# 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 |

| Resolution Counterparty Rating |
|---|
| A/--/A-1 |

## Major Rating Factors

| Strengths: | Weaknesses: |
|---|---|
| • Strong capitalization and liquidity.<br>• Very low credit risk in the regions where it operates.<br>• Focused retail-banking strategy, with its insurance business gradually increasing in importance. | • Retail business concentration and limited geographic reach compared with largest peers.<br>• Additional costs for digitalization are weighing more heavily than for peers with a larger revenue base.<br>• Structural exposure to interest rate risk due to the savings-bank business model. |

## Outlook: Positive

Our positive outlook on Argenta Spaarbank (ASPA) reflects S&P Global Ratings' view that a more favorable operating environment in the Netherlands, where approximately half of the bank's lending activities are located, could strengthen the group's overall creditworthiness. We could therefore raise our ratings on ASPA in the next two years if we revised upwards our assessment of economic risk in the Netherlands, assuming that the group maintains a stable retail banking strategy in its chosen markets, and very strong capitalization. To consider an upgrade, we should also view ASPA's creditworthiness as similar to other 'A' rated peers.

If we saw rising external risks, notably Brexit-related, for the Belgian and or Dutch economies, or signs of overheating in the residential real estate sectors in either of these two countries, we could revise the outlook back to stable because it would indicate a less supportive environment.

## Rationale

Our ratings on ASPA are based on our view of the consolidated accounts of Argenta Bank-en Verzekeringsgroep N.V. (Argenta; not rated), the group's holding company, active in banking and insurance. Banking is the main activity of Argenta, accounting for about 85% of total assets as of end-2018.

Our issuer credit rating (ICR) on ASPA reflects a 'bbb+' anchor, which is based on our view of risks in the Belgian and Dutch banking systems, the two countries where ASPA operates, and the following bank-specific factors:

- A business profile concentrated on the retail segment in the Belgian region of Flanders, where the bank has a strong franchise, and in the Netherlands.
- Very strong capitalization, since we expect its risk-adjusted capital (RAC) ratio before diversification will remain above 15%.
- A very low credit risk profile, but some structural exposure to interest rate risk and geographic and retail exposure concentration.
- A retail deposit funding profile, with a loans-to-deposits ratio below 100%, in line with the average for the Belgian banking system, and strong liquidity due to a large portfolio of liquid assets relative to limited wholesale funding.
- A high level of bail-in-able debt protecting senior creditors in resolution.

ASPA seeks scale, with its dynamic growth on the Belgian mortgage market recently supporting this objective. Its main challenge, amid decreasing profitability (see chart 2), is to extract additional revenues from its bancassurance model. We expect profitability will remain under pressure due to the low interest rate environment, but sufficient to support the current very strong capitalization and to adequately cover very low credit losses through the cycle.

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

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) for Belgium and The Netherlands.

The economic risk score for The Netherlands is '3' and for Belgium '2', on a scale of 1-10 (1 is the lowest risk and 10 is the highest). For Argenta, we use a weighted average based on the loan portfolio's geographical breakdown (the share of Belgium and The Netherlands being respectively about 56% and 42% as of end-2018). 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 anchor further reflects our assessment of Belgium's industry risk of '3' (no weighted average), ASPA being a Belgian bank.

**Table 1**

**Argenta Group Key Figures***

| | | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|---|
| **(mil.€)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Adjusted assets | 45,668 | 43,888 | 42,145 | 39,587 | 37,544 | 35,313 |
| Customer loans (gross) | 30,929 | 28,706 | 27,527 | 25,225 | 22,583 | 19,758 |

**Table 1**

**Argenta Group Key Figures* (cont.)**

| | | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|---|
| **(mil.€)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Adjusted common equity | N.A. | 1,777 | 1,651 | 1,571 | 1,613 | 1,436 |
| Operating revenues | 641 | 628 | 687 | 654 | 591 | 484 |
| Noninterest expenses | 311 | 354 | 330 | 305 | 328 | 261 |
| Core earnings | 197 | 204 | 270 | 262 | 249 | 157 |

*S&P Global Ratings' definitions. N.A--Not available.

