NIBC Bank N.V.

Update

Key Rating Drivers

Satisfactory Credit Profile: NIBC Bank N.V.'s ratings reflect its niche franchise and business model, and an improving risk profile with lower exposure to cyclical sectors that should lead to better and more stable asset quality. The ratings also reflect the bank's satisfactory earnings, solid capital buffer and stable funding and liquidity.

The assigned Viability Rating (VR) is one notch below the 'bbb+' implied VR because the bank's risk profile has a high influence on the rating. Fitch Ratings believes NIBC's remaining exposure to cyclical sectors will be tested in the near term by macroeconomic challenges.

Growing Retail Activities: NIBC has steadily expanded its franchise in residential mortgage lending to offset the cyclicality of its corporate exposure. NIBC has lent to Dutch medium-sized companies and entrepreneurs for several decades. Its corporate offering comprises lending, asset-and-receivable financing, advisory, and co-investment activities, with a focus on profitable niches. NIBC's strength lies in its operational agility and tailored solutions, providing it with adequate pricing power in its niche markets.

Improving Risk Profile: NIBC's exposure to cyclical sectors, shipping, oil and gas, and leveraged finance, has significantly decreased in recent years. The bank will be less vulnerable than before as its residential mortgage lending activities cushion any performance swings in its remaining corporate and SME credit exposure.

Satisfactory Asset Quality: NIBC has modest levels of impaired assets and its loan portfolio quality has been fairly variable. Risk concentrations remain, especially in sectors such as commercial real estate and shipping (about 115% and 70% of common equity Tier 1 – CET1 – capital, respectively). However, we believe the shift in the bank's loan portfolio will help maintain its impaired loan ratio below 2% in 2023, despite the economic slowdown, higher energy prices, supply-chain disruptions, and higher interest rates.

Above-Average Profitability: NIBC's focus on profitable niches, good cost discipline and moderate loan impairment charges has resulted in higher profitability than western European peers. We expect the bank will maintain operating profit above 2% of risk-weighted assets (RWAs) in 2023. This is because growth in business segments such as leasing and mortgage loan origination to third parties at least partly compensate for the loss of revenue from winding down its higher-risk exposure.

High Capital Ratios: NIBC's risk-weighted capital and leverage ratios are commensurate with its risk profile and compare well with those of domestic and international peers. The fully loaded CET1 ratio of 17.7% at end-2022 was considerably above its regulatory requirement of 9.2%.

Stable Funding: NIBC's funding and liquidity have remained stable despite reliance on price-sensitive online retail savings (about 55% of non-equity funding) and wholesale-funding sources. The bank's conservative liquidity management ensures that upcoming maturities are well covered with high-quality liquid assets.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Government Support Rating	ns

Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Global Economic Outlook (March 2023)

Fitch Affirms Netherlands at 'AAA'; Outlook Stable (February 2023)

Major Belgian and Dutch Banks - Peer Review 2023 (February 2023)

Western European Banks Outlook 2023 (December 2022)

Mortgage Market Index: Netherlands (October 2022)

Fitch Affirms NIBC at 'BBB'; Outlook Stable (July 2022)

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Rating Sensitivities

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

Fitch believes a downgrade of the VR and IDRs is unlikely in the near term given Fitch's view of satisfactory financial buffers at the current rating. However, a downgrade could be triggered by a combination of the CET1 ratio sustained below 14%, operating profit/RWAs falling and being maintained below 1.5%, and the impaired loan ratio sustained above 3% over a two-year period. The latter would also lead to a re-assessment of the bank's risk profile. A sharp slowdown in revenue growth in retail businesses or unexpectedly large deposit outflows that put pressure on group liquidity would also be rating negative.

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

An upgrade of the VR and Long-Term IDR would be likely to result from a better risk profile assessment. This would require the bank to sustain improvement in its risk appetite over a longer period, as would be likely to be reflected in greater asset-quality resilience and better earnings stability in more challenging economic conditions.

