

ISSUER IN-DEPTH

5 July 2018



RATINGS

Council of Europe Development Bank

	Rating	Outlook
Long-term Issuer	Aa1	STA
Short-term Issuer	P-1	STA
Senior Unsecured	Aa1	STA

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Council of Europe Development Bank - Aa1 Stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The [Council of Europe Development Bank \(CEB, Aa1 stable\)](#) has two principal credit strengths: (1) its conservative risk management policies and practices, as well as its preferred creditor status (PCS), which have resulted in a strong asset performance; and (2) a consistently strong liquidity policy and conservative asset-liability management policies.

The CEB's principal credit challenge remains its high, but declining, leverage. In 2017, debt-to-usable equity stood at 634.7%, down from a peak of 977% in 2011, but still significantly above the Aaa-Aa1 median. An asset coverage ratio of 21.5% as of year-end 2017 is also lower than for most highly rated multilateral development banks (MDBs). Whilst strength of member support is moderate, the bank has enhanced its visibility as an active partner in responding to the European migrant and refugee crisis.

The stable outlook reflects the resilience to shocks afforded by high liquidity levels. Its conservative risk-management policies also protect asset quality effectively.

Further sustained improvements in the capital adequacy and leverage related metrics, such that they move more in line with more highly rated peers, would exert upward pressure on the Aa1 rating, as would further evidence of increasing member support. Conversely, a significant deterioration in asset quality and performance of the loan portfolio might lead to downward pressure on the rating. If leverage were to rise sharply from present levels and if there were evidence of declining shareholder support for CEB, this would also exert downward pressure upon the Aa1 rating.

This credit analysis elaborates upon the credit profile of CEB in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's [Supranational Rating Methodology](#).

Organizational structure and strategy

The CEB was established in 1956 as the *Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe*. It changed its name in 1999 and enlarged its mandate to strengthen social cohesion in Europe and promote inclusive growth. CEB has its own independent legal existence and voluntary membership base. It is headquartered in Paris.

The development bank was founded by eight members ([Belgium \(Aa3 stable\)](#), [France \(Aa2 positive\)](#), [Germany \(Aaa stable\)](#), [Greece \(B3 positive\)](#), [Iceland \(A3 stable\)](#), [Italy \(Baa2 RUR-\)](#), [Luxembourg \(Aaa stable\)](#) and [Turkey \(Ba2 RUR-\)](#)) and has seen two waves of enlargement, bringing its current membership to 41 countries. The first wave, in the 1970s, saw most of the countries of southern and northern Europe join. The second wave followed the reunification of Germany in 1990 and led to the membership of 18 countries from central and eastern Europe – [Ireland \(A2 stable\)](#) also joined in 2004. [Georgia \(Ba2 stable\)](#) and [Montenegro \(B1 stable\)](#) joined in January 2007 and November 2007, respectively, and Kosovo, the 41st member, joined in November 2013.

The development bank makes loans to projects that are socially and economically viable in member states (with lending directly to the sovereign) or through credit institutions (for lending in member countries); it can also grant guarantees. CEB acts as co-financier for the projects it supports and it limits its involvement to no more than 50% of the total cost of a given project. The bank also provides technical assistance in order to support its borrowers, in particular with regard to project preparation, and it funds this technical assistance through various trust funds that it manages.

CEB has received more support from its members following the refugee crisis in Europe

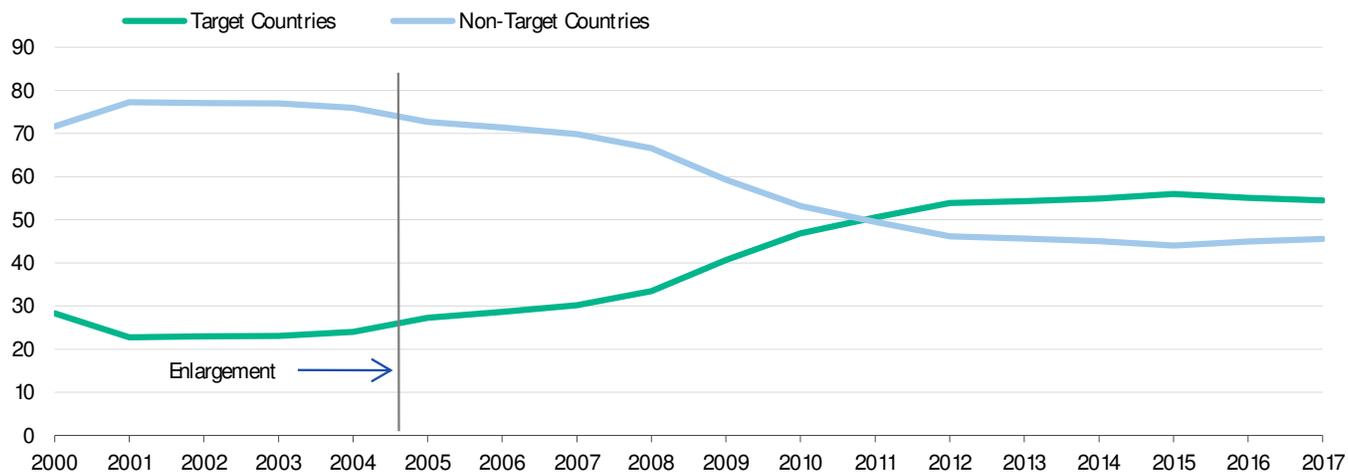
In October 2015, the CEB set up the *Migrant and Refugee Fund* (MRF) as a new grant-based financial instrument in order to assist its members in dealing with emergency requirements related to the migrant and refugee crisis in Europe, equipping reception and transit centres to provide refugees with food, shelter and medical care. MRF was endowed with an initial contribution of €5 million from CEB and was supported by member countries and other donors such as the [European Investment Bank \(EIB, Aaa stable\)](#). MRF reached a cumulative €25.4 million at year-end 2017.

Given the subsequent evolution of the migrant-related situation in Europe, and in the context of the EU-Turkey Joint Action Plan, the CEB Turkey Refugee Account was established by an Administrative Council decision in November 2016 in order to enable the receipt of EU funds. The European Commission (EC) established the *Facility for Refugees in Turkey* (FRiT) in November 2015 as a coordination mechanism in order to streamline actions, largely financed from the [European Union \(EU, Aaa stable\)](#) general budget, aimed at enhancing the efficiency and complementarity of the support provided to refugees and host communities in Turkey.

Project approvals reached a record high of €3.9 billion in 2017 (€3.5 billion in 2016), well above the €2 billion average over 2011-15. In total, CEB approved 41 social projects, and an additional 7 grants for €35 million was also approved. The surge in the bank activity over the past three years reflect a stronger appetite for CEB funding and expertise in light of growing investment requirements in the social sphere following the migrant crisis-related pressures on social services.

This increase in activity in 2017 was largely seen in northern and western European countries, with projects in France, Italy, the Netherlands, Belgium and Spain accounting for almost half of total project approvals in volume terms. By number of projects half were approved in target countries and in terms of volume less than 40% (€1.4 billion). Of all grants approved in 2017, 5 out of 7 was in a CEB target country.

Exhibit 1

Share of loan portfolio to target and non-target countries¹

Sources: CEB, Moody's Investors Service

The *Medium Term Development Plan* covering 2017-19 was approved by the CEB governing board on 2 December 2016. The lines of action approved by the Administrative Council and confirmed by the governing board are: (1) sustainable and inclusive growth; (2) the integration of refugees, displaced persons and migrants; as well as (3) climate action, developing mitigation and adaptation measures. The next Development Plan is currently being discussed.

