FitchRatings

Banks
Universal Commercial Banks
Belgium

# Belfius Bank SA/NV

## Update

## Key Rating Drivers

**Sound Domestic Franchise:** Belfius SA/NV's ratings reflect its sound franchise in domestic retail and corporate banking, dominant position in public-sector financing and low risk appetite. The ratings are underpinned by the bank's sound and resilient asset quality, solid risk-weighted capitalisation and healthy funding and liquidity. Geographic concentration in Belgium, large public-sector exposure and lower business breadth than more diverse domestic peers explain Belfius's lower – although improving – operating profitability.

**Stable Low-Risk Strategy:** Belfius operates a stable bancassurance business model. The bank has a clear and consistent strategy geared towards strengthening its profitability. It plans to consolidate its market position in Belgium, increase cross selling between the banking arm and other group units, namely insurance, and maintain costs under control. Execution of the strategy has been strong, particularly in growing its corporate banking franchise, which is highlighted by the improvement in the bank's profitability in recent years.

**Sound Asset Quality:** Belfius's impaired loans ratio (2% at end-2021) is underpinned by the large proportion of low-risk loans, including residential mortgage loans and public-sector loans, and prudent underwriting. The stable asset quality metrics in 2021 were explained by contained inflows into Stage 3, a more dynamic write-off policy, and loan growth. Fitch Ratings expects loan performance to be resilient, supported by a sound labour market and continued economic recovery post-pandemic, although weaker than initially expected.

**Improving Structural Profitability:** The bank's profitability rebounded rapidly to above pre-pandemic levels in 2021, supported by strong growth in lending, insurance and in asset management, and due to reversals of loan-impairment charges (LICs). The bank's operating profit/risk-weighted assets (RWA) reached 1.9% in 2021. We expect the operating profitability to remain sound in 2022, supported by strong commercial momentum and still below-through-the-cycle average LICs.

**Solid Capital Ratios:** Belfius's sound capitalisation is a rating strength. With a CET1 ratio of 16.4% at end-2021, Belfius maintains a large buffer of more than 600bp above its CET1 Supervisory Requirement and Evaluation Process requirement. This provides sufficient headroom to absorb future RWA inflation from continued business growth and regulatory changes.

**Diversified Funding, Robust Liquidity:** Belfius's large and predominantly retail customer deposit base underpins its healthy funding profile. To complement its funding needs, Belfius has good access to wholesale market funding. Belfius's large liquidity reserve of EUR42 billion at end-2021 more than covers its short-term refinancing needs. Its regulatory liquidity coverage ratio and net stable funding ratio are comfortably above regulatory requirements.

## Rating Sensitivities

**Severe Pressure on Financial Profile**: Belfius's ratings have sufficient headroom to withstand various downside scenarios to our baseline. However, they could be downgraded in the event of sustained severe pressure on the bank's asset quality and earnings, and ultimately on capital. We could downgrade the ratings if the bank's impaired loan ratio increases above 3% over a prolonged period, or if there is prolonged earnings weakness, with operating profit/RWA ratio well below 1.5%, or if the CET1 ratio falls below 15% on a sustained basis.

**Structural Improvement in Profitability**: An upgrade of the ratings would require a notable improvement of its insurance and asset-gathering franchises that would result in a more diversified business model, and in structurally stronger profitability metrics.

### Ratings

| Foreign Currency | |
|---|---|
| Long-Term IDR | A- |
| Short-Term IDR | F1 |
| Derivative Counterparty Rating | A-(dcr) |
| Viability Rating | a- |
| Support Rating | 5 |
| Support Rating Floor | NF |
| **Sovereign Risk** | |
| Long-Term Foreign- and Local-Currency IDRs | AA- |
| Country Ceiling | AAA |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Foreign- and Local-Currency IDRs | Stable |

### Applicable Criteria

Bank Rating Criteria (November 2021)

