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CREDIT OPINION
28 July 2022

Update

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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	Positive

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.

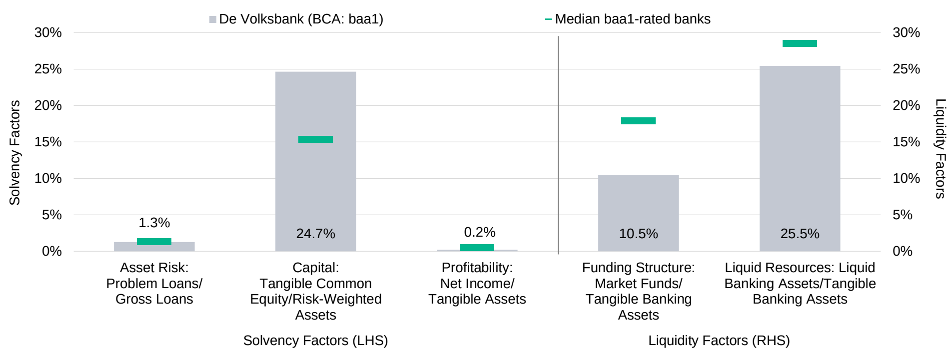
Update to credit analysis

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. 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 also progressively benefit from rising net interest margins due to the interest rate increases. 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 low margins in the highly competitive Dutch mortgage market.

» The bank's asset quality and revenue are constrained by the lack of diversification 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 rising interest rates, low cost of risk and tight control over operating costs will support the bank's profitability.

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.

Key indicators

Exhibit 2

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

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	72,081.0	65,218.0	60,971.0	59,770.0	59,668.0	4.8[4]
Total Assets (USD Million)	81,675.4	79,797.9	68,439.8	68,325.8	71,649.2	3.3[4]
Tangible Common Equity (EUR Million)	3,450.0	3,397.0	3,382.0	3,514.0	3,560.0	(0.8)[4]
Tangible Common Equity (USD Million)	3,909.2	4,156.4	3,796.3	4,017.0	4,274.8	(2.2)[4]
Problem Loans / Gross Loans (%)	1.2	1.3	1.3	1.3	1.4	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	24.7	32.9	34.9	37.6	36.4	33.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.1	19.0	18.4	18.0	18.4	18.2[5]
Net Interest Margin (%)	1.1	1.3	1.4	1.5	1.5	1.4[5]
PPI / Average RWA (%)	1.3	2.8	3.8	3.7	4.2	3.1[6]
Net Income / Tangible Assets (%)	0.2	0.3	0.5	0.4	0.6	0.4[5]
Cost / Income Ratio (%)	81.0	70.4	61.9	63.7	58.8	67.2[5]
Market Funds / Tangible Banking Assets (%)	10.5	9.1	10.4	12.4	13.4	11.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	25.4	19.7	14.2	12.3	16.0	17.5[5]
Gross Loans / Due to Customers (%)	87.5	96.0	105.7	108.7	109.8	101.5[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. (formerly SNS Bank NV) is the fourth-largest retail bank in the Netherlands. As of year-end 2021, de Volksbank reported €72 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.

In February 2021, the bank presented to the Dutch state agency NL Financial Investments (NLFI), the owner of de Volksbank, its new strategic plan 2021-2025. On 3 July 2022, NLFI submitted a report to the Dutch Ministry of Finance, advising the Dutch Ministry of Finance that it was too early to privatize the bank and that the strategic plan implemented by the bank was necessary whatever the decision taken with regard to the privatization.

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 2021, the bank's impaired loans (Stage 3 assets under IFRS 9 accounting standards) were 1.2% of gross loans versus 1.5% for the Dutch average[1].

In 2021, the bank recorded loan-loss reversals of €58 million and the cost of risk was negative at -12 basis points (bps) of average gross loans, versus a charge of €38 million (8 bps) in 2020, driven by the effects of the coronavirus pandemic. The reversals reflected the improved macroeconomic environment in 2021. We expect De Volksbank's asset quality to moderately deteriorate and cost of risk to normalize as the Dutch macroeconomic environment weakens and borrowers suffer from the inflationary environment.

