NIBC

# FULL YEAR RESULTS 2018

**Reflections – 27 February 2019**


Paulus de Wilt, CEO

Herman Dijkhuizen, CFO


# AGENDA

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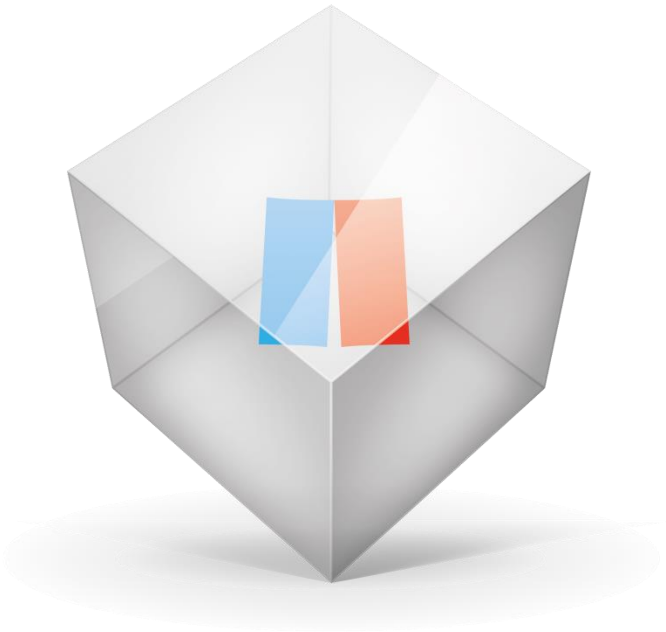


# BUSINESS UPDATE FULL YEAR 2018

**Paulus de Wilt**
CEO

# REFLECTING ON OUR PERFORMANCE…

## Delivering upon our promises

| METRICS | MEDIUM-TERM OBJECTIVES[1] | FY 2018 |
|---|---|---|
| **Return on Equity** (Holding) | 10 - 12% | 13.6% |
| **Cost-to-income** (Holding) | < 45% | 43% |
| **CET1** (Holding) | ≥ 14% | 18.5% |
| **Dividend pay-out** (Holding) | ≥ 50% | 58% |
| **Rating** (Bank) | BBB+ | BBB Positive Outlook |

**COMMENTS**

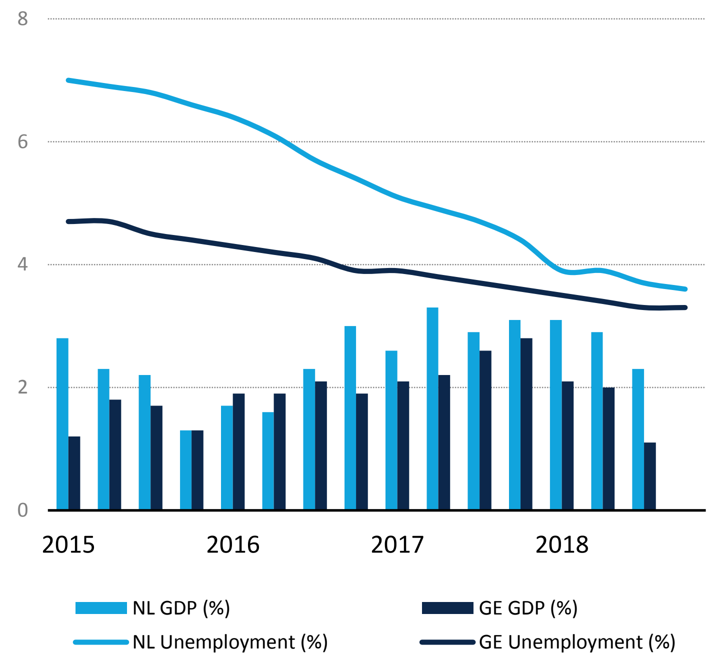
- Strong net profit FY 2018 of EUR 217 million (+2%) compared to EUR 213 million last year
- Return on Equity (ROE) of 13.6%, compared to 11.9% in 2017. Excluding non-recurring items, ROE of 10.8% provides a better reflection of real performance in 2018
- Cost-to-income ratio with 43% well below the medium term objective of 45%, allowing us flexibility to invest in business development, IT and regulatory projects
- Fully loaded CET 1 ratio increased from 16.1% on 1 Jan 2018 (post-IFRS 9) to 18.5% per FY 2018
- Final dividend proposed of EUR 0.36 per share, totaling the full dividend for 2018 at EUR 0.86 per share or EUR 126 million

*Note: Financials for NIBC Holding as of FY 2018, unless otherwise stated. All comparison figures of FY 2017 include the results from Vijlma.*
*[1] Medium-term objectives as announced on 8 February 2018 at the publication of FY2017 results, except for cost-to-income ratio (Bank)*

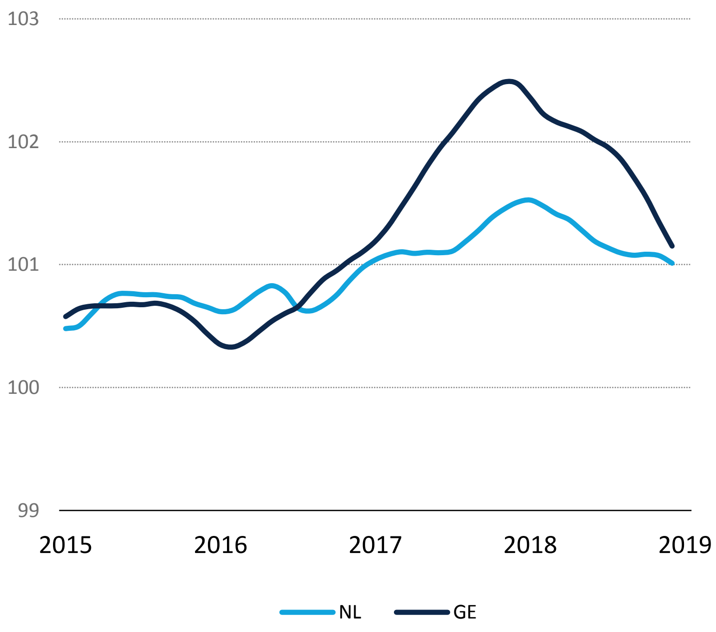
# REFLECTING ON THE WORLD AROUND US

## Softer economic conditions ahead

### SOLID ECONOMIC DEVELOPMENTS IN THE NETHERLANDS AND GERMANY[1]




### BUSINESS CONFIDENCE LEVEL SEEMS TO HAVE PEAKED[2]




### DUTCH ECONOMY, SOLID FUNDAMENTALS…

- International, highly competitive economy
- Housing price increase
- Low un-employment

### …BUT INTERNATIONAL CHALLENGES REMAIN:

- Interest rate environment: low for even longer
- Brexit deadline is nearing, yet uncertainty remains
- International trade tensions, particularly between the US and China
- Turn of the (economic) cycle?

