

Rating Action: Moody's assigns Ba1(hyb) rating to de Volksbank's €300 million Additional Tier 1 non-viability green securities

15 Jun 2022

Outlook on A2 deposit ratings changed to positive from stable

Paris, June 15, 2022 -- Moody's Investors Service ("Moody's") today assigned a Ba1(hyb) rating to the €300 million Additional Tier 1 non-viability contingent capital securities issued by de Volksbank N.V. (de Volksbank). The securities are issued as green bonds in accordance with de Volksbank's green bond framework, which follows the Green Bond Principles of the International Capital Market Association ("ICMA"). In addition, Moody's affirmed de Volksbank's long-term deposit ratings of A2 and changed the outlook to positive from stable.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

According to Moody's methodology on the rating of banks' non-viability securities, Additional Tier 1 securities are typically positioned three notches below the bank's Adjusted Baseline Credit Assessment (BCA). The Ba1(hyb) rating assigned to the Additional Tier 1 notes is based on (1) de Volksbank's standalone creditworthiness as expressed by the bank's baa1 BCA; (2) the high loss given failure of these deeply subordinated securities under Moody's Advanced Loss Given Failure (LGF) analysis, resulting in one notch downward adjustment from the BCA; and (3) the higher payment risk associated with the non-cumulative coupon skip mechanism, resulting in a further two notches of downward adjustment. The LGF analysis takes into consideration the principal write-down feature, in combination with the Additional Tier 1 notes' deeply subordinated status in liquidation.

The notes are unsecured, perpetual and subordinated to senior and subordinated unsecured obligations of de Volksbank. The notes have a non-cumulative full-discretionary coupon-suspension mechanism. There is a principal write-down if the bank's or the group's transitional Common Equity Tier 1 capital ratio drops below 5.125%, which Moody's views as close to the point of non-viability. The principal can be written up at the issuer's discretion.

OUTLOOK ON LONG-TERM DEPOSIT RATINGS

Moody's decision to change the outlook on deposit ratings to positive from stable reflects the expected increased volume of liabilities subordinated to the bank's junior deposits following the issuance of the Additional Tier 1 notes and planned issuance of junior senior unsecured notes (commonly referred to as senior non-preferred notes) in the next two years. De Volksbank indicated that it plans on issuing between €1.2 billion and €1.7 billion of junior senior unsecured notes by 2024, on top of the €1 billion already issued, in order to meet its 2024 Minimum Requirement for Eligible Liabilities and own funds (MREL) target of 7.87% of the leverage ratio exposure (LRE).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating of the Additional Tier 1 notes is mainly driven by de Volksbank's baa1 BCA, which reflects the bank's very low risk profile due to its focus on domestic retail mortgages and its strong capital base.

Any changes in the bank's BCA would likely result in changes to the Ba1(hyb) rating assigned to these securities.

In addition, an upgrade of the bank's long-term deposit ratings would likely occur if the bank were to further issue junior senior unsecured notes, which would increase subordination and offer greater protection to depositors.

LIST OF AFFECTED RATINGS

Issuer: de Volksbank N.V.

..Assignment:

...Preferred Stock Non-cumulative, assigned Ba1(hyb)

..Affirmations:

...Long-term Bank Deposits, affirmed A2, outlook changed to Positive from Stable

..Outlook Action:

...Outlook changed to Positive(m) from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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