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# Transaction Update: BNP Paribas Fortis SA/NV (Mortgage Covered Bonds)

## €10 Billion Belgian Pandbrieven Covered Bond Program


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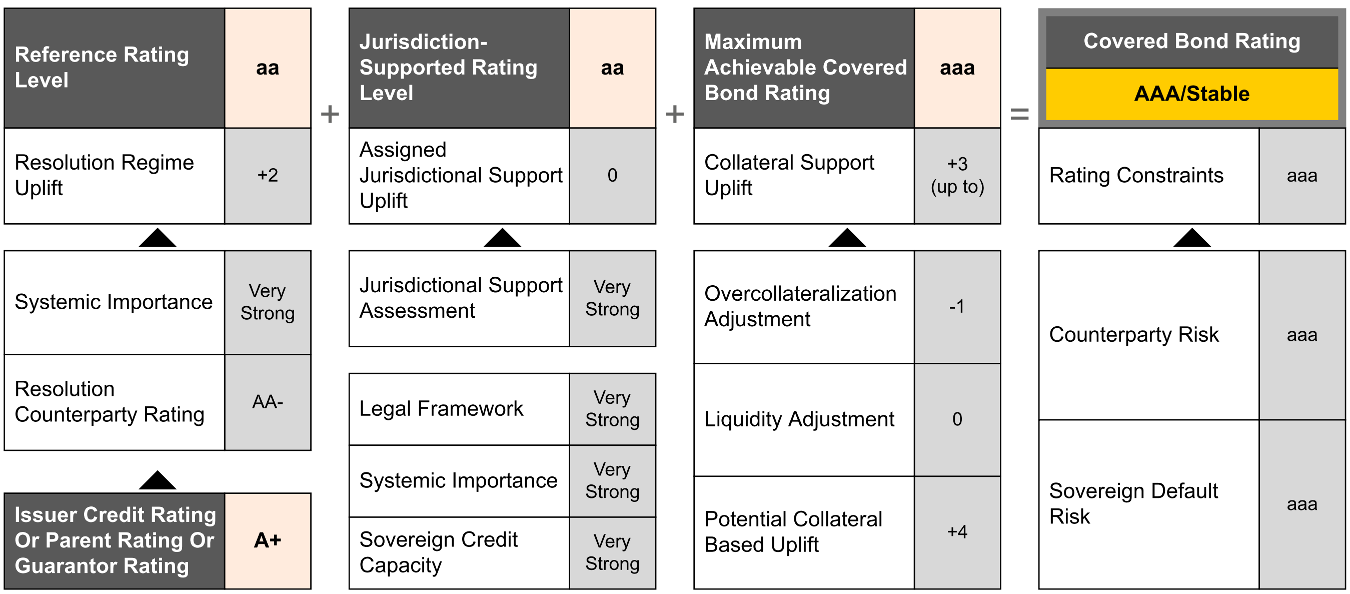
## €10 Billion Belgian Pandbrieven Covered Bond Program

## Ratings Detail




Note: As a starting point of the analysis, we may use The ICR of the parent or guarantor when the issuer is not rated, but belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity.

## Major Rating Factors

### Strengths

- The cover pool comprises prime Belgian residential mortgage loans diversified across provinces.
- Available credit enhancement significantly exceeds the credit enhancement required for the current rating.
- The program has four unused notches of uplift, which would protect the ratings on the covered bonds in the event of downgrade of the issuer credit rating by up to four notches.

### Weaknesses

- There is no commitment to maintain an overcollateralization level beyond the minimum legal requirement.
- Since we view commingling risk as not entirely mitigated by the provisions of the Belgian covered bond legislation, we incorporate it into our cash flow analysis.

## Outlook: Stable

S&P Global Ratings' stable outlook on its credit ratings on the covered bonds (mortgage pandbrieven) issued by Belgium-based BNP Paribas Fortis SA/NV (BNPP Fortis) reflects the four unused notches in the rating construction. Under our covered bonds criteria, we would not automatically lower the ratings on the covered bonds if we were to lower our long-term issuer credit rating (ICR) on BNPP Fortis by up to four notches, all else being equal.

## Rationale

Our covered bond ratings process follows the methodology and assumptions outlined in our covered bonds criteria (see "Covered Bonds Criteria," published on Dec. 9, 2014 and our "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

We consider that the provisions in the transaction documents, together with the Belgian legal and regulatory framework to effectively isolate the cover pool assets for the benefit of the covered bondholders. This asset isolation allows us to assign a higher rating to the covered bonds than our long-term ICR on the issuer.

