

Creditreform Bank Rating

KBC Group N.V. (Group) as parent of
KBC Bank N.V.

Rating Object	Rating Information		
KBC Group N.V. (Group) as parent of KBC Bank N.V. Creditreform ID: 0403227515 Incorporation: 1998 (Main-) Industry: Banks Management: Johan Thijs (CEO) Hendrik Scheerlinck (CFO)	Long Term Issuer Rating / Outlook:	Short Term:	Type:
	A / negative	L2	Update unsolicited
	Rating of Bank Capital and Unsecured Debt Instruments:		
	Preferred Senior Unsecured:	Non-Preferred Senior Unsecured:	Tier 2:
A	-	BBB	BB+
Rating Date:		25 November 2020	
Monitoring until:		withdrawal of the rating	
Rating Methodology:		CRA "Bank Ratings v.2.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"	
Rating History:		www.creditreform-rating.de	
Our rating of KBC Bank NV is reflected by our rating opinion of KBC Group NV (Group) due to its group structure. Therefore we refer to our rating report of KBC Group NV (Group) from 25 November 2020:			

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Analysts

Daniel Keller
d.keller@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Tobias Stroetges
t.stroetges@creditreform-rating.de
Person Approving Credit Ratings

Neuss, Germany

Key Rating Driver

Strengths

- + Sound and stable earnings figures
- + Good capitalization
- + Diversified business model, by business activities and by geography
- + One of largest financial Institutes in Belgium

Weaknesses

- Interest income dependency
- Moderate growth opportunities in core markets

Opportunities / Threats

- + Improving asset quality in recent years
- + Continued growth in Eastern Europe
- +/- Digital transformation of the banking business
- +/- High proportion of operating income in Belgium
- Strong economic downturn worldwide following the Corona pandemic impact
- Significant exposure affected to loan payment deferrals
- Low-interest policy of the ECB puts pressure on profitability

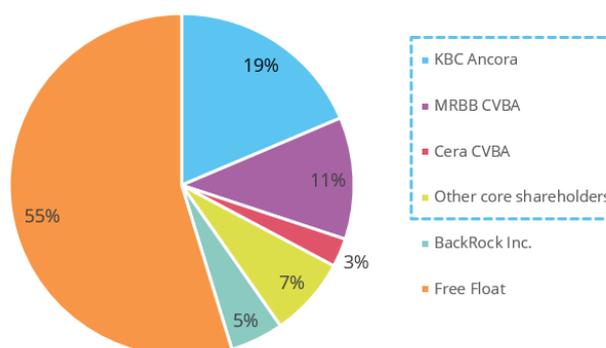
Company Overview

KBC Group NV (hereafter: KBC) is an integrated bank insurance group created in 1998 by the merger of two Belgian banks (Kredietbank and CERA Bank) and a Belgian insurance company (ABB Insurance) with headquarters in Brussels. The Group is a non-operating holding company of its insurance and banking activities and is the single point of entry in a resolution scenario for the Group. KBC's most significant asset is its bank KBC Bank NV (€253bn assets). With 37.854 employees (FTE's in 2019) and 1,278 bank branches, KBC serves approximately 12 million customers and had total assets of €290 billion in 2019.

KBC acts as a bank insurance group in its core markets Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. In addition, KBC is represented to a limited extent in several other countries in order to support its corporate clients. The focus of the Group is the retail and private banking business, as well as business activities with small and medium sized enterprises and mid-cap clients. The Group is divided into three business units and the *Group Centre*. The Group's *Belgium Business Unit* includes all activities such as banking business, insurance business and the asset management business in Belgium, whereas the *Czech Republic Business Unit* includes all of the Group's activities in the Czech Republic. By contrast, the *International Markets Business Unit* comprises the Group's activities in Ireland, Hungary, Slovakia and Bulgaria. KBC's *Group Centre*, however, comprises the Group's capital and liquidity management, as well as the funding of the Group and other administrative activities.

The shareholder structure of KBC is as follows:

Chart 1: Shareholder structure of KBC as of year-end 2019. | Source: Own presentation based on data of Annual Report 2019 of KBC



The shareholders of KBC are composed of 40% core shareholders (KBC Ancora, MRBB, Cera and other core shareholders) and 60% free float, whereby BlackRock Inc. is the most significant shareholder among the non-core shareholders. KBC concluded a

shareholder agreement between these core shareholders in order to ensure shareholder stability and guarantee continuity within the Group, as well as to support and coordinate its general policy. KBC's core shareholders act in concert at the General Meeting of the Group and are represented on its Board.

