

KBC Group
EBA Stress Test 2021
30 July 2021

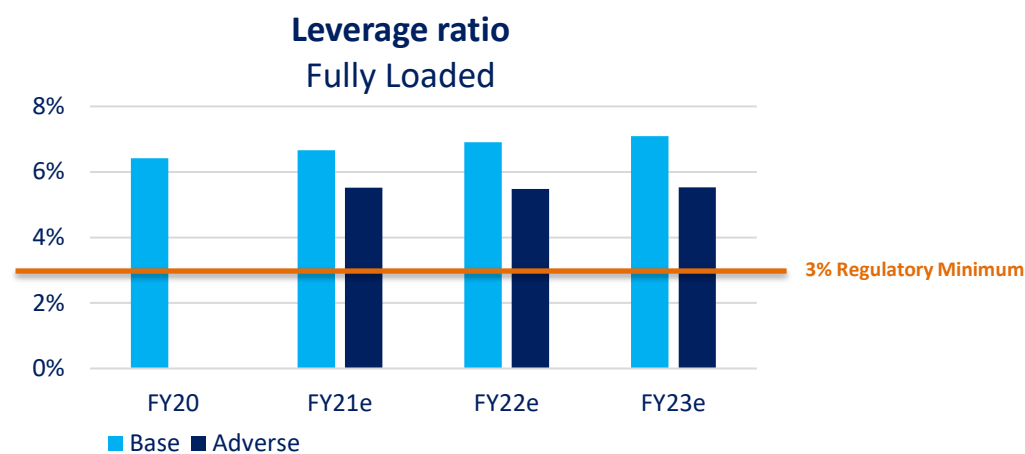
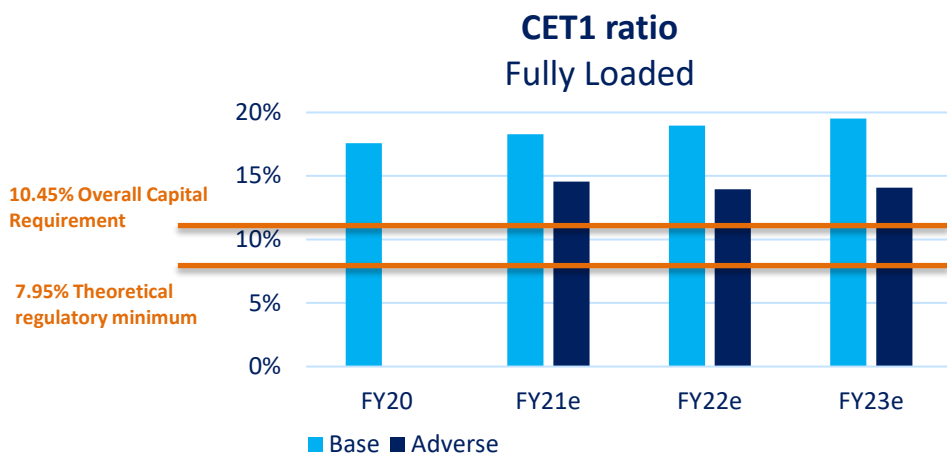
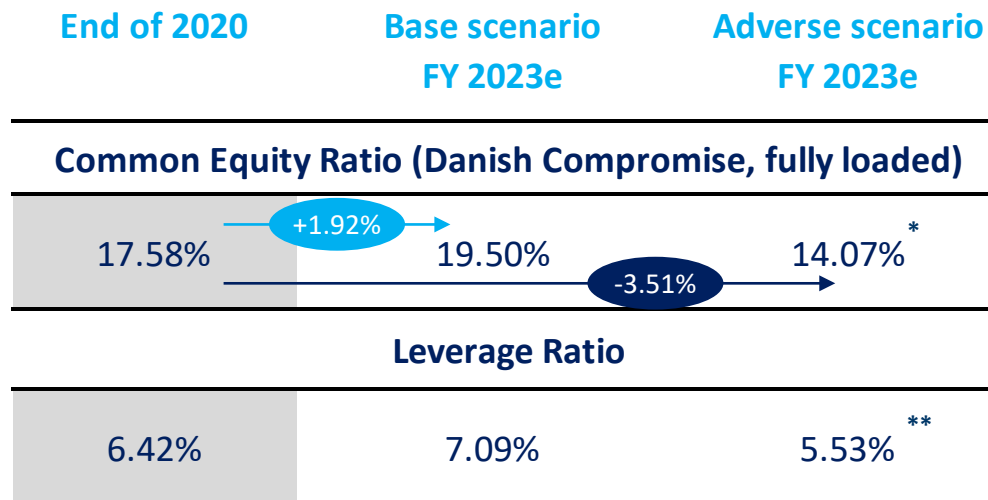
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KBC's strong capital position is confirmed in the most severe EBA stress test up to now



