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CREDIT OPINION
14 February 2022

Update

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RATINGS

Groupe Crelan

Domicile	Brussels, Belgium
Long Term CRR	Not Assigned
Long Term Issuer Rating	Not Available
Type	Not Available
Outlook	Not Available

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Groupe Crelan

Update to credit analysis following closing of acquisition of Axa Bank Belgium

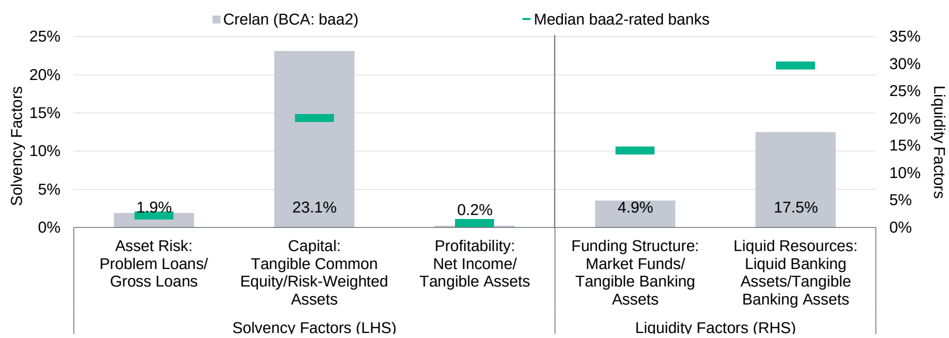
Summary

On 4 January 2022, we converted the provisional ratings of Crelan SA/NV, the central body of Belgian cooperating banking group Crelan (Crelan), into definitive ratings. This action follows the approval by regulatory authorities of Crelan's acquisition of ABB on 15 December 2021 and its closing on 31 December 2021.

Crelan SA/NV's long-term deposit and issuer ratings of A3 reflect (1) the bank's Baseline Credit Assessment (BCA) of baa2; (2) one-notch uplift from our Advanced Loss Given Failure (LGF) analysis because of the low loss-given-failure of these instruments; and (3) one notch of rating uplift resulting from a moderate probability of government support in view of Crelan's likely systemic importance in Belgium.

The baa2 BCA incorporates Crelan's strong financial profile after its acquisition of Axa Bank Belgium (ABB), including low asset risk, robust capitalisation, modest but resilient profitability, and limited business diversification. The new group will also exhibit sound liquidity and funding structure. The baa2 BCA of Crelan SA/NV also reflects the bank's key role as an issuing vehicle and the strong solidarity mechanisms existing within the cooperative group under Belgian law.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Low risk profile resulting from the concentration on Belgian residential mortgages

» Robust capitalisation with significant headroom above capital requirements

» Large deposit base providing stable funding resources

Credit challenges

» Weak profitability resulting from dominance of low-margin products and from the low interest rate environment

» Integration costs and operational risks linked to the acquisition of ABB

» Commercial franchise strictly limited to the competitive Belgian retail market

Rating outlook

The outlook on Crelan SA/NV's long-term deposit and issuer ratings is stable, reflecting our view that, despite continued margin pressure, the bank's strong capitalisation and sound funding profile will continue to support its creditworthiness.

Factors that could lead to an upgrade

» An upgrade of Crelan SA/NV's BCA could result from an improvement of the new group's business diversification, reducing the share of residential mortgages in its loan book and increasing the proportion of fee and commission income derived from insurance and asset management sales.

» The BCA could also be upgraded if (1) the group's profitability were to increase structurally while its low risk profile would be kept unchanged and (2) its capitalisation substantially increased.

» We would upgrade Crelan SA/NV's deposit and issuer ratings if MREL-eligible debt issuance of subordinated and/or junior senior debt (senior non-preferred) resulted in lower loss-given-failure for these instruments.

Factors that could lead to a downgrade

» A downgrade of Crelan SA/NV's BCA could result from a deterioration of asset quality and profitability, or unexpected operational difficulties in ABB's integration, which could prompt a weakening of its capitalisation.

