COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR

Financial statements 2008

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

The Bank's objectives

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

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

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

(Articles of Agreement, Article II).

Sectors of action

In accordance with Resolution 1495 (2006) approved by the Administrative Council on 16 June 2006, the CEB contributes to the implementation of socially-oriented investment projects in favour of social cohesion through three major sectoral lines of action, namely the strengthening of social integration, management of the environment and the development of human capital.

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

Each of these three action lines involves the following fields:

- Strengthening of social integration

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

- Management of the environment

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

- Development of human capital

Providing support for the development of human capital in the key sectors of health, education and vocational training in the long run facilitates more dynamic and more equitable social and economic growth, thus promoting individual fulfilment and collective well-being.

Balance sheet

in thousand euros

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

Liabilities

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

Profit and loss account

in thousand euros

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

Statement of changes in shareholders' equity

in thousand euros

	Called capital	Reserves and result	Unrealised or deferred gains/losses	Total shareholders' equity
Shareholders' equity as at 1 January 2007	**368 648**	**1 404 448**	**(301)**	**1 772 795**
Appropriation of profit for the 2006 financial year		(6 000)		(6 000)
Profit for the 2007 financial year		93 273		93 273
Other movements	1 090	3 039	(38 512)	(34 383)
Shareholders' equity as at 31 December 2007	**369 738**	**1 494 760**	**(38 813)**	**1 825 685**
Appropriation of profit for the 2007 financial year		(5 000)		(5 000)
Profit for the 2008 financial year		95 827		95 827
Other movements			(131 783)	(131 783)
Shareholders' equity as at 31 December 2008	**369 738**	**1 585 587**	**(170 596)**	**1 784 729**

Statement of cash flows

in thousand euros

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

Financing activities consist of cash flows deriving from debt securities.

NOTES TO THE FINANCIAL STATEMENTS

Note A - Summary of principal accounting methods applied

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

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

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

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

Within the context of the application of IFRS, the main areas of assessment relate to credit risk valuation. Except for this factor, the CEB's nature of operations do not require, in terms of discretion and valuation complexity, significant estimates or defining assumptions in preparing the financial statements. However, economic and demographic assumptions are used to value the post-employment social commitments.

FINANCIAL ASSETS AND LIABILITIES

Foreign currency transactions

The financial statements are presented in euros.

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

Non-monetary assets denominated in foreign currencies, particularly shares and other variable-yield securities which are classified as "Available-for-sale financial assets" are translated into euros at the exchange rate applicable at end-date except if this financial asset is subject to a fair value hedging for the foreign exchange risk. Exchange variations resulting from translation into euros are recorded under shareholders' equity and are accounted for in the profit and loss account only at the disposal of the security, or in the eventuality of its depreciation.

Forward currency transactions are valued at market value by using the forward exchange rate applicable for the remaining period for the currency concerned. Cash positions are valued at the spot exchange rate at the end of the period. Any resulting exchange differences are recorded in the profit and loss account.

Loans

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

Thereafter, loans are valued at the amortised cost and interest calculated on the basis of the total effective interest rate method.

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

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

Represents namely an objective indication of a loss of value, any observable data being related to the following events:
- the existence of at least a three month unpaid amount
- awareness or observation of significant financial difficulties for the counterparty leading to the conclusion of a proven existing risk, whether an unpaid amount has been noted or not
- the concessions yielded with the terms of the loans, which would not have been granted without financial difficulties claimed by the borrower.

This principle also applies to provisions relating to financing commitments.

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

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

Securities

Securities held by the Bank are classified under two categories:

- **Financial assets held to maturity**

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

Securities classified under this category are accounted for at their fair value, increased with transaction costs resulting directly from their purchase. They are subsequently accounted for at the amortised cost in accordance with the effective interest rate method, which includes the amortisation of the premium or discount equivalent to the difference between their purchase price and their reimbursement value.

Income from these securities is recorded under "Interest receivable and similar income" in the profit and loss account.

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

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

- **Available-for-sale financial assets**

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

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

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

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

The market value is equivalent to the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The market value used is the quoted market price in cases where the security is quoted in an active market. If need be, in absence of an active market, the market value is the one determined by the depository company.

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

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

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

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

Income from fixed income securities under this category, which is accounted for on the basis of the effective interest rate method, is presented under "Interest receivable and similar income" in the profit and loss account. Dividend from variable-rate securities is recorded under "Net gains or losses on available-for-sale financial assets".

- **Date and accounting criteria**

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

Debt securities

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

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

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

Derivatives

All derivatives are accounted for in the balance sheet at trade date at their transaction price. At end-date they are revalued at their market value.

Derivatives are classified under two categories:

- **Transaction derivatives**

Derivatives are by default considered to be transaction instruments, except if they can qualify as hedging instruments. They are recorded in the balance sheet under the item "Fair value financial assets through profit or loss" in cases of positive market value and under "Fair value financial liabilities through profit or loss" when the market value is negative. Profits or losses are recorded in the profit and loss account under the line item "Net gains or losses on fair value financial instruments through profit or loss".

