

Bulletin:

Remedying Anti-Money-Laundering Controls May Dilute De Volksbank's Improved Earnings

August 14, 2023

This report does not constitute a rating action.

PARIS (S&P Global Ratings) Aug. 14, 2023--S&P Global Ratings said today that De Volksbank N.V.'s (DVB's) interim results announcement sends mixed signals. Although we assume the fine DVB (A-/Stable/A-2) may face for shortcomings in its money-laundering controls will be manageable, particularly considering the bank's improved earnings, the cost of implementing a remediation plan will likely weigh on the bank's cost-base and earnings generation capacity amid a challenging economic environment.

On Aug. 11, 2023, DVB announced that the Dutch central bank (De Nederlandsche Bank; DNB) had concluded that DVB's money-laundering and terrorist financing controls were insufficient, thereby violating the Anti-Money Laundering and Anti-terrorism Financing Act. As a result, the DNB instructed the bank to improve its internal systematic integrity risk analysis by April 1, 2024. Furthermore, the DNB has started the process to impose an administrative fine on DVB.

We consider that the fines imposed on other European banks for similar anti-money laundering and countering the financing of terrorism failures have been sizable but affordable. In our view, DVB's good performance for the first half of 2023 better positions the bank to face such a cost. The bank reported a 13.6% return on equity in the first half of the year, with a net profit of €248 million, versus €91 million for the same period in 2022. Moreover, the bank benefits from very strong capitalization; its CET 1 ratio stood at 20.4% at June 30, 2023, which is well above the 10.7% CET1 SREP requirement.

However, we expect that DVB's efforts to complete the requested remediation plan will lift its cost-base through 2024. Already under pressure amid high inflation and necessary digital investments, the bank's operating costs rose by 20% in the first half of 2023, relative to the same period in 2022. This was largely due to staff hiring and investment in compliance, risk, and technology.

We will monitor the bank's ability to successfully and timely implement the remediation actions without material repercussions for DVB's franchise. Also, we continue to follow the execution of the bank's strategic plan, which targets a more cost-efficient and diversified business model. This, in our view, is important to the bank's structural profitability and competitive position.

PRIMARY CREDIT ANALYST

Letizia Conversano
Paris
+ 353 (0)1 568 0615
letizia.conversano
@spglobal.com

SECONDARY CONTACT

Anastasia Turdyeva
Dublin
+ (353)1 568 0622
anastasia.turdyeva
@spglobal.com

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