities. Of course, it is not the Bank's mission to bail out the banks or to set up support programmes like those developed by Governments, the central banks or the IMF. This does not correspond to its mandate or to what its balance sheet will allow.

In this crisis context, the CEB nevertheless endeavours to continue to play a specific yet fundamental role in the financing of social infrastructure. In effect, support for the financing of such infrastructure has an economic and social impact that can prove decisive in this period of crisis and, in a complementary way and at competitive costs, the CEB can provide the long-term financing that has today become difficult or prohibitive costwise for Governments to set up.

Thanks to all these actions and to the soundness of its results, strengthened by ever closer cooperation with the Council of Europe and inspired by its values, the CEB is thus in a good position to play its full role in the service of social cohesion and sustainable development. Naturally, the ongoing discussions within the Collegial Bodies concerning the conclusion of the report by the Committee of Eminent Persons concerning the Bank's Strategic Review must provide an opportunity to make our governance structure lighter and more simple, while improving the effectiveness of our actions and of our instruments, in priority for the benefit of the target group Member States.

Paris, 6 February 2009



Raphaël ALOMAR

...and to the support of a dynamic financial policy.

These results, in growth mode despite a difficult environment, fully comply with the strategic orientations contained in the Development Plan for 2005-2009...

...while responding to the social challenges of the crisis by providing financing for long-term social projects in the Member States.

Implementation of the recommendations of the Strategic Review will provide an opportunity to simplify the CEB's governance and to further improve the effectiveness of its action, in priority for the benefit of the target group countries.

The CEB's communication strategy

The CEB's communication strategy must adapt to the specific nature of the Institution, to the expectations of its target publics and to changes in its environment. Priority is thus given to:

- capitalising on the Bank's original position among the IFIs
- focusing on the actors situated at the centre of its field of activity
- consolidating the Institution's reputation.

Within this framework, the Bank strives to enhance the transparency, readability and visibility of its action in the service of social development in Europe. The communication actions deployed in 2008 have endeavoured to ensure that these principles are fully reflected in all its operations.

Transparency tools

The public information policy approved at the 43rd Joint Meeting held in Bucharest and since then posted on the Institution's website, represents the movement initiated within the framework of the Strategic Review to further enhance the CEB's transparency in all its aspects. This policy is structured around three guiding principles: transparency, responsibility, equilibrium, which all correspond to one priority objective: to facilitate the widest possible access to information concerning the Bank, in conditions appropriate to the Institution's specific nature.

Over and above these aspects of communication as such, the CEB's transparency process is also underpinned by the adoption of an anti-corruption charter in 2007, by the recent posting on-line of the "Regulations on a system for the protection of personal data at the CEB" and by the creation of the Chief Compliance Officer function.



Brussels, 6-9 October 2008
Committee of the Regions
CEB participation in the financial institution stand at the Open Days, during the European Week of the Regions and Cities

Launch of the new website



The CEB launched its new website in September 2008. The architecture of the site remains structured around three major thrusts: presentation of the Institution (with more particular emphasis on issues of governance and integrity), full and detailed information on the activities (including the concrete stages required for obtaining CEB financing) and lastly an "infocentre" providing access to all the Bank's publications and communication supports.

Moreover, the overall ergonomics of the site have been made more attractive and surfing easier, around a single principle: to enable all visitors to access the information they wish to obtain in just three clicks. In addition to this, visitors may consult each page of the site in either of the CEB's two official languages.



Paris, 18 September 2008
Thematic information seminar on the particular role of intermediated loans and on the implications of IFRS standards on the Bank's accounts

Another characteristic of the new site is that it contains more clearly affirmed editorial options. Thus, as of the home page, a scroll bar presents the main elements of the CEB's activity. These elements are updated with the latest Bank-related news highlights as they unfold. Project approvals are reported in press releases immediately following the meetings of the Executive Committee and Administrative Council.

Finally, within the wider framework of its corporate responsibility policy, the CEB has ensured that its website is accessible to the visually impaired. The CEB's website thus enjoys the AccessiWeb label.

Film on the CEB



Within the context of its effort to achieve enhanced visibility, during the past months the CEB has developed an institutional film encompassing a very wide panorama: the Bank's history for over half a century, the sectoral and geographical diversity of its activity, its means of action and social vocation.

The filming locations were carefully chosen, in cooperation with the country managers, so as to reflect the reality of the Bank's actions on the ground. In all, more than a simple vector for communication, this film is intended to be the expression of a corporate culture and the reflection of an identity with which all the staff can identify. The film can be viewed on the Bank's Internet site, in the two official languages.

CEB participation in the Open Days at the Council of Europe

On the occasion of the European Heritage Days, the Council of Europe opened the doors of its new building, the Agora, which was inaugurated in April 2008. It was in this venue that, on 21 September 2008, the European Heritage Open Days were held in Strasbourg. As was the case the previous year, the CEB participated in this event, which enabled several thousand visitors to become better acquainted with the reality of Europe.



Strasbourg, 21 September 2008
European Heritage Open Days at the Council of Europe
CEB Stand



Migration in Europe: the CEB's experience

The division of Europe at the end of the Second World War and beginning of the cold war that led millions of people to seek refuge in the West of the continent was at the very origin of the creation in 1956 of the **Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe**, which was later to take the name of Council of Europe Development Bank (CEB).

The Bank's Articles of Agreement specifically mention **aid to refugees, displaced persons or migrants as one of its statutory priorities.** Since its establishment, the CEB has played an important role in financing projects in favour of the sustainable resettlement and integration of these vulnerable population groups. Founded in the post-war context of considerable migratory flows to Western Europe, the Bank has since seen a significant increase in the number of its Member States, particularly after the fall of the Berlin wall, which has caused it to turn its attention to migratory flows in Central and South-Eastern Europe.

In 2008, CEB was invited to share its long experience by participating, as a sponsor, in the **OECD workshop entitled "The Future of International Migration to OECD Countries".** This experts' workshop, which took place on 1-2 December 2008 in Paris, explored the main factors shaping the global migration landscape over the next 25 years. Various scenarios were discussed to help provide a better grasp of the key issues that public and private actors will need to address.

Within this framework, the CEB presented a study on **"Migration in Europe: the CEB's experience".** The study provides a comprehensive account of the Bank's historical experience to date in the field of migration. It examines the different ways of financing aid for refugees, displaced persons and migrants through a broad range of projects, both geographical and sectoral, financed over the last fifty years.

By giving concrete examples of projects, the study presents **migration as a cross-sector issue.** Indeed, as the Bank's social mandate has broadened over the years, the study attempts to capture the variety of sectoral approaches the CEB has used to respond to migration issues. The study also provides a number of channels of reflection for the CEB's future actions in favour of migrant populations.

Over the last fifty years, the CEB has disbursed some € 5 billion, representing close to 20% of its total disbursements to date, on projects:

- specifically targeted to refugees and displaced persons in the aftermath of crisis situations
- for the construction or reconstruction of housing, urban and social infrastructure for migrants, both at international and national level
- for the education and professional training of young migrants
- for the stabilisation of population flows in rural areas, or
- for the financing of social integration programmes in the destination countries.

With a view to sharing and enhancing its expertise and to increasing the added value of its actions, the **CEB has developed a network of partnerships** with other international financial organisations, UN specialised agencies such as the UNHCR and UNICEF, the International Organisation for Migration (IOM) and different regional initiatives in favour of refugees and other migrants.

On the strength of its experience and faithful to its social mandate, the CEB intends to pursue its support for projects related to refugees, displaced persons and migrants, in close dialogue with its Member States and in coordination with the international community.



The full text of the study, in the form of a brochure entitled *Migration in Europe: the CEB's experience*, is available on the CEB's website.

Projects and loans



I - KEY FACTORS FOR 2008

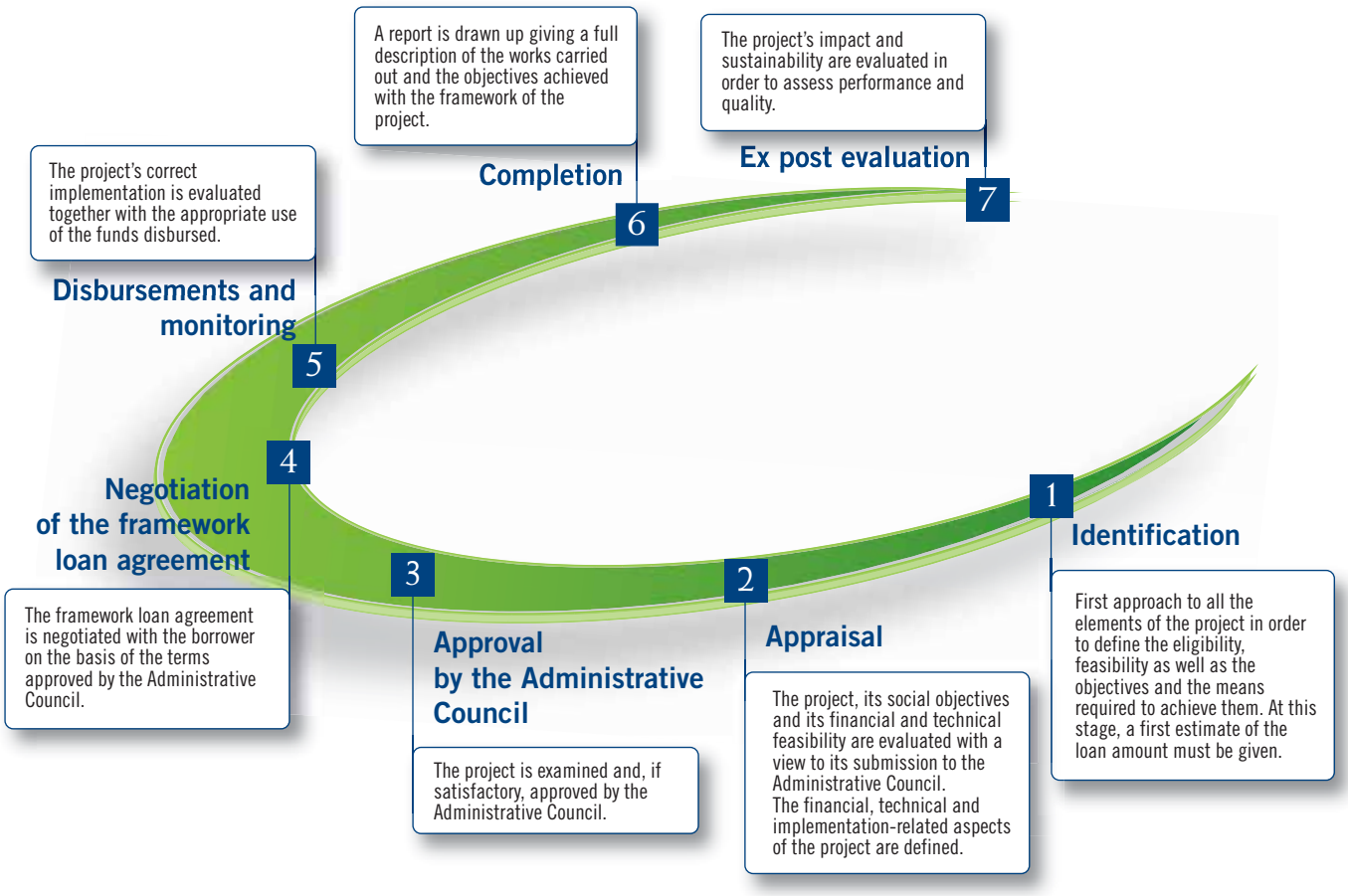
2008 is the fourth year of implementation of the Bank's Development Plan for the period 2005-2009. This plan aims notably to strengthen the CEB's action in a group of target countries in Central and South Eastern Europe*.

In operational terms, 2008 was characterised by:

- a strengthening of activity in terms of approvals and disbursements in favour of the target group countries, representing respectively 65% and 70% of the 2008 activity (€ 1 201 million approved and € 1 059 million disbursed), despite a difficult economic context that continues to deteriorate.
- a majority of projects (close to 66%) to enhance social integration. In particular, the new operations in the sectors of *creation and preservation of viable jobs* and *improvement of living conditions in urban and rural areas* represented a combined total of € 1 146 million. Moreover, the projects in favour of environmental management reached a total of € 323 million. Lastly, the Bank approved projects in favour of the development of human capital, in the sectors of *health* and *education*, for a total amount of € 312 million.
- the Bank's ongoing support for the sectoral programmes developed by its Member States, both within the framework of projects supported by the European Union (including for "Operational Programmes") and for investment programmes committed directly by its Member States (see box on page 24).

In this context, the Bank signed 36 loan agreements for a combined amount of **€ 1 958 million**, which brings the committed share of the stock of projects to **€ 3 402 million** as at 31 December 2008.

** According to the terms of the CEB's Development Plan 2005-2009, the countries concerned are: 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.*







LITHUANIA
Housing for returning deportees

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

Aid to refugees and migrants, as well as projects in the natural or ecological disasters sector are statutory priorities. Additionally, in order to promote **social cohesion** in Europe, the CEB's capacity for action has steadily widened to include sectors of action that directly contribute to promoting social cohesion in Europe.

The Bank's projects and loans activity is structured around three sectoral lines of action, namely: **strengthening social integration, managing the environment** and **developing human capital.**

This approach corresponds to a twofold requirement: on the one hand, to ensure better readability of the Bank's activity by homogeneously grouping together its eligible sectors and, on the other hand, 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 on opposite page). 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 or through the use of trust accounts (see box on the Norway Trust Account, page 28).

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

SECTORAL LINES OF ACTION	SECTORS OF ACTION
Strengthening social integration	- Aid to refugees, migrants and displaced persons - Housing for low-income persons - Creation and preservation of viable jobs - Improvement of living conditions in urban and rural areas - Administrative and judicial public service infrastructure
Managing the environment	- Natural or ecological disasters - Protection of the environment - Protection and rehabilitation of historic and cultural heritage
Developing human capital	- Health - Education and vocational training



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 for projects financed by the CEB and the general procedures 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 specificities of each project for which a loan is sought. Potential borrowers** prepare the loan applications, in close collaboration with the Bank's services.

After analysis of the borrower's solvency and of the financial and technical sustainability of the project by the Bank's teams, the loan applications are submitted to the Administrative Council for approval.

* *Document available on the CEB's website*
** *Governments, local / regional authorities, public / private financial institutions or any other public / private legal entity approved by a CEB Member State. In order to determine a borrower's eligibility for financing, a systematic evaluation of its solvency is carried out by the CEB.*

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 17) are key factors for the effective implementation of these projects.

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 concluded.

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 focussing on ex post evaluation, which enables the CEB to measure the medium-term social impact of completed projects and programmes, and improve the quality of on-going and forthcoming projects through the learning effect.

III - PROJECTS AND LOANS ACTIVITY IN 2008

In 2008, the CEB's Administrative Council approved 39 projects, for a total amount of **€ 1 861 million**. 27 projects were approved for target group countries, for a sub-total of € 1 201 million, or 65% of the total amount approved during the year.

The total of the new financing commitments as at 31 December 2008 was **€ 1 958 million**, of which 65% were in favour of target group countries.

These new operations are broken down between the Bank's three sectoral lines of action as follows:

- 66% for strengthening social integration
- 17% for managing the environment
- 17% for developing human capital.

The breakdown by country and by sector of the approvals is given in the table on page 38.

Additionally, within the framework of the **collaboration between the CEB and different specialised agencies of the United Nations**, the CEB approved **6 donations** in 2008, in favour of vulnerable populations, refugee populations and displaced persons in various countries, all members of the Bank's target group.



These donations breakdown as follows:

Beneficiary countries	Partner organisations	Amounts (in euros)
Bosnia and Herzegovina	United Nations High Commissioner for Refugees (UNHCR)	265 000
Georgia		500 000
Serbia		265 000
Georgia	United Nations Development Programme (UNDP)	250 000
Georgia	United Nations Children's Fund (UNICEF)	250 000
Moldova		200 000
	Total	**1 730 000**

At end 2008, disbursements totalled **€ 1 505 million** (including € 1 059 million in favour of target group countries, representing 70% of all the disbursements made during the year), spread over 118 loan tranches and 75 projects.

Disbursements were spread between the Bank's three sectoral lines of action, as follows:

- 65% for strengthening social integration
- 17% for managing the environment
- 18% for developing human capital.

At 31 December 2008, the loans outstanding amounted to **€ 12 423 million**, spread over 33 countries.

The breakdown of loans disbursed per country and per sector is given in the table on page 40.

In its activities, 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 the course of 2008 reflects this determination.

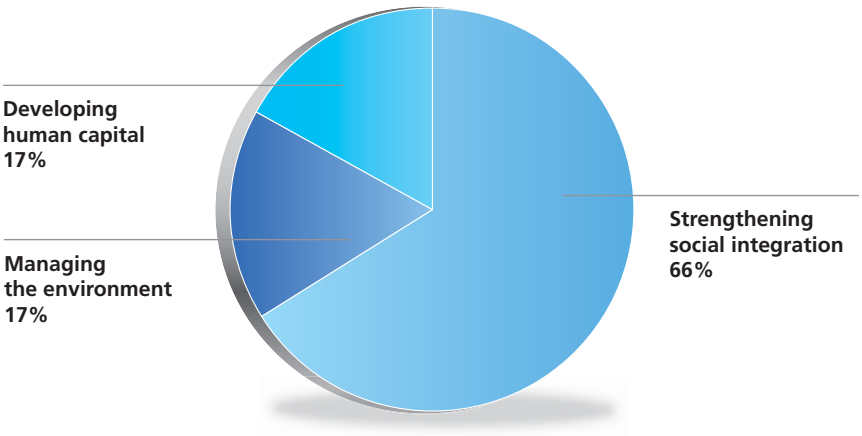
1. Strengthening social integration

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, improving the quality of life in urban and rural areas and modernising the infrastructure of administrative and judicial public services.

Over the past five years, this sectoral line of action represented an accumulated amount of **€ 6 125 million** in terms of projects approved (representing 56% of all projects approved since 2004). For 2008 alone, the amount of projects approved reached **€ 1 226 million** (representing 66% of all projects approved during the year).

In parallel, over the past five years, loans disbursed in favour of strengthening social integration have represented an accumulated amount of **€ 4 704 million**, representing 60% of all disbursements made since 2004. In 2008, the Bank disbursed **€ 985 million**, including € 722 million for the target group countries.

Projects approved in 2008 - Breakdown by sectoral line of action





GEORGIA

The CEB's contribution to the international aid programme in Georgia

The CEB followed the events occurring in Georgia during August 2008 with concern. Due to its original mandate and vocation, the CEB is particularly concerned by this crisis that led to destruction and significant movements of internal and external populations on the territory of one of its Member States.

As early as September 2008, the Bank's Administrative Council approved the allocation of an amount of € 1 million in favour of Georgia, dispensed through three United Nations agencies (UNHCR, UNICEF and UNDP). This amount made it possible to commit donations in favour of operations on Georgian territory at an early stage, in close cooperation with the different UN agencies.

In October 2008, the CEB participated in the Georgia Donors' Conference in Brussels, during which it emphasised its interest in promoting new operations in Georgia, in particular for reconstruction projects, within the framework of its social mandate in favour of refugees, migrants and displaced persons. In that context, given their social impact, these loans could be accompanied by additional donations by the CEB, in the form of interest-rate subsidies up to a maximum of € 2 million per project.

In addition, in November 2008 the CEB took part in an assessment mission with all principal donors, under the aegis of the UNHCR.

Project to rehabilitate collective centres with UNHCR

A € 500 000 donation will serve as partial financing for the rehabilitation of collective centres and winter-proofing of displaced populations shelters, mainly collective centres located in displacement zones in which the basic conveniences are lacking, electricity supply is inadequate and the heating systems are insufficient.

Project to create a community reading centre with UNICEF

A € 250 000 donation will be devoted to financing a project to create and equip a community centre for reading. These centres provide children affected by conflict, as well as their families, with adapted access to learning and possibilities of development, in a safe and secure environment that is free of violence or discrimination.

Project to rebuild livelihoods with UNDP

A € 250 000 donation will provide partial financing for a project to facilitate the reestablishment of the basic services and livelihoods in the Shida Kartli region, within the framework of the UNDP's Foster Programme.

The initiative financed by the CEB will:

- support the local government's capacities to respond to the crisis, particularly as regards recovery needs and priorities for putting basic services back into commission
- restoring livelihoods in priority urban and rural areas
- strengthen community security, the rule of law and social cohesion.

Two projects with the Council of Europe

In January 2009, the Administrative Council approved two additional donations in favour of projects whose implementation is to be placed under the responsibility of the Council of Europe. These projects concern respectively:

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



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)
- preventive and curative medicine programmes, education and vocational training programmes
- the technical infrastructure and basic amenities required to meet the immediate needs of victims of exceptional situations.

During the past five years, the CEB has responded to requests made by several of its Member States for the implementation of projects in favour of refugees and displaced persons. Indeed, since 2004, the CEB has approved a total amount of **€ 501 million** for the implementation of new operations in this sector; furthermore, disbursements in 2008 reached **€ 2 million**.

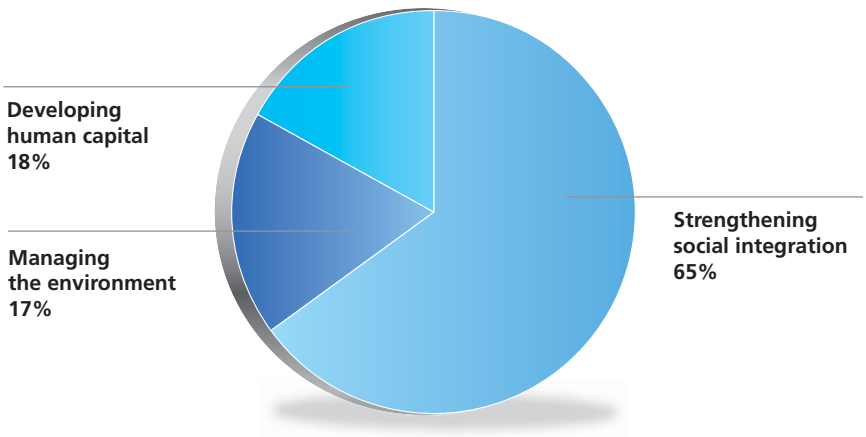
In this context, the Bank is making efforts to strengthen the operational cooperation relationships it has with several international institutions that work for the benefit of refugee populations, migrants and displaced persons. These cooperation relationships enable the CEB to increase the added value of its work in this priority field of action.

