

Rating Action: Moody's upgrades de Volksbank's deposit and senior unsecured debt ratings to A2, with a stable outlook

15 Jan 2021

Paris, January 15, 2021 -- Moody's Investors Service ("Moody's") today upgraded de Volksbank N.V.'s (de Volksbank) long-term deposit and senior unsecured debt ratings to A2 from A3, with a stable outlook, as well as its short-term deposit and Commercial Paper ratings to Prime-1 from Prime-2. The rating agency also upgraded de Volksbank's long-term Counterparty Risk Rating (CRR) to Aa3 from A1 and assigned a rating of (P)Baa2 to the bank's junior senior unsecured (also referred to as "senior non-preferred") debt programme.

Concurrently, Moody's affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, its subordinated debt rating of Baa2, its Counterparty Risk (CR) Assessments of Aa3(cr) / Prime-1(cr) and its short-term CRR of Prime-1.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

De Volksbank's long-term deposit and senior unsecured debt ratings of A2 reflect (1) the bank's BCA of baa1; (2) one notch of uplift from Moody's Advanced Loss Given Failure (LGF) analysis because of the low loss-given-failure of these instruments; and (3) one notch of rating uplift resulting from a moderate probability of government support in favour of deposits and senior unsecured debt, in view of de Volksbank's systemic importance in the Netherlands.

The affirmation of de Volksbank's BCA at baa1 reflects both its very low risk profile and strong capital base. As a result of its focus on domestic retail mortgages, de Volksbank's asset risk has so far resisted to the current Covid crisis, as reflected in a cost of risk representing 18 basis points of total outstanding loans in the first half of 2020, a much lower figure than at Dutch peers. In addition, de Volksbank still reports a very strong capital base, with a Common Equity Tier 1 (CET1) capital ratio of 33.8% as of end-June 2020. Moody's acknowledges that the bank's CET1 ratio will decrease as a result of upcoming regulatory changes. The implementation of so-called Basel IV rules should reduce the bank's CET1 ratio by approximately 10 percentage points. In addition, Moody's estimates that the still large excess capital buffer above the bank's internal CET1 target of 19% could be partly distributed to the Dutch state, the bank's sole shareholder.

The bank's revenues and profits will suffer from declining net interest margins due to the low interest rate environment. Nevertheless, the bank will attempt to continue curbing costs, which should enable it to maintain moderate profitability.

The bank will continue to be constrained by its monoline business and lack of diversification, which is reflected in a negative qualitative adjustment of one notch 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 low loss-given-failure and one notch of uplift in view of the cushion provided by these debt instruments' volume and by subordinated instruments. Today's upgrade of the deposit and senior unsecured debt ratings reflects not only the current liability structure of the bank but also factors in its publicly stated commitment to issue between €1.5 billion and €2 billion of junior senior unsecured debt (or "senior non-preferred") by 1 January 2024 in order to satisfy its non-risk-weighted Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirement of 8% with subordinated instruments only.

RATING OUTLOOK

The outlook on de Volksbank's long-term deposit and senior unsecured debt ratings is stable, reflecting Moody's view that the bank's asset risk will remain very low, while its capital position will continue to be strong despite an erosion that 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.

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

De Volksbank's BCA could be upgraded if the bank's profitability were to strengthen. An upgrade of the bank's BCA would likely result in an upgrade of all the ratings.

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 and/or a lower-than-expected issuance of junior senior unsecured debt would also potentially lead to a downgrade of the senior unsecured debt and deposit ratings.

Moody's could also downgrade de Volksbank's senior unsecured debt and deposit ratings if it had the perception of a lower systemic importance of the bank in the Netherlands, leading to a low probability of government support.

LIST OF AFFECTED RATINGS

Issuer: de Volksbank N.V.

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to Aa3 from A1

....Long-term Bank Deposits, upgraded to A2 from A3, outlook remains Stable

....Short-term Bank Deposits, upgraded to P-1 from P-2

....Senior Unsecured Regular Bond/Debenture, upgraded to A2 from A3, outlook remains Stable

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A2 from (P)A3

....Commercial Paper, upgraded to P-1 from P-2

....Other Short Term, upgraded to (P)P-1 from (P)P-2

..Assignments:

....Junior Senior Unsecured Medium-Term Note Program, assigned (P)Baa2

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Baseline Credit Assessment, affirmed baa1

....Adjusted Baseline Credit Assessment, affirmed baa1

....Subordinate Regular Bond/Debenture, affirmed Baa2

....Subordinate Medium-Term Note Program, affirmed (P)Baa2

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865.

Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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