CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2007



CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

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

OBJECTIVES

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

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

THE COUNCIL OF EUROPE AND THE CEB

The Bank is legally and financially independent. It is based on a Partial Agreement among Council of Europe member states and is subject to the Council's overall authority. Its administrative headquarters are in Paris.
The Council of Europe was established under the Treaty of London on 5 May 1949. Throughout its history, the Council has asserted its role in the defence of human rights and the promotion of democracy.

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

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

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

ACTIVITIES

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

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

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

FINANCIAL RESOURCES

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

Established in 1956 with a capital equivalent to 5.7 million euros, the Bank had a subscribed capital of 3.3 billion euros as at 31 December 2007. Leverage is particularly impressive: since its inception, the Bank has been able to pay out more than 26 billion euros in loans.

RATING

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

MANAGEMENT

The Bank's organs are:

- The Governing Board, comprising one representative per member state. Its chairman is Mr. Lars KOLTE, who was elected on 9 December 2005.
- The Administrative Council, comprising one representative per member state. Its chairman is Mr. Rainer STECKHAN, who was elected on 1 April 2005.
- 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 13 members of the Administrative Council and is chaired by the Council's Chairman.

KEY FIGURES

in million euros

	2007	2006	2005	2004	
				Restated in accordance with IFRS	
Loans disbursed during the year	1 590	1 640	1 559	1 530	1 530
Projects approved during the year	2 414	2 460	2 517	1 751	1 751
Commitments signed during the year	2 621	1 564	1 805	1 651	1 651
Loans outstanding	12 007	11 965	11 483	10 765	10 765
Own funds (after allocation of profit)	4 754	4 692	4 610	4 529	4 522
Shareholders' equity (after allocation of profit)	1 821	1 767	1 685	1 604	1 581
Total assets	18 509	18 232	17 675	16 396	16 390
Net profit	93.3	88.1	88.5	121.0	115.2
Selective Trust Account					
Social dividends accumulated since the STA's inception	93.4	88.4	82.4	74.4	74.4
Balance available (after allocation of profit)	26.1	23.2	24.8	37.7	37.7

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR

2007

Financial year 2007



THE BANK'S MEMBER STATES (year of accession)

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



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MEMBERSHIP OF THE BANK'S ORGANS as at 31 December 2007*

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*	**Renaldo MÄNDMETS** Deputy Secretary General for Foreign Relations, Ministry of Finance, Tallinn **Inta VASARAUDZE** *(since 12 March 2008)* Deputy State Secretary, Ministry of Finance, Riga
Magarita GEGA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	**Albania**	**Durim KRAJA** Secretary General, Ministry of Trade, Economy and Industry, 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 for Economic Planning, Ministry of Finance and Treasury, 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
Michalis STAVRINOS Ambassador, 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	**Czech Republic**	**Pavla BEJČKOVÁ** 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
Sulev KANNIKE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg	**Estonia**	**Renaldo MÄNDMETS** Deputy Secretary General for Foreign Relations, Ministry of Finance, Tallinn **Martin PÕDER** *(since 7 March 2008)* Head of the EU and International Affairs Department, Ministry of Finance, Tallinnn

* 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
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**	**Benoît de la CHAPELLE BIZOT** Head of Unit, European Strategy and Coordination, Treasury Department, Ministry of Economy, Finance and Employment, Paris
Zurab TCHIABERASHVILI 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**	**Dietrich LINGENTHAL** Head of Division, Ministry of Finance, Berlin
Constantin YEROCOSTOPOULOS Ambassador, Permanent Representative of Greece to the Council of Europe, Strasbourg	**Greece**	**Constantinos VGENOPOULOS** National Bank of Greece, Athens
	Holy See c/o **Reverend Father Florian KOLFHAUS** First Secretary Chargé d'Affaires a.i. 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
Stefán Lárus STEFÁNSSON 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**	**Robert BRADSHAW** Principal Officer, Banking, Finance and International Division, Department of Finance, Dublin
Pietro LONARDO Ambassador, Permanent Representative of Italy to the Council of Europe, Strasbourg	**Italy**	**Antimo PROSPERI** Director of the Second Bureau of 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	
Neris GERMANAS 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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Ronald MAYER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	**Luxembourg**	**Jérôme HAMILIUS** 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	**Moldova**	**Ion CHICU** Deputy Minister, Ministry of Finance, Chisinau
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
Torbjørn FRØYSNES 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**	**Katarzyna DZIAMARA-RZUCIDŁO** Director of International Financial Institutions and Foreign Cooperation Department, 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
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	**Serbia**	**Zoran ĆIROVIĆ** Assistant Minister, Department of International Financial Relations, Ministry of Finance, Belgrade
Emil KUCHÁR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg	**Slovak Republic**	**František PALKO** State Secretary, Ministry of Finance, Bratislava

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
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, Permanent Representative of Spain to the Council of Europe, Strasbourg	**Spain**	**Alicia VARELA** 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
Jean-Claude JOSEPH Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg **Paul WIDMER** *(since 14 January 2008)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg	**Switzerland**	**Lukas SIEGENTHALER** Head of Division, Multilateral Financial Institutions, 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
Liechtenstein: **René H. MELLIGER**, Chairman of the Financial Market Authority, Vaduz
San Marino: **Nicola CECCAROLI**, General Director, Fin-Alternative Investments SA, Dogana

Strategic review

Launched during the Joint Meeting in Prague in June 2007, the CEB's strategic review stems from the Management's desire to take stock, as in other international institutions (International Monetary Fund (IMF), World Bank, Asian Development Bank, etc.) of how the Bank's structures and the services it provides have adapted to the rapidly changing outside world. In effect, in spite of the progress already made, more than one in six inhabitants of the CEB's member states today still live below the poverty line. This represents almost 100 million people in all.

In this context, it is important that the CEB should seek to respond still more effectively to the social expectations of its member states confronted with today's challenges concerning sustainable development. Are the CEB's mandate and international position the best adapted to take up these challenges of socially sustainable development in each of its member states? Can the CEB, which already enjoys a wide degree of flexibility and reactivity, still better mobilise its human and financial resources in the service of sustainable social development for all the inhabitants of its member states, and in priority those in the countries of Central and South Eastern Europe? Is the Bank's governance sufficiently in line with the requirements of the XXIst century?

These important questions have already been studied at several meetings of the Administrative Council and Governing Board.

Thus, on the basis of written contributions from twenty member states and of a proposal by Management, the Governing Board:

- decided to set up a "Committee of Eminent Persons" to clarify, with perspective and independence, the questions of the CEB's mandate, international position and governance by the end of 2008.
- approved the provisional terms of reference for the Committee.
- initiated discussions on proposed measures for improving the Bank's controls, operational performance assessment, transparency and visibility. These discussions will continue at the beginning of 2008.



During the Joint Meeting of the Governing Board and Administrative Council, held in Prague on 16 June 2007, all the shareholders welcomed the launch of the strategic review

COUNCIL OF EUROPE DEVELOPMENT BANK

MESSAGE FROM THE GOVERNOR



During 2007, just one year after its 50th anniversary, the CEB determined to further enhance its financial leverage mission in favour of social cohesion in Europe, thus signifying its fidelity to a half-century of history in the service of European solidarity.

- This first resulted in the **launch of a strategic review** that marks the CEB's desire to still further adapt its means and its structures to the imperative requirement for increasing effectiveness and added value in the service of its social mandate in the member states (see box on previous page).

- 2007 also saw confirmation of **the emphasis placed on the geographical redeployment of the Bank's action in favour of a target group** of 21 countries in Central and South Eastern Europe and, more broadly, the Institution's strict compliance with the strategic orientations set forth in the Development Plan for 2005-2009.

  As in 2006, the overall volume of activity was once again stabilised in 2007 in order to enable the Institution to still further concentrate on enhancing the added value of its actions.

  The **total amount of disbursements** was maintained at 1.6 billion euros, which at the same time made it possible for the loans outstanding for the first time to exceed the 12 billion euro mark by end 2007, representing a record level since the CEB's creation. In all, through an average contribution of 40% per project, the Bank has enabled approximately 30 billion euros worth of social investments to be financed in Europe. The volume of the 37 new projects approved in 2007 amounted to 2.4 billion euros, representing the equivalent of last year's figure.

  Within this context, priority continued to be given to operations in favour of the target group countries, with the total amount of loans disbursed for their benefit in 2007 reaching over 670 million euros. Moreover, 49% of the projects approved in 2007 and 83% of the stock of projects were in favour of this group of countries.

- The structure of the projects and loans activity reflects **the CEB's commitment to promoting socially sustainable development.** As in 2006 and in comparable proportions, the new projects and programmes were broken down according to **three major sectoral lines of action**: social integration, representing 53% of all approvals, management of the environment (34%) and support for human capital (13%). Of particular note among the **very high social intensity initiatives** are the

In 2007, the launch of the strategic review by the CEB's Management,...

...a loans outstanding beyond the 12 billion euro mark at end 2007, representing a record level since the CEB's creation, combined with the deepening of its social priorities...

...geographically, for the benefit of the target group countries in Central and South Eastern Europe,...

...and sectorally, in favour of social cohesion and sustainable development,...

continued financing of the reform of the Regional Hospital of Shkodra, in Albania, in order to improve the quality of the medical services available to the local inhabitants; support for job creation and preservation in Lithuanian micro enterprises and SMEs, including those owned or run by women, thanks to improved access to financing; financing for the construction of low-cost housing for the benefit of low-income families in Italy (Province of Catania, Sicily).

- The intensification of the Bank's social contribution has been made possible by the **Institution's financial soundness and by the continued adaptation of its means of action, in spite of a deteriorating international economic context and a grave financial crisis since the summer of 2007**, a crisis whose consequences are, moreover, not yet fully known.

...the steady consolidation of the Bank's financial structure,...

Standing at 93.3 million euros in 2007, the net profit remained at a high level, representing a significant increase (+6%) in relation to 2006: after allocation to the reserves, the Institution's own funds now stand at 4.8 billion euros. The CEB's financial base has also been consolidated by **the quality of its counterparties**, 83% of which were rated A or more at 31 December 2007. In these conditions, the ratios of the new prudential framework set up within the context of the medium-term Development Plan have shown very favourable trends. Thus, the capital adequacy ratio stood at 13.5% at end 2007 against 14.9% at end 2006 and a maximum limit of 100% for this ratio. Similarly, the risk asset coverage ratio, which limits the outstanding rated *below investment grade*, now stands at 18% whereas the ceiling authorised by the Councils is 66%.

...as evidenced by its AAA rating,...

The **AAA rating** confirmed by the agencies Moody's, Standard & Poor's and Fitch Ratings translates this excellent assessment of the CEB's signature on the international financial markets.

...its policy of close partnerships...

The Bank has also paid **increased attention to developing a policy of close partnerships woven with the other international organisations.** Thus, on 3 September 2007, the CEB signed a Memorandum of Understanding with the United Nations Development Programme (UNDP) that will facilitate increasingly strengthened relations between the two institutions, notably within the framework of projects involving assistance to refugees. On 13 July 2007, the CEB also became a partner to a Memorandum of Understanding between the European Commission and several international financial institutions in favour of Eastern Europe, Southern Caucasus, Russia and Central Asia. Thanks to improved coordination with the other signatories, this agreement will enable the Bank to enhance the effectiveness of its actions in Moldova and Georgia, both CEB member states covered by this cooperation agreement. Lastly, the Bank this year also reaffirmed and strengthened its participation in the important tripartite agreement signed in 2006 with the European Commission and the European Investment Bank (EIB), which establishes a cooperation framework for financing sustainable urban development projects (JESSICA initiative*).

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

The CEB also carried out **a series of specific communication actions** during the year, in accordance with a policy aimed at enhancing the transparency, readability and well-understood visibility of its action in favour of social development in Europe.

In parallel to an institutional communication action targeted to the Authorities in the member states, major investors and the Council of Europe, additional impetus was also given to the policy of close partnerships with supranational institutions, including the European Union. Furthermore, the Bank made a very particular effort to broaden public access to key information about its functioning and activity by enriching its website, by giving increased publicity to ex post evaluation and by diffusing a quarterly newsletter.

- Lastly, the **funding policy** was characterised by compliance with the objectives defined over the past few years and adjustment to the Bank's volume of activity.

  In 2007, the Bank's issues amounted to 2.9 billion euros. 87% of these borrowings were denominated in the United States dollar (against 76% in 2006) owing to the opportunities that market offers. Borrowings denominated in the Australian dollar, on the other hand, represented 12% of the total volume of issues (against 20% in 2006).

  As in previous years, the major share of the CEB's funding came from investors in Asian countries and also from a number of Australian investors.

*

In all, like 2005 and 2006, 2007 has fully responded to the priority objective set forth in the medium-term Development Plan to redeploy the loans and projects activity in favour of the target group countries in Central and South Eastern Europe, based on a constantly consolidated financial structure and increasingly efficient risk steering.

In a context of significant financial turbulence, these results did not just come about by chance, but are the result not only of the mobilisation of all the Bank's teams but also of the reliability and soundness of our internal and external control systems.

Thanks to all these actions, the CEB is now well placed to fully play its role in the service of social cohesion and sustainable development in Europe. Naturally, the ongoing strategic review must also serve as an opportunity to further improve our instruments, prioritarily in the service of the target group member states.

Paris, 21 February 2008



Raphaël ALOMAR

…and the backing of a dynamic funding policy…

…have enabled the Bank to respect the strategic orientations of the Development Plan for 2005-2009,…

…in order still more clearly to affirm its social vocation in the service of European solidarity.

THE COMMUNICATION AT THE CEB



In the wake of the measures taken in 2006 to celebrate the Institution's fiftieth anniversary, the communication effort remained at a sustained level in 2007 and this will be continuing in 2008. After placing emphasis on the requirement for transparency, in the forthcoming years the CEB will also be striving to consolidate its notoriety in respect of a wider public.

Targeted institutional communication

The CEB's communication strategy is entirely guided by the principle of adaptation: adaptation to the Institution's specificity, of course, adaptation also to the expectations of its target publics and to changes in its environment and, lastly, adaptation to its limited internal resources.

Priority is thus given to highlighting the Bank's original position, to focusing on the stakeholders, who are at the very heart of its field of activity, and, more widely, to consolidating the Institution's reputation.

To achieve this, the CEB thus strives to enhance the transparency, the readability and, as far as possible, the visibility of its action in the service of social development in Europe.

Operational translation in 2007

In implementing its communication strategy, the Bank concentrated its initiatives on the Authorities in its member states in Central and South Eastern Europe, known as the target group (a workshop was organised in Georgia), on its bond subscribers (road-shows were organised in Asia and in Russia), as well as on supranational institutions: by contributing to the JESSICA initiative, by concluding Memoranda of Understanding and by being actively present at high-level conferences, the CEB has been able to consolidate recognition of its place and role within the international community.

Increased transparency

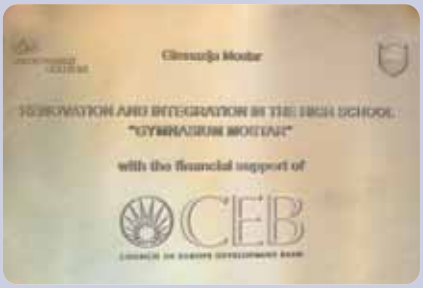
To achieve this, the Bank's more particular objective has been to broaden public access to key information on its functioning and its activity.

In concrete terms, the CEB's website has been considerably enriched by including:

- a more in-depth Governance/Integrity section (Anti-Corruption Charter, compliance policy, Procurement Guidelines, etc.)
- access to reference documents concerning the Institution's activity, strategy and positioning (synthesis of the medium-term Development Plan, financial documentation, memoranda of understanding, etc.)
- a special section on ex post evaluation

Project plaque placed in the Mostar Gymnasium, **Bosnia and Herzegovina**





New communication tools

Ever attentive to the effectiveness of its communication action, the CEB endeavours to diversify the range of instruments available to it. The new initiatives taken in 2007 included:

- diffusion of an in-house newsletter "CEB Info", also accessible on the Internet, which reports on all aspects of life within the Institution

- production of a short film, in the form of a video clip, for the purpose of presenting the CEB's activities.

*

In all, the Bank's strategy has been to deploy targeted communication activity, in accordance with the requirements for well-understood visibility. It now remains for it to consolidate its notoriety with respect to the general public; over and above modernisation of the website, this constitutes a major project for the forthcoming year.



Brussels, 8-11 October 2007
Committee of the Regions
CEB stand at the "Open Days",
during the "European Week of Regions and Cities"

Brussels, 31 January - 1st February 2007
Committee of the Regions
The CEB stand at the conference on "Social Housing: A Tool for EU Cohesion ; New Structural Funds 2007-2013" (see page 23).





Graz, Austria, 27-29 September 2007
European Centre for Modern Languages (ECML)
CEB stand at the conference on "Languages for Social Cohesion"



Strasbourg, 16 September 2007
Council of Europe "Open Days"
The Secretary General of the Council of Europe, Mr. Terry Davis, at the CEB stand



THE MANAGEMENT TEAM

In front, **Raphaël ALOMAR,** Governor
First row, left, **Nunzio GUGLIELMINO,** Vice-Governor Delegate; *right,* **Apolonio RUIZ-LIGERO,** Vice-Governor; **Imre TARAFÁS,** Vice-Governor
Second row, from left to right,
Martin WEIGAND, Chief Risk Officer; **Arnaud VIOLETTE,** Central Director for Information Systems and Control; **Bernd FRIEDRICH,** Director for Internal Audit; **Roberto CACCIOLA,** Director of Technical Advisors; **Jan DE BEL,** General Counsel; **Thierry POIREL,** Director General for Loans; **Michael ROESKAU,** Central Director for Legal Affairs and Prospective Analysis; **Claudine VOYADZIS,** Director for Ex Post Evaluation; **Jacques MIRANTE-PÉRÉ,** Director General for Finance, *a.i.*; **Luigi LA MARCA,** Chief Compliance Officer; **Richard VENEAU,** Director for General Administration

DIRECTORATE GENERAL FOR LOANS
Thierry Poirel
León Herrera, dep.