### Business position: Stable retail strategy but concentrated business model

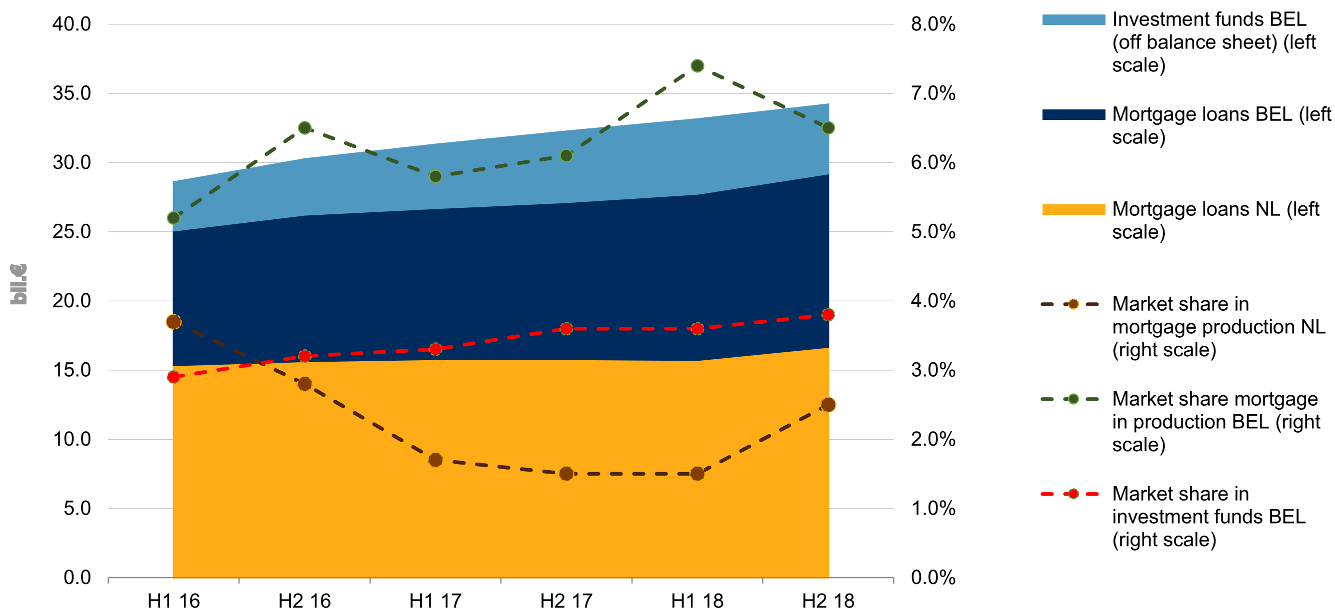
We view Argenta's business profile as a relative weakness for the ratings because the bank has a less-diversified profile and smaller geographical footprint than the universal banks that dominate the Belgian or Dutch markets.

ASPA is a savings bank with assets of €40 billion at end-2018. On the liability side, it offers traditional bank savings, life insurance products in Belgium via sister company Argenta Assuranties, and retail investment funds. The bank has been expanding steadily, recently gaining market share in the Belgian mortgage and retail investment funds market (see chart 1). On the asset side, it offers mortgage loans in Belgium and The Netherlands. It is Belgium's fifth-largest bank by total assets in a concentrated market, with the four largest banks accounting for more than 80% of consolidated assets. The bank's market share in Belgium in outstanding mortgage loans is 5.6%, and 8.3% in deposits (its main source of deposits) at end-2018, with a franchise historically stronger in Flanders, the richest region of the country. It is far lower (2.5%) in the Netherlands, where ASPA operates via brokers.

Though geographically concentrated on two markets, the bank's focus on low-risk retail banking has allowed it to weather the various recent crises very well. The Dutch and Belgium markets are competitive, but ASPA's market position has proved resilient since the completion of its competitors' restructuring (see chart 1).

