MOODY'S
INVESTORS SERVICE

CREDIT OPINION
15 June 2017

Update

Rate this Research

RATINGS

De Volksbank N.V.

Domicile	Netherlands
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A3
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.

Contacts

Laurent Le Mouel 33-1-5330-3340
VP-Senior Analyst
laurent.lemouel@moodys.com

Yasuko Nakamura 33-1-5330-1030
VP-Sr Credit Officer
yasuko.nakamura@moodys.com

Andreea Prodea 33-1-5330-1055
Associate Analyst
andreea.prodea@moodys.com

Alain Laurin 33-1-5330-1059
Associate Managing Director
alain.laurin@moodys.com

Nick Hill 33-1-5330-1029
MD-Banking
nick.hill@moodys.com

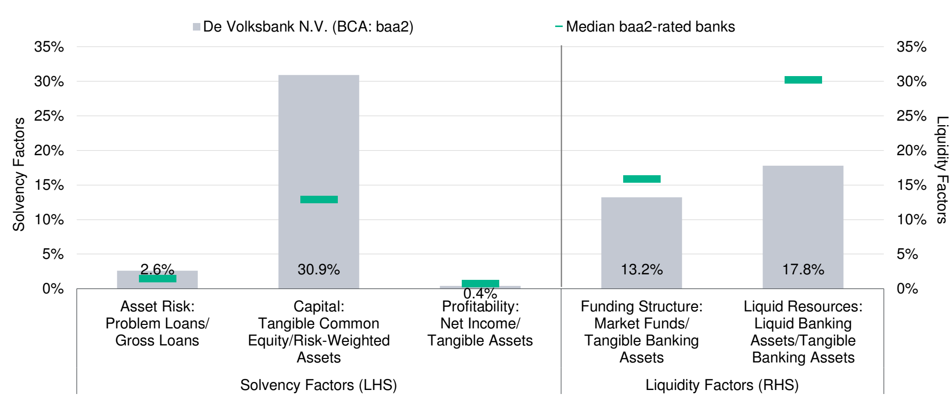
De Volksbank N.V.

Semi-Annual Update

Summary Rating Rationale

De Volksbank N.V. (De Volksbank)'s long-term deposit and senior unsecured ratings of A3 and Baa1, respectively, reflect primarily the bank's baa2 standalone baseline credit assessment (BCA). De Volksbank's BCA is driven by its strengthened loan book quality, as its activity has been refocused on the Dutch retail market, a very strong capital buffer and a sound liquidity profile, enhanced by the bank renewed access to market funding. In a challenging and competitive environment for retail banking, De Volksbank's profitability is resilient and will benefit from measures taken by the bank to strengthen its franchise. De Volksbank's deposit rating also incorporates a low loss-given-failure which translates in a one-notch uplift from the BCA. For senior unsecured debt, the moderate loss-given-failure leads to no uplift. In addition, both ratings benefit from an additional one-notch uplift driven by the moderate probability of government support as De Volksbank - still state-owned - which is considered a systemic bank in the Netherlands. The outlook on De Volksbank's long-term ratings is positive, reflecting our view that further improvements in the Dutch macroeconomic environment and the successful implementation of the bank's new strategy will continue to support its business model, despite the challenging low interest rate environment.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

» A strengthened loan book quality and business profile, refocused on the Dutch retail market;

» A very strong capital buffer;

» A sound liquidity profile, enhanced by a renewed access to market funding.

Credit Challenges

» A profitability challenged by the low interest rate environment and a highly competitive Dutch market;

» Risks and revenues are correlated with the Dutch mortgage market.

Rating Outlook

The outlook on the long-term deposit and debt ratings is positive, reflecting Moody's view that further improvements in the Dutch macroeconomic environment, with a low unemployment rate and rising house prices, will continue to support De Volksbank's business model, despite the challenging low interest rate environment. The bank also benefits from a revised strategy which, if successful, will enhance its commercial franchise and profitability.

