FINANCIAL REPORT

CEB
COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE



KEY FIGURES

In 2015, the European economy did not recover as expected, but was instead marked by a migrant and refugee crisis. In this context, the CEB showed strong responsiveness by intervening in support of those of its member states that were affected by this emergency situation through the implementation of the Migrant and Refugee Fund (MRF). Despite these challenges, the CEB's operational results for 2015 were in line with its objectives.

In million euros (IFRS Accounting standards)	2015	2014	Variation[1]
Loans outstanding	13 072	12 568	+4.0%
Projects approved during the year	2 301	2 065	+11.4%
Stock of projects	4 720	4 619	+2.2%
of which commitments signed during the year	2 235	1 551	+44.1%
Loans disbursed during the year[2]	1 843	1 746	+5.6%
Issues[2]	3 049	3 418	-10.8%
Total assets	25 116	25 545	-1.7%
Net profit	127.0	134.4	-5.5%

[1] Variations are calculated with figures in thousands of euros
[2] The exchange value in euros with the exchange rate at the date of transaction

FINANCIAL SUMMARY

ACTIVITY HIGHLIGHTS

In the second year of the Development Plan 2014-2016, the CEB achieved its volume targets. All parameters showed upward trends at the end of 2015 compared to the end of 2014: loans outstanding rose to € 13.1 billion (+4.0%), the stock of projects rose to € 4.7 billion (+2.2%) and disbursements rose to € 1.8 billion (+5.6%). The amount of projects approved reached € 2.3 billion (+11.4%) of which two-thirds benefitted the CEB's target countries.

In 2015, total new borrowings with maturities of more than one year amounted to € 3.0 billion compared to € 3.4 billion in 2014. Six issues were launched in 2015 (compared with the eleven launched in 2014) under the annual borrowing authorisation of € 4.6 billion (€ 4.0 billion for 2014).

Overall, 58% of the funds raised by the Bank were denominated in euros, 29% in US dollars and 13% in British pounds.

All funding operations launched in 2015 were hedged to reduce both interest rate risk and foreign exchange risk. After taking swaps into account, all the resources borrowed were denominated in euros.

FINANCIAL PERFORMANCE

Balance Sheet

At 31 December 2015, total assets amounted to € 25 116 million versus € 25 545 million at 31 December 2014, i.e. a decrease of 1.7%.

Assets

Outstanding loans reached € 13 072 million at the end of 2015, a 4.0% increase compared to € 12 568 million at the end of 2014. Disbursements totalled € 1 843 million, increasing by 5.6%. At the same time, repayments for 2015 amounted to € 1 388 million (€ 1 767 million in 2014).

At the end of 2015, **treasury assets** amounted to € 6 342 million, a decrease of 13.2% compared to the end of 2014 (€ 7 310 million) due to a particularly high level of repayments in early 2015.

Financial assets held to maturity declined by 5.1% from € 2 812 million at the end of 2014 to € 2 670 million at the end of 2015 due to a suspending decision on further investments in the context of very low interest rates.

Liabilities

Borrowings and debt securities in issue (including accruals) decreased by 4.6% from € 20 572 million at the end of 2014 to € 19 630 million at the end of 2015:

- issues with maturities of one year or more totalled € 19 530 million at the end of 2015 versus € 20 472 million at the end of 2014, reflecting new issues amounting to € 3 077 million, or 67.4% of the annual borrowing authorisation for 2015, and reimbursements of € 5 097 million.

Other liabilities increased mainly due to cash collaterals deposits received on contracts for hedging derivative financial instruments, which amounted to €1 688 million at the end of 2015 compared to € 1 128 million at the end of 2014, i.e. + 49.6%.

The **provision for post-employment benefits** decreased by € 13 million, i.e. minus 5.3%, from € 239 million at the end of 2014 to € 227 million at the end of 2015, mainly as a consequence of the increase in the discounted interest rate index for the actuarial calculation of the commitment from 1.5% at the end of 2014 up to 2.0% at the end of 2015.

Equity, including net profit for 2015 (before allocation), amounted to € 2 711 million at the end of 2015 compared with € 2 545 million at the end of the previous year. This increase of € 167 million, i.e. 6.5%, was primarily due to:

- 2015 net profit reaching € 127.0 million; and
- the positive development of the variation in gains or losses recognised directly in equity, which increased from minus € 97 million at the end of 2014 to minus € 58 million at the end of 2015, of which 73% reflected a positive variation in the actuarial gains and losses of the pension scheme and 27% reflected a positive variation in unrealised gains and losses in available-for-sale financial assets.

Finally, the **balance sheet** showed a variation in the derivative items (financial assets or liabilities at fair value through profit or loss and hedging derivative instruments) of € 257 million, i.e. +10.8%, on the assets side and minus € 163 million, i.e. minus 19.6%, on the liabilities side, respectively. These items represent the fair value, either positive (assets) or negative (liabilities), of the derivatives instruments (currency exchange and interest rate contracts) used for hedging purposes on loans, available-for-sale assets and debt securities in issue.

Income Statement

Despite a difficult economic and financial environment in Europe, characterised by historically low interest rates, the CEB reached a net profit of € 127.0 million in 2015, a 5.5% decrease compared to € 134.4 million in 2014. Disregarding the one-off effect of € 7.7 million in 2014 due to a change in the pensioner's health insurance scheme, net profit in 2015 remained stable year-on-year.

The main drivers of the € 7.4 million decrease were:

- An increase in **net banking income** of € 6.7 million, i.e. 4.0% due to:
  - a slight decrease of the net interest margin by € 2.7 million (minus 1.6% compared to 2014) in the context of very low interest rates, of which 74% was attributable to the held-to-maturity portfolio and 26% to loans and treasury assets; and
  - a positive impact of € 9.4 million in the fair value of derivative financial instruments

- An exceptional increase in **general operating expenses** (including depreciation) of € 14.1 million (+41.7% compared to 2014) due to:
  - a past service gain in 2014 amounting to € 7.7 million after a change of the employer's contribution rate to the post-employment health coverage for pensioners; and
  - increases in 2015 in the service cost by € 3.7 million, mainly due to the actuarial calculations of post-employment commitments, in staff compensations (salary index, headcount increase) by € 1.3 million and in other general operating expenses by € 0.8 million.

Core earnings (excluding material one-off effects and exceptional gains and losses) amounted to € 118.3 million in 2015 compared with € 127.4 million in 2014, i.e. a decrease of 7.1%. Therefore, the adjusted cost-to-income ratio increased significantly from 24.3% in 2014 to 28.5% in 2015.

In conclusion, the CEB's satisfactory performance in 2015 was the result of its strong capacity to face a challenging financial environment relying on its prudent financial and risk management policies. Furthermore, as in prior years no arrears or impairments were recorded in 2015.

Key Ratios and Ratings

All of the CEB's prudential framework ratios remained within their limits and most of them improved throughout 2015:

- **Capital Adequacy** (limit: > 10.5%) improved slightly from 25.5% (2014) to 26.3%, i.e. +3.1%;
- **Leverage** (limit: < 12) decreased slightly with the indebtedness ratio down from 6.95 (2014) to 6.17, i.e. minus 11.2%; and
- **Liquidity** (limit: > 50%) remained well above its limit with the liquidity ratio at 79.7% compared to 164.3% (2014), i.e. minus 51.5%.

The international rating agencies Moody's, Standard & Poor's and Fitch Ratings, maintained their excellent ratings of the CEB at Aa1/AA+, outlook stable. All three agencies highlighted the CEB's strong shareholder support, conservative risk management and prudent liquidity policy.



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FINANCIAL STATEMENTS

PREPARED IN COMPLIANCE WITH IFRS ADOPTED BY THE EUROPEAN UNION

The Bank's objectives

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

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

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

Sectors of action

The Council of Europe Development Bank (CEB) contributes to the implementation of socially-orientated investment projects in favour of social cohesion through four major sectoral lines of action, namely the strengthening of social integration, management of the environment, supporting public infrastructure with a social vocation and supporting micro, small and medium-sized enterprises.

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

In accordance with Administrative Council Resolution 1562 (2013), each of these four action lines involves the following fields:

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

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

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

■ Supporting micro-, small and medium sized enterprises
The CEB finances micro, small and medium-sized enterprises (MSMEs) for the prime purpose of promoting the creation and preservation of viable jobs by facilitating access to credit. Such loans are also aimed at entities exercising craft activities or family enterprises engaged in regular economic activity.

Balance sheet

In thousand euros

	Notes	31/12/2015	31/12/2014
Assets			
Cash in hand, balances with central banks		476 467	203 897
Financial assets at fair value through profit or loss	C	1 743 238	1 275 571
Hedging derivative instruments	C	893 898	1 103 889
Available-for-sale financial assets		3 571 468	4 806 719
Loans and advances to credit institutions and to customers			
Loans	G	13 415 871	12 991 603
Advances	G	2 293 859	2 299 197
Financial assets held to maturity		2 669 603	2 812 026
Tangible and intangible assets	H	46 498	46 169
Other assets	I	5 523	6 310
Total assets		**25 116 425**	**25 545 381**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	C	123 236	177 430
Hedging derivative instruments	C	546 063	654 265
Amounts owed to credit institutions and to customers	J	229 831	257 789
Debt securities in issue	J	19 530 246	20 472 364
Other liabilities	I	1 688 395	1 128 436
Social Dividend Account	K	60 610	70 296
Provisions	L	226 548	239 327
Total liabilities		**22 404 929**	**22 999 907**
Equity			
Capital	M		
Subscribed		5 472 219	5 472 219
Uncalled		(4 859 802)	(4 859 802)
Called		612 417	612 417
General reserve		2 029 558	1 895 119
Net profit		127 037	134 439
Total capital, general reserve and net profit		2 769 012	2 641 975
Gains or losses recognised directly in equity		(57 516)	(96 501)
Total equity		**2 711 496**	**2 545 474**
Total liabilities and equity		**25 116 425**	**25 545 381**

Income statement

In thousand euros

	Notes	2015	2014
Interest and similar income			
Available-for-sale financial assets		10 996	22 141
Loans and advances to credit institutions and to customers		71 070	106 038
Financial assets held to maturity		92 209	96 314
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		1 695	(2 223)
Debt securities in issue		(5 061)	(47 719)
Other interest expenses and similar charges		(3 949)	(4 935)
Interest margin	N	**166 960**	**169 616**
Net gains or losses from financial instruments at fair value through profit or loss	P	8 695	(668)
Net gains or losses from available-for-sale financial assets		47	48
Commissions (income)		1 051	1 092
Commissions (expenses)		(1 840)	(1 863)
Net banking income		**174 913**	**168 225**
General operating expenses	Q	(45 009)	(31 229)
Depreciation and amortisation charges of fixed assets	H	(2 867)	(2 557)
Gross operating income		**127 037**	**134 439**
Cost of risk			
Net profit		**127 037**	**134 439**

Statement of comprehensive income

In thousand euros

	2015	2014
Net profit	**127 037**	**134 439**
Items that may be reclassified to income statement	**10 363**	**14 158**
Changes in value of available-for-sale financial assets	10 363	14 158
Items that will not be reclassified to income statement	**28 622**	**(63 120)**
Changes in actuarial differences related to the pension scheme	23 373	(55 964)
Changes in actuarial differences related to the other post-employment benefits	5 249	(7 156)
Total other elements of comprehensive income	**38 985**	**(48 962)**
Comprehensive income	**166 022**	**85 477**

Statement of changes in equity

In thousand euros

	Capital and reserves			Gains or losses recognised directly in equity			
	Called capital	Reserves and result	Total	Available for sale financial assets	Actuarial differences	Total	Total equity
Equity as at 1 January 2014	**612 417**	**1 895 119**	**2 507 536**	**3 987**	**(51 526)**	**(47 539)**	**2 459 997**
Net profit 2014		134 439	134 439				134 439
Changes in value of assets and liabilities recognised directly in equity				14 158	(63 120)	(48 962)	(48 962)
Equity as at 31 December 2014	**612 417**	**2 029 558**	**2 641 975**	**18 145**	**(114 646)**	**(96 501)**	**2 545 474**
Net profit 2015		127 037	127 037				127 037
Changes in value of assets and liabilities recognised directly in equity				10 363	28 622	38 985	38 985
Equity as at 31 December 2015	**612 417**	**2 156 595**	**2 769 012**	**28 508**	**(86 024)**	**(57 516)**	**2 711 496**

Statement of cash flows

In thousand euros

	For the year ended 31 December	2015	2014
	Net profit	127 037	134 439
+/-	Depreciation charges of tangible and intangible assets	2 867	2 557
+/-	Net loss/net profit from investing operations	18 948	17 946
+/-	Change in interest receivable	48 743	37 753
+/-	Change in interest payable	(41 469)	(30 929)
+/-	Other movements	4 051	(2 795)
	Total of non-monetary items included in the result	33 140	24 531
+	Reimbursements related to operations with credit institutions and customers	1 387 846	1 979 331
-	Disbursements related to operations with credit institutions and customers	(1 869 822)	(1 743 364)
+	Reimbursements related to other operations affecting financial assets or liabilities	4 539 439	4 063 230
-	Disbursements related to other operations affecting financial assets or liabilities	(2 049 604)	(3 246 924)
+/-	Cash flows related to operations affecting non-financial assets or liabilities	(9 158)	2 157
	Net cash flows from assets and liabilities resulting from operating activities	1 998 702	1 054 431
	Total net cash flows from operating activities (a)	**2 158 880**	**1 213 400**
+	Reimbursements related to financial assets held to maturity	191 169	171 661
-	Disbursements related to financial assets held to maturity	(59 119)	(363 471)
+/-	Cash flows related to tangible and intangible assets	(3 196)	(3 980)
	Total net cash flows from investing operations (b)	**128 854**	**(195 791)**
+/-	Cash flows from or to member states	(2 108)	(1 363)
+	Reimbursements related to debt securities in issue	5 116 570	5 473 264
-	Disbursements related to debt securities in issue	(7 136 716)	(6 991 428)
	Total net cash flows from financing operations (c)	**(2 022 255)**	**(1 519 527)**
	Effect of changes in foreign exchange rates on cash and cash equivalents (d)	**2 098**	**74 607**
	Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)	**267 577**	**(427 310)**
	Cash and cash equivalents at the beginning of the financial year	**2 503 066**	**2 930 375**
	Cash in hand, balances with central banks	203 897	286 640
	Advances repayable on demand and term deposits with credit institutions	2 299 169	2 643 735
	Cash and cash equivalents at the end of the financial year	**2 770 643**	**2 503 066**
	Cash in hand, balances with central banks	476 467	203 897
	Advances repayable on demand and term deposits with credit institutions	2 294 176	2 299 169
	Changes in cash and cash equivalents	**267 577**	**(427 310)**

NOTE A - Summary of principal accounting methods applied by the Bank

1. Applicable accounting standards

The Bank's separate accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In this regard, certain provisions of IAS 39 relating to hedge accounting have been excluded, and no adoption procedure of certain recent texts has yet begun.

