Research Update:

Outlook On KBC Group And Core Entities Revised To Positive On Resilient Performance; Ratings Affirmed

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PRIMARY CREDIT ANALYST

Anastasia Turdyeva
Dublin
+ (353)1 568 0622
anastasia.turdyeva@spglobal.com

SECONDARY CONTACTS

Clement Collard
Paris
+33 144207213
clement.collard@spglobal.com

Marc-Philippe Juilliard
Paris
+ 33 14 075 2510
m-philippe.juilliard@spglobal.com

Gabriel Goetz
Frankfurt
+49 69 33999 287
gabriel.goetz@spglobal.com

Overview

- KBC Group NV (KBC Group) has been posting resilient performance over the past 10 years, leveraging on its solid competitive positions across its markets of operation and its business diversification thanks to the bancassurance business model.
- We expect that KBC Group's strong franchise, robust risk management, sound liquidity and funding metrics, and its advancement in building digital infrastructure should enable the group to perform well in different economic conditions and achieve sustainable results comparable to peers with an 'a+' stand-alone credit profile (SACP).
- We therefore revised our outlook on KBC Group and its core subsidiaries to positive from stable and affirmed our issuer credit ratings (ICRs) on all entities.
- The positive outlook reflects our view that the group will continue to grow its operations, maintain solid funding and liquidity metrics, and deliver robust risk-adjusted returns in line with higher rated peers, while maintaining strong capitalization.

Rating Action

On Nov. 29, 2024, S&P Global Ratings took the following rating actions:

- Revised to positive from stable our outlook on holding company KBC Group NV and on the operating company, KBC Bank NV (together KBC Group). At the same time, we affirmed our 'A-/A-2' and 'A+/A-1' long- and short-term ICRs on KBC Group NV and KBC Bank NV. We also affirmed our 'AA-/A-1+' long- and short-term resolution counterparty ratings (RCRs) on KBC Bank NV. We affirmed our issue ratings on all of KBC Group's subordinated and hybrid instruments, including its senior nonpreferred debt.
- Revised to positive from stable our outlook on Ceskoslovenska obchodni banka a.s. (CSOB), the core subsidiary of KBC Group N.V. At the same time, we affirmed our 'A+/A-1' long- and short-term ICRs on CSOB and our 'AA-/A-1+' long- and short-term RCRs on the bank.
- We revised to positive from stable our outlooks on both KBC Insurance N.V. and KBC Group Re S.A., core subsidiaries of KBC Group N.V. At the same time, we affirmed our 'A' issuer and

financial strength ratings on both entities.

Rationale

KBC Group's digitally advanced, geographically diversified integrated bancassurance business model will continue to support the group's resilient earnings generation capacity. Strategic focus and consistent execution have enabled the group to post sustainably strong performance over the past 10 years, with average return on common equity of 13.1% and average return on regulatory risk-weighted assets of 2.6%, in line with the performance of much larger and more diversified European and global peers. We believe that KBC will continue to deliver robust results with return on equity expected at around 14% over the next two years. First, KBC will continue to benefit from its leading position in Belgium and Czech Republic and its meaningful market shares in several other Central and Eastern European (CEE) countries. We also expect its insurance and asset management businesses will continue to support earnings stability with non-interest income streams contributing about 50% to total revenues, underpinning customer loyalty across the markets. Finally, we see KBC Group's advanced digital capabilities supporting its future growth, with Kate--a data driven and AI-enhanced infrastructure--being the core of the group's digital agenda. We expect these digital innovations will help keep costs under control with cost-to-income ratio (excluding bank levies) below 50%. These performance metrics and business strengths, if sustained, would compare well with those of key European and global peers with SACPs of 'a+', such as DNB Bank ASA, Svenska Handelsbanken AB, Nordea Bank Abp, Commonwealth Bank of Australia, and U.S. Bancorp.

