MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 June 2020

Update

Rate this Research

RATINGS

Credit Europe Bank N.V.

Domicile	Amsterdam, Netherlands
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
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 following rating downgrade

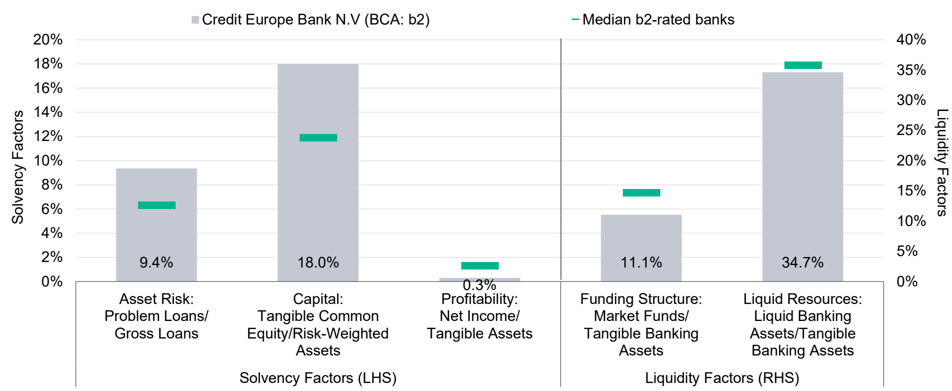
Summary

Credit Europe Bank N.V.'s (CEB NV) deposit rating of Ba3 results from (1) the bank's Baseline Credit Assessment (BCA) of b2; (2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift from the b2 BCA; and (3) no uplift for government support, reflecting a low probability of support for this small entity.

The b2 BCA reflects the bank's high risk concentration and weak profitability relative to its risk profile, which make it particularly vulnerable in the current deteriorated operating environment due to the coronavirus outbreak, despite its high capital ratio at year-end 2019. The lack of funding diversification is somewhat mitigated by a large liquidity portfolio. We assign a negative outlook to CEB NV's BCA and deposit rating to reflect the risk of a significant deterioration in the bank's solvency.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Large liquidity portfolio partly mitigating the lack of diversification in funding sources

» High regulatory capital ratio

Credit challenges

» High concentrations in cyclical sectors and high single-name exposures

» Low profitability despite high margins

Outlook

CEB NV's BCA and long-term deposit ratings have a negative outlook. The deteriorating environment because of the coronavirus outbreak in Europe is creating significant downside risks for CEB NV's standalone credit profile. The negative outlook reflects the risk of a large deterioration in the bank's solvency. In addition, CEB NV's deposit rating is also sensitive to a higher loss given failure stemming from a decrease in subordinated instruments.

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

» CEB NV's BCA and long-term ratings could be downgraded if a deep and prolonged recession were to result in a further increase in asset risk and capital depletion.

» CEB NV's long-term deposit ratings could be downgraded if the buffer of subordinated instruments were to shrink.

Key indicators

Exhibit 2

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

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	4,802.5	4,930.0	7,200.5	7,710.8	8,094.0	(12.2)[4]
Total Assets (USD Million)	5,390.8	5,635.7	8,646.4	8,132.9	8,792.5	(11.5)[4]
Tangible Common Equity (EUR Million)	700.3	676.3	969.0	977.8	884.2	(5.7)[4]
Tangible Common Equity (USD Million)	786.0	773.1	1,163.6	1,031.3	960.5	(4.9)[4]
Problem Loans / Gross Loans (%)	9.2	10.9	8.0	7.0	6.2	8.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.0	17.3	16.4	15.3	12.7	16.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	33.7	37.0	31.9	32.5	32.7	33.5[5]
Net Interest Margin (%)	2.6	3.0	2.3	4.0	3.3	3.0[5]
PPI / Average RWA (%)	1.2	1.3	1.2	2.6	3.7	2.0[6]
Net Income / Tangible Assets (%)	0.5	0.4	0.0	0.4	0.6	0.4[5]
Cost / Income Ratio (%)	74.7	66.4	64.8	55.0	43.3	60.8[5]
Market Funds / Tangible Banking Assets (%)	11.1	9.1	10.0	8.9	13.6	10.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.7	36.9	29.6	25.0	23.0	29.8[5]
Gross Loans / Due to Customers (%)	82.6	78.5	95.9	97.2	104.2	91.6[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 because of the scale of reported amounts. [4]Compound annual growth rate (%) based on the periods for the latest accounting regime. [5]Simple average of periods for the latest accounting regime. [6]Simple average of Basel III periods.

