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INVESTORS SERVICE

CREDIT OPINION
18 October 2019

Update

Rate this Research

RATINGS

Credit Europe Bank N.V.

Domicile	Amsterdam, Netherlands
Long Term CRR	Ba1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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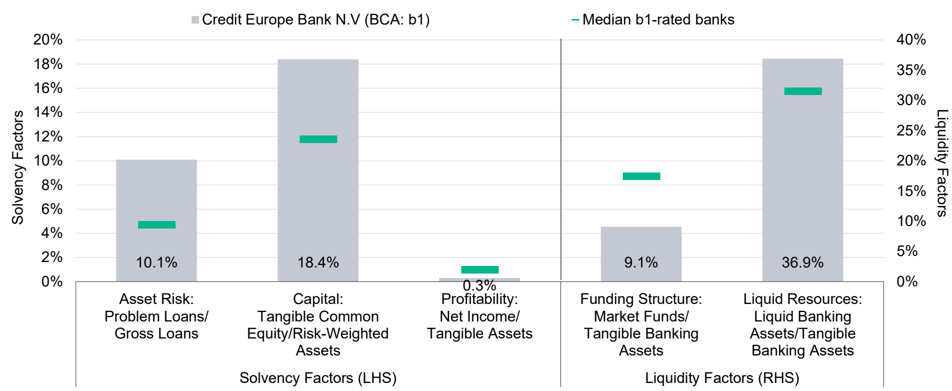
Credit Europe Bank N.V.

Update to credit analysis

Summary

Credit Europe Bank N.V.'s (CEB NV) deposit rating of Ba2 results from (1) the bank's Baseline Credit Assessment (BCA) of b1; (2) the application of our 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 for this small entity. We also assign a negative outlook on CEB NV's deposit rating and BCA to reflect the negative outlook on the Government of Turkey's rating of B1.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Adequate liquidity on a consolidated basis

» Large volume of junior deposits, which results in two notches of uplift from the BCA for junior deposits

Credit challenges

» Deteriorating operating environment in Turkey

» Asset-quality challenges in Romania

» Low profitability

Outlook

CEB NV's BCA and long-term deposit ratings have a negative outlook, reflecting the negative outlook on the Government of Turkey's rating of B1.

Factors that could lead to an upgrade

» An upgrade of CEB NV's BCA and ratings is unlikely over the outlook horizon, as reflected in the negative outlook.

Factors that could lead to a downgrade

» A downgrade of CEB NV's BCA and long-term ratings could be triggered by a further deterioration in the operating environment in Turkey, resulting in a poorer performance of the bank's exposures to Turkey.

» A downgrade could also be triggered by an increase in asset risks in jurisdictions other than Turkey, lower capitalisation or reduced profitability.

Key indicators

Exhibit 2

Credit Europe Bank N.V. (Consolidated Financials) [1]

	06-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	4,600.8	4,930.0	7,200.5	7,710.8	8,094.0	(14.9)[4]
Total Assets (USD Million)	5,239.4	5,635.7	8,646.4	8,132.9	8,792.5	(13.7)[4]
Tangible Common Equity (EUR Million)	683.9	676.3	969.0	977.8	884.2	(7.1)[4]
Tangible Common Equity (USD Million)	778.8	773.1	1,163.6	1,031.3	960.5	(5.8)[4]
Problem Loans / Gross Loans (%)	10.1	10.9	8.0	7.0	6.2	8.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.4	17.2	16.4	15.3	12.7	16.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	36.1	37.0	31.9	32.5	32.7	34.0[5]
Net Interest Margin (%)	2.6	3.0	2.3	4.0	3.3	3.0[5]
PPI / Average RWA (%)	1.3	1.3	1.2	2.6	3.7	2.0[6]
Net Income / Tangible Assets (%)	0.4	0.4	0.0	0.4	0.6	0.4[5]
Cost / Income Ratio (%)	72.2	66.4	64.8	55.0	43.3	60.3[5]
Market Funds / Tangible Banking Assets (%)	6.5	9.1	10.0	8.9	13.6	9.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	33.7	36.9	29.6	25.0	23.0	29.7[5]
Gross Loans / Due to Customers (%)	77.8	78.5	95.9	97.2	104.2	90.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Sources: Moody's Investors Service and company filings

Profile

Credit Europe Bank N.V. (CEB NV) is a Netherlands-based, internationally oriented bank that provides corporate clients with project finance, international trade and commodity finance, and working capital loans. Moreover, the bank provides retail customers with deposits, loans, and credit card and insurance services.

