Council of Europe Development Bank – Aa1 stable

Regular update

Summary
The credit profile of the Council of Europe Development Bank (CEB) reflects its strong asset quality and pristine record of asset performance, as well as its high liquidity levels and strong access to funding. The CEB’s main credit challenges are its high leverage ratio and the fact that it only has moderate levels of callable capital relative to peers.

Exhibit 1
CEB’s credit profile is determined by three factors

Credit strengths
» A pristine asset performance track record, supported by conservative risk management policies and preferred creditor status
» A consistently strong liquidity profile and access to funding

Credit challenges
» A leverage ratio which is among the highest of rated MDBs
» Low levels of callable capital relative to debt, pointing to modest levels of non-contractual support
**Rating outlook**
The stable outlook on the Aa1 rating of CEB reflects our view that CEB’s credit strengths and challenges are likely to remain broadly unchanged over the coming 12 to 18 months. While leverage increased further in the wake of the pandemic, we expect the leverage ratio to remain elevated but broadly stable in 2022.

**Factors that could lead to an upgrade**
Sustained, material improvements in leverage metrics that move them closer to the three-year Aaa median of 2.88x would exert upward pressure on the Aa1 rating, as would stronger contractual support metrics and weighted average shareholder ratings.

**Factors that could lead to a downgrade**
A material and sudden deterioration in the asset quality and performance of the loan portfolio of CEB would put downward pressure on the rating. In addition, if leverage were to rise materially from present levels or if there were indications of declining shareholder support for CEB this would also exert downward pressure upon the Aa1 rating.

**Key indicators**

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<tbody>
<tr>
<td>Total Assets (USD million)</td>
<td>26,987.8</td>
<td>28,527.1</td>
<td>27,878.5</td>
<td>29,367.8</td>
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<td>33,655.2</td>
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<td>Development-related Assets (DRA) / Usable Equity [1]</td>
<td>487.7</td>
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<td>572.1</td>
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<td>Non-Performing Assets / DRA</td>
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<td>Return on Average Assets</td>
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<td>0.5</td>
<td>0.4</td>
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<td>0.3</td>
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<td>Liquid Assets / ST Debt + CMLTD</td>
<td>273.2</td>
<td>176.5</td>
<td>228.6</td>
<td>254.2</td>
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<td>Liquid Assets / Total Assets</td>
<td>35.5</td>
<td>35.5</td>
<td>33.1</td>
<td>34.2</td>
<td>30.0</td>
<td>31.7</td>
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<tr>
<td>Callable Capital / Gross Debt</td>
<td>24.3</td>
<td>25.8</td>
<td>24.9</td>
<td>22.9</td>
<td>21.4</td>
<td>19.7</td>
</tr>
</tbody>
</table>

[1] Usable equity is total shareholder’s equity and excludes callable capital

Source: Moody’s Investors Service

**Profile**
CEB was set up in 1956 under the name of the Council of Europe Resettlement Fun for National Refugees and Over-Population in Europe. It adopted its current name in 1999 and enlarged its mandate to strengthen social cohesion in Europe and promote inclusive growth. CEB was founded by eight members – Belgium (Aa3 stable), France (Aa2 stable), Germany (Aaa stable), Greece (Ba3 stable), Iceland (A2 stable), Italy (Baa3 stable), Luxembourg (Aaa stable) and Turkey (B2 negative) and has since seen two waves of enlargement, bringing its current membership to 42 countries.

CEB contributes to the implementation of socially orientated investment projects in favour of social cohesion through three major sectorial lines of action: (1) inclusive growth; (2) support for vulnerable groups; and (3) environmental sustainability. CEB makes loans to projects that are socially and economically viable in member states, lending directly to the sovereign or regional and local government authorities, as well as other public or private entities. It can also grant guarantees and provide technical assistance.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.
Detailed credit considerations

Our determination of a supranational’s rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: a3

We score CEB’s capital adequacy at “a3” based on the combination of a relatively high leverage ratio set against strong asset credit quality and exceptionally strong asset performance.

Lending growth was back to normal in 2021 after pandemic boost in 2020, but leverage remains high

The leverage ratio – which we define as development-related assets and treasury assets rated A3 and lower relative to useable equity – is the key measure we use to assess an MDB’s capital position. CEB’s leverage ratio increased to 639%, up from 622% in 2021 and 527% in 2018 (see Exhibit 3). The rapid increase in leverage over the past three years contrasts with the deleveraging trend recorded in the decade leading up to 2018. High leverage is not unusual among highly rated MDBs, which are able to carry much higher leverage because of the strength of their other core credit metrics. The European Investment Bank (EIB, Aaa stable) has higher leverage historically, averaging more than 650% over 2018-21. Nevertheless, high leverage is one of CEB’s key credit constraints.

