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De Volksbank N.V.

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De Volksbank N.V.

SACP	bbb+	+	Support	+1	+	Additional Factors	0

Anchor	bbb+	
Business Position	Moderate	-1
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A-/Positive/A-2

Resolution Counterparty Rating
A/--/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Very strong capitalization. • Granular deposit balances that broadly match loan balances. • Supportive additional loss absorption capacity.	• Narrow business focus in comparison with larger Dutch peers. • Increasing competition in the Dutch mortgage market. • Pressure on margins constraining the group's efforts to improve efficiency.

Outlook: Positive

The positive outlook on Netherlands-based de Volksbank reflects S&P Global Ratings' view that the bank could benefit from a more favorable domestic operating environment, ultimately resulting in stronger creditworthiness. We could therefore raise our ratings on de Volksbank in the next two years if we revised our view of economic risk for banks operating in the Netherlands. An upgrade would also depend on de Volksbank continuing its franchise recovery and delivering recurring earnings in a more competitive environment, assuming a favorable comparison with 'A' rated peers.

We would revise the outlook to stable if macroeconomic conditions and the performance of the Dutch commercial and residential real estate sectors were to diverge materially from our central expectations. We could also revise our outlook to stable if a more aggressive capital policy materially weakened de Volksbank's financial profile or if, due to its business concentration, the bank was unable to sustain its sizable franchise and stable earnings.

We do not assign outlooks to our issue ratings on bank's debt. That said, we expect our issue ratings on de Volksbank tier 2 instrument to move in tandem with the banks unsupported group credit profile. For details on the hybrid instrument rating please see 'Hybrid issue ratings' section below.

Rationale

Our ratings on de Volksbank reflect our view of the bank's recovering franchise and very strong capital buffers, balanced against its business concentration in a single country and on a limited number of income streams.

With close to €46 billion in loans, De Volksbank is the fourth domestic player by mortgage lending, well behind large domestic Cooperatieve Rabobank, ABN AMRO, and ING Groep. We view the bank's loan book concentration and inherent lack of revenue diversification as rating weaknesses, because we believe de Volksbank would have more difficulty withstanding a real estate downturn than diversified peers.

Compensating for these weaknesses are the very high capital buffer and the sound funding profile. Since nationalization, the bank has been able to restructure towards a simpler balance sheet, leaving the it with unusual capital strength for a commercial bank. We estimate the bank's risk-adjusted capital (RAC) ratio will remain above 21% at year-end-2019. Funding and liquidity positions are sound, in line with those of local peers, with a loan-to-deposit ratio of about 105% and a granular base of domestic deposits in the Netherlands.

Finally, the ratings incorporate our view of de Volksbank's supportive additional loss absorbing capacity (ALAC), for which we add one notch, leading to our view of the 'a-' ALAC-supported group credit profile. We calculate the ALAC buffer to be at the requested level for a second notch of uplift, but believe this extremely high level of capital is unsustainable in the medium-term. This is because we expect de Volksbank will transition to a capital structure more normal for a commercial bank after the government decides on a potential privatization scenario.

Anchor: 'bbb+' for banks operating in the Netherlands

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor--the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in the Netherlands, such as de Volksbank, is 'bbb+'.

We view the economic risk trend for the Dutch banking sector as positive. We base our assessment of economic risk on our view that the Dutch economy is wealthy, diversified, open, and competitive, as seen in its high income per capita, its net external asset position, recurrent and elevated current account surpluses, and long track record of prudent and flexible macroeconomic policies. Exports and strong domestic demand continue to fuel ongoing recovery, but we anticipate some deceleration through 2020. Risks to growth are largely from the external environment. Since mid-2013, residential house prices have been rising and accelerating, although unevenly. Recovery in the commercial real estate segment is slow. We anticipate that conditions for the private sector will continue to improve, and credit losses will remain very low in 2018-2019.