On 31 December 2008, **the CEB signed a new Memorandum of Understanding (MoU) with the United Nations High Commissioner for Refugees (UNHCR),** following on from the one it had signed on 24 February 2005, which had expired. This new agreement will enable the implementation of long-term financial cooperation, as well as the financing of social housing, educational and health projects for uprooted people under UNHCR's mandate; a particular emphasis will be put on those European countries that host large numbers of displaced persons, such as **Bosnia and Herzegovina, Georgia** and **Serbia**. The MoU also provides for the UNHCR to help the CEB and the governments concerned to identify relevant projects for which loans could be granted.

This year, **two donations totalling € 530 000 were approved with the UNHCR.** The first, in favour of **Bosnia and Herzegovina**, will finance a project aimed at facilitating the return of displaced persons living in collective centres. The second grant will be devoted to fund a project in **Serbia**, for the provision of micro loans for displaced persons from Kosovo seeking to locally integrate into the country.

Lastly, the CEB also approved an **amount of € 1 million, intended to support the international aid programme for Georgia**, implemented through three United Nations agencies (UNHCR, UNICEF and UNDP). This amount will make it possible to make donations rapidly in support of operations identified in Georgia, in close cooperation with the three partner UN agencies (see box on page 21).

Loans disbursed in 2008 - Breakdown by sectoral line of action





FINLAND

Financing of a housing project in favour of vulnerable groups of population

This year Pohjola Bank and the CEB signed a loan agreement that will devote **€ 100 million** to financing projects to build and renovate housing for vulnerable groups of population.

This operation aims to meet the critical needs for social housing that Finland is experiencing. It is the successor to four previous programmes approved since 2000, whose implementation was deemed highly satisfactory, in terms of institutional organisation, implementation and social effects attained.

This new programme is of great social value and has considerable added value. Its goal is to contribute to the financing of:

- the renovation and construction of subsidised housing for low-income persons, as well as the associated basic technical infrastructure
- and social infrastructure associated with health and education, mainly social housing for elderly, dependent or disabled persons, and student housing facilities.

Since 2000, more than € 350 million have been disbursed by the CEB to finance the Finnish social housing sector (including the components linked to health and education). To date, these loans have partially financed 144 sub-projects, related to the construction or renovation of almost 7 000 housing units.

As for the previous successfully implemented operations, the CEB's funds will contribute to providing housing for low-income households, young people (students) and vulnerable groups of population or persons with special needs (elderly, dependent or disabled persons).



DENMARK
Housing for elderly persons

Housing for low-income persons

The housing sector is an effective vector of support for the Bank's mission of strengthening social cohesion in its Member States and contributing to the improvement of living conditions in both 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, collection and treatment of wastewater. In order to encourage a multisectoral integrated approach in its operations, the Bank also includes housing within the framework of wider sectoral problems 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), which defines a cooperation framework for the implementation of the European Union's integrated urban development policy for the period 2007-2013 as well as implementation of the JESSICA initiative*. This

** JESSICA: Joint European Support for Sustainable Investment in City Areas.*



CEB's support for government sectoral programmes

The CEB's support for government sectoral programmes is constantly increasing, especially in target group countries. Since actions at economic, social, environmental level and those in favour of employment are mutually reinforcing, the Bank encourages a multisectoral and integrated approach.

A reference in this respect is the **Paris Declaration on Aid Effectiveness** (2005), to which the CEB is a signatory. It calls for better management of results and by directing country-led development processes towards clearly defined goals and measured terms of outcomes. In that, participation in the development and implementation of sectoral policies will enable the Bank to foster, at national level, policies and investments that fulfil the real needs of its Member States.

This approach is typically conveyed by:

- setting up operational framework instruments (the "operational frameworks")
- approving operations in which the Bank supplements the financing of projects that are being implemented by the State or by local and regional government authorities
- the Bank participating in a variety of coordination arrangements linked to a certain sectoral or geographic operating logic.

Introduction of operational framework instruments

A good understanding of the countries' needs is central to a long-lasting relationship.

As shown by the operational frameworks established by the CEB in 2007 for **Hungary** and in 2008 for **Turkey**, these documents represent real dialogue instruments with the national authorities.

They make it possible:

- to outline the general framework of the Bank's projected activities in the country concerned
- to identify the priority needs and specific development objectives on a multiannual basis.

They also serve as the platform for the allocation of the Bank's financial and human resources devoted to the preparation of projects in these countries according to its comparative and competitive advantages.

Complementary support for the financing of projects implemented by a Member State or local and regional authorities

In recent years, the CEB has approved a number of operations that provide additional financing for projects implemented by Governments or by local and regional government authorities, with the support of the European Union (EU). Since 1995, the amount of projects approved by the CEB within the framework of such financing schemes amounts to € 824 million.

Among recent examples, reference can be made to the programme approved with the Polish region of Mazovia (€ 95 million) or the one in favour of the Hungarian region of South Transdanubia (€ 70 million). These operations are part of the Bank's strategy for providing aid to local and regional authorities and confirm its commitment at their sides to help them better integrate and to enhance their attractiveness on the European regional scene.

At the same time, the Bank is providing additional financial resources for specific operations, such as the renovation of the Chişinău Republican Clinical Hospital, the largest hospital in Moldova, which will provide a basis for the reform of the country's hospital sector (see box on page 34).

Participation in coordination arrangements

The Bank also takes part in several coordination arrangements that make it possible to jointly prepare and finance projects, under the aegis of the EU.





ROMANIA
Construction of a cultural centre

In this area, the CEB cooperates with the EU in favour of three categories of its Member States:

- Member States likely to join the EU (candidate countries and potential candidates). This cooperation is part of the so-called "Pre-accession" Policy and is run, in particular, through the **Infrastructure Project Facility (IPF)** and the **Western Balkans Investment Framework (WBIF)**
- Member States eligible for the European Neighbourhood Policy. The cooperation between the CEB and the EU is performed under the **Neighbourhood Investment Facility (NIF)**, in particular for projects in the social sectors
- Member States that belong to the EU. Cooperation with the EU, above all, is part of the European Urban Renewal Policy. The CEB cooperates firstly with the Commission and the EIB in favour of these countries under the **JESSICA initiative.**

Lastly, since 2000, the CEB has been working with the European Commission and KfW Bankengruppe to implement **four tripartite financing Facilities** (a combination of loans from the CEB and KfW and donations from the Commission) in favour of the Bank's target group countries: SME Finance Facility; Municipal Finance Facility; Preparatory Action Programme; Energy Efficiency Facility.

agreement places the problem of housing at the heart of European urban regeneration policies.

The projects financed in this sector concern the renovation, construction or rehabilitation of housing units, as well as the transformation 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), including rural housing (limited to the principal residence within the framework of family-style farm holdings).

During the past five years, the CEB has approved projects in the social housing sector for an accumulated amount of **€ 1 347 million**, representing 12% of all approvals for the period 2004-2008.

For 2008 alone, the CEB approved new operations in this sector for a total of **€ 76 million** (representing 4% of all projects approved). Disbursements carried out amounted to **€ 164 million**, representing 11% of all the disbursements made during the year.

In **Spain**, the Bank approved a programme implemented with three Basque savings banks (Bilbao Bizkaia Kutxa, Gipuzkoa Donostia Kutxa and Caja Vital Kutxa) for a total of € 55 million. This operation is part of the Zorrozaurre Peninsula Urban Regeneration Scheme in Bilbao, for which the CEB is financing the purchase and preparation of the plots for the "protected housing" part of the project (some 3 000 housing units planned).

In **Hungary**, the Bank approved a programme with the Government, devoting € 1.4 million to the renovation of social housing units in the North Great Plain Region (Észak-Alföld).

In **Moldova**, the CEB approved a € 3 million project with Agroind Bank, to remedy the lack of supply of mortgage loans which provide financing for housing in the country. For most needy households, access to home-ownership remains unaffordable due to the lack of financing programmes and developers. Some 250 families are expected to benefit from real estate loans as a result of this project. The CEB funds will contribute to strengthening social cohesion in Moldova, by providing access to housing market to people having revenues around the national average and thus keeping them out of vulnerable groups.



Lastly, the CEB approved a programme in **Portugal** with Banco BPI, which will provide € 17 million to finance programmes to build or renovate social housing buildings; it will also make it possible to transform buildings into housing blocks in order to provide decent housing for low-income persons.

Creation and preservation of viable jobs

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

Over the past five years, the Bank has approved projects in this sector for a total of **€ 3 056 million**, representing almost 28% of all approvals for the period 2004-2008.

For 2008 alone, the amount of projects approved reached **€ 901 million** (representing 48% of all projects approved during the year). Disbursements in this sector amounted to **€ 651 million**, representing 43% of all disbursements made during the year.

Among these projects, the Bank approved a programme in **Albania**, totalling € 5 million, with Fondi BESA,

SLOVENIA
SME specialised in glass making



SPAIN

Project with MicroBank in support of employment and the strengthening of the local economy

The CEB approved a programme in Spain worth **€ 30 million** with MicroBank-Banco Social de La Caixa, the purpose of which is to encourage independent economic activity in micro-enterprises throughout Spain.

The CEB's funds will be distributed by MicroBank in the form of micro-credits for a target population that has very little or no access to traditional lending channels. These micro-credits will make it possible to reach the targeted vulnerable populations using three forms of financial assistance:

- *Social micro-credits:* personal loans of up to € 15 000, granted to persons with self-employment projects in need of assistance/mentoring from "social entities" such as municipal councils; associations or NGOs acting in order to implement and develop their business ideas
- *Financial micro-credits:* personal loans of up to € 25 000 for small entrepreneurs with limited financial resources (annual income capped at € 18 000) and who are experiencing difficulties in obtaining a bank loan in order to achieve self employment
- *Loans to assist families:* loans to assist family entry and settlement, women victims of violence, people with disabilities, etc. These loans represent a means of providing, when necessary, the initial financial support needed to enable the beneficiaries to stabilise their personal situations before embarking upon a self-employment project.

With this operation, the CEB will contribute to the strengthening of social cohesion and the development of the local economy in Spain. In addition, the Bank will facilitate access to jobs and stable incomes for persons threatened with social exclusion and marginalisation.



to finance productive investment projects in micro and small enterprises in the country. The major goal of the project is to provide financial support to micro-enterprises and small entrepreneurs, usually independent workers, to encourage the creation and development of self-sustainable businesses. In addition, attractively-priced loans to be extended to entrepreneurs in urban areas will not only provide access to much needed financial resources but will help in preventing economic migration abroad and promote efforts to lower unemployment in chronically poor areas.

Again in Albania, a programme with the Government (totalling € 5 million) will be devoted to financing productive investment projects in micro, small and medium-sized enterprises, with a focus on rural areas. The main objective of this operation is to provide the Mountain Areas Finance Fund (MAFF) with financial resources to on-lend to small entrepreneurs in rural areas to facilitate the purchase of livestock, tools and agricultural inputs; small rural investments (such as greenhouses or small bakeries) and small trade and services.

The CEB has also approved three programmes in **Bosnia and Herzegovina** with three local subsidiaries of the Hypo Alpe Adria Group (HAAB Banja Luka, HAAB Mostar and HAAB Leasing) for a total of € 50 million. These three operations aim to finance productive investment projects to facilitate job preservation and creation in local SMEs.

Moreover, a € 50 million programme was approved in **Croatia** with the Croatian Bank for Reconstruction and Development (HBOR). The overall objective of this new operation is threefold: to contribute to enhancing the competitiveness of Croatian SMEs, to encourage the creation of permanent and seasonal job and to preserve existing jobs. SMEs are among the most significant driving forces behind the growth of the Croatian economy. The CEB funds will finance these companies' investment plans, which might concern office or production premises, machinery and equipment, vehicles and IT or office equipment.

In **Spain**, a new € 30 million programme approved for MicroBank – Banco Social de La Caixa will encourage the development of independent economic activity in micro-enterprises located throughout Spain (see box opposite).

Another operation programme in **France** with OSEO Financement (€ 100 million) will be devoted to partially finance productive investment projects in SMEs. The



BOSNIA AND HERZEGOVINA
Brickworks factory

CEB funds will contribute to bolstering the financial resources made available to SMEs that benefit from the programme, enabling them to make the investments required for maintaining and expanding their activities, in a particularly difficult economic environment.

A programme was also approved in favour of **several target group countries** (€ 200 million) through the UniCredit Group in Italy. This operation aims to finance productive investment projects in micro-enterprises and SMEs located in **Bulgaria, Hungary, Latvia, Romania** and **Turkey**. The CEB funds will primarily support micro/small enterprises and start-ups, underscoring the promotion of entrepreneurship – key to sustainable economic growth and modernisation of the productive sector – with a view to achieving the targeted job creation and maintenance.

In **Moldova**, a € 2 million programme approved with Moldova Agroind Bank (MAIB) will help finance SME investment projects, with a focus on the micro and SMEs, particularly in urban areas, to facilitate the creation and expansion of self-sustainable businesses. The CEB funds will help to narrow a financing gap that is hindering the growth of small businesses in Moldova. Job created and preserved in SMEs as a result of this loan will make it possible to improve earnings in the



The Norway Trust Account for the Western Balkans

Since 2003, the CEB has administered an innovative assistance mechanism, the Norway Trust Account (NTA), set up on the initiative of the Norwegian Authorities in order to provide for the implementation of various initiatives in favour of Western Balkan countries.

To date, the NTA's resources have made it possible to carry out numerous technical assistance activities, thereby enabling the CEB to widen its scope of action. This type of action typically involves the preparation of feasibility studies and assistance in setting up and monitoring projects financed by the Bank. The NTA also facilitates the development of interregional cooperation and best practices by organising conferences and the publication of reports.

Sectors eligible for NTA support include:

- aid for the return and reintegration of refugees, displaced persons and minorities
- support for job creation in SMEs and micro-credit instruments
- activities associated with the reform of the security sector
- strengthening institutions and local capacity building.

Since 2003, the Norwegian Authorities have contributed a total of **€ 3 million** to the NTA.

By end 2008, the NTA made it possible to support 29 initiatives in a number of different eligible sectors, including 11 for the financing of feasibility studies or technical assistance in connection to an actual CEB loan and 6 for the financing of programmes in occupational training, job creation and access to home ownership in favour of vulnerable populations, including the Roma, women victims of human trafficking and refugees (22% of the total amount of the contribution).

lower and middle income sections of society, and thereby reinforce social cohesion in the country and reduce economic migration.

The CEB also approved two programmes in **Portugal**. The first programme, implemented with Banco Comercial Português, will make it possible to provide € 10 million to finance micro-credits offered to small entrepreneurs. This programme specifically targets immigrants, housewives, unemployed individuals, students and retired people, thereby encouraging entrepreneurship among citizens traditionally not having access to financing. In parallel to the specific microcredit scheme, other productive investments made by micro, small and medium sized enterprises (SMEs) and limited to single investments of maximum € 1 million may also be financed under the project. The second programme, with Banco Espírito Santo, will also make € 10 million available for financing productive investments in favour of micro, small and medium-sized enterprises throughout the country.

Finally, the Bank will take part in financing several programmes aiming to support productive investments by SMEs located in different CEB target group countries in order to enhance their competitiveness and facilitate the creation or preservation of jobs: in **Bulgaria** with ProCredit Bank (€ 10 million) and Raiffeisen Leasing Bulgaria (€ 20 million); in **Hungary** with the Government (€ 54 million spread over three programmes); in **Latvia** with Hansabanka (€ 33 million); in **"the former Yugoslav Republic of Macedonia"** with ProCredit Bank Skopje (€ 12 million); in **Poland** with BZ WBK Leasing (€ 30 million), Europejski Fundusz Leasingowy (€ 130 million), PKO Bank Polski (€ 100 million) and SG Equipment Leasing Polska (€ 50 million).

Improvement of living conditions in urban and rural areas

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

The projects financed 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:

- the development of industrial estates
- utilities such as water mains, electricity and gas



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

Over the period 2004-2008, the Bank took action in favour of improving the quality of life in urban and rural areas for a total amount of projects approved of over **€ 1 156 million**.

For 2008 alone, a total of **€ 245 million** was approved for projects in this sector. Disbursements reached **€ 138 million**, representing 9% of the total disbursements made during the year.

Among the new operations approved this year, the Bank will take part in financing a € 50 million programme in **Spain** with three Spanish Basque country savings banks (Bilbao Bizkaia Kutxa, Gipuzkoa Donostia Kutxa and Caja Vital Kutxa). This operation is part of the Zorrozaurre urban renewal project, undertaken jointly by the city of Bilbao and the regional authorities, with the support of the Spanish Government; it aims to enlarge the base of affordable housing in Bilbao by increasing the areas approved for construction and by building new housing.

In **Hungary**, the Bank also approved three new programmes with the Government, providing a total of € 93 million for the financing of projects implemented within the framework of the 2007-2013 Operational Programmes for the North and South Great Plains Regions (Észak-Alföld, Dél-Alföld) and the South Transdanubia (Dél-Dunántúl) region. The CEB's funds will contribute to increasing the competitiveness of the regional economies, leading to the creation and preservation of jobs and helping these regions to catch up with more developed parts of the country.

Furthermore, another programme in **Poland**, totalling € 25 million with the Region of Małopolska, will contribute to creating better conditions for sustained economic development and better living conditions for targeted populations by facilitating access to credit for the upgrade of local and regional infrastructure.

Again in Poland, a programme with the City of Krakow (€ 22 million) will be devoted to financing investment projects in social infrastructure (see box opposite). This operation intends to create better conditions for sustained economic development of the city and better

POLAND

Project with the City of Krakow for the construction, extension and renovation of public amenities

The CEB has approved financing for a **€ 39 million** programme in Poland with the City of Krakow for the construction, extension or renovation of public amenities. Krakow, the capital of the Małopolska region, is the country's third largest city with around 750 000 inhabitants. It is one of Poland's principal economic and cultural centres.

The aim of this programme is to create better conditions for sustained economic development and to improve the living conditions of the inhabitants of Krakow by facilitating access to credit for modernising local infrastructure, in particular in matters of transport, education and health.

Improving urban transportation infrastructure will contribute to the speed of intra-urban links and to reducing disparities between Krakow and the peripheral areas as well as to better integrating the city at regional, national and European level.

Moreover, investments in education will contribute to improving teaching conditions and to enhancing the level of education as well as to increasing the importance of the City of Krakow among the main university centres in Poland.

Lastly, the investments in health aim to improve the level of healthcare and social services, as well as access to these services.



living conditions for the inhabitants of the Krakow metropolitan area.

A programme in **Portugal**, with Banco Espírito Santo, will make € 5 million available for financing municipal investments in public infrastructure throughout the country.

A programme approved in **Slovenia** with Nova Kreditna Banka Maribor will devote € 11 million to finance investments undertaken by municipalities and public and private companies performing public services throughout the country. The CEB funds will improve the living conditions of the residents of small and medium-sized municipalities in Slovenia, which will contribute to strengthening social cohesion in the country.

Lastly, the Bank will take part in the financing of a number of operations in the same sector, located in **Iceland** with Municipality Credit Iceland (€ 6 million), and in **Latvia** with Hansabanka (€ 34 million).

Infrastructure of administrative and judicial public services

Following the Third Council of Europe Summit (Warsaw, May 2005), the CEB introduced a new sector of action starting in 2006: the financing of projects for the construction, rehabilitation or transformation of infrastructure or buildings intended for public services, in order to contribute to improving the organisation and functioning of the Member States' administrative and judicial public services.

The projects eligible for CEB financing must necessarily concern buildings intended for the national, regional or local administration or technical agencies in which these administrations have a majority interest.

In this spirit, on 13 March 2008, the CEB, Norway and the Council of Europe signed the agreement in Oslo establishing the **Human Rights Trust Fund**. The creation of this Fund is in line with the Action Plan adopted at the Third Summit, at the end of which the Government of Norway made a firm commitment, as part of its development aid, to support the consolidation and strengthening of the rule of law and the European system of protection of human rights. The Fund will enable the Council of Europe to promote and implement projects that come under the scope of the Warsaw Action Plan. It will also provide the Bank with additional resources to support activities such as financing infrastructure for administrative and judicial public services.

Since 2007, the CEB has approved five operations in this sector, for a total amount of **€ 64 million**. In 2008, a total of more than **€ 4 million** was approved for two programmes to be implemented in **Hungary** and **Poland**. Furthermore, the disbursements made in this sector this year amounted to nearly **€ 30 million**, 2% of the total disbursements.

In **Hungary**, the CEB approved a programme that will devote € 1.5 million to financing investments intended for the renovation of administrative or judicial buildings located in the country's North Great Plain Region (Észak-Alföld).

Furthermore, within the framework of a programme approved in **Poland** with the City of Krakow, the Bank is to provide nearly € 3 million for a project to finance the construction and rehabilitation of amenities and buildings intended for administrative and judicial public services.

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.

GERMANY
Photovoltaic power station





Over the last five years, projects approved in this sectoral line of action represented an accumulated amount of **€ 3 367 million**. In 2008 alone, the amount of project approvals totalled **€ 323 million** (representing 17% of all projects approved).

In parallel to this, since 2004, loans disbursed in favour of environmental management have reached an accumulated amount of over **€ 1 554 million**, representing 20% of all disbursements made during the past five years. In 2008, the Bank disbursed a total of **€ 254 million**, including € 212 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 provision of operational material and equipment for the emergency operations can also be eligible for CEB financing.

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.