- **Derivatives and hedge accounting**

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

In order to qualify a hedging derivative, the Bank keeps a report on the hedge from its initial application. This report specifies the designated asset or liability, the hedged risk, the type of derivative used and the evaluation method which will be employed in assessing the retrospective and prospective effectiveness of the hedge. The hedging derivative designated as hedge has to be highly effective in order to compensate for the value variations resulting from the hedged risk; this effectiveness has to be ensured from the hedge’s initial application and subsequently throughout its life.

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

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

FIXED ASSETS

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

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

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

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

Tangible fixed assets

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

- Main works	50 years
- Façade and roofing	50 years
- General and technical installations	10 years
- Fixtures and fittings	10 years

Land is not depreciated. The other tangible fixed assets are depreciated according to the following durations:

- Fittings and furniture	10 years
- Vehicles	4 years
- Office and IT equipment	3 years

Intangible assets

Intangible assets (IT software) are amortised by using the straight-line method over either 1 year (office software) or 5 years (application software).

POST-EMPLOYMENT STAFF BENEFITS

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

The other two post-employment benefit schemes (possibility for retired staff to maintain the medical insurance and fiscal adjustment if they wish so) are likewise defined as benefit schemes.

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

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

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

The Bank applies the "corridor" method to calculate changes in the level of its actuarial variations relating to post-employment benefits. This method leads to the amortisation, in the profit and loss account, of the actuarial variances over the average number of expected remaining working years of the beneficiaries to the pension scheme when such changes represent over 10% of the discounted value of the commitment relative to the defined benefits.

SELECTIVE TRUST ACCOUNT (STA)

The Selective Trust Account aims at providing rate subsidies for loans or donations granted by the Bank in favour of eligible countries such as those defined by the Administrative Council. Its general operating principles are defined by the Resolution 1495 (2006) approved by the Administrative Council on 16 June 2006.
The STA essentially targets population groups such as:

Priority target groups	- refugees, displaced populations, migrants - populations victims of natural or ecological disasters
Vulnerable target groups	- populations below the poverty threshold (less than 60% of median national income) - abandoned children and disabled persons - ethnic minorities

- **Interest rate subsidies**

A project financed by the Bank, may, upon the Governor’s proposal, be granted rate subsidies relative to the STA following approval by the Administrative Council. The resources of the STA are used for projects with a high social value, in eligible countries.

- **Donations**

Donations are aimed at funding projects that correspond to priority objectives in favour of priority or vulnerable target groups, within eligible countries.

The account is funded with allocations perceived from the Bank’s Member States, through dividends of a social nature allocated upon appropriation of the Bank’s result. It may also be funded by voluntary contributions from the Bank’s Member States and the Council of Europe.

Interest rate subsidies and donations are subject to approval by the Bank's Administrative Council.

Donations are granted to the beneficiaries and interest rate subsidies are recorded in the profit and loss account under "Interest receivable and similar income" and are spread over the life of the relative loans.

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

PROVISION FOR FINANCIAL RISKS

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

RELATED PARTIES

With respect to IAS 24, the Bank does not control any entity and has no share investments. Moreover, the Bank is not a subsidiary of any entity. The financial statements are not affected by related party relationships.

COMPENSATION FOR CHAIRPERSONS AND APPOINTED OFFICIALS

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

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

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

The Governor is appointed by the Governing Board for a 5-year term and may be re-appointed. He is assisted by the Vice-Governor Delegate and 2 other Vice-Governors. They are appointed by the Governing Board upon the Governor's proposal, for a 5-year term and may be re-appointed. Their emoluments are fixed by the Administrative Council, within the framework of the approval of the annual budget of the Bank.

The gross compensation for CEB's Chairpersons and Appointed Officials is analysed as follows:

in thousand euros

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

CEB's Chairpersons and elected officials do not receive any stock options or any other kind of bonus. At the end of their mandate, the Governor and Vice-Governors receive either a retirement pension or a tax exempt temporary allowance equivalent to 40% up to 50% of their last basic salary, for a maximum of 3-year period. This allowance is limited in a way that its amount, cumulated with other possible emoluments, does not exceed, in any case, the amount of the last basic salary received from CEB.

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

TAXATION

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

Note B - Financial risk and capital management

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

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

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

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

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

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

Decision-making committees

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

- The Risk Committee is the cornerstone of the Bank's credit risk management framework. Risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor the respect of those limits. Once a week, the Risk Committee takes decisions based on Risk Management Department's analyses and recommendations. On a quarterly basis, the Committee addresses all issues relate to operational risk (former Committee for Operational Risks and Organisation (CORO)).
- The ALM Committee: decides on assets and liabilities management strategy of the Bank. It takes the necessary decisions with regard to financial risks in light of the Bank's quarterly ALM report and in accordance with the financial policies approved by the Administrative Council.
- The Finance Committee: reviews on a weekly basis all aspects of the Bank's financial activity (treasury, debt, changes of financial markets, liquidity). On a quarterly basis the Committee addresses the funding strategy and the pricing policy. The Committee also decides the borrowing strategy (amounts, currencies, conditions and timing) taking into account the Bank's projected liquidity needs and in accordance with the annual borrowing authorization voted by the Administrative Council, further to proposals made by Bank's management.

