

Research Update:

NIBC Bank Ratings Lowered To 'BBB-/A-3' On Bank Criteria Change; Outlook Stable

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Research Update:

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Overview

- Following a review under Standard & Poor's revised bank criteria (published on Nov. 9, 2011), we have lowered our long- and short-term counterparty credit ratings on NIBC Bank N.V. to 'BBB-/A-3' from 'BBB/A-2'. The outlook is stable.
- Our ratings on NIBC reflect its weak business position, adequate capital and earnings, adequate risk position, below average funding, and adequate liquidity.
- The long-term counterparty rating is in line with the stand-alone credit profile (SACP), based on our assessment of the bank's low systemic importance in The Netherlands.
- The issue ratings on NIBC's nondeferrable subordinated debt were lowered to 'BB+' from 'BBB-'.
- The issue ratings on junior subordinated debt were affirmed at 'BB'.
- The stable outlook reflects our expectation that the bank should be in a position to maintain broadly stable capital and risk positions even if the uncertain economic environment weighs on prospective earnings.

Rating Action

As we previously announced on Dec. 8, 2011, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on Netherlands-based NIBC Bank N.V. to 'BBB-/A-3' from 'BBB/A-2'. The stand-alone credit profile (SACP) is 'bbb-'. At the same time, we lowered the ratings on nondeferrable subordinated debt to 'BB+' from 'BBB-' and affirmed the ratings on the bank's junior subordinated debt at 'BB'. The outlook is stable.

Rationale

Standard & Poor's bases its ratings on NIBC on the company's "weak" business position, "adequate" capital and earnings, "adequate" risk position, "below average" funding, and "adequate" liquidity, as our criteria define these terms.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in The Netherlands is 'a-'. Although NIBC is exposed to other countries, mainly Germany and the U.K., our blended economic risk score of '2' for the bank remains largely driven by the score for The Netherlands, where the bulk of NIBC's exposures reside. The BICRA score is determined by our evaluation of economic risk, where we see The Netherlands as a diversified and

competitive economy, which has minimal political risk. Although we expect sluggish near-term growth, unemployment should remain low relative to peers. Risks such as continued pressure on property markets are in our view mitigated by generally sound underwriting criteria and a strong credit culture. Gross household indebtedness is high, due to specific conditions of the Dutch mortgage system. With regard to industry risk, the Dutch banking industry is dominated by three large players; two of them are subject to restructurings as a result of state aid that they had received. The large reliance on wholesale funding is partly attributable to households' propensity to save into life-insurance and pension products.

We consider NIBC's business position to be "weak", primarily reflecting the bank's niche franchise, our view of potential volatility in a few of its sectors, and modest overall market position. With total assets of about €28 billion at end-June 2011, NIBC is a midsize bank within the overall Dutch system. We consider the bank's activities are much less diversified than its larger domestic peers. The majority of its income originates from lending and advisory to mid-cap companies in the Benelux region and Germany, and internationally to a few niche sectors, including shipping, oil and gas, infrastructure, and renewable energies. We regard the bank's retail franchise--through its online deposit-gathering activities NIBC Direct and mortgage lending originated via intermediaries--as limited. We note the bank's long-standing expertise in its corporate niches, which in our view helped it to defend its franchise through the recent downturn. This was also underpinned by what we view as good management capabilities and a clear strategic focus.

We view NIBC's capitalization as "adequate", based primarily on our expectation that NIBC Holding's capital ratio before adjustments will increase slightly to about 7.5%, as measured by our risk-adjusted capital (RAC) framework, at end-2012. We note the strong recovery trend in underlying earnings since the second half of 2009. We expect future improvements to slow down, possibly constrained by the uncertain economic environment, although we do not expect any negative impact on our assessment of the bank's capital position.

We view NIBC's risk position as "adequate". We believe that our RAC framework adequately captures the risks that NIBC faces. NIBC's loss experience in corporate and retail lending in our view is broadly comparable with sector averages. The bank has relatively large exposures to sectors that we consider to be potentially volatile, such as commercial real estate or shipping. Nevertheless, we observe that risks appear so far to have been mitigated by the collateralized nature of most lending activities, and sound sector knowledge and underwriting criteria. We regard the geographic diversification of the bank's exposures as satisfactory. The risks related to its structured credit portfolio--in run-off since 2007--have diminished materially in our view due to a continued reduction in the overall exposure and already substantial write-downs.

We view NIBC's funding as "below average" and its liquidity as "adequate". Our assessment of the bank's funding primarily takes into account the bank's

greater-than-average reliance on wholesale funding, illustrated by a high--albeit rapidly decreasing--loan-to-customer deposits ratio of 300% at end-June 2011. We note the large amount of government-guaranteed debt maturing in December 2011 and February 2012, but consider under our base-case scenario that the bank will be able to meet these maturities while maintaining an adequate liquidity position. This is supported by the bank's large portfolio of liquid assets, in the form of cash or securities eligible for repo (repurchase agreement) activity.

The counterparty credit rating is in line with the SACP, reflecting our assessment of NIBC's low systemic importance in The Netherlands. This is based on the bank's modest share of the overall Dutch banking system and our view of its limited overall retail franchise.

We rate NIBC's junior subordinated debt two notches below the bank's SACP, in line with our criteria of Nov. 1, 2011 for this type of hybrid instrument.

Outlook

The stable outlook reflects our expectation that the bank should be in a position to maintain broadly stable capital and risk positions even though the uncertain economic environment could impede prospective earnings.

A marked deterioration in asset quality, for example, if the loan impairment charge were to trend above 60 basis points of total average loans, or tighter capital management could trigger a lowering of the long-term rating. In addition, a material weakening in the liquidity position as a result of the upcoming government-guaranteed debt repayments could exert downward pressure on the ratings.

A sustainable rebalancing of the bank's funding profile, with decreasing reliance on wholesale funding and further evidence of the stability of the customer deposit base, could lead to moderate upward potential for the rating. Evidence of a marked and sustained improvement in the stability and quality of earnings, pointing toward an improved business position, could also exert upward pressure.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb-
Anchor	a-
Business Position	Weak (-2)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Below Average and Adequate (-1)
Support	0
GRE Support	0

Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Ratings List

Downgraded

	To	From
NIBC Bank N.V.		
Counterparty Credit Rating	BBB-/Stable/A-3	BBB/Stable/A-2
Certificate Of Deposit	BBB-/A-3	BBB/A-2
NIBC Bank N.V.		
Senior Unsecured	BBB-	BBB
Subordinated	BB+	BBB-
Commercial Paper	A-3	A-2

Ratings Affirmed

NIBC Bank N.V.	
Junior Subordinated	BB

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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