







2013

REPORT OF THE GOVERNOR

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

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

OBJECTIVES

The CEB is a multilateral development bank with a social vocation. With its 41 Member States, it represents a major instrument of solidarity policy in Europe.

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

THE COUNCIL OF EUROPE AND THE CEB

The Bank is legally and financially independent. It is based on a Partial Agreement among Council of Europe Member States.

The Council of Europe was established under the Treaty of London on 5 May 1949. Throughout its history, the Council has asserted its role in the defence of human rights and the promotion of democracy.

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

The Council of Europe Development Bank (CEB), first known as the "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe" and then as the "Council of Europe Social Development Fund", was the subject of the first Partial Agreement, which was signed by eight countries on 16 April 1956. Today, the Bank has 41 Member States.

ACTIVITIES

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

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

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

FINANCIAL RESOURCES

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

Established in 1956 with a capital equivalent to € 5.7 million, the Bank had a subscribed capital of € 5.5 billion euros as at 31 December 2013. Leverage is particularly impressive: since its inception, the Bank has been able to pay out around 37 billion euros in loans.

RATING

For its long-term operations, the international agencies reaffirmed their Aaa/AA+ ratings: Moody's (Aaa, outlook negative, 1 August 2013); Standard & Poor's (AA+, outlook stable, 24 July 2013); Fitch Ratings (AA+, outlook stable, 11 September 2013). The CEB's short-term rating remained at its highest level P-1/A-1+/F1+.

COLLEGIAL ORGANS

- The Governing Board, comprising one representative per Member State. Its Chairman is Mr. Raphaël ALOMAR, elected on 10 June 2011.
- The Administrative Council, comprising one representative per Member State. Its Chairman is Mr. Joseph LICARI, elected on 10 June 2011.
- The Auditing Board, which has three members chosen among the Member States in turn.

MANAGEMENT

The Governor, Mr. Rolf WENZEL, elected on 8 April 2011. He is assisted by three Vice-Governors: Mr. Nunzio GUGLIELMINO, re-elected on 27 November 2009, Mr. Apolonio RUIZ-LIGERO, re-elected on 10 June 2011 and Mr. Mikołaj DOWGIELEWICZ, elected on 30 March 2012.

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

2013 REPORT OF THE GOVERNOR

KEY FIGURES

In million euros	2013	2012	2011*
Loans disbursed during the year	1 845	1 584	1 855
Projects approved during the year	2 274	1 798	2 110
Financing commitments signed during the year	2 262	1 019	1 798
Loans outstanding	12 582	12 131	12 075
Own funds (after allocation of profit)	7 320	7 116	6 491
Equity (after allocation of profit)	2 460	2 262	2 093
Total assets	24 485	26 858	26 083
Net profit	111.3	120.2	106.9
Social Dividend Account (SDA)			
Social dividends accumulated since the SDA's inception	105.4	105.4	105.4
Balance available (after allocation of profit)	30.8	36.3	31.7

* Restated figures further to the implementation of IAS 19 and IAS 8.


Iceland
Norway
Finland
Sweden
Estonia
Latvia
Lithuania
Ireland
Denmark
Netherlands
Belgium
Germany
Poland
Luxembourg
Czech Republic
Slovak Republic
Liechtenstein
France
Switzerland
Hungary
Slovenia
Romania
Italy
Croatia
Bosnia and
Herzegovina
Serbia
Portugal
Spain
San Marino
Kosovo
Montenegro
Holy See
"the former
Republic of
Albania
Greece
Malta

THE BANK'S MEMBER STATES (year of accession)

Albania 1999	Holy See 1973	Norway 1978
Belgium 1956	Hungary 1998	Poland 1998
Bosnia and Herzegovina 2003	Iceland 1956	Portugal 1976
Bulgaria 1994	Ireland 2004	Romania 1996
Croatia 1997	Italy 1956	San Marino 1989
Cyprus 1962	Kosovo 2013	Serbia 2004
Czech Republic 1999	Latvia 1998	Slovak Republic 1998
Denmark 1978	Liechtenstein 1976	Slovenia 1994
Estonia 1998	Lithuania 1996	Spain 1978
Finland 1991	Luxembourg 1956	Sweden 1977
France 1956	Malta 1973	Switzerland 1974
Georgia 2007	Moldova (Republic of) 1998	"the former Yugoslav Republic of Macedonia" 1997
Germany 1956	Montenegro 2007	
Greece 1956	Netherlands 1978	Turkey 1956



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53 FINANCIAL STATEMENTS

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MESSAGE FROM THE GOVERNOR

ROLF WENZEL

2013 was a fruitful year for the Council of Europe Development Bank (CEB). The new mechanisms and structures we put in place helped to enhance the effectiveness of our activities. Continuing to expand our member base, in November 2013 we were pleased to welcome Kosovo as our 41st Member State. Meanwhile, we continued to support all our Members against the backdrop of challenging economic and financial market conditions, and registered an increase in the disbursement of loans and number of projects approved.

Figures speak for themselves: 38 loan applications worth a total of € 2.3 billion were approved in 2013, including 27 operations in the CEB's target countries (i.e. more than two-thirds of the number of loan applications). This represents a 26.5% increase in total project approvals from 2012. 75% of approved projects, amounting to € 1.7 billion, were aimed at strengthening social integration.

Thanks to ongoing shareholder support and a cautious risk management policy, the CEB continued to enjoy financial stability and excellent credit ratings by the main rating agencies. A total of € 3.2 billion in funding was raised in international capital markets at very competitive rates, and at year-end 2013 net profit stood at € 111.3 million.

The CEB, a major social development instrument in Europe, supports the values of the Council of Europe in its economic activity and allocates its loans according to its three sectoral lines of action: strengthening social integration, managing the environment, and supporting public infrastructure with a social vocation.

Projects which received approval in 2013 include various operations supporting the creation and preservation of viable jobs, providing aid to refugees, migrants and displaced persons, and improving living conditions in urban and rural areas.

For example, responding to the Slovak Republic's need to improve living conditions in its capital Bratislava, the CEB approved a programme aimed at co-financing investment that will modernise urban public infrastructure, such as local road and public transportation networks.

Continuing its efforts to boost job creation and preservation in micro, small and medium-sized enterprises (MSMEs), the CEB approved a loan to the Instituto de Crédito Oficial (ICO) to provide much-needed financing to Spanish MSMEs for the acquisition of fixed assets and production equipment.

Moreover, implementation of the Regional Housing Programme (RHP) began in 2013. The objective of this important regional initiative is to bring sustainable housing solutions to about 74 000 persons affected by the 1990s conflicts in the Western Balkans. Following an approval by the Assembly of Donors in April 2013, the very first RHP-related projects have now obtained financing.

Remaining firmly committed to sustainable management of the environment, the CEB continues to take systematically into account the environmental aspect of all projects to which it gives consideration. In 2013, for example, direct disbursements in the environmental protection sector totalled € 123 million.

Ensuring that the Bank continues to fulfil its mandate efficiently requires careful reflection and planning. In November 2013, the CEB's Development Plan for 2014-2016 was unanimously adopted. The Plan, which sets ambitious goals for the next three-year period, reflects the importance that the CEB attaches to the social added value of its activities. Its priorities include, but are not limited to, social investments with additional technical assistance, strengthening co-operation with EU funds, and supporting job creation and preservation.

To enhance the CEB's operational capacity, the new development plan established two new finance instruments: the EU Co-financing Facility (ECF), which is applicable both within EU Member States and beyond, and the Public Sector Finance Facility (PFF), which is intended to maintain a steady flow of funds in public entities with budget-based funding.

Partnerships with other international organisations, both financial and non-financial, are highly valued by the CEB. Effective cooperation with its partners not only expands the Bank's areas of expertise, but also increases the resources available for its activities. Thus, in 2013 the CEB strengthened its cooperation with the European Bank for Reconstruction and Development (EBRD) and also with the European Union.

Aware of the need for continuous reflection and adjustment, the CEB reformed its Social Dividend Account (formerly Selective Trust Account) in 2013. As a result, the CEB is better-equipped to support projects with high social added value by providing enhanced technical assistance to beneficiaries and by using guarantee grant funds.

2013 also saw the approval of a new prudential framework, which will ensure the Bank's financial sustainability, and the introduction of a new management risk structure, which will further shield the CEB not only from financial market risks but also from operational risks. The Bank will continue to monitor and adapt to the changing regulatory environment. In addition, a new mechanism was put in place to allow for the use of detailed feedback generated during the process of project evaluation.

Lastly, the creation of a Corporate Responsibility and Studies Department in February 2013 and the general information meeting on Corporate Social Responsibility (CSR) held at the CEB in June 2013 are testament to the Bank's ongoing commitment to CSR principles. Concrete steps were also taken to ensure the highest standards of integrity, governance and transparency within the Bank and to increase compliance awareness among its staff.

In 2013 improvements were registered in the economic situation of several CEB Member States. Nevertheless, high unemployment rates across Europe remain a matter of concern. This is precisely why it is crucial for the CEB to redouble its efforts to foster social cohesion and promote equitable growth. With the new mechanisms we introduced in 2013, the continuing support of the Governing Board and Administrative Council, and the hard work of our staff, the CEB will continue to finance projects aimed at tackling increasing disparities within and across all its Member States.

Paris, 3 March 2014



Rolf Wenzel

DEVELOPMENT PLAN 2014-2016: MAIN TENETS AND NEW FINANCIAL INSTRUMENTS



The CEB Development Plan 2014-2016, approved in November 2013, seeks to strengthen the Bank's mission of supporting social investments and its role as a major instrument of solidarity policy in Europe promoting the fundamental values of the Council of Europe. The new development plan focuses the Bank's action on the following five strategic areas:

- enhancing support to social investments with additional technical assistance and greater flexibility
- strengthening co-operation with European Union funds at a country level
- contributing to bridging the funding gap in the social sectors
- increasing support for job creation and preservation
- examining and developing innovative approaches for additional lending and non-lending activities.

This development plan introduces new financing instruments and adapts the existing ones in a bid to respond ever more efficiently to the needs of the Bank's Member States, especially in an environment in which the consequences of the financial and economic crisis have negatively impacted social cohesion, human capital and the development potential of future generations.

The support that the CEB has repeatedly provided over recent years to programmes financed by European Union funds has now been formalised through the introduction of the EU Co-financing Facility (ECF). This new CEB funding tool better coordinates with the characteristics of EU Funds and is applicable both to member states of the European Union and beyond.

The Public Sector Finance Facility (PFF), intended for public entities whose funding is primarily budget-based, aims to remedy temporary gaps in funding flows and to ensure continuity of investments in the social sectors throughout the period of implementation.

Ongoing support to job creation and preservation in micro, small and medium-sized enterprises will be further reinforced, constituting a major tool at the Bank's disposal in its efforts to strengthen social cohesion across its membership base and consolidate the value added of its operations.

Concomitantly, existing efforts will be taken in favour of operations in Central, Eastern and South-Eastern European countries. Notably, enhanced cooperation with the EU, other multilateral development institutions and donor countries will be of particular importance.

Reflections are also under way on additional ways to increase the added value of CEB financing through potential cooperation with the private sector (such as public-private partnerships), through risk sharing mechanisms (especially in support of micro-credit), and through further diversification of the CEB's non-lending offer.

The revised prudential framework adopted in 2013 will serve to underpin the main tenets of the development plan as it will provide the necessary tools for addressing the new risks prevailing in a volatile economic and financial environment that will continue to require vigilant risk management policy.



PROJECTS AND LOANS

01 OVERVIEW



HUNGARY
Improving living conditions

In 2013, the CEB's Administrative Council approved 38 loan applications for a total amount of **€ 2 274 million**, including 27 transactions in favour of the CEB's target countries*. Total project approvals in 2013 were 26.5% higher than approvals during 2012, testifying to the importance of CEB financing in support of social investment programmes in its Member States, despite the challenges posed by the current economic and financial context.

From 2009 to 2013, the CEB approved **167 projects** for an accumulated total of **€ 11 114 million**. 117 of the projects approved over the five-year period were in favour of the Bank's target countries.

In 2013, disbursements totalled **€ 1 845 million**, representing a 16.5% increase compared to total loan disbursements in 2012. Disbursements for the year were spread over 100 loan tranches and 67 projects/programmes.

Over the 2009-2013 period, the CEB disbursed an accumulated amount of **€ 8 874 million**.

The breakdown of CEB project approvals and loan disbursements in 2013 by sectoral line of action is shown in the charts below.

As of end 2013, the stock of projects** stood at **€ 4 649 million**, comprising 114 projects, of which 92 were in favour of target countries. The stock of projects underscores the importance of the availability of the Bank's lending for all its Member States and constitutes a strong base for CEB's operations in the years to come. Two-thirds of the stock of projects was committed since the respective framework loan agreements for financing had already been signed.

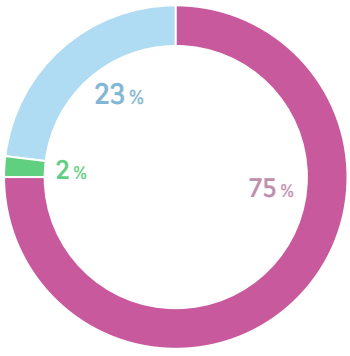
Loans outstanding at 31 December 2013 amounted to **€ 12 582 million** spread over 33 countries.

* The CEB's group of "target countries" comprises: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Republic of Moldova, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.

** All projects approved by the Administrative Council enter into the stock of projects. Once the framework loan agreement between the Bank and the respective borrowers has been signed, related loan amounts become committed. The stock of projects diminishes with the disbursement of loan tranches under any one project or in the case of cancellation or early reimbursement.

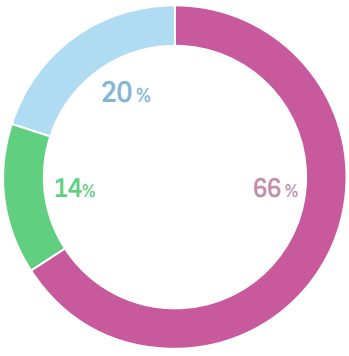
Projects approved in 2013

Breakdown by sectoral line of action



Loans disbursed in 2013

Breakdown by sectoral line of action



Strengthening social integration

Managing the environment

Supporting public infrastructure with a social vocation

Key elements for 2013

The year 2013 was particularly marked by the following elements and developments:

- With **nearly half of all projects approved in its target countries**, the CEB demonstrated again its strong commitment to developing social investment projects across its membership base, despite the negative effects of the economic situation. It also continued to **focus on the sectoral lines of action with the greatest potential to generate added value.** Consequently, projects in favour of strengthening social integration amounted to € 1 702 million and represented 75% of all project approvals for the year. Over two-thirds of this amount (€ 1 142 million) was dedicated to operations supporting job creation and preservation in micro, small- and medium-sized enterprises, which have been particularly hard-hit in the current environment of constrained access to financing.
- **The CEB adopted its new Development Plan 2014-2016,** representing the roadmap for Bank activities over the three years beginning in January 2014. Notwithstanding the persistently challenging economic environment and general increase in risks, the orientations of the new Development Plan set ambitious goals for the CEB's activity levels, with global disbursements expected to reach € 1.8 billion per year on average (€ 1 billion per year on average in the target countries) over the next three years. These orientations are centred around the CEB's experience in developing high-quality projects that, ultimately, maximise the Bank's contribution to strengthening social cohesion in Europe through an optimal and innovative use of resources and a judicious risk-taking approach (see box on page 8 for more information). The adoption of the new Development Plan consequently resulted in the revision of the CEB's Loan and Project Financing Policy.
- **The Bank reformed its Social Dividend Account** (formerly Selective Trust Account) which created separate "windows" within the Social Dividend Account (SDA), each corresponding to a specific SDA-funded activity, namely (i) interest rate subsidies, (ii) donations, (iii) technical assistance and (iv) guarantee scheme for pilot projects, each with different eligibility criteria as well as separate rules governing their utilisation, monitoring and control. The reform of the SDA adds value to CEB operations by confirming its role as a distinct vehicle for providing coordinated grant financing resources for high social added value projects that lack the necessary preparation and/or implementation mechanisms and have restricted access to resources (see box on page 25 for more information).



PORTUGAL
Education

- **The CEB continued its active engagement in the Regional Housing Programme (RHP)***. Following the Assembly of Donors' approval of the very first projects to obtain grant financing from the RHP Fund in April 2013, subsequent waves of project approvals resulted in a total of € 61 million in approved projects by the end of 2013. Thanks to significant progress made by the Partner Countries – with the support of the international community – the bases for efficient RHP implementation have been created, notably by setting up efficient project implementation structures and reaching agreement on the legal framework governing RHP implementation. With project implementation now started, the first housing solutions are expected to be delivered to beneficiaries during the first half of 2014.

* The Regional Housing Programme (RHP) is a cornerstone of the regional initiative developed jointly by Bosnia and Herzegovina, Croatia, Montenegro and Serbia with wide support from the European Commission, the UNHCR, OSCE and international donors. This project, totalling around € 600 million, aims at securing durable housing solutions for some 74 000 most vulnerable refugees and displaced persons from the 1991-1995 conflicts in the territory of former Yugoslavia.

02 MEANS OF ACTION

Set up in 1956 by eight Member States of the Council of Europe* in order to provide solutions to the problems of refugees, the Bank has since adapted to changes in social priorities in Europe and enlarged its scope of action in order to better contribute to **strengthening social cohesion and promoting inclusive growth.**

The CEB's membership base has expanded considerably over the years, with 20 of the 41 current Member States having joined the Institution in the last twenty years. Kosovo became the latest member to join the Bank in November 2013.

Placed under the supreme authority of the Council of Europe, the CEB operates in support of its human rights, social and environmental priorities and principles.

In particular, the Bank's approach to social responsibility draws upon the principles enshrined in the Council of Europe Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter.

Highlighting the Bank's role as an instrument of solidarity in Europe with a unique social mandate, the structure of the CEB's projects and loans activity today reflects its commitment to supporting socially sustainable and inclusive development in the areas of action detailed in Table 1.

The CEB pays particular attention to the quality and social impact of the projects it finances, thus maintaining close involvement throughout the **entire project cycle** (see diagram on page 13) so as to optimise the relevance, quality and social added value of projects.

All along a typical project cycle, there are a number of instances for monitoring and control that ensure the proper development and implementation of high quality, high social value projects that meet the Bank's eligibility, implementation and other relevant criteria.

All CEB loans are granted in accordance with specific technical and social criteria and in strict conformity with the Bank's environmental, procurement and compliance guidelines and policies. Potential borrowers address their loan requests to the CEB, which, in turn, carries out a thorough assessment of the project applying a "two-pronged approach" methodology.

The underlying premise of this approach is that the social value of a CEB loan depends both on the intrinsic characteristics of the project and on the context in which the project is implemented, i.e., the country parameters. Taken together, these two dimensions provide a yardstick for measuring the added value of the CEB's financing via two equally weighted factors, the project score and the country score. The Bank also closely assesses the associated credit risk aspects of both the borrower and the proposed transaction.

Table 1

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

* Belgium, France, Germany, Greece, Iceland, Italy, Luxembourg and Turkey.

** As of 1 January 2014, within the framework of the new Development Plan 2014-2016, the "Creation and preservation of viable jobs" sector has become a separate sectoral line of action.

BORROWING FROM THE CEB

The CEB's principal activity consists of granting loans to borrowers in its 41 Member States to partially finance economically and socially viable projects that promote social cohesion and sustainable economic, social and environmental development and meet a certain number of sectoral, geographical, social and financial criteria. The Bank also provides grants through trust accounts.

The eligibility criteria and general procedures for project financing by the CEB are presented in the Loan and Project Financing Policy and the Handbook on the Preparation and Implementation of Projects (both available on the CEB website). These reference documents set out provisions for the appraisal, approval, financing and monitoring of the Bank's projects. CEB operations can be funded through different financial instruments (see box on the Development Plan 2014-2016 on page 8).

The Bank mainly provides flexible medium-term and long-term loans at favourable interest rates, in specific cases along with interest rate subsidies, to its Member States, to their regional or local authorities, and to public or private financial institutions. CEB loans are granted for tenors that take into account the nature of the project and they are disbursed in several tranches.

Project financing can start once the Framework Loan Agreement (FLA) has been negotiated between the Bank and the borrower. The FLA reflects the specific requirements and modalities established by the CEB during project appraisal as well as the corresponding requirements determined by the CEB's Loan and Project Financing Policy, Environmental Policy, Procurement Guidelines and Anti-corruption Charter. In cases where the FLA spells out any conditions prior to disbursement, the Bank ensures that these conditions are met by the borrower before any loan disbursement can take place.

Social impact is a key consideration during the appraisal process to ensure that implementation arrangements, monitoring and reporting modalities are appropriate and that the projects generate the expected social outcomes. Moreover, the appraisal stage includes a thorough evaluation of the likely added value of CEB support. The Bank increasingly provides technical assistance for project preparation and implementation from different sources, either bilateral (such as the Spanish Social Cohesion Account) or multilateral (for example, the Western Balkans Investment Framework).

Subsequent to the project's approval by the CEB's Administrative Council, the projects enter the stock of projects and can receive financing when the Framework Loan Agreement has been signed between the Bank and the borrower.

Following the disbursement of the first loan tranche, the Bank carries out regular in-house reviews and on-site monitoring in order to assess the project's compliance with the agreed conditions, the financial and organisational situation of the borrower, the physical progress of the works, adherence to costs, procurement procedures and to ensure that the anticipated social objectives of the project are being achieved. Only if monitoring is fully satisfactory can the disbursement of a new loan tranche to the borrower be authorised.

Once a project is completed, a final report is drawn up by the borrower detailing the use of the funds and compliance with the objectives approved by the Administrative Council. The Bank may carry out an evaluation of any completed project or programme in order to measure their medium-term social impact and enable the CEB, through the learning effect, to improve the quality of ongoing and future operations.

03 STRENGTHENING SOCIAL INTEGRATION

The results for the year underline the importance of social integration to the Bank's mandate. For 2013 alone, project approvals in the field of strengthening social integration amounted to **€ 1 702 million**, representing as much as three-quarters of all approvals in the year. Of this, 58% or **€ 981 million** was in favour of target countries. In 2013, the Bank disbursed **€ 1 218 million** in favour of social integration, representing two-thirds of all disbursements made in the year.

From 2009 to 2013, this sectoral line of action involved an accumulated amount of **€ 6 726 million** in terms of projects approved, representing 61% of all projects approved since 2009. In parallel, over the 2009-2013 period, loans disbursed in favour of social integration amounted to an accumulated total of **€ 5 111 million**, representing 58% of all disbursements made since 2009.

The CEB contributes to social cohesion by acting in favour of refugees, migrants and displaced persons, financing the provision of housing for low-income persons, facilitating job creation and preservation, and improving living conditions in urban and rural areas.

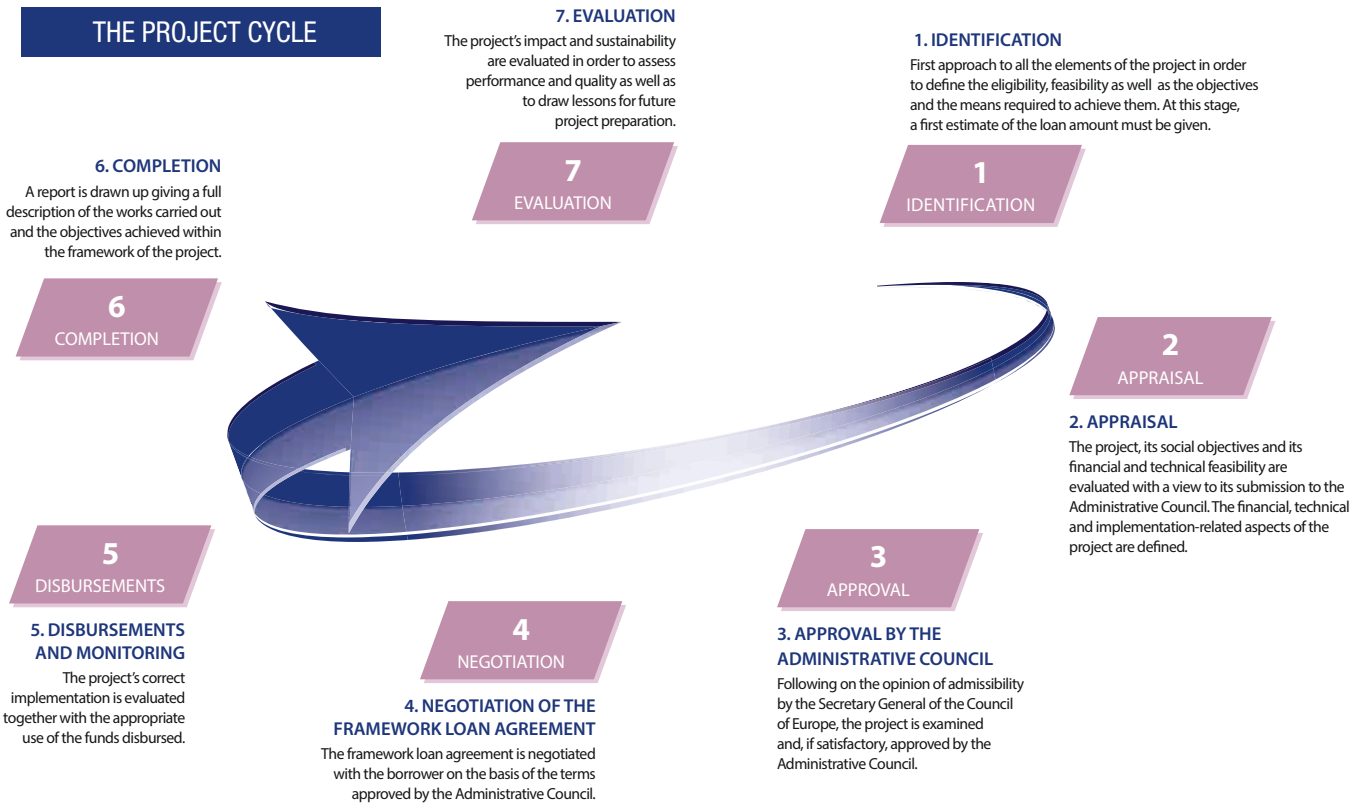
I. Aid to refugees, migrants and displaced persons

Aid to refugees, migrants and displaced persons is one of the CEB's statutory priorities. Increasingly, CEB action in this field focuses on the reintegration of returning refugees, migrants or internally-displaced persons within a Member State as well as on contributing to the lasting integration of migrants and refugees in the host countries.

Projects financed in this sector mainly concern:

- Reconstruction and repair of reception facilities (such as reception centres, temporary and permanent social housing)
- Programmes for preventive and curative medicine, education and vocational training
- Technical infrastructure and basic amenities required to meet the immediate needs of victims of exceptional situations.

Over the 2009-2013 period, the CEB approved projects in this sector for an accumulated amount of **€ 168.5 million**. In 2013, the CEB approved two projects in this sector totalling **€ 61.5 million**. Disbursements during 2013 amounted to **€ 49 million**.



BOSNIA AND HERZEGOVINA: Provision of housing solutions for internally-displaced persons

As a result of the 1992-1995 conflict in Bosnia and Herzegovina, 2.2 million people (almost one half of the country's population) were forced from their homes. Of these, one million were displaced within the country, becoming internally displaced persons (IDPs) and living in collective centres and alternative accommodation. The conflict also ravaged the housing sector in the country, destroying or damaging 42% of the housing stock.

This project will finance the refurbishment, reconstruction, construction or purchase of at least 2 600 housing units to provide permanent accommodation for at least 7 200 IDPs currently living in collective centres and alternative accommodation throughout the country. About one-third of these IDPs are handicapped, chronically or mentally ill, and the remaining two-thirds are considered socially vulnerable due to age, unemployment, marital and/or economic status.

Implementation of this project will enable the closing of 121 collective centres and alternative accommodation units representing more than three-quarters of those still remaining.

