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CREDIT OPINION
21 October 2016

Update

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RATINGS

Credit Europe Bank N.V.

Domicile	Amsterdam, Netherlands
Long Term Debt	Not Assigned
Type	Not Assigned
Outlook	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.

Semiannual Update

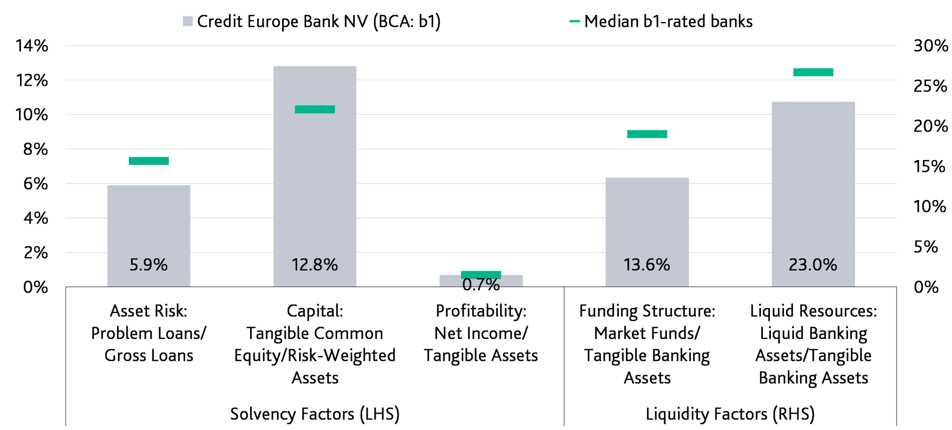
Summary Rating Rationale

Credit Europe Bank N.V. (CEB NV)'s long-term deposit rating is Ba2 with a negative outlook. The short-term bank deposit rating and the subordinated debt rating are Not Prime and B2, respectively. The bank's baseline credit assessment (BCA) is b1.

The deposit rating results from (1) the bank's standalone BCA of b1; (2) the application of Moody's Advanced 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 edged towards geographical markets implying a degree of earnings volatility, including Russia and Romania. The bank's BCA is notably constrained by its Russian subsidiary Credit Europe Bank Limited (CEBL), representing 18% of CEB NV's consolidated assets at end-June 2016. CEB NV's BCA is positioned one notch above that of CEBL, reflecting the benefit of geographical diversification, stronger liquidity and a more moderate reliance on market funds.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

» Adequate liquidity on a consolidated basis

» Large volume of deposits and subordinated debt resulting in deposit ratings benefiting from a very low loss-given-failure and two notches of uplift from the BCA

Credit Challenges

- Credit Europe Bank N.V.'s BCA conditioned by Moderate + Macro Profile
- Asset quality under pressure in Russia
- Moderate capital base against volatile macroeconomic environments in developing markets
- Weakening profitability due to elevated credit costs and a shrinking loan book in Russia
- Adequate liquidity on a consolidated basis, but some refinancing risk as a result of significant market funding at Russian subsidiary level
- Low probability of government support resulting in no uplift from BCA for deposits

Rating Outlook

CEB NV's long-term deposit ratings currently have a negative outlook, reflecting the weakened operating conditions in Russia.

Factors that Could Lead to an Upgrade

- Currently, there is no upward pressure on CEB NV's BCA and long-term bank deposit ratings.
- Nonetheless, we would view positively any meaningful improvement in the Russian macroeconomic environment with visible effect on CEBL's profitability.

Factors that Could Lead to a Downgrade

- CEB NV's ratings could be downgraded following a weakening of CEBL's performance. A deterioration of the bank's core capitalisation could also trigger downward rating pressure.
- As subordinated debt provides significant cushion to CEB NV's deposits in failure, the deposit ratings could be downgraded if the proportion of subordinated debt was to be reduced substantially in the bank's liability structure.

