FitchRatings

Banks
Retail & Consumer Banks
Netherlands

de Volksbank N.V.

Update

Key Rating Drivers

Sound Metrics, Concentrated Business: The ratings of de Volksbank N.V. 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 stable deposit base.

Asset Quality Supports Ratings: The bank's sound impaired loans/gross loans ratio of 1.1% at end-1H22 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, despite the weaker global 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.

Profitability Challenges Persist: The bank's revenue remained under pressure in 1H22 due to 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 benefit from higher interest rates but its operating profit/risk-weighted assets (RWAs) ratio will likely remain below the 2.9% four-year (2018–2021) average in the near term.

Strong Risk-Weighted Capital Ratios: de Volksbank's strong common equity Tier 1 (CET1) ratio (end-1H22: 20.8%) reflects low risk-weighting of mortgage loans, which account for nearly 65% of total assets. The bank 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.

Granular Funding, Sound Liquidity: Stable retail and SME deposits form the bulk of de Volksbank's funding (about 84% at end-1H22). 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

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: The bank'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-average underwriting standards or risk controls, would also be rating negative.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Global Economic Outlook (September 2022)

Fitch Affirms Netherlands at 'AAA'; Outlook Stable (September 2022)

Mortgage Market Index: Netherlands (May 2022)

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Debt Rating Classes

Rating Level	Rating	Watch
Deposits	A/F1	n.a.
Senior preferred	A/F1	n.a.
Senior non-preferred	A-	n.a.
Tier 2 subordinated	BBB	n.a.

