Creditreform Bank Rating
KBC Group NV (Group) as parent of
KBC Bank NV

Creditreform Rating
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Rating object	Rating information		
KBC Group NV (Group) as parent of KBC Bank NV	**Long Term Issuer Rating / Outlook:** A / Stable		**Short Term:** L2
	Rating of Bank Capital and Unsecured Debt Instruments:		
	Senior Unsecured A-	Tier 2 BBB-	Additional Tier 1 BB+

Creditreform ID (subsidiary):	0462920226
Incorporation (subsidiary):	1935
(Main-) Industry:	Banks
Management (subsidiary):	Johan Thijs (CEO) Hendrik Scheerlinck (CFO)

Rating Date:	**04 December 2018**
Monitoring until:	withdrawal of the rating
Rating Type:	**unsolicited**
Rating Methodology:	bank ratings; rating of bank capital and unsecured debt instruments

Our rating of KBC Bank NV is reflected by our rating opinion of KBC Group NV (Group) due to its group structure. Therefore we refer to our rating report of KBC Group NV (Group) from 12 June 2018:

Contents

Analysts

Daniel Keller
d.keller@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Neuss, Germany

SWOT Analysis

Strengths

+ Convincing earnings figures
+ Adequate capitalization
+ Diversified business model, by business activities and by geography
+ Solid capitalization
+ Largest financial Institute in Belgium

Weaknesses

- Relatively high NPL ratio
- Moderate growth opportunities in its core market Belgium
- Weak asset quality
- Need for state aid in the past

Opportunities / Threats

+ Improving asset quality as a result of improving economic conditions
+ Continued growth in Eastern Europe

+/- Digital transformation of the banking business

- Low interest rate environment puts pressure on the Group’s interest income
- Increasing banking regulation leads to rising costs

Company Overview

KBC Group NV (hereafter: KBC) is an integrated bank insurance group created in 1998 by the merger of two Belgian banks (Kredietbank and CERA Bank) and a Belgian insurance company (ABB Insurance) with headquarters in Brussels. The Group is a non-operating holding company of its insurance and banking activities and is the single point of entry in a resolution scenario for the Group. KBC's most significant asset is its bank KBC Bank NV (€256 bn assets). The bank is recognized as an "other systemically important institution" (O-SII) and must therefore comply with additional regulatory requirements. With 37.130 employees (average of 2017 - full-time equivalents) and 1,521 bank branches, KBC serves approximately 11 million customers and had total assets of €292 billion in 2017.

In 2015 KBC completed the repayment of state aid in the total amount of € 7 billion from the Belgian Federal and Flemish Regional governments received in 2008 and 2009 to strengthen its capital base. Moreover, KBC met all structural requirements made by the European Commission (EC), including a restructuring/divesting program to reduce the Groups risk profile, which means that the behavioral measures of the EC no longer apply.

KBC acts as a bank insurance group in its core markets Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. In addition, KBC is represented to a limited extent in several other countries in order to support its corporate clients. The focus of the Group is the retail and private banking business, as well as business activities with small and medium sized enterprises and mid-cap clients. The Group is divided into three business units and the *Group Centre*. The Group's *Belgium Business Unit* includes all activities such as banking business, insurance business and the asset management business in Belgium, whereas the *Czech Republic Business Unit* includes all of the Group's activities in the Czech Republic. By contrast, the *International Markets Business Unit* comprises the Group's activities in Ireland, Hungary, Slovakia and Bulgaria. KBC's *Group Centre*, however, comprises the Group's capital and liquidity management, as well as the funding of the Group and other administrative activities.

See Chart 1 for the contributions of each business unit to KBC's net profit (€2.575 billion).

