STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

September 23, 2010

**Research Update:**

# NIBC Bank N.V. Hybrids Upgraded To 'BB'; Long- And Short-Term Ratings Affirmed At 'BBB/A-2'; Outlook Negative

**Primary Credit Analyst:**
Alexandre Birry, London 44 (0) 20 7176 7108;alexandre_birry@standardandpoors.com

**Secondary Contact:**
Elisabeth Grandin, Paris (33) 1-4420-6685;elisabeth_grandin@standardandpoors.com

## Table Of Contents

Research Update:

# NIBC Bank N.V. Hybrids Upgraded To 'BB'; Long- And Short-Term Ratings Affirmed At 'BBB/A-2'; Outlook Negative

## Overview

- The risk of coupon deferral for Netherlands-based NIBC Bank N.V.'s hybrids has decreased in our view, illustrated by the resumption of ordinary dividends.
- We observe that the bank's performance has started to recover since mid-2009, but consider that pressure points remain in some of its markets.
- We are raising our ratings on the bank's hybrids to 'BB' from 'BB-' and are affirming our 'BBB' long-term and 'A-2' short-term counterparty credit ratings.
- The negative outlook reflects our view that recovery is still hesitant in some of the bank's operating segments, although we believe that downside risk is gradually subsiding.

## Rating Action

On Sept. 23, 2010, Standard & Poor's Ratings Services raised the ratings on Netherlands-based NIBC Bank N.V.'s hybrid instruments to 'BB' from 'BB-'. At the same time, we affirmed the 'BBB/A-2' long- and short-term counterparty credit ratings. The outlook is negative.

## Rationale

In March 2009, for European banking groups, we widened the gap between the long-term counterparty credit rating and the hybrid security rating to three notches in most cases. We widened it to four or more notches in certain cases, based on various factors, including the elimination of ordinary dividends. NIBC was one of the issuers for which we moved to a four-notch gap, reflecting the group's decision not to pay a dividend in 2008 and 2009.

NIBC's holding company resumed cash dividends on ordinary shares in 2010. As a result, we are now reducing the gap between the long-term counterparty credit rating and the hybrid security rating to three notches.

NIBC's counterparty ratings reflect its sound capitalization and expertise in its niche corporate banking franchise, which is mostly based in The Netherlands and Germany. They also consider the bank's track record of volatile profitability. The bank's wholesale funding reliance is somewhat mitigated by its conservative liquidity management.

Owing to its retail deposit base and the large amount of government-guaranteed debt raised in 2008-2009, we see NIBC as having moderate systemic importance in The Netherlands (AAA/Stable/A-1+), which we classify as a supportive country under our methodology. We do not give the ratings on NIBC any uplift above its stand-alone credit profile for potential external institution-specific support.

Underlying performance started to recover in the second half of 2009 and first half of 2010, with a progressive increase in net interest income and a decline in cost of risk. In our view, renewed corporate lending and the ongoing repricing of the loan book should continue to support revenue generation in 2010 and 2011.

NIBC's cautious liquidity management allowed it to survive the market dislocation despite its wholesale funding profile and absence of support from a larger parent. We consider that the large amount of government-guaranteed debt raised in 2008 and 2009 was also instrumental in allowing NIBC to continue serving its clients and originating loans.

NIBC's funding plans largely include a mix of residential mortgage-backed securities (RMBS) or covered bonds and some increase in NIBC Direct deposits. The proceeds will support new corporate lending and replace the guaranteed debt issues that will mature late 2011 and early 2012. Its progress so far is encouraging: it issued two RMBS transactions in May and September 2010, totaling €1.75 billion.

While downside risk is gradually subsiding in our view, we expect asset quality to remain under some pressure in the second part of 2010 and 2011, based on a still-hesitant market recovery, and the bank's sectoral exposure in its corporate loan book. In particular, we consider that its mezzanine and leveraged finance portfolios could remain vulnerable in the current environment.

NIBC's sound capital base, illustrated by our risk-adjusted capital ratio estimated at 8.1% for NIBC Holding at end-June 2010, provides some buffer against earnings volatility. Only moderate financial flexibility partly offsets this sound capital.

## Outlook

The negative outlook reflects our view of a still-hesitant recovery in some of the bank's operating segments, although we believe that downside risk is gradually subsiding.

We currently expect that NIBC will maintain its niche franchise, sound liquidity, and capital position. We also anticipate that net interest income will continue to gradually improve and asset quality will stabilize further, although the risk of near-term volatility remains. All in all, we believe this should lead to improved, but still subdued, profitability in 2010 and 2011.

Further evidence of stabilizing asset quality could lead to a revision of the outlook to stable. Conversely, renewed pressure on asset quality or revenue generation, or signs over time of a greater challenge in prefunding maturing government-guaranteed debt, would exert negative pressure on the ratings.

Because of our view of NIBC's moderate systemic importance, we believe the authorities would offer specific support if needed, but only when the bank is under extreme stress. Therefore, we would only start to incorporate notches for extraordinary support if NIBC's stand-alone credit profile deteriorated by more than two notches.

## Related Criteria And Research

- Bank Rating Analysis Methodology Profile, March 18, 2004
- Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments , Feb. 9, 2010
- Hybrid Securities Of Over 60 European Financial Institutions Downgraded Following S&P Review, March 31, 2009

## Ratings List

Ratings Affirmed

| | | |
|---|---|---|
| NIBC Bank N.V. | | |
| Counterparty Credit Rating | BBB/Negative/A-2 | |
| Certificate Of Deposit | BBB/A-2 | |

Upgraded

| | To | From |
|---|---|---|
| NIBC Bank N.V. | | |
| Junior Subordinated | BB | BB- |

NB: This list does not include all ratings affected.

**Additional Contact:**
Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm

(46) 8-440-5914; or Moscow (7) 495-783-4011.