

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades KBC's holding company's senior unsecured debt to A3; outlook changed to stable**

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26 Jul 2024

#### **KBC Bank's BCA upgraded to a3; KBC Bank's long-term deposit and IFIMA's backed senior unsecured ratings affirmed at Aa3 and A1 respectively**

Paris, July 26, 2024 -- Moody's Ratings (Moody's) today upgraded the long-term senior unsecured debt and issuer ratings of KBC Group N.V. (KBC) to A3 from Baa1. The outlook on these ratings was changed to stable from positive.

We also upgraded KBC Bank N.V. (KBC Bank)'s Baseline Credit Assessment (BCA) and Adjusted BCA to a3 from baa1, KBC's subordinate debt rating to Baa1 from Baa2 and its non-cumulative preferred stock rating to Baa3(hyb) from Ba1(hyb).

We concurrently affirmed KBC Bank's Aa3 long-term deposit ratings and the A1 backed senior unsecured debt ratings of KBC IFIMA S.A. (IFIMA). The outlook on KBC Bank's long-term deposit rating remains stable while the outlook on IFIMA's backed senior unsecured debt ratings was changed to stable from positive. We also affirmed KBC Bank's short-term deposit ratings at Prime-1, KBC's short-term Deposit Note/CD programme rating at Prime-2. Finally, KBC Bank's long-term and short-term Counterparty Risk Rating (CRR) were affirmed at Aa3 and Prime-1 respectively, and its long-term and short-term Counterparty Risk (CR) Assessments were affirmed at Aa3(cr) and Prime-1(cr) respectively.

A list of all affected ratings is provided at the end of this press release.

#### RATINGS RATIONALE

##### UPGRADE OF THE BCA

The upgrade of KBC Bank's BCA reflects the group's well-contained asset quality, its track-record of strong and resilient profitability, its comfortable capitalization and its

robust funding and liquidity.

Asset quality has proven resilient since the disposal of KBC Bank Ireland PLC's remaining non-performing mortgage loan portfolio completed in February 2022. The group's non-performing loan (NPL) ratio (our calculation) was 2.2% at end-March 2024, stable since year-end 2022. The proportion of loans classified in stage 2 reduced significantly to 13.2% (our calculation) at end-March 2024 from the peak of 20.3% reached year-end 2022. While a material portion of the decrease stemmed from methodological changes in KBC's staging process, the fall in the ratio nonetheless reflects improved perspectives for the loans that had been collectively transferred into stage 2 in 2022 in relation to the then-prevailing geopolitical and inflationary context. KBC's loan book contains material exposures to some sectors such as commercial real estate and wholesale and retail trade that remain vulnerable to economic downturns. We incorporate in the BCA the risk of some deterioration in the cost of risk from the current extremely low levels but we expect it to remain contained.

KBC's track-record of strong and stable profitability is supported by its well-diversified business portfolio and well-established franchise in each of its core markets in Belgium and Central and Eastern Europe, which provides the group with robust earnings generation capacity. KBC's net interest results also benefited from the rise in interest rates in 2022 and 2023. We expect the group's recurring profitability to remain resilient over the coming quarters. Net interest income will continue to be supported by increasing reinvestment yields, offsetting headwinds coming from further shifts from current accounts and savings accounts to term deposits, higher pass-through rates on savings accounts, and higher costs on minimum required reserves at central banks. We also expect pressures on operating expenses to somewhat subside as inflationary pressures ease in KBC's core markets.

With a Common Equity Tier 1 (CET1) ratio of 14.9% and a Tier 1 leverage ratio of 5.4% at end-March 2024, capitalization is comfortable relative to the group's risk profile. Our assessment of capital is based on the assumption that KBC will preserve a CET1 ratio of around 15% in the foreseeable future.

Funding profile is robust and lies on a substantial and stable customer deposit base.

## LONG-TERM RATINGS

The upgrade of KBC's long-term issuer and senior unsecured debt ratings to A3 results from the upgrade of KBC Bank's BCA to a3. Our Advanced Loss Given Failure (LGF) analysis reflects a moderate loss-given-failure for the holding company's senior unsecured debt, resulting in no LGF uplift. The government support assumption for this instrument is low and hence does not result in any further uplift.

