KBC Group
EBA Stress Test 2023

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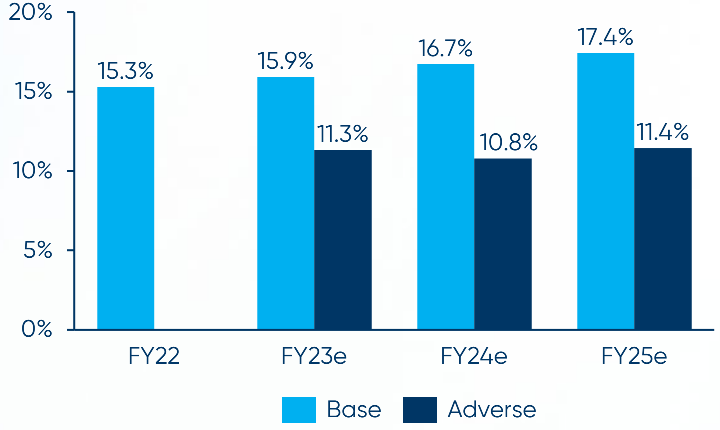
KBC's strong capital position is confirmed in the most severe EBA stress test up to now

End of 2022	Base scenario FY 2025e	Adverse scenario FY 2025e
Common Equity Ratio (Danish Compromise, fully loaded)		
15.30%	17.44%	11.44%
Leverage Ratio (fully loaded)		
5.29%	6.10%	4.30%

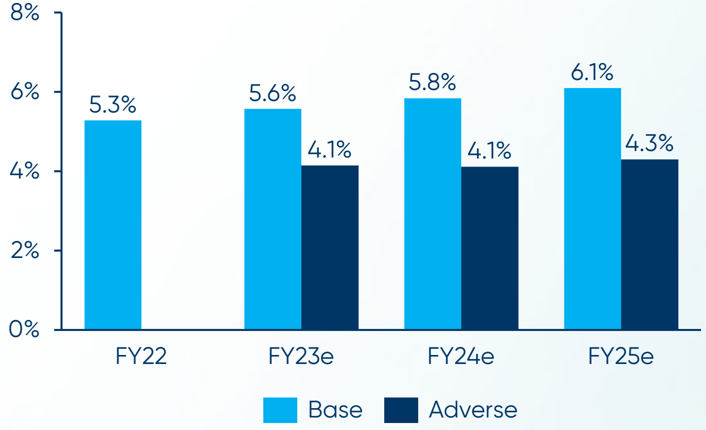
+2.14%

-3.86%

CET1 ratio
Fully Loaded



Leverage ratio
Fully Loaded



*The CET1 ratio on a **transitional** basis would shift from 15.40% at year-end 2022 to 17.44% under the base scenario and to 11.44% under the adverse scenario at year-end 2025

** The leverage ratio on a **transitional** basis would shift from 5.32% at year-end 2022 to 6.09% under the base scenario and to 4.30% under the adverse scenario at year-end 2025