In 2021, CEB’s loan portfolio grew 8.5%, compared to 13% in 2020, reflecting a slowdown in lending growth following a rise in lending in response to the pandemic. Meanwhile, useable equity increased by 3.2% in 2021 compared to 1.4% in 2020, which reflected slightly higher profitability compared to previous years. Net profits for 2021 stood at €94.8 million, with the increase relative to 2020 almost wholly driven by IFRS valuation effects. We expect new lending will remain broadly at 2021 levels of around €4 billion in 2022, despite strong demand for CEB loans due to the refugee crisis driven by Russia’s military invasion of Ukraine (Caa3 negative), leading the leverage ratio to remain broadly stable this year.

Underlying profitability has remained relatively solid despite challenge of low-yield environment

CEB has recorded steady profits over the past decade, averaging €108 million over 2011-21. The bank has remained profitable throughout past episodes of turbulence, including the global financial and euro area debt crises. Following a dip in profitability in 2020, the bank recorded net profit of €94.8 million in 2021, up from €74.8 million the previous year (see Exhibit 4). CEB’s average return on assets stood at 0.3% in 2021 maintaining the previous year’s level. Since the last capital increase in 2012, the expansion of useable equity has been driven by the sustained increase in reserves, to which almost all its profits are added.
**Asset quality is enhanced by CEB’s preferred creditor status**

We assess CEB’s development asset credit quality (DACQ) at “aa”. The starting point is the weighted average borrower rating (WABR) that stood at Baa3 at end-2021 and has been stable since 2015. At the end of 2021, 24.5% of the development asset portfolio was rated Aaa-Aa, with another 28% in the A category. 20% of the portfolio was non-investment grade. Looking forward, the percentage of non-investment grade lending in CEB’s portfolio is likely to rise with the inclusion of Ukraine as a member state of the bank and strong demand for funding to support the post-war reconstruction effort in Ukraine.

The bank’s lending portfolio is relatively diversified geographically within Europe. The top recipients of loans are France, which accounts for 11% of the loan portfolio, followed by Spain (Baa1 stable, 10%), Germany (7%) and Turkey (7%). The bank’s exposure to Turkey largely relates to the SME sector. The bank also launched its programme Strengthening Healthcare Infrastructure for All (SHIFA) in March 2021 under its Facility for Refugees in Turkey in cooperation with the European Union (EU, Aaa stable).

We apply a +1 adjustment for CEB’s DACQ assessment to reflect the bank’s preferred creditor status (PCS), which reduces the expected loss on loans in the event of a default by a sovereign counterparty. CEB also uses credit-enhancement instruments (guarantees and collateral) to transfer all or part of the risk of the initial borrower.

**Asset performance remains superior to most peers**

We assess CEB’s asset performance as “aaa”. CEB’s asset quality track record is among the strongest of all the MDBs we rate. Since its inception in 1956, the bank has had only one nonperforming loan (NPL): In 2009, an Icelandic counterparty failed to meet its commitment on capital and interest, for which CEB had provisioned the total outstanding loan amount of €1.8 million. In the Aaa-Aa2 European MDB space, only Eurofima (Aa2 stable), the European Stability Mechanism (Aaa stable) and the European Financial Stability Facility (EFSF, Aaa stable) have a similar asset quality track record.

The pandemic shock did not lead to the materialisation of any new non-performing loans for CEB. Although the increasingly challenging macroeconomic environment in Europe and the impact of the military invasion in Ukraine poses risks for asset performance, the bank’s pristine track record of asset performance even in times of crisis supports our expectation that asset performance will remain robust over the coming 12 to 18 months.

**FACTOR 2: Liquidity and funding score: aa2**

We consider CEB’s liquidity and funding position to be very strong with a score of “a1” for its availability of liquid resources and a score of “aa” for the quality of its funding, which results in an overall score for liquidity and funding of “aa2”.

**CEB maintains a strong liquidity position**

CEB has a large liquid assets portfolio, standing at €9.4 billion at the end of 2021 (including assets available for sale and assets held to maturity, as well as bank deposits). This marks a 12% increase from the €8.4 billion recorded in 2020. For the purpose of calculating our liquid resources ratio, we consider only highly liquid assets such as cash and short-term bank deposits as well as securities rated A2 or higher, as we believe only those would be available in a stress scenario at short notice and with minimal loss.