Factors that Could Lead to an Upgrade

» De Volksbank's BCA could be upgraded as a result of (i) further improvements in the Dutch economy, resulting in lower asset risk and enhanced profitability and (ii) the bank's successful strategy which aims to strengthen its franchise. An upgrade of De Volksbank's BCA and adjusted BCA would likely result in an upgrade of all bank's ratings.

» A significant increase in the bank's senior unsecured and/or subordinated debt outstanding could also lead to a reduction in loss-given-failure for senior unsecured debt, which could result in its upgrade.

Factors that Could Lead to a Downgrade

» The positive outlook assigned to De Volksbank's deposit and senior unsecured debt ratings indicates that the likelihood of a downgrade is low. De Volksbank's ratings could nevertheless be downgraded as a result of a reduction in the bank's baa2 BCA, for example driven by (1) an unexpected deterioration of the macroeconomic environment in the Netherlands, which would weigh on the bank's financial position, and/or (2) a material deterioration of the bank's asset quality, solvency or liquidity profile and/or in its recurring earnings generation capacity. A reduction in the BCA would likely lead to a downgrade of the long-term ratings.

» A decrease in the amount of outstanding debt and/or deposits would also increase the loss-given-failure of these instruments and potentially lead to a downgrade of its deposit rating.

Key Indicators

Exhibit 2

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

	12-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[3]	CAGR/Avg.[4]
Total Assets (EUR million)	60,572	61,422	66,513	73,416	81,343	-7.1[5]
Total Assets (USD million)	63,888	66,722	80,484	101,164	107,242	-12.1[5]
Tangible Common Equity (EUR million)	3,346	3,118	2,580	2,266	1,058	33.3[5]
Tangible Common Equity (USD million)	3,529	3,387	3,122	3,122	1,395	26.1[5]
Problem Loans / Gross Loans (%)	1.4	2.7	3.8	4.5	7.6	4.0[6]
Tangible Common Equity / Risk Weighted Assets (%)	30.9	27.1	18.7	15.0	5.1	22.9[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.2	37.5	65.2	89.2	183.8	79.0[6]

Net Interest Margin (%)	1.5	1.6	1.5	1.3	0.9	1.3[6]
PPI / Average RWA (%)	3.1	4.0	3.6	3.6	1.8	3.6[7]
Net Income / Tangible Assets (%)	0.5	0.6	0.2	-1.8	-0.8	-0.3[6]
Cost / Income Ratio (%)	64.5	54.4	52.2	49.1	56.8	55.4[6]
Market Funds / Tangible Banking Assets (%)	13.2	14.4	22.5	34.7	42.2	25.4[6]
Liquid Banking Assets / Tangible Banking Assets (%)	17.8	17.5	17.4	23.5	17.3	18.7[6]
Gross Loans / Due to Customers (%)	102.9	104.6	115.4	122.7	149.6	119.0[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented
Source: Moody's Financial Metrics

Detailed Rating Considerations

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

A STRENGTHENED LOAN BOOK QUALITY AND BUSINESS PROFILE, REFOCUSED ON THE DUTCH RETAIL MARKET

De Volksbank (former SNS Bank) is the fourth largest retail bank in the Netherlands, with a deposit base of €47.4 billion and a loan book of €48.6 billion as of December 2016. Following large losses on its commercial real estate lending portfolio, the former SNS Group (SNS REAAL) was nationalized on 1st February 2013 and subject to an in-depth restructuring. On 1st July 2016, the Dutch state agency NL Financial Investments (NLFI), owner of De Volksbank, submitted a report to the Dutch Ministry of Finance advising it to postpone any decisions as regards the transfer of the bank's shares back to the private sector. The report suggests that this step should not be taken before the new bank business strategy has been fully implemented.

The new bank's business strategy is focused on retail banking with the aim of offering simple and transparent products in the areas of mortgages, savings and payments. As a result of this de-risking and deleveraging strategy, De Volksbank's activities are now refocused on the Dutch retail market: 92% of the €48.6 billion loan book is comprised of Dutch retail mortgages as of December 2016. The other 8% comprises loans to SMEs and public sector entities.