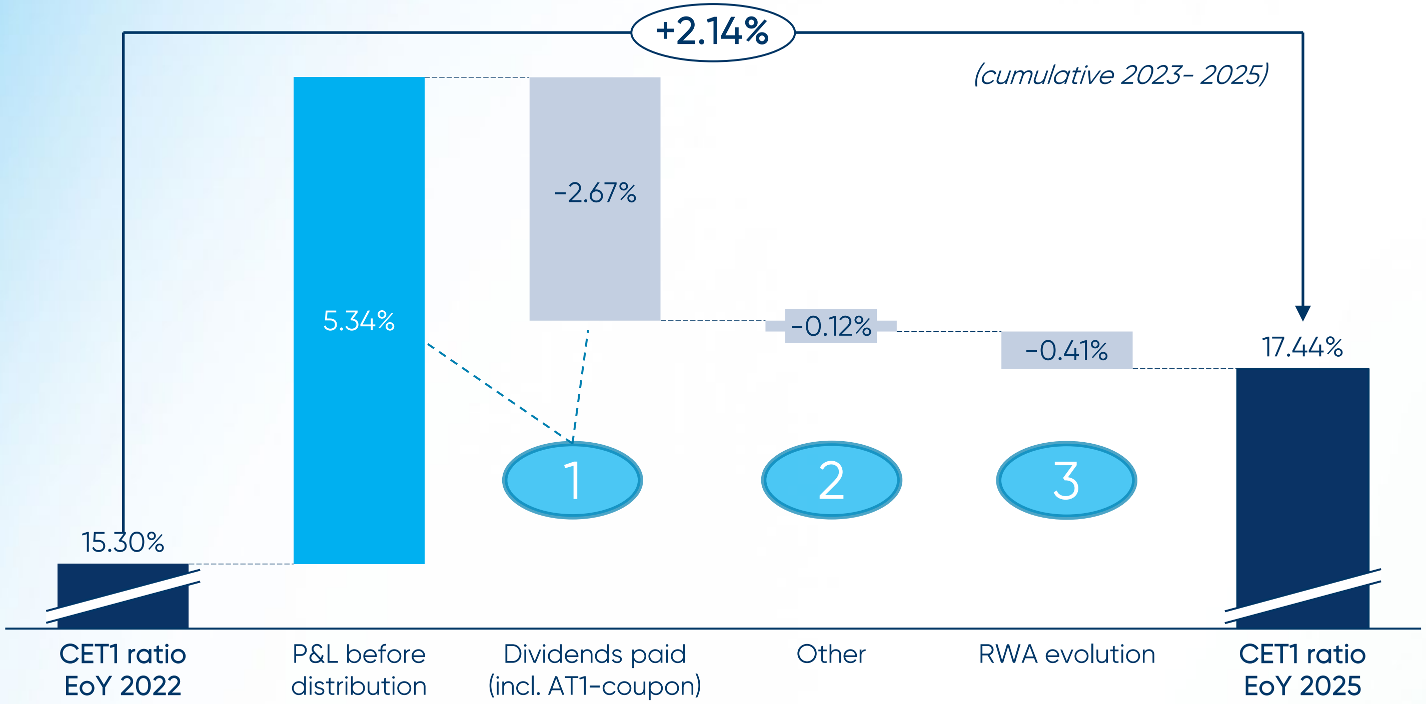
Context of 2023 EBA Stress Test

- No hurdle rate, i.e. not a 'pass or fail' test
- Quantitative and qualitative results/findings will be integrated into the SREP process
- Common methodology:
  - All banks use the same imposed scenario as defined by ECB/ESRB
  - 3-year projections on year-end 2022 actuals (base case and adverse scenario)
  - Static balance sheet assumption
  - Use of own models, subject to challenge from EBA/ECB, combined with imposed caps and floors
  - Over the three years, the adverse scenario results in a severe contraction of real GDP in the EU (-6.0%) with a strong increase in unemployment while also (commercial) real estate prices are hit particularly hard. The 3-year cumulative deviation from the baseline scenario is also much tougher than in previous exercises (especially inflation and stock prices are hit more severely)

Adverse scenario	Cumulative 3y impact					Rate 2025	
KBC Group main markets	GDP	Consumer prices	Resid. real estate prices	Comm. real estate prices	Stock prices	Unemployment	10y swap rate
Belgium	-5.7%	14.9%	-25.5%	-33.7%	-43.0%	11.4%	3.60%
Czech Republic	-6.7%	23.9%	-30.1%	-32.2%	-43.0%	7.5%	5.64%
Slovakia	-5.2%	28.9%	-24.4%	-32.2%	-43.0%	11.9%	3.60%
Hungary	-3.9%	29.1%	-23.8%	-29.4%	-43.0%	7.8%	8.81%
Bulgaria	-4.5%	19.4%	-12.9%	-25.5%	-43.0%	8.8%	7.02%
Ireland	-3.8%	23.0%	-11.1%	-28.3%	-43.0%	12.4%	3.60%
European Union	-6.0%	19.9%	-21.1%	-29.3%	-43.0%	12.2%	3.60%

- Scope of the exercise is KBC Group whereby:
  - **KBC Insurance**, for Solvency purposes, is integrated according to the Danish Compromise method

Base Scenario – Fully loaded CET1 ratio increases to 17.44% by 2025 (including a 50% payout ratio)