Following the CEB’s new financial and risk policy, treasury assets now must have a minimum rating at purchase of Baa. At the end of 2021, 62% of CEB’s treasury assets were rated Aaa-Aa. The rest of CEB’s treasury portfolio is exclusively investment grade.

We consider the size of the available liquid assets relative to cash outflows in a stressed scenario over the coming 18 months, in which the MDB has no access to markets but continues its normal business operations. CEB’s availability of liquid resources ratio stood at 113% in 2021, resulting in a score of “a1”. It is well-positioned relative to its Aaa-Aa2 rated peers, with a ratio that is higher than the Aaa median (105%) and slightly below the Aaa-Aa2 median of 137.

This provides CEB with a buffer to withstand a severe tail-risk scenario of limited or no market access. Its liquidity would also be more than sufficient to meet cash requirements until callable capital could be paid in. Based upon the most recent CEB stress tests, as of March 2022, the self-sufficiency period stood at 13 months (up from 11 months in December 2021 and 9 months in December 2020), which is above the bank’s minimum “self-sufficiency period” fixed at six months. Based on the same stress tests, CEB would be able to survive 18 months without access to capital markets.
CEB has a strong track record of stable access to market funding at competitive rates
CEB has a "aa" score in our assessment of funding and market access. Having demonstrated the strength of its market access during the pandemic, the CEB has again been able to regularly tap debt markets at affordable rates in a context of rising interest rates globally and market turbulence sparked by the Russian invasion of Ukraine.

CEB’s investor base is diversified, both in terms of institution type and geography, and the banks bonds are also included in the ECB’s asset purchase programmes.

The bank has an opportunistic and dynamic approach to debt issuance, and has traditionally issued debt in US dollars and euros. In 2021, 46% of funds raised were in euros, followed by 27% in US dollar and 17% in sterling. At the end of 2021, CEB’s stock of debt was primarily denominated in euros (57%), followed by dollars (27%). However, after accounting for currency swaps, the CEB’s overall debt exposure is euro-denominated.

As of December 2021, outstanding debt reached in €24.7 billion in 2021, up from €22.7 billion in 2020. In 2021, CEB made full use of its €5.5 billion funding authorisation for the year, including €0.9 billion issued in October 2020 under the 2021 pre-funding borrowing authorization. In total, the bank issued €4.6 billion over the course of 2021. The average funding maturity was 5.7 years in 2021, broadly in line with 2020 levels (see Exhibit 6).

CEB issued a €1 billion Social Inclusion Bonds (SIB) in April and a $1 billion SIB in June 2021, a level similar to that of the previous year. The SIB proceeds can be used to support longer-term needs of refugees in the current context, since the bank updated its Social Inclusion Bond Framework in April 2020 to include social housing, education and vocational training, health and social care and support to MSMEs as sectors that can be financed with the proceeds of SIBs.

Qualitative adjustments to intrinsic financial strength
Operating environment
We do not apply any adjustment for CEB's operating environment. CEB has maintained solid profitability in the years leading up to the pandemic and we expect the bank’s operations to remain resilient to heightened geopolitical tensions in Europe.

Quality of management
Our "+1" adjustment for quality of management reflects our long-standing view that the CEB’s management (including risk management) is among the best in class. The results of this can be seen in its unusually strong asset quality, with the bank only ever recording one NPL in its history. CEB has quite stringent capital monitoring in place. Under the bank’s own guidelines, the capital adequacy ratio in its prudential framework (prudential equity as a % of risk-weighted assets) has a lower limit of 10.5%. However, the bank’s capital is always multiples of this limit. In 2021, it stood at 29.1% from 27.6% in 2020.
FACTOR 3: Strength of member support score: Medium

The strength of CEB’s member support is assessed at “Medium”, which combines a “baa1” ability to support, “ba3” contractual willingness to support and “High” non-contractual willingness to support the institution.

Moderate average weighted shareholder rating and low levels of callable capital are relative weaknesses

We use the weighted average shareholder rating (WASR) to assess shareholders’ ability to support an MDB. In the case of CEB, the WASR stood at Baa1 in 2020, unchanged from previous years. This is in line with the Aaa-Aa2 median of “baa1” but below the Aaa median of “a3” (see Exhibit 7). CEB currently has 42 member-states, following Andorra’s accession in May 2020 and we expect Ukraine to become the 43rd member by the end of 2022. France, Germany and Italy are the largest shareholders, each accounting for 17% of subscribed capital. They are followed by Spain (11%) and Türkiye (7%). The credit profiles of most shareholders, especially highly rated European sovereigns, have been resilient to the pandemic shock.

