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Argenta Spaarbank N.V.

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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-/Positive/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong capitalization, thanks to supportive shareholder base. • 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. • Additional costs for digitalization are weighing more heavily than for peers that have a larger revenue base. • Structural exposure to interest rate risk, due to the savings bank business model.

Outlook: Positive

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

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

Rationale

Our ratings on ASPA reflect its core membership of the Argenta Group (Argenta), active in banking in insurance. The bank is the main asset of Argenta Bank - en Verzekeringsgroep N.V., the group's holding company. Argenta's unsupported group credit profile (GCP) reflects its 'bbb+' anchor, which is based on our view of the banking systems in Belgium and The Netherlands, the two countries where it 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 risk-adjusted capital (RAC) ratio before diversification will continue standing 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 through the cycle remain very supportive of our overall rating.
- 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 unsupported GCP is 'bbb+'. Finally, we understand the bank would be subject to resolution under the EU Bank Recovery and Resolution Directive (BRRD) and consequently we raise the ratings on the bank by one notch because we believe the bank will sustain a high level of bail-in-able debt protecting senior creditors.

Anchor: 'bbb+' for banks operating in Belgium and The Netherlands

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 Argenta 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-2016).

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). We revised our economic risk trend on The Netherlands to positive in September 2017 on the back of broad-based economic momentum, a further declining unemployment rate, and our view that economic imbalances are reducing despite a still highly leveraged economy. Our industry risk score of '3' for Belgium 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. The four largest banks maintain stable and dominant domestic market shares, which underpins industry stability. Regulatory standards are, in our view, in line with those of Belgium's Western European peers. The combination of the blended economic risk and industry risk scores results in our 'bbb+' anchor for Argenta.

Table 1

Argenta Group Key Figures					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Adjusted assets	42,145	39,587	37,544	35,313	35,425

Table 1

Argenta Group Key Figures (cont.)					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Customer loans (gross)	27,527	25,225	22,583	19,758	17,395
Adjusted common equity	1,651	1,571	1,613	1,436	1,309
Operating revenues	687	654	591	484	349
Noninterest expenses	330	305	328	261	232
Core earnings	270	262	249	157	120

Business position: Stable strategy but concentrated business model

We regard Argenta'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. Argenta is Belgium's fifth-largest player by assets, a market where the four largest banks represented more than 80% of consolidated assets. That said, we think the group has weathered the financial crisis very well, thanks to its focused strategic regional positioning in retail banking only. In our view, Argenta benefited indirectly from the need faced by larger Belgian and Dutch banks to restructure their operations, but in the aftermath of this restructuring phase, its market position has proven to be resilient.

ASPA is owned by Argenta Bank- en Verzekeringsgroep NV (not rated), a holding company 86.8% owned by Investar NV (representing the interests of the Belgian founding family) and 13.2% owned by Argen-Co cvba (representing about 70,000 cooperative shareholders). The holding company has full control of Argenta Spaarbank and Argenta Assuranties (not rated), the bank's sister company. We have not observed any material lending transaction in favor of the founding family and we view positively the dividend policy in recent years, which has helped the bank strengthen its capital position.

Due to its business model, the group's product range is narrower than peers', in our view, which somewhat constrains earnings generation. Indeed, the group offering is dominated by mortgages in Belgium and The Netherlands, and by savings schemes through traditional banking accounts and life insurance through Argenta Assuranties. We note positively given the low interest rate environment the growing proportion of fees from cross-selling and from the shift of certain deposits to off-balance sheet products. We view Argenta'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 with peers that have full control over their proprietary distribution network. However, this is partly mitigated by the cost benefit of this model. Argenta is also developing its digital banking capabilities by investing in its platform and client-facing applications.

We estimate Argenta's market shares in Belgium to be close to 5% in mortgage loans and 8% in deposits from individuals. Its commercial franchise is historically stronger in Flanders, the richest region of the country. We also view positively the development of insurance activities, with the maintenance of conservative regulatory solvability ratios, that allow the group to have an additional source of revenues. We believe these activities strengthen customer loyalty and client-base stability of the whole Argenta bancassurance group.

Table 2

Argenta Group Business Position					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Return on equity (%)	9.90	11.95	15.30	10.63	8.29

Capital and earnings: A cautious capital policy has led to a very strong capitalization

We consider Argenta very strongly capitalized. In the next two years, we expect group consolidated net earnings will be between €175 million and €225 million on the back of a persistent low interest rate environment, while our RAC ratio before adjustments will continue strengthening above 17% over the coming 18-24 months. We estimate this ratio stood at 16.8% at year-end 2016, taking into account the group's proposed dividend, but excluding the usual capital reinjection from shareholders at this time.