**Chart 1**

**ASPA Is Expanding Steadily**
Market Shares In The Belgian Mortgage And Retail Investment Funds Markets Is Increasing

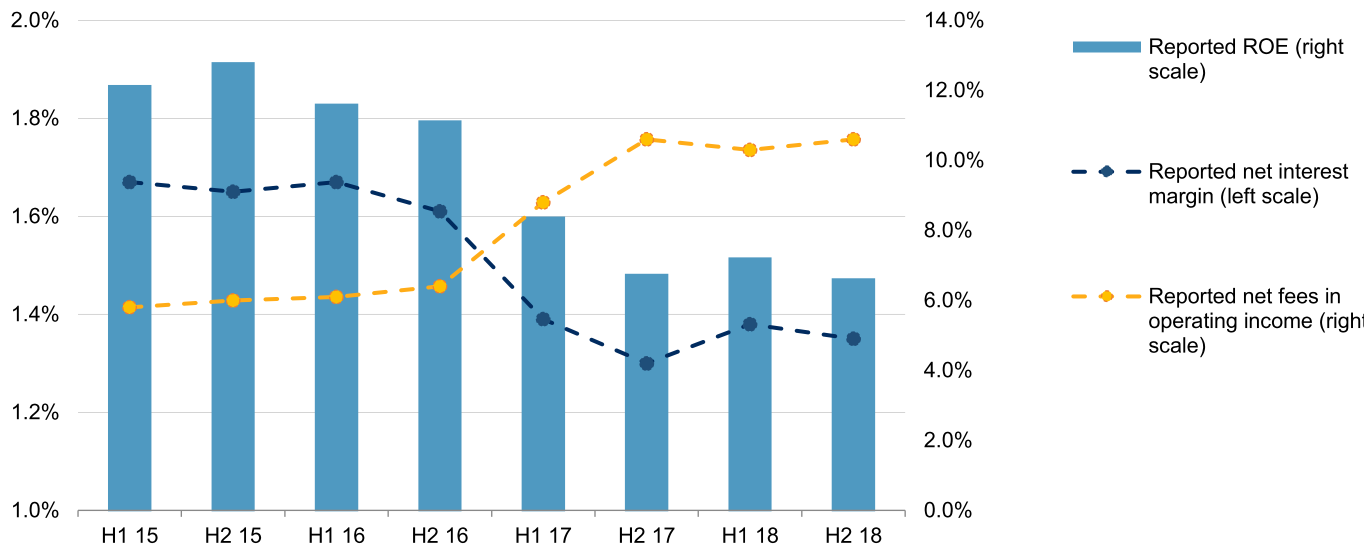





The bank's net interest margin has declined meaningfully over the past three years (see chart 2) amid intense competition in the mortgage market, very low interest rates, and interest rates on Belgian deposits at the legal floor. As a result, developing fee income has become a strategic focus for the bank, with some success (see chart 2). The share of fee income in reported operating income has nearly doubled over the past three years, accounting for about 10% of reported operating income in 2018. However, this has not proved sufficient to prevent returns falling significantly (see chart 2), demonstrating the bank's lack of business diversity. Over time, we expect the share of fee-related revenues and overall revenue quality will increase. Another answer to margin erosion could be expansion into slightly higher-risk segments, such as mortgage loans with higher loan-to-value ratios, or consumer finance, which remains marginal (less than 1% of outstanding loans).

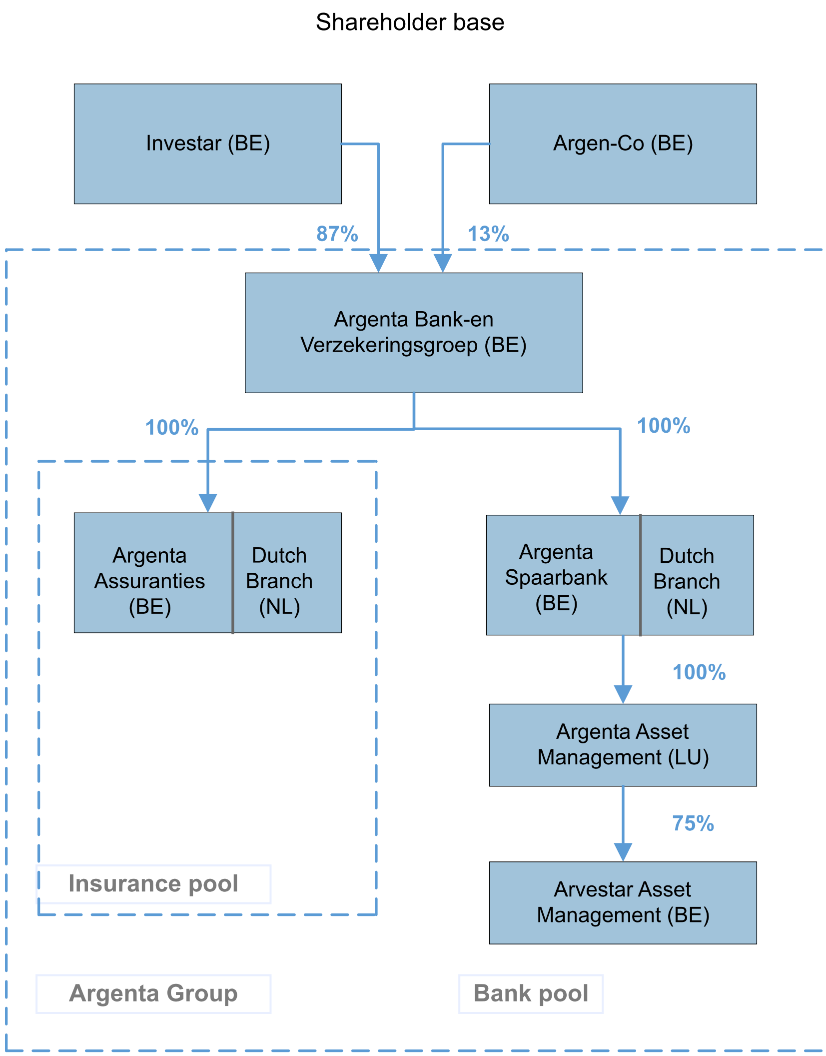
**Chart 2**

**Increasing Fees Are Not Preventing Falling Returns**
Net interest margin, share of net fees in operating income and ROE*




*Return on equity--based on net income with IFRIC 21 applied, ASPA perimeter. Source: S&P Global Ratings.