KBC Banks' Aa3 deposit rating and IFIMA's A1 backed senior unsecured debt rating reflect the a3 BCA and three and two notches of uplift respectively under our LGF

analysis reflecting an extremely low and very low loss-given-failure respectively. We assign a moderate probability of support from the government of Belgium (Aa3 stable) to both instruments, reflecting KBC' systemic importance in the country. However this assumption does not result in any rating uplift as is typically the case when such support would lead bank ratings to be in line with or above the sovereign debt rating.

## STABLE OUTLOOK

The outlook on KBC Bank's long-term deposits, IFIMA's backed senior unsecured debt and KBC's senior unsecured debt and long-term issuer ratings is stable, reflecting our view that asset quality and profitability will remain resilient and that the group will preserve a sound level of capital and liquidity.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Although unlikely in the short-term, KBC Bank's BCA could be upgraded if the group's asset risk, capital and profitability were all to improve substantially. All other things being equal, an upgrade of the BCA would likely lead to an upgrade of KBC's issuer and senior unsecured debt ratings, KBC Bank's long-term deposit rating and IFIMA's backed senior unsecured rating.

KBC's issuer and senior unsecured debt ratings and IFIMA's backed senior unsecured rating could also be upgraded if their respective loss-given-failure were to reduce through higher subordination or instrument volume.

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 decline in regulatory capital ratios below current targets; or a material deterioration in asset quality.

A downgrade of the BCA would typically result in a downgrade of KBC's issuer and senior unsecured debt ratings and KBC Bank's long-term deposit rating. It would however likely not result in a downgrade of IFIMA's backed senior unsecured rating, which could then benefit from a rating uplift from government support.

The long-term ratings of KBC, IFIMA and KBC Bank could also be downgraded if their respective loss-given-failure were to increase through reduced subordination or lower instrument volume.

## LIST OF AFFECTED RATINGS

Issuer: KBC Bank N.V.

..Upgrades:

.... Baseline Credit Assessment, Upgraded to a3 from baa1

.... Adjusted Baseline Credit Assessment, Upgraded to a3 from baa1

..Affirmations:

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Aa3

.... LT Counterparty Risk Rating (Local Currency), Affirmed Aa3

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

.... LT Bank Deposits (Foreign Currency), Affirmed Aa3 STA

.... LT Bank Deposits (Local Currency), Affirmed Aa3 STA

.... ST Bank Deposits (Foreign Currency), Affirmed P-1

.... ST Bank Deposits (Local Currency), Affirmed P-1

.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

..Outlook Actions:

....Outlook, Remains Stable

Issuer: KBC Group N.V.

..Upgrades:

.... LT Issuer Rating (Foreign Currency), Upgraded to A3 STA from Baa1 POS

.... Senior Unsecured (Foreign Currency), Upgraded to A3 STA from Baa1 POS

.... Senior Unsecured (Local Currency), Upgraded to A3 STA from Baa1 POS

.... Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)A3 from (P)Baa1

.... Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)A3 from (P)Baa1

.... Subordinate (Foreign Currency), Upgraded to Baa1 from Baa2

.... Subordinate (Local Currency), Upgraded to Baa1 from Baa2

.... Subordinate Medium-Term Note Program (Foreign Currency), Upgraded to (P)Baa1 from (P)Baa2

.... Subordinate Medium-Term Note Program (Local Currency), Upgraded to (P)Baa1 from (P)Baa2

.... Preferred Stock Non-cumulative (Local Currency), Upgraded to Baa3 (hyb) from Ba1 (hyb)

..Affirmations:

.... ST Deposit Note/CD Program (Local Currency), Affirmed P-2

.... ST Issuer Rating (Foreign Currency), Affirmed P-2

.... Other Short Term (Foreign Currency), Affirmed (P)P-2

.... Other Short Term (Local Currency), Affirmed (P)P-2

..Outlook Actions:

....Outlook, Changed To Stable From Positive

Issuer: KBC IFIMA S.A.

..Upgrades:

.... Backed Subordinate (Foreign Currency), Upgraded to Baa1 from Baa2

.... Backed Subordinate Medium-Term Note Program (Local Currency), Upgraded to (P)Baa1 from (P)Baa2

..Affirmations:

.... Backed Senior Unsecured (Foreign Currency), Affirmed A1, outlook changed to STA from POS

.... Backed Senior Unsecured (Local Currency), Affirmed A1, outlook changed to STA from POS

.... Backed Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)A1

.... Backed Other Short Term (Local Currency), Affirmed (P)P-1

..Outlook Actions:

....Outlook, Changed To Stable From Positive

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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