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Fitch Rates de Volksbank's SNP Notes 'A-'; Upgrades SP Debt to 'A'

Fitch Ratings - Warsaw - 02 Mar 2021: Fitch Ratings has assigned de Volksbank N.V.'s (de Volksbank) inaugural senior non-preferred (SNP) issue a final long-term rating of 'A-'. The notes (ISIN: XS2308298962) are issued under the bank's existing EUR25 billion debt issuance programme. The rating is in line with the bank's Long-Term Issuer Default Rating (IDR).

Fitch has also upgraded de Volksbank's long-term senior preferred (SP) debt rating to 'A' from 'A-' and its Derivative Counterparty Rating (DCR) to 'A(dcr)' from 'A-(dcr)'. The upgrade of the SP debt rating and DCR reflects the protection that could accrue to these liabilities from the bank's junior bank resolution debt and equity buffers and the bank's first issue of SNP debt.

We have also assigned de Volksbank long- and short-term deposit ratings of 'A'/'F1'.

The bank's other ratings are unaffected by this rating action.

Key Rating Drivers

The long-term rating of SP notes and DCR are one notch above the bank's IDR (A-/Stable), reflecting Fitch's expectation that de Volksbank will meet its resolution buffer requirement only with SNP, more junior debt and equity instruments.

The Single Resolution Board (SRB) has set the minimum requirement for own funds and eligible liabilities (MREL) for de Volksbank, which the bank currently meets with SP bonds, among others. However, from 1 January 2024, only debt subordinated to SP liabilities will be eligible for MREL in the Netherlands. We estimate that the bank will need to issue up to EUR2.5 billion (or about 24% of end-2020 risk-weighted assets) under the current regulatory framework, which we believe to be manageable and is in line with the bank's stated plans.

The short-term SP debt rating of 'F1' is affirmed at the lower of two ratings mapping to an 'A' long-term SP rating and reflects our assessment of de Volksbank's funding and liquidity.

SNP notes are rated in line with de Volksbank's Long-Term IDR because the resolution buffer is expected to be met with SNP and more junior debt instruments. SNP debt was introduced as a new senior debt class under Dutch Bankruptcy Act in 2018 and ranks above subordinated debt and below existing senior debt, which became SP debt. SNP debt will be bailed-in before SP debt in the event of insolvency or resolution.

The long-term deposit rating is one notch above the bank's Long-Term IDR, because deposits benefit from the same level of protection as SP creditors from the planned build-up of bank resolution debt and equity buffers.

RATING SENSITIVITIES

The debt ratings, DCR and deposit ratings are primarily sensitive to changes to de Volksbank's IDRs, which are sensitive to changes in the bank's Viability Rating.

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

-The debt ratings, DCR and deposit ratings would be upgraded if the bank's IDRs are upgraded.

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

-The debt ratings, DCR and deposit ratings would be downgraded if the bank's IDRs are downgraded.

- We would likely downgrade the DCR, long-term SP and SNP debt and long-term deposit ratings if we expect that de Volksbank will utilise SNP to meet MREL and if the buffer of SNP and more junior debt is not expected to sustainably exceed 10% of RWA. The downgrades would reflect our view that this change would increase the loss severity for SNP creditors and increase the probability of losses for preferred creditors in resolution.

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

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 the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's

ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Michal Bryks

Director

Primary Rating Analyst

+48 22 338 6293

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce Krolewska 16,
00-103 Warsaw

Lukas Rollmann

Associate Director

Secondary Rating Analyst

+33 1 44 29 91 22

Claudia Nelson

Senior Director

Committee Chairperson

+44 20 3530 1191

Media Contacts

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Malgorzata Socharska

Warsaw

+48 22 338 6281

malgorzata.socharska@fitchratings.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
de Volksbank N.V.	DCR	A(dcr)	Upgrade	A-(dcr)
• Senior	LT	A	Upgrade	A-

ENTITY/DEBT	RATING	RECOVERY	PRIOR
preferred			
• Senior non-preferred	LT A-	New Rating	
• long-term deposits	LT A	New Rating	
• Senior preferred	ST F1	Affirmed	F1
• short-term deposits	ST F1	New Rating	

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

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

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