FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Belfius at 'A-'; Outlook Stable

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Fitch Ratings - Paris - 27 Jul 2022: Fitch Ratings has affirmed Belfius Bank SA/NV 's (Belfius) Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook. A full list of rating actions is below.

Fitch has withdrawn Belfius's Support Rating and Support Rating Floor as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned Belfius a Government Support Rating (GSR) of 'ns' (no support).

Fitch has also affirmed and withdrawn the long- and short-term ratings on Belfius's EUR10 billion EMTN programme and the long-term rating of the senior preferred debt issued by Belfius Financing Company (ISIN: XS0826321316) as they are no longer relevant to the agency's coverage.

KEY RATING DRIVERS

Stable Business Profile: Belfius's ratings are underpinned by its sound franchise in domestic retail-and- corporate banking and dominant position in public-sector financing. The ratings reflect the bank's low risk appetite, as demonstrated in sound and resilient through-the-cycle asset quality, solid risk-weighted capitalisation and healthy funding and liquidity.

Geographic concentration in Belgium, large public-sector exposure and weaker business breadth than more diverse domestic peers' explain Belfius's lower - although improving

- operating profitability. The bank's more limited business profile has a high influence on the ratings. As such, its 'a-' Viability Rating (VR) is one notch below its 'a' implied VR.

Low-Risk Strategy: Belfius operates a stable bancassurance business model. It 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, which are insurance and asset management, and maintain costs under control. Execution of the strategy has been strong, particularly in growing its corporate-banking franchise, which is reflected in the improvement in the bank's profitability in recent years.

Sound Asset Quality: Belfius's asset quality is underpinned by a large proportion of low-risk loans, including residential mortgage loans and public-sector loans, and by prudent underwriting. Stable asset quality in 2021 reflected contained inflows into Stage 3 loans, and loan growth. Performance of the loan book has remained resilient throughout the cycle and we expect asset-quality pressures from the current economic environment to be manageable.

Improving Structural Profitability: Belfius's operating profitability has steadily improved since 2015, underpinned by the expansion into higher-margin corporate lending and by controlled operating expenses. However, it still lags behind some of its more diversified domestic peers'. The bank's operating profit/ RWAs reached 1.9% in 2021, supported by strong growth in lending, insurance and in asset management, and due to reversals of loan-impairment charges (LICs). We expect operating profitability to remain sound in 2022, supported by strong commercial momentum, higher interest rates, and still lower than through-the-cycle average LICs.

Solid Capital Ratios: Belfius's sound capitalisation is a rating strength. With a common equity Tier 1 (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. Belfius also has good access to wholesale-market funding. Its regulatory liquidity coverage ratio and net stable funding ratio are comfortably above regulatory requirements.

RATING SENSITIVITIES

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

Pressure on the ratings could arise if asset quality and operating profitability deteriorate markedly and durably, for example as a result of a weakening of the bank's risk appetite. In particular, triggers for a downgrade would be an impaired loan ratio above 3% over a prolonged period, combined with sustained earnings weakness, with an operating profit/RWA well below 1.5%, and a CET1 ratio towards the lower range of an 'a' category on a sustained basis without clear recovery prospects.

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 bank's purely domestic focus and more constrained business profile than that of higher-rated peers, which feeds into lower profitability. It would require a material improvement of Belfius's franchise outside of commercial banking, such as in asset-gathering activities, that results in a more balanced contribution of various business lines, more resilient earnings through-the-cycle and higher structural profitability.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Belfius's 'F1' Short-Term IDR is the higher of two options mapping to an 'A-' Long-Term IDR, reflecting our 'a' assessment of Belfius's funding and liquidity profile and the expectation that liquidity buffers will be maintained at high levels.

Belfius's Derivative Counterparty Rating (DCR) is aligned with its Long-Term IDR because under Belgian legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

The ratings of senior preferred debt issued by Belfius are aligned with its 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 VR given that the junior subordinated notes would absorb losses only on a gone- concern basis, meaning if the bank reaches its point of non-viability.

Belfius Financing Company SA is a financing vehicle wholly-owned by Belfius. Its senior preferred short-term debt rating is aligned with that 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.

Belfius's GSR of 'ns' reflects 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.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The junior subordinated notes issued by Belfius are primarily sensitive to a change in Belfius's VR.

Belfius's DCR could be upgraded in case of a change in legislation giving preference to derivative counterparties over senior obligations in a resolution. Belfius's DCR could be downgraded in case of a downgrade of the Long-Term IDR.

The short-term rating of the senior preferred debt issued by Belfius Financing Company is sensitive to the same factors that might drive a change in Belfius's senior preferred short-term debt rating.

An upgrade of Belfius's GSR would be contingent on a positive change in the Belgian sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

VR ADJUSTMENTS

The VR is below the 'a' implied VR due to the following adjustment reason: business profile (negative).

The 'a' capitalisation & leverage score is below the 'aa' implied score due to the following adjustment reason: capital flexibility and ordinary support (negative).

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 is a wholly-owned financing subsidiary of Belfius and its debt ratings are aligned with those of its parent.

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

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Belfius Bank SA/NV	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	Support	WD	Withdrawn	5

	Support Floor	WD	Withdrawn	NF
	DCR	A-(dcr)	Affirmed	A-(dcr)
	Government Support	ns	New Rating	
subordinated	LT	BBB	Affirmed	BBB
EUR 17.5 mln 5.564% bond/note BE6293616627	LT	BBB	Affirmed	BBB
EUR 17.5 mln 4.609% bond/note BE6293617633	LT	BBB	Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Belfius Financing Company S.A.	EU Issued, UK Endorsed

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