The reporting on credit risk management

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

1. Credit risk

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

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

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

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

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

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

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

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

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

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

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

■ Credit risk exposure

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

in million euros

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

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

■ Loan portfolio

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

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

■ Credit enhancements in the loan portfolio

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

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

in million euros

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

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

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

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

■ Stock of projects committed

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

in million euros

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

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

■ Breakdown by rating and nature of the loan portfolio

in million euros

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

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

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

in million euros

	AAA/AA	A/BBB	*Below investment grade*	TOTAL	2008 %
1 State B		768		768	5%
2 State A			672	672	6%
3 Other bank A	600			600	4%
4 State C		517		517	5%
5 State financial inst.	514			514	4%
6 State E	501			501	3%
7 State F			441	441	4%
8 State D		421		421	3%
9 Other bank C	414			414	3%
10 Other bank B	391			391	4%
Sub-total	**2 419**	**1 706**	**1 114**	**5 239**	**42%**
Others	4 227	2 732	225	7 184	58%
Total	**6 646**	**4 438**	**1 339**	**12 423**	**100%**

	AAA/AA	A/BBB	*Below investment grade*	TOTAL	2007 %
1 State A			653	653	5%
2 State B		638		638	5%
3 State C		571		571	5%
4 Other bank A	557			557	5%
5 State financial inst.	539			539	4%
6 State D		477		477	4%
7 State E		459		459	4%
8 Other bank B	435			435	4%
9 Other bank C	383			383	3%
10 Other bank D	382			382	3%
Sub-total	**2 296**	**2 144**	**653**	**5 094**	**42%**
Others	4 110	2 708	96	6 913	58%
Total	**6 406**	**4 852**	**749**	**12 007**	**100%**

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

■ Securities portfolios

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

in million euros

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

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

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

in million euros

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

Derivatives

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

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

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

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

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

Large exposure

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

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

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

2. Market risk

■ Interest rate and currency risks

Market risk includes, in particular, the risk of a loss being incurred as a result of an adverse fluctuation in interest or exchange rates.

The Bank is exposed, within the ambit of its ordinary operations (loans, borrowings, treasury operations) to interest rate and currency risks. The key principle adopted is a systematic hedging of positions, in order to maintain interest rate risks and currency risks as low as possible. The Bank manages its overall balance at variable rates (except for its held-to-maturity assets portfolio), either directly or through a hedging swap.

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

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

At 31 December 2008, as at 31 December 2007, currency exchange and interest rate contracts are exclusively used as micro-hedging.

Due to this strategy adopted, the interest rate risk in the Bank's balance sheet is limited to the amount of held-to-maturity financial assets portfolio. This portfolio is equivalent in volume to the sum of shareholders' equity, the Selective Trust Account and of provisions for post-employment social commitments.

Interest rate risk and currency risk are measured and followed-up by the ALM Department, placed under the authority of the Chief Financial Officer.

The ALM Department issues, by the end of every quarter, a report on interest rate risk, foreign exchange risk and liquidity risk incurred by the Bank. This report analyses on one hand, the consequences of a fluctuation in the interest rates and EUR/USD parity exchange on the Bank's results. It also produces an analysis on the projected liquidity situation.

If necessary, the ALM Department informs about effective or projected limit overrun and proposes actions to the ALM Committee in view of restraining the nature and amount of identified risks.

At any time, the ALM Department may call for an extraordinary meeting of the ALM Committee in case of an exceptional situation.

Currency risks

In terms of currency risk, the CEB's strategy is to tend toward zero risk. To this end, the Bank must cover all exposure to currency risk, since residual risk stems out of cumulated results in currencies others than the euro. Such a risk is systematically hedged on a monthly basis. At the end of each month, the Bank issues an accounting statement of its results by currency and converts into euro any countervalue position exceeding 1 million euros through spot currency purchase or sale.

in thousand euros

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

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

Interest rate risk

Interest rate risk management

Interest rate risk can affect the profitability or the economic value of the Bank according to interest rate fluctuations. This risk mainly stems from de-synchronisations of rate type (fixed vs. floating) or rate index (Euribor vs. Libor…) between assets and liabilities.

The ALM Department measures this risk in volume (interest rate gap), in margin (Net Interest Income sensitivity) and in value (Net Present Value Sensitivity).

The Bank neutralizes interest rate fluctuations on its margin by matching assets and liabilities in terms of rate characteristics. In particular, the Bank invests its shareholders' equity in held-to-maturity financial assets. This portfolio comprises fixed rate securities, generally long-term ones, denominated in euros and issued by countries or similar institutions with a minimal rating of AA/Aa2 at the time of purchase.

The amounts allocated to the Selective Trust Account and the provisions for post-employment social commitments are also invested in held-to-maturity portfolio.

