S&P Global Ratings

RatingsDirect®

Crelan S.A.

Primary Credit Analyst:
Clement Collard, Paris +33 144207213; clement.collard@spglobal.com

Secondary Contact:
Anastasia Turdyeva, Dublin + (353)1 568 0622; anastasia.turdyeva@spglobal.com

Table Of Contents

Table Of Contents (cont.)

Crelan S.A.

Rating Score Snapshot

Global Scale Ratings
Issuer Credit Rating
A-/Stable/A-2
Resolution Counterparty Rating
A/--/A-1

SACP: bbb → **Support: +2** → **Additional factors: 0**

SACP: bbb		
Anchor	a-	
Business position	Constrained	-2
Capital and earnings	Strong	+1
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support: +2	
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0

Additional factors: 0
Issuer credit rating
A-/Stable/A-2
Resolution counterparty rating
A/A-1

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
A cooperative organization with a solid capital position.	Weaker efficiency than peers, although Crelan will gradually benefit from the integration with ABB.
Ranked the fifth bank in Belgium by market share for domestic mortgages and deposits due to the acquisition of AXA Bank Belgium (ABB).	Inherent execution risks with the integration of ABB.
A low-risk loan book, predominantly made up of domestic mortgages.	Limited diversification in terms of geography and business.
The senior nonpreferred (SNP) debts buffer offering additional protection for senior preferred creditors.	

We see Crelan's business diversification as limited compared with those of the universal banks that dominate the Belgian market. However, the acquisition of ABB is allowing Crelan to build a larger retail bank in the concentrated domestic market. This puts it in a better position to diversify in the professional sector and asset management. The bank already has a leading franchise in the Belgian agricultural sector, although agricultural lending equals less than 5% of the gross loans portfolio.

Crelan benefits from recurring revenue, typical of its retail activities, but the group's profitability, particularly its cost efficiency, is weak. In 2023, the bank benefited strongly from higher interest rates. Our metric of net interest margin (NIM) reached 2% at June 30, 2023, against an average of 1.3% over 2019-2022. However, we think the NIM will normalize in 2024, albeit at a higher level than the historical average. Meanwhile, managing costs will remain challenging due to inflation and the integration of ABB, which we expect to generate material cost synergies and help Crelan eventually improve its cost efficiency.

We see the group's capitalization as a rating strength, in line with its low-risk retail profile, but with geographical and sectorial concentration. We forecast that Crelan's S&P Global Ratings risk-adjusted capital (RAC) ratio will remain in the 12.5%-13.5% range, well anchored in our strong assessment. The group also enjoys a favorable loan-loss track record, with a cost of risk below 10 basis points (bps). We expect Crelan to maintain its cost of risk level over the next two years. Nonperforming loans (NPLs) are low and adequately provisioned. Our assessment of the bank's risk profile also balances its concentration on domestic retail lending exposures.

Since 2022, Crelan has issued €2.15 billion in SNP debt to build its subordinated minimum requirement for own funds and eligible liabilities (MREL) buffer. We consider this sizable amount since the bank only started building its buffer by issuing €300 million of SNP notes in late 2022. We think this makes it more likely that a resolution action on Crelan could ensure full and timely payment for senior preferred creditors. We estimate the bank has more than €800 million above our 8% threshold for a second notch uplift for additional loss-absorbing capacity (ALAC).

Due to its nature and scale, the ABB integration carries execution risk. We consider that near-to-medium-term challenges could stem from blending two corporate cultures and two large sets of branches, and the integrating and modernizing of information technology (IT) systems.

Outlook

The stable outlook reflects our view that, over the next two years, the group will focus on integrating ABB with the aim of building a stronger, more efficient franchise while maintaining strong solvency and resilient asset-quality metrics.

While we see benefits from ABB's integration because it could create a retail group with greater scale in the concentrated domestic market, we think the process poses challenges such as blending corporate cultures, large branch networks, and IT systems, while enhancing digital capabilities. As a result, we think profitability improvements could be gradual.

