Creditreform Bank Rating

KBC Group NV (Group)

Creditreform Rating

Long-Term Issuer Rating: A
Outlook: stable

Short-Term Rating: L2

Non-Preferred Sen. Unsec. Debt: BBB+
Tier 2 Capital: BBB-
AT1 Capital: BB+

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15 July 2019

Rating Action:

Creditreform Rating affirms KBC Group NV (Group) long-term issuer rating and the rating of its operating company KBC Bank NV at ‘A’ (Outlook: stable). However, our ratings of the bank capital and debt instruments are affected by the change in our rating methodology.

Creditreform Rating (CRA) has affirmed KBC Group NV (Group) long-term issuer rating and the rating of its operating company KBC Bank NV at 'A' and affirms the short-term rating at ‘L2’. The rating outlook is stable.

At the same time, we affirm the rating of the Tier 2 capital at 'BBB-' and the rating of AT1 capital at 'BB+' of KBC Group NV (Group) and KBC Bank NV. However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies the rating of senior unsecured debt to preferred senior unsecured debt and affirms it at ‘A-’ for KBC Bank NV, however we withdraw the rating (set to not rated) of preferred senior unsecured debt at KBC Group level as the Group has chosen the single point of entry approach and thus does not issue preferred senior unsecured debt. Moreover, CRA assigns the non-preferred senior unsecured debt of KBC Group NV, which ranks junior to preferred senior unsecured debt, the following rating: ‘BBB+‘.

Please find a complete list of rating actions regarding the bank at the end of this rating action paper.

Key Rating Drivers

CRA affirms the rating of KBC Group NV (Group) - in the following referred to as KBC Group - and its bank capital and debt instruments as a result of our updating process for the following reasons:

- Stable earnings figures at a very competitive level
- Despite recent improvements, still relatively high NPL ratio
- Adequate capitalization

Rating Rationale

KBC Group`s credit rating affirmation is primarily a result of its diversified business model and the stable performance in recent years.

Profitability

The bank’s earnings figures remained at a very competitive level. Moreover, the bank is outperforming the peer group clearly with its figures. However, the Group recorded a slight decline in its figures for ROAA and RORWA year-over-year.

For details regarding the banks profitability, we refer to figure 2 and figure 3 in the appendix.

Asset Situation and Asset Quality

KBC Group´s non-performing exposures reduced considerably year-over-year, however, the NPL ratio is still clearly worse than the average of the peer group. By contrast, the banks impairments to NPL ratio is in line with the average of the peer group with 53%. Noteworthy is that the Group reveals for the second consecutive year in a row negative impairments for customer loans which lead ultimately to gains. These reversals occurred primarily in the International Markets Business Unit.

The banks RWA ratio increased slightly to 33%; however, it is still below the average of its competitors.

We refer to figure 4 and figure 5 in the appendix regarding the details of KBC Group`s asset situation and asset quality.

Refinancing and Capital Quality

KBC Group exhibits sound and stable regulatory capital ratios. The reduction year-over-year is primarily a result of the increase in risk-weighted assets. The bank targets to maintain a capital reference position of 16% for the CET1 ratio.

The ratings of KBC Group's bank capital and debt instruments are affected due to our rating mechanism and the recent change in our methodology. Moreover, the Group has chosen the single point of entry approach and thus issues only non-preferred senior unsecured debt. By contrast, the Group`s operating entity KBC Bank NV is responsible for issuing preferred senior unsecured debt.

For details regarding the banks refinancing and capital quality, we refer to figure 6 and figure 7 in the appendix.

Liquidity

In our opinion, the overall liquidity situation of the bank is satisfactory. Noteworthy is the banks stable and balanced loan-to-deposit ratio.

For details regarding the banks liquidity, we refer to figure 8 in the appendix.

Outlook

We consider the outlook of KBC Group`s long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the banks is likely to maintain its earnings figures in the upcoming years while displaying a solid capitalization. However, we will observe if KBC Group is able manage its non-performing assets.

In addition, we assume stable political and economic environment in KBC`s markets of operations.

Scenario Analysis

In a scenario analysis, KBC Group's rating developed significantly better in the "best case" scenario and slightly worse in the "worst case" scenario. The ratings of bank capital and the senior unsecured debt classes 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 could upgrade KBC Group's long-term issuer credit rating and its bank capital and debt instruments if we see the bank improves its asset quality significantly. In addition, a further improvement of the bank's capitalization might lead to an upgrade as well.

By contrast, a downgrade of KBC Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see a sustainable decline in KBC Group`s earnings figures. In addition, a worsening of the capitalization or the asset quality might lead to a downgrade of the bank's long-term issuer rating and its bank capital and debt instruments.