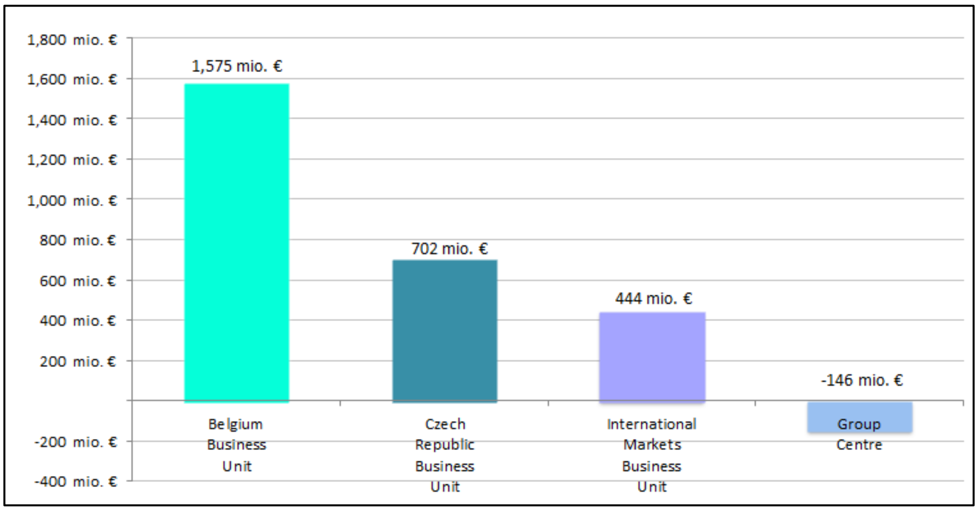

Chart 1: Net profit of each business unit of KBC
(Source: Annual Report 2017 of KBC)

The shareholder structure of KBC is as follows:

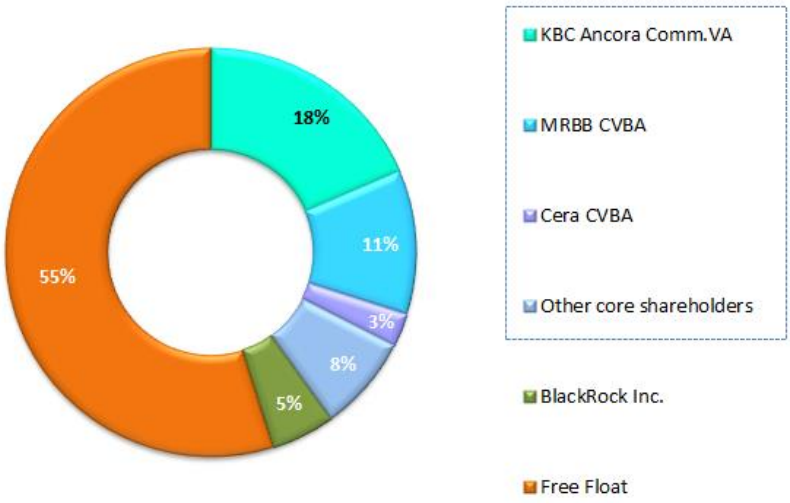

Chart 2: Shareholder structure of KBC on 31.12.2017
(Source: Own presentation based on data of Annual Report 2017 of KBC)

The shareholders of KBC are composed of 40% core shareholders (KBC Ancora, MRBB, Cera and other core shareholders) and 60% free float, whereby BlackRock Inc. is the most significant shareholder among the non-core shareholders. KBC concluded a shareholder agreement between these core shareholders in order to ensure shareholder stability and guarantee continuity within the Group, as well as to support and coordinate its general policy. KBC's core shareholders act in concert at the General Meeting of the Group and are represented on its Board.

