

# Ratings On Various Dutch Banks Affirmed; Most Positive Outlooks Revised To Stable On Property Market Developments

June 28, 2019

- Because of a dynamic property market in the Netherlands over the past two years, economic imbalances in the country have not reduced, as we previously thought might be the case.
- The high level of private sector indebtedness, on a gross basis, constrains the structural ability of the very open Dutch economy to easily withstand potential external shocks, although we continue to see solid mitigating factors for banks operating in the country.
- As a result, we are affirming our ratings on three Dutch banks, Cooperatieve Rabobank, ABN AMRO, and De Volksbank, but also on Argenta, a Belgian bank with meaningful operations in the Netherlands.
- We are also revising our outlooks on most of these banks to stable, since the previous positive outlooks were linked to our expectation of reducing economic imbalances.
- The outlook on De Volksbank remains positive because we are likely to incorporate a further notch of uplift in our ratings if the bank continues to execute its strategy to build a larger buffer of loss-absorbing instruments protecting senior creditors.

PARIS (S&P Global Ratings) June 28, 2019--S&P Global Ratings today revised its outlook to stable from positive and affirmed its ratings on:

- Cooperatieve Rabobank (A+/A-1) and its two subsidiaries Rabohypotheekbank (A+) and Rabobank New Zealand Ltd. (A/A-1),
- ABN AMRO Bank (A/A-1), and
- Argenta Spaarbank (A-/A-2).

We also affirmed our ratings on De Volksbank (A-/A-2). The outlook on De Volksbank remains positive.

The Dutch economy continues to perform well, with forecast above-eurozone-average real GDP growth of 1.7% in 2019 and 1.5% on average over 2020-2022, while unemployment is low, at about 3.3%. We believe this environment continues to support banking activities in the country. At the same time, due to dynamic property prices, with nominal property prices up 8.5% in 2017, 9.2% in 2018, and 6.3% expected this year, we haven't observed a reduction of economic imbalances stemming from a reduction of private sector leverage, which remains on a gross basis among the highest in the world. We have not yet seen deleveraging of households in absolute terms, as a

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result of more dynamic property prices than we expected and active mortgage production in a competitive market. A further lowering by the government of the maximum loan-to-value (LTV) ratio at origination below 100% would have helped reduce economic imbalances, but there is no indication for the moment that this could happen. We therefore expect economic risk to remain stable over the coming two years.

We also base our view on economic risk on the very open nature of the Dutch economy, which is a source of volatility, as well as current global trade tensions and the uncertainty around Brexit, which overall will contribute to the expected slowdown of economic growth in Europe. Our ratings on various Dutch banks (Cooperatieve Rabobank, ABN AMRO Bank, and De Volksbank), and also Argenta Spaarbank, a Belgian bank with about 55% of its mortgage portfolio in the Netherlands, capture well the balance between the strengths and weaknesses we observe for the Dutch economy and bank-specific factors. Consequently, we have affirmed our ratings on these banks and revised to stable the rating outlooks. The previous positive outlooks were linked to our expectation of reducing economic imbalances at the country level. The outlook on De Volksbank remains positive because of our expectation that if the bank were to start issuing senior nonpreferred debt instruments as part of its strategy to comply with the Minimum Requirement for own funds and Eligible Liabilities (MREL), we would likely incorporate one notch of uplift in our rating for additional loss-absorption capacity (ALAC). We also revised to stable from positive the outlook on Rabobank New Zealand, because we expect extraordinary group support, and therefore its issuer credit ratings move in parallel with the ratings on its parent. The ratings and stable outlooks on all other Dutch banks are unaffected.

We continue to view the very high gross indebtedness of the private sector as an important factor for our economic risk assessment. We have observed a modest reduction in comparison with GDP, but debt remains very high in absolute terms. Net mortgage loan production appears low, but this is largely because early repayments have compensated for new loan production.

Households' high indebtedness results from recourse to nonamortizing mortgages (interest-only loans) to maximize tax deductibility of interest payment. There is a gradual shift toward amortizing loans, but interest-only loans continue to represent about 20% of loan production.

We see the continuation of the tax reform on interest rate deductibility as an important measure to facilitate the deleveraging of households. Measures have been taken to accelerate the reduction of tax deductibility. However, the Dutch government has not followed the recommendation of the Dutch Financial Stability Committee to continue gradually lowering the maximum LTV at origination, which is still high in our view, at 100%. The government has expressed its view that a further lowering would be too constraining for borrowers, given current price dynamics and the structure of the Dutch residential real estate market, which offers few alternatives to buying.