The group posted improved operating revenues in 2016, mainly thanks to the increasing volume of the loan book and net interest margins that resist the low interest rate environment. Higher fee revenues from funds and the insurance business also contributed positively to the group's resilient net income. Return on equity reached 9.9% in 2016 by our calculations, which is in line with Belgian banks' average. Earnings are supported by the group's specific retail focus and organizational model. Its cost base is relatively lean compared with retail banks that maintain their own branch networks, but we note that additional costs relating to the digitalization of the group could weigh more than for larger peers because of scale effects. The residential mortgage segment in the regions where it operates displays sustainably low credit costs. Average funding costs have improved thanks to a high reliance on customer deposits and the very low interest rate environment.

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 dynamic average 6% customer loan growth over the next two years. 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. The shift toward a higher share of retail loans on balance sheet versus highly rated bonds has also helped ASPA in the past three years, given that retail activities have better margins than the investment portfolio. We assume that the current 70%-30% mix will be stable from now on. Finally, we also anticipate a gradually improving earnings diversification, with recurring fee income stemming from off-balance-sheet funds and the insurance business.

We view the quality of capital to be high as total adjusted capital comprises solely common equity and no hybrid instruments. We expect that Argenta will continue to generate capital internally to accompany the growth in risk-weighted assets, and maintain its regulatory capital position at supportive levels for the ratings.

Table 3

Argenta Group Capital And Earnings

	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Tier 1 capital ratio*	20.08	18.64	17.56	17.67	16.38
S&P RAC ratio before diversification*	16.78	16.66	15.98	14.96	13.96
S&P RAC ratio after diversification*	14.53	16.05	15.39	14.39	13.60
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Net interest income/operating revenues	97.01	99.44	115.98	118.50	117.19
Fee income/operating revenues	(6.07)	(5.89)	(12.72)	(19.69)	(26.86)
Market-sensitive income/operating revenues	1.35	3.93	3.21	9.39	26.71
Noninterest expenses/operating revenues	48.03	46.63	55.54	53.94	66.42
Preprovision operating income/average assets	0.87	0.90	0.72	0.63	0.33
Core earnings/average managed assets	0.66	0.68	0.68	0.44	0.34

* 2015, 2014, 2013 and 2012 data is for Argenta Spaarbank N.V.

Table 4

Argenta Group Risk-Adjusted Capital Framework Data

(€ 000s)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	11,854,872	101,019	1	473,404	4
Institutions and CCPs	2,095,567	787,600	38	447,958	21
Corporate	1,929,432	921,368	48	1,540,557	80
Retail	20,963,186	3,544,521	17	5,659,478	27
Of which mortgage	20,213,988	3,466,944	17	5,163,846	26
Securitization§	1,022,022	135,886	13	260,212	25
Other assets†	297,592	163,939	55	286,932	96
Total credit risk	38,162,671	5,654,332	15	8,668,542	23
Credit valuation adjustment					
Total credit valuation adjustment	--	83,533	--	0	--
Market risk					
Equity in the banking book	2,160	2,160	100	12,301	570
Trading book market risk	--	0	--	0	--
Total market risk	--	2,160	--	12,301	--
Operational risk					
Total operational risk	--	996,930	--	1,162,381	--
(€ 000s)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		7,389,803		9,843,224	100
Total Diversification/Concentration Adjustments		--		1,524,241	15

Table 4

Argenta Group Risk-Adjusted Capital Framework Data (cont.)				
RWA after diversification	7,389,803		11,367,465	115
(€ 000s)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	1,858,191	25.1	1,651,444	16.8
Capital ratio after adjustments‡	1,858,191	25.1	1,651,444	14.5

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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, 2016, S&P Global.

Risk position: Low credit risk experience but concentrated exposures

We consider Argenta's risk position to be moderate, predominantly reflecting the group's geographical and business lines concentration. We also view as a rating constraint the interest-rate risk exposure in ASPA's 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 the bank's balance sheet. We believe Argenta 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 the group.

We observe that Argenta's new loan production has outpaced those of Belgian and Dutch competitors in 2016. 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 note that 43% of the loan book has a loan-to-value above 90% but take comfort from the fact that nearly 80% of this amount is covered by the NHG scheme. We do not expect the bank's geographic presence will expand outside its core markets.

In our view, the bank's exposure concentration and 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 and Argenta finances only prime mortgages. We do not see signs of a property bubble in Belgium but are monitoring real estate valuation closely. 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 the group in case of borrowers' insolvencies. Finally, we consider the credit risk embedded in Argenta'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 with the bank's equity.

