Fitch Affirms Credit Europe Bank NV and its Russian Subsidiary; Outlook Stable
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Fitch Ratings-London/Paris-04 August 2011: Fitch Ratings has affirmed Netherlands-based Credit Europe Bank N.V.'s (CEB) and its Russian subsidiary's Credit Europe Ltd. (CEBR) Long-term Issuer Default Ratings (IDRs) at 'BB' and 'BB-', respectively. The Outlooks on the Long-term IDRs remain Stable. A full list of ratings actions is at the end of this comment.

CEB's ratings reflect its niche focus on trade finance and consumer finance business in volatile, potentially higher risk markets, which render it highly sensitive to economic conditions. The ratings also reflect the ability of the bank's experienced management team to react quickly to worsening economic conditions in its main operating markets, the maintenance of a higher than regulatory-required liquidity buffer and a track record of stable results. The short-term nature of its loan book also helps to increase its flexibility in case of a worsening economic environment.

The group's loan exposure is concentrated mainly in Russia (28% and rising), Turkey (26% and rising) and Romania (23% but being reduced). As the bank's equity base is relatively small in absolute terms, concentrations by customer group are high, reflecting its corporate focus and the asset-based projects it finances in Western Europe. However, despite the higher risk environments in which it operates, CEB's impaired loans at end-2010 were stable at c.4.5% of total loans because of improved recoveries.

Retail deposits, largely obtained from Western Europe (Netherlands, Germany and Belgium) through virtual channels are partly on-lent to the bank's subsidiaries overseas. The maturity of these funds has been lengthening and deposits have tended to remain stable in periods of stress. However, as these are sensitive to pricing they are not considered by Fitch to be "core". Furthermore, they generate foreign currency mismatches, which are then hedged with derivatives. In order to deal with the potential maturity mismatches of its assets and liabilities, the bank maintains a strong (albeit reducing) liquidity position.

CEBR's Long-term IDR is driven by potential support from the majority shareholder CEB. The subsidiary has a strong retail focus with a reasonably long track record of providing car finance and consumer loans. CEBR's 'b+' Viability Rating reflects its relatively narrow and price-sensitive corporate franchise, and still significant reliance on funding raised from the parent group both through fiduciary deposits and interbank placements. However, Fitch admits that CEBR has been reasonably well-managed to date and its experienced management proved their ability to deliver relatively robust and resilient bottom-line results through the cycle.

CEBR is looking to increase its domestic funding through issuing local bonds and attracting deposits, though this is likely to increase its funding costs substantially and make low-yielding corporate lending less attractive. The bank plans a very rapid lending expansion (almost 30% in 2011) in a rather favourable macroeconomic environment, which is likely to support the asset quality of newly issued loans.

CEB, established in 1994, is 100% owned by Credit Europe Group (CEG), ultimately fully-owned by Fiba Group (FIBAG), a privately-owned Turkish group. The potential support available for the group, while possible, is not factored by Fitch into its ratings as FIBAG is not rated by Fitch and its ability to provide such support cannot be ascertained.

CEB provides trade and commodity finance and retail banking services to c.3 million customers through branches in the Netherlands, Germany, Belgium and Malta and subsidiaries in Russia, Romania, Switzerland, Dubai, Ukraine, and, since 2010, in Turkey.

The ratings have been affirmed are as follows:
CEB
Long-term IDR: 'BB'; Outlook Stable
Short-term IDR: 'B'
Viability rating: 'bb'
Individual Rating: 'C/D'
Support Rating: '5'
Support Rating Floor: 'NF'

CEBR
Long-term foreign currency IDR: 'BB-'; Outlook Stable
National Long-term rating: 'A+(rus)'; Outlook Stable
Short-term foreign currency IDR: 'B'
Viability rating: 'b+'
Individual Rating: 'D'
Support Rating: '3'