

15 Sep 2020 | Rating Changed Outlook to Stable

## Fitch Revises de Volksbank's Outlook to Stable; Affirms IDR at 'A-'

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Fitch Ratings-Warsaw-15 September 2020:

Fitch Ratings has revised de Volksbank N.V.'s Outlook to Stable from Negative, while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'A-' and Viability Rating (VR) at 'a-'.

The Outlook revision reflects our view that de Volksbank's rating has sufficient headroom to absorb significant shocks under our updated assessment of various downside scenarios to our baseline economic forecast. This primarily reflects our assessment of the group's asset quality (a-/stable) and capitalisation (a-/stable). de Volksbank's asset quality and profitability will come under pressure in 2020 and 2021, reflecting the economic impact of the coronavirus pandemic. However, we expect de Volksbank's robust capital buffers to uphold the bank's current ratings even in a downside scenario.

### Key Rating Drivers

#### IDRs and VR

The ratings of de Volksbank reflect its 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 undiversified business model and a franchise that lacks the breadth of the three larger Dutch banks.

de Volksbank's asset quality is mainly driven by a large and low-risk residential mortgage loan portfolio. It was fairly unaffected by the coronavirus outbreak in 1H20, as reflected in its impaired loans/gross loans ratio, which remained broadly stable at 1.4% compared to 1.3% at end-2019. Take-up on COVID-19 related payment deferrals has also been modest so far. At end-June 2020, the bank had effectively granted payment deferrals on loans totalling just EUR500 million or 1% of its total portfolio.

de Volksbank's revenues were eroding before the coronavirus outbreak due to a lack of diversification and intense competition in mortgage lending, which is virtually the bank's only product. We expect that the bank's revenues will also be adversely affected in the medium term as weaker consumer confidence, rising unemployment and stagnating wages will deter potential

borrowers and lower mortgage loan underwriting. As government support schemes are phased out, impairments are likely to increase and put further pressure on de Volksbank's earnings.

de Volksbank's regulatory capital ratios remained very strong and continued to compare well with peers' in 1H20. The bank's CET1 ratio of 33.8% and total capital ratio of 39.1% provide strong buffers above the revised regulatory requirements and will allow the bank to withstand asset quality deterioration. The bank's capital ratios greatly benefit from the low risk-weighting of mortgage loans, which represent nearly 75% of its total assets, but remain robust when accounting for the expected inflation of risk-weighted assets (RWA) from Basel III end-game rules. Considering a 40% inflation of RWA from end-June 2020 levels, the pro-forma CET1 ratio would be 24.1%, still well above the bank's target of 19%.

Stable household and SME deposits form the bulk of de Volksbank's funding (about 85% at end-June 2020). Wholesale funding is limited and the bank is a less frequent issuer in debt capital markets than its larger Dutch peers. Liquidity remained strong since the coronavirus outbreak and its buffer of liquid asset comfortably covers upcoming wholesale funding maturities. The Short-Term IDR of 'F1' is the higher of the two options mapping to a Long-Term IDR of 'A-', reflecting our view of the bank's funding and liquidity score of 'a'.

#### 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.

#### SENIOR PREFERRED DEBT AND DERIVATIVE COUNTERPARTY RATING

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. 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 that of the bank. This is because Fitch considers de Volksbank's buffers of more junior debt (estimated at 10.5% of RWA since the July 2020 Tier 2 issuance) are not sustainable owing to the bank's potential early redemption of older Tier 2 instruments. de Volksbank has yet to issue senior non-preferred debt.

#### SUBORDINATED DEBT

Subordinated debt is rated two notches 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

Factors that could, individually or collectively, lead to negative rating action/downgrade:

de Volksbank's ratings have sufficient headroom to withstand various downside scenarios to Fitch's baseline economic forecast. However, the bank's ratings could be downgraded if the economic and financial market disruption arising from the pandemic is materially worse than expected, which would place severe and sustained pressure on asset quality, earnings and capitalisation.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of de Volksbank's ratings is unlikely in the near term given the risks posed by the coronavirus shock and the bank's limited product breadth. In the longer term, an upgrade would be contingent on de Volksbank broadening its product offering, providing it with significantly more diversified revenue streams.

## 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.

## SENIOR PREFERRED DEBT

The long-term senior preferred debt rating could be upgraded by one notch if we gain certainty that de Volksbank will not rely on preferred senior debt to comply with its total minimum requirement for eligible liabilities and own funds (MREL) over the medium-term or if its subordinated and senior non-preferred debt buffer is expected to be sustainably above 10% of RWA.

## 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.

## Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG Considerations

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 the bank. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

de Volksbank N.V.; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta  
; Short Term Issuer Default Rating; Affirmed; 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; Affirmed; F1

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### **Applicable Criteria**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

### **Additional Disclosures**

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