

Banks Ratings Navigator		
Navigator date:	February 2019	
Last rating action:	13 Nov 2018	
Sector Details:		
Bank sector:	Retail	
Region:	DM Europe	
Country:	Netherlands	
Country IDR:	AAA Stable	
Last action:	26 Oct 18 Affirmed	
Country ceiling:	AAA	
Macro prudential indicator:	1	
Bank systemic indicator:	a	
Bank Rating History		
Viability Rating (VR)		
13 Nov 18	a-	Affirmed
24 Nov 17	a-	Upgrade
24 Feb 17	bbb+	Affirmed
Issuer Default Rating (IDR)		
13 Nov 18	A- Stable	Affirmed
24 Nov 17	A- Stable	Upgrade
24 Feb 17	BBB+	Positive Affirmed
Support Rating Floor (SRF)		
13 Nov 18	NF	Affirmed
24 Nov 17	NF	Affirmed
24 Feb 17	NF	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
	Higher Influence	
	Moderate Influence	
	Lower Influence	
Bar Arrows = Rating Factor Outlook		
	Positive	
	Evolving	
	Stable	
Peer Ratings bars = Count of banks		
69	DM Europe Retail	
3	Netherlands Retail	
Relevant Criteria & References		
Bank Rating Criteria (Oct 2018)		
Macro-Prudential Risk Monitor (Sep 2018)		
Analysts		
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	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A- Stable
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Support Rating Floor		Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)		A or A-		
Actual country D-SIB SRF		NF		
Support Rating Floor:		NF		
Support Factors		Positive	Neutral	Negative
Sovereign ability to support system				
Size of banking system relative to economy				✓
Size of potential problem	✓			
Structure of banking system				✓
Liability structure of banking system		✓		
Sovereign financial flexibility (for rating level)		✓		
Sovereign propensity to support system				
Resolution legislation with senior debt bail-in				✓
Track record of banking sector support		✓		
Government statements of support				✓
Sovereign propensity to support bank				
Systemic importance		✓		
Liability structure of bank		✓		
Ownership		✓		
Specifics of bank failure		✓		
Policy banks				
Policy role				
Funding guarantees and legal status				
Government ownership				

Drivers & Sensitivities	
Focus on Low-Risk Residential Mortgage Lending	De Volksbank's ratings reflect the bank's sound asset quality and moderate risk appetite with a focus on low-risk residential mortgage lending. They are constrained by the bank's concentrated business model and franchise that lacks the breadth of the three larger Dutch banks.
High-Quality Loan Book	De Volksbank's impaired loans are low (1.5% of gross loans at end-June 2018) despite a one-off increase on 1 January 2018 due to the adoption of IFRS 9. Like-for-like, the bank's asset quality is improving, helped by a benign operating environment and conservative underwriting.
Revenue Headwinds	We expect de Volksbank's revenue to remain pressured by subdued loan growth, the low-rate environment, intense competition in the Dutch mortgage lending market and the necessary build-up of MREL-eligible liabilities, which will weigh on the bank's funding costs.
Cost Efficiency Plan Key to Sustaining Profitability	De Volksbank's profitability is healthy despite the revenue headwinds, with operating profit/risk weighted assets (RWA) of 4.2% in 1H18. In our view, the implementation of the bank's cost-efficiency programme will be crucial in safeguarding profitability as loan losses normalise.
Low Risk-Weights on Mortgage Lending	De Volksbank's risk-weighted capital ratios compare well with Dutch banking peers', with a common equity Tier 1 ratio of 34.3% at end-June 2018, partly as a consequence of low risk-weighting of residential mortgage loans.
Sound Leverage	We believe the bank's minimum 4.25% leverage ratio target will help it preserve ample buffers over its capital requirements despite RWA inflation under Basel III end-game rules. The bank's leverage ratio at end-June 2018 (5.2%) is sound, in line with its retail banking profile.
Mainly Funded by Deposits	De Volksbank is predominantly deposit-funded, with a loans/deposits ratio of 104% at end-June 2018. The bank's funding mix is stable, but wholesale funding may be more confidence-sensitive than larger banks' with a more established presence in debt capital markets, in our view.
Ratings Sensitive to Changes in Risk Appetite	An upgrade is unlikely within the constraints of de Volksbank's franchise and business model. While not our base case, the bank's ratings could come under pressure if risk appetite increases, for example through looser underwriting standards or an abrupt shift in business model.

Credit-Relevant ESG Derivation

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

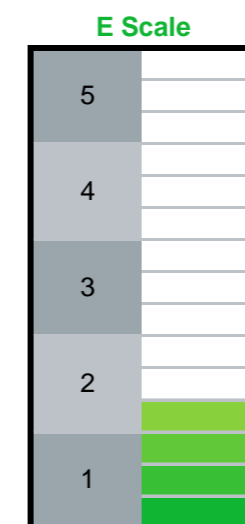
- ➔ de Volksbank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

Overall ESG Scale

key driver	0	issues	5	
driver	0	issues	4	
potential driver	5	issues	3	
not a rating driver	4	issues	2	
	5	issues	1	

Environmental (E)

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



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

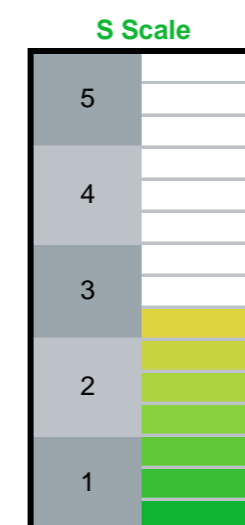
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

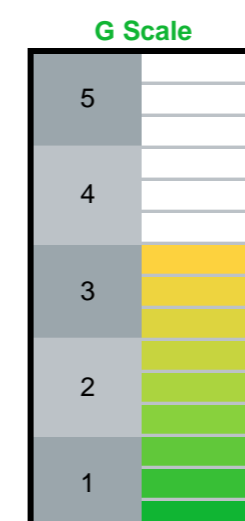
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.

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