CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2006





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 39 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 CEB – Council of Europe Development Bank, 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, with Georgia, member since 10 January 2007, the Bank has 39 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 2006. Leverage is particularly impressive: since its inception, the Bank has been able to pay out 25 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 1st 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

	2006	2005	2004		2003
	In accordance with IFRS	In accordance with IFRS	Restated in accordance with IFRS		
Loans disbursed during the year	1 640	1 559	1 530	1 530	1 589
Projects approved during the year	2 460	2 517	1 751	1 751	2 149
Loans outstanding	11 965	11 483	10 765	10 765	9 903
Own funds (after allocation of profit)	4 692	4 610	4 529	4 522	4 358
Shareholders' equity (after allocation of profit)	1 767	1 685	1 604	1 581	1 470
Total assets	18 232	17 675	16 396	16 390	14 786
Net profit	88.1	88.5	121.0	115.2	86.9
Selective Trust Account					
Social dividends accumulated since the STA's inception	88.4	82.4	74.4	74.4	64.4
Balance available (after allocation of profit)	23.2	24.8	37.7	37.7	33.7

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REPORT OF THE GOVERNOR

Financial year 2006





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	Switzerland	1974
France	1956	Moldova	1998	"the former Yugoslav Republic of Macedonia"	1997
Georgia*	2007	Netherlands	1978	Turkey	1956
Germany	1956	Norway	1978		
Greece	1956	Poland	1998		

* Georgia is a member since 10 January 2007





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MEMBERSHIP OF THE BANK'S ORGANS as at 31 December 2006*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
LARS KOLTE Managing Director, Eksport Kredit Fonden, Copenhagen	**Chairmen**	RAINER STECKHAN Former Director of the World Bank
	Vice-Chairs	RENALDO MÄNDMETS Deputy Secretary General for Foreign Relations, Ministry of Finance, Tallinn
SHPËTIM ÇAUSHI 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 Minister of Finances 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**	ANA HRASTOVIĆ Assistant Minister of Finance, Directorate for European Integration and International Financial Relations, 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
VLASTA ŠTĚPOVÁ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	PAVLA BEJČKOVÁ International Organisations Unit, 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

* 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
ALAR STREIMANN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg SULEV KANNIKE (SINCE 8-3-2007) 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
ANN-MARIE NYROOS 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 Economic Affairs, Finance and Industry, Paris
ZURAB TCHIABERASHVILI Permanent Representative of Georgia to the Council of Europe, Strasbourg	**Georgia** (member since 10-1-2007)	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 MGR VITO RALLO Special Envoy of the Holy See to the Council of Europe, Strasbourg	
ZOLTÁN TAUBNER 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**	THORSTEINN ÓLAFSSON Director, Ministry of Foreign Affairs, Reykjavik
JAMES A. SHARKEY 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 KRIŠČIŪNAS Undersecretary of the Ministry, Ministry of Finance, Vilnius
RONALD MAYER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	**Luxembourg**	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**	ZINAIDA GRECEANÎI First Deputy Prime Minister, Chisinau ION CHICU (SINCE 2-1-2007) Deputy Minister, Ministry of Finance, Chisinau
JACOBUS VAN DER VELDEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg	**Netherlands**	JAN WILLEM VAN DER KAAIJ Deputy Director, Foreign Financial Relations, Ministry of Finance, 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**	MARTA GAJĘCKA Undersecretary of State Ministry of Finance, Warsaw
JOAQUIM DUARTE Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Portugal to the Council of Europe, Strasbourg	**Portugal**	LINA NETO Deputy Director General, General Directorate for European Affairs and International Relations, Ministry of Finance, Lisbon
STELIAN STOIAN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Romania to the Council of Europe, Strasbourg	**Romania**	BOGDAN ALEXANDRU DRĂGOI Secretary of State, Ministry of Public Finance, Bucharest
GUIDO BELLATTI CECCOLI Ambassador, Permanent Representative of San Marino to the Council of Europe, Strasbourg	**San Marino**	RAFFAELE GIARDI Counsellor, Ministry of Finance, Republic of San Marino
SLADJANA PRICA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Serbia to the Council of Europe, Strasbourg	**Serbia**	VESNA DZINIC Treasurer, Ministry of Finance, Belgrade

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
ANNA LAMPEROVÁ 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
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
FERNANDO MANSITO CABALLERO Ambassador, Permanent Representative of Spain to the Council of Europe, Strasbourg	**Spain**	ISABEL RIAÑO IBAÑEZ General Director for International Finance, Ministry of Economy and Finance, Madrid ALICIA VARELA (SINCE 8-1-2007) 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	**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 Head of Public Debt Management Department, 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

Bulgaria: CHRISTINA SIMEONOVA, Head of the Internal Audit Department, Central Security Depository, Sofia
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

PROMOTING SOCIAL DEVELOPMENT IN EUROPE

From its creation up until today, the history of the CEB has been closely intertwined with that of Europe: born out of the division of Europe, the Bank took on a new impetus with the fall of the Berlin wall and the ensuing reunification of the "two Europes".

In the course of these fifty years, the Institution has transformed into a fully-fledged development bank, while remaining truly faithful to its original social vocation.

For more solidarity in Europe

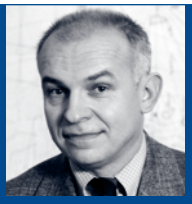
On the strength of its experience and its specificity, the CEB strives to foster **social convergence in Europe**.

To achieve this, it has structured its action around three sectoral lines of action: strengthening social integration, managing the environment and developing human capital.

By so doing, the CEB places its action at the very heart of the challenges facing a changing Europe, namely **social cohesion** and **sustainable development.**

At the same time, in accordance with the strategic orientations of its Development Plan for 2005-2009, the Bank has intensified its **geographical redeployment** in favour of the countries of Central and South Eastern Europe, known as the target group.

HOMAGE TO KRZYSZTOF J. NERS



As the first representative of the Central and Eastern European member states to occupy the post of Vice-Governor of the CEB, Krzysztof Janusz Ners made an eminent contribution to the growth of the Bank's operations in the target group countries for which he was responsible.
Indeed, the Governing Board was unanimous in renewing his mandate, paying tribute to his great human and professional qualities.
Krzysztof J. Ners was a convinced European and a man of action; his premature death on 2 September 2006 constitutes an immense loss for us all.

The CEB naturally seeks to ensure a fair balance between its social mandate and the banking nature of its activity.

Financial leverage in the service of social development

The Bank's action is underpinned by its **sound financial structure**, as evidenced by:

- own assets amounting to 4.7 billion euros
- the excellence of its triple AAA rating
- a remarkable risk quality.

This enables the CEB to deploy its **capacity for social action** by means of:

- a loans outstanding of 12 billion euros, distributed in 33 countries of operation
- the most favourable financing conditions for borrowers
- its ability to also focus on assistance, as well as on the monitoring and evaluation of social investment projects.

More specifically this means that, while maintaining the light structure it has enjoyed since its creation, the Bank continually seeks to enhance its **financial leverage** function in order to further its social mandate and the well understood interests of its 39 member states. This is shown by:

- the **innovative prudential framework** introduced within the context of the current Development Plan
- the **policy of partnerships** closely woven with the other international organisations in order to enhance the CEB's possibilities for action
- the **recourse to intermediary banks**, chosen according to their financial soundness and their ability to implement projects in close relation with the CEB, for the benefit of the target group countries in particular.

Faced with globalisation, Europe is now wondering about the future of its model and the conditions for sustainable growth: in this context, to encourage social development is necessarily becoming an ever increasing priority.

And this is precisely the mission the CEB has set itself.

CEB
COUNCIL OF EUROPE DEVELOPMENT BANK

MESSAGE FROM THE GOVERNOR



During 2006, the year of its 50th anniversary, the CEB intensified its financial leverage mission in favour of social cohesion in Europe, thereby marking its fidelity to a history in the service of European solidarity.

Financial year 2006 confirmed the emphasis placed on the geographical redeployment of the Bank's operations in favour of a target group of 19* Central and South Eastern European countries and, more generally, on **strict compliance with the strategic orientations of the Development Plan for 2005-2009.**

At the expense of consirable effort, the overall volume of activity was deliberately stabilised in order to enable the Institution to further concentrate on the added value of its actions.

The amount of disbursements was maintained at 1.6 billion euros, which at the same time brought the **loans outstanding to 12 billion euros** by end 2006, representing a record level since the CEB's creation. In all, with its contribution averaging 40% per project, the Bank has been able to finance social investments in Europe worth a little under 30 billion euros. Standing at 2.5 billion euros, the volume of the 37 new projects approved in 2006 was equivalent to last year's figure.

Within this framework, **an additional impetus** was **given to operations in the target group countries**, with their total share of the loans disbursed in 2006 reaching more than 800 million spread over 76 projects. Moreover, the share of approvals corresponding to them reached almost 2 billion euros, representing **80% of the total amount of all projects approved**. In addition to this, special attention was paid to the member states in South Eastern Europe: for example, a volume of 830 million euros, broken down among eight projects, was approved in favour of **Romania**, in order to accompany its integration to the European Union and, more especially, to help it take up the challenges of sustainable development.

The structure of the loans and projects activity reflected the CEB's commitment to social development. As in 2005, and in comparable proportions, the new projects and programmes were distributed along **three major sectoral lines of action**: social integration, representing 58% of the approved total in 2006, environmental management (31%) and support for human capital (11%). Among the initiatives **with a very high social impact**, of particular note was the financing of social housing intended for vulnerable population groups in Moldova, support for reform of the education system in Albania and action in favour of small businesses and micro credit in Turkey.

In 2006, a loans outstanding of 12 billion euros combined with a deeper commitment to the CEB's social priorities,…

…both in geographical terms, for the benefit of the target group countries in Central and Eastern Europe,…

…and in sectoral terms, in favour of social cohesion and sustainable development,…

** Since the accession of Georgia in 2007, there are now 20 countries in the target group.*

…the steady consolidation of the Bank's financial structure…

…as evidenced by its triple AAA signature,…

…its capacity to adapt, not only internally,…

…but also as reflected externally by a policy of close partnerships and…

…the events surrounding the fiftieth anniversary of its creation,…

This intensification of the Bank's social contribution was made possible thanks to **the Institution's financial soundness** and to the constant adaptation of its means of action.

The **net profit, which reached 88.1 million euros** in 2006, remained at a high level, in line with that of the previous year: through allocation to the reserves, the Institution's own assets now stand at 4.7 billion euros. The CEB's financial base has also been consolidated thanks to the **quality of its counterparties**, 78.9% of which were rated A or more as at 31 December 2006. In these conditions, the ratios of the new prudential framework introduced in the context of the medium-term Development Plan show very favourable trends.

The **triple AAA rating** confirmed by the agencies Moody's, Standard & Poor's and Fitch Ratings is evidence of the appreciation the CEB's signature enjoys in the international financial markets.

The Bank also pays particular attention to the **quality of the projects** it finances and to the **effectiveness of its contribution** in favour of social development.

This is evidenced not only by the **policy for loan and project financing**, approved by the Administrative Council in June 2006, which rationalises the CEB's framework of action, but also by the promotion of the "non-lending services" side of its activities and by the input of the **ex post evaluation** function; in connection with this, the conference organised in conjunction with the World Bank's Independent Evaluation Group in Paris, on 20 and 21 November, provided several very useful lessons in matters of "natural disaster risk management".

Another contributing factor is the **policy of weaving close partnerships with the other international organisations**. By signing the pivotal tripartite agreement with the European Commission and the European Investment Bank (EIB) on 30 May 2006, which establishes a framework for cooperation for the financing of sustainable urban development projects (JESSICA* initiative), the CEB has thus enhanced its relations with the **European Union** in a long-term perspective. Among the other initiatives concluded by the Bank in 2006 were the signing of the "Declaration on European Principles for the Environment", to which several other international financial institutions have also adhered under the aegis of the Commission, and the signing of a bilateral framework agreement on strengthened cooperation with the United Nations Children's Fund (UNICEF).

During this year of the **50th anniversary** of its creation, the Bank naturally organised a whole series of specific **communication** actions. The public events that took place in Sofia, Strasbourg, Paris and Berlin fully reflected the Institution's European face. The **symposium** entitled **"Social cohesion, a condition for growth?"**, organised in Paris on 13 November 2006, provided an opportunity for personalities from extremely diverse horizons to participate in a wide debate of ideas on the link between economic and social development, and to highlight the importance of the CEB's role in terms of well understood visibility.

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

The **funding policy** was characterised by compliance with the objectives defined over the past few years and by the adjustment in the volume of activity.

In 2006, the Bank's issues amounted to 2.1 billion euros, which is 500 million less than in 2005, given the significantly lower volume of reimbursable debts than in the previous year. These borrowings were 76% denominated in United States dollars on account of the opportunities offered by this market. In particular, this policy led to the launch of an issue worth 1 billion US dollars, increased to 1.1 billion after a reopening operation. As in 2005, the Bank was also very active on the **Australian dollar market**, which became the CEB's second issue currency, representing 20% of all borrowings. All these funding operations, carrying an average maturity of 6 years, were systematically combined with hedge swaps in floating rate euros, with almost all the swap outstanding itself collateralised. As at December 2006, the liquidity ratio stood at 108% for a required minimum level of 50%.

*

Following on from the previous year, the results recorded in 2006 are fully in compliance with the objectives of the Development Plan and, in particular, provide evidence of the strength of the geographical redeployment of the activity in favour of the target group countries in Central and South Eastern Europe.

This performance was made possible thanks to the mobilisation of all the staff, to the Institution's capacity to adapt to a constantly changing European environment and to the support of its shareholders: indeed, the accession of Georgia to the Bank, on 10 January 2007, confirms the attractiveness exercised by the CEB today.

It is therefore with confidence that, in 2006, the longest-standing European multilateral financial institution was able to celebrate the fiftieth anniversary of its creation and to take stock of what has been achieved. Enriched by its experience, strengthened by the support of its 39 member states and inspired by the values of the Council of Europe, the CEB is in a position to play its full role in the service of social cohesion and sustainable development.

Lastly, it is with great emotion that I should like to pay tribute to the memory of our colleague Vice-Governor and friend, Krzysztof J. Ners, who passed way so suddenly this year. He was at the vanguard of this collective adventure and his enthusiasm will continue to inspire the ambition that drives us forward: to be the social development bank in Europe.

Paris, 26 February 2007



Raphaël ALOMAR

…and the support of a dynamic funding policy…

…have all enabled the CEB to comply with the strategic orientations of the Development Plan for 2005-2009,…

…thereby further affirming its social vocation in the service of European solidarity.

50TH ANNIVERSARY EVENTS

2006 marked the 50th anniversary of the institution's creation. The Bank naturally decided to celebrate this auspicious event through its institutional communication media, public events and in-house communication channels, in continuity with a targeted institutional communication strategy and respectful of budgetary constraints.



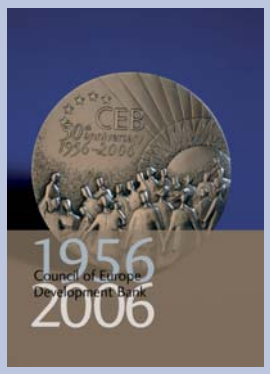
Strasbourg, 24 October 2006
Main Hall at the Council of Europe
The Governor of the CEB, Mr. Raphaël Alomar, and the Deputy Secretary General of the Council of Europe, Mrs Maud de Boer-Buquicchio

Institutional communication

The CEB devoted a special section to its 50th anniversary in its Annual Report 2005, which was published on 16 April 2006, the exact anniversary date of the signing of the Partial Agreement on the Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe by the founding member states in 1956.

On that same date a special window was opened on the CEB's Internet site especially devoted to the 50th anniversary events.

In parallel to this, throughout 2006 the CEB featured a special 50th anniversary visual, as a complement to its usual logo, not only on its web site but also on a number of commemorative objects.



In September 2006, the Bank published a book in its two official languages exclusively devoted to the institution's 50 years of history.



Sofia, Bulgaria, 15 June 2006
National Gallery for Foreign Art
Concert: "Bulgarian Voices"

Public events

- The first event coincided with the Joint Meeting of the Bank's organs and took the form of an inaugural evening that was held on 15 June 2006 in **Sofia**, in Bulgaria.

- Another special event consisted of an exhibition of photographs devoted to the CEB's major achievements, held at the Council of Europe in **Strasbourg** and





Paris, 13 November 2006
Palais Brongniart
Conference "Social cohesion, a condition for growth?"
Left, former President of the Republic of Poland,
winner of the Nobel Peace Prize, Mr. Lech Walesa

inaugurated on 24 October 2006. In accordance with the agreements entered into with the Council of Europe's Directorate of Communication, this exhibition remained in place until November 2006. It may well provide opportunities for other complementary events to be organised that can enhance the CEB's notoriety among the other Council of Europe Partial Agreements.

- A major conference entitled "Social cohesion, a condition for growth?" was held in **Paris** on 13 November 2006, and was devoted to the major social and economic challenges in which the CEB plays an acknowledged role. This conference provided an opportunity for a number of key actors on the European scene and in European history to participate in a debate of ideas and to present the importance of the CEB's role in Europe.

- On 28 November, in cooperation with the CEB, the Germany Authorities organised a conference entitled "The CEB: a Bank evolving in step with a changing Europe", held at the Weltsaal of the Federal Foreign Office in **Berlin**. This event provided an opportunity for in-depth exchanges with parliamentarians and economic leaders.

*

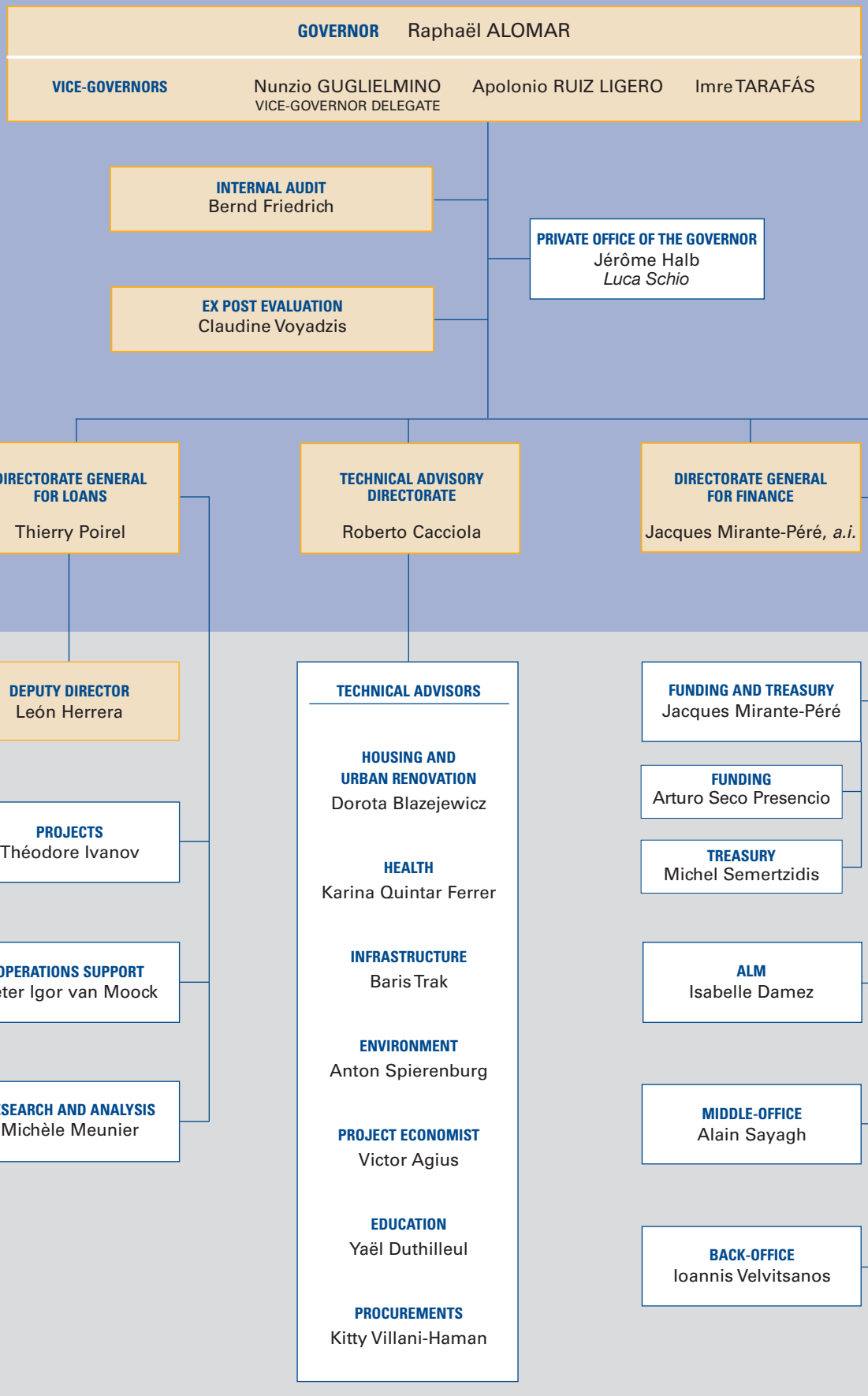
In all, therefore, the institution's 50th anniversary was marked in four cities that map out a certain idea of Europe: Sofia, Strasbourg, Paris, and Berlin. *"There is in this journey,* remarked Governor Raphaël Alomar in December 2006*, something of a symbol of the Bank's destiny: born in Strasbourg out of the determination of the Council of Europe, regrouped in Paris where all its offices are located, in the past few years it has steadily been directing its activities towards Eastern Europe".*