Key Indicators

Exhibit 2

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

	12-15[2]	12-14[2]	12-13[2]	12-12[3]	12-11[3]	Avg.
Total Assets (EUR million)	8,101.5	8,475.9	9,986.7	9,102.1	10,504.7	-6.3[4]
Total Assets (USD million)	8,800.6	10,256.3	13,761.1	12,000.2	13,636.6	-10.4[4]
Tangible Common Equity (EUR million)	891.7	757.5	772.8	749.4	818.8	2.2[4]
Tangible Common Equity (USD million)	968.6	916.6	1,064.8	988	1,063	-2.3[4]
Problem Loans / Gross Loans (%)	5.9	5.8	6.1	4.9	4.8	5.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.8	11.3	9.9	11	10.5	11.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	30.8	36.5	40.7	32.4	32.5	34.6[5]
Net Interest Margin (%)	3.3	3.9	4.7	4	3.6	3.9[5]
PPI / Average RWA (%)	3.7	4.3	4	3.3	2.9	4[6]
Net Income / Tangible Assets (%)	0.7	0.7	0.9	0.9	0.9	0.8[5]
Cost / Income Ratio (%)	43.3	43.3	47.1	52.4	55	48.2[5]
Market Funds / Tangible Banking Assets (%)	13.6	15.4	26.4	20.9	17.5	18.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	23	21.5	25.9	28.1	28.7	25.4[5]

Gross loans / Due to customers (%)	103.9	104.8	115.1	103.5	89.6	103.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation
Source: Moody's Financial Metrics

Detailed Rating Considerations

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

CREDIT EUROPE BANK N.V.'S BCA CONDITIONED BY MODERATE + MACRO PROFILE

Although the Dutch economy has a Strong + Macro Profile, CEB NV's risk exposures are largely linked to economies with lower Macro Profiles, including Russia (Weak +), Romania (Moderate -) and Turkey (Moderate). As a result, CEB NV's overall Macro Profile is Moderate+.

At end-June 2016, total exposures to Russia (Weak +) accounted for 22% of CEB NV's credit risk exposures. Adding to the challenges facing Russian banks is the ongoing restricted access to international markets for Russian borrowers and a high interest rate environment with the country's central bank aiming to contain inflationary pressures that have stemmed from the sharp depreciation of the ruble.

ASSET QUALITY UNDER PRESSURE IN RUSSIA

CEB NV is an internationally-oriented bank with small market shares in regions where it is doing business (Russia, Romania, and developed European countries such as the Netherlands and Germany). CEB NV is headquartered in Amsterdam, the Netherlands, and is supervised by the Dutch National Bank. It is a member of the Dutch savings-deposit insurance scheme. In Russia, the bank has a strong presence in auto and instant-cash loans. In Romania, the bank is the second largest bank active in credit cards with a 17% market share.

CEB NV's loan book is split between commercial and retail (28% retail loans and 72% corporate loans at end-June 2016), while its funding is predominantly made up of retail deposits (which accounted for about 79% of total deposits as of 30 June 2016). CEB NV reports some currency imbalances, with a portion of euro-denominated funds being allocated primarily to US dollar-denominated assets and some to Russian rouble-denominated assets. The bank hedges net on-balance-sheet currency mismatches.

We view CEB NV's business as volatile due to losses in Russian consumer lending, losses in Romania and moderate growth in Western Europe. Following its rapid expansion into the buoyant but volatile consumer loan market, the Russian unit has been highly profitable and has contributed to most of the group's profits until 2013. In 2014, the risk inherent to Russia started to materialise. As a consequence, the earnings contribution from Russian retail banking is currently negative. The total net profit from Russia, which includes wholesale banking activities, was negative at -€0.5 million in the first six months of 2016, which compares favourably with the loss of €9 million in H1 2015.

The bank benefits from a mitigating flow of earnings with its Western Europe segment (€31 million in June 2016, - 8% versus June 2015) stemming essentially from its Wholesale Banking business line. We expect CEB NV to partly compensate the decline in profitability in Russia with the activity in Western Europe, but we note that the profitability of this segment has historically been volatile.

