

Council of Europe Development Bank Annex



Credit strengths

- Excellent asset quality
- Very high liquidity buffers
- Strong shareholders
- Increasing strategic importance

Credit challenges

- High leverage compared to peers

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Rating rationale and Outlook:

The Council of Europe Development Bank (CEB)'s AAA rating reflects its 'excellent' intrinsic strength and 'very high' shareholder support. In detail:

- **Institutional profile:** The CEB benefits from the increasingly strategic role it plays for its shareholder governments and from excellent governance. The bank's social mandate – unique among European supranational institutions – has served shareholders well in helping finance their responses to the Covid-19 pandemic and the Ukraine crisis, the latter being part of the Strategic Framework for 2023-27.
- **Financial profile:** The CEB benefits from excellent asset quality with no non-performing loans and high average borrower quality. It also benefits from preferred creditor status for its sovereign exposure and good geographical diversification. The CEB's liquidity profile is exceptionally strong, and its funding profile benefits from strong market access. During the past few years, the bank has reported lower but still comfortable annual net profit, allowing it to strengthen its capital base with retained earnings. The main rating challenge is the CEB's high leverage, although this is expected to ease following the capital increase approved in December 2022.
- **Shareholder support:** The CEB benefits from highly rated key shareholders (A average) and a record of timely shareholder support. Coverage of assets by callable capital of highly rated shareholders is moderate.
- **Outlook and triggers:** The Stable Outlook reflects a balanced set of risks over the next 12 to 18 months. The ratings/Outlooks could be downgraded if, individually or collectively: i) the CEB recorded sustained losses, leading to a marked deterioration in its capital base; ii) its liquidity buffers were significantly reduced; and/or iii) key shareholders were downgraded.

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Figure 1: Our assessment of the CEB's rating drivers



Positive rating-change drivers

- N/A

Negative rating-change drivers

- Losses that reduce the capital base
- Significant reduction in liquidity buffers
- Downgrades of key shareholders

I Indicative rating: AAA

We first map the assessments of the institutional and financial profiles to determine the supranational's intrinsic strength. In a second step, we map this assessment of intrinsic strength against shareholder support to determine the indicative rating.

Intrinsic Strength: Mapping institutional and financial profiles for the CEB

	Intrinsic Strength		Institutional Profile			
	Excellent	Very Strong	Strong	Moderate	Weak	Very Weak
Financial Profile	Excellent	Excellent	Excellent	Excellent	Very Strong (+)	Very Strong
	Very Strong (+)	Excellent	Excellent	Very Strong (+)	Very Strong	Very Strong (-)
	Very Strong	Excellent	Very Strong (+)	Very Strong	Very Strong (-)	Strong (+)
	Very Strong (-)	Very Strong (+)	Very Strong	Very Strong (-)	Strong (+)	Strong
	Strong (+)	Very Strong	Very Strong (-)	Strong (+)	Strong	Strong (-)
	Strong	Very Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)
	Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)	Adequate
	Adequate (+)	Strong	Strong (-)	Adequate (+)	Adequate	Adequate (-)
	Adequate	Strong (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)
	Adequate (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate
	Moderate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)
	Moderate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)
	Moderate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)	Weak
	Weak (+)	Moderate	Moderate (-)	Weak (+)	Weak	Weak (-)
	Weak	Moderate (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)
	Weak (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak
	Very Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)
	Very Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)
Very Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)	Very Weak (-)	

Indicative Rating: Mapping intrinsic strength and shareholder support for the CEB

	Indicative Rating	Shareholder Support			
		Excellent	Very High	High	Moderate
Intrinsic Strength	Excellent	AAA	AAA	AAA / AA	AA+ / AA-
	Very strong	AAA	AAA / AA	AA+ / AA-	AA / A+
	Strong	AAA / AA	AA+ / AA-	AA / A+	AA- / A
	Adequate	AA+ / AA-	AA / A+	AA- / A	A+ / A-
	Moderate	AA / A+	AA- / A	A+ / A-	A / BBB+
	Weak	AA- / A	A+ / A-	A / BBB+	A- / BBB
	Very Weak	A+ / A-	A / BBB+	A- / BBB	BBB+ / BBB-
	Very Weak	A / BBB+	A- / BBB	BBB+ / BBB-	BBB / BB+
	Very Weak	A- / BBB	BBB+ / BBB-	BBB / BB+	BBB- / BB
	Very Weak	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-
	Very Weak	BBB / BB+	BBB- / BB	BB+ / BB-	BB / B+
	Very Weak	BBB- / BB	BB+ / BB-	BB / B+	BB- / B
	Very Weak	BB+ / BB-	BB / B+	BB- / B	B+ / B-
	Very Weak	BB / B+	BB- / B	B+ / B-	B / CCC
Very Weak	BB- / B	B+ / B-	B / CCC	B- / CCC	
Very Weak	B+ / B-	B / CCC	B- / CCC	CCC	
Very Weak	B / CCC	B- / CCC	CCC	CCC	
Very Weak	B- / CCC	CCC	CCC	CCC	
Very Weak	CCC	CCC	CCC	CCC	

