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Research Update:

Netherlands-Based NIBC Bank N.V. Affirmed At 'BBB'; Outlook Remains Stable

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Overview

- The bank has continued to focus on managing and reducing its high-risk exposures, as demonstrated by the recent sale of its €1 billion shipping portfolio. Even combined with management's strong strategic execution capabilities and the bank's agile, cost-efficient business model, this does not fully offset its weaknesses.
- We expect the bank to continue to rely on its solid capital base and to maintain relatively good asset quality metrics.
- We anticipate that NIBC Bank N.V.'s lending and overall franchise will remain limited compared with Dutch peers--its lack of diversification could jeopardize its earnings stability over time, weakening its overall credit profile.
- We affirmed our 'BBB/A-2' long- and short-term ratings on NIBC Bank N.V. The outlook is stable.

Rating Action

On July 29, 2024, S&P Global Ratings affirmed its 'BBB' long-term and 'A-2' short-term issuer credit ratings on NIBC Bank N.V. The outlook is stable.

Rationale

NIBC's management team has successfully refocused the bank on lower risk businesses, while improving the cost-efficiency of its business model. Dutch housing loans now comprise 77% of the bank's business, followed by asset-based lending (13%) and platform finance (5%). NIBC has successfully divested noncore activities, including leveraged finance, offshore energy, and collateralized loan obligations, as well as its small equity and investment loan portfolios, which helped the bank to reduce its overall risk exposure and earnings volatility. The reduction in exposure and volatility was further reinforced by NIBC's disposal of its €1 billion shipping portfolio in June 2024.

At the same time, our rating on NIBC is constrained by its lack of diversification and small market share of its core operating segments. The bank's scale is limited and it lacks the strong franchise of some of its larger and higher-rated domestic peers. This could limit the impact of competitive advantages such as rapid management decisions, an agile business model, and customer-centric model in some of its core strategic business segments. In particular, it could be an issue in the highly competitive domestic mortgage market, where NIBC's market share is only 4%. In our view, NIBC will have to rely on superior efficiency compared with larger peers if it encounters impediments in this market.

That said, NIBC benefits from a solid capital base and its asset quality metrics have remained relatively strong. Specifically, we estimate that our risk-adjusted capital ratio will be 12.5%-13.0% through end-2026, well above our 10% threshold for a strong assessment. Management's expertise and strong ability to execute on strategy were key factors in the improvement of NIBC's asset quality, especially in terms of achieving a smooth wind-down of the noncore portfolio. NIBC's S&P Global Ratings-adjusted measure of impaired exposures is expected to remain slightly below 2% for the next three years, despite the difficult macroeconomic environment. About 60% of the bank's impaired exposures come from its noncore activities--asset quality in its core activities is in line with that of peers, in our view. We do not expect to see a significant deterioration in quality in the near future.

We expect NIBC's funding profile to remain well-diversified, but funding costs are expected to be more sensitive to market confidence than those of peers. At year-end 2023, we calculate that NIBC's funding base was split between customer deposits (57%) and wholesale market funding (43%). The bank lacks a strong deposit franchise and wholesale funding makes up a greater share of its total funding than it does at peers. Although this suggests that NIBC's cost of funding may be more sensitive to market confidence and volatility than peers', we note that when interest rates increased in 2023, the effect on NIBC and its peers was similar. In addition, while NIBC's overall deposit franchise is somewhat weaker than that of its direct peers, in our view, this is partially mitigated by the good granularity of its wholesale funding and deposit bases. More than 90% of its deposit amount are also covered by deposit guarantee schemes, which provide customers with comfort in case of adverse events.

Outlook

The stable outlook on NIBC indicates that we expect the bank to continue to execute its strategy as it has in recent years, and to show no change in risk appetite. NIBC is also likely to maintain robust capital and good asset quality over the next 18-24 months, thanks to the ongoing derisking strategy and management's expertise. We anticipate that NIBC's funding profile will remain skewed toward wholesale funding, and that it will ensure this is well-diversified.

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 predicted. This could occur if NIBC expanded its risk appetite or if business concentration increased. We could also lower the ratings if the bank were unable to maintain its current funding profile at a reasonable cost.

Upside scenario

We see limited rating upside, given the lack of diversification or a strong lending and deposit franchise. Although an upgrade within the next 12-18 months is unlikely, it could occur in the longer term if NIBC significantly expanded its position in its core market segments while sustaining profitability above the peer average, without an increase in risk.

Ratings Score Snapshot

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

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: The Netherlands, Sept. 29, 2023
- NIBC Bank N.V., May 11, 2023

Ratings List

Ratings Affirmed	
NIBC Bank N.V.	
Issuer Credit Rating	BBB/Stable/A-2
NIBC Bank N.V.	
Senior Unsecured	BBB
Senior Subordinated	BBB-
Subordinated	BB+
Junior Subordinated	BB-
Commercial Paper	A-2