



# KBC Group

## 3Q and 9M 2017 results

### Press presentation

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# 3Q 2017 key takeaways for KBC Group

## ■ GOOD BUSINESS PERFORMANCE IN 3Q17

**Strong net result of 691m EUR in 3Q17 (and 2,176m EUR in 9M17). ROE of 19% in 9M17**

- 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
- **Higher net interest income** thanks to the consolidation of UBB/Interlease, despite lower net interest margin q-o-q
- Good net fee and commission income, despite negative seasonal effects
- High net gains from financial instruments at fair value (although lower q-o-q) and stable realised AFS gains
- Other net income was negatively impacted by an additional provision of 54m EUR related to an ongoing industry wide review of the tracker rate mortgage products originated in Ireland before 2009.
- Exceptional **combined ratio of 83% in 9M17**. Excellent sales of non-life products, while sales of life insurance products were lower. Both life and non-life benefited from a release of provisions in Belgium in 3Q17
- Strict cost management resulted in a **cost/income ratio of 54% YTD adjusted** for specific items
- **Low level of impairment charges**. Net impairment releases of 26m in 3Q17 in Ireland (net release of 162m EUR YTD). We are maintaining our impairment guidance for Ireland, namely a net release in a range of 160m-200m EUR for FY17

## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- **The B3 common equity ratio based on the Danish Compromise** at end 3Q17 amounted to **16.10% phased-in and 15.95% fully loaded\***
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **5.8%** at KBC Group
- **Continued strong liquidity position** (NSFR at 130% and LCR at 150%) at end 3Q17
- An **interim dividend of 1 EUR per share** (as advance payment on the total 2017 dividend) will be paid on 17 November 2017

*(\*) 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*



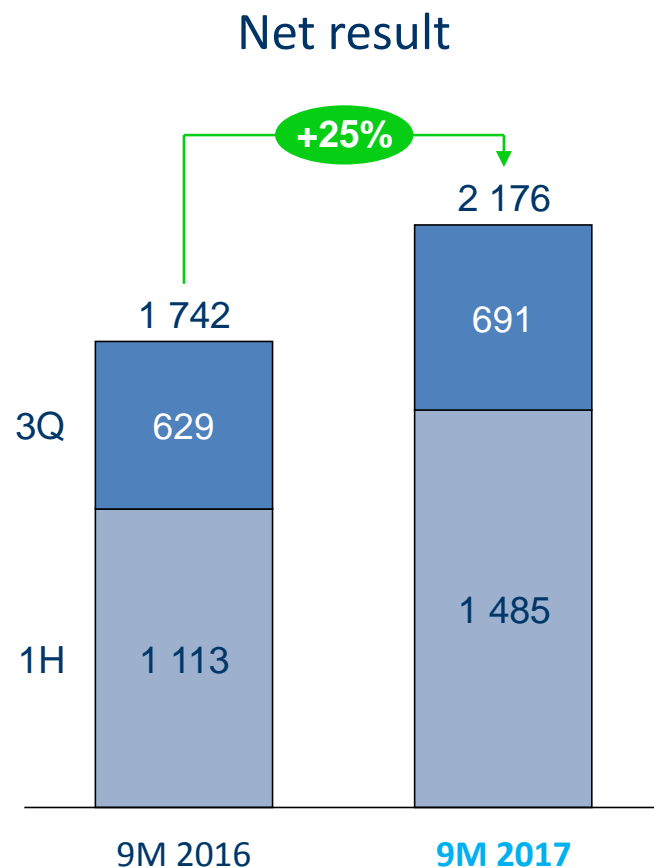
# KBC Group

## Consolidated results

### 3Q and 9M 2017 performance

# KBC Group

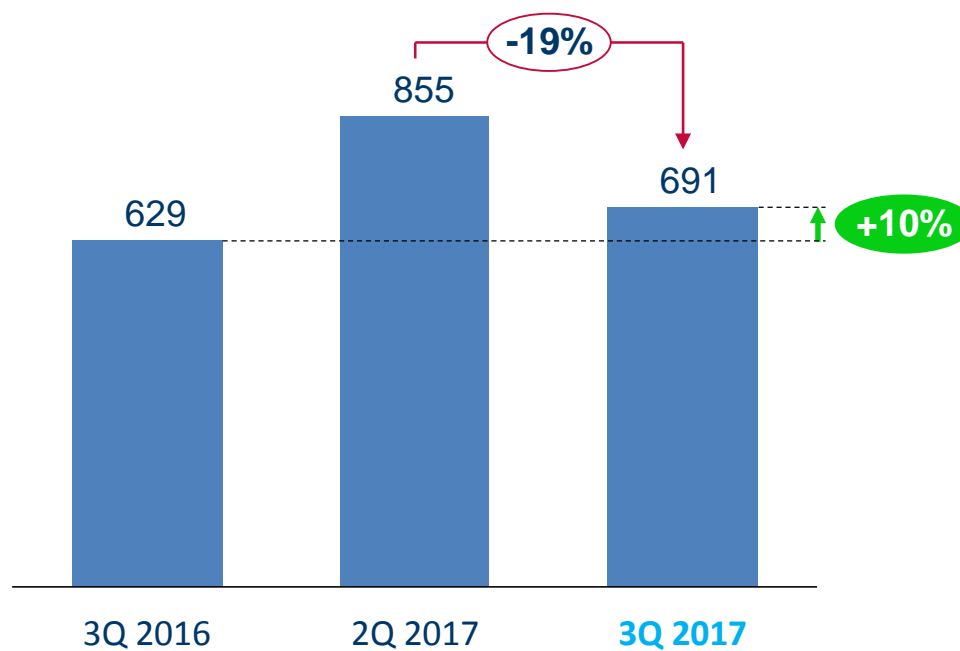
*Excellent business performance in 9M 2017*