We also expect funding and liquidity profiles to remain robust thanks to the group's strong franchise and stable core deposit base. This reflects the stability of the group's well-managed large and diversified retail funding base in its markets of operation resulting in a consolidated loan-to-deposit ratio of 84% as of June 2024. We consider deposit outflows observed in 2023 on the back of the Belgian state's intervention into the market as one-off event and unrelated to KBC Group's own deposit franchise. The recovery of those deposits this year supports our view. Liquidity metrics are also robust with a net stable funding ratio of 142% and a liquidity coverage ratio of 159%, reflecting the large stock of high-quality liquid assets (HQLA) as of end-September 2024. HQLA amounted to approximately €100 billion in September 2024 (about 29% of total assets) of which 43% are in cash and 57% in high quality European Central Bank-eligible bonds. We assume that these indicators of robust consolidated funding and liquidity ratios at the group level will also remain evident in each operating subsidiary.

We anticipate KBC Group to adhere to robust risk management practices and to remain focused on consolidating its presence in its core markets. The group is likely to pursue growth mostly organically, but we do not rule out bolt-acquisitions--both in Belgium and CEE countries where the group is active--to achieve larger scale in its core business segments, banking and insurance, in particular. KBC Group's credit exposures are skewed to Belgium, with 55% of the loan portfolio, and Czech Republic, with 20%. We don't expect any rapid transformation in geographic breakdown of exposures but will be tracking the extent of the gradual rebalancing of activities between Belgium, a low risk but mature market, and other CEE markets with higher growth potential but higher risk profiles. However, we note longstanding track record and expertise of operating in high-risk countries (15%-17% of loan book) and with small and midsize enterprises (22% of loan book) that transforms into low 10-year average cost of risk at 14 basis points (bps). This underpins its disciplined, consistent underwriting standards with a focus on borrowers with better creditworthiness. We expect cost of risk to increase over the next two years, to about 20 bps, but remain below the cycle level of 25 bps-30 bps.

Capitalization will remain a rating strength. We forecast our risk-adjusted capital ratios to remain at 11.0%-11.5% over 2025-2026. In our projections we anticipate the dividend payout ratio to remain at 50% through 2026. In addition, as part of our estimated projections, we include other exceptional shareholder returns to capture our view that KBC will maintain a CET1 ratio at 15%. That said, the capital distribution policy may change in 2025, following the implementation of Basel IV.

Outlook

KBC Group NV (holding company) and KBC Bank NV (operating company)

Primary analyst: Anastasia Turdyeva

The positive outlooks on KBC group and its core operating entities reflect our view that over the next 18-24 months the group will continue to deliver robust risk-adjusted returns more in line with 'a+' SACP peers and grow its operations while maintaining strong capital ratios. The outlook also reflects our expectation that KBC Group's main markets will experience sound economic conditions.

Upside scenario

We could consider taking a positive rating action if KBC group continued to demonstrate its ability to deliver robust financial performance through the cycle consistent with that of higher-rated peers. We could also raise our ratings on the group if KBC retained its solid funding and liquidity metrics both at the group and subsidiaries levels. At the same time, an upgrade would require the group to follow balanced risk appetite and solid capital buffers, with our risk-adjusted capital (RAC) ratio remaining sustainably above 10%.

Downside scenario

We could revise our outlook to stable if:

- Our economic forecasts weaken sharply for Belgium and CEE, indicating a high degree of correlation among these economies and leading to asset quality pressures for the group beyond our current expectations; or
- We observed KBC Group to depart from its prudent capital management, due to aggressive growth via mergers and acquisitions or higher capital distributions, leading to our forecasted RAC ratio sustainably decreasing below 10%; or
- The group's structural profitability was to weaken and no longer be in line with higher-rated peers.

Webinar

S&P Global Ratings will host a live interactive webinar on Dec. 12, 2024, at 3 pm GMT to discuss its Central and Eastern Europe Sovereign & Banking Outlook 2025, as well as this rating action.

Please click on the following link to attend:

https://event.on24.com/wcc/r/4789528/E921EED9225170939B5E9FC5CBE7A9BB?partnerref=Email1

Ceskoslovenska Obchodni Banka A.S. (CSOB)

Primary analyst: Gabriel Goetz

CSOB is KBC Group's largest and most profitable foreign subsidiary. We believe that the Czech operations overall, and CSOB as a leading domestic bank, are integral and strategic to KBC Group's objectives and that the group would be willing to support CSOB in a timely manner under any foreseeable circumstances, if needed. We anticipate that the group would be subject to a single resolution process and that additional loss-absorbing capacity instruments at the group level would be available to support CSOB's senior unsecured investors, in the unlikely event of nonviability of the group. The parent is downstreaming bail-in eligible instruments to CSOB to fulfil the internal minimum requirement for own funds and eligible liabilities ratio that Czech regulators require.

Our positive rating outlook on CSOB over the next 18-24 months reflects that on its parent, KBC Group N.V. We expect CSOB to remain a core subsidiary and consider that CSOB would likely benefit from parental support under any foreseeable circumstances. Therefore, any rating action on KBC Bank would result in a corresponding rating action on CSOB.

We note that a change in CSOB's SACP would not directly trigger a rating change, as long as we consider CSOB a core subsidiary to KBC Bank and we continue to equalize our rating on CSOB with that on the parent.

Upside scenario

We could raise our rating on CSOB over the next 18-24 months in line with a positive rating action on its parent.

Downside scenario

We could revise our outlook to stable if we were to revise the outlook to stable on the KBC Group N.V. Although unlikely, we could also revise the outlook to stable if we no longer view CSOB as a core entity of KBC Group.

KBC Insurance NV and KBC Group Re SA

Primary analyst: Marc-Philippe Juilliard

Our positive rating outlook on KBC Insurance NV and KBC Group Re SA mirrors that on their ultimate parent, KBC Group, given their core strategic importance to the group.

Upside scenario

We would raise the ratings over the next 18-24 months if we were to revise up our assessment of

KBC Group's SACP. We consider KBC Insurance's SACP unlikely to strengthen over the next two years. This would require a more diverse business model or increased capital adequacy, notably due to a less demanding dividend policy.

Downside scenario

We could revise the outlook on KBC Insurance and KBC Group Re to stable over the next 18-24 months if we take a similar action on KBC Group. Although unlikely, we could also revise the outlook to stable if we no longer view KBC Insurance or KBC Group RE as core entities of KBC Group.

Ratings Score Snapshot

	To	From
KBC Group N.V.	A-/Positive/A-2	A-/Stable/A-2
KBC Bank NV	A+/Positive/A-1	A+/Stable/A-1
Group SACP	a	a
Anchor	bbb+	bbb+
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	+1	+1
ALAC support	+1	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Banks Outlook 2025: Cautiously Confident, Nov. 14, 2024
- KBC Insurance N.V., Nov. 13, 2024
- KBC Group NV, July 5, 2024
- KBC Insurance 'A' Ratings Affirmed On Revised Insurance Capital Model Criteria; Outlook Remains Stable, June 27, 2024

Ratings List

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Ratings Affirmed		
Ceskoslovenska Obchodni Banka A.S.		
KBC Bank N.V.		
Resolution Counterparty Rating	AA-/--/A-1+	
KBC Bank N.V.		
Certificate Of Deposit	A+/NR	
KBC Bank N.V.		
Junior Subordinated	BBB-	
KBC Group N.V.		
Senior Unsecured	A-	
Subordinated	BBB	
Junior Subordinated	BB+	
KBC Ifima S.A.		
Senior Unsecured	A+	
Subordinated	BBB+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Ceskoslovenska Obchodni Banka A.S.		
KBC Bank N.V.		
Issuer Credit Rating	A+/Positive/A-1	A+/Stable/A-1

KBC Group N.V.

Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.