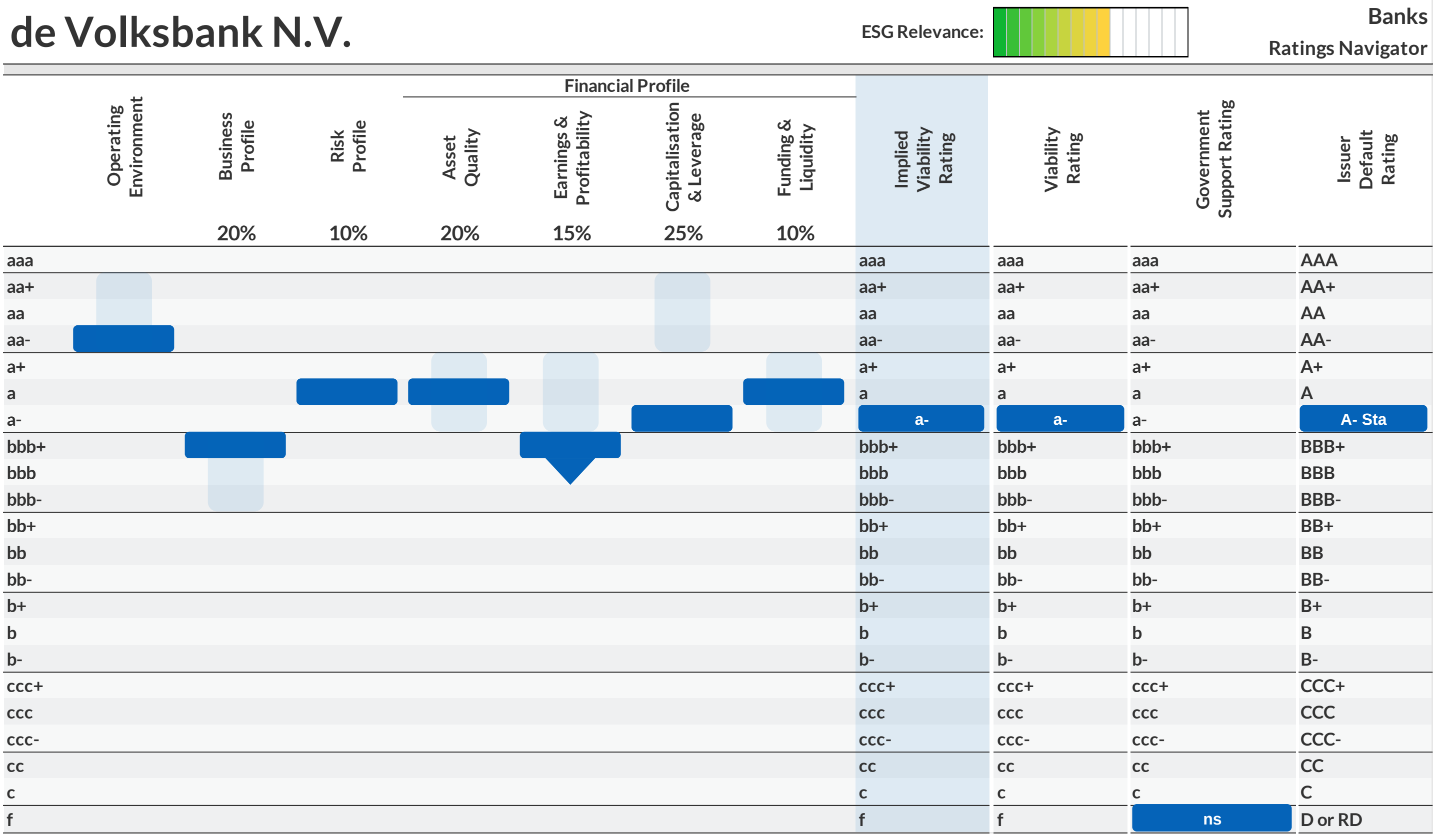
Source: Fitch Ratings

The bank'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'.

The bank'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



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.

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 reasons: internal capital generation and growth (negative) and leverage and risk-weight calculation (negative).

Significant Changes

Weaker Economic Outlook but Resilient Operating Environment for Banks

Risks to Dutch banks' credit profiles have increased since the invasion of Ukraine, although from a sound starting point. Fitch's 2022 GDP forecast for the Netherlands of 3.2% is above that for the eurozone at 2.9%, and we maintain a positive assessment of the labour market, forecasting the unemployment rate over the next two years to be around 4% until 2024 compared to 3.6% in July 2022.

The operating environment for Dutch banks will become more challenging because of the second-order effects from the war in Ukraine, but we believe that the operating environment score for Dutch banks at 'aa-'/stable has some headroom to absorb weakening of the economic outlook. Fitch expects economic growth will weaken in 2023 and 2024 primarily due to the adverse direct and indirect effects of the war in Ukraine. Further supply-chain disruptions, higher energy prices or shortages in raw materials, and the prospect of a complete shut-off of all Russian pipeline gas flows to Europe, will damage business and consumer confidence and will erode households' real incomes. This will affect credit volumes and result in moderate pressure on the banks' asset quality, mainly stemming from most vulnerable corporate borrowers.

1H22 Results

The bank's 1H22 net income of EUR95 million was in line with the prior year as higher treasury-related revenue and stable operating expenses were offset by a normalisation of impairment charges. The bank's 1H21 profitability had been significantly boosted by loan-loss allowance releases.

Revenue increased by 11% yoy, driven by an exponential rise in treasury-related income and strong growth in fees and commissions (+20%), which more than offset weaker net interest income (NII).

Non-interest income grew to EUR91 million from EUR25 million in 1H21, mostly via a EUR51 million one-off treasury gain as the bank exercised interest rate swaptions, which benefited from the sharp rise in interest rates and high market volatility in the period.

De Volksbank uses interest-rate swaptions for hedging purposes. This helped to offset a further decline in NII, the group's key profitability driver, which fell by 5% yoy due to the low interest rate environment in the period. However, we expect significant improvement in NII in 2H22 and 2023 given the now higher interest rates and our expectation of further interest rate hikes.

Loan impairment charges (LICs) were low at just 4bp of average gross loans in 1H22 and were contributed by a small number of loans in the bank's corporate loan book. We expect LICs to remain low for the remainder of 2022, based on our expectations of modest deterioration in the bank's asset quality.

