

Research Update:

# Argenta Spaarbank Outlook Revised To Stable On Increased Additional Loss-Absorbing Capacity; Affirmed At 'A-/A-2'

October 26, 2020

## Overview

- After issuing €500 million senior nonpreferred notes on Oct. 13, 2020, Argenta Spaarbank N.V. (ASPA) has a substantially higher buffer of loss-absorbing instruments than we previously anticipated, providing more protection to senior preferred creditors in a resolution scenario.
- However, ASPA's lower diversification than similarly rated peers' constrains the rating.
- We are revising our outlook on ASPA to stable from negative, and affirming our 'A-/A-2' issuer credit ratings.
- We are also affirming our issue ratings on ASPA's subordinated and senior nonpreferred debt instruments, although downside pressure remains.
- The stable outlook reflects our view that the bank's higher buffer of bail-inable instruments could help offset potential weakening of the bank's stand-alone creditworthiness over the next two years from COVID-19's economic fallout.

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## Rating Action

On Oct. 26, 2020, S&P Global Ratings revised its outlook on Argenta Spaarbank (ASPA) to stable from negative, and affirmed the 'A-/A-2' ratings.

At the same time, we affirmed the issue ratings on ASPA's subordinated and senior nonpreferred debt instruments.

## Rationale

Our outlook revision follows ASPA's second €500 million senior nonpreferred debt issuance completed on Oct. 13, 2020, which will result in a higher buffer of bail-inable instruments than we previously expected. In our view, this higher buffer could offer protection to senior preferred

creditors if the bank's business or financial strength were to weaken as the COVID-19 pandemic unfolds. It will not, however, benefit the holders of subordinated and senior nonpreferred debt instruments.

ASPA's unexpected decision to issue additional senior nonpreferred debt reflects the likely higher minimum required eligible liabilities (MREL) the bank will face under Bank Recovery and Resolution Directive II, as well as the potentially higher required proportion of subordinated instruments. We believe that for this reason the bank may have to maintain the current stock of MREL.

A likely decision by the Single Resolution Board to revise MREL requirements upward will ensure that the bank will have sufficient resources available to absorb losses and recapitalize, ultimately protecting senior creditors. We thus believe the ratings on ASPA should continue to benefit from uplift for additional loss-absorbing capacity (ALAC).

We expect ASPA to operate with at least € 1 billion of ALAC-eligible debt securities on a sustainable basis, that is an ALAC ratio in excess of 10% of S&P Global Ratings' risk-weighted assets (RWA) over the outlook horizon. This compares with our previous expectation of 6%-7%. Given that ASPA's ALAC buffer is concentrated in a limited number of instruments, with maturities concentrated in 2026-2027, we believe that the appropriate thresholds for one and two notches of ratings uplift stand at 6% and 10%, respectively. This is above our standard thresholds of 5% and 8%.

We consider that the higher ALAC cushion will help the bank in dealing with a potential deterioration of its stand-alone creditworthiness, in case the impact of the pandemic proves to be harsher than expected. However, we don't see the increased buffer as a strong enough reason to raise our ratings on the bank. At 'A', the ratings stand at the level of peers like Societe Generale, Credit Mutuel, Erste, and ABN AMRO, which we view as much more diversified than Argenta group. For this reason, our rating construction now includes a negative adjustment notch for comparable ratings analysis.

We continue to view pressure on the bank's stand-alone credit profile from the severe recession in Belgium and the Netherlands induced by the pandemic. We forecast a 7.6% GDP decline in Belgium and 5.2% decline in the Netherlands this year, followed by a rebound of 5.5% and 3.8% next year, respectively. The expected recovery in both countries in 2021 will therefore not entirely offset damage caused to the economy, and recovery prospects have become more uncertain amid a second wave of coronavirus infections. The pandemic continues to weigh on corporates, entrepreneurs, and small and midsize businesses, with a potential effect on households over time. We believe it could lead to higher credit impairments and lower earnings for ASPA. Prolonged earnings weakness, in turn, could put pressure on the bank's currently very strong capitalization, with risk-adjusted capital (RAC) potentially declining below 15%, or complicate the execution of the bank's business plans.

## **Outlook**

The stable outlook reflects our view that the bank's higher buffer of bail-inable instruments could help offset a potential weakening of the bank's stand-alone creditworthiness over the next two years from the economic fallout from the pandemic.

## **Downside scenario**

Although we see it as a remote scenario, we could lower our rating on ASPA if the bank's

capitalization weakens (RAC ratio falls below 15%), and its business is not resilient to long-term sector challenges (very low interest rates, race to digitalize, and increased competition from fintechs).

## Upside Scenario

Although an equally remote scenario at this stage, we could consider raising our rating on ASPA, if operating conditions become more supportive and downside risks to the bank's creditworthiness abate, and the group significantly increases its business diversification, positioning it more in line with 'A' rated banks.

## Ratings Score Snapshot

	To	From
<b>Issuer credit rating</b>	A-/Stable/A-2	A-/Negative/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 and Liquidity	Average and strong (0)	Average and strong (0)
Support	+1	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
ALAC Support	+2	+1
Additional Factors	-1	0

SACP--Stand-alone credit profile. GRE--Government-related entity. ALAC--Additional loss-absorbing capacity.

## 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: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Outlook Action; Ratings Affirmed

	To	From
<b>Argenta Spaarbank N.V.</b>		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Resolution Counterparty Rating	A/--/A-1	A/--/A-1
Senior Unsecured	A-	A-
Senior Subordinated	BBB	BBB
Subordinated	BBB-	BBB-
Junior Subordinated	BB	BB

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