KBC Group
4Q and FY 2016 results
Press presentation

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More detailed analyst presentation available at www.kbc.com

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4Q 2016 key takeaways for KBC Group

- **STRONG BUSINESS PERFORMANCE IN 4Q16**

  Good net result of 685m EUR in 4Q16 and 2,427m EUR in FY16, leading to ROE of 18% in 2016
  - Good 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 lower net interest income due entirely to dealing room and insurance, while NII banking increased (net interest margin stabilised q-o-q)
  - Higher net fee and commission income q-o-q
  - Higher net gains from financial instruments at fair value, lower realised AFS gains and higher net other income
  - Combined ratio of 93% in FY16. Excellent sales of non-life and life insurance products
  - Strict cost management resulted in a cost/income ratio of 57% in FY16 adjusted for specific items
  - Seasonally higher level of impairment charges. Net loan provision release in Ireland of 12m EUR in 4Q16 and 45m EUR in FY16, fully in line with our guidance. We are guiding a net loan loss provision release for Ireland within the range of 25m-75m EUR for FY17

- **SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS**
  - **The B3 common equity ratio based on the Danish Compromise** at end 2016 amounted to **16.2% phased-in and 15.8% fully loaded**, which 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
  - Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **6.1%** at KBC Group
  - **Continued strong liquidity position** (NSFR at 125% and LCR at 139%) at end 2016

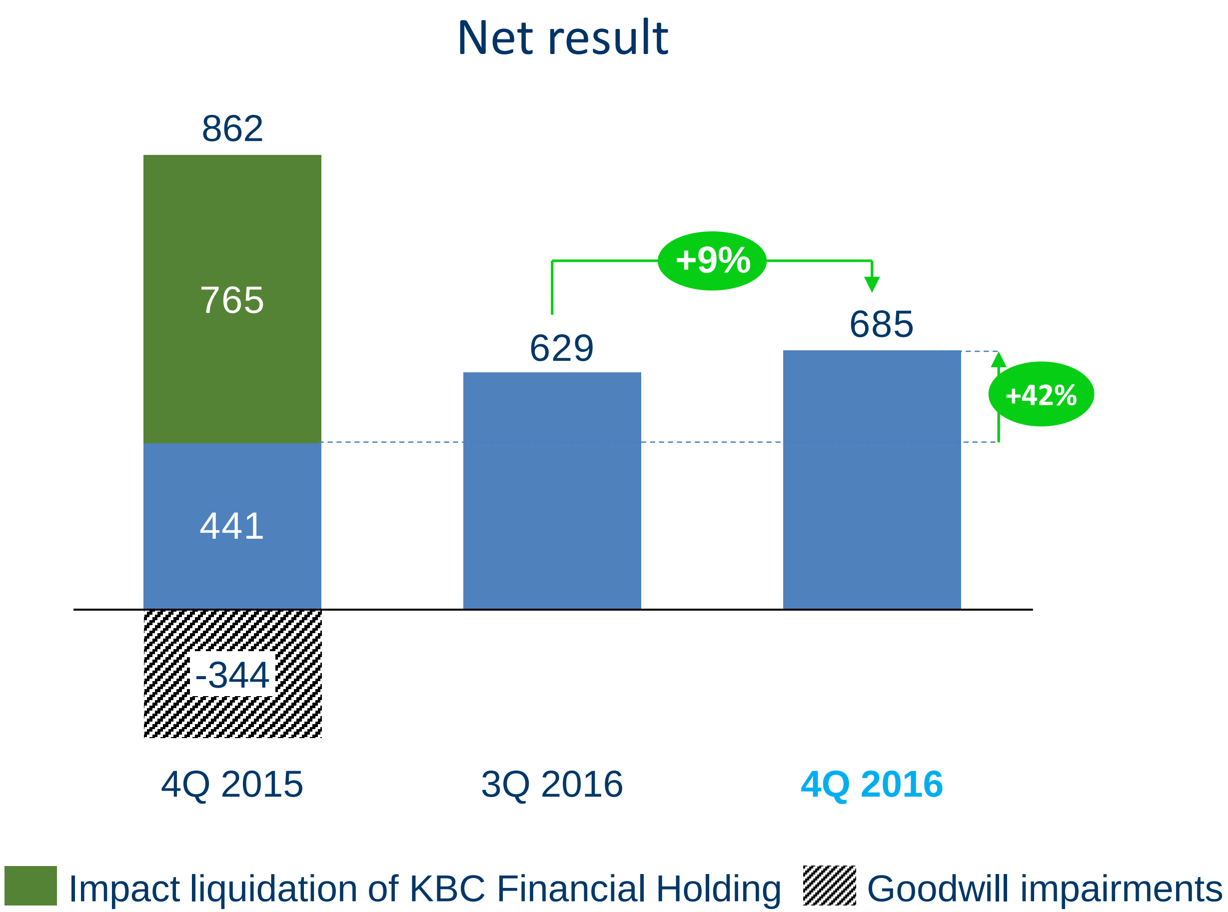
- **DIVIDEND PROPOSAL***
  - On top of the interim dividend of 1 EUR per share paid in November 2016, a final dividend of 1.80 EUR per share will be proposed to the AGM for the 2016 accounting year (i.e. a pay-out ratio of 50% including the AT1 coupon)
  - The pay-out ratio policy (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit is reconfirmed for the future

- **IRELAND: RE-POSITION AS A CORE COUNTRY…**
  - By building a fully-fledged client-centric retail bank in line with our omni-channel distribution model, underpinned by a 'digital first' strategy and by further developing the bank-insurance model

* Any dividend payment will be subject to the usual approval of the regulator

KBC Group
Consolidated results
4Q 2016 performance

KBC Group:
Strong business performance in 4Q 2016



Amounts in millions of EUR

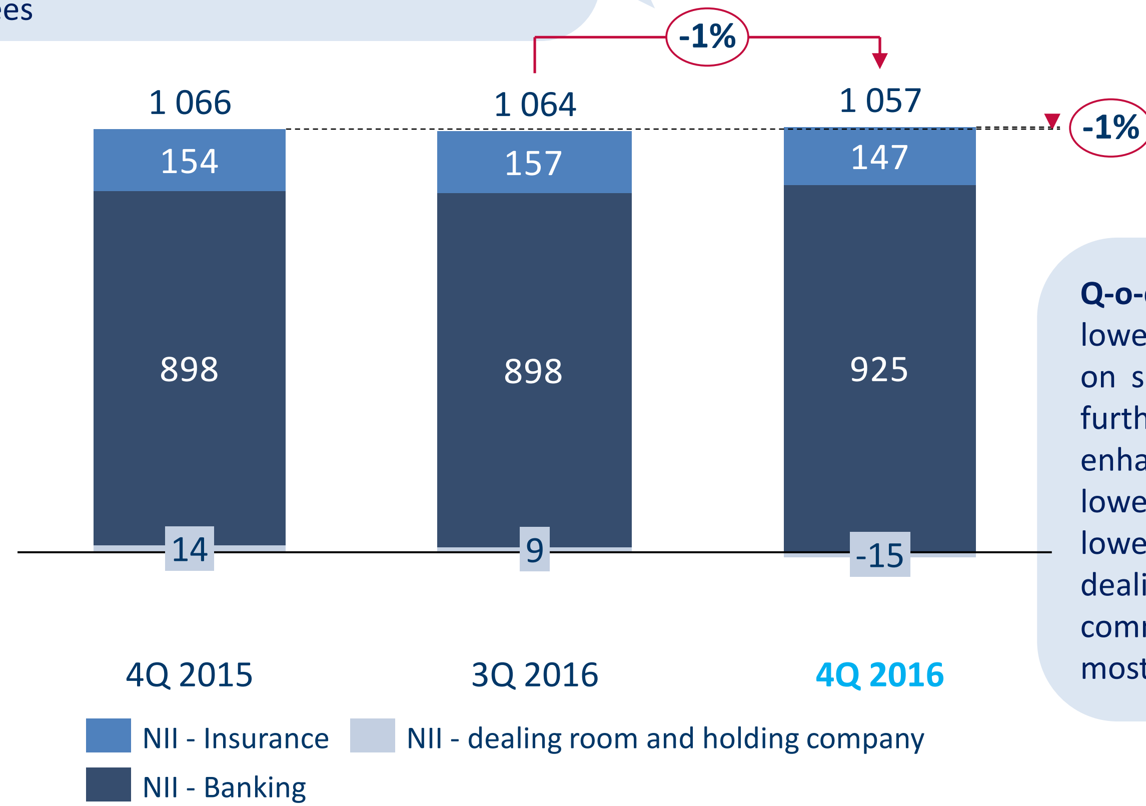
Net interest income:

Higher banking-related Net Interest Income (NII) and stable Net Interest Margin (NIM)

NII down 1% q-o-q and y-o-y due entirely to the lower contribution of dealing room and insurance activities:
(+) lower funding costs, additional rate cuts on savings accounts, continued volume growth in current accounts and loans, further positive effect of enhanced ALM
(-) lower reinvestment yields, pressure on commercial loan margins in most core countries and slightly lower upfront level of prepayment fees

Net Interest Margin

4Q15	3Q16	4Q16
1.95%	1.90%	1.90%



Q-o-q stabilisation is due to lower funding costs, rate cuts on savings accounts and the further positive effect of enhanced ALM, fully offset by lower reinvestment yields, lower level of NII from the dealing room and pressure on commercial loan margins in most core countries

Amounts in millions of EUR

KBC

Life insurance:

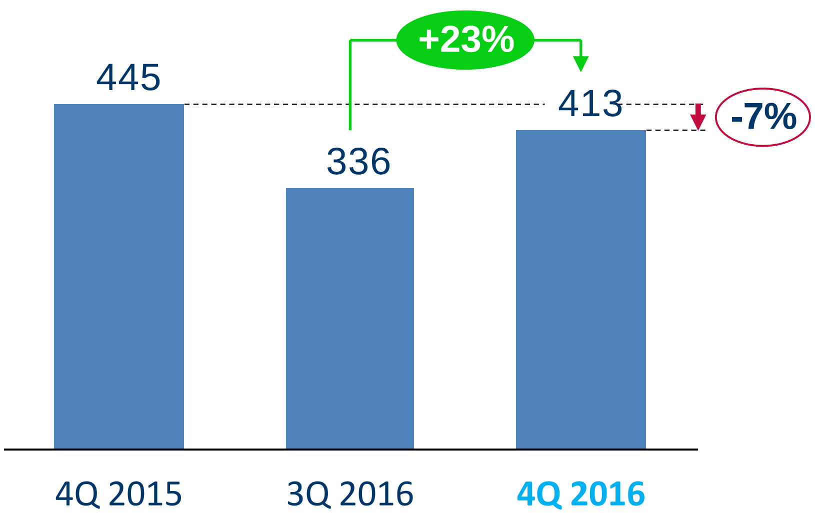
Premium income seasonally up q-o-q and slightly down y-o-y

Increased q-o-q driven mainly by higher sales of guaranteed interest products in Belgium (attributable chiefly to traditionally higher volumes in tax-incentivised pension saving products in 4Q16) and higher sales of unit-linked products in the Czech Republic

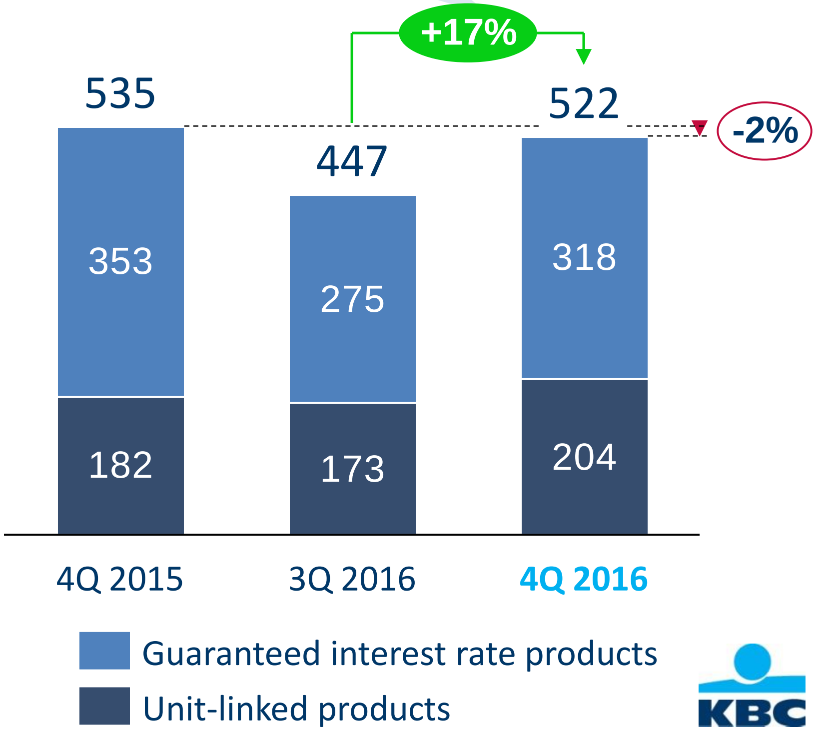
The **y-o-y decrease** can be explained chiefly by lower sales of guaranteed interest products in Belgium

Sales of unit-linked products accounted for 39% of total life insurance sales

Gross earned premiums life insurance



Life sales

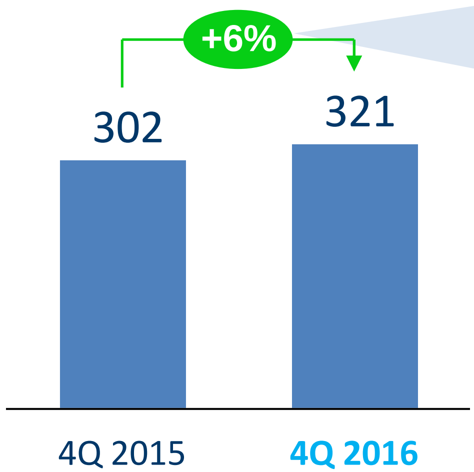


Amounts in millions of EUR

Non-life insurance:

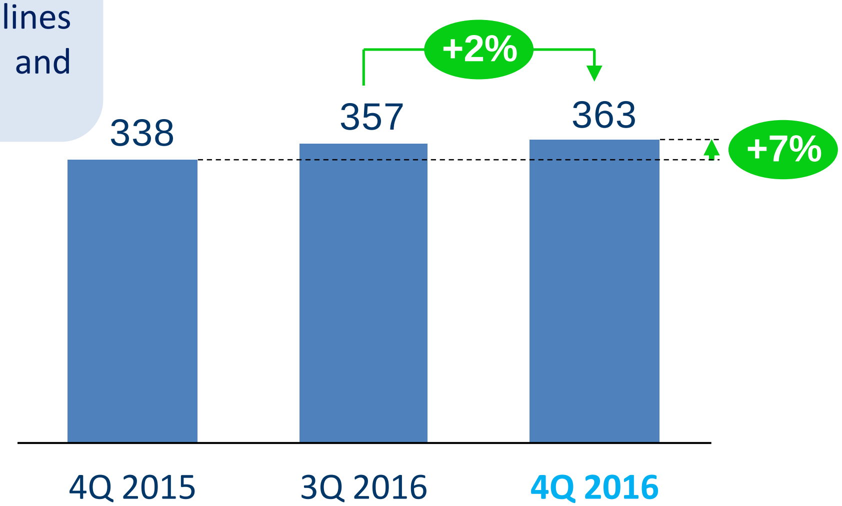
Strong performance non-life sales, excellent combined ratio

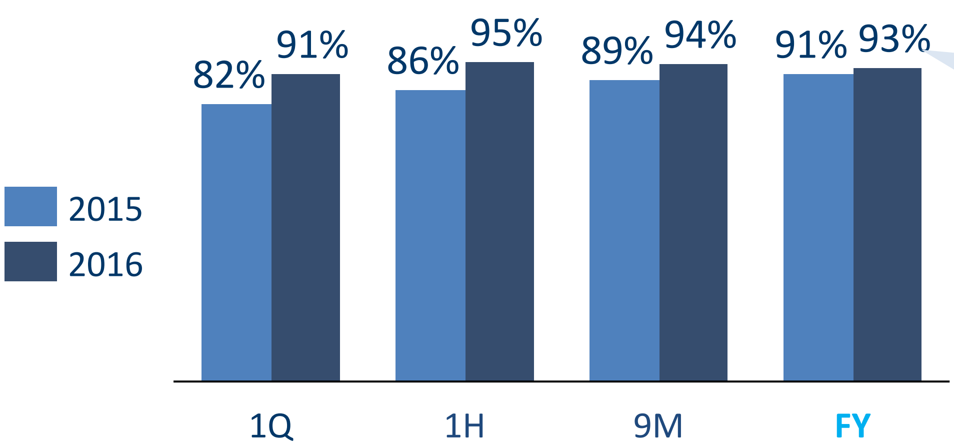
Non-life sales
(Gross written premium)



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

Gross earned premiums
non-life insurance





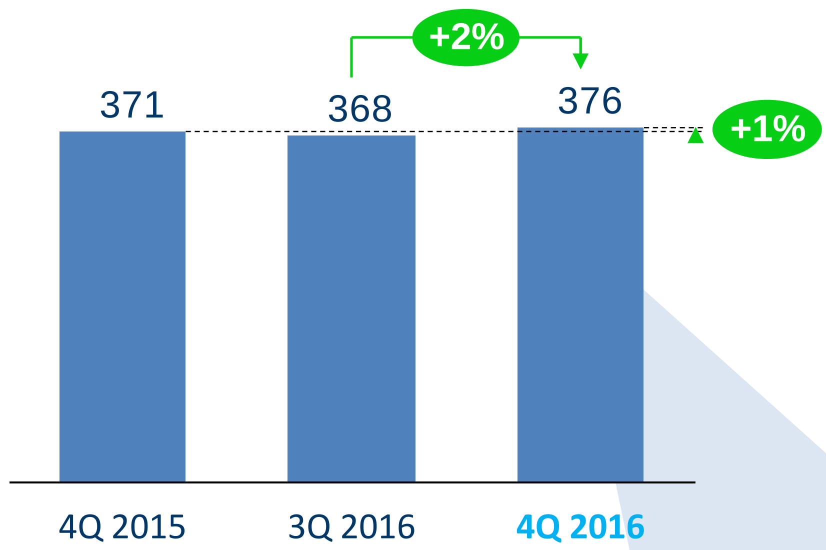
An **excellent 93%**, although still a deterioration compared to FY15 as FY16 was negatively impacted by: (i) charges due to terrorist attacks in Belgium, (ii) storms & floods in Belgium and (iii) storms & large fire claims in the Czech Republic

Amounts in millions of EUR

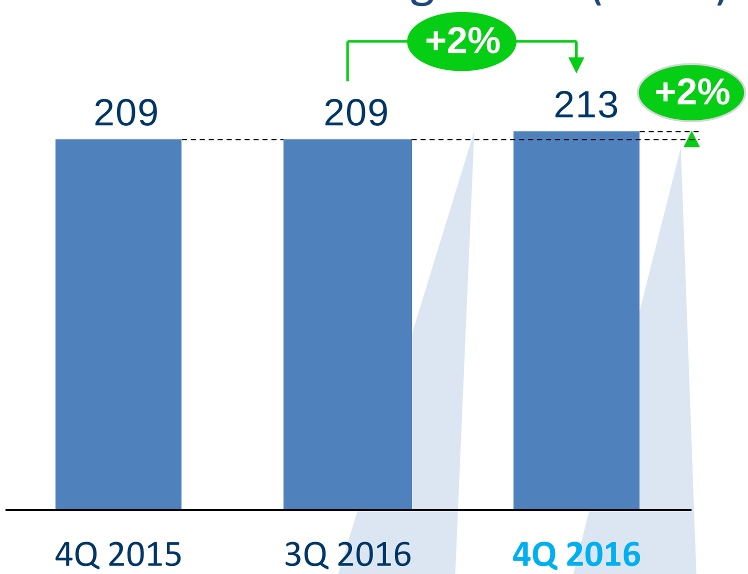
Net fee and commission income:

