Fitch Ratings - Paris - 18 Jul 2023: Fitch Ratings has upgraded Council of Europe Development Bank’s (CEB) Long-Term Issuer Default Rating (IDR) to 'AAA' from 'AA+'. The Outlook is Stable. Fitch has also affirmed the Short-Term IDR at 'F1+'.

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

KEY RATING DRIVERS

**Strengthening Solvency, Policy Importance:** The upgrade primarily reflects a strengthening in our assessment of the bank’s solvency following the approval of a new capital increase by CEB’s shareholders in December 2022. The agency now expects CEB to operate with stronger capital ratios over the medium-term. The upgrade also reflects the resilience in the bank’s loan performance (with no non-performing loan (NPL) in the last decade) and a strengthening of its policy importance, given its role in providing support to refugees in recent crisis, including following the Russia-Ukraine conflict.

The Stable Outlook reflects our expectation that the bank’s solvency will remain resilient to rising credit risk in the countries where it operates, as CEB benefits from paid-in capital payments under the recent capital increase. The agency further assumes that the start of lending operations in Ukraine (CC) will not significantly affect CEB’s solvency.

**SCP Drives Rating:** CEB’s 'AAA' rating reflects its Standalone Credit Profile (SCP) including a 'aa' solvency assessment (revised from 'aa-' previously), 'aaa' liquidity and an upwards adjustment by two notches over the lower of its solvency and liquidity to reflect the low risk business environment.

**Strengthening Capitalisation:** In December 2022, shareholders approved a new capital increase of up to EUR4.25 billion including a EUR1.2 billion paid in capital increase for the first time in the bank history. Fitch assumes that paid-in capital increase will start
this year and be gradually spread over the next four years. This will support CEB’s capital ratio over the medium term.

The equity-to-adjusted assets ratio was 11.9% in 2022 and Fitch's usable capital to risk-weighted assets (FRA) ratio was 39.1% in 2022. The agency expects the two ratios to gradually increase over the medium term. In addition to paid in capital, the FRA ratio will also benefit from additional callable capital from 'AAA-'-'AA' rated shareholders, although it will also be affected by the expected deterioration in the credit quality of the loan portfolio.

**Very Low Credit Risk:** CEB’s solvency is supported by 'very low' credit risk on its loan portfolio. The average credit quality of its borrowers was 'A-' as of end-2022, unchanged from last year. CEB’s credit risk is enhanced by its 'strong' preferred creditor status (PCS), leading to a two-notch uplift over the average rating of loans to 'A+'. Despite a sizeable non-sovereign loan exposure (47% of loans), the assessment reflects the exceptional loan performance, with no NPLs over the past decade. About 30% of the loan portfolio benefits from credit enhancement in the form of guarantees.

**Resilience to Negative Pressure:** Fitch expects credit risk to remain 'very low' over the medium term despite some deterioration in the loan book’s credit quality. The loan book will be affected by the recent downgrade of the French sovereign (to 'AA-'/Stable from 'AA', 11% of country exposures). In addition, 19% of loans are in countries where the Outlook on the sovereign rating is Negative (Turkiye, 6% of country exposures, Belgium, 6%, Hungary, 4%, Czech Republic, 2%, Estonia, 1%, Austria, 0.3%).

Following the accession of Ukraine to the bank in June 2023, CEB is set to start lending operations in the country. Fitch expects the exposure to Ukraine to remain limited and only to the sovereign, which alleviates part of the risk in relation to these operations.

**Strengthening Policy Importance:** In Fitch’s view, the recent capital increase highlights the bank’s strengthened policy importance for its member states. CEB received strong demand from member states in 2020 and 2021 to provide funding to governments to address the health needs and social impact resulting from the pandemic. In 2022, the bank provided financing to governments and local authorities to support resettlement and assistance to Ukrainian refugees. For the first time, CEB will benefit from guarantees from the European Union (EU, AAA/Stable) in the 2021-2027 EU budget cycle (First-Loss-Piece guarantee of 33% on EUR500 million loans).