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 project finance, international trade and commodity finance, and working capital loans to corporate clients in Western European countries, Romania, Turkey, Russia and other emerging countries.

Moreover, the bank provides retail banking services including internet deposits in the Netherlands and Germany, and credit card services, mortgages and deposits through a network of 39 branches, 82 ATMs and 8,500 sales points in Romania. As of year-end 2019, the bank's loan book was composed of retail loans in Romania (12%) and international corporate loans (88%).

Its former subsidiary in Russia (Credit Europe Bank Limited or CEBL) was 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.

High risk concentration in vulnerable sectors

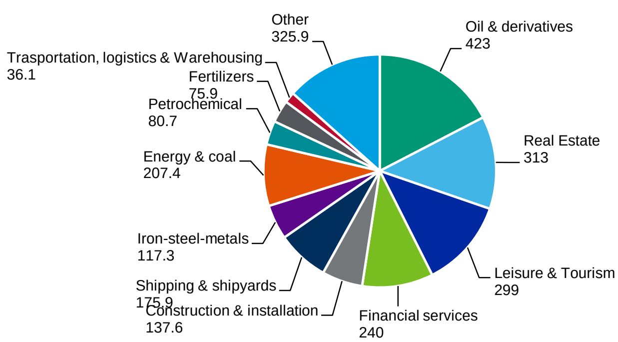
We view CEB NV's asset quality as low. Although domiciled in the Netherlands, CEB NV has material exposures to customers in countries we consider vulnerable, including Turkey (13% of the bank's total credit exposures as of year-end 2019), Romania (21%), Russia (3%) and other emerging countries including Ukraine (15%). Additionally, most of these countries, in our view, will not provide the same level of economic support to the corporate sector in the coronavirus crisis as the major Western European countries.

Because we believe that the concentration on these countries is not adequately captured by an exposure-based weighted average macro profile of "Moderate", the macro profile for the bank is adjusted down by one notch to "Moderate -".

Concentration risk is also high, with the top 20 exposures accounting for 200% of the bank's Common Equity Tier 1 (CET1) capital and significant exposures to some sectors that will likely be the most severely hit by the expected economic contraction. Because of these concentrations, we believe that asset risk at CEB NV is even higher than that reflected by its problem loan ratio of 9.2% as of year-end 2019 and the last three years' average cost of risk of around 120 basis points (bps) of outstanding loans[1]. This results in an assigned Asset Risk score of caa2, three notches below the Macro-Adjusted score of b2.

Exhibit 3

Breakdown of corporate loans by industrial sector as of year-end 2019 (in million €)



