

## RATING ACTION COMMENTARY

# Fitch Affirms Belfius at 'A-'; Outlook Stable

Thu 13 Jul, 2023 - 8:47 AM ET

Fitch Ratings - Paris - 13 Jul 2023: Fitch Ratings has affirmed Belfius Bank SA/NV 's (Belfius) Long-Term Issuer Default Rating (IDR) at 'A-' and Viability Rating (VR) at 'a-'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

## KEY RATING DRIVERS

**Business Profile Drives Ratings:** Belfius's ratings reflect its sound business profile in Belgium, where the bank benefits from a well-established retail and commercial banking franchise and a leading position in public-sector financing. The ratings also reflect low risk appetite, sound asset quality, and solid capitalisation and funding profiles.

Geographic concentration in Belgium, large public-sector exposure and lower business breadth than some of its more diverse domestic peers explain Belfius's weaker - although improving - operating profitability. Belfius's 'a-' VR is one notch below the implied VR at 'a', reflecting the high importance for the bank's ratings of its less diversified business profile relative to similarly rated peers'.

**Stable Business Model:** Belfius operates a stable bancassurance business model. It has a clear and consistent strategy geared towards strengthening its profitability. It plans to expand its market position in Belgium, increase cross-selling between the banking arm and other group units, namely insurance and wealth and asset management, and maintain costs under control. Growing market position in corporate banking and asset gathering services supported the improvement in profitability in recent years.

**Low Risk Profile:** Belfius's conservative risk profile and stable through-the-cycle profitability benefit from the low complexity of its business model. Credit risk is the main source of risk and is mainly concentrated in the loan book. The large proportion of residential mortgage and public-sector loans and their prudent underwriting underpin Belfius's low risk profile.

**Contained Asset-Quality Risks:** Belfius's asset quality has remained resilient. Weaker economic growth and still high inflation in 2023 and 2024 will lead to a modest increase in impaired loans, but we expect these to remain close to 2% of gross loans by end-2024. High coverage of impaired loans by loan loss allowances (89% at end-2022) provides a comfortable buffer to absorb asset-quality pressures.

**Adequate Profitability:** Belfius's profitability has steadily improved in the last few years, which we view as adequate, but remains weaker than some of its more diversified domestic peers'. We expect its operating profit/risk weighted assets (RWAs) to moderately improve to 2% in 2023 on higher interest rates, continued strong commercial momentum, and growing revenue diversification. This should offset pressure from higher funding costs and cost inflation.

**Solid Capital Ratios:** Belfius's capitalisation is a rating strength. With a common equity Tier 1 (CET1) ratio of 16.5% at end-2022, Belfius maintains a large buffer of around 650bp above its CET1 regulatory requirement. This provides sufficient headroom to absorb future RWA inflation from continued business growth and regulatory changes. We expect Belfius's CET1 ratio will remain comfortably above its target of 15%-15.5% in 2023 and 2024.

**Stable Funding, Ample Liquidity:** Belfius's healthy funding profile is supported by its large and predominantly stable retail customer deposit base, and good access to wholesale market funding. We expect its regulatory liquidity ratios to remain robust, including the reimbursement of its targeted longer-term refinancing operations (TLTRO) drawings.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

Belfius has rating headroom against a downward revision of the Belgian banks' operating environment score to 'a+' from 'aa-'. However, we would likely downgrade its VR if we expect its impaired loans ratio to increase materially above 3% over a prolonged period, with an operating profit/RWAs well below 1.5% and a CET1 ratio below 14% on a sustained basis. However, this is not our base case.

### **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 current negative outlooks on the Belgian operating environment score and sovereign rating.

An upgrade of the ratings would nonetheless require a material improvement of Belfius's franchises outside of lending, mainly in insurance and asset-gathering activities, which would result in stronger profitability metrics with an operating profit/RWAs comfortably above 2% on a sustained basis while maintaining strong capitalisation metrics and a low risk profile.

## **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 expectation that the bank will maintain high liquidity buffers.

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 rating of the long-term senior preferred debt is also in line with its Long-Term IDR. This is because we expect Belfius to use senior preferred debt to meet its minimum requirement for own funds and eligible liabilities (MREL) over the medium term. Also, Fitch expects subordination and resolution buffers to remain below 10% of RWAs on a sustained basis, a threshold above which we would consider a one-notch uplift of the senior preferred debt ratings.

The junior subordinated notes of Belfius (BE6293617633, BE6293618649), which qualify as Tier 2 debt under transitional Capital Requirements Regulation rules, 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 the absence of no coupon suspension mechanisms and that the junior subordinated notes would absorb losses only if the bank becomes non-viable.

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 it provides to holders of the notes issued by the vehicle.

Belfius's Government Support Rating of 'no support' 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 Short-Term IDR and senior preferred debt ratings are sensitive to changes in the bank's VR. The senior preferred debt ratings could be upgraded if we expect the bank to meet its resolution buffer requirements with senior non-preferred and more junior instruments, or if we expect these buffers to reach 10% of RWAs.

Belfius's DCR is primarily sensitive to the bank's Long-Term IDR or to changes in the composition of its resolution debt buffers. In addition, we could upgrade Belfius's DCR on a change in legislation giving preference to derivative counterparties over senior obligations in a resolution.

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.

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

An upgrade of Belfius's Government Support Rating 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 'a' capitalisation & leverage score is below the 'aa' implied category score due to the following adjustment reason: internal capital generation and growth (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's debt ratings are aligned with those of its parent, Belfius Bank.

## 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](https://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡				PRIOR ⚡
Belfius Bank SA/NV	LT IDR	A- Rating Outlook Stable			A- Rating Outlook Stable
	Affirmed				
	ST IDR	F1	Affirmed		F1
	Viability	a-	Affirmed		a-
	DCR	A-(dcr)	Affirmed		A-(dcr)
subordinated	Government Support		ns	Affirmed	ns
	LT	BBB	Affirmed		BBB
Senior preferred	LT	A-	Affirmed		A-

Senior preferred

ST

F1

Affirmed

F1

Belfius Financing  
Company S.A.

Senior preferred

ST

F1

Affirmed

F1

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## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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Belfius Financing Company S.A.

EU Issued, UK Endorsed

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