Appraisal of interest rate risk hedging

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

Breakdown of 2008 outstanding balances by interest rate type and interest rate risk hedging evaluation

in thousand euros

	Before hedging			Hedging financial instruments			After hedging		
	Outstanding	Accrued Interest	Total	Outstanding	Accrued Interest	Total	Outstanding	Accrued Interest	Total
Assets									
Fixed rate	**8 565 147**	**99 862**	**8 665 009**	**(2 955 476)**	**484 665**	**(2 470 811)**	**5 609 671**	**584 527**	**6 194 198**
Scheduled outstanding	6 991 683	99 862	7 091 545	(2 955 476)	484 665	(2 470 811)	4 036 207	584 527	4 620 734
Non scheduled outstanding	1 573 464		1 573 464				1 573 464		1 573 464
Variable rate	**12 073 425**	**72 278**	**12 145 703**	**3 040 357**	**22 782**	**3 063 139**	**15 113 782**	**95 060**	**15 208 842**
Total assets	**20 638 572**	**172 140**	**20 810 712**	**84 881**	**507 447**	**592 328**	**20 723 453**	**679 587**	**21 403 040**
Liabilities									
Fixed rate	**(18 099 508)**	**(484 666)**	**(18 584 174)**	**14 627 200**	**(39 105)**	**14 588 095**	**(3 472 308)**	**(523 771)**	**(3 996 079)**
Scheduled outstanding	(14 627 200)	(484 666)	(15 111 866)	14 627 200	(39 105)	14 588 095		(523 771)	(523 771)
Non scheduled outstanding	(3 472 308)		(3 472 308)				(3 472 308)		(3 472 308)
Variable rate	**(343 355)**		**(343 355)**	**(16 941 272)**	**(122 334)**	**(17 063 606)**	**(17 284 627)**	**(122 334)**	**(17 406 961)**
Total liabilities	**(18 442 863)**	**(484 666)**	**(18 927 529)**	**(2 314 072)**	**(161 439)**	**(2 475 511)**	**(20 756 935)**	**(646 105)**	**(21 403 040)**

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

Reciprocally, the fixed-rate liability exposure of 18 100 million euros before hedging is reduced to 3 472 million euros after hedging.

Sensitivity to interest rate risks

The ALM Department examines prospective profit build-up based on certain scenario assumptions of interest rate (+/- 100 bp).

Sensitivity measurement of the net interest margin to interest rate risks

in thousand euros

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

Net interest margin sensitivity measures the CEB's exposure to interest rate risk, which is due to minor asymmetry between rate types and fixing frequency.

This indicator is computed as the variation of net interest income one year after the reporting date in the event of up- or downwards parallel shift of 100 bp applied to all interest rate curves.

This simulation is implemented for each balance sheet item thanks to algorithms of a dedicated application program. This program applies shifts according to parametered scenarios on the occasion of rate fixing for floating rate operations.

Net interest margin sensitivity is computed on the scope of the balance sheet operations. It takes into account assumptions of aggregated renewal of the main balance sheet items at the current market rates.

Based upon balance sheet at 31 December 2008 and renewal assumptions, the net interest margin would increase by 8.7 million euros if interest rates decreased by 100 pb. Conversely, the net interest margin would decrease by 9.1 million euros if rates increased by 100 bp. The CEB is therefore slightly exposed to increase in interest rates.

3. Liquidity risk

The projected liquidity position is subject to a daily monitoring. It is supplemented by quarterly stress tests presented to the ALM Committee, based on borrower default assumptions.

The stress tests carried out plan liquidity situation before and after prepayments. They calculate, in accordance with the Basle II logic and its differentiated approach to risk, borrower default on the basis of outstanding loans weighted by the probability of default rate published by rating agencies for a given maturity and rating class. An internal rating is assigned on counterparties non-rated by rating agencies.

The CEB also evaluates the financial impact of the crash scenario where the default probability applied to borrowers *below investment grade* is 100% without possibility of recovery.

Liquidity position

The liquidity risk represents the projected treasury situation of the Bank at 31 December 2008.

The table below features the whole future and non-discounted contractual flows, including non accrued interests, classified by maturity according to the outstanding duration between the year-end date and the contract maturity date.

