
KBC Group

EBA Stress Test 2018

2 November 2018

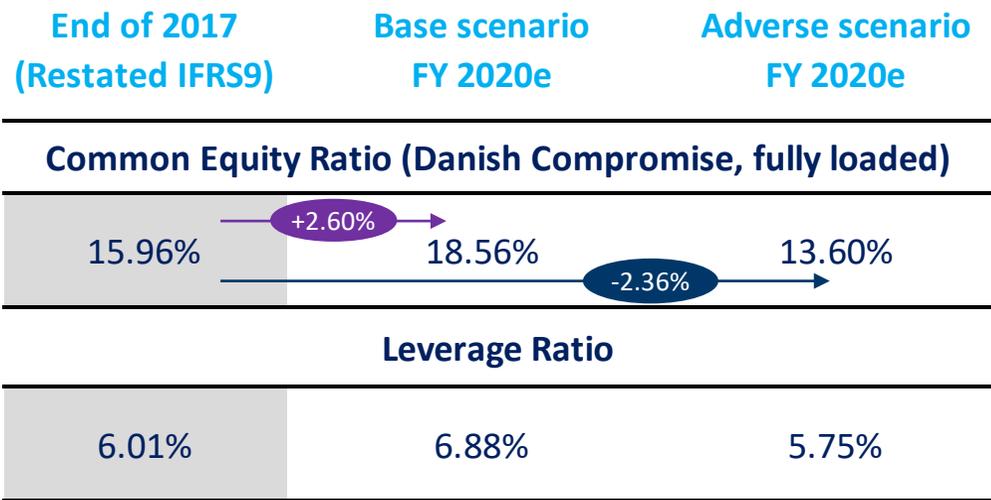
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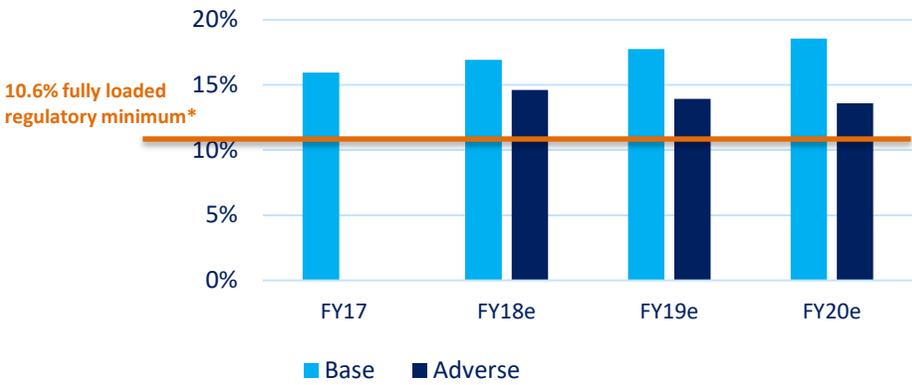
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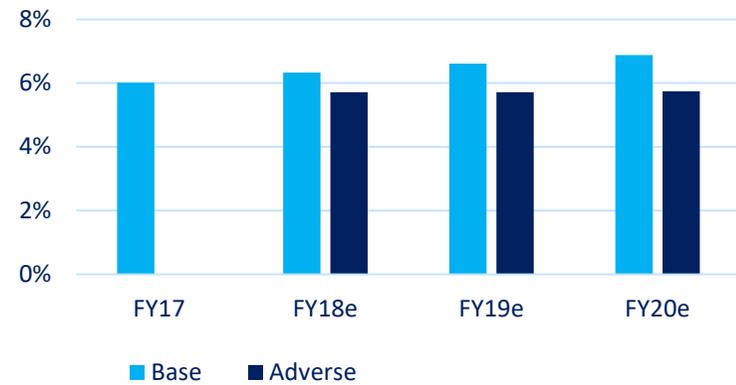
KBC remains adequately capitalised even in the adverse scenario



**CET1 ratio
Fully Loaded**



**Leverage ratio
Fully Loaded**



* Based on current situation and excluding a pillar 2 guidance (P2G) of 1.0% CET 1