As a consequence of (i) its new strategy, (ii) improving macroeconomic conditions in the Netherlands and (iii) stricter lending standards, driven by the Dutch government measures on tax deductibility of home loan interests and maximum loan-to-value ratios, De Volksbank's asset risk profile has materially decreased since 2012. Its Moody's calculated NPL ratio dropped to 1.4%, in 2016, from 7.6% in 2012, and its credit cost on domestic mortgages decreased to -14 basis points (bps) of gross loans in 2016, from 8 bps in 2015 due to a substantial release of loan provisions driven by a sharp decline of loans in arrears.

We expect the Dutch economy to continue to grow at a 2% rate in 2017 and 1.8% rate in 2018, favoring employment and household spending. House prices have increased steadily over the last three years at a 3-4% rate and we do not expect a material deterioration over the next 12-18 months. This favorable macroeconomic environment will, thus, continue to benefit to De Volksbank's asset quality.

The a2 score for asset risk, which results from a relatively low three-year average non-performing loan ratio of 2.6%, reflects our assessment of De Volksbank's enhanced risk profile.

A VERY STRONG CAPITAL BUFFER

De Volksbank is very well capitalized: its tangible common equity (TCE) amounted to 30.9% of its risk-weighted assets (RWAs) as of December 2016, and its common equity Tier 1 (CET 1) ratio stood at 29.2% at the same date, well above its requirement of 9.25% in 2017 (comprised of a Pillar 1 requirement of 4.5%, a capital conservation buffer of 1.25%, a systemic buffer of 0.5% and a Pillar 2 requirement of 3%). The bank's capital ratio increased substantially during 2014- 2016 as a result of (i) retained earnings and (ii) a decrease in risk-weighted assets (RWA), driven by lower PDs and LGDs as a result of improved economic conditions. As of December 2016, De Volksbank's leverage ratio stood at 5.2%, in line with most peers. The bank's risk weighted ratio is high compared to its leverage ratio, due to the low risk weight applied to mortgages. Due to uncertainties around the future so-called Basel IV rules, the bank intends to maintain a high level of capital in the coming years.

De Volksbank resumed paying dividends in 2016, from 2015 profits, and paid €100 million to its sole shareholder NLFI, which represents a pay-out ratio of 30%. The bank's MREL eligible liabilities amount to 8% of total assets, among which 6.1% of regulatory capital. We expect De Volksbank to increase the amount of debt eligible to MREL in the next 12-18 months.

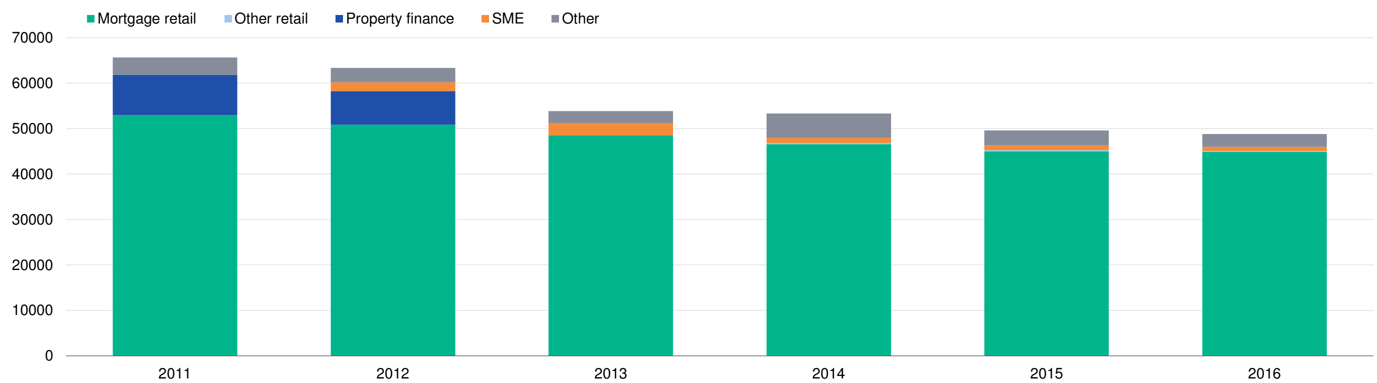
De Volksbank's ratio of tangible common equity (TCE) on RWA of 30.9% maps into an aa1 score for capital. This ratio is adjusted downwards by 2 notches to aa3 to reflect the potential impact of the new regulatory framework on De Volksbank's capital ratios.