In contrast, we consider the industry risk trend as stable. Our assessment of industry risk for Dutch banks incorporates high domestic concentration and our view of a stable competitive environment that, combined, result in an absence of excessive margin pressure. We consider that the prospective profitability of domestic banking is adequate. Most leading Dutch banks have implemented major restructuring in the aftermath of the financial crisis. They continue these efforts to adapt to regulatory reforms--Basel 4 in particular--and to optimize their cost base in a low-interest-rate environment. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in nonbank saving products, from life insurance products to pension schemes. We consider that Dutch systemwide funding benefits from, among other things, the depth of the domestic financial market.

Table 1

De Volksbank N.V.--Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	60,878	61,546	62,675	68,144	74,448
Customer loans (gross)	49,471	48,807	49,608	53,344	53,858
Adjusted common equity	3,370	3,211	3,018	2,533	2,192
Operating revenues	1,028	997	1,090	1,099	1,043
Noninterest expenses	603	642	591	498	477
Core earnings	329	322	338	237	103

Business position: Concentrated domestic retail banking profile

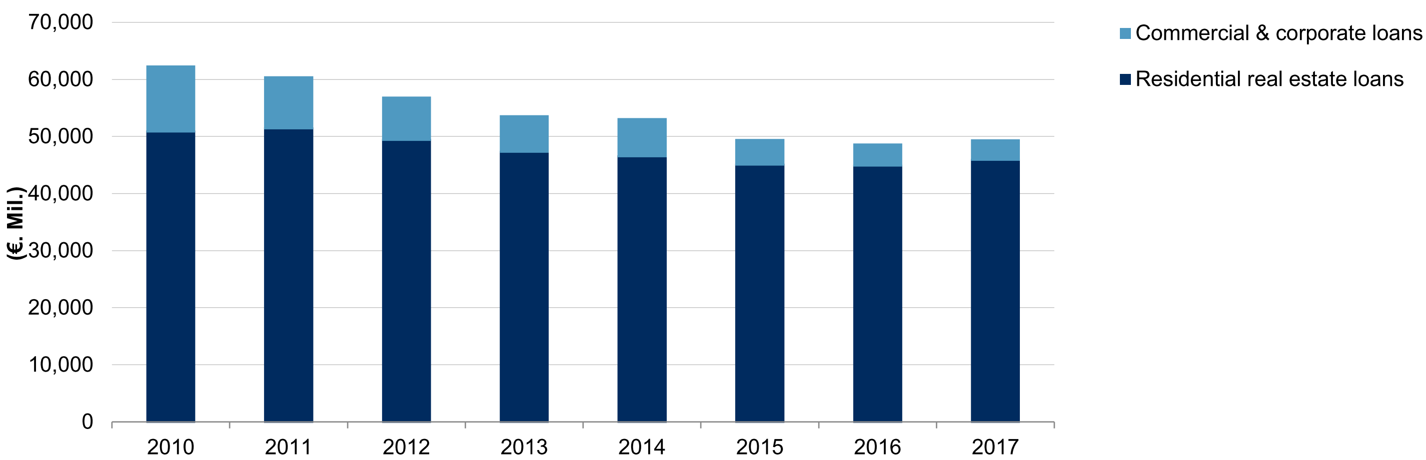
The bank has a narrower profile than the three large and diverse domestic banks that dominate the Dutch banking market, as it focuses almost exclusively on domestic retail banking--especially mortgage and savings products. After years of decline, we estimate the stabilized mortgage loan book allows more predictability in revenue generation and expect the bank's franchise recovery will continue in 2018 and 2019.

We compare de Volksbank with two main peer groups. First, we view the bank business operations as more vulnerable than larger Dutch peers in an adverse economic scenario. Larger rated domestic peers are ABN AMRO, Cooperatieve Rabobank, and ING Bank. A broader international peer group includes commercial banks in Belgium and in Nordic countries. Examples include Belfius Bank, Argenta Group, Nykredit, and Swedish mortgage banks.