At the end of May 2019, CSOB Bank (KBC subsidiary in Czech Republic) closed the acquisition of the remaining 45% stake in the Czech building savings bank CMSS (total assets of about €5.5bn) and owns now 100% of the bank. Since then, CMSS has been fully consolidated in the financial statements of KBC.

The main subsidiaries and investments of KBC can be found in the following Chart 2:

Chart 2: Main subsidiaries and investments of KBC at year-end 2019 | Source: Own presentation based on data of Annual Report 2019 of KBC



Business Development

Profitability

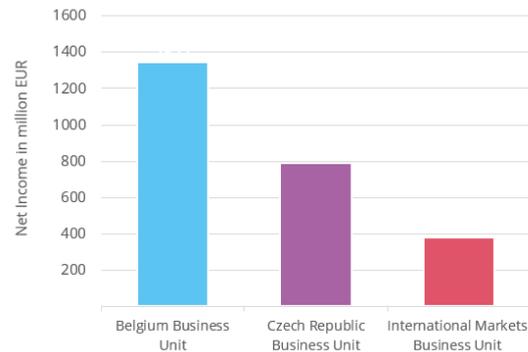
KBC's operating income amounted to €7.6 billion in 2019, increasing by 1.7% in a year-over-year comparison (€131 million).

Net interest income was the main driver of increase in KBC's operating income (€75 million YOY) and represents KBC's major source of income. This increase is primarily related to the Czech Republic business unit and is primarily a result of loan volume growth, higher interest rates and the positive impact of the full consolidation of CMSS with effect from June 2019. Net fee and commission income accounted for 22.6% of operating income, increasing only slightly YOY (€16 million). The increase is mainly due to higher fees for KBC's banking services in Hungary. Net insurance income contributed the lowest share of the three main drivers to the operating income, accounting for only 9.5%, and increasing slightly by €23 million YOY. In this regard, only KBC's non-life insurance division is generating a net profit (considering only the premiums und charges), whereas the life-insurance division recorded a loss of about €6 million. Net trading income contributed an insignificant amount to the operating income, accounting for only 2.8%, and decreasing by €44 million YOY. The decrease is mainly a result of lower value of derivatives used for asset/liability management purposes, and the lower level of income generated by the trading desks (in the Czech Republic).

Operating expenses amounted to €4.3 billion in 2019, increasing slightly by 1.4% in a year-over-year comparison (€60 million). Personnel expenses accounted for 54.3% of operating expenses, increasing slightly by only €14 million. In general, the slight increase in operating expense is reflected in a number of items, including the consolidation of CMSS in the Czech Republic as of June 2019 and higher bank taxes (most notably in Ireland, Belgium and the Czech Republic). Adjusted for these two factors, costs remained roughly unchanged on their 2018 level, reflecting a sound cost management of KBC.

KBC's pre-impairment profit amounted to €3.3 billion in the fiscal year 2019 and is in line with the previous year result. However, significant asset-write-downs turn the result. Following large impairments in KBC's Belgium business unit (€241 million), KBC reported asset-writedowns of about €203 million (primarily on its loan portfolio with about €183 million) in 2019, whereas the bank recorded reversal of provisions in 2018 of about €62 million. Ultimately, KBC achieved a net profit of about €2.489 billion, which represents a decrease of about €81 million YOY. Chart 3 shows the contribution of each business unit of KBC to the Group's net profit in 2019.

Chart 3: Net profit of each operating business unit of KBC in 2019 | Source: Own presentation based on data of Annual Report 2019 of KBC



Considering the development in 2020, we expect a strong decline of KBC's profitability due to increasing loan loss provisions following the Corona pandemic. As of Q3-2020, the bank reported a net result of €902 million (Q3-2019: €1,787 million). The decline is primarily related to collective impairment charges of about €746 million for the Corona impact and lower net trading income. By contrast, KBC reports stable net interest income, improved insurance income and reduced costs. As of now, we expect KBC to achieve a significant positive result at year-end 2020, which would be a remarkable result in the midst of the current Corona pandemic. However, it remains to be seen to which extent the current second lockdown has an additional negative impact.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	4.258.000	4.121.000	4.543.000	+1,7	4.618.000
Net Fee & Commission Income	1.450.000	1.707.000	1.719.000	+0,9	1.735.000
Net Insurance Income	439.000	640.000	701.000	+3,3	724.000
Net Trading Income	729.000	1.055.000	254.000	-17,3	210.000
Equity Accounted Results	27.000	11.000	16.000	-56,3	7.000
Dividends from Equity Instruments	77.000	63.000	82.000	+0,0	82.000
Other Income	257.000	116.000	213.000	+32,9	283.000
Operating Income	7.237.000	7.713.000	7.528.000	+1,7	7.659.000
Expenses (€000)					
Depreciation and Amortisation	265.000	311.000	325.000	+12,3	365.000
Personnel Expense	2.252.000	2.303.000	2.343.000	+0,6	2.357.000
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	23.000
Other Expense	1.449.000	1.505.000	1.612.000	-1,1	1.595.000
Operating Expense	3.966.000	4.119.000	4.280.000	+1,4	4.340.000
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	3.271.000	3.594.000	3.248.000	+2,2	3.319.000
Asset Writedowns	181.000	-74.000	-62.000	<-100	203.000
Net Income (€000)					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	3.090.000	3.668.000	3.310.000	-5,9	3.116.000
Income Tax Expense	662.000	1.093.000	740.000	-15,3	627.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	2.428.000	2.575.000	2.570.000	-3,2	2.489.000
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	2.428.000	2.575.000	2.570.000	-3,2	2.489.000