OPERATIONS SUPPORT
Melanie Wieschollek-Lacroix

PROJECTS
Théodore Ivanov

COUNTRY MANAGERS

Sylvie Anagnostopoulos: Romania

Orsolya Farkas: Bulgaria, Hungary, Ireland

Michael Lixenfeld: Germany, Liechtenstein, Luxembourg, Switzerland

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

Rachel Meghir: Belgium, Croatia, Cyprus, Greece, Spain

Christophe Mroz: Czech Republic, Slovak Republic, Poland

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

Eva Schwebel: Georgia

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

Cristian Tabacaru: Albania, Moldova, Serbia

Elif Timur: France, Turkey

TECHNICAL ADVISORY DIRECTORATE
Roberto Cacciola

TECHNICAL ADVISORS

HOUSING AND URBAN RENOVATION
Dorota Blazejewicz

HEALTH
Karina Quintar Ferrer

INFRASTRUCTURE
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ENVIRONMENT
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EDUCATION
Yaël Duthilleul

PROCUREMENTS
Kitty Villani-Haman

DIRECTORATE GENERAL FOR FINANCE
Jacques Mirante-Péré, *a.i.*

FUNDING AND TREASURY
Jacques Mirante-Péré

FUNDING
Arturo Seco Presencio

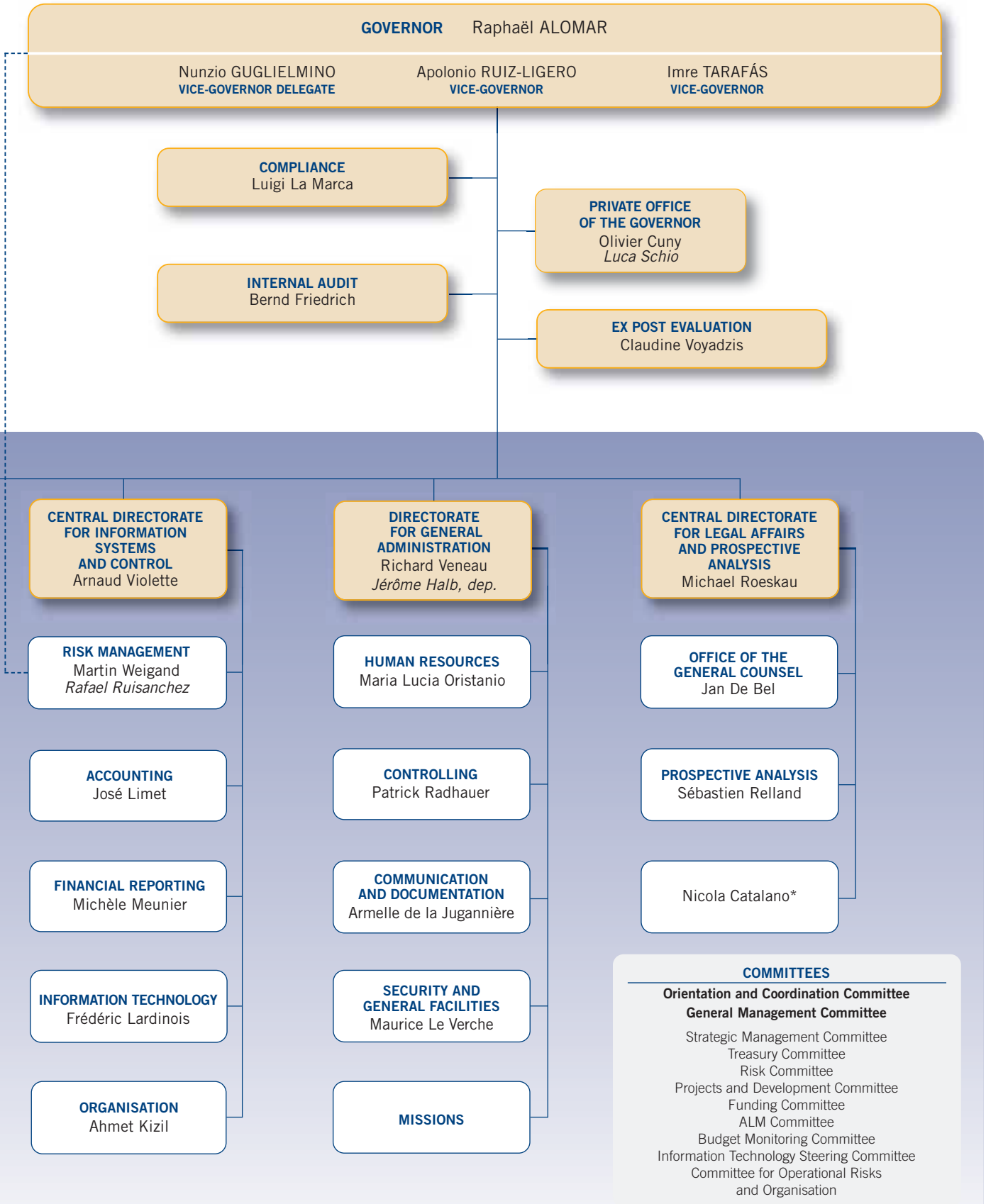
TREASURY
Michel Semertzidis

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 2008



The CEB and the other international institutions

The Bank is actively strenghtening the relations of cooperation that it enjoys with the other international institutions. In effect, these relations of cooperation enable the CEB to increase the added value of its actions.

Over the past few years, the Bank has thus become a partner to several cooperation instruments concluded under the aegis of the European Union. It has signed three Memoranda of Understanding (MoU) with the European Bank for Reconstruction and Development (EBRD), the World Bank and the Nordic Investment Bank (NIB) respectively. It has also signed bilateral Memoranda of Understanding with the High Commissioner for Refugees (UNHCR) and UNICEF. Lastly, since 2001, the CEB has been a partner to the Stability Pact for South Eastern Europe.

During 2007, with the help of the Prospective Analysis Department, the efforts undertaken to strengthen these relations were intensified. By virtue of its statutory prerogative for concluding framework cooperation agreements, the Governing Board has been closely associated with these efforts.

MoUs with the European Union and other IFIs

On 13 July 2007, the CEB became a partner to a Memorandum of Understanding (MoU) between the European Commission and several international financial institutions (IFIs) in favour of Eastern Europe, the Southern Caucasus, Russia and Central Asia.

This MoU comes within the framework of the European neighbourhood policy, whose objective is to strengthen relations between the European Union (EU) and its neighbouring countries, with a view to increasing the stability, security and well being of the populations concerned. Thanks to enhanced cooperation with the other signatories, being a partner to this MoU helps the Bank enhance the effectiveness of its actions in Moldova and in Georgia, both CEB member states covered by this cooperation instrument.

In wider terms, adhering to this MoU strengthens the institutional framework that links the CEB to the European Commission and to other IFIs. In effect, the CEB is already linked to these institutions by two framework agreements concerning, respectively, urban development, including JESSICA (30 May 2006), and cooperation in both new and potential EU member states (11 April 2006).

MoU with the UNDP

On 3 September 2007, the CEB signed a Memorandum of Understanding with the United Nations Development Programme (UNDP). In fact, this MoU ratifies the Bank's long-standing cooperation with this UN specialised agency. In effect, the UNDP has previously conducted several projects involving aid to refugees, financed by donations made by the CEB.

The main objective of this MoU is to facilitate exchanges of information and expertise between the two institutions and to strengthen their capacity for joint action in the implementation of high social impact projects.

The signing of this MoU marks a new stage in the strengthening of collaboration between the CEB and UN agencies that are active in its sectors of activity, the Bank having already signed cooperation agreements with the UNHCR (24 February 2005) and UNICEF (20 December 2006).

Prospects for cooperation

In November 2007, the CEB expressed its intention to collaborate with the Regional Cooperation Council (RCC), successor to the Stability Pact for South Eastern Europe, and is currently examining the modalities of its participation.

Lastly, the CEB has initiated discussions with the European Investment Bank (EIB) with a view to signing a bilateral MoU aimed at capitalising on their already existing long-standing operational cooperation.

PROJECTS AND LOANS



1 | KEY FACTORS FOR 2007

In operational terms, 2007 was characterised by the following key developments and results:

- the continuing **geographical redeployment of the Bank's activity in favour of the target group countries in Central and South Eastern Europe[1].**
- the launch of a **"mid-term review" of the Development Plan.**
- the growth of the CEB's target group of countries with **the accession of two new member states**, Georgia and Montenegro, in January and November 2007 respectively.
- the strengthening of **cooperation with other international organisations**, in particular with the European Union and the United Nations Development Programme (UNDP), in order to reinforce synergies and further capitalise on the Bank's expertise and added value (see box opposite).

1 Continuing redeployment of actions in favour of the Central and South Eastern European countries

Following on from last year, the results recorded in 2007 are in full conformity with the objectives of the Development Plan and emphasise, in particular, the strength of the **geographical redeployment of the activity in favour of the target group countries in Central and South Eastern Europe.**

In effect, project approvals in favour of these countries this year amounted to almost € 1.2 billion for 25 projects, representing 49% of all new operations. In all, since the Development Plan was launched in 2005, 85 projects have been approved in favour of these countries.

1. According to the CEB's Development Plan 2005-2009, the countries concerned by this redeployment 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.

2 Launch of a "mid-term review" of the CEB's Development Plan

In accordance with the principle adopted when the Development Plan for 2005-2009 was approved, a "mid-term review" of the Development Plan was launched this year in order to evaluate to what extent the results observed comply with the objectives fixed.

The initial conclusions highlight the rebalancing of the loan portfolio in favour of the target group countries over the past three years; the significant increase in the stock of projects, in particular for the target group countries; the controlled growth in the loans outstanding; and the continued active policy of close partnerships woven with the other international organisations.

3 Accession of two new member states: Georgia and Montenegro

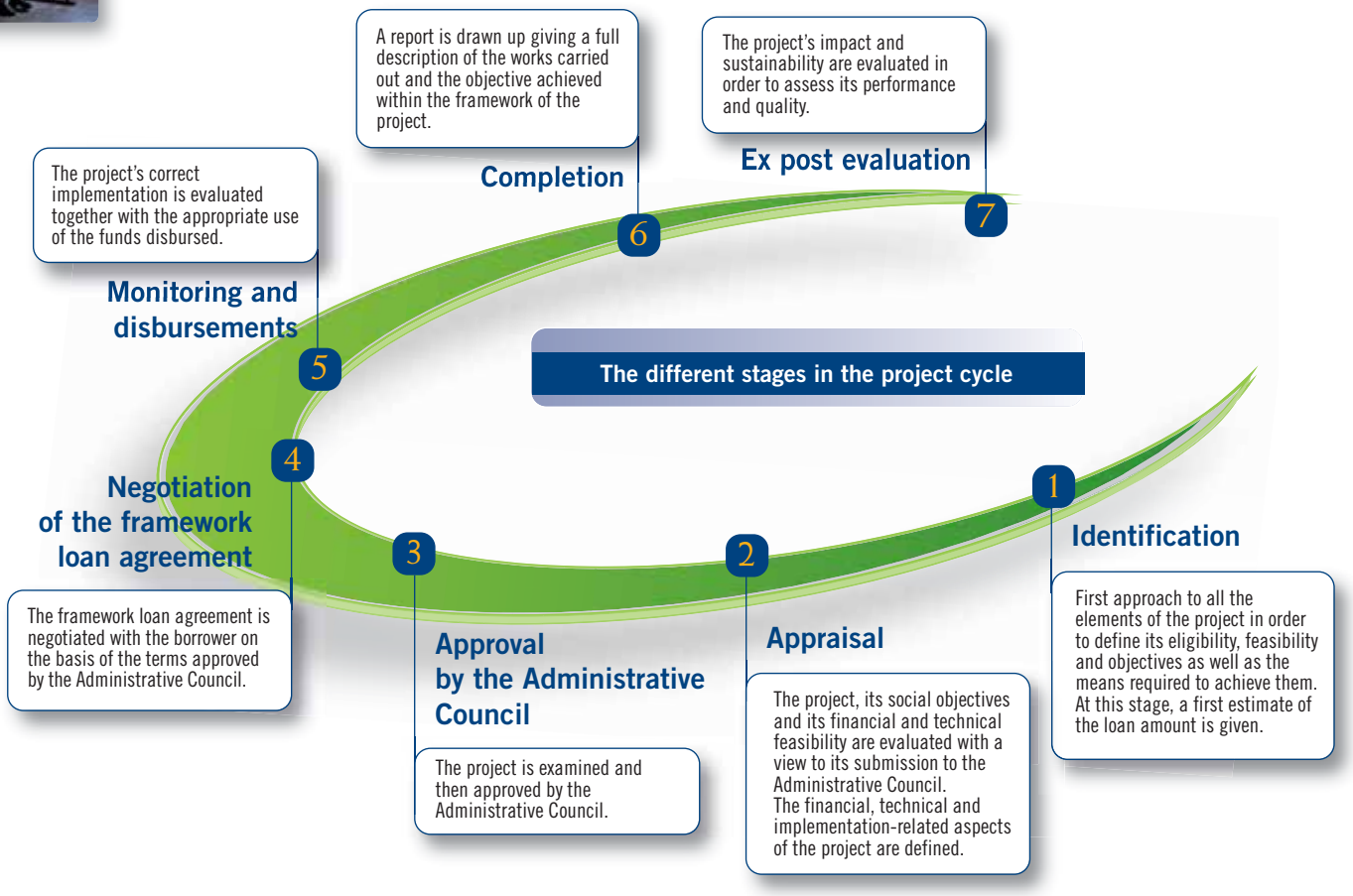
In 2007, Georgia and Montenegro became members of the Council of Europe Development Bank.

The CEB was set up in 1956 and endowed with an original mission and philosophy: the financing of social projects focussed essentially, at the time of its creation, on the problems of migratory flows and natural disasters.

SLOVAK REPUBLIC
Healthcare centre for the young handicapped







Subsequent political upheavals on the European scene have led to an in-depth transformation of the institution. Since the early 1990s, the CEB has experienced a substantial wave of accessions from the countries of Central and Eastern Europe, with the number of member states increasing from 21 in 1991 to 40 by end 2007.

4 Strengthening the policy of partnerships with other international institutions

For several years now, the CEB has striven to strengthen its **cooperation with other international organisations** (see box on page 16).

2 | 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 that it finances, the sectors in which it engages its action and the scope of its shareholder base.

1 Sectoral lines of action

The Bank's original mandate was to respond to emergency situations. Thus, aid to refugees and migrants and projects in the natural or ecological disaster sector

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 • Infrastructure of administrative and judicial public services
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



are statutory priorities. The CEB's capacity for action has steadily widened to include sectors of action that directly contribute to promote **social cohesion in Europe.**

The Bank's loans/projects 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.

❷ Financing and monitoring modalities

The CEB's action mainly consists in granting loans to finance projects that are economically and socially viable. 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 opposite).

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

The 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 constitute key factors in the effective implementation of these projects (see diagram on page 18).

On the basis of the loan request formulated by the borrower, the Bank evaluates the project and its financing plan. To do this, a careful analysis is performed of the socio-economic impact, technical aspects, costs, institutional and management capacity of the project 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.

The Norway Trust Account
Vital support for CEB operations in the Western Balkans

Since 2003, the CEB has administered an original 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 the Western Balkans[1].

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 thanks to the organisation of conferences and the publication of reports.

The 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 linked to the reform of the security sector
- local institution and capacity building.

Initially endowed with an amount of € 1 million, by 2007 the total contribution of the Norwegian Authorities to the NTA had reached **€ 2.5 million.**

By end 2007, the NTA had been used to support **28 initiatives** (including 6 for the financing of feasibility studies or technical assistance during project implementation in connection to an actual CEB loan) in a number of different eligible sectors.

This year, the Bank also approved the creation of a **Human Rights Trust Fund**, in partnership with the Norwegian Authorities and the Council of Europe, aimed at supporting efforts to strengthen the State of Law and the European system of human rights protection in Europe.

1. Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and "the former Yugoslav Republic of Macedonia".



Once the project's financing has started, 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 plans 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, while improving the quality of on-going and forthcoming projects through the learning effect.

3 | PROJECTS AND LOANS ACTIVITY IN 2007

During 2007, the CEB's Administrative Council approved 37 projects for a total amount of **€ 2 414 million**, including 25 in favour of the target group countries, for a total of € 1 191 million.

At 31 December 2007, financing commitments amounted to a total of € 3 236 million, representing a significantly higher amount than the figure for end 2006 (€ 2 203 million).

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.

Potential borrowers (Governments, local or regional authorities as well as public or private financial institutions) prepare their loan requests 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 requests are submitted to the Administrative Council for approval.

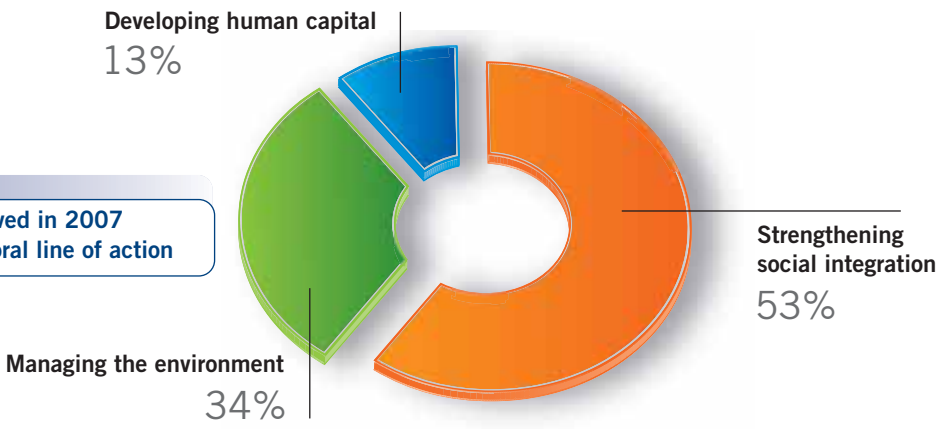
These new operations are broken down between the Bank's three sectoral lines of action as follows:

- 53% for strengthening **social integration**
- 34% for managing the **environment**
- 13% for developing **human capital.**

The breakdown of approvals per country and per sector is given in the table on page 35.

In 2007, 3 new projects benefiting from the conditions of the CEB's Selective Trust Account (STA) were approved for a total amount of **€ 36 million**, all in favour of the Bank's target group countries. These approvals represent a consumption of almost € 4 million worth of the STA's resources.

Projects approved in 2007
Breakdown by sectoral line of action





At end 2007, disbursements totalled **€ 1 590 million** (including € 671 million in favour of the target group countries, representing 42% of all disbursements during the year), spread over 106 tranches and 73 projects.

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

- 56% for strengthening **social integration**
- 22% for managing the **environment**
- 22% for developing **human capital.**

At 31 December 2007, the loans outstanding stood at **€ 12 007 million**, spread over 33 countries.

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

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 2007 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 period 2003-2007, this sectoral line of action represented an accumulated amount of **€ 5.6 billion** in terms of projects approved (representing 50% of all projects approved since 2003). For 2007 alone, the amount of projects approved reached **€ 1.3 billion** (representing 53% 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 **€ 4.4 billion**, representing 55% of all disbursements made since 2003. In 2007, the Bank disbursed **€ 884 million,** including € 348 million for the target group countries.

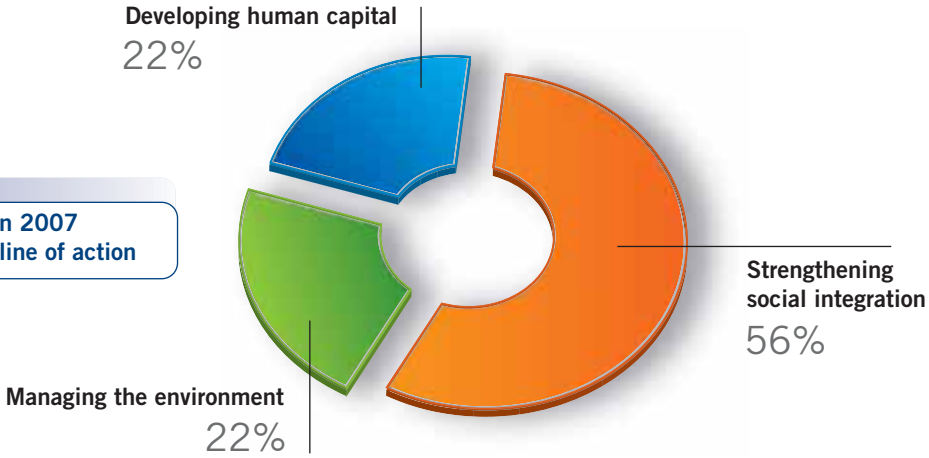
Aid to refugees, migrants and displaced persons

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

Projects financed in this sector mainly concern:

- reconstruction and repair of reception facilities (such as reception centres, temporary and permanent social housing)
- 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.

Loans disbursed in 2007
Breakdown by sectoral line of action







FINLAND
Social housing

During the past five years, the CEB has responded to requests made by several of its member states for the implementation of projects aimed at refugees and displaced persons. In effect, since 2003, the CEB has approved a total amount of almost **€ 540 million** for the implementation of new operations in this sector. Disbursements in 2007 reached **€ 82 million**, representing 5% of all disbursements.

