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CREDIT OPINION
20 June 2023

Update

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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	Stable

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.

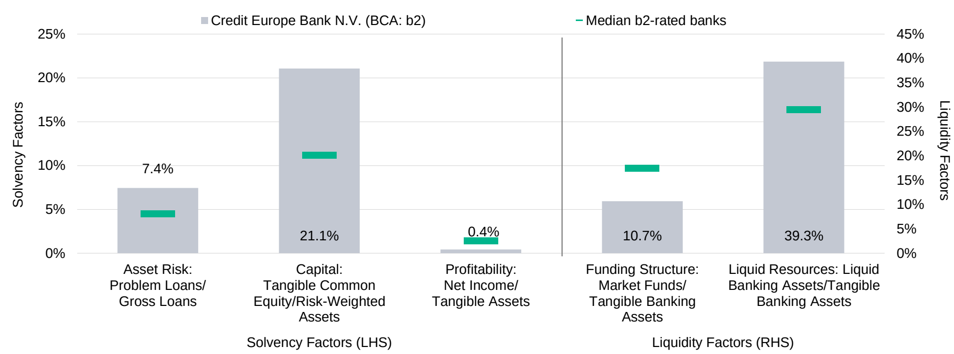
Update following rating action

Summary

Credit Europe Bank N.V.'s (CEB NV) deposit rating of Ba3 reflects (1) the bank's BCA of b2, (2) the application of Moody's Advanced Loss Given Failure (LGF) analysis, resulting in a very low loss given failure and a two-notch uplift for the deposit ratings and (3) a low probability of government support, resulting in no uplift.

The b2 BCA reflects (1) the bank's high asset risks including sector and geographic concentrations, (2) a modest and volatile, albeit improving, profitability, (3) a moderate capitalisation in relation to the risk profile and (4) a lack of funding diversification mitigated by large liquidity buffers.

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, although capital is only moderate in relation to risk profile

Credit challenges

» High concentrations in cyclical sectors and vulnerable countries

» High single-name exposures

» Modest and volatile profitability in view of the bank's lending activities

Outlook

CEB NV's long-term deposit ratings have a stable outlook. It reflects our view that asset risks have been decreasing in recent years, although remaining high, and our expectation that rising interest rates will continue benefiting the bank's net interest margins and profitability.

Factors that could lead to an upgrade

» CEB NV's BCA and long-term ratings could be upgraded if the bank's asset risk profile, capitalisation and profitability improve over time.

Factors that could lead to a downgrade

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

» The long-term ratings could also be downgraded if the buffer of subordinated instruments were to shrink.

Key indicators

Exhibit 2
Credit Europe Bank N.V. (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	4,818.2	5,066.9	4,649.1	4,802.5	4,930.0	(0.6)[4]
Total Assets (USD Million)	5,142.2	5,741.3	5,688.4	5,390.8	5,635.7	(2.3)[4]
Tangible Common Equity (EUR Million)	727.2	735.1	700.1	700.3	676.3	1.8[4]
Tangible Common Equity (USD Million)	776.1	832.9	856.6	786.0	773.1	0.1[4]
Problem Loans / Gross Loans (%)	6.3	7.0	9.0	9.2	10.9	8.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	21.1	19.5	18.6	18.0	17.3	18.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.2	24.7	30.4	33.7	37.0	29.2[5]
Net Interest Margin (%)	2.6	1.9	2.2	2.6	3.0	2.5[5]
PPI / Average RWA (%)	1.5	0.8	1.0	1.2	1.3	1.1[6]
Net Income / Tangible Assets (%)	0.8	0.4	0.1	0.5	0.4	0.4[5]
Cost / Income Ratio (%)	73.0	83.0	77.6	74.7	66.4	74.9[5]
Market Funds / Tangible Banking Assets (%)	10.7	16.8	14.4	11.1	9.1	12.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	39.3	37.9	36.1	34.7	36.9	37.0[5]
Gross Loans / Due to Customers (%)	74.7	84.5	84.6	82.6	78.5	81.0[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 international trade and commodity finance, working capital loans to corporate clients and project finance in Western European countries, Romania, Turkiye (largely discontinued) and other emerging countries.