As of year-end 2018, CEB NV served 900,000 customers worldwide and operated in nine countries through a network of 57 branches, around 8,800 sales points and 112 ATMs. Its main markets include Romania; Turkey; and Western European countries, such as the Netherlands and Germany. Its operations in Russia (via its Russian subsidiary, CEBL) were spun off in September 2018, but the bank retained a 10% participation. FIBA Holding A.S. (FIBA) and FINA Holding A.S., which are the ultimate shareholders of CEB NV, own 55% and 35% of CEBL's shares, respectively.

Detailed credit considerations

The financial data in the following sections are sourced from CEB NV's financial statements unless otherwise stated.

CEB NV's BCA conditioned by Moderate + Macro Profile

Although the Dutch economy has a Strong + Macro Profile (MP), CEB NV's risk exposures are largely linked to economies with lower MPs, notably Romania (Moderate -) and Turkey (Very Weak +). As a result, CEB NV's overall MP is Moderate +. CEB NV's operations in Russia, which accounted for 24% of the bank's credit exposures as of year-end 2017, were spun off in September 2018.

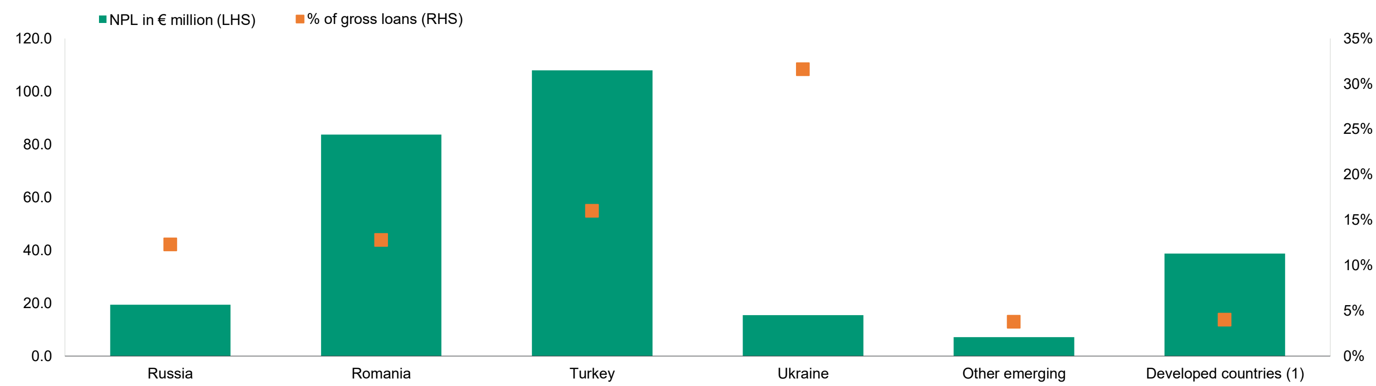
Asset-quality challenges faced in Turkey and Romania

We view CEB NV's asset quality as low. Nearly half of its loan portfolio is made up of exposures to customers from Romania (in both retail and corporate) and Turkey (corporate), countries that we consider relatively risky.

As of the end of June 2019, CEB NV's problem loan ratio was 10.1%, down from 10.9% as of year-end 2018. The increase in impairment on the corporate loan book in Turkey affected the overall problem loan ratio (see below).

Exposures to Turkey, a country that has experienced significant domestic political disruptions, represented 25.1% of the bank's overall credit exposures as of 30 June 2019 or 113% of its Common Equity Tier 1 (CET1) capital. The difficult financial environment in Turkey resulted in a deterioration in the loan performance on Turkish borrowers. The problem loan ratio in the Turkish portfolio has significantly increased recently, reaching 16% as of H1 2019 from 9.9% as of year-end 2018 and 5.3% as of the end of June 2018. However, outstanding loans have decreased by 28% in the meantime. The bulk of the portfolio consists of loans to large corporates. We believe the Turkish large corporates will remain sensitive to the domestic economy. They could also face funding issues as international banks operating in Turkey seek to reduce their exposures to local companies by not renewing the existing lines.

