

Research Update:

# Netherlands-Based De Volksbank Affirmed At 'A/A-1' On Planned Management Replacements; Outlook Stable

December 14, 2023

## Overview

- On Dec. 8, 2023, De Volksbank N.V. (DVB) issued a statement announcing that both its CEO and chief risk officer (CRO) will not be return for a second and third term, respectively, in April 2024.
- This decision comes at a time when the bank is in the middle of its strategic cycle and anti-money-laundering (AML) remediation plan, and this is the second time in four years that the bank's top management is changing.
- The recruitment process has already started and we expect a smooth succession; thus we don't believe the change will materially compromise the bank's execution of its strategic plans, notably the completion of its AML remediation plan as requested by the regulator.
- Nevertheless, we consider that potential future deficiencies in DVB's internal controls and IT infrastructure could weaken its creditworthiness.
- We are affirming our 'A/A-1' ratings on DVB.
- The stable outlook reflects our view that DVB will maintain its solid capital base and focus on executing its low-risk strategy.

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## Rating Action

On Dec. 14, 2023, S&P Global Ratings affirmed its 'A' long-term issuer credit rating on De Volksbank N.V. (DVB). The outlook is stable.

At the same time, we affirmed our 'A-1' short-term issuer credit rating on the bank.

## Rationale

**We don't expect the change in DVB's CEO and CRO from April 2024 will significantly affect the execution of the bank's strategic plan or performance in 2024-2025.** This is because we expect that the transition to a new CEO and CRO after April 2024 will be smooth. The recruiting process has already started, and we understand that the reason for the CEO and CRO's decision to not return for another term is purely personal.

**Still, we consider that the CEO and CRO's departure adds challenges for DVB because they will occur in the middle of the bank's strategic cycle and execution of its AML remediation plan.**

DVB's strategic cycle started in 2021 and will end in 2025. The bank's strategy aims at building up a more diversified and cost-efficient business model that could support its earnings capacity. Since the bank started implementing its strategic plan, it has been focusing on increasing the number of active multi-business customers and improving revenue diversification, for example by introducing fee packages for banking services. Still, DVB's market share in new lending declined to 5.1% as of June 30, 2023, from 5.4% at year-end 2022, a symptom of a highly competitive domestic mortgage market. The other major pillar of the bank's strategy centers on improving its cost efficiency with the goal of reducing the cost-to-income ratio to less than 60% by year-end 2025 from more than 80% in 2021; it also plans to invest in its digital agenda and IT infrastructure. Although the bank is making progress, it has yet to fully deliver. Furthermore, in August 2023, the Dutch National Bank identified shortcomings in DVB's money laundering controls and requested the bank to take steps to strengthen them by April 2024. The remediation plan will add to DVB's costs.

**The turnover of top management at DVB has been high over the past few years compared to peers'.** We recognize that the CEO and CROs departures are for different reasons than previous management exits. Nevertheless, their decisions to step down after April 2024 follow the departure of the previous chief operating officer and chief financial officer in 2020 (see "De Volksbank's Governance Issues Come On Top Of Macroeconomic Hurdles," published on Nov 13, 2020). In our view, this signals greater instability of DVB's top management than at peers, which if it persists could hurt the bank's franchise.

**The bank's solid capitalization continues to underpin its creditworthiness.** In addition to a strong common equity tier 1 ratio of 20.9% as of June 30, 2023, the bank had a profitable first half that ended with a €248 million net profit. This is much higher than the €95 million reported for the same period of 2022, on the back of higher loan interest rates and still relatively low deposit betas. We estimate DVB's net income at €350 million-€400 million for the full year of 2023, providing the bank with some additional buffer against extra costs related to the AML remediation plan and potential fine.

## Outlook

The stable outlook reflects our view that the upcoming changes at DVB's top management will be managed smoothly. This would allow the bank to continue delivering on its strategy and AML remediation plan as agreed with the regulator, while working on its digital agenda and improving its IT infrastructure, closing the gaps with peers and regulatory standards. Moreover, we assume DVB's capitalization will remain solid, and asset quality sound over the next 18-24 months. In addition, we believe DVB will remain able and willing to maintain an additional loss-absorbing capacity (ALAC) buffer sustainably above 8% of S&P Global Ratings' risk-weighted assets (RWAs).

## Downside scenario

We could lower the ratings if DVB experiences setbacks to the implementation of its strategy, hampering its ability to preserve its competitive position or achieve appropriate returns. We could also consider a negative action if the bank proves unable to manage non-financial risks, including cyber and other operational risks, in line with regulatory and peers' standards. We would also downgrade DVB if we considered the bank unable or unwilling to maintain its ALAC buffer above 8% of our RWA metric.

## Upside scenario

There is no upside scenario at this stage.

## Ratings Score Snapshot

Issuer Credit Rating	A/Stable/A-1
SACP	
Anchor	bbb+
Business position	Moderate (-1)
Capital and earnings	Very strong (+2)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)
Comparable ratings analysis	0
Support	+2
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

#### De Volksbank N.V.

Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	
Foreign Currency	A
Local Currency	A
Resolution Counterparty Rating	A+/-/A-1

#### De Volksbank N.V.

Senior Unsecured	A
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