MOODY'S
RATINGS

Rating Action: Moody's affirms Credit Europe Bank N.V.'s long-term deposit rating at Ba3; outlook stable

04 Apr 2024

Baseline Credit Assessment upgraded to b1 from b2

Paris, April 04, 2024 -- Moody's Ratings ("Moody's") today affirmed Credit Europe Bank N.V. (CEB NV)'s long-term deposit ratings at Ba3. The outlook on these ratings remains stable. In addition, the rating agency upgraded the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to b1 from b2, its long-term Counterparty Risk Ratings (CRR) to Ba1 from Ba2 and its long-term Counterparty Risk (CR) Assessment to Ba1(cr) from Ba2(cr). Furthermore, Moody's upgraded the subordinated debt rating to B1 from B2 and affirmed the short-term deposit ratings and CRRs of Not Prime and the short-term CR Assessment of Not Prime(cr).

RATINGS RATIONALE

The affirmation of CEB NV's long-term deposit ratings at Ba3 reflects (1) the upgrade of the bank's BCA to b1 from b2, (2) the application of Moody's Advanced Loss Given Failure (LGF) analysis, resulting in a low loss given failure and a one-notch uplift for the deposit ratings, down from two notches previously, and (3) a low probability of government support, resulting in no uplift.

The upgrade of CEB NV's BCA to b1 from b2 reflects the progressive diminution of portfolio concentrations as well as the bank's durable improvement in profitability. The BCA still reflects (1) high asset risks including sector, borrower and geographical concentrations, (2) intrinsically volatile profitability, (3) a moderate capitalisation in relation to the bank's risk profile and (4) a lack of funding diversification mitigated by large liquidity buffers.

CEB NV provides international trade and commodity finance, working capital loans to corporate clients and project finance in Western European and emerging countries. This business model entails high concentrations in sectors and geographical areas which Moody's considers vulnerable. Despite the reduction of problem loans to 2.5% of gross loans at year-end 2023, from 6.3% in 2022, the decreasing concentration of large corporate exposures and the partial rebalancing of the loan portfolio from Turkiye, Russia and Ukraine to more creditworthy geographies, the bank still has material exposures to non-investment grade geographies and economic sectors which are particularly volatile and sensitive to economic downturns.

CEB NV's profitability, which has historically been low and volatile, is currently moderate despite its activities in trade and commodity finance as well as consumer credit activities that typically yield high returns. Net income represented 1.12% of total assets in 2023 versus 0.82% in 2022. This improvement stems from higher net interest margins because the bank benefited from (i) the swift repricing of its short-term lending activities, (ii) the revenues from a large amount of excess liquidity deposited at the European Central Bank and (iii) a more moderate increase in cost of funding.

Capitalisation is moderate in relation to the bank's risk profile, despite a high Common Equity Tier 1 (CET1) ratio of 16% and high regulatory Tier 1 leverage ratio of 10.9% at year-end 2023. Nonetheless, the bank has regularly benefitted from capital support from its parents FIBA Holding AS (FIBA) and FINA Holding A.S in the past. After a long period of full profit retention, the bank resumed dividend distribution in 2022.

Lastly, CEB NV funds itself essentially through online retail deposits raised in Germany and the Netherlands. As a result, its funding profile lacks market access and diversification. However, most deposits are covered by the Dutch deposit guarantee scheme, which could contribute to their stability. Moreover, a large liquidity buffer, about half of which made of cash and representing 44% of tangible assets as of year-end 2023, would help the bank absorb a liquidity stress scenario.

Moody's Advanced LGF analysis resulted in low loss given failure and a one-notch uplift (from very low and a two-notch uplift previously) for the deposit ratings. This outcome is based on year-end 2023 accounts and the bank's own estimates pertaining to asset growth and subordinated debt issuance.

Moody's negatively adjusted CEB NV's financial profile by one notch to reflect its limited business diversification.

RATIONALE FOR STABLE OUTLOOK

CEB NV's long-term deposit ratings carry a stable outlook. This reflects Moody's view that the bank's increased profitability due to the more favourable interest rate environment should protect its creditworthiness against asset quality deterioration over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

CEB NV's BCA and long-term ratings could be upgraded if the bank's asset risk profile, capitalisation and profitability were to improve over time. The long-term ratings could also be upgraded if the buffer of subordinated instruments were to significantly increase.

CEB NV's BCA and long-term ratings could be downgraded if a deteriorated macro environment were to result in an increase in asset risk and capital depletion, or if the bank increased its loan concentrations. The long-term ratings could also be downgraded if the buffer of subordinated instruments were to shrink.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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