FitchRatings

Banks
Universal Commercial Banks
Belgium

KBC Group NV

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns

Sovereign Risk (Belgium)

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

Outlooks

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

Key Rating Drivers

Sound Business Profile: 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, 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 some operations in less developed, more volatile countries in central and eastern Europe (CEE), despite its conservative risk appetite.

Sound Franchise in Core Countries: KBC is one of the largest banking groups in Belgium. It benefits from leading banking franchises in its domestic market and the Czech Republic, and has adequate-to-good market positions in several CEE countries. KBC's insurance and asset management franchises provide good cross-selling opportunities and revenue diversification, contributing to the group's strong profitability.

Moderate Risk Appetite: The group's generally prudent risk appetite is supported by the dominance of its fairly low-risk Belgian operations and stability in its Czech operations. Exposure to some other countries in CEE gives rise to potential earnings and asset-quality volatility; however, we believe risk controls and credit standards are robust.

Adequate Asset Quality: KBC's impaired loans ratio of almost 2% at end-March 2023 compares well with those of Belgian peers and has improved materially in the last couple of years due to the sale of all of its Irish impaired loans and tightened underwriting. The group's large SME and corporate lending poses moderate asset-quality risks. We expect KBC's impaired loans ratio to moderately increase to 2.4% by end-2024.

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.

Strong Capital, Solid Buffers: 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 its regulatory minimum capital requirements. The fully loaded CET1 ratio of 16.1% at end-March 2023 was well above requirements; we expect it to decrease closer to the medium-term target in 2023.

Sound Funding and Liquidity: KBC has a stable and diversified retail funding base, and nearly all of its foreign 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. KBC has good access to wholesale funding, upcoming maturities are reasonably balanced and an ample liquidity buffer adequately mitigates refinancing risk.

Group VR: Fitch assesses KBC 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 its Viability Rating (VR) is equalised with that of KBC Bank, which represents around 90% of group assets. The group is regulated on a consolidated basis, holding company double leverage is generally maintained at below 120%. 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 IDR Notched Up: KBC Bank's Long-Term Issuer Default Rating (IDR) and senior debt ratings are one notch above the bank's VR because of the presence of resolution debt buffers raised by KBC to protect KBC Bank's senior external creditors. We therefore view the risk of default on senior obligations as lower than the risk of the bank failing.

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms KBC Group NV at 'A'; Outlook Stable (July 2023)

Global Economic Outlook (June 2023)

Fitch Revises Belgium's Outlook to Negative; Affirms at 'AA-' (March 2023)

Fitch Affirms Czech Republic at 'AA-'; Outlook Negative (March 2023)

Major Belgian and Dutch Banks - Peer Review 2023

DM100 Banks Tracker - End-2022

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Rating 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 its SME and corporate loan portfolios, which could cause operating profit to decrease significantly below 3% of risk-weighted assets (RWA). The 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.

An adverse change in KBC's risk appetite could be negative for the ratings, such as if the contribution of more volatile CEE countries to KBC's earnings grows rapidly, as this could imply an increase in exposure to weaker operating environments. We see sufficient rating headroom against a downward revision of the Belgian banks' operating environment score to 'a+' and of KBC's own operating environment to 'a'.

KBC's ratings could also be downgraded should the holding company's 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 VRs is limited and would at least require a stabilisation of the operating environment assessment for Belgian banks and for the group. An upgrade would also 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

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

Source: Fitch Ratings

KBC Bank's IDRs, Senior Debt and Derivative Counterparty Rating (DCR)

KBC Bank's senior debt ratings are in line with its Long-Term IDR, one notch above the VR, to reflect protection from resolution debt buffers raised by KBC. The group adopts a single-point-of-entry resolution strategy, with KBC being the resolution entity. All MREL (minimum requirement for own funds and eligible liabilities) instruments, including senior debt, are issued by KBC and channelled to KBC Bank and rank junior to third-party senior creditors.

