MOODY'S RATINGS

Rating Action: Moody's changes to positive the outlook on de Volksbank's deposit and senior unsecured ratings of A2

21 Mar 2024

BCA and all other ratings affirmed

Paris, March 21, 2024 -- Moody's Ratings (Moody's) today affirmed de Volksbank N.V.'s (de Volksbank) long-term deposit and senior unsecured debt ratings of A2. The outlook on these ratings is changed to positive from stable. Concurrently, Moody's affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, its short-term deposit and Commercial Paper ratings of Prime-1, its other short-term program rating of (P)Prime-1, its senior unsecured MTN program rating of (P)A2, its junior senior unsecured debt rating of Baa1, its junior senior unsecured MTN program ratings of (P)Baa1, its long-term and short-term Counterparty Risk (CR) Assessments of Aa3(cr)/Prime-1(cr), and its long-term and short-term Counterparty Risk Ratings (CRR) of Aa3/Prime-1. In addition, Moody's affirmed the bank's subordinated debt rating of Baa2, its subordinate MTN program rating of (P)Baa2, and its preferred stock non-cumulative rating of Ba1 (hyb).

RATINGS RATIONALE

AFFIRMATION OF THE BCA REFLECTS THE BANK'S SOUND FUNDAMENTALS

De Volksbank's very low asset risk is underpinned by its focus on domestic retail mortgages representing 94% of the loan portfolio at year-end 2023. The SME and corporate loan portfolio bears somewhat higher risks but its size remains modest. Capital is strong as evidenced by its Common Equity Tier 1 (CET1) and Tier 1 leverage ratios of 20.2% and 5.1% respectively as of the end of 2023. Funding primarily consists of very granular and stable retail customer deposits whereas funds raised on wholesale markets are essentially long-term. The bank also maintains a large liquidity portfolio with a large share of cash at central banks and other high-quality liquid assets.

Although commensurate with its risk profile, de Volksbank's profitability is structurally lower than that of the large Dutch universal banks, reflecting its strong focus on domestic housing loans. Yet, its net profit more than doubled in 2023 compared to 2022. The increase stemmed from a 47% increase in revenue, boosted by the slower repricing of customer deposits relative to market rates, which more than offset a 23% increase in operating expenses due to increased staff, wage inflation and higher IT and consultancy costs. Looking to the future, Moody's expects the bank's profitability to reduce from the peak of 2023 but to remain higher than the levels achieved in a lower interest rate environment prior to 2022. Revenues will likely decrease as higher interest rates are further passed on to depositors, while IT and compliance-related investment needs will keep operating expenses high. Moody's also expects the cost of risk to increase from the exceptionally low level reported in 2023, but to remain modest.

The BCA continues to be constrained by the highly concentrated nature of the bank's business model.

LONG-TERM RATINGS

The long-term deposit and senior unsecured debt ratings of A2 reflect the baa1 BCA and one notch of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, reflecting a low loss-given-failure for both instruments. These ratings also incorporate one notch of government support uplift, reflecting a moderate support assumption from the government of the Netherlands due to the bank's systemic importance in the country.

OUTLOOK

The change in the outlook on the long-term deposit and senior unsecured debt ratings to positive reflects Moody's view that, despite the lackluster macroeconomic outlook, the bank's capacity to generate earnings has increased since the rise in interest rates, even if net interest margins have peaked in 2023. At the same time, Moody's expects that the bank will preserve very low asset risk and strong capital buffers. Finally, the rating agency also expects that the bank will remedy the shortcomings identified by the Dutch central bank in 2023 in its anti-money laundering (AML) systems and processes without incurring exorbitant costs.

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

The BCA could be upgraded if the bank continues to demonstrate strong asset quality, robust capital, sustainably improved profitability and sound funding and liquidity. An upgrade of the bank's BCA would likely result in an upgrade of all the ratings.

A higher than expected increase in the volume of subordination brought by senior unsecured or junior senior or subordinated debt issuance could result in an upgrade of the bank's deposit rating. The senior unsecured debt rating could also be upgraded as a result of higher subordination.

The BCA could be downgraded as a result of a material deterioration in the bank's asset quality and solvency driven by a severe downturn in the domestic economy affecting households' debt repayment capacity, or a longer and more costly remediation of the bank's AML framework. A downgrade of the bank's BCA would likely lead to a downgrade of all its ratings.

A higher than expected decrease in the amount of outstanding subordinated debt or preference shares could lead to a downgrade of the junior senior unsecured debt rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . 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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