MOODY'S
INVESTORS SERVICE

CREDIT OPINION
19 April 2018

Update

Rate this Research

RATINGS

De Volksbank N.V.

Domicile	Netherlands
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.

Contacts

Laurent Le Mouel +33.1.5330.3340
VP-Senior Analyst
laurent.lemouel@moodys.com

Nick Hill +33.1.5330.1029
MD-Banking
nick.hill@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

De Volksbank N.V.

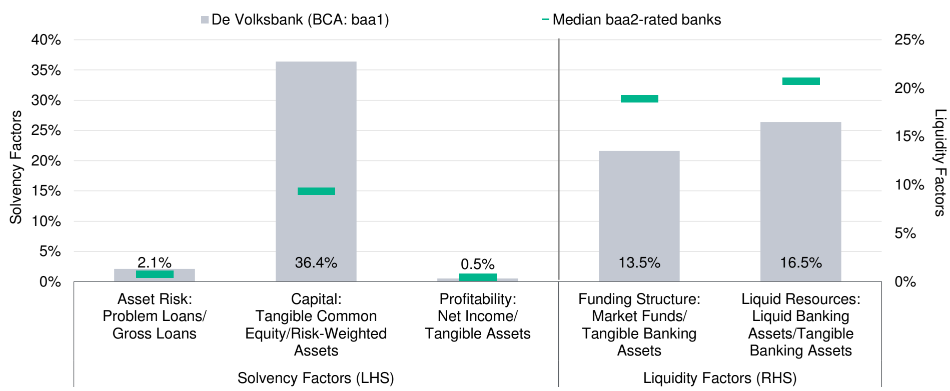
Update following rating upgrade

Summary

De Volksbank N.V.'s (De Volksbank) baseline credit assessment (BCA) of baa1 reflects its (1) very low risk profile; (2) strong capital base; and (3) resilient profitability, although constrained by its 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 two years. In addition, the bank displays a very strong capital base allowing it to withstand the future accounting and regulatory requirements. Moreover , against a low interest rate environment, De Volksbank has shown a resilient profitability since 2014 owing to well-preserved interest margins, a significant decrease in credit costs and operating expenses. Despite these positive developments, the bank will continue to be constrained by its monoline business and 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 De Volksbank's status of state-owned bank and systemic importance in the Netherlands.

Exhibit 1
Rating scorecard - Key financial ratios



Source: Moody's Financial Metrics

THIS REPORT WAS REPUBLISHED ON 23 MAY 2018 WITH AN UPDATED RATINGS TABLE ON PAGE 1.

Credit strengths

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

» The bank has built a very strong capital buffer in preparation for the new regulatory and accounting rules;

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

» De Volksbank is a systemic institution in the Netherlands, benefiting 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 its profitability and asset risk were to strengthen further. 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 deposits collected by the bank were to further increase or if it were to issue larger than expected amounts of junior senior or subordinated debt, this second scenario resulting in a 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 of 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]

	12-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (EUR million)	60,186	60,599	61,422	66,513	73,416	-4.8[4]
Total Assets (USD million)	72,271	63,917	66,722	80,484	101,164	-8.1[4]
Tangible Common Equity (EUR million)	3,560	3,366	3,118	2,580	2,266	12.0[4]
Tangible Common Equity (USD million)	4,275	3,550	3,387	3,122	3,122	8.2[4]
Problem Loans / Gross Loans (%)	1.4	1.8	3.1	4.3	4.5	3.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	36.4	31.1	27.1	18.7	15.0	25.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.4	24.4	44.3	74.5	89.2	50.2[5]
Net Interest Margin (%)	1.5	1.5	1.6	1.5	1.3	1.5[5]
PPI / Average RWA (%)	4.2	3.4	4.0	3.6	3.6	3.7[6]
Net Income / Tangible Assets (%)	0.5	0.6	0.6	0.2	-1.8	0.0[5]
Cost / Income Ratio (%)	58.7	62.8	54.4	52.2	49.1	55.4[5]
Market Funds / Tangible Banking Assets (%)	13.5	13.2	14.4	22.5	34.7	19.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.5	17.8	17.5	17.4	23.5	18.5[5]
Gross Loans / Due to Customers (%)	105.6	103.0	104.6	115.4	122.7	110.2[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 December 2017, De Volksbank reported €61 billion in consolidated assets, a deposit base of €47 billion and a loan book of €49 billion. De Volksbank provides a range of retail banking and insurance products and services, including mortgages (75% 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 transfer of the bank's shares back to the private sector. The report suggests that a decision should not be taken before the bank's new business strategy has been fully implemented. The Ministry of Finance endorsed NLFI's conclusions in a letter on the future of the bank sent to the House of Representatives.

