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Various Dutch Bank Outlooks To Positive On Receding Economic Imbalances In The Netherlands

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- We observe broad-based economic momentum in the Netherlands, including a declining unemployment rate and recovering property markets.
- We believe these factors, alongside legal reforms introduced since 2013 and banks' restructuring efforts, are gradually reducing economic imbalances in the Netherlands, although the economy remains highly leveraged.
- Consequently, in our view, the economic risk trend for the Dutch banking industry is now positive rather than stable.
- Following our review, we are affirming our ratings on five Dutch banks operating predominantly in the Netherlands, as well as on one Belgian bank that has meaningful operations in the Netherlands.
- We are revising our outlooks to positive from stable on ABN AMRO Bank, Cooperatieve Rabobank, De Volksbank, and Argenta, indicating that we could raise our ratings on these banks if the aforementioned positive developments continue over the next 12-24 months.
- Also, we are reassessing to 'a-' from 'bbb+' the stand-alone credit profile (SACP) on ABN AMRO Bank to reflect the bank's strengthening capital position, and raising our issue ratings on the bank's subordinated and hybrid debt by one notch, since we derive them by notching from the SACP. At the same time, we reduced the uplift for additional loss-absorbing capacity to one notch from two previously.

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PARIS (S&P Global Ratings) Sept. 15, 2017--S&P Global Ratings said today that it has revised its outlooks to positive from stable on the Netherlands-based ABN AMRO Bank N.V., Cooperatieve Rabobank U.A. (Rabobank), and De Volksbank N.V. Our outlook on NIBC Bank N.V. was already positive, while our outlook on F. van Lanschot Bankiers N.V. (Van Lanschot) remains stable.

We also revised our outlook on Belgium-based Argenta Spaarbank N.V. to positive from stable.

At the same time, we affirmed our ratings on all six banks (see the ratings list below).

Our ratings on ING Group, LeasePlan Corp, BNG Bank, NWB Bank, Achmea Bank, Aegon Bank, NN Bank, and MUFG Bank Europe are unaffected.

The rating actions reflect our view that the Netherlands is experiencing a broad-based economic expansion, coupled with a noticeable, but still uneven, recovery of the housing market and an improving commercial real estate (CRE) market. Despite the high gross debt in the economy, we believe economic imbalances are receding, which should be generally credit positive for banks.

The Netherlands benefits from a wealthy, diversified, open, and competitive economic structure. This is reflected in its high per capita income, robust economic growth prospects, sizable net external asset position, and large recurrent current account surpluses. Notably, we expect the average annual unemployment rate will decline further to about 4.5% by 2018, from 6% last year, which is well below the eurozone average. Yet we note remaining risks to the economic outlook because of the country's very high degree of openness, which increases its vulnerability to potential disruptions in the external environment, for instance weaker demand from key trade partners. What's more, the Netherlands would be particularly vulnerable to a disorderly exit of the U.K. from the EU. However, we now believe that the impact of Brexit on the Dutch economy is more likely to be felt from 2019.

The Dutch housing market continues to experience a firm recovery after a sharp price correction of 20% between 2008 and 2013. We forecast that nominal house prices will continue to rise strongly, by 7.0% this year and 5.5% next year, underpinned by rising income, supply shortage, and sustained low interest rates. In addition, strong household demand and the improving labor market should support these dynamics. Nevertheless, we forecast house price growth will cool to 3% in 2019, primarily on reduced affordability as borrowing rates increase.