Key Indicators

Exhibit 2
Groupe Crelan (Consolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	22,819.2	20,883.1	19,849.9	19,347.1	5.7[4]
Total Assets (USD Million)	27,920.6	23,441.3	22,691.3	23,232.0	6.3[4]
Tangible Common Equity (EUR Million)	1,273.4	1,228.1	1,129.6	1,089.3	5.3[4]
Tangible Common Equity (USD Million)	1,558.1	1,378.5	1,291.4	1,308.0	6.0[4]
Problem Loans / Gross Loans (%)	1.6	1.8	2.2	2.6	2.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	--	22.6	19.3	18.8	20.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.4	22.8	28.2	33.1	26.1[5]
Net Interest Margin (%)	1.2	1.3	1.3	1.3	1.3[5]
PPI / Average RWA (%)	--	1.2	1.5	1.3	1.3[6]
Net Income / Tangible Assets (%)	0.2	0.3	0.3	0.3	0.3[5]
Cost / Income Ratio (%)	77.5	78.2	72.7	76.3	76.2[5]
Market Funds / Tangible Banking Assets (%)	4.9	4.5	5.1	6.2	5.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	17.5	13.7	14.0	15.6	15.2[5]
Gross Loans / Due to Customers (%)	89.1	97.2	97.6	100.8	96.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Crelan is a Belgian cooperative banking group headquartered in Brussels and fully owned by around 275,000 individual cooperative shareholders. The cooperative group, constituting a "federation of credit institutions" under Belgian law, includes (i) the cooperative company CrelanCo, issuing cooperative shares to private individuals, and (ii) Crelan SA/NV, acting as the central body and refinancing vehicle for the whole group. CrelanCo and Crelan SA/NV are both credit institutions which conduct banking activities and have loans on their balance sheets, but the daily management of CrelanCo is delegated to Crelan SA/NV's executive committee. Both CrelanCo and Crelan SA/NV book loans on their respective balance sheets, but this has no particular bearing for our analysis and only reflects historical and practical reasons.

The federation of credit institutions is governed under Belgian law by articles 239 to 241 of the Act of 25 April 2014 on the status and supervision of credit institutions and by the rules of affiliation of the federation. Under Belgian law, the obligations of the affiliated institution (CrelanCo) and the central institution (Crelan SA/NV) are joint and several. For regulatory purposes, CrelanCo and Crelan SA/NV are therefore considered as one reporting entity.

Crelan offers loans to individuals, professionals and farmers through 549 points of sale in Belgium, including 502 Crelan-branded branches operated and owned by independent agents and 47 branches owned by the group selling the consumer loans of its subsidiary Europabank. Crelan reported total assets of €22.8 billion at year-end 2020.

Acquisition of ABB by Groupe Crelan

The closing of the acquisition of ABB by Belgian cooperative banking group Crelan occurred on 31 December 2021, after the transaction obtained the approval of regulatory authorities on 15 December 2021. Crelan SA/NV acquired 100% of ABB from French insurance group AXA (A2 stable) and transferred 100% of Crelan Insurance to AXA Belgium, AXA's insurance subsidiary in Belgium. Crelan and AXA also concluded a long-term distribution agreement under which Crelan will distribute AXA's property and casualty (P&C) insurance and loan insurance products in Belgium. Crelan offers life insurance savings through a partnership with Allianz (Aa3 stable) and asset management through various partnerships, notably with Amundi and AXA Investment Managers.

Groupe Crelan agreed to pay €611 million[1] in net cash consideration to AXA for ABB's shares and the transfer of Crelan Insurance shares (valued at €80 million) to AXA. It also purchased ABB's €90 million Additional Tier 1 which had been subscribed by AXA. These cash considerations were paid from Crelan's own resources and the issuance of subordinated debt. As part of the transaction, Crelan SA/NV issued €245 million Additional Tier 1 securities, which were bought by AXA, and €200 million Tier 2 debt, bought by external investors.

