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Research Update:

Crelan S.A. 'BBB+/A-2' Ratings Affirmed Amid Axa Bank Belgium Integration; Outlook Stable

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Overview

- We understand that Crelan's resolution strategy is evolving to an open bank bail-in that should be supportive of the full and timely payment of the senior preferred creditors of Crelan S.A. and AXA Bank Belgium (ABB) if they became nonviable.
- We see Crelan's ongoing accumulation of subordinated loss absorbing capacity as a source of additional protection for senior preferred creditors.
- Crelan S.A. has so far issued only a modest amount of subordinated debt under its minimum requirement for own funds and eligible liabilities, and will need to pick up the pace in 2023 amid challenging market and economic conditions and the substantial integration of ABB.
- Therefore, we affirmed our 'BBB+/A-2' long- and short-term ratings on the two banks.
- The stable outlook on Crelan reflects our view that, within the coming 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.

Rating Action

On Nov. 30, 2022, S&P Global Ratings affirmed its 'BBB+' long-term and 'A-2' short-term issuer credit ratings on Crelan S.A and Axa Bank Belgium (ABB). The outlooks for both entities remain stable.

At the same time, we affirmed our 'A-' long-term and 'A-2' short-term resolution counterparty ratings on both entities.

Rationale

We are more confident that a resolution action on Crelan could ensure full and timely payment for senior preferred creditors. Crelan is a sizeable institution after its acquisition of ABB, with total assets of €53 billion at June 30, 2022, and a mortgage market share of 13%. We understand the group's preferred resolution strategy is evolving to an open bank bail-in, with the possibility of a transfer of business as an alternative. This evolution should be supportive of the full and timely payment of the senior preferred creditors of Crelan S.A. and ABB if they became nonviable, and Crelan is taking the necessary steps to ensure its resolvability. Still, we look to the bank's accumulation of a material buffer of subordinated instruments to meaningfully reduce the probability of default for all senior preferred creditors.

Crelan will continue to issue debt under its minimum requirement for own funds and eligible liabilities (MREL), but the economic and market backdrop has become trickier. The group has an ambitious €2 billion senior nonpreferred (SNP) issuance plan to meet its MREL (regulatory bail-in buffer). It is now executing this against a more challenging market backdrop than we had previously expected. As of mid-November 2022, it had issued only €0.3 billion of SNP debt, compared with the €1 billion we initially forecast for 2022. Crelan currently has an MREL shortfall against the year-end 2023 requirement of about €1.4 billion. As a result, our projected additional loss-absorbing capacity (ALAC) buffer stands at 2.9% for year-end 2022, still below the 4% threshold for one notch of ALAC uplift currently incorporated into our issuer credit ratings on the banks. If it fully realizes its issuance plan during 2023, this could push the ALAC ratio near or above the 8% threshold for a second notch of ALAC support. However, we think that market conditions could challenge this. Moreover, since Crelan has no regulatory requirement to issue subordinated MREL-eligible debt, the bank could potentially switch to senior preferred debt issuance to manage its cost of funding.

Successful integration of ABB and cost reductions would support our assessment of Crelan's creditworthiness. Crelan's profitability is still behind that of peers (like Argenta Spaarbank and De Volksbank) and we expect its cost-to-income ratio will remain elevated at 77%-83% in our 2022-2024 rating horizon, despite the benefits from higher interest rates. However, in the longer term, delivering on ABB integration, associated synergies, and cost-cutting targets could support the group's creditworthiness. At the same time, we forecast Crelan will maintain its strong capital base, with the risk-adjusted capital ratio remaining comfortably above 10%. We also expect cost of risk will remain manageable, at under 10 basis points per year for the 2022-2024 period. Residential mortgages represent about 80% of the loan portfolio. In addition, Crelan's funding and liquidity profile remains robust after the ABB acquisition.

Outlook

The stable outlook on Crelan reflects our view that, within the coming 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.

Although ABB's integration could create a retail group with greater scale in the concentrated domestic market, we believe that the process poses challenges, notably blending corporate cultures, large branch networks, and information technology systems, while enhancing digital capabilities. As a result, we think that synergies and improvements in profitability could be gradual. The stable outlook also reflects our view that challenging market conditions could delay Crelan's progress with its ambitious issuance plans.

Upside scenario

We could raise our long-term ratings on Crelan and ABB if the group continues to build its ALAC and we are confident that its ALAC buffer will sustainably exceed the 8% threshold for the second notch of support.

In time, we could also revise up the 'bbb-' stand-alone credit profile, and so raise all issuer credit and issue level ratings, 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

We could lower our ratings if the integration of ABB poses substantial operating or business challenges that prevent the bank from a profitability turnaround. Although we do not consider it likely, we could downgrade Crelan if we doubt it can build ALAC above our 4% threshold for one notch of support.

Ratings Score Snapshot

Crelan	
Issuer Credit Rating	BBB+/Stable/A-2
SACP	bbb
Anchor	a-
Business position	Constrained (-2)
Capital and earnings	Strong (+1)
Risk position	Moderate (-1)
Funding	Adequate (0)
Liquidity	Adequate (0)
CRA adjustment	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0
AXA Bank Belgium	
Issuer Credit Rating	BBB+/Stable/A-2

SACP--Stand-alone credit profile. CRA--Comparable ratings analysis.

ESG credit indicators: E-2, S-2, G-2

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

Related Research

- Crelan S.A., Feb. 24, 2022

Ratings List

Ratings Affirmed	
Crelan S.A.	
AXA Bank Belgium	
Issuer Credit Rating	BBB+/Stable/A-2
Crelan S.A.	
Resolution Counterparty Rating	A-/--/A-2