
KBC Group
EBA Stress Test 2016
29 July 2016

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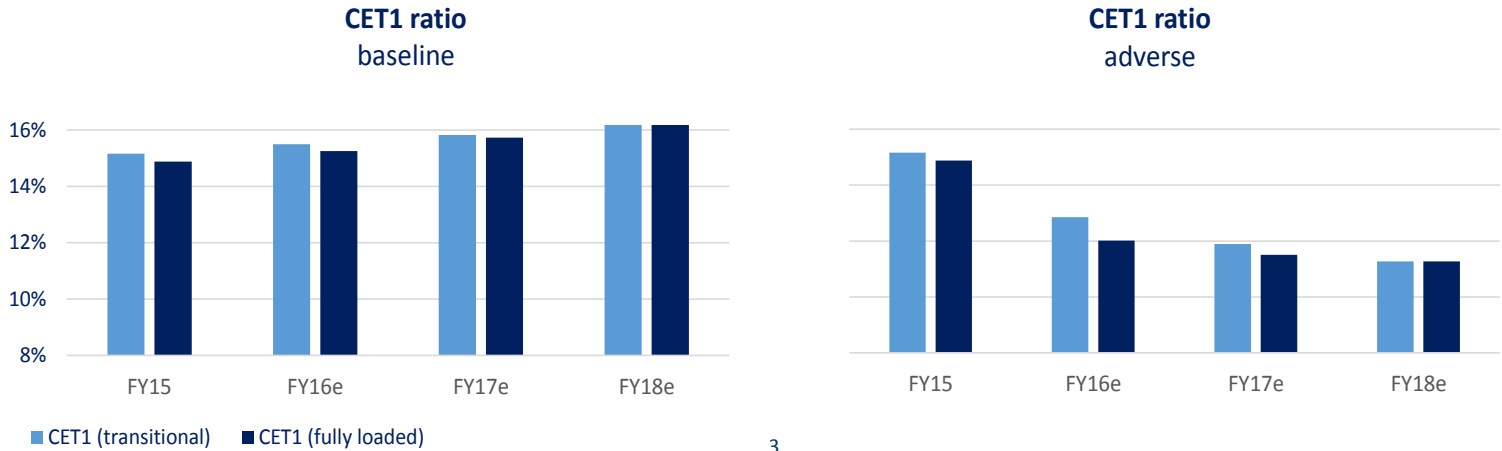


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Even in the adverse scenario KBC remains adequately capitalised

	End of 2015	Baseline scenario FY 2018e	Adverse scenario FY 2018e
Common Equity Ratio (Danish Compromise)			
Transitional	15.17%	16.18% (+1.0%)	11.27% (-3.9%)
Fully loaded	14.88%	16.18% (+1.3%)	11.27% (-3.6%)
Leverage ratio			
Transitional	6.32%	7.36%	5.68%
Fully loaded	6.30%	7.35%	5.66%



Context of 2016 EBA stress test

- **No 'pass or fail' test**

- **Quantitative and also qualitative results/findings will be integrated into the 2016 SREP exercise**

- **Common methodology:**
 - Banks use the same scenarios
 - No impact of pending regulatory changes (e.g. Basel IV, IFRS9) projected
 - Constant balance sheet assumption

- **Scope of the exercise is KBC Group whereby...:**
 - ...KBC Insurance, for Solvency purposes, is integrated according to the Danish Compromise
 - ...for P/L purposes, only the dividend paid by KBC Insurance to KBC Group is recognised (100% of BGAAP result of KBC Insurance in 2015)