As of 1 January 2014, the CEB applies the amendment to IAS 32 "Financial instruments: presentation - offsetting financial assets and financial liabilities", adopted by the European Union on 13 December 2012 (see Note F).

The entry into force of other standards with mandatory application after 1 January 2015 had no impact on the financial statements as at 31 December 2015. The Bank did not anticipate the implementation of new standards, amendments or interpretations adopted by the European Union when their implementation was optional in 2015.

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

The financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities, which are accounted for at fair value. The main accounting principles applied by the CEB are summarised below.

2. Financial assets and liabilities

2.1. Foreign currency transactions

The financial statements are presented in euros.

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

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

2.2. Loans and advances to credit institutions and to customers

The category "Loans and advances to credit institutions and to customers" consists of non-derivative financial assets with fixed or determinable payments non-quoted on an active market and that are nor held for trading, neither intended to be sold when granted.

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

The item "Advances" under category "Loans and advances to credit institutions and to customers" consists of interbank advances granted by the CEB and advances repayable on demand with credit institutions (except central banks). These allow settling and receiving payments from financial transactions related to its activities.

Loans given out by the Bank are first recorded at their market value which in general is the equivalent of the net amount initially disbursed.

Thereafter, loans are valued at amortised cost and interest is calculated on the basis of the global effective interest rate method. Financing commitments are recorded in the off-balance sheet for the amount not yet disbursed.

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

2.3. Securities

Securities held by the Bank are classified under two categories:

■ Financial assets held to maturity

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

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

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

■ Available-for-sale financial assets

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

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

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

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

■ Date and accounting criteria

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

2.4. Depreciation of financial assets, financing and guaranty commitments

■ Financial assets valued at amortised cost

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

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

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

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

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

The impairment relating to financing and guaranty commitments follows similar principles and are recorded under liabilities.

■ Available-for-sale financial assets

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

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

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

2.5. Debt securities in issue

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

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

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

2.6. Derivative instruments

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

Derivatives are classified under two categories:

■ Transaction derivatives

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

■ Derivatives and hedge accounting

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

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

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

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

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

2.7. Fair value assessment

The fair value of financial assets and liabilities is composed of their market values and additional value adjustments as required by IFRS 13.

■ Market value

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

Market value is determined as follows:

- using quoted prices in an active market;
- applying a valuation technique incorporating:
  - mathematical calculation methods based on recognised financial assumptions, and
  - parameters whose value is determined either by using prices of instruments traded in active markets, or based on statistical estimates or other quantitative methods in the absence of an active market.

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

■ **Value adjustments**

The valuation adjustments allow integration of the counterparty credit risk and of the Bank's own credit risk within the fair value.

Value adjustment for the risk of the counterparty (Credit Valuation Adjustment – CVA) reflects the risk for the Bank not to recover the full market value of its transactions, in case of default of one of its counterparties.

Value adjustment for own credit risk (Own Credit Adjustment - OCA and Debit Valuation Adjustment – DVA) represents the effect of the CEB's credit risk on valuation of its debt securities in issue and derivative financial liabilities.

These adjustments are calculated counterparty by counterparty and are based on the estimates of default exposures, probabilities of default and recovery rates in case of default.

The exposure at default is estimated using a model that quantifies the exposure at risk from the simulation of risk factors. For the CVA, the model takes into account collateral movements and their frequency. For the DVA, the model estimates a non-collateralised exposure except for counterparties with a bilateral collateralisation in case of downgrade of the CEB.

The CVA and DVA are recorded under the heading "Financial assets at fair value through profit or loss" in cases of positive value and under the heading "Financial liabilities at fair value through profit or loss" when the value is negative. Gains and losses are recognised in the income statement under "Net gains or losses from financial instruments at fair value through profit or loss".

2.8. Interest income and expense

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

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

2.9. Cost of risk

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

3. Fixed assets

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

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

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

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

■ Tangible assets

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

Main works, façade and roofing [1]	-
General and technical installations	10 years
Fixtures and fittings	10 years

[1] Given the Bank's headquarters location in the centre of Paris, its residual value is assigned to the component "main works, façade and roofing" which is not subject to depreciation.

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 according to the following durations:

Application software	5 years
System software	3 years
Office software	1 year

4. Post-employment staff benefits

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

The other post-employment benefit schemes (health care, fiscal adjustment and termination of service) are likewise defined benefit schemes.

These schemes represent commitments on the part of the Bank, which are valued and for which provisions are set up. In conformity with IAS 19, actuarial valuations are carried out on these commitments, taking into account both financial and demographic assumptions. The actuarial gains or losses are recorded in the balance sheet under heading "Provisions" by counterparty of "Statement of comprehensive income".

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

5. Social Dividend Account

The Social Dividend Account (SDA) is used to finance grants in favour of projects complying with CEB objectives and located in eligible countries, as defined by the Administrative Council. The operating principles of the SDA were revised by Resolutions AC 1554 (2013) and AC 1555 (2013) approved by the Administrative Council on 22 March 2013. Through these resolutions, the Administrative Council renamed the "Selective Trust Account" to "Social Dividend Account" and broadened its scope of use. Since then, the grants financed by the SDA may take the form of technical assistance, interest rate subsidies, guarantees and grant contributions.

■ Interest rate subsidies

Interest rate subsidies are used to reduce the amount of interests borne by a CEB borrower. Interest rate subsidies cover the interest rate differential between the rate applied by the Bank and the rate effectively paid by the borrower, for each tranche of the loan.

Guarantees

Guarantees on loans awarded by the CEB enable the Bank to fund projects that have a strong social impact but carry a high credit risk. The amount, the trigger event and the recovering mechanism are determined on a case by case basis.

Technical assistance

Technical assistance is used to help a CEB borrower prepare and implement its project. Pre-feasibility, feasibility and technical studies, design and operating plans, institutional and legal appraisals, and other consultancy services necessary for the project preparation, execution or monitoring and reporting, procurement supervision and impact assessment may thus be financed.

Grant contributions

Grant contributions may be awarded in the framework of emergency situations or take the form of contributions to a common cause in the member states, pursued in cooperation with other international actors.

Grants financed by the SDA are approved by the Administrative Council of the Bank, except technical assistance grants smaller than or equal to € 300 thousand, which are approved by the Governor.

The SDA is funded mainly by contributions from the Bank's member states, through dividends of a social nature, paid when the Bank's annual profit is allocated.

6. Related parties

With respect to IAS 24, the Bank is not a subsidiary of any entity. The financial statements are not affected by related party relationships.

The information concerning Chairpersons and Appointed officials of the Bank is presented in paragraph 7 below.

7. Compensation for Chairpersons and Appointed Officials

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

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

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

The Governor is appointed by the Governing Board for a 5-year term and may be re-appointed once. He is assisted by three Vice-Governors, who are appointed by the Governing Board, for a 5-year term renewable once [(1)], upon the Governor's proposal, following an opinion on conformity from the Administrative Council and after consultation with the members of the Governing Board. Their emoluments are fixed by the Administrative Council, within the framework of the approval of the annual budget of the Bank.

The gross compensation for the CEB's Chairpersons and Appointed Officials can be summarised as follows:

In thousand euros

	2015	2014
Office allowances		
Chairperson of the Governing Board [(2)]		43
Chairperson of the Administrative Council	45	45
Vice-Chairperson of the Governing Board [(3)]	6	6
Vice-Chairperson of the Administrative Council	6	6
Emoluments		
Governor Wenzel	351	343
Vice-Governor Guglielmino [(4)]	236	277
Vice-Governor Ruiz-Ligero	267	261
Vice-Governor Monticelli [(5)]	44	
Vice-Governor Dowgielewicz [(6)]	178	261

[(1)] This applies to Vice-Governors elected for the first time after 26 November 2010.
[(2)] The Chairman of the Governing Board, who holds the seat since 17 December 2014, has renounced to his allowances.
[(3)] Allowances of € 500 are paid monthly. The incumbent of the seat has changed on 27 November 2015.
[(4)] End of Vice-Governor Guglielmino term on 31 October 2015.
[(5)] Appointment of Vice-Governor Monticelli on 1 November 2015.
[(6)] Resignation of Vice-Governor Dowgielewicz 31 August 2015.

The CEB's Chairpersons and Appointed Officials do not receive any stock options or any other kind of bonus.

At the end of their mandate, the Governor and Vice-Governors receive either a retirement pension or a tax exempt temporary allowance equivalent to 40% to 50% of their last basic salary, for a period of up to 3 years. This allowance is limited to the amount, cumulated with possible emoluments from other sources, which must not exceed, in any case, the amount of the last basic salary paid by the CEB. For 2014, these temporary allowances have been granted to the former Governor Alomar (in office until 17 December 2011) for an amount of € 155 thousand, and to the former Vice-Governor Tarafás (in office until 1 May 2012) for an amount of € 117 thousand. For 2015, these temporary allowances have been granted to the former Vice-Governor Guglielmino (in office until 31 October 2015) for an amount of € 21 thousand and to the former Vice-Governor Tarafás for an amount of € 45 thousand.

The Governing Board, by its Resolution CD 383 (2010), has decided to abolish this temporary allowance for the new officials (Governor and Vice-Governors) appointed for the first term after 30 March 2010, the date of its adoption.

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

8. Taxation

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

NOTE B - Financial risk

This Note provides information about the Bank's exposure to the main financial risks it faces in its regular course of business namely credit risk, market risk, liquidity risk and operational risk. It also provides information about the objectives, policies and procedures which enable it to assess, monitor and control such risks.

While the Bank is not subject to member states' regulations, it considers European Union Directives on banking regulation and recommendations from Basel Committee on banking Supervision BCBS as the reference for its Risk Management Framework.

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

Decision-making committees

The Bank has set-up different decision-making committees responsible for defining and overseeing risk management policies in their respective fields. The Governor chairs all these committees.

- The *Finance & Risk Committee* meets on a weekly basis and takes credit decisions in relation with lending and treasury exposure, based on internal credit risk assessments and recommendations. The Finance & Risk Committee also reviews trends in the financial markets and the Bank's financial activity (liquidity management and debt issuance).

- The *Asset & Liability Management Committee* reviews the Bank's quarterly ALM status and decides on the Bank's asset and liability management strategy on a quarterly basis. It promotes and facilitates the dialogue among the Bank's Management while providing a wider perspective on the main financial risks.

- The *Funding Committee* approves the funding strategy and the loan pricing policy on a quarterly basis, taking into consideration liquidity requirements in compliance with the Annual Borrowing Authorisation approved by the Administrative Council.

- The *Committee for Operational Risks & Organisation* reviews operational risk issues at the CEB on a semi-annual basis and ensures that adequate steps are taken to mitigate, monitor and control these risks.

- The *IT Steering Committee* reviews information systems issues and takes the appropriate actions to ensure operational resilience and business continuity. Besides, in order to fully secure that IT-related decisions are properly aligned with business stakes and priorities, IT governance bodies were reinforced in 2015 with the creation of an IT Project Committee chaired by a Vice-Governor which enables, through regular meetings, to anticipate business requirements and develop a shared vision on IT.

Internal and external reporting on risk management

The respective Directorates report on a weekly basis to the Finance & Risk Committee on credit risk across the Loan and Treasury activities. In addition, the Finance & Risk Committee receives information on capital market developments and the liquidity position.

On a quarterly basis the ALM department reports to the Assets and Liability Committee on market risks namely Interest rate risk, Currency risk and Liquidity position.

The quarterly Risk Management Report presented both to the Administrative Council and Governing Board provides information to the shareholders about the development of the CEB's exposure to the main types of risks: credit, market, liquidity, operational risks and compliance with the prudential framework as defined internally.

In terms of external reporting on risk management, the Bank provides extensive information to the rating agencies as a support for their annual assessment. A specific report highly focused on risk management is also prepared under Form 18-K in connection with the registration statement filed with the U.S. Securities and Exchange Commission.

Finally, the CEB's annual report of the Governor provides a fair view of the risk management processes and practices in place at the Bank and its year-end financial statements disclose detailed data on its risk exposure.

1. Credit risk

Overview of the assessment process

Credit risk is defined as the potential that a bank borrower or counterparty may fail to meet its obligations in accordance with agreed terms. The Bank is exposed to credit risk in both its lending and treasury activities, as borrowers and treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become impaired.

The Bank's credit risk management adopts a prudent approach and aims to minimise credit risk and thus to contribute to the Bank's long-term financial sustainability. The Global Risk Management Department (GRM) is responsible for developing and implementing the comprehensive credit risk policy framework to identify, assess, monitor, report, mitigate and control all credit risks inherent in the CEB's operations, as a result of both on- and off- balance sheet transactions. GRM also monitors compliance with portfolio management policies (loans, securities, derivatives) on a continuous basis, as well as overseeing the Bank's concentration risk.

Credit risk assessment: the bank has developed in-house models to assess the creditworthiness of its borrowers and counterparties which are the base for assigning internal ratings. Models are validated on a regular basis. The GRM also carries out on site due diligence for new counterparties.

GRM assigns internal ratings to all its counterparties. In addition, GRM assigns internal ratings to each loan transaction based on the assessment of the counterparty and taking into account credit enhancement (collateral, guarantees, etc.) and structuring of transaction.

Internal ratings are mapped to the rating scale of international rating agencies. The internal rating scale ranges from 1 to 10, 10 being the best grade. Each internal rating corresponds to a rating on the scale used by international rating agencies (e.g.10 = AAA, 9.5 = AA+).

Transactions approval process: the procedure for approving new transactions distinguishes between lending activities and treasury operations.

For each new loan projects, GRM assesses the proposed transaction on the basis of the counterparty's creditworthiness and current exposure as well as the related country risk and, if necessary, recommends credit enhancement measures (guarantees, collaterals, as well as any other structures that mitigate the inherent risk). Having received a positive recommendation by the Finance & Risk Committee, the project is submitted for final approval to the Administrative Council.

Regarding the Finance Directorate (FIN), the Administrative Council establishes the overall framework for financial operations through the Bank's financial policies. Within this framework, treasury transactions are assessed by GRM and are submitted to the Finance & Risk Committee for approval.

Credit Risk Limits: the GRM proposes to the Finance & Risk Committee credit risk limits per type of: product, counterparty or group of counterparties and per country. The Finance & Risk Committee approves, modifies or rejects the limits. Credit limits are reviewed on an annual basis or if required on a shorter time basis. In addition, Large Exposure and concentration limits are also defined.

