MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms KBC Group, KBC Bank and KBC Bank Ireland's ratings and changes outlook on their long-term ratings to positive

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Paris, November 19, 2018 -- Moody's Investors Service ("Moody's") today affirmed the Aa3 long-term deposit-rating of KBC Bank N.V. (KBC Bank) and the Baa1 long-term senior unsecured debt and issuer ratings of KBC Group N.V. (KBC Group). The rating agency also affirmed the A1 backed senior unsecured debt rating 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 outlooks on long-term deposit, issuer and senior unsecured debt ratings, where applicable, were changed to positive from stable.

As part of the same action, Moody's also upgraded the BCA of KBC Bank Ireland PLC (KBCI) to b2 from b3, and affirmed its adjusted BCA of ba1, its long-term deposit rating of Ba1 and short-term deposit rating of Not Prime. The rating agency also affirmed KBCI's long-term CRR of Baa2, short-term CRR of Prime-2 and CR Assessment of Baa1(cr)/Prime-2(cr). As for its parent KBC Bank, Moody's changed the outlook on KBCI's long-term deposit rating to positive from stable.

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

RATINGS RATIONALE

1. KBCI

The upgrade of KBCI's BCA primarily reflects the bank's improved asset risk profile following a decrease in its stock of problem loans. On 9 August 2018, the bank announced an agreement to sell a problem loan portfolio with a par value of €1.9 billion, which will bring the bank's problem loan ratio to around 25% from around 35% at end-2017. Moody's expects KBCI's asset quality to continue to improve in the near term thanks to the benign operating environment and rising real estate prices in Ireland, but the agency expects the stock of problem loans to remain high in absence of further disposal transactions. The upgrade of KBCI's BCA also reflects stronger capital ratios following the bank's ongoing deleveraging, with the reported CET1 ratio improving to 14.4% at end-June 2018 from 12.6% at end-2016. Capital remains vulnerable to stresses given the still high stock of non-performing loans, but Moody's expects that improving asset quality, stronger profitability, and further deleveraging will lead to stronger loss-absorption capacity in the short-to-medium term.

KBCI's Adjusted BCA of ba1 is based on Moody's assessment of a very high probability of affiliate support from KBC Bank which leads to a four-notch uplift from its BCA of b2. This assessment is supported by the track record from the parent bank of providing support through capital injections and funding.

KBCI' deposits are likely to face moderate loss-given-failure driven by (1) the modest amount of junior deposits, and (2) the absence of junior debt instruments in the liability structure which would otherwise provide deposits with a cushion against losses. This results in no uplift from the bank's Adjusted BCA.

In Moody's view, the Irish government is unlikely to extend support to KBCI, which is reflected in the assigned low level of government support. As a result, Moody's has not incorporated any additional uplift for government support, leading to an assigned long-term deposit rating of Ba1.

2. KBC Bank, IFIMA and KBC Group

As a result of the sale of part of its Irish loan book, KBC Bank's asset risk profile improved, with a non-performing loan (NPL) ratio estimated at 4.5% pro-forma, down from 5.5% before the transaction, at end-September 2018. Moody's does not expect KBC Bank's NPL ratio to decrease materially below that level, absent any further asset disposals in its Irish subsidiary. On the other hand, the rating agency acknowledges the rapid and above-market-average loan growth in the bank's corporate portfolio and in international markets, especially in the Czech Republic. These developments reduce uncertainties over the bank's overall asset risk trend. Although the bank's credit costs have been very low in the past years (with net provision write-backs in 2017 and first nine months of 2018), fast-growing activities in corporate markets and Eastern Europe may entail new risks, which could partly offset the decrease of asset risk in its Irish subsidiary. The positive outlook assigned to KBC Bank's deposit rating, IFIMA's backed senior unsecured debt rating and KBC Group's senior unsecured debt rating reflects Moody's view that, over the next 12-18 months, asset risk improvement stemming from its Irish subsidiary will supersede other developments and may eventually lead to an upgrade of KBC Bank's baa1 BCA and Adjusted BCA.

KBC Bank's baa1 BCA also reflects its solid presence in Belgium and Central and Eastern European (CEE) countries, which supports its strong earnings power. The bank also benefits from strong capitalization, as evidenced by a Common Equity Tier 1 (CET1) ratio of 16% (Basel III fully loaded) as of end-September 2018, and sound funding and liquidity profiles. As at many other European banks, KBC Bank's net interest margins are suffering from the low interest rate environment, especially in Belgium, where re-pricing of deposits has reached a floor.

KBC Bank's deposit rating and IFIMA's backed senior unsecured debt rating benefit from 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 presence in Belgium; which leads to an additional one-notch 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 positive outlooks assigned to KBC Bank, IFIMA and KBC Group's long-term deposit, issuer and senior unsecured debt ratings, where applicable, reflect Moody's expectation that KBC Bank's asset risk will continue to improve, despite rapid loan growth in corporate sector and CEE countries. The positive outlook assigned to KBCI's long-term deposit rating reflects the positive outlook assigned to its parent.

WHAT COULD CHANGE RATINGS UP/DOWN

KBCI's long-term deposit ratings could be upgraded as a result of (1) an upgrade of its standalone BCA owing to further improvements of asset risk and/or a sustainable increase of profitability, (2) an upgrade of KBC Bank's BCA or (3) a significant increase in the bank's bail-in-able debt together with a decrease in the bank's tangible banking assets.

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 bank level; or (2) substantial issuance of senior debt by KBC Group, adding sustainable subordination in favor of KBC Bank's and IFIMA's senior creditors and volume benefiting KBC Group's senior creditors.

KBCI's ratings could be downgraded as a result of (1) a downgrade of its standalone BCA or (2) a reduction in the likelihood of support from the parent. KBCI's BCA could be downgraded as a result of a significant deterioration in the bank's capital level, a reversal in the improving profitability trend, or a deterioration in asset quality and provisioning coverage.

A downgrade of KBC Bank's BCA could occur as a result of (1) reduced profitability should both fees and net interest income decline; (2) reduced regulatory capital ratios at the bank and group levels, owing to a switch towards a more aggressive financial policy in terms of dividends, 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 sustainable 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 Group N.V.

..Affirmations:

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

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

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

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

....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 Positive from Stable

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 Positive from Stable

....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 Positive from Stable

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 Positive from Stable

....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 Positive from Stable

Issuer: Kredietbank North American Finance Corp

..Affirmation:

....Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: KBC Bank Ireland PLC

..Upgrade:

....Baseline Credit Assessment, upgraded to b2 from b3

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa2

....Short-term Counterparty Risk Ratings, affirmed P-2

....Long-term Bank Deposits, affirmed Ba1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed NP

....Long-term Counterparty Risk Assessment, affirmed Baa1(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Adjusted Baseline Credit Assessment, affirmed ba1

....Backed Commercial Paper, affirmed P-1

..Outlook Action:

....Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Items color coded in purple in this Press Release relate to unsolicited ratings for a rated entity which is non-participating.

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