# KBC Group

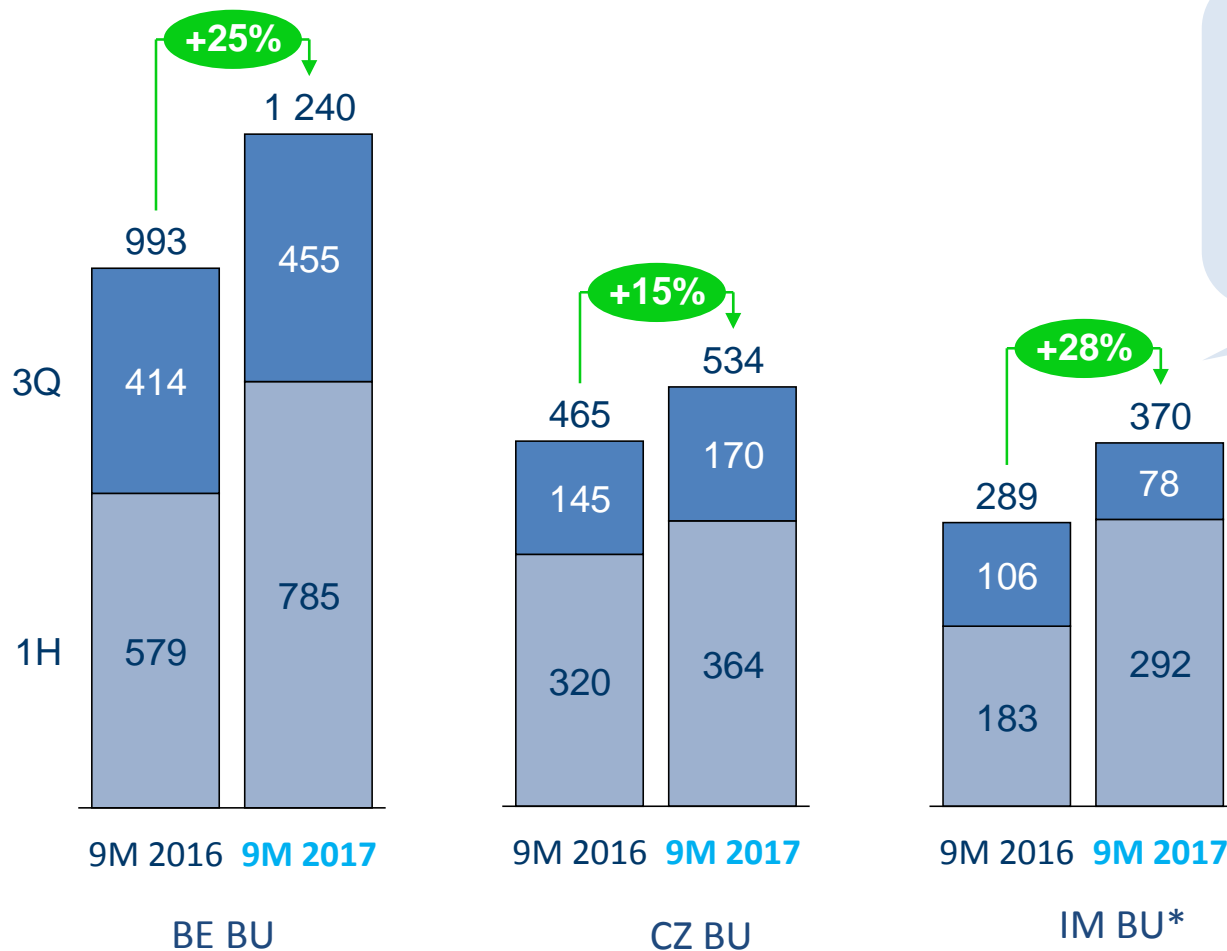
*Strong net result in 3Q 2017*

## Net result



# Net result per business unit

*Y-o-y each business unit sharply improved its net result*

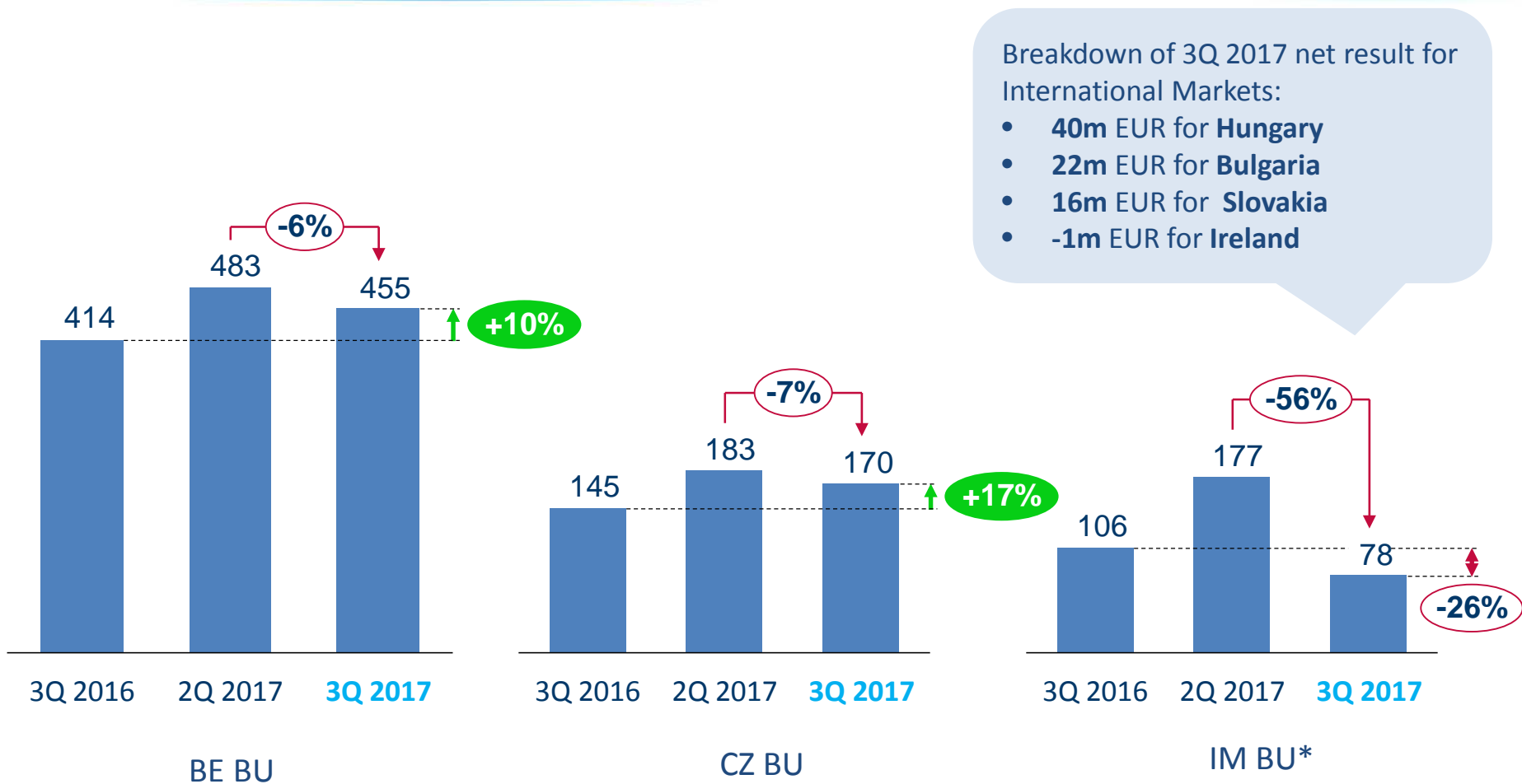


Breakdown of 9M 2017 net result for International Markets:

- **164m** EUR for **Ireland**
- **107m** EUR for **Hungary**
- **63m** EUR for **Slovakia**
- **31m** EUR for **Bulgaria**

