

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

22 July 2021

Update

 Rate this Research

RATINGS

de Volksbank N.V.

Domicile	Utrecht, Netherlands
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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de Volksbank N.V.

Semi-annual update

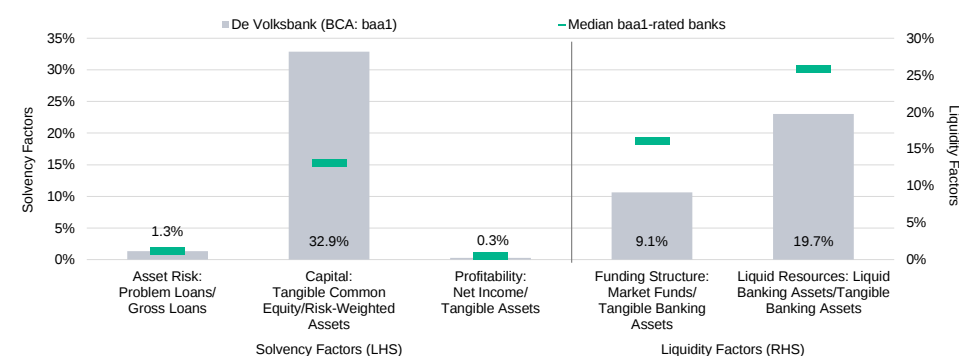
Summary

De Volksbank's long-term deposit and senior unsecured debt ratings of A2 reflect the bank's Baseline Credit Assessment (BCA) of baa1, and our application of Moody's Advanced Loss Given Failure (LGF) analysis, which results in a low loss-given-failure and one notch of uplift in view of these debt instruments' volume and the current and future cushion brought by subordinated instruments. These ratings also reflect one notch of government support uplift because of the bank's systemic importance in the Netherlands.

The bank's BCA of baa1 reflects the bank's very low risk profile, strong capital base and moderate profitability. As a result of its strategic focus on domestic retail mortgages, de Volksbank's asset risk has been resilient despite the coronavirus crisis. The bank has a very strong capital base, which will help it cope with any deterioration in asset quality and future regulatory requirements. The bank's revenues and profits will continue to suffer from declining net interest margins due to the low interest rate environment, but strong cost controls will enable the bank to maintain moderate profitability. However, de Volksbank's credit profile will remain constrained by its lack of diversification and low-margin products.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » De Volksbank's asset book is primarily focused on low-risk Dutch retail mortgages.
- » The bank has built a very strong capital buffer in preparation for higher capital requirements and to offset the weakness associated with being a monoline bank.

- » The bank benefits from a sound liquidity profile, which is enhanced by its good access to market funding.
- » De Volksbank benefits from a moderate likelihood of government support in a stress scenario.

Credit challenges

- » De Volksbank's profitability is challenged by the low interest rate environment and the highly competitive Dutch mortgage market.
- » The coronavirus crisis will affect profitability through a slowdown of lending activity and higher loan-loss charges.
- » The bank's asset quality and revenue are constrained by its monoline business and are highly correlated with the Dutch mortgage market.

Outlook

The outlook on de Volksbank's long-term deposit and debt ratings is stable, reflecting our view that the bank's asset risk will remain very low, while its capital buffer will continue to be strong despite an erosion which we expect to materialize overtime. The low cost of risk and tight control over operating costs will continue to support the bank's profitability and help withstand the pressure stemming from low interest rates.

Factors that could lead to an upgrade

- » De Volksbank's BCA could be upgraded if the bank's profitability were to strengthen. An upgrade of the bank's BCA would likely result in an upgrade of all the ratings.
- » An increase in the volume of subordination brought by junior senior debt issuance could result in an upgrade of the bank's deposit and senior unsecured debt rating.

Factors that could lead to a downgrade

- » De Volksbank's BCA could be downgraded as a result of a material deterioration in the bank's asset quality and solvency, driven by a severe downturn in the domestic economy or a deterioration in its liquidity profile. A downgrade of the bank's BCA would likely lead to a downgrade of all its ratings.
- » A material decrease in the amount of outstanding senior unsecured debt and junior deposits, together with lower-than-expected issuance of junior senior debt, would also potentially lead to a downgrade of the senior unsecured and deposit ratings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

de Volksbank N.V. (Consolidated Financials) [1]