Exhibit 3
Most of CEB NV's problem loans originate from its activities in Turkey and Romania
Geographical breakdown of Stage 3 loans



(1) Developed countries include the Netherlands, Germany and Belgium.
Sources: Moody's Investors Service and company data

The assigned score of b2, one notch below the Macro-Adjusted score of b1, incorporates the risk of a deterioration in the performance of Turkish exposures.

Moderate capital base amid volatile macroeconomic environments in developing markets

As of 30 June 2019, the CET1 ratio was 16.1% and the total capital ratio was 20.8%. The Tier 1 leverage was 13.6% as of the same date.

Our assigned Capital score of ba1 is six notches below the Macro-Adjusted Capital score of a1. This negative adjustment reflects the fact that the bank's exposures to economies with high-risk profiles represent a multiple of the bank's regulatory capital. Exposures to Romania and Turkey represented 110% and 113%, respectively, of the bank's CET1 capital as of the end of June 2019. The risks implied by such concentrations are not entirely captured by the bank's “Moderate +” Macro Profile.

Mitigating these risks is CEB NV's good track record of receiving support from its parent. In December 2014, CEB NV benefited from the conversion of its hybrid Tier 1 securities into equity for €103 million by FIBA. The bank received a €50 million equity injection in January 2015 and another €50 million in March 2015 from FIBA. As of year-end 2017, FIBA also injected a total of $75 million of Tier 1 capital ($50 million of low-trigger additional Tier 1 securities and $25 million in euros equivalent of CET1 capital) into the bank. We believe CEB NV would likely receive further shareholder capital injections in case of need and to support franchise growth.

A dividend of €76.2 million was paid in 2018, but this was part of the capital repayment to the parent company, following the spin-off of Russian activities. Since its inception, CEB NV had not paid any dividends to its shareholders (except in 2012), and we expect this pattern to continue. Therefore, the bank's earnings retention capacity is strong.

Modest profitability, with a high degree of volatility

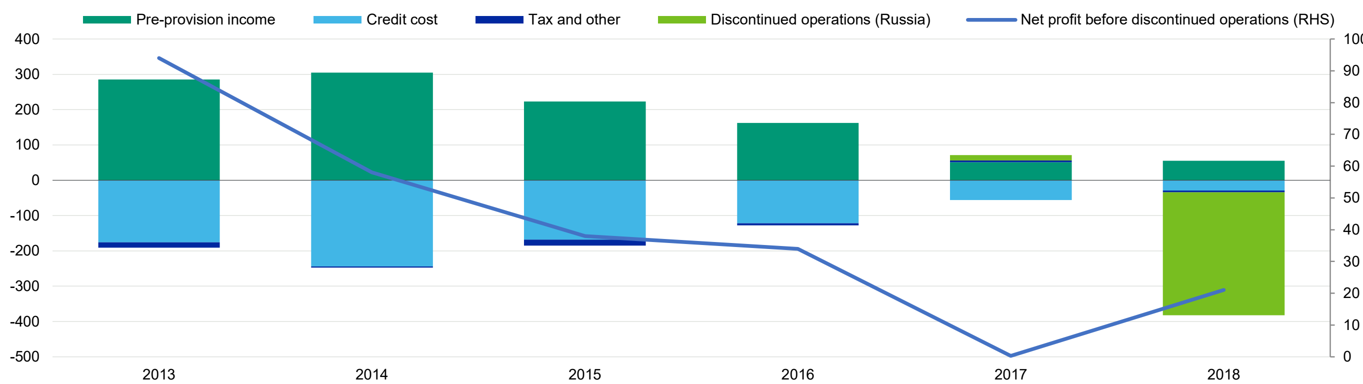
CEB NV's bottom-line profit has shrunk over the past five years, despite a material reduction in the cost of risk since the peak reached in 2014. The decrease in net profit is primarily attributable to lower revenue (-67% between 2013 and 2018), reflecting shrinking business volumes, whereas the bank's cost base has decreased at a slower pace (-53%). The bank's cost-to-income ratio increased to 72% in June 2019 from 51% in 2013.

