Fitch Ratings

KBC Group NV

Banks
Universal Commercial Banks
Belgium

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns
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 (November 2021)

Related Research

Fitch Affirms KBC Group NV at 'A'; Outlook Stable (July 2022)

Impact of Gas Rationing on CEE Sovereigns (June 2022)

Global Economic Outlook (June 2022)

Fitch Bank Debt-Class Visualisation Tool (June 2022)

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Key Rating Drivers

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 Ratings' 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 it has a conservative risk appetite.

Adequate Asset Quality: KBC's asset-quality metrics have structurally improved with the sale of its EUR1.1 billion Irish non-performing loans legacy book in 2021, and its impaired loans ratio is now more in line with peers'. Although KBC's direct exposure to Russia and Ukraine is negligible, the group's SME and corporate lending poses moderate risks to the group's asset quality. Nevertheless, we expect the Stage 3 loans ratio to remain below 3% by end-2023.

Robust Earnings Generation: KBC's profitability is strong and compares favourably with that of peers. The group's earnings generation has been resilient even in more challenging environments due to its sound business and geographic diversification, integrated bancassurance business model, and sound pricing power in home markets. In the near term, we expect the group's four-year average operating profit/risk weighted assets (RWAs) to remain in line with its 2012–2021 long-term average of just under 3%.

Capital Supports Ratings: Capitalisation is strong, reflecting robust internal capital generation, and compares well with similarly rated peers'. KBC's medium-term target of a common equity Tier 1 (CET1) ratio of at least 15% provides comfortable buffers above minimum capital requirements. We expect KBC to operate with a CET1 buffer above the bank's management's stated target in the near term, despite higher distributions to shareholders and growth.

Sound Funding and Liquidity: The bank has a stable and diversified retail funding base, and nearly all of its subsidiaries are self-funded. The group's funding profile is underpinned by its strong retail and SME deposit franchise with customer deposits being the main source of funding. Wholesale funding maturities are reasonably balanced, and an ample liquidity buffer adequately mitigates refinancing risk.

KBC Bank Notched Up: KBC Bank NV's (KBC Bank) 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 therefore consider that in a failure scenario, the risk of default on senior obligations is lower than the risk of the bank failing.

Ratings Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

KBC's and KBC Bank's ratings are sensitive to a substantial and durable deterioration in asset quality and operating profitability, most likely due to severe damage to the SME and corporate loan portfolios, with operating profit/RWAs decreasing significantly below 3%. Ratings are also likely to be downgraded if, at the same time, the group's CET1 ratio falls below its internal target of 15% without prospects of a swift recovery.

A change in KBC's risk appetite could be negative for the ratings, for example, if contribution of more volatile CEE countries to KBC's earnings grows rapidly as this could imply an increase in exposure to weaker operating environments.

KBC's ratings could also be downgraded should holding-company double leverage remain above 120% without a clear path to reduction, although this is not Fitch's expectation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Upside for KBC's and KBC Bank's VR is limited. An upgrade would be contingent on a stronger business profile, with no increase in their risk profile, and a structural improvement in asset-quality metrics, while maintaining strong profitability and capitalisation.

Other Debt and Issuer Ratings

Other Issuing Entities

Rating level	KBC Bank NV	United Bulgarian Bank AD
Long- and Short-Term Foreign-Currency IDRs	A+/F1	A-/F1
Derivative Counterparty Rating	A+(dcr)	-
Viability Rating	a	bb
Government Support Rating	ns	-
Shareholder Support Rating	-	a-
Long-Term IDR Outlook	Stable	Positive

Source: Fitch Ratings

KBC Bank is the domestic operating company 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 has historically contributed about 85% to the group's profits. The group is regulated on a consolidated basis, the double leverage at the holding company is below 120%, 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 the bank's third-party senior creditors.

United Bulgarian Bank's 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 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 CRD IV-compliant, undated, deeply subordinated, additional Tier 1 securities issued by KBC 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.'s 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.

Significant Changes from Last Review

Issuer Level

KBC Strengthens Its Position in Bulgaria with Raiffeisen Bulgaria Buy

KBC acquired Raiffeisen Bank International's Bulgarian banking operations and its specialised subsidiaries in leasing, asset management and insurance brokerage on 7 July. The acquisition of Raiffeisenbank (Bulgaria) EAD (RBBG) materially strengthens KBC's market position in the Bulgarian banking market and reflects the group's strategic focus on achieving scalable bancassurance operations in each of its core countries. Although the transaction is transformative for KBC's Bulgarian operations given its size, it will not result in a notable change of the group's country diversification. The acquisition, for about EUR1 billion, paid in cash, will have a moderate impact of around 100bp on the group's CET1 ratio.

