FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades NIBC to 'BBB+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 17 Jun 2024: Fitch Ratings has upgraded NIBC Bank N.V.'s Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB' and Viability Rating (VR) to 'bbb+' from 'bbb'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

The upgrades reflect NIBC's improved risk profile resulting from its de-risking process. This has resulted in reduced concentrations to cyclical corporate sectors and increased exposure to low-risk Dutch residential mortgage loans that we expect to lead to more resilient credit quality and less earnings variability.

KEY RATING DRIVERS

Niche Business, Adequate Risk Profile: NIBC's ratings reflect its niche franchise and business model and stronger risk profile. Risk concentrations in cyclical sectors, while still significant, have been materially reduced. The ratings also reflect the bank's satisfactory profitability, adequate capital buffers, and stable funding, although this remains more confidence- and price-sensitive than those of peers.

Retail Activities Dominate: NIBC remains a niche bank compared with larger and more diversified peers. This is despite its steady expansion in residential mortgage lending, which now accounts for about two-thirds of total loans, and its retail business contributes the largest share of its operating income. The bank has narrowed its corporate offering. It now focuses on asset-based financing, in specific segments, such as commercial real estate (CRE), digital infrastructure and shipping, in which it has considerable expertise.

Improved Risk Profile: NIBC's exposure to cyclical sectors has significantly decreased in recent years. This makes the bank less vulnerable, while its well-performing residential mortgage lending activities cushion likely performance swings in its remaining cyclical corporate credit exposure, mostly granular CRE and shipping loans. We believe NIBC's opportunistic appetite for developing its business is adequately controlled.

Concentration Risks, Satisfactory Asset Quality: NIBC has modest levels of impaired assets but elevated risk concentrations through its CRE and shipping exposure, together representing close to 15% of loans. We view these as more vulnerable to an economic downturn. We expect a moderate weakening in the impaired loans ratio in 2024-2025 but believe the shift in the bank's loan portfolio over the last few years will help maintain it below 2% in the near term (end-2023: 1.1%).

Adequate Profitability: NIBC's earnings stability has improved following its de-risking process, which combined with good cost discipline and moderate loan impairment charges, has resulted in adequate profitability in recent years. It has limited revenue diversification due to its focus on profitable niches. We expect the bank will maintain operating profit at about 2% of risk-weighted assets (RWAs) by 2025. However, it may temporarily fall below this level in 2024 due to higher RWAs from the planned shift of its corporate book to the standardised approach in 2H24.

Satisfactory Capital Ratios: We expect NIBC's risk-weighted capital ratios to continue to compare well with peers in the medium term. RWA inflation could result in a sharp decline in the fully loaded common equity Tier 1 (CET1) ratio (end-2023: 18.4%) by end-2024. However, it will be maintained with an adequate buffer above its 13% tolerance level. We expect the ratio to recover in 2025, although at a lower level than in prior years, due to RWA relief from the implementation of Basel III endgame rules.

Stable Funding and Liquidity: NIBC's funding and liquidity have remained stable. However, the bank's loans/deposits ratio of above 160% is high, and indicates its reliance on price-sensitive online retail savings (about 56% of non-equity funding) and wholesale-funding through the issuance of senior unsecured and covered bonds. 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

A downgrade could result from a significant increase in risk appetite, which could be reflected in sustained growth in corporate exposures that significantly outpaces growth in retail loans. A downgrade could also result from the combination of the CET1 ratio falling and being maintained close to the bank's medium-term tolerance level of 13%, operating profit/RWAs sustained significantly below 2%, and the impaired loans ratio durably rising to above 2%. A sharp slowdown in revenue growth in retail businesses or unexpectedly large deposit outflows that pressure liquidity would also be rating negative.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Fitch believes rating upside is limited. An upgrade would require a considerably stronger business profile, as reflected in growth in operating income to a level more in line with larger peers, and significant market share gains resulting in leading positions and increased revenue diversification. An upgrade would also require operating profit/RWAs to be sustained close to 3%, while adopting a conservative risk appetite.

A less price- and confidence-sensitive funding and liquidity profile and materially lower risk concentrations relative to higher-rated banks could also be rating positive.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

NIBC's long-term senior preferred debt is rated one notch above the Long-Term IDR at 'A-', and was upgraded following the upgrade of the Long-Term IDR. This reflects the protection that could accrue to senior preferred debt from the bank's resolution debt buffers. NIBC's senior non-preferred and junior debt buffer was about 15.7% of RWAs at end-2023 on nominal terms, and we expect the buffer to remain sustainably above 10%, although on a fair value basis it may temporarily fall slightly below the 10% threshold. For the same reasons, we equalise 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 'A-' long-term rating, reflecting our 'bbb' assessment of the bank's funding and liquidity score.

NIBC's legacy hybrid Tier 1 securities (XS0249580357) are rated 'BB' or four notches below the bank's VR, reflecting the poor recovery prospects of these securities (two notches) and incremental non-performance risk (two notches). Our assessment is based on the bank operating with a CET1 ratio comfortably above its maximum distributable amount restriction point, which we expect to continue.

No Government Support: NIBC's Government Support Rating (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

The ratings of senior preferred and senior non-preferred debt 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 nominal buffer falls below

10% of RWAs or if we view the buffer as not sustainable in the longer term. This could happen through RWA inflation or the inability to refinance maturing subordinated and senior non-preferred debt instruments.

The rating of the legacy hybrid Tier 1 securities is 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 Netherlands' 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: revenue diversification (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), historical and future metrics (negative).

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

NIBC Bank N.V.	LT IDR	BBB+ Rating Outlook Stable	Upgrade	BBB Rating Outlook Positive
	ST IDR	F2	Upgrade	F3
	Viability	bbb+	Upgrade	bbb
	Government Support	ns	Affirmed	ns
subordinated	LT	BB	Upgrade	BB-
Senior preferred	LT	A-	Upgrade	BBB+
Senior non-preferred	LT	BBB+	Upgrade	BBB
Senior preferred	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (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

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