We use callable capital relative to the debt stock to assess the strength of contractual support. With a ratio of 19.7% in 2021, CEB scores moderately on this measure. Among Aaa-Aa2 rated peers, only Eurofima has a lower ratio of callable capital to total debt (see Exhibit 8). A number of Aaa-Aa2 rated MDBs do not have callable capital, including International Development Association (IDA, Aaa stable), International Finance Corporation (IFC, Aaa stable) and Inter-American Investment Corporation (IDB Invest, Aa1 stable).

Despite having relatively high callable capital relative to subscribed capital (89%), CEB’s high debt stock explains the weak performance on this metric. In the absence of a substantial capital increase, we expect callable capital relative to debt to remain low in the coming years, especially amid continued sustained debt issuance.

Relevance of CEB’s mandate is increasing in the context of the humanitarian crisis in Ukraine

We assess CEB’s non-contractual support as “High” given the track record of support the bank has received from shareholders but also peers and the EU since its creation (six capital increases, the latest in 2011, with no track record of arrears on capital contributions). In addition, we believe that non-contractual support has increased over the past five years, and has been further reinforced by the CEB’s provision of emergency support during the pandemic shock. High non-contractual support is also reflected in other forms of financial support such as support to trust funds managed by CEB.

CEB’s role as the social-development bank in Europe has been strengthened by its response to the 2015 migrant crisis, the pandemic and its initiatives such as “100 Resilient Cities”, the European Partnership for the Integration of Migrants and Refugees, and the Harmonised Indicators for Private Sector Operations. The Ukrainian crisis will likely make CEB’s mandate increasingly important to its members in a context of renewed geopolitical instability in Europe with far-reaching economic and social consequences causing a large influx of refugees in Ukraine’s neighboring countries.
ESG considerations

Council of Europe Development Bank’s ESG Credit Impact Score is Positive CIS-1

Exhibit 9
ESG Credit Impact Score

**CIS-1**

Positive

For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.

Source: Moody’s Investors Service

CEB’s credit impact score is positive (**CIS-1**), reflecting the positive impact on its credit profile of very strong governance and its social mandate, and low environmental risk exposure.

Exhibit 10
ESG Issuer Profile Scores

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-2 Neutral-to-Low</td>
<td>S-1 Positive</td>
<td>G-1 Positive</td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service

**Environmental**

CEB’s environmental issuer profile score is neutral to low (**E-2**), reflecting neutral-to-low exposure across all five environmental risk categories. CEB tracks the carbon footprint of projects approved, and since 2017 the emission savings from mitigation projects approved have exceeded the emission levels from all other projects. In line with other MDBs, CEB is in the process of aligning its project portfolio with the Paris Agreement on Climate Change.

**Social**

CEB’s social issuer profile score is positive (**S-1**). CEB’s mandate is to be a social bank, and social policy objectives are central to its mission which positions it well to benefit from demographic and societal trends and supports our assessment of responsible production. CEB has been an early adopter of Social Inclusion Bond issuance. Given its policy role and reputation, it has a strong relationship with its customers.

**Governance**

CEB’s governance issuer profile score is positive (**G-1**). CEB adheres to very strong risk management processes, which has resulted in a pristine track record of asset performance. The bank’s management is highly credible and has a strong track record in implementing CEB’s strategy.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.
All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

CEB’s role in addressing the Ukrainian refugee crisis will increase with Ukraine’s looming membership of the bank

In a joint meeting held on 8 July 2022, the CEB Administrative Council and the Governing Board agreed on the accession conditions for Ukraine’s prospective membership of the bank. Ukraine is expected to become the 43rd member of the CEB by end-2022 and members states agreed to relieve the country from any payment requirement for accession to the bank. The CEB Administrative Council also approved five new loans worth €465 million, with the majority of the funds dedicated to supporting refugees from Ukraine in CEB member countries. We expect that Ukraine’s eventual membership of CEB will lead the bank to play an even more active role in addressing the refugee crisis and post-war reconstruction efforts in Ukraine.