De Volksbank's mortgage portfolio is sound (as year-end 2021, 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 (53% as of the end of 2021, compared with 56% as year-end 2020 and 64% as of year-end 2017).
- The average LTV ratio of outstanding loans has been decreasing (53% as of the end of 2021, 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.
- 27% of de Volksbank's mortgage loans benefit from a guarantee of the Dutch Mortgage Guarantee (Nationale Hypotheek Garantie or NHG).[3]
- The majority (57% as of the end of 2021) 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.
- Only 3% of the mortgage book is at a floating rate, alleviating concerns on the borrowers creditworthiness resulting from increasing interest rates.

De Volksbank's loan book outside retail mortgages (5% of the total loan book) mainly consists of loans to the public sector and SMEs. The cost of risk on SMEs has been limited historically, with an exception in 2020. Loan-loss reversals amounted to €12 million for an SME portfolio of €818 million in 2021.

The bank also holds a financial investment portfolio for liquidity purposes, amounting to €5.6 billion as of year-end 2021. As of year-end 2021, the investment portfolio mainly comprised government bonds (€3.3 billion) and corporate bonds (€2.3 billion). Almost the entire investment portfolio has very high credit quality (34% with AA ratings and 52% with AAA ratings as of the end of 2021).

De Volksbank's low risk profile is reflected in its a2 Asset Risk score. The negative adjustment by two notches reflects the concentration on the Dutch residential mortgage market.

The bank's capital buffer is large given its risk profile

De Volksbank's Common Equity Tier 1 (CET1) capital ratio was 22.7% as of year-end 2021, well above the requirement of 9.69% for 2021. The strong decrease of the CET1 capital ratio from 31.2% at year-end 2020 was the result of a temporary add-on related to internal credit risk model for residential mortgages and an ongoing supervisory review on database infrastructure. The RWA add-on for mortgages was decided by the Dutch supervisor in 2019 and came into force as of 1 January 2022. Given the RWA increase due to the update of de Volksbank's AIRB model and the Article 3 CRR add-on, which is fully related to RWAs for residential mortgages, the bank expects no impact of this measure.

De Volksbank estimates that the finalization of the Basel III rules would increase RWAs by 1.5% based on year-end 2021 figures, which is equivalent to a negative impact of only 0.2 percentage points on its CET1 ratio, after taking into account the RWA add-on on mortgages imposed by the Dutch supervisor. Despite these regulatory constraints, the bank estimates that its CET1 ratio will remain well above its current internal target of at least 19%.

For 2021, a dividend of €97 million was paid by de Volksbank, which corresponds to a payout ratio of 60% of net income. The €104 million dividend for the 2020 exercise as well as the remaining €145 million dividend for the 2019 exercise were both paid in October 2021. As of year-end 2021, de Volksbank's Tier 1 leverage ratio was 5.1%.

We adjust the Capital score by one negative notch to aa2 in order to account for low risk weights attributed to Dutch residential mortgages and relatively high leverage compared to risk-weighted capital ratios.

De Volksbank's profitability will benefit from higher interest rates despite a highly competitive environment

The profitability of de Volksbank's core retail activities is constrained by 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 94% of its total income). In 2021, the bank reported net profit of €162 million, down 7% from 2020, mostly driven by lower net interest income.

Net interest income fell by 9% in 2021, driven by lower interest income on mortgages, although partially compensated by the decrease in interest rates paid on client deposits (starting from July 2021, de Volksbank charged 0.5% interest per year on that part of the balance on clients accounts that exceeds €100,000) and lower interest expenses on interest rate derivatives. Furthermore, de Volksbank participated for €0.77 billion in the ECB's TLTRO III since 2020, which allowed to partly alleviate margin pressure. But overall, the bank's net interest margin decreased to 111 bps in 2021 from 130 bps in 2020. We expect that the increase in interest rates will support the bank's net interest income going forward.