in thousand euros

	Up to 1 month	1 to 3 months	More than 3 months up to 1 year	Current outstanding	More than 1 year up to 5 years	More than 5 years	Non-current outstanding	Total
Assets								
Cash in hand, balances with central banks	194 275			194 275				194 275
Available-for-sale financial assets	564 502	100 303	522 724	1 187 529	777 899	1 203 601	1 981 500	3 169 029
Loans and advances to credit institutions and to customers								
Loans	110 412	663 295	1 752 036	2 525 743	7 224 155	5 276 273	12 500 428	15 026 171
Advances	1 359 526	829 948	(3 813)	2 185 661				2 185 661
Financial assets held to maturity	61 600	18 394	170 278	250 272	674 256	1 919 705	2 593 961	2 844 233
Total assets	**2 290 315**	**1 611 940**	**2 441 225**	**6 343 480**	**8 676 310**	**8 399 579**	**17 075 889**	**23 419 369**
Liabilities								
Amounts owed to credit institutions and to customers	73 281			73 281				73 281
Debt securities	239 489	127 743	804 239	1 171 471	11 989 163	4 628 179	16 617 342	17 788 813
Selective Trust Account (STA)	78 684			78 684				78 684
Total liabilities	**391 454**	**127 743**	**804 239**	**1 323 436**	**11 989 163**	**4 628 179**	**16 617 342**	**17 940 778**
Off-balance sheet								
Off-balance sheet financial instruments								
To be received	258 038	297 171	1 048 740	1 603 949	12 315 876	4 734 625	17 050 501	18 654 450
To be paid	(148 699)	(310 461)	(1 396 287)	(1 855 447)	(13 926 806)	(4 841 167)	(18 767 973)	(20 623 420)
Off-balance sheet total	**109 339**	**(13 290)**	**(347 547)**	**(251 498)**	**(1 610 930)**	**(106 542)**	**(1 717 472)**	**(1 968 970)**
Liquidity position 2008	**2 008 200**	**1 470 907**	**1 289 439**	**4 768 546**	**(4 923 783)**	**3 664 858**	**(1 258 925)**	**3 509 621**
Assets								
Cash in hand, balances with central banks	185 983			185 983				185 983
Available-for-sale financial assets	147 708	69 568	417 577	634 853	1 137 856	886 221	2 024 077	2 658 930
Loans and advances to credit institutions and to customers								
Loans	84 531	178 465	1 413 391	1 676 387	8 065 533	5 202 351	13 267 884	14 944 271
Advances	286 068	465 619		751 687				751 687
Financial assets held to maturity	75 200	18 394	184 661	278 255	738 543	1 838 490	2 577 033	2 855 288
Total assets	**779 490**	**732 046**	**2 015 629**	**3 527 165**	**9 941 932**	**7 927 062**	**17 868 994**	**21 396 159**
Liabilities								
Amounts owed to credit institutions and to customers	52 264			52 264				52 264
Debt securities	221 977	196 975	1 503 427	1 922 379	8 670 664	5 163 440	13 834 104	15 756 483
Selective Trust Account (STA)	52 426			52 426	23 038		23 038	75 464
Total liabilities	**326 667**	**196 975**	**1 503 427**	**2 027 069**	**8 693 702**	**5 163 440**	**13 857 142**	**15 884 211**
Off-balance sheet								
Off-balance sheet financial instruments								
To be received	333 242	74 154	1 679 002	2 086 398	9 030 957	5 283 321	14 314 278	16 400 676
To be paid	(220 182)	(88 923)	(1 993 644)	(2 302 749)	(10 763 100)	(5 866 343)	(16 629 443)	(18 932 192)
Off-balance sheet total	**113 060**	**(14 769)**	**(314 642)**	**(216 351)**	**(1 732 143)**	**(583 022)**	**(2 315 165)**	**(2 531 516)**
Liquidity position 2007	**565 883**	**520 302**	**197 560**	**1 283 745**	**(483 913)**	**2 180 600**	**1 696 687**	**2 980 432**

■ **Strengthened Liquidity Ratio**

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

This ratio results from dividing:

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

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

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

4. Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed structures, procedures, people or systems as well as from external events.

By deliberately choosing to operate within the framework of the Basel Committee Recommendations, the Bank has undertaken to assess constantly its operational risks and to implement the appropriate preventive measures. The Basic Indicator Approach method (BIA) is adopted to calculate the operational risk charge against the Bank's own funds. In order to calculate this charge, the Bank uses its last three year average net banking income. At 31 December 2008, it amounts to € 18.2 million compared to € 17.8 million at 31 December 2007.

5. Capital management

In conformity with its Articles of Agreement (Article III), any European State (member or non-member state of the Council of Europe) and/or Europe-oriented International Institution may, according to Directives established by the Governing Board, become a member of the Bank.

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

The Governing Board establishes the provisions for subscription and liberation of capital as well as provisions regarding any capital increase and potential withdrawal of a Member State.

The adhesion procedures consist in addressing a declaration to the Secretary General of the Council of Europe, a statement mentioning that the applicant endorses the Bank Articles of Agreement, in accordance with the financial conditions agreed on by the Governing Board. Any State becoming a member of the Bank shall confirm in its declaration its intention:

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

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

Capital Adequacy Ratio

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

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

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

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

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

Risk Asset Coverage Ratio

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

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

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

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

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

Indebtedness ratio

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

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

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

Portfolio ratio

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

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

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

Note C - Financial assets and liabilities

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

The mentioned market value comprises accrued interest.

The fair value calculation for the Bank's loans does not take into account the credit risks, since such a risk is deemed very low, due to the privileged credit status granted to the Bank by Member States, the nature of the counterparty and the collateral quality received from the borrowers. Movements of the credit risk pricing are otherwise immaterial during the funding of a project.