A PROFITABILITY CHALLENGED BY LOW INTEREST RATES AND A HIGHLY COMPETITIVE ENVIRONMENT

The profitability of De Volksbank's retail core activities is constrained by the challenging low interest rate environment and its modest commercial franchise compared to Dutch peers. The bank reported a €329 million net profit for the full-year 2016, a 5.5% decrease from 2015. This was mainly driven by a 8.3% decrease in net interest income and unrealised losses on the former DBV mortgages, accounted at fair value, and their related derivatives. The decrease in net interest income results from loan renegotiations at a lower rate and a decline of its outstanding loan portfolio stemming from (i) Dutch households' tendency to reduce their indebtedness and (ii) harsh competition from the non-bank sector on the mortgage market. This was moderated by a substantial release in loan loss provisions (€68 million in 2016) and higher investment income leading to an increase in net profit - excluding one-off items - to €354 million from €335 million posted in 2015.

Exhibit 3

De Volksbank's Bank Loan Portfolio (in € mn)



Source: Bank Financial Statements

De Volksbank will continue to incur transformation costs which pertain to the development of its digitalization and the upgrade of its business operations, as well as increased regulatory costs. Its cost-to-income ratio deteriorated in 2016 to 56%, from 53.4% in 2015. A key challenge for De Volksbank is, therefore, to preserve its profitability by attracting new clients and improve its cost-efficiency. We consider that the bank is well positioned to achieve these targets:

» First, De Volksbank's loan portfolio is stabilising since year-end 2015, chiefly thanks to the bank's efforts to redefine its commercial offering and pricing policies; these measures have been reinforced by the bank's new strategy (see below);

» Second, over the last year, De Volksbank has reduced its deposit rates in order to preserve margins and we estimate that, compared to their Dutch peers, they have still room to further reduce deposit rates.

» Third, De Volksbank should continue to benefit from the positive prospects for the Dutch mortgage market in the coming years. Constraints on housing supply have driven a 3-4% yearly price increase since 2013 and the current low unemployment and low mortgage rates could prompt further price increases, which may be positive to the construction sector.

Further, De Volksbank has been implementing a new strategy aimed at tightening its brand positioning, de-risking its activity and streamlining its commercial offering. This new strategy has been endorsed by the Dutch Ministry of Finance, which on 1st July 2016 granted more time to the bank before deciding on its future shareholding structure.

These elements are reflected in the ba1 score assigned to De Volksbank's profitability, taking into consideration the stability and resilience of the bank's profits since 2014.

A SOUND LIQUIDITY PROFILE, ENHANCED BY A RENEWED ACCESS TO MARKET FUNDING

De Volksbank's liquidity profile supports its overall standalone credit profile, primarily as a result of its large liquidity buffer, which should enable it to resist a prolonged period of financial market disruption. De Volksbank's liquid assets amounted to €10.5 billion as of December 2016, while its wholesale funding maturing within one year stood at €2.9 billion. Its liquidity buffer mainly consists of cash (€2.8 billion), sovereign and public sector bonds (€3.5 billion), and RMBS eligible for central bank refinancing (€3.9 billion). Although these assets are eligible to ECB operations, we consider them of lower quality than central bank deposits or government bonds, as they may not be negotiable in the secondary market in a stress situation.

In recent years, the bank has significantly reduced its reliance on wholesale funding, as a result of the disposal of its legacy CRE portfolio, and a successful deposit-acquisition strategy. Its deposit base amounted to €47.4 billion (€36.6 billion of retail savings and €10.8 billion of other deposits) as of December 2016, bringing its gross loan-to-deposit ratio to 104%. The "other deposit" category is comprised of commercial deposits from SMEs and retail customers, as well as debt instruments (Schuldscheine) issued by pension funds and insurance companies, which are partly considered wholesale funding. The bank's strong liquidity and funding profiles are also confirmed by its liquidity coverage ratio and net stable funding ratio, both above 100%, as of the same date.