# Net result per business unit

Q-o-q trend was negatively impacted by seasonal effects and Ireland





# Net interest income

*Higher net interest income (NII) thanks to the consolidation of UBB/Interlease, despite lower net interest margin (NIM)*

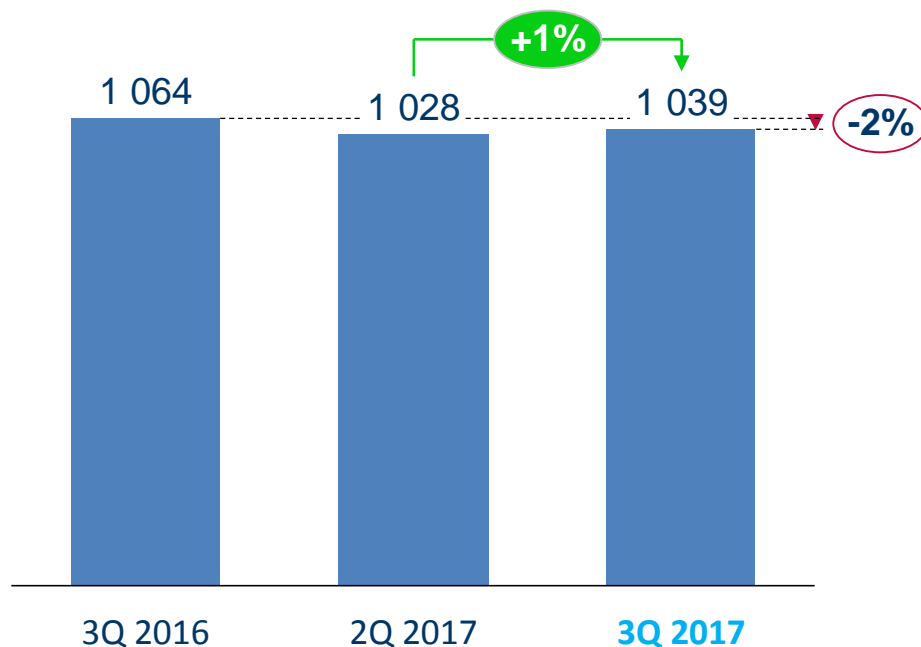
**NII up by 1% q-o-q (and down by 2% y-o-y):**

(+) Including 28m EUR contribution of UBB/Interlease, lower funding costs and continued good loan volume growth