The authorities in Bosnia and Herzegovina were encouraged to present this project for CEB co-financing based on lessons learned from a similar project approved in 2005 and successfully completed in 2012. The new project was prepared by Bosnia and Herzegovina with technical assistance (TA) from UNHCR, funded by the CEB's Norwegian Trust Account, and TA funded by the Spanish Social Cohesion Account. Its implementation will be assisted by a TA grant from the WBIF. The CEB has also allocated € 2 million from its Social Dividend Account as an interest rate subsidy on the loan.

* Note that this project is both different from and complementary to the Bosnia and Herzegovina component of the Regional Housing Programme (RHP). RHP financing is focused on donor grants rather than loans, and the beneficiaries of the two projects present different target groups, as well as separate implementation, technical assistance and oversight mechanisms.

Within the framework of the Regional Housing Programme, € 61 million in grants from various donors will be allocated to projects in the Partner Countries concerned, as approved by the RHP Assembly of Donors.

Table 2 represents the detail on the projects in the sector of aid to refugees, migrants and displaced persons approved in 2013.

II. Housing for low-income persons

Providing decent and affordable housing is an effective means of supporting the Bank's mission to strengthen social cohesion in its Member States and contribute to improving the living environment in both urban and rural areas.

Projects financed by the CEB in this sector involve the renovation, construction or refurbishment of housing and the conversion of existing buildings to residential use in order to provide decent housing for people on low incomes. Eligible projects may target access to property ownership, rented accommodation or associated infrastructure.

In a broader perspective, the Bank also plays a role in urban renewal through the financing of housing-related municipal infrastructure, including investments linked to environmental sustainability and energy efficiency. In this respect, the CEB provides financing for urban renewal programmes designed to successfully address a number of economic, social and environmental challenges in urban areas.

Table 2

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
Bosnia and Herzegovina	Government	Closing of collective centres and alternative accommodation following the provision of appropriate public housing solutions for at least 7 200 internally-displaced persons throughout the country (see box above)	60 000 000
Hungary	Roma Education Fund – Hungary	Improving access to education for excluded social groups, developing the employability of Roma people and facilitating their social integration by bridging the treasury gap on Roma Inclusion Programmes implemented by NGOs. This operation will benefit from the new guarantee scheme from the Bank's Social Dividend Account	1 500 000

Over the 2009-2013 period, the CEB approved projects in the housing sector for an accumulated amount of **€ 1 653 million,** representing nearly 15% of all approvals for the five-year period. In 2013, the CEB approved operations for a total of **€ 300 million** in this sector, representing 13% of all projects approved during the year. Disbursements during 2013 amounted to **€ 243 million**, corresponding to 13% of all disbursements for the year.

Table 3 provides a summary of projects approved by the CEB during 2013 in the sector "housing for low-income persons".

III. Creation and preservation of viable jobs

The CEB lends its support to productive investment programmes aimed at creating and preserving viable jobs as an effective means for strengthening social integration across its Member States. These projects are intended to facilitate access to credit for micro, small and medium-sized enterprises (MSMEs) as well as for entities exercising a craft activity or family businesses carrying out regular economic activity.

The MSME sector plays an important role in promoting sustainable economic and social development due to its potential for generating employment, strengthening competitiveness, promoting technology transfers and export diversification, as well as lowering disparities among regions.

Given its social orientation, the CEB tailors its projects in this field especially to the smaller end of the MSME sector; in this respect, supporting leasing programmes through participating financial institutions is seen by the Bank as a particularly well-suited tool for reaching micro and small enterprises.



POLAND
Job creation

In 2013, the CEB continued to lend its support to investment programmes implemented by commercial banks, development banks and other financial institutions. Over the past five years, the Bank has approved projects in this sector for a total of **€ 3 276 million**, representing 29.5% of all project approvals during the 2009-2013 period.

In 2013, operations supporting job creation and preservation amounted to **€ 1 142 million** and represented as much as half of all projects approved for the year. A large majority of these programmes, representing **€ 736 million** or 64% of all operations in this sector, were approved in the Bank's target countries.

Disbursements in this sector amounted to **€ 701 million** during 2013, representing 38% of all disbursements for the year, up from an average of 28% of all disbursements over the last five years.

Table 3

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
Belgium	Vlaamse Maatschappij voor Sociaal wonen (VMSW)	Continuing cooperation with VMSW as a recognised public social operator in order to improve housing conditions in Flanders through the provision of social housing for low-income households, those living on social subsidies, single parents or those with disabilities	200 000 000
Germany	NRW.Bank	Part-financing of subsidised investment programmes for rented social housing with NRW.Bank, the State development bank of North Rhine-Westphalia within the context of the State Law for the Promotion and Utilisation of Housing Space ("WFNG-NRW")	100 000 000

SUPPORTING JOB CREATION AND PRESERVATION

While the CEB has long recognised the importance of supporting the creation of viable jobs, support for job creation and preservation in micro, small and medium-sized enterprises (MSMEs) has recently taken centre stage in the Bank's efforts to strengthen social cohesion and improve living conditions across its membership base. The Development Plan 2014-2016 therefore includes job creation and preservation as a sectoral line of action in its own right.

Financing remains a critical issue for the development of MSMEs and inadequate access to financing is a major barrier to further development of the sector. The socio-economic impact of providing MSME funding is high as it allows the CEB to support firms that have a significant impact on job creation and on the promotion of entrepreneurship, which is key to sustainable economic development.

The CEB's action in the MSME sector mostly takes place through so-called "apex" structures with various financial institutions such as commercial banks, leasing companies, State development banks, etc. By facilitating access to funding through tailored loan and leasing products via a carefully chosen network of financial intermediaries with considerable local presence, the CEB provides much-needed long-term funding resources to the MSMEs that it would otherwise not be able to reach. Financing operations through financial intermediary partners enables the Bank to address the lack of available funding on favourable terms and to finance vital investment projects that stimulate economic growth.

The CEB can also support microfinance models that facilitate access to credit for groups hitherto excluded from the formal banking system. The Bank can do so in a financially sustainable manner, whereby the beneficiary is able to generate the resources necessary to finance its own growth in an environment in which it is increasingly challenging to rely on scarcer third-party contributions. The impact of providing such a stepping-stone for integration into the formal sector for business start-ups has considerable social and economic benefits. The CEB's recent support to microfinance programmes includes operations with Micro Bank in Spain or with PerMicro in Italy, approved in 2013.

Since its creation in 1956, the CEB has approved € 9.9 billion in favour of projects in its "job creation and preservation" sectoral line of action. Its activity in favour of this sector strongly intensified as of 1995 and, again, with the onset of the global financial crisis that served to underscore the difficulties faced by MSMEs in obtaining access to funding.

Table 4 provides an overview of the institutions and programmes that the CEB supported in 2013 in the field of job creation and preservation:

Table 4

COUNTRY	BORROWER	AMOUNT (IN €)
Bosnia and Herzegovina	Sparkasse Bank dd	10 000 000
Bulgaria	UniCredit Bulbank	30 000 000
Croatia	Hrvatska banka za obnovu i razvoj (HBOR)	54 000 000
	Raiffeisen Leasing d.d., Zagreb	10 000 000
Czech Republic	UniCredit Bank Czech Republic, a.s.	25 000 000
Georgia	JSC ProCredit Bank	7 936 508
	JSC TBC Bank	23 006 135
Hungary	Magyar Fejlesztési Bank (MFB)	45 000 000
Italy	PerMicro SPA	6 000 000
Poland	BZ WBK Leasing S.A.	50 000 000
	SG Equipment Leasing Polska	72 000 000
Romania	CEC Bank	12 500 000
	UniCredit Tiriac Bank SA	47 500 000
Serbia	Société Générale Banka Srbija a.d. Beograd	20 000 000
Slovak Republic	OTP Banka Slovensko, a.s.	16 000 000
Slovenia	SKB Bank d.d.	50 000 000
	UniCredit Banka Slovenija d.d.	45 000 000
Spain	Banco Santander SA	100 000 000
	Instituto de Credito Oficial	300 000 000
"the former Yugoslav Republic of Macedonia"	Ohridska Banka AD Ohrid	8 000 000
Turkey	Halkbank (Türkiye Halk Bankası A.S.)	30 000 000
	Türkiye Cumhuriyeti Ziraat Bankası A.S.	100 000 000
	Türkiye Kalkinma Bankası A.S.	80 000 000

IV. Improvement of living conditions in urban and rural areas

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

The projects financed may include:

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

Over the 2009-2013 period, the Bank approved projects aimed at improving living conditions in urban and rural areas for a total of over **€ 1 629 million**, representing almost 15% of all approvals over the five-year period. For 2013, the total amount of projects approved in this sector reached **€ 199 million** (9% of all projects approved during the year). Disbursements during 2013 reached **€ 224 million**, representing 12% of all disbursements for the year.

Projects approved in 2013 in the "improvement of living conditions in urban and rural areas" sector are detailed in Table 5.

Table 5

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
Croatia	Hrvatska banka za obnovu i razvoj (HBOR)	Financing investment projects undertaken by local authorities to improve social infrastructure and enhance standards of public service, including in priority sectors where Croatia is expected to increase its levels of public spending following EU accession	36 000 000
Czech Republic	UniCredit Bank Czech Republic, a.s.	Supporting investment projects undertaken by Czech and Slovak municipalities and mixed companies focused on modernising local infrastructure and enhancing the quality of public service provision	7 500 000
France	Crédit Coopératif	Part-financing the investment programmes of French social services of general interest (SGI) aimed at providing public services and improving living conditions of inhabitants	15 000 000
Hungary	Magyar Fejlesztési Bank (MFB)	Financing municipal sub-projects focused on investments to upgrade run-down urban areas and to develop rural infrastructure, and notably facilitating access to jobs in urban centres for people living in rural areas with higher unemployment rates	22 500 000
Poland	City of Lublin	Supporting municipal investments inscribed in the City of Lublin multi-annual investment programme for the improvement of living conditions in the city through construction and upgrade of roads, transport networks, sports and educational facilities	66 666 667
Romania	CEC Bank	Part-financing investments undertaken by Romanian municipalities to improve the quality and accessibility of public services	12 500 000
	UniCredit Tiriac Bank SA	Financing investments by urban and rural municipalities to upgrade and modernise provision of public services and to upgrade local infrastructure	2 500 000
Slovak Republic	Capital City of SR Bratislava	Financing a programme to improve living conditions in Bratislava, including the reconstruction of one of the capital city's bridges for exclusive use by tramways and bicycles; upgrading public transportation networks and other investments to revitalise and modernise urban public infrastructure (see box on page 18)	28 000 000
	OTP Banka Slovensko, a.s.	Part-financing local authorities' investment programmes to strengthen social integration by improving the quality and accessibility of public services throughout the country	8 000 000

Improving living conditions in Bratislava

With a population of around 460 000, the capital city of the Slovak Republic, Bratislava, is the largest city in the country and its cultural and economic centre. The approved programme aims at revitalising and modernising urban public infrastructure.

Sub-projects will involve construction, rehabilitation or modernisation of local road and public transportation networks as well as urban infrastructure providing the necessary amenities that contribute to more dynamic and equitable social growth of the city and the adjoining areas.

One of the flagship investments under the programme is the reconstruction of the centrally located "Old Bridge", closed due to statical concerns since 2011. The reconstructed bridge will be used only by pedestrians and electric tramways and will, using greener means of public transportation, connect the largest suburb of Bratislava with the city centre. Also the largest suburban conglomeration in the country, this suburb is – in terms of public transportation – currently connected to the city centre only by more polluting petrol- and gas-operated buses. Moreover, the height of the bridge above the water level will be raised so as not to limit shipping traffic on the River Danube.

Part of the CEB financing will complement EU funding and thus have an important role in Bratislava's blending of financial sources for the benefit of much needed urban modernisation investments. The programme will be the first direct CEB co-financing in favour of Bratislava.

04 MANAGING THE ENVIRONMENT

For the CEB, sustainable management of the environment is not only a sectoral line of action, but also a constant requirement as the Bank seeks to fully integrate environmental considerations into all its lending operations. Within this sustainability perspective, the CEB's actions have steadily evolved from emergency response to environmental disasters and immediate post-disaster reconstruction to prevention against the loss of life and livelihoods due to natural and ecological disasters as well as protection of the environment and preservation of historic and cultural heritage.

Over the 2009-2013 period, projects approved in this sectoral line of action represented an accumulated amount of **€ 1 598 million**, thus accounting for 14% of all approvals during the period. A major portion of this amount, **€ 1 124 million** or 70% of all approvals in this sectoral line of action over the period, was dedicated to operations in target countries. In 2013, new project approvals in the "managing the environment" sectoral line of action amounted to **€ 53 million**.

In parallel to this, since 2009, loans disbursed in favour of environmental management have amounted to an accumulated total of **€ 1 985 million**, representing 22% of all disbursements made over the past five years. In 2013, the Bank disbursed **€ 266 million** for environmental management, corresponding to 14% of all the year's disbursements.

I. Protection of the environment

The CEB finances projects that contribute to protecting and improving the environment, thereby improving the overall living conditions of the populations concerned. The projects notably involve:

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

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

The initiatives that have been taken in the environmental protection sector are today widely diverse both in terms of their fields of action and in their geographical scope. Over the 2009-2013 period, the Bank approved projects in this sector for an accumulated amount of **€ 1 000 million**, representing 9% of all projects approved over the period. For 2013, approvals in this field amounted to **€ 53 million**,

thus accounting for 2% of all projects approved during the year. Disbursements during 2013 totalled **€ 123 million** or 7% of all disbursements for the year.

The projects approved in this sectoral line of action during 2013 are presented in Table 6.

II. Natural or ecological disasters

Together with aid to refugees, migrants and displaced persons, aid to victims of natural or ecological disasters constitutes one of the CEB's two statutory priorities. The purpose of the actions undertaken in this field is, on the one hand, to provide national and local authorities with assistance in the reconstruction of the disaster-affected areas and, on the other hand, to develop means for the prevention of natural or ecological disasters. Globally speaking, the Bank's projects in this field strive to enable sustainable development in its Member States by providing lasting solutions for reducing vulnerability to natural disasters, reversing environmental degradation and promoting adherence to environmental standards.

Over the 2009-2013 period, the Bank approved projects in this sector for a total amount of **€ 523 million**, accounting for 5% of all project approvals during the period. Loan disbursements over the last five years amounted to **€ 591 million**.

While there were no new project approvals in the "natural or ecological disasters" sector of action in 2013, the loan disbursements in this sector reached **€ 137 million** representing 7% of all disbursements during the year.



TURKEY
Natural or ecological disasters prevention through building retrofitting

III. Protection and rehabilitation of historic and cultural heritage

The CEB finances the restructuring and rehabilitation of historic and cultural heritage, classified as such by UNESCO or by the Member States concerned.

Over the 2009-2013 period, the Bank approved a total of **€ 75 million** for the protection and rehabilitation of elements of historic and cultural heritage. There were no new project approvals in this sector of action during 2013. Disbursements in 2013 amounted to **€ 6 million**.

Table 6

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
Czech Republic	UniCredit Bank Czech Republic A.S.	Investment projects undertaken by Czech and Slovak SMEs, municipalities, mixed companies and homeowner associations for energy savings through reconstruction of panel housing	17 500 000
Hungary	Magyar Fejlesztési Bank (MFB)	Reconstruction of panel buildings geared towards increased energy efficiency and lower energy costs	7 500 000
Slovak Republic	Capital City of SR Bratislava	Investments aimed at energy saving measures, reduction in air pollution, protection against noise, cleaner transport means and networks such as the construction of 25 km of trolley bus tracks	12 000 000
	OTP Banka Slovensko a.s.	Environmental protection investments in the Slovak Republic to improve the inhabitants' standard of living by enabling energy saving measures through housing reconstruction and upgrading projects	16 000 000

05 SUPPORTING PUBLIC INFRASTRUCTURE WITH A SOCIAL VOCATION

The CEB's integrated approach to supporting the development of public infrastructure with a social vocation in the key sectors of health, education, vocational training and administrative and judicial public services facilitates more dynamic and more equitable economic growth and social cohesion over the long term. Indeed, the provision of modern public services is an essential tool in encouraging a more balanced regional and national development in Europe, thereby reducing inequalities.

Over the 2009-2013 period, projects approved in this sectoral line of action represented an accumulated amount of **€ 2 790 million** or 25% of all project approvals over the five-year period. Of this, project approvals for the benefit of target countries amounted to **€ 888 million** over the period. In 2013, projects approved amounted to **€ 519 million** representing 23% of all projects approved.

In parallel to this, loans disbursed in favour of this line of action reached an accumulated total of **€ 1 778 million**, representing 20% of all disbursements made over the 2009-2013 period. For 2013 alone, the Bank disbursed a total of **€ 361 million**, corresponding to 20% of all disbursements for the year.

I. Health

The CEB provides the means for financing various types of projects that concern health and related infrastructure, most notably involving the construction, renovation and modernisation of infrastructure such as hospitals, neighbourhood healthcare centres (including those specialised in providing assistance to vulnerable populations), university hospitals or centres specialising in healthcare for the elderly and the disabled. In addition, the CEB contributes to the financing of technical and management training programmes for specialised staff in the social welfare and healthcare fields.

Helsinki: Supporting municipal education facilities

The CEB approved a programme aimed at part-financing investments in the education infrastructure in the City of Helsinki, comprising both the construction of new structures as well as the restoration, renovation or extension of existing facilities. The programme is developed in line with the city's investment plan for the years 2013-2017 and concerns around 25% of total municipal educational establishments.

Through cofinancing in this programme, the CEB is contributing to generating social added value by:

- improving the studying conditions for some 14 700 pupils representing around 20% of Helsinki's total pupil and student population
- taking account of demographic and immigration trends at all levels of educational institutions
- creating an innovative environment that stimulates and improves learning results and develops the human capital of the future
- supporting the social integration of students from different cultures in Finnish society
- upgrading infrastructure in order to meet the required environmental and energy efficiency standards.

The City of Helsinki represents a valuable partner for the CEB; previous successful cooperation with the city established a solid basis for realising projects of social importance.

Table 7

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
France	Crédit Coopératif	A follow-up programme to three previous successful operations to support the solidarity-based sector in France and to meet the needs of social services of general interest (SGIs) operating in the health sector	105 000 000
	CYCLHAD	Part-financing of the Hadron Therapy Centre for Research and Cancer Treatment, an investment and development programme within the ARCHADE Centre in Caen; this anti-cancer programme falls under the French Hadron national plan designed to support the application of new cancer treatments	50 000 000
Poland	SG Equipment Leasing Polska	Support for the health sector throughout the country through equipment leasing for public and private health care providers	18 000 000

Over the 2009-2013 period, the CEB approved **€ 916 million** for operations in the health sector. In 2013, the Bank approved **€ 173 million** representing 8% of project approvals for the year. Disbursements for 2013 amounted to **€ 171 million**, thus accounting for 9% of all disbursements for the year.

Details of projects approved in 2013 for healthcare-related operations are presented in Table 7.

II. Education and vocational training

The CEB takes action at different levels of the education system, i.e. at preschool, primary school, secondary school or university level. The Bank thus finances the construction and modernisation of school, university and vocational training infrastructure as well as investments in teaching equipment and related educational infrastructure such as sports and cultural equipment or housing for school and university students. It also finances investments in scientific research and development.

As regards vocational training, alternating theoretical training with on-the-job practice of a profession constitutes a response that is well-adapted not only to the needs of enterprises, particularly MSMEs, but also to the expectations of those who are about to join the labour market. The CEB finances programmes providing assistance in the training of specialised staff in the social and education sectors, programmes for professional retraining of workers departing from declining economic sectors as well as various training programmes for civil servants and government officials.



LATVIA
Education

Over the 2009-2013 period, the CEB approved projects in this sectoral line of action for an accumulated amount of **€ 1 417 million**, representing 13% of all approvals over the period. Five new operations totalling **€ 266 million** (12% of all approvals) were approved in this sector in 2013. Disbursements for the year amounted to **€ 186 million**, representing 10% of all disbursements for the year.

Table 8 summarises the operations approved in this sector of action during 2013.

Table 8

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
Finland	City of Helsinki	Renovation, rehabilitation or extension of existing day care centres, primary and secondary school establishments as well as construction of new education-related buildings in order to improve studying conditions for around 20% of Helsinki's pupils and students (see box on page 20)	110 000 000
France	Crédit Coopératif	Building up the long-term resources of Crédit Coopératif to serve the needs of social services of general interest (SGI) operating in the education sector	30 000 000
	Société Générale, Paris	Part-financing investments tailored to the specific needs of a public-private partnership project for the construction/rehabilitation of 8 colleges in the French department of Seine Saint Denis, characterised by numerous sensitive urban zones ("ZUS") and significant social deprivation	107 900 000
Montenegro	Government	Construction and rehabilitation of pre-school units in order to improve the provision of accessible, comprehensive and inclusive pre-school education; some 8 000 children will benefit directly from the new and modernised education establishments	10 000 000
Spain	CaixaBank	A follow-up programme to two successfully completed operations in support of ACCEDER Programme implemented by Fundacion Secretariado Gitano aiming to enhance access of Roma youth to the labour market through the provision of job training, counselling and related services	8 000 000

III. Infrastructure of administrative and judicial public services

Under this heading, the CEB finances the construction or rehabilitation of infrastructure as well as the conversion of buildings into premises intended for public service use, in particular to improve the organisation and functioning of administrative and judicial public services.

Eligible projects in this field typically include penitentiary infrastructure, fire/police stations, training centres or buildings connected to municipal/local/regional administrations. With regard to prison infrastructure in particular, the projects financed by the CEB must respect the principles of the Recommendations made in 2006 by the Committee of Ministers of the Council of Europe concerning European Prison Rules (EPR).

Since 2009, the CEB has approved a total of **€ 457 million** in this sector. In 2013 alone, **€ 80 million** was approved for 2 new operations, as detailed in Table 9. Disbursements made in this sector in 2013 amounted to **€ 4 million**, reflecting the difficulty of putting in place these complex projects.

REPUBLIC OF MOLDOVA: Modernising penitentiary infrastructure

The CEB approved a loan and a grant in 2013 in favour of the Government of the Republic of Moldova in response to its request for co-financing for the construction of a new penitentiary to accommodate inmates from the existing Chișinau Penitentiary 13 and arrested persons to be transferred from the jurisdiction of the Ministry of Interior to the Ministry of Justice.

The project is of high priority to the authorities given that the Moldovan Government is currently undertaking a challenging reform of its judiciary and penitentiary system through its Justice Sector Reform Strategy 2011-2016, which, *inter alia*, focuses on upgrading the penitentiary infrastructure.

The main objective of the project is to enhance the conditions of detention through construction of a new penitentiary respecting the European Prison Rules. The planned new facility will have an operating capacity of up to 1 600 detainees, including common dining rooms, indoor and outdoor sports and leisure spaces, education and social activities areas.

The project will significantly improve the Moldovan Justice sector's public infrastructure by replacing the unsuitable Chișinau penitentiary facility, which has raised concerns by national and international authorities and expert bodies including the European Committee for the Prevention of Torture and Inhuman Treatment and the European Court of Human Rights. Another expected outcome is strengthening the capacity of the Department for Penitentiary Institutions (DIP) in designing, building and managing modern penitentiary infrastructure.

Project preparation benefitted from consultancy services financed through the Spanish Social Cohesion Account, one of the Bank's trust funds. In addition, € 1 million in technical assistance financed from the Social Dividend Account will be provided to the DIP for project implementation and preparation for operating the new facility.

Table 9

COUNTRY	BORROWER	PROJECT / PROGRAMME	AMOUNT (IN €)
Ireland	Government	Supporting the construction of Cork Prison and Oberstown National Children Detention Facility to improve the Irish Justice sector's public infrastructure by replacing unsuitable facilities and inappropriate practices and improving living/detention conditions for detainees and working conditions for staff	41 000 000
Republic of Moldova	Government	Part-financing investments for the construction of a new Chisinau penitentiary to enhance the physical conditions of detention and strengthening the capacity of the Department for Penitentiary Institutions for designing, building and managing modern penitentiary infrastructure (see box above)	39 000 000

06 PARTNERSHIPS AND TRUST ACCOUNTS

The partnerships the CEB enters into with other financial and non-financial international organisations, and with donors through trust accounts, fulfil a major objective: allowing the CEB to increase the resources available for its actions and thus increase the added value of its contribution.

I. Partnerships

In recent years, the CEB has developed a network of close partnerships with other international organisations. The type of cooperation it has sought has focused primarily on additional financing and complementary areas of expertise.

To this end, the Bank has entered into several bilateral and multilateral framework agreements based on Memoranda of Understanding with its peers, namely other international financial institutions (IFIs).

On 10 October 2013, for example, Governor Wenzel and the President of the European Bank for Reconstruction and Development (EBRD), Sir Suma Chakrabarti, signed a new Memorandum of Understanding (MoU). This updated framework for cooperation between the two banks, which replaces the existing bilateral agreement, aims to strengthen the combined impact of their respective actions in countries where both organisations operate. To date, the CEB has also entered into three other MoUs, with the World Bank, the Nordic Investment Bank (NIB) and the Asian Development Bank (ADB). A joint declaration on cooperation was also signed with the President of the European Investment Bank (EIB) in 2008. The CEB uses this network to set its actions with a perspective of broader cooperation with other IFIs.

In addition, the Bank has partnerships with other organisations active in the social arena, including in particular, several specialised United Nations agencies such as the HCR, UNICEF and the United Nations Development Programme (UNDP).

As well as its institutional links with the Council of Europe, strengthening **cooperation with the European Union (EU)** is a strategic lever for the CEB. Indeed, 26 of the Bank's 41 Member States are members of the EU and 8 are official or potential accession candidates. This joint area of intervention makes the EU a natural partner for the CEB in fulfilling its social mandate.

In the context of its cooperation with the European Union, the Bank benefits from its specific position in funding social investment projects and is committed to promoting social development as a leading priority. At the same time, the CEB seeks to increase the leverage effect of its loans and the quality of the projects it funds.



"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"
Children's lung disease hospital part-financed by CEB and benefitting from a WBIF investment grant

Cooperation with the European Union has a number of practical consequences. The first of these consists in helping countries absorb EU funds in the social sectors. This applies not only to structural funds within the European Union but also to instruments used in the EU accession process and neighbourhood policy on a country-by-country basis. This is the reasoning behind the new tool created by the CEB as part of its Development Plan 2014-2016 in the form of a European Co-financing Facility (ECF). This facility will be implemented at a national level, in conjunction with various European financing instruments. It will also provide direct support to EU initiatives both inside and outside the Union.

The CEB also takes part in the new EU platform designed to combine EU grants with public and private sector resources in the context of external cooperation (EUBEC) as well as in various cooperation agreements focusing on projects run under the auspices of the European Union. Examples include the European Local ENergy Assistance facility (ELENA), the Western Balkans Investment Framework (WBIF), several tripartite partnerships with KfW Bankengruppe (KfW) and the European Commission and the Neighbourhood Investment Facility (NIF).

Special mention should be made of the Regional Housing Programme (RHP), which aims to provide sustainable housing solutions for 27 000 households, representing some 74 000 refugees and displaced persons following the conflicts in the Western Balkans in the 1990s. The EU is the main contributor to this programme, which covers four countries referred to as partner countries (Bosnia and Herzegovina, Croatia, Montenegro and Serbia). The CEB's responsibilities in the programme are threefold. As a manager of the RHP Fund, it administers contributions from donors. As the programme's Secretariat, it coordinates the actions of various stakeholders. And as a financial institution, the Bank has a role in assisting with the development and implementation of housing projects in the countries concerned.

Important as it is, the CEB's partnership with the European Union also presents a specific operational challenge for the CEB. The Bank has to adapt to changes in regulations and EU instruments on an ongoing basis, promote its own comparative advantages and give priority to the most pertinent initiatives in its social areas of activity.