On 3 September 2007, the CEB signed a Memorandum of Understanding (MoU) with the United Nations Development Programme (UNDP). This MoU ratifies the long-standing cooperation between the CEB and the UNDP within the framework of which the Bank contributes donations to financing projects initiated by this United Nations agency. Moreover, the agreement should facilitate increased cooperation between the two institutions in favour of refugees and migrants, thereby enabling the CEB to further enhance its social added value.

Housing for low-income persons

Since its creation, the Bank has considered action in favour of social housing to be essential to contributing to the improvement of the living environment in urban and rural areas (see box on opposite page).

The projects financed in this sector concern the renovation, construction or rehabilitation of housing units as well as the conversion of buildings into housing blocks in order 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, the 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 **€ 1 327 million**, representing almost 12% of all approvals for the period 2003-2007 (€ 11 billion).

For 2007 alone, the CEB approved new operations in this sector for a total of **€ 662 million** (representing 27% of all projects approved). Disbursements carried out in this sector in 2007 amounted to **€ 434 million**, representing 27% of all the disbursements made during the year.

In **Denmark**, a programme worth € 100 million with KommuneKredit will provide financing for the construction and renovation of housing units for the elderly; it will also help to keep the cost of their housing units at a reasonable level in compliance with the priorities fixed by the Danish Government. With the ageing of the population, the country is facing a constantly increasing need for housing for the elderly.

A new programme involving access to housing loans for immigrant populations has been approved with Caja Madrid in **Spain** (€ 95 million). This operation provides for the financing of 1 250 dwellings for the benefit of some 3 000 people.

The Bank also has approved two new programmes in this sector in **Finland**. The first, with Municipality Finance, will provide € 15 million for the financing of the construction or renovation of housing and associated social infrastructure. The second, with OKO Bank, will contribute € 70 million to financing the construction of new housing or the renovation of existing housing.

The Bank has also approved a new programme in **France** with Crédit Agricole (€ 200 million) to provide support for the financing of *"Prêts à l'accession sociale"*, that is to say housing loans for low-income households according to income criteria defined by the French public authorities, granted by the Crédit Agricole's Regional Banks.



Housing as a vector of social cohesion: an enhanced commitment in 2007

The housing sector constitutes an efficient vector of support for the Bank's mission of strengthening social cohesion within its member states. Thus, the financing of housing projects represents a major share of the CEB's total volume of activities. In effect, since 1956 the Bank's operations in this sector have concerned **140 projects**, representing a total investment worth almost **€ 20 billion**.

In matters of housing, there are pronounced disparities throughout Europe, not only in terms of the types of needs, but also in the financing channels, and in the organisation and regulation of the housing market. From a financing point of view, the sheer scope of the needs constitutes a real challenge to be taken up within such a complex framework. The needs are today especially urgent in the CEB's target group countries, where the stock of housing is particularly old and dilapidated.

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. The projects financed are aimed at providing access to home-ownership as well as to rental housing.

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.

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

In addition to its project financing activity, the Bank has this year given its backing to a wide range of initiatives aimed at strengthening its support for the housing sector, including among others:

- a contribution to the work of the *Hous-Es* network (within the framework of the community initiative URBACT) of which the CEB has been an associated member since 2006. The *Hous-Es* thematic network brings together several partner cities in the European Union member states, both old and new, in order to exchange experience and best practices in matters of management and restructuring of large housing estates. Within this framework, the CEB has participated in several seminars in order to present its experience in matters of financing for housing and urban regeneration projects in its member states.

- participation in an international Forum on the theme "Social housing, a tool for EU cohesion", organised in Brussels by the European Liaison Committee for Social Housing (CECODHAS), in collaboration with the European Union Committee of the Regions and with financial support from the CEB, the European Investment Bank (EIB) and Dexia.

  At this meeting, the CEB participated within the framework of the panel entitled "Financial engineering mechanisms for urban and housing projects: advantages for the social housing sector and conditions for an efficient use."

- the CEB's specific approach in support of housing has been acknowledged within the framework of the European Union cohesion policies. A working seminar has been organised with the CECODHAS operational teams in order to present the CEB's framework for action in matters of project financing in the housing sector.



LITHUANIA
SME manufacturing shoes

In **Hungary**, a new programme with the Government will provide € 19.5 million for the financing of investments aimed at facilitating the mobility of handicapped persons in their home, whether in apartments or houses (see box on page 29).

An operation in **Italy** (€ 120 million) with Banca Nazionale del Lavoro is to provide financing for the construction of at least 1 200 subsidised low-cost dwellings intended for purchase ("Edilizia convenzionata", PEEP) in the province of Catania, in Eastern Sicily.

The Bank has also approved a programme worth € 30 million that is to provide support for financing investments in the social housing sector in **Serbia**, through the Intesa Sanpaolo Group (Italy). The objective of the programme is to improve access to housing loans for low or medium income persons in order to help them part-finance the purchase of their first home at attractive rates and in flexible conditions. 750 housing units are thus to be financed. The beneficiaries targeted by the programme are in particular young couples and vulnerable families.

Lastly, the Bank this year approved a programme in **Poland**, with BPH Bank, providing € 12 million to finance the construction and/or rehabilitation of housing units, or the conversion of buildings into housing blocks, in favour of low-income populations.

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 exercising regular economic activity.

Over the past five years, the Bank has approved projects in this sector for a total of **€ 2 578 million**, representing almost 23% of all approvals for the period 2003-2007 (€ 11 billion).

For 2007 alone, the amount of projects approved reached **€ 401 million** (representing 17% of all projects approved in the year). Disbursements in this sector in 2007 amounted to **€ 254 million**, representing 16% of all disbursements made in the year.

Among these projects, the Bank has approved a new programme in **Germany** with InvestitionsBank des Landes Brandenburg (ILB). This operation will provide € 50 million for productive investment projects in SMEs with the aim of facilitating job creation and preservation.

The Bank has also approved a new programme (€ 100 million) with KfW Bankengruppe (Germany) in order to continue an operation involving the financing of productive investment projects aimed at preserving and creating jobs in SMEs located in **Bulgaria**, **Croatia**, **Romania** and **Turkey**. This operation comes within the framework of the European Union's SME Finance Facility (SMEFF) which, to date, has contributed to the creation and to the preservation of 17 000 jobs, all situated in the CEB's target group countries. With this new amount, the CEB's total participation within the framework of the SMEFF represents over € 412 million.

In **Bosnia and Herzegovina**, a project with Raiffeisen Bank BiH (€ 30 million) will be devoted to financing productive investments undertaken by SMEs located throughout the country. Involving the construction of new commercial premises and the provision of production equipment, these projects aim to contribute to increasing the competitiveness of the beneficiary enterprises, to encourage the creation of new permanent or temporary jobs and to preserve existing jobs.



Again in Bosnia and Herzegovina, the CEB has approved a programme with Raiffeisen Leasing BiH (€ 20 million) aimed at financing productive investment projects implemented by small SMEs, start-ups or micro-enterprises throughout the country. The investments will be made in the form of credit-leases to finance equipment, production tools and commercial premises.

In **Hungary**, the Bank has approved a programme with Raiffeisen Bank Zrt. (€ 30 million). This operation will provide financing in the form of credit-leases for investments undertaken by SMEs for the purchase of industrial equipment and machines, medical material, IT services, trucks and construction machines.

A new project in **Iceland** (€ 4 million) with Reykjavik Savings Bank (SPRON) will provide for improved access to financing for Icelandic micro-enterprises owned or run by women. At least 80 projects should thus be financed. Women entrepreneurs represent some 20% of all Icelandic entrepreneurs, which is a lower percentage than in other European countries.

The Bank is also to participate in the financing of several operations aimed at providing support for productive investments undertaken by SMEs in order to enhance their competitiveness and facilitate the creation and preservation of jobs in enterprises located in **different CEB target group countries**: in **Lithuania** with Šiauliu Bankas (€ 10 million), in **Poland** with BPH Bank (€ 30 million) and Raiffeisen Leasing Polska (€ 50 million) and in the **Czech Republic** with Czech Moravian Guarantee and Development Bank (€ 15 million) and Raiffeisen Leasing Real Estate (€ 30 million).

The Bank has approved a pilot programme in favour of **several South Eastern European countries** (€ 2 million), through the Intesa Sanpaolo Group (Italy). The aim of this programme is to facilitate the creation of enterprises in **Bosnia and Herzegovina**, in **Croatia** and in **Serbia** by granting micro-credits to young entrepreneurs encountering difficulties in obtaining financing from banks. It is also aimed at providing support for independent workers through training activities and other non-financial services.

Lastly, the Bank has approved a new programme in **Serbia** (€ 30 million) to part-finance investment projects undertaken by SMEs established throughout the country and, by doing so, to help them to enhance their competitiveness and to promote the creation and preservation of permanent or seasonal jobs.

Improving living conditions in urban and rural areas

The CEB takes action in urban areas in favour of run-down 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 regions characterised by low population density and by 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 parks
- services such as water, electricity and gas supplies, sewers, the treatment of solid and liquid waste
- roads
- 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.

ROMANIA
Pumping station





Poland

Financing investments in social infrastructure in the region of Mazovia

The CEB has approved a programme in Poland with the region of Mazovia (€ 95 million) to finance local and regional investments in social infrastructure.

With over 5 million inhabitants, the region of Mazovia, which represents 11% of the country, is the most heavily populated region in Poland. It has been the motor for the country's transformation and constitutes one of its main economic centres. However, the region is characterised by sharp internal disparities between the region's metropolitan centre (Warsaw) and the agricultural periphery. By providing the region with flexible, long-term sources of financing, the programme aims to facilitate the investments needed to reduce the disparities between the urban and rural areas.

The CEB funds will be used to cofinance the implementation of public infrastructure projects in different sectors:

- Improvements in **living conditions in urban and rural areas** through the development of industrial parks, public services, transport and local road networks, basic educational and medical structures, sociocultural and sports centres, recreation areas, fair grounds, theatres and libraries as well as irrigation networks in rural areas. Special emphasis will be placed on improving and developing local roads.
- **Protection of the environment**, in particular investments to regulate rivers, lakes and watercourses.
- **Education**, notably the construction and/or modernisation of school and university establishments as well as vocational training centres and support for various educational programmes.
- **Health**, notably the construction and/or renovation of hospitals and medical services. There exist some 500 healthcare centres and day-care centres currently in activity in the region of Mazovia, totalling almost 13 000 employees. Although Mazovia is the region of Poland with the greatest number of doctors and pharmacists, it ranks only 10th in terms of bed capacity in the local hospitals and shows a deficit in terms of specialised medical services and nursing staff. Moreover, the ageing of the population and the increasing numbers of disabled persons (approximately 10% of the region's population) are making it necessary to set up specialised healthcare services such as palliative care and physiotherapy units.
- Protection and rehabilitation of the **historic and cultural heritage** classified by UNESCO or included in the national inventory of historic monuments.
- The provision of specialised services.
- Construction or modernisation of the **infrastructure of administrative and judicial public services** in particular the purchase of a new headquarters in Warsaw for the region's executive bodies, as well as the administrative buildings for bodies controlled by the region.

This is the CEB's largest direct operation with a local Government authority in Poland so far. It comes within the framework of its strategy of aid to local and regional authorities and confirms its commitment to accompany and help the Polish regions to better integrate and enhance their appeal on the European regional scene.

Since Poland's accession to the CEB in 1998, the Bank has approved 20 projects (for an amount of **€ 1.4 billion**), 50% of which have been financings directly for the benefit of public authorities.



Over the period 2003-2007, the Bank contributed to urban and rural modernisation projects for a total of over **€ 1 billion**.

For 2007 alone, a total of **€ 154 million** was approved for the implementation of new projects in this sector. Disbursements in this sector in 2007 amounted to **€ 86 million**, representing 5% of all disbursements made in the year.

These new operations approved in the year include a project implemented in **Albania** with the Albanian Development Fund (€ 10 million) aimed at promoting sustainable economic and social development in rural areas of Albania, particularly through the construction and rehabilitation of local infrastructure. The project will provide the resources with which to rehabilitate key infrastructure facilities (roads, water, electricity, etc.) in 8 to 10 of the country's communes. It will also encourage the launching of local development strategies and will provide training in the techniques of project management and planning for some 200 local civil servants.

The Bank has also approved three new programmes in **Poland** for a total amount of € 92 million with BPH Bank, Bank Ochrony Środowiska (BOŚ) and the region of Mazovia. These operations will provide financing for social infrastructure, carried out by local and regional authorities and related bodies, both public and private, in order to create better conditions for pursuing economic development and improving the living conditions of the targeted populations.

CZECH REPUBLIC
Wastewater treatment plant



Lastly, the Bank is also to participate in financing several operations in this sector in different countries: in **Bosnia and Herzegovina** with Raiffeisen Bank BiH (€ 3 million); in **Finland**, with Municipality Finance (€ 7 million); in **Germany**, with InvestitionsBank des Landes Brandenburg (€ 30 million); in **Slovenia** with Nova Ljubljanska Banka (€ 3 million) and in **Sweden**, with Kommuninvest i Sverige (€ 10 million).

Infrastructure of administrative and judicial public services

Following the Third Summit of Heads of State and Government of the Council of Europe in May 2005, the CEB introduced a new sector of action 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 2007, the CEB approved three operations in this new sector, for a total amount of **€ 60 million**. Disbursements in this sector in 2007 amounted to **€ 29 million**, representing 2% of all disbursements made in the year.

Among the operations approved this year, the CEB is to finance a project in **France** with Crédit Agricole (€ 50 million) involving the construction or rehabilitation of infrastructure of administrative and judicial public services, notably "Gendarmerie" and fire brigade barracks (technical premises required for storage, maintenance of operational equipment, staff lodgings).

The Bank is also to participate in financing two operations in this sector for the construction and rehabilitation of facilities and the conversion of buildings into premises intended for administrative and judicial public service activities: in **Poland**, with the region of Mazovia (€ 8 million) and in **Slovenia** with Nova Ljubljanska Banka (€ 2 million).





ICELAND
Construction of a geothermal power plant in the South-West of the country

❷ Managing the environment

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

Over the period 2003-2007, this sectoral line of action represented an accumulated amount of almost **€ 3.4 billion** in terms of projects approved. For 2007 alone, project approvals amounted to **€ 810 million** (representing almost 34% of all projects approved in the year).

In parallel to this, since 2003, loans disbursed in favour of environmental management have reached an accumulated amount of over **€ 1.5 billion**, representing 19% of all disbursements made during the past five years. In 2007, the Bank disbursed a total of **€ 353 million**, including € 240 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.

The CEB also finances projects aimed at preventing natural and 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 dikes 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 2003-2007, the Bank approved projects in this sector for a total amount of over **€ 1 billion**.

In 2007, the total amount of new project approvals in this sector was **€ 26 million**, shared among three countries (Bosnia and Herzegovina, Serbia, Slovenia). Disbursements in this sector in 2007 amounted to **€ 50 million**, representing 3% of all disbursements made in the year.

In **Serbia**, a new project with the Government (€ 20 million) in matters of natural disasters prevention will provide financing for the 2nd phase of the project for the reconstruction and rehabilitation of housing and local infrastructure damaged by landslides in March 2006 in the centre and east of the country. The project provides for the reconstruction of 175 dwellings for approximately 1 200 persons. Several hundred other households should benefit from the rehabilitation of damaged structures and from the repair of some 90 kms of roads serving some thirty communes. The project will contribute to improving the living conditions and to preventing future damage to the economic activity of the populations in over 60 municipalities.

The Bank is also to participate in the financing of two new operations in this sector: in **Bosnia and Herzegovina**, with Raiffeisen Bank BiH (€ 2 million) and in **Slovenia** with Nova Ljubljanska Banka (€ 4 million).



Hungary

Promoting the use of renewable energy and improving access to housing for the disabled

The CEB this year approved a programme worth **€ 150 million** in Hungary, whose prime objective is to reduce household energy consumption and to encourage the use of renewable energy in the housing sector. At national level, the programme will contribute to achieving the energy saving objectives fixed by the Hungarian Government in its Energy Saving and Energy Efficiency Improvement Programme for 2000-2010.

Over and above the environmental benefit expected from the consumption of renewable energy, the programme is also expected to provide significant social benefits for the families concerned by improving the quality of their housing and reducing their energy bills.

Additional investments will benefit the disabled through works to improve their mobility inside their dwellings.

The added value of the CEB's action is mostly based on the following:

- there is a considerable need for investment in the housing sector in Hungary, but both national budgetary resources and European Union financing for this sector are limited. In this context, the long-term financing and the advantageous conditions offered by the CEB will make it possible to ensure continuation of the Government's pluri-annual programme.
- since 2002, the CEB has provided continued support for the Hungarian Government's investment programme in matters of social housing and energy efficiency through financings and technical expertise. This long-term cooperation has led to the establishment of an institutional project management structure that has proved extremely effective.
- the Hungarian state subsidies backed by the CEB serve as a catalyst for additional private investment in matters of environmental protection and encourage beneficiaries to personally contribute to the investments aimed at reducing energy consumption.

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
- production of renewable energy and reduction of air pollution
- protection and development of biodiversity
- cleaner transport means and networks.

In parallel to its specific activity in these areas, 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 past five years (2003-2007), the Bank has approved new projects in this sector for an accumulated amount of over **€ 2 billion**.

In 2007, the total amount of new projects approved in favour of protection of the environment reached **€ 766 million** (representing 32% of all projects approved during the year). Disbursements in this sector in 2007 amounted to **€ 290 million**, representing 18% of all disbursements made in the year.

Thus, for example, the Bank has approved a new programme (€ 46 million), implemented through KfW Bankengruppe (Germany), in favour of enterprises and municipalities situated in **Bulgaria**, **Croatia**, **Romania** and **Turkey**. The aim of this programme is 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.

Two additional projects were approved this year in **Cyprus**. The first project (€ 74 million), with the Larnaca Sewerage Board, will provide for expansion of the



drainage and sewerage network and increase the capacity of the wastewater treatment plant in order to meet the needs of the local population. It also provides for the use of purified water after treatment for irrigation and the use of sewage sludge as soil fertilizer. The second project (€ 49 million), with the Paphos Sewerage Board, will provide financing for extending the drainage and wastewater treatment network, thus contributing to improving the quality of life of the populations in the Paphos region and to protecting the marine environment, which represents the principal wealth of the tourist industry.

Another programme approved in **Hungary** with the Government will devote € 130.5 million to implementing works for improving the energy efficiency of traditional and prefabricated (panel-built) buildings and for encouraging the use of renewable energy for home heating and electricity production. There are over 500 000 apartments in prefabricated panel-built blocks in Hungary. Approximately 2 million people, that is to say 20% of the country's population, live in these blocks which need complete renovation in terms of insulation, heating and energy efficiency (see box on previous page).

The Bank is also to participate in the financing of a programme in **Iceland**, for an amount of € 170 million, concerning protection of the environment. This loan is to finance part of the construction of a geothermal plant, thus contributing to the protection of the environment through the production of renewable energy. This plant will supply electricity and hot water for both the industrial and private sectors. The project beneficiaries are the inhabitants of Reykjavik and its suburbs. During construction, the project will also have considerable impact on employment.

The Bank this year approved an important project in **Turkey**, for an amount of € 217 million, in the environmental protection sector. Located in Istanbul, this project comes within the framework of the construction of the trans-Bosphorus rail link called Marmaray Project (see box opposite).