KBC Bank's DCR is aligned with its Long-Term IDR because, under Belgian legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

KBC Group's Subordinated Debt and Other Hybrid Securities

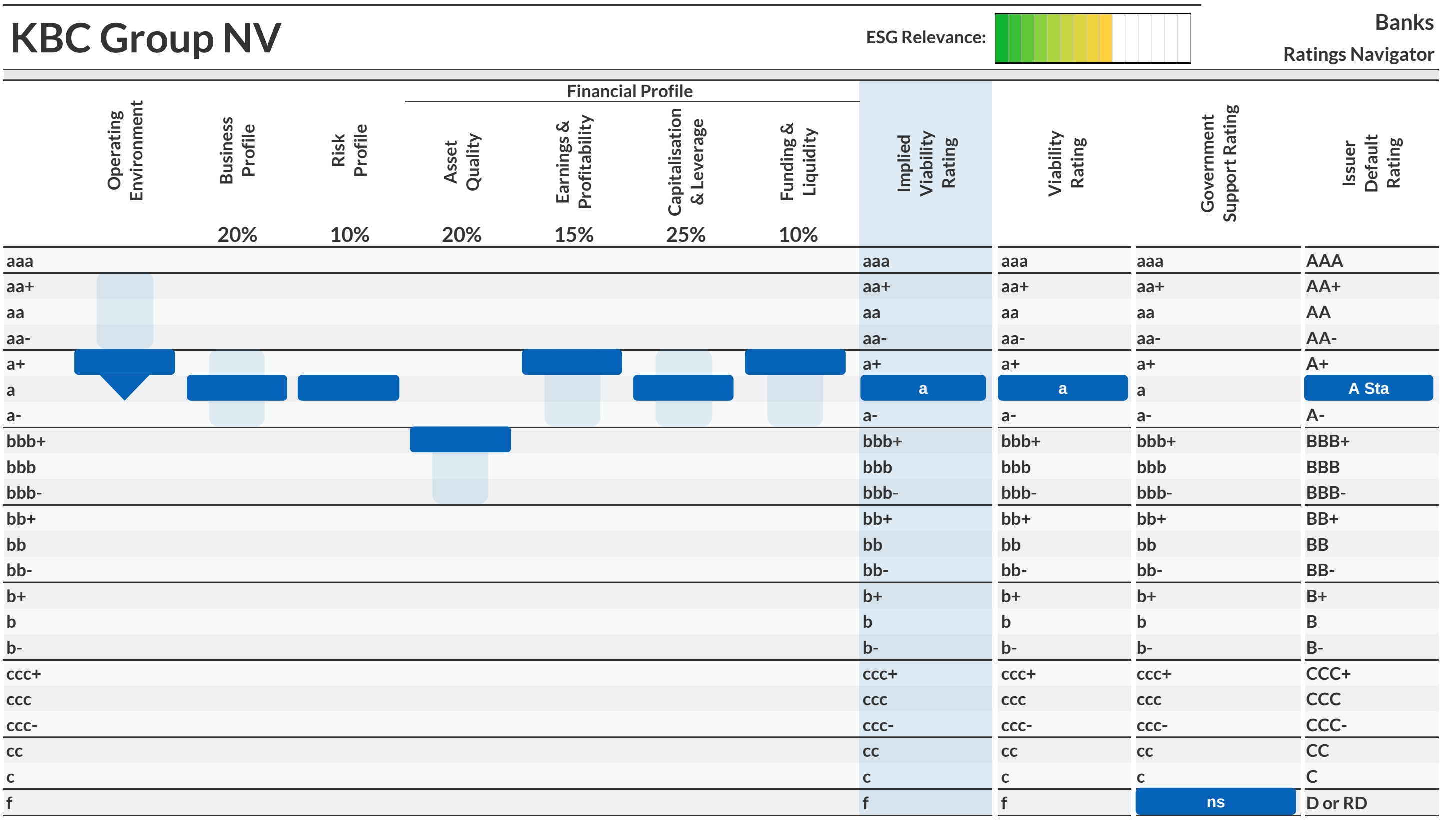
The Tier 2 subordinated debt issued by KBC is rated two notches below its VR, reflecting Fitch's baseline notching for incremental loss severity, as we expect recoveries to be poor for this type of debt in case of default/non-performance of the bank.