*The CET1 ratio on a **transitional** basis would shift from 18.11% at year-end 2020 to 19.64% under the base scenario and to 14.29% under the adverse scenario at year-end 2023

** The leverage ratio on a **transitional** basis would shift from 6.57% at year-end 2020 to 7.11% under the base scenario and to 5.59% under the adverse scenario at year-end 2023

Context of 2021 EBA Stress Test

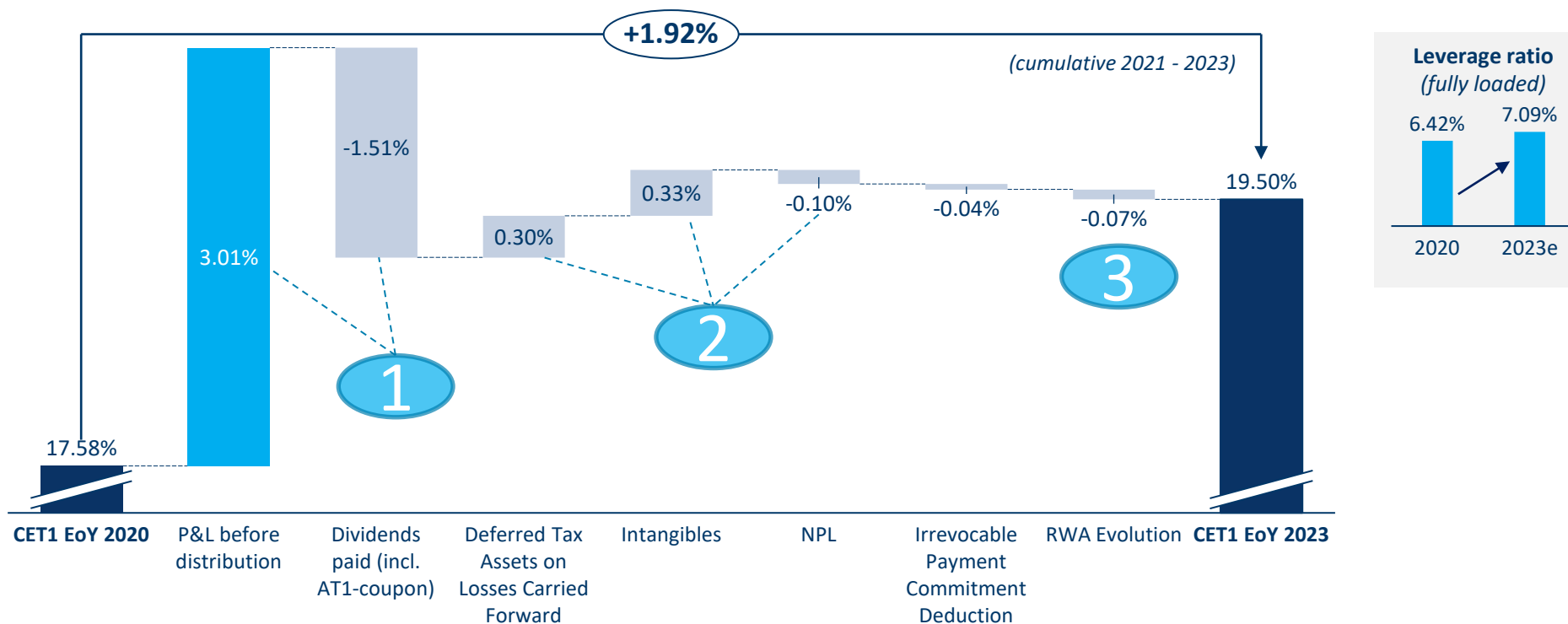
- **No hurdle rate, i.e. not a ‘pass or fail’ test**
- **Quantitative and qualitative results/findings will be integrated into the SREP process**
- **Common methodology:**
 - All banks use the same imposed scenario as defined by ECB/ESRB
 - 3-year projections on year-end 2020 actuals (base case and adverse scenario)
 - Constant balance sheet assumption
 - Use of own models, subject to challenging from EBA/ECB, combined with imposed caps and floors
 - The adverse scenario models a continued decline in EU real GDP growth for 2021-23 (-1.5%, -1.9%, -0.2%) and a strong increase in unemployment, coming on top of the extremely adverse starting position at year-end 2020 (due to Covid-19). The 3-year cumulative deviation from the baseline scenario is also much tougher than in previous exercises (especially commercial real estate prices and stock prices are more severely hit)