Upside scenario

We are unlikely to revise Crelan's 'bbb' stand-alone credit profile upward and so raise the ratings over the next two years. But we could consider this if Crelan successfully integrates ABB, realizes material synergies, and aligns its profitability and efficiency metrics more closely with those of higher-rated peers.

Downside scenario

Although unlikely, we could lower our ratings if the ABB integration poses substantial operating or business issues that prevent the bank from a profitability turnaround.

Key Metrics

Crelan S.A.--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	0.6	119.4	9.2-11.2	6.7-8.2	(0.1)-(0.1)
Growth in customer loans	154.8	4.5	2.1-2.5	2.7-3.3	3.6-4.4
Net interest income/average earning assets (NIM)	0.8	1.4	1.5-1.7	1.5-1.7	1.5-1.7
Cost to income ratio	85.1	75.6	67.5-74.1	66.6-73.1	70.7-77.6
Return on assets	0.0	0.3	0.3-0.4	0.3-0.4	0.3-0.3
New loan loss provisions/average customer loans	0.1	0.1	0.1-0.1	0.1-0.1	0.1-0.1
Gross nonperforming assets/customer loans	2.5	2.3	2.3-2.6	2.3-2.6	2.3-2.6
Risk-adjusted capital ratio	12.8	12.2	12.2-12.9	12.5-13.3	12.6-13.4

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' For Banks Operating Only In Belgium

Our 'a-' anchor for a commercial bank operating only in Belgium (unsolicited; AA/Stable/A-1+) is based on a Banking Industry Country Risk Assessment economic risk score of '2' and an industry risk score of '3'. We apply a weighted average economic risk to Crelan, which rounds off to '2' because most of its loans are in Belgium.

We view the economic risk trend for the Belgian banking sector as stable. Under our base-case scenario, we expect domestic GDP will continue to outperform the eurozone average and grow by 1.4% in 2024 (estimated 1.3% in 2023). Inflation will remain at about 3.2% in 2024 and fall to 2.0% in 2025. However, we expect the automatic wage indexation mechanism and strong labor market will largely shield private consumption. We estimate unemployment will remain near 5.6%. The higher cost of debt--given higher interest rates--has been slowing domestic private sector credit growth, which we now expect to normalize at about 4% over the next few years. As a result, residential house prices will also cool after years of growth. In particular, we estimate house prices will decrease (in real terms) by 4.0% in 2023 and 3.5% in 2024, before starting to recover in 2025. At this stage, we see such a correction as short lived and the recovery as driven by structural factors such as the country's limited land. We see a deterioration in banks' asset quality from 2024 as likely, although this is moderate compared to the current historical lows. Belgian banks' asset quality is structurally supported by fixed-rate long-term mortgages, which represent the largest part of banks' loan portfolios. We anticipate that an increase in NPLs will come mostly from lending to corporates and small and midsize enterprises (SMEs). We expect Belgian banks to maintain prudent provisioning, with credit impairment charges remaining stable at about 20 basis points (bps) to 25 bps through the cycle.

Our assessment of the industry risk trend for Belgium-based banks is also stable. The higher interest rates and the bancassurance business model will continue to support banks' profitability, counterbalancing increasing costs. These include inflation, continued investment in digital, IT, compliance requirements, and increasing bank levies. We also saw deposit betas increase faster than initially expected following the issuance of the 3.3% gross of tax yield one-year government bond. Customer deposits remain the core of banks' funding, which fully finance outstanding loans. We anticipate that the loan-to-deposit ratio--as per our calculation--will likely increase from the current 83% due to higher interest rates. We consider that Belgian systemwide funding benefits from the depth of the domestic financial market and potential funding support from the European Central Bank (ECB), among other factors.

Business Position: Domestic Retail Bank Focusing On ABB Integration

We view Crelan's business position as weaker than that of the universal banks dominating the Belgian market, primarily due to its limited business diversification. In addition, Crelan has unfavorable operating efficiency compared with BNP Paribas Fortis SA/NV, Argenta Spaarbank N.V., Belfius Bank SA/NV, and KBC Group N.V.

