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Ratings

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Crelan S.A.

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Crelan S.A.

Ratings Score Snapshot

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

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-/Positive/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-largest bank in Belgium by market share for domestic mortgages and deposits due to the acquisition of AXA Bank Belgium (ABB).	Limited diversification in terms of geography and business.
A low-risk loan book, predominantly made up of domestic mortgages.	Possible economic deterioration and higher-than-expected inflation could challenge profitability and the anticipated retained earnings build-up.
The senior nonpreferred (SNP) debts buffer offers additional protection for senior preferred creditors.	

We see Crelan's business diversification as limited compared with the universal banks that dominate the Belgian market. While the ABB acquisition and subsequent merger is allowing Crelan to build a larger retail bank in the concentrated domestic market, and we expect material synergies to gradually unfold, Crelan remains active only in its domestic Belgian market with a limited share of around 12%. Nonetheless, the bank is diversifying into the professional sector and asset management while benefiting from a legacy leading franchise in the Belgian agricultural sector, although agricultural lending equals less than 5% of its gross loans portfolio. Positively, we acknowledge Crelan carried out a transformative acquisition and merger process relatively smoothly without material delays or operational disruptions.

We believe Crelan will focus on leveraging synergies from the ABB merger but faces headwinds from lower interest rates and the relatively high competitiveness of the Belgian banking sector. We expect Crelan will manage to reduce its cost base, notably thanks to ABB synergies--while still benefiting from the recurring revenue typical of its retail activities--but its operational efficiency will continue to lag peers over 2024-2026. This will be partly due to high domestic competition, particularly for mortgages and deposits in Belgium, and its higher initial cost structure. Consequently, we forecast Crelan's cost-to-income ratio to improve from its 2019-2022 average of 80%, decreasing to 70%-75% over 2024-2026.

We see Crelan's cooperative structure as a key benefit for its capital strengths. Our assessment balances Crelan's strong capitalization, which is in line with its low-risk retail profile, against its high geographical and sectorial concentrations. The group has a favorable loan-loss track record, with cost of risk consistently below 15 basis points (bps) and at 6 bps on average over 2019-2023. Under our base case, we expect Crelan to maintain its cost of risk over the next two years with overall low and adequately provisioned levels of nonperforming loans (NPLs).

Overall limited credit costs and Crelan's cooperative structure support retained earnings thanks to moderate distributions. Additionally, the ABB merger favors the sale of Crelan's cooperative shares to former ABB clients and so increases the bank's capital base. Consequently, we forecast that Crelan's S&P Global Ratings risk-adjusted capital (RAC) ratio will have settled at around 14.6% at year-end 2024 and will gradually increase toward 15%.

Outlook

The positive outlook on Crelan reflects our view that, over the next two years, the bank is likely to gradually improve its capital metrics and operational performance after the integration with ABB, and leverage related synergies.

Upside scenario

We could revise Crelan's 'bbb' stand-alone credit profile up one notch, and thereby raise our issuer credit ratings, if the bank sustainably improves its capitalization above our 15% RAC ratio threshold. Alternatively, we could raise our ratings on Crelan by one notch if the bank realizes material synergies and aligns its profitability and efficiency metrics more with those of higher-rated peers.

Downside scenario

We could revise the outlook to stable if Crelan's RAC ratio remains sustainably below 15% and its operational performance does not improve in line with higher-rated peers.

