Rating Action: Moody's upgrades NIBC Bank N.V.'s long-term deposit and senior unsecured debt ratings to A3; outlook stable

27 Jul 2023

Paris, July 27, 2023 -- Moody's Investors Service (Moody's) today upgraded NIBC Bank N.V.'s (NIBC's) long-term deposit and senior unsecured debt ratings to A3 from Baa1, as well as its senior unsecured Medium-Term Note (MTN) programme rating to (P)A3 from (P)Baa1. The outlook on the long-term deposit and senior unsecured debt ratings remains stable.

Moody's also downgraded the bank's subordinated debt rating to Ba1 from Baa3 and its subordinated MTN programme rating to (P)Ba1 from (P)Baa3.

Concurrently, Moody's affirmed NIBC's Baseline Credit Assessment (BCA) of baa3, its Adjusted BCA of baa3, its short-term deposit and Commercial Paper ratings of Prime-2, its other short-term programme rating of (P)Prime-2, its junior senior unsecured debt rating of Baa3, its junior senior unsecured MTN programme rating of (P)Baa3 and the Ba2(hyb) rating of its cumulative perpetual subordinated securities. Moody's also affirmed NIBC's long-term and short-term Counterparty Risk Assessments (CR Assessments) of A3(cr) and Prime-2(cr), as well as its long-term and short-term Counterparty Risk Ratings of A3 and Prime-2.

RATINGS RATIONALE

Today's upgrade of NIBC's long-term senior unsecured debt and deposit ratings to A3 comes from the issuance of EUR500 million of junior senior unsecured debt (also referred to as senior non-preferred debt), which resulted in a lower loss given failure for these instruments. The upgrade is also predicated on the assumption that the bank will maintain a broadly similar level of subordination to the benefit of depositors and senior unsecured debt holders.

Moody's affirmation of NIBC's BCA of baa3 reflects the bank's niche franchise focused on Dutch residential mortgage and on corporate lending to a limited number of sectors. Moody's cautioned that some of the sectors, which NIBC has been growing rapidly, are cyclical, namely commercial real estate and shipping. These activities' performance could deteriorate in a recessionary environment with high inflation. Nonetheless, Moody's considered that these negative trends were somewhat offset by the recent and ongoing rebalancing of the corporate lending portfolio and the reduction of single-name concentrations, resulting in an improved asset risk profile. The bank's cost of risk was only 11 basis points (bps) of gross loans in 2022, well below the ten-year average of 36 bps. NIBC has notably been gradually cutting exposures to the riskiest and most cyclical sectors, including leveraged finance, offshore energy and Collateralised Loan Obligations (CLOs), as well as its small equity and investment loan portfolios. Moreover, the reduced profitability that ensued this rebalancing should be more than offset by the higher net interest margins resulting from the current interest rate environment. Today's affirmation of the BCA also reflects NIBC's sound capitalisation, with a common equity tier 1 (CET1) ratio of 17.7% at year-end 2022, well above the Supervisory Review and Evaluation Process (SREP) requirement of 9.3%. In addition, NIBC's funding profile has proved to be relatively stable over time, despite its reliance on online saving accounts and on the wholesale markets.

NIBC's A3 long-term senior unsecured debt and deposit ratings now incorporate (1) the bank's BCA, affirmed at baa3; Moody's Advanced Loss Given Failure (LGF) analysis, resulting in a very low loss given failure for both deposits and senior unsecured debt and a three-notch uplift; and Moody's assumption, given the small size of NIBC, of a low probability of support from the Government of the Netherlands (Aaa stable), which does not result in any uplift.

Lastly, the downgrade of NIBC's subordinated debt rating to Ba1 from Baa3 resulted from reduced subordination and hence higher loss given failure for subordinated debt holders following the reclassification of approximately EUR130 million-equivalent of old-style Tier 1 instruments.

STABLE OUTLOOK

The stable outlook on NIBC's long-term deposit and senior unsecured debt ratings reflects Moody's view that the bank's credit profile will benefit from the rebalancing of the corporate portfolio to less volatile and lower risk assets while benefiting from the higher interest rate environment. The outlook is also predicated on ample capital buffers and a stable level of loss-absorbing debt instruments subordinated to depositors and senior debt holders.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of NIBC's BCA could be driven by a proven track record of lower asset risk as a result of the rebalancing of the corporate loan portfolio. It would in turn result in an upgrade of the long-term deposit and senior unsecured debt ratings.

The bank's subordinated bank debt would be upgraded if its loss-given-failure were to decrease as a result of significant issuance of Additional Tier 1 (AT1) instruments.

A downgrade of NIBC's ratings could be driven by a downgrade of its BCA as a result of a deterioration in asset quality especially in cyclical corporate sectors such as commercial real estate and shipping, which would deteriorate the bank's overall profitability. NIBC's BCA could also be downgraded if the bank's liquidity or funding structure were to deteriorate.

The deposit and senior unsecured debt ratings could also be downgraded as a result of a material decrease in junior senior unsecured debt volume, leading to higher loss given failure for both debt categories.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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