*[1] Real GDP growth in percentage, y-o-y. Sources: Dutch Statistics Office (NL) ; German Federal Statistics Office (GE)*
*[2] Source: OECD (2019), Business confidence index (BCI)*

# REFLECTING ON OUR ROLE IN THE FINANCIAL ECOSYSTEM

## Distinct strategy and unique business model

**Rebalance** **Growth**

**Partnerships with large scale players....**

**Capital Employment by M&A....**

**NIBC**

**...and innovative fintechs**

**...or shareholder return**

**Operational control** **Risk appetite**

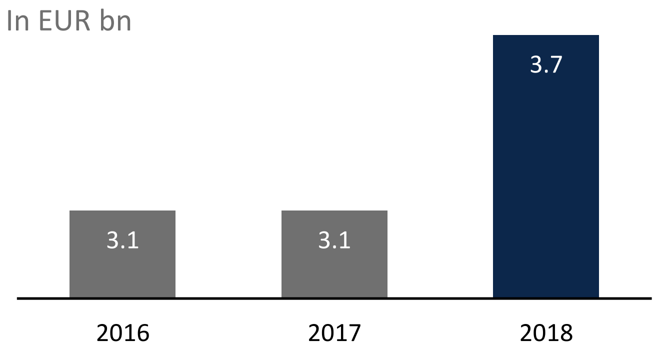
# CORPORATE CLIENT OFFERING

## Record origination and active rebalancing leading to stable, more granular portfolio

### CORPORATE LOAN ORIGINATION

INCREASED ORIGINATION

3.7bn




### REBALANCING

WELL DIVERSIFIED CORPORATE CLIENT EXPOSURE

9.9bn

- Leveraged Finance reduced by EUR 220 mln, but off-balance activities increased through EUR 450 mln CLO
- Reduction of equity portfolio: Sale of NEIF leading to a one-off result and significant reduction of RWAs
- Growth in more granular portfolios of +52% in leasing (e.g. BEEQUIP) and +23% in receivable finance
- Expansion to Nordics

### FACTS AND FIGURES

STRONG NET PROMOTOR SCORE (NPS)

63%

ISS-oekom

C+

/PRIME

SUSTAINALYTICS

72

/OUTPERFORMER

# RETAIL CLIENT OFFERING

## Record origination fuelling both on- and off-balance mortgage portfolio

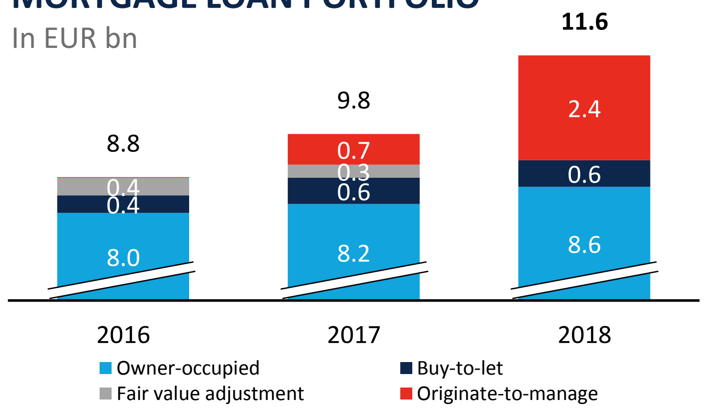
### MORTGAGE LOAN ORIGINATION

INCREASED ORIGINATION

3.4bn

### MORTGAGE LOAN PORTFOLIO

In EUR bn




### GROWTH

MATURE GRANULAR MORTGAGE PORTFOLIO

9.3bn

### LOW RISK PORTFOLIO

- On-balance portfolio growth of ± EUR 0.4 billion
- Growth of owner-occupied portfolio of 6%, with Loan-to-Value (LTV) of 72%
- Moderate growth in Buy-to-Let (+2.5%), with LTV of 52%
- Strong growth OTM portfolio from EUR 0.7 billion to EUR 2.4 billion

### FACTS AND FIGURES

NIBC DIRECT CUSTOMER SURVEY SCORE SAVINGS

7.7

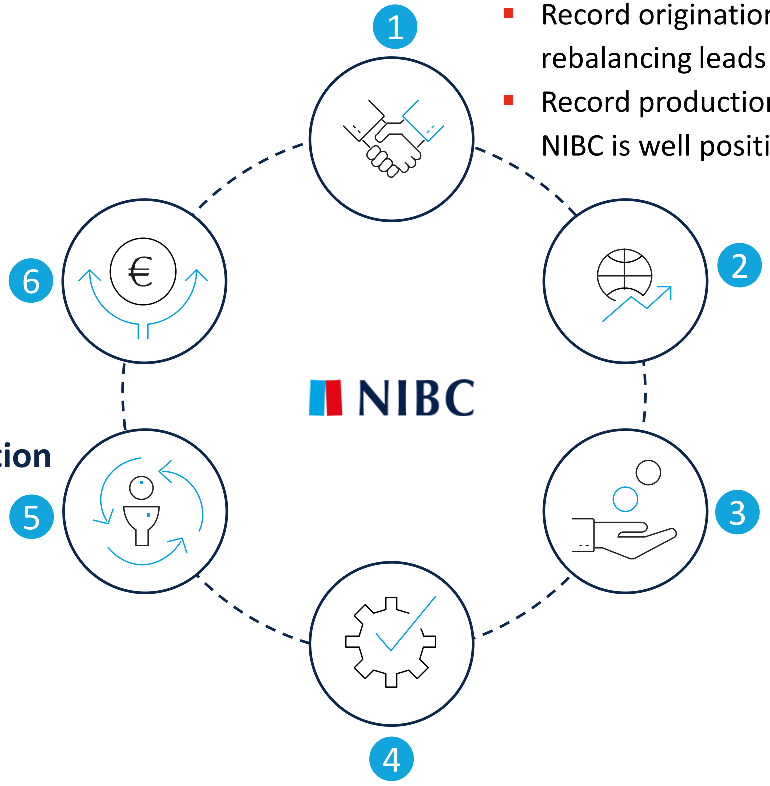
NIBC DIRECT CUSTOMER SURVEY SCORE MORTGAGES

8.1

### CAMPAIGNS

- NIBC Direct 10yr Anniversary
- Dutch television in ‘Heel Holland Bakt’
- ‘Aflossingsblij’

# REFLECTING ON OUR STRATEGIC PRIORITIES




## Continuous evolution of client franchise, expertise and propositions

- Record origination on corporate client side in combination with active rebalancing leads to stable corporate client portfolio
- Record production for on- and off balance exposure on retail client side: NIBC is well positioned for changing consumer behaviour

## Focus on growth of asset portfolio in core markets

- 52% growth in lease receivables
- 23% growth in receivables finance offering, supporting for example iwoca, Ratepay
- On-balance growth of mortgages of ± EUR 400 million

## Diversification of income

- Increased OTM mandate to EUR 3.5 billion. Drawn portfolio at 2.4 billion
- Diversified LF offering to off-balance with successful closing of EUR 450m North Westerly V CLO
- Markets business still challenging

## Building on existing agile and effective organisation

- Strategic investments made in various fintechs
- Permanent and increased focus on 'Know Your Customer' (KYC) and Anti-Money Laundering results in further strengthening of processes on both sides of the business