	12-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (EUR Million)	65,218.0	60,971.0	59,770.0	59,668.0	60,599.0	1.9 ⁴
Total Assets (USD Million)	79,797.9	68,439.8	68,325.8	71,649.2	63,916.9	5.7 ⁴
Tangible Common Equity (EUR Million)	3,397.0	3,382.0	3,514.0	3,560.0	3,366.0	0.2 ⁴
Tangible Common Equity (USD Million)	4,156.4	3,796.3	4,017.0	4,274.8	3,550.3	4.0 ⁴
Problem Loans / Gross Loans (%)	1.3	1.3	1.3	1.4	1.8	1.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	32.9	34.9	37.6	36.4	31.1	34.6 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.0	18.4	18.0	18.4	24.4	19.6 ⁵
Net Interest Margin (%)	1.3	1.4	1.5	1.5	1.5	1.5 ⁵
PPI / Average RWA (%)	2.8	3.8	3.7	4.2	3.4	3.6 ⁶
Net Income / Tangible Assets (%)	0.3	0.5	0.4	0.6	0.6	0.5 ⁵
Cost / Income Ratio (%)	70.4	61.9	63.7	58.8	62.8	63.5 ⁵
Market Funds / Tangible Banking Assets (%)	9.1	10.4	12.4	13.4	13.4	11.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	19.7	14.2	12.3	16.0	17.8	16.0 ⁵
Gross Loans / Due to Customers (%)	96.0	105.7	108.7	109.8	107.3	105.5 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

De Volksbank N.V. (de Volksbank, formerly SNS Bank NV) is the fourth-largest retail bank in the Netherlands. As of year-end 2020, de Volksbank reported €67 billion in consolidated assets, a deposit base of €54 billion and a loan book of €51 billion. De Volksbank essentially provides residential mortgages (around 95% of the total loan book), as well as current accounts, savings accounts and investment products. The bank services individual retail customers and, to a lesser extent, small and medium-sized enterprises (SMEs) in the Netherlands.

On 31 December 2016, ASN Bank NV, RegioBank NV and SNS Bank NV were legally merged, following which the separate banking licenses of ASN Bank NV and RegioBank NV subsequently lapsed and the bank was renamed de Volksbank on 1 January 2017.

Following large losses in its commercial real estate lending portfolio, the former SNS Group (SNS REAAL) was nationalized on 1 February 2013 and was subjected to an in-depth restructuring. In July 2016, the Dutch state agency NL Financial Investments (NLF), the owner of de Volksbank, submitted a report to the Dutch Ministry of Finance, advising it to postpone any decisions regarding the privatization of the bank. In February 2021, the bank presented to NLF its new strategic plan 2021-2025, which was included in the progress report written by the NLF for the Minister of Finance and published on 30 June 2021.

Please see [De Volksbank N.V. - Key facts and statistics: H1 June 2020](#) for further information on de Volksbank.

Detailed credit considerations

De Volksbank's asset book is primarily focused on low-risk Dutch retail mortgages

De Volksbank's business strategy is focused on retail mortgages (around 95% of total loans and advances to customers) and savings accounts in the Netherlands. As a result of strong macroeconomic conditions until recently in the Netherlands and stricter lending standards, driven by the [Government of Netherlands'](#) (Aaa stable) measures on the tax deductibility of home loan interest payments and maximum loan-to-value (LTV) ratios, de Volksbank's asset-risk profile is strong. As of the end of 2020, the bank's impaired loans (Stage 3 assets under IFRS 9) were 1.3% of gross loans versus 1.7% for the Dutch average¹.

In 2020, the bank recorded loan-loss charges of €38 million and the cost of risk was 8 basis point (bp) of average loans, versus a reversal of €7 million (-1 bps) in 2019, driven by the coronavirus pandemic. The provisions are solely linked to forward-looking loan-loss charges (stage 1 and stage 2) and not to incurred losses (stage 3). The Dutch government's support measures to the economy will attenuate the impact of the virus crisis and avoid a sharp rise in corporate bankruptcies leading to a significant rise in unemployment.

The government also decided to help self-employed individuals who record a decline of their profits above 20%. These measures are positive for the performance of de Volksbank's mortgage loan book.