On 13 June 2017, KBC acquired 99.91% of the United Bulgarian Bank AD (UBB) and 100% of Interlease EAD in Bulgaria for a total amount of €609 million. KBC aims through this takeover to become active in leasing, asset management and factoring in Bulgaria. The main subsidiaries and investments of KBC can be found in the following Chart 3:

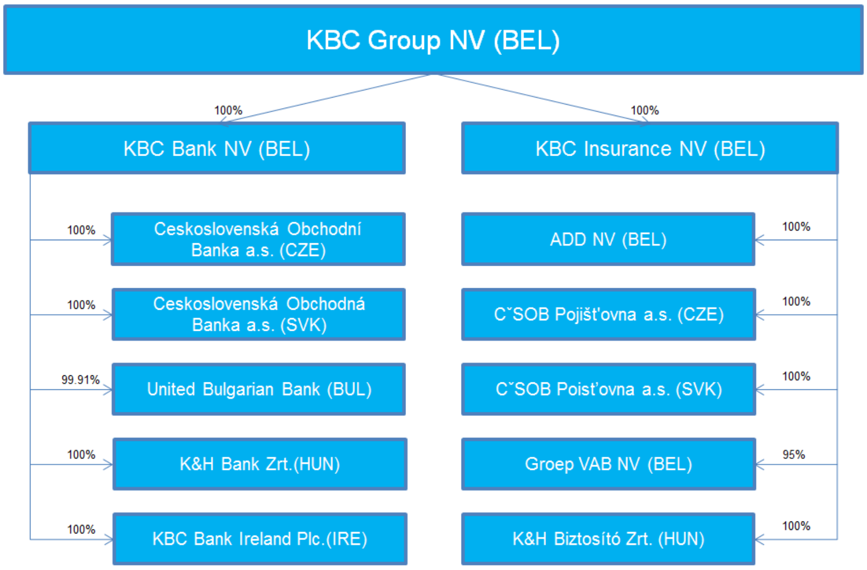

Chart 3: Main subsidiaries and investments of KBC at year-end 2017
(Source: Own presentation based on data of Annual Report 2017 of KBC)

Business Development

Profitability

KBC's operating income amounted to €7.7 billion in 2017, increasing by 7.6% in a year-over-year comparison (€542 million). Net interest income contributed 53.5% to KBC's operating income, declining by 3.2% compared to the previous year (€137 million). The reduction is a result of reduced interest income, in particular in the *Belgium Business Unit* (€307 million) YOY, which could only partially be offset by increased interest income in KBC's international business units. Net fee and commission income accounted for 22.2% of the Group's operating income, increasing by 17.7% YOY (€257 million) due to a significant increase in KBC's fee and commission income from asset management services (€219 million), and to a smaller extent due to increased income from banking services (€46 million). Net trading income contributed the lowest share of the three main drivers of operating income, accounting for 13.8%, but increasing significantly by 68.7% YOY and over the previous years in general. The increase is a result of a considerable increase in gains on foreign exchange trading, in particular in the business units in Belgium and the Czech Republic and - to a lesser extent - the positive impact of various market value adjustments.
By contrast, net insurance income contributed 8.3% to KBC's operating income, increasing by 40.4% YOY (€184 million). This development is, among others, due to the positive impact of the reduction in technical charges in the life insurance business as a result of the release of a specific life insurance provision in Belgium. However, KBC notices a strong decline in its earnings premiums in its life insurance business YOY. Moreover, the non-life insurance business is the reason for the positive result of KBC's insurance business.

Operating expenses amounted to €4.074 billion in 2017, increasing by 4% in a year-over-year comparison (€159 million). Personnel expenses, accounting for 56.5% of operating expenses in 2017, increased slightly by 2.3% YOY (€51 million) due to KBC's expansion and an increase in its number of employees. KBC's other expenses increased by 6.3% YOY (€89 million) and comprise special bank taxes in various countries (2017: €439 million; 2016: €437 million). However, KBC does not provide any detailed information about its remaining *General Administrative Expenses*, which increased YOY by €56 million.

KBC's pre-impairment operating profit amounted to €3.6 billion in the fiscal year 2017; however, the Group recorded write-ups in 2017 which amounted to €30 million. These write-ups are a result of net reversals of impairments charges on loans and advances, most relevant in Ireland in a total amount of €215 million, but also to a minor extent in its other international business units. After deduction of taxes and non-recurring events, operating net profit increased by 6% YOY at a total amount of €2.575 billion in 2017.

