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CREDIT OPINION
22 December 2023

Update

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RATINGS

KBC Group N.V.

Domicile	Brussels, Belgium
Long Term CRR	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	Not Assigned

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Roland Auquier +33.1.5330.3341
VP-Senior Analyst
roland.auquier@moodys.com

Mikhail Panasiuk +33.1.5330.3442
Sr Ratings Associate
mikhail.panasiuk@moodys.com

Olivier Panis +33.1.5330.5987
Senior Vice President
olivier.panis@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
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KBC Group N.V.

Semi-annual update

Summary

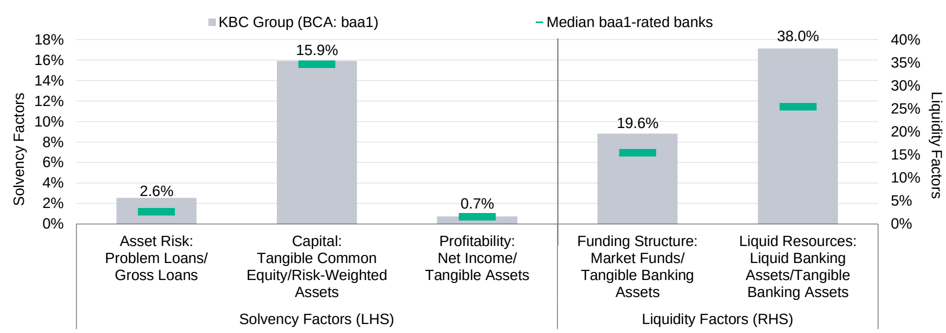
KBC Group N.V.'s (KBC; Baa1 positive[1]) long-term senior unsecured debt rating reflects KBC Bank N.V.'s (KBC Bank; Aa3 stable, baa1[2]) Baseline Credit Assessment (BCA) of baa1 and our Advanced Loss Given Failure (LGF) analysis applied to KBC Group.

KBC Bank's baa1 BCA reflects KBC's high solvency, including strong earnings power, supported by its solid presence in Belgium and CEE countries, and diversified businesses, spanning banking activities, insurance and asset management, which have been providing strong growth in fees. We consider KBC's asset quality as sound, although we expect a moderate increase in problem loans in coming quarters due to the knock-on effects of elevated interest rates and core inflation.

KBC Bank's long-term deposit rating and IFIMA's backed senior unsecured debt rating benefit from an extremely low and very low loss-given-failure, respectively, leading to a three-notch and two-notch uplift respectively from the bank's Adjusted BCA. Both ratings also benefit from an additional notch of uplift reflecting our expectation of a moderate probability of government support.

Exhibit 1

Rating Scorecard - Key financial ratios



Data as of Q3 2023
Source: Moody's Investors Service data

Credit strengths

- Strong earnings power, supported by the group's solid presence in Belgium and CEE countries, and diversified business, spanning banking activities, insurance and asset management.
- High capitalisation.
- Sound asset quality.
- Robust liquidity based on a strong core deposit base.

Credit challenges

- Pressure on loan spreads, especially in Belgium.
- Problem loans will increase in the coming quarters, as the knock-on effects of elevated interest rates and core inflation will weigh on borrowers' repayment capacity, mainly for large companies' and SMEs' lending.

Outlook

The positive outlook on KBC's long-term issuer and senior unsecured debt ratings and IFIMA's backed senior unsecured debt rating reflects our view that higher interest rates will keep on supporting KBC's net interest income, although some of the benefit will be offset by slower loan growth, pressures on mortgage spreads in Belgium, and further shifts from current accounts and savings accounts to term deposits combined with higher pass-through rates on savings accounts. While the economic slowdown will lead to some deterioration in loan performance, the banks' high capital base and ample provisioning provide a shield against loan losses and asset quality deterioration over the outlook horizon.

The outlook on KBC Bank's long-term deposit ratings is stable, because any further positive pressure on KBC Bank's BCA would be offset by the removal of the government support uplift, given that the long-term deposit rating it is now at par with the sovereign rating of Belgium (Aa3).

Factors that could lead to an upgrade

- An upgrade of KBC Bank's BCA could result from sustained profitability gains, whilst containing the rise in asset risks, and increasing capital levels.
- All things equal, an upgrade of KBC Bank's BCA would result in an upgrade of the long-term ratings of IFIMA and KBC.
- Conversely, an upgrade of KBC Bank's BCA would not lead to an upgrade of the bank's long-term deposit ratings, which are at par with the Aa3 sovereign rating of Belgium.

Factors that could lead to a downgrade

- Although unlikely at present, a downgrade of KBC Bank's BCA could result from a sustained reduction in profitability, should fees and net interest income both materially decline; a prolonged decline in regulatory capital ratios at the bank and group levels below current targets; and a deterioration in asset quality and non-performing loans in particular.
- A downgrade of KBC Bank's BCA would typically result in a downgrade of the long-term ratings of KBC Bank, IFIMA and KBC.
- The long-term ratings of KBC Bank, IFIMA and KBC could also be downgraded if there is a significant and sustained decrease in the debt loss-absorption capacity, resulting in a higher expected loss at failure for one or more instrument classes.

Key indicators

Exhibit 2

KBC Group N.V. (Consolidated Financials) [1]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	352,411.0	348,469.0	333,488.0	313,695.0	287,130.0	5.6[4]
Total Assets (USD Million)	373,115.2	371,902.6	377,877.2	383,823.4	322,302.9	4.0[4]
Tangible Common Equity (EUR Million)	18,362.0	18,624.0	19,648.0	18,139.3	17,160.4	1.8[4]
Tangible Common Equity (USD Million)	19,440.8	19,876.4	22,263.3	22,194.4	19,262.5	0.2[4]
Problem Loans / Gross Loans (%)	2.2	2.2	2.5	3.3	3.5	2.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.9	16.9	18.8	17.8	17.3	17.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.3	19.1	18.4	24.8	27.8	21.9[5]
Net Interest Margin (%)	1.5	1.5	1.3	1.5	1.6	1.5[5]
PPI / Average RWA (%)	3.5	3.4	3.0	3.1	3.4	3.3[6]
Net Income / Tangible Assets (%)	0.9	0.7	0.9	0.5	0.9	0.8[5]
Cost / Income Ratio (%)	55.0	56.9	58.7	57.4	56.8	57.0[5]
Market Funds / Tangible Banking Assets (%)	23.4	19.6	22.5	22.8	21.4	21.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	39.3	38.0	38.7	37.2	31.3	36.9[5]
Gross Loans / Due to Customers (%)	86.1	80.9	81.6	86.3	92.2	85.4[5]