Due to KBC's stable net profit in recent years as well as in 2019, all of the Group's earnings figures remained largely at a sound level.

KBC's cost to income ratio as well as the cost income ratio excl. trading are clearly more favorable than the average of the peer group and shows thereby its sound intrinsic profitability. In addition, KBC is able to maintain its sound cost to income ratios. Moreover, the Group's ROA, RORWA and ROE before and after taxes are outstanding in our peer group analysis. The Group's distinctly benefits from its diversified business model with its profitable activities in Eastern Europe. KBC's net interest margin affirms the bank's sound level of profitability. Despite the slight worsening YOY, KBC's earnings figures are the best performers in any of the areas analyzed.

Considering the development in 2020, we expect a strong decline of KBC's earnings figures due to the large loan loss provisions following the Corona pandemic. However, we expect KBC to achieve a significant positive result at year-end 2020, which would be a remarkable in comparison to other European peer group banks in the midst of the current Corona pandemic.

A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

Figure 2: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	54,80	53,40	56,85	-0,19	56,67
Cost Income Ratio ex. Trading (CIRex)	60,94	61,87	58,84	-0,58	58,26
Return on Assets (ROA)	0,88	0,88	0,91	-0,05	0,86
Return on Equity (ROE)	13,99	13,69	13,09	-0,87	12,22
Return on Assets before Taxes (ROAbT)	1,12	1,25	1,17	-0,09	1,07
Return on Equity before Taxes (ROEbT)	17,80	19,51	16,86	-1,56	15,30
Return on Risk-Weighted Assets (RORWA)	2,79	2,80	2,71	-0,20	2,51
Return on Risk-Weighted Assets before Taxes (RORWAbT)	3,56	3,99	3,49	-0,34	3,15
Net Interest Margin (NIM)	1,92	1,85	2,00	-0,05	1,95
Pre-Impairment Operating Profit / Assets	1,19	1,23	1,14	-0,00	1,14
Cost of Funds (COF)	1,03	0,88	1,07	+0,05	1,12
Change in %- Points					

Asset Situation and Asset Quality

KBC's financial assets accounted for 92% of total assets in 2019, increasing by 2.2% (€5.8 billion). Net loans to customers represent the largest share of financial assets, accounting for 58.2%, and increasing by 6% YOY (€8.8 billion). However, the growth in customer loans is primarily related to the full consolidation of CMSS in Czech Republic (€4.5 billion). In addition, KBC noticed a growth in customer loans by about 2% in Belgium and by about 6% at the International Markets Business Unit (with growth in all countries). The main lending products of KBC are term loans (€69 billion) and mortgage loans (€68 billion). Total securities, as the second largest asset, represent 24.5% of KBC's financial assets and increasing significantly by 4.7% YOY (€2.9 billion). KBC's securities consists primarily of debt securities with about €62.8 billion or 96%, which are mostly related to public bodies with about €50.2 billion. Most of the bank's government debt securities are related to the Czech Republic with about €31 billion, whereas the debt securities of Belgium take only the second place with about €16 billion. Other financial assets of the bank are primarily reverse repurchase loans with credit institutions.