Berlin, 28 November 2006
Weltsaal of the Federal Foreign Office
Right, the Minister Delegate, Mr. Gernot Erler
On the platform, centre, the Head of the Council of Europe Division at the Ministry of Foreign Affairs, Mr Johann-Adolf Cohausz;
at his right, the Governor of the CEB, Mr. Raphaël Alomar; at his left, the Chairman of the Governing Board, Mr. Lars Kolte
and the Chairman of the Administrative Council, Mr. Rainer Steckhan

ORGANISATION CHART



THE MANAGEMENT TEAM



In front **Raphaël ALOMAR,** Governor

Second row, left, **Nunzio GUGLIELMINO**, Vice-Governor Delegate

right, **Apolonio RUIZ LIGERO**, Vice-Governor
Imre TARAFÁS, Vice-Governor *(not in the photograph)*

Third row, from left to right,
Arnaud VIOLETTE, Central Director of Information Systems and Control
Roberto CACCIOLA, Director of Technical Advisors
Bernd FRIEDRICH, Director for Internal Audit
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 ***a.i.***, Director General for Finances
Jan DE BEL, General Counsel
Richard VENEAU, Director for General Administration

CENTRAL DIRECTORATE FOR INFORMATION SYSTEMS AND CONTROL
Arnaud Violette

- **RISK MANAGEMENT** — Martin Weigand, *Rafael Ruisanchez*
- **ACCOUNTING** — José Limet
- **INFORMATION TECHNOLOGY** — Frédéric Lardinois
- **ORGANISATION** — Ahmet Kizil

DIRECTORATE FOR GENERAL ADMINISTRATION
Richard Veneau

- **HUMAN RESOURCES** — Maria Lucia Oristanio
- **CONTROLLING** — Patrick Radhauer
- **COMMUNICATION AND DOCUMENTATION** — Armelle de la Jugannière
- **SECURITY AND GENERAL FACILITIES** — Maurice Le Verche
- **MISSIONS**

CENTRAL DIRECTORATE FOR LEGAL AFFAIRS AND PROSPECTIVE ANALYSIS
Michael Roeskau

- **OFFICE OF THE GENERAL COUNSEL** — Jan De Bel, *Heikki Cantell*
- **PROSPECTIVE ANALYSIS** — Sébastien Relland
- **INTER-INSTITUTIONAL RELATIONS** — Nicola Catalano

COMMITTEES

General Management Committee

Treasury Committee
Risk Committee
Projects and Development Committee
Funding Committee
ALM Committee
Information Technology Steering Committee
Committee for Operational Risks and Organisation
Strategic Management Committee
Budget Monitoring Committee

30 March 2007



Strengthened cooperation in favour of sustainable urban development

By the growth, innovation and employment they engender, cities and metropolitan areas are the motors of economic development in Europe. However, they are also where the problems linked to economic and social disparities are the most acute.

That is why the Bank encourages a multi-sectoral, integrated approach in its actions, aimed at responding to all the challenges involved in strengthening of social cohesion in Europe and to creating the necessary conditions for the establishment of sustainable communities in urban and rural areas. At the same time, the urban question is increasingly becoming a political priority. In effect, the new community cohesion policy strongly emphasises the concept of sustainable urban development as a means of dynamising regional competitiveness and of further strengthening the economic potential of the member states.

In order to give operational expression to its actions in favour of social housing, urban renewal and the general improvement of living conditions, particularly in the European Union's new member states, the CEB has continued to strengthen its partnership with the European Commission and the managers of the European Union's Structural and Cohesion Funds.

It was in this context that, in May 2006, the CEB signed a tripartite agreement with the European Commission and the European Investment Bank (EIB) defining a framework for cooperation for the implementation of the community urban development policy for the period 2007-2013. This agreement organises the joint approach and the activities of the three partners in matters of urban renewal. It defines the framework for the joint preparation and financing of projects in favour of social housing and related urban infrastructure. The agreement also provides for coordinated action in developing the EU's JESSICA initiative (Joint European Support for Sustainable Investment in City Areas). This new strategic initiative, undertaken by the Commission and developed in collaboration with the CEB and the EIB, establishes the conditions necessary for advanced cooperation in matters of financial engineering facilitating the development of integrated urban projects in the European Union's member states.

Envisaged as an instrument designed to stimulate private sector participation in the development of disadvantaged urban areas through the implementation of profitable projects corresponding to market expectations, the JESSICA initiative should make it possible to overcome certain risks associated with the development of complex urban projects. In this context, the management authorities in the member states will be able to use part of the allocations they receive in respect of the Structural Funds as contributions to urban development funds that will invest them, on a repayable basis, in income-generating projects in urban areas. The JESSICA initiative should also facilitate the provision of expertise and additional financial aid from the CEB, the EIB and other financial institutions and make it possible to mobilise additional capital in support of integrated urban development projects.

The CEB will continue to strengthen its action for the implementation of integrated urban development programmes both through its traditional lending instruments, but also by taking advantage of the possibilities that JESSICA offers in terms of financial instruments.



1 KEY FACTORS FOR 2006

Financial year 2006 was marked by:

- the impetus given to the redeployment of the Bank's operations in favour of the Central and South Eastern European countries
- the continued and deepening cooperation network woven with the other international organisations, in particular the European Union
- the measures taken to enhance the Bank's performance and the effectiveness of its instruments for action, monitoring and control.

1 - Redeployment of operations in favour of the target group countries

This year the CEB pursued the geographical redeployment of its operations around a priority objective: to further intensify its action in the social field in favour of a target group of countries[1] defined in the CEB's Development Plan for 2005-2009. The share of approvals in favour of these countries effectively represented 80% of all projects approved in 2006, for an amount of almost **€ 2 billion**, against € 1.4 billion, i.e. 56% in 2005.

Within this group of countries, the CEB paid particular attention to the needs of the member states in South Eastern Europe. A total of € 830 million, spread over eight projects, was thus approved in favour of **Romania** in order to accompany the country in its efforts to respect the conditions for accession to the European Union and to enable it to meet the challenges of sustainable development. Moreover, the Bank was very active this year in five of its member states[2] whose development agenda is covered by Poverty Reduction Strategy Papers (PRSPs), established in close collaboration with the World Bank and the International Monetary Fund.

But, in 2006, the Bank also enhanced its support to the sectoral reforms in the target group countries. The following are examples of this:

- the report published jointly with the World Health Organisation (WHO) on the contribution of health to economic development in South Eastern Europe (see box on page 35),
- the information seminars, organised in partnership with several Nordic institutions specialised in local authority financing[3], which enabled representatives from several target countries to get together and to initiate a first transfer of experience and know-how in this area,
- the increasing use of innovative instruments such as trust accounts, which enable the Bank to enhance the added value of its contribution. It is noteworthy to emphasize here the important role played by the Norwegian Trust Account (NTA) in the preparation and appraisal phases of several projects in favour of the Balkan countries. This programme was renewed in 2006 thanks to the payment by the Norwegian Authorities of another endowment of € 1 million.

"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"
Social housing in Skopje



1. *Target group countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Moldova, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.*
2. *Albania, Bosnia and Herzegovina, Moldova, Serbia and "the former Yugoslav Republic of Macedonia".*
3. *KommuneKredit (Denmark), Municipality Finance (Finland), Municipality Credit Iceland (Iceland), Kommunalbanken (Norway) and Kommuninvest (Sweden).*





BOSNIA AND HERZEGOVINA
Social housing

2 - Strengthening cooperation with the other international organisations

This year again, efforts have continued to establish still closer cooperation with the supranational institutions in order to enhance the Bank's capacity for action and level of expertise, in particular for the benefit of the target group countries, while valorising the Bank's specific features and its recognition as a financial institution in the service of social cohesion. The most promising prospects for co-financings are essentially concerned with South Eastern Europe.

Furthermore, following the Third Council of Europe Summit of Heads of State and Government (see box on page 29), the CEB has included "Infrastructure for administrative and judicial public services" in its eligible sectors of activity.

The CEB has also deepened its links with several of the United Nations specialised agencies, in particular the United Nations High Commissioner for Refugees (UNHCR), the World Health Organisation (WHO), the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP). Framework agreements for bilateral cooperation have been negotiated with the latter two agencies and are due to be signed in the course of 2007.

The Bank's cooperation with the European Union has taken on a new dimension since the conference on growth and social development on 24 November 2005 organised by the European Commission.

Indeed, the CEB-Commission-EIB tripartite agreement, signed in Brussels on 30 May 2006, established the framework for cooperation between these institutions for the financing of sustainable urban development projects, with specific emphasis being placed on social housing. The operational translation of this important tripartite agreement is now already well underway and includes cooperation in developing the EU's JESSICA initiative for the acceleration of investments in the field of integrated urban projects (see box on page 16).

Lastly, in 2006, the CEB also signed the Declaration on European Principles for the Environment (EPE), which associates the Commission and several international financial institutions in a common effort to implement "the fundamental right for both present and future generations throughout the world to live in a healthy environment" (see box on page 32).

3 - Improving operational performance and effectiveness

The permanent quest to achieve project quality is reflected in the continued improvement of the performance indicators for the operations within the framework of the monitoring that is carried out throughout the project cycle (see page 20) and in the emphasis placed on the contribution of ex post evaluation. It is noteworthy here to underline the importance of cooperation with evaluation specialists in other national and international organisations, one example of this being the organisation by the CEB of an advisory working group on ex post evaluation methods.

The results of an initial programme of evaluations concerning projects for reconstruction and natural disaster prevention were presented on the occasion of a conference entitled "Natural disaster risk management: the lessons of evaluation", organised in conjunction with the World Bank in November 2006, in Paris (see page 38). This conference provided an opportunity to emphasise the need for better-coordinated action between emergency assistance to victims, more often than not operated by NGOs and UN agencies, and projects for reconstruction and prevention financed by international financial institutions.



The three sectoral lines of action of the CEB

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 for 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

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, both on account of the nature of the projects it finances, the sectors in which it undertakes its action and the geographic scope of its shareholder base.

1 - Sectoral lines of action

The Bank's original mandate was to respond to emergency situations. As a result, aid for refugees and migrants as well as for projects in the field of natural or ecological disasters are statutory priorities. The CEB's scope of action has gradually widened to include other sectors of activity that directly contribute to **strengthening social cohesion in Europe.**

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

This approach corresponds to a two-fold requirement: on the one hand, to give greater readability to the Bank's action by homogeneously grouping together its eligible sectors and, on the other hand, to affirm the institution's mission in favour of sustainable social development.

2 - Methods of financing

The CEB takes action in the form of loans and through the use of trust accounts in order to finance bankable projects. To do this, the Bank evaluates the debt sustainability of the borrower and, where applicable, of the guarantor.

Moreover, interest rate subsidies and donations can be granted in order to finance technical assistance or even for the financing of investment projects with a high social impact.

CEB projects are financed through long-term loans, disbursed in several tranches and often combined with a grace period. This type of financing thus makes it possible to finance social investments with often deferred return. In this way the Bank's action can remove the constraints that weigh upon access to long-term credit for projects generating positive externalities.

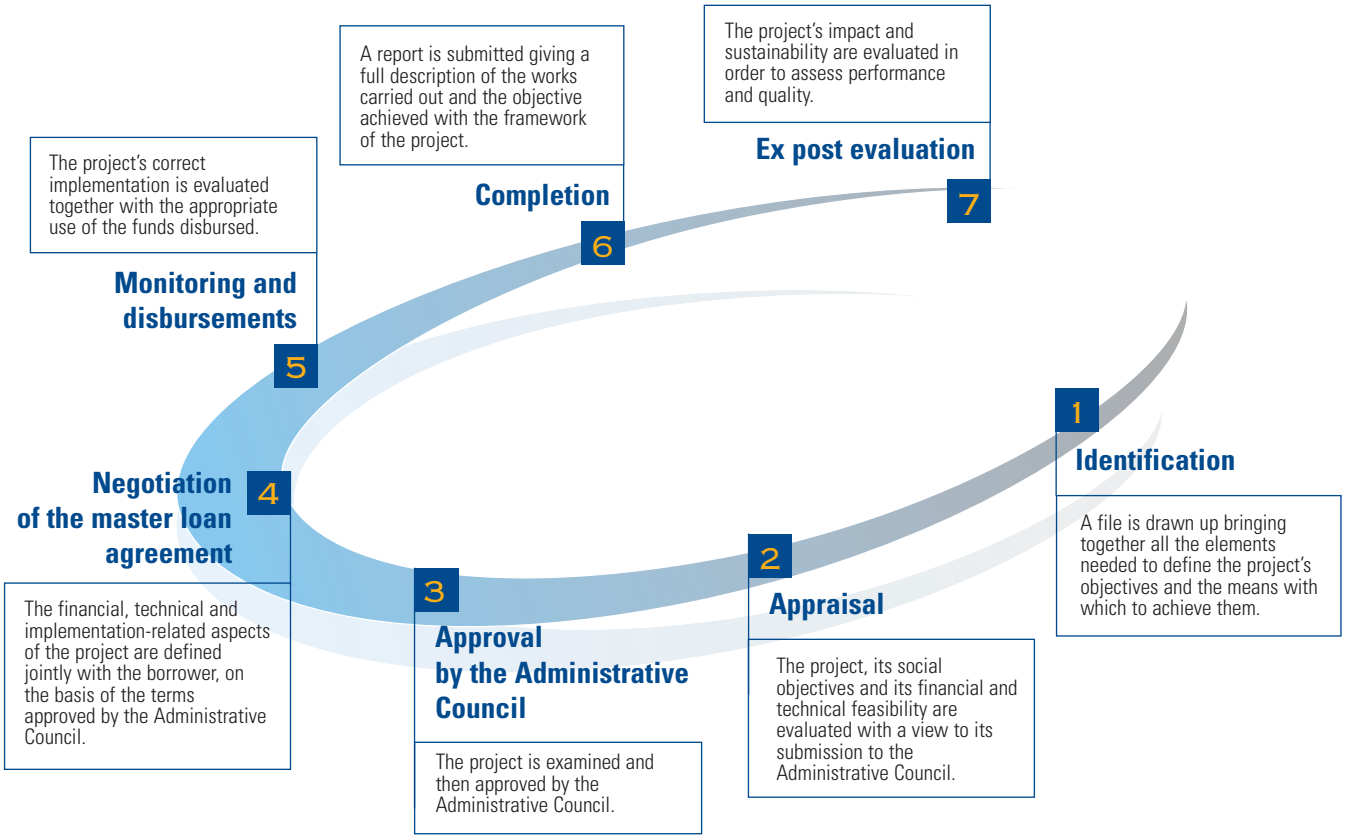
Borrowing from the CEB

The CEB can grant loans to its **39 member states**[1] as well as to local or regional authorities and to public or private financial institutions.
The loans are granted according to a series of precise sectoral, geographical and social criteria. The loan request is prepared by the borrower in close relation with the Bank's services.
Having undergone a financial and technical analysis carried out by the Bank's teams, the loan requests are submitted to the Administrative Council for approval.

1. Georgia is a member since 10 January 2007



The different stages in the project cycle



The CEB pays particular attention to the quality of the projects it finances in order to optimise their social impact. To achieve this, the Bank has intensified its assistance and monitoring role throughout the whole project cycle (see above).

On the basis of the loan request formulated by the borrower, the Bank evaluates the project and its financial set up. To do so, it carefully analyses the project's socio-economic impact, technical aspects and costs, the institutional capacity to manage the project as well as the project's impact on the environment.

Once the project has been approved by the Administrative Council, the master loan agreement is negotiated by the Bank with the borrower.

Once the project's financing starts, within the framework of regular monitoring and on-site missions, the Bank's services check on the physical progress of the works, compliance with costs and procurement procedures, and the achievement of the project's anticipated social objectives.

On completion of the project, the borrower prepares a final report in order for the Bank to be able to check that the use of the funds complies with the objectives and projections approved by the Administrative Council. At the same time, it also evaluates both the material and social results obtained. The Bank's services also play an 'alert' role in respect of any eventual difficulties that could jeopardise the success of the project as well as an advisory role in solving any such difficulties. This approach is underpinned by a quest for effectiveness, namely the extent to which the project has achieved its objectives, and efficiency, that is to say the appropriate use of the funds deployed to reach those objectives.

Furthermore, the Bank has continued to enhance its contribution:

- upstream of projects, by making increasing use of country strategies, prepared in close collaboration with the authorities concerned, and by drawing up sectoral policies in matters of sustainable development and social cohesion
- downstream of projects, by focussing on ex post evaluation, whereby the medium-term social impact of the projects and programmes can be assessed once they are completed, while improving the quality of ongoing and future projects through the learning effect.



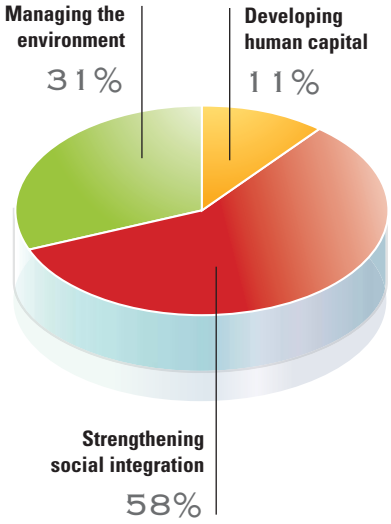
3 PROJECTS AND LOANS ACTIVITIES IN 2006

In 2006, the Bank approved 37 projects for a total of **€ 2 460 million**, including € 1 966 million in favour of the target group countries (representing 78% of the projects approved).

These new operations were spread among the Bank's three sectoral lines of action, amounting respectively to (see graph):

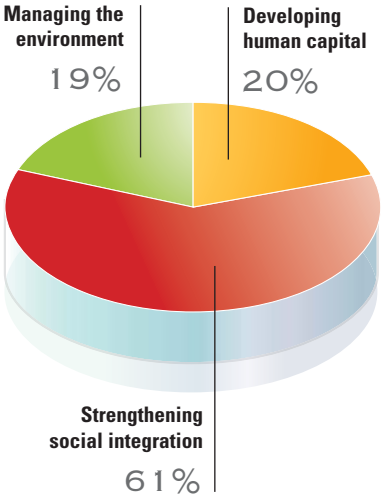
- 58% for strengthening social integration
- 31% for managing the environment
- 11% for developing human capital.

Projects approved in 2006
Breakdown by sectoral line of action



By end 2006, the Bank had disbursed a total of **€ 1 640 million** (including € 811 million in favour of the target group countries), spread over 76 projects.

Loans disbursed in 2006
Breakdown by sectoral line of action



The disbursements were spread among the Bank's three sectoral lines of action as follows (see graph):

- 61% for strengthening social integration
- 19% for managing the environment
- 20% for developing human capital.

At 31 December 2006, the loans outstanding amounted to **€ 11 965 million**, spread over 33 countries.

Through its action, the Bank's objective is to facilitate the improvement of living conditions and to foster social cohesion. The sectoral breakdown of the projects approved and loans disbursed during 2006 reflects this determination.



