

25 Oct 2019 | Affirmation

Fitch Affirms De Volksbank at 'A-'/Stable, Upgrades Short-Term IDR to 'F1'

Fitch Ratings-Paris-25 October 2019:

Fitch Ratings has affirmed de Volksbank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A-' and Viability Rating (VR) at 'a-'. At the same time, Fitch has upgraded the bank's Short-Term IDR to 'F1' from 'F2'. The Outlook on the Long-Term IDR is Stable.

A full list of rating actions is at the end of this rating action commentary.

The rating actions are part of a portfolio review of major Dutch banking groups rated by Fitch.

Key Rating Drivers

IDRS, VR, SENIOR PREFERRED DEBT AND DERIVATIVE COUNTERPARTY RATING

De Volksbank's ratings reflect the bank's sound asset quality and overall moderate risk appetite, with a focus on low-risk residential mortgage lending, high risk-weighted capital ratios and sound leverage. The ratings also reflect the bank's fairly undiversified business model and a franchise that lacks the breadth of the three larger Dutch banks.

De Volksbank's impaired loans are low (1.2% of gross loans at end-June 2019, 1.0% in mortgage lending). The bank's asset quality has been improving, helped by a benign operating environment in the Netherlands and the bank's reasonably conservative underwriting. We do not expect de Volksbank to deviate from its narrow but fairly low-risk business model or to materially increase its risk appetite.

We expect the bank's revenue to remain under pressure from subdued loan growth, prevailing low interest rates and intense competition in Dutch mortgage lending. The necessary accumulation of liabilities eligible to meet the minimum requirement for own funds and eligible liabilities (MREL) will also weigh on funding costs. Despite these challenges, de Volksbank maintained healthy profitability so far with annualised operating profit/risk weighted assets (RWA) and return on average equity of 4.6% and 8.7%, respectively, in 1H19. Good cost-efficiency will be crucial to maintaining profitability in the medium term as loan impairment charges (LICs) eventually normalise at higher levels.

De Volksbank's Fitch Core Capital (FCC; 39.6% of RWAs at end-June 2019) and common equity Tier 1 (CET1; 37.1% at end-June 2019) ratios compare favourably with Dutch banking peers'. This is due partly to a very high share of mortgage loans on the bank's balance sheet and their low risk-weighting. The introduction of a risk-weight floor under Basel III end-game rules is likely to reduce the bank's risk-weighted capital ratios, but will be subject to a long phase-in period. The impact could be partially brought forward by risk-weight floors for mortgage loans not covered by the Dutch mortgage guarantee (NHG) as proposed by the Dutch central bank with effect from late 2020.

Fitch expects the impact to be manageable in light of de Volksbank's high capital ratios. The bank's Basel leverage ratio target of at least 4.75% will help it preserve sound buffers over its regulatory capital requirements despite RWA inflation. The bank's 5.3% Basel leverage ratio at end-June 2019 is sound and commensurate with its retail banking profile.

De Volksbank is predominantly funded by domestic retail deposits. The bank had a loans-to-deposits ratio of 104% at end-June 2019 and its funding mix is stable with only limited reliance on wholesale funding. Liquidity is sound with a liquidity coverage ratio of 147% at end-June 2019 and is underpinned by a buffer of high-quality liquid assets well in excess of wholesale funding maturities in the next two years.

The Short-Term IDR was upgraded to 'F1' from 'F2' previously. It is the higher option mapping to an 'A-' Long-Term IDR, reflecting our view of the bank's funding and liquidity score of 'a'.

De Volksbank's Derivative Counterparty Rating (DCR) is at the same level as the Long Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario. De Volksbank's senior preferred debt is rated in line with the bank's IDRs. Fitch views the probability of default on senior preferred debt as the same as the probability of default of the bank. This is because de Volksbank's buffers of more junior debt (5.7% of RWA at end-June 2019) are insufficient to materially reduce the risk of default for de Volksbank's senior preferred creditors in case of failure.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if de Volksbank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT

Subordinated debt is rated one notch below de Volksbank's VR, reflecting the higher-than-average loss severity of this type of debt. Fitch does not apply additional notching for incremental non-performance risk relative to the VR given that any loss absorption would only occur once the bank reaches the point of non-viability.

RATING SENSITIVITIES

IDRS, VR, SENIOR PREFERRED DEBT AND DERIVATIVE COUNTERPARTY RATING

An upgrade is unlikely given the constraints of de Volksbank's franchise and business model.

While currently not Fitch's base case, de Volksbank's ratings could come under pressure if risk appetite increases, for example through a loosening of underwriting standards or a significant and rapid shift in the business model, particularly if that would worsen asset quality and capitalisation in the longer term.

De Volksbank's Short-Term IDR and short-term senior preferred debt ratings are sensitive to deterioration in the bank's funding and liquidity.

De Volksbank's senior preferred debt ratings are also sensitive to changes in the bank's IDRs. They could be upgraded by one notch if the buffer of qualifying junior debt and senior non-preferred debt becomes sufficient to protect senior preferred creditors from default in case of failure.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. However, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT

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.

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 de Volksbank,

either due to their nature or to the way in which they are being managed by de Volksbank. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

de Volksbank N.V.; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta
; Short Term Issuer Default Rating; Upgrade; F1
; Viability Rating; Affirmed; a-
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; A-(dcr)
----subordinated; Long Term Rating; Affirmed; BBB+
----Senior preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Short Term Rating; Upgrade; F1

Contacts:

Primary Rating Analyst

Olivia Perney,

Managing Director

+33 1 44 29 91 74

Fitch France S.A.S.

60 rue de Monceau

Paris 75008

Secondary Rating Analyst

Lukas Rollmann,

Associate Director

+33 1 44 29 91 22

Committee Chairperson

Christian Scarafia,

Senior Director

+44 20 3530 1012

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:

peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[Short-Term Ratings Criteria \(pub. 02 May 2019\)](#)

Additional Disclosures

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

[Solicitation Status](#)

[Endorsement Policy](#)

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, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. 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 TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 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.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.