Adverse scenario	Cumulative 3y impact					Rate 2023
	GDP	Consumer prices	Resid. real estate prices	Comm. real estate prices	Stock prices	Unemployment
KBC Group main markets						
Belgium	-3.2%	4.1%	-27.4%	-36.0%	-35.0%	10.0%
Czech Republic	-3.5%	4.3%	-22.6%	-40.1%	-35.0%	7.7%
Slovakia	-4.4%	2.7%	-15.2%	-36.3%	-35.0%	12.5%
Hungary	-3.2%	7.0%	-15.0%	-28.9%	-35.0%	7.2%
Bulgaria	-3.7%	3.6%	-6.6%	-21.2%	-35.0%	9.2%
Ireland	-3.0%	-0.6%	-13.2%	-32.5%	-35.0%	10.5%
European Union	-3.6%	2.4%	-16.1%	-31.2%	-35.0%	12.1%

- **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 recognized. Given that the NBB/EIOPA requested to suspend dividend distributions until at least 1 January 2021, no interim dividend re. 2020 was paid out in November 2020. Hence the KBC Group P&L for 2020 included only the final dividend of KBC Insurance re. 2019 (156m EUR), which served as a cap (75% in adverse scenario) on the stress test projections for 2021-2023. Note that 2020 was an exception to be in line with the NBB/EIOPA recommendation. As of 2021 KBC has the intention to fully upstrgam again the KBC Insurance (BGAAP) result (in 2020 this would have been 392m EUR i.o. 156m EUR)



Base Scenario – Fully loaded CET1 ratio increases to 19.50% by 2023 (including a 50% payout ratio)



1. Of the 3,075m EUR cumulative net result, 1,537m EUR is paid out as dividend and AT1 coupon (46m EUR yearly)
2.
 - a) Profit generated in entities with existing DTAs on losses carried forward reduces the amount of DTA on losses carried forward to be deducted from CET1
 - b) The 2020 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 vast majority of the shortfall vs the Pillar 1 NPL backstop comes from the existing 2020 default vintage, as these are subject to a 100% unsecured and a 25% secured backstop by 2023. These shortfalls are high given “no cure, no work-out” EBA methodology
3. See slide 7 for more detail on RWA impact