ABB added 369 retail branches to Crelan's domestic branch network. The new group has a network of a bit less than 1,000 retail branches (excluding the 47 Europabank branches) in Belgium and total assets above €50 billion. It ranks as the fifth bank measured against market shares of deposits and residential mortgages in Belgium. We expect ABB's integration to take two years with an eventual legal merger of ABB into Crelan SA/NV, at which point we will withdraw ABB's ratings.

Detailed credit considerations

Crelan’s asset quality is strong and will prove resilient in the current crisis

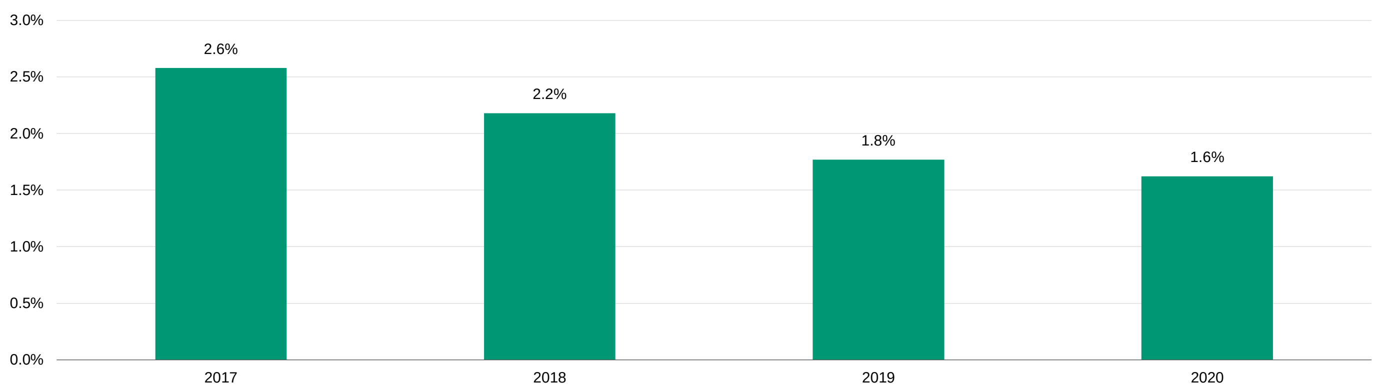
Crelan’s focus on lending to Belgian retail, professional and agricultural clients results in a very granular loan book and a low risk profile overall. The lending mix of the group is made of retail loans (74% of total gross loans of the group as of year-end 2020), including a vast majority of residential mortgages (64%) and a smaller share of consumer loans (10%), loans to professionals (14%) and agricultural loans (12%). After integration of ABB, the share of residential mortgages will increase up to 82% of total loans whereas agricultural and professional loans will account for 13% and consumer loans for 5%.

The overall quality of Crelan's current loan portfolio is high, with problem loans at 1.6% of gross customer loans at year-end 2020 (1.8% at year-end 2019). Pro-forma post acquisition of ABB, the problem loan ratio would stand at 1.5% at year-end 2019 and the provision coverage of problem loans would be 29% (pro forma not available at year-end 2020). Loan-loss charges of the combined group represented only 0.2 bps in 2019. In 2020, the cost of risk at the standalone Crelan rose to 10 basis points (bps) of customer loans from -1 bps in 2019, which is a significant increase but remains at a low compared to Belgian banks and other banks in the EU. 55% of the new additions to provisions in 2020 were forward-looking provisions (stage 1 and 2).

Exhibit 3

Crelan's loan portfolio is of high quality and problem loans ratio has been decreasing over the years.

Problem loan as a % of gross loans



Source: Bank's reports

We believe that the asset quality of the loan book will remain strong despite the expected negative impacts of the sanitary crisis, because households’ creditworthiness is supported by the Belgian government’s measures and the agricultural business has been little affected by the lockdown measures. Professionals and SMEs have also been supported by the government and the bank’s exposures to these segments are very granular. In 2021, we expect the cost of risk to be most likely negative, as the bank should reverse some of the provisions taken during the early phase of the pandemic.