Moreover, the bank provides retail banking services including internet deposits in the Netherlands and Germany. It also provides credit card services, mortgages and deposits through a network of 27 branches and 8,100 sales points in Romania. The Bank was active in corporate and commercial banking in Ukraine prior to the military conflict. As of year-end 2022, the bank's loan book was composed of retail loans in Romania (13%) and structured trade and commodity finance, as well as international corporate loans (87%).

CEB NV's shares are fully owned by the holding company Credit Europe Group N.V. The ultimate parent company of the bank is the holding company FIBA Holding A.S. (FIBA) in Turkiye.

Detailed credit considerations

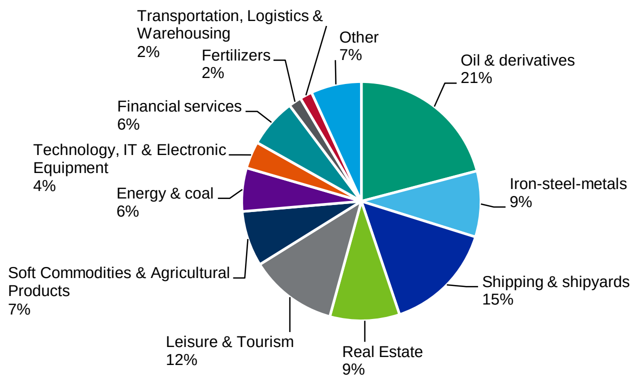
High risk concentration in vulnerable sectors

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 more vulnerable than the Dutch economy, including Romania (25% of gross outstanding loans), Turkiye (12%) and other emerging markets (18%) at year-end 2022. The remainder of the loan book (45%) were towards more developed countries. Because we believe that the concentrations on the more vulnerable countries are not adequately captured by an exposure-based weighted average macro profile of "Moderate +", the macro profile for the bank is adjusted down by two notches to "Moderate -".

Single-name concentration risk is also high, the top 20 exposures accounting for above 200% of the Common Equity Tier 1 (CET1) capital, along with significant exposures to some very cyclical sectors. At year-end 2022, the bank's exposure to the oil and gas sectors, accounting for 21% of its gross loans at year-end 2022, represented a pocket of vulnerability, although the risks involved are somewhat mitigated by their limited sensitivity to oil price variations and their short-term nature. Single-name exposures within this sector are nonetheless material.

