FitchRatings

Banks
Retail and Consumer Banks
Netherlands

de Volksbank N.V.

Update

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 2023)

Related Research

Global Economic Outlook (September 2023)

Fitch Affirms the Netherlands at 'AAA'; Outlook Stable (August 2023)

Mortgage Market Index: Netherlands (July 2023)

Sovereign Data Comparator (June 2023)

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Key Rating Drivers

Standalone Strength Drives Ratings: The ratings reflect de Volksbank N.V.'s simple but concentrated business model, as well as its franchise, which 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: The bank is the fourth-largest commercial bank in the Netherlands, with a market share of around 3% of total banking system assets. It operates exclusively in its home market with a clear focus on retail banking and a product offering focused on residential mortgage loans, savings and payments. Residential mortgages accounted for about 94% of the bank's total gross loans at end-June 2023.

Moderate Risk Profile: Fitch Ratings expects de Volksbank to maintain a conservative risk appetite, given its focus on low-risk residential mortgage lending in the Netherlands. Planned growth in SME lending will be contained in the medium term and should not result in a material change in the bank's risk profile. SME lending will be mostly secured on property.

Asset Quality Supports Ratings: The bank's sound impaired loans ratio of 1.1% at end-June 2023 reflects its large and low-risk residential mortgage loan portfolio. We expect asset quality metrics to weaken only slightly in the next 12 to 24 months, despite the weakening economic outlook, as borrowers' ability to repay should be supported by resilient employment levels, and government support measures.

Satisfactory Profitability: The bank's profitability benefitted considerably from higher interest rates in 1H23. Its operating profit/risk-weighted assets (RWAs) ratio rose to 4.4% by end-June 2023, well above the 2.3% four-year average (2019–2022).

However, we do not expect it to be sustained at this level as net interest income growth will slow on higher funding costs and operating expenses, given still-high inflation. The earnings generation capacity of the bank relative to some peers is still constrained by its concentrated business model.

Capital Buffers Reflect Low-Risk Assets: The regulatory leverage ratio (end-1H23: 4.8%) is adequate for a bank concentrated on low-risk assets, in our view, although it was lower than at larger domestic peers. The bank's strong common equity Tier 1 ratio (CET1; end-1H23: 20.4%) benefits from the low risk-weighting of its large residential mortgage loans portfolio, which typically accounts for more than 60% of total assets. The bank has strong capital buffers above regulatory requirements.

Stable Funding, Sound Liquidity: Stable and granular retail and SME deposits form the bulk of de Volksbank's funding (about 83% at end-June 2023), underpinning Fitch's assessment of liquidity and funding. 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, as reflected in its liquidity coverage ratio of 297% at end-June 2023, 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 downgrades of the Viability Rating (VR) and Long-Term IDR are unlikely in the near term given de Volksbank's significant headroom within 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 de Volksbank's business profile and profitability, together with a higher risk profile, for example through rapid expansion in riskier lending, which would cause 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/RWAs 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

Rating level	Rating
Deposits (long-term/short-term)	A/F1
Senior preferred debt (long-term/short-term)	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2	BBB

Source: Fitch Ratings

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

The bank'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-', in line with its Long-Term IDR.

The short-term senior preferred and deposit 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

The bank's subordinated Tier 2 debt is rated two notches below its VR, in line with the baseline notching for this type of debt, so as 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 resolution.

Significant Changes from Last Review

Solid 1H23 Performance

Net income (1H23: EUR248 million) had more than doubled from 1H22 levels (EUR95 million), driven by growth in net interest income (+78% yoy) stemming from the higher interest rate environment. The NIM rose to 2.1%, from 1.3% in 2022, on the significantly improved deposit margin as a result of low deposit rate-pass through in the Dutch market. Net fee and commission income grew 38% yoy, helping to partially offset a 40% decline in other operating income that had been boosted by a large one-off gain on derivatives in 1H22.

Operating costs rose by a significant 20% yoy, driven by high growth in both personnel and other operating expenses. Staff costs rose due to a combination of wage inflation and a greater number of contractors. The increase in staff was partly to meet the bank's customer integrity requirements, with investments in this initiative also being key drivers of other operating expense-related growth. Similar to Dutch peers, loan impairment charges remained modest at just 5bp of average gross loans (2022: 8bp), reflecting the bank's sound credit quality, which is underpinned by its low-risk Dutch residential mortgage loan portfolio.

The loans/deposits ratio rose slightly to 88% by end-June 2023 (2022: 86%) as a result of modest 1% lending growth and a 0.5% decrease in deposits as a result of lower SME balances. Retail deposits were unchanged from end-2022 (EUR44.5 billion).