In 2017, the development bank introduced a new financing instrument, the *Cross Sectoral Loan Programme*, to cover eligible costs related to the development of social infrastructure in overlapping sectors, aiming to adapt better to borrower requirements.

CREDIT PROFILE

Our determination of a supranational rating is based upon three rating factors: capital adequacy, liquidity and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, which provides a preliminary rating range. The strength of member support can provide uplift to the preliminary rating range. For more information please see Moody's [Supranational Rating Methodology](#).

Capital adequacy: Very High

Strong asset quality performance and improving borrower creditworthiness

Factor 1



Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

We assess the capital adequacy of CEB as "Very High", based upon its exceptional asset performance and improving borrower creditworthiness, combined with the gradual improvement of its capital position along with a still high, albeit declining, leverage ratio.

Capital levels reflect solid reserves, callable capital and stringent risk management policies

CEB exhibits moderate capitalisation on two levels: (1) its own resources, including paid-in capital and general reserves, which stood at €2.867 billion as of year-end 2017 (before allocation of 2017 profit); and (2) the ability to call the equally substantial unpaid part of its subscribed capital. The CEB's total subscribed capital is around €5.5 billion after the completion of its sixth capital increase (took effect on 31 December 2011), of which around €612 million (around 11%) is paid in.

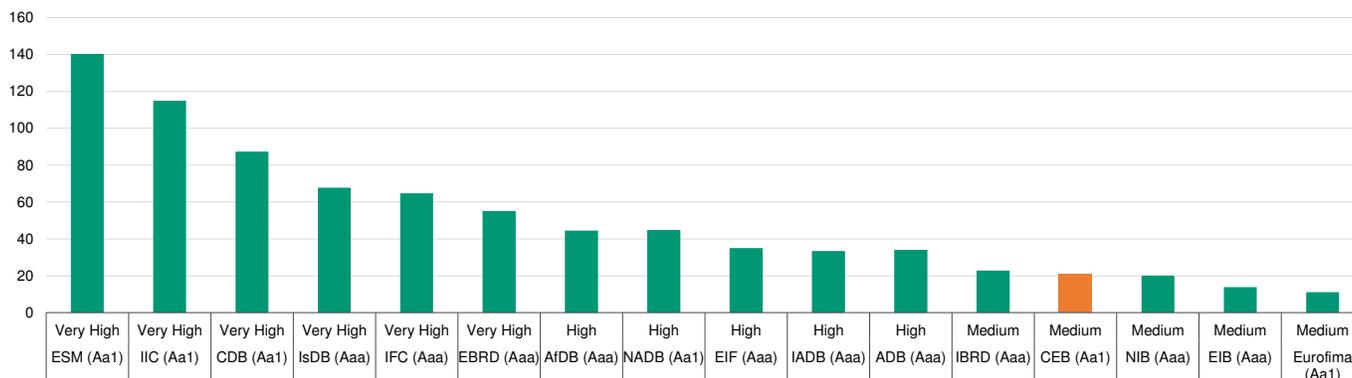
Furthermore, the usable capital, which includes paid-in capital, reserves and unallocated income, is significantly higher than paid-in capital, due to the policy of allocating all or most of net income to reserves. Since 1995, CEB has added almost €2.3 billion to its capital and reserves, which are currently equal to more than three times paid-in capital after the last capital increase.

The steady expansion of capital resources, combined with strict lending requirements, are both indicative of the CEB's stringent capital monitoring in order to ensure that it has sufficient levels of capital in order to cope with risks associated with its lending activity. Under its own guidelines, the capital adequacy ratio in the prudential framework (defined as prudential equity as a percentage of risk weighted assets) has a lower limit of 10.5%. The ratio improved to 29.2% in 2017 from 26.7% in 2016 as a result of an increase in usable equity (+3.9%) and a decrease in risk-weighted assets (-4.8%).

We assess the capital position of an MDB using a narrower definition of capital. Our asset coverage ratio (ACR) takes usable equity (as a percentage of total loans outstanding) and equity operations (if any).² Under this calculation, the CEB's ACR increased to 21.5% in 2017, from a low of 14.4% in 2008. However, this is relatively modest compared with other MDBs in the Aaa-Aa1 range (see Exhibit 3).

Exhibit 3

CEB has a 'medium' asset coverage ratio relative to other Aaa-Aa1 rated peers Three year average (latest three years available)



Sources: CEB and other MDB financial statements, Moody's Investors Service

Growing social investment needs in Western Europe supported another record lending year

The size of the loan portfolio, which includes disbursed loans to member countries or financial institutions, had grown to 58% of total assets at year-end 2017, up from 54% in 2016. Lending volumes have only grown by 0.6% in 2017 due to the high level of reimbursements for 2017 (€2.2 billion), although 2016 was a record year (+4.9% in 2016). Gross loans hit a record €13.792 billion in 2017 (€13.715 billion in 2016), reflecting sustained disbursement growth (+13% after +10.5% in 2016).

Project approvals increased 13% year-on-year to €3.9 billion, reflecting stronger demand in western and northern Europe to address the crisis-inherited backlog in social investment, and longer-term migrant integration (social cohesion, spillovers to the labour market). Around half of project approvals were located in Spain, France, Belgium, the Netherlands and Italy. Projects dedicated to the integration of refugees amounted €1.2 billion and this trend is expected to accelerate, which is in turn positive for average borrower quality.

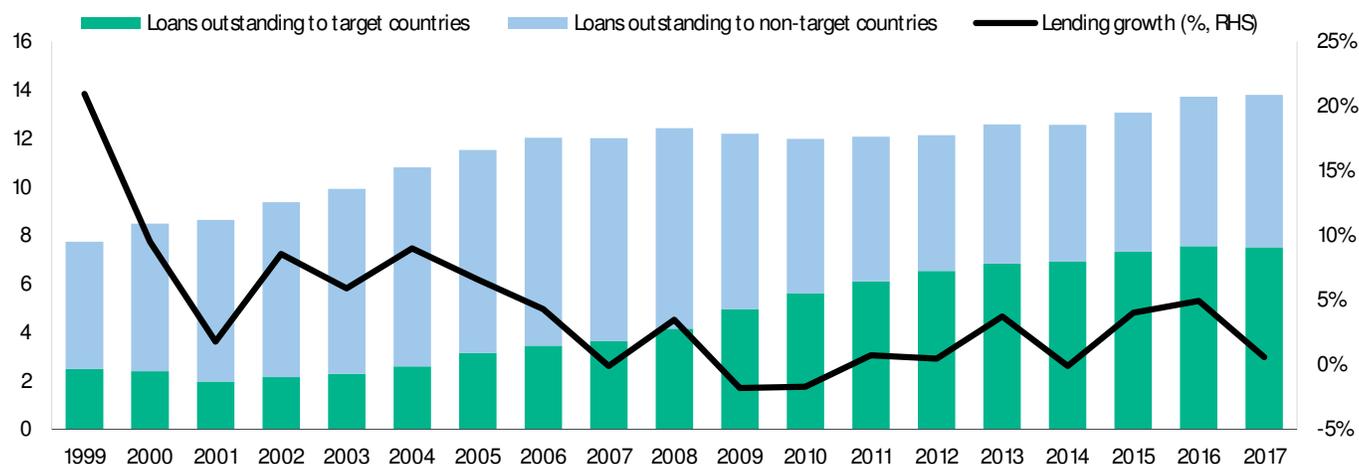
Total financing commitments increased 20.1% to €5.011 billion in 2017 from €4.172 billion in 2016 and €3.119 billion in 2015. Target group countries now account for 55% of outstanding loans, a steady increase from almost 41% in 2009 but similar to last year. 2017 is the second consecutive year that the pace of increase was higher for non-target countries. By amount disbursed, target countries accounted for 50% against 58% in 2016.

