

Research Update:

# Argenta Spaarbank N.V. Outlook Revised To Negative On Deepening COVID-19 Downside Risks; Ratings Affirmed

April 24, 2020

## Overview

- On April 23, 2020, we revised our Banking Industry Country Risk Assessment economic risk trends to negative for Belgium and the Netherlands, the two markets where Argenta Spaarbank N.V. (ASPA) operates, as a result of the severe economic recession we expect from the COVID-19 pandemic.
- The bank's profitability was already under pressure from low interest rates and modest business diversification, and the recessionary environment will compound this weakness, but we expect the mortgage book to perform well in 2020-2021.
- We are therefore revising the outlook to negative from stable and affirming the 'A-/A-2' ratings.
- The negative outlook reflects that Argenta group's profitability could fall to a very low level over the next 18-24 months, potentially weighing on the bank's ability to maintain very strong capitalization (by our standards) or execute its business development plans.

## Rating Action

As announced on April 23, 2020, S&P Global Ratings revised its outlook on Argenta Spaarbank N.V. (ASPA) to negative from stable and affirmed the 'A-/A-2' long- and short-term issuer credit ratings.

## Rationale

On April 23, 2020, we revised our Banking Industry Country Risk Assessment economic risk trends to negative for Belgium and the Netherlands, the two markets where ASPA operates. We expect the COVID-19 pandemic to cause a severe recession in Belgium and the Netherlands, with a recovery in both countries in 2021 that will not immediately, and entirely, offset damage caused to the economy, household wealth, and various corporate sectors. We expect a 7.2% GDP decline in

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Belgium and 6.7% decline in the Netherlands in 2020, before rebounding to 5.2% and 6.2% growth respectively in 2021. We believe the current crisis is negatively affecting corporates and entrepreneurs/small and midsize businesses' debt repayment capacity, with a potential effect on households in time, lowering earning prospects for banks, including retail banks like ASPA.

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

## Outlook

Our negative outlook reflects that Argenta group's profitability could fall to a very low level over the next 18-24 months as a result of the economic recession and market meltdown caused by COVID-19 in Belgium and the Netherlands. In our view, this could weigh on the bank's ability to maintain very strong capitalization (by our standards) or execute its business development plans.

## Downside scenario

We could lower our rating on ASPA should its profitability continue to decrease, even beyond 2021, notably versus retail-focused peers. Indeed, prolonged earnings weakness could lead to pressure on the current very strong capitalization, or signal a less resilient business model than anticipated, with lower benefits from insurance and asset management in the group's results than we initially thought.

## Upside scenario

We could revise the outlook back to stable should our perception of downside risk on profitability and capitalization recede, most likely as a result of an economic recovery in the markets where it operates.

## Ratings Score Snapshot

	To	From
Issuer Credit Ratings	A-/Negative/A-2	A-/Stable/A-2
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business Position	Moderate (-1)	Moderate (-1)

	To	From
Capital & Earnings	Very strong (+2)	Very strong (+2)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and strong (0)	Average and strong (0)
Support	+1	+1
ALAC Support	+1	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional factors	0	0

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Various French Banks On Deepening COVID-19 Risks, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, Apr 22, 2020
- How COVID-19 Is Affecting Bank Ratings, Apr 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020

- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- Argenta Spaarbank, Oct. 31, 2019

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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