25 Oct 2019 | Affirmation

Fitch Affirms De Volksbank at 'A-'/Stable, Upgrades Short-Term IDR to 'F1'

Fitch Ratings-Paris-25 October 2019:

Fitch Ratings has affirmed de Volksbank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A-' and Viability Rating (VR) at 'a-'. At the same time, Fitch has upgraded the bank's Short-Term IDR to 'F1' from 'F2'. The Outlook on the Long-Term IDR is Stable.

A full list of rating actions is at the end of this rating action commentary.

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

Key Rating Drivers

IDRS, VR, SENIOR PREFERRED DEBT AND DERIVATIVE COUNTERPARTY RATING

De Volksbank's ratings reflect the bank's sound asset quality and overall moderate risk appetite, with a focus on low-risk residential mortgage lending, high risk-weighted capital ratios and sound leverage. The ratings also reflect the bank's fairly undiversified business model and a franchise that lacks the breadth of the three larger Dutch banks.

De Volksbank's impaired loans are low (1.2% of gross loans at end-June 2019, 1.0% in mortgage lending). The bank's asset quality has been improving, helped by a benign operating environment in the Netherlands and the bank's reasonably conservative underwriting. We do not expect de Volksbank to deviate from its narrow but fairly low-risk business model or to materially increase its risk appetite.

We expect the bank's revenue to remain under pressure from subdued loan growth, prevailing low interest rates and intense competition in Dutch mortgage lending. The necessary accumulation of liabilities eligible to meet the minimum requirement for own funds and eligible liabilities (MREL) will also weigh on funding costs. Despite these challenges, de Volksbank maintained healthy profitability so far with annualised operating profit/risk weighted assets (RWA) and return on average equity of 4.6% and 8.7%, respectively, in 1H19. Good cost-efficiency will be crucial to maintaining profitability in the medium term as loan impairment charges (LICs) eventually normalise at higher levels.

De Volksbank's Fitch Core Capital (FCC; 39.6% of RWAs at end-June 2019) and common equity Tier 1 (CET1; 37.1% at end-June 2019) ratios compare favourably with Dutch banking peers'. This is due partly to a very high share of mortgage loans on the bank's balance sheet and their low risk-weighting. The introduction of a risk-weight floor under Basel III end-game rules is likely to reduce the bank's risk-weighted capital ratios, but will be subject to a long phase-in period. The impact could be partially brought forward by risk-weight floors for mortgage loans not covered by the Dutch mortgage guarantee (NHG) as proposed by the Dutch central bank with effect from late 2020.

Fitch expects the impact to be manageable in light of de Volksbank's high capital ratios. The bank's Basel leverage ratio target of at least 4.75% will help it preserve sound buffers over its regulatory capital requirements despite RWA inflation. The bank's 5.3% Basel leverage ratio at end-June 2019 is sound and commensurate with its retail banking profile.

De Volksbank is predominantly funded by domestic retail deposits. The bank had a loans-to-deposits ratio of 104% at end-June 2019 and its funding mix is stable with only limited reliance on wholesale funding. Liquidity is sound with a liquidity coverage ratio of 147% at end-June 2019 and is underpinned by a buffer of high-quality liquid assets well in excess of wholesale funding maturities in the next two years.

The Short-Term IDR was upgraded to 'F1' from 'F2' previously. It is the higher option mapping to an 'A-' Long-Term IDR, reflecting our view of the bank's funding and liquidity score of 'a'.

De Volksbank's Derivative Counterparty Rating (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. De Volksbank's senior preferred debt is rated in line with the bank's IDRs. Fitch views the probability of default on senior preferred debt as the same as the probability of default of the bank. This is because de Volksbank's buffers of more junior debt (5.7% of RWA at end-June 2019) are insufficient to materially reduce the risk of default for de Volksbank's senior preferred creditors in case of failure.

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 de 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 de Volksbank's VR, reflecting the higher-than-average loss severity of this type of debt. 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, SENIOR PREFERRED DEBT AND DERIVATIVE COUNTERPARTY RATING

An upgrade is unlikely given the constraints of de Volksbank's franchise and business model.

While currently not Fitch's base case, de Volksbank's ratings could come under pressure if risk appetite increases, for example through a loosening of underwriting standards or a significant and rapid shift in the business model, particularly if that would worsen asset quality and capitalisation in the longer term.

De Volksbank's Short-Term IDR and short-term senior preferred debt ratings are sensitive to deterioration in the bank's funding and liquidity.

De Volksbank's senior preferred debt ratings are also sensitive to changes in the bank's IDRs. They could be upgraded by one notch if the buffer of qualifying junior debt and senior non-preferred debt becomes sufficient to protect senior preferred creditors from default in case of failure.

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. However, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT

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.

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 de Volksbank, either due to their nature or to the way in which they are being managed by de Volksbank. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

de Volksbank N.V.; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta
; Short Term Issuer Default Rating; Upgrade; F1
; Viability Rating; Affirmed; a-
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; A-(dcr)
----subordinated; Long Term Rating; Affirmed; BBB+
----Senior preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Short Term Rating; Upgrade; F1

Contacts:
Primary Rating Analyst
Olivia Perney,
Managing Director
+33 1 44 29 91 74
Fitch France S.A.S.
60 rue de Monceau
Paris 75008

Secondary Rating Analyst
Lukas Rollmann,
Associate Director
+33 1 44 29 91 22

Committee Chairperson
Christian Scarafia,
Senior Director
+44 20 3530 1012

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria (pub. 12 Oct 2018)](#)

[Short-Term Ratings Criteria (pub. 02 May 2019)](#)

Additional Disclosures

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)