## Ongoing investment in people, culture and innovation

- IMD and McKinsey to gain outside-in view
- High personnel turnover (-18%) due to active rebalancing of the organisation
- Bank-wide 'Virgin Pulse' Vitality program
- Continued talent investments leads to record year for trainees, with large well diversified group
- Over EUR 3,000 training expenses per employee

## Further optimisation of capital structure and diversification of funding

- Sustainably lowered funding costs from 87 to 73bps
- Further RWA reduction by 9%
- CETI ratio further strengthened to 18.5%, well above medium-term objective
- Total dividend of EUR 126 million (EUR 0.86 per share)

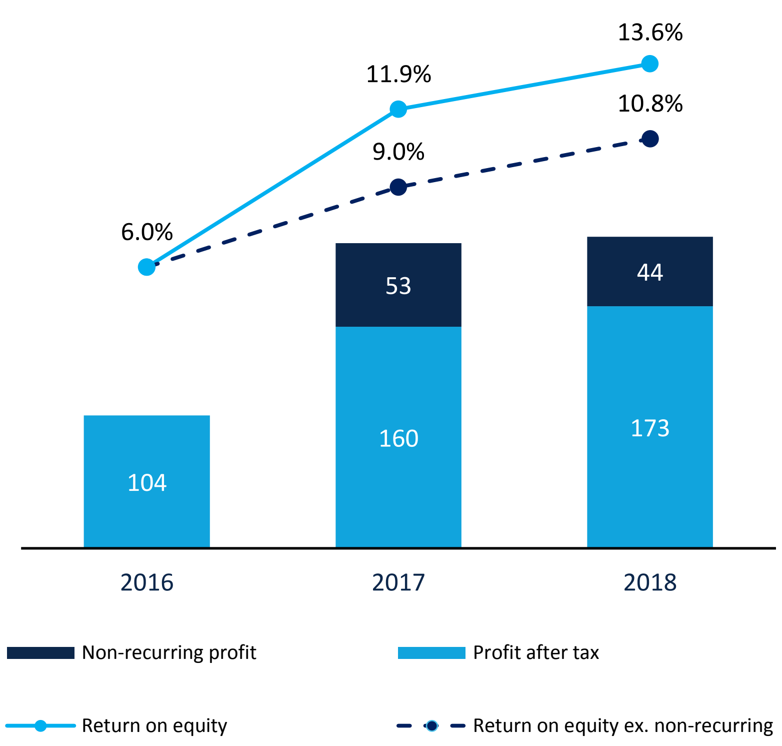
# FINANCIAL RESULTS FULL YEAR 2018

**Herman Dijkhuizen**
CFO

# INCOME STATEMENT

## Continued strong profitability in FY 2018

### PROFIT AFTER TAX AND RETURN ON EQUITY




### INCOME STATEMENT

| | IFRS 9 2018 | IFRS 9 ex. non-recurring 2018 | IAS 39 2017 | IAS 39 ex. Vijlma 2017 |
|---|---|---|---|---|
| Net interest income | 427 | 427 | 342 | 354 |
| Net fee and commission income | 51 | 51 | 54 | 54 |
| Investment income | 74 | 37 | 67 | 67 |
| Other income | (1) | (1) | 96 | (2) |
| **Operating income** | **551** | **513** | **559** | **473** |
| Personnel expenses | 108 | 102 | 111 | 111 |
| Other operating expenses | 111 | 107 | 102 | 98 |
| Depreciation and amortisation | 5 | 5 | 6 | 6 |
| Regulatory charges | 15 | 15 | 14 | 14 |
| **Operating expenses** | **239** | **230** | **233** | **229** |
| **Net operating income** | **312** | **284** | **326** | **244** |
| Credit loss expense / (recovery) | 54 | 54 | 56 | 55 |
| Tax | 29 | 45 | 54 | 26 |
| **Profit after tax** | **229** | **185** | **216** | **163** |
| Profit attributable to non-controlling shareholders | 12 | 12 | 3 | 3 |
| **Profit after tax attributable to shareholders of the company** | **217** | **173** | **213** | **160** |

### COMMENTS

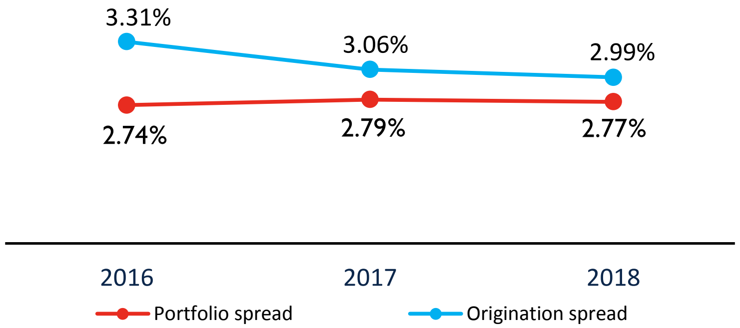
- Profit after tax attributable to shareholders of the company in 2018 of EUR 217 million and return on equity at EUR 13.6%
- Excluding non-recurring in 2018 and the result on Vijlma in 2017:
  - Profit after tax attributable to shareholders of the company increased by 8% to EUR 173 million mainly driven by net interest income on the back of lower funding costs
  - Return on equity (ROE) increased by 20% to 10.8% compared to 9.0% in 2017
  - ROE in 2017 was based on the pre-IFRS 9 equity base, which was substantially higher
- The profitability improvement in 2018 reflects the investments made in prior years

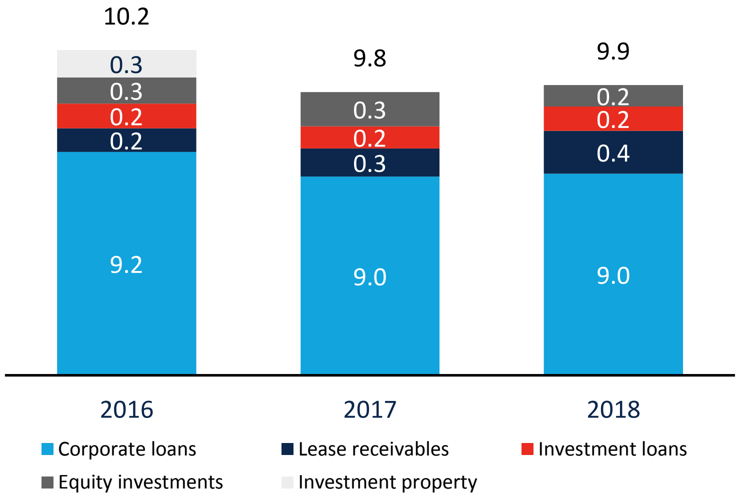
NIBC

# PORTFOLIO VOLUMES AND SPREADS

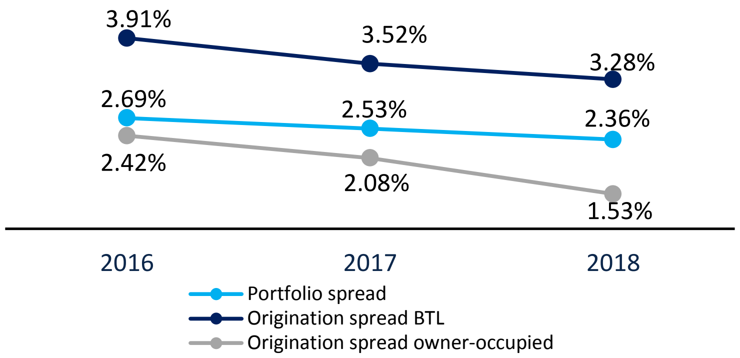
## Successful rebalancing of the portfolios at healthy spreads

