Research Update:

NIBC Bank N.V. Outlook Revised To Negative On Sharp Economic Contraction; Ratings Affirmed

April 24, 2020

PRIMARY CREDIT ANALYST

Letizia Conversano
Dublin
353 1 568 0615
letizia.conversano
@spglobal.com

SECONDARY CONTACTS

Nicolas Hardy
Paris
(33) 1-4420-7318
nicolas.hardy
@spglobal.com

Pierre Gautier
Paris
(33) 1-4420-6711
pierre.gautier
@spglobal.com

Overview

- Despite governments' measures to contain the COVID-19 pandemic, European economies, including that of The Netherlands, face an unprecedented challenge to manage the slowdown in corporate activity and global trade.
- In this context, we believe that NIBC Bank N.V. faces material downside risks, taking into account its high exposure to corporates and midsize enterprises, some of which operate in cyclical sectors.
- As such, we are revising the outlook to negative and affirming the 'BBB+/A-2' ratings.
- The negative outlook reflects our view that the economic contraction could impair the bank's asset quality, earnings, and capitalization beyond our current expectations.

Rating Action

As announced on April 23, 2020, S&P Global Ratings revised its outlook on Dutch NIBC Bank N.V. to negative from stable and affirmed its 'BBB+/A-2' long- and short-term issuer credit ratings.

Rationale

The outlook revision reflects the sharp reduction in economic activity we anticipate for The Netherlands in 2020 and the subsequent downside risk to NIBC's credit quality, given the material uncertainties surrounding the COVID-19 pandemic. The bank's structural exposures to midsize corporates in sectors that we generally see as more vulnerable--i.e. shipping, energy, and commercial real estate--could, in our view, pose asset quality risks. Further, the nature of the bank's funding base, which is diversified but to a large extent wholesale funded, could be more vulnerable in the event of prolonged market volatility.

With isolation strategies still very much in force, our economists expect sharp economic contraction in the eurozone in the second quarter of 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through end-2020 and into 2021, envisaging a -6.7% GDP contraction in The Netherlands in 2020 and 6.2% growth in 2021. Even under this base case, the effects of COVID-19 will be evident for long after the crisis subsides.

The ratings affirmation reflects our expectation that NIBC will be able to withstand the negative effects of a shock to the economy and private sector in the first quarters of this year, while remaining committed to its medium-term corporate portfolio de-risking plan. We consider several supporting factors in our assessment. First, Dutch authorities have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to the local economy, including small and midsize corporates. Second, NIBC's long-standing expertise in the corporate sector, good knowledge and relationship with its customer base, and good level of collateral could help to mitigate the impact of the shock on its asset quality. Third, the bank is well capitalized, and has an adequate cushion to absorb inevitably rising credit losses in 2020.

However, while we expect NIBC to remain resilient in the face of this short-term cyclical shock, it will likely have a meaningful impact on its asset quality, revenues, profitability, liquidity, and, potentially, capitalization. We expect very few of these negative trends to be strongly evident in NIBC's first-quarter results, but consider that they would become increasingly evident through the course of 2020 and likely persist into 2021. The bank's asset quality will be key in enabling NIBC to preserve its solvency, which we still expect to exceed 10% by end-2020, measured by our risk-adjusted capital ratio.

We are acutely mindful that this base case remains subject to significant downside risks. Even under our economic base case, the policy responses taken in The Netherlands may be less than totally successful in avoiding permanent economic damage later (see "COVID-19 Deals A Larger, Longer Hit To Global GDP," published April 16). We note also that a significant component of the fiscal support package comprises additional indebtedness--for the sovereign, some households, and many businesses. The longer the delay in the recovery of economic activity, the less sustainable this extra debt will be.

Outlook

The negative outlook on NIBC primarily reflects our view that the economic contraction in the eurozone, and in The Netherlands, could impair the bank's asset quality and capitalization over the next 18-24 months. We expect the corporate and small business portfolio to be the most vulnerable.

Consequently, we would most likely lower the ratings over the next 18-24 months if we observed that nonperforming exposures and credit losses were rising faster, materially affecting NIBC's earnings generation capacity and capitalization, pushing the risk-adjusted capital ratio below 10%. This may occur following a material deterioration in economic and operating conditions, either because the downturn is deeper and longer, or the recovery weaker, than we currently anticipate. We could lower the ratings if the bank were unable to attract sources of financing at reasonable costs. Although at an early stage, we could also lower our long-term rating on NIBC if we saw greater risk appetite or business concentration, following the announced acquisition by Blackstone. Finally, a negative action could also occur if the additional loss-absorbing capacity (ALAC) buffer that protects senior creditors falls short of our expectation that it will remain above 5.5% of S&P Global Ratings' risk-weighted assets over the outlook horizon. This could happen, for example, because of a more aggressive capital policy than currently expected.

We could revise the outlook back to stable if we considered that economic and operating conditions had stabilized and anticipated limited further downside risks to NIBC's financial profile.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Negative/A-2
SACP	bbb
Anchor	bbb+
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and	Average and (0)
Liquidity	Adequate
Support	(+1)
ALAC Support	(+1)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Various French Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- Dutch Bank NIBC To Retain Its Strategic Focus Despite Potential Change In Private Equity Ownership, Feb. 28, 2020
- NIBC Bank N.V, Sept. 5, 2019