## Chart 3
## Argenta Group Comprises An Insurance And A Banking Arm




ASPA is owned by Argenta Bank- en Verzekeringsgroep NV, a holding company 86.7% owned by Investar NV (representing the interests of the Belgian founding family) and 13.3% owned by Argen-Co cvba (representing about 70,000 cooperative shareholders). The holding company has full control of ASPA and its sister company and insurance arm Argenta Assuranties (not rated).

We have not observed any material lending transaction in favor of the founding family. Governance standards are in place and we do not see any interference from the family in the conduct of operations.

In our view, development of insurance activities, previously marginal in the group's consolidated activities, are now a strategic priority. The bancassurance business model works well in Belgium, and even though Argenta still has modest markets shares in insurance, it has the potential, if these activities continue to develop successfully, to bring diversity and resilience to its business model. We also believe these activities strengthen the loyalty of the group's customers and the stability of its client-base.

Argenta relies on independent exclusive agents in Belgium and independent brokers in The Netherlands for product distribution, complemented by a digital distribution channel, particularly for savings products. Adjusting our cost-income ratio for acquisitions costs captured in our operating revenues line (under fees and commissions) rather than as noninterest expenses, we estimate Argenta's cost-income ratio was about 59% at year-end 2018. We believe it is lower (better) than that of AXA Bank Belgium, Van Lanschot, and Banque Internationale a Luxembourg, but higher than that of Belfius or KBC.

Argenta has been heavily investing in its digital banking capabilities. The bank aims to provide customers with digital tools, while not significantly reducing the number of branches. A new banking platform will facilitate faster digitalization. Its digital app, for instance, offers bi-weekly updates, with the most recent and notable ones including instant transfers, face and touch identification, and in-app chatting with staff. The bank suffered an IT glitch in April 2018 while migrating data to the new platform, resulting in a four-day interruption to internet banking. However, this did not result in any deposit outflows, highlighting to some extent the strength of the bank's franchise. But the need to invest in IT and compliance capabilities is costly, particular for ASPA since their revenues are under pressure.

**Table 2**

**Argenta Group Business Position**

| | Year-ended Dec. 31-- | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Return on equity (%) | 6.4 | 7.2 | 9.9 | 11.9 | 15.3 | 10.6 |

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

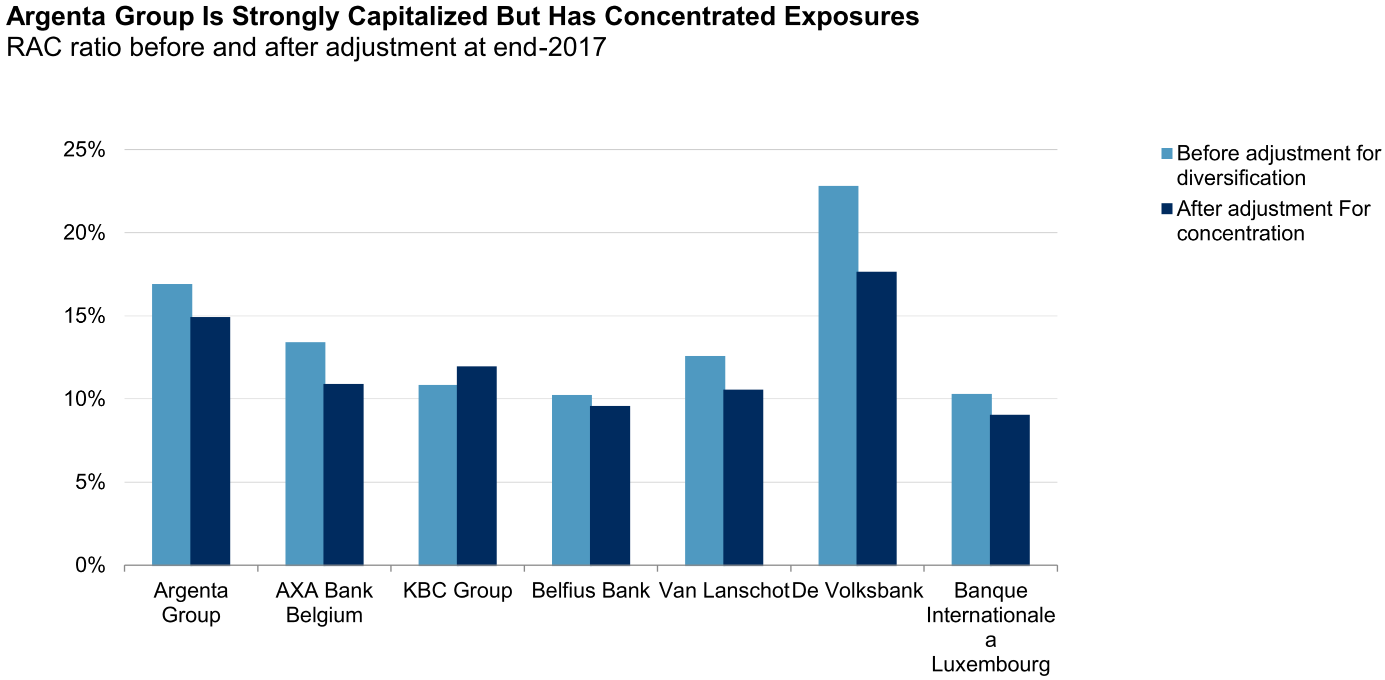
Capitalization is a rating strength for Argenta. Our RAC ratio, calculated at group level, was 16.9% at year-end 2017 and we expect it will remain well above 15% in 2018-2020.