The perpetual, 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. Our assessment of these instruments is based on our expectation that the group will continue operating with capital ratios comfortably above mandatory coupon-omission points (300bp on the total capital ratio at end-March 2023).

KBC IFIMA S.A.'s Senior and Subordinated Debt

KBC IFIMA S.A.'s senior debt is aligned with KBC Bank's IDRs, as the debt is guaranteed by KBC Bank and we believe that KBC Bank will ensure these obligations are met. Subordinated debt issued by KBC IFIMA S.A. and guaranteed by KBC Bank on a subordinated basis is rated two notches below KBC Bank's VR to reflect poor recovery expectations.

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 category score and below the 'aa-' score of domestic Belgian banks 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 Ceskoslovenska obchodní banka, a. s. (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-March 2023: EUR217 billion assets under management) provides the group with a competitive advantage and pricing power.

In its home markets, the banking and asset-gathering operations are highly integrated, generating sound revenue and cost synergies.

KBC is exposed to more volatile countries in the CEE region, where it has adequate-to-good banking franchises. Banking and insurance activities are less integrated in Slovakia, Hungary, and Bulgaria than in more mature markets, reflecting lower levels of wealth.

The group is progressing well towards a more integrated distribution model in Bulgaria following the acquisitions of Raiffeisenbank Bulgaria (RBBG) in 2022 and of NN Insurance's Bulgarian pension and life insurance business the year before. RBBG legally merged with KBC's subsidiary United Bulgarian Bank AD (A-/Positive/F1/bb) in April, creating a market leader with a 19% share of the Bulgarian banking sector's assets, and 26% in life insurance, strengthening KBC's ability to compete with the two largest banks in the country. Bulgaria's contribution to the group's total revenue increased to about 6% in 1Q23, from about 4% before the consolidation of RBBG.

Strategy Focused on Bancassurance and Growth in Core Markets

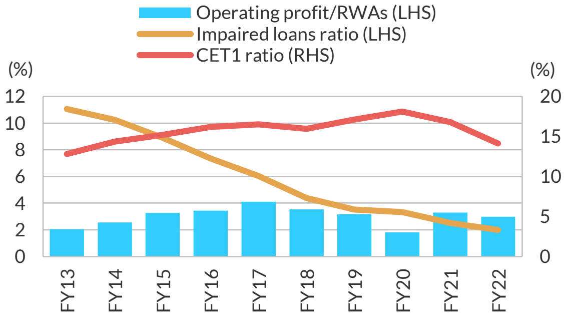
KBC's medium-term strategic plan is to continue gaining and maintaining significant market share in core countries through an integrated bancassurance model and, increasingly, on digitalisation and ESG. Non-financial objectives mostly focus on client satisfaction, growing cross-selling between banking and insurance, growing digital sales, and operational improvements through digitalisation.

The strategic plan includes reasonable financial targets. Management aims to generate about 5% positive jaws (revenue minus operating expenses, excluding bank and insurance taxes) during 2022 to 2025 and a cost/income ratio, excluding bank and insurance taxes, of about 39%. KBC aims to maintain sound capitalisation and targets a minimum CET1 ratio of 15% on a fully-loaded basis.

KBC's strategy in CEE countries is focused on achieving critical mass and 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 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 strategic plan well, as demonstrated by organic market share gains in banking and insurance in core markets and through well integrated acquisitions, sound capital levels and tight cost control. In 1Q23, KBC finalised the divestment of almost all of its remaining performing Irish loans and deposits, marking the group's definitive exit from the Irish market.

Performance Through the Cycle



Source: Fitch Ratings, KBC

KBC's market share by country at end-March 2023

(%)	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria
Loans and deposits	20	21	12	11	19
Investment funds	28	24	7	11	14
Life insurance	12	7	2	3	26
Non-life insurance	9	9	5	7	12

Source: Fitch Ratings, KBC

Risk Profile

Sound Credit Standards

KBC is mainly exposed to credit risk. We consider its underwriting standards to be generally prudent, supported by the predominance of credit exposures in Belgium and Czech Republic. 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 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 have 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 10.5% of loans at end-March 2023 (including off-balance-sheet guarantees). Concentrations by asset type are closely monitored, resulting in good diversification of the real-estate book. Its appetite for riskier real-estate development projects is low.