Control and monitoring: Credit exposure is measured, monitored and controlled on a daily basis. Breach of limit, if any, are monitored daily and reported to senior management.

Overall credit risk exposure

The following table presents the Bank's credit risk exposure both on the Loans and Social Development Directorate (loans and financing commitments) and the Finance Directorate (deposits, securities and derivatives) as at 31 December 2015 and 31 December 2014.

In million euros

	2015				2014			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Loans	1 906	8 619	2 546	13 072	1 930	7 936	2 701	12 568
Financing commitments	144	2 107	868	3 119	339	1 681	847	2 868
Deposits	1 701	1 070		2 771	1 014	1 489		2 503
Securities	3 850	1 875	200	5 925	4 427	2 643	200	7 269
Swap - add on	316	262		578	251	318		569
Forex		13		13		94		94
Swap coll - NPV not covered	46	5		51	51	13		64
Total	**7 963**	**13 951**	**3 615**	**25 528**	**8 012**	**14 174**	**3 748**	**25 935**

- Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
- Loans and financing commitments are reported after credit risk mitigation
- Loans, Deposits and Securities are reported at nominal value and excluding accrued interest

Loans and Social Development Directorate Activity

■ Loan portfolio

At 31 December 2015, loans outstanding reached € 13.1 billion, increasing by 4% (plus € 504 million) compared to end 2014. No delay or missed payments have been recorded in 2015, as was also the case in 2014.

The table below displays the risk profile of the loan portfolio by rating and type of counterparty:

In million euros

	2015				2014			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Sovereign	241	3 647	2 310	6 198	250	3 472	2 355	6 077
Sub-sovereign administrations and financial institutions (state-owned, region-owned,...)	1 544	1 785	22	3 352	1 552	1 779	27	3 358
IFI, International organisations	2			2	1.8			1.8
Other financial institutions	99	3 137	51	3 286	126	2 633	154	2 913
Non financial institutions	20	51	163	234		52	165	217
Total	**1 906**	**8 619**	**2 546**	**13 072**	**1 929**	**7 936**	**2 701**	**12 568**

• Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
• Loans reported after credit risk mitigation on nominal value and excluding accrued interest

A significant part of the loan portfolio benefits of credit enhancements (collateral and guarantees) allowing for an improvement in credit risk quality. At the end 2015, the bank has received € 5.3 billion in guarantees and € 0.6 billion of collateral under its Loan portfolio.

The impact of credit enhancements on the risk profile of loans outstanding is shown below:

In million euros

	2015				2014			
	Before		After		Before		After	
	Amount	%	Amount	%	Amount	%	Amount	%
AAA/AA	1 110	8%	1 906	15%	1 205	10%	1 929	15%
A/BBB	8 100	62%	8 619	66%	7 618	61%	7 936	63%
BIG	3 862	30%	2 546	19%	3 745	30%	2 701	21%
Total	**13 072**	**100%**	**13 072**	**100%**	**12 568**	**100%**	**12 568**	**100%**

• Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
• Loans reported on nominal value and excluding accrued interest

At 31 December 2015, loans outstanding rated *investment grade* represented 80.5% of the total loan portfolio, compared to 78.5% at end 2014. Loans outstanding to counterparties not rated by international rating agencies represented 4.5% of the total portfolio with internal ratings ranging from 3.0 to 9.5.

The table below highlights the share of the loans outstanding with the ten main counterparties:

In million euros

	2015						2014				
	AAA/AA	A/BBB	BIG	Total	%		AAA/AA	A/BBB	BIG	Total	%
1. Turkey		1 193		1 193	9%	Turkey		1 074		1 074	9%
2. Hungary			916	916	7%	Hungary			984	984	8%
3. Romania		825		825	6%	Romania		862		862	7%
4. Spain		623		623	5%	Spain		642		642	5%
5. Cyprus			577	577	4%	Cyprus			619	619	5%
6. Crédit Agricole		538		538	4%	Région Wallonne		495		495	4%
7. Région Wallonne		519		519	4%	Crédit Agricole		493		493	4%
8. Poland		474		474	4%	Poland		463		463	4%
9. Région de Flandres	322			322	2%	PKO Bank		313		313	2%
10. PKO Bank		321		321	2%	CaixaBank		306		306	2%
Sub-total	**322**	**4 492**	**1 493**	**6 307**	**48%**	**Sub-total**		**4 648**	**1 603**	**6 251**	**50%**
Others	1 584	4 127	1 053	6 764	52%	Others	1 929	3 288	1 098	6 317	50%
Total	**1 906**	**8 619**	**2 546**	**13 072**	**100%**	**Total**	**1 929**	**7 936**	**2 701**	**12 568**	**100%**

• Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
• Loans reported after credit risk mitigation on nominal value and excluding accrued interest

The following table displays the breakdown of loans outstanding by remaining time to maturity:

In million euros

Maturity	2015	%	2014	%
Up to 1 year	1 274	10%	1 241	10%
1 year to 5 years	6 530	50%	5 810	46%
More than 5 years	5 268	40%	5 516	44%
Total	**13 072**	**100%**	**12 567**	**100%**

• Loans reported on nominal value and excluding accrued interest

Financing commitments

Financing commitments are approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments reached € 3.1 billion at 31 December 2015 (31 December 2014, € 2.9 billion). At 31 December 2015, 72.2% of the financing commitments were rated *investment grade* (31 December 2014, 70.4%).

The table below displays the breakdown of financing commitments by counterparties within CEB's member states and by credit rating:

In million euros

	2015				2014			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
France	98	406		504	50	314		364
Slovak Republic		452		452		193		193
Turkey		433		433		290		290
Belgium		233		233	50			50
Romania		190	25	215		224	25	249
"the former Yugoslav Republic of Macedonia"			173	173			90	90
Cyprus			142	142			142	142
Poland		134		134		138		138
Portugal			115	115			170	170
Serbia			95	95			112	112
Croatia			82	82			134	134
Austria[1]		75		75		148		148
Lithuania		70		70				
Bosnia and Herzegovina			67	67			74	74
Hungary			63	63			38	38
Germany	45	10		55	179	6		185
Moldova (Republic of)			46	46			49	49
Albania			44	44			4	4
Spain		40		40		190		190
Czech Republic		35		35		85		85
Finland		30		30	60	50		110
Montenegro			16	16			10	10
Supranational	1			1				
Slovenia						20		20
Ireland						21		21
Italy						3		3
Total	**144**	**2 107**	**868**	**3 119**	**339**	**1 681**	**848**	**2 868**

• Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
• Financing commitments reported taking into account future credit risk mitigation

[1] Non CEB's member state: projects to be undertaken in a CEB member state but to be guaranteed by Austrian counterparties

Finance Directorate Activity

■ Deposits

The CEB places deposits in short term money market and "nostro" accounts. Eligible counterparties must have a minimum short term credit rating of P-1/A-1/F-1 (or equivalent long term rating).

The following table presents the breakdown by deposit type and credit rating:

In million euros

	2015				2014			
	AAA	AA	A	Total	AAA	AA	A	Total
Nostro	544	132	23	699	260	144	22	426
Money Market	500	525	1 047	2 072	350	260	1 467	2 077
Total	**1 044**	**657**	**1 070**	**2 771**	**610**	**404**	**1 489**	**2 503**

- Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
- Deposits reported on nominal value and excluding accrued interest

The following table presents the breakdown of money market by maturity and credit rating.

In million euros

	2015				2014			
	AAA	AA	A	Total	AAA	AA	A	Total
Up to 1 month	350	200	492	1 042	150	260	967	1 377
Up to 2 months	150	225	355	730	200		500	700
Up to 3 months		100	200	300				
Total	**500**	**525**	**1 047**	**2 072**	**350**	**260**	**1 467**	**2 077**

- Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
- Deposits reported on nominal value and excluding accrued interest

■ Securities portfolios

The Bank manages two securities portfolios: financial assets Held to Maturity (euro-denominated plain vanilla fixed rate bonds with maturities up to 30 years) and Available-for-Sale financial assets (securities with maturities of up to 15 years).

In million euros

	2015				2014			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Financial assets held to maturity	2 113	210	200	2 523	2 242	210	200	2 652
Financial assets available for sale	1 737	1 665		3 402	2 185	2 433		4 617
Total	**3 850**	**1 875**	**200**	**5 925**	**4 427**	**2 643**	**200**	**7 269**

- Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
- Securities reported on nominal value and excluding accrued interest

The following table displays the breakdown of the securities portfolios by country and credit rating:

In million euros

	2015				2014			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Financial assets held to maturity								
France	1 173			1 173	1 327			1 327
Supranationals	378			378	378			378
Germany	202			202	175			175
Portugal			200	200			200	200
Netherlands	182			182	182			182
Italy		160		160		160		160
Finland	76			76	76			76
Austria	53			53	53			53
Luxembourg	42			42	42			42
Spain		40		40		40		40
Ireland		10		10		10		10
Sweden	8			8				
Belgium					10			10
Sub-total	**2 113**	**210**	**200**	**2 523**	**2 242**	**210**	**200**	**2 652**
Financial assets available for sale								
France	390	855		1 245	446	693		1 139
United States of America		535		535		835		835
Netherlands	477			477	532			532
Supranational	377			377	310			310
Switzerland		229		229		400		400
Germany	102			102	764	240		1 004
United Kingdom	100			100		200		200
Norway	69			69	73			73
Canada	65			65	15			15
Australia	62			62				
Belgium	60			60	10			10
Spain		46		46		65		65
Austria	35			35	36			36
Sub-total	**1 737**	**1 665**		**3 402**	**2 185**	**2 433**		**4 617**
Total	**3 850**	**1 875**	**200**	**5 925**	**4 427**	**2 643**	**200**	**7 269**

• Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating
• Securities reported on nominal value and excluding accrued interest

Derivatives

The CEB uses Interest Rate Swaps (IRS) and Currency Interest Rate Swaps (CIRS) to hedge market risk on its lending, investment and funding transactions.

Derivatives transactions require prior credit clearance of the issuer counterparty by the Finance & Risk Committee and the signing of ISDA Master Agreement. In addition, for transactions with a maturity of over five years, the counterparty must have a minimum AA rating or have signed a CSA (Credit Support Annex) collateral agreement with the CEB. All swap transactions are valued at their net present value and positions per counterparty are monitored daily so that additional collateral can be called according to CSA margin call options ranging from daily to three times per month. The CEB has signed CSA collateral agreement with all of its derivative counterparties involved, as in 2014.

At 31 December 2015, the derivatives' credit risk exposure included swaps add-on for € 578 million (2014, € 569 million) and non-covered NPV (Net Present Value) after credit enhancement of € 51 million (2014, € 64 million). The Bank received as collateral € 1.9 billion thereof 88% cash and 12% sovereign securities (French government bonds).

The breakdown of the nominal value of swaps by instrument and by maturity is shown in the table below:

In million euros

	2015					2014				
	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total
Total (a)	**3 334**	**13 694**	**6 139**	**2 376**	**25 542**	**5 334**	**12 072**	**5 598**	**2 537**	**25 540**
Currency-rate swaps	2 650	9 424	707	454	13 235	4 783	9 219	1 188	553	15 743
Interest-rate swaps	684	4 269	5 432	1 922	12 306	550	2 853	4 410	1 983	9 797
Thereof: collateralised (b)	3 334	13 694	6 139	2 376	25 542	5 334	12 072	5 598	2 537	25 540
(b)/(a)	100%	100%	100%	100%		100%	100%	100%	100%	

Concentration - Large Exposure

Concentration risk arises from too high a proportion of the portfolio being allocated to a specific country or obligor or to a particular type of instrument or individual transaction. Large exposure is the overall exposure (loans, securities, deposits, derivatives and financing commitments) to a counterparty or a group of connected counterparties, exceeding 10% of prudential equity (paid-in capital, reserves and net profit). Prudential equity at 31 December 2015 amounts to € 2.8 billion.

In line with Basel Committee recommendations and European Union directives, the CEB ensures that no exposure to a counterparty or a group of connected counterparties exceeds the limit of 25% of prudential equity, and that the cumulative total of large exposures does not exceed 800% of prudential equity. Sovereign exposure is excluded from Large Exposure calculation and presented below only for information purposes.

At 31 December 2015, there were 16 counterparties or groups of counterparties with an exposure above 10% of prudential equity or € 277 million and therefore were considered as Large Exposure. However, no counterparty or a group of connected counterparties exceeded the limit of 25% of the CEB's prudential equity (same as in 2014). The total outstanding on these counterparties stood at € 6.9 billion, i.e. 250% of the CEB's prudential equity; well below the 800% limit.

When weighting the exposure by risk only 2 counterparties or groups of counterparties exceed the limit of 10% of the prudential equity for a total amount of € 639 million.

CEB's exposure to sovereigns[1]

The following table displays the breakdown of the exposure to sovereign counterparties by type of exposure (loans, securities).

In million euros

	2015				2015		
	Loans	Securities	Total		Loans	Securities	Total
EU countries *(a)*	**8 028**	**3 444**	**11 472**	**Non EU countries** *(b)*	**1 521**		**1 521**
France	366	2 418	2 784	Turkey	1 193		1 193
Spain	1 087	86	1 173	Albania	103		103
Belgium	943	60	1 003	Serbia	73		73
Germany	602	304	906	"the former Yugoslav Republic of Macedonia"	64		64
Cyprus	577		577	Bosnia and Herzegovina	38		38
Portugal	213	200	413	Moldova (Republic of)	25		25
Finland	210	76	285	Montenegro	13		13
Italy	68	160	228	Iceland	12		12
Lithuania	162		162				
Ireland	125	10	135	Supranational Institutions *(c)*		754	754
Slovak Republic	130		130				
Austria[2]	38	88	127				
Luxembourg		42	42				
Slovenia	37		37				
Malta	28		28				
Latvia	27		27				
Estonia	20		20				
Sub-total eurozone	**4 633**	**3 444**	**8 077**				
Poland	1 070		1 070				
Hungary	916		916				
Romania	825		825				
Croatia	287		287				
Denmark	173		173				
Sweden	56		56				
Czech Republic	36		36				
Bulgaria	32		32				
Sub-total others	**3 396**		**3 396**				
Total *(a)+(b)+(c)*					**9 549**	**4 199**	**13 748**

- Loans reported on nominal value and excluding accrued interest
- Securities reported on nominal value and excluding accrued interest

[1] Sovereigns include: States, Public administrations, State financial institutions, Special financial institutions
[2] Non CEB's member state: guarantee and collaterals received on loan

2. Market risk: FX, interest rate and liquidity risks

2.1. Managing balance sheet exposures

Management of the balance sheet is carried out by the ALM department under the authority of the Chief Financial Officer. It is based notably on an analysis of indicators for managing the risks incurred by all the CEB's activities. These risks are:

- FX risk, stemming from unfavourable variations in FX rates,
- interest rate risk, stemming from asymmetry over time between rate types for uses (loans, securities and deposits) and resources (borrowings) and their reset frequencies,
- liquidity risk, defined as the risk of being unable to meet one's commitments or of being unable to unwind a position on account of unfavourable market conditions.