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

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

in thousand euros

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

Note D - Hedging derivatives

All the Bank's micro-hedging operations, recognised under IAS 39, are fair value hedges. These operations hedge the fixed rates financial assets and liabilities exposure (loans, available-for-sale assets, issues) at fair value.
Financial instruments qualified as financial hedging derivatives comprise interest rate, currency and forward exchange swaps.
The following table represents the fair value (including interest) of these financial instruments.

in thousand euros

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

Note E - Securities portfolio

in thousand euros

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

(*) including interest receivable

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

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

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

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

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

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

in thousand euros

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

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

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

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

in thousand euros

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

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

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

in thousand euros

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

Financing commitments

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

in thousand euros

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

Note G - Fixed assets

in thousand euros

	Tangible fixed assets				Intangible assets	
	Land	**Buildings**	**Fixtures and equipment**	**Other**		**Total**
Gross book value						
At 1 January 2007	13 046	10 437	12 647	4 722	4 166	**45 018**
Additions		263	2 372	647	551	**3 833**
Disposals / Write-offs						
Other movements			(1 719)	(234)	(228)	**(2 181)**
At 31 December 2007	**13 046**	**10 700**	**13 300**	**5 135**	**4 489**	**46 670**
Gross book value						
At 1 January 2008	13 046	10 700	13 301	5 135	4 489	**46 671**
Additions		2	3 741	694	787	**5 224**
Disposals / Write-offs				(1)		**(1)**
Other movements			(2 024)	(52)	(246)	**(2 322)**
At 31 December 2008	**13 046**	**10 702**	**15 018**	**5 776**	**5 030**	**49 572**
Depreciation						
At 1 January 2007			(7 805)	(3 591)	(3 209)	**(14 605)**
Charge for the year			(864)	(532)	(209)	**(1 605)**
Disposals / Write-offs						
At 31 December 2007			**(8 669)**	**(4 123)**	**(3 418)**	**(16 210)**
Depreciation						
At 1 January 2008			(8 669)	(4 123)	(3 418)	**(16 210)**
Charge for the year			(925)	(484)	(215)	**(1 624)**
Disposals / Write-offs						
At 31 December 2008			**(9 594)**	**(4 607)**	**(3 633)**	**(17 834)**
Net book value						
At 31 December 2008	**13 046**	**10 702**	**5 424**	**1 169**	**1 397**	**31 738**
At 31 December 2007	13 046	10 700	4 631	1 012	1 071	30 460

Note H - Amounts owed to customers and debt securities

in thousand euros

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

Development of customers' interest-bearing accounts

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

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

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

- Four accounts to partially finance local infrastructural projects in favour of the municipalities of ten Central and Eastern European countries, also applicant countries at the time of the project (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia), within the ambit of the EU Programme "EU Municipal Finance Facility".
  - In 2004, setting-up of "EU Municipal Finance Facility Special Account"
  - In 2005, increase with respect to geographical extension to the programme "EU Municipal Finance Facility 2003 Special Account"
  - In 2007, increase and geographic extension of "EU Municipal Finance Facility 2005 Special Account Bulgaria, Croatia, Romania and Turkey" and "EU Municipal Finance Facility 2006, Special Account Bulgaria, Croatia, Romania and Turkey"

At 31 December 2008, the balance of these accounts amounts to 11 536 thousand euros (2007: 14 873 thousand euros).

- Three accounts for the partial financing of productive investment projects of small and medium-sized enterprises and in particular micro-enterprises, known as the "Preparatory Action Programme" aimed at creating or safeguarding jobs, in eight new EU Member States in Central and Eastern Europe.
  - In 2005, setting-up of "Preparatory Action Special Account 2004"
  - In 2007, increase, "Preparatory Action Special Account 2005"
  - In 2008, increase, "Preparatory Action Special Account 2006"

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

- Two accounts for the partial financing of projects related to environmental protection and for energy efficiency in Croatia, Bulgaria, Romania and Turkey, called "Energy Efficiency Finance Facility".
  - In 2007, setting-up of "Energy Efficiency Finance Facility 2006 Special Account"
  - In 2008, increase with focus on the countries within the framework of Pre-adhesion Aid Instrument (PAI) of the European Commission, "Energy Efficiency Finance Facility 2007 Special Account"

At 31 December 2008, the balance of these accounts amounts to 11 345 thousand euros (2007: 6 071 thousand euros).

The CEB also manages, since 2003, the Norway Trust Account, a mechanism set up on the initiative of the Norwegian Authorities in order to finance assistance activities, in particular technical assistance to support social and economic reforms in the Western Balkan countries. In 2008, a new assistance instrument, the Human Rights Trust Fund, aimed at supporting the consolidation of the State of Law and the European system of human rights protection in Europe, was set up, in collaboration with the Council of Europe and the initial financial initiative of the Norwegian Authorities, with additional contributions from Germany and The Netherlands.

Note I - Selective Trust Account (STA)

General operating principle

Interest rate subsidies and granting of donations are the basis of the underlying operating principle of this account. The Selective Trust Account covers the interest rate differential between the rate usually applied by the Bank and the rate proposed to the borrower. The account may also be used to make donations.

A project financed by the Bank may, following the Governor's approval, be granted rate subsidies relative to the STA after a case by case approval from the Administrative Council. The STA resources are invested in projects with high social value and within eligible countries.