Considering KBC's first quarter results in 2018, the Group shows stable development in its net interest income as well as in its net fee and commission income, while trading income is less favorable in comparison to its first quarter in 2017.

A detailed group income statement for the years 2014 – 2017 is shown in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	4,308,000	62.0%	4,311,000	59.2%	4,258,000	59.5%	4,121,000	53.5%
Net Fee & Commission Income	1,573,000	22.6%	1,678,000	23.1%	1,450,000	20.3%	1,707,000	22.2%
Net Insurance Income	312,000	4.5%	381,000	5.2%	455,000	6.4%	639,000	8.3%
Net Trading Income	381,000	5.5%	560,000	7.7%	629,000	8.8%	1,061,000	13.8%
Equity Accounted Results	25,000	0.4%	24,000	0.3%	27,000	0.4%	11,000	0.1%
Dividends from Equity Instruments	56,000	0.8%	75,000	1.0%	77,000	1.1%	63,000	0.8%
Rental Revenue	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Lease and Rental Revenue	87,000	1.3%	81,000	1.1%	78,000	1.1%	73,000	0.9%
Other Income	203,000	2.9%	164,000	2.3%	181,000	2.5%	21,000	0.3%
Operating Income	**6,945,000**	**100%**	**7,276,000**	**100%**	**7,155,000**	**100%**	**7,697,000**	**100%**
Expenses (€000)								
Depreciation and Amortisation	266,000	7.0%	253,000	6.5%	246,000	6.3%	266,000	6.5%
Personnel Expense	2,248,000	58.9%	2,245,000	57.7%	2,252,000	57.5%	2,303,000	56.5%
Occupancy & Equipment	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tech & Communications Expense	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Marketing and Promotion Expense	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Provisions	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Expense	1,303,000	34.1%	1,392,000	35.8%	1,416,000	36.2%	1,505,000	36.9%
Operating Expense	**3,818,000**	**100%**	**3,890,000**	**100%**	**3,915,000**	**100%**	**4,074,000**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**3,127,000**		**3,386,000**		**3,240,000**		**3,623,000**	
Asset Writedowns	506,000		405,000		201,000		-30,000	
Net Income (€000)								
Non-recurring Revenue	31,000		52,000		99,000		19,000	
Non-recurring Expense	231,000		498,000		49,000		5,000	
Pre-tax Profit	**2,420,000**		**2,535,000**		**3,090,000**		**3,667,000**	
Income Tax Expense	657,000	27.1%	-104,000	-4.1%	662,000	21.4%	1,093,000	29.8%
Discontinued Operations	0		0		0		0	
Net Profit	**1,763,000**		**2,639,000**		**2,428,000**		**2,575,000**	

Figure 1: Group income statement
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

Despite the stable growth of KBC's net profit in 2017, the Group's earnings figures deteriorated slightly in comparison to the previous year as a result of increased total assets, respectively risk-weighted assets. Nonetheless, the Group shows very sound earnings figures. KBC's ROAA, as well as its ROAE, declined in a year-over-year comparison. Nevertheless, KBC ratios are clearly more favorable than the average of the peer group. In addition, the Group was able to improve its RORWA, even though it's already significant above the average of the peer group. The peer group, however, was able to gain some ground. By contrast, KBC's net interest margin dropped by 0.21 percentage points YOY and is now just in line with the average of the peer group. The Group's cost-income ratios are both more favorable than those of the peer group on average; however, the peer group was again able to catch up slightly.
KBC's earnings ratios are the best performers in any of the areas analyzed.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.71	0.30	1.03	0.32	0.92	-0.11	0.88	-0.03
Return on Equity (ROAE)	11.16	4.53	15.55	4.39	14.92	-0.63	14.22	-0.71
RoRWA	1.93	NA	3.04	1.11	2.76	-0.28	2.86	0.11
Net Interest Margin	1.81	0.11	1.74	-0.07	1.66	-0.08	1.46	-0.21
Cost income Ratio ex. Trading	58.17	-3.97	57.92	-0.24	59.99	2.07	61.39	1.40
Cost income Ratio	54.97	3.58	53.46	-1.51	54.72	1.25	52.93	-1.79
Change in %-Points								