Key Metrics

Crelan S.A.--Key ratios and forecasts					
	--Fiscal year ended Dec. 31 --				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in operating revenue	119.4	34.0	(7.1)-(8.7)	0.0-0.0	0.6-0.7
Growth in customer loans	4.5	2.5	3.1-3.8	3.2-3.9	3.6-4.4
Growth in total assets	1.6	0.3	2.8-3.3	2.8-3.2	3.2-3.7
Net interest income/average earning assets (NIM)	1.4	2.0	1.5-1.7	1.5-1.7	1.5-1.6
Cost to income ratio	75.6	68.8	71.6-76.0	70.1-74.5	69.0-73.2
Return on average common equity	7.8	9.5	7.4-8.4	6.8-7.7	7.1-8.0
Return on assets	0.3	0.4	0.3-0.4	0.3-0.4	0.3-0.4
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	1.1	1.1	1.1-1.3	1.1-1.4	1.1-1.3
Risk-adjusted capital ratio	12.2	13.4	14.0-14.8	14.5-14.9	14.5-15.0

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. 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 score 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 match or slightly outperform the eurozone average and grow by 1.2% in 2025 (estimated 1% in 2024), and inflation, estimated to have peaked at 4.4% in 2024 partly due to automatic wage-indexation mechanism, will likely fall to 2.6% in 2025--still higher than eurozone average, which we forecast at 1.2%. We estimate that the unemployment rate will remain around 5.6%-5.7%. Domestic private sector credit growth started to pick up in 2024 and we expect it to normalize at about 3.5%-4.0% over 2024-2026. As a result, residential house prices are expected to start recovering in 2025-2026 after an estimated 1.3% decrease (in real terms) in 2024, mostly due to high inflation. Structural factors, such as the country's limited land and lower interest rates, support our view of a real terms price inflexion in 2025-2026. We expect a moderate deterioration in banks' asset quality in 2024 and a stabilization in 2025-2026; overall domestic nonperforming assets are expected to remain at historical lows. Belgian banks' asset quality is structurally supported by fixed-rate long-term mortgages, which represent the largest portion of banks' loan portfolios. We anticipate that an increase in NPLs will come mostly from lending to SMEs, commercial real estate, and corporates. We expect Belgian banks will maintain prudent provisioning and that credit impairment charges will remain stable at a through-the-cycle level of 20-25 bps.

Our assessment of the industry risk trend for Belgium-based banks is also stable. Lower interest rates are expected to weigh on Belgium banks' net interest margins while supporting lending volume and asset quality. Nevertheless, we believe Belgium banks' profitability peaked in 2023. We forecast the systemwide return on average assets to reduce to

65-70 bps in 2024-2026 from 81 bps in 2023 due to still-elevated albeit receding inflation, ongoing investment in IT and digital applications, and competition for domestic retail mortgages and deposits. Still, Belgium banks' bancassurance models will continue to underpin their resiliency. Customer deposits remain core to banks' funding, fully financing outstanding loans. We anticipate that the loan-to-deposit ratio as per our calculation will stabilize at around 87%-88%. 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 Focused On Leveraging Synergies From The ABB Merger

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. Crelan also has weaker operating efficiency compared with BNP Paribas Fortis SA/NV, Argenta Spaarbank N.V., Belfius Bank SA/NV, and KBC Group N.V.