II. Trust accounts

The CEB is committed to focusing its activities on projects with a strong social component, to which the Bank can bring added value. To this end, contributions from donors allow it to fund more and better-quality projects, particularly in several target countries.

In these target countries, donor contributions serve, on the one hand, to fund technical assistance and thus improve the sometimes limited institutional capacity of project sponsors, and on the other hand to provide with additional financial support, which is very valuable in the face of limited borrowing capacity.

Most of the time, technical assistance consists of services provided by external consultants, but contributions from donors can also be used to fund additional in-house staff. As a result, the project sponsor's institutional capacity is strengthened while maintaining strong project ownership.

Financial support is generally provided in the form of more advantageous interest rates but can also consist of investment subsidies. It helps to free project sponsors from the financial constraints they often face. Donor funds may also be used to reduce credit risk through loan guarantees.

In overall terms, funding from donors helps the CEB to ensure both the technical and financial viability of its flagship social projects.

As for the CEB's donors, their contributions play an effective role in constructing a more inclusive Europe. They benefit from the expertise the Bank has built up in funding social projects, whilst continuing to exercise close supervision of the use of funds thanks to governance systems based on good practices.

In this context, it is the CEB's responsibility to take the appropriate steps to offer donors a fair return on investment. The Bank took several measures in this respect in 2013, illustrating the attention it pays to this issue.

The reform, in March 2013, of the Selective Trust Account, renamed the Social Dividend Account, substantially enlarged its area of application (see box opposite), which in turn offers the Bank a wider range of possibilities for supporting projects with high social value. The complete transfer of responsibility for managing trust accounts from the main operational Directorate concerned (L&D) to the Directorate for European Cooperation and Strategy (ECS), in April 2013, is a key factor in better account management and better alignment with good practices. Initiatives have been taken to ensure appropriate visibility for donors, following the example of the RHP that has a dedicated website. Also contributing to these efforts to enhance recognition for donors is the process undertaken with the OECD's Development Assistance Committee to have the CEB included on the list of international organisations eligible for official development assistance and to ensure that at least some contributions from donors benefit from this.

At the end of 2013, the amount of donor funds administered by the Bank stood at € 201 million. These funds were split across 38 trust accounts which can be grouped into four categories: (i) trust accounts funded by donor countries, either bilaterally (such as the Spanish Social Cohesion Account or the Norway Trust Account for the Western Balkans) or multilaterally (such as the Human Rights Trust Fund); (ii) trust accounts funded by the European Union (tripartite facilities with KfW and the Commission or other EU financial instruments and programmes such as the WBIF); (iii) trust accounts linked to the Regional Housing Programme (RHP) through the RHP Fund and two other EU bilateral accounts; (iv) the trust account funded from the Bank's annual results, namely the Social Dividend Account.

SOCIAL DIVIDEND ACCOUNT: providing increased support to CEB projects

The reform of the CEB's Selective Trust Account (STA), undertaken by the Bank in 2012, was approved in March 2013. At the same time, the Selective Trust Account was renamed Social Dividend Account (SDA) in order to highlight the attachment of the Bank members to the Institution's social mandate and the fact that the account is almost exclusively funded by allocations from the CEB's annual profits.

The reform expanded the purpose of the SDA to increase its grant support in project preparation and implementation.

Following the reform, the SDA consists of four distinct grant "windows", each corresponding to a particular grant-financed activity, as follows:

1. A dedicated **technical assistance** (TA) window enables the CEB to better fulfil its social priorities. It allows the CEB to support high social added value projects in countries lacking institutional capacity for project preparation and/or implementation and with limited access to alternative TA resources.
2. Grant funds can now also be made available, through **guarantees**, to support the Bank's financing of high social impact pilot projects. These projects include community development initiatives, programmes for developing services in poor areas or microfinance schemes for vulnerable or marginalised groups. Although such projects often carry higher project and credit risks, they often serve as catalysts for similar future projects.
3. The existing mechanism for **interest rate subsidies** has been maintained. However, new eligibility criteria, which apply to this window as well as to the others, have been established.
4. The SDA may still serve as a source of **grant contributions**, which the CEB provides on an exceptional, case-by-case basis, upon decision by the Governor and approval by the CEB's Administrative Council.

The SDA was first set up in 1995 in order to enable the CEB to provide interest rate subsidies for projects in its most disadvantaged member countries and to award a number of grants in favour of vulnerable population groups.

Since the inception of the SDA, € 113 million in grants have been approved in favour of 98 initiatives. In 2013, € 4.8 million in grants were approved, distributed as follows: € 2 million for interest-rate subsidies, € 1.5 million for loan guarantees and € 1.3 million for technical assistance.

Alongside the European Union, which is a very large contributor, are the CEB's donor countries*: Norway, Germany, Switzerland, Spain, the Netherlands, Italy, Denmark, Sweden, Turkey, Finland, Luxembourg, as well as Cyprus, Hungary, the Czech Republic, Romania and the Slovak Republic to sustain the Regional Housing Programme activities external to the RHP Fund, and also the United States and the United Kingdom, which are not members of the Bank.

*Social Dividend Account excluded



CROATIA
Health

PROJECTS APPROVED
per country and per sectoral line of action

In thousand euros

COUNTRY	2013		2012		ACCUMULATED TOTAL 2009-2013	
	AMOUNTS	%	AMOUNTS	%	AMOUNTS	%
Albania					40 000	0.4
Belgium	200 000	8.8	215 000	12.0	1 060 000	9.5
Bosnia and Herzegovina	70 000	3.1	61 000	3.4	159 500	1.4
Bulgaria	30 000	1.3	10 000	0.6	110 000	1.0
Croatia	100 000	4.4	50 000	2.8	361 480	3.3
Cyprus					333 000	3.0
Czech Republic	50 000	2.2			200 000	1.8
Finland	110 000	4.8			310 000	2.8
France	307 900	13.5	250 000	13.9	1 107 900	10.0
Georgia	30 942	1.4	11 719	0.7	102 661	0.9
Germany	100 000	4.4	190 000	10.6	756 000	6.8
Hungary	76 500	3.4			541 500	4.9
Ireland	41 000	1.8			266 000	2.4
Italy	6 000	0.3			6 000	0.1
Latvia					50 000	0.4
Lithuania					130 000	1.2
Moldova (Republic of)	39 000	1.7			52 400	0.5
Montenegro	10 000	0.4			35 000	0.3
Poland	206 667	9.1	270 000	15.0	1 354 667	12.2
Portugal					400 000	3.6
Romania	75 000	3.3	80 000	4.5	255 000	2.3
Serbia	20 000	0.9	35 000	1.9	260 500	2.3
Slovak Republic	80 000	3.5	135 000	7.5	365 000	3.3
Slovenia	95 000	4.2			185 000	1.7
Spain	408 000	17.9	240 000	13.4	1 306 000	11.8
Sweden					100 000	0.9
“the former Yugoslav Republic of Macedonia”	8 000	0.4			136 350	1.2
Turkey	210 000	9.2	250 000	13.9	1 130 100	10.2
TOTAL	**2 274 009**	**100.0**	**1 797 719**	**100.0**	**11 114 058**	**100.0**

SECTORAL LINE OF ACTION *	2013		2012		ACCUMULATED TOTAL 2009-2013	
	AMOUNTS	%	AMOUNTS	%	AMOUNTS	%
Strengthening social integration	**1 702 109**	**74.9**	**1 411 069**	**78.5**	**6 726 088**	**60.5**
Aid to refugees, migrants and displaced persons	61 500	2.7	70 000	3.9	168 500	1.5
Housing for low-income persons	300 000	13.2	221 800	12.3	1 653 050	14.9
Creation and preservation of viable jobs	1 141 942	50.2	825 519	45.9	3 275 961	29.5
Improvement of living conditions in urban and rural areas	198 667	8.8	293 750	16.3	1 628 577	14.6
Managing the environment	**53 000**	**2.3**	**78 600**	**4.4**	**1 597 842**	**14.4**
Natural or ecological disasters					522 696	4.7
Protection of the environment	53 000	2.3	61 800	3.4	999 846	9.0
Protection and rehabilitation of historic and cultural heritage			16 800	0.9	75 300	0.7
Supporting public infrastructure with a social vocation	**518 900**	**22.8**	**308 050**	**17.1**	**2 790 128**	**25.1**
Health	173 000	7.6	256 250	14.3	916 010	8.2
Education and vocational training	265 900	11.7			1 417 278	12.8
Infrastructure of administrative and judicial public services	80 000	3.5	51 800	2.9	456 840	4.1
TOTAL	**2 274 009**	**100.0**	**1 797 719**	**100.0**	**11 114 058**	**100.0**

* amounts as estimated at the time of project approval.

NB - Percentages may not add up to 100 due to rounding.

PROJECTS APPROVED
per counterparty in 2013

In thousand euros

COUNTRY	COUNTERPARTIES	SECTORS	AMOUNTS
Belgium	VMSW Brussels	Housing for low-income persons	200 000
Bosnia and Herzegovina	Government	Aid to refugees, migrants and displaced persons	60 000
	Sparkasse Bank dd	Creation and preservation of viable jobs	10 000
Bulgaria	UniCredit Bulbank	Creation and preservation of viable jobs	30 000
Croatia	Hrvatska banka za obnovu i razvitak (HBOR)	Improvement of living conditions in urban and rural areas	36 000
		Creation and preservation of viable jobs	54 000
	Raiffensen Leasing d.d. Zagreb	Creation and preservation of viable jobs	10 000
Czech Republic	UniCredit Bank Czech Republic, a.s.	Protection of the environment	17 500
		Improvement of living conditions in urban and rural areas	7 500
		Creation and preservation of viable jobs	25 000
Finland	City of Helsinki	Education and vocational training	110 000
France	Crédit Coopératif	Education and vocational training	30 000
		Improvement of living conditions in urban and rural areas	15 000
		Health	105 000
	Cyclhad	Health	50 000
	Société Générale, Paris	Education and vocational training	107 900
Georgia	JSC Bank Republic	Creation and preservation of viable jobs	7 936
	JSC TBC Bank	Creation and preservation of viable jobs	23 006
Germany	NRW Bank	Housing for low-income persons	100 000
Hungary	Magyar Fejlesztési Bank (MFB)	Protection of the environment	7 500
		Improvement of living conditions in urban and rural areas	22 500
		Creation and preservation of viable jobs	45 000
	Roma Education Fund - Hungary	Aid to refugees, migrants and displaced persons	1 500
Ireland	National Treasury Management Agency	Infrastructure of administrative and judicial public services	41 000
Italy	PerMicro SPA	Creation and preservation of viable jobs	6 000
Moldova (Republic of)	Government	Infrastructure of administrative and judicial public services	39 000
Montenegro	Government	Education and vocational training	10 000
Poland	BZ WBK Leasing S.A.	Creation and preservation of viable jobs	50 000
	SG Equipment Leasing Polska	Creation and preservation of viable jobs	72 000
		Health	18 000
	City of Lublin	Improvement of living conditions in urban and rural areas	66 667
Romania	CEC BANK	Improvement of living conditions in urban and rural areas	12 500
		Creation and preservation of viable jobs	12 500
	UniCredit Tiriac Bank SA	Improvement of living conditions in urban and rural areas	2 500
		Creation and preservation of viable jobs	47 500
Serbia	Société Générale Banka Srbija a.d. Beograd	Creation and preservation of viable jobs	20 000
Slovak Republic	Capital City of SR Bratislava	Protection of the environment	12 000
		Improvement of living conditions in urban and rural areas	28 000
	OTP Banka Slovensko, a.s.	Protection of the environment	16 000
		Improvement of living conditions in urban and rural areas	8 000
		Creation and preservation of viable jobs	16 000
Slovenia	SKB Bank d.d.	Creation and preservation of viable jobs	50 000
	UniCredit Banka Slovenija d.d.	Creation and preservation of viable jobs	45 000
Spain	Banco Santander SA (ex Banco Santander Central Hispano)	Creation and preservation of viable jobs	100 000
	CaixaBank (ex La Caixa)	Education and vocational training	8 000
	Instituto de Credito Oficial	Creation and preservation of viable jobs	300 000
"the former Yugoslav Republic of Macedonia"	Ohridska Banka AD Ohrid	Creation and preservation of viable jobs	8 000
Turkey	Halkbank (Türkiye Halk Bankası A.S.)	Creation and preservation of viable jobs	30 000
	Türkiye Cumhuriyeti Ziraat Bankası A.S.	Creation and preservation of viable jobs	100 000
	Türkiye Kalkinma Bankası A.S.	Creation and preservation of viable jobs	80 000
TOTAL			2 274 009

LOANS DISBURSED(*)

per country and per sectoral line of action

In thousand euros

COUNTRY	2013		2012		ACCUMULATED TOTAL 2009-2013	
	AMOUNTS	%	AMOUNTS	%	AMOUNTS	%
Albania	2 789	0.2	8 678	0.5	79 735	0.9
Belgium	137 500	7.5	290 000	18.3	722 500	8.1
Bosnia and Herzegovina	7 000	0.4	61	0.004	12 721	0.14
Bulgaria	2 500	0.1	35 500	2.2	65 000	0.7
Croatia	51 874	2.8	59 267	3.7	206 203	2.3
Cyprus	33 000	1.8	22 000	1.4	343 785	3.9
Czech Republic	52 563	2.8	5 842	0.4	63 405	0.7
Estonia			7 258	0.5	28 800	0.3
Finland					150 000	1.7
France	310 841	16.8	160 000	10.1	708 341	8.0
Germany**	117 600	6.4			635 333	7.2
Hungary	6 320	0.3	160 435	10.1	848 579	9.6
Iceland					68 116	0.8
Ireland	50 000	2.7			105 100	1.2
Italy***			100 000	6.3	287 100	3.2
Latvia					25 000	0.3
Lithuania	47 000	2.5	55 000	3.5	130 000	1.5
Moldova (Republic of)	6 972	0.4	3 304	0.2	14 410	0.2
Montenegro					10 000	0.11
Poland	315 094	17.1	203 938	12.9	1 428 271	16.1
Portugal					256 730	2.9
Romania	40 050	2.2	70 000	4.4	610 331	6.9
Serbia	34 340	1.9	5 452	0.3	82 192	0.9
Slovak Republic	72 500	3.9	50 000	3.2	155 752	1.8
Slovenia			20 000	1.3	110 000	1.2
Spain	295 000	16.0	145 000	9.2	780 332	8.8
Sweden					56 200	0.6
“the former Yugoslav Republic of Macedonia”	11 491	0.6	13 689	0.9	50 379	0.6
Turkey	251 032	13.6	168 545	10.6	839 686	9.5
TOTAL	**1 845 466**	**100.0**	**1 583 968**	**100.0**	**8 874 001**	**100.0**

* After 1 January 2012, the loans in currencies other than euro are converted at the exchange rate at the disbursement date rather than the exchange rate at the financial statement date. For comparison purposes, historical data have been recalculated and can differ from previously published data.

** of which € 2.6 million in favour of target countries in 2013

*** € 100 million in favour of target countries in 2012

NB: Information regarding amounts disbursed reflects the location of the registered office of the borrower and not that of the ultimate beneficiary, who may be based in another country. Consequently, the figures provide information on the risk profile of the Bank’s borrowers and not that of the ultimate beneficiaries of its lending operations.

SECTORAL LINE OF ACTION	2013		2012		ACCUMULATED TOTAL 2009-2013	
	AMOUNTS	%	AMOUNTS	%	AMOUNTS	%
Strengthening social integration	**1 217 852**	**66.0**	**999 737**	**63.1**	**5 111 313**	**57.6**
Aid to refugees, migrants and displaced persons	49 320	2.7	5 000	0.3	94 067	1.1
Housing for low-income persons	243 115	13.2	294 377	18.5	1 270 607	14.3
Creation and preservation of viable jobs	700 920	38.0	474 548	30.0	2 440 966	27.5
Improvement of living conditions in urban and rural areas	224 497	12.1	225 812	14.3	1 305 673	14.7
Managing the environment	**266 219**	**14.4**	**367 611**	**23.2**	**1 984 557**	**22.4**
Natural or ecological disasters	137 000	7.4	154 062	9.7	591 051	6.7
Protection of the environment	123 235	6.7	190 783	12.1	1 303 936	14.7
Protection and rehabilitation of historic and cultural heritage	5 984	0.3	22 766	1.4	89 570	1.0
Supporting public infrastructure with a social vocation	**361 395**	**19.6**	**216 620**	**13.7**	**1 778 131**	**20.0**
Health	171 428	9.3	111 148	7.0	632 711	7.1
Education and vocational training	185 674	10.1	102 575	6.5	1 126 663	12.7
Infrastructure of administrative and judicial public services	4 293	0.2	2 897	0.2	18 757	0.2
TOTAL	**1 845 466**	**100.0**	**1 583 968**	**100.0**	**8 874 001**	**100.0**

NB - Percentages may not add up to 100 due to rounding.



FINANCIAL ACTIVITIES AND RISK MANAGEMENT

01 FINANCIAL ACTIVITIES IN 2013

I. Financial markets comment

In 2013, international capital markets began the year on a positive note as Europe experienced greater macro stability on its path towards a gradual recovery.

The bond market has been active so far in 2014 as a result of positive economic sentiment generated by economic data in Europe and the US and changes in the US FED's quantitative easing policy.

However, in line with previous years, primary market activity was concentrated within the first half of 2013 and issuance transactions were well absorbed by investors.

Euro fluctuation against the US dollar was very significant in the course of 2013 ranging from 1 euro = 1.28 US dollar to 1 euro = 1.38 US dollar.

During 2013, the European Central Bank continued to provide liquidity to eurozone financial institutions and, at year end, in an effort to support growth, gradually lowered its main refinancing rate to 0.25%.

II. Securities portfolios

The Bank's balance sheet assets include two securities portfolios: available-for-sale financial assets and financial assets held to maturity.

- **The available-for-sale financial assets consist of securities with maturities of up to 15 years.**

In order to limit exposure to interest rate risk, securities with maturities in excess of one year are floating-rate, through asset swaps where applicable. Short-term instruments, with maturities of less than one year, also include Euro Commercial Papers (ECPs). These represent an alternative to bank deposits.

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

At 31 December 2013, the total value of securities in this portfolio with a maturity of more than one year amounted to € 1 963 million.

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

Securities in this portfolio are required to have a minimum rating of AA or Aa2 when purchased. Securitisation products and other specialised vehicles, however, are required to have AAA/Aaa ratings and are capped at € 500 million (at 31 December 2013 the outstanding amount of this category of financial products was zero). The value of the held-to-maturity portfolio must not exceed the available capital (paid-in capital and reserves) plus the Selective Trust Account and provisions for post-employment benefits.

The strategic objective is to achieve a satisfactory long-term return on these funds. The portfolio is recorded in the accounts at amortised cost. Except in exceptional circumstances, the securities in this portfolio may not be exchanged or sold.

At 31 December 2013, the total value of this portfolio amounted to € 2 618 million.

III. Derivatives

In accordance with the policy adopted by the Administrative Council, the Bank uses derivatives to systematically hedge the market risks on its lending, investment and financing transactions. As an end user, the Bank uses derivatives solely for hedging purposes.

At 31 December 2013, the breakdown of derivatives by type of hedge was 77% for bond issuances, 18% for loans and 5% for securities.

To guard against the risks inherent in these financial instruments, the Bank implements a strict management policy the principles of which are described in the section entitled Control and Integrated Risk Management (see page 34).

To limit credit risk, the Bank has signed collateral agreements with all of its counterparties. Thus, at 31 December 2013, all the CEB's swaps contracts were collateralised. The residual credit risk, calculated as the amount of the positive market values not covered by collateral received, remains marginal.

CEB US DOLLAR GLOBAL BENCHMARK TRANSACTIONS

Since 2010, the CEB has been able to issue bonds within the global programme framework documentation. For that purpose, the CEB has filed a "Shelf Registration Statement" with the US Securities and Exchange Commission. In 2010, with the issue of a USD 1 billion five-year bond, the CEB launched its first USD benchmark using the global format.

In 2011, three benchmark transactions of USD 1 billion each were carried out in a global format. The first of these transactions was launched in February with a five-year maturity and a fixed coupon of 2.625%. The second followed in May, maturing in January 2015, with a fixed coupon of 1.5%. The third of these benchmark transactions, with a fixed coupon of 1.25%, was launched in September and constituted the second five-year benchmark transaction of the year in US Dollars.

In 2012, two benchmark transactions of USD 1 billion each were carried out in a global format. The first of these transactions was launched in February with a five-year maturity and a fixed coupon of 1.5%.

The second USD 1 billion benchmark transaction was executed in June, also with a five-year maturity and a 1.5% coupon.

In 2013, two benchmark transactions for a total of USD 2.5 billion were priced. The first USD 1.25 billion benchmark operation was launched in February with a 5-year maturity and a coupon of 1%. The second for a total of USD 1.25 billion was launched in May and had a 5-year maturity and a coupon of 1.25%. These eight USD benchmark transactions executed under the global programme during the last four years, have contributed to the consolidation of the CEB's benchmark curve in the USD market. Despite 2010-2013 being a period of relative financial and economic uncertainty and volatility in international capital markets, the CEB's USD benchmark transactions were characterised by the high quality of the investor base and their diversity, both geographically and in terms of investor category.

The CEB's issuance in US Dollar, with 64% of total funds raised, represented the major market of issuance in 2013.

IV. Funding in 2013

1. Debt issuance

Subject to the annual borrowing authorisation set by the Administrative Council, the CEB issues debt in the international capital markets. In 2013, the Bank borrowed a total of € 3.2 billion in six financing operations, including one transaction to re-open existing lines with maturities of one year or more. This amount is equal to the volume of financing in 2012, which also stood at € 3.2 billion and consisted of eight funding operations including two re-openings of existing issues. The 2013 funding programme fulfilled two main objectives:

- to cover the requirements arising from lending activity
- to enable the Bank to honour its debt maturities.

Table 10 - Debt issued in 2013

Payment date	Maturity date	Currency	Term	Nominal amount (in millions)	Lead manager
07/03/2013	07/03/2018	USD	5 years	1 250	Deutsche Bank / TD Securities / Crédit Agricole / Goldman Sachs
22/04/2013	20/04/2017	USD	4 years(*)	200	Société Générale
31/05/2013	31/05/2018	USD	5 years	1 250	Morgan Stanley / HSBC / Royal Bank of Canada / Crédit Suisse
26/09/2013	26/09/2018	EUR	5 years	50	Commerzbank
18/10/2013	25/09/2023	EUR	10 years	100	KfW
22/10/2013	22/10/2018	EUR	5 years	1 000	Crédit Agricole / JP Morgan / BNP Paribas / Royal Bank of Canada

(*) New issuance of existing bonds

The volume of funds raised in 2013 also enabled the Bank to maintain liquidity at the level set by the Administrative Council. In this context, the stock of projects approved is taken into account in the projected liquidity requirements. In accordance with its prudent liquidity policy, the Bank's reinforced liquidity ratio requires at least 50% of projected cash requirements for the coming three years to be available in cash. These projected requirements include the funding of approved projects and the additional liquidity requirements covering the risk of default of CEB borrowers over three years.

To ensure the necessary funding to finance its activities, the Bank continues to combine benchmark operations on major currencies targeting a broad range of institutional investors with debt issues in a given currency or with a more specific structure designed to meet specific demands.

In 2013, 64% of the funds raised by the Bank were denominated in US dollars and 36% in Euros.

In USD, two issues were completed under a global format: a USD 1.25 billion benchmark with five-year maturity was completed in February, inaugurating the 2013 borrowing programme, and a second USD 1.25 billion benchmark completed in May, also with a five-year maturity.

One re-opening of an existing issuance completed the 2013 USD funding. The transaction amounted to USD 200 million and was completed in April with maturity in April 2017. The USD market was the CEB's most important market in terms of financing volumes in 2013.

Having been absent in the EUR market since the 10-year Euro benchmark of August 2011, the CEB launched a new successful € 1 billion 5-year benchmark transaction in October. This transaction made the EUR market the second largest in terms of financing volume in 2013.

All the financing operations carried out in 2013 were hedged with swaps to eliminate both interest rate and currency risks. After such swaps, the total amount of funds borrowed was converted into Euros.

The average maturity of the issues launched in 2013 was 5.1 years, compared with 4.2 years in 2012. Table 10 shows funds raised in their original currencies.

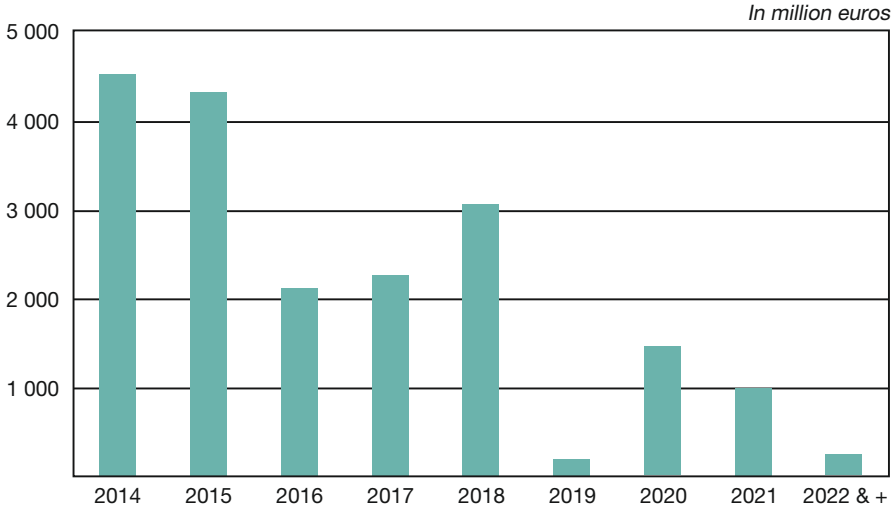
In 2013, 95% of the issues carried out under the borrowing programme had final maturities of five years or more, compared with 51% in 2012, in order to ensure the refinancing of the Bank's loans and avoid cash gaps in the coming years.

2. Trend in debt position

At 31 December 2013, the outstanding debt represented by securities, excluding interest payable, amounted to € 19.3 billion, down from € 20.2 billion in the previous year.

In 2013, as in the previous year, the Bank did not repurchase any of its long-term debt. On the other hand, it made early repayments totalling € 7 million, compared with € 61 million in 2012. Taking these operations and the new issues into account, the breakdown of debt by maturity is as shown in Chart 1.

Chart 1 - Debt outstanding by maturity as at 31 December 2013



V. Profit and balance sheet

The CEB's financial statements are prepared in accordance with IFRS standards as adopted by the European Union.

1. Trends in profits

In an economic and financial environment that has significantly improved in Europe, the net profit for 2013 reached € 111 million compared to € 120 million in 2012. This variation of - € 9 million (- 7.4%) was driven by the following developments:

- **A slight decline in net banking income of € 1.2 million (- 0.8%) due to:**
  - an increase of the net interest margin from loans and treasury assets by € 6.0 million (+ 3.8%) within a context of low interest rates
  - a negative variation of € 7.3 million in the fair value of hedging derivative financial instruments.
- **An increase in general operating expenses (including depreciation) of € 7.7 million (+ 21.3%), due to:**
  - changes in payroll costs, including post-employment benefits, but also and primarily the cost of the early departure measures, implemented in accordance with the provisions of the staff regulations
  - stable operating expenses thanks to savings on mission costs as well as on other external services.

Subsequently, excluding special items, the adjusted net profit amounted to € 123.3 million in 2013 against € 120.6 million in 2012, i.e. an increase of 2.2%.

The adjusted cost-to-income ratio (excluding special items) thus stood at 24.6% in 2013 compared to 22.7% in 2012.

In conclusion, the CEB's satisfactory performance is the result of its strong capacity to face a challenging environment and of its prudent financial and risk management policies. Furthermore, no impairment or arrears were recorded in 2013. As in 2012, net profit was allocated in full to the Bank's reserves in order to reinforce its capital base.