Our projected RAC ratio assumes earnings of about €170 million over 2019-2020, stable compared with 2018 (€174 million), annual dividend payments of €80 million excluding any potential re-injection, and risk-weighted assets (RWAs) increasing by just under 6%.

Overall, our base case assumes that a larger loan book and increasing fee income from retail investment funds will compensate for a net interest margin under pressure and sustained investment in digital capabilities.

More specifically, we assume the net interest margin will decrease by 5 basis points (bps) over 2019-2020, annual loan growth of 6%, an 8% increase in commission income (from securities and management fees), and annual gains on available-for-sale assets of €15 million, translating into annual revenue growth of 3%. Assuming noninterest expenses increase by about 3% annually (excluding commissions paid to the branch network), we expect our cost-income ratio will stabilize at about 61% and return on equity at about 6%.

**Chart 4**




Source: S&P Global Ratings.



We consider the quality of capital to be high because total adjusted capital, our measure of capital, comprises solely common equity. The bank has no additional tier 1 capital outstanding.

We recognize the benefit of the Dutch government-supported Nationale Hypotheek Garantie (NHG) for mortgage financing 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 non-eligibility, and other risks associated with the NHG guarantee scheme. At end-2018, the share of NHG guaranteed mortgage loans represented 66% of Argenta's Dutch mortgage book.

Our RAC ratio also takes into account the capitalization of the insurance arm because it represents a substantial part of the group's credit profile. We view the insurance arm as having enough capital to support an 'A' stress scenario.

**Table 3**

**Argenta Group Capital And Earnings**

| | | Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|---|
| **(%)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Tier 1 capital ratio* | 23.0 | 19.3 | 20.1 | 18.6 | 17.6 | 17.7 |
| S&P Global Ratings' RAC ratio before diversification§ | N.A. | 16.9 | 16.8 | 16.7 | 16.0 | 15.0 |
| S&P Global Ratings' RAC ratio after diversification§ | N.A. | 14.9 | 14.5 | 16.0 | 15.4 | 14.4 |

**Table 3**

## Argenta Group Capital And Earnings (cont.)

| | Year-ended Dec. 31-- | | | | | |
|---|---|---|---|---|---|---|
| **(%)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Adjusted common equity/total adjusted capital | N.A. | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Net interest income/operating revenues | 97.2 | 91.6 | 97.0 | 99.4 | 116.0 | 118.5 |
| Fee income/operating revenues** | (1.9) | (7.1) | (6.1) | (5.9) | (12.7) | (19.7) |
| Market-sensitive income/operating revenues | 0.0 | 5.1 | 1.3 | 3.9 | 3.2 | 9.4 |
| Noninterest expenses/operating revenues | 48.6 | 56.4 | 48.0 | 46.6 | 55.5 | 53.9 |
| Preprovision operating income/average assets | 0.7 | 0.6 | 0.9 | 0.9 | 0.7 | 0.6 |
| Core earnings/average managed assets | 0.4 | 0.5 | 0.7 | 0.7 | 0.7 | 0.4 |

*Internal ratings-based approach to capital requirements. §2015, 2014 and 2013 is for Argenta Spaarbank N.V.**Including commission expenses paid to the independent branch officers of the Argenta Group. N.A.--Not available.