Moreover, as of June 2020 KBC increased its cash position held at the central Banks by about €20 billion following the TLTRO III funding of about €19.5 billion. In addition, the bank recorded a growth in its customer loans of about 4% YOY. As of Q3-2020, KBC's recorded a total of €13.7 billion in loan payment deferrals and about €0.6 billion of loans granted under public corona guarantee schemes.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	20.686.000	29.727.000	18.691.000	-55,3	8.356.000
Net Loans to Banks	5.153.000	4.878.000	5.069.000	+6,5	5.399.000
Net Loans to Customers	132.855.000	140.999.000	147.052.000	+6,0	155.816.000
Total Securities	73.786.000	68.370.000	62.707.000	+4,7	65.633.000
Total Derivative Assets	8.861.000	5.932.000	5.189.000	+11,8	5.799.000
Other Financial Assets	12.152.000	20.076.000	23.126.000	+15,2	26.645.000
Financial Assets	253.493.000	269.982.000	261.834.000	+2,2	267.648.000
Equity Accounted Investments	212.000	240.000	215.000	-88,4	25.000
Other Investments	426.000	485.000	561.000	+1,6	570.000
Insurance Assets	13.803.000	14.552.000	14.340.000	+5,5	15.132.000
Non-current Assets & Discontinued Ops	8.000	21.000	14.000	> +100	29.000
Tangible and Intangible Assets	3.450.000	3.926.000	4.068.000	+20,2	4.888.000
Tax Assets	2.312.000	1.625.000	1.549.000	-9,9	1.396.000
Total Other Assets	1.496.000	1.511.000	1.227.000	-14,7	1.047.000
Total Assets	275.200.000	292.342.000	283.808.000	+2,4	290.735.000

KBC was able to lower its NPL ratio from 4.5 to 3.57%, however, despite the considerable improvement YOY following write-offs and disposals of NPL portfolios in Ireland, KBC's NPL ratio is still clearly less favorable than the average of the Group's competitors. It is noteworthy that about 43% of KBC's stage 3 loans are attributable to the Business Unit in Belgium, while only 11% are attributable to the Czech Republic Business Unit. As a result of the increased impairments in 2019, KBC's asset-write-downs to risk-weighted assets as well as in relation to its total assets worsened clearly. However, both of KBC's asset-write-down figures are still more favorable than the one of the peer group on average. The bank's potential problem loan ratio (measured as stage 2 loans) increased YOY slightly to about 11.9%. In addition, the peer groups show on average a clearly more favorable ratio and thus distinctly less potential credit risk. Moreover, KBC's reserves to NPL ratio of about 51% is below average and indicates a less prudent approach in relation to its competitors. The RWA ratio of 34% shows a relatively low amount of risk weighted assets in relation to its competitors, which are in this regard more risk seeking. Overall, we consider the bank's risk profile as adequate.

According to KBC's Q3-2020 report, the Group reports widely stable asset quality figures and was even able to reduce its NPL ratio to 3.2%. In addition, the ratio of potential problem loans (stage 2) as well as the banks volume of risk-weighted assets remained at the same level as at year-end 2019. However, we expect a strong decline of the asset quality in the upcoming years due to the run out of public guarantees as well as the end of moratorium measures. According to the ECB, moratorium measures are not automatically a trigger of unlikelihood to pay. Thus, we perceive a high credit risk in addition to a high level of uncertainty with regard to KBC's asset quality as of now, which requires a close monitoring of the upcoming development. In addition, uncertainty arises following the current second lockdown.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	48,28	48,23	51,81	+1,78	53,59
Risk-weighted Assets/ Assets	31,57	31,46	33,43	+0,65	34,08
NPLs*/ Net Loans to Customers	7,97	6,51	4,50	-0,93	3,57
NPLs*/ Risk-weighted Assets	12,18	9,99	6,97	-1,36	5,62
Potential Problem Loans**/ Net Loans to Customers	1,98	2,39	11,55	+0,36	11,91
Reserves/ NPLs*	48,13	44,18	53,26	-1,94	51,32
Reserves/ Net Loans	3,83	2,88	2,40	-0,56	1,83
Net Write-offs/ Net Loans	0,14	-0,05	-0,04	+0,17	0,13
Net Write-offs/ Risk-weighted Assets	0,21	-0,08	-0,07	+0,27	0,20
Net Write-offs/ Total Assets	0,07	-0,03	-0,02	+0,09	0,07
Level 3 Assets/ Total Assets	1,39	0,99	0,53	+0,08	0,61

Change in %-Points

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Refinancing and Capital Quality

KBC's financial liabilities accounted for 86.8% of total liabilities in 2019, increasing by 2.2% YOY (€5 billion). Total deposits from customers represent the largest share of the Group's liabilities with 64%, increasing by 8.5% YOY (€13.5 billion). However, the growth in customer deposits is primarily related to the full consolidation of CMSS in Czech Republic (€5.5 billion). In addition, KBC noticed a growth of customer deposit by 2% in Belgium, by 3% in the Czech Republic and by 6% at the International Markets Business Unit. The main deposit products at group level were again demand deposits (86 billion euros) and savings accounts (69 billion euros).