2. Trends in the balance sheet

At 31 December 2013, total assets amounted to € 24 485 million against € 26 858 million at 31 December 2012, i.e. a decrease of 8.8%.

- **Assets**

Outstanding loans reached € 12 582 million in 2013 compared to € 12 131 million in 2012, i.e. an increase of 3.7%. Disbursements totalled € 1 845 million, increasing by 16.5% compared to € 1 584 million in 2012, of which 51% were in favour of target countries. At the same time, repayments for 2013 reached € 1 348 million.

Treasury assets decreased to € 7 642 million against € 9 279 million at end 2012, i.e. minus 17.6%, following the decrease (7.7%) in available-for-sale financial assets which reached € 4 549 million compared to € 4 930 million at end 2012 and the decline (28.9%) in advance deposits to banks from € 4 348 million at end 2012 down to € 3 093 million at end 2013, mostly due to the reduction in collaterals received in cash.

Financial assets held to maturity continued to grow reaching € 2 631 million in 2013 compared to € 2 478 million in 2012, representing an increase of 6.2%.

Table 11 - Trends in Profit

In million euros

	2013	2012	Change	%
Net banking income	155.1	156.4	- 1.2	- 0.8%
General operating expenses	- 43.8	- 36.1	+ 7.7	+ 21.3%
Net profit	111.3	120.2	- 8.9	- 7.4%
Cost-to-income ratio	*28.3%*	*23.1%*		*+ 5.2%*

Liabilities

Borrowings and debt securities in issue decreased by € 1 471 million (minus 6.8%) compared to the previous year. This development is due to:

- short-term issues of ECPs (Euro Commercial Papers) worth € 923 million at end 2013 against € 1 197 million in 2012 (minus 22.9%), reflecting strong business, taking into account issues for an amount of € 2 264 million and reimbursements reaching € 2 486 million.
- issues with maturities of one year or more totalling € 20 087 million at end 2013 against € 21 558 million at end 2012 (minus 6.8%), including new issues totalling € 3 227 million, i.e. 72% of the annual borrowing authorisation for 2013, and reimbursements totalling € 2 657 million.
- the item "other liabilities" declined considerably mainly due to the reduction in cash collaterals on contracts for hedging derivative financial instruments, i.e. € 402 million at end 2013 compared to € 1 686 million the previous year (minus 76.2%).

Equity, including profit for the year 2013 (after allocation), amounted to € 2 460 million, increasing by 8.8 % compared to 2012. This significant increase of € 198 million is primarily due to:

- a net profit of € 111 million in 2013
- a major decrease in "unrealized losses in the available-for-sale financial assets portfolio" which were reduced from minus € 132 million to minus € 48 million (+ 64%), following a fundamental improvement of the credit risk on this portfolio in 2013.
- an increase of 7% in the provision for post-employment benefits amounting to € 171 million at end 2013 against € 159 million in 2012, mainly as a consequence of the cost of early departures (approved by the Administrative Council in November 2013).

Finally, the balance sheet showed a variation in "Financial Assets and liabilities at fair value through profit/loss" and "hedging derivative instruments" of, respectively, - € 1 212 million (- 46.6%) and + € 33 million (+ 3.2%). These items mainly represent the fair value, either positive (asset) or negative (liability) of the currency component of CIRS swap contracts where the counterparty currency has been revalued for the various items on the balance.

Table 12 - Trends in the Balance Sheet

In million euros

ASSETS	2013	2012	Change	%
Loans (including interest accruals)	12 769	12 449	+ 321	+ 2.6%
Treasury assets	7 642	9 279	- 1 636	- 17.6%
Financial assets held to maturity	2 631	2 478	+ 153	+ 6.2%
Financial assets at fair value through profit/loss and hedging derivatives	1 391	2 603	- 1 212	- 46.6%
Other assets	51	50	+ 2	+ 3.2%
TOTAL	**24 485**	**26 858**	**- 2 373**	**- 8.8%**

LIABILITIES	2013	2012	Change	%
Borrowings and debt securities in issue	20 087	21 558	- 1 471	- 6.8%
Short term liabilities	201	161	+ 40	+ 24.8%
Derivative instruments	1 057	1 024	+ 33	+ 3.2%
Other liabilities	680	1 853	- 1 173	- 63.3%
Total debt	***22 025***	***24 596***	***- 2 571***	***- 10.5%***
Equity	2 460	2 262	+ 198	+ 8.8%
TOTAL	**24 485**	**26 858**	**- 2 373**	**- 8.8%**

02 CONTROL AND INTEGRATED RISK MANAGEMENT

With rigorous supervision standards, the CEB has an integrated risk management system within the Directorate for Risk & Control (R&C). The former Central Directorate for Information Systems and Control was reorganised around risk management business lines and especially designed to meet higher requirements regarding global risk management. All dedicated Departments perform their responsibilities independently from the Bank's operational activities.

A clearly defined framework has been provided for managing credit risk, market risk, liquidity risk and operational risk, with special attention given to the application of best banking practices in the area of risk management.

As a multilateral development bank, the CEB is not subject to Member States' regulatory ratios, Basel Committee recommendations or European Union directives. However, the CEB has decided to follow these regulations as framework guidelines for its risk management and control policy.

The CEB's current prudential framework has worked satisfactorily for the past years and has allowed the CEB to effectively get through the challenging period of the financial crisis that has had impacts on most of its Member States. Within this particularly difficult environment, the CEB had to remain proactive and to continue anticipating risks by revising its prudential framework in line with Basel III recommendations and best banking practices (see box on CEB's Revised Prudential Framework, page 40).

To date, the CEB has successfully maintained a sufficient performance on its asset portfolios, and has not suffered from any impairment or arrears thanks to its particularly rigorous and prudent risk management policy. In-depth assessment and monitoring combined with a conservative management approach are the cornerstones of this policy.

I. A structured and dynamic function

1. Dedicated departments

- The **Global Risk Management Department** (R&C) identifies, assesses and manages all the credit risks inherent in the CEB's operations as a result of both on- and off- balance sheet transactions, and assigns internal ratings to all its counterparties and transactions. For each new project, the Department analyses the transaction, taking into account the counterparty's creditworthiness, outstanding transactions and country risk, and, if necessary, recommends guarantees to be obtained. The findings are part of the project approval process.

The Department also constantly monitors the implementation of portfolio management policies (loans, securities, derivatives) and oversees the Bank's position with regard to large exposure. It also evaluates and implements risk assessment rules, methods and general risk control follow-up processes to ensure that the Bank's risk policies are in line with international guidelines. A quarterly Risk Management Report (credit, market, liquidity, operational risks and prudential framework) is sent to the members of the Administrative Council and the Governing Board.

- The **Financial Risk & Control Department** (R&C) is responsible for the control of financial transactions, the financial valuation of swaps, the management and monitoring of collaterals on swaps and loans and the liquidity position.

- The **Operational Risk Department** (R&C) is in charge of the Bank's operational risk mapping and is responsible for activities designed to protect the Bank from this kind of risk. It identifies all events that could result in operating losses. It manages the business continuity plan (updates, tests with transfer to the back-up site), monitors the Bank's archiving system and reviews the internal procedures for all activities from an operational risk perspective.

- The **Financial Reporting Department** (R&C) is responsible for monitoring the CEB's relationship with the rating agencies, following up on their methodologies, benchmarking with peer IFIs, and monitoring the Bank's capital (capital increases, adhesions, etc.).

- The **ALM Department** (FIN) monitors the market risk (interest rate risk, currency risk) and liquidity risk incurred by the Bank. It presents its conclusions in a quarterly report to the ALM Committee. This report uses stress tests to analyse different interest rate scenarios and their impact on the Bank's profitability and draws up liquidity projections based on a variety of borrower default assumptions. When applicable, it reports any actual or foreseeable breaches of limits and issues recommendations to the ALM Committee so as to reduce the identified risks.

2. Decision-making committees

In addition to the *General Management Committee*, a number of decision-making committees are responsible for defining and overseeing risk management policies in their respective fields (see Financial Statements, note B). The Governor chairs all of these committees.

- The *Finance & Risk Committee* is the cornerstone of the Bank's credit risk management framework. It meets weekly and makes decisions based on the Global Risk Management Department's analyses and recommendations. It also reviews all aspects of the Bank's financial activity (cash management, debt, trends on the financial markets, liquidity).

- The *Funding Committee* addresses the funding strategy and the pricing policy on at least a quarterly basis.

- The *ALM Committee* decides on the Bank's asset and liability management strategy on a quarterly basis.

- The *Committee for Operational Risks and Organisation* (CORO) meets biannually to set 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.
- The *IT Steering Committee* covers all issues related to information systems and IT infrastructure to ensure business continuity and meets twice a year.

3. Controlling bodies

- **Internal control:** each directorate monitors risks specific to its activity (self-assessment). In addition:
  - *Internal Audit*, independent from any direct management and operational functions, evaluates the Bank's internal control system by reviewing all its activities to ensure that they are in conformity with procedures.
  - *Compliance* is responsible for the policies, guidelines and procedures created, maintained and reviewed in order to limit the CEB's exposure to legal and administrative risks, regulatory sanctions, financial loss or reputational risk. It also pays particular attention to safeguarding compliance with high standards in respect of Codes of Conduct, integrity and ethics and to protecting the Bank from the risk of money laundering, terrorism financing, fraud, corruption and other areas that could damage its reputation. The Chief Compliance Officer, Head of the Office of Compliance (OCCO), reports directly to the Governor (see page 41).

    Within the office of the Compliance, the *Chief Information Security Officer* (CISO) is responsible for defining, planning and implementing independent business and operations survey programs and tools to ensure that effective IT systems security controls are activated and executed. The CISO periodically updates the Bank's IT systems security policies and guidelines. He also monitors the authorisation function assignments for information systems, applications, telecommunications and other technical support systems.
  - Lastly, in accordance with the CEB's Articles of Agreement, the *Auditing Board*, composed of three representatives from among the Member States appointed on a rotating basis by the Governing Board for a three-year term (outgoing members act as advisors for an additional year), examines the Bank's accounts and checks their accuracy. The Auditing Board's report, an excerpt of which is appended to the financial statements, is presented to the Bank's governing bodies when the annual financial statements are submitted for approval.

INTERNAL AUDIT

Internal Audit (IA) is a permanent, autonomous high level function in the CEB's internal control system. The scope of Internal Audit is to provide the Governor and Controlling Organs of the CEB with assurance of effective and controlled businesses and operations. Internal Audit does not execute any operational activity of the Bank, thus ensuring that its reviews are carried out independently and objectively.

IA examines the CEB's activities and assesses whether they are performed in conformity with existing policies, procedures and best practices, as well as their associated risks. It also verifies that internal controls are efficiently and consistently applied, and proposes recommendations for potential improvements.

- **External control:** as a multilateral development bank, the CEB is not subject to any national or international regulatory authority. However, in accordance with the statutory provisions and pursuant to best banking practices, the Bank is accountable to the following external assessments:
  - The *External Auditor* is appointed by the Governing Board for a three-year term, renewable once, based on the Auditing Board's opinion and recommendations by the Administrative Council, following a tender procedure. The External Auditor is responsible for auditing the Bank's financial statements and reviewing its internal control and risk management processes. At the end of each financial year, the External Auditor examines the Bank's accounts and issues an audit report (see page 100). The External Auditor also prepares an interim report for the organs of the CEB outlining findings related to the Bank's procedures and internal control, together with a detailed report on the Bank's financial statements and risk status.
  - In addition, the Bank is assessed by the three *rating agencies*, Moody's, Standard & Poor's and Fitch Ratings, which carry out in-depth analyses of its financial situation and long-term creditworthiness and assign it a credit rating every year. The CEB currently enjoys Moody's' Aaa rating, reaffirmed in August 2013, with a negative outlook, and is rated AA+, outlook stable, by both Fitch Ratings and Standard & Poor's, reaffirmed in July and September 2013 respectively.

II. Risk exposure

Within the context of its lending and treasury activities, the CEB is exposed to different types of risks: credit risk, market risk, liquidity risk and operational risk.

1. Credit risk

Credit risk is defined as the risk of potential loss to the Bank that occurs because a counterparty defaults on its contractual obligations and arises mainly from lending and treasury activities. With regard to the loan portfolio, credit enhancement is taken into account. The Bank's overall credit risk exposure on all its transactions (loans, financing commitments, securities, deposits and derivatives) at 31 December 2013 is shown in Chart 2.

At 31 December 2013 the Bank's credit risk exposure on all its transactions in the eurozone remained stable compared to end 2012 and represented 57.3% of its total exposure (see Chart 3, page 37). Both lending and treasury portfolios considerably improved in 2013 from a credit risk quality point of view as reflected in the improvement of the risk asset coverage ratio and the capital adequacy ratio (see Prudential Framework, page 39).

Large exposure is defined as any overall exposure, including financing commitments, to a counterparty (or group of counterparties) that exceeds 10% of sound equity. In accordance with Basel Committee recommendations and European Union directives, the CEB ensures that no exposure to any counterparty (or group of counterparties) exceeds the limit of 25% of sound equity, and that the cumulative total of large exposures does not exceed 800% of sound equity. As a multilateral development bank, the CEB excludes the "sovereign" risks of OECD member countries from this analysis.

At 31 December 2013, the exposure to five groups and one single counterparty, ranging between 11% and 18% of the Bank's sound equity, were accounted as large exposure with a total of € 3.9 billion outstanding (€ 4.6 billion in 2012), i.e. 83% of sound equity (102% in 2012) (see Chart 4, page 37, and Financial Statements, note B).

Chart 2 - Exposure by transaction

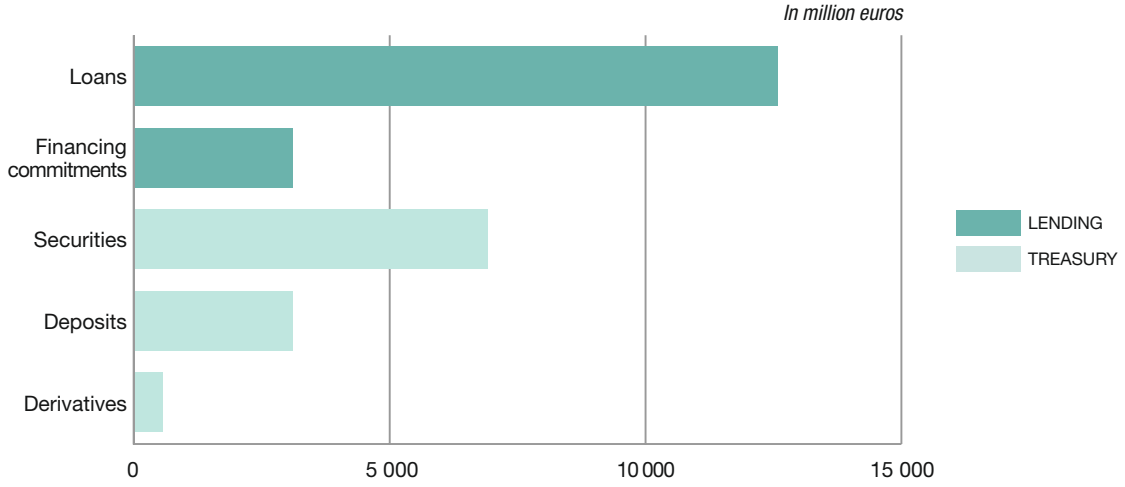
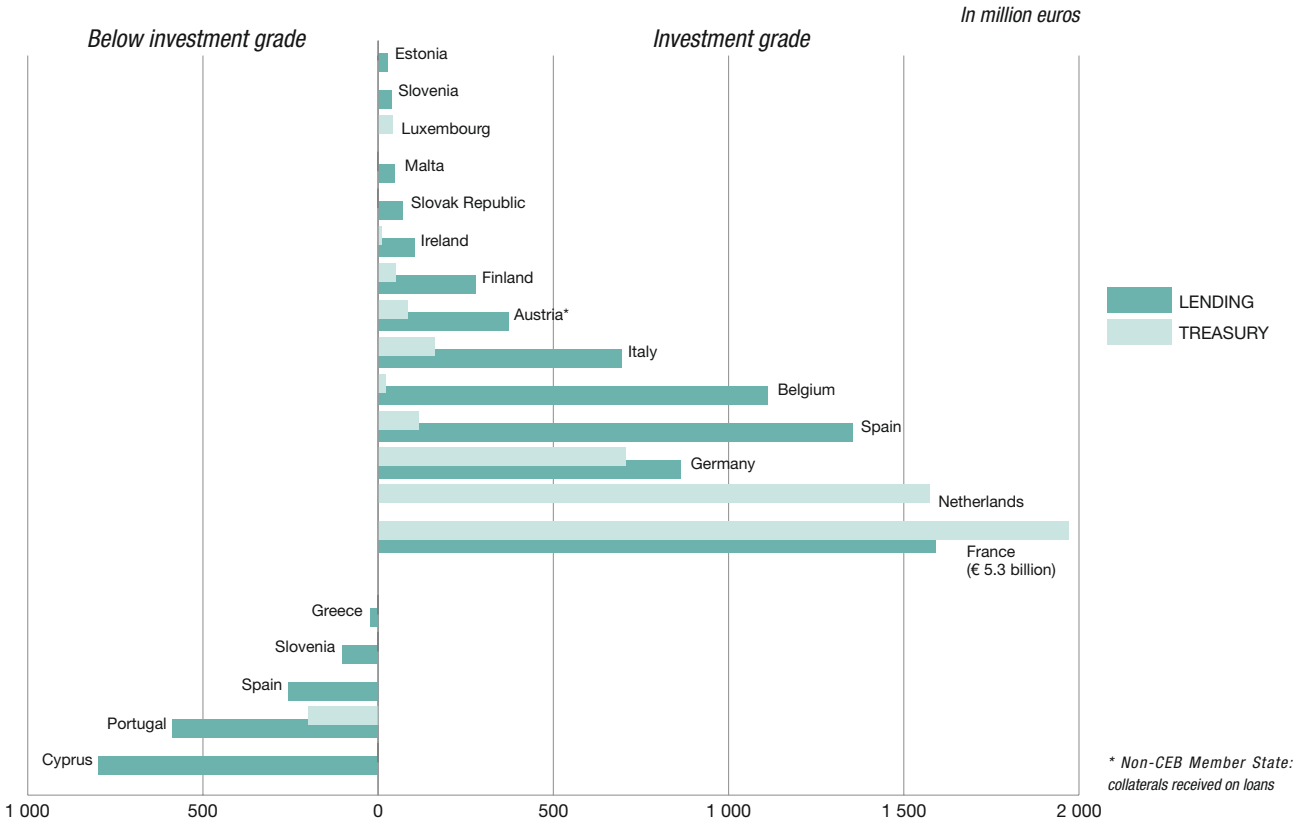


Chart 3 - Exposure in the eurozone (by counterparty rating)



Loans outstanding stood at € 12.6 billion, increasing by 3.7% compared with the outstanding at 31 December 2012. The breakdown of credit risk by type of counterparty in 2013 was as follows: states or public administrations and special financial institutions, 71.5% (71.7% in 2012), other financial institutions, 26.6% (26.0% in 2012), non-financial institutions, 1.9% (2.3% in 2012) (see Chart 5, page 38).

Loans outstanding rated *investment grade* represented 73.2% of the total portfolio, compared to 64.8% at end 2012 (see Chart 6, page 38, and Financial Statements, note B). Credit enhancement in the loan portfolio allowing for a 100% transfer of risk stood at € 4.7 billion (€ 4.3 billion in 2012) and consisted of € 4.2 billion in guarantees and € 0.5 billion in collateral.

Financing commitments correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments increased slightly during the year and amounted to € 3.1 billion at 31 December 2013 (€ 3.0 billion in 2012). The *investment grade* rated portion represented 73.4% of the total portfolio, compared to 59.6% at end 2012 (see Chart 6, page 38, and Financial Statements, note B).

Chart 4 - Large exposure

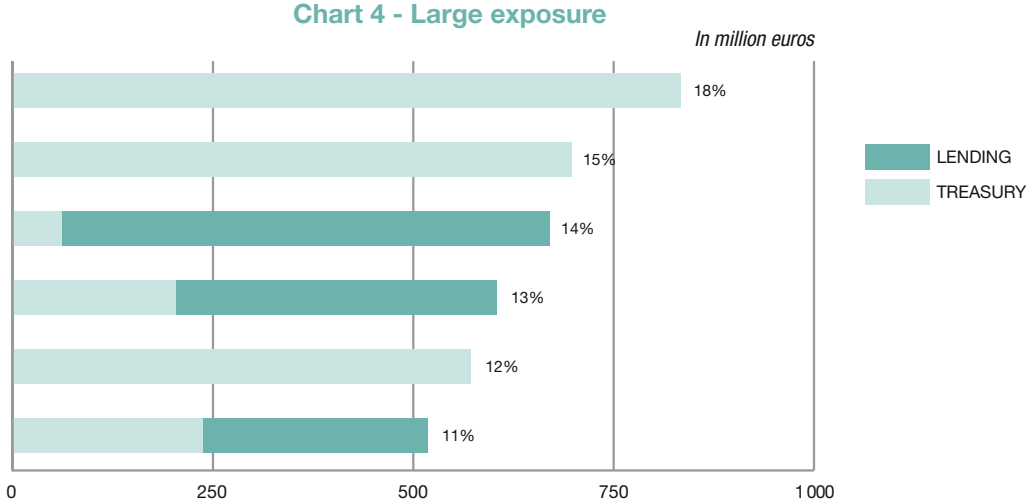
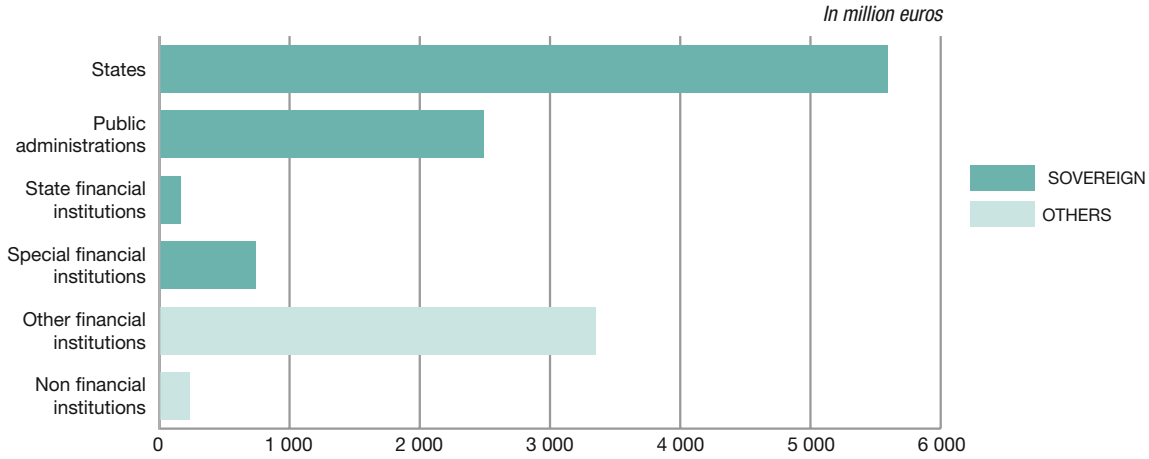


Chart 5 - Exposure by counterparty type



- The Bank manages two **securities portfolios**: financial assets held to maturity and financial assets available for sale (see Financial Activity, page 29).

The breakdown by rating of each assets portfolio at 31 December 2013 is shown in Chart 7, page 38 (see Financial Statements, note B).

- The Bank only uses **derivatives** to hedge the interest rate and currency exchange rate risks on its lending, investment and funding transactions (see Derivatives, page 29).

In all cases, derivatives transactions require prior credit clearance of the issuer counterparty by the Finance & Risk Committee and the signing of a framework agreement (for example, ISDA Master Agreement).

For transactions with maturities of over five years, the counterparty must have a minimum AA rating or have signed a CSA *(Credit Support Annex)* collateral agreement with the CEB. All swap transactions are valued at their net present value and the positions per counterparty are monitored periodically so that additional margin calls can be made if necessary.

At 31 December 2013, the derivatives exposure included a *swap add-on* for € 471 million and a non-covered NPV *(Net Present Value*) after credit enhancement of € 6 million. The Bank received collateral cash deposits: 54% and sovereign securities: 46% (*US Treasury bonds, France OAT and German treasury bonds*) (see Financial Statements, note B).

Chart 6 - Exposure on lending activities

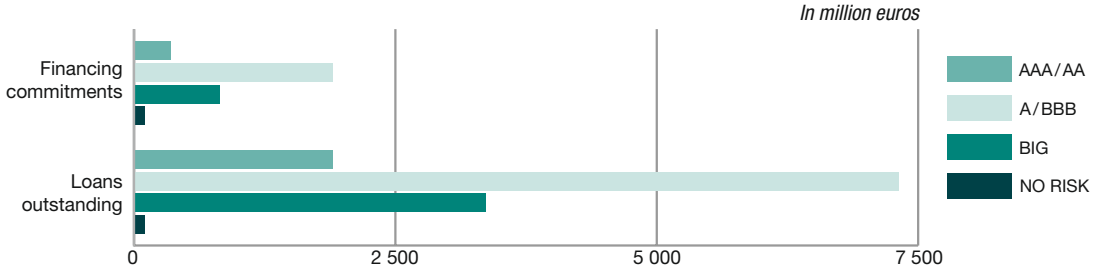
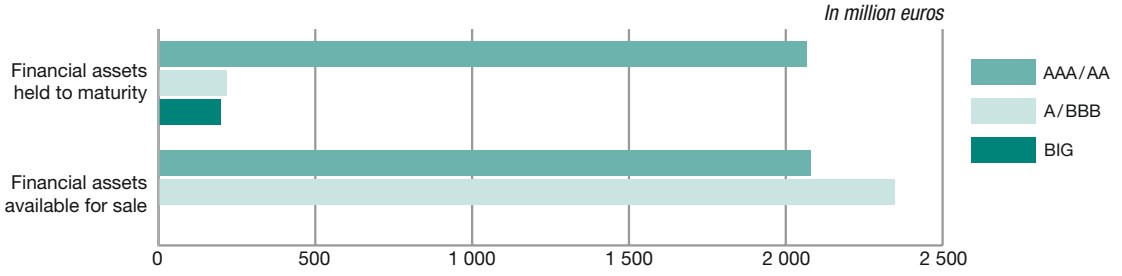


Chart 7 - Exposure on securities portfolios



2. Market risk

Market risk consists of the risk of a loss being incurred as a result of an unfavourable change in interest or currency exchange rate. The Bank uses derivatives to hedge against interest rate and currency exchange rate risks on its lending, investment and funding transactions. It may also take recourse to macro-hedging when necessary. Moreover, since the Bank has no trading activities, no allocation of equity is required, in accordance with Basel Committee recommendations.

- With reference to **interest rate risk**, the organs of the Bank have adopted a policy that consists in systematically hedging positions in order to reduce the risk to a minimum.

Interest rate risk in the CEB's balance sheet is limited to the portfolio of fixed-rate financial assets held to maturity, backed by the Bank's usable equity, plus the cash balance of the Social Dividend Account (SDA) and provisions for post-employment benefits.

- With reference to **currency exchange rate risk**, the CEB's strategy is not to take any position and to finance assets and liabilities in a single currency. The residual risk arising from gains or losses in currencies other than the euro is systematically monitored and hedged on a monthly basis. The net open position per currency is limited to the equivalent of € 1 million. At 31 December 2013, the net open position was almost nil (see Financial Statements, note B).

3. Liquidity risk

Liquidity risk refers to a shortfall in liquidity for covering future liquidity requirements. The Bank's liquidity must meet a strengthened liquidity ratio. The Bank's cash position must not be less than 50% of net liquidity requirements for the next three years. The projected liquidity position is subject to daily monitoring. This is supplemented by quarterly stress tests presented to the ALM Committee, based on counterparty default assumptions.