Context of 2018 EBA Stress Test

- No hurdle rate, i.e. no 'pass or fail' test
- Quantitative and also qualitative results/findings will be integrated into the SREP process and will be considered when determining capital add-ons
- **Common methodology:**
 - Banks use the same imposed scenarios defined by ECB/ESRB
 - Calculation of stressed values based on end of 2017 values, adjusted for IFRS9
 - Constant balance sheet assumption
 - Use of own models, subject to challenging from EBA/ECB and certain imposed caps and floors
 - The 2018 adverse scenario (table below) is in general more severe than 2016 stress test (especially real estate prices, most outspoken in Belgium, are more severely hit)

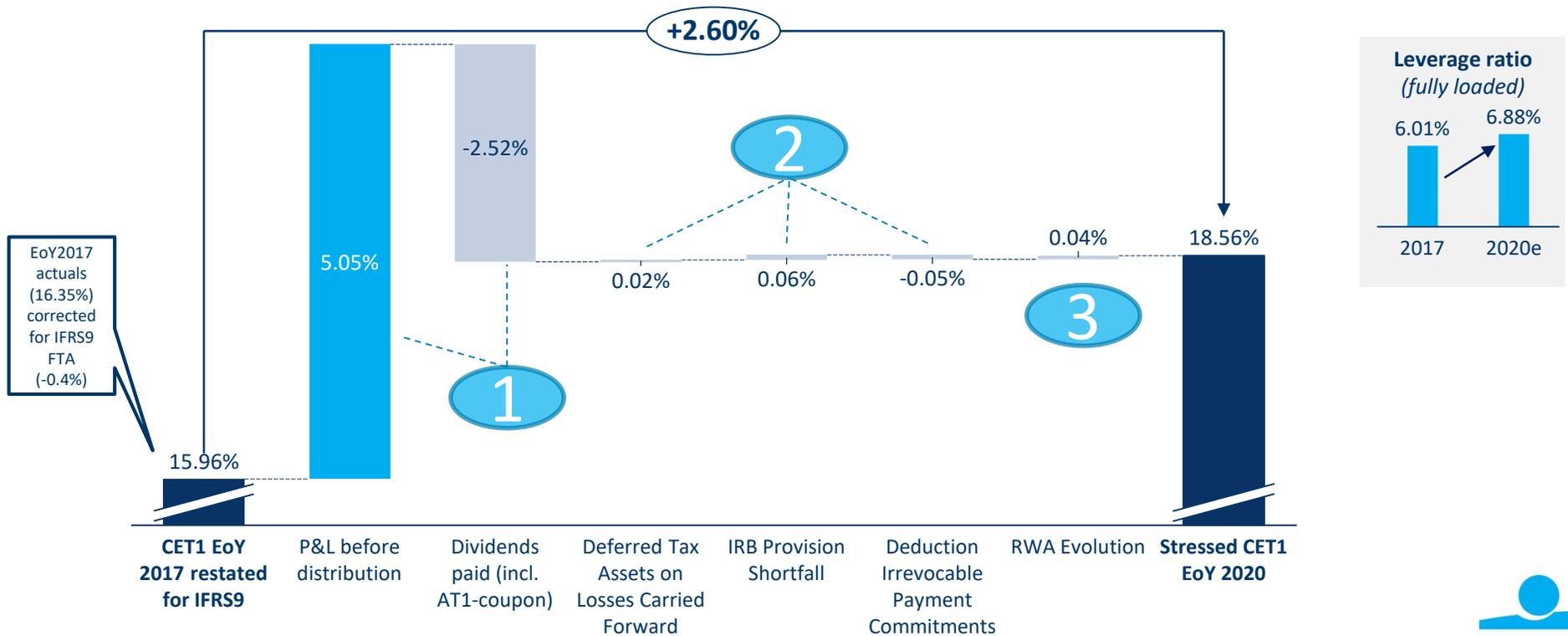
Adverse scenario	Cumulative 3y impact					Rate 2020
	GDP	Consumer prices	Resid. real estate prices	Comm. real estate prices	Equity prices	Unemployment
KBC Group main markets						
Belgium	-4.5%	1.2%	-28.9%	-26.9%	-20.1%	11.6%
Czech Republic	-3.1%	-1.6%	-5.9%	-9.4%	-17.0%	3.7%
Slovakia	-0.4%	1.9%	-14.0%	-17.3%	-15.3%	10.6%
Hungary	-0.2%	5.2%	-0.4%	-4.3%	-20.4%	6.2%
Bulgaria	-0.2%	2.8%	-0.5%	-4.3%	-17.4%	7.2%
Ireland	-0.2%	-0.8%	-5.1%	-8.3%	-21.4%	9.4%
EMU	-2.4%	1.8%	-16.5%	-17.7%	-22.6%	10.3%

