MOODY'S
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CREDIT OPINION
28 March 2019

Update

Rate this Research

RATINGS

De Volksbank N.V.

Domicile	Netherlands
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A3
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.

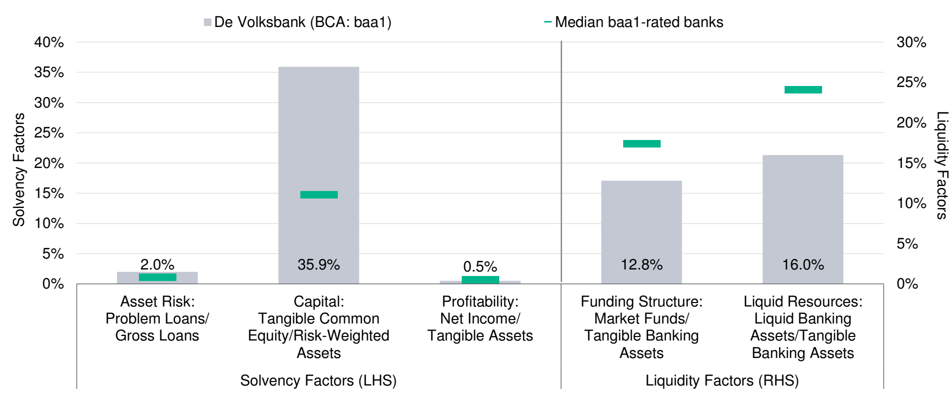
Semiannual update

Summary

De Volksbank N.V.'s baseline credit assessment (BCA) of baa1 reflects (1) the bank's very low risk profile; (2) strong capital base; and (3) resilient profitability, although constrained by the lack of diversification. As a result of (i) its strategic refocus on domestic retail mortgages and (ii) the benign macroeconomic environment prevailing in the Netherlands, de Volksbank's asset risk has improved materially over the past few years. In addition, the bank displays a very strong capital base allowing it to face future regulatory requirements. We believe de Volksbank's credit profile and profitability will continue to be constrained by its lack of diversification.

De Volksbank's long-term deposit and senior unsecured debt ratings of A3 reflect (1) the bank's BCA of baa1; (2) no uplift from our Advanced Loss Given Failure (LGF) analysis due to the moderate loss-given-failure of these debt instruments; and (3) one notch of government support uplift due to the bank's systemic importance in the Netherlands.

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 of being a monoline bank;

» The bank benefits from a sound liquidity profile, enhanced by its renewed 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 market;

» The bank's risks and revenues are constrained by its monoline business and highly correlated with the Dutch mortgage market.

Rating outlook

The stable outlook on de Volksbank's long-term deposit and debt ratings reflects our expectation that the bank's asset risk will remain very low in the current benign macroeconomic environment, while the bank will keep a strong - although decreasing - capital buffer going forward. The low cost of risk and tight control over operating costs will continue to support the bank's profitability, and help withstand the pressure on interest income stemming from low interest rates.

Factors that could lead to an upgrade

» De Volksbank's BCA could be upgraded if the bank's profitability and asset risk were to strengthen. An upgrade of the bank's BCA would likely result in an upgrade of all ratings.

» De Volksbank's deposit and senior unsecured debt ratings could also be upgraded if the volume of junior deposits collected by the bank were to increase or if it were to issue larger than expected amounts of subordinated debt, resulting in lower loss-given-failure for both depositors and senior debt holders.

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 an unexpected downturn in the domestic economy, or a deterioration of its liquidity profile. A downgrade of the bank's BCA would likely lead to a downgrade of all ratings.

» A material decrease in the amount of outstanding debt and deposits would also potentially lead to a downgrade of these instruments' ratings.

Key indicators

Exhibit 2

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

	6-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR million)	61,813	59,668	60,599	61,422	66,513	-2.1[4]
Total Assets (USD million)	72,170	71,649	63,917	66,722	80,484	-3.1[4]
Tangible Common Equity (EUR million)	3,390	3,560	3,366	3,118	2,580	8.1[4]
Tangible Common Equity (USD million)	3,958	4,275	3,550	3,387	3,122	7.0[4]
Problem Loans / Gross Loans (%)	1.5	1.4	1.8	3.1	4.3	2.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	35.9	36.4	31.1	27.1	18.7	29.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.6	18.4	24.4	44.3	74.5	36.6[5]
Net Interest Margin (%)	1.5	1.5	1.5	1.6	1.5	1.5[5]
PPI / Average RWA (%)	3.7	4.2	3.4	4.0	3.6	3.8[6]
Net Income / Tangible Assets (%)	0.5	0.6	0.6	0.6	0.2	0.5[5]