The stress tests carried out plan the liquidity situation before and after anticipated prepayments (see Financial Statements, note B).

4. Operational risk

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 legal risk. Moreover, the CEB takes into account reputational risks linked to its activities.

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

At 31 December 2013, the operational risk charge amounted to € 22.7 million, up from € 21.6 million at end 2012 (see Financial Statements, note B).

III. Prudential framework

As a multilateral development bank, the CEB is not subject to its Member States' regulatory framework, Basel Committee recommendations or European Union directives. Although the CEB follows recommendations of the Basel Committee under the Basel II framework, its prudential framework is based on its own ratios and is internal to the Bank.

The ratios, as well as the stress tests of these ratios, function as "*warning*" indicators and are regularly reported to the Boards. Any variation from one period to another is analysed by the department in charge.

- **Capital adequacy ratio** is a measure of the risk weighted loan portfolio expressed as a percentage of the CEB's usable equity. The CEB defines and monitors this ratio to ensure that its usable equity can absorb a reasonable amount of any potential loss arising from its lending activity (see Financial Statements, note B).

The limit is fixed at 100% of the CEB's usable equity, i.e. € 2.4 billion. The ratio improved during the year from 45.3% at 31 December 2012 to 35.7% at 31 December 2013 due to the enhanced credit quality of the loan portfolio and an increase in the CEB's usable equity.

- **Risk asset coverage ratio** measures the share of the loan portfolio rated *below investment grade* - that is the Bank's exposure on its most risky assets - in relation to its sound equity. It provides an additional limit on the volume of loans outstanding and is used in conjunction with other prudential ratios in order to get a clearer picture of the CEB's financial strengths and weaknesses (see Financial Statements, note B).

The limit is fixed at 66% of the CEB's sound equity, i.e. € 3.1 billion. The ratio improved during the year from 94.8% at 31 December 2012 to 71.6% at 31 December 2013 due to the enhanced credit quality of the loan portfolio, thus significantly reducing the *below investment grade* rated portion, and to an increase in the CEB's sound equity. The risk asset coverage ratio exceeded its limit. The Boards are periodically informed and loan disbursements are closely monitored.

- **Strengthened liquidity ratio** is designed to measure the Bank's capacity to meet its net liquidity requirements (see Financial Statements, note B).

The Bank's liquid assets must not fall under 50% of net liquidity requirements for the next three years. At 31 December 2013, the strengthened liquidity ratio stood at 115.7%, against 96.4% at end 2012. This increase stems from a substantial decrease in net liquidity requirements compared with a slight decline in liquid assets.

Indebtedness ratio is a supplementary indicator that compares the total debt outstanding after swap to own funds (see Financial Statements, note B).

The limit is fixed at 4 (four times the CEB's own funds), i.e. € 29.3 billion. The ratio stood at 2.66 at 31 December 2013, down from 2.75 at 31 December 2012, due to the decrease in debt outstanding and the significant growth in the CEB's own funds.

Portfolio ratio is a supplementary indicator that compares the total financial assets after swap to own funds (see Financial Statements, Note B).

The limit is fixed at 2 (twice the CEB's own funds), i.e. € 14.6 billion. The ratio stood at 1.32 at 31 December 2013, down from 1.37 at 31 December 2012, due to the decrease in financial assets and the significant growth in the CEB's own funds.

THE CEB'S REVISED PRUDENTIAL FRAMEWORK

A new prudential framework was approved by the Administrative Council on 14th November 2013 and came into force on 1st January 2014, along with the new Development Plan 2014-2016. Although it is not mandatory for a Multilateral Development Bank (MDB), under this revised prudential framework the Bank will follow the best practices established by the Basel Committee, thus enabling it to counter new risks and ensure its financial sustainability.

The CEB's new prudential framework is built around three main pillars (capital adequacy, liquidity, leverage).

Two capital ratios will now be used: a "capital adequacy ratio" based on the Basel III definition and a "gearing ratio" comparing loans to own funds, re-introduced to ensure better comparability with other MDBs.

Regarding liquidity, in addition to the already existing long term liquidity ratio a short term liquidity ratio will be implemented, enabling the Bank to have a broader scope and timeframe for assessment of its liquidity position. Concerning leverage, two ratios will respectively assess the level of debt and the level of treasury assets compared to prudential equity[1].

	Ratios	Definitions	Limits
Capital adequacy	Capital Adequacy Ratio Basel II/III (CAR)	$\frac{\text{Equity}_{p}^{1}}{\text{Risk weighted assets}}$	> 10.5%
	Gearing Ratio (GR)	$\frac{\text{Outstanding loans}}{\text{Own funds}^{2}}$	< 2.5
Liquidity	Liquidity Ratio (LR)	$\frac{\text{Liquid assets}}{\text{Net liquidity requirements}^{3}}$	> 50%
	Short Term Liquidity Ratio (STLR)	$\frac{\text{Potential sources of cash}}{\text{Potential uses of cash}}$	> 100%
Leverage	Treasury Assets Ratio (TAR)	$\frac{\text{Total financial assets}^{4}}{\text{Equity}_{p}}$	< 6
	Indebtedness Ratio (IR)	$\frac{\text{Total debt outstanding}^{5}}{\text{Equity}_{p}}$	< 12

1. Equity $_{P}$ = prudential equity: paid-in capital, reserves and net profit
2. Own funds = subscribed capital, reserves and net profit
3. Net liquidity requirements = stock of projects, net cash flow for a three-year period
4. Total financial assets = outstanding in HTM & AFS portfolios, bank deposits, repos, nostro accounts; excluding collateral
5. Total debt outstanding = debt evidenced by a security after swap, ECPs, bank advances and term deposit accounts without collateral

03 OFFICE OF THE CHIEF COMPLIANCE OFFICER

The Office of the Chief Compliance Officer (OCCO) is committed to achieving the highest standards of integrity, governance and transparency within the CEB, in its business and functioning activities, and to continuing to strengthen key compliance policies and anti-irregularity mechanisms, in support of this goal. The Chief Compliance Officer reports directly to the Governor while enjoying functional independence. In 2013, a Compliance Committee within the Governing Board was established with the mandate to address cases of alleged violations of the applicable codes of conduct involving the Governor, a member of the Bank's collegial organs including their chairpersons, or a member of the Auditing Board.

OCCO promotes and ensures that the principles of integrity and international compliance best practices are applied in all CEB's activities. In particular, OCCO deals with anti-money laundering, anti-corruption, fight against fraud, counter terrorist financing, conflicts of interest, treatment of confidential information and integrity due diligence. OCCO is responsible for the creation, review and adherence to codes of conduct and procedures governing the ethical behaviour of appointed officials, staff members and contractual collaborators or service providers, members of the Auditing Board and the chairpersons and members of the collegial organs.

In 2013, OCCO reconfirmed the requirement for staff members to sign a Code of Conduct statement, in an ongoing effort to keep the compliance awareness and culture at the highest level. It is also OCCO's responsibility, whenever necessary, to conduct investigations on alleged staff misconduct, to assess compliance risk and to mitigate the CEB's exposure to financial or reputation loss. In addition to this, OCCO's mandate is to set the standards of integrity that the CEB expects of its business partners, consultants and counterparties.



In 2013, OCCO continued to provide its input to ensure that the CEB's financial intermediaries abide by the standards recommended by the Financial Action Task Force (FATF) in the fields of anti-money laundering and combating the financing of terrorism (AML/CFT). To this end, OCCO closely follows the works of OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes and continuously updates the list of monitored jurisdictions. OCCO participates as an observer in meetings of specialised bodies such as the "Council of Europe Group of States against Corruption" (GRECO) and the "Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism" (MONEYVAL). During the last quarter of 2013, new management recruitments within OCCO further reinforced the compliance team and accelerated actions towards upgrading internal procurement procedures and designing compliance training for the forthcoming year.



GOVERNANCE AND CORPORATE RESPONSIBILITY

01 MEMBERSHIP OF THE BANK'S ORGANS AS AT 31 DECEMBER 2013*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Raphaël ALOMAR Former Governor of the CEB	**Chairpersons**	**Joseph LICARI** Former Permanent Representative of Malta to the Council of Europe, Strasbourg
Tomáš BOČEK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	**Vice-Chairs**	**Zoran ĆIROVIĆ** Chairman, Securities Commission of the Republic of Serbia, Belgrade
	Albania **Dastid KORESHI** Chargé d'Affaires a.i.,Permanent Representation of Albania to the Council of Europe, Strasbourg	
Ardiana HOBDARI *(Since 17 February 2014)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg		**Erjon LUÇI** *(since 5 February 2014)* Deputy Minister, Ministry of Finance, Tirana
Dirk VAN EECKHOUT Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	**Belgium**	**Franciscus GODTS** Administrator, International and European Financial Affairs, Federal Public Service Finances, Brussels
Almir SARAHOVIĆ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bosnia and Herzegovina to the Council of Europe, Strasbourg	**Bosnia and Herzegovina**	**Ljerka MARIĆ** Director, Directorate for Economic Planning, Council of Ministers, Sarajevo
Andrey TEHOV Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	**Bulgaria**	**Gergana BEREMSKA** Director, Directorate of International Financial Institutions and Cooperation, Ministry of Finance, Sofia
Miroslav PAPA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	**Croatia**	**Boris LALOVAC** Deputy Minister, Ministry of Finance, Zagreb
Theodora CONSTANTINIDOU Ambassador, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	**Cyprus**	**Christos PATSALIDES** Permanent Secretary, Ministry of Finance, Nicosia
Tomáš BOČEK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	**Petr PAVELEK** Director of the Debt and Financial Assets Management Department, Ministry of Finance, Prague
Klavs A. HOLM Ambassador, Permanent Representative of Denmark to the OECD, Paris	**Denmark**	**Thomas BØRNER** Senior Advisor, Department of Finance, Ministry of Finance, Copenhagen
Gea RENNEL Ambassador Extraordinary and Plenipotentiary Permanent Representative of Estonia to the Council of Europe, Strasbourg	**Estonia**	**Martin PÕDER** Head of the EU and International Affairs Department, Ministry of Finance, Tallinn

* The Bank's organs are: the Governing Board, the Administrative Council, the Governor and the Auditing Board.

In accordance with Article XIII, the secretariat of the Bank's organs is provided by the Secretariat of the Partial Agreement on the Council of Europe Development Bank in Strasbourg (Head of the Secretariat of the Partial Agreement: **Ms Giusi PAJARDI**; Executive Secretary to the Organs: **Mr György BERGOU**).

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Pekka HYVÖNEN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	**Finland**	**Kristina SARJO** Director, Financial Markets Department, Unit for International Affairs, Ministry of Finance, Helsinki
Jocelyne CABALLERO Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	**France**	**Alice TERRACOL** Head of Bilateral Relations and European Financial Instruments, Treasury Department, Ministry of Economy and Finance, Paris
Konstantin KORKELIA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Georgia to the Council of Europe, Strasbourg	**Georgia**	**David LEZHAVA** Deputy Minister, Ministry of Finance, Tbilisi
Julius Georg LUY Ambassador Extraordinary and Plenipotentiary Permanent Representative of Germany to the Council of Europe, Strasbourg	**Germany**	**Elke KALLENBACH** Head of Division, Ministry of Finance, Berlin
Iraklis ASTERIADIS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Greece to the Council of Europe, Strasbourg	**Greece**	**Paraskevi PROTOPAPPA** *(Substitute)* Head of Department for International Financial Organisations, Ministry of Development, Competitiveness, Infrastructure and Networks, Athens
Mgr Ignazio CEFFALIA Chargé d'Affaires a.i., Deputy Permanent Observer of the Holy See to the Council of Europe, Strasbourg	**Holy See**	**Reverend Christian GOUYAUD** Attaché, Permanent Mission of the Holy See to the Council of Europe, Strasbourg
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GOVERNOR

Rolf WENZEL

VICE-GOVERNORS

Vice-Governor Financial Strategy: **Nunzio GUGLIELMINO**

Vice-Governor Social Development Strategy: **Apolonio RUIZ-LIGERO**

Vice-Governor Target Group Countries: **Mikołaj DOWGIELEWICZ**

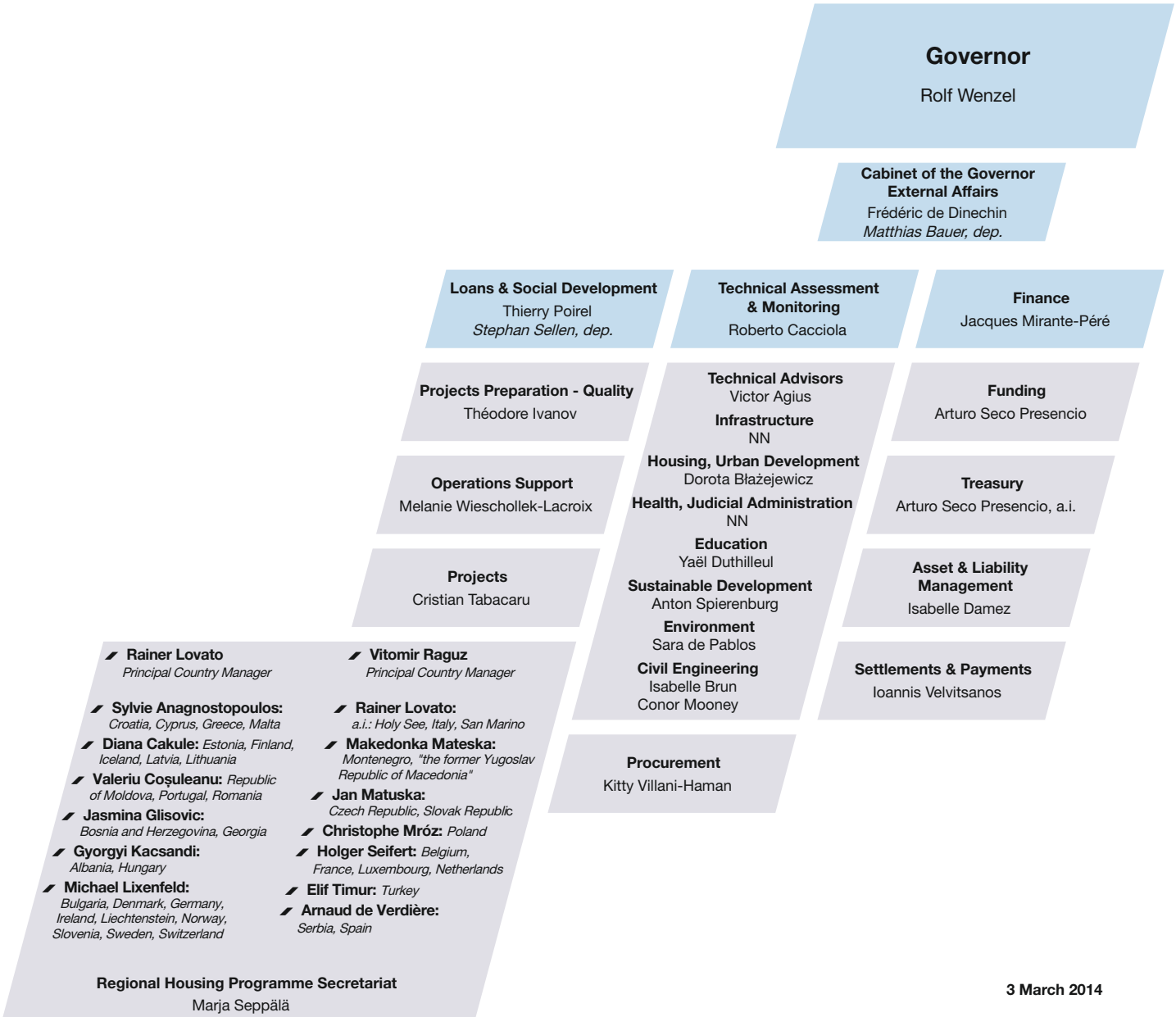
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02 ORGANISATION CHART



3 March 2014



THE MANAGEMENT TEAM
In front, **Rolf WENZEL**, Governor
First row, from left to right: **Nunzio GUGLIELMINO**, Vice-Governor Financial Strategy; **Apolonio RUIZ-LIGERO**, Vice-Governor Social Development Strategy; **Mikołaj DOWGIELEWICZ**, Vice-Governor Target Group Countries
Second row, from left to right: **Carlo MANGOSI**, Director for Internal Audit; **Rachel MEGHIR**, Director for Evaluation; **Roberto CACCIOLA**, Director for Technical Assessment & Monitoring; **Jérôme HALB**, Deputy Director for European Cooperation & Strategy; **Arnaud VIOLETTE**, Central Director for Risk & Control; **Katherine DELIKOURA**, Chief Compliance Officer; **Frédéric de DINECHIN**, Head of Cabinet of the Governor; **Johannes M. BÖHMER**, Director for Human Development & Internal Services; **Jacques MIRANTE-PÉRÉ**, Chief Financial Officer; **Thierry POIREL**, Director General for Loans & Social Development; **Jan DE BEL**, General Counsel

Vice-Governor Financial Strategy
Nunzio Guglielmino

Vice-Governor Social Development Strategy
Apolonio Ruiz-Ligero

Vice-Governor Target Group Countries
Mikołaj Dowgielewicz

Internal Audit
Carlo Mangosi

Compliance System Security Control
Katherine Delikoura

Evaluation
Rachel Meghir

Risk & Control
Arnaud Violette

European Cooperation & Strategy
NN
Jérôme Halb, dep.

Human Development & Internal Services
Johannes M. Böhmer

Office of the General Counsel
Jan De Bel

Global Risk Management
Martin Weigand

Corporate Responsibility & Studies
Jérôme Halb

Human Resources
Maria Lucia Oristanio
Staff Policies & Recruitment
Staff Benefits & Missions

Operations, Loans
Operations, Finance
Administrative Issues

Financial Risk & Control (Collateral)
Alain Sayagh

European & International Cooperation
Luca Schio

Operational Risk
Adam Korvin

Donor Relations & Fiduciary Accounts
Sébastien Relland

Information Technology
Jean-Louis Nguyen, a.i.

Controlling
Patrick Radhauer

General Facilities & Security
Maurice Le Verche

Accounting
José Limet

Financial Reporting
Michèle Meunier

CEB COMMITTEES

- Committee on Orientation and Coordination
- General Management Committee
- Finance and Risk Committee
- ALM Committee
- Funding Committee
- Development and Project Committee
- IT Steering Committee
- Committee for Operational Risks and Organisation
- Committee for European Cooperation

03 CORPORATE SOCIAL RESPONSIBILITY

Although there are several definitions of corporate social (or societal) responsibility (CSR), all of them are based around two common denominators, namely the contribution made to sustainable development and the impact on society. For the CEB, corporate social responsibility is associated with the very nature of a development bank with a social vocation placed under the "supreme authority" of the Council of Europe. In practical terms, the CEB's actions support sustainable development from the outset, by funding projects that strengthen social cohesion, protect the environment and, in the long term, improve the lives of Europeans.

The CEB faces three major challenges, namely a challenge to reputation in an increasingly demanding environment; a challenge to viability through the application of CSR principles to both the Bank's activity and its own functioning, and an operational challenge for what is, ultimately, a modestly sized Institution.

Against this background, the Bank is committed to accounting for its overall contribution to socially and environmentally sustainable development in its annual CSR report. It has done so since 2008. For 2013, the Bank has opted to change its reporting in two main ways. On the one hand, it is publishing its corporate social responsibility report at the same time as this Report of the Governor, which helps to present a more comprehensive and coherent view of the CEB's activities. On the other hand, the main headings of the CSR report will be developed further on the Bank's website in the coming months and updated as necessary. This will ensure that the public has access to more detailed, dynamic and up-to-date information.

Over the past five years and the last two in particular, the CEB has taken several initiatives, which together are contributing to the Bank's future development. These initiatives are of two kinds. First, they relate to advances in CSR itself. The CEB created a dedicated department, called "Corporate Responsibility & Studies", to coincide with the reorganisation of the Bank, which took effect on 1 February 2013. This development followed the setting up, some months earlier, of a network of CSR correspondents, designed to help disseminate and embed CSR within the Bank, whilst prioritising a shared approach in an area that is by its very nature cross-functional. Several of these contacts spoke at the general information meeting on corporate social responsibility organised at the CEB on 24 June 2013. The meeting was introduced by the Governor and helped raise staff awareness of CSR issues. It should result in a better grasp of the issue from every angle and encourage increasingly environmentally responsible behaviour. The Bank has already taken several measures in respect of managing its own environmental footprint. For example, the CEB has had a software platform dedicated to the measurement of its carbon footprint since early 2013. In practical terms, 2013 also saw further work on connecting the Bank's premises to the Paris urban cooling network and the replacement of printers and photocopiers with low energy-consumption multi-function equipment.



Secondly, in addition to the measures taken in support of CSR, the Bank strives continuously to improve the added value of its contribution and the quality of its own functioning. One example of this is the regular improvement in the CEB's corporate and compliance policies, the most recent being the revision of the guidelines on the internal procurement of services, supplies and works by the Bank, which now incorporates questions on the environment and sustainability. Several projects carried out by the Human Resources are also contributing to the Institution's sustainable development, from the introduction of the role of mediator to a project run on a highly participative basis on the CEB's internal values. It is also important to underline the greater emphasis placed on the social added value of the Bank's activities over the last two years. This is explicitly the case in the Development Plan 2014-2016, approved in November 2013, and is justification for the "two-pronged" methodological approach to project selection, which has been applied since 2012.

Overall, the CEB is resolutely pursuing its efforts to remain an effective financial lever supporting social cohesion and sustainable development in Europe.

COMMUNICATION

The CEB's information and communication policy is primarily aimed at consolidating the Institution's reputation and at guaranteeing appropriate transparency with regard to its activities and its functioning.

To achieve this, the Bank relies on an internal reference framework made up of its Public Information Policy and on a wide range of communication tools. These are mainly deployed on the website, www.coebank.org, and on the intranet reserved for internal communication with CEB staff. The content of both sites is steadily enhanced year after year.

For several years, the institutional communication policy, which is designed to promote the original positioning and specific identity of the CEB, has been relayed by means of more operational communication approaches targeted to each of its stakeholders. The objectives are tailored accordingly. As far as its partners are concerned, the Bank is committed to taking full advantage of the capital of trust it enjoys with them, in particular those most closely linked with its activities. With regard to its shareholders, the Bank's communication falls in priority under the aegis of good governance. Internal communication is designed to promote staff cohesion; by way of illustration, the "CEB's corporate day", which has taken place since 2012, is an opportunity to bring the Bank's staff even closer together in a different context away from the office.

In 2013, under the leadership of the Management, several initiatives were taken to strengthen relationships with other multilateral development banks and to increase the CEB's visibility within the international community. A delegation from the CEB has thus regularly participated in the annual meetings of other international financial institutions (IFIs), whilst Governor Wenzel has taken part in several round table discussions. Examples include the round table on the role of IFIs in a period of austerity, held as part of the EBRD's annual meeting, which notably included the presidents of the EIB and EBRD and the vice-president of the IFC. Links with the European Commission are also active, as reflected in, amongst other things, Governor Wenzel's participation in the high-level meeting organised on 5 November 2013 at the invitation of the Commissioner for Enlargement, Štefan Füle, with a view to intensifying cooperation with the main financial institutions operating in the Western Balkans.

An event such as the Bank's Joint Meeting also helps to strengthen the CEB's reputation. Held last year in Malta, on 14 and 15 June 2013, it provided an opportunity for official meetings with the authorities of the host country. It was also an opportunity for members of the CEB's collegial organs to visit one of the largest healthcare projects funded by the Bank. Two field visits in 2013, one to Bosnia and Herzegovina and the other to Serbia, made it possible for several members of the Administrative Council to gain a better understanding of the practical effects of projects funded by the CEB. In both cases, the Bank's delegation was led by Vice-Governor Dowgielewicz.



SERBIA
Field visit

04 EVALUATION

I. Main developments in 2013

The Evaluation Department (EVD) started work during 2013 on a far-reaching and significant endeavour in the development of evaluation at the CEB: the elaboration of a publicly available *CEB Evaluation Policy*. Against the backdrop of preliminary consultations conducted within the Bank, working drafts of the evaluation policy were prepared for in-house feedback.

The *Policy* will establish the underlying principles of CEB evaluation, as well as standards, criteria and methods for ensuring the quality and credibility of CEB evaluations. Elaboration of the *Policy* provides an opportunity to redefine the role and scope of the evaluation function within the Bank to encompass, alongside the core function of conducting evaluations of completed projects/programmes, processes aimed at enhancing the uptake of evaluation findings and lessons learned in the appraisal of new operations.

II. Project and programme evaluations

Evaluation work in the EVD is organised in cycles, structured around the CEB's sectors of action or on specific themes. Individual evaluations constitute the building blocks for a Synthesis Report in which strategic issues for the CEB, related to the sector/theme, are presented. In 2013, the EVD issued two programme evaluations under the *Housing for Social Integration* cycle, while preparatory work and communication initiatives were pursued within other ongoing evaluation cycles.

- **Housing for social integration:** This cycle focuses on CEB-financed projects/programmes designed to provide or improve housing for vulnerable groups – migrants, returnees and Roma – and covers eight projects in five countries. Evaluation work on programmes pertaining to mortgage loans for migrants was completed, and a knowledge-sharing event was held to present findings to CEB staff. One of the highlights of the discussion was the importance of assessing potential risks to development outcomes, by mobilising sectoral expertise during project design. In the course of the year, the evaluation of a programme for the resettlement and social integration of returnees was also completed. The report emphasized the need, at the appraisal stage, for a stronger focus on a coherent conceptual framework, clarity of objectives and identification of indicators of social success - alongside the comparison of planned versus actual outputs - which should be monitored during implementation. Finally, the evaluation of a programme aimed at improving living conditions for Roma populations was launched and, given the strategic importance of Roma inclusion for the Bank, a preparatory mission was carried out in cooperation with the Loans & Social Development Directorate.

- **Social housing:** The Synthesis Report for this evaluation cycle is near completion and will be finalised in 2014. The report draws on evidence gathered in six evaluations conducted by the EVD from 2006 to 2012 and on a review of the CEB's investment portfolio in this sector of historic importance for the Bank. It also takes stock of the relevant literature and diverse policies on social housing in CEB member countries. The final report will provide an opportunity for a forward-looking reflection on the CEB's positioning in the social housing sector.

- **Rural modernisation:** For over twenty-five years, the CEB has been financing irrigation infrastructure programmes, with a major share of the portfolio implemented in one member country. To prepare the fieldwork for evaluating this extensive and complex portfolio, the EVD launched an overview of the CEB's engagement in the country, along with a sector analysis. The ensuing evaluations will establish the results of a long and sizeable engagement and focus on the effects of the CEB-financed programmes on the agricultural population as well as on the rural economy. This initiative has a strong potential to provide lessons applicable to other CEB member countries where the agricultural and rural economy plays a considerable role.

- **Environment:** The EVD conducted the evaluation fieldwork related to three multi-sector programmes that comprised energy efficiency as well as water and sanitation-related investments. The preliminary evaluation findings and lessons learned were presented to CEB staff in the course of the year under review; the final report on the overall performance of these programmes will be released in 2014.

05 HUMAN DEVELOPMENT

I. Stable staff numbers, continued recruitment efforts and employer branding

At year-end 2013, the CEB employed 183 permanent staff: 114 professionals and 69 support staff. With respect to gender distribution, the Bank's staff comprised 98 women and 85 men, representing a ratio of 54% women to 46% men. However, further progress needs to be made with regard to improving diversity, in particular through a higher representation of women in senior management positions and a better balance of nationalities represented at the Bank. In addition to the 183 staff members, the CEB had 4 appointed officials.

Analysis of the demographic developments and staff movements during the past year shows that 12 recruitments were concluded (representing 6.6% of overall staff numbers) from 7 different nationalities. The average length of recruitment remained stable at around 6.5 months. The breakdown of applications received in 2013 stood at 34% women and 66% men. During the same period, 8 staff members (representing 4.4% of overall staff numbers) left the Bank, of which 50% were retirees, bringing the number of pensioners to 33.