Post-merger capitalisation is robust on a risk-weighted basis and above minimum requirements

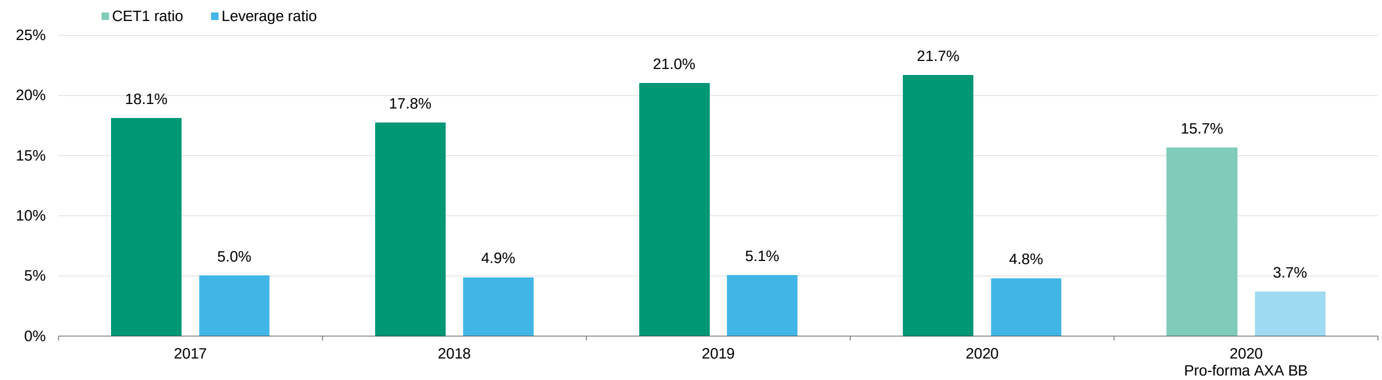
Crelan's risk-weighted capitalisation is robust given its risk profile. Pro forma for the acquisition of Axa Bank Belgium, Crelan's Common Equity Tier 1 (CET1) ratio was 15.65% and its leverage ratio was 3.7% at the end of 2020. The bank exhibited a robust post-merger capital base, which will help it cope with any deterioration in asset quality and future regulatory requirements.

The Supervisory Requirement and Evaluation Process (SREP) resulted in a CET1 requirement of 10.19% for 2021 (post-merger), including Pillar 1 (4.5%), Pillar 2 requirement (P2R, 1.94%), capital conversation buffer (CCB, 2.5%), countercyclical buffer (CCyB) of 0.50% and the introduction of a new systemic risk buffer for the combined group of 75%. The minimum CET1 requirement was therefore increased to 10.19% for the combined group in 2021 (and probably 2022) from 9.33% for the standalone Crelan in 2020.

Thanks to its mutualist nature, Crelan regularly issues mutual shares in order to boost its capitalisation. The group benefited from a €25 million capital increase through issuance of mutual shares in 2020 and €53 million in 2019. Crelan would be able to boost its capitalisation if needed by tapping into ABB's 860,000 customers in order to issue new cooperative shares.

Exhibit 4

Crelan's capitalisation is robust given its risk profile and will remain solid post-acquisition of ABB



Source: Bank's reports

Crelan currently has about 275,000 cooperative shareholders out of its 750,000 customers, with cooperative shares worth €897 million (75% of group CET1 capital). During the period 2017-2020, the coupon on cooperative shares was 3.0% of nominal. The payment to cooperative shareholders was therefore €24.5 million for 2019, which represented a payout of 36% of net income, and €26.2 million for 2020, representing a pay out of 54% of net income. Crelan's pay-out ratio is relatively elevated versus certain other mutualist banking groups in Europe because (1) a high proportion of capital is made of mutual shares (68% at year-end 2020) as opposed to accumulated reserves and (2) the coupon of 3.0% of nominal is higher than what we see elsewhere.

Crelan's profitability is constrained by the dominance of low-margin residential mortgages and the pandemic

Because of lack of scale and limited pricing power in the competitive Belgian retail market, Crelan's profitability is currently limited and so is its ability to preserve its margins. Modest product diversification does not allow the bank to offset these effects. However, the dominance of housing loans ensures a low risk profile and provides strong earnings stability.