CEB NV reported net loss of €327 million for 2018. However, excluding the effect of discontinued operations related to the spin-off of Russian operations, CEB NV's net results for 2018 amounted to €21 million. This is significantly higher than the €0.3 million net profit reported a year earlier, primarily because of lower operating expenses and the net release of provisions in the Romanian loan book. The cost of risk amounted to €29 million for 2018, compared with €56 million for 2017.

Exhibit 4

CEB NV's net profit (excluding discontinued operations) is on a decreasing trend

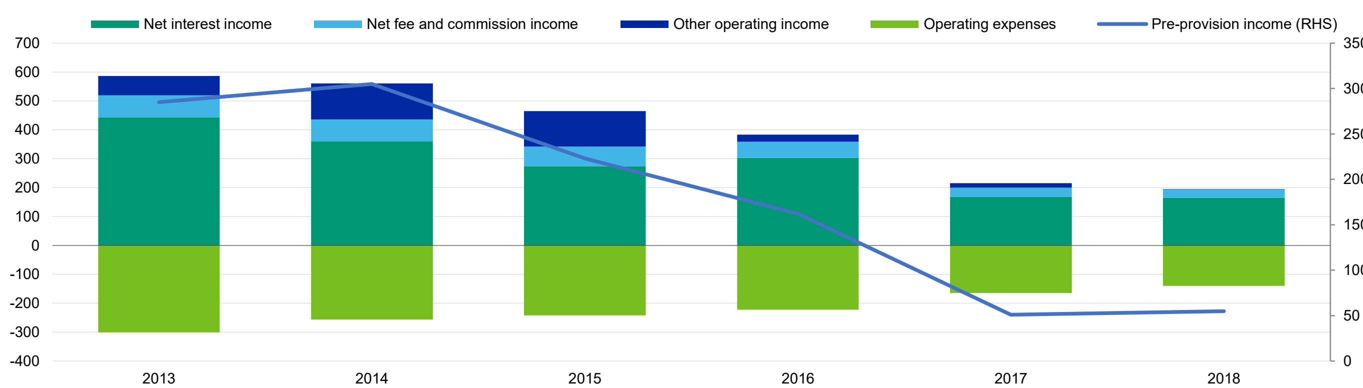
Breakdown of net profit (€ million)



Sources: Moody's Investors Service and company data

Exhibit 5

Breakdown of CEB NV's pre-provision income (€ million)



Sources: Moody's Investors Service and company data

CEB NV's reported net profit of €8.1 million for the first half of 2019, down from €30.7 million for the first half of 2018 (excluding the effect of discontinued operations). Pre-provision income was down 74%, the result of lower net interest income (-36%) and higher operating expenses (+19%), slightly counterbalanced by higher fee and commission income (+8%). This strain on results was partly offset by a €1.2 million net release of provisions.

We expect the bank's profit to remain low and provide a limited capacity to absorb any material deterioration in credit costs. This is reflected in the assigned Profitability score of b3.

Adequate liquidity on a consolidated basis

The group collects deposits (primarily retail) in jurisdictions where it operates, but the bulk of customer funds comes from Western Europe. There is a lack of a geographical balance between assets (some of which are originated in Turkey and Romania) and liabilities (primarily raised in the Netherlands and Germany). Nonetheless, cross-border intragroup funding reliance of foreign subsidiaries is reduced to a strict minimum. Their funding autonomy has increased through both a rise in customer deposits and the increased use of wholesale funding. As of 30 June 2019, the group's net loan-to-deposit ratio was 76%.

Overall, CEB NV's liquid banking assets amounted to 33.7% of tangible banking assets as of end-June 2019. Emerging-market securities accounted for 47.6% of its securities portfolio as of 30 June 2019, mainly from Romanian issuers. Although these securities are freely traded instruments that are eligible for central bank refinancing, they could prove less liquid and riskier in a stress scenario. These factors are reflected in CEB NV's assigned Liquid Resources score of b1.

Environmental, Social and Governance considerations

In terms of environmental considerations, CEB NV has a low exposure to Environmental risks, in line with our general view for the banking sector. See our Environmental risk heatmap for further information.

