Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks

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PRIMARY CREDIT ANALYSTS

Nicolas Hardy
Paris
(33) 1-4420-7318
nicolas.hardy
@spglobal.com

Sylvie Dalmaz, PhD
Paris
(33) 1-4420-6682
sylvie.dalmaz
@spglobal.com

Philippe Raposo
Paris
(33) 1-4420-7377
philippe.raposo
@spglobal.com

Letizia Conversano
Dublin
353 1 568 0615
letizia.conversano
@spglobal.com

Stanislas De Bazelaire
Paris
(33) 1-4420-6654
stanislas.bazelaire
@spglobal.com

SECONDARY CONTACT

Pierre Gautier
Paris
(33) 1-4420-6711
pierre.gautier
@spglobal.com

Overview

- Despite governments' measures to contain the COVID-19 pandemic, European economies, including Belgium, the Netherlands, and Luxembourg, face an unprecedented challenge to manage the slowdown of corporates' activity and of global trade given these economies' high degree of openness.
- We continue to expect the various Benelux governments' wide-ranging fiscal and related monetary measures to substantially mitigate this extraordinarily sharp, cyclical shock to the economy, and so also support the banking systems in their key role as a conduit of fiscal and monetary support.
- Even under our base case of an economic recovery starting in third-quarter 2020, we expect bank earnings, asset quality, and in some cases, capitalization, to weaken meaningfully through end-2020 and into 2021.
- Our negative rating actions reflect these factors and our view that downside risks remain substantial. That said, we continue to see differentiated implications for banks in the region.
- We could take further negative rating actions if we expect the cyclical economic recovery to be substantially weaker or delayed, as this would imply a far more negative effect on banks' credit strength. Actions could also follow idiosyncratic negative developments at individual banks.

Rating Actions

PARIS (S&P Global Ratings) April 23, 2020--S&P Global Ratings today took various rating actions on Benelux banks, including on their core and highly strategic subsidiaries (see Ratings List below).

Rationale

We have taken negative actions on various Dutch and Belgian banks because we believe the COVID-19 pandemic is lowering the earning prospects for all banks in the region. This stems from corporates' and small and midsized enterprises' (SMEs') impaired ability to repay debt, as well as constrained household incomes. Benelux economies, despite their differences, share that they are very open and therefore largely dependent on the situation of their main European partners.

Exports of goods and services represent more than 80% of GDP in Belgium and in the Netherlands, and is even higher--at close to 200%--in Luxembourg Duchy. We expect the COVID-19 pandemic to cause a severe recession in Belgium and Netherlands in 2020. We expect a recovery in both countries in 2021 but it will not immediately, and entirely offset, the damages caused to the economy, household wealth, and various corporate sectors. The resulting strain on Benelux economies leads us to revise our Banking Industry Country Risk Assessment economic risk trends to negative for Belgium and the Netherlands. Our assessment for economic risk for Luxembourg remains stable.

Until the start of March, Benelux banks were fully engaged with the same two key themes that have been paramount in recent years--harmonizing balance sheet strength with solid investor returns, and identifying how to refine business and operating models in the face of the looming risks and opportunities of the digital era. For the short term at least, the COVID-19 pandemic has changed (almost) everything. In addition to the human cost, large parts of economic activity in the Benelux region and much of the rest of Europe have ground to a halt. With isolation strategies still very much in force, our economists expect sharp economic contraction in the second quarter of 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through end-2020 and into 2021, envisaging a 7.2% GDP contraction in Belgium and 6.7% in the Netherlands in 2020 and 5.2% growth in Belgium and 6.2% in the Netherlands in 2021. Even under this base case, the effects of COVID-19 will be evident for long after the crisis subsides.

Authorities in Belgium, the Netherlands, and Luxembourg have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. The better-capitalized, better-funded, more-liquid banks that have gradually emerged in Benelux since the 2008-2009 global financial crisis have played an instrumental role as a conduit of the expansion of low cost credit to affected households and businesses. However, while we expect banks in Benelux and across Europe to remain resilient in the face of this short-term cyclical shock, we expect that it will have a meaningful impact on asset quality, revenues, profitability, refinancing costs, and, potentially, capitalization. We expect very few of these negative trends to be strongly evident in Benelux banks' first-quarter results, but consider that they would become increasingly evident through the course of 2020 and persist into 2021. Bank asset quality will be key to this outcome.

We are acutely mindful that this base case remains subject to significant downside risks. Even under our economic base case, the policy responses taken in Benelux may be less than totally successful in avoiding permanent economic damage later (see "Europe Braces For A Deeper Recession In 2020," published April 20, 2020, on RatingsDirect). We note also that a significant component of the fiscal support package comprises additional indebtedness--for the sovereign, some households, and many businesses. The longer the delay in the recovery of economic activity, the less sustainable this extra debt will be.