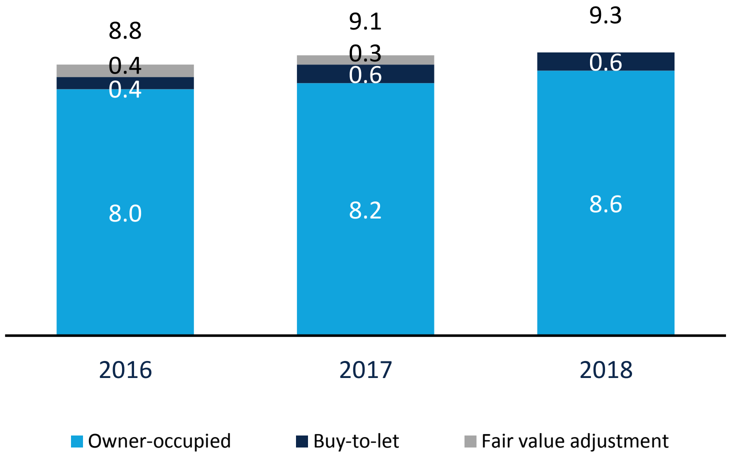
### CORPORATE LOAN SPREADS & VOLUMES




### RETAIL ASSET SPREADS & VOLUMES




### COMMENTS

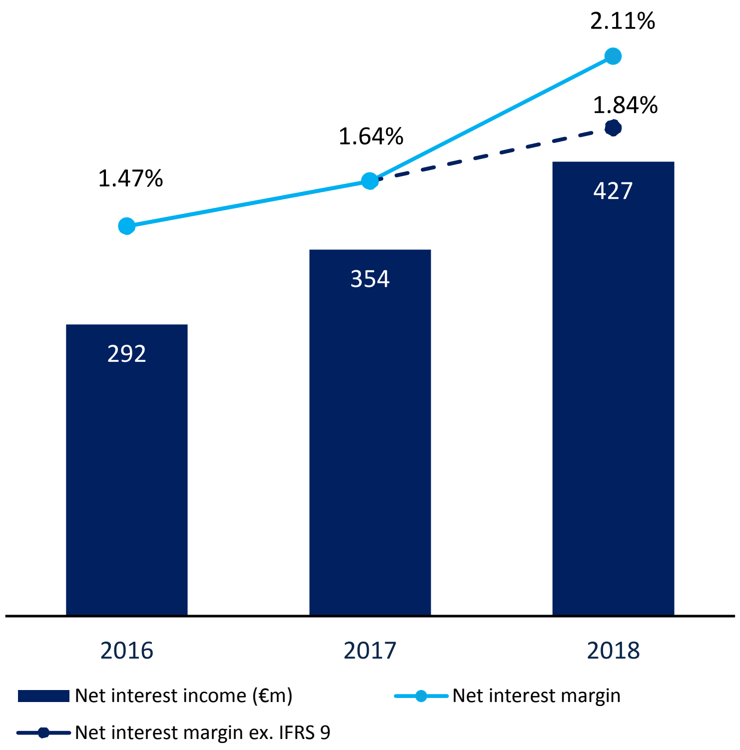
- Corporate client assets:
  - Corporate client assets for our own book increased in 2018 by 1% to EUR 9.9 billion, reflecting the ongoing rebalancing of our portfolios:
    - The leveraged finance portfolio decreased by more than EUR 0.2 billion, more than compensated by the increase in receivables finance (+23%) and lease receivables (+52%)
  - The average portfolio spread decreased slightly to 2.77%, mainly driven by a further decrease of the average origination spread to 2.99%
- Retail client assets:
  - The own book portfolio of mortgage loans increased in 2018 by 5% to EUR 9.3 billion
  - The average portfolio spread decreased to 2.36%, mainly reflecting a decreased origination spread. Besides the challenging interest rate environment, this decrease also reflects our focus on own book origination for shorter tenors and lower loan-to-value mortgages

*Note: 2017 figures include Vijlma. Spreads reflect spreads above the 3 month euribor base rate*

