

Rating Action: Moody's upgrades De Volksbank's senior unsecured debt rating to A3, with a stable outlook

Global Credit Research - 13 Apr 2018

London, 13 April 2018 -- Moody's Investors Service, ("Moody's") today upgraded De Volksbank N.V.'s (De Volksbank) long-term senior unsecured debt rating to A3, from Baa1, and affirmed the bank's long-term deposit rating at A3. The outlook on these ratings was changed to stable from positive. The rating agency also upgraded De Volksbank's subordinated debt rating to Baa2, from Baa3, and its long-term Counterparty Risk (CR) Assessment to Aa3(cr), from A1(cr). Finally, Moody's affirmed the bank's short-term deposit rating and Commercial Paper rating at Prime-2, as well as its short-term CR Assessment, at Prime-1(cr). This action results from the upgrade of De Volksbank's standalone credit assessment, expressed by its Baseline Credit Assessment (BCA), to baa1 from baa2, reflecting the improved credit fundamentals of the bank.

A full list of ratings is provided towards the end of this press release.

RATINGS RATIONALE

The upgrade of De Volksbank's BCA to baa1 from baa2 reflects both its very low risk profile and strong capital base. As a result of (i) its strategic refocus on domestic retail banking and (ii) the benign macroeconomic environment prevailing in the Netherlands, De Volksbank's asset risk has improved materially, as reflected in a very low cost of risk over the past two years. In addition, De Volksbank reports a very strong capital base, with a Common Equity Tier 1 (CET1) capital ratio of 34.3% (Basel III fully loaded) as of December 2017. Moody's acknowledges that this capital buffer will decrease in the future as a result of accounting and regulatory changes: the introduction of IFRS9 and the finalization of Basel III rules, would cumulatively reduce the bank's CET1 ratio by 10 percentage points. In addition, Moody's estimates that the still large excess capital above the bank's internal CET1 target of 15% is likely to be progressively redistributed to the Dutch state, the bank's sole shareholder. Finally, against a low interest rate environment, De Volksbank has shown a resilient profitability since 2014 owing to well-preserved interest margins, a significant decrease in credit costs and operating expenses in check.

On a less positive note, the bank will continue to be constrained by its mono-line business and lack of diversification, which is reflected in a negative qualitative adjustment to its BCA.

De Volksbank's long-term deposit and senior unsecured debt ratings also reflect the application of Moody's Advanced Loss Given Failure (LGF) analysis, which results in a moderate loss-given-failure in view of these debt instruments' modest volume in the bank's balance sheet and the limited cushion of more subordinated debt that protect them from losses. This analysis results in no uplift for both deposit and senior unsecured debt ratings.

The upgrade of De Volksbank's subordinated debt rating to Baa2 from Baa3, one notch below the bank's BCA, reflects the bank's higher BCA as well as the application of the Advanced LGF analysis leading to an expectation of a high level of loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity.

RATING OUTLOOK

The outlook on De Volksbank's long-term deposit and debt ratings is stable, reflecting Moody's view that the bank's asset risk will remain very low in the current benign macroeconomic environment, while its capital buffer will continue to be strong despite an erosion which the rating agency expects to materialize overtime. The low cost of risk and tight control over operating costs will continue to support the bank's profitability, and help withstand the pressure stemming from low interest rates.

WHAT COULD CHANGE THE RATING UP/DOWN

De Volksbank's BCA could be upgraded if its profitability and asset risk were to strengthen further. An upgrade of the bank's BCA would likely result in an upgrade of all ratings. De Volksbank's deposit rating could also be upgraded if the volume of deposits collected by the bank were to increase or if it were to issue material

amounts of junior senior or subordinated debt, this second scenario would result in a lower loss-given-failure for both depositors and senior debt holders.

De Volksbank's BCA could be downgraded as a result of an unexpected deterioration of the macroeconomic environment in the Netherlands, which would weigh on the bank's macro-profile and potentially result in weaker asset quality, solvency and liquidity. A downgrade of the bank's BCA would, other things being equal, lead to a downgrade of all ratings. A material decrease in the amount of outstanding debt and deposits would also potentially lead to a downgrade of these instruments' ratings.

LIST OF AFFECTED RATINGS

Issuer: De Volksbank N.V.

Upgrades:

...Senior Unsecured Regular Bond/Debenture (Local & Foreign Currency), Upgraded to A3 Stable from Baa1 Positive

...Senior Unsecured MTN (Local Currency), Upgraded to (P)A3 from (P)Baa1

...Subordinate (Local Currency), Upgraded to Baa2 from Baa3

...Subordinate MTN (Local Currency), Upgraded to (P)Baa2 from (P)Baa3

...Baseline Credit Assessment, Upgraded to baa1 from baa2

...Adjusted Baseline Credit Assessment, Upgraded to baa1 from baa2

...LT Counterparty Risk Assessment, Upgraded to Aa3(cr) from A1(cr)

Affirmations:

...LT Bank Deposits (Local & Foreign Currency), Affirmed A3, outlook changed to Stable from Positive

...ST Bank Deposits (Local & Foreign Currency), Affirmed P-2

...Other Short Term (Local Currency), Affirmed (P)P-2

...Commercial Paper (Local Currency), Affirmed P-2

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

Outlook Action:

...Outlook, Changed To Stable from Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Laurent Le Mouel
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Nicholas Hill
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE

INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain

policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.