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KBC Group N.V.

Primary Credit Analyst:
Letizia Conversano, Paris + 353 (0)1 568 0615; letizia.conversano@spglobal.com

Secondary Contacts:
Anastasia Turdyeva, Dublin + (353)1 568 0622; anastasia.turdyeva@spglobal.com
Philippe Raposo, Paris + 33 14 420 7377; philippe.raposo@spglobal.com

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KBC Group N.V.

Ratings Score Snapshot

Issuer Credit Rating
A-/Stable/A-2

SACP: a → **Support: +1** → **Additional factors: 0**

Anchor	bbb+	
Business position	Strong	+1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
A+/Stable/A-1
Resolution counterparty rating
AA-/A-1+
Holding company ICR
A-/Stable/A-2

ALAC--Additional loss-absorbing capacity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Clear strategic focus to leverage the bank insurance model and achieve a leading competitive position in Belgium and Central and Eastern Europe (CEE).	Sizable exposure to corporates and small and midsize enterprises (SMEs) where asset quality could be pressured by the ongoing economic headwinds.
Strong earnings capacity compared with European peers, with renewed momentum on net interest income.	Exposure to higher economic risk in CEE.
Robust focus on digital and straight-through processing.	

KBC will remain focused on its strategy to deliver robust returns. We expect KBC to continue building up its presence in CEE over the next few years to achieve scale in its different business lines. At the same time, we expect an orderly exit from Ireland. Its well-integrated bank insurance model makes the group resilient to current headwinds and challenges, which leads us to believe that it has above-peer-average efficiency and earnings metrics.

We believe capitalization is close to bottoming out at still-strong levels. KBC renewed its capital policy early in 2022 stating that it is now setting a 15% CET1 ratio internal target and could distribute the excess to shareholders. With 15.3% at first-quarter 2022, KBC is already close to its target. We consider that this level of capitalization broadly translates into a 10%-11% S&P Global Ratings-risk-adjusted capital (RAC) ratio, or the lower of the band to which we ascribe our assessment of strong capital.

Nonperforming assets (NPAs) could rise in coming quarters. While NPAs have been decreasing recently, as seen in stage 3 loans reducing to 2.3% at first-quarter 2022 compared to 3.3% a year before, we consider the current headwinds will stop this trend. The economic environment of lower growth, supply chain disruptions, and increasing interest rates could squeeze borrowers' repayment capacity. Still, we view KBC's provisioning as prudent given that it has placed performing exposures into stage 2, which mechanically increases coverage ratios despite no real credit losses having yet hit the balance sheet.

Outlook

The stable outlooks on all KBC group entities reflect our view that the group will remain efficient and profitable in the next two years. Moreover, we estimate that credit loss provisions adequately capture future corporate and SME defaults in the group's markets. We expect the group will display strong and resilient earnings as it leverages its efficient bank-insurance operating model, involving the sale of insurance and asset-management products to bank customers, which should help alleviate ongoing inflationary pressures.

Downside scenario

We could lower the ratings on the operating companies if we revise downward our assessment of the group stand-alone credit profile (SACP) and this weakening was not offset by higher external support via the bank's buffer of bail-in-able debt. However, a downward revision of the group SACP would lead us to lower the holding company ratings. KBC's stand-alone creditworthiness could be pressured if the group departs from prudent capital management, engages in aggressive growth organically or via M&A, or if its risk profile deteriorates. That said, an eventual downward revision of the group SACP could be compensated by a second notch of additional loss absorbing capacity (ALAC) support for the operating companies if KBC sustainably maintains a buffer above 6% of our risk-weighted assets (RWAs).

Upside scenario

We see a remote possibility of an upgrade because that would require a more diverse business model or substantially lower risk exposure, which is unlikely given the bank's plans to expand in countries that carry higher risk than Belgium.

Key Metrics

KBC Group NV--Key Metrics

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021a**	**2022f**	**2023f**
Growth in operating revenue	1.4	(5.9)	5.1	7.5-9.2	3.8-4.7
Growth in customer loans	5.4	2.9	(0.6)	3.6-4.4	3.2-3.9
Net interest income/average earning assets (NIM)	2.0	1.8	1.8	1.9-2.1	2.0-2.2
Cost to income ratio	56.4	57.8	56.9	53.8-56.5	54.1-56.9
Return on average common equity	13.8	7.4	12.6	11.6-12.8	11.1-12.2

KBC Group NV--Key Metrics (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021a**	**2022f**	**2023f**
New loan loss provisions/average customer loans	0.1	0.7	(0.2)	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	2.1	2.0	1.8	1.8-2.0	1.8-2.0
Risk-adjusted capital ratio	11.1	12.1	11.2	10.4-10.9	10.8-11.3

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+' Based On The Weighted Average Of Economic Risk For The Bank's Countries Of Operation

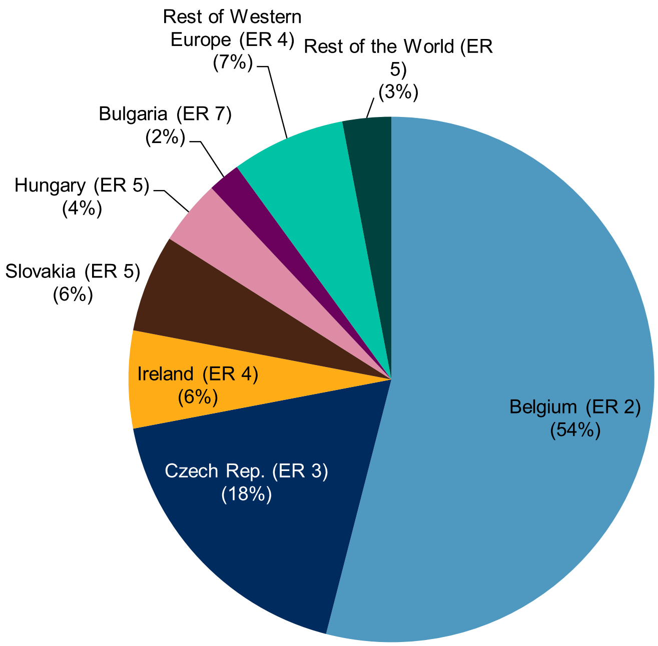
KBC's 'bbb+' anchor reflects the blended Banking Industry Country Risk Assessment (BICRA) economic risk scores of the countries where the bank operates and Belgian industry risk. KBC is present outside Belgium in higher economic risk countries in CEE and in Ireland (although we expect KBC to conclude its Irish divestment by end-2022 or first-quarter 2023). The weighted economic risk is therefore slightly weaker than for a bank operating in Belgium only, where the anchor would be 'a-'.

