


KBC Group
2Q and 1H 2017 results
Press presentation

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More detailed analyst presentation available at www.kbc.com

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2Q 2017 key takeaways for KBC Group

- **EXCELLENT BUSINESS PERFORMANCE IN 2Q17**

  Exceptionally strong net result of 855m EUR in 2Q17 (and 1,485m EUR in 1H17). ROE of 20% in 1H17
  - Excellent performance of the commercial bank-insurance franchises in our core markets and core activities
  - Q-o-q increase in customer loan volumes and customer deposits in most of our core countries
  - Slightly higher net interest income despite slightly lower net interest margin q-o-q
  - High net fee and commission income
  - Higher net gains from financial instruments at fair value and higher realised AFS gains, lower net other income
  - Exceptional combined ratio of 84% in 1H17. Excellent sales of non-life products, while sales of life insurance products were lower
  - Strict cost management resulted in a cost/income ratio of 53% YTD adjusted for specific items
  - Net impairment releases of 71m, mainly driven by Ireland (net release of 87m EUR). The impairment guidance for Ireland has been updated towards a net release of a range of 160m-200m EUR for FY17, driven by a 40m EUR adjustment as a result of the model recalibration in 2Q17

- **SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS**
  - **The B3 common equity ratio based on the Danish Compromise** at end 2Q17 amounted to **15.83% phased-in and 15.65% fully loaded***. **The earnings generation in 2Q17 fully absorbed the impact of the acquisition of UBB & Interlease in Bulgaria of 50bps on fully loaded CET1**
  - Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **5.7%** at KBC Group
  - **Continued strong liquidity position** (NSFR at 130% and LCR at 141%) at end 2Q17
  - Referring to our dividend policy, KBC will pay an **interim dividend of 1 EUR per share in November 2017**, as an advance payment on the total dividend. The **pay-out ratio policy** (i.e. dividend + AT1 coupon) **of at least 50%** of consolidated profit is reconfirmed

* *This clearly exceeds the minimum capital requirements set by the ECB / NBB of respectively 8.65% and 10.40% for 2017. On top of the above-mentioned capital requirements, the ECB expects KBC to hold a pillar 2 guidance (P2G) of 1.0% CET1*

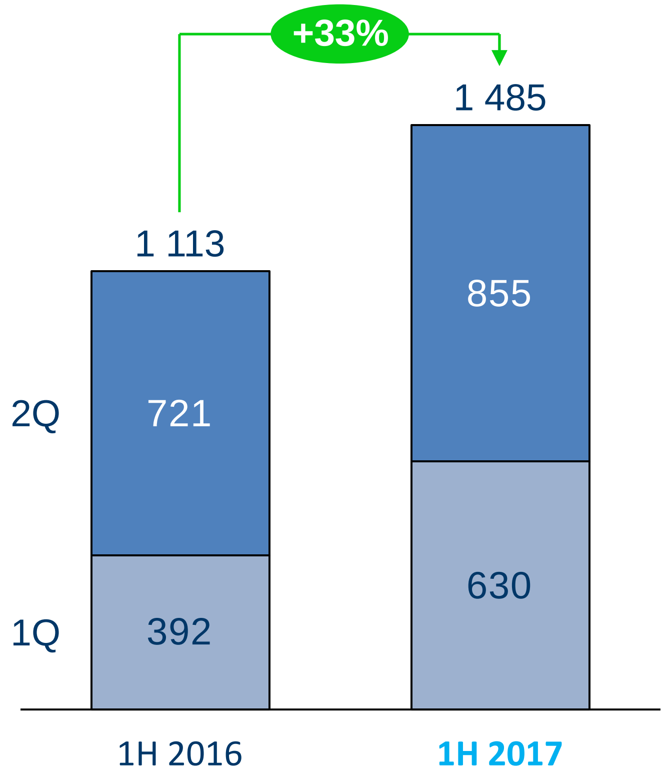



KBC Group
Consolidated results
2Q and 1H 2017 performance

KBC Group:

