S&P Global Ratings

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New Issue: Argenta Spaarbank N.V.

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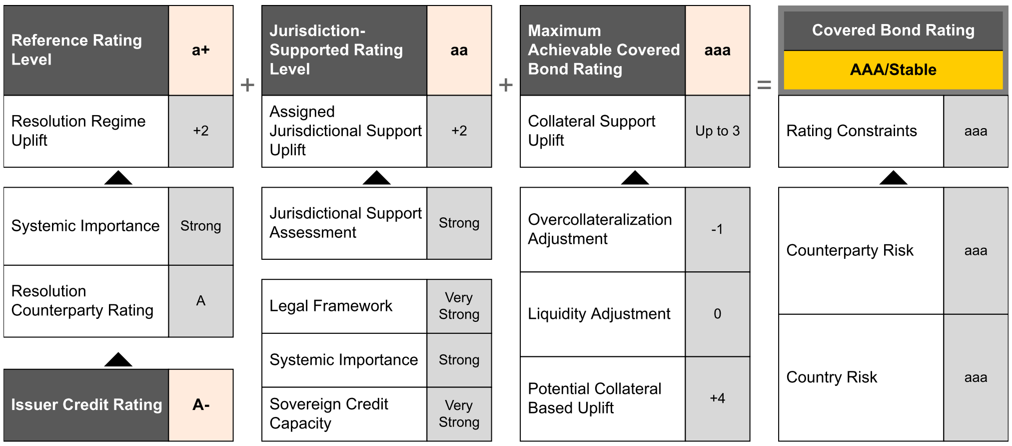
Ratings Detail



Major Rating Factors

Strengths

- The cover pool comprises prime Belgian residential mortgage loans.
- The inaugural covered bond features a soft-bullet extendible maturity, which covers liquidity risk for 12 months.
- There is an unused notch of uplift resulting from our analysis of the collateral-based uplift.

Weaknesses

- The cover pool features a large share of fixed-rate loans with future reset dates. These loans introduce an element of volatility in asset collections compared to fixed-for-life loans.
- The issuer does not commit to maintain the level of overcollateralization that is commensurate with the current rating, therefore we deduct one notch of ratings uplift for the calculation of the maximum achievable covered bond rating.
- The liability profile, comprising only the single bond being issued, makes the transaction's asset-liability mismatch and target credit enhancement sensitive to any new issuance.

Outlook: Stable

S&P Global Ratings' stable outlook on its 'AAA' ratings on the mortgage covered bonds issued by Belgium-based Argenta Spaarbank N.V. (A-/Stable/A-2) reflects one unused notch of collateral uplift. Under our covered bonds criteria, we would not automatically lower the ratings on the covered bonds if we were to lower our long-term issuer credit rating (ICR) by one notch, all else being equal.

Rationale

S&P Global Ratings has assigned its 'AAA' credit rating to the new residential mortgage loan-backed covered bond program and inaugural public issuance from Argenta Spaarbank (Argenta).

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015. In addition, our analysis is based on our global criteria for assessing pools of residential loans (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We consider that the provisions of the transaction documents, together with the Belgian legal and regulatory framework, effectively isolate the cover pool assets for the benefit of the covered bondholders. This asset isolation allows us to assign a higher rating to the covered bonds than our long-term ICR on the issuer.

We conducted a review of Argenta's mortgage operations, which we view as prudent. We believe satisfactory procedures are in place to support our rating on the covered bonds.

Argenta is based in Belgium, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). In addition, we consider that mortgage covered bonds have a strong systemic importance in Belgium.

These factors increase the likelihood that Argenta would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) as 'a+', two notches above the ICR on the issuer.

We also consider the likelihood for the provision of jurisdictional support. Based on a strong jurisdictional support assessment for mortgage programs in Belgium, we assign two notches of uplift from the RRL. Therefore, we assess the jurisdiction-supported rating level (JRL) as 'aa'.

Based on our analysis of cash flow data as of Jan. 30, 2021, the available credit enhancement of 22.34% exceeds both the target credit enhancement (2.5%) and the credit enhancement required for a 'AAA' rating (2.5%).

There are currently no rating constraints to the 'AAA' ratings related to legal, administrative, operational, sovereign default, or counterparty risks.

