MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Council of Europe Development Bank's Aa1 ratings and the outlook remains stable

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Paris, July 26, 2019 -- Moody's Investors Service, ("Moody's") has today affirmed the Council of Europe Development Bank's (CEB) senior unsecured and long-term issuer ratings at Aa1. Concurrently, the CEB's senior unsecured medium-term note (MTN) programme and senior unsecured shelf ratings have been affirmed at (P)Aa1 and its short-term commercial paper rating has been affirmed at P-1. The outlook remains stable.

The key drivers for affirming the Aa1 rating and maintaining the stable outlook are:

(1) A capital adequacy position that balances relatively high leverage against its strong asset quality and exceptionally strong asset performance.

(2) Strong liquidity levels at the bank, which reflect its conservative liquidity framework.

(3) Member support that takes account of the baa1 weighted average shareholder rating, relatively low contractual support, and high levels of non-contractual support

RATINGS RATIONALE

--FIRST DRIVER: CAPITAL ADEQUACY BALANCES HIGH LEVERAGE AGAINST STRONG ASSET QUALITY AND PERFORMANCE

Although CEB's leverage has declined over the past decade, it remains a rating constraint, being high relative to most peers in the Aaa-Aa1 levels. The leverage ratio's three-year average (2016-2018) stands at 5.29x and we expect it to remain around this level in the coming years in line with profitability expectations (the bank allocates all or most of net income to reserves and does not pay a dividend).

In contrast, CEB's Development Asset Credit Quality (DACQ) score is relatively high and reflects our assumption regarding CEB's preferred creditor status as well as ongoing improvements in the weighted average borrower rating.

Moreover, CEB's asset quality track record is pristine. Since its inception in 1956, the bank has had only one nonperforming loan (NPL). In the European MDB space, only Eurofima and the European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) have similar asset quality track records.

--SECOND DRIVER: STRONG LIQUIDITY LEVELS AT THE BANK

CEB's liquidity and funding position is a key credit strength. This is a function of the bank's strong liquidity policy, which provides CEB with a buffer to withstand severe liquidity shocks including a severe tail risk scenario of limited or no market access. At the end of 2018, CEB's self-sufficiency period stood at 10 months.

CEB also scores very highly in our assessment of funding and market access. During the euro area sovereign debt crisis, the strength of its market access was tested when several of its largest members experienced downgrades or downward pressure on their bond ratings. However, CEB retained good access to the capital markets, with an investor base diversified by institutions as well as by geography.

--THIRD DRIVER: HIGH NON-CONTRACTUAL MEMBER SUPPORT, BUT WEAKER CONTRACTUAL SUPPORT

The weighted average rating of CEB's shareholders has remained stable at Baa1 for the past four years. In our view, non-contractual support from shareholders is high, as reflected in the track record of capital increases and other forms of financial support, such as support to trust funds. We also see CEB's social mandate as being increasingly important to its members for strategic economic and political reasons.

At the same time, CEB's strength of contractual support is relatively low in the Aaa-Aa1 peer group, as measured by the ratio of callable capital over debt stock; in 2018, this stood at 25%, which is the third lowest level in this rating cohort.

WHAT COULD MOVE THE RATING UP

Sustained, material improvements in leverage metrics that move them closer to the three-year Aaa median of 2.75x would exert upward pressure on the Aa1 rating, as would stronger contractual support metrics and weighted average shareholder ratings.

WHAT COULD MOVE THE RATING DOWN

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 and if there were indications of declining shareholder support for CEB, this would also exert downward pressure upon the Aa1 rating.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in June 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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