

Rating Action: Moody's confirms Credit Europe Bank NV's Ba2 deposit rating and affirms Demir-Halk Bank NV's Ba1 deposit rating

31 Aug 2018

Outlooks changed to negative

London, 31 August 2018 -- Moody's Investors Service ("Moody's") today confirmed the Ba2 long-term deposit rating of Credit Europe Bank N.V. (CEB); the rating agency also confirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of b1, its Ba1 long-term Counterparty Risk Rating (CRR), its short-term Not Prime CRR and Ba1(cr) Counterparty Risk (CR) Assessment. The bank's subordinated debt rating and short-term CR Assessment were also confirmed at B2 and Not Prime(cr), respectively. Furthermore Moody's also affirmed the Ba1 long-term deposit rating of Demir-Halk Bank (Nederland) N.V. (DHB), its ba1 BCA and Adjusted BCA, its Baa3 long-term CRR and Prime-3 short-term CRR. The rating agency also affirmed the DHB's Not Prime short-term deposit rating and Baa2(cr)/Prime-2(cr) CR Assessment.

Moody's changed the outlook on the long-term deposit ratings of CEB and DHB to negative from ratings under review and stable, respectively.

A list of all affected ratings is provided towards the end of this press release.

This rating action also follows Moody's recent (i) downgrade of Turkey's government bond rating to Ba3 from Ba2 and (ii) change of outlook to negative. For further information on the sovereign rating action, please refer to Moody's press release published on 17 August 2018: https://www.moodys.com/research/--PR_387786.

CEB and DHB are exposed to Turkey (Ba3 negative), both directly through their customer bases and indirectly via their shareholders. The confirmation and affirmation of the deposit ratings of the two banks reflect the balance of risks resulting, on the one hand, from a deterioration in the operating environment in Turkey and, on the other hand, the likely reduction in the banks' exposures to Russia (in the case of CEB) and Turkey itself (in the case of DHB). The rating agency notes that Turkey's operating environment has deteriorated beyond its previous expectations and expects that it will continue to do so. Moody's has reflected these challenges by lowering the country's Macro Profile to Weak- from Weak. At the same time, Moody's expects CEB's exposures to Russia (Ba1 positive) to decrease with the contemplated divestment of its 90% stake in its Russian subsidiary Credit Europe Bank Ltd. (CEBL), while DHB's exposure to Turkey has decreased in recent years to 23% of total exposures, from 27% in 2016, and should continue to decline.

The negative outlooks reflect the increased risk of a more adverse scenario in Turkey, for example a further negative shift in investor sentiment that could lead to a curtailing of wholesale funding for Turkish banks, which could lead to increased asset risk for CEB and DHB. For further information on the rating action on financial institutions, please refer to Moody's press release published on 28 August 2018: https://www.moodys.com/research/--PR_388052.

RATINGS RATIONALE

CREDIT EUROPE BANK N.V.

CEB's BCA of b1 and long-term ratings have been on review for upgrade since 26 October 2017. The review was driven by Moody's view that the expected transfer of 90% of CEB's shares in its Russian subsidiary Credit Europe Bank Ltd. (CEBL) to its parent would improve CEB's profitability and, to some extent, its risk profile. Thanks to this transfer in ownership, the bank would no longer incur the cost of hedging CEBL's ruble-denominated equity into euros, which has more than absorbed the profits generated by the Russian operations since 2014. In addition, CEB's retrenchment from Russia, which represented 22% of its credit-risk exposures at year-end 2017, would reduce the risks resulting from a weak operating environment. Nevertheless this transfer has not yet been fully approved by the authorities.

Moody's believes that the potential improvement resulting from the spin-off of CEBL is offset by increased credit risk incurred by the bank on its exposures to Turkey, following the deterioration in the Turkish operating environment. At year-end 2017, the bank's exposure to Turkey amounted to €1.3 billion, representing 17% of

its total exposures and 154% of its Common Equity Tier 1 (CET1) capital. Since then this exposure has decreased to €0.8 billion in July. The bulk of this is made up of loans to large corporates that have performed well so far.