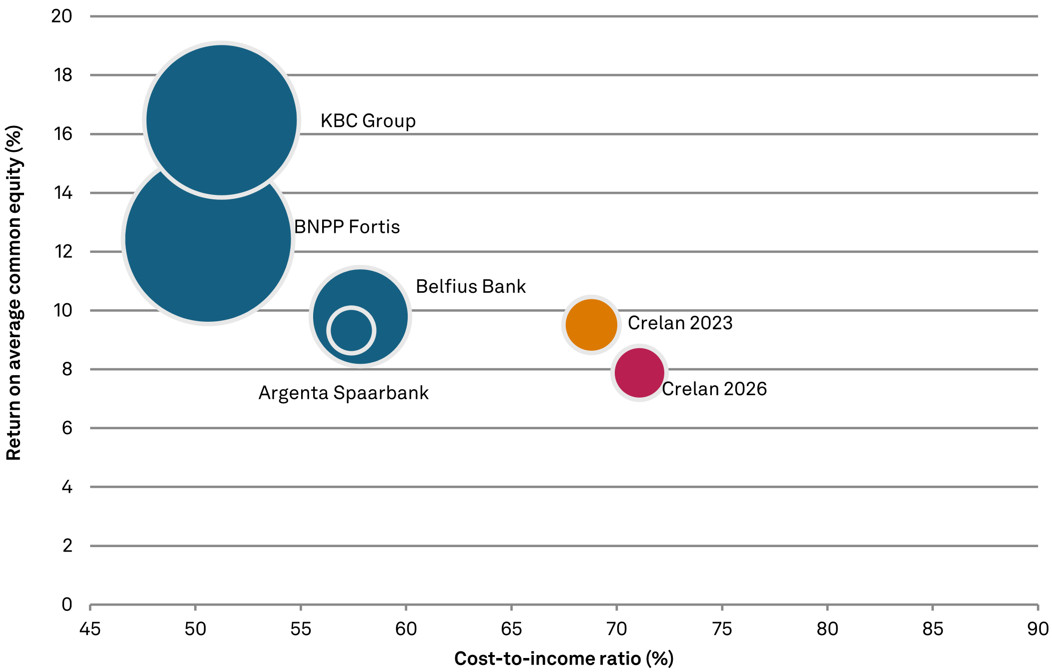
However, with the addition of ABB, fully merged within Crelan since June 2024, the group's retail operations gained in size compared with direct peers in Belgium, becoming fifth-largest by market share for Belgian loans and deposits.

The majority of Crelan's portfolio is in domestic mortgages, representing about 77% of its total gross customer loans at year-end 2023. The bank has a stable market share in domestic mortgages origination at around 12% and has a leading franchise in the Belgian agricultural sector, although this only represents around 4% of the gross loan portfolio 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. Crelan's net interest income was €421 million at half-year 2024, lower than in 2023, mainly due to lower interest rates. We calculate Crelan's net interest margin will be about 1.7% in 2024 and 1.6%-1.7% over 2025-2026, down from the 2.0% peak in 2023. This, despite 2024-2026 credit growth being in line with the banking system annual average of 3.5%-4.0%, will lower net interest income from the €988 million peak in 2023 to around €870 million-€900 million per year.

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, which we expect will reduce noninterest expense over 2024-2026, we forecast that our measure of the bank's cost-to-income ratio will remain slightly above 70% from 2024-2026. This is a significant improvement from the 80% cost-to-income average over 2019-2022 but remains materially above Belgian peers mainly due to a still-elevated, albeit reducing, cost base.

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 2023, except Crelan 2026. which reflects S&P Global Ratings' forecast. ABB --AXA Bank Belgium. Source: S&P Global Ratings.

Capital And Earnings: Cooperative Status Supports Capital Build-Up

We see Crelan's capitalization as a rating strength and forecast a RAC ratio of around 14.6%, a strong increase from 13.4% at year-end 2023 thanks to cooperative shares issuances and strong retained earnings. Our forecast factors in a still-elevated cost base, low but increasing cost of risk, and lower noninterest income in 2024-2026 than in 2023. Overall, sustained credit expansion, with lending book growth of 3.5%-4.0% annually on average, will partly offset the lower interest margin, while still-challenged and below-peers cost efficiency will continue constraining profitability despite gradual synergies from the ABB merger.