The ALM department issues regular reports on the currency, interest rate and liquidity risks incurred by the CEB. Within the framework of normal and stressed market conditions, it evaluates in particular:

- the CEB's exposure to interest / currency rate variations,
- the level of sensitivity of the Net Present Value (NPV),
- the level of sensitivity of the Net Interest Margin.

It also produces analyses of the projected liquidity position, before and after stress.

2.2. Management principles

Within the ambit of its operations (loans, securities, borrowings, treasury operations), the CEB is exposed to FX, interest rate and liquidity risks.

a) Managing FX and interest rate risks

The key principle adopted is the almost systematic hedging of positions in order to maintain interest rate risks and currency risks as low as possible. The CEB manages its overall balance sheet at variable rates (except for its Held-To-Maturity asset portfolio), either directly or through hedging swaps.

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

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

At 31 December 2015, as at 31 December 2014, currency exchange and interest rate contracts were used exclusively as micro-hedging.

b) Managing liquidity risk

The CEB's principal objective is to meet its commitments fully and punctually. The liquidity risk is prudently managed because, unlike commercial banks, the CEB has no deposits, neither does it have access to refinancing by the Central Bank.

The liquidity risk is assessed by generating static and dynamic liquidity gaps and by calculating the projected liquidity ratio according to different stress scenarios: various levels of counterparty default according to their rating for loans and/or securities, discounts on securities for resale, partial or total default on loans and securities by all counterparties from a given country, absence of opportunities for refinancing.

The CEB's refinancing and investment policies, which are adjusted according to liquidity risk assessments, enable the Bank to meet its commitments and to respect the limits of its steering ratios, even in the case of a very unfavourable scenario.

2.3. Assessing FX, interest rate and liquidity risks

a) Measuring FX risk

The CEB hedges exposure to an FX risk, the residual risk stemming from cumulated results in currencies other than the euro. The risk is systematically hedged on a monthly basis. At the end of each month, the Bank produces an accounting statement of its results per currency and converts them into euros; any position with a countervalue in excess of € 1 million is reduced through spot currency purchase or sale.

In thousand euros

Breakdown by currency	Assets	Liabilities	Derivative instruments	**Net position 2015**	Assets	Liabilities	Derivative instruments	**Net position 2014**
Japanese Yen	12 524	38 545	26 808	787	30 321	52 162	22 558	717
US Dollar	363 430	9 395 833	9 033 099	696	400 723	10 293 133	9 892 645	235
Swiss franc	102 892	371 771	269 147	268	108 809	335 120	226 326	15
Canadian Dollar	168 948	17 002	(151 811)	135	181 248	17 207	(163 895)	146
Other currencies	941 930	2 232 864	1 291 141	207	954 343	3 891 212	2 937 101	232
Total	**1 589 724**	**12 056 015**	**10 468 384**	**2 093**	**1 675 444**	**14 588 834**	**12 914 735**	**1 345**

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

b) Measuring interest rate risk

Because of the principle of micro-hedging adopted on its positions, the CEB's exposure to interest rate risk is small.

The ALM department assesses the interest rate risk in terms of volume (rate gap), margin (sensitivity of the Net Interest Margin), and value (sensitivity of the Net Present Value).

The CEB's exposure to adverse interest rate movements is mainly confined to the own funds compartment: In effect, securities in the Held-To-Maturity portfolio are considered to be matched by the available own funds to which are added amounts allocated to the Social Dividend Account (SDA) and amounts equivalent to the pension commitments. Investments in this portfolio are made in long-term securities, at fixed rate and exclusively in euros.

Appraising interest rate risk hedging

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

In thousand euros

31 December 2015	**Before hedging**			**Hedging instruments**			**After hedging**		
Interest rate type	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total
Assets									
Fixed rate	**14 680 722**	**100 948**	**14 781 670**	**(5 892 093)**	**154 775**	**(5 737 318)**	**8 788 629**	**255 723**	**9 044 352**
Scheduled outstanding	11 058 362	100 948	11 159 310	(5 892 093)	154 775	(5 737 318)	5 166 269	255 723	5 421 992
Non scheduled outstanding	3 622 360		3 622 360				3 622 360		3 622 360
Variable rate	**10 232 357**	**5 903**	**10 238 260**	**5 828 141**	**5 672**	**5 833 813**	**16 060 498**	**11 575**	**16 072 073**
Total assets	**24 913 079**	**106 851**	**25 019 930**	**(63 952)**	**160 447**	**96 495**	**24 849 127**	**267 298**	**25 116 425**
Liabilities									
Fixed rate	**(24 606 499)**	**(154 774)**	**(24 761 273)**	**18 597 474**	**(52 678)**	**18 544 796**	**(6 009 025)**	**(207 452)**	**(6 216 477)**
Scheduled outstanding	(18 598 802)	(154 774)	(18 753 576)	18 597 474	(52 678)	18 544 796	(1 328)	(207 452)	(208 780)
Non scheduled outstanding	(6 007 697)		(6 007 697)				(6 007 697)		(6 007 697)
Variable rate	**(1 956 198)**	**113**	**(1 956 085)**	**(16 938 912)**	**(4 951)**	**(16 943 863)**	**(18 895 110)**	**(4 838)**	**(18 899 948)**
Scheduled outstanding	(143 732)	(43)	(143 775)	(16 938 912)	(4 951)	(16 943 863)	(17 082 644)	(4 994)	(17 087 638)
Non scheduled outstanding	(1 812 466)	156	(1 812 310)				(1 812 466)	156	(1 812 310)
Total liabilities	**(26 562 697)**	**(154 661)**	**(26 717 358)**	**1 658 562**	**(57 629)**	**1 600 933**	**(24 904 135)**	**(212 290)**	**(25 116 425)**

The outstanding fixed-rate assets before hedging amount to € 14 681 million, hedging instruments allow the exposure to drop to € 8 789 million.

This exposure of € 8 789 million after hedging consists of:

- scheduled outstandings (€ 5 167 million), mainly short-term deposits (€ 2 072 million), insensitive to variations in market rates and considered as fixed rate, the fixed rate Held-To-Maturity securities portfolio (€ 2 677 million) and marginally unhedged fixed rate loans (€ 226 million).
- non scheduled outstandings (€ 3 622 million), in particular swap valuations that, by nature, cannot be covered.

Reciprocally, the fixed-rate liability exposure of € 24 606 million before hedging is reduced to € 6 009 million after hedging.

This exposure of € 6 009 million after hedging consists mainly of:

- non scheduled outstanding (€ 6 007 million), composed mainly of available equity, Social Dividend Account and provision for pension commitments (€ 2 956 million) to which the Held-To-Maturity securities are matched, swap valuations (€ 2 253 million) and borrowing valuations (€ 648 million) that, by nature, cannot be covered.

The difference between fixed rate assets and liabilities after hedging amounts to € 2 828 million, mainly made up of short-term deposits that are represented at fixed rate. Their low duration slightly exposes them to interest rate risk. Consequently, the residual interest rate risk is low and interest rate risk hedging on the CEB's overall balance sheet is effective.

Measuring the sensitivity of the Net Interest Margin to interest rate risk

The ALM department studies the level of Net Interest Margin for the coming year based on several interest rate scenario assumptions (+10 bps and +100 bps).

The sensitivity of the Net Interest Margin measures the variation in the net interest margins over one year following the reporting date in the case of a uniform increase of 10 bps and 100 bps applied to all interest rate curves.

Calculation method

The Net Interest Margin sensitivity is calculated dynamically, on the basis of the following hypotheses:

- volume of new activity for 2016 on the main balance sheet items,
- characteristics of the new activity (in fine or linear amortising rule, maturity, projected spread, etc.). In particular, future rates on contracts stem from forward rates calculated at the reporting date increased by assumptions on interest rate spreads for each balance sheet item.

A dedicated tool enables us to:

- create simulated contracts on the basis of new activity assumptions,
- generate cash-flows on all contracts (stock of operations and new activity),
- determine the volume of cash-flows to invest or borrow in order to adjust the balance sheet on a monthly basis in the coming year.

In fine, the Net Interest Margin at the end of 2016 and its sensitivity to interest rate shocks are determined on the basis of a balanced forecast balance sheet.

Sensitivity of the Net Interest Margin

In thousand euros

	Parallel translation + 10 bps	Parallel translation + 100 bps
Sensitivity of the forecast 2016 Net Interest Margin as at 31/12/2015	(443)	(2 358)

Analysis of the result

Based on the balance sheet at 31 December 2015 and the new business assumptions, the Net Interest Margin would decrease by € 0.4 million if interest rates increased by 10 bps. It would fall by € 2.4 million if interest rates increased by 100 bps.

It will be recalled that sensitivity of the Net Interest Margin to changes in interest rates applies mainly to floating rate operations (loans/borrowings and treasury operations). In effect, for fixed rate operations, only future transactions are sensitive to changes in interest rates whereas stock operations are not sensitive to such changes.

Given the low balance sheet exposure to interest rate changes, the sensitivity of the Net Interest Margin is low.

c) Measuring liquidity risk

The level of the Bank's liquidity must comply with a prudential liquidity ratio and a short-term liquidity ratio (see prudential ratios).

Liquidity is monitored by means of a whole range of indicators that provide an overall view of the risk incurred. These indicators include quarterly stress tests, for example:

a) counterparty default scenarios, based on counterparty credit ratings or a defined country risk,
b) scenarios including discount on securities held by the CEB for resale,
c) scenarios based on a lack of opportunities for refinancing,
d) combination of scenarios.

Consequently, the CEB's liquidity needs are evaluated according to several scenarios. These liquidity needs correspond to the projected liquidity in each given scenario. They are compared to the Bank's "liquidity-cushion" corresponding to its liquid assets.

a) Counterparty default scenarios

The liquidity requirement is projected taking into account borrower default. In accordance with the logic applied from Basel II/Basel III and its differentiated approach to risk, borrower default is calculated on the basis of outstanding loans, weighted by the default probability rates published by the rating agencies for a given maturity and rating class. An internal rating is assigned to counterparties not rated by the rating agencies.

The CEB also evaluates the financial impact of catastrophic scenarios in which the probability of default applied to Below Investment Grade borrowers is 100% without any possibility of recovery.

Finally, selective "country" scenarios evaluate the increased need for liquidity resulting from a partial or total default of counterparties coming from the same country.

b) Scenarios including discount on securities held by the CEB for resale

The CEB's "liquidity cushion" is reduced by applying a discount on Available-For-Sale and Held-To-Maturity securities.

c) Scenarios based on a lack of opportunities for refinancing

The CEB's liquidity needs are assessed by taking into account transactions from the stock and operations from the new activity (including lending activity) without refinancing.

d) Combinations of scenarios

The scenarios combine, for example, a reduction in the liquidity buffer resulting from the discounts applied on securities with an increase in liquidity needs due to counterparty defaults.

In summary, the stress scenarios described above are used to assess the period during which the CEB, subjected to various adverse events, can meet its obligations while respecting the minimum imposed by its liquidity ratio.

By estimating survival horizons and variations in indicators under different stress scenarios, the CEB can manage its liquidity by adjusting its policy for short-term and long-term refinancing.

d) Balance sheet position by maturity

The balance sheet structure by maturity at 31 December 2015 and 31 December 2014 is shown below:

In thousand euros

31 December 2015	Current outstanding			Non-current outstanding		Total
	Up to 1 month	1 to 3 months	3 months up to 1 year	1 to 5 years	More than 5 years	
Assets						
Cash in hand, balances with central banks	476 467					476 467
Available-for-sale financial assets	378 084	833 974	799 847	1 051 829	567 831	3 631 565
Loans and advances to credit institutions and to customers						
Loans	36 834	91 869	1 318 865	6 985 792	5 638 276	14 071 635
Advances	1 263 964	1 029 530				2 293 494
Financial assets held to maturity	3 700	17 822	285 363	916 287	2 144 949	3 368 121
Sub-total of assets	**2 159 049**	**1 973 194**	**2 404 075**	**8 953 908**	**8 351 056**	**23 841 283**
Liabilities						
Amounts owed to credit institutions and to customers	129 812	32	6 699	53 511	40 044	230 098
Debt securities in issue		1 435 731	1 553 798	12 615 549	4 540 164	20 145 242
Deposits of guarantees received	1 682 498					1 682 498
Social Dividend Account	60 610					60 610
Sub-total of liabilities	**1 872 921**	**1 435 763**	**1 560 496**	**12 669 059**	**4 580 208**	**22 118 448**
Off-balance sheet						
Financing commitments (*)	(217 750)	(163 550)	(1 118 700)	(1 147 414)	(472 041)	(3 119 455)
Term financial instruments						
To be received	98 645	1 467 025	1 736 938	10 559 300	1 210 146	15 072 054
To be paid	(117 435)	(1 150 917)	(1 317 695)	(8 999 568)	(1 254 761)	(12 840 376)
Sub-total of off-balance sheet	**(236 540)**	**152 558**	**(699 457)**	**412 318**	**(516 656)**	**(887 777)**
Total by maturity 2015	**49 588**	**689 990**	**144 121**	**(3 302 833)**	**3 254 191**	**835 057**

In thousand euros

31 December 2014	Current outstanding			Non-current outstanding		Total
	Up to 1 month	1 to 3 months	3 months up to 1 year	1 to 5 years	More than 5 years	
Assets						
Cash in hand, balances with central banks	203 897					203 897
Available-for-sale financial assets	384 711	625 731	1 848 256	1 402 775	630 529	4 892 001
Loans and advances to credit institutions and to customers						
Loans	37 702	213 466	1 175 352	6 344 845	5 954 665	13 726 030
Advances	1 599 181	700 074				2 299 255
Financial assets held to maturity	9 985	100 722	183 055	972 585	2 332 878	3 599 225
Sub-total of assets	**2 235 476**	**1 639 993**	**3 206 662**	**8 720 205**	**8 918 071**	**24 720 407**
Liabilities						
Amounts owed to credit institutions and to customers	157 714	126	128	47 503	53 637	259 109
Debt securities in issue	829 833	1 060 556	3 323 785	11 554 998	4 343 847	21 113 018
Deposits of guarantees received	1 122 720					1 122 720
Social Dividend Account	70 296					70 296
Sub-total of liabilities	**2 180 562**	**1 060 682**	**3 323 912**	**11 602 502**	**4 397 484**	**22 565 142**
Off-balance sheet						
Financing commitments (*)	(169 000)	(180 000)	(950 000)	(1 107 271)	(461 879)	(2 868 150)
Term financial instruments						
To be received	847 758	1 181 878	3 481 528	10 459 759	1 881 539	17 852 461
To be paid	(708 013)	(1 019 548)	(3 023 677)	(9 411 402)	(1 904 617)	(16 067 257)
Sub-total of off-balance sheet	**(29 255)**	**(17 670)**	**(492 149)**	**(58 914)**	**(484 957)**	**(1 082 945)**
Total by maturity 2014	**25 659**	**561 641**	**(609 400)**	**(2 941 210)**	**4 035 630**	**1 072 320**

Each term financial instrument contract is simultaneously presented in the line "To be received" and in the line "To be paid" in the case of foreign exchange or currency swaps.