Other Debt Ratings

Rating level	Rating
Senior preferred	BBB+/F2
Senior non-preferred	BBB
Subordinated	BB-

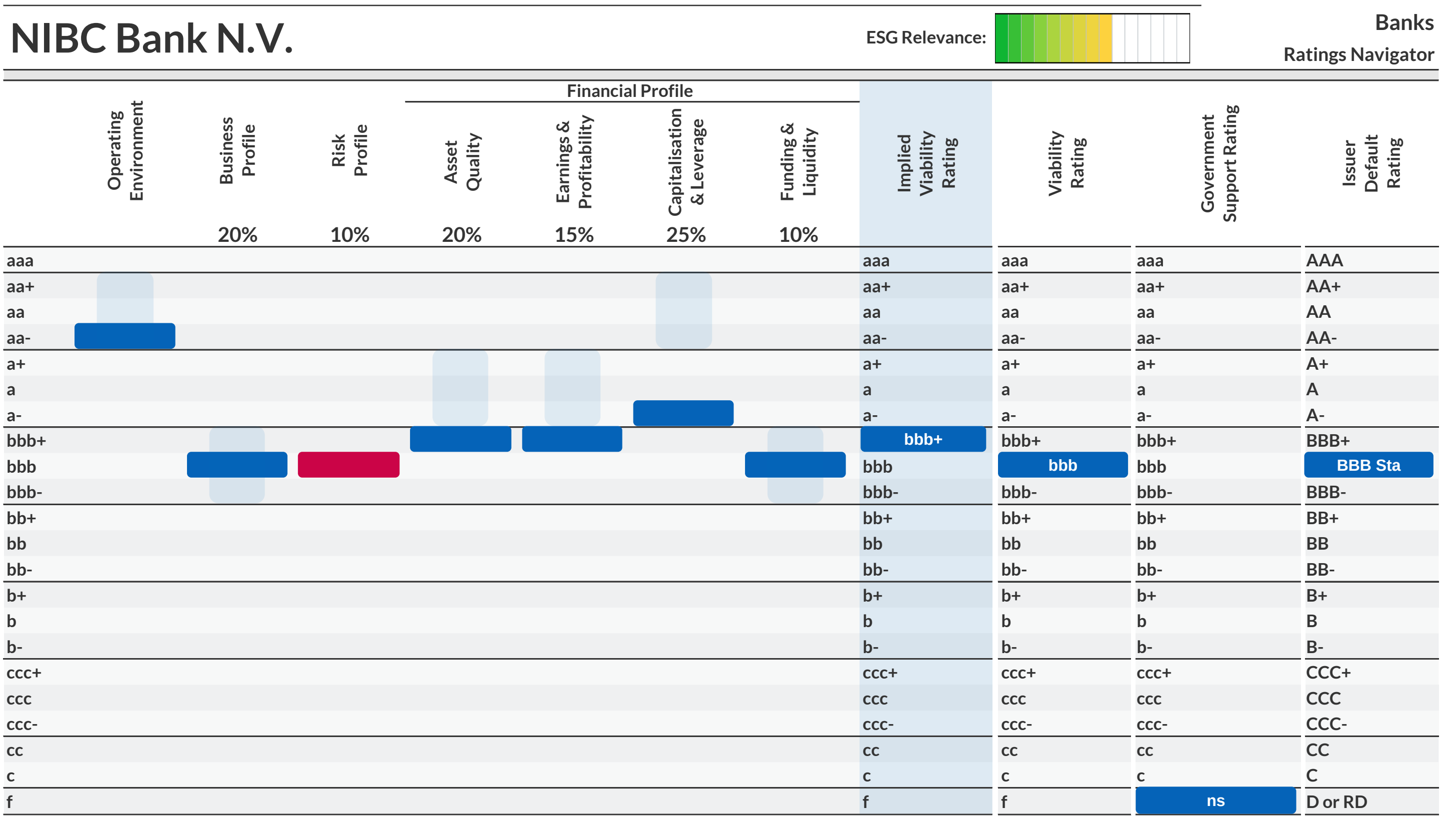
Source: Fitch Ratings

NIBC's long-term senior preferred debt is rated one notch above the Long-Term IDR. This reflects the protection that accrues to senior preferred debt from the bank's senior non-preferred and junior debt buffers. At end-2022, this buffer was 10% of NIBC's risk-weighted assets and we expect it to remain sustainably above this threshold. This also drives the equalisation of NIBC's long-term senior non-preferred debt with the bank's Long-Term IDR.

NIBC's 'F2' short-term senior preferred debt rating is the lower of two possible short-term ratings mapping to a 'BBB+' long-term rating, reflecting our assessment at 'bbb' of the bank's funding and liquidity score.

NIBC's legacy hybrid Tier 1 securities (ISIN code XS0249580357) are rated four notches below the bank's VR, reflecting the poor recovery prospects of these securities (two notches) and a high non-performance risk (two notches). Our assessment is based on the bank operating with a CET1 ratio comfortably above maximum distributable amount restriction points, which we expect to continue.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The asset quality score of 'bbb+' has been assigned below the 'a' category implied score due to the following adjustment reason: concentrations (negative).