We have affirmed ratings on banks in view of the resilience that we expect them to demonstrate in the face of this short-term cyclical event. Negative outlooks tend to reflect the significant downside risks that we see, and our expectation that we could lower ratings on one or several banks if the economic rebound is delayed or fiscal countermeasures prove ineffective. We overlay this broad assessment with our opinion of the idiosyncratic features of individual banks, variously reflecting aspects such as pre-existing positive and negative rating pressures, their asset and funding profiles, and our view of their potential to absorb setbacks within earnings and so avoid significant capital depletion.

Belgium

Argenta Spaarbank N.V. (ASPA)

We revised the outlook to negative from stable on ASPA, and affirmed the 'A-' long-term rating. We expect ASPA's mortgage book in the Netherlands and Belgium to perform well in 2020-2021. The bank operates in the wealthiest part of Belgium, Flanders, and a substantial part of Dutch mortgages benefit from the National Hypotheek Guarantee (NHG) scheme. We expect credit losses in the mortgage books to rise, but only moderately. On the other hand, the group's profitability has been under rising pressure due to low interest rates, modest business diversification (excluding insurance), and necessary investments in digitalization. Before the pandemic, return on equity (ROE) at the group level had already declined to 6.5% in 2019 from an average of about 12.5% in 2013-2015. However, we understand that the bank's through-the-cycle profitability target is set at about 8%, which is in line with the bank's ROE reported during the past decade. We expect a further decline in 2020 to well below 6%. The recessionary environment in 2020 will compound this profitability pressure because of weaker fees from asset gathering activities (asset management), a further decline in the net interest margin, and increasing impairment charges, even if only moderate

AXA Bank Belgium

The long-term rating on AXA Bank Belgium remains on CreditWatch with negative implications. We placed the rating on CreditWatch on Oct. 30, 2019, after French insurer AXA announced that it would sell the business to mutual banking group Crelan (see "AXA Bank Belgium Downgraded To 'A-/A-2'; On CreditWatch Negative On Announced Disposal By AXA Group."). Transaction close is still expected in 2020, although current circumstances make the timing more uncertain. Even if the transaction proceeds according to plan, we believe the environment is changing with weaker expected financial profiles in 2020 for AXA Bank Belgium and Crelan. We are maintaining the CreditWatch negative until the deal closes and we can assess the creditworthiness of the new enlarged entity, but recognize that downside risks are increasing. The transaction could be more complex, and more costly to execute than we initially envisaged in Oct. 2019.

Belfius Bank SA/NV

We affirmed our 'A-/A-2' ratings, with a stable outlook, on Belfius Bank. We continue to believe that additional-loss absorbing capacity (ALAC), through subordinated debt issuance and retained earnings, would offer some level of protection to senior creditors from an economic downturn, even if conditions become more severe than we currently project. It would therefore balance the potential lowering of the 'a-' group stand-alone credit profile (SACP). We also see positively that Belfius has a lower corporate lending market share than its local peers, thereby reducing potential credit losses compared with the market average. The likelihood of lowering our issue ratings on Belfius' subordinated instruments increases with the current crisis, however. We would take a negative rating action on these instruments if we were to negatively reassess the group SACP. We recognize that it is under pressure. A lower SACP would happen if we were to conclude that Belfius' capital position had deteriorated due to, for instance, increasing base of risk assets, or a substantial weakening of its profitability because of higher credit losses than we currently project.

KBC Group N.V.

We affirmed the 'A+/A-1' ratings, with a stable outlook, on core operating companies KBC Bank N.V. and CSOB in Czech Republic. We believe these core entities benefit from the large cushion of bail-in-able debt at the non-operating holding company level. This points to our expectation that the group will remain resilient amid the challenges stemming from the COVID-19 pandemic.

Indeed, we believe that if we were to lower our intrinsic credit assessment on the group, we would likely give more weight to the buffer of bail-in-able debt protecting senior creditors, in line with our approach to measure additional loss absorption capacity (ALAC). We assume lower revenues and much higher credit losses by end-2021 than previously assumed. We expect KBC's high efficiency and diverse revenues streams will allow KBC to absorb the severe but temporary economic shock, but we cannot exclude greater pressure on earnings and asset quality. We also expect the group's liquidity to remain sound thanks to a favorable funding mix based on sticky deposits. We continue to believe that KBC's capitalization, as measured by our risk-adjusted capital (RAC) ratio, should remain consistent with the current rating. This is thanks to retained earnings mitigating the inflation of risk-weighted assets. Outside the Nordic region, KBC is one of the rare banks in Europe to exhibit a return on equity that consistently exceeds European peers' average over the past years, with a capital position and liquidity, according to our metrics, among the strongest of large European banks in our rating universe.

