

Research Update:

# Belgium-Based Belfius Bank 'A-/A-2' Ratings Affirmed Despite COVID-19 Pressure; Outlook Stable

April 23, 2020

## Overview

- Despite the European governments' and the European Central Bank's measures to contain the COVID-19 pandemic, global and European economies face an unprecedented challenge and there are substantial downside risks.
- We think Belfius Bank's additional loss-absorbing capacity (ALAC) could protect senior bondholders and partly offset the consequences of a harsher-than-expected economic downturn on the bank's financial profile.
- A downgrade of the subordinated instruments will become increasingly likely as the pandemic persists. We would downgrade them if we were to revise downward the 'a-' group stand-alone credit profile (group SACP), which is currently under pressure.
- We are affirming our 'A-/A-2' long- and short-term issuer credit ratings on Belfius Bank.
- The stable outlook reflects that potential ALAC buffers would partly offset asset quality and earnings pressures arising from the pandemic.

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## Rating Action

On April 23, 2020, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on Belfius Bank. The outlook remains stable.

## Rationale

The affirmation reflects the additional protection from bail-inable buffers to senior creditors, which we factor into our rating on the bank. The current ALAC buffer would prevent the credit quality of Belfius Bank's senior instruments from deteriorating, even if the credit quality of the bank's subordinated instruments--including senior nonpreferred debt--were to weaken. Economic and market stress triggered by the COVID-19 pandemic could lead us to revise downward the group stand-alone credit profile (SACP). Our base-case expectation is that Belfius Bank's performance will be resilient, but we see increased downside risks to asset quality and

earnings in the coming quarters.

The COVID-19 pandemic has caused large parts of global economic activity to grind to a halt. With isolation strategies still very much in force, we expect a sharp economic contraction in 2020, with a 7.2% forecasted GDP decline in Belgium (see "COVID-19 Deals A Larger, Longer Hit To Global GDP," published on April 16, 2020). We forecast a rebound of about 5.2% in 2021, but risks remain to the downside, and the effects of COVID-19 will persist long after the pandemic subsides.

We affirmed our ratings because Belfius Bank has entered the COVID-19 crisis in a position of strength, in line with other banks at the same rating level. In recent years, the group has strengthened its franchise in public sector and retail banking in Belgium, and gained some market share in small and midsize enterprises (SMEs) and corporates. It has also reinforced its balance sheet and capital position. However, we anticipate that 2020 will put a halt to Belfius Bank's profitability improvements. Revenue may decline on the back of interest and fee income pressure, while International Financial Reporting Standard 9 credit impairments will rise substantially, subsequently putting pressure on capital. Although Belfius Bank's large domestic public sector and retail loan books should continue to perform well and its deterioration will be very gradual, the bank is increasingly exposed to SMEs and corporates that the crisis will harm.

We could lower the 'a-' group SACP if the operating environment deteriorates more severely than we currently expect and is therefore likely to substantially weaken Belfius Bank's asset quality, profitability, and capitalization. The stable outlook reflects additional protection from bail-inable buffers to senior bank creditors, which we currently capture in our group SACP. The current ALAC buffer preserves the credit quality of the senior preferred debt.

## **Outlook**

The stable outlook reflects Belfius Bank's bail-in-able capacity, which offers sufficient protection to senior preferred creditors in the next two years, even in the context of a weakening group SACP. That said, as the pandemic continues, a downgrade of the ratings on the bank's subordinated instruments will become increasingly likely. We would take such an action if the pandemic weakens Belfius Bank's financial profile--particularly its capital--more than we currently forecast.

## **Downside scenario**

We could lower our ratings if Belfius Bank departs from its current policy of prudent capital management, including maintaining its ALAC buffer. This could happen if the bank does not retain enough earnings to mitigate a steep increase in risk-weighted assets, weakening its risk-adjusted capital and ALAC ratios.

## **Upside scenario**

An upgrade is remote at this stage. We could consider raising the ratings if Belfius Bank's financial profile remains unchanged after the pandemic subsides, with its ALAC buffer increasing above 5.0% of S&P Global Ratings risk-weighted assets. An upgrade would also depend on the bank further aligning its risk-adjusted profitability profile with 'A' rated peers'.

## Ratings Score Snapshot

### Ratings Score Snapshot -- Belfius Bank

Issuer Credit Rating	A-/Stable/A-2
Group SACP	a-
Anchor	a-
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

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

### 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
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 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
- Belfius Bank SA/NV, Nov. 27, 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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