Despite the risks identified in the Dutch housing market, de Volksbank's mortgage portfolio is sound (as year-end 2020, impaired loans within the mortgage loan book represented 1.1% of the portfolio ²):

- » The bank's mortgage loan book is spread across all Dutch provinces and is not concentrated in large cities where house prices have increased the most and overheating risk is more acute.
- » The proportion of interest-only (100% and partially) and investment-based retail mortgage loans, which are more prone to repayment risks, is decreasing (56% as of the end of 2020, compared with 61% as year-end 2018 and 64% as of year-end 2017).
- » The average LTV ratio of outstanding loans has been decreasing (61% as of the end of 2020, compared with 74% as of year-end 2017) as a result of the house price increase and the Dutch government's measures to lower the LTV ratio at origination to a maximum of 100% in 2018. The increasing share of annuity mortgages has also contributed to lower LTV ratios.
- » Around 30% of de Volksbank's mortgage loans benefit from a guarantee of the Dutch Mortgage Guarantee (Nationale Hypotheek Garantie or NHG).³
- » An increasing share (64% as of the end of 2020, compared with 61% as of year-end 2017) of de Volksbank's mortgage loans bear a fixed interest rate for a minimum of 10-15 years (after which, the interest rate can be reset or becomes variable), protecting borrowers from an interest rate upsurge during that period.

De Volksbank's loan book outside retail mortgages (5% of the total loan book) mainly consists of loans to the public sector and SMEs. Although the cost of risk on SMEs has been limited historically (loan-loss charges were a reversal of €8 million in 2019), loan-loss charges jumped to €8 million for a SME portfolio of €686 million, equivalent to an annualised cost of risk of 116 bps in 2020.

The bank also holds a financial investment portfolio for liquidity purposes, amounting to €5.1 billion as of year-end 2020. As of year-end 2020, the investment portfolio mainly comprised government bonds (€3.2 billion) and corporate bonds (€1.8 billion). Almost the entire investment portfolio has very high credit quality (36% with a AA rating and 55% with a AAA rating as of the end of 2020).

De Volksbank's low risk profile is reflected in its a2 Asset Risk score.

The bank's capital buffer is large given its risk profile ; its capital ratio will however decrease because of upcoming regulatory changes

De Volksbank's Common Equity Tier 1 (CET1) capital ratio was 31.2% as of year-end 2020, well above the requirement of 9.41% for 2020, a decrease from the requirement of 10.5% for 2019. As of year-end 2020, de Volksbank's fully loaded leverage ratio was 5.2%.

De Volksbank estimates that the finalization of the Basel III rules, published by the Basel Committee on 7 December 2017, would increase its RWAs by around 30%⁴, which is equivalent to a negative impact of 7 percentage points on its CET1 ratio. The Dutch Central Bank announced in October 2019 the introduction of a minimum floor for risk weighting of non-NHG guaranteed mortgage loans, effective in the second half of 2020. The Dutch supervisor announced in March 2020 that this floor would be postponed due to the coronavirus crisis. Despite these regulatory changes (some of them postponed), the bank estimates that its CET1 ratio will remain well above its current internal target of at least 19%.

De Volksbank proposed to set aside a €165 million dividend from its 2019 profit to its sole shareholder, NLF1, which would correspond to a payout ratio of 60%, at the high end of its 40%-60% payout target. Following the ECB's guidance not to pay dividends, de Volksbank has temporarily postponed the planned dividend payment. Although the dividend has not yet been paid out, the amount has already been set aside for dividend distribution. For 2020, a dividend of €104 million was proposed, which would correspond to a payout ratio of 60% of net income. It is planned to be paid out as soon as the ECB's restrictions are removed.

The bank made a one-off capital distribution of €250 million to its shareholder NLF1 in 2019. We believe that before its sale, de Volksbank would likely upstream some of the current excess capital to the Dutch state. Therefore, De Volksbank's CET1 capital would decrease to a level closer to the bank's Basel IV target, that is, 19%.

De Volksbank's profitability is challenged by low interest rates and a highly competitive environment

The profitability of de Volksbank's core retail activities is constrained by the low interest rate environment, the bank's modest commercial franchise compared with that of its Dutch peers and a portfolio comprised of low-margin loans (net interest income amounts to around 90% of its total income). In 2020, the bank reported net profit of €174 million, down 37% from 2019, due to higher operating expenses and loan-loss charges.

Net interest income fell by 3% in 2020, driven by lower interest income on mortgages, although partially compensated by the decrease in interest rates paid on client deposits (which are now close to zero) and lower interest expenses on interest rate derivatives. Furthermore, de Volksbank participated for €0.7 billion in the ECB's TLTRO III, which will allow to partly alleviate margin pressure. But overall, the bank's net interest margin decreased to 130 bps in 2020 from 137 bps in 2019. We expect a further decline in net interest income as margins will be under growing pressure.