De Volksbank is the fourth-largest lender to the private sector in the Netherlands, and primarily a retail bank. Its loan book has quite a narrow focus, with residential mortgages representing over 90% of net loans and net interest income dominating revenue sources. We view de Volksbank's activities and revenue sources as less diversified than those of its larger competitors, despite its nationwide franchise. We acknowledge that the bank's multibrand strategy helps to differentiate its positioning from that of peers.

Chart 1

De Volksbank Loan Book Evolution Since 2010



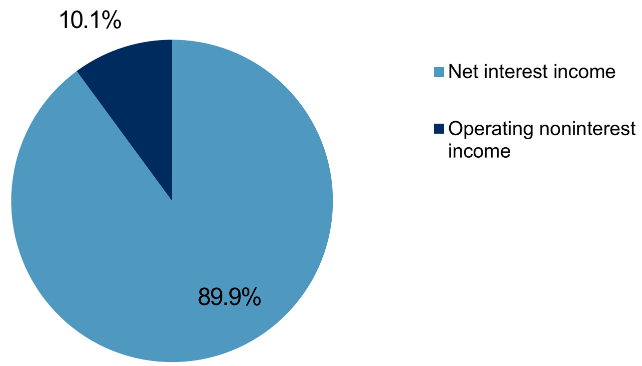
e--Estimate. Source: S&P Global Ratings.

De Volksbank's new mortgage lending market share has recovered over the past few years. The bank was nationalized back in 2013 following large impairments in its former commercial real estate investment and development loans. At that time, management's focus on saving the bank led to reduced new production on its retail portfolio, with its market share of new mortgage lending dropping to below 2% in 2012 and 2013. Since 2013, nationalization has allowed the bank to enter into recovery mode, with its market share in new mortgage lending gradually increasing to over 7% in 2017, thanks to a refocused strategy on domestic mortgages. We note the stock market share in mortgages fell to a low of 6.6% at end-2016, but has moderately improved since then as new production has exceeded redemptions since the second half of 2016. We assume the improving trend will continue in the next two years, despite a competitive market where insurance-owned banks, pension funds, and other small banks are also seeking to gain market share in this segment. By contrast, de Volksbank's retail savings have been remarkably stable, even in troubled times, remaining between 10.5% and 11% since 2014. This illustrates the strength of the retail franchise. The bank has also reported a healthy share of new personal current account market share.

This retail focus makes the bank's revenues heavily dependent on interest-related income (see chart 2), which are under pressure in the current low interest environment. The low proportion of fees and commissions in the revenues mix is a weakness in terms of quality of earnings, as it indicates a narrower product range and more limited cross-selling capabilities than that of universal banks.

Chart 2

De Volksbank Revenue Breakup At Year-End 2017



Source: S&P Global Ratings.

Overall, we believe the refocus of the strategy on the low-risk retail segment in the Netherlands, where the bank has a historically strong franchise, coupled with deliberately high capital ratios support the bank's creditworthiness.

We expect we will have a better view on a potential privatization by the end of 2018. In early July 2016, in a letter to the House of Representatives, the Dutch Minister of Finance agreed with the conclusion drawn by NL financial investments (NLFI) that de Volksbank is not yet ready to return to the private sector. NLFI is a not-for-profit organization with a statutory mandate, and it has owned de Volksbank since the bank's nationalization. At that time, the rationale for the delay was to wait for the bank to achieve its optimum value in order to increase market interest and for more clarity on future capital regulations that could affect the bank's capital structure and efficiency. We note such regulatory clarification came in December 2017, when the Basel Committee unveiled new proposals for banks' regulatory capital. These new proposals will translate into higher risk-weights for mortgages, and therefore reduce currently very high capitalization, but not to the extent that it could jeopardize the bank's business model. We assume, therefore, that given the stabilized business model and the bank's on track delivery of its strategic plan, NLFI will update the market on an eventual exit strategy in the coming quarters. Meanwhile, we expect the bank will continue implementing its existing strategic plan and maintain its dividend payout ratio, building an attractive track record for potential acquirers, while maintaining very strong capital ratios.

