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Ratings

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Argenta Spaarbank N.V.

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Table Of Contents

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Argenta Spaarbank N.V.

SACP	bbb+	+	Support	+1	+	Additional Factors	0

Anchor	bbb+	
Business Position	Moderate	-1
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Strong	

ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A-/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong capitalization and liquidity. • Low credit risk in the regions where it operates. • Conservative risk culture and focused strategy.	• Retail business concentration and limited reach compared with largest peers. • Regulatory capital requirements and digitalization weighing on costs more than peers with a larger revenue base. • Structural exposure to interest rate risk due to its savings bank business model.

Outlook: Stable

S&P Global Ratings' stable outlook on Belgium-based Argenta Spaarbank N.V. (ASPA) reflects our view that the bank will continue benefiting from a very strong capital policy and a stable strategy in the next two years. The outlook also reflects our view that the bank will sustain a level of additional loss-absorbing capacities (ALAC) that protects senior unsecured creditors.

We would consider a downgrade if the bank's capital management--which has so far been supportive of very strong capital buffers by retaining a large part of profits--were to change, with the risk-adjusted capital (RAC) ratio declining to 15% or less. We see limited downside risk for ASPA's stand-alone credit profile (SACP) at this time.

We view an upgrade as unlikely in the next two years, given the bank's concentrated business model compared with the universal banks that dominate the Belgian and Dutch banking sectors.

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Rationale

Our ratings on ASPA reflect its 'bbb+' anchor, which is based on our view of the banking systems in Belgium and The Netherlands, the two countries where ASPA operates. We then adjust for the following bank-specific factors:

- Moderate business position, because of its combined geographic and business concentration on the retail segment in the Belgian region of Flanders and in The Netherlands.
- Very strong capital and earnings assessment as we expect its RAC ratio before diversification will continue to strengthen and stand well above 15%.
- Moderate risk position, reflecting the bank's interest rate risk and geographic and retail concentration features, partly mitigated by the granularity and performance of its mortgage portfolio. The bank's credit loss experience in recent years remained very supportive of our assessment.
- Average funding and strong liquidity, owing to its predominantly retail-oriented deposit base mostly in Belgium, large liquid asset buffers, and lack of reliance on the wholesale market.

The resulting SACP is 'bbb+'. Finally, ASPA would be subject to resolution under the EU Bank Recovery and Resolution Directive (BRRD). We therefore raise the ratings under our ALAC criteria, because ASPA's ALAC ratio already exceeds and will be sustainably above our 5.5% threshold over our projection period.

Anchor: 'bbb+'

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk in the countries in which ASPA operates, based on the geographic distribution of its loan portfolio, which is split between The Netherlands and Belgium (accounting for 60% and 40%, respectively, at end-2015). The economic risk score for The Netherlands is '3' and for Belgium it is '2', on a scale of 1-10 (1 is the lowest risk and 10 is the highest). Our view of the economic risk trend for Belgium is negative, however a downward revision of our risk assessment on Belgium would have no impact on ASPA's anchor score because the weighted-average score is already rounded to '3'.

In our view, Belgium's export-oriented nature makes it vulnerable to external shocks, which we view as more likely to happen than in the past. We anticipate that uncertainty surrounding the U.K's vote to leave the EU could hit trade and investment activity in the very open Belgian economy. That said, we anticipate modest property price increases supported by resilient domestic demand and a continued recovery in employment. Our industry risk score of '3' reflects our view of the ample domestic funding sources for Belgian banks combined with the challenge of generating revenues from the reinvestment of excess resources without lowering their risk profile. Regulatory standards are, in our view, in line with those of Western European peers.

Table 1

Argenta Spaarbank N.V. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Adjusted assets	33,812	33,479	32,107	34,109	33,992
Customer loans (gross)	24,345	23,218	21,956	19,870	18,071
Adjusted common equity	1,543	1,380	1,223	1,037	979

Table 1

Argenta Spaarbank N.V. Key Figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Operating revenues	540	459	417	274	307
Noninterest expenses	271	227	171	141	227
Core earnings	208	189	174	94	79

Business position: Stable strategy but concentration in the retail segment

We regard ASPA's business position as moderate, essentially because on a comparative basis it displays a less diversified profile and smaller footprint than the universal banks that dominate the Belgian or Dutch markets. ASPA is Belgium fifth-largest player by assets, a market where the four largest banks represented more than 80% of consolidated assets at end-2015. That said, we think ASPA has weathered the financial crisis very well, thanks to its focused strategic regional positioning on retail banking only. In our view, ASPA benefited indirectly from the need faced by larger Belgian banks to restructure their operations, but in the aftermath of this restructuring phase, its market position has proven to be resilient.