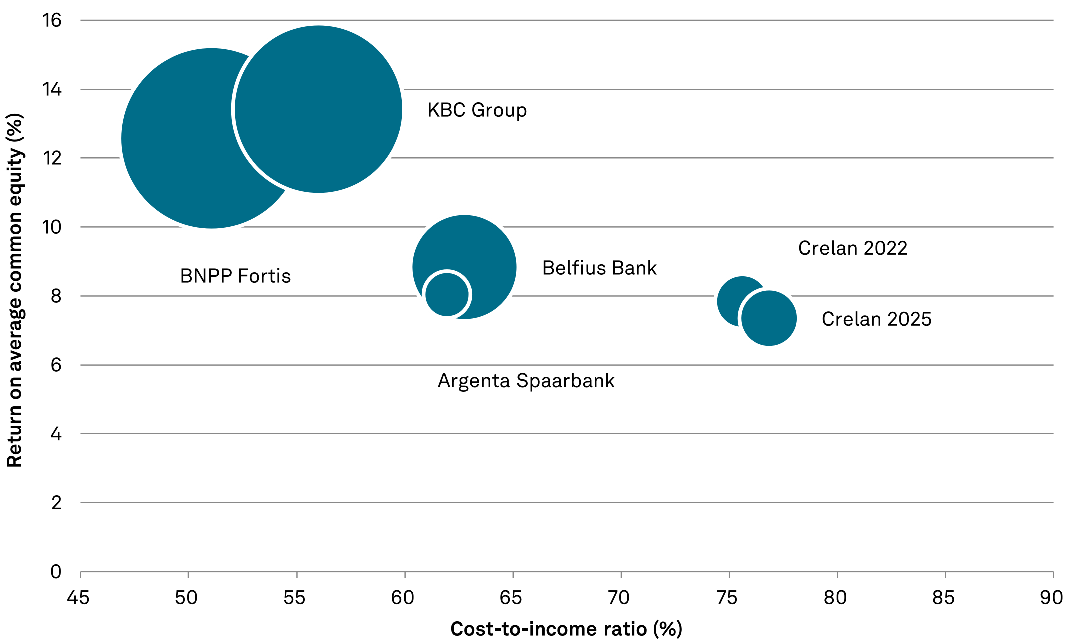
However, with the addition of ABB, the group's retail operations gained in size compared with direct peers in Belgium, becoming No. 5 by market share for Belgian loans and deposits.

The majority of Crelan's portfolio is in domestic mortgages, which represented about 80% of its total customer loans at half-year 2023. The bank has a stable 13% market share in domestic mortgages, enjoys a leading franchise in the Belgian agricultural sector, and actively lends to professionals. The group generates stable and recurring revenue from its loan book, and we foresee revenue potential from insurance distribution, asset management, and professional loans across its historical networks--including ABB's. We expect 2023 profit to be strongly supported by higher interest rates, while noninterest income should be lower than 2022, and cost of risk higher.

Crelan also benefits from ABB's expertise in digital services and refinancing experience, and from cost optimization resulting from its integration. Although we expect some gradual cost savings thanks to synergies with ABB, we forecast that our measure of the bank's cost-to-income ratio will remain at or above 70% over 2023-2025. This is mainly due to a still elevated cost base and the expectation that revenue will normalize in 2024 and 2025.

Chart 1

Crelan Group has poor efficiency compared to its peers



Bubble size represents revenue. Cost-to-income ratio excludes one-off costs. Return on average common equity includes one-off costs. Data are for 2022, except Crelan 2025. Crelan 2022 is pro forma the acquisition of ABB, which closed Dec. 31, 2021 and Net Profit is adjusted from extraordinary income. Crelan 2025 reflects S&P Global Ratings' forecast for the Crelan group in 2025. ABB--AXA Bank Belgium. Source: S&P Global Ratings.

Furthermore, we think that, due to its nature and scale, the integration of ABB comes with hurdles. The group will need to facilitate a blended culture and operate all branches under a common brand, which will be positive over the long term. Also, we expect that integrating and modernizing IT systems and enhancing digital capabilities will be demanding, particularly because some banks in Belgium already have excellent digital capabilities.