### Related Research

DM100 Banks Tracker - 1H22 (April 2022)
Fitch Affirms Belgium at 'AA-'; Outlook Stable (March 2022)
Global Economic Outlook (March 2022)

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## Debt Rating Classes

| | Belfius Bank SA/NV | Belfius Financing Company SA |
|---|---|---|
| Senior preferred debt | A-/F1 | A-/F1 |
| Junior subordinated debt | BBB | |

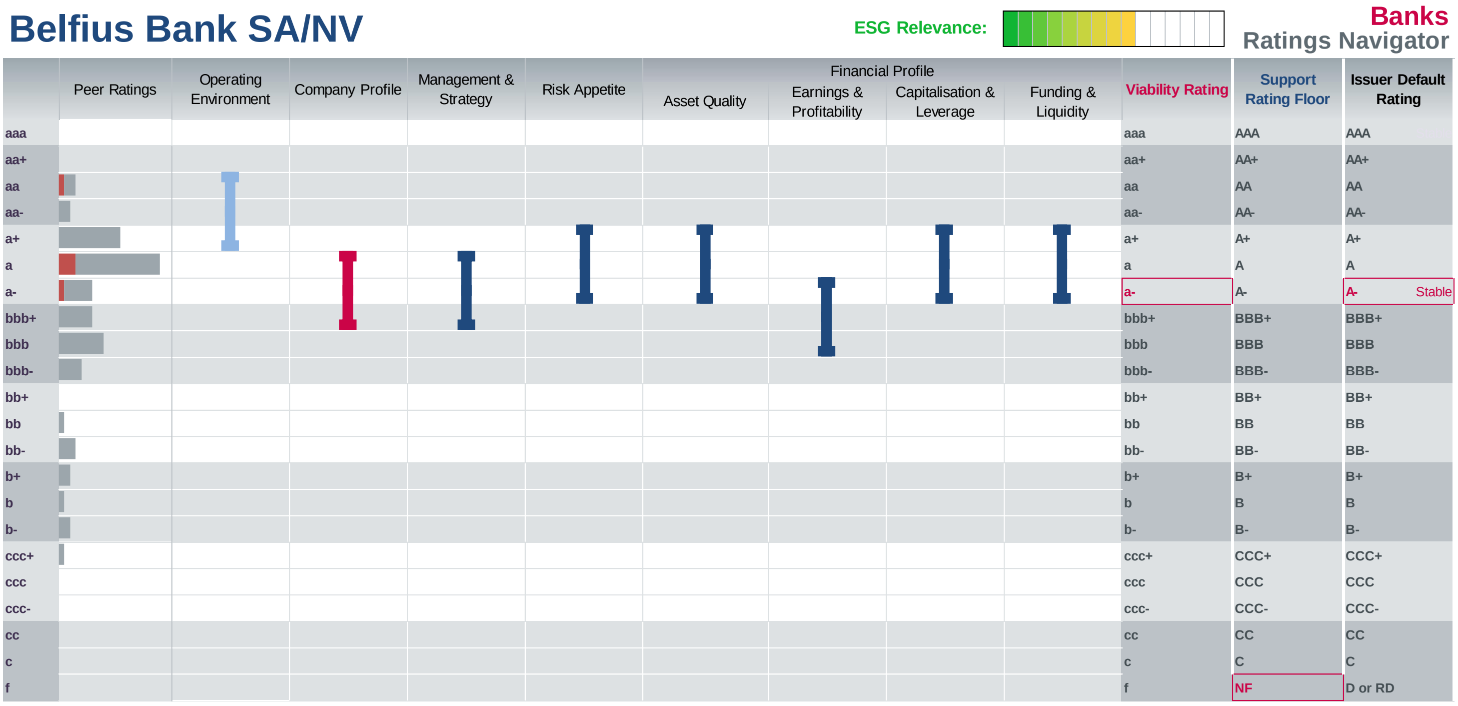
Source: Fitch Ratings

The ratings of senior preferred debt issued by Belfius are aligned with its Issuer Default Ratings (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.