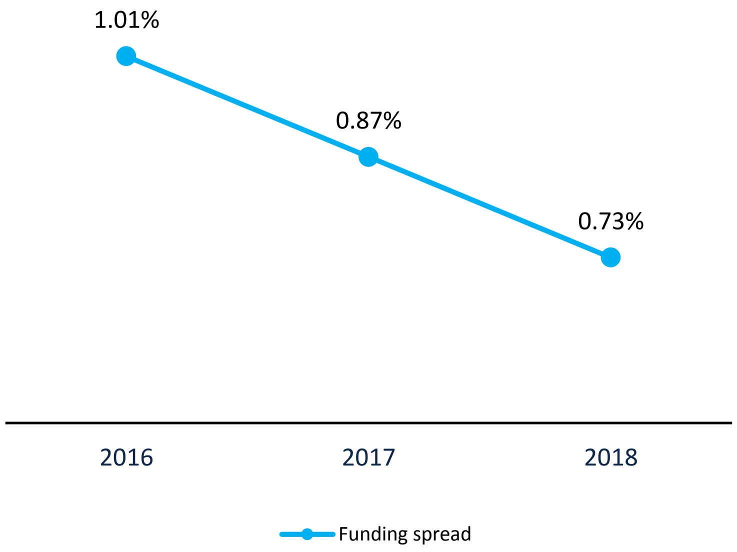
# NET INTEREST INCOME

## Further improvement of net interest margin

### NET INTEREST MARGIN & NET INTEREST INCOME
(EUR million)




### FUNDING SPREAD




### COMMENTS

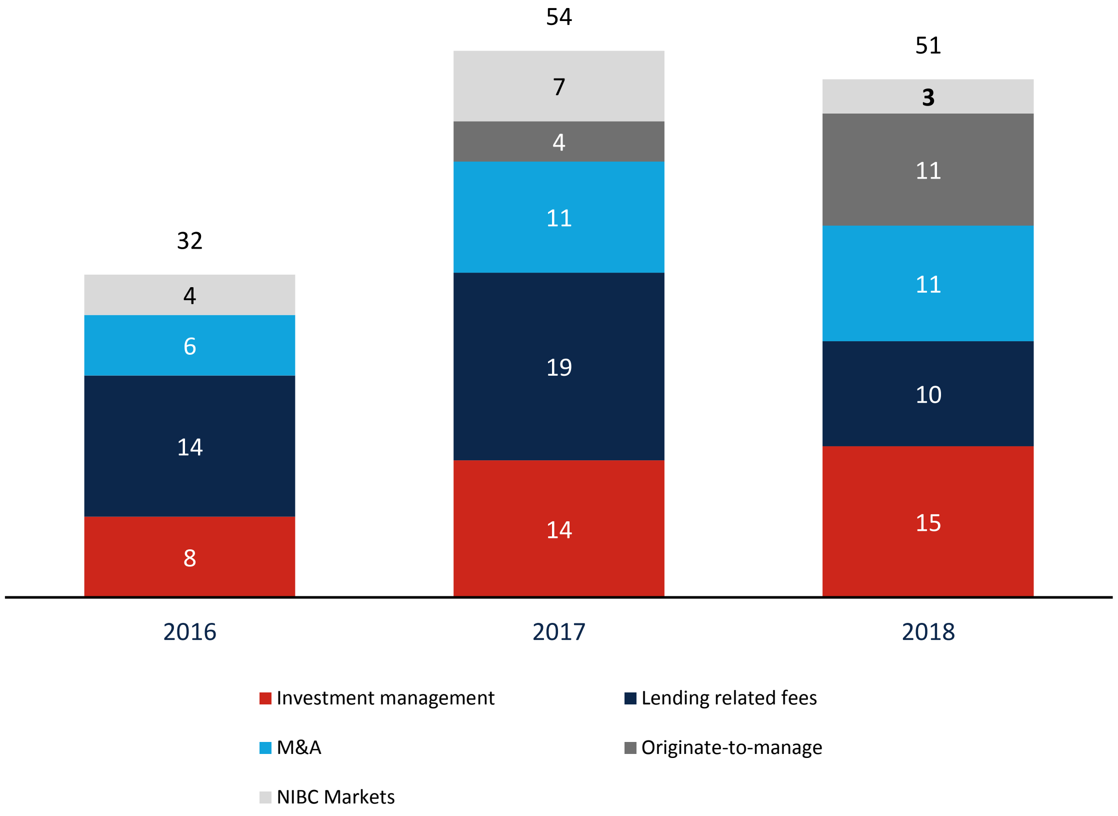
- Net interest income increased by 21% to EUR 427 million in 2018, mainly driven by:
  - A strengthened funding profile which supported a further reduction of the effective funding spread from 0.87% in 2017 to 0.73% in 2018
  - An IFRS 9 related pull-to-par effect of approximately EUR 50 million in 2018
- The net interest margin improved from 1.64% in 2017 to 2.11% in 2018 (1.84% excluding IFRS 9 pull-to-par effect)
- The stronger funding profile is also demonstrated by an increase of the average tenor of the funding portfolio
- Based on the current market developments, no further significant improvement of the average funding spread is expected

*Note: 2017 figures exclude Vijlma*

# NET FEE AND COMMISSION INCOME

## Investments in new fee generating products are paying off

### NET FEE AND COMMISSION INCOME



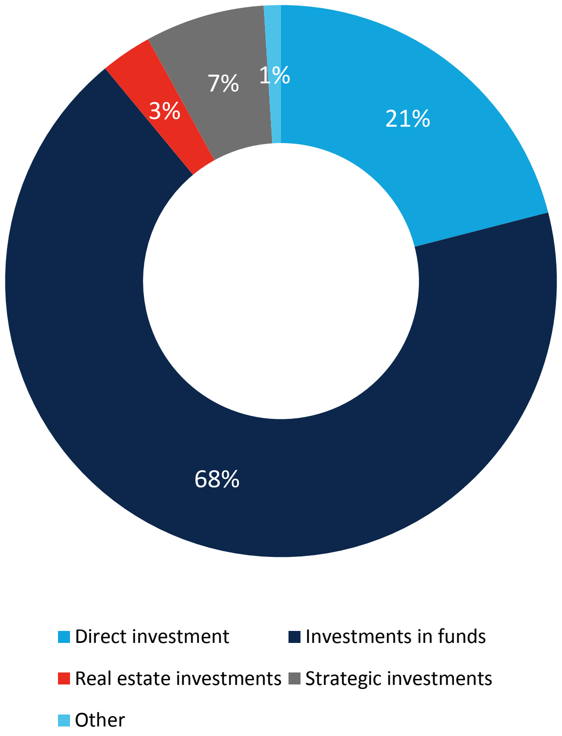

### COMMENTS

- Net fee and commission income decreased by 4% to EUR 51 million in 2018. However, the composition changed, displaying an increase of fees from non-balance sheet related activities:
  - Investment management fees remained strong in 2018 due to the successful exits of several equity positions
  - Lending related fees decreased in 2018 to EUR 10 million. Rebalancing the portfolio results in origination that is focused on well-collateralised transactions requiring less upfront (structuring) services
  - M&A related fees remained stable at EUR 11 million, with both 2017 and 2018 including a single transaction with significant fee income
  - Fee income from NIBC Markets decreased relating to the discontinuation of several fee-generating activities, difficult market circumstances as well as the impact from new regulation such as MiFID II
  - Originate-to-manage fees increased from EUR 4 million in 2017 to EUR 11 million in 2018, with the mandate increasing to EUR 3.5 billion under which a portfolio of EUR 2.4 billion (+231%) has been originated