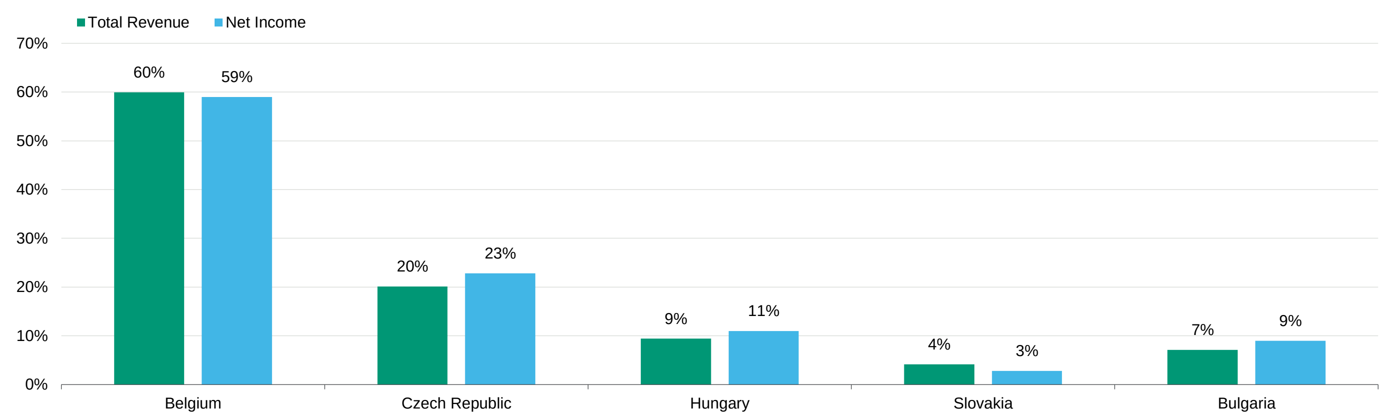
[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

KBC Group N.V. (KBC) is a leading bank insurance group based in Belgium. It comprises a large universal bank (KBC Bank), active in Belgium (as of Q3 2023, 60% of consolidated total revenue or 59% of net profit), several CEE countries (namely the Czech Republic, Slovakia, Hungary and Bulgaria, together accounting for 41% of total revenue or 46% of net income, as of Q3 2023). KBC runs also insurance activities through its subsidiary KBC Insurance N.V., active in life and non-life activities in the same markets - accounting for around 26% of the group's net profit.

Exhibit 3

CEE accounts for over one-third of the group's consolidated total revenue
Breakdown of Total Revenue and Net Income by market, Q3 2023



Excluding Corporate Centre
Source: KBC Group

In Belgium, KBC reported market shares of around 20% in loans and deposits and 28% in investment funds as of year-end 2022. In CEE, the bank reported loan and deposit market shares of 21% in the Czech Republic, 11% in Hungary, 12% in Slovakia and 19% in Bulgaria (following the acquisition of Raiffeisenbank (Bulgaria) EAD in 2022).

In Ireland, which used to be a core market for the group since 2017, KBC disposed of substantially all of the nonperforming mortgage loan portfolio of KBC Bank Ireland in February 2022. In February 2023 KBC sold substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland Group plc (BOI, A3 stable[3]), the holding company of Bank of Ireland (A1/A1 stable, baa1[4]). The finalisation of this deal has ultimately led to KBC withdrawing from the Irish market.

On 30 July 2021 KBC completed the acquisition of NN's Bulgarian pension and life insurance business to expand its cross-selling opportunities and gain scale in the Bulgarian market. On 7 July 2022 the group finalised its acquisition of 100% of the shares of Raiffeisenbank (Bulgaria) EAD[5] (RBB) subsequently known as KBC Bank Bulgaria EAD (KBC-BB) from Raiffeisen Bank International AG(RBI, bank deposits/senior unsecured: A1/A1 stable, Adjusted BCA: baa2) - RBB started being consolidated in the Q3 2022 financials. On 10 April 2023, KBC-BB was legally merged with KBC's (earlier acquired) Bulgarian subsidiary United Bulgarian Bank AD (UBB). As part of this transaction, KBC-BB was incorporated into UBB and no longer exists as a separate legal entity. KBC considers Bulgaria as one of its core markets, UBB alone being the largest bank with an 19.7% market share in assets as of September 2023.

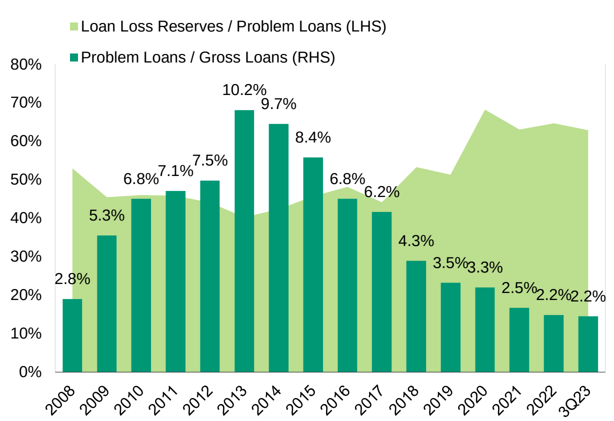
Please click on the following links for further information on Belgium's banking system outlook and Belgium's Macro Profile.

Detailed credit considerations

Asset quality has been improving in KBC Bank's core markets, yet the trend is likely to be slightly reversed due to rising macroeconomic pressures in its core markets

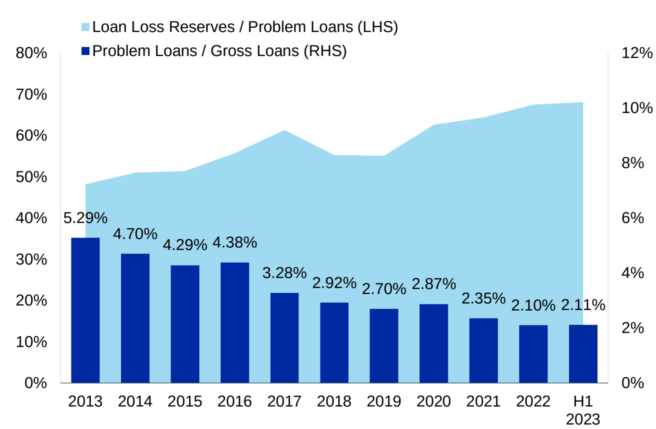
We view KBC's asset quality as sound, with a low nonperforming loan (NPL) ratio of 2.2% as of September 2023, and conservative provisioning policy. The withdrawal from the Irish market has significantly de-risked KBC's balance sheet given the high proportion of legacy impaired loans in the Irish loan book, lowering the NPL ratio closer to peers' level[6] (from the peak of 10.2% reached in 2013, see exhibit below). We also consider that pockets of risk in the domestic portfolio have remained contained, as the bank maintained prudent credit standards on mortgage origination in Belgium, in line with stricter rules introduced by the National Bank of Belgium on indebtedness and leverage since 2019. Loan loss reserves level have been steadily increasing, and, as of September 2023, the coverage ratio stood at 62.9%, up from 51.3% as of at year-end 2019.