PROJECTS APPROVED
per country and per sectoral line of action, from 2002 to 2006

in thousand euros

	2006		Accumulated total 2002-2006	
COUNTRIES	**Amounts**	**%**	**Amounts**	**%**
Albania	29 000	1.2	52 169	0.5
Bosnia and Herzegovina	-	-	19 834	0.2
Bulgaria	20 000	0.8	90 000	0.8
Croatia	45 232	1.8	188 768	1.8
Cyprus	-	-	318 039	3.0
Czech Republic	-	-	40 000	0.4
Denmark	100 000	4.1	300 000	2.9
Estonia	-	-	1 000	<0.1
Finland	200 000	8.1	525 000	5.0
France	-	-	300 000	2.8
Germany *	92 500	3.8	831 000	7.9
Hungary	200 000	8.1	917 634	8.7
Iceland	40 000	1.6	66 591	0.6
Ireland **	-	-	100 000	1.0
Italy *	475 000	19.3	1 865 200	17.8
Latvia	21 000	0.9	128 000	1.2
Lithuania	-	-	10 292	0.1
Malta	-	-	152 182	1.5
Moldova	4 900	0.2	10 900	0.1
Norway	-	-	119 000	1.1
Poland	120 000	4.9	825 515	7.9
Portugal	3 165	0.1	477 825	4.6
Romania	829 000	33.7	1 233 525	11.8
Serbia	10 000	0.4	39 600	0.4
Slovak Republic	-	-	6 394	0.1
Slovenia	20 000	0.8	70 000	0.7
Spain	150 000	6.1	998 772	9.5
Sweden *	100 000	4.1	208 256	2.0
"the former Yugoslav Republic of Macedonia"	-	-	10 000	0.1
Turkey	-	-	575 400	5.5
TOTAL	**2 459 797**	**100.0**	**10 480 896**	**100.0**

* *in favour of the target group countries (2006)*
** *including € 50 million for projects approved in favour of the target group countries (2006)*

	2006		Accumulated total 2002-2006	
SECTORAL LINES OF ACTION ***	**Amounts**	**%**	**Amounts**	**%**
STRENGTHENING SOCIAL INTEGRATION	1 429 600	58.1	5 230 866	49.9
Aid to refugees, migrants and displaced populations	150 000	6.1	539 677	5.2
Housing for low-income persons	199 900	8.1	1 229 015	11.7
Creation and preservation of viable jobs	786 000	32.0	2 319 000	22.1
Improvement of living conditions in urban and rural areas	293 700	11.9	1 143 174	10.9
MANAGING THE ENVIRONMENT	754 000	30.7	3 271 879	31.2
Natural or ecological disasters	109 200	4.5	1 409 222	13.4
Protection of the environment	536 600	21.8	1 505 879	14.4
Protection and rehabilitation of historic and cultural heritage	108 200	4.4	356 778	3.4
DEVELOPING HUMAN CAPITAL	276 197	11.2	1 978 151	18.9
Health	121 397	4.9	1 017 766	9.7
Education and vocational training	154 800	6.3	960 385	9.2
TOTAL	**2 459 797**	**100.0**	**10 480 896**	**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 2006

in million euros

COUNTRIES	COUNTERPARTIES	SECTORS	AMOUNTS
Albania	Government	Education	14
	Government	Social housing	15
Bulgaria	Raiffeisenbank Bulgaria	SMEs	20
Croatia	Government	Health	45
Denmark	KommuneKredit	Housing/Elderly persons	100
Finland	Finnvera	SMEs	100
	OKO Bank	Multi-sector	100
Germany	KfW Bankengruppe *	Multi-sector	13
	KfW Bankengruppe *	SMEs	80
Hungary	Magyar Fejlesztési Bank	Multi-sector	200
Iceland	Hitaveita Suðurnesja	Protection of the environment	20
	Municipality Credit Iceland	Multi-sector	20
Italy	Banca Intesa *	Multi-sector	70
	Banca Intesa *	SMEs	55
	Società Italiana per le Imprese all'Estero *	SMEs	150
	UniCredito Italiano	SMEs	200
Latvia	Mortgage and Land Bank of Latvia	SMEs	21
Moldova	Government	Social housing	5
Poland	Bank Gospodarstwa Krajowego	Multi-sector	100
	VB Leasing Polska	SMEs	20
Portugal	Santa Casa da Misericórdia de Sintra	Health	3
Romania	Government	Natural disasters	99
	Government	Education	67
	Government	Protection of the environment	459
	Government	Urban and rural modernisation	116
	Government	Historic heritage	78
	Government	Health	10
Serbia	Government	Natural disasters	10
Slovenia	Nova Ljubljanska Banka	SMEs	20
Spain	Bilbao Bizkaia Kutxa	Housing/Refugees, migrants and displaced populations	50
	Caixa Galicia	Housing/Refugees, migrants and displaced populations	50
	Caja Vital Kutxa	Housing/Refugees, migrants and displaced populations	20
	Gipuzkoa Donostia Kutxa	Housing/Refugees, migrants and displaced populations	30
Sweden	Skandinaviska Enskilda Banken *	Multi-sector	100
TOTAL			**2 460**

** in favour of the target group countries*





SLOVAK REPUBLIC
Rehabilitation of a water course near a Roma village

1 - Strengthening social integration

Contributing to strengthening 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 living conditions in urban and rural areas and modernising the infrastructure of administrative and judicial public services.

Over the period 2002-2006, this sectoral line of action represented an accumulated amount of **€ 5.2 billion** in terms of projects approved (representing 50% of all projects approved since 2002). For 2006 alone, the amount of projects approved reached **€ 1.4 billion** (representing 58% of all projects approved in the year).

At the same time, over the past five years, loans disbursed in favour of strengthening social integration have represented an accumulated total of **€ 4.2 billion**, that is to say 54% of all disbursements made since 2002. In 2006, the Bank disbursed over **€ 1 billion** in this sector, including € 516 million for the benefit of 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. The projects financed in this sector essentially concern the reconstruction and repair of reception structures (such as reception centres, temporary and permanent social housing), programmes involving preventive and curative medicine, education and vocational training, as well as the basic technical infrastructure and equipment necessary for the immediate needs of populations that are victims of exceptional situations.

During the past five years, the CEB has responded to requests made by several of its member states for the implementation of projects aimed at refugees and displaced persons. In effect, the CEB has approved a total of € 540 million since 2002 for the implementation of new operations in this sector. The financings carried out in this sector in 2006 reached a total of **€ 242 million**, representing 15% of all the disbursements made in the year.

In **Spain**, the CEB approved several new operations in 2006 involving access to housing for immigrant populations. These amounted to a total of € 150 million (representing 6% of all projects approved) for the implementation of two projects, one with Caixa Galicia (€ 50 million) and the other one (€ 100 million) with three Basque Country savings banks (Bilbao Bizkaia Kutxa, Gipuzkoa Donostia Kutxa and Caja Vital Kutxa).

These new operations will provide for the financing of mortgage loans for the purchase of a principal residence for legal immigrants. These populations come up against significant obstacles on the mortgage market because they frequently occupy seasonal jobs, are not long-standing bank customers or are disadvantaged by other factors linked to immigration. CEB funds will be used to part finance the construction, purchase and rehabilitation of social housing *(viviendas oficiales protegidas* and *viviendas sociales)*.

*

In addition to this, within the framework of collaboration between the CEB and the United Nations High Commissioner for Refugees (UNHCR), in 2006 the CEB approved two donations in favour of refugee populations and displaced persons:

- A donation of USD 500 000 in favour of **Bosnia and Herzegovina**, to finance a project targeted to facilitating the return of displaced persons, victims of the war, living in collective centres.



- A donation of USD 500 000, in **Serbia**, to finance a project aimed at providing micro housing loans for refugees who have opted to stay in the country.

Housing for low-income persons

Since its creation, the Bank has always considered action in favour of social housing to be vital in contributing to improving living conditions in urban and rural areas.

The projects financed in this sector concern the renovation, construction and rehabilitation of housing as well as the transformation of buildings into housing blocks, in order to provide low-income persons with decent housing. The eligible projects can be aimed at access to property ownership, rental housing or related infrastructure (such as water, gas and electricity supplies, the collection and treatment of waste water and solid waste, commercial premises, play areas), including rural housing (limited to the principal residence within the framework of family-run farms).

In the course of the past five years, the CEB has approved projects in the social housing sector for an accumulated amount of € 1 229 million, representing almost 12% of all approvals for the period 2002-2006 (€ 10.5 billion). The financings carried out in this sector in 2006 amounted to **€ 229 million**, representing 14% of all disbursements made in the year.

In 2006, the CEB approved new operations in this sector amounting to **€ 200 million** (representing 8% of all projects approved).



PORTUGAL
Social housing



POLAND
Social housing

In **Albania**, a project with the Government (€ 15 million) will help to remedy the shortage of housing affecting low-income families thanks to the construction of some 1 100 apartments in different towns throughout the country.

The Bank also approved a new programme in **Denmark** with Kommunekredit (€ 100 million) for the construction or renovation of housing for the elderly, with subsidies from the public authorities.

In **Finland**, a new programme with OKO Bank will provide € 70 million to finance the construction or renovation of housing and related infrastructure, intended for low-income persons.

Similarly, a project in **Moldova** was approved with the Government (€ 5 million) in order to improve and develop the stock of available rental housing for the benefit of socially vulnerable populations and refugees (see box on page 27).

Lastly, the Bank this year approved a programme that should, in particular, provide support for the financing of investments in the social housing sector in **Estonia**, **Latvia** and **Lithuania**, via Skandinaviska Enskilda Banken (Sweden).



LOANS DISBURSED
per country and per sectoral line of action, from 2002 to 2006

in thousand euros

			Accumulated total 2002-2006	
COUNTRIES	**Amounts**	**%**	**Amounts**	**%**
Albania	485	<0.1	9 679	0.1
Belgium	-	-	130 000	1.7
Bosnia and Herzegovina	2 400	0.2	2 400	<0.1
Bulgaria	33 384	2.0	81 297	1.0
Croatia	34 839	2.1	155 347	2.0
Cyprus	85 701	5.2	371 261	4.7
Czech Republic	16 000	1.0	28 000	0.4
Denmark	100 000	6.1	300 000	3.8
Estonia	-	-	6 624	0.1
Finland	187 500	11.4	497 500	6.4
France	-	-	313 357	4.0
Germany *	176 750	10.8	655 500	8.4
Greece	-	-	149 503	1.9
Hungary	164 002	10.0	623 033	7.9
Iceland	19 768	1.2	40 174	0.5
Ireland	-	-	50 000	0.6
Italy **	240 000	14.6	1 253 886	16.0
Latvia	38 500	2.4	55 923	0.7
Lithuania	4 233	0.3	18 836	0.2
Malta	-	-	101 000	1.3
Moldova	2 000	0.1	2 000	<0.1
Norway	61 500	3.8	190 288	2.4
Poland	103 442	6.3	514 008	6.6
Portugal	-	-	466 180	5.9
Romania	51 587	3.2	246 931	3.2
San Marino	-	-	1 162	<0.1
Serbia	9 600	0.6	9 600	0.1
Slovak Republic	580	<0.1	24 506	0.3
Slovenia	15 000	0.9	40 520	0.5
Spain	252 775	15.4	1 027 507	13.1
Sweden	-	-	136 058	1.7
"the former Yugoslav Republic of Macedonia"	6 700	0.4	18 256	0.2
Turkey	33 462	2.0	334 492	4.3
TOTAL	**1 640 206**	**100.0**	**7 854 828**	**100.0**

* *including € 18.8 million for loans disbursed in favour of the target group countries (2006)*
** *including € 190 million in favour of the target group countries (2006)*

	2006		Accumulated total 2002-2006	
SECTORAL LINES OF ACTION ***	**Amounts**	**%**	**Amounts**	**%**
STRENGTHENING SOCIAL INTEGRATION	1 001 022	61.1	4 203 160	53.5
Aid to refugees, migrants and displaced populations	242 163	14.8	476 432	6.1
Housing for low-income persons	229 464	14.0	1 322 353	16.8
Creation and preservation of viable jobs	348 838	21.3	1 443 770	18.4
Improvement of living conditions in urban and rural areas	180 557	11.0	960 605	12.2
MANAGING THE ENVIRONMENT	307 251	18.7	1 710 119	21.8
Natural or ecological disasters	86 931	5.3	834 333	10.6
Protection of the environment	193 184	11.8	754 805	9.6
Protection and rehabilitation of historic and cultural heritage	27 136	1.6	120 981	1.6
DEVELOPING HUMAN CAPITAL	331 933	20.2	1 941 549	24.7
Health	118 995	7.2	963 464	12.3
Education and vocational training	212 938	13.0	978 085	12.4
TOTAL	**1 640 206**	**100.0**	**7 854 828**	**100.0**

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



Moldova: financing social housing in favour of socially vulnerable population groups

In 2006, the CEB approved a project worth € 5 million in Moldova in order to improve and develop the stock of rental housing available to socially vulnerable populations and refugees (representing some 1 500 people). It comes within the framework of a series of Government strategies and programmes in the fields of housing and social cohesion.

The CEB has therefore been providing active support and advice in the project preparation phase by helping the authorities to identify the potential risks involved in the project, in terms of institutional structure and sustainability, and to define the appropriate measures to be introduced.

This operation should not only enable the Moldovan Government to complete unfinished apartment blocks and to provide socially vulnerable population groups with decent and affordable housing, but it should also provide for the establishment of a partnership between the central Government and local authorities in order to pursue these objectives.

In a context of high rent levels and insufficient available housing to satisfy demand, this pilot-project with a high social value should contribute to strengthening institutions and social cohesion in one of the CEB's least advantaged member countries.



CROATIA
Bakery in Osijek

Creation and preservation of viable jobs

The CEB lends it support to productive investment projects (fixed assets) in order to enable the creation and preservation of viable jobs by facilitating access to credit. These projects are targeted to micro, small and medium businesses (SMEs) as well as to entities carrying out a craft activity or family businesses regularly engaging in an economic activity.

Over the past five years (2002-2006), the Bank has approved projects in this sector for a total of **€ 2 319 million**. The financings carried out in this sector in 2006 amounted to **€ 349 million**, representing 21% of all disbursements made in the year.

For 2006 alone, the amount of projects approved totalled **€ 786 million** (representing 32% of all projects approved in the year).

The Bank has also approved new amounts (€ 60 million) with KfW Bankengruppe (Germany) for the continuation of two projects concerned with the financing of productive investment projects with a view to creating and preserving jobs in SMEs situated in the CEB's various **different target group countries**. The first operation comes within the framework of the European Union's SME Finance Facility, which covers thirteen Central and Eastern European countries with particular emphasis on Bulgaria, Croatia, Romania and Turkey. The second will be implemented within the context of the European Union's Preparatory Action Programme, which focuses on offering micro credits to SMEs situated in several new European Union member countries.



The Bank also approved a new operation (€ 20 million), via KfW Bankengruppe (Germany), which comes within the framework of the SELP II Programme, a programme launched by the European Union to provide loans to small businesses in **Turkey**. The objective is for the CEB to provide resources and expertise in matters of economic development and job creation to SMEs situated in the country's least advantaged provinces.

The Bank is also to contribute to financing several operations aimed at providing support for productive investments carried out by SMEs in order to enable jobs to be created or preserved in several countries: in **Bulgaria**, with Raiffeisen Bank Bulgaria (€ 20 million); in **Finland**, with Finnvera (€ 100 million); in **Poland**, with VB Leasing Polska (€ 20 million) and in **Slovenia** with Nova Ljubljanska Banka (€ 20 million).

Among this year's other operations promoting job creation and preservation, the Bank approved several new loan programmes in favour of **various target group countries** via Italian banks and financial institutions. The first two with Banca Intesa (€ 55 million) will involve job creation and preservation in SMEs located in Bosnia and Herzegovina, on the one hand, and in Hungary, Slovak Republic and Czech Republic, on the other. The third project, carried out with UniCredito Italiano (€ 200 million), will contribute to job creation and preservation in SMEs located in Bosnia and Herzegovina, Bulgaria, Romania and Serbia. The fourth project, operated with Società Italiana per le Imprese all'Estero (€ 150 million), is aimed at providing support for the development and growth of SMEs, thereby contributing to job creation and preservation in the target group countries concerned.

Lastly, in **Hungary**, the Bank approved a new programme with Magyar Fejlesztési Bank (MFB). This operation is to provide € 80 million to help SMEs to invest in administrative and production premises, machines and equipment, thereby enabling them to develop their operations and remain competitive.

BULGARIA
Dike reinforcement in Vidin



Improving living conditions in urban and rural areas

The CEB undertakes action in urban areas in favour of run-down neighbourhoods or in towns lacking in urban infrastructure or social and cultural amenities. In parallel to this, in rural areas, the Bank finances projects situated in regions with low population levels or activities in fields such as agriculture, forestry, aquaculture and fishing. The projects, financed in favour of national or local public bodies, can involve the construction or rehabilitation of infrastructure in urban and rural areas such as:

- the development of industrial parks
- services such as drinking water, electricity and gas supplies, sewers, the treatment of solid and liquid waste
- the roads network
- local transport networks in rural areas
- basic medical and educational facilities
- socio-cultural or sports centres such as playgrounds, green spaces, exhibition parks, theatres, libraries
- irrigation networks in rural areas.

During the period 2002-2006, the Bank approved projects in favour of urban and rural modernisation for a total amount of over **€ 1.1 billion**. The financings carried out in the sector in 2006 amounted to **€ 181 million**, representing 11% of all disbursements made in the year.

For 2006 alone, a total of **€ 294 million** was approved for the implementation of new projects in this sector.

Among the new operations, a loan programme implemented through KfW Bankengruppe (Germany) will provide € 4 million to finance urban and rural infrastructure projects, to be implemented in municipalities situated in **Bulgaria**, **Croatia**, **Romania** and **Turkey**.



Similarly, a new loan programme was approved in **Hungary** with Magyar Fejlesztési Bank (MFB). This will provide for € 100 million to be devoted to financing various investments in municipal infrastructure, carried out by municipalities or federations of municipalities and businesses under municipal control.

Also, a programme approved in **Iceland**, with Municipality Credit Iceland, will dedicate € 4 million to financing investments carried out by Icelandic municipalities and municipal institutions in matters of rural modernisation and the improvement of living conditions in run-down urban areas.

In Italy, a new programme with Banca Intesa is to provide € 25 million to finance municipal infrastructure projects, implemented in towns situated in **Hungary**, **Czech Republic** and **Slovak Republic**.

A new loan programme in **Poland**, with Bank Gospodarstwa Krajowego (BGK), will devote € 25 million to financing projects involving municipal investments in social infrastructure in order to contribute to improving the living conditions of the inhabitants of the municipalities concerned.

Lastly, the Bank has also approved a project with the Government in **Romania**, in order to finance the rehabilitation of public cultural buildings located in three municipalities (€ 116 million).

Infrastructure of administrative and judicial public services

Following the Third Summit of Heads of State and Government of the Council of Europe, held in May 2005, the CEB introduced a new eligible sector in 2006: the financing of projects for the construction, rehabilitation or transformation of infrastructure or buildings intended to house public services, in order to contribute to improving the organisation and operation of the administrative and judicial public services of its member states (see box opposite).

The projects eligible for CEB financing must necessarily be concerned with buildings belonging to the national, regional or local administration or to technical agencies in which these administrations are majority shareholders.

Increased support for human rights

In May 2005, the 3rd Summit of Heads of State and Government of the Council of Europe took place in Warsaw. This event provided an opportunity for the member states to reaffirm their commitment in favour of the defence of human rights in the broad sense. It concluded with the adoption of a political Declaration and an Action Plan encompassing five major thrusts:

- promoting common fundamental values: human rights, rule of law and democracy
- increasing the security of European citizens
- building a more humane and inclusive Europe
- fostering cooperation with other international and European organisations and institutions
- implementing the Action Plan: a transparent and effective Council of Europe.

The Action Plan also invited the CEB to provide increased support for human rights, within the general framework of its social vocation.

With a view to giving operational expression to the expectations born out of the Warsaw Summit, in 2006 the CEB introduced a new eligible sector, namely the financing of projects for the construction, rehabilitation or transformation of infrastructure or buildings in order to contribute to improving the organisation and operation of the administrative, judicial and penitentiary public services of its member states.

Within this framework, projects eligible for CEB financings must necessarily concern buildings intended for use by national, regional or local administrations or technical agencies in which these administrations are majority shareholders. Projects involving the financing of programmes for the training of magistrates, civil servants and other participants in public life will also be eligible for CEB financings.



Natural disasters in Hungary, Romania and Serbia: CEB action in favour of reconstruction and sustainable prevention

Aid to regions hit by natural or ecological disasters is one of the CEB's priority fields of action. Within this framework, the Bank strives to provide appropriate responses to the urgency of the needs and to the necessity to undertake sustainable action in a long-term perspective of prevention.