Strong business performance in 1H 2017

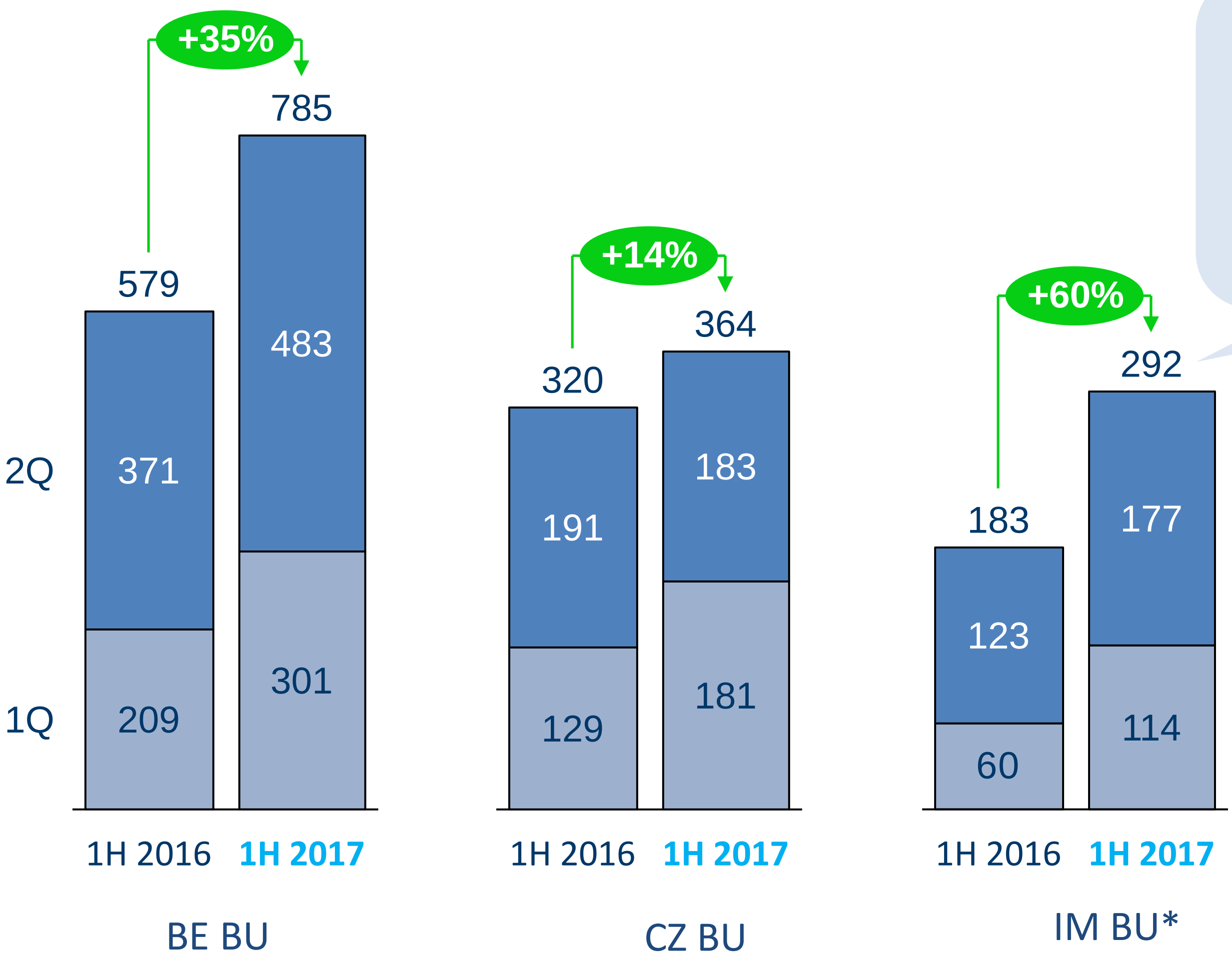
Net result



Amounts in millions of EUR

Net result per business unit:

All business units contributed to the positive result



1H 2017 net result breakdown for International Markets:

- **166m** EUR for **Ireland**
- **68m** EUR for **Hungary**
- **47m** EUR for **Slovakia**
- **9m** EUR for **Bulgaria**

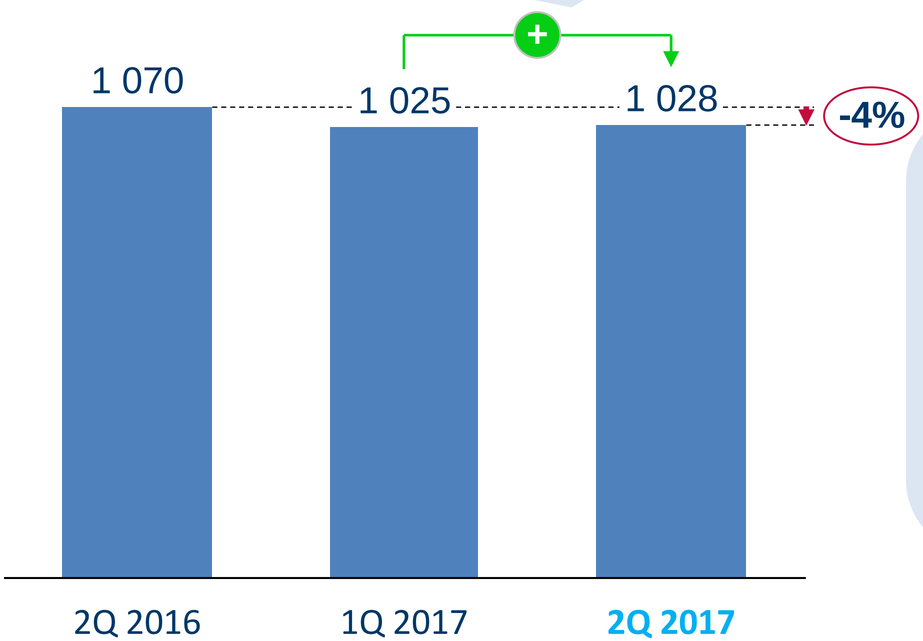
Amounts in millions of EUR

* International Markets (IM) BU includes Hungary, Slovakia, Bulgaria and Ireland

Net interest income:

Slightly higher net interest income (NII) and slightly lower net interest margin (NIM)

NII slightly up q-o-q (and down by 4% y-o-y):
NII banking increased by 2% q-o-q, which was largerly offset by more negative NII of dealing room activities.
(+) lower funding costs, continued good volume growth in current accounts and loans, as well further positive effect of enhanced ALM management
(-) lower reinvestment yields, more negative NII of dealing room activities, pressure on commercial loan margins in most core countries and slightly lower upfront prepayment fees



Quarterly net interest margin

2Q16	1Q17	2Q17
1.94%	1.88%	1.86%

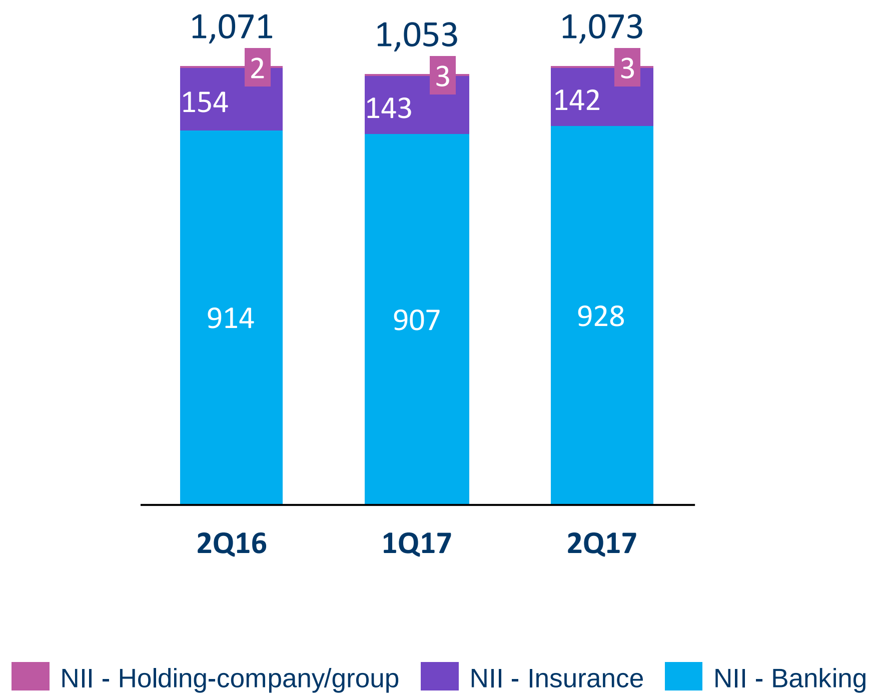
Q-o-q decrease of NIM is entirely due to decreased net interest income from the dealing room, as lower reinvestment yields and pressure on commercial loan margins in most core countries were fully offset by lower funding costs and the further positive effect of enhanced ALM management

Amounts in millions of EUR

Net Interest Income:

NII/NIM excluding dealing room effect

NII EXCLUDING DEALING ROOM EFFECT



NIM EXCLUDING DEALING ROOM EFFECT

2Q16	1Q17	2Q17
1.94%	1.94%	1.95%

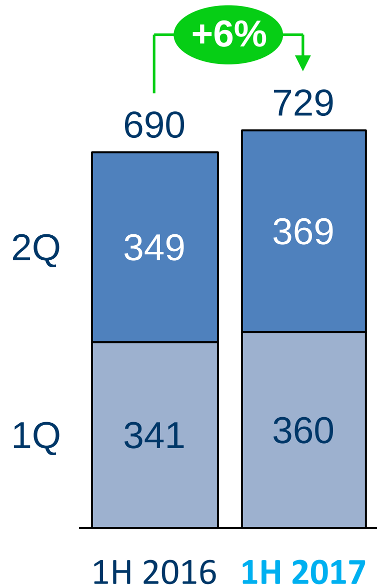
- **NII excluding dealing room effect** roughly stabilised y-o-y, which is an excellent performance in the current low interest rate environment
- **NIM** corrected for dealing room effect roughly stabilised both q-o-q and y-o-y

Amounts in m EUR

Non-life insurance:

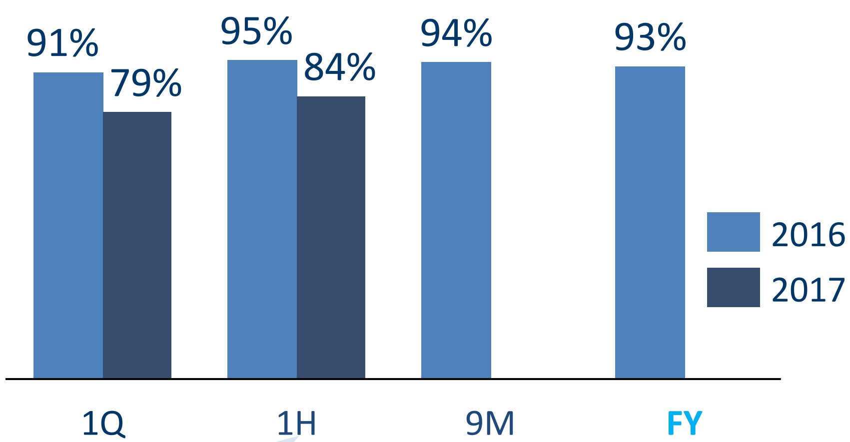
Strong performance for non-life sales, excellent combined ratio

Gross earned premiums non-life insurance



Up y-o-y thanks to a good commercial performance in all major product lines in our core markets

Combined ratio non-life



The **non-life combined ratio** at 1H17 amounted to 84%**,** an improvement compared with 93% in FY16 due to low technical charges (especially in 1Q17). Remember that 1H16 was negatively impacted by one-off charges due to terrorist attacks in Belgium (in 1Q16) and the impact of floods/storms (in 2Q16)

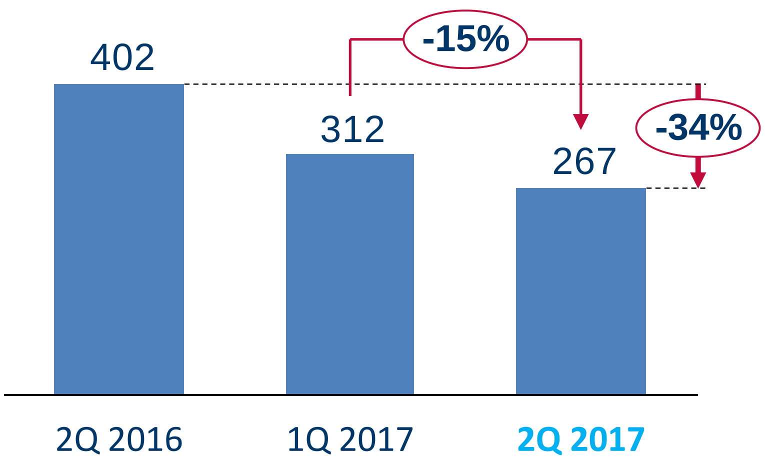
Amounts in millions of EUR

Life insurance:

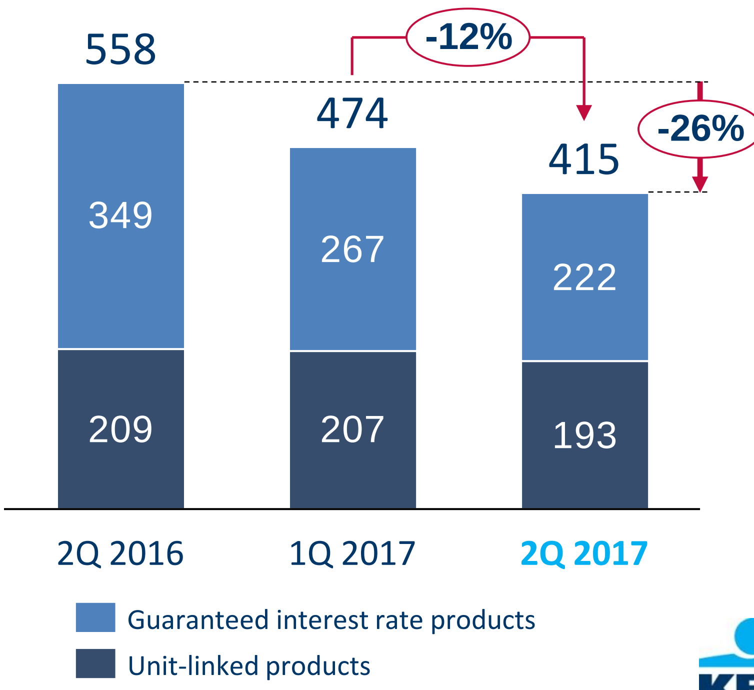
Premium income down q-o-q

Sales of Life insurance product decreased by 12% q-o-q and by 26% yoy driven mainly by lower sales of guaranteed interest products in Belgium (driven by the low guaranteed interest offered). Sales of unit-linked products accounted for 46% of total life insurance sales.

