

## FITCH AFFIRMS BELFIUS AT 'A-'; OUTLOOK STABLE

Fitch Ratings-London-07 December 2017: Fitch Ratings has affirmed Belfius Bank SA/NV's (Belfius) Long-Term Issuer Default Rating (IDR) and senior debt ratings at 'A-' and Short-Term IDR and debt ratings at 'F2'. The Outlook is Stable. Belfius's Viability Rating (VR) has also been affirmed at 'a-'. A full list of rating actions is at the end of this rating action commentary.

The rating actions are part of a periodic portfolio review of major banks in Belgium and Luxembourg.

### KEY RATING DRIVERS

#### IDRS, VR, DCR AND SENIOR DEBT

Belfius's ratings are underpinned by its healthy asset quality, sound deposit and retail securities-driven funding, satisfactory capitalisation and liquidity, and the continued reduction of the bank's large legacy derivatives portfolio. The bank has a sound domestic public sector and retail banking franchise but remains a challenger in corporate banking. Its overall franchise and business model is weaker and less diversified than more highly rated regional peers, and the company profile is a rating constraint.

Fitch expects Belfius to maintain its low risk appetite, which is heavily weighted towards public-sector and retail banking, combined with cautious growth among corporate clients. The bank has a good management team, and a clear strategy of increasing cross-selling between banking and insurance.

Asset quality is sound and underwriting standards are prudent. Lending is weighted towards mortgage and public-sector loans, although the bank is targeting expansion of business with corporates. The ratio of impaired to gross loans, as calculated by Fitch, had decreased to 2.3% at end-June 2017 (end-December 2016: 2.6%), a low level compared with regional peers, and the bank has strong reserve coverage of around 75%. Legacy portfolios have been materially derisked and we believe they no longer represent a material risk. The bank still has large derivative exposures outstanding with Dexia, and although fully hedged externally, these will represent an operational burden until fully run down.

Profitability continues to improve through revenue initiatives and cost containment, but is likely to remain a rating weakness. The bank reported net income of EUR361 million in 1H17 (1H16: EUR249 million), equivalent to a Fitch-calculated 8.0% return on equity (5.8%).

Risk-weighted capital ratios are good and should continue to strengthen from improved earnings generation, and the Fitch core capital ratio was 17.5% at end-June 2017 (end-2016: 17.4%). Leverage is satisfactory, with a fully loaded Basel III ratio of 5.3% on the same date. Dividend payments resumed in 2016, having not been paid since the bank came under state ownership in 2011.

Belfius's deposit-driven funding is healthy, with an adjusted loans/deposits ratio at end-June 2017 of 92% as calculated by the bank, if retail bonds are included. The Short-Term IDR of 'F2' maps to the lower of the two options of the 'A-' Long-Term IDR to reflect Fitch's view that liquidity is adequate but significantly encumbered by collateral required to service the bank's large derivative books.

Belfius's Derivative Counterparty Rating (DCR) has been affirmed at the same level as the bank's Long-Term IDR because under Belgian legislation derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

The '5' Support Rating and 'No Floor' Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the Belgian sovereign in the event that Belfius becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

#### SUBORDINATED DEBT

Belfius's junior subordinated notes rank below the bank's other subordinated obligations but above Tier 1 debt, and are notched twice for loss-severity. The instruments' ratings are sensitive to changes in Belfius's VR.

#### SUBSIDIARY'S DEBT

Belfius Financing Company is a wholly-owned financing subsidiary of Belfius and all its issues are guaranteed by its parent. The debt ratings are aligned with Belfius's ratings.

#### RATING SENSITIVITIES

##### IDRS, VRS AND SENIOR DEBT

Belfius's ratings are primarily sensitive to a deterioration of capitalisation or profitability. A setback to the scaling back of the bank's legacy operations would also create negative rating pressure. An upgrade is unlikely given the limited scope of the franchise and business model improvement.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of Belfius's Support Rating and upward revision of Belfius's Support Rating Floor 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.

#### SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The junior subordinated notes issued by Belfius are sensitive to the same considerations that might affect Belfius's VR.

#### SUBSIDIARY'S DEBT

As all the debt ratings of Belfius Financing Company are aligned with Belfius's ratings they are sensitive to the same factors that might drive a change in the bank's senior and subordinated debt ratings.

The rating actions are as follows:

##### Belfius Bank:

- Long-Term IDR affirmed at 'A-' Outlook Stable
- Short-Term IDR affirmed at 'F2'
- Viability Rating affirmed at 'a'
- Senior debt affirmed at 'A-/'F2'
- Junior subordinated notes affirmed at 'BBB'
- Support Rating affirmed at '5'
- Support Rating Floor affirmed at 'No Floor'
- Derivative counterparty rating: affirmed at 'A-(dcr)'

Belfius Financing Company:  
- Senior debt affirmed at 'A-'  
- Commercial paper affirmed at 'F2'

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)  
<https://www.fitchratings.com/site/re/891051>

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