

FITCH AFFIRMS KBC VERZEKERINGEN & KBC GROUP RE IFS AT 'A-'/STABLE

Fitch Ratings-London-27 October 2015: Fitch Ratings has affirmed KBC Verzekeringen's and KBC Group Re's Insurer Financial Strength (IFS) ratings at 'A-'. KBC Verzekeringen's Long-Term Issuer Default Rating (IDR) has also been affirmed at 'A-'. The Outlooks on the IDR and IFS ratings are Stable.

KEY RATING DRIVERS

The ratings reflect KBC Verzekeringen and KBC Group Re's core strategic importance within KBC Group (IDR: A-/Stable), given the group's integrated bancassurance business model. Both companies rely on their parent for their roles, business positions and strategic direction.

KBC Group's 'A-' IDR acts as a cap on KBC Verzekeringen's IDR, which is at the same level as its IFS. The equalisation of KBC Verzekeringen's IFS rating and IDR reflects the fact that part of KBC Group's capital is in the form of hybrid capital provided by the Flemish region and has to be repaid. We expect to upgrade KBC Verzekeringen's IFS rating by one notch, in line with our standard notching, once the hybrid capital is repaid.

The standalone IFS rating of KBC Verzekeringen is two notches higher at 'A+'. The rating does not take into account the cap represented by the lower IDR of the parent company but factors in the benefits derived by KBC Verzekeringen's from being part of KBC Group, specifically regarding integrated capital management, the alignment of strategy and distribution.

The rating reflects KBC Verzekeringen's important business position in Belgium where the company is the third-largest insurer. It is also underpinned by KBC Verzekeringen's strong profitability and capitalisation. The company's return on equity, as calculated by Fitch, was 12.3% in 2014, which compares well with peers. Its consolidated regulatory solvency ratio is also very strong (end-June 2015: 281% including unrealised capital gains) based on Fitch's sector credit factors, and in particular, its Fitch Prism FBM score on 2014 data was 'Extremely Strong'.

RATING SENSITIVITIES

Any changes in KBC Group's ratings are likely to result in similar changes to KBC Verzekeringen's ratings. In addition, if, in Fitch's view, KBC Insurance become less strategically important to KBC Group this would also likely result in a downgrade.

The IFS rating will be upgraded by one notch when the group repays the Flemish Region hybrid capital, provided KBC Verzekeringen continues to maintain a strong financial profile.

KBC Group Re relies on its KBC Verzekeringen for its role as a captive reinsurer, business position, strategic direction and asset management expertise. Any changes to its parent's ratings are likely to have a corresponding impact on KBC Group Re's ratings.

Contact:

Primary Analyst

Federico Faccio

Senior Director

+44 203 530 1394

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst
Bjorn Norrman
Director
+44 20 3530 1330

Committee Chairperson
Chris Waterman
Managing Director
+44 20 3530 1168

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 16 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172

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