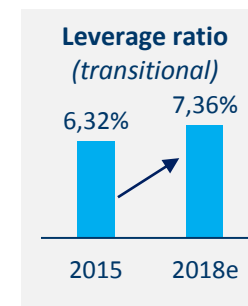
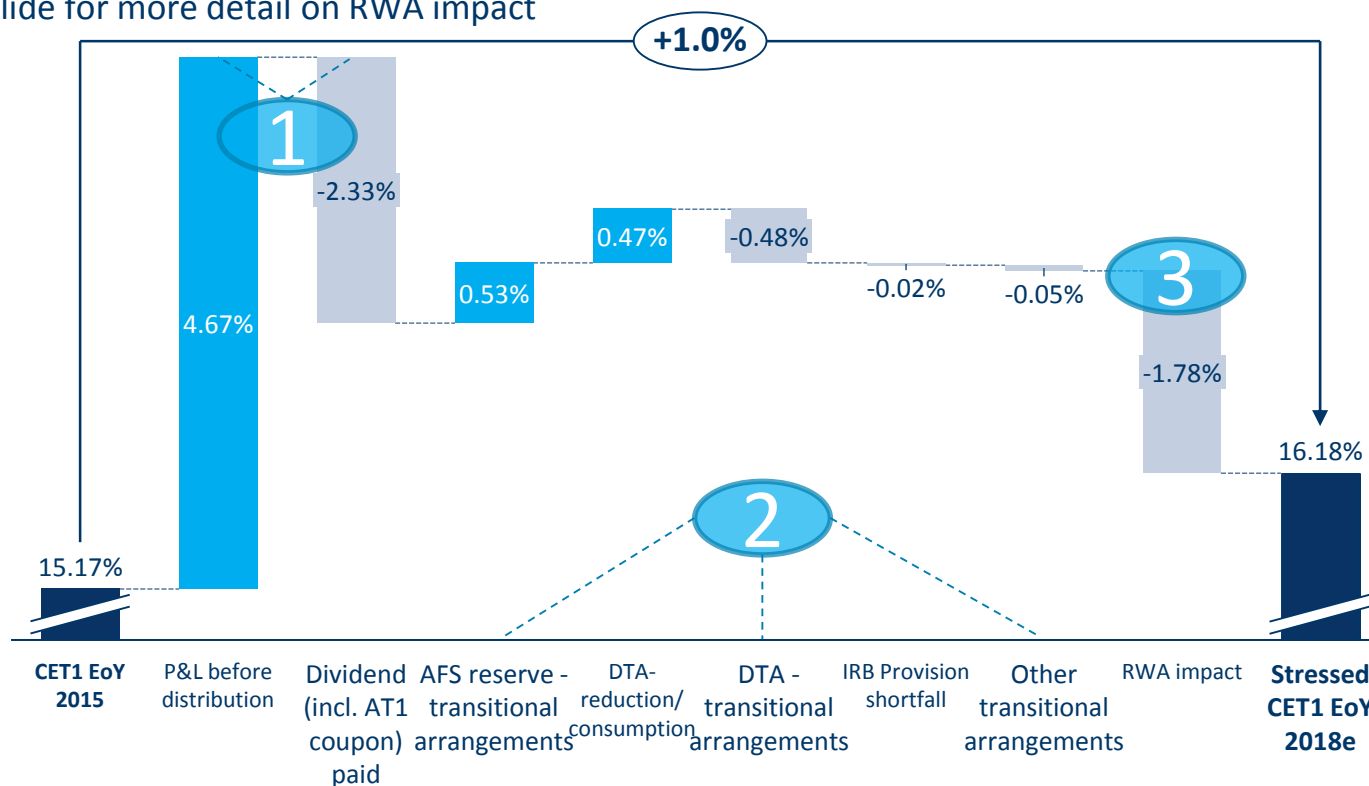
Base scenario – trend in P/L