CEB NV's asset quality faces a number of constraints including: (1) the fact that the Russian loan book has faced significant deterioration (essentially in the retail operations); (2) an evolving risk culture in relatively volatile credit environments and borrowers with limited credit history; (3) the potential for further market volatility. As of 30 June 2016, the problem loan ratio was 6.4% and loan loss provisions represented 2.4% of gross loans on an annual basis, mainly driven by Russian consumer lending. We expect asset quality to continue to be under pressure, primarily in the Russian retail operations.

MODERATE CAPITAL BASE AGAINST VOLATILE MACROECONOMIC ENVIRONMENTS IN DEVELOPING MARKETS

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

Nonetheless, the Tier 1 leverage was 10.5% (Moody's calculations) at end-June 2016, a relatively strong figure. Furthermore, CEB NV has paid no dividends to its shareholders since inception (except for a one-off payment upon the spinoff of Fibabanka in 2012), and we expect this to continue for the foreseeable future. The bank's earnings retention capacity is therefore strong.

In December 2014, CEB NV benefited from the conversion of its hybrid Tier 1 securities into equity for €103 million by its parent FIBA Holding AS (FIBA; unrated). The bank also received €50 million additional equity injection in January 2015 and another €50 million in March 2015 by FIBA. We believe that CEB NV would likely receive shareholder capital injections in case of need and in order to support further franchise growth, and expect that the Tier 1 capital ratio will remain at adequate levels going forward.

In early 2013, CEB NV issued $400 million Tier 2 capital (accounting for 3% of its balance sheet), $200 million of which it used to retire most of the intragroup sub-debt issued to Fiba Group. Furthermore, CEBL issued $250 million seven-year subordinated debt (Tier 2 capital under Russian regulations). As CEBL's balance sheet decreased substantially, the bank redeemed part of its subordinated debt in Russia, leaving CEBL with approximately $96 million of subordinated debt as of end-June 2016.

Our assigned Capital score of ba1 illustrates that the bank's capitalisation is a relative strength for the BCA.

WEAKENING PROFITABILITY DUE TO ELEVATED CREDIT COSTS AND A SHRINKING LOAN BOOK IN RUSSIA

CEB NV's profitability has been generally supportive, although it has exhibited some degree of volatility. Consolidated net income was €20 million for the first six months of 2016. This represented a 19% decrease compared with the same period a year earlier. These figures reflect a contrasted P&L evolution, including significant decline in revenues due to the quick reduction of the retail loan book in Russia, a 20% decline in operating expenses in June 2016 versus June 2015 thanks to significant restructuring efforts, and a 38% decrease in loan loss provisions driven by lower provisions in the Russian retail operations (albeit still at high levels).

In the first six month of 2016, the Russian operations reported a net loss of only €0.5 million versus a net loss of €9 million in 2015. Loan loss provisions continued to decline in the Russian retail operations (-52% in June 2016 versus June 2015), reflecting a stabilisation of the macroeconomic environment in the country. We note that the assets of the Russian retail operations decreased by 4% in the first six months of 2016, a sign that the bank has slowed down its origination in this field where loans have relatively short maturities. We expect profitability to rebound sharply in Russia due to advantageous origination spreads, reduced operating costs and declining funding costs.

In Romania, CEB NV is now intrinsically profitable after reporting net losses in the past. However, a new Romanian law enabling customers to cancel their mortgage loans in exchange of the house keys will severely hit the P&L. We expect the impact on profitability to be significant, but largely a non-recurring element. As of 30 June 2016, total impairments at consolidated level recorded on the loans subject to this law in Romania were €23 million. The impairment assessment was made using a one-year time horizon approach, starting from the law enactment date, and thus covers losses expected to occur until the end of May 2017.

Our assigned Profitability score of b1 is positioned two notches lower than what historic earnings would suggest, illustrating our anticipation for possible further deterioration and the current high earnings volatility.

