de Volksbank N.V.

Update

Key Rating Drivers

Standalone Strength Drives Ratings: The ratings reflect de Volksbank N.V.'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 92% of revenue in 2023.

Moderate Risk Profile: Fitch Ratings 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 96% of its gross loans at end-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 (end-2023: 1.1%) reflects its large and low-risk residential mortgage loan portfolio. We still expect de Volksbank's asset quality to be challenged in the near term by high interest rates, inflation and sluggish economic growth. However, we expect deterioration to remain low 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: The bank benefitted considerably from the higher interest rates in 2023, as reflected in its operating profit/risk-weighted assets (RWAs) ratio of 3.6% (2022: 1.7%), although we view this as unsustainable. We expect the ratio to decline to around 3% in the near term – although this is still solid – as funding costs rise and additional costs to rectify AML risk assessment deficiencies continue to weigh on operating expenses. The ratio 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-2023: 20.2%) benefits from the low risk-weighting of its large residential mortgage loans portfolio, which accounts for about 70% of total assets. Fitch expects the CET1 ratio to be maintained above the bank's new medium-term minimum target of about 17%. The regulatory leverage ratio (end-2023: 5.1%) 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 (end-2023: 84%). The bank has limited reliance on wholesale funding, 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 EUR10.6 billion, of which EUR6.3 billion was cash. This represented a satisfactory 15% of total assets at end-2023, or around 19% of customer deposits, and comfortably covered short- and medium-term funding maturities.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns
Sovereign Risk (Netherlands)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms the Netherlands at 'AAA'; Outlook Stable (February 2024)

Western European Banks Outlook 2024 (December 2023)

Mortgage Market Index – Netherlands 2H23 (November 2023)

Fitch Affirms de Volksbank at 'A-'; Outlook Stable (October 2023)

Analysts

Gary Hanniffy, CFA
+49 69 768076 266
gary.hanniffy@fitchratings.com

Oceane Lefebvre
+33 1 44 29 91 49
oceane.lefebvre@fitchratings.com

Rating Sensitivities

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

The bank has significant headroom within its current rating. However, a downgrade could result from a significant loss of market share in mortgage lending, signalling 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 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

Rating level	Rating
Deposits (long term/short term)	A/F1
Senior preferred debt (long term/short term)	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2	BBB

Source: Fitch Ratings

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.

Significant Changes from Last Review

Neutral Sector Outlook for Benelux Banks in 2024

Net interest margins are likely to have peaked in 2023, but Fitch still expects the favourable, albeit reducing, deposit margins in 2024 to continue to support performance. This will be driven by higher deposit pass-through given competition from alternative investments, further migration to term deposits from current accounts, and more costly wholesale debt refinancing. Fitch's neutral sector outlook for Benelux banks in 2024 incorporates the agency's expectation of moderating, but still healthy, profitability, slightly deteriorating impaired loan ratios, and overall stable funding and liquidity for Dutch banks.

Increased Operating Income Powers Solid 2023 Result

Operating income for de Volksbank increased by 47% to EUR1.4 billion, fuelled by a 53% jump in NII. This was driven by improved margins on deposits, while residential mortgage margins remained stable as the relatively long fixed-interest rates in the mortgage portfolio limits loan book repricing. Fee and commission income rose 25%, helped by a full year of fixed charges for basic banking services. Costs increased by 24%, largely as a result of wage inflation and an increase in total full-time employees, partly reflecting investments to address AML shortcomings.

Loan impairment charges fell to a very low 3bp of average gross loans (2022: 8bp) reflecting de Volksbank's resilient loan book. Management overlays slightly increased to 11bp of gross loans (2022: 10bp), with the majority allocated to risks related to interest-only mortgages. Fully interest-only mortgage loans accounted for 19% of the total mortgage loan book at end-2023 (end-2022: 20%).