Lastly, the Bank is also to contribute to financing several operations involving protection and improvement of the environment in different countries: in **Bosnia and Herzegovina**, with Raiffeisen Bank BiH (€ 3 million); in **Finland**, with Municipality Finance (€ 8 million); in **France**, with Crédit Coopératif (€ 10 million); in **Poland**, with BPH Bank (€ 18 million), Bank Ochrony Środowiska (€ 15 million) and the region of Mazovia (€ 2 million); in **Slovenia** with Nova Ljubljanska Banka (€ 4 million) and in **Sweden**, with Kommuninvest i Sverige (€ 20 million).

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 2003-2007, the Bank approved a total amount of **€ 256 million** in favour of the protection and the rehabilitation of elements of historic and cultural heritage.

In 2007, the Bank approved new operations in this sector for a total of **€ 19 million**. Disbursements in this sector in 2007 amounted to **€ 13 million**.

The Bank has approved two new programmes in **Poland**. The first, with Bank Ochrony Środowiska (BOŚ), will devote € 5 million to financing investments provided for within the framework of the National Strategy for the Development of Culture 2004-2020, which is essentially concerned with the extension and modernisation of cultural infrastructure and with the protection of European- or world-class cultural heritage; in particular, this involves historic buildings on UNESCO's World Heritage list or in the National Inventory of Historic Monuments. The second programme (€ 8 million), with the region of Mazovia, will provide financing for projects involving the restoration of sites belonging to the Polish historic and cultural heritage. The region of Mazovia ranks 4th nationally in terms of classified historic and cultural sites and contains some 130 towns and villages of historic interest. The major part of this heritage consists of religious sites, fortified constructions, post-industrial sites, castles and parks.

The Bank is also to contribute to financing several operations in favour of protection and rehabilitation of historic and cultural heritage in several other countries: in **Bosnia and Herzegovina**, with Raiffeisen Bank BiH (€ 1 million); in **Finland**, with Municipality Finance (€ 750 000) and in **Slovenia** with Nova Ljubljanska Banka (€ 4 million).



Turkey
Financing of the trans-Bosphorus rail link in Istanbul

In September 2007, the CEB approved a project worth € 217 million in favour of Turkey, in order to contribute to financing the project for the construction of the trans-Bosphorus rail link, known as the Marmaray Project.

The objective of the Marmaray Project is to improve the urban transport network in Istanbul, the largest city in Turkey with over 12 million inhabitants. In concrete terms, this consists in modernising the suburban railway lines running along the Sea of Marmara on the Asian and European sides of the city and to link them by means of a rail tunnel to be built at the southern end of the Bosphorus Strait. The CEB loan will be allocated to the part of the project related to the construction and modernisation of the railway lines situated on both banks of the Bosphorus in Istanbul.



TURKEY
Marmaray project:
view of the Bosphorus Strait

This project will also contribute to protecting the environment by bringing about a significant reduction in CO_2 emissions and will thus lead to improvements in the quality of life of many Istanbulites. It will also contribute to strengthening social cohesion and enhancing living conditions by enabling the inhabitants to enjoy access to a modernised, safer and faster public transport system. The Marmaray Project will thus make it possible to significantly increase the mobility of the local population in a city where journeys are excessively long for the average user because of the inadequacy of existing means of public transport and the excessive recourse to road and maritime transport with their disastrous consequences for the environment.

This project is one of the Turkish Government's priorities and provides the CEB with an opportunity to associate with the European Investment Bank (EIB) and the Japan Bank for International Cooperation (JBIC) in order to contribute to solving the transport problems of a rapidly expanding major metropolis under strong demographic pressure.

The Marmaray line, which is expected to be used by over one million passengers per day as of its first year of operation, could become one of the busiest urban rail links in the world.





ALBANIA
Shkodra Hospital maternity unit

❸ 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 period 2003-2007, projects approved in this sectoral line of action represented an accumulated amount of **€ 2.3 billion.** In 2007 alone, approvals amounted to **€ 327 million** (representing 14% of all projects approved).

In parallel to this, since 2003, loans disbursed in favour of human capital development have represented an accumulated amount of over **€ 2 billion,** representing 26% of all disbursements made in the last five years. For 2007 alone, the Bank disbursed a total of **€ 353 million,** including € 83 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,

Albania
Continuing renovation of the Regional Hospital of Shkodra

The CEB has approved a project worth **€ 6 million** in Albania for the final phase of reconstruction and renovation of the Regional Hospital of Shkodra, which follows on from the previous project approved in 2001.

The Regional Hospital of Shkodra is the biggest centre for hospital and ambulatory care in Northern Albania. With its approximately 250 000 inhabitants, the Shkodra district is one of the largest in the country.

This phase of the project concerns the functional reorganisation of the hospital, including the extension of certain premises so as to provide more numerous and better quality medical services (approximately 180 beds), an area reserved for patients suffering from chronic psychiatric problems (approximately 90 beds), the reopening of a polyclinic, modernisation of the electrical and mechanical installations and implementation of a hospital management system for the registration of patients. The project also provides for improvements to be made to the waste and wastewater management system and for the use of renewable energy (solar energy).

The CEB's participation should bring value added to the project thanks to:

- its know-how in evaluating and setting up projects in the health sector
- its strict requirements in terms of procurement, project monitoring and technical assistance
- the provision of flexible long-term financing, well adapted to this type of infrastructure of which there is a shortage in Albania, which slows development of the health sector
- the introduction of a model for patient registration and management that other regional hospitals will subsequently be able to use

With this project, the CEB will be contributing to the implementation of a complex hospital reform process that should serve as a model for other regional hospitals in the country.



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 **€ 1.1 billion**.

In 2007, the Bank approved new projects in this sector for a total of **€ 165 million**. Disbursements in this sector in 2007 amounted to **€ 164 million**, representing 10% of all disbursements made in the year.

A new project (€ 6 million) was approved in **Albania** in order to continue the work of modernising the Regional Hospital of Shkodra (Phase 3) which will lead to improvements in the quality and quantity of the medical services provided. This phase concerns the functional reorganisation of the hospital, the extension of certain healthcare areas with the creation of some 180 additional beds, the development of psychiatric services (90 beds) and the reopening of a polyclinic. This project also provides for the introduction of waste management measures and for the use of renewable energy (solar). Almost 250 000 inhabitants of the Shkodra region will benefit from these new services (see box opposite).

In **Poland**, a programme with the region of Mazovia will provide € 32 million for the health sector: construction and rehabilitation of healthcare facilities (hospitals and other medical centres), including certain centres specialised in providing assistance to vulnerable populations; construction and rehabilitation of long-stay healthcare centres for the elderly and social action centres; modifications to premises in order to facilitate the movement of persons, both inside and outside; purchase of healthcare materials and installations; implementation of home help programmes and staff training programmes specialised in the fields of social action and health.

Lastly, the Bank is also to finance several operations aimed at improving the quality of health infrastructure in different countries: in **Finland**, with Municipality Finance (€ 15 million) and OKO Bank (€ 15 million), for the financing of health infrastructure such as works for the extension of healthcare centres for the elderly or



SPAIN
Primary school

housing specially adapted for the disabled; in **France** with Crédit Agricole (€ 50 million) and Crédit Coopératif (€ 25 million) for the modernisation of hospitals, hospital centres and retirement homes; in **Slovenia** with Nova Ljubljanska Banka (€ 1.5 million) and in **Sweden** with Kommuninvest i Sverige (€ 20 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 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 **€ 1 billion**.

In 2007, new operations were approved in this sector for a total of **€ 162 million**. Disbursements in this sector in



2007 amounted to **€ 189 million**, representing 12% of all disbursements made in the year.

Among the operations approved during the year, the CEB is to finance a programme in **Germany**, with InvestitionsBank des Landes Brandenburg (ILB), which will provide € 20 million for the construction or rehabilitation of vocational training centres situated in the Land of Brandenburg.

The CEB is also to finance a project with the Government in **"the former Yugoslav Republic of Macedonia"** (€ 13 million). This project provides for the construction of 145 new physical education facilities (PEFs): 115 for primary education and 30 for secondary education for the benefit of some 34 500 pupils. This project will also fit out both old and new facilities with sports equipment thus enabling the provision of quality teaching. These new installations will provide a greater number of physical education classes, which will have a positive impact on pupils' health, improving their performance at school and developing social interaction.

The Bank has also approved two new programmes in **Poland**. The first, with Bank Ochrony Środowiska (BOŚ), will devote € 5 million notably for the maintenance of higher education establishments, in accordance with the National Strategy for Computerisation and the Information Society and Poland's commitments to the Lisbon Strategy aimed at guaranteeing the competitive and dynamic nature of the European economy. The second programme, with the region of Mazovia will devote € 3 million to the rehabilitation of school and university establishments, including sports or cultural facilities, university halls of residence, research and development facilities and the rehabilitation of student residences.

Lastly, the Bank is also to participate in several operations aimed at financing the construction, renovation and modernisation of education and vocational training infrastructure in several countries: in **Bosnia and Herzegovina**, with Raiffeisen Bank BiH (€ 1 million), notably for the construction of schools; in **Finland** with Municipality Finance (€ 30 million) and OKO Bank (€ 15 million), for the modernisation of education infrastructure and student residences; in **France**, with Crédit Coopératif (€ 15 million), to finance the construction, renovation and upgrading of teaching buildings; in **Slovenia**, with Nova Ljubljanska Banka (€ 1.5 million) and in **Sweden** with Kommuninvest i Sverige (€ 59 million).

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In 2007, the breakdown of both new 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 **€ 12 007 million** and the stock of projects awaiting financing to **€ 4 453 million** (including € 3 701 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 2003 to 2007

in thousand euros

COUNTRIES	2007		Accumulated total 2003-2007	
	Amounts	%	Amounts	%
Albania	16 000	0.7	68 169	0.6
Bosnia and Herzegovina	60 000	2.5	79 834	0.7
Bulgaria	-	-	75 000	0.7
Croatia	-	-	185 892	1.6
Cyprus	122 523	5.1	339 577	3.0
Czech Republic	45 000	1.9	85 000	0.7
Denmark	100 000	4.1	300 000	2.7
Finland	175 000	7.2	700 000	6.2
France	350 000	14.5	400 000	3.5
Germany*	246 000	10.2	1 002 000	8.9
Hungary	180 000	7.5	934 222	8.3
Ireland	-	-	100 000	0.9
Iceland	174 000	7.2	214 000	1.9
Italy**	152 000	6.3	1 717 200	15.2
Latvia	-	-	128 000	1.1
Lithuania	10 000	0.4	18 793	0.2
Malta	-	-	152 182	1.3
Moldova	-	-	10 900	0.1
Norway	-	-	119 000	1.1
Poland	279 700	11.6	910 700	8.1
Portugal	-	-	377 825	3.3
Romania	-	-	1 192 750	10.6
Serbia	50 000	2.1	89 600	0.8
Slovak Republic	-	-	4 859	< 0.1
Slovenia	20 000	0.8	90 000	0.8
Spain	95 000	3.9	1 037 352	9.2
Sweden	109 000	4.5	317 256	2.8
"the former Yugoslav Republic of Macedonia"	12 500	0.5	22 500	0.2
Turkey	217 000	9.0	617 000	5.5
TOTAL	**2 413 723**	**100.0**	**11 289 611**	**100.0**

* *including € 146 million for projects approved in favour of the target group countries (2007)*
** *including € 32 million for projects approved in favour of the target group countries (2007)*

SECTORAL LINES OF ACTION ***	2007		Accumulated total 2003-2007	
	Amounts	%	Amounts	%
STRENGTHENING SOCIAL INTEGRATION	**1 276 950**	**52.9**	**5 592 294**	**49.5**
Aid to refugees, migrants and displaced populations	-	-	539 677	4.8
Housing for low-income persons	661 500	27.4	1 326 813	11.8
Creation and preservation of viable jobs	401 000	16.6	2 577 500	22.8
Improvement of living conditions in urban and rural areas	154 450	6.4	1 088 304	9.6
Infrastructure of administrative and judicial public services	60 000	2.5	60 000	0.5
MANAGING THE ENVIRONMENT	**810 273**	**33.6**	**3 433 666**	**30.4**
Natural or ecological disasters	26 000	1.1	1 115 222	9.9
Protection of the environment	765 523	31.7	2 062 916	18.3
Protection and rehabilitation of historic and cultural heritage	18 750	0.8	255 528	2.2
DEVELOPING HUMAN CAPITAL	**326 500**	**13.5**	**2 263 651**	**20.1**
Health	164 500	6.8	1 139 390	10.1
Education and vocational training	162 000	6.7	1 124 261	10.0
TOTAL	**2 413 723**	**100.0**	**11 289 611**	**100.0**

**** For these programmes, the indicative breakdown per sector is provided by the borrower; it is updated as disbursements are made.*
NB: It should be noted that the amounts approved by the CEB represent on average 40% of the total volume of the actual investments. The impact of CEB financings is therefore really 2.5 times the amounts indicated in this table.



PROJECTS APPROVED
per counterparty, in 2007

in thousand euros

COUNTRIES	COUNTERPARTIES	SECTORS	AMOUNTS
Albania	Albanian Development Fund	Urban and rural modernisation	10 000
	Government	Health	6 000
Bosnia and Herzegovina	Raiffeisen Bank BiH	Multi-sector	40 000
	Raiffeisen Leasing BiH	Creation and preservation of viable jobs	20 000
Cyprus	Larnaca Sewerage Board	Protection of the environment	73 649
	Paphos Sewerage Board	Protection of the environment	48 874
Czech Republic	Czech Moravian Guarantee and Development Bank	Creation and preservation of viable jobs	15 000
	Raiffeisen Leasing Real Estate	Creation and preservation of viable jobs	30 000
Denmark	KommuneKredit	Housing for low-income persons	100 000
Finland	Municipality Finance	Multi-sector	75 000
	OKO Bank	Education, housing, health	100 000
France	Crédit Agricole	Housing for low-income persons	200 000
	Crédit Agricole	Administrative and judicial public services	50 000
	Crédit Agricole	Health	50 000
	Crédit Coopératif	Education, environment, health	50 000
Germany	InvestitionsBank des Landes Brandenburg (ILB)	Vocational training	20 000
	InvestitionsBank des Landes Brandenburg (ILB)	Urban and rural modernisation	30 000
	InvestitionsBank des Landes Brandenburg (ILB)	Creation and preservation of viable jobs	50 000
	KfW Bankengruppe*	Protection of the environment	46 000
	KfW Bankengruppe*	Creation and preservation of viable jobs	100 000
Hungary	Government	Protection of the environment	130 500
	Government	Housing for low-income persons	19 500
	Raiffeisen Bank Zrt.	Creation and preservation of viable jobs	30 000
Iceland	Reykjavik Energy	Protection of the environment	170 000
	Reykjavik Savings Bank (SPRON)	Creation and preservation of viable jobs	4 000
Italy	Banca Nazionale del Lavoro	Housing for low-income persons	120 000
	Intesa Sanpaolo*	Creation and preservation of viable jobs	2 000
	Intesa Sanpaolo*	Housing for low-income persons	30 000
Lithuania	Šiauliu Bankas	Creation and preservation of viable jobs	10 000
Poland	BPH Bank	Multi-sector	85 000
	Bank Ochrony Środowiska	Education	50 000
	Raiffeisen Leasing Polska	Creation and preservation of viable jobs	50 000
	Region of Mazovia	Multi-sector	94 700
Serbia	Government	Natural disasters	20 000
	Raiffeisen Leasing Serbia	Creation and preservation of viable jobs	30 000
Slovenia	Nova Ljubljanska Banka	Multi-sector	20 000
Spain	Caja Madrid	Housing for low-income persons	95 000
Sweden	Kommuninvest i Sverige	Multi-sector	109 000
"the former Yugoslav Republic of Macedonia"	Government	Education	12 500
Turkey	Government	Protection of the environment	217 000
TOTAL			**2 413 723**

** in favour of the target group countries*



LOANS DISBURSED

per country and per sectoral line of action, from 2003 to 2007

in thousand euros

COUNTRIES	2007		Accumulated total 2003-2007	
	Amounts	%	Amounts	%
Albania	8 400	0.5	18 079	0.2
Belgium	-	-	80 000	1.0
Bosnia and Herzegovina	26 854	1.7	29 254	0.4
Bulgaria	3 788	0.2	80 533	1.0
Croatia	19 050	1.2	151 967	1.9
Cyprus	41 700	2.6	271 601	3.4
Czech Republic	7 000	0.4	35 000	0.5
Denmark	100 000	6.3	400 000	5.1
Estonia	-	-	2 981	0.05
Finland	92 500	5.8	580 000	7.3
France	275 000	17.3	375 000	4.7
Germany*	149 630	9.4	755 130	9.5
Greece	52 718	3.3	172 488	2.2
Hungary	95 000	6.0	700 233	8.9
Iceland	102 009	6.4	134 363	1.7
Ireland	-	-	50 000	0.6
Italy**	75 000	4.8	1 021 386	12.9
Latvia	61 500	3.9	112 148	1.4
Lithuania	11 448	0.7	26 954	0.3
Malta	-	-	75 500	1.0
Moldova	1 000	0.1	3 000	0.05
Norway	65 000	4.1	187 400	2.4
Poland	51 880	3.3	414 738	5.3
Portugal	-	-	362 326	4.6
Romania	74 719	4.7	258 534	3.3
Serbia	7 961	0.5	17 561	0.2
Slovak Republic	-	-	16 693	0.2
Slovenia	9 130	0.6	44 130	0.6
Spain	122 500	7.7	981 711	12.4
Sweden	51 054	3.2	174 077	2.2
"the former Yugoslav Republic of Macedonia"	-	-	9 700	0.1
Turkey	84 868	5.3	365 388	4.6
TOTAL	**1 589 709**	**100.0**	**7 907 875**	**100.0**

* *including € 91.3 million for projects approved in favour of the target group countries (2007)*

** *in favour of target group countries (2007)*

SECTORAL LINES OF ACTION ***	2007		Accumulated total 2003-2007	
	Amounts	%	Amounts	%
STRENGTHENING SOCIAL INTEGRATION	**883 809**	**55.6**	**4 357 352**	**55.1**
Aid to refugees, migrants and displaced populations	81 621	5.1	537 819	6.8
Housing for low-income persons	434 090	27.3	1 381 406	17.5
Creation and preservation of viable jobs	253 625	16.0	1 613 111	20.4
Improvement of living conditions in urban and rural areas	85 586	5.4	796 129	10.0
Infrastructure of administrative and judicial public services	28 887	1.8	28 887	0.4
MANAGING THE ENVIRONMENT	**352 977**	**22.2**	**1 536 468**	**19.4**
Natural or ecological disasters	49 948	3.1	512 114	6.5
Protection of the environment	290 137	18.3	906 676	11.4
Protection and rehabilitation of historic and cultural heritage	12 892	0.8	117 678	1.5
DEVELOPING HUMAN CAPITAL	**352 923**	**22.2**	**2 014 055**	**25.5**
Health	164 232	10.3	951 637	12.0
Education and vocational training	188 691	11.9	1 062 418	13.5
TOTAL	**1 589 709**	**100.0**	**7 907 875**	**100.0**

****For these programmes, the indicative breakdown per sector is provided by the borrower; it is updated as disbursements are made.*

EX POST EVALUATION



In 2007, the Ex Post Evaluation Department (DEP) completed four evaluations in the sectors of job creation, social housing and education, in Central and Eastern Europe.

Evaluation results

Social housing

Action in favour of social housing is essential to improve the quality of life in urban and rural areas. The evaluation, the second of its kind, reinforces the findings of the programme evaluated in 2006. The programme contributed very significantly to the new national social housing stock; its impact is considerable and most probably sustainable.

The social mission of the programme was concretised by targeting low income households and also by reserving a share of the apartments for people with special needs. Programme management was efficient and cost recovery is satisfactory. The added value of the CEB is high: without the loan the national social housing programme would have slowed down or temporarily halted.