The number of nationalities represented among the staff remained stable at 28, while the average age of the Bank's staff stood unchanged at 47 years. At the same time, the turnover rate rose from 2.9% in 2012 to 4.5% in 2013, which will lead to a renewal process for the coming period.

In 2013, the CEB's Administrative Council endorsed the Bank's initiative to implement an HR tool allowing for terminating the service of permanent staff according to a number of criteria such as age and seniority. For the first time, this allowed CEB staff members to request a termination-of-service measure under the existing applicable rules. The Governor responded favourably to all requests received from CEB staff members.

The CEB continued its effort to become an employer of choice by conducting outreach, particularly with the objective of improving geographical distribution targets and diversifying the workforce, while conserving the organisation's vital knowledge base. In this regard, vacancy announcements were published through a wider range of channels and HR attended career events and conferences in order to raise awareness of the CEB as an employer and attract more talent to the Bank in the mid- and long-term.

A new recruitment tool, which was designed to be more user-friendly for external candidates, was also implemented. Given the demographic developments and changing workforce structure, it can further be regarded as necessary to actively address questions of succession planning and to foster talent with the ability to bring competencies to the CEB that are important for the organisation's long-term success.

II. HR building blocks – projects launched in 2013

A central project launched in 2013 concerns the question of internal values at the Bank with the aim of promoting a common sense of purpose, developing a meaningful common language to enable staff to work together better as well as enhancing professional behaviour and cohesion among staff.

This being the first building block, the HR team worked alongside the Staff Committee to define the most adequate top-down and bottom-up approach and to select the best service provider. This joint initiative brings together a dedicated group of volunteers to establish a common value system and enjoys senior management's full support.

In addition, a public call for tenders was launched to work on a certain number of HR tools, including a review of the entire appraisal and career development system, as well as the setting up of a competency management tool. At end 2013, an interdisciplinary team started with the selection of the most suitable provider who will start work on reviewing the system and rules for appraisal and career development at the CEB.

Having launched management and leadership training courses in recent years, Human Resources launched in 2013 training on the appraisal exercise, career management and safety and first aid. In-house language training and specific job-related technical training were also offered to staff and managers. The Information Technology Department organised most of the year's IT training in house.

Looking at what has been accomplished in this area and what lies ahead, the introduction of a complete training catalogue for the coming years is planned as a next step. The objective is to better respond to staff and management needs in order to accompany the shift in human resources management culture within the Bank, to continue the development of soft skills through management and leadership training and individual coaching, to enhance communication and teamwork, to develop constructive feedback and acceptance of feedback and to continue the training of staff and managers in IT specific tools, security and first aid, specific job-related matters and languages.

With regard to a project started in 2012 that has been running successfully ever since, the role of the CEB's Mediator should be mentioned. In her role as an impartial intermediary between CEB staff members and the Bank's administration, the Mediator continued to visit the Bank on a monthly basis with the objective of resolving conflicts in a friendly manner or solving misunderstandings before problems can emerge. Seeking mediated settlements to all kinds of disputes remains a priority for the Bank and it is planned to continue with regular presence of the Mediator.

III. Reform of the pension scheme

Following its approval by the Administrative Council, the reform of the pension scheme came into force in January 2014. To ensure that this reform is in line with best practices and fulfils statutory requirements, the Governor set up a working group to make concrete proposals for the review. The group worked in close consultation with key stakeholders, namely the Advisory Management Committee of the Autonomous Pension Fund and the Bank's Staff Committee and could rely on actuarial simulations and benchmarking studies.

Among the most significant changes, it is worth noting that the contribution rate was raised for all staff, and staff may now work two more years beyond the regular retirement age if so requested by the Governor. Staff members joining the Bank after 1 January 2014 will participate in a new pension scheme with adjusted benefits. The key parameters of this scheme are a different annual accrual rate and the raise of the pension age.



This reform is the consequence of demographic developments in Europe, particularly the increase in life expectancy. Therefore the reform was needed financially in order to cope with the structural increase in pensions to be paid. Consequently, the reform will ensure the long-term financial balance of the pension scheme.

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

2013 REPORT OF THE GOVERNOR

FINANCIAL STATEMENTS




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

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

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

- Strengthening of social integration

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

- Management of the environment

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

- Supporting public infrastructure with a social vocation

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

(*) As of 1 January 2014, within the framework of the new Development Plan 2014-2016, the "Creation and preservation of viable jobs" sector has become a separate sectoral line of action [as per the AC resolution 1562 (2013)].

BALANCE SHEET

In thousand euros

	Notes	31/12/2013	31/12/2012
Assets			
Cash in hand, balances with central banks		286 640	327 373
Financial assets at fair value through profit or loss	C, E	441 961	1 200 675
Hedging derivative instruments	C, E	949 003	1 402 383
Available-for-sale financial assets	E	4 548 774	4 930 030
Loans and advances to credit institutions and to customers			
Loans	F	12 769 265	12 448 526
Advances	F	2 806 849	4 021 106
Financial assets held to maturity		2 630 983	2 477 909
Tangible and intangible assets	G	44 746	44 909
Other assets	H	6 571	4 665
Total assets		**24 484 792**	**26 857 576**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	C, E	656 290	428 908
Hedging derivative instruments	C, E	400 668	595 059
Amounts owed to credit institutions and to customers	I	227 128	83 352
Debt securities in issue	I	20 087 248	21 558 288
Other liabilities	H	408 777	1 693 417
Social Dividend Account (SDA)	J	73 906	77 654
Provisions	K	170 778	159 259
Total liabilities		**22 024 795**	**24 595 937**
Equity			
Capital	L		
Subscribed		5 472 219	5 465 660
Uncalled		(4 859 802)	(4 853 971)
Called		612 417	611 689
General reserve		1 783 830	1 661 462
Net profit		111 289	120 230
Total capital, general reserve and net profit		2 507 536	2 393 381
Gains or losses recognised directly in equity		(47 539)	(131 742)
Total equity		**2 459 997**	**2 261 639**
Total liabilities and equity		**24 484 792**	**26 857 576**

INCOME STATEMENT

In thousand euros

	Notes	2013	2012
Interest and similar income			
Available-for-sale financial assets		19 256	42 204
Loans and advances to credit institutions and to customers		97 484	167 541
Financial assets held to maturity		94 204	94 301
Interest expenses and similar charges			
Amounts owed to credit institutions and to customers		(1 843)	(7 290)
Debt securities in issue		(39 180)	(134 268)
Other interest expenses and similar charges		(6 302)	(4 884)
Interest margin	M	**163 619**	**157 604**
Net gains or losses from financial instruments at fair value through profit or loss	O	(7 716)	(407)
Net gains or losses from available-for-sale financial assets		49	58
Commissions (income)		884	725
Commissions (expenses)		(1 714)	(1 609)
Net banking income		**155 122**	**156 371**
General operating expenses	P	(41 564)	(33 908)
Depreciation and amortisation charges of fixed assets	G	(2 269)	(2 233)
Gross operating income		**111 289**	**120 230**
Cost of risk			
Net profit		**111 289**	**120 230**

STATEMENT OF COMPREHENSIVE INCOME

In thousand euros

	2013	2012
Net profit	**111 289**	**120 230**
Changes in value of available-for-sale financial assets	78 410	87 502
Changes in actuarial differences related to the pension scheme	3 699	(25 913)
Changes in actuarial differences related to the other post-employment benefits	2 094	(12 175)
Total other elements of comprehensive income	**84 203**	**49 414**
Comprehensive income	**195 492**	**169 644**

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 2012	**554 268**	**1 719 883**	**2 274 151**	**(161 925)**	**(19 231)**	**(181 156)**	**2 092 995**
Capital increase	57 421	(57 421)					
Appropriation of profit for the 2011 financial year		(1 000)	(1 000)				(1 000)
Net profit 2012		120 230	120 230				120 230
Changes in value of assets and liabilities recognised directly in equity				87 502	(38 088)	49 414	49 414
Equity as at 31 December 2012	**611 689**	**1 781 692**	**2 393 381**	**(74 423)**	**(57 319)**	**(131 742)**	**2 261 639**
Capital increase	728	2 138	2 866				2 866
Appropriation of profit for the 2012 financial year							
Net profit 2013		111 289	111 289				111 289
Changes in value of assets and liabilities recognised directly in equity				78 410	5 793	84 203	84 203
Equity as at 31 December 2013	**612 417**	**1 895 119**	**2 507 536**	**3 987**	**(51 526)**	**(47 539)**	**2 459 997**

In 2013, further to Kosovo's adhesion, the subscribed capital increased by € 6 559 thousand of which the called capital amounts to € 728 thousand. Its contribution to the reserves totals € 2 138 thousand. A first instalment of € 716.5 thousand has been paid for the capital and reserves.

STATEMENT OF CASH FLOWS

In thousand euros

	For the year ended 31 December	Notes	2013	2012
	Net profit		**111 289**	**120 230**
+/-	Depreciation charges of tangible and intangible assets	G	2 269	2 233
+/-	Net loss/net profit from investing operations		20 336	13 996
+/-	Change in interest receivable		69 340	114 080
+/-	Change in interest payable		(65 838)	(130 776)
+/-	Other movements		23 197	9 253
	Total of non-monetary items included in the result		**49 303**	**8 786**
+	Reimbursements related to operations with credit institutions and customers		3 266 640	1 596 998
-	Disbursements related to operations with credit institutions and customers		(2 007 166)	(3 372 549)
+	Reimbursements related to other operations affecting financial assets or liabilities		3 327 899	2 423 147
-	Disbursements related to other operations affecting financial assets or liabilities		(4 298 590)	(3 487 844)
+/-	Cash flows related to operations affecting non-financial assets or liabilities		(9 292)	3 441
	Net decrease/(increase) of assets and liabilities resulting from operating activities		**279 491**	**(2 836 807)**
	Total net cash flows from operating activities (a)		**440 083**	**(2 707 791)**
+	Reimbursements related to financial assets held to maturity		241 391	78 340
-	Disbursements related to financial assets held to maturity		(399 032)	(295 593)
+/-	Cash flows related to tangible and intangible assets	G	(2 106)	(15 042)
	Total net cash flows from investing operations (b)		**(159 747)**	**(232 295)**
+/-	Cash flows from or to Member States		(3 324)	(2 915)
+	Reimbursements related to debt securities in issue		5 271 348	6 466 526
-	Disbursements related to debt securities in issue		(5 143 694)	(5 914 781)
	Total net cash flows from financing operations (c)		**124 330**	**548 830**
	Effect of changes in foreign exchange rates on cash and cash equivalents (d)		**(33 716)**	**(7 687)**
	Net increase/(decrease) in cash and cash equivalents (a)+(b)+(c)+(d)		**370 950**	**(2 398 943)**
	Cash and cash equivalents at the beginning of the financial year		**2 559 425**	**4 958 369**
	Cash in hand, balances with central banks		*327 373*	*242 980*
	Advances repayable on demand and term deposits with credit institutions		*2 232 052*	*4 715 389*
	Cash and cash equivalents at the end of the financial year		**2 930 375**	**2 559 426**
	Cash in hand, balances with central banks		*286 640*	*327 373*
	Advances repayable on demand and term deposits with credit institutions		*2 643 735*	*2 232 053*
	Changes in cash and cash equivalents		**370 950**	**(2 398 943)**

NOTES TO THE FINANCIAL STATEMENTS

NOTE A SUMMARY OF PRINCIPAL ACCOUNTING METHODS APPLIED BY THE BANK (CEB)

1. Applicable accounting norms

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.

The CEB had applied by anticipation on 1 January 2012 the amendment to the IAS 19 "Employee benefits", adopted by the European Union on 5 June 2012. Hence, the provision regarding post-employment benefits, adjusted for actuarial gains and losses, is included in the Bank's balance sheet (see Note K - Provisions).

As of 1 January 2013, the Bank applies IFRS 13 "Fair value measurement", adopted by the European Union on 11 December 2012 (see note E).

The entry into force of other standards with mandatory application after 1 January 2013 had no impact on the financial statements as at 31 December 2013. The Bank did not anticipate the implementation of new standards, amendments or interpretations adopted by the European Union when their implementation was only optional in 2013.

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 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 advances repayable on demand with credit institutions (except central banks) and interbank advances granted by the CEB. Advances repayable on demand with credit institutions 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 used.

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

(*) A reference guide of standards adopted within the European Union is available on the European Commission website:
http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

2.3. Securities

Securities held by the Bank are classified under two categories:

Financial assets held to maturity

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

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

Income from these securities is recorded under 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 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; or
- 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 by using observable parameters on the basis of valuation models commonly accepted (discounted cash flow method, Black and Scholes model, interpolation techniques).

2.8. Interest income and expense

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

The effective interest rate is the rate that discounts exactly the estimated future cash payments 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 and façade - (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 and façade” 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 by using the straight-line method over either 1 year (office software) or 5 years (application software).

4. Post-employment staff benefits

The Bank's pension scheme is a defined benefit scheme, funded by contributions made 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 (optional health care for pensioners, fiscal adjustment and, since 2013, 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 amount of the provision in relation to these commitments is determined by an independent actuary in accordance with the projected unit credit method.

On 1 January 2012 the Bank had applied early the amendment to IAS 19 "Employee benefits", adopted by the European Union on 5 June 2012. Hence, the provision regarding post-employment benefits recorded in the Bank's balance sheet is fully equal to the commitment with respect to post-employment benefits.

5. Social Dividend Account (SDA)

The Social Dividend Account (formerly known as Selective Trust Account) 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" "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 usually 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.

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.

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.

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

	2013	2012
Office allowances		
Chairperson of the Governing Board [2]	45	45
Chairperson of the Administrative Council	45	45
Vice-Chairperson of the Governing Board	6	6
Vice-Chairperson of the Administrative Council [3]	6	6
Emoluments		
Governor Wenzel	346	338
Vice-Governor Guglielmino	279	273
Vice-Governor Ruiz-Ligero	263	257
Vice-Governor Dowgielewicz [4]	263	171
Vice-Governor Tarafás [5]		86

(1) This applies to Vice-Governors elected for the first time after 26 November 2010.

(2) The Chairman of the Governing Board has waived his allowances for the period running from 1 January to 31 December 2013. At his request the corresponding amounts have been directly transferred by the CEB to the SDA and charitable organisations.

(3) Allowances of € 500 are paid monthly. Two successive Vice-Chairpersons held the seat in 2012.

(4) The incumbent's term started on 2 May 2012.

(5) The incumbent's term ended on 1 May 2012.

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 received by the CEB. For 2013, 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 € 119 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. They benefit from other allowances as the staff members (family allowance and other allowances related to expatriation, if applicable).

8. Taxation

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

NOTE B FINANCIAL RISK AND CAPITAL MANAGEMENT

Within the context of its lending and treasury activities, the CEB is exposed to four main types of risk: credit risk, market risk, liquidity risk and operational risk.

This Note gives information about the Bank's exposure to these different types of risks, as well as about the objectives, policies and procedures which enable it to assess and manage such risks, and about capital management.

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

As a multilateral development bank, the CEB is not subject to Member States' regulatory ratios, the Basel Committee recommendations or European Union directives. Nonetheless, the CEB has decided to observe these regulations as a point of reference for its risk management and control policy.

The Bank's administrative bodies have overall responsibility for defining and overseeing the risk management framework.

Decision-making committees

The Governor has set up a number of 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** is the cornerstone of the Bank's credit risk management framework. Risk management policies are established to identify and analyse the risks faced by the Bank, to set the appropriate risk limits and controls and to monitor the respect of those limits. It meets weekly and makes decisions based on the Global Risk Management Department's assessments and recommendations. It also reviews all aspects of the Bank's financial activity (cash management, debt, trends on the financial markets, liquidity).
- The **Funding Committee** addresses the funding strategy and the pricing policy on a quarterly basis. It also decides on the strategy relating to debt issuance (amounts, currencies, conditions and schedule) on the basis of the Bank's estimated liquidity requirements and in conformity with the annual levels of debt authorised by the Administrative Council following the proposal by the Governor.
- The **ALM Committee** decides on the Bank's asset and liability management strategy on a quarterly basis. It takes the necessary decisions with regard to financial risks on the basis of the Bank's quarterly ALM report and in accordance with the financial policies approved by the Administrative Council.
- The **Committee for Operational Risks and Organisation (CORO)** meets biannually to set acceptable levels for the operational risks run by the CEB and to ensure that Directors take the necessary steps to monitor and control these risks within their respective Directorates.
- The **IT Steering Committee** meets on a biannual basis and covers all issues related to information systems and IT infrastructure to ensure business continuity.

Internal and external reporting on risk management

A report, providing the Bank's detailed exposure to credit risk, capital market information and liquidity management, is sent out to the members of the Finance & Risk Committee on a weekly basis. However, within the present financial context, this information is completed whenever an event or decision occurs that raises concern about the prudential ratios or the quality of the CEB's counterparties, which are closely monitored.

The quarterly Risk Management Report presented both to the members of the Administrative Council and Governing Board aims to inform the shareholders about the development of the CEB's exposure to the main types of risks: credit, market, liquidity, operational risks and the situation regarding the prudential framework.

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 which is highly focused on risk management is also prepared in order to file an annual report on Form 18-K in connection with the registration statement filed with the Securities and Exchange Commission.

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

1. Credit risk

Overview of the assessment process

Credit risk is defined as the risk of loss which may occur if counterparty fails to meet its contractual obligations. The Global Risk Management Department identifies, assesses and manages all credit risks inherent in the CEB's operations, as a result of both on- and off- balance sheet transactions. The department also monitors compliance with portfolio management policies (loans, securities, derivatives) on a continuous basis, as well as overseeing the Bank's concentration risk.

The outstanding approval process: the procedure for approving new transactions makes the distinction between lending activities and treasury operations.

For all potential projects, the department assesses the transaction on the basis of the counterparty's creditworthiness and current exposure as well as the country risk and, if necessary, recommends credit enhancement measures (guarantees, collaterals, as well as any other structures that reduce the final risk). After approval by the Finance & Risk Committee, the project is submitted to the Administrative Council.

With reference to the transactions carried out by the Finance Directorate, the Administrative Council establishes the framework for such financial operations on the basis of the definition of the Bank's investment policy.

The process of limits' assignment: at the request of operational divisions, the Global Risk Management Department establishes limits for the counterparties and submits them to the Finance & Risk Committee which approves, modifies or rejects the limits. These limits are reviewed annually, unless it is necessary to do so within a shorter period of time. Limits are established at their nominal value.

The rating process: two types of internal ratings are assigned: counterparty ratings and transaction ratings. In accordance with best banking practices, the Global Risk Management Department assigns an internal rating to all counterparties based on due diligence carried out on site or in-house. The internal rating scale ranges from 1 to 10, 10 being the best grade. Each internal rating corresponds to a rating on the scale used by international rating agencies (e.g.10 = AAA, 9.5 = AA+).

The internal counterparty rating is based on qualitative and quantitative criteria. When the international rating agencies have assigned ratings, the internal rating takes them into account, in combination with other criteria. The Bank has developed its own scoring models that permit it to apply different ratios depending on the type of counterparty (sovereign, regional or local authority, financial or non-financial institution). Specific internal rating grids are used when a counterparty has not been rated by an international rating agency.

The internal transaction rating, given for project financing operations only, is based on the internal counterparty rating. If applicable, it also takes into account credit enhancement measures: collaterals, guarantees, as well as any other structures that reduce the final risk.

The Bank has established a methodology for validating the internal rating system, based on an analysis of the difference between its own internal rating and that of the international rating agencies. Any difference of more than two notches between the two systems will automatically lead to a total revision of the internal rating.

According to international rating agencies, a rating which is equal to or higher than Baa3/BBB-, is *investment grade* and, if it is equal to or lower than Ba1/BB+, is *below investment grade* (BIG).

Overall credit risk exposure

The Bank's credit risk exposure on all its transactions excluding accrued interest (loans, financing commitments, deposits, securities, derivatives) at 31 December 2013 and 31 December 2012 is shown in the table below. With reference to the loan portfolio, credit enhancement measures are taken into account. New category "no risk" was created where the exposure is fully provisioned or guaranteed by the Social Dividend Account (CEB).

In million euros

	2013					2012				
	AAA/AA	A/BBB	BIG	No risk	Total	AAA/AA	A/BBB	BIG	No risk	Total
Loans	1 904	7 309	3 368	1.1	12 582	1 931	5 936	4 263	1.0	12 131
Financing commitments	355	1 906	820	1.2	3 082	233	1 554	1 214		3 001
Deposits	1 750	1 342			3 093	2 074	2 274			4 348
Securities	4 147	2 566	200		6 913	3 766	3 180	200		7 146
Swap - add on	186	284			471	402	509			910
Forex		68			68		2			2
Swap coll - NPV not covered	6				6	16				16
Total	**8 348**	**13 476**	**4 388**	**2.3**	**26 214**	**8 420**	**13 456**	**5 677**	**1.0**	**27 554**

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

Concentration - Large exposure

Large exposure is the overall exposure (loans, securities, deposits, derivatives and financing commitments) to counterparty or group of connected counterparties, exceeding 10% of sound equity.

The CEB defines sound equity as paid-in capital, reserves, gains or losses recognised directly in equity, as well as uncalled capital of triple-A or double-A rated member countries (second best rating by Moody's, Standard & Poor's and Fitch Ratings).

In line with Basel Committee recommendations and European Union directives, the CEB ensures that no exposure to a counterparty or group of connected counterparties exceeds the limit of 25% of sound equity, and that the cumulative total of large exposures does not exceed 800% of said equity.

At 31 December 2013, no counterparty exceeded the limit of 25% of the CEB's sound equity (as in 2012) and five groups and one single counterparty overstepped 10%. The total outstanding on these counterparties stood at € 3.9 billion, i.e. 83% of the CEB's sound equity against € 4.6 billion and 102% at end of 2012. As a multilateral financial institution, the CEB excludes "*sovereign*" risks of OECD member countries from this analysis.

CEB's exposure to sovereigns[1] for loans and securities portfolios

In million euros

	2013				2013		
	Loans	Securities	Total		Loans	Securities	Total
EU countries *(a)*	**7 720**	**3 038**	**10 758**	**Non EU countries** *(b)*	**1 271**		**1 271**
France	404	1 614	2 019	Turkey	984		984
Germany	642	244	885	Albania	109		109
Belgium	757	20	777	Serbia	59		59
Spain	569	113	683	"the former Yugoslav Republic of Macedonia"	49		49
Cyprus	621		621	Iceland	22		22
Portugal	179	200	379	Moldova (Republic of)	20		20
Italy	141	160	301	Bosnia and Herzegovina	18		18
Finland	121	50	171	Montenegro	9		9
Ireland	104	10	114	San Marino	0.1		0.1
Austria[2]		83	83				
Malta	48		48				
Luxembourg		42	42				
Slovak Republic	32		32				
Estonia	26		26				
Greece	23		23				
Slovenia	19		19				
Sub-total eurozone	3 686	2 536	6 222				
Hungary	1 222		1 222				
Poland	1 048		1 048				
Romania	896		896				
Supranational institutions[3]	0.3	502	502				
Croatia	286		286				
Denmark	205		205				
Lithuania	140		140				
Sweden	131		131				
Bulgaria	38		38				
Czech Republic	36		36				
Latvia	32		32				
Sub-total Others	4 034	502	4 536				
Total *(a)+(b)*					**8 991**	**3 038**	**12 029**

[1] Sovereigns include: States, Public administrations, State financial institutions, Special financial institutions

[2] Non CEB's Member State: guarantee received on loans

[3] Organisations composed of several nations, operating beyond the authority of one national government

Loan portfolio

At 31 December 2013, loans outstanding stood at € 12.6 billion, increasing by 3.7% compared with the outstanding at 31 December 2012. In 2013 no delay or missed payments have been recorded. As a multilateral financial institution, the Bank's policy is not to reschedule debt agreements (capital or interest on loans).

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

In million euros

	2013					2012				
	AAA/AA	A/BBB	BIG	No risk	Total	AAA/AA	A/BBB	BIG	No risk	Total
States	87	2 936	2 566		5 589	91	2 040	3 301		5 432
Public administrations	907	1 536	49		2 493	767	1 474	27		2 268
State financial institutions	165			0.3	165	213	2			215
Special financial institutions	589	144	12		745	668	29	86		783
Other financial institutions	157	2 619	574	0.8	3 351	192	2 295	664	1.0	3 152
Non financial institutions		72	167		239		97	185		281
Total	**1 904**	**7 309**	**3 368**	**1.1**	**12 582**	**1 931**	**5 936**	**4 263**	**1.0**	**12 131**

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

The amount of credit enhancements in the loan portfolio ensuring a 100% risk transfer totalled € 4.7 billion consisting of guarantees and collaterals for € 4.2 billion and € 0.5 billion respectively.

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

In million euros

	2013				2012			
	Before		After		Before		After	
	Amount	%	Amount	%	Amount	%	Amount	%
AAA/AA	1 255	10%	1 904	15%	1 299	11%	1 931	16%
A/BBB	7 080	56%	7 309	58%	5 673	47%	5 936	49%
BIG	4 246	34%	3 368	27%	5 158	43%	4 263	35%
No risk	0.8	0%	1.1	0%	1.0	0%	1.0	0%
Total	**12 582**	**100%**	**12 582**	**100%**	**12 131**	**100%**	**12 131**	**100%**

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

At 31 December 2013, loans outstanding rated *investment grade* represented 73.2% of the total loan portfolio, compared to 64.8% at end 2012. Credit risk mitigation techniques changed the distribution by type of counterparty thus increasing "sovereign" portfolio by 11.4%. Loans outstanding to counterparties not rated by international rating agencies represented 3.8% of the total portfolio with internal ratings spread from 3 to 9.5.

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

In million euros

	2013							2012					
	AAA/AA	A/BBB	BIG	No risk	Total	%		AAA/AA	A/BBB	BIG	No risk	Total	%
1. Hungary			1 222		1 222	10%	Hungary			1 313		1 313	11%
2. Turkey		984			984	8%	Romania		922			922	8%
3. Romania		896			896	7%	Turkey			892		892	7%
4. Cyprus			621		621	5%	Cyprus			627		627	5%
5. Crédit Agricole		476			476	4%	Poland		456			456	4%
6. Poland		461			461	4%	Crédit Agricole		402			402	3%
7. Région Wallonne		440			440	3%	Région Wallonne		392			392	3%
8. PKO Bank		311			311	2%	UniCredit		326			326	3%
9. CaixaBank		308			308	2%	CaixaBank		294			294	2%
10. UniCredit		298			298	2%	Intesa Sanpaolo		286			286	2%
Sub-total		**4 175**	**1 843**		**6 017**	**48%**	**Sub-total**		**3 078**	**2 832**		**5 910**	**49%**
Others	1 904	3 134	1 526	1.1	6 564	52%	Others	1 931	2 858	1 431	1.0	6 221	51%
Total	**1 904**	**7 309**	**3 368**	**1.1**	**12 582**	**100%**	**Total**	**1 931**	**5 936**	**4 263**	**1.0**	**12 131**	**100%**

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

Financing commitments

Financing commitments correspond to approved projects still awaiting financing and for which a framework loan agreement has been signed. Financing commitments increased slightly during the year and amounted to € 3.1 billion at 31 December 2013. Financing commitments rated *investment grade* represented 73.4% of the total portfolio, compared to 59.6% at end 2012.