in EUR millions	End of 2015		Baseline		
	net result	net result excl. one- offs	2016e	2017e	2018e
Net interest income	3.676	3.676	3.537	3.411	3.349
Dividend income	273	273	273	273	273
Net Result from FIFVPL	224	380	181	181	181
<i>o/w Net Trading income</i>			181	181	181
<i>o/w CVA adjustments</i>			0	0	0
<i>o/w Counterparty Credit losses</i>			0	0	0
Net Realised result from AFS assets	83	83	0	0	0
Net Fee and Commission income	1.941	1.941	1.941	1.941	1.941
Net other income	227	227	70	63	56
Total income	6.423	6.580	6.001	5.868	5.799
Operating expenses	-3.476	-3.476	-3.535	-3.589	-3.644
Impairments	-686	-342	-411	-333	-309
<i>o/w and receivables and HTM assets</i>	-331	-331	-399	-323	-301
Share in results of assoc. comp & joint ventures	21	21	22	23	23
Result before tax	2.282	2.782	2.077	1.969	1.869
Income tax	252	-669	-654	-611	-575
Net Result (att. to parent equity holders)	2.535	2.114	1.424	1.359	1.295
<i>Dividends (incl. AT1 coupon) paid</i>	52	52	712	679	647

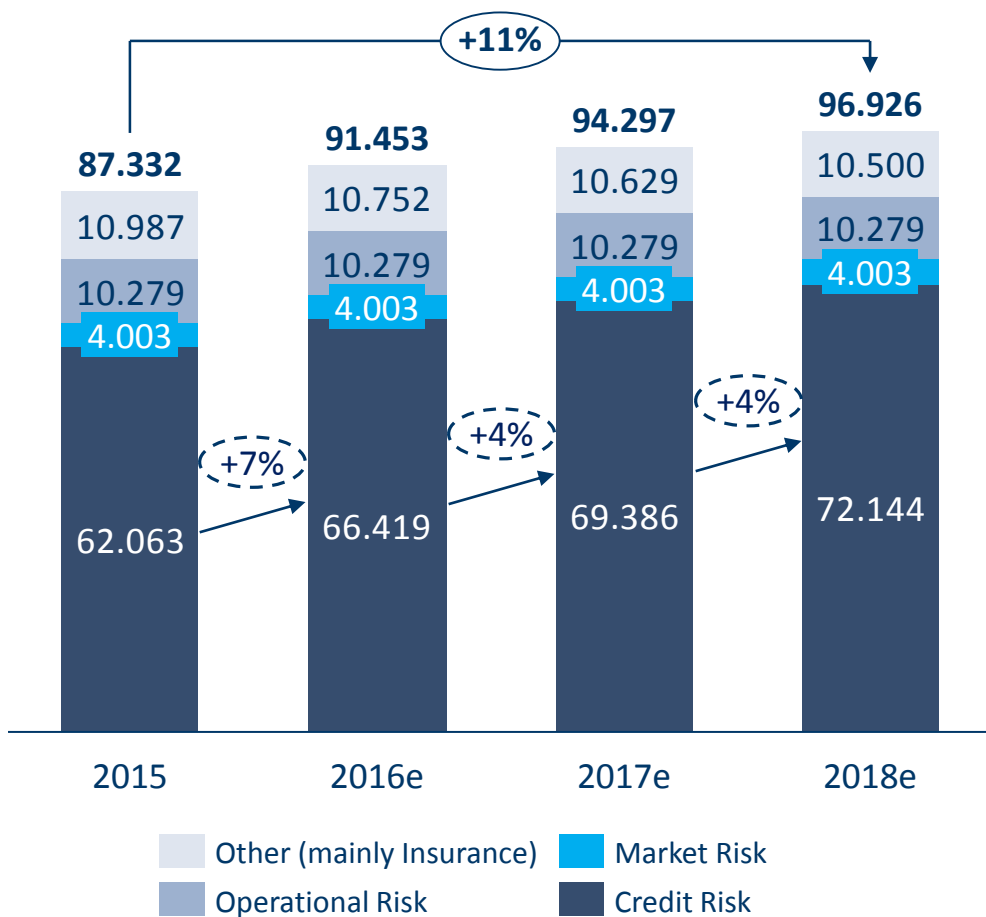
- 2015 was positively influenced by one-offs to the tune of 421m EUR: +765m EUR thanks to the liquidation of KBC Financial Holding and a goodwill impairment of -344m EUR
- NII subject to a cumulative negative impact of -0.7bn EUR due to only a small general increase in interest rates in combination with static balance sheet assumption:
 - Interest income: -2bn EUR negative cumulative effect mainly by:
 - Renewal of historical higher yielding assets at end of 2015 rates (-1.6bn EUR)
 - New defaults (-0.4bn EUR)
 - Interest expense: 1.3bn EUR positive cumulative impact from lower funding cost
- Impairment losses on loans increase moderately in 2016 and even decrease in 2017 and 2018
- Other P/L lines are subject to caps & floors or are mostly mechanically calculated