Cost / Income Ratio (%)	62.7	58.7	62.8	54.4	52.2	58.2[5]
Market Funds / Tangible Banking Assets (%)	13.9	12.8	13.2	14.4	22.5	15.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.1	16.0	17.8	17.5	17.4	16.2[5]
Gross Loans / Due to Customers (%)	103.7	105.6	103.0	104.6	115.4	106.5[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 due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Source: Moody's Financial Metrics

Profile

De Volksbank (formerly SNS Bank NV) is the fourth-largest retail bank in the Netherlands. As of end-2018, de Volksbank reported €61 billion in consolidated assets, a deposit base of €48.2 billion and a loan book of €50.5 billion. De Volksbank provides a range of retail banking and insurance products and services, including mortgages (78% of its total assets), current accounts, savings accounts and investment products. The bank mainly services individual retail customers and small and medium-sized enterprises (SMEs) in the Netherlands.

Following large losses in its commercial real estate (CRE) lending portfolio, the former SNS Group (SNS REAAL) was nationalized on 1 February 2013 and subjected to an in-depth restructuring. In July 2016, the Dutch state agency NL Financial Investments (NLFI), 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. This was followed by a second report in October 2018 which concluded that de Volksbank would at least need the full 3 year period starting mid-2016, before taking any decision. NLFI's conclusions were endorsed by the Ministry of Finance who also said that de Volksbank would need this period to work on the shared value ambition and further strengthen its social identity. We expect NLFI to produce another report which is likely to propose to postpone the privatization of the bank.

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

Please click here for further information on de Volksbank.

Detailed credit considerations

The financial data in the following sections are sourced from de Volksbank's financial statements, unless otherwise stated.

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

De Volksbank's business strategy is focused on retail mortgages and savings in the Netherlands, which amounted to 93% of total loans and advances to customers at year-end 2018 (1% are loans to SMEs and 5% loans to the public sector). As a consequence of (1) improving macroeconomic conditions in the Netherlands and (2) stricter lending standards, driven by the Dutch government's measures on the tax deductibility of home loan interest payments and maximum loan-to-value (LTV) ratios, de Volksbank's asset risk profile has materially improved since 2012. As of year-end 2018, the bank reported impaired loans (stage 3) of 1.2% of gross loans, a significant decrease from 7.6% in 2012, and its credit costs have been negative over the last two years as a result of low provisioning and reversals of previous provisions.

De Volksbank's mortgage loan book is sound (at end-December 2018, impaired loans represented 1% of the mortgage loan book), despite risks identified in the Dutch housing market:

» It is spread across all Dutch provinces and is not concentrated on large cities where house prices have increased most and overheating risks are more acute.

» As of the end of 2018, the proportion of interest-only (100% and partially) and investment-based retail mortgage loans, which are more prone to repayment risks, is slightly decreasing (61% at end-December 2018 from 64% at end-December 2017).

» The average LTV on outstanding loans is constantly decreasing (to 70% from 74% at end-December 2017, and 80% at end-December 2016) as a result of the house price increase and the Dutch government's measures to lower the LTV at origination to a maximum of 100% in 2018;

- Almost 30% of de Volksbank's mortgage loans benefit from a guarantee of the Dutch Mortgage Guarantee (NHG)[1];
- An increasing share (64% at end-2018 from 61% at end-2017) of de Volksbank's mortgage loans bear a fixed interest rate for a minimum period of 10 to 15 years (after which, the interest rate can be reset or becomes variable), preserving borrowers from an interest rate upsurge during that period.

De Volksbank's loan book outside retail mortgages is very limited in size (7% of the loan portfolio at end-December 2018) and its credit costs are very low on this portfolio (a net positive 13 bps of gross loans in 2018). The bank also holds a financial investment portfolio for liquidity purposes, amounting to €4.8 billion at end-December 2018. It is comprised of government bonds (€3.2 billion), corporate bonds (€0.8 billion) and green bonds (€0.6 billion). The investment portfolio is almost entirely of very high credit quality.

De Volksbank's low risk profile is reflected in its a1 Asset Risk score.

