Fitch Ratings-Paris/London-11 December 2012: Fitch Ratings has affirmed Credit Europe Bank N.V.'s (CEB) Long-term Issuer Default Rating (IDR) at 'BB' and Viability Rating (VR) at 'bb'. The Outlook on the Long-term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

RATING ACTION RATIONALE
The affirmation of Netherlands-based CEB's Long-term IDR and VR follows the agency's review of the impact of the divestment of CEB's Turkish subsidiary (Fibabanka A.S., Fibabanka) on CEB's overall risk profile. The transaction closed on 3 December 2012. While this divestment will lessen CEB's business scope, slightly reduce its core Tier 1 and Tier 1 capital ratios and result in moderately weaker asset quality on a consolidated basis, Fitch considers the impacts of the transaction to be individually small and cumulatively limited. Following completion of the divestment, CEB's credit fundamentals stay commensurate with the agency's expectations for a 'BB'/bb' rated bank.

Given increased capital requirements from the Dutch banking regulator for country concentration risk and the strong growth prospects envisaged for its Turkish operations, CEB's supervisory board decided to spin-off its Turkish subsidiary and sell it to CEB's sole shareholder, the Turkish conglomerate Fiba Group (Fiba). Fibabanka was acquired from the Portuguese Banco Comercial Portugues in late 2010 and operates commercial and retail banking in Turkey. Fibabanka represented 11% of CEB's total assets at end-2011 and its net income contributed to 11% of 2011 consolidated net income. This contribution has grown in 2012 due to organic growth and lower impairment charges taken by the bank due to the resilient Turkish economy (see 'Fitch Upgrades Turkey to Investment Grade' dated 5 November 2012 at www.fitchratings.com).

The disposal of Fibabanka will reduce the size of retail banking in CEB's business mix and removes an increasingly profitable subsidiary from CEB's portfolio. The transaction also results in weaker consolidated asset quality as Fibabanka's asset quality was much stronger than consolidated CEB's. Finally, in conjunction with the transaction, CEB will upstream EUR167m capital to Fiba, which will slightly reduce CEB's capital ratios (9.1% Fitch core capital and 10.5% Tier 1 capital ratio at end-June 2012). There has been no material funding provided to CEB from Fibabanka, or the other way round, and the divestment is overall neutral regarding CEB's liquidity position and funding mix.

RATING DRIVERS AND SENSITIVITIES - IDRS AND VR
CEB's Long-term IDR is driven by its standalone strength and is therefore equalised with its VR. CEB's VR continues to reflect the bank's good liquidity profile and its experienced management team, which has enabled performance to remain resilient. The bank continues to grow its retail deposit base with a focus on its foreign subsidiaries (namely Russia and Romania) to reduce subsidiary funding reliance, which Fitch considers positive in the light of the potential regulatory risk arising from the fact that the bank is partly funding emerging market assets with deposits collected in the European Union.

The VR also continues to take into account capitalisation that is just acceptable for the rating level, especially in the light of the bank's large exposures to volatile emerging markets (around 75% of gross-loans at end-2011, excluding Fibabanka) and the concentration of its loan book by borrower and by sector, particularly towards the highly cyclical real estate and shipping sectors. Fitch notes a rising ratio of unreserved impaired loans to equity (26.7% at end-June 2012), which makes the bank vulnerable to falls in collateral values, especially in Romania, at a time of tough economic conditions. Asset quality has deteriorated in CEB's customer loan book (5.2% impaired loans ratio at end-June 2012, up from 4.8% at end-2011 - both ratios include Fibabanka).
Finally, while the bank has made progress in improving its corporate governance structure with the appointment of additional independent supervisory board members, Fitch notes that the presence of a single dominant shareholder is a potential source concern, given its discretion over the direction and strategy of the bank.

CEB's VR is sensitive to a marked deterioration in capitalisation resulting from fast growth as well as an increase in the bank's risk profile that could result from a deterioration in asset quality beyond current expectations. An increase in industry or name concentrations, large asset impairments or reductions in collateral valuations and/or a material increase in the ratio of unreserved impaired loans to equity could result in a downgrade of its VR, hence its Long-term IDR. Any setback in CEB's prudent liquidity management or further strategic restructuring (for instance consisting in extracting profitable subsidiaries from CEB) could also result in a downgrade of CEB's VR. Fitch currently sees little upward potential in the bank's ratings, although they may benefit from a longer track record of stable performance and stronger capitalisation.

RATING DRIVERS AND SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR
Fitch believes that while there is a possibility that CEB's sole shareholder owner, Fiba, may support it in case of need, its ability to do so cannot be measured by Fitch and hence the agency does not rely on such possible support in its ratings. Given the bank's ownership structure and small franchise in the Dutch market, Fitch also does not include any potential support from the Dutch State in its rating. These assumptions are reflected in the Support Rating of '5' and Support Rating Floor of 'No Floor'.

The rating actions are as follows:

Long-Term IDR affirmed at 'BB' Stable Outlook
Short-Term Foreign Currency IDR affirmed at 'B'
Viability Rating affirmed at 'bb'
Support Rating affirmed at '5'
Support Rating Floor affirmed at 'NF'

Contact:
Primary Analyst
Philippe Lamaud
Associate Director
+33 1 44 29 91 26
Fitch Ratings S.A.S.
60 rue de Monceau
75008 Paris

Secondary Analyst
Olivia Perney Guillot
Senior Director
+33 1 44 29 91 74

Committee Chairperson
James Longsdon
Managing Director
+44 20 3530 1076

Media Relations: Hannah Huntly, London, Tel: +44 20 3530 1153, Email: hannah.huntly@fitchratings.com.

Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.