Some characteristics of the Dutch mortgage market have been a source of concern through the cycle, notably the high average loan to value (LTV) at origination, due to incentives to opt for interest-only mortgage loans (nonamortizing schemes). Notably, this has led to higher gross household debt than in peer countries. The rapid property price increase, although uneven across the country, is now helping to reduce the average LTV, however. Beyond the rebound of property prices, we consider the market's recovery to be positive for the banking industry because we don't expect any relaxation of banks' underwriting criteria, and regulatory pressure will force banks to continue adapting. In addition, despite high LTVs and the large share of households with negative equity (up to 25% at the peak of the price correction), credit losses in the residential real estate sector have been low. In recent years, they have been much lower than expected, well below 10 basis points on average in 2016 and since the beginning of 2017, due to the release of accumulated provisions. We also take into account the various safety nets for banks operating in this sector, including the guarantee provided by the Nationale Hypotheek Garantie on more than 20% of systemwide mortgage loans, and the full recourse to borrowers.

We consider that the CRE sector is also recovering, but rather modestly compared with the residential real estate sector. Vacancy rates are decreasing only slowly in Dutch cities and remain higher than in other large European cities. We will continue to monitor developments in both markets, as well as signs of any relaxation of banks' underwriting criteria. Moreover, we are awaiting confirmation that legal reforms on mortgage financing will continue once a new government is appointed.

• ABN AMRO Bank

We expect that ABN AMRO's capital position will continue to strengthen as the bank gradually adapts to regulatory requirements; therefore, we have revised our assessment of ABN AMRO's stand-alone credit profile (SACP) to 'a-' from 'bbb+'.

The bank targets a leverage ratio at least equal to 4% by the end of 2018 (3.9% at midyear 2017) and a minimum required eligible liabilities (MREL) ratio above 8% by the end of 2018 (7.6% at midyear 2017). Like its domestic peers, ABN AMRO is also waiting for clarity on the reform of Basel capital adequacy rules, including the risk weighting of mortgage loans, which form the bulk of its lending portfolio. We note, in particular, the bank's public statement that its MREL ambition requires net new issuance of €1.7 billion of own funds or other qualifying instruments. Consequently, we believe that its projected risk-adjusted capital (RAC) ratio will stand sustainably above 10% in the next 18 months. We estimate that this ratio stood at 9.2% at year-end 2016. Our forecast also factors in resilient earnings, modest annual asset growth (2%), no change to the dividend policy, and no acquisitions.

We raised our issue ratings on the bank's subordinated and hybrid debt, since we derive them by notching from the SACP. The long- and short-term issuer credit ratings are not affected because we have also reduced the notches of uplift for additional loss-absorbing capacity (ALAC) to one from two, since we now incorporate the core capital strengthening in our SACP assessment rather than in the ALAC uplift.

The positive outlook on ABN AMRO stems from the positive economic trend we see for banks operating in the Netherlands, reflecting, in particular, our real GDP growth and unemployment forecasts, which support the expected gradual reduction of economic imbalances in the residential property and CRE sectors. With the continuation of these positive developments--including a reducing average LTV on mortgages and decreasing vacancy rates in the CRE sector--we could revise to 'a-' from 'bbb+' the anchor that starts our ratings on banks operating mainly in the Netherlands. This would allow us to revise our SACP assessment upward and raise our long-term ratings on ABN AMRO, all other factors remaining unchanged. In the meantime, we expect that ABN AMRO will maintain a strong capital position, with the RAC ratio trending toward 11% in the next two years, and continue to build its ALAC buffer. We assume that ABN AMRO's ratio of ALAC to our risk-weighted assets metric will remain above our 5% threshold for a one-notch uplift in the next three years.

We would revise the outlook to stable if macroeconomic conditions and the performance of the CRE and residential real estate sectors were to diverge materially from our central expectations or if, despite improving economic conditions in the Netherlands, growth of the bank's international exposure, projected capital position, or ALAC buffer did not meet our expectations.

- Cooperatieve Rabobank U.A.