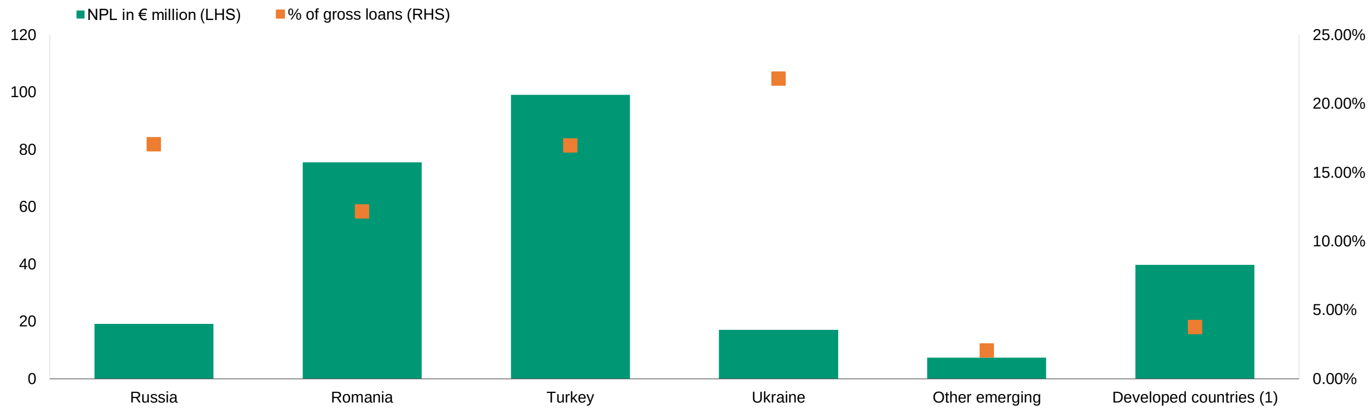
Source: Company data and Moody's Investors Service

At year-end 2019, the banks' exposure to the leisure and tourism and commercial real estate sectors accounted for 10.6% and 11.1% of its total loan book respectively. A large share of these exposures consists of loans to hotels and shopping malls, the activity of which is stalled. Single name exposures within these portfolios are also material.

The bank's exposure to the oil and gas sectors accounting for 15.1% of its loan book at year-end 2019 also represents a pocket of vulnerability, although the risks involved are somewhat mitigated by their limited sensitivity to oil price variations and their short-term nature. The exposure to the shipping sector represents 6% of the total loan book and primarily consists of tanker financing according to the bank's management, which will likely be less affected today than dry bulk ships.

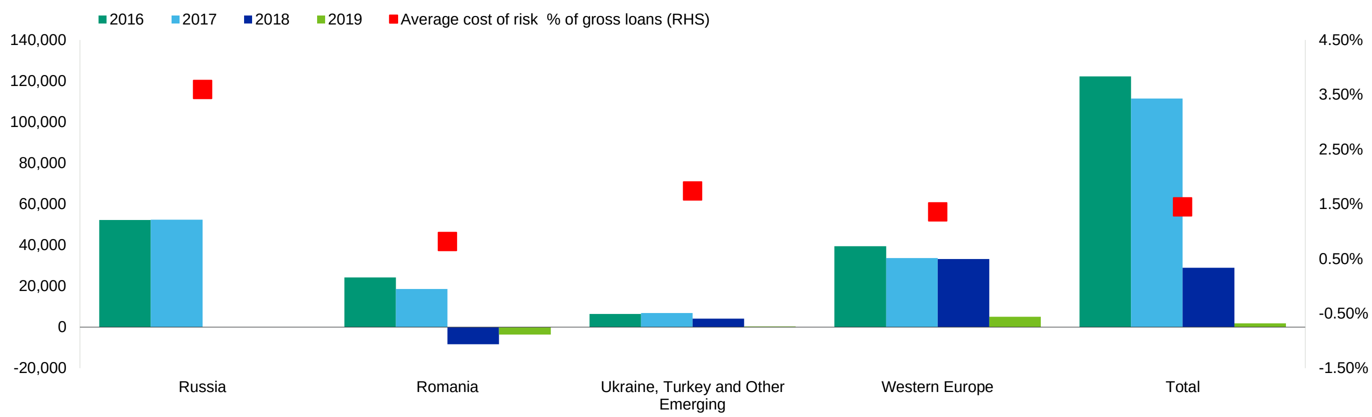
Before the coronavirus crisis, the historical asset performance of CEB NV was poor reflecting its exposure to high risk activities. Although lower in 2019 (7 bps of outstanding loans excluding impairment charges on repossessed assets classified within operating expenses), cost of risk has been material in previous years. Even excluding losses generated by operations in Russia, which were spun off in 2018, the bank's cost of risk ranged from 108 bps to 185 bps of outstanding loans between 2016 and 2018. While corporate exposures in Turkey and Romania remain the main contributors to nonperforming loans as of year-end 2019, operations carried out with Western European customers have generated material losses between 2016 and 2018 (see Exhibits 4 and 5).