Increase in fee and commission income for the third quarter in a row

Net fee and commission income



Assets under management (AUM)



- **Q-o-q increase was the result chiefly of**:
  - higher management fees from mutual funds & unit-linked life insurance products (thanks to reset date for CPPI)
  - higher fees from credit files and bank guarantees (specific event fees in Belgium)

  partly offset by:
  - slightly lower fees from payment services in Belgium and Slovakia due to timing differences
  - lower securities-related fees in Belgium
  - higher commissions paid on insurance sales
- **Y-o-y increase** occurred entirely in the Belgium Business Unit due to higher management fees relating to mutual funds and unit-linked life insurance products and higher fees from credit files and bank guarantees

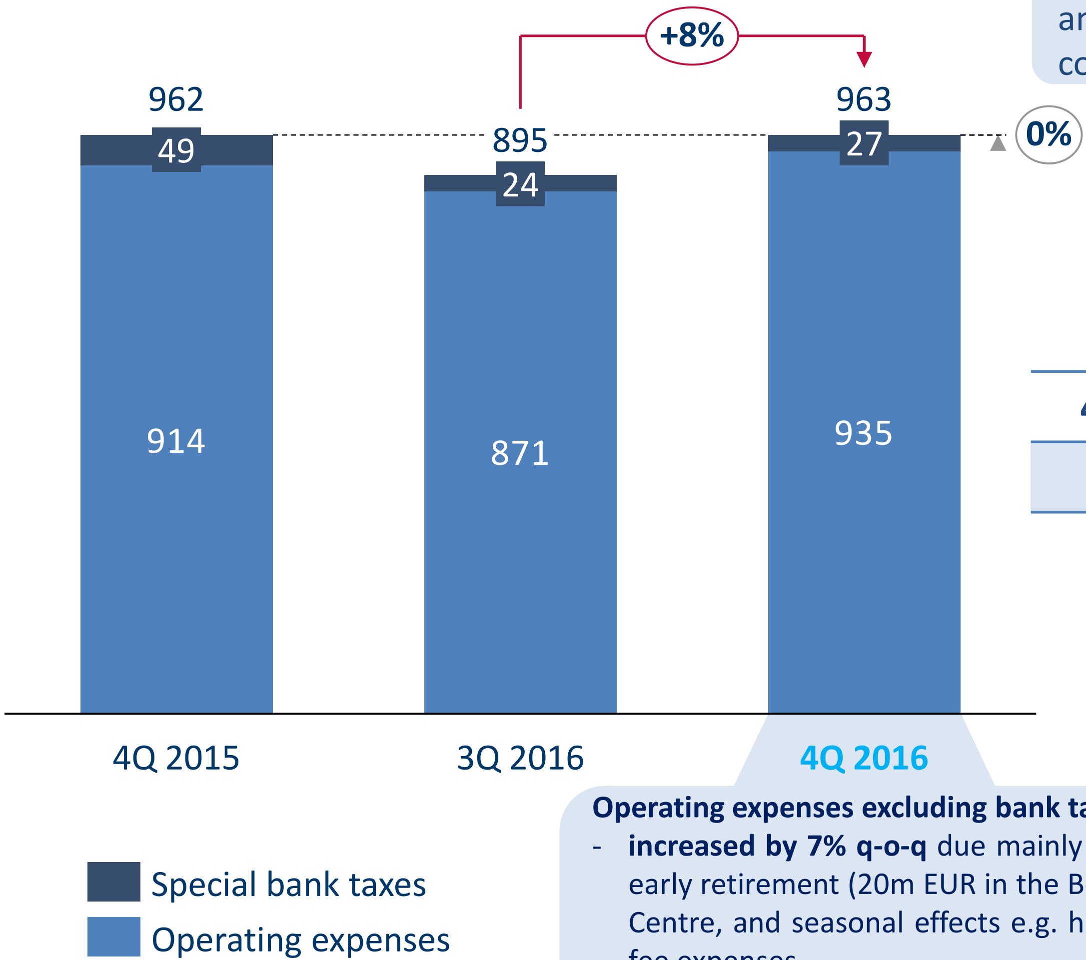
Up q-o-q owing almost entirely to a positive price effect
Increased y-o-y owing to net outflows (-1%) and a positive price effect (+3%)

Amounts in millions of EUR *(left chart)*

Amounts in billions of EUR *(right chart)*

Operating expenses:

Operating expenses up, but good cost/income ratio



Excluding bank tax, C/I ratio amounted to 50% in FY16 compared to 48% in FY15

Quarterly C/I ratio*

4Q15	3Q16	4Q16
59%	57%	57%

Operating expenses excluding bank tax:

- **increased by 7% q-o-q** due mainly to: 33m EUR in one-off expenses for early retirement (20m EUR in the Belgium BU and 13m EUR in the Group Centre, and seasonal effects e.g. higher ICT, marketing and professional fee expenses
- **increased by 2% y-o-y** due entirely to one-off expenses for early retirement, despite lower facilities expenses and lower pension costs

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

Amounts in millions of EUR

Asset impairment:

Seasonally higher asset impairment, excellent credit cost ratio of 0.09%

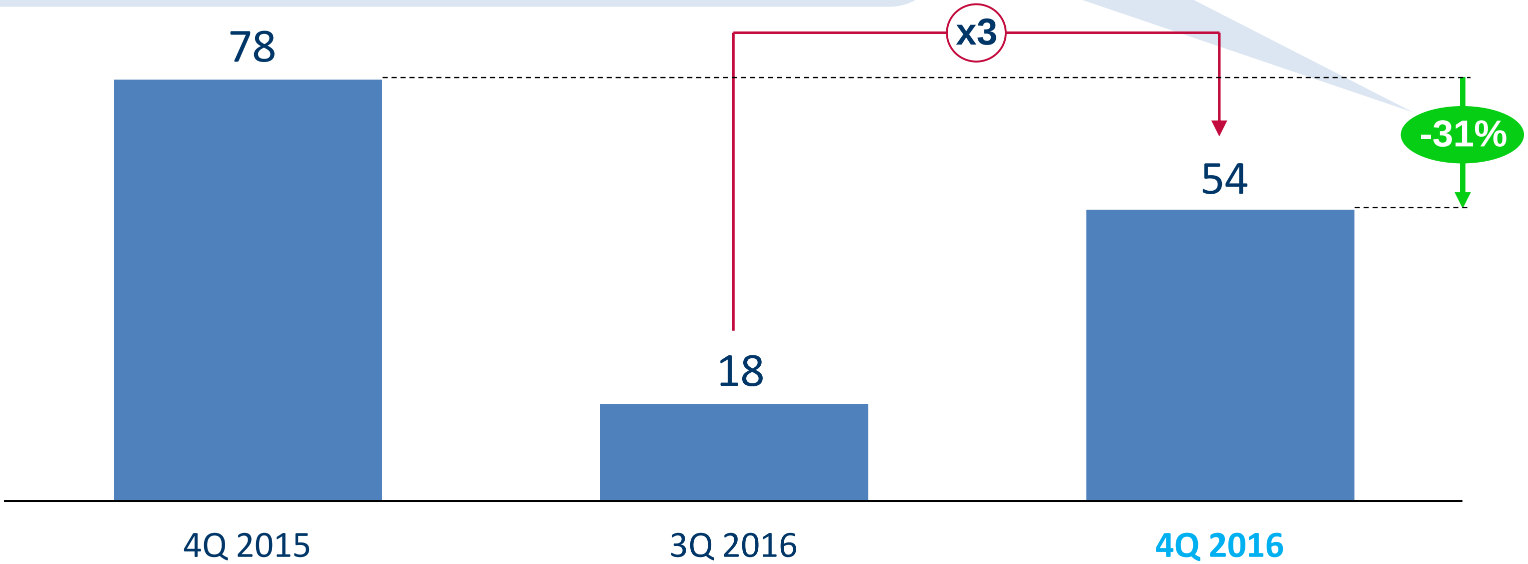
(historical average '99-'15 of 0.52%)

Impairment on loans and receivables

Seasonal q-o-q increase from the unsustainable low level in 3Q16 attributable mainly to: **(i)** higher but still low impairment in retail (partly due to IBNR parameter changes in Belgium), **(ii)** higher but still low impairment on SMEs, corporates & leasing in the Czech Republic and Slovakia and **(iii)** net releases in Ireland of 12m EUR (compared with 28m EUR in 3Q16), despite the negative impact of parameter changes in 4Q16

Credit cost ratio (YTD)

