MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Belfius Bank's deposit and senior unsecured debt ratings to A1, outlook changed to stable

24 May 2019

Baseline Credit Assessment upgraded to baa1 from baa2

Paris, May 24, 2019 -- Moody's Investors Service today upgraded the long-term deposit and senior unsecured debt ratings of Belfius Bank SA/NV (Belfius) to A1 from A2 and changed the outlook to stable from positive. The short-term deposit ratings were affirmed at Prime-1. Moody's also upgraded Belfius' Baseline Credit Assessment (BCA) to baa1 from baa2.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

BCA UPGRADE REFLECTS STRENGTHENED CREDIT METRICS AND LIMITED TAIL RISKS FROM LEGACY ASSETS

Moody's upgrade of Belfius's BCA to baa1 mainly reflects the bank's improved asset quality, while tail risks stemming from legacy assets are contained. The bank's asset quality is sound given the focus of the bank on the Belgium market, including residential mortgages (34% of the loan book at year-end 2018), public-sector loans (31%), corporate loans (15%) and SMEs (17%). Problem loans represented only 2.1% of gross loans at year-end 2018 and loan-loss charges six basis points of gross loans in 2018. The coverage of problem loans by provisions was 80%, which compares favourably to peers. Furthermore, legacy assets, which still added €6 billion to risk-weighted assets (as of year-end 2018), have given rise to provision reversals in recent years and do not represent any significant tail risk anymore. Although some credit concentrations remain in the various books managed in run-off and certain maturities can be very long, the overall credit risks embedded in the legacy portfolio are limited. Belfius will retain some credit concentrations, which are inherent to its public-sector lending franchise, while the concentrations in the legacy portfolios will progressively recede.

Moody's also considers that the bank's capitalisation is strong. The bank's Common Equity Tier 1 (CET1) ratio was 16.0% and its Tier 1 leverage ratio reached 6.0% at year-end 2018 from 16.2% and 5.5%, respectively at year-end 2017. Belfius' CET1 ratio is well above its minimum CET1 Supervisory Review and Evaluation Process (SREP) requirement of 10.82% for 2019, comprising the Pillar 1 of 4.5% CET1, the capital conservation buffer (CCB) of 2.5%, an Other Systemically Important Institution (O-SII) buffer of 1.5%, a Pillar 2 Requirement (P2R) of 2.25% and a countercyclical buffer (CCyB) of 0.07%. The bank's Pillar 2 Guidance (P2G) is set at 1% for 2019. The bank has set a minimum CET1 ratio of target of 13.5% alongside a "target zone" of 15.0-15.5% to be able to cope with "unforeseeable risks". Nonetheless, Moody's believes that improvements in capital metrics are likely to be limited given credit growth and regulatory measures, including the European Central Bank's Targeted Review of Internal Models (TRIM) and the so-called "Basel IV" framework. Last, Belfius' dividend pay-out ratio has been rather high over the last few years at the expense of capital retention.

Belfius's low profitability remains a weakness, which stems from the high proportion of low-margin public-sector loans (31% of the loan book as of year-end 2018), the highly competitive Belgian retail market and a high cost base. Net income represented only 0.4% of tangible assets, which is relatively weak and below the main Belgian peers. The cost-to-income ratio of the bank was 65.7%, according to Moody's calculations, and 60.4%, according to the bank's calculations, in 2018. Belfius aims to reach a cost-to-income ratio below 60% (under its formula) in 2020, which could be difficult to achieve given negative impact of the low interest rate environment on the bank's net interest margin (1.20% in 2018 vs. 1.24% in 2017).

Moody's upgrade of Belfius' deposit and senior unsecured debt ratings to A1 from A2 reflects (1) the upgrade of the bank's BCA to baa1; (2) two notches of uplift from Moody's Advanced Loss Given Failure (LGF) analysis; and (3) one notch of uplift stemming from a moderate probability of government support.

STABLE OUTLOOK REFLECTS STABILISATION OF FUNDAMENTALS AT SOLID LEVELS

The stable outlook reflects the bank's solid fundamentals as well as the relatively limited room for improvements on asset quality, as credit costs are already at very low levels, while capital ratios are unlikely to increase significantly going forward. In addition, the low interest rate environment will continue to weigh on the bank's revenues and profitability.

Moody's changes the outlook to stable on both long-term deposit and senior unsecured ratings, which also assumes that the liability structure of the bank and probability of government support will remain broadly unchanged.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of Belfius' BCA and long-term ratings could occur if the bank (1) demonstrated a track record of improved and stable profitability while maintaining its current asset quality; (2) decreased credit risk concentrations and (3) improved its capitalisation materially and durably.

Belfius' deposits and senior unsecured debt ratings could also be upgraded as a result of a decrease in loss-given-failure, should they benefit from a significantly higher subordination, which Moody's does not expect as Belfius already meets its preliminary minimum requirement for own funds and eligible liabilities (MREL).

The bank's BCA could be downgraded as a result of (1) a significant deterioration in asset quality and profitability; or (2) a negative development in the liquidity of the bank and/or its capitalisation. A downgrade of the BCA would likely result in downgrades to all ratings.

Belfius' senior unsecured debt ratings could also be downgraded as a result of an increase in loss-given-failure, should they account for example for a significantly smaller share of the bank's overall liability structure.

LIST OF AFFECTED RATINGS

Issuer: Belfius Bank SA/NV

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to Aa3 from A1

....Long-term Bank Deposits, upgraded to A1 Stable from A2 Positive

....Long-term Deposit Note/CD Program, upgraded to (P)A1 from (P)A2

....Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A1(cr)

....Baseline Credit Assessment, upgraded to baa1 from baa2

....Adjusted Baseline Credit Assessment, upgraded to baa1 from baa2

....Senior Unsecured Regular Bond/Debenture, upgraded to A1 Stable from A2 Positive

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

....Senior Subordinate, upgraded to (P)Baa2 from (P)Baa3

....Subordinate Regular Bond/Debenture, upgraded to Baa2 from Baa3

....Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

....Junior Subordinated Regular Bond/Debenture, upgraded to Baa3(hyb) from Ba1(hyb)

....Preferred Stock Non-cumulative, Upgraded to Ba1 (hyb) from Ba2 (hyb)

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Deposit Note/CD Program, affirmed (P)P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Belfius Financing Company S.A

..Upgrades:

....Backed Senior Unsecured Regular Bond/Debenture, upgraded to A1 Stable from A2 Positive

....Backed Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Backed Subordinate Regular Bond/Debenture, upgraded to Baa2 from Baa3

....Backed Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

....Backed Junior Subordinated Regular Bond/Debenture, upgraded to Baa3(hyb) from Ba1(hyb)

..Affirmation:

....Backed Commercial Paper, affirmed P-1

..Outlook Action:

....Outlook changed to Stable from Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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