Anti-Money-Laundering Risk Assessment Deficiencies

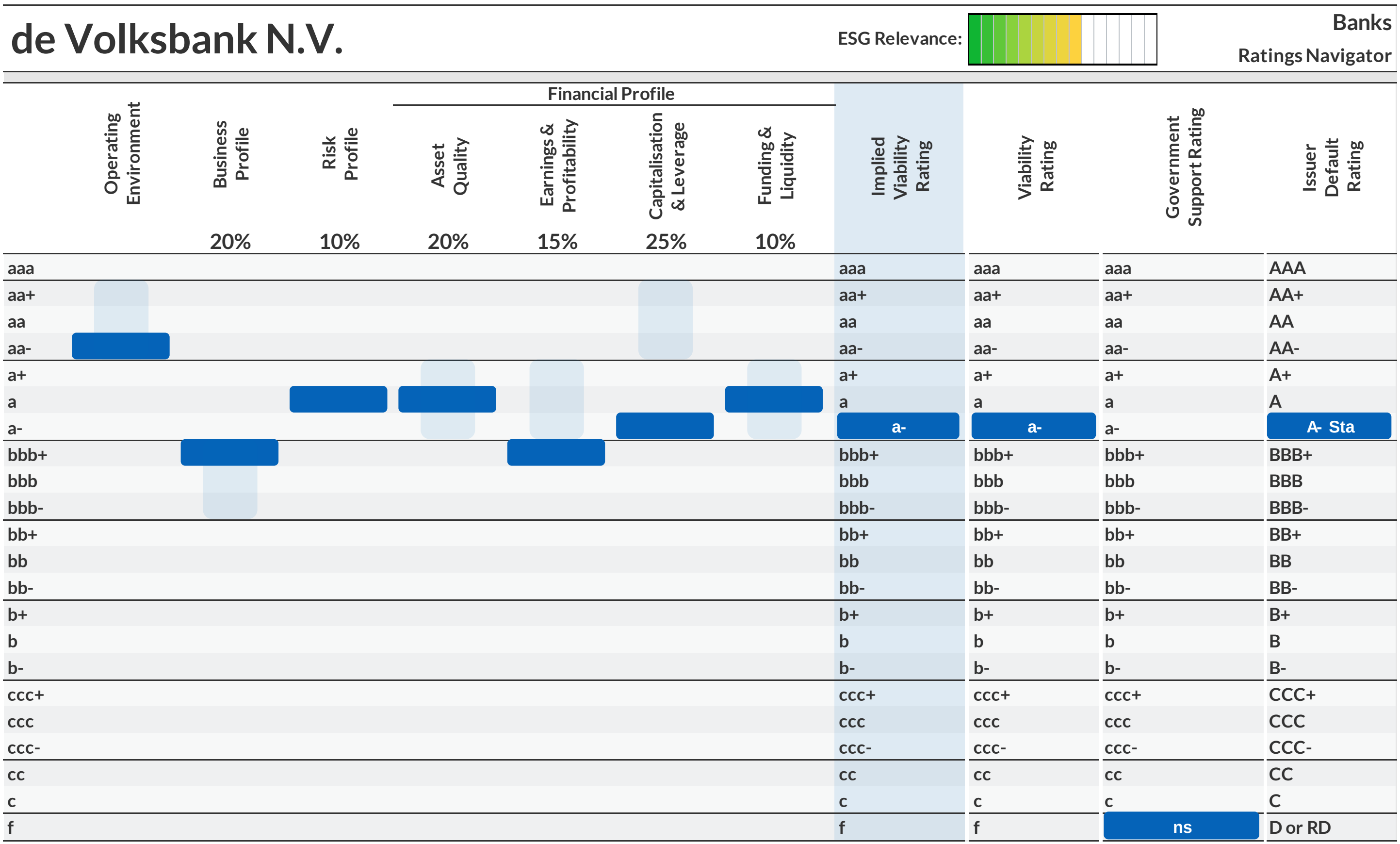
The bank has been working on strengthening its customer due diligence and transaction monitoring controls since shortcomings were identified in a supervisory review by the Dutch central bank (DNB) in 2020. However, in June 2023 the DNB informed the bank that, following a new review conducted in 2022, it highlighted, among other findings, that de Volksbank did not adequately identify and assess its risks of money laundering and financing of terrorism. As a result, the DNB issued an instruction to de Volksbank to remedy this deficiency by 1 April 2024 and has informed the bank of its intention to impose a fine, although the amount is still unknown.