The bank's CET1 ratio fell to 20.8% by end-1H22 (end-2021: 22.7%), primarily driven by 7% growth in RWA. This was as a result of the bank's liquidity management as it held less excess liquidity with the central bank and increased exposure to financial institutions that carry 20% risk-weights. We expect the CET1 ratio to be maintained comfortably above the bank's medium-term target of 19% in the next 12 to 24 months.

Government Support

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction 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

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

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

Summary Financials and Key Ratios

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	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	386	372.0	775.0	850.0	875.0
Net fees and commissions	25	24.0	39.0	46.0	51.0
Other operating income	70	67.0	13.0	27.0	3.0
Total operating income	481	463.0	827.0	923.0	929.0
Operating costs	336	323.0	667.0	652.0	574.0
Pre-impairment operating profit	145	140.0	160.0	271.0	355.0
Loan and other impairment charges	11	11.0	-58.0	38.0	-7.0
Operating profit	134	129.0	218.0	233.0	362.0
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	35	34.0	56.0	59.0	87.0
Net income	99	95.0	162.0	174.0	275.0
Other comprehensive income	-111	-107.0	-22.0	6.0	2.0
Fitch comprehensive income	-12	-12.0	140.0	180.0	277.0
Summary balance sheet					
Assets					
Gross loans	51,397	49,482.0	50,834.0	50,708.0	50,580.0
- Of which impaired	543	523.0	607.0	678.0	645.0
Loan loss allowances	124	119.0	107.0	166.0	119.0
Net loans	51,273	49,363.0	50,727.0	50,542.0	50,461.0
Interbank	7,732	7,444.0	4,527.0	5,527.0	3,368.0
Derivatives	2,949	2,839.0	591.0	864.0	718.0
Other securities and earning assets	5,637	5,427.0	5,638.0	5,113.0	5,350.0
Total earning assets	67,591	65,073.0	61,483.0	62,046.0	59,897.0
Cash and due from banks	9,464	9,111.0	10,296.0	5,135.0	2,449.0
Other assets	700	674.0	302.0	303.0	495.0
Total assets	77,755	74,858.0	72,081.0	67,484.0	62,841.0
Liabilities					
Customer deposits	60,995	58,722.0	57,595.0	53,082.0	48,142.0
Interbank and other short-term funding	2,816	2,711.0	1,057.0	1,185.0	830.0
Other long-term funding	8,405	8,092.0	8,436.0	6,949.0	8,022.0
Trading liabilities and derivatives	1,077	1,037.0	1,013.0	2,163.0	1,841.0
Total funding and derivatives	73,293	70,562.0	68,101.0	63,379.0	58,835.0
Other liabilities	645	621.0	494.0	655.0	571.0
Preference shares and hybrid capital	310	298.0	n.a.	n.a.	n.a.
Total equity	3,508	3,377.0	3,486.0	3,450.0	3,435.0
Total liabilities and equity	77,755	74,858.0	72,081.0	67,484.0	62,841.0
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Summary Financials and Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.7	1.6	2.3	3.7
Net interest income/average earning assets	1.2	1.3	1.4	1.5
Non-interest expense/gross revenue	69.8	80.7	70.6	61.8
Net income/average equity	5.6	4.7	5.1	7.8
Asset quality				
Impaired loans ratio	1.1	1.2	1.3	1.3
Growth in gross loans	-2.7	0.3	0.3	-0.2
Loan loss allowances/impaired loans	22.8	17.6	24.5	18.5
Loan impairment charges/average gross loans	0.0	-0.1	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	20.8	22.7	31.2	32.6
Tangible common equity/tangible assets	4.5	4.8	5.1	5.5
Basel leverage ratio	4.6	5.1	5.2	5.1
Net impaired loans/common equity Tier 1	13.0	15.7	15.9	16.7
Funding and liquidity				
Gross loans/customer deposits	84.3	88.3	95.5	105.1
Liquidity coverage ratio	340.8	324.0	233.0	182.0
Customer deposits/total non-equity funding	84.1	85.9	86.7	84.5
Net stable funding ratio	178.7	176.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, de Volksbank

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
				1

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.
1	Irrelevant to the entity rating and irrelevant 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 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.

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.

DISCLAIMER & DISCLOSURES