

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms Belfius' long-term deposit and senior unsecured debt ratings of A1; outlook changed to stable**

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28 Jun 2024

#### **BCA and junior senior unsecured debt rating upgraded to a3 and A3 respectively**

Paris, June 28, 2024 -- Moody's Ratings (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 stable from positive.

We concurrently upgraded Belfius' Baseline Credit Assessment (BCA) and Adjusted BCA to a3 from baa1, its junior senior unsecured rating to A3 from Baa1, its junior senior unsecured MTN rating to (P)A3 from (P)Baa1, its subordinate debt rating to Baa1 from Baa2, its senior subordinate programme and subordinate MTN ratings to (P)Baa1 from (P)Baa2, its junior subordinate debt rating to Baa2(hyb) from Baa3(hyb) and its non-cumulative preferred stock rating to Baa3(hyb) from Ba1(hyb).

We affirmed the bank's long-term deposit note/CD Program rating and its senior unsecured MTN rating of (P)A1, its short-term deposit ratings of Prime-1, its other short term rating and short-term deposit note/CD Program rating of (P)Prime-1, its long-term and short-term Counterparty Risk Assessments (CRA) of Aa3(cr) and Prime-1(cr) respectively as well as its long-term and short-term Counterparty Risk Ratings (CRR) of Aa3 and Prime-1 respectively.

Finally, we affirmed Belfius Financing Company S.A's backed senior unsecured MTN rating of (P)A1 and its backed commercial paper rating of Prime-1, and we upgraded its backed subordinate debt rating to Baa1 from Baa2, its backed subordinate MTN rating to (P)Baa1 from (P)Baa2, and its backed junior subordinate rating to Baa2(hyb) from Baa3(hyb). The outlook was changed to stable from positive.

#### RATINGS RATIONALE

##### UPGRADE OF THE BCA

The upgrade of the BCA was driven by Belfius' improved profitability combined with its resilient asset risk, sound capital and robust liquidity and funding.

Belfius' profitability improved materially in 2023 as a result of a strong progression in net interest income driven by the positive impact of higher interest rates on deposit margins. The bank will likely face some moderation of its net interest margins, as higher interest rates continue to be passed on to depositors, but we expect this increase in funding cost to be broadly offset by further repricing of assets and some increase in lending volumes, helping the bank to preserve a revenue base superior to levels seen prior to 2023. We expect the rise in operating expenses to be more muted in 2024 compared to 2023 thanks to the end of the contribution to the Single Resolution Fund and gradually abating inflation.

Asset quality will continue to benefit from the bank's focus on the wealthy Belgian market and its well-balanced business mix between retail, corporate and public sector exposures. The assigned BCA incorporates the risks relating to some more vulnerable sectors, whose performance will likely deteriorate but we expect the cost of risk to remain contained thanks to the buffers provided by comfortable stocks of loan loss provisions.

Capital is strong as underpinned by a tangible common equity (TCE) ratio of 16.1% and a TCE leverage ratio of 6.5% at year-end 2023. Our assessment of capital also incorporates our expectation that Belfius's common equity tier 1 (CET1) ratio will remain at or above its target of 15% to 15.5%.

Large and stable customer deposits as reflected by a loan-to-deposit ratio of 96% as of year-end 2023, combined with well-diversified issued medium and long term wholesale debt provides a robust funding base.

#### AFFIRMATION OF THE DEPOSIT AND SENIOR UNSECURED DEBT RATINGS

Belfius' long-term deposit and senior unsecured debt ratings of A1 reflect the a3 BCA and two notches of uplift under our Advanced Loss Given Failure (LGF) analysis, reflecting a very low loss-given-failure for both instruments. We assign a moderate probability of support from the government of Belgium (Aa3 stable) to the bank's deposit and senior unsecured ratings, reflecting Belfius' systemic importance in the country. However this assumption does not result in any rating uplift, in the context of the upgrade of the BCA to a3, as is typically the case when such support would lead bank ratings to be in line with the sovereign debt rating.

#### OUTLOOK

The outlook on the long-term deposit and senior unsecured debt ratings is stable, reflecting our view that Belfius' profitability, asset quality, capital and liquidity will remain resilient over the outlook horizon.

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

Although unlikely in the short-term, the BCA and the long-term ratings could be upgraded if profitability were to further improve while preserving its current asset quality and high level of capital.

The BCA and long-term ratings could be downgraded if (1) the bank's improved profitability were to be less sustained than expected, or (2) its asset quality were to deteriorate materially, or (3) its capitalization target were to be revised downwards in order, for example, to achieve material acquisitions or faster balance sheet growth.

The junior senior unsecured debt rating could also be downgraded if there is an increase in loss given failure if the instrument were to benefit from lower subordination.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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