



## RATING ACTION COMMENTARY

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

Thu 25 Nov, 2021 - 11:10 AM ET

Fitch Ratings - Paris - 25 Nov 2021: 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.

Fitch Ratings has withdrawn de Volksbank's Support Rating and Support Rating Floor as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned de Volksbank a Government Support Rating (GSR) of 'No support'.

## KEY RATING DRIVERS

### IDRS, VR

de Volksbank's ratings reflect the bank's sound asset quality and overall moderate risk profile, with a focus on low-risk residential mortgage lending, high risk-weighted capital ratios and sound leverage and stable funding from its good deposit base. The ratings also reflect the bank's concentrated business model and a franchise that lacks the breadth of the three larger Dutch banks.

de Volksbank's asset quality is mainly driven by its large and low-risk residential mortgage loan portfolio (94% of gross loans at end-June 2021). The impaired loans/gross loans ratio of 1.1% at end-June 2021 has remained broadly in line with the historical average and improved slightly since the start of the pandemic. We expect only a modest weakening of asset quality in the next 12-24 months, reflecting the structure of the loan book and our expectation of a sound economic recovery in the Netherlands

with a limited increase in unemployment, notwithstanding the recent tightening of restrictions.

The bank's 1H21 operating profit of 2.3% of risk-weighted assets (RWAs) was supported by releases of loan loss allowances. However, de Volksbank's revenue remains under pressure due to the bank's reliance on net interest income, intense competition in mortgage lending and the costs of carrying a high liquidity buffer. Operating expenses are elevated due to necessary investments in growth and digitalisation. We expect medium-term profitability to head to an operating profit/RWA ratio below historical levels, despite more normalised costs and new business.

de Volksbank's regulatory capital ratios remained strong and continued to compare well with peers' in 1H21. The bank's 28.3% common equity Tier 1 (CET1) ratio and 32.9% total capital ratios provide the bank with strong buffers above revised regulatory requirements. The bank's capital ratios greatly benefit from the low risk-weighting of mortgage loans, which represent nearly 70% of its total assets, but remain robust when accounting for the expected RWA inflation from Basel III end-game impact. Considering a 22.5% RWA increase from end-June 2021 levels, the pro forma CET1 ratio would be 23.3%, still well above the bank's target of 19%.

Stable household and SME deposits form the bulk of de Volksbank's funding (about 87% at end-June 2021). The bank's wholesale funding is limited and it is a less frequent issuer in debt capital markets than its larger Dutch peers. The bank's liquidity has remained strong since the coronavirus outbreak and its buffer of liquid assets comfortably covers upcoming wholesale funding maturities.

The Short-Term IDR of 'F1' is the higher of the two options mapping to a Long-Term IDR of 'A-', reflecting our view of the bank's funding and liquidity score of 'a'.

## **SENIOR PREFERRED AND SENIOR NON-PREFERRED DEBT, DEPOSITS AND DERIVATIVE COUNTERPARTY RATING**

de Volksbank's long-term senior preferred debt, long-term deposits and Derivative Counterparty Rating (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. The same consideration drives de Volksbank's long-term senior non-preferred debt rating of 'A-', which is in line with its Long-Term IDR.

de Volksbank's short-term senior preferred and deposits ratings of 'F1' are the lower option mapping to 'A' respective long-term ratings, reflecting our assessment of the

bank's funding and liquidity.

## GSR

de Volksbank's GSR of 'No support' reflects Fitch's view that that due to the implementation of EU's Bank Recovery and Resolution Directive (BRRD) senior creditors of de Volksbank can no longer rely on full extraordinary support from the sovereign if the bank becomes non-viable.

## SUBORDINATED DEBT

de Volksbank's subordinated (Tier 2) debt is rated two notches below the bank's VR, in line with the baseline notching for this type of debt, to reflect poor recovery prospects of these instruments. The instruments do not allow any coupon flexibility but have statutory loss absorption features whereby they may be written down or converted to shares to absorb losses in case of resolution.

## RATING SENSITIVITIES

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

de Volksbank's ratings could come under pressure if the bank fails to turn around its profitability due to continued attrition of its market share in mortgage lending, signalling a weakening in its business profile. A higher risk profile, for example through rapid expansion in riskier lending with looser than market underwriting standards or risk controls would also be rating negative.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

An upgrade of de Volksbank's ratings is unlikely in the near term, given the group's limited product breadth and earnings pressure. In the longer term, an upgrade would be contingent on de Volksbank broadening its product offering, providing it with significantly more diversified revenue streams, while maintaining conservative risk profile.

The debt ratings, DCR and deposit ratings are primarily sensitive to changes to de Volksbank's IDRs, which are sensitive to changes in the bank's VR. The debt ratings, DCR and deposit ratings would be upgraded if the bank's IDRs are upgraded. Similarly, the debt ratings, DCR and deposit ratings would be downgraded if the bank's IDRs were downgraded.

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.

## **VR ADJUSTMENTS**

The Earnings and Profitability score of 'bbb+' has been assigned below the 'a' category implied score due to the following adjustment reason: Revenue diversification (negative).

The Capitalisation & Leverage score of 'a-' has been assigned below the 'aa' implied score due to the following adjustment reasons: Internal capital generation and growth (negative) and Leverage and risk-weight calculation (negative).

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## **RATING ACTIONS**

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
de Volksbank N.V.	LT IDR	A- Rating Outlook Stable		A- Rating Outlook Stable
		Affirmed		
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	Support	WD	Withdrawn	5
	Support Floor	WD	Withdrawn	NF
	DCR	A(dcr)	Affirmed	A(dcr)
	Government Support	ns	New Rating	
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	LT	A	Affirmed	A
Senior preferred	ST	F1	Affirmed	F1

short-term deposits	ST	F1	Affirmed	F1
Senior preferred	ST	F1	Affirmed	F1

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Andreea Playoust

Director

Primary Rating Analyst

+33 1 44 29 91 71

andreea.playoust@fitchratings.com

Fitch Ratings Ireland Ltd

28 avenue Victor Hugo Paris 75116

### Jesper Ivarsson

Analyst

Secondary Rating Analyst

+46 85510 9445

jesper.ivarsson@fitchratings.com

### Cristina Torrella Fajas

Senior Director

Committee Chairperson

+34 93 323 8405

cristina.torrellafajas@fitchratings.com

## MEDIA CONTACTS

### Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following

issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

de Volksbank N.V.

EU,UK Endorsed

## DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

**COPYRIGHT**

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk,



unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

Structured Finance: Covered Bonds   Banks   Structured Finance   Europe   Netherlands

---