Figure 2: Group key earnings figures
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

Asset Situation and Asset Quality

KBC's financial assets accounted for 97% of total assets, increasing by 6.4% YOY (€17.2 billion). Net loans to customers represented the largest share of assets, accounting for 48.4% and increasing by 6.2% YOY (€8.27 billion). The increase is attributable on one hand to the acquisition of the United Bulgarian Bank and Interlease EAD (in the total amount of €1.97 billion), and on the other to a 3% increase in loans in the Belgium Business Unit, 8% in the Czech Republic Business Unit, and 13% in the International Markets Business Unit. Mortgage loans contributed 42.8% to KBC's net loans to customers. Total securities, as the second largest asset, represented 30.3% of KBC's total assets, decreasing by 7.9% YOY (€7.6 billion). The reduction is mainly attributable to reduced debt instruments from public governments (-€3.5 billion) and a lower amount of derivatives (-€2.65 billion) in a year-over-year comparison. In general, 59% of KBC's total securities are debt instruments issued by public authorities, whereby the most important are Belgium, the Czech Republic, and France. The position of 'cash and balances with central banks' increased by €9 billion (YOY) to a total amount of €29.7 billion. Moreover, KBC increased its net loans to banks by 44.4% YOY (€7.5 billion) primarily as a result of a higher amount of reverse repos.

The Group's total assets amounted to 292.3 billion in 2017, increasing by 6.2% YOY (€17.1 billion).

The development of KBC's assets for the years 2014 - 2017 is shown in detail in the following:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	5,771,000	2.4%	7,038,000	2.8%	20,686,000	7.5%	29,727,000	10.2%
Net Loans to Banks	12,590,000	5.1%	13,631,000	5.4%	16,929,000	6.2%	24,450,000	8.4%
Net Loans to Customers	124,551,000	50.8%	128,223,000	50.8%	133,231,000	48.4%	141,502,000	48.4%
Total Securities	94,449,000	38.5%	95,596,000	37.9%	96,340,000	35.0%	88,722,000	30.3%
Financial Assets	**237,360,000**	**97%**	**244,489,000**	**97%**	**267,186,000**	**97%**	**284,402,000**	**97%**
Equity Accounted Investments	204,000	0.1%	207,000	0.1%	212,000	0.1%	240,000	0.1%
Other Investments	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Insurance Assets	194,000	0.1%	127,000	0.1%	110,000	0.0%	131,000	0.0%
Non-current Assets HFS & Discontinued Ops	18,000	0.0%	15,000	0.0%	8,000	0.0%	21,000	0.0%
Tangible and Intangible Assets	4,104,000	1.7%	3,696,000	1.5%	3,876,000	1.4%	4,411,000	1.5%
Tax Assets	1,814,000	0.7%	2,336,000	0.9%	2,312,000	0.8%	1,625,000	0.6%
Total Other Assets	1,480,000	0.6%	1,487,000	0.6%	1,496,000	0.5%	1,512,000	0.5%
Total Assets	**245,174,000**	**100%**	**252,356,000**	**100%**	**275,200,000**	**100%**	**292,342,000**	**100%**

Figure 3: Development of assets
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

Despite the improvement in KBC's asset quality, the Group's asset quality figures are still below the average of the peer group; however, KBC has consistently been able to reduce its relatively high stock of NPLs in recent years.