The refugee crisis in Europe has increased demand for long-term integration programmes (especially in housing and education) that usually have longer maturities, and this will therefore contribute to an increase in outstanding loans. Regarding CEB's grant activity, the MRF (established in October 2015) has deployed substantial emergency operations. The bank has disbursed €22 million in grants from this fund at end 2017.

Exhibit 4

The proportion of CEB loans outstanding is increasing

Gross loans net of interest receivables, € Bn (LHS), % (RHS)



Sources: CEB, Moody's Investors Service

Overall exposure to sovereigns and sub-sovereigns (after credit risk mitigation) amounted to 75% of total lending at year-end 2017, which is stable as compared with last year and to the average of the past four years. That said, it represents an increase from 68.9% of the lending portfolio in 2011. Exposure to banks fell to 23.6% at year-end 2017, from 28.6% in 2011, reflecting the rebalancing efforts made by the development bank towards target countries in the recent past. Most of the borrowers or guarantors in these countries are the sovereigns themselves.

Borrower quality continues to improve

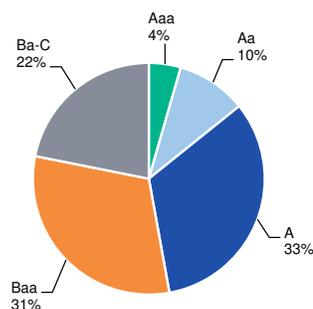
Borrower credit quality has improved gradually since the decline recorded during the global financial crisis. In 2014, median average borrower quality improved to Baa3 from Ba1 in 2013 (credit quality remained broadly stable in 2015) and improved further to Baa2 in 2016, staying at this level in 2017, which compares favorably with Aaa-Aa1 rated peers. Indeed in the Aaa-Aa1 European MDB space only Eurofima (Aa1 RUR-) and EIF (Aaa stable) have a higher weighted average borrower rating (WABR) of Baa1, while NIB (Aaa stable) shares a Baa2 WABR.

We expect that borrower quality will benefit from stronger lending growth to more highly rated sovereigns, such as France, Germany or Sweden, and reduces its exposure to weaker borrowers, such as Cyprus, whose exposure has gradually been reduced to €521 million in 2017 from €548 million in 2016 and €577 million in 2015.

Exhibit 5

Investment-grade countries make up a large share of loans...³

% of total outstanding loans, 2017

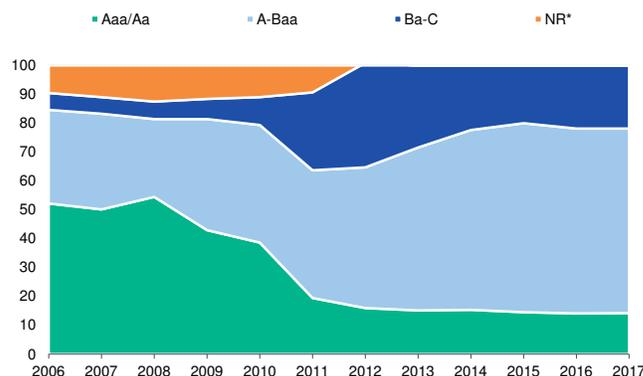


Sources: CEB, Moody's Investors Service

Exhibit 6

...and this share has increased over the past 10 years⁴

%



Sources: CEB, Moody's Investors Service

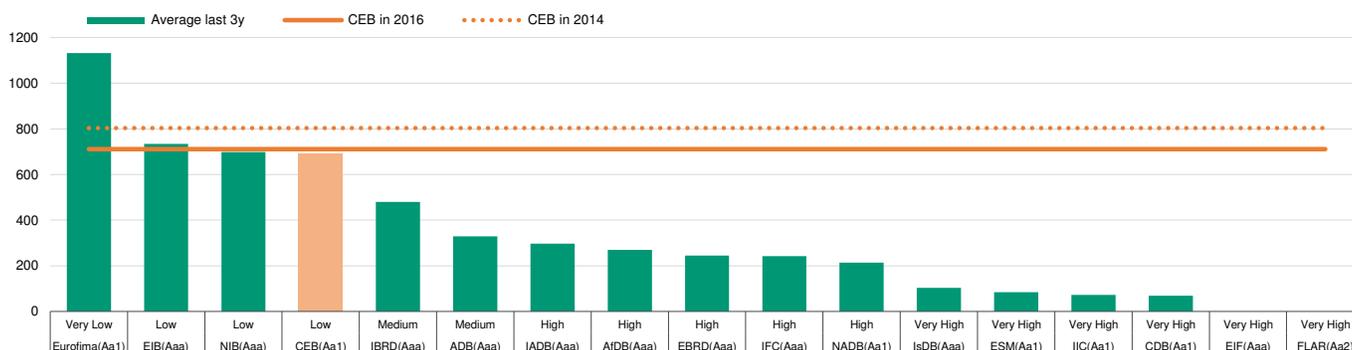
This improvement is also evident on a portfolio basis, where around 78% (72% in 2013) of total loans outstanding⁵ were to investment-grade countries at year-end 2017. Turkey (a target country) followed by Cyprus (also a target country) at around 10% and 4%, respectively, were the largest non-investment grade exposures in 2017 (similarly to 2016).

Leverage is declining, but remains higher than that of most highly rated MDBs

CEB is more reliant on debt than most other MDBs that generally utilise their capital bases for less leverage. However, after peaking in 2011 at 977%, the debt-to-usable equity ratio has declined to 634.7% in 2017 (711.1% in 2016) as usable equity increased by 5.5% while debt fell by almost 6%. With a three-year average of 688.6% (2015-17), it is still well above the Aaa-Aa1 median of around 243% (average over latest three-year period available).

Exhibit 7

Leverage continues to exceed peers despite the recent decline Debt % of usable equity, three year average (latest three years available)



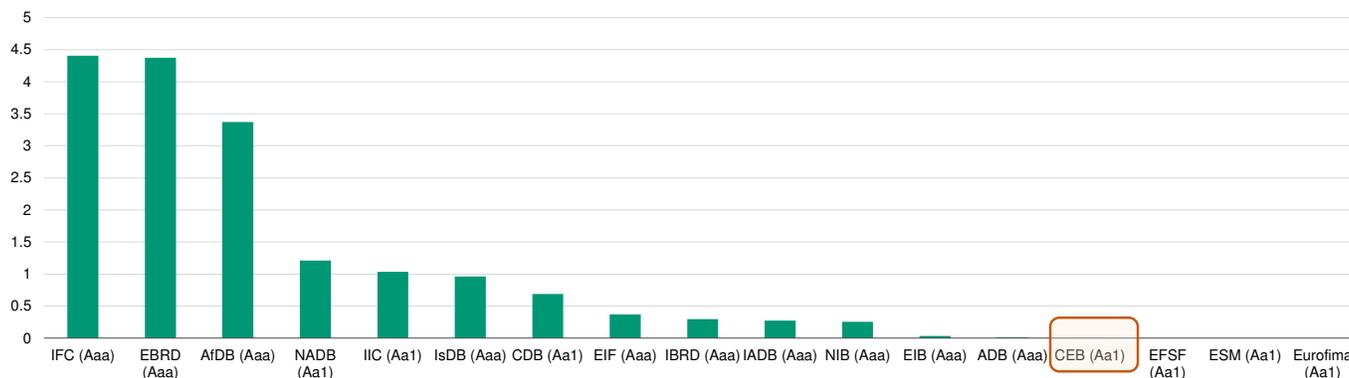
Source: CEB, other MDB financial statements, Moody's Investors Service

Track record of asset quality highlights prudent lending criteria

The CEB's asset quality track record is amongst the strongest of all Moody's-rated MDBs. 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-Aa1 European MDB space, only Eurofima and the [European Financial Stability Facility \(EFSE, Aa1 positive\)](#) have a similar asset quality track record.