The bank has built a very strong capital buffer in preparation for the new regulatory rules and in relation to its monoline business

The bank's fully-loaded Common Equity Tier 1 (CET1) ratio was 35.5% at end-December 2018, well above its requirement of 10.5% for 2019 (consisting of a Pillar 1 requirement of 4.5%, a Pillar 2 requirement of 2.5%, a capital conservation buffer of 2.5% and a systemic buffer of 1%). The bank's capital ratio has increased substantially since 2014 as a result of (1) retained earnings, and (2) a decrease in RWA, driven by lower probabilities of default and loss-given-default as a result of improved economic conditions. At end-December 2018, de Volksbank's fully-loaded leverage ratio stood at 5.5%.

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 45%, which is equivalent to a negative impact of 11 percentage points on its CET1 ratio, driven by the output floor set at 72.5% of the risk-weighted assets calculated under the revised standardised approach. Despite this impact, the bank's CET1 ratio will remain well above its current internal target of at least 15% (corresponding to a fully loaded requirement of 10.5% and a combined Pillar 2 guidance and management buffer of 4.5%). De Volksbank's high capitalisation is not only explained by regulatory changes, but also reflects the bank's calibration of its capital in relation to its monoline business.

De Volksbank paid a €190 million dividend from its 2017 profits to its sole shareholder, NLFI, which corresponds to a payout ratio of 60%, at the high end of its 40-60% pay-out target. The bank expects the payout ratio to be 60% for 2018 as well. Before the sale of the bank by the Dutch government, de Volksbank will likely upstream some of the current "excess capital" to the State. The bank's CET1 capital will therefore likely decrease to a level closer to the proforma Basel IV 15% public target.

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

The profitability of de Volksbank's core retail activities is constrained by the challenging low interest rate environment and the bank's modest commercial franchise, compared with Dutch peers (net interest income amounts to around 95% of its total income). In 2017, the bank reported a net profit of €268 million, down 19% compared to the previous year, driven by a decrease in net banking income (-6.8%) and lower release of loan loss provisions.

Net interest income fell by 1.7%, driven by lower interest income on mortgages and higher hedging costs. The retail mortgage portfolio increased by 2.8% and market shares in this segment continued to increase (both in terms of production and stock). However, margins declined in this segment. Overall, the bank's net interest margin decreased to 147 bps in 2018 from 151 bps for 2017, albeit cushioned by the decrease of interest rates paid on client deposits (which are now close to zero). We expect a further decline of net interest income as margins will be under growing pressure.

Operating expenses were relatively stable at €609 million (+1%) as the positive effects of the efficiency measures taken by the bank were offset by higher regulatory levies and expenses on regulatory and compliance projects. Given the drop in the bank's income, the adjusted cost-to-income ratio[2] deteriorated to 58.7% (54.5% for 2017), compared to a target range of 50-52% in 2020. A key challenge for de Volksbank is to preserve its profitability by broadening its customer base and by improving its cost-efficiency. Nonetheless, we expect the low interest rate environment to continue to exert pressure on the bank's income.

The bank's profitability is reflected in a score of ba1, in line with the macro-adjusted score, resulting from its return-on-assets of 0.48% in H1 2018. The macro-adjusted score is two notches lower than in 2017 when return-on-assets was 0.55%.

De Volksbank benefits from a sound funding and liquidity profile, enhanced by renewed access to market funding

Retail funding represents around 90% of the bank's total funding (excluding equity). De Volksbank has a large deposit base amounting to €48 billion (€37.4 billion in retail savings and €10.8 billion in other deposits, including €1.6 billion of securitisation) and the bank's reported loan-to-deposit ratio stood at 105% at end-December 2018.

The bank's long-term wholesale funding (€7 billion) is primarily composed of covered bonds (54%) and senior unsecured debt (31%). Over 2018, the bank issued around €1.8 billion of wholesale funding. This is credit positive and demonstrates that de Volksbank's liquidity profile is no longer constrained by a lack of acces to capital markets.

De Volksbank's liquidity profile would enable it to resist a prolonged period of financial market disruption. De Volksbank's liquid assets amounted to €15.1 billion at end-2018, while its wholesale funding maturing by the end of 2019 stood at €0.2 billion. The bank's liquidity buffer mainly consists of residential mortgage-backed securities (RMBS) eligible for central bank refinancing (€9 billion), cash (€2.4 billion) and sovereign and public-sector bonds (€2.4 billion). Although the RMBS are eligible for the European Central Bank (ECB) operations, we consider them to be of lower quality than central bank deposits or government bonds because they may not be negotiable in the secondary market in a stress situation.

