

Banks Ratings Navigator		
Navigator date:	26 Nov 2018	
Last rating action:	24 Nov 2017	
Sector Details:		
Bank sector:	Retail	
Region:	DM Europe	
Country:	Netherlands	
Country IDR:	AAA Stable	
Last action:	26 Oct 18 Affirmed	
Country ceiling:	AAA	
Macro prudential indicator:	1	
Bank systemic indicator:	a	
Bank Rating History		
Viability Rating (VR)		
24 Nov 17	a-	Upgrade
24 Feb 17	bbb+	Affirmed
14 Apr 16	bbb+	Upgrade
Issuer Default Rating (IDR)		
24 Nov 17	A- Stable	Upgrade
24 Feb 17	BBB+ Positive	Affirmed
14 Apr 16	BBB+ Stable	Upgrade
Support Rating Floor (SRF)		
24 Nov 17	NF	Affirmed
24 Feb 17	NF	Affirmed
14 Apr 16	NF	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
<span style="color: red;">■</span>	Higher Influence	
<span style="color: blue;">■</span>	Moderate Influence	
<span style="color: lightblue;">■</span>	Lower Influence	
Bar Arrows = Rating Factor Outlook		
↑	Positive	↓ Negative
↕	Evolving	□ Stable
Peer Ratings bars = Count of banks		
70	DM Europe Retail	
3	Netherlands Retail	
Relevant Criteria & References		
<a href="#">Bank Rating Criteria (Oct 2018)</a>		
<a href="#">Macro-Prudential Risk Monitor (Sep 2018)</a>		
Analysts		
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	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A- Stable
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Support Rating Floor	Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A or A-		
Actual country D-SIB SRF	NF		
<b>Support Rating Floor:</b>	<b>NF</b>		
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Drivers & Sensitivities	
<b>Focus on Low-Risk Residential Mortgage Lending</b>	De Volksbank's ratings reflect the bank's sound asset quality and moderate risk appetite with a focus on low-risk residential mortgage lending. They are constrained by the bank's concentrated business model and franchise that lacks the breadth of the three larger Dutch banks.
<b>High-Quality Loan Book</b>	De Volksbank's impaired loans are low (1.5% of gross loans at end-June 2018) despite a one-off increase on 1 January 2018 due to the adoption of IFRS 9. Like-for-like, the bank's asset quality is improving, helped by a benign operating environment and conservative underwriting.
<b>Revenue Headwinds</b>	We expect de Volksbank's revenue to remain pressured by subdued loan growth, the low-rate environment, intense competition in the Dutch mortgage lending market and the necessary build-up of MREL-eligible liabilities, which will weigh on the bank's funding costs.
<b>Cost Efficiency Plan Key to Sustaining Profitability</b>	De Volksbank's profitability is healthy despite the revenue headwinds, with operating profit/risk weighted assets (RWA) of 4.2% in 1H18. In our view, the implementation of the bank's cost-efficiency programme will be crucial in safeguarding profitability as loan losses normalise.
<b>Low Risk-Weights on Mortgage Lending</b>	De Volksbank's risk-weighted capital ratios compare well with Dutch banking peers', with a common equity Tier 1 ratio of 34.3% at end-June 2018, partly as a consequence of low risk-weighting of residential mortgage loans.
<b>Sound Leverage</b>	We believe the bank's minimum 4.25% leverage ratio target will help it preserve ample buffers over its capital requirements despite RWA inflation under Basel III end-game rules. The bank's leverage ratio at end-June 2018 (5.2%) is sound, in line with its retail banking profile.
<b>Mainly Funded by Deposits</b>	De Volksbank is predominantly deposit-funded, with a loans/deposits ratio of 104% at end-June 2018. The bank's funding mix is stable, but wholesale funding may be more confidence-sensitive than larger banks' with a more established presence in debt capital markets, in our view.
<b>Ratings Sensitive to Changes in Risk Appetite</b>	An upgrade is unlikely within the constraints of de Volksbank's franchise and business model. While not our base case, the bank's ratings could come under pressure if risk appetite increases, for example through looser underwriting standards or an abrupt shift in business model.

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