The deposit rating results from (1) the bank's standalone BCA of b1; (2) the application of Moody's Advanced Loss Given Failure (LGF) analysis, indicating a very low loss-given-failure, which results in a two-notch uplift from the b1 adjusted BCA; and (3) no uplift for government support, reflecting a low probability of support.

For subordinated debts, the 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 to a subordinated debt rating one notch below the adjusted BCA. The long-term CRR and CR assessment benefits from three notches of LGF uplift from the adjusted BCA.

DEMIR-HALK BANK (NEDERLAND) N.V.

DHB's exposures to Turkey have declined to 23% of total exposures (or 91% of the bank's CET1 capital) as of end-year 2017, from 27% in 2016. This is driven by the bank's strategy and regulatory constraints imposed upon some deposit-funded institutions in the Netherlands, whereby the financing of foreign assets with deposits collected in the EU cannot exceed certain levels. Although DHB's sensitivity to the Turkish macroeconomic environment is still material, it is balanced by the bank's increasing exposure to higher quality EU counterparties (up to 68% of total exposures in 2017 from 64% in 2016). As a result, DHB's financial profile is not affected by the lower macro profile now assigned to Turkey and Moody's affirmed the BCA of ba1.

DHB's deposit rating of Ba1 is in line with its ba1 BCA and adjusted BCA given their moderate loss-given-failure under Moody's Advanced LGF analysis, coupled with a low probability of government support.

NEGATIVE OUTLOOKS

The outlooks on the long-term deposit ratings of CEB and DHB are negative. This reflects the risk of further deterioration in the macroeconomic environment in Turkey where the two banks' parents or significant minority shareholders are located. Further negative developments in Turkey could spill over onto the two banks' customers and alter their creditworthiness. The negative outlook incorporates the risk of increasing financial stress that would lead to further negative implications for the asset quality and solvency of the two banks.

WHAT COULD CHANGE RATINGS UP/DOWN

An upgrade of CEB's and DHB's BCAs and ratings is unlikely over the outlook horizon as reflected by the negative outlook. A downgrade of the two banks' BCAs and long-term ratings could be triggered by a further deterioration in the operating environment in Turkey resulting in a weakening creditworthiness of the banks' exposures to Turkish banking or corporate counterparties. A downgrade could also be triggered by lower capitalization or reduced profitability.

LIST OF AFFECTED RATINGS

Issuer: Credit Europe Bank N.V.

..Confirmations:

....Baseline Credit Assessment, confirmed at b1

....Adjusted Baseline Credit Assessment, confirmed at b1

....Long-term Counterparty Risk Assessment, confirmed at Ba1(cr)

....Short-term Counterparty Risk Assessment, confirmed at NP(cr)

....Long-term Counterparty Risk Ratings, confirmed at Ba1

....Short-term Counterparty Risk Ratings, confirmed at NP

....Long-term Bank Deposits, confirmed at Ba2, outlook changed to Negative from Rating under Review

....Subordinate Regular Bond/Debenture, confirmed at B2

..Outlook Actions:

...Outlook changed to Negative from Rating under Review

Issuer: Demir-Halk Bank (Nederland) N.V.

..Affirmations:

...Baseline Credit Assessment, affirmed ba1

...Adjusted Baseline Credit Assessment, affirmed ba1

...Long-term Counterparty Risk Assessment, affirmed Baa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Long-term Counterparty Risk Ratings, affirmed Baa3

...Short-term Counterparty Risk Ratings, affirmed P-3

...Long-term Bank Deposits, affirmed Ba1, outlook changed to Negative from Stable

...Short-term Bank Deposits, affirmed NP

..Outlook Action:

...Outlook changed to Negative from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Laurent Le Mouel
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Nicholas Hill
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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