We have based our analysis on the criteria articles referenced in the "Related criteria" section.

Program Description

Table 1

Program Overview*	
Jurisdiction	Belgium

Table 1

Program Overview* (cont.)	
Year of first issuance	2021
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	0.5
Redemption profile	Soft-bullet
Underlying assets	Residential mortgages
Jurisdictional support uplift	2
Unused notches for jurisdictional support	0
Target credit enhancement (%)	2.5
Credit enhancement for current rating (%)§	2.5
Available credit enhancement (%)	22.34
Collateral support uplift	3
Unused notches for collateral support	1
Total unused notches	1

*Based on data as of Jan. 30, 2021. §Level of credit enhancement corresponding to 'AAA' credit risk plus 75% of refinancing costs.

The issuer, Argenta, is the fifth-largest bank in Belgium, with a balance sheet mostly generated by domestic activities.

The Belgian "pandbrieven" constitute unsubordinated senior unsecured obligations and rank pari passu among themselves. The program is new and is designed to complement other funding sources, such as unsecured note issuance (both senior preferred and senior nonpreferred) and securitization transactions.

The cover pool is backed by a portfolio of prime Belgian residential mortgage loans, eligible under Belgian covered bond law.

Argenta Spaarbank N.V. Belgian Pandbrieven Program Structure

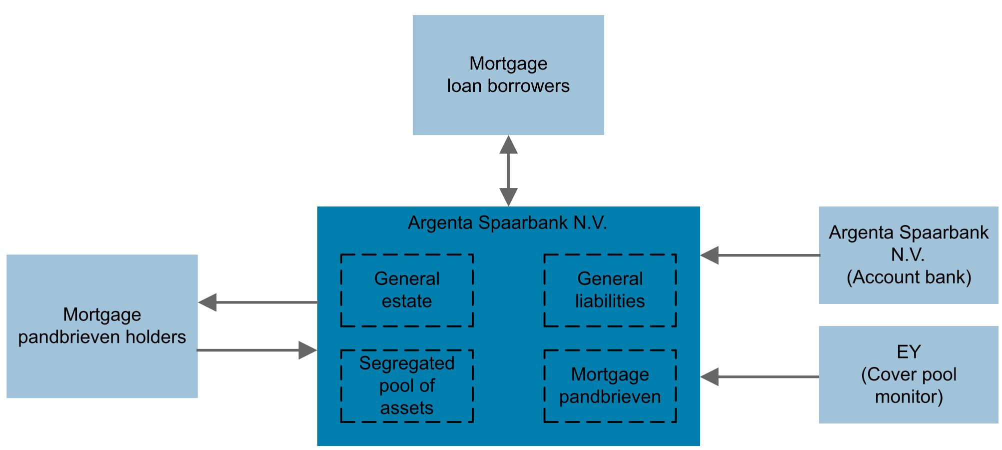


Table 2

Program Participants			
Role	**Name**	**Rating**	**Rating dependency**
Issuer	Argenta Spaarbank N.V.	A-/Stable/A-2	Yes
Originator	Argenta Spaarbank N.V.	A-/Stable/A-2	No
Servicer	Argenta Spaarbank N.V.	A-/Stable/A-2	No
Bank account provider	Argenta Spaarbank N.V.	A-/Stable/A-2	No

Rating Analysis

Legal and regulatory risks

The regulatory regime governing Belgian covered bonds was adopted by Parliament on Aug. 3, 2012, and was completed by Royal Decrees published on Oct. 11, 2012, and various other subsequent regulations. Covered bond issuers are regulated by the National Bank of Belgium (NBB) and programs are subject to the supervision of a cover pool monitor appointed by the issuer and approved by the NBB.

Similar to German Pfandbriefe, covered bonds in Belgium typically remain on the issuer's balance sheet. Under Belgian legislation, the pandbrieven holders benefit from a ringfenced estate called the special estate. Issuing credit institutions must maintain a "register of cover assets" recording all covered bonds issued and the cover pool assets backing them. The special estate comprises those cover pool assets, any collateral posting received from swap counterparties, security interests and sureties, guarantees or privileges granted in connection with the cover pool assets, and cash held by the issuing bank for the special estate.

