FitchRatings

Banks
Universal Commercial Banks
Belgium

KBC Group NV

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	No Floor

Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	AA-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Revises Outlook on KBC Group to Stable; Affirms at 'A' (October 2021)

Fitch Revises Belgium's Outlook to Stable; Affirms at 'AA-' (September 2021)

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 and sound funding and liquidity. The ratings incorporate Fitch's view that the group operates in slightly weaker operating environments than domestic peers. This is due to operations in less developed and more volatile countries in central and eastern Europe (CEE), although with a conservative risk appetite.

Robust Earnings Generation: KBC's profitability is a rating strength and compares favourably with that of peers. The group benefits from sound pricing power in home markets, and from its bancassurance business model that generates strong revenue and cost synergies. Revenue diversification supported KBC's good performance in a challenging environment, despite continued pressure from low interest rates in eurozone countries and increasing deposits.

Lower Run-Rate Impaired Loans: We believe downside risks to KBC's asset quality have receded. With the phasing-out of government support, we expect a moderate increase in Stage 3 loans stemming from the group's SME and corporate loan book. Asset quality metrics will benefit in 2021 from the sale of the non-performing loan book in Ireland, and our assessment of the bank's asset quality (bbb+) incorporates the announced reduction of the legacy book.

Strong Capital Buffers: Capitalisation is strong, reflecting robust internal capital generation. KBC's fully-loaded common equity Tier 1 (CET1, Danish compromise) ratio increased to 17.5% at end-June 2021 without any profit recognition, providing solid buffers above minimum capital requirements. We do not expect capitalisation to remain at these levels over the medium term, and our assessment of KBC's capitalisation reflects management's medium-term CET1 ratio target of at least 14.5% (excluding an additional 100bp buffer for potential M&A or shocks).

Sound Funding and Liquidity: The bank has a stable and diversified retail funding base, and nearly all of its subsidiaries are self-funded. Customer deposits are the main source of funding. Wholesale funding maturities are reasonably well spread, and the ample liquidity buffer (about 26% of total assets at end-June 2021), adequately mitigates refinancing risk.

KBC Bank Notched Up: KBC Bank N.V.'s Long-Term Issuer Default Rating (IDR) and senior debt ratings are one notch above the bank's Viability Rating (VR) because of the presence of resolution debt buffers raised by KBC to protect KBC Bank's senior external creditors. We believe that, in a failure scenario, the risk of default on senior obligations is lower than the risk of the bank failing.

Rating Sensitivities

Financial Metrics: Rating upside for the VR is limited, and would require a significant strengthening of asset quality metrics while maintaining strong profitability record and capitalisation levels.

Asset Quality, Profitability: KBC's ratings could be downgraded if asset quality and operating profitability deteriorate substantially and durably. This would most likely be due to severe damage to the SME and corporate loan portfolios, with operating profit/risk-weighted assets (RWAs) decreasing to a level significantly below 3%, and if the group's CET1 ratio fell below its internal target of 14.5% without a clear path to restore it in a short period. A change in KBC's risk appetite could also be negative for the ratings, for example if contributions from more volatile CEE countries to KBC Group's earnings grew rapidly.

Analysts

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Other 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+(dcr)	-
Viability Rating	a	bb
Support Rating	5	1
Support Rating Floor	NF	-
Outlook	Stable	Positive

Source: Fitch Ratings

KBC Bank is the domestic operating company subsidiary of KBC. Fitch equalises the VRs of KBC and KBC Bank as it assesses their credit profile on a consolidated basis, as the insurance and banking operations are managed in a highly integrated manner. KBC is the group's holding company and KBC Bank represents around 90% of group assets and historically contributed about 85% annually to the group's profit.

The group is regulated on a consolidated basis, with no double leverage at the holding company, and we view fungibility of capital between the holding company and the bank as high. Liquidity and capital are managed centrally at the group level.

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 down-streamed to KBC Bank as junior-ranked instruments to third-party senior creditors. The group has adopted a single-point-of-entry resolution strategy, with KBC the resolution entity. All MREL instruments, including senior debt, are issued by KBC and downstreamed to KBC Bank and rank junior to third-party senior creditors.

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

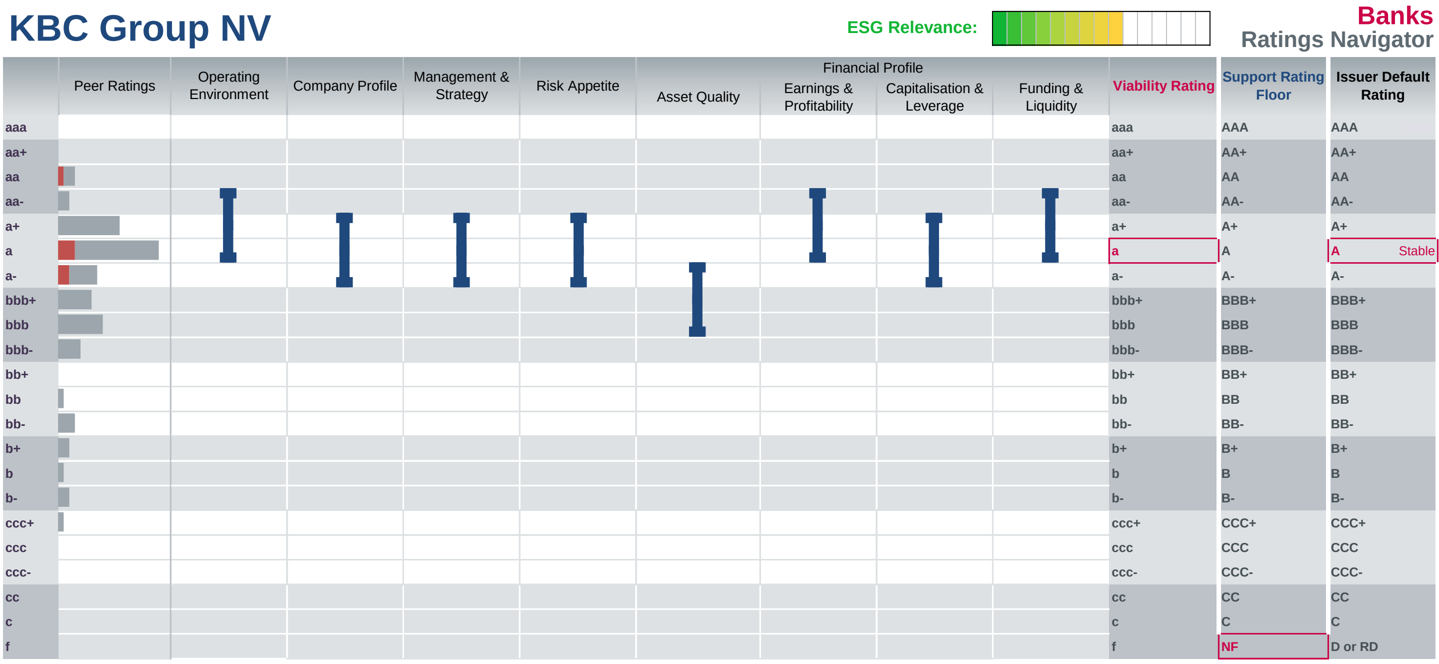
Rating Level	KBC Group NV	KBC Bank NV	KBC IFIMA S.A.
Senior unsecured	A/F1	A+/F1	A+/F1
Tier 2 subordinated debt	BBB+		BBB+
Additional Tier 1 notes	BBB-		

Source: Fitch Ratings

KBC's and KBC Bank's senior unsecured debt is rated in line with their respective IDRs. The Tier 2 subordinated debt issued by KBC Group is rated two notches below its VR, reflecting Fitch's baseline notching for incremental loss severity. The Capital Requirements Directive IV-compliant, undated, deeply subordinated, additional Tier 1 securities issued by KBC Group are rated four notches below its VR. The notching reflects the notes' higher incremental loss severity (two notches) and non-performance risk (two notches) relative to senior unsecured creditors.

KBC IFIMAS.A. is a debt issuance vehicle and its senior debt is aligned with KBC Bank's IDRs as it is guaranteed by KBC Bank and we believe that KBC Bank will ensure these obligations are met. Subordinated debt issued by KBC IFIMA and guaranteed by KBC Bank on a subordinated basis is rated two notches below KBC Bank's VR to reflect below-average recovery expectations.

Ratings Navigator



Significant Changes and Latest Developments

Sale of Legacy NPL Portfolio in Ireland to Reduce Impaired Loans by 20%

The recent sale of the remaining EUR1.1 billion legacy portfolio of residential mortgage loans in Ireland marks an important step in the group's de-risking process that started in the aftermath of the global financial crisis. KBC's asset quality metrics have been weaker than those of peers for a prolonged period principally because of the Irish exposure, which contributed about 25% of the group's total stock of impaired loans at end-June 2021. Following the NPL sale announced in August 2021, the pro-forma impaired loans ratio declined to about 2.6% from 3.3%. The transaction is slightly capital accretive with a positive impact of 2bp on the group's pro forma CET1 ratio, and will lead to about EUR0.1 billion loss to be booked in 3Q21.

KBC plans to fully exit the Irish market and it is in exclusive talks with Bank of Ireland Group plc (BBB/Stable) to sell the remaining assets and liabilities including EUR9.2 billion loans and EUR4.4 billion deposits. KBC's operations in Ireland are relatively small at group level contributing about 1% of pre-tax profit in 1H21 and accounting for about 6% of loans at end-June 2021. The divestment from Ireland is neutral on our assessment of KBC's franchise or ratings. KBC had about an 8% market share in residential mortgage lending in Ireland.

Outlook Revised to Stable

Fitch revised the Outlook on KBC's Long-Term IDR to Stable from Negative on 12 October 2021. The revision reflected Fitch's updated economic assumptions for the group's main operating countries, indicating that, while pandemic-related risks remain, they are likely to be absorbed by the group's current rating headroom. Fitch expects the strong forecast economic recovery in these countries will support the group's asset quality and operating profitability, and we expect the latter to remain close to the four-year average level in 2021-2022.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

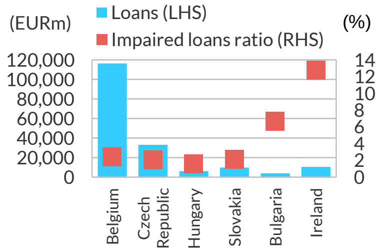
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Loans[a] and Impaired Loans Ratio by Segment

EUR180bn end-1H21



[a] Loans as disclosed by the bank, excluding Group Centre. Loans before the sale of the EUR1.1bn NPLs
Source:Fitch Ratings, KBC

Company Summary and Key Qualitative Assessment

Leading Position in Belgium and the Czech Republic

KBC is the second largest commercial bank in Belgium where it operates through the brands KBC Bank in Flanders and Brussels and CBC Banque in Wallonia. KBC also benefits from a dominant position in the Czech Republic where its subsidiary CSOB is the largest commercial bank by total assets. The high market share in lending of about 20% in each of the group's two home countries, combined with strong franchises in insurance and asset management (EUR228 billion assets under management at end-June 2021) provides the group with a demonstrated competitive advantage and pricing power. The banking and asset gathering operations are highly integrated in the group's home markets, generating sound revenue and cost synergies.

KBC is also exposed to more volatile countries in the CEE region where it enjoys adequate banking franchises. Banking and insurance activities are less integrated in Slovakia, Hungary, and Bulgaria than in home markets reflecting lower levels of wealth, and this explains the lower market share in non-banking products. However, the group aims to achieve stronger integration and to this end we expect KBC to make further bolt-on acquisitions in the insurance segment. In Bulgaria, KBC scaled up its operations through external growth and recently acquired NN Insurance's Bulgarian pension and life insurance operations, which should be earnings accretive owing to cross-selling.

Strategy Focused on Growth and Bancassurance in Core Markets

In the 2020-2023 strategic plan, KBC will continue to focus on gaining and maintaining significant market shares in core countries through an integrated bancassurance model and increasingly on digitalisation and ESG. Non-financial objectives are mostly focused on client satisfaction, growing cross-selling between banking and insurance, growing digital sales, and operational improvements through digitalisation. The strategic plan includes reasonable financial targets set at group level. KBC aims to maintain sound capitalisation and targets a minimum 14.5% CET1 ratio with an additional 100bp management buffer. We consider these targets to be achievable and the bank's record throughout 2020 and 1H21 supports our view.

KBC's strategy in CEE countries is focused on developing a highly integrated bancassurance model similar to that in has Belgium and Czech Republic. The group aims to achieve critical mass in Slovakia, Hungary and Bulgaria through organic growth and through acquisitions.

KBC executed its previous mid-term strategic plan well as demonstrated by organic market share gains in banking and insurance in core markets and through well integrated acquisitions, sound capitalisation levels and tight cost control.

Robust Credit Standards

KBC is mainly exposed to credit risk. We consider KBC's underwriting standards to be generally prudent, supported by the predominance of the Belgian and Czech Republic credit exposures. CEE countries are more volatile operating environments, although local credit standards are low-risk and more stringent than industry standards, underpinned by centralised oversight. Underwriting standards for Belgian and Czech residential mortgage loans that account for about a third of loans are fairly conservative and have been tightened to comply with regulatory requirements that restrict the origination of highly leveraged loans. In Belgium, KBC reduced new loan production with a loan-to-value ratio above 90% and a debt service-to-income ratio above 50% to comply with the Belgian National Bank's limit of 5% (in force since January 2020).

KBC tightened underwriting and selectively reduced exposure limits on SME and corporate lending amid the pandemic and most of the limits have been maintained. Single-name concentration is adequate and sector concentration limits are set at country level and monitored twice a year. KBC's exposure to commercial real estate (CRE) and building and construction represented about 10% of loans at end-June 2021. Concentrations by asset type are closely monitored, resulting in good diversification of the real estate book.

Securities represented almost 20% of the group's total assets and include the bank's treasury portfolio and KBC Insurance's investment book. KBC Bank's treasury portfolio investment policy focuses on high quality liquid assets, mainly sovereign exposures to home and core countries. KBC Insurance's investment book (covering insurance liabilities) is conservatively invested mainly in fixed income instruments including bonds and mortgage loans.

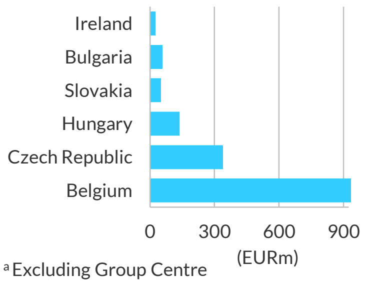
KBC Group's Market Share in Core Markets

(%)	Loans and deposits	Invest-ment funds	Life insurance	Non-life insur-ance
Belgium	19	28	13	9
Czech Republic	21	23	8	9
Slovakia	12	12	3	4
Hungary	11	13	3	8
Bulgaria	10	18	28	10

Source: Fitch Ratings, KBC Group, Data as provided by the bank at end-2020

Profit Before Tax by Segment[a]

EUR1.8bn in 1H21



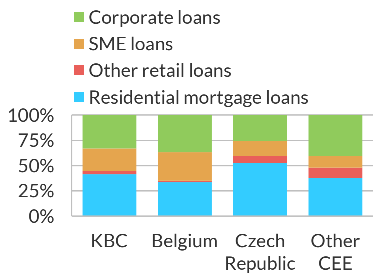
[a] Excluding Group Centre
Source: Fitch Ratings, KBC Group

KBC Group Financial Targets

(%)	2023 target
CAGR total income (2020-2023)	± 2
Operating costs excluding bank taxes	± 1
Combined ratio	≤ 92
CET1 ratio[a]	14.5[b]

[a] Fully loaded, Danish compromise
[b] With a 100bp management buffer on top CET1 ratio target as of 2020
Source: Fitch Ratings, KBC Group

Loan Book[a] by Business Unit EUR180bn[b] at End-June 2021



[a] Loan book as reported by KBC Group
[b] Excluding EUR2.1bn in Group Centre
Source: Fitch Ratings, KBC Group

Summary Financials and Key Ratios

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited – unqualified (emphasis of matter)	Audited - unqualified
Summary income statement					
Net interest and dividend income	2,599	2,187	4,520	4,700	4,625
Net fees and commissions	1,058	890	1,609	1,735	1,719
Other operating income	841	708	1,055	1,224	1,183
Total operating income	4,498	3,785	7,184	7,659	7,527
Operating costs	2,729	2,296	4,263	4,303	4,234
Pre-impairment operating profit	1,770	1,489	2,921	3,356	3,293
Loan and other impairment charges	-242	-204	1,074	203	-62
Operating profit	2,012	1,693	1,847	3,153	3,355
Other non-operating items (net)	-1	-1	n.a.	-37	-45
Tax	406	342	407	627	740
Net income	1,604	1,350	1,440	2,489	2,570
Other comprehensive income	507	427	-101	637	-491
Fitch comprehensive income	2,112	1,777	1,339	3,126	2,079
Summary balance sheet					
Assets					
Gross loans	199,337	167,736	163,316	158,671	150,575
- of which impaired	6,496	5,466	5,417	5,563	6,615
Loan loss allowances	4,031	3,392	3,695	2,855	3,523
Net loans	195,306	164,344	159,621	155,816	147,052
Interbank	6,312	5,311	6,343	5,398	5,069
Derivatives	6,264	5,271	7,179	5,799	5,189
Other securities and earning assets	139,190	117,124	114,772	107,009	100,388
Total earning assets	347,072	292,050	287,915	274,022	257,698
Cash and due from banks	80,852	68,034	24,583	8,356	18,691
Other assets	10,116	8,512	8,245	8,357	7,419
Total assets	438,039	368,596	320,743	290,735	283,808
Liabilities					
Customer deposits	240,570	202,432	190,553	172,961	159,299
Interbank and other short-term funding	96,084	80,852	44,046	32,867	41,960
Other long-term funding	23,493	19,769	20,998	20,620	21,171
Trading liabilities and derivatives	8,375	7,047	8,559	8,221	7,169
Total funding	368,523	310,100	264,156	234,669	229,599
Other liabilities	42,065	35,396	35,057	35,701	34,576
Preference shares and hybrid capital	1,783	1,500	1,500	1,500	2,400
Total equity	25,669	21,600	20,030	18,865	17,233
Total liabilities and equity	438,039	368,596	320,743	290,735	283,808
Exchange rate		USD1 = EUR0.841468	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, KBC

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.3	1.8	3.2	3.5
Net interest income/average earning assets	1.5	1.6	1.7	1.8
Non-interest expense/gross revenue	60.6	59.3	56.2	56.4
Net income/average equity	13.1	7.6	13.8	15.1
Asset quality				
Impaired loans ratio	3.3	3.3	3.5	4.4
Growth in gross loans	2.7	2.9	5.4	2.7
Loan loss allowances/impaired loans	62.1	68.2	51.3	53.3
Loan impairment charges/average gross loans	-0.2	0.7	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	18.0	18.1	17.1	16.0
Fully loaded common equity Tier 1 ratio	17.5	17.6	17.1	16.0
Tangible common equity/tangible assets	5.2	5.5	5.6	5.4
Basel leverage ratio	5.5	6.6	6.8	6.1
Net impaired loans/common equity Tier 1	11.1	9.3	15.9	20.4
Funding and liquidity				
Loans/customer deposits	82.9	85.7	91.7	94.5
Liquidity coverage ratio	166.0	147.0	138.0	139.0
Customer deposits/funding	66.1	73.6	75.2	70.4
Net stable funding ratio	151.8	146.0	136.0	136.0

Source: Fitch Ratings, Fitch Solutions, KBC

Key Financial Metrics – Latest Developments

Stable Asset Quality Despite Decrease in Legacy Non-Performing Loans

We expect that the improvement in asset quality from the sale of the Irish NPL portfolio will be in part offset by Stage 3 inflows caused by the pandemic, and asset quality should remain commensurate with our current assessment. We anticipate that the Stage 3 loans ratio will be materially below the group's four-year average of 4.3% (2017-2020) in the next 12-18 months.

Despite a moderate increase in the stock of impaired loans driven by the SME exposure, KBC's Stage 3 loans ratio declined from end-2019 to end-June 2021, in part due to write-offs in the Irish portfolio. The loan loss allowances/impaired loans ratio increased to an adequate 62% at end-June 2021 from about 52% at end-2019. In 1H21 KBC released part of the large amount of provisions booked in 2020 for pandemic-related expected losses. Releases amounted to EUR155 million compared with EUR 1.1 billion of loan impairment charges (LICs) in 2020 or 66bp of average gross loans (of which EUR783 million were pandemic-related provisions).

Exposures to Belgium and the Czech Republic account for most of KBC's loan book and have a record of low credit losses. This should underpin KBC's asset quality, and even more so after the divestment from Ireland, provided that the group's geographic footprint does not materially change. The SME/corporate portfolio is relatively well spread across the sectors with very little direct exposure to industries highly vulnerable to the pandemic.

Profitability Back to Strong Pre-Crisis Levels

KBC's profitability recovered rapidly to pre-pandemic levels in 1H21. The group's operating profit/RWAs of 3.2% was comparable with 2019 performance after having fallen to 1.8% in 2020. This was supported by sound growth in non-interest income mainly from asset management and insurance owing to reversals of LICs. We expect KBC to generate sound operating profitability in 2021 and 2022, underpinned by sound revenue growth, good cost control and below through-the-cycle LICs. We expect KBC to release a large part of the EUR783 million of pandemic-related provisions recorded in 2020 (almost three-quarters of the LICs in 2020) against an improving economic backdrop.

Cost efficiency is good and compares favourably with that of peers. Given continued pressure on net interest income, cost control remains a key focus for KBC's management, as highlighted in the current strategic plan. The cost/income ratio was at about 55% in 1H21 (when spreading bank taxes through the year, though taxes are taken upfront in 1Q21), which is in line with the four-year average. We expect the ratio to remain at its long-term average of around 55%-57%, supported by sound revenue growth from fee-generating business, insurance and from higher interest rate prospects in the Czech Republic and controlled operating costs.

Strong Internal Capital Generation Supports Capitalisation

KBC's solid CET1 ratio is comfortably above the minimum regulatory requirement of 10.5% including the 2.5% capital conservation buffer. Given lower expected pressure on asset quality from the pandemic and ending regulatory constraints on capital distribution, we expect the bank to distribute to shareholders some of the capital accumulated in excess of internal targets. KBC's dividend policy, aiming at a dividend pay-out of at least 50%, has remained unchanged under the new strategy. The latter provides for capital in excess of a 15.5% CET1 ratio to be considered for distribution.

The group already complies with the final minimum requirement for own funds and eligible liabilities (MREL) of 26.4% of RWAs binding from 1 January 2024. Under the single point of entry resolution strategy, the issuance of additional Tier 1 and Tier 2 capital instruments, and of a major portion of senior unsecured debt, takes place at the holding company level.

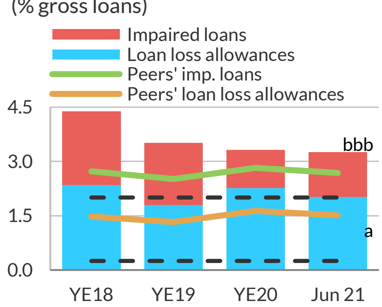
Stable Funding and Liquidity

KBC benefits from a solid retail and SME deposit franchise, especially in Belgium and the Czech Republic. Most international subsidiaries are self-funded except for Slovakia. In addition, KBC has good access to wholesale funding through various instruments. KBC's liquidity is sound as highlighted by the liquidity coverage ratio (LCR) at 166% at end-June 2021. High quality liquid assets eligible for the LCR of EUR 94 billion at end-June 2021 (about 26% of total assets) largely cover short-term wholesale funding needs.

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.

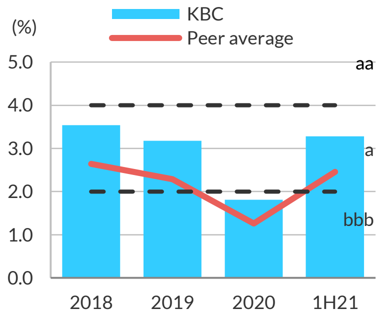
Peer average includes KBC Group NV (VR: 'a'), ABN AMRO Bank N.V. (a), BNP Paribas Fortis SA/NV (a), Danske Bank A/S (a), Erste Group Bank AG (a) and ING Groep N.V. (a+).

Asset Quality



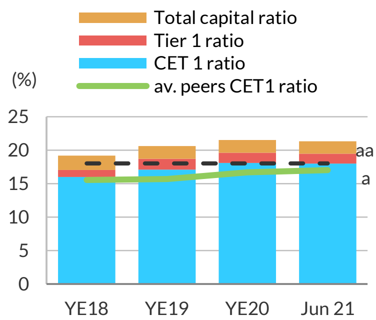
Source: Fitch Ratings, banks

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		✓	

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 right-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 some of the main 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 ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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