Table 2

De Volksbank N.V. Business Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (currency in millions)	1,028	1,007	1,125	1,099	1,043
Retail banking/total revenues from business line	100	100	100	100	100

Table 2

De Volksbank N.V. Business Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Commercial & retail banking/total revenues from business line	100	100	100	100	100
Return on average equity	9.1	9.6	11.1	5.4	(69.0)

Capital and earnings: Very high capitalization is likely to decline over time

Capital ratios are very high and solvency is undoubtedly the main rating strength. Profitability is sound and stable, with an expected return on equity of 8%-9% in 2018-2019, but quality of earnings is modest.

We regard de Volksbank's capital as very strong. We expect the bank's management will commit to very strong regulatory ratios because of future regulatory impact, such as significantly increased risk-weighted assets as a result of the Basel output floor. We expect our projection of the bank's RAC ratio will be in the 21%-22% range by year-end 2019, which is an extremely high level. The sharp improvement since 2014 reflects the completion of the disentanglement from SNS REAAL, the utilization of tax losses carried forward, and better-than-expected retained earnings.

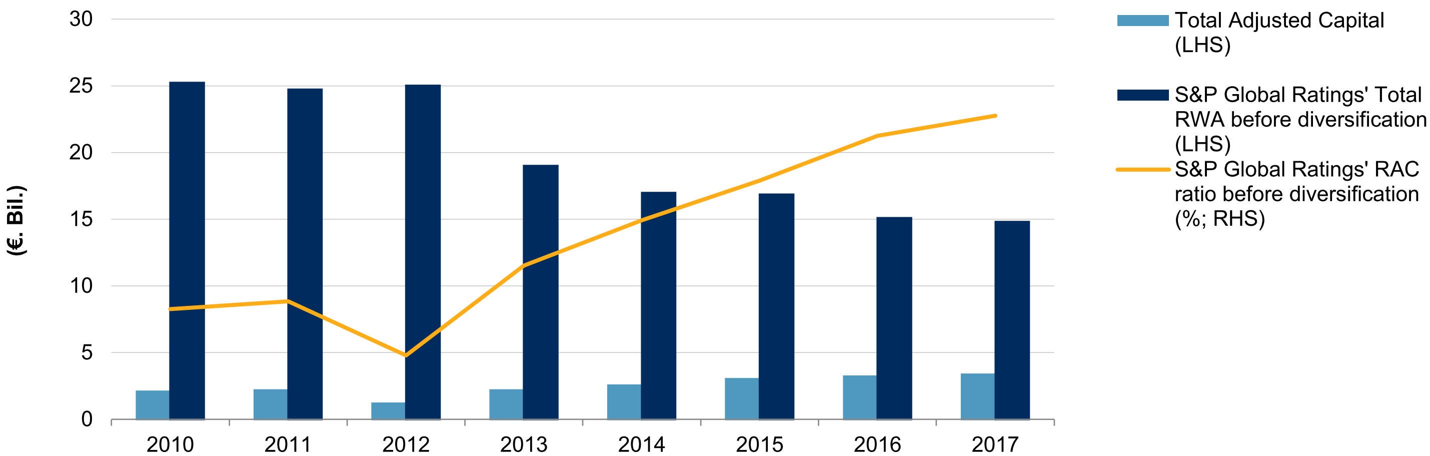
We acknowledge that our very high RAC projection and the bank's substantially higher regulatory capital measures (34.1% phased-in Common Equity Tier 1 ratio at year-end 2017) compared with those of domestic peers, are unlikely to be fully sustained over the long term if de Volksbank transitions back to the private sector in the medium term, which is our central expectation. However, over our two-year outlook horizon, we are confident that de Volksbank's capitalization will remain very strong, as defined by our criteria.

