

Research Update:

# De Volksbank 'A/A-1' Ratings Affirmed On Transformation Plan Announcement; Outlook Remains Negative

December 10, 2024

## Overview

- On Dec. 9, 2024, De Volksbank N.V. (DVB) announced further details of its transformation plan aiming to simplify the organization and make the bank operationally stronger.
- The bank intends to take substantial provisions between €340 million and €360 million (pre-tax) largely related to the announced transformation program and anti-financial crime remediation program.
- Both programs will take several years to deliver tangible results and, if implemented successfully, will improve the bank's operational efficiency and profitability.
- We affirmed our 'A/A-1' long- and short-term issuer credit ratings on DVB.
- The outlook remains negative, reflecting execution risks related to both the transformation and the remediation plan.

### PRIMARY CREDIT ANALYST

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

### SECONDARY CONTACT

**Federico Filpa**  
Milan  
federico.filpa  
@spglobal.com

## Rating Action

On Dec. 10, 2024, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings on De Volksbank N.V. (DVB). The outlook is negative.

We also affirmed our 'A+/A-1' long- and short-term resolution counterparty ratings and all related issue credit ratings on the banks.

## Rationale

**DVB's transformation and remediation plans are necessary to address the bank's structurally weak efficiency and remedy risk-management gaps.** Though management has already estimated the costs required for these plans' implementation and announced its intention to put respective provisions in 2024 accounts, execution could be challenging. Our central scenario

assumes that the management will execute both plans prudently, turning the bank into an organization with better profitability and risk management practices that are fully in line with regulatory standards.

**DVB's transformation plan addresses the structurally high cost base that weighs on profitability.** In particular, the bank aims to reduce employee numbers by about 15% by mid-2025 resulting in annual cost savings of €70 million. DVB also targets to optimize its branch network over the next three years. The plan envisages a reduction to 320-360 branches from more than 600 currently and a move to the franchise set-up. Such meaningful reduction in the footprint should not significantly impair DVB's franchise, in our view, as customers in the Netherlands are digital prone and, nevertheless, the bank's network will remain well spread nationwide. Overall, these cost optimization efforts could help the bank reach targeted efficiency below 60%, improving competitiveness and profitability.

**We think execution risk is significant, especially on the new business generation side.** Our base-case scenario assumes it could be challenging for DVB to undergo all the transformation and remediation initiatives, but these should not materially impair DVB's reputation or franchise, given its longstanding presence in the market and loyal clientele. Nevertheless, as transformation and remediation plans will consume significant financial and management resources, DVB's market share could decline throughout these processes given the stiff competition in the Dutch market. Moreover, the move to a single brand, if not managed properly, could negatively affect customer satisfaction and, consequently, new business and revenue generation capacity.

**In addition to a costly remediation plan, DVB will likely need to pay administrative fines on regulatory findings.** DVB faces administrative procedures related to two topics--operational management and the inadequate identification of risks related to money laundering, the financing of terrorism, and customer integrity. Although the amount of fines are uncertain, we anticipate they will not heavily undermine the bank's annual earnings. Furthermore, we expect the remediation plan implementation will bring the bank's governance and risk-management practices into alignment with regulatory expectations and peer standards.

**We forecast DVB will continue to keep substantial capital headroom throughout the transformation process.** We expect that the bank's capital base will remain a relative credit strength. Notably, we anticipate that its risk-adjusted capital ratio will remain significantly above 15% through 2026, and management will continue to maintain a regulatory common equity Tier 1 (CET1) ratio above 17% (versus a 19.7% CET1 ratio as of mid-2024).

## Outlook

The success of the transformation and remediation plans is key consideration for our ratings on DVB. The negative outlook reflects challenges that the management could face in its mission to simplify organizational structure, improve operational efficiency and profitability, and bring governance and risk management practices in line with regulatory and peers' standards.

## Downside scenario

We could lower our ratings on DVB within the next 12-24 months if:

- The bank fails to remedy identified risk-management gaps or if further

risk-management-related shortcomings emerge; or

- The bank experiences execution problems in its transformation, for example, because anticipated savings are delayed or less substantial than hoped, or DVB struggles to preserve its franchise and revenue generation capacity during the transformation process.

### Upside scenario

We could revise the outlook to stable if the bank substantially delivers on its remediation plans, and we see tangible results of the transformation program with improved operational efficiency and profitability.

### Ratings Score Snapshot

| Issuer Credit Rating        | A/Negative/A-1            |
|-----------------------------|---------------------------|
| SACP                        | bbb+                      |
| Anchor                      | bbb+                      |
| Business position           | Moderate (-1)             |
| Capital and earnings        | Very Strong (+2)          |
| Risk position               | Moderate (-1)             |
| Funding and liquidity       | Adequate and adequate (0) |
| Comparable ratings analysis | 0                         |
| Support                     | +2                        |
| ALAC support                | +2                        |
| GRE support                 | 0                         |
| Group support               | 0                         |
| Sovereign support           | 0                         |
| Additional factors          | 0                         |

SACP--Stand-alone credit profile.

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Global Banks Outlook 2025: Cautiously Confident, November 14, 2024
- Netherlands-Based De Volksbank Outlook Revised To Negative After Second Administrative Fine Procedure; Ratings Affirmed, Aug. 14, 2024
- De Volksbank N.V., Aug. 7, 2024

## Ratings List

### Ratings Affirmed

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#### De Volksbank N.V.

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|                      |                |
|----------------------|----------------|
| Issuer Credit Rating | A/Negative/A-1 |
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| Resolution Counterparty Rating | A+/-/A-1 |
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#### De Volksbank N.V.

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| Senior Unsecured | A |
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