Moody's Investors Service

Credit Opinion: Credit Europe Bank N.V.

Global Credit Research - 27 Nov 2009

Amsterdam, Netherlands

Ratings

Category	**Moody's Rating**
Outlook	Negative
Bank Deposits	Ba2/NP
Bank Financial Strength	D
Subordinate -Dom Curr	Ba3
Credit Europe Bank Ltd.	
Outlook	Negative(m)
Bank Deposits	Ba3/NP
NSR Bank Deposits -Dom Curr	Aa3.ru/--
Bank Financial Strength	E+
Senior Unsecured	Ba3

Contacts

Analyst	**Phone**
Virginie Merlin/Paris	33.1.53.30.10.20
Helene Sere/Paris	
Carola Schuler/Frankfurt	49.69.707.30.700
Roland Auquier/Paris	

Key Indicators

Credit Europe Bank N.V.

	[1]**2008**	**2007**	**2006**	**2005**	**2004**	**Avg.**
Total assets (EUR billion)	**9.54**	**7.49**	**3.84**	**2.68**	**2.26**	[2]**33.69**
Total capital (EUR billion)	**0.90**	**0.76**	**0.34**	**0.26**	**0.21**	[2]**36.00**
Return on average assets	**0.88**	**1.05**	**0.90**	**0.96**	**1.09**	**0.98**
Recurring earnings power [3]	**2.93**	**2.41**	**2.35**	**2.01**	**1.70**	**2.28**
Net interest margin	**6.68**	**5.03**	**4.23**	**3.19**	**1.70**	**4.17**
Cost/income ratio (%)	**53.44**	**62.12**	**52.50**	**50.37**	**40.63**	**51.81**
Problem loans % gross loans	**3.29**	**1.78**	**1.08**	**5.32**	**1.98**	**2.69**
Tier 1 ratio (%)	**9.17**	**8.40**	**8.05**	**7.74**	**11.86**	**9.04**

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of D to Credit Europe Bank N.V. ("CEB"), which translates into a baseline credit assessment (BCA) of Ba2. The BFSR reflects the resilient franchise of the bank's trade finance operations, the stability of its retail depositor funding profile, its good efficiency and reasonable profitability. However, the rating also reflects CEB's exposure to emerging market risk - in particular to assets with ultimate payment risk relating to Turkey, Romania and the Russian unsecured consumer and SME lending markets through Credit Europe Bank Ltd ("CEBRu" , the former Finansbank Russia, rated Ba1/NP/D-), which has been its subsidiary since 2006.

CEB's deposit ratings of Ba2/Not Prime do not incorporate any likelihood of support from external sources in the form of either parental or systemic support. They are therefore solely based on the bank's BCA.

Credit Strengths

-- An established and resilient franchise - albeit in the relatively narrow niche of trade finance

-- Strong pre-provision profitability

-- Significant capital generating capacity, despite a weakening trend in profitability

-- Adequate funding profile in Western Europe built on retail savings franchise in the Netherlands, Germany and Belgium

Credit Challenges

-- Risky business profile given the still high proportion of corporate and unsecured consumer loans in CIS countries

-- Lack of geographical balance between assets and liabilities

-- Average capitalisation levels providing a limited buffer against potential credit losses, which may however increase subject to the regulator's approval to convert EUR 170 million of Tier II capital into Tier I

-- High exposure, albeit declining, to Turkey and Russia (18% and 16% of total assets, respectively)

-- Increased provisioning needs affecting the bank's profitability

-- Counterparty concentration risk

Rating Outlook

The negative outlook on CEB's ratings reflects Moody's concerns about potential for further deterioration in asset quality. We will closely monitor the bank's ability to increase its capitalisation levels to provide a buffer against potential credit losses.