Argenta Spaarbank is owned by Argenta Bank- en Verzekeringsgroep nv (not rated), a holding company 86.5% owned by Investar nv (representing the interests of the Belgian founding family) and 13.5% owned by Argen-Co cvba (representing about 70,000 cooperative shareholders). The holding company has full control of ASPA and Argenta Assuranties (not rated), the bank's sister company. We have not observed any material lending transaction in favor of the founding family. We view positively the dividend policy in recent years, which has helped the bank strengthen its capital position.

Due to its business model, the bank's product range is narrower than peers', in our view, and dominated by mortgages and savings deposits, which constrains earnings generation. We note the growing proportion of fees from cross selling. We view ASPA's reliance on independent agents in Belgium and independent brokers in The Netherlands for product distribution as a relative weakness of its business model compared to peers that have full control on their proprietary distribution network. However, this is partly mitigated by the cost efficiency of this model. The bank is also developing its digital banking capabilities.

We estimate ASPA's market shares in Belgium at about 5% in mortgage loans and 8% in deposits from individuals. Its commercial franchise is stronger in Flanders, in our view. We also view positively the development of insurance activities for the bank's franchise through its insurance sister company. Even if the premiums and related revenues do not flow through ASPA's income statement, these activities strengthen customer loyalty and client-base stability of the whole Argenta bancassurance group. We expect ASPA's prudent and long-term approach to business planning will remain a defining feature of its strategy.

Table 2

Argenta Spaarbank N.V. Business Position					
	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Total revenues from business line (mil. €)	539.9	459.3	441.2	274.0	306.9

Table 2

Argenta Spaarbank N.V. Business Position (cont.)					
	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on equity	12.0	11.8	13.0	7.5	7.5

Capital and earnings: Improved earnings and cautious capital policy have led to a strong capitalization

We view ASPA's capital and earnings as very strong. In the next two years, we expect earnings will be resilient between €150 million and €200 million, and our RAC ratio before adjustments will continue strengthening well above 15% within 18-24 months. This ratio stood at 16.7% at year-end 2015.

ASPA posted improved operating revenues in 2015 thanks to resilient margins and higher fee revenues from funds. Return on equity reached 12% in 2015, which is above the 10% average we calculate for Belgian banks. Earnings are supported by the bank's specific retail focus and organizational model. Its cost base is relatively lean compared with retail banks that maintain their own branch networks. The residential mortgage segment in the regions where it operates displays sustainably low credit costs. Average funding costs have improved thanks to a large reliance on customer deposits and the very low interest rate environment. However, the issuance of a Tier 2 instrument to comply with future capital requirements adds to the funding cost, and the strategies to hedge against interest rate risk fluctuations also contributes to interest expenses.

Nearly 75% of ASPA's mortgage portfolio in The Netherlands benefits from the Dutch government-supported Nationale Hypotheek Garantie (NHG; not rated) program. We recognize the benefit of this credit protection by aligning the risk weight of 65% of the guaranteed portfolio with the risk weight we apply to Dutch government debt. The remaining 35% of the portfolio carries the standard risk weight we apply to prime residential mortgages in The Netherlands. The resulting average risk weight aims to capture the risk of the 90%-10% burden sharing between NHG and the financing bank in case of a loss.

Our RAC ratio projections factor in a similar level of customer loan growth over the next two years (5% in 2015). We expect resilient net interest income, despite the low interest rate environment. This is due to the volume effect of the loan book growth, and only slightly decreasing margins thanks to ASPA's shift toward a larger share of retail loans in its asset mix. We believe this shift helped the bank in the past three years because retail activities have better margins than the investment portfolio; we include in our assessment that the current mix will be stable from now on. We also expect a gradually improving earnings diversification, with recurring fee income stemming from off-balance sheet funds, and an easing of the cost of ASPA's hedging strategy. Finally, our base-case scenario is based on increased noninterest expenses related to investments in digitalization and on the relative stability of the reserve on available-for-sale financial assets, which we deduct from our measure of total adjusted capital.

We expect that ASPA will continue to generate capital internally to accompany the growth in risk-weighted assets, and maintain its regulatory capital position.