Alternatively, Crelan's creditworthiness could be supported earlier than we envision by delivering on ABB's integration, associated collaboration, and cost-cutting targets.

Capital And Earnings: Cooperative Status Supports Our View On Capital Strength

We see Crelan's capitalization as a rating strength and forecast an RAC ratio of 12.2%-13.4% until 2025. We think the bank benefits from higher interest rates, which will lower in 2024, although the NIM should end up higher than before. We also incorporate in our forecast a still-elevated cost base, a low-but-increasing cost of risk, and a higher noninterest income in 2024-2025 than in 2023. Overall, we think poor cost efficiency will continue constraining profitability and retained earnings.

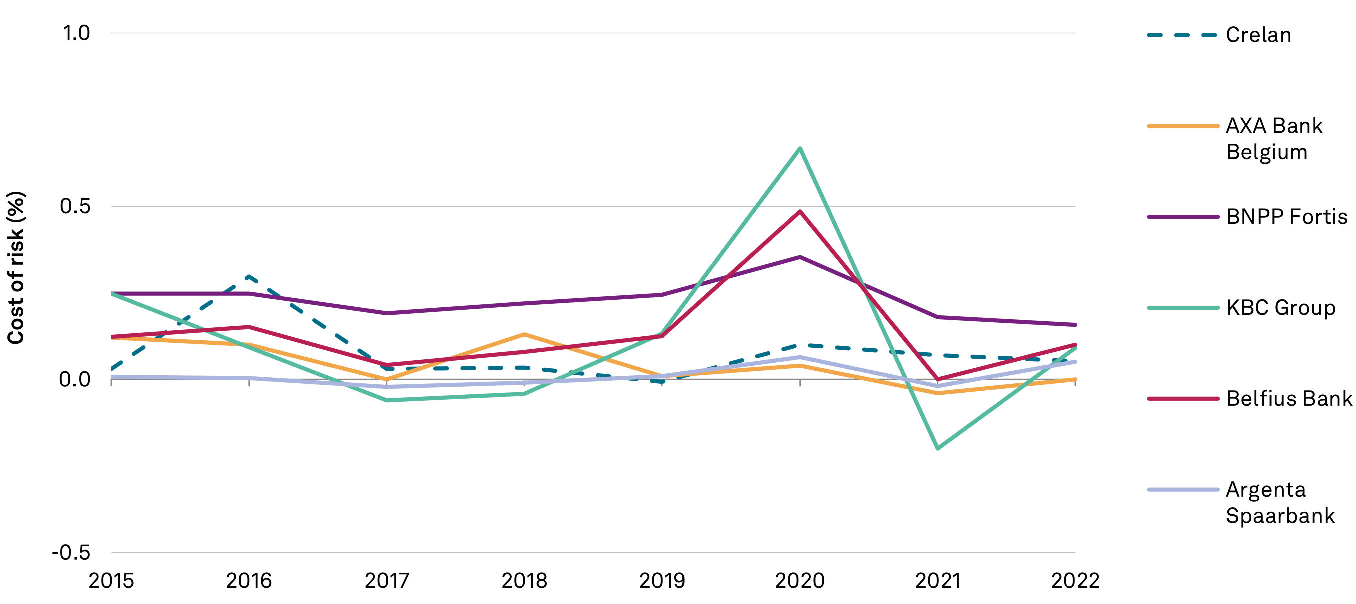
At year-end 2022, our RAC ratio for the group was 12.19%, in the middle of our strong assessment category (10%-15%). It will be important for Crelan to expand its franchise and gradually find ways to support its profitability. In our 2024-2025 projections, we expect the loan book to grow about 3% annually on average, with strong revenue growth thanks to increased interest rates--although this may create challenges in managing noninterest expense and cost of risk. That said, we see Crelan's asset quality as resilient and consequently we forecast a very manageable cost of risk over 2023-2025. Based on these assumptions, we project that the group will generate net income of €170 million-€185 million annually over 2023-2025. The projections also reflect our expectation of a stable payout on cooperative shares of around €35-€40 million annually, corresponding to about 4% of the shares' nominal value.