What Could Change the Rating - Up

Developments that would likely exert upward pressure on the BFSR and the deposit ratings include:

-- Successful diversification of CEB's consolidated assets and earnings towards countries and activities entailing lower risks

-- Reduction in CEB's non-performing loan levels

-- Higher level of Tier 1 capital adequacy without relying on periodic injections from the ultimate shareholder

-- Improvement in risk-adjusted pre- and post-provision profitability ratios from current level

-- Further improvement in corporate governance standards, in particular through the inclusion in the supervisory board of more than one person deemed to be independent under the Netherlands' corporate governance codes; effective involvement of these people in risk, controls and financial reporting oversight

What Could Change the Rating - Down

Developments that would likely exert downward pressure on the BFSR and deposit ratings include:

-- Continued increases in problem loan levels and/or diminishing provision coverage of problem loans

-- A further increase in the bank's risk profile

-- Delays in the ultimate shareholder providing capital injections to ensure a solid level of capitalisation

-- Other banks with a higher risk profile being brought into CEB's scope of consolidation.

Recent Results and Developments

In 2008, CEB's consolidated total assets recorded rapid growth of 27% to EUR 9.541 billion, gross customer loans grew by 17% and shareholders' equity increased by 21% to EUR 671 million. Pre-provision profits rose 82% to EUR 249 million and net profit increased by 22% to EUR 75 million. The Tier 1 ratio under Basel II decreased to 8.51% at end-June 2009 versus 9.17% at end-2008.

Until 2008, CEB comprised banking subsidiaries in Russia and Ukraine and leasing and mortgage subsidiaries in Romania. In 2008, Credit Europe Bank acquired Credit Europe Bank (Suisse) SA and Credit Europe Bank (Romania) SA, and also opened a new subsidiary in Dubai.The bank also has branches in Belgium, Germany and Malta and representative offices in China and Turkey.

DETAILED RATING CONSIDERATIONS

Detailed considerations for CEB's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's has assigned a D BFSR to CEB, underpinned by the resilient albeit narrow franchise of its trade finance operations, the stability of the retail depositor funding profile, good efficiency and reasonable profitability, but constrained by CEB's exposure to emerging market risk - in particular to assets with ultimate payment risk relating to Turkey as well as the Romanian and the Russian unsecured consumer and SME lending markets through CEBRo and CEBRu.

As a point of reference, the assigned D BFSR is three notches below the C outcome of Moody's adjusted bank financial strength scorecard. Moody's believes the D rating is an appropriate measure of the bank's financial strength given a number of factors:

(i) The geographic lack of balance between assets and liabilities.

(ii) The potentially significant impact on asset quality ratios through the seasoning of high-growth loan books notably in Turkey, Romania, and in the unsecured consumer and SME segments in Russia.

(iii) High level of provisioning needs resulting from the deterioration of the bank's asset quality which in turn affects its profitability.

(iv) The pressure on capital adequacy ratios arising from the ongoing and planned expansion of the bank's assets under a Basel-II based regime, which is unfavourable to exposures to emerging markets, together with the related impact of these factors on risk-adjusted profitability ratios.

QUALITATIVE RATING FACTORS (50% weighting)

FACTOR 1: FRANCHISE VALUE

Trend: Neutral

CEB was founded as a specialised trade finance bank in 1994 and was aimed at participating actively in the wholesale financing of international trade. It is an internationally oriented bank based in the Netherlands, specialising in commodity and structured trade finance lending. The bank has built up an expertise in selected sectors such as iron and steel, coal, oil and petrochemicals, and agriproducts (fertilisers). It also has a number of small, but in some cases rapidly growing, franchises in Russia, Romania, and Ukraine, variously in retail banking, consumer and mortgage lending, SME lending / leasing and insurance. The bank opened a subsidiary in Dubai in 2008 to develop trade finance activities.

Until 17 August 2006, CEB was an indirect subsidiary of Finansbank A.S. of Turkey (rated A3/P-2/C- for local currency deposits, B1/N-P for foreign currency deposits) through the latter's 100% ownership of Netherlands-registered holding company FIH. FIH (and in turn CEG) is now owned by Fiba Holding of Turkey, controlled by the Ozyegin family - the founders of Finansbank A.S. The change of ownership followed a transaction related to the acquisition of control of Finansbank A.S. (together with its domestic and Maltese operations) by the National Bank of Greece (NBG, rated A2/P-1/C).