Total debt, accounting for only 10.3% of KBC's liabilities, decreased by 13.6% YOY (€4.4 billion) following a reduction of certificates of deposits (€-5 billion). The bank's line item of insurance liabilities is related to the technical provisions and liabilities under the insurer's investment contracts. Moreover, KBC increased its total equity item by about €700 million by its retained earnings. In June 2020, KBC took part at the ECB TLTRO III operation and took about €19.5 billion at very favorable conditions (currently at -0.5%). In addition, in the same month KBC issued its second green bond (each €0.5 billion).

As of Q3-2020, the Group's total equity increased by about €519 million primarily due to retained earnings. Moreover, the bank benefits from cancelation of the full dividend payment for 2019 (following the ECB recommendation) and the canceled share buy-back. In addition, KBC reports increased customer deposits following the Corona pandemic.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	22.599.000	27.761.000	23.684.000	-20,9	18.731.000
Total Deposits from Customers	141.377.000	152.479.000	159.644.000	+8,5	173.184.000
Total Debt	36.044.000	41.227.000	32.245.000	-13,6	27.856.000
Derivative Liabilities	9.242.000	7.066.000	5.705.000	+7,0	6.106.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	23.047.000	22.639.000	8.320.000	+5,7	8.791.000
Total Financial Liabilities	232.309.000	251.172.000	229.598.000	+2,2	234.668.000
Insurance Liabilities	19.845.000	18.711.000	31.352.000	+2,8	32.241.000
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	681.000	582.000	380.000	+25,8	478.000
Provisions	943.000	1.024.000	865.000	-19,3	698.000
Total Other Liabilities	4.065.000	2.050.000	1.980.000	+15,4	2.285.000
Total Liabilities	257.843.000	273.539.000	264.175.000	+2,3	270.370.000
Total Equity	17.357.000	18.803.000	19.633.000	+3,7	20.365.000
Total Liabilities and Equity	275.200.000	292.342.000	283.808.000	+2,4	290.735.000

KBC Group was able to increase its fully loaded regulatory capital figures significantly due to retained earnings and an additional tier 1 issue amounting €500 million. With a CET1 ratio of 17.1% and a Total Capital ratio of about 20.6%, KBC outperforms its peer group and shows sound capitalization. Moreover, KBC was even able improve its figures despite the increase in its risk-weighted assets of about €4.2 billion. In addition, the Group meets clearly the regulatory required CET1 ratio of 10.7% and the Total Capital ratio of 14.2%. Following the ECB recommendation, KBC did not pay its full dividend, however about €416 million (1€ per share) was already paid in November 2019.

The Leverage ratio of the Group, which is at 6.8% improved significantly YOY and reached a sound level as well. Merely the total capital to total assets ratio is only in line with the average of the peer group. Overall, KBC's reports a sound capitalization at year-end 2019.

As of Q3-2020, the bank's regulatory ratios decreased following the exchange differences (€-350 million) due to the depreciation of Czech Koruna and the Hungarian Forint. The CET1 ratio (fully loaded) of the bank stood at 16.55% and the Total Capital ratio at 19.82% at the end of September 2020. Thus, KBC still comfortably meets the regulatory requirements (in general 10.45% for the CET1 ratio with a temporary lowering to 7.95%) and shows sufficient capital for the absorption of adverse developments.

A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

Figure 6: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	6,31	6,43	6,92	+0,09	7,00
Leverage Ratio	6,10	6,10	6,10	+0,70	6,80
Common Equity Tier 1 Ratio (CET1)	15,80	16,30	16,00	+1,10	17,10
Tier 1 Ratio (CET1 + AT1)	17,40	17,90	17,00	+1,70	18,70
Total Capital Ratio (CET1 + AT1 + T2)	20,00	20,20	19,20	+1,40	20,60
SREP Capital Requirements	10,40	10,60	10,32	+0,42	10,74
Change in %-Points					

Due to KBC's bank capital and debt structure, the Group's preferred senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. Moreover, an rating for preferred senior unsecured debt is only assigned to the issuing entity of these debt class KBC Bank NV. Due to the seniority structure, KBC's non-preferred senior unsecured debt has been notched down by one notch, which is only assigned to the issuing entity of these debt instrument KBC Group NV. However, the Group's Tier 2 capital rating is three notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology, which represents an up-notch by one notch. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Liquidity

The Group's LCR of 136% is below the average of the peer group. However, KBC meets clearly the regularity requirement. By contrast, KBC's Net Stable Funding Ratio of about 136% is in line with the peer group, however, the regulatory requirement regarding this ratio entry into force initially in 2021.

The customer deposits to total funding ratio of KBC with 65% shows the Group's stable and favorable source of funding - the deposits of its customers. In addition, the almost equal LTD ratio with about 90% shows an adequate demand for the Group's loans. However, the peer group reports a distinctly higher LTD ratio on average.

