

Research Update:

# Crelan S.A. Outlook Revised To Positive From Stable On Expected Merger Synergies; 'A-/A-2' Ratings Affirmed

November 29, 2024

## Overview

- Crelan S.A. completed its merger with AXA Bank Belgium (ABB) and ABB clients' data migration in June 2024, allowing the bank to operate a larger, more diversified and profitable business.
- We expect Crelan to focus on synergies from this integration to gradually unfold over several years and progressively close the operational performance gap with peers.
- Improving earning capacity will also support the bank's capital in our views.
- Therefore, we revised our outlook to positive from stable and affirmed our 'A-/A-2' issuer credit ratings on Crelan.

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## Rating Action

On Nov. 29, 2024, S&P Global Ratings revised its outlook on Crelan S.A. to positive from stable. At the same time, we affirmed our 'A-' long-term issuer credit rating, 'A-2' short-term issuer credit rating, and 'A/A-1' resolution counterparty ratings on the bank.

## Rationale

**The full integration of ABB is a key milestone for Crelan.** Crelan is the central institution of the Belgian banking federation Crelan, of which CrelanCo is the 100% cooperative shareholder. On Dec. 31, 2021, CrelanCo acquired ABB from AXA group for €611 million in cash. As part of the transaction, Crelan transferred subsidiary Crelan Insurance to AXA. In June 2024, Crelan completed the merger with ABB, which ceased to exist, and the data migration of ABB's clients and branches to Crelan's IT systems. Both the legal merger and IT shift were carried out in line with the initial schedule and with no delays or unexpected costs, demonstrating the bank's effective governance and alleviating integration risk inherent to relatively large mergers.

**We expect synergies from the merger will enhance Crelan's operational performance.** We think the bank's operational profitability will improve, progressively closing the gap with higher-rated peers. Notably, cost management measures to leverage internal synergies, along with lower regulatory costs, will translate into lower noninterest expense for Crelan over 2024-2026. In our view, this will attenuate the operating income decrease due to lower net interest margins (NIM) from the lower interest rates. As such, we expect Crelan's NIM, which peaked in 2023 to 2% by our calculation, up from its 1.3% average over 2019-2022, will fall to about 1.7% in 2024 and 1.6%-1.7% in 2025-2026. Consequently, we forecast the bank's cost-to-income ratio will improve from its 2019-2022 average of 80%, decreasing to 70%-75% over 2024-2026, slightly over the exceptional 69% of 2023.

**Crelan's retained earnings also supports the positive outlook revision.** Our risk-adjusted capital (RAC) ratio increased to 13.4% in 2024 compared to 12.2% in 2022 thanks to strong retained earnings and a decreased impact from deferred tax assets. Over 2024-2026, we think Crelan's earnings, although below the exceptionally high levels from 2023, will remain relatively strong. This, coupled with limited dividend, which are legally capped at 6% of nominal value of Crelan's cooperative shares, and some net new cooperative shares issuances (particularly to former ABB clients) will further reinforce our RAC ratio on the bank. Consequently, we forecast the RAC to increase above 14% in 2024 and to slightly below 15% by 2026.

## 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 revised Crelan's 'bbb' stand-alone credit profile upward 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 doesn't improve in line with that of higher-rated peers.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2
SACP	bbb	bbb
Anchor	a-	a-
Business position	Constrained (-2)	Constrained (-2)

	To	From
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
CRA adjustment	0	0
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0
Resolution Counterparty Rating	A/A-1	A/A-1

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

## 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

## Related Research

- Crelan S.A., Feb. 29, 2024
- Banking Industry Country Risk Assessment: Belgium, Dec. 4, 2023

## Ratings List

**Ratings Affirmed; Outlook Action**

	To	From
<b>Crelan S.A.</b>		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2

**Ratings Affirmed**

<b>Crelan S.A.</b>		
Resolution Counterparty Rating	A/--/A-1	

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