de Volksbank N.V.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	No Support
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Global Economic Outlook (December 2021)

Mortgage Market Index: Netherlands (November 2021)

Fitch Affirms de Volksbank at 'A-'; Outlook Stable' (November 2021)

Fitch Ratings 2022 Outlook: Western European Banks (December 2021)

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Key Rating Drivers

Sound Metrics, Concentrated Business: de Volksbank N.V.'s ratings reflect a concentrated business model and a 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, high risk-weighted capital ratios and sound leverage and stable funding underpinned by a granular and sticky deposit base.

Asset Quality Supports Ratings: The bank's sound impaired loans/gross loans ratio of 1.1% at end-June 2021 reflects its large and low-risk residential mortgage loan portfolio. Fitch Ratings only expects a modest weakening of asset-quality metrics in the next 12 to 24 months, as borrowers' ability to repay should be supported by a continued sound economic growth in the Netherlands and a resilient employment market, notwithstanding a recent tightening of restrictions.

Profitability Challenges Persist: de Volksbank's operating profitability was supported by releases of loan loss allowances in 1H21. However, the bank's revenue remains under pressure given its reliance on net interest income, intense competition in mortgage lending and the costs of carrying a high liquidity buffer. We expect medium-term profitability to head to an operating profit/risk-weighted assets (RWAs) ratio below the 3.6% four-year (2017-2020) average despite more normalised costs and new business.

Strong Capital Ratios and Leverage: de Volksbank's capital ratios are strong and compare well with peers'. The bank's common equity Tier 1 (CET1) and total capital ratios of 28.3% and 32.9%, respectively, provide strong buffers above regulatory requirements. Capital ratios benefit from the low risk-weighting of mortgage loans, which represent nearly 70% of de Volksbank's total assets, but should remain robust even when accounting for the expected RWA inflation from Basel III endgame impact.

Granular Funding, Sound Liquidity: Stable household and SME deposits form the bulk of de Volksbank's funding (about 87% at end-June 2021). 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 remained strong since the coronavirus outbreak and its buffer of liquid asset comfortably covers upcoming wholesale funding maturities.

Rating Sensitivities

Improved Business Diversification: An upgrade of de Volksbank's ratings is unlikely in the near term given the group's limited product breadth and earnings pressure. In the longer term, an upgrade would be contingent on de Volksbank broadening its product offering, providing it with significantly more diversified revenue streams, while maintaining a conservative risk profile.

Pressure on Profitability: de Volksbank's ratings could come under pressure if the bank were to fail to turn around its profitability due to continued attrition of its market share in mortgage lending signalling a weakening in its business profile. A higher risk profile, for example, through rapid expansion in riskier lending with looser than market underwriting standards or risk controls, would also be rating negative.

Debt Rating Classes

Rating Level	Rating
Deposits	A/F1
Senior preferred	A/F1
Senior non-preferred	A-
Tier 2 subordinated	BBB

Source: Fitch Ratings

de Volksbank's long-term senior preferred debt, long-term deposits and Derivative Counterparty Rating (DCR) are one notch above the bank's Long-Term Issuer Default Rating (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. The same consideration drives de Volksbank's long-term senior non-preferred debt rating of 'A-', which is in line with its Long-Term IDR.

The bank's short-term senior preferred and deposits ratings of 'F1' are mapped to their respective long-term ratings and also reflect our assessment of the bank's funding and liquidity at 'a'.