(-) 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

3Q16	2Q17	3Q17
1.90%	1.86%	1.83%

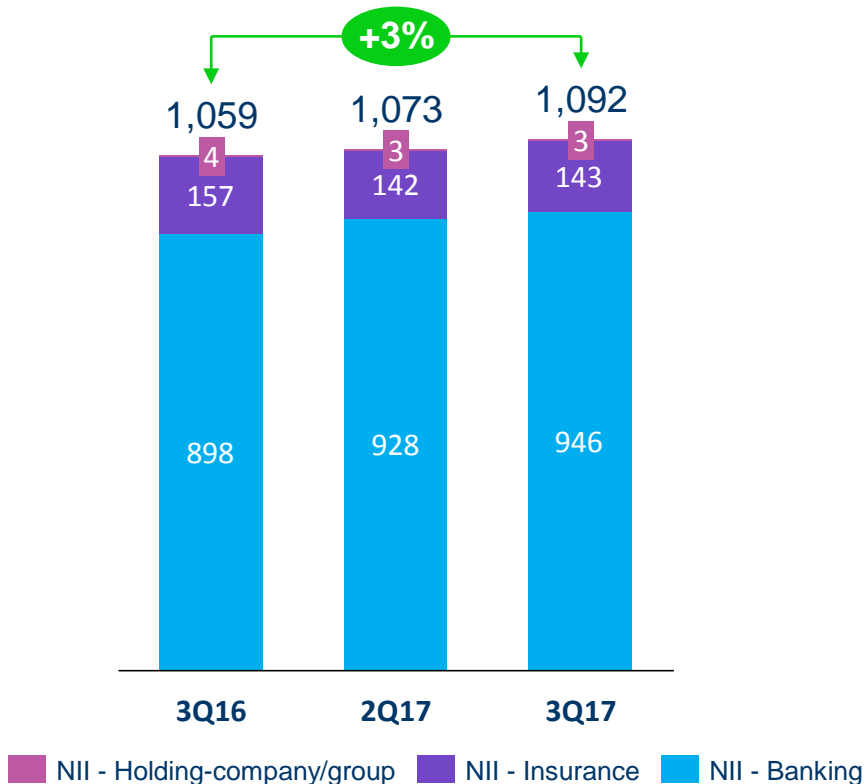


Q-o-q decrease of NIM is mainly due to decreased net interest income from the dealing room

# Net Interest Income

*NII/NIM excluding dealing room effect*

## NII EXCLUDING DEALING ROOM EFFECT



## NIM EXCLUDING DEALING ROOM EFFECT

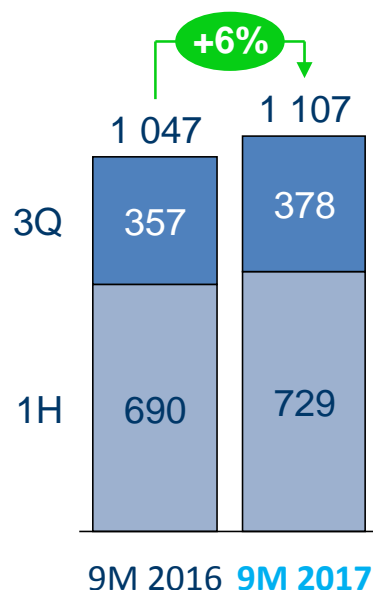
3Q16	2Q17	3Q17
1.90%	1.97%	1.96%

- **NII excluding dealing room effect** increased by 3% y-o-y
- **NII excluding dealing room and the 28m EUR contribution of UBB/Interlease**, rose by 0.5% y-o-y, which is an excellent performance in the current low interest rate environment.
- **NIM corrected for dealing room effect** roughly stabilised q-o-q and even increased y-o-y

# Non-life insurance

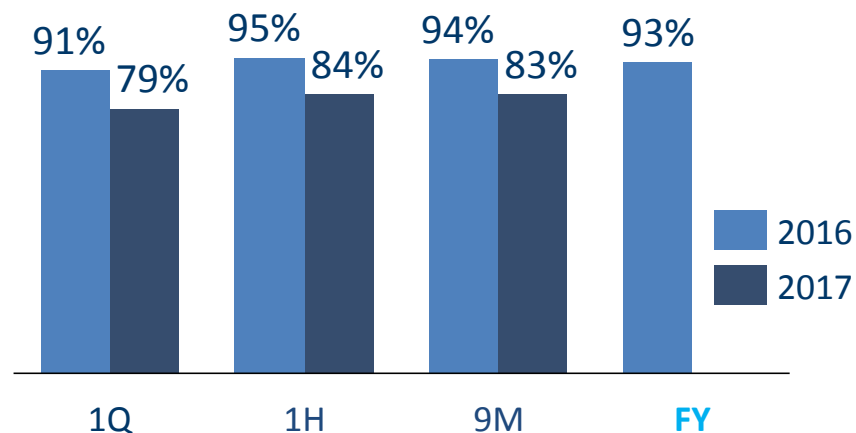
*Insurance premium income up and combined ratio at exceptional level*

## 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** amounted to 83% in 9M17, an improvement compared with 93% in FY16 due to:

- low technical charges (especially in 1Q17)
- a one-off release of provisions in Belgium in 3Q17 (positive effect of 26m EUR). Excluding this one-off release in 3Q17, the combined ratio amounted to 86% at 9M17

