FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms de Volksbank at 'A-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 16 Oct 2024: Fitch Ratings has affirmed de Volksbank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and its Viability Rating (VR) at 'a-'. A full list of rating actions is below.

KEY RATING DRIVERS

Standalone Strength Drives Ratings: The ratings reflect de Volksbank's straightforward but concentrated business model, which results in weaker earnings diversification than larger and higher-rated domestic peers'. The bank's sound asset quality and moderate risk profile, with a focus on low-risk residential mortgage lending, are rating strengths. The ratings also capture improved earnings generation, satisfactory capitalisation and leverage, and robust funding underpinned by a granular and stable deposit base.

Straightforward Business Model: de Volksbank is the fourth-largest commercial bank in the Netherlands, although its market share is small at around 6% in residential mortgage loans. It operates almost exclusively in its home market, with a clear focus on retail banking, offering mainly residential mortgage loans, savings and payments products. The bank's focus on lending results in a high reliance on net interest income (NII), which accounted on average for more than 90% of revenue over the last four years, highlighting limited business diversification relative to peers'.

Moderate Risk Profile: Fitch expects de Volksbank to maintain a conservative risk appetite, given the bank's focus on low-risk residential mortgage lending in the Netherlands, which comprised 97% of its gross loans at end-June 2024. However, the bank's hedging strategy exposes it to greater interest-rate risk than larger and more diversified Dutch peers.

Similarly to some domestic peers, the bank's risk control framework has revealed some deficiencies over the past years, including with respect to its anti-money-laundering (AML) obligations and operational risk management. We expect these to be addressed in the near term but they will weigh on the bank's profitability and consume management time.

Asset Quality Supports Ratings: The bank's sound and stable impaired loans ratio (end-June 2024: 1.1%) reflects its large and low-risk Dutch residential mortgage loan portfolio (about two-thirds of total assets). We expect de Volksbank's asset quality to continue to be supported by a resilient employment market and the bank's prudent underwriting. The remainder of the balance sheet mainly comprises cash and high-quality securities.

Satisfactory Profitability: de Volksbank has satisfactory profitability for its simple and concentrated business model, which results in weaker earnings diversification than peers. We expect the operating profit to decline from the very strong 1H24 annualised 3.7% of risk-weighted assets (RWAs), due to reduced NII and additional costs to meet risk-control deficiencies. However, we expect it to remain above 2% in 2024 and 2025.

Capital Buffers Reflect Low-Risk Assets: The bank's strong common equity Tier 1 ratio (CET1; end-June 2024: 19.7%) benefits from the low risk-weighting of its large residential mortgage loans portfolio. Fitch expects the CET1 ratio to be maintained well above the bank's new medium-term minimum target of about 17% under Basel III end-game rules in 2024 and 2025. Its regulatory leverage ratio (end-June 2024: 5.2%) is adequate for a bank concentrated on low-risk assets.

Stable Funding, Ample Liquidity: Stable and granular retail and SME deposits form the bulk of de Volksbank's funding (end-June 2024: 83%). The bank has limited reliance on wholesale funding, and it is a less frequent issuer in debt capital markets than its larger Dutch peers. Liquidity is strong and well-managed, supported by a large cash balance placed at the central bank and high-quality liquid assets, which comfortably cover short- and medium-term funding maturities.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The bank has material headroom within its current rating. However, a downgrade could result from a significant loss of market share in mortgage lending, signaling a weakening in its business profile and profitability. A higher risk profile, for example through rapid expansion in higher-risk lending causing the impaired loans ratio to durably increase above 2%, could also lead to a downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require a broadened product and service offering that leads to more diversified revenue streams away from interest income. This would reduce earnings sensitivity to the interest-rate cycle and strengthen internal capital generation. An upgrade would, in that case, require the bank to maintain its conservative risk profile and stable funding and liquidity.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Short-Term IDR

The 'F1' Short-Term IDR is the higher of the two options mapping to a 'A-' Long-Term IDR, driven by de Volksbank's funding and liquidity score of 'a'.

Senior Debt, Deposits and Derivative Counterparty Rating (DCR)

The bank's long-term senior preferred debt, long-term deposits and DCR are rated one notch above the bank's Long-Term IDR. This reflects Fitch's expectation that de Volksbank will continue to meet its resolution buffer requirement with only senior non-preferred and more junior debt and equity instruments. For the same reason, we rate de Volksbank's senior non-preferred debt at 'A-', in line with its Long-Term IDR.

The short-term senior preferred and deposit ratings of 'F1' are the lower of two options mapping to their respective 'A' long-term ratings, reflecting our assessment of the bank's funding and liquidity score at 'a'.

Subordinated Debt

The bank's subordinated (Tier 2) debt is rated two notches below its VR, in line with the baseline notching for this type of debt, and reflecting poor recovery prospects of these instruments.

No Government Support: de Volksbank's Government Support Rating (GSR) of 'no support' (ns) reflects Fitch's view that that due to the implementation of EU's Bank Recovery and Resolution Directive senior creditors of de Volksbank cannot rely on full extraordinary support from the sovereign if the bank becomes non-viable, despite its full ownership by the government.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

de Volksbank's Short-Term IDR is sensitive to changes in the Long-Term IDR and in the bank's funding and liquidity score, which Fitch could lower if de Volksbank's liquidity buffers materially diminish in relation to assets and customer deposits.

The debt ratings, DCR and deposit ratings are sensitive to changes to de Volksbank's IDRs, which in turn are sensitive to changes in the bank's VR. In addition, we would downgrade the bank's long-term senior preferred, senior non-preferred, deposit rating and DCR by one notch if Fitch no longer expects de Volksbank to meet its resolution debt buffers requirements without senior preferred debt.

de Volksbank's short-term senior preferred and deposit ratings are also sensitive to a positive reassessment of the group's funding and liquidity to 'aa-' or higher, which is unlikely.

Subordinated debt is sensitive to changes in de Volksbank's VR. It is also sensitive to a change in Fitch's assessment of loss severity or non-performance risk relative to the risk captured in the bank's VR.

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support Dutch banks. While not impossible, this is highly unlikely, in Fitch's view.

VR ADJUSTMENTS

The earnings and profitability score of 'bbb+' is below the 'a' category implied score due to the following adjustment reason: revenue diversification (negative).

The capitalisation and leverage score of 'a-' is below the 'aa' category implied score due to the following adjustment reason: risk profile and business model (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
short-term deposits	ST	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

de Volksbank N.V.	EU Issued, UK Endorsed

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