Risk Position: A Purely Domestic Player Focused On Mortgages

Our assessment considers Crelan's focus on a single economy and on mortgage loans--an asset class that we see as low risk in Belgium--and its low-risk profile with a good loan-loss track record.

Chart 2

Crelan Group has a track record of a very low cost of risk



Crelan group did not include ABB before end-2021. Source: S&P Global Ratings.

Housing loans make up 77% of Crelan's gross lending exposure as of June 30, 2023. Agricultural loans, a historical franchise of Crelan, constitute just 4% of the bank's lending portfolio. This is a similar proportion to that of consumer exposure. Professional exposures, mainly SMEs, make up about 15% of the portfolio. We expect that the bank's exposures will continue to perform well, even should the economy worsen, which would put some pressure on SMEs and consumer finance lending.

As of half-year 2023, we estimated that our measure of NPLs accounted for 1.14% of total gross customer loans, with coverage by loan-loss provisions at about 34%. We consider this coverage as adequate given the bank's asset and risk profile. We expect the NPL ratio to increase slightly but remain well below 2% in the next two years, since underwriting conditions are likely to remain steady.

Our assessment factors in the necessary catch-up measures that Crelan will have to take in terms of nonfinancial risks, such as compliance and anti-money-laundering. While neither Crelan nor ABB has suffered setbacks related to these risks, these factors are becoming increasingly important, including for the regulator.

Funding And Liquidity: Largely Deposit-Funded With A Moderate Reliance On Market Debts

We view Crelan's funding and liquidity profile as neutral for the rating. As of June 30, 2023, the bank showed a 112% loan-to-deposit ratio, higher than its 85% level in 2020--before the acquisition of ABB--and above its direct peers. Our measure of the long-term funding ratio and the regulatory net stable funding ratio remain resilient at 98% and 148% respectively, thanks to the very low dependency on short-term wholesale funding. Core deposits, which we believe are very stable considering the bank's solid retail franchises and longevity in the Belgium market, represent 84% of Crelan's funding base as of June 30, 2023, which is slightly above peers. Meanwhile, the share of insured deposits is estimated at 77%--a relatively high proportion in line with the bank's retail clientele.

We think Crelan benefits from ABB's refinancing expertise and diversification, including the use of covered bonds, which is a stable source of funding. Crelan issued additional Tier 1 and Tier 2 instruments at the end of 2021 and has issued €2.15 billion of SNP debt since September 2022 to comply with its MREL target.

Support:A Two-Notch Uplift For ALAC Support

We think Crelan's open bail-in primary resolution strategy--with the possibility of a transfer of business as a back-up--and its MREL buffer constitution support the full and timely payment of Crelan's and ABB's senior preferred creditors if they became nonviable.

In September 2023 we raised our ALAC support to two notches from one thanks to Crelan's senior nonpreferred issuances (see "Crelan S.A. Upgraded To 'A-' On Bail-In-Able Debt, Buffer Constitution; Outlook Stable," published Sept. 19, 2023, on RatingsDirect).

Our ALAC ratio stands significantly above our adjusted 8% threshold for two notches with headroom totally about €800 million. We qualitatively adjusted our thresholds for ALAC uplift on Crelan to 400 bps for one notch and to 800 bps for two notches due to the limited number of issuances leading to some maturity concentration.

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit rating analysis of Crelan. We view the bank's local roots positively, since its capital is held by members who are also customers, supporting close governance and social factors awareness. Furthermore, the local anchoring marginally supports a competitive position within the retail and agricultural segments, as well as its focus on sustainability.

