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EQUITY RESEARCH
Commercial Finance

On the Safe Side

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Key Takeaway

Having cut our forecasts and price targets of the French banks on the weaker European macro outlook, we do the same for the Benelux banks.

However, the cuts do not change our fundamental views and ING remains our top pick in this sector as we believe it is the most advanced in digital banking. At the Investor Day on 25 March, we hope to hear more details of its digital strategy and how it plans to improve operational efficiency despite the top line pressure.

In this report, we present our updated forecasts for the Benelux banks, reviews of the retail operations in the Netherlands and Belgium and, as always, a summary of the key points from the earnings calls. Overall, we cut our forecasts by 5% and 12.4% in '19 and '20. **We lower our price targets but make no changes to recommendations or the pecking order.** As flagged already, these results **suggest the banks have become more defensive on capital distribution** and want to preserve capital either to deal comfortably with any regulatory hurdles or to position themselves for acquisitions.

Our pecking order in Benelux is:

- **ING (Buy, PT €14.1, 28% upside)** - the group delivered a strong close to 2018 and we expect it to benefit significantly from the transformational program in 2019. At the Investor Day on 25 March, we expect more detail on how the digital strategy will aid operational leverage and the development of digital in Challengers & Growth markets.
- **KBC (Hold, PT €70.5, 12% upside)** - we like the business mix; however, as we have said in the past, we think KBC is expensive. It is trading at a 13% premium to the European banks average when many European banks trade at a discount and offer better growth prospects, despite the weak macro outlook in Europe.
- **ABN (Hold, PT €22.8, 9% upside)** - we hope that the debate on future distribution is now fully understood as we believe the management views on the cycle and capital rules are clear. However, some appear to persist with their expectations of significantly higher pay-outs.

In our Benelux retail review, **the key points to highlight are better mortgage margins,** while pressure on other loans remains, combined with lower income from deposits. The volumes in Belgium continue to be strong, whereas the Dutch banks remain cautious on volumes in order to protect their margins. Also, we need to bear in mind that **the era of write-backs in Benelux is over and provisioning levels will pick up**, on economy changes for mortgages and strong growth in other lending, especially in Belgium.

Lastly, **recent news on potential money laundering cases reignited litigation** concerns and the share prices fell. However, most banks sent out reassuring messages, which we expect them to reiterate in the near future.

Maxence Le Gouvello Du Timat *
Equity Analyst
+44 (0) 20 7029 8280
mlegouvello@jefferies.com

Martina Matouskova, ACA *
Equity Associate
+44 (0) 20 7029 8352
mmatouskova@jefferies.com

Joseph Dickerson *
Equity Analyst
+44 (0) 20 7029 8309
jdickerson@jefferies.com

Benjie Creelan-Sandford *
Equity Analyst
+44 (0)20 7029 8082
bcreelansandford@jefferies.com

Aqil Taiyeb *
Equity Associate
+44 (0)20 7029 8020
ataiyeb@jefferies.com

Marco Nicolai *
Equity Associate
+44 (0) 20 7029 8122
mnicolai@jefferies.com

* Jefferies International Limited

Summary of Changes										
Company	Ticker	Rating	Price	Price Target	EPS Estimates 2018	2019	2020	P/E 2018	2019	2020
ABN	ABN NA	HOLD	€20.57	↓ €22.80	↓ €2.28	↓ €2.27	↓ €2.22	--	--	--
Previous				*€26.10*	*€2.52*	*€2.33*	*€2.59*			
ING Groep N.V.	INGA NA	BUY	€10.71	↓ €14.10	↑ €1.17	↓ €1.37	↓ €1.40	9.2x	7.8x	7.6x
Previous				*€17.10*	*€1.14*	*€1.48*	*€1.69*			
KBC	KBC BB	HOLD	€61.30	↓ €70.50	↑ €6.03	↓ €5.60	↓ €5.75	--	--	--
Previous				*€71.90*	*€5.95*	*€5.92*	*€6.19*			

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ING 'See you on 25 March'

ING finished 2018 on a triumphant note; business transformation is progressing in line with the plan and the group finalized the money laundering litigation. The share price recovered on the results day (+6%) and the stock has outperformed the SX7E by 5.4% YTD, which is the most in our French and Benelux coverage. ING remains our top pick in Benelux as we see the group as offering the most advanced story in Europe in digital banking and our new price target of €14.1 offers 28% upside. The investor day is on 25 March and we expect the group to ilustrate its digital strategy.

Q4 results delivered a nice beat with solid capital, stable NIM and good cost control. Despite the miss in domestic markets, the group managed underlying costs well demonstrating to investors that it is '*absolutely on track*' with the restructuring plan post some concerns of potential delays in H1-2018. On the earnings call, management emphasised the operational leverage and continued efforts to improve efficiency considering the group's ambition to deliver a group C/I of 50%-52% by 2020. The beat in General lending was also reassuring considering the competitive environment and Industry lending results underpin ING's niche position. However, ING has a sober outlook due to the BIV pricing and global macro slowdown, guiding for lower volume growth going forward. Challengers and Growth markets had an increase in impairments, but other trends continue to confirm the steady growth in this division where the strategy is based on primary customers with future digitalization and a wider product offering in most countries.

The investor day is 25 March and we expect the group to offer a better insight into the digital strategy by breaking down the efficiency gains between the key revenue generators and cost savings. The 'Model bank' update should be appreciated as there is limited visibility on the progress and timelines, despite Spain now being considered a fully flexed digital bank and the digital framework has been introduced in the Czech Republic and Poland.

We cut our '19 and '20 forecasts by 7.2% and 16.7% on the weaker macro outlook that we expect to lead to a rate hike delay and lower growth opportunities in most divisions. The weaker macro outlook is also reflected in the increase in our bear scenario weighting in our valuation and, all combined, **our price target is cut by 17.5% to €14.1, which still offers 28% potential upside.**

Risks to our investment case include the recent news on money laundering, on which we note it is not the financial impact and the ability to settle, but the implications for ING considering the recent closure of another case and the trust of the Dutch public and politicians. However, per ING IR, it was the bank who reported the suspicious activity and ceased the relationship following the discovery.

Valuation: ING trades on 0.9x 2018 TNAV with a 9.4% 2020e Rote, a 3.5% discount to the average of European banks. On P/E, it trades on 8.1x 2018 earnings with a dividend yield of 6.2%.

Valuation and earnings changes

ING's PT is revised to €14.1 from €17.1 and offers 28% potential upside. The Bear weighting in our valuation blend increases to 30% from 20% reflecting revisions to the European macro outlook; this means that the Bull weighting is now at 20%, while the Base is unchanged at 50%. We have not applied a structural discount/premium. Analysts' PT is €13.82, -2.7% since Q3, and it is a Buy rating for 59% of analysts, up from 46% in Q3.

Exhibit 1 - ING valuation matrix

	Price matrix	P/E 2019E	P/E 2020E	P/TBV 2019E	EPS 2019	EPS 2020	TBVps 2019
Target price	14.1	10.3x	10.1x	1.05x	1.37	1.40	13.34
Bull	18.5	12.5x	11.1x	1.38x	1.48	1.67	13.43
Base	15.2	11.1x	10.9x	1.14x	1.37	1.40	13.34
Bear	9.2	9.0x	9.0x	0.70x	1.02	1.02	13.06

Source: Jefferies estimates

The PT is down -17.7% to €14.1 driven by the changes in our valuation methodology and cuts in our forecasts: -7.2% in 2019 and -16.7% in 2020. The cuts in earnings reflect the delay of the rate hike to 2021, which mainly impacts the Netherlands and Belgium, which means domestic retail is down by 11.6% and 20% in '19-'20. In Growth and Challengers, we increased the CoR and cut the revenues slightly as most divisions are affected bythe macro growth in Eurozone, and this leads to cuts of 5.2% and 18% in '19-'20. The wholesale markets are flat for 2019 and down by 6.3% in 2020 as we have lowered the lending volume growth as guided by ING.

The 2017A-2020E net income CAGR is 4.2%, with growth within Domestic retail -0.3% as, despite the positive jaws, the continued pressure on margins due to the rate hike delay and an increased CoR, deliver a PBT CAGR of -1.9%. The G&C total income CAGR is 5.7% driven by growth in primary customers, a wider digital offering and fee income support. Wholesale bank is growing at 2.3% where, despite the lower growth, we expect ING to manage margins. In terms of contribution to the 2020E net income of €5,610m, the biggest contributor is the Wholesale Market division at 42%, followed by 38% from Domestic retail and 25% from G&C, with a 5% drag from Corporate line.

Exhibit 2 - ING earnings changes and consensus

	New JEF forecast €m			Change in JEF forecast (%)			JEF vs consensus (%)			Consensus €m			Old JEF forecast €m		
ING	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Total income	**18,354**	**18,943**	**20,515**	**-3.9%**	**-8.3%**	**na**	**0.0%**	**0.1%**	**5.4%**	**18,347**	**18,925**	**19,464**	**19,108**	**20,653**	**na**
Operating expenses	(9,593)	(9,820)	(10,266)	-0.5%	-0.4%	na	-4.2%	-2.8%	0.7%	(10,014)	(10,099)	(10,194)	(9,639)	(9,863)	na
Gross operating income	**8,762**	**9,124**	**10,249**	**-7.5%**	**-15.4%**	**na**	**4.7%**	**2.8%**	**9.3%**	**8,366**	**8,874**	**9,380**	**9,470**	**10,790**	**na**
Cost of risk	(1,104)	(1,427)	(2,588)	-8.2%	-8.5%	na	-1.2%	6.7%	72.6%	(1,118)	(1,337)	(1,499)	(1,202)	(1,560)	na
Operating income	**7,657**	**7,697**	**7,662**	**-7.4%**	**-16.6%**	**na**	**6.0%**	**2.7%**	**-2.1%**	**7,223**	**7,491**	**7,827**	**8,267**	**9,230**	**na**
Equity affiliates	-	-	-	-	-	na	-	-	-	-	-	-	-	-	na
Other	-	-	-	-	-	na	-	-	-	-	-	-	-	-	na
Pre-tax income	**7,657**	**7,697**	**7,662**	**-7.4%**	**-16.6%**	**na**	**6.0%**	**2.7%**	**-2.1%**	**7,223**	**7,491**	**7,827**	**8,267**	**9,230**	**na**
Tax	(2,067)	(2,001)	(1,992)	-7.7%	-16.4%	na	5.5%	2.2%	-2.0%	(1,959)	(1,958)	(2,033)	(2,241)	(2,393)	na
Net income	**5,590**	**5,696**	**5,670**	**-7.2%**	**-16.7%**	**na**	**6.2%**	**2.9%**	**-2.1%**	**5,264**	**5,533**	**5,794**	**6,026**	**6,837**	**na**
Non-controlling interests	- 82	- 86	- 88	-8.2%	-18.4%	na	-21.4%	-18.2%	-20.3%	- 105	- 105	- 110	- 90	- 105	na
Group net income	**5,507**	**5,610**	**5,582**	**-7.2%**	**-16.7%**	**na**	**5.2%**	**3.3%**	**-1.7%**	**5,237**	**5,431**	**5,680**	**5,936**	**6,732**	**na**
EPS	1.37	1.40	1.39	-7.5%	-17.1%	na	1.5%	-0.3%	-4.8%	1.35	1.4	1.46	1.48	1.69	na
DPS	0.74	0.77	0.76	-10.8%	-21.4%	na	7.2%	9.7%	5.4%	0.69	0.7	0.725	0.83	0.98	na
Pay-out	54%	55%	55%	-3.6%	-5.2%	na	5.7%	10.0%	10.8%	51%	50%	50%	56%	58%	na
CET1	14.4%	14.5%	14.3%	2.3%	2.2%	na	-2.2%	-3.0%	-5.1%	14.7%	14.9%	15.1%	14.1%	14.2%	na
RoE adj	9.5%	9.1%	8.1%	-9.3%	-18.8%	na	-5.2%	-10.2%	-19.4%	10.1%	10.1%	10.0%	10.5%	11.2%	na

Source: Jefferies estimates, company data

ING CAGR 2017-2020E

2017	Total retail	Domestic retail	Netherlands	Belgium	Growth & Challengers	Germany Welcome	Other retail	Wholesale Markets	Industry & General	Industry	General	Financial Markets	Treasury	Operating divisions	Corporate line	Total
Total income	11,861	6,942	4,469	2,474	4,919	1,892	3,027	5,923	4,419	2,836	1,583	1,086	418	17,784	-78	17,706
Operating expenses	-6,747	-3,795	-2,212	-1,584	-2,951	-1,032	-1,919	-2,792	-1,543	-728	-815	-1,003	-246	-9,539	-290	-9,829
Gross operating income	5,114	3,147	2,257	890	1,968	860	1,108	3,131	2,877	2,108	768	82	172	8,245	-368	7,877
Cost of risk	-391	-117	-13	-104	-274	-10	-284	-287	-160	-143	-17	-2	-125	-678	-1	-678
Profit before tax	4,723	3,030	2,244	786	1,694	870	824	2,844	2,717	1,966	751	80	47	7,568	-369	7,198
Taxation	-1,292	-861	-566	-296	-430	-241	-189	-880	-740	-537	-202	-18	-122	-2,172	13	-2,159
Minority interests	-68	2	-	2	-70	-3	-67	-15	-12	-6	-7	-4	2	-83	-	-83
Net results	3,363	2,170	1,678	491	1,194	626	568	1,949	1,965	1,422	543	58	-73	5,313	-356	4,957

2020	Total retail	Domestic retail	Netherlands	Belgium	Growth & Challengers	Germany Welcome	Other retail	Wholesale Markets	Industry & General	Industry	General	Financial Markets	Treasury	Operating divisions	Corporate line	Total
Total income	12,671	6,867	4,388	2,479	5,804	2,082	3,722	6,253	5,173	3,292	1,881	1,007	73	18,924	20	18,943
Operating expenses	-6,730	-3,552	-2,093	-1,460	-3,177	-1,020	-2,157	-2,857	-1,741	-796	-945	-960	-157	-9,587	-233	-9,820
Gross operating income	5,941	3,315	2,295	1,019	2,627	1,062	1,565	3,396	3,433	2,496	936	47	-84	9,337	-213	9,124
Cost of risk	-1,073	-451	-222	-229	-622	-134	-488	-354	-333	-271	-62	-3	-19	-1,427	-	-1,427
Profit before tax	4,868	2,864	2,074	790	2,005	928	1,077	3,042	3,100	2,226	875	44	-102	7,910	-213	7,697
Taxation	-1,241	-706	-508	-197	-535	-309	-226	-705	-775	-523	-252	-13	82	-1,946	-55	-2,001
Minority interests	-79	-9	-	-9	-70	-2	-68	-7	-6	-6	-	-1	-	-86	-	-86
Net results	3,548	2,149	1,566	584	1,399	616	783	2,330	2,320	1,697	623	31	-20	5,878	-268	5,610

Growth	Total retail	Domestic retail	Netherlands	Belgium	Growth & Challengers	Germany Welcome	Other retail	Wholesale Markets	Industry & General	Industry	General	Financial Markets	Treasury	Operating divisions	Corporate line	Total
Total income	2.2%	-0.4%	-0.6%	0.1%	5.7%	3.2%	7.1%	1.8%	5.4%	5.1%	5.9%	-2.5%	-44.1%	2.1%	-163.1%	2.3%
Operating expenses	-0.1%	-2.2%	-1.8%	-2.7%	2.5%	-0.4%	4.0%	0.8%	4.1%	3.0%	5.1%	-1.5%	-13.9%	0.2%	-7.1%	0.0%
Gross operating income	5.1%	1.7%	0.6%	4.6%	10.1%	7.3%	12.2%	2.7%	6.1%	5.8%	6.8%	-16.9%	-178.6%	4.2%	-16.6%	5.0%
Cost of risk	40.0%	56.8%	159.2%	30.0%	31.4%	-339.3%	19.8%	7.3%	27.6%	23.8%	53.2%	18.2%	-47.1%	28.2%	-100.0%	28.1%
Profit before tax	1.0%	-1.9%	-2.6%	0.2%	5.8%	2.2%	9.3%	2.3%	4.5%	4.2%	5.2%	-18.2%	-229.3%	1.5%	-16.7%	2.3%
Taxation	-1.3%	-6.4%	-3.5%	-12.6%	7.6%	8.6%	6.2%	-7.1%	1.5%	-0.9%	7.6%	-11.8%	-187.4%	-3.6%	-261.1%	-2.5%
Minority interests	5.1%	-279.7%	NA	-279.7%	0.3%	-4.6%	0.5%	-24.0%	-22.4%	0.8%	-100.0%	-42.5%	-100.0%	1.1%	NA	1.1%
Net results	1.8%	-0.3%	-2.3%	5.9%	5.4%	-0.5%	11.3%	6.1%	5.7%	6.1%	4.7%	-19.0%	-34.7%	3.4%	-9.0%	4.2%

Contribution to growth by division (%)	Total retail	Domestic retail	Netherlands	Belgium	Growth & Challengers	Germany Welcome	Other retail	Wholesale Markets	Industry & General	Industry	General	Financial Markets	Treasury	Operating divisions	Corporate line	Total
Total income	65.4%	-6.1%	-6.5%	0.4%	71.5%	15.4%	56.2%	26.7%	60.9%	36.9%	24.1%	-6.4%	-27.9%	92.1%	7.9%	100.0%
Operating expenses	183.7%	2635.5%	1292.1%	1343.4%	-2451.7%	127.5%	-2579.3%	-703.9%	-2147.0%	-738.8%	-1408.3%	476.6%	966.6%	-520.2%	620.2%	100.0%
Gross operating income	66.3%	13.5%	3.1%	10.4%	52.8%	16.2%	36.7%	21.3%	44.6%	31.1%	13.5%	-2.8%	-20.5%	87.6%	12.4%	100.0%
Cost of risk	91.1%	44.6%	27.9%	16.7%	46.5%	19.2%	27.3%	9.0%	23.1%	17.1%	5.9%	0.2%	-14.2%	100.1%	-0.1%	100.0%
Profit before tax	29.1%	-33.3%	-34.2%	0.9%	62.4%	11.6%	50.8%	39.6%	76.9%	52.2%	24.7%	-7.3%	-30.0%	68.7%	31.3%	100.0%
Taxation	32.3%	98.9%	36.6%	62.3%	-66.6%	-42.9%	-23.7%	111.0%	-22.2%	9.2%	-31.3%	3.6%	129.5%	143.3%	-43.3%	100.0%
Minority interests	409.5%	385.7%	0.0%	385.7%	23.8%	-13.8%	37.6%	-309.5%	-239.3%	5.2%	-244.5%	-134.0%	63.8%	100.0%	0.0%	100.0%
Net results	28.3%	-3.1%	-17.3%	14.1%	31.4%	-1.4%	32.9%	58.3%	54.3%	42.0%	12.3%	-4.1%	8.1%	86.6%	13.4%	100.0%

Source: Company data, Jefferies estimates

Exhibit 3 - ING Financial forecast

	2015	2016	2017	2018	2019E	2020E	2021E		2016	2017	2018	2019E	2020E	2021E
Condensed P&L (€m)									**% YoY**					
Total income	**16,552**	**17,458**	**17,706**	**18,097**	**18,354**	**18,943**	**20,515**		**5%**	**1%**	**2%**	**1%**	**3%**	**8%**
ow Domestic retail activities	6,949	7,010	6,942	6,856	6,784	6,867	7,376		1%	-1%	-1%	-1%	1%	7%
ow Others retail activities	4,318	4,782	4,919	5,307	5,555	5,804	6,256		11%	3%	8%	5%	4%	8%
ow Wholesale activities	5,570	5,608	5,923	5,781	5,951	6,253	6,853		1%	6%	-2%	3%	5%	10%
ow Corporate Line	-285	59	-78	173	64	20	30		-121%	-232%	-322%	-63%	-69%	53%
- Clean Revenues	***16,401***	***17,345***	***17,622***	***18,077***	***18,354***	***18,943***	***20,515***		***6%***	***2%***	***3%***	***2%***	***3%***	***8%***
Operating expenses	-9,246	-9,456	-9,829	-9,907	-9,593	-9,820	-10,266		2%	4%	1%	-3%	2%	5%
Gross operating income	**7,306**	**8,002**	**7,877**	**8,191**	**8,762**	**9,124**	**10,249**		**10%**	**-2%**	**4%**	**7%**	**4%**	**12%**
Cost of risk	-1,347	-974	-678	-657	-1,104	-1,427	-2,588		-28%	-30%	-3%	68%	29%	81%
Operating income	**5,959**	**7,029**	**7,198**	**7,533**	**7,657**	**7,697**	**7,662**		**18%**	**2%**	**5%**	**2%**	**1%**	**0%**
Others non-operating items	0	0	0	0	0	0	0		-	-	-	-	-	-
Pre-tax income	**5,959**	**7,029**	**7,198**	**7,533**	**7,657**	**7,697**	**7,662**		**18%**	**2%**	**5%**	**2%**	**1%**	**0%**
- Clean pre-tax income	***6,428***	***7,859***	***8,178***	***8,586***	***8,169***	***8,111***	***7,856***		***22%***	***4%***	***5%***	***-5%***	***-1%***	***-3%***
NET INCOME	**4,529**	**4,177**	**4,957**	**4,623**	**5,507**	**5,610**	**5,582**		**-8%**	**19%**	**-7%**	**19%**	**2%**	**0%**
Hybrid costs	-90	-135	-170	-185	-185	-185	-185		50%	26%	9%	0%	0%	0%
Non-Bank contribution	-520	475	-52	104	-	-	-		na	na	na	na	na	na
ING GROUP NET INCOME	**3,919**	**4,517**	**4,735**	**4,541**	**5,322**	**5,424**	**5,397**		**15%**	**5%**	**-4%**	**17%**	**2%**	**-1%**
- ING Group Net income Clean	***4,136***	***4,966***	***5,111***	***5,279***	***4,977***	***4,965***	***4,734***		***20%***	***3%***	***3%***	***-6%***	***0%***	***-5%***
GROUP Data per share	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**		**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Stated EPS (€)	1.01	1.17	1.22	1.17	1.37	1.40	1.39		15%	5%	-4%	17%	2%	-1%
Clean EPS (€)	1.07	1.28	1.32	1.36	1.28	1.28	1.22		20%	3%	3%	-6%	0%	-5%
Net DPS (€)	0.65	0.66	0.67	0.68	0.74	0.77	0.76		2%	2%	1%	9%	4%	-1%
Pay-out ratio	64%	57%	55%	58%	54%	55%	55%							
Dividend Yield	6.4%	4.9%	4.4%	7.2%	6.7%	7.0%	6.9%							
BVPS (€)	12.4	12.9	13.0	13.1	13.8	14.4	15.8		4%	1%	1%	5%	5%	10%
TBVPS (€)	12.0	12.5	12.6	12.7	13.3	14.0	15.4		4%	1%	1%	5%	5%	10%
NOSH (avg diluted) (m)	3,862	3,873	3,878	3,881	3,885	3,885	3,885							
Capital & Solvency														
CET1 capital FL B3	40.8	44.6	45.6	45.5	47.9	50.3	52.8		9%	2%	0%	5%	5%	5%
FL B3 RWAs	313.8	314.3	309.9	314.1	333.1	347.7	368.0		0%	-1%	1%	6%	4%	6%
CET1 ratio FL B3	13.0%	14.2%	14.7%	14.5%	14.4%	14.5%	14.3%							
Tier 1 FL B3 Capital	47.4	52.3	50.7	50.8	53.3	55.7	58.2							
Tier 1 FL B3 ratio	15.1%	16.6%	16.4%	16.2%	16.0%	16.0%	15.8%							
Capital Rotation (Rev./CET 1 Cap)	40.6%	39.2%	38.9%	39.8%	38.3%	37.6%	38.9%							
EQUITY RATIOS														
Stated RoE	8.0%	9.3%	9.5%	9.0%	10.2%	9.9%	9.2%							
Clean RoE	8.4%	10.2%	10.2%	10.4%	9.5%	9.1%	8.1%							
Stated RoTE	8.4%	9.6%	9.8%	9.3%	10.5%	10.2%	9.5%							
Clean RoTE	8.9%	10.5%	10.5%	10.8%	9.8%	9.4%	8.3%							
Group Key financial ratios														
Stated Revenues/average assets	1.83%	1.92%	2.05%	2.09%	2.08%	2.13%	2.22%							
Clean Revenues/average Assets	1.81%	1.90%	2.04%	2.09%	2.08%	2.13%	2.22%							
Stated Revenues/average RWA	5.28%	5.52%	5.71%	5.80%	5.67%	5.56%	5.73%							
Clean Revenues/average RWA	5.23%	5.49%	5.68%	5.79%	5.67%	5.56%	5.73%							
Stated Cost/Income	55.9%	54.2%	55.5%	54.7%	52.3%	51.8%	50.0%							
Clean Cost/Income	52.6%	49.1%	49.7%	48.9%	49.5%	49.7%	49.1%							
Stated LLP/avg loans	0.25%	0.18%	0.12%	0.11%	0.18%	0.23%	0.40%							
Stated LLP/avg RWA	0.43%	0.31%	0.22%	0.21%	0.34%	0.42%	0.72%							
Loss absorption ratio vs Avg loans	1.73%	1.72%	1.73%	1.69%	1.58%	1.56%	1.59%							
NII/average assets	1.47%	1.53%	1.58%	1.61%	1.61%	1.65%	1.74%							
Key balance sheet items (€m)	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**		**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Loans and receivables due from customers	537	564	575	639	618	639	652		5%	2%	11%	-3%	3%	2%
Intangibles	1.6	1.5	1.5	1.8	1.8	1.8	1.8		-5%	-1%	25%	0%	0%	0%
TOTAL ASSETS	842	1,042	846	887	874	907	939		24%	-19%	5%	-1%	4%	4%
Due to customers	509	523	540	556	556	556	572		3%	3%	3%	0%	0%	3%
Total minority interests	0.6	0.6	0.7	0.7	0.7	0.7	0.7		-5%	18%	0%	0%	0%	0%
Ordinary shareholders' equity	47.8	49.8	50.4	50.9	53.5	56.0	61.4		4%	1%	1%	5%	5%	10%
Asset Quality														
NPL's / gross total loans (ex repos)	3%	2%	2%	2%	2%	2%	2%							
Coverage Ratio	38%	40%	40%	39%	39%	39%	38%							
GROUP Free cash flow (€bn)														
Gross free cash flow	2.3	4.4	5.3	4.0	3.1	3.7	3.0							
Gross free cash flow / RWAs	0.7%	1.4%	1.7%	1.3%	0.9%	1.1%	0.8%							
Net free cash flow	-0.2	1.9	2.7	1.4	0.2	0.7	0.0							
Net free cash flow / RWAs	-0.1%	0.6%	0.9%	0.4%	0.1%	0.2%	0.0%							

Source: Company data, Jefferies estimates

KBC 'Rolling forward'

Our price target is cut 2% to €70.5 on forecast cuts, but we also roll forward our valuation to 2021. Our new PT offers 12% potential upside, which is short of the 15% upside required for a Buy on our absolute return methodology. We maintain a Hold, which we view as justifiable considering the slowdown of the European economy that we expect will lower growth at KBC. Aside from that, KBC remains a lean machine, and delivers a 15.2% adj RoTE in 2020e; however, this is at a 13% premium to the European banks average in an environment where many European banks trade at a discount and offer better growth prospects and a more diversified revenue stream.

We cut our forecasts by 5.3% and 7% in '19 and '20; **reflecting the slowdown of the European economy**, which has led to a delay in the ECB rate hike to 2021 and impacts the Belgium unit the most. Only one rate hike is factored in Czech over the forecast period, in 2019; and despite the potential for more hikes, we remain cautious on growth as the Czech economy is highly dependant on Germany. The European macro outlook has a drag on other international units in our base case, leads to limited upside to gain in our bull scenario, and leads to very severe implications in our bear scenario.

On the positive side, we forecast good delivery of costs and a capital stronghold. The opex guidance CAGR of 1.6% means we expect the 2020 C/I at 53.3% against the target of 54%. The big investments in 2018 should finally crystallize by end 2019 and we expect KBC to tackle further the cost of growing wages in CEE. With a BIII CET1 of 16%, KBC leads the solvency rich banks, and the group will provide an update on the CET1 target of 14% at Q1, post the review of peers' year-end capital positions; although the expectation is that the target will not change much. **We expect no major regulatory challenges in 2019**, with the TRIM impact in 2019 expected to be manageable, and the only other capital hurdle for KBC being phasing in of Basel IV, but this is already captured in the CET1 target. We expect a pay-out of 65% until 2020. As we flagged in our French banks report, **our feeling is that banks are now positioning themselves on capital protective strategies while the capital rules are in transition.**

Aside from the capital update at Q1, **the other trigger is the potential acquisition of Budapest Bank.** The Hungarian cabinet should inform the PM by June on the readiness of the disposal; the price sought was '*a price equal to or above what the state paid for the bank*', which was $700m. KBC's RoI hurdle is that the acquired assets must deliver the returns of the group: this means that with expected returns between 12%-15% KBC would have to deliver 15%-23% synergies on the Hungarian operations.

Risks to our investment case include more severe macro deterioration in the Eurozone and longer than expected market turbulence weighing on the asset management revenues.

Valuation: KBC trades on 1.6x 2018 TNAV with a 15.2% 2020e Rote, a 13% premium to the average of European banks. On P/E, it trades on 9.9x 2018 earnings with a dividend yield of 6.2%.

Valuation and earnings changes

KBC's PT is revised to €70.5 from €71.9 and offers 12% potential upside. The Bear weighting in our valuation blend increases to 25% from 20% reflecting the revisions to the European macro outlook; this means that the Bull weighting is now at 25%, while the Base is unchanged at 50%. We have applied a structural premium of 10%. Analysts' PT is €77.16, flat since Q3, and it is a Buy rating for 74% of analysts.

Exhibit 4 - KBC valuation matrix

	Price maxtrix	P/E 2019E	P/E 2020E	P/TBV 2019	EPS 2019	EPS 2020	TBVps 2019
Target price	70.5	12.6x	12.3x	1.75x	5.60	5.75	40.19
Bull	85.3	13.3x	11.9x	2.11x	6.40	7.19	40.47
Base	77.2	13.8x	13.4x	1.92x	5.60	5.75	40.19
Bear	42.2	10.9x	12.1x	1.07x	3.88	3.50	39.58

Source: Jefferies estimates

The PT is down -2% to €70.5 given the changes in our valuation methodology and cuts in our forecasts: -5.3% in 2019 and -7% in 2020. The cuts in earnings reflect the delay of the rate hike to 2021, which mainly impacts Belgium, and then lower revenues in all other divisions on the back of lower macro forecasts in Europe.

The 2017A-2020E net income CAGR is -2.5% or -4.5% on a PBT basis as the group benefits from a tax rate change. PBT CAGR in Belgium is -7.3% on the margin compression, in CZ PBT growth is 1.9% as it benefits from rate hikes, but the lending volumes are slowing down; International retail is -3.9% as the division had large write-backs in Ireland in 2017 and 2018. In terms of contribution to the 2020E net income of €2,457m, the biggest contributor is Belgium at 58%, CZ at 30% and then 17% comes from International retail.

Exhibit 5 - KBC earnings changes and consensus

	New JEF forecast €m			Change in JEF forecast (%)			JEF vs consensus (%)			Consensus €m			Old JEF forecast €m		
KBC	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
Total income	**7,633**	**7,977**	**8,484**	**-1.8%**	**-2.7%**	**na**	**-0.9%**	**0.3%**	**3.6%**	**7,704**	**7,955**	**8,189**	**7,776**	**8,202**	**na**
Operating expenses	(4,329)	(4,478)	(4,519)	0.0%	0.2%	na	-0.1%	1.9%	1.5%	(4,332)	(4,394)	(4,453)	(4,330)	(4,469)	na
Gross operating income	**3,304**	**3,499**	**3,965**	**-4.1%**	**-6.3%**	**na**	**-2.0%**	**-1.7%**	**6.1%**	**3,372**	**3,561**	**3,736**	**3,446**	**3,733**	**na**
Cost of risk	(223)	(334)	(587)	16.8%	-10.5%	na	-2.5%	-8.6%	40.5%	(229)	(366)	(418)	(191)	(374)	na
Operating income	**3,080**	**3,165**	**3,378**	**-5.4%**	**-5.8%**	**na**	**-2.0%**	**-0.9%**	**1.8%**	**3,143**	**3,195**	**3,318**	**3,255**	**3,359**	**na**
Equity affiliates	26	26	26	0.0%	0.0%	na	18.2%	18.2%	13.0%	22	22	23	26	26	na
Other	-	-	-	-	-	na	-	-	-	-	-	-	-	-	na
Pre-tax income	**3,106**	**3,191**	**3,404**	**-5.3%**	**-5.7%**	**na**	**-1.8%**	**-0.8%**	**1.9%**	**3,164**	**3,218**	**3,342**	**3,281**	**3,385**	**na**
Tax	(714)	(734)	(783)	-5.3%	-1.5%	na	-2.1%	0.5%	7.2%	(730)	(730)	(730)	(755)	(745)	na
Net income	**2,392**	**2,457**	**2,621**	**-5.3%**	**-7.0%**	**na**	**-1.7%**	**-2.5%**	**-1.5%**	**2,434**	**2,520**	**2,662**	**2,527**	**2,640**	**na**
Non-controlling interests	-	-	-	-	-	na	-100.0%	-100.0%	-100.0%	- 6	- 4	- 9	-	-	na
Group net income	**2,392**	**2,457**	**2,621**	**-5.3%**	**-7.0%**	**na**	**-1.5%**	**-2.3%**	**0.3%**	**2,428**	**2,514**	**2,613**	**2,527**	**2,640**	**na**
EPS	5.60	5.75	6.15	-5.9%	-2.8%	na	-3.0%	-4.5%	-2.1%	5.77	6.02	6.28	5.95	5.92	na
DPS	3.64	3.74	3.99	-5.9%	-2.8%	na	-7.7%	-9.3%	-4.4%	3.94	4.12	4.18	3.87	3.85	na
Pay-out	65%	65%	65%	0.0%	0.0%	na	-5.8%	-5.9%	-4.0%	69%	69.1%	67.7%	65%	65%	na
CET1	16.3%	16.7%	17.2%	-1.2%	-0.5%	na	0.1%	1.2%	5.1%	16.3%	16.5%	16.4%	16.5%	16.8%	na
RoTE	14.3%	14.0%	14.0%	-7.0%	-3.4%	na	na	na	na	na	na	na	15.3%	14.5%	na

Source: Jefferies estimates, company data

Exhibit 6 - KBC CAGR 2017A - 2020E

2017	Belgium	Czech Rep	Interna. Mkt	Ireland	Hungary	Slovakia	Bulgaria	Operating activities	Group center	Total
Total income	4,952	1,490	1,175	168	514	320	173	7,617	82	7,699
Operating expenses	-2,452	-646	-835	-188	-346	-204	-96	-3,932	-140	-4,072
Gross operating profit	**2,501**	**844**	**340**	**-20**	**169**	**116**	**76**	**3,685**	**-58**	**3,627**
Cost of Risk	-120	-23	188	215	7	-13	-21	45	-17	28
Operating income	**2,381**	**821**	**528**	**195**	**175**	**103**	**55**	**3,731**	**-76**	**3,655**
Equity affiliates	-13	21	0	0	0	0	0	9	0	9
Pre-tax income	**2,368**	**843**	**529**	**195**	**175**	**103**	**55**	**3,739**	**-76**	**3,664**
Taxation	-712	-141	-85	-27	-29	-23	-6	-937	-71	-1,009
Minority interest	0	0	0	0	0	0	0	0	0	0
Net Income	**1,656**	**702**	**444**	**168**	**146**	**80**	**50**	**2,802**	**-147**	**2,655**

2020	Belgium	Czech Rep	Interna. Mkt	Ireland	Hungary	Slovakia	Bulgaria	Operating activities	Group center	Total
Total income	4,664	1,776	1,517	306	594	352	265	7,957	20	7,977
Operating expenses	-2,569	-840	-988	-240	-376	-230	-141	-4,397	-81	-4,478
Gross operating profit	**2,095**	**936**	**530**	**66**	**218**	**121**	**124**	**3,560**	**-61**	**3,499**
Cost of Risk	-211	-63	-60	-15	-9	-12	-24	-334	0	-334
Operating income	1,884	873	**469**	50	209	110	100	**3,226**	**-61**	**3,165**
Equity affiliates	2	20	0	0	0	0	0	22	4	26
Pre-tax income	**1,886**	**893**	**469**	**50**	**209**	**110**	**100**	**3,248**	**-57**	**3,191**
Taxation	-471	-152	-54	11	-29	-25	-11	-678	-56	-734
Minority interest	0	0	0	0	0	0	0	0	0	0
Net Income	1,414	741	**415**	61	180	85	90	**2,570**	-113	**2,457**

Growth	Belgium	Czech Rep	Interna. Mkt	Ireland	Hungary	Slovakia	Bulgaria	Operating activities	Group center	Total
Total income	-2.0%	6.0%	8.9%	22.2%	4.9%	3.2%	15.4%	1.5%	-37.4%	1.2%
Operating expenses	1.6%	9.2%	5.8%	8.5%	2.8%	4.1%	13.5%	3.8%	-16.7%	3.2%
Gross operating profit	**-5.7%**	**3.5%**	**15.9%**	**-247.8%**	**9.0%**	**1.6%**	**17.7%**	**-1.1%**	**1.6%**	**-1.2%**
Cost of Risk	20.7%	40.4%	-168.4%	-141.4%	-210.7%	-3.9%	4.8%	-294.8%	-100.0%	-329.1%
Operating income	**-7.5%**	**2.0%**	**-3.9%**	**-36.3%**	**6.0%**	**2.2%**	**21.9%**	**-4.7%**	**-6.9%**	**-4.7%**
Equity affiliates	-153.9%	-2.0%	-100.0%	NA	-100.0%	NA	-100.0%	37.0%	NA	44.9%
Pre-tax income	**-7.3%**	**1.9%**	**-3.9%**	**-36.3%**	**6.0%**	**2.2%**	**21.9%**	**-4.6%**	**-9.0%**	**-4.5%**
Taxation	-12.8%	2.6%	-13.9%	-173.3%	0.2%	2.2%	23.2%	-10.3%	-7.7%	-10.1%
Minority interest	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net Income	**-5.1%**	**1.8%**	**-2.2%**	**-28.7%**	**7.0%**	**2.2%**	**21.7%**	**-2.8%**	**-8.4%**	**-2.5%**

Source: Jefferies estimates, company data

Exhibit 7 - KBC Financial forecast

KBC Summary	2015	2016	2017	2018	2019E	2020E	2021E		2016	2017	2018	2019E	2020E	2021E
Condensed P&L (€m)									% YoY					
Total Income	**7,151**	**7,206**	**7,699**	**7,513**	**7,633**	**7,977**	**8,484**		**0.8%**	**6.8%**	**-2.4%**	**1.6%**	**4.5%**	**6.4%**
ow Belgium	4,882	4,679	4,952	4,549	4,505	4,664	4,991		-4.2%	5.8%	-8.1%	-1.0%	3.5%	7.0%
ow Czech Republic	1,278	1,332	1,490	1,539	1,672	1,776	1,864		4.2%	11.9%	3.3%	8.6%	6.2%	4.9%
ow Hungary	541	514	514	565	569	594	620		-4.9%	0.0%	10.0%	0.7%	4.4%	4.4%
ow Slovakia	317	328	320	317	330	352	373		3.6%	-2.5%	-0.9%	4.0%	6.6%	6.0%
ow Bulgaria	82	84	173	248	245	265	291		2.0%	106.4%	43.4%	-1.0%	8.2%	9.5%
ow Ireland	138	199	244	168	284	291	306		44.2%	22.6%	-31.2%	69.2%	2.6%	5.1%
- Clean Revenues	***7,151***	***7,206***	***7,815***	***7,553***	***7,633***	***7,977***	***8,496***		***0.8%***	***8.5%***	***-3.4%***	***1.1%***	***4.5%***	***6.5%***
Operating Expense	-3,888	-3,943	-4,072	-4,233	-4,329	-4,478	-4,519		1.4%	3.3%	4.0%	2.3%	3.4%	0.9%
Gross Operating Income	**3,263**	**3,263**	**3,743**	**3,320**	**3,304**	**3,499**	**3,977**		**0.0%**	**14.7%**	**-11.3%**	**-0.5%**	**5.9%**	**13.7%**
Cost of risk	-752	-201	28	17	-223	-334	-587		-73.3%	-113.8%	-39.8%	-1434.8%	49.8%	75.6%
Operating Income	**2,511**	**3,062**	**3,655**	**3,296**	**3,080**	**3,165**	**3,378**		**22.0%**	**19.4%**	**-9.8%**	**-6.5%**	**2.7%**	**6.7%**
Others non-operating items	18	29	9	17	26	26	26		61.2%	-70.5%	97.2%	54.2%	0.0%	0.0%
Pre-tax income	**2,529**	**3,091**	**3,664**	**3,313**	**3,106**	**3,191**	**3,404**		**22.2%**	**18.5%**	**-9.6%**	**-6.2%**	**2.7%**	**6.7%**
- Clean pre-tax income	***2,529***	***3,079***	***3,814***	***3,468***	***3,364***	***3,464***	***3,508***		***21.8%***	***23.8%***	***-9.1%***	***-3.0%***	***2.9%***	***1.3%***
Net Income	**2,634**	**2,429**	**2,655**	**2,574**	**2,392**	**2,457**	**2,621**		**-7.8%**	**9.3%**	**-3.1%**	**-7.1%**	**2.7%**	**6.7%**
AT1 cost	-52	-52	-52	-59	-65	-65	-65		0.0%	0.0%	13.5%	10.2%	0.0%	0.0%
Group Net Income	**2,582**	**2,377**	**2,603**	**2,515**	**2,327**	**2,392**	**2,556**		**-8.0%**	**9.5%**	**-3.4%**	**-7.5%**	**2.8%**	**6.9%**
- Clean Group Net Income	***1,819***	***2,227***	***2,770***	***2,635***	***2,526***	***2,602***	***2,636***		***22.4%***	***24.4%***	***-4.9%***	***-4.2%***	***3.0%***	***1.3%***

Group Data per share	2015	2016	2017	2018	2019E	2020E	2021E		2016	2017	2018	2019E	2020E	2021E
Stated EPS (€)	6.18	5.69	6.22	6.03	5.60	5.75	6.15		-8.0%	9.4%	-3.1%	-7.2%	2.8%	6.9%
Clean EPS (€)	4.36	5.33	6.62	6.32	6.07	6.26	6.34		22.3%	24.3%	-4.6%	-3.9%	3.0%	1.3%
NET DPS (€)	2.00	2.80	3.00	3.92	3.64	3.74	3.99		40.0%	7.1%	30.6%	-7.2%	2.8%	6.9%
Pay-out ratio	34%	50%	49%	65%	65%	65%	65%							
Dividend yield	4.4%	4.2%	4.2%	6.9%	5.6%	5.8%	6.2%							
BVPS (€)	34.51	37.41	40.59	41.31	43.38	45.38	48.98		8.4%	8.5%	1.8%	5.0%	4.6%	7.9%
TBVPS (€)	32.21	35.02	37.71	38.13	40.19	42.19	45.78		8.7%	7.7%	1.1%	5.4%	5.0%	8.5%
Nosh (avr diluted) (m)	418	418	418	417	416	416	416							
Capital & Solvency														
CET1 capital (€mn)	13,247	13,887	15,106	15,151	16,030	16,933	17,892		4.8%	8.8%	0.3%	5.8%	5.6%	5.7%
RWAS	89,066	87,781	92,409	95,140	98,251	101,357	103,765		-1.4%	5.3%	3.0%	3.3%	3.2%	2.4%
CET1 ratio (%)	14.9%	15.8%	16.3%	15.9%	16.3%	16.7%	17.2%							
Tier 1 capital	14,647	15,287	16,506	16,151	17,030	17,933	18,892							
Tier 1 ratio	16.4%	17.4%	17.9%	17.0%	17.3%	17.7%	18.2%							
Capital rotation (Rev./CET1 cap)	0.54	0.52	0.51	0.50	0.48	0.47	0.47							
EQUITY RATIOS														
Stated RoTE	20.4%	16.9%	17.1%	15.9%	14.3%	14.0%	14.0%							
Stated RoE	18.8%	15.8%	16.0%	14.7%	13.2%	13.0%	13.0%							
Clean RoTE	14.4%	15.9%	18.2%	16.6%	15.5%	15.2%	14.4%							
Clean RoE	13.2%	14.8%	17.0%	15.4%	14.3%	14.1%	13.4%							
Group Key financial ratios														
Stated Revenues/average assets	5.6%	1.7%	2.0%	1.8%	1.7%	1.7%	1.6%							
Clean Revenues/average Assets	5.6%	5.5%	5.7%	5.2%	5.1%	5.1%	5.3%							
Stated Revenues/average RWA	8.9%	9.1%	9.5%	8.9%	8.7%	8.8%	9.1%							
Clean Revenues/average RWA	8.9%	9.1%	9.7%	8.9%	8.7%	8.8%	9.1%							
Stated Cost/Income	54.4%	54.7%	52.9%	56.3%	56.7%	56.1%	53.3%							
Clean Cost/Income	54.4%	54.3%	48.9%	52.8%	53.3%	52.7%	52.1%							
Stated LLP/avg loans	0.59%	0.15%	-0.02%	-0.01%	0.15%	0.21%	0.36%							
Stated LLP/avg RWA	0.94%	0.25%	-0.03%	-0.02%	0.26%	0.37%	0.63%							
Loss absorption ratio vs Avg loans	2.6%	2.5%	2.6%	2.3%	2.2%	2.2%	2.5%							
NII/average assets	3.37%	3.26%	3.01%	3.15%	3.08%	3.11%	3.24%							

Key balance sheet items (€m)	2015	2016	2017	2018	2019E	2020E	2021E		2016	2017	2018	2019E	2020E	2021E
Customer loans	127,820	133,120	140,999	147,052	153,840	158,989	162,886		4.1%	5.9%	4.3%	4.6%	3.3%	2.5%
TOTAL ASSETS	252,356	275,199	292,342	283,809	292,072	300,582	267,377		9.1%	6.2%	-2.9%	2.9%	2.9%	-11.0%
Due to customers	161,241	177,421	194,460	194,291	205,756	218,876	228,234		10.0%	9.6%	-0.1%	5.9%	6.4%	4.3%
Total minority interests	0	0	0	0	0	0	0		-	-	-	-	-	-
Ordinary shareholders' equity	14,410	15,627	16,978	17,233	18,043	18,875	20,370		8.4%	8.6%	1.5%	4.7%	4.6%	7.9%
Asset Quality														
NPL's / gross total loans (ex repos)	8.6%	7.8%	6.0%	4.3%	4.0%	4.1%	4.2%							
Coverage Ratio	45%	46%	44%	45%	44%	45%	45%							
GROUP Free cash flow (€bn)														
Gross free cash flow		2,575	2,127	2,257	2,031	2,097	2,342							
Gross free cash flow / RWAs		2.9%	2.3%	2.4%	2.1%	2.1%	2.3%							
Net free cash flow		1,404	873	622	518	542	680							
Net free cash flow / RWAs		1.6%	0.9%	0.7%	0.5%	0.5%	0.7%							

Source: Company data, Jefferies estimates

ABN 'Dividend dream catcher'

We maintain a Hold on ABN as we have been guiding for some time on the distribution constraints, that were again confirmed at the 4Q results. In addition, we believe the group will benefit from further fine tuning of the business model to unlock more potential, especially on the private bank side. The price target is cut 12.6% to €22.8 offering 9% potential upside. Our pay-out tracks management's cautious message and is only gradually increased to 65% in 2020. With the slower European growth, we estimate underlying EPS to contract by 6.4% between '17 and '20.

The capital debate was back on the table at 4Q results with the stock de-rating as much as 7% on the day as many investors found it hard to digest the pay-out trajectory, despite the clear management message on the investor day that capital will be managed in a dynamic way and the leverage ratio is the tightest constraint. The latter is being actively addressed with the announced merger of the legal entities; however, the benefit of 20bps will not be crystallized until 2019/2020, as well as the further uplift of 50bps from the application of SA-CCR rules in 2021. **Regarding distribution, management clarified that they will remain prudent with two main concerns on the horizon being the turning point in the economic cycle and the transition of capital rules**. In the regulatory pack, the group will mainly have to deal with the TRIM review of corporate books, which is expected to have a more material impact than the retail books review in 2018, and the on-going phase in of Basel IV. The looming NPE guidance also caught the attention of the group, further adding to their prudent approach.

4Q results were a miss due to seemingly weaker costs, as they included a number of exceptionals and a higher provisioning. Retail division was down on a combination of weak interest income and a number of one-offs, but the group managed to protect its NIM by managing its mortgage volumes, although both Dutch competitors reported stable mortgage margins. In Private banking, efficiency improved, which is key in making the business lucrative. We expect the C/I to bottom at 68% in 2020. The revenues in CIB were a positive surprise considering the BIV pricing has started, but the downside was impairments. The group has taken steps to significantly reduce exposure in the troubled books, but it was clear that further provisions are likely. As a result, we expect the group CoR in 2020 at 32bps, compared to a positive CoR of 2bps in 2017. Overall, our '19 underlying forecast remains broadly unchanged, with the 2.5% cut driven by a tax rate change, and we cut '20 by 13.6%, driven by a delay in the rate hike in retail banking and a combination of lower revenues and higher impairments in Commercial & Corporate banking.

Risks to our investment case include impact from the recent money laundering case. Even though RBS was the legal owner of the entity at the time of the conduct, there might be a spill-over effect to ABN on reputation grounds. On the upside, any relaxation of the proposed BIV rules by the EC could allow management to increase the distribution of capital.

Valuation: ABN trades on 1x 2018 P/TNAV with an 10.2% 2020e RoTE , which implies a 5.8% premium to the European banks. On P/E, it trades on 9x 2018 earnings with a 6.9% dividend yield.

Valuation and earnings changes

ABN's PT is revised to €22.8 from €26.1 and offers 9% potential upside. The Bear weighting in our valuation blend increases to 30% from 20% reflecting the revisions to the European macro outlook; this means that the Bull weighting is now at 20%, while the Base is unchanged at 50%. We have applied a structural discount of 10%. Analysts' PT is €28.78, -7.2% since Q3, and it is a Buy rating for 48% of analysts, down from 57% in Q3.

Exhibit 8 - ABN valuation matrix

	Price matrix	P/E 2019E	P/E 2020E	P/TBV 2019E	EPS 2019	EPS 2020	TBVps 2019
Target price	22.8	10.0x	10.3x	1.08x	2.3	2.2	21.2
Bull	27.1	10.2x	9.5x	1.27x	2.7	2.9	21.3
Base	24.8	10.9x	11.1x	1.17x	2.3	2.2	21.2
Bear	16.7	11.1x	11.6x	0.80x	1.5	1.4	20.9

Source: Jefferies estimates

The PT is down -12.6% to €22.8 driven by the changes in our valuation methodology and also by cuts in our forecasts: -2.5% in 2019 and -13.6% in 2020. In 2019, the reduction in net income is driven by a change of applied tax rate, otherwise the underlying is broadly unchanged. The underlying cuts in 2020: c. 11% come from lower revenues in the retail division as we delayed the rate hike to 2021, which means our forecast is down by 14%; CIB forecast is 24% lower on slightly lower revenues and higher provisions with current CoR at 90bps of RWAs compared to our previous forecast at 78bps; and then Private banking is down by 15% as we have adjusted revenue expectations to reflect a weaker economy, but also integrated the acquisition of Belgium PB operations from SocGen, AuM of €6bn. We set the tax rate at 25% for '19-'21, which we previously had at 24%. On pre Q4 consensus, we are 2.6%, 7.2% and 0.7% below for '19-'21, **the consensus pay-out is 74% for 2019, which we expect to come down in updated consensus.**

The 2017A-2020E net income CAGR is -7.6% or -8.1% on a PBT basis, which is mainly driven by retail banking with -14.3% and then by -3.1% in CIB and 2.3% in PB. In terms of contribution to the 2020E net income of €2,169m, the biggest contributor is retail banking at 39%, Commercial banking at 24%, Corporate and Institutional at 21% and PB at 15%.

Exhibit 9 - ABN earnings changes and consensus

	New JEF forecast €m			Change in JEF forecast (%)			JEF vs consensus (%)			Consensus €m			Old JEF forecast €m		
ABN	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Total income	**8,861**	**9,007**	**9,652**	**-0.5%**	**-4.5%**	**na**	**1.6%**	**2.3%**	**8.3%**	**8,724**	**8,805**	**8,910**	**8,903**	**9,433**	**na**
Operating expenses	(5,218)	(5,279)	(5,405)	-1.0%	-0.6%	na	2.0%	4.6%	7.3%	(5,113)	(5,046)	(5,035)	(5,272)	(5,313)	na
Gross operating income	**3,644**	**3,728**	**4,247**	**0.3%**	**-9.5%**	**na**	**0.9%**	**-0.8%**	**9.6%**	**3,610**	**3,759**	**3,874**	**3,631**	**4,120**	**na**
Cost of risk	(689)	(835)	(1,057)	7.7%	2.0%	na	18.8%	27.6%	56.7%	(580)	(655)	(675)	(640)	(819)	na
Operating income	**2,954**	**2,892**	**3,190**	**-1.2%**	**-12.4%**	**na**	**-2.5%**	**-6.8%**	**-0.3%**	**3,030**	**3,104**	**3,200**	**2,991**	**3,301**	**na**
Equity affiliates	-	-	-	-	-	na	-	-	-	-	-	-	-	-	na
Other	-	-	-	-	-	na	-	-	-	-	-	-	-	-	na
Pre-tax income	**2,954**	**2,892**	**3,190**	**-1.2%**	**-12.4%**	**na**	**-2.5%**	**-6.9%**	**-0.3%**	**3,031**	**3,105**	**3,200**	**2,991**	**3,301**	**na**
Tax	(739)	(723)	(798)	2.9%	-8.7%	na	0.0%	-4.0%	3.8%	(739)	(753)	(768)	(718)	(792)	na
Net income	**2,216**	**2,169**	**2,393**	**-2.5%**	**-13.6%**	**na**	**-3.3%**	**-7.8%**	**-1.6%**	**2,292**	**2,352**	**2,431**	**2,273**	**2,509**	**na**
Non-controlling interests	-	-	-	-	-	na	-	-	-	-	-	-	-	-	na
Group net income	**2,216**	**2,169**	**2,393**	**-2.5%**	**-13.6%**	**na**	**-3.3%**	**-7.8%**	**-1.6%**	**2,292**	**2,352**	**2,431**	**2,273**	**2,509**	**na**
EPS	2.27	2.22	2.46	-2.6%	-14.0%	na	-2.5%	-7.3%	-0.8%	2.33	2.40	2.48	2.33	2.59	na
DPS	1.41	1.45	1.67	-7.1%	-14.0%	na	-18.4%	-22.0%	-16.2%	1.73	1.85	2.00	1.52	1.68	na
Pay-out	62%	65%	68%	-4.6%	0.0%	na	-16.3%	-15.8%	-15.5%	74%	77%	80%	65%	65%	na
CET1	17.6%	17.5%	18.5%	-4.6%	-5.6%	na	-8.3%	-10.6%	-7.1%	19.1%	19.6%	19.9%	18.4%	18.6%	na
RoTE	10.9%	10.2%	10.8%	-2.4%	-14.3%	na	na	na	na	na	na	na	11.2%	11.9%	na

Source: Jefferies estimates, company data

Exhibit 10 - ABN CAGR 2017A - 2020E

2017	Retail banking	Private banking	CIB	Operating divisions	Corporate Centre	Total
Total Income	**3,720**	**1,539**	**3,790**	**9,049**	**238**	**9,288**
Operating expenses	-2,039	-1,095	-2,260	-5,394	-186	-5,580
Gross operating income	**1,681**	**445**	**1,530**	**3,656**	**52**	**3,707**
Cost of risk	101	6	-86	21	-3	17
Pre-tax Income	**1,781**	**451**	**1,444**	**3,676**	**49**	**3,725**
Tax	-454	-66	-408	-928	-52	-980
Other Items (non-taxable)	-	-	-	-	-	-
Post-tax income	**1,327**	**385**	**1,036**	**2,748**	**-3**	**2,745**

2020	Retail banking	Private banking	CIB	Operating divisions	Corporate Centre	Total
Total Income	**3,441**	**1,408**	**4,058**	**8,907**	**100**	**9,007**
Operating expenses	-2,085	-975	-2,154	-5,214	-65	-5,279
Gross operating income	**1,356**	**433**	**1,904**	**3,693**	**35**	**3,728**
Cost of risk	-234	-13	-588	-835	-	-835
Pre-tax Income	**1,122**	**420**	**1,315**	**2,857**	**35**	**2,892**
Tax	-280	-97	-336	-713	-10	-723
Other Items (non-taxable)	-	-	-	-	-	-
Post-tax income	**841**	**323**	**979**	**2,144**	**25**	**2,169**

CAGR %	Retail banking	Private banking	CIB	Operating divisions	Corporate Centre	Total
Total Income	**-2.6%**	**-2.9%**	**2.3%**	**-0.5%**	**-25.1%**	**-1.0%**
Operating expenses	0.7%	-3.8%	-1.6%	-1.1%	-29.6%	-1.8%
Gross operating income	**-6.9%**	**-0.9%**	**7.6%**	**0.3%**	**-12.3%**	**0.2%**
Cost of risk	-232.6%	-227.1%	89.7%	-443.1%	-100.0%	-463.9%
Pre-tax Income	**-14.3%**	**-2.3%**	**-3.1%**	**-8.1%**	**-10.4%**	**-8.1%**
Tax	-14.8%	13.8%	-6.3%	-8.4%	-42.1%	-9.6%
Other Items (non-taxable)	NA	NA	NA	NA	NA	NA
Post-tax income	**-14.1%**	**-5.7%**	**-1.8%**	**-7.9%**	**-297.3%**	**-7.6%**

Contribution to growth by division %						
Total Income	**99.4%**	**46.6%**	**-95.2%**	**50.7%**	**49.3%**	**100.0%**
Operating expenses	-15.3%	39.6%	35.3%	59.7%	40.3%	100.0%
Gross operating income	**-1618.4%**	**-57.5%**	**1860.2%**	**184.3%**	**-84.3%**	**100.0%**
Cost of risk	39.3%	2.3%	58.9%	100.4%	-0.4%	100.0%
Pre-tax Income	**79.2%**	**3.7%**	**15.4%**	**98.4%**	**1.6%**	**100.0%**
Tax	67.6%	-12.1%	28.2%	83.7%	16.3%	100.0%
Other Items (non-taxable)	NA	NA	NA	NA	NA	NA
Post-tax income	**84.4%**	**10.7%**	**9.8%**	**104.9%**	**-4.9%**	**100.0%**

Source: Jefferies estimates, company data

Exhibit 11 - ABN Financial forecasts

ABN AMRO Summary	2015	2016	2017	2018	2019E	2020E	2021E	2016	2017	2018	2019E	2020E	2021E
Condensed P&L (€m)								% YoY					
Total income	**8,455**	**8,589**	**9,288**	**9,093**	**8,861**	**9,007**	**9,652**	**2%**	**8%**	**-2%**	**-3%**	**2%**	**7%**
ow Domestic retail activities	3,789	3,671	3,720	3,517	3,416	3,441	3,722	-3%	1%	-5%	-3%	1%	8%
ow Private banking	1,310	1,315	1,539	1,340	1,376	1,408	1,524	0%	17%	-13%	3%	2%	8%
ow Wholesale activities	3,120	3,492	3,792	4,016	3,939	4,058	4,316	12%	9%	6%	-2%	3%	6%
ow Corporate Line	172	108	238	220	130	100	90	-37%	120%	-8%	-41%	-23%	-10%
- Clean Revenues	***8,503***	***8,472***	***8,707***	***8,774***	***8,861***	***9,007***	***9,652***	***0%***	***3%***	***1%***	***1%***	***2%***	***7%***
Operating expenses	- 5,228	- 5,657	- 5,580	- 5,415	- 5,218	- 5,279	- 5,405	8%	-1%	-3%	-4%	1%	2%
Gross operating income	**3,275**	**2,815**	**3,126**	**3,678**	**3,644**	**3,728**	**4,247**	**-14%**	**11%**	**18%**	**-1%**	**2%**	**14%**
Cost of risk	- 505	- 113	62	- 654	- 689	- 835	- 1,057	-78%	-155%	-1149%	5%	21%	27%
Operating income	**2,770**	**2,701**	**3,189**	**3,024**	**2,954**	**2,892**	**3,190**	**-2%**	**18%**	**-5%**	**-2%**	**-2%**	**10%**
Others non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax income	**2,722**	**2,818**	**3,770**	**3,024**	**2,954**	**2,892**	**3,190**	**4%**	**34%**	**-20%**	**-2%**	**-2%**	**10%**
- Clean pre-tax income	***2,682***	***2,834***	***3,372***	***2,932***	***2,939***	***2,857***	***3,135***	***6%***	***19%***	***-13%***	***0%***	***-3%***	***10%***
BANK NET INCOME	**1,924**	**1,808**	**2,790**	**2,264**	**2,216**	**2,169**	**2,393**	**-6%**	**54%**	**-19%**	**-2%**	**-2%**	**10%**
Hybrid costs	(22)	(43)	(52)	(79)	(79)	(79)	(79)	100%	21%	51%	0%	0%	0%
ABN GROUP NET INCOME	**1,902**	**1,764**	**2,720**	**2,146**	**2,137**	**2,090**	**2,314**	**-7%**	**54%**	**-21%**	**0%**	**-2%**	**11%**
- ABN Group Net income Clean	1,875	1,702	2,519	2,200	2,126	2,064	2,273	-9%	48%	-13%	-3%	-3%	10%
Group Data per share	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Stated EPS (EUR)	2.02	1.88	2.89	2.28	2.27	2.22	2.46	-7%	54%	-21%	0%	-2%	11%
Clean EPS (EUR)	1.99	1.81	2.68	2.34	2.26	2.20	2.42	-9%	48%	-13%	-3%	-3%	10%
Net DPS (EUR)	0.81	0.84	1.45	1.45	1.41	1.45	1.67	4%	72%	0%	-3%	3%	16%
Pay-out ratio	40%	45%	50%	64%	62%	65%	68%						
Dividend Yield	3.9%	4.0%	5.4%	7.0%	6.8%	7.0%	8.1%						
BVPS (EUR)	17.2	18.6	19.7	20.6	21.4	22.2	23.0	8%	6%	4%	4%	4%	3%
TBVPS (EUR)	16.9	18.4	19.5	20.3	21.2	22.0	22.7	9%	6%	4%	4%	4%	3%
NOSH (avg diluted) (m)	940	940	940	940	940	940	940						
GROUP Capital & Solvency (€m)													
CET1 capital	16,768	17,775	18,792	19,346	20,158	20,889	21,630	6%	6%	3%	4%	4%	4%
CET1 ratio	15.5%	17.1%	17.7%	18.4%	17.6%	17.5%	18.5%						
RWAs	108,001	104,215	106,100	105,391	114,826	119,158	117,130	-4%	2%	-1%	9%	4%	-2%
Tier 1 capital	18,226	18,605	19,617	20,356	21,168	21,899	22,640						
Tier 1 ratio	16.9%	17.9%	18.5%	19.3%	18.4%	18.4%	19.3%						
Tier 1 Leverage ratio	3.8%	3.9%	4.0%	4.2%	4.6%	4.8%	5.0%						
GROUP Equity													
Stated RoE	12.3%	10.5%	15.1%	11.3%	10.8%	10.2%	10.9%						
Clean RoE	12.1%	10.1%	14.0%	11.6%	10.8%	10.1%	10.7%						
Stated RoTE	12.5%	10.6%	15.3%	11.5%	11.0%	10.3%	11.0%						
Clean RoTE	12.3%	10.3%	14.2%	11.8%	10.9%	10.2%	10.8%						
Group Key financial ratios													
Stated Revenues/average assets	3.71%	3.53%	3.76%	3.59%	3.49%	3.50%	3.69%						
Clean Revenues/average Assets	3.73%	3.48%	3.52%	3.46%	3.49%	3.50%	3.69%						
Stated Revenues/average RWA	7.79%	8.09%	8.83%	8.60%	8.05%	7.70%	8.17%						
Clean Revenues/average RWA	7.84%	7.98%	8.28%	8.30%	8.05%	7.70%	8.17%						
Stated Cost/Income	61.8%	65.9%	60.1%	59.6%	58.9%	58.6%	56.0%						
Clean Cost/Income	61.5%	62.1%	59.9%	59.3%	59.1%	59.0%	56.6%						
Stated LLP/avg loans	0.22%	0.05%	-0.03%	0.26%	0.27%	0.32%	0.40%						
Stated LLP/avg RWA	0.55%	0.35%	0.12%	0.60%	0.63%	0.71%	0.89%						
NII/average assets	1.47%	1.57%	1.64%	1.70%	1.77%	1.81%	1.94%						
Key balance sheet items (€m)	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Loans and receivables due from customers	276,375	267,679	274,906	270,886	255,495	259,631	263,817	-3%	3%	-1%	-6%	2%	2%
TOTAL ASSETS	407,373	394,482	393,171	381,295	368,112	374,500	380,983	-3%	0%	-3%	-3%	2%	2%
Due to customers	247,353	228,758	236,699	236,123	240,846	245,663	250,576	-8%	3%	0%	2%	2%	2%
Capital securities	1,004	1,004	2,007	2,008	2,008	2,008	2,008	0%	100%	0%	0%	0%	0%
Ordinary shareholders' equity	16,564	17,928	19,303	19,349	20,123	20,889	21,844	8%	8%	0%	4%	4%	5%
Asset Quality													
NPL's / gross total loans (ex repos)	2.5%	3.3%	2.5%	2.7%	2.8%	2.9%	3.0%						
Coverage Ratio	55.8%	38.4%	33.0%	34.0%	35.0%	35.0%	35.0%						
GROUP Free cash flow (€m)													
Gross free cash flow	- 1,985	2,274	2,466	2,242	863	1,506	2,567						
Gross free cash flow / RWAs	-1.8%	2.2%	2.3%	2.1%	0.8%	1.3%	2.2%						
Net free cash flow	- 2,749.2	1,483.7	1,106.3	878.7	- 461.8	146.8	993.9						
Net free cash flow / RWAs	-2.5%	1.4%	1.0%	0.8%	-0.4%	0.1%	0.8%						

Source: Jefferies estimates, company data

Valuation methodology and assumptions update

We apply several valuation methodologies – P/E, P/TBV (Gordons Growth), P/PPP and Sum of the parts on all three stocks.

Our price target is based on returns in a 12-month period. We have now rolled forward our valuation to 2021 forecasts, then discounted it back to 2020 to provide a 12-month forward price. Despite our valuation being based on '21 forecasts, in the note we refer to '20 estimates and '17-'20e CAGR to have a comparable base to the companies' targets.

The valuation blend is based on a mix of Base, Bear and Bull scenarios that differ per each bank. We increased the Bear weightings to reflect the weaker European macro outlook compared to our previous expectations (Exhibit 12).

Another key change in our underlying assumption is delaying the rate hike from H2 2019 to 2021, which leads to a downgrade to most Eurozone retail operations.

We cut our 2019 estimates by 5% and 2020 by 12.4% on average (Exhibit 13); our estimates for ABN and ING are reduced more than KBC, due to their commercial lending activities. Overall, we are flat on consensus for 2019 and 2.3% below for 2020 and 1% below for 2021; however, except for ING, the companies' compiled consensus were collected before 4Q18.

Exhibit 12 - Price targets matrix

		Valuation matrix						New Valuation Weighting				Old Valuation Weighting			
Stock	Rating	PT €	Old PT €	PT change%	Base €	Bear €	Bull €	Base	Bear	Bull	Premium +/-	Base	Bear	Bull	Premium +/-
ING	BUY	**14.1**	17.1	-17.5%	15.2	9.2	18.5	50%	30%	20%	0%	50%	20%	30%	-10%
KBC	HOLD	**70.5**	71.9	-1.9%	77.2	42.2	85.3	50%	25%	25%	10%	50%	20%	30%	0%
ABN	HOLD	**22.8**	26.1	-12.6%	24.8	16.7	27.1	50%	30%	20%	-10%	50%	20%	30%	-10%

		Upside / Downside to PTs				
Stock	Rating	Actual Price* €	PT €	Base €	Bear €	Bull €
ING	BUY	**11.0**	28%	38%	-16%	68%
KBC	HOLD	**62.8**	12%	23%	-33%	36%
ABN	HOLD	**21.0**	9%	18%	-20%	29%

* As of 6 March 2019

Source: Jefferies estimates, Factset

Exhibit 13 - Summary of earnings changes

		New forecast Group net income €m			Changes vs old forecast %			JEF vs Consensus %		
Stock	Rating	2019	2020	2021	2019	2020	2021	2019	2020	2021
ING	BUY	5,507	5,610	5,582	-7.2%	-16.7%	na	5.2%	3.3%	-1.7%
KBC	HOLD	2,392	2,457	2,621	-5.3%	-7.0%	n/a	-1.5%	-2.3%	0.3%
ABN	HOLD	2,216	2,169	2,393	-2.5%	-13.6%	na	-3.3%	-7.8%	-1.6%
Average					**-5.0%**	**-12.4%**		**0.1%**	**-2.3%**	**-1.0%**

Source: Jefferies estimates, company data

Exhibit 14 - Valuation sheet

				P/E x (adj)			PTNAV x			RoTE (adj)			Div yield			Discount /Premium
Stock	**Rating**	**Price ***	**PT**	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	
ING	BUY	€ 11.0	€ 14.1	8.1x	8.6x	8.6x	0.9x	0.8x	0.8x	10.8%	9.8%	9.4%	6.2%	6.7%	7.0%	-3.5%
KBC	HOLD	€ 62.8	€ 70.5	9.9x	10.3x	10.0x	1.6x	1.6x	1.5x	16.6%	15.5%	15.2%	6.2%	5.8%	6.0%	12.9%
ABN	HOLD	€ 21.0	€ 22.8	9.0x	9.3x	9.6x	1.0x	1.0x	1.0x	11.8%	10.9%	10.2%	6.9%	6.7%	6.9%	5.8%
French banks average				**9.0x**	**9.4x**	**9.4x**	**1.2x**	**1.1x**	**1.1x**	**13.1%**	**12.1%**	**11.6%**	**6.4%**	**6.4%**	**6.6%**	**5.1%**
Europe average				**11.8x**	**9.3x**	**8.8x**	**1.08x**	**1.02x**	**0.98x**	**11.4%**	**11.2%**	**11.2%**	**5.7%**	**6.0%**	**6.5%**	**na**
Eurozone averge				**13.2x**	**9.0x**	**8.7x**	**1.02x**	**0.95x**	**0.90x**	**11.1%**	**10.6%**	**10.3%**	**5.7%**	**5.7%**	**6.2%**	**na**

(*) as of 6 March 2019

Source: Jefferies estimates, Factset

Belgium retail review

P&L trends YoY

The key takeaway from Q4 is the stabilisation of NII, in most cases, **with reported improved mortgage margins**, while pressure on SMEs/corporates margins is expected to last longer as there is still intense competition in Belgium. Fees continued to decline on increased market volatility leading to lower entry/management fees, resulting in a sectorial revenue decline of -5.8%. **The absolute opex declined in all networks**, **but the C/I ratio is actually up at KBC and ING** due to ongoing investments and falling revenues, and BNP was the only network to deliver positive jaws. The sectorial CoR is 18bps, which is still low (French peers are at 20pbs - Back to Fundamentals, Capital and Cost Flexibility); however, **all networks reported an increase in CoR that was due to "corporate files"**. Although reported as isolated cases, we believe we are on the path of a new trend considering the average growth of non-home loans of 7.5% in recent years. All in all, aggregated group net income was down -7.7%.

The average revenue margin on loans was 3.3%, -40bps YoY; with **NII margins remaining more stable at 2.4%**, -10bps YoY and flat QoQ. On normalised equity of 11%, **KBC has the best returns** as always thanks to its diversified revenue base; however, the profitability declined considering the 34% return in 4Q-17. ING and BNP also recorded declines in RoNE, but to a lesser extent; notably, ING **managed to stabilise its revenues the most this quarter.**

Exhibit 15 - Belgium retail P&L review, 4Q18 vs 4Q17

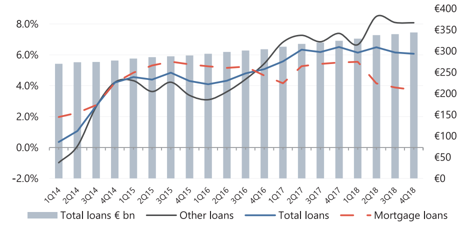
Q4-18- P&L	KBC	ING	BNP	Belgium Total
Revenue Growth	**-9.3%**	**-1.8%**	**-3.7%**	**-5.8%**
NII (underlying) Growth	0.2%	3.9%	-2%	1.7%
as a % of revenues	59.5%	80.5%	n.a.	44.7%
Fee Growth	-12.7%	-6.9%	-11%	-11.4%
as a % of revenues	25.6%	14.0%	n.a.	14.4%
Costs Growth	**-4.4%**	**-0.1%**	**-5.1%**	**-3.7%**
C/I Ratio	50.6%	62.4%	67.0%	58.8%
C/I Ratio Change (bp)	2.6	1.1	-1.0	1.3
Gross operating Income Growth	**-13.8%**	**-4.5%**	**-0.7%**	**-8.7%**
Provisions Growth	105%	51%	201%	103%
CoR (bp of loans)	20	19	16	18
Operating Income Growth	-17.5%	-11.8%	-11.7%	-15.0%
Group net Income Growth	**-14.2%**	**6.8%**	**-0.8%**	**-7.7%**
Total loans Growth	5.5%	7.2%	3.6%	5.3%
Revenue margin on loans	4.3%	2.6%	3.0%	3.3%
NII margin on loans	2.6%	2.1%	n.a.	2.4%
PBT margin on loans	1.9%	0.8%	0.8%	1.2%
Stated RoE	**22.1%**	**9.7%**	**11.8%**	
Adjusted RoE @ 11%	**27.2%**	**10.6%**	**11.8%**	
Asset density	48%	45%	48%	

Source: Jefferies, company data

Belgium loan trends

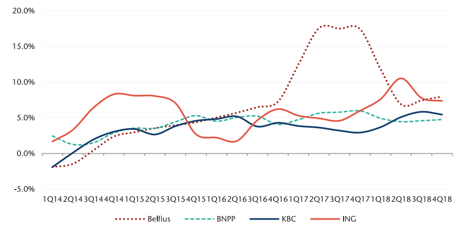
The overall loan demand stabilised in H2-18 (+3.7% for 4Q18), driven by a decline in mortgage demand (+3.7%, down by 20bps QoQ) and stable other loans (+8.1%). Across networks, Belfius led the growth, +8% YoY, and other banks reporting dynamic growth. **On mortgage volumes,** all networks but ING had an increase in demand; ING volumes were down to 4.7% from 7.1% in Q3-18, which we believe was due to its efforts to improve margins. **Other loans**: Belgium, in general, has shown a good rebound in corporate loans and SMEs, supported by good business sentiment. The ECB's Jan-19 lending survey indicated that credit standards to enterprises in the Euro area remained broadly unchanged; '*the competitive pressure continued to contribute to an easing of credit standards*'. The statement reflects the position in the Belgium market with the average growth of 8.1%, with a notable increase at ING and Belfius. In the case of Belfius, we see it as a continued attack on market share before an IPO with the former [ING] defending its number 1 position.

Chart 1 - Aggregated loan growth YoY (KBC, ING, BNP, Belfius)



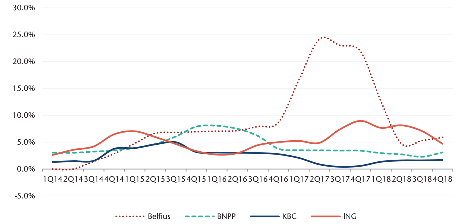
Source: Jefferies, company data

Chart 2 - Total loan growth YoY per network



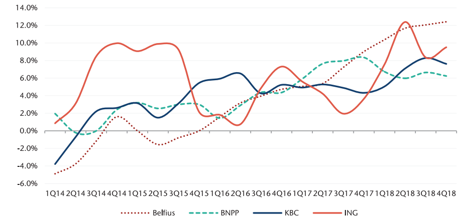
Source: Jefferies, company data

Chart 3 - Mortgage loan growth YoY



Source: Jefferies, company data

Chart 4 - Other loans growth YoY

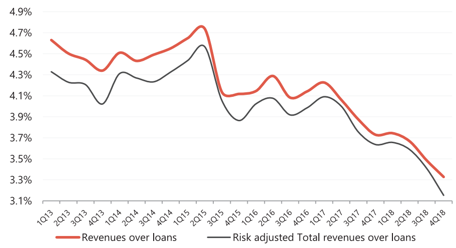


Source: Jefferies, company data

Belgium revenue trends

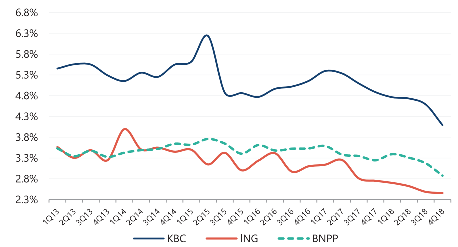
Despite the stablisation of the NII line, the increased CoR this quarter, combined with weak fees, meant that the adjusted revenue margin came down to 3.2%. Overall, the networks reported the same trend, but ING managed to protect its revenue margin the best as it actually recorded a NII increase and the lowest fee income fall. This translates to a nearly stable risk adjusted margin, underpinning ING's ability to improve mortgage margins and compete on corporate volumes.

Chart 5 - Aggregated margin growth YoY



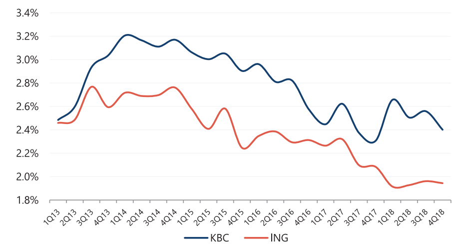
Source: Jefferies, company data

Chart 6 - Risk adjusted revenue margins



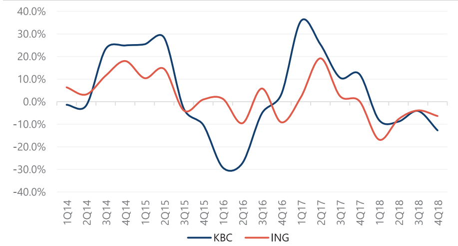
Source: Jefferies, company data

Chart 7 - Risk adjusted NII margins



Source: Jefferies, company data

Chart 8 - Fee growth YoY



Source: Jefferies, company data

Netherlands retail review

The key messages echoed Belgium with improved margins on mortgages, but also **continuing pressure on other loans** and **lower income from deposits**; all together this means **NII is down by 4.5%**. The upward **fee trend continues strong at +13.6%** thanks to contribution from payment packages. Overall, total income is down 9.3% vs opex decline of 4.1%, but adjusting for ABN's provision for CDD remediation programs, underlying opex was down by 6.6%. **ING achieved positive jaws** leading to a slightly improved C/I ratio.

Also the CoR follows the trend of Belgium, after years of write-backs and limited impairments, the 4Q18 CoR is 6bps. Undeniably this is still very low, but **we expect this trend to continue with lower expectations of GDP growth and a turning economic cycle.**

In terms of profitability, **both networks delivered a normalized return of 27%**; ING returns remained stable despite the challenging environment, whilst ABN saw a slide in underlying return as its NII line was impacted by model updates plus other one-offs.

Exhibit 16 - Netherlands retail P&L review; 4Q18 vs 4Q18

P&L 4Q18 vs 4Q17	ABN	ING	NL Total
Revenue Growth	**-13.7%**	**-5.4%**	**-9.3%**
NII (underlying) Growth	-3.9%	-5.0%	-4.5%
as a % of revenues	88.2%	79.5%	83.4%
Fee Growth	21.5%	9.4%	13.6%
as a % of revenues	11.4%	15.4%	13.6%
Costs Growth	**-2.1%**	**-5.9%**	**-4.1%**
C/I Ratio	65.1%	53.8%	58.8%
C/I Ratio Change (bp)	7.8	-0.3	3.2
Gross operating Income Growth	**-29.4%**	**-4.7%**	**-15.8%**
Provisions Growth	-59%	666%	-428%
CoR (bp of loans)	1.7	11	6.4
Operating Income Growth	-34.1%	-11.7%	-22.1%
Group net Income Growth	**-34.8%**	**-10.6%**	**-21.6%**
Total loans Growth	-1.2%	-3.6%	-2.4%
Revenue margin on loans	2.2%	2.9%	2.6%
NII margin on loans	1.9%	2.3%	2.14%
PBT margin on loans	0.8%	1.2%	1.0%
Stated RoE	**22.5%**	**25.0%**	
Adjusted RoE @ 11%	**27.6%**	**27.2%**	
Asset Density	18%	31%	

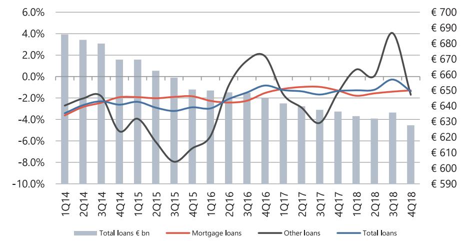
Source: Jefferies, company data

Dutch loan trends

Sectorial loans were down -1.37% (including Rabobank and Volksbank) driven equally by mortgages and other lending. On an individual basis, all networks reported lower volumes but Volksbank, although its loan growth of 2.1% was the lowest in 2018. **ABN's volume decline of 1.2%** was driven mainly by mortgages (-1%), which was a combination of seasonally higher redemptions and lower new productions due to strong competition as ABN continues with a strategy of margin protection at the expense of growth (new productions is down by 7.3% QoQ). The Dutch mortgage environment is still competitive, but remains stable - Rabo lowered new production so its 2018 market share of new production decreased to 19.9% vs 22% in 2017. This means its overall market share fell to 16.7% from 18%. On the other hand, Volksbank's new productions remained strong; the market share of new mortgage productions increased to 7.3% in 2018 vs 6.8% in 2017, but its overall market share is still low at 6.7%

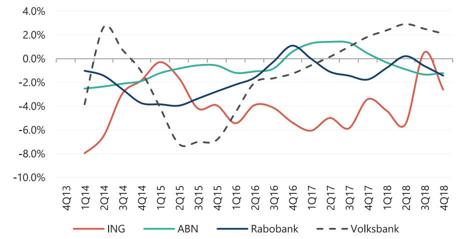
Total volumes at ING were down 2.6% with a 2.8% decline in mortgages; with a limited new production as ING is planning to just retain its market share of 15%. Other loans continue to be impacted by treasury placing with underlying volumes down c. 2.5%.

Chart 9 - Aggregated loan growth YoY (ING, ABN, Rabobank, Volksbank)



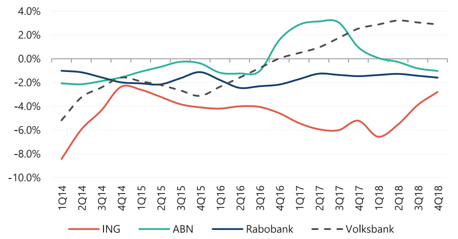
Source: Jefferies, company data

Chart 10 - Total loan growth per network



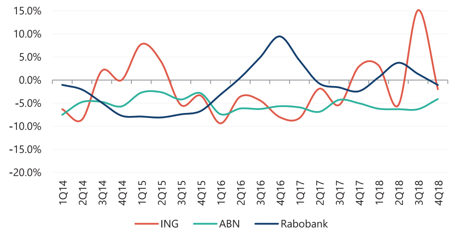
Source: Jefferies, company data

Chart 11 - Mortgage loan growth YoY



Source: Jefferies, company data

Other loan growth YoY

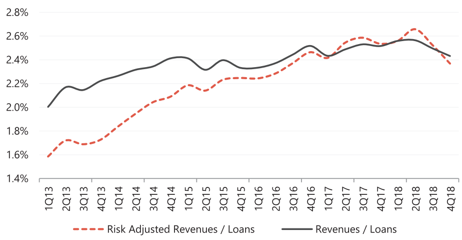


Source: Jefferies, company data

Dutch revenue trends

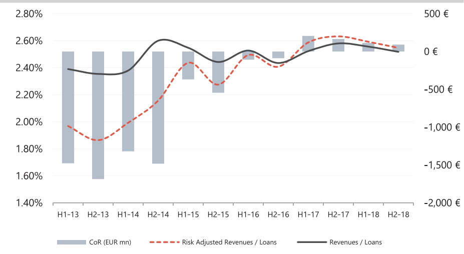
Risk-adjusted revenue margins were stable until H1-18 as they were supported by write-backs, volume reduction and strong fee growth. We saw the inflection point in Q3 that followed through to Q4 as the interest income contribution continued to fall. Over the tracked horizon, ING managed to maintain more stable margins thanks to strong fee growth; however, with a pick in CoR and lower deposit income, both networks recorded the same trend this quarter.

Chart 12 - Aggregated margin growth YoY



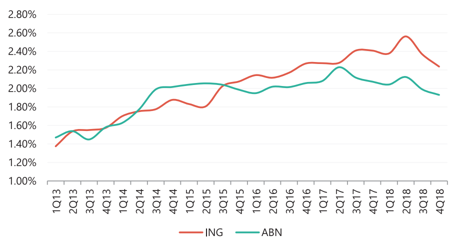
Source: Jefferies, company data

Chart 13 - Risk adjusted margins on half-annual basis (ING, ABN, Rarobank, Volksbank)



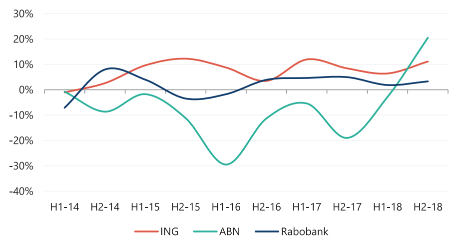
Source: Jefferies, company data

Chart 14 - NIM growth, risk adjusted



Source: Jefferies, company data

Chart 15 - Fee growth on semi-annual basis



Source: Jefferies, company data

Q&A - What we have learned from Q4

We have summarised the key comments and conclusions from Q4 calls, which, in our view, provide a good overview of this quarter and, more importantly, set forward guidance for most business lines. The key assumptions are captured in our models for the coming years.

ING earnings call

NIM guidance

- The optimality to support NIM: 1) look at the composition of the balance sheet; 2) manage the balance sheet size efficiently; and 3) re-pricing: with the ECB TLTRO erosion, it could mean the credit spreads go up, and we are a spread receiver on €600bn and a payer on €400bn.
- Guidance for H1-19 is the low 150s and high 140s.

Margin review:

- In NL: we continuously improve margins on mortgages. In front book, business lending is a bit under pressure. In BE, mortgage margins are OK; on business lending there is a bit of margin pressure. In C&G we see improving margins. In WB, a bit [pressure] on the industry lending side, due to a change of production towards lower RWAs. In lending and transactions, there are improving margins.

Fees:

- Changing model in the Challenger markets to a universal direct bank with primary customers; focusing on primary accounts as they have current accounts with us, means we know them better and can offer them the right products. Spain is a good example, it is a fully flexed digital bank and selling more products to the same customers; we have room to grow with introduction of third-party investment products, as a bank, we are under-penetrated. [Spain is a business that continues to grow, lending is up, mortgage book is up, just passed €15bn. Customer lending is also growing, c. €3bn. The WB is growing as well].
- From an insurance perspective, we launched a JV with AXA and we are happy with that.
- WB side, fee growth might be lower as it depends on the deals; on the other hand increasing efforts to cross-sell our financial markets products. Also expect capital markets business to grow, and therefore, more fee income and commissions income to come from it.
- All in all, expect fees to grow in line with guidance 5%-10%.

Cost of risk

- In NL, don’t expect that [increase] to be a recurring theme.

C/I ratio

- The ambition is 50%-52%, it is a challenge to get there by 2020, but ‘*we find important the concept of operational leverage and how you continue to manage our C/I down is one of management hygiene, in my view and you have to continuously look as how you can further improve your efficiency*’.

Financing (Industry lending)

- Last quarter already indicated that we are at the top of a cycle, looking at economic growth globally; more cautious in the leverage finance area, in the real estate finance area.
- Will continue to be cautious that might impact the growth; plus we are disciplined on pricing, it is a global activity and BIV is coming; we are pricing at a higher CET1, don't know if competitors will follow, so that might also impact growth. In last years, growth was 6%-7% in wholesale, it might be 2%-3% going forward.
- At the same time, ensure that operational leverage will stay intact. Some of the transformational programs increase efficiency, if we cannot translate into more business, than we might have to translate to lower cost.

Lending

- The ambition is 3%-4%. In WB, in last years, growth was 6%-7% in wholesale, it might be 2%-3% going forward. On retail side, there is no reason why it should be lower. All the growth we have has to be profitable, we are strict on pricing in all divisions, including retail bank.

Benelux transformation update

- In 2018, the major milestones included the integration of Record bank into ING, migration of 600k customers onto ING's platform in Belgium, closed 600 branches; now migrating consumer and mortgage portfolios of Record bank to an outside party, so we can start decommissioning. '*from strategic milestones perspective, absolutely on track*'

Turkey

- The book went down from €13.3bn to €13bn QoQ, and we continue to decrease intragroup funding, this was down by €300m in Q4 and will come down in a similar pace in 2019.

Debt issuance

- Q4 was heavy as it was catching up from non-issuance in summer, now back to normality. Cost of issuance from holdco might be more expensive, but even 50bps more would mean an impact of 0.2bps. On the other hand, debt in opco should get a lot cheaper.

TRIM

- Impact on mortgage portfolios in NL & BE, plus SME in NL is expected to be limited. Impact of next TRIM (wholesale part) will be for H2-19 or maybe even later.

Cycle for capital setting

- When the cycle reverses, then you will see risk migration the other way round. Over the last six years we benefited from a positive credit migration; as the GDP cycle turns, the positive migration will also fade; that's in our stress testing.

ING - 6 February

Ralph Hamers - CEO

Steven van Rijswijk - CRO

J.V. Timmermans - CFO

KBC earnings call

NIM guidance

- ’19 NII a ballpark figure of €4.6bn, which is in line with consensus.
- ..it’s perhaps too early, but what we have seen in the end of the fourth quarter, is that margin pressure is bottoming out in some countries [Belgium] and we see the same effect in first weeks of 2019.
- In CZ, the NIM increased on repo hikes and a very modest pass-through.

Cost

- Wage inflation in all countries, although slightly higher in CZ, where it is driven by the public authorities and the public domain. In CZ, we are optimising the number of staff which are working for us, it already came down in Q4.
- Our guidance is year-on-year evolution of 1.6%, over the whole horizon.
- We invested in 2018 quite substantially (IT & digitalisations), you should see the benefits in the middle of 2019, the end of 2019.

Products

- Not much of a change in volumes in Belgium, but had a shift in deposits; we had about €800m term deposits flowing out and savings accounts increased by a similar amount.
- On quarterly basis, a behaviour of deposits is reviewed to see if in the low rate environment for longer money is more sticky than in environment when rates will go up. As a result of it, we have increased the volume of deposits that are replicating.
- Expect loan growth of 4% in 2019, in a softish Brexit scenario.

Capital

- TRIM was €0.8bn or 12bps in 4Q18, in 2019 TRIM will be on corporate book and we expect results after summer.
- Capital target is to be updated once a year, we will do it at 1Q when the numbers of all peers are available.

M&A – the Hungarian government indicated that Budapest Bank might come to the market and we already notified them of our interest. We will look at other opportunities in our core markets for smaller entities; we are not looking to extend our geographical presence beyond our core countries.

CCPI

- Volume at 4Q18 at €12.9bn, -€1.5bn QoQ, -€3.5bn YoY. On QoQ composition, cash is now at 54.7% vs 16%; €1.5bn is already reset at end of Jan, other reset dates come up in April and October, c. €1bn each, so expect evolution of CCPI going forward. The outflows went to Easy Invest product or saving accounts, so we don’t have outflows out of the KBC group.

Ireland

- De-risking of portfolio done, €1.9bn of loans are gone; which had negative €16m of recurring impact on NII in the past.
- Because of the tracker mortgage investigation we had higher opex, plus opex related to the transactions, these elements will taper out during the year 2019.

KBC - 14 February

Johan Thijs - CEO

Hendrik Scheerlinck - CFO

ABN earnings call

Capital & Dividend

- BIV – the fully loaded CET1 is now at 13.5%, +40 to +50bps QoQ; most of this reflects business development - the volume impacts, some of this will unwind in Q1, c. half. Corporate banking is the key driver, we have a LT plan to refocus and reduce it. In Q4 it was a mix of refocus and some seasonal impact, that will bounce back. Don't think BIV was volatile in Q4; we expect some movements as our methodology gets refined and a business development flows through.
- Capital guidance – target is to set it annually for consistency and predictability, although we reserve the right to change the position if there are material developments, e.g. TRIM. TRIM – '*it is quite possible that we have material further impact.. above the model review figures we took in Q4*'.
- In November, we clearly stated that we will distribute surplus capital over our needs. We expect underlying business and volumes to be sort of flattish. We continue to strongly generate capital. The headwinds are TRIM and NPE guidance. Also, need to reflect on where we are in the economic cycle. The economic upswing over the last 8 years or so, looks like its unwinding a little bit. '*We just want to remain prudent*'. 62% remains additional distribution to our target of 50%, that remains our policy throughout 2019. We are well placed to consider additional distributions in respect to 2019, but will continue to be prudent.
- The leverage ratio remains a sort of tightest constraint.
- Dividend strategy – we have been cautious with respect to guidance of "%", said 50% plus additional, which will depend on growth / decline of portfolios and indeed leverage ratio. But also NPE, TRIM and rate hikes and other.

Provisions; IFRS9

- Stage 2 – very little movement based on economic outlook… the outlook on the oil price will have the most material impact on a small part of our portfolio, especially in stage 3 files around individual provisions. A part of the increase in stages was due to models provisions, but that very much to do with the model updates.. but limited impact of the new scenarios.
- IFRS9 impact depends on the scenarios and assets that are in different stages; the transition between stages takes time. So even in a deteriorating economy, it takes time and then it has an impact on the underlying collateral value… we don't expect a significant impact from stage 2 in 2019.
- At the start of the year we were cautious on the outlook for offshore, in the meantime we reduced the exposure by 20% overall, and the drilling segment was reduced by 50%. So feel more comfortable about the book now.
- Diamond sector is with risks, we follow it closely. We know the individual clients and the provisions we have taken, continue to watch closely and will pay attention in 2019.
- Coverage ratio – we are comfortable with the mid-30s we have.

Cost

- Largely taken restructuring provisions for the 2016 programs. In Nov-18, we announced further cost reductions in respect of the corporate bank, mainly IT. Don't expect further material restructuring cost. Around compliance – there was a big chunk for the SME derivatives program, that's not completed but expect it is solid.

Private banking

- AuM outlfows of €3bn, which were fairly low margin custody type assets mainly in NL. In a volatile market, clients think about positioning, some are looking to step up, others are more nervous. We have seen some migration from discretionary to advisory to self-execution in that period.
- Markets had come back again, but volatility combined with secular trends means a quite secular margin pressure, so that's why we are looking to grow that business to deliver on the scale benefit and what is still a very strong RoE business.

Funding

- Increase in funding spreads gets passed through to businesses; our businesses are very focused on delivering hurdle rates. Those businesses will focus to earn those spreads and will trade through in terms of margin and volume in order to deliver that over time.

ABN - 13 Februray

Kees van Dijkhuizen - CEO

Clifford Amrahams - CFO

Tanja Cuppen - CRO

Estimates and Valuation

ABN AMRO GROUP N.V.

RATING	PRICE	MARKET CAP
HOLD	**€20.57^**	**€19.3B / $21.9B**
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
€22.80 (FROM €26.10)	**€27.10**	**€16.70**

^Prior trading day's closing price unless otherwise noted.

Estimates								
€	Prev.	2018A	Prev.	2019E	Prev.	2020E	Prev.	2021E
Rev. (MM)	9,109.0	↓ 9,093.0	8,903.0	↓ 8,861.0	9,433.0	↓ 9,007.0		9,652.0
Dividend	1.51	↓ 1.45	1.52	↓ 1.41	1.68	↓ 1.45		1.67
Core EPS	2.52	↓ 2.28	2.33	↓ 2.27	2.59	↓ 2.22		2.46
Valuation								
		2018A		2019E		2020E		2021E
P/Rev		2.1x		2.2x		2.1x		2.0x
EV/Rev		2.1x		2.2x		2.1x		2.0x
Div. Yield		7.05%		6.85%		7.05%		8.12%
P/Core EPS		9.0x		9.1x		9.3x		8.4x

The Long View

ABN AMRO GROUP N.V.

Scenarios

Base Case

- 2020E EPS €2.22 with -8.4% CAGR 2017A-2020E
- Growth net income breakdown: -14.1% domestic retail, private banking -5.7%, wholesale bank -1.8%, and -7.6% for the group
- 2020E C/I ratio 58.6%
- 2020E Dividend €1.45 assuming a 65% payout ratio
- 2020E group RoTE 10.3%
- 2020E Retail RoE 16.6%, PB 23.4%, Wholesale 11%
- 2020E CET1 ratio = 17.5%
- 2020E RWA €119bn
- Price target = €24.8 by 2020, 18% upside

Weighted PT in 12 months: €22.8, 9% upside (30% Bear case, 50% Base case, 20% Bull case)

Upside Scenario

- 2020E EPS €2.86 with -0.4% CAGR
- 2020E C/I ratio 55%
- 2020E Dividend €1.86 assuming a 65% payout ratio
- 2020E group RoTE 13.1%
- 2020E Retail RoE 25%, PB 27.5%, Wholesale 14%
- 2020E CET1 ratio = 18.5%
- 2020E RWA €115bn

Price target = €27.1 by 2019, 29% upside

Downside Scenario

- 2020E EPS €1.45 with -20.6% underlying CAGR
- 2020E C/I ratio 64%
- 2020E Dividend €0.94 assuming a 65% payout ratio
- 2020E group RoTE 6.8%,
- 2020E Retail RoE 13%, PB 12%, Wholesale 7.4%
- 2020E CET1 ratio = 17.9%
- 2020E RWA €114bn

Price target = €16.7 by 2019, 20% downside

Investment Thesis / Where We Differ

- Material increase in capital distribution on hold due to management's cautious stance due to their views on the turning cycle and capital rules transaction.
- Earnings: with weaker macro, revenues for 2017-2020E are -1%, but costs are down by -1.8% with some gains in CIB and private banking; a normalization of group cost of risk from -3bp in 2017 to 32bp in 2020E.

Catalysts

- Q1 results: 13 May

Long Term Analysis

B3 CET (2020e) 17.5%

Adj Revenue growth ('17-'20e) 1.1%

Adj Cost Income ration (2020e) 59%

Loan growth ('17-'20e) -1.9%

2020e pay-out 65%

Estimates and Valuation

ING GROEP N.V.

RATING	PRICE	MARKET CAP
BUY	**€10.71^**	**€41.6B / $47.1B**
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
€14.10 (FROM €17.10)	**€18.50**	**€9.20**

^Prior trading day's closing price unless otherwise noted.

Estimates								
€	Prev.	2018A	Prev.	2019E	Prev.	2020E	Prev.	2021E
Rev. (MM)	18,162.0	↓ 18,097.0	19,108.0	↓ 18,354.0	20,653.0	↓ 18,943.0		20,515.0
Dividend		0.68	0.83	↓ 0.74	0.98	↓ 0.77		0.76
EPS	1.14	↑ 1.17	1.48	↓ 1.37	1.69	↓ 1.40		1.39
Valuation								
		2018A		2019E		2020E		2021E
P/Rev		2.3x		2.3x		2.2x		2.0x
Div. Yield		6.35%		6.91%		7.19%		7.10%
FY P/E		9.2x		7.8x		7.6x		7.7x

Rev: Bank only

The Long View

ING GROEP N.V.

Scenarios

Base Case

- 2020E EPS €1.40 with 4.6% CAGR 2017E/2020E
- Growth breakdown: Retail 1.8%, Wholesale 6.1%, CC -9%, Group 4.2%
- 2020E C/I ratio 51.8%
- 2020E Dividend €0.77 assuming a 55% payout ratio
- 2020E group RoTE 10.2%
- 2020E Retail RoE 16.9%, Wholesale 11.4%
- 2020E CET1 ratio = 14.5%
- 2020E RWA €348bn
- Price target = €15.2 by 2020, 38% upside

Weighted PT in 12 months: €14.1, 28% upside (30% Bear case, 50% Base case, 20% Bull case)

Upside Scenario

- 2020E EPS €1.67 with 10.9% CAGR
- 2020E C/I ratio 50.3%
- 2020E Dividend €0.92 assuming a 55% payout ratio
- 2020E group RoTE 12%
- 2020E Retail RoE 18.6%, Wholesale 12.4%
- 2020E CET1 ratio = 13.6%
- 2020E RWA €374bn

Price target = €18.5 by 2019, 68% upside

Downside Scenario

- 2020E EPS €1.02 with -5.9% CAGR
- 2020E C/I ratio 57.8%
- 2020E Dividend €0.56 assuming a 55% payout ratio
- 2020E group RoTE 7.78%
- 2020E Retail RoE 12.8%, Wholesale 7.6%
- 2020E CET1 ratio = 13.5%
- 2020E RWA €363bn

Price target = €9.2 by 2019, 16% downside

Investment Thesis / Where We Differ

- We expect the digital option to crystalize by 2019 and 2020 with the revenues accelerating on increased cross-buy potential; we also expect a C/I ratio of 51.8% by 2020, hence we are 5.2% and 3.3% ahead of consensus for 2019 and 2020 on the net income line.
- We see a number of capital options ING can utilize post Basel IV clarity: organic growth, a dividend hike and some external growth. With CET1 of 14.5% in Q5-18 and an optimal cap of 14% by 2020, we have a pay-out to 55% by 2020 ending with CET1 at 14.5% as we see no large distribution due to regulatory and public opinion pressures.

Catalysts

- Q1 results – 2 May
- Investor day – 25 March

Long Term Analysis

B3 CET (2020e) 16.7%

Adj Revenue growth ('17-'20e) 2.4%

Adj Cost Income ration (2020e) 49.7%

Loan growth ('17-'20e) 3.5%

Estimates and Valuation

KBC GROUP

RATING	PRICE	MARKET CAP
HOLD	**€61.30^**	**€25.6B / $29.0B**
PRICE TARGET (PT)	UPSIDE SCENARIO PT	DOWNSIDE SCENARIO PT
€70.50 (FROM €71.90)	**€85.30**	**€42.20**

^Prior trading day's closing price unless otherwise noted.

Estimates								
€	Prev.	2018A	Prev.	2019E	Prev.	2020E	Prev.	2021E
Rev. (MM)	7,545.0	↓ 7,513.0	7,776.0	↓ 7,633.0	8,202.0	↓ 7,977.0		8,484.0
Dividend		3.90	3.80	↓ 3.64	4.00	↓ 3.74		3.99
EPS	5.95	↑ 6.03	5.92	↓ 5.60	6.19	↓ 5.75		6.15
Valuation								
		2018A		2019E		2020E		2021E
P/Rev		3.4x		3.4x		3.2x		3.0x

The Long View

KBC GROUP

Scenarios

Base Case

- 2020E EPS €5.75 -2.6t CAGR 2017 - 2020E
- Growth net income breakdown: -5.1% in Belgium, CZ +1.8%, international markets -2.2%, which makes -2.5% for the group
- 2020E C/I ratio 56.1%
- 2020E Dividend €3.7 assuming a 65% payout ratio
- 2020E group RoTE 14.0%
- 2020E Belgium RoE 20.9%, CZ 38.5%, International 16.7%
- 2020E CET1 ratio = 16.7%
- 2020E RWA €101bn
- Price target = €77.2 by 2020, 23% upside

Weighted PT in 12 months: €70.5, 12% upside (25% Bear case, 50% Base case, 25% Bull case)

Upside Scenario

- 2020E EPS €7.19 with 4.2% CAGR
- 2020E C/I ratio 52.6%
- 2020E Dividend €4.7 assuming a 65% payout ratio
- 2020E group RoTE 17.2%
- 2020E Belgium RoE 25.9%, CZ 42.3%, International 23.8%
- 2020E CET1 ratio = 16.8%
- 2020E RWA €103bn

Price target = €85.3 by 2019, 36% upside

Downside Scenario

- 2020E EPS €3.50 with -17.5% underlying CAGR
- 2020E C/I ratio 61.4%
- 2020E Dividend €2.3 assuming a 65% payout ratio
- 2020E group RoTE 8.7%
- 2020E Belgium RoE 13.9%, CZ 28.9%, IR 7.4%
- 2020E CET1 ratio = 17.1%
- 2020E RWA €95.6bn

Price target = €42.2 by 2019, 33% downside

Investment Thesis / Where We Differ

- Material increase in capital distribution on hold due to management's cautious stance due to a public perception on bail-out banks deterring the management from returning to shareholders in a way that could be seen as negative.
- Earnings: we expect 1.2% revenue growth between 2017-2020E, but costs are also up by 3.2% due to growth in CZ and international retail; revenues up by 0.7% on an underlying base and a normalization of group cost of risk from -2bp in 2017 to 21bp in 2020E.

Catalysts

- Q1 results -16 May
- Potential M&A in core markets

Long Term Analysis

B3 CET (2020e) 16.7%

Adj Revenue growth ('17-'20e) 0.7%

Adj Cost Income ration (2020e) 52.7%

Loan growth ('17-'20e) 4.1%

Company Description

ABN

ABN AMRO Group N.V. provides a full range of commercial banking services for retail, private, and commercial clients. The Bank offers asset management, wealth management, private and retail banking, and investment advisory services.

ING Groep N.V.

ING Bank N.V. provides various banking services in the Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia, and Australia. The company operates through Retail Netherlands, Retail Belgium, Retail Germany, Retail Other, and Wholesale Banking segments. It accepts current and savings accounts; and offers business lending, mortgage, and other consumer lending products. The company also provides payments and cash management, corporate finance, real estate, leasing, factoring, and treasury services, as well as equity and debt capital market solutions. It serves individuals, small and medium-sized enterprises, mid-corporates, financial institutions, governments, and supranational bodies. The company was incorporated in 1927 and is headquartered in Amsterdam, the Netherlands. ING Bank N.V. is a subsidiary of ING Groep N.V.

KBC

KBC Bank N.V. is a Belgian universal multi-channel bank, focusing on private clients and small and medium-sized enterprises. Besides retail banking, insurance, and asset management activities (in collaboration with sister companies KBC Insurance NV and KBC Asset Management NV), KBC is active in European debt capital markets, domestic cash equity markets and in the field of corporate banking, leasing, factoring, reinsurance, private equity and project and trade finance in Belgium, Central and Eastern Europe and elsewhere (mainly in Europe).

Company Valuation/Risks

ABN

We apply several valuation methodologies - P/E, P/TBV (Gordons Growth), P/PPP and sum of the parts. Our valuation blend is based on a mix of Bull, Bear & Base scenarios. Risks: further and prolonged NII pressure in domestic retail, an exit by the Dutch state with a greater dilution impact than before, and a limited sensitivity to rate hikes.

ING Groep N.V.

We apply several valuation methodologies - P/E, P/TBV (Gordons Growth), P/PPP and sum of the parts. The valuation blend is based on a mix of Bull, Bear & Base scenarios. Risks: a slower implementation of the plan than expected, which would delay the cost synergies and slower European macro growth. Another money laundering case undermining ING's reputation.

KBC

We apply several valuation methodologies - P/E, P/TBV (Gordons Growth), P/PPP and sum of the parts. Our valuation blend is based on a mix of Bull, Bear & Base scenarios. Risks: macro deterioration in the CEE region and ongoing market turbulence impacting fee income. On the upside, an acquisition in the core markets would support growth.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	March 7, 2019 , 14:24 ET.
Recommendation Distributed	March 8, 2019 , 00:00 ET.

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

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Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.
Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1142	55.01%	96	8.41%	14	1.23%
HOLD	800	38.54%	11	1.38%	1	0.12%
UNDERPERFORM	134	6.45%	1	0.75%	0	0.00%

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