For social risks, we also place CEB NV in line with our general view for the banking sector, which indicates a moderate exposure to Social risks.

While governance is highly relevant for CEB NV, as it is to all players in the banking industry, we do not have any particular governance concern neither we apply any corporate behaviour adjustment. CEB NV has not shown any governance shortfall in recent years, and its risk management framework is commensurate with the bank's risk appetite. Nonetheless, corporate governance remains a key credit consideration and requires close ongoing monitoring.

Support and structural considerations

Loss Given Failure

CEB NV is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We assume a residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits, a 26% proportion of junior deposits and assign a 25% probability to deposits being preferred over senior unsecured debt. These are in line with our standard assumptions.

Our LGF analysis indicates a very low loss given failure for deposits, leading us to position the deposit rating two notches above the Adjusted BCA. This is because of the loss absorption provided by a substantial deposit volume and the bank's subordinated debt outstanding.

For subordinated securities, our LGF analysis indicates a high level of loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity, leading us to position the subordinated debt rating one notch below the Adjusted BCA.

Government support

Because of its modest size or presence in the Netherlands, we expect a low probability of support from the Government of the Netherlands (Aaa stable) for CEB NV's deposits, resulting in no uplift for the deposit rating.

Counterparty Risk Rating (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

CEB NV's CRRs are positioned at Ba1/NP

CEB NV's CRRs, before government support, are three notches higher than the Adjusted BCA of b1, based on the level of subordination to CRR liabilities in the bank's balance sheet and assuming a nominal volume of such liabilities.

Counterparty Risk (CR) Assessment

The CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

CEB NV's CR Assessment is positioned at Ba1(cr)/Not Prime(cr)

The CR Assessment, before government support, is positioned three notches above the Adjusted BCA of b1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments, amounting to 24% of tangible banking assets. The main difference in our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss. Therefore, we focus purely on subordination and take no account of the volume of the instrument class.

Rating methodology and scorecard factors

Exhibit 6

Credit Europe Bank N.V.

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	10.1%	b2	←→	b2	Expected trend	Geographical concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.4%	a1	←→	ba1	Capital fungibility	
Profitability						
Net Income / Tangible Assets	0.3%	b1	←→	b3	Earnings quality	
Combined Solvency Score		ba1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.1%	a3	←→	ba3	Deposit quality	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	36.9%	a3	←→	b1	Quality of liquid assets	Intragroup restrictions
Combined Liquidity Score		a3		ba3		
Financial Profile				b1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
Scorecard Calculated BCA range				ba3 - b2		
Assigned BCA				b1		
Affiliate Support notching				0		
Adjusted BCA				b1		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	805	17.5%	1,157	25.2%
Deposits	3,451	75.1%	3,099	67.5%
Preferred deposits	2,554	55.6%	2,426	52.8%
Junior deposits	897	19.5%	673	14.6%
Dated subordinated bank debt	150	3.3%	150	3.3%
Preference shares (bank)	50	1.1%	50	1.1%
Equity	138	3.0%	138	3.0%
Total Tangible Banking Assets	4,594	100.0%	4,594	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	22.0%	22.0%	22.0%	22.0%	3	3	3	3	0	ba1
Counterparty Risk Assessment	22.0%	22.0%	22.0%	22.0%	3	3	3	3	0	ba1 (cr)
Deposits	22.0%	7.4%	22.0%	7.4%	2	2	2	2	0	ba2
Dated subordinated bank debt	7.4%	4.1%	7.4%	4.1%	-1	-1	-1	-1	0	b2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	ba1	0	Ba1	Ba1
Counterparty Risk Assessment	3	0	ba1 (cr)	0	Ba1(cr)	
Deposits	2	0	ba2	0	Ba2	Ba2
Dated subordinated bank debt	-1	0	b2	0		B2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
CREDIT EUROPE BANK N.V.	
Outlook	Negative
Counterparty Risk Rating	Ba1/NP
Bank Deposits	Ba2/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Subordinate	B2
CREDIT EUROPE BANK LTD.	
Outlook	Stable
Counterparty Risk Rating	Ba3/NP
Bank Deposits	B1/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba3(cr)/NP(cr)
Subordinate	B2

Source: Moody's Investors Service

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