- **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 2017, stressed results for 2018-2020)

Base Scenario – CET1 Fully Loaded Approach

(cumulative 2018 - 2020)

1. Of the 4,659m EUR cumulative net result, 2,329m EUR is paid out as dividend and AT1 coupon (55m EUR yearly).
2.
 - a) The deductions of DTA on losses carried forward slightly decreases due to profit generated in entities with existing DTAs on losses carried forward.
 - b) IRB Shortfall for the non-defaulted portfolio is fully reversed, given the high additional impairments due to methodological floors (defined by the scenario) and the fact that for impairments in stage 2 lifetime EL is used.
 - c) As of 2018, irrevocable payment commitments for contributions to the single resolutions fund need to be deducted from CET1.
3. See one of the next slides for more detail on RWA impact.



Base Scenario – Trend in P/L

in EUR millions	Net result 2017*	Base		
		2018e	2019e	2020e
Net interest income	3,937	3,860	3,807	3,847
Dividend income	24	24	24	24
Net result from FIFVPL	476	264	264	264
<i>o/w Net Trading Income</i>		264	264	264
<i>o/w Counterparty Credit Losses</i>		0	0	0
<i>o/w Losses from hedge accounting</i>		0	0	0
Net Result from debt instruments FVOCI	124	0	0	0
Net Fee and Commission income	2,022	2,022	2,022	2,022
Net other income	-25	-61	-70	-79
Total income	6,558	6,109	6,048	6,078
Operating expenses	-3,624	-3,684	-3,745	-3,807
Impairments	100	-462	-465	-481
<i>o/w at AC and FVOCI</i>	143	-462	-465	-481
Share in results of assoc. comp. & joint ventures	347	347	347	347
Result before tax	3,382	2,311	2,186	2,137
Income tax	-906	-679	-655	-641
Net Result	2,476	1,632	1,531	1,496
Dividends (incl. AT1 coupon) paid	1,308	816	766	748
Credit Cost ratio	-0.06%	0.30%	0.30%	0.31%

*IFRS9 restated Bank consolidated figures, in line with reclassifications done at start 2018

- NII subject to a cumulative negative impact of -0.3bn EUR given the gradual increasing interest rate scenario in combination with methodological assumptions:

- Interest income: +1.1bn EUR positive cumulative effect mainly due to:
 - Renewal of maturing assets in a gradual increasing interest rate scenario (+1.4bn EUR)
 - New defaults (-0.2bn EUR)
- Interest expense: -1.4bn EUR negative cumulative impact due to higher funding cost in a gradual increasing interest rate scenario

- FIFVPL results into a negative cumulative impact of -0.6bn EUR as from a methodological perspective no FX impact on banking book items could be assumed over the stress test horizon and net trading income is based on the 3 year average 2015-2017 result.

- **Impairment losses** are mainly concentrated in (i) Belgian and Czech corporate portfolios, (ii) Irish and Belgian mortgages and (iii) Belgian other retail portfolio. The big increase compared to 2017 is due to the imposed no-cure assumption and performing exposure moving to non-performing.

- 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



Base Scenario – Trend in RWA



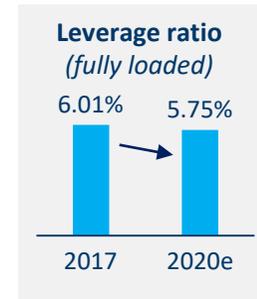
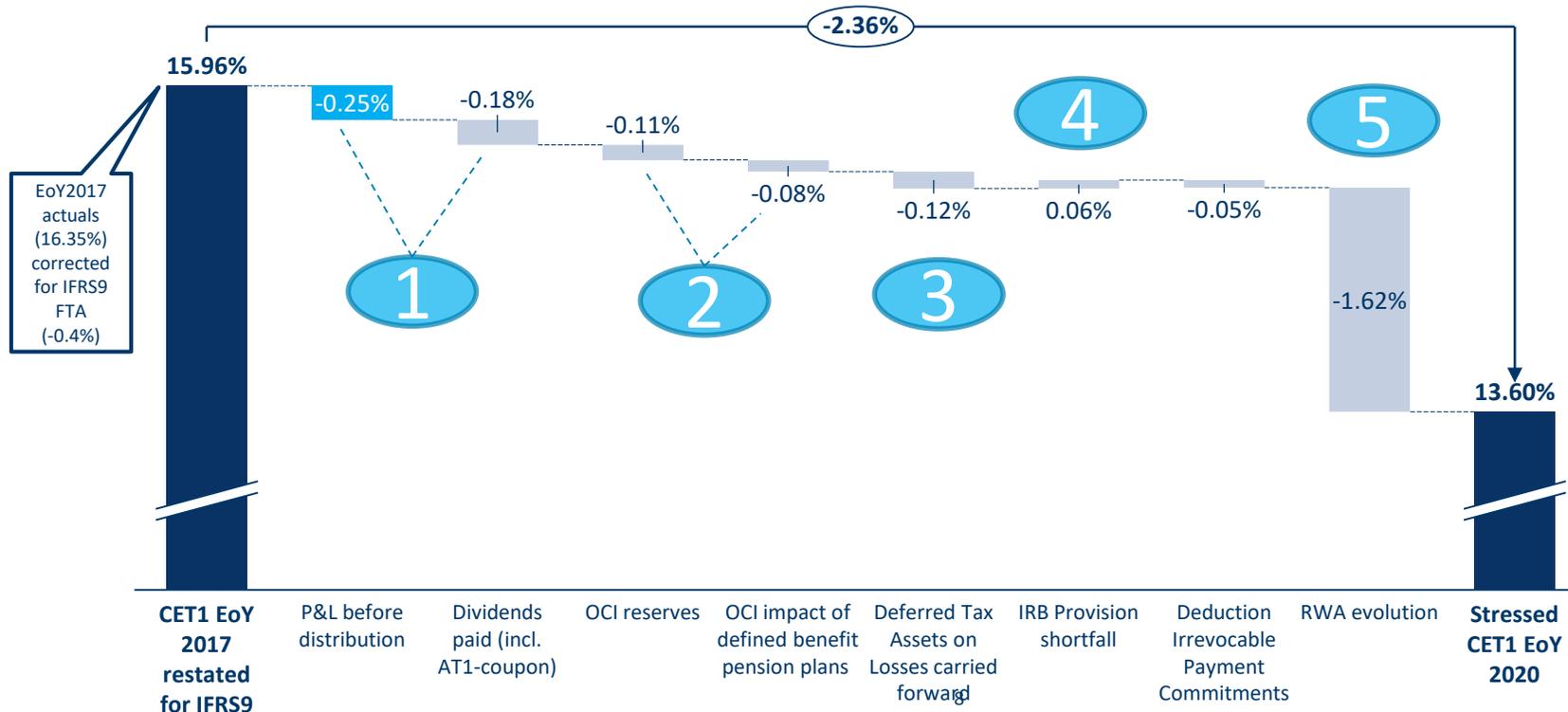
RWA remained stable at 92bn EUR compared to end of 2017

- **Credit risk RWA** (incl. RWA for securitisations) is rather constant due to methodological floor of current 2017 RWA levels.
- **RWA for market risk and operational risk** are kept constant, in line with EBA's Methodological guidance.

Adverse Scenario – CET1 Ratio Fully Loaded Approach

(cumulative 2018 - 2020)

1. Retained earnings decrease over the stress test horizon due to a cumulative loss over 2018-2020 (-229m EUR) and the pay-out of dividends (-2m EUR) and AT1 coupon (-165m EUR). The pay-out exceeds 50% of the profits as the AT1 coupon is still paid in 2018 when KBC is lossmaking and in 2019 when 50% of the profit is lower than the coupon to be paid. Dividend and AT1 coupon equal 50% of profits for 2020.
2. As of 1 January 2018 & IFRS9 introduction, a large amount of bonds are measured at Amortised Cost. This explains the rather small impact on OCI reserves.
3. Deduction for deferred tax on losses carried forward increases due to the DTA created in 2018 when KBC (consolidated) is lossmaking.
4. IRB Shortfall for the non-defaulted portfolio is fully reversed, given the high additional impairments due to methodological floors (defined by the scenario) and the fact that for impairments in stage 2 lifetime EL is used.
5. See one of the next slides for more detail on RWA impact.



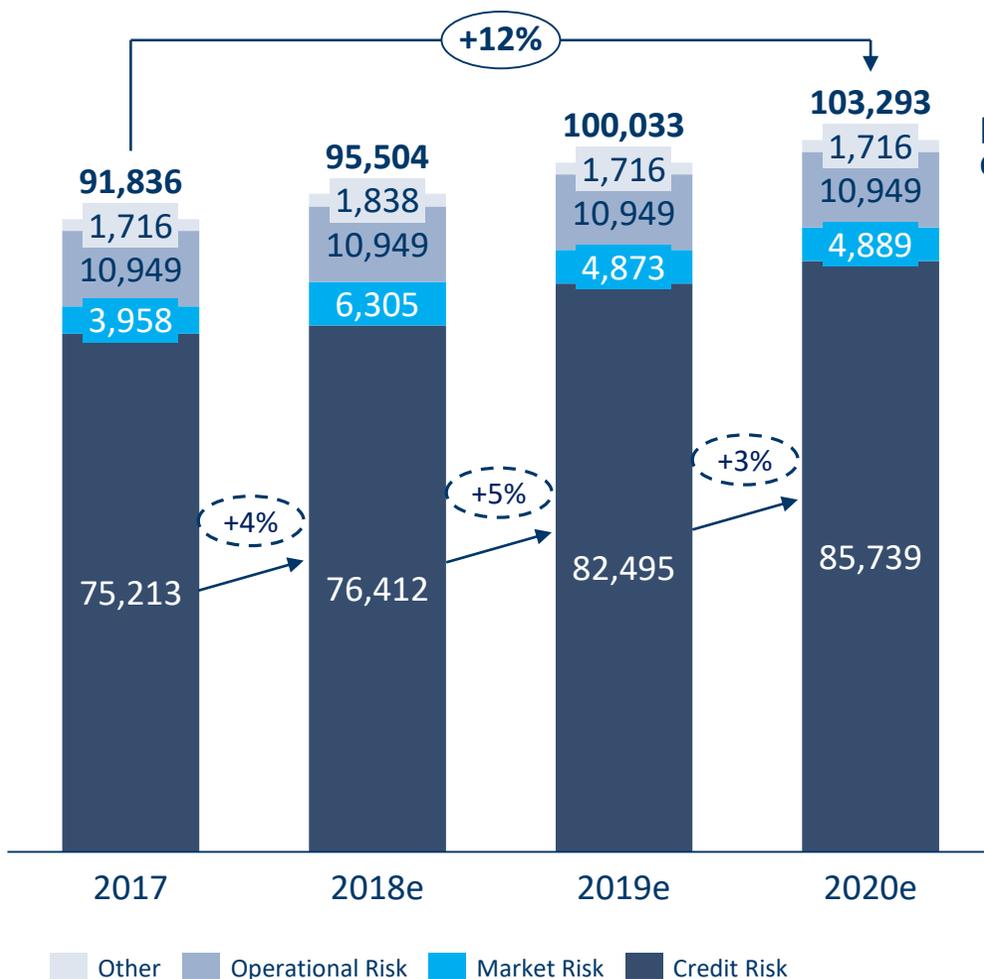
Adverse Scenario – Trend in P/L

in EUR millions	Net result 2017*	Adverse		
		2018e	2019e	2020e
Net interest income	3,937	3,496	3,404	3,258
Dividend income	24	12	12	13
Net result from FIFVPL	476	-523	127	127
<i>o/w Net Trading Income</i>		48	127	127
<i>o/w Counterparty Credit Losses</i>		-220	0	0
<i>o/w Losses from hedge accounting</i>		-318	0	0
Net Result from debt instruments FVOCI	124	0	0	0
Net Fee and Commission income	2,022	1,650	1,650	1,650
Net other income	-25	-93	-92	-90
Total income	6,558	4,541	5,101	4,959
Operating expenses	-3,624	-3,674	-3,675	-3,659
Impairments	100	-1 598	-1 654	-1 433
<i>o/w at AC and FVOCI</i>	143	-1 428	-1 552	-1 399
Share in results of assoc. comp. & joint ventures	347	197	273	296
Result before tax	3,382	-534	45	162
Income tax	-906	160	-13	-49
Net Result	2,476	-374	31	113
Dividends (incl. AT1 coupon) paid	1,308	55	55	57
Credit Cost ratio	-0.06%	0.93%	1.01%	0.91%

*IFRS9 restated Bank consolidated figures, in line with reclassifications done at start 2018

- **Negative NII impact cumulates to -1.7bn EUR given the (i) additional imposed shock on funding costs and (ii) increased defaulted exposure:**
 - Interest income: +5.7bn EUR cumulative positive effect due to:
 - Renewal of maturing assets in an increasing interest rate scenario (+6.4bn EUR)
 - Partly offset by new defaults (-0.4bn EUR) and lower margin on new production (-0.3bn EUR)
 - Interest expense: -7.4bn EUR cumulative negative impact from:
 - Funding renewal in an increasing interest rate scenario (-6.6bn EUR), including higher rates paid on customer sight deposits
 - Rating-based shock on (wholesale and retail) funding (-0.8bn EUR), prescribed by methodology.
- **FIFVPL: mostly negative impact in 2018:**
 - Shocks to net trading income, counterparty credit risk (methodology prescribes that 2 most vulnerable counterparties should default in 2018) and imposed losses from hedge accounting...
 - ...with some slight recovery of trading income as of 2019
- **F&C income** impacted by scenario parameters (e.g. equity shock) and imposed methodological constraints
- **Impairment losses** are mainly concentrated in (i) Belgian and Czech corporate portfolios, (ii) Irish and Belgian mortgages and (iii) Belgian other retail portfolio
- 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



RWA increase by 11bn EUR or by 12% compared to end of 2017

- Credit risk RWA** (incl. RWA for securitisations), as the main contributor, increase by 10.5bn EUR mainly due to increase in defaulted exposure and the adverse stress scenario leading to more conservative parameters (PD and LGD) used in the calculation of non-defaulted portfolio RWA. Credit risk RWA mainly increases in Belgium Corporate and Retail Other portfolios.
- Market risk RWA** increase in 2018, related to CVA, as the stressed market scenario causes huge collateral gaps and increased EaDs in 2018. Market Risk RWA returns to lower levels in 2019 & 2020, and is stressed by applying formulas prescribed in EBA Methodology.
- Operational risk RWA** are kept constant which is conservative given that gross income decreases over the period.
- Other RWA** is slightly impacted by RWA on 'DTA on Temporary Differences', mainly linked to losses on bonds in FVOCI and defined benefit plans in 2018 for which a DTA on temporary differences is created. This DTA is risk weighted at 250%.

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