

Rating Action: Moody's affirms KBC Group and KBC Bank's ratings and changes outlook to stable

28 Nov 2019

Paris, November 28, 2019 -- Moody's Investors Service ("Moody's") today affirmed the Aa3 long-term deposit ratings of KBC Bank N.V. (KBC Bank, or the Bank) and the Baa1 long-term senior unsecured debt and issuer ratings of KBC Group N.V. (KBC Group, or the Group). The rating agency also affirmed the A1 backed senior unsecured debt ratings of KBC IFIMA S.A. (IFIMA), as well as KBC Bank's backed junior subordinated debt rating and KBC Group's non-cumulative preferred stock rating of Baa3(hyb) and Ba1(hyb), respectively. KBC Bank's short-term deposit ratings were also affirmed at Prime-1 and KBC Group's Deposit Note/CD programme was affirmed at Prime-2, as were the Bank's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1. Finally, the rating agency also affirmed the Bank's long-term and short-term Counterparty Risk Rating (CRR) of Aa3 and Prime-1, as well as its Counterparty Risk (CR) Assessment of Aa3(cr) and Prime-1(cr). The outlook on long-term deposit, issuer and senior unsecured debt ratings, where applicable, was changed to stable from positive.

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

Moody's also revised downwards its macro profile for Belgium to Strong+, from Very Strong-, to reflect rising domestic credit risk, resulting from a rapid growth of the Belgian private sector indebtedness (up eight percentage points over the past three years), essentially driven by expanding mortgage loans. This rapid credit growth has been associated with heightened competition among financial institutions and loosening credit standards on mortgages, as recently pointed out by both the European Systemic Risk Board (ESRB) and the National Bank of Belgium (NBB). Belgian banks' exposures to more vulnerable customers has therefore risen, increasing the risk of loss in an economic downturn. Although Moody's has not identified so far any deterioration in KBC's Belgian portfolio, this change in macro profile has a bearing on the Bank's weighted average macro profile and macro-adjusted financial profile, which moved, respectively, to Strong from Strong + and to baa1 from a3.

RATINGS RATIONALE

KBC Bank and KBC Group's long-term deposit, issuer and senior unsecured debt ratings have carried a positive outlook since November 2018, underpinned by Moody's view that the rapid decrease of problem loans was driving a likely improvement of the Bank's financial profile, set against rapid loan growth in Central and East-European (CEE) countries, especially in Czech Republic, which could entail unseasoned risks.

Since November 2018, KBC's outstanding loan amount has continued to grow at a steady pace, especially in Czech Republic and International Markets (Slovakia, Hungary, Bulgaria and Ireland) (12.5% year-on-year, as of June 2019). In addition, potential risks have also appeared in Belgium, relating to Belgian banks' increasing exposures to the real estate sector, heightened competition in a low interest rate environment and loosening credit standards on mortgages. On balance, the resulting unseasoned lending in Czech Republic and rising risks in the Belgian real estate sector offset the further improvements of asset quality at KBC Ireland and elsewhere.

KBC Bank's baa1 BCA also reflects its solid presence in Belgium and CEE countries, which supports its strong earnings power. The Bank also benefits from a strong capitalization, as evidenced by a Common Equity Tier 1 (CET1) ratio of 15.6% as of June 2019 (excluding interim profit), and sound funding and liquidity profiles. KBC Bank's net interest margin is beginning to suffer from the low interest rate environment, especially in Belgium, where re-pricing of deposits has reached a floor, although the Bank also benefits from a good diversification of earnings across geographies and activities (notably in insurance and asset management).

KBC Bank's deposit rating and IFIMA's backed senior unsecured debt rating benefit from an extremely low and very low loss-given-failure, leading to a three-notch and two-notch uplift, respectively, from the Bank's Adjusted BCA. Both ratings also reflect the moderate likelihood of support from the Belgian government, owing to KBC Bank's systemic nature in Belgium, which leads to an additional notch of uplift from the Bank's Adjusted BCA. KBC Group's senior unsecured debt rating benefits from a moderate loss-given-failure and a low probability of

government support, leading to no uplift from the Bank's Adjusted BCA.

OUTLOOK

The stable outlook of KBC Bank, IFIMA and KBC Group's long-term deposit, issuer and senior unsecured debt ratings, where applicable, reflects Moody's expectation that KBC Bank's asset risk and capital will stabilize at current levels over the outlook horizon, while profitability, although declining, will continue to be supported by a diversified earnings base.

WHAT COULD CHANGE RATINGS UP/DOWN

An upgrade of KBC Bank, IFIMA and KBC Group's long-term ratings could result from (1) significantly improved regulatory capital and asset risk ratios at the Group level; or (2) substantial issuance of senior debt by KBC Group, adding subordination in favor of KBC Bank's and IFIMA's senior creditors and debt volume benefiting KBC Group's senior creditors.

A downgrade of KBC Bank's BCA could be driven by (1) reduced profitability should both fees and net interest income decline; (2) reduced regulatory capital ratios at the Bank and Group levels, owing for example to a more aggressive earnings distribution, lending growth or acquisitions; and (3) a deterioration of asset quality.

A downgrade of KBC Bank's BCA would typically result in a downgrade of the long-term ratings of KBC Bank, IFIMA and KBC Group. These ratings could also be downgraded if there is a significant and sustained decrease in the debt loss-absorption capacity, resulting in higher loss-given-failure for one or more instrument classes.

LIST OF AFFECTED RATINGS

Issuer: KBC Bank N.V.

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Aa3

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Bank Deposits, affirmed Aa3, outlook changed to Stable from Positive

....Short-term Bank Deposits, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Baseline Credit Assessment, affirmed baa1

....Adjusted Baseline Credit Assessment, affirmed baa1

....Backed Junior Subordinated Regular Bond/Debenture, affirmed Baa3(hyb)

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: KBC Group N.V.

..Affirmations:

....Short-term Deposit Note/CD Program, affirmed P-2

....Long-term Issuer Rating, affirmed Baa1, outlook changed to Stable from Positive

....Short-term Issuer Rating, affirmed P-2

....Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook changed to Stable from Positive

....Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Preferred Stock Non-cumulative, affirmed Ba1(hyb)

...Other Short Term, affirmed (P)P-2

..Outlook Action:

...Outlook changed to Stable from Positive

Issuer: KBC Bank N.V., Succursale Francaise

..Affirmations:

...Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Long-term Counterparty Risk Ratings, affirmed Aa3

...Short-term Counterparty Risk Ratings, affirmed P-1

...Short-term Deposit Note/CD Program, affirmed P-1

..No Outlook assigned

Issuer: KBC IFIMA S.A.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Stable from Positive

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A1

...Backed Subordinate Regular Bond/Debenture, affirmed Baa2

...Backed Subordinate Medium-Term Note Program, affirmed (P)Baa2

...Backed Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook changed to Stable from Positive

Issuer: Kredietbank North American Finance Corp

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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