Outlook On Several Dutch Banks Revised To Stable On Macroeconomic Recovery Prospects

June 24, 2021

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- The anticipated macroeconomic rebound and the ramp-up in vaccination, together with continuous government and European Central Bank support that we expect to wind down only gradually, reduce the downside risks for Dutch banks' operating environment, in our view.
- We therefore revised the economic risks trend related to the domestic Dutch banking system to stable from negative.
- We subsequently revised the outlooks on ING Groep N.V., Cooperatieve Rabobank U.A., Van Lanschot Kempen Wealth Management N.V., and NIBC Bank N.V. to stable from negative.
- Our outlook on De Volksbank N.V. remains stable on the back of strong capital and the bank's persistent profitability and efficiency challenges while implementing its new business strategy.

DUBLIN (S&P Global Ratings) June 24, 2021--S&P Global Ratings today took various rating actions on Dutch banks, including on their subsidiaries (see Ratings List, below).

Webinar

S&P Global Ratings will be hosting a live webinar on June 29, 2021 (9:00 a.m. EDT; 2:00 p.m. BST; 3:00 p.m. CEST) to discuss our views on European Banks. For more details, please visit:

https://event.on24.com/wcc/r/3252634/C509A2EA04B74CFC5B846E025A448F8D?partnerref=GMR

The anticipated economic recovery eases downside risks to the operating environment of Dutch banks and drives our revision of the outlooks on a number of Dutch financial institutions to stable. The Netherlands' economy is well diversified across industries and services, without being heavily dependent on tourism or consumer durables, which limits economic volatility. Amid the pan-European recession caused by the pandemic, the Dutch economy has been among those least affected, with a real GDP contraction of 3.7% in 2020. We expect a reasonably dynamic rebound by 2.8% in 2021 and 3.2% in 2022 as authorities gradually phase out social-distancing requirements, and global travel and trade volumes pick up. We also forecast the unemployment rate to only rise to 4.1% in 2022, which would be a modest increase from around 3.5% prior to the pandemic. However, risks stemming from new variants of the virus, or other unexpected external shocks, could yet hamper the recovery.

Dutch banks entered the pandemic with a good level of capital allowing them to be prudent in provisioning and prepare for potential rise in losses. We have not observed material asset quality deterioration and we estimate that banks' credit impairment charges in 2020 amounted to

40 basis points (bps) of their loan book and provide a solid buffer to cover future losses. In the Netherlands, as in other European countries, we foresee an increase in corporate defaults over the next two years but expect it to be manageable for Dutch banks with total credit impairment charges gradually decreasing to their through-the-cycle levels of 25-30 bps by end-2022. We also see positive moratoria and guaranteed loan trends, where take-up has been very low because of domestic companies' solid pre-pandemic capital and liquidity positions. The credit losses in the mortgage segment, constituting the largest part of the Dutch banks' loan books, will likely remain lower than the peak observed in 2012-2013 (about 20 bps), thanks to the combination of a supportive social benefit system, gradually improving underwriting standards, and macroprudential measures. The other important consideration underlying our assumption is the very dynamic housing market in the Netherlands, where existing supply shortage and pent-up demand, combined with favorable demographics, support long-term house price appreciation, though we expect this to slow down over the next few years. All these factors, in our view, reduce the downside risks to the operating environment for Dutch banks we foresaw a year ago. Therefore, we revised our Banking Industry Country Risk Assessment economic risk trends to stable from negative.

Our Dutch banking industry assessment is not immune to the profitability challenge observed throughout Europe. We expect Dutch banks' earnings to begin gradually improving this year on the back of anticipated economic recovery and impairment charges falling from 2020 highs, and we estimate profitability metrics will reach pre-pandemic levels over the next several years. However, we continue to see some pressure on profitability coming from the persistent low-interest-rate environment, the limited growth potential of the mature domestic market, and continued investment in digital, IT, and regulatory and compliance requirements. In the context of pressured profitability, operating efficiency becomes increasingly important. Dutch banks display a cost-efficiency ratio (slightly above 60% for 2020) which compares satisfactorily with that of European peers, and is largely attributed to Dutch banks' proactive digitalization and the high uptake of mobile banking in the country. It is also reflective of a trend toward more direct low-cost distribution channels and product simplification. However, we see limited upside for further cost efficiency improvements, because any benefits achieved will largely be offset by further investments needed to continue the digitalization of the banking operations, as well as by regulatory and compliance-related investments. Dutch banks, including the largest ones, had to substantially increase their compliance spending (staff and IT) to remedy some of the shortcomings observed in past years--notably, to combat financial crime--in line with the central bank's guidance.