CEB also benefits from preferred creditor status (PCS) that reduces the expected loss on loans in the event of a default by a sovereign counterparty.⁶ CEB also uses credit enhancement instruments (guarantees and collaterals) in order to transfer all or part of the risk of credit institutions when a counterparty presents a risk (assessed through the rating) of better quality than the initial borrower.

Exhibit 8
The CEB's asset quality track record is exceptional
 Seven-year average NPLs



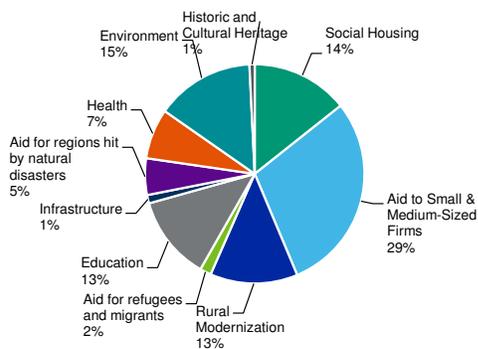
Sources: MDB financial statements, Moody's Investors Service

Government bond defaults in Cyprus and Greece did not trigger any asset quality problems for CEB despite its exposure to these countries. At the end of 2017, its exposure to Cyprus fell to €521 million (less than 4% of the total loans outstanding), from €618.9 million (4.9%) at year-end 2014, and these loans remained performing. CEB does not have any outstanding exposure to Greece.

Concentration risk is mitigated by sectoral and geographical diversification

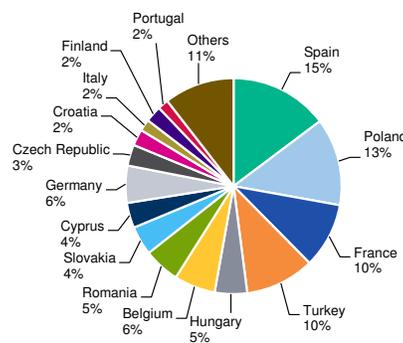
Concentration risk for CEB is mitigated by the sectoral and geographical diversification of its development assets (see Exhibits 9 and 10). Internal CEB guidelines recommend that exposure to a single counterparty (individual institution or group) should be below 25% of prudential capital and the total of all large exposure should be below 800% of prudential capital. As of December 2017, no counterparty exceeded the limit of 25% of CEB prudential capital (similarly to 2016) and 13 counterparties were above 10% of prudential equity, amounting to a total of €5.7 billion or 190% of prudential equity, thus well below the limit set at 800%.

Exhibit 9
Concentration risk is mitigated by sector...
 2017



Sources: CEB, Moody's Investors Service

Exhibit 10
...and country diversification
 2017



Sources: CEB, Moody's Investors Service

Profitability continues to strengthen the balance sheet

CEB has posted stable profitability (see Exhibit 11) over the past decade, with an average of €111.7 million for the period 2007-17. This steady profitability is a credit strength as it has helped to enhance its capital over the years. CEB does not distribute dividends, and at

least 95% of its net income is generally fully allocated to its general reserve. Based upon a resource assessment, a small portion (5%) might be allocated to the social dividend account (SDA, formerly selective trust account) that provides: (1) interest rate subsidies; (2) donations; (3) technical assistance; and (4) a guarantee scheme for pilot projects.

In 2017, CEB posted a net profit of €112.0 million, up from €104.9 million in 2016. The increase was supported by a positive fair value effect on financial instruments (+€8.5 million). Core earnings fell 1.3% year-on-year, as flat staff costs, a growing loan book and higher returns from the bank's liquidity management operations offset the decrease in revenues from long-term fixed HTM assets.

Returns on its treasury assets account for the bulk of the CEB's net income, and its management ensures that the interest it charges on its loan operations closely mirrors its own funding costs. This explains the stability and resilience of its profitability. Treasury assets are managed conservatively in order to cover operational expenses and yield profits, whilst interest expenses are generally covered by interest received from loans and advances to credits institutions and clients.

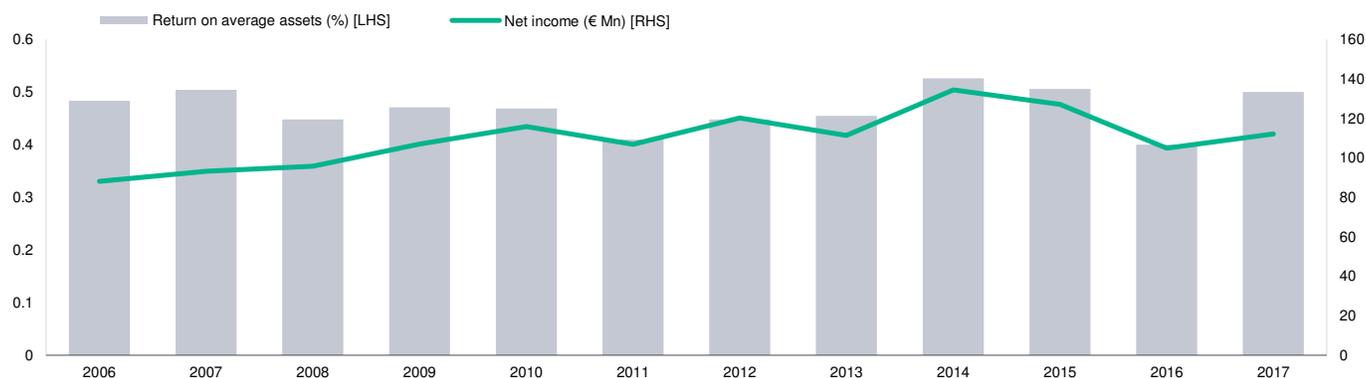
Maintaining profitability at previously recorded levels in the prevailing low interest rate environment will remain challenging for CEB as it will have an adverse effect upon returns from its treasury assets, specifically the HTM portfolio, given the limited reinvestment potential. Currently, the HTM portfolio has an average residual life of 8 years. In the context of the global financial environment, the development bank has placed HTM reinvestment on hold since February 2015.

In order to better address this situation, a new risk and financial policy was implemented in June 2016. Equity is now gradually reinvested in euro-denominated fixed-rate loans, thereby enhancing profitability and contributing to balance sheet deleveraging.

Exhibit 11

Rising profitability over the past decade has seen a slight dip over the past two years given the current low interest rate environment, but was up slightly in 2017

%, € million



Sources: CEB, Moody's Investors Service

Liquidity: Very High

Strong liquidity position supported by prudent policy is a key credit strength

Factor 2



A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

Our "Very High" assessment of the liquidity of CEB reflects its: (1) prudent liquidity policy; (2) conservative treasury operations; and (3) diversified sources of funding.