Given the heightened tension we see on the group SACP, we revised the outlooks to negative from stable, and affirmed the ratings, on KBC Group N.V., KBC Insurance N.V., and KBC Group Re S.A. These entities do not benefit from ALAC uplift, either because of their structural subordination as non-operating holding company or because we believe they would be outside of a bank resolution scenario, which is the case for insurance activities across Europe, in our view. Our ratings on KBC Insurance and KBC Group Re move in tandem with our group SACP.

The Netherlands

Cooperatieve Rabobank U.A.

We affirmed our 'A+/A-1' ratings on Cooperatieve Rabobank and revised the outlook to negative from stable. The negative outlook reflects our expectation that, over the next 18-24 months, Rabobank may come up against a material increase of problem loans due to COVID-19 fallout. We consider the sensitivity of Rabobank's customer base to international trade, like for other Dutch banks, and more specifically the disruptions in logistics and global demand since many of its SME and corporate clients are active in the food and agriculture sectors. The surge in problem loans could happen when Rabobank's revenue generation capabilities are constrained and its cost base remains above that of many European peers at this rating level.

We also note the importance for the bank to maintain access to long-term wholesale funding sources, which may be more expensive in the next quarters. The bank's strengthened balance sheet, encompassing its strong capital position by all measures, adequate liquidity buffer, low risk appetite, and intervention from various stakeholders, such as the Dutch government, to support the real economy are essential mitigating factors, in our view.

De Volksbank N.V. (DVB)

We revised the outlook on DVB to stable from positive and affirmed the 'A-/A-2' ratings. In the weaker operating environment bank are currently facing, we expect profitability pressure to intensify. The low interest rates and absence of business diversification are increasingly hindering DVB's revenues, at a time continuous investments are needed and credit losses are expected to rise. However, DVB's capital position is very strong when compared with peers', with an estimated RAC surpassing 22% at end-2019. This excess capital could substantially absorbs losses, even in a stressed environment. Together with potential issuances of senior nonpreferred notes, these are expected to continue to offer cushion to DVB's senior preferred creditors.

ING Groep N.V.

We revised the outlook to negative from stable on Dutch non-operating holding company ING

Groep N.V, and affirmed the ratings. The outlook on operating banks ING Bank N.V and ING Belgium S.A./N.V. remains stable, and we affirmed the ratings. ING is a diversified banking group by business and geographies, and is slightly less dependent on the Benelux economies than ABN AMRO and Rabobank. It boasts, for instance, a strong retail franchise in Germany, and it benefits from an efficient, and digitally advanced, business model. Still, we believe that asset quality, especially in the wholesale segments may deteriorate, as some sectors like oil and gas, transportation, or energy may be vulnerable to COVID-19 fallout. Rising credit losses may weaken the bank's capital position, which we currently see as strong, but only marginally above our 10% mark, measured by our RAC ratio. The negative outlook on ING Groep N.V. reflects the risk that the group SACP could weaken to 'a-' from 'a' currently. However, we see fewer risks for senior creditors at the operating entities levels, ING Bank N.V and ING Belgium, because of the substantial buffer of bail-inable debt at ING Groep N.V. Even if the group SACP were 'a-', with a likely weaker capital assessment, ING Bank, and incidentally ING Belgium, would then be eligible for a second notch of ALAC. We expect the group, which has a strong debt market franchise, to continue to issue senior debt at ING Groep N.V. as it has done over past years.

LeasePlan Corporation N.V.

We have affirmed our 'BBB-/A-3' ratings, with a stable outlook, on LeasePlan. Although a fully-fledged bank, headquartered in the Netherlands and supervised the same way as commercial banks, LeasePlan has a different profile than the other rated Benelux banks, focusing on car fleet leasing management and ancillary businesses. It is the most international, with Netherlands, Luxembourg, and Belgium together representing less than 20% of its total exposures at default. LeasePlan is a worldwide leader in the fleet leasing segment to large corporates. It is therefore, in our view, slightly less exposed to the pure credit risks stemming from COVID-19, as its clientele consists of large blue chips, with only a small fraction of SMEs. As contracts for fleet leasing typically span three to five years, the annuity-like features of the revenues and the secured nature of the business (as LeasePlan remains owner of the vehicle during the lease) somewhat eases strain on profitability, although we recognize new business volumes may suffer. The main risk to LeasePlan stems from residual value, which we capture in our RAC measure. Compared with a decade ago, LeasePlan is less reliant on wholesale-funding, since about one-third of its funding is made of retail deposits. Still, we remain vigilant on capacity of the bank to access debt markets, at relatively affordable price.

NIBC Bank N.V.