Gross earned premiums Life insurance



Life sales

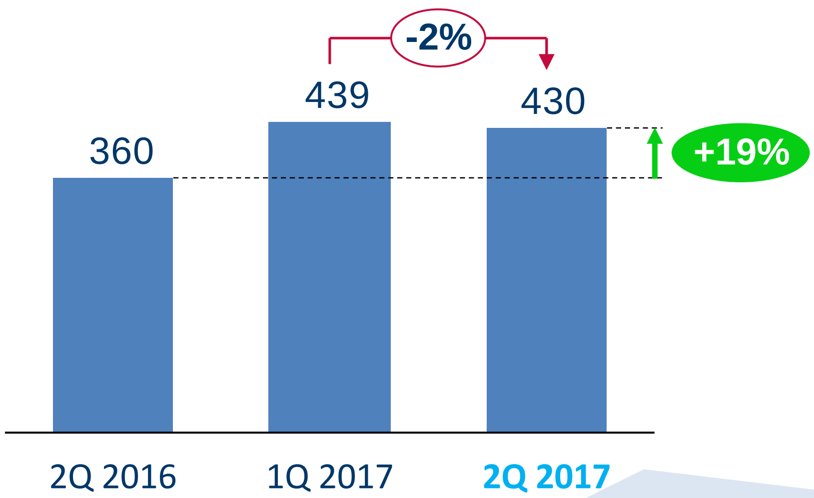


Amounts in millions of EUR

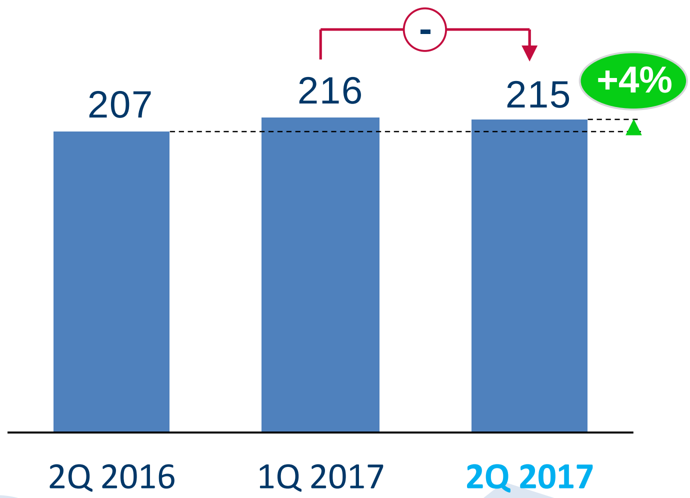
Net fee and commission income:

High level of fee and commission income

Net fee and commission income



Assets under management (AUM)



Strong net fee and commission income, driven mainly by:

- increase of **net sales**
- high **entry fees** from mutual funds (due to a further successful shift to the new discretionary-based service proposition in Belgium), but lower q-o-q due to the exceptionally strong 1Q17
- lower **securities-related fees**

Y-o-y increase was mainly the result of:

- higher **management fees** from mutual funds & unit-linked life insurance products (mainly thanks to a good equity market performance and a higher assets base)
- higher **entry fees** from mutual funds and unit-linked life insurance products due to the successful shift to the new discretionary-based service proposition in Belgium
- higher fees from **payment services** (mainly in Hungary)
- higher **securities-related fees** (in Belgium)

Assets under management slightly decreased q-o-q owing to a negative price effect

- rose by 4% y-o-y owing to net outflows (-1%) and a positive price effect (+5%)
- the mutual fund business has seen net inflows again (substantially higher q-o-q), but this was offset mainly by net outflows in group assets and investment advice

Amounts in millions of EUR *(left chart)*

Amounts in billions of EUR *(right chart)*

Net gains on financial instruments at fair value:

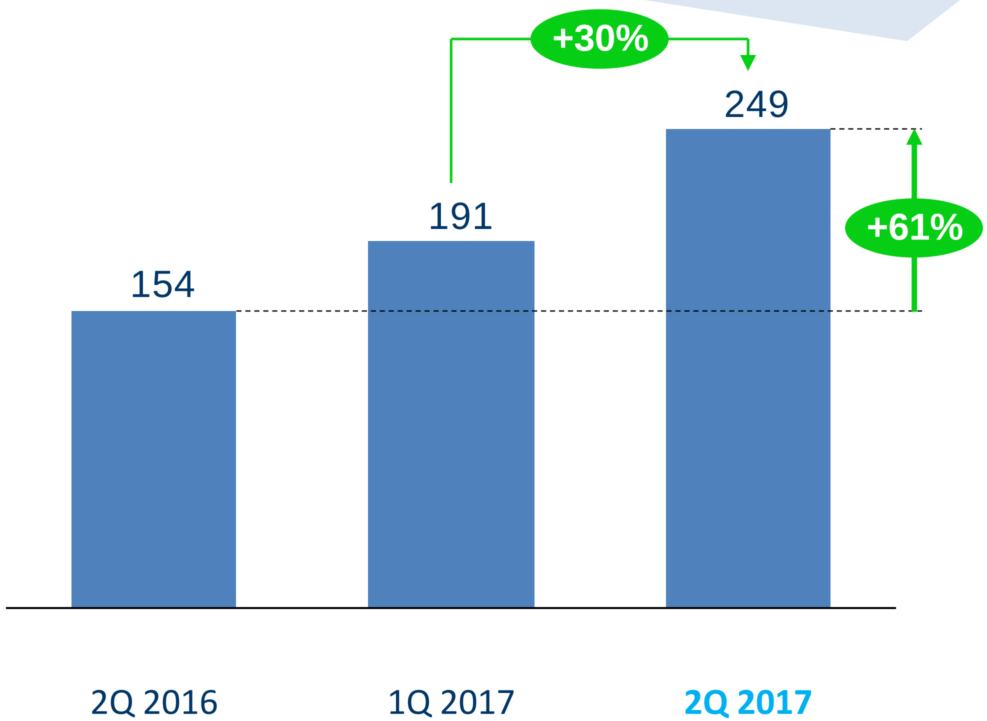
Higher fair value gains q-o-q and y-o-y

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

- a positive change in ALM derivatives (73m EUR in 2Q17 compared with 1m EUR in 1Q17) due to the positive M2M value of EUR/CZK FX swaps in 2Q17 (compared to negative M2M value of EUR/CZK FX swaps in 1Q17)
- strong dealing room income

partly offset by:

- a negative change in market, credit and funding value adjustments (mainly as a result of changes in the underlying market value of the derivative portfolio)



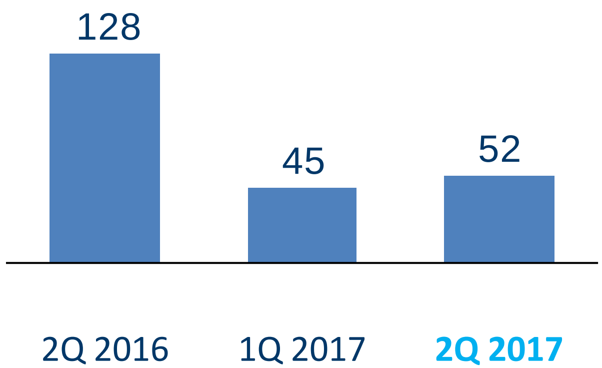
Amounts in millions of EUR

The other net income drivers:
Higher gains realised on AFS assets and lower other net income