4Q15	3Q16	4Q16
0.23%	0.07%	0.09%

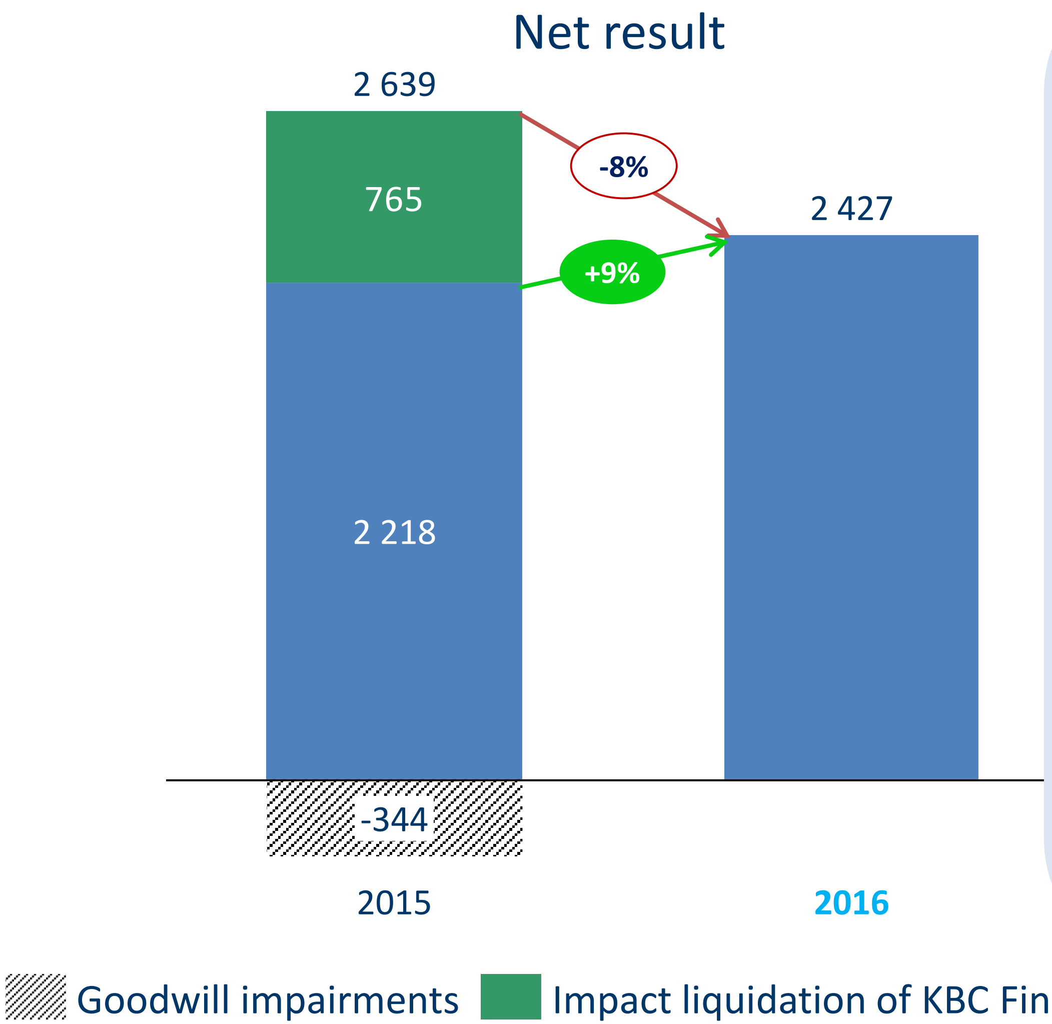


Amounts in millions of EUR

KBC Group
Consolidated results
FY 2016 performance

KBC Group:

Strong business performance over FY 2016



Excluding the impact of the liquidation of KBC Financial Holding Inc., the net result increased, mainly as a result of :

- **Revenues slightly decreasing** (-1% y-o-y) due mainly to sharply lower net fee & commission income, slightly lower net interest income and net other income, largely offset by a much higher net result from FIFV, and higher result from life and non-life insurance after reinsurance
- **Strict cost control excluding bank taxes:** +1% y-o-y, in line with implicit guidance. Higher bank taxes (+5% y-o-y), due virtually entirely to Belgium. Operating expenses excluding bank tax and excluding the 33m EUR of one-off expenses for early retirement roughly stabilised y-o-y in FY16
- Excellent, but unsustainably **low level of loan loss provisions** thanks chiefly to:
  - a net loan loss provision release in Ireland (45m EUR) and Hungary (15m EUR)
  - low gross impairments in all segments in Belgium and the Czech Republic

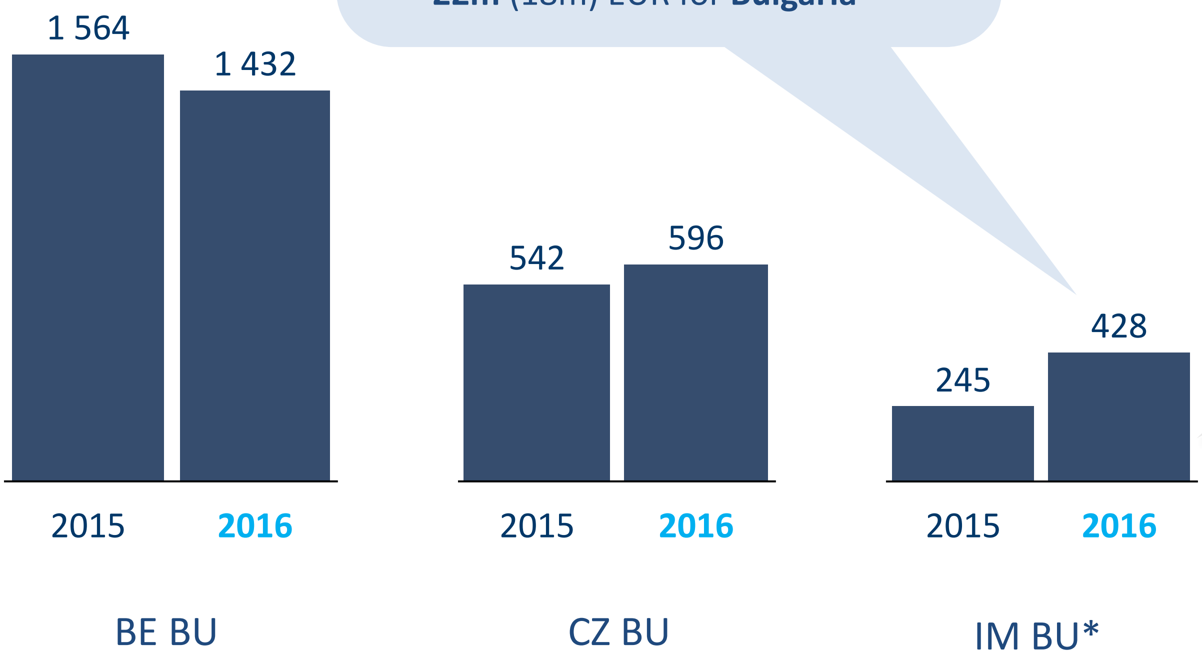
Amounts in millions of EUR

Net result by business unit:

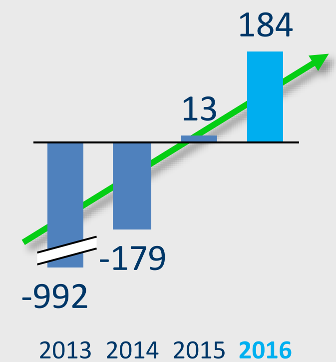
All business units contributed to the positive result

FY16 (FY15) breakdown of net result for International Markets:

- **130m** (131m) EUR for **Hungary**
- **92m** (82m) EUR for **Slovakia**
- **184m** (13m) EUR for **Ireland**
- **22m** (18m) EUR for **Bulgaria**



Ireland has clearly turned the corner



Amounts in millions of EUR

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

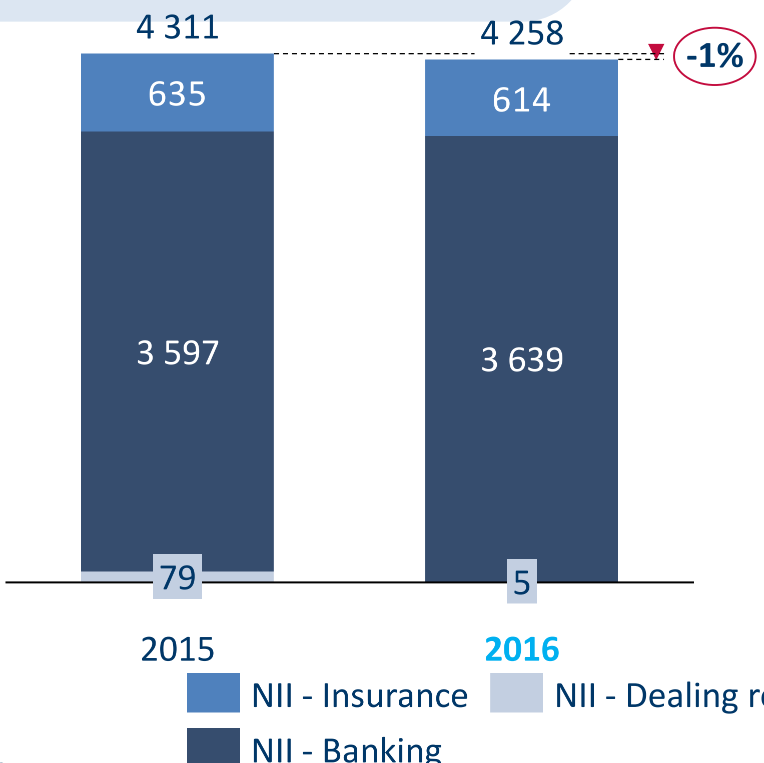
Ireland becomes a core market of KBC group with a clear strategy and ambition

- ✓ Ireland evidences strong demographics, solid macroeconomic fundamentals and growth prospects
- ✓ With Ireland as a core market of KBC Group we confirm our long standing commitment of 40 years to the Irish market
- ✓ The recent performance of KBC Bank Ireland has been strong and it is completing a transformation from a mortgage and corporate lender to a fully-fledged client-centric retail bank
- ✓ The strategy and ambition going forward is very clear: client-centric challenger bank with a ‘Digital First’ approach supported by a focused physical distribution presence through hubs and straightforward product / solutions offering

Net interest income:

Net Interest Income (NII) slightly down, Net Interest Margin (NIM) under pressure

NII down 1% due entirely to the lower contribution from dealing room and insurance activities
NII from banking rose by 1% as lower funding costs, continuing solid volume growth of current accounts and loans, further positive effect of enhanced ALM and additional rate cuts on savings accounts outweighed lower reinvestment yields, increased hedging losses on previously refinanced mortgages and pressure on commercial loan margins in most core countries