Up to now, we do not perceive any liquidity issues at KBC and the whole banking sector.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	93,97	92,47	92,11	-2,14	89,97
Interbank Ratio	22,80	17,57	21,40	+7,42	28,82
Liquidity Coverage Ratio	139,00	139,00	139,00	-1,00	138,00
Customer Deposits / Total Funding (excl. Derivates)	56,87	57,22	61,77	+3,77	65,53
Net Stable Funding Ratio (NSFR)	125,00	134,00	136,00	+0,00	136,00
Change in %-Points					

Environmental, Social and Governance (ESG) Score Card

KBC has one significant and two moderate ESG rating drivers

- Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the corporate governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to KBC's strong and stable economic track record, the implemented ESG policies and its diversified business model.

- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to the relatively low amount of green bonds, whereas Corporate Behaviour is rated positive due to the bank's business activities in accordance with the ideas and beliefs of the society.

ESG Score

3,8 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
<= 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	()
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	()

Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
()	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage <https://creditreform-rating.de/en/about-us/regulatory-requirements.html>. In addition, we refer to CRA's position paper "Considering the Impact of ESG Factors".

Conclusion

Overall, KBC Group N.V. (Group) had a good year of performance in 2019, but faces a challenging fiscal year 2020. The Corona pandemic has a massive impact on the global economy. In addition, KBC's major market Belgium is heavily affected by a second wave of Covid-19. The downgrade of the outlook to negative follows the current adverse economic development, which is characterized by a high degree of uncertainty, the expected decline of profitability and asset quality.

The Group confirmed its good level of profitability with its earnings figures in 2019. However, following the Corona pandemic, we expect a negative impact on the profitability of the bank in 2020 as a result of the strong increase in loan loss provisions. Moreover, the second wave of Covid-19 in addition to the strong economic downturn worldwide bear a significant risk. Nevertheless, we expect KBC to report a significant positive net result by year-end, which is considerable in these times. KBC benefits thereby from its early-imposed digitization strategy and its diversified business model. In addition, fiscal stimulus measures and guarantees will help the bank as well.

The asset quality of KBC reached a sound level in 2019. However, the sudden impact of the Corona pandemic and the following economic downturn, leads likely to a significant regression. In addition, KBC reports a significant amount of exposure related to memorandum and guarantee measures. Moreover, the bank reports a considerable amount of potential problem loans (stage 2 loans). In addition to a run out of public guarantees and moratorium measures, KBC might bear significant additional credit risk in its loan portfolio.

On the liabilities side, KBC reports increasing customer deposits and increasing cash and balances with central banks following the participation in ECB's TLTRO III funding program, which enables KBC to reduce its costs of funding. KBC's capital ratios show a sound capitalization, which help KBC to overcome the current economic downturn. In this regard, we appreciate the cancelation of the full-dividend payment for 2019 as well as the cancelled share buyback program. The liquidity situation of KBC remains sufficient.

Overall, the impact of the Corona pandemic bears a high risk for the Group next to the still challenging low interest rate environment. Nevertheless, we assume KBC to overcome this challenging environment with its diversified business model and the already implemented digitization strategy. However, the upcoming development is characterized by a high level of uncertainty.

Outlook

The outlook of the Long-Term Issuer Rating of KBC is 'negative'. In the medium term, CRA expects a deterioration in profitability and asset quality, with the recent Europe-

wide lockdowns aggravating the situation. The bank already reported a drastic decrease in net profit in the first wave and the impact of the second lockdown is highly uncertain.

Scenario Analysis

In a scenario analysis, the bank is able to reach an "A+" rating in the "best case" scenario and an "BBB+" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade KBC's long-term issuer credit rating and its bank capital and debt instruments if we see that KBC is able to release its current loan loss provisions and improve its quality of assets in particular by reducing its potential problem loans. In addition, a significant improvement of KBC capital ratios might lead to an upgrade as well.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see a lasting decline of KBC's profitability and / or a reduction of the banks' capital ratios. In particular, we will observe the ongoing Corona pandemic impact on KBC's asset quality and its business activities in general.