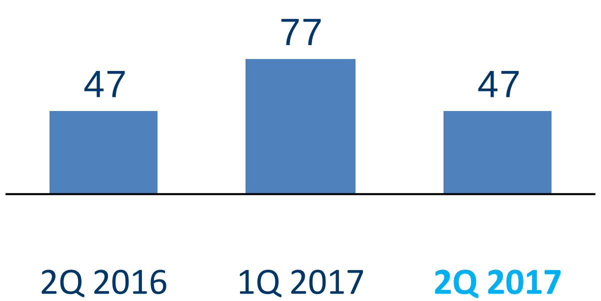
Higher gains realized on AFS assets, q-o-q increase entirely on shares

Other net income in line with the normal run rate of around 50m EUR. Note that 1Q17 benefited from the settlement of an old legal file

Gains realised on AFS assets



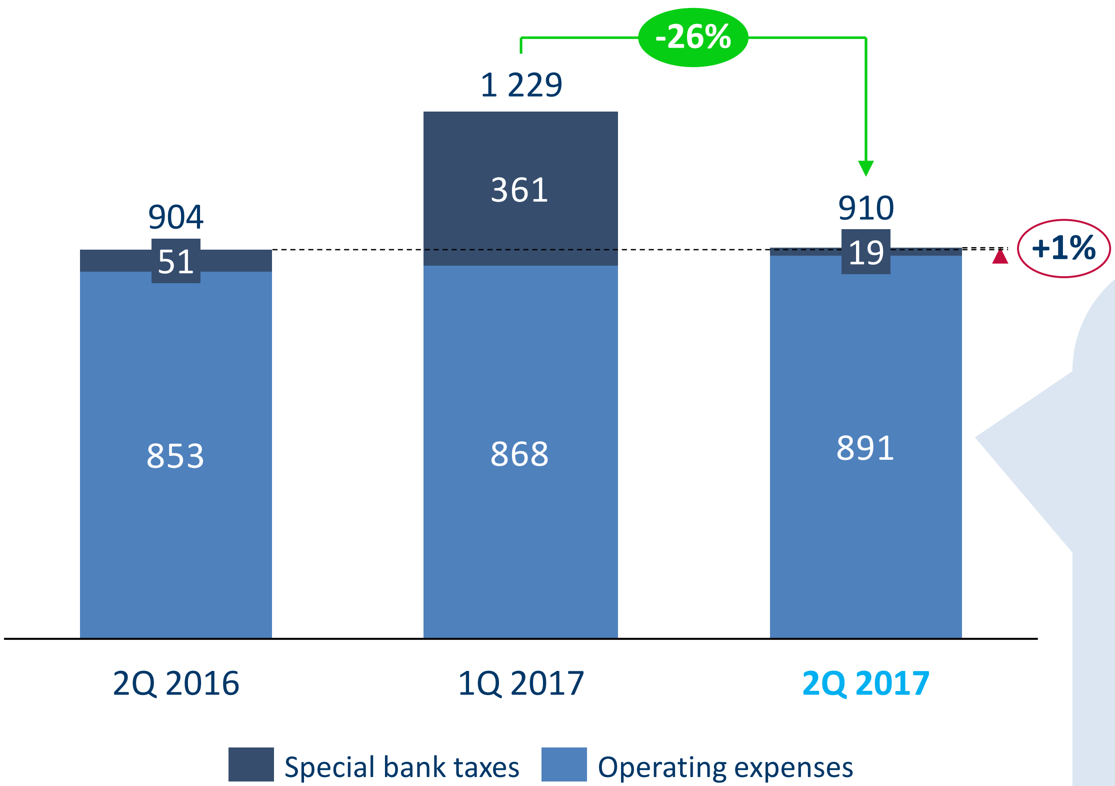
Other net income



Amounts in millions of EUR

Operating expenses:

Operating expenses down, due entirely to lower bank taxes, and good cost/income ratio



Quarterly C/I ratio*

2Q16	1Q17	2Q17
56%	52%	54%

Operating expenses excluding bank tax went up by 3% q-o-q due mainly to:

- higher staff expenses mainly in the Czech Republic (wage drift) and Group Centre (due partly to early retirement costs and timing differences)
- traditionally lower ICT, marketing and professional fee expenses in 1Q17

Operating expenses without bank tax increased by 5% y-o-y due chiefly to:

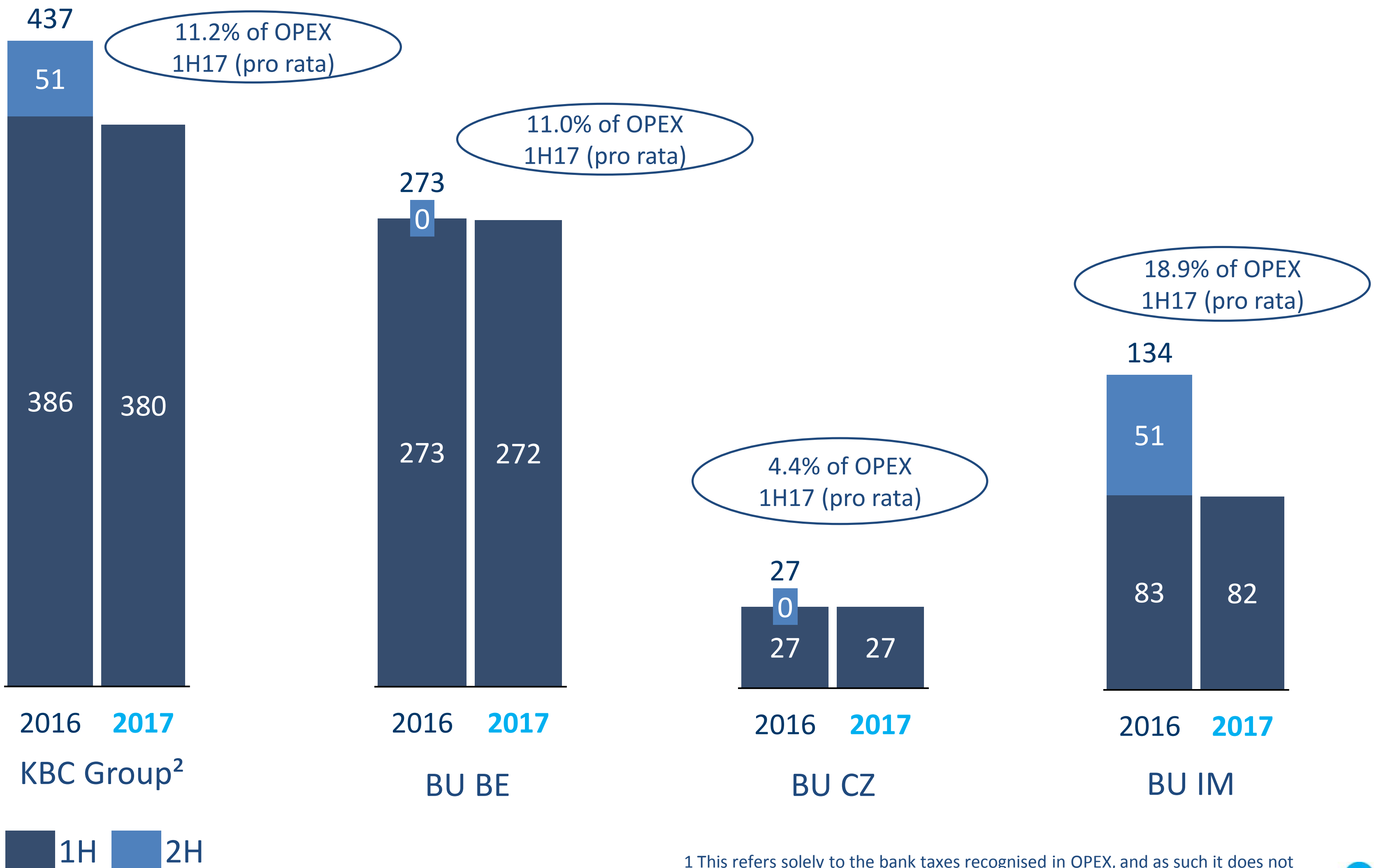
- higher staff expenses (higher pension costs in Belgium and wage drift in most countries)
- higher ICT costs
- higher professional fee expenses
- higher depreciation and amortisation costs (due to the capitalisation of some projects)

* adjusted for specific items: MtM ALM derivatives, equally spread special bank taxes, etc.

Amounts in millions of EUR

Special bank taxes[1]:

Represent 11.2% of operational expenses of 1H17 (pro rata)



Amounts in millions of EUR

1 This refers solely to the bank taxes recognised in OPEX, and as such it does not take into account income tax expenses, non-recoverable VAT, etc.
2 KBC Group also includes Group Centre

Asset impairments:

Net impairment releases and excellent credit cost ratio

Impairments on loans and receivables

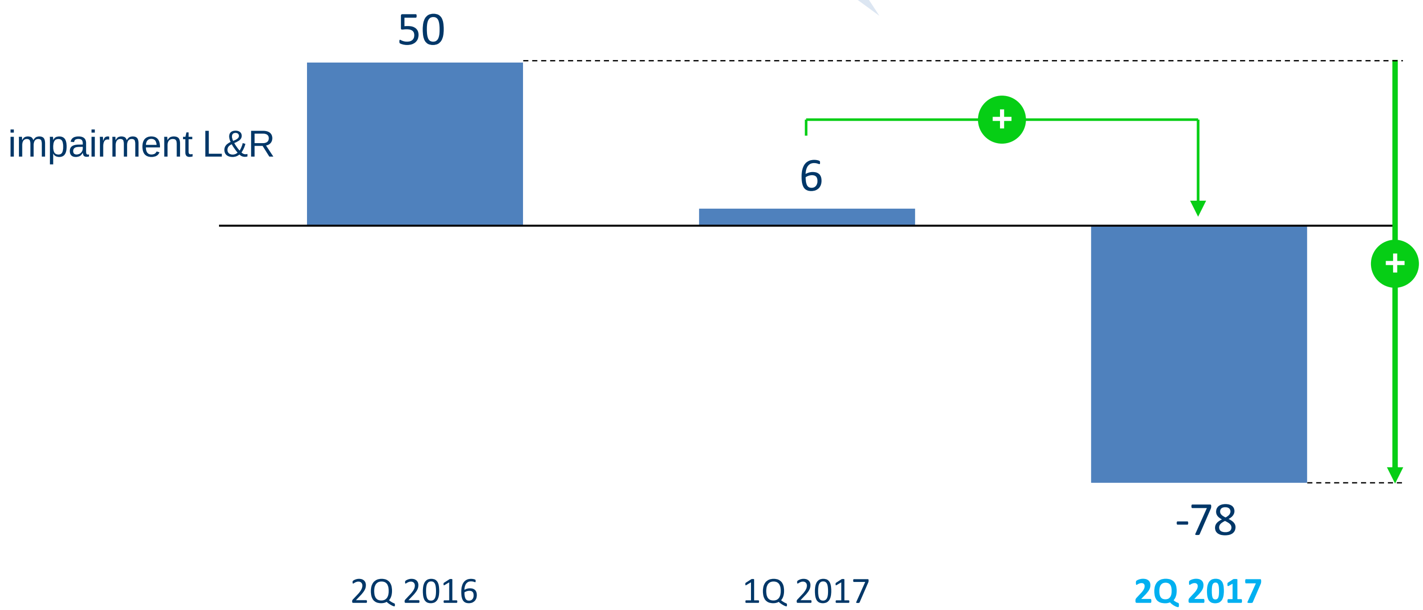
Net impairment releases was attributable mainly to:

- net loan loss provision releases in Ireland of 87m EUR (compared with 50m in 1Q17)
- also small reversals in Belgium and Hungary

The credit cost ratio amounted to -0,10% in 1H17 due to low gross impairments and several releases

Credit cost ratio (YTD)