ADEQUATE LIQUIDITY ON A CONSOLIDATED BASIS, BUT SOME REFINANCING RISK AS A RESULT OF SIGNIFICANT MARKET FUNDING AT RUSSIAN SUBSIDIARY LEVEL

The group collects deposits in jurisdictions where it operates, but the bulk of customer funds comes from Western Europe. There is a lack of geographical balance between assets (some of which are originated out of Russia and Romania) and liabilities (primarily raised in the Netherlands and Germany). Nonetheless, crossborder intragroup funding reliance of the foreign subsidiaries is reduced to a strict minimum. Funding self-reliance of foreign subsidiaries has been increased through both a rise of customer deposits and an increase in the reliance on wholesale funding, notably in Russia. As of year-end 2015, the group's net loan-to-deposit ratio was 106%.

Overall, CEB NV's liquid banking assets amounted to 24% of tangible banking assets as of end-June 2016. Emerging-market securities accounted for 58% of the securities portfolio as of 30 June 2016, including Turkish assets (26%), Romanian assets (23%) and Russian assets (4%). Although these securities are freely traded instruments that are eligible to central bank refinancing, they could prove less liquid and riskier in a stress scenario. Given moderate funding reliance of CEB NV's Russian subsidiary on its parent, the support from CEB NV towards CEBL, particularly in a form of direct liquidity injections, might be constrained by regulatory exposure limits although subject to the Dutch regulator's waiver. The stronger liquidity and recovering performance of the Western part of the bank may also allow for moderate asset transfers from Russia, in case of refinancing pressures at CEBL. Such bookings would however be scrutinised by the Dutch regulator.

These factors are reflected in CEB NV's assigned liquid resources score of b1.

Notching Considerations

Loss Given Failure

CEB NV is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume residual tangible common equity of 3% and losses post-failure 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 to 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 Preliminary Rating Assessment two notches above the Adjusted BCA. This is due to the loss absorption provided by the combination of substantial deposit volume and subordination provided by the subordinated debt.

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 Preliminary Rating Assessment one notch below the Adjusted BCA.

Government Support

Due to its modest size or presence in the Netherlands, we expect a low probability of support from the Dutch government (Aaa stable) for CEB NV's deposits, resulting in no uplift to the PRAs for the deposit ratings (unchanged).

Rating Methodology and Scorecard Factors

Exhibit 3

Credit Europe Bank N.V.

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

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.9%	ba2	↓	b2	Expected trend	Geographical concentration
Capital						
TCE / RWA	12.8%	baa2	←→	ba1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.7%	ba2	↓	b1	Expected trend	
Combined Solvency Score		ba1		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.6%	baa1	←→	b2	Term structure	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	23.0%	baa3	←→	b1	Intragroup restrictions	Quality of liquid assets
Combined Liquidity Score		baa2		b2		
Financial Profile				b1		
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)**	**% in-scope**	**at-failure (EUR)**	**% at-failure**
Other liabilities	791	12.2%	1,307	20.2%
Deposits	5,063	78.2%	4,547	70.2%
Preferred deposits	3,747	57.9%	3,559	55.0%
Junior Deposits	1,316	20.3%	987	15.3%
Senior unsecured bank debt				
Dated subordinated bank debt	424	6.6%	424	6.6%
Junior subordinated bank debt				
Preference shares (bank)				
Senior unsecured holding company debt				
Dated subordinated holding company debt				
Junior subordinated holding company debt				
Preference shares (holding company)				
Equity	194	3.0%	194	3.0%
Total Tangible Banking Assets	6,472	100%	6,472	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus 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 Assessment	24.8%	24.8%	24.8%	24.8%	3	3	3	3	0	ba1 (cr)
Deposits	24.8%	9.6%	24.8%	9.6%	3	3	3	2	0	ba2
Dated subordinated bank debt	9.6%	3.0%	9.6%	3.0%	0	0	0	-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 Assessment	3	0	ba1 (cr)	0	Ba1 (cr)	--
Deposits	2	0	ba2	0	Ba2	Ba2
Dated subordinated bank debt	-1	0	b2	0	--	B2

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
CREDIT EUROPE BANK N.V.	
Outlook	Negative
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	Negative
Bank Deposits	B1/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba3(cr)/NP(cr)
Senior Unsecured -Dom Curr	B1
Subordinate	B2

Source: Moody's Investors Service

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