1. Of the 5,870m EUR cumulative net result, 50% or 2,935m EUR is paid out as dividend and AT1 coupon (46m EUR yearly)
2. a) DTAs on losses carried forward to be deducted from CET1 slightly decreases due to profit generated in entities with existing DTAs on LCF at the start of the stress test horizon

   b) The 2022 amount of impairments and depreciation is applied on intangible assets in every year of the stress test, reducing the amount to be deducted from CET1

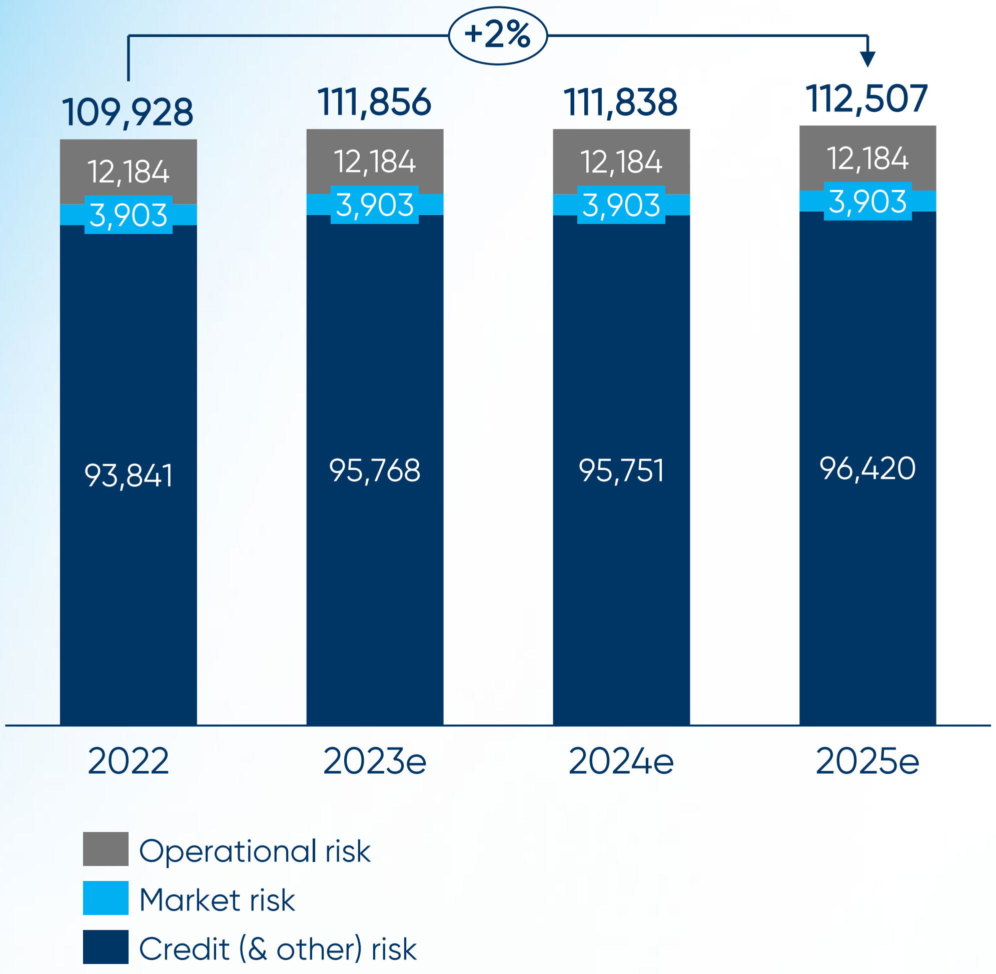
   c) The shortfall vs the Pillar 1 NPL backstop comes from the existing 2022 default portfolio, as these are subject to a 100% unsecured and at least 25% secured backstop by 2025. These shortfalls are high given “no cure, no work-out” EBA methodology
3. See slide 6 for more detail on RWA impact