One cannot help but observe that natural disasters are, unfortunately, increasingly frequent phenomena in Central and Eastern Europe. In effect, over the past ten years the region has suffered major floods that have brought about the death of several hundreds of people, caused approximately half a million people to move from their homes and led to considerable economic losses.

2006 was sadly marked by several floods and land movements, after which the Bank took action in order to restore life to the areas affected by these disasters.

Floods in Hungary and Romania

Because of its particular geomorphology, **Hungary** regularly experiences very serious floods. In effect, almost 25% of its territory is subject to flooding and more than 70% of the flood-prone areas are situated in the valley of the River Tisza and its affluents. In this region, data recorded over the past two centuries show that there has been an increase in the scope and frequency of the flooding.

In March, unprecedented floods affected the Danube and Tisza basins. These made it necessary to evacuate thousands of people and led to significant losses in terms of infrastructure, productive activity and jobs. In the wake of these disasters, the CEB approved an exceptional disbursement of € 33 million aimed at financing emergency action including the consolidation of the banks of rivers and canals and, in the longer term, the reconstruction of the affected regions and the prevention of future damage in the Tisza basin.

Serious floods also submerged parts of **Romania** in spring and in August 2006. The natural conditions specific to Romania, its climate (in particular the precipitation patterns), its rugged, steeply sloping, mountainous relief, the density of its hydrographical, geological and hydro-geological network expose it to natural disasters such as torrential flows, floods, erosion, and landslides, which cause major damage to property and infrastructure and inflict a heavy toll on the local populations.

Following the 2006 disasters, which caused heavy material damage and the destruction of substantial amounts of infrastructure and housing, the CEB approved a loan of € 300 million to finance priority investments in water management, including an amount of € 180 million to finance the prevention of risks and vulnerability to flooding in the worst threatened regions of Romania. Globally, it is estimated that 1.3 million people, in five hundred towns in the country, will benefit from the project.

Land movements in Serbia

A series of land movements occurred in central **Serbia** in spring 2006. These movements (landslides and rock falls), were due for the most part to an unusual situation characterised by the swelling of the water tables after the heavy precipitations of the previous year and this year's unfavourable meteorological conditions (heavy precipitations linked to rapid melting of the snows).

In response to this disaster, the Bank approved a project worth € 10 million to finance reconstruction work and repairs to destroyed housing and related infrastructure. It is estimated that the project will have major social and economic impacts, enabling the population to return to normal living conditions and bringing to an end the damage and perturbations suffered by economic activity in central Serbia, notably by moving housing and repairing infrastructure.



2 - Managing 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 undertaking sustainable action promoting prevention, protection of the environment and the preservation of historic and cultural heritage.

Over the period 2002-2006, this action line represented an accumulated amount of almost **€ 3.3 billion** in terms of projects approved. For 2006 alone, projects approved amounted to **€ 754 million** (representing almost 31% of all projects approved in the year).

In parallel, since 2002, loans disbursed in favour of environmental management have reached an accumulated amount of over **€ 1.7 billion**, representing 22% of all disbursements. In 2006, the Bank disbursed **€ 307 million**, including € 167 million for the benefit of the target group countries.

Natural or ecological disasters

Projects in this sector are eligible when they involve the reconstruction or rehabilitation of destroyed or damaged public structures, and more precisely basic infrastructure such as water supply, treatment of waste water and solid waste, electricity and gas supplies. The provision of emergency material and equipment can also be eligible for CEB financing.

The purpose of the actions is to provide the national and local authorities with assistance in the reconstruction of the disaster-affected areas (see box opposite) and to develop means of prevention, in particular concerning floods, fires, avalanches, earthquakes and landslides.

Within the framework of projects for the prevention of natural or ecological disasters, projects concerned with the building of water-retaining dikes are eligible on the condition that they do not involve the forced movement of populations without adequate compensatory measures and when provision is made for the introduction of environmental control measures.

During the period 2002-2006, the Bank approved projects in this sector for a total of **€ 1.4 billion**. The financings carried out in this sector in 2006 amounted to **€ 87 million**, representing 5% of all disbursements made in the year.

In 2006, the total amount of new project approvals in this sector represented **€ 109 million**, shared between two countries, Romania and Serbia.

Thus, the Bank approved two new projects in the field of natural disaster prevention with the Government in **Romania**. The first is targeted to restoring roads and torrents in the forest areas affected by the recent floods (€ 48 million). The second project is intended for the financing of rehabilitation work and protection against floods in the Banat region (€ 51 million).

The Bank also approved an operation (€ 10 million) with the Government of **Serbia**, which will provide financing for the reconstruction and repair of housing and local infrastructure damaged by landslides in the spring of 2006.

ROMANIA
Dike reinforcement in Vidin





The CEB and sustainable development

Owing to the nature of its mandate, the CEB places the notion of sustainable development at the very centre of its action spread across its three sectoral lines of action.

In May 2006, the CEB reaffirmed its attachment to the environmental requirements relative to sustainable development by signing the EPE Charter (European Principles for the Environment). This charter promotes a common European approach on environment policies among the international financial institutions operating in the same geographical area as the CEB: European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO). By adopting this charter, the CEB committed itself to complying with the principles and regulatory provisions taken from the European Union environment policy and from its secondary legislation pertaining to the projects it finances in the countries covered by the charter. Furthermore, it also undertook to promote the use of good practices in the field of environmental management, transparency, public consultation and reporting.

Although environmental management has always been a subject of particular attention at the CEB, implementation of all the recommendations contained in the EPE Charter constitutes a major challenge for an institution of its size. Several strategic orientations are currently being introduced:

- Harmonisation of the internal procedures in order to fully integrate the EPE recommendations into the CEB's activities and ensure coherent action between the different departments
- Close collaboration with the other international financial institutions in order to elaborate common tools and indicators to facilitate implementation of the EPEs and to assess the effectiveness of the measures taken
- Active dialogue with borrowers in order to integrate the notion of sustainable development from the outset of the projects
- Promotion of awareness of the issue of sustainable development among all the Bank's staff
- Introduction of a specific system of reporting relative to the management of the different aspects of sustainable development in the Bank's activity.

Protection of the environment

The initiatives undertaken in this sector today represent a wide geographic diversity. The CEB finances projects that contribute to protecting and improving the environment, thereby improving the living environment, particularly through actions involving:

- the reduction and treatment of solid and liquid waste
- the cleaning up and protection of surface and underground water
- protection against noise pollution
- the production of renewable energy and reduction of atmospheric pollution
- the protection and development of biodiversity
- less polluting transport means and networks.

In parallel to its specific action in these areas, the CEB systematically takes into account the environmental aspects of all the projects it appraises, irrespective of the sector concerned.

During the past five years (2002-2006), the Bank has approved new projects in this sector for an accumulated amount of over **€ 1.5 billion**. The financings carried out in this sector in 2006 amounted to **€ 193 million**, representing 12% of all disbursements made in the year.

In 2006, the total amount of new project approvals in favour of environmental protection represented **€ 537 million**.



Among these, the Bank approved a new programme in **Hungary** with Magyar Fejlesztési Bank (MFB). This operation will provide for € 20 million to be contributed to financing the work of rehabilitating modular housing in order to promote energy savings. The savings obtained thanks to better insulation of the buildings can be considerable and have a beneficial effect on the environment.

The Bank also approved two new operations in **Iceland**. The first, with Hitaveita Suðurnesja, will provide financing for extension work on the geothermal hot water production plant in Svartsengi (€ 20 million). The second, with Municipality Credit Iceland, will contribute € 10 million to financing municipal investments in environmental infrastructure.

Finally, in **Romania**, two important projects in the water sector were approved this year with the Government. The first project will concern the financing (€ 160 million) of works for the rehabilitation of drinking water supply networks and wastewater treatment networks in small municipalities. The second, for an amount of almost € 300 million, gives priority to water management and will enable the Romanian Government to reduce the country's vulnerability to natural disasters, to repair the damage to river banks and costal areas, and to promote sustainable development and respect for European Union environmental standards.

Protection and rehabilitation of historic and cultural heritage

The CEB may finance the restructuring and rehabilitation of historic and cultural heritage classified as such by UNESCO or by the member state concerned.

Over the period 2002-2006, the Bank approved a total of **€ 357 million** in favour of the protection and rehabilitation of elements of historic and cultural heritage. The financings carried out in this sector in 2006 amounted to **€ 27 million**, representing 2% of all disbursements made in the year.

In 2006, the total amount of new project approvals in this sector represented over **€ 108 million**.

Among these new operations approved this year is a loan programme with Bank Gospodarstwa Krajowego (BGK) in Poland that will provide for € 20 million to be targeted to financing projects for the restoration of sites belonging to the Polish historic and cultural heritage.



TURKEY
Road repairs in the wake of floods

In addition to this, a project was approved this year with the Government in **Romania** (€ 78 million). This operation concerns the restoration of fourteen historic monuments inscribed on the list of most famous national cultural heritage sites, including, for example, the Royal Palace in Bucharest and the Brukenthal Museum in Sibiu. The restoration of these monuments should contribute to preserving their architectural and historic value and to promoting the development of the cultural activities they host, while strengthening social cohesion thanks to the multiple effects it will have on economic activity, employment and tourism.

3 - Developing human capital

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

Health and education play a vital role in achieving balanced development and enhanced social cohesion in Europe.





GERMANY
Retirement home

Indeed, modern services in these sectors are essential in promoting economic growth, regional and national development in Europe, and the reduction of inequalities.

During the period 2002-2006, this sectoral line of action represented an accumulated amount of **€ 2 billion** in terms of projects approved. In 2006, approvals amounted to **€ 276 million** (representing 11% of all projects approved).

At the same time, since 2002, loans disbursed in favour of human capital development have represented an accumulated amount of almost **€ 2 billion**, representing 25% of all disbursements made during the past five years. For 2006 alone, the Bank disbursed **€ 332 million** in this sector, including € 127 million for the benefit of the target group countries.

Health

The CEB contributes to financing projects involving the construction, renovation and modernisation of health infrastructure such as hospitals, neighbourhood healthcare centres, including those that specialise in providing assistance to vulnerable population groups, university hospital centres or centres specialising in the elderly and the handicapped.

During the past five years, the CEB has approved operations for an accumulated amount of over **€ 1 billion**. The financings carried out in this sector in 2006 amounted to **€ 119 million**, representing 7% of all disbursements made in the year.

In 2006, the total amount of projects approved in this sector was **€ 121 million**.

Albania: Support for the education system reform

In order to respond to the needs of the education sector, the Albanian Government has adopted a national strategy for education 2004-2015, which is focussed on pre-university education. The strategy targets four priority areas:

- governance, reform and management capacity building
- improvements in the quality of teaching and the acquisition of knowledge
- financing of pre-university education
- institutional and human resources development.

Within this framework, in 2006, the CEB approved a project worth € 14 million responding to a *Sector Wide Approach* (SWAp) within the framework of the Government Programme for the Excellence and Equity of the Education system (EEE-P), which is the instrument for application of the national strategy. The CEB loan will be allocated to the first phase of EEE-P, namely to improving pupils' learning conditions and to increasing the school attendance rate in general secondary education, particularly among disadvantaged population groups. Furthermore, a large number of teachers will gain access to teacher training programmes.

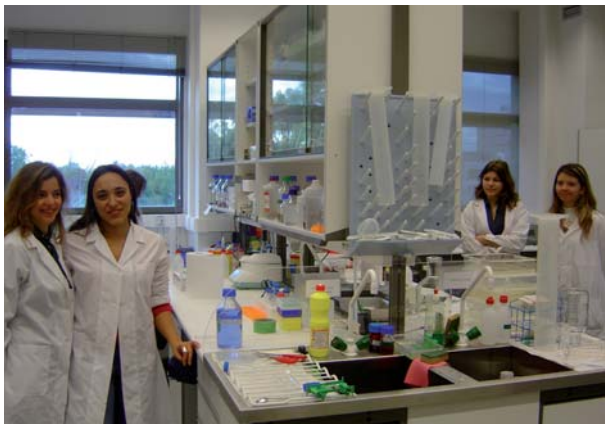
In the context of this new operation, which follows on from a previous project approved in March 2005 for the rehabilitation of schools in Tirana, the CEB will be providing the Government with financial and technical support for a period of four years (2006-2010).



Among the operations approved this year, the Bank is to finance a project with the Government in **Croatia**. This project will provide for improved access to better quality healthcare for the population through the rehabilitation of seven regional healthcare establishments and the purchase of medical and non-medical equipment (€ 45 million).

The Bank will also be participating in the financing of several operations aimed at improving the quality of health-related social infrastructure facilities in **Finland** (€ 15 million) with OKO Bank and in **Poland** (€ 25 million) with Bank Gospodarstwa Krajowego (BGK).

Finally, a new operation was approved this year with the Government in **Romania**. This operation follows on from two previous projects financed by the CEB within the framework of the Government's child protection programme. The financing it will provide will be targeted to developing a neighbourhood social services network for families and children in difficulty, to preventing cases of abandonment and/or to enabling the reintegration of abandoned children in their families of origin.



GREECE
Laboratory of Histology, Athens Academia

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.

Health and economic development in South Eastern Europe

In 2005, in conjunction with the World Health Organisation (WHO), the CEB published a report entitled "Health and economic development in South Eastern Europe", concerning the contribution of health to economic development in South Eastern Europe.



The report highlights the close links that exist between economic performance and public health, following on from the Second Ministerial Conference on Health that was held in Skopje on 25 and 26 November 2005, organised by the CEB in cooperation with the WHO and the Council of Europe.

The report presents the socio-economic context, developments in the health sector, characteristics and socio-economic inequalities in matters of health, the elaboration of health systems and policies and how they must be further developed in order to be able to meet future challenges in the health sector.

This publication highlights the economic importance of health for the countries of Central and South Eastern Europe. As an element of human capital, health is of particular interest for sustainable economic development and the strengthening of social cohesion in the region.

The full text of the report is downloadable from the CEB's Internet site:
http://www.coebank.org/en/presse/frgenerale.htm





FINLAND
Vocational school

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 businesses, especially SMEs, but also to the expectations of those who are about to join the world of work. 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 almost **€ 1 billion**. The financings effected in the sector in 2006 amounted to **€ 213 million**, representing 13% of all disbursements made in the year.

In 2006, new operations were approved in this sector for a total of **€ 155 million**.

Among the operations approved this year is an important project the CEB is to finance with the Government in **Albania** (€ 14 million) (see box on page 34).

Similarly, the Bank is to contribute to several operations aimed at financing the construction, renovation and modernisation of education infrastructure in a number of countries: in **Finland** (€ 15 million) with OKO Bank; in **Iceland** (€ 6 million) with Municipality Credit Iceland and in **Poland** (€ 30 million) with Bank Gospodarstwa Krajowego (BGK).

Finally, the Bank has approved a new project in **Romania** (€ 67 million) within the framework of the Strategy for Early Education. Implemented with the Government, this project is targeted to the creation and renovation of nursery schools throughout the country, the organisation of teacher training and the creation of support structures.

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In 2006, the breakdown for new project approvals and for disbursements evidences the CEB's continued focus on its three major lines of action, namely promoting social integration, managing the environment and developing human capital.

The financings carried out this year have brought the loans outstanding to **€ 11 965 million** and the stock of projects awaiting financing to **€ 3 798 million** (including € 3 289 million for the target group countries). For the CEB, this last figure naturally constitutes a solid reserve of actions in favour of its member states for the years to come.



EX POST EVALUATION

Natural disasters

The year 2006 marked the completion of a programme of ex post evaluations of projects in the field of natural disasters, which was followed by an evaluation synthesis.

This synthesis analyses the evaluation results of eleven projects approved between 1995 and 1999, following floods, mudslides and earthquakes, for a total amount of over one billion euros.

Each evaluation was based on a technical study of the quality of the works and on an analysis of socioeconomic, environmental and institutional impacts.

Evaluation results

The evaluations are positive, with all the projects evaluated having globally achieved their objectives. The vast majority of projects responded to well defined priority needs. They were implemented effectively and efficiently, and generated positive effects in the economic, social, environmental and cultural fields.

Lessons and recommendations

The synthesis pointed out the difficulty, when selecting the projects, of establishing a balance between emergency aid and longer-term reconstruction efforts. It is, however, clear that the CEB has greater added value for supporting long-term reconstruction, whereas humanitarian organisations are better prepared and equipped for emergency aid.

With regard to the preparation and monitoring of the projects, the evaluation recommends:

- greater beneficiary participation
- enhanced communication and coordination between the borrowers, the CEB and the other financiers
- tighter risk prevention and reduction measures in reconstruction projects, which have already been partially taken into account by the Bank in most of its projects.

Conference with the World Bank

The World Bank's Independent Evaluation Group and the CEB's Ex Post Evaluation Department jointly organised a conference in November 2006, followed by a roundtable, on the lessons to be learned from evaluation in the field of disaster risk management. This conference brought together over 70 representatives from multilateral, bilateral and non-governmental organisations (see box on page 38).

Job creation

An evaluation of a multi-project job creation programme was carried out jointly with the European Bank for Reconstruction and Development (EBRD).

The evaluation showed that initially the programme was relevant, enabling SMEs to have access to loans at preferential rates; but its longer-term impact at the institutional and socioeconomic level was less pronounced.

The joint evaluation with the EBRD proved very enriching: it provided an opportunity for collective learning through the exchange of knowledge and the pooling of resources. Although this type of exercise is complementary, it has its limits linked to the mandate of each funding organisation: the EBRD emphasises criteria determining the borrower's level of economic and institutional transition, whereas the CEB emphasises the socioeconomic aspects of the programme.

Social housing

An evaluation of a social housing programme in a Scandinavian country was completed in 2006, and a second evaluation in Central and South Eastern Europe is underway.

The evaluated programme is shown to have been very effective both in the achievement of its objectives and in the quality of the borrower's management. The evaluation points out that the existence of an appropriate legal and institutional framework is crucial for an effective implementation of social housing programmes.



Disaster risk management: taking lessons from evaluation

Paris, 20-21 November 2006

The World Bank's Independent Evaluation Group and the CEB's Ex Post Evaluation Department jointly organised a Conference followed by a Roundtable entitled "Disaster risk management: Taking lessons from evaluation". The Inter-American Development Bank's Office of Evaluation and Oversight also made a significant contribution to this event. The conference brought together over 70 representatives from multilateral, bilateral and non-governmental organisations. The aim was to review the lessons of evaluation, to compare the experiences and challenges posed by the preparation and implementation of projects and to analyse the different approaches in order to better manage development aid. The objective of the roundtable was to encourage interactive discussions on the approaches, innovative methodologies, good practices and ways of transmitting evaluation results and their implementation by decision-makers in the international financial institutions.

The conclusions and recommendations of the different evaluations present similarities in all areas.

Priority to risk prevention and reduction

In response to the evaluations, the management of financial institutions has begun to set up strategies that are better adapted to financing natural disaster related projects. They are aimed at giving priority to risk prevention and reduction approaches and at more closely associating the member states and aid beneficiaries. The presentation made by the CEB's Ex Post Evaluation Department highlighted the substantial financing that the CEB grants for reconstruction and the increasing avant-garde role it plays in matters of prevention among the IFIs.



Taking advantage of complementarities

A high level of complementarity has been observed between the international financial institutions and humanitarian organisations. The latter are better placed to provide emergency help whereas the international financial institutions are better adapted to providing support for long-term physical and socioeconomic reconstruction. Participants recommended a more precise definition of the role of each one within the range of actions to be undertaken (first aid, rehabilitation, reconstruction, risk reduction and development).

Towards joint actions

This successful event resulted in an action plan that should lead to joint evaluations, a joint glossary, and evaluation guidelines related to natural disasters as well as a referential document and vocational training modules.

Lastly, the conference and roundtable called for strengthened coordination between the funding organisations and for cooperation among all the different actors in the field of natural disasters in order to increase the impact of their aid.

1 ECONOMIC ENVIRONMENT IN 2006

The general financial position for the year 2006 indicates that the global economy has experienced relatively high growth rates of approximately 5%.

Low long-term yield levels persist. In Europe and in the United States, growth rates are flattening out and even tending to invert in the United Kingdom, following rises in key rates and weakness in long-term yield levels.

The American, European and Japanese central banks all increased their key rates in 2006, which has not occurred since the year 2000.

Furthermore, several countries announced that they were to increase their reserves in euro at the expense of the American dollar.

The United States: downturn in real estate and deceleration in growth

Since June 2006, the Fed has applied a break in the trend for growth in key rates which was initiated in June 2004. In parallel, American growth has begun to exhibit risks of deceleration in the wake of the downturn in real estate in the second half of 2006. The public deficit fell slightly, thanks to major tax revenues.

