FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Council of Europe Development Bank at 'AAA'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 06 Jun 2025: Fitch Ratings has affirmed Council of Europe Development Bank's (CEB) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

SCP Drives Rating: CEB's 'AAA' rating reflects its Standalone Credit Profile (SCP) of 'aaa', which reflects a 'aa' solvency assessment, 'aaa' liquidity assessment and a two-notch upward adjustment over the lower of its solvency and liquidity assessments to reflect the low-risk business environment. The solvency assessment of 'aa' balances the bank's 'strong' capitalisation and 'very low' risks.

Capital Balances Higher Risks: The latest capital increase approved by shareholders in December 2022 became effective in 2024, with 95.1% of countries subscribing to it (including France, Italy and Germany, the three largest shareholders). As of April 2025, CEB had received EUR601 million of paid-in capital, largely corresponding to the first two installments of subscribing member states. The third and fourth instalments are due by end-July 2025 and 2026, respectively.

We expect CEB's higher risk exposure to Ukraine by end-2027 to partly offset the positive impacts of the capital increase, but not to the extent that it will change our assessment. The credit quality of borrowers and Fitch's usable capital to risk-weighted assets (FRA) ratio will be slightly negatively affected by Ukrainian loans over the medium term.

Strong Capitalisation: CEB's leverage has historically been a rating weakness. The recently approved capital increase has already supported it, with the equity/assets ratio at 11.6% at end-2024 (11.0% at end-2023). Fitch expects this ratio to increase gradually over the medium term, reflecting paid-in capital payments. The FRA ratio also improved at end-2024 to 45.6% (38.4% at end-2023) due to the capital payments. We expect the FRA ratio to be slightly weaker by the end of our forecast, but consistent with an 'excellent' assessment, given the higher exposure to Ukraine by end-2027.

Very Low Credit Risk: CEB's solvency is supported by the 'very low' credit risk of its loan portfolio. The average credit quality of its borrowers was 'A-' at end-2024, unchanged from 2023. We expect this to decline to 'BBB+' by the end of our forecast, reflecting higher exposure to Ukraine, but consistent with 'very low' credit risk, as CEB's credit risk is enhanced by its 'strong' preferred creditor status, leading to a two-notch uplift over the average rating of loans to 'A'.

Despite sizeable non-sovereign loan exposure (48% of loans), the assessment reflects the exceptional loan performance, with no non-performing loans over the past decade. About 30% of the loan portfolio benefits from credit enhancement in the form of guarantees.

Very Low Solvency Risks: CEB's solvency assessment also benefits from 'low' concentration risk (top five obligors accounted for 21% of the total at end-2024), and its 'very low' market and equity risk and 'strong' risk-management policies. Fitch assesses CEB's risks related to equity risk and market risk as 'very low'. CEB's articles of agreement and its policies do not allow it to realise equity investments and it has limited exposure to market risk due to hedging practices and conservative rules.

Excellent Liquidity: CEB's 'aaa' liquidity assessment reflects its excellent liquidity buffers, the strong credit quality of its treasury portfolio (62% rated above 'AA-' at end-2024), and strong access to capital markets. We expect coverage of short-term debt by liquid assets to remain above the 1.5x 'excellent' threshold (2.9x at end-2024), in line with recent years.

Business Environment Supports Rating: CEB's business environment benefits from the low-risk environment in which it operates, driven by its credit quality, income and high quality of governance, with a transparent organisational structure and comprehensive set of internal policies. The bank's business environment also reflects its policy importance, demonstrated by its role as a key social development player in the EU in policies related to migrant integration, its inclusion in programmes such as InvestEU and the response to the Ukrainian refugee crisis.

Strong Propensity to Support: Fitch assesses extraordinary support from shareholders at 'a'. This is based on the 'A+' average rating of key shareholders (Germany: AAA/Stable; France: AA-/Negative; Italy: BBB/Positive; together accounting for 51% of CEB's capital). Fitch applies a one-notch negative adjustment to 'A', to reflect a 'moderate' propensity to support. In Fitch's view, the recent capital increase is evidence of shareholders' increased propensity to provide financial support to the bank.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Solvency (Capitalisation): Delays in capital subscription or payments relative to our expectation and/or increased exposure to borrowers with weak credit quality, potentially caused by faster-than-expected loan growth, that lead to increased leverage and reduced capital buffers, including the FRA ratio deteriorating to below 35%

Solvency (Risks): Increased credit risk following multiple negative sovereign rating actions or rising exposure to borrowers with low ratings that result in the average rating of the loan book falling below 'A-' after accounting for CEB's preferred creditor status; an increase in non-performing loans above the 'very low' criteria-defined threshold of 1% or a sustained increase in the share of non-sovereign exposures above 50%

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The rating is at the highest level on Fitch's scale and cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

CEB has an ESG Relevance Score of '4[+]' for Human Rights, Community Relations, Access & Affordability. The CEB provides grants funded by donors to support projects in favour of migrants and refugees. It also blends certain loans with grants to its most vulnerable borrowers to support social development, including social housing, education, and healthcare. This supports the bank's policy importance. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

CEB has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Council of Europe Development Bank	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
	ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AAA	Affirmed	AAA
senior unsecured	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Supranationals Rating Criteria (pub. 03 Oct 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Council of Europe Development Bank	EU Issued, UK Endorsed

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