MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms BGL BNP Paribas' A1 long-term deposit and A2 senior unsecured debt ratings, outlook remains stable

19 Jun 2024

Paris, June 19, 2024 -- Moody's Ratings (Moody's) today affirmed the A1 long-term deposit ratings and A2 long-term issuer and senior unsecured debt ratings of BGL BNP Paribas (BGL). The outlook on the long-term deposit, issuer and senior unsecured debt ratings remains stable. Concurrently, Moody's affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of a3, its senior unsecured MTN program rating of (P)A2 and subordinate rating of Baa1, as well as its short-term deposit and Commercial Paper ratings of Prime-1. The rating agency also affirmed BGL's long-term and short-term Counterparty Risk (CR) Assessments of Aa2(cr)/Prime-1(cr) and its long-term and short-term Counterparty Risk Ratings (CRR) of Aa2/Prime-1.

RATINGS RATIONALE

The affirmation of BGL's long-term deposit and senior unsecured debt ratings at A1 and A2 respectively reflects (1) the bank's a3 BCA and Adjusted BCA; (2) one and no notch of uplift for these instruments respectively, under Moody's Advanced Loss Given Failure (LGF) analysis, and (3) one notch of uplift stemming from the support of the Government of Luxembourg (Aaa stable) for both instruments, reflecting a moderate probability of support for a bank of systemic importance.

Baseline Credit Assessment

The affirmation of BGL's BCA of a3 reflects the bank's solid financial fundamentals. Boosted by higher interest rates since 2022, the bank's net income/ tangible banking assets ratio stood at 1% in 2023, above the system average of 0.8%. Moody's expects such high profitability to endure because of the large deposit base and the integration of BNP Paribas' (BNPP, Aa3 stable, baa1) European leasing activities which structurally generate high margins.

BGL's asset quality is robust, albeit moderately deteriorating, with a ratio of problem loans to gross loans of 2.6% at end-2022, but up from 2.3% in 2022. BGL is exposed to risks associated with the strong slowdown observed in the real estate market and construction sectors, given the bank's sizable stock of mortgages to households (€7.0 billion at year-end 2023, 19% of the loan book) and commercial real estate loans (€3.6 billion, 10% of the loan book).

BGL's BCA is also driven by its strong capitalisation, although it is largely dependent on BNPP's capital allocation policy. As of December 2023, BGL's common equity Tier 1 (CET1) ratio stood at 24.2% (up from 23.3% at the end of 2022), well above the 12.58% minimum regulatory requirement. In Moody's opinion, the permanence of a high CET1 seems to indicate BNPP's and its shareholders (34% of the bank's shares are held by the Grand Duchy of Luxembourg)' willingness to maintain a large capital buffer.

The affirmation of BGL's BCA also reflects its structurally strong funding and liquidity profile. As a retail, private and commercial bank, BGL's customer deposits make up the bulk of its funding sources. The structural excess of funding over the bank's activities is partially recycled by BNPP to fund the development of the international leasing businesses. Nevertheless, the bank's level of liquid assets remains very high at around 34% of tangible banking assets as of year-end 2023.

Long-term ratings

Moody's affirmation of BGL's long-term deposit rating of A1 and senior unsecured debt ratings of A2 reflects a low loss-given-failure for the bank's deposits and moderate loss-given-failure for its senior unsecured debt, resulting in an uplift of one and zero notch above the BCA, respectively. Both ratings also incorporate one notch of uplift reflecting a moderate probability of support for the bank which Moody's considers to be systemic in Luxembourg.

Outlook

The outlook on BGL's long-term deposit, issuer and senior unsecured debt ratings is stable, reflecting Moody's view that BGL will be able to maintain broadly stable profitability and high capital buffers, providing strong loss absorption buffers against any fluctuations in operating conditions.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

BGL's BCA of a3 is one notch above that of its ultimate parent BNPP and is therefore unlikely to move up without any improvement in BNPP's own BCA, given the interlinks between the parent and its Luxembourg subsidiary. In such a scenario BGL's BCA could be upgraded in case of a strengthening of its own asset quality and/or an improvement in its profitability.

BGL's long-term deposit ratings could be upgraded if the amount of deposits from corporates were to increase or if they benefitted from the protection of a larger amount of subordinated debt. BGL's long-term senior unsecured rating could also be upgraded as a result of increased unsecured debt in the bank's overall liability structure, and in case of greater subordination.

BGL's BCA of a3 could be downgraded if there were a significant increase in the bank's problem loans or a material reduction in capital and liquidity buffers. A lower BCA at BGL or BNPP would likely result in a downgrade of all the ratings.

BGL's long-term deposit ratings could be downgraded as a result of an increase in loss given failure, in case of a significant change in the bank's liability structure implying a material reduction in the volumes of deposits or a substantial reduction in the amount of debt subordinated to deposits. It could also reflect a lower probability of government support.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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