Securities represented around 21% 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 sound impaired loans ratio and low credit losses that should continue to underpin its asset quality, provided that the group's geographic footprint does not change materially. KBC's exposure to CEE countries is material at about 38% of loans at end-March 2023. 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.

The impaired loans ratio continued to decrease to 1.96% at end-March 2023. This is almost six times lower than its peak reached at end-2013. Coverage of impaired loans by loan loss allowances strengthened to a sound 73% at the same date due to de-risking of the legacy portfolio and precautionary provisions related to geopolitical risks and second-order effects from the war in Ukraine. We expect impairments and negative rating migrations to drive loan impairment charges (LICs) in 2023, which should be partly offset by potential releases of the precautionary provisions.

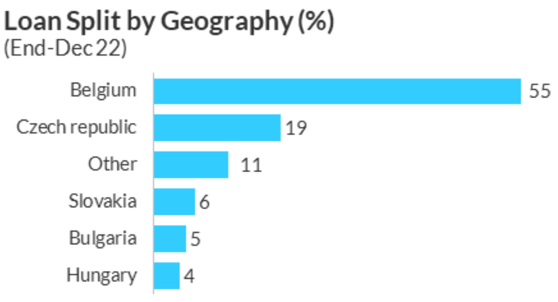
We forecast LICs close to management's guidance of between 20bp and 25bp in 2023, slightly below the bank's through-the-cycle levels of 25bp-30bp (which exclude any loan allowance release), partly due to sound management adjustments on top of internal model-generated impairments (1Q23: 21bp annualised of gross loans).

The credit quality of the residential mortgage loans is strong, as reflected by the low impaired loans ratio of 0.6% (0.4% impaired loans ratio at end-March 2023 in Belgium, including off-balance-sheet guarantees). Household purchasing power is under pressure from high inflation in KBC's international markets, but performance has been resilient, underpinned by a relatively stable labour market, government support and strict underwriting.

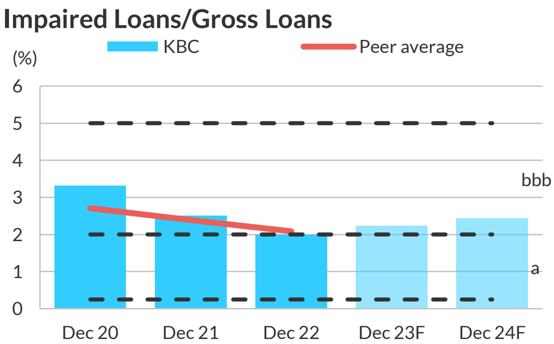
We expect only limited asset-quality deterioration in the group's residential mortgage loan book (about 40% of loans outstanding), underpinned by a high share of fixed-rate Belgian loans and strict underwriting in CEE with relatively low debt-to-service ratios. The latter provides headroom to borrowers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

Risks to SME and corporate loans' credit quality appear to be more severe than for residential mortgage loans, given the higher sensitivity to rising interest rates and to the second round effects from the war in Ukraine. SME and corporate loans in CEE accounted for about 15% of KBC's loans, including off-balance-sheet guarantees, at end-March 2023. KBC has estimated that around EUR8 billion of retail and business counterparties are vulnerable to oil and supply disruptions, high energy prices, and interest rate hikes, which is equivalent to less than 5% of its loan outstanding (including off balance sheet).

The migration of vulnerable borrowers in Stage 2 loans, following strict interpretation of regulatory guidance on staging for geopolitical and emerging risks, explains KBC's particularly high Stage 2 loans ratio at 19% at end-March 2023, compared with peers and its historical average of around 11%-13%. To cover these risks, KBC has taken EUR390 million of provisions in addition to model-driven impairments.