Base Scenario – Trend in P&L

in EUR millions	Net result 2020	Base		
		2021e	2022e	2023e
Net interest income	4,013	3,813	3,520	3,429
Dividend income	19	19	19	19
Net result from FIFVPL	32	33	33	33
Net Result from debt instruments FVOCI	13	0	0	0
Net Fee and Commission income	1,975	1,975	1,975	1,975
Net other income	100	144	136	127
Total income	6,152	5,984	5,683	5,583
Operating expenses	-3,724	-3,775	-3,831	-3,888
Impairments	-1,169	-769	-547	-480
<i>o/w on FA at AC and FVOCI</i>	-1,066	-749	-527	-460
<i>o/w CCR (counterparty credit risk)</i>				
<i>o/w on other</i>	-103	-20	-20	-20
Share in results of assoc. comp. & joint ventures	146	146	146	146
Gains/losses arising from operational risk	0	-32	-29	-29
Result before tax	1,405	1,553	1,421	1,331
Income tax	-275	-442	-401	-387
Net Result	1,131	1,111	1,020	944
Dividends (incl. AT1 coupon) paid	233	556	510	472
Credit Cost ratio*	0.60%	0.41%	0.29%	0.25%

- **NII subject to a cumulative negative impact of -1.3bn EUR given the low for longer interest rate scenario in combination with methodological assumptions:**

- Under the constant balance sheet assumption implied by the methodology, the downward trend of projected NII throughout the stress test horizon is due to the renewal of maturing assets in a decreasing interest rate scenario and lower (than portfolio) commercial margins for new assets
- There was no room to compensate the low rates with a further decrease in liability pricing (no negative charging, no benign TLTRO pricing etc.)

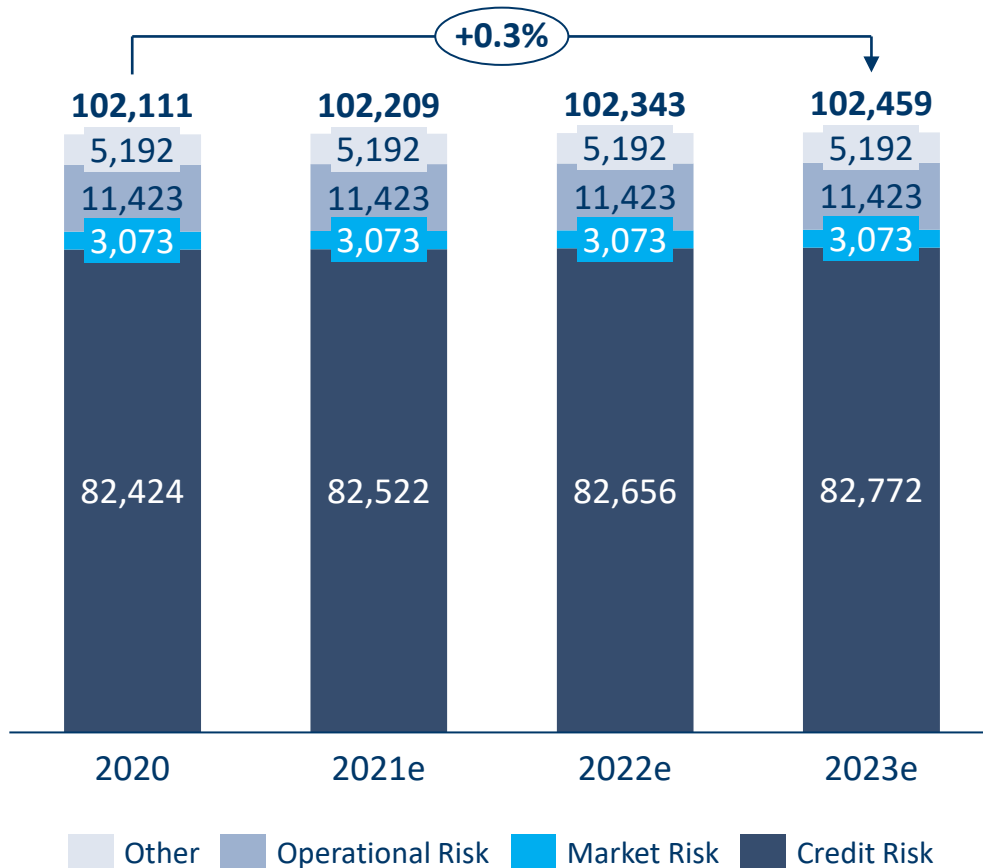
- **Impairment losses** on financial assets are mainly concentrated in (i) Belgian and Czech corporate and SME portfolios, (ii) Irish and Czech mortgages and (iii) Bulgarian other retail portfolio. Impairments are elevated as a further fallout of the 2020 Covid-19 crisis has been taken into account together with the EBA no-cure assumption

- 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

*CCR is calculated as impairments divided by the total loan portfolio (corresponding to the same basis as for the actual KBC CCR of 2020)

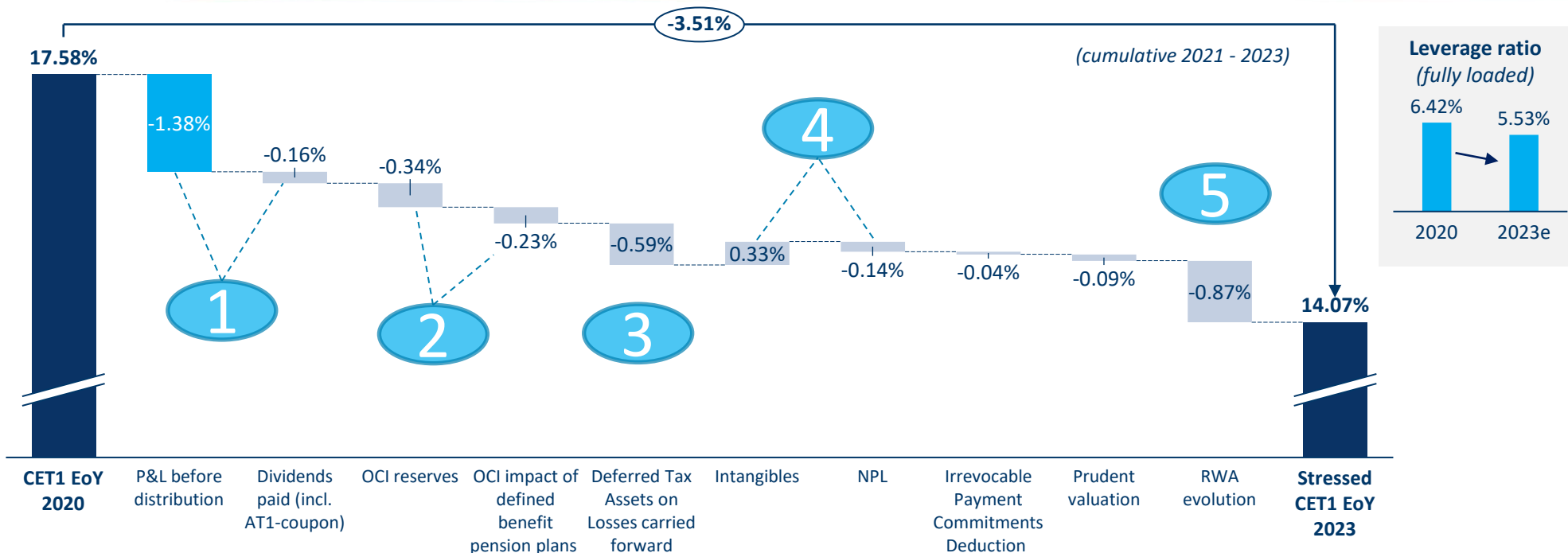
Base Scenario – Trend in RWA (fully loaded)



RWA remains stable at 102bn EUR compared to end of 2020

- **Credit risk RWA** is rather constant due to methodological floor of current 2020 RWA levels
- **RWA for market risk and operational risk** are kept constant, in line with EBA's Methodological guidance
- **Other RWA** includes o.a. RWA on Deferred Tax Assets, regulatory add-ons etc

Adverse Scenario – KBC’s strong capital position is confirmed even in the severe adverse scenario



- Retained earnings decrease over the stress test horizon due to a cumulative loss over 2021-2023 (-1,411m EUR) and the pay-out of dividends (-25m EUR) and AT1 coupon (-139m EUR). The pay-out exceeds 50% of the profits as the AT1 coupon is still paid in 2021 and 2022 when KBC is lossmaking. Dividend and AT1 coupon equal 50% of profits for 2023
- The impact on OCI reserves is driven by spread increases and FX effects, impacting the value of the bonds. The severe drop in equity prices also impacts OCI reserves but this is most noticeable in the OCI of the pension fund
- P&L losses in 2021 and 2022 increase DTA on losses carried forward to be deducted from CET1. This DTA is only partly reduced by profits made in 2023
- The 2020 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
 - The vast majority of the shortfall vs the Pillar 1 NPL backstop comes from the existing 2020 default vintage, as these are subject to a 100% unsecured and a 25% secured backstop by 2023. These shortfalls are high given “no cure, no work-out” EBA methodology
- See slide 10 for more detail on RWA impact

Adverse Scenario – Trend in P&L

in EUR millions	Net result 2020	Adverse		
		2021e	2022e	2023e
Net interest income	4,013	3,497	3,165	3,042
Dividend income	19	2	13	15
Net result from FIFVPL	32	-283	25	25
Net Result from debt instruments FVOCI	13	0	0	0
Net Fee and Commission income	1,975	1,681	1,551	1,668
Net other income	100	98	91	86
Total income	6,152	4,994	4,845	4,835
Operating expenses	-3,724	-3,724	-3,724	-3,724
Impairments	-1.169	-3.353	-1.276	-916
<i>o/w on FA at AC and FVOCI</i>	-1.066	-2.328	-1.041	-824
<i>o/w CCR (counterparty credit risk)</i>		-647		
<i>o/w on other</i>	-103	-377	-234	-91
Share in results of assoc. comp. & joint ventures	146	109	109	109
Gains/losses arising from operational risk	0	-101	-101	-101
Result before tax	1,405	-2,074	-146	204
Income tax	-275	622	44	-61
Net Result	1,131	-1,452	-102	143
Dividends (incl. AT1 coupon) paid	233	46	46	71
Credit Cost ratio*	0.60%	1.29%	0.58%	0.46%

- **NII subject to a cumulative negative impact of -2.3bn EUR given the low for longer interest rate scenario in combination with methodological assumptions:**

- An imposed stress add-on (based on spread evolutions and the creditworthiness of the bank) is applied to new margins that is more penalizing for liabilities than assets. This implicates even higher costs compared to income in the already severe adverse scenario
- Additionally, the FX haircut, a corrective factor which is automatically applied for all non-EUR income to capture the variation of exchange rates, further decreases the NII projections in the adverse scenario

- **FIFVPL:** increasing CDS spreads explain most of the CVA losses in 2021

- **NFCI:** impacted by scenario parameters (e.g. equity shock) and imposed methodological constraints

- **Impairment losses:**

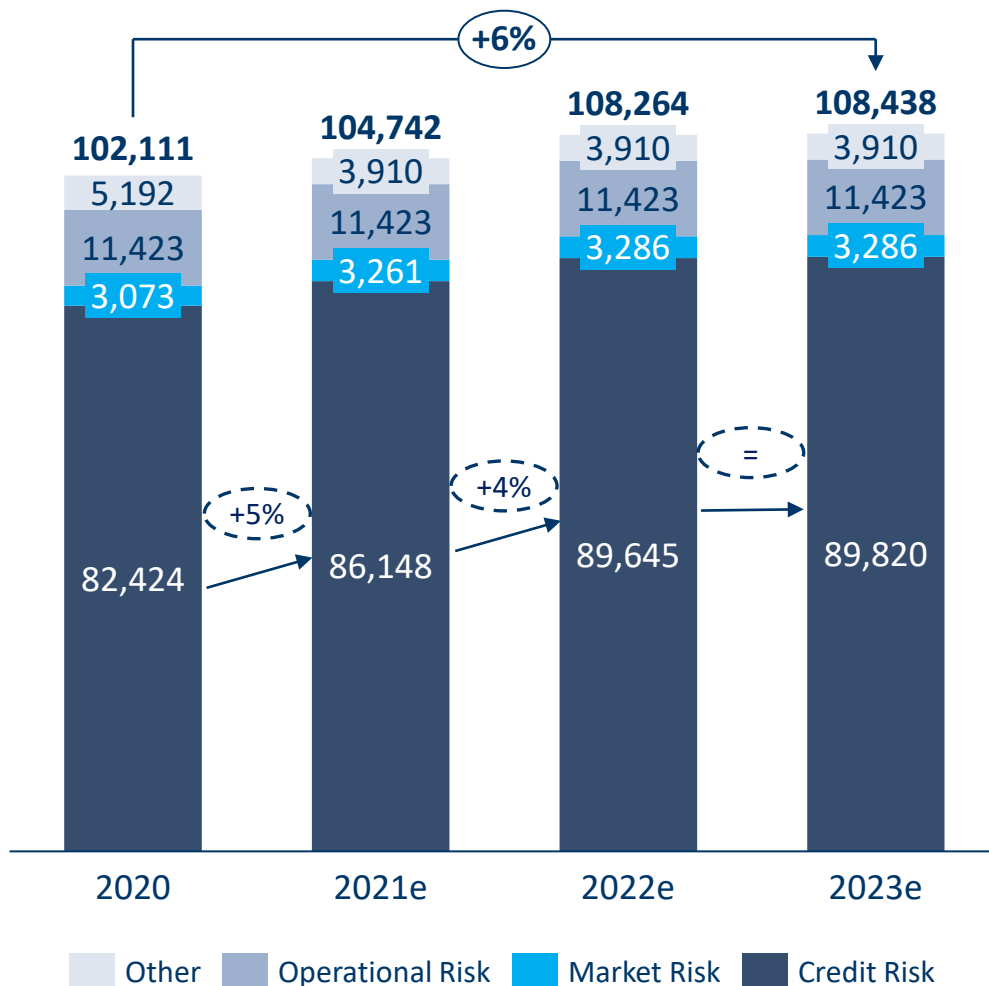
- **o/w at AC and FVOCI** are mainly concentrated in (i) Belgian and Czech corporate and SME portfolios, (ii) Irish and Czech mortgages and (iii) Bulgarian other retail portfolio
- **o/w counterparty credit risk** triggers a loss in 2021 (methodology prescribes that the 2 most vulnerable counterparties should default)
- **o/w on non-financial assets** were the result of a severe real estate price shock as defined in the ECB 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

*CCR is calculated as impairments divided by the total loan portfolio (corresponding to the same basis as for the actual KBC CCR of 2020)

Adverse Scenario – Trend in RWA (fully loaded)



RWA increase by 6bn EUR or by 6% compared to end of 2020

- Credit risk RWA**, as the main contributor, increase by 7.4bn EUR mainly due to the anticipated Covid-19 effects on PD for vulnerable sectors in combination with the adverse stress scenario leading to more conservative parameters (PD and LGD) for the calculation of non-defaulted portfolio RWA. Credit risk RWA mainly increases in Belgium corporates and SME portfolios and overall KBC mortgages portfolio
- Market risk RWA** increase in 2021 is driven by an increase in RWA for CVA and increase in VaR, as this is replaced by the sVaR (EBA requirement). This leads to sVaR entering the RWA calculations twice
- Operational risk RWA** are kept constant which is conservative given that gross income decreases over the period

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