The bank's strong liquidity and funding profiles are confirmed by its liquidity coverage ratio (LCR) of 177%, although this ratio too is highly dependent on retained RMBS, accounting for almost 60% of liquidity reserves at end-December 2018, and a net stable funding ratio (NSFR) well above 100% (as disclosed by the issuer) at the same date. They are reflected in the bank's baa1 Combined Liquidity score.

De Volksbank's BCA of baa1 reflects its financial profile of a3, which is adjusted downwards by one notch to reflect the bank's monoline activity.

Support and structural considerations

Loss Given Failure (LGF) analysis

De Volksbank is subject to the EU Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. We assume residual TCE of 3%, losses post-failure of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and a 25% probability to 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.

De Volksbank has to comply (by January 2020) with a non-risk weighted MREL of 8.0% of total liabilities and own funds, which de Volksbank intends to fulfill entirely with subordinated instruments. In this regard, de Volksbank expects to issue €1.0-1.5 billion of junior senior debt in the coming years. The bank's non-risk weighted MREL ratio was 6.4% (excluding senior unsecured debt) at end-December 2018. In addition, as de Volksbank is an Other Systemically Important Institution (O-SII), its subordinated instruments must be at least of 17.5% of its risk-weighted assets.

» Our LGF analysis indicates a moderate loss-given-failure for deposits and senior unsecured debt, which gives no uplift above the bank's Adjusted BCA;

» Our LGF analysis indicates a high loss-given-failure for subordinated debt, leading us to make a negative adjustment of one notch below the bank's Adjusted BCA.

The moderate loss-given-failure for deposits and senior unsecured debt is explained by the small amount of subordination benefiting these instruments as well as their thinness. Future issuance of junior senior debt, which the bank expects to do in the coming years but still have to be confirmed, could possibly lower the loss-given-failure of deposits and senior unsecured debt to low from moderate.

Government support considerations

We consider de Volksbank as a systemically-important institution and thus believe that there is a moderate probability of government support for 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 government support probability, and, therefore, the ratings for these instruments do not include any related uplift.

Counterparty Risk Rating (CRR)

Moody's CRRs are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

De Volksbank's CRR is positioned at A1/Prime-1

The CRR for de Volksbank, prior to government support, is two 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 CRR also benefits from one notch of government support, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

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 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 expected loss, therefore, we focus purely on subordination and take 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	2.0%	a1	←→	a1	Quality of assets	
Capital						
TCE / RWA	35.9%	aa1	↓↓	aa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.5%	ba1	←→	ba1	Earnings quality	
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	12.8%	a2	←→	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	16.0%	baa2	←→	baa2	Quality of liquid assets	
Combined Liquidity Score		a3		baa1		
Financial Profile				a3		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA 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	11,473	19.1%	14,620	24.3%
Deposits	44,955	74.7%	41,808	69.5%
Preferred deposits	40,460	67.2%	38,437	63.9%
Junior Deposits	4,496	7.5%	3,372	5.6%
Senior unsecured bank debt	1,441	2.4%	1,441	2.4%
Dated subordinated bank debt	498	0.8%	498	0.8%
Equity	1,805	3.0%	1,805	3.0%
Total Tangible Banking Assets	60,172	100%	60,172	100%

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	11.8%	11.8%	11.8%	11.8%	2	2	2	2	0	a2
Counterparty Risk Assessment	11.8%	11.8%	11.8%	11.8%	3	3	3	3	0	a1 (cr)
Deposits	11.8%	3.8%	11.8%	6.2%	0	1	0	0	0	baa1
Senior unsecured bank debt	11.8%	3.8%	6.2%	3.8%	0	-1	0	0	0	baa1
Dated subordinated bank debt	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	0	baa2

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a2	1	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3 (cr)	--
Deposits	0	0	baa1	1	A3	A3
Senior unsecured bank debt	0	0	baa1	1	A3	A3
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 Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
DE VOLKSBANK N.V.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A3
Subordinate -Dom Curr	Baa2
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

Endnotes

1 This guarantee is limited to mortgage loans for a maximum house price of €265,000 and thus benefits primarily to first-time buyers

2 Adjusted for the impact of incidental items

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