We calculate Volksbank's RAC ratio was 22.8% as of year-end 2017. Our projections for the period to year-end 2018 assume the following:

- Marginal loan book growth thanks to improved commercial dynamism, leading to higher credit risk weighted assets (RWAs).
- Lower pre-provision operating income in 2018 and 2019 than in 2017. We factor in compressed margins; flat income from other sources (excluding nonrecurring income); cost of risk close to nil; and continued investment in operational capability offset by a cost savings program.
- A return on assets in the 0.4%-0.5% range for the next two years, slightly lower than in 2016-2017.
- S&P Global Ratings' risk-weighted assets before diversification, which were about €14.8 billion at end-2017, will likely be marginally higher than €15 billion by end-2018.
- We assume a 60% payout ratio in line with the dividend on 2017 earnings.
- A 0.9% negative affect the RAC ratio at Jan. 1, 2018 due to International Financial Reporting Standards (IFRS) 9 implementation.

Chart 3

De Volksbank RAC Ratio Since 2010



e--Estimate. Source: S&P Global Ratings.

Quality of capital is high in our view since it consists solely of common equity tier 1 capital and no hybrid instruments. Given the reduced scale of the franchise, we think that ongoing efficiency initiatives will be key to the long-term viability of de Volksbank's strategy.

The earnings structure is unlikely to change much in the next two years and we expect fees and commissions will continue to represent a small portion of revenues, at about 10%.

We calculate a cost-to-income ratio of 58.7% at year-end 2017 (including regulatory levies and provision recoveries), which is in line with that of larger Dutch peers, but higher than the 45%-55% mark achieved by Nordic mortgage lender peers. That said, similar as for peers, we anticipate the bank's efficiency will remain under pressure, likely close to 60% in the next two years, because of the low-interest-rate environment. Our central scenario assumes a net profit below €300 million in 2018 and 2019, down from €329 million in 2017.

Table 3

De Volksbank N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	34.3	29.6	25.8	17.4	16.6
S&P RAC ratio before diversification	22.8	21.3	17.9	14.9	11.5
S&P RAC ratio after diversification	17.6	17.1	15.8	13.3	10.6
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	89.9	91.4	91.2	93.2	91.8
Fee income/operating revenues	4.8	5.7	4.4	4.0	4.8
Market-sensitive income/operating revenues	5.3	2.7	7.4	2.4	2.9

Table 3

De Volksbank N.V. Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Noninterest expenses/operating revenues	58.7	64.4	54.2	45.3	45.7
Preprovision operating income/average assets	0.7	0.6	0.8	0.8	0.7
Core earnings/average managed assets	0.4	0.4	0.4	0.3	0.1

Table 4

De Volksbank N.V. RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	9,417.0	162.5	1.7	311.1	3.3
Institutions and CCPs	1,511.2	300.0	19.9	327.9	21.7
Corporate	745.0	650.0	87.2	578.7	77.7
Retail	45,705.0	6,537.5	14.3	11,058.3	24.2
Of which mortgage	45,351.0	6,275.0	13.8	10,793.2	23.8
Securitization§	74.0	0.0	0.0	14.8	20.0
Other assets†	351.0	212.5	60.5	394.7	112.5
Total credit risk	57,803.2	7,862.5	13.0	12,685.6	21.0
Credit valuation adjustment					
Total credit valuation adjustment	--	200.0	--	260.0	--
Market risk					
Equity in the banking book	16.0	12.5	78.1	140.0	875.0
Trading book market risk	--	50.0	--	75.0	--
Total market risk	--	62.5	--	215.0	--
Operational risk					
Total operational risk	--	1,637.5	--	1,648.5	--
(Mil. €)		**Basel III RWA**		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		9,762.5		14,809.1	100.0
Total Diversification/Concentration Adjustments		--		4,325.0	29.2
RWA after diversification		9,762.5		19,134.1	129.2
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,339.0	34.2	3,370.0	22.8
Capital ratio after adjustments‡		3,339.0	34.1	3,370.0	17.6

Table 4

De Volksbank N.V. RACF [Risk-Adjusted Capital Framework] Data (cont.)

