Press release

Outside trading hours – Regulated information*

Brussels, 20 March 2015 (08.00 a.m. CET)

KBC discloses new ECB capital and liquidity requirements

KBC has been informed by the European Central Bank of its decision establishing prudential requirements, which sets the following minimum requirements for capital and liquidity for the KBC group and its main banking entities:

- ***a common equity tier-1 ratio (CET1) of at least 10.5% on a fully loaded CRD IV basis (including state aid)***
- ***a LCR > 100% as from 1 October 2015.***

KBC clearly exceeds the new targets.

Johan Thijs, KBC Group CEO, welcomed today's announcements stating: *'KBC welcomes the outcome of the ECB decision because it brings clarity for the group and its stakeholders. The capital target of 10.5% (CET1) set by the ECB is fully in line with the target KBC had already set itself and which it clearly exceeds. This is a reassuring signal to all stakeholders placing their trust in our institution.*

KBC wishes to continue to focus on its strong fundamentals: a healthy client-driven bank-insurance business model, a strong risk profile, a robust liquidity position supported by a very solid and loyal customer deposit base in our core markets of Belgium and Central Europe and a comfortable solvency position that enables us to continue to increase lending to our clients and actively support the communities and economies in which we operate. KBC will continue to ensure that appropriate solid capital and liquidity levels are maintained within a strict risk framework.'

KBC Group has been informed of the request to maintain **a common equity tier-1 ratio (CET1) of at least 10.5% on a fully loaded CRD IV basis (including state aid)**. In the previous joint capital decision, the minimum capital target for KBC was set at 9.25%, excluding available-for-sale reserves.

Since KBC Group covers significant banking and insurance activities, it is considered as a financial conglomerate and, therefore, is subject to a double solvency test. This means that the minimum CET1 of 10.5% is required under:

a) the Danish compromise, in which the contribution by KBC Insurance is deconsolidated and the participation of KBC Group NV in KBC Insurance NV is risk-weighted at 370%;

b) the Financial Conglomerate Directive (FICOD). To meet this requirement, KBC will align the already existing building block method (BBM) with the accounting consolidation method in the FICOD. The difference between FICOD and BBM is limited to the available capital. The available capital under FICOD is a combination of the eligible elements of both banking (currently CRR/CRD IV) and insurance (currently Solvency I) activities, while BBM also applied the banking rules on insurance activities.

At 31 December 2014, KBC Group had a buffer of 3.5 billion euros relative to the 10.5% target under the Danish compromise (common equity tier-1 ratio of 14.3%) and 3.8 billion euros under FICOD (common equity tier-1 ratio of 14.6%), including state aid.

Furthermore, the ECB has set liquidity requirements, which are a LCR of above 100% as from 1 October 2015 (until that time, the existing NBB stress test ratio of above 100% remains applicable). At its Investor Day in June 2014, KBC announced a target for LCR and NSFR of 105% or higher.

Background

The European Central Bank has to ensure that credit institutions not only meet the minimum prudential capital requirements set by the CRR/CRD IV but also have an additional buffer reflecting their individual intrinsic risk profile. This is organised through the Single Supervisory Mechanism (SSM).

To put it simply, the SSM has to ensure that credit institutions have sufficient capital to cover unexpected losses or survive severe stressed economic and market conditions.

The joint capital decision is the key outcome of the Supervisory Review and Evaluation Process. In this process, the supervisor reviews the governance and internal control arrangements used by each individual bank to manage its risks (i.e. the Internal Capital Adequacy Assessment Process).

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