The NPL ratio of 6.49%, as well as the NPL / RWA ratio of 9.99%, remain significantly less favorable in comparison with the peer group. However, KBC was able to improve both ratios YOY, both in recent years and in general. A continuous reduction of KBC's stock of NPL's will enable the Group to catch up to its competitors, whereby KBC may additionally benefit from favorable economic conditions in its core markets. By contrast, KBC's potential problem loans / NPL ratio outperforms the peer group. Considering the Group's reserves / impaired loans ratio, KBC's ratio is below the peer group average. Thus the peer group shows a more prudent approach in this respect. The Group's net write-offs / risk-adjusted assets ratio increased dramatically YOY by 0.65 percentage points and is now significantly higher than the average of the peer group. By comparison, the Group's RWA ratio is noticeably lower than those of its competitors, despite the increase in KBC's nominal risk-weighted assets, which comes as a result of the consolidation of the acquisitions of United Bank Bulgaria and Interlease.

In general, KBC will catch up to its competitors in its asset quality figures in the foreseeable future if the Group continues to reduce its stock of NPLs, and if economic conditions remain favorable in the Group's core markets.

KBC's asset quality figures are the least favorable performers of all the areas analyzed.

The development of asset quality figures in the years 2014 - 2017 is detailed as follows:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non-Performing Loans (NPL) / Loans	11.11	-0.55	9.63	-1.49	7.95	-1.68	6.49	-1.45
NPL / RWA	15.49	NA	14.09	-1.40	12.18	-1.91	9.99	-2.19
Potential Problem Loans / NPL	7.46	-2.72	12.03	4.58	14.72	2.69	13.99	-0.74
Reserves / Impaired Loans	42.37	2.14	45.70	3.33	48.13	2.44	44.18	-3.96
Net Write-offs / Risk-adjusted Assets	NA	NA	0.57	NA	0.72	0.15	1.38	0.65
Risk-weighted Assets/ Assets	36.05	NA	34.61	-1.44	31.57	-3.04	31.46	-0.11
Change in %-Points								

Figure 4: Development of asset quality
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

Refinancing and Capital Quality

KBC's financial liabilities accounted for 92% of total liabilities in 2017, increasing by 7.1% YOY (€16.7 billion). Total deposits from customers represent the largest share of the Group's liabilities with 55.8%, increasing by 7.8% YOY (€11.05 billion). On one hand, KBC has seen considerable growth in customer deposits in all if its business units (Belgium Business Unit: +6%, Czech Republic Business Unit: 9%, International Markets Business Unit excl. UBB/Interlease: 7%), however on the other this growth is partly attributable to the acquisition of UBB/Interlease. KBC's deposit structure is as follows: 48.2% are on demand deposits while 37.1% are attributable to savings accounts. Total debt, accounting for 15.1% of KBC's liabilities, increased by 14.4% YOY (€5.2 billion) and consists primarily of senior debt (€37.7 billion).
Total deposits from banks, however, correspond to 12.2% of KBC's liabilities, increasing by 4.1% YOY (€1.3 billion). The increase in this position in 2016 is related to increased activities in repurchase agreements (+€8.3 billion) and KBC's participation in the targeted long-term refinancing operations (TLTRO II) of the ECB (2016: 4.2 billion; 2017: 2.3 billion). Derivative liabilities, accounting for 2.6% of KBC's liabilities, decreased by €2.17 billion YOY and consist primarily out of interest rate hedges.

By contrast, KBC's insurance liabilities consist primarily out of technical provisions (before reinsurance). The drop in KBC's total equity in 2015 is mainly a result of the repayment of the remaining Flemish government aid in the amount of €3 billion.