Operating expenses went up by €78 million to €652 million (+14%) in 2020, driven partly by €45 million of restructuring charges related to the transformation of the bank. In addition regulatory levies were €9 million higher versus 2019. The adjusted cost-to-income ratio⁵ deteriorated to 65% in 2020 (57% in 2019), compared with a target range of 50%-52% in 2020. For 2021, operating expenses are expected to be higher as a result of additional expenses related to the new strategy of the bank as well as higher regulatory levies. De Volksbank aims to preserve its profitability by broadening both its customer base, notably by developing the segment of SME business owners, and its product offering, with a view of increasing the proportion of fee income in its revenues.

These factors are reflected in the bank's assigned profitability score of ba3.

De Volksbank benefits from sound funding and liquidity profiles, enhanced by its good access to market funding

Retail funding represents around 80% of the bank's total funding (excluding equity). De Volksbank has a large deposit base amounting to almost €54 billion and the bank's reported loan-to-deposit ratio was 92% as of year-end 2020. De Volksbank's long-term wholesale funding (€6.9 billion) is primarily composed of covered bonds (54%) and senior unsecured debt (32%).

De Volksbank has to comply with a non-risk-weighted Minimum Requirements for Own Funds and Eligible Liabilities (MREL) of 8.0% of total liabilities and own funds (commonly referred to as TLOF), which the bank intends to fulfill entirely with its capital and subordinated instruments (at year-end 2020, the bank's non-risk-weighted MREL ratio was 5.7% excluding senior unsecured debt). In this regard, de Volksbank expects to issue €2 billion to €2.5 billion of junior senior debt (senior non-preferred) by 2024.

De Volksbank's liquidity profile would enable it to resist a prolonged financial market disruption. Its liquid assets amounted to €19 billion as of year-end 2020, while its wholesale funding maturing in 2021 was €0.3 billion as of year-end 2020. The bank's liquidity buffer mainly consists of "in-house" residential mortgage-backed securities (RMBS) eligible for central bank refinancing (€9 billion), cash (€6 billion) and sovereign and public-sector bonds (€4 billion). Although the RMBS are eligible for European Central Bank operations, we consider them of lower quality than central bank deposits or government bonds because they may not be negotiable in the secondary market in a stress situation.

De Volksbank's strong liquidity and funding profiles are confirmed by its liquidity coverage ratio of 233% as of year-end 2020, although this ratio is highly dependent on the retained RMBS, accounting for around 50% of liquidity reserves as of the same date, and a net stable funding ratio well above 100% (as disclosed by the issuer) as of the same date. They are reflected in the bank's baa1 combined Liquidity score.

De Volksbank's baa1 BCA reflects its Financial Profile score of a3, which, however, is adjusted downward by one notch to reflect the bank's monoline activity.

Environmental, social and governance considerations

De Volksbank has a low exposure to environmental risk, in line with our general view for the banking sector as explained in our [Environmental risk heatmap](#). Environmental risks to banks are usually indirect, undertaken through financing clients' operations, which are the acquisition of residential real estate in de Volksbank's case. Such risk exposure is unlikely to translate into a meaningful credit impact, because of the broad geographical diversification within the Netherlands, unless large parts of the country are subject to environmental catastrophes. Reputational risk due to the financing of the Dutch housing market is negligible in our opinion.

Social considerations (see our [Social risks heat map](#)) are relevant for de Volksbank in the sense that, as for other Dutch banks, it is likely subject to regular investigations by the Dutch supervisor related to good customer care and the potential selling of unsuitable or uneconomical products to clients. Investigations and related fines imposed by supervisors represent significant reputational risk for banks. Dutch supervisors are scrutinizing sales practices of residential mortgages, including in relation to penalties charged to customers for early repayment. In the recent past, the bank was forced to compensate certain SME clients through a Dutch industry-wide framework for alleged mis-selling of interest rate derivatives.

Governance is highly relevant for de Volksbank, as it is to all players in the banking industry, and we do not have any particular governance concern. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. De Volksbank has not shown any major governance shortfalls since its nationalisation in 2013. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring

Support and structural considerations

Loss Given Failure (LGF) analysis

De Volksbank is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We assume a residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and a 25% probability of deposits being preferred to senior unsecured debt. Because de Volksbank's deposits are mainly retail in nature, we assume 90% of them will be preferred (and 10% being junior) in an event of failure.

- » Our LGF analysis indicates a low loss-given-failure, which results in one notch of uplift in view of these debt instruments' volume and the present and future cushion brought by subordinated instruments. Indeed, as mentioned above, we factor-in in the LGF calculations the bank's publicly stated willingness to issue between €2 billion and €2.5 billion of junior senior debt. The bank already issued €1 billion of these in H1 2021.
- » Our LGF analysis indicates a high loss given failure for subordinated debt and junior senior debt, leading us to make a one-notch negative adjustment to the bank's Adjusted BCA.