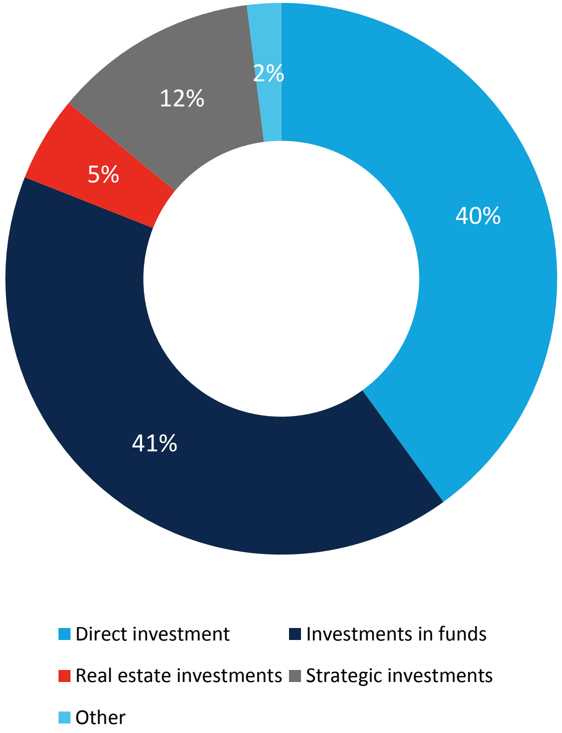
# INVESTMENT INCOME

## Continued strong performance

### EQUITY INVESTMENT PORTFOLIO 2017




### EQUITY INVESTMENT PORTFOLIO 2018



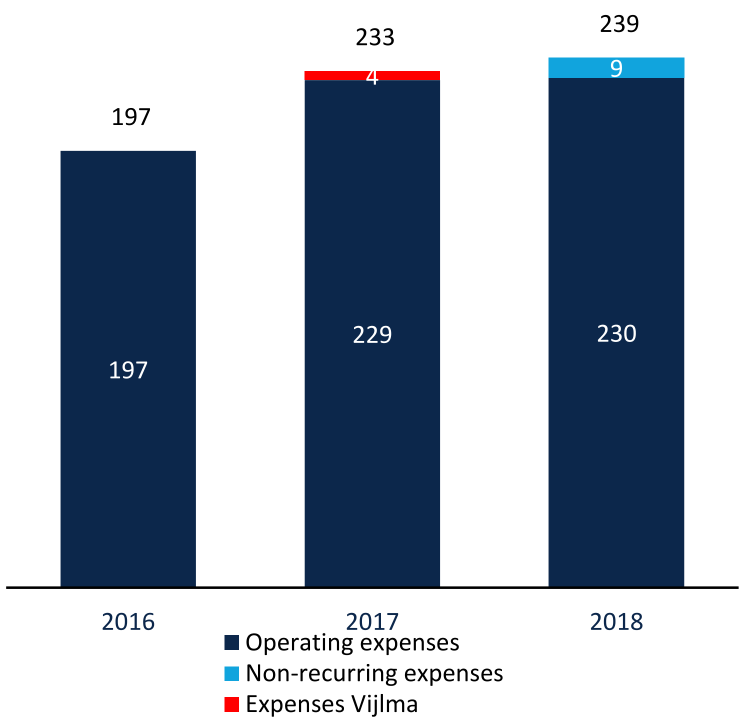

### COMMENTS

- As was the case in 2017, in 2018 investment income remained at an elevated level:
  - Investment income of EUR 74 million in 2018 reflects for EUR 51 million realised income from a number of successful exits
  - The EUR 67 million of investment income in 2017 mainly reflected non cash revaluations on the portfolio
- Successful exits led to equity investment portfolio decrease of 37% to EUR 215 million at the end of 2018
- Rebalancing this portfolio leads to a shift away from larger investments in funds towards more focus on granular direct equity investments supporting the corporate client franchise
- In 2018 NIBC invested EUR 30 million in HSH Nordbank

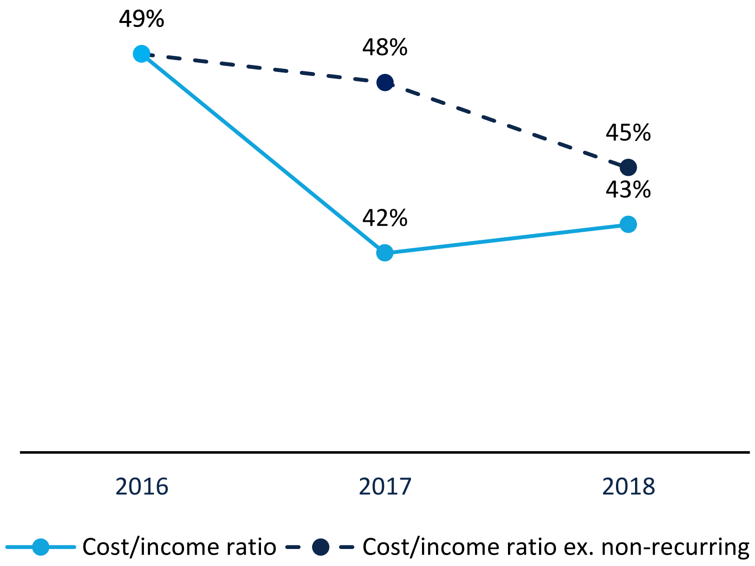
# OPERATING EXPENSES

## Further improvement of cost/income

### EVOLUTION OF OPERATING EXPENSES




### COST/INCOME RATIO



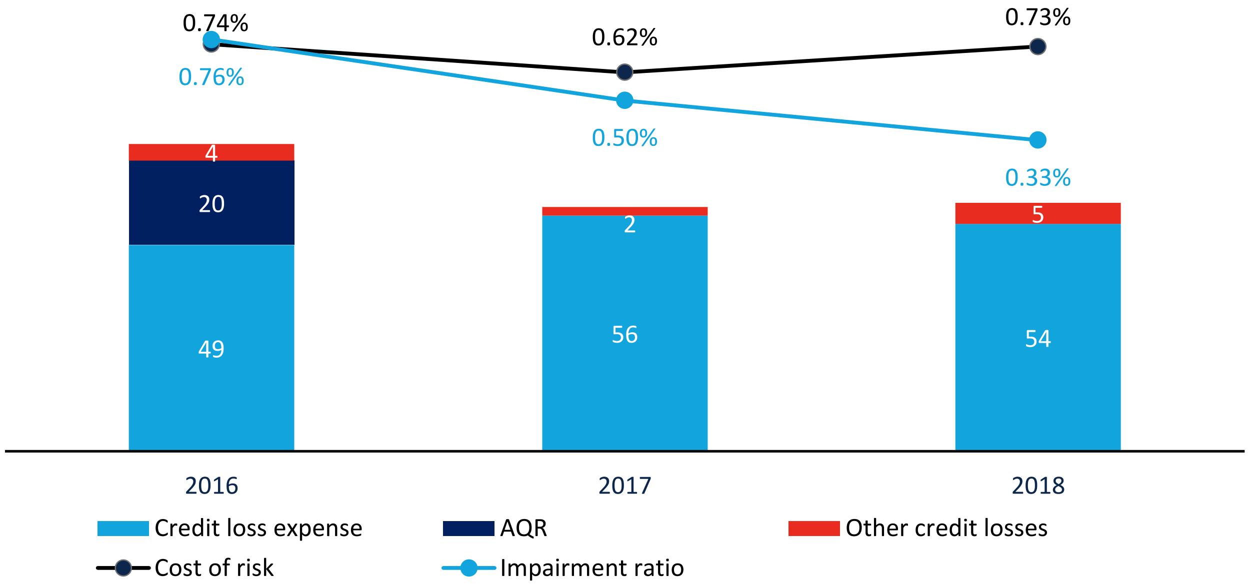

### COMMENTS

- Operating expenses in 2018 are impacted by:
  - Expenses of EUR 9 million related to the IPO
  - Continued investments we are making relating to the (re)transition of our IT infrastructure, regulatory requirements, IFRS 9, MiFID II, AnaCredit and increased requirements relating to Know Your Customer (KYC) and Anti-Money Laundering (AML).
- The cost/income ratio equals 43%, meeting the medium-term objective of below 45%
- Excluding non-recurring income and expenses in 2018 and Vijlma in 2017 the cost/income ratio improved to 45%

# CREDIT LOSS EXPENSE

## Credit loss expense 2018 in line with 2017

### DEVELOPMENT OF CREDIT LOSS EXPENSE AND COST OF RISK




*Following the implementation of IFRS 9 on 1 January 2018, the methodology for impairments of financial assets changed from an 'incurred loss' to an 'expected credit loss (ECL)' impairment model. The impact on 1 January 2018 was a EUR 22 million higher level of loan loss provisions, resulting in a negative transition impact of 0.2%-points on NIBC's CET 1 ratio*