Table 5

Argenta Group Risk Position					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Growth in customer loans	9.13	11.70	14.30	13.58	14.38

Table 5

Argenta Group Risk Position (cont.)					
	--Year ended Dec. 31--				
	2016	2015	2014	2013	2012
Total diversification adjustment / S&P RWA before diversification*	15.49	3.81	3.86	3.97	2.69
Total managed assets/adjusted common equity (x)	25.62	25.29	23.34	24.66	27.13
New loan loss provisions/average customer loans	0.00	0.01	(0.27)	(0.02)	(0.27)
Net charge-offs/average customer loans§	0.02	0.05	N.M.	N.M.	N.M.
Gross nonperforming loans/customer loans§	0.72	0.77	0.61	0.72	0.59
Loan loss reserves/gross nonperforming loans§	18.77	19.88	29.13	24.77	38.43

* 2015, 2014, 2013 and 2012 data is for Argenta Spaarbank N.V. §2014, 2013 and 2012 data is for Argenta Spaarbank N.V.

Funding and liquidity: Liquidity is a rating strength

Argenta's funding is average and its liquidity strong, in our opinion. Argenta 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 83% at end-2016 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 increase at year-end 2017 because of the addition to the bank's funding base of €1.2 billion of mortgage-backed notes issued in October 2017. Customer deposits comprise most of the bank's funding base, which indicates its low reliance on confidence-sensitive wholesale sources. Argenta has more supportive funding metrics than domestic peers. We calculate Argenta's stable funding ratio to be 102% as of year-end 2016, a level we deem adequate and which is just above the 99% calculated for the consolidated Belgian sector. 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-quarter of the bank's balance sheet--€9 billion at year-end 2016--is made up of cash and high-quality liquid securities in its bond portfolio, essentially level 1 assets that are eligible collateral in European Central Bank open market operations. These liquid assets comfortably covered by 3x the short-term wholesale funding at group level and on the same date, pointing to very limited refinancing risk.

Table 6

Argenta Group Funding And Liquidity					
	--Year ended Dec. 31--				
	2016	2015	2014	2013	2012
Core deposits/funding base	92.19	92.49	91.64	91.10	84.05
Customer loans (net)/customer deposits	83.92	81.64	69.01	64.51	63.89
Long term funding ratio	94.26	93.39	97.43	97.29	95.52
Stable funding ratio	101.74	102.40	126.01	131.60	136.09
Short-term wholesale funding/funding base	6.13	7.05	2.69	2.83	4.66
Broad liquid assets/short-term wholesale funding (x)	3.03	2.90	9.05	9.88	7.80
Net broad liquid assets/short-term customer deposits	14.82	16.23	149.68	172.42	224.31

Table 6

Argenta Group Funding And Liquidity (cont.)					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Short-term wholesale funding/total wholesale funding	78.53	93.89	32.17	31.77	29.21
Narrow liquid assets/3-month wholesale funding (x)	3.56	3.81	11.72	19.28	13.46

Support: Additional loss-absorbing capacities protect senior creditors

Since December 2015, we have regarded the prospect of extraordinary government support for Belgian banks as uncertain in view of the country's effective resolution regime. As a result, 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 nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We estimate that Argenta will continue to display excess total adjusted capital above our 15% threshold for a very strong capital and earnings assessment. ASPA issued €500 million of Tier 2 debt in the first half of 2016, further reinforcing its loss-absorbing capabilities. We therefore calculate that the group'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 is above our standard 5.0%, reflecting a concentration of maturities, with a single Tier 2 issuance so far. We calculate that ALAC was 6.9% of S&P Global Ratings' risk-weighted assets at year-end 2016 and estimate it will gradually reduce to 6.5% at end-2018, on the back of the group's growth and consequent increasing risk-weighted assets. We do not include issuance of other ALAC-eligible instruments in 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

- 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
- 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, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment 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

- Banking Industry Country Risk Assessment: Belgium, Aug. 10, 2017
- Various Dutch Bank Outlooks To Positive On Receding Economic Imbalances In The Netherlands, Sept. 15, 2017

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 December 21, 2017)

Argenta Spaarbank N.V.	
Counterparty Credit Rating	A-/Positive/A-2
Junior Subordinated	BB
Subordinated	BBB-
Counterparty Credit Ratings History	
15-Sep-2017	A-/Positive/A-2
02-Dec-2015	A-/Stable/A-2
29-Apr-2014	A-/Negative/A-2
Sovereign Rating	
Belgium (Kingdom of)	AA/Stable/A-1+

*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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