The table below highlights the share of financing commitments belonging to the counterparties of the eurozone:

In million euros

	2013					2012				
	AAA/AA	A/BBB	BIG	NO RISK	Total	AAA/AA	A/BBB	BIG	NO RISK	Total
Eurozone countries										
France		325			325	50	253			303
Spain		305			305		200	30		230
Belgium	150	143			293		60			60
Germany	205	2			207	83	22			105
Austria[1]		188			188		15			15
Cyprus			177		177			229		229
Portugal			170		170			245		245
Slovak Republic		23			23					
Slovenia		20			20		20			20
Finland						100				100
Ireland							50			50
Italy							10			10
Sub-total	**355**	**1 005**	**347**		**1 707**	**233**	**630**	**504**		**1 366**
Others		902	473	1.2	1 375		925	710		1 634
Total	**355**	**1 906**	**820**	**1.2**	**3 082**	**233**	**1 554**	**1 214**		**3 001**

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

[1] Non CEB's Member State: guarantee to be received

Securities portfolios

The CEB manages two securities portfolios: financial assets held to maturity and financial assets available for sale. Securities in both portfolios are essentially denominated in euro, i.e. 96.3% of the total securities portfolios.

The table below highlights securities portfolios belonging to the eurozone and displays the breakdown by ratings of the outstanding nominal value of each of these portfolios:

In million euros

	2013				2012			
	AAA/AA	A/BBB	BIG	Total	AAA/AA	A/BBB	BIG	Total
Financial assets held to maturity								
France	1 373			1 373	1 319			1 319
Portugal			200	200			200	200
Netherlands	182			182	135			135
Italy		160		160		160		160
Germany	134			134	89	70		159
Spain		50		50		205		205
Finland	50			50				
Austria	47			47	10			10
Luxembourg	42			42				
Ireland		10		10		10		10
Belgium	10			10	10			10
Other countries	230			230	124			124
Sub-total	**2 068**	**220**	**200**	**2 488**	**1 687**	**445**	**200**	**2 332**
Financial assets available for sale								
France	482	698		1 180	362	739		1 101
Netherlands	908			908	872			872
Germany	140	250		390	158	250		408
Spain		63		63		210		210
Austria	35			35	25			25
Belgium	10			10				
Other countries	503	1 335		1 838	661	1 536		2 197
Sub-total	**2 079**	**2 346**		**4 425**	**2 079**	**2 735**		**4 814**
Total	**4 147**	**2 566**	**200**	**6 913**	**3 766**	**3 180**	**200**	**7 146**

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

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.

In all cases, derivatives transactions require prior credit clearance of the issuer counterparty by the Finance & Risk Committee and the signing of a framework agreement (for example, 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 periodically so that additional collateral can be obtained if necessary.

At 31 December 2013, the derivatives' exposure included swaps add-on for € 471 million and non-covered NPV (Net Present Value) after credit enhancement of € 6 million. The Bank received collateral cash deposits: 54% and sovereign securities: 46% (US Treasury bonds, France OAT and German bund). The CEB signed CSA collateral agreement with all of its counterparties involved in swap activities, as in 2012.

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

In million euros

	2013					2012				
	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)	**4 043**	**13 029**	**4 291**	**2 434**	**23 797**	**2 900**	**14 371**	**4 592**	**2 215**	**24 079**
Currency-rate swaps	3 901	10 947	903	595	16 346	2 812	13 554	1 025	633	18 025
Interest-rate swaps	143	2 082	3 388	1 839	7 451	88	817	3 567	1 582	6 054
thereof: collateralised (b)	4 043	13 029	4 291	2 434	23 797	2 900	14 371	4 592	2 215	24 079
(b)/(a)	100%	100%	100%	100%		100%	100%	100%	100%	

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 regularly issues a report 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 rate variations
- the level of sensitivity of the Net Present Value (NPV)
- the level of sensitivity of the Net Interest Margin.

It also produces an analysis of the projected liquidity situation, 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 2013, currency exchange and interest rate contracts were exclusively used 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 any 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 2013**	Assets	Liabilities	Derivative instruments	**Net position 2012**
US Dollar	1 118 370	10 742 436	9 624 823	757	1 591 928	11 750 621	10 159 737	1 044
Japanese Yen	32 283	76 806	45 181	658	55 836	106 802	51 501	535
Canadian Dollar	204 609	9 189	(195 278)	142	215 543	7 874	(207 506)	163
Pound Sterling	110 241	1 393 990	1 283 796	47	33 081	1 901 738	1 868 736	79
Other currencies	1 118 719	3 527 732	2 409 289	276	1 124 243	4 317 552	3 193 523	214
Total	**2 584 222**	**15 750 153**	**13 167 811**	**1 880**	**3 020 631**	**18 084 587**	**15 065 991**	**2 035**

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 volume (rate gap), in margin (sensitivity of the Net Interest Margin), and in value (sensitivity of the Net Present Value).

The CEB's Net Interest Margin is very little exposed to market fluctuations because the Bank's assets and liabilities are rate matched. In particular, the Bank's available equity is invested in a Held-To-Maturity security portfolio. This portfolio is made up of fixed-rate securities, generally long-term, denominated in euros and issued by countries or similar institutions with a minimal rating of AA or Aa2 at the date of purchase.

The amounts allocated to the Social Dividend Account (SDA) and the provision for pension commitments are also invested in the Held-To-Maturity security portfolio.

Appraising interest rate risk hedging

The table below comprises 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

	Before hedging			Hedging instruments			After hedging		
Interest rate type	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total	Outstanding	Accrued interest	Total
Assets									
Fixed rate	**11 701 275**	**104 392**	**11 805 667**	**(4 356 497)**	**236 335**	**(4 120 162)**	**7 344 778**	**340 727**	**7 685 505**
Scheduled outstanding	9 939 017	104 392	10 043 409	(4 356 497)	236 335	(4 120 162)	5 582 520	340 727	5 923 247
Non scheduled outstanding	1 762 258		1 762 258				1 762 258		1 762 258
Variable rate	**12 434 116**	**11 082**	**12 445 198**	**4 348 410**	**5 679**	**4 354 089**	**16 782 526**	**16 761**	**16 799 287**
Total assets	**24 135 391**	**115 474**	**24 250 865**	**(8 087)**	**242 014**	**233 927**	**24 127 304**	**357 488**	**24 484 792**
Liabilities									
Fixed rate	**(22 688 749)**	**(235 905)**	**(22 924 654)**	**17 612 156**	**(47 815)**	**17 564 341**	**(5 076 593)**	**(283 720)**	**(5 360 313)**
Scheduled outstanding	(18 535 598)	(235 905)	(18 771 503)	17 612 156	(47 815)	17 564 341	(923 442)	(283 720)	(1 207 162)
Non scheduled outstanding	(4 153 151)		(4 153 151)				(4 153 151)		(4 153 151)
Variable rate	**(1 291 840)**	**(523)**	**(1 292 363)**	**(17 821 397)**	**(10 719)**	**(17 832 116)**	**(19 113 237)**	**(11 242)**	**(19 124 479)**
Scheduled outstanding	(763 118)	(478)	(763 596)	(17 821 397)	(10 719)	(17 832 116)	(18 584 515)	(11 197)	(18 595 712)
Non scheduled outstanding	(528 722)	(45)	(528 767)				(528 722)	(45)	(528 767)
Total liabilities	**(23 980 589)**	**(236 428)**	**(24 217 017)**	**(209 241)**	**(58 534)**	**(267 775)**	**(24 189 830)**	**(294 962)**	**(24 484 792)**

The outstanding fixed-rate assets before hedging amount to € 11 701 million, hedging instruments allow the exposure to drop to € 7 345 million.

This exposure after hedging of € 7 345 million consists of:

- scheduled outstandings (€ 5 583 million), mainly short-term deposits (€ 2 685 million), insensitive to variations in market rates and considered as fixed rate, the fixed rate Held-To-Maturity securities portfolio (€ 2 617 million) and marginally unhedged fixed rate loans (€ 219 million)
- non scheduled outstandings (€ 1 762 million), in particular swap valuations that, by nature, cannot be covered.

Consequently, interest rate hedging on the asset side is highly effective: it greatly reduces the risks on fixed-rate operations and respects the CEB's ALM principles.

Reciprocally, the fixed-rate liability exposure of € 22 689 million before hedging is reduced to € 5 077 million after hedging.

This exposure after hedging of € 5 077 million consists of:

- non scheduled outstanding (€ 4 153 million), mainly available equity, Social Dividend Account and provision for pension commitments (€ 2 660 million) to which the Held-To-Maturity securities are matched, and swap valuations that, by nature, cannot be covered
- scheduled outstanding (€ 923 million), made-up exclusively of fixed-rate Euro-Commercial Papers (ECPs).

Consequently, interest rate hedging on the liability side is highly effective: it cancels all the risks associated with the long-term borrowing operations and respects the CEB's ALM principles.

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 certain interest rate scenario assumptions (+/- 10 bps, +/- 100 bps, +/- 200 bps).

At 31 December 2013, the levels of the short term market rates in the main reference currencies, on which the rate shock scenarios are based, are low. Consequently, the selected stress tests hereafter are based on maintaining a uniform translation of +10 bps and +100 bps. In effect, in the case of a stress test 10 bps lower (*a fortiori* 100 bps lower), the low interest rate level leads to biased results due to a floor applied by the software and to the application of clauses that differ from one contract to another.

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 2014 on the main balance sheet items
- characteristics of the new activity (*in fine* or linear amortizing rule, maturity, projected spread …). 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 new contracts on the basis of new activity assumptions
- generate cash-flows on all contracts (stock of operations and new activity)
- determinate 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 2014 and its sensitivity to shock rates are determined on the basis of a balanced forecast balance sheet.

Result

In thousand euros

	Parallel translation + 10 bps	Parallel translation + 100 bps
Sensitivity of the forecast 2014 Net Interest Margin as at 31/12/2013	(261)	(2 570)

Analysing the result

Based on the balance sheet at 31 December 2013 and the new business assumptions, the Net Interest Margin would decrease by € 0.3 million if interest rates increased by 10 bps. It would fall by € 2.6 million if interest rates increased by 100 bps.

It will be recalled that sensitivity 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 that fixed rate stock operations represent almost the whole volume of the fixed rate Net Interest Margin in 2014 (revenues from the Held-To-Maturity portfolio), the sensitivity of the CEB's Net Interest Margin is low.

It is observed that due to the low use of non-linear products, an increase in rate shock results in a corresponding increase in the sensitivity of the Net Interest Margin (see rate shock of + 100 bps).

In summary, the low unfavourable exposure of the Net Interest Margin to an increase in interest rates shows that:

- the policy of hedging changes in market interest rates implemented by the Bank is effective
- the CEB remains negatively exposed to rising interest rates.

c) Measuring liquidity risk

The level of the Bank's liquidity must respect a strengthened prudential liquidity ratio (see prudential ratios).

The liquidity situation is monitored daily. Monitoring is supplemented by quarterly stress tests incorporating:

a) counterparty default scenarios, based on their credit rating 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) combining 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 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 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 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) Combining scenarios

The scenarios combine, for example, a reduction in the liquidity cushion 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, subject to various adverse events, can meet its obligations while respecting the minimum imposed by its liquidity ratio.

By estimating survival horizons and variation 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 2013 and 31 December 2012 is shown below:

In thousand euros

31 December 2013	Current oustanding			Non-current oustanding		Total
	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	1 to 5 years	More than 5 years	
Assets						
Cash in hand, balances with central banks	286 640					286 640
Available-for-sale financial assets	781 540	547 638	1 393 956	1 294 919	701 229	4 719 282
Loans and advances to credit institutions and to customers						
Loans	30 191	219 584	1 476 624	6 048 396	6 075 913	13 850 708
Advances	1 328 928	1 333 389	145 375			2 807 693
Financial assets held to maturity	11 495	91 952	176 110	1 011 638	2 158 971	3 450 167
Sub-total of assets	**2 438 794**	**2 192 564**	**3 192 065**	**8 354 954**	**8 936 114**	**25 114 489**
Liabilities						
Amounts owed to credit institutions and to customers	127 063	130	158	34 497	67 247	229 095
Debt securities in issue	1 000 649	1 118 554	2 943 307	12 710 284	3 224 838	20 997 631
Deposits of guarantees received	401 659					401 659
Social Dividend Account (SDA)	73 906					73 906
Sub-total of liabilities	**1 603 278**	**1 118 684**	**2 943 465**	**12 744 781**	**3 292 084**	**21 702 292**
Off-balance sheet						
Financing commitments	113 900	222 680	1 115 420	1 164 961	464 894	3 081 855
Term financial instruments						
To be received	782 702	689 166	3 179 385	12 239 439	1 635 026	18 525 718
To be paid	(800 849)	(524 285)	(2 937 736)	(12 029 670)	(1 708 427)	(18 000 968)
Sub-total of off-balance sheet	**95 753**	**387 561**	**1 357 069**	**1 374 730**	**391 492**	**3 606 605**
Total by maturity 2013	**931 269**	**1 461 440**	**1 605 669**	**(3 015 097)**	**6 035 521**	**7 018 802**

In thousand euros

31 December 2012	Current oustanding			Non-current oustanding		Total
	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	1 to 5 years	More than 5 years	
Assets						
Cash in hand, balances with central banks	327 373					327 373
Available-for-sale financial assets	757 096	716 059	1 537 992	1 404 660	668 321	5 084 128
Loans and advances to credit institutions and to customers						
Loans	42 629	164 179	1 254 196	5 935 842	6 059 340	13 456 186
Advances	1 069 710	1 163 378	1 789 617			4 022 705
Financial assets held to maturity	111 883	15 545	214 430	1 131 679	1 780 074	3 253 611
Sub-total of assets	**2 308 691**	**2 059 161**	**4 796 234**	**8 472 181**	**8 507 735**	**26 144 002**
Liabilities						
Amounts owed to credit institutions and to customers	83 352					83 352
Debt securities in issue	49 395	985 735	3 580 519	14 299 721	3 639 325	22 554 695
Deposits of guarantees received	1 686 270					1 686 270
Social Dividend Account (SDA)	77 654					77 654
Sub-total of liabilities	**1 896 671**	**985 735**	**3 580 519**	**14 299 721**	**3 639 325**	**24 401 971**
Off-balance sheet						
Financing commitments	152 168	243 000	1 364 832	753 903	486 719	3 000 622
Term financial instruments						
To be received	57 747	132 237	3 414 535	15 125 158	1 923 091	20 652 767
To be paid	(26 529)	(57 147)	(3 106 651)	(13 675 782)	(1 889 113)	(18 755 221)
Sub-total of off-balance sheet	**183 386**	**318 090**	**1 672 716**	**2 203 279**	**520 698**	**4 898 168**
Total by maturity 2012	**595 405**	**1 391 516**	**2 888 431**	**(3 624 260)**	**5 389 107**	**6 640 199**

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.

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 risk and to implementing the appropriate preventive 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 establishing the Bank's operational risks map. To this end, a tool (ORICA) was implemented to manage centrally the whole framework: 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 refine the evaluation of the risks in terms of impact and probability.

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 (MEGA) 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. In 2013, the Operational Risk Department carried out a revision of its BCP based on a range of scenarios. The BCP comprises a crisis management plan, a technical framework (backup site and telecommuting solutions) as well as business line specific plans. The BIA (Business Impact Analysis) workshops gave the opportunity to raise business line awareness and to enrich the content of the risk mapping.

In the calculation of capital requirements, the CEB adopted the Basic Indicator Approach. 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 equity defined as paid-in capital, reserves, gains or losses recognized directly in equity and profit of the year.

At 31 December 2013, the operational risk charge amounted to € 22.7 million, up from € 21.6 million at end 2012.

4. Capital management

In conformity with its Articles of Agreement (Article III), any European State (Member or non-Member State of the Council of Europe) and/or 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, containing a statement mentioning that the applicant endorses the Bank's Articles of Agreement, in accordance with the financial conditions agreed on by the Governing Board. Any State becoming a member of the Bank shall confirm in its declaration its intention:

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

The 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 this kind of request. Based on this and according to the amended IAS 32 in February 2008, these securities 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 participating certificates are 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. With regard to the callable capital, it is worth mentioning that the Bank has never called any capital.

On 4 November 2013, Kosovo has become the 41st CEB Member State.

For CEB's detailed capital situation as at 31 December 2013 please refer to appendix Note L "Capital".

The Bank's capital adequacy in terms of risks linked to its operations is assessed through a prudential framework organized around various ratios (see paragraph 5 below).

5. Prudential framework

Although the CEB follows recommendations of the Basel Committee under the Basel II framework, its prudential framework is based on its own ratios and therefore these may not be compared to similar ratios used by other multilateral financial institutions.

- **Capital adequacy ratio** ensures that CEB's usable equity can absorb a reasonable amount of any potential loss arising from its lending activity. This ratio is calculated as follows:

$$\text{Capital adequacy ratio} = \frac{\text{Risk weighted loan portfolio}}{\text{Usable equity}}$$

- Risk weighted loan portfolio: $\sum$ [(principal + interest) x default probability]
- Usable equity: paid-in capital, reserves, gains or losses recognised directly in equity

The limit is fixed at 100% of CEB's usable equity, i.e. € 2.4 billion. The ratio improved during the year from 45.3% at 31 December 2012 to 35.7% at 31 December 2013, due to the enhanced credit quality of the loan portfolio and an increase in the CEB's usable equity.

- **Risk asset coverage ratio** provides an additional limit on loans rated *below investment grade* and is used in conjunction with other prudential ratios in order to get a clearer picture of the CEB's financial strengths and weaknesses. This ratio is calculated as follows:

$$\text{Risk asset coverage ratio} = \frac{\text{Loan portfolio rated } \textit{below investment grade}}{\text{Sound equity}}$$

- Sound equity: paid-in capital, reserves, gains or losses recognised directly in equity, uncalled capital of member states rated AAA/AA

The limit is fixed at 66% of CEB's sound equity, i.e. € 3.1 billion. The ratio improved during the year from 94.8% at 31 December 2012 to 71.6% at 31 December 2013 due to the enhanced credit quality of the loan portfolio, thus significantly reducing the *below investment grade* rated portion, and to an increase in the CEB's sound equity. The risk asset coverage ratio exceeded its limit.

- **Strengthened liquidity ratio** is designed to measure the Bank's capacity to meet its net liquidity requirements. Net liquidity requirements take into account the total stock of projects awaiting financing and net cash flow for a three-year period. The liquidity ratio is said to be "strengthened" because the amount of default risk on loan portfolio rated *below investment grade* for the next three-year period is included in the net liquidity requirements. The Bank's liquid assets are deposits and financial assets available for sale with a residual maturity of less than 18 months.

At 31 December 2013, the strengthened liquidity ratio, which fixes the minimum level of liquid assets at 50% of net liquidity requirements for the next three years, stood at 115.7%, against 96.4% at end 2012. This increase stems from a substantial decrease in net liquidity requirements compared with a slight decline in liquid assets.

- **Indebtedness ratio** is a supplementary indicator that compares the total debt outstanding after swap to the Bank's own funds. The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year.

The limit is fixed at 4 (four times CEB's own funds), i.e. € 29.3 billion. The ratio stood at 2.66 at 31 December 2013, down from 2.75 at 31 December 2012, as the decrease in debt outstanding was largely offset by significant growth in the CEB's own funds.

- **Portfolio ratio** is another supplementary indicator that compares the total financial assets after swap to the Bank's own funds. Total financial assets comprises the outstanding amounts in both securities portfolios (held-to-maturity and available-for-sale) and treasury transactions not in issue (*bank deposits, repos*).The CEB's own funds are defined as subscribed capital, reserves, gains or losses recognised directly in equity and profit for the year.

The limit is fixed at 2 (twice CEB's own funds) i.e. € 14.6 billion. The ratio stood at 1.32 at 31 December 2013, down from 1.37 at 31 December 2012, due to the decrease in financial assets and significant growth in the CEB's own funds.

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 models using observable parameters.

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

In thousand euros

	31/12/2013		31/12/2012	
	Positive market value	Negative market value	Positive market value	Negative market value
Financial instruments at fair value through profit or loss				
Interest rate derivative instruments	3 235	(378)	3 545	(137)
Foreign exchange derivative instruments	438 726	(655 912)	1 197 130	(428 771)
Total	**441 961**	**(656 290)**	**1 200 675**	**(428 908)**
Hedging derivative instruments				
Interest rate derivative instruments	372 533	(309 117)	445 045	(480 030)
Foreign exchange derivative instruments	576 470	(91 551)	957 338	(115 029)
Total	**949 003**	**(400 668)**	**1 402 383**	**(595 059)**

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.

Conditions for loan disbursement are equivalent to those implemented by other financial institutions that operate on the supranational banks market. Reflecting its preferred creditor status, the Bank does not intend to sell this type of receivables. Furthermore, development of market rates has 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.

In thousand euros

31 December 2013	At fair value through profit or loss	At fair value through equity	Amortised cost	Carrying value	Fair value
Assets					
Cash in hand, balances with central banks			286 640	286 640	286 640
Financial assets at fair value through profit or loss	441 961			441 961	441 961
Hedging derivative instruments	949 003			949 003	949 003
Available-for-sale financial assets		4 548 774		4 548 774	4 548 774
Loans and advances to credit institutions and to customers (*)			15 576 114	15 576 114	15 576 114
Financial assets held to maturity			2 630 983	2 630 983	2 823 405
Total assets	**1 390 964**	**4 548 774**	**18 493 737**	**24 433 475**	**24 625 897**
Liabilites					
Financial liabilities at fair value through profit or loss	656 290			656 290	656 290
Hedging derivative instruments	400 668			400 668	400 668
Amounts owed to credit institutions and to customers			227 128	227 128	227 128
Debt securities in issue			20 087 248	20 087 248	20 087 208
Social Dividend Account (SDA)			73 906	73 906	73 906
Total liabilities	**1 056 958**		**20 388 282**	**21 445 240**	**21 445 200**

In thousand euros

31 December 2012	At fair value through profit or loss	At fair value through equity	Amortised cost	Carrying value	Fair value
Assets					
Cash in hand, balances with central banks			327 373	327 373	327 373
Financial assets at fair value through profit or loss	1 200 675			1 200 675	1 200 675
Hedging derivative instruments	1 402 383			1 402 383	1 402 383
Available-for-sale financial assets		4 930 030		4 930 030	4 930 030
Loans and advances to credit institutions and to customers (*)			16 469 632	16 469 632	16 469 632
Financial assets held to maturity			2 477 909	2 477 909	2 748 805
Total assets	**2 603 058**	**4 930 030**	**19 274 914**	**26 808 002**	**27 078 898**
Liabilites					
Financial liabilities at fair value through profit or loss	428 908			428 908	428 908
Hedging derivative instruments	595 059			595 059	595 059
Amounts owed to credit institutions and to customers			83 352	83 352	83 352
Debt securities in issue			21 558 288	21 558 288	21 568 172
Social Dividend Account (SDA)			77 654	77 654	77 654
Total liabilities	**1 023 967**		**21 719 294**	**22 743 261**	**22 753 145**

(*) Assets disclosed in level 3 in terms of market value measurement

None of the securities classified under the available-for-sale financial assets or financial assets held to maturity categories has been pledged in 2013 and 2012.

NOTE E MARKET VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Following the application of IFRS 13 "Fair Value Measurement", the CEB had to adjust its evaluation 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 (Debt Valuation Adjustment – DVA)

The evaluation of these risks at 31 December 2013 was not material.

The Bank shall disclose the financial instruments using a three-level hierarchy reflecting the reliability of their valuation basis.

Level 1 – Financial instruments with quoted market price

Level 2 – Financial instruments measured using valuation techniques based on observable data

Level 3 – Financial instruments measured using valuation techniques based on unobservable data

All operations shown below are valued with a level 1 or 2 reliability.

In thousand euros

31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments at fair value through profit or loss		441 961		441 961
Hedging derivative instruments		949 003		949 003
Available-for-sale financial assets	4 548 774			4 548 774
Liabilities				
Financial instruments at fair value through profit or loss		656 290		656 290
Hedging derivative instruments		400 668		400 668

In thousand euros

31 December 2012	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments at fair value through profit or loss		1 200 675		1 200 675
Hedging derivative instruments		1 402 383		1 402 383
Available-for-sale financial assets	4 430 683	499 347		4 930 030
Liabilities				
Financial instruments at fair value through profit or loss		428 908		428 908
Hedging derivative instruments		595 059		595 059

NOTE F 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	31/12/2013	31/12/2012
Loans to credit institutions		
Loans	7 261 796	6 792 344
Interest receivable	15 652	13 732
Unpaid receivables	1 074	870
Depreciation of loans to credit institutions (*)	(1 875)	(1 871)
Sub-total	7 276 647	6 805 075
Loans to customers		
Loans	5 320 134	5 338 705
Interest receivable	22 889	24 934
Sub-total	5 343 023	5 363 639
Value adjustment of loans hedged by derivative instruments	149 595	279 812
Total loans	**12 769 265**	**12 448 526**
Other loans and advances		
Advances repayable on demand	121 277	167 458
Advances with agreed maturity dates or periods of notice	2 684 755	3 852 763
Sub-total	2 806 032	4 020 221
Interest receivable	817	885
Total other advances	**2 806 849**	**4 021 106**

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

At 31 December 2013, loans are guaranteed up to the amount of € 4 713 million (31 December 2012: € 4 288 million). 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	**31/12/2013**	**%**	**31/12/2012**	**%**	**31/12/2013**	**31/12/2012**
Poland	1 632 722	12.98	1 490 833	12.29	313 245	512 444
Spain	1 308 527	10.40	1 179 529	9.72	305 000	230 000
Hungary	1 228 391	9.76	1 323 897	10.91	19 878	24 698
France	1 134 597	9.02	868 807	7.16	299 500	202 500
Turkey	1 033 345	8.21	892 113	7.35	410 480	384 154
Romania	916 478	7.28	922 361	7.60	327 879	262 929
Belgium	681 737	5.42	573 294	4.73	227 500	35 000
Germany (1)	651 545	5.18	592 768	4.89	205 000	102 600
Italy (2)	621 549	4.94	723 393	5.96		
Cyprus	620 558	4.93	626 877	5.17	177 049	229 049
Portugal	418 288	3.32	432 221	3.56	170 000	245 000
Croatia	286 177	2.27	271 037	2.23	163 587	125 759
Finland	278 542	2.21	355 292	2.93		100 000
Denmark	205 000	1.63	233 333	1.92		
Iceland	188 912	1.50	212 429	1.75		
Slovak Republic	150 397	1.20	83 874	0.69	87 500	25 000
Lithuania	145 851	1.16	100 743	0.83		47 000
Sweden (3)	130 739	1.04	251 368	2.07		
Slovenia	121 074	0.96	155 019	1.28	20 000	20 000
Albania	109 292	0.87	108 238	0.89	4 142	6 934
Ireland	104 204	0.83	89 458	0.74		50 000
Latvia	104 175	0.83	138 245	1.14		25 000
Serbia	98 305	0.78	70 481	0.58	133 661	158 000
Bulgaria	86 130	0.68	99 615	0.82	25 000	27 500
Czech Republic	85 926	0.68	35 106	0.29	50 000	39 158
Bosnia and Herzegovina	58 091	0.46	59 659	0.49	32 300	19 300
"the former Yugoslav Republic of Macedonia"	55 214	0.44	48 225	0.40	97 471	108 961
Malta	47 950	0.38	58 050	0.48		
Estonia	26 164	0.21	28 498	0.23		
Greece	22 709	0.18	83 534	0.69		
Moldova (Republic of)	20 147	0.16	13 441	0.11	12 664	19 636
Montenegro	9 079	0.07	9 079	0.07		
San Marino	116	0.01	232	0.01		
Total	**12 581 931**	**100.00**	**12 131 049**	**100.00**	**3 081 854**	**3 000 622**

(1) of which € 165 million outstanding in favour of target countries as at 31 December 2013 (31 December 2012: € 213 million)
(2) of which € 445 million outstanding in favour of target countries as at 31 December 2013 (31 December 2012: € 502 million)
(3) of which nil outstanding in favour of target countries as at 31 December 2013 (31 December 2012: € 100 million)

Loans outstanding and financing commitments by sector of action

In thousand euros

Breakdown by sector-based activities	Outstanding 31/12/2013	%	Outstanding 31/12/2012	%	Financing commitments 31/12/2013	Financing commitments 31/12/2012
Strengthening social integration						
Aid to refugees, migrants and displaced populations	97 201		87 783		22 180	70 000
Social housing for low-income persons	2 364 054		2 410 993		370 700	213 815
Creation and preservation of viable jobs	2 927 214		2 661 730		682 025	484 915
Improvement of living conditions in urban and rural areas	1 756 098		1 709 362		400 908	304 464
Sub-total	**7 144 567**	**57**	**6 869 868**	**57**	**1 475 813**	**1 073 194**
Managing the environment						
Natural or ecological disasters	777 695		760 586		276 621	403 621
Protection of the environment	1 987 185		1 933 155		632 605	748 138
Protection and rehabilitation of the historic and cultural heritage	190 279		207 813		30 944	37 045
Sub-total	**2 955 159**	**23**	**2 901 554**	**24**	**940 170**	**1 188 804**
Supporting public infrastructure with a social vocation						
Education and vocational training	1 537 999		1 495 775		349 735	475 387
Health	923 343		845 670		245 391	188 064
Infrastructure of administrative and judicial public services	20 863		18 182		70 745	75 173
Sub-total	**2 482 205**	**20**	**2 359 627**	**19**	**665 871**	**738 624**
Total	**12 581 931**	**100**	**12 131 049**	**100**	**3 081 854**	**3 000 622**

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 31/12/2013	Outstanding 31/12/2012	Financing commitments 31/12/2013	Financing commitments 31/12/2012
Romania	279 582	286 435	12 621	22 671
Hungary	136 607	146 087	1 180	
Turkey	210 000	130 000	40 000	120 000
Albania	103 024	101 786	4 142	6 934
Croatia	55 156	80 037		
Poland	95 627	65 324	174 000	214 000
Serbia	27 032	27 992		
Bosnia and Herzegovina	17 985	18 799	19 300	19 300
Moldova (Republic of)	20 146	13 441	12 664	19 636
Bulgaria	9 934	11 686		
"the former Yugoslav Republic of Macedonia"	7 747	5 747	17 603	
Lithuania	4 344	4 808		
Slovak Republic	2 420	4 184		
Total	**969 604**	**896 326**	**281 510**	**402 541**

The interest rate subsidies are presented in Note J.