Net Interest Margin

2015	2016
2.02%	1.92%

Decrease due mainly to lower reinvestment yields, increased hedging losses on previously refinanced mortgages, lower level of net interest income from the dealing room and pressure on commercial margins in most countries

Amounts in millions of EUR

Insurance (Non-life):

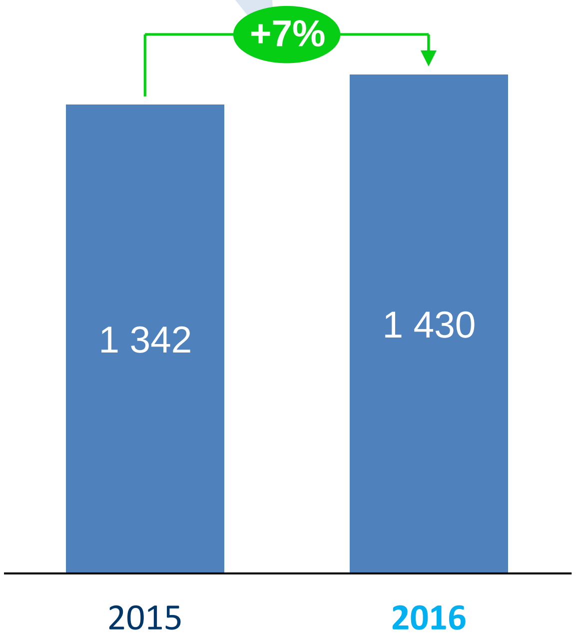
Higher non-life insurance sales and excellent combined ratio

Up mainly on account of the good commercial performance in all major product lines in our core markets

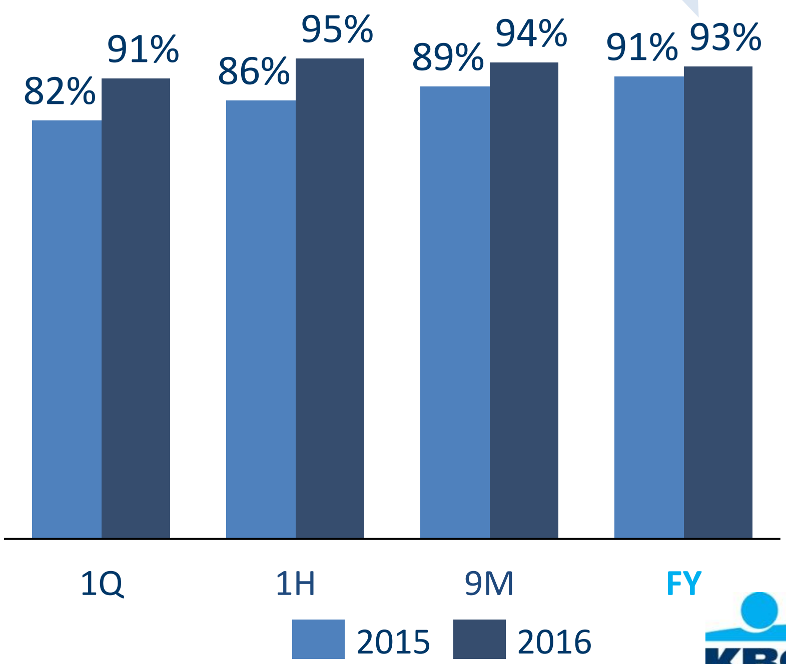
An excellent 93%, although still a deterioration compared to FY15 as FY16 was negatively impacted by: (i) charges due to terrorist attacks in Belgium, (ii) storms & floods in Belgium and (iii) storms & large fire claims in the Czech Republic

Non-life sales

Gross written premium



Combined ratio



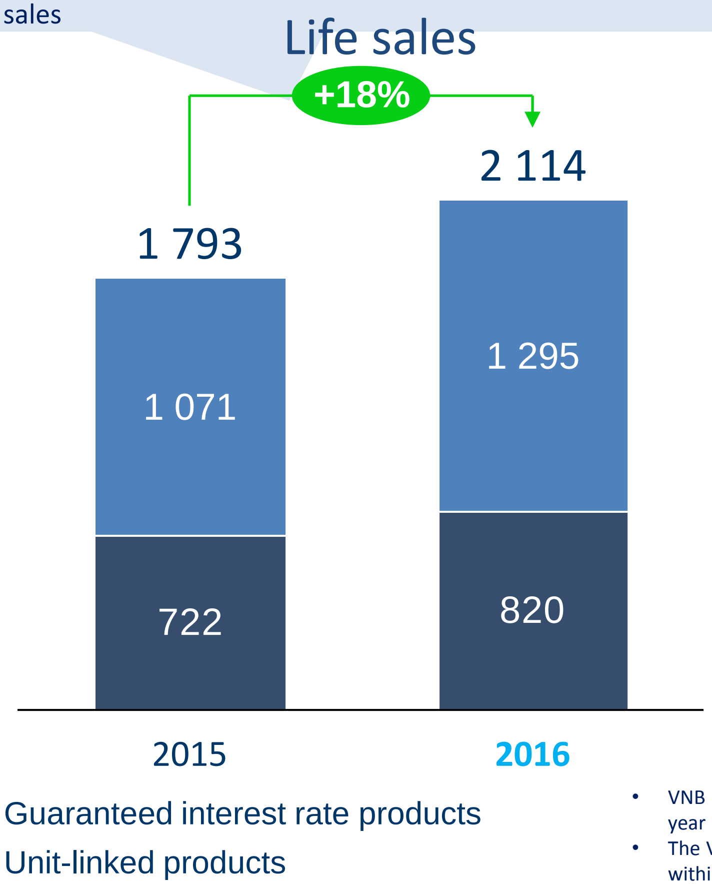
Amounts in millions of EUR

Insurance (Life):
Higher life insurance sales, but lower VNB

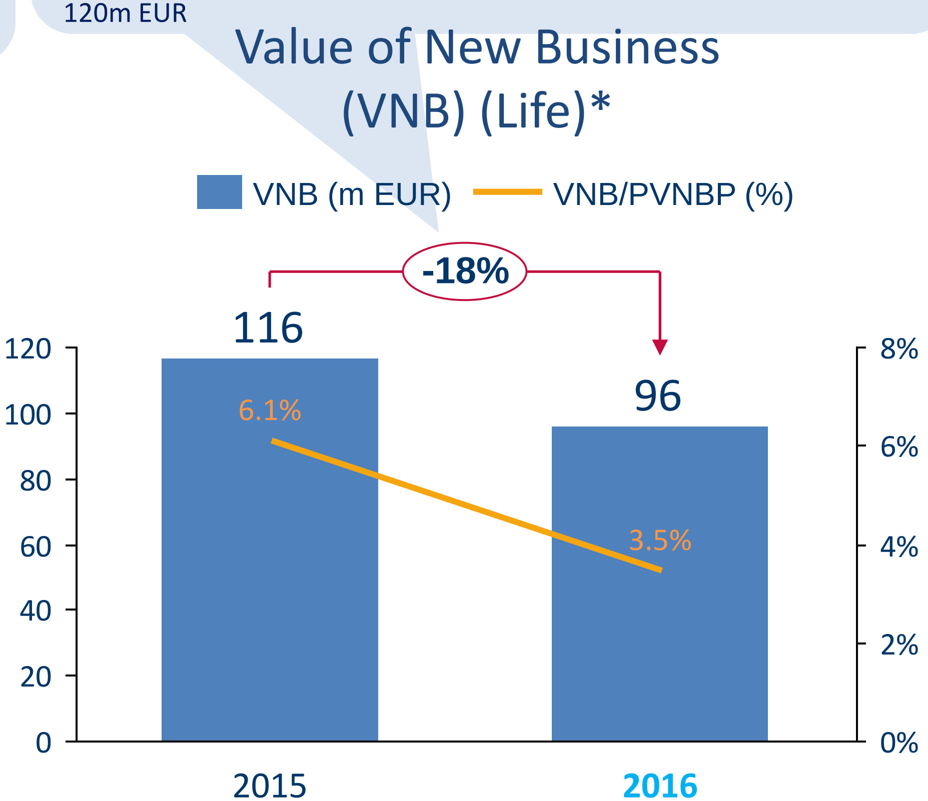
- Sales of guaranteed interest products significantly increased in Belgium thanks to sales and supported by a reduction in clients' risk appetite, despite the low rate of guaranteed interest
- The increase in sales of unit-linked products was attributable fully to Belgium and the Czech Republic
- Sales of unit-linked products accounted for 39% of total life insurance sales

Decreased due to methodological changes (related to the interest rate curve) in 2016 & the impact of the low interest rate environment despite the increase in sales of unit-linked and risk products with higher profitability margin

Disregarding the methodological changes in 2016, VNB rose 3% y-o-y to 120m EUR



Amounts in millions of EUR



- VNB = present value of all future profits attributable to the shareholders from the new life insurance policies written during the year
- The VNB of KBC Group includes the expected future income generated by KBC Insurance and CSOB P CZ arising from other parties within KBC Group. In 2016, this income amounted to 64.3m EUR
- VNB/PVNBP = VNB at point of sale compared with the Present Value of New Business Premiums. This ratio reflects the margin earned on total premiums