The 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 Viability Rating (VR) given that the junior subordinated notes would absorb losses only on a gone concern basis meaning if the bank reached its point of non-viability.

Belfius Financing Company SA 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.

## Ratings Navigator




## Significant Changes

### Negligible Direct Exposure to Russia and Ukraine

Belfius's direct exposure to Russia and Ukraine is negligible, at below EUR1 million. Downside risks to the bank's asset quality and profitability instead stem from indirect effects on Belgium's macro-economic prospects, including rising inflation, supply-chain disruptions and weaker-than-expected economic growth in the eurozone.

Fitch has revised down its GDP growth forecast for Belgium to 1.8% for 2022 from the previous 3.5% – and up to 2.6% in 2023 from 2.2% – as the initial shock from the war abates. Belgium's direct exposure to the region is limited as its direct trade links to Russia, Belarus and Ukraine are low (1.2% of its total exports and 1.8% of imports) and its dependence on Russian natural gas is one of the lowest in Europe. However, slower growth and inflationary pressures (7.6% full-year inflation forecast for 2022) will weigh on business and consumer confidence and may affect credit volumes for banks. Inflation should weigh less on household disposable income than in neighbouring countries because of Belgium's strong salary indexation mechanisms (in both the public and private sector).

### Strong 2021 Results

Belfius generated a record-high net income of EUR936 million in 2021 on the back of strong commercial momentum in all of its core segments. Gross loans increased by 5%, underpinned by sound growth in residential mortgage and corporate lending. Belfius is reaping the benefit of its diversification strategy, as shown by the 18% rise in net fee and commission income, driven by asset-management and payment services. Fee and commission income now represents more than a quarter of total operating income. We believe a large share of this increase is sustainable.

Asset quality is sound, with an impaired loans ratio at 2% at end-2021. The stock of impaired loans increased only marginally and was compensated by the strong lending growth. Belfius's coverage of impaired loans by loan-loss allowances is high at 88%.

The improved economic outlook allowed Belfius to release part of the pandemic-related provisions booked in 2020, resulting into unsustainably low LICs at 1bp of average gross loans at end-2021 (end-2020: 40bp; 2019: 16bp). LICs should increase in 2022 while remaining below

### Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

the long-term average of 12bp–15bp. We expect Belfius to maintain part of the remaining pandemic-related LICs to cover for potential losses that might stem from the less-supportive economic environment.

Belfius's operating efficiency continued to improve in 2021 with a cost to income ratio at 59% (2020: 61%). Belfius's operating profit/RWAs recovered to 1.9% in 2021, above pre-pandemic levels (2019: 1.6%). We expect the bank to maintain sound profitability in 2022 due to its strong commercial momentum and continued progress towards revenue diversification.

Belfius's fully-loaded CET1 ratio decreased to 15.9% at end-2021 (end-2020: 16.4%) on the back of strong loan growth. The bank aims to operate with a CET1 ratio of 15%–15.5%.