Loans including off-balance sheet guarantees, pro-forma excluding Ireland
Source: Fitch Ratings, KBC



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

We expect KBC's operating profit/RWA ratio to remain above 3% in 2023 and 2024, supported by sound revenue growth, mainly from higher net interest income (NII) and insurance income, and below through-the-cycle LICs. We expect a cost/income ratio of around 60% (as calculated by Fitch) despite a moderate increase in operating costs, which should continue to compare well with domestic peers, although it is broadly in line with the European average.

KBC's 1Q23 net income of EUR882 million almost doubled yoy, driven by healthy revenue growth and loan loss provision reversals, which largely offset higher operating costs. Revenue was 23% higher compared with 1Q22 (restated financials to reflect IFRS 17) on strong NII and insurance income. The performance was in line with the group's strategic target of around 7.3% CAGR revenue for 2022-2025.

NII was up 10%, driven by an improved liabilities margin and sound organic loan growth despite the continued lending margin pressure. The net interest margin has been increasing, and we expect a further increase throughout 2023. Fee income suffered from lower asset valuations in asset management. The group's operating profit-to-RWA reached a record high 4% in 1Q23, comparing well with European peers.

We believe KBC will be able to reach its revenue target of around EUR11.5 billion in 2023, as we incorporate the full-year benefit from euro interest-rate hikes and good insurance performance. This should help cushion continued, albeit declining, inflationary pressure on operating costs, and close to normalised LICs.

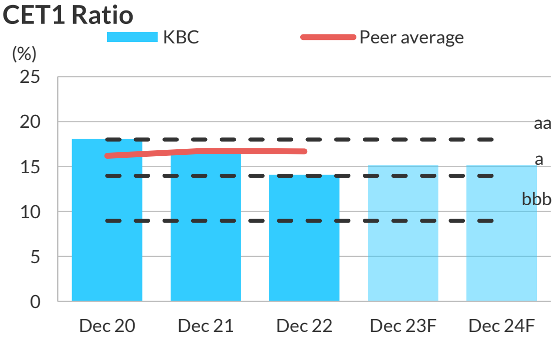
Capital and Leverage

KBC's CET1 ratio (fully loaded, including the application of the Danish compromise) increased to 16.1% at end-March 2023 (end-2022: 15.3%) due to the sale of the Irish portfolio, which generated EUR1 billion in capital relief, due to lower RWAs and a gain on the sale. The group's fully loaded CET1 ratio was 473bp above the minimum fully loaded regulatory requirement of 11.3%, including the 5% combined buffer requirement. KBC's dividend policy aims at a dividend payout 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 had a modest impact on the group's solvency ratios.

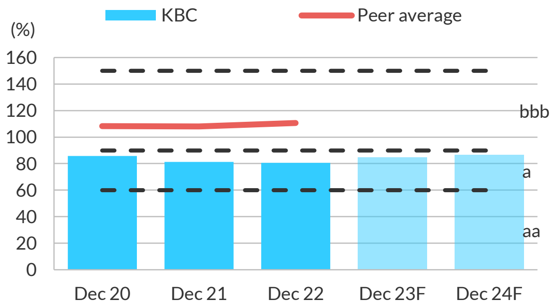
KBC already complies with the final MREL of 27.9% of RWA, which will become binding from 1 January 2024, and which includes a 5% combined buffer requirement.

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 minimum requirements.

High-quality liquid assets averaged EUR91 billion between end-March 2023 and end-March 2022 (about 26% of total assets), largely covering short-term wholesale funding needs. The liquidity buffer is mainly made of cash and bonds that can be repo-ed at the central bank or in the private market.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per 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, Fitch's 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, Fitch will not reflect these non-public future events in its 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 Belfius Bank SA/NV (VR: a-), BNP Paribas Fortis SA/NV (a+), ING Belgium NV/SA (a-) , Danske Bank A/S (a), Erste Group Bank AG (a).