Base Scenario – Trend in P&L

in EUR millions	Net result 2022	Base 2023e	2024e	2025e
Net interest income	4.733	5.228	5.253	5.321
Dividend income	20	20	20	20
Net result from FIFV through PL	315	159	159	159
Net result from debt instruments FVOCI	-15	0	0	0
Net fee and commission income	2.257	2.257	2.257	2.257
Net other income	130	104	91	85
Total income	**7.439**	**7.768**	**7.779**	**7.841**
Operating expenses	-4.320	-4.620	-4.709	-4.828
Impairments	-309	-887	-685	-623
o/w on FA at AC and FVOCI	*-180*	*-885*	*-683*	*-620*
o/w CCR (counterparty credit risk)				
o/w on other	*-129*	*-2*	*-2*	*-2*
Provisions	-125	0	0	0
Share in results of assoc. comp. & joint ventures	865	594	376	398
Gains/losses arising from operational risk	0	-24	-24	-24
Result before tax	**3.549**	**2.831**	**2.737**	**2.765**
Income tax	-491	-824	-813	-825
Net Result	**3.058**	**2.007**	**1.923**	**1,940**
Credit Cost ratio	**0.08%**	**0.37%**	**0.30%**	**0.27%**

- **NII** increases, given the base scenario parameters, despite the methodology that implied:
  - a static balance sheet assumption (no volume growth)
  - the immediate repricing of current and savings accounts at high rates, with a weighted average pass-through rate for KBC of 70% for current accounts and 52% for savings accounts, over the full horizon
- Non-net interest income projections of **Dividend income** and **Net fee and commission income** are capped at starting values
- **Impairment losses** on financial assets are mainly concentrated in Belgian corporate and SME portfolios
- The **dividend paid by KBC Insurance** is included in 'Share in results of associated companies & joint ventures'
- **Other P&L lines** are subject to caps & floors or are mostly calculated mechanically (e.g. operating expenses are floored and increasing with inflation)
- **The dividend (and AT1 coupon) paid out** is in line with the capital distribution policy of at least 50% of net result

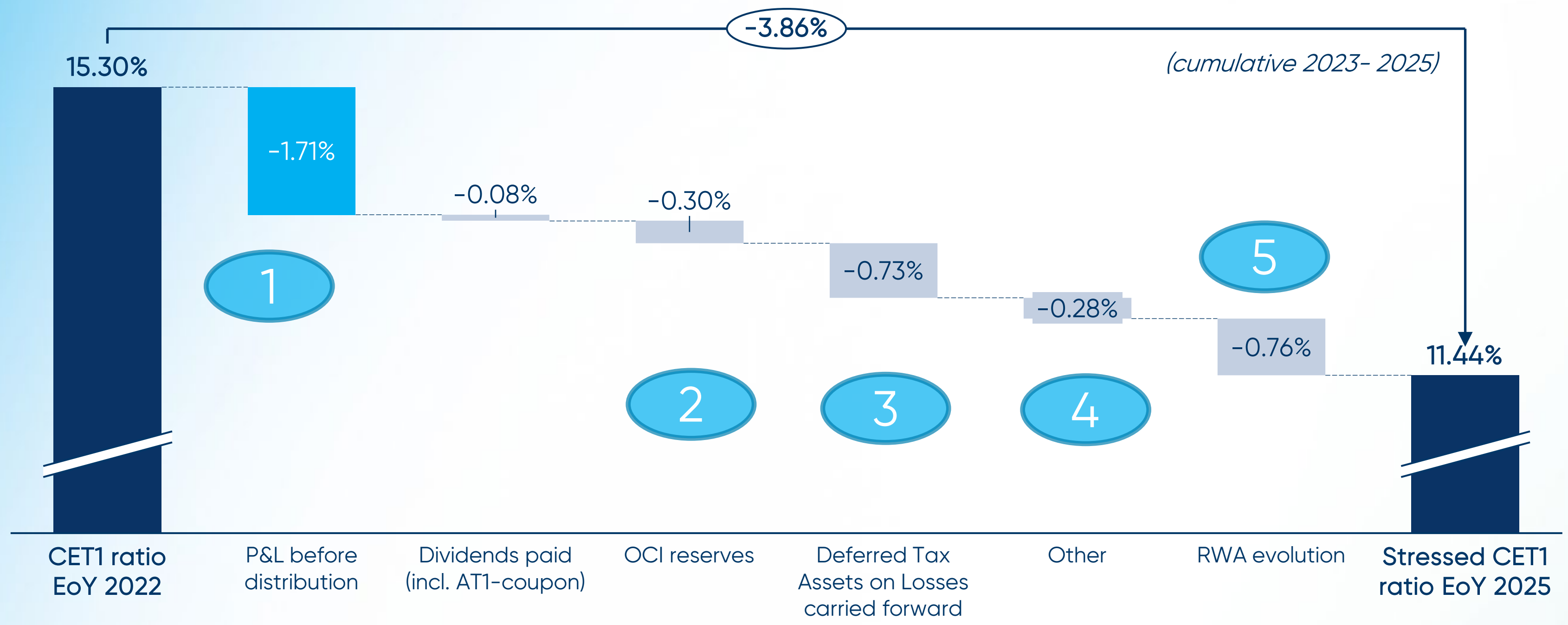
Base Scenario – Trend in RWA (fully loaded)