The outlook revision to negative from stable reflects the sharp reduction in economic activity we anticipate for the countries NIBC is exposed to in 2020, and our view that there are downside risks to the ratings given the material uncertainties associated with the COVID-19 pandemic. The longer and deeper the economic contraction, and related repercussion on capital markets, the more this could impair NIBC's asset quality, its ability to attract sources of funding at reasonable cost and, finally, earnings generation capacity. The bank's structural exposures to a consistent portfolio of mid-size corporates in sectors that we generally see as more vulnerable--i.e. shipping, energy, and commercial real estate--pose asset quality risks for NIBC, in our view. We expect credit losses to increase this year from the previous years' low levels. Furthermore, the nature of the bank's funding base, diversified but to a large extent wholesale funded, and therefore an area of attention in case of prolonged market volatility. Still, the affirmation reflects our expectation that NIBC will be able to withstand the shock to the economy and private sector in the first half of this year, while remaining committed to its medium-term corporate portfolio de-risking plan. Our view is supported by the measures announced by the Dutch government and the European Central Bank, which aim at providing liquidity support to affected corporates and SMEs, individuals, and financial institutions, while potentially calming volatility in the capital markets. We also note positively the bank's long-standing expertise in the corporate sector, solid relationship with its customer base, and good level of collaterals.

Van Lanschot Kempen Wealth Management N.V. (VLKWM)

The revision of the outlook on VLKWM to negative from stable primarily reflects our expectation that the company's profitability may weaken in the coming quarters. This is because of the combination of lower fee income because of fewer assets under management (AuM), weaker merchant banking activity, and potential credit losses on its lending book. As a private bank and asset manager focusing on off-balance sheet activities, we consider VLKWM to be better positioned than traditional commercial banks in the Netherlands regarding potential credit losses due to the economic slowdown. Moreover, we expect the bank's capital position will remain strong, with a RAC ratio before diversification above 10% in the next 24 months. However, AuM valuation drop will hurt future commission income, lower for longer interest rates will continue to constrain interest income, and merchant banking revenues are highly uncertain in current markets. Overall, we expect profitability to fall significantly in 2020 despite some cost flexibility at VLKWM, before gradually recovering in the coming years. We could take a negative rating action if profitability, for instance, measured by cost-to-income, did not recover as anticipated.

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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Outlooks Revised On Six U.K. Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Various French Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Europe’s AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020

Ratings List

*** * * * * * * * * * * * * * * * * * AXA * * * * * * * * * * * * * * * * ***		
Ratings Remain On CreditWatch		
AXA Bank Belgium		
Issuer Credit Rating	A-/Watch Neg/A-2	
*** * * * * * * * * * * * * Argenta Spaarbank N.V. * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Argenta Spaarbank N.V.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
*** * * * * * * * * * * * * * Belfius Bank SA/NV * * * * * * * * * * * * * ***		
Ratings Affirmed		
Belfius Bank SA/NV		
Issuer Credit Rating	A-/Stable/A-2	
*** * * * * * * * * * * * Cooperatieve Rabobank U.A. * * * * * * * * * * * ***		
Ratings Affirmed		
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+/Negative/A-1	A+/Stable/A-1
Rabobank New Zealand Ltd.		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
Rabohypotheekbank N.V.		
Issuer Credit Rating	A+/Negative/--	A+/Stable/--
*** * * * * * * * * * * * * * De Volksbank N.V. * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
De Volksbank N.V.		
Issuer Credit Rating	A-/Stable/A-2	A-/Positive/A-2
*** * * * * * * * * * * * * * * ING Groep N.V. * * * * * * * * * * * * * * ***		
Ratings Affirmed		
ING Bank N.V.		
ING Financial Markets, LLC		
ING Belgium S.A./N.V.		
ING Bank N.V. (Dublin Branch)		
Issuer Credit Rating	A+/Stable/A-1	
ING Bank (Australia) Ltd.		
Issuer Credit Rating	A/Stable/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
ING Groep N.V.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
*** * * * * * * * * * * * * * * KBC Group N.V. * * * * * * * * * * * * * * ***		
Ratings Affirmed		
KBC Bank N.V.		
Ceskoslovenska Obchodni Banka A.S.		
Issuer Credit Rating	A+/Stable/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
KBC Group N.V.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2

KBC Insurance N.V.		
KBC Group Re S.A.		
Issuer Credit Rating	A/Negative/--	A/Stable/--
Financial Strength Rating	A/Negative/--	A/Stable/--
*** * * * * * * * * * Lincoln Financing Holdings PTE Ltd. * * * * * * * * ***		
Ratings Affirmed		
LeasePlan Corporation N.V.		
Issuer Credit Rating	BBB-/Stable/A-3	
Lincoln Financing Holdings PTE Ltd.		
Issuer Credit Rating	BB+/Stable/--	
*** * * * * * * * * * * * * * * NIBC Bank N.V. * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
NIBC Bank N.V.		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/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+/Negative/A-2	BBB+/Stable/A-2