Exhibit 4
Nonperforming loans (NPLs) and NPL ratios by geographical area



Sources: Company data and Moody's Investors Service

Exhibit 5
Cost of risk by geographical area€ thousands



Sources: Company data and Moody's Investors Service

Moderate capital base relative to its risk profile

As of year-end 2019, the bank's CET1 ratio was 15.7% and the total capital ratio was 20.2%. The bank's Tier 1 leverage was at a relatively high 13.6% as of the same date, reflecting the high density (79% at year-end 2019) of the bank's risk-weighted assets (RWA).

Despite the high capital metrics, our assigned Capital score of ba1 is four notches below the Macro-Adjusted Capital score of a3. This is because we believe that capital could be eroded in the event of a prolonged halt in economic activities, implying an enduring impact on the bank's solvency.

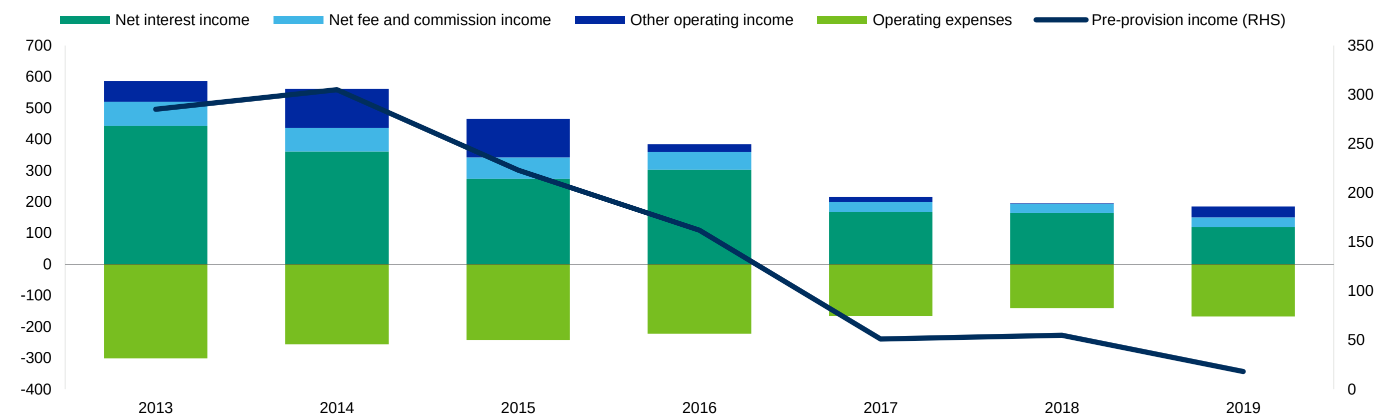
There is a good track record of parental support. In December 2014, CEB NV benefited from the conversion of its hybrid Tier 1 securities into equity for €103 million by FIBA. The bank received a €50 million equity injection in January 2015, another €50 million in March 2015 and $75 million of Tier 1 capital ($50 million of low-trigger Additional Tier 1 securities and $25 million in euros equivalent of CET1 capital) in 2017 from FIBA. We believe CEB NV would likely receive further shareholder capital injections in case of need.