**Very Low Solvency Risks:** In addition to 'Very Low' credit risk, CEB’s solvency assessment benefits from 'low' concentration risk (top five obligors at 21% of the total end-2022), its 'very low' market and equity risk and 'strong' risk-management policies.
The risk-management framework has recently been enhanced with the addition of certain liquidity, funding and market-risk limits, in line with best banking practices.

**Excellent Liquidity:** CEB's 'aaa' liquidity assessment reflects the bank's excellent liquidity buffers, strong credit quality of its treasury portfolio (48% rated above 'AA-' at end-2022), and strong access to capital markets. We expect coverage of short-term debt by liquid assets to remain well above the 1.5x 'excellent' threshold (2.4x at end-2022), in line with recent years.

**Stronger Propensity to Support:** Fitch has revised its assessment of extraordinary support from shareholders to 'a' from 'a-' at the previous review. The assessment is based on the average rating of key shareholders (Germany, AAA/Stable, France, Italy, BBB/Stable, altogether accounting for 50.3% of CEB's capital) assessed at 'A+'. Fitch applies a one-notch negative adjustment to the average rating of key shareholders, to 'a', to reflect a 'moderate' propensity to support (a revision from 'weak' at the previous review). 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 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 deterioration in the FRA ratio to below 35%.

**Solvency (Risks):** Increased credit risk following multiple negative sovereign rating actions or rising exposure to borrowers with weak credit ratings that result in the average rating of the loan book falling below 'A-' after accounting for CEB’s PCS. An increase in NPLs above the ‘very low’ criteria-defined threshold of 1%.

**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.

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th
percentile of rating transitions, measured in a negative direction of three notches over
three years. The complete span of best- and worst-case scenario credit ratings for all
rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings
are based on historical performance. For more information about the methodology used
to determine sector-specific best- and worst-case scenario credit ratings, visit
https://www.fitchratings.com/site/re/10111579.

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 subsidises certain loans to its most vulnerable
borrowers to support social development, including social housing, education, and
healthcare. This supports the policy importance of the bank. 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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a
score of ‘3’. This 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. For more information on Fitch’s ESG Relevance Scores, visit
www.fitchratings.com/esg

RATING ACTIONS

<table>
<thead>
<tr>
<th>ENTITY / DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
</table>

Council of Europe Development Bank

<table>
<thead>
<tr>
<th>LT IDR</th>
<th>AAA Rating Outlook Stable</th>
<th>AA+ Rating Outlook Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Upgrade</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ST IDR</th>
<th>F1+</th>
<th>Affirmed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

senior unsecured

<table>
<thead>
<tr>
<th>LT</th>
<th>AAA</th>
<th>Upgrade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

senior unsecured

<table>
<thead>
<tr>
<th>ST</th>
<th>F1+</th>
<th>Affirmed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**VIEW ADDITIONAL RATING DETAILS**

**FITCH RATINGS ANALYSTS**

**Arnaud Louis**  
Senior Director  
Primary Rating Analyst  
+33 1 44 29 91 42  
arnaud.louis@fitchratings.com  
Fitch Ratings Ireland Ltd  
28 avenue Victor Hugo Paris 75116

**Malgorzata Wegner**  
Director  
Secondary Rating Analyst  
+49 69 768076 279  
malgorzata.wegner@fitchratings.com

**Erich Arispe Morales**  
Senior Director  
Committee Chairperson  
+44 20 3530 1753  
erich.arispe@fitchratings.com

**MEDIA CONTACTS**

**Peter Fitzpatrick**  
London  
+44 20 3530 1103  
peter.fitzpatrick@thefitchgroup.com
PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

APPLICABLE CRITERIA

Supranationals Rating Criteria (pub. 11 Apr 2023) (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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an
ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch’s factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch’s ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any
security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO’s credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.
SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.