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 were 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 in the Netherlands, which amounted to 93% of its loan book, in 2017 (5% are loans to SMEs and 2% 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 interests and maximum loan-to-value (LTV) ratios, De Volksbank's asset risk profile has materially decreased since 2012. In 2017, the bank's NPL ratio stood at 1.4%, a decrease from 7.6% in 2012, and its credit cost has been negative over the last two years as a result of low provisioning and reversals of existing provisions.

De Volksbank's mortgage loan book is sound, 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 (about half of the bank's mortgage portfolio is located in rural or suburban areas, where house prices have increased by less than 6% in 2017);
- The proportion of interest-only and investment-based loans, which are more prone to repayment risks, is decreasing and its high level (about 56% of outstanding loans) is in line with Dutch bank average (55%, according to the Dutch central bank);
- The average LTV on outstanding loans is constantly decreasing (to 74% in 2017, from 80% in 2016) as a result of the house price increase and the Dutch government's measures to lower the LTV at origination to 100% in 2018;
- 30% of De Volksbank's mortgage loans benefit from a guarantee of the Dutch Mortgage Guarantee (NHG)[1];
- An increasing share (79% in 2017) of De Volksbank's mortgage loans bear a fixed interest rate for a minimum period of 10 years (after which, the interest rate can be reset or float), preserving borrowers from an interest rate upsurge.

De Volksbank's loan book outside retail mortgages is very limited in size (€3.5 billion in December 2017) and its average credit cost stands at a very low level (a net positive 32 bps of gross loans in 2017). The bank also holds a financial investment portfolio for liquidity purposes, amounting to €4.9 billion as of December 2017. It is comprised of governments bonds (€3.5 billion), corporate bonds (€0.8 billion) and green bonds (€0.5 billion), rated in the AAA-AA range (94% of the portfolio).

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

The bank has built a very strong capital buffer in preparation for the new regulatory and accounting rules

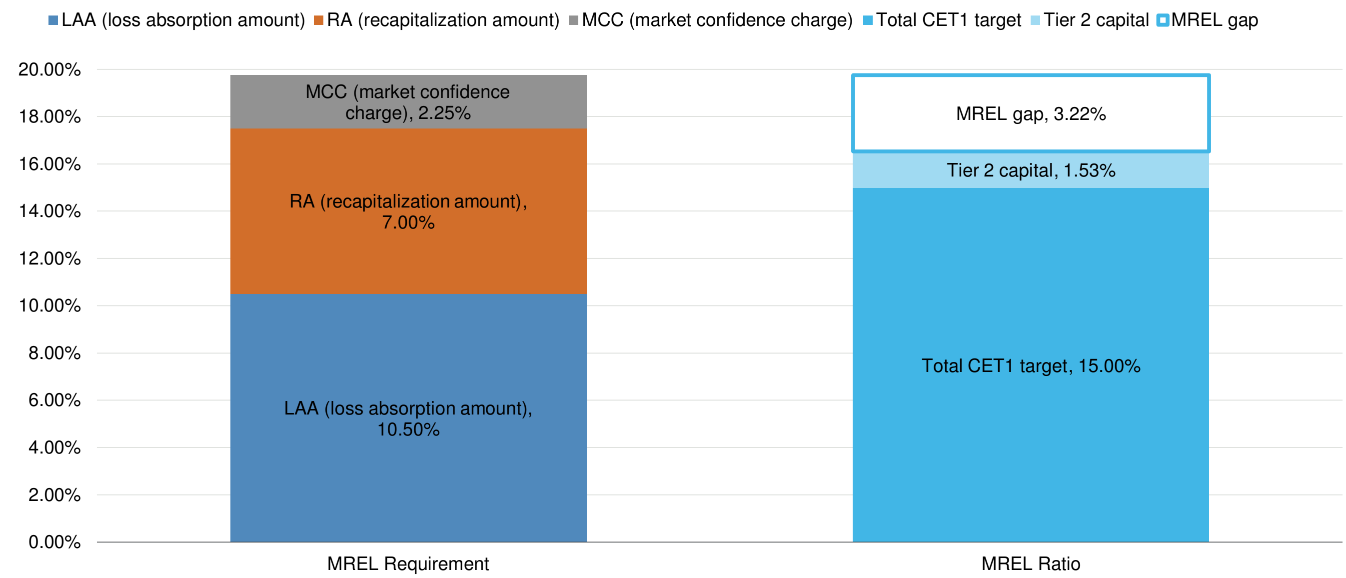
De Volksbank is very well capitalized; its tangible common equity (TCE) amounted to 36.4% of its risk-weighted assets (RWA) as of December 2017. The bank's fully-loaded Common Equity Tier 1 (CET1) ratio stood at 34.3% as of the same date, well above its requirement of 9.625% in 2018 (consisting of a Pillar 1 requirement of 4.5%, a capital conservation buffer of 1.875%, a systemic buffer of 0.75% and a Pillar 2 requirement of 2.5%). 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. As of December 2017, De Volksbank's leverage ratio stood at 5.6%, in line with that of most of its peers.