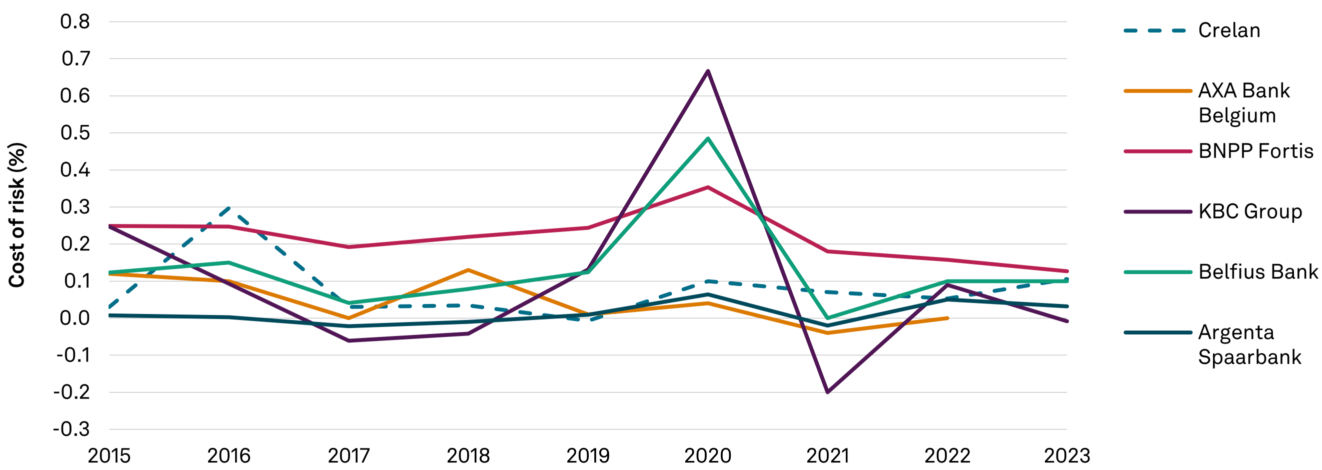
Nevertheless, we expect Crelan's return on average common equity will be about 7.0%-8.5% over 2024-2026, which, along with moderate dividends (a conservatively forecasted dividend payout of around 40%) will support retained earnings. This and further cooperative shares issuances influence our RAC ratio forecast for Crelan; we think it will continue to increase over 2025-2026 and be very close to 15% by end-2026, which is our threshold for a very strong capital assessment.

Risk Position: A Purely Domestic Player Focused On Mortgages

Our assessment factors in 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 80% of Crelan's gross lending exposure (excluding Europabank) as of June 30, 2024. Agricultural loans, a historical franchise for Crelan, constitute just below 5% of the bank's lending exposure portfolio. This is similar to its exposure to consumers. Professional and corporate exposures, mainly SMEs, make up about 10% of the portfolio. We expect its exposures will continue to perform well even if the economy worsens, which would put some pressure on SME and consumer finance lending.

As of half-year 2024, we estimated that our measure of NPLs accounted for 1.13% of total gross customer loans, with coverage by loan-loss provisions about 41.84%. We consider this coverage to be 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, thanks to positive economic developments and steady underwriting conditions.

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 Crelan has not 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 Debt

We view Crelan's funding and liquidity profile as neutral for the rating. As of June 30, 2024, the bank had a 113% loan-to-deposit ratio, higher than the 85% in 2020--before the acquisition of ABB--and above its direct peers. Our measures of the long-term funding ratio and the regulatory net stable funding ratio remain resilient at 94.7% and 130.8% as of June 2024, respectively, thanks to the bank's very low dependency on short-term wholesale funding. Core deposits, which we view as very stable considering the bank's solid retail franchises and longevity in the Belgium market, represented 81.7% of Crelan's funding base as of June 30, 2024. Meanwhile, the share of insured deposits is estimated at 75%--a large proportion in line with the bank's retail clientele.

We think Crelan benefits from refinancing expertise and diversification acquired from ABB, including the use of covered bonds, which we see as a stable source of funding. Crelan issued additional Tier 1 and Tier 2 instruments privately at the end of 2021, and since then has issued its first public Tier 2 debt of €300 million (in April 2024) and a total of €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 support the full and timely payment of Crelan's and ABB's senior preferred creditors if they became nonviable.

We qualitatively adjust our thresholds for additional loss-absorbing capacity (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. At year-end 2023, our ALAC ratio stood at 886 bps and we forecast our ALAC ratio will further increase to well above 10% over 2024-2026.

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 given that its capital is held by members who are also customers, supporting close governance and social awareness. Furthermore, the local anchoring marginally supports the bank's competitive position within the retail and agricultural segments, as well as its focus on sustainability.