The development of refinancing and capitalization in the years 2014 - 2017 is detailed as follows:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	17,692,000	7.7%	18,953,000	8.0%	32,020,000	12.4%	33,337,000	12.2%
Total Deposits from Customers	136,237,000	59.6%	144,831,000	61.2%	141,686,000	55.0%	152,739,000	55.8%
Total Debt	25,546,000	11.2%	25,278,000	10.7%	36,044,000	14.0%	41,227,000	15.1%
Derivative Liabilities	11,377,000	5.0%	9,849,000	4.2%	9,242,000	3.6%	7,066,000	2.6%
Securities Sold, not yet Purchased	325,000	0.1%	415,000	0.2%	665,000	0.3%	905,000	0.3%
Other Financial Liabilities	14,657,000	6.4%	14,179,000	6.0%	14,848,000	5.8%	15,899,000	5.8%
Total Financial Liabilities	**205,833,000**	**90%**	**213,504,000**	**90%**	**234,504,000**	**91%**	**251,174,000**	**92%**
Insurance Liabilities	18,934,000	8.3%	19,532,000	8.3%	19,657,000	7.6%	18,641,000	6.8%
Non-current Liab. HFS & Discontinued Ops	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unit-Linked Insurance and Investment Contr.	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tax Liabilities	697,000	0.3%	658,000	0.3%	681,000	0.3%	582,000	0.2%
Non-current Asset Retirement Obligations	657,000	0.3%	371,000	0.2%	705,000	0.3%	625,000	0.2%
Other Provisions	560,000	0.2%	310,000	0.1%	238,000	0.1%	399,000	0.1%
Total Other Liabilities	1,972,000	0.9%	2,170,000	0.9%	2,058,000	0.8%	2,118,000	0.8%
Total Liabilities	**228,652,000**	**93.3%**	**236,545,000**	**93.7%**	**257,843,000**	**93.7%**	**273,540,000**	**93.6%**
Total Equity	**16,521,000**	**6.7%**	**15,811,000**	**6.3%**	**17,357,000**	**6.3%**	**18,803,000**	**6.4%**
Total Passiva	**245,174,000**	**100%**	**252,356,000**	**100%**	**275,200,000**	**100%**	**292,342,000**	**100%**
Deposits from Customers Growth*	3.43	NA	6.31	2.88	-2.17	-8.48	7.80	9.97
Change in %-Points								

Figure 5: Development of refinancing and capital adequacy
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

KBC's CET1 and the Tier 1 ratio improved in comparison to the previous year; however, the peer group was able to improve more dramatically in these ratios. Nonetheless, KBC's ratios are still more favorable. Despite the nominal increase of KBC's total capital, the Group recorded a decrease in its total capital ratio of 0.23 percentage points YOY due to a relatively strong increase of the Group's risk-weighted assets. Moreover, the peer group was able to catch up in this ratio. Hence, KBC's total capital ratio is now just in line with the average of the peer group.

In addition, the Group's leverage ratio declined slightly over the past years; however, it is now just in line with the average of the peer group, as the peer group was able to make gains in recent years. By contrast, KBC's fully-loaded regulatory capital ratios are considerably better than those of its competitors on average. The total equity / total assets ratio is just in line with the average of the competitors. However, the peer group was able to improve in this ratio more dramatically YOY.

The development of capital ratios for the 2014 - 2017 is detailed as follows:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	16,722,780	NA	17,305,270	3.48	17,887,214	3.36	18,725,041	4.68
Total Risk-weighted Assets	88,382,068	NA	87,331,000	-1.19	86,878,000	-0.52	91,972,155	5.86
Capital Ratios (%)								
Core Tier 1 Ratio	14.35	NA	15.16	0.81	16.15	0.99	16.45	0.30
Tier 1 Ratio	15.99	NA	16.82	0.83	17.81	0.99	17.99	0.18
Total Capital Ratio	18.92	NA	19.82	0.89	20.59	0.77	20.36	-0.23
Leverage Ratio	6.39	NA	6.27	-0.12	6.07	-0.20	6.06	-0.01
Fully Loaded: Common Equity Tier 1 Ratio	14.33	NA	14.87	0.54	15.82	0.95	16.34	0.53
Fully Loaded: Tier 1 Ratio	15.87	NA	16.44	0.58	17.41	0.97	17.86	0.45
Fully Loaded: Risk-weighted Capital Ratio	18.29	NA	19.01	0.72	20.02	1.00	20.24	0.23
Total Equity/ Total Assets	6.74	0.66	6.27	-0.47	6.31	0.04	6.43	0.12
Change in %-Points								

Figure 6: Development of capital ratios
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

Due to KBC's bank capital and debt structure, the Group's senior unsecured debt instruments have been notched down by one notch in comparison to the long-term issuer rating. However, KBC's Tier 2 capital rating is four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Liquidity

The Group's liquidity coverage ratio remained roughly unchanged year-over-year and is just in line with the average of the peer group. However, the peer group improved significantly in this ratio YOY.

