



Rating Action: Moody's affirms Crelan's long-term deposit and issuer ratings of A3; outlook changed to positive

22 Nov 2023

Paris, November 22, 2023 – Moody's Investors Service ("Moody's") today affirmed Crelan SA/NV (Crelan)'s long-term deposit and issuer ratings of A3. The outlook on these ratings were changed to positive from stable. Moody's also upgraded Crelan's long-term Counterparty Risk Ratings (CRR) to A1 from A2.

Concurrently, Moody's affirmed Crelan's Baseline Credit Assessment (BCA) and Adjusted BCA of baa2, its short-term deposit and issuer ratings of Prime-2, its other short-term programme ratings of (P)Prime-2, its senior unsecured MTN program ratings of (P)A3, its junior senior unsecured rating of Baa3, its junior senior unsecured MTN program ratings of (P)Baa3, its subordinate MTN program ratings of (P)Baa3, its long-term and short-term Counterparty Risk Assessments (CRA) of A1(cr) and Prime-1(cr) respectively and its short-term CRR of Prime-1.

The rating agency also affirmed AXA Bank Belgium (ABB)'s long-term deposit rating of A3 and upgraded its long-term Counterparty Risk Ratings (CRR) to A1 from A2. The outlook on the long-term deposit ratings was changed to positive from stable.

Finally, Moody's also affirmed ABB's BCA and Adjusted BCA of baa2, its short-term deposit ratings of Prime-2, its long-term and short-term CRAs of A1(cr) and Prime-1(cr) respectively, and its short-term CRR of Prime-1.

RATINGS RATIONALE

AFFIRMATION OF BCA

The affirmation of Crelan's baa2 BCA reflects its low asset risk, robust capitalization, modest but resilient profitability, and sound funding structure and liquidity. These strengths are partly offset by its limited business diversification. The costs and operational risks related to the integration of ABB continue to constrain the BCA although Moody's recognizes that the process has been progressing smoothly since the acquisition of the entity at the end of 2021.

Crelan's focus on lending to the Belgian retail market (83% of the total loan book at end-June 2023), and to a lesser extent on professional (12%) and agricultural clients (4%) results in a very granular loan book and a low risk profile. The group's strong asset quality is reflected in its low problem loan ratio of 1.2% at end-June 2023. Although the uncertainties related to inflation and gloomy economic outlook will likely result in some deterioration in the performance of the loan book, Moody's believes that salary indexation in Belgium as well as the fixed-rate structure of the mortgage portfolio will support the borrowers' ability to repay their loans.

Capital is robust as reflected by a tangible common equity (TCE) ratio of 24.7% at end-June 2023. Moody's assessment of capital also takes account of Crelan's low TCE leverage ratio of 3.8% at end-June 2023, which is however commensurate with the high quality and collateralized nature of its loan book. As a mutual bank, Crelan pays coupons on its mutual shares that cannot exceed 6% of their nominal value. This provides the group with the ability to retain a relatively higher share of its profits than non-mutualist Belgian peers and to shore up its capital base.

Profitability is modest but commensurate with the group's low risk profile. Crelan's reported net profit continues to be distorted by integration costs and other non-recurring items related to ABB's acquisition, but its underlying profit increased in 2022 and further soared in H1 2023 as a result of the cost of deposit lagging behind and hence contributing positively to net interest income. The group's underlying net interest income rose by 68% in H1 2023

compared to H1 2022. Moody's nonetheless expects Crelan's underlying profitability to normalize over the coming quarters from 2023's peak as higher interest rates are progressively passed on to customers savings. Moody's also expects cost of risk to rise from the current very low levels. While the improved interest rate environment will remain positive for Crelan's earnings generating capacity, its focus on the competitive Belgian mortgage market and its modest product diversification will continue to constrain its long-term profitability.

Funding structure and liquidity are sound. Thanks to its large and granular deposit base, Crelan's reliance on wholesale funding is low as underpinned by its market funds to tangible banking assets ratio of 9.4% at end-June 2023.

UPGRADE OF CRR AND AFFIRMATION OF OTHER RATINGS

The upgrade of the long-term CRRs results from the increase in the volume of instruments subordinated to the CRRs liabilities following the issuance of €600 million junior senior notes by the group in September 2023. The A1 long-term CRRs reflects the Adjusted BCA of baa2, three notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, reflecting an extremely low loss-given-failure, and one notch of government support uplift, reflecting a moderate support assumption from the Government of Belgium due to the bank's systemic importance in the country.

The long-term deposit and issuer ratings of A3 reflect the baa2 Adjusted BCA, one notch of LGF uplift, reflecting a low loss-given-failure for both instruments, and one notch of government support uplift.

The loss-given-failure for the junior senior unsecured debt and the subordinated debt is low, resulting in a rating one notch below the baa2 Adjusted BCA.

CHANGE IN THE OUTLOOK ON SENIOR RATINGS TO POSITIVE

The positive outlook on the long-term deposit and issuer ratings reflects Moody's expectation that the costs and risks associated with the integration of ABB will materially recede over the outlook horizon as the process gets closer to completion. Moody's also expects that the bank's underlying profitability will continue to benefit from higher interest rates, even if its cost of funding and cost of risk should gradually increase. The rating agency considers that Crelan will at the same time be able to preserve its sound asset quality despite the economic slowdown and continued inflationary pressures, as well as its high solvency.

In addition to the positive trend stemming from the bank's BCA, the positive outlook on the long-term deposit rating also reflects the likelihood of a decrease in the loss-given-failure for depositors that would result from future issuances of more subordinated instruments needed by the group to meet its subordinated Minimum Requirement of Eligible Liabilities (MREL) that will come into effect in 2026.

ABB'S RATINGS

Since its acquisition by Crelan, ABB's BCA and ratings are all aligned with those of Crelan, reflecting Moody's expectations that the two banks will eventually be merged.

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

The BCA and long-term ratings could be upgraded if Crelan manages to smoothly complete the integration of ABB which, combined with higher margins, will contribute to a sustainably stronger operating profitability, while preserving its high asset quality, robust capitalization, and sound liquidity position. Although unlikely in the short-term, an upgrade of the BCA and long-term ratings could also result from a material improvement in Crelan's business diversification.

The long-term deposit and issuer ratings could also be upgraded if further MREL-eligible debt issuance of subordinated and/or junior senior debt were to result in lower loss-given-failure for these instruments.

Although unlikely currently, the BCA and long-term ratings could be downgraded as a result of a material deterioration

in the group's asset quality or liquidity, or unexpected operational difficulties in ABB's integration, which could prompt a weakening of its profitability and capitalisation.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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