The ratings on ABN AMRO, LeasePlan Corporation, BNG Bank, and NWB Bank are unaffected by this review because these banks were already on a stable outlook or not sensitive to a revision of the Dutch economic risk trend.

Cooperatieve Rabobank U.A.

Primary analyst: Philippe Raposo

We consider that Cooperatieve Rabobank U.A. (Rabobank) is well positioned to benefit from the economic recovery given its dominant domestic franchise and its global food and agriculture sector positioning. We consider that the pressure on our view of the bank's capitalization and risk position have receded. Therefore, we revised the outlook on Rabobank and its highly strategic subsidiary Rabobank New Zealand (RNZL) to stable from negative. We expect the bank to continue exhibiting steady revenues despite persisting pressure on net interest income, and to maintain broadly stable efficiency, although possibly weighted by additional regulatory and IT development costs. We anticipate net income to recover swiftly from 2020's low on the back of much lower credit provisioning as a large amount has been taken last year to anticipate future defaults. Rabobank's strong capitalization also supports our view of its 'a' group SACP.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, over the next 24 months, Cooperatieve Rabobank U.A. (Rabobank) will gradually restore its profitability on the back of the macroeconomic recovery. Rabobank benefits from a strong domestic position, a solid global food and agricultural franchise, robust capitalization, and healthy liquidity thanks to continued access to the wholesale market. Nevertheless, we remain cautious on certain pockets of risk in domestic SMEs and global clients operating in vulnerable sectors if a new event were to dampen our current expectations because of logistical disruption and weaker global demand. Also, improving profitability above pre-pandemic levels will remain challenging in the current competitive landscape and the lower for longer interest rate environment.

Downside scenario: We could take a negative rating action in the next two years if Rabobank encounters a more severe and prolonged asset quality deterioration than we currently expect, which could have a long term effect on earnings and dent the bank's robust capital position to the extent that our risk-adjusted capital (RAC) ratio declines below 10% by 2023. We could also lower the ratings if Rabobank's revenue generation capacity were to durably erode resulting in materially lower profitability and efficiency metrics than its cooperative banking peers.

Upside scenario: We consider an upgrade in the next 24 months a remote scenario. Over time it could be considered if asset quality and profitability metrics move into line with higher rated peers.

ING Groep N.V.

Primary analyst: Anastasia Turdyeva

We believe that the economic recovery prospects of the Dutch economy, and some other European economies in which ING Groep operates, ease the downward pressure we expected at the onset of COVID-19 pandemic on our 'a' group stand-alone credit profile on ING Groep. The group's strong franchise and good diversification of its revenue by product and geography, and its solid performance over 2020 with a reported 4.8% return on equity despite high provisioning, positions it well to continue delivering on its strategic plan amid industrywide revenue headwinds, and to return to pre-pandemic profitability levels over the next couple of years. We forecast some deterioration of asset quality, but view provisions set aside over 2020 as sufficient to cover losses that could come while support measures are phased out. We expect the group's capital management to remain prudent, with our forecast RAC ratio to stay sufficiently above 10% over the next two years. Stable funding with a large deposit base and sound liquidity buffer further support our decision to revise the outlook. In addition, our issuer credit rating on ING Bank benefits from a one-notch uplift for additional loss-absorbing capacity (ALAC).

ING Groep N.V.

The stable outlook on ING Groep N.V., the nonoperating holding company (NOHC) of Netherlands-based ING Bank N.V., indicates that pandemic-related risks have started to recede, and that economic recovery and geographic and business diversification will support the group's already-resilient financial profile. However, we believe that achieving pre-pandemic profitability could be difficult in the lower-for-longer interest rate environment. We believe the group's strategy will support the maintenance of strong capital adequacy and keep our projected RAC ratio before diversification above 10% over the next 18-24 months.

Downside scenario: We could lower our ratings if we observed more aggressive capital management by ING Groep such that we expect its RAC ratio to fall below 10%, or through a deterioration in asset quality, particularly in the wholesale banking portfolio, when support measures tail off. We could also consider a negative rating action if the group struggled to improve profitability to pre-pandemic levels over the next 24 months or if we see its revenue generation capacity lags its international peers.

