

# Credit Europe Bank N.V.

## Update

### Key Rating Drivers

**Emerging Markets Exposure; Weak Profitability:** Credit Europe Bank N.V.'s (CEB) ratings capture its improved post-pandemic performance and reduced impaired loans, although its significant exposure to emerging markets and cyclical industries means its profitability is weak. Capital encumbrance is also higher than at peers. The bank's niche and established franchise and stable and experienced management are rating strengths. CEB also benefits from a stable and granular funding profile.

**Weakening Operating Environment:** Fitch Ratings expects the bank's operating environment to deteriorate due to slow global GDP growth in 2023 under Fitch's forecast. However, we expect the impact on trade-finance banks to be mitigated by their focus on less cyclical trades of essential goods and short-term transactions.

**Niche Trade-Finance Bank:** CEB has a niche commodity-trade-finance and corporate franchise with diversification into the retail segment in Romania. The bank's trade-finance business volumes should continue to benefit from high commodity prices, although its exposure to developing economies makes it vulnerable to stress.

**High Concentration; Low Coverage:** Impaired loans declined to 6.6% of total loans at end-2022, helped by tightened underwriting policies and increased lending in developed markets. However, large concentrations and exposure to emerging markets make the bank's asset quality potentially more volatile than traditional banks'. In addition, coverage of impaired loans by total loan loss allowances was modest, despite having strengthened, reflecting its reliance on collateral.

**Modest Profitability, Despite Improvements:** CEB's revenue largely depends on global trade flows and commodity volumes. The core profitability, which has been modest in recent years, improved in 2022 thanks to the increase in net interest income, taking advantage of rising interest rates, and a low level of LICs in respect of gross loans.

**Significant Capital Encumbrance:** Capitalisation metrics are moderately above the regulatory minimum requirements, but the buffer is small in nominal terms in light of business concentrations and capital encumbrance by unreserved impaired loans, totalling about a fifth of CEB's CET1 capital. CEB's consolidated common equity Tier 1 (CET1) ratio (end-2022: 15.2%) is likely to be maintained around current levels due to its modest performance and a decrease in the bank's loan book (-9% yoy).

We believe CEB has capacity to scale down risk-weighted assets (RWAs) fairly swiftly due to the short-term nature of its trade-finance portfolio, which should help strengthen its capital ratios in case of need.

**Granular Deposit Franchise:** CEB is mainly funded through granular retail deposits, which are collected online mostly in Germany, and, to a lesser extent, in the Netherlands and Romania. Almost all household deposits benefit from deposit-guarantee schemes in all three countries, contributing to funding stability. Corporate and interbank deposits are originated from CEB's trade-finance and corporate-banking operations. Wholesale borrowings are limited to one subordinated bond placement.

## Banks

Trade Finance Banks  
Netherlands

### Ratings

#### Foreign Currency

Long-Term IDR	B+
Short-Term IDR	B

Viability Rating	b+
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Government Support Rating	ns
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#### Sovereign Risk (Netherlands)

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

#### Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

### Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

### Related Research

[Global Economic Outlook \(March 2023\)](#)

[EMEA Trade Finance Banks: Global Trade Slowing but Banks are Resilient \(January 2023\)](#)

[Fitch Revises Credit Europe Bank's Outlook to Stable; Affirms IDR at 'B+' \(October 2022\)](#)

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We would be likely to downgrade CEB's ratings if the challenging macroeconomic environment leads to asset-quality deterioration (with impaired loans over 10% of total loans), resulting in persistently weak profitability, particularly if coverage by loan loss allowances remains low.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We could upgrade the ratings on an improvement in the operating environment, a continued reduction in impaired loans, lower capital encumbrance and wider buffers against CEB's minimum capital requirements. Stronger profitability, with the operating profit/RWAs ratio above 1%, would also be credit positive.

## Other Debt and Issuer Ratings

Rating level	Rating
Subordinated Tier 2	B-

Source: Fitch Ratings

CEB's Tier 2 subordinated debt is rated two notches below the banks' VR, reflecting poor recovery prospects for this type of debt.