Exhibit 4
KBC's loan book quality has been steadily improving after the NPL peak of 2013...
KBC's asset quality metrics



Source: Moody's Investors Service data

Exhibit 5
... closer to Belgian peers' level
Belgian banks' consolidated asset quality metrics

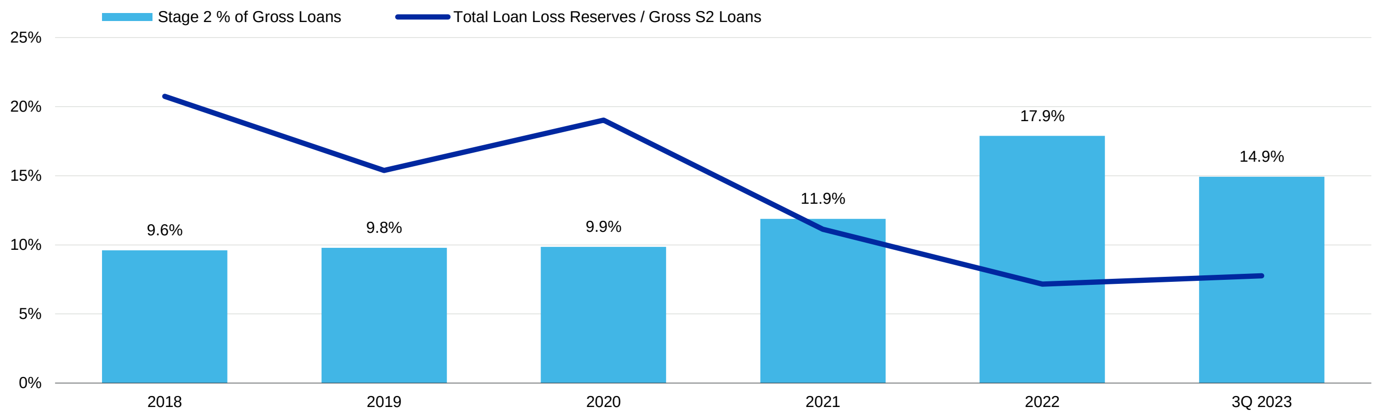


Source: Moody's Investors Service data

We still expect a moderate asset quality deterioration in coming quarters due to the knock-on effects of subdued economic growth. This could have a bearing on clients most exposed to inflation risks, while KBC's is exposed to industry concentration in volatile sectors, including commercial real estate and construction. We consider that a significant portion of KBC's loan book is highly exposed to recently emerging risks (such as high inflation and interest rates). It results in a material proportion of loans classified as Stage 2 (Stage 2 loans amounted to 14.9% of total outstanding loans at end-September 2023, down from 17.9% at year-end 2022, but still substantially higher than the Euro-area average of 9.5% as of June 2023). Moody's however notes that such a high proportion of

Stage 2 loans results from collective transfers linked to the newly emerging risks, but that so far no deterioration in the portfolios has been observed. KBC has set aside a reserve for such risks - total outstanding ECL for geopolitical and emerging risks stood at €291 million at end September 2023, down from €429 million at YE 2022. In the Belgian retail segment, Moody's expects the impact of rising interest rates on borrowers' repayment capacity to be less abrupt than in its other markets, given that (i) the majority of KBC's domestic mortgages carry fixed interest rates, (ii) there are limits on the maximum interest rate hikes that Belgian banks are allowed to pass on to mortgage borrowers with variable-rate loans, (iii) wages in Belgium are automatically indexed to inflation, which stabilises household purchasing power.

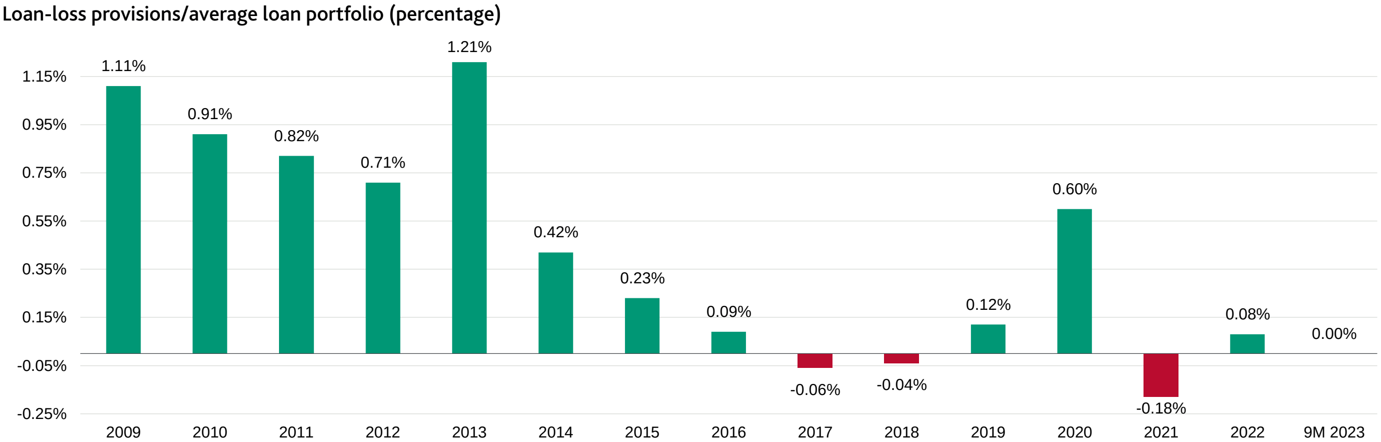
Exhibit 6
Stage 2 loans and coverage ratios have deteriorated due to collective shifts
Stage 2 asset quality metrics



Source: Moody's Investors Service data

KBC Group's cost of risk in the first nine months of 2023 was a net release of €11 million (0 basis points). The minimal cost of risk was supported by steady releases of the ECL buffer, against the backdrop of improved micro- and macroeconomic indicators. We expect cost of risk to normalise in 2024, at a higher level than in 2021 and in 2022, albeit remaining below the 30-40 bps historical average levels, given that KBC held €291 million (circa 16 bps) of forward-looking provisions for geopolitical and emerging risks as of September 2023.

