MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms debt and deposit ratings of Credit Europe Bank N.V. and Credit Europe Bank Ltd.

Global Credit Research - 24 Jan 2017

Outlooks on long-term debt and deposit ratings revised to stable from negative.

London, 24 January 2017 -- Moody's Investors Service has today affirmed the long-term local and foreign-currency deposit ratings of Ba2 of Credit Europe Bank N.V. (CEB NV) and revised the outlooks upon them to stable from negative. Concurrently, Moody's affirmed CEB NV's short-term local and foreign-currency deposit ratings of Not Prime and its standalone baseline credit assessment (BCA) and adjusted BCA of b1. CEB NV's subordinated debt rating of B2 and long-term and short-term Counterparty Risk (CR) assessments of Ba1(cr) and Not Prime(cr) have also been affirmed.

Moody's Investors Service has also affirmed the long-term and short-term deposit ratings of CEB NV's Russian subsidiary Credit Europe Bank Ltd. (CEBL) at B1 and Not Prime, its senior unsecured debt rating of B1 and subordinated debt rating of B2, its BCA of b2 and adjusted BCA of b1 and changed the outlook to stable from negative on the long-term debt and deposit ratings. At the same time, the rating agency affirmed CEBL's long-term and short-term CR assessments of Ba3(cr) and Not Prime(cr).

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

--CREDIT EUROPE BANK N.V. (NETHERLANDS)

The revision of CEB NV's deposit outlook to stable from negative reflects the reduction of the bank's asset risks in Russia, which contributed to a 38% decrease in loan loss charges at CEBL in the first six months of 2016. In addition, a significant decrease in funding costs and operating expenses in the country should help support CEBL's profitability and consequently that of its parent CEB NV in the second half of 2016 and in 2017.

The credit profiles of CEB NV and its Russian subsidiary CEBL are interlinked as CEBL still represented 18% of CEB NV's consolidated assets at end-June 2016, despite a significant decrease from 31% two years earlier. CEB NV's BCA of b1 is positioned one notch higher than that of CEBL, as the Dutch bank benefits from a more stable asset base in the Netherlands, stronger funding characteristics through a more moderate use of wholesale funding and greater geographic diversification offering protection against credit risk deterioration at the Russian subsidiary.

Nonetheless, CEB NV was recently impacted by significant loan loss charges from elsewhere. The bank recorded a total of €20 million of provisions in Romania, mostly taken in the first half of 2016, in relation to a new Romanian law enabling customers to cancel their mortgage loans in exchange for relinquishing the property. Although Moody's believes that the bulk of the provisioning charges have already been recorded, this underlines asset risk beyond its Russian lending. As the new law was declared unconstitutional in December 2016, the provisions should be partly reversed. Exposures to Turkey, a country which has undergone significant domestic political disruptions since July 2016, also represented 18% of credit exposures at end-June 2016.

In this context, Moody's views the bank's regulatory capital ratios as only moderate in view of the significant emerging market risks incurred by the bank. CEB NV's Common Equity Tier 1 capital ratio was 12.2% and the total capital ratio was 18.2% as of end-June 2016.

The long-term deposit rating of Ba2 results from (1) the bank's standalone BCA of b1; (2) the application of Moody's Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift from the b1 BCA; and (3) no uplift for government support, reflecting a low probability of support.

CEB NV's BCA of b1 reflects the bank's moderate capital cushion and its risk profile skewed towards geographical markets contributing to higher earnings volatility, notably Russia, Romania and Turkey. The bank's BCA is thus constrained by its Russian subsidiary CEBL.

Moody's two-notch uplift under its LGF analysis also takes into account some balance sheet volatility, possibly resulting in a lower subordinated debt buffer as a percentage of the balance sheet, which in the rating agency's view will lead to a level of loss-given-failure on long-term deposits higher than that suggested by the latest balance sheet in a resolution scenario.

