FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Warsaw - 27 Jun 2024: Fitch Ratings has affirmed Belfius Bank SA/NV 's (Belfius) Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and Viability Rating (VR) at 'a-'. 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, leading position in public-sector financing, and private banking and wealth management activities. The ratings also reflect low risk appetite, sound asset quality, adequate profitability, and solid capitalisation and funding profiles. Belfius's 'a-' VR is one notch below the implied VR of '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 and fairly low-risk 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, namely insurance and wealth and asset management, and maintain costs under control. Growing market position, namely in corporate banking and asset gathering services, supported the structural improvement in profitability in recent years.

**Low Risk Profile:** Belfius's conservative risk profile is underpinned by the large proportion of residential mortgage and public-sector loans that we expect to continue to comprise the majority of its total loans in the medium term (end-2023: about 60%). This helps mitigate some concentration risk in commercial real estate, as is also seen at some other Belgian banks. Non-financial and market risks appear to be well controlled.

**Satisfactory Asset Quality:** Belfius's asset quality has remained resilient in recent years. The impaired loans ratio of 2% at end-2023 was in line with its peers. We expect the ratio to moderately weaken in 2024 driven by borrowers vulnerable to higher interest rates and a still sluggish economic environment. However, the high coverage of impaired loans by loan loss allowances (end-2023: 81%) provides a comfortable buffer to absorb asset quality pressures.

**Adequate Profitability:** Belfius's adequate profitability has steadily improved in the last few years, although it remains weaker than some of its more diversified domestic peers. The operating profit/risk weighted assets (RWA) ratio rose to 2.1% in 2023 (2022: 1.8%). We expect it to be maintained close to 2% in the near term, helped by resilient net interest income, higher non-interest income, controlled cost inflation, and manageable loan impairment charges due to its low-risk profile.

**Solid Capitalisation:** Belfius's capitalisation is a rating strength. The common equity Tier 1 (CET1) ratio of 16% at end-2023 was maintained with a large buffer above its CET1 requirement of 10.1%. This provides sufficient headroom to absorb RWA inflation from continued business growth and regulatory impacts. We expect the ratio will remain comfortably above the bank's target of 15%-15.5% in 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. Liquidity is sound, as reflected in cash and securities that comprised about 25% of the balance sheet at end-2023. Belfius experienced a significant deposit outflow in 2023, similar to other domestic banks, due to the Belgian government's issuance of an attractive retail bond but its strong funding and liquidity was well able to absorb this.

## RATING SENSITIVITIES

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

Belfius has considerable rating headroom and its VR would withstand a downward revision of the Belgian banks' operating environment score to 'a+' from 'aa-'. We would likely downgrade its ratings if we expect its impaired loans ratio to increase towards 4% over a prolonged period, with operating profit/RWAs well below 1.5% and the CET1 ratio below 14% on a sustained basis. However, this is not our expectation.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Belfius's ratings would require a revision of the Outlooks on the Belgian sovereign rating to Stable and also on the bank's operating environment score. It would also require a further strengthening of Belfius's franchises and business diversification outside lending, mainly in insurance and asset-gathering activities, which would result in stronger profitability metrics with operating profit/RWAs comfortably above 2%, while maintaining strong and resilient capitalisation 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 a '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 the bank's 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. Fitch also expects subordination and resolution buffers to remain below 10% of RWAs on a sustained basis, a threshold above which it would consider a one-notch uplift of the senior preferred debt ratings.

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.

**No Government Support:** Belfius's Government Support Rating (GSR) 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 solely with senior non-preferred and more junior instruments, or if we expect these buffers to sustainably 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.

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.

### 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 rating is aligned with that of its parent, Belfius Bank.

### ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

## 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- |
| | DCR | A-(dcr) | Affirmed | A-(dcr) |
| | Government Support | ns | Affirmed | ns |
| Senior preferred | LT | A- | Affirmed | A- |
| Senior preferred | ST | F1 | Affirmed | F1 |
| Belfius Financing Company S.A. | | | | |
| Senior preferred | ST | F1 | Affirmed | F1 |

VIEW ADDITIONAL RATING DETAILS

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## APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (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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