The Covid-19 outbreak weighed on profitability through an increase in the cost of risk. In 2020, Crelan's net income fell by 32% due to an increase in loan-loss charges (€18 million versus a provision release of €1 million in 2019). Crelan's net income represented 0.22% of tangible assets in 2020 (0.35% in 2019) compared to ABB's net income of 0.2% of tangible assets in 2020 (0.18% in 2019). We expect the bank's profits to be supported by a likely significant decline in the cost of risk in 2021.

Crelan's cost-to-income ratio was broadly stable at 78% in 2020, which is higher than ABB's cost-to-income ratio of 71% (2019: 75%). Although net interest margins will be under continued pressure from the low interest rate environment, the combined group will strive to lower the cost-to-income ratio to below 65% over the medium term, mainly through an increase in fees and commissions and strong cost controls. Large integration costs will however continue to weigh on the bank's profitability in the coming years. Net interest margins will be marginally helped by the bank's participation in the ECB's Targeted Longer-Term Refinancing Operation (TLTRO) III for an amount of €400 million, which brought half a million euros of net interest income in 2020 (against total net interest income of €266 million).

The bank has a sound liquidity and funding structure

Crelan's funding structure is intrinsically strong with an excess of deposits over loans, as reflected in its loan-to-deposit ratio of 89% at the end of 2020. Its customer deposits are retail by nature and very granular, providing Crelan with a stable funding source. The loan-to-deposit ratio improved to 89% in 2020 from 97% in 2019, due to a 7.6% deposit growth whereas loan growth was only 0.7% due to the Covid crisis. We expect this trend to reverse at some point.

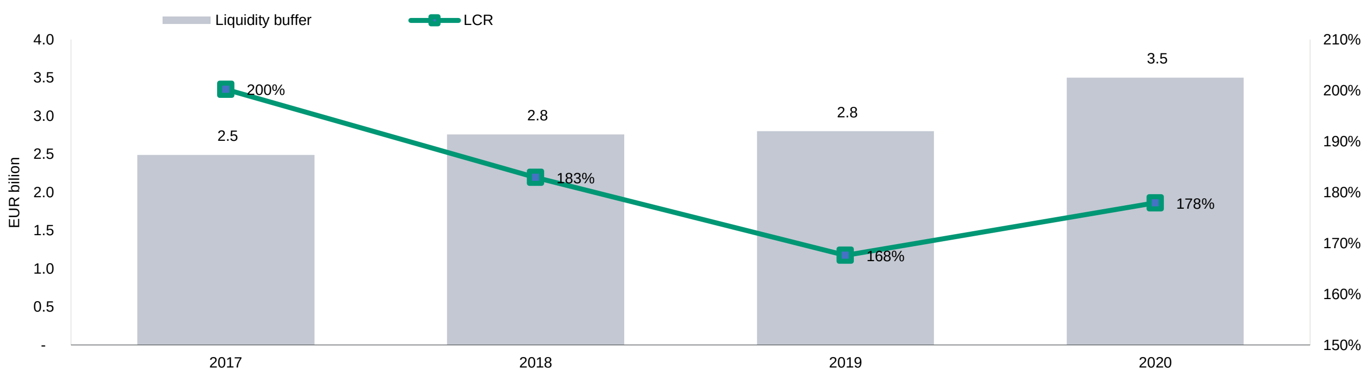
Post-merger loans and deposits will balance out because ABB has a large retail customer funding deficit. The new group's pro forma loan-to-deposit ratio is estimated to be 102% at year-end 2019. The bank will still be largely deposit-funded and market funding will represent only 16% of tangible banking assets on a pro forma basis at year-end 2019. The Liquidity Coverage Ratio (LCR) was 177% on a pro forma basis at year-end 2019. The €400 million drawn at the ECB's TLTRO has been integrally deposited back at the ECB. Participation in the TLTRO does not help the bank's LCR as TLTRO funding is collateralised by ECB-eligible securities, which are also for the most part level 1 assets for the LCR if they are not encumbered.