The cover pool assets in the special estate are available to meet the obligations under the covered bonds and are excluded from the issuer's bankruptcy estate. If the issuer becomes insolvent, pandbrieven holders have dual recourse to cover pool assets constituting the segregated estate and to the issuer's general estate (in respect of which they are treated as the issuer's unsecured creditors).

Other key features of the Belgian covered bond framework are a minimum overcollateralization level of 5% based on the value of eligible assets, the requirement to maintain a level of assets generating sufficient liquidity over a period of six months, and an encumbrance level resulting from the cover pool assets that does not exceed 8% of the bank's assets.

In our view, Belgium's legal framework for covered bonds sufficiently addresses the legal aspects outlined in our covered bonds criteria, enabling us to rate the covered bonds higher than the issuer.

We base our analysis of legal risk on our criteria "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017, and our covered bonds rating framework.

Resolution regime analysis

Like other Belgian covered bonds we rate, the program exhibits asset-liability mismatch risk not addressed by structural features (for example, pass-through liabilities). The ratings on the covered bonds are therefore linked to the issuer's RRL, under our covered bonds criteria.

The BRRD was transposed into Belgian law by a Royal Decree published on March 3, 2015. We assess the systemic importance for mortgage programs in Belgium as strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Nov. 27, 2020). Under our covered bonds criteria, a strong systemic importance means the RRL is the maximum between two notches above the long-term ICR and the resolution counterparty rating (RCR). As the RCR on Argenta is 'A', the resulting RRL is 'a+', which reflects the two-notch uplift from the ICR. This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in risk in the event of bank resolution. We consider this as an internal form of support, because the bail-in of certain creditors of the issuer does not require direct support from the government.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Our assessment of the expected jurisdictional support for Belgian mortgage programs is strong. Under our covered bonds criteria, this means that the program can receive up to two notches of jurisdictional uplift over the RRL. Therefore, the JRL for the program is 'aa'.

Collateral Support Analysis

Key assumptions and results

The cover pool comprises loans secured by first-lien mortgages over residential properties in Belgium and/or mortgage mandates to create mortgages, as well as a small proportion of Belgian government bonds held for liquidity purposes.

We assess asset credit quality using our measure of likely defaults (weighted-average foreclosure frequency; WAFF) and our measure of possible loss-given default (weighted-average loss severity; WALS). Based on data as of Jan. 30, 2021, we estimate the cover pool's WAFF at 11.84% and the WALS at 30.26% based on a 'AAA' stress level.

Argenta's WAFF is slightly more favorable than other Belgian residential covered bond programs that we rate due to the lower weighted-average debt-to-income (DTI, calculated on a debt servicing basis). On the other hand, the WALS is somewhat higher due to the greater weighted average current loan-to-value (CLTV) ratio, which is partially offset by a lower share of jumbo loans.

Mortgage mandates

In Belgium, when taking out a mortgage, the borrower must pay a registration fee based on the mortgage amount being registered at the notary. To reduce this fee, and in line with market practice, a lender may grant a mortgage loan partly secured by a mortgage inscription on the property and by a mortgage mandate. The registration fee is only payable on the mortgage inscription because a mandate is not collateral for the loan. A mortgage mandate is solely the irrevocable option of the lender (or a third-party assignee) to unilaterally create a mortgage. Only when the mortgage mandate has been converted into a mortgage is the portion of the original loan represented by the mortgage mandate supported by a security interest in the relevant property.

There is a risk that another creditor would also benefit from the mortgage mandate over the property. In this instance, the creditor who first registered the mortgage has priority over the security. Consequently, in line with our global residential loans criteria, we have factored into our credit analysis the greater loss severity associated with mortgage mandates by giving credit to half the value of mortgage mandates from our recovery analysis. We also calculate a loan to mortgage inscription that only reflects the value of the property that is subject to mortgage inscription, to the exclusion of any mortgage mandate.

Tables 3 to 9 summarize the cover pool's composition and key characteristics.