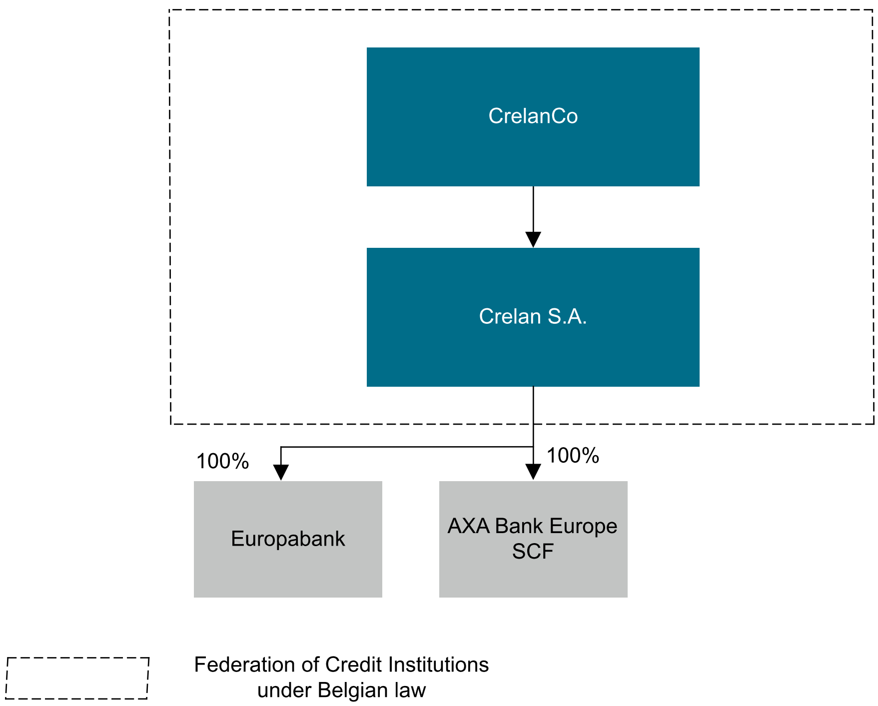
Group Structure

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.

In June 2024, ABB was merged into Crelan S.A., the direct parent of AXA Bank Europe SCF, a covered bond issuance vehicle.

Chart 3

Crelan Group organizational chart



Resolution Counterparty Ratings (RCRs)

Our long-term resolution counterparty rating on Crelan is 'A/A-1' because we consider Belgium's resolution regime to be effective and we think the bank would likely be subject to a resolution that entails a bail-in if it reached 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

	--Fiscal year end Dec. 31--			
(Mil. €)	**2023**	**2022**	**2021**	**2020**
Adjusted assets	53,946.3	53,795.2	52,967.4	22,783.3
Customer loans (gross)	48,644.0	47,477.6	45,429.4	17,828.2
Adjusted common equity	2,189.2	1,966.9	1,860.8	1,190.1
Operating revenues	1,235.6	922.0	420.2	417.6
Noninterest expenses	850.1	697.1	357.4	335.9
Core earnings	265.6	145.1	16.2	51.0

Table 2

Crelan S.A.--Business position

	--Fiscal year end Dec. 31--			
(%)	**2023**	**2022**	**2021**	**2020**
Total revenues from business line (currency in millions)	1,235.6	922.0	420.2	417.6
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0
Return on average common equity	9.5	7.8	40.5	3.8

Table 3

Crelan S.A.--Capital and earnings

	--Fiscal year end Dec. 31--			
(%)	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	28.4	24.0	18.0	21.7
S&P Global Ratings' RAC ratio before diversification	13.4	12.2	12.8	13.7
Adjusted common equity/total adjusted capital	90.0	88.9	88.4	100.0
Net interest income/operating revenues	79.9	73.5	61.0	63.8
Fee income/operating revenues	16.9	21.9	30.8	26.4
Market-sensitive income/operating revenues	0.8	0.6	1.6	1.8
Cost to income ratio	68.8	75.6	85.1	80.4
Preprovision operating income/average assets	0.7	0.4	0.2	0.4
Core earnings/average managed assets	0.5	0.3	0.0	0.2

