



Rating Action: Moody's affirms Belfius' deposit and senior unsecured rating of A1; outlook changed to positive

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BCA and all other ratings affirmed

Paris, July 07, 2023 -- Moody's Investors Service (Moody's) today affirmed Belfius Bank SA/NV's (Belfius) long-term deposit and senior unsecured debt ratings of A1 and changed the outlook on these ratings to positive from stable. Moody's also affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, its short-term deposit ratings of Prime-1, its other short term rating of (P)Prime-1, its long- and short-term deposit note/CD Program ratings of (P)A1/(P)Prime-1, its senior unsecured MTN rating of (P)A1, its junior senior unsecured rating of Baa1, its junior senior unsecured MTN rating of (P)Baa1, its subordinate debt rating of Baa2, its senior subordinate programme rating and subordinate MTN rating of (P)Baa2, its junior subordinate debt rating of Baa3(hyb) and its non-cumulative preferred stock rating of Ba1(hyb). The rating agency also affirmed the bank's long-term and short-term Counterparty Risk Assessments (CRA) of Aa3(cr) and Prime-1(cr) as well as its long-term and short-term Counterparty Risk Ratings (CRR) of Aa3 and Prime-1.

Finally, Moody's affirmed Belfius Financing Company S.A's backed senior unsecured MTN rating of (P)A1, its backed subordinate debt rating of Baa2, its backed subordinate MTN rating of (P)Baa2, its backed junior subordinate rating of Baa3(hyb) and its backed commercial paper rating of Prime-1. The outlook has been changed to positive from stable.

RATINGS RATIONALE

AFFIRMATION OF THE BCA

The baa1 BCA reflects the bank's well-established franchise in retail banking, corporate banking, public finance and insurance in Belgium, its sound solvency and robust funding and liquidity profile.

Belfius' asset quality benefits from its focus on the wealthy Belgian market and well-balanced business mix between retail, corporate and public sector exposures. The bank's moderate risk profile is illustrated by its track-record of low cost of risk and stable problem loan ratio over the past six years (1.82% at year-end 2022). Moody's nonetheless expects a moderate increase in problem loans over the coming quarters, notably in loans to corporate and SMEs, as inflation and rising interest rates weaken borrowers' repayment and refinancing capacity.

Belfius has a strong capital position as reflected by a tangible common equity (TCE) ratio of 16.9% and a TCE leverage ratio of 6.3% as of year-end 2022, which would provide comfortable buffer in case of an unexpected material deterioration in asset quality. Moody's assessment of capital also incorporates its expectation that Belfius's common equity tier 1 (CET1) ratio will remain at or above its target of 15% to 15.5%.

With a three-year average ratio of net income by tangible assets of 0.43% versus 0.66% for the Belgian banking system (based on Moody's calculations), Belfius' profitability is relatively modest but commensurate with its risk profile. It has been gradually increasing since 2015 as a result of the bank's successful business diversification. Although offset by higher operating expenses and slight increase in loan loss provisions, the bank's net interest income increased materially in 2022 as a result of both higher lending volumes and rising interest rates. Moody's expects the bank to continue to benefit from strong deposit margins over the coming quarters despite gradually rising deposit and savings' rates. This positive trend on revenues will help the bank to absorb pressures on its operating costs stemming from wage indexation on inflation and high investments needed to carry out its strategic development and digitalization

ambitions.

Strong and stable customer deposits representing 111% of loans to customers as of year-end 2022, combined with well-diversified issued medium and long term wholesale debt provides a robust funding base. The liquidity portfolio is ample and mostly comprises cash at central banks.

AFFIRMATION OF SENIOR RATINGS

Belfius' long-term deposit and senior unsecured debt ratings of A1 reflect the baa1 BCA and two notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, reflecting a very low loss-given-failure for both instruments. These ratings also incorporate one notch of government support uplift, reflecting a moderate support assumption from the Government of Belgium due to the bank's systemic importance in the country.

The junior senior unsecured debt of Baa1 benefits from a moderate loss-given-failure and a low probability of government support, leading to no uplift from Belfius' Adjusted BCA.

OUTLOOK ON SENIOR RATINGS CHANGED TO POSITIVE

The positive outlook on the deposit and senior unsecured ratings reflect Moody's expectations that Belfius will continue to demonstrate a sustainably solid asset quality despite the economic slowdown and continued inflationary pressures it will face over the coming quarters. The rating agency also expects that the bank's profitability and business model will remain resilient to negative economic trends, and continue to be capital accretive in the next 18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Belfius' BCA and long-term ratings could be upgraded if the bank manages to preserve its solid asset quality, high capital ratio, improved profitability and robust liquidity and funding in the more challenging operating environment over the coming quarters.

The long-term deposit, senior unsecured and junior senior unsecured debt ratings could also be upgraded if there is a decrease in loss given failure, should these instruments benefit from a significantly higher subordination, which Moody's however does not expect since the bank already meets its minimum requirement for own funds and eligible liabilities (MREL).

The BCA and long-term ratings could be downgraded if the bank were to incur a significant deterioration in its asset quality and profitability or a negative development in its liquidity or capitalisation.

The senior unsecured and junior senior unsecured debt ratings could be downgraded if there is an increase in loss given failure if these instruments were to benefit from lower subordination. The senior unsecured debt rating could also be downgraded if the instrument were to account for a significantly smaller share of the bank's overall liability structure.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Yasuko Nakamura
VP - Senior Credit Officer
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Olivier Panis
Senior Vice President
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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