Source: Scope Ratings



II Shareholders: Council of Europe Development Bank

EUR m

CEB shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
France	101.7	814.1	915.7	16.4	AA/ Negative	814.1
Germany	101.7	814.1	915.7	16.4	AAA/ Stable	814.1
Italy	101.7	814.1	915.7	16.4	BBB+/ Stable	
Spain	66.3	531.0	597.2	10.7	A-/ Stable	
Turkey	43.1	345.2	388.3	7.0	B-/ Negative	
Netherlands	22.1	176.7	198.8	3.6	AAA/ Stable	176.7
Belgium	18.2	146.1	164.3	2.9	AA-/ Negative	146.1
Greece	18.2	146.1	164.3	2.9	BBB-/ Stable	
Key shareholders*	472.9	3,787.4	4,260.2	76.4	A	1,951.1
Other 35 shareholders	151.4	1,167.4	1,318.8	23.6		505.5
Total	624.3	4,954.8	5,579.0	100.0		2,456.6

* We include shareholders whose cumulative capital share, starting from the largest shareholder, comprises at least 75% of the supranational's capital. We add all marginal shareholders with identical capital subscription to calculate the key shareholder rating.

Source: CEB, Scope Ratings. Figures may not add up due to rounding.

III Scope's supranational scorecard: Council of Europe Development Bank

Risk factors	Variables	Unit									CEB			
			+4	+3	+2	+1	0	-1	-2	Value	Assessment	Notches		
Institutional Profile	Mandate & ESG (-2; +2)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High		
		Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	1	
		Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Medium/ N/A		
	Governance	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1100.0	Strong		
		Shareholder control	%	--	--	--	--	≤ 25	> 25	--	17.0	Strong	1	
		Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
Institutional Profile											Very Strong			
Intrinsic Strength	Capitalisation (-3; +6)	Capital/ Potential assets	%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	16.0	High	2	
		Capital/ Actual assets*	%	--	--	--	≥ 30	< 30	--	--	18.0	Adequate/ No uplift	0	
		Profitability (Return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	3.0	Adequate	1	
	Trend (-1; +1)												1	
	Asset quality (-3; +5)	Portfolio quality	Incl. risk mitigants	Qualitative	--	--	Very Strong	Strong	Adequate	Moderate	Weak	Very Strong	Very Strong	2
		Asset performance	NPLs	% total loans	--	≤ 0.5	> 0.5; ≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5	--	0.0	Excellent	3
		Trend (-1; +1)												0
	Liquidity & funding (-4; +8)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	105.0	Excellent	4
		Funding	Maturity gap	Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.7	Adequate	0
			Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	6.0	Strong	1
Currency diversification		Top 1 share	--	--	--	≤ 70	> 70	--	--	55.0	Strong	1		
Trend (-1; +1)												0		
Financial Profile											Excellent			
Intrinsic Strength											Excellent			
Shareholder Support	Shareholder strength (0; +3)	Weighted average rating of key shareholders	Avg. rating	--	≥ AA-	≥ A-	≥ BBB-	< BBB-	--	--	--	A		
		Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	24.0	Low / No adjustment	2	
		Adjusted key shareholder rating	Avg. rating	--	--	--	--	--	--	--	--	A		
	Extraordinary Support (0; +2)	Callable capital [rated ≥ AA-]/ Actual assets	%	--	--	≥ 100	< 100; ≥ 20	< 20	--	--	13.0	Adequate	0	
		Additional support mechanisms	Qualitative	--	--	Very Strong	Strong	N/A	--	--	N/A			
Shareholder Support											Very High			
Indicative Rating											AAA			
Additional considerations (-1; +1)											Neutral			
Final Rating											AAA			