Exhibit 3

Breakdown of corporate loans by industrial sector as of year-end 2022

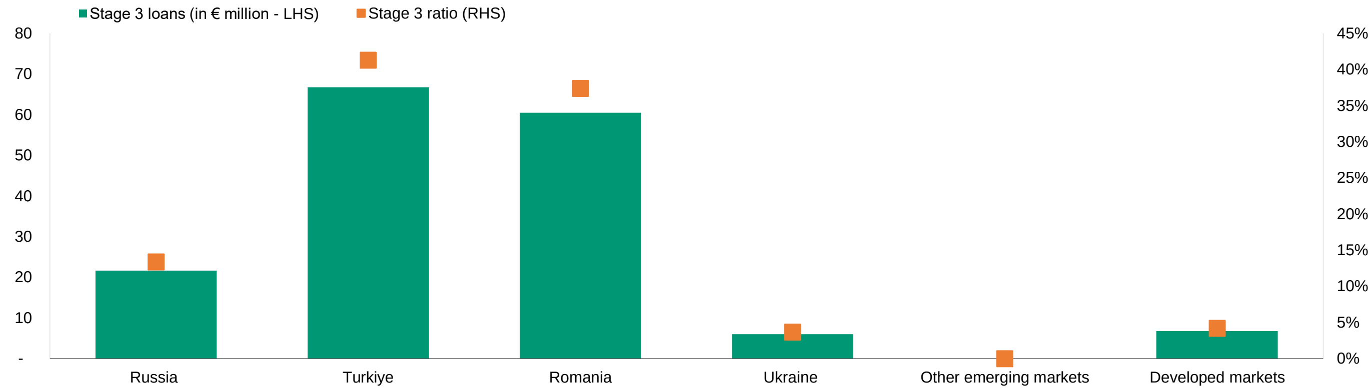


Source: Company data and Moody's Investors Service

As of year-end 2022, CEB NV's credit risk exposure to Russia and Ukraine represented 6% and 5% of the bank's CET1 capital, respectively. These exposure have been successfully reduced from 13% and 10% respectively at year-end 2021, without incurring any significant losses. Any losses on these remaining exposures can be absorbed by the bank without significantly affecting credit quality in our opinion. The bank stated that it will not enter in any new transactions in these two countries. The exposure on Russia consists of commercial real estate corporate loans. The Ukrainian exposures result both from CEB NV's subsidiary in Ukraine.

The problem loan ratio improved to 6% of total customer loans as of year-end 2022 from 7% at year-end 2021, while Stage 2 loans were broadly stable at 10% at year-end 2022 from 9.5% at year-end 2021. The decreasing level of problem loans is a reflection of two years of low credit losses after a period of difficulty with the Covid pandemic. Although asset risks are high, they have been decreasing in recent years, as illustrated by a cost of risk averaging 39 basis points (bps) of gross loans over the last five years compared to an average of 151 bps over the last ten years. The cost of risk was only 11 bps in 2022 and was negative at -16 bps in 2021, following the significant provisions booked during the 2020 pandemic, a sign of the progressive refocusing of the bank on short-term trade and commodity finance and Romanian consumer credit and its ability to navigate through the Covid pandemic and Ukraine military conflict without incurring significant credit losses to date.

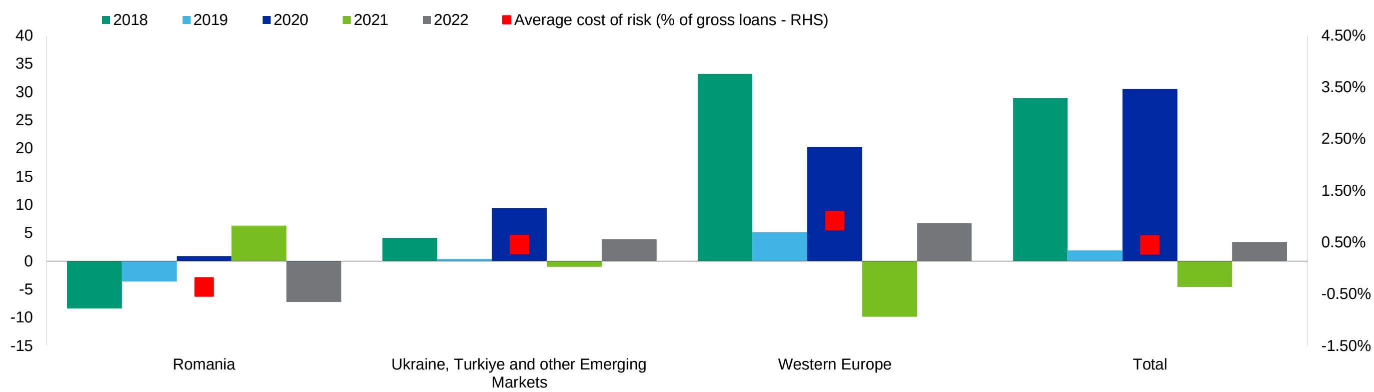
Exhibit 4
Nonperforming loans (NPLs) and NPL ratios by geographical area



Sources: Company data and Moody's Investors Service

Going forward, recessionary and inflationary trends will exert pressure on asset exposures which are largely edged towards risky sectors and countries, in our opinion. Despite the overall stable credit metrics in 2022, we believe that because of the aforementioned concentrations, asset risk at CEB NV is higher than that reflected by its current problem loan ratio. Macroeconomic challenges stemming from the global economy slowdown will curb lending activity and increase the cost of risk.

Exhibit 5
Loan loss provisions by geographical area
in € thousands



Source: Company data and Moody's Investors Service

The assigned Asset Risk score of caa1, three notches below the Macro-Adjusted score of b1, reflects these considerations.

