

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

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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](http://www.moodys.com) for a copy of this methodology.

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