CRA’s rating actions at a glance

KBC Group NV (Group):

- Long-Term Issuer Rating affirmed at 'A', stable outlook
- Short-term rating affirmed at ‘L2’
- Senior unsecured debt reclassified to preferred senior unsecured debt and set to “not rated”
- Non-preferred senior unsecured debt rated at ‘BBB+‘
- Tier 2 capital affirmed at 'BBB-'
- AT1 capital affirmed at 'BB+'

KBC Bank NV:

- Long-Term Issuer Rating affirmed at 'A', stable outlook
- Short-term rating affirmed at ‘L2’
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at ‘A-’
- Tier 2 capital affirmed at 'BBB-'
- AT1 capital affirmed at 'BB+'

Ratings Detail

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 / stable / 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): **n.r.**
Non-preferred senior unsecured debt (NPS): **BBB+**
Tier 2 (T2): **BBB-**
Additional Tier 1 (AT1): **BB+**

Ratings Detail and History

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

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	12.06.2018	20.06.2018	A / stable / L2
Rating Update	15.07.2019	17.07.2019	A / stable / L2
Bank Capital and Debt Instruments	**Rating Date**	**Publication Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	12.06.2018	20.06.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	15.07.2019	17.07.2019	n.r. / BBB+ / BBB- / BB+
Subsidiaries of the Bank	**Rating Date**	**Publication Date**	**Result**
KBC Bank NV			
Initialrating	04.12.2018	13.12.2018	A / stable / L2
Rating Update	15.07.2019	17.07.2019	A / stable / L2
Bank Capital and Debt Instruments of KBC Bank NV			
Senior Unsecured / T2 / AT1 (Initial)	04.12.2018	13.12.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	15.07.2019	17.07.2019	A- / - / BBB- / BB+

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	4.311.000	4.258.000	4.121.000	+10,2	4.543.000
Net Fee & Commission Income	1.678.000	1.450.000	1.707.000	+0,7	1.719.000
Net Insurance Income	381.000	438.000	640.000	+9,5	701.000
Net Trading Income	404.000	729.000	1.055.000	-77,3	240.000
Equity Accounted Results	24.000	27.000	11.000	+45,5	16.000
Dividends from Equity Instruments	75.000	77.000	63.000	+30,2	82.000
Other Income	298.000	259.000	114.000	+99,1	227.000
Operating Income	**7.171.000**	**7.238.000**	**7.711.000**	**-2,4**	**7.528.000**
Expenses (€000)				-	
Depreciation and Amortisation	287.000	264.000	306.000	+6,2	325.000
Personnel Expense	2.245.000	2.252.000	2.303.000	+1,7	2.343.000
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	1.392.000	1.449.000	1.505.000	+7,1	1.612.000
Operating Expense	**3.924.000**	**3.965.000**	**4.114.000**	**+4,0**	**4.280.000**
Operating Profit & Impairment (€000)				-	
Pre-impairment Operating Profit	**3.247.000**	**3.273.000**	**3.597.000**	**-9,7**	**3.248.000**
Asset Writedowns	712.000	183.000	-70.000	-11,4	-62.000
Net Income (€000)				-	
Non-Recurring Revenue	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**2.535.000**	**3.090.000**	**3.667.000**	**-9,7**	**3.310.000**
Income Tax Expense	-104.000	662.000	1.092.000	-32,2	740.000
Discontinued Operations	-	-	-	-	-
Net Profit	**2.639.000**	**2.428.000**	**2.575.000**	**-0,2**	**2.570.000**
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	2.639.000	2.427.000	2.575.000	-0,2	2.570.000

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	54,72	54,78	53,35	+3,50	56,85
Cost Income Ratio ex. Trading (CIRex)	57,99	60,92	61,81	-3,08	58,73
Return on Assets (ROA)	1,05	0,88	0,88	+0,02	0,91
Return on Equity (ROE)	16,69	13,99	13,69	-0,60	13,09
Return on Assets before Taxes (ROAbT)	1,00	1,12	1,25	-0,09	1,17
Return on Equity before Taxes (ROEbT)	16,03	17,80	19,50	-2,64	16,86
Return on Risk-Weighted Assets (RORWA)	3,02	2,79	2,80	-0,09	2,71
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,90	3,56	3,99	-0,50	3,49
Net Interest Margin (NIM)	2,04	1,97	1,92	-0,08	1,84
Pre-Impairment Operating Profit / Assets	1,29	1,19	1,23	-0,09	1,14
Cost of Funds (COF)	1,34	1,03	0,88	+0,13	1,01
Change in %Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	7.038.000	20.686.000	29.727.000	-37,1	18.691.000
Net Loans to Banks	13.631.000	16.929.000	24.450.000	+6,5	26.045.000
Net Loans to Customers	128.223.000	133.231.000	141.502.000	+4,0	147.209.000
Total Securities	73.459.000	73.786.000	68.370.000	-8,3	62.707.000
Total Derivative Assets	8.807.000	8.861.000	5.932.000	-12,5	5.189.000
Other Financial Assets	-	-	-	-	7.000
Financial Assets	**231.158.000**	**253.493.000**	**269.981.000**	**-3,8**	**259.848.000**
Equity Accounted Investments	207.000	212.000	240.000	-10,4	215.000
Other Investments	438.000	426.000	485.000	+15,7	561.000
Insurance Assets	13.457.000	13.803.000	14.552.000	-1,5	14.340.000
Non-current Assets & Discontinued Ops	15.000	8.000	21.000	-33,3	14.000
Tangible and Intangible Assets	3.258.000	3.450.000	3.926.000	+3,6	4.068.000
Tax Assets	2.335.000	2.312.000	1.625.000	-4,7	1.549.000
Total Other Assets	1.488.000	1.496.000	1.512.000	> +100	3.213.000
Total Assets	**252.356.000**	**275.200.000**	**292.342.000**	**-2,9**	**283.808.000**