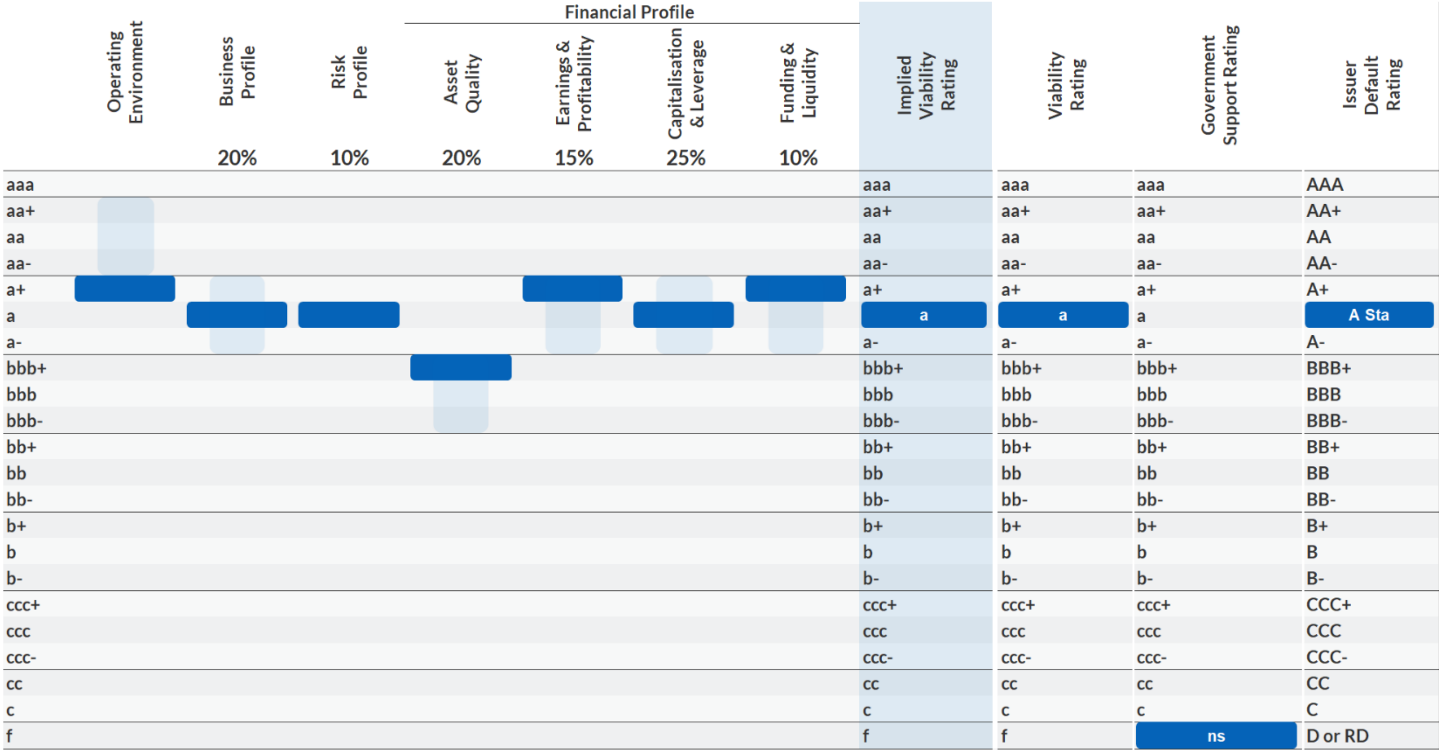
RBBG is the sixth-largest bank in Bulgaria, with about EUR5.5 billion total assets at end-2021 and a domestic market share of around 8%. The merger with KBC's subsidiary United Bulgarian Bank AD (total assets at end-2021: around EUR7.8 billion) will create a market leader with share of about 19% of the Bulgarian banking sector's assets, strengthening KBC's ability to compete with the two largest banks in the industry.