Table 3

Argenta Spaarbank N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	18.6	17.6	17.7	16.4	16.2
S&P Global Ratings RAC ratio before diversification	16.7	16.0	15.0	14.0	12.6
S&P Global Ratings RAC ratio after diversification	16.0	15.4	14.4	13.6	11.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	103.4	117.6	112.4	130.2	99.9
Fee income/operating revenues	(10.3)	(13.0)	(19.4)	(29.9)	10.4
Market-sensitive income/operating revenues	0.1	(9.5)	3.3	(5.8)	(14.3)
Noninterest expenses/operating revenues	50.2	49.5	41.0	51.3	74.1
Preprovision operating income/average assets	0.8	0.7	0.7	0.4	0.2
Core earnings/average managed assets	0.6	0.6	0.5	0.3	0.2

RAC--Risk-adjusted capital.

Table 4

Argenta Spaarbank N.V. Risk-Adjusted Capital Framework Data

(€ 000s)	**Exposure at default**	**Basel II RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	11,962,464	124,966	1	486,033	4
Institutions	2,088,366	815,867	39	549,810	26
Corporate	1,672,186	789,905	47	1,279,006	76
Retail	18,872,200	3,108,733	16	5,318,588	28
Of which mortgage	18,141,564	3,030,623	17	4,836,082	27
Securitization*	1,050,802	154,635	15	272,476	26
Other assets	339,501	196,407	58	345,018	102
Total credit risk	35,985,519	5,190,511	14	8,250,930	23
Market risk					
Equity in the banking book§	262	262	100	2,125	813
Trading book market risk	--	0	--	0	--
Total market risk	--	262	--	2,125	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	730,106	--	1,010,609	--
(€ 000s)		**Basel II RWA**		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		6,074,153		9,263,664	100
Total Diversification/Concentration Adjustments		--		353,224	4

Table 4

Argenta Spaarbank N.V. Risk-Adjusted Capital Framework Data (cont.)				
RWA after diversification	6,074,153		9,616,888	104
(€ 000s)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	1,546,738	25.5	1,543,121	16.7
Capital ratio after adjustments†	1,546,738	25.5	1,543,121	16.0

*Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. §Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. †Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2015, Standard & Poor's.

Risk position: Core business activities generate low credit risk but exposure to interest rate risk is structural

We consider ASPA's risk position to be moderate, predominantly reflecting the bank's interest-rate risk exposure in its banking book, a risk that is not reflected in our RAC ratio. This exposure stems from the significant proportion of nearly fixed-rate assets--including a large bond portfolio and increasing share of long-term fixed mortgages--and adjustable deposits on ASPA's balance sheet. We believe the bank partially mitigates this sensitivity thanks to interest rate swaps and caps, but we still assess that the very low interest rate environment creates a longer term risk for ASPA.

We observe that ASPA's new loan production has outpaced those of Belgian and Dutch competitors. We believe this stronger-than-average growth does not add additional risk as long as the bank's production underwriting standards are not relaxed, and we expect the bank will keep a conservative approach in the next two years. We do not expect the bank's geographic presence will expand outside its core markets. We assume asset diversification by extending financing facilities to public sector companies will be slow and contained in the next two to three years.

In our view, the bank's sensitivity to interest rate changes outweighs its very limited risks in other areas, such as credit risks, for our overall risk-position assessment. The cost of risk remains very much contained, and has stayed below 10 basis points (bps) over the last decade. Most of the loan portfolio is made up of mortgage loans. ASPA finances prime mortgages, and we do not see signs of a property bubble in Belgium, but we do not exclude the possibility of a global economic slowdown having an impact on the very open Belgian economy (see "Banking Industry Country Risk Assessment: Belgium," published Aug 17, 2016, on RatingsDirect). Loan-to-foreclosure values are higher in The Netherlands, but most of the exposures benefit from a guarantee from the NHG, reducing the ultimate risk for ASPA in case of borrowers' insolvencies. Finally, we consider the credit risk embedded in ASPA's investment portfolio to be adequately managed. This is because underlying securities are highly rated (50% above in 'AA' category or above, and 99% investment grade), and well diversified; although we note the amount invested in Belgian government bonds is large compared to the bank's equity.

Table 5

Argenta Spaarbank N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	4.9	5.7	10.5	10.0	2.3

Table 5

Argenta Spaarbank N.V. Risk Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2015	2014	2013	2012	2011
Total diversification adjustment/S&P Global Rating RWA before diversification	3.8	3.9	4.0	2.7	5.9
Total managed assets/adjusted common equity (x)	21.9	24.3	26.3	32.9	34.7
New loan loss provisions/average customer loans	0.0	0.0	0.1	0.0	0.0
Net charge-offs/average customer loans	0.1	N.M.	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	0.8	0.6	0.7	0.6	0.6
Loan loss reserves/gross nonperforming assets	19.7	29.1	24.8	38.4	37.8

N.M.--Not meaningful. RWA--Risk-weighted assets.