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

Risk position: Concentrated loan book

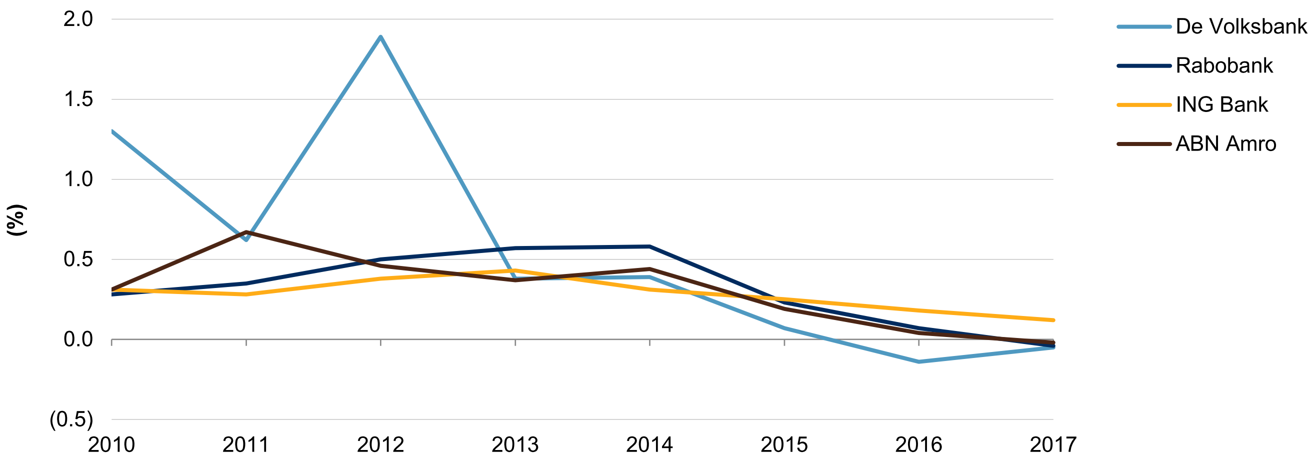
The bank's loan book is of low risk but features concentration in a single asset class in the Netherlands, which exposes it to potential vulnerability in the domestic real estate market.

In the past, commercial property comprised a disproportionate share of the bank's total credit losses. In 2013, the Dutch authorities granted the bank a guarantee on approximately €5 billion for funding the distressed book before SNS REAAL definitely transfers it to Propertize BV. As a result, de Volksbank focuses almost entirely on retail activities. Our assessment therefore increasingly considers the relative performance of the bank's mortgage book but also concentration risks, in particular its strong sensitivity to property cycles in the Netherlands.

The bank reported net recoveries of €24 million for 2017 after €68 million in 2016. This was thanks to a gradual recovery in the Dutch residential real-estate market and an improving unemployment rate. The figures also include exceptional release of provisions relating to small and midsize loans. We expect credit provision releases will gradually normalize in the next two years and cost of risk will remain very low, between nil basis points (bps) and 10 bps on the back of a supportive domestic economy. De Volksbank's nonperforming assets continued to decrease, reaching 1.4% of gross loans at year-end 2017 compared with 4.9% at year-end 2013. We assume that the stock of impaired loans will continue to gradually reduce, but at a slower pace than over the past three years, noting that the flow of new problem loans has reduced considerably since 2015. The coverage ratio remains lower than peers', with loan loss reserves accounting for 22% of nonperforming assets as per our calculations, compared with a Dutch market average close to 30% on the same date. We note that peers' more diversified and riskier balance sheets also explain a large part of the coverage level difference compared with de Volksbank.

Chart 4

De Volksbank New Loan Loss Provisions/Average Loans



Source: S&P Global Ratings.

