### Credit Europe Bank N.V.

#### Viability Rating

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<tr>
<th>Date</th>
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<th>Outlook</th>
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<td>31 Oct 17</td>
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<td>RWP</td>
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<tr>
<td>05 Dec 16</td>
<td>bb</td>
<td>Affirmed</td>
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<td>14 Dec 15</td>
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#### Support Rating Floor

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<tr>
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#### Support Rating Floor: Value

| Typical D-SIB SRF for sovereign's rating level (assuming high propensity) | A+ to A- |
| Actual country D-SIB SRF | NF |

#### Support Rating Floor: Value

| Benevolent ability to support system | Positive |
| Size of banking system relative to economy | Neutral |
| Size of potential problem | Negative |
| Structure of banking system | Positive |
| Liability structure of banking system | Negative |
| Sovereign financial flexibility (for rating level) | Positive |
| Sovereign propensity to support system | Neutral |
| Resolution legislation with senior debt bail-in | Negative |
| Track record of banking sector support | Positive |
| Government statements of support | Negative |
| Sovereign propensity to support bank | Neutral |
| Systemic importance | Positive |
| Liability structure of bank | Neutral |
| Ownership | Positive |
| Specifics of bank failure | Negative |
| Policy banks | Positive |
| Policy role | Positive |
| Funding guarantees and legal status | Positive |
| Government ownership | Neutral |

#### Drivers & Sensitivities

- **Positive Watch on Russia Spin-Off**: The Rating Watch Positive on Credit Europe Bank N.V.’s (CEB) Long-Term IDR and VR reflects our view that the announced spin-off of its Russian subsidiary will be positive for CEB's credit profile through reduced earnings and asset-quality volatility, and a lower risk asset mix.

- **Niche Franchise in Volatile Economies**: CEB’s ratings reflect the bank’s high exposure to volatile operating environments and cyclical industries inherent to its business model. They also reflect a niche but established trade finance franchise, adequate funding and liquidity, and strengthened capitalisation.

- **Higher Share of Lower-Risk Assets in the Mix**: CEB is exposed mainly to emerging markets, including Russia (29% of end-June 2017 loans), Turkey (22%) and Romania (16%). After the spin-off, the share of developed markets will increase to about 40% of the loan book (from 30%) and to about 50% of total credit exposure.

- **Asset Quality Is a Rating Weakness**: Non-performing loans (NPLs) are elevated. The ratio has been pushed up by CEB's shrinking loan book and the deterioration of its legacy mortgage loan book in Romania. The better-performing Turkish loan book and exposures to developed markets partly offset these pressures.

- **Strengthened Capitalisation**: CEB’s capitalisation has improved in recent years and provides a buffer against weakened asset quality. We do not expect capital ratios to weaken following the spin-off due to a USD75 million Tier 1 injection by the shareholder and a reduction of risk-weighted assets.

- **Modest Profitability**: Profitability has recently been weak and revenue generation will be further affected by the Russia spin-off. This should be partly offset by the reduction of CEB's expensive Tier 2 debt. We expect profitability to be driven by CEB's wholesale banking business in western Europe.

- **Granular Funding, Acceptable Liquidity**: CEB is mainly funded by granular deposits in the Netherlands and Germany. The majority of these are covered by the Dutch deposit guarantee, contributing to funding stability. Liquidity is acceptable, with high-quality liquid assets at 9% of total assets at end-June 2017.

- **Completion of the Spin-Off**: We expect to upgrade CEB's Long-Term IDR and VR by one notch once the bank receives necessary regulatory approvals for the spin-off. If the spin-off does not go through, we are likely to affirm CEB's Long-Term IDR with a Stable Outlook.
### Key Financial Ratios

**Funding and Liquidity**

- **Total assets (EURbn)**
  - FYE14: 7.50
  - FYE16: 8.11
  - FYE18: 8.36
  - FYE19: 8.71

- **Risk weighted assets (RWA)**
  - FYE14: 6.04
  - FYE16: 6.38
  - FYE18: 6.96
  - FYE19: 6.68

- **Total equity**
  - FYE14: 0.87
  - FYE16: 0.86
  - FYE18: 0.87
  - FYE19: 0.79

- **Fitch core capital (FCC)**
  - FYE14: 0.85
  - FYE16: 0.85
  - FYE18: 0.85
  - FYE19: 0.74

**Capital and Leverage**

- **Impaired loans/gross loans**
  - FYE14: 7.6%
  - FYE16: 7.0%
  - FYE18: 6.2%
  - FYE19: 5.8%

- **Growth of gross loans**
  - FYE14: 5.8%
  - FYE16: 10.9%
  - FYE18: 13.6%
  - FYE19: 22.6%

- **Reserves for impaired loans/impaired loans**
  - FYE14: 52.2%
  - FYE16: 58.6%
  - FYE18: 55.7%
  - FYE19: 59.2%

- **Loan impairment charges(avg gross loans)**
  - FYE14: 2.0%
  - FYE16: 2.2%
  - FYE18: 2.9%
  - FYE19: 3.6%

**Earnings and Profitability**

- **Operating profit/risk weighted assets**
  - FYE14: 16.0%
  - FYE16: 12.0%
  - FYE18: 16.0%
  - FYE19: 14.0%

- **Net interest income/average earning assets**
  - FYE14: 16.0%
  - FYE16: 14.0%
  - FYE18: 16.0%
  - FYE19: 14.0%

**Asset Quality**

- **Impaired loans less reserves for imp Loans/FCC**
  - FYE14: 55.2%
  - FYE16: 59.2%
  - FYE18: 64.5%
  - FYE19: 68.6%

- **Imp loans less reserves for imp Loans/FCC**
  - FYE14: 20.0%
  - FYE16: 22.6%
  - FYE18: 35.7%
  - FYE19: 42.0%

**Lending Type** (by loans to nearest 10%)

- **Resi mortgages (10%)**
- **Comm mortgages (n.a.)**
- **Asset finance (n.a.)**
- **Other secured (30%)**
- **Personal unsecured (20%)**
- **Comm unsecured (40%)**
- **Fis & Sovs (n.a.)**
- **High yield (n.a.)**
- **Other unsecured (n.a.)**

### Business Mix

- Retail banking (30%)
- SME banking (n.a.)
- Corporate banking (70%)
- Investment banking (n.a.)
- Transaction banking (n.a.)
- Asset management (n.a.)
- Insurance (n.a.)
- Other (n.a.)

### Funding and Liquidity

- **Loans/customer deposits**
  - FYE14: 100.6%
  - FYE16: 97.2%
  - FYE18: 104.2%
  - FYE19: 104.8%

- **Liquidity coverage ratio**
  - FYE14: n.a.
  - FYE16: n.a.
  - FYE18: n.a.
  - FYE19: n.a.

- **Customer deposits/total funding excl derivs**
  - FYE14: 82.3%
  - FYE16: 81.7%
  - FYE18: 78.8%
  - FYE19: 77.4%

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