Fitch Ratings

27 MAR 2024

Fitch Affirms Credit Europe Bank at 'BB-'; Assigns Credit Europe Group 'BB-'; Outlooks Positive

Fitch Ratings - Milan - 27 Mar 2024: Fitch Ratings has affirmed Credit Europe Bank N.V.'s (CEB) Long-Term Issuer Default Rating (IDR) at 'BB-' and its Viability Rating (VR) at 'bb-'. The Outlook on the Long-Term IDR is Positive.

Fitch has also assigned Credit Europe Group N.V. (CEG) a Long-Term IDR of 'BB-' and a VR of 'bb-'. The Outlook on the Long-Term IDR is Positive.

CEG is the full owner and holding company of CEB, the group's main operating company and core bank. The ratings of CEG and CEB are equalised as Fitch believes that the risk of default of the two entities is substantially the same. We believe the holding company will not build up significant double leverage beyond 120%, and because capital and liquidity are managed centrally with a high degree of fungibility. Fitch assesses CEB and CEG on the basis of CEB's consolidated accounts, as CEB is the operating entity and its balance sheet represents more than 99% of the group's.

A full list of rating actions is below.

Key Rating Drivers

Prudent Balance-Sheet Management: CEB's niche franchise in commodity trade finance remains a rating strength, despite its limited diversification. Since 2018, CEB has been de-risking its balance sheet by materially reducing its volume of impaired loans and exposure to some emerging countries, which, along with higher interest rates, improved the bank's profitability. This has fed through to increased internal capital generation, ultimately supporting CEB's improved capitalisation.

CEB's VR is one notch below the 'bb' implied VR, driven by the business profile score, which we assess at 'bb-'. The Positive Outlook reflects CEB's ongoing business profile strengthening and better asset quality, which should support structural operating profitability improvement

Higher Trade Volumes Expected in 2024: Fitch expects trade volumes to grow faster than the global economy in 2024, supported by a lower rate of inflation, leading to an early exit from contractionary monetary policies. The decreasing rates should also fuel credit demand from 2H24. CEB plans to leverage on this favourable environment, supporting strong loan growth in 2024.

Niche Trade Finance Bank: CEB has a niche commodity-trade-finance and corporate franchise with diversification into the retail segment in Romania. We expect the bank to continue benefiting from the higher interest rates, while the revenue's volatility decreases alongside its exposure to emerging countries. As the bank delivers its growth strategy with a controlled risk appetite and cost optimisation materialises on restructuring and reorganisation plans, this should support the strengthening of the business profile.

Accelerated De-Risking Strategy: The bank has adopted a more conservative risk approach over the past five years by reducing its exposure to cyclical sectors, countries affected by high volatility (e.g. Turkiye), or significant geopolitical developments (e.g. Russia and Ukraine). These measures led to a significant decline in CEB's non-performing assets (NPA) ratio and minimum capital requirements. We now expect the bank to maintain an NPA ratio below 2% over the coming years.

Reduced NPAs; Improved Coverage: CEB has recently demonstrated satisfactory balance sheet management, although exposure to emerging markets add potential volatility to asset quality. The NPA ratio declined to 1.4% at end-2023 (from 7.2% at end-2020), helped by tightened underwriting policies, balance sheet de-risking and lending geared towards developed markets. The bank also materially improved its coverage of NPA.

Improved Profitability: CEB's core profitability has materially improved in 2022 and 2023, thanks to the increase in net interest income and lower loan impairment charges. We expect the bank to maintain an operating profit/risk-weighted assets (RWAs) ratio of above 2% in 2024 due to persisting high interest rates, significant trade volumes, loan growth, good control over costs and NPA, and remain around those levels in 2025.

Capital Buffers Improving: CEB's common equity Tier 1 (CET1) ratio has consistently exceeded 15% over the past five years and capital encumbrance has materially decreased, falling below 5%. Although the bank's capital size remains modest in nominal terms, its capital buffers also materially increased since July 2023, following the local regulator's decision to reduce its minimum capital requirements.

Moderately Stable Deposit Franchise: CEB is mainly funded through granular retail deposits, which are collected online mostly in Germany, and to a lesser extent the Netherlands and Romania. Almost all household deposits benefit from deposit-guarantee schemes in all three countries, contributing to funding stability. Corporate and interbank deposits are originated from CEB's trade-finance and corporate-banking operations. The bank has a significant liquidity buffer, largely made of central banks deposits and a low risk sovereign bond portfolio, and the short-term nature of its balance sheet supports its capacity to meet its commitments.

CEG's IDRs Equalised to CEB's: CEG is the parent holding company of CEB, the group's main operating company and core bank. The ratings of CEG and CEB are equalised, as Fitch believes that the risk of default of the two entities is substantially the same.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

The ratings would be downgraded if the macroeconomic environment weakens more than we expect, leading to a material asset-quality deterioration (with an NPA ratio increasing over 6%), a weaker operating profitability (operating profit falling below 1% of RWAs on a sustained basis) or capital position (CET1 ratio sustainably below 13%).

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The ratings could be upgraded on broader business and revenue diversification, with a record of operating profit above 1.5% of RWAs through the cycle including a lower interest rate environment and growth prospects. A tested access to wholesale funding would also be rating positive. In addition, an upgrade would require a stable risk profile and asset quality, while capital level remains materially above 13%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

CEB's Tier 2 subordinated debt is rated two notches below the bank's VR, reflecting poor recovery prospects for this type of debt.

No Government Support: CEB and CEG's Government Support Ratings (GSR) of 'ns' reflect Fitch's view that although external extraordinary sovereign support is possible, it cannot be relied on, both at bank- and holding company level. Senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event the bank becomes non-viable. This is because the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The subordinated debt rating is primarily sensitive to a downgrade of the VR, from which it is notched. The rating is also sensitive to an adverse change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance relative to the risk captured in the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The subordinated debt rating is primarily sensitive to an upgrade of the VR.

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support the bank. We believe this is highly unlikely.

VR ADJUSTMENTS

The operating environment score of 'bbb' is below the category-implied score of 'aa' due to the following adjustment reason: international operations (negative).

The capitalisation & leverage score of 'bb' is below the category-implied score of 'bbb' due to the following adjustment reason: size of the capital base (negative).

The funding & liquidity score of 'bb' is below the category-implied score of 'bbb' due to the following adjustment reason: non-deposit funding (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, neither due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Credit Europe Bank N.V.	LT IDR	BB-	Affirmed		BB-
	ST IDR	B	Affirmed		B
	Viability	bb-	Affirmed		bb-
	Government Support	ns	Affirmed		ns
• subordinated	LT	B	Affirmed		B
Credit Europe Group N.V.	LT IDR	BB-	New Rating		
	ST IDR	B	New Rating		
	Viability	bb-	New Rating		
	Government Support	ns	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Credit Europe Bank N.V.	EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch’s website.

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