Funding and liquidity: Liquidity is a rating strength

ASPA's funding is average and its liquidity strong, in our opinion.

ASPA has managed its balance sheet cautiously since 2008 in response to unfavorable market conditions. The loan-to-deposit ratio (including savings bonds sold to retail clientele) stood at 79% at end-2015 compared with 70% three years before as a result of the strategy to rebalance the bank's asset mix in favor of customer lending. We expect this ratio will stabilize around 80%-85%, since we believe the asset mix will be stable and that deposit growth will balance credit growth. Customer deposits comprise over 90% of the bank's funding base, which indicates its low reliance on confidence-sensitive wholesale sources. ASPA has more supportive funding metrics than domestic peers. We calculate ASPA' stable funding ratio to be 116% as of year-end 2015. However, we regard the retail customer deposit base as potentially sensitive to competitive pressure on deposit collection, especially from larger players because we believe that they would have better means to defend their market position if required. For the time being, deposit collection campaigns launched by relatively small foreign-owned banks, mainly utilizing the Internet, do not represent a threat to established banks, but it is pushing them to develop alternative distribution channels.

About one-fourth of the bank's balance sheet--€9.6 billion at year-end 2015--is made up of high-quality and liquid securities in its bond portfolio, essentially level 1 assets that are eligible collateral in European Central Bank open market operations. We estimate that the bank's liquid assets covered more than 11x short-term wholesale deposits as of year-end 2015, demonstrating stronger liquidity than peers. However, we note that broad liquid assets represented 18% of the customer deposits at the same date, trending down from 40% in 2011, but we assume the figure will stabilize because the bank does not plan to further reduce its liquidity portfolio.

Table 6

Argenta Spaarbank N.V. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2015	2014	2013	2012	2011
Core deposits/funding base	98.4	97.0	97.9	89.3	85.4
Customer loans (net)/customer deposits	78.7	77.1	74.7	69.9	65.6
Long-term funding ratio	98.6	97.4	99.9	95.9	98.7
Stable funding ratio	115.8	119.0	119.1	128.3	137.6
Short-term wholesale funding/funding base	1.5	2.7	0.1	0.5	0.7

Table 6

Argenta Spaarbank N.V. Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2015	2014	2013	2012	2011
Broad liquid assets/short-term wholesale funding (x)	11.7	7.8	127.3	60.6	45.3
Net broad liquid assets/short-term customer deposits	17.8	21.0	20.9	35.4	40.0
Short-term wholesale funding/total wholesale funding	89.6	88.5	6.9	4.4	4.7
Narrow liquid assets/3-month wholesale funding (x)	24.9	15.2	69.5	181.2	6.6

Support: ALAC has replaced government support in Belgian bank ratings

In our view, ASPA has moderate systemic importance in Belgium, mainly reflecting its 8% market share in retail deposits and its status as the fifth-largest bank in the country. Since December 2015, we have regarded the prospect of extraordinary government support for Belgian banks as uncertain in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for notching uplift for possible future Belgian government support.

However, we view the Belgian resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

ASPA reported excess total adjusted capital above our 15% threshold for a very strong capital and earnings assessment and the bank issued €500 million Tier 2 debt in the first half of 2016. This issuance of bail-in-able debt further reinforces the bank's loss-absorbing capabilities. We therefore calculate that the bank's ALAC ratio already exceeds and will remain above the 5.5% threshold we deem appropriate for incorporating one-notch of uplift in our long-term rating on ASPA.

The threshold we apply to ASPA is above our standard 5.0%, reflecting a concentration of maturities, as we expect this buffer will consist of a limited number of instruments. We calculate that ALAC was only 1.7% of S&P Global Ratings risk-weighted assets at year-end 2015, but estimate that it will reach 6.5%-7.5% by end-2016 thanks to the Tier 2 debt issue and retained earnings. We do not include issuance of other ALAC-eligible instruments into our forecasts at this time because we think further issuance will depend on the still-unclear definitive standards for minimum own funds and eligible liabilities.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015

Related Research

- Banking Industry Country Risk Assessment: Belgium, Aug. 17, 2016
- Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable, July 15, 2016

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 9, 2016)

Argenta Spaarbank N.V.	
Counterparty Credit Rating	A-/Stable/A-2
Junior Subordinated	BB
Subordinated	BBB-
Counterparty Credit Ratings History	
02-Dec-2015	A-/Stable/A-2
29-Apr-2014	A-/Negative/A-2
10-Dec-2010	BBB+/Stable/A-2
Sovereign Rating	
Belgium (Kingdom of)	AA/Stable/A-1+

Ratings Detail (As Of September 9, 2016) (cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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