Exhibit 7
Loan-loss provisions remained at historic lows at end-September 2023 following a surge in 2020
Loan-loss provisions/average loan portfolio (percentage)



As reported figures
Source: KBC Group

Our Asset Risk score of baa2, two notches below the historical score of a3, reflects our expectation of a moderate increase in problem loans in the coming quarters, and KBC's loan book's high exposure to newly emerging risks.

The group's capitalisation is strong ahead of Basel IV implementation

KBC Group reported a fully loaded Common Equity Tier 1 (CET1) capital ratio of 14.6% at end-September 2023, well above the fully loaded regulatory requirement of 10.92%, and a material decrease from end-year 2022 (15.3%). The decrease was driven by (i) distribution, on top of the €1.3 billion already paid as the dividend for 2022, of another €1.3 billion euros of surplus capital in the form of a share buyback, in line with the capital deployment plan announced for full-year 2022, and (ii) a risk-weighted assets (RWA) add-on of approximately €8.2 billion in the third quarter of 2023, following model reviews by the ECB for predominantly KBC's Belgian corporate and SME credit portfolio.

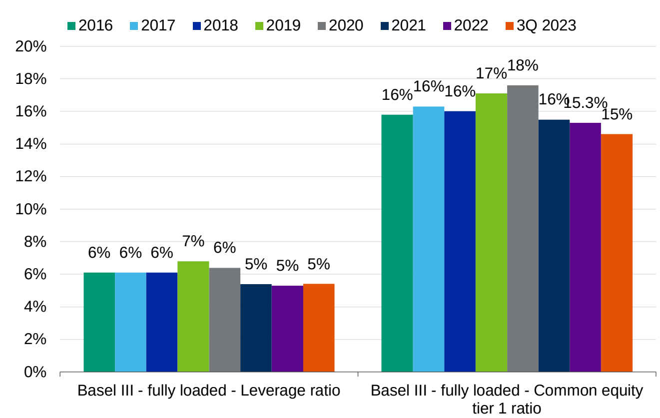
Until the Basel IV deployment, at which point the capital distribution plan will be updated, the bank has a payout ratio policy of at least 50% of its annual consolidated profit. In addition, following the announcement of each annual financial result, the board of directors has discretion over the decision to distribute excess capital, i.e. above 15% CET1 fully-loaded ratio.

With the full impact of the Basel IV rules implementation expected between 2025 and 2033, the associated increase in RWA will be progressive. GIven the €4.5 billion frontloading already included within the €8.2 billion add-on in relation to the ECB decision for predominantly KBC's Belgian corporate & SME portfolios, the impact on RWAs of the first-time application in 2025 is estimated to be limited to €2.5 billion (i.e. a 31 bps impact on the CET1 ratio, based on September 2023 figures), while a further fully loaded impact of €3.5 billion is expected by 2033.

Given KBC's strong earnings generation (we estimate KBC's capital generation at over 200bps per annum), and the €2 billion RWA release expected in Q4 2023 as a result of model simplification, we expect such limited expected RWA inflation to be manageable, and thus KBC's capital levels to remain above their target over the medium term. We view KBC's capital buffer as providing a strong risk absorption capacity, while allowing for some potential further bolt-on acquisitions in the future.

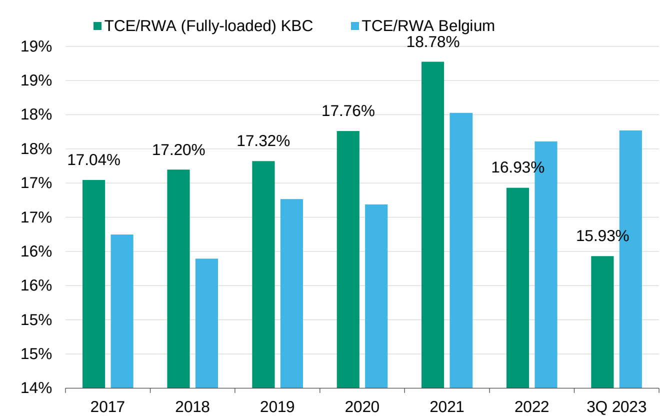
The group's CET1 ratio is calculated under the so-called Danish compromise[7], which is based on the computation of risk-weighted assets (RWA) pertaining to the bank's exposures to KBC Insurance N.V., calculated as the book value of KBC Insurance multiplied by 370%.

Exhibit 8
Capitalisation of KBC is solid...



Source: Moody's Investors Service data

Exhibit 9
... temporarily plunging below the levels observed within the domestic banking sector
KBC capitalisation vs Belgian consolidated capitalisation data



Source: Moody's Investors Service data

KBC Group already complies with its minimum requirement for own funds and eligible liabilities (MREL), with the available MREL buffer including KBC Bank's eligible senior debt, which will gradually mature and be replaced by senior unsecured debt issued by KBC Group. A new target of 28.30% of RWAs was communicated to KBC group by the Single Resolution Board (SRB), which will need to be achieved by 1 January 2024. KBC Group's MREL/RWAs ratio stood at 30.2% as of the end of September 2023. Leverage ratio exposure measure (LRE) stood at 10.1% as of September 2023, compared to a requirement of 7.38%.

The Capital score is a1, in line with the historical score, reflecting our opinion that the capitalization is a relative strength for the bank, given KBC's distribution of surplus capital policy, strong capital generation ability and limited expected remaining RWA inflation.