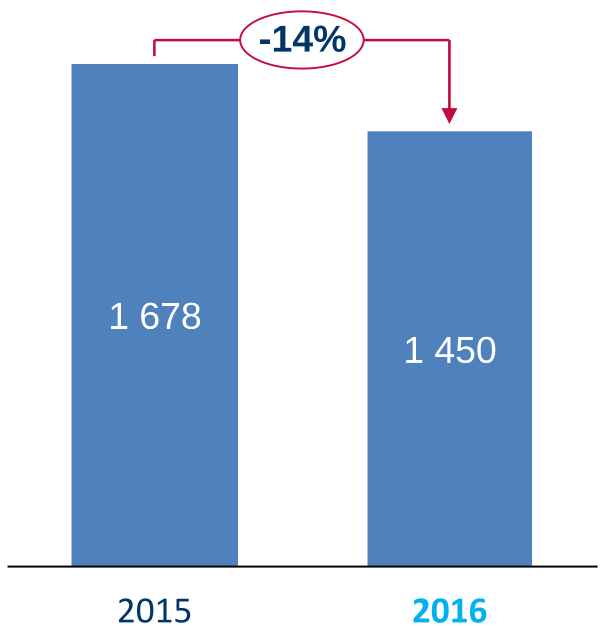
Net fee and commission income:

Lower net fee and commission income, but higher AUM

This decrease was driven mainly by the Belgium Business Unit (-16% y-o-y) owing to lower entry & management fees on mutual funds & unit-linked life insurance products and reduction in securities related fees

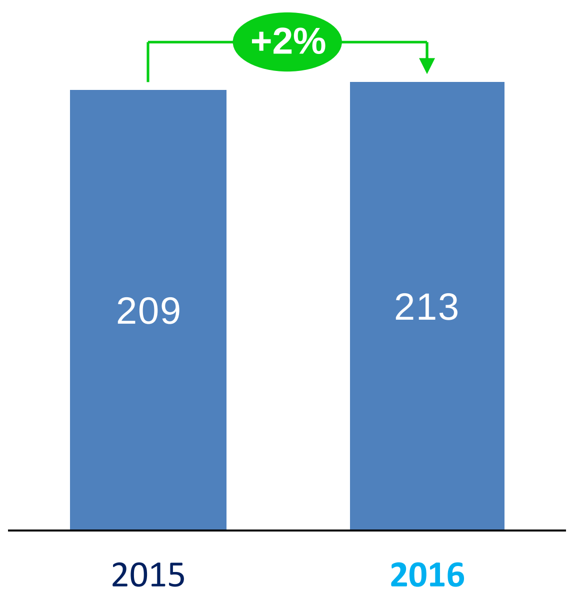
Rose by 2% y-o-y owing to net outflows (-1%) and a positive price effect (+3%)

Net fee and commission income



Amounts in millions of EUR

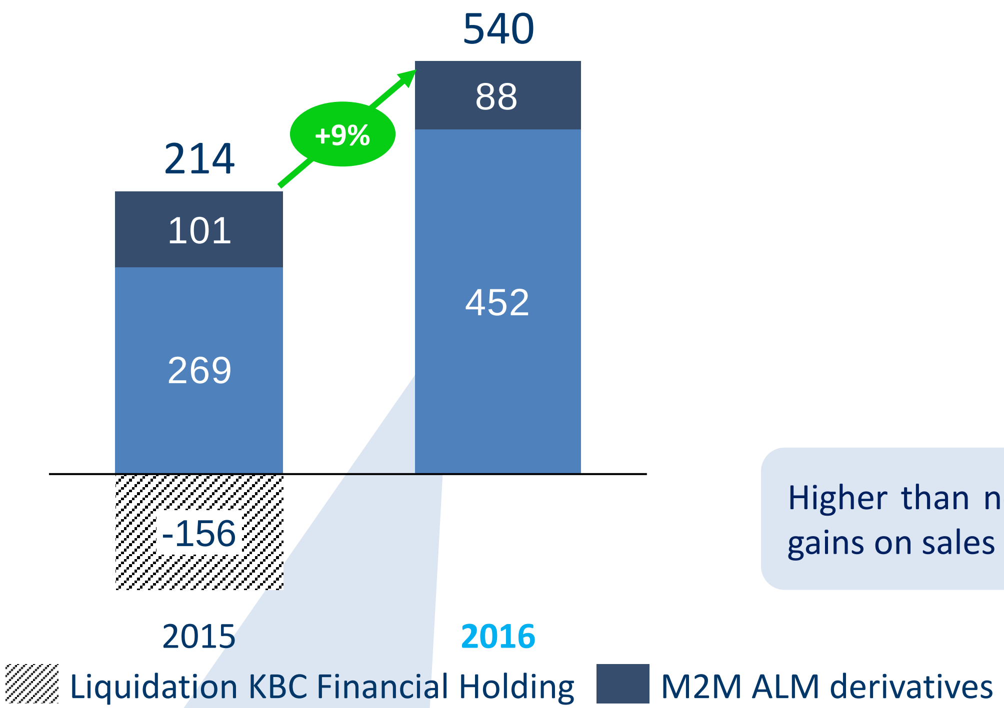
Assets under management (AUM)



Amounts in billions of EUR

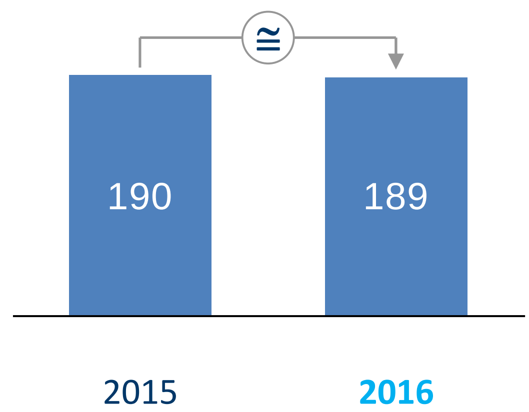
The other net income drivers:
Higher value gains

Net gains on financial instruments at fair value



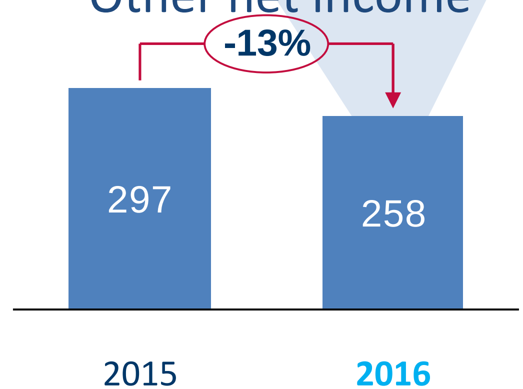
Y-o-y increase attributable to solid dealing room results (especially in Belgium) and a positive change in market, credit and fair value adjustments (both in Belgium and the Czech Republic)
+46% y-o-y excluding the impact of the liquidation of KBC Financial Holding Inc.

Gains realised on AFS assets



Higher than normal run rate of roughly 200m EUR due in part to gains on sales of real estate and some one-off transactions

Other net income



Amounts in millions of EUR

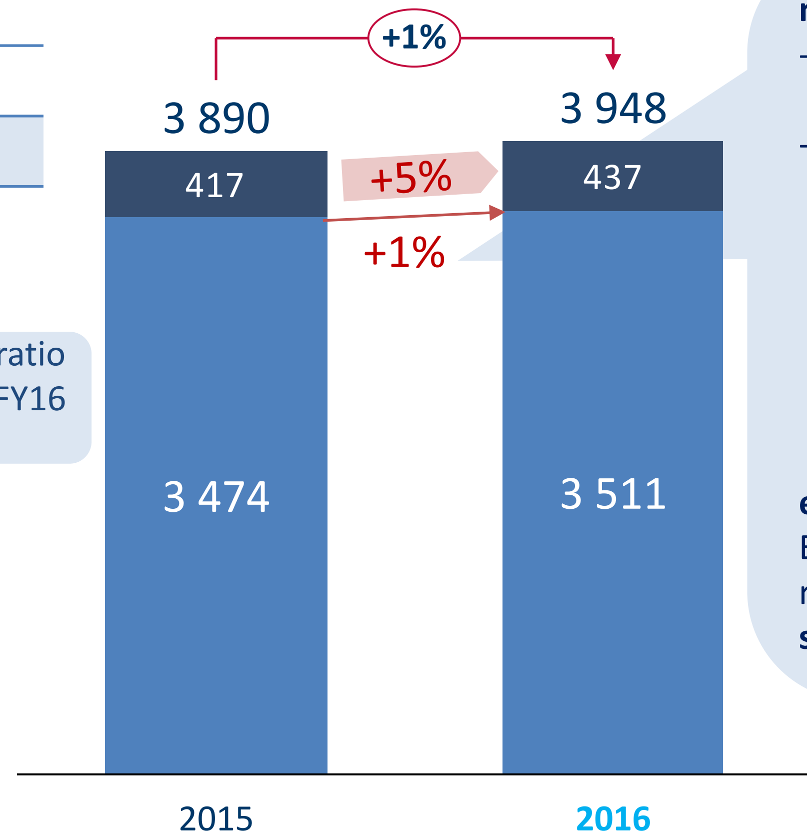
Operating expenses:

Operating expenses up, but good cost/income ratio

C/I ratio*

2015	2016
55%	57%

Excluding bank tax, C/I ratio amounted to 50% in FY16 compared to 48% in FY15



Special bank taxes   Operating expenses

Operating expenses increased due mainly to:

- **higher bank tax** (due almost entirely to Belgium)
- higher operating expenses, which is in line with our implicit guidance and attributable mainly to the **one-off expenses for early retirement**, higher ICT expenses in Belgium and higher staff expenses in Hungary

