

KBC Group

1Q 2019 results

Press presentation

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Key takeaways for KBC Group

1Q 2019 financial performance

- ❖ Commercial bank-insurance franchises in core markets performed well
- ❖ Customer loans and customer deposits increased in most of our core countries
- ❖ Lower net interest income and net interest margin
- ❖ Higher net fee and commission income
- ❖ Higher net gains from financial instruments at fair value and lower net other income
- ❖ Excellent sales of non-life insurance and higher sales of life insurance y-o-y
- ❖ Strict cost management
- ❖ Higher net impairments on loans
- ❖ Solid solvency and liquidity

Good net result of **430m** EUR in 1Q19

1Q19

- ROE 14.5%*
- Cost-income ratio 57% (adjusted for specific items)
- Combined ratio 93%
- Credit cost ratio 0.16%
- Common equity ratio 15.7%** (B3, DC, fully loaded)
- Leverage ratio 6.0% (fully loaded)
- NSFR 138% & LCR 140%

* when evenly spreading the bank tax throughout the year

** 15.8%, when including 1Q19 net result taking into account the payout ratio in FY2018 of 59% (dividend + AT1 coupon)



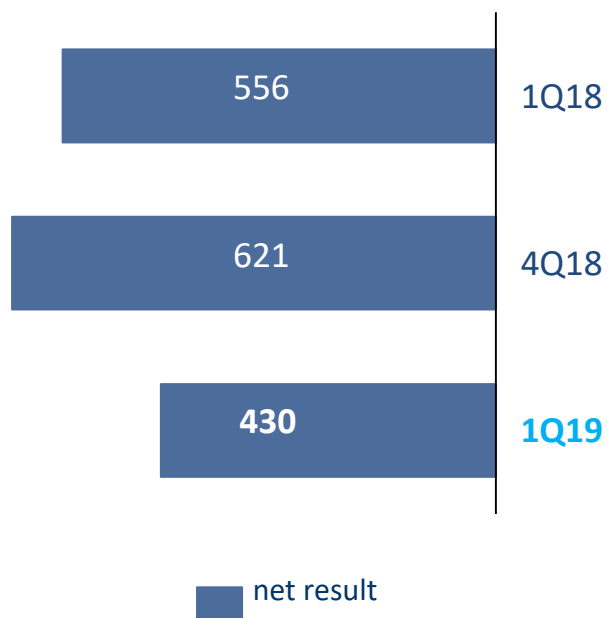
KBC Group Consolidated results

1Q 2019 performance

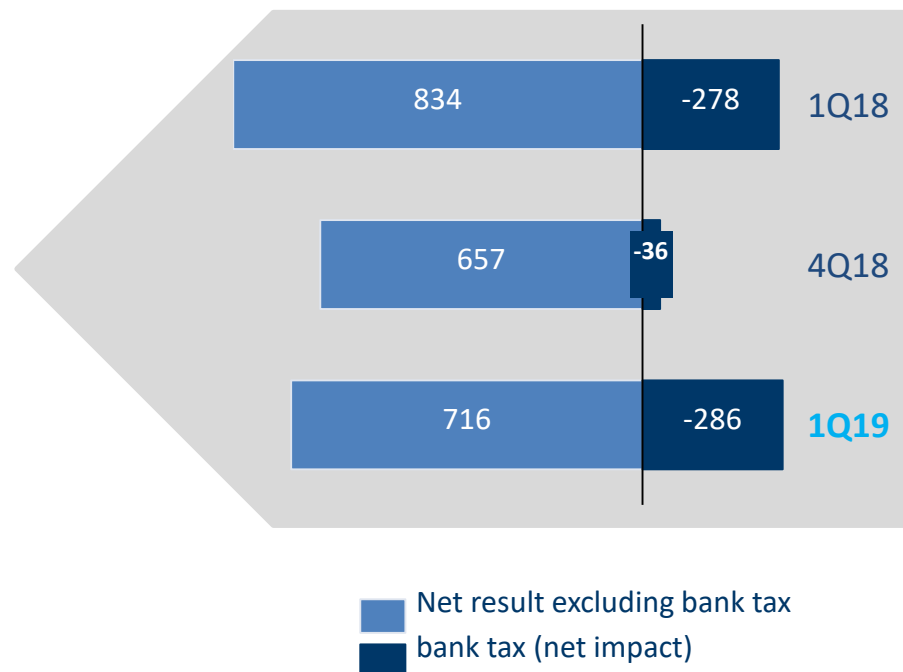
KBC Group

Good net result of 430m in 1Q 2019

Net result

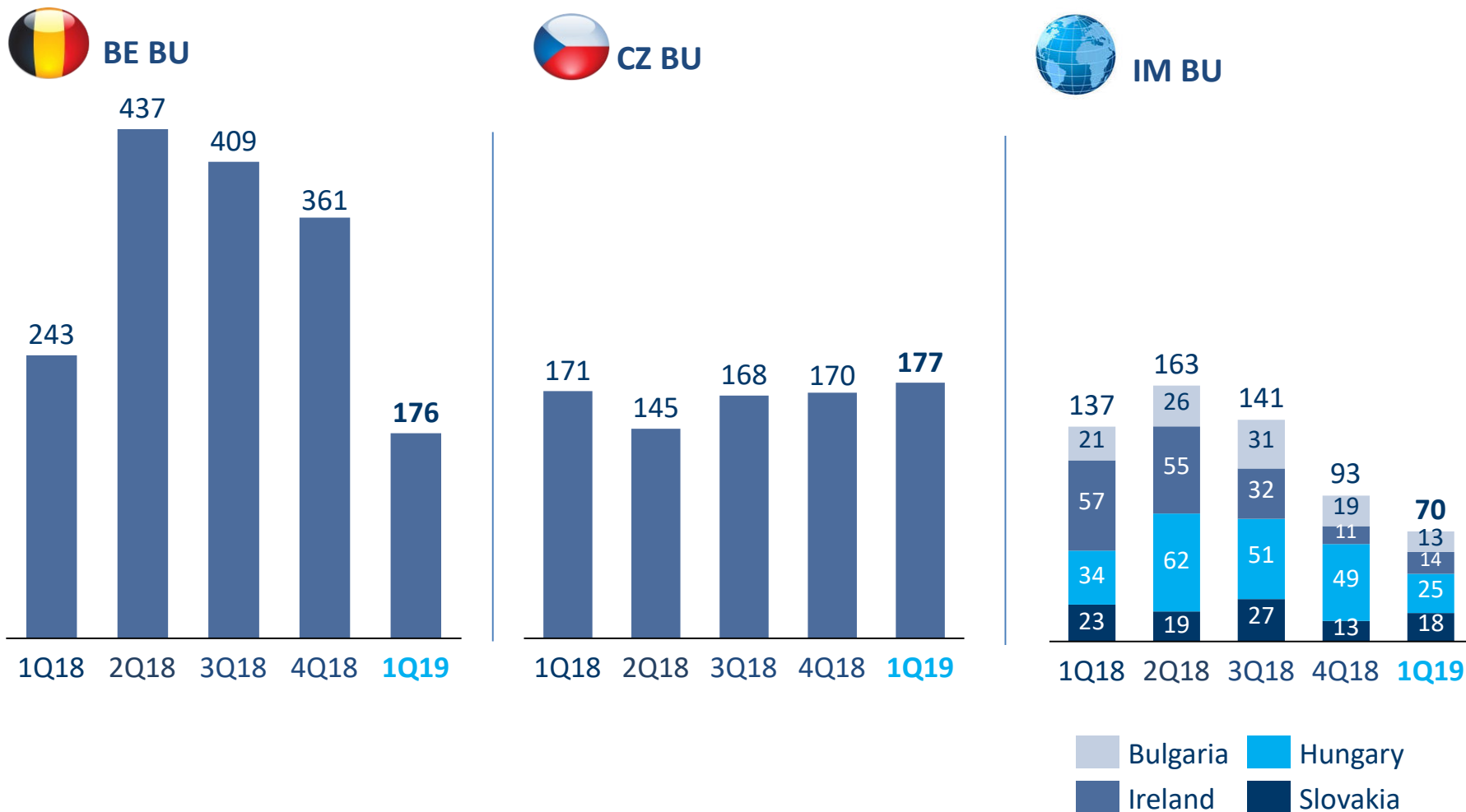


Net result (breakdown bank tax)



Net result per business unit

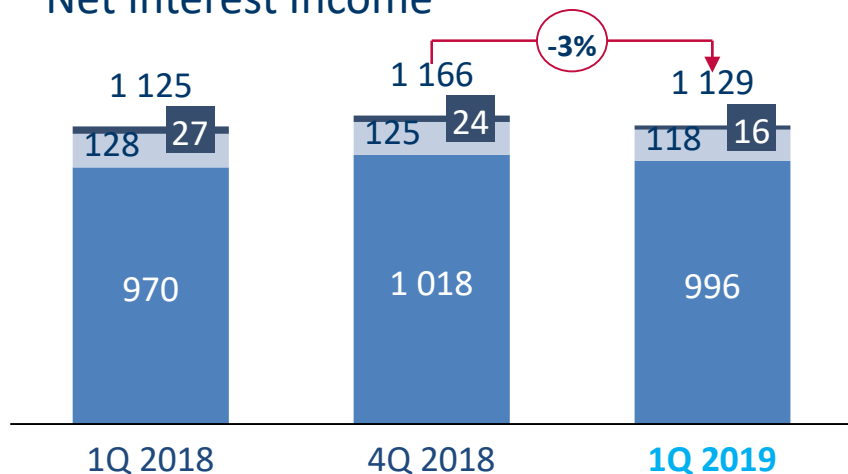
Overall positive contribution of the business units



Net interest income

Lower net interest income (NII) and net interest margin (NIM)

Net Interest Income



■ NII - netted positive impact of ALM FX swaps * ■ NII - Insurance ■ NII - Banking (incl. holding-company/group)

NII down by 3% q-o-q and stable y-o-y. Note that NII banking decreased by 2% q-o-q, but rose by 2% y-o-y.

The q-o-q decrease was driven primarily by:

(-) lower reinvestment yields in our euro area core countries, pressure on commercial loan margins (on total outstanding portfolio) in most core countries, lower netted positive impact of ALM FX swaps and lower number of days.

partly offset by:

(+) continued good loan volume growth, small additional positive impact of both short- & long-term interest rate increases in the Czech Republic and slightly lower funding costs

Net interest margin**

Quarter	1Q18	4Q18	1Q19
NIM	2.01%	2.02%	1.98%

- NIM down by 4 bps q-o-q
- Down by 3 bps y-o-y due mainly to negative impact of lower reinvestment yields, pressure on commercial loan margins (on total outstanding portfolio) and an increase of the interest bearing assets (denominator).

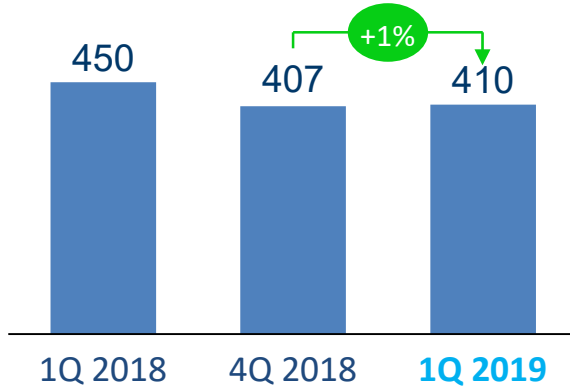
* From all ALM FX swap desks

** NIM is calculated excluding the dealing room and the net positive impact of ALM FX swaps & repos

Net fee and commission income

Higher net fee and commission income

Net fee and commission income



Amounts in millions of EUR

Net fee and commission income (410m EUR)

Up by 1% q-o-q and down by 9% y-o-y

Q-o-q increase was the result chiefly of the following:

- **Net F&C income from Asset Management Services** increased by 3% q-o-q as a result of higher entry and management fees from mutual funds and unit-linked life insurance products
- **Net F&C income from banking services** decreased by 3% q-o-q due mainly to seasonally lower fees from payment services, lower fees from credit files & bank guarantees and lower network income, partly offset by higher securities-related fees
- **Distribution costs** fell by 2% q-o-q

Assets under management (AuM)



Amounts in billions of EUR

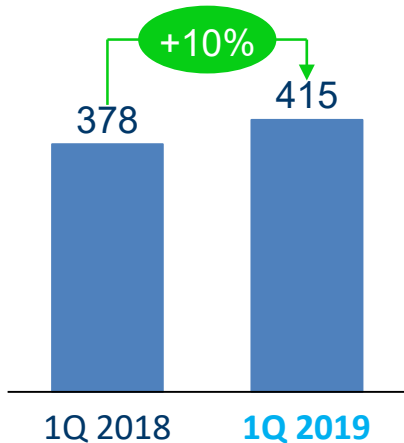
Assets under management (210bn EUR)

- Increased by 5% q-o-q due entirely to a positive price effect
- The mutual fund business has seen small net inflows, offset by net outflows in investment advice

Non-life insurance

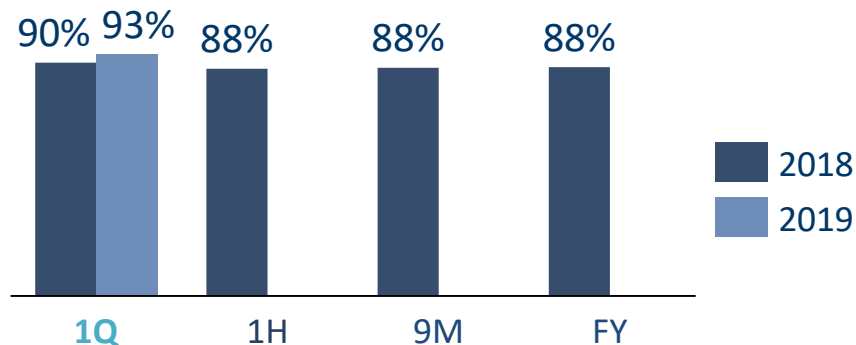
Non-life premium income up y-o-y and good combined ratio

Non-Life (Gross earned premium)



Up by 10% y-o-y mainly thanks to a good commercial performance in all major product lines in our core markets and tariff increases

Combined ratio non-life



The **non-life combined ratio** for 1Q19 amounted to **93%**, a good number given higher technical charges due mainly to storm claims (especially in Belgium and to a lesser extent in the Czech Republic) and large fire claims in Belgium

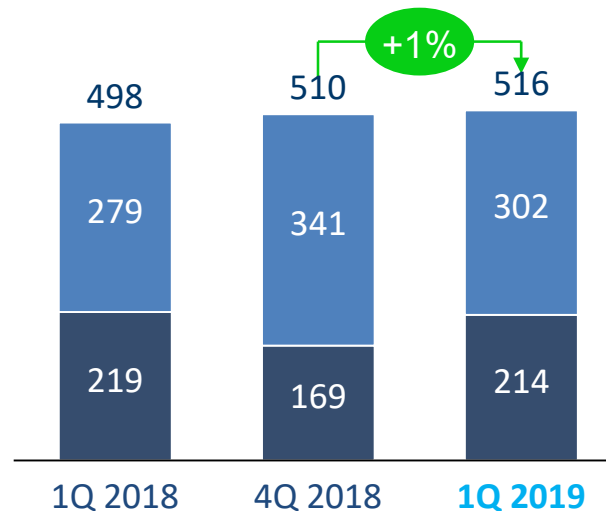
Life insurance

Life sales up q-o-q and y-o-y

Sales of Life insurance products increased by 1% q-o-q and by 4% y-o-y

- The q-o-q increase was driven entirely by higher sales of unit-linked products in Belgium, partly offset by lower sales of guaranteed interest products in Belgium (attributable chiefly to traditionally higher volumes in tax-incentivized pension-saving products in 4Q18)
- Sales of unit-linked products accounted for 41% of total life insurance sales in 1Q19

Life sales



■ Guaranteed interest rate products ■ Unit-linked products

Net gains from financial instruments at fair value

Higher fair value gains

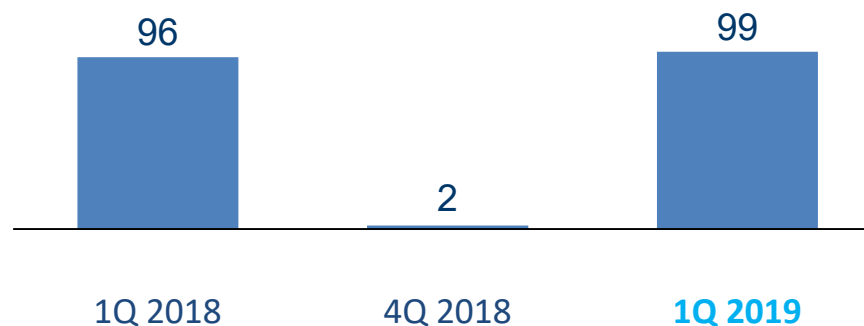
The higher q-o-q figures for **net gains from financial instruments at fair value** were attributable mainly to:

- a positive change in market, credit and funding value adjustments (mainly as a result of changes in the underlying market value of the derivatives portfolio and decreased credit & funding spreads)
- higher net result on equity instruments (insurance)
- higher dealing room income

partly offset by:

- a negative change in ALM derivatives

Fair value gains

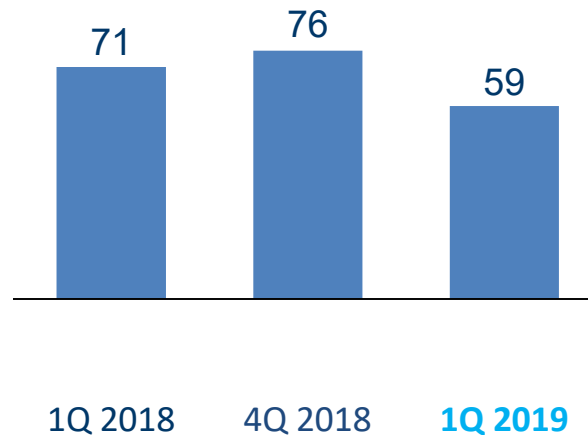


Net other income

Lower net other income

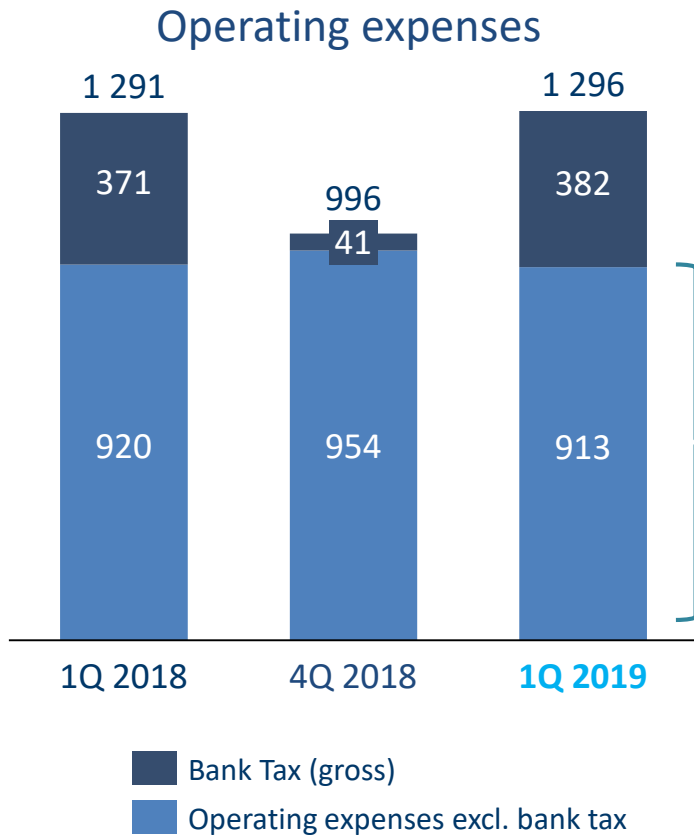
Net other income amounted to 59m EUR, more or less in line with the normal run rate of around 50m EUR. 1Q19 was positively impacted by the settlement of a legacy legal file in the Czech Republic (+6m EUR), while 4Q18 was positively impacted by the settlement of legacy legal files in the Belgium Business Unit (+33m EUR)

Net other income



Operating expenses

Strict cost management



Cost/Income ratio*

	FY18	1Q19
Cost/Income ratio*	57%	57%

Operating expenses excluding bank tax decreased by 4% q-o-q primarily as a result of:

- lower staff expenses (partly thanks to an 8m EUR positive one-off review of the employee benefit plans), despite wage inflation in most countries
- seasonally lower professional fee, ICT & marketing expenses

Pursuant to IFRIC 21, certain levies (such as contributions to the European Single Resolution Fund) have to be recognized upfront, and this adversely impacted the results for 1Q19

Total bank taxes are expected to increase from 462m EUR in FY18 to 488m EUR in FY19.

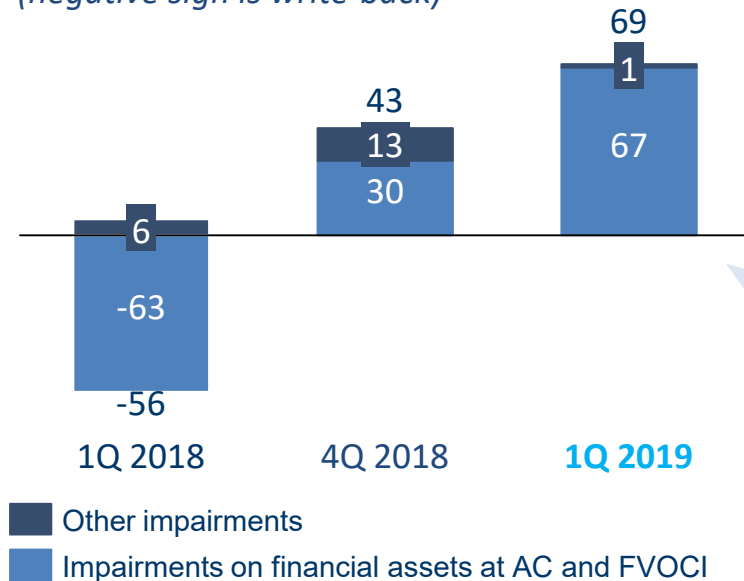
- *Cost/Income ratio (banking) adjusted for specific items: MtM ALM derivatives and one-off items are fully excluded, but bank taxes are included pro-rata*

Asset impairments

Higher asset impairments, benign credit cost ratio

Asset impairment

(negative sign is write-back)



Higher asset impairments, mainly to:

- loan loss impairments of 82m EUR in Belgium due to a few corporate files
- small loan loss impairments in Slovakia and Bulgaria

partly offset by:

- net loan loss impairment releases in Ireland of 12m EUR (compared with 15m EUR in 4Q18)
- small net loan loss impairment reversals in the Czech Republic and Group Centre

Note that there were no loan loss impairments in Hungary as net impairment releases in retail were offset by loan loss impairments in corporate

Credit cost ratio (YTD)

FY18	1Q19
-0.04%	0.16%

The credit cost ratio amounted to 0.16% in 1Q19 due to higher gross impairments in Belgium



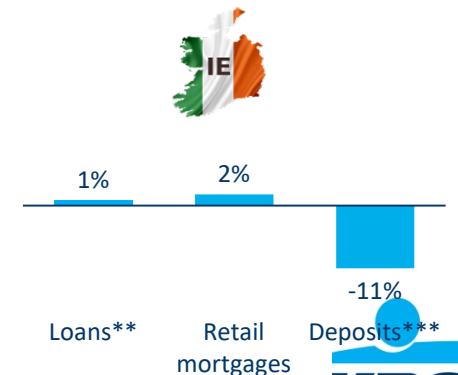
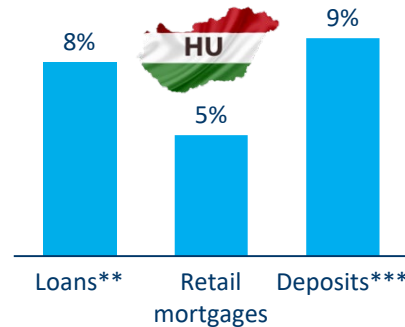
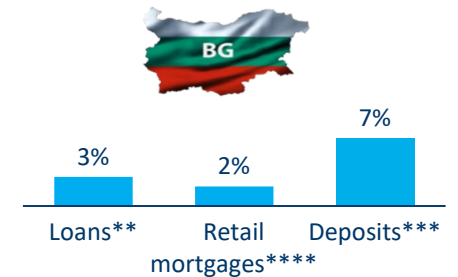
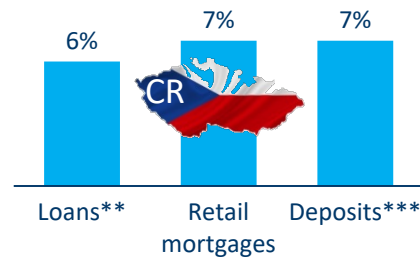
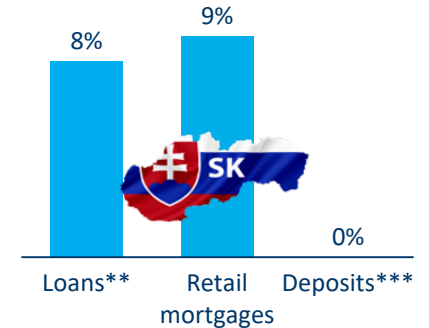
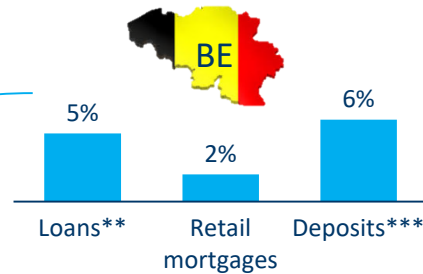
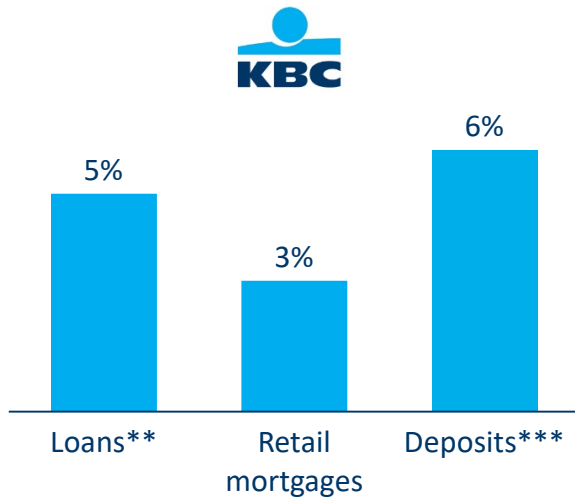
KBC Group

Balance sheet, capital and liquidity

Balance sheet

Loans and deposits continue to grow in most core countries

Y-O-Y ORGANIC* VOLUME GROWTH



* Volume growth excluding FX effects and divestments/acquisitions
 ** Loans to customers, excluding reverse repos (and bonds)
 *** Customer deposits, including debt certificates but excluding repos
 **** Retail mortgages in Bulgaria: new business (written from 1 Jan 2014) +6% y-o-y, while legacy -29% y-o-y

More stringent ECB approach re. dividend policy

Our unchanged dividend policy / capital distribution to shareholders

- Payout ratio policy (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit
- Interim dividend of 1 EUR per share in November of each accounting year as an advance on the total dividend
- On top of the payout ratio of 50% of consolidated profit, **each year**, the Board of Directors will take a **decision**, at its discretion, on the distribution of the capital above the 'Reference Capital Position'

More stringent ECB approach since recently, based on the ECB Umbrella Decision

- We can apply for interim profit recognition based on the ECB Umbrella Decision (Decision EU 2015/656 of 4 February 2015), which states that the dividend to be deducted is the highest of (i) maximum pay-out according to dividend policy, (ii) average pay-out ratio over the last 3 years or (iii) last year's pay-out ratio
- BUT since recently:
 - the ECB interpret 'at least 50%' as a range with an upper end of 100% pay-out
 - ECB indicated that KBC should first accrue for the interim dividend of 1 EUR per share before any profit can be recognised (under the ECB Umbrella decision)

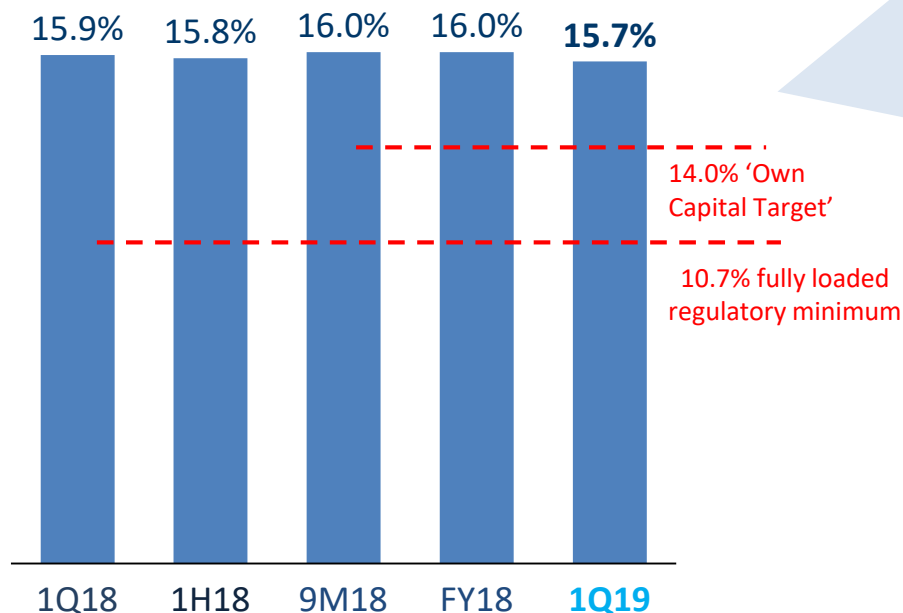
What does this mean in practice in the meantime?

- In anticipation of further clarification and reaching agreement upon our approach re. the interim profit recognition process going forward, no interim profit has been recognised for 1Q19. This resulted in a CET1 ratio of **15.7% at the end of 1Q19**
- When including 1Q19 net result taking into account 59% pay-out (dividend + AT1 coupon), in line with the payout ratio in FY2018, the CET1 ratio at KBC Group (Danish Compromise) amounted to **15.8% at the end of 1Q19**

Common equity ratio

Strong capital position

Fully loaded Basel 3 CET1 ratio at KBC Group (Danish Compromise)



The common equity ratio slightly decreased from 16.0% at the end of FY18 to 15.7%* at the end of 1Q19 based on the Danish Compromise due mainly to RWA increase.

This **clearly exceeds** the minimum capital requirements** set by the competent supervisors of 10.7% fully loaded.

Our 'Own Capital Target' remained at 14.0% for 2019 after the update of the median CET1 ratio of our peer group (based on FY18 numbers)

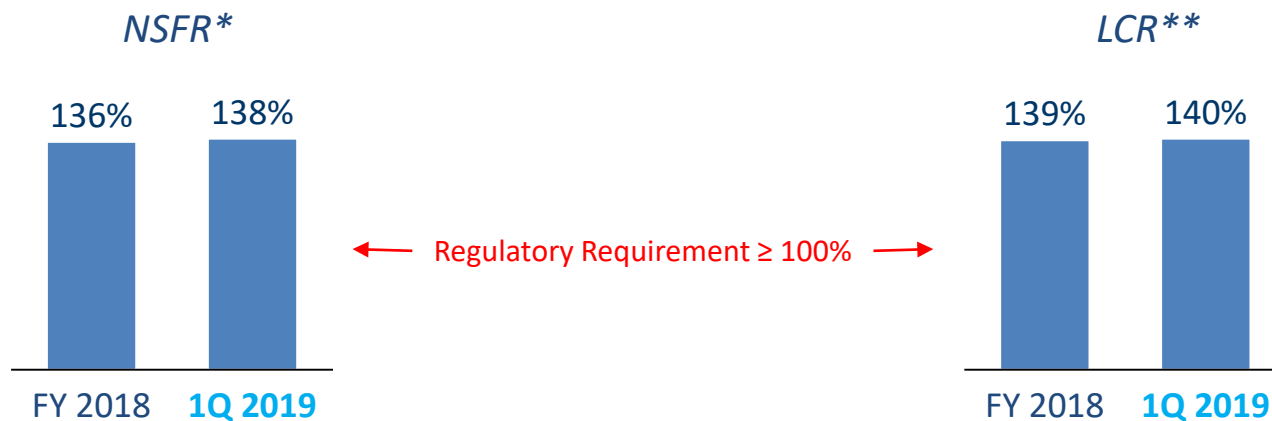
* 15.8%, when Including 1Q19 net result taking into account the payout ratio in FY2018 of 59% (dividend + AT1 coupon)

** Excludes a pillar 2 guidance (P2G) of 1.0% CET1

Liquidity ratios

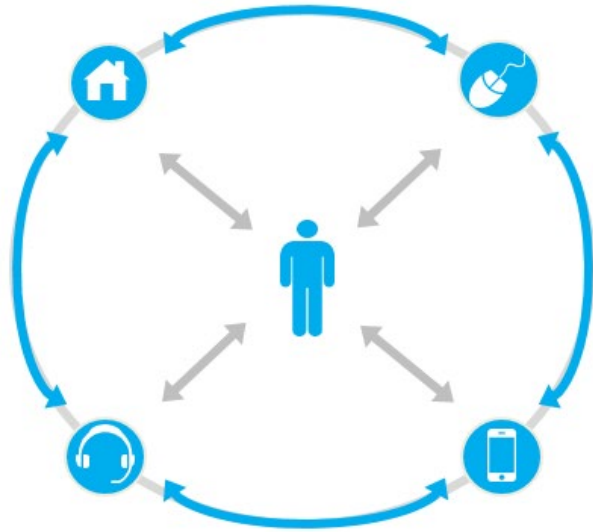
Liquidity continues to be solid

KBC Group's liquidity ratios



* Net Stable Funding Ratio (NSFR) is based on KBC's interpretation of the proposal of CRR amendment

** Liquidity Coverage ratio (LCR) is based on the Delegated Act requirements. From EOY2017 onwards, KBC discloses 12 months average LCR in accordance to EBA guidelines on LCR disclosure



KBC Group
More of the same...
but differently ...

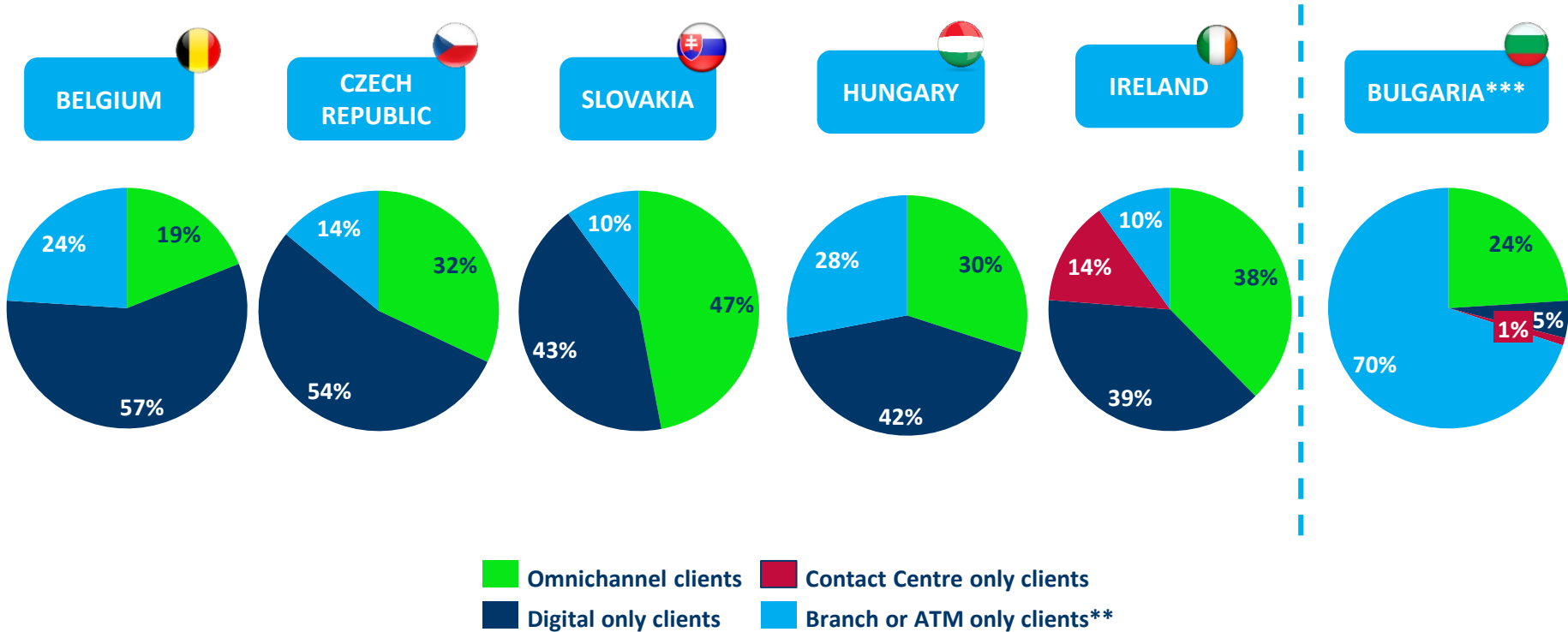
Inbound contacts via omni-channel and digital channel* at KBC Group** amounted to 79% at end 1Q19... on track to reach Investor Visit target ($\geq 80\%$ by 2020)



- Clients interacting with KBC through at least one of the non-physical channels (digital or through a remote advisory centre), possibly in addition to contact through physical branches. This means that clients solely interacting with KBC through physical branches (or ATMs) are excluded
- ** Bulgaria & PSB out of scope for Group target



Realization of omni-channel strategy* – client mix in 1Q19



* Clients interacting with KBC through at least one of the non-physical channels (digital or through a remote advisory centre), possibly in addition to contact through physical branches. This means that clients solely interacting with KBC through physical branches (or ATMs) are excluded.

** Might be slightly underestimated

*** Bulgaria out of scope for Group target



KBC Group 1Q 2019

Looking forward

Looking forward

Economic outlook

In line with global economic developments, the European economy is currently in a slowdown period. However, this is likely temporary and we expect a rebound in 2020. Decreasing unemployment rates, with growing labour shortages in some European economies, combined with gradually rising wage inflation will continue to support private consumption. Moreover, also investments will remain an important growth driver. The main elements that could substantially impede European economic sentiment and growth remain the risk of further economic de-globalisation, including an escalation of trade conflicts, Brexit and political turmoil in some euro area countries

Group guidance

- Solid returns for all Business Units
- The acquisition of the remaining 45% of CMSS in the Czech Republic is expected to close before the end of 2Q19. The transaction will have an impact of approximately -0.3% points on KBC Group's strong CET1 ratio. The revaluation of KBC's 55% stake in CMSS will lead to a one-off gain for KBC, estimated at approximately 80m EUR
- B4 impact (as of 1 January 2022) for KBC Group estimated at roughly 8bn EUR higher RWA on fully loaded basis at year-end 2018, corresponding with 9% RWA inflation and -1.3% points impact on CET1 ratio

Business units

Next to the Belgium and Czech Republic Business Units, the International Markets Business Unit has become a strong net result contributor (although 2018 figures were flattered by net impairment releases)

We put our clients centre stage and they keep counting on us to help them realise and protect their dreams. We do this proactively and work together to help build society and create sustainable growth. We are genuinely grateful for the confidence they put in us.

Johan Thijs, KBC Group CEO