Operating Environment Has Headroom to Absorb Weakening of the Economic Outlook

KBC's exposure is concentrated in Belgium and in the Czech Republic. The group also has adequate diversification in three other central and eastern European countries in Hungary, Bulgaria and Slovakia. Although Belgian banks' direct exposure to counterparties in Ukraine, Russia and Belarus is limited, risks to the banks' asset quality and profitability are on the rise from the indirect effects of the war in Ukraine, such as high inflation (and particularly rises in energy and commodity prices) and supply-chain disruptions, and the resulting weaker macroeconomic prospects. High employment levels, a salary indexation mechanism, and the high level of household savings accumulated during the pandemic should mitigate the impact from the weaker macroeconomic backdrop. Belgian banks' solid capitalisation provides them with a sound cushion to absorb pressure on asset quality and profitability.

The Czech Republic's very heavy reliance on Russian energy (86% of natural gas is imported from Russia) leaves it highly vulnerable to the effects of any shutdown in gas supplies. The Czech Republic's 'AA-' sovereign rating has been on Negative Outlook since May 2022, reflecting the significant downward revision to Fitch's growth forecast, very strong inflationary pressures, high dependency on energy imports from Russia and deteriorating public finances. Czech banks' operating environments at 'a'/stable incorporate the sound and generally resilient performance of the Czech economy and the strong sovereign rating. A one-notch downgrade of the sovereign rating would not trigger an immediate downgrade of the operating environment score.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The ‘a+’ operating environment score is below the ‘aa-’ implied score due to the following adjustment: international operations (negative).

Company Summary and Key Qualitative Factors

Business Profile

Leading Position in Belgium and the Czech Republic

KBC is the second-largest commercial bank in Belgium, where it operates through two brands: KBC Bank in Flanders and Brussels, and CBC Banque in Wallonia. KBC also has 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 (end-1Q22: EUR236 billion assets under management) provides the group with a 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 has adequate banking franchises. Banking and insurance activities are less integrated in Slovakia, Hungary, and Bulgaria than in more mature markets, reflecting lower levels of wealth, and this explains the lower market share in non-banking products. The group is progressing well towards a more integrated distribution model in Bulgaria with the recent acquisition of RBBG and last year's purchase of NN Insurance's Bulgarian pension and life insurance.

Strategy Focused on Growth and Bancassurance in Core Markets

In the medium-term 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 mostly focus 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 15% CET1 ratio.

KBC's strategy in CEE countries is focused on achieving critical mass and on developing a highly integrated bancassurance model, similar to that in Belgium and the Czech Republic. The group will achieve higher scale through organic growth and through acquisitions. It may also engage in external growth transactions outside its core markets, provided that an opportunity with a strong strategic fit arises.

KBC executed its previous medium-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. KBC should fully exit the Irish market, which is no longer considered core for the group, pending regulatory agreement for the sale of its remaining assets and liabilities, including EUR9.2 billion loans and EUR4.4 billion deposits to Bank of Ireland Group plc.

Risk Profile

Sound 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 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 complies with the Belgian National Bank's guidelines aimed at reducing the new production of high-leverage loans with loan/value and debt service/income ratios above 90% and 50%, respectively. Lending is based on borrowers' ability to repay. Residential mortgage loans have low-risk features and modest sensitivity to interest rate cycles as they are fully amortising and mainly with fixed interest rates.

Single-name concentration is adequate, and sector concentration limits are set at country level and monitored on an ongoing basis. KBC's exposure to commercial real estate and building and construction represented about 10% of loans at end-1Q22. Concentrations by asset type are closely monitored, resulting in good diversification of the real estate book. The appetite for riskier real estate development projects is low.

Securities represented around 18% 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.

Financial Profile

Asset Quality

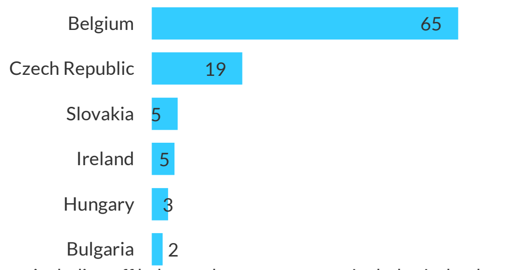
KBC's loan book is dominated by the Belgian and the Czech exposures, with a record of adequate impaired loans ratio and low credit losses, which should continue to underpin KBC's asset quality provided that the group's geographic footprint does not materially change. KBC's direct exposure to Russia, Ukraine and Belarus is immaterial at about EUR55 million at end-1Q22, and has no insurance-related exposure. KBC has estimated that around EUR8 billion retail and business counterparties are vulnerable to oil and supply disruptions, high energy prices, supply bottlenecks, and interest rate hikes, which is equivalent to less than 5% of its loan outstanding (including off-balance-sheet).

