

RatingsDirect®

Update: Belfius Bank SA/NV

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Update: Belfius Bank SA/NV

Credit Highlights

Global Scale Ratings

Issuer Credit Rating

A/Stable/A-1

Resolution Counterparty Rating

A+/-/A-1

Overview

Key strengths	Key risks
Stable and top-tier domestic market position in Belgium with good business diversification between banking and insurance services.	Possible economic deterioration could create credit risk, especially in the corporate and small and midsize enterprise (SME) segments.
Sound capitalization and a comfortable liquidity buffer.	Challenges to efficiency improvement because of expected lower net interest margin and general cost-inflation pressure.
Low credit risk in most of its lending activities.	Geographical concentration in a single country.

Belfius Bank is close to achieving the aims of its "Inspire 2025" strategy. We understand the group has been focusing on improving its customer offering, notably through digitizing its daily banking services, improving personal investment advisors' availability, and giving access to real estate and mobility services via its digital platform. At year-end 2023, Belfius had almost achieved its 2025 aim to have a market share of close to 20% in its various segments, and toward 25% for enterprise and entrepreneurs; at that stage it had 17.5% on new production of mortgage loans and 19.4% and 21.1% of the domestic small business and larger corporate market share, respectively. We believe Belfius will continue to focus on efficiencies to achieve its cost-to-income ratio target of below 57% (not including IFRS 17 impact), notably via increasing recourse to digital channels, critical to managing costs in an inflationary environment and sustaining profitability through the cycle. However, anticipated lower interest rates and still-elevated inflationary pressure will create a headwind against this target, and we estimate cost to income will settle around 57%-59% over the coming years.

After a record high earnings performance in 2023, we expect profitability normalization for Belfius in 2024-2025. Its 2023 earnings were strongly supported by central bank rate increases and its well-diversified bancassurance model. That year its net profit reached €1.1 billion, up from €975 million (not restated from IFRS 17 impact) the previous year, with our measure of net interest margin (NIM) reaching 1.9% against a 1.7% average over 2019-2022. After peaking in 2023, NIM will likely settle over 2024-2026, higher than it was before the central bank rates increase, at 1.8%-1.9%. This, along with higher fees and commission and limited credit risk costs--partly thanks to some provision reversals--will support net profit over the coming three years. We forecast it will be around €1.1 billion-€1.2 billion annually.

This year we expect slow economic growth and high interest rates will continue to weigh on customer demand for loans. This will affect the bank's margins, lowering its net interest income. On the other hand, we expect fees and commission income and insurance income will support its revenues, offset by a slight increase in costs due to the

inflationary environment.

The bank's prudent capital management and stable retained earnings will continue to support its robust capital position. The strong net profit of 2023, a dividend payout policy set at around 40%, and stronger benefits from insurance solvency supported our risk-adjusted capital (RAC) ratio for Belfius, reaching 11.4% in 2023 compared to the 10.9% average over 2019-2022. Indeed, we estimate that Belfius Insurance has overcapitalization over a "substantial stress" (which stands for a 99.8% insurance-risk-based capital requirement calibration) scenario of €995 million at year-end 2023 compared to €165 million in 2022.

This increase in insurance overcapitalization mainly arises from the new "Insurer Risk-Based Capital Adequacy: Methodology And Assumptions," criteria we published in November 2023. We risk-weight insurance subsidiaries' overcapitalization by 375% and then deduct it from our S&P Global Ratings risk weighted assets (RWAs), with therefore a 52 basis points positive effect on Belfius' RAC at end-2023. We anticipate that RAC ratio will further increase to 11.7%-13.1% over the next two years reflecting our expectations of sustained business performance, with a return on equity of about 9.0%-9.6%; low-single-digit growth in the outstanding lending portfolio and nonperforming assets; and a dividend payout ratio of 40%. We do not factor in any potential but uncertain developments, such as an acquisition or dividend policy change.

We anticipate Belfius' loan portfolio will display good asset quality with sound provisioning despite its geographical concentration. Although the group is not immune to asset-quality pressure, mortgage loans (approximately 40% of the loan portfolio) and public finance loans (21%) form a substantial part of its exposures. We expect these two portfolios, being low risk and resilient to economic swings, will continue to perform well. We anticipate more but manageable pressure on asset quality to come from its gradually increased exposure to SME and corporate loans in recent years (35% at year-end 2023 versus 25% in 2012). We expect Belfius' nonperforming assets (NPA) ratio will remain at about 2% over the next few years as inflation, which we forecast at 3.3% in 2024 and 2.2% in 2025, stays somewhat high as do interest rates. We think the latter will pressure the private sector's debt-servicing capacity over the next year. However, our current base case is that higher NPAs will be manageable for Belfius and cost of risk will be contained at about or below 10 bps thanks to its prudent risk management standards and the high share of low-risk residential mortgages and public sector loans in the portfolio, as well as high--but likely to lower--coverage (about 57% coverage of Stage 3 loans and about 80% of NPAs by total loan-loss reserves).