Table 3

Cover Pool Composition

	As of Jan. 30, 2021	
Asset type	**Amount (mil. €)**	**(%)**
Residential loans	609.20	99.59
Substitute assets	2.50	0.41
Total	611.70	100.00

Table 4

Key Credit Metrics

	As of Jan. 30, 2021
Weighted-average effective loan to value* (%)	70.93
Weighted-average original loan to value (%)	73.65
Weighted-average current loan to value (%)	60.06
Balance of loans in arrears (%)	0.00
Buy-to-let loans (%)	2.5
Credit analysis results	
WAFF (%)	11.84
WALS (%)	30.26

*Effective LTV is calculated weighting 80% of the original LTV and 20% of the current LTV. LTV--Loan-to-value. N/A--Not applicable. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

Loan Seasoning Distribution*

	As of Jan. 30, 2021
Seasoning	**--Percentage of portfolio--**
<=5 years	75.53
>5 and <=6 years	10.97
>6 and <=7 years	6.80
>7 and <=8 years	6.26
>8 and <=9 years	0.42
>9 and <=10 years	0.00
>10 years	0.00
	--Weighted average loan seasoning (months)--

Table 5

Loan Seasoning Distribution* (cont.)

	As of Jan. 30, 2021
	39.95

*Seasoning refers to the elapsed loan term of loans not in arrears.

Table 6

Cover Pool Assets By DTI Ratio

	As of Jan. 30, 2021
(%)	--Percentage of cover pool --
0-25	13.62
25-40	64.81
40-55	21.57
>55	0.00
	--Weighted average DTI --
	33.62

DTI--Debt service to income.

Table 7

Geographical Distribution by Provinces

(%)	As of Jan. 30, 2021
Antwerp	33.76
Brussels-Capital	4.03
East Flanders	18.51
Flemish Brabant	15.64
Hainaut	2.49
Liège	2.31
Limburg	11.01
Luxembourg	0.25
Namur	0.74
Walloon Brabant	1.56
West Flanders	9.70

Table 8

Effective LTV Distribution*

	As of Jan. 30, 2021
0% - 60%	27.84
60% - 80%	34.95
80% - 90%	15.66
90% - 100%	20.88
> 100%	0.67
Weighted-average effective loan-to-value	70.93

*Effective LTV is calculated weighting 80% of the original LTV and 20% of the current LTV.

Table 9

Collateral Uplift Metrics

	As of Jan. 30, 2021
Asset WAM (years)	18.05
Liability WAM (years)	10 (extendible to 11)
Available credit enhancement (%)	22.34
Required credit enhancement for coverage of 'AAA' credit risk (%)	2.5
Required credit enhancement for first notch of collateral uplift (%)	2.5
Required credit enhancement for second notch of collateral uplift (%)	2.5
Required credit enhancement for third notch of collateral uplift (%)	2.5
Target credit enhancement (%)	2.5
Potential collateral-based uplift (notches)	4
Adjustment for liquidity (Y/N)	N
Adjustment for committed overcollateralization (Y/N)	Y
Collateral support uplift (notches)	3

WAM--Weighted-average maturity.

Our analysis of the pandbrieven's payment structure shows that cash flows from the cover pool assets would be sufficient, at the current rating level, to make timely payment of interest and principal to the covered bond holders. The program is exposed to refinancing risk because the mismatches in its asset-liability profile are not addressed by structural features.

The pool contains a relatively high share (>60%) of fixed reset loans, a regulated product in Belgium, for which the first interest reset can typically occur up to 20 years from origination and subsequent resets then occur at predetermined intervals--normally one, three, and five years-—based on the then-prevailing rate for Belgian government bonds for the corresponding one-, three-, or five-year maturity. Other relevant features, which are all determined at loan origination, include a fixed margin above the reference rate, interest rate caps, and floors. In our cash flow modeling, we account for the variability in asset collections caused by fixed reset loans.

We analyzed the program's cash flows under 'AAA' credit stresses, as well as liquidity and interest rate stresses. To assess market-value risk we applied a target asset spread of 425 basis points in our cash flow analysis, as outlined in "Assessments For Target Asset Spreads According To Our Covered Bonds Criteria," published on Nov. 27, 2020.

With a JRL of 'aa' and a one-notch downward adjustment for uncommitted overcollateralization, the program needs to mitigate credit risk at the 'AAA' level and 75% refinancing risk in order to achieve a 'AAA' rating.

