

Research Update:

Netherlands-Based NIBC Bank N.V. Downgraded To 'BBB' On Change Of Resolution Strategy; Outlook Stable; SACP Unchanged

March 17, 2023

Overview

- On March 3, 2023, NIBC announced that the Dutch resolution authority, De Nederlandsche Bank N.V. (DNB), had informed the bank that it had made changes to its resolution plan.
- Under the Bank Recovery and Resolution Directive, resolution authorities must assess whether, in the case of a bank's failure, resolution objectives are best achieved through winding down the bank under normal insolvency proceedings or through a resolution.
- The DNB indicated that in a hypothetical default scenario of NIBC, it would expect NIBC to be wound down through normal insolvency proceedings, rather than through a resolution. As a result, we no longer expect that NIBC's senior creditors would benefit from support arising from the bank's additional loss-absorbing capacity if such a hypothetical scenario were ever to come to pass.
- We therefore lowered our long-term issuer credit rating on NIBC to 'BBB' from 'BBB+' and withdrew our 'A-/A-2' resolution counterparty ratings on the bank. At the same time, we affirmed our short-term rating on NIBC at 'A-2'.
- However, we have not changed our assessment of NIBC's stand-alone credit profile of 'bbb', reflecting our view of the bank's expertise, good strategy-execution capabilities, and solid capital base, but more limited scale and franchise than higher-rated peers.
- The stable outlook reflects our view that NIBC will execute its strategy in line with its recent update, while maintaining a solid capital base, good asset-quality metrics, and access to stable funding sources at a reasonable cost.

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Rating Action

On March 17, 2023, S&P Global Ratings lowered its long-term issuer credit rating on NIBC Bank N.V. (NIBC) to 'BBB' from 'BBB+'. At the same time, we affirmed our 'A-2' short-term rating on NIBC. Finally, we withdrew our 'A-/A-2' resolution counterparty ratings. The outlook is stable.

Rationale

We understand that the Dutch resolution authority has indicated that in the event of NIBC's failure, it would expect the bank to be wound down through normal insolvency proceedings, rather than through resolution proceedings. On March 3, 2023, NIBC announced that the Dutch resolution authority, De Nederlandsche Bank N.V. (DNB), had made changes to its resolution plan, with the expectation that if NIBC were ever to fail, it would likely enter normal insolvency proceedings, rather than resolution proceedings. This approach differs from the Single Resolution Board's (SRB's) resolution strategy--to which NIBC had previously been subject--which entailed a sale of business supported by a bail-in. NIBC moved from the SRB's supervision to the DNB's supervision in 2020, following the merger of its German retail bank with its main operating bank based in the Netherlands, which reduced its complexity. In a potential liquidation, we believe that senior creditors would not benefit from the same level of protection as in a resolution. We have therefore decided to no longer apply the positive notch of additional loss-absorbing capacity to our long-term rating on NIBC.

We acknowledge the progress NIBC has made in de-risking its business, and its strategy to refocus and develop a less risky business setup. At year-end 2022, the bank decided to classify exposures under both the originate-to-manage corporate business (€1.4 billion) and the equity investments business (€252 million) as noncore assets. We see this decision as consistent with the bank's aim to define a clear business proposition, mainly focusing on retail activities and asset-backed corporate lending, as well as to reduce earnings volatility throughout the credit cycle. In this regard, the bank's exposure to domestic mortgages (including buy-to-let mortgages) increased to 61% of customer loans at year-end 2022, up from the 47% we calculated at year-end 2019. Furthermore, NIBC's lending exposure to potentially more volatile corporate sectors decreased to below 10% of the bank's customer loans from 28% at year-end 2019.

NIBC's recent business refocusing entails only an incremental improvement in its scale and earnings. NIBC's strategic ambitions entail developing its three core activities, namely, mortgage lending, asset-backed financing, and small-ticket lending like leasing. We consider that such development could support more predictable earnings and be positive in the medium term. However, we believe that the bank's limited scale and lack of a strong franchise compared to higher-rated domestic peers could weigh on its competitive advantage in certain core strategic business segments, like the highly competitive domestic mortgage market.

We anticipate that NIBC will continue to rely on a solid capital base, while maintaining relatively good asset-quality metrics. Specifically, we estimate that our risk-adjusted capital ratio will remain well above 10% in 2023-2024, ranging between 12.5% and 13.0% by end-2024. Our forecasts incorporate the use of about €370 million of capital in 2023-2024 for dividend distributions or acquisitions, in addition to an annual dividend distribution of 70% of earnings. We continue to see management's expertise and good strategy-execution capabilities--especially in terms of a smooth wind-down of the noncore portfolio--as key factors in the good asset-quality trend. We expect NIBC's nonperforming exposures to remain contained at the 2% it reported at year-end 2022, despite the uncertain and challenging macroeconomic environment.

We expect NIBC's funding profile to remain well-diversified, but we see its funding costs as more susceptible to rising interest rate than those of peers. At year-end 2022, we calculate that NIBC's funding base was split between customer deposits (55%) and wholesale market

funding (45%). In the rising interest rate environment, we consider that NIBC will likely need to raise its deposit rates faster than higher-rated peers to maintain its funding profile. With rising rates also affecting NIBC's market funding, we expect the bank's funding costs to rise gradually and drag on its overall net interest margin and profits.

Outlook

The stable outlook on NIBC reflects our view that the bank will execute its strategy in line with its recent update, with no change in risk appetite. We also expect that NIBC will maintain robust capital and good asset quality over the next 18-24 months, thanks to the ongoing de-risking strategy and management's expertise. The outlook also reflects our expectation that NIBC's funding profile will remain skewed toward significant, albeit well-diversified, wholesale funding.

Downside scenario

We could lower the ratings over the next 18-24 months if we observed that nonperforming exposures and credit losses were rising faster than we expected. This could result from a greater risk appetite or business concentration. We could also lower the ratings if the bank were unable to maintain its current funding profile at a reasonable cost.

Upside scenario

Although we do not expect any rating upside over the next 12 months, it could emerge over the longer term if, all else being equal, NIBC were able to expand its position in its selected core market segments, alongside above-average profitability relative to its peers, with no increase in risk.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Stable/A-2
SACP	bbb	bbb
Anchor	bbb+	bbb+
Business position	Constrained (-2)	Constrained (-2)
Capital and earnings	Strong	Strong
Risk position	Adequate	Adequate
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis		
Support	0	+1
ALAC support	0	+1

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
NIBC Bank N.V.		
Senior Unsecured	BBB	BBB+

Downgraded; Ratings Affirmed

	To	From
NIBC Bank N.V.		
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Stable/A-2
Certificate Of Deposit	BBB/A-2	BBB+/A-2

Not Rated Action

	To	From
NIBC Bank N.V.		
Resolution Counterparty Rating	NR/--/NR	A/--/A-2

Ratings Affirmed

NIBC Bank N.V.		
Senior Subordinated	BBB-	
Subordinated	BB+	
Junior Subordinated	BB-	
Commercial Paper	A-2	

NR – Not rated

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