Government support considerations

We consider de Volksbank a systemically important institution and thus believe that there is a moderate probability of government support for its junior deposits and senior unsecured debt, resulting in a one-notch uplift from the bank's BCA. For other junior securities, we assume a low probability of government support and, therefore, the ratings for these instruments do not include any related uplift.

Counterparty Risk Ratings (CRRs)

De Volksbank's CRRs are positioned at Aa3/Prime-1

de Volksbank's CRRs, before government support, are placed three notches higher than the Adjusted BCA of baa1, based on the level of subordination to CRR liabilities in the bank's balance sheet, and assuming a nominal volume of CRR liabilities themselves. The CRRs also benefit from one notch of government support uplift, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

De Volksbank's CR Assessment is positioned at Aa3(cr)/Prime-1(cr)

The CR Assessment includes three notches of uplift from the bank's BCA of baa1, based on the buffer against default provided by subordinated instruments, and in line with our support assumptions on deposits and senior unsecured debt, one notch of government support uplift to the senior obligations represented by the CR Assessment. The main difference with our Advanced LGF approach, used to determine instrument ratings, is that the CR Assessment captures the probability of default on certain senior obligations rather than the expected loss and, therefore, focuses purely on subordination and takes no account of the volume of the instrument class.

Rating methodology and scorecard factors

Exhibit 3

de Volksbank N.V.

Macro Factors							
Weighted Macro Profile		Strong +	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.3%	aa3	↔	a2	Expected trend		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	32.9%	aa1	↔	aa2	Risk-weighted capitalisation		
Profitability							
Net Income / Tangible Assets	0.3%	ba2	↔	ba3	Expected trend		
Combined Solvency Score		a1		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	9.1%	a1	↔	a2			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	19.7%	baa2	↔	baa3			
Combined Liquidity Score		a3		baa1			
Financial Profile				a3			
Qualitative Adjustments				Adjustment			
Business Diversification				-1			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				a3 - baa2			
Assigned BCA				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			
Balance Sheet		in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure		
Other liabilities		7,781	11.9%	11,496	17.6%		
Deposits		53,065	81.4%	49,350	75.7%		
Preferred deposits		47,759	73.2%	45,371	69.6%		
Junior deposits		5,307	8.1%	3,980	6.1%		
Senior unsecured bank debt		1,915	2.9%	1,915	2.9%		
Dated subordinated bank debt		500	0.8%	500	0.8%		
Equity		1,957	3.0%	1,957	3.0%		
Total Tangible Banking Assets		65,218	100.0%	65,218	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF	Notching	Rating
	volume +	ordination	volume +	ordination			Guidance	notching		Assessment
	subordination		subordination				vs.			
							Adjusted			
							BCA			
Counterparty Risk Rating	12.8%	12.8%	12.8%	12.8%	3	3	3	3	0	a1
Counterparty Risk Assessment	12.8%	12.8%	12.8%	12.8%	3	3	3	3	0	a1 (cr)
Deposits	12.8%	3.8%	12.8%	6.7%	1	1	1	1	0	a3
Senior unsecured bank debt	12.8%	3.8%	6.7%	3.8%	1	-1	0	1	0	a3
Junior senior unsecured bank debt	3.8%	3.8%	3.8%	3.8%	-1	-1	-1	-1	0	baa2
Dated subordinated bank debt	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	0	baa2

Instrument Class	Loss Given	Additional	Preliminary Rating	Government	Local Currency	Foreign
	Failure notching	notching	Assessment	Support notching	Rating	Currency Rating
Counterparty Risk Rating	3	0	a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3(cr)	
Deposits	1	0	a3	1	A2	A2
Senior unsecured bank debt	1	0	a3	1	A2	A2
Junior senior unsecured bank debt	-1	0	baa2	0	Baa2	(P)Baa2
Dated subordinated bank debt	-1	0	baa2	0	Baa2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
DE VOLKSBANK N.V.	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A2
Junior Senior Unsecured -Dom Curr	Baa2
Junior Senior Unsecured MTN	(P)Baa2
Subordinate -Dom Curr	Baa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

Endnotes

- 1 European Banking Authority's Risk Dashboard.
- 2 Gross carrying amount
- 3 This guarantee is limited to mortgage loans for a maximum house price of €265,000 and thus primarily benefits first-time buyers.
- 4 Based on the balance sheet as of year-end 2020.
- 5 Adjusted for the impact of regulatory levies.

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