(*) In 2015, the sign of the "Financing commitments" item was reversed in order to reflect the sense of liquidity.

3. Operational risk

The CEB implemented an Operational Risk Management Policy to codify its approach to identifying, measuring, controlling, and reporting operational risks. This document lays down sound practices to ensure that operational risk is managed in an effective and consistent manner across the CEB.

The operational risk is defined as the risk of potential loss resulting from inadequate or failed internal processes, people and systems or from external events and includes the legal risk. Moreover, the CEB takes into account reputational risks linked to its activities.

By deliberately choosing to apply Basel Committee recommendations and best practices, the Bank is committed to constantly assessing its operational risks and to implementing the appropriate mitigating measures.

The operational risk framework of the CEB is reviewed and approved at the meetings of the Committee for Operational Risks and Organisation (CORO). Chaired by the Governor and composed of the Senior Management and the Directors of the Directorates, the CORO sets acceptable levels for the operational risks run by the CEB and ensures that Directors take the necessary steps to monitor and control these risks within their respective Directorates.

In close cooperation with the various business lines, the Operational Risk Department is in charge of coordinating the day-to-day management of operational risks. The whole framework is centrally managed in an IT tool: the risks and their evaluation following a predefined methodology, risk mitigation measures and action plans. The collection of operational risk incidents, including "near misses", is also integrated in this tool in order to ensure the efficiency of the control framework and to complete the risk mapping and assessment.

The Operational Risk Department is also responsible for the modelling of all procedures, in collaboration with the business lines, in order to design a procedure and control map. A dedicated intranet site was implemented to give access to all procedures to all staff.

To hedge against a disruption of its business activities, the CEB has a Business Continuity Plan (BCP) in place. This plan comprises a crisis management plan, an underlying technical framework as well as business line specific plans. Further to the 2013-2014 review of its contingency plan, in 2015 the Bank completely renewed the underlying technical architecture (data centres, emergency dealing room, user back-up positions, telecommuting solutions).

In the calculation of capital requirements, the CEB adopted the Basic Indicator Approach (proposed under Basel II). The Bank calculates this capital charge on the basis of the average net banking income over the previous three years. This charge is compared to prudential equity.

At 31 December 2015, the operational risk capital charge amounted to € 24.9 million, up from € 24.0 million at end 2014.

4. Prudential framework

The CEB has defined an internal prudential framework organised around three main pillars: capital adequacy, liquidity and leverage through six prudential indicators (ratios).

■ **Capital adequacy ratio (CAR)** measures, under the Standardised Approach, the Bank's prudential equity versus total Risk-Weighted Assets (RWA). The Bank defines and monitors this ratio to ensure that it holds sufficient capital to absorb unexpected losses embedded in its operations arising from credit, market and operational risks. This ratio is calculated as follows:

$$\textbf{Capital adequacy ratio} = \frac{\textbf{Prudential equity}}{\textbf{Risk weighted assets}}$$

- Prudential equity: paid-in capital, reserves and net profit
- Risk weighted assets: ∑ [Exposure at Default x risk-weighted factor]

The Capital Adequacy Ratio stood at 26.3% at the end of 2015 (2014: 25.5%), thus steadily improving owing to lower Risk-Weighted Assets and steady increase in equity.

The actual floor for this ratio is set at 10.5% of CEB's risk weighted assets. Credit risk stands for the bulk of capital requirements at 96.6%, split among credit risk in the loan portfolio, i.e. 72.3%, and credit risk on finance operations, i.e. 24.3%.

■ **Gearing ratio (GR)** is the ratio of Loans outstanding after swap and guarantees to own funds and establishes a volume ceiling (instead of a risk ceiling) to the Bank's loan activity. This ratio is primarily intended to provide a benchmark to other MDB's volume of loans.

$$\text{Gearing ratio} = \frac{\text{Outstanding loans}}{\text{Own funds}}$$

- Outstanding loans: after swaps and guarantees
- Own funds: subscribed capital, reserves and net profit

For a ceiling of two and a half times own funds, the Bank could lend up to € 19.1 billion. The ratio stood at 1.71 at the end of 2015 and has slightly increased in the last year owing to the increase in the loan portfolio and in spite of the steady increase of equity.

■ **Liquidity ratio (LR)** measures the Bank's capacity to meet its net liquidity requirements. These requirements take into account the total stock of projects awaiting financing and net cash flow for the next three-year period. The Bank's liquid assets are Deposits and Available-for-Sale financial assets with a residual maturity of less than 18 months.

The Bank's liquid assets must not fall below 50% of the net liquidity requirements for the next three years. The liquidity ratio, stood at 79.7 % at the end of 2015, versus 164.3% at the end of 2014 owing to lower but still ample liquid assets volume and higher net liquidity requirements over the next three years.

■ **Short-term liquidity ratio (STLR)** measures the Bank's capacity to handle its net liquidity requirements over an extended market disruption or economic downturn at different periods of time. The analysis of potential "liquidity gap" between sources (liquid assets) and uses (liquidity requirements) of cash is done on a forward-looking basis over different periods: one, three, six and twelve months and thereafter stressed for adverse market and economic conditions by applying risk haircuts depending on the asset class, the rating and the maturity. The minimum level of liquid assets is set at 100% of net liquidity requirements for each timeframe.

At 31 December 2015, the short-term liquidity ratio stood at: 561% for a 1-month period (2014: 456%), 223% for a 3-month period (2014: 246%), 204% for a 6-month period (2014: 176%) and 138% for the 1-year period (2014: 122%).

■ **Indebtedness ratio (IR)** compares total debt outstanding after swap to prudential equity (Ep). Total debt outstanding includes debt evidenced by a security, ECPs, bank advances and term deposit accounts, collaterals excluded. The limit is fixed at twelve times Ep, i.e. € 33.2 billion. The ratio stands at 6.17 at the end of 2015 (2014: 6.95) and continues a steady downward trend with a stable balance sheet and gradually increasing equity.

■ **Treasury asset ratio (TAR)** compares total financial assets after swap to prudential equity (Ep). Total financial assets comprise the outstanding amounts in both securities portfolios (held-to-maturity and available-for-sale) and treasury transactions in issue (bank deposits, repos, "nostro" accounts), collaterals excluded. The limit is fixed at 6 times the CEB's prudential equity, i.e. € 16.6 billion. The ratio stood at 2.61 at 31 December 2015, down from 3.35 at 31 December 2014, due to the decrease in financial assets volume while the prudential equity continued to increase.

NOTE C - Financial instruments at fair value through profit or loss and hedging derivative instruments

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

All the Bank's micro-hedging operations recognised under IAS 39 are fair value hedges and are recorded in the balance sheet under the heading "Hedging derivative instruments". These operations hedge the fair value of the fixed rate financial assets and liabilities (loans, available-for-sale assets, debt securities in issue).

Term financial instruments comprise interest rate, currency and forward exchange swaps. They are valued with a method referring to valuation technics using observable parameters.

Following the application of IFRS 13 "Fair value measurement" the CEB adjusted its valuation methods related to:

- credit risk of the counterparty within the fair value of derivative financial assets (Credit Valuation Adjustment – CVA);
- its own credit risk within the valuation of derivative financial liabilities (Debit Valuation Adjustment – DVA);
- its own credit risk within the valuation of debt securities in issue (Own Credit Adjustment – OCA).

At 31 December 2015, the CEB recorded a fair value adjustment of derivative instruments in the amount of € 898 thousand under assets for the DVA (31 December 2014: € 1 075 thousand) and of € 1 478 thousand under liabilities for the CVA (31 December 2014: € 1 343 thousand). These adjustments are recorded by counterparty of income statement. None of the debt securities in issue being accounted for at market value, the OCA amount equals to zero.

The following table represents the fair value of these financial instruments.

In thousand euros

31 December 2015	Positive market value	Negative market value
Financial instruments at fair value through profit or loss		
Interest rate derivative instruments	9 731	(46)
Foreign exchange derivative instruments	1 732 609	(121 712)
Value adjustment for own credit risk (Debit Valuation Adjustment - DVA)	898	
Value adjustment for the risk of the counterparty (Credit Valuation Adjustment - CVA)		(1 478)
Total	**1 743 238**	**(123 236)**
Hedging derivative instruments		
Interest rate derivative instruments	614 612	(476 616)
Foreign exchange derivative instruments	279 286	(69 447)
Total	**893 898**	**(546 063)**

In thousand euros

31 December 2014	Positive market value	Negative market value
Financial instruments at fair value through profit or loss		
Interest rate derivative instruments	9 994	(75)
Foreign exchange derivative instruments	1 264 502	(176 012)
Value adjustment for own credit risk (Debit Valuation Adjustment - DVA)	1 075	
Value adjustment for the risk of the counterparty (Credit Valuation Adjustment - CVA)		(1 343)
Total	**1 275 571**	**(177 430)**
Hedging derivative instruments		
Interest rate derivative instruments	666 858	(574 435)
Foreign exchange derivative instruments	437 031	(79 830)
Total	**1 103 889**	**(654 265)**

NOTE D - Financial assets and liabilities

Financial assets and liabilities are presented in the table below according to their accounting valuation rules and their fair values.

In thousand euros

31 December 2015	At fair value through profit or loss	At fair value through equity	At amortised cost	Carrying value	Fair value
Assets					
Cash in hand, balances with central banks			476 467	476 467	476 467
Financial assets at fair value through profit or loss	1 743 238			1 743 238	1 743 238
Hedging derivative instruments	893 898			893 898	893 898
Available-for-sale financial assets		3 571 468		3 571 468	3 571 468
Loans and advances to credit institutions and to customers			15 709 730	15 709 730	15 709 730
Financial assets held to maturity			2 669 603	2 669 603	3 100 385
Total financial assets	**2 637 136**	**3 571 468**	**18 855 800**	**25 064 404**	**25 495 186**
Liabilites					
Financial liabilities at fair value through profit or loss	123 236			123 236	123 236
Hedging derivative instruments	546 063			546 063	546 063
Amounts owed to credit institutions and to customers			229 831	229 831	229 831
Debt securities in issue			19 530 246	19 530 246	19 506 849
Social Dividend Account			60 610	60 610	60 610
Total financial liabilities	**669 299**		**19 820 687**	**20 489 986**	**20 466 589**

In thousand euros

31 December 2014	At fair value through profit or loss	At fair value through equity	At amortised cost	Carrying value	Fair value
Assets					
Cash in hand, balances with central banks			203 897	203 897	203 897
Financial assets at fair value through profit or loss	1 275 571			1 275 571	1 275 571
Hedging derivative instruments	1 103 889			1 103 889	1 103 889
Available-for-sale financial assets		4 806 719		4 806 719	4 806 719
Loans and advances to credit institutions and to customers			15 290 800	15 290 800	15 290 800
Financial assets held to maturity			2 812 026	2 812 026	3 304 090
Total financial assets	**2 379 460**	**4 806 719**	**18 306 723**	**25 492 902**	**25 984 966**
Liabilites					
Financial liabilities at fair value through profit or loss	177 430			177 430	177 430
Hedging derivative instruments	654 265			654 265	654 265
Amounts owed to credit institutions and to customers			257 789	257 789	257 789
Debt securities in issue			20 472 364	20 472 364	20 545 501
Social Dividend Account			70 296	70 296	70 296
Total financial liabilities	**831 695**		**20 800 449**	**21 632 144**	**21 705 281**

None of the securities classified under the available-for-sale financial assets or financial assets held to maturity categories has been pledged in 2015 and 2014.

NOTE E - Market value measurement of financial instruments

Following the application of IFRS 13 "Fair value measurement" the CEB adjusted its risk valuation methods by including counterparty risk (CVA) and its own credit risk (DVA and OCA), as mentioned in Note C.

The Bank's financial assets and liabilities are grouped in a three-level hierarchy reflecting the reliability of their valuation basis.
Level 1: liquid assets and liabilities as well as financial instruments with quoted price in active markets.
Level 2: financial instruments measured using valuation techniques based on observable parameters.
Level 3: financial instruments measured using valuation techniques that include unobservable parameters. This level includes:

- debt securities in issue containing embedded derivatives in level 3, for which there is no market price available. They were valued at par.
- derivative instruments covering structured issues whose valuation requires complex models and is notably sensitive to unobservable market data.
- loans whose conditions for disbursements are equivalent to those applied by other supranational financial institutions. Given its preferred creditor status, the Bank does not sell this type of receivables. Furthermore, changes in market rates have very little impact on the fair value of these operations as the majority of loans are at variable interest rate (including hedging transactions). The Bank therefore estimates that the fair value of these assets corresponds to their net carrying value.

Financial instruments, measured at their fair values, are presented in the table below:

In thousand euros

31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash in hand, balances with central banks	476 467			476 467
Financial assets at fair value through profit or loss		1 743 238		1 743 238
Hedging derivative instruments		893 898		893 898
Available-for-sale financial assets	2 616 723	954 745		3 571 468
Loans and advances to credit institutions and to customers			15 709 730	15 709 730
Financial assets held to maturity	3 092 782	7 603		3 100 385
Total financial assets	**6 185 972**	**3 599 484**	**15 709 730**	**25 495 186**
Liabilities				
Financial liabilities at fair value through profit or loss		123 236		123 236
Hedging derivative instruments		546 063		546 063
Amounts owed to credit institutions and to customers	129 812	100 019		229 831
Debt securities in issue	18 872 412	634 437		19 506 849
Social Dividend Account	60 610			60 610
Total financial liabilities	**19 062 834**	**1 403 755**		**20 466 589**

In thousand euros

31 December 2014	Level 1	Level 2	Level 3	Total
Assets				
Cash in hand, balances with central banks	203 897			203 897
Financial assets at fair value through profit or loss		1 275 571		1 275 571
Hedging derivative instruments		1 103 061	828	1 103 889
Available-for-sale financial assets	4 140 581	666 138		4 806 719
Loans and advances to credit institutions and to customers			15 290 800	15 290 800
Financial assets held to maturity	3 304 090			3 304 090
Total financial assets	**7 648 568**	**3 044 770**	**15 291 628**	**25 984 966**
Liabilities				
Financial liabilities at fair value through profit or loss		177 430		177 430
Hedging derivative instruments		654 265		654 265
Amounts owed to credit institutions and to customers	157 714	100 075		257 789
Debt securities in issue	19 678 992	849 136	17 373	20 545 501
Social Dividend Account	70 296			70 296
Total financial liabilities	**19 907 002**	**1 780 906**	**17 373**	**21 705 281**

NOTE F - Offsetting financial assets and financial liabilities

At 31 December 2015, no operation was subject to offsetting in the balance sheet of the CEB. The Bank has no offsetting agreements meeting the criteria of the amendment to IAS 32.