Best-case scenario: A+

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A / negative / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A** (only KBC Bank NV)

Non-Preferred Senior Unsecured Debt (NPS): **-**

Tier 2 (T2): **BBB**

Additional Tier 1 (AT1): **BB+**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 8: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	12.06.2018	A / stable / L2
Rating Update	15.07.2019	A / stable / L2
Monitoring	29.11.2019	A / stable / L2
Monitoring	28.03.2020	A / watch negative / L2
Rating Update	25.11.2020	A / negative / L2
Bank Capital and Debt Instruments	Rating Date	Result
Senior Unsecured / T2 / AT1 (Initial)	12.06.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	15.07.2019	n.r. / BBB+ / BBB- / BB+
PSU / NPS / T2 / AT1	29.11.2019	- / A- / BBB- / BB+
PSU / NPS / T2 / AT1 (watch negative)	28.03.2020	- / A- / BBB- / BB+
PSU / NPS / T2 / AT1	25.11.2020	- / A- / BBB / BB+
Subsidiaries of the Bank	Rating Date	Result
KBC Bank NV		
Initialrating	04.12.2018	A / stable / L2
Rating Update	15.07.2019	A / stable / L2
Monitoring	29.11.2019	A / stable / L2
Monitoring	28.03.2020	A / watch negative / L2
Rating Update	25.11.2020	A / negative / L2

Creditreform Bank Rating

KBC Group N.V. (Group) as parent of
KBC Bank N.V.

Bank Capital and Debt Instruments of KBC Bank NV		
Senior Unsecured / T2 / AT1 (Initial)	04.12.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	15.07.2019	A- / - / BBB- / BB+
PSU / NPS / T2 / AT1	29.11.2019	A / - / BBB- / BB+
PSU / NPS / T2 / AT1 (watch negative)	28.03.2020	A / - / BBB- / BB+
PSU / NPS / T2 / AT1	25.11.2020	A / - / BBB / BB+

Figure 9: Income statement of KBC Bank NV | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	3.635.000	3.546.000	4.033.000	+3,0	4.153.000
Net Fee & Commission Income	1.753.000	2.023.000	2.063.000	+1,1	2.085.000
Net Insurance Income	-	-	-	-	-
Net Trading Income	685.000	973.000	168.000	-55,4	75.000
Equity Accounted Results	23.000	8.000	12.000	-75,0	3.000
Dividends from Equity Instruments	27.000	20.000	29.000	+20,7	35.000
Other Income	142.000	27.000	167.000	+20,4	201.000
Operating Income	6.265.000	6.597.000	6.472.000	+1,2	6.552.000
Expenses (€000)					
Depreciation and Amortisation	166.000	201.000	209.000	+11,5	233.000
Personnel Expense	1.589.000	1.690.000	1.735.000	+0,2	1.738.000
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	1.663.000	1.718.000	1.808.000	+1,5	1.836.000
Operating Expense	3.418.000	3.609.000	3.752.000	+1,5	3.807.000
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	2.847.000	2.988.000	2.720.000	+0,9	2.745.000
Asset Writedowns	127.000	-85.000	-59.000	<-100	204.000
Net Income (€000)					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	2.720.000	3.073.000	2.779.000	-8,6	2.541.000
Income Tax Expense	525.000	891.000	598.000	-16,2	501.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	2.195.000	2.182.000	2.181.000	-6,5	2.040.000
Attributable to minority interest (non-controlling interest)	169.000	179.000	171.000	-79,5	35.000
Attributable to owners of the parent	2.026.000	2.003.000	2.010.000	-0,2	2.005.000

Figure 10: KBC Bank NV key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	54,56	54,71	57,97	+0,13	58,10
Cost Income Ratio ex. Trading (CIRex)	61,25	64,17	59,52	-0,74	58,78
Return on Assets (ROA)	0,92	0,85	0,88	-0,07	0,80
Return on Equity (ROE)	15,50	13,94	13,05	-0,76	12,29
Return on Assets before Taxes (ROAbT)	1,14	1,20	1,12	-0,12	1,00
Return on Equity before Taxes (ROEbT)	19,21	19,63	16,63	-1,32	15,31
Return on Risk-Weighted Assets (RORWA)	2,80	2,63	2,55	-0,28	2,27
Return on Risk-Weighted Assets before Taxes (RORWAbT)	3,47	3,70	3,25	-0,42	2,83
Net Interest Margin (NIM)	1,92	1,85	2,00	-0,05	1,95
Pre-Impairment Operating Profit / Assets	1,19	1,17	1,09	-0,01	1,08
Cost of Funds (COF)	1,13	0,93	1,07	+0,06	1,12
Change in %-Points					