The CEB has been quick to respond to the humanitarian crisis brought on by the Russian invasion of Ukraine. In June, CEB’s shareholders approved around €1.2 billion in fast track emergency to support member states dealing with a significant influx of refugees stemming from the conflict, including Poland (A2 stable) that has been the largest recipient (€450 million). In addition, a total of 11 grants (€5.1 million) had previously been authorised to meet immediate humanitarian needs. The largest grant of €1.4 million was given to Moldova (B3 negative) for both border-related assistance and the provision of medical services to Ukrainian refugees. The grants were disbursed from the CEB’s Migrant and Refugee Fund (MRF), which has since been replenished with an additional €5 million to respond to incoming requests.

New lending and leverage will stabilise in 2022 - but Ukraine conflict will put pressure on lending in coming years

Loan disbursements totalled €4 billion in 2021, down from a record €6 billion recorded in 2020 because of the bank’s efforts to tackle the impact of the pandemic shock. Despite the outbreak of the conflict in Ukraine and the large refugee flows into Europe, the bank expects that new lending will stand at close to €4 billion in 2022 in line with the level of approvals outlined in its 2020-22 Development Plan. We expect that Ukraine’s membership of the bank as well as the large funding needs to address the refugee crisis and postwar reconstruction efforts in the country will put pressure on increasing lending volumes in coming years. The bank’s strategy for addressing these issues will be developed in autumn 2022 as part of discussions on the 2023-2027 Development Plan.

The leverage ratio increased to 639% in 2021 from 622% in 2020. This increase reflects the rapid expansion of activities, especially amid the bank’s response to the pandemic in 2020. Gains in useable equity have not been sufficient to prevent the increase in leverage. Despite the pressure the conflict in Ukraine is putting on new lending, we expect leverage will remain broadly stable in 2022 amid a stabilisation of loan growth and relatively stable profits that are added to the bank’s equity base.

Outside its main lending activities, the bank’s fiduciary activity (through which it manages and implements programmes funded by partner institutions) has also continued to expand, with €7 million in contributions raised in 2021. The bank expects to further develop its fiduciary activities in the coming years as a result in particular of its increasing collaboration with the EU in the social sector.
# Rating methodology and scorecard factors

### Exhibit 11

<table>
<thead>
<tr>
<th>Rating factor grid - Council of Europe Development Bank</th>
<th>Initial score</th>
<th>Adjusted score</th>
<th>Assigned score</th>
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</thead>
<tbody>
<tr>
<td><strong>Factor 1: Capital adequacy (50%)</strong></td>
<td></td>
<td></td>
<td>a3</td>
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<tr>
<td>Capital position (20%)</td>
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<td>a3</td>
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<tr>
<td>Leverage ratio</td>
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<tr>
<td>Trend</td>
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<tr>
<td>Impact of profit and loss on leverage</td>
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<td>Development asset credit quality (10%)</td>
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<td>DACQ assessment</td>
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<tr>
<td>Trend</td>
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<tr>
<td>Asset performance (20%)</td>
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<tr>
<td>Non-performing assets</td>
<td>aaa</td>
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<tr>
<td>Trend</td>
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<tr>
<td>Excessive development asset growth</td>
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<td><strong>Factor 2: Liquidity and funding (50%)</strong></td>
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<td>Liquid resources (10%)</td>
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<td>Availability of liquid resources</td>
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<td>Access to extraordinary liquidity</td>
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<tr>
<td>Quality of funding (40%)</td>
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</tbody>
</table>

### Preliminary intrinsic financial strength

- Operating environment
- Quality of management
- Adjusted intrinsic financial strength: aa3

### Other adjustments

- 1

### Factor 3: Strength of member support (+3,+2,+1,0)

- Medium

### Ability to support - weighted average shareholder rating (50%)

- ba3

### Willingness to support (50%)

- Contractual support (25%)
  - Strong enforcement mechanism: ba3
  - Payment enhancements: ba3
- Non-contractual support (25%)
  - High

### Scorecard-Indicated Outcome Range

- Aa1-Aa3

### Rating Assigned

- Aa1

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**Note:** Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer’s performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

**Source:** Moody’s Investors Service
Moody's related publications

- **Sector Comment**: Supranationals - Global, Most multilateral development banks are resilient to Russia-Ukraine conflict, 21 March 2022

- **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

- Moody's Supranational web page
- Moody's Sovereign and supranational rating list
- CEB web page

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Endnotes

1 Funds raised among the bank's 47 trust funds (whose total balance stands at € 140 million) from various donors (European Union, the bank's member states and other country donors).
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