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 35% and would negatively impact its CET1 ratio by 8 percentage points. However, the most impactful measure is the output floor, which will be phased-in until 2027, leaving the bank sufficient time to absorb this RWA increase, considering its currently large capital buffer. In addition, the IFRS 9 rules also have an estimated negative impact of 2 percentage points on De Volksbank CET1 ratio, mostly stemming from the re-classification of held-for-trading and available-for-sale assets to hold-to-collect.

As a result of regulatory and accounting changes, De Volksbank's CET1 ratio could drop to 24%. The bank's current CET1 capital buffer leaves it sufficient headroom to absorb this shock, though. The bank's CET1 ratio will remain well above its internal target of at least 15% (corresponding to a fully loaded requirement of 10.5% and a Pillar 2 guidance and management buffer of 4.5%). De Volksbank proposes to pay a €190 million dividend from its 2017 profits to its sole shareholder, NLFI, which corresponds to a payout ratio of 60%, at the higher range of its 40-60% pay-out target. We expect the bank's regulatory capital to decrease to a level closer to its 15% target, which would still be sufficient to fulfil its future estimated MREL requirement (of 19.75% of RWAs). Indeed, De Volksbank announced that it would issue up to €2 billion of junior senior debt (about 20% of RWAs), which would support the building-up of its MREL buffer (see Exhibit 3).

Exhibit 3

De Volksbank's announced €2 billion junior senior debt to be issued will be sufficient to fulfil its MREL requirement



Source: Single Resolution Board, De Volksbank Annual Report 2017, Moody's calculation

The bank's internal target of 15% CET1 ratio translates in a aa3 score, adjusted downwards by two-notches from the bank's macro-adjusted score of aa1, which corresponds to a 36.4% TCE ratio.

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 90% of its total income). The bank reported a €329 million net profit for the full-year 2017, a 6% decrease from the year earlier (€349 million) owing to a lower net release of loan loss provisions. Net interest income and fees and commissions also decreased (by 1.5% and 14% respectively) due to (1) a high number of loan renewals at a lower rate and (2) lower securities fees following the sale of SNS Securities in 2016 (€4 million) and the re-classification of distribution fees paid by Regiobank, which were previously classified as interest expenses (€7 million).

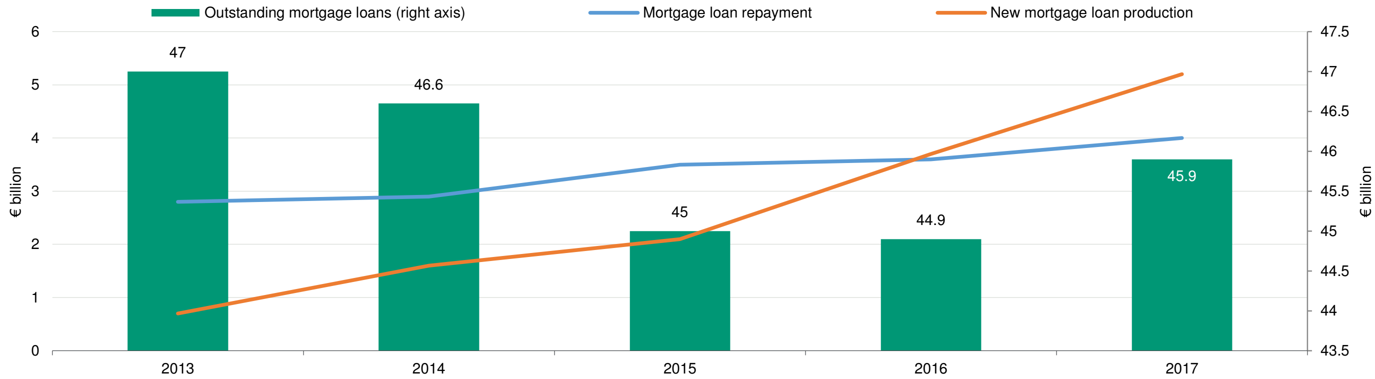
The bank's cost-to-income ratio improved in 2017 to 59% from 63% in 2016, owing to lower operating expenses. A key challenge for De Volksbank is to preserve its profitability by attracting new clients and to improve its cost-efficiency. We consider the bank to be well positioned to achieve its targets because of the following factors:

» De Volksbank's loan portfolio has been picking up again since year-end 2016, chiefly because of the bank's efforts to redefine its commercial offering and pricing policies (see Exhibit 4);

» Over the last year, De Volksbank has reduced its deposit rates to preserve margins: De Volksbank's net interest margin now compares with that of its Dutch peers and we estimate that the bank still has room to further reduce deposit rates;

» De Volksbank should continue to benefit from the positive prospects for the Dutch mortgage market in the coming years (rising house prices and low unemployment will continue to benefit to the bank's credit cost).

Exhibit 4
De Volksbank's loan portfolio started to pick-up again in 2017



Source: De Volksbank, Annual reports

The bank's challenged profitability is reflected in its baa3 score, one notch below the raw score of baa2, resulting from its three-year average return-on-assets of 0.5%.

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

De Volksbank's funding primarily stems from its large deposit base, which amounted to €46.9 billion (€37.6 billion in retail savings and €10.3 billion in other deposits) in December 2017, bringing its gross loan-to-deposit ratio to 107%. The 'other deposit' category is comprised of demand deposits (€5.9 billion), savings associated with a mortgage (€2.5 billion) and debt instruments issued by pension funds, insurance companies or De Volksbank's covered bond vehicle (€1 billion), which are partly considered wholesale funding.

On 29 October 2015, De Volksbank issued a €500 million 10-year Tier 2 bond and, in May 2017, it publicly issued a €0.5 billion covered bond with a 10-year maturity. De Volksbank has also announced that it intends to issue around €2 billion in junior senior debt in the next years. These developments are credit positive and demonstrate that De Volksbank's liquidity profile is no longer constrained, as the bank can now fully access capital markets.

De Volksbank's liquidity profile supports its overall standalone credit profile, primarily as a result of its relatively large liquidity buffer, which should enable it to resist a prolonged period of financial market disruption. De Volksbank's liquid assets amounted to €10.6 billion as of December 2017, while its wholesale funding, maturing by the end of 2018, stood at €3.4 billion. The bank's liquidity buffer mainly consists of cash (€3.8 billion), sovereign and public-sector bonds (€2.5 billion), as well as residential mortgage-backed securities (RMBS) eligible for central bank refinancing (€4.8 billion). Although these assets 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 of 177% as of December 2017, and its NSFR above 100% 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 excessive sensitivity to the Dutch retail mortgage market.

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 i.e protected by the deposit insurance mechanism (and 10% being junior) in an event of failure.

- Our LGF analysis indicates a moderate loss-given-failure for deposits and senior unsecured debt, which translates into 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.

Government support considerations

The central bank of the Netherlands considers De Volksbank as a domestic systemically important institution. We 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 (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 5

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		2.1%	a2	←→	a2	Quality of assets	
Capital							
TCE / RWA		36.4%	aa1	↓↓	aa3	Risk-weighted capitalisation	
Profitability							
Net Income / Tangible Assets		0.5%	baa2	←→	baa3	Earnings quality	
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		13.5%	a2	↓	a3	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		16.5%	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 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 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	--

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
DE VOLKSBANK N.V.	
Outlook	Stable
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

REPORT NUMBER 1120121

Contacts

Laurent Le Mouel +33.1.5330.3340
VP-Senior Analyst
laurent.lemouel@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

Andreea Prodea +33.1.5330.1055
Associate Analyst
andreea.prodea@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE