KBC Group NV

Key Rating Drivers

Diversified Business Model: KBC Group NV's (KBC) ratings are underpinned by its leading franchises in commercial banking and insurance in Belgium and the Czech Republic, strong and diversified earnings generation, solid capitalisation as well as sound funding and liquidity. They also reflect the group's operations in countries with less stable economies in central and eastern Europe (CEE), but with a fairly conservative risk appetite.

Robust Risk Controls: Asset quality is supported by the dominance of the bank's fairly low-risk lending in Belgium and the Czech Republic. Exposure to several other countries in CEE gives rise to potential volatility in earnings and asset quality, but we believe risk controls and credit standards are robust.

Impaired Loans to Increase: KBC's impaired loan ratio is above that of similarly rated peers. It has been on an improving trend over a long period mainly as a result of a de-risking strategy including the work-out of the legacy loan book in Ireland. We expect Stage 3 loans to increase in the short term as borrower supporting measures expire and given the group's relatively high exposure to the small and medium enterprises (SME) and corporate sectors. However, the four-year average impaired loan ratio should remain below the 2016-2019 average of about 5%.

Strong Earnings Generation: KBC's strong and recurring pre-impairment operating profitability is underpinned by its bancassurance business model as well as tight cost control. The group's sound operating profit/risk-weighted assets (RWAs) ratio compares strongly with peers and provides headroom to absorb higher provisioning amid weaker economic prospects. Earnings in 9M20 were burdened by the high loan impairment charges (LICs) and we believe profitability will not return to normalised levels before end-2021.

Solid Capital Buffers: KBC's fully loaded common equity Tier 1 (CET1) ratio of 16.6% at end-September 2020 is a rating strength. The stable outlook on the capitalisation and leverage score reflects our expectations of modest capital erosion from negative credit rating migration even in a downside scenario. We expect the CET1 ratio to remain comfortably above the internal CET1 target of at least 14%, excluding an additional buffer for potential M&A of about 1.7%.

Funding and Liquidity are Strengths: The bank has a solid retail funding base, and nearly all of its subsidiaries are self-funded. Customer deposits are the main source of funding and are well in excess of customer loans. The group also has access to the debt capital markets through a wide range of products, at both the bank and the holding level. Its wholesale funding maturities are reasonably well spread, and the ample liquidity buffer further mitigates refinancing risk.

KBC Bank Notched Up: KBC Bank NV's (KBC Bank) Long-Term Issuer Default Rating (IDR) is one notch above its Viability Rating (VR). Fitch believes external senior creditors benefit from resolution funds ultimately raised by the holding company and designated to protect KBC Bank's senior creditors in a group failure scenario.

Rating Sensitivities

Weaker Asset Quality and Profitability: We could downgrade the ratings if asset quality and operating profitability deteriorate substantially and durably, most likely due to severe damage to the SME and corporate loan portfolios. An impaired loan ratio durably above 5% or operating profit/RWAs durably below 2% would lead to a downgrade.

Limited Rating Upside: A rating upgrade would require a significant and structural improvement in the bank's financial metrics, in particular of asset-quality metrics, above pre-crisis levels. In the near term, the Outlook could be revised to Stable if the pressure on asset quality and profitability turns out to be more moderate than our expectations.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDR	AA-
Country Ceilling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Ratings 2021 Outlook: Western European Banks (December 2020)

Global Economic Outlook (December 2020)

Fitch Affirms KBC Group's Long-Term IDR at 'A'; Outlook Negative (October 2020)

Major Benelux Banks: 1H20 Results (September 2020)

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Issuer Ratings (Including Main Issuing Entities)

Rating Level	KBC Bank NV	United Bulgarian Bank AD
Long-Term Foreign-Currency IDR	A+	A-
Short-Term Foreign-Currency IDR	F1	F1
Derivative counterparty rating	A+	-
Viability Rating	a	bb
Support Rating	5	1
Support Rating Floor	NF	-
Outlook	Negative	Stable

Source: Fitch Ratings

KBC Bank is the domestic operating company subsidiary of KBC. KBC Bank's Long-Term IDR is one notch above its VR. Fitch believes external senior creditors will benefit in resolution from debt raised at the parent level and downstreamed to KBC Bank as junior-ranked instruments to third-party senior creditors. The group has a single-point-of-entry resolution strategy and KBC was designated the resolution entity. Debt issued by the parent protects KBC Bank's external senior creditors in resolution after the group/bank has failed and KBC's senior creditors are exposed to loss by way of down-streamed junior debt.

United Bulgarian Bank's (UBB) Long-Term IDR is driven by Fitch's expectation of an extremely high probably of support from its parent, KBC Bank, if needed. UBB's Long-Term IDR is currently at Bulgaria's Country Ceiling of 'A-'.

Debt Rating Classes

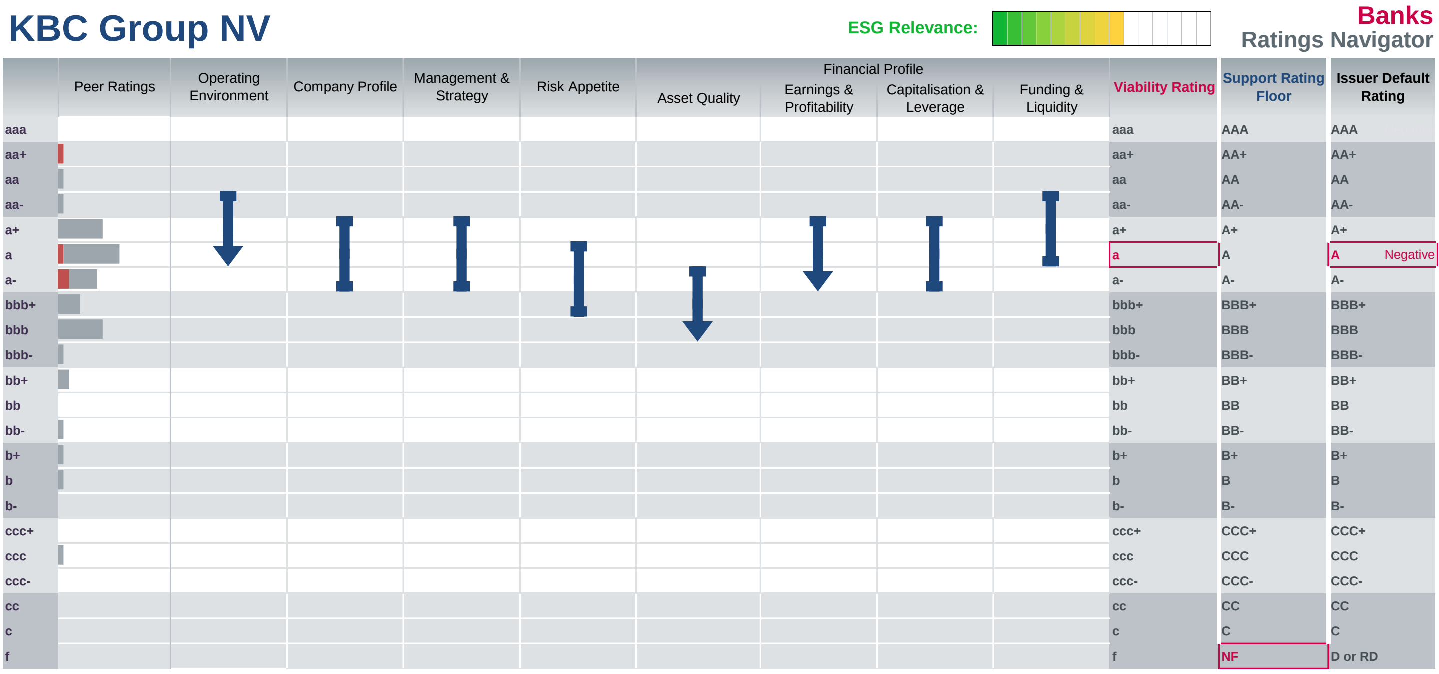
Rating level	KBC Group NV	KBC Bank NV	KBC IFIMA S.A.
Senior unsecured	A/F1	A+/F1	A+/F1
Tier 2 subordinated debt	BBB+		BBB+
Additional Tier 1 notes	BBB-		

Source: Fitch Ratings

KBC's and KBC Bank's senior unsecured debt is rated in line with their respective IDRs. The Tier 2 debt securities issued by KBC are rated two notches lower than its VR, reflecting Fitch's baseline notching for loss severity. The additional Tier 1 debt securities issued by KBC are rated four notches below its VR reflecting Fitch's baseline notching for loss severity and non-performance risk.

The senior debt issued by KBC Bank's fully owned subsidiary KBC IFIMA S.A. is guaranteed by KBC Bank, and its ratings are aligned with KBC Bank's IDRs to reflect our view that KBC Bank will ensure these obligations are met. Subordinated debt issued by KBC IFIMA S.A. is rated two notches lower than KBC Bank's VR.

Ratings Navigator



Significant Changes

Challenging Operating Environment

Fitch revised the outlook of the Belgian operating environment to 'aa-'/Negative from 'aa-'/ Stable in March 2020 reflecting downside risks to the banks' credit profiles because of the economic and financial fallout from the pandemic. In the near term, the most likely trigger for a downgrade of the operating environment score is the downgrade of the sovereign rating (AA-/Negative).

Economic activity declined sharply in the first two quarters of the year due to the restrictions introduced to contain the spread of the pandemic. Fitch forecasts a fall in GDP in Belgium of about 7.1% in 2020, followed by a 3.8% recovery in 2021 and a further increase of 2.5% in 2022. There are downside risks to this forecast, which would materialise if the economic recovery is slower than expected, for example due to potential delays in the vaccine rollout and repeated 'circuit-breaker' lockdowns.

Temporary government support measures have so far mitigated the impact from the coronavirus pandemic on banks' asset quality. The unemployment rate increased only marginally from 5.1% to 5.5% in July. The EUR8 billion-EUR10 billion fiscal package accounting for about 2% of GDP includes the deferral of tax and social security contributions, higher allowances for temporary unemployed workers, and the deferral of income tax for companies and private individuals.

The government has also introduced a guarantee scheme amounting to EUR50 billion to cover losses on new bank loans granted to SMEs. Of this amount, EUR10 billion will cover all new loans of up to 36 months provided until the end of December (the rest being dedicated to shorter loans, up to 12 months).

Governments in the Czech Republic, Ireland, Slovakia and Bulgaria have also introduced large fiscal packages aimed at supporting the liquidity and solvency of private and non-financial corporations. The fiscal stimulus in the Czech Republic (AA-/Stable) includes guarantees primarily on loans provided to businesses by commercial banks with an aggregate guarantee and insurance capacity at around CZK858 billion, or a high 15.2% of 2019 GDP.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

Company Summary and Key Qualitative Assessment Factors

Leading Franchises in Belgium and the Czech Republic

KBC is the second-largest commercial bank in Belgium and the leading bank in the Czech Republic. The solid market share in lending of about 20% in each of the two countries, combined with strong franchises in insurance and asset management provides the group with a competitive advantage and pricing power. KBC also has adequate banking franchises in Slovakia, Hungary, Bulgaria, and Ireland with an average market share of about 10% and typically lower market shares in non-banking products, except for Bulgaria. These four countries are viewed as core markets by the group.

The group's product and geographical diversification results in a balanced and resilient revenue mix. The banking and insurance arms are highly integrated in Belgium, generating synergies through cross-selling, whereas in CEE markets integration is not as mature. Its core customer base includes retail, SME and mid-cap companies. In Ireland, KBC has become a purely digital bank serving retail and micro-SME clients.

KBC's operating environment is slightly weaker than peers' (except Erste Group Bank AG) because it has some material operations in less developed, and more volatile, countries than Belgium, implying the need to report better financial metrics to achieve the same rating.

KBC Group NV is the holding company that controls the operating companies, KBC Bank NV and KBC Insurance NV. The banking arm represents about 90% of KBC's total assets and equity, and historically contributed about 85% to the group's profits.

Strategy Focussed on Bancassurance in Core Markets and Digitalisation

KBC's new strategic plan is a continuation of the current 2016-2020 strategy aimed at gaining and maintaining critical market shares in core countries through an integrated bancassurance model. In the coming years the group plans to accelerate its digital transformation. KBC will move from an omnichannel distribution to a digital approach in the retail and SME/corporate segments having set ambitious growth targets for digital sales.

KBC's current strategy in CEE countries is focused on developing a highly integrated bancassurance model similar to that in Belgium. The level of integration varies by country and reflects a lower level of wealth than in Belgium. The group aims to achieve critical mass in Slovakia, Hungary and Bulgaria through organic growth and through acquisitions. In Belgium, which is a mature market, the focus is on generating higher cross-selling between banking and wealth management and insurance, reducing its branch network and digitalisation. Most financial targets set for 2020 will likely not be achieved due to the weak economic environment.

Robust Credit Standards, Modest Market Risk

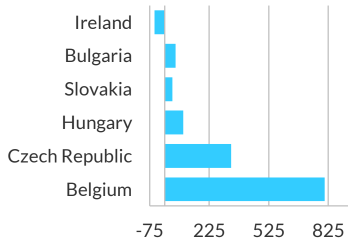
The group's underwriting standards are generally prudent, supported by the predominance of the Belgian credit exposure. CEE and Ireland are more volatile operating environments, although local credit standards are low risk and more stringent than industry standards, underpinned by centralised oversight.

Belgian and Czech residential mortgage loans are originated under fairly conservative standards. They accounted for about a third of total loans at end-September 2020. The proportion of loans with an indexed loan-to-value (LTV) ratio above 90% is contained due to internal LTV caps. As loans are amortising, the average indexed LTV is at around 60% for both countries, comparing well with peers. Underwriting standards in Ireland have become stricter than before the 2008 financial crisis. KBC continues to actively work out the legacy portfolio, comprising principally residential mortgage loans. The last deleveraging actions include the write-off of EUR0.8 billion fully provisioned legacy loans in 3Q19 and the sale of EUR1.9 billion corporate and UK non-performing loans in November 2018.

As with other Belgian life insurers, KBC is exposed to interest rate risk given the fairly high proportion of contracts with guaranteed rates. The risk is mitigated by the gradual reduction of historically high minimum guaranteed return rates on retail life insurance products. The solvency of the group's insurance subsidiary is strong with a Solvency II ratio at 196% at end-September 2020.

Profit Before Tax by Segment

9M20



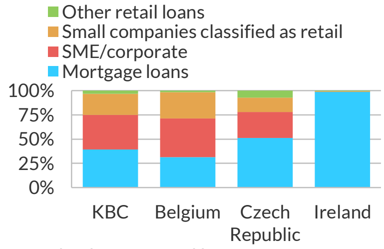
[a] Excluding Group Centre
Source: Fitch Ratings, KBC Group

KBC Group Financial Targets

(%)	Reported end-Sep 20	2020 target
CAGR total income (2016-2020)	2.3[a]	≥ 2.25
Cost to income banking	61	≤ 54
Combined ratio	83	≤ 94
Dividend payout ratio		≤ 50

[a] CAGR 2016-2019
Source: Fitch Ratings, KBC Group

Loan Book[a] by Business Unit EUR175bn[b] at End-Sep 2020



[a] Loan book as reported by KBC Group
[b] Excluding EUR3.4bn in Group Centre
Source: Fitch Ratings, KBC Group

Summary Financials and Key Ratios

	30 Sep 20		31 Dec 19	31 Dec 18	31 Dec 17
	9 months – 3rd quarter	9 months – 3rd quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited -unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	4,029	3,441	4,700	4,625	4,184
Net fees and commissions	1,413	1,207	1,735	1,719	1,707
Other operating income	863	737	1,224	1,183	1,936
Total operating income	6,305	5,385	7,659	7,527	7,827
Operating costs	3,747	3,200	4,303	4,234	4,118
Pre-impairment operating profit	2,558	2,185	3,356	3,293	3,709
Loan and other impairment charges	1,192	1,018	203	-62	-74
Operating profit	1,366	1,167	3,153	3,355	3,783
Other non-operating items (net)	-12	-10	-37	-45	-116
Tax	299	255	627	740	1,092
Net income	1,056	902	2,489	2,570	2,575
Other comprehensive income	-410	-350	637	-491	83
Fitch comprehensive income	646	552	3,126	2,079	2,658
Summary balance sheet					
Assets					
Gross loans	188,922	161,362	158,671	150,575	146,564
- Of which impaired	6,082	5,195	5,563	6,615	8,843
Loan loss allowances	4,202	3,589	2,855	3,523	4,058
Net loans	184,720	157,773	155,816	147,052	142,506
Interbank	7,061	6,031	5,398	5,069	4,876
Derivatives	9,375	8,007	5,799	5,189	5,932
Other securities and earning assets	132,200	112,915	107,009	100,388	102,576
Total earning assets	333,356	284,726	274,022	257,698	255,890
Cash and due from banks	33,048	28,227	8,356	18,691	29,727
Other assets	9,647	8,240	8,357	7,419	6,725
Total assets	376,051	321,193	290,735	283,808	292,342
Liabilities					
Customer deposits	216,597	185,000	172,961	159,299	152,065
Interbank and other short-term funding	58,628	50,075	32,867	41,960	58,504
Other long-term funding	25,985	22,194	20,620	21,171	17,374
Trading liabilities and derivatives	10,004	8,545	8,221	7,169	9,678
Total funding	311,214	265,814	234,669	229,599	237,621
Other liabilities	40,387	34,495	35,701	34,576	35,918
Preference shares and hybrid capital	1,756	1,500	1,500	2,400	1,400
Total equity	22,695	19,384	18,865	17,233	17,403
Total liabilities and equity	376,051	321,193	290,735	283,808	292,342
Exchange rate		USD1 = EUR0.85412	USD1 = EUR0.89015	USD1= EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, KBC

Summary Financials and Key Ratios

	30 Sep 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.6	3.2	3.5	4.1
Net interest income/average earning assets	1.6	1.7	1.8	1.7
Non-interest expense/gross revenue	59.3	56.2	56.4	52.7
Net income/average equity	6.4	13.8	15.1	15.4
Asset quality				
Impaired loans ratio	3.2	3.5	4.4	6.0
Growth in gross loans	1.7	5.4	2.7	5.1
Loan loss allowances/impaired loans	69.1	51.3	53.3	45.9
Loan impairment charges/average gross loans	0.4	0.1	0.0	-0.1
Capitalisation				
Common equity Tier 1 ratio	16.6	17.1	16.0	16.5
Fully loaded common equity Tier 1 ratio	16.6	17.1	16.0	16.3
Tangible common equity/tangible assets	5.2	5.6	5.4	5.3
Basel leverage ratio	5.9	6.8	6.1	6.1
Net impaired loans/common equity Tier 1	9.7	15.9	20.4	31.6
Funding and liquidity				
Loans/customer deposits	87.2	91.7	94.5	96.4
Liquidity coverage ratio	142.0	138.0	139.0	139.0
Customer deposits/funding	71.0	75.2	70.4	65.6
Net stable funding ratio	145.9	136.0	136.0	134.5

Source: Fitch Ratings, Fitch Solutions, KBC

Key Financial Metrics – Latest Developments

Significant Exposure to SME and Corporate Segments

KBC's asset quality was resilient up until September 2020, with the Stage 3 loan ratio slightly decreasing to 3.2%, and the stock of Stage 2 loans only moderately up by 4% from end-2019. The group still has a higher impaired loan ratio compared with similarly rated peers reflecting KBC's weak-performing Irish residential book (6% of gross loans, 14.4% impaired loan ratio at end-September 2020). The quality of the Belgian and Czech loans, accounting for about 85% of loans including off-balance sheet guarantees, remained sound with an impaired loan ratio of around 2% in both countries.

The volume of loans under payment holiday of almost 9% of gross loans at end-September 2020 reflects higher take up in Ireland, Slovakia and in Hungary (37% of loans because of the opt-out statutory moratoria) than in Belgium and the Czech Republic. Early indicators point towards a high proportion of borrowers resuming payments, but most of the moratoria expire in 4Q20 and we expect some borrowers to migrate into arrears.

KBC's significant exposure to SME (22% of gross loans and off-balance sheet exposure) and to mid-corporates (37%) may lead to higher inflows of impaired loans in the near-term. The group's exposure to sectors directly affected by the coronavirus crisis such as distribution, automotive, account for about 23% of the SME/corporate exposure or 1.4 times its CET1 capital.

Securities represented 23% of total assets at end-September 2020 and relate to banking and insurance operations. The portfolio is mostly invested in sovereign bonds and is highly rated.

Higher Loan Impairment Charges to Weigh on Earnings

KBC has built a reasonable record of strong and resilient operating profitability, with an average operating profit/RWAs ratio of 2.7% over 2010-2019. Belgium and Czech Republic are the main contributors to the bank's performance.

The operating profit/RWAs ratio declined to 1.6% in 9M20 as KBC has incurred almost EUR1.2 billion LICs in anticipation of weakening asset quality due to the pandemic. We believe operating profitability will recover in 2021 as pressure from LICs should ease, but not fully. KBC's diversified business model, with banking, insurance and asset management should support robust revenue generation. KBC's cost efficiency has been superior to domestic peers over the past four years, and we expect low single-digit growth in operating expenses in the near term.

Solid Capitalisation

KBC's CET1 ratio and regulatory leverage ratio compare well with similarly rated peers'. KBC's solid CET1 ratio of 16.6% is comfortably above the revised minimum regulatory requirement of 7.95% excluding the Pillar 2 guidance from 10.5% end-2019, due capital relief measures from the European Central Bank.

The CET1 ratio at end-September 2020 incorporates the EUR1 billion RWAs add-on taken by KBC for anticipated rating migration. KBC started to apply the IFRS 9 transitional measures as of 1H20. The positive impact on its CET1 ratio was negligible at end-September 2020. However, KBC expects a positive impact of transitional arrangement of 52bp once 2020 profit is included in capital, and expected credit losses for the current year are taken into account.

The group applies the "Danish compromise", with insurance subsidiaries being risk-weighted at 370%, but the benefit compared to the deduction method was limited at end-September 2020.

Stable Funding Profile

KBC benefits from a solid retail funding base, especially in Belgium and the Czech Republic. Most international subsidiaries are self-funded except for Ireland, and to a lesser degree Slovakia. In addition, KBC has good access to wholesale funding.

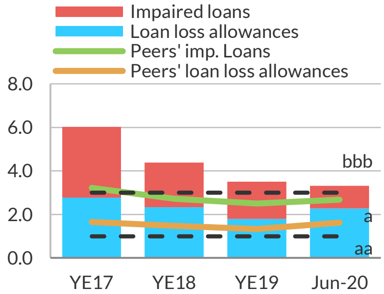
Interbank funding increased to an equivalent of 13% of total funding including equity from 8% at end-2019 due to increased usage of ECB funding. The group participated with EUR19.5billion in the TLTRO III. Liquidity is sound. The wholesale debt repayments are largely manageable given the available liquid assets (EUR75 billion at end-2019).

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category.

Peer average includes KBC Group NV (VR: 'a'), ABN AMRO Bank N.V. (a), BNP Paribas Fortis SA/NV (a), Danske Bank A/S (a), Erste Group Bank AG (a) and ING Group N.V. (a+).

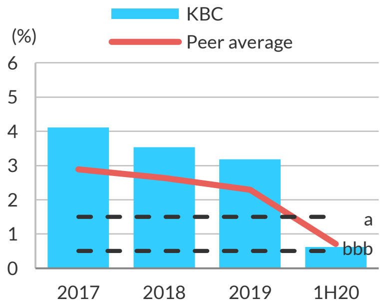
Asset Quality

(% gross loans)



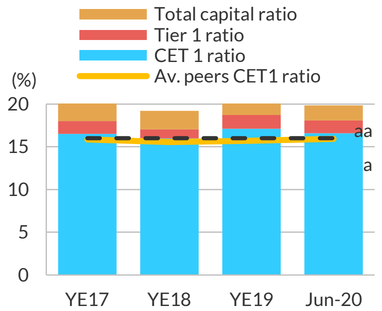
Source: Fitch Ratings, banks

Operating Profit/RWAs



Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**

Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem	✓		
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

KBC's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that KBC becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, instead of, or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **KBC Group NV**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

KBC Group NV has 5 ESG potential rating drivers

- KBC Group NV has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on KBC, either due to their nature or the way in which they are being managed by KBC. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

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