The liquidity buffer is made of cash and central bank deposits of €4.7 billion and an investment portfolio of €3 billion. These figures are not yet available on a pro forma basis at year-end 2020.

Exhibit 5

Crelan's liquidity position is strong

Euro billions on left axis and LCR ratio on right axis



Source: Bank's reports

Crelan's baa2 BCA reflects its Financial Profile score of baa1, which, however, is adjusted downward by one notch to reflect the bank's monoline activity as the bank's portfolio is highly concentrated in residential mortgages.

ESG considerations

In line with our general view for the banking sector, Crelan has a low exposure to environmental risks and moderate exposure to social risks. See our Environmental heat map for further information.

For social risks, we also score Crelan in line with our general view for the banking sector, which indicates moderate exposure (Please refer to our Social risks heat map). Social considerations are relevant for Crelan in the sense that, as for other European banks, it is likely subject to regular investigations by the supervisor related to good customer care and the possible sale of unsuitable or uneconomical products to clients. Investigations and related fines imposed by supervisors represent significant reputational risk for banks.

Governance is highly relevant for Crelan as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. We do not have particular concerns for Crelan, however corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure analysis

Crelan is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. Because Crelan's deposits are mainly retail in nature, we assume 90% of them will be preferred (and 10% being junior) in an event of failure.

Our advanced Loss Given Failure analysis indicates a moderate loss-given-failure for both deposits and senior unsecured debt. However, we take into account the bank's medium-term issuance programme resulting in a low loss-given-failure for these instruments and one notch of uplift from the Adjusted BCA.

The balance sheet figures “at failure” in exhibit 6 below are the pro-forma figures (post-merger).

Government support

We expect a moderate probability of government support in favour of deposits and senior unsecured debt, in view of Crelan's likely systemic importance in Belgium after its merger with ABB. This results in one notch of rating uplift.

Counterparty Risk Ratings

Crelan's CRRs are (P)A2/(P)Prime-1.

The CRR, are positioned two notches above the Adjusted BCA of baa2 reflecting their low loss-given-failure given the high volume of instruments that are subordinated to CRR liabilities. In addition, the CRR benefit of one notch of government support uplift.

Counterparty Risk (CR) Assessment

Crelan's CR Assessment is A1(cr)/Prime-1(cr)

The CR Assessment is positioned three notches above the Adjusted BCA of baa2, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The CR Assessment also benefits from one notch of government support uplift.

Rating methodology and scorecard factors

Exhibit 6

Groupe Crelan

Macro Factors						
Weighted Macro Profile	**Strong +**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.9%	a1	↔	a2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	-	-	-	a2	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.2%	b1	↔	b2	Expected trend	
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	4.9%	aa2	↓↓	a2		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.5%	baa2	↔	baa3		
Combined Liquidity Score		a2		baa1		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aa3		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	30,499	58.6%	13,915	26.7%
Deposits	20,002	38.4%	35,421	68.0%
Preferred deposits	18,002	34.6%	32,564	62.5%
Junior deposits	2,000	3.8%	2,857	5.5%
Senior unsecured bank debt			742	1.4%
Dated subordinated bank debt			424	0.8%
Equity	1,562	3.0%	1,562	3.0%
Total Tangible Banking Assets	52,063	100.0%	52,063	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	10.7%	10.7%	10.7%	10.7%	2	2	2	2	0	a3
Counterparty Risk Assessment	10.7%	10.7%	10.7%	10.7%	3	3	3	3	0	a2 (cr)
Deposits	10.7%	3.8%	10.7%	5.2%	0	1	0	1	0	baa1
Senior unsecured bank debt	10.7%	3.8%	5.2%	3.8%	0	-1	0	1	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a3	1	A2	A2
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1(cr)	
Deposits	1	0	baa1	1	A3	A3
Senior unsecured bank debt	1	0	baa1	1	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
AXA BANK BELGIUM	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
CRELAN SA/NV	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Investors Service

Endnotes

1 Provisional acquisition price, subject to non-material price adjustments, based on November 2021 figures.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454