Base scenario – CET1 phased approach *(cumulative 2016 - 2018)*

1. Of the 4 078m EUR cumulative net result, 2 039m EUR is paid out as dividend and AT1 coupon (52m yearly)
2.
 - a) 466m EUR of unrealised gains on AFS bonds phase in over the period
 - b) the deduction of DTA on losses carried forward phases in over the period (40% to be deducted in 2015 rising to 100% in 2018) leading to an extra 420m EUR to be deducted in 2018
 - c) 41m EUR of other transitional measures (e.g. prudent valuation adjustment on unrealised gains on bonds) phase in over the period
3. See next slide for more detail on RWA impact



Base scenario – trend in RWA



RWA increase by 9.6bn EUR or by 11% compared to end of 2015

- Credit risk RWA, exclusive contributor, increase by 10.1bn EUR due mainly to:
 - Phasing out of carve out for home-country sovereign bonds

In bn EUR	2015	2016e	2017e	2018e
RWA for home-country sovereign bonds (phased)	1.3	1.9	2.6	3.2

- Deteriorating credit portfolio (PD migration) increases RWA for defaulted exposure
- RWA for market risk and operational risk are kept constant
- Other RWA, which include KBC Insurance according to the Danish Compromise, decrease slightly due to RWA linked to DTA on temporary timing differences

Adverse scenario – trend in P/L

in EUR millions	End of 2015		Adverse scenario		
	net result	net result excl. one- offs	2016e	2017e	2018e
Net interest income	3.676	3.676	3.038	2.920	2.985
Dividend income	273	273	273	273	273
Net Result from FIFVPL	224	380	-600	135	135
o/w Net Trading income			-211	135	135
o/w CVA adjustments			-123	0	0
o/w Counterparty Credit losses			-266	0	0
Net Realised result from AFS assets	83	83	0	0	0
Net Fee and Commission income	1.941	1.941	1.363	1.363	1.363
Net other income	227	227	24	37	32
Total income	6.423	6.580	4.098	4.728	4.788
Operating expenses	-3.476	-3.476	-3.480	-3.476	-3.476
Impairments	-686	-342	-976	-915	-796
o/w and receivables and HTM assets	-331	-331	-894	-823	-773
Share in results of assoc. comp & joint ventures	21	21	21	20	19
Result before tax	2.282	2.782	-337	357	533
Income tax	252	-669	101	-116	-165
Net Result (att. to parent equity holders)	2.535	2.114	-236	241	368
<i>Dividends (incl. AT1 coupon) paid</i>	52	52	52	120	184

- NII impacted by (i) funding costs and (ii) increased defaulted exposure, partly offset by higher reinvestment yield:

- Interest income: -0.3bn EUR cumulative negative effect due mainly to:
 - Higher reinvestment yield thanks to increasing interest rates (+0.3bn EUR)...
 - ...offset by new defaults (-0.6bn EUR)

- Interest expense: -1.8bn EUR cumulative negative impact from higher funding cost, including higher rates paid on customer deposits

- FIFV: mostly negative impact in 2016:

- Shocks to net trading income, CVA and counterparty credit risk...
- ...with some positive influence from ALM derivatives (included in net trading income)