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 has 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, leaving little room to absorb any deterioration in credit costs

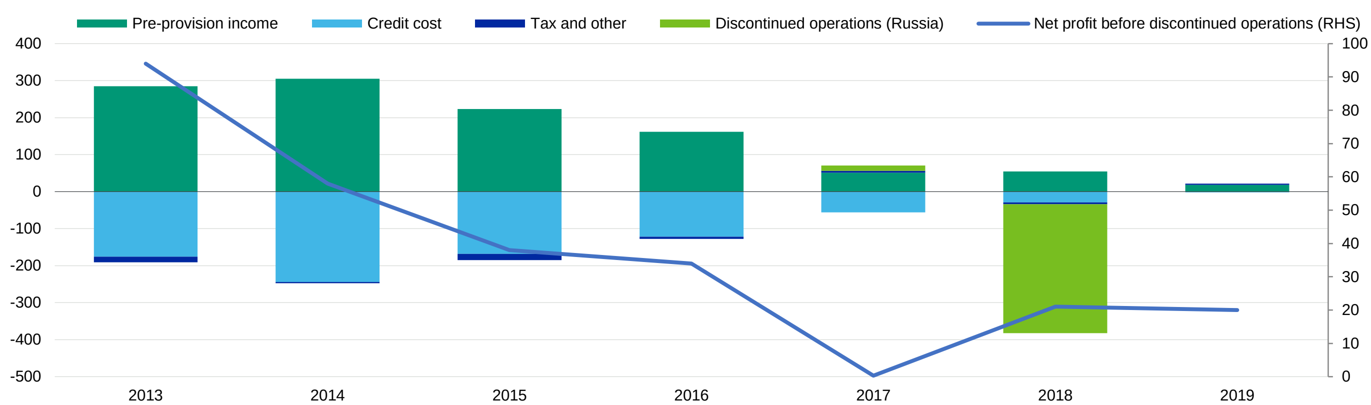
CEB NV reported a net profit of €20 million in 2019, representing 0.5% of the bank's tangible assets. Profitability is low relative to its risk profile and provides limited capacity to absorb any material deterioration in credit costs. This is reflected in the assigned Profitability score of caa2.

Exhibit 6
Breakdown of pre-provision income
€ million



Sources: Company data and Moody's Investors Service

Exhibit 7
Breakdown of net income
€ million



Sources: Company data and Moody's Investors Service

While profit shrank as a result of the progressive business downsizing since 2013[2], profitability also decreased significantly as reflected in the decline in the average annual pre-provision income to 0.7% of total assets over the last three-year period from 3% over the three-year period to 2015. A large part of the decline in profitability can be attributed to the shrinkage in net interest margin to around 2.6% as of year-end 2019 from more than 4.5% in 2013[3].

The bank's operating expenses also decreased at a lower pace than revenues resulting in significantly lower cost efficiency. The cost-to-income ratio increased to levels exceeding 70% over the past three years from around 50% before 2016. The cost-to-income ratio was even higher at 90% in 2019 because the expense base was inflated by higher impairments (around €20 million impact) on repossessed assets[4]. The result of operating repossessed assets has had a non-negligible negative impact on CEB NV's profitability over the past few years. In 2019, these assets generated a loss of €26 million — including the aforementioned impairments — reducing the bank's pre-provision income to €18 million.

Despite a significant reduction in the cost of risk since the peak achieved in 2014, loan-loss provisions absorbed 110% and 57% of the bank's pre-provision income in 2017 and 2018, respectively. Credit costs were very low at 7 bps of outstanding loans in 2019 and represented only 11% of the year's pre-provision income, but this was because of the substantial reversal of provisions.

Lack of funding diversification partly mitigated by its large liquidity portfolio

The Combined Liquidity score of ba2 reflects the bank's overreliance on internet deposits and its weak access to alternative resources.

As of year-end 2019, 84% of the bank's financial liabilities consisted of customer deposits, 12% of interbank borrowings and 4% of subordinated loans. Excluding deposits raised in Romania (around 16% of total deposits) that are entirely used to finance the local business, the vast majority of the bank's deposits consist of internet deposits collected in the Netherlands and Germany by the Dutch entity (87% of total deposits excluding Romania as of year-end 2019). Most of these products are covered by the Dutch Deposit Guarantee Scheme, which limits their sensitivity to reputational risks to a certain degree.