Extremely prudent liquidity coverage policy

The CEB's strong liquidity coverage policy balances the risks associated with its significant leverage, and mitigates the fact that, like most MDBs, it has no access to central bank refinancing and does not hold deposits from clients. Its conservative liquidity framework is based upon a set of indicators (recently strengthened as part of its review of its existing financial and risk framework) including a self-sufficiency period⁷ and short-term liquidity ratios that at year-end 2017 all stood above their self-imposed limits (see table below).⁸

Exhibit 13

All of the liquidity ratios of CEB stand above their self imposed limits

Ratio	2015	2016	2017	Limit/Thresholds
Self sufficiency period	NA	14 months	9 months	> 6 Months
Short term liquidity ratios	1 Month	561%	601%	655%
	3 Months	223%	219%	229%
	6 Months	204%	149%	160%
	1 year	138%	153%	114%

Sources: CEB, Moody's Investors Service

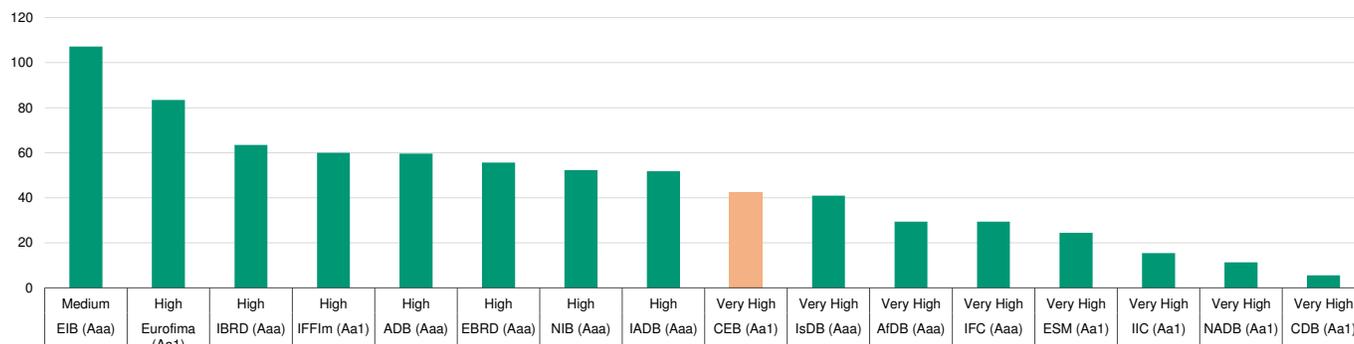
Based upon the most recent CEB stress tests, as of year-end 2017, the self-sufficiency period stood at 9 months (14 months in 2016), well above its limit, reflecting its robust liquidity cushion. These stress tests are in place since June 2016 and provide a more detailed and rigorous insight into the ability of CEB to withstand a liquidity crisis than under the previous stress test framework.

This credit strength is also reflected on a relative basis across the rated MDB space looking at the debt-service coverage ratio (measured by the short-term debt and currently maturing long-term debt as a proportion of discounted liquid assets). The CEB is very well-positioned amongst Aaa-Aa1 peers based upon a three-year period average at around 42% (2015-17), which is close to the Aaa-Aa1 median over the same period average (around 35%). After improving significantly in 2015, the ratio deteriorated slightly in 2016 to 37% and again in 2017 to 56.7%.

Exhibit 14

CEB has very high liquidity relative to other Aaa-Aa1 rated MDBs

Short-term debt + currently maturing long-term debt relative to discounted liquid assets (lesser value signifies higher liquidity). Average over last three years available.



Sources: CEB, Moody's Investors Service

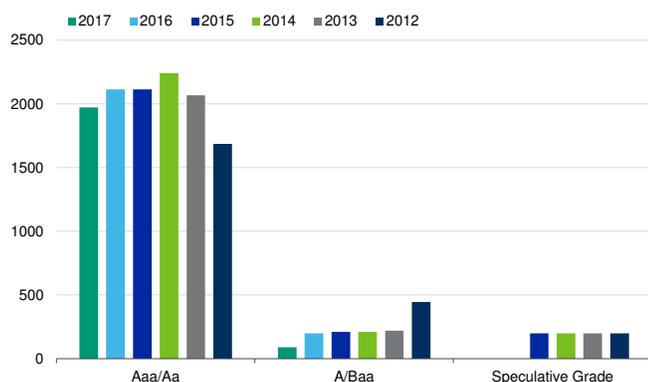
"Very High" liquidity provides CEB with a buffer to withstand a severe tail risk scenario of limited or no market access. Moreover, in such an extreme scenario, it might also draw upon support from its shareholders by utilising callable capital. Its liquidity would then be more than sufficient to meet cash requirements, until callable capital was paid in.

The objective of the treasury portfolio is to provide liquidity support for the CEB's developmental mandate. As of year-end 2017, total treasury assets stood at €8.4 billion (including assets available for sale and assets held to maturity, as well as bank deposits), compared with around €10 billion in treasury assets held in 2014. Liquid treasury assets decreased to €5.8 billion in 2016 from €6 billion in 2016 (€7.6 billion in 2014).

Exhibit 15

Credit risk is low for both held-to-maturity assets...

Financial assets held to maturity (€ million)

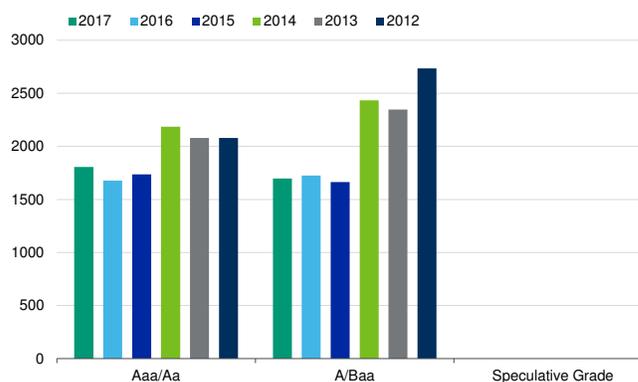


Sources: CEB, Moody's Investors Service

Exhibit 16

... and for available-for-sale assets

Financial assets available for sale (€ million)



Sources: CEB, Moody's Investors Service

In terms of credit risk, and following the new financial and risk policy, treasury assets – both HTM and those available-for-sale – have a minimum rating at purchase of Baa. Outstanding financial assets held to maturity decreased to €2.2 billion at year-end 2017 from €2.4 billion at year-end 2016, and are euro-denominated fixed-rate securities (not swapped).

At year-end 2017, 95.6% of these securities were rated Aaa or Aa, and around 4.4% were A or Baa-rated securities (as compared with 91.4% and 8.6% in 2016). Similarly to 2016, no securities were non-investment grade in 2017, against 7.9% of the portfolio in 2015. Available-for-sale financial assets amounted to €3.5 billion in 2017, slightly up as compared with 2016, and, in terms of credit risk, 51.5% of the portfolio was Aaa and Aa with the remainder above or equal to A or Baa.

Diversified investor base supports strong market access

CEB scores very highly in our assessment of funding and market access. It fulfills its borrowing requirements via bond issuance in the international capital markets. During the euro area debt crisis, the strength of its market access was tested when several of its largest members experienced downgrades or downward pressure upon their bond ratings.