Solid Progress on the 2021–2025 Strategic Plan

Most of the 2025 targets appear within reach for de Volksbank. The fully-loaded CET1 ratio improved by 0.9 percentage points to 21.1% at end-2023 on better profitability. The bank has revised its CET1 ratio target downward, to above 17%, from the previous target of above 19% as a consequence of reduced uncertainty around Basel IV implementation. The new target remains commensurate with our view of the bank's capitalisation as it still includes a high buffer above its 10.7% minimum requirement, which is set to increase to about 11% from end-May 2024.

We believe the bank will be challenged to continue to meet its cost/income ratio target of 57%–59% by 2025. The ratio was 57% in 2023 (2022: 68%), but lower net interest income, together with slight cost inflation, will negatively affect the ratio, which we expect at over 60%.

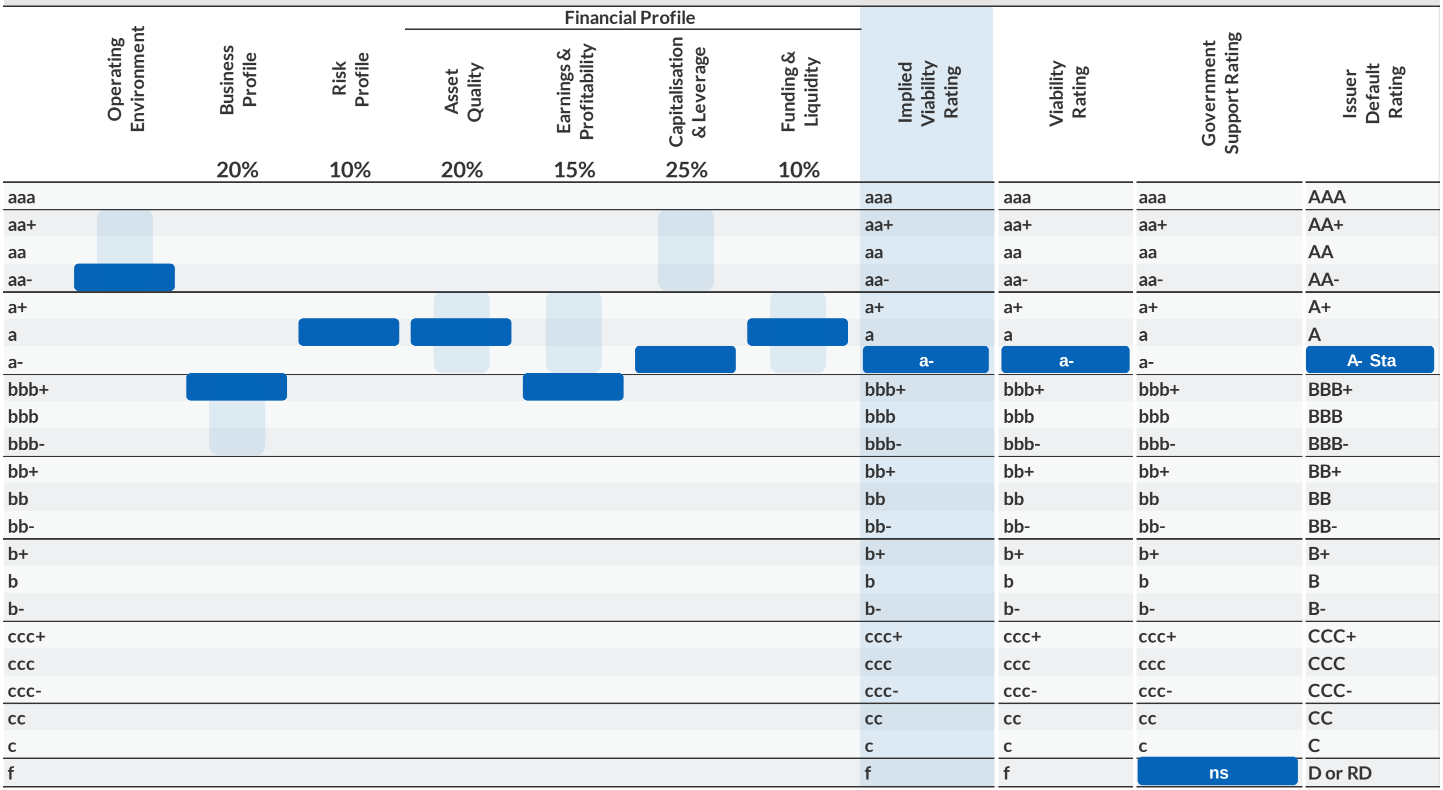
Both the chief executive officer and chief risk officer will step down in 2024, but we expect the bank to find suitable replacements in a timely manner and the changes should not impair its ability to continue to implement its strategy.