Figures in the financial profile relate to a weighted three-year average for 2020-22.
The positive trend adjustment under capitalisation reflects the benefits of the agreed capital increase.
Source: Scope Ratings

IV Asset quality assessment

Portfolio quality (initial assessment)*	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa/aa	a	bbb	bb	b/cc
Notches	+2	+1	0	-1	-2

Adjustments		Indicator	Assessment/ Thresholds								
Points			+5	+4	+3	+2	+1	0	-1	-2	-3
Credit Protection	Sovereign PCS	% of loan portfolio	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
	Private sector secured										
Diversification	Geography	HHI				≤ 1000	≤ 2000	> 2000			
	Sector	HHI					≤ 2000	> 2000			
	Top 10 exposures	% of loan portfolio**				≤ 25	≤ 75	> 75			
Equity Exposure		% of equity						≤ 25	> 25	> 50	> 75

Total points	+7
Adjustments	+2 categories

Portfolio quality (final assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Notches	+2	+1	0	-1	-2

N.B. * Based on Scope's estimate of the geographical and sectoral distribution (sovereigns, sub-sovereigns, state-owned banks and commercial banks) of the CEB's loan portfolio before any credit enhancements via collateral or guarantees, and Scope's sovereign ratings. ** Taking into account the exposure to Turkey and the largest non-sovereign loan exposure.

Source: Scope Ratings. Three points usually correspond to one assessment category. In the case of the CEB, this implies up to two higher categories from the initial portfolio quality assessment based on the estimated average borrower quality.

V Statistical tables

	2017	2018	2019	2020	2021	2022	H1 2023*
Capitalisation (EUR bn)							
Mandated potential assets	19.6	19.8	20.1	20.3	20.5	20.7	21.9
Mandated (disbursed) assets	14.1	14.9	15.8	17.9	19.0	18.2	18.4
Capitalisation ratio, potential (%)	15.2	15.3	15.4	15.4	15.8	16.6	15.8
Capitalisation ratio, disbursed (%)	21.2	20.3	19.5	17.5	17.0	18.9	18.8
Profitability (EUR m)							
Net profit	112.0	97.5	104.7	74.8	94.8	79.7	54.6
Return on equity (%)	3.8	3.2	3.4	2.4	2.9	2.3	1.6
Asset quality (EUR bn)							
Total loans (net)	13.8	14.6	15.4	17.4	18.9	19.9	18.4
Non-performing loans (EUR m)	-	-	-	-	-	-	-
Non-performing loans ratio, %	-	-	-	-	-	-	-
Liquidity (EUR bn)							
Assets ≤ 12 months	4.5	4.2	5.3	5.0	6.0	6.8	-
Treasury assets > 12 months (rated at least AA-)	3.5	3.5	3.3	3.1	3.2	3.0	-
Liabilities ≤ 12 months	5.3	4.1	4.2	3.8	5.2	5.3	-
Disbursements over the next 12 months	2.8	2.8	4.5	4.0	3.5	3.8	-
Liquid assets ratio (%)	98.3	110.7	98.6	104.4	105.2	107.7	-
Funding (EUR bn)							
Volume	3.0	4.9	4.5	4.5	5.5	6.0	5.3
<i>Share of total (%)</i>							
EUR	16.7	73.3	38.9	48.9	38.5	64.7	-
USD	62.2	16.4	39.8	36.6	38.3	15.6	-
GBP	21.1	9.4	17.2	7.9	14.3	13.9	-
ESG issuance	0.5	0.5	0.5	1.5	0.9	2.0	-
% total	16.7	10.2	11.1	33.3	17.1	34.0	-
Equity (EUR bn)							
Paid-in capital	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Reserves	2.3	2.4	2.5	2.6	2.6	2.7	2.8
Total equity	3.0	3.0	3.1	3.1	3.2	3.4	3.5
Shareholders							
Average capital-key weighted rating of key shareholders	A+	A+	A+	A	A	A	A
Shareholders rated at least AA- (% of subscribed capital)	49.4	49.4	49.4	50.6	50.6	50.6	49.6
Callable capital [rated ≥ AA-] / Mandated assets	17.1	16.1	15.2	13.7	12.9	13.5	13.4

Figures for H1-2023 are taken from the CEB's half-year report, showing interim, unaudited financial statements as of 30 June 2023.
Source: Scope Ratings



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