KBC's exposure to CEE countries is material at about a third of loans outstanding (excluding Ireland) at end-1Q22. The impaired loans ratio for the region was sound and not materially different than in Belgium, reflecting robust underwriting across countries and the high proportion of resilient retail loans, mostly residential mortgage loans. Risks to SME and corporate loans' credit quality appear to be more acute than residential mortgage loans given the higher sensitivity to rising interest rates, and to the second-round effects from the war in Ukraine (including high energy and commodity prices). SME and corporate loans in CEE accounted for about 15% of KBC's loans including off-balance sheet guarantees at end-1Q22 (excluding loans in Corporate Centre).

We expect only limited asset quality deterioration in the group's residential mortgage loan book (about 40% of loans outstanding), underpinned by the high share of fixed-rate Belgian loans, and strict underwriting in CEE countries with relatively low debt-to-service ratios providing headroom to borrowers so they can absorb the higher monthly instalments driven by higher interest rates.

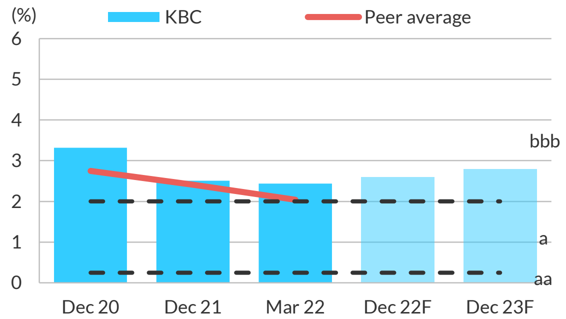
Loan Split by Business Unit (%)

(End-Mar 22)



Loans including off balance sheet guarantees. Includes Ireland (reported under Corporate Centre as of 1Q22). Excludes EUR1.8bn corporate loans from Corporate Centre.
Source: Fitch Ratings, KBC

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

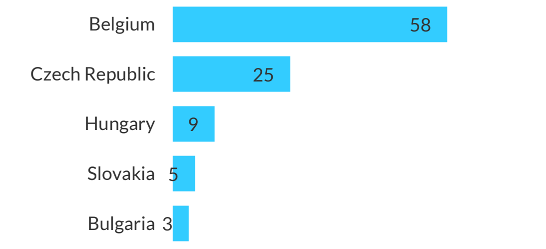
Earnings and Profitability

KBC's 1Q22 net income of EUR458 million was down by about 18% year-over-year despite a sound increase in revenue. Higher operating costs, bank taxes taken upfront in 1Q22 and lower reversals from loan loss provision have weighed on KBC's 1Q22 earnings. Revenue was about 9.5% higher supported by a 12% rebound in net interest income and continued growth in fee income from asset management and banking services. The group's operating profit/RWAs decreased to 2.2% from 2.7% in 1Q21, which still compares well with similarly rated peers.

We believe KBC will be able to generate its revenue target of around EUR8.2 billion revenue in 2022, as it will benefit from non-euro interest rates hikes (with further increases enacted after 1Q22), higher ECB interest rates and as we expect sound residential mortgage and SME lending volumes in all countries. This should almost entirely offset the inflation-driven increase in operating expenses and moderate LICs. On a net basis, the exit from Ireland and the consolidation of RBBG will be moderately positive for KBC's operating profit in 2022.

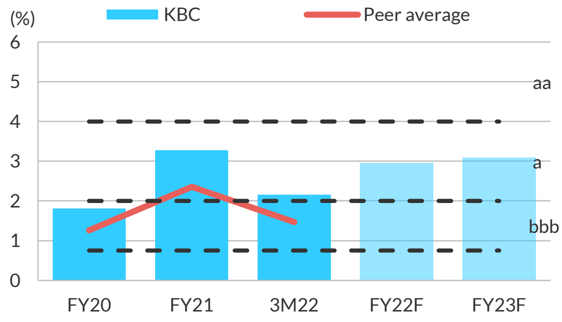
KBC's 1Q22 operating costs were 15% higher yoy because of increased bank taxes, further IT and digitalisation investments, wage inflation and some one-offs such as the special staff bonus, and the charges related to the Irish sale transactions. When excluding bank taxes, which accounted for about a third of expenses in 1Q22, operating costs were up by about 12%. We believe it will be challenging for KBC to keep cost growth in line with its targeted +/-1.5% average growth per year, excluding bank taxes. However, we expect KBC to generate positive jaws with revenue growth outpacing that of costs resulting into a lower cost/income ratio relative to 2021.

Revenue Split by Business Unit (%)
(3M22)



Excluding EUR43m revenue from Group Centre, which includes the remaining Irish business
Source: Fitch Ratings, KBC

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

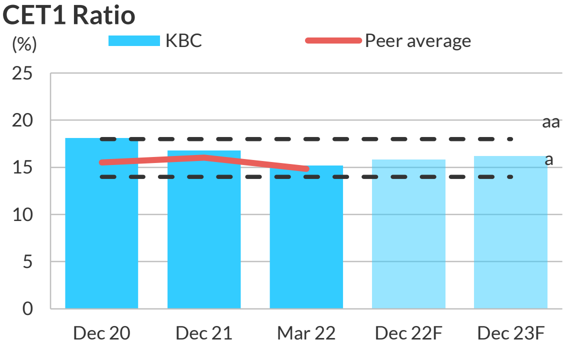
Capital and Leverage

KBC's CET1 ratio (fully loaded, Danish compromise) decreased to 15.5% at end-2021 (end-2020: 17.6%) as the group resumed dividend payments and distributed some of the capital accumulated in excess of internal targets to shareholders. The group's fully loaded CET1 ratio of 15.3% at end-1Q22 was comfortably above the minimum regulatory requirement of 10.9%, including the 2.5% capital conservation and the 0.55% countercyclical buffers. KBC's dividend policy aims at a dividend pay-out of at least 50%, and provides for capital in excess of a 15% CET1 ratio to be considered for distribution.

Inorganic growth has to date been prudent as KBC focuses on small bolt-on acquisitions that individually have a modest impact on the group's solvency ratios. The recent acquisition of RBBG will reduce the group's CET1 ratio by around 100bp, although this will be fully offset by retained earnings. In addition, the completion of the pending sale of the Irish loan portfolio should have a positive effect of around 90bp on the group's CET1 capital.

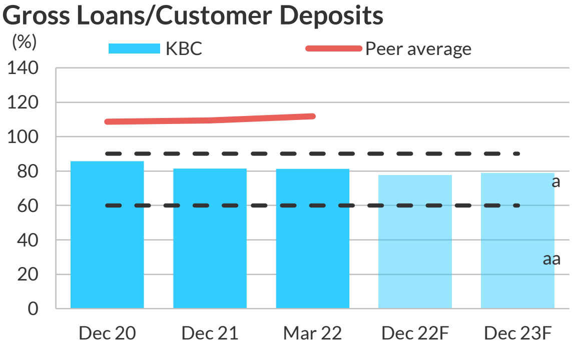
KBC already complies with the final minimum requirement for own funds and eligible liabilities of 26.7% of RWAs, which will become binding from 1 January 2024, and which includes a 4.5% combined buffer requirement. Under the single-point-of-entry resolution strategy, the issuance of additional Tier 1 and Tier 2 capital instruments, and of senior unsecured debt the is intended for MREL purposes takes place at the holding company level.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

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 and prudential ratios are well above the minimum requirement of 100%, as highlighted by the liquidity coverage ratio at 162% at end-1Q22 and the net stable funding ratio of 149%. High quality liquid assets eligible for the liquidity coverage ratio of EUR110.2 billion at end-1Q22 (about a third of total assets) largely cover short-term wholesale funding needs.

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on the group's core financial metrics under Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, our forecasts may materially differ from the guidance provided by the rated entity to the market. To the extent Fitch is aware of material non-public information, with respect to future events, such as planned recapitalisations or merger and acquisition activity, we will not reflect these non-public future events in our published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

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. Light-blue columns represent Fitch's forecasts.

Peer average includes BNP Paribas Fortis SA/NV (VR: a), Erste Group Bank AG (a), Danske Bank A/S (a), ING Groep N.V. (a+), Societe Generale S.A. (a-). Latest average does not include BNP Paribas Fortis SA/NV.