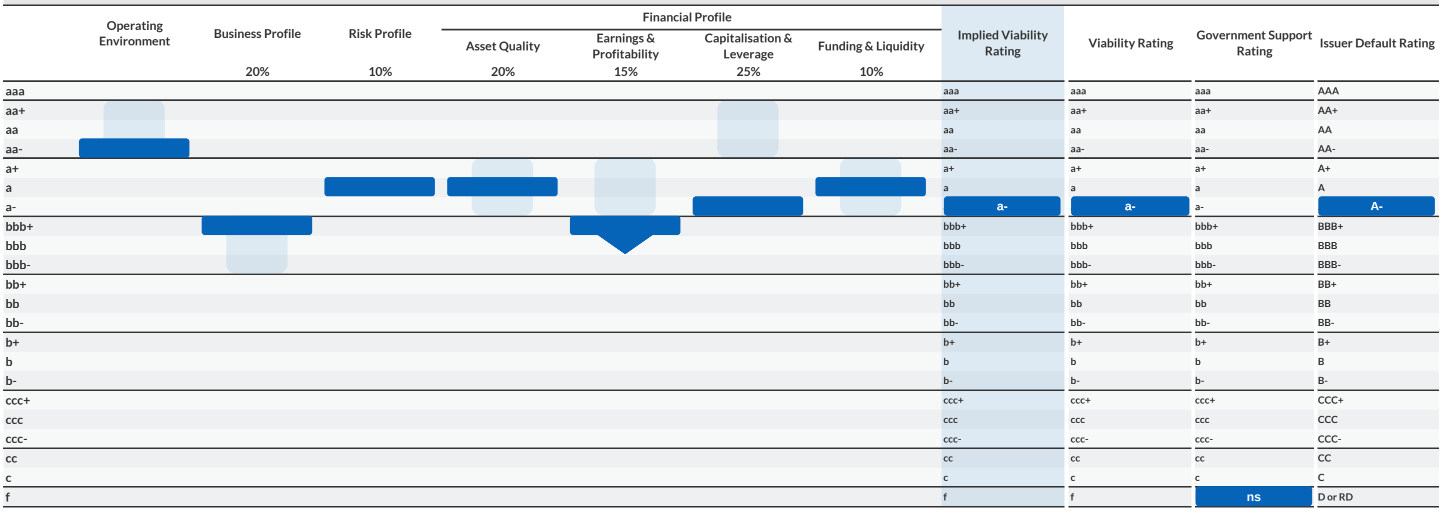
de Volksbank's subordinated Tier 2 debt is rated two notches below its Viability Rating (VR), in line with the baseline notching for this type of debt, to reflect poor recovery prospects of these instruments. The instruments do not allow any coupon flexibility but have statutory loss absorption features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

Ratings Navigator

de Volksbank N.V.

ESG Relevance:

Banks
Ratings Navigator



We have adjusted downwards the implied earnings and profitability score to reflect de Volksbank's concentrated business model which results in high reliance on a single revenue stream. The assigned capitalisation and leverage score reflects the bank's moderate profitability and low risk-weights on mortgage loans.

Sovereign Support Assessment

Commercial Banks: Government Support Rating (GSR) KRDs	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual country D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

de Volksbank's Government Support Rating of 'No Support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the bank 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 requires senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

Legend

Ratings Navigator: The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Arrows – KRD Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Support Assessment: The colours indicate the weighting of each KRD in the assessment.
- Higher influence
- Moderate influence
- Lower influence

Company Summary and Key Qualitative Assessment Factors

Domestic Retail Banking Business Model

de Volksbank is the fourth-largest commercial bank in the Netherlands by total assets with market shares of about 6% of residential mortgage loans and 11% of retail savings. It operates four separate brands (SNS, RegioBank, BLG Wonen and ASN Bank) under one banking licence. It serves about 3.4 million customers and has strong social recognition. de Volksbank focuses on providing Dutch residential mortgage loans and retail savings. Its modest business and product diversification results into a low-risk but undiversified business model, constraining the bank's business profile assessment. The bank's focus on lending operations results into a particularly high reliance on net interest income, which has been on a downward trend in recent years because of pressure from low interest rates and strong competition. The latter also explains the gradual erosion of de Volksbank's market share in residential mortgage lending.