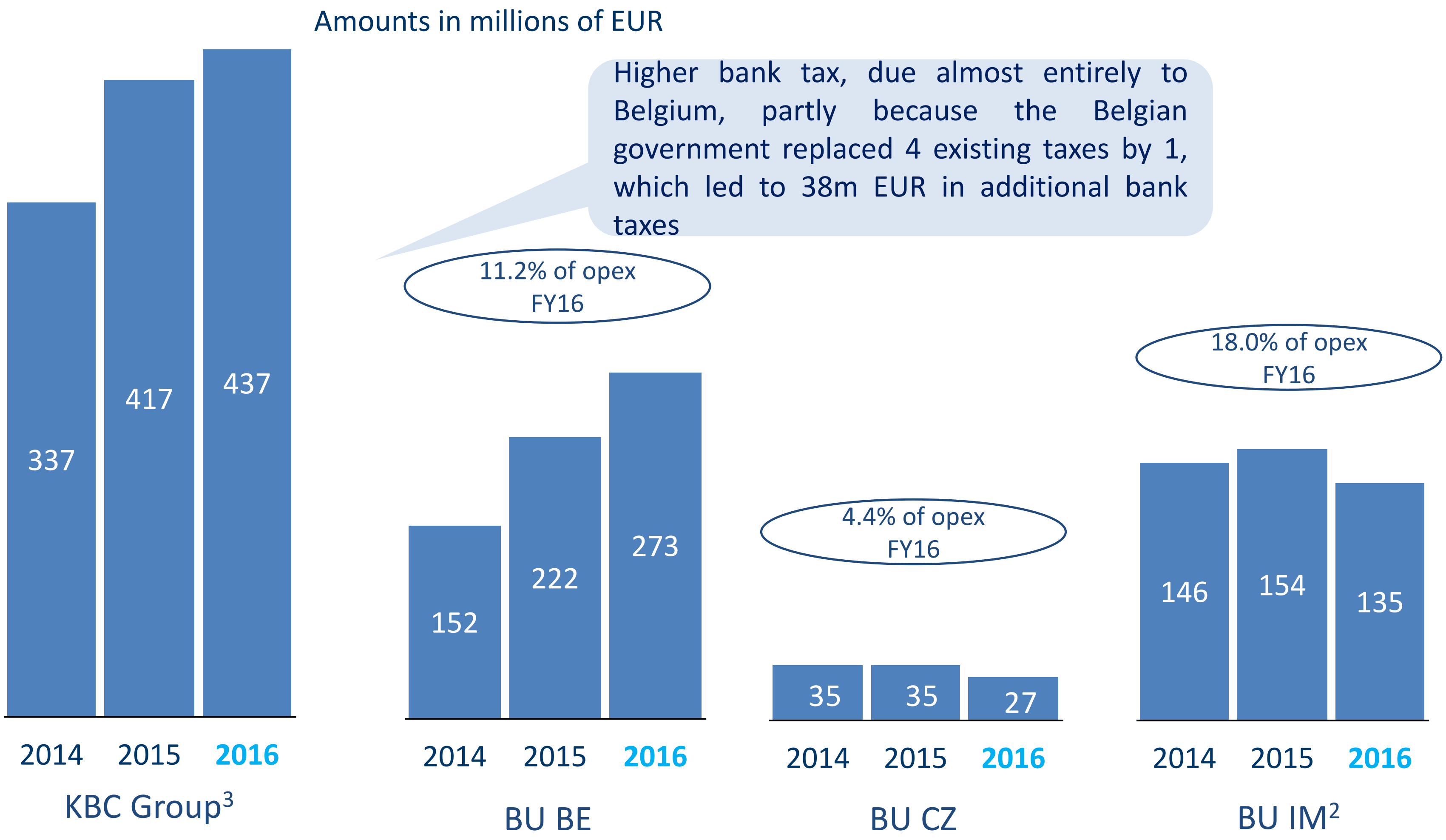
excluding bank tax and the 33m EUR **one-off expenses** for early retirement, **expenses roughly stabilised y-o-y**

Amounts in millions of EUR

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

Special bank taxes[1]:

Represent 11.1% of operational expenses FY16

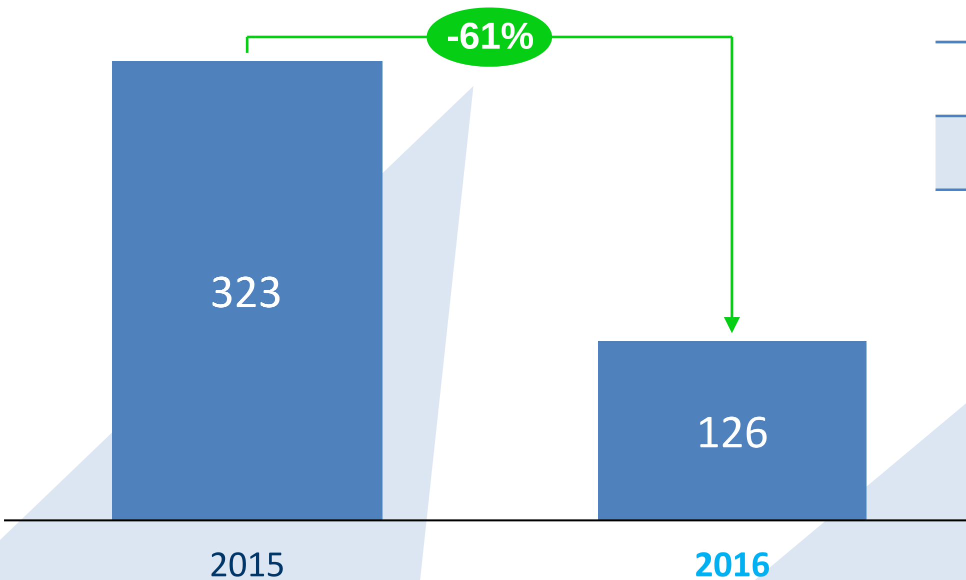


1 This refers solely to the bank taxes recognised in opex, and as such does not take account of income tax expenses, non-recoverable VAT, etc.
2 International Markets (IM) BU includes Hungary, Slovakia, Bulgaria and Ireland
3 KBC Group also includes Group Center

Asset impairment:

Excellent, but unsustainably low impairment charges, and excellent credit cost ratio of 0.09% (historical average '99-'15 of 0.52%)

Impairments on loans and receivables



Credit Cost Ratio

2015	**2016**
0.23%	0.09%

Loan loss provisions decreased, thanks chiefly to:

- a net loan loss provision release in Ireland (45m EUR) and Hungary (15m EUR)
- low gross impairment charges in all segments in Belgium and the Czech Republic

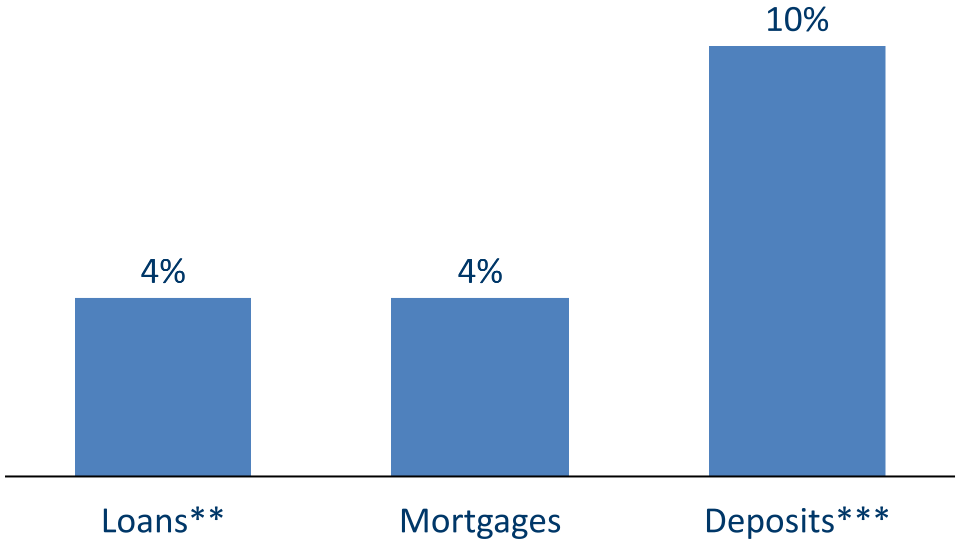
The credit cost ratio improved in each business unit, except for the Group Centre

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

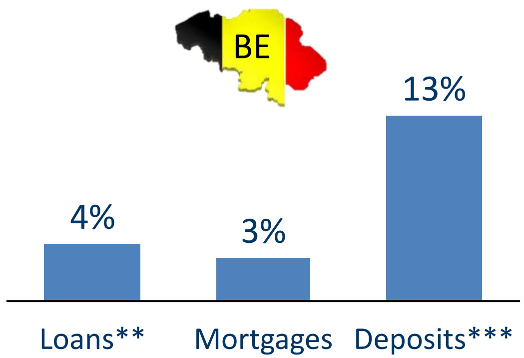
Y-O-Y ORGANIC* VOLUME GROWTH FOR KBC GROUP

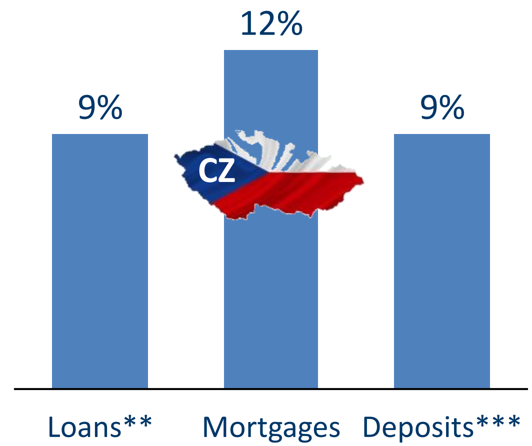


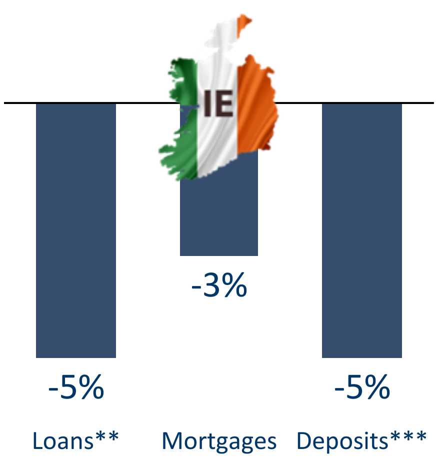
*   Volume growth making abstraction of Fx effects and divestments/acquisitions
**   Loans to customers, excluding reverse repos (and bonds)
*** Customer deposits, including debt certificates but excluding repos.