Ratings Navigator

de Volksbank N.V.

ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

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).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,428	1,303	851	775	850
Net fees and commissions	70	64	51	39	46
Other operating income	51	47	63	13	27
Total operating income	1,549	1,414	965	827	923
Operating costs	885	808	655	667	652
Pre-impairment operating profit	664	606	310	160	271
Loan and other impairment charges	16	15	52	-58	38
Operating profit	647	591	258	218	233
Tax	175	160	67	56	59
Net income	472	431	191	162	174
Other comprehensive income	69	63	-159	-22	6
Fitch comprehensive income	541	494	32	140	180
Summary balance sheet					
Assets					
Gross loans	55,907	51,029	49,120	50,677	50,708
- Of which impaired	611	558	549	607	678
Loan loss allowances	199	182	154	107	166
Net loans	55,708	50,847	48,966	50,570	50,542
Interbank	5,118	4,671	6,884	4,527	5,527
Derivatives	2,787	2,544	3,302	591	864
Other securities and earning assets	7,377	6,733	5,591	5,638	5,113
Total earning assets	70,989	64,795	64,743	61,326	62,046
Cash and due from banks	6,454	5,891	8,011	10,305	5,135
Other assets	410	374	401	450	303
Total assets	77,853	71,060	73,155	72,081	67,484
Liabilities					
Customer deposits	60,159	54,910	56,859	57,595	53,082
Interbank and other short-term funding	2,133	1,947	2,690	1,057	1,185
Other long-term funding	9,241	8,435	8,450	8,436	6,949
Trading liabilities and derivatives	1,228	1,121	924	1,013	2,163
Total funding and derivatives	72,762	66,413	68,923	68,101	63,379
Other liabilities	609	556	524	494	655
Preference shares and hybrid capital	326	298	298	0	0
Total equity	4,156	3,793	3,410	3,486	3,450
Total liabilities and equity	77,853	71,060	73,155	72,081	67,484
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.6	1.7	1.6	2.3
Net interest income/average earning assets	2.0	1.3	1.3	1.4
Non-interest expense/gross revenue	57.1	67.9	80.7	70.6
Net income/average equity	12.0	5.6	4.7	5.1
Asset quality				
Impaired loans ratio	1.1	1.1	1.2	1.3
Growth in gross loans	3.9	-3.1	-0.1	0.3
Loan loss allowances/impaired loans	32.6	28.1	17.6	24.5
Loan impairment charges/average gross loans	0.0	0.1	-0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	20.2	20.3	22.7	31.2
Fully loaded common equity Tier 1 ratio	21.1	20.2	22.5	n.a.
Tangible common equity/tangible assets	5.3	4.6	4.8	5.1
Basel leverage ratio	5.1	4.7	5.1	5.2
Net impaired loans/common equity Tier 1 Capital	11.3	12.7	15.7	15.9
Funding and liquidity				
Gross loans/customer deposits	92.9	86.4	88.0	95.5
Gross loans/customer deposits + covered bonds	85.8	80.1	81.8	89.3
Liquidity coverage ratio	262.0	233.0	324.0	233.0
Customer deposits/total non-equity funding	83.7	83.3	85.9	86.7
Net stable funding ratio	166.0	174.0	176.0	n.a.

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Government Support

The GSR of 'ns' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that de Volksbank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support. This is despite the Netherlands government's 100% ownership of de Volksbank, which we view as non-strategic due to its ultimate aim of privatising the bank.

Environmental, Social and Governance Considerations

FitchRatings **de Volksbank N.V.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

de Volksbank N.V. has 5 ESG potential rating drivers

- de Volksbank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
not a rating driver	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.