NOTE G TANGIBLE AND INTANGIBLE ASSETS

In thousand euros

	Land and buildings	Fixtures	Other	Intangible assets	Total
Gross book value					
At 1 January 2013	36 344	18 320	7 251	8 428	**70 343**
Additions		252	775	1 079	**2 106**
Disposals			(2 589)	(3 869)	**(6 458)**
At 31 December 2013	**36 344**	**18 572**	**5 437**	**5 638**	**65 991**
Depreciation					
At 1 January 2013		(13 184)	(6 259)	(5 991)	**(25 434)**
Charge for the year		(898)	(526)	(845)	**(2 269)**
Disposals			2 589	3 869	**6 458**
At 31 December 2013		**(14 082)**	**(4 196)**	**(2 967)**	**(21 245)**
Net book value					
At 31 December 2013	**36 344**	**4 490**	**1 241**	**2 671**	**44 746**

In thousand euros

	Land and buildings	Fixtures	Other	Intangible assets	Total
Gross book value					
At 1 January 2012	23 748	16 914	7 111	7 529	**55 302**
Additions	12 596	1 406	345	899	**15 246**
Disposals			(205)		**(205)**
At 31 December 2012	**36 344**	**18 320**	**7 251**	**8 428**	**70 343**
Depreciation					
At 1 January 2012		(12 158)	(6 000)	(5 248)	**(23 406)**
Charge for the year		(1 026)	(464)	(743)	**(2 233)**
Disposals			205		**205**
At 31 December 2012		**(13 184)**	**(6 259)**	**(5 991)**	**(25 434)**
Net book value					
At 31 December 2012	**36 344**	**5 136**	**992**	**2 437**	**44 909**

NOTE H OTHER ASSETS AND OTHER LIABILITIES

In thousand euros

	31/12/2013	31/12/2012
Other assets		
Prepaid expenses	2 228	2 005
Sundry debtors	2 165	1 980
Subscribed, called and unpaid capital and reserves to be paid	2 150	
Sundry assets	28	680
Total	**6 571**	**4 665**
Other liabilities		
Deposits of guarantees received (*)	401 704	1 686 314
Sundry creditors	4 065	4 203
Sundry liabilities	3 008	2 900
Total	**408 777**	**1 693 417**

(*) In relation to collateralisation contracts, the Bank benefits from guarantees received in the form of deposits or securities. As at 31 December 2013, the Bank received € 401.7 million of guarantees in the form of deposits (31 December 2012: € 1 686.3 million) and € 908.7 million in the form of securities (31 December 2012: € 905.7 million).

NOTE I AMOUNTS OWED TO CREDIT INSTITUTIONS AND TO CUSTOMERS AND DEBT SECURITIES IN ISSUE

In thousand euros

	31/12/2013	31/12/2012
Amounts owed to credit institutions and to customers		
Interest-bearing accounts	127 063	83 352
of which European Union	*53 440*	*60 639*
Borrowings and term deposits	100 000	
Interest payable	65	
Total	**227 128**	**83 352**
Debt securities in issue		
Bonds	18 275 273	19 018 005
Euro Commercial Paper	922 753	1 196 576
Interest payable	308 394	312 248
Value adjustment of debt securities in issue hedged by derivative instruments	580 828	1 031 459
Total	**20 087 248**	**21 558 288**

Development of customers' interest-bearing accounts

In thousand euros

Programme/Instrument designation and purpose of the fiduciary accounts	Account Name		Donor(s)	Opening year	Contributions received	31/12/2013	31/12/2012
Programme / Instrument: Energy Efficiency Finance Facility							
Environmental protection and energy efficiency in Croatia, Bulgaria, Romania and Turkey	Energy Efficiency Finance Facility 2006 Special Account		European Union	2007	23 000	1 905	7 318
Environmental protection and energy efficiency in Bulgaria, Croatia, Romania and Turkey with increased focus on countries under Instrument for Pre-Accession (IPA)	Energy Efficiency Finance Facility 2007 Special Account		European Union	2008	5 000	3 472	4 155
ENPI (European Neighbourhood and Partnership Instrument) / Neighbourhood Investment Facility (NIF)							
To support project 1620 - Clinical Hospital Chisinau	EU Contribution - F/P 1620 MD Republican Clinical Hospital		European Union	2009	95	77	90
EU Municipal Finance Facility							
Partial financing of infrastructural projects in favour of the municipalities of 10 Central and Eastern European countries, also applicant countries to European Union accession at the time of the project (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia)	EU Municipal Finance Facility Special Account		European Union	2004	14 000	3 603	3 752
	EU Municipal Finance Facility 2003 Special Account		European Union	2005	5 000	636	791
	Municipal Finance Facility (MFF) 2005 Special Account		European Union	2007	3 000	3 377	3 369
	EU Municipal Finance Facility 2006, Special Account Bulgaria, Croatia, Romania and Turkey		European Union	2007	5 000		
Instrument for Pre-Accession (IPA)							
Partial financing of investments projects in Albania, Bosnia and Herzegovina and Serbia within the framework of the European Commission's Instrument for Pre-Accession (IPA)	IPF 2008 Municipal Window Special Account		European Union	2009	9 220	2 383	703
Partial financing of rural roads in Albania	IPA 2009 Rural Roads Albania Special Account		European Union	2010	6 300	5 069	6 180
Partial financing of water supply and sewerage systems in Albania	IPA 2009 Water Supply Kamza Albania Special Account		European Union	2010	2 450	2 166	2 412
Intelligent Energy Europe							
To support energy efficiency investments through grants (EU "20-20-20 Initiative")	CEB-ELENA		European Union	2012	1 000	995	1 002
IPA / WBIF (Western Balkans Investment Framework)							
Technical assistance grant to support project 17208 (Environment - Tirana Landfill in Albania)	EWBJF-Tirana Regional Landfill		EWBJF	2012	550		535
Regional Housing Programme (RHP)							
To finance Regional Housing Programme in Bosnia and Herzegovina, Croatia, Montenegro and Serbia	RHP Fund Regional Account	*(1)*	USA, Turkey, European Union	2012	20 140	19 606	7 618
To finance Regional Housing Programme in Bosnia and Herzegovina, Montenegro and Serbia	RHP Fund Sub-Regional Account	*(1)*	Denmark, Luxembourg, Norway, Switzerland	2012	10 799	10 509	5 320
To finance Regional Housing Programme in Bosnia and Herzegovina	RHP Fund Country Account -BiH	*(1)*	Germany, Italy, European Union	2012	22 700	22 112	2 632
To finance Regional Housing Programme in Croatia	RHP Fund Country Account - Croatia	*(1)*	European Union	2013	4 651	4 533	
To finance Regional Housing Programme in Serbia	RHP Fund Country Account - Serbia	*(1)*	European Union	2013	11 000	10 721	
To finance Regional Housing Programme in Montenegro	RHP Fund Country Account - Montenegro	*(1)*	European Union	2013	500	487	

In thousand euros

Programme/Instrument designation and purpose of the fiduciary accounts	Account Name	Donor(s)	Opening year	Contributions received	31/12/2013	31/12/2012
Regional Housing Programme (RHP)						
To support setting up of the RHP Fund and technical assistance (1st phase)	Preparation of RHP and RHP Fund	European Union	2012	1 556	175	376
To support setting up of the RHP Fund and technical assistance (2nd phase)	RHP Implementation	European Union	2013	2 969	1 824	
To finance costs associated with the Regional Housing Programme	Special Account RHP Rep of Cyprus	Cyprus	2012	50	49	49
To finance costs associated with the Regional Housing Programme	Special Account RHP Romania	Romania	2012	50	36	49
To finance costs associated with the Regional Housing Programme	Special Account RHP Slovak Republic	Slovak Republic	2012	40	36	39
To finance costs associated with the Regional Housing Programme	Special Account RHP Czech Republic	Czech Republic	2013	39	38	
SME Finance Facility Phase 2 Special Fund						
Partial financing of productive investment projects designed to create or safeguard jobs in SMEs located in 13 of the CEB member countries in Central and Eastern Europe	EC Contribution Fund Phare Account	European Union	2001	49 000	7 377	8 628
	SME Finance Facility (SMEFF) 2002 Special Account	European Union	2004	14 895	2 977	2 970
	SME Finance Facility (SMEFF) 2003 Special Account	European Union	2005	15 000	6 533	6 519
	SME Finance Facility (SMEFF) 2005 Special Account	European Union	2006	8 350	5 469	5 457
	SME Finance Facility (SMEFF) 2006 Special Account, Bulgaria, Croatia, Romania and Turkey	European Union	2007	20 000	2 858	4 379
WBIF						
To finance technical assistance on project 1688 (State Prison in Bosnia and Herzegovina)	EU Contribution- F/P 1688 BA State Prison	European Union	2009	2 560	2 544	2 538
Other fiduciary accounts						
To support priority project 1688 in Bosnia and Herzegovina (State Prison)	Special Account Sweden	Embassy of Sweden	2010	1 099	1 067	1 064
To finance assistance activities, in particular technical assistance to support social and economic reforms in the Western Balkans countries	Norway Trust Account (NTA)	Norway	2003	3 000	169	226
Assistance instrument aimed at supporting the consolidation of the Rule of Law and the European system of human rights protection in Europe, set up in 2008 in collaboration with the Council of Europe. This trust fund is financed through contributions from several Member States	Human Rights Trust Fund (HRTF) (1)	Finland, Germany, Netherlands, Norway, Switzerland, United Kingdom	2008	10 892	3 115	3 710
To promote social cohesion in Europe	Spanish Social Cohesion Account	Spain	2009	2 000	1 145	1 471
Total					**127 063**	**83 352**

(1) Detail of contributions received on following multi-donor accounts

In thousand euros

HUMAN RIGHTS TRUST FUND		REGIONAL HOUSING PROGRAMME	
Norway	3 850	*European Union*	44 475
Germany	3 750	*United States*	7 816
Netherlands	1 600	*Norway*	5 458
Finland	750	*Germany*	4 200
Switzerland	527	*Switzerland*	3 500
United Kingdom	415	*Italy*	1 500
		Denmark	1 341
		Turkey	1 000
		Luxembourg	500

NOTE J SOCIAL DIVIDEND ACCOUNT (SDA)

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

Since then, the SDA may be 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 € 2 000 thousand 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.

The breakdown of these sub-accounts is presented below.

In thousand euros

1) Member States account	31/12/2013	31/12/2012
Funds		50 135
Total		**50 135**
2) SDA windows		
Interest rate subsidies	50 218	27 519
Loan guarantees	9 870	
Technical assistance	9 870	
Grant contributions	3 948	
Total	**73 906**	**27 519**
Total SDA	**73 906**	**77 654**

1) Member States account

Funding

The Member States account is 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 the Council of Europe Members and from non-Member states or international institutions, upon approval by the Governing Board and the Administrative Council.

In 2013, Member States made no allocation out of the 2012 profit (2012: € 1 000 thousand).

In 2012 and in 2013, the Bank also transferred directly to the SDA voluntary contributions of the Governing Board's Chairperson, i.e. his waived allowances for the periods from 1 January 2012 till 31 March 2012 and February 2013.

Uses

In compliance with the new rules adopted in March 2013, the balance of the Member States account as at 31 March 2013, or € 50 274 thousand (31 December 2012: € 50 135 thousand) was split between the four windows.

2) SDA windows

Interest rate subsidies

At 31 December 2013, the balance of the component Interest rate subsidies on loans amounts to € 50 218 thousand, of which € 25 833 thousand (2012: € 27 519 thousand) represent subsidies on loans disbursed.

Loan guarantees

At 31 December 2013, the balance of the component Loan guarantees amounts to € 9 870 thousand, of which € 322 thousand represent the amount of loan already guaranteed from this window.

Technical assistance

At 31 December 2013, the balance of the component Technical assistance amounts to € 9 870 thousand. No grants for technical assistance were paid in 2013.

Grant contributions

At 31 December 2013, the balance of the component Grant contributions totals € 3 948 thousand.

Since the creation of the SDA in 1995, the total of contributions granted amounts to € 14.9 million. No contributions were disbursed in 2013. The donations granted in 2012 (€ 876 thousand) are detailed below:

In thousand euros

Payments for the year	2013	2012
Moldova (Republic of): Save Blood Transfusion Programme		500
Montenegro: Roma refugees Konik Settlement		400
Georgia (Council of Europe): repayment		(24)
Total		**876**

NOTE K PROVISIONS

The Bank administers a pension scheme and other post-employment benefits (particularly an optional health care 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 2013 based on individual data as at 30 June 2013. The Bank set up these provisions in accordance with the revised IAS 19, with early application at 1 January 2012.

Thus, the Bank records the following provisions with respect to post-employment benefits:

In thousand euros

	31/12/2013	31/12/2012
Provision for pension commitments	125 717	120 208
Provision for other post-employment benefits	45 061	39 051
Total	**170 778**	**159 259**

Pension scheme

The following is the pension scheme financial situation:

In thousand euros

Financial situation as at 31 December	**31/12/2013**	**31/12/2012**
Provision movements		
Provision as at 1 January	**120 208**	**86 584**
Service cost	7 433	5 147
Interest cost related to discounted commitments	3 710	3 810
Book charge for the year	11 143	8 957
Changes in actuarial differences for the period	(3 700)	25 913
Benefits paid	(1 934)	(1 246)
Provision as at 31 December	**125 717**	**120 208**
Changes in actuarial differences		
Balance as at 1 January	**38 800**	**12 887**
Actuarial differences from liabilities for the period - impact of data	662	(2 585)
Actuarial differences from liabilities for the period - impact of assumptions	(4 362)	28 498
Sub-total	(3 700)	25 913
Balance as at 31 December	**35 100**	**38 800**

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

Sundry information	2013	2012
Interest discount rate	3.15%	3.00%
Inflation rate	2.00%	2.00%
Pensions revaluation rate	2.00%	2.00%
Salary increase rate	4.00%	2.30%
Staff average remaining working life as at 31 December	14	13
Average retirement age	63	63

Other post-employment benefits

The other post-employment benefit schemes managed by the Bank are an optional health care scheme for pensioners, a fiscal adjustment scheme and, since 2013, a termination of service scheme.

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

In thousand euros

Financial situation as at 31 December	31/12/2013	31/12/2012
Provision movements		
Provision as at 1 January	**39 051**	**24 397**
Service cost	4 016	1 582
Interest cost related to discounted commitments	2 592	1 073
Provision for allowances to be paid	1 697	
Book charge for the year	8 305	2 655
Changes in actuarial differences for the period	(2 094)	12 176
Benefits paid	(201)	(177)
Provision as at 31 December	**45 061**	**39 051**
Changes in actuarial differences		
Balance as at 1 January	**18 519**	**6 343**
Actuarial differences from liabilities for the period - impact of data	(378)	438
Actuarial differences from liabilities for the period - impact of assumptions	(1 716)	11 738
Sub-total	(2 094)	12 176
Balance as at 31 December	**16 425**	**18 519**

The economic assumptions used in assessing the commitments in respect of other post-employment benefits are similar to those used for the pension scheme.

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 2013, as well as the service cost, the interest cost and the estimated benefits for the year 2014, calculated based on a variation of the discount rate assumption of +/- 0.25%:

In thousand euros

Pension scheme	PBO 31/12/2013	Service cost 2014	Interest cost on PBO 2014	Estimated benefits 2014	PBO 31/12/2014
Discount rate +0.25%	**119 676**	7 079	4 069	(3 444)	**127 380**
Discount rate -0.25%	**132 194**	7 848	3 834	(3 453)	**140 423**

At 31 December 2013, an increase in the discount rate of 0.25% would have resulted in a decrease of the pension commitment of 4.8%. A 0.25% decrease in the discount rate would have resulted in an increase of this commitment of 5.2% at this date.

In thousand euros

Other post-employment benefits	PBO 31/12/2013	Service cost 2014	Interest cost on PBO 2014	Estimated benefits 2014	PBO 31/12/2014
Discount rate +0.25%	**42 492**	2 379	1 445	(1 320)	**44 996**
Discount rate -0.25%	**47 851**	2 744	1 388	(1 330)	**50 653**

At 31 December 2013, 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 5.7%. A 0.25% decrease in the discount rate would have resulted in an increase of this commitment of 6.2% at this date.

NOTE L CAPITAL

Following a recommendation by the Administrative Council, on 4 February 2011 the Governing Board approved the Bank's 6th capital increase [Resolution CD 386 (2011)] which entered into force on 31 December 2011. The subscription rate reached 98%, therefore exceeding the minimum threshold of 67%. The subscription period ran until 31 December 2012.

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 2013	**5 472 219**	**4 859 802**	**612 417**	**100.000%**
Total 2012	**5 465 660**	**4 853 971**	**611 689**	

The Earnings per participating certificate for 2013 amount to € 20.34 (€ 22.00 for 2012).

In 2013, further to Kosovo's adhesion, the subscribed capital increased by € 6 559 thousand of which the called capital amounts to € 728 thousand. Its contribution to the reserves totals € 2 138 thousand. These amounts are scheduled in four equal annual instalments. The first instalment of € 716.5 thousand has been paid for the capital and reserves. The total of the three outstanding instalments is detailed below:

In thousand euros

Member	Capital	Reserves	Total
Kosovo	546.0	1 603.5	2 149.5
Total	**546.0**	**1 603.5**	**2 149.5**

NOTE M 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 O).

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

In thousand euros

	2013	2012
Available-for-sale financial assets		
Securities transactions	45 094	61 826
Hedging derivatives	(25 838)	(19 622)
Sub-total	**19 256**	**42 204**
Loans and advances to credit institutions and to customers		
Loans (exclusive of interbanking)	197 872	252 819
Hedging derivatives	(106 524)	(104 081)
Advances	6 136	18 803
Sub-total	**97 484**	**167 541**
Financial assets held to maturity		
Securities transactions	94 204	94 301
Sub-total	**94 204**	**94 301**
Amounts owed to credit institutions and to customers		
Deposits	(65)	(2)
Interest-bearing accounts	(1 778)	(7 288)
Sub-total	**(1 843)**	**(7 290)**
Debt securities in issue		
Bonds	(600 428)	(692 017)
Hedging derivatives	561 248	557 749
Sub-total	**(39 180)**	**(134 268)**
Other interest expenses and similar charges	**(6 302)**	(4 884)
Interest margin	**163 619**	**157 604**

NOTE N 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 group 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 headquarters belonging to the Bank are situated in Paris, France. The CEB does not own any other property besides its Paris headquarters.

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

In thousand euros

Breakdown by borrowers' country location	2013	2012
Poland	35 952	48 566
Hungary	23 995	30 475
Romania	21 012	22 954
Turkey	19 399	21 987
Croatia	10 043	9 977
Cyprus	6 962	11 119
Lithuania	4 383	3 831
Albania	2 822	2 902
Malta	2 516	2 996
Serbia	1 655	1 740
Latvia	1 541	2 604
Slovenia	1 442	2 216
Bulgaria	1 288	1 569
Slovak Republic	1 225	968
Bosnia and Herzegovina	1 222	1 568
"the former Yugoslav Republic of Macedonia"	843	836
Estonia	801	786
Moldova (Republic of)	638	514
Czech Republic	289	390
Montenegro	121	178
Sub-total target group countries	**138 149**	**168 176**
Belgium	16 266	9 920
Spain	8 548	12 917
Germany	8 178	10 350
Portugal	6 471	9 025
France	5 525	8 629
Italy	4 056	6 248
Greece	2 891	6 724
Iceland	1 718	2 701
Finland	984	4 496
Ireland	744	1 129
Sweden	684	2 068
Denmark	279	1 706
San Marino	9	16
Norway		395
Sub-total other countries	**56 353**	**76 324**
Target group countries through other countries	**3 370**	**8 319**
Total	**197 872**	**252 819**

Outstanding loans by country are presented in Note F.

NOTE O 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 M).

In thousand euros

	2013	2012
Net result from fair value hedging instruments	(283 604)	122 774
Revaluation of hedged items attributable to hedged risks	281 332	(126 527)
Result from financial instruments at fair value through profit or loss	(5 151)	3 462
Revaluation of exchange positions	(293)	(116)
Total	**(7 716)**	**(407)**

NOTE P GENERAL OPERATING EXPENSES

In thousand euros

	2013	2012
Staff costs		
Wages and salaries	22 593	19 134
Social charges and pension costs	10 824	6 318
Other general operating expenses	8 147	8 456
Total	**41 564**	**33 908**

At 31 December 2013, the Bank staff was composed of: 4 appointed officials (Governor and Vice-Governors) and 183 professional staff. At 31 December 2012: 4 appointed officials (Governor and Vice-Governors) and 182 professional staff.

NOTE Q POST-BALANCE SHEET EVENTS

No material events that would require disclosure or adjustment to these financial statements occurred between 31 December 2013 and the closing date of the accounts by the Governor on 25 February 2014.

EXTERNAL AUDITOR'S REPORT

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Council of Europe Development Bank (CEB)

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External Auditor's Report on the Financial Statements

Year ended 31 December 2013

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 2013 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 Q.

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 appropriate accounting policies,
- and making accounting estimates that are reasonable in the circumstances.

KPMG S.A.
Société française membre du réseau KPMG
constitué de cabinets indépendants adhérents de
KPMG International Coopérative, une entité de droit suisse.

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.

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Capital : 5 497 100 €
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775 726 417 R.C.S. Nanterre
TVA Union Européenne
FR 77 775 726 417

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2013, 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, 27th February 2014

KPMG Audit
A division of KPMG S.A.



Pascal Brouard
Partner

AUDITING BOARD'S REPORT
ON THE BALANCE-SHEET AND THE INCOME STATEMENT AND THE NOTES TO THE FINANCIAL STATEMENTS FOR 2013

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 November 2013 for the interim review and from 24-28 February 2014 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 2013.

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 2013 by:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff;
- Examining the financial statements of the CEB for the year 2013, including the balance-sheet as at 31 December 2013, 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 25 February 2014;
- 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 2013;
- Obtaining the opinion signed by the External Auditor on 27 February 2014;
- 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 2013 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, 28 February 2014

Darius MATUSEVIČIUS
Maria POULAKI
René BRÜLHART

EXTRACT FROM THE MINUTES
OF THE 287TH MEETING OF THE ADMINISTRATIVE COUNCIL OF THE CEB

Resolution 1565 (2014) **CA/PV/287/2014**

Paris, 20 March 2014

The Administrative Council,

Having regard to Article XI, Section 3 of the Bank's Articles of Agreement
Having regard to Rule I, paragraph 2 of the Rules of Procedure of the Administrative Council
Having regard to the balance sheet, income statement and notes to the financial statements as at 31 December 2013
Having taken note of the Governor's Memorandum dated 25 February 2014
Having taken note of the external auditor's report dated 27 February 2014
Having taken note of the Auditing Board's report dated 28 February 2014

1. recommends that the Governing Board approve the balance sheet, the income statement and the notes to the financial statements as at 31 December 2013

2. discharges the Governor from his responsibility for financial management in respect of the financial year 2013

3. resolves to allocate the 2013 net profit (+ € 111 288 998) as follows:

- € 111 288 998 to the general reserve

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

EXTRACT FROM THE MINUTES
OF THE 207TH MEETING OF THE GOVERNING BOARD OF THE CEB

Resolution 407 (2014) **CD/PV/207/2014**

Paris, 4 April 2014

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, the income statement and the notes to the financial statements as at 31 December 2013
Having taken note of the certification by the external auditor, dated 27 February 2014
Having regard to the reports of the Bank's statutory organs, viz:

- the Report of the Governor for the financial year 2013
- the Auditing Board's report dated 28 February 2014

Having regard to Resolution 1565 (2014) of the Administrative Council

Having heard the Auditing Board

Decides:

- to approve the Bank's annual report, accounts and other financial statements for 2013
- to discharge the Administrative Council from its responsibility for the financial year 2013
- to endorse point 3 of Resolution 1565 (2014) of the Administrative Council of 20 March 2014, by which the Administrative Council allocated the net profit for 2013, amounting to € 111 288 998 as follows:
  - € 111 288 998 to the general reserve.

BALANCE SHEET AFTER ALLOCATION OF PROFIT

In thousand euros

	31/12/2013	31/12/2012
Assets		
Cash in hand, balances with central banks	286 640	327 373
Financial assets at fair value through profit or loss	441 961	1 200 675
Hedging derivative instruments	949 003	1 402 383
Available-for-sale financial assets	4 548 774	4 930 030
Loans and advances to credit institutions and to customers		
Loans	12 769 265	12 448 526
Advances	2 806 849	4 021 106
Financial assets held to maturity	2 630 983	2 477 909
Tangible and intangible assets	44 746	44 909
Other assets	6 571	4 665
Total assets	**24 484 792**	**26 857 576**
Liabilities and equity		
Liabilities		
Financial liabilities at fair value through profit or loss	656 290	428 908
Hedging derivative instruments	400 668	595 059
Amounts owed to credit institutions and to customers	227 128	83 352
Debt securities in issue	20 087 248	21 558 288
Other liabilities	408 777	1 693 417
Social Dividend Account (SDA)	73 906	77 654
Provisions	170 778	159 259
Total liabilities	**22 024 795**	**24 595 937**
Equity		
Capital		
Subscribed	5 472 219	5 465 660
Uncalled	(4 859 802)	(4 853 971)
Called	612 417	611 689
General reserve	1 895 119	1 781 692
Total capital and general reserve	2 507 536	2 393 381
Gains or losses recognised directly in equity	(47 539)	(131 742)
Total equity	**2 459 997**	**2 261 639**
Total liabilities and equity	**24 484 792**	**26 857 576**

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 is known as the CEB-Council of Europe Development Bank.

- **Member States:** As at 31 December 2013, the Bank had 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 earmarked portion of shareholder approved annual results of the Bank, is 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 donations.

- **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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