KBC's interbank ratio increased by 20.47 percentage points YOY as a result of KBC's increased net loans to banks, and is just in line with the average of the peer group.

The loan-to-deposit ratio of the Group has remained at a stable level over recent years, reflecting the balanced approach of the Group. However, the ratio of the Group is below the peer group average.

The development of the liquidity ratios for the years 2014 - 2017 is shown in detail as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	120.06	-10.94	127.32	7.26	138.85	11.53	138.68	-0.18
Interbank Ratio	71.16	-39.35	71.92	0.76	52.87	-19.05	73.34	20.47
Loan to Deposit (LTD)	91.42	0.04	88.53	-2.89	94.03	5.50	92.64	-1.39
Change in %-Points								

Figure 7: Development of liquidity
(Source: Based on data of S&P Global Market Intelligence as of 12 June 2018)

Conclusion

Overall, KBC recorded considerable growth and showed convincing performance in the fiscal year 2017; however, the Group's asset quality remains unsatisfactory despite the improvements in recent years, as KBC still faces its legacy issues in its loan portfolio.

Despite the low interest environment in Europe, KBC recorded strong earnings figures in 2017, as well as in recent years in general. The complete repayment of state aid enables the Group to record solid earnings in both the present and in upcoming years. In addition, KBC benefits from the improved economic conditions in its core markets, which even allowed the Group to record write-ups. Moreover, KBC will benefit from the planned changes in the Belgian tax system from 2018 onwards. Additionally, the Group displays diversified income sources and shows in particular a considerable income from fees and commission. The growth in 2017 was driven by its acquisitions on one hand, but on the other by solid growth in its core markets.

Despite the continuous reduction of its NPL stock, the Group still deals with its legacy issues in its loan portfolio especially in Ireland, which has a significant negative impact on KBC's asset quality. Thus, the asset quality figures are the least favorable performers of the Group. However, if KBC will continue to improve in this area, it will catch up to its competitors. By contrast, the (geographically) diversified business model of the Group is convincing and has a positive impact on the Group's creditworthiness.

On the liabilities side, KBC achieved impressive growth in its deposits from customers. Moreover, the Group benefits from its stable and diversified funding base. The Group complies with all regulatory capital requirements and is on average above the peer group in its capital ratios. In addition, the repaid state aid sets funds free to continuously improve KBC's regulatory capital ratios in the upcoming year. Furthermore, the liquidity situation of the Group is satisfactory.

In the near future, growing regulations, ongoing digitization, as well as the low-interest rate environment in the EU pose a general challenge for the banking landscape. Notwithstanding, an interest rate reversal is becoming more likely, as well as the termination of the ECB bond-buying program. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest-rate adjustment risk for banks, which have adjusted to long-term low-interest rates.

In a scenario analysis, the rating developed slightly better in the "best case" scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **A / L2 / Stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Senior unsecured debt: **A-**
Tier 2 (T2): **BBB-**
Additional Tier 1 (AT1): **BB+**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	04.12.2018	12.12.2018	A- / BBB- / BB+

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	04.12.2018	12.12.2018	A / Stable / L2

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on data of the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence as of 12 June 2018. Subject to a peer group analysis were 40 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document "Rating Criteria and Definitions".

On 04 December 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to KBC Bank NV and the preliminary rating report was made available to it. There was no change in the rating score.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration, Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522