The dynamic residential property market, catching up from the last correction, and boosted by a lack of supply, has helped improve average LTV to close to 65%. Price movements have been volatile in the past decade and we understand that at the peak of the last price correction, about 35% of households were in negative equity. Given the recent dynamic of the property market, and the slow pace of transition to amortizing loans, this situation could happen again. We note that mortgage lending has not been a major source of credit losses for banks, due to the creditor-friendly regime, with full recourse to the borrower and other safety nets, including the Dutch National Mortgage Guarantee (NHG) scheme and the unemployment protection scheme.

The very large net wealth position of households does not fully compensate for households' high debt, because the majority of household financial wealth is made up of pension assets that are by nature less liquid than cash and deposits. The percentage of pension assets is higher than for peer countries. For the moment, we do not conclude that the contemplated measures to reform

the pension system would facilitate an accelerated reduction of households' indebtedness, for instance by providing more flexibility to households to manage their wealth individually.

All in all, we consider the high level of private sector indebtedness, on a gross basis, constrains the structural ability of the very open Dutch economy to easily withstand potential external shocks stemming for instance from escalating global trade tensions. Export represents 85% of GDP and we believe that the direct and indirect effect of a hard Brexit, which is not our base-case scenario, or any complicated arrangement, not to mention trade tensions globally, would have a negative impact on the business confidence and performance of the Dutch economy. We see the corporate sector and in particular the small and midsize enterprise sector as a source of credit risk for banks under such a scenario.

With low interest rates continuing, which constrains banks' revenue generation in Europe, and continuing balance sheet adaptation to regulatory changes, we believe our ratings on Dutch banks balance well these challenges, shared with many peers in Europe, and their own strengths, including solid capital positions and still good pricing power in the mortgage segment. We see no rating upside for Dutch banks in the next two years stemming from an improvement of their intrinsic creditworthiness but we believe that they generally have the ability to operate safely in a less dynamic operating environment.

#### OUTLOOK: COOPERATIEVE RABOBANK

Our stable outlook on Cooperatieve Rabobank, and its core subsidiary Rabohypotheekbank, reflects our expectation that over the next 18-24 months Rabobank's capital position will continue to strengthen as it executes its medium-term optimization strategy to adapt to upward pressure on its regulatory risk-weights stemming from the Basel reform. We also assume that Rabobank's revenue generation will remain resilient over the next 18-24 months.

#### Downside scenario

We could lower our ratings on Rabobank if we were to believe that its balance sheet optimization strategy or capital policy would not result in the strengthening of its capital position as we measure it, expecting a risk-adjusted capital ratio standing firmly above 10% in the next two years.

#### Upside scenario

We consider an upgrade in the next 18-24 months a remote scenario as it would require a significant change of its business mix or a further improvement of asset quality and profitability metrics, more in line with higher rated peers.

#### OUTLOOK: RABOBANK NEW ZEALAND

The stable outlook on Rabobank New Zealand Ltd. (RNZL) mirrors that on its parent, Cooperatieve Rabobank. This is because we expect to maintain the long-term rating on RNZL one notch below that on its parent, recognizing the bank's strategic importance to the broader group.

#### Downside scenario

We would expect to lower our ratings on the group entities, including RNZL, if we were to lower our ratings on the group. This could happen for instance if we expected that, given the parent's capital policy, the group's projected risk-adjusted capital ratio, our own measure of capital adequacy, would stand sustainably below 10%.

We expect ALAC support would flow through to RNZL. However, a change in the likelihood of ALAC support for RNZL would likely lead to a lower rating by one notch.

We currently see very limited prospects of a significant deterioration in RNZL's operating

performance within the next two years such that we would consider revisiting the strategic importance of the New Zealand operations to the overall group, which would also be a trigger for a lower rating.

Upside scenario

We see limited upside for our ratings over the next two years for the wider group, and similarly for RNZL. A higher rating on RNZL would emerge if we believed that the bank had become an integral part of the wider group, leading us to expect that the group would support RNZL under any foreseeable circumstances.

OUTLOOK: ABN AMRO BANK

Our stable outlook on ABN AMRO Bank reflects our expectation that the bank will continue to adapt its balance sheet to regulatory changes while maintaining its leading domestic franchise, solid capital adequacy, and resilient asset quality metrics, especially in the corporate sector. We consider that the expected further gradual reduction of state ownership will remain neutral for the rating.