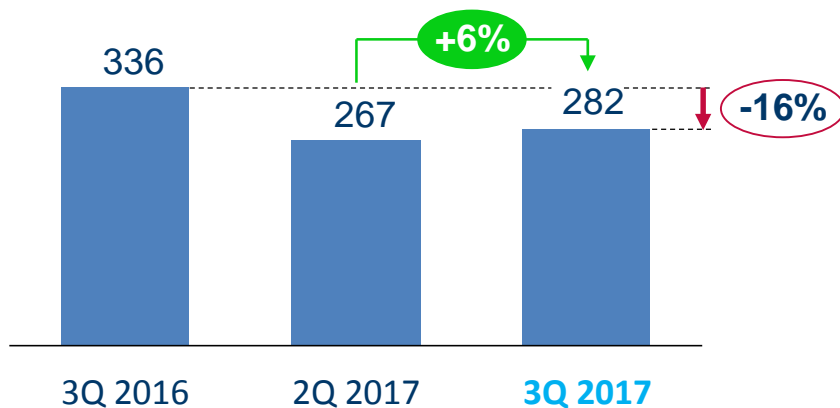
# Life insurance

*Life sales down q-o-q and y-o-y*

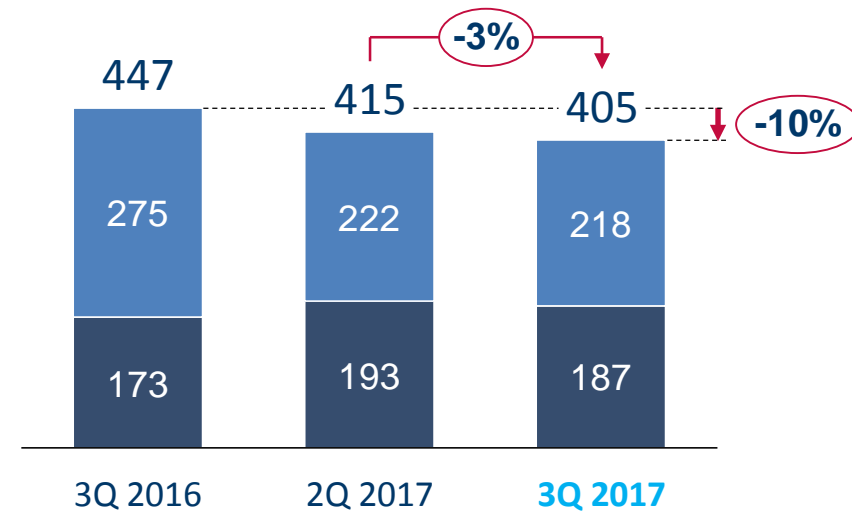
Sales of Life insurance products decreased by 3% q-o-q and by 10% yoy. The y-o-y decrease was driven entirely by lower sales of guaranteed interest products in Belgium (driven by the low guaranteed interest offered).

Sales of unit-linked products accounted for 46% of total life insurance sales.

### Gross earned premiums Life insurance



### Life sales

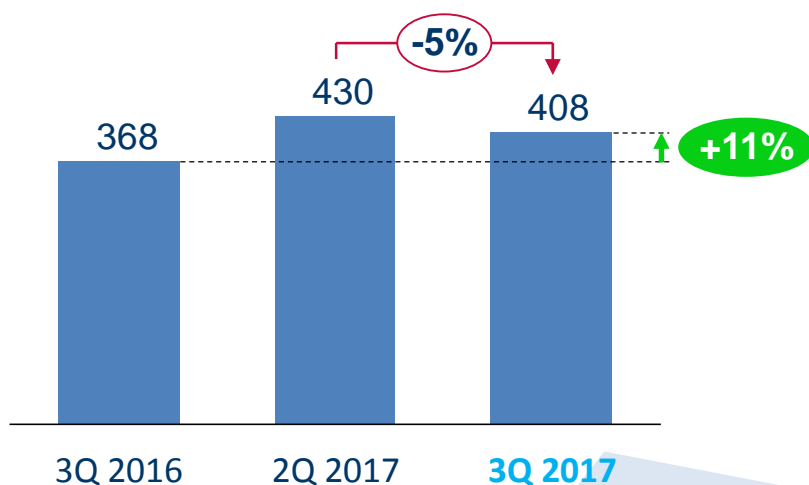


■ Guaranteed interest rate products  
■ Unit-linked products

# Net fee and commission income:

*Good net fee and commission income, despite negative seasonal effect*

## Net fee and commission income



Net fee and commission income decreased q-o-q driven by negative seasonal effects:

- Lower **entry fees** from mutual funds & unit-linked life insurance products (holiday season led to less gross inflows and less shift to the new discretionary-based service proposition in Belgium)
- lower **securities-related fees**

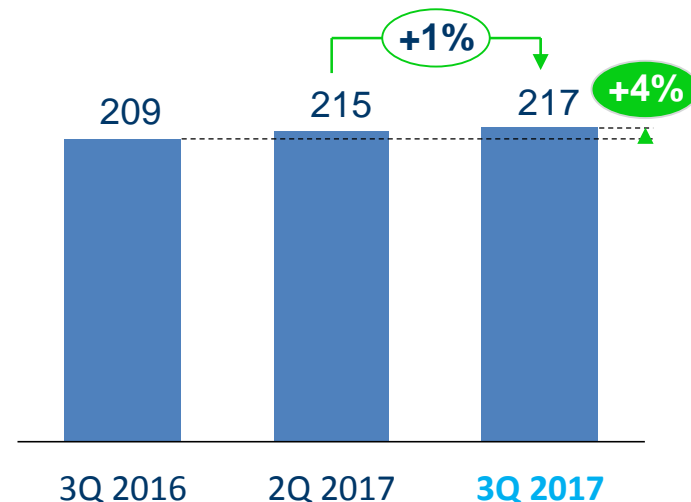
**partly offset by:**

- higher fees from payment service
- slightly higher management 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 **fees from payment services**