Underpinned by diversification and rising interest rates, earnings generation capacity will remain strong despite high operating expenses

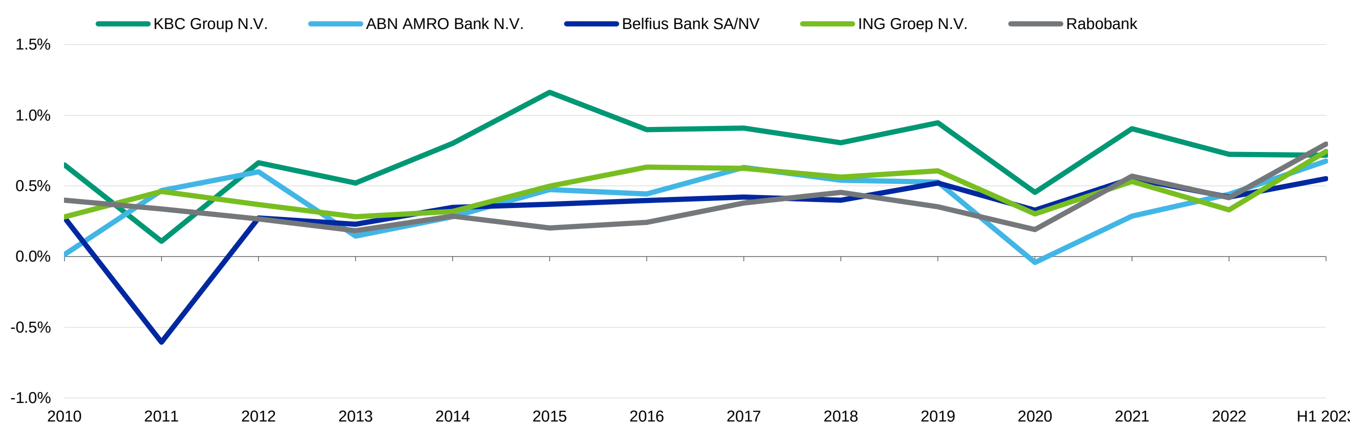
KBC has strong earnings power, supported by its solid presence in Belgium and CEE countries, and diversified businesses, spanning banking activities, insurance and asset management, which have been providing strong growth in fees. KBC has thus far delivered on its strategic plan's objectives, aiming to gain market shares in its core markets and developing its highly integrated bancassurance model in Belgium and Czech Republic. KBC's ambition to achieve sizable presence in Slovakia, Hungary and Bulgaria through organic growth and acquisitions is also on track.

We consider KBC's profitability to be superior to that of most European peers, as evidenced by its net income to tangible assets ratio of 0.89% as of September 2023 versus 0.66% for Euro Area as of June 2023 (based on Moody's data, see below exhibit).

Exhibit 10

After the dip in 2020, KBC has almost recovered to its pre-pandemic level of ROA

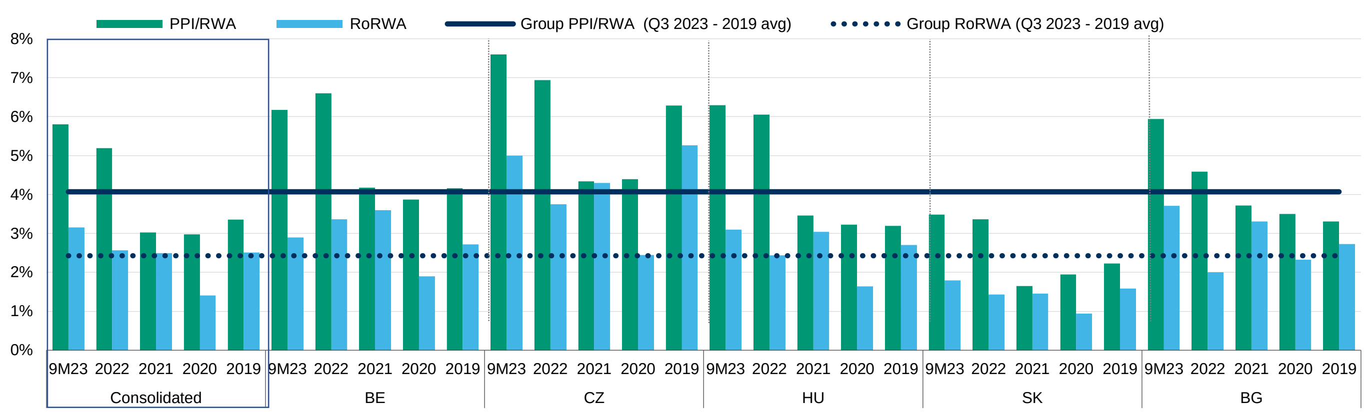
Net Income/Tangible Assets



Source: Moody's Investors Service data

Exhibit 11

Risk-adjusted returns in Slovakia are still lagging other geographies

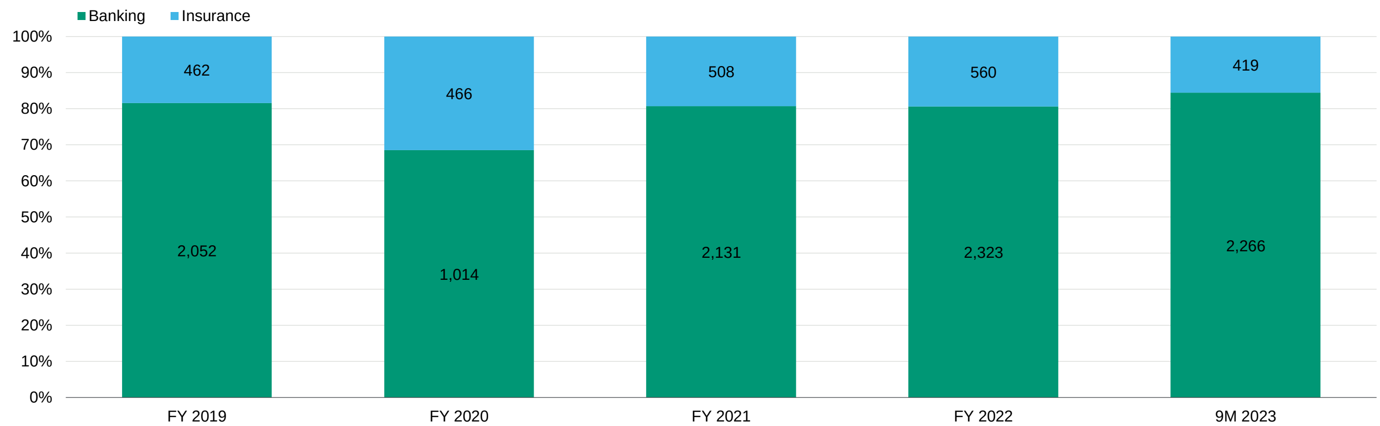


KBC Bank Bulgaria was consolidated starting 3Q 2022.

Source: Moody's Investors Service data, KBC reports

Over the past five years, on average NII represented some 60% of consolidated revenue streams, while net fees and commissions accounted for 23%, and revenue attributed to life and non-life insurance amounted to approximately 10%. Insurance income proves more resilient in times of economic downturn, partly offsetting more volatile businesses or interest rate changes, which underlines the benefits of diversification.

