FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms NIBC at 'BBB'; Outlook Stable

Fri 29 Jul, 2022 - 11:01 AM ET

Fitch Ratings - Paris - 29 Jul 2022: Fitch Ratings has affirmed NIBC Bank N.V.'s (NIBC) Long-Term Issuer Default Rating (IDR) at 'BBB' and Viability Rating (VR) at 'bbb'. The Rating Outlook on the Long-Term IDR is Stable.

Fitch has withdrawn NIBC's Support Rating of '5' and Support Rating Floor of 'No Floor' as they are no longer relevant to the agency's coverage following the publication of our updated Bank Rating Criteria in November 2021.

In line with the updated criteria, Fitch has assigned a Government Support Rating (GSR) of 'no support' (ns) to NIBC.

A full list of rating actions is detailed below.

KEY RATING DRIVERS

Satisfactory Credit Profile: NIBC's ratings reflect the bank's 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 VR is one notch below the 'bbb+' implied VR since the bank's risk profile has a high influence on the rating. NIBC's remaining exposure to cyclical sectors will be tested in the near term by macroeconomic headwinds.

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

Improving Risk Profile: NIBC has significantly decreased its exposure to cyclical sectors, essentially shipping, oil and gas, and leveraged finance. The bank will be less vulnerable as its residential mortgage lending activities cushion 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 moderately variable. Risk concentrations remain, although decreased, especially in certain sectors such as commercial real estate and shipping (about 80% and 55% of common equity Tier 1 capital, respectively). However, we believe the shift in the bank's loan portfolio will help maintain its impaired loan ratio below 2% over 2022-2023, despite the expected economic slowdown, higher energy prices and supply-chain disruptions coupled with 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 2022-2023. 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 common equity Tier 1 (CET1) ratio at holding company level, where the regulatory requirement is set, was about 18.4% at end-2021.

Stable Funding: NIBC's funding and liquidity have remained stable despite reliance on price-sensitive online retail savings (about 50% 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.

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 our view of satisfactory financial buffers at the current rating. However, a downgrade could be triggered by a combination of the CET1 ratio sustained below the bank's medium-term tolerance level of 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 pressure 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 likely result from a better risk profile assessment. This would require the bank to sustain improvement in its risk appetite over a longer period, as likely reflected in greater asset quality resilience and better earnings stability in more challenging economic conditions.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SENIOR DEBT

NIBC's long-term senior preferred debt is rated one notch above the Long-Term IDR. This reflects the protection that could accrue to senior preferred debt from the bank's junior resolution debt buffers. At end-2021 this buffer was about 11% of NIBC's risk-weighted assets and we expect it to remain sustainably above 10%. 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.

SUBORDINATED DEBT

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.

No Government Support: NIBC's GSR of 'no support' is driven by Fitch's view that sovereign support for the bank, while possible, cannot be relied on, primarily given the Bank Resolution and Recovery Directive in place in the Netherlands.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SENIOR DEBT

The ratings of senior debt, both preferred and non-preferred, are sensitive to changes in NIBC's IDRs and to the size of the combined buffer of subordinated and senior non-preferred debt. We would likely downgrade the ratings if the buffer falls below 10% of RWAs. This could be from RWAs inflation or inability to refinance maturing subordinated and senior non-preferred debt instruments.

SUBORDINATED DEBT

The ratings of legacy hybrid Tier 1 securities are sensitive to changes in NIBC's VR as well as Fitch's assessment of the probability of their non-performance relative to the risk captured in NIBC's VR.

An upgrade of the GSR would be contingent on a positive change in the Netherland's propensity to support its banks, as well as NIBC significantly growing its systemic importance. While not impossible, this is highly unlikely in Fitch's view.

VR ADJUSTMENTS

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 reason: Risk Profile and Business Model (negative), Internal Capital Generation and Growth (negative).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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, visitwww.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
NIBC Bank N.V.	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	Viability	bbb	Affirmed	bbb
	Support	WD	Withdrawn	5
	Support Floor	WD	Withdrawn	NF
	Government Support	ns	New Rating	

subordinated	LT	BB-	Affirmed	BB-
Senior preferred	LT	BBB+	Affirmed	BBB+
Senior non-preferred	LT	BBB	Affirmed	BBB
Senior preferred	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Lukas Rollmann
Director
Primary Rating Analyst
+33 1 44 29 91 22
lukas.rollmann@fitchratings.com
Fitch Ratings Ireland Ltd
28 avenue Victor Hugo Paris 75116

Gary Hanniffy, CFA
Director
Secondary Rating Analyst
+49 69 768076 266
gary.hanniffy@fitchratings.com

Olivia Perney
Managing Director
Committee Chairperson
+33 1 44 29 91 74
olivia.perney@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

NIBC Bank N.V.	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any

READ LESS

SOLICITATION STATUS

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

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Structured Finance: Covered Bonds Structured Finance Banks Europe Netherlands