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans / Total Assets	50,81	48,41	48,40	+3,47	51,87
Non-Performing Loans (NPL) / Net Loans to Customers	7,20	7,20	6,00	-1,51	4,49
Impaired Loans / Net Loans to Customers	9,60	7,94	6,49	-2,00	4,49
Impairments/ Net loans to customers (%)	4,39	3,82	2,87	-0,47	2,39
Potential Problem Loans / NPL	20,26	24,82	36,69	+220,05	256,73
Risk-Weighted Assets (RWA) / Total Assets	34,61	31,57	31,46	+1,97	33,43
Non-Performing Loans / Risk-Weighted Assets	14,09	12,18	9,99	-3,02	6,97
Net Write-offs / Net Loans to Customers	0,26	0,10	-0,10	+0,07	-0,03
Net Write-offs / Risk-Weighted Assets	0,35	0,14	-0,15	+0,11	-0,05
Change in %Points					

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	18.952.000	32.019.000	33.336.000	-26,2	24.616.000
Total Deposits from Customers	144.831.000	141.686.000	152.741.000	+4,6	159.721.000
Total Debt	25.278.000	36.044.000	41.227.000	-13,7	35.559.000
Derivative Liabilities	9.849.000	9.242.000	7.066.000	-19,0	5.721.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	12.802.000	13.318.000	16.804.000	+0,7	16.930.000
Total Financial Liabilities	**211.712.000**	**232.309.000**	**251.174.000**	**-3,4**	**242.547.000**
Insurance Liabilities	19.532.000	19.845.000	18.641.000	-1,3	18.403.000
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	658.000	681.000	582.000	-34,7	380.000
Provisions	681.000	943.000	1.024.000	-15,5	865.000
Total Other Liabilities	3.962.000	4.065.000	2.118.000	-6,5	1.980.000
Total Liabilities	**236.545.000**	**257.843.000**	**273.539.000**	**-3,4**	**264.175.000**
Total Equity	**15.811.000**	**17.357.000**	**18.803.000**	**+4,4**	**19.633.000**
Total Liabilities and Equity	**252.356.000**	**275.200.000**	**292.342.000**	**-2,9**	**283.808.000**

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	6,27	6,31	6,43	+0,49	6,92
Leverage Ratio	6,30	6,10	6,10	+0,00	6,10
Phased-in: Common Equity Tier 1 Ratio (CET1)	15,20	16,20	16,50	-0,50	16,00
Phased-in: Tier 1 Ratio (CET1 + AT1)	16,80	17,80	18,00	-1,00	17,00
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	19,80	20,60	20,40	-1,20	19,20
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	14,90	15,80	16,30	-0,30	16,00
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	16,40	17,40	17,90	-0,90	17,00
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	19,00	20,00	20,20	-1,00	19,20
Net Stable Funding Ratio (NSFR)	121,00	125,00	134,00	+2,00	136,00
Change in % Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans / Deposits (LTD)	88,53	94,03	92,64	-0,48	92,17
Interbank Ratio	71,92	52,87	73,34	+32,46	105,81
Liquidity Coverage Ratio (LCR)	127,00	139,00	139,00	+0,00	139,00
Customer Deposits / Total Funding (excl. Derivatives)	63,89	56,99	57,32	+4,48	61,79
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 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 38 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 unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document "Rating Criteria and Definitions".

On 15 July 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

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

The rating is subject to one-year monitoring from the rating date and is valid until withdrawal of the rating. Within this period, the rating can be updated. At the latest after one year, a monitoring is required to maintain the validity of the rating.

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

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved nor any other natural persons 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 in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

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

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those 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 the available historical data as sufficient.

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

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases 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 rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

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

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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