

Research Update:

Dutch NIBC Bank Upgraded To 'BBB+' On Increasing Loss-Absorbing Capacity; Outlook Stable

May 14, 2019

Overview

- We believe that NIBC Bank N.V. (NIBC) has made good progress in growing its additional loss-absorbing capacity (ALAC), which provides a buffer for senior creditors in a resolution scenario.
- We also recognize the bank's continued focus on managing and reducing its higher risk exposures. This has led it to further reduce its exposure to several potentially volatile corporate sectors (shipping, commercial real estate, and offshore energy) and large equity investments. We continue to consider the bank's funding profile to be skewed toward stable funding sources, namely retail deposits and long-term wholesale instruments.
- We are therefore raising our long-term rating on NIBC to 'BBB+' from 'BBB', and affirming the short-term rating at 'A-2'. The unsupported group credit profile (UGCP) is unchanged at 'bbb'.
- The stable outlook reflects our view that the bank will be able to preserve its ALAC comfortably above our 5.5% threshold and that its appetite for portfolio concentration and high-risk exposures will remain controlled and consistent with previous years.

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Rating Action

On May 14, 2019, S&P Global Ratings raised its long-term issuer credit rating on NIBC Bank N.V. to 'BBB+' from 'BBB'. The outlook is stable.

We affirmed our 'A-2' short-term issuer credit rating on the bank.

Furthermore, we raised the long-term resolution counterparty ratings (RCRs) on NIBC to 'A-' from 'BBB+' and affirmed the short-term RCR at 'A-2'.

Finally, we affirmed the ratings on the hybrid instruments issued by the bank at 'BB+' and 'BB-' and on the senior non-preferred notes at 'BBB-'.

Rationale

Our upgrade of NIBC reflects the progress that the bank has made to build up its minimum requirement for own funds and eligible liabilities (MREL), which we reflect in our ALAC analysis. We also continue to view NIBC's underlying creditworthiness as stable, reflected in its 'bbb' UGCP, which reflects our view of its controlled risk appetite and continued efforts to improve its funding structure.

On April 3, 2019, NIBC issued €300 million of senior non-preferred notes, which we include in its ALAC.

This issuance builds on the already outstanding €560 subordinated instruments included in the bank's regulatory capital. Our assessment also incorporates the €130 million Tier 1 instruments that are subject to grandfathering. This is because, at this stage, we think it unlikely that NIBC will recall these instruments over the next 18-24 months.

Our ALAC buffer also takes into account the amount of capital in excess of our 10% risk-adjusted capital (RAC) threshold, the minimum we associate with strong capital. In this regard, we anticipate that our RAC ratio will be 12.2%-12.6% through to year-2021, up from 11.7% at end-2018.

Specifically, we incorporate an about 2.4% average annual growth rate into our projected S&P Global Ratings risk-weighted assets (RWAs) over 2019-2021, as a result of controlled expansion in the loan book and in the bank's equity investment portfolio. This follows our view that the bank's strategic choices will remain in line with its risk appetite of the past few years, which saw its exposure to several potentially volatile corporate sectors reduce (€3.6 billion in 2018 compared to €4.0 billion in 2016). It also cut its equity portfolio to €215 million in 2018, from €343 million in 2017. Following the two large equity divestments of in 2018, we now expect NIBC to build up and manage a more granular investment portfolio. As such, we believe that the value of equity in the banking book could increase by 2% year-on-year, from the €215 million in 2018.

Furthermore, despite the 60% dividend pay-out ratio, the bank's expected increase in earnings capacity supports our forecasts.

As a result, we believe that our ALAC buffer will likely remain above the 5.5% threshold that we deem appropriate for one notch of ratings uplift. The threshold we apply to NIBC is above our standard 5.0%, reflecting some concentration of maturities.

Our view of the bank's underlying creditworthiness remains unchanged. In particular, NIBC's revenue concentration, limited retail franchise, and potential business volatility in its chosen corporate segments limit the possibility of a stronger stand-alone credit profile (SACP).

We also assume NIBC's funding structure will continue to rely on a broadly stable base of customer deposits, benefitting from the bank's ability to attract and retain long-term wholesale funding sources at moderate prices.

Outlook

Our stable outlook on NIBC reflects our view that it will preserve its robust capitalization and sound asset quality. In other words, we expect NIBC to keep pursuing moderate balance-sheet growth over the next two years while maintaining its risk-controlled niche strategic focus. We expect its funding profile to remain aligned with that of other domestic peers. This implies that the bank's retail deposits will remain stable over time and constitute the majority of NIBC's funding

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base, while its wholesale funding remains well-diversified and strongly biased toward long-term maturities. The outlook also incorporates our belief that the bank will be able to maintain a buffer of bailinable instruments comfortably above 5.5% of projected S&P Global Ratings RWAs over the next 24 months.

We currently see no upside to the 'bbb' SACP. Even if we thought the environment for banks operating in The Netherlands was becoming less risky, we would not revise our SACP upward. This is because of the bank's narrow business model.

We could lower our long-term rating on NIBC if we saw an increase in risk appetite or business concentration, which could result in a deterioration of the bank's asset quality or earnings stability. We could also lower the rating if the bank's capacity to attract and retain sources of stable funds at moderate costs--be it on the wholesale markets or via retail deposits--were to falter. Finally, a negative action could also be triggered by the ALAC buffer protecting senior creditors falling short of our expectation that it will remain above 5.5% of S&P Global Ratings' RWAs over the outlook horizon. This could happen, for example, because of a more aggressive capital policy than currently expected.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2
SACP	bbb	bbb
Anchor	bbb+	bbb+
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	(1)	(0)
ALAC Support	(1)	(0)
GRE Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated

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Debt Methodology And Assumptions, Jan. 29, 2015

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Upgraded; Outlook Action; Ratings Affirmed		
	To	From
NIBC Bank N.V.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2
Senior Unsecured	BBB+	BBB
Certificate Of Deposit		
Foreign Currency	BBB+/A-2	BBB/A-2
Certificate Of Deposit		
Local Currency	BBB+/A-2	BBB/A-2
Resolution Counterparty Rating	A/--/A-2	BBB+/--/A-2
Ratings Affirmed		
NIBC Bank N.V.		
Senior Subordinated	BBB-	
Subordinated	BB+	
Junior Subordinated	BB-	
Commercial Paper	A-2	

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