FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 31 Oct 2023: Fitch Ratings has affirmed de Volksbank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and 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 domestic peers'. The bank's sound asset quality and overall 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: The bank is the fourth-largest commercial bank in the Netherlands, with a small market share of around 2% of total banking system assets. 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 for 90% of revenue in 1H23.

Moderate Risk Profile: Fitch expects de Volksbank to maintain a conservative risk appetite, given its focus on low-risk residential mortgage lending in the Netherlands that comprised 94% of the bank's gross loans at end-June 2023. The bank's risk control framework has revealed some deficiencies over the past year, including with respect to its anti-money laundering (AML) obligations, but we expect these to be addressed in the near term.

Asset Quality Supports Ratings: The bank's sound and stable impaired loans ratio of 1.1% at end-June 2023 reflects its large and low-risk residential mortgage loan portfolio. A weaker economic outlook and high interest rates will likely challenge de Volksbank's asset quality in the near term, but we expect deterioration to remain modest, due to 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 considerably benefitted from higher interest rates in 1H23 as reflected in its operating profit/risk-weighted assets (RWAs) of 4.4% in 1H23, which we view as unsustainable. We forecast this ratio to gradually decline towards a still sound 3% in the next 12 to 24 months as funding costs rise and additional costs to rectify AML risk assessment deficiencies will weigh on the bank's operating expenses. Such a performance would nonetheless remain well above the 2019-2022 average of 2.3%.

Capital Buffers Reflect Low-Risk Assets: The bank's strong common equity Tier 1 ratio (CET1; end-June 2023: 20.4%) benefits from the low risk-weighting of its large residential mortgage loans portfolio, which accounts for more than 60% of total assets. Fitch expects the CET1 ratio to be maintained above the bank's medium-term minimum of about 19% in the next 12 to 18 months. The regulatory leverage ratio (end-June 2023: 4.8%) is adequate for a bank concentrated on low-risk assets, although it is lower than at larger domestic peers.

Stable Funding, Ample Liquidity: Stable and granular retail and SME deposits form the bulk of de Volksbank's funding (about 83% at end-June 2023). The bank's reliance on wholesale funding is limited, and it is a less frequent issuer in debt capital markets than its larger Dutch peers.

The bank's liquidity is strong, as reflected by its liquidity buffer of around EUR14 billion, of which EUR10 billion was cash. This represented a high 20% of total assets at end-June 2023 or around 25% of customer deposits and comfortably covered short- and medium-term funding maturities.

RATING SENSITIVITIES

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

de Volksbank has significant 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, and from a higher risk profile, for example through rapid expansion in higher-risk lending. The latter would cause the impaired loans ratio to durably increase above 2%.

A downgrade could also result from a sustained deterioration of the operating environment if accompanied by a weaker assessment of de Volksbank's business and financial profiles. However, both scenarios are highly unlikely.

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

The potential for positive rating action in the near term is limited by de Volksbank's concentrated business model and small domestic franchise. In the longer term, an upgrade of the ratings could result from a broader 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 meet its resolution buffer requirement only with 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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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 of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
de Volksbank N.V.	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	DCR	A(dcr)	Affirmed	A(dcr)
	Government Support	ns	Affirmed	ns
subordinated	LT	BBB	Affirmed	BBB

long-term deposits	LT	A	Affirmed	A
Senior preferred	LT	A	Affirmed	A
Senior non-preferred	LT	A-	Affirmed	A-
Senior preferred	ST	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 01 Sep 2023) (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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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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