## Summary Financials and Key Ratios

| | 31 Dec 21 | | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|---|
| | Year end | Year end | Year end | Year end | Year end |
| | (USDm) | (EURm) | (EURm) | (EURm) | (EURm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited – unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 2,346 | 2,074.3 | 2,041.8 | 1,970.5 | 1,942.5 |
| Net fees and commissions | 857 | 757.5 | 640.9 | 579.6 | 555.7 |
| Other operating income | 125 | 110.8 | 126.3 | 161.6 | 37.5 |
| Total operating income | 3,328 | 2,942.6 | 2,809.0 | 2,711.7 | 2,535.7 |
| Operating costs | 1,960 | 1,733.3 | 1,715.5 | 1,682.3 | 1,649.8 |
| Pre-impairment operating profit | 1,368 | 1,209.3 | 1,093.5 | 1,029.4 | 885.9 |
| Loan and other impairment charges | -2 | -1.4 | 453.1 | 111.4 | 66.4 |
| Operating profit | 1,369 | 1,210.7 | 640.4 | 918.0 | 819.5 |
| Other non-operating items (net) | 17 | 15.0 | 38.6 | 0.0 | 47.4 |
| Tax | 328 | 290.1 | 147.4 | 251.9 | 216.9 |
| Net income | 1,058 | 935.6 | 531.6 | 666.1 | 650.0 |
| Other comprehensive income | 52 | 46.0 | -238.4 | 248.9 | -263.3 |
| Fitch comprehensive income | 1,110 | 981.6 | 293.2 | 915.0 | 386.7 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 115,645 | 102,249.8 | 97,193.1 | 93,736.6 | 89,540.1 |
| - Of which impaired | 2,275 | 2,011.9 | 1,997.3 | 1,858.6 | 1,863.5 |
| Loan loss allowances | 1,997 | 1,765.6 | 1,827.9 | 1,515.9 | 1,483.8 |
| Net loans | 113,648 | 100,484.2 | 95,365.2 | 92,220.7 | 88,056.3 |
| Interbank | 11,266 | 9,961.0 | 11,859.0 | 11,497.8 | 229.3 |
| Derivatives | 14,206 | 12,560.8 | 16,820.0 | 18,186.5 | 17,358.4 |
| Other securities and earning assets | 39,790 | 35,181.4 | 36,422.8 | 41,507.1 | 48,115.1 |
| Total earning assets | 178,910 | 158,187.4 | 160,467.0 | 163,412.1 | 153,759.1 |
| Cash and due from banks | 35,785 | 31,640.3 | 25,433.8 | 6,716.0 | 8,314.3 |
| Other assets | 2,627 | 2,322.8 | 2,090.6 | 2,311.4 | 2,091.8 |
| Total assets | 217,322 | 192,150.5 | 187,991.4 | 172,439.5 | 164,165.2 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 118,068 | 104,392.3 | 95,319.4 | 85,434.0 | 79,626.1 |
| Interbank and other short-term funding | 22,512 | 19,904.8 | 20,355.7 | 14,049.8 | 12,956.1 |
| Other long-term funding | 17,775 | 15,716.1 | 15,904.8 | 16,087.0 | 17,243.0 |
| Trading liabilities and derivatives | 24,987 | 22,093.1 | 27,017.0 | 27,205.6 | 25,317.6 |
| Total funding and derivatives | 183,342 | 162,106.3 | 158,596.9 | 142,776.4 | 135,142.8 |
| Other liabilities | 20,801 | 18,392.1 | 18,501.7 | 18,997.7 | 18,903.4 |
| Preference shares and hybrid capital | 743 | 656.5 | 656.5 | 656.5 | 656.5 |
| Total equity | 12,436 | 10,995.6 | 10,236.3 | 10,008.9 | 9,462.5 |
| Total liabilities and equity | 217,322 | 192,150.5 | 187,991.4 | 172,439.5 | 164,165.2 |
| Exchange rate | | USD1 = EUR0.884173 | USD1 = EUR0.821963 | USD1 = EUR0.89015 | USD1 = EUR0.873057 |

Source: Fitch Ratings, Fitch Solutions, Belfius

## Summary Financials and Key Ratios

| | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 1.9 | 1.1 | 1.6 | 1.6 |
| Net interest income/average earning assets | 1.3 | 1.3 | 1.2 | 1.3 |
| Non-interest expense/gross revenue | 59.0 | 61.2 | 62.2 | 65.1 |
| Net income/average equity | 8.8 | 5.3 | 6.9 | 6.9 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 2.0 | 2.1 | 2.0 | 2.1 |
| Growth in gross loans | 5.2 | 3.7 | 4.7 | -0.8 |
| Loan loss allowances/impaired loans | 87.8 | 91.5 | 81.6 | 79.6 |
| Loan impairment charges/average gross loans | 0.0 | 0.4 | 0.2 | 0.1 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 16.4 | 17.1 | 15.9 | 16.0 |
| Fully loaded common equity Tier 1 ratio | 15.9 | 16.4 | 15.9 | 16.0 |
| Tangible common equity/tangible assets | 5.5 | 5.3 | 5.6 | 5.6 |
| Basel leverage ratio | 7.1 | 6.9 | 6.0 | 6.0 |
| Net impaired loans/common equity Tier 1 | 2.3 | 1.7 | 3.9 | 4.6 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 98.0 | 102.0 | 109.7 | 112.5 |
| Liquidity coverage ratio | 195.0 | 158.0 | 130.0 | 135.0 |
| Customer deposits/total non-equity funding | 70.2 | 67.8 | 68.6 | 67.5 |
| Net stable funding ratio | 136.0 | 128.0 | 116.0 | 116.0 |