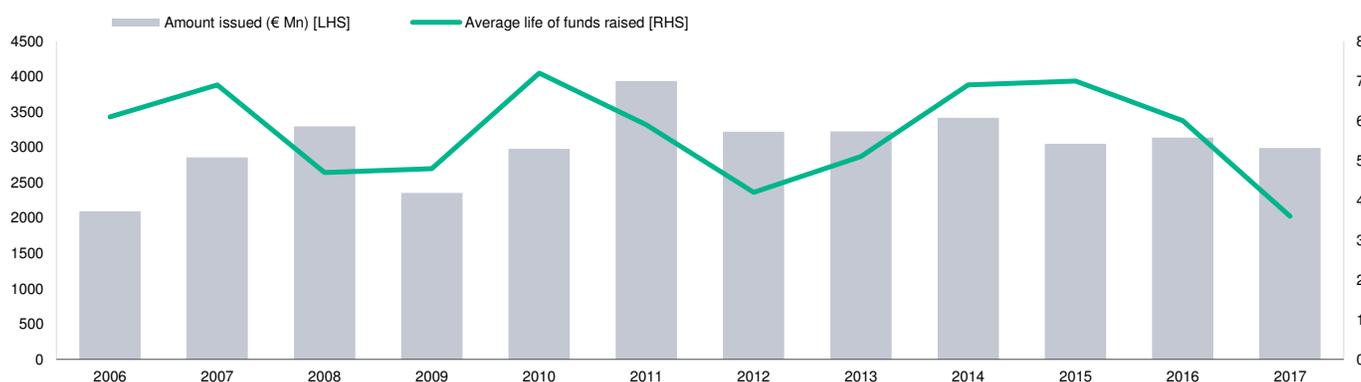
However, CEB retained good access to the capital markets, with an investor base diversified by institutions as well as by geography. It is included in the ECB quantitative easing programme and its bonds are included in its purchasing programme along with those of other European MDBs.

CEB has an opportunistic and dynamic approach to debt issuance, and has traditionally issued debt in US dollars. In 2017, 17% of funds raised were in euros (40% in 2016) and 62% in US dollars (43% in 2016), whilst 21% of funds were raised in sterling (17% in 2016). However, it should be noted that, after accounting for currency swaps, the CEB's overall debt exposure is euro-denominated.

So far this year, the bank launched four bonds, including a social inclusion bond, on 20 March 2018, of €500 million for a seven-year maturity with investor interest for over €700 million. This (second) social inclusion bond supported further diversification of the bank's investor base. Given the 2018 borrowing authorization was set at €5.0 billion, about 49% remains to be raised in the remainder of this year.

As of December 2017, outstanding debt reached €18.8 billion, down from over €21.3 billion in 2012. CEB launched five funding operations in 2017, including its very first social inclusion bond⁹, for a total volume of €2.993 billion (within the borrowing authorisation of €3 billion in 2017). The average funding maturity was 3.7 years in 2017 versus 6.1 years and 7.1 years in 2015.

Exhibit 17

Borrowing and average maturity of debt

Sources: CEB, Moody's Investors Service

Strength of member support: Medium

Strong member ability and propensity to provide support underpin assessment

Factor 3

Scale



Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital.

Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Our "Medium" assessment of strength of member support balances: (1) the moderate size of contractual support¹⁰ relative to CEB debt obligations; (2) high shareholder ability to provide support;¹¹ and (3) our assessment of high shareholder willingness to extend support in case of need.

Member callable capital complements CEB resources

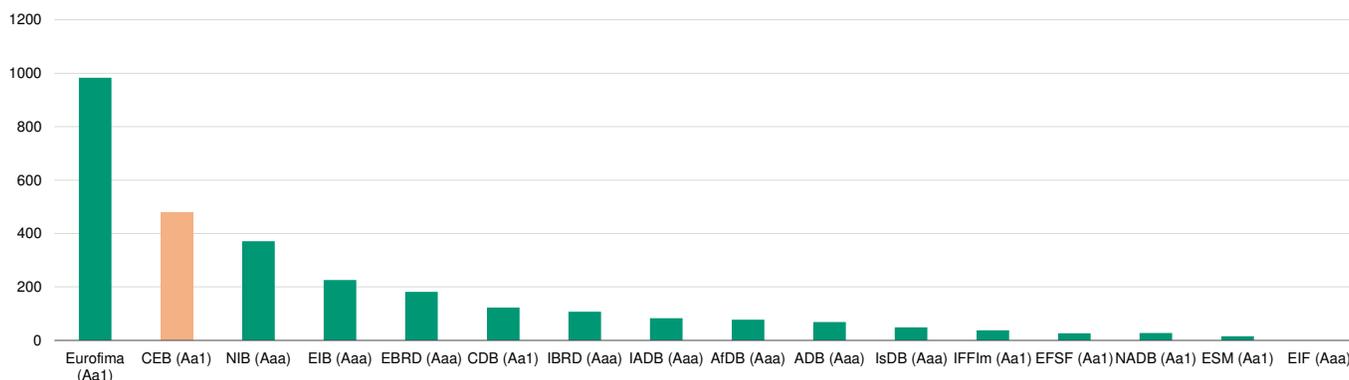
If CEB were unable to service its own debt – an event we consider extremely remote, as reflected in our "Very High" assessment of its intrinsic financial strength – it would be expected to make capital calls on all member countries in proportion to their subscribed shares. Although the bank has never done so, it is very likely that members would fully meet any call upon capital. However, unlike other highly rated or similarly rated MDBs such as EFSF, ESM or NIB, to call callable capital the bank does not have written procedures with the detailed process, agreed by shareholders, spelling out the triggers, a notification procedure and a timeline, by which shareholders are obligated to respond.

We measure the strength of contractual support with the callable capital coverage of debt stock indicator.¹² CEB scores moderately on this measure (on a relative basis), with the 2017 ratio standing at 477%, as compared to the Aaa-Aa1 peer group median of around 73%. The ratio has slightly decreased as compared to 2016 (507%) and it remains well above most MDBs given the level of leverage and the capital base of CEB.

Exhibit 19

Callable capital coverage of debt stock is low as compared to Aaa-Aa1 rated peers

Latest available (either 2016 or 2017)



Source: MDB financial statements, Moody's Investors Service

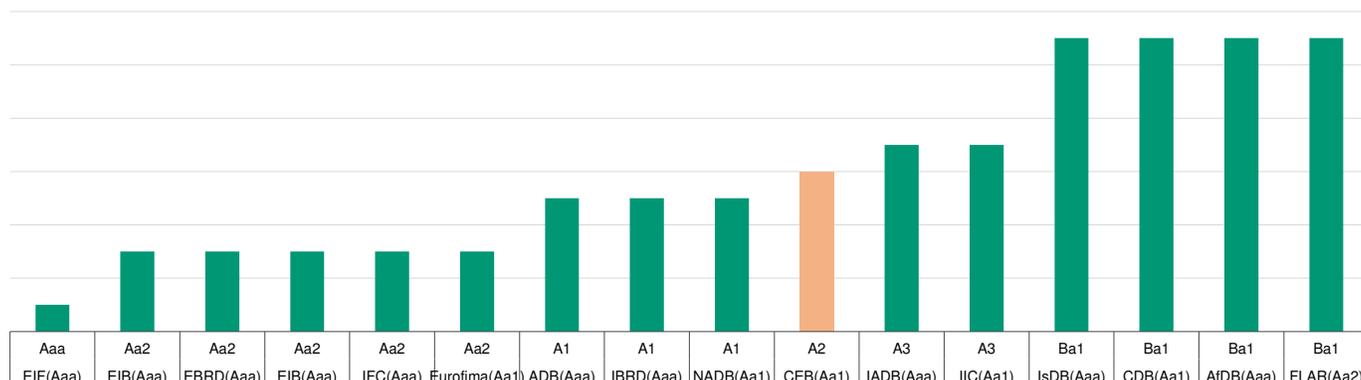
Shareholder ability to support is high

The credit quality of CEB members is particularly important in an assessment of its shareholder support, given that it reflects a high likelihood of support from members if required (in the form of callable capital). Overall, the weighted median shareholder rating of its

41 members was A2 at year-end 2017. On this measure, CEB scores relatively highly amongst Aa1-rated peers and above some non-European Aaa-rated entities such as the [African Development Bank \(AfDB, Aaa stable\)](#) at Ba1 and the [Islamic Development Bank \(IsDB, Aaa stable\)](#) also at Ba1 (see Exhibit 20).

