

21 Oct 2020 | Rating Changed Outlook to Stable

Fitch Revises Belfius's Outlook to Stable; Affirms Long-Term IDR at 'A-'

Fitch Ratings-Paris-21 October 2020:

Fitch Ratings has revised Belfius Bank SA/NV's (Belfius) Outlook to Stable from Negative and affirmed the Long-Term Issuer Default Rating (IDR) at 'A-'. The bank's Viability Rating (VR) has been affirmed at 'a-'. A full list of rating actions is below.

The Outlook revision reflects our view that Belfius's ratings have sufficient headroom to absorb significant shocks under our updated assessment of various downside scenarios to our baseline economic forecast. This primarily reflects our assessment of the bank's asset quality (a/negative), capitalisation and leverage (a/stable) and funding and liquidity (a/stable), which are all above the group's VR.

Belfius's asset quality will come under pressure in 2020 and 2021, reflecting the economic impact of the coronavirus pandemic, but we do not expect sustained deterioration that would trigger a downgrade of the VR into the 'bbb' category. We expect capitalisation to support the current ratings in a downside scenario where profitability would be weak.

Key Rating Drivers

IDRS, VR, DERIVATIVE COUNTERPARTY RATING (DCR), SENIOR PREFERRED DEBT

Belfius' ratings reflect the bank's good retail and commercial banking franchise and adequate insurance business in Belgium, sound asset quality, solid risk-weighted capitalisation and a healthy funding and liquidity profile. Its moderate profitability is a rating weakness and we expect pressure in the near term from the economic and financial fallout from the pandemic.

Belfius is the third-largest bank in Belgium, where it operates a bancassurance business model. It also has a leading position in very low-risk, public-sector financing. Its clear and consistent strategy is aimed at strengthening its domestic franchise and earnings by expanding its corporate-banking franchise. Execution of the bank's strategy has been strong and consistent, as highlighted by a material improvement in the bank's profitability in recent years.

The bank's impaired loans ratio was stable at almost 2% at end-1H20 from end-2019. It compares

well with Belgian peers' and has been resilient over the long term with an impaired loan ratio consistently below 3%. Asset quality is underpinned by a large proportion of low-risk loans including residential mortgage loans and public-sector loans, which together represent about 65% of gross loans.

We expect loan quality to weaken because of economic disruption due to the pandemic and as fiscal support measures are gradually phased out. However, under our baseline assumptions we expect the four-year average impaired loan ratio to remain below 3%. Asset-quality deterioration should be mitigated by the large book of low-risk loans and moderate exposure to sectors most affected by the crisis. The largest sector exposures are commercial real estate (4% of total credit exposure including off-balance-sheet commitments at end-1H20) and construction (3%).

The bank's operating profitability materially declined in 1H20 to 0.1% of risk-weighted assets (RWA) due to frontloading of loan impairment charges (LICs) (EUR393 million or 82bp of average gross loans on an annualised basis, of which about 40% results from management overlay), whereas revenue was resilient. We expect LICs to remain fairly high in the near term, placing the bank's already moderate profitability under pressure. We expect operating profitability/RWA to decline to below 1% in the next two years from a four-year average of 1.7% in 2016-2019.

Earnings generation has improved over the past few years as a result of growth in the more profitable corporate banking operations, adequate cross-selling between the banking and insurance arms and sound cost containment. However, this will only partly offset pressure from higher LICs and from lower interest rates on higher volumes of non-maturing deposits.

Belfius's sound common equity Tier 1 (CET1) capital ratio of 15.5% at end-1H20 is a rating strength. The bank has a large CET1 capital buffer of almost 600bp above its CET1 Supervisory Requirement and Evaluation Process requirement. This provides sufficient headroom to absorb larger credit losses and future RWA inflation. Its regulatory leverage ratio was adequate at 5.6%.

Belfius's large (predominantly retail) customer deposit base underpins a healthy funding profile. Including saving certificates and retail bonds, its loans/customer deposits ratio was a healthy 92% at end-1H20. The bank has also diversified its funding base and benefits from good access to wholesale- market funding, mostly via covered bonds, senior preferred debt and more recently senior non-preferred debt.

Liquid assets encumbered as collateral for the bank's large derivative book have declined in recent years as the position is being gradually managed down. The total asset encumbrance ratio increased to 26% at end-1H20, due mainly to a EUR10.2 billion take-up in the ECB's targeted longer-term refinancing operations (TLTRO III) in June 2020.