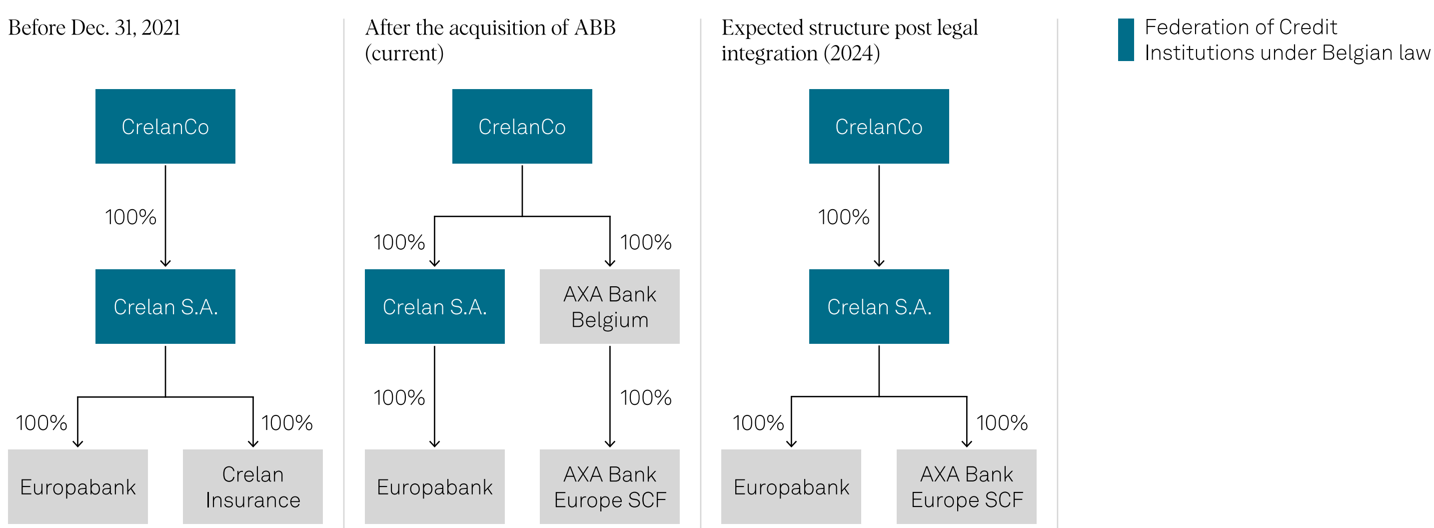
Group Structure

Crelan S.A. is the central institution of the Belgian banking federation Crelan, of which CrelanCo is the 100% cooperative shareholder. Europabank is the consumer credit specialist subsidiary of the Crelan group. On Dec. 31, 2021, CrelanCo acquired ABB from AXA group for €611 million in cash. As part of the same transaction, Crelan transferred its subsidiary Crelan Insurance to AXA.

We see ABB as having core strategic importance within the group. Therefore, we align our ratings on ABB with those of its parent. ABB will be merged with Crelan in 2024 and has already become integral to the group's business. Furthermore, the long-term insurance-distribution agreement with AXA group, which was agreed along with the transfer of ABB, will support the latter's strategic importance to Crelan.

Chart 3

Crelan Group organizational chart



Source: S&P Global Ratings.

Resolution Counterparty Ratings (RCRs)

We assigned our long-term resolution counterparty rating on Crelan at 'A/A-1', since we assess the resolution regime to be effective in Belgium and think that the bank is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution.

Key Statistics

Table 1

Crelan S.A.--Key figures

	--Year ended Dec. 31--				
(Mil. €)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	54,012	53,795	52,967	22,783	21,563
Customer loans (gross)	48,532	47,478	45,429	17,828	17,705
Adjusted common equity	2,052	1,967	1,861	1,190	1,149
Operating revenues	502	922	420	418	433
Noninterest expenses	348	697	357	336	348
Core earnings	93	145	16	51	71

*Data as of June 30.

Table 2

Crelan S.A.--Business position

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (mil. €)	501.8	922.0	420.2	417.6	433.4
Return on average common equity	5.1	7.8	40.5	3.8	5.8

*Data as of June 30.