Downside scenario

We could lower our ratings on ABN AMRO if asset quality metrics were to deteriorate materially due to its exposure to some more volatile corporate lending sectors, which has been so far been well managed.

Upside scenario

We could consider an upgrade in the next 18-24 months if, as the bank issues senior nonpreferred debt instruments, it builds a buffer of ALAC exceeding our current expectation and commensurate with 8% of S&P Global Ratings' risk-weighted assets. We would also consider an upgrade if the bank further strengthens its franchise and sector positioning in the countries where it operates. For the moment, we believe that an upgrade scenario is fairly remote.

OUTLOOK: ARGENTA SPAARBANK

Our stable outlook on Argenta Spaarbank (ASPA) reflects our expectation that over the next 18-24 months the bank will maintain a business strategy focused on its core franchise (retail banking in Belgium and the Netherlands), strong capitalization, and resilient profitability amid competitive pressures in the Belgian and Dutch mortgage markets and sustained low interest rates.

Downside scenario

We could lower our ratings on ASPA in the next 18-24 months should it fail to maintain a strong capitalization, for example as a result of an acquisition, or profitability issues, potentially as a result of adverse competitive dynamics in the Belgian and Dutch mortgage markets and inability to mitigate their financial impact.

Upside scenario

We consider an upgrade in the next 18-24 months a remote scenario as it would require a significant change of its size and business mix or higher ALAC, which we do not envisage under current MREL requirements.

OUTLOOK: DE VOLKSBANK

The positive outlook on De Volksbank reflects our view that the bank's capital planning should ultimately result in stronger creditworthiness for its senior bondholders. We could therefore raise our issuer credit rating on De Volksbank in the next two years if the bank starts to issue senior nonpreferred notes and maintains a very strong capital base in line with our central scenario.

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Despite the recovery of the bank's franchise, we don't expect a privatization to happen over our outlook horizon to 2021, given the challenges low interest rates pose to the bank in building an attractive equity story.

We would revise the outlook to stable if a more aggressive capital policy materially weakened De Volksbank's financial profile, or if due to its business concentration, the bank was unable to sustain satisfactory earnings in the scenario of a long-lived low-interest-rate environment.

### 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                      | Stable            | Positive          |
| 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 LIST

#### Ratings Affirmed; Outlook Action

|                           | To           | From           |
|---------------------------|--------------|----------------|
| <b>ABN AMRO Bank N.V.</b> |              |                |
| Issuer Credit Rating      | A/Stable/A-1 | A/Positive/A-1 |

#### Ratings Affirmed; Outlook Action

|                                   | To            | From            |
|-----------------------------------|---------------|-----------------|
| <b>Cooperatieve Rabobank U.A.</b> |               |                 |
| Issuer Credit Rating              | A+/Stable/A-1 | A+/Positive/A-1 |

#### Rabobank New Zealand Ltd.

|                      |              |                |
|----------------------|--------------|----------------|
| Issuer Credit Rating | A/Stable/A-1 | A/Positive/A-1 |
|----------------------|--------------|----------------|

#### Rabohypotheekbank N.V.

|                      |              |                |
|----------------------|--------------|----------------|
| Issuer Credit Rating | A+/Stable/-- | A+/Positive/-- |
|----------------------|--------------|----------------|

**Ratings Affirmed; Outlook Action**

|                               | To              | From            |
|-------------------------------|-----------------|-----------------|
| <b>Argenta Spaarbank N.V.</b> |                 |                 |
| Issuer Credit Rating          | A-/Stable/A-2   | A-/Positive/A-2 |
| <b>Ratings Affirmed</b>       |                 |                 |
| <b>De Volksbank N.V.</b>      |                 |                 |
| Issuer Credit Rating          | A-/Positive/A-2 |                 |

N.B. This list does not include all ratings affected.

**RELATED CRITERIA**

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**RELATED RESEARCH**

- Credit Conditions In EMEA Show Underlying Fragility Beneath A More Stable Surface, Report Says, June 27, 2019
- Economic Research: The Eurozone's Open Economy Makes It More Vulnerable To Escalating Trade Conflicts, June 26, 2019

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- Netherlands, May 17, 2019
- Economic Research: Europe's Housing Markets Ease Off The Accelerator, Feb. 19, 2019
- Various Dutch Bank Outlooks To Positive On Receding Economic Imbalances In The Netherlands, Sept. 15, 2017

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