### COMMENTS

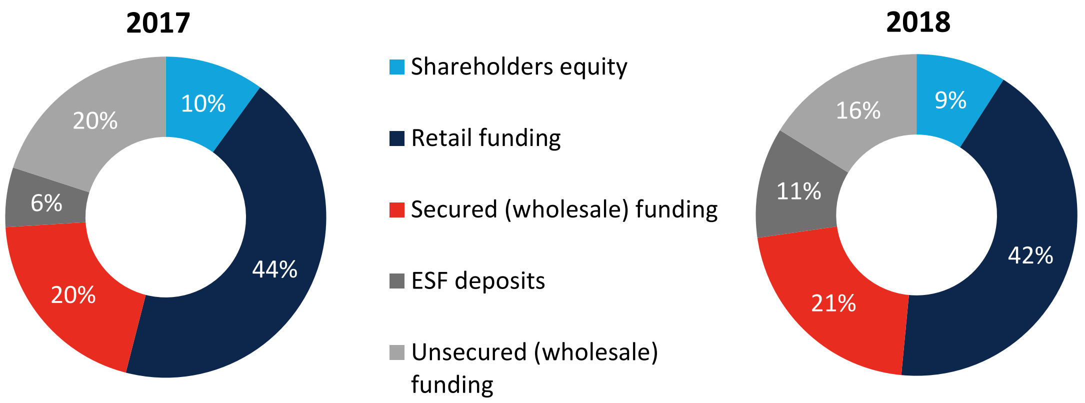
- Post IFRS 9 credit losses in 2018 amounts to EUR 59 million compared to IAS 39 credit losses of EUR 58 million in 2017
- These levels are still elevated reflecting the challenges in the Offshore Energy, Shipping & Intermodal and Leveraged Finance portfolio
- Although the cost of risk increased, our impairment ratio decreased, mainly driven by the total portfolio composition, with a relatively larger portion in retail assets (and partly driven by the transition of mortgages to AC)
- In 2018 the average expected loss on the performing portfolio improved:
  - On the corporate loan portfolio from 0.32% to 0.31%
  - On the mortgage loan portfolio from 0.13% to 0.09%
- Impairment coverage ratio on corporate client exposures of 32%; with Leveraged Finance impairment coverage ratio of 46%
- The non performing exposure remained stable in 2018 at 2.8%
- The forborne exposure decreased in 2018 from 4.9% to 4.0%

*Cost of risk = credit loss expense divided by average RWAs*
*Impairment ratio = credit loss expense divided by average assets loans & mortgages*

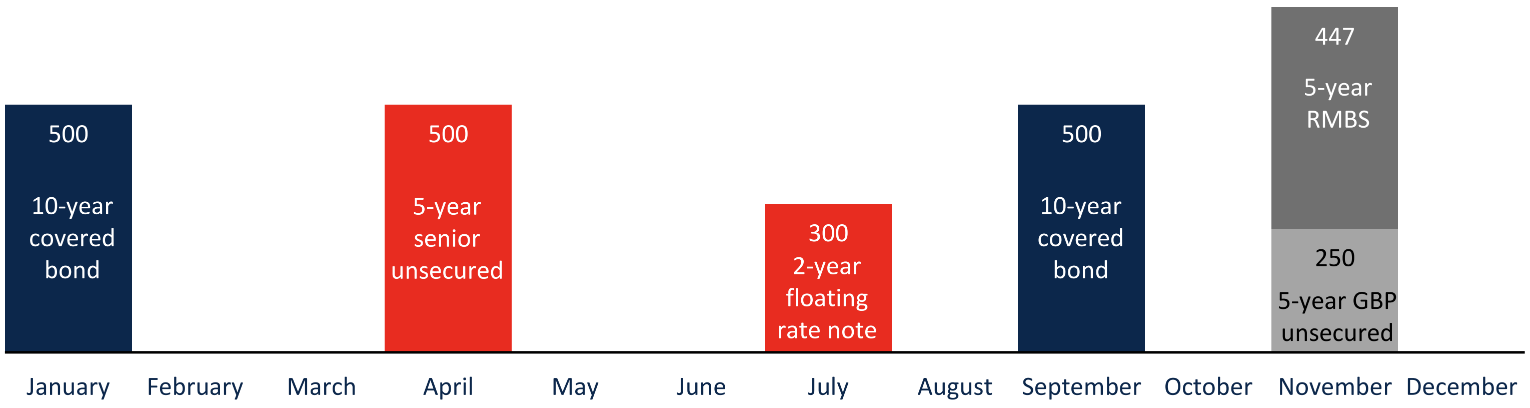
# FUNDING

## Diversified funding with longer maturities

### FUNDING COMPOSITION




### FUNDING TRANSACTIONS



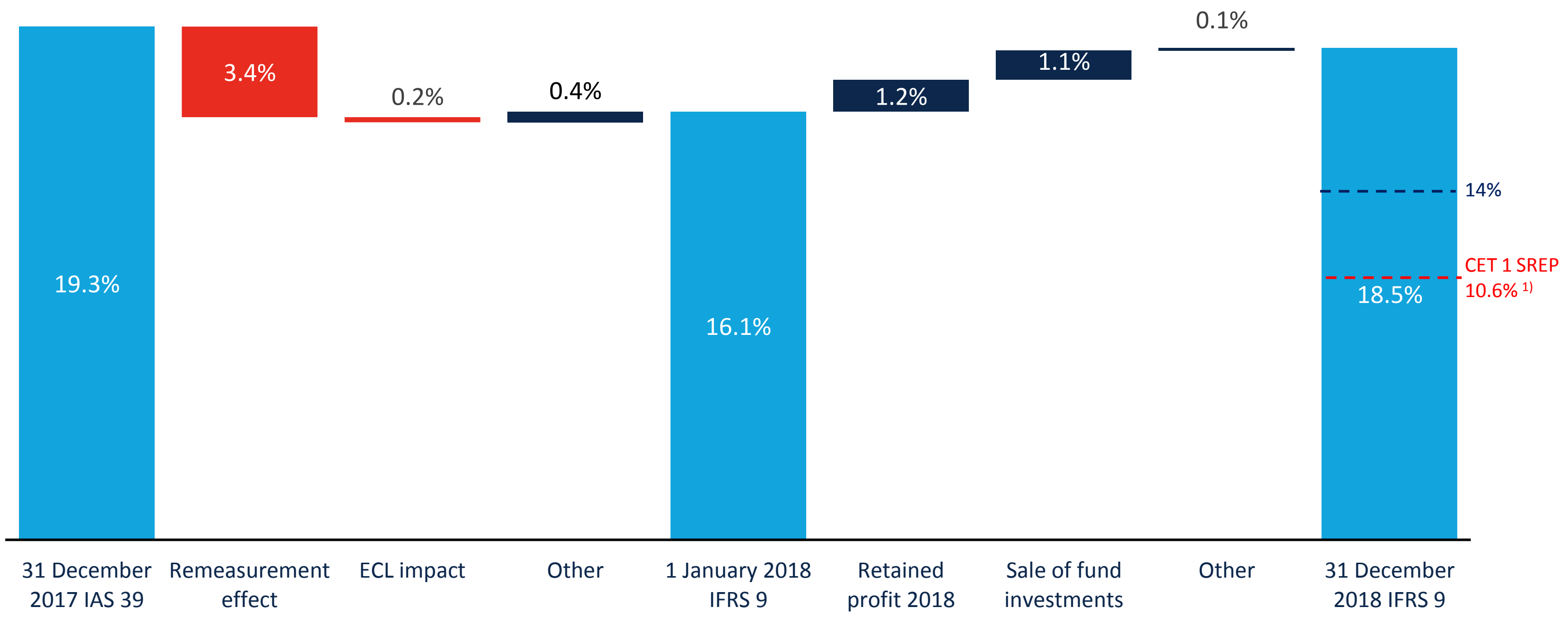

### COMMENTS

- Strengthened funding profile, demonstrated by:
  - Improved liquidity ratios in 2018, with an LCR moving from 196% to 241% and an NSFR from 117% to 123%
- Wholesale transactions issued in 2018, supporting the funding profile:
  - Two 10-year Conditional Pass-Through Covered Bond totaling EUR 1 billion
  - The return to the RMBS market with a EUR 0.5 billion transaction
  - The issue of a GBP 250 million senior (preferred) transaction
  - A 5-year benchmark senior (preferred) transaction of EUR 0.5 billion
- ESF institutional deposits increased by 13% to EUR 1.5 billion in 2018
- Retail savings was managed towards more on demand and stable NL and less DE