Mid-term review of the Ex Post Evaluation Activity Plan 2005-2009

In 2007, a mid-term review of the implementation of the Activity Plan 2005-2009 of the Ex Post Evaluation Department was undertaken to report on progress and evaluation results, and to define priorities for the future.

Since 2005, six evaluations (11 projects) have been completed, and five other (7 projects) are on-going. The earlier evaluation programme (2003-2006) in the natural disaster sector was completed in 2006 with a synthesis report and a joint conference with the World Bank.

Results

The evaluations completed thus far lead to similar emerging conclusions:

- To increase the CEB's impact and added value, it is crucial to align project objectives with local policies and regulatory frameworks and, as far as possible, create synergies with programmes of other international donors.
- It is necessary to make a systematic assessment of the capacity of a borrower to implement a CEB project. Alternative options for implementation should be considered at project onset.
- Possible contextual changes, their results and their impact on the project need to be well anticipated, for instance, decentralisation processes.
- Co-financing and cooperation with other IFIs are highly valuable, in particular when objectives are complementary between organisations. Such cooperation needs a precise definition of expectations, and of the modalities for project implementation, monitoring and evaluation.

A partial reorientation

The priority for the coming two years is to finalise the evaluation programmes in the social housing and job creation sectors. In addition, an evaluation programme in the environment sector will be launched in 2008 along with a cluster evaluation of CEB donations. These adjustments have led to a slight deferral of the actual start of the evaluation programme in the education sector to the second semester 2009 and in the health sector to 2010.

Beyond 2009, ex post evaluations will most probably continue to be conducted per sector as this approach has proven relevant so far. However, evaluations per country or per theme, per instrument or per implementation modality should not be excluded. Joint evaluations, which have proven their great value, will remain an important element in the future.



The evaluation emphasises the importance of defining regional priorities at programme onset and of developing social sustainability indicators for social housing. It also suggests that the CEB should provide potential borrowers with more assistance in defining their social housing policies, in cooperation with other international organisations.



POLAND
Social housing

Job creation

Within the framework of its support for social cohesion, the CEB promotes investment in small and medium-sized enterprises (SMEs). Two evaluations of job creation programmes were completed. The first concerned a credit line to a national development bank, the second a series of loans to commercial banks in favour of women entrepreneurship.

The results of the first programme confirm a previous evaluation and argue in favour of SME financing through commercial banks. This type of structure, which has been applied by the CEB in more recent years, appears to be a more effective alternative that generates more marked social effects.

The women entrepreneurship programme co-financed with a partner IFI was remarkably effective. These SME programmes, if well targeted, allow the CEB to add significant social value. This notwithstanding, an in-depth reflection on the objectives and implementation modalities of job creation programmes is essential for the definition of a strategy coherent with the CEB's mandate.

Education

A pilot evaluation was carried out in the education sector. The impact of the evaluated project was significant and the engineering quality of the rehabilitated schools highly satisfactory. The evaluation was performed jointly with the World Bank, which co-financed the project. This collaboration was mutually highly valuable; the two evaluations came up with similar conclusions and ratings.



FINANCIAL ACTIVITIES



1 | ECONOMIC ENVIRONMENT IN 2007

Global financial activity

2007 was a contrasted year for the global economy. On the one side, global growth was maintained, mainly driven by the economies of emerging countries. On the other side, a serious financial crisis arose in the summer due to the collapse of the subprime market and the effect of contagion linked to the securitization of a large part of this debt on the market. The United States were particularly affected.

The sharp rise of the price of oil (50%) and the higher price of gold (25%) and raw materials continued in 2007. This was particularly beneficial to emerging countries, most of which are raw materials suppliers. Consequently, the equity markets performed very well in these countries.

Stock market movements were contrasted in 2007: in the United States (6%), Europe (7%), France (- 1%), Germany (22%), Switzerland (- 6%), Japan (- 11%) and in emerging countries like China (97%), Russia (20%), India (52%) and Brazil (43%).

Over the same period, long-term rates in Europe rose by 50 bp while long-term rates in the United States dropped by 45 bp.

Affected by the subprime crisis in the United States, among others, the US dollar continued its sharp depreciation against the euro. As a result, the exchange rate of the euro against the US dollar rose from 1.32 to 1.47 over the year 2007.

Subprime crises in the summer of 2007

Over the last few years, the interest rates of all the central banks and long-term interest rates have been relatively low, as have been the credit spreads on issuers exposed to a risk higher than the sovereign risk. In other words, investors were taking more and more risks without obtaining sufficient remuneration. As such, a number of investors, seeking a better yield, invested in ABS (Asset Backed Securities) while obtaining finance under excellent conditions. Yet some of these investors had encountered serious difficulties since the month of August 2007, following the subprime crisis. This situation led to tensions on short-term interest rates, a crisis of confidence in the practice of interbank loans and a considerable fall of the main stock market benchmarks. There was a real crisis in the financial sector, marking a notorious turning point in the market cycle.

This liquidity crisis led to a sharp increase in the overnight lending rate and EURIBOR rates. The European Central Bank (ECB) and the Federal Reserve (FED) announced coordinated efforts to inject liquidities into the money markets, thus relieving the financial market and stabilizing short-term interest rates.

The FED lowered its interest rates in three stages, starting in September 2007 (- 50 bp, - 25 bp and - 25 bp) from 5.25% to 4.25%. Before this turbulence, the Bank of England and the ECB regularly toughened their monetary policy by raising interest rates, from 5% to 5.75% and from 3.5% to 4% respectively since the start of the year. At the end of 2007, the Bank of England finally cut its interest rates by - 25 bp to 5.50%. In the euro zone, where inflation reached 3.1% at the end of the year, the ECB left interest rates unchanged, invoking the risk of inflation.

Sovereign Wealth Funds

On the financial markets, Sovereign Wealth Funds (SWFs) are an important group of investors. The development of these funds results from the accumulation of a large volume of assets due to the high price of natural resources and large balance of payment surpluses.

The growth of SWFs, which mainly invested their capital in government bonds for a long time but are now looking for more offensive investments, could affect the international asset allocation. At the end of the year, SWFs made a series of equity investments in western

banks. The total amount of assets under management for SWFs at present is estimated at around € 1 900 billion compared to more than € 6 000 billion for the traditional foreign exchange reserves of central banks and around € 1 200 billion for Hedge Funds.

2 | 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 a maturity of up to 15 years.

In order to limit exposure to interest rate risk, securities of maturities greater than one year are floating-rate, through asset swaps where applicable. Short-term instruments, of maturities less than one year, also include Euro Commercial Paper, as an alternative to bank deposits.

Longer-term securities, of maturities greater than one year, must have an AA or Aa2 rating. 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 2007, the total value of securities in this portfolio with a maturity of more than one year stood at € 2 billion.

In practice, the CEB implements an annual purchasing programme corresponding to the reinvestment of securities which have reached maturity.

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. However, securitised products and other special-purpose instruments must have an AAA/Aaa rating and not exceed a total limit of € 500 million. The size of the portfolio of financial assets held to maturity is limited to the amount of shareholders' equity available (paid-in capital, 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 2007, the total value of this portfolio stood at € 1.9 billion.

In practice, the CEB implements an annual purchasing programme under which the cash generated by bonds maturing and the current year's profits are re-invested.

3 | DERIVATIVES

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

As at 31 December 2007, the breakdown of derivatives by type of hedge was 82% for borrowings, 15% for loans and 3% 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" (see page 46).

To limit its credit risk, the Bank has signed collaterals contracts with nearly all its counterparties. Thus, as at 31 December 2007, almost all (99.9%) of the CEB's swaps contracts are collateralised. The residual credit risk, calculated as the sum of the positive market values not covered by collaterals received, remains very low.

4 | FUNDING IN 2007

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 2007, the Bank borrowed a total amount of € 2.9 billion, broken down into 12 funding operations, with maturities

Borrowings launched in 2007

Date of payment	Date of maturity	Currency	Term	Nominal amount (in millions)	Lead manager
23/01/2007	23/01/2012	AUD	5 years	200	ANZ Banking Group / Commonwealth Bank of Australia
29/01/2007	29/01/2014	USD	7 years	1 000	Royal Bank of Canada / Morgan Stanley
16/03/2007	18/01/2012	AUD	5 years*	100	The Toronto Dominion Bank
20/04/2007	20/04/2017	USD	10 years	1 000	Morgan Stanley / UBS
15/06/2007	15/06/2012	USD	5 years	1 000	Royal Bank of Canada / Daiwa / Credit Suisse International
29/08/2007	29/10/2025	JPY	18 years**	500	Nomura
05/10/2007	30/06/2014	USD	7 years*	100	Credit Suisse International
16/10/2007	22/04/2013	USD	6 years*	200	Credit Suisse International
30/10/2007	23/01/2012	AUD	4 years*	300	Toronto Dominion Bank
13/11/2007	13/11/2025	JPY	18 years**	500	Nomura
27/11/2007	27/11/2026	JPY	19 years**	500	Nomura
17/12/2007	17/12/2037	JPY	30 years**	500	Nomura

* *re-opening of existing issues*
** *issue with a redemption call*

of 1 year or more, including four re-openings of existing issues. This amount, which is significantly higher than the funding volume in 2006 (€ 2.1 billion), fulfilled two main objectives:

- to cover lending needs
- to meet the Bank's repayment of maturing debt, which in 2007 was appreciably higher than in 2006.

The volume of resources raised in 2007 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 2007, 86.7% of the funds raised by the Bank were denominated in US dollar, versus 76% in 2006. The remaining 13.3% were raised in Australian dollar (12.9%) and Japanese yen (0.4%).

The predominant role of the US dollar, swapped for floating euros, can be explained by the attractive funding conditions on this market. In that aspect, it should be underlined that the CEB launched three benchmark issues denominated in US dollar, with maturities of five, seven and ten years, each of which totalled 1 billion US dollars. Issues with long maturities were made possible by the favourable environment on this market and the great demand from investors on the long part of the curve.

The CEB launched two new tranches of 200 million US dollars on the 2013 benchmark maturity issue and 100 million US dollars on the 2014 benchmark maturities issue, which brings the total of these lines to respectively 1.95 and 1.2 billion US dollars.

In particular, it should be noted that the 10-year maturity benchmark issue enabled an extension of the CEB's

benchmark curve in US dollar up to 2017. As at 31 December 2007, the CEB had a benchmark curve in US dollar of 10 separate issues, of between one and two billion, on seven maturities.

As for the Australian dollar market, the line of January 2012, under the EMTN programme, was increased by 100 million Australian dollars, reaching an overall total of 650 million.

Through its Australian domestic *kangaroo* programme, in January the CEB executed a new operation with a maturity of five years, totalling 200 million Australian dollars. This issue was then increased by 300 million Australian dollars, reaching a total of 500 million, a volume characteristic of benchmark issues on the Australian domestic market. This operation helped to build CEB's benchmark curve on the market which, at the end of 2007, consisted of 3 different maturities with sizes between 500 and 600 million Australian dollars.

As a result of these transactions, the Australian dollar is the second currency in terms of funding volume.

Four structured operations, each of 500 million Japanese yen, were executed in the second half of the year, with maturities ranging between 18 and 30 years.

All the financial operations launched in 2007 were associated with hedge swaps which eliminated both the interest rate risk and the foreign exchange risk. After the swap, all the resources borrowed were converted into euros.

The average maturity of issues launched in 2007 was seven years as against six years in 2006. The table on the opposite page gives details of the funds raised in their original currencies.

93% 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 avoid cash gaps over the coming financial years.

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

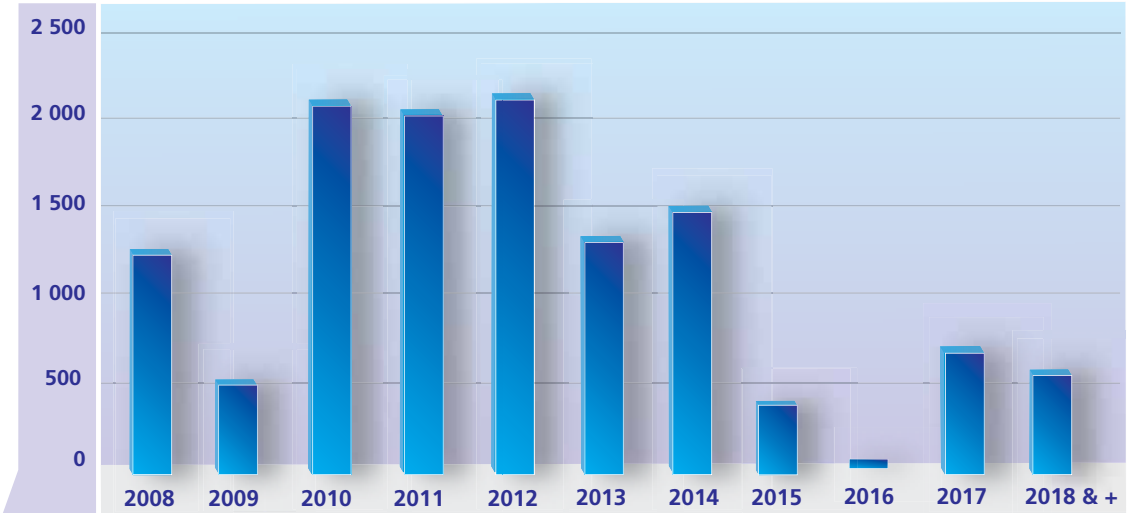
2 Trend in debt position

As at 31 December 2007, the total outstanding debt represented by securities, excluding interest payable, stood at € 12.5 billion, slightly lower than the previous financial year (€ 13.3 billion).

In 2007, the Bank did not repurchase any of its own debt and made early repayments totalling € 8.4 billion. The breakdown of debt per maturity, taking into account these operations and new issues launched, is shown in the following diagram:

Issues by maturity at 31 December 2007

in million euros



5 | PROFIT AND BALANCE SHEET

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

1 Trend in profits

Net income for the 2007 financial year is € 93.3 million as compared with € 88.1 in 2006. This significant increase, + € 5.2 million, up 5.9%, is explained by the following:

A sharp € 5.4 million increase in net banking income, up 4.6%, resulting from:

- an increase in the interest margin generated by held-to-maturity financial assets into which the profit allocated to the reserve is reinvested
- an increase in net income from hedging financial instruments at fair value, which do not qualify for hedge under IFRS.

and, conversely:

- a drop 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.

Stability in general expenses (including depreciation): +€ 0.2 million, i.e. +0.7%, in view of:

- a slight rise in staff costs, in compliance with statutory provisions (higher wage scales, automatic steps, promotions) and due to a slight increase in the number of permanent staff (138 agents against 136 at the end of 2006)
- a significant reduction in general operating expenses (including depreciation), mainly due to the non-recurring expenses borne in 2006 in the context of the CEB's 50th anniversary.

Consequently, the operating ratio (general expenses/total operating income) was 24.1% in 2007 and dropped below the 25% level passed in 2006.

2 Trend in the balance sheet

As of 31 December 2007, the balance sheet stood at € 18 509 million against € 18 232 million as of 31 December 2006, up 1.5%.

On the assets side,

- **outstanding loans** were stable from one financial year to the next (+ 0.1%). Disbursements totalled € 1 590 million, comparable to 2006 (€ 1 640 million), of which 42% in favour of target group countries while, at the same time, repayments totalled € 1 490 million, of which € 92 million repaid early.
- the volume of **employment of cash**, which totalled € 3 195 million, remained at the same level as in 2006 (€ 3 201 million). However, the fluctuation of interest-rate curves and the measures taken by the management to improve the security of investments in the context of the financial crisis which hit the markets in the summer of 2007, had the following consequences: an increase of € 185 million in deposits with central banks and in net investments totalling € 250 million in the portfolio of available-for-sale financial assets compared to 2006 and, in return, a fall in time deposits with banks and credit institutions.

Trend in profits

in million euros

	2007	2006	Variation	%
Total operating income	**122.9**	**117.5**	**+ 5.4**	**+ 4.6%**
General expenses	*- 29.6*	*- 29.4*	*+ 0.2*	*+ 0.7%*
Net profit	**93.3**	**88.1**	**+ 5.2**	**+ 5.9%**

On the liabilities side,

- **debt represented by a security** fell by € 356 million, i.e. – 2.6%, in view of issues with a maturity of at least one year for € 2 612 million (2 858 million at the rate on the issue date), repayments totalling € 2 376 million and the effect of the euro's appreciation against the US dollar, which reduced debt by € 876 million
- **shareholders' equity**, including income, totalled € 1 826 million, an increase of 3% compared to 2006. This variation was due to the 2007 income (€ 93.3 million), on the one hand, and the recording of a net unrealised loss of € 38.8 million on the portfolio of available-for-sale financial assets, on the other.

Finally, in general, the euro's appreciation against the US dollar, from 1.32 at 31 December 2006, to 1.47 at 31 December 2007, led to considerable 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". These variations had no effect on the Bank's profit.

Trend in the balance sheet

in million euros

	2007	2006	Variation	%
ASSETS				
Loans	12 114	12 102	+ 12	+ 0.1
Employment of cash	3 195	3 201	- 6	- 0.2
Financial assets held to maturity	1 970	1 901	+ 69	+ 3.6
Financial assets at fair value through profit/loss and hedging derivatives	1 185	974	+ 211	+ 21.7
Other assets	45	54	- 9	- 16.7
TOTAL	**18 509**	**18 232**	**+ 277**	**+ 1.5**

	2007	2006	Variation	%
LIABILITIES				
Debt represented by a security	13 264	13 620	- 356	- 2.6
Cash resources	128	141	- 13	- 9.2
Financial liabilities at fair value through profit/loss and hedging derivatives	3 198	2 599	+ 599	+ 23.0
Other liabilities	93	99	- 6	- 6.1
Total debts	*16 683*	*16 459*	*+ 224*	*+ 1.3*
Shareholders' equity	1 826	1 773	53	+ 3.0
TOTAL	**18 509**	**18 232**	**+ 277**	**+ 1.5**

INTEGRATED RISK MANAGEMENT



Risk management and control is paramount in maintaining the creditworthiness of a financial institution. The Bank therefore regularly reviews its risk management and monitoring procedures to observe best banking practices.

As a supranational financial institution, the CEB is not subject to its member states regulatory ratios, or to Basle Committee Recommendations, or to European Union Directives. However, the CEB uses these elements in its risk management and control policy.

In 2007, the CEB applied IFRS 7 for the first time. In this respect, detailed information (qualitative and quantitative) on this is provided in the financial statements (Note B).

1 | A STRUCTURED, DYNAMIC FUNCTION

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. The Department regularly follows up the implementation of risk policies (loans, securities, derivatives) and monitors the Bank's large exposure.

The **ALM Department** monitors market risk (interest rate risk, currency risk) on a regular basis 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.

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
- The **ALM Committee** decides on assets and liabilities management strategy
- The **Funding Committee** decides on the borrowing strategy
- The **Committee for Operational Risks and Organisation (CORO)** validates the Bank's security policy associated to operational risks.

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 systematically complied with.

Finally, the *Auditing Board* consisting of three members coming from shareholder countries and appointed by the Governing Board for a three-year term, 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 its statutory provisions and with 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, upon the decision of the Governing Board, 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 certifies 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.

  - 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 2007, they all confirmed the maximum rating (AAA/Aaa) that they have been assigning to the CEB for several years now.

Introduction of a compliance function at the CEB

Following on from the CEB's Anti-Corruption Charter approved by the collegial bodies in March 2007, it was decided at the Joint Meeting in Prague in June 2007 to introduce, before the end of the year, a new compliance function. The mission of this function is to ensure that the Bank acts in accordance with its own rules, with current legislation, with the code of conduct and with good practices in order to avoid all risk of irregularity in the Institution's functioning.