Belfius has a strong and stable deposit franchise and ample liquidity buffer, which we believe will continue to help it during periods of market volatility. In our view, the bank's funding and liquidity profile will remain steady, underpinned by a strong deposit base. While its loan-to-deposit ratio increased in 2023 to 106% as per our calculation--increasing, as for peers, partly due to the large issuance of Bons D'Etat Belge in September 2023--we view positively its reasonably granular and sticky deposit base. Around 39% of core customer deposits are current/demand and two-thirds are savings/time deposits, which we see as more stable. Moreover, we assume that the existing liquidity buffer and low reliance on short-term wholesale funding will persist.

Belfius benefits from its access to a reasonably diversified mix of funding sources, both on a secured and unsecured basis. The bank's reliance on wholesale funding is moderate and we believe wholesale issuances will continue to focus on compliance with the minimum requirement for own funds and eligible liabilities (MREL) and liquidity management.

Belfius has also demonstrated its ability to access wholesale markets through the cycle.

Belfius' robust additional loss-absorption capacity (ALAC) represents a cushion for the senior unsecured debt ratings and the our long-term issuer credit rating on the bank will continue to benefit from one notch of ALAC uplift. The ALAC ratio stood at 3.9% of S&P Global Ratings' RWAs at year-end 2023. We anticipate that Belfius' ALAC will remain within 3.3%-4.4% of our RWA over the next two years, which is well above the 3% standard threshold, allowing us to maintain one notch of uplift for ALAC support in our long-term issuer credit rating.

Outlook

The stable outlook reflects our view that Belfius' solid franchise, good business diversification, and disciplined underwriting standards will see it maintain its creditworthiness over the next two years. The bank's profitability, supported by its bancassurance model and the high interest rate environment, also positions it well to deliver its 2025 strategy.

Downside scenario

We could lower the rating if Belfius departs from its current capital management policy. This could happen if the bank unexpectedly upstreams higher dividends to its shareholders or faces significant unforeseen one-off costs that weaken its RAC ratio to below 10%. Though not our base-case scenario, we could also lower the rating if we see a risk that profitability falls significantly after rebounding since 2021.

Upside scenario

We consider an upgrade remote. However, we could consider raising the ratings if Belfius' ALAC buffer increases substantially and sustainably above 6% of our RWA metric.

Key Ratios

Belfius Bank SA/NV Key Ratios And Forecasts

(%)	--Fiscal year ended déc.-31 --				
	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	10.0	7.8	0.5-0.7	1.5-1.9	3.6-4.4
Growth in customer loans	7.6	4.4	4.5-5	3.6-4.4	3.2-3.9
Growth in total assets	-6.6	-0.2	0.8-1.0	2.3-2.6	2.0-2.3
Net interest income/average earning assets (NIM)	1.7	1.9	1.7-1.9	1.7-1.9	1.7-1.9
Cost to income ratio	62.8	57.8	55.7-61.6	55.6-61.4	54.5-60.2
Return on average common equity	8.8	9.8	8.6-10.5	8.4-10.2	8.3-10.2
Return on assets	0.6	0.7	0.6-0.8	0.6-0.8	0.6-0.8
New loan loss provisions/average customer loans	0.1	0.1	0.0-0.0	0.1-0.1	0.1-0.1
Gross nonperforming assets/customer loans	1.9	2.0	1.8-2.3	1.8-2.2	1.8-2.2

Belfius Bank SA/NV Key Ratios And Forecasts (cont.)

	--Fiscal year ended déc.-31 --				
(%)	2022a	2023a	2024f	2025f	2026f
Risk-adjusted capital ratio	10.9	11.4	11.7-12.2	12.0-12.5	12.5-13.1

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Key Statistics**Table 1****Belfius Bank SA/NV--Key figures**

	--Fiscal year end Dec. 31--				
(Mil. €)	2023	2022	2021	2020	2019
Adjusted assets	161,722.5	162,330.4	174,276.8	169,996.7	154,673.6
Customer loans (gross)	111,893.2	107,177.1	99,646.4	95,175.9	91,678.7
Adjusted common equity	8,880.0	8,405.9	7,933.8	7,584.1	7,720.9
Operating revenues	3,745.1	3,473.5	3,157.7	3,039.6	2,895.8
Noninterest expenses	2,165.8	2,180.1	1,951.7	1,895.4	1,844.5
Core earnings	1,100.1	924.3	922.1	544.7	683.8