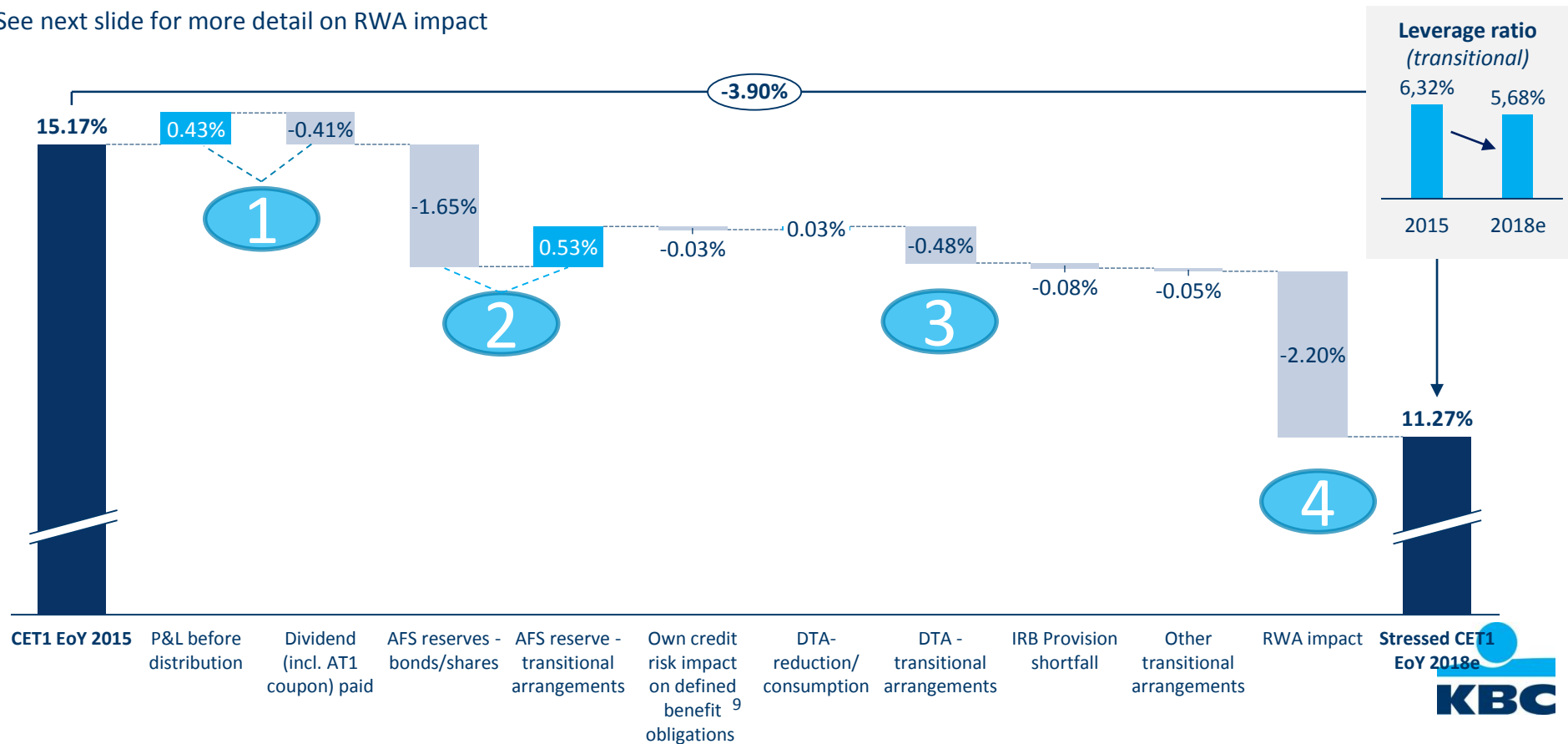
- F&C income projection based on the two lowest 'points' relative to assets in the last five years

- Impairment losses are mainly concentrated in (i) Belgian and Czech corporate portfolios and (ii) Irish mortgages