The earnings & profitability score of 'bbb+' has been assigned below the 'a' category implied score due to the following adjustment reason: earnings stability (negative).

The capitalisation & leverage score of 'a-' has been assigned below the 'aa' category implied score due to the following adjustment reasons: risk profile and business model (negative), internal capital generation and growth (negative).

Significant Changes

Weaker Economic Outlook but Resilient Environment for Banks

Fitch expects Dutch GDP growth to weaken significantly to 1.1% in 2023 and 1.4% in 2024, following strong growth of 4.6% in 2022. The economic slowdown, driven by high inflation and rising interest rates, may reduce business and consumer confidence and erode households' real incomes. This would result in moderate pressure on banks' asset quality, mainly stemming from the most vulnerable SME and corporate borrowers.

However, Fitch believes this will not permanently damage the stable and well-developed Dutch economy and therefore should not impair Dutch banks' capacity to generate sound business volumes. The operating environment score (aa-/stable) reflects a tight labour market, high household savings and ample fiscal room, and we believe it has some headroom to absorb a weaker economic performance.

Further Balance Sheet De-Risking

In March, NIBC announced that it was in advanced discussions to sell its CLO platform and investment franchise, NIBC Investment Partners, as part of its ongoing strategy to divest and reduce exposure to non-core activities. The potential sales would follow the disposals of oil and gas and leveraged finance portfolios in 2022 as the bank seeks to reduce exposure to cyclical industries. The bank expects that sales of the two portfolios would be relatively neutral for its 2023 income statement but would boost the bank's CET1 ratio by around 100bp due to lower RWAs. The bank aims to reduce its non-core exposures (end-2022: EUR3.8 billion; equivalent to around 17% of total assets) to below EUR2 billion by end-2023. Fitch views the reduction in exposure to non-core and cyclical industries as positive for NIBC's risk profile.

Manageable Commercial Real Estate Exposure

Commercial real estate (CRE) lending (end-2022: EUR1.9 billion, equivalent to 10% of total loans) remains a core product for NIBC. The bank mainly lends to small residential real estate developers in the Netherlands and has appetite for sectors such as logistics and, to a lesser extent, retail space. Sharply rising interest rates will likely gradually drive up yield requirements and put pressure on CRE valuations, and tighter funding conditions may increase refinancing risk for CRE borrowers (including developers). However, despite generally declining property values in the retail and office segments since the pandemic, NIBC's non-performing CRE loans remained manageable at 3.2% at end-2022 (end-2021: 3.8%), due to the bank's satisfactory underwriting standards and a well-diversified book as a result of its focus on smaller ticket sizes.

Satisfactory 2022 Results

Operating income fell 5% to EUR466 million in 2022 due to a normalisation of equity investment income to EUR39 million compared to EUR76 million in 2021, when the bank completed a large number of exits. Operating expenses rose 5% due to higher non-personnel costs related to investments in projects and IT. The operating profit/RWA ratio fell to 2.3% from 2.8% in 2021 as a result but was also partly affected by 7% growth in RWAs from higher risk-weights on mortgage loans, including as a result of the implementation of the Dutch National Bank's mortgage floor.

Loan impairment charges remained low at 16bp and included an additional management overlay of EUR3 million to reflect heightened risks caused by high inflation and rising interest rates. The impaired loans ratio improved to 1.2% by end-2022, from 1.8% at end-2021, primarily due to a reduction in impaired loans from non-core activities, including from portfolio sales. The non-core book remains the largest source of impaired loans. The impaired loan ratio in the mortgage book was stable at 0.6%.

The bank's CET1 ratio fell to 17.7% (end-2021: 19.0%), mostly due to the denominator effect from higher risk-weights on mortgage loans. Management has announced that it has lowered its CET1 medium-term objective to 13%, from 14%, because of its lower balance-sheet risk. Fitch expects the ratio to be maintained above 14% in the near term.

Stable Funding and Liquidity

NIBC has a stable funding and liquidity profile, which we view as resilient in light of recent market developments affecting the banking sector. The bank's largest source of funds is retail savings collected online in the Netherlands, Germany and Belgium. Although sensitive to pricing, these savings have been stable over several years, which we expect to continue.

Wholesale funding mostly comprises senior unsecured and covered bonds, and maturities are well spread. Liquid assets (excluding retained securitisations and covered bonds) of about EUR2.7 billion at end-2022 (12% of total assets) mainly consisted of central bank deposits and comfortably covered 2023 maturities of EUR1.7 billion. The bank's liquidity coverage and net stable funding ratios were satisfactory at 206% and 135%, respectively, at end-2022.