The average loan-to-value of the mortgage book stood at 74% at year-end 2017, down from 80% one year before. This figure still appears high compared with that of peers in other countries, but this is mitigated by various safety nets, including the fact that about 30% of the portfolio benefited from the Nationale Hypotheek Garantie (NHG) scheme. In our RAC framework, we treat the NHG scheme as a Dutch sovereign guarantee--reflecting what we view as a material risk-reduction--although we apply a 35% haircut to the guaranteed amount. We believe the risk profile is gradually reducing thanks to the combination of a recovering property market and the regulatory reform on mortgages. This is reflected by the growing share of annuity loans compared to the historical interest only profile of the Dutch market, and the lowering number of loans in negative equity.

Like peers, De Volksbank is exposed to legal risk. We continue to monitor in particular the proceedings following the bank's nationalization in 2013. De Volksbank has indicated that various former holders of securities and capital components expropriated in 2013 have initiated legal proceedings to seek compensation for damages. We note that given the uncertain legal outcome, at year-end 2017 no provisions were made in respect of possible legal actions by former holders or other affected parties.

Table 5

De Volksbank N.V. Risk Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	1.4	(1.6)	(7.0)	(1.0)	(15.0)
Total diversification adjustment / S&P RWA before diversification	29.2	24.6	13.0	12.1	8.5
Total managed assets/adjusted common equity (x)	22.2	23.3	25.9	35.2	44.5
New loan loss provisions/average customer loans	(0.0)	(0.1)	0.1	0.4	0.4
Net charge-offs/average customer loans	(0.0)	0.0	0.2	0.1	0.1

Table 5

De Volksbank N.V. Risk Position (cont.)

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.8	3.1	4.3	4.9
Loan loss reserves/gross nonperforming assets	21.8	24.5	25.1	22.1	17.0

Funding and liquidity: Funding profile expected to become more diversified over time

We view the bank's funding as average and its liquidity as adequate. In November 2015, de Volksbank issued its first debt instrument since its nationalization, a €500 million tier 2 instrument due 2025. Since then, the bank has been a regular issuer of covered bonds and issued a senior unsecured in 2017. We see these issuances as the first steps toward the bank gaining a more diversified capital and funding structure, and reflects its regained access to wholesale sources of funding.

The bank's granular and stable retail deposit base underpins its funding profile. Core customer deposits of €46.9 billion as of December 2017 have grown steadily from €42.3 billion at year-end 2012. The bank's retail deposit franchise is strong, with a market share of 10.5%-11.0% ,and has not been affected by the bank's past issues in its commercial real estate portfolio. At the same time, the loan book has declined. Thus, the net customer loans to customer deposits ratio improved to 105% in December 2017, compared with 145% in 2012. Henceforth, we expect more stability in this metric because of the improving new loan production trend. Our stable funding ratio, at 106% at year-end 2017, also highlights the balanced nature of de Volksbank's funding profile.

In our view, the bank's liquidity position remains comfortable, reflecting the low reliance on short-term wholesale funding. Broad liquid assets covered more than 2x short-term wholesale funding at year-end 2017 according to our metrics, which is strong compared with peers. The bank states that its liquidity buffer was €10.6 billion at the same date, comprising €3.7 billion of cash and €6.9 billion of other liquid assets (of which core eurozone sovereign bonds made up €1.6 billion).

Table 6

De Volksbank N.V. Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	85.3	86.1	84.9	77.5	64.7
Customer loans (net)/customer deposits	105.3	102.5	103.7	114.3	121.6
Long term funding ratio	94.2	93.9	97.5	95.8	75.0
Stable funding ratio	105.9	105.6	108.6	105.5	92.7
Short-term wholesale funding/funding base	6.2	6.5	2.6	4.4	25.9
Broad liquid assets/short-term wholesale funding (x)	2.5	2.4	5.7	3.7	0.9
Net broad liquid assets/short-term customer deposits	12.8	13.0	17.5	19.0	(3.9)
Short-term wholesale funding/total wholesale funding	41.9	47.1	17.5	19.6	73.4
Narrow liquid assets/3-month wholesale funding (x)	2.7	4.4	11.0	8.9	3.3

Support: Additional loss absorbing capacity provide an additional notch

Since December 2015, we have regarded the prospect of extraordinary government support for Dutch banks as uncertain in view of the country's well-advanced and effective resolution regime.