## Significant Changes from Last Review

### Global Growth Deteriorating

Fitch expects global growth to decelerate to 2% in 2023, from 2.7% a year earlier. Rampant inflation, high interest rates, the persistent energy crisis, trade restrictions and regulatory challenges will affect both advanced and emerging economies. We expect these factors to result in subdued investments, weak productivity and decreasing international trade, leading to a reduction in merchandise trade.

### Expected Weakening in EMEA Trade-Finance Bank Financial Performances

The global trade slowdown will likely lead to an increase in default rates during 2023, which we expect to be manageable. Unexpected large defaults in core geographies could pressure the ratings of EMEA trade-finance banks (ETFBs), leading to a significant rise in new impaired loans given the high concentration by borrower. It could result in higher loan-impairment charges and weakened internal capital generation – or, in the most adverse scenarios, capital erosion.

### Rising Rates Helped 2022 Profitability; Improved Asset Quality

CEB benefitted from rising rates from 2H22 as the bank's loan book mainly comprises short-term variable-rate corporate loans, and the deposit base is largely lower-yielding sight deposits. This resulted in the net interest income increasing by about 40% yoy in 2022.

The bank's performance also benefitted from the generally strong US dollar throughout 2022 as most of the bank's trade finance revenue is in dollars, while its cost base is in euros. The strong US dollar, coupled with sustained trade finance volumes (+9% yoy) and sound cost discipline, led to a profitability increase, despite the effect of inflation on non-interest expenses and a valuation loss on the bank's investment portfolio. As a result, the operating profit/RWAs ratio improved to 1.29% at the end of 2022, up 55bp yoy.


As the Russia-Ukraine war broke out, the bank reduced most of its short-term exposures towards this area and continued its de-risking, mainly through impaired loans disposals and write-offs, while keeping a tight control on underwriting of new-risk. Additionally, the bank strengthened the coverage on non-performing exposures to 43% at end-2022 (end-2021: 28%).

CEB's CET1 slightly improved in 2022 as the reduction of fair-value reserves, mostly due to depreciation of equity investments including a minority stake on CEB Russia, was offset by reductions in RWAs, driven by the decrease in gross loans.

At end-1Q23, the bank's liquidity profile was adequate, with liquid assets accounting for over 20% of total assets, and with about 45% of loans to customers maturing within three months

We expect operating profitability to continue benefitting from rising rates in 2023, and for credit risks to remain under control, although some deterioration is to be expected due to weaker growth, persisting inflationary pressure and geopolitical instability.

**Ratings Navigator**

Credit Europe Bank N.V.							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+ Sta
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

**VR - Adjustments to Key Rating Drivers**

The operating environment score of 'bb+' is below the category-implied score of 'aa' due to the following adjustment reason: international operations (negative).

The business profile score of 'bb-' is above the category-implied score of 'b' due to the following adjustment reason: management and governance (positive).

The capitalisation and leverage score of 'b+' is below the category-implied score of 'bb' due to the following adjustment reason: reserve coverage and assets valuation (negative).