The following table presents net amounts of financial assets and liabilities, as well as their net amounts after taking into account transactions under framework agreements (cash deposits or securities received under collateral agreements on swaps and loans), as required by the amendment to IFRS 7.

In thousand euros

31 December 2015	Net amounts of financial assets and liabilities	Cash received as collateral	Securities received as collateral	Net amounts
Assets				
Loans	13 415 871		(735 484)	12 680 387
Derivative instruments	2 637 136	(1 682 654)	(237 010)	717 472
Other assets not subject to offsetting	9 063 418			9 063 418
Total assets	**25 116 425**	**(1 682 654)**	**(972 494)**	**22 461 277**
Liabilities				
Derivative instruments	669 299			669 299
Deposits of guarantees received	1 682 498	(1 682 654)		(156)
Other liabilities not subject to offsetting	20 053 132			20 053 132
Total liabilities	**22 404 929**	**(1 682 654)**		**20 722 275**

In thousand euros

31 December 2014	Net amounts of financial assets and liabilities	Cash received as collateral	Securities received as collateral	Net amounts
Assets				
Loans	12 991 603		(725 360)	12 266 243
Derivative instruments	2 379 460	(1 122 720)	(451 102)	805 638
Other assets not subject to offsetting	10 174 318			10 174 318
Total assets	**25 545 381**	**(1 122 720)**	**(1 176 462)**	**23 246 199**
Liabilities				
Derivative instruments	831 695			831 695
Deposits of guarantees received	1 122 721	(1 122 720)		1
Other liabilities not subject to offsetting	21 045 491			21 045 491
Total liabilities	**22 999 907**	**(1 122 720)**		**21 877 187**

NOTE G - Loans and advances to credit institutions and to customers

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

In thousand euros

Breakdown of loans by category of borrower	31/12/2015	31/12/2014
Loans to credit institutions		
Loans	7 701 898	7 339 202
Interest receivable	17 606	18 393
Unpaid receivables	1 479	1 278
Depreciation of loans to credit institutions (*)	(1 879)	(1 878)
Sub-total	7 719 104	7 356 995
Loans to customers		
Loans	5 369 818	5 228 337
Interest receivable	20 847	21 927
Sub-total	5 390 665	5 250 264
Value adjustment of loans hedged by derivative instruments	306 102	384 344
Total loans	**13 415 871**	**12 991 603**
Other advances		
Advances repayable on demand	222 502	221 955
Advances with agreed maturity dates or periods of notice	2 071 674	2 077 214
Sub-total	2 294 176	2 299 169
Interest receivable	(317)	28
Total other advances	**2 293 859**	**2 299 197**

(*) Change in this balance concerns accrued interest of an impaired loan

At 31 December 2015, loans are guaranteed up to the amount of € 5.9 billion (31 December 2014: € 5.4 billion). These guarantees could be either in the form of securities or signed commitments.

Loans outstanding and financing commitments by country

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

In thousand euros

	Outstanding				Financing commitments	
Breakdown by borrowers' country location	**31/12/2015**	**%**	**31/12/2014**	**%**	**31/12/2015**	**31/12/2014**
Poland	1 893 940	14.49	1 715 502	13.65	199 266	317 095
Spain	1 635 056	12.51	1 532 463	12.19	40 000	190 000
Turkey	1 298 483	9.93	1 176 544	9.36	432 789	289 789
France	1 269 594	9.71	1 133 588	9.02	308 500	191 500
Hungary	916 760	7.01	985 969	7.85	62 500	38 180
Belgium	883 266	6.76	823 656	6.55	160 000	50 000
Romania	860 410	6.58	880 880	7.01	305 089	308 979
Germany [1]	601 700	4.60	640 522	5.10	45 000	179 000
Cyprus	577 328	4.42	618 903	4.92	142 049	142 049
Slovak Republic	315 517	2.41	183 075	1.46	507 000	192 500
Italy [2]	311 727	2.38	434 005	3.45		3 150
Finland	308 292	2.36	279 292	2.22	30 000	110 000
Croatia	287 436	2.20	280 741	2.23	82 464	144 076
Czech Republic	285 134	2.18	196 516	1.56	85 012	85 000
Portugal	213 250	1.63	222 745	1.77	115 000	170 000
Iceland	176 266	1.35	182 893	1.46		
Denmark	173 333	1.33	186 667	1.49		
Lithuania	164 488	1.26	141 700	1.13	70 000	
Ireland	124 996	0.96	117 689	0.94		21 000
Bulgaria	106 850	0.82	88 631	0.71	17 500	30 000
Albania	103 492	0.79	106 789	0.85	44 480	4 142
Serbia	101 480	0.78	111 927	0.89	113 661	132 405
Slovenia	93 949	0.72	115 761	0.92	40 000	20 000
"the former Yugoslav Republic of Macedonia"	76 280	0.58	67 133	0.53	173 277	89 674
Bosnia and Herzegovina	67 643	0.52	53 929	0.43	67 850	86 600
Latvia	59 340	0.45	83 107	0.66		
Sweden	56 200	0.43	107 935	0.86		
Malta	27 750	0.21	37 850	0.30		
Moldova (Republic of)	24 709	0.19	22 626	0.18	55 769	48 597
Georgia	21 979	0.17	6 177	0.05		14 414
Estonia	20 239	0.15	23 245	0.18		
Montenegro	14 829	0.11	9 079	0.07	22 250	10 000
Total	**13 071 716**	**100.00**	**12 567 539**	**100.00**	**3 119 455**	**2 868 150**

[1] of which € 120 million outstanding in favour of target countries as at 31 December 2015 (31 December 2014: € 172 million)
[2] of which € 199 million outstanding in favour of target countries as at 31 December 2015 (31 December 2014: € 290 million)

Loans outstanding and financing commitments by sector of action

In thousand euros

Breakdown by sector-based activities	Outstanding 31/12/2015	%	Outstanding 31/12/2014	%	Financing commitments 31/12/2015	Financing commitments 31/12/2014
Strengthening social integration						
Aid to refugees, migrants and displaced populations	160 326		139 520		134 000	60 680
Social housing for low-income persons	2 197 057		2 284 876		146 347	237 464
Improvement of living conditions in urban and rural areas	1 779 434		1 729 087		409 595	334 366
Sub-total	**4 136 817**	**31**	**4 153 483**	**33**	**689 942**	**632 510**
Managing the environment						
Natural or ecological disasters	713 069		758 203		358 622	178 621
Protection of the environment	2 012 139		1 934 432		523 423	497 805
Protection and rehabilitation of historic and cultural heritage	142 082		156 201		24 700	27 700
Sub-total	**2 867 290**	**22**	**2 848 836**	**23**	**906 745**	**704 126**
Supporting public infrastructure with a social vocation						
Education and vocational training	1 468 212		1 445 188		510 242	419 198
Health	139 064		903 449		308 633	194 417
Infrastructure of administrative and judicial public services	961 420		106 859		113 500	115 304
Sub-total	**2 568 696**	**20**	**2 455 496**	**19**	**932 375**	**728 919**
Supporting micro, small and medium-sized entreprises						
Supporting micro, small and medium-sized entreprises (MSMEs)	3 498 913		3 109 724		590 393	802 595
Sub-total	**3 498 913**	**27**	**3 109 724**	**25**	**590 393**	**802 595**
Total	**13 071 716**	**100**	**12 567 539**	**100**	**3 119 455**	**2 868 150**

Loans outstanding and financing commitments by country, with SDA interest rate subsidies or loan guarantee

Outstanding loans and financing commitments, with Social Dividend Account interest rate subsidies or loan guarantee, are detailed below by borrowers' country location.

In thousand euros

Breakdown by borrowers' country location	Outstanding 31/12/2015	Outstanding 31/12/2014	Financing commitments 31/12/2015	Financing commitments 31/12/2014
Turkey	280 000	250 000	220 000	
Romania	212 942	248 999	12 621	12 621
Poland	169 548	125 929	84 000	134 000
Albania	97 143	100 486	28 700	4 142
Hungary	69 780	99 920		680
Bosnia and Herzegovina	39 310	32 342	67 850	73 600
Moldova (Republic of)	24 709	22 626	6 769	9 597
Serbia	22 322	25 172		
Croatia	21 256	36 368		
"the former Yugoslav Republic of Macedonia"	9 147	7 747	16 203	17 603
Bulgaria	8 047	8 968		
Lithuania	2 896	4 344		
Slovak Republic		657		
Total	**957 100**	**963 558**	**436 143**	**252 243**

The interest rate subsidies are presented in the Note K.

NOTE H - Tangible and intangible assets

In thousand euros

	Land and buildings	Fixtures	Other	Intangible assets	Total
Gross book value					
At 1 January 2015	36 344	20 280	6 344	7 003	**69 971**
Additions		718	651	1 827	**3 196**
Other movements		(21)	21		
At 31 December 2015	**36 344**	**20 977**	**7 016**	**8 830**	**73 167**
Depreciation					
At 1 January 2015		(14 974)	(4 864)	(3 964)	**(23 802)**
Charge for the year		(1 112)	(725)	(1 030)	**(2 867)**
At 31 December 2015		**(16 086)**	**(5 589)**	**(4 994)**	**(26 669)**
Net book value					
At 31 December 2015	**36 344**	**4 891**	**1 427**	**3 836**	**46 498**

In thousand euros

	Land and buildings	Fixtures	Other	Intangible assets	Total
Gross book value					
At 1 January 2014	36 344	18 572	5 437	5 638	**65 991**
Additions		1 786	819	1 375	**3 980**
Other movements		(78)	88	(10)	
At 31 December 2014	**36 344**	**20 280**	**6 344**	**7 003**	**69 971**
Depreciation					
At 1 January 2014		(14 082)	(4 196)	(2 967)	**(21 245)**
Charge for the year		(892)	(668)	(997)	**(2 557)**
At 31 December 2014		**(14 974)**	**(4 864)**	**(3 964)**	**(23 802)**
Net book value					
At 31 December 2014	**36 344**	**5 306**	**1 480**	**3 039**	**46 169**

NOTE I - Other assets and other liabilities

In thousand euros

	31/12/2015	31/12/2014
Other assets		
Prepaid expenses	2 458	2 252
Sundry debtors	2 312	2 464
Subscribed, called and unpaid capital and reserves to be received	717	1 433
Sundry assets	36	161
Total	**5 523**	**6 310**
Other liabilities		
Deposits of guarantees received (*)	1 682 498	1 122 721
Sundry creditors	3 818	3 505
Sundry liabilities	2 079	2 210
Total	**1 688 395**	**1 128 436**

(*) The Bank benefits from guarantees in the form of deposits or securities in relation to collateralisation contracts.
As at 31 December 2015, the CEB received € 1.7 billion of guarantees in form of deposits (31 December 2014: € 1.1 billion) and € 972.5 million in form of securities (31 December 2014: € 1.2 billion).

NOTE J - Amounts owed to credit institutions and to customers and debt securities in issue

In thousand euros

	31/12/2015	31/12/2014
Amounts owed to credit institutions and to customers		
Interest-bearing accounts	129 812	157 714
Borrowings and term deposits	100 000	100 000
Interest payable	19	75
Total	**229 831**	**257 789**
Debt securities in issue		
Bonds	18 641 206	19 374 270
Interest payable	241 448	274 876
Value adjustment of debt securities in issue hedged by derivative instruments	647 592	823 218
Total	**19 530 246**	**20 472 364**

Development of customers' interest-bearing accounts

Within the framework of numerous bilateral and multilateral contribution agreements signed with donors, the CEB receives contributions in order to finance, through grants, activities in line with its objectives. The contributions received from donors are deposited on accounts opened in the CEB's books.

In general, donors are member states of the CEB and the European Union. The exceptions being the Regional Housing Programme (RHP) Fund and the Human Rights Trust Fund, to which the United States and the United Kingdom, respectively, contribute.

The Bank fulfils a role of account manager. As such, it processes and records the movements affecting the accounts and controls the available balances. Within the framework of these activities, the CEB may receive management fees.

The CEB is not exposed to credit risk on these accounts since it does not commit itself to provide a grant to a beneficiary without having first received a contribution commitment from one or more donors.

As at 31 December 2015, the Bank managed 39 interest-bearing accounts (2014: 37) with a total balance of € 129.8 million (2014: € 157.7 million). The resources on these accounts amount to € 388.6 million (2014: € 349.1 million) while disbursements stand at € 258.7 million (2014: € 191.4 million).

The table below provides a summary of the movements and commitments on the accounts administered by the CEB distributed according to three categories:

- Accounts funded by donor countries,
- Accounts funded entirely, or in the case of WBIF, mainly by the European Union (except RHP),
- Accounts linked to the Regional Housing Programme.