We calculate that ALAC was 10% of S&P Global Ratings' risk-weighted assets at year-end 2017, and anticipate the ratio will remain at 9.0%-10% in the next two years. We include in our projection the negative impact of IFRS 9--0.9% of RAC ratio, the same assumptions as indicated in the capital section, but no potential issuance of other ALAC-eligible instruments because we think further issuance will depend on the still-unclear definitive standards for minimum own funds and eligible liabilities.

We therefore consider that the bank's loss absorption capacity protecting senior creditors will remain above the 6% of the RWAs threshold we deem appropriate for one notch of uplift, but just below the 10% threshold allowing for two notches of uplift in our assessment of the long-term rating on de Volksbank. The thresholds we apply to de Volksbank are above our standard 5% and 8%, which reflects a concentration of maturities, as the bank's buffer consists of excess core capital and of a single instrument.

Table 7

De Volksbank NV--Summary Of ALAC Calculation As Of Dec. 31, 2017

		(Mil. €)	% of S&P Global Rating' RWA
A	Adjusted common equity	3,211	
B	Hybrids in TAC	0	
C (A+B)	Total adjusted common equity	3,211	21.7
D	TAC in excess of our 15% threshold	981	6.6
E	ALAC-eligible instruments	500	3.4
F (=D+E)	ALAC buffer	1,481	10.0
	S&P Global Ratings RWA*	14,809	

Source: S&P Global Ratings database. ALAC--Additional loss-absorbing capacity. RWA--Risk-weighted assets. TAC--Total adjusted capital.

Although the bank is very close to the 10% threshold allowing for two notches of uplift, we do not believe this level of ALAC will be maintained in the medium-term, in particular if NLFI opts for a privatization of the bank. In this scenario, our base case would be that the bank would adjust its capital structure to increase shareholder interest, thus lowering the bank's ALAC buffer to between 6% and 8%.

Additional rating factors:

No additional factors affect this rating.

Hybrid issue ratings

We notch ratings on hybrid debt from de Volksbank's standalone credit profile (SACP), because we expect these instruments to be written down or converted into equity in a bail-in resolution scenario. Therefore, they do not benefit from the bank's ALAC buffer.

Our 'BBB-' ratings on de Volksbank's tier 2 instrument stands two notches below the bank's 'bbb+' SACP. We derive this gap as follows:

- One notch for subordination;
- One further notch reflecting the mandatory contingent capital clause leading to temporary write down of the securities.

Resolution counterparty ratings assigned in June 2018

On June 12, 2018, we assigned a 'A/A-1' long- and short-term resolution counterparty ratings (RCR) to de Volksbank N.V., along with 30 other European banking groups (see "31 European Banking Groups Assigned Resolution Counterparty Ratings; Four Collateralized Notes Upgraded; UCO Removed",published June 12, 2018). It followed the publication of our RCR methodology on April 19, 2018. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and the issuer is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. We typically position the long-term RCR up to one notch above the long-term issuer credit rating (ICR) when the ICR ranges from 'BBB-' to 'A+'.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 6, 2018)

De Volksbank N.V.	
Issuer Credit Rating	A-/Positive/A-2
Resolution Counterparty Rating	A/--/A-1
Certificate Of Deposit	
Local Currency	A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB-
Issuer Credit Ratings History	
15-Sep-2017	A-/Positive/A-2
07-Jun-2017	A-/Stable/A-2
11-Aug-2016	BBB+/Stable/A-2
02-Dec-2015	BBB/Positive/A-2
04-Nov-2014	BBB/Negative/A-2
Sovereign Rating	
Netherlands	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.