Europe rise in short-term interest rates

In five instances, the European Central Bank raised its key rates by 25 bp from 2.25% to 3.50%. At the same time, the euro substantially revalued in relation to the American dollar, and the exchange rate moved from 1.21 to 1.32 (a change of almost 10%) in the year 2006. Long-term rates on the euro marketplace have remained at a very low level, but are higher than those for 2005.

Outside of the euro zone, central banks in Central and Eastern Europe continue on their path towards convergence with the European Central Bank by lowering their key rates. For its part, the Bank of England lowered its key rates to 5%.

Asia: Bank of China becomes the world's leading holder of reserves

The effects related to Chinese growth are beginning to be felt in various marketplaces: overinvestment is causing the prices of raw materials to increase, and overcapacity is causing prices for finished products to decline. In order to control these trends, the Chinese government has tried to decelerate growth by increasing key rates in several instances. In 2006, China exceeded the symbolically significant level of 1 000 billion American dollars worth of reserves.

The increase in raw material and oil prices continues to be fuelled by very sharp growths recorded in China and India

Oil has been very volatile, with a growth level fluctuation of 20% in the year, finishing the year at practically the same level as at the beginning of 2006. The new "fair market value" is between USD 40 and USD 60 per barrel, a price range which still prompts the search for new alternative energy sources.

Annual consumption continues to increase because of the developing economies. Even if the price of oil were once again to decrease, the world economy has been irreversibly disrupted by the prices applied since 2004.

Stock markets still rising since 2003 despite successive rate increases

In 2006, the major stock markets rose very sharply: in the United States (15%), and in Europe (more than 10%), in Japan (7%) and in Hong Kong (37%).

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 2006, the total value of securities in this portfolio with a maturity of less than one year stood at € 1.8 billion.

- The **financial assets held to maturity** consist of euro-denominated plain vanilla fixed-rate bonds with a maximum maturity of 30 years. To be eligible for this portfolio, securities must have a minimum rating of AA or Aa2. 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 2006, 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 2006, the breakdown of derivatives by type of hedge was 81% for borrowing, 17% for loans and 2% 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 45).

To limit its credit risk, the Bank has signed collaterals contracts with nearly all its counterparties. Thus, as at 31 December 2006, 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 2006

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 2006, the Bank borrowed a total amount of € 2.1 billion, broken down into 17 funding operations, with maturities of 1 year or more, including twelve re-openings of existing issues. This amount, which is slightly less than the funding volume in 2005, fulfilled several objectives:

- to cover lending needs, slightly greater than those in 2005, and
- to meet the Bank's repayment of maturing debt, which in 2006 was far less than in 2005.

The volume of resources raised in 2006 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

2006 BORROWINGS

Date of payment	Date of maturity	Currency	Term	Nominal amount (in millions)	Lead manager
17/01/2006	14/12/2015	AUD	10 years*	200	Royal Bank of Canada
08/02/2006	18/01/2012	AUD	6 years*	100	The Toronto-Dominion Bank
23/02/2006	18/01/2012	AUD	6 years*	50	The Toronto-Dominion Bank
27/03/2006	27/03/2009	NZD	3 years	30	Fortis Bank
27/03/2006	27/03/2009	AUD	3 years	50	Fortis Bank
27/03/2006	27/03/2009	HUF	3 years	10 000	Fortis Bank
29/03/2006	22/04/2013	USD	7 years*	250	The Royal Bank of Scotland
07/04/2006	30/06/2014	USD	8 years*	100	ABN AMRO Bank
11/04/2006	23/01/2012	USD	6 years*	100	Royal Bank of Canada
13/04/2006	14/12/2015	AUD	10 years*	100	The Toronto-Dominion Bank
14/06/2006	14/12/2015	AUD	10 years*	100	Royal Bank of Canada
21/07/2006	21/07/2011	USD	5 years	1 000	Dresdner Bank / Nomura/ Royal Bank of Canada
21/09/2006	21/09/2021	JPY	15 years**	3 000	Dresdner Bank
28/09/2006	18/01/2012	AUD	5 years*	100	The Toronto-Dominion Bank
17/10/2006	22/04/2013	USD	6 years and 6 months*	250	Royal Bank of Canada
18/10/2006	21/07/2011	USD	5 years*	100	Dresdner Bank
26/10/2006	23/01/2012	USD	5 years*	200	Bank of America

* *re-opening of existing issues*
** *issue with a 5-year redemption call*

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 2006, 76% of the funds raised by the Bank were denominated in US dollars, versus 81% in 2005. The remaining 24% were raised in Australian dollars (20%), Hungarian forints (2%), New Zealand dollars (1%) and Japanese yen (1%).

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 an issue denominated in US dollars, with a maturity of five years, for an initial amount of USD 1 billion, increased to USD 1.1 billion after conclusion of a re-opening operation. The CEB also launched two new tranches, each for USD 250 million, on its benchmark issue with a maturity of 2013, bringing the total of this line to USD 1.75 billion. The benchmark issue of a maturity of 2012 was re-opened twice for a total of USD 300 million, bringing the total of this line to USD 1 billion. A final re-opening operation on the USD market was implemented on the 2014 line for the sum of USD 100 million, bringing the line to USD 1.1 billion.

In 2006, the CEB launched three increase operations via its kangaroo programme, for 200 million, 100 million and 100 million Australian dollars on the 2015 line. The new value of this issue now comes to 600 million Australian dollars. These operations, together with the re-openings performed on existing Australian dollar issues on the EMTN programme, have brought the Australian dollar to the level of the second currency in terms of funding volume.

At the beginning of 2006, the CEB also launched three new simultaneous issues, for 50 million Australian dollars, 30 million New Zealand dollars and 10 billion Hungarian forints. The three issues were sold on the Belgian and Dutch domestic marketplaces for a global equivalent value of € 88 million.

These borrowing operations were combined with hedging swaps, which eliminated both the interest rate risk and the currency risk. After the swap, virtually the entirety of the borrowed resources were converted into euro.

The average maturity of issues launched in 2006 was six years as against five years in 2005. The table page 41 gives details of the funds raised in their original currencies.

Almost 95% of the issues launched under the programme had a maturity of five years or more, to enable refinancing of the Bank's loans and avoid cash gaps over the coming financial years.

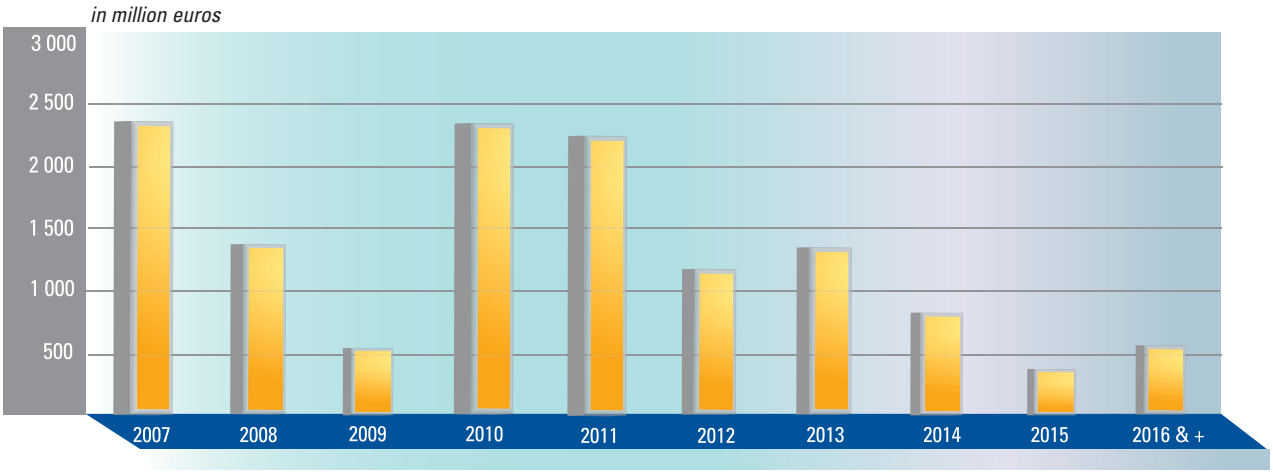
The multi-currency EMTN programme was updated in November 2006 to adapt the legal framework of the Bank's issues to developments in capital market regulations.

2 - Trend in debt position

As at 31 December 2006, the total outstanding debt represented by securities, excluding interest payable, stood at € 13.3 billion, up from the previous financial year (€ 13 billion).

The Bank bought back a total € 6 million worth of its own debt and made an early repayment of € 158 million. 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 2006



5 PROFIT AND BALANCE SHEET

Beginning with the 2005 financial year, CEB's financial statements are drawn up in compliance with IFRS standards as adopted by the European Union.

1 - Trend in profits

Net income for the 2006 financial year is € 88.1 million as compared with € 88.5 in 2005. This stable result, - € 0.4 million or - 0.5%, is explained by the following:

A € 1.6 million increase in net banking income, i.e. up 1.4%, in view of:

- an increase in total operating income from the portfolio of financial assets held to maturity, influenced by an increase in portfolio volume due specifically to a change in the terms of remuneration on Selective Trust Account deposits from 1 January 2006
- an increase in net interest revenue from short-term investments (term deposits, available-for-sale financial assets) due to an increase in volume of these assets

And conversely:

- an increase in the amount of interest paid on deposits received (interest-bearing accounts and Selective Trust Account)
- a contraction of the spread between refinancing terms (financial debts represented by a security) on the one hand and the terms under which loans are granted on the other.

An increase in general expenses (including depreciation) of € 2 million, i.e. up 7.3%, in view of:

- changes in personnel expenses in compliance with statutory provisions (salaries and post-employment benefits)
- a moderate increase in administrative expenses due to the expansion of office space and extraordinary expenditure on events organized as part of CEB's 50th Anniversary in 2006.

Consequently, the operating ratio (general expenses/total operating income) for 2006 is 25% as compared to 23.6% the previous financial year.

2 - Trend in the balance sheet

As of 31 December 2006, the balance sheet stood at € 18 232 million, up 3.2% in 2005.

- **On the assets side:** outstanding loans rose by € 388 million, i.e. + 3.3%. This progression was the result of a significant volume of new loans disbursements totalling € 1 640 million, of which 49% in favour of countries in the target group *, repayments amounting to € 1 052 million (of which € 251 million in advance repayments) and an adverse fluctuation in exchange rates to the extent of € 105 million.

  Moreover, the balance sheet reflects an increase in the portfolio of financial assets held to maturity of € 151 million and employment of cash, including the portfolio of available-for-sale assets, of nearly € 300 million (see Trend in profits above).

TREND IN PROFITS

in million euros

	2006	2005	Variation	%
Total operating income	**117.5**	**115.9**	**+ 1.6**	**+ 1.4%**
General expenses	*- 29.4*	*- 27.4*	*+ 2.0*	*+ 7.3%*
Net profit	**88.1**	**88.5**	**- 0.4**	**- 0.5%**

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

- **On the liabilities side:** debt represented by a security fell by € 105 million with the euro gaining strength against the US dollar, thus reducing debt by € 1107 million, issues over the financial year by € 2 095 million and repayments made. Finally, shareholders' equity increased by € 80 million after allocation of 2005 profit (€ 88.5 million) under deduction of the social dividend of € 8 million granted to member states to fund the Selective Trust Account.

With the euro gaining strength against the US dollar, going from 1.18 as of 31 December 2005 to 1.32 as of 31 December 2006, there were pronounced changes in entries on both sides of the balance sheet. The variations reflect an effective exchange risk hedging policy and have had no impact on the Bank's profit.

TREND IN THE BALANCE SHEET

in million euros

	2006	2005	Variation	%
ASSETS				
Financial assets at fair value through profit/loss and hedging derivatives	974	1 253	- 279	- 22.3%
Loans	12 102	11 714	+ 388	3.3%
Employment of cash	3 201	2 904	+ 297	10.2%
Financial assets held to maturity	1 901	1 750	+ 151	8.6%
Other assets	54	54	-	-
TOTAL	**18 232**	**17 675**	**+ 557**	**3.2%**

	2006	2005	Variation	%
LIABILITIES				
Financial liabilities at fair value through profit/loss and hedging derivatives	2 599	1 909	+ 690	36.1%
Debt represented by a security	13 620	13 725	- 105	- 0.8%
Cash resources	70	79	- 9	- 11.4%
Shareholders' equity	1 773	1 693	80	4.7%
Other liabilities	170	269	- 99	- 36.8%
TOTAL	**18 232**	**17 675**	**+ 557**	**3.2%**

INTEGRATED RISK MANAGEMENT

Risk management and control are decisive factors in maintaining the financial soundness of a lending institution. Consequently, the CEB is constantly revising its risk management and monitoring systems so as to comply with best practices in the profession, the Basle Committee Recommendations and European Union Directives.

1 A STRUCTURED, DYNAMIC FUNCTION

Dedicated departments

The **Risk Management Department** identifies, assesses and manages all the risks inherent in the CEB's operations, as a result of both on- and off-balance sheet transactions. For each new loan, the department analyses the transaction, taking into account the standing of the counterparty, the transactions already in progress with it and the country risk, and, if necessary, recommends that guarantees be obtained. The department also keeps constant watch on the application of portfolio management rules (loans, securities, derivatives) and monitors the Bank's situation with regard to large exposures.

The **ALM Department** monitors market risk on a regular basis (interest rate risk, currency risk) and liquidity risk incurred by the Bank. Its conclusions are presented in a quarterly report submitted to the ALM Committee. This report analyses, in the context 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. It reports, where applicable, actual or foreseeable cases of limits being exceeded and proposes recommendations to the ALM Committee so as to reduce the detected risks.

The **Organisation Department** is in charge of activities designed to protect the Bank from operational risks. This department identifies all the events that could cause operational losses. It manages the business continuity plan (updating and tests with retreat to the back-up site), manages the corporate archiving plan and reviews the internal procedures covering all activities within the scope of operational risks. In concrete terms, the department is currently engaged in implementing the operational risk policy and, for this purpose, is establishing a complete map of processes and associated operational risks. Also, various training courses are provided during the year in order to increase security awareness among the personnel.

Decision-making committees

- The **Risk Committee** is the keystone of the Bank's risk management system. Each week, decisions concerning counterparty and country limits are made on the basis of analyses and recommendations made by the Risk Management Department.

- The **ALM Committee** decides on assets and liabilities management strategy. It takes the necessary decisions with regard to financial risks in light of the ALM report and on the basis of the financial policies approved by the Administrative Council.

- The **Funding Committee** decides on borrowing strategy (amounts, currencies, conditions and timing) taking into account the Bank's projected liquidity needs and within the framework of the annual borrowing authorisation set by the Administrative Council.

- The **Committee for Operational Risks and Organisation (CORO)** validates the Bank's security policy and takes decisions relating the prevention and progressing of operational risks in accordance with its operational risks policy.

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, etc.) so as 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 Boards 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 practices, it undergoes control by the following external entities:

  - The *External Auditor*: Following an invitation to tender, he is appointed for a three-year term by decision of the Governing Board at the discretion of the Auditing Board and a recommendation by the Administrative Council. Its task is to audit the Bank's financial statements and carry out a review of internal control and of risks. At the end of each financial year, the External Audit 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 in matters of 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 2006, they all confirmed the maximum rating (AAA/Aaa) that they have been assigning to the CEB for several years now.

2 SITUATION AT 31 DECEMBER 2006

Within the context of its project and treasury financing activities, the CEB is exposed to three different types of risk: credit risk, market risk and operational risk.

1 - Credit risk

Credit risk can be defined as the risk of loan losses in the event of counterparty default. The credit risk on the loan portfolio is measured on the basis of a rating system. In accordance with the Basle Committee Recommendations, when a counterparty has various ratings, the second best rating is adopted. In the case of a guarantee with risk transferred to the guarantor, the CEB takes into account the latter's rating. In the absence of an external rating, an internal rating is applied.

During the 2006 financial year, CEB continued developing and improving its risk management methods.

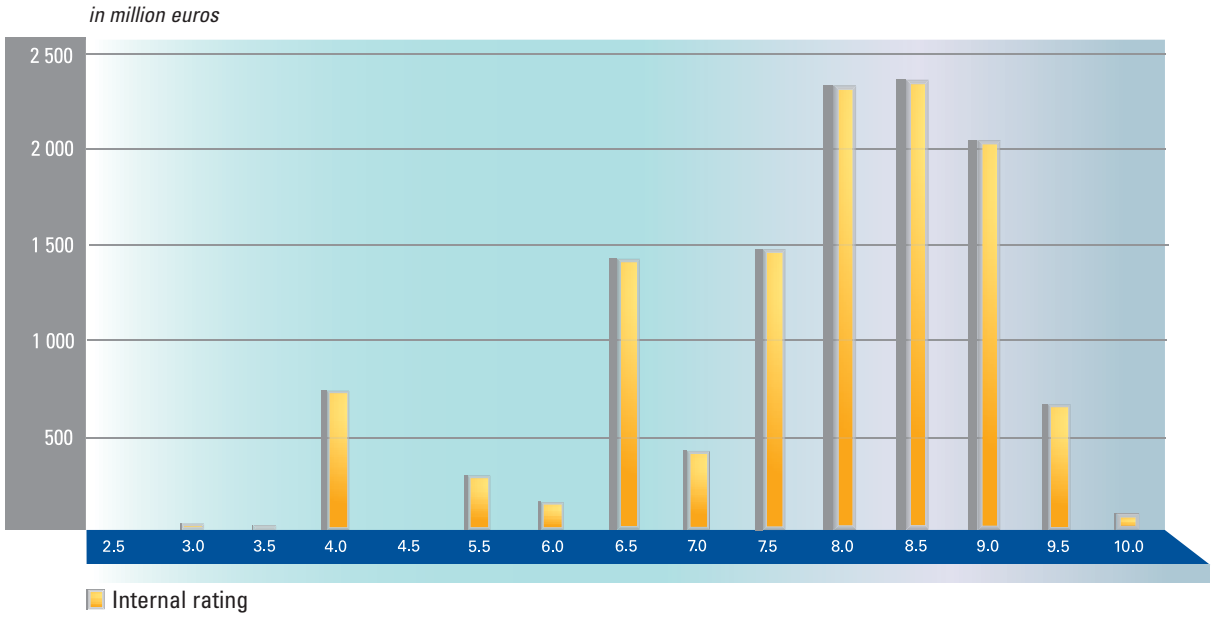
In line with international best banking standards, the Risk Management Department provides an internal rating for all counterparties based on an adequate due diligence (on or off site).

Since mid-2006, the Risk Management Department has applied an internal "transaction risk" rating for all of the transactions of the Directorate General for Loans. This rating reflects the risk specific to the origin of loan transactions. It takes account of the counterparty's in-house rating and any improvements in credit (collaterals, letters of support, financial or non-financial commitments, etc.) and guarantees received from third parties.

The new ratings for transactions risks (loans) are risk reference indicators relating to the CEB's exposure to credit risk. They should cast adequate light on the risk taken by the CEB in the course of its loan operations.

The in-house risk classification system comprises several categories, where category 10 is the best and 1 is the worst in terms of risk. For each category, there is a rating on the rating agencies' scale. The internal

Loans outstanding by internal rating at end 2006



rating system is reviewed periodically by both the internal and external auditors.

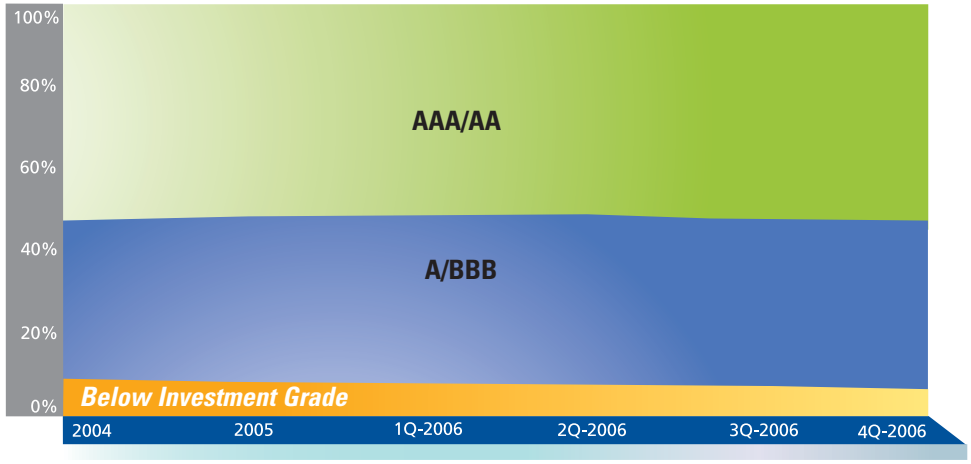
Furthermore the Bank introduced and further developed a methodology for establishing credit risk limits for regional and local government counterparties.