Operating expenses went up by 2% to €667 million in 2021, mostly driven partly by higher IT costs and regulatory levies. The adjusted cost-to-income ratio deteriorated to 81% in 2021 (71% in 2020), and should remain above the 2025 target range of 57-59% in the next few years. We do not expect the bank to achieve this cost-to-income target in the short term. In 2022, we expect operating expenses to be higher as a result of additional expenses related to the new strategy of the bank. 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.

Despite efforts to increase fee revenues and net interest margin improvement from increasing interest rates, we expect profitability to moderately deteriorate in the short term due to the impact of the inflationary environment and the weakening economy on staff expenses and the cost of risk. Longer term, we expect the normalisation of interest rates to support the bank's revenues and profitability.

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

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

Retail funding represents around 85% of the bank's total funding (excluding equity). De Volksbank has a large deposit base amounting to €58 billion and the bank's reported loan-to-deposit ratio was 86% as of year-end 2021. De Volksbank's long-term wholesale funding (€8.2 billion) is primarily composed of covered bonds (54%) and senior unsecured debt (36%).

From January 2022, de Volksbank has to comply with a Minimum Requirements for Own Funds and Eligible Liabilities (MREL) of 7.87% of the leverage ratio exposure (LRE), which the bank intends to fulfill entirely with its capital and subordinated instruments. The bank's MREL ratio on LRE was 7.5% excluding senior unsecured debt at year-end 2021. In this regard, de Volksbank targets issuance of €1.2 billion to €1.7 billion of junior senior debt (senior non-preferred) by 2024. The bank also issued €300 million of Additional Tier 1 (AT1) securities in June 2022.

De Volksbank's liquidity profile would enable it to resist to a prolonged financial market disruption. Its liquidity position amounted to €22.6 billion as of year-end 2021, while its wholesale funding maturing in 2022 was only €0.5 billion as of year-end 2021. The bank's liquidity buffer mainly consists of “in-house” residential mortgage-backed securities (RMBS) eligible for central bank refinancing (€7.9 billion), cash (€10.7 billion) and sovereign and public-sector bonds (€3.3 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.

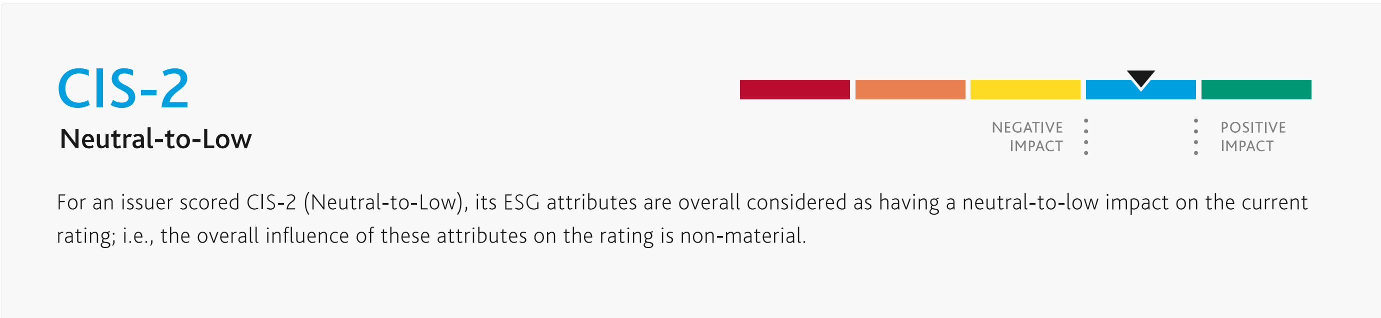
De Volksbank's strong liquidity and funding are confirmed by the liquidity coverage ratio of 324% as of year-end 2021, although this ratio is strongly influenced by the retained RMBS, accounting for 35% of liquidity reserves, and a net stable funding ratio of 176% as of the same date. They are reflected 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.