We nonetheless consider the lack of funding source diversification a weakness. The bank's overreliance on internet deposits reflects its limited ability to access other sources of funding, including market funding. Additionally, we consider internet deposits where customers have no other relationship with the bank inherently less stable than primary client deposits.

The bank's liquidity portfolio, representing around 26% of total assets (or 30% of financial liabilities) as of year-end 2019, comfortably mitigates the risk of run-off of its financial liabilities. Half of the liquidity portfolio consists of cash and deposits at central banks, while investment securities and interbank lending represented 37% and 13% of the portfolio, respectively, as of year-end 2019. At the same date, the securities portfolio included around 45% of average-quality sovereign bonds (primarily Romanian), but the bulk of these securities still provide access to ECB funding.

CEB NV's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were 509% and 150%, respectively, as of year-end 2019.

Cross-border intragroup funding 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 interbank funding, both locally.

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 heat map 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. We also regard the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. The deteriorating environment due to the coronavirus outbreak in Europe is creating significant downside risks for CEB NV's standalone credit profile.

While governance is highly relevant for CEB NV, as it is for all participants in the banking industry, we neither have any particular governance concern nor do 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 10% 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.

Following our banks methodology, we also exclude from the resolution perimeter the subsidiaries in Romania, Switzerland and Dubai.

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 moderate level of loss-given-failure, leading us to position the subordinated debt rating in line with 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 for CEB NV's deposits, resulting in no uplift for the deposit rating.

Counterparty Risk Ratings (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 Ba2/NP

CEB NV's CRRs, before government support, are three notches higher than the Adjusted BCA of b2, 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 Ba2(cr)/Not Prime(cr)

The CR Assessment, before government support, is positioned three notches above the Adjusted BCA of b2, 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 the 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 8

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	9.4%	b2	↓↓	caa2	Sector concentration	Single name concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.0%	a3	↓↓	ba1	Expected trend		
Profitability							
Net Income / Tangible Assets	0.3%	b2	↓↓	caa2	Expected trend		
Combined Solvency Score		ba2		b2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	11.1%	baa3	←→	ba2	Lack of market access	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	34.7%	baa3	←→	ba1	Quality of liquid assets		
Combined Liquidity Score		baa3		ba2			
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			
BCA Scorecard-indicated Outcome - Range				ba3 - b2			
Assigned BCA				b2			
Affiliate Support notching				0			
Adjusted BCA				b2			

Balance Sheet is not applicable.

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	-	-	-	-	-	-	-	3	0	ba2
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	ba2 (cr)
Deposits	-	-	-	-	-	-	-	2	0	ba3
Dated subordinated bank debt	-	-	-	-	-	-	-	0	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	ba2	0	Ba2	Ba2
Counterparty Risk Assessment	3	0	ba2 (cr)	0	Ba2(cr)	
Deposits	2	0	ba3	0	Ba3	Ba3
Dated subordinated bank debt	0	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 9

Category	Moody's Rating
CREDIT EUROPE BANK N.V.	
Outlook	Negative
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	Ba2(cr)/NP(cr)
Subordinate	B2

Source: Moody's Investors Service

Endnotes

1 Cost of risk was 7 bps of outstanding loans in 2019, 108 bps in 2018 and 237 bps in 2017.

2 The bank's total assets decreased to €4.9 billion as of year-end 2019 from €10.2 billion as of year-end 2013.

3 Part of this decrease is attributable to the spin-off of CEBL in 2018.

4 Repossessed assets mainly consist of vessels, shipyards and real estate. They amounted to €124 million as of year-end 2019 (year-end 2018: €163 million) and were reported as inventories, property and equipment or assets held for sale.

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