



## Rating Action: Moody's upgrades de Volksbank's junior senior unsecured debt rating to Baa1

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### Outlook on long-term deposit rating changed to stable from positive

Paris, May 03, 2023 – Moody's Investors Service (Moody's) today upgraded de Volksbank N.V.'s (de Volksbank) local currency junior senior unsecured (also referred to as "senior non-preferred") debt rating to Baa1 from Baa2, and its local and foreign currency junior senior unsecured MTN program ratings to (P)Baa1 from (P)Baa2 previously. Moody's also affirmed de Volksbank's long-term local and foreign currency deposit ratings of A2 and changed the outlook on these ratings to stable from positive.

Concurrently, Moody's affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, its short-term local and foreign currency deposit and local currency Commercial Paper ratings of Prime-1, its local currency other short-term program rating of (P)Prime-1, its local and foreign currency senior unsecured debt ratings of A2 with a stable outlook, its local currency senior unsecured MTN program rating of (P)A2, its long-term and short-term Counterparty Risk (CR) Assessments of Aa3(cr)/Prime-1(cr), its long-term and short-term local and foreign currency Counterparty Risk Ratings (CRR) of Aa3/Prime-1.

In addition, Moody's also affirmed the bank's local currency subordinated debt rating of Baa2, its local currency subordinate MTN program rating of (P)Baa2, and its local currency preferred stock non-cumulative rating of Ba1(hyb).

### RATINGS RATIONALE

De Volksbank's junior senior unsecured debt rating reflects the bank's BCA of baa1, and the application of Moody's Advanced Loss Given Failure (LGF) analysis which indicates a moderate loss-given-failure, resulting in no LGF uplift for the instrument. The upgrade of the rating to Baa1 from Baa2 previously, reflects the increase in the volume of subordination to the junior senior unsecured debt following the issuance of Additional Tier 1 by the bank in 2022. In addition, Moody's expects further increase in the instrument's volume as illustrated by the issuance of €500 million junior senior unsecured debt in February 2023.

The bank's long-term deposit and senior unsecured debt ratings of A2 reflect the baa1 BCA and one notch of uplift under the LGF analysis, reflecting a low loss-given-failure for both instruments. These ratings also incorporate one notch of government support uplift, reflecting a moderate support assumption from the government of the Netherlands due to the bank's systemic importance in the country.

The bank's BCA of baa1 reflects its very low risk profile, strong capital base, and sound funding structure and liquidity. These strengths are constrained by a relatively modest profitability and the highly concentrated nature of its business model.

As a result of its strategic focus on domestic retail mortgages, de Volksbank's asset risk is low. Albeit constrained by its relatively high leverage, the bank's capital base is strong, as underpinned by its Common Equity Tier 1 (CET1) ratio of 20.3% at year-end 2022, which would provide comfortable buffer in case of an unexpected material deterioration in asset quality. Although commensurate with its low risk profile, the bank's profitability is lower than that of the large domestic commercial banks. Its average ratio of net income by tangible assets from 2018 up to the end of H1 2022 was 33 basis points to be compared to 45 basis points for the Dutch banking system. Moody's nonetheless expects the bank's net interest margins to gradually benefit from the positive impact of rising interest rates over the coming

quarters. A large portion of the assets will reprice only progressively because the mortgage book largely consists of loans that have been originated with a fixed rate that will only reset after ten years or more. Funding primarily consists of very granular and stable retail customer deposits. Additionally, funds raised on wholesale markets are essentially long-term. The bank also maintains a large liquidity portfolio with a large share of cash at central banks. Its liquidity coverage ratio (LCR) was 233% at year-end 2022.

## OUTLOOK

The change in the outlook of the long-term deposit rating to stable from positive reflects Moody's expectation under its LGF analysis that the overall volumes of liabilities subordinated to the junior deposits will decrease over the coming two years from its 2022 level, as a result of maturing senior unsecured debt which the agency does not expect to be replaced.

The stable outlook on de Volksbank's long-term deposit and senior unsecured debt ratings also reflects Moody's view that the bank's asset risk will remain very low and its capital buffer will continue to be strong. Rising interest rates, low cost of risk and tight control over operating costs will support the bank's profitability.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Although unlikely over the outlook horizon, de Volksbank's BCA could be upgraded if the bank reduced its reliance on Dutch mortgages through business diversification without materially increasing its asset risk. An upgrade of the bank's BCA would likely result in an upgrade of all the ratings.

A higher than expected increase in the volume of subordination brought by senior unsecured or subordinated debt issuance could result in an upgrade of the bank's deposit rating. The senior unsecured debt rating could also be upgraded as a result of higher subordination.

De Volksbank's BCA could be downgraded as a result of a material deterioration in the bank's asset quality and solvency driven by a severe downturn in the domestic economy, or a deterioration in its liquidity profile. A downgrade of the bank's BCA would likely lead to a downgrade of all its ratings.

A material decrease in the amount of outstanding senior unsecured debt and junior deposits, together with lower-than-expected issuance of junior senior unsecured debt, could also lead to a downgrade of the senior unsecured debt and deposit ratings.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/mmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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