FitchRatings

RATING ACTION COMMENTARY

Fitch Revises NIBC's Outlook to Positive; Affirms at 'BBB'

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Fitch Ratings - Frankfurt am Main - 18 Jul 2023: Fitch Ratings has revised the Outlook on NIBC Bank N.V.'s Long-Term Issuer Default Rating (IDR) to Positive from Stable and affirmed the IDR at 'BBB' and Viability Rating (VR) at 'bbb'. A full list of rating actions is below.

The Positive Outlook reflects NIBC's improving risk profile as a result of its balance sheet de-risking process, which Fitch expects to be largely completed in the next 12-18 months. This de-risking has reduced concentrations to more cyclical corporate sectors and increased exposure to low-risk Dutch residential mortgage loans. We expect this to result in more resilient asset quality and reduced earnings variability.

KEY RATING DRIVERS

Niche Business, Adequate Risk Profile: NIBC's ratings reflect its niche franchise and business model, and less opportunistic risk profile than in the past. The ratings still incorporate significant risk concentrations such as commercial real estate (CRE), shipping, digital infrastructure and legacy assets, which could still lead to increased asset quality and earnings volatility than some similarly rated peers in a materially weaker economic environment. The ratings also reflect the bank's satisfactory profitability, adequate capital buffers and stable, although confidence and price sensitive, funding and liquidity.

The VR is one notch below its 'bbb+' implied VR since NIBC's risk profile has a high influence on its rating. NIBC's remaining corporate exposure and asset concentrations will be tested by ongoing macroeconomic headwinds.

Retail Activities Dominate: NIBC remains a niche player compared with larger and more diversified peers. This is despite its steady expansion in residential mortgage lending, which now accounts for almost two-thirds of total loans and the largest share of its operating income. The bank has also sought to offset the cyclicality of its corporate exposure by narrowing its offering. Its corporate strategy now focuses on asset-based financing, in profitable but still cyclical niches, such as CRE, shipping and digital infrastructure, in which it has considerable experience and expertise.

Improving Risk Profile: NIBC's exposure to cyclical sectors, mostly through granular loans to CRE and shipping, has significantly decreased in recent years. This makes the bank less vulnerable as its well-performing residential mortgage lending activities cushion likely performance swings in its remaining corporate credit exposure.

Concentration Risks, Satisfactory Asset Quality: NIBC has modest levels of impaired assets. However, elevated risk concentrations remain through its CRE and shipping exposure, together representing about 16% of loans, which we view as more vulnerable to an economic downturn. We believe the shift in the bank's loan portfolio over the last few years will help maintain its impaired loans ratio below 2% in the near term (end-2022: 1.2%), despite slower economic growth, lingering inflationary pressure and higher interest rates.

Improving Earnings Stability: NIBC has limited revenue diversification due to its focus on profitable niches. Combined with good cost discipline and moderate loan impairment charges, this has resulted in adequate profitability in recent years, generally above European averages. We expect the bank will maintain operating profit at about 2% of risk-weighted assets (RWAs) by 2024. This would be below the 2.5% average since 2017 due to the loss of revenue from winding down its higher-risk exposure but we expect this to be compensated by greater earnings stability.

Fitch sees some potential downside risks to NIBC's net interest margin if increased funding costs cannot be matched with higher lending rates.

Satisfactory 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 of 17.7% at end-2022 was considerably above its regulatory requirement of 9.2%. We expect the bank to operate with a lower ratio in the medium term but it should remain well above its 13% tolerance level in the near term.

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 55% of non-equity funding) and wholesale-funding sources 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

Fitch would revise the Outlook on NIBC's Long-Term IDR to Stable if it believed that the change in the bank's asset structure would not result in more resilient asset quality and profitability in downturns. This would likely be reflected in the impaired loan ratio rising and being sustained above 2% of loans, most likely as a result of deterioration in NIBC's corporate loan portfolio, and the operating profit/RWAs ratio falling significantly below 2% due to higher credit losses.

A downgrade could result from a significant increase in risk appetite, which could be reflected in sustained growth in corporate sectors that outpaces growth in retail loans. A downgrade could also result from the combination of the CET1 ratio rapidly falling close to the bank's medium-term tolerance level of 13%, operating profit/RWAs durably reducing to below 1.5%, and the impaired loans ratio sustainably rising to above 3%. 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

An upgrade would likely result from a better risk profile assessment, which would reflect NIBC's less risky asset structure. This would require the bank to maintain satisfactory asset quality and adequate earnings through the current more challenging economic conditions over the next 12 to 24 months.

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 'BBB+'. This reflects the protection that could accrue to senior preferred debt from the bank's junior resolution debt buffers. NIBC's senior non-preferred and junior debt buffer was about 11% of RWA at end-2022 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 'BBB+' long-term rating, reflecting our 'bbb' assessment of the bank's funding and liquidity score.

NIBC's legacy hybrid Tier 1 securities (ISIN code XS0249580357) are rated 'BB-' or 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 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 Netherland's propensity to support its banks, as well as a significant increase in NIBC's 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).

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 Positive	Affirmed	BBB Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	Viability	bbb	Affirmed	bbb

	Government Support ns Affirmed	ns
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

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 07 Sep 2022) (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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