BNPP Fortis is based in Belgium, a jurisdiction which applies the EU's Bank Recovery and Resolution Directive (BRRD). In addition, we consider that in Belgium mortgage covered bonds have a very strong systemic importance.

These factors increase the likelihood that BNPP Fortis would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Under our covered bonds criteria, we assess the reference rating level (RRL) as 'aa', two notches above the long-term ICR of 'A+' on the issuer.

We also consider the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage programs in Belgium, there is a potential jurisdictional support uplift from the RRL of up to three notches. However, given our sovereign rating on Belgium (AA/Stable/A-1+, unsolicited) we do not assign any notches of jurisdictional support uplift above the RRL. Therefore, we assess the jurisdiction-supported rating level (JRL) as 'aa'.

Based on our cash flow analysis as of Sept. 30, 2022, the available credit enhancement of 31.72% exceeds both the 20.67% target credit enhancement and the 16.33% required to maintain the 'AAA' rating.

There are no rating constraints to the 'AAA' ratings relating to legal, administrative, operational, sovereign default, or counterparty risks.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

## Program Description

BNPP Fortis is the largest bank in Belgium as measured by deposits. It offers a full range of financial services to private and corporate clients, wealthy individuals, companies, public, and financial institutions. France-based BNP Paribas owns 99.93% of BNPP Fortis, which we consider to be a core subsidiary. Our ratings on BNPP Fortis are aligned with those on its parent.

The pool of residential mortgage loans securing the covered bonds was originated by BNP Fortis or its predecessor.

Mortgage pandbrieven are Belgian legislation-enabled covered bonds monitored by an independent trustee, the covered bond monitor. They constitute unsubordinated senior unsecured obligations and rank pari passu among themselves. BNPP Fortis was authorized in February 2016 by the domestic regulator, National Bank of Belgium (NBB), to issue covered bonds out of its program.

**Program Structure**

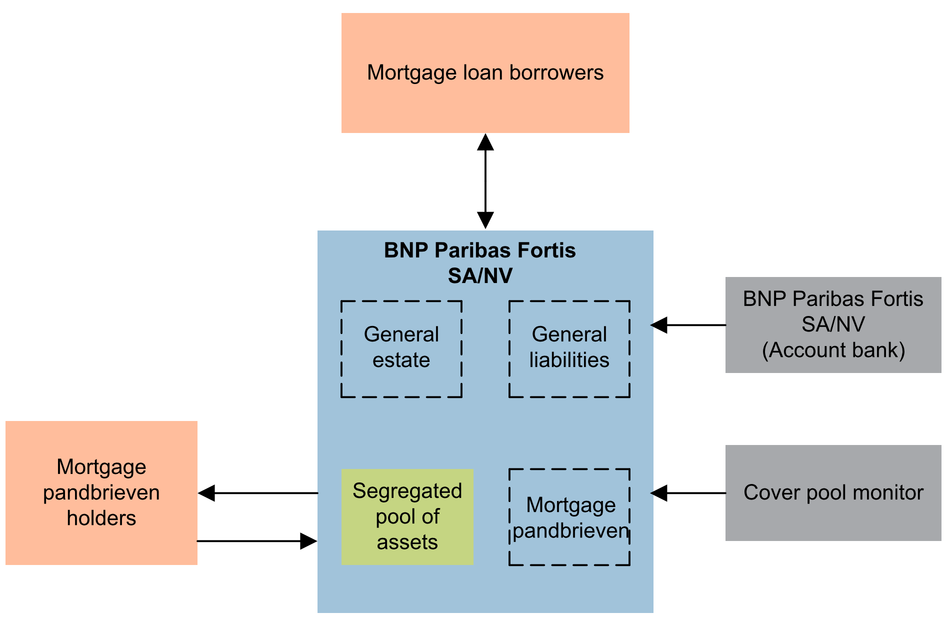



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**Table 1**

| Program Overview* | |
|---|---|
| Jurisdiction | Belgium |
| Year of first issuance | 2016 |
| Covered bond type | Legislation-enabled |

**Table 1**

| Program Overview* (cont.) | |
|---|---|
| Outstanding covered bonds (Bil. €) | 2.25 |
| Redemption profile | Soft-bullet |
| Underlying assets | Residential mortgages |
| Assigned jurisdictional support uplift (notches) | 0 |
| Unused notches for jurisdictional support | 3 |
| Target credit enhancement (%) | 20.67 |
| Credit enhancement commensurate with rating (%) | 16.33 |
| Available credit enhancement (%) | 31.72 |
| Collateral support uplift | 3 |
| Unused notch for collateral support | 1 |
| Total unused notches | 4 |

*Based on data as of Sept. 30, 2022.

**Table 2**

Program Participants

| Role | Name | Rating | Rating dependency |
|---|---|---|---|
| Issuer | BNP Paribas Fortis SA/NV | A+/Stable/A-1 | Yes |
| Originator | BNP Paribas Fortis SA/NV | A+/Stable/A-1 | No |
| Servicer | BNP Paribas Fortis SA/NV | A+/Stable/A-1 | No |
| Bank account provider | BNP Paribas Fortis SA/NV | A+/Stable/A-1 | No |

## Rating Analysis

### Legal and regulatory risks

The legal and regulatory regime governing Belgian covered bonds was originally adopted by Parliament on Aug. 3, 2012, and was completed by Royal Decrees published on Oct. 11, 2012 and various other subsequent regulations. On Nov. 26, 2021, a new law was enacted amending the Belgian Banking Law to, among other things, transpose the EU CB Directive into Belgian law (Law of Nov. 26, 2021). The Royal Decree of Jan. 27, 2022 then amended various decrees regulating covered bonds (Royal Decree of Jan. 27, 2022). The Law of Nov. 26, 2021, and the Royal Decree of Jan. 27, 2022, constitute the new Belgian covered bonds legislation.

The main changes introduced by the new legislation include:

- Soft-bullet maturity extensions can only take place under certain issuer conditions such as liquidation, dissolution, resolution, or bankruptcy.
- Soft-bullet extensions cannot invert the maturity order of outstanding bonds.
- 180 days liquidity provision: the extended final maturity date will be considered for the purposes of liquidity buffer calculations.

The amendments to the framework are essentially refinements, and given that the Belgian legislation was already well aligned to the requirements of the directive, the new legislation does not affect our analysis of the Belgian legal framework.

Covered bond issuers are regulated by the National Bank of Belgium (NBB) and programs are subject to the supervision of a cover pool monitor appointed by the issuer and approved by the NBB.

Covered bonds in Belgium typically remain on the balance sheet of the issuer. Under Belgian legislation, the pandbrieven holders benefit from a ringfenced estate called the special estate. Issuing credit institutions must maintain a register of cover pool assets recording all cover pool assets backing the covered bonds. The special estate comprises those cover pool assets, any collateral posting received from swap counterparties, guarantees or privileges granted in connection with the cover pool assets, and cash held by the issuing bank for the special estate.

The cover pool assets in the special estate are available to meet the obligations under the covered bonds and are excluded from the issuer's bankruptcy estate. If the issuer becomes insolvent, pandbrieven holders have dual recourse to cover pool assets constituting the segregated estate and to the issuer's general estate (in respect of which they are treated as the issuer's unsecured creditors).

Other key features of the Belgian covered bond framework are a minimum overcollateralization level of 5%, the requirement to maintain a level of assets generating sufficient liquidity over a period of six months, and an encumbrance level resulting from the cover pool assets that does not exceed 8% of the bank's assets. Under the updated covered bond supervisory regulations this limit will be abolished from Jan. 1, 2024. Between July 8, 2022 and Dec. 31, 2023, this limit is not applicable subject to, among others, the bank having reached the target issuance of subordinated bail-inable instruments.

In our view, Belgium's legal framework for covered bonds sufficiently addresses the legal aspects outlined in our covered bonds criteria, enabling us to rate the covered bonds higher than the issuer.

We base our analysis of legal risk on our criteria "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017, and other criteria articles listed in our covered bonds rating framework.

### Resolution regime analysis

Under the covered bonds criteria, we assess the systemic importance for mortgage programs in Belgium as very strong. This means the RRL is the maximum between two notches above the long-term ICR and the resolution counterparty rating (RCR). The resulting RRL is 'aa', which reflects the two-notch uplift from BNPP Fortis' ICR of 'A+'. This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in in the event of bank resolution. We consider this as an internal form of support, because the bail-in of certain creditors of the issuer does not require direct support from the government.

### Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Our assessment of the expected jurisdictional support for Belgian mortgage programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift over the

RRL, capped at the rating on the Belgian sovereign (unsolicited, AA/Stable/A-1+). Therefore, the JRL for the program is 'aa', resulting in three unused notches of jurisdictional support.

## Collateral Support Analysis

### Key assumptions and results

We base our analysis on loan-by-loan data as of Sept. 30, 2022. The cover pool comprises loans secured by first-lien mortgages inscriptions over residential properties in Belgium and/or mortgage mandates to create mortgages, as well as a small proportion of Belgian government bonds for liquidity purposes.

In some cases, multiple loans are granted to the same borrower and are cross-collateralized ("all sums" mortgages). We believe that borrowers have a strong incentive to pay on loans secured by second homes and investment properties, where these loans are also secured by the primary residence. Conversely, we apply an adjustment for approximately 14% of the cover pool which is secured by buy-to-let properties or second homes, but where the borrower does not have a loan with the bank for their main home.

Since our previous analysis the weighted-average foreclosure frequency (WAFF) and the weighted-average loss severity (WALS) have slightly reduced (see table 3).

The WAFF decreased to 12.93% from 13.23% due to higher loan seasoning, lower share of buy-to-let loans, second homes, and self-employed borrowers. These positive factors have somewhat been offset by a marginal increase in the effective LTVs and slightly higher debt-to-income ratios.

The WALS decreased to 21.96% from 23.89%, due to slightly lower current LTV ratios. This positive factor has somewhat been offset by a higher share of loans with jumbo valuations and mortgage mandates.

### Mortgage mandates

In Belgium, when taking out a mortgage, the borrower must pay a registration fee based on a percentage of the mortgage loan. To reduce this fee, and in line with market practice, a lender may grant a mortgage loan partly secured by a mortgage inscription on the property and by a mortgage mandate. The registration fee is only payable on the mortgage inscription because a mandate is not collateral for the loan. A mortgage mandate is solely an irrevocable option given to the lender (or a third-party assignee) to unilaterally create a mortgage. Only when the mortgage mandate has been converted into a mortgage is the portion of the original loan represented by the mortgage mandate supported by a security interest in the relevant property.

There is a risk that another creditor would also benefit from the mortgage mandate over the property. In this instance, the creditor who first registers the mortgage (i.e., converts its mortgage mandate into an inscription) has priority over the security. Consequently, we factor into our credit analysis the greater loss severity associated with mortgage mandates by giving credit to half the value of mortgage mandates in our recovery analysis.

Tables 3 to 8 summarize the cover pool's composition and key characteristics.

**Table 3**

## Key Credit Metrics

| | As Of Sept.30, 2022 | As Of Sept.30, 2021 |
|---|---|---|
| Weighted-average Original LTV (%) | 71.85 | 70.20 |
| Weighted-average Effective LTV* (%) | 67.09 | 66.22 |
| Weighted-average Current LTV (%) | 48.01 | 50.28 |
| Weighted-average loan seasoning (years)§ | 4.79 | 4.28 |
| Balance of loans in arrears (%) | 0.45 | 0.22 |
| Buy-to-let loans (approx. %) | 9.00 | 10 |
| Second homes loans (approx. %) | 5.00 | 5 |
| **Credit analysis results** | | |
| Weighted-average foreclosure frequency (WAFF; %) | 12.93 | 13.23 |
| Weighted-average loss severity (WALS; %) | 21.96 | 23.89 |

§Seasoning refers to the elapsed loan term. LTV--Loan-to-value. *Effective LTV is calculated weighting 80% of the original LTV and 20% of the current LTV.

**Table 4**

## Loan Seasoning Distribution

| Seasoning (%)* | As Of Sept.30, 2022 | As Of Sept.30, 2021 |
|---|---|---|
| <=5 years | 48.80 | 59.24 |
| >5 and <=6 years | 16.11 | 21.27 |
| >6 and <=7 years | 18.54 | 16.05 |
| >7 and <=8 years | 13.56 | 0.65 |
| >8 and <=9 years | 0.56 | 0.30 |
| >9 and <=10 years | 0.26 | 0.34 |
| >10 years | 2.17 | 2.15 |
| Weighted average loan seasoning (years) | 4.79 | 4.28 |

*Seasoning refers to the elapsed loan term.

**Table 5**

## DTI Distribution

| (%) | As Of Sept.30, 2022 | As Of Sept.30, 2021 |
|---|---|---|
| 0-30 | 30.48 | 31.10 |
| 30-40 | 31.13 | 31.82 |
| 40-50 | 19.72 | 19.50 |
| 50-60 | 9.25 | 8.72 |
| 60-70 | 5.23 | 4.99 |
| 70-80 | 2.56 | 2.27 |
| >80 | 1.64 | 1.60 |

DTI--Debt service to income.

**Table 6**

## Geographical Distribution By Province

| (%) | As Of Sept.30, 2022 | As Of Sept.30, 2021 |
|---|---|---|
| Antwerp | 16.30 | 16.33 |

**Table 6**

**Geographical Distribution By Province (cont.)**

| (%) | As Of Sept.30, 2022 | As Of Sept.30, 2021 |
|---|---|---|
| East Flanders | 14.68 | 14.65 |
| Flemish Brabant | 6.34 | 6.51 |
| Brussels | 13.07 | 13.26 |
| West Flanders | 7.87 | 8.22 |
| Liège | 12.04 | 11.75 |
| Limburg | 11.12 | 11.21 |
| Hainaut | 6.75 | 6.55 |
| Walloon Brabant | 3.91 | 3.80 |
| Namur | 5.14 | 5.10 |
| Luxembourg | 2.78 | 2.62 |

**Table 7**

**Effective Loan-to-Value (ELTV)***

| Range | As Of Sept.30, 2022 | As Of Sept.30, 2021 |
|---|---|---|
| 0% - 60% | 38.01 | 40.14 |
| 60% - 70% | 13.69 | 13.24 |
| 70%-80% | 15.43 | 15.00 |
| 80%-90% | 15.85 | 13.80 |
| 90%-100% | 13.88 | 15.69 |
| >100% | 3.14 | 2.13 |
| Weighted-average ELTV | 67.09 | 66.22 |

*ELTV is calculated weighting 80% of the original LTV and 20% of the current LTV.

Our analysis of the pandbrieven's payment structure shows that cash flows from the cover pool assets would be sufficient, at the current rating level, to make timely payment of interest and principal to the covered bondholders. The program is exposed to refinancing risk because the mismatches in its asset-liability profile are not addressed by structural features.

As part of our assessment of market value risk, in case there needs to be a forced sale of cover pool assets, we apply a target asset spread of 425 basis points.

Because there is an active secondary market for Belgian mortgages such as the ones in the cover pool, the program can potentially benefit from up to four notches of collateral-based uplift, according to our covered bonds criteria.

Under these criteria, we decrease the collateral-based uplift by one notch as the issuer does not commit to maintaining the level of overcollateralization that is commensurate with the current rating.

There is no notch of adjustment for liquidity risk as we consider this risk to be covered through the legal requirement to maintain 180 days of liquidity.

Based on information as of Sept. 30, 2022 our analysis shows that the available credit enhancement of 31.72% exceeds the 16.33% credit enhancement commensurate with a 'AAA' rating on the covered bonds, as well as the target credit enhancement of 20.67%.

The base measure of 'AAA' credit risk is 3.30%, up from 2.43% in Sept. 2021: the increase is due mainly to a lower excess spread. This negative factor has been somewhat offset by the improvement in expected credit losses.

Target credit enhancement has increased from 11.27% to 20.67% for the same reasons as a 'AAA' credit risk. Further drivers include the deterioration of asset liability mismatch--which implies an increase in asset sales to redeem the covered bonds--and an increased starting rate in the cash flow model. The latter causes a higher discount factor for forced asset sales (a negative factor), which is somewhat offset by higher interest revenues generated on cash balances (a positive factor). Commensurate credit enhancement has increased for the same reasons as target credit enhancement.

With a JRL of 'aa' and a one-notch downward adjustment for uncommitted overcollateralization, the program needs to mitigate 'AAA' credit risk and 75% refinancing risk in order to achieve a 'AAA' rating, equivalent to three notches of collateral-based uplift.

As the program can benefit from three notches of collateral-based uplift, but only needs two to reach a AAA rating, there is one unused notch of collateral-based uplift. Considering the three unused notches of jurisdictional support, the total number of unused notches, which will protect the rating in the event of an issuer downgrade, is four.

### Overcollateralization commitment

The program features an overcollateralization commitment capped at 5%, reflecting the minimum regulatory level. This is a static value and is not currently sufficient to cover the overcollateralization commensurate with the current rating (16.33%), so we deduct a notch for uncommitted overcollateralization from the maximum number of potential notches of uplift.

### Liquidity risk

Liquidity risk is addressed by the covered bonds' 12-month extendable maturity feature.

**Table 8**

**Collateral Uplift Metrics**

| | As Of Sept. 30, 2022 | As Of Sept. 30, 2021 |
|---|---|---|
| Asset WAL (years) | 7.55 | 7.43 |
| Liability WAL, extended maturity date (years) | 4.28 | 5.28 |
| Available credit enhancement (%) | 31.72 | 26.17 |
| Required credit enhancement for coverage of 'AAA' credit risk (%) | 3.3 | 2.5 |
| Required credit enhancement for first notch of collateral uplift (%) | 3.3 | 2.5 |
| Required credit enhancement for second notch of collateral uplift (%) | 3.3 | 2.5 |
| Required credit enhancement for third notch of collateral uplift (%) | 16.33 | 9.06 |
| Target credit enhancement (%) | 20.67 | 11.27 |
| Potential collateral-based uplift (notches) | 4 | 4 |
| Adjustment for liquidity (Y/N) | N | N |
| Adjustment for committed overcollateralization (Y/N) | Y | Y |
| Collateral support uplift (notches) | 3 | 3 |

WAL--Weighted-average life.

## Additional Factors

### Substitute assets

The cover pool includes a small proportion of bonds to ensure at least six months of liquidity requirements are met in accordance with the Belgian covered bond legislation. These assets comprise Belgian Treasury bonds and are given credit on a recovery basis under our public sector criteria (see "Related Criteria").

### Counterparty risk

We analyze counterparty risk using our updated criteria "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019.

***Commingling risk***

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

BNP Paribas Fortis SA/NV is the bank account provider to the covered bond program. There is no documented replacement mechanism in place in line with our counterparty risk criteria, which would protect the covered bondholders from the bank account providers' credit deterioration. Therefore, we consider the risk that cover pool collections may be lost if they have not been reinvested in cover assets or used to pay the covered bonds.

We have stressed this risk in our analysis by assuming that one month of cash collections are lost. This assumption considers the month during which the issuer could be accumulating cash on behalf of the special estate before the issuer is declared insolvent. It also considers that most collections are done via direct debit and are spread throughout the month.

We expect that cash accumulated post-issuer insolvency would be available in a timely fashion for the special estate to pay covered bondholders and will not be commingled with other funds of the issuer, in line with the Belgian Banking law.

We acknowledge that the Belgian covered bond legislation contains provisions (the "revindication mechanism") aimed at mitigating pre-insolvency commingling risk between the issuer's two separate estates. However, we do not give credit to such mechanism as there is no certainty as to the quality of assets that would be transferred to the special estate to address pre-insolvency commingling risk.

There are no derivatives registered in the cover pool.

### Sovereign default risk

Under our structured finance sovereign risk criteria, as Belgium is in the European Monetary Union and the covered bond program enjoys structural coverage of refinancing needs over a 12-month period via soft-bullet bond maturities, we classify the sensitivity of Belgian residential loans to Belgian sovereign risk as low. Therefore, the maximum potential rating on the covered bonds is five notches above the Belgian sovereign rating. Based on the current sovereign rating (unsolicited: AA/Stable/A-1+), the covered bond program can achieve a rating of 'AAA'.

### ESG Credit Indicators

**ESG Credit Indicators**

| E-1 | **E-2** | E-3 | E-4 | E-5 | S-1 | **S-2** | S-3 | S-4 | S-5 | G-1 | G-2 | **G-3** | G-4 | G-5 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| - N/A | | | | | - N/A | | | | | - Risk management, culture, and oversight | | | | |

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of BNP Paribas Fortis' mortgage covered bonds. This is because the issuer does not commit to maintain a level of overcollateralization commensurate with the current rating, reducing by one the unused notches of uplift under our criteria. The bonds' soft-bullet repayment structure mitigates liquidity risk.

## Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Global Covered Bond Insights Q4 2022, Dec. 16, 2022
- BNP Paribas Fortis SA/NV, Dec. 13, 2022
- 2023 Covered Bonds Outlook, Dec. 6, 2023
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022

- S&P Global Ratings Definitions, Nov. 10, 2021
- Glossary Of Covered Bond Terms, April 27, 2018

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