Within the framework of projects for the prevention of natural or ecological disasters, 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 period 2004-2008, the Bank approved projects in this sector for a total amount of **€ 889 million**.

In 2008, the total value of approved projects in this sector was **€ 34 million** and disbursements amounted to **€ 82 million**, representing more than 5% of all disbursements made for the year.

This year, the Bank approved a programme with the Government in **Hungary** that is intended to prevent flooding and protect the country's water resources (see box on page 33). With regard to the prevention component of this programme, the CEB's funds will devote



TURKEY
Irrigation network

€ 34 million to the construction and rebuilding of flood control reservoirs, dykes and other flood prevention infrastructure; the development of communication systems and IT systems for flood prevention; the repair of access roads and dyke surveillance buildings as well as the purchase of equipment.

Protection of the environment

The CEB finances projects that contribute to the protection and improvement of 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 nuisances
- production of renewable energy and air pollution prevention
- protection and development of biodiversity
- cleaner means of transport networks.

In parallel to its specific activity, 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 this sector are geographically widely diverse. Over the last five years, the Bank approved projects in this sector for an accumulated amount of **€ 2 273 million**.





HUNGARY
Flood prevention works

In 2008, the total amount of new projects approved in favour of protection of the environment represented a total of **€ 277 million** (representing 15% of all projects approved during the year), and disbursements amounted to **€ 153 million** (representing 10% of the year's disbursements).

The Bank has approved the extension of a programme implemented with the European Union through KfW Bankengruppe (Germany). This operation (€ 15.4 million) in favour of companies and municipalities located in several countries of the CEB's target group (**Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, "the former Yugoslav Republic of Macedonia"** and **Turkey**) aims to enable the countries concerned to increase their investments in the energy-saving field and to improve energy efficiency in buildings (commercial, public or private) and in the industrial sector. The anticipated impact will be energy savings, a reduction in CO_2 emissions and improved heat-efficiency in buildings.

The Bank has also approved a programme in **Estonia** to finance energy efficiency investments in housing blocks. This operation (€ 35 million) will be implemented with KredEx, the body responsible for managing the Estonian housing development plan for the period 2007-2013. It plans to finance renovations that will considerably improve the energy efficiency of the buildings concerned and lead to a reduction in energy consumption, and, consequently, a reduction in the negative impact on the environment.

Similarly, the Bank has approved a programme (€ 63 million) with the Government in **Hungary** that is intended to prevent flooding and protect the country's water resources (see box on opposite page). Under the programme's component devoted to "Protection of surface water and groundwaters", the CEB's funds will finance complex water protection investments for high priority areas (lakes and tributary systems); the development of surface and groundwater monitoring systems; the protection of the drinking water base; the recultivation of municipal solid waste landfills; the remediation of polluted sites and the development of river basin management plans.

The Bank is also to participate in financing several operations in this sector in various member countries: in **Hungary** (€ 6 million) with the Government; in **Ireland** with the Housing Finance Agency (€ 25 million); in **Iceland** with Hitaveita Suðurnesja (€ 20 million) and Municipality Credit Iceland (€ 6 million); in **Latvia** with Hansabanka (€ 33 million); in **Poland**, with the Region of Małopolska (€ 5 million) and in **Slovenia** with Nova Kreditna Banka Maribor (€ 9 million).

Lastly, the CEB has approved two programmes in **Portugal** concerning environmental protection. The first operation, implemented with Banco BPI, will provide € 68 million for the promotion of renewable energy sources. Special emphasis will be put on the production of wind energy, which will decrease the utilisation needs of fossil fuels and contribute to the reduction of toxic emissions. The second project, approved with Banco Espírito Santo, will make € 25 million available for financing investments promoting the production of energy with renewable sources.

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 State concerned.

Over the period 2004-2008, the Bank approved a total amount of **€ 204 million** for the protection and rehabilitation of elements of historic and cultural heritage.

In 2008, the Bank approved two projects in **Poland** in this sector, for a total of € 12 million, and disbursements amounted to € 20 million.

The Bank has approved a programme with the Region of Małopolska, which will devote € 8 million to the rehabilitation of elements of historic and cultural



HUNGARY

Flood prevention and protection of water resources

The CEB has approved a **€ 63 million** programme in Hungary to finance investments in favour of flood prevention and water management, under the "environment and energy" Operational Programme, partially financed by the European Union.

This operation aims to finance investments in favour of safe and sustainable management of the country's water resources. It will focus on two areas: flood prevention and protection and improvement of surface and underground water resources.

■ Project components

Flood prevention

More than half of Hungary is made up of plains. The regions threatened by flooding account for 23% of the country's territory. In addition to flooding, inland inundation is common, occurring nearly every year since 1950. Since the 19th century, climate change and human activity (deforestation, water regulation, etc.) have destabilised the water balance in Hungary. As a result, floods and droughts can occur in parallel, as was the case in 2002, when Danube floods coincided with extremely high water scarcity in the Great Plain. Following a ten-year dry period, during a 28-month period from November 1998 to March 2001, there were four record-high floods in the Tisza Valley.

In addition to on-going investments to strengthen dykes on Hungary's main rivers, in 2003 the Hungarian Government launched the Vásárhelyi Plan to construct six flood control reservoirs on the Tisza and to regulate water flow in the riverbed. To date, extensive riverbed interventions have taken place, and the construction of the first flood control reservoir (the Cigánd reservoir) was completed in November 2008.

Works financed by the CEB loan will include the construction and reconstruction of flood control reservoirs, dykes and other flood prevention infrastructure; development of the communication and IT systems for flood prevention; reconstruction of access roads and dyke surveillance buildings and the purchase of equipment.

Protection and improvement of surface and underground water resources

Today, 97% of the water supply in Hungary comes from underground waters. In addition to the 1 600 water bases in use, there are 75 areas with favourable conditions (prospective water bases) that have development possibilities and could be used for strategic reserves. All of the prospective and 600 of currently operating water bases are located in ecologically and geographically vulnerable areas. The number of potential pollution point sources endangering underground water is estimated at close to 40 000. There are over 700 areas that need to be recultivated throughout the country.

According to the EU "Water" Framework Directive, the status of Hungarian water bodies (lakes and watercourses) must reach "good" by 2015. The investments under this component will contribute to the achievement of this objective.

■ Expected outcomes

The expected outcomes of this programme include increased safety for populations living in flood prone areas, an increase in the number of secure drinking water bases, cleaner surface waters and a reduction in the number of dangerous waste disposal sites and other potential polluting sources.

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It will be recalled that, since 1999, the CEB has approved several projects for Hungary to finance flood prevention and reconstruction efforts on the Tisza and Danube rivers.



MOLDOVA

Reconstruction and renovation of the Chişinău Hospital

This year, the CEB has approved a loan of **€ 9 million** in Moldova to finance the first two phases of the high priority project for the renovation of the Republican Clinical Hospital in Chişinău, the country's capital. The purpose is to modernise and improve the quality of services, to optimise the resources provided to the hospital for the benefit of the 25 000 hospitalised in-patients and some 100 000 out-patients who attend it each year.

Built in 1977, the hospital is the largest tertiary healthcare institution in the country. It also serves as a teaching centre for the State University of Medicine and Pharmacy "Nicolae Testemiţanu". There has been very little investment or even full maintenance carried out over the last fifteen years, due to severe fiscal constraints. The modernisation of the hospital is part of a large Government programme, elaborated in cooperation with the World Bank, called the "Health Services and Social Assistance Project," aiming to improve the effectiveness of health services and social assistance systems in Moldova.

The CEB's funds will support the completion of a complex reform process of this large hospital and will create the basis for the reform of the hospital sector in Moldova.

The CEB's involvement is also expected to add value to the project, by virtue of:

- the Bank's expertise in the appraisal and set up of projects in the health sector, and more specifically for the rehabilitation of hospitals
- the provision of long-term, flexible finance in line with this type of infrastructure, lacking in Moldova, thereby hampering the development of the health sector.



ALBANIA
Tirana Hospital under construction

heritage. Małopolska, a region rich in cultural heritage, has around 50 000 monuments, 3 080 of which are listed on the regional register of monuments. These include towns, villages, churches, monasteries, castles, fortifications and defence systems, palaces, mansions, manors, industrial monuments and public utility buildings. Eight of the region's monuments are inscribed on the UNESCO World Heritage List, which makes Małopolska the leader in Poland and one of Europe's most important regions in heritage matters.

Additionally, under a programme approved with the City of Krakow, the Bank will contribute nearly € 4 million to the financing of works for the preservation of the city's cultural and historic heritage.

3. Developing human capital

Supporting the development of human capital in the key fields of health, education and vocational training in the long term promotes more dynamic and more equitable economic and social growth for the benefit of individual fulfilment and collective well-being.

The two sectors of health and education play a vital role in achieving balanced development and enhanced social cohesion in Europe. Indeed, modern services in these sectors are essential for promoting economic growth, regional and national development in Europe and for reducing inequalities.



Over the last five years, projects approved in this sectoral line of action represented an accumulated amount of **€ 1 510 million**. In 2008 alone, approvals amounted to **€ 312 million** (representing 17% of all projects approved).

In parallel to this, loans disbursed in favour of human capital development have represented an accumulated amount of **€ 1 567 million,** representing 20% of all disbursements made in the last five years. For 2008 alone, the Bank disbursed a total of **€ 267 million,** including € 125 million for the benefit of the target group countries.

Health

In the health sector, the CEB participates in particular in the financing of 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 for an accumulated amount of over **€ 767 million**.

In 2008, the Bank approved projects in this sector for a total of **€ 111 million**, and disbursements amounted to **€ 91 million**, representing 6% of the total disbursements made for the year.

Among the operations approved this year, a project in **Moldova** (€ 9 million) will help finance the first two phases of the high priority project of reconstruction and renovation of the Chişinău Republican Clinical Hospital, for the benefit of 25 000 in-patients and some 100 000 out-patients who attend the hospital each year (see box opposite).

Within the framework of the cooperation between the CEB and UNICEF in favour of vulnerable children or children in difficult situations, the CEB has also approved a **donation to Moldova** amounting to € 200 000. This money will be granted to a UNICEF programme to improve the survival, growth and development of premature new-borns with very low birth weight. The CEB's funds will make it possible, among other things, to provide maternity hospitals with equipment and training in maternal care facilities to increase the use of modern perinatal and neonatal technologies, ultimately contributing to the protection of children's life.



MOLDOVA
Blood Transfusion Centre

Similarly, in **Poland**, a programme approved with the Małopolska Region will provide € 7 million to finance the modernisation and development of the region's healthcare infrastructure. The end goal of this operation is to build and modernise hospitals and other healthcare infrastructure elements, as well as the purchase of medical devices and materials and the equipping of facilities. The quality of medical services is the major concern of the regional authorities in the healthcare sector. Malopolska is the founding body for 24 healthcare units.

Another programme in Poland, approved with the City of Krakow, will make it possible to finance, for an amount of € 4 million, construction, extension and renovation works on healthcare infrastructure.

Furthermore, two programmes have been approved this year in **Portugal**. The first programme, with Banco Comercial Português, will provide € 10 million to finance investments intended to ease access to healthcare services to the more economically and socially disadvantaged persons. Demographic dynamics over the last two decades have revealed the ageing of the population. Together with urban concentration, depopulation of rural areas and migratory trends, this represents an important challenge to public policy, generating greater demand for healthcare services. The Portuguese health system, composed of the National Health Service, the private sector and the Houses of Mercy needs to respond to the increased and changed





POLAND
Vocational Training School

demands for health services. The second operation, with Banco Espírito Santo, will devote € 5 million to the financing of municipal health amenities aimed at improving the quality of services offered to the inhabitants of the municipalities concerned. With this programme, the CEB will contribute to local social development, since the municipalities and other suppliers of local public services are the major beneficiaries of the investments mobilised in the health sector.

Lastly, the Bank will also participate in the financing of several operations aimed at improving the quality of health infrastructure and services in different countries: in **Germany** (€ 50 million) with DEPFA Bank-Ireland; in **Hungary**, with the Government (€ 21 million distributed among three programmes) and in **Slovenia** with Nova Kreditna Banka Maribor (€ 5 million).

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

PORTUGAL

The Bank's support for the Government's sectoral policy in favour of education and vocational training

The Bank approved a **€ 100 million** programme in Portugal with Caixa Geral de Depósitos, for the construction and renovation of school and university establishments, including sports and cultural equipment. This programme is specifically targeting the northern and central regions of the country, as well as Alentejo, the Açores and Madeira where Municipalities with appropriate dedicated available budgets are to be the direct beneficiaries.

Albeit Portugal's tertiary education sector has expanded significantly over the last twenty years, many of the school buildings in the country require renovation or repair work as well as improvements to their operating systems.

Portugal's "national strategic reference framework" (NSRF) for the period 2007-2013 highlights the priority of combating school failure at the different stages of the educational system in order to prevent early school abandonment. A strategic priority of the NSRF is *"to promote the qualification of the Portuguese population by developing and stimulating knowledge, science, technology, innovation, education and culture as the main means of developing the country and raising its competitiveness."* This strategy includes vocational training, apprenticeship and technology courses.

The CEB's participation in the financing of this programme should contribute to promoting access to continued educational and training opportunities, as well as social integration of the least privileged in the country.



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 retraining programmes in declining economic sectors.

Over the past five years, the CEB has approved operations for an accumulated amount of over **€ 743 million**.

In 2008, new projects were approved in this sector, for a total of **€ 201 million**, and disbursements amounted to **€ 176 million**, representing nearly 12% of the total disbursements for the year.

Among the operations approved this year, the Bank will take part in financing (€ 1.4 million) a programme in **Poland**, with the Małopolska Region. The region is the authority with jurisdiction over regional post-secondary schools, training centres and libraries for teachers, youth education centres, and the schools of health institutions. This programme principally involves investments for the construction, modernisation, expansion and equipment of educational institutions so as to contribute to improving the quality and level of education in the region.

The CEB has also approved a programme in **Portugal** (€ 100 million) with Caixa Geral de Depósitos, to finance the construction or rehabilitation of school and university establishments, including sports and cultural equipment and education related infrastructure throughout the country (see box on opposite page).

Lastly, the Bank will also participate in several operations aimed at financing the construction, renovation and modernisation of education and vocational training infrastructure in several member countries: in **Hungary** with the Government (€ 20 million spread over three programmes); in **Ireland** with DEPFA Bank (€ 35 million);



FINLAND
Primary school

in **Iceland** with Municipality Credit Iceland (€ 18 million); in **Poland** with the City of Krakow (€ 7 million); in **Portugal** with Banco Comercial Português (€ 10 million) and Banco Espírito Santo (€ 5 million) and in **Slovenia** with Nova Kreditna Banka Maribor (€ 5 million).

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In 2008, the breakdown of both project approvals and disbursements bears witness to the CEB's fidelity to its three major lines of action, namely social integration, environmental management and human capital development.

The financings carried out this year brought the loans outstanding to **€ 12 423 million** and the stock of projects awaiting financing to **€ 4 459 million** (including € 3 610 million for the target group countries). For the CEB, this last figure naturally constitutes a solid reserve for actions in favour of its Member States in the forthcoming years.



PROJECTS APPROVED

per country and per sectoral line of action, from 2004 to 2008

in thousand euros

COUNTRIES	2008		Accumulated total 2004-2008	
	Amounts	%	Amounts	%
Albania	10 000	0.6	78 169	0.7
Bosnia and Herzegovina	50 000	2.7	129 834	1.2
Bulgaria	30 000	1.6	85 000	0.8
Croatia	50 000	2.7	197 260	1.8
Cyprus			139 577	1.3
Czech Republic			85 000	0.8
Denmark			300 000	2.7
Estonia	35 000	1.9	35 000	0.3
Finland			650 000	5.9
France	100 000	5.4	450 000	4.1
Germany*	15 400	0.8	872 400	7.9
Hungary	259 000	13.9	1 193 222	10.8
Iceland	50 000	2.7	264 000	2.4
Ireland	110 000	5.9	210 000	1.9
Italy*	200 000	10.7	1 317 200	12.0
Latvia	100 000	5.4	226 000	2.1
Lithuania			12 500	0.1
Moldova	14 000	0.8	18 900	0.2
Norway			119 000	1.1
Poland	395 400	21.2	1 196 100	10.9
Portugal	265 000	14.2	542 825	4.9
Romania			1 052 300	9.5
Serbia			89 600	0.8
Slovenia	30 000	1.6	120 000	1.1
Spain	135 000	7.3	957 500	8.7
Sweden			209 000	1.9
"the former Yugoslav Republic of Macedonia"	12 000	0.6	34 500	0.3
Turkey			417 000	3.8
TOTAL	**1 860 800**	**100.0**	**11 001 887**	**100.0**

** in favour of the target group countries (2008)*

SECTORAL LINES OF ACTION**	2008		Accumulated total 2004-2008	
	Amounts	%	Amounts	%
Strengthening social integration	**1 226 062**	**65.9**	**6 124 810**	**55.7**
Aid to refugees, migrants and displaced populations			501 044	4.6
Housing for low-income persons	76 020	4.1	1 347 420	12.2
Creation and preservation of viable jobs	900 920	48.4	3 055 920	27.8
Improvement of living conditions in urban and rural areas	244 972	13.2	1 156 276	10.5
Infrastructure of administrative and judicial public services	4 150	0.2	64 150	0.6
Managing the environment	**322 592**	**17.3**	**3 366 846**	**30.6**
Natural or ecological disasters	34 000	1.8	889 222	8.1
Protection of the environment	276 804	14.9	2 273 308	20.6
Protection and rehabilitation of historic and cultural heritage	11 788	0.6	204 316	1.9
Developing human capital	**312 146**	**16.8**	**1 510 231**	**13.7**
Health	111 274	6.0	767 056	7.0
Education and vocational training	200 872	10.8	743 175	6.7
TOTAL	**1 860 800**	**100.0**	**11 001 887**	**100.0**

*** amounts as estimated at the time of project approval*



PROJECTS APPROVED

per counterparty, in 2008

in thousand euros

COUNTRIES	COUNTERPARTIES	SECTORS	AMOUNTS
Albania	Fondi BESA	Creation and preservation of viable jobs	5 000
	Government	Creation and preservation of viable jobs	5 000
Bosnia and Herzegovina	Hypo Alpe Adria Bank Banja Luka a.d.	Creation and preservation of viable jobs	20 000
	Hypo Alpe Adria Bank Mostar d.d.	Creation and preservation of viable jobs	20 000
	Hypo Alpe Adria Leasing d.o.o.	Creation and preservation of viable jobs	10 000
Bulgaria	ProCredit Bank	Creation and preservation of viable jobs	10 000
	Raiffeisen Leasing Bulgaria	Creation and preservation of viable jobs	20 000
Croatia	Croatian Bank for Reconstruction and Development (HBOR)	Creation and preservation of viable jobs	50 000
Estonia	KredEx	Protection of the environment	35 000
France	OSEO Financement	Creation and preservation of viable jobs	100 000
Germany	KfW Bankengruppe*	Protection of the environment	15 400
Hungary	Government	Multi-sector	196 000
	Government	Protection of the environment, natural disasters	63 000
Iceland	Hitaveita Suðurnesja	Protection of the environment	20 000
	Municipality Credit Iceland	Education, protection of the environment, urban and rural modernisation	30 000
Ireland	DEPFA Bank	Education, health	85 000
	Housing Finance Agency	Protection of the environment	25 000
Italy	UniCredit S.p.A.*	Creation and preservation of viable jobs	200 000
Latvia	Hansabanka Latvia	Protection of the environment, urban and rural modernisation, creation and preservation of viable jobs	100 000
Moldova	Government	Health	9 000
	Moldova Agroindbank	Creation and preservation of viable jobs, housing for low-income persons	5 000
Poland	BZ WBK Leasing	Creation and preservation of viable jobs	30 000
	Europejski Fundusz Leasingowy	Creation and preservation of viable jobs	130 000
	PKO Bank Polski	Creation and preservation of viable jobs	100 000
	Region of Małopolska	Multi-sector	46 400
	SG Equipment Leasing Polska	Creation and preservation of viable jobs	50 000
	City of Krakow	Multi-sector	39 000
Portugal	Banco BPI	Protection of the environment, housing for low-income persons	85 000
	Banco Comercial Português	Education, health, creation and preservation of viable jobs	30 000
	Banco Espírito Santo	Multi-sector	50 000
	Caixa Geral de Depósitos	Education and vocational training	100 000
Slovenia	Nova Kreditna Banka Maribor	Multi-sector	30 000
Spain	Bilbao Bizkaia Kutxa	Urban and rural modernisation, housing for low-income persons	60 000
	Caja Vital Kutxa	Urban and rural modernisation, housing for low-income persons	15 000
	Gipuzkoa Donostia Kutxa	Urban and rural modernisation, housing for low-income persons	30 000
	MicroBank	Creation and preservation of viable jobs	30 000
"the former Yugoslav Republic of Macedonia"	ProCredit Bank	Creation and preservation of viable jobs	12 000
TOTAL			**1 860 800**

** in favour of the target group countries*



LOANS DISBURSED

per country and per sectoral line of action, from 2004 to 2008

in thousand euros

COUNTRIES	2008		Accumulated total 2004-2008	
	Amounts	%	Amounts	%
Albania	15 409	1.0	32 815	0.4
Belgium			80 000	1.0
Bosnia and Herzegovina	68 542	4.6	97 971	1.3
Bulgaria	2 140	0.2	72 678	0.9
Croatia	38 300	2.6	156 943	2.0
Cyprus	64 000	4.3	244 001	3.1
Czech Republic	15 000	1.0	50 000	0.6
Denmark			350 000	4.5
Finland	137 500	9.1	642 500	8.2
France	125 000	8.3	450 000	5.8
Germany*	75 000	5.0	715 130	9.1
Greece			52 718	0.7
Hungary	161 600	10.7	739 633	9.5
Iceland	25 777	1.7	158 932	2.0
Ireland	19 770	1.3	69 770	0.9
Italy*	116 000	7.7	894 761	11.4
Latvia	50 000	3.3	155 013	2.0
Lithuania			22 887	0.3
Moldova	3 203	0.2	6 203	0.1
Norway			126 500	1.6
Poland	90 252	6.0	400 322	5.1
Portugal	50 000	3.3	362 326	4.6
Slovak Republic			14 382	0.2
Romania	119 170	7.9	371 545	4.7
Serbia	25 222	1.7	43 122	0.6
Slovenia	35 000	2.3	79 658	1.0
Sweden*	100 000	6.6	197 152	2.5
Spain	88 700	5.9	803 450	10.3
"the former Yugoslav Republic of Macedonia"	5 730	0.4	15 430	0.2
Turkey	74 057	4.9	418 750	5.4
TOTAL	**1 505 372**	**100.0**	**7 824 592**	**100.0**

** in favour of the target group countries (2008)*

SECTORAL LINES OF ACTION	2008		Accumulated total 2004-2008	
	Amounts	%	Amounts	%
Strengthening social integration	**984 565**	**65.4**	**4 703 744**	**60.1**
Aid to refugees, migrants and displaced populations	2 050	0.1	521 016	6.7
Housing for low-income persons	163 596	10.9	1 287 384	16.4
Creation and preservation of viable jobs	651 034	43.2	2 008 534	25.7
Improvement of living conditions in urban and rural areas	138 121	9.2	828 159	10.6
Infrastructure of administrative and judicial public services	29 764	2.0	58 651	0.7
Managing the environment	**254 303**	**16.9**	**1 553 788**	**19.9**
Natural or ecological disasters	81 840	5.4	419 091	5.4
Protection of the environment	152 760	10.2	1 021 656	13.1
Protection and rehabilitation of historic and cultural heritage	19 703	1.3	113 041	1.4
Developing human capital	**266 504**	**17.7**	**1 567 060**	**20.0**
Health	90 915	6.0	673 528	8.6
Education and vocational training	175 589	11.7	893 532	11.4
TOTAL	**1 505 372**	**100.0**	**7 824 592**	**100.0**

Ex post evaluation



Following the mid-term review of its Activity Plan 2005-2009, the Ex Post Evaluation Department (DEP) started two new evaluation programmes on top of those already on-going in the social housing and job creation sectors. Six evaluations were completed in 2008. The DEP also took part in several international forums.

Launch of two new evaluation programmes

Protection of the environment

The Analytical Framework, established to outline the evaluation approach and methodology to be adopted, shows that from 1996 to May 2008, about 100 projects were financed in the *protection of the environment* sector, with disbursements amounting to € 1.7 billion. This vast sector, which includes water supply and sanitation, energy production and conservation, and waste management, involves more than 700 subprojects. Consequently, both the evaluative approach and the methodologies have been carefully designed. A project sample covering 10 countries was drawn; evaluations are planned to begin in 2009.

CEB donations

Up to 2008 the CEB financed 19 donation projects in 10 countries for a total amount of € 11.4 million. An evaluation programme was launched to assess their development impact and the implementation arrangements associated with this specific policy instrument. In line with the Analytical Framework established for donations, the DEP selected five projects for evaluation.

Evaluation results

CEB donations

Four of the five projects financed by donations and chosen by the DEP were evaluated in 2008. These projects were implemented by different CEB partners, namely an NGO and several international organisations. Two donations were related to Roma education, the other two to water supply and sanitation for internally displaced persons. Emerging issues relate to the importance of CEB supervision, the quality of the indicators, CEB visibility, project adaptability and replicability, and to maintenance. A synthesis report is planned for 2009, following the evaluation of the fifth donation.

Job creation

Two evaluations of job creation programmes were completed, as part of a series of four parallel evaluations started in 2008 and due to be finalised early 2009. The first evaluation concerned a credit line to a leasing company, and the second a loan to a regional development fund to restore economic activity after a natural disaster. Both loans were implemented in target group countries.

The programmes were effective and efficiently managed, hence rated *satisfactory*. Recommendations relate, *inter alia*, to a more precise definition of SME eligibility criteria and job creation effects. Clearer agreements on the use of interest rate subsidies should be made.

The Ex Post Evaluation Department and its peers

With a growing body of evaluation work, the DEP is steadily gaining recognition from its peers.

The DEP presented its work at the Global Environmental Facility International Workshop on Evaluating Climate Change and Development, and at the European Evaluation Society biennial conference. Following the conference organised by the CEB in November 2006, the DEP organised, together with the World Bank and ProVention Consortium, a workshop on the evaluation of natural disaster projects within the framework of IDRC Davos 2008. Finally, the DEP became an observer member of the Evaluation Cooperation Group, which harmonises evaluation work among multilateral development banks.



I - ECONOMIC ENVIRONMENT IN 2008

After the expansion-inflation of credit came the contraction of credit and recession.

2008 was a dramatic year for the world economy. After the bursting of the real estate bubble, losses associated directly and indirectly with real estate loans amounted to 732 billion US dollars at the end of 2008; at that time, the IMF estimated that they could go as high as 1.4 trillion US dollars and, since then, that estimate has been revised upwards (2.2 trillion US dollars).

The significant declines in the prices of oil (100 US dollars a barrel at the start of 2008; 148 in July 2008; and 40 US dollars by the end of 2008) and commodities (down 30%) had an impact on emerging economies, which make up the majority of the suppliers of raw materials. Consequently, stock market performance in these countries was greatly affected.

Global stock markets have taken a significant blow (a crash that is comparable with that of 1929), several affairs or scandals have been revealed (Société Générale, Northern Rock, Madoff) and a large investment bank, Lehman Brothers, went bankrupt. This fundamentally changed the ground rules, because investors understood that quite large players could now go bust.

At the same time, this year saw an unprecedented wave of bank mergers, intending to stem other bankruptcies.

Stock market trading proved highly volatile in 2008 (the VIX volatility index of the *Chicago Board Options Exchange* hit a record of 90): in the USA (- 35%), Europe (- 40%), Japan (- 40%) and in emerging countries such as China (- 65%), Russia (-70%), India (-50%) and Brazil (- 30%).

Since October 2007, the value of shares worldwide has fallen 55%, or 33 trillion US dollars.

Furthermore, amounts held by hedge funds have been halved in a year, being valued at only one trillion US dollars at the end of 2008.

Central banks, initially in conjunction with the United States Federal Reserve (the Fed) and later in coordinated action with the Bank of England (BoE) and the European Central Bank (ECB), lowered their prime interest rates throughout 2008 in attempts to stop the economic situation getting any worse. They showed that they could also adopt extraordinary measures to counter any deflation, by selling their currencies or buying back their bonds or other assets. Over the same period, long-term interest rates in Europe dropped by 80 bp, while long-term rates in the US plummeted by 200 bp.

Nevertheless, the spread between the Euribor 3-month rate and the 3-month European sovereign bond rates, essentially risk-free, leaped precipitously in September 2007 by nearly 0 to 300 bp. The same risk aversion is visible in the United States, though the spread there is 450 bp. These spreads continued to be significant late in 2008 (100 bp and 130 bp, respectively): it indicates that the massive amounts of liquidity pumped into the markets is still doing little to help the interbank market, and that the banks are still not willing to lend among themselves.

The mean average spread of medium-terms corporate bonds compared with US sovereign bonds (representing the risk of the US federal government)

leaped 30 bp to 600 bp in 2008 (the same level as that of the Great Depression in 1930), which provides evidence of the widespread aversion to risk of most investors.

In this vein, the outstanding value of Credit Default Swaps (CDS, contracts that prevent against non-payment of a loan by company) leaped from a total of 6.4 trillion US dollars in 2004 to 63 trillion in 2007, and to 43 trillion in 2008 (for an underlying of corporate bond securities of only 2 trillion US dollars). The current outstanding of CDSs, 43 trillion, could potentially provoke losses of 250 billion US dollars within banks and other players that have sold insurance against credit default.

Affected by the crisis in the United States, the US dollar continued to depreciate substantially with respect to the euro. The euro began the year at 1.45 against the dollar, rising to 1.60 by June 2008; it then appreciated until November to 1.25, ending 2008 practically at its starting point for the year, at 1.40.

II - SECURITIES PORTFOLIOS

Two securities portfolios appear on the asset side of the Bank's balance sheet: the available-for-sale financial assets and the 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 greater than one year are floating-rate, through asset swaps where applicable. Short-term instruments, with maturities less than one year, also include Euro Commercial Paper (ECP), as an alternative to bank deposits.

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

As at 31 December 2008, the total value of securities in this portfolio with a maturity of more than one year stood at € 1.995 billion.

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

To be eligible for this portfolio, securities must have a minimum rating of AA or Aa2 at the purchase.

The size of the portfolio of financial assets held to maturity is limited to the amount of shareholders' equity available (paid-in capital and reserves) plus the Selective Trust Account and provisions for post employment staff benefits.

The strategic objective is for these resources to be remunerated by a satisfactory long-term return. This portfolio is accounted for at amortised cost. The securities contained in it can be neither exchanged nor sold, except under exceptional circumstances.

As at 31 December 2008, the total value of this portfolio stood at € 1.933 billion.

III - DERIVATIVES

The market risks resulting from loan, financing and investment transactions are consistently hedged by using derivatives, in accordance with the policy adopted by the Administrative Council. As an end user, the Bank employs derivatives solely for hedging purposes.

As at 31 December 2008, the breakdown of derivatives by type of hedge was 81.8% for borrowings, 13.6% for loans and 4.6% for securities.

To guard against the risks inherent in the use of these financial instruments, the Bank follows a strict management policy, the principles of which are outlined in the section entitled "Integrated Risk Management", page 49.

To limit its credit risk, the Bank has signed collaterals contracts with nearly all its counterparties. Thus, as at 31 December 2008, almost all of the CEB's swaps contracts (99.9%) are collateralised. The residual credit risk, calculated as the sum of the positive market values not covered by collaterals received, remains very low.

Borrowings launched in 2008

Date of payment	Date of maturity	Currency	Term	Nominal amount (in millions)	Lead manager
16/01/2008	22/04/2013	USD	5 years and 3 months*	200	Royal Bank of Canada
23/01/2008	07/03/2012	GBP	4 years and 2 months	200	BNP Paribas
31/01/2008	15/11/2011	NZD	3 years and 10 months	375	Toronto Dominion Bank / Australia & New Zealand Bank
20/02/2008	18/01/2012	AUD	3 years and 11 months*	100	Toronto Dominion Bank
26/02/2008	15/04/2015	USD	7 years and 2 months	1 000	BNP Paribas / Credit Suisse / Royal Bank of Canada
28/02/2008	23/01/2012	AUD	3 years and 11 months*	100	Commonwealth Bank of Australia
27/03/2008	23/01/2012	AUD	3 years and 10 months*	100	Commonwealth Bank of Australia
30/04/2008	30/04/2018	NZD	10 years	100	Australia & New Zealand Bank
06/05/2008	06/11/2020	CHF	12 years and 6 months	175	Credit Suisse
16/06/2008	18/06/2018	JPY	10 years	5 000	Dresdner
15/07/2008	07/03/2012	GBP	3 years and 8 months*	100	HSBC
18/07/2008	15/09/2011	USD	3 years and 2 months	1 000	JP Morgan
23/07/2008	23/01/2012	AUD	3 years and 6 months*	200	Toronto Dominion Bank
22/10/2008	30/04/2018	NZD	9 years and 6 months*	50	Australia & New Zealand Bank
24/10/2008	15/12/2011	USD	3 years and 2 months	1 000	JP Morgan / BNP Paribas / Nomura

** re-opening of existing issues*

IV - FUNDING IN 2008

1. Borrowings

Within the framework of the annual borrowing authorisation set by the Administrative Council, the CEB makes issues in the international capital markets. In 2008, the Bank borrowed a total amount of € 3.3 billion, broken down into 15 funding operations, including seven re-openings of existing issues with maturities of 1 year or more. This amount, which is higher than the funding volume in 2007 (€ 2.9 billion), fulfilled two main objectives:

- to cover lending needs
- to meet the Bank's repayment of maturing debt

The volume of resources raised in 2008 also enabled the Bank to maintain a liquidity level in accordance with the rules set by the Administrative Council. In this context it is appropriate to include the stock of projects in projected cash requirements. In accordance with prudential liquidity policy, the CEB's reinforced liquidity ratio states that at least 50% of projected cash requirements for the next three years should be available in liquidity. These projected requirements include the funding of approved projects and additional liquidity requirements covering the risk of default over three years.

To ensure constant access to the resources needed to fund its activities, the Bank continues to combine benchmark operations in major currencies targeting a broad range of institutional investors and borrowings in a currency, or with a more specific structure, meeting special investor demand.

In 2008, 66.5% of the funds raised by the Bank were denominated in US dollar, versus 86.7% in 2007. The remaining 33.5% were raised in British pounds sterling (11.9%), Australian dollars (9.2%), New Zealand dollars (8.2%), Swiss francs (3.3%) and Japanese yens (0.9%).

The predominant role of the US dollar, swapped for floating euros, can be explained by the attractive funding conditions on this market, despite the high volatility of the financial markets through the year.

In that regard, it should be underlined that the CEB launched three benchmark issues denominated in US dollar. The first issue, with a size of 1 billion US dollars and a seven-year maturity, made it possible to execute on this market one of the rare transactions for 2008 on the long part of the curve. Two more issues with three years of maturity were launched, each of which totalled 1 billion US dollars. A feature of 2008 was the concentration of investor's demand on short-term issues.

The CEB also launched a new tranche of 200 million US dollars on the 2013 benchmark maturity issue, which brings the total of this line to 2.15 billion US dollars.

In particular, it should be noted that the 7-year maturity transaction enabled the CEB to add one more maturity, 2015, to its benchmark curve in US dollars. As at 31 December 2008, the CEB had a benchmark curve in US dollar of 12 separate issues, with sizes between 1 billion and 2.15 billion, on seven maturities.

In January the CEB completed a new transaction on the British pound sterling market, of 200 million at a 3-year maturity, thus diversifying the markets on which the CEB obtains its founding resources and increasing its investor base. This issue was raised to 300 million as the year progressed. As a result of these transactions, the British pound sterling is the second currency in terms of funding volume in 2008.

As for the Australian dollar market, the January 2012 line, under the EMTN programme, was increased by 100 million Australian dollars, reaching an overall total of 750 million.

Through its Australian domestic kangaroo programme, the CEB executed three new increases to its 2012 line in Australian dollars, the first two of 100 million each, and the third of 200 million. These operations bring this line to 900 million Australian dollars. In this market, the CEB has two existing transactions which can be considered as benchmark issues. These operations helped to build CEB's benchmark curve on the domestic market, and made the Australian dollar, in 2008, the third currency in terms of funding volume, and the second currency in terms of the CEB's total debt outstanding.

With a legal documentation based on its Australian domestic programme, the CEB made three issues in the New Zealand dollar domestic market. An initial 375 million New Zealand dollar transaction was launched with a 2011 maturity. A second 100 million New Zealand dollar transaction, with a 2018 maturity, was also launched and later increased by 50 million.

The CEB participated on the yen market with a 5 billion yen transaction with a 10-year maturity. On the Swiss franc market, a 175 million franc transaction with a maturity of 12 years and 6 months was launched. These latter issues, together with the long-term issuance in New Zealand dollars, made it possible to complete part of the CEB's 2008 funding programme in the long segment of the curve.
All the financial operations completed in 2008 were associated with hedge swaps which eliminated both the interest rate risk and the foreign exchange risk. After swap, all the resources borrowed were converted into euros.

The average maturity of the issues launched in 2008 was five years as against seven years in 2007. The table on page 44 gives details of the funds raised in their original currencies.

Despite the high concentration of investor's demand on the short segment of the curve during 2008, 32% of the issues launched under the programme had a final maturity of five years or more, to enable refinancing of the Bank's loans and to avoid cash gaps over the coming financial years.

The multi-currency EMTN programme was updated in November 2008 in order to adapt the legal framework of the Bank's issues to developments in capital market regulations. The AMTN (Australian domestic programme) was also updated in June 2007.

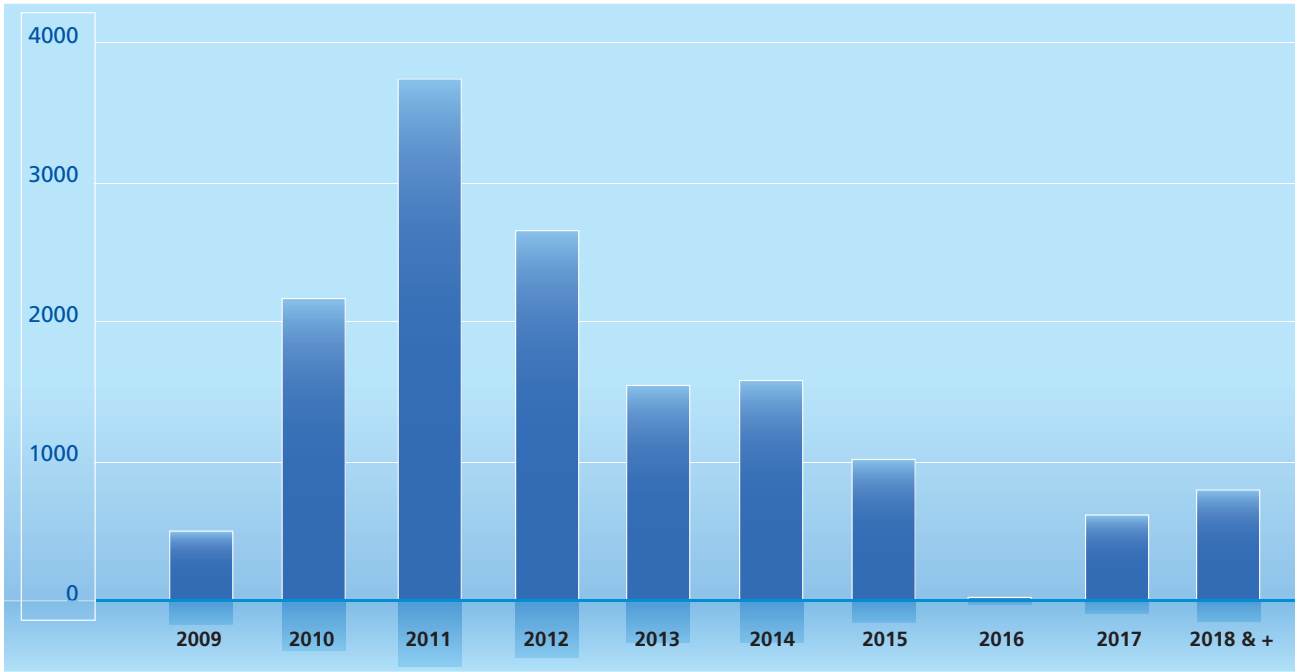
2. Trend in debt position

As at 31 December 2008, the total outstanding debt represented by securities, excluding interest payable, stood at € 14.6 billion, a higher amount than the previous financial year (€ 12.5 billion).

In 2008, the Bank repurchased its own debt to the value of € 111 million and made early repayments totalling € 7 million. The breakdown of debt per maturity, taking into account these operations and new issues launched, is shown in the diagram below.

Issues by maturity at 31 December 2008

in million euros



V - PROFIT AND BALANCE SHEET

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

1. Trend in profits

In an environment marked by a deep crisis in the financial markets, net income for the 2008 financial year rose to € 95.8 million as compared with € 93.3 million in 2007. This slight increase, + € 2.5 million, up 2.7%, is explained by the following:

■ A € 3.9 million increase in net banking income, up 3.2%, resulting from:

- a rise in interest margins resulting from the difference between the refinancing conditions (debt represented by a security), on the one hand, and the conditions under which loans are granted and those under which the Bank's short-term cash is invested, on the other
- profits recorded on repurchase of borrowing on the market
- the positive impact of the fair-value recognition of the forward financial instruments and, in particular, hedging transactions not qualified as such under IFRS.

and, conversely:

- net losses recorded on available-for-sale securities (AFS).

■ A small increase in general expenses (including depreciation): + € 0.4 million, i.e. 1.4%, in view of:

- a moderate rise in staff costs, in compliance with the provisions of the Articles of Agreement (higher wage scales, automatic steps, promotions) and due to a slight increase in the number of permanent staff (142 agents against 138 at the end of 2007)
- a reduction in the actuarial charge of the pension scheme, given the changes in interest rates compared with 2007 (IAS 19).

Consequently, the operating ratio (general expenses/ total operating income) improved to 23.7% in 2008, compared with 24.1% in 2007.

■ A charge associated with the cost of risk

For the first time, a provision was recorded for credit risk amounting to 50% of the receivables held on an Icelandic counterparty.

2. Trend in the balance sheet

As of 31 December 2008, the balance sheet stood at € 21 403 million against € 18 509 million as of 31 December 2007, up 15.6%.

■ On the assets side

- **outstanding loans** were up (by 4%) from one financial year to the next. Disbursements totalled € 1 505 million, comparable to 2007 (€ 1 590 million), of which 70% in favour of target group countries while, at the same time, repayments totalled € 1 114 million
- the volume of **employment of cash** rose significantly to € 4 802 million, as against € 3 197 million at the end of 2007, up 50.3%.

This change is tangible evidence of the decisions Management took in 2007 and expanded in 2008, to

Trend in profits

in million euros

	2008	2007	Variation	%
Total operating income	**126.8**	**122.9**	**+ 3.9**	**+ 3.2%**
General expenses	*- 30*	*- 29.6*	*+ 0.4*	*+ 1.4%*
Gross operating income	**96.8**	**93.3**	**+ 3.5**	**+ 3.7%**
Cost of risk	**- 0.9**		**- 0.9**	
Net profit	**95.8**	**93.3**	**2.6**	**+ 2.7%**

increase the CEB's liquidity reserves in a context of severe crisis in the financial markets. These measures involved increasing the time deposits with banks and credit institutions with the highest ratings possible, while preserving an acceptable level of return.

On the liabilities side

- **debt represented by a security** grew by € 2 907 million, i.e. + 21.9%, in view of issues with a maturity of at least one year for € 3 235 million, repayments totalling € 1 375 million and lastly the impact of their fair-value recognition at € 833 million
- **other liabilities** increase by + € 251 million compared with 2007, chiefly due to the guarantee deposits in respect of the collateral received on hedging swap transactions
- **shareholders' equity**, including income, totalled € 1 785 million, a slight decline of 2.2% compared with 2007. This variation was due to the 2008 income (€ 95.8 million), on the one hand, and the recording of a net unrealised loss of € 170.5 million on the portfolio of available-for-sale financial assets, on the other (this figure was € 38.8 million in 2007).

Finally, the changes in the price of the euro against the US dollar, ending at 1.39 at 31 December 2008, from 1.47 at 31 December 2007, and changes in the rate curves for currencies other than the euro, led to significant variations in the assets and liabilities, in particular "Financial assets at fair value through profit/loss and hedging derivatives" and "Financial liabilities at fair value through profit/loss and hedging derivatives".

Trend in the balance sheet

in million euros

ASSET	2008	2007	Variation	%
Loans	12 601	12 114	+ 487	+ 4.0%
Employment of cash	4 802	3 195	+ 1 607	+ 50.3%
Financial assets held to maturity	1 976	1 970	+ 6	+ 0.3%
Financial assets at fair value through profit/loss and hedging derivatives	1 983	1 185	+ 798	+ 67.3%
Other assets	41	45	- 4	- 8.9%
TOTAL	**21 403**	**18 509**	**+ 2 894**	**15.6%**

LIABILITIES	2008	2007	Variation	%
Debt represented by a security	16 171	13 264	+ 2 907	+ 21.9%
Cash resources	152	128	+ 24	+ 19.0%
Financial liabilities at fair value through profit/loss and hedging derivatives	2 950	3 198	- 247	- 7.7%
Other liabilities	345	93	+ 251	+ 267.0%
Total debts	*19 618*	*16 683*	*+ 2 935*	*+ 17.6%*
Shareholders' equity	1 785	1 826	- 41	- 2.2%
TOTAL	**21 403**	**18 509**	**+ 2 894**	**15.6%**

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, especially due to faulty systems for managing risks.

Well before the crisis, the CEB had established an integrated risk management process quite independent from the operational activities, with sound supervision standards. A clearly defined scope is devoted to the management of credit risk, market risk, operational risk, and liquidity/financing risk, and special attention has been paid to the application of the best practices of the profession in the field of credit risk management. In this context, the Chief Risk Officer reports directly to the Governor.

Within the Central Directorate for Information Systems and Control, a Directorate that is entirely independent from the Bank's operational activities, the Risk Management Department is responsible for identifying, assessing and managing all credit risks stemming from the CEB's activities. Consistent with the best banking practices, internal ratings are assigned to all counterparties / transactions, on the basis of internal models developed by the Department, based on due diligence assignments by the same Department and by the ratings of the international rating agencies when they exist. Risk decisions are made weekly by the Risk Committee following the analyses and recommendations prepared by the Risk Management Department.

At the same time, the Bank's Management has analysed the profession's best practices as implemented by the international financial institutions and has assessed the controls and procedures recommended in connection with the Know Your Customer (KYC) programmes. So, in connection with its activity and in addition to the information supplied by the country managers, a due diligence program is in place with the aim of obtaining the best understanding of borrowers' activities and risks. The missions rely on detailed questionnaires sent to the locations in advance and discussed on site. The conclusions of that work are an integral part of the loan allocation process.

As a supranational financial institution, the CEB is not subject to its Member States' regulatory ratios, or to the Basel Committee Recommendations or to European Union Directives. However, the CEB has resolved to use these elements as a frame of reference for its risk management and control policy.

Until today, the CEB has coped with the financial crisis satisfactorily. The prudent credit risk policies have proved effective. Exhaustive assessment and monitoring along with a cautious management framework make up the cornerstone of this policy (a minimum rating 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).

For the duration of the crisis, the Risk Management Department has strengthened oversight of the credit risk of the CEB's counterparties.

I - A STRUCTURED, DYNAMIC FUNCTION

1. Dedicated departments

- The **Risk Management Department** identifies, assesses and manages all credit risks arising from the Bank's loan activities, treasury operations and derivatives. For each new project, the Department analyses the operation, taking into account the counterparty's creditworthiness, outstanding transactions and country risk and proposes credit enhancement if needed. Meanwhile, the Department regularly follows up the implementation of risk policies (loans, securities, derivatives) and monitors the Bank's large exposure. A risk management report (credit, market and operational risks) is sent to the members of the Administrative Council every quarter.

- The **ALM Department** monitors on a regular basis market risk (interest rate risk, currency risk) and liquidity risk incurred by the Bank. Its conclusions are presented in a quarterly report submitted to the ALM Committee. This report analyses, through a number of stress tests, various scenarios of interest rate variations and their impact on the Bank's profitability

and presents the projected liquidity situation based on various borrower default assumptions. Where applicable, it reports actual or foreseeable cases of limits being exceeded and proposes recommendations to the ALM Committee so as to reduce the identified risks.

- The **Organisation Department** is in charge of activities designed to protect the Bank from operational risks; it identifies all the events that could cause operating losses; it manages the business continuity plan (updating and tests with retreat to the back-up site), the archiving framework and reviews the internal procedures covering all activities within the scope of operational risks. In concrete terms, the Department implements the operational risk policy of the CEB and, for this purpose, maps all processes and associated operational risks. In addition to this, various training courses are provided during the year in order to increase security awareness among the staff. In 2008, consistent with best practices, the position of IT Security Manager was introduced to strengthen the controls in these sensitive fields.

2. Decision-making committees

The Governor has established several decision-making committees which are responsible for developing and monitoring risk management policies in their specified areas (see financial statements, note B). The Governor chairs all these committees.

- The **Risk Committee** is the cornerstone of the Bank's credit risk management system. It meets weekly, and once a quarter extends its focus to operational risk issues.
- The **ALM Committee** decides on assets and liabilities management strategy.
- The **Funding Committee** examines all aspects of the Bank's financial activity (cash management, debts, contracts, liquidity). It meets weekly, and once a quarter extends its focus to examine the funding strategy and the pricing policy.

3. Controlling bodies

- **Internal control**: each Directorate controls the risks specific to its activity (self-assessment).
  - Prior to signature, the *Central Directorate for Legal Affairs and Prospective Analysis* validates all contracts committing the CEB (loans, issues, derivatives,...) in order to control all the legal risks inherent in the banking business and more specifically those faced by a multilateral development bank.
  - Reporting directly to the Governor, the *Internal Audit Department* completes the Bank's control system through regular reviews of all activities, thus ensuring that the procedures are complied with consistently.
  - Finally, the *Auditing Board* consisting of three members coming from shareholder countries on rotation and appointed by the Governing Board for a three-year term (the outgoing member continues on for a year as advisor), examines the Bank's accounts and checks their accuracy in accordance with the Articles of Agreement. The Auditing Board's report, an excerpt of which is included in the financial statements, is presented to the Bank's directing bodies at the time of annual approval of the accounts for the financial year.
- **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 undergoes control by the following external entities:
  - The *External Auditor*, appointed by the Governing Board for a three-year term, following an invitation to tender and after examination of the opinion of the Auditing Board and upon recommendation of the Administrative Council. Its task is to audit the Bank's financial statements and carry out a review of internal control and risks. At the end of each financial year, the External Auditor reviewes the accounts and issues a report setting out his opinion (see financial statements). It also prepares, for the directing bodies, an interim report bringing together its conclusions on procedures and internal control, a detailed report on the accounts for the financial year and the situation regarding risks.
  - Meanwhile, the Bank undergoes strict assessment by the *international rating agencies*, Moody's, Standard & Poor's and Fitch Ratings which, each year, carry out an in-depth analysis of the Bank's financial structure to check its long-term creditworthiness and assign it a rating. In September and October 2008, they all confirmed the maximum rating (AAA/Aaa) that they have been assigning to the CEB for several years now.

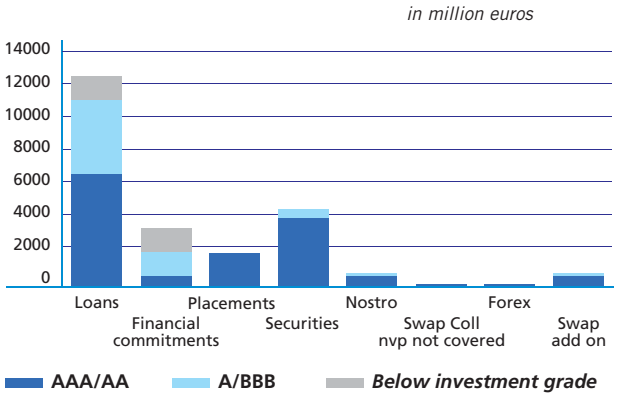
II - SITUATION AT 31 DECEMBER 2008

The Bank has exposure to several types of risks arising from its project and treasury financing activities: credit risk, market risk and operational risk.

1. Credit risk

Credit risk is the risk of financial loss to the Bank that may occur if a counterparty fails to meet its contractual obligations; it comes chiefly from lending and financial activities. The Bank's overall credit exposure (loans, financing commitments, deposits, securities, derivatives) as at 31 December 2008 is detailed as follows:

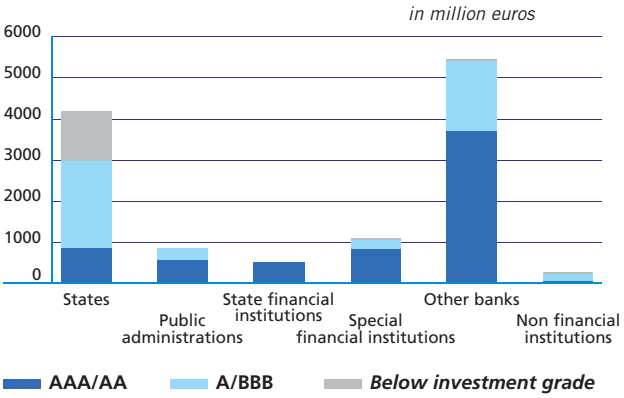
Credit risk exposure



Loan portfolio

In 2008, loans outstanding increased by 3.5% against 2007, reaching € 12.4 billion. Portfolio breakdown by type of counterparty shows that 51.3% of loans outstanding in 2008 are with financial institutions, 46.2% with sovereign or public administrations and 2.5% with other counterparties.

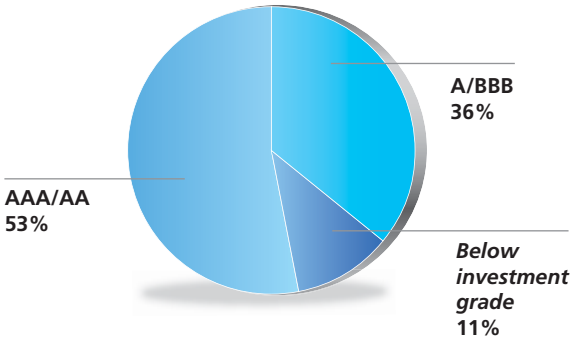
Credit risk by type of counterparty



Credit enhancement in the loan portfolio

At 31 December 2008, the amount of credit enhancements in the loan portfolio ensuring a 100% risk transfer totals € 2.1 billion (against € 1.9 billion at end 2007); these enhancements are made of guarantees for € 1.7 billion and of collaterals for € 0.4 billion (see financial statements, note B).

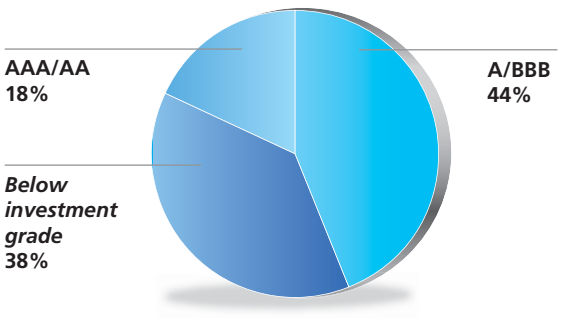
Risk profile of the loan portfolio



Financing commitments

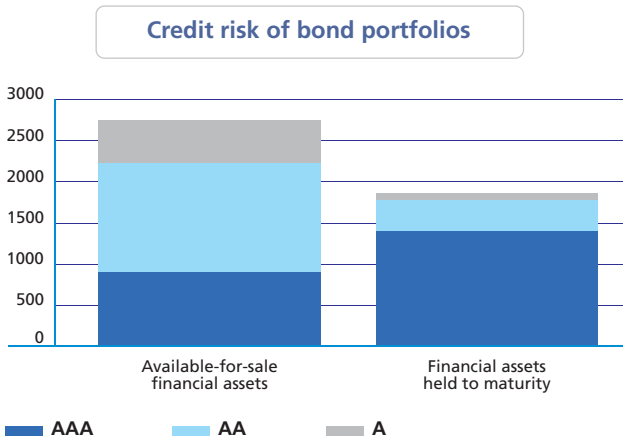
Financing commitments are projects for which either a framework loan agreement has been signed or at least one disbursement has been released. During 2008, the stock of financing commitments increased by 5%. At the end of financial year 2008, it reached € 3.4 billion, compared to € 3.2 billion at end of 2007. The credit risk quality remains most satisfactory since 61.6% of counterparties are rated *investment grade* compared to 89.9% at end of 2007 (see financial statements, note B, and the chart below).

Risk profile of the commitments



■ *Bond portfolios*

The Bank manages two securities portfolios: a portfolio of financial assets held to maturity and a portfolio of available-for-sale financial assets (see page 43, Financial Activities). The chart below displays the breakdown per rating of the outstanding value of each of these portfolios at 31 December 2008 (see financial statements, note B).



■ *Derivatives*

The Bank uses derivatives to hedge the interest rate and currency risks on its operations relative to loans and borrowings (see page 43, Derivatives).

Before entering into a derivative transaction, credit clearance of the issuing counterparty by the Risk Committee is required and a framework agreement (for example, the ISDA Master Agreement) must be signed. 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 the positions per counterparty are monitored daily so that additional collateral can be requested where necessary.

At 31 December 2008, almost all notional outstanding derivatives were collateralised (99.98%), as in 2007 (99.96%) (see financial statements, note B).

■ *Large exposure*

An exposure (loans, securities, deposits, derivatives and financing commitments) to a counterparty or group of related counterparties is considered a large exposure where its value exceeds 10% of sound shareholders' equity. In this respect, the CEB adopts, as the definition of sound capital: usable capital (called capital, reserves, unrealised gains or losses on AFS assets and profits) plus uncalled AAA/AA capital (according to Moody's, Standard & Poor's and Fitch Ratings).

In accordance with the Basel Committee Recommendations and European Union Directives, the Bank ensures that no counterparty (or group of related counterparties) exceeds the limit of 25% of sound shareholders' equity as defined above, and that the total of large exposure does not exceed 800% of said sound shareholders' equity.

At 31 December 2008, total outstanding on counterparties representing a large exposure amounted to € 3.8 billion, i.e. 92% of CEB's sound shareholders' equity, versus a limit of 800% (see financial statements, note B).

2. Market risk

■ *Interest rate and currency risks*

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 strategy adopted by the directing bodies with regard to interest rate risks is based on systematic hedging of positions, so as to reduce the interest rate risk to a minimum.

The Bank uses derivatives to protect itself against interest and currency risks on its lending and borrowing operations. Macro-hedging can also be considered if necessary. Moreover, since the Bank performs no trading operations, the Basel Committee requirements for capital allocation do not apply. In conclusion, 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 balance of the Selective Trust Account (STA) liquidities and provisions for staff post-employment benefits.

As regards the 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 and losses in currencies other than the euro is systematically monitored and hedged on a monthly basis. The net open position is limited to the equivalent of € 1 million per currency. As at 31 December 2008, the net open position was almost nil (see financial statements, note B).

■ *Liquidity risk*

The liquidity risk mirrors the Bank's projected treasury situation. The Bank's liquidity position must comply with a statutory strengthened liquidity ratio. The Bank's liquidity must not be less than 50% of net requirements for the next 3 years (see financial statements, note B).

At 31 December 2008, the strengthened liquidity ratio was 103.7% compared 95.1% at end 2007.

3. Operational risk

The CEB defines operational risk as the risk of direct or indirect losses resulting from inadequacy or failure of structures, procedures, persons or systems, or the occurrence of external events, including the legal risk and the reputation risk.

By deliberately choosing to operate within the framework of the Basel Committee Recommendations, the CEB has undertaken to assess constantly its operational risks and to put in place the appropriate preventive measures. The Basic Indicator Approach method (BIA) is adopted to calculate the operational risk charge against the Bank's shareholders' equity. As at 31 December 2008, the operational risk amounted to € 18.2 million, compared with € 17.8 million at end 2007 (see financial statements, note B).

III - PRUDENTIAL FRAMEWORK

Whilst establishing its 2005 – 2009 Development Plan and in order to define a precise framework for the strategic guidelines which characterise it, the Bank has defined a prudential framework inspired by the Basel Committee Recommendations, especially with regard to capital adequacy.

This prudential framework, approved by the CEB's Administrative Council in June 2004, took effect as of 1 January 2005 and is organised mainly around the following ratios.

■ *The capital adequacy ratio*

This limits the default risk to usable capital.

CAPITAL ADEQUACY RATIO =

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

- Risk Weighted Loan Portfolio:
Σ [(Capital + Interest) x Default Probability]
- Usable capital: total of paid-in capital, reserves, unrealised gains and losses on available-for-sale financial assets.

The absolute limit of the capital adequacy ratio is set at 100%. At the end of 2008, this ratio stood at 20.4%, versus 13.5% at end 2007.

■ *The risk asset coverage ratio*

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

The limit is set at 66%, i.e. to date € 2.7 billion. At the end of December 2008, this ratio was 33.1%, against 18.3% at end 2007.

RISK ASSET COVERAGE RATIO =

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

- Sound capital: usable capital + uncalled AAA/AA capital

■ *Other statutory ratios*

- **Indebtedness ratio:** this is the ratio of total debt outstanding against total equity in the broadest sense (subscribed capital, paid-in reserves, unrealised gains and losses on available-for-sale financial assets, profit of the year). At 31 December 2008, this ratio was 3.66 compared with 3.20 at end 2007, for a maximum limit of 4.
- **Portfolio ratio:** this is the ratio of the total outstanding of the securities portfolio plus cash transactions not represented by securities (bank deposits, repos) against the amount of equity in the broadest sense. At 31 December 2008, this ratio was 1.45 compared to 1.08 at end 2007, for a limit of 2.

Compliance



Following the Recommendations of the Basel Committee in favour of "enhancing corporate governance for banking organisations" and more specifically compliance and the compliance function in banks, in June 2007 it was decided to introduce a new function responsible for ensuring compliance, namely the compliance function.

The creation of the compliance function at the CEB, which was set up in February 2008, prolongs the Bank's efforts in matters concerning the fight against corruption (see the 2004 Anti-Corruption Charter) and completes the prudential framework set up in 2005, inspired by the recommendations of the Basel Committee. The compliance function thus takes its natural place within an already smooth running framework of rigorous internal control and risk management and strengthens the whole system in place at the CEB.

The "Overall framework for a compliance policy at the CEB" ("the Overall Framework") defines the compliance function as one whose mission is "to ensure that the Bank conducts its activities in compliance with its own rules, current legislation, the code 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 purpose of the compliance function is thus to "enable the CEB to limit its exposure to the risk of legal, administrative or regulatory sanctions, material financial loss, or loss to reputation incurred in the event of non-compliance".

In particular, on the basis of the Overall Framework, the privileged lines of action of the compliance function are developed around five major points:

- verifications in matters pertaining to the fight against money-laundering and the financing of terrorism; prevention and the fight against fraud and corruption; integrity checks KYC (Know Your Customer) on the lending, fund-raising and funding activities.
- **compliance with the rules of ethics, integrity and good governance**, according to the highest standards, in the functioning of the Institution.
- **verification of the minimum conditions of transparency and openness**, as well as respect for the rules in matters pertaining to the fight against fraud and corruption, in the procurement process for the works, supplies and services both for the projects financed by the Bank as well as for the Bank's own needs.
- the role of issuing opinions and advice concerning the **existence and formulation of "horizontal" or "transversal" policies**, such as those on transparency, the environment, public procurement, confidentiality, corporate responsibility, etc. as well as on any other specific case or matter that might engender an eventual image risk.
- management of questions resulting from the **application of the rules on data protection.**

Exercising the principal missions of the compliance function involves adopting a dual role, a "prevention and advice" role and a "control and investigation" role. In the first case, the objective is to identify and to limit the risk of non-compliance by setting up an adequate watch system. To achieve this, particular attention is paid to the best practices adopted by the banking sector in general and by IFIs in particular, by defining procedures and principles of integrity specifically adapted to the nature and activity of the CEB, as well as by formulating proposals for improving existing measures.

In this context, the Chief Compliance Officer (CCO) exercises a privileged advisory and alert role with regard to the organs and to the Management.

Furthermore, the compliance function contributes to the development of a compliance culture within the Bank, by efficiently diffusing information on these questions and regularly updating the staff members' knowledge of the rules as they evolve. In exercising the control and investigation role, the compliance function checks that the compliance rules are effectively applied and intervenes in the event of any breach. To this effect, the CCO carries out the necessary investigations, under the Governor's authority, in compliance with the applicable rules.

The smooth running of the activities of the compliance function is furthermore ensured by the definition of certain principles that guarantee the CCO its independence.

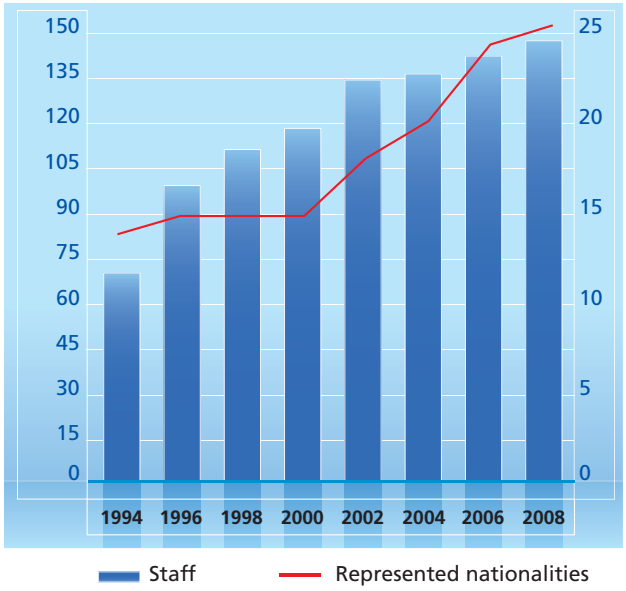
Human resources management



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 of 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 over the past years.

Thus, with staff increases averaging 6% per year between 1994 and 2008, the CEB has more than doubled its payroll. In all, at end 2008, the Bank had 146 Appointed Officials and permanent staff members, which still remains a very modest figure given the volume of its activity. During the year, the Bank proceeded with the recruitment of 10 new staff members representing 7 different nationalities. In all, the number of nationalities represented at the Bank has risen from 14 in 1994 to 25 at end December 2008, which is evidence of the diversification effort undertaken in this field. At the same time, particular attention was paid to the question of gender parity among the staff which, at end December 2008, stood at 53% women and 47% men.



Continued modernisation of the human resources management tools

On 1st January 2008, the new Staff Regulations came into effect; these provide for more coordination and dialogue between the managers concerned, the Human Resources Department and Staff Representatives, while at the same time providing more transparency, contractual clarity and equitable social conditions for the staff.

In order for the Management to be able to develop enhanced dialogue during performance assessment interviews, the Human Resources Department has also been working in close collaboration with Staff Representatives on changes to the in-house rules, in coherence with the overall statutory framework, and to this effect has proceeded to re-organise the system of individual performance assessment.

This reform is, in particular, based on the introduction of new assessment tools. Thus, the forms have been simplified and a glossary of competencies has been created to serve as a tool for consultation and dialogue for both managers and staff.

Delegation of the administration of the pension scheme

To comply with the decisions adopted in 2008, the Human Resources Department has undertaken to implement the decision to delegate the administration of the Bank's pension scheme, with the aim of guaranteeing the operational continuity of the said scheme.

Payment of the Bank's pensions will thus be carried out, under the Bank's control, by a specialised service provider that today operates the administrative management of pension schemes for over ten international organisations. In parallel to this delegation, the Human Resources Department has also published an information brochure on the CEB's pension scheme for the intention of both active and retired staff members and their families in order to answer the question most frequently posed concerning such matters.

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR

Financial statements 2008



Table of contents

Financial statements 2008

FINANCIAL STATEMENTS PREPARED IN COMPLIANCE WITH IFRS STANDARDS ADOPTED BY THE EUROPEAN UNION 60

The Bank's objectives 60
Balance sheet 61
Profit and loss account 62
Statement of changes in shareholders' equity 63
Statement of cash flows 64

NOTES TO THE FINANCIAL STATEMENTS 65

Note A. Summary of principal accounting methods applied 65
Note B. Financial risk and capital management 71
1. Credit risk 71
2. Market risk 76
3. Liquidity risk 78
4. Operational risk 80
5. Capital management 80
Note C. Financial assets and liabilities 82
Note D. Hedging derivatives 83
Note E. Securities portfolio 83
Note F. Loans and advances to credit institutions and to customers 84
Note G. Fixed assets 87
Note H. Amounts owed to customers and debt securities 88
Note I. Selective Trust Account (STA) 89
Note J. Provision for financial risks 92
Note K. Subscribed capital 94
Note L. Interest margin 95
Note M. Net gains or losses on fair value financial instruments through profit and loss 97
Note N. Net gains or losses on available-for-sale financial assets 97
Note O. Net commissions 97
Note P. General operating expenses 98
Note Q. Risk cost 98
Note R. Post-balance sheet events 98

EXTERNAL AUDITOR'S REPORT 99

AUDITING BOARD'S REPORT 101

APPROVAL OF THE ACCOUNTS BY THE ADMINISTRATIVE COUNCIL 102

APPROVAL OF THE ACCOUNTS BY THE GOVERNING BOARD 103

BALANCE SHEET AFTER ALLOCATION OF PROFIT 104

FINANCIAL STATEMENTS PREPARED IN COMPLIANCE WITH IFRS STANDARDS 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

In accordance with Resolution 1495 (2006) approved by the Administrative Council on 16 June 2006, the CEB contributes to the implementation of socially-oriented 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 the development of human capital.

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.

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 and modernising the infrastructure of administrative and judicial public services.

- 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.

- Development of human capital

Providing support for the development of human capital in the key sectors of health, education and vocational training in the long run 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	31/12/2008	31/12/2007
Cash in hand, balances with central banks		194 275	185 983
Fair value financial assets through profit or loss		289 582	182 180
Hedging derivatives	D	1 693 822	1 003 008
Available-for-sale financial assets	E	2 628 227	2 262 071
Loans and advances to credit institutions and to customers			
Loans	F	12 601 277	12 114 377
Advances	F	1 979 204	746 850
Financial assets held to maturity	E	1 975 983	1 969 611
Fixed assets	G	31 738	30 460
Other assets		8 932	14 405
Total assets		**21 403 040**	**18 508 945**

Liabilities			
Fair value financial liabilities through profit or loss		2 515 544	2 761 104
Hedging derivatives	D	434 793	436 552
Amounts owed to customers	H	73 281	52 264
Debt securities	H	16 171 014	13 263 780
Other liabilities		277 269	32 642
Selective Trust Account (STA)	I	78 684	75 464
Provision for financial risks	J	67 726	61 454
Total liabilities		**19 618 311**	**16 683 260**
Capital	K		
Subscribed		3 303 450	3 303 450
Uncalled		(2 933 712)	(2 933 712)
Called		369 738	369 738
General reserve		1 489 760	1 401 487
Unrealised or deferred gains or losses	E	(170 596)	(38 813)
Profit for the year		95 827	93 273
Total shareholders' equity		**1 784 729**	**1 825 685**
Total liabilities and shareholders' equity		**21 403 040**	**18 508 945**

Profit and loss account

in thousand euros

	Notes	2008	2007
Interest receivable and similar income			
Available-for-sale financial assets		131 029	96 666
Loans and advances to credit institutions and to customers		673 265	574 063
Financial assets held to maturity		92 554	92 243
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(8 589)	(7 686)
Debt securities		(767 179)	(635 348)
Other interest expenses and similar charges		(3 098)	(2 762)
Interest margin	**L**	**117 982**	**117 176**
Net gains or losses on fair value financial instruments through profit or loss	M	9 815	5 509
Net gains or losses on available-for-sale financial assets	N	(626)	675
Net commissions	O	(418)	(498)
Total operating income		**126 753**	**122 862**
General operating expenses	P	(28 394)	(27 984)
Net depreciation charges of fixed assets	G	(1 623)	(1 605)
Operating profit before provisions		**96 736**	**93 273**
Risk cost	Q	(909)	
Profit for the year		**95 827**	**93 273**

Statement of changes in shareholders' equity

in thousand euros

	Called capital	Reserves and result	Unrealised or deferred gains/losses	Total shareholders' equity
Shareholders' equity as at 1 January 2007	**368 648**	**1 404 448**	**(301)**	**1 772 795**
Appropriation of profit for the 2006 financial year		(6 000)		(6 000)
Profit for the 2007 financial year		93 273		93 273
Other movements	1 090	3 039	(38 512)	(34 383)
Shareholders' equity as at 31 December 2007	**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
Other movements			(131 783)	(131 783)
Shareholders' equity as at 31 December 2008	**369 738**	**1 585 587**	**(170 596)**	**1 784 729**

Statement of cash flows

in thousand euros

For the year ended 31 December	Notes	2008	2007
Profit for the year		**95 827**	**93 273**
+/- Net depreciation charges of tangible and intangible fixed assets	G	1 624	1 605
+/- Net provision charges		909	
+/- Net loss/net profit from investment operations		3 160	3 417
+/- Other movements		(23 066)	23 196
Total of non-monetary items included in the result		**(17 373)**	**28 218**
+/- Cash flows related to operations with credit institutions and customers		(370 760)	(114 873)
+/- Cash flows related to other operations affecting financial assets or liabilities		(564 581)	(539 624)
+/- Cash flows related to operations affecting non-financial assets or liabilities		229 477	(22 852)
Net decrease /(increase) of assets and liabilities resulting from operational activities		**(705 864)**	**(677 349)**
Total net cash flows generated by operational activities (a)		**(627 410)**	**(555 858)**
+/- Cash flows related to financial assets held to maturity		(11 320)	(62 793)
+/- Cash flows related to tangible and intangible fixed assets	G	(2 901)	(1 652)
Total net cash flows related to investment operations (b)		**(14 221)**	**(64 445)**
+/- Cash flows from/to Member States		9 001	15 365
+/- Net cash flows from financing operations		1 856 134	430 371
Total net cash flows related to financing operations (c)		**1 865 135**	**445 736**
Effects of exchange rate variations on cash and cash equivalents (d)		**11 294**	**(42 175)**
Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**1 234 798**	**(216 742)**
Cash and cash equivalents at the beginning of the financial year		**931 458**	**1 148 200**
Cash in hand, central banks		*185 983*	*47*
Advances repayable on demand or with agreed maturity dates or periods of notice with credit institutions	*F*	*745 475*	*1 148 153*
Cash and cash equivalents at the end of the financial year		**2 166 256**	**931 458**
Cash in hand, central banks		*194 275*	*185 983*
Advances repayable on demand or with agreed maturity dates or periods of notice with credit institutions	*F*	*1 971 981*	*745 475*
Net cash flows variations		**1 234 798**	**(216 742)**

Financing activities consist of cash flows deriving from debt securities.

NOTES TO THE FINANCIAL STATEMENTS

Note A - Summary of principal accounting methods applied

The main norms regarding valuation methods and the manner of presentation used by the Bank (CEB) in drawing up its financial statements are specified below.

The Bank's financial statements were prepared in conformity with IFRS standards as adopted by the European Union, implemented in compliance with European regulation 1606/2002. (This frame of reference is available on the web site of the European Commission at the address: http://ec.europa.eu/internal_market/accounting/ias_en.htm).

The accounting principles and methods retained for the draw-up of 2008 financial statements are identical to those used for the financial statements of the previous financial year.

The Bank did not anticipate the implementation of new standards, amendments or interpretation adopted by the European Union when their implementation was optional in 2008, namely the IFRS 8 "Operating segments"; IFRIC 14 "The limit on a defined benefit asset minimum funding requirements and their interaction", IFRIC 11 "Group and treasury share transactions". These norms and interpretations have no major impact on the information provided in the appendices to the financial statements.

Within the context of the application of IFRS, the main areas of assessment relate to credit risk valuation. Except for this factor, the CEB's nature of operations do not require, 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.

FINANCIAL ASSETS AND LIABILITIES

Foreign currency transactions

The financial statements are presented in euros.

Monetary assets and liabilities denominated in foreign currencies other than the euro are translated into euros at the exchange rate applicable at the end-date of the accounting period. Exchange adjustments resulting from this foreign currency translation are accounted for in the profit and loss account.

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 hedging for the foreign exchange risk. Exchange variations resulting from translation into euros are recorded under shareholders' equity and are accounted for in the profit and loss account 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. Cash positions are valued at the spot exchange rate at the end of the period. Any resulting exchange differences are recorded in the profit and loss account.

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 the amortised cost and interest calculated on the basis of the total effective interest rate method.

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

Loan depreciation is accounted for when there is an objective indication of a measurable loss in value following an event that occurred after loan approval.

Represents namely an objective indication of a loss of value, any observable data being related to the following events:
- the existence of at least a three month unpaid amount
- awareness or observation of significant financial difficulties for 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 claimed by the borrower.

This principle also applies to provisions relating to financing commitments.

Changes in value of such depreciated loans are recorded under "Risk cost" in the profit and loss account.

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

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 which the Bank has the intention and the capacity to hold to maturity.

Securities classified under this category are accounted for at their fair value, increased with transaction costs resulting directly from their purchase. They are subsequently accounted for at the 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 receivable and similar income" in the profit and loss account.

Depreciation of securities held to maturity is accounted for when there is an objective indication of a measurable loss in value, due to a counterparty risk, and resulting from events subsequent to the purchase of the asset. Criteria for depreciation are similar to those applied to loan depreciation.

Changes in value of such depreciated assets are recorded under "Risk cost" in the profit and loss account.

- **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.

The value recorded when they are first accounted for is the trade price (i.e. the value of the consideration paid).

Securities under this category are valued at their market value at end-date and any changes in value, exclusive of income earned, are presented under a specific heading in the shareholders' equity "Unrealised or deferred gains or losses", except when valuable securities are covered by a fair value hedging. In such a case, the securities' book value is adjusted for the profits or losses relative to the hedged risk in the profit and loss account, in conformity with IAS 39 norms.

It must be noted that the Bank did not retain the option of reclassifying available-for-sale financial assets as provided for by the amendment modifying then norms IAS 39 and IFRS 7.

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. The market value used is the quoted market price in cases where the security is quoted in an active market. If need be, in absence of an active market, the market value is the one determined by the depository company.

At the disposal or depreciation of the securities (in cases of durable depreciation), these unrealised gains or losses previously recorded under shareholders' equity are accounted for in the profit and loss account under "Net gains or losses on available-for-sale financial assets".

Depreciation of financial assets available for sale is recorded on a one-to-one basis in the profit and loss account in cases of an objective indication of durable depreciation resulting from one or more events subsequent to the purchase. Criteria for depreciation of debt instruments are similar to those applied to loan depreciation.

In case of a subsequent improvement, a transfer of provisions relative to fixed income securities is recorded under the profit and loss account. In the case of variable-yield securities, the provision will not be transferred to the profit and loss account before the date of disposal of the security.

Gains or losses from disposal of securities classified under "Available-for-sale financial assets" are recorded in the profit and loss account under "Net gains or losses on 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 receivable and similar income" in the profit and loss account. Dividend from variable-rate securities is recorded under "Net gains or losses on available-for-sale financial assets".

- **Date and accounting criteria**

Securities classified under the two categories above are recorded in the balance sheet at the conclusion date of the transaction.

Debt securities

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

Debt securities are first 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 hedging transactions, the book value for issues is adjusted for the profits or losses relative to the hedged risk.

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 the item "Fair value financial assets through profit or loss" in cases of positive market value and under "Fair value financial liabilities through profit or loss" when the market value is negative. Profits or losses are recorded in the profit and loss account under the line item "Net gains or losses on fair value financial instruments through profit or loss".

- **Derivatives and hedge accounting**

Fair value hedging 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, assets available for sale, issues, and borrowings).

In order to qualify a hedging derivative, the Bank keeps a report on the hedge from its initial application. This report 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 hedge's initial application and subsequently throughout its life.

In the case of fair value hedging, derivatives are revalued in the balance sheet at their fair value, whilst fair value variations are recorded in the profit and loss account under "Net gains or losses on fair value financial instruments through profit or loss", symmetrically to the revaluation of the instruments hedged for the estimated risk. In the balance sheet, in the case of hedging of identified assets or liabilities, the revaluation of the hedged item is accounted for in conformity with the classification of the hedged instrument. The impact recorded in the profit and loss account 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 initially hedged identified interest rate instruments, 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 recorded in the profit and loss account.

FIXED ASSETS

Fixed assets recorded under 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).

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 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 as 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 profit and loss account, of the actuarial variances over the average number of expected remaining working years of the beneficiaries to the pension scheme when such changes represent over 10% of the discounted value of the commitment relative to the defined benefits.

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 defined by the Resolution 1495 (2006) approved by the Administrative Council on 16 June 2006.
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 profit and loss account under "Interest receivable and similar income" and are spread over the life of the relative loans.

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

PROVISION FOR FINANCIAL RISKS

Same as at 31 December 2007, provisions recorded on the liabilities side of the Bank's balance sheet as at 31 December 2008 concern exclusively post employment social commitments and staff benefits.

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.

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 Chairman and one representative appointed by each Member State. A Vice-Chairman is elected among the members of each body. The Chairman of the Governing Board and the Chairman 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 2 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 CEB's Chairpersons and Appointed Officials is analysed as follows:

in thousand euros

	2008	2007
Office allowances		
Chairman of the Governing Board	45	45
Chairman of the Administrative Council	45	45
Vice-Chairman of the Governing Board (*prorata temporis* on 2007, as from 16 June)	6	3
Vice-Chairman of the Administative Council	6	6
Emoluments		
Governor	315	312
Vice-Governor Delegate	254	252
Vice-Governor Ruiz-Ligero	240	237
Vice-Governor Tarafás (*prorata temporis* on 2007, as from 2 May)	240	158

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 CEB.

The Governor and Vice-Governors are affiliated to the medical cover and pension scheme of the CEB.

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.

The information disclosed in this note relates to the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's capital management.

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

As a supranational financial institution, the CEB it is not subject to its Member States' regulatory ratios, nor to the Basle Committee Recommendations and neither to the European Union Directives. However, the CEB uses these regulations in its risk management and control policy.

Globally, regarding IFRS 7, risk management procedures and risk assessment methodologies are unchanged compared to the year before (IFRS 7.33c).

The Bank's organs have overall responsibility for setting up and supervising the risk management framework.

Decision-making committees

The Governor has therefore created several decision-making committees which are responsible for developing and monitoring risk management policies in their specified areas. The Governor presides over 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 appropriate risk limits and controls and to monitor the respect of those limits. Once a week, the Risk Committee takes decisions based on Risk Management Department's analyses and recommendations. On a quarterly basis, the Committee addresses all issues relate to operational risk (former Committee for Operational Risks and Organisation (CORO)).
- The ALM Committee: decides on assets and liabilities management strategy of the Bank. It takes the necessary decisions with regard to financial risks in light of the Bank's quarterly ALM report and in accordance with the financial policies approved by the Administrative Council.
- The Finance Committee: reviews on a weekly basis all aspects of the Bank's financial activity (treasury, debt, changes of financial markets, liquidity). On a quarterly basis the Committee addresses the funding strategy and the pricing policy. The Committee also decides the borrowing strategy (amounts, currencies, conditions and timing) taking into account the Bank's projected liquidity needs and in accordance with the annual borrowing authorization voted by the Administrative Council, further to proposals made by Bank's management.

The reporting on credit risk management

On a weekly basis, Risk Committee's members are informed about the Bank's exposure on credit risk. In addition, a quarterly Risk Management Report (credit, market, operational) is sent to the Administrative Council's members. Finally, the annual Report of the Governor dedicates an important chapter to risk management within the Bank and provides detailed information as to the status of its exposure at the end of each financial year.

1. Credit risk

Credit risk is the risk of financial loss to the Bank if a counterparty fails to meet its contractual obligations, and arises principally from the Bank's lending and treasury activities.

The Risk Management Department identifies, assesses and manages all credit risks arising from CEB's activities, whether lending, securities or derivatives. Before deciding to finance a new project, the Department analyses the operation, taking into account the counterparty's creditworthiness, outstanding transactions and country risk and proposes credit enhancement if needed. Besides, the Risk Management Department regularly monitors the compliance with portfolio management policies (loans, securities, derivatives) and supervises the Bank's large exposure.

The outstanding approval process makes the distinction between the financing of a project and a treasury operation. Once a project is identified by the Directorate General for Loans, the Risk Management Department assesses the transaction and determines an internal rating. Then, the Risk Committee approves, modifies or refuses the proposed limits. Finally, the Administrative Council must approve each project.

As for the Directorate General for Finance's operations, the Administrative Council sets up the framework of its financial operations through the definition of the Investment Policy. The Risk Management Department assesses the different counterparties, assigns internal ratings and proposes limits which are then approved, modified or refused by the Risk Committee.

The rating process: in line with the best banking practices, the Risk Management Department assigns an internal rating to all counterparties based upon analyses made either on site or not. The internal rating scale goes from 1 to 10, 10 being the best grade. Each internal grade has its equivalent on international rating agencies' scale (10 = AAA, 9.5 = AA+, etc...).

Two types of internal ratings are assigned: counterparty ratings and transaction ratings.

The internal counterparty rating is based upon qualitative and quantitative criteria. The model is based among other criteria upon international agencies' ratings, when available. Scoring models, developed in-house, enable to apply various ratios according to the type of counterparty (States, regional entities, financial institutions, corporate,...). Specific internal rating grids are used when a counterparty is not rated by an international agency.

The project rating is based on the internal counterparty rating and then takes into account, if need be, all credit enhancement applied to the transaction (collateral, guarantee, letter of comfort, assignment of receivables and other structures that reduce of the final risk).

The Bank has set up a methodology to validate the internal rating system, based upon gaps analysis between its internal rating and that of international rating agencies. Any difference beyond two notches will bring about an in-depth review of the internal rating.

International rating agencies consider a rating as *investment grade* when it is equal or higher than Baa3/BBB-. Conversely, if the rating is equal or lower than Ba1/BB+ it will be considered as *below investment grade*.

The process of limits' assignment: upon request from the operational directorates, the Risk Management Department sets up limits for each counterparty, which are then validated by the Risk Committee. These limits are reviewed once a year, unless the situation requires a shorter periodicity. Limits are established in nominal amounts.