The CEB thus decided to create a new budgetary post allocated to this mission. Having defined the mandate and content of the function, the Management ensured that the post was filled as quickly as possible, and the Administrative Council was informed thereof at its first meeting in 2008.

2 | SITUATION AT 31 DECEMBER 2007

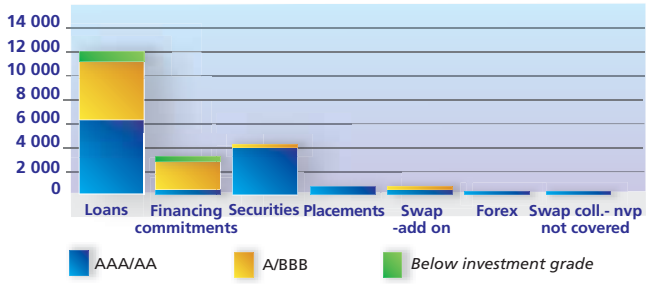
The Bank has exposure to different types of risks arising from its project and treasury financing activities: credit risk, market risk and operational risk.

1 Credit risk

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

The Bank's overall credit exposure (loans, financing commitments, deposits, securities, derivatives) as at 31 December 2007 is detailed as follows:

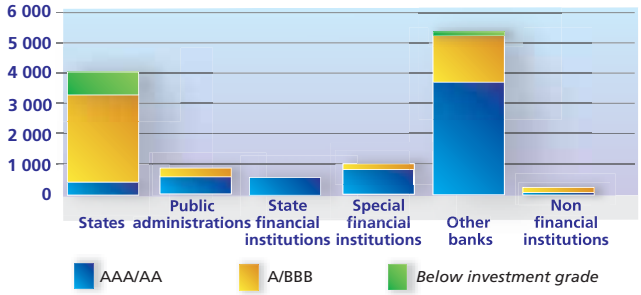
Credit risk exposure



Loan portfolio

In 2007, loans outstanding increased by 0.4% against 2006, reaching € 12 billion. Portfolio breakdown by type of counterparty shows that 44% of loans outstanding are with financial institutions, 54% with sovereign or public administrations and 2% with other counterparties.

Credit risk by counterparty sector



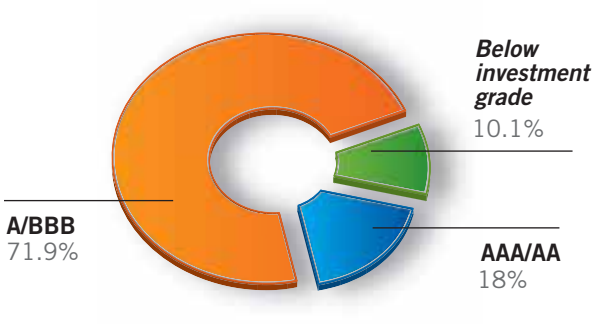
Credit enhancement in the loan portfolio

At 31 December 2007, the amount of credit enhancements in the loan portfolio ensuring a 100% risk transfer totals € 1.9 billion (against € 2.1 billion at end 2006); these enhancements are made of guarantees for € 1.5 billion and of collaterals for € 0.4 billion (see financial statements, Note B).

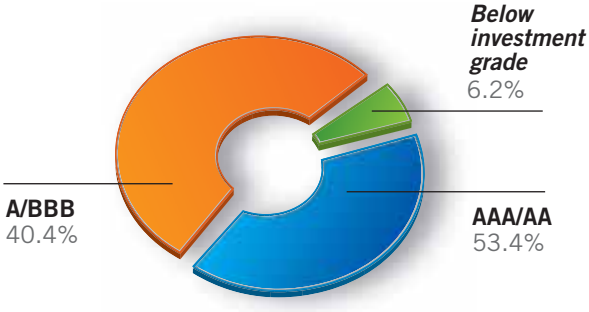
Financing commitments

Financing commitments (stock of projects committed) are projects for which either a framework loan agreement has been signed or at least one disbursement has been released. During 2007, the stock of financing commitments increased significantly: + 46.9%. At the end of financial year 2007, it reached € 3.2 billion, compared to € 2.2 billion at end of 2006. The credit risk quality remains most satisfactory since 89.9% of counterparties are rated *investment grade* compared to 84.1% in 2006 (see financial statements, Note B).

Risk profile of the commitments, at end 2007

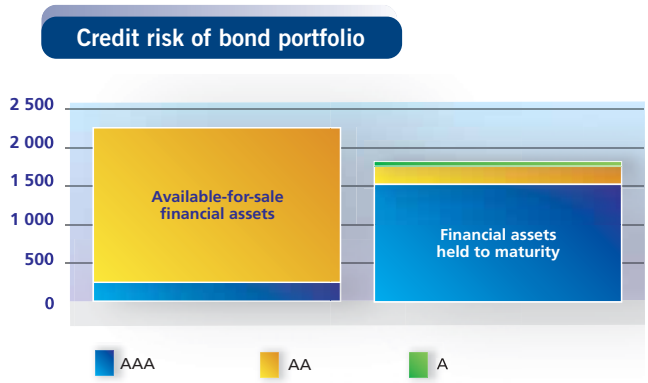


Risk profile of the loan portfolio, at end 2007



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 41 Financial Activities). The chart opposite displays the breakdown per rating of the outstanding value of each of these portfolios at 31 December 2007 (see financial statements, Note B).



Derivatives

The Bank uses derivatives to hedge the interest rate and currency risks on its operations relative to loans, available-for-sale financial assets, issues and borrowings (see Financial activities, page 42).

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

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

At 31 December 2007, almost all notional outstanding derivatives were collateralised (99.96%) as for 2006 (99.85%) (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 plus uncalled AAA/AA capital (according to Moody's, Standard & Poor's and Fitch Ratings).

In accordance with the Basle 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 2007, total outstanding on counterparties representing a large exposure amounted to € 2 billion, i.e. 49.5% 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 does not perform any trading activities, the Basle Committee's 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 countervalue of € 1 million per currency. As at 31 December 2007, 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 must not be less than 50% of net requirements for the next 3 years (see financial statements, Note B). The Bank's liquidity must comply with a statutory strengthened liquidity ratio. At 31 December 2007, the strengthened liquidity ratio was 95.1% compared to 108.4% at end 2006.

❸ 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 image risk.

By deliberately choosing to operate within the framework of the Basle 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. At 31 December 2007, it amounts to € 17.8 million (see financial statements, Note B).

3 | PRUDENTIAL FRAMEWORK

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

This new 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:
  $\sum$ [(Capital + Interest) x Default Probability]
- Usable capital: Paid-in capital and 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 2007, this ratio stood at 13.5%, versus 14.9% at end 2006.

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.

RISK ASSET COVERAGE RATIO =

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

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

The limit is set at 66%, i.e. to date € 2.7 billion. At the end of December 2007, this ratio was 18.3%, against 19.1% at end 2006.

Other statutory ratios

- **Indebtness 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 2007, this ratio was 3.20 compared to a limit of 4, versus 3.24 at end 2006.
- **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 2007, this ratio was 1.08 compared to a limit of 2, versus 1.06 at end 2006.

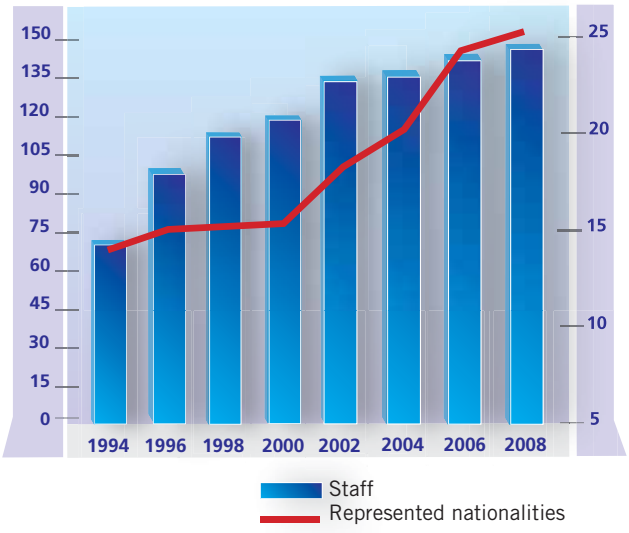
HUMAN RESOURCES MANAGEMENT



Steady increase in staff numbers and diversification of nationalities

To accompany the sectoral and geographical redeployment of its activity, to adapt its instruments for action to the expectations of its member states and to comply with increasingly rigorous operational standards, the CEB has steadily increased its staff numbers in the course of the past years.

Since 1994, staff numbers have thus increased by an average 9% per year, representing a twofold increase over the period. In all, by end December 2007 the overall number of appointed and permanent staff members had reached 145, which is still a very modest figure given the Institution's activity volumes.



This recruitment effort has been accompanied by a very active endeavour to diversify the nationalities represented among the Bank's staff: in effect, recruitments carried out over the past 3 years have involved a total of 15 different nationalities.

The Bank has therefore seen a more than twofold increase in the number of nationalities represented among its staff since 1994, reaching a total of 25 nationalities by end 2007. This upward trend has been even more marked among management staff, where the number of nationalities represented has increased from 5 to 24 over the past thirteen years.

A very particular effort has been made to further increase the number of staff representing the more recent member states. More than one third of the staff members recruited over the past three years have been from countries that have joined the Bank since 1994.

Reasonable and concerted adaptation of working conditions

In parallel to this overall policy, in 2007, the CEB pursued the modernisation of its human resources management tools and, in particular, of the Staff Regulations.

Thus, in November, the Administrative Council unanimously adopted the project to modernise the CEB's Staff Regulations. This concluded an extensive process of discussion and negotiation conducted within the Bank. In coordination with the Management, the Staff Committee thus transmitted the text of the first proposals put forward by all the staff, who were able to express their opinion on this question at a general meeting held on 28 June 2007. Naturally, it goes without saying that this reform has also been the subject of several iterations with the Administrative Council itself, in order to ensure that the proposals presented fully corresponded to the expectations of the shareholders.

In all, the new Staff Regulations, in force since 1 January 2008:

- have "spruced up" the texts regulating the activity of the Bank's staff
- aim to improve and facilitate transparency, flexibility and clarity and to reduce the precarity linked to limited-term contracts
- and will in future enable more flexible management of the CEB's human resources, notably by facilitating the redeployment of functions.

FINANCIAL STATEMENTS 2007

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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	31/12/2007	31/12/2006
Cash in hand, balances with central banks		185 983	47
Fair value financial assets through profit or loss		182 180	158 217
Hedging derivatives	D	1 003 008	815 775
Available-for-sale financial assets	E	2 262 071	2 049 204
Loans and advances to credit institutions and to customers			
Loans	F	12 114 377	12 101 562
Advances	F	746 850	1 151 572
Financial assets held to maturity	E	1 969 611	1 901 241
Fixed assets	G	30 460	30 413
Other assets		14 405	24 439
Total assets		**18 508 945**	**18 232 470**

Liabilities

Fair value financial liabilities through profit or loss		2 761 104	2 039 517
Hedging derivatives	D	436 552	559 418
Amounts owed to customers	H	52 264	70 304
Debt securities	H	13 263 780	13 620 468
Other liabilities		32 642	44 491
Selective Trust Account (STA)	I	75 464	70 410
Provision for financial risks	J	61 454	55 067
Total liabilities		**16 683 260**	**16 459 675**
Capital	K		
Subscribed		3 303 450	3 293 570
Uncalled		(2 933 712)	(2 924 922)
Called		369 738	368 648
General reserve		1 401 487	1 316 359
Unrealised or deferred gains or losses	E	(38 813)	(301)
Profit for the year		93 273	88 089
Total shareholders' equity		**1 825 685**	**1 772 795**
Total liabilities and shareholders' equity		**18 508 945**	**18 232 470**

Profit and loss account

in thousand euros

	Notes	2007	2006
Interest receivable and similar income			
Available-for-sale financial assets		96 666	41 350
Loans and advances to credit institutions and to customers		574 063	426 098
Financial assets held to maturity		92 243	89 473
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(7 686)	(7 505)
Debt securities		(635 348)	(431 532)
Other interest expenses and similar charges		(2 762)	(2 480)
Interest margin	L	**117 176**	**115 404**
Net gains or losses on fair value financial instruments through profit or loss	M	5 509	1 989
Net gains or losses on available-for-sale financial assets	N	675	104
Net commissions	O	(498)	24
Total operating income		**122 862**	**117 521**
General operating expenses	P	(27 984)	(27 841)
Net depreciation charges of fixed assets	G	(1 605)	(1 591)
Operating profit before provisions		**93 273**	**88 089**
Risk cost			
Profit for the year		**93 273**	**88 089**

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 2006	**368 648**	**1 324 359**	**225**	**1 693 232**
Appropriation of profit for the 2005 financial year		(8 000)		(8 000)
Profit for the 2006 financial year		88 089		88 089
Other movements			(526)	(526)
Shareholders' equity as at 31 December 2006	**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**

Statement of cash flows

in thousand euros

For the year ended 31 December	Notes	2007	2006
Profit for the year		**93 273**	**88 089**
+/- Net depreciation charges of tangible and intangible fixed assets	G	1 605	1 591
+/- Net losses/net profits from investment operations		3 417	3 290
+/- Other movements		23 196	16 051
Total of non-monetary items included in the result		**28 218**	**20 932**
+/- Cash flows related to operations with credit institutions and customers		(114 873)	(590 496)
+/- Cash flows related to other operations affecting financial assets or liabilities		(539 624)	(1 209 153)
+/- Cash flows related to operations affecting non-financial assets or liabilities		(22 852)	(116 106)
Net decrease /(increase) of assets and liabilities resulting from operational activities		**(677 349)**	**(1 915 755)**
Total net cash flows generated by operational activities (a)		**(555 858)**	**(1 806 734)**
+/- Cash flows related to financial assets held to maturity		(62 793)	(151 870)
+/- Cash flows related to tangible and intangible fixed assets	G	(1 652)	(2 041)
Total net cash flows related to investment operations (b)		**(64 445)**	**(153 911)**
+/- Cash flows from/to member states		15 365	15 607
+/- Net cash flows from financing operations		430 371	1 419 980
Total net cash flows related to financing operations (c)		**445 736**	**1 435 587**
Effects of exchange rate variations on cash and cash equivalents (d)		**(42 175)**	**(58 052)**
Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**(216 742)**	**(583 110)**
Cash and cash equivalents at the beginning of the financial year		**1 148 200**	**1 731 310**
Cash in hand, central banks		*47*	*65*
Assets accounts and loans repayable on demand with credit institutions	F	*1 148 153*	*1 731 245*
Cash and cash equivalents at the end of the financial year		**931 458**	**1 148 200**
Cash in hand, central banks		*185 983*	*47*
Assets accounts and loans repayable on demand with credit institutions	F	*745 475*	*1 148 153*
Net cash flows variations		**(216 742)**	**(583 110)**

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.

The Bank's accounting principles and methods retained for the draw-up of 2007 financial statements are identical to those used for the previous financial statements.

In 2007, the Bank applied the IFRS 7 "Financial instruments: disclosures", and the amendment to IAS 1 "Presentation of financial statements" which require additional qualitative and quantitative information on the capital.

These norms, effective since 1 January 2007, and solely related to financial information, have no impact on the net profit and on the Bank's shareholders' equity nor on the classification and valuation of financial instruments.

The IFRIC interpretations, mandatory since 2007 financial year (IFRIC 8 being relative to the IFRS 2 – Share-based payment – and IFRIC 10 – Interim financial reporting and impairment) – have no impact on the Bank's financial statements.

Moreover, in 2007, the CEB did not adopt in advance any of the standards, amendments or interpretations, whether or not they came into force. In this respect, some of these texts will not be applicable to the Bank's activities.

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 operations do not require, in terms of discretion and valuation complexity, significant estimates or 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 the financial asset is subject to a fair value hedging for the interest rate risk. Resulting exchange variations are recorded under shareholders' equity and are accounted for in the profit and loss account only at the disposal of the security, or at an eventual 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. This principle also applies to provisions relating to financing commitments.

Changes in value of such depreciated assets 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 the purchase price and reimbursement value of these securities.

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.

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".

In application of IAS 39, within the ambit of fair value hedging transactions, the securities' book value is adjusted for the profits or losses relative to the hedged risk in the profit and loss account.

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. In absence of an active market, the market value is the one determined by the depository company.

At the disposal of the securities or at an eventual reduction in market value (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.

In case of a subsequent improvement, depreciation of fixed income securities is recorded under the profit and loss account. In the case of variable-yield securities, this depreciation is recorded under shareholders' equity and transferred to the profit and loss account at 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 date at which the transaction is finalised.

Debt securities

Securities issued by the Bank qualify as debt instruments by reason of the contractual obligation 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 as fair value risk cover of fixed-rate assets and liabilities 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 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 eventual 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 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 a case by case 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 also be found in an appendix note (Note I).

PROVISION FOR FINANCIAL RISKS

Same as at 31 December 2006, provisions recorded on the liabilities side of the Bank's balance sheet as at 31 December 2007 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 the 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. The 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 in 2007 is the following:

in thousand euros

Office allowances	
Chairman of the Governing Board	45
Chairman of the Administrative Council	45
Vice-Chairman of the Governing Board (*prorata temporis* since 16 June 2007)	3
Vice-Chairman of the Administative Council	6
Emoluments	
Governor	312
Vice-Governor Delegate	252
Vice-Governor Ruiz-Ligero	237
Vice-Governor Tarafás (*prorata temporis* since 2 May 2007)	158

CEB's Chairpersons and Appointed Officials do not receive any stock options or any other kind of bonus. At the end of their terms of office, the Governor and the Vice-Governors perceive a temporary allowance, equivalent to 50% of their last emolument, for a 3-year period. This allowance is limited in a way that its amount, cumulated with possible other emoluments, does not exceed the amount of the last emolument perceived from the CEB.

The Governor and the Vice-Governors are affiliated to CEB's health insurance and pension scheme.

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 and treasury financing activities, the CEB is exposed to four different 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 is not subject to its member states' regulatory ratios, nor to the Basle Committee Recommendations neither to the European Union Directives. However, the CEB uses these regulations in its risk management and control policy.

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

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

Decision-making committees

The Governor has therefore established several decision-making committees which are responsible for developing and monitoring risk management policies in their specified areas. The Governor chairs all these committees.

- The Risk Committee is the cornerstone of the Bank's credit risk management framework. Risk management policies are established to identify and analyse the risks faced by the Bank, to set 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.
- The ALM Committee: decides on assets and liabilities management strategy. 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 Funding Committee: decides on 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 Governor.
- The Committee for Operational Risks and Organisation (CORO) validates the Bank's security policy and takes decisions relating to the prevention and follow-up of operational risks in accordance with CEB's operational risk policy.

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 is sent to the Administrative Council's members. Finally, the 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 of lending, securities 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. 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, Risk Management Department assesses the transaction and assigns an internal rating. Then, the Risk Committee approves, modifies or refuses the proposed limits. Finally, the Administrative Council must approve each project.

As far as the Directorate General for Finance is concerned, the Administrative Council sets up the framework of its financial operations through the definition of the investment policy. 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, Risk Management Department assigns an internal rating to all counterparties based upon due diligence (either on site or not). The internal rating scale goes from 1 to 10 (10 being the best grade in terms of risk). 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. These scoring models, developed in-house, enable to apply various ratios according to the type of counterparty (States, regional entities, financial institutions, corporate ...). Besides, specific internal rating grids are used when a counterparty is not rated by an international agency.

The internal transaction 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 allowing improvement of the final risk.