## Assets under management (AUM)



**Assets under management (217bn EUR)**

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

# Net gains on financial instruments at fair value

*Higher fair value gains y-o-y, although lower q-o-q*

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

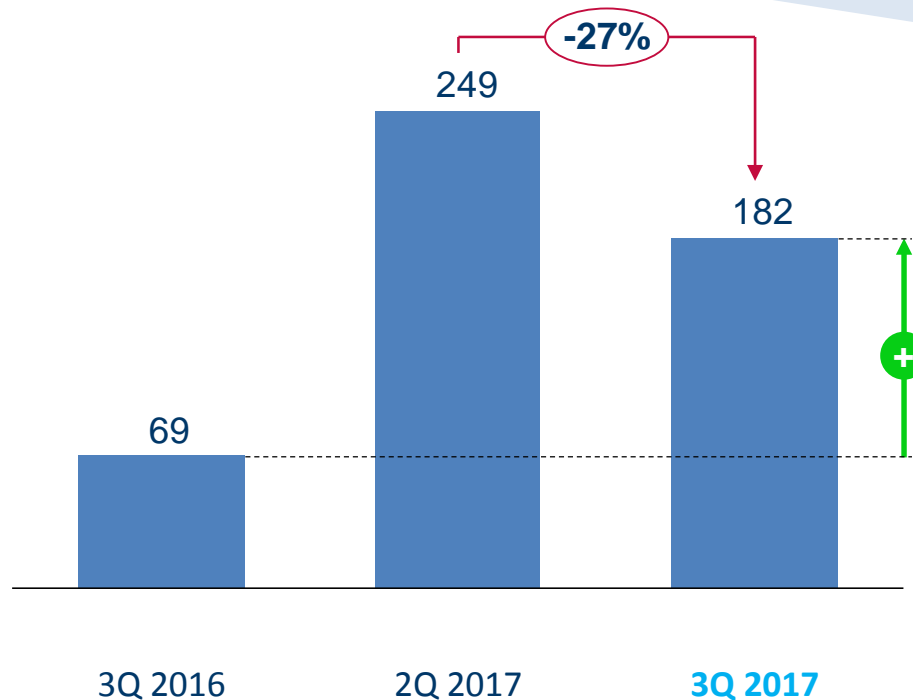
- an 11m EUR contribution of ALM derivatives in 3Q17, substantially down compared with 73m EUR in 2Q17 due to less positive M2M value of EUR/CZK FX swaps in 3Q17

- lower dealing room income compared with a strong 2Q17

partly offset by:

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

- a 6m EUR contribution of UBB/Interlease



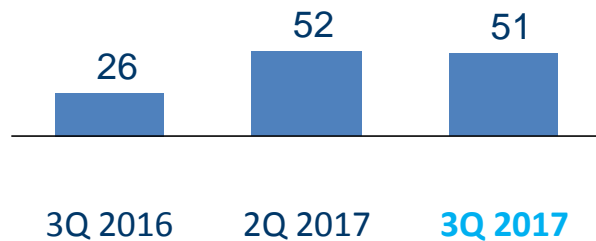
# The other net income drivers

*Stable gains realised on AFS assets and lower other net income*

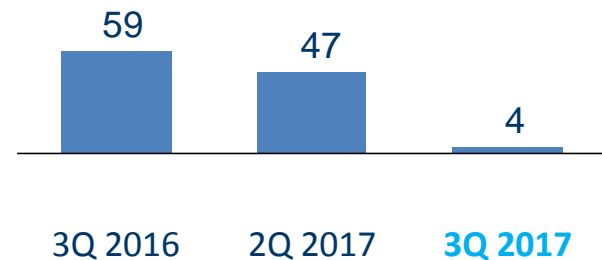
**Roughly stable gains realised on AFS assets** as the q-o-q increase on shares was offset by the q-o-q decrease on bonds

**Other net income** amounted to 4m EUR, much lower than the normal run rate of around 50m EUR. This is mainly the result of an additional provision of 54m EUR, related to an ongoing industry wide review of the tracker mortgage products originated in Ireland before 2009.