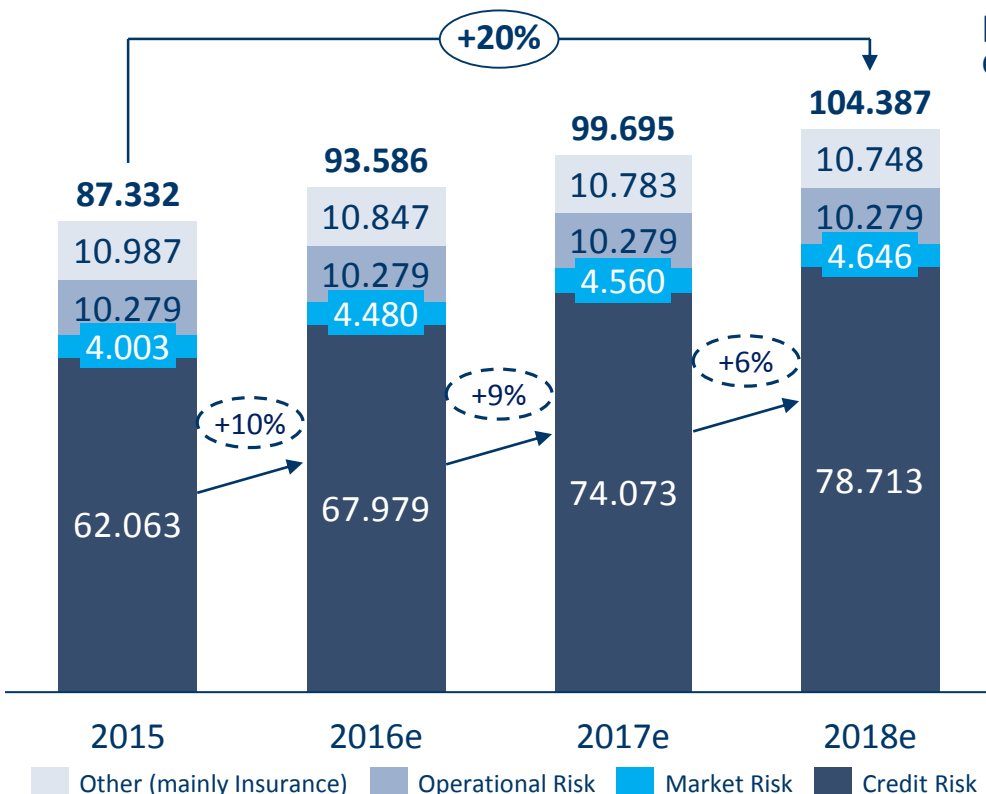
- Other P/L lines are subject to caps & floors or are mostly mechanically calculated

Adverse scenario – CET1 phased approach *(cumulative 2016 - 2018)*

1. Of the 373m EUR cumulative net result, 356m EUR is paid as dividend of which 156m EUR AT1 coupon in total and 200m EUR as regular dividend based on profits in 2017 and 2018
2. A positive AFS reserve of 742m EUR as at the end of 2015 turns into a negative -696m EUR which impacts the CET1 ratio to the tune of -1.6%. Partly offset by phasing in 466m EUR AFS gains under the transitional arrangements or +0.53%
3. The deduction of DTA on losses carried forward phases in over the period (40% to be deducted in 2015 rising to 100% in 2018) leading to an extra 420m EUR to be deducted in 2018
4. See next slide for more detail on RWA impact



Adverse scenario – trend in RWA



RWA increase by 17bn EUR or by 20% compared to end of 2015

- Credit risk RWA, almost exclusive contributor, increase by 16.7bn EUR mainly due to:
 - Increase in defaulted exposure and deterioration of non-defaulted portfolio
 - RWA increase of 1.1bn EUR for securitisation*
 - Phasing out of carve out for home-country sovereign bonds

In bn EUR	2015	2016e	2017e	2018e
RWA for home-country sovereign bonds (phased)	1.3	1.9	2.6	3.2

- Market risk RWA increase slightly due to CVA increasing
- Operational risk RWA are kept constant which is conservative given that gross income decreases over the period

* At the end of 2015 KBC Bank had 1.6bn EUR net exposure of almost exclusively ABS of which approx. 95% rated A or higher

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