

Ratings On Two Belgium-Based Financial Institutions Affirmed Under Revised Criteria; Outlooks Stable

January 26, 2022

- We have reviewed our ratings on two financial institutions in Belgium under our revised "Financial Institutions Rating Methodology".
- We have affirmed the ratings on these institutions, and the outlooks are unchanged.

Paris (S&P Global Ratings) Jan. 26, 2021--S&P Global Ratings today affirmed its issuer and issue credit ratings on two Belgian financial institutions. The rating actions follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA; see "Financial Institutions Rating Methodology," and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published Dec. 9, 2021, on RatingsDirect). The affirmations include:

- KBC Group N.V. (issuer credit rating [ICR] A-/Stable/A-2) and KBC Bank N.V. (ICR A+/Stable/A-1; resolution counterparty rating [RCR] AA-/A-1+)
- Argenta Spaarbank N.V. (ICR A-/Stable/A-2; RCR A/A-1)

Our outlooks on these financial institutions are unchanged.

In addition, the stand-alone credit profiles (SACPs) or the group SACPs of these financial institutions, and our assessments of the likelihood they will receive extraordinary external support, are unchanged under our revised criteria.

We separately reviewed three other Belgium-based banks. These were Belfius Bank SA/NV (see "Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria," published Dec. 16, 2021), CRELAN S.A., and AXA Bank Belgium (see "AXA Bank Belgium Downgraded To 'BBB+' From 'A-', Off Watch On Acquisition By Crelan; Crelan 'BBB+/A-2' Ratings Affirmed," published Jan. 4, 2022).

Our assessments of economic risk and industry risk in Belgium are also unchanged at '2' and '3', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for both economic risk and industry risk remain stable.

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KBC Group N.V. (Holding Company) And KBC Bank N.V. (Main Operating Bank)

Primary analyst: Philippe Raposo

We affirmed our ratings on KBC Group and KBC Bank. The ratings take into account the group's diversified and efficient business model and good geographical diversification, solid capitalization despite potential mergers and acquisitions (M&A), and sound liquidity profile. Our ratings on the operating bank also factor in the bail-in-able debt capacity built in, which will protect senior debt holders in resolution.

Outlook

The stable outlooks on all KBC group entities reflect our estimates that the group will remain efficient and profitable in the next two years. Moreover, we estimate that credit loss provisions adequately capture future corporate and small and midsize enterprise defaults in the group's markets. We expect the group to display strong and resilient earnings as it leverages its efficient bank-insurance operating model involving the sale of insurance and asset-management products to bank customers, which should help alleviate pressure from the low-interest-rate environment.

Downside scenario: We could lower the ratings on the operating companies if we revise downward our assessment of the group SACP, and this weakening is not offset by higher external support via the bank's buffer of bail-in-able debt. However, a downward revision of the group SACP would lead to a lowering of the holding company ratings. KBC's stand-alone creditworthiness could be pressured if the group departs from prudent capital management, engages in aggressive growth organically or via M&A, or if its risk profile deteriorates. That said, an eventual downward revision of the group SACP could be compensated by a second notch of additional loss absorbing capacity (ALAC) support for the operating companies if KBC sustainably maintains a buffer above 6% of our risk-weighted assets (RWAs).

Upside scenario: We see a remote possibility of an upgrade, since that would require a more diverse business model or substantially lower risk exposure, which is unlikely given the bank's plans to expand in countries that carry higher risk than Belgium.

Ratings Score Snapshot

Issuer Credit Rating: A+/Stable/A-1

Bank Holding Company Rating: A-/Stable/A-2

Group Stand-alone credit profile: a

- Anchor: bbb+
- Business Position: Strong (+1)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and Adequate (0)

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- Comparable Rating Analysis: 0

Support: +1

- ALAC Support: +1

- GRE Support: 0

- Group Support: 0

- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Argenta Spaarbank N.V.

Primary analyst: Letizia Conversano

We affirmed our ratings on Argenta Spaarbank (Argenta). Our assessment is underpinned by Argenta's very strong capitalization and sound funding and liquidity profile. Furthermore, it takes into account the bank's less diversified business model and smaller geographical footprint compared to universal banks that dominate the Belgian and Dutch markets, to which it is primarily exposed. We also consider the bank's ability and willingness to maintain a large buffer of ALAC, which will protect senior creditors in a resolution scenario. Although we expect Argenta to hold a substantial buffer of bail-in-able instruments, exceeding 8% of our projected RWAs in 2022-2023, we cap the ratings uplift to one notch. While the bank's minimum requirement for own funds and eligible liabilities is fully subordinated and sized to enable a theoretical full recapitalization, we are mindful that the primary resolution strategy would likely be a sale of the business, with bail-in representing an alternative option. We see this as adding incremental doubt around the prospects for full and timely payment for all senior preferred creditors, relative to the open bank bail-in targeted for larger banks in Europe.

Outlook

The stable outlook on Argenta reflects our view that the bank will remain focused on revenue diversification, cost efficiency, and digitization, as per its strategic plan. Furthermore, our stable outlook reflects our expectations that Argenta will keep its risk-adjusted capital (RAC) ratio above 15% over the next 18-24 months, as well as a comfortable buffer of bail-in-able instruments.

Downside scenario: We could lower our rating on Argenta if the bank's capitalization weakens (with the RAC ratio falling below 15%), and its business is not resilient to long-term sector challenges such as very low interest rates, the race to digitalize, and increased competition from fintech firms.

Upside scenario: Although remote at this stage, we could raise our rating on Argenta if its resolution strategy evolves to an open-bank bail-in and it maintains an ALAC buffer in excess of 8%. We may also consider an upgrade if it significantly increases its business diversification compared to higher-rated peers.

Ratings Score Snapshot

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

Stand-alone credit profile: bbb+

- Anchor: bbb+
- Business Position: Moderate (-1)
- Capital and Earnings: Very Strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Strong (0)
- Comparable Rating Analysis: 0

Support: +1

- ALAC Support: +1
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Related Criteria

- 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

- AXA Bank Belgium Downgraded To 'BBB+' From 'A-', Off Watch On Acquisition By Crelan; Crelan 'BBB+/A-2' Ratings Affirmed, Jan. 4, 2022
- Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021

Ratings List

***** Argenta Spaarbank N.V. *****

Ratings Affirmed

Argenta Spaarbank N.V.

Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Senior Unsecured	A-
Senior Subordinated	BBB

***** KBC Group N.V. *****

Ratings Affirmed

KBC Group N.V.

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Subordinated	BBB
Junior Subordinated	BB+

KBC Bank N.V.

Issuer Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A+
Resolution Counterparty Rating	AA/--/A-1+
Junior Subordinated	BBB-

KBC Ifima S.A.

Senior Unsecured	A+
Subordinated	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

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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.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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