The positive outlooks on Rabobank and on its highly strategic subsidiary Rabobank New Zealand Ltd. stem from the positive economic trend we see for banks operating in the Netherlands, reflecting, in particular, our real GDP growth and unemployment forecasts, which support the expected gradual reduction of economic imbalances in the residential property and CRE sectors. With the continuation of these positive developments--including a reducing average LTV on mortgages and decreasing vacancy rates in the CRE sector--we could revise to 'a-' from 'bbb+' the anchor that starts our ratings on banks operating mainly in the Netherlands. This would allow us to revise our SACP assessment upward and raise our long-term ratings by one notch, all other factors remaining unchanged and assuming that the comparison with 'AA-' rated peers is favorable (from core earnings generation to asset-quality indicators).

We expect the bank will continue to strengthen its capital position, with a projected RAC ratio higher than 10%, as it executes its medium-term optimization strategy to adapt to low interest rates and regulatory challenges. We expect Rabobank's earnings will remain resilient over the next 18-24 months as the bank works through a variety of changes to its domestic and international operations.

We would revise the outlook to stable if macroeconomic conditions and the performance of the Dutch CRE and residential real estate sectors were to diverge materially from our central expectations or if, despite the improving economic conditions in the Netherlands, the bank's projected capital position or ALAC buffer buildup did not meet our expectations. We would also revise the outlook to stable if the ongoing management of the bank's lending portfolio resulted in a larger percentage of foreign lending than we currently expect.

- De Volksbank N.V.

Our positive outlook on De Volksbank reflects our view that the bank could benefit from a more favorable domestic operating environment, ultimately resulting in stronger creditworthiness. We could therefore raise our ratings on De Volksbank in the next two years if we revised our view of economic risk for banks. An upgrade would also depend on De Volksbank continuing its franchise recovery and delivering recurring earnings in a more competitive environment, assuming a favorable comparison with 'A' rated peers.

We would revise the outlook to stable if macroeconomic conditions and the performance of the Dutch CRE and residential real estate sectors were to diverge materially from our central expectations. We could also revise our outlook to stable if a more aggressive capital policy were to materially weaken De Volksbank's financial profile or if, due to its business concentration, the bank is unable to sustain its sizable franchise and stable earnings.

- F. van Lanschot Bankiers N.V.

The stable outlook on Van Lanschot primarily reflects our expectation of successful implementation of the bank's strategy and transition toward wealth management. In addition, we assume a stable loan book mainly comprising mortgage loans to private banking clients, and a gradual medium-term improvement in profitability from core operations, albeit to a still-moderate level, in the next two years. We also expect the bank's RAC ratio before diversification will be in the 12%-13% range over the next 18 months as a result of the wind-down of riskier property financing and midsize corporate portfolios, helped by improving economic conditions in the country, controlled growth of core activities, and sufficient internal capital generation.

Given the bank's transition toward the ambitious end-state of its medium-term strategic plan, which entails execution risks, and its position compared with rated peers in private banking in Western Europe, we consider that its 'bbb+' SACP and ratings should not change only because economic imbalances in the Netherlands are receding.

We could raise the ratings, however, if we were to observe sustainably stronger performance of Van Lanschot's private banking activities, namely lending and assets under management (AUM); demonstrated ability to increase AUM organically; and further derisking of the loan book; while operating conditions continue to improve.

We could take a negative rating action if Van Lanschot failed to sustainably improve its revenue base and reduce the risk profile of its loan portfolio as initially planned, or adopted a more shareholder-friendly dividend policy than we assume in our base case.

- NIBC Bank N.V.

The positive outlook reflects our view of NIBC's strengthening earnings and funding profile, the broad-based economic expansion in Netherlands, and recovery of the residential property and CRE markets. Specifically for NIBC, we will assess to what extent its improved funding mix supports further growth of stable revenue sources.

We could raise the ratings on NIBC by one notch if the bank's funding profile continues to evolve, leading to a reduction in its overall confidence sensitivity and improving earnings prospects. We could also raise the ratings if we revised our anchor for NIBC to 'a-', which could occur if we continue to see receding economic imbalances in the Netherlands, as shown for example by further strengthening in the real estate markets and reducing household debt.

