FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms de Volksbank at 'A-'; Outlook Stable

Tue 15 Nov, 2022 - 9:48 AM ET

Fitch Ratings - Paris - 15 Nov 2022: Fitch Ratings has affirmed de Volksbank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and Viability Rating (VR) at 'a-'. A full list of rating actions is below.

KEY RATING DRIVERS

Standalone Strength Drives Ratings: de Volksbank's ratings reflect its simple but concentrated business model and franchise that lacks the breadth of the three larger Dutch banks. The ratings also reflect the bank's sound asset quality and overall moderate risk profile, with a focus on low-risk residential mortgage lending, satisfactory capitalisation and leverage, and stable funding underpinned by a granular and stable deposit base.

Stable Business Model: de Volksbank is the fourth-largest commercial bank in the Netherlands, although its market share of around 3% of total system assets significantly lags that of the three large Dutch banking groups. It operates exclusively in its home market with a clear focus on retail banking and a product offering focused on mortgage loans, savings and payments. Residential mortgages accounted for about 94% of the bank's total gross loans at end-June 2022.

Moderate Risk Profile: Fitch expects de Volksbank to maintain a conservative risk appetite, given its focus on low-risk mortgage lending in the Netherlands. The bank aims to grow its loans to SMEs, mostly secured on property, which Fitch views as inherently riskier. However, we expect non-residential-related loans to continue to account for a small proportion of the loan book in the medium term.

Asset Quality Supports Ratings: The bank's sound impaired loans ratio of 1.1% at end-June 2022 reflects its large and low-risk residential mortgage loan portfolio. We only expect a modest weakening of asset quality metrics in the next 12 to 24 months, despite the weakening economic outlook, as borrowers' ability to repay should be supported by continued economic growth in the Netherlands, a resilient labour market, and government support measures.

Satisfactory Profitability: We expect de Volksbank's profitability to steadily benefit from higher interest rates but its operating profit/risk-weighted assets (RWA) ratio (end-June 2022: 1.7%) will remain well below the 2.9% four-year (2018-2021) average in the near term. The earnings generation capacity of the bank relative to some peers is constrained by its concentrated business model.

Strong Capital Buffers: de Volksbank's strong common equity Tier 1 ratio (end-June 2022: 20.8%) benefits from low risk-weighting of its large mortgage loans portfolio, which accounts for nearly 65% of total assets. The bank therefore operates with strong capital buffers above regulatory requirements. The regulatory leverage ratio of 4.6% is adequate for a bank concentrated on low-risk assets, although it is lower than at larger domestic peers.

Stable Funding, Sound Liquidity: Stable and granular retail and SME deposits form the bulk of de Volksbank's funding (about 84% at end-June 2022). The bank's wholesale funding is limited and it is a less frequent issuer in debt capital markets than its larger Dutch peers. The bank's liquidity is strong and its buffer of liquid assets comfortably covers upcoming wholesale funding maturities.

RATING SENSITIVITIES

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

Fitch believes a downgrade of the VR and Long-Term IDR is unlikely in the near term given de Volksbank's significant headroom at its current rating. However, a downgrade could result from a sustained deterioration of the operating environment if accompanied by a weaker assessment of de Volksbank's business and financial profiles.

A downgrade could also result from a significant loss of market share in mortgage lending, signalling a weakening in its business profile and profitability, together with a higher risk profile, for example through rapid expansion in riskier lending, which causes the impaired loans ratio to increase and be sustained above 2%. However, these scenarios are not our base case.

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

An upgrade of de Volksbank's ratings could result from a broader product and service offering that leads to more diversified revenue streams. This would reduce earnings variability and help to generate and sustain an operating profit/RWA ratio close to 3%, thereby strengthening internal capital generation. This scenario, which Fitch believes is unlikely in the short term, would require the bank to maintain its conservative risk profile.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SHORT-TERM IDR

The 'F1' Short-Term IDR is the higher of the two options that map to a 'A-' Long-Term IDR driven by de Volksbank's funding and liquidity score of 'a'.

SENIOR DEBT, DEPOSITS AND DERIVATIVE COUNTERPARTY RATING

de Volksbank's long-term senior preferred debt, long-term deposits and Derivative Counterparty Rating (DCR) are rated one notch above the bank's Long-Term IDR. This reflects Fitch's expectation that de Volksbank will meet its resolution buffer requirement only with senior non-preferred and more junior debt and equity instruments. For the same reason, we rate de Volksbank's senior non-preferred debt at 'A-', which is in line with its Long-Term IDR.

de Volksbank's short-term senior preferred and deposits ratings of 'F1' are the lower option mapping to 'A' respective long-term ratings, reflecting our assessment of the bank's funding and liquidity at 'a'.

SUBORDINATED DEBT

de Volksbank's subordinated (Tier 2) debt is rated two notches below the bank's VR, in line with the baseline notching for this type of debt, to reflect poor recovery prospects of these instruments. The instruments do not allow any coupon flexibility but have statutory loss absorption features whereby they may be written down or converted to shares to absorb losses in case of resolution.

No Government Support Factored into Ratings

de Volksbank's Government Support Rating (GSR) of 'ns' (no support) reflects Fitch's view that that due to the implementation of EU's Bank Recovery and Resolution Directive senior creditors of de Volksbank cannot rely on full extraordinary support from the sovereign if the bank becomes non-viable, despite its full ownership by the government.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

de Volksbank's Short-Term IDR is sensitive to changes in the Long-Term IDR and in the bank's funding and liquidity score.

The debt ratings, DCR and deposit ratings are sensitive to changes to de Volksbank's IDRs, which are sensitive to changes in the bank's VR. In addition, we would downgrade the bank's long-term senior-preferred, senior non-preferred, deposit rating and DCR by one notch if Fitch no longer expects de Volksbank to meet its resolution debt buffers requirements without senior preferred debt.

de Volksbank's short-term senior preferred and deposit ratings are also sensitive to a positive reassessment of the group's funding and liquidity, if scored 'aa-' or higher, which is unlikely.

Subordinated debt is sensitive to changes in de Volksbank's VR. It is also sensitive to a change in Fitch's assessment of loss severity or non-performance risk relative to the risk captured in the bank's VR.

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support Dutch banks. While not impossible, this is highly unlikely, in Fitch's view.

VR ADJUSTMENTS

The Earnings and Profitability score of 'bbb+' has been assigned below the 'a' category implied score due to the following adjustment reason: Revenue diversification (negative).

The Capitalisation & Leverage score of 'a-' has been assigned below the 'aa' implied score due to the following adjustment reason: Internal capital generation and growth (negative).

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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
de Volksbank N.V.	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	DCR	A(dcr)	Affirmed	A(dcr)
	Government Support	ns	Affirmed	ns

subordinated	LT	BBB	Affirmed	BBB
long-term deposits	LT	A	Affirmed	A
Senior preferred	LT	A	Affirmed	A
Senior non-preferred	LT	A-	Affirmed	A-
Senior preferred	ST	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

de Volksbank N.V.	EU Issued, UK Endorsed

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