Exhibit 20

Weighted median shareholder rating is high but weaker than for Aaa rated peers



Source: MDB financial statements, Moody's Investors Service

Willingness to support balances a "High" propensity to support...

Propensity to support is an assessment of potential standalone support from members. It is gauged through qualitative factors such as member sense of ownership of the institution, the history of general capital increases over the past 10 years, political linkages and reputational risk, the economic importance of the institution to its members, as well as its track record of fulfilling its mandate, amongst other things.

We assess shareholder propensity to support for CEB as "High", reflecting the track record of general capital increases (GCI) – six in its 60-year history, with the most recent completed in December 2012. The continued political support for its social mandate was demonstrated in 2011, when the governing board approved its sixth capital increase. The process closed on 31 December 2012, with 38 of 40 countries ([Switzerland \(Aaa stable\)](#) and [Liechtenstein \(unrated\)](#) did not participate) ratifying the capital increase (reaching a subscription rate of 98.3%). The capital increase represented a 65.5% increase in its subscribed capital to €5.5 billion and included paid-in capital of €242 million, which is financed from the reserves of the development bank, whilst €2 billion is represented by callable capital.

Shareholder support for the CEB's mandate has also repeatedly been reflected in the expansion of its development mandate, particularly in the recent past. The bank registered a record volume of loan approvals again in 2017 as well as stronger support for its grant-based financial instruments, notably the MRF and the RHP.

The MRF has attracted further support from CEB members in 2017, with €25 million raised at year-end 2017 since its creation in 2015, from only €5 million in October 2015. In addition, the RHP (created in 2013, a joint initiative with the EC and other international donors) that was designed to provide housing for refugees in [Bosnia and Herzegovina \(B3 stable\)](#), [Croatia \(Ba2 stable\)](#), Montenegro and [Serbia \(Ba3 stable\)](#), has also received further support by member states in 2017.

A number of other fiduciary funds were also recently created: the EU-funded Turkey Refugee Account (2017), with a €50 million contribution from the EU for building a hospital near the Syrian border, the Slovak Inclusive Growth Account (2016) or the Italian Fund for Innovative Projects (2017).

Over time, we expect that member support will evolve further in line with the additional value that CEB brings to its members, in addition to the value provided by its relationships with other, larger multilateral development institutions active in the same general geographical area, or with whom it shares a broadly similar membership.

Over the past decade, CEB has strengthened its co-operation with EIB, the EU, the [European Bank for Reconstruction and Development \(EBRD, Aaa stable\)](#) and the [European Stability Mechanism \(ESM, Aa1 positive\)](#). Indeed, the possibility of membership by the EU represents another potentially positive development. In addition, the euro area crisis and, more recently, the migrant and refugee crisis have highlighted the capacity of CEB to approve loans and disburse funds quickly, and to make its actions complementary to the activities of its peers.

...with a "Medium" priority of support

Priority of support assesses potential support in an extreme situation in which all supranational institutions face financial stress and request financial assistance simultaneously. In cases where a sovereign participates in more than one supranational, we estimate the order in which it is likely to allocate resources based upon the top five shareholder allocations in the institution relative to their ownership of shares in other supranational entities.

In the case of CEB, its standing is weaker than for most other more highly rated MDBs given the other, more sizeable commitments of its large shareholders to other, larger MDBs. However, we recognize the enhanced and stronger public profile that CEB has achieved over the more recent past, following the migrant and refugee crisis in Europe.

The concentration of members, as well as the financial and economic linkages amongst members, is considered to be moderate. Regional MDBs, with smaller member bases and narrower geographical mandates, tend to have higher capital concentration and are exposed to regional risk that, in the event of a crisis, would affect a large number of members as a result of contagion through financial and economic linkages. There is also credit risk arising from the default correlation between shareholders and borrowers given that all borrowers are shareholders.

That said, the high credit quality of the majority of the shareholders and borrowers means that borrowers are unlikely to default on such a significant sum such that usable equity¹³ and callable capital available from non-defaulting shareholders would be insufficient to cover the loss.

Rating range

Combining the scores for individual factors provides an indicative rating range. Whilst the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends upon peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see Moody's [Supranational Rating Methodology](#).

Exhibit 21

Supranational rating metrics: Council of Europe Development Bank

Capital Adequacy How strong is the capital buffer?

Sub-Factors: Capital Position, Leverage, Asset Performance

Very High High Medium Low Very Low



Liquidity How strong is the institutions' shock absorption capacity?

Sub-Factors: Position, Funding

Very High High Medium Low Very Low



Strength of Member Support How strong is members' support of the institution?

Sub-Factors: Contractual Support, Extraordinary Support

Very High High Medium Low Very Low



Intrinsic Financial Strength

Very High High Medium Low Very Low



Rating Range:
Aaa-Aa2

Assigned Rating:
Aa1

Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Council of Europe Development Bank with other supranational entities that we rate. It concentrates upon a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores.

We assess the capital adequacy (Factor 1) of CEB as "Very High", in line with Aa1-rated peers, although its very high leverage affects its overall score. The NPL ratio is very low across Aaa-Aa1 rated peers, and is nil in the case of the CEB.

We assess the liquidity (Factor 2) of CEB as "Very High", reflecting one of the strongest ratios in our rated universe of MDBs. In particular, the debt-service coverage ratio (measured by the short-term debt and currently maturing long-term debt as a proportion of discounted liquid assets) is among the strongest in the Aaa-Aa1 range.

The strength of member support (Factor 3) for CEB is "Medium", below that of Aa1-rated peers. Indeed, if the ability of shareholders to extend support is "High", as reflected by its A2 weighted median shareholder rating, it remains below some higher rated peers. Besides, its total debt/discounted callable capital ratio exceeds the Aa rated median by a substantial margin.

Exhibit 22

Council of Europe Development Bank key peers

	Year	CEB	NADB	NIB	Eurofima	CDB	IIC	Aa Median
Rating/Outlook		Aa1/STA	Aa1/STA	Aaa/STA	Aa1/RUR-	Aa1/STA	Aa1/STA	--
Total Assets (US\$ million)	2016	26,988	1,814	31,811	21,235	1,599	2,147	6,472
Factor 1		Very High	High	Very High	High	Very High	Very High	--
Usable Equity/Gross Loans Outstanding + Equity Operations (%) ^[1]	2016	20.5	42.8	19.8	11.2	88.4	115.3	47.7
Debt/Usable Equity (%) ^[1]	2016	711.1	195.8	730.0	1139.7	73.0	104.0	136.2
Gross NPLs/Gross Loans Outstanding (%) ^[2]	2016	0.0	0.0	0.7	0.0	0.5	1.0	0.0
Factor 2		Very High	High	Very High	Very High	Very High	Very High	--
ST Debt + CMLTD/Liquid Assets (%) ^[3]	2016	36.6	1.0	47.1	81.3	1.7	33.7	22.4
Bond-Implied Ratings (Long-Term Average)	2010-2016	Aa1	A1	Aa1	Aa2	A1	--	Aa3
Intrinsic Financial Strength (F1+F2)		Very High	High	Very High	High	Very High	Very High	--
Factor 3		Medium	High	Medium	High	Very High	Medium	--
Total Debt/Discounted Callable Capital (%) ^[4]	2016	507.2	22.1	419.4	959.9	111.9	--	111.9
Weighted Median Shareholder Rating (Year-End)	2016	A2	A1	Aaa	Aa2	Ba1	A3	A1
Rating Range (F1+F2+F3)		Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	--