Our '2' economic risk score for Belgium reflects the generally favorable domestic operating conditions for banks. We regard Belgium's economy as wealthy, highly diversified, and export oriented, with a net external asset position. High government debt and relatively high taxes constrain fiscal flexibility, but private-sector debt, especially in the corporate sector, is at the lower end of the peer spectrum. We see the economic risk trend as stable despite increased risks to banks' credit profiles due to the increasing uncertainty around inflation, supply chain disruptions, and rising interest rates. The risk of economic imbalances remains low, in our view, but we will continue monitoring the build-up of household debt and the rise in real estate prices over the medium term.

Our industry risk score of '3' with a stable trend reflects our view of the ample domestic funding sources for Belgian banks. The four largest banks maintain stable and dominant domestic market shares, which underpins industry stability. Regulatory standards are, in our view, in line with those of Belgium's Western European peers.

Chart 1

KBC Group's Loan Portfolio By Market With Economic Risk Scores



Data at end-Deptember 2021. Sources: KBC, S&P Global Ratings. Economic Risk (ER) scores are part of S&P Global Banking Industry Country Risk Assessments (BICRA). Economic risk scores rank from 1 to 10, 1 being the lowest risk level.

Business Position: Leading Bank And Insurance Franchise In Belgium And The Czech Republic

KBC's focused strategy to gain and maintain meaningful market shares in the core markets where it operates, and its well-integrated bank insurance model, make the group resilient to the economic, digital, regulatory, and competitive challenges facing the industry. With €370 billion of reported assets on March 31, 2022, KBC is a diversified financial services group. The company is smaller than many of the large and diversified banking groups operating in Europe, but we believe it displays superior earnings and efficiency metrics.

The group's main banking arm, KBC Bank, is a market leader in the wealthy Flemish part of Belgium and has a domestic market share of about 20% in terms of retail credit and deposits. Its Czech bank subsidiary, Ceskoslovenská Obchodní Banka, is a leading domestic player with a 21% share of the loan and deposit market, which we consider a low-risk segment. The group announced its exit from the Irish Market while continuing with M&A activity in other CEE markets, as recently seen in Bulgaria.

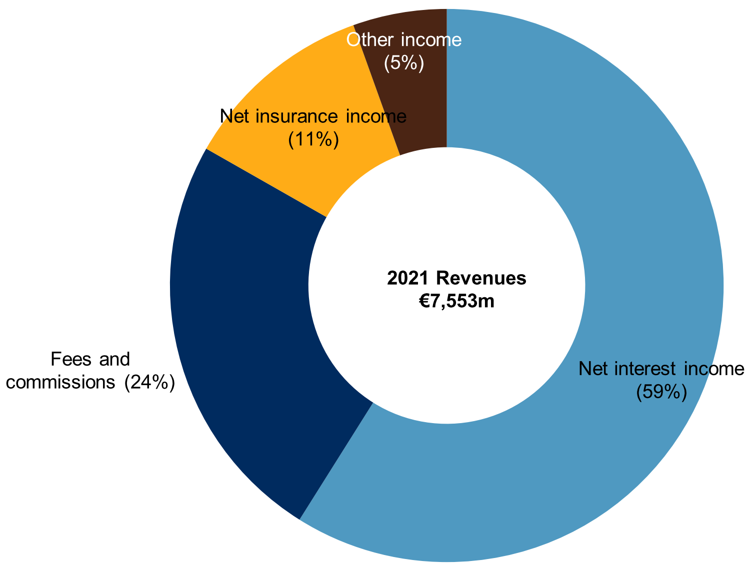
KBC Insurance is highly integrated, with bank channels accounting for the majority of total sales. This enables high levels of efficiency and a dominant share of profitable unit-linked life policies. KBC Insurance enjoys a market share of

13% in life insurance and 9% in property and casualty (P/C) insurance in Belgium, and 8% in both life and P/C insurance in the Czech Republic. The insurance business has historically been a strong contributor to revenue, and, above all, it provides diverse earning streams and supports customer loyalty.

KBC's recurring fee income, which provides about 20%-25% of operating revenue, also adds to the group's business diversity. The bulk of the fee income is driven by the asset-management business, with reported assets under management (AUM) of €236 billion at the end of first-quarter 2022.

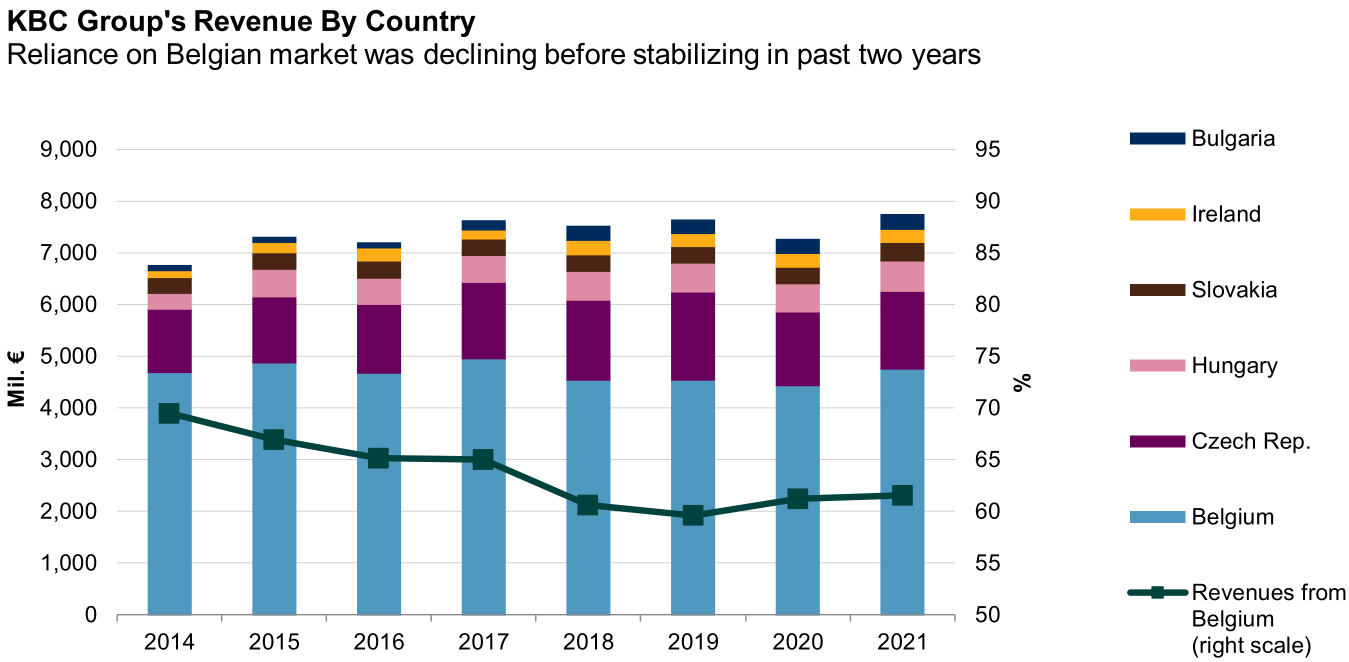
Chart 2

KBC 2021 Revenues By Business Line (%)
The group's diversified business model is a strength



Sources: KBC, S&P Global Ratings.

Chart 3

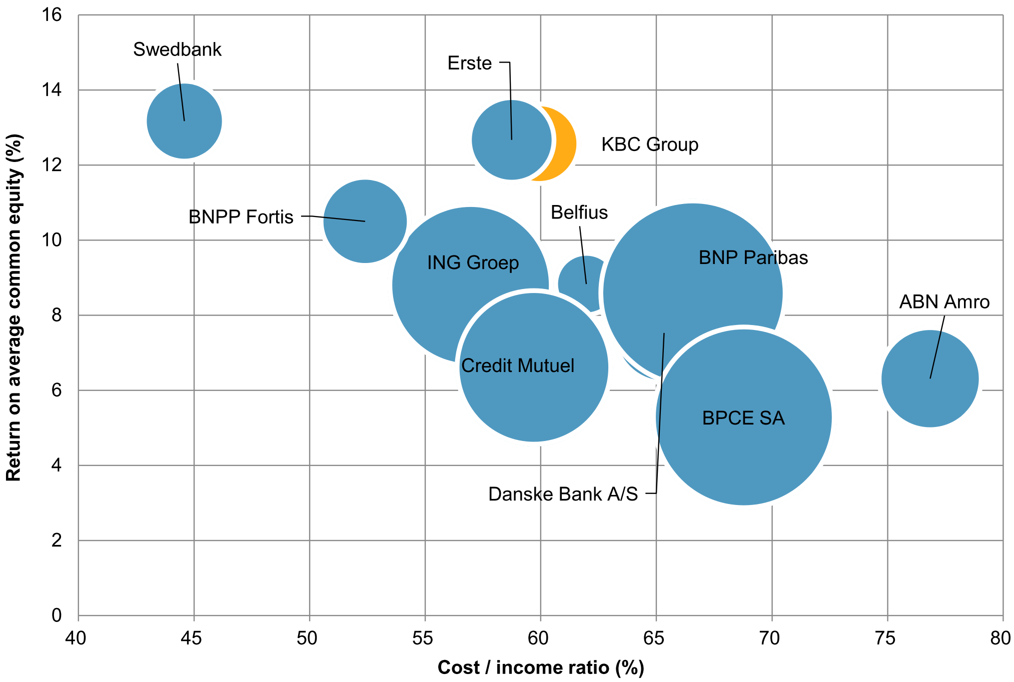


Source: KBC, S&P Global Ratings. Excluding Group Centre data.

We view positively management's actions and clear focus on the optimization of the bank insurance business model in the core markets in which it operates, as well as its focus on retail and small to midsize corporate activities, with low dependence on financial markets. This business model has allowed the group to post a solid return on equity (ROE) in excess of 14% since 2015 (with the exception of 2020 due to pandemic provisioning) with a ROE of 15% for 2021. Beyond recurrent earnings, the group's superior efficiency is reflected in a cost-to-income ratio averaging 55% for the past five years, and we expect the group to maintain this at the lower end of the 55%-60% range in the next two years, which is better than most European peers.

Chart 4

KBC's Superior Efficiency More Than Compensates For Its Smaller Size
Efficiency ratios compared with peers (as of December 2021)



Bubble size represents gross customer loans in EUR. Source: S&P Global Ratings.

Capital And Earnings: A Soft Landing Above The 10% Risk-Adjusted Capital Ratio Mark

We view KBC's capital as broadly in line with that of most Dutch and Nordic peers, while the group's profitability is among the strongest in Europe.

KBC reported a CET1 ratio of 15.3% at the end of first-quarter 2022, compared to 17.6% a year before, and well above its 10.8% minimum requirement. The decrease is mainly due to the resumption of dividends post the pandemic ban and KBC's M&A strategy. KBC set an internal capital target at 15% CET1 ratio, stating it could distribute the excess above that figure at the board of directors' discretion. We understand that KBC plans to continue setting its own capital target in comparison with peers, which could mean the target changes in the future.

KBC's RAC ratio was 11.2% as of end-2021. We project that the RAC ratio will decrease over the next two years but remain above 10%. To arrive at this projection, we make the following assumptions:

- Operating revenues increasing 7%-9%, supported by improving margins as interest rates are rising quickly (notably in CEE) and the continued loan book to grow steadily by 3%-4% over 2022-2024. We expect lower growth in fee income, in particular in asset management due to the drop in equity and fixed income valuations.

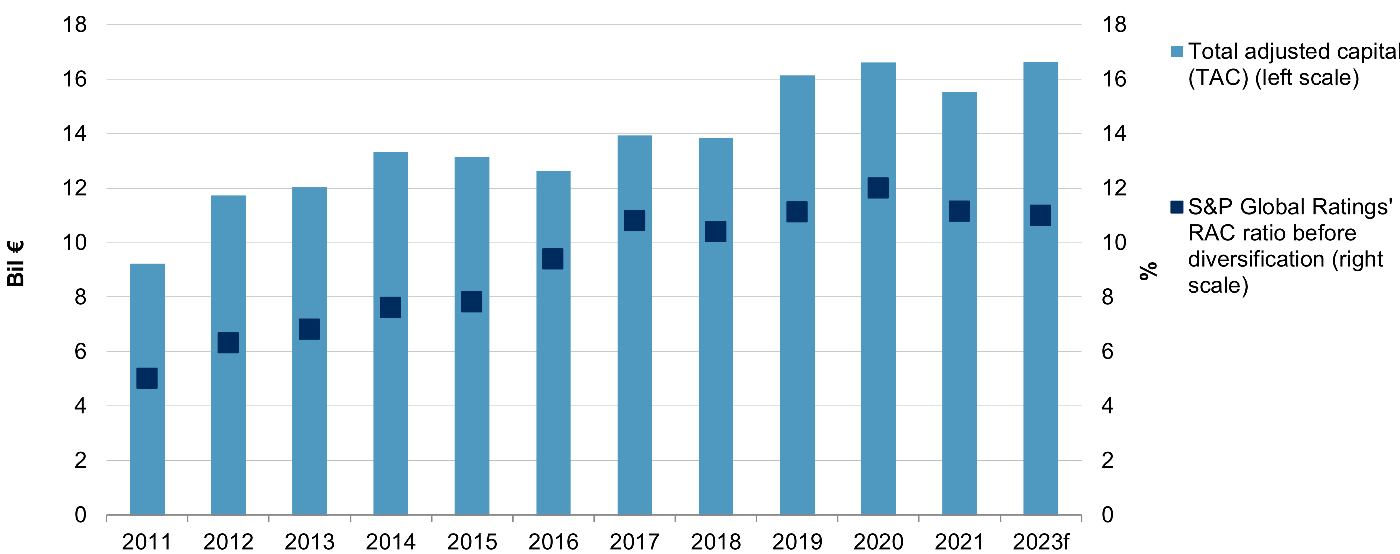
- Operating expenses to increase by around 5% in 2022 considering the cost of the Raiffeisen Bulgaria acquisition and inflationary pressures (including wage indexation in Belgium). Ongoing efficiency measures should be offset by continued investment invest in the digital-first strategy.
- Cost of risk to increase and remain at a through-the-cycle level of 25 bps through the forecast period. In first-quarter 2022 the group booked a €223 million overlay for macroeconomic uncertainties, which was largely offset by the consequent release of €205 million in pandemic-related overlays.
- S&P Global Ratings RWAs to increase at a slightly faster pace than the loan book in 2022-2024 considering some deterioration in asset quality.
- The inflation in RWAs from the consolidation of Raiffeisen Bulgaria's assets is expected to be largely offset by the benefit of the exit from Ireland.
- We assume the dividend payout ratio to remain at 50% through 2024. As part of our estimated projections we include other exceptional shareholder returns to capture the fact that KBC maintains a CET1 ratio at 15%.

We calculate KBC's RAC ratio at the group level because we consider that KBC will remain an integrated bank insurance group in the near future, and because it manages capital allocation on a consolidated basis. We believe that KBC Insurance's capital position is consistent with the overall capital position of its banking activities.

Chart 5

Stabilizing Capitalization

KBC capital and RAC ratio since 2011



RAC--Risk-adjusted capital. f--Forecast, 50bps average range. From 2016 figures the TAC is calculated under our revised Risk-Adjusted Capital Framework Methodology (published July 2017), which fully deducts participations in insurance subsidiaries. Source: S&P Global Ratings.

Risk Position: Loan Book Is Well Provisioned But Facing Increasing Macro Uncertainty

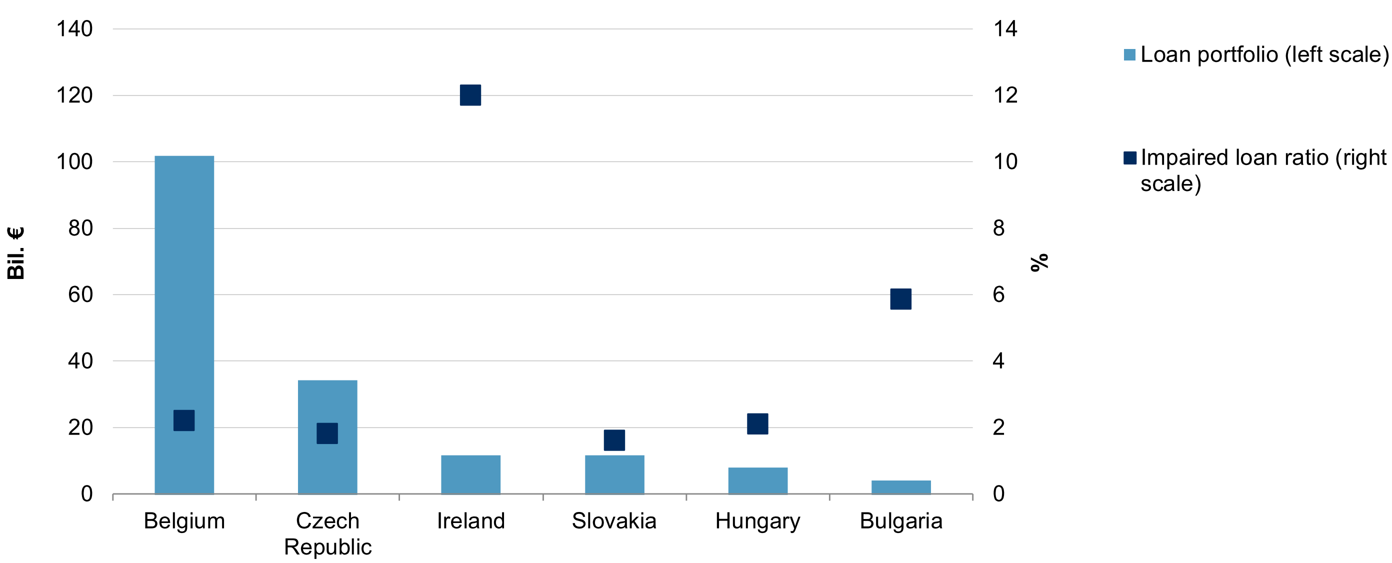
KBC Bank's loan portfolio is geographically diverse, and single-name and sector concentrations are low. We understand that KBC aims to expand, but within the boundaries of its existing areas of expertise. In our view, KBC will cautiously manage its expansion strategy after years of significant efforts to reduce risk. Operating conditions have deteriorated since the onset of the pandemic, followed by current macro uncertainties, but we have seen only a limited number of SME and corporate defaults at this stage. We expect defaults will increase in the next two years.

The majority of the group's riskier assets relate to its Belgian business unit, as well as the Czech Republic business. We do not expect any rapid transformation of the group's geographical breakdown of activities besides the exit of Ireland and additional investments in CEE within KBC's core markets. That said, we will be tracking the extent of the gradual rebalancing of activities between Belgium, a low risk but mature market, and other markets in Eastern Europe with higher growth potential but higher risk profiles. Overall, we believe that KBC's RAC ratio adequately reflects the credit risk of operating in countries with higher economic risk than Belgium.

Chart 6

KBC Group's Loan Portfolio Is Geographically Diverse With Credit Risk Mostly Concentrated In Mature Markets

Asset-quality metrics for KBC Group's main loan portfolios



NPL--Impaired loans are 90 days past due loans. Data as of December 31, 2021. Source: KBC, S&P Global Ratings.

Typically, low-risk mortgage loans represent the largest component of KBC's loan book (40%), mainly in Belgium and the Czech Republic. KBC reported a prudent average indexed loan to value (LTV) on mortgages below 60% in both countries. Besides Ireland, Bulgaria is the other weaker spot in terms of asset quality, although the impaired loan ratio improved in 2021 to 5.3% from 7.7%, and the country remains a limited exposure in the overall group context.

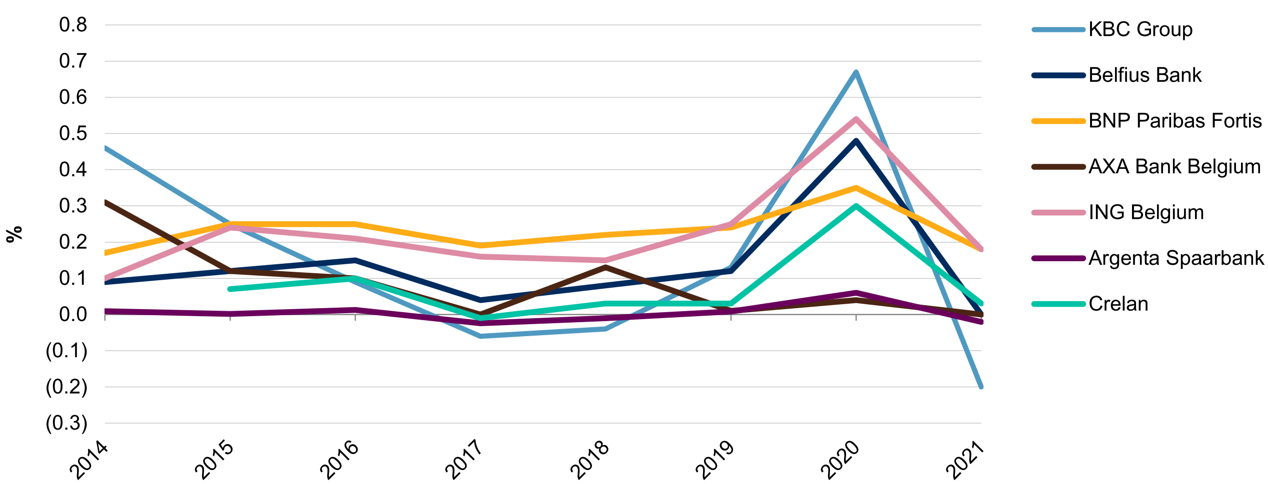
The nonperforming loan (NPL) trajectory has been improving despite the pandemic and is better than most large French and Dutch peers'. However, in our opinion, the ratio is likely to increase in the next two years because of a lower debt repayment capacity at SMEs and some corporates that are suffering from lower economic growth, higher inflation, increasing interest costs, and possible further supply chain disruptions. We project NPLs will be higher than that for KBC's peers operating solely in Belgium or Nordic countries, reflecting KBC's sizable corporate and SME book and exposure to riskier economies. However, we believe this risk is mitigated by KBC's stronger coverage ratio compared with most peers and by its resilient earnings profile, which provides a comfortable cushion against unexpected losses before impacting capital.

Overall, we expect the group to remain fundamentally low risk. We saw this in its negative cost of risk in 2021 (that is, recoveries) after the 67 bps pandemic-related peak in 2020; and we project it to be in the 20-30bps range over the next two years.

Chart 7

KBC Group's New Loan Loss Provisions Versus Belgian peers

KBC Group's higher provisionning at the pandemic onset led to higher reversals in 2021



Source: S&P Global Ratings.

Funding And Liquidity: Stable Core Deposits Provide A Comfortable Funding Structure

The bank's large retail branch network provides it with a stable base of core deposits that fully cover the loan portfolio.

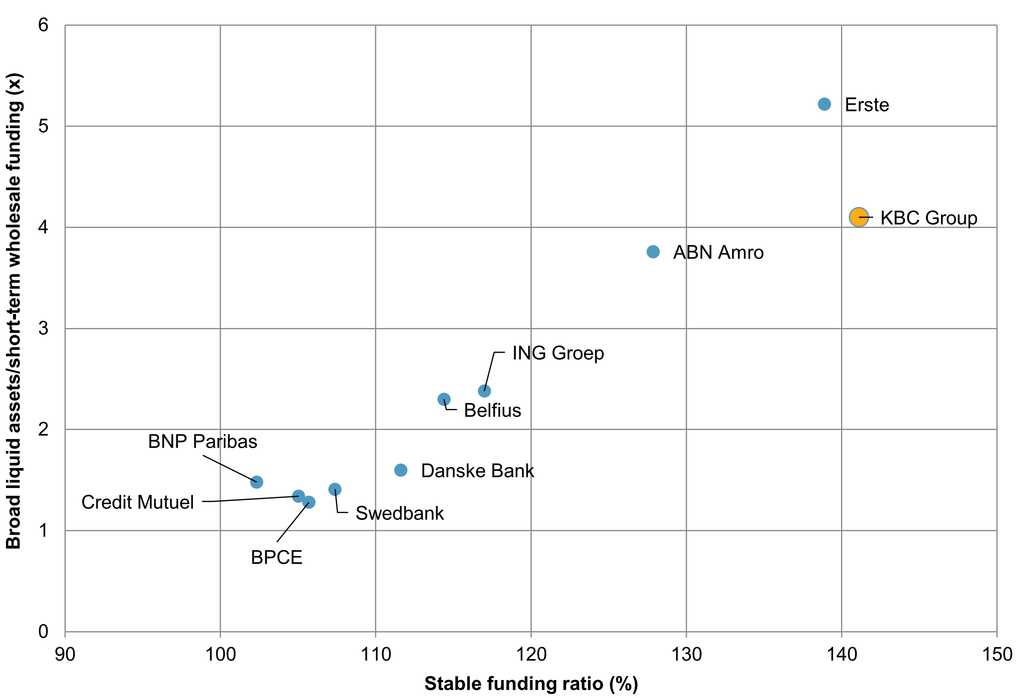
We calculate that the ratio of total loans to customer deposits remained stable at a low 80% at end-2021. For the same period, we estimate that KBC had a solid stable funding ratio of 141% and comfortable broad liquid asset coverage to total wholesale funding of 1.6x. These ratios compare favorably to those disclosed by many large European peers and are unlikely to change much by end-2022, but we could see some normalization when KBC repays its share of TLTRO like other European banks. KBC achieves these metrics despite some entities of the group, notably the Irish operations, not being self-funded. The group makes use of its liquidity excess to help these entities.

The group also reported metrics well above the regulatory minimum, with a liquidity coverage ratio of 162% reflecting the large stock of high-quality liquid assets, and an estimated net stable funding ratio of 149% at end-March 2022.

We consider the medium-term wholesale funding that matures in the next three years to be relatively granular and diversified. We expect KBC to continue to issue senior unsecured debt at the NOHC level, as it aims to build a significant buffer of bail-in-able securities (see chart 6). We understand these instruments will replace senior unsecured notes issued at the operating company level in the coming years. Additionally, from this year KBC has to refinance its first layer of NOHC senior unsecured debt. In parallel, we expect that KBC will also continue to issue Tier 2 instruments out of the NOHC for the same regulatory reason.

Chart 8

KBC Group's Funding And Liquidity Metrics Compare Well With Peers
Thanks to high deposit bases in Belgium and Czech Republic



Source: S&P Global Ratings. Data as of December 2021.

Support: One Notch Of Additional Loss-Absorbing Capacity

We believe that the prospect of extraordinary government support for the Belgian banking sector is uncertain under the EU resolution regime. This is because it contains a well-defined bail-in process under which the authorities would permit nonviable, systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. KBC has a single point of entry approach for the bank's resolution strategy.

Our assessment of KBC's ALAC leads us to add one notch of uplift to the GCP, reflecting KBC's buffer of debt at the holding company that is structurally subordinated to KBC Bank's senior debt. We believe, therefore, that senior creditors of the core banking entities will remain protected by this sizable buffer of bail-in-able debt. We estimate the ALAC buffer is already above the 3.25% threshold we deem appropriate for KBC, at close to 7%. We believe that the ALAC buffer will remain at about 7%-8% of our RWA measure by end-2024. This is based on KBC's internal capital generation and the expectation that KBC Group N.V. will continue to issue senior unsecured debt instruments, offset by maturing instruments and an anticipated increase in RWAs.

We use an adjusted 3.25% threshold, as opposed to the usual 3.00%, because we cannot exclude that KBC could need to use part of its ALAC buffer for prepositioning purposes, and we believe the fungibility of such resources would therefore be constrained. This is in line with our approach for KBC's peers, including, for instance, international groups operating in the Czech Republic. We believe that there will be no capital fungibility between the bank and insurance operations in case of stress, including a resolution scenario under which we believe that the insurance perimeter would be out of scope.

Environmental, Social, And Governance

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

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 Indicators: Definition And Applications," published Oct. 13, 2021.

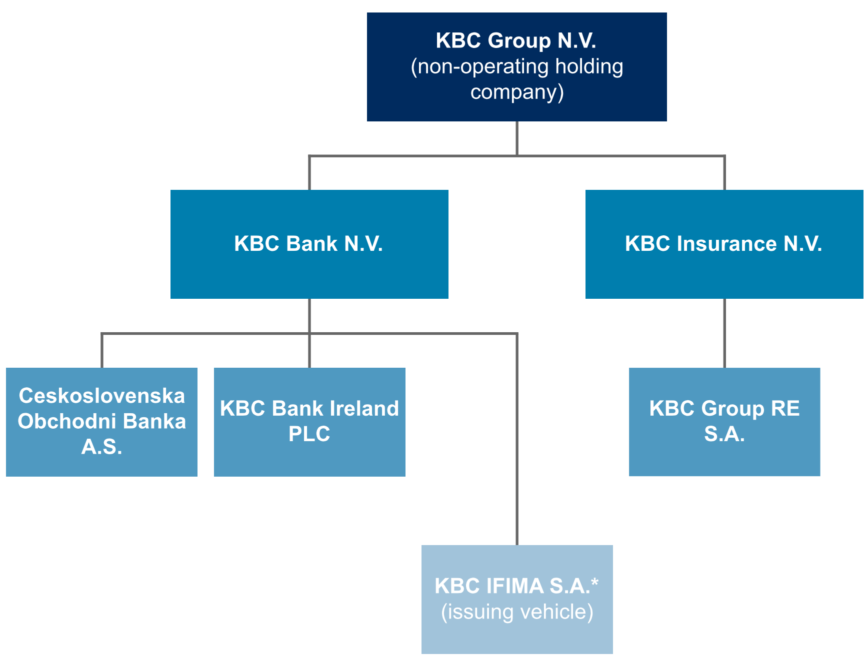
We think that KBC, like diversified international peers, is exposed to a wide range of legal and nonfinancial risks due to its operations in multiple business lines and geographies. Corporate governance practices are typically of a high standard in a country like Belgium, and we have not seen the kind of major conduct or compliance issues surfacing for KBC that have affected many of its peers in neighboring countries.

While KBC operates in economies with typically weaker social and governance standards than Belgium--notably in some CEE countries--the group has strengthened local management practices to align them with group standards. KBC is also a significant player in private banking and asset management, hence the importance of appropriate Know Your Customer procedures for the group.

As a diversified bank, KBC is typically exposed to sectors where we see rising environmental risks (for example, agriculture, fishing, metals, and chemicals). We observe that these exposures represent less than 10% of the bank loan book and that KBC communicates on clear environment targets including on financing of coal-related activities and share of renewables in financed energy projects. KBC aims to have over 65% of its energy credit portfolio comprise renewable energy by 2030 (63% at end-2021). Other targets include increasing its share of socially responsible investing funds, the full exit of coal-related finance, a reduction of its own greenhouse gas emissions, and the use of 100% renewable electricity.

Group Structure, Rated Subsidiaries, And Hybrids

Simplified Structure of KBC Group Showing Entities Rated By S&P Global Ratings



*KBC IFIMA: not rated; debt issued guaranteed by KBC Bank.

The ratings on KBC Bank and KBC Insurance reflect our view of their core status to the group. KBC Group owns 100% of both KBC Bank and KBC Insurance. We consider KBC Bank and KBC Insurance to be fully integrated with the group. Still, we use the 'a' group SACP to determine the ICR and financial strength rating on KBC Insurance, since we do not believe ALAC support will be available for insurance subsidiaries, which are outside the bank resolution perimeters. We also view the Luxembourg-based reinsurer KBC Group Re S.A. as core to the group, and we equalize our ratings on it with the 'a' group SACP.

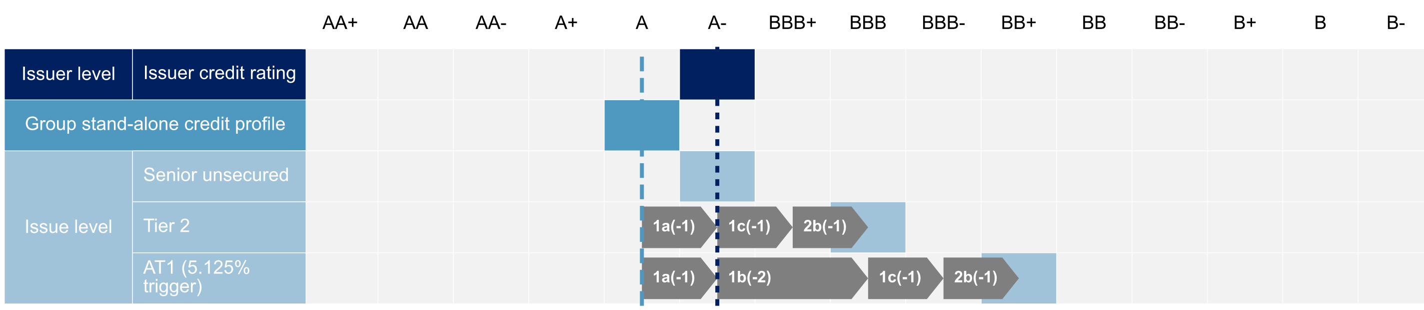
The ratings on Ceskoslovenska Obchodni Banka (CSOB) A.S. reflect our view of its core status to the group. We equalize our ratings on it with the GCP, and the ratings on other core operating bank entities of the group, such as KBC

Bank. We equalize our ratings on KBC Bank and CSOB, given our view that a single point of entry resolution strategy at the group level is probable, even if the Czech regulator clarifies further how it approaches the case of locally systemic financial institutions that are part of a wider pan-eurozone banking group regulated by the ECB.

How we rate the AT1 instruments issued by KBC Our 'BB+' rating on KBC's AT1 notes is five notches below our 'a' assessment of KBC's group SACP. This five-notch difference represents:

- One notch to reflect subordination risk.
- Two additional notches to take into account the risk of nonpayment at the issuer's full discretion and the hybrid's expected inclusion in the issuer's Tier 1 regulatory capital.
- One notch due to a mandatory contingent capital clause that would lead to equity conversion if KBC's CET1 ratio falls below 5.125%. We do not consider this to be a going-concern trigger.
- One further notch to reflect structural subordination because the notes were issued by KBC Group N.V.
- Compliance with the minimum regulatory capital requirements is necessary to avoid the risk of potential restrictions in the payment of coupons on the AT1 notes. We view this risk as limited for KBC since its fully loaded CET1 ratio well above the minimum set by regulators.

KBC Group N.V.: NOHC Notching



Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2b	Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 2, 2022.
AT1--Additional Tier 1.

Resolution Counterparty Ratings (RCRs)

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and the issuer is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. The long-term RCR for KBC Bank is one notch above the long-term 'A+' ICR, at 'AA-', and the short-term rating is 'A-1+'.

Key Statistics

Table 1

KBC Group N.V.--Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	303,367.0	284,424.0	253,760.0	248,977.0	253,290.0
Customer loans (gross)	162,301.0	163,316.0	158,671.0	150,575.0	145,038.0
Adjusted common equity	14,048.1	15,084.9	14,610.3	12,800.0	12,457.0
Operating revenues	7,553.0	7,185.0	7,636.0	7,528.0	7,712.0
Noninterest expenses	4,299.0	4,156.0	4,303.0	4,235.0	4,074.0
Core earnings	2,744.9	1,538.3	2,500.2	2,604.9	2,615.0

Table 2

KBC Group N.V.--Business Position

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Loan market share in country of domicile	19.0	19.0	20.0	0.2	0.2
Total revenues from business line (currency in millions)	7,553.0	7,185.0	7,636.0	7,528.0	7,712.0
Commercial and retail banking/total revenues from business line	69.9	73.7	73.8	72.8	62.0
Trading and sales income/total revenues from business line	1.9	0.5	2.4	3.1	11.1
Insurance activities/total revenues from business line	11.3	11.9	9.5	9.3	8.3
Asset management/total revenues from business line	16.9	13.9	14.2	14.7	16.0
Other revenues/total revenues from business line	N/A	0.0	0.1	0.1	2.6
Investment banking/total revenues from business line	1.9	0.5	2.4	3.1	11.1
Return on average common equity	12.6	7.4	13.8	14.8	15.4

N/A--Not applicable.

Table 3

KBC Group N.V.--Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	16.9	19.1	18.7	17.0	18.0
S&P Global Ratings' RAC ratio before diversification	11.2	12.1	11.1	10.4	10.8
S&P Global Ratings' RAC ratio after diversification	11.9	13.5	12.3	10.9	11.9
Adjusted common equity/total adjusted capital	90.4	91.0	90.7	92.8	89.9
Net interest income/operating revenues	58.9	62.2	60.5	60.4	53.4
Fee income/operating revenues	24.3	22.4	22.7	22.8	22.1

Table 3

KBC Group N.V.--Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Market-sensitive income/operating revenues	2.7	1.2	3.5	3.2	13.7
Cost to income ratio	56.9	57.8	56.4	56.3	52.8
Preprovision operating income/average assets	1.0	1.0	1.2	1.1	1.3
Core earnings/average managed assets	0.8	0.5	0.9	0.9	0.9

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

KBC Group N.V.--Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	75,830.0	5,773.0	7.6	5,415.7	7.1
Of which regional governments and local authorities	269.0	54.0	20.1	34.0	12.6
Institutions and CCPs	13,541.8	2,370.0	17.5	3,808.8	28.1
Corporate	81,107.1	37,256.2	45.9	62,069.2	76.5
Retail	107,817.1	19,564.1	18.1	41,957.8	38.9
Of which mortgage	87,873.0	14,405.0	16.4	26,311.6	29.9
Securitization§	211.0	31.0	14.7	42.2	20.0
Other assets†	3,485.0	2,128.0	61.1	5,231.6	150.1
Total credit risk	281,992.0	67,122.3	23.8	118,525.3	42.0
Credit valuation adjustment					
Total credit valuation adjustment	--	797.0	--	0.0	--
Market risk					
Equity in the banking book	336.0	723.0	215.2	2,744.9	816.9
Trading book market risk	--	2,694.0	--	4,058.2	--
Total market risk	--	3,417.0	--	6,803.1	--
Operational risk					
Total operational risk	--	11,502.0	--	14,065.4	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	104,369.3	--	139,393.8	100.0
Total diversification/ Concentration adjustments	--	--	--	(8,330.0)	(6.0)
RWA after diversification	--	104,369.3	--	131,063.8	94.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		17,724.0	17.0	15,548.1	11.2

Table 4

KBC Group N.V.--Risk-Adjusted Capital Framework Data (cont.)				
Capital ratio after adjustments‡	17,724.0	17.0	15,548.1	11.9

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

KBC Group N.V.--Risk Position

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	(0.6)	2.9	5.4	3.8	5.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(10.7)	(9.7)	(4.5)	(9.3)
Total managed assets/adjusted common equity (x)	24.2	21.3	19.9	22.2	23.5
New loan loss provisions/average customer loans	(0.2)	0.7	0.1	(0.0)	(0.1)
Net charge-offs/average customer loans	(0.4)	(0.2)	(0.1)	(0.0)	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.8	2.0	2.1	2.7	3.6
Loan loss reserves/gross nonperforming assets	89.2	114.8	83.9	85.9	77.1

N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

KBC Group N.V.--Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	74.2	74.8	77.0	72.9	67.6
Customer loans (net)/customer deposits	80.0	83.6	89.4	91.1	91.4
Long-term funding ratio	90.3	89.8	87.1	85.1	79.4
Stable funding ratio	141.1	139.8	123.8	123.5	126.4
Short-term wholesale funding/funding base	10.4	11.0	13.9	16.1	22.2
Broad liquid assets/short-term wholesale funding (x)	4.1	3.7	2.5	2.3	1.9
Broad liquid assets/total assets	33.7	32.1	26.8	28.9	32.6
Broad liquid assets/customer deposits	57.5	53.9	44.7	50.9	61.8
Net broad liquid assets/short-term customer deposits	45.5	42.3	27.7	30.4	30.7
Short-term wholesale funding/total wholesale funding	39.6	42.5	58.8	58.4	67.3
Narrow liquid assets/3-month wholesale funding (x)	5.4	4.5	3.3	3.8	3.0

KBC Group N.V.--Rating Component Scores

Issuer Credit Rating	**A+/Stable/A-1**
SACP	a
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Strong
Capital and earnings	Strong

KBC Group N.V.--Rating Component Scores (cont.)	
Issuer Credit Rating	**A+/Stable/A-1**
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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: Hybrid Capital: Methodology And Assumptions, 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: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of August 3, 2022)*	
KBC Group N.V.	
Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BB+
Senior Unsecured	A-
Subordinated	BBB
Issuer Credit Ratings History	
24-Jun-2021	A-/Stable/A-2
23-Apr-2020	A-/Negative/A-2
30-Jul-2018	A-/Stable/A-2
Sovereign Rating	
Belgium	AA/Stable/A-1+

Ratings Detail (As Of August 3, 2022)*(cont.)	
Related Entities	
Ceskoslovenska Obchodni Banka A.S.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
KBC Bank Ireland PLC	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
KBC Bank N.V.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BBB-
KBC Group Re S.A.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
KBC Insurance N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.