Financials

Financial Statements

	31 Mar 22		31 Dec 21	31 Dec 20	31 Dec 19
	3 months - 1st quarter (USDm) Reviewed - unqualified	3 months - 1st quarter (EURm) Reviewed - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	1,340	1,207	4,496	4,520	4,700
Net fees and commissions	535	482	1,836	1,609	1,735
Other operating income	471	424	1,221	1,055	1,224
Total operating income	2,346	2,113	7,553	7,184	7,659
Operating costs	1,687	1,520	4,461	4,263	4,303
Pre-impairment operating profit	658	593	3,092	2,921	3,356
Loan and other impairment charges	24	22	-333	1,074	203
Operating profit	634	571	3,425	1,847	3,153
Other non-operating items (net)	n.a.	n.a.	-7	n.a.	-37
Tax	125	113	804	407	627
Net income	508	458	2,614	1,440	2,489
Other comprehensive income	-464	-418	401	-101	637
Fitch comprehensive income	44	40	3,015	1,339	3,126
Summary balance sheet					
Assets					
Gross loans	185,572	167,167	162,300	163,316	158,671
- Of which impaired	4,525	4,076	4,081	5,417	5,563
Loan loss allowances	2,805	2,527	2,573	3,695	2,855
Net loans	182,767	164,640	159,727	159,621	155,816
Interbank	8,784	7,913	7,920	6,343	5,398
Derivatives	4,807	4,330	5,290	7,179	5,799
Other securities and earning assets	121,308	109,277	109,030	114,772	107,009
Total earning assets	317,666	286,160	281,967	287,915	274,022
Cash and due from banks	72,878	65,650	40,653	24,583	8,356
Other assets	20,085	18,093	17,726	8,245	8,357
Total assets	410,629	369,903	340,346	320,743	290,735
Liabilities					
Customer deposits	228,441	205,784	199,476	190,553	172,961
Interbank and other short-term funding	79,173	71,321	47,868	44,046	32,867
Other long-term funding	23,674	21,326	22,378	20,998	20,620
Trading liabilities and derivatives	9,238	8,322	7,478	8,559	8,221
Total funding and derivatives	340,526	306,753	277,200	264,156	234,669
Other liabilities	44,451	40,042	40,069	35,057	35,701
Preference shares and hybrid capital	1,665	1,500	1,500	1,500	1,500
Total equity	23,987	21,608	21,577	20,030	18,865
Total liabilities and equity	410,629	369,903	340,346	320,743	290,735
Exchange rate		USD1 = EUR0.90082	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, KBC

Key Ratios

	31 Mar 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.2	3.3	1.8	3.2
Net interest income/average earning assets	1.7	1.6	1.6	1.7
Non-interest expense/gross revenue	71.8	59.0	59.3	56.2
Net income/average equity	8.6	12.3	7.6	13.8
Asset quality				
Impaired loans ratio	2.4	2.5	3.3	3.5
Growth in gross loans	3.0	-0.6	2.9	5.4
Loan loss allowances/impaired loans	62.0	63.1	68.2	51.3
Loan impairment charges/average gross loans	-0.1	-0.2	0.7	0.1
Capitalisation				
Common equity Tier 1 ratio	15.2	16.8	18.1	17.1
Fully loaded common equity Tier 1 ratio	15.3	15.5	17.6	17.1
Tangible common equity/tangible assets	5.2	5.6	5.5	5.6
Basel leverage ratio	5.8	6.5	6.6	6.8
Net impaired loans/common equity Tier 1	9.5	8.6	9.3	15.9
Funding and liquidity				
Gross loans/customer deposits	81.2	81.4	85.7	91.7
Liquidity coverage ratio	162.0	167.0	147.0	138.0
Customer deposits/total non-equity funding	68.2	73.1	73.6	75.2
Net stable funding ratio	149.0	148.0	146.0	136.0

Source: Fitch Ratings, Fitch Solutions, KBC

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

KBC's and KBC Bank's GSRs reflect Fitch's view that sovereign support for KBC and KBC Bank is possible but cannot be relied on given the implementation of the Bank Resolution and Recovery Directive in Belgium.

Environmental, Social and Governance Considerations

Overall ESG

5
4
3
2
1

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.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
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; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
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	Business Profile (incl. Management & governance); Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale: 5, 4, 3, 2, 1

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