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

[2] Non performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Based on 2016 data due to availability for certain MDBs of our rated universe

Sources: CEB, Other MDB financial statements, Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 23

Council of Europe Development Bank^[1]

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Rating Lowered	Aa1	--	Aa1	STA	Jun-14
Outlook Changed	--	--	--	NEG	Dec-12
Outlook Assigned	--	--	--	STA	Nov-03
Rating Raised	Aaa	--	Aaa	--	Sep-00
Rating Assigned	Aa1	--	--	--	Dec-94
Rating Assigned	--	--	Aa1	--	Aug-88
Rating Assigned	--	P-1	--	--	May-88

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for [CEB](#) for the full rating history

Source: Moody's Investors Service

Annual statistics

Exhibit 24

Council of Europe Development Bank

	2011	2012	2013	2014	2015	2016	2017
Balance Sheet, EUR Millions							
Assets							
Cash & Equivalents	4,962	4,348	3,093	2,503	2,770	3,077	2,602
Securities	5,918	7,408	7,180	7,619	6,241	6,002	5,839
Derivative Assets	2,882	2,603	1,391	2,379	2,637	2,376	1,004
Net Loans	12,072	12,129	12,579	12,565	13,069	13,715	13,792
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	247	368	239	477	397	433	561
Total Assets	26,081	26,857	24,483	25,544	25,115	25,603	23,798
Liabilities							
Borrowings	20,641	21,329	20,006	20,455	19,519	19,996	18,832
Derivative Liabilities	477	595	401	654	546	621	478
Other Liabilities	2,872	2,672	1,618	1,891	2,340	2,174	1,522
Total Liabilities	23,990	24,596	22,025	23,000	22,405	22,791	20,831
Equity							
Subscribed Capital	4,953	5,466	5,472	5,472	5,472	5,472	5,472
Less: Callable Capital	4,398	4,854	4,860	4,860	4,860	4,860	4,860
Less: Other Adjustments	0	0	0	0	0	0	0
Equals: Paid-In Capital	554	612	612	612	612	612	612
Retained Earnings (Accumulated Loss)	107	120	111	134	127	105	112
Accumulated Other Comprehensive Income (Loss)	(162)	(132)	(48)	(97)	(58)	(55)	(12)
Reserves	1,613	1,661	1,784	1,895	2,030	2,150	2,255
Other	0	0	2	1	1	0	0
Total Equity	2,112	2,262	2,460	2,545	2,711	2,812	2,967

Sources: CEB, Moody's Investors Service

Exhibit 25

Council of Europe Development Bank

	2011	2012	2013	2014	2015	2016	2017
Income Statement, EUR Millions							
Net Interest Income	141	158	164	170	167	160	159
Interest Income	394	304	211	224	174	129	115
Interest Expense	253	146	47	55	7	-32	-44
Net Non-Interest Income	2	-1	-8	-1	8	-7	1
Net Commissions/Fees Income	0	0	0	0	0	0	0
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	2	-1	-8	-1	8	-7	1
Other Operating Expenses	36	36	44	34	48	49	48
Administrative, General, Staff	34	34	42	31	45	46	45
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	2	2	2	3	3	3	3
Pre-Provision Income	107	120	111	134	127	105	112
Loan Loss Provisions (Release)	0	0	0	0	0	0	0
Net Income (Loss)	107	120	111	134	127	105	112
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	0	0	0
Comprehensive Income (Loss)	107	120	111	134	127	105	112

Sources: CEB, Moody's Investors Service

Exhibit 26

Council of Europe Development Bank

	2011	2012	2013	2014	2015	2016	2017
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity Operations)	17.5	18.6	19.6	20.3	20.7	20.5	21.5
Debt/Usable Equity	977.2	943.1	813.3	803.6	719.8	711.1	634.7
Allowance For Loan Losses / Gross NPLs	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NPL Ratio: Non-Performing Loans / Net Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return On Average Assets	0.4	0.5	0.4	0.5	0.5	0.4	0.5
Interest Coverage Ratio (X)	1.4	1.8	3.4	3.4	18.4	-2.3	-1.5
Liquidity, %							
St Debt + CMLTD / Liquid Assets	41.9	39.3	49.3	57.0	33.2	36.6	56.7
Bond-Implied Rating	Aa1	Aa2	Aa2	Aa1	Aaa	Aa1	Aa1
Liquid Assets / Total Debt	52.7	55.1	51.4	49.5	46.2	45.4	44.8
Liquid Assets / Total Assets	41.7	43.8	42.0	39.6	35.9	35.5	35.5
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	93.3	83.6	90.0	90.9	91.1	84.8	84.8
Total Debt/Discounted Callable Capital	518.0	643.2	488.9	521.3	496.1	507.2	477.4
Weighted Median Shareholder Rating (Year-End)	Aa3	A2	A2	A2	A2	A2	A2

Notes:

Net Loans = net of interest receivables; Usable equity is total shareholder equity and excludes callable capital; ST Debt + CMLTD = Short-term debt and currently-maturing long term debt; Discounted Callable Capital = Callable capital pledged by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Source: CEB, Moody's Investors Service

Moody's related publications

- » **Credit Opinion:** [Council of Europe Development Bank – Aa1 Stable: Regular update](#), 19 January 2018
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 29 March 2017

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.

Endnotes

- [1](#) Target countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.
- [2](#) Usable equity excludes callable capital.
- [3](#) After credit risk mitigation, we include non-rated borrowers (13% of the service portfolio in 2017).
- [4](#) NR included from 2012 onwards using CEB internal ratings subject to potential adjustments.
- [5](#) Including NR entities for which we used CEB internal ratings subject to potential adjustments.
- [6](#) The only sovereign default ever recorded by CEB was the former Federal Republic of Yugoslavia, that defaulted in 1992 during its civil war. However, these loans were fully repaid over time.
- [7](#) The self-sufficiency period corresponds to the period during which CEB is able to fulfil its stressed expected net cash outflows stemming from ongoing business operations without access to the market and without sale/repoing of its available liquid assets in the market.
- [8](#) The level of CEB short-term liquidity must comply with a prudential short-term liquidity ratio. The minimum level of liquid assets is set at 100% of net liquidity requirements for each time frame (3 months, 6 months and 1 year) and as of year-end 2017, similar to year-end 2016, the short-term liquidity ratios all stood above their self-imposed limits.
- [9](#) [In April 2017, CEB issued its first social inclusion bond](#) of €500 million with a 7 year maturity, gathering investor interest for over €1 billion. In line with the bank social inclusion bond framework, proceeds are reserved for financing eligible loans to support Social Housing, Education and Vocational Training and MSMEs.
- [10](#) Off balance-sheet support in the form of callable capital.
- [11](#) As indicated by a weighted median shareholder rating of A2.
- [12](#) The callable capital coverage of debt stock indicator is the gross outstanding debt of the development bank as a proportion of the callable capital pledged by members rated investment grade (Aaa-Baa3).
- [13](#) Usable equity is defined as total shareholder equity excluding callable capital.

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