Table 3

Crelan S.A.--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	26.2	24.0	18.0	21.7	21.0
S&P Global Ratings' RAC ratio before diversification	N/A	12.2	12.8	13.7	14.3
S&P Global Ratings' RAC ratio after diversification	N/A	10.2	10.2	11.5	12.0
Adjusted common equity/total adjusted capital	89.4	88.9	88.4	100.0	100.0
Net interest income/operating revenues	97.8	73.5	61.0	63.8	63.4
Fee income/operating revenues	1.4	21.9	30.8	26.4	22.9
Cost to income ratio	69.4	75.6	85.1	80.4	80.3
Preprovision operating income/average assets	0.6	0.4	0.2	0.4	0.4

Table 3

Crelan S.A.--Capital and earnings (cont.)

	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core earnings/average managed assets	0.3	0.3	0.0	0.2	0.3

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Crelan S.A. risk-adjusted capital framework (RAFC] Data

	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	8,261,127,233	-	-	34,612,776	0.42
Of which regional governments and local authorities	115,339,931	-	-	4,152,238	3.60
Institutions and CCPs	2,796,247,864	254,031,891	9.08	316,879,256	11.33
Corporate	2,280,869,796	979,193,355	42.93	1,560,300,874	68.41
Retail	46,797,838,325	5,177,122,181	11.06	12,726,659,908	27.19
Of which mortgage	42,414,917,733	3,858,822,954	9.10	9,836,019,422	23.19
Securitization§	408,743,734	60,939,905	14.91	81,748,747	20.00
Other assets†	949,294,469	1,133,000,089	119.35	1,498,970,496	157.90
Total credit risk	61,494,121,421	7,604,287,420	12.37	16,219,172,057	26.38
Credit valuation adjustment					
Total credit valuation adjustment	--	62,691,818	--	-	--
Market Risk					
Equity in the banking book	41,470,693	71,725,367	172.95	359,582,699	867.08
Trading book market risk	--	10,023,893	--	15,035,840	--
Total market risk	--	81,749,260	--	374,618,539	--
Operational risk					
Total operational risk	--	1,221,509,456	--	1,565,266,154	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	8,970,237,953	--	18,159,056,749	100.00
Total Diversification/ Concentration Adjustments	--	--	--	3,556,999,380	19.59
RWA after diversification	--	8,970,237,953	--	21,716,056,129	119.59
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,141,393,457	23.87	2,212,067,956	12.18
Capital ratio after adjustments‡		2,141,393,457	24.02	2,212,067,956	10.19

Table 4

Crelan S.A. risk-adjusted capital framework (RAFC] Data (cont.)

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2022', S&P Global Ratings.

Table 5

Crelan S.A.--Risk position

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	4.4	4.5	154.8	0.7	5.7
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.1	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	1.1	2.3	2.5	3.2	2.1
Loan loss reserves/gross nonperforming assets	34.1	15.5	13.5	25.1	38.0

*Data as of June 30.

Table 6

Crelan S.A.--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	84.4	83.4	82.1	97.5	99.2
Customer loans (net)/customer deposits	111.9	111.6	109.6	85.2	91.0
Long-term funding ratio	98.1	98.0	99.4	99.9	99.9
Stable funding ratio	102.3	103.1	107.6	117.3	109.1
Short-term wholesale funding/funding base	2.0	2.0	0.6	0.1	0.1
Regulatory net stable funding ratio	148.1	149.0	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	5.7	6.3	14.5	223.8	127.4
Regulatory liquidity coverage ratio (LCR) (x)	190.9	184.3	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	12.4	12.0	3.5	2.5	9.8

*Data as of June 30. N/A--Not applicable.

Crelan S.A.--Rating component scores

Issuer Credit Rating	**A-/Stable/A-2**
SACP	bbb
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Constrained
Capital and earnings	Strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2

Crelan S.A.--Rating component scores (cont.)	
Issuer Credit Rating	**A-/Stable/A-2**
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of February 29, 2024)*	
Crelan S.A.	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Issuer Credit Ratings History	
19-Sep-2023	A-/Stable/A-2
24-Jun-2021	BBB+/Stable/A-2
21-Dec-2020	BBB+/Negative/A-2
Sovereign Rating	
Belgium	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.