

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Crelan's issuer rating to A2; outlook on issuer rating stable

15 Oct 2024

LT Deposit and junior senior unsecured ratings upgraded to A1 and Baa1 respectively; outlook on deposit ratings changed to negative following the change in outlook to negative from stable on the Government of Belgium's Aa3 rating

Paris, October 15, 2024 -- Moody's Ratings (Moody's) today upgraded Crelan SA/NV (Crelan)'s long-term deposit ratings to A1 from A2 and its long-term issuer ratings to A2 from A3 previously. The outlook on the long-term deposit ratings was changed to negative from positive. The outlook on the long-term issuer ratings was changed to stable from positive.

We also upgraded Crelan's Baseline Credit Assessment (BCA) and Adjusted BCA to baa1 from baa2 previously, its short-term issuer ratings to Prime-1 from Prime-2, its other short-term program ratings to (P)Prime-1 from (P)Prime-2, its senior unsecured MTN program ratings to (P)A2 from (P)A3, its junior senior unsecured rating to Baa1 from Baa2, its junior senior unsecured MTN program ratings to (P)Baa1 from (P)Baa2, its subordinate debt rating to Baa2 from Baa3 and its subordinate MTN program ratings to (P)Baa2 from (P)Baa3.

Concurrently, we affirmed Crelan's short-term deposit ratings of Prime-1, its long-term and short-term Counterparty Risk Ratings (CRR) of A1 and Prime-1 respectively, and its long-term and short-term Counterparty Risk Assessments (CRA) of A1(cr) and Prime-1(cr) respectively.

RATINGS RATIONALE

UPGRADE OF THE BCA

The upgrade of the BCA follows the completion of the merger of the former AXA Bank Belgium (ABB) into Crelan in June 2024. Data migration of the customers and branches from the former ABB's systems to those of Crelan and the digital re-

onboarding of the customers to Crelan's platform were executed concurrently without any material incident. The BCA is therefore no longer constrained by cost and risk considerations associated with the execution of the merger. The upgrade also takes account of the expected synergies from the merger that will help the bank to achieve a sound and sustainable profitability.

The BCA also reflects Crelan's low asset risk, robust capitalization, and sound funding structure and liquidity.

Crelan's focus on lending to the Belgian retail market, and to a lesser extent on professional and agricultural clients results in a very granular loan book and a low risk profile. The group's strong asset quality is reflected in both a low problem loan ratio and a track-record of low cost of risk. Despite the lackluster economic outlook and still some inflationary pressures, we believe 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 25.5% at end-June 2024. Our assessment of capital also takes account of Crelan's low TCE leverage ratio of 4.1% at end-June 2024, 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 moderate but commensurate with the bank's low risk profile. Although down from the peak reached in 2023, net interest income continues to benefit from the higher interest rate environment and we expect it to remain resilient over the coming quarters. The bank's customer deposit structure has stabilized as the migration from low to higher remunerated deposits has materially slowed down since the beginning of 2024. The cost of risk will likely increase somewhat from the current very low levels, but we believe this negative effect to be more than offset by the anticipated decrease in ABB-related integration and IT migration costs as soon as H2 2024 and the positive impact of synergies over the coming quarters.

Funding structure and liquidity are sound. The deterioration in the loan-to-deposit ratio above 100% since the acquisition of the former ABB (112% at end-June 2024) is mitigated by Crelan's very granular and stable deposit base. Wholesale funding is essentially composed of long-term liabilities and upcoming maturities are amply covered by the liquidity portfolio.

LONG-TERM RATINGS

The upgrade of the long-term deposit and issuer ratings reflects the upgrade of the BCA to baa1. Our Advance Loss Given Failure (LGF) analysis results in an unchanged uplift of two notches for deposits and of one notch for the issuer rating,

reflecting very low and low loss-given failures respectively. The support assumption from the Government of Belgium is moderate for the bank's senior instruments, resulting in one notch of government support uplift.

OUTLOOK

The outlook on the long-term issuer ratings is stable, reflecting our view that asset quality and profitability will remain resilient and that the bank will preserve a sound level of capital and liquidity.

The outlook on the long-term deposit ratings is negative and reflects the potentially weaker capacity of the Government of Belgium (Aa3 negative) to support the country's systemic banks, given the risk that the next government will be unable to implement measures that would stabilize the government debt burden, as indicated by the recent change of the outlook on the sovereign debt rating to negative from stable ("Moody's Ratings affirms Belgium's ratings at Aa3, changes the outlook to negative from stable"; <https://ratings.moody's.com/ratings-news/430458>). If the sovereign rating were downgraded, the moderate government support assumption will likely no longer result in any support uplift for deposits as is typically the case when such support would lead bank ratings to be in line with or above the sovereign debt rating.

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

Although unlikely in the short-term, the BCA could be upgraded if Crelan's asset risk and capital, including its leverage ratio were to improve substantially. An upgrade of the BCA would result in an upgrade of all the long-term ratings except for the long-term deposit ratings.

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

The BCA could be downgraded if Crelan's asset quality, capital or profitability were to materially decline or if its funding structure or liquidity were to deteriorate. A downgrade of the BCA would result in a downgrade of all the long-term ratings and the short-term issuer ratings.

A downgrade of the long-term deposit ratings could also result from a downgrade of the rating of the Government of Belgium, or if its loss-given-failure were to increase as a result of a decrease in subordinated instruments.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moody's.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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