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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Sarah Carlson, CFA
Senior Vice President
Sovereign Risk Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Yves Lemay
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
information contained herein is provided “AS IS” without warranty of any kind. MOODY’S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody’s publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody’s Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS’s ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan K.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as
applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.