Delayed Privatisation, Updated Strategic Plan

The bank has been indirectly state owned since 2013. In early 2021, the Dutch Minister of Finance said that de Volksbank was not yet ready to be privatised. The decision may be related to de Volksbank's monoline business profile and depressed valuations across the European banking sector. We expect the bank will need to show progress in the execution of its updated strategic plan before a decision on its future ownership structure is made.

de Volksbank's strategic plan for 2021-2025 focuses on growth through improving its product offering to existing clients, and diversifying into SME banking. Cost reduction is another focus for the bank. de Volksbank aims for a return on equity of 8% (about 5% in 1H21), a cost/income ratio of 57%-59% by end-2025, and a minimum CET1 ratio under Basel III end-game of 19%. Due to persisting low interest rates, achieving profitability targets are challenging in the short term. If executed successfully, the strategy would be viewed as credit positive in the long run, particularly if it results into improved business model diversification and profitability while maintaining a conservative risk profile. de Volksbank also aims for a climate-neutral balance sheet of at least 75% by end-2025 (57% at end-June 2021).

Underwriting Consistent with Industry Standards

We view the bank's underwriting standards for residential mortgage loans as prudent and consistent with industry standards. Dutch mortgage lending is mainly prime and owner-occupied. The bank's mortgage lending has been conducted at high loan/value (LTV) ratios by international standards, similar to its Dutch peers, and driven by past tax incentives to borrow. Regulatory changes adopted since 2011 have reduced the LTV cap at loan origination to 100%, which is still high, and require new mortgage loans to be fully amortising for interest expenses to be tax-deductible.

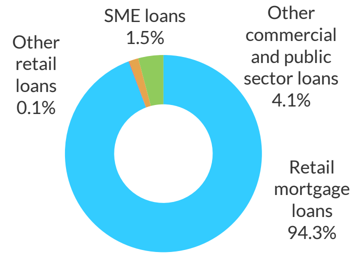
Loans with high LTVs and interest-only structures will remain a feature of Dutch banks' loan portfolios in the foreseeable future given the long maturity of the asset class. Fully interest-only loans made up about a fifth of de Volksbank's mortgage loans at end-June 2021. Fitch believes mortgage lending risks are mitigated by Dutch banks' focus on debt affordability, including under-stressed interest rates. The legal system is creditor-friendly and banks have full recourse to the borrowers.

Moderate Interest Rate Risk Exposure

The bank's exposure to market risk is moderate. It is mainly affected by structural interest rate risk arising from its portfolio of mortgage loans with fixed-rate periods of longer than one year. These represent about 95% of the bank's mortgage loan book. Volksbank calculates that a 100bp parallel downward shift in the yield curve would cause a EUR55 million decrease in trailing 12-month net interest income at end-2020 (about 6% of 2020 net interest income).

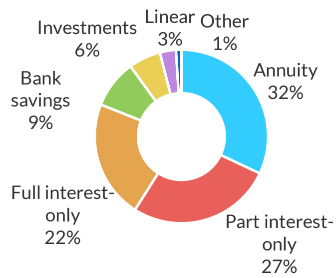
Credit spread risk in de Volksbank's securities portfolio is low and underpinned by the high quality of its investments. Nearly all its investment portfolio comprises bonds issued by sovereign governments of core European countries and financial institutions with a credit rating of 'A' or above.

Gross Loans by Type
EUR50bn at end-June 2021



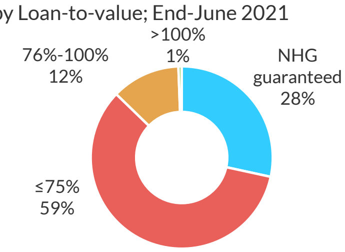
Source: Fitch Ratings, de Volksbank

Mortgage Loans by Type
EUR46bn end-June 2021



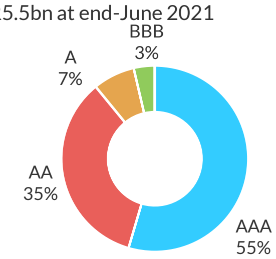
Source: Fitch Ratings, de Volksbank

Mortgage Loans[a]
by Loan-to-value; End-June 2021



[a]EUR44bn excluding savings deposits and accrued interest
Source: Fitch Ratings, de Volksbank

