

Rating Action: Moody's places debt and long-term deposit ratings of Credit Europe Bank N.V. on review for upgrade

Global Credit Research - 26 Oct 2017

London, 26 October 2017 -- Moody's Investors Service today placed on review for upgrade the long-term local and foreign-currency deposit ratings of Ba2 and the subordinated debt rating of B2 of Credit Europe Bank N.V. (CEB NV). The bank's standalone baseline credit assessment (BCA) and adjusted BCA of b1 were also placed on review for upgrade, as well as its long-term and short-term Counterparty Risk (CR) assessments of Ba1(cr) and Not Prime(cr). Concurrently, Moody's affirmed CEB NV's short-term local and foreign-currency deposit ratings of Not Prime. The outlook on the long-term deposit ratings has been changed to Ratings under Review from Stable.

Moody's also today assigned a rating of B2, on review for upgrade, to CEB NV's new tier 2 subordinated bonds.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The review for upgrade of CEB NV's BCA and debt and long-term deposit ratings follows the announcement that CEB NV will transfer 90% of its shares in its Russian subsidiary Credit Europe Bank Ltd. (CEBL) to its parent Fiba Group. This transfer is contingent upon the approval by regulatory authorities both in the Netherlands and Russia. The spin-off of the Russian subsidiary is driven by cost considerations as the cross-currency swaps that hedge CEB NV's euro-denominated equity have become expensive. CEB NV's retrenchment from Russia, which represented 23% of credit-risk exposures at end-June 2017, is credit positive insofar that it substantially reduces the risks resulting from a weak operating environment relative to other jurisdictions where CEB NV is doing business. The bank's problem loans will fall slightly to 7.5% of gross loans to customers compared to 7.6% at end-June 2017, in particular because CEB NV will no longer be exposed to consumer loans in Russia, which resulted in substantial losses in recent years. CEB NV's BCA of b1 is a reflection of a risk profile skewed towards markets with greater earnings volatility, notably Turkey and Romania, while withdrawal from Russia alleviates these characteristics and hence justifies the review for upgrade.

CEB NV's profitability will also improve as a result of the sale because the bank will no longer incur the cost of equity hedging which exceeded the profits of Russian activities. In addition, the transaction will be structured with CEB NV's parent in such a way that the bank's common equity tier 1 (CET1) capital ratio will remain constant at 13.7%. Separately, Fiba Group committed to inject a total of \$75 million of tier 1 capital (\$50 million of additional tier 1 securities and \$25 million equivalent in euros of CET1 capital) in the bank before the end of 2017, which is equivalent to around 1.5 percentage points of tier 1 capital ratio after spin-off, a positive in Moody's opinion. Lastly, Moody's views the disposal of the Russian subsidiary as neutral from an operational standpoint as operational and IT systems of CEB NV and CEBL are not highly integrated.

The long-term deposit rating of Ba2, on review for upgrade, results from (1) the bank's standalone BCA of b1, on review for upgrade; (2) the application of Moody's Advanced Loss Given Failure (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.

Moody's two-notch uplift to the long-term deposit rating under its LGF analysis incorporates CEB NV's announcement that it will issue tier 2 subordinated notes for an amount of \$150 million and also redeem subordinated notes worth \$400 million in January 2018. The agency does not expect the reduction in subordination to lead to significantly higher loss-given-failure.

WHAT COULD MOVE THE RATINGS UP/DOWN

CEB NV's BCA and consequently its long-term deposit rating, both currently on review for upgrade, could be upgraded on the occurrence of the sale of CEBL to Fiba Group, which is still contingent upon the approval of local regulators. The upgrade would be underpinned by stronger operating conditions in jurisdictions where

CEB NV will do business, which will have a bearing on the bank's asset quality and profitability, and from the improvement in the bank's capital metrics after the injection of \$75 million of tier 1 capital committed by the parent before the end of 2017.

A downgrade is unlikely at present. However, a downgrade of CEB NV's BCA and long-term deposit rating could be triggered by increased asset risks, lower capitalisation or reduced profitability.

LIST OF AFFECTED RATINGS

Issuer: Credit Europe Bank N.V.

..Placed on Review for Upgrade:

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

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

....Long-term Bank Deposits, currently Ba2, outlook changed to Ratings under Review from Stable

....Subordinate Regular Bond/Debenture, currently B2

....Adjusted Baseline Credit Assessment, currently b1

....Baseline Credit Assessment, currently b1

..Assigned and placed on Review for Upgrade:

....Subordinate Regular Bond/Debenture, assigned B2

..Affirmations:

....Short-term Bank Deposits, affirmed NP

..Outlook Action:

....Outlook changed to Ratings under Review from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Guillaume Lucien-Baugas
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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