FY15	FY16	1H17
0.23%	0.09%	-0.10%

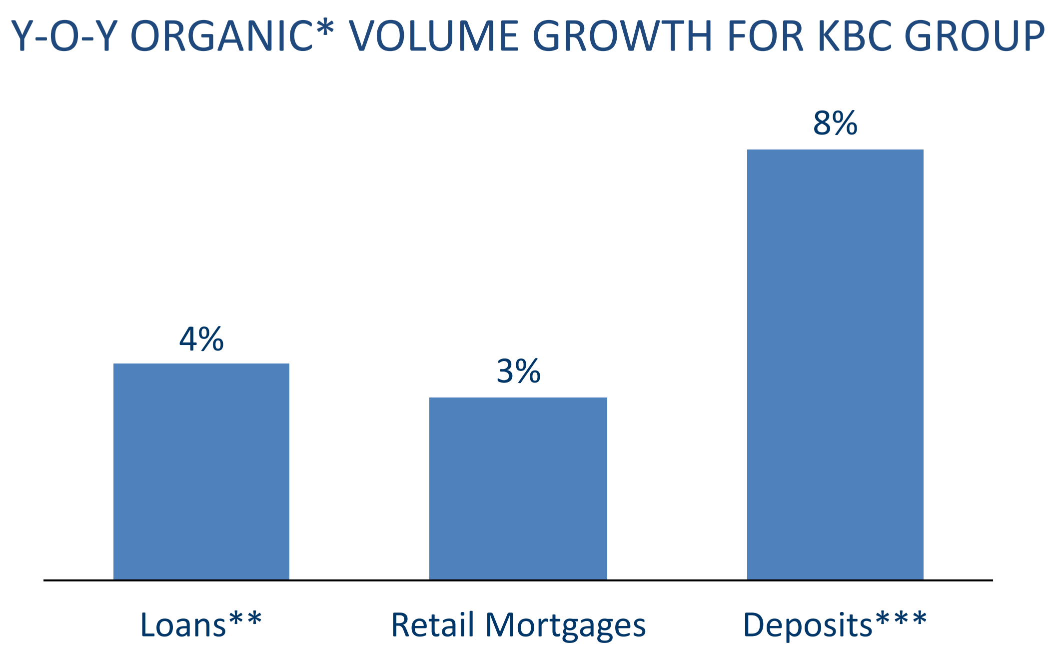


Amounts in millions of EUR




KBC Group Balance sheet, capital and liquidity

Balance sheet (1/2):
Loans and deposits continue to grow in most core countries

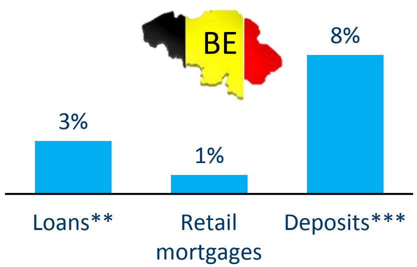


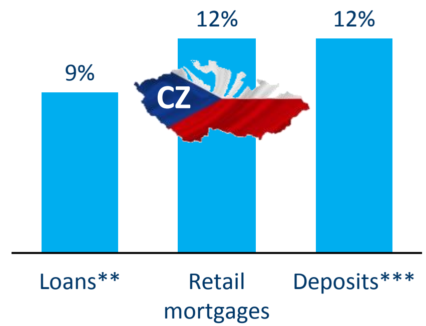
* Volume growth making abstraction of Fx effects and divestments/acquisitions
** Loans to customers, excluding reverse repos (and bonds)
*** Customer deposits, including debt certificates but excluding repos.

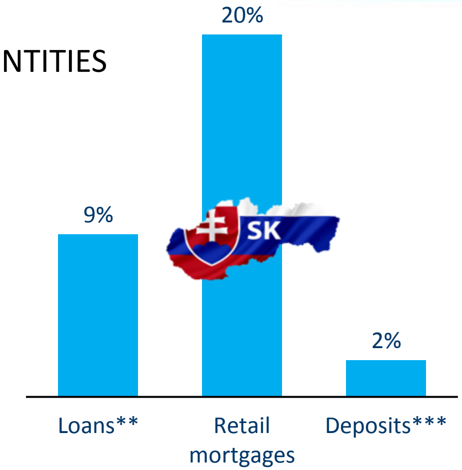
Balance sheet (2/2):

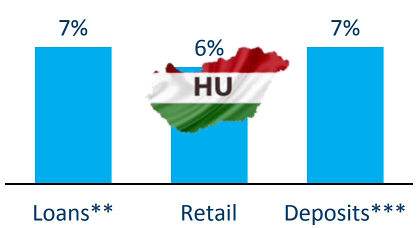
Loans and deposits continue to grow in most core countries

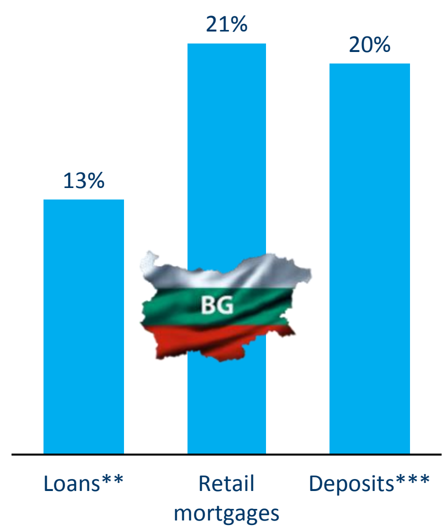
Y-O-Y ORGANIC* VOLUME GROWTH FOR MAIN ENTITIES