Financials

Financial Statements

	31 Mar 23		31 Dec 22	31 Dec 21	31 Dec 20
	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	1,449	1,332	5,220	4,496	4,520
Net fees and commissions	626	576	1,847	1,836	1,609
Other operating income	810	745	1,407	1,221	1,055
Total operating income	2,885	2,653	8,474	7,553	7,184
Operating costs	2,165	1,991	4,942	4,461	4,263
Pre-impairment operating profit	720	662	3,532	3,092	2,921
Loan and other impairment charges	-26	-24	244	-333	1,074
Operating profit	746	686	3,288	3,425	1,847
Other non-operating items (net)	409	376	63	-7	n.a.
Tax	196	180	608	804	407
Net income	959	882	2,743	2,614	1,440
Other comprehensive income	489	450	-1,393	401	-101
Fitch comprehensive income	1,449	1,332	1,350	3,015	1,339
Summary balance sheet					
Assets					
Gross loans	198,039	182,105	180,671	162,300	163,316
- Of which impaired	3,873	3,561	3,616	4,081	5,417
Loan loss allowances	2,811	2,585	2,619	2,573	3,695
Net loans	195,228	179,520	178,052	159,727	159,621
Interbank	3,515	3,232	4,254	7,920	6,343
Derivatives	1,996	1,835	2,486	5,290	7,179
Other securities and earning assets	125,386	115,297	103,483	109,030	114,772
Total earning assets	326,124	299,884	288,275	281,967	287,915
Cash and due from banks	42,118	38,729	51,427	40,653	24,583
Other assets	9,507	8,742	16,170	17,726	8,245
Total assets	377,749	347,355	355,872	340,346	320,743
Liabilities					
Customer deposits	238,534	219,342	224,407	199,476	190,553
Interbank and other short-term funding	44,433	40,858	45,343	47,868	44,046
Other long-term funding	25,801	23,725	21,361	22,378	20,998
Trading liabilities and derivatives	8,762	8,057	8,179	7,478	8,559
Total funding and derivatives	317,531	291,982	299,290	277,200	264,156
Other liabilities	35,052	32,232	35,775	40,069	35,057
Preference shares and hybrid capital	1,631	1,500	1,500	1,500	1,500
Total equity	23,535	21,641	19,307	21,577	20,030
Total liabilities and equity	377,749	347,355	355,872	340,346	320,743
Exchange rate		USD1 = EUR0.91954	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, KBC

Key Ratios

	31 Mar 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.6	3.0	3.3	1.8
Net interest income/average earning assets	1.8	1.8	1.6	1.6
Non-interest expense/gross revenue	75.0	58.3	59.0	59.3
Net income/average equity	17.5	13.8	12.3	7.6
Asset quality				
Impaired loans ratio	2.0	2.0	2.5	3.3
Growth in gross loans	0.8	11.3	-0.6	2.9
Loan loss allowances/impaired loans	72.6	72.4	63.1	68.2
Loan impairment charges/average gross loans	0.0	0.1	-0.2	0.7
Capitalisation				
Common equity Tier 1 ratio	15.8	14.1	16.8	18.1
Fully loaded common equity Tier 1 ratio	16.1	15.3	15.5	17.6
Tangible common equity/tangible assets	5.4	4.8	5.6	5.5
Basel leverage ratio	5.4	4.9	6.5	6.6
Net impaired loans/common equity Tier 1	5.7	6.4	8.6	9.3
Funding and liquidity				
Gross loans/customer deposits	83.0	80.5	81.4	85.7
Liquidity coverage ratio	152.0	152.0	167.0	147.0
Customer deposits / total non-equity funding	76.4	76.4	73.1	73.6
Net stable funding ratio	139.0	136.0	148.0	146.0

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-/ Negative
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

No Sovereign Support Into Ratings

KBC's and KBC Bank's Government Support Ratings of 'no support' reflect Fitch's view that sovereign support is possible but cannot be relied on, given the implementation of the Bank Resolution and Recovery Directive in Belgium. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of, or ahead of, the bank receiving sovereign support, despite its systemic importance.

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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on KBC and KBC Bank, either due to their nature or the way in which they are being managed by KBC and KBC Bank. For more information on ESG Relevance Scores, see www.fitchratings.com/esg.

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For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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