Change in Resolution Approach Does Not Alter Capital Stack Composition

In February, the Dutch national resolution authority informed NIBC of a change to its resolution approach, should the bank ever fail, which is for it to be wound up under normal national insolvency proceedings. Accordingly, the bank's minimum requirement for own funds and eligible liabilities (MREL) has been set at 11.7% of the total risk exposure amount - equivalent to the bank's total capital requirement. NIBC can comfortably meet this requirement solely with CET1 capital, removing its need to issue MREL-eligible debt as a result. However, the bank remains committed to durably maintain a combined buffer of senior non-preferred and junior debt at above 10% of RWAs.

Summary Financials

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	409	383	361	386	417
Net fees and commissions	50	47	46	43	40
Other operating income	38	36	83	-23	67
Total operating income	497	466	490	406	524
Operating costs	243	228	217	211	229
Pre-impairment operating profit	254	238	273	195	295
Loan and other impairment charges	30	28	36	133	49
Operating profit	224	210	237	62	246
Other non-operating items (net)	-34	-32	-11	0	0
Tax	32	30	36	1	44
Net income	158	148	190	61	202
Other comprehensive income	39	37	-39	-2	-2
Fitch comprehensive income	197	185	151	59	200
Summary balance sheet					
Assets					
Gross loans	19,715	18,484	18,678	16,883	18,012
- Of which impaired	243	228	342	211	267
Loan loss allowances	210	197	201	183	165
Net loans	19,505	18,287	18,477	16,700	17,847
Interbank	330	309	205	645	688
Derivatives	173	162	334	494	482
Other securities and earning assets	1,356	1,271	1,184	1,225	1,352
Total earning assets	21,363	20,029	20,200	19,064	20,369
Cash and due from banks	2,793	2,619	2,392	1,909	1,965
Other assets	47	44	66	82	73
Total assets	24,203	22,692	22,658	21,055	22,407
Liabilities					
Customer deposits	11,975	11,227	11,333	11,137	11,397
Interbank and other short-term funding	794	744	702	1,000	1,403
Other long-term funding	8,824	8,273	8,197	6,507	6,963
Trading liabilities and derivatives	342	321	287	271	409
Total funding and derivatives	21,935	20,565	20,519	18,915	20,172
Other liabilities	87	82	111	85	113
Preference shares and hybrid capital	213	200	200	252	257
Total equity	1,968	1,845	1,828	1,803	1,865
Total liabilities and equity	24,203	22,692	22,658	21,055	22,407
Exchange rate		USD1 = EUR0.93756	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, NIBC Bank N.V.

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.3	2.8	0.8	2.9
Net interest income/average earning assets	1.9	1.9	2.0	2.1
Non-interest expense/gross revenue	48.9	44.4	52.0	44.1
Net income/average equity	8.1	10.5	3.3	10.4
Asset quality				
Impaired loans ratio	1.2	1.8	1.3	1.5
Growth in gross loans	-1.0	10.6	-6.3	2.7
Loan loss allowances/impaired loans	86.4	58.8	86.7	61.8
Loan impairment charges/average gross loans	0.2	0.2	0.8	0.3
Capitalisation				
Common equity Tier 1 ratio	17.7	19.0	21.3	18.7
Fully loaded common equity Tier 1 ratio	17.7	19.0	21.3	18.7
Tangible common equity/tangible assets	8.1	8.1	8.6	8.3
Basel leverage ratio	7.6	8.4	9.2	7.8
Net impaired loans/common equity Tier 1	1.9	8.7	1.7	6.4
Funding and liquidity				
Gross loans/customer deposits	164.6	164.8	151.6	158.0
Liquidity coverage ratio	206.0	184.0	216.0	222.0
Customer deposits/total non-equity funding	54.7	55.1	58.4	56.4
Net stable funding ratio	135.0	129.0	129.0	121.0

Source: Fitch Ratings, Fitch Solutions, NIBC Bank N.V.

Government Support

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

The Government Support Rating of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if NIBC becomes non-viable. This reflects the bank's lack of systemic importance in the Netherlands, and the implementation of the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism. These provide a framework for resolving banks that is likely to require senior creditors to absorb losses, if necessary, instead or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

Overall ESG

Overall ESG
5
4
3
2
1

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale: 5, 4, 3, 2, 1

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, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.