ESG considerations

De Volksbank N.V.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

De Volksbank's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social factors on the ratings to date. The bank's corporate governance risks mainly stem from reported dissenting views within the board of directors, which resulted in high turnover amongst senior management in recent years.

Exhibit 4
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

De Volksbank faces low exposure to environmental risks. The bank has limited exposure to carbon transition risks because its loan book is concentrated in Dutch residential mortgages (95% of total as of year-end 2021) and it has negligible exposure to the corporate sector.

Social

De Volksbank faces high industrywide social risks related to regulatory and litigation risks, requiring high compliance standards. The Dutch regulator's high focus on mis-selling and misrepresentation is mitigated by developed policies and procedures. High cyber and data risks are mitigated by a strong IT framework.

Governance

De Volksbank faces moderate governance risks. The group has a proven track record of conservative financial policies, contained risk appetite and efficient risk management and controls. However, the bank reported dissenting views within the board of directors, which resulted in high turnover amongst senior management in recent years, and the credibility of its strategy will be established over time. De Volksbank has a relatively simple legal structure, reflecting its domestic and retail franchise. The bank is fully owned by the Dutch state. However, the large presence of independent administrators, and the domestic developed institutional framework mitigate associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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.

Under our Advanced forward-looking LGF analysis, the portion of De Volksbank's TLTRO drawdowns which we estimate is redeposited at the ECB is deducted from the bank's tangible banking assets, thereby reducing the inflationary impact of TLTRO on the bank's balance sheet.

» 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 plan to issue €1.2 billion to €1.7 billion of junior senior debt (senior non-preferred) by 2024, as well as the Additional Tier 1 (AT1) instrument issued in June 2022.

» 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 5

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)	24.7%	aa1	↔	aa2	Risk-weighted capitalisation		
Profitability							
Net Income / Tangible Assets	0.2%	b1	↔	ba3	Expected trend		
Combined Solvency Score		a2		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	10.5%	a2	↔	a2			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	25.4%	a3	↔	baa3			
Combined Liquidity Score		a2		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	10,054	14.1%	13,671	19.2%
Deposits	55,959	78.5%	52,042	73.0%
Preferred deposits	50,363	70.6%	47,845	67.1%
Junior deposits	5,596	7.8%	4,197	5.9%
Senior unsecured bank debt	1,653	2.3%	1,653	2.3%
Junior senior unsecured bank debt	1,000	1.4%	1,000	1.4%
Dated subordinated bank debt	500	0.7%	500	0.7%
Preference shares (bank)			300	0.4%
Equity	2,139	3.0%	2,139	3.0%
Total Tangible Banking Assets	71,305	100.0%	71,305	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	13.7%	13.7%	13.7%	13.7%	3	3	3	3	0	a1
Counterparty Risk Assessment	13.7%	13.7%	13.7%	13.7%	3	3	3	3	0	a1 (cr)
Deposits	13.7%	5.5%	13.7%	7.8%	1	1	1	1	0	a3
Senior unsecured bank debt	13.7%	5.5%	7.8%	5.5%	1	0	1	1	0	a3
Junior senior unsecured bank debt	5.5%	4.1%	5.5%	4.1%	0	0	0	-1	0	baa2
Dated subordinated bank debt	4.1%	3.4%	4.1%	3.4%	-1	-1	-1	-1	0	baa2
Non-cumulative bank preference shares	3.4%	3.0%	3.4%	3.0%	-1	-1	-1	-1	-2	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign 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	
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	

[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 6

Category	Moody's Rating
DE VOLKSBANK N.V.	
Outlook	Positive(m)
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
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
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 Since 01 January 2022, this guarantee is limited to mortgage loans for a maximum house price of €355,000 and thus primarily benefits first-time buyers.

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