Moderate capital base relative to risk profile

CEB NV's capitalisation is moderate in relation to the bank's risk profile. Nonetheless, the regulatory capital ratios were high with a CET1 ratio of 15.2% and a total capital ratio of 19.8% as of year-end 2022. The bank's Tier 1 leverage ratio was also strong at 11.5% as of the same date, reflecting the high density of 72% of the bank's risk-weighted assets (RWAs)[1].

There is a good track record of ongoing parental support through conversion of its hybrid securities and capital injection, which suggests a high likelihood that FIBA would step in to support CEB NV in case of need. However, after a long period of full profit retention, the bank resumed dividend distribution in 2022 with a pay-out ratio of 100% for 2021 and 53% proposed for 2022.

Despite the high capital metrics, our assigned Capital score of ba1 is four notches below the Macro-Adjusted Capital score of a3. This reflects our view that, because of the high concentrations on sectors and borrowers that we consider vulnerable during economic slowdowns, capital could be eroded in the event of a prolonged economic downturn.

Modest profitability, leaving little room to absorb any deterioration in credit costs

CEB NV's profitability is low in relation to typical returns witnessed in trade and commodity finance as well as consumer credit activities. Net income was €39.4 million in 2022, which represented 0.82% of total assets versus 0.39% in 2021 and an average 0.44% over the last five years. The recent improvement was mainly due to increasing net interest margins, as the bank benefits from the rapid repricing of its short-term lending activities while its deposit funding is still cheap and repricing more slowly.

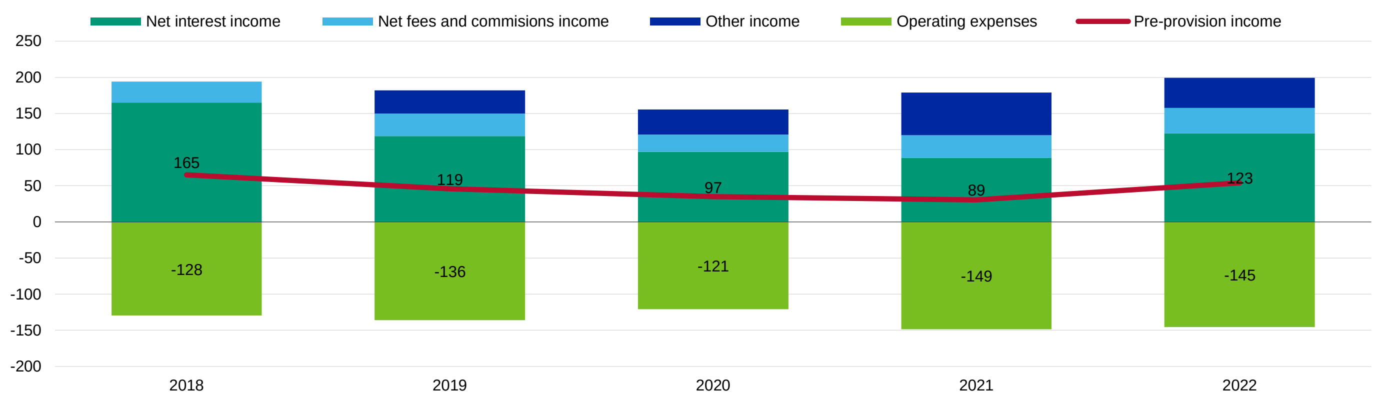
The net banking income increased by 11% to €199 million, primarily driven by the net interest income rising by 38% to €123 million. The very short-term nature of the loan book (45% of net loan book was maturing within 3 months as of December 2022) enables the bank to rapidly benefit from the rising interest rates, as reflected by a net interest margin of 2.6% at year-end 2022 (1.9% in 2021). Rising interest rates in 2023 will uplift the bank's revenue but this may be partly offset by deposit repricing over time. Overall, we still expect the bank's net interest margins and overall profitability to continue to benefit from this more favourable interest rate environment in the next 12-18 months.

