

Research Update:

Dutch De Volksbank Upgraded To 'A' On Improved Clarity Around Sale Of Business Resolution Strategy; Outlook Stable

October 26, 2022

Overview

- We no longer see De Volksbank N.V.'s (DVB's) preferred resolution strategy to sell the business as adding more risks to the full and timely payment of senior creditors than an open bank bail-in.
- As a result, we now give full credit in our issuer credit and senior debt ratings to the bank's buffer of subordinated bail-in-able instruments.
- This translates into the removal of the cap on additional loss-absorbing capacity (ALAC) and the full recognition of it, providing two notches of support above the bank's stand-alone credit profile versus one previously.
- We therefore raised our issuer credit ratings on DVB to 'A/A-1' from 'A-/A-2' and our long-term resolution counterparty rating to 'A+' from 'A'.
- The stable outlook on the long-term issuer credit rating reflects our expectation that the bank will maintain its strong capital and that its asset quality metrics will remain sound, despite the ongoing economic slowdown in the Netherlands, where it operates.

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Rating Action

On Oct. 26, 2022, S&P Global Ratings raised its long- and short-term issuer credit ratings on Netherlands-based De Volksbank N.V. (DVB) to 'A/A-1' from 'A-/A-2'. The outlook on the long-term rating is stable.

We also raised our long-term resolution counterparty rating to 'A+' from 'A'.

Rationale

We no longer see DVB's preferred strategy of the sale of the business as implying additional risks to senior creditors in a resolution scenario versus an open bank bail-in. Although the bank could contemplate a partial sale in a resolution scenario, we consider a sale of the whole business as more likely. This reflects the noncomplex nature of the business itself--focused on mortgages--and the existence of players, particularly domestic banking groups, that would be willing and capable of completing a deal. Furthermore, the substantial amount of subordinated bail-in-able liabilities would facilitate both the loss-absorption and recapitalization of the bank, reducing the risk of senior creditors facing losses in a resolution scenario. In this regard, we understand that the current minimum requirement for own funds and eligible liabilities (MREL), expressed as a percentage of leverage exposure, must meet 7.87% of total liabilities and own funds and should be fully subordinated as of Jan. 1, 2024. Therefore, we now give full credit (two notches of support from one) to the bank's ALAC buffer, which we expect will remain comfortably above 8% of S&P Global Ratings' estimated risk-weighted assets (RWA) in 2022-2024

We expect the bank to remain reliant on its solid capital base and good liquidity buffers and maintain sound asset quality. At this stage, we don't expect the increasingly difficult macroeconomic environment to significantly affect DVB's asset quality. This reflects the focus of the bank's loan portfolio toward long-term, fixed-rate mortgages, and its low exposure to the domestic small and midsize enterprise segment, which constituted 2% of exposures at June 30, 2022. Furthermore, we expect the bank's capital base to remain solid in 2022-2024, as reflected in our projected risk-adjusted capital (RAC) ratio remaining above 20% over the same period. The about €300 million additional Tier 1 instrument issued in June 2022 further supports the bank's capital base. Moreover, we consider that privatization is unlikely over our 18-month outlook horizon, given the unfavorable evolution of the macroeconomic environment and the bank's new strategic plan to optimize its business model in the long term, by improving cost efficiency and revenue diversification. Furthermore, we believe that the bank will continue to rely on good liquidity buffers, with liquid assets constituting about 25% of its total assets at June 30, 2022.

The challenging economic and operating conditions could weigh on the bank's profitability more than that of larger, better diversified peers. Although we expect to see the positive impact of rising interest rates on the bank's net interest income in the next two-to-three years, we consider that this may not be sufficient to support profitability on par with more diversified and cost-efficient peers in 2022-2023, because operating costs will rise. Specifically, we believe that high inflation will impact the bank's operating costs, adding up to the planned digital strategic investments DVB sees as necessary to gain efficiency and maintain its competitive position in the market. Furthermore, we believe that the bank's commercial activities, focused on the highly competitive domestic mortgage market, could suffer more than those of larger domestic players during an economic downturn. This could, in turn, affect the bank's revenue base, which is still highly dependent on net interest income. DVB has launched its 2021-2025 strategy, which aims to tackle structural profitability issues, namely revenue concentration and the high cost base. Although we see the execution of the bank's business plan as potentially positive in the long term, we also recognize the challenges that this may bring in a difficult macroeconomic and operating environment.

Outlook

The stable outlook reflects our view that the bank's capitalization will remain solid and its asset quality will only be mildly affected by worsening economic conditions over the next 18-24 months. We also expect that the bank will remain focused on the execution of its strategic plan, which targets a more cost-efficient and diversified business model. Furthermore, the stable outlook reflects our view that DVB will remain able and willing to maintain an ALAC buffer sustainably above 8% of S&P Global Ratings' RWA.

Downside scenario

We would lower the ratings if we observe that DVB is not able to preserve its competitive positioning and its profitability looks weaker than that of peers over the next 18-24 months. We would also downgrade DVB if we consider the bank not able or willing to maintain its ALAC buffer above 8% of its S&P Global Ratings' RWAs.

Upside scenario

There is no upside scenario at this stage.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

We believe that DVB has worked to resolve the factors that caused the rise of internal tensions between the supervisory board and senior management, that resulted in the departure of several officers in 2020. Therefore, we now see the bank's governance standards in line with those of peers.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Very Strong (+2)	Very Strong (+2)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	+2	+1
ALAC support	+2	+1

	To	From
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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

Upgraded

	To	From
De Volksbank N.V.		
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
Certificate Of Deposit		
Foreign Currency	A	A-

De Volksbank N.V.

Senior Unsecured	A	A-
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Upgraded; Ratings Affirmed

	To	From
De Volksbank N.V.		
Resolution Counterparty Rating	A+/-/A-1	A/-/A-1
Certificate Of Deposit		

Local Currency

A/NR

A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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