Investment Portfolio
by Credit Rating
EUR5.5bn at end-June 2021



Source: Fitch Ratings, de Volksbank

Summary Financials and Key Ratios

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	466	392	850	875	908
Net fees and commissions	24	20	46	51	44
Other operating income	6	5	27	3	6
Total operating income	496	417	923	929	958
Operating costs	383	322	652	574	609
Pre-impairment operating profit	113	95	271	355	349
Loan and other impairment charges	-37	-31	38	-7	-12
Operating profit	150	126	233	362	361
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	38	32	59	87	93
Net income	112	94	174	275	268
Other comprehensive income	-19	-16	6	2	-7
Fitch comprehensive income	93	78	180	277	261
Summary balance sheet					
Assets					
Gross loans	59,737	50,267	50,708	50,580	50,662
- Of which impaired	673	566	678	645	657
Loan loss allowances	164	138	166	119	126
Net loans	59,573	50,129	50,542	50,461	50,536
Interbank	6,844	5,759	5,527	3,368	3,185
Derivatives	699	588	864	718	732
Other securities and earning assets	6,528	5,493	5,113	5,350	4,782
Total earning assets	73,644	61,969	62,046	59,897	59,235
Cash and due from banks	9,550	8,036	5,135	2,449	1,219
Other assets	556	468	303	495	494
Total assets	83,750	70,473	67,484	62,841	60,948
Liabilities					
Customer deposits	67,080	56,446	53,082	48,142	47,265
Interbank and other short-term funding	1,396	1,175	1,185	830	1,307
Other long-term funding	8,781	7,389	6,949	8,022	7,085
Trading liabilities and derivatives	1,493	1,256	2,163	1,841	1,120
Total funding and derivatives	78,750	66,266	63,379	58,835	56,777
Other liabilities	931	783	655	571	600
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	4,069	3,424	3,450	3,435	3,571
Total liabilities and equity	83,750	70,473	67,484	62,841	60,948
Exchange rate		USD1 = EUR0.841468	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, de Volksbank N.V.

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.3	2.3	3.7	3.9
Net interest income/average earning assets	1.3	1.4	1.5	1.6
Non-interest expense/gross revenue	77.2	70.6	61.8	63.6
Net income/average equity	5.5	5.1	7.8	7.5
Asset quality				
Impaired loans ratio	1.1	1.3	1.3	1.3
Growth in gross loans	-0.9	0.3	-0.2	2.4
Loan loss allowances/impaired loans	24.4	24.5	18.5	19.2
Loan impairment charges/average gross loans	-0.1	0.1	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	28.3	31.2	32.6	35.5
Tangible common equity/tangible assets	4.9	5.1	5.5	5.9
Basel leverage ratio	5.1	5.2	5.1	5.5
Net impaired loans/common equity Tier 1	13.4	15.9	16.7	16.0
Funding and liquidity				
Gross loans/customer deposits	89.1	95.5	105.1	107.2
Liquidity coverage ratio	261.0	233.0	182.0	177.0
Customer deposits / total non-equity funding	86.8	86.7	84.5	84.9

Source: Fitch Ratings, Fitch Solutions, de Volksbank N.V.

Key Financial Metrics – Latest Developments

Strong Asset Quality

After a modest increase in 2020, de Volksbank's stock of impaired loans declined by about 16% in 1H21 and reached 1.1% of gross loans at end-June 2021, slightly below pre-crisis level. The fall in impaired loans was mainly due to substantial and efficient government support and to positive migrations of a few SME loans, which were no longer classified as unlikely to pay. Stage 2 loans accounted for a moderate 4.8% of gross loans at end-June 2021 and decreased from end-2020. Very few retail and SME borrowers made recourse to Covid-19-related payment deferrals (1% of gross loans at end-2020), and most of the concessions granted to borrowers expired with about 80% of loans returning to regular payments by end-June 2021.

de Volksbank's low coverage of impaired loans by loan-loss allowances (11.3% at end-June 2021) reflects its expectation of high recoveries, underpinned by full recourse to the borrower and swift collateral repossession in the Netherlands, as well as the national mortgage guarantee scheme. de Volksbank released EUR31 million of loan loss allowances in 1H21 (10bp of average gross loans) compared to loan impairment charges (LICs) of EUR38 million in 2020. In the medium term, we expect LICs to return to more normalised levels of 5bp-7bp of gross loans, reflecting modest expected deterioration of asset quality.