The bank's loan portfolio was dominated by commercial loans (75%) in 2006, with the remainder being chiefly consumer loans. It diversified in 2007, and even more so in 2008: commercial loans still account for the majority of the portfolio (59%) but the share of consumer loans has increased to 33% and credit card activity is developing substantially.

In 2008, CEB's operating income was derived approximately 48% from commercial activities (loans, credit facilities, deposit and current accounts from corporate customers and financial institutions) and 34% from retail activities (individual customer deposits, consumer loans, credit card facilities and fund transfer facilities). At the group level, the major contribution to net profit comes from the bank in the Netherlands (55%), followed by Russia (28%).

The overall score of D+ for CEB's franchise value reflects its resilience but also the relatively narrow nature of the niches. Expansion in emerging countries increases the volatility of the bank's revenues.

FACTOR 2: RISK POSITIONING

Trend: Neutral

CEB's weak risk positioning primarily reflects:

(i) Significant credit risk concentration. The bank's top 20 corporate loans amount to multiples of Tier 1 capital and annualised pre-provision income at year-end 2008.

(ii) Still weak corporate governance, albeit improving thanks to its implementation of a "corporate governance road map" including the appointment of an independent member to the Supervisory Board as Chairman.

Moody's will closely monitor CEB's risk appetite. We note that in line with its strategy, CEB has been able to reduce its loans and commitments to corporates in the CIS countries and Romania by 29% between September 2008 and September 2009 given the short-term overall maturity of its balance sheet. However, CEB's profile remains risky given its still high proportion of unsecured consumer loans and of corporate exposures (mostly in foreign currencies), both in CIS countries.

We view the bank's controls and risk management more favourably, with an adequate degree of control awareness at both CEB and CEBRu with regard to limit utilisation, exposures, the default performance of the various portfolios, relatively flat reporting lines, and a group-wide independent risk function.

Regarding financial reporting transparency, Moody's notes that CEB now publicly discloses a satisfactory level of information on key issues such as non-performing loans, risk weighted assets and Tier 1 Capital. Moody's views positively the semi-annual disclosure of a "Risk Management and Capital Adequacy Pillar III Report".

CEB has an overall score of D for risk positioning.

FACTOR 3: REGULATORY ENVIRONMENT

Please refer to Moody's Banking System Outlook for the Netherlands, published in July 2009, to obtain a detailed discussion on the regulatory environment.

FACTOR 4: OPERATING ENVIRONMENT

Trend: Weakening

The unadjusted factor of A shown on the scorecard applies to all Netherlands-based banks. However, an operating environment score that is based on the estimated weighted average of the scores for the countries that account for CEB's assets and revenues is C. The significant weight of Russia and Romania in CEB's activities has been a key element in adjusting this score.

QUANTITATIVE RATING FACTORS (50% weighting)

FACTOR 5: PROFITABILITY

Trend: Weakening

According to Moody's calculations, CEB's net interest margin increased substantially in 2008 to 6.68% from 5.03% in 2007 as a result of the increasing share of consumer loans in the bank's lending portfolio. Pre-provision profit as a percentage of average risk-weighted assets (RWAs) increased to 4.27% in 2008 from 3.73% in 2007 despite the rapid increase in RWAs to EUR 7.253 billion in 2008 from EUR 4.429 billion in 2007 linked to the bank's strong and rapid development in Russia, Ukraine and Romania. However, in H1 2009, pre-provision profit as a percentage of RWA fell to 3.44%. Moody's notes that CEB's profitability has declined in the first half of 2009, primarily as a result of higher credit loss charges. Net income in H1 2009 was EUR 28 million, compared to EUR 63 million for H1 2008.