Table 2**Belfius Bank SA/NV--Business position**

	--Fiscal year end Dec. 31--				
(%)	2023	2022	2021	2020	2019
Total revenues from business line (currency in millions)	3,774.8	3,551.4	3,187.6	3,052.0	2,900.9
Return on average common equity	9.8	8.8	8.8	5.3	6.9

Table 3**Belfius Bank SA/NV--Capital and earnings**

	--Fiscal year end Dec. 31--				
(%)	2023	2022	2021	2020	2019
Tier 1 capital ratio	16.7	17.3	17.1	18.0	16.4
S&P Global Ratings' RAC ratio before diversification	11.4	10.9	10.9	10.9	10.9
Adjusted common equity/total adjusted capital	94.7	94.4	94.1	93.8	94.0
Net interest income/operating revenues	64.8	59.9	63.4	65.5	65.6
Fee income/operating revenues	20.8	22.7	24.0	21.1	20.0
Market-sensitive income/operating revenues	0.9	1.3	0.8	2.6	5.2
Cost to income ratio	57.8	62.8	61.8	62.4	63.7
Provision operating income/average assets	0.9	0.7	0.6	0.6	0.6

Table 4

Belfius Bank SA/NV RACF [Risk-Adjusted Capital Framework] Data					
(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government & central banks	56,022	2,369	4	1,701	3
Of which regional governments and local authorities	18,804	753	4	792	4
Institutions and CCPs	6,570	1,608	24	1,226	19
Corporate	56,166	39,454	70	46,539	83
Retail	56,660	5,337	9	19,870	35
Of which mortgage	40,953	1,983	5	9,527	23
Securitization§	152	50	33	57	38
Other assets†	2,699	2,166	80	-303	-11
Total credit risk	178,268	50,984	29	69,089	39
Credit valuation adjustment					
Total credit valuation adjustment	'--	406	'--	0	'--
Market Risk					
Equity in the banking book	565	511	91	4,936	874
Trading book market risk	'--	2,369	'--	3,383	'--
Total market risk	'--	2,880	'--	8,319	'--
Operational risk					
Total operational risk	'--	4,013	'--	4,886	'--
(Mil. €)					
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	'--	68,005	'--	82,294	100
Total Diversification/ Concentration Adjustments	'--	'--	'--	6,537	8
RWA after diversification	'--	68,005	'--	88,831	108
(Mil. €)					
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio		Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA
Capital ratio before adjustments		11,584	17.0	9,377	11.4
Capital ratio after adjustments‡		11,584	17.0	9,377	10.6

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Table 5

Belfius Bank SA/NV--Risk position					
	--Fiscal year end Dec. 31--				
(%)	2023	2022	2021	2020	2019
Growth in customer loans	4.4	7.6	4.7	3.8	4.2
New loan loss provisions/average customer loans	0.1	0.1	(0.0)	0.5	0.1
Net charge-offs/average customer loans	0.0	0.0	0.0	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	2.0	1.9	2.0	2.2	2.0
Loan loss reserves/gross nonperforming assets	80.2	88.5	87.0	88.0	80.7

Table 6

Belfius Bank SA/NV--Funding and liquidity					
	--Fiscal year end Dec. 31--				
(%)	2023	2022	2021	2020	2019
Core deposits/funding base	73.3	76.3	72.4	70.8	72.5
Customer loans (net)/customer deposits	105.9	96.8	93.2	97.1	103.9
Long-term funding ratio	88.1	88.9	87.4	86.8	93.1
Stable funding ratio	106.3	112.4	113.7	107.2	105.1
Short-term wholesale funding/funding base	8.6	9.3	13.0	13.3	7.5
Regulatory net stable funding ratio	128.0	135.0	136.0	N/A	N/A

N/A--Not applicable.

Belfius Bank SA/NV--Rating component scores

Issuer Credit Rating	A/Stable/A-1
SACP	a-
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Adequate
Capital and earnings	Strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ARCHIVE | General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria , Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Banks: Our Credit Loss Forecasts, July 11, 2024
- Banking Industry Country Risk Assessment: Belgium, Dec. 4, 2023
- Benelux Banks Outlook 2024: Profitability Hinges On Operating Efficiency, Feb. 22,2024

Ratings Detail (As Of August 28, 2024)*

Belfius Bank SA/NV

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Certificate Of Deposit	
<i>Local Currency</i>	A/A-1
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Secured	AAA/Stable
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB

Issuer Credit Ratings History

16-Dec-2021	A/Stable/A-1
10-Nov-2016	A-/Stable/A-2
26-Apr-2012	A-/Negative/A-2

Sovereign Rating

Belgium	AA/Stable/A-1+
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Ratings Detail (As Of August 28, 2024)*(cont.)

Related Entities

Belfius Insurance

Issuer Credit Rating A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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