### Gains realised on AFS assets

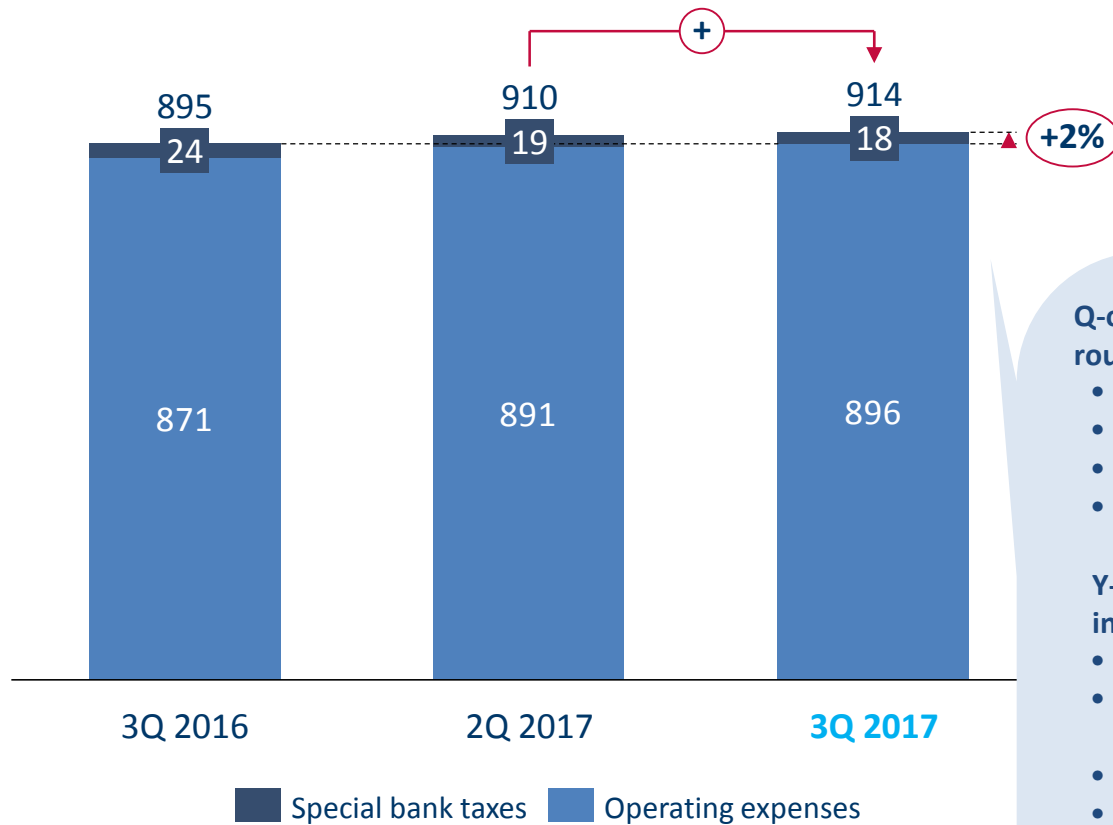


### Other net income



# Operating expenses

*Operating expenses roughly stable despite the consolidation of UBB, good cost/income ratio*



## C/I ratio\*

3Q16	2Q17	3Q17	9M17
57%	54%	55%	54%

**Q-o-q operating expenses excluding bank tax roughly stabilized due to:**

- lower staff expenses
- lower IT costs
- lower professional fee expenses
- lower facilities expenses

**Y-o-y operating expenses without bank tax increased due to:**

- the consolidation of UBB/Interlease (20m EUR)
- higher staff expenses (wage drift in most countries)
- higher ICT costs
- higher depreciation and amortisation costs (capitalisation of some projects)

*partly offset by:*

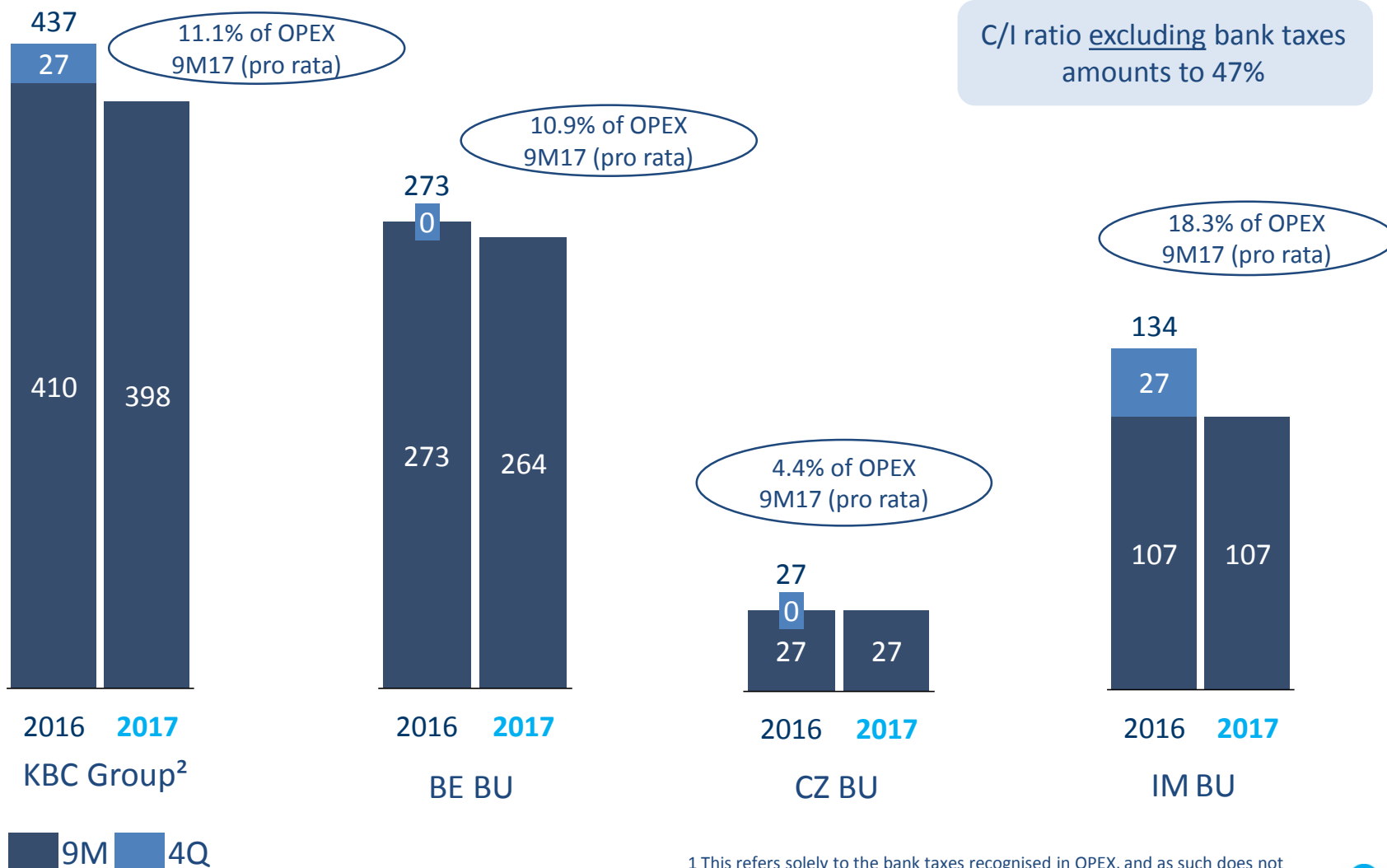
- lower professional fee expenses
- lower marketing & facilities expenses