RWAs, which are the denominator in both of the profitability ratios we look at, have increased. This is a result of:

(i) Basel II calculations. Turkish inter-bank and sovereign exposures no longer benefit from the past favourable treatment of Turkey (20% for interbank, 0% for sovereign) on the grounds that it is an OECD country.

(ii) The operational risk charge and risk concentration under the second pillar of Basel II (which will also weigh on the capital adequacy score).

Net profit growth may lag the growth in RWAs and is already affected by the sizeable provisioning requirements relating to the Russian consumer and commercial portfolios. The net return on RWAs is likely, in the relatively near future, to fall to a weak level as portfolio seasoning could increase provisions faster than pre-provision profit.

On the positive side, given CEB's large deposit base, which has proved resilient during the crisis, the bank's margins could benefit from decreasing deposit rates.

We believe the unadjusted scorecard outcome of C+ for this factor is an overly favourable reflection of the bank's profitability given our expectations of high provisioning needs going forward. We therefore use a lower score for analytical purposes.

FACTOR 6: LIQUIDITY

Trend: Neutral

Liquid assets have been constantly decreasing as a share of total assets over the years, and stabilised at around 35% in 2008, which is well below the level of its peers. CEB's securities portfolio chiefly comprises securities from emerging countries and much of it is either unrated or rated non-investment grade and could be difficult to sell quickly if needed. Moreover, the bank created an available-for-sale (AFS) portfolio for loans in January 2007 and announced its intention to hold it until maturity. Moody's however understands that, in line with its strategy, the bank has significantly changed the composition of its securities portfolio in 2009 by increasing the portion of securities from developed countries, eligible to the ECB.

CEB is mainly funded by deposits (77% at year-end 2008, stable compared to 2007); it has successfully developed internet deposits, especially in the Netherlands and in Germany. However, Moody's considers this type of deposits to be less sticky than deposits collected by retail networks. Interbank funding significantly decreased in 2008, representing 14% of the bank's funding versus 20% in 2007. In 2008, CEB signed a syndicated loan of EUR 100 million and USD125 million maturing in 2010. Market funds are marginal, representing 1.4% of the bank's total funding.

The scorecard outcome of B- for the bank's liquidity is too favourable, in our view, as the scorecard does not capture the fact that a significant proportion of securities are invested in emerging-market paper, which may prove less liquid in a stress situation. We therefore use a lower score for analytical purposes.

FACTOR 7: CAPITAL ADEQUACY

Trend: Neutral

At year-end 2008, CEB's Tier 1 ratio was 9.17% and stood at 8.54% at end-June 2009. Until now, the bank has benefited from a high capital generation capacity helped by the non-payment of dividends to its shareholders since inception with the bank having no intention to pay any in the foreseeable future. The bank's future retained earnings may contribute less to any increase in its capital.

The ratio is also lower than in previous years because of the increase in RWAs, as calculated under Basel II, arising from the fact that Turkish interbank and sovereign exposures no longer benefit from the past favourable treatment of Turkey (20% for interbank, 0% for sovereign) on the grounds that it is an OECD country.

Moody's also notes that CEB is reliant on capital increases granted by its parent given the bank's ongoing asset growth. In 2007 and during H1 2008, it benefited from new capital increases from its shareholder of EUR 95 million and EUR 75 million, respectively. Nevertheless, Moody's recognises that CEB also has the option of moderating its growth in risk assets if its shareholder become reluctant to inject further capital into its subsidiary.

The score for capital adequacy is B+.

FACTOR 8: EFFICIENCY

Trend: Neutral

In Moody's view, CEB's cost-to-income ratios of 53.44% at year-end 2008 and of 48.67% at end-June 2009 were still at reasonable levels taking into account the bank's expansion policy. Management has historically maintained a strict control on expenses after any particular business line expansion phase, scaling back from areas that prove inefficient (e.g. branches in Western Europe back in 2002). This is likely to be the case with regard to Romania and Ukraine after an initial phase of market penetration and with regard to head office costs once the control structures required for consolidated supervision have been put in place. Additionally, the bank has been able to limit the staff size despite the increase of its balance sheet, with a significant reduction in the total number of employees between 2007 and 2008 (from 7,731 to 6,439).