In thousand euros

	Resources[1]	Disbursements[2]	Balance 31/12/2015	Commitments to be received[3]	Commitments to be paid[3]
Accounts funded by donor countries	35 876	(23 492)	12 384		(6 935)
Accounts funded by the European Union	217 768	(199 995)	17 773	3 409	(4 408)
Accounts linked to the Regional Housing Programme (RHP)	134 913	(35 258)	99 655	49 706	(106 315)
Total	**388 557**	**(258 745)**	**129 812**	**53 115**	**(117 658)**

In thousand euros

	Resources[1]	Disbursements[2]	Balance 31/12/2014	Commitments to be received[3]	Commitments to be paid[3]
Accounts funded by donor countries	20 157	(14 906)	5 251		(4 714)
Accounts funded by the European Union	198 760	(161 361)	37 399	21 620	(41 945)
Accounts linked to the Regional Housing Programme (RHP)	130 148	(15 083)	115 065	49 504	(55 569)
Total	**349 064**	**(191 350)**	**157 714**	**71 124**	**(102 228)**

[1] Consists of contributions received from donors and accrued interest
[2] Consists of grants disbursed to projects, fees and funds returned to donors
[3] The commitments to be received and to be paid refer to on-going projects only

The table below presents the detail of the interest-bearing accounts distributed according to the same three categories:

In thousand euros

Programme/Instrument and focus of support	Donor(s)	Opening year	Resources	Disbursements	Balance 31/12/2015	Balance 31/12/2014
Accounts funded by donor countries (except RHP)						
Special Account Sweden: State Prison in Bosnia and Herzegovina	Embassy of Sweden	2010	2 177	(87)	2 090	2 090
Norway Trust Account (NTA): social and economic reforms in the Western Balkans countries	Norway	2003	3 204	(3 100)	104	91
Human Rights Trust Fund (HRTF): consolidation of the Rule of Law and the European system of human rights protection in Europe	Finland, Germany, Netherlands, Norway, Switzerland, United Kingdom	2008	13 440	(11 988)	1 452	2 242
Spanish Social Cohesion Account: social cohesion in Europe	Spain	2009	2 044	(1 488)	556	827
Migrant and Refugee Fund	Cyprus, Germany, Holy See, Ireland, Lithuania, Luxembourg, Poland, San Marino, Slovak Republic, Sweden, EIB, CEB	2015	15 011	(6 829)	8 182	
Sub-total Accounts funded by donor countries (except RHP)			**35 876**	**(23 492)**	**12 384**	**5 251**
Accounts funded by the European Union (except RHP)						
Instrument for Pre-Accession Assistance (IPA) / Western Balkans Investment Framework (WBIF)						
EU Contribution - F/P 1688 BA State Prison: State Prison in Bosnia and Herzegovina - 1st contribution	European Union	2009	4 089	(4 088)	1	1 385
EU Contribution - F/P 1688 BA State Prison: State Prison in Bosnia and Herzegovina - 2nd contribution	European Union	2015	3 296	(3 296)		
IPF 2008 Municipal Window Special Account: investments projects in Albania, Bosnia and Herzegovina and Serbia within the framework of the Instrument for Pre-Accession Assistance (IPA)	European Union	2009	13 263	(13 180)	83	1 587
IPA 2009 Rural Roads Albania Special Account: rural roads in Albania	European Union	2010	9 176	(6 457)	2 719	3 382
IPA 2009 Water Supply Kamza Albania Special Account: water supply and sewerage systems in Albania	European Union	2010	5 014	(2 521)	2 493	1 710
WBIF: communal infrastructure in Albanian Alps area	European Union Other Donors	2014	1 000		1 000	1 000
WBIF: vulnerable persons living in collective accomodation in Bosnia and Herzegovina	European Union Other Donors	2014	1 200	(509)	691	1 152
WBIF: health infrastructure in Croatia	European Union Other Donors	2014	1 500	(1 500)		1 440
WBIF: Construction of Prison Facilities in Serbia	European Union Other Donors	2015	1 430	(57)	1 373	
Energy Efficiency Finance Facility						
Energy Efficiency Finance Facility 2006 Special Account: environmental protection and energy efficiency in Croatia, Bulgaria, Romania and Turkey	European Union	2007	23 799	(23 799)		1 242
Energy Efficiency Finance Facility 2007 Special Account: environmental protection and energy efficiency in Bulgaria, Croatia, Romania and Turkey with a focus on countries under the Instrument for Pre-Accession Assistance (IPA)	European Union	2008	7 930	(5 129)	2 801	1 394
European Neighbourhood and Partnership Instrument (ENPI) / Neighbourhood Investment Facility (NIF)						
EU Contribution - F/P 1620 MD Republican Clinical Hospital: Republican Clinical Hospital in Chisinau, Moldova	European Union	2009	95	(95)		70

In thousand euros

Programme/Instrument and focus of support	Donor(s)	Opening year	Resources	Disbursements	Balance 31/12/2015	Balance 31/12/2014
EU Municipal Finance Facility						
EU Municipal Finance Facility Special Account	European Union	2004	15 409	(15 370)	39	1 141
EU Municipal Finance Facility 2003 Special Account	European Union	2005	5 523	(5 523)		519
EU Municipal Finance Facility 2005 Special Account	European Union	2007	3 420	(3 420)		3 383
EU Municipal Finance Facility 2006, Special Account Bulgaria, Croatia, Romania and Turkey: infrastructure projects in favour of the municipalities of 10 Central and Eastern European countries, candidate to European Union accession at the time of the project (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia)	European Union	2007	5 193	(5 193)		
European Local Energy Assistance Facility (ELENA)						
CEB-ELENA 2012	European Union	2012	1 000	(57)	943	
SME Finance Facility Phase 2 Special Fund						
EC Contribution Fund Phare Account	European Union	2001	53 027	(50 149)	2 878	3 634
SME Finance Facility 2002 Special Account	European Union	2004	15 984	(15 858)	126	2 185
SME Finance Facility 2003 Special Account	European Union	2005	16 307	(13 779)	2 528	6 260
SME Finance Facility 2005 Special Account	European Union	2006	9 526	(9 428)	98	3 541
SME Finance Facility 2006 Special Account, Bulgaria, Croatia, Romania and Turkey: Partial financing of productive investment projects designed to create or safeguard jobs in SMEs located in 13 CEB member countries in Central and Eastern Europe	European Union	2007	20 587	(20 587)		2 373
Sub-total Accounts funded by the European Union (except RHP)			**217 768**	**(199 995)**	**17 773**	**37 399**
Accounts linked to the Regional Housing Programme (RHP)						
RHP Fund Regional Account: Regional Housing Programme in Bosnia and Herzegovina, Croatia, Montenegro and Serbia	United States of America, Turkey, European Union	2012	38 722	(8 988)	29 734	35 130
RHP Fund Sub-Regional Account: Regional Housing Programme in Bosnia and Herzegovina, Montenegro and Serbia	Denmark, Luxembourg, Norway, Switzerland	2012	11 719	(2 812)	8 907	10 975
RHP Fund Country Account - BiH: Regional Housing Programme in Bosnia and Herzegovina	Germany, Italy, European Union	2012	36 787	(1 991)	34 796	35 289
RHP Fund Country Account - Croatia: Regional Housing Programme in Croatia	European Union	2013	9 266	(3 441)	5 825	6 977
RHP Fund Country Account - Serbia: Regional Housing Programme in Serbia	European Union	2013	21 909	(7 993)	13 916	21 423
RHP Fund Country Account - Montenegro: Regional Housing Programme in Montenegro	European Union	2013	995	(157)	838	974
RHP Implementation: implementation of the Regional Housing Programme and technical assistance (2nd phase)	European Union	2013	15 306	(9 821)	5 485	4 127
Special Account RHP Rep of Cyprus: costs linked to the Regional Housing Programme	Cyprus	2012	50	(1)	49	49
Special Account RHP Romania: costs linked to the Regional Housing Programme	Romania	2012	50	(49)	1	17
Special Account RHP Slovak Republic: costs linked to the Regional Housing Programme	Slovak Republic	2012	40	(3)	37	37
Special Account RHP Czech Republic: costs linked to the Regional Housing Programme	Czech Republic	2013	39	(1)	38	38
Special Account RHP Hungary: costs linked to the Regional Housing Programme	Hungary	2014	30	(1)	29	29
Sub-total Accounts linked to the Regional Housing Programme (RHP)			**134 913**	**(35 258)**	**99 655**	**115 065**
Total Interest-bearing accounts			**388 557**	**(258 745)**	**129 812**	**157 714**

NOTE K - Social Dividend Account

On 22 March 2013, the Administrative Council decided to rename the "Selective Trust Account" to "Social Dividend Account" (SDA) and to broaden its scope of use.

Since this date, the SDA is used to finance four types of grants:

- interest rate subsidies on loans granted by the Bank,
- guarantees to support the Bank's financing of high social impact projects,
- technical assistance within the framework of projects financed by the CEB,
- grant contributions.

Grants financed by the SDA are approved by the Administrative Council of the Bank, except technical assistance grants smaller than or equal to € 300 thousand, which are approved by the Governor.

Grants can be up to € 2 million each, with the exception of grant contributions which are limited to € 500 thousand. Annual approvals per country, all windows combined, cannot exceed 10% of SDA resources available for approval.

In 2013, the SDA resources (member states account) were reallocated to the four SDA window sub-accounts.

At 31 December 2015, the breakdown of these sub-accounts is the following:

In thousand euros

SDA windows	31/12/2015	31/12/2014
Subsidies on loans approved	31 490	39 470
Available for subsidy	2 205	6 909
Interest rate subsidies on loans	33 695	46 379
Guarantees on loans approved	5 535	3 535
Available for guarantees	8 556	6 517
Loan guarantees	14 091	10 052
Approvals for technical assistance	5 184	4 404
Available for technical assistance	5 707	5 521
Technical assistance	10 891	9 925
Approved grant contributions		20
Available for grant contributions	1 933	3 920
Grant contributions	1 933	3 940
Total	**60 610**	**70 296**

Funding

The SDA can be funded by:

a) contributions received from CEB's member states through dividends of a social nature, when the Bank's annual profit is allocated
b) voluntary contributions from the Bank's member states, upon approval by the Administrative Council
c) voluntary contributions from Council of Europe member states and from non-member states or international institutions, upon approval by the Governing Board and the Administrative Council.

In 2015, member states made no allocation out of the previous year's profit, which was also the case in 2014.

In compliance with the new rules adopted in March 2013, the balance of the member states account at that date, i.e. € 50 274 thousand was split between the four windows.

In 2015, the CEB's Administrative Council approved a € 5 million contribution from the SDA to the Migrant and Refugee Fund (MRF), as well as a reallocation of the resources between the window sub-accounts.

NOTE L - Provisions

The Bank administers a pension scheme and other post-employment benefits concerning a health care scheme, a fiscal adjustment scheme and a termination of service scheme. The amount of the commitment in relation to each post-employment benefit is determined separately using the projected unit credit actuarial valuation method. The last actuarial valuation was carried out on 31 December 2015 based on individual data as at 30 June 2015.

The following is the financial situation with respect the post-employment benefits:

In thousand euros

	Pension scheme	Other post-employment benefits	Total
Provision movements			
Provision as at 1 January 2015	**194 249**	**45 078**	**239 327**
Service cost	11 339	3 156	14 495
Interest cost related to discounted commitments	3 203	746	3 949
Book charge for the year	14 542	3 902	18 444
Changes in actuarial differences for the year	(23 373)	(5 210)	(28 583)
Benefits paid	(1 978)	(662)	(2 640)
Provision as at 31 December 2015	**183 440**	**43 108**	**226 548**
Changes in actuarial differences recognised directly in equity			
Balance as at 1 January 2015	**91 064**	**23 582**	**114 646**
Actuarial differences from liabilities for the year - impact of data	5 352	750	6 102
Actuarial differences from liabilities for the year - impact of assumptions	(28 725)	(5 999)	(34 724)
Sub-total	(23 373)	(5 249)	(28 622)
Balance as at 31 December 2015	**67 691**	**18 333**	**86 024**

In thousand euros

	Pension scheme	Other post-employment benefits	Total
Provision movements			
Provision as at 1 January 2014	**125 717**	**45 061**	**170 778**
Service cost	7 820	2 990	10 810
Past service cost [1]		(7 901)	(7 901)
Reclassification of service cost [2]	1 399	(1 399)	
Interest cost related to discounted commitments	3 723	1 211	4 934
Reclassification of interest cost [2]	1 385	(1 385)	
Book charge for the year	14 327	(6 484)	7 843
Changes in actuarial differences for the year	55 964	7 053	63 017
Benefits paid	(1 759)	(552)	(2 311)
Provision as at 31 December 2014	**194 249**	**45 078**	**239 327**
Changes in actuarial differences recognised directly in equity			
Balance as at 1 January 2014	**35 100**	**16 425**	**51 525**
Actuarial differences from liabilities for the year - impact of data	(738)	(9 381)	(10 119)
Actuarial differences from liabilities for the year - impact of assumptions	56 702	16 538	73 240
Sub-total	55 964	7 157	63 121
Balance as at 31 December 2014	**91 064**	**23 582**	**114 646**

[1] The medical care insurance contract had been negotiated during 2014. The consequence was a decrease in the employer's contribution rate. The provision decrease due to this revision (€ 7.7 million) had been recognised as a past service gain in the 2014 income statement.
[2] In 2014, the service cost and interest cost related to termination of service scheme were reclassified to the pension scheme.

The main assumptions used in assessing the commitment relative to the post-employment benefits are shown below:

Sundry information	2015	2014
Interest discount rate	2.00%	1.50%
Inflation rate	1.75%	2.00%
Pensions revaluation rate	1.75%	2.00%
Salary increase rate	3.50%	3.50%
Medical care employer's contribution rate	5.96%	5.96%
Average duration	23.32	25.13

Sensitivity test

The table below provides information on the sensitivity of the commitment (Projected Benefit Obligation - PBO) in respect of the post-employment benefits as evaluated at 31 December 2015, as well as the service cost, the interest cost and the estimated benefits for the year 2016, calculated based on a change of the discount rate assumption of +/- 0.25%:

In thousand euros

Pension scheme	PBO 31/12/2015	Service cost 2016	Interest cost on PBO 2016	Estimated benefits 2016	PBO 31/12/2016
Discount rate +0.25%	173 799	10 031	3 878	(2 864)	184 844
Discount rate -0.25%	193 827	11 445	3 367	(2 864)	205 775

At 31 December 2015, an increase in the discount rate of 0.25% would have resulted in a decrease of the pension commitment of 5.3%. A 0.25% decrease in the discount rate would have resulted in an increase of this commitment of 5.7% at that date.

In thousand euros

Other post-employment benefits	PBO 31/12/2015	Service cost 2016	Interest cost on PBO 2016	Estimated benefits 2016	PBO 31/12/2016
Discount rate +0.25%	40 393	2 802	900	(742)	43 353
Discount rate -0.25%	46 064	3 278	799	(742)	49 399

At 31 December 2015, an increase in the discount rate of 0.25% would have resulted in a decrease of the commitment relating to other post-employment benefits of 6.3%. A 0.25% decrease in the discount rate would have resulted in an increase of this commitment of 6.9% at that date.

NOTE M - Capital

Capital management

In conformity with its Articles of Agreement (Article III), any European State (member or non-member state of the Council of Europe) and any international institution with a European focus may, upon the conditions established by the Governing Board, become a member of the Bank.

