S&P Global
Ratings

RatingsDirect®

Research Update:

Netherlands-Based De Volksbank Outlook Revised To Negative After Second Administrative Fine Procedure; Ratings Affirmed

August 14, 2024

Overview

- On Aug. 8, 2024, De Volksbank N.V. (DVB) announced as part of its first-half results that the Dutch Central Bank (DNB) had initiated an administrative fine procedure on shortcomings in DVB's risk management from previous years.
- This follows the ongoing administrative fine procedure related to the DNB's 2023 criticisms of DVB's anti-money-laundering controls.
- We revised our outlook on DVB to negative from stable and affirmed our 'A/A-1' long-term and short-term ratings on the bank.
- The negative outlook reflects our view that the bank's governance and risk management practices could be lagging regulatory and peers' standards, and associated costs could hinder the bank hitting financial targets and undermine its competitiveness.

PRIMARY CREDIT ANALYST

Anastasia Turdyeva
Dublin
+ (353)1 568 0622
anastasia.turdyeva@spglobal.com

SECONDARY CONTACT

Letizia Conversano
Paris
+ 353 (0)1 568 0615
letizia.conversano@spglobal.com

Rating Action

On Aug. 14, 2024, S&P Global Ratings revised its outlook on Netherlands-based De Volksbank N.V. (DVB) to negative from stable and affirmed its 'A/A-1' long-term and short-term issuer credit ratings on DVB and related issue credit ratings on the bank.

Rationale

In our view, a second administrative fine procedure in 12 months casts doubt about the wider effectiveness of DVB's risk management. The procedures relate to different topics--operational management and the inadequate identification of risks related to money laundering, the financing of terrorism, and customer integrity (for more information, see "Remedying Anti-Money-Laundering Controls May Dilute De Volksbank's Improved Earnings," published Aug. 14, 2023, on RatingsDirect). While DVB has not fully explained the shortcomings that led to this second procedure, taken together, we consider these events a sign that the bank's governance and risk management practices might lag regulatory and peers' standards. We are also mindful of management turnover in recent months, including a change in chief risk officer (see "Netherlands-Based De Volksbank Affirmed At 'A/A-1' On Planned Management Replacements; Outlook Stable, published Dec. 14, 2023.)

DVB will likely need to pay fines and undertake significant changes. While any fines have not been set, we anticipate they will not heavily impair the bank's annual earnings by themselves. Nevertheless, we are mindful that control gaps require associated remediation plans, which consume financial and management resources. This also comes at a time when the reshaped management team had hoped to focus squarely on the timely execution of DVB's strategic plan. This plan aims, among other things, to increase and diversify revenue, optimize liquidity buffers, expand and diversify lending toward Dutch consumers and small and midsize enterprises, and improve cost efficiency.

We see the strategic plan's timely and substantive execution as important for the bank to preserve its position in the Dutch market and address longstanding structural profitability issues. DVB's profitability has soared since 2021 thanks to higher policy rates that led its net interest margin (NIM) to spike. However, it now faces a tougher environment of low economic and credit growth, high competition for new lending, gradually falling interest rates, and squeezed deposit margins. For the first six months of 2024, DVB's net interest income decreased 15% compared with the same period in 2023, mostly due to NIM compression. Accounting for revenue pressure and cost pressures from higher wages and digital investments, management targets a 57%-59% cost-to-income ratio by end-2025 and return of equity of 8%-10%. Although the full amount of recurring and one-off costs is unknown, they could push DVB's cost-to-income ratio above 60% in 2024-2026, delaying the achievement of its cost target, already relatively higher than peers'; and further widening the gap with key competitors, whose cost-to-income ratio trends well below 60%.

DVB continues to benefit from a very strong capital base, a solid funding profile, and ample liquidity buffers. We expect that the bank's capital base will remain a relative credit strength--notably, we anticipate that its risk-adjusted capital ratio will remain comfortably above 15% through 2026, and management has said that it will maintain a regulatory common equity Tier 1 ratio above 17%. For now, we think the second administrative fine procedure will not materially impair DVB's reputation or franchise, given its longstanding presence in the market and loyal clientele. Therefore, we expect the bank will continue relying on a broadly stable deposit base, constituting above 80% of its funding base; and preserve its broad liquidity buffers, comfortably covering its short-term wholesale funding (it was 10x as of December 2023).

Outlook

The negative outlook reflects our view that DVB's governance and risk management practices could be lagging regulatory and peers' standards. The outlook also reflects our view that the additional costs resulting from the two administrative procedures will likely raise costs, possibly hindering the bank's achievement of its already relatively high 57%-59% cost-to-income target, and therefore its competitiveness.

Downside scenario

We could lower our ratings on DVB within the next 18-24 months if the bank fails to remedy identified risk management gaps or further risk-management related shortcomings emerge. We could also consider a downgrade if these or other circumstances were to impede the execution of its strategy, impairing DVB's profitability and competitiveness.

Upside scenario

We could revise the outlook to stable in that time if the bank substantially delivers on its remediation plans, and addresses its structural profitability.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**A/Negative/A-1**	**A/Stable/A-1**
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)	Adequate and Adequate (0)
Comparable ratings analysis	0	0
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Risk management, culture, and oversight

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- De Volksbank N.V., Aug. 7, 2024
- Benelux Banks Outlook 2024: Profitability Hinges On Operating Efficiency, Feb. 22, 2024
- Dutch Banks' Net Interest Income Has Likely Peaked, Feb. 14, 2024
- Remedying Anti-Money-Laundering Controls May Dilute De Volksbank's Improved Earnings, Dec. 14, 2023
- Netherlands-Based De Volksbank Affirmed At 'A/A-1' On Planned Management Replacements; Outlook Stable, Aug. 14, 2023

Ratings List

Ratings Affirmed		
De Volksbank N.V.		
Resolution Counterparty Rating	A+/--/A-1	
Senior Unsecured	A/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
De Volksbank N.V.		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1