The Bank has set up a methodology to validate the internal rating system, based upon gap analysis between CEB's internal rating and that of international rating agencies. Any difference beyond two notchs 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, 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, financial commitments, deposits, securities, derivatives) 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*	2007 TOTAL	AAA/AA	A/BBB	*Below investment grade*	2006 TOTAL
Loans	6 406	4 852	749	**12 007**	6 259	4 936	770	**11 965**
Financial commitments	581	2 326	328	**3 235**	334	1 519	351	**2 204**
Forex	15			**15**	16			**16**
Placements	739			**739**	1 108			**1 108**
Securities	4 074	54		**4 128**	3 756	68		**3 824**
Swap - add on	594	128		**722**	552	144		**696**
Swap coll. - nvp not covered	4			**4**	14			**14**
Total	**12 413**	**7 360**	**1 077**	**20 850**	**12 039**	**6 667**	**1 121**	**19 827**

Rating in accordance with the Basle Committee Recommendations (second best rating), otherwise internal rating

• Loan portfolio

In 2007, loans outstanding increased by 0.4% compared to 2006, reaching € 12 billion at 31 December 2007. Loans outstanding rated *investment grade* represent 93.8% of total portfolio, against 93.6% at end 2006.

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 2007, the amount of credit enhancements in the loan portfolio ensuring a 100% risk transfer totals € 1.9 billion against € 2.1 billion at end 2006. These enhancements are made of guarantees for € 1.5 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

	2007 Amount	2007 Before %	2007 Amount	2007 After %	2006 Amount	2006 Before	2006 Amount	2006 After %
AAA/AA	6 008	50%	6 406	53%	5 930	50%	6 259	52%
A/BBB	5 175	43%	4 852	41%	5 172	43%	4 936	41%
Below investment grade	824	7%	749	6%	863	7%	770	7%
Total	**12 007**	**100%**	**12 007**	**100%**	**11 965**	**100%**	**11 965**	**100%**

Rating in accordance with the Basle Committee Recommendations (second best rating), otherwise internal rating

Loans outstanding on non rated counterparties by international rating agencies, represents 7.3% of the overall loan portfolio and the internal rating assigned to these counterparties are spread between 4 and 10.

At 31 December 2007, the CEB did not have any non performing loans (neither at end 2006).

• Financial commitments

During 2007, the stock of projects committed increased significantly: 46.9%. At the end of the 2007 financial year it reaches € 3.2 billion, compared € 2.2 billion at end of 2006.

in million euros

	2006	2007
AAA/AA	334	581
A/BBB	1 519	2 326
Below investment grade	351	328
Total commited	**2 204**	**3 235**

Rating in accordance with the Basle Committee Recommendations (second best rating), otherwise internal rating

• Breakdown by rating and nature of the loan portfolio

in million euros

	AAA/AA	A/BBB	*Below investment grade*	2007 TOTAL	AAA/AA	A/BBB	*Below investment grade*	2006 TOTAL
States	437	2 870	725	4 032	656	2798	743	4 197
Public administrations	698	173		871	709	135		844
State financial institutions	554			554	596			596
Special finance institutions	895	155	5	1 055	790	195	4	989
Other banks	3 719	1535	19	5 273	3 483	1 759	23	5 265
Non financial institutions	103	119		222	25	49		74
Total	**6 406**	**4 852**	**749**	**12 007**	**6 259**	**4 936**	**770**	**11 965**

Rating as recommended by the Basle Committee (second best rating), otherwise internal rating.

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

in million euros

	AAA/AA	A/BBB	*Below investment grade*	2007 TOTAL	%
1 - State A			653	653	5%
2 - State B		638		638	5%
3 - State C		571		571	5%
4 - Other bank A	557			557	5%
5 - State financial institutions	539			539	4%
6 - State D		476		477	4%
7 - State E		459		459	4%
8 - Other bank B	435			435	4%
9 - Other bank C	383			383	3%
10 - Other bank D	382			382	3%
s/total	**2 296**	**2 144**	**653**	**5 094**	**42%**

	AAA/AA	A/BBB	*Below investment grade*	2006 TOTAL	%
State A			680	680	6%
State B		596		596	5%
State C		584		584	5%
State financial institutions	576			576	5%
State F	572			572	5%
Other bank A	556			556	5%
Other bank B	500			500	4%
State D		500		500	4%
State E		458		458	4%
Other bank D	382			382	3%
s/total	**2 586**	**2 138**	**680**	**5 404**	**46%**

Rating as recommended by the Basle Committee (second best rating), otherwise internal rating.

• 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: 96% compared to 94% at end 2006.The following table displays the breakdown per rating of the outstanding nominal value of each of these portfolios at 31 December 2007:

in million euros

	AAA	AA	A	2007 TOTAL	AAA	AA	A	2006 TOTAL
Available-for-sale financial assets	267	2 001	19	2 287	460	1 538	32	2 030
Financial asssets held to maturity	1 545	261	35	1 841	1496	262	36	1 794
Total	**1 812**	**2 262**	**54**	**4 128**	**1 956**	**1 800**	**68**	**3 824**
	44%	*55%*	*1%*	*100%*	*51%*	*47%*	*2%*	*100%*

Rating as recommended by the Basle Committee (second best rating), otherwise internal rating.

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

in million euros

	2007		2006	
Financial asssets held to maturity				
France	1 168	63%	1 008	56%
Germany	183	10%	183	10%
Italy	161	9%	161	9%
Spain	153	8%	153	9%
Other countries	177	10%	289	16%
s/total	**1 841**		**1 794**	
Available-for-sale financial assets				
United States	766	33%	603	29%
France	804	35%	546	27%
Spain	450	20%	400	20%
Other countries	267	12%	481	24%
s/total	**2 287**		**2 030**	
Total	**4 128**		**3 824**	

• Derivatives

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

Prior any derivative transactions, credit clearance of the counterparty by the Risk Committee and signing of a framework agreement (for example, the ISDA Master Agreement) are required. 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 2007, almost all notional outstanding derivatives were collateralised (99.96%) same as in 2006 (99.85%).

The Bank can receive as collateral for derivatives: cash and/or AAA rated securities (US Treasuries or German Bund). At 31 December 2007, same as at end of 2006, all collateral received was cash.

• Large exposure

An exposure (loans, securities, deposits, derivatives and financial commitments) to a counterparty or group of connected counterparties is considered a large exposure where its value is equal to or exceeds 10% of shareholders' equity. The CEB adopts, for this purpose, as the definition of shareholders' equity: paid-in capital and reserves, 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 Basle Committee Recommendations and European Union Directives, the Bank ensures that no counterparty (or group of connected counterparties) exceeds the limit of 25% of shareholders' equity as defined above, and that the cumulative total of large exposures does not exceed 800% of said shareholders' equity.

At 31 December 2007, the Bank had only four large exposures and none exceeded the limit of 25% of the Bank's shareholders' equity same as at end of 2006. The total exposure to these four counterparties amounted to € 2.0 billion, i.e. 49.5% of the CEB's shareholders' equity, versus a limit of 800% (€ 2.1 billion, i.e. 53.3% in 2006).

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 2007, as at 31 December 2006, 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.

Moreover, since the Bank performs no trading operation, no credit risks require the back-off with part of its shareholders' equity, in accordance with the Basle Committee Recommendations.

Interest rate risk and currency risk are measured and followed-up by the ALM Department, placed under the authority of the Director General for Finance.

The ALM Department issues, by the end of every quarter, a report on the market risks and liquidity risks incurred by the Bank. This report analyses on one hand, the consequences of a fluctuation in the interest rates and EUR/USD parity exchange on the Bank's results for the coming three years. 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 2007**	Assets	Liabilities	Derivative instruments	**Net position 2006**
Euro	16 426 177	6 099 556	(12 903 512)	(2 576 891)	15 882 363	5 806 308	(11 951 270)	(1 875 215)
Japanese Yen	139 540	111 989	(26 621)	930	144 819	223 504	79 518	833
US Dollar	1 308 345	10 136 688	8 827 650	(693)	1 661 211	10 171 016	8 510 414	609
Pound Sterling	8 063	208 841	200 858	80	9 216	228 507	219 359	68
Hungarian Forint	16 428	41 599	25 224	53	16 771	42 141	25 420	50
Other currencies	610 392	1 910 272	1 299 995	115	518 090	1 760 994	1 243 065	161
Total	**18 508 945**	**18 508 945**	**(2 576 406)**	**(2 576 406)**	**18 232 470**	**18 232 470**	**(1 873 494)**	**(1 873 494)**

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

Interest rate risk

Specificity of interest rate risk

The Bank is structurally exposed to a decrease in interest rate: the Bank's Net Present Value depreciates when the rate falls.

In fact, despite the fact that the Bank attempts to align interest rate, duration and conditions for loans, and treasury operations with those of its borrowings, it incurs a structural interest rate risk on its shareholders' equity: those have by nature a longer life span than the assets, generating a forward unmatched position between the assets and liabilities.

In order to achieve a maximal reduction of interest rate risk associated with this position, 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 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 2007 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	**6 145 056**	**86 300**	**6 231 356**	**(2 589 606)**	**511 363**	**(2 078 243)**	**3 555 450**	**597 663**	**4 153 113**
Scheduled outstanding	5 353 881	86 300	5 440 181	(2 589 606)	511 363	(2 078 243)	2 764 275	597 663	3 361 938
Non scheduled outstanding	791 175		791 175				791 175		791 175
Variable rate	**11 601 505**	**68 037**	**11 669 542**	**2 668 530**	**17 760**	**2 686 290**	**14 270 035**	**85 797**	**14 355 832**
Total assets	**17 746 561**	**154 337**	**17 900 898**	**78 924**	**529 123**	**608 047**	**17 825 485**	**683 460**	**18 508 945**
Liabilities									
Fixed rate	**(15 069 917)**	**(512 441)**	**(15 582 358)**	**12 493 687**	**(34 354)**	**12 459 333**	**(2 576 230)**	**(546 795)**	**(3 123 025)**
Scheduled outstanding	(12 493 687)	(512 441)	(13 006 128)	12 493 687	(34 354)	12 459 333		(546 795)	(546 795)
Non scheduled outstanding	(2 576 230)		(2 576 230)				(2 576 230)		(2 576 230)
Variable rate	**(73 114)**		**(73 114)**	**(15 150 090)**	**(162 716)**	**(15 312 806)**	**(15 223 204)**	**(162 716)**	**(15 385 920)**
Total liabilities	**(15 143 031)**	**(512 441)**	**(15 655 472)**	**(2 656 403)**	**(197 070)**	**(2 853 473)**	**(17 799 434)**	**(709 511)**	**(18 508 945)**

The outstanding fixed-rate assets before hedging amounts to 6 145 million euros, hedging instruments allow the exposure to drop to 3 555 million euros.

Reciprocally, the fixed-rate liability exposure of 15 070 million euros before hedging is reduced to 2 576 million euros after hedging.

Interest rate risk management

In terms of interest rate risk, the ALM Department calculates the Bank's Net Present Value and measures the sensitivity of the Bank's balance sheet to any adverse evolution of the market conditions.

The ALM Department also examines prospective profit build-up over the three coming years based on certain scenario assumptions of interest rate (+/- 200 bp) or exchange rate (EUR/USD +/-25% rate) fluctuations.

Sensitivity to interest rate risks

Sensitivity measurement of the Net Interest Margin to interest rate risks

in thousand euros

	Parallel translation +200 bp	Parallel translation -200 bp
31/12/2007	(36 699)	37 083

The table above measures the sensitivity of the net interest margin on the basis of variable rates outstanding as at 31 December 2007 and on a one-year provision.

It calculates the impact of the overall interest rate curves translation of +/-200 bp on the amounts of interest received or paid and cumulated till the end of the next accounting period. This translation is performed in a homogenous way over all maturities of each curve.

This simulation is applied to all the variable rate financial instruments (loans, available-for-sale financial assets, trust accounts, exchange and interest rate contracts) because they are the only ones whose interest rates fluctuate with the interest rate curve.

The above table was developed on the basis of outstanding balances and accrued interest as at 31/12/2007.

The table shows that after hedging, the CEB is slightly exposed to rate increases.

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.

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	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**

Assets								
Cash in hand, balances with central banks	47			47				47
Available-for-sale financial assets	6 189	78 399	304 587	389 175	1 109 366	907 825	2 017 191	2 406 366
Loans and advances to credit institutions and to customers								
Loans	47 488	162 082	1 679 810	1 889 380	7 708 353	4 704 349	12 412 702	14 302 082
Advances	1 153 606			1 153 606				1 153 606
Financial assets held to maturity	15 200	76 938	95 451	187 589	897 865	1 667 783	2 565 648	2 753 237
Total assets	**1 222 530**	**317 419**	**2 079 848**	**3 619 797**	**9 715 584**	**7 279 957**	**16 995 541**	**20 615 338**
Liabilities								
Amounts owed to credit institutions and to customers	37 521		32 332	69 853				69 853
Debt securities	784 414	437 388	1 709 644	2 931 446	8 362 749	4 984 414	13 347 163	16 278 609
Selective Trust Account (STA)	49 856			49 856	20 554		20 554	70 410
Total liabilities	**871 791**	**437 388**	**1 741 976**	**3 051 155**	**8 383 303**	**4 984 414**	**13 367 717**	**16 418 872**
Off-balance sheet								
Off-balance sheet financial instruments								
To be received	641 487	347 217	1 442 213	2 430 917	8 459 339	5 050 031	13 509 370	15 940 287
To be paid	(683 599)	(376 367)	(1 720 573)	(2 780 539)	(9 044 217)	(5 356 051)	(14 400 268)	(17 180 807)
Off-balance sheet total	**(42 112)**	**(29 150)**	**(278 360)**	**(349 622)**	**(584 878)**	**(306 020)**	**(890 898)**	**(1 240 520)**
Liquidity position 2006	**308 627**	**(149 119)**	**59 512**	**219 020**	**747 403**	**1 989 523**	**2 736 926**	**2 955 946**

• 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 years net cash-flow including the 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 end of 2007, the strengthened liquidity ratio stands at 95.1% against 108.4% at end 2006.

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 Basle 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 shareholders' equity. In order to calculate this charge, the Bank uses its last three years average net banking income. At 31 December 2007, it amounts to € 17.8 million compared to € 17.4 million at 31 December 2006.

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 procedure consists 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 of the CEB.

The latest adhesions to this date are Georgia's on 10 January 2007 and Montenegro on 19 November 2007. There were no new adhesions since those of Serbia and Ireland in 2004.

• Capital Adequacy Ratio

The objective of this statutory ratio is to show 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) 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 fixed at 100%.

At end 2007, this ratio stands at 13.5% compared to 14.9% as at end 2006.

• Risk Asset Coverage Ratio

This statutory ratio is an additional limit to the increase of its share of the loan portfolio 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, unrealised 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 2007, this ratio stands at 18.3%, versus 19.1% at end 2006.

• Indebtness ratio

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

At end 2007, the ratio stands at 3.20, i.e. a utilisation up to 80% of the authorised limit against 3.24 at end of 2006 for a limit of 4.

Considering total equity at end 2007, the authorised debt limit is € 19 billion, which leaves € 3.8 billion headroom.

• Portfolio ratio

This statutory ratio results from dividing treasury operations by total equity in a broad sense (subscribed capital, paid-in reserves, unrealised 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 2007, the ratio stands at 1.08 compared to 1.06 in 2006 and against a maximum limit of 2.

Considering total equity at end 2007, the authorised portfolio limit is € 9.5 billion, i.e. € 4.4 billion headroom i.e. 46% 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 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**
Liabilites				
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**
31 December 2006				
Assets				
Cash in hand, balances with central banks	47		47	
Fair value financial assets through profit or loss	158 217		158 217	
Hedging derivatives	815 775		815 775	
Available-for-sale financial assets	2 049 204		2 049 204	2 048 518
Loans and advances to credit institutions and to customers	3 295 418	9 957 716	13 253 134	12 121 078
Financial assets held to maturity		1 901 241	1 901 241	1 963 261
Total assets	**6 318 661**	**11 858 957**	**18 177 618**	**16 132 857**
Liabilities				
Fair value financial liabilities through profit or loss	2 039 517		2 039 517	
Hedging derivatives	559 418		559 418	
Amounts owed to customers		70 304	70 304	70 235
Debt securities	13 620 468		13 620 468	13 144 357
Selective Trust Account (STA)		70 410	70 410	
Total liabilities	**16 219 403**	**140 714**	**16 360 117**	**13 214 592**

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 rate, currency and forward exchange swaps. The following table represents the fair value (including interest) of these financial instruments.

in thousand euros

	31/12/2007		31/12/2006	
	Positive market value	Negative market value	Positive market value	Negative market value
Interest rate derivatives	254 550	(177 626)	263 081	(199 586)
Exchange rate derivatives	748 458	(258 926)	552 694	(359 832)
Total	**1 003 008**	**(436 552)**	**815 775**	**(559 418)**

Note E – Securities portfolio

in thousand euros

	31/12/2007		31/12/2006	
	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	100 633		100 517	
Debt securities and other fixed income securities	2 166 802	(39 056)	1 944 403	(499)
Shares and other variable-yield securities	768	243	723	198
Sub-total	**2 268 203**	**(38 813)**	**2 045 643**	**(301)**
Fair value adjustment of securities hedged by hedging derivatives	(6 132)		3 561	
Total available-for-sale financial assets	**2 262 071**	**(38 813)**	**2 049 204**	**(301)**
Assets held to maturity				
Treasury bills and similar securities	982 339		924 151	
Debt securities and other fixed income securities	987 272		977 090	
Total assets held to maturity	**1 969 611**		**1 901 241**	
Total securities portfolio	**4 231 682**	**(38 813)**	**3 950 445**	**(301)**

(*) including relative debts

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 2006 and 2007.

At 31 December 2007, unlisted financial assets available-for-sale or held to maturity amounted to 9.00 million euros (2006: 8.00 million euros).

The net gains transferred to the 2007 profit and loss account, consequent to disposal or maturity of available-for-sale financial assets, amount to 2.17 thousand euros (2006: 53.50 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 0.61 million euros at 31 December 2007 (0.64 million euros at 31 December 2006).

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	31/12/2007	31/12/2006
Loans to credit institutions		
Loans	8 005 311	8 103 649
Interest receivable	48 472	46 900
Sub-total	**8 053 783**	**8 150 549**
Loans to customers		
Loans	4 002 019	3 861 600
Interest receivable	36 100	32 944
Sub-total	**4 038 119**	**3 894 544**
Value adjustment of loans hedged by hedging derivatives	22 475	56 469
Total loans	**12 114 377**	**12 101 562**
Other loans and advances		
Advances repayable on demand	6 045	39 835
Advances with agreed maturity dates or periods of notice	739 430	1 108 318
Sub-total	**745 475**	**1 148 153**
Interest receivable	1 375	3 419
Total other advances	**746 850**	**1 151 572**

Loans are guaranteed up to the amount of 1 892 233 thousand euros (2006: 2 058 247 thousand euros). These guarantees, at fair value, could be either in the form of securities or signed commitments.

The Bank had not recorded provisions relative to identified or non identified depreciated loans in 2007 and 2006, since no historical loss related to credit risk has ever occurred.