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

The accession procedures consist in addressing a declaration to the Secretary General of the Council of Europe stating that the applicant endorses the Bank's Articles of Agreement and subscribes the number of participating certificates fixed in agreement with the Governing Board. Any state becoming a member of the Bank shall confirm in its declaration its intention:

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

The Governing Board establishes the provisions for the subscription and paying in of capital as well as provisions regarding any capital increase. The terms and conditions for the potential withdrawal of a member state are defined in the CEB's Articles of Agreement (Article XV). The Bank has never received such kind of request. Based on this and according to IAS 32 as amended in February 2008, the participating certificates are classified as equity instruments.

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

The Bank's subscribed capital is composed of paid-in capital and callable capital. The paid-in capital is the portion of the capital to be paid at the accession to the Bank upon the Governing Board's decision following a proposal by the Administrative Council. Since its inception, the Bank has never withdrawn any subscribed capital.

The Bank's capital adequacy in terms of risks linked to its operations is assessed through a prudential framework organised around various ratios (see chapter 4 in note B).

Capital breakdown by member state is presented below:

In thousand euros

Members	Subscribed capital	Uncalled capital	Called capital	Percentage of subscribed capital
France	915 770	814 114	101 656	16.735%
Germany	915 770	814 114	101 656	16.735%
Italy	915 770	814 114	101 656	16.735%
Spain	597 257	530 958	66 299	10.914%
Turkey	388 299	345 197	43 102	7.096%
Netherlands	198 813	176 743	22 070	3.633%
Belgium	164 321	146 083	18 238	3.003%
Greece	164 321	146 083	18 238	3.003%
Portugal	139 172	123 724	15 448	2.543%
Sweden	139 172	123 724	15 448	2.543%
Poland	128 260	114 023	14 237	2.344%
Denmark	89 667	79 712	9 955	1.639%
Finland	69 786	62 039	7 747	1.275%
Norway	69 786	62 039	7 747	1.275%
Bulgaria	62 459	55 526	6 933	1.141%
Romania	59 914	53 264	6 650	1.095%
Switzerland	53 824	43 229	10 595	0.984%
Ireland	48 310	42 948	5 362	0.883%
Hungary	44 788	39 816	4 972	0.818%
Czech Republic	43 037	38 260	4 777	0.786%
Luxembourg	34 734	30 878	3 856	0.635%
Serbia	25 841	22 973	2 868	0.472%
Croatia	21 376	19 003	2 373	0.391%
Cyprus	19 882	17 676	2 206	0.363%
Slovak Republic	18 959	16 854	2 105	0.346%
Albania	13 385	11 899	1 486	0.245%
Latvia	12 808	11 387	1 421	0.234%
Estonia	12 723	11 311	1 412	0.233%
"the former Yugoslav Republic of Macedonia"	12 723	11 311	1 412	0.233%
Lithuania	12 588	11 191	1 397	0.230%
Slovenia	12 295	10 930	1 365	0.225%
Iceland	10 144	9 018	1 126	0.185%
Malta	10 144	9 018	1 126	0.185%
Georgia	9 876	8 780	1 096	0.180%
Bosnia and Herzegovina	9 689	8 614	1 075	0.177%
Montenegro	6 584	5 853	731	0.120%
Kosovo	6 559	5 831	728	0.120%
Moldova (Republic of)	5 488	4 878	610	0.100%
San Marino	4 867	4 206	661	0.089%
Liechtenstein	2 921	2 374	547	0.053%
Holy See	137	107	30	0.003%
Total 2015	**5 472 219**	**4 859 802**	**612 417**	**100.000%**
Total 2014	**5 472 219**	**4 859 802**	**612 417**	

The earnings per participating certificate for 2015 amount to € 23.21 (€ 24.57 for 2014).

In 2013, further to Kosovo's adhesion, the subscribed capital increased by € 6 559 thousand. The called capital (€ 728 thousand) and Kosovo's contribution to the reserves (€ 2 138 thousand) are scheduled in four equal annual instalments. The table below presents detail of the remaining instalment to be paid as at 31 December 2015:

In thousand euros

Member	Capital	Reserves	Total
Kosovo	182	535	717
Total	**182**	**535**	**717**

NOTE N - Interest margin

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

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

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

In thousand euros

	2015			2014		
	Income	Expenses	Net	Income	Expenses	Net
Available-for-sale financial assets						
Securities transactions	41 673		41 673	49 729		49 729
Hedging derivatives	15 141	(45 818)	(30 677)	17 923	(45 511)	(27 588)
Sub-total	**56 814**	**(45 818)**	**10 996**	**67 652**	**(45 511)**	**22 141**
Loans and advances to credit institutions and to customers						
Loans (exclusive of interbanking)	169 633		169 633	199 078		199 078
Hedging derivatives	30 694	(125 976)	(95 282)	39 191	(137 181)	(97 990)
Advances	1 468	(4 749)	(3 281)	5 231	(281)	4 950
Sub-total	**201 795**	**(130 725)**	**71 070**	**243 500**	**(137 462)**	**106 038**
Financial assets held to maturity						
Securities transactions	92 209		92 209	96 314		96 314
Sub-total	**92 209**		**92 209**	**96 314**		**96 314**
Amounts owed to credit institutions and to customers						
Deposits		(134)	(134)		(362)	(362)
Interest-bearing accounts	2 066	(237)	1 829	74	(1 935)	(1 861)
Sub-total	**2 066**	**(371)**	**1 695**	**74**	**(2 297)**	**(2 223)**
Debt securities in issue						
Bonds		(456 171)	(456 171)		(522 555)	(522 555)
Hedging derivatives	480 504	(29 394)	451 110	538 245	(63 409)	474 836
Sub-total	**480 504**	**(485 565)**	**(5 061)**	**538 245**	**(585 964)**	**(47 719)**
Other interest expenses and similar charges		**(3 949)**	**(3 949)**		**(4 935)**	**(4 935)**
Interest margin	**833 388**	**(666 428)**	**166 960**	**945 785**	**(776 169)**	**169 616**

NOTE O - Segment information

The CEB is a multilateral development bank with a social vocation. It grants loans to finance projects in its member states. This activity is funded by public issues and private placements.

Within this ambit, the Bank holds a single operational field of activity. It intervenes in geographical areas where its contribution is most needed, particularly in central and eastern European countries, which constitute the target countries.

Its activity of project financing is conducted exclusively in Europe. However, for other financial operations, in particular its public issues, the CEB operates in Europe as well as in other continents. Therefore, these operations are not shown in the table below.

The interest on loans is broken down by borrowers' country location as follows:

In thousand euros

Breakdown by borrowers' country location	2015	2014
Poland	25 513	32 953
Turkey	20 314	20 617
Romania	19 259	20 887
Hungary	11 340	20 250
Croatia	8 600	9 649
Cyprus	6 070	7 130
Lithuania	4 990	4 906
Albania	2 649	2 792
Slovak Republic	1 793	1 258
Serbia	1 727	1 854
Malta	1 556	2 036
Bosnia and Herzegovina	1 310	1 268
Latvia	1 175	1 433
Slovenia	1 016	1 405
Bulgaria	968	1 121
"the former Yugoslav Republic of Macedonia"	858	902
Moldova (Republic of)	794	773
Czech Republic	727	703
Estonia	634	720
Georgia	183	22
Montenegro	121	123
Sub-total target countries	**111 597**	**132 802**
Belgium	21 815	21 596
Spain	10 913	11 688
Germany	7 053	7 945
France	5 543	7 413
Portugal	5 509	6 189
Italy	2 488	3 348
Iceland	1 405	1 554
Ireland	1 349	1 289
Finland	441	847
Sweden	214	473
Denmark	1	291
Greece		562
San Marino		3
Sub-total other countries	**56 731**	**63 198**
Target countries through other countries	**1 305**	**3 078**
Total	**169 633**	**199 078**

Outstanding loans by country are presented in Note G.

NOTE P - Net gains or losses from financial instruments at fair value through profit or loss

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

In thousand euros

	2015	2014
Net result from fair value hedging instruments	(70 395)	(50 497)
Revaluation of hedged items attributable to hedged risks	69 992	43 065
Result from financial instruments at fair value through profit or loss	9 330	6 950
Revaluation of exchange positions	80	82
Value adjustment for own credit risk (Debit Valuation Adjustment – DVA)	(177)	1 075
Value adjustment for the risk of the counterparty (Credit Valuation Adjustment - CVA)	(135)	(1 343)
Total	**8 695**	**(668)**

NOTE Q - General operating expenses

In thousand euros

	2015	2014
Staff costs		
Wages and salaries	21 212	19 737
Social charges and pension costs	13 923	2 418
Other general operating expenses	9 874	9 074
Total	**45 009**	**31 229**

At 31 December 2015, the Bank staff was composed of: 3 appointed officials (Governor and Vice-Governors) and 193 professional staff. At 31 December 2014: 4 appointed officials (Governor and Vice-Governors) and 183 professional staff.

NOTE R - Post-balance sheet events

No material events that would require disclosure or adjustment to these financial statements occurred between 31 December 2015 and the closing date of the accounts by the Governor on 29 February 2016.

EXTERNAL AUDITOR'S REPORT

KPMG Audit
Tour EQHO
2 avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

Téléphone : +33 (0)1 55 68 68 68
Télécopie : +33 (0)1 55 68 73 00
Site internet : www.kpmg.fr

Council of Europe Development Bank (CEB)

55, avenue Kléber,
75116 Paris

External Auditor's Report on the Financial Statements

Year ended 31 December 2015.

To the members of the Governing Board and Administrative Council,

We have audited the accompanying financial statements of the Council of Europe Development Bank (CEB) which comprise the balance sheet as at 31 December 2015 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in notes A to R.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use by the European Union. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error,
- selecting and applying appropriaté accounting policies,
- and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG S.A.
A French limited liability entity and a member firm of the KPMG Network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

Société anonyme d'expertise comptable et de commissariat aux comptes à directoire et conseil de surveillance.
Inscrite au Tableau de l'Ordre à Paris sous le n° 14-30080101 et à la Compagnie Régionale des Commissaires aux Comptes de Versailles.

Headquarters :
KPMG S.A.
Immeuble le Palatin
3 cours du Triangle
92939 Paris La Défense Cedex
Capital : 5 497 100 €.
Code APE 6920Z
775 726 417 R.C.S. Nanterre
TVA Union Européenne
FR 77 775 726 417

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the European Union.

Paris La Défense, 1st March 2016

KPMG Audit
A division of KPMG S.A.

Pascal Brouard
Partner

AUDITING BOARD'S REPORT

Auditing Board's Report on the balance-sheet and the Income Statement and the Notes to the financial statements for 2015

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 in October 2015 for the interim review and from 29 February to 2 March 2016 in order to certify the CEB's balance sheet and Income Statement and the Notes to the financial statements for the year ended 31 December 2015.

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, KPMG, presented their statement and gave, when needed, evidence in detail of the performance of the audit.

The Auditing Board carried out the review of the CEB's activities for the year 2015 by:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff;
- Examining the financial statements of the CEB for the year 2015, including the balance-sheet as at 31 December 2015, the Income Statement and the Notes to the financial statements, which had been prepared by the Accounting Department of the CEB and signed by the Governor on 29 February 2016;
- Consulting the Internal Audit Department and examining its reports;
- Consulting the External Auditor of the CEB and examining his interim report and his long form report for the year 2015;
- Obtaining the opinion signed by the External Auditor on 1 March 2016;
- 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 Income Statement including the Notes to the financial statements are in agreement with the books and other records and present fairly, in all material respects, the state of the CEB's affairs as at 31 December 2015 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Paris, 2 March 2016

René BRÜLHART Dubravka FLINTA Viktor GJORCHEV

APPROVAL OF THE ACCOUNTS

Extract from the minutes of the 297th meeting of the Administrative Council of the CEB

Resolution 1578 (2016)
on the discharge of the Governor and allocation of the net profit for 2015

Paris, 17 March 2016 **CA PV/297/2016**

The Administrative Council,

Having regard to Article XI, Section 3 of the Bank's Articles of Agreement,

Having regard to Rule 1, paragraph 2 of the Rules of Procedure of the Administrative Council,

Having taken note of the balance sheet, income statement and notes to the financial statements as at 31 December 2015,

Having taken note of the Governor's Memorandum "Proposal for the allocation of the net profit for the 2015 financial year" (CA/297/2204/2016) dated 2 March 2016,

Having taken note of the External Auditor's report dated 1 March 2016,

Having taken note of the Auditing Board's report dated 2 March 2016,

1. recommends that the Governing Board approve the Bank's annual report, the balance sheet, the income statement and the notes to the financial statements as at 31 December 2015,

2. discharges the Governor from his responsibility for financial management in respect of the financial year 2015,

3. resolves to allocate the entire 2015 net profit, i.e. + € 127 037 283, as follows:

- € 7 000 000 to the Social Dividend Account,
- € 120 037 283 to the general reserve,

4. recommends that the Governing Board approve point 3 above.

APPROVAL OF THE ACCOUNTS

Extract from the minutes of the 213th meeting of the Governing Board of the CEB

Resolution 420 (2016) on the 2015 Financial Year

Paris, 8 April 2016 **CD/PV/213/2016**

The Governing Board,

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

Having regard to Rule 5, paragraph 1 of the Governing Board's Rules of Procedure,

Having regard to the balance sheet, income statement and notes to the financial statements as at 31 December 2015,

Having taken note of the certification by the External Auditor, dated 1 March 2016,

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

- the Report of the Governor for the financial year 2015,
- the Auditing Board's report dated 2 March 2016,

Having regard to Resolution 1578 (2016) of the Administrative Council,

Having heard the Auditing Board,

Decides:

- to approve the Bank's annual report, accounts and other financial statements for 2015,
- to discharge the Administrative Council from its responsibility for the financial year 2015,
- to endorse point 3 of Resolution 1578 (2016) of the Administrative Council of 17 March 2016, by which the Administrative Council allocated the 2015 net profit, i.e. + € 127 037 283, as follows:
    - € 7 000 000 to the Social Dividend Account,
    - € 120 037 283 to the general reserve.

NOTES FOR THE READER

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

Member states: At 31 December 2015, the Bank has 41 member states: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova (Republic of), Montenegro, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey.

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

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

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

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

Financing commitment: 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.

Social Dividend Account (SDA): Funded mainly by the earmarked portion of the Bank's shareholder approved annual results used to finance grants in favour of high social impact projects. These grants may take the form of interest rate subsidies, technical assistance grants, loan guarantees or grant contributions.

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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Carré communication
fred.chapat@carrecommunication.com

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COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE






55, avenue Kléber
FR-75116 PARIS - FRANCE
Tel.: +33 (0)1 47 55 55 00
Fax: +33 (0)1 47 55 03 38
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ISSN: 1563-2601