The bank historically had a low cost efficiency and a cost-to-income ratio exceeding 70% over the past four years (73% in 2022, down from 83% in 2021, under our calculations). Operating expenses remained broadly stable in 2022 at €145 million (-2% versus 2021), as wage inflation impact (+15% in personnel expense) was mitigated by lower expenses related to repossessed assets. The result of operating repossessed assets[2] has had a significant negative impact on CEB NV's profitability over the past few years. In 2019, for instance, these assets generated a loss of €26 million, reducing the bank's profit before tax to €14 million. In 2022, these assets generated reduced losses of €1.7 million, a reason of the gradual disposal of repossessed assets.

Exhibit 6

Net interest income is the main factor behind rising pre-provision income

Breakdown of pre-provision income in € million



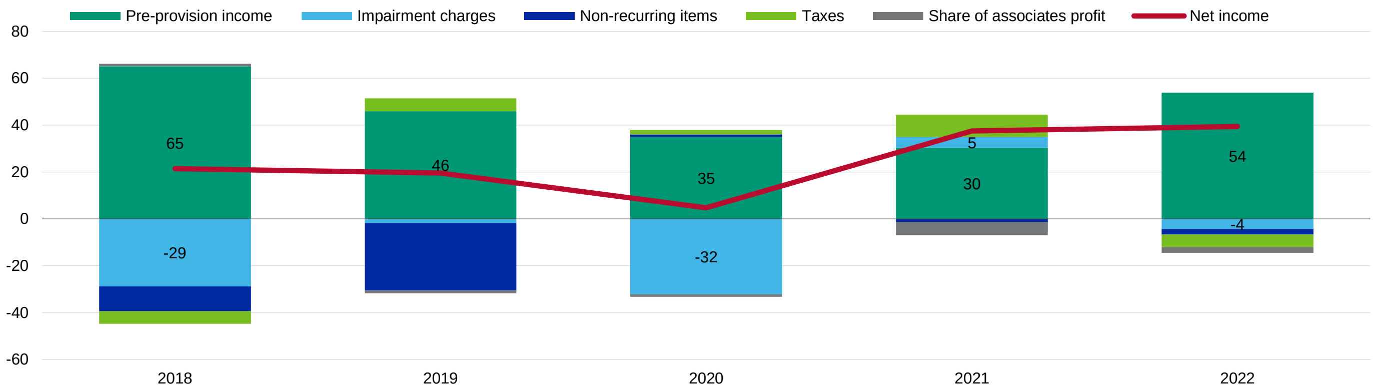
Sources: Company data and Moody's Investors Service

While CEB N.V. reported a higher cost of risk in 2022 driven by a higher provisions on stage 2 and stage 3 provisions, loan loss provisions remains significantly below recent years' figures. Loan loss provisions absorbed only 6% of pre-provision income in 2022.

Exhibit 7

Higher impairment charges and normalized tax expenses constrained the net profit

Breakdown of net income in € million



The net income of €21 million for 2018 in this chart is the net income from continued operations.

Source: Company data and Moody's Investors Service

The bank's profitability is low relative to its risk profile and volatile. It provides limited capacity to absorb any material deterioration in credit costs. This is reflected in the assigned Profitability score of b3, two notches below the Macro-Adjusted Profitability score of b1.

Lack of funding diversification partly mitigated by a large liquidity portfolio

As of year-end 2022, 80% of the bank's financial liabilities consisted of customer deposits, 10% of interbank borrowings and 4% of subordinated loans. Excluding deposits raised in Romania (around 14% of total deposits as of year-end 2022) 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 (around 90% of total deposits excluding Romania as of year-end 2022). Most of these products are covered by the Dutch Deposit Guarantee Scheme, which limits their sensitivity to reputational risks to a certain degree. In addition, these deposits have very low average balances and we note that they have been historically sticky.

Nonetheless, we consider the lack of funding 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. These deposits are also price sensitive in a context of rising interest rates.

The bank's liquidity portfolio, representing 39% of total assets (or 45% of liabilities excluding equity) as of year-end 2022, comfortably mitigates the risk of deposit outflows. 56% of the liquidity portfolio consisted of cash and deposits at central banks, while investment securities and interbank lending represented 20% and 24% of the portfolio, respectively, as of year-end 2022.