Loans portfolio

In 2006, loans outstanding increased by 4.2% relative to 2005, reaching a total of € 11.96 billion. Loans rated *investment grade* represented 93.6% of the total portfolio compared to 92.5% at the end of 2005. The relative weight of loans classified *below investment grade* dropped from 7.5% in 2005 to 6.4%. This improvement is the result of a reduction of loans on the main counterparty rated *below investment grade*.

With regard to the distribution of risks per type of counterparty, in 2006, 52.5% of loans were granted to financial institutions, 47.1% to governmental bodies or to public administrations and 0.4% to other counterparties.

Risk profile of the loan portfolio



Stock of projects

The credit risk quality of the stock "committed" remained outstanding with 84.1% of counterparties rated *investment grade*, compared to 91.4% at year-end 2005. This development is mainly explained by the increase in approved projects in target countries.

	2002	2003	2004	2005	2006
Stock committed (in million euros)	1 906.5	2 171.0	2 199.7	2 290.9	2 202.6
AAA/AA	25.3%	30.2%	26.4%	29.6%	15.2%
A/BBB	57.5%	52.8%	56.7%	61.8%	68.9%
Below investment grade	17.2%	17.0%	16.9%	8.6%	15.9%

We should stipulate that the stock of committed projects corresponds to the fraction of approved financing commitments pending funding, for which either a framework agreement has been signed or at least one disbursement has been released (see Financial statements, note D).

Credit enhancement

At end of December 2006, the amount of credit enhancement in the loan portfolio ensuring a 100% risk transfer totalled € 2.1 billion (against € 1.8 billion at end of 2005), of which € 0.4 billion in collateral and € 1.7 billion in guarantees.

At 31 December 2006, the overall impact of these credit enhancements on the risk profile is shown in the following table:

December 2006	Before credit enhancement	After credit enhancement	Variation
AAA/AA	49.6%	52.3%	5.5%
A/BBB	43.2%	41.3%	-4.6%
Below investment grade	7.2%	6.4%	-10.7%
TOTAL	**100.0%**	**100.0%**	

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 (see Financial activities, page 39). The breakdown, per rating, of the outstanding value of each of these portfolios at 31 December 2006, is given in the following table:

in million euros

	AAA	AA	A	Total
Available-for-sale financial assets	459.8	1 538.1	32.0	2 029.9
Financial assets held to maturity	1 496.8	260.7	35.6	1 793.0
TOTAL	**1 956.6**	**1 798.8**	**67.6**	**3 822.9**

Figures in nominal values

Derivatives

The Bank uses derivatives to hedge the interest rate and currency risks on its lending and borrowing operations (see Derivatives page 40).

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

All swap operations are valued at their net present value and the positions per counterparty are monitored daily in order to call for additional collateral where necessary.

The CEB has pursued and extended its active policy of collateral agreement management in order to further reduce the credit risk entailed in the use of derivatives. At present, almost all the outstanding value of derivative loans is collateralised. Furthermore, 81.7% of the notional value of outstanding loans and 100% of the risk value concern counterparties with ratings of at least AA.

Large exposure

Large exposure is the total exposure in regard to a single counterparty (or group of counterparties) exceeding 10% of shareholders' equity. In this respect, the CEB adopts as the definition of shareholders' equity paid-in capital, reserves, profits plus uncalled capital of exclusively shareholder countries with an 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 CEB ensures that no counterparty (or group of 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 the end of 2006, no counterparty exceeded the limit of 25% of the CEB's shareholders' equity, and only four counterparties exceeded 10%. The total outstanding exposure to these four counterparties amounts to € 2.1 billion, i.e. 53.3% of the CEB's shareholders' equity, versus a limit of 800%.

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 and exchange rates.

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

The Bank uses derivatives to protect itself against interest and currency risks on its lending and borrowing operations. Macro-hedging can also be considered if necessary. Moreover, since the Bank performs no trading operations, there is no credit risk which requires matching with part of its shareholders' equity, all in accordance with the Basle Committee Recommendations. 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, and backed by the Bank's usable capital, plus the balance of the Selective Trust Account (STA) liquidities and provisions for personnel 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 2006, the net open position was almost nil.

Liquidity risk

The projected liquidity situation is covered by a weekly report submitted to the Treasury Committee. This is supplemented by stress tests presented to the ALM Committee, based on various borrower default assumptions.

The increased liquidity ratio corresponds to the liquidity ratio taking account - for the next three years - of the risk of default as calculated on the portfolio. Consequently the requirements for liquidity increase since potential defaults must be compensated by additional liquidity resources (see page 50).

3 - Operational risk

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

The CEB has opted to place itself deliberately within the framework of the Recommendations of the Basle Committee and to comply with practices currently imposed in the profession (Basle II, CAD III). Accordingly, in order to foresee operational risks and to assess financial cost in the event that they should come to pass, the CEB undertakes to monitor them, provides permanent assessment of them and to set up the necessary preventive measures in accordance with its operational

risks policy. It is envisaged under this policy that the CEB should manage its operational risks in accordance with general principles based on the best banking practices recommended by the Basle Committee (Sound practices 2002) that it determines professional procedures and that it associates operational risks with them.

This system is periodically approved and reviewed by CORO (Committee for Operational Risks and Organisation) which is responsible for taking all decisions in this context.

In order to cover the requirements for concerning operational risks (Pilar I of the Basle II Agreement), the Basic Indicator Approach (BIA) is adopted.

3 PRUDENTIAL FRAMEWORK

Whilst establishing its Development Plan for 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 and taking effect as of 1 January 2005, is organised mainly around three 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: ∑ [(capital + interest) * default probability]*
- *Usable capital: total of paid-in capital and reserves*

The absolute limit of the capital adequacy ratio is set at 100%. At the end of 2006, this ratio stood at 14.9% as against 17% at the end of 2005.

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 usable capital plus uncalled AAA/AA capital.

RISK ASSET COVERAGE RATIO =

$$\frac{\text{Portfolio of loans rated } \textit{below investment grade}}{\text{Usable Capital + Uncalled AAA/AA capital}}$$

The limit is set at 66%, i.e. € 2.7 billion. At the end of December 2006, this ratio was 19.1%, compared to 21.8% at end-2005.

The reinforced liquidity ratio

The CEB's cash position must not be less than 50% of the net liquidity requirement for the next three years, including the additional liquidity requirement equal to the risk of default of counterparties of the loan portfolio for the same period. At end-2006, the reinforced liquidity ratio was 108.1% against 75.8% at end-2005.

Other statutory ratios

- **Indebtness ratio**: this is the ratio of total debt outstanding against total equity in the broadest sense (subscribed capital, reserves and results for the year). At 31 December 2006, this ratio was 3.24 compared to a maximum limit of 4 and in relation to 3.11 at the end of 2005.

- **Portfolio ratio**: this is the ratio between the exposure for cash transactions and the total of equity in the broadest sense (subscribed capital, reserves and results for the year). The exposure for cash transactions is defined as the sum of exposure for financial asset portfolios (assets held up until maturity and available for sale) and cash operations not represented by a security (bank deposits, repos). At 31 December 2006, this ratio was 1.06 compared with a maximum limit of 2 and in relation to 0.99 at the end of 2005.



CEB ACTIVITIES IN 2006
HUMAN RESOURCES MANAGEMENT

Increased staff numbers

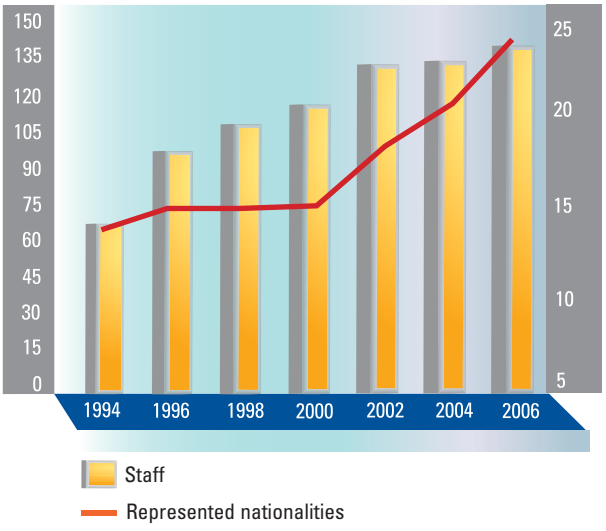
In order to accompany the sectoral and geographical redeployment of its activity, to adapt its instruments of action to the expectations of its member states and to comply with increasingly strict operational standards, the CEB has steadily increased its staff numbers over the past few years.

Since 1994, staff numbers have thus increased by an average 6% per year, representing a twofold increase over the period. In all, by end December 2006, the overall number of appointed and permanent staff members had reached 141, which is still a very modest figure given the institution's activity volumes.

During the last two years, the CEB has intensified its recruitment effort in order to have the necessary human resources for the implementation of its Development Plan for 2005-2009. Over this period, the Bank therefore carried out 16 recruitments, thereby making it possible, in particular, to further strengthen the teams in charge of the financing and monitoring of projects and loans.

Diversification of nationalities

This recruitment effort has been accompanied by a very active approach to diversification of the nationalities represented among the Bank's staff: in effect, recruitments carried out in 2005 and 2006 involved a total of 14 different nationalities.



The Bank has therefore seen the number of nationalities represented among its staff increase by 20% since 2004 and by almost 60% since 1994, reaching a total of 24 nationalities by end 2006. This upward trend has been even more marked among the management staff, where there has been a threefold increase in the number of nationalities represented over the past twelve years.

A very special effort has been made to further increase the number of staff representing the more recent member states. Half of the staff recruited over the past two years have been from countries that have joined the Bank since 1994. In all, at end 2006, these countries comprised over one third of the nationalities represented among the Bank's teams.

Conditions of employment and organisation of services

In parallel to this, in 2006, the CEB continued with the modernisation of its human resources tools. In particular, the Bank engaged in a process of reflection with a view to further adapting the conditions of employment of its staff to the specific characteristics of its activity.

Furthermore, the Bank worked throughout the year on further improving the organisation of its various departments. In particular, this led to the creation of a Directorate for General Administration grouping together all the Bank's administrative functions in order to improve their respective efficiency levels.

Internal developments

Very naturally, within the context of its 50th anniversary celebrations, the CEB developed its internal communication policy to further enhance staff cohesion. In particular, staff members very actively participated in the international conference held on 13 November 2006 (see box on page 12) as well as in the various other commemorative events.

Finally, throughout 2006, the Bank continued to make a significant effort to build up staff skills, notably through in-house training programmes specifically tailored to the institution's needs.

FINANCIAL STATEMENTS 2006

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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).

In furtherance of the Bank's objective of strengthening its actions in favour of social cohesion, in conformity with the provisions of Resolution 1424 (1997) and as revised in 2003, the Bank's fields of action have been broadened. Since 2001, the Bank may, beyond its initial statutory priorities, contribute to the financing of social infrastructures related to the protection of the environment and the rehabilitation of the historical heritage. Financing investment plans in small and medium-sized enterprises and small industrial firms, which contribute to job creation, is also one of the Bank's major fields of action.

The Bank's activities with respect to project-financing can be presented under 3 main areas of intervention: strengthening social integration, managing the environment and developing human capital. Within this context, the Bank has undertaken to redefine certain eligibility criteria concerning projects for the improvement of quality of life in disadvantaged urban areas, social housing, as well as those applicable to sector-based multi-project programmes (SMPs), and this with a view to better adapting itself to the social and economic realities of its members.

The Bank's policy, similar to that of other multilateral financial institutions, is not to reschedule interest or capital payments on its loans and not to participate in debt rescheduling agreements.

BALANCE SHEET

In thousand euros

Assets	Notes	31/12/2006	31/12/2005
Cash in hand, balances with central banks		47	65
Fair value financial assets through profit or loss	A	158 217	384 778
Hedging derivatives	B	815 775	868 587
Available-for-sale financial assets	C	2 049 204	1 168 179
Loans and advances to credit institutions and to customers			
Loans	D	12 101 562	11 713 728
Advances	D	1 151 572	1 734 690
Financial assets held to maturity	C	1 901 241	1 750 402
Fixed assets	E	30 413	29 251
Other assets	F	24 439	25 164
Total assets		**18 232 470**	**17 674 844**
Liabilities			
Fair value financial liabilities through profit or loss	A	2 039 517	1 278 289
Hedging derivatives	B	559 418	630 997
Amounts owed to credit institutions and to customers	G	70 304	79 084
Debt securities	G	13 620 468	13 724 837
Other liabilities	F	44 491	155 056
Selective Trust Account (STA)	H	70 410	64 740
Provision for financial risks	I	55 067	48 609
Total liabilities		**16 459 675**	**15 981 612**
Capital	J		
Subscribed		3 293 570	3 293 570
Uncalled		(2 924 922)	(2 924 922)
Called		368 648	368 648
General reserve		1 316 359	1 235 820
Unrealised or deferred gains or losses	C	(301)	225
Profit for the year		88 089	88 539
Total shareholders' equity		**1 772 795**	**1 693 232**
Total liabilities and shareholders' equity		**18 232 470**	**17 674 844**

PROFIT AND LOSS ACCOUNT

In thousand euros

	Notes	31/12/2006	31/12/2005 (1)
Interest receivable and similar income			
Available-for-sale financial assets		41 350	30 319
Loans and advances to credit institutions and to customers		426 098	299 786
Financial assets held to maturity		89 473	84 038
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(7 505)	(5 524)
Debt securities		(431 532)	(292 258)
Other interest expenses and similar charges		(2 480)	(2 244)
Interest margin	K	**115 404**	**114 117**
Net gains or losses on fair value financial instruments through profit or loss	L	1 989	1 576
Net gains or losses on available-for-sale financial assets		104	143
Net commissions		24	28
Total operating income		**117 521**	**115 864**
General operating expenses	M	(27 841)	(25 630)
Net depreciation charges of fixed assets	E	(1 591)	(1 695)
Operating profit before provisions		**88 089**	**88 539**
Risk cost		-	-
Profit for the year		**88 089**	**88 539**

(1) Following reclassification of interest charges on actuarial liabilities relative to post-employment benefits. Detailed information is presented before the notes relative to the profit and loss account.

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 2005 in conformity with IAS/IFRS standards applied in 2004	**368 648**	**1 245 823**		**1 614 471**
Impact of the adoption of IAS 32 and IAS 39		(3)	(96)	(99)
Shareholders' equity as at 1 January 2005 in conformity with IAS/IFRS standards applied in 2005 before appropriation of 2004 profit	**368 648**	**1 245 820**	**(96)**	**1 614 372**
Appropriation of profit for the 2004 financial year		(10 000)		(10 000)
Shareholders' equity as at 1 January 2005 after appropriation of 2004 profit	**368 648**	**1 235 820**	**(96)**	**1 604 372**
Profit for the 2005 financial year		88 539		88 539
Other movements			321	321
Shareholders' equity as at 31 December 2005 in conformity with IAS/IFRS standards	**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**

STATEMENT OF CASH FLOWS

In thousand euros

For the year ended 31 December	Notes	31/12/2006	31/12/2005
Profit for the year		**88 089**	**88 539**
+/- Net depreciation charges of tangible and intangible fixed assets	E	1 591	1 695
+/- Net losses/net profits from investment operations		3 290	2 456
+/- Other movements		16 051	9 413
Total of non-monetary items included in the result		**20 932**	**13 564**
+/- Cash flows related to operations with credit institutions and customers		(590 496)	(578 455)
+/- Cash flows related to other operations affecting financial assets or liabilities		(1 209 153)	480 938
+/- Cash flows related to operations affecting non-financial assets or liabilities		(116 106)	112 155
Net decrease /(increase) of assets and liabilities resulting from operational activities		**(1 915 755)**	**14 638**
Total net cash flows generated by operational activities (a)		**(1 806 734)**	**116 741**
+/- Cash flows related to financial assets held to maturity		(151 870)	(88 084)
+/- Cash flows related to tangible and intangible fixed assets	E	(2 041)	(4 320)
Total net cash flows related to investment operations (b)		**(153 911)**	**(92 404)**
+/- Cash flows from/to member states		15 607	11 039
+/- Net cash flows from financing operations		1 419 980	219 628
Total net cash flows related to financing operations (c)		**1 435 587**	**230 667**
Effects of exchange rate variations on cash and cash equivalents (d)		**(58 052)**	**12 624**
Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**(583 110)**	**267 628**
Cash and cash equivalents at the beginning of the financial year		**1 731 310**	**1 463 682**
Cash in hand, central banks		*65*	*49*
Accounts assets and loans repayable on demand with credit institutions	D	*1 731 245*	*1 464 734*
Accounts liabilities and issues repayable on demand with credit institutions			*(1 101)*
Cash and cash equivalents at the end of the financial year		**1 148 200**	**1 731 310**
Cash in hand, central banks		*47*	*65*
Accounts assets and loans repayable on demand with credit institutions	D	*1 148 153*	*1 731 245*
Net cash flows variations		**(583 110)**	**267 628**

Financing activities consist of cash flows deriving from debt securities.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF PRINCIPAL ACCOUNTING METHODS APPLIED

The main norms regarding valuation methods, and the manner of presentation used by the Bank in drawing up its financial statements are specified below. Unless otherwise indicated, these methods were also applied in all previous financial years.

The Bank's financial statements were prepared in compliance with IFRS standards as adopted by the European Union.

Within the context of the application of these standards, the main areas of assessment relate to credit risk assessment. 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 in the valuation of post-employment staff benefits. It should also be noted that, the Bank did not change its accounting method with regard to actuarial variations following the amendment to IAS 19 relating to a different approach to the accounting methods with respect to these variations.

Furthermore, none of the standards, amendments or interpretations which entered into force during 2006 applies to the Bank's activities. Moreover, during 2006 the CEB did not adopt in anticipation any of the standards, amendments or interpretations not yet entered into force. In this respect, some of these interpretations will not be applicable to the Bank's activities.

FINANCIAL ASSETS AND LIABILITIES

Foreign currency transactions

In conformity with Article IV (Section 1) of the Bank's Articles of Agreement, 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. 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 reduction in market value, as well as in the case of fair value hedge of exchange risk.

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 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 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 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

Financial instruments issued by the Bank qualify as debt instruments by reason of the contractual obligation to pay the holder of the securities.

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, but they can also 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

Value hedging is used by the Bank as interest rate 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 asset, the 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 profits or losses on market 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.

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 if they would wish to, and fiscal adjustment) are likewise defined benefit schemes.

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

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

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

The Bank applies the "corridor" method to calculate changes in the level of its actuarial variations relating to post-employment benefits. This method leads to the amortisation, in the 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 (STA) is the Bank's special instrument enabling it to accentuate the impact of its action in social priority sectors (natural disasters, refugees, minorities and disadvantaged persons, as well as migrants), whose main features are defined in Resolution CA 1380 (1995), revised by Resolution CA 1437 (1999, revised in 2001) and Resolution 1495 (2006).

The purpose of this account is to provide interest rate subsidies for loans granted by the Bank for projects of high social value, concerning low-income countries particularly Central and Eastern European countries. The STA can also be used in granting donations in aid of victims of natural disasters, refugees, minorities and disadvantaged persons.

The account is funded by contributions received from the Bank's member states through dividends of a social nature allocated at the time of the Bank's appropriation of profits. It is also funded by voluntary contributions from member states of the Bank 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.

This account is detailed under a note to the financial statements (see Note H).

PROVISION FOR FINANCIAL RISKS

Same as at 31 December 2005, provisions recorded on the liabilities side of the Bank's balance sheet as at 31 December 2006 concern exclusively social commitments – post-employment 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.

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.

2 NOTES TO THE FINANCIAL STATEMENTS

2.1 Notes relative to the balance sheet

Note A - Fair value financial assets and liabilities through profit or loss

This item shows the value (inclusive of interest) of the Bank's hedging derivatives but whose hedge is not recognised under IAS 39. These operations are composed of interest rate swaps, currency interest rate swaps and foreign exchange swaps. The following table shows the notional amount and the market value of these derivatives.