Upside scenario: We see upside as remote at present, but could consider a positive rating action if ING Groep materially surpasses our performance expectations and further builds capital by our measures.

ING Bank N.V.

The stable outlook on ING Bank N.V. reflects our view that ING Groep will continue to build its buffer of bail-in-able debt, mainly through the issuance of senior unsecured debt by the NOHC, ING Groep. This will secure cushions made available to protect the bank's senior preferred bondholders in the event of a resolution. It will also help counterbalance any negative repercussions that could appear on the post-pandemic recovery path and which may affect our assessment of the group's RAC base, and therefore the group SACP.

Upside scenario: A positive rating action would depend on a similar trajectory for our assessment of the group's SACP, reflecting material outperformance of our expectations and further capital build-up.

Downside scenario: Downside risk is remote, in our view, as deterioration in ING Groep's SACP will likely be offset by the application of a second notch of ALAC.

NIBC Bank N.V.

Primary analyst: Letizia Conversano

We see the domestic economic recovery, combined with the bank's ongoing de-risking strategy from niche, cyclical corporate sectors and with its focus on small-ticket lending, as supporting NIBC Bank N.V.'s (NIBC's) asset quality performance over our outlook horizon. In particular, we expect that the bank's asset quality will remain resilient, even after the Dutch government's support measures are lifted, and that the cost of risk will decrease to below 50 bps in 2021 (down from 80 bps at end-2020) and will start normalizing from 2022, as per our calculations. Furthermore, we expect the bank to be profitable and to maintain a conservative capital policy under the new shareholder, Blackstone.

Outlook

The stable outlook on NIBC Bank N.V. reflects our view that the bank's capital will continue to be robust and asset quality performance will remain under control over the next 18-24 months, on the back of better economic prospects, NIBC's management expertise, and the bank's ongoing de-risking strategy. Our stable outlook also reflects our expectations that NIBC's funding profile will remain aligned with that of other domestic peers, with stable retail deposits and well-diversified wholesale funding. Finally, the outlook incorporates our belief that the bank will be able to maintain a buffer of bail-in-able instruments comfortably above 5.5% of projected S&P Global Ratings' risk-weighted assets (RWAs) over the next 24 months.

Downside scenario: We would most likely lower the ratings over the next 18-24 months if we observed that nonperforming exposures and credit losses were rising faster than expected. This may occur because of greater risk appetite or business concentration. We could also lower the ratings if the bank were unable to attract sources of financing at a reasonable cost.

Upside scenario: Upside to our 'bbb' SACP on NIBC is unlikely given the bank's market-sensitive business model and niche strategy over our outlook horizon. A rating upgrade could come from the build-up of ALAC buffers sustainably above the 10% of S&P Global Ratings' RWAs over 2021-2023.

De Volksbank N.V.

Primary analyst: Letizia Conversano

In February 2021, De Volksbank N.V. (DVB) announced its new 2021-2025 business strategy, the successful execution of which could result in a more efficient and more revenue-diversified business model to be achieved through the bank's digital transformation and increased cross-selling activity. That said, we do expect the bank's earnings-generation capacity to remain constrained in 2021-2023, by the prolonged low-interest-rate environment, lack of sufficient revenue diversification, stiff competition in the domestic mortgage market, and important investments related to DVB's restructuring phase. Compared with other domestic commercial banks, DVB appears to be have been hit less severely by the pandemic-related macroeconomic shock. We anticipate that the bank's asset quality will remain resilient and its capital buffers very strong.

Outlook

The stable outlook on DVB reflects our view that the bank's capitalization will continue to be solid and therefore offer protection to its debtholders, including its senior preferred bondholders, through its ALAC. Our central scenario also assumes that DVB will issue senior nonpreferred notes, in line with its plans. Furthermore, we consider that privatization is unlikely over our outlook horizon given the persisting low-interest-rate environment and the bank's new strategic plan, aimed at optimizing its business model.

Downside scenario: We would lower the ratings over the next 18-24 months if a less conservative capital policy weakened DVB's financial profile, including its loss-absorbing capacity. Also, downward pressure on the SACP may occur if we saw sustained pressure on the bank's profitability owing to persistently high costs and increasing domestic competition, resulting in DVB's internal capital generation capacity remaining lower than peers' on a permanent basis. Alternatively, we could lower the SACP if further governance-related issues were to undermine the bank's long-standing reputation or the successful execution of the bank's new strategic plan. A lower SACP would trigger a downgrade of the outstanding subordinated debt.