**Table 4**

## Argenta Group Risk-Adjusted Capital Framework Data

| (€) | Exposure | Basel III RWA | Average Basel III RW (%) | S&P Global Ratings' RWA | Average S&P Global Ratings' RW (%) |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government and central banks | 11,699,605,210 | 155,338,830 | 1 | 473,851,807 | 4 |
| Of which regional governments and local authorities | 911,923,981 | 107,935,740 | 12 | 41,646,516 | 5 |
| Institutions and CCPs | 2,196,591,748 | 678,731,889 | 31 | 429,988,501 | 20 |
| Corporate | 2,555,851,781 | 1,202,845,173 | 47 | 1,992,145,279 | 78 |
| Retail | 22,037,273,132 | 3,838,206,947 | 17 | 5,944,822,019 | 27 |
| Of which mortgage | 21,256,904,119 | 3,749,448,082 | 18 | 5,428,656,782 | 26 |
| Securitization§ | 1,093,240,831 | 139,835,647 | 13 | 269,227,242 | 25 |
| Other assets† | 346,138,464 | 199,308,852 | 58 | 124,024,519 | 36 |
| Of which deferred tax assets | -- | -- | -- | -- | -- |
| Of which amount of over (-) or under (+) capitalization of insurance subsidiaries | 61,300,000 | -- | -- | -229,875,000 | -- |
| Total credit risk | 40,840,625,147 | 6,214,267,338 | 15 | 9,234,059,367 | 23 |
| **Credit valuation adjustment** | | | | | |
| Total credit valuation adjustment | -- | 131,256,396 | -- | -- | -- |
| **Market risk** | | | | | |
| Equity in the banking book | 21,163,362 | 21,150,802 | 100 | 136,535,502 | 645 |
| Trading book market risk | -- | -- | -- | -- | -- |
| Total market risk | -- | 21,150,802 | -- | 136,535,502 | -- |
| Total operational risk | -- | 1,028,538,300 | -- | 1,168,765,234 | -- |
| **Diversification adjustments** | | | | | |
| RWA before diversification | -- | 8,048,061,209 | -- | 10,539,360,103 | 100 |
| Single name(On Corporate Portfolio)* | -- | -- | -- | 365,131,641 | 18 |
| Sector(On Corporate Portfolio) | -- | -- | -- | 70,718,308 | 3 |

**Table 4**

**Argenta Group Risk-Adjusted Capital Framework Data (cont.)**

| | | | | | |
|---|---|---|---|---|---|
| Geographic | -- | -- | -- | 757,894,328 | 8 |
| Business and Risk Type | -- | -- | -- | 227,700,553 | 2 |
| Total Diversification/Concentration Adjustments | -- | -- | -- | 1,421,444,829 | 13 |
| RWA after diversification | -- | 8,048,061,209 | -- | 11,960,804,933 | 113 |

| Capital ratio | Tier 1 capital | Tier 1 ratio (%) | Total adjusted capital | S&P Global Ratings' RAC ratio (%) |
|---|---|---|---|---|
| Capital Ratio before adjustments | 2,025,790,433 | 25.2 | 1,777,230,963 | 16.9 |
| Capital ratio after adjustments** | 2,025,790,433 | 25.2 | 1,777,230,963 | 14.9 |

§Securitisation Exposure includes the securitzation tranches deducted from capital in the regulatory framework. †Other assets inlcudes Deferred Tax Assets (DTAs) not deducted from ACE . *For Public-Sector Funding Agencies, the single name adjustment is calculated on the regional government and local authorities portfolio. **For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted sssets.

### Risk position: Low credit risk experience but concentrated exposures

Our assessment of Argenta's risk position as a rating weakness reflects risks not captured in our capital and earnings analysis, namely its exposure to interest rate risk and geographic and retail exposure concentration. We believe these weaknesses outweigh the bank's very limited risks in other areas, such as credit risk.

ASPA's exposure to interest-rate risk in the banking book is structural and stems from having a large proportion of fixed rate assets (mortgage loans and bonds) and being largely on-demand retail funded, mainly by regulated Belgian savings deposits subject to a legal floor. Pre-hedging, exposure to interest-rate risk increased significantly over 2015-2017 due to, in particular, a higher proportion of long-term fixed rate mortgages, which borrowers opted for as a result of the very low interest-rate environment. However, if we take hedging into account--the bank uses fair value macro and micro hedges on mortgage and securities portfolios respectively--exposure to this risk is moderate. That said, hedging can be costly, potentially weighing on the net interest margin, and can result in profit and loss volatility due to marked-to-market accounting. In addition, we believe the risk of a prolonged very low interest environment represents a long-term risk for the group's profitability, considering that the cost of funding on Belgian retail deposits is at the legal floor. We note, however, that the development of wholesale funding (7% as of end-2018) mitigates this to some extent.