## Financials

## Financial Statements

	31 Dec 22	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified (emphasis of matter)
<b>Summary income statement</b>					
Net interest and dividend income	136.4	127.9	90.9	97.1	120.0
Net fees and commissions	37.2	34.9	31.3	23.9	31.0
Other operating income	36.4	34.1	51.2	29.4	28.4
Total operating income	210.0	196.9	173.4	150.4	179.4
Operating costs	158.7	148.8	150.0	121.3	139.3
Pre-impairment operating profit	51.3	48.1	23.4	29.1	40.1
Loan and other impairment charges	3.6	3.4	-4.6	30.6	1.9
Operating profit	47.7	44.7	28.0	-1.5	38.2
Tax	5.7	5.3	-9.4	-1.9	-5.4
Net income	42.0	39.4	37.4	4.7	19.6
Other comprehensive income	-46.1	-43.2	2.5	-11.5	17.2
Fitch comprehensive income	-4.1	-3.8	39.9	-6.8	36.8
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	2,751.4	2,579.6	2,827.7	2,667.0	2,832.3
- Of which impaired	182.1	170.7	212.9	261.0	290.4
Loan loss allowances	78.0	73.1	58.6	79.6	66.4
Net loans	2,673.4	2,506.5	2,769.1	2,587.4	2,765.9
Interbank	491.2	460.5	283.4	204.0	187.9
Derivatives	120.5	113.0	69.6	189.2	169.8
Other securities and earning assets	483.3	453.1	767.1	856.8	750.6
Total earning assets	3,768.4	3,533.1	3,889.2	3,837.4	3,874.2
Cash and due from banks	1,177.2	1,103.7	934.6	666.1	737.2
Other assets	276.2	259.0	281.7	322.9	308.7
Total assets	5,221.9	4,895.8	5,105.5	4,826.4	4,920.1
<b>Liabilities</b>					
Customer deposits	3,644.6	3,417.0	3,326.0	3,127.2	3,401.7
Interbank and other short-term funding	470.6	441.2	799.1	677.2	482.8
Other long-term funding	151.2	141.8	132.7	122.1	133.1
Trading liabilities and derivatives	160.6	150.6	87.9	165.4	164.5
Total funding and derivatives	4,427.0	4,150.6	4,345.7	4,091.9	4,182.1
Other liabilities	83.9	78.7	63.1	81.1	72.5
Preference shares and hybrid capital	50.0	46.9	44.2	40.8	44.6
Total equity	660.9	619.6	652.5	612.6	620.9
Total liabilities and equity	5,221.9	4,895.8	5,105.5	4,826.4	4,920.1
Exchange rate		USD1 = EUR0.93756	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, CEB

## Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	1.3	0.7	0.0	1.0
Net interest income/average earning assets	3.4	2.4	2.6	3.1
Non-interest expense/gross revenue	74.7	83.8	80.1	77.1
Net income/average equity	6.3	5.9	0.8	3.3
<b>Asset quality</b>				
Impaired loans ratio	6.6	7.5	9.8	10.3
Growth in gross loans	-8.8	6.0	-5.8	-2.0
Loan loss allowances/impaired loans	42.8	27.5	30.5	22.9
Loan impairment charges/average gross loans	0.1	-0.2	1.1	0.0
<b>Capitalisation</b>				
Common equity Tier 1 ratio	15.2	15.1	16.0	15.7
Tangible common equity/tangible assets	11.2	11.4	11.8	11.9
Basel leverage ratio	11.5	12.0	n.a.	n.a.
Net impaired loans/common equity Tier 1	18.6	27.1	30.1	36.8
<b>Funding and liquidity</b>				
Gross loans/customer deposits	75.5	85.0	85.3	83.3
Liquidity coverage ratio	524.0	397.0	453.0	509.1
Customer deposits/total non-equity funding	84.4	77.3	78.8	83.7
Net stable funding ratio	177.0	159.0	150.0	150.0

Source: Fitch Ratings, Fitch Solutions, CEB

## Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
<b>Government ability to support D-SIBs</b>	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
<b>Government propensity to support D-SIBs</b>	
Resolution legislation	Negative
Support stance	Negative
<b>Government propensity to support bank</b>	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Negative

The colours indicate the weighting of each KRD in the assessment.

■ Higher influence 
 ■ Moderate influence 
 ■ Lower influence

CEB's Government Support Rating of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if CEB becomes non-viable. This reflects the bank's lack of systemic importance in the Netherlands, as well as the implementation of the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism. These provide a framework for resolving banks that is likely to require senior creditors to participate in losses, if necessary, instead or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings Credit Europe Bank N.V.

Banks  
Ratings Navigator

**Credit-Relevant ESG Derivation**

Credit Europe Bank N.V. has 5 ESG potential rating drivers

- ➔ Credit Europe Bank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

	key driver	0	issues	5	Overall ESG Scale
	driver	0	issues	4	
	potential driver	5	issues	3	
	not a rating driver	4	issues	2	
		5	issues	1	

**Environmental (E)**

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

**How to Read This Page**  
ESG scores range from 1 to 5 based on a 15-level color gradation, Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right hand box shows the aggregate E, S, or G score, General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Social (S)**

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

**Classification of ESG issues** has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

**Governance (G)**

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	5 Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	4 Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model, opacity, intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	3 Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	2 Irrelevant to the entity rating but relevant to the sector.
				1	1 Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, neither due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).



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