CEB NV's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were 524% and 177%, respectively, as of year-end 2022. 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.

The Combined Liquidity score of ba3 reflects the bank's reliance on online retail deposits and its weak access to alternative resources.

ESG considerations

Credit Europe Bank N.V.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 8
ESG Credit Impact Score

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

CEB's ESG Credit Impact Score is moderately negative (**CIS-3**), reflecting moderate governance risks stemming from its relatively high-risk appetite and concentrated ownership . Environmental and social factors have a limited impact on the ratings to date.

Exhibit 9
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

CEB faces moderate environmental risks mainly because of its portfolio exposure to carbon transition risk as a corporate bank. Like its peers , the bank is exposed to mounting business risks and stakeholders' pressure to meet more demanding carbon transition targets. As a result, CEB is engaging in developing its climate risk framework and updating its sectoral policies and risk appetite regarding carbon-related businesses.

Social

CEB faces high industrywide social risks related to regulatory and litigation risks, requiring high compliance standards. Customer relation risks arise inherently from the bank's retail activities in certain geographies, while the risk exposure in other countries is lower given the bank's focus in corporate clients. Exposure to cyber and data risks are also high, although mitigated by a solid IT framework.

Governance

CEB faces moderate governance risks, reflecting a track record of relatively high risk appetite shown in some high single name asset concentrations and exposures to highly cyclical sectors. Concentrated ownership, with Fiba Holding AS, a large family-owned Turkish holding company owning the majority of the voting shares, poses additional governance risks, although partly mitigated by the presence of four independent directors out of six as well as Netherlands' developed institutional framework. CEB has a relatively simple legal structure and has not been subject to any significant compliance or reporting issues in recent years.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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 and assign a 25% probability to deposits being preferred over senior unsecured debt. In addition, we assume a 10% share of wholesale deposits relative to total deposits, which is our central assumption for banks relying mostly on retail deposits.

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

Our LGF analysis indicates a very low loss given failure for CEB NV's junior deposits because of the loss absorption provided by the amount of subordination in the form of AT1 and Tier 2 subordinated debt. This results in a two-notch uplift from the Adjusted BCA.

For the subordinated debt, our LGF analysis indicates a moderate loss given failure, which result in no rating uplift from the bank's 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)

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

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. 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 10

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	7.4%	b1	↔	caa1	Sector concentration	Geographical concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	21.1%	a3	↔	ba1	Stress capital resilience	
Profitability						
Net Income / Tangible Assets	0.4%	b1	↔	b3	Earnings quality	
Combined Solvency Score		ba1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.7%	baa3	↔	b1	Deposit quality	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	39.3%	baa3	↔	ba1	Quality of liquid assets	
Combined Liquidity Score		baa3		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		
BCA Scorecard-indicated Outcome - Range				ba3 - b2		
Assigned BCA				b2		
Affiliate Support notching				0		
Adjusted BCA				b2		

Balance Sheet	in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure
Other liabilities	441	13.4%	620	18.9%
Deposits	2,563	77.9%	2,383	72.4%
Preferred deposits	2,306	70.1%	2,191	66.6%
Junior deposits	256	7.8%	192	5.8%
Dated subordinated bank debt	141	4.3%	141	4.3%
Preference shares (bank)	47	1.4%	47	1.4%
Equity	99	3.0%	99	3.0%
Total Tangible Banking Assets	3,290	100.0%	3,290	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	14.5%	14.5%	14.5%	14.5%	3	3	3	3	0	ba2
Counterparty Risk Assessment	14.5%	14.5%	14.5%	14.5%	3	3	3	3	0	ba2 (cr)
Deposits	14.5%	8.7%	14.5%	8.7%	2	2	2	2	0	ba3
Dated subordinated bank debt	8.7%	4.4%	8.7%	4.4%	0	0	0	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 11

Category	Moody's Rating
CREDIT EUROPE BANK N.V.	
Outlook	Stable
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 RWA density is measured by dividing RWAs by total assets.

2 CEB NV owned a sizable portfolio amounting to €80 million of repossessed assets from defaulted borrowers as of year-end 2022 (€111 million in 2021).

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