ASPA's mortgage loans growth was dynamic in both markets in 2018, in line with the market in Belgium (estimated 10% versus 9% for the market), well above the market in the Netherlands (estimated 6% versus -2% for the market), resulting in strong growth overall (+8%). While we do not expect the bank will expand geographically outside of its two core markets, we note its willingness to venture into higher risk assets, such as mortgages with higher loan-to-value ratios (LTVs), and consumer finance. ASPA has historically targeted borrowers with LTV ratios lower than the market average. We note, however, that for both asset classes, this expansion is expected to be limited for now, and that cost of risk on mortgage loans--the bulk of the bank's loan book--has been very contained (below 10 bps) over the past decade.

Loan-to-foreclosure values are higher in The Netherlands (average LTV of 68% as of end-2018) than in Belgium (58%), but most of these exposures (66%) benefit from a guarantee from the NHG, reducing the ultimate risk for the group in the case of borrowers' insolvencies. We consider the credit risk embedded in Argenta's investment portfolio to be low. This is because underlying securities are highly rated (37% in 'AA' category or above, and 98% investment grade, as of end-2018), and well diversified, although we note the amount invested in Belgian government bonds is significant compared with the bank's equity.

**Table 5**

**Argenta Group Risk Position**

| | --Year-ended Dec. 31-- | | | | | |
|---|---|---|---|---|---|---|
| **(%)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Growth in customer loans | 7.7 | 4.3 | 9.1 | 11.7 | 14.3 | 13.6 |
| Total diversification adjustment/S&P RWA before diversification* | N.A. | 13.5 | 15.5 | 3.8 | 3.9 | 4.0 |
| Total managed assets/adjusted common equity (x) | 19.3 | 24.8 | 25.6 | 25.3 | 23.3 | 24.7 |
| New loan loss provisions/average customer loans | (0.0) | (0.0) | 0.0 | 0.0 | (0.3) | (0.0) |
| Net charge-offs/average customer loans§ | 0.0 | 0.0 | 0.0 | 0.0 | N.M. | N.M. |
| Gross nonperforming loans/customer loans§ | 0.4 | 0.5 | 0.7 | 0.8 | 0.6 | 0.7 |
| Loan loss reserves/gross nonperforming loans§ | 17.4 | 18.8 | 18.8 | 19.9 | 29.1 | 24.8 |

*2015, 2014 and 2013 is for Argenta Spaarbank N.V. §2014 and 2013 data is for Agenta Spaarbank N.V. N.A.--Not available. N.M.--Not meaningful.

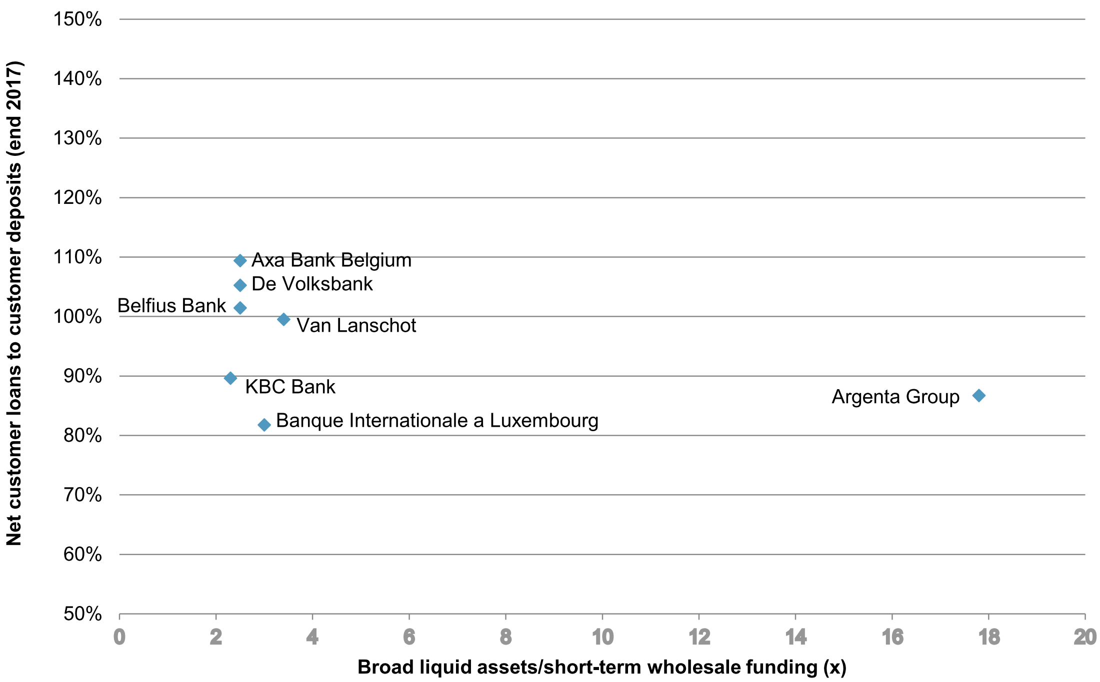
## Funding and liquidity: Liquidity is a strength

Argenta's funding and liquidity are neutral for our ratings, though we consider the group's liquidity strong.