--CREDIT EUROPE BANK LTD. (RUSSIA)

The stable outlook on CEBL's long-term deposit ratings reflects the bank's resilience to difficult market conditions in Russia and the stabilization of its risk profile. In particular, today's rating action reflects: (1) the steadying of CEBL's asset quality; (2) the bank's track record of profitable performance in recent years and Moody's expectation of an improving profitability trend over the next 12-18 months, supported by lower funding and credit costs; and (3) sound capital adequacy.

Formation of new problem loans at CEBL has slowed in 2016, and Moody's expects the stabilization and gradual improvement in the bank's asset quality over the next 12-18 months, aided by the economic recovery.

CEBL's profitability stabilized in 2016 and Moody's expects it to gradually improve over the next 12-18 months supported by growing business volumes, ongoing recovery of its net interest margin and decreasing provisioning charges.

CEBL continues to maintain healthy capital ratios which will be sufficient to support its future growth. As at 30 September 2016, CEBL reported Tier 1 ratio of 17.7% and Total capital adequacy ratio (CAR) of 20.5%.

Moody's also expects that CEBL's liquidity and funding position will remain manageable and benefit from the bank's increasing focus on customer deposits, gradually reducing reliance on market funding.

In addition, today's rating action on CEBL also reflects Moody's view that the contraction in the Russian economy is ending and that nascent economic growth of 1.5% in 2017 will benefit the bank's financial metrics.

The debt and deposit ratings of CEBL incorporate Moody's assessment of a moderate probability of affiliate support from CEB NV, which results in rating uplift of one notch above the bank's BCA of b2.

WHAT COULD MOVE THE RATINGS UP/DOWN

The stable outlook on CEB NV's long-term deposit rating indicates there is currently no expectation of particular upward or downward pressure on the ratings over the next 12-18 months.

An upgrade of CEB NV's deposit rating could be triggered by (1) a visible improvement in the bank's asset risks, notably but not exclusively at Russian subsidiary CEBL; (2) an increase in the bank's capitalisation; and (3) an improvement in profitability together with reduced earnings volatility. Moody's could also upgrade the deposit rating if the agency believed that the protection afforded by the bank's subordinated debt had stabilized.

Conversely, a downgrade of CEB NV's deposit rating could be triggered by increased asset risks, lower capitalisation or reduced profitability.

The stable outlook on CEBL's long-term ratings indicates there is currently no expectation of particular upward or downward pressure on the ratings over the next 12-18 months. However, in the longer term, a positive rating action could result from a material strengthening of the bank's deposit base and reduced reliance on market funding. At the same time the ratings could be downgraded if the bank's risk absorption capacity and financial fundamentals erode beyond Moody's current expectations, or if Moody's reassesses the probability of affiliate support from its parent.

LIST OF AFFECTED RATINGS

--CREDIT EUROPE BANK N.V. (NETHERLANDS)

Long-term local and foreign-currency deposit ratings, affirmed Ba2, Outlook changed to Stable from Negative

Short-Term local and foreign-currency deposit ratings, affirmed NP

Foreign-currency subordinated debt rating, affirmed B2

Adjusted Baseline Credit Assessment, affirmed b1

Baseline Credit Assessment, affirmed b1

Long-term Counterparty Risk Assessment, affirmed Ba1(cr)

Short-Term Counterparty Risk Assessment, affirmed NP(cr)

--CREDIT EUROPE BANK LTD. (RUSSIA)

Long-term local and foreign-currency deposit ratings, affirmed B1, Outlook changed to Stable from Negative

Short-Term local and foreign currency deposit ratings, affirmed NP

Long-term local-currency senior unsecured debt rating, affirmed B1, Outlook changed to Stable from Negative

Long-term foreign-currency subordinated debt rating, affirmed B2

Adjusted Baseline Credit Assessment, affirmed b1

Baseline Credit Assessment, affirmed b2

Long-term Counterparty Risk Assessment, affirmed Ba3(cr)

Short-Term Counterparty Risk Assessment, affirmed NP(cr)

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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