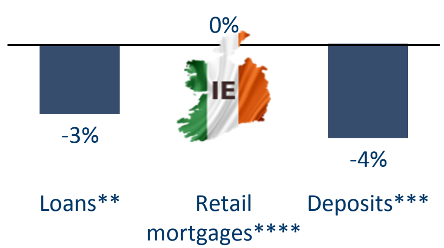








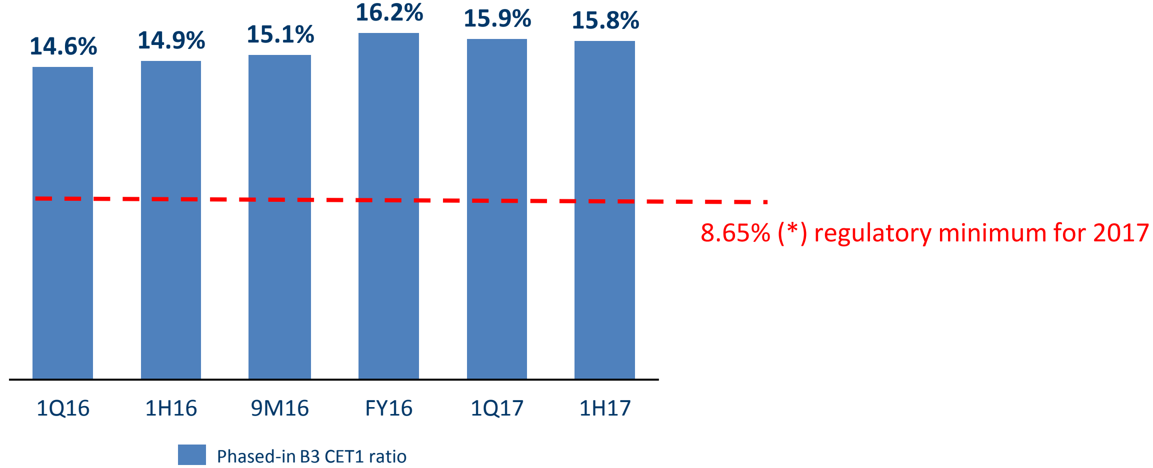




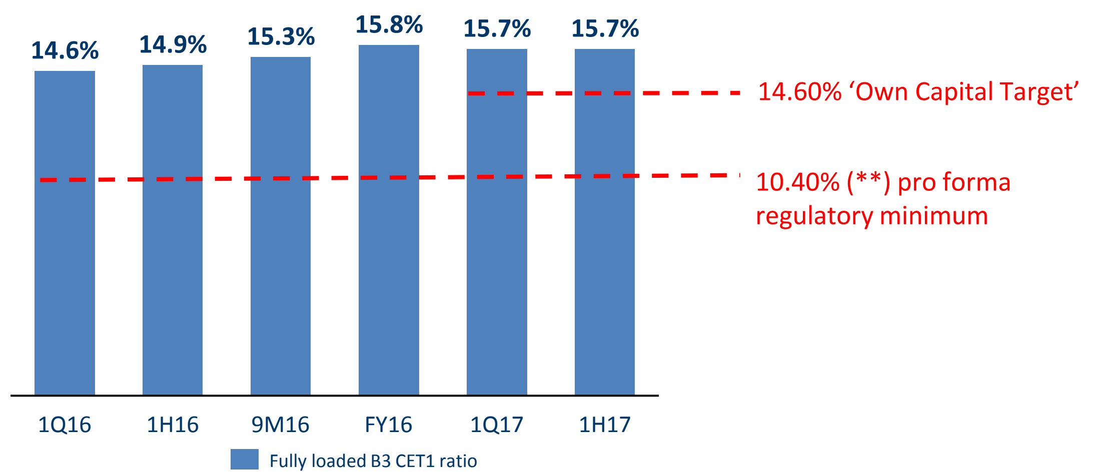
* Volume growth excluding FX effects and divestments/acquisitions
** Loans to customers, excluding reverse repos (and bonds)
*** Customer deposits, including debt certificates but excluding repos
**** Retail mortgages in Ireland: new business (written from 1 Jan 2014) +41% y-o-y, while legacy -7% y-o-y

Strong capital position

Phased-in Basel 3 CET1 ratio at KBC Group (Danish Compromise)



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



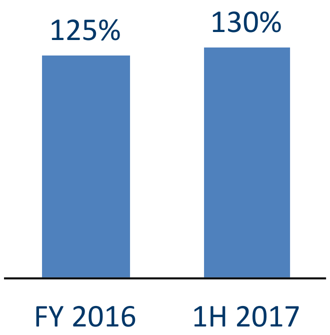
(*) Systemic buffer announced by the NBB: CET1 phased-in of 1.0% in 2017 under the Danish Compromise

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

Capital and liquidity ratios (2/2):
Solid liquidity position

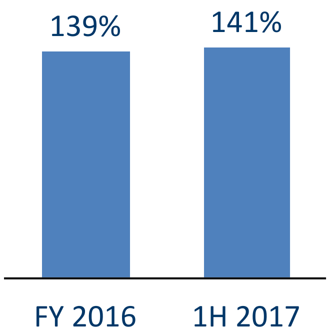
KBC Group's liquidity ratios*

NSFR



Regulatory requirement ≥ 100%

LCR



* *Liquidity coverage ratio (LCR) is based on the Delegated Act requirements, while the Net Stable Funding Ratio (NSFR) is based on KBC's interpretation of current Basel Committee guidance*

KBC Group
2Q & 1H 2017
wrap up

Acquisition of UBB/Interlease was closed mid-June 2017

On 13 June 2017, **KBC completed the acquisition of UBB & Interlease** after approval by the relevant regulatory authorities and received anti-trust approval (final total consideration is 609m EUR fully paid in cash)

- **This transaction substantially strengthens KBC's position in Bulgaria.** Together, UBB-CIBANK and DZI will become the reference in bank-insurance in Bulgaria, one of KBC's core markets. Following this acquisition, KBC will also become active in leasing, asset management and factoring in Bulgaria, offering its clients now a full range of financial services

- The operational integration of the business entities will be gradually introduced in the coming 18 months. KBC envisages **substantial value creation for shareholders through income and cost synergies**

- The consolidated figures in these condensed interim financial statements include the impact of this announced acquisition as of 30 June 2017:
  - KBC recorded a **provisional goodwill in its consolidated financial statements of 107m EUR at 30 June 2017, taking into account specific negative fair value adjustments amounting to 81m EUR after tax** which KBC identified during the due diligence process
  - The impact of this acquisition on the financial assets and liabilities by product is shown in note 4.1 of the 2Q17 quarterly report
  - There is **no impact yet on the P&L (only from 3Q17 onwards)**
  - The transaction had a **very limited impact of -0.50% on KBC's fully loaded CET1 ratio** based on the Danish Compromise

2Q 2017 wrap up

- ✓ Strong commercial bank-insurance results in our core countries
- ✓ Successful underlying earnings track record
- ✓ Solid capital and robust liquidity position

Post balance-sheet event:
planned reform of the Belgian corporate income tax regime

The planned reform of the Belgian corporate income tax regime as announced on 26 July 2017 would impact KBC due mainly to the gradual decrease of the tax rate from 33.99% to 29.58% as of accounting year 2018 and 25.00% as of accounting year 2020. This would lead to:

- **a slightly positive one-off impact on the CET1 ratio** (fully loaded under the Danish Compromise) **in 2H17 of roughly +0.2%** thanks to amongst others:
  - higher AFS revaluation reserves after tax
  - lower risk weighted assets due to lower outstanding deferred tax assets

  despite
  - **an estimated one-off upfront negative P&L impact of 230m EUR expected in 2H17**, which will only have a small effect on CET1 as most of the impact was already deducted from common equity through the deduction of tax-loss-carry-forward DTAs

- **a recurring positive P&L impact as of 2018 onwards as:**
  - the lower tax rate from 2018 onwards will have a positive impact on income taxes of the Belgian KBC entities: amount depending on the pre-tax profit numbers in the coming years.

Looking forward

- ✓ We expect 2017 to be a year of sustained economic growth in both the euro area and the US

- ✓ Management guides for:
  - solid returns for all Business Units
  - loan impairments for Ireland towards a release of a 160m-200m EUR range for FY17

- ✓ Next to the Belgium and the Czech Republic Business Units, the International Markets Business Unit becomes a strong contributor to the net result of KBC Group thanks to:
  - Ireland: re-positioning as a core country with a sustainable profit contribution
  - Bulgaria: after the acquisition of UBB and Interlease, UBB-CIBank and DZI will become the largest bank-insurance group in Bulgaria with a substantial increase in profit contribution
  - Sustainable profit contribution of Hungary and Slovakia

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, CEO KBC Group