The bank is managing its balance sheet cautiously. The loan-to-deposit ratio stood at an estimated 87% at end-2018, up versus 2017 (84%), as a result of the strategy to rebalance the bank's asset mix in favor of customer lending. We expect this ratio will continue increasing toward 90% in 2019 as a result of the bank's strategy to diversify its funding profile toward securitization (two transactions over 2017-2018 for a total of €2 billion), which accounted for 5.5% of the bank's funding profile as of end-2018.

**Chart 5**

**Argenta Group Has Strong Liquidity And A Funding Profile On Par With Peers'**
Broad liquid assets to short-term wholesale funding and net customer loans to deposits (end-2017)




Source: S&P Global Ratings.


About one-quarter of the bank's balance sheet--€10 billion as of mid-2018--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. At group level, liquid assets comfortably covered (post haircut) by 16x as of end-2018, the limited short-term wholesale funding on the same date, pointing to very limited refinancing risk.

**Table 6**

**Argenta Group Funding And Liquidity***

| | --Year-ended Dec. 31-- | | | | | |
|---|---|---|---|---|---|---|
| **(%)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Core deposits/funding base | 92.5 | 94.2 | 92.2 | 92.5 | 91.6 | 91.1 |
| Customer loans (net)/customer deposits | 90.2 | 86.7 | 83.9 | 81.6 | 69.0 | 64.5 |
| Long term funding ratio | 98.9 | 99.1 | 99.1 | 98.0 | 97.4 | 97.3 |
| Stable funding ratio | 101.5 | 100.2 | 101.7 | 102.4 | 113.4 | 116.0 |
| Short-term wholesale funding/funding base | 1.2 | 1.0 | 1.0 | 2.1 | 2.7 | 2.8 |
| Broad liquid assets/short-term wholesale funding (x) | 15.5 | 17.8 | 19.5 | 10.2 | 5.7 | 6.2 |
| Net broad liquid assets/short-term customer deposits | 19.9 | 19.6 | 21.0 | 22.3 | 87.5 | 101.3 |
| Short-term wholesale funding/total wholesale funding | 16.1 | 17.6 | 36.3 | 81.4 | 32.2 | 31.8 |

**Table 6**

**Argenta Group Funding And Liquidity* (cont.)**

| | --Year-ended Dec. 31-- | | | | | |
|---|---|---|---|---|---|---|
| (%) | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Narrow liquid assets/3-month wholesale funding (x) | 87.8 | 57.2 | 563.0 | 65.0 | 7.4 | 12.1 |

*Our funding and liquidity metrics differ from those reported so far because we no longer classify technical provisions as wholesale debt.

### 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 factor in €500 million of Tier 2 debt issued in the first half of 2016 to our ALAC amount, as well as total adjusted capital in excess of the amount necessary for a 15% RAC ratio (the threshold for the current capital and earnings assessment). Our additional loss-absorbing capacity (ALAC) ratio stood at 6.6% of our RWA at end-2017, and we expect it will be at about 6.4% at end-2018, above our 5.5% threshold for a one notch uplift, supported by moderate RWA growth and strong earnings retention. We currently do not expect the issuance of additional MREL- (minimum requirement for own funds and eligible liabilities) eligible securities considering the MREL target ratio set by the SRB (4.9%) is below the bank's current MREL ratio (estimated at 6.2% as of end-2018).

The threshold we apply is above our standard 5.0%, reflecting a concentration of maturities, with a single Tier 2 issuance so far.

We have assigned 'A/A-1' resolution counterparty ratings (RCR) to Argenta Spaarbank N.V. because we assess the resolution regime will be effective in Belgium, and consider that ASPA is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution.

### 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
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- 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: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- 31 European Banking Groups Assigned Resolution Counterparty Ratings; Four Collateralized Notes Upgraded; UCO Removed, June 12, 2018

**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 May 8, 2019)* | |
|---|---|
| **Argenta Spaarbank N.V.** | |
| Issuer Credit Rating | A-/Positive/A-2 |
| Resolution Counterparty Rating | A/--/A-1 |

| Ratings Detail (As Of May 8, 2019)*(cont.) | |
|---|---|
| Junior Subordinated | BB |
| Senior Subordinated | BBB |
| Senior Unsecured | A- |
| Subordinated | BBB- |
| **Issuer 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 | 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.