In thousand euros

	31/12/2006			31/12/2005		
	Notional	Positive market value	Negative market value	Notional	Positive market value	Negative market value
Interest rate derivatives	137 551	129	(1 284)	150 056	157	(866)
Exchange rate derivatives	466 350	2 380	(5 042)	432 809	2 007	(4 891)
Revaluation of exchange postitions		155 708	(2 033 191)		382 614	(1 272 532)
Total	**603 901**	**158 217**	**(2 039 517)**	**582 865**	**384 778**	**(1 278 289)**

Note B - Hedging derivatives

The following table shows the notional amount and the market value (inclusive of interest) of derivatives used for fair value hedging purposes and whose hedge is in conformity with IAS 39. These operations are composed of interest rate swaps, currency interest rate swaps and foreign exchange swaps.

In thousand euros

	31/12/2006			31/12/2005		
	Notional	Positive market value	Negative market value	Notional	Positive market value	Negative market value
Interest rate derivatives	4 723 774	263 081	(199 586)	4 872 838	289 216	(303 287)
Exchange rate derivatives	13 722 851	552 694	(359 832)	12 488 857	579 371	(327 710)
Total	**18 446 625**	**815 775**	**(559 418)**	**17 361 695**	**868 587**	**(630 997)**

Note C - Securities portfolio

In thousand euros

	31/12/2006		31/12/2005	
	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	100 517		100 429	
Debt securities and other fixed income securities	1 944 403	(499)	1 052 559	14
Shares and other variable-yield securities	723	198	735	211
Sub-total	**2 045 643**	**(301)**	**1 153 723**	**225**
Fair value adjustment of securities hedged by hedging derivatives	3 561		14 456	
Total available-for-sale financial assets	**2 049 204**	**(301)**	**1 168 179**	**225**
Assets held to maturity				
Treasury bills and similar securities	924 151		772 570	
Debt securities and other fixed income securities	977 090		977 832	
Total assets held to maturity	**1 901 241**		**1 750 402**	
Total securities portfolio	**3 950 445**	**(301)**	**2 918 581**	**225**

(*) including interest receivable

Financial assets held to maturity comprise bonds issued by countries or similar institutions holding at least an AA rating at the time of the purchase. None of the securities under these financial assets has been disposed of or transferred to another category of assets during the last two financial years.

Moreover, none of the securities classified under the categories of financial assets available for sale or held to maturity has been given as guarantee during 2005 and 2006.

At 31 December 2006, unlisted securities under financial assets available for sale or held to maturity amount to 8 million euros (2005: 16.57 million euros).

The amount of net profits transferred to the 2006 profit and loss account after disposals or maturity dates with respect to available-for-sale financial assets amounts to 53.50 thousand euros (2005: 94 thousand euros).

Securities transactions carried out during the 2005 and 2006 financial years are shown below:

In thousand euros

	31/12/2006	31/12/2005
Available-for-sale financial assets		
At 1 January	1 135 930	1 737 685
Purchase	1 108 855	452 616
Sale or with maturity dates	(204 869)	(1 071 886)
Foreign exchange movements	(16 402)	18 144
Provisions	(525)	(629)
Sub-total	**2 022 989**	**1 135 930**
Fair value adjustment of securities hedged by hedging derivatives	3 561	14 456
Interest receivable	22 654	17 793
Total available-for-sale financial assets	**2 049 204**	**1 168 179**
Assets held to maturity		
At 1 January	1 696 482	1 620 687
Purchase	151 870	152 058
Matured		(66 304)
Discounts / Premiums amortised during the financial year	(3 320)	(11 045)
Foreign exchange movements	(845)	1 086
Sub-total	**1 844 187**	**1 696 482**
Interest receivable	57 054	53 920
Total assets held to maturity	**1 901 241**	**1 750 402**
Total securities portfolio	**3 950 445**	**2 918 581**

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

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

In thousand euros

Breakdown by category of borrower	31/12/2006	31/12/2005
Loans to credit institutions		
Loans	8 103 649	7 597 038
Interest receivable	46 900	39 764
Sub-total	**8 150 549**	**7 636 802**
Loans to customers		
Loans	3 861 600	3 885 718
Interest receivable	32 944	31 692
Unpaid receivables		
Provisions		
Sub-total	**3 894 544**	**3 917 410**
Value adjustment of loans hedged by hedging derivatives	56 469	159 516
Total loans	**12 101 562**	**11 713 728**
Other loans and advances		
Advances repayable on demand	39 835	8 147
Advances with agreed maturity dates or periods of notice	1 108 318	1 723 098
Sub-total	**1 148 153**	**1 731 245**
Interest receivable	3 419	3 445
Total other advances	**1 151 572**	**1 734 690**

Loans are guaranteed up to the amount of 2 058 247 thousand euros (2005: 1 784 518 thousand euros). These guarantees could be either in the form of securities or financial commitments.

Loan disbursements and reimbursements during the 2005 and 2006 financial years are indicated below:

In thousand euros

	31/12/2006	31/12/2005
At 1 January	11 482 755	10 764 822
Disbursements	1 640 206	1 558 535
Reimbursements	(1 052 948)	(969 749)
Foreign exchange movements	(104 764)	129 147
At 31 December	**11 965 249**	**11 482 755**
Interest receivable	79 844	71 457
Value adjustment of loans hedged by hedging derivatives	56 469	159 516
Total	**12 101 562**	**11 713 728**

Breakdown of outstanding loans and financing commitments by borrower country as at 31 December 2005 and 31 December 2006:

In thousand euros

	Loans outstanding				Financing commitments	
Breakdown by country	2006	%	2005	%	2006	2005
Spain	2 268 302	18.96	2 167 511	18.88	79 832	182 607
Italy [1]	1 436 849	12.01	1 337 017	11.64	285 000	160 000
France	1 089 940	9.11	1 097 332	9.55		
Germany [2]	1 084 137	9.06	1 272 979	11.09	205 500	213 750
Poland	705 872	5.90	613 651	5.34	13 407	116 387
Finland	690 941	5.77	550 004	4.79	110 000	97 500
Turkey	689 506	5.76	791 361	6.89	276 258	138 926
Hungary	667 810	5.58	523 802	4.56	348 862	313 183
Portugal	510 221	4.26	540 571	4.71	14 660	17 334
Greece	500 346	4.18	577 821	5.03	57 947	57 947
Cyprus	457 643	3.82	447 728	3.90	197 867	292 714
Denmark	273 333	2.28	190 000	1.65		
Romania	271 146	2.27	234 806	2.04	279 599	113 000
Belgium	220 155	1.84	227 972	1.99		
Norway	190 288	1.59	128 788	1.12	61 008	125 235
Croatia	184 831	1.54	155 864	1.36	62 454	97 048
Sweden	163 058	1.36	163 058	1.42		
Malta	101 972	0.85	120 170	1.05		79 503
Bulgaria	85 591	0.72	55 076	0.48	12 746	16 175
Slovenia	64 088	0.54	54 496	0.47	15 000	
Latvia	53 802	0.45	17 150	0.15	61 500	100 000
Iceland	48 415	0.40	33 942	0.30	42 385	27 956
Ireland [3]	45 474	0.38	50 000	0.44		50 000
Slovak Republic	37 871	0.32	39 118	0.34	7 220	7 107
Serbia	27 170	0.23	21 084	0.18	10 000	
Czech Republic	23 548	0.20	11 386	0.10	12 000	28 000
"the former Yugoslav Republic of Macedonia"	22 949	0.19	16 785	0.15	6 500	13 200
Lithuania	22 163	0.19	19 146	0.17	3 620	7 853
Albania	9 643	0.08	9 602	0.08	17 984	19 408
Estonia	7 947	0.07	8 145	0.07		2 046
Bosnia and Herzegovina	6 146	0.05	4 182	0.04	17 265	8 000
San Marino	2 092	0.02	2 208	0.02		
Moldova	2 000	0.02			4 000	6 000
Total	**11 965 249**	**100.00**	**11 482 755**	**100.00**	**2 202 614**	**2 290 879**

(1) of which 345 523 thousand euros outstanding in favour of target group countries as at 31 December 2006 (31 December 2005: 169 000 thousand euros)
(2) of which 122 756 thousand euros outstanding in favour of target group countries as at 31 December 2006 (31 December 2005: 209 133 thousand euros)
(3) of which 22 737 thousand euros outstanding in favour of target group countries as at 31 December 2006 (31 December 2005: 25 000 thousand euros)

Loans outstanding and financing commitments benefiting from the Selective Trust Account included in the table above are presented under Note H.

In thousand euros

Breakdown by sector-based activities	Outstanding 2006	%	Outstanding 2005	%	Financing commitments 2006	Financing commitments 2005
Strengthening social integration						
Aid to refugees, migrants and displaced populations	168 593		296 457		91 545	183 677
Social housing for low-income persons	2 785 270		2 327 937		171 976	90 514
Creation and preservation of viable jobs	1 885 014		1 703 639		772 467	256 540
Improving living conditions in urban and rural areas	1 294 026		1 231 149		213 874	292 590
Sub-total	**6 132 903**	**51**	**5 559 182**	**48**	**1 249 862**	**823 321**
Managing the environment						
Natural or ecological disasters	1 507 623		1 626 007		208 840	276 443
Protection of the environment	1 364 463		1 417 532		224 990	391 701
Protection and rehabilitation of the historic and cultural heritage	228 422		176 177		96 791	92 333
Sub-total	**3 100 508**	**26**	**3 219 716**	**28**	**530 621**	**760 477**
Developing human capital						
Education and vocational training	1 431 391		1 362 927		274 484	457 984
Health	1 300 447		1 340 930		147 647	249 097
Sub-total	**2 731 838**	**23**	**2 703 857**	**24**	**422 131**	**707 081**
Total	**11 965 249**	**100**	**11 482 755**	**100**	**2 202 614**	**2 290 879**

Financing commitments

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

In thousand euros

Breakdown by year of approval	2004 and before	2005	2006	Total
Projects				
With signed framework loan agreements	628 319	646 883	768 865	**2 044 067**
With at least one financing	158 547			**158 547**
Total	**786 866**	**646 883**	**768 865**	**2 202 614**

Note E - Tangible and intangible fixed assets

In thousand euros

	Tangible fixed assets				Intangible assets	
	Land	Buildings	Fixtures and equipment	Other		Total
Gross book value						
At 1 January 2005	11 321	9 057	10 449	4 522	3 308	**38 657**
Additions	1 725	1 380	737	753	369	**4 964**
Disposals / Write-offs				(43)		**(43)**
Other movements			(104)	(317)	(180)	**(601)**
At 31 December 2005	**13 046**	**10 437**	**11 082**	**4 915**	**3 497**	**42 977**
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**
Depreciation						
At 1 January 2005			(6 178)	(3 149)	(2 747)	**(12 074)**
Charge for the year			(809)	(648)	(238)	**(1 695)**
Disposals / Write-offs				43		**43**
At 31 December 2005			**(6 987)**	**(3 754)**	**(2 985)**	**(13 726)**
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)**
Net book value						
At 31 December 2006	**13 046**	**10 437**	**4 841**	**1 132**	**957**	**30 413**
At 31 December 2005	13 046	10 437	4 095	1 161	512	29 251

Note F - Other assets and other liabilities

In thousand euros

	31/12/2006	31/12/2005
Subscribed, called and unpaid capital and reserves to be paid (*)	5 358	10 715
Other accrued income and sundry debtors	15 125	10 341
Sundry debtors	2 760	2 950
Prepaid expenses	1 111	1 072
Accrued interest receivable	85	86
Total other assets	**24 439**	**25 164**
Deposits of guarantees received	24 191	140 462
Other accruals and sundry creditors	20 300	14 594
Total other liabilities	**44 491**	**155 056**

(*) See detail under Note J

Note G - Amounts owed to credit institutions, to customers and debt securities

In thousand euros

	31/12/2006	31/12/2005
Amounts owed to credit institutions		
Issues		
Interest payable		
Total amounts owed to credit institutions	**-**	**-**
Amounts owed to customers		
Interest-bearing accounts	37 521	40 760
of which, European Community	*36 664*	*39 371*
Issues	31 861	35 997
Interest payable	471	531
Value adjustment of amounts owed to customers hedged by derivatives	451	1 796
Total amounts owed to customers	**70 304**	**79 084**
Debt securities		
Bonds	13 134 128	12 699 967
Euro Commercial paper		335 955
Perpetual debt		130 889
Interest payable	475 666	468 156
Value adjustment of debt securities hedged by derivatives	10 674	89 870
Total debt securities	**13 620 468**	**13 724 837**

Development of customers' interest-bearing accounts

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

- Six 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 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"

At 31 December 2006, the balance of these accounts amounts to 22 837 thousand euros (2005: 24 361 thousand euros).

- Two 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"

At 31 December 2006, the balance of these accounts amounts to 11 878 thousand euros (2005: 13 012 thousand euros).

- An account 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 04"

The balance of this account amounts to 1 949 thousand euros as at 31 December 2006 (2005: 1 998 thousand euros).

Contributions made by member states are transferred to the following funds:

- in 2001, an account to receive the Finnish government's contributions for the financing of technical assistance within the ambit of projects in Estonia, Latvia and Lithuania;
- in 2004, the Swiss government effected a payment for the setting-up of a fund for the education of the Roma community.

These two funds were closed in 2005, and corresponding funds were disbursed in favour of the Roma Education Fund.

- in 2004, an account to receive the Norwegian government's contributions for the financing of technical assistance within the ambit of projects in support of economic and social reforms in the western Balkans.

Debt securities

Debt transactions carried out during the 2006 and 2005 financial years are indicated hereunder:

In thousand euros

	31/12/2006	31/12/2005
At 1 January	13 166 811	11 341 605
New issues	2 162 963	3 049 732
Maturities	(1 042 802)	(2 479 554)
Repurchases	(6 268)	(13 316)
Foreign exchange movements	(1 146 576)	1 268 344
At 31 December	**13 134 128**	**13 166 811**
Interest payable	475 666	468 156
Value adjustment of issues hedged by derivatives	10 674	89 870
Total	**13 620 468**	**13 724 837**

The table below shows the outstanding debt securities after breakdown of currency swaps:

In thousand euros

Breakdown by currency	Outstanding	Currency swaps	Net value 2006	Net value 2005
Euro	1 386 806	12 872 432	14 259 238	12 940 552
US Dollar	9 649 776	(8 857 603)	792 173	976 197
Japanese Yen	187 201	(161 075)	26 126	45 356
Australian Dollar	1 078 426	(1 078 426)		
Taiwan Dollar	232 938	(232 938)		
Pound sterling	223 381	(223 381)		
Swiss Franc	124 463	(124 463)		130 889
Canadian Dollar	98 161	(98 161)		
South African Rand	97 236	(97 236)		
Hungarian Forint	39 719	(39 719)		
New Zealand Dollar	16 021	(16 021)		
Total	**13 134 128**	**1 943 409**	**15 077 537**	**14 092 994**

Note H - Selective Trust Account (STA)

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

2. Funding

The STA is supplied, although not automatically, with grants received from the Bank's member states through dividends of a social nature allocated at the time of the Bank's appropriation of annual profits.

Voluntary contributions from member states of the Bank and the Council of Europe are also recorded on the credit side of the STA.

The Bank remunerates the STA funds in conformity with the provisions of Resolution 1437 (1999, revised in 2001) and Resolution 1495 (2006).

3. 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

	Debit	Credit
1) Member states sub-account		
Sub-account balance as at 1 January 2005		**42 084**
Payment by member states for the financial year 2004		10 000
Credit interest paid into the STA		1 317
Subsidies on disbursed loans	4 356	
Donations granted	1 279	
Sub-account balance as at 31 December 2005 (a)		**47 766**
Payment by member states for the financial year 2005		8 000
Credit interest paid into the STA		2 253
Subsidies on loans disbursed in 2006	7 141	
Donations granted	1 022	
Sub-account balance as at 31 December 2006 (b)		**49 856**
2) Subsidised projects sub-account		
Sub-account balance as at 1 January 2005		**15 347**
Subsidies on loans disbursed in 2005		4 356
Payment of subsidies	2 729	
Sub-account balance as at 31 December 2005 (c)		**16 974**
Subsidies on loans disbursed in 2006		7 141
Payment of subsidies	3 561	
Sub-account balance as at 31 December 2006 (d)		**20 554**
STA balance as at 31 December 2005 (a) + (c)		**64 740**
STA balance as at 31 December 2006 (b) + (d)		**70 410**

Donations

Since it was set up in 1995, donations for a total amount of 11.4 million euros have been granted from the STA (2005: 10.4 million euros).

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

In thousand euros

Payments	31/12/2006	31/12/2005
Roma Education Fund: CEB contribution to the implementation of the Fund		500
Serbia and Montenegro (UNHCR): help for refugees having opted for local integration in Serbia	407	420
Bosnia and Herzegovina (UNHCR): provision of permanent housing for displaced persons	407	420
Estonia: creation of the Sillamäe Drug Rehabilitation Centre		150
Bulgaria: (St Cyril and St Methodius International Foundation): access to education of the Roma children in the municipality of Nova Zagora	135	
Moldova (UNICEF): creation of the Temporary Mother and Child Placement Centre in Balti		78
"the former Yugoslav Republic of Macedonia" (UNICEF): creation of basic infrastructures related to health, education and vocational training to facilitate the access to education of the Roma community	74	
Joint programme CEB/Council of Europe Reimbursement of unused balance		(289)
Total	**1 023**	**1 279**

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

In thousand euros

	Outstanding		Financing commitments	
Breakdown by country	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Hungary	183 087	136 300	143 609	197 968
Croatia	160 257	142 813	26 301	49 137
Romania	91 360	53 800	176 040	77 400
Poland	85 904	93 160		
Slovak Republic	28 771	30 000		
Bulgaria	9 931	9 269	12 747	13 675
Serbia	9 600		10 000	
Albania	7 927	8 142	17 984	18 952
Lithuania	7 204	6 658	3 620	5 068
Bosnia and Herzegovina	6 146	4 182	17 265	8 000
Slovenia	5 419	6 168		
Moldova	2 000		4 000	6 000
Germany	256	383		
Total	**597 862**	**490 875**	**411 566**	**376 200**

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

Note I - 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

	31/12/2006	31/12/2005
Provision for pension commitments	43 678	38 424
Provision for other post-employment benefits	11 389	10 185
Total	**55 067**	**48 609**

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 30 June 2006 and projected as at 31 December 2006.

Pension scheme

The following is the pension scheme financial situation:

In thousand euros

	31/12/2006	31/12/2005
Financial situation as at 31 December		
Actuarial liability	(48 541)	(46 201)
Actuarial surplus / (deficit)	(48 541)	(46 201)
Stock of unrealised actuarial Gains / (Losses)	4 863	7 777
Provision as at 31 December	**(43 678)**	**(38 424)**
Provision movements as at 31 December		
Provision as at 1 January	**(38 424)**	**(34 470)**
Service cost	(4 050)	(3 195)
Interest cost related to discounting commitments	(2 061)	(1 781)
Amortisation of actuarial Gains / (Losses)	(212)	
Book charge for the year	(6 323)	(4 976)
Benefits paid	1 069	1 022
Provision as at 31 December	**(43 678)**	**(38 424)**

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

Other information	2006	2005
Interest rate	4.75%	4.50%
Inflation rate	1.75%	1.75%
Pension revaluation rate	1.75%	1.75%
Salary increase rate	5.00%	5.00%
Staff average number of residual working years as at 31 December	14	15

Pension scheme-related commitments

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

In thousand euros

	31/12/2006	31/12/2005
Pension scheme financial situation as at 31 December		
Actuarial liability	(10 116)	(9 337)
Actuarial surplus / (deficit)	(10 116)	(9 337)
Stock of unrealised actuarial (Gains) / Losses	(1 273)	(848)
(Provision) / Surplus as at 31 December	**(11 389)**	**(10 185)**
Provision development as at 31 December		
(Provision) / Surplus as at 1 January	**(10 185)**	**(8 832)**
Service cost	(930)	(988)
Interest cost related to discounting commitments	(419)	(463)
Amortisation of actuarial Gains / (Losses)	49	
Book charge for the year	(1 300)	(1 451)
Benefits paid	96	98
(Provision) / Surplus as at 31 December	**(11 389)**	**(10 185)**

The economic assumptions with respect to related commitments are similar to those within the ambit of the pension scheme. Moreover, the rate of the increase in the Bank's contributions is of 7.50% up to end 2010 and 6.00% thereafter.

Note J - Subscribed capital

The capital is composed of participating certificates of 1 000 euros. Each participating certificate represents one vote. All member states of the Council of Europe or other states, upon authorisation by the Governing Board, may subscribe to the capital. This subscription is effective upon acceptance of the Articles of Agreement.