Credit risk exposure

The nominal value of credit risk exposure (accrual interests not included) for all Bank's transactions (loans, stock of project committed, deposits, securities and derivatives), at 31 December 2008 and at 31 December 2007, is detailed below. It must be underlined that concerning the loan portfolio, credit enhancements are taken into account.

in million euros

	AAA/AA	A/BBB	*Below investment grade*	2008 TOTAL	AAA/AA	A/BBB	*Below investment grade*	2007 TOTAL
Loans	6 646	4 438	1 339	**12 423**	6 406	4 852	749	**12 007**
Financial commitments	594	1 502	1 306	**3 402**	581	2 326	328	**3 235**
Placements	1 960			**1 960**	739			**739**
Securities	4 005	595		**4 600**	4 074	54		**4 128**
Nostro	205	1		**206**				
Swap - add on	648	202		**850**	594	128		**722**
Forex	21			**21**	15			**15**
Swap coll - net present value not covered	14			**14**	4			**4**
Total	**14 093**	**6 738**	**2 645**	**23 476**	**12 413**	**7 360**	**1 077**	**20 850**

Rating as recommended by the Basel Committee (second best rating), otherwise internal rating when no rating available from the international rating agencies

Loan portfolio

In 2008, loans outstanding increased by 3.5% compared to 2007, reaching € 12.4 billion at 31 December 2008. As shown in the matrix below, loans outstanding rated *investment grade* represent 89.2% of total portfolio, against 93.8% at end 2007.

As for other multilateral financial institutions, the Bank's policy is not to reschedule interest or capital payments on its loans and not to participate in debt rescheduling agreements.

Credit enhancements in the loan portfolio

At 31 December 2008, the amount of credit enhancements in the loan portfolio ensuring a 100% risk transfer totals € 2.1 billion (against € 1.9 billion at end 2007); these enhancements are made of guarantees for € 1.7 billion and of collaterals for € 0.4 billion.

The overall impact of these enhancements on the Bank's risk profile is presented below:

in million euros

	2008 Amount	2008 Before %	2008 Amount	2008 After %	2007 Amount	2007 Before %	2007 Amount	2007 After %
AAA/AA	5 783	47%	6 646	53%	6 008	50%	6 406	53%
A/BBB	5 141	41%	4 438	36%	5 175	43%	4 852	41%
Below investment grade	1 499	12%	1 339	11%	824	7%	749	6%
Total	**12 423**	**100%**	**12 423**	**100%**	**12 007**	**100%**	**12 007**	**100%**

Rating as recommended by the Basel Committee (second best rating), otherwise internal rating when no rating available from the international rating agencies

Loans outstanding on non rated counterparties by international rating agencies, represents 8.2% of the overall loan portfolio and the internal rating assigned to these counterparties are spread between 2.5 and 9.5.

At 31 December 2008, the CEB did not have any non performing loans (neither at end 2007).

Stock of projects committed

In 2008, the stock of projects committed increased 5.1%, to reach € 3.4 billion at the end of the year compared to € 3.2 billion at end of 2007.

in million euros

	2007	2008	Change 2008-2007
AAA/AA	581	595	2%
A/BBB	2 326	1 502	-35%
Below investment grade	328	1 306	298%
Total committed	**3 235**	**3 402**	**5%**

Rating as recommended by the Basel Committee (second best rating), otherwise internal rating when no rating available from the international rating agencies

Breakdown by rating and nature of the loan portfolio

in million euros

	AAA/AA	A/BBB	*Below investment grade*	2008 TOTAL	AAA/AA	A/BBB	*Below investment grade*	2007 TOTAL
States	887	2 093	1 214	4 194	437	2 870	725	4 032
Public administrations	577	264	17	859	698	173		871
State financial institutions	525			525	554			554
Special financial institutions	862	206	39	1 106	895	155	5	1 055
Other banks	3 723	1 689	39	5 451	3 719	1 535	19	5 273
Non financial institutions	73	185	30	288	103	119		222
Total	**6 646**	**4 438**	**1 339**	**12 423**	**6 406**	**4 852**	**749**	**12 007**

Rating as recommended by the Basel Committee (second best rating), otherwise internal rating when no rating available from the international rating agencies.

Breakdown by rating and nature of the outstanding of the 10 main borrowers

in million euros

	AAA/AA	A/BBB	*Below investment grade*	TOTAL	2008 %		AAA/AA	A/BBB	*Below investment grade*	TOTAL	2007 %
1 State B		768		768	5%	1 State A			653	653	5%
2 State A			672	672	6%	2 State B		638		638	5%
3 Other bank A	600			600	4%	3 State C		571		571	5%
4 State C		517		517	5%	4 Other bank A	557			557	5%
5 State financial inst.	514			514	4%	5 State financial inst.	539			539	4%
6 State E	501			501	3%	6 State D		477		477	4%
7 State F			441	441	4%	7 State E		459		459	4%
8 State D		421		421	3%	8 Other bank B	435			435	4%
9 Other bank C	414			414	3%	9 Other bank C	383			383	3%
10 Other bank B	391			391	4%	10 Other bank D	382			382	3%
Sub-total	**2 419**	**1 706**	**1 114**	**5 239**	**42%**	**Sub-total**	**2 296**	**2 144**	**653**	**5 094**	**42%**
Others	4 227	2 732	225	7 184	58%	Others	4 110	2 708	96	6 913	58%
Total	**6 646**	**4 438**	**1 339**	**12 423**	**100%**	**Total**	**6 406**	**4 852**	**749**	**12 007**	**100%**

Rating as recommended by the Basel Committee (second best rating), otherwise internal rating when no rating available from the international rating agencies.

Securities portfolios

The CEB manages two securities portfolios: a portfolio of financial assets held to maturity and a portfolio of available-for-sale financial assets. Securities in both portfolios are basically denominated in euros: 94.9% at end 2008 compared to 96% at end 2007. The following table displays the breakdown per rating of the outstanding nominal value of each of these portfolios at 31 December 2008 and at 31 December 2007:

in million euros

	AAA	AA	A	2008 TOTAL	AAA	AA	A	2007 TOTAL
Available-for-sale financial assets	902	1 324	515	2 741	267	2 001	19	2 287
Financial assets held to maturity	1 399	380	80	1 859	1 545	261	35	1 841
Total	**2 301**	**1 704**	**595**	**4 600**	**1 812**	**2 262**	**68**	**4 128**
	50%	*37%*	*13%*	*100%*	*44%*	*55%*	*2%*	*100%*

Rating as recommended by the Basel Committee (second best rating), otherwise internal rating when no rating available from the international rating agencies.

Breakdown by country of issuers of the two securities portfolio is as follows:

in million euros

	2008		2007	
Financial assets held to maturity				
France	1 163	62%	1 168	63%
Portugal	200	11%		
Italy	161	9%	161	9%
Germany	148	8%	183	10%
Spain	93	5%	153	8%
Other countries	95	5%	177	10%
Sub-total	**1 859**		**1 841**	
Available-for-sale financial assets				
France	944	35%	804	35%
United States	771	28%	766	33%
Netherlands	337	12%		
Spain	310	11%	450	20%
Germany	310	11%		
Other countries	70	3%	266	12%
Sub-total	**2 741**		**2 287**	
Total	**4 600**		**4 128**	

Derivatives

The Bank uses Interest Rate Swaps and Currency Interest Rate Swaps to hedge its market risk on its lending operations, on its portfolio of available-for-sale financial assets and on its borrowing operations.

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

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

At 31 December 2008, almost all notional outstanding derivatives were collateralised (99.98%) as for 2007 (99.96%).

The Bank can receive as collateral for derivatives: cash and/or AAA rated securities (US Treasuries or German Bund). At 31 December 2008 as for end 2007, all collateral received was cash.

Large exposure

An exposure (loans, securities, deposits, derivatives and stock committed) to a counterparty or group of connected counterparties is considered a large exposure where its value is equal to or exceeds 10% of own funds. The CEB adopts, for this purpose, as the definition of own funds paid-in capital, reserves, potential gains and losses on available-for-sale financial assets, profits plus uncalled capital of shareholder countries with a AAA or AA rating (according to Moody's, Standard & Poor's and Fitch Ratings).

In accordance with the Basel Committee Recommendations and European Union Directives, the Bank ensures that no counterparty (or group of connected counterparties) exceeds the limit of 25% of own funds as defined above, and that the cumulative total of large exposures does not exceed 800% of said own funds.

At 31 December 2008, the Bank had only four large exposures and none exceeded the limit of 25% of the Bank's own funds. The total outstanding to these counterparties amounted to € 3.8 billion, i.e. 92.0% of the CEB's own funds, versus a limit of 800% (€ 2.0 billion, i.e. 49.5% in 2007). Sovereign risk is excluded for the purpose of this calculation.

2. Market risk

Interest rate and currency risks

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 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 2008, as at 31 December 2007, 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 shareholders' 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 issues, by the end of every quarter, a report on interest rate risk, foreign exchange risk and liquidity risk 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 results. 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 risks

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 euros through spot currency purchase or sale.

in thousand euros

Breakdown by currency	Assets	Liabilities	Derivative instruments	**Net position 2008**	Assets	Liabilities	Derivative instruments	**Net position 2007**
Euro	19 433 206	6 834 474	(14 821 964)	(2 223 232)	16 426 177	6 099 556	(12 903 512)	(2 576 891)
US Dollar	1 118 630	11 893 079	10 775 827	1 378	1 308 345	10 136 688	8 827 650	(693)
Japanese Yen	183 166	185 763	2 872	275	139 540	111 989	(26 621)	930
Hungarian Forint	13 821	39 452	25 684	53	16 428	41 599	25 224	53
Pound Sterling	23 758	493 316	469 605	47	8 063	208 841	200 858	80
Other currencies	630 459	1 956 956	1 326 674	177	610 392	1 910 272	1 299 995	115
Total	**21 403 040**	**21 403 040**	**(2 221 302)**	**(2 221 302)**	**18 508 945**	**18 508 945**	**(2 576 406)**	**(2 576 406)**

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 shareholders' equity in held-to-maturity financial assets. This portfolio comprises fixed rate securities, generally long-term ones, denominated in euros and issued by countries or similar institutions with a minimal rating of AA/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 2008 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	**8 565 147**	**99 862**	**8 665 009**	**(2 955 476)**	**484 665**	**(2 470 811)**	**5 609 671**	**584 527**	**6 194 198**
Scheduled outstanding	6 991 683	99 862	7 091 545	(2 955 476)	484 665	(2 470 811)	4 036 207	584 527	4 620 734
Non scheduled outstanding	1 573 464		1 573 464				1 573 464		1 573 464
Variable rate	**12 073 425**	**72 278**	**12 145 703**	**3 040 357**	**22 782**	**3 063 139**	**15 113 782**	**95 060**	**15 208 842**
Total assets	**20 638 572**	**172 140**	**20 810 712**	**84 881**	**507 447**	**592 328**	**20 723 453**	**679 587**	**21 403 040**
Liabilities									
Fixed rate	**(18 099 508)**	**(484 666)**	**(18 584 174)**	**14 627 200**	**(39 105)**	**14 588 095**	**(3 472 308)**	**(523 771)**	**(3 996 079)**
Scheduled outstanding	(14 627 200)	(484 666)	(15 111 866)	14 627 200	(39 105)	14 588 095		(523 771)	(523 771)
Non scheduled outstanding	(3 472 308)		(3 472 308)				(3 472 308)		(3 472 308)
Variable rate	**(343 355)**		**(343 355)**	**(16 941 272)**	**(122 334)**	**(17 063 606)**	**(17 284 627)**	**(122 334)**	**(17 406 961)**
Total liabilities	**(18 442 863)**	**(484 666)**	**(18 927 529)**	**(2 314 072)**	**(161 439)**	**(2 475 511)**	**(20 756 935)**	**(646 105)**	**(21 403 040)**

The outstanding fixed-rate assets before hedging amounts to 8 565 million euros, hedging instruments allow the exposure to drop to 5 610 million euros.

Reciprocally, the fixed-rate liability exposure of 18 100 million euros before hedging is reduced to 3 472 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 (+/- 100 bp).

Sensitivity measurement of the net interest margin to interest rate risks

in thousand euros

	Parallel translation +100 bp	Parallel translation -100 bp
31/12/2008	(9 095)	8 653

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 100 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 2008 and renewal assumptions, the net interest margin would increase by 8.7 million euros if interest rates decreased by 100 pb. Conversely, the net interest margin would decrease by 9.1 million euros if rates increased by 100 bp. 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 2008.

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	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	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**
Assets								
Cash in hand, balances with central banks	185 983			185 983				185 983
Available-for-sale financial assets	147 708	69 568	417 577	634 853	1 137 856	886 221	2 024 077	2 658 930
Loans and advances to credit institutions and to customers								
Loans	84 531	178 465	1 413 391	1 676 387	8 065 533	5 202 351	13 267 884	14 944 271
Advances	286 068	465 619		751 687				751 687
Financial assets held to maturity	75 200	18 394	184 661	278 255	738 543	1 838 490	2 577 033	2 855 288
Total assets	**779 490**	**732 046**	**2 015 629**	**3 527 165**	**9 941 932**	**7 927 062**	**17 868 994**	**21 396 159**
Liabilities								
Amounts owed to credit institutions and to customers	52 264			52 264				52 264
Debt securities	221 977	196 975	1 503 427	1 922 379	8 670 664	5 163 440	13 834 104	15 756 483
Selective Trust Account (STA)	52 426			52 426	23 038		23 038	75 464
Total liabilities	**326 667**	**196 975**	**1 503 427**	**2 027 069**	**8 693 702**	**5 163 440**	**13 857 142**	**15 884 211**
Off-balance sheet								
Off-balance sheet financial instruments								
To be received	333 242	74 154	1 679 002	2 086 398	9 030 957	5 283 321	14 314 278	16 400 676
To be paid	(220 182)	(88 923)	(1 993 644)	(2 302 749)	(10 763 100)	(5 866 343)	(16 629 443)	(18 932 192)
Off-balance sheet total	**113 060**	**(14 769)**	**(314 642)**	**(216 351)**	**(1 732 143)**	**(583 022)**	**(2 315 165)**	**(2 531 516)**
Liquidity position 2007	**565 883**	**520 302**	**197 560**	**1 283 745**	**(483 913)**	**2 180 600**	**1 696 687**	**2 980 432**

Strengthened Liquidity Ratio

The Bank's liquidity must comply with a statutory "Strengthened liquidity ratio".

This ratio results from dividing:

- the Bank's available liquidity, (i.e. bank deposits, available-for-sale financial assets with a residual maturity less than 18 months)
- by the net liquidity requirements, (i.e. stock of projects, three year net cash-flow including an increase in the need for a loan portfolio's default risk for the same three-year period).

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

At 31 December 2008, the strengthened liquidity ratio stands at 103.7% against 95.1% at end 2007.

4. Operational risk

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 method (BIA) is adopted to calculate the operational risk charge against the Bank's own funds. In order to calculate this charge, the Bank uses its last three year average net banking income. At 31 December 2008, it amounts to € 18.2 million compared to € 17.8 million at 31 December 2007.

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 euros.

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.

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 statutory ratio is to ensure that the level of capital is sufficient to absorb eventual losses in relation with the lending activity. It results from the following calculation:

$$\text{Capital Adequacy Ratio} = \frac{\text{Risk Weighted Loan Portfolio}}{\text{Usable Capital}}$$

- Risk Weighted Loan Portfolio: ∑ [(Capital + Interest)*Default Probability]
- Usable capital: total of paid-in capital, reserves, potential gains and losses on available-for-sale financial assets

The absolute limit of the Capital Adequacy Ratio is fixed at 100%.

At end 2008, this ratio stands at 20.4% compared to 13.5% as at end 2007.

Risk Asset Coverage Ratio

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

$$\text{Risk Asset Coverage Ratio} = \frac{\text{Loan Portfolio Rated } \textit{below investment grade}}{\text{Sound Capital}}$$

- Sound Capital: paid-in capital and reserves, potential gains and losses on available-for-sale financial assets, uncalled capital (AAA/AA)

The ceiling is fixed at 66% or currently € 2.7 billion at end 2008.

At end 2008, this ratio stands at 33.1%, versus 18.3% at end 2007.

Indebtedness ratio

This statutory ratio results from dividing total debt by total equity in a broad sense (subscribed capital, paid-in reserves, potential gains and losses on available-for-sale financial assets, profit for the year).

At end 2008, the ratio stands at 3.66, i.e. 92% of the authorised limit compared to 3.20 at end of 2007 for a ceiling of 4.

Considering total equity at end 2008, the authorized debt limit amounts to € 18.9 billion, i.e. € 1.6 billion headroom.

Portfolio ratio

This statutory ratio results from dividing treasury operations by total equity in a broad sense (subscribed capital, paid-in reserves, potential gains and losses on available-for-sale financial assets, profit for the year). Treasury outstanding is composed of the outstanding of both portfolios (financial assets held to maturity and available-for-sale financial assets) and financial transactions not represented by a security (deposits, repos).

At year-end 2008, the ratio stands at 1.45 compared to 1.08 in 2007 and against a maximum limit of 2.

Considering total equity at end 2008, the authorised portfolio limit is € 9.4 billion, i.e. € 2.6 billion headroom i.e. 28% of the approved limit.

Note C - Financial assets and liabilities

The assets and liabilities are presented below according to their evaluation methods.

The mentioned market value comprises accrued interest.

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.

Loans are concluded to fair value during initiation. Provisions for loan disbursement are equivalent to those implemented by other financial institutions that operate in the supranational bank market.

The fair value for securities that are subject to interest rate risk hedging operation is determined on the basis of valuation models specific to the Bank and commonly accepted (discounting methods of future treasury flows).

in thousand euros

	Fair value	Depreciated costs	Total	Market value
31 December 2008				
Assets				
Cash in hand, balances with central banks	194 208		194 208	
Fair value financial assets through profit or loss	289 582		289 582	
Hedging derivatives	1 693 822		1 693 822	
Available-for-sale financial assets	2 628 227		2 628 227	2 605 436
Loans and advances to credit institutions and to customers	2 958 487	11 621 995	14 580 482	12 402 809
Financial assets held to maturity		1 975 983	1 975 983	2 088 021
Total assets	**7 764 326**	**13 597 978**	**21 362 304**	**17 096 266**
Liabilites				
Fair value financial liabilities through profit or loss	2 515 544		2 515 544	
Hedging derivatives	434 793		434 793	
Amounts owed to customers		73 281	73 281	
Debt securities	16 171 014		16 171 014	16 108 478
Selective Trust Account (STA)		78 684	78 684	
Total liabilities	**19 121 351**	**151 965**	**19 273 316**	**16 108 478**
31 December 2007				
Assets				
Cash in hand, balances with central banks	185 983		185 983	
Fair value financial assets through profit or loss	182 180		182 180	
Hedging derivatives	1 003 008		1 003 008	
Available-for-sale financial assets	2 262 071		2 262 071	2 260 703
Loans and advances to credit institutions and to customers	2 871 295	9 989 932	12 861 227	12 145 631
Financial assets held to maturity		1 969 611	1 969 611	1 951 473
Total assets	**6 504 537**	**11 959 543**	**18 464 080**	**16 357 807**
Liabilities				
Fair value financial liabilities through profit or loss	2 761 104		2 761 104	
Hedging derivatives	436 552		436 552	
Amounts owed to customers		52 264	52 264	
Debt securities	13 263 780		13 263 780	13 087 025
Selective Trust Account (STA)		75 464	75 464	
Total liabilities	**16 461 436**	**127 728**	**16 589 164**	**13 087 025**

Note D - Hedging derivatives

All the Bank's micro-hedging operations, recognised under IAS 39, are fair value hedges. These operations hedge the fixed rates financial assets and liabilities exposure (loans, available-for-sale assets, issues) at fair value.
Financial instruments qualified as financial 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

	31/12/2008		31/12/2007	
	Positive market value	Negative market value	Positive market value	Negative market value
Interest rate derivatives	140 830	(222 262)	254 550	(177 626)
Exchange rate derivatives	1 552 992	(212 531)	748 458	(258 926)
Total	**1 693 822**	**(434 793)**	**1 003 008**	**(436 552)**

Note E - Securities portfolio

in thousand euros

	31/12/2008		31/12/2007	
	Balance sheet value (*)	*of which unrealised gains or losses*	Balance sheet value (*)	*of which unrealised gains or losses*
Available-for-sale financial assets				
Treasury bills and similar securities	216 238		100 633	
Debt securities and other fixed income securities	2 382 855	(170 868)	2 166 802	(39 056)
Shares and other variable-yield securities	799	272	768	243
Sub-total	**2 599 892**	**(170 596)**	**2 268 203**	**(38 813)**
Fair value adjustment of securities hedged by hedging derivatives	28 335		(6 132)	
Total available-for-sale financial assets	**2 628 227**	**(170 596)**	**2 262 071**	**(38 813)**
Assets held to maturity				
Treasury bills and similar securities	1 085 270		982 339	
Debt securities and other fixed income securities	890 713		987 272	
Total assets held to maturity	**1 975 983**		**1 969 611**	
Total securities portfolio	**4 604 210**	**(170 596)**	**4 231 682**	**(38 813)**

(*) including interest receivable

In 2007, in accordance with the Bank's Risk Committee decision, one financial asset held to maturity line was sold before maturity (see Note N).

None of the securities classified under the financial assets available-for-sale or financial assets held to maturity categories have been given as a guarantee in 2008 and 2007.

The net gains transferred to the 2008 profit and loss account, consequent to disposal or maturity of available-for-sale financial assets, amount to -155.2 thousand euros (2007: 2.17 thousand euros).

The Bank holds only one line of depreciated securities. It amounts to 1.4 million euros and is classified as available-for-sale financial assets. The provision amounts to 0.58 million euros at 31 December 2008 (0.61 million euros at 31 December 2007).

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

This heading covers loans to credit institutions and to customers on one hand, and deposits to credit institutions on the other hand.

in thousand euros

Breakdown by category of borrower	31/12/2008	31/12/2007
Loans to credit institutions		
Loans	8 299 797	8 005 311
Interest receivable	48 731	48 472
Depreciation on loans to credit institutions (Note Q)	(909)	
Sub-total	**8 347 619**	**8 053 783**
Loans to customers		
Loans	4 123 452	4 002 019
Interest receivable	36 168	36 100
Sub-total	**4 159 620**	**4 038 119**
Value adjustment of loans hedged by derivatives	94 038	22 475
Total loans	**12 601 277**	**12 114 377**
Other loans and advances		
Advances repayable on demand	11 981	6 045
Advances with agreed maturity dates or periods of notice	1 960 000	739 430
Sub-total	**1 971 981**	**745 475**
Interest receivable	7 223	1 375
Total other advances	**1 979 204**	**746 850**

Loans are guaranteed up to the amount of 2 139 987 thousand euros (2007: 1 892 233 thousand euros). These guarantees could be either in the form of securities or signed commitments.