The score for efficiency is C.

FACTOR 9: ASSET QUALITY

Trend: Weakening

The bank's impaired loan ratio increased dramatically in H1 2009 in the customer loans segment to 5.4% from 2.6% a year before. Moody's notes that overall impaired assets have risen by 88% during this period while provisions have only increased by 44%.

Moreover, as noted above, the bank created an AFS portfolio for loans in January 2007 and placed some of its government and corporate bonds in this portfolio. The bank intends to hold this portfolio until maturity. Variations in market valuation of the AFS portfolio do not impact the P&L but have to be taken into consideration when assessing the overall asset quality of the bank.

The unadjusted scorecard outcome for asset quality is C+, which is overly favourable to the bank, in Moody's view. We highlight the vulnerability of the bank's consumer finance lending activities in a challenging economic environment. This could imply further relatively weak asset quality going forward - with strict formula-driven provisioning, the ratio of problem loans to equity plus loan loss reserves may also come under pressure. We therefore use a lower adjusted score for asset quality for analytical purposes.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term GLC deposit rating of Ba2 to Credit Europe Bank. The rating reflects Credit Europe Bank's BCA of Ba2.

Moody's has not assigned any probability of systemic support to Credit Europe Bank. While its ultimate parent Turkey's Fiba Holding AS and its sister Fina Holding are sizeable conglomerates with interests spanning banking, leasing, factoring, private equity funds as well as non-financial activities (aviation, retailing, real estate, energy, ship building and port management), mainly in Turkey, Romania and Russia with total assets of USD18 billion and total equity amounting to USD3 billion as at year-end 2008, no parental support can be attributed to these entities, as they are unrated and domiciled in a ceiling-constrained environment. Furthermore, in Moody's view, CEB does not have the size or presence to receive systemic support in the event of distress.

Notching Considerations

In line with Moody's notching guidelines published in April 2007, Credit Europe Bank's dated and perpetual subordinated debt is rated at Ba3 - i.e. one notch below the bank's senior debt rating.

Foreign Currency Deposit Rating

Moody's foreign currency deposit ratings for Credit Europe Bank are Ba2/Not Prime, the same level as the long-term GLC deposit rating.

Foreign Currency Debt Rating

Moody's foreign currency debt ratings for Credit Europe Bank are Ba2/Not Prime, the same level as the long-term GLC deposit rating.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's baseline credit assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Credit Europe Bank N.V.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C-**	
Factor: Franchise Value						**D+**	**Neutral**
Market Share and Sustainability				**x**			
Geographical Diversification			**x**				
Earnings Stability				**x**			
Earnings Diversification [2]							
Factor: Risk Positioning						**D**	**Neutral**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity	--	--	--	--	**--**		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management			**x**				
- Risk Management				x			
- Controls	x						
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information			x				
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				

Market Risk Appetite			x				
Factor: Operating Environment						A	Weakening
Economic Stability	x						
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						B-	
Factor: Profitability						C+	Weakening
PPP % Avg RWA - Basel II	4.27%						
Net Income % Avg RWA - Basel II				1.03%			
Factor: Liquidity						B-	Neutral
(Mkt funds-Liquid Assets) % Total Assets	-16.49%						
Liquidity Management			x				
Factor: Capital Adequacy						B+	Neutral
Tier 1 ratio (%) - Basel II		9.17%					
Tangible Common Equity / RWA - Basel II	8.72%						
Factor: Efficiency						C	Neutral
Cost/income ratio			56.02%				
Factor: Asset Quality						C+	Weakening
Problem Loans % Gross Loans			2.05%				
Problem Loans % (Equity + LLR)		14.85%					
Lowest Combined Score (15%)						C+	
Economic Insolvency Override						Neutral	
Aggregate Score						C+	
Assigned BFSR						D	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral