

30 Mar 2020 | Rating Changed Outlook to Negative

Fitch Takes Action on Belfius and KBC on Coronavirus Disruption

Fitch Ratings-Paris-30 March 2020:

Fitch Ratings has taken rating actions on Belfius Bank SA/NV (Belfius) and KBC Group NV (KBC Group) to reflect the downside risks to their credit profiles resulting from economic and financial market implications of the coronavirus outbreak.

Fitch expects significant deterioration in the eurozone's GDP prospects, including for Belgium. In this severe downturn, Fitch sees the economy recovering in 2H20 on the assumption that the health crisis subsides, fiscal easing measures come into effect and pent-up demand pushes growth above trend. The ultimate negative impact of the outbreak on the economy is uncertain, as it depends on the duration of the lockdown.

Fiscal support measures for the private sector and financial markets are supportive of the banks' asset quality in the short- to medium-term and, to a lesser extent, revenue generation and loan impairment charges. The Belgian government voted a fiscal package of EUR8 billion-EUR10 billion accounting for about 2% of GDP. It includes deferral of tax and social security contributions, higher allowances for temporary unemployed workers, and deferral of income tax for companies and private individuals. The government will also guarantee EUR50 billion new loans for small and medium-sized enterprises. In contrast, the six-month deferral of credit payments for companies, entrepreneurs and individuals (housing loans only) will pressure banks' earnings. In addition, compensation by the state for direct coronavirus-related losses appears to have the approval of EU state-aid authorities, so it is probable that the full financial impact on banks will ultimately be mitigated.

We expect Belfius and KBC Group to have some resilience in the current environment given the concentrated nature of the Belgian banking sector, profitable bancassurance business models and the banks' sound financial position. Nonetheless, the operating environment in Belgium will likely deteriorate significantly in 2020 and we have revised our assessment of the sector's operating environment to negative. We expect asset quality to weaken relative to previous expectations and earnings challenges to intensify due to weaker business volumes and rising loan impairment charges. Banks have solid risk-weighted capital ratios and the funding profile is underpinned by a high customer deposit base.

Belfius Bank SA/NV; Long Term Issuer Default Rating; Affirmed; A-; RO:Neg
; Short Term Issuer Default Rating; Affirmed; F1
; Viability Rating; Affirmed; a-
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; A-(dcr)
----subordinated; Long Term Rating; Affirmed; BBB
-----EUR 17.5 mln 5.564% bond/note BE6293616627; Long Term Rating; Affirmed; BBB
-----EUR 17.5 mln 4.609% bond/note BE6293617633; Long Term Rating; Affirmed; BBB
-----EUR 50 5.348% bond/note BE6293618649; Long Term Rating; Affirmed; BBB
----Senior preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Short Term Rating; Affirmed; F1
Belfius Financing Company S.A.
----Senior preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Short Term Rating; Affirmed; F1
KBC Group NV; Long Term Issuer Default Rating; Affirmed; A; RO:Neg
; Short Term Issuer Default Rating; Affirmed; F1
; Viability Rating; Affirmed; a
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
----senior unsecured; Long Term Rating; Affirmed; A
----subordinated; Long Term Rating; Downgrade; BBB+
----subordinated; Long Term Rating; Upgrade; BBB-
----senior unsecured; Short Term Rating; Affirmed; F1
KBC IFIMA S.A.
----subordinated; Long Term Rating; Downgrade; BBB+
----senior unsecured; Long Term Rating; Affirmed; A+
----senior unsecured; Short Term Rating; Affirmed; F1
KBC Bank NV; Long Term Issuer Default Rating; Affirmed; A+; RO:Neg
; Short Term Issuer Default Rating; Affirmed; F1
; Viability Rating; Affirmed; a
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; A+(dcr)
----senior unsecured; Long Term Rating; Affirmed; A+
----senior unsecured; Short Term Rating; Affirmed; F1

Key Rating Drivers

Belfius Bank SA/NV

Unless noted below, the key rating drivers for Belfius Bank SA/NV (Belfius) are those outlined in our Rating Action Commentary published on November 2019 (Fitch Affirms Belfius at 'A-'; Outlook Stable).

Fitch has affirmed Belfius's 'A-' Long-Term IDR and 'a-' Viability Rating (VR). The Outlook on the Long-Term IDR has been revised to Negative from Stable because we believe the economic fallout from the outbreak represents a medium-term risk to the bank's ratings. The bank enters the economic downturn with some rating headroom supported by sound asset quality and capitalisation, and high liquidity buffers. We believe the economic and financial market fallout from the outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings.

Fitch has affirmed the 'F1' Short-Term IDR of Belfius as we do not expect its funding and liquidity profile to weaken drastically from its 'a' score. Fitch has also affirmed the ratings of Belfius Financing Company SA. Belfius Financing Company is a wholly-owned financing subsidiary of Belfius and its debt ratings are aligned with those of its parent. This is based on Fitch's expectation that Belfius will honour the unconditional and irrevocable guarantee provided to holders of the notes issued by Belfius Funding Company.

KBC Group NV and selected subsidiaries

Unless noted below, the key rating drivers for KBC Group NV are those outlined in our Rating Action Commentary published on 8 November 2019 (Fitch Affirms KBC Group at 'A'; Outlook Stable).

Fitch has affirmed KBC Group's 'A' Long-Term IDR and 'a' VR and KBC Bank N.V.'s 'A+' Long-Term IDR and 'a' VR. The Outlook on the Long-Term IDRs has been revised to Negative from Stable because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to the group's ratings. KBC Group's strong and diversified earnings generation, and solid capitalisation and funding and liquidity position support the VR and provide some rating headroom. We believe the economic and financial market fallout from the outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings.

Tier 2 debt issued by KBC Group and KBC IFIMA S.A. have been downgraded by one notch to

'BBB+' and removed from Under Criteria Observation (UCO) to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the group does not meet the specific conditions under our criteria for applying one notch. KBC IFIMA S.A.'s subordinated Tier 2 debt ratings are based on our expectation that its parent KBC Bank will honour the unconditional and irrevocable guarantee provided to holders of the notes issued by the entity.

KBC Group's AT1 debt has been upgraded by one notch to 'BBB-' and removed from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a common equity Tier 1 (CET1) ratio that is comfortably above maximum distributable amount (MDA) thresholds and our expectation that this will continue.

RATING SENSITIVITIES

The most immediate downside rating sensitivity for banks' IDRs, VRs and debt ratings now relates to the economic and financial market fallout arising from the outbreak as this represents a clear risk to our assessment of asset quality, earnings, capitalisation and funding. The extent to which the support packages by the government and central bank can mitigate rating pressure will depend on the amount and form such support takes.

Belfius Bank SA/NV

Belfius has headroom to emerge with its IDRs, VR, debt rating intact due to the strength of its asset quality, capitalisation and funding profile, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the outbreak and its impact on the Belgian economy. Belfius's ratings would likely be downgraded if it becomes less likely that the health crisis is resolved globally in 2H20, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event Belfius is able to withstand rating pressure arising from the outbreak, the most likely trigger for an upgrade would be contingent on materially strengthened earnings generation and revenue diversification.

KBC Group NV and selected subsidiaries

KBC Group and KBC Bank have headroom to emerge with their IDRs, VRs, and debt ratings intact due to the strength of the group's company profile, capitalisation, earnings and funding profile, which are all in line with or above the VRs. However, this outcome will depend on the ultimate depth and duration of the outbreak and its impact on the Belgian and central and eastern European economies where the group is present. KBC Group's ratings would likely be downgraded if it becomes less likely that the health crisis is resolved globally in 2H20, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event KBC Group is able to withstand rating pressure arising from the outbreak, the most likely trigger for an upgrade would be an improvement in its risk profile including a material decrease of the impaired loans ratio, or an improved operating environment in the more volatile countries in which the group operates.

Subordinated debt ratings issued by KBC Group and KBC IFIMA are sensitive to changes in KBC Group's and KBC Bank's VRs. KBC Group's AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded.

Best/Worst Case Rating Scenario

Ratings of financial institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

Belfius Financing Company is a wholly-owned financing subsidiary of Belfius and its debt ratings are aligned with those of its parent. A change in Fitch's assessment of the ratings of Belfius may

result in a change in the ratings of Belfius Financing Company.

The ratings of KBC IFIMA S.A. are directly linked to KBC Bank; a change in Fitch's assessment of the ratings of KBC Bank may result in a change in the ratings of KBC IFIMA S.A.

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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