Belfius's 'F1' Short-Term IDR is the higher of the two Short-Term IDRs that map to an 'A-' Long-Term IDR on Fitch's rating scale, reflecting our 'a' assessment of Belfius's funding and liquidity profile and expectation that liquidity buffers will be maintained at high levels. Belfius increased its large liquidity reserve to almost EUR35 billion at end-1H20, about 20% of total assets excluding insurance assets. Its regulatory liquidity coverage ratio and net stable funding ratio are comfortably above regulatory requirements.

Belfius's DCR is aligned with the Long-Term IDR because, under Belgian legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

The senior preferred debt ratings are also aligned with the IDRs. This is because Belfius is expected to use senior preferred debt to meet its minimum requirement for own funds and eligible liabilities (MREL) over the medium term, and buffers of subordinated and senior non-preferred debt are unlikely to exceed 10% of RWAs on a sustained basis. Belfius's management has not committed to fulfilling its total MREL without using senior preferred debt.

SUBORDINATED DEBT

The rated junior subordinated notes of Belfius rank below its plain-vanilla Tier 2 subordinated obligations but above its additional Tier 1 debt, and are notched down twice for loss severity because of their deep subordination. Fitch does not apply additional notching for incremental non-performance risk relative to the VR given that the junior subordinated notes would absorb losses only if the bank reaches the point of non-viability.

BELFIUS FINANCING COMPANY S.A.'S DEBT GUARANTEED BY BELFIUS

Belfius Financing Company is a financing vehicle wholly-owned by Belfius. Its senior preferred long- and short-term debt ratings are aligned with those of its parent, based on Fitch's expectation that Belfius will honour the unconditional and irrevocable guarantee provided to holders of the notes issued by the vehicle.

SUPPORT RATINGS AND SUPPORT RATING FLOOR

The '5' Support Rating and 'No Floor' Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the Belgian sovereign if Belfius becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support.

RATING SENSITIVITIES

IDRS, VR, DCR AND SENIOR PREFERRED DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade

Belfius's ratings have sufficient headroom to withstand various downside scenarios to Fitch's baseline economic forecast. However, they could be downgraded if the economic and financial market disruption arising from the pandemic places severe and sustained pressure on the bank's asset quality and earnings, and ultimately on capital.

We could downgrade Belfius's ratings if the deterioration in asset quality is more severe than in our baseline scenario, leading to an impaired loan ratio higher than 2.5% over a prolonged period, or if the bank's operating profitability/RWA does not revert to a level at the upper end of the 1%-1.5% range by 2022. The ratings are also sensitive to a decrease in the CET1 ratio below 15% on a sustained basis.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of Belfius's ratings is unlikely in the near term given the risks posed by the coronavirus crisis. In the longer term, an upgrade could result from a sufficient record of significant and structural improvement in the bank's profitability metrics.

SUBORDINATED DEBT

The rating of the junior subordinated notes issued by Belfius is primarily sensitive to changes in Belfius's VR.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of Belfius's Support Rating and upward revision of Belfius's Support Rating Floor would be contingent on a higher propensity of the Belgian sovereign to support its banks. While not impossible, this is highly unlikely in Fitch's view.

BELFIUS FINANCING COMPANY S.A.'S DEBT GUARANTEED BY BELFIUS

The ratings of the debt issued by Belfius Financing Company are sensitive to the same factors that might drive a change in Belfius's senior debt ratings.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in

a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

Belfius Financing Company's debt ratings are aligned with those of Belfius.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Belfius Bank SA/NV; Long Term Issuer Default Rating; Affirmed; A-; Rating Outlook Stable
; Short Term Issuer Default Rating; Affirmed; F1
; Viability Rating; Affirmed; a-
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; A-(dcr)
----subordinated; Long Term Rating; Affirmed; BBB
----Senior preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Short Term Rating; Affirmed; F1
Belfius Financing Company S.A.
----Senior preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Short Term Rating; Affirmed; F1

Contacts:

Primary Rating Analyst

Andreea Playoust,

Director

+33 1 44 29 91 71

Fitch Ratings Ireland Limited

60 rue de Monceau

Paris 75008

Secondary Rating Analyst

Romain Levasseur,

Associate Director

+33 1 44 29 91 76

Committee Chairperson

Patrick Rioual,

Senior Director

+49 69 768076 123

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email:

louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Status](#)

[Endorsement Policy](#)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE

FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS

FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and

forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit

rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.