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Ratings

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Research Update:

Council of Europe Development Bank 'AAA/A-1+' Ratings Affirmed; Outlook Stable

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Overview

- Council of Europe Development Bank (CEB) has maintained its capital ratios despite more dynamic lending activity in 2018, supported by the widening of its mandate.
- Furthermore, CEB's funding profile has strengthened thanks to improved funding market diversification and a widened investor base following its 2018 move to two-way credit support annexes on its derivatives portfolio.
- We are therefore affirming our 'AAA/A-1+' ratings on CEB.
- The outlook is stable since we expect CEB's strengths will remain unchanged in the next two years, particularly its newfound positive disbursement dynamics and corresponding funding relevance, and its solid financial resilience.

Rating Action

On July 1, 2019, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on Council of Europe Development Bank (CEB). The outlook is stable.

Rationale

We base our ratings on CEB's extremely strong enterprise risk and financial risk profiles. Over the past two years, CEB has comfortably maintained its capital ratios despite more dynamic lending activity, supported by the widening of its mandate and higher disbursements to non-target countries. At the same time, CEB's risk-adjusted capital (RAC) ratio and its funding profile have continued to strengthen, with the move last year to two-way credit support annexes on its derivatives portfolio opening up additional markets, and further enlarging its investor base thanks to increasing issuance volumes. As a result, we have revised our assessment of CEB's financial risk profile to extremely strong, and its stand-alone credit profile to 'aaa'. Because 'aaa' is the highest level, we no longer incorporate extraordinary shareholder support from CEB'S callable capital in our assessment.

Over the past few years, CEB has increased its efforts to broaden its activities, resulting in a continuous increase in disbursements and project approvals. We expect CEB's solid momentum for loan disbursements will continue, because the bank's more dynamic approach to its lending mandate will allow it to improve its lending footprint through the pent-up demand for social investments throughout Europe. As a result, the bank will be able to cement its position as a key social infrastructure financer. At the same time, CEB's history of demonstrated preferred creditor treatment (PCT) also underlines its overall enterprise risk profile. Specifically, the CEB has, since its creation, benefited from an excellent track record of PCT by the countries in which it operates, and we expect this will remain the case.

We believe sustained longer-term growth would likely prompt a medium-term build-up in financial capacity. That said, the bank's current activity levels in higher-rated communities outside of its original target group will likely continue to sustain the RAC ratio above the 23% threshold over the next few years. Although modest, earnings will also continue to support the internal capital generation rate and the capital ratio.

Outlook

The stable outlook reflects our expectation that CEB will be able to maintain its newfound positive lending dynamics over the coming two years, such that its policy relevance and funding importance remain unquestioned. We also assume CEB will continue to enjoy excellent PCT and maintain its extremely strong financial profile.

We could downgrade CEB if its policy relevance for shareholders significantly deteriorated, as seen, for example, through lack of shareholder engagement or support for the current activities of the bank. If we observed that CEB's financing contribution was not sufficiently unique or meaningful for its shareholders, illustrated by notably declining lending activity, momentum for a downgrade could build. A significant deterioration in CEB's funding and liquidity assessment could also have a negative impact on the ratings, while a significantly deteriorating capital ratio would most likely be mitigated by the existing callable capital provided by highly rated sovereigns.

Ratings Score Snapshot

Issuer Credit Rating	AAA/Stable/A-1+
SACP	aaa
Enterprise Risk Profile	Extremely Strong
Policy Importance	Very Strong
Governance and Management	Strong
Financial Risk Profile	Extremely Strong
Capital Adequacy	Extremely Strong
Funding and Liquidity	Very Strong
Extraordinary Support	0
Callable Capital	0
Group Support	0

Holistic Approach	0

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
Council of Europe Development Bank	
Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA
Commercial Paper	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.