In 2008, the Bank set up a provision by depreciation of 909 thousand euros for an identified risk counterparty (2007: -)

The breakdown of outstanding loans and financing commitments by borrower country as at 31 December 2008 and 31 December 2007 is as follows:

in thousand euros

	Outstanding				Financing commitments	
Breakdown by country	**31/12/2008**	**%**	**31/12/2007**	**%**	**31/12/2008**	**31/12/2007**
Spain	2 097 344	16.88	2 233 528	18.60	98 632	52 332
Italy [1]	1 233 733	9.93	1 258 726	10.48	206 000	320 000
France	1 222 386	9.84	1 105 297	9.21	50 000	75 000
Germany [2]	911 468	7.34	963 827	8.03	200 870	275 870
Hungary	807 775	6.50	676 576	5.63	273 572	353 563
Poland	751 489	6.05	747 148	6.22	586 605	313 257
Finland	751 149	6.05	688 170	5.73	50 000	87 500
Turkey	686 521	5.53	653 198	5.44	327 466	181 273
Portugal	516 133	4.15	502 500	4.18	114 660	14 660
Cyprus	500 901	4.03	459 037	3.82	208 034	198 385
Romania	441 475	3.55	329 478	2.74	836 510	955 680
Greece	420 584	3.39	476 815	3.97		
Denmark	326 667	2.63	350 000	2.91		
Sweden [3]	280 403	2.26	214 112	1.78	47 652	54 862
Croatia	221 305	1.78	195 277	1.63	99 890	88 295
Iceland	168 636	1.36	142 978	1.19	73 259	87 251
Latvia	164 501	1.32	114 535	0.95	50 000	
Belgium	148 220	1.19	212 795	1.77		
Norway	126 500	1.02	187 400	1.56		
Malta	98 450	0.79	101 000	0.84		
Bosnia and Herzegovina	97 651	0.79	31 926	0.27	30 724	49 291
Slovenia	89 437	0.72	63 654	0.53	40 000	25 165
Bulgaria	78 147	0.63	82 437	0.69	6 779	8 919
Ireland [4]	64 583	0.52	44 813	0.37	5 230	
Serbia	53 664	0.43	31 617	0.26	17 975	32 063
Czech Republic	33 760	0.27	24 969	0.21	5 000	5 000
Albania	33 211	0.27	17 580	0.15	38 828	38 082
Lithuania	29 371	0.24	30 375	0.25	2 172	2 172
Slovak Republic	28 647	0.23	34 308	0.29	8 252	7 403
"the former Yugoslav Republic of Macedonia"	25 252	0.20	20 914	0.17	19 500	1 500
Moldova	6 203	0.05	3 000	0.02	4 697	7 900
Estonia	6 055	0.05	7 365	0.06		
San Marino	1 627	0.01	1 975	0.02		
Total	**12 423 248**	**100.00**	**12 007 330**	**100.00**	**3 402 307**	**3 235 423**

(1) Of which 453 688 thousand euros outstanding in favour of the target group countries as at 31 December 2008 (31 December 2007: 383 490 thousand euros)
(2) Of which 288 750 thousand euros outstanding in favour of the target group countries as at 31 December 2008 (31 December 2007: 213 878 thousand euros)
(3) Of which 100 000 thousand euros outstanding in favour of the target group countries as at 31 December 2008 (31 December 2007: -)
(4) Of which 22 407 thousand euros outstanding in favour of the target group countries at 31 December 2008 (31 December 2007: 22 407 thousand euros)

Outstanding loans and financing commitments subsidised by the Selective Trust Account included in the table above are presented under Note I.

in thousand euros

Breakdown by sector-based activities	Outstanding 31/12/2008	%	Outstanding 31/12/2007	%	Financing commitments 31/12/2008	Financing commitments 31/12/2007
Strengthening social integration						
Aid to refugees, migrants and displaced populations	178 868		184 098		17 896	9 952
Social housing for low-income persons	2 966 311		3 019 041		344 156	187 429
Creation and preservation of viable jobs	2 272 921		1 823 698		700 812	785 819
Improving living conditions in urban and rural areas	1 318 318		1 209 835		397 897	355 728
Infrastructures of administrative and judicial public services	7 950		3 886		5 660	29 554
Sub-total	**6 744 368**	**54**	**6 240 558**	**52**	**1 466 421**	**1 368 482**
Managing the environment						
Natural or ecological disasters	1 172 166		1 243 136		358 243	510 474
Protection of the environment	1 520 362		1 532 693		1 043 518	793 829
Protection and rehabilitation of historic and cultural heritage	224 376		219 823		96 961	104 137
Sub-total	**2 916 904**	**24**	**2 995 652**	**25**	**1 498 722**	**1 408 440**
Developing human capital						
Health	1 302 986		1 329 639		144 416	178 068
Education and vocational training	1 458 990		1 441 481		292 748	280 433
Sub-total	**2 761 976**	**22**	**2 771 120**	**23**	**437 164**	**458 501**
Total	**12 423 248**	**100**	**12 007 330**	**100**	**3 402 307**	**3 235 423**

Financing commitments

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

in thousand euros

Breakdown by year of approval	2006 and before	2007	2008	Total
Projects				
With signed framework loan agreements	1 682 393	942 491	732 203	3 357 087
With at least one financing	45 220			45 220
Total	**1 727 613**	**942 491**	**732 203**	**3 402 307**

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 2007	13 046	10 437	12 647	4 722	4 166	**45 018**
Additions		263	2 372	647	551	**3 833**
Disposals / Write-offs						
Other movements			(1 719)	(234)	(228)	**(2 181)**
At 31 December 2007	**13 046**	**10 700**	**13 300**	**5 135**	**4 489**	**46 670**
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**
Depreciation						
At 1 January 2007			(7 805)	(3 591)	(3 209)	**(14 605)**
Charge for the year			(864)	(532)	(209)	**(1 605)**
Disposals / Write-offs						
At 31 December 2007			**(8 669)**	**(4 123)**	**(3 418)**	**(16 210)**
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)**
Net book value						
At 31 December 2008	**13 046**	**10 702**	**5 424**	**1 169**	**1 397**	**31 738**
At 31 December 2007	13 046	10 700	4 631	1 012	1 071	30 460

Note H - Amounts owed to customers and debt securities

in thousand euros

	31/12/2008	31/12/2007
Amounts owed to customers		
Interest-bearing accounts	73 281	52 264
of which, European Community	*70 274*	*50 646*
Total amounts owed to customers	**73 281**	**52 264**
Debt securities		
Bonds	14 627 200	12 493 687
Interest payable	477 723	504 886
Value adjustment of debt securities hedged by derivatives	1 066 091	265 207
Total debt securities	**16 171 014**	**13 263 780**

Development of customers' interest-bearing accounts

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

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

At 31 December 2008, the balance of these accounts amounts to 44 378 thousand euros (2007: 27 380 thousand euros).

- Four accounts to partially finance local infrastructural projects in favour of the municipalities of ten Central and Eastern European countries, also applicant countries 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 with respect to geographical extension to 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 2008, the balance of these accounts amounts to 11 536 thousand euros (2007: 14 873 thousand euros).

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

The balance of these accounts amounts to 3 015 thousand euros as at 31 December 2008 (2007: 2 322 thousand euros).

- 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 2008, the balance of these accounts amounts to 11 345 thousand euros (2007: 6 071 thousand euros).

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. 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 The Netherlands.

Note I - Selective Trust Account (STA)

General operating principle

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 approval, 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 profit and loss account 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 2007		**49 856**
Payment by Member States for the financial year 2006		6 000
Credit interest paid into the STA		2 975
Subsidies on disbursed loans	6 390	
Donations granted	15	
Sub-account balance as at 31 December 2007 [(a)]		**52 426**
Payment by Member States for the financial year 2007		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 [(b)]		**50 071**
2) Subsidised projects sub-account		
Sub-account balance as at 1 January 2007		**20 554**
Subsidies on loans disbursed in 2007		6 390
Payment of subsidies	3 906	
Sub-account balance as at 31 December 2007 [(c)]		**23 038**
Subsidies on loans disbursed in 2008		9 778
Payment of subsidies	4 203	
Sub-account balance as at 31 December 2008 [(d)]		**28 613**
STA balance as at 31 December 2007 [(a) + (c)]		**75 464**
STA balance as at 31 December 2008 [(b) + (d)]		**78 684**

Donations

Since its creation, in 1995, the STA's donations for a total amount of 12.4 million euros have been granted from the STA (2007: 11.4 million euros).

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

in thousand euros

Payments	31/12/2008	31/12/2007
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	
Bulgaria: (St Cyril and St Methodius International Foundation): access to education of the Roma children in the municipality of Nova Zagora		15
Total	**980**	**15**

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

in thousand euros

	Outstanding		Financing commitments	
Breakdown by country	**31/12/2008**	**31/12/2007**	**31/12/2008**	**31/12/2007**
Hungary	221 927	190 987	2 000	122 992
Romania	194 356	148 006	154 030	214 080
Croatia	155 643	167 021	11 765	12 114
Poland	68 115	76 813	250 000	251 000
Albania	31 597	16 055	38 828	38 082
Slovak Republic	21 698	25 934		
Serbia	18 600	9 600	11 000	10 000
Bulgaria	15 291	13 511	6 779	8 919
Bosnia and Herzegovina	15 079	9 926	5 724	11 291
Lithuania	7 332	7 877	2 172	2 172
Moldova	6 203	3 000	4 697	7 900
Slovenia	3 324	4 670		
Germany		128		
Total	**759 165**	**673 528**	**486 995**	**678 550**

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

Note J - Provision for financial risks

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

in thousand euros

	31/12/2008	31/12/2007
Provision for pension commitments	54 232	48 867
Provision for other post-employment benefits	13 494	12 587
Total	**67 726**	**61 454**

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 2008 based on individual data at 30 June 2008.

Pension scheme

The following is the pension scheme financial situation:

in thousand euros

	31/12/2008	31/12/2007
Financial situation as at 31 December		
Actuarial liability	(49 995)	(47 909)
Actuarial surplus / (deficit)	(49 995)	(47 909)
Stock of unrealised actuarial gains / (losses)	(4 237)	(958)
Provision as at 31 December	**(54 232)**	**(48 867)**
Provision movements as at 31 December		
Provision as at 1 January	(48 867)	(43 678)
Service cost	(3 676)	(3 869)
Interest cost related to discounting commitments	(2 604)	(2 284)
Amortisation of actuarial gains / (losses)		(1)
Book charge for the year	(6 280)	(6 154)
Benefits paid	915	965
Provision as at 31 December	**(54 232)**	**(48 867)**

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

Other information	2008	2007
Interest rate	5.85%	5.50%
Inflation rate	2.00%	2.00%
Pensions revaluation rate	2.00%	2.00%
Salary increase rate	5.00%	5.00%
Staff average number of residual working years as at 31 December	14	14

Pension scheme-related post-employment benefits

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

in thousand euros

	31/12/2008	31/12/2007
Pension scheme financial situation as at 31 December		
Actuarial liability	(8 299)	(9 050)
Actuarial surplus / (deficit)	(8 299)	(9 050)
Stock of unrealised actuarial gains / (losses)	(5 195)	(3 536)
(Provision) / surplus as at 31 December	**(13 494)**	**(12 586)**
Provision development as at 31 December		
(Provision) / surplus as at 1 January	(12 586)	(11 389)
Service cost	(757)	(915)
Interest cost related to discounting commitments	(494)	(477)
Amortisation of actuarial gains / (losses)	224	82
Book charge for the year	(1 027)	(1 310)
Benefits paid	119	113
(Provision) / surplus as at 31 December	**(13 494)**	**(12 586)**

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

Moreover, as in 2007, 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 - Subscribed 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 2008	**3 303 450**	**2 933 712**	**369 738**
TOTAL 2007	**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	327	868	1 195
Montenegro	327	976	1 303
TOTAL	**654**	**1 844**	**2 498**

Earnings per participating certificate for 2008 amount to 29.01 euros (28.24 euros for 2007).

Note L - Interest margin

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

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

Interest income and expenses of fair value hedging derivatives are shown alongside the income and expenses derived from items to which they are providing risk hedging.

in thousand euros

	2008	2007
Available-for-sale financial assets		
Securities transactions	123 452	95 278
Hedging derivatives	7 577	1 388
Sub-total	**131 029**	**96 666**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	595 308	519 323
Other loans and advances	82 960	70 713
Hedging derivatives	(5 003)	(15 973)
Sub-total	**673 265**	**574 063**
Financial assets held to maturity		
Securities transactions	92 554	92 243
Sub-total	**92 554**	**92 243**
Amounts owed to credit institutions and to customers		
Issues	(10)	(561)
Interest-bearing accounts	(8 579)	(6 387)
Hedging derivatives		(738)
Sub-total	**(8 589)**	**(7 686)**
Debt securities		
Issues	(684 810)	(651 381)
Hedging derivatives	(82 369)	16 033
Sub-total	**(767 179)**	**(635 348)**
Other interest and similar charges	(3 098)	(2 762)
Interest margin	**117 982**	**117 176**

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

in thousand euros

Breakdown by country	2008	2007
Spain	106 282	95 990
Italy	59 576	56 618
France	54 429	44 969
Germany	45 623	40 184
Poland	44 375	35 213
Turkey	37 329	38 296
Hungary	35 603	28 230
Finland	34 218	28 773
Portugal	24 590	21 188
Cyprus	24 252	21 161
Greece	21 421	23 843
Romania	18 260	14 333
Denmark	16 205	11 908
Sweden	11 787	7 172
Croatia	8 459	8 236
Belgium	7 233	8 943
Norway	6 758	6 909
Latvia	6 304	3 369
Iceland	6 140	2 980
Malta	4 794	4 856
Bulgaria	3 813	3 660
Slovenia	3 728	3 070
Bosnia and Herzegovina	3 031	592
Ireland	2 198	1 864
Slovak Republic	1 660	1 642
Serbia	1 566	1 012
Lithuania	1 430	1 159
Czech Republic	1 313	897
"the former Yugoslav Republic of Macedonia"	1 195	1 039
Albania	1 108	607
Estonia	335	391
Moldova	206	116
San Marino	87	103
Total	**595 308**	**519 323**

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

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

in thousand euros

	2008	2007
Net results on fair value hedging	772 274	265 889
Revaluation of hedged items attributable to covered risk	(773 234)	(265 889)
Results on derivatives (*)	10 092	5 714
Revaluation of exchange positions	683	(205)
Total	**9 815**	**5 509**

(*) Profit relative to the Bank's hedging derivatives whose hedging is not recognised under IAS 39.

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

in thousand euros

	2008	2007
Gains or losses on sale of available-for-sale financial assets	(684)	2
Dividends received	58	50
Gains or losses on sale of held to maturity financial assets (1)		623
Total	**(626)**	**675**

(1) In 2007, in accordance with the Bank's Risk Committee decision, a line of financial asset held to maturity was sold before maturity. The significant fall in the internal rating of the credit risk on one hand and the immaterial percentage of this security within the overall portfolio, on the other hand, led the CEB to sell this line of securities.

Note O - Net commissions

The table below shows the breakdown of net commissions:

in thousand euros

	2008	2007
Sundry banking incomes	266	201
Banking charges	(684)	(699)
Net commissions	**(418)**	**(498)**

Note P - General operating expenses

in thousand euros

	2008	2007
Staff costs		
Wages and salaries	15 301	14 892
Social Security and pension costs	4 290	4 843
Other general operating expenses	8 802	8 249
Total	**28 393**	**27 984**

At 31 December 2008, the Bank staff was composed of: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 142 professional staff. At 31 December 2007: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 138 professional staff.

Note Q - Risk cost

The risk cost covers depreciations incurred as credit risk inherent to the Bank's activities.

in thousand euros

Risk cost for the financial year	2008	2007
Net depreciation charges	909	
Recoveries on amortised loans and advances		
Irrecoverable loans and advances not covered by depreciations		
Total risk cost for the financial year	**909**	

in thousand euros

Risk cost for the financial year by nature of assets	2008	2007
Loans and advances to credit institutions	909	
Loans and advances to customers		
Available-for-sale financial assets		
Other assets		
Commitments by signature and others		
Total risk cost for the financial year	**909**	

in thousand euros

Depreciations accounted for as credit risk	2008	2007
Total depreciations at the beginning of the financial year		
Net depreciations charges	909	
Use of depreciations		
Total depreciations at the end of the financial year	**909**	

Note R - Post-balance sheet events

There have been no significant material post-balance sheet events that would require disclosure or adjustment to these financial statements since the closing of the accounts by the Governor on 24 February 2009.

External auditor's report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex
Téléphone 01 56 57 58 59
Fax 01 56 57 58 60

EXTERNAL AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
Year ended 31 December, 2008

Council of Europe Development Bank
55, Avenue Kléber
75116 Paris

To the Members of the Governing Board and the 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 for the year ended 31 December, 2008. These financial statements include the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and notes comprising a summary of significant accounting policies and other explanatory notes.

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.

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

Société d'expertise comptable inscrite au tableau de l'ordre de Paris - Ile de France • Strasbourg - Alsace • Lille - Nord Pas de Calais • Lorraine • Lyon - Rhônes Alpes • Provence - Côte d'Azur - Corse • Pays de Loire • Rouen - Normandie • Toulouse - Midi Pyrénées.
Société de commissariat aux comptes membre de la compagnie régionale de Versailles. Bureaux : Grenoble, Lille, Lyon, Marseille, Metz, Mulhouse, Nantes, Neuilly-sur-Seine, Poitiers, Rennes, Rouen, Sophia Antipolis, Strasbourg, Toulouse.
Société Anonyme au capital de 2 510 460 €. RCS Nanterre B 672 006 483 - code APE 741 C - TVA n° FR 76 672 006 483
Siret 672 006 483 00362 - Siège social : 63, rue de Villiers 92208 Neuilly-sur-Seine cedex.

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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Council of Europe Development Bank as of 31 December 2008 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, 25 February, 2009

PricewaterhouseCoopers Audit

Dominique Paul

Auditing Board's report on the balance sheet and the profit and loss account and the Notes to the financial statements for 2008

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 2008 and from 23-26 February 2009 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 2008.

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, PricewaterhouseCoopers (Paris), 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 2008 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2008, including the balance sheet at 31 December 2008, 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 24 February 2009
- 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 2008
- Obtaining the opinion signed by the External Auditor on 25 February 2009
- 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 2008 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 26 February 2009

Aunus SALMI
Nicola CECCAROLI
Horia Ion NEAMTU

Extract from the minutes of the 257th meeting of the Administrative Council of the CEB

Resolution 1517 (2009) **CA/PV 257 (2009)**

Paris, 12 March 2009

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 2008

Having taken note of the external auditor's report dated 25 February 2009

Having taken note of the Auditing Board's report dated 26 February 2009

Having taken note of the Governor's Memorandum dated 16 February 2009

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 2008
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2008
3. resolves to allocate the net profit for 2008 (+ € 95 827 018) to the general reserve
4. recommends that the Governing Board approves point 3 above.

Extract from the minutes of the 191st meeting of the Governing Board of the CEB

Resolution 375 (2009) **CD/PV 191 (2009)**

Paris, 6 April 2009

The Governing Board,

Having regard to Article IX, Section 3, paragraph 1, litt. e of the Bank's 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 2008

Having taken note of the certification by the external auditor, dated 25 February 2009

Having regard to the reports of the Bank's statutory organs viz :

- the Report of the Governor for the financial year 2008
- the Auditing Board's report dated 26 February 2009

Having regard to Resolution 1517 (2009) of the Administrative Council

Having heard the Auditing Board

Decides:

- to approve the bank's annual report, accounts and other financial statements for 2008
- to discharge the Administrative Council from it responsibility for the financial year 2008
- to endorse point 3 of Resolution 1517 (2009) of the Administrative Council of 12 March 2009, by which the Administrative Council agreed to allocate the net profit for 2008, amounting to € 95 827 018, to the general reserve.

Balance sheet as at 31 December 2008 after allocation of profit

in thousand euros

Assets	31/12/2008	31/12/2007
Cash in hand, balances with central banks	194 275	185 983
Fair value financial assets through profit or loss	289 582	182 180
Hedging derivatives	1 693 822	1 003 008
Available-for-sale financial assets	2 628 227	2 262 071
Loans and advances to credit institutions and to customers		
Loans	12 601 277	12 114 377
Advances	1 979 204	746 850
Financial assets held to maturity	1 975 983	1 969 611
Fixed assets	31 738	30 460
Other assets	8 932	14 405
Total assets	**21 403 040**	**18 508 945**

Liabilities		
Fair value financial liabilities through profit or loss	2 515 544	2 761 104
Hedging derivatives	434 793	436 552
Amounts owed to customers	73 281	52 264
Debt securities	16 171 014	13 263 780
Other liabilities	277 269	32 642
Selective Trust Account (STA)	78 684	80 464
Provision for financial risks	67 726	61 454
Total liabilities	**19 618 311**	**16 688 260**
Capital		
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
Unrealised or deferred gains or losses	(170 596)	(38 813)
Total shareholders' equity	**1 784 729**	**1 820 685**
Total liabilities and shareholders' equity	**21 403 040**	**18 508 945**

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 2008, 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, granted by the Administrative Council.

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

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

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

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

Photos: cover and picture insert p. 1, 17-41 and 55 Eric Feferberg (AFP) - p. 8, Luc Pâris - p. 54 Fotolia - Other photos: CEB photographic library - Créations Philippe Toumire - Printing Soregraph



55, avenue Kléber
F-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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