



Rating Action: **Moody's upgrades NIBC Bank N.V.'s perpetual debt securities to Ba1(hyb)**

19 Sep 2023

Paris, September 19, 2023 – Moody's Investors Service (Moody's) today upgraded the foreign and local currency ratings of two perpetual debt securities issued by NIBC Bank N.V.'s (NIBC's) on 24 March 2005 and on 30 March 2006 respectively, to Ba1(hyb) from Ba2(hyb). The amount of securities currently outstanding is \$90.5 million for the securities issued in 2005 and €50 million for those issued in 2006.

The rating action was driven by a change in the legal insolvency rank of these instruments under Dutch law, and NIBC's subsequent decision not to call them, following the end of their grandfathering as regulatory capital effective 1 January 2022, which prompted a reassessment of the loss severity for these hybrid instruments under Moody's Advanced Loss Given Failure (LGF) analysis applied to NIBC. NIBC's other ratings were unaffected by today's rating action.

RATINGS RATIONALE

Today's upgrade of NIBC's two specific perpetual debt securities to Ba1(hyb) from Ba2(hyb) reflects the fact that these securities are no longer part of NIBC's own funds and are now senior to Tier 2 subordinated debt. As a result, the two specific perpetual debt securities benefit from increased subordination brought by Tier 2 debt and Additional Tier 1 (AT1) securities under Moody's Advanced LGF analysis, which explains the upgrade. In Moody's opinion, the perpetual debt securities also rank junior to junior senior unsecured debt (also referred to as senior non-preferred debt).

The perpetual debt securities do not comply anymore with all the requirements of the European Union's Capital Requirements Regulation (CRR) for eligibility as AT1 capital and, as a result, were gradually phased-out from regulatory capital until end-December 2021, at which date they were fully removed from capital. In addition, the second Bank Recovery and Resolution Directive (BRRD 2), introduced in June 2019, sets out in a new article (Article 48.7) that all claims resulting from regulatory capital instruments should be junior to claims that result from instruments which are not included in regulatory capital. BRRD 2 was translated into Dutch law on 15 December 2021. As a result, the perpetual debt securities are now senior to Tier 2 debt. Unlike most European peers having issued similar instruments, NIBC decided not to call them for the time being, which prompted Moody's to revisit its approach for their ratings.

With the instruments benefitting from higher subordination at failure, Moody's Advanced LGF analysis now indicates a moderate loss given failure, leading to no notching uplift from NIBC's baa3 Adjusted Baseline Credit Assessment (BCA). Previously, the rating agency's Advanced LGF analysis indicated a high loss given failure for these instruments which yielded a one notch deduction from the bank's baa3 Adjusted BCA. The Ba1(hyb) rating also incorporates an unchanged additional negative notch, reflecting the instruments' cumulative optional coupon skip mechanism.

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

An upgrade of NIBC's BCA would trigger an upgrade of the bank's perpetual debt securities. Conversely, a downgrade of the BCA would trigger a downgrade of the perpetual debt securities.

A downgrade of the perpetual debt securities could be triggered by the redemption of AT1 securities or Tier 2 debt resulting in lower subordination benefiting these securities.

PRINCIPAL METHODOLOGY

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

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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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Guillaume Lucien-Baugas
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Olivier Panis
Senior Vice President
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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