# FITCH REVISES DE VOLKSBANK'S OUTLOOK TO POSITIVE; AFFIRMS 'BBB+'

Fitch Ratings-London-24 February 2017: Fitch Ratings has affirmed de Volksbank NV's (formerly SNS Bank NV) Long-Term Issuer Default Rating (IDR) at 'BBB+' and revised the Outlook to Positive from Stable. Fitch has also affirmed the Viability Rating (VR) at 'bbb+'. A full list of rating actions is at the end of this rating action commentary.

In addition, Fitch has assigned a 'BBB+(dcr)' Derivative Counterparty Rating (DCR) to Volksbank as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US. DCRs are issuer ratings and express Fitch's view of banks' relative vulnerability to default under derivative contracts with third-party, non-government counterparties.

The rating actions are part of a portfolio review of major Dutch banking groups rated by Fitch.

KEY RATING DRIVERS
IDRS, VR, DCR AND SENIOR DEBT
The Outlook revision reflects Volksbank's improved asset quality, solid capitalisation and Fitch's expectation that the bank will maintain conservative underwriting standards while delivering stable and sound operating profitability. The ratings also factor in the bank's concentrated franchise, which focuses on Dutch mortgage lending.

Volksbank's asset quality continued to improve in 2016, supported by the growing economy and the recovering housing market in the Netherlands. The bank's impaired loans/gross loans ratio (1.2% at end-2016) is low compared with similarly rated banks, but this reflects its lending mix with over 90% being granular residential mortgage loans. Impaired mortgage loans (0.9% at end-2016) are now in line with the three largest Dutch banks, and the bank reported releases of loan allowances in 2016. We expect asset quality metrics to remain resilient, reflecting the benign domestic operating environment but also the bank's more conservative risk appetite than in the past and its focus on a single low-risk product.

Volksbank's risk-weighted capitalisation is solid, with a fully loaded common equity Tier 1 (CET1) capital ratio of 29.6% at end-2016, boosted by low risk-weights on residential mortgage loans. Leverage ratio (5.3% on a fully-loaded basis) is reasonable for a retail-focused bank. The bank targets a leverage ratio above 4.25%, which should support the CET1 capital ratio at above 20%, provided risk-weights remain stable.

Volksbank's operating profitability is sound, with an operating profit/risk-weighted assets ratio of around 4% in 2016, and is supported by low LICs and reasonable cost efficiency. At the same time, Volksbank's earnings rely on interest income from a single product, and its pricing power is more limited given that it operates in a concentrated and highly competitive market. The pressure on net interest margin has increased, and we expect it to persist in 2017 as further deposit repricing has become more difficult in light of already low deposits rates. In addition, we expect Volksbank to gradually build up a buffer of eligible debt to meet the upcoming minimum requirement for own funds and eligible liabilities. We expect profitability to remain sound, however, as the bank's continued cost focus should partly offset these pressures.

Deposits make up the majority of Volksbank's funding. Volksbank's smaller franchise means the bank may have to be more competitive in pricing deposits than its larger peers should it need to raise additional funding quickly, although the difference has been minimal recently in light of overall low interest rates. We expect Volksbank to maintain sound access to deposits, even if profitability is affected. Liquidity is sound, underpinned by a large buffer of liquid assets that far exceeds maturing debt in 2017-2018.

A DCR has been assigned to Volksbank due to its derivatives activity. The DCR is at the same level as the Long-Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

SUPPORT RATING AND SUPPORT RATING FLOOR
The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if Volksbank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT
Subordinated debt is rated one notch below Volksbank's VR, reflecting the higher-than-average loss severity of this type of debt than senior unsecured obligations. Fitch does not apply additional notching for incremental non-performance risk relative to the VR given that any loss absorption would only occur once the bank reaches the point of non-viability.

RATING SENSITIVITIES
IDRS, VR, DCR AND SENIOR DEBT
An upgrade is contingent upon successful execution of the bank's strategy, demonstrated resilience of the business model through delivering very strong financial metrics, and continued adherence to a conservative risk appetite. The Outlook would likely be revised back to Stable if these expectations are not met.

While currently not Fitch's base case, Volksbank's ratings could come under pressure if its risk appetite increases, for example through loosening underwriting standards or a significant shift in business model, particularly if that would worsen asset quality and capitalisation in the longer term. Less prudent liquidity management would also be negative for the rating.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. This is highly unlikely, in Fitch's view.

SUBORDINATED BEBT
Subordinated debt is sensitive to changes in Volksbank's VR. It is also sensitive to a change in Fitch's assessment of loss severity or non-performance risk.

The rating actions are as follows:

Volksbank
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Positive from Stable
Short-Term IDR affirmed at 'F2'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Viability Rating: affirmed at 'bbb+'
Derivative Counterparty Rating: assigned at 'BBB+(dcr)'
Long-Term senior debt rating: affirmed at 'BBB+'
Short-Term senior debt rating: affirmed at 'F2'

Commercial paper: affirmed at 'F2'
Subordinated (Tier 2) debt affirmed at 'BBB'

Contact:
Primary Analyst
Konstantin Yakimovich
Director
+44 20 3530 1789
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Bjorn Norrman
Senior Director
+44 20 3530 1330

Committee Chairperson
Olivia Perney Guillot
Senior Director
+33 1 44 299 174

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051