Upside scenario: We see limited potential upside, although a positive rating action could be linked to DVB's ability to achieve a more efficient and revenue-diversified business model, which could support the bank's business model through the credit cycle.

Van Lanschot Kempen Wealth Management N.V.

Primary analyst: Philippe Raposo

While Van Lanschot Kempen Wealth Management N.V. (VLKWM) is somewhat less dependent than other banks on economic trends in the Netherlands, because of its wealth management focus, we believe that the improving economic outlook will steer VLKWM toward a restored profitability, hence our outlook revision to stable from negative. We anticipate that the group's revenue base will recover and gradually improve thanks to continued growth of its asset under management (AUM) base over the next two years, through organic and potential further mergers and acquisitions growth, in addition to the announced Mercier Vanderlinden deal. However, as is the case for the whole industry, net interest income will be further under pressure given the persisting low-interest-rate environment, in our view. With costs broadly under control, the efficiency ratio could improve below the 80% mark this year and be close to 75% by end-2022, more in line with the industry and consistent with current ratings.

Outlook

S&P Global Ratings' stable outlook on VLKWM primarily reflects our expectation of a gradual improvement in the efficiency of the group's core operations in the next two years, as the benefits of its larger scale materialize. We also expect VLKWM's capital to remain a key rating strength, based on a RAC ratio before diversification in the mid 10%-15% range over the next 24 months, thanks to controlled expansion of core activities and sufficient internal capital generation.

Downside scenario: We could take a negative rating action if the bank's updated strategy proves unsuccessful; if, for instance, its domestic franchise erodes to such an extent that it fails to attract net new money or enlarge the AUMs, and therefore to shore up profitability. We could also lower the ratings if VLKWM departs from the current prudent capitalization, with a RAC ratio lowering below 10%.

Upside scenario: We see limited upside to the ratings in the next 12-24 months despite the successful completion of its strategic move toward pure wealth management. We could raise the ratings over time if we observed a track record of higher profitability from AUM activities and from loans to private banking clients, indicating a higher sustainability more in line with 'A-' rated peers.

BICRA Score Snapshot

The Netherlands

	To	From
BICRA group	3	3
Economic risk	3	3
Economic resilience	Very low risk	Very low risk
Economic imbalances	Intermediate risk	Intermediate risk
CRIE	Intermediate risk	Intermediate risk
Economic risk Trend	Stable	Negative
Industry risk	3	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	Intermediate risk	Intermediate risk
Systemwide funding	Low risk	Low risk
Industry risk trend	Stable	Stable

Note: Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

*** * * * * * * * * * * * Cooperatieve Rabobank U.A. * * * * * * * * * * * ***		
Ratings Affirmed		
Cooperatieve Rabobank U.A.		
Cooperatieve Rabobank U.A. trading as Rabobank London		
Cooperatieve Rabobank U.A. (New York Branch)		
Resolution Counterparty Rating	AA-/--/A-1+	
Rabobank USA Financial Corp.		
Issuer Credit Rating	--/--/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
Cooperatieve Rabobank U.A.		
Cooperatieve Rabobank U.A. trading as Rabobank London		
Cooperatieve Rabobank U.A. (New York Branch)		
Issuer Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Rabobank New Zealand Ltd.		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1
*** * * * * * * * * * * * * * De Volksbank N.V. * * * * * * * * * * * * * ***		
Ratings Affirmed		
De Volksbank N.V.		
Issuer Credit Rating	A-/Stable/A-2	
Resolution Counterparty Rating	A/--/A-1	
*** * * * * * * * * * * * * * * ING Groep N.V. * * * * * * * * * * * * * * ***		
Ratings Affirmed		
ING Bank N.V.		
ING Financial Markets, LLC		
ING Bank N.V. (Dublin Branch)		
Issuer Credit Rating	A+/Stable/A-1	
ING Bank N.V.		
ING Bank N.V. (Dublin Branch)		
Resolution Counterparty Rating	AA-/--/A-1+	
ING Financial Markets, LLC		
Resolution Counterparty Rating	A+/--/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
ING Groep N.V.		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2

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Ratings Affirmed		
Resolution Counterparty Rating	A-/--/A-2	
Ratings Affirmed; Outlook Action		
	To	**From**
NIBC Bank N.V.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
*** * * * * * * * Van Lanschot Kempen Wealth Management N.V. * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Van Lanschot Kempen Wealth Management N.V.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2