Exhibit 12
Over 20% of the consolidated net profit originates from the insurance business of the group
Breakdown of KBC's net income, in € millions and percentage of net income

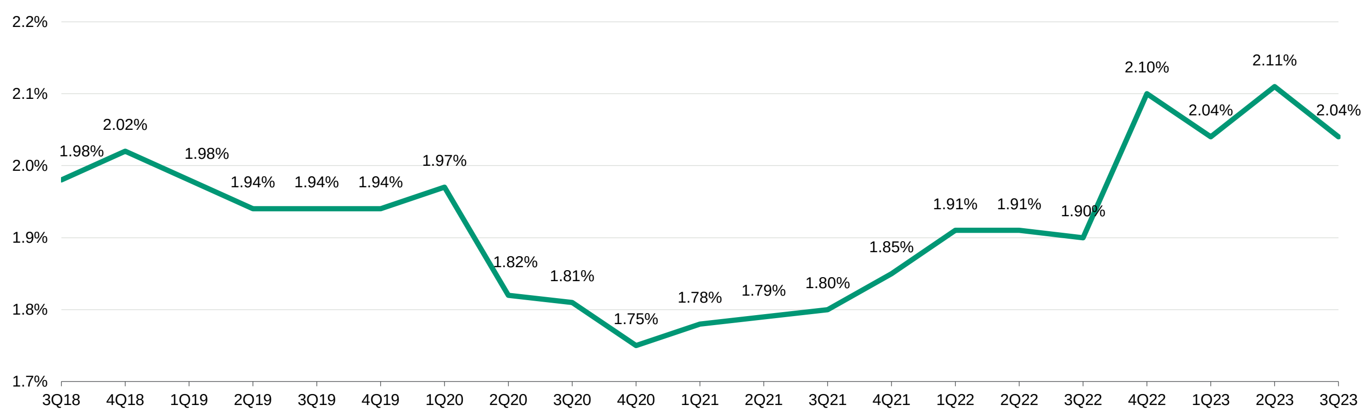


Source: Moody's Investors Service data

KBC's reported net interest income of €1.4 billion in Q3 2023, up 7% year on year, benefitting from higher reinvestment yields in all core markets, and the continued loan growth (+2% volume growth on an organic basis[8]), despite pressures on mortgage spreads in almost all countries, and the ceasing of negative interest rates on corporate and SME accounts in Q3 2022. In Q3 2023, the reported net interest margin reached 2.04%, up by 14 basis points year-on-year.

KBC lowered its net interest income guidance for 2023FY from €5.6bn to €5.4bn due to (i) the outflow linked to the state notes issuance in Belgium (-€5.7bn of lost deposits), (ii) the negative impact of the ongoing shift to term deposits[9], 3) higher cost on minimum required reserves held with central banks.

Exhibit 13
NIM has recently been boosted by increasing interest rates
KBC Group's NIM (percentage of loans to customers)

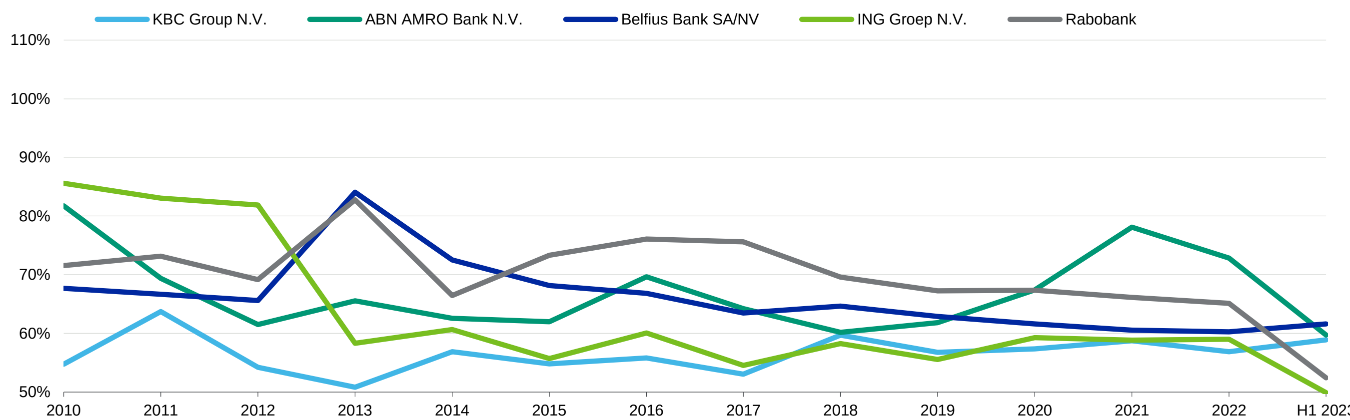


Source: KBC Group

KBC's operating expenses increased by 7% year-on-year due to the consolidation of Raiffeisenbank Bulgaria (KBC BB), the impact of wage indexation in Belgium and higher other operating expenses. Banking & insurance taxes increased by 3.2% YoY (9M) due to the windfall tax in Hungary and to payments in Bulgaria (because of the acquisition of Raiffeisenbank Bulgaria). Total bank and insurance taxes (including SRF contribution) are expected to increase by 7% yoy to €693m in FY2023 (from €646m in 2022), but to decrease in 2024.

In terms of efficiency, KBC compares favourably to most of its Benelux-based peers (see below exhibit). The transition, since November 2020, to a digital-first distribution model, putting a new virtual customer assistant at the centre of its strategy, is starting to bear fruit. We also consider that our expectation of a receding inflation in Belgium in 2024 will favourably impact operating expenses given the wage indexation mechanism in the country. KBC also expects synergies from the recent acquisitions of OTP in Slovakia and RBI Bulgaria to have a positive effect on costs.

Exhibit 14
KBC compares favourably to its Benelux peers in terms of cost efficiency
Cost/Income Ratio



Source: Moody's Investors Service data

Our assigned Profitability score of baa2 reflects KBC's strong earnings diversification and generation capacity, together with our expectation that net interest income in 2024 will still be supported by increasing reinvestment yields, which will offset headwinds stemming from (i) the deposit outflow following the September 2023 Belgian State Note emission, (ii) further shifts from current accounts and savings accounts to term deposits, (iii) higher pass-through rates on savings accounts, and (iv) higher costs on minimum required reserves.

Liquidity is robust, because of a strong core deposit base

KBC Group's funding profile is solid because of its strong core deposit base. Customer deposits are the bank's main funding source, accounting for around 60% of its balance sheet over the past years. KBC Group has a structural liquidity excess, which is reflected in its loan-to-deposit ratio of 86% as of September 2023.[10] This favourable consolidated loan-to-deposit ratio is supported by strong funding positions in each of KBC Bank's core markets. Overall, the bank's liquidity continues to improve, because of an increase in deposits in its core markets. We also positively view the longer-term structure of the bank's wholesale funding following the issuance of covered bonds under new domestic legislation. As of December-end 2022, circa 5% of total assets were entered in the cover asset register of the covered bond programme, which leaves quite some headroom for funding through this instrument (KBC can use up to 12.5% of its assets for the issuance of covered bonds), should the need arise.

At the end of August 2023, the Kingdom of Belgium issued a State Note with a tenor of 1 year, which, according to the NBB, was done in the context of the slow transmission of higher interest rates offered by Belgian banks to retail savers. Retail investor demand was substantial, with more than 500 000 savers signing up and €21.9 billion raised. For KBC, this led to a sizeable outflow of funds (€5.7 billion; i.e. circa 2% of its core deposit base), while the loss of cheap deposit funding led to a €22 million negative impact on net interest income in Q3 2023 (and is expected to be €139 million in 2024). While we do not expect the full amount of the outflow to be returned to KBC once the State bond matures, we view the issuance of another State Note with the same maturity, in turn leading to another substantial deposit outflow, as unlikely, given the now fast-increasing pass-through rates on savings account in Belgium. We thus view the impact of such a one-off deposit outflow as manageable, given the bank's strong liquidity position.

The bank indeed holds a comfortable buffer of high-quality liquid assets, amounting to €100 billion as of September 2023, out of which €50 billion consists of LCR eligible bonds. Given the sharp rise in market interest rates in 2022 and 2023, the market value of KBC's bond portfolio, which is recognized at amortised cost, was significantly below its accounting value at end March 2023, translating into an unrealized loss of €3.7 billion, i.e. 3.4% of risk-weighted assets and 21% of its CET1 capital. While the valuation gap on KBC's securities was more material than at European peers, that have mostly recognized such losses in their regulatory capital ratios, we considered that such losses were very unlikely to be crystallized for liquidity purposes. KBC's deposit franchise is strong, with 81% of total customer deposits consisting of more stable retail and SME clients, and we view KBC's Liquidity Coverage Ratio (LCR) of 157% as ample, with liquidity reserves that include €51 billion of cash at central banks and its large portfolio of securities it can use as collateral to access further liquidity without crystallizing unrealized losses.

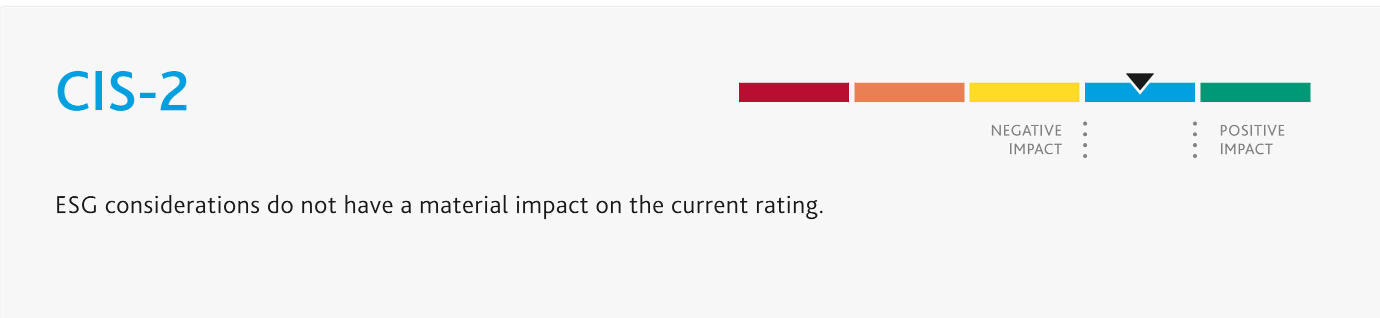
We reflect the aforementioned factors in a Combined Liquidity score of baa1.

ESG considerations

KBC Bank N.V.'s ESG credit impact score is CIS-2

Exhibit 15

ESG credit impact score



Source: Moody's Investors Service

KBC's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 16

ESG issuer profile scores

Source: Moody's Investors Service

Environmental

KBC faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk. In line with its peers, KBC is exposed to mounting business risks and stakeholder pressure to meet more demanding carbon transition targets. KBC is actively engaged in further developing its climate risk management and reporting frameworks, and optimizing its loan portfolio toward less carbon-intensive assets.

Social

KBC faces high industrywide social risks related to regulatory risk, litigation exposure and high compliance standards. The Belgian supervisor's focus on mis-selling and misrepresentation may have negative implications, which are mitigated by internal policies and procedures. KBC's high cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

KBC has solid corporate governance practices and prudent financial policies, commensurate with its universal banking model. KBC operates in multiple jurisdictions, mainly in Central and Eastern Europe, which entails governance and risk management challenges. The group has not recorded significant failures in its risk management and controls in recent years.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

KBC Bank (together with its parent KBC Group) is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We assume a residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and a proportion of 26% of deposits as junior, and assign a 25% probability of deposits being preferred to senior unsecured debt. These assumptions are in line with our standard assumptions.

» Our LGF analysis indicates an extremely low loss given failure for KBC Bank's deposits and a very low loss given failure for the issuing entity IFIMA's senior unsecured debt, leading us to assign a three- and two-notch uplifts, respectively, above the bank's Adjusted BCA.

» Our LGF analysis indicates a moderate loss given failure for KBC Group's long-term senior unsecured debt, leading to no uplift from the bank's Adjusted BCA.

» Our LGF analysis indicates a high loss given failure for subordinated debt and junior debt classes, leading us to adjust these instruments' ratings down by one notch from KBC Bank's Adjusted BCA. This is driven by the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate an additional two-notch negative adjustment for preference share instruments, reflecting the risk of a suspension of coupon payments ahead of the point of non-viability.

Considering the bank's overseas subsidiaries, we view that group-wide resolutions will be coordinated in a unified manner for entities required to issue internal loss absorbing capital in jurisdictions that have an operational resolution regime for banks, leading to a likely transfer of losses from subsidiaries to parents at the point of failure. In the case of KBC, we include the tangible banking assets of its subsidiaries Ceskoslovenska Obchodni Banka, a.s.(CSOB), Ceskoslovenska obchodna banka (Slovakia), Kereskedelmi & Hitel Bank Rt. and KBC Ireland in the resolution perimeter of KBC Group designated as the single point of entry for the group resolution. KBC's withdrawal from the Irish market in early 2023 leads us to exclude the tangible banking assets of KBC Bank Ireland PLC from the resolution perimeter, which does not affect the level of uplift.