Figure 11: Development of assets of KBC Bank NV | Source: eValueRate / CRA

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	20.711.000	29.762.000	18.804.000	-55,7	8.328.000
Net Loans to Banks	5.113.000	4.856.000	5.068.000	+6,5	5.397.000
Net Loans to Customers	131.528.000	139.090.000	144.810.000	+6,2	153.781.000
Total Securities	52.180.000	47.995.000	44.387.000	+4,2	46.260.000
Total Derivative Assets	8.765.000	6.090.000	5.235.000	+11,7	5.847.000
Other Financial Assets	14.463.000	22.075.000	24.117.000	+13,7	27.418.000
Financial Assets	232.760.000	249.868.000	242.421.000	+1,9	247.031.000
Equity Accounted Investments	180.000	210.000	185.000	-86,5	25.000
Other Investments	272.000	314.000	350.000	+2,9	360.000
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	8.000	21.000	14.000	-92,9	1.000
Tangible and Intangible Assets	3.103.000	3.551.000	3.604.000	+20,9	4.356.000
Tax Assets	2.276.000	1.575.000	1.474.000	-9,4	1.335.000
Total Other Assets	734.000	783.000	892.000	-3,7	859.000
Total Assets	239.333.000	256.322.000	248.940.000	+2,0	253.967.000

Figure 12: Development of asset quality of KBC Bank NV | Source: eValueRate / CRA

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	54,96	54,26	58,17	+2,38	60,55
Risk-weighted Assets/ Assets	32,79	32,43	34,34	+1,04	35,37
NPLs*/ Net Loans to Customers	7,20	6,00	4,30	-0,80	3,50
NPLs*/ Risk-weighted Assets	13,06	11,05	7,74	-1,55	6,19
Potential Problem Loans**/ Net Loans to Customers	2,00	2,84	11,69	+0,34	12,03
Reserves/ NPLs*	49,69	44,18	53,24	-1,93	51,31
Reserves/ Net Loans	3,87	2,92	2,43	-0,58	1,86
Net Write-offs/ Net Loans	0,10	-0,06	-0,04	+0,17	0,13
Net Write-offs/ Risk-weighted Assets	0,16	-0,10	-0,07	+0,30	0,23
Net Write-offs/ Total Assets	0,05	-0,03	-0,02	+0,10	0,08
Level 3 Assets/ Total Assets	1,25	0,89	0,52	+0,06	0,58
Change in %-Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Figure 13: Development of refinancing and capital adequacy of KBC Bank NV | Source: eValueRate / CRA

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	22.600.000	27.762.000	23.684.000	-20,9	18.731.000
Total Deposits from Customers	142.522.000	153.459.000	192.902.000	+4,4	201.309.000
Total Debt	35.866.000	40.798.000	1.934.000	+30,8	2.530.000
Derivative Liabilities	9.269.000	7.065.000	5.712.000	+7,2	6.121.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	12.593.000	9.103.000	5.926.000	+9,0	6.460.000
Total Financial Liabilities	222.850.000	238.187.000	230.158.000	+2,2	235.151.000
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	217.000	211.000	95.000	+14,7	109.000
Provisions	784.000	846.000	723.000	-8,4	662.000
Total Other Liabilities	1.324.000	1.422.000	1.255.000	+15,6	1.451.000
Total Liabilities	225.175.000	240.666.000	232.231.000	+2,2	237.373.000
Total Equity	14.158.000	15.656.000	16.709.000	-0,7	16.594.000
Total Liabilities and Equity	239.333.000	256.322.000	248.940.000	+2,0	253.967.000

Figure 14: Development of capital ratios of KBC Bank NV | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	5,92	6,11	6,71	-0,18	6,53
Leverage Ratio	5,10	5,00	5,20	+0,30	5,50
Common Equity Tier 1 Ratio (CET1)	14,30	14,50	14,80	-0,10	14,70
Tier 1 Ratio (CET1 + AT1)	16,10	16,20	15,90	+0,50	16,40
Total Capital Ratio (CET1 + AT1 + T2)	20,70	19,00	18,40	+0,10	18,50
SREP Capital Requirements	10,40	10,60	10,80	+0,35	11,15
Change in %-Points					

Figure 15: Development of liquidity of KBC Bank NV | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	92,29	90,64	75,07	+1,32	76,39
Interbank Ratio	22,62	17,49	21,40	+7,41	28,81
Liquidity Coverage Ratio	139,00	139,00	139,00	-1,00	138,00
Customer Deposits / Total Funding (excl. Derivates)	66,01	65,69	85,16	+1,89	87,05
Net Stable Funding Ratio (NSFR)	125,00	134,00	136,00	+0,00	136,00
Change in %-Points					

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 39 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for [bank ratings as \(Version 2.0\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(Version 2.0\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(Version 1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(Version 1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

<https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html>

On 25 November 2020, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to KBC Group N.V. (Group) and KBC Bank N.V., and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of KBC Group N.V. (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

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To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Europadamm 2-6
D-41460 Neuss

Phone +49 (0) 2131 / 109-626

Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Dr. Hartmut Bechtold
HR Neuss B 10522