MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns provisional (P)Aaa to Belfius Bank's public sector covered bonds

Global Credit Research - 11 Sep 2014

EUR 1 billion of bonds affected

London, 11 September 2014 -- Moody's Investors Service has today assigned a provisional (P)Aaa long-term rating to the covered bonds (Belgian public pandbrieven programme) to be issued by Belfius Bank SA/NV (the issuer, deposits Baa1 negative, bank financial strength rating D+/ adjusted baseline credit assessment ba1) under its public sector covered bond programme (Belgian public pandbrieven programme).

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The rating therefore reflect the following factors:

(1) The credit strength of the issuer and a CB anchor of SUR plus one notch. The covered bonds are full recourse to the issuer.

(2) Following a CB anchor event, the value of the cover pool, if the issuer defaults. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 25.5%.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The public-sector covered bonds are backed by claims against Belgian public-sector entities. The collateral score for the cover pool is 14.1%.

b) The Belgian legal framework for covered bonds. Notable aspects are:

(i) Segregation of the cover pool assets through the constitution of a special estate, which would not form part of the general insolvency estate, if the issuer becomes insolvent. Also, issuer insolvency would not trigger the acceleration of the covered bonds.

(ii) A liquidity test that requires the issuer to always maintain sufficient liquid assets to meet all unconditional payments on the covered bonds (including principal, interest and other costs) over a six-month period.

(iii) An amortisation test that requires the issuer to ensure that the cover pool assets provide sufficient revenues to cover (1) the payment of principal and interest on the covered bonds; and (2) the obligations towards other creditors that are (or can) be identified in the issuance documentation.

(iv) A cover pool monitor that is responsible for verifying that the issuer meets all legal requirements.

c) The exposure to market risk, which is 17.7% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 65% on a nominal value basis, of which Belfius Bank provides 5% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Probable-High. Moody's TPI framework does not constrain the rating.

At present, the total value of the assets included in the cover pool, comprising 31,295 loans to public sector entities in Belgium, is approximately EUR 1.7 billion.

The provisional rating that Moody's has assigned addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Moody's did not address other non-credit risks, but these may have a significant effect on yield to investors.

Moody's issues provisional ratings in advance of the final sale of securities and these ratings only represent

Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation Moody's will endeavour to assign a definitive rating to the covered bonds.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is SUR plus one notch given the debt ratio is between 5 and 10% and the uplift of the issuer's SUR over the adjusted BCA is three notches.

The cover pool losses for this programme are 25.5%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 17.7% and collateral risk of 7.8%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 14.1%.

The over-collateralisation in the cover pool is 65%, of which the issuer provides 5% on a "committed" basis. The minimum OC level consistent with the Aaa rating target is 30%.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's Global Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on Moody's most recent modelling (based on data, as of 2 September 2014).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "Probable-High", the TPI Leeway for Belfius Bank's public sector covered bonds is zero notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers Belfius Bank's CB anchor, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Elise Lucotte
Vice President - Senior Analyst
Structured Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Juan Pablo Soriano
MD - Structured Finance
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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