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
Finland	41 889	37 264	4 625
Norway	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
Bosnia and Herzegovina	5 816	5 174	642
Moldova	3 294	2 930	364
Liechtenstein	2 921	2 374	547
San Marino	2 921	2 478	443
Holy See	82	58	24
Total 2006	**3 293 570**	**2 924 922**	**368 648**
Total 2005	**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
Ireland	800	2 475	3 275
Serbia	428	1 087	1 515
Bosnia and Herzegovina	161	407	568
Total	**1 389**	**3 969**	**5 358**

Earnings per participating certificate for 2006 amount to 26.75 euros (26.88 euros for 2005).

2.2 Notes relative to the profit and loss account

Preliminary information

When the Bank's accounts were drawn up in compliance with IFRS standards for the first time at 31 December 2005, overall charges with respect to the post-employment benefits scheme (pension scheme and related commitments) were accounted for as general operating expenses under the heading "Staff costs" (Social security and pension costs). No distinction was made at that time between the cost of services rendered during the year, the depreciation of actuarial variations and the financial cost with respect to these benefits.

In order to provide more coherent information and in line with practices at other financial institutions, the Bank divided these charges between the financial cost on the one hand and staff costs on the other (regarding all other elements of this expense).

Furthermore, charges for 2005 have been reclassified for data comparison purposes. Thus, the financial cost is recorded under "Other interest and similar charges" (Note K), whereas staff costs are recorded under the heading "General operating expenses" (Note M).

The table below shows a modified abstract of the profit and loss account:

In thousand euros

	31/12/2006	31/12/2005 restated	31/12/2005 published
Other interest and similar charges	(2 480)	(2 244)	
Interest margin	**115 404**	**114 117**	**116 361**
Total operating income	**117 521**	**115 864**	**118 108**
General operating expenses	(27 841)	(25 630)	(27 874)
Operating profit before provisions	**88 089**	**88 539**	**88 539**
Risk cost			
Profit for the year	**88 089**	**88 539**	**88 539**

Note K - Interest margin

Under this heading, the Bank includes income and charges 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 profits on fair value financial instruments through profit or loss" (Note L).

Income and interest charges on fair value hedging derivatives are shown alongside the income derived from items to which they are providing risk hedging.

In thousand euros

	31/12/2006	31/12/2005
Available-for-sale financial assets		
Securities transactions	46 823	40 370
Hedging derivatives	(5 473)	(10 051)
Sub-total	**41 350**	**30 319**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	422 252	356 022
Other loans and advances	60 677	38 828
Hedging derivatives	(56 831)	(95 064)
Sub-total	**426 098**	**299 786**
Financial assets held to maturity		
Securities transactions	89 473	84 038
Hedging derivatives		
Sub-total	**89 473**	**84 038**
Amounts owed to credit institutions and to customers		
Issues	(1 149)	(1 224)
Interest-bearing accounts	(4 985)	(3 856)
Hedging derivatives	(1 371)	(444)
Sub-total	**(7 505)**	**(5 524)**
Debt securities		
Issues	(624 334)	(581 951)
Hedging derivatives	192 802	289 693
Sub-total	**(431 532)**	**(292 258)**
Other interest and similar charges [1]	(2 480)	(2 244)
Interest margin	**115 404**	**114 117**

(1) See preliminary information preceding the notes relative to the profit and loss account.

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

In thousand euros

Breakdown by country	31/12/2006	31/12/2005
Spain	70 181	48 689
Italy	44 147	32 364
Germany	41 559	48 242
Turkey	40 939	43 494
France	35 336	29 809
Poland	31 235	26 037
Greece	26 189	31 256
Finland	19 841	13 888
Hungary	19 793	12 648
Cyprus	16 497	14 904
Portugal	15 379	11 608
Romania	10 533	6 731
Belgium	7 587	7 337
Croatia	7 202	6 277
Malta	5 565	5 747
Denmark	5 478	2 044
Norway	5 347	2 695
Sweden	4 670	2 686
Slovenia	2 516	1 774
Bulgaria	2 389	1 486
Latvia	1 571	506
Ireland	1 397	1 077
Slovak Republic	1 300	988
Iceland	1 129	706
Serbia	1 003	834
Lithuania	896	773
"the former Yugoslav Republic of Macedonia"	683	477
Czech Republic	592	83
Albania	426	46
Estonia	398	399
Bosnia and Herzegovina	325	303
San Marino	108	114
Moldova	41	
Total	**422 252**	**356 022**

Note L - Net profits on fair value financial instruments through profit or 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 K).

In thousand euros

	31/12/2006	31/12/2005
Derivatives	2 267	1 364
Revaluation of exchange positions	(278)	212
Total	**1 989**	**1 576**

Note M - General operating expenses

In thousand euros

	31/12/2006	31/12/2005
Staff costs		
Wages and salaries	14 090	13 349
Social Security and pension costs [1]	5 226	4 373
Other general operating expenses	8 525	7 908
Total	**27 841**	**25 630**

(1) See preliminary information preceding the notes relative to the profit and loss account.

At 31 December 2006, the Bank staff was composed of 139 agents: 3 appointed officials (Governor, Vice-Governor Delegate and Vice-Governor) and 136 professional staff. At 31 December 2005, 139 agents: 4 appointed officials (Governor, Vice-Governor Delegate and Vice-Governors) and 135 professional staff.

2.3 Complementary notes

Note N - Currency position

The net exchange rate risks are the result of margins from banking transactions and, to a lesser extent, from general operating expenses. Exchange market transactions are conducted so as to minimise these risks.

In thousand euros

Breakdown by currency	Assets	Liabilities	Derivative instruments	**Net position 2006**	**Net position 2005**
Euro	15 882 363	5 806 308	(11 951 270)	(1 875 215)	(892 238)
Japanese Yen	144 819	223 504	79 518	833	1 154
US Dollar	1 661 211	10 171 016	8 510 414	609	1 014
Pound Sterling	9 216	228 507	219 359	68	19
Swiss Franc	68 439	128 384	60 001	56	(927)
Other currencies	466 422	1 674 751	1 208 484	155	173
Total	**18 232 470**	**18 232 470**	**(1 873 494)**	**(1 873 494)**	**(890 805)**

Note O - Liquidity position

The liquidity risk is a measure which defines the projected situation of the Bank's treasury.

The table below provides an analysis of assets and liabilities grouped on the basis of the remaining period between the balance sheet end-date and the operations' contractual maturity date.

Those assets and liabilities that do not have a contractual maturity date are grouped under the column "Undefined".

The valuation of derivatives and operations related thereto is classified under the column "Undefined". In fact, except for the eventual ineffectiveness of the derivative, the balance of these valuations has no impact on the liquidity position.

In thousand euros

	Undefined	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	**Total**
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	4 543	4 977	70 326	252 146	906 625	810 587	2 049 204
Loans and advances to credit institutions and to customers	56 469	1 195 037	121 986	1 319 269	6 482 498	4 077 875	13 253 134
Financial assets held to maturity		14 158	73 078	61 248	597 638	1 155 119	1 901 241
Fixed assets	30 413						30 413
Other assets	24 439						24 439
Total assets	**1 089 903**	**1 214 172**	**265 390**	**1 632 663**	**7 986 761**	**6 043 581**	**18 232 470**
LIABILITIES							
Fair value financial liabilities through profit or loss	2 039 517						2 039 517
Hedging derivatives	559 418						559 418
Amounts owed to credit institutions and to customers	451			37 521	32 332		70 304
Debt securities	10 674	802 208	423 945	1 471 503	6 655 394	4 256 744	13 620 468
Other liabilities	44 491						44 491
Selective Trust Account (STA)	70 410						70 410
Provision for financial risks	55 067						55 067
Shareholders' equity	1 772 795						1 772 795
Total liabilities	**4 552 823**	**802 208**	**423 945**	**1 509 024**	**6 687 726**	**4 256 744**	**18 232 470**
Liquidity position 2006	**(3 462 920)**	**411 964**	**(158 555)**	**123 639**	**1 299 035**	**1 786 837**	
Liquidity position 2005	(2 479 823)	821 403	520 929	371 361	319 398	446 732	

Note P - Market value of financial instruments accounted for at the amortised cost

The given information is an estimate which is based on the Bank's own valuation models.

It represents the day value as at 31 December 2006 and 2005.

In thousand euros

	31/12/2006		31/12/2005	
	Balance sheet value	***Market value***	**Balance sheet value**	***Market value***
Financial assets				
Loans and advances to credit institutions and to customers	12 101 562	12 121 078	11 713 728	11 787 470
Financial assets held to maturity	1 901 241	1 963 261	1 750 402	1 928 804
Financial liabilities				
Amounts owed to credit institutions and to customers	70 304	70 235	79 084	78 820
Debt securities	13 620 468	13 144 357	13 724 837	13 395 784

Note Q - Notional of derivatives

In thousand euros

	31/12/2006	31/12/2005
Type of instruments:		
Currency interest rate swaps	14 086 608	12 823 034
Interest rate swaps	4 861 324	5 022 894
FX swaps	102 594	98 632
Total	**19 050 526**	**17 944 560**
Hedging instruments recognised under IAS 39 [1]	18 446 625	17 361 695
Hedging instruments not recognised under IAS 39 [2]	603 901	582 865
Total	**19 050 526**	**17 944 560**

(1) See detail under Note A
(2) See detail under Note B

Note R - Risk management

Within the context of its project and treasury financing activities, the Bank is exposed to three different types of risk: credit risk, market risk and operational risk.

1. Credit risk

Credit risk can be defined as the risk of loan losses in the event of counterparty default. The credit risk on the loan portfolio is measured on the basis of a rating system. In accordance with the Basle Committee Recommendations, when a counterparty has various ratings, the second best rating is adopted. In the case of a guarantee with risk transferred to the guarantor, the Bank takes into account the latter's rating. In the absence of a rating, an internal rating is applied.

In line with international best banking standards, the Risk Management Department provides an internal rating for all counterparties based on an adequate due diligence (on or off site).

The common unified risk classification system consists of several categories, of which, 10 is the best and 1 is the weakest in terms of risk. Each internal grade corresponds to the rating agencies' scale.

Loan portfolio

In 2006, loans notional outstanding increased by 4.2% relative to 2005 and stood at € 11.96 billion. Loans rated *investment grade* account for 93.6% of the total portfolio, against 92.5% at end of 2005. The proportion of loans ranked *below investment grade* went down from 7.5% in 2005 to 6.4%.

As far as breakdown by nature of counterparties, in 2006, 52.5% of the loans were allocated to financial institutions, 47.1% to states or government administrations and 0.4% to other counterparties.

Credit enhancement

At end of December 2006, the amount of credit enhancement in the loan portfolio ensuring a 100% risk transfer totaled € 2.1 billion (against € 1.8 billion at end of 2005); thereof € 0.4 billion collaterals and € 1.7 billion guarantees.

At 31 December 2006, the overall impact of these types of credit enhancement on risk transfer is presented below:

December 2006	Before guarantee	After guarantee	Variance
AAA/AA	49.6%	52.3%	5.5%
A/BBB	43.2%	41.3%	-4.6%
Below investment grade	7.2%	6.4%	-10.7%
Total	**100.0%**	**100.0%**	

Bond portfolios

The Bank manages two categories of bond portfolios: a financial assets portfolio held to maturity and a portfolio of financial assets available for sale. The table below shows the outstanding value exclusive of accrued interest of each of these portfolios at 31 December 2006 classified by rating:

In million euros

	AAA	AA	A	Total
Available-for-sale financial assets	459.8	1 538.1	32.0	2 029.9
Financial assets held to maturity	1 496.8	260.7	35.6	1 793.0
Total	**1 956.6**	**1 798.8**	**67.6**	**3 822.9**

Figures in nominal value

Derivatives

The Bank uses derivatives to hedge the interest rate and currency risks on its operations relative to loans, assets available for sale, issues and borrowings.

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

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

As at end 2006, the quasi-totality of the notional value of outstanding derivatives is collateralised.

Large exposure

Large exposure is an aggregate exposure to a single counterparty (or group of counterparties) exceeding 10% of own funds. In this respect, the CEB adopts as the definition of own funds paid-in capital, reserves, profits plus uncalled capital of shareholder countries with an 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 counterparties) exceeds the limit of 25% of own funds as defined above, and that the cumulative total of Large exposures does not exceed 800% of said own funds.

At the end of 2006, no counterparty exceeded the limit of 25% of the Bank's own funds, and only four counterparties exceeded 10%. The total outstanding exposure to these four counterparties amounts to € 2.1 billion, i.e. 53.3% of the CEB's own funds, versus a limit of 800%.

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 Bank's interest rate exposure to a minimum.

The Bank uses derivatives to protect itself against interest and currency risks on its lending and borrowing operations. Macro-hedging can also be considered if necessary. Moreover, since the Bank performs no trading operations, there is no credit risk which requires matching with part of its own funds, all in accordance with the Basle Committee Recommendations.

In conclusion, the interest rate risk in the Bank's balance sheet is limited to the amount of the financial assets held to maturity portfolio, which is matched by the following elements:

- available own funds
- provisions for post-employment staff benefits
- Selective Trust Account.

As regards currency risk, the Bank's strategy is not to take any position and to finance assets and liabilities in a single currency. The residual risk arising from gains and losses in currencies other than the euro is systematically monitored and hedged on a monthly basis. The net open position is limited to the equivalent of € 1 million per currency. As at 31 December 2006, the net open position was next to nil.

Liquidity risk

The projected liquidity situation is covered by a weekly report submitted to the Treasury Committee. This is supplemented by stress tests presented to the ALM Committee, based on borrower default assumptions.

3. Operational risk

Operational risk represents 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 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 own funds, namely € 17.4 million as at 31 December 2006.

4. Statutory Ratios

4.1 Capital Adequacy Ratio

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

- *Risk Weighted Loan Portfolio: ∑ [(Capital + Interest) * Default Probability(1)]*
- *Usable capital: total of paid-in capital, reserves*

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

At end 2006, this ratio stood at 14.9% compared to 17.0% as at end 2005.

(1) At the beginning of 2006 probability of default tables has been updated:
- Standard & Poor's for probabilities of default up to 15 years as stated in: table N.R. Removed Cumulative Average Default Rates 1981-2005 (%), page 17 of the document "Annual 2005 - Global Corporate Default study and rating transition".
- Moody's for default probabilities beyond 15 years as stated in: Exhibit 34 - Average Cumulative Issuer - Weighted Corporate Default Rates by Whole Letter Rating, 1970-2005, page 33 of the document "Default & Recovery Rates of Corporate Bonds Issuer, 1920-2005".

4.2 Risk Asset Coverage Ratio

$$\text{Risk Asset Coverage Ratio} = \frac{\text{Loan Portfolio Rated } \textit{Below Investment Grade}}{\text{Sound Capital}}$$

- *Sound Capital: Usable Capital + Uncalled Capital (AAA/AA)*

This ratio is an additional limit to the loan portfolio growth for its share of counterparties rated *Below Investment Grade.*

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

At end 2006, this ratio stood at 19.1%, versus 21.8% at end 2005, well within the authorised maximum limit.

4.3 Strengthened Liquidity Ratio

This ratio is reached by setting:

- the Bank's available liquidity, i.e. bank deposits, available-for-sale financial assets with a residual maturity less than 18 months, against
- the liquidity requirements, i.e. stock of projects, liquidity requirements over a three-year period including the additional requirements corresponding to 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 2006, the strengthened liquidity ratio was 1.08 compared to 0.76 at end 2005.

4.4 Indebtness ratio

This ratio results from dividing Total debt by Total Equity (subscribed capital, reserves and profit/loss). Considering Total Equity at end 2006, the authorized debt limit is € 18.8 billion, i.e. € 3.6 billion headroom i.e. 19.1% of the approved limit.

At end 2006, the ratio stood at 3.24, hence stable compared to 2005, 4 being the limit.

4.5 Portfolio ratio

This ratio results from dividing Treasury Operations by Total Equity (subscribed capital, reserves and profit/loss). For this ratio Finance Operations include both portfolios (the financial assets held to maturity and the available-for-sale financial assets) and financial transactions not represented by a security (deposits, repos).

Considering Total Equity at end of the third quarter 2006, the authorized portfolio limit is € 9.4 billion, i.e. € 4.4 billion headroom i.e. 46.8% of the approved limit.

At end 2006, the ratio stood at 1.06, hence stable compared to 2005. Following the Administrative Council's approval in September 2006, the limit has been fixed to 2.

Note S – Post-balance sheet events

There have been no 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 21 February 2007.

EXTERNAL AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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

EXTERNAL AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
Year ended 31 December, 2006

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, 2006. 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 as of 31 December 2006. 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 – Rhône-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, 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 2006 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 as of 31 December 2006.

Neuilly-sur-Seine, 22 February, 2007

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 2006

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 2006 and from 19-23 February 2007 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 2006.

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 2006 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2006, including the balance sheet at 31 December 2006, 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 21 February 2007
- 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 2006
- Obtaining the opinion signed by the External Auditor on 22 February 2007
- 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 2006 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 23 February 2007

Christina SIMEONOVA
René H. MELLIGER
Aunus SALMI

EXTRACT FROM THE MINUTES OF THE 246TH MEETING OF THE ADMINISTRATIVE COUNCIL OF THE CEB

Resolution 1500 (2007) **CA/PV 246 (2007)**

Paris, 14 March 2007

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 2006
Having taken note of the external auditor's report dated 22 February 2007
Having taken note of the Auditing Board's report dated 23 February 2007
Having taken note of the Governor's Memorandum dated 26 February 2007

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 2006
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2006
3. resolves to allocate the net profit for 2006 (+ € 88 089 384) as follows:
   - € 82 089 384 to the General reserve
   - € 6 000 000 as social dividend to fund the Selective Trust Account
4. recommends that the Governing Board approves point 3 above.

EXTRACT FROM THE MINUTES OF THE 185TH MEETING OF THE GOVERNING BOARD OF THE CEB

Resolution 366 (2007) **CD/PV 185 (2007)**

Paris, 30 March 2007

The Governing Board

Having regard to Article IX, Section 3, paragraph 1, litt.e of the Articles of Agreement
Having regard to the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2006

Having taken note of the certification by the external auditor, dated 22 February 2007
Having regard to the reports of the Bank's statutory organs viz :
- the Report of the Governor for the financial year 2006
- the Auditing Board's report dated 23 February 2007
Having regard to Resolution 1500 (2007) of the Administrative Council
Having heard the Auditing Board

Decides:

- to approve the Bank's annual report, accounts and other financial statements for 2006
- to discharge the Administrative Council from his responsibility for the financial year 2006
- to endorse point 3 of Resolution 1500 (2007) of the Administrative Council of 14 March 2007, by which the Administrative Council agreed to allocate the net profit for 2006, amounting to € 88 089 384, as follows:
  - € 82 089 384 to the General reserve
  - € 6 000 000 as social dividend to fund the Selective Trust Account.

BALANCE SHEET AS AT 31 DECEMBER 2006 AFTER ALLOCATION OF PROFIT

In thousand euros

Assets	31/12/2006	31/12/2005
Cash in hand, balances with central banks	47	65
Fair value financial assets through profit or loss	158 217	384 778
Hedging derivatives	815 775	868 587
Available-for-sale financial assets	2 049 204	1 168 179
Loans and advances to credit institutions and to customers		
Loans	12 101 562	11 713 728
Advances	1 151 572	1 734 690
Financial assets held to maturity	1 901 241	1 750 402
Fixed assets	30 413	29 251
Other assets	24 439	25 164
Total assets	**18 232 470**	**17 674 844**
Liabilities		
Fair value financial liabilities through profit or loss	2 039 517	1 278 289
Hedging derivatives	559 418	630 997
Amounts owed to credit institutions and to customers	70 304	79 084
Debt securities	13 620 468	13 724 837
Other liabilities	44 491	155 056
Selective Trust Account (STA)	76 410	72 740
Provision for financial risks	55 067	48 609
Total liabilities	**16 465 675**	**15 989 612**
Capital		
Subscribed	3 293 570	3 293 570
Uncalled	(2 924 922)	(2 924 922)
Called	368 648	368 648
General reserve	1 398 448	1 316 359
Unrealised or deferred gains or losses	(301)	225
Total shareholders' equity	**1 766 795**	**1 685 232**
Total liabilities and shareholders' equity	**18 232 470**	**17 674 844**

NOTES FOR THE READER

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 2006, the Bank had 38 member states: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey. On 10 January 2007, Georgia became the 39th member. 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 (as defined by the CEB's Development Plan for 2005-2009):
Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Moldova, 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.

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