On October 29, 2015, De Volksbank issued a EUR500 million 10-year Tier 2 bond. This was the first time De Volksbank tapped the capital market since its nationalization. This development is credit positive as it demonstrates that De Volksbank's liquidity profile is no longer constrained by its restricted access to capital market. This is reflected in the bank's combined liquidity score of baa1.

De Volksbank's BCA of baa2 reflects its financial profile of a3, which is adjusted downwards by 1 notch to reflect the bank's excessive sensitivity to the Dutch retail mortgage market. The assigned bank's BCA is at the lower-end of the range, which reflects a potential for further upgrade, as explained above.

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

The Netherlands has implemented the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an operational resolution regime. As a result, we apply our advanced Loss Given Failure (LGF) analysis assuming (1) a residual tangible common equity at failure of 3% of tangible banking assets, (2) losses post-failure of 8% of tangible banking assets, (3) a 25% run-off in junior wholesale deposits, (4) a 5% run-off in preferred deposits, and (5) a 25% probability of deposits being preferred to senior unsecured debt. As De Volksbank's deposits are mainly retail in nature, we assume 90% of them being preferred (and 10% being junior) in a case of failure.

Under these assumptions, our LGF analysis indicates a low loss-given-failure for De Volksbank's deposits, leading us to position their Provisional Rating Assessment one notch above the Adjusted BCA. For De Volksbank's senior unsecured debt, our LGF analysis indicates a moderate loss-given-failure, leading us to position its Preliminary Rating Assessment in line with the Adjusted BCA.

Our LGF analysis indicates a high loss-given-failure for subordinated debt, leading us to position its Preliminary Rating Assessment one notch below the Adjusted BCA.

GOVERNMENT SUPPORT

As De Volksbank is considered systemic in the Netherlands, we expect a moderate probability of government support for junior deposits and senior unsecured debt, resulting in a one-notch additional uplift from the bank's BCA.

For other junior securities, we assume a low government support probability, and, as such, the ratings for these instruments do not include any related uplift.

COUNTERPARTY RISK 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.

The CR Assessment is positioned at A1(cr)/Prime-1(cr). The CR Assessment, prior to government support, is positioned three notches above the bank's BCA of baa2, based on the cushion against default provided by instruments subordinated to the senior obligations represented by the CR Assessment. The CR Assessment also benefits from one notch of government support, in line with our support assumptions on deposits and senior unsecured debt.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 4

De Volksbank N.V.

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.6%	a2	↓↓	a2	Quality of assets	
Capital						
TCE / RWA	30.9%	aa1	←→	aa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↓	ba1	Earnings quality	
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.2%	a2	←→	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.8%	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				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	9,201	15.2%	9,201	15.2%
Deposits	47,428	78.3%	47,428	78.3%
Preferred deposits	42,685	70.5%	40,551	67.0%
Junior Deposits	4,743	7.8%	3,557	5.9%
Senior unsecured bank debt	1,610	2.7%	1,610	2.7%
Dated subordinated bank debt	501	0.8%	501	0.8%
Equity	1,817	3.0%	1,817	3.0%
Total Tangible Banking Assets	60,557	100%	60,557	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 Assessment	12.4%	12.4%	12.4%	12.4%	3	3	3	3	0	a2 (cr)
Deposits	12.4%	3.8%	12.4%	6.5%	1	1	1	1	0	baa1
Senior unsecured bank debt	12.4%	3.8%	6.5%	3.8%	1	-1	0	0	0	baa2
Dated subordinated bank debt	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	0	baa3

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1 (cr)	--
Deposits	1	0	baa1	1	A3	A3
Senior unsecured bank debt	0	0	baa2	1	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa3	0	Baa3	--

Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
DE VOLKSBANK N.V.	
Outlook	Positive
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	Baa1
Subordinate -Dom Curr	Baa3
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

REPORT NUMBER 1077014

MOODY'S
INVESTORS SERVICE