We have modeled the terms and conditions of the inaugural covered bond issuance with a €500 million notional balance, a term to maturity of 10 years with a one-year maturity extension, and a 0.01% coupon.

Based on information as of Jan. 30, 2021, our analysis shows that the available credit enhancement of 22.34% exceeds the credit enhancement commensurate with a 'AAA' rating of 2.5%, as well as the target credit enhancement, 2.5% (see table 9). Both values are floored by the minimum level under our covered bonds criteria. We note that additional issuances from the program may change the current cash flow profile.

Because there is an active secondary market for Belgian mortgages such as the ones in the mortgage book, the program can potentially benefit from up to four notches of collateral-based uplift, according to our covered bonds criteria.

Under our covered bonds criteria, there is a one-notch downward adjustment to the collateral-based uplift as the issuer has not made any commitment to maintain the level of overcollateralization that is commensurate with the current rating.

There is no notch of adjustment for liquidity risk as this risk is covered through the Belgian covered bond legislation as well as the maturity extension feature on the soft-bullet covered bonds.

Additional Factors

Counterparty risk

We analyze counterparty risk using our criteria "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019. We believe that counterparty risks are addressed and therefore do not constrain the ratings.

There is no bank account agreement and therefore no replacement language. In these circumstances the risk of loss of funds due to account bank insolvency is captured by the commingling risk analysis.

The Belgian covered bond legislation contains provisions that limit commingling risk between the issuer's two separate estates. The revindication mechanism ensures that, if the issuer becomes insolvent, if any cash that belongs to the segregated estate cannot be identified in the general estate, then the special estate will have a priority claim on unencumbered assets in the general estate. Under a provision defined in the program agreement, the special estate will receive the best available assets, ranging from ECB-eligible credit quality step one bonds, to any assets selected by the cover pool administrator. There is therefore no certainty as to the quality of assets that would be transferred to the special estate to address commingling risk. Accordingly, we have not given credit to this mechanism in our analysis.

We have assumed one month of commingling risk corresponding to the month during which the issuer could be accumulating cash on behalf of the special estate before the issuer is declared insolvent. Cash received post insolvency will be available in a timely fashion for the special estate and will not be commingled, in line with the Belgian Banking law.

Commingling risk is reflected in our cash flow results. In addition, there are no swaps in the program structure.

Sovereign risk

We analyze sovereign risk according to our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Under these criteria, the assets in the cover pool are deemed to show low sensitivity to sovereign risk. In addition, the program is considered to have low sensitivity to refinancing risk because it is based in a jurisdiction that is part of a monetary union, and liquidity risk is covered for 12 months through the soft-bullet extension feature of the covered bonds. This allows for a covered bond rating of up to five notches above the sovereign rating. Given our 'AA' long-term unsolicited rating on Belgium, sovereign risk does not constrain our ratings on the covered bonds.

Environmental, social, and governance factors

The exposure of Argenta's mortgage cover pool to environmental and social factors is in line with other Belgian issuers we rate. Governance aspects take into account the Belgian "pandbrieven" legislation, which addresses the main requirements of our covered bonds criteria. Belgian pandbrieven programs are licensed and supervised by the National Bank of Belgium (NBB) as domestic banking regulator. An external asset monitor, reporting quarterly to the NBB, monitors the pool. Argenta' mortgage covered bonds program does not commit to maintain a minimum level of overcollateralization, which reduces by one notch the maximum potential uplift under our criteria. The bonds' soft-bullet maturity profile mitigates liquidity risk. The presence of a large share of loans with an interest reset feature--a regulated product in Belgium--introduces an element of volatility in asset collections compared to fixed-for-life loans.

Potential effects of COVID-19

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up, and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Related Criteria

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- S&P Global Ratings Definitions, Jan. 5, 2021
- Global Covered Bond Insights Q4 2020, Dec. 17, 2020
- Global Covered Bond Characteristics And Rating Summary Q4 2020, Dec. 17, 2020
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Nov. 27, 2020
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Nov. 27, 2020
- Argenta Spaarbank Outlook Revised To Stable On Increased Additional Loss-Absorbing Capacity; Affirmed At 'A-/A-2', Oct. 26, 2020