Source: Fitch Ratings, Fitch Solutions, Belfius

## Sovereign Support Assessment

| Support Rating Floor | | | Value |
|---|---|---|---|
| Typical D-SIB SRF for sovereign's rating level (assuming high propensity) | | | A or A- |
| Actual country D-SIB SRF | | | NF |
| **Support Rating Floor:** | | | **NF** |
| **Support Factors** | **Positive** | **Neutral** | **Negative** |
| Sovereign ability to support system | | | |
| Size of banking system relative to economy | | ✓ | |
| Size of potential problem | ✓ | | |
| Structure of banking system | | ✓ | |
| Liability structure of banking system | | ✓ | |
| Sovereign financial flexibility (for rating level) | | ✓ | |
| Sovereign propensity to support system | | | |
| Resolution legislation with senior debt bail-in | | | ✓ |
| Track record of banking sector support | | ✓ | |
| Government statements of support | | ✓ | |
| Sovereign propensity to support bank | | | |
| Systemic importance | | ✓ | |
| Liability structure of bank | | ✓ | |
| Ownership | | ✓ | |
| Specifics of bank failure | | ✓ | |

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

## Environmental, Social and Governance Considerations

FitchRatings **Belfius Bank SA/NV**

Banks
Ratings Navigator

**Credit-Relevant ESG Derivation**

Belfius Bank SA/NV has 5 ESG potential rating drivers
- Belfius Bank SA/NV has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | Overall ESG Scale |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 0 | issues | 4 |
| potential driver | 5 | issues | 3 |
| not a rating driver | 4 | issues | 2 |
| | 5 | issues | 1 |

**Environmental (E)**

| General Issues | E Score | Sector-Specific Issues | Reference | E Scale |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. | 5 |
| Energy Management | 1 | n.a. | n.a. | 4 |
| Water & Wastewater Management | 1 | n.a. | n.a. | 3 |
| Waste & Hazardous Materials Management; Ecological Impacts | 1 | n.a. | n.a. | 2 |
| Exposure to Environmental Impacts | 2 | Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations | Company Profile; Management & Strategy; Risk Appetite; Asset Quality | 1 |

**Social (S)**

| General Issues | S Score | Sector-Specific Issues | Reference | S Scale |
|---|---|---|---|---|
| Human Rights, Community Relations, Access & Affordability | 2 | Services for underbanked and underserved communities: SME and community development programs; financial literacy programs | Company Profile; Management & Strategy; Risk Appetite | 5 |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3 | Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) | Operating Environment; Company Profile; Management & Strategy; Risk Appetite | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Company Profile; Management & Strategy | 3 |
| Employee Wellbeing | 1 | n.a. | n.a. | 2 |
| Exposure to Social Impacts | 2 | Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices | Company Profile; Financial Profile | 1 |

**Governance (G)**

| General Issues | G Score | Sector-Specific Issues | Reference | G Scale |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Management & Strategy | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Management & Strategy; Earnings & Profitability; Capitalisation & Leverage | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Company Profile | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Management & Strategy | 2 |
| | | | | 1 |

**How to Read This Page**
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

The highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on Belfius, either due to their nature or the way in which they are being managed by Belfius. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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