Profitability Under Pressure

de Volksbank has healthy operating profitability considering its business model concentration. The operating profit/RWAs ratio was stable in 1H21 at 2.3% as LICs reversals offset continued pressure on net interest income and higher operating costs. de Volksbank's net interest income declined by about 10% in 1H21. The benefit from the ECB's targeted long-term refinancing operations and from charging negative rates on deposits above a certain threshold have not been sufficient to offset the impact from low rates on lending margins.

We believe that it will be challenging for de Volksbank to reach its profitability targets in the short term because of the low interest rate environment, intense competition and higher expected costs from additional investments for growth, digitalisation and regulatory costs.

Sound Capitalisation

Fitch views the bank's capital planning as conservative as it targets a CET1 ratio of at least 19% (fully phased-in Basel III) and a minimum leverage ratio of 4.5%. de Volksbank resumed dividend payments in 2021 and paid out the remaining 2019 and 2020 dividend as the ECB's ban on dividend distribution was lifted. As the reserved dividend has already been deducted from capital, the dividend payment does not affect the capital position of de Volksbank.

We expect de Volksbank to distribute dividends at the higher end of its pay-out range of 40%-60% of net profits in coming years, considering the bank's sizeable buffer above regulatory requirements.

de Volksbank will need to meet a minimum requirement for own funds and eligible liabilities equating to 8% of its total liabilities and own funds by 2024, which it intends on doing entirely with CET1 capital, subordinated and SNP debt. Based on its current capital position, de Volksbank expects to issue SNP notes totalling EUR1.2 billion to EUR1.7 billion up to 2024, which Fitch believes is manageable.

Stable Deposit Funding, Sound Liquidity

de Volksbank mainly funds its operations with retail customer deposits (88% of total funding at end-June 2021) and these have increased despite the introduction of negative rates above certain thresholds. Reliance on wholesale funding is low and mainly consists of covered bonds and senior preferred debt.

The bank maintains a large buffer of high-quality liquid assets, which was about EUR5.5 billion at end-June 2021 and comfortably covered short- and medium-term funding.

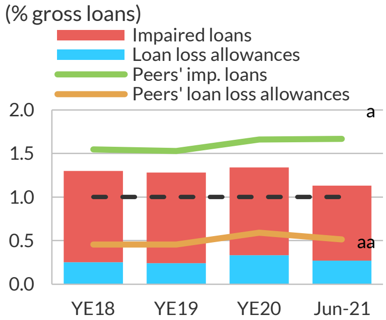
Note on Charts:

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Peer average includes de Volksbank N.V. (VR: 'a-'), Realkredit Danmark A/S (a), Nykredit Realkredit A/S (a), Cooperatieve Rabobank U.A. (a+), Landshypotek Bank AB (a), Leeds Building Society (a-), Skipton Building Society (a-), ING Groep N.V. (a+) and ABN AMRO Bank N.V. (a).

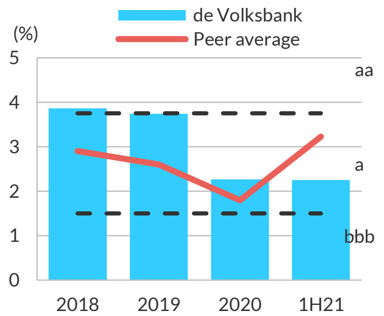
Asset Quality

(% gross loans)



Source: Fitch Ratings, banks

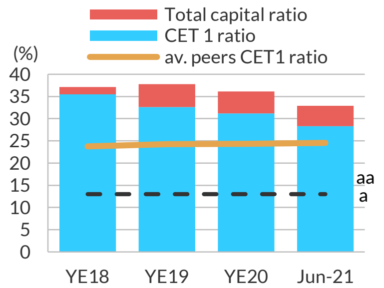
Operating Profit/RWAs



Source: Fitch Ratings, banks

Regulatory Capital

(% of risk-weighted assets)



Source: Fitch Ratings, banks

Environmental, Social and Governance Considerations

FitchRatings **de Volksbank N.V.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

de Volksbank N.V. has 5 ESG potential rating drivers

- de Volksbank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.

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

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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