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Ratings Affirmed On Belfius Bank's Public Pandbrieven Following Revised Criteria Application; Outlook Stable

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OVERVIEW

- We have reviewed Belfius Bank's public sector covered bond program under our revised criteria for rating covered bonds and for assessing the credit risk of portfolios of public sector assets, published on Dec. 9, 2014.
- Following our review, we have affirmed our 'AAA' ratings on the public sector covered bond program and related issuances.
- The stable outlook reflects our view that a lowering of our long-term issuer credit rating on Belfius Bank would not automatically result in a lowering of the ratings on the covered bonds, all else remaining equal.
- On March 3, 2015, due to an error, we removed our "under criteria observation" identifier from the ratings on the public sector covered bonds, affirmed the ratings, and revised the outlook to stable when, at the time, these actions only applied to our 'AAA' ratings on Belfius Bank's mortgage covered bonds.

PARIS (Standard & Poor's) July 9, 2015--Standard & Poor's Ratings Services said today that it has completed its review of its ratings on Belfius Bank SA/NV's public sector covered bond program and issuance of "Belgische pandbrieven/lettres de gage belges" ("public pandbrieven") by applying its revised criteria for rating covered bonds (see "Covered Bonds Criteria," "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance

Securities," and "Updated Cash Flow Assumptions For Modeling Certain Covered Bonds," all published on Dec. 9, 2014). As a result, we have affirmed our 'AAA' ratings on the covered bond program and related issuances. The outlook on the ratings is stable.

Upon publishing our revised criteria, we had placed our ratings on those covered bond programs that could be affected by a published change in criteria "under criteria observation" (see "Covered Bond Program And Spanish Multicreditors Ratings Placed Under Criteria Observation," published on Jan. 12, 2015). Following our review, we removed our "under criteria observation" identifier from the ratings on the covered bonds.

Under our covered bonds criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly assess whether a rating on the covered bond may be higher than the rating on the issuer.
- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL).
- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Combining the results of the above and incorporating any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating.

After assessing the RRL, to determine a maximum achievable covered bond rating we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for legislation-enabled public sector covered bond programs in Belgium is "strong" (see "Assessments For Jurisdictional Support According To Our Covered Bond Criteria," published on Dec. 22, 2014). Under our covered bonds criteria, the uplift from the RRL can be up to two notches when the jurisdictional support is assessed as "strong." Under our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (JRL), which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift.

Today's affirmations follow our review of the latest available data as of June 17, 2015. The cover pool comprises public sector loans granted to Belgian local authorities eligible under Belgian covered bond law. These include municipalities, provinces, public centers for social welfare, municipal and intermunicipal entities, police "zones" ("zone de police/politiezone"), and public hospitals.

As of June 17, 2015, the cover pool comprised approximately €2.383 billion of public sector assets available for €1.75 billion of outstanding covered bonds.

The 'AAA' ratings reflect our RRL of 'a' and JRL of 'aa-' for the program. We deduct one notch from the four potential collateral-based notches of uplift from the long-term issuer credit rating (ICR) on Belfius Bank due to the absence of an overcollateralization commitment above the 5% legal overcollateralization requirement to cover the target overcollateralization under our covered bonds criteria. The covered bonds have liquidity coverage due to their soft bullet maturities and benefit from a bond that provides liquidity for all interest payments due on the covered bonds for six months.

Based on our analysis of the cover pool and covered bond data, we have determined that the target credit enhancement of 35.59% is commensurate with a collateral-based uplift of three notches. Available credit enhancement as of June 17, 2015 was 36.16%, which supports a collateral-based uplift of three notches from the long-term ICR.

Lastly, our ratings on the program and related issuances are not constrained by legal, operational, or counterparty risks.

The stable outlook on our ratings on the covered bonds reflects our view that a lowering of our long-term ICR on Belfius Bank would not automatically result in a lowering of the ratings on the covered bonds, all else remaining equal. This is because the negative outlook on the long-term ICR reflects the potential reduction of extraordinary government support, which we already factor into our determination of the RRL. Although a downgrade of the sovereign would result in a downgrade of the covered bonds, the outlook on our long-term unsolicited sovereign rating on Belgium is stable, which we also reflect in the stable outlook on the covered bonds. If we were to lower the long-term ICR for a different reason other than government support, then we would lower our covered bond ratings.

On March 3, 2015, due to an error, we removed our "under criteria observation" identifier from the ratings on Belfius Bank's public sector covered bonds, affirmed our 'AAA' ratings, and revised the outlook to stable, when at the time, these actions only applied to our 'AAA' ratings on Belfius Bank's mortgage covered bonds.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Covered Bonds Criteria, Dec. 9, 2014

- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities , Dec. 9, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Global Covered Bond Characteristics And Rating Summary Q1 2015, June 19, 2015
- Covered Bond Program And Spanish Multicedulas Ratings Placed Under Criteria Observation, Jan. 12, 2015
- Credit Conditions: The Eurozone Is Looking Up, For Now, April 13, 2015
- Global Credit Conditions Diverge, With Europe Improving, The U.S. And Asia Stable, And Latin America Lagging, April 2, 2015
- Assessments For Jurisdictional Support According To Our Covered Bond Criteria, Dec. 22, 2014
- Assessments For Target Asset Spreads According To Our Covered Bond Criteria, Dec. 22, 2014

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