Table 4

Crelan S.A.--Risk-adjusted capital framework data

	Exposure*	**Basel III RWA**	**Average Basel III RW(%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government & central banks	6,242,704,931.9	0.0	0.0	21,370,038.0	0.3
Of which regional governments and local authorities	178,712,861.2	0.0	0.0	6,433,663.0	3.6
Institutions and CCPs	2,486,670,531.4	233,354,563.6	9.4	304,259,453.8	12.2
Corporate	2,136,797,404.3	853,431,594.9	39.9	1,459,699,607.2	68.3
Retail	47,268,932,424.4	4,750,157,373.2	10.0	12,858,486,064.3	27.2

Table 4

Crelan S.A.--Risk-adjusted capital framework data (cont.)					
Of which mortgage	42,833,209,733.5	3,369,436,644.2	7.9	9,933,021,337.2	23.2
Securitization§	350,006,076.0	52,183,171.1	14.9	70,001,215.2	20.0
Other assets†	800,996,007.4	854,726,417.0	106.7	820,741,099.7	102.5
Total credit risk	59,286,107,375.5	6,743,853,119.8	11.4	15,534,557,478.2	26.2
Credit valuation adjustment					
Total credit valuation adjustment	--	54,574,816.7	--	0.0	--
Market Risk					
Equity in the banking book	34,392,335.4	65,180,001.0	189.5	297,537,544.1	865.1
Trading book market risk	--	11,068,635.0	--	16,602,952.5	--
Total market risk	--	76,248,636.0	--	314,140,496.6	--
Operational risk					
Total operational risk	--	1,584,828,387.1	--	2,317,271,240.0	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	8,459,504,959.6	--	18,165,969,214.8	100.0
Total Diversification/ Concentration Adjustments	--	--	--	3,725,243,301.0	20.5
RWA after diversification	--	8,459,504,959.6	--	21,891,212,515.8	120.5
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments		2,389,197,939.0	28.2	2,433,790,660.0	13.4
Capital ratio after adjustments‡		2,389,197,939.0	28.4	2,433,790,660.0	11.1

*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 2023, S&P Global Ratings.

Table 5

Crelan S.A.--Risk Position				
	--Fiscal year end Dec. 31--			
(%)	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	2.5	4.5	154.8	0.7
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.2	1.1	1.1	3.2
Loan loss reserves/gross nonperforming assets	37.2	31.9	31.3	25.1

Table 6

Crelan S.A.--Funding and liquidity

	--Fiscal year end Dec. 31--			
(%)	**2023**	**2022**	**2021**	**2020**
Core deposits/funding base	83.4	83.4	82.1	97.5
Customer loans (net)/customer deposits	114.3	111.6	109.6	85.2
Long-term funding ratio	97.8	98.0	99.4	99.9
Stable funding ratio	101.4	103.1	107.6	117.3
Short-term wholesale funding/funding base	2.3	2.0	0.6	0.1
Regulatory net stable funding ratio	142.0	149.0	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	4.0	6.3	14.5	223.8
Broad liquid assets/total assets	8.8	12.1	8.7	13.1
Net broad liquid assets/short-term customer deposits	8.5	13.3	10.8	15.3
Regulatory liquidity coverage ratio (LCR) (%)	188.0	184.3	N/A	N/A
Short-term wholesale funding/total wholesale funding	13.6	12.0	3.5	2.5

N/A--Not applicable.

Crelan S.A.--Rating component scores

Issuer Credit Rating	**A-/Positive/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
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

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- 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 18, 2025)*	
Crelan S.A.	
Issuer Credit Rating	A-/Positive/A-2
Resolution Counterparty Rating	A/--/A-1
Issuer Credit Ratings History	
29-Nov-2024	A-/Positive/A-2
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.