The breakdown of outstanding loans and financing commitments by borrower country as at 31 December 2006 and 31 December 2007 is as follows:

in thousand euros

	Outstanding				Financing commitments	
Breakdown by country	**31/12/2007**	**%**	**31/12/2006**	**%**	**31/12/2007**	**31/12/2006**
Spain	2 233 528	18.60	2 268 302	18.96	52 332	79 832
Italy (1)	1 258 726	10.48	1 436 849	12.01	320 000	285 000
France	1 105 297	9.21	1 089 940	9.11	75 000	
Germany (2)	963 827	8.03	1 084 137	9.06	275 870	205 500
Poland	747 148	6.22	705 872	5.90	313 257	13 407
Finland	688 170	5.73	690 941	5.77	87 500	110 000
Hungary	676 576	5.64	667 810	5.58	353 563	348 862
Turkey	653 198	5.44	689 506	5.76	181 273	276 258
Portugal	502 500	4.19	510 221	4.26	14 660	14 660
Greece	476 815	3.97	500 346	4.18		57 947
Cyprus	459 037	3.82	457 643	3.82	198 385	197 867
Denmark	350 000	2.92	273 333	2.28		
Romania	329 478	2.74	271 146	2.27	955 680	279 599
Sweden	214 112	1.78	163 058	1.36	54 862	
Belgium	212 795	1.77	220 155	1.84		
Croatia	195 277	1.63	184 831	1.54	88 295	62 454
Norway	187 400	1.56	190 288	1.59		61 008
Iceland	142 978	1.19	48 415	0.40	87 251	42 385
Latvia	114 535	0.95	53 802	0.45		61 500
Malta	101 000	0.84	101 972	0.85		
Bulgaria	82 437	0.69	85 591	0.72	8 919	12 746
Slovenia	63 654	0.53	64 088	0.54	25 165	15 000
Ireland (3)	44 813	0.37	45 474	0.38		
Slovak Republic	34 308	0.29	37 871	0.32	7 403	7 220
Bosnia and Herzegovina	31 926	0.27	6 146	0.05	49 291	17 265
Serbia	31 617	0.26	27 170	0.23	32 063	10 000
Lituania	30 375	0.25	22 163	0.19	2 172	3 620
Czech Republic	24 969	0.21	23 548	0.20	5 000	12 000
"the former Yugoslav Republic of Macedonia"	20 914	0.17	22 949	0.19	1 500	6 500
Albania	17 580	0.15	9 643	0.08	38 082	17 984
Estonia	7 365	0.06	7 947	0.07		
Moldova	3 000	0.02	2 000	0.02	7 900	4 000
San Marino	1 975	0.02	2 092	0.02		
Total	**12 007 330**	**100.00**	**11 965 249**	**100.00**	**3 235 423**	**2 202 614**

(1) of which 383 490 thousand euros outstanding in favour of the target group countries as at 31 December 2007 (31 December 2006: 345 523 thousand euros)
(2) of which 213 878 thousand euros outstanding in favour of the target group countries as at 31 December 2007 (31 December 2006: 122 756 thousand euros)
(3) of which 22 407 thousand euros outstanding in favour of the target group countries as at 31 December 2007 (31 December 2006: 22 737 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 31/12/2007	%	Outstanding 31/12/2006	%	Financing commitments 31/12/2007	Financing commitments 31/12/2006
Strengthening social integration						
Aid to refugees, migrants and displaced populations	184 098		168 593		9 952	91 545
Social housing for low-income persons	3 019 041		2 785 270		187 429	171 976
Creation and preservation of viable jobs	1 823 698		1 885 014		785 819	772 467
Improving living conditions in urban and rural areas	1 209 835		1 294 026		355 728	213 874
Infrastructure of administrative and judicial public services	3 886				29 554	
Sub-total	**6 240 558**	**52**	**6 132 903**	**51**	**1 368 482**	**1 249 862**
Managing the environment						
Natural or ecological disasters	1 243 136		1 507 623		510 474	208 840
Protection of the environment	1 532 693		1 364 463		793 829	224 990
Protection and rehabilitation of the historic and cultural heritage	219 823		228 422		104 137	96 791
Sub-total	**2 995 652**	**25**	**3 100 508**	**26**	**1 408 440**	**530 621**
Developing human capital						
Education and vocational training	1 441 481		1 431 391		280 433	274 484
Health	1 329 639		1 300 447		178 068	147 647
Sub-total	**2 771 120**	**23**	**2 731 838**	**23**	**458 501**	**422 131**
Total	**12 007 330**	**100**	**11 965 249**	**100**	**3 235 423**	**2 202 614**

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	2005 and before	2006	2007	Total
Projects				
With signed framework loan agreements	1 020 088	1 511 429	659 958	**3 191 475**
With at least one financing	43 948			**43 948**
Total	**1 064 036**	**1 511 429**	**659 958**	**3 235 423**

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 2006	13 046	10 437	11 082	4 915	3 497	**42 977**
Additions			1 684	563	795	**3 042**
Disposals / Write-offs				(712)		**(712)**
Other movements			(119)	(44)	(126)	**(289)**
At 31 December 2006	**13 046**	**10 437**	**12 647**	**4 722**	**4 166**	**45 018**
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**
Depreciation						
At 1 January 2006			(6 987)	(3 754)	(2 985)	**(13 726)**
Charge for the year			(819)	(548)	(224)	**(1 591)**
Disposals / Write-offs				712		**712**
At 31 December 2006			**(7 806)**	**(3 590)**	**(3 209)**	**(14 605)**
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)**
Net book value						
At 31 December 2007	**13 046**	**10 700**	**4 631**	**1 012**	**1 071**	**30 460**
At 31 December 2006	13 046	10 437	4 841	1 132	957	30 413

Note H – Amounts owed to customers and debt securities

in thousand euros

	31/12/2007	31/12/2006
Amounts owed to customers		
Interest-bearing accounts	52 264	37 521
of which, European Community	*50 646*	*36 664*
Issues		31 861
Interest payable		471
Value adjustment of amounts owed to customers hedged by derivatives		451
Total amounts owed to customers	**52 264**	**70 304**
Debt securities		
Bonds	12 493 687	13 134 128
Interest payable	504 886	475 666
Value adjustment of debt securities hedged by derivatives	265 207	10 674
Total debt securities	**13 263 780**	**13 620 468**

Development of customers' interest-bearing accounts

The Bank opened interest-bearing accounts funded by contributions from the European Community and member states. Thus, the contribution from the Norwegian Government aims at financing technical assistance for projects in support of economic and social reforms in the Western Balkan countries.

Contributions from the European community are detailed below:

- Seven accounts to receive the European Community 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 2007, the balance of these accounts amounts to 27 380 thousand euros (2006: 22 837 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 2007, the balance of these accounts amounts to 14 873 thousand euros (2006: 11 878 thousand euros).

- Two accounts for the partial financing of productive investment projects of small and medium-sized enterprises and in particular micro-enterprises, known as the "Preparatory Action Programme" aimed at creating or safeguarding jobs, in eight new EU member states in Central and Eastern Europe.
  - In 2005, setting-up of "Preparatory Action Special Account 2004"
  - In 2007, increase of "Preparatory Action Special Account 2005"

The balance of this account amounts to 2 322 thousand euros as at 31 December 2007 (2006: 1 949 thousand euros).

- An account for the partial financing of projects related to environmental protection and for energy efficiency in Bulgaria, Croatia, Romania and Turkey, called "Energy Efficiency Finance Facility".
  - In 2007, setting-up of "Energy Efficiency Finance Facility 2006 Special Account".

At 31 December 2007, the balance of this account amounts to 6 071 thousand euros.

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. Within the framework of the Bank's financing of high social value projects, 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 2006		**47 766**
Payment by member states for the financial year 2005		8 000
Credit interest paid into the STA		2 253
Subsidies on disbursed loans	7 141	
Donations granted	1 022	
Sub-account balance as at 31 December 2006 [a]		**49 856**
Payment by member states for the financial year 2006		6 000
Credit interest paid into the STA		2 975
Subsidies on loans disbursed in 2007	6 390	
Donations granted	15	
Sub-account balance as at 31 December 2007 [b]		**52 426**
2) Subsidised projects sub-account		
Sub-account balance as at 1 January 2006		**16 974**
Subsidies on loans disbursed in 2006		7 141
Payment of subsidies	3 561	
Sub-account balance as at 31 December 2006 [c]		**20 554**
Subsidies on loans disbursed in 2007		6 390
Payment of subsidies	3 906	
Sub-account balance as at 31 December 2007 [d]		**23 038**
STA balance as at 31 December 2006 [a] + [c]		**70 410**
STA balance as at 31 December 2007 [b] + [d]		**75 464**

Donations

Since its creation, in 1995, the STA's donations for a total amount of 11.4 million euros have been granted from the STA (2006: 11.4 million euros).

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

in thousand euros

Payments	2007	2006
Serbia (UNHCR): help for refugees having opted for local integration in Serbia		407
Bosnia and Herzegovina (UNHCR): provision of permanent housing for displaced persons		407
Bulgaria (St Cyril and St Methodius International Foundation): access to education of the Roma children in the municipality of Nova Zagora	15	135
"the former Yugoslav Republic of Macedonia" (UNICEF): creation of basic infrastructures related on health, education and vocational training to facilitate the access to education of the Roma community		74
Total	**15**	**1 023**

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

in thousand euros

	Outstanding		Financing commitments	
Breakdown by country	**31/12/2007**	**31/12/2006**	**31/12/2007**	**31/12/2006**
Hungary	190 987	183 087	122 992	143 609
Croatia	167 021	160 257	12 114	26 301
Romania	148 006	91 360	214 080	176 040
Poland	76 813	85 904	251 000	
Slovak Republic	25 934	28 771		
Albania	16 055	7 927	38 082	17 984
Bulgaria	13 511	9 931	8 919	12 747
Bosnia and Herzegovina	9 926	6 146	11 291	17 265
Serbia	9 600	9 600	10 000	10 000
Lituania	7 877	7 204	2 172	3 620
Slovenia	4 670	5 419		
Moldova	3 000	2 000	7 900	4 000
Germany	128	256		
Total	**673 528**	**597 862**	**678 550**	**411 566**

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 social commitments:

in thousand euros

	31/12/2007	31/12/2006
Provision for pension commitments	48 867	43 678
Provision for other post-employment benefits	12 587	11 389
Total	**61 454**	**55 067**

The Bank administers a pension scheme. It also provides for certain related benefits (particularly medical insurance) in favour of its retired staff. The cost of benefits in relation to the different staff social entitlements is determined separately in accordance with the actuarial valuation using the projected unit credit method. The last actuarial valuation was carried out on 31 December 2007 based on individual data at 30 June 2007.

Pension scheme

The following is the pension scheme financial situation:

in thousand euros

	31/12/2007	31/12/2006
Financial situation as at 31 December		
Actuarial liability	(47 909)	(48 541)
Actuarial surplus / (deficit)	(47 909)	(48 541)
Stock of unrealised actuarial gains / (losses)	(958)	4 863
Provision as at 31 December	**(48 867)**	**(43 678)**
Provision movements as at 31 December		
Provision as at 1 January	**(43 678)**	**(38 424)**
Service cost	(3 869)	(4 050)
Interest cost related to discounting commitments	(2 284)	(2 061)
Amortisation of actuarial gains / (losses)	(1)	(212)
Book charge for the year	(6 154)	(6 323)
Benefits paid	965	1 069
Provision as at 31 December	**(48 867)**	**(43 678)**

The main assumptions used in assessing commitments relative to the pension fund are shown below:

Other information	2007	2006
Interest rate	5.50%	4.75%
Inflation rate	2.00%	1.75%
Pensions revaluation rate	2.00%	1.75%
Salary increase rate	5.00%	5.00%
Staff average number of residual working years as at 31 December	14	14

Pension scheme-related commitments

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

in thousand euros

	31/12/2007	31/12/2006
Pension scheme financial situation as at 31 December		
Actuarial liability	(9 050)	(10 116)
Actuarial surplus / (deficit)	(9 050)	(10 116)
Stock of unrealised actuarial gains / (losses)	(3 536)	(1 273)
(Provision) / surplus as at 31 December	**(12 586)**	**(11 389)**
Provision development as at 31 December		
(Provision) / surplus as at 1 January	**(11 389)**	**(10 185)**
Service cost	(915)	(930)
Interest cost related to discounting commitments	(477)	(419)
Amortisation of actuarial gains / (losses)	82	49
Book charge for the year	(1 310)	(1 300)
Benefits paid	113	96
(Provision) / surplus as at 31 December	**(12 586)**	**(11 389)**

The economic assumptions with respect to related commitments are similar to those within the ambit of the pension scheme.

Moreover, as in 2006, the interest rate of the Bank's contributions is of 7.50%. This rate is constant up to end 2010 and 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 2007	**3 303 450**	**2 933 712**	**369 738**
Total 2006	**3 293 570**	**2 924 922**	**368 648**

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

in thousand euros

Members	Capital	Reserves	Total
Georgia	490	1 303	1 793
Montenegro	327	976	1 303
Total	**817**	**2 279**	**3 096**

Earnings per participating certificate for 2007 amount to 28.24 euros (26.75 euros for 2006).

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

	2007	2006
Available-for-sale financial assets		
Securities transactions	95 278	46 823
Hedging derivatives	1 388	(5 473)
Sub-total	**96 666**	**41 350**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	519 323	422 252
Other loans and advances	70 713	60 677
Hedging derivatives	(15 973)	(56 831)
Sub-total	**574 063**	**426 098**
Financial assets held to maturity		
Securities transactions	92 243	89 473
Sub-total	**92 243**	**89 473**
Amounts owed to credit institutions and to customers		
Issues	(561)	(1 149)
Interest-bearing accounts	(6 387)	(4 985)
Hedging derivatives	(738)	(1 371)
Sub-total	**(7 686)**	**(7 505)**
Debt securities		
Issues	(651 381)	(624 334)
Hedging derivatives	16 033	192 802
Sub-total	**(635 348)**	**(431 532)**
Other interest and similar charges	(2 762)	(2 480)
Interest margin	**117 176**	**115 404**

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

in thousand euros

Breakdown by country	2007	2006
Spain	95 990	70 181
Italy	56 618	44 147
France	44 969	35 336
Germany	40 184	41 559
Turkey	38 296	40 939
Poland	35 213	31 235
Finland	28 773	19 841
Hungary	28 230	19 793
Greece	23 843	26 189
Portugal	21 188	15 379
Cyprus	21 161	16 497
Romania	14 333	10 533
Denmark	11 908	5 478
Belgium	8 943	7 587
Croatia	8 236	7 202
Sweden	7 172	4 670
Norway	6 909	5 347
Malta	4 856	5 565
Bulgaria	3 660	2 389
Latvia	3 369	1 571
Slovenia	3 070	2 516
Iceland	2 980	1 129
Ireland	1 864	1 397
Slovak Republic	1 642	1 300
Lithuania	1 159	896
“the former Yugoslav Republic of Macedonia”	1 039	683
Serbia	1 012	1 003
Czech Republic	897	592
Albania	607	426
Bosnia and Herzegovina	592	325
Estonia	391	398
Moldova	116	41
San Marino	103	108
Total	**519 323**	**422 252**

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

This heading covers profits relative to the Bank's hedging derivatives whose hedging is not recognised under IAS 39, as well as realised and unrealised exchange profits. Income and interest charges in relation to these derivatives are presented under “Interest margin” (Note L).

in thousand euros

	2007	2006
Derivatives	5 714	2 267
Revaluation of exchange positions	(205)	(278)
Total	**5 509**	**1 989**

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

in thousand euros

	2007	2006
Gains or losses on available-for-sale financial assets	2	54
Dividends received	50	50
Gains or losses on held-to-maturity financial assets (1)	623	
Total	**675**	**104**

(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

	2007	2006
Sundry banking incomes	201	542
Banking charges	(699)	(518)
Net commissions	**(498)**	**24**

Note P – General operating expenses

in thousand euros

	2007	2006
Staff costs		
Wages and salaries	14 892	14 090
Social Security and pension costs	4 843	5 226
Other general operating expenses	8 249	8 525
Total	**27 984**	**27 841**

At 31 December 2007, the Bank staff was composed of 142 agents: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 138 professional staff. At 31 December 2006, 139 agents: 3 appointed officials (Governor, Vice-Governor Delegate and Vice-Governor) and 136 professional staff.

Note Q – 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 20 February 2008.

External auditor's report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit
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Téléphone 01 56 57 58 59
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EXTERNAL AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
Year ended 31 December, 2007

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, 2007. These financial statements include the balance sheet, the profit and loss account, the cash flow statement, the statement of changes in equity 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.
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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 2007 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, 20 February, 2008

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 2007

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 2007 and from 18-21 February 2008 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 2007.

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 2007 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2007, including the balance sheet at 31 December 2007, 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 20 February 2008
- 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 2007
- Obtaining the opinion signed by the External Auditor on 20 February 2008
- 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 2007 and the results of its operations and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 21 February 2008

René H. MELLIGER
Aunus SALMI
Nicola CECCAROLI

Extract from the minutes of the 251st meeting of the Administrative Council of the CEB

Resolution 1513 (2008) **CA/PV 251 (2008)**

Paris, 12 March 2008

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 2007
Having taken note of the external auditor's report dated 20 February 2008
Having taken note of the Auditing Board's report dated 21 February 2008
Having taken note of the Governor's Memorandum dated 18 February 2008

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 2007
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2007
3. resolves to allocate the net profit for 2007 (+ € 93 273 337) as follows:
   - € 88 273 337 to the general reserve
   - € 5 000 000 as social dividend to fund the Selective Trust Account
4. recommends that the Governing Board approves point 3 above.

Extract from the minutes of the 188th meeting of the Governing Board of the CEB

Resolution 370 (2008) **CD/PV 188 (2008)**

Paris, 28 March 2008

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 2007
Having taken note of the certification by the external auditor, dated 20 February 2008
Having regard to the reports of the Bank's statutory organs viz :

- the Report of the Governor for the financial year 2007
- the Auditing Board's report dated 21 February 2008

Having regard to Resolution 1513 (2008) of the Administrative Council
Having heard the Auditing Board
Decides:

- to approve the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2007
- to discharge the Administrative Council from his responsibility for the financial year 2007
- to endorse point 3 of Resolution 1513 (2008) of the Administrative Council of 12 March 2008, by which the Administrative Council agreed to allocate the net profit for 2007, amounting to € 93 273 337 as follows:
  - € 88 273 337 to the general reserve
  - € 5 000 000 as social dividend to fund the Selective Trust Account.

Balance sheet as at 31 december 2007 after allocation of profit

in thousand euros

Assets	31/12/2007	31/12/2006
Cash in hand, balances with central banks	185 983	47
Fair value financial assets through profit or loss	182 180	158 217
Hedging derivatives	1 003 008	815 775
Available-for-sale financial assets	2 262 071	2 049 204
Loans and advances to credit institutions and to customers		
Loans	12 114 377	12 101 562
Advances	746 850	1 151 572
Financial assets held to maturity	1 969 611	1 901 241
Fixed assets	30 460	30 413
Other assets	14 405	24 439
Total assets	**18 508 945**	**18 232 470**

Liabilities		
Fair value financial liabilities through profit or loss	2 761 104	2 039 517
Hedging derivatives	436 552	559 418
Amounts owed to customers	52 264	70 304
Debt securities	13 263 780	13 620 468
Other liabilities	32 642	44 491
Selective Trust Account (STA)	80 464	76 410
Provision for financial risks	61 454	55 067
Total liabilities	**16 688 260**	**16 465 675**
Capital		
Subscribed	3 303 450	3 293 570
Uncalled	(2 933 712)	(2 924 922)
Called	369 738	368 648
General reserve	1 489 760	1 398 448
Unrealised or deferred gains or losses	(38 813)	(301)
Total shareholders' equity	**1 820 685**	**1 766 795**
Total liabilities and shareholders' equity	**18 508 945**	**18 232 470**

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

Member states: As at 31 December 2007, 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, 17-39 and 51 Luc Delahaye - GettyImage - Other photos: CEB photographic library - Créations Philippe Toumire - Printing Soregraph



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