MOODY'S
INVESTORS SERVICE

Credit Opinion: BNP Paribas Fortis SA/NV

Global Credit Research - 30 May 2014

Brussels, Belgium

Ratings

Category	Moody's Rating
Outlook	Negative(m)
Bank Deposits	A2/P-1
Bank Financial Strength	C-
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Senior Unsecured	A2
Senior Subordinate -Dom Curr	Baa2
Jr Subordinate -Dom Curr	Baa3 (hyb)
Pref. Stock -Dom Curr	Baa3 (hyb)
ST Bank Note Pgm -Dom Curr	P-1

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Key Indicators

BNP Paribas Fortis SA/NV (Consolidated Financials)[1]

	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (EUR million)	**261,463.0**	**272,390.0**	**343,749.0**	**345,594.0**	**425,725.0**	[3]**-11.5**
Total Assets (USD million)	**360,280.8**	**359,116.7**	**446,236.0**	**463,629.4**	**610,805.0**	[3]**-12.4**
Tangible Common Equity (EUR million)	**17,566.0**	**19,049.9**	**19,073.7**	**19,334.0**	**19,459.1**	[3]**-2.5**
Tangible Common Equity (USD million)	**24,204.9**	**25,115.2**	**24,760.4**	**25,937.4**	**27,918.7**	[3]**-3.5**
Net Interest Margin (%)	**1.8**	**1.5**	**1.3**	**1.1**	**0.7**	[4]**1.3**
PPI / Average RWA (%)	**1.7**	**1.3**	**1.7**	**1.0**	**-0.6**	[5]**1.0**
Net Income / Average RWA (%)	**0.8**	**0.4**	**0.2**	**1.6**	**-0.2**	[5]**0.6**
(Market Funds - Liquid Assets) / Total Assets (%)	**-5.8**	**-4.2**	**-4.4**	**-1.0**	**3.4**	[4]**-2.4**
Core Deposits / Average Gross Loans (%)	**101.9**	**97.2**	**101.3**	**94.3**	**88.5**	[4]**96.6**
Tier 1 Ratio (%)	**14.8**	**14.9**	**16.5**	**16.5**	**12.3**	[5]**15.0**
Tangible Common Equity / RWA (%)	**14.0**	**15.4**	**16.2**	**16.2**	**13.1**	[5]**15.0**
Cost / Income Ratio (%)	**66.7**	**74.1**	**65.9**	**74.9**	**121.4**	[4]**80.6**
Problem Loans / Gross Loans (%)	**4.6**	**4.6**	**4.5**	**6.1**	**5.0**	[4]**5.0**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**33.5**	**29.5**	**31.5**	**44.9**	**37.8**	[4]**35.4**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

BNP Paribas Fortis SA/NV (Fortis)'s standalone bank financial strength (BFSR) of C-, stable outlook, equivalent to a baa1 baseline credit assessment (BCA), reflects the bank's strong retail franchises in both Belgium and Luxembourg, its adequate financial fundamentals, notably its solid capital base and sound liquidity profile, as well as its integration with BNP Paribas (BNPP; deposits A1 negative; BFSR C-/BCA baa1 stable). On 13 November 2013, BNPP announced that it had agreed to buy the Belgian government's 25% stake in Fortis for EUR3.25 billion. As a result of this acquisition BNPP will become the owner of 99.93% of BNP Paribas Fortis.

We view Fortis's integration with parent BNPP as largely advanced and progressing according to the group's plan. At end-2012, close to 90% of the integration projects were completed, the outstanding projects being mainly linked to the factoring activities acquired in October 2011. The transfer of Specialised Finance activities from the group started in January 2013 and will be carried out throughout 2013.

The BCA is constrained by a variety of factors, the most important being Fortis's limited recurring profitability in retail banking in Belgium. In addition, the transfer of BNPP's Specialised Finance activities in the EMEA area to Fortis has the potential to negatively alter its risk profile, although these activities remain limited in size currently.

The long-term debt and deposit ratings of A2, negative outlook, reflect a number of factors, namely:

(i) The bank's baa1 baseline credit assessment; and

(ii) assumption of very high systemic support by Belgium (Aa3, stable).

Rating Drivers

- Leading retail franchises in Belgium and Luxembourg

- Constrained retail banking operations' recurring profitability in Belgium, despite successive efficiency plans

- Liquidity position and capitalization are sound on a standalone basis, but dependent from group strategy

- Overall strong asset quality

- Risk management progressively aligned with BNP Paribas's practices

Rating Outlook

Fortis's standalone BFSR has a stable outlook.

Its long-term deposit and debt ratings have a negative outlook. This takes into account the recent adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) regulation in the EU. In particular, this reflects that, with the legislation underlying the new resolution framework now in place and the explicit inclusion of burden-sharing with unsecured creditors as a means of reducing the public cost of bank resolutions, the balance of risk for banks' senior unsecured creditors has shifted to the downside. Although our support assumptions are unchanged for now, the probability has risen that they will be revised downwards to reflect the new framework. For further details, please refer to our Special Comment entitled "Reassessing Systemic Support for EU Banks," published on 29 May 2014.

What Could Change the Rating Up / Down

A durable improvement of underlying profitability, while keeping a low risk appetite, would be positive for the standalone BFSR. However, the current euro area operating environment is not conducive towards any upward pressure on the standalone BFSR in our opinion.

At present and over the immediate rating horizon, we do not see any meaningful upward rating pressure on the long-term debt and deposit ratings.

Although the outlook on the BFSR is stable, the BFSR could be downgraded if the bank: (1) incur significant asset quality deterioration; (2) cannot sustain a satisfactory level of underlying profitability; or (3) is requested by its parent to take on exposures in a way that reduces its intrinsic credit strength.

Fortis's long-term ratings could be downgraded if (1) its BFSR is downgraded and/or (2) the rating of Belgium is downgraded.

DETAILED RATING CONSIDERATIONS

Detailed consideration for Fortis's currently assigned ratings are based on half-year 2013 and FY 2012 results. The scorecard figures are three-year averages of FY 2012, 2011 and 2010. We use Moody's Banking Financial Metrics for our calculations.

Bank Financial Strength Rating

LEADING RETAIL FRANCHISES IN BELGIUM AND LUXEMBOURG

Fortis's franchise is underpinned by strong footholds in Belgium and Luxembourg, where the bank benefits from dominant market shares in the retail and corporate banking sectors. In addition, Fortis operates retail and corporate activities in Turkey through Turk Ekonomi Bankasi (TEB; Baa3 review down; D+/ba1 review down) and in Poland through BNP Paribas Bank Polska.

Through its division "Retail & Private Banking" in Belgium, Fortis enjoys leading market positions in retail banking with a 25-30% market share in number of clients, a 22-28% market share on lending to individuals, professionals and small businesses, and a 20-25% market share in deposits. At the same time, it also exhibits an above 20% market share in private banking in Belgium. We believe Fortis is benefiting from the strength and track record of its parent BNPP which has been instrumental in stabilised its franchise in the aftermath of its failure, as shown by its the increase in deposits and market shares.

Fortis also has dominant market shares in commercial and corporate banking (26% in lending and 20% in deposits) and in public banking (14%) through its division "Corporate & Public Banking" in Belgium. It now owns 50% (+1 share) of BNPP's leasing operations through its subsidiary BGL. Furthermore, the integration of Fortis Commercial Finance, acquired by Fortis in October 2011, went ahead with the merger between Fortis Commercial Finance and BNP Paribas Fortis Factor (factoring activity launched by Fortis in 2009) in July 2012. Lastly, Fortis acquired BNPP's Specialised Finance activities in the EMEA region (excluding France and Italy) with a loan book of around EUR 9.5 billion in January 2013, an operation that was carried out by BNPP in order to optimize the use of liquidity within the group. We view this franchise as strong and benefiting from good dynamics from parent BNPP.

Through its division "Corporate and Investment Banking", Fortis offers full access to BNPP CIB's product portfolio with inter alia important treasury and foreign-exchange operations and a strong position in the Eurobond market. Fortis has significantly reduced its risk profile by transferring the riskiest assets to BNPP or through risk mitigating techniques (e.g. guarantees). Fortis has recently unwound the second-loss guarantee from the Belgian State on certain structured credit assets, as this guarantee was no longer effective ("out-of-the-money"). We understand that the bulk of Fortis's CIB activities is client-driven, thereby carrying less risk.

In Luxembourg, Fortis's subsidiary BGL BNP Paribas (BGL) is one of the country's major banks, with strong market shares in retail, corporate and private banking. Please refer to BGL's Credit Opinion published on www.moodys.com for further details. Fortis also operates a small fully-owned universal bank in Poland with 1.5% market share. In Turkey, it owns 45% of a new bank created from the merger between Fortis Bank Turkey and Turk Ekonomi Bankasi (TEB) in 2011 and ranking 9th in the Turkish banking sector in terms of loans and deposits market shares. In addition, Fortis owns a 30.8% stake in BNPP Investment Partners SA of which 2.6% indirectly through BGL, after the sale of Fortis Investment Management to BNPP.

CONSTRAINED RETAIL BANKING OPERATIONS' RECURRING PROFITABILITY IN BELGIUM, DESPITE SUCCESSIVE EFFICIENCY PLANS

Fortis's underlying profitability is relatively modest, reflecting the intrinsically-weak profitability of retail banking in Belgium. The ratio of pre-provision income to average risk-weighted assets was an annualized 2% in H1 2013 (1.3% in 2012). The bank's multi-channel distribution strategy results in an extensive network of branches, franchises and points of sale, which is constraining profitability. The Belgian market is also highly competitive in general, which weigh on banks' margins. Fortis's efficiency has nonetheless improved thanks to the progressive integration of more profitable Specialised Finance assets (to be completed by year-end 2013). Hence, the bank improved its cost-to-income ratio to 63% in H1 2013 from 75% in 2012. Efficiency is still constrained by weaker underlying profitability of Fortis in Belgium stemming from high structural costs: the bank operated a network of 938 branches, 680 sales outlets under the Bank van De Post brand (50/50 joint-venture) and 312 Fintro branches in Belgium at year-end 2012.

We believe that synergies coming from the integration with BNPP should help foster Fortis's profitability. The recent transactions between Fortis/BGL and BNPP should help support profitability going forward, although it may also entail a moderate increase of risk. These transactions are the acquisition of Fortis Commercial Finance from ABN AMRO in 2011, the increase in BGL's stake in BNP Paribas Leasing Solutions in March 2012 and the acquisition by Fortis of BNPP's Specialised Finance activities in January 2013. In addition, competition in the residential mortgage market in Belgium has abated somehow since 2011, which has made it possible for banks to increase margins on new production.

Activities outside Belgium exhibit higher profitability metrics, although the level of risk is probably higher, as in Turkey and Poland. Activities in Luxembourg, through 50%-owned BGL, display higher profitability with a ratio of pre-provision income to average risk-weighted assets at 2.5% in 2012, which is partly explained by the higher share of SME lending. For further details, please refer to BGL's Credit Opinion available on www.moodys.com.

We expect the cost structure to improve in 2013 thanks to synergies with BNPP and new cost cutting initiatives. However, we still expect the bank's pro-forma profitability to be modest going forward due to the competitive nature of the Belgian market, although recent additions of higher-yielding Specialised Finance assets should modestly help overall profitability in our opinion.

LIQUIDITY POSITION AND CAPITALISATION ARE SOUND ON A STANDALONE BASIS, BUT DEPENDENT FROM GROUP STRATEGY

We view Fortis's liquidity as structurally strong on a standalone basis and we believe that Fortis should weather adverse conditions relatively better than peers. Deposits represent the main source of funding (78% at end-June 2013), as shown by the loan to deposit ratio (excluding repurchase agreements) of 100% at end-June 2013 (101% at year-end 2012). Hence, wholesale funding essentially finances a large available-for-sale (AFS) portfolio (EUR34 billion at end-June 2013) of liquid assets, which provides a strong liquidity cushion. We note that BNPP optimises its group-wide liquidity, as shown by the acquisition by Fortis of BNPP's Specialised Finance activities in 2013 (EUR 9.5 billion loan book).

We view Fortis's solvency ratios as solid and adequate for the risks undertaken. The bank's Tier 1 ratio was 14.8% at end-June 2013 (15.3% at year-end 2012).

OVERALL STRONG ASSET QUALITY

Fortis's asset quality is relatively strong, despite (1) some legacy structured credit exposures and (2) the integration of certain of BNPP's activities that exhibit moderately higher risk profiles.

Asset quality dramatically improved in 2010 with the sale of the most risky legacy assets to Royal Park Investment SPV. Fortis still holds less risky structured credit positions (EUR7.2 billion at end-June 2013). Fortis's problem loans represented gross loans 4.7% of gross loans at end-June 2013. In H1 2013, the annualized cost of risk was very low at 28 bps of gross loans, reflecting the good quality of Fortis's loan book to be compared to 25 bps of customer loans in 2012 (excluding losses on Greek debt).

At end-June 2013, Fortis held a EUR 34 billion AFS portfolio made up of sovereign exposures (74%) of essentially good quality. This portfolio generated credit losses in 2011 in the amount of EUR 866 million from of its exposure to Greek government debt and EUR 185 million related to holdings in AG Insurance (included in `Share of earnings of associates'). The overall cost of risk including the Greek exposure represented 80 bps of customer loans in 2011. At end-June 2013, the bank disclosed net sovereign exposures in the banking book of EUR 178 million to Ireland and EUR 575 million to Portugal. In addition, the bank disclosed sovereign exposures to Italy of EUR 1.1 billion and to Spain of EUR 589 million at the same date. Overall, we consider Fortis's exposures to peripheral European countries to be modest in relation to its capital base.

We expect that the implementation of BNPP's credit standards will help Fortis maintain a low level of provisions against credit risk even though the bank could witness negative pressures on asset quality as a result of the difficult operating environment in Europe. We also believe that the activities transferred by BNPP (e.g. project and acquisition finance) will entail higher risks, thereby altering somewhat the risk profile of Fortis. This is partly mitigated by higher risk diversification, more granular exposures and higher profitability prospects.

BNPP is one of the banks currently being reviewed by the European Central Bank as part of its comprehensive assessment. Fortis will therefore be subject to this review, which consists of a supervisory judgment on key risks, an asset quality review and a stress test, the results of which are to be published in October 2014. For further details, please refer to our Special Comment entitled "European Banks: ECB's Comprehensive Assessment Is Credit Positive, But Crucial Questions Left Unanswered", November 2013.

RISK MANAGEMENT PROGRESSIVELY ALIGNED WITH BNP PARIBAS'S PRACTICES

Fortis suffered hefty losses on structured credit exposures during the crisis, which revealed risk management failures. Since the bank's acquisition by BNPP, an in-depth overhauling of the risk management function has been undertaken. The changes notably include making risk management independent from the business lines and reporting directly to BNPP's Chief Risk Officer. Fortis has also progressively adopted BNPP's lending standards and risk management practices.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term global local currency (GLC) deposit rating of A2, negative, to Fortis. The GLC deposit rating is supported by the bank's intrinsic credit assessment of baa1, as well as our assessment of a very high probability of systemic support. The high level of parental support from BNPP does not translate into rating uplift as BNPP's standalone credit strength is weaker than that of Fortis. The assessment of a very high probability of systemic support is based on Fortis's major role in the Belgian banking system, as evidenced by its strong local market shares. We consider Belgium to be a medium support country.

Notching Considerations

The starting point in Moody's approach to rating hybrid securities is the Adjusted Baseline Credit Assessment (Adjusted BCA), which reflects the bank's standalone credit strength, including parental and/or cooperative support only, if applicable. Fortis's Adjusted BCA is baa1, equivalent to its BCA, since there is no parental support.

The perpetual debt securities (ISIN: BE0119807122) issued by Fortis are rated Baa3 (hyb) with a stable outlook. The ratings are positioned two notches below the Adjusted BCA of baa1 to reflect the instruments' deeply subordinated claim in liquidation. Coupons must be suspended if a weak mandatory deferral trigger is breached (solvency). There is also an optional deferral, which is restricted by a dividend pusher with a 12-month look-back period. Any unpaid coupons are cumulative and must be settled through an alternative coupon settlement mechanism (ACSM).

Moody's rates Fortis's Upper Tier 2 perpetual junior subordinated securities rating (ISIN: BE0934549511) at Baa3 (hyb) with a stable outlook. The rating is positioned two notches below the Adjusted BCA of baa1 to reflect the instruments' junior subordinated claim in liquidation. Coupons must also be suspended if a weak mandatory deferral trigger (solvency) is breached. There is also optional deferral, which is restricted by a pusher with a 12-month look-back period.

Moody's rates BNP Paribas Fortis Funding's Upper Tier 2 perpetual junior subordinated securities ratings (ISIN: XS0071344799 and XS0063913387) at Baa3 (hyb) with stable outlooks. The ratings are positioned two notches below the Adjusted BCA of baa1 due to their junior subordinated claim in liquidation. Coupons can be suspended at the issuer's option, subject to a pusher with a 12-month look-back period.

Moody's assigns a Ba3 (hyb) rating on the Convertible and Subordinated Hybrid Equity-linked Securities (CASHES), with a negative outlook. The securities were issued by Fortis. However, Moody's rating of the CASHES is based on Ageas Holdings' rating as the terms and conditions of the CASHES include a mandatory deferral trigger tied to dividend payments on Ageas Holdings' ordinary shares. The notes have been partially tendered in February 2012.

Foreign Currency Debt and Deposit Ratings

Our foreign currency debt and deposit ratings for Fortis are A2/Prime-1 with a negative outlook.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly. According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

BNP Paribas Fortis SA/NV

Rating Factors [1]	A	B	C	D	E	Total Score	Trend

Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**C+**	**Weakening**
Market share and sustainability		**x**					
Geographical diversification			**x**				
Earnings stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**D+**	**Weakening**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management			**x**				
- Risk Management			x				
- Controls			x				
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information			x				
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				
Market Risk Appetite		**x**					
Factor: Operating Environment						**B**	**Weakening**
Economic Stability			**x**				
Integrity and Corruption		**x**					
Legal System	**x**						
Financial Factors (50%)						**C-**	
Factor: Profitability						**D**	**Improving**
PPI % Average RWA (Basel II)				1.32%			
Net Income % Average RWA (Basel II)				0.76%			
Factor: Liquidity						**C+**	**Weakening**
(Market Funds - Liquid Assets) % Total Assets		-3.20%					
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel II)	15.97%						
Tangible Common Equity % RWA (Basel II)	15.91%						
Factor: Efficiency						**D**	**Neutral**
Cost / Income Ratio				71.63%			
Factor: Asset Quality						**D**	**Weakening**
Problem Loans % Gross Loans				5.08%			
Problem Loans % (Equity + LLR)				35.31%			
Lowest Combined Financial Factor Score (15%)						**D**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**C**	
Aggregate BCA Score						**a3**	
Assigned BFSR						**C-**	
Assigned BCA						**baa1**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.

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