We could revise the outlook to stable if NIBC reverted to overreliance on wholesale sources of funding, or if its funding mix did not support long-term revenue stability. We could also revise the outlook to stable if the bank's asset quality deteriorated--particularly in more vulnerable segments such as shipping or oil and gas--if there were an increase in risk appetite, or if we saw a material shift in credit growth. This scenario could be relevant especially if our RAC ratio forecast trends down toward 10%. We could also revise the outlook to stable if macroeconomic conditions and the performance of the CRE and residential real estate sectors were to diverge materially from the assumptions in our central scenario.

- Argenta Spaarbank N.V.

Our positive outlook on Argenta reflects our view that the bank could benefit from a more favorable operating environment for its Dutch retail banking business that ultimately strengthens the group's creditworthiness. Although legally domiciled in Belgium, Argenta is active in mortgage lending in the Netherlands, and Dutch exposures make up slightly more than 50% of its total exposures. We could therefore raise our ratings on Argenta in the next two years if we revised our assessment of economic risk for Dutch banks, assuming that the group maintains a stable strategy, including a very strong capital policy over the next two years, and that the comparison with 'A' rated peers is favorable.

We would revise the outlook to stable if macroeconomic conditions and the performance of the CRE and residential real estate sectors in the Netherlands were to diverge materially from our central assumptions.

- Other rated Dutch banks

Our ratings on ING Group and LeasePlan Corp. are unaffected because of the broader geographic diversification of their loan books and relatively lower share of credit exposure to Dutch counterparties. Our ratings on BNG Bank and NWB Bank are unaffected, since our rating approach focuses on these banks' status as government-related entities. Finally, our ratings on the integrated bank subsidiaries of financial groups (Achmea Bank, Aegon Bank, NN Bank, and MUFG Bank Europe) are unaffected because our rating approach focuses on their group membership.

RELATED CRITERIA

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- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
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RELATED RESEARCH

- Low Lending Rates Continue To Fuel Europe's Housing Market Recovery, Aug. 1, 2017

- State of The Netherlands Ratings Affirmed At 'AAA/A-1+'; Outlook Stable, May 19, 2017

BICRA SCORE SNAPSHOT*

The Netherlands	To	From
BICRA Group	3	3
Economic risk	3	3
Economic resilience	Low risk	Low risk
Economic imbalances	Intermediate risk	Intermediate risk
Credit risk in the economy	Intermediate risk	Intermediate risk
Trend	Positive	Stable
Industry risk	3	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	Intermediate risk	Intermediate risk
Systemwide funding	Low risk	Low risk
Trend	Stable	Stable

*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.

RATINGS SCORE SNAPSHOT

	To	From
ABN AMRO Bank N.V.		
Counterparty Credit Rating	A/Positive/A-1	A/Stable/A-1
SACP	a-	bbb+
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Strong (+1)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and (0) Adequate	Average and (0) Adequate
Support	(+1)	(+2)
ALAC Support	(+1)	(+2)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

RATINGS LIST

Outlook Action; Ratings Affirmed

	To	From
ABN AMRO Bank N.V.		
Counterparty Credit Rating	A/Positive/A-1	A/Stable/A-1
Subordinated	BBB	BBB-
Cooperatieve Rabobank U.A.		
Counterparty Credit Rating	A+/Positive/A-1	A+/Stable/A-1
Rabobank New Zealand Ltd.		
Counterparty Credit Rating	A/Positive/A-1	A/Stable/A-1
De Volksbank N.V.		
Counterparty Credit Rating	A-/Positive/A-2	A-/Stable/A-2
Argenta Spaarbank N.V.		
Counterparty Credit Rating	A-/Positive/A-2	A-/Stable/A-2
F. van Lanschot Bankiers N.V.		
Counterparty Credit Rating	BBB+/Stable/A-2	BBB+/Stable/A-2
NIBC Bank N.V.		
Counterparty Credit Rating	BBB-/Positive/A-3	BBB-/Positive/A-3

NB: This list does not include all the ratings affected.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.