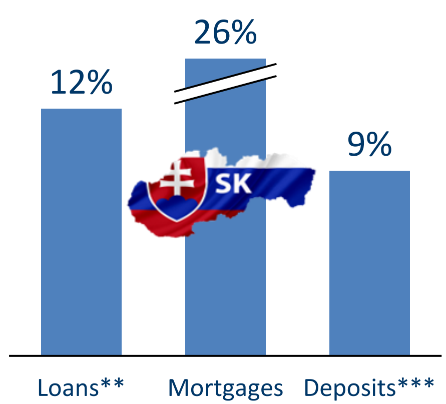
Balance sheet (2/2):
Loans and deposits continue to grow in most core countries

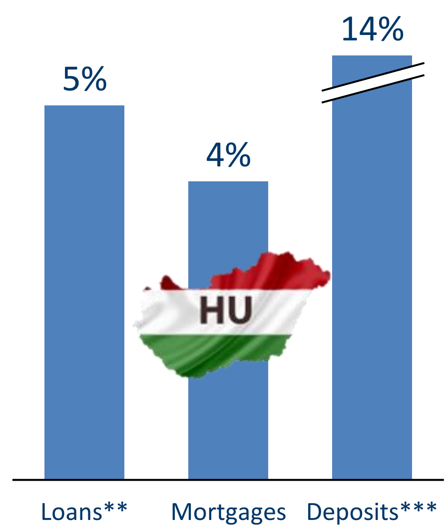
Y-O-Y ORGANIC* VOLUME GROWTH FOR MAIN ENTITIES

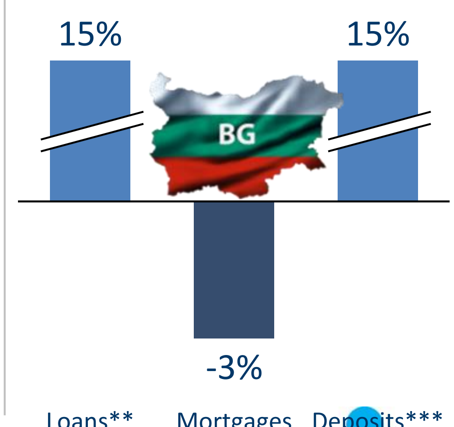






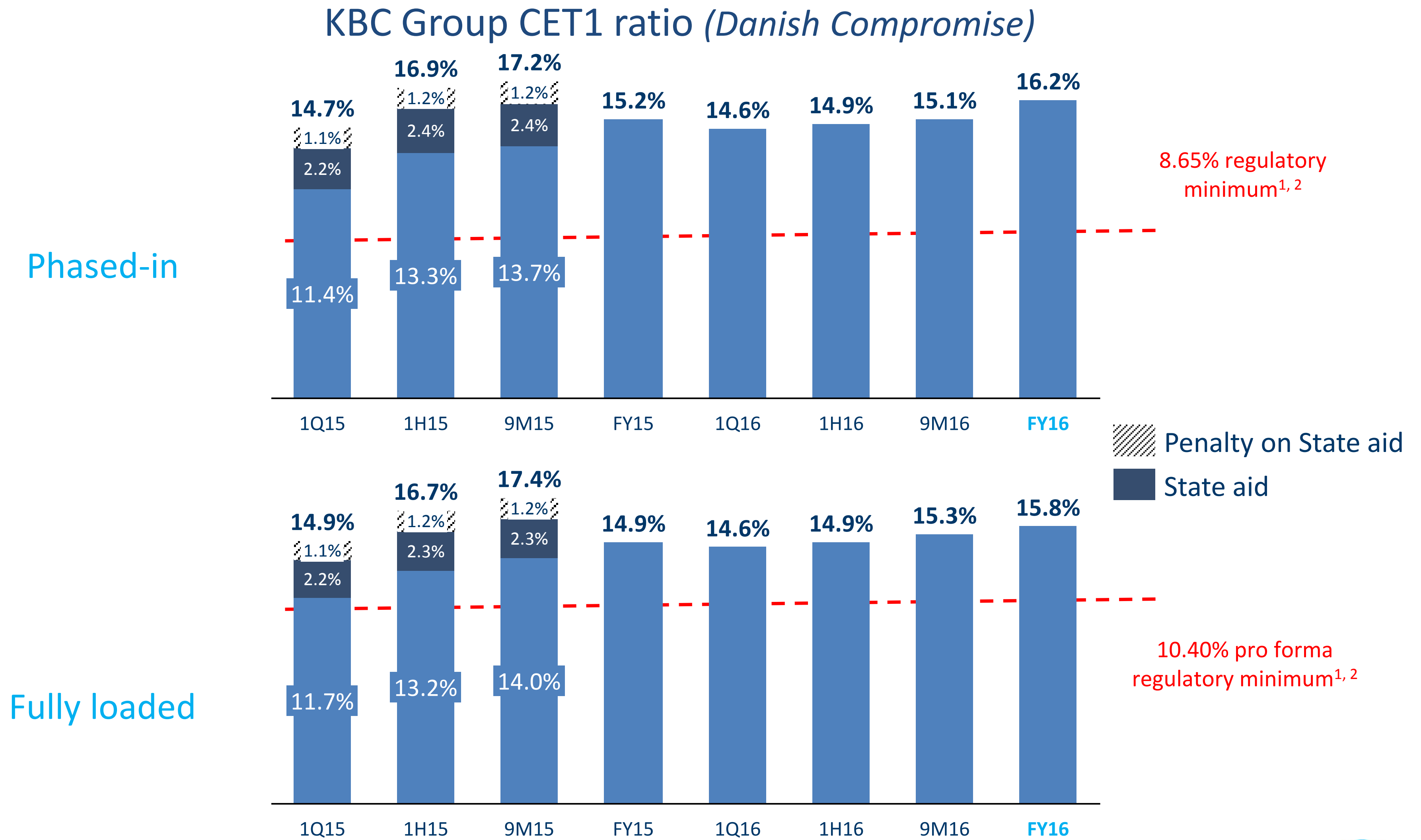






* Volume growth making abstraction of Fx effects and divestments/acquisitions
** Loans to customers including reverse repos (and not including bonds)
*** Customer deposits, including debt certificates but excluding repos

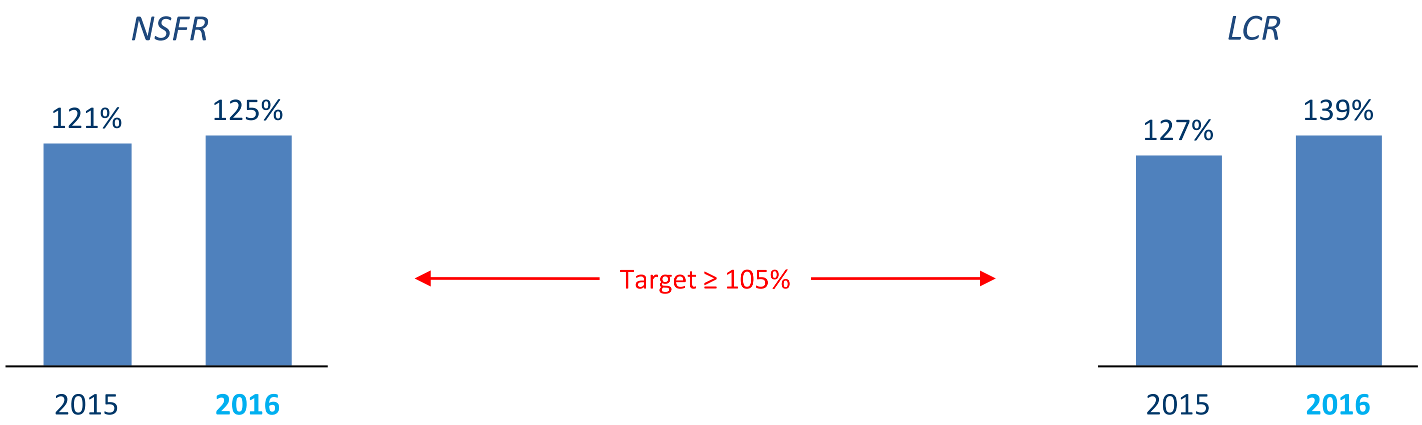
Capital and liquidity ratios (1/2):
Capital ratio remains comfortably above regulatory minimum



1. Excludes a pillar 2 guidance (P2G) of 1.0% CET1
2. The acquisition of UBB & Interlease in Bulgaria will have a very limited impact of -54bps on fully loaded CET1 ratio

Capital and liquidity ratios (2/2):
Liquidity continues to be strong

KBC Group's liquidity ratios*



* Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are calculated based on KBC's interpretation of the current Basel Committee guidance, which may change in the future. The LCR can be relatively volatile in future due to its calculation method, as month-to-month changes in the difference between inflows and outflows can cause important swings in the ratio even if liquid assets remain stable

KBC Group 4Q & FY 2016 wrap up

Wrap up

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

Looking forward

- ✓ We expect 2017 to be a year of sustained economic growth in both the euro area and the US. The most significant risks for the euro area stem from political events with several elections on the horizon and the start of Brexit negotiations

- ✓ Management guides for:
  - we anticipate solid returns for all our business units
  - loan impairments for Ireland towards a release in the 25m-75m EUR range for FY17

- ✓ Besides the Belgium and the Czech Republic Business Units, the International Markets Business Unit will also become a strong contributor to the net result of KBC Group thanks to:
  - Ireland: re-positioning as a core country with a meaningful and sustainable profit contribution
  - Bulgaria: after the acquisition of UBB and Interlease, UBB-CIBANK and DZI will become the largest bank-insurance group in Bulgaria, which will lead to a substantial increase in profit contribution. The deal is expected to be closed in 2Q17

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

Johan Thijs, KBC Group CEO