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

Funding

The STA is supplied with:

a) Grants received from the CEB's Member States through dividends of a social nature allocated at the time of the Bank's appropriation of annual profits
b) Voluntary contributions from Member States of the Bank
c) Voluntary contributions from the Council of Europe Members
d) Voluntary contributions from non-member states or international institutions upon approval from the Governing Board and the Administrative Council.

Accounting treatment

The STA is divided into two sub-accounts:

- Member States sub-account recording the amount of available funds: contributions received from Member States as well as interest on the STA's funds are recorded on the credit side; donations granted and total interest rate subsidies granted on the day of disbursement of every loan concerned are recorded on the debit side.
- Subsidised projects' sub-account recording interest rate subsidies: the amount of interest rate subsidies recorded under credit in the Bank's profit and loss account is recorded on the debit side simultaneously with interest payments made by the borrower; interest rate subsidies granted on the day of disbursement of the subsidised loan are recorded on the credit side.

in thousand euros

1) Member States sub-account	**Debit**	**Credit**
Sub-account balance as at 1 January 2007		**49 856**
Payment by Member States for the financial year 2006		6 000
Credit interest paid into the STA		2 975
Subsidies on disbursed loans	6 390	
Donations granted	15	
Sub-account balance as at 31 December 2007 (a)		**52 426**
Payment by Member States for the financial year 2007		5 000
Credit interest paid into the STA		3 403
Subsidies on disbursed loans	9 778	
Donations granted	980	
Sub-account balance as at 31 December 2008 (b)		**50 071**
2) Subsidised projects sub-account		
Sub-account balance as at 1 January 2007		**20 554**
Subsidies on loans disbursed in 2007		6 390
Payment of subsidies	3 906	
Sub-account balance as at 31 December 2007 (c)		**23 038**
Subsidies on loans disbursed in 2008		9 778
Payment of subsidies	4 203	
Sub-account balance as at 31 December 2008 (d)		**28 613**
STA balance as at 31 December 2007 (a) + (c)		**75 464**
STA balance as at 31 December 2008 (b) + (d)		**78 684**

Donations

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

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

in thousand euros

Payments	31/12/2008	31/12/2007
Bosnia and Herzegovina (UNHCR): project aimed at facilitating the return of displaced persons, victims of the war, who are still living in Collective Centers	265	
Serbia (UNHCR): project aimed at Provision of Housing Micro Loans in favour of locally integrating displaced persons from Kosovo	265	
Georgia (UNICEF): project aimed to set up and equip a community centre in favour of displaced and conflict affected children as well as their families	250	
Moldova (UNICEF): project aimed at improving survival, growth and development for premature new-borns with very low birth weight nationwide	200	
Bulgaria: (St Cyril and St Methodius International Foundation): access to education of the Roma children in the municipality of Nova Zagora		15
Total	**980**	**15**

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

in thousand euros

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

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

Note J - Provision for financial risks

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

in thousand euros

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

The Bank administers a pension scheme and other related post-employment benefits (particularly medical insurance). The commitment in relation to the different post-employment benefits is determined separately using the projected unit credit actuarial valuation method. The last actuarial valuation was carried out on 31 December 2008 based on individual data at 30 June 2008.

Pension scheme

The following is the pension scheme financial situation:

in thousand euros

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

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

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

Pension scheme-related post-employment benefits

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

in thousand euros

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

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

Moreover, as in 2007, the Bank's commitment related to medical insurance for pensioners was valuated on the basis of a 7.50% yearly increase rate of the Bank's contributions. This rate is constant up to end 2010 and of 6.00% thereafter.

Note K - Subscribed capital

Capital allocation by Member State is presented below:

in thousand euros

Members	Subscribed capital	Uncalled capital	Called capital
Germany	549 692	489 000	60 692
France	549 692	489 000	60 692
Italy	549 692	489 000	60 692
Spain	358 504	318 922	39 582
Turkey	233 077	207 344	25 733
Netherlands	119 338	106 161	13 177
Belgium	98 634	87 746	10 888
Greece	98 634	87 746	10 888
Portugal	83 538	74 315	9 223
Sweden	83 538	74 315	9 223
Poland	76 988	68 488	8 500
Switzerland	53 824	43 229	10 595
Denmark	53 823	47 879	5 944
Norway	41 889	37 264	4 625
Finland	41 889	37 264	4 625
Bulgaria	37 491	33 352	4 139
Romania	35 963	31 993	3 970
Ireland	28 998	25 797	3 201
Hungary	26 884	23 916	2 968
Czech Republic	25 833	22 981	2 852
Luxembourg	20 849	18 547	2 302
Serbia	15 511	13 799	1 712
Croatia	12 831	11 414	1 417
Cyprus	11 934	10 617	1 317
Slovak Republic	11 380	10 123	1 257
Albania	8 034	7 147	887
Latvia	7 688	6 840	848
Estonia	7 637	6 794	843
"the former Yugoslav Republic of Macedonia"	7 637	6 794	843
Lithuania	7 556	6 722	834
Slovenia	7 380	6 565	815
Iceland	6 089	5 417	672
Malta	6 089	5 417	672
Georgia	5 928	5 274	654
Bosnia and Herzegovina	5 816	5 174	642
Montenegro	3 952	3 516	436
Moldova	3 294	2 930	364
San Marino	2 921	2 478	443
Liechtenstein	2 921	2 374	547
Holy See	82	58	24
TOTAL 2008	**3 303 450**	**2 933 712**	**369 738**
TOTAL 2007	**3 303 450**	**2 933 712**	**369 738**