Under our Advanced forward-looking LGF analysis, given the volume of cash and equivalents (€42.4 billion as of September 2023, compared to €51.4 billion as of December 2022,), we estimate that the entirety of KBC's TLTRO remaining drawdowns are redeposited at the ECB (€2.6 billion) and therefore are deducted from the projected bank's tangible banking assets, thereby reducing the temporary inflationary impact of TLTRO on the bank's balance-sheet. We assume that the portion of borrowed funds re-deposited at the ECB will be running off by 2024. This adjustment does not result in a change in ratings uplift.

Government support considerations

There is a moderate likelihood of government support for KBC Bank's deposits and IFIMA's senior debt in the event of failure, resulting in one notch of additional uplift for these instruments' ratings. This probability reflects the bank's systemic importance in Belgium, given its significant share of retail and corporate deposits in the country. On the contrary, KBC Group's senior unsecured debt, which is structurally subordinated to KBC Bank's deposits and debt, is assigned a low probability of government support, leading to no uplift from the Adjusted BCA.

Counterparty Risk Ratings (CRRs)

KBC Bank's CRRs are Aa3/Prime-1

KBC Bank's CRR, benefits from three notches of uplift from the Adjusted BCA of baa1, based on the level of subordination to CRR liabilities in the bank's balance sheet and assuming a nominal volume of such liabilities. The CRR also benefits from one notch of government support uplift, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

KBC Bank's CR Assessment is Aa3(cr)/Prime-1(cr)

The CR Assessment includes three notches of uplift relative to the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments and one notch of government support uplift. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss; therefore, we focus purely on subordination and take no account of the volume of the instrument class.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 17

KBC Group N.V.

Macro Factors							
Weighted Macro Profile	**Strong**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		2.7%	a3	↑	baa2	Expected trend	Unseasoned risk
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		16.9%	aa3	↓	a1	Expected trend	
Profitability							
Net Income / Tangible Assets		0.7%	baa3	↑	baa2	Earnings quality	Expected trend
Combined Solvency Score			a3		a3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		19.6%	baa1	↔	baa1	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		38.0%	a2	↓	a3	Expected trend	Stock of liquid assets
Combined Liquidity Score			a3		baa1		
Financial Profile					a3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Aa3		
BCA Scorecard-indicated Outcome - Range					a2 - baa1		
Assigned BCA					baa1		
Affiliate Support notching					0		
Adjusted BCA					baa1		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	29,604	10.3%	53,444	18.5%
Deposits	233,729	81.1%	209,889	72.8%
Preferred deposits	172,959	60.0%	164,311	57.0%
Junior deposits	60,770	21.1%	45,577	15.8%
Senior unsecured bank debt	174	0.1%	174	0.1%
Senior unsecured holding company debt	12,805	4.4%	12,805	4.4%
Dated subordinated holding company debt	1,685	0.6%	1,685	0.6%
Preference shares(holding company)	1,500	0.5%	1,500	0.5%
Equity	8,644	3.0%	8,644	3.0%
Total Tangible Banking Assets	288,141	100.0%	288,141	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	24.4%	24.4%	24.4%	24.4%	3	3	3	3	0	a1
Counterparty Risk Assessment	24.4%	24.4%	24.4%	24.4%	3	3	3	3	0	a1 (cr)
Deposits	24.4%	8.5%	24.4%	8.6%	3	3	3	3	0	a1
Senior unsecured bank debt	24.4%	8.5%	8.6%	8.5%	3	1	2	2	0	a2
Senior unsecured holding company debt	8.5%	4.1%	8.5%	4.1%	0	0	0	0	0	baa1

Dated subordinated bank debt	4.1%	3.5%	4.1%	3.5%	-1	-1	-1	-1	0	baa2
Dated subordinated holding company debt	4.1%	3.5%	4.1%	3.5%	-1	-1	-1	-1	0	baa2
Holding company non-cumulative preference shares	3.5%	3.0%	3.5%	3.0%	-1	-1	-1	-1	-2	ba1

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	3	0	a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3(cr)	
Deposits	3	0	a1	1	Aa3	Aa3
Senior unsecured bank debt	2	0	a2	1	A1	A1
Senior unsecured holding company debt	0	0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa2	0	Baa2	Baa2
Dated subordinated holding company debt	-1	0	baa2	0	Baa2	(P)Baa2
Holding company non-cumulative preference shares	-1	-2	ba1	0	Ba1 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 18

Category	Moody's Rating
KBC GROUP N.V.	
Outlook	Positive
Deposit Note/CD Program -Dom Curr	--/P-2
Issuer Rating	Baa1
Senior Unsecured	Baa1
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
ST Issuer Rating	P-2
Other Short Term	(P)P-2
CESKOSLOVENSKA OBCHODNI BANKA, A.S.	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
KERESKEDELMI & HITEL BANK RT.	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
KBC IFIMA S.A.	
Outlook	Positive
Bkd Senior Unsecured	A1
Bkd Subordinate	Baa2
Bkd Other Short Term -Dom Curr	(P)P-1
KBC BANK N.V.	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
CESKOSLOVENSKA OBCHODNA BANKA (SLOVAKIA)	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3

Source: Moody's Investors Service

Endnotes

1 The rating shown is KBC Group's senior unsecured debt rating.

2 The ratings shown are KBC Bank's deposit rating and Baseline Credit Assessment.

3 The rating shown is Bank of Ireland Group plc's senior unsecured debt rating.

4 The ratings shown are the Bank of Ireland's long-term deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

5 The deal also included Raiffeisenbank Bulgaria's fully owned subsidiaries Raiffeisen Leasing Bulgaria, Raiffeisen Asset Management (Bulgaria), Raiffeisen Insurance Broker and Raiffeisen Service.

6 Moody's consolidated data indicates an NPL ratio of 2.1% for the Belgian banking system as of H1 2023.

7 The fully loaded CET1 ratio under the deduction method was 14.55% as of September-end 2023.

8 Excluding scope changes and FX effects.

9 Over 9M 2023, KBC reported an outflow of -€13.4bn of current accounts and an inflow of +€14.1bn of term deposits.

10 Total gross loans and advances to customers divided by deposits from customers (excluding non-convertible bonds and subordinated liabilities).

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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