# CAPITAL

## Strong solvency ratios

### CET 1 DEVELOPMENT IN 2018




### COMMENTS

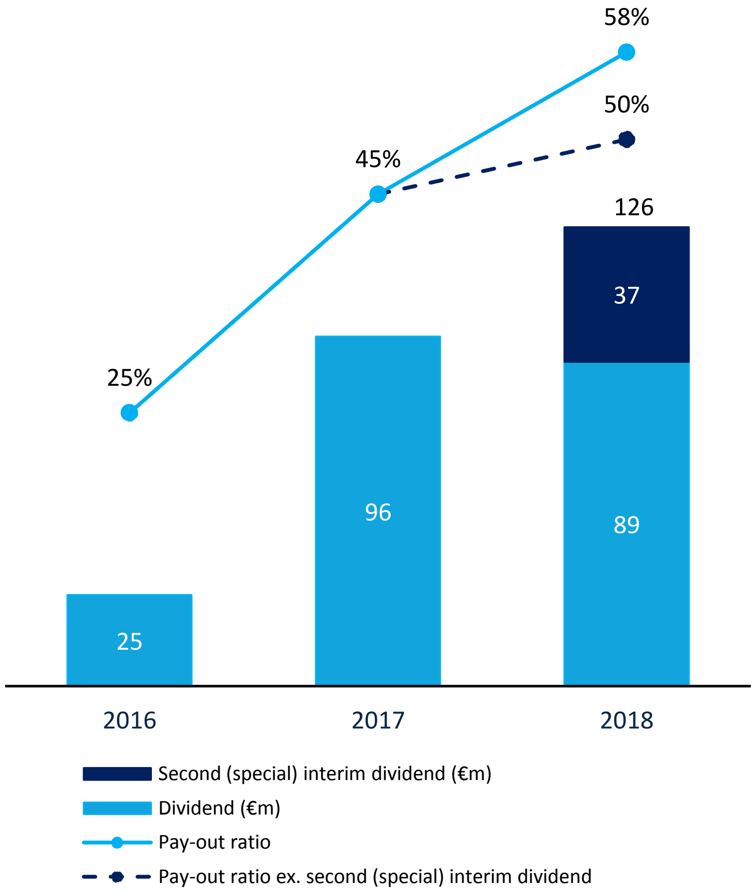
- The solvency ratios at year-end 2018 are comfortably above the required SREP-levels set by DNB for NIBC in July 2018
- The fully loaded CET 1 ratio of 18.5% is well above the medium term objective of 14%, enabling NIBC to be well prepared for Basel IV (RWA impact of 25-35% before mitigating actions)
- The fully loaded total capital ratio of 22.0% places NIBC in a solid position to address MREL and S&P's ALAC
- NIBC regularly refines and updates its AIRB models, subject to DNB approval. With its most recent submission, we expect RWAs to increase with approximately EUR 300 million

*1) SREP level for CET ratio incl. fully loaded combined buffer requirements, excl. pillar 2 guidance*

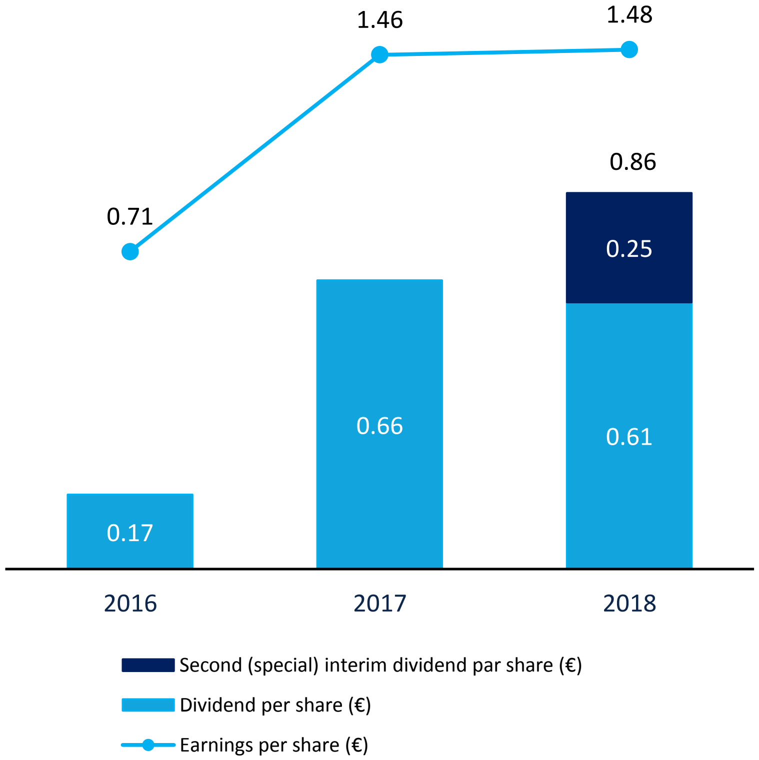
# DIVIDEND

## Strong dividend pay-out in 2018

### DIVIDEND




### EARNINGS PER SHARE AND DIVIDEND PER SHARE




### COMMENTS

- NIBC's dividend policy:
  - Pay-out of at least 50%
  - In the next two years an interim dividend post half-year figures of (at least) EUR 0.25 per share (under normal circumstances and under certain conditions)
- NIBC proposes a final dividend of EUR 0.36 per share (EUR 53 million) taking the full dividend for 2018 to EUR 0.86 per share (EUR 126 million)
- This leads to a total pay-out ratio of 58%, including second (special) interim dividend

# SUMMARISING OUR PERFORMANCE…

## Delivering upon our promises

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| **Rating** (Bank) | BBB+ | BBB Positive Outlook |

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- Cost-to-income ratio with 43% well below the medium term objective of 45%, allowing us flexibility to invest in business development, IT and regulatory projects
- Fully loaded CET 1 ratio increased from 16.1% on 1 Jan 2018 (post-IFRS 9) to 18.5% per FY 2018
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# Q&A

Paulus de Wilt, CEO

Herman Dijkhuizen, CFO

NIBC

## Forward-looking statements

*The forward-looking statements included in this presentation with respect to the business, results of operation and financial condition of NIBC are subject to a number of risks and uncertainties that could cause actual results to differ materially from forecasts, estimates or other statements set forth in this release, including but not limited to the following: changes in economic conditions, changes in credit spreads or interest rates, the results of our strategy and investment policies and objectives. NIBC undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances that may arise after the date of this release.*