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

in thousand euros

Members	Capital	Reserves	Total
Georgia	327	868	1 195
Montenegro	327	976	1 303
TOTAL	**654**	**1 844**	**2 498**

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

Note L - Interest margin

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

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

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

in thousand euros

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

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

in thousand euros

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

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

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

in thousand euros

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

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

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

in thousand euros

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

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

Note O - Net commissions

The table below shows the breakdown of net commissions:

in thousand euros

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

Note P - General operating expenses

in thousand euros

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

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

Note Q - Risk cost

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

in thousand euros

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

in thousand euros

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

in thousand euros

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

Note R - Post-balance sheet events

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

External auditor's report

PRICEWATERHOUSECOOPERS

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

Council of Europe Development Bank
55, Avenue Kléber
75116 Paris

To the Members of the Governing Board and the Administrative Council,

In compliance with the assignment entrusted to us by the Governing Board, we have audited the accompanying financial statements of the Council of Europe Development Bank for the year ended 31 December, 2008. These financial statements include the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and notes comprising a summary of significant accounting policies and other explanatory notes.

The Governor is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Council of Europe Development Bank
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Governor, as well as evaluating the overall presentation of the financial statements.

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Council of Europe Development Bank as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted for use by the European Union.

Neuilly-sur-Seine, 25 February, 2009

PricewaterhouseCoopers Audit

Dominique Paul

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

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Development Bank and Article I of its Rules of Procedure, the Auditing Board met in Paris on several occasions in 2008 and from 23-26 February 2009 in order to audit the CEB's balance sheet and profit and loss account and the Notes to the financial statements for the year ended 31 December 2008.

Based on Resolution 343 (2002) of the Governing Board clarified by its decision taken at its meeting of 10 December 2004, following the Administrative Council's recommendation on this issue and on the Auditing Board's previous years' findings, the External Auditor, PricewaterhouseCoopers (Paris), presented his statement and gave, when needed, evidence in detail of the performance of the audit.

The Auditing Board carried out the audit of the CEB for the year 2008 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff
- Examining the financial statements of the CEB for the year 2008, including the balance sheet at 31 December 2008, the profit and loss account and the Notes to the financial statements, which had been prepared by the Accounting Department of the CEB and signed by the Governor on 24 February 2009
- Consulting the Internal Audit Department and examining its reports
- Consulting the External Auditor of the CEB and examining his interim report and his detailed report for the year 2008
- Obtaining the opinion signed by the External Auditor on 25 February 2009
- Obtaining all necessary documents, information and explanations which the Auditing Board deemed necessary. These were readily given by the Governor, the Vice-Governors, the Internal Auditor, the Directors and other pertinent staff.

The Auditing Board certifies, on the basis of the information which was made available to it and to the best of its understanding, that the CEB's balance sheet and profit and loss account including the Notes to the financial statements are in agreement with the books and other records and give a true and fair view, in all material respects, of the state of the CEB's affairs as at 31 December 2008 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) set out by the European Union.

Paris, 26 February 2009

Aunus SALMI
Nicola CECCAROLI
Horia Ion NEAMTU

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

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

Paris, 12 March 2009

The Administrative Council,

Having regard to Article XI, Section 2 of the Bank's Articles of Agreement

Having regard to the balance sheet, profit and loss account and Notes to the financial statements as at 31 December 2008

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

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

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

1. recommends that the Governing Board approve the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2008
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2008
3. resolves to allocate the net profit for 2008 (+ € 95 827 018) to the general reserve
4. recommends that the Governing Board approves point 3 above.

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

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

Paris, 6 April 2009

The Governing Board,

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

Having regard to the balance sheet, the profit and loss account and the Notes to the financial statements as at 31 December 2008

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

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

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

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

Having heard the Auditing Board

Decides:

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

Balance sheet as at 31 December 2008 after allocation of profit

in thousand euros

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

Liabilities	31/12/2008	31/12/2007
Fair value financial liabilities through profit or loss	2 515 544	2 761 104
Hedging derivatives	434 793	436 552
Amounts owed to customers	73 281	52 264
Debt securities	16 171 014	13 263 780
Other liabilities	277 269	32 642
Selective Trust Account (STA)	78 684	80 464
Provision for financial risks	67 726	61 454
Total liabilities	**19 618 311**	**16 688 260**
Capital		
Subscribed	3 303 450	3 303 450
Uncalled	(2 933 712)	(2 933 712)
Called	369 738	369 738
General reserve	1 585 587	1 489 760
Unrealised or deferred gains or losses	(170 596)	(38 813)
Total shareholders' equity	**1 784 729**	**1 820 685**
Total liabilities and shareholders' equity	**21 403 040**	**18 508 945**