

Research Update:

Belgian Argenta Spaarbank Upgraded To 'A' On Improved Clarity Around Sale Of Business Strategy; Outlook Stable

October 25, 2022

Overview

- We no longer see a risk to Argenta Spaarbank's senior creditors linked to the bank's preferred resolution strategy, which is sale of business, relative to the open bank bail-in targeted for larger banks in Europe.
- As a result, we are removing the cap on the bank's additional loss-absorbing capacity (ALAC) buffer. We reflect this in two additional notches from the stand-alone credit profile, instead of the previous one notch.
- We have therefore raised the ratings on Argenta to 'A/A-1' from 'A-/A-2'. We also raised our long-term resolution counterparty rating to 'A+' from 'A'.
- The stable outlook reflects our expectation that the bank will maintain its strong capital and good financial performance, with only a mild deterioration in its asset quality metrics despite the economic slowdown in Belgium and The Netherlands, where the bank largely operates.

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Rating Action

On Oct. 25, 2022, S&P Global Ratings raised its long- and short-term issuer credit ratings on Belgian Argenta Spaarbank to 'A/A-1' from 'A-/A-2'. We also raised our long-term resolution counterparty rating to 'A+' from 'A'. The outlook is stable.

Rationale

We no longer see additional risks to Argenta's senior creditors linked to the bank's preferred sale of business resolution strategy. We now consider Argenta's preferred sale of business resolution strategy as effective as pure bail-in in terms of senior creditor protection. While the bank could contemplate a partial sale, we consider a sale of the whole business as more likely under a resolution scenario. This reflects the non-complex nature of the business itself, focused

on mortgages, and the existence of players, particularly the domestic banking groups, that would be capable of completing a deal. These factors would support the successful execution of the resolution strategy. Furthermore, the substantial amount of subordinated bail-inable liabilities would facilitate both the loss-absorption and recapitalization of the bank, reducing the risk of senior creditors facing losses in a resolution scenario. In this regard, we understand that the MREL (minimum requirement for own funds and eligible liabilities) target in terms of the leverage ratio exposure must meet 8% of total liabilities and own funds and be fully subordinated. Therefore, we have removed the cap on the bank's ALAC buffer, which we expect will remain comfortably above the 8% we project for risk-weighted assets in 2022-2024, granting Argenta two notches of uplift.

The bank's operating income will likely benefit from interest rate increases partially offsetting the inevitable rise in costs. Although a negative one-off cost related to the fair-value change of its hedging instruments will affect its 2022 performance, the benefits from rising interest rates will gradually become more evident. We estimate that net interest income could increase by a cumulative 20% by end-2024. Overall, we expect the bank's operating income could grow by 10%-15% cumulatively in 2022-2024. This could partially offset the likely increasing trend in expenses, which could grow by a cumulative 15% in 2022-2024, driven by high inflation and strategic digital investments.

We expect the bank to continue to rely on its solid capital base and good liquidity buffers and to maintain its asset quality at manageable levels. At this stage, we don't expect the increasingly difficult macroeconomic environment to materially affect the bank's asset quality. This reflects the concentration of the bank's loan portfolio toward long-term, fixed rate mortgages. Furthermore, we expect the bank's capital base to remain solid in 2022-2024, as reflected in our projected risk-adjusted capital (RAC) ratio remaining above 15% over the same period. Finally, we believe that the bank will continue to rely on good liquidity buffers, with cash and liquid securities representing more than 10% of the bank's total assets. Despite remaining quite comfortable, the bank's liquidity metrics as per our calculations--particularly the loan-to-deposit and liquid assets-to-total assets ratios--have decreased over time, in response to the bank's lending expansion. As a result, we no longer see Argenta as an outlier in terms of liquidity compared to peers.

Outlook

The stable outlook on Argenta reflects our view that the bank will remain financially sound despite the challenging macroeconomic environment, with limited impact on its asset quality over the next 18-24 months. We also expect that Argenta will maintain its RAC ratio above 15% over the next 18-24 months, as well as a comfortable buffer of bail-inable instruments above 8% over the same period.

Downside scenario

We could lower our ratings on Argenta if the bank's capitalization weakens (with the RAC ratio falling below 15%), and it became less resilient to the evolving macroeconomic, operating, and competitive environment. We could also lower our ratings if the bank is not able to maintain its ALAC buffer above 8% of our projected risk-weighted assets.

Upside scenario

An upgrade is remote at this time.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Very Strong (+2)	Very Strong (+2)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Strong (0)
Comparable ratings analysis	0	0
Support	+2	+1
ALAC support	+2	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Argenta Spaarbank N.V.		
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
Resolution Counterparty Rating	A+/-/-A-1	A/-/-A-1
Senior Unsecured	A	A-

Ratings Affirmed

Argenta Spaarbank N.V.		
Senior Subordinated	BBB	
Subordinated	BBB-	

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 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/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at 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; or Stockholm (46) 8-440-5914

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