The bank has announced that it will develop a comprehensive remediation plan and make additional investments to improve its Systemic Integrity Risk Analysis by the required date. This will lead to higher near-term compliance and regulatory-related costs than we had expected but we believe the overall financial impact on de Volksbank's earnings should be manageable, as it should be absorbed by the bank's improved profitability. However, the bank's non-compliance is a negative development with regard to our view of the bank's risk controls.

ECB Sanction on RWA Calculation Error

In August 2023, the European Central Bank (ECB) imposed a penalty of about EUR4.5 million on de Volksbank for under-reporting its RWAs from 2014 to 2021. The bank applied a zero-risk weight to Swiss regional government exposures rather than the correct 20% weighting, resulting in the bank reporting higher capital ratios than it should have done. The ECB noted that deficiencies in internal controls prevented the bank from spotting the mistake in a timely manner.

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.

VR - Adjustments to Key Rating Drivers

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’ category implied score due to the following adjustment reason: Internal capital generation and growth (negative).

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm) Reviewed - unqualified	6 months - interim (EURm) Reviewed - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	719	662	851	775	850
Net fees and commissions	36	33	51	39	46
Other operating income	43	40	63	13	27
Total operating income	799	735	965	827	923
Operating costs	423	389	655	667	652
Pre-impairment operating profit	376	346	310	160	271
Loan and other impairment charges	9	8	52	-58	38
Operating profit	367	338	258	218	233
Other non-operating items (net)	0	0	0	0	0
Tax	98	90	67	56	59
Net income	269	248	191	162	174
Other comprehensive income	10	9	-159	-22	6
Fitch comprehensive income	279	257	32	140	180
Summary balance sheet					
Assets					
Gross loans	53,888	49,593	49,120	50,677	50,708
- Of which impaired	605	557	549	607	678
Loan loss allowances	189	174	154	107	166
Net loans	53,699	49,419	48,966	50,570	50,542
Interbank	4,207	3,872	6,884	4,527	5,527
Derivatives	3,388	3,118	3,302	591	864
Other securities and earning assets	6,428	5,916	5,591	5,638	5,113
Total earning assets	67,722	62,325	64,743	61,326	62,046
Cash and due from banks	11,182	10,291	8,011	10,305	5,135
Other assets	448	412	401	450	303
Total assets	79,352	73,028	73,155	72,081	67,484
Liabilities					
Customer deposits	61,491	56,590	56,859	57,595	53,082
Interbank and other short-term funding	2,900	2,669	2,690	1,057	1,185
Other long-term funding	9,261	8,523	8,450	8,436	6,949
Trading liabilities and derivatives	1,033	951	924	1,013	2,163
Total funding and derivatives	74,685	68,733	68,923	68,101	63,379
Other liabilities	468	431	524	494	655
Preference shares and hybrid capital	324	298	298	0	0
Total equity	3,875	3,566	3,410	3,486	3,450
Total liabilities and equity	79,352	73,028	73,155	72,081	67,484
Exchange rate		USD1 = EUR0.920302	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.4	1.7	1.6	2.3
Net interest income/average earning assets	2.1	1.3	1.3	1.4
Non-interest expense/gross revenue	52.9	67.9	80.7	70.6
Net income/average equity	14.3	5.6	4.7	5.1
Asset quality				
Impaired loans ratio	1.1	1.1	1.2	1.3
Growth in gross loans	1.0	-3.1	-0.1	0.3
Loan loss allowances/impaired loans	31.2	28.1	17.6	24.5
Loan impairment charges/average gross loans	0.1	0.1	-0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	20.4	20.3	22.7	31.2
Fully loaded common equity Tier 1 ratio	20.9	20.2	22.5	n.a.
Tangible common equity/tangible assets	4.9	4.6	4.8	5.1
Basel leverage ratio	4.8	4.7	5.1	5.2
Net impaired loans/common equity Tier 1	12.1	12.7	15.7	15.9
Funding and liquidity				
Gross loans/customer deposits	87.6	86.4	88.0	95.5
Gross loans/customer deposits + covered bonds	n.a.	80.1	81.8	89.3
Liquidity coverage ratio	297.0	233.0	324.0	233.0
Customer deposits/total non-equity funding	83.1	83.3	85.9	86.7
Net stable funding ratio	179.0	174.0	176.0	n.a.

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Support Assessment

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

No Government Support into Ratings

The GSR of '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. This is despite the Netherlands government's 100% ownership of de Volksbank, which we view as non-strategic due to its ultimate aim of privatising the bank.

Environmental, Social and Governance Considerations

FitchRatings **de Volksbank N.V.**

Banks
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Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
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.	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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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