RWA only slightly increase to 113bn EUR by 2025 compared to the end of 2022

- Due to the static balance sheet assumption, the increase in **Credit (& other) risk RWA** remains low
- **RWA for Market risk** and **Operational risk** are kept constant, in line with EBA's methodological guidance

Adverse Scenario – KBC's capital position decreases by 386bps in the severe adverse scenario



1. Retained earnings decrease over the stress test horizon due to a cumulative loss over 2023-2025 of -1,882m EUR
2. The impact on OCI reserves is driven by revaluation of bonds at higher rates and a steep decrease in the value of equity
3. P&L losses, mainly in 2023, increase DTA on losses carried forward to be deducted from CET1. This DTA is only partly reduced by profits made in 2025
4. a) The 2022 amount of impairments and depreciation is applied on intangible assets in every year of the stress test, reducing the amount to be deducted from CET1

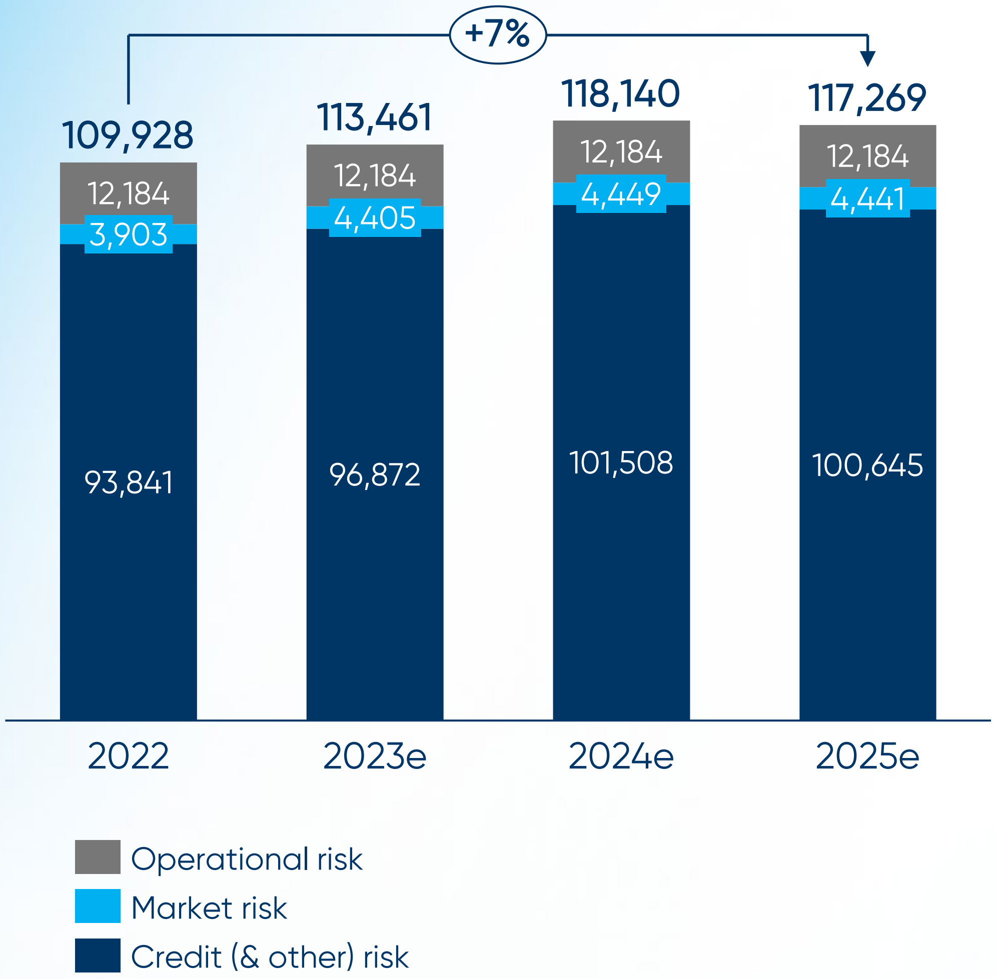
   b) The shortfall vs the Pillar 1 NPL backstop comes from the existing 2022 default portfolio, as these are subject to a 100% unsecured and at least 25% secured backstop by 2025. These shortfalls are high given "no cure, no work-out" EBA methodology
5. See slide 9 for more detail on RWA impact

Adverse Scenario – Trend in P&L

in EUR millions	Net result 2022	Adverse 2023e	2024e	2025e
Net interest income	4.733	3.551	4.415	4.678
Dividend income	20	10	11	12
Net result from FIFV through PL	315	-568	119	119
Net result from debt instruments FVOCI	-15	0	0	0
Net fee and commission income	2.257	1.658	1.860	2.059
Net other income	130	41	17	0
Total income	**7.439**	**4.691**	**6.422**	**6.868**
Operating expenses	-4.320	-4.670	-4.795	-4.944
Impairments	-309	-3,609	-1,769	-1,313
o/w on FA at AC and FVOCI	*-180*	*-2,864*	*-1,607*	*-1,259*
o/w CCR (counterparty credit risk)		*-476*		
o/w on other	*-129*	*-269*	*-162*	*-54*
Provisions	-125	0	0	0
Share in results of assoc. comp. & joint ventures	865	335	221	289
Gains/losses arising from operational risk	0	-138	-138	-138
Result before tax	**3.549**	**-3,392**	**-59**	**762**
Income tax	-491	1,018	18	-229
Net Result	**3.058**	**-2,374**	**-42**	**534**
Credit Cost ratio	**0.08%**	**1.27%**	**0.72%**	**0.56%**

- **NII** drops significantly in 2023 due to the methodology of:
  - a static balance sheet assumption (no volume growth)
  - the immediate repricing of current and savings accounts at high rates, with a weighted average pass-through rate for KBC of 70% for current accounts and 52% for savings accounts, over the full horizon
  - assets are repriced more gradually as floating rate assets follow their repricing schedule and fixed rate assets reach maturity
- Additional losses for **FIFVPL** in 2023 had to be included re. trading positions, CVA and hedge accounting
- Imposed by the ECB, **NFCI** had to be reduced by 26% in Y1, by 17% in Y2 and by 8% in Y3, compared to FY22 (bank specific)
- **Operating expenses** increase mainly due to high inflation in the scenario
- **Impairment losses:**
  - **o/w on FA at AC and FVOCI** are mainly concentrated in (i) Belgian and Czech SME portfolios and (ii) Belgian and foreign branches corporate portfolios
  - **o/w counterparty credit risk** triggers a loss in 2023 (methodology prescribes that the 2 most vulnerable counterparties should default)
  - **o/w on non-financial assets** (own real estate) were the result of a severe real estate price shock as defined in the scenario
- The **dividend paid by KBC Insurance** is included in 'Share in results of associated companies & joint ventures'
- **Other P&L lines** are subject to caps & floors or are mostly calculated mechanically

Adverse Scenario – Trend in RWA (fully loaded)



RWA increases by 7.3bn EUR by 2025 compared to the end of 2022

- **Credit (& other) risk RWA** are mainly affected by severe increases in the Belgian portfolio where average PDs almost double for Belgian corporates and increase with 65% for Belgian household mortgages
- **Market risk RWA** increase in 2023 is driven by an increase in RWA for CVA and increase in VaR, as this is replaced by the sVaR (EBA requirement)
- **Operational risk RWA** are kept constant

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