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



# Special bank taxes<sup>1</sup>

Represent 11.1% of operational expenses in 9M17 (pro rata)



Amounts in millions of EUR

<sup>1</sup> 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.

<sup>2</sup> Also includes Group Centre

# Asset impairments:

## Net impairment releases and excellent credit cost ratio

**Low asset impairments** attributable mainly to:

- net loan loss provision releases of 26m EUR in Ireland (compared with 87m in 2Q17)
- continued low level of loan impairments throughout the Group, except for one large corporate file in Belgium.
- a 7m EUR contribution of UBB/Interlease,

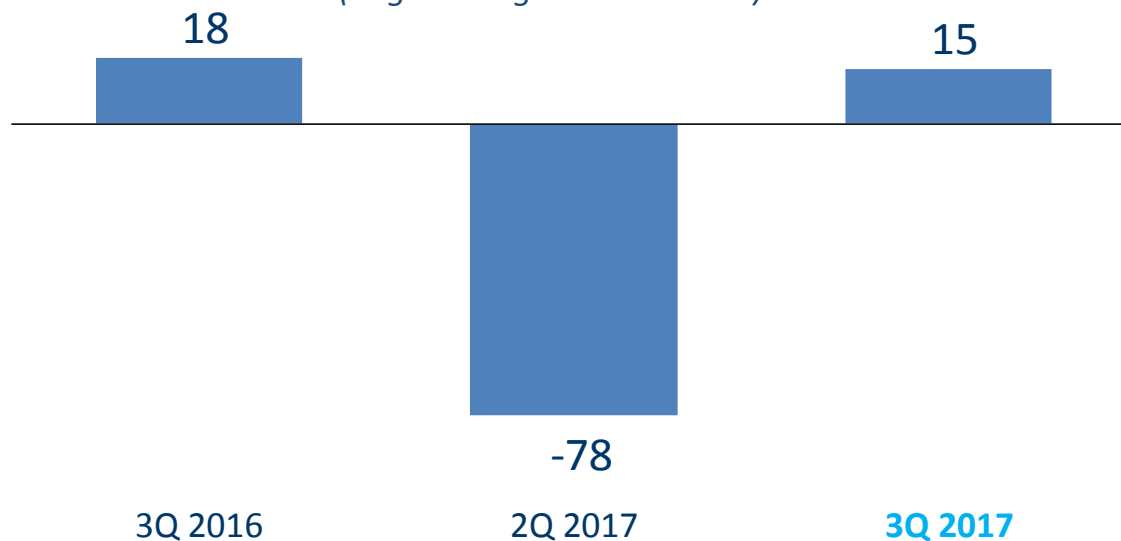
The **credit cost ratio** amounted to -0,05% in 9M17 due to low gross impairments and several releases.

### Credit cost ratio (YTD)

FY15	FY16	9M17
0.23%	0.09%	-0.05%

### Impairments on loans and receivables

(negative sign is write-back)



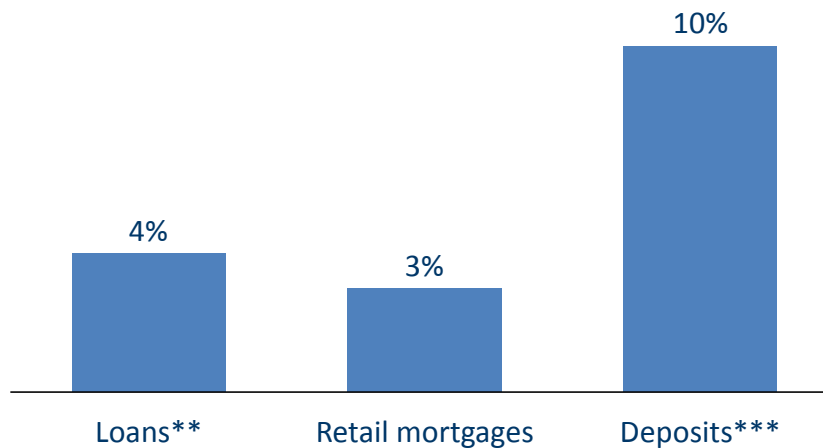


# KBC Group Balance sheet, capital and liquidity

# Balance sheet (1/2)

*Loans and deposits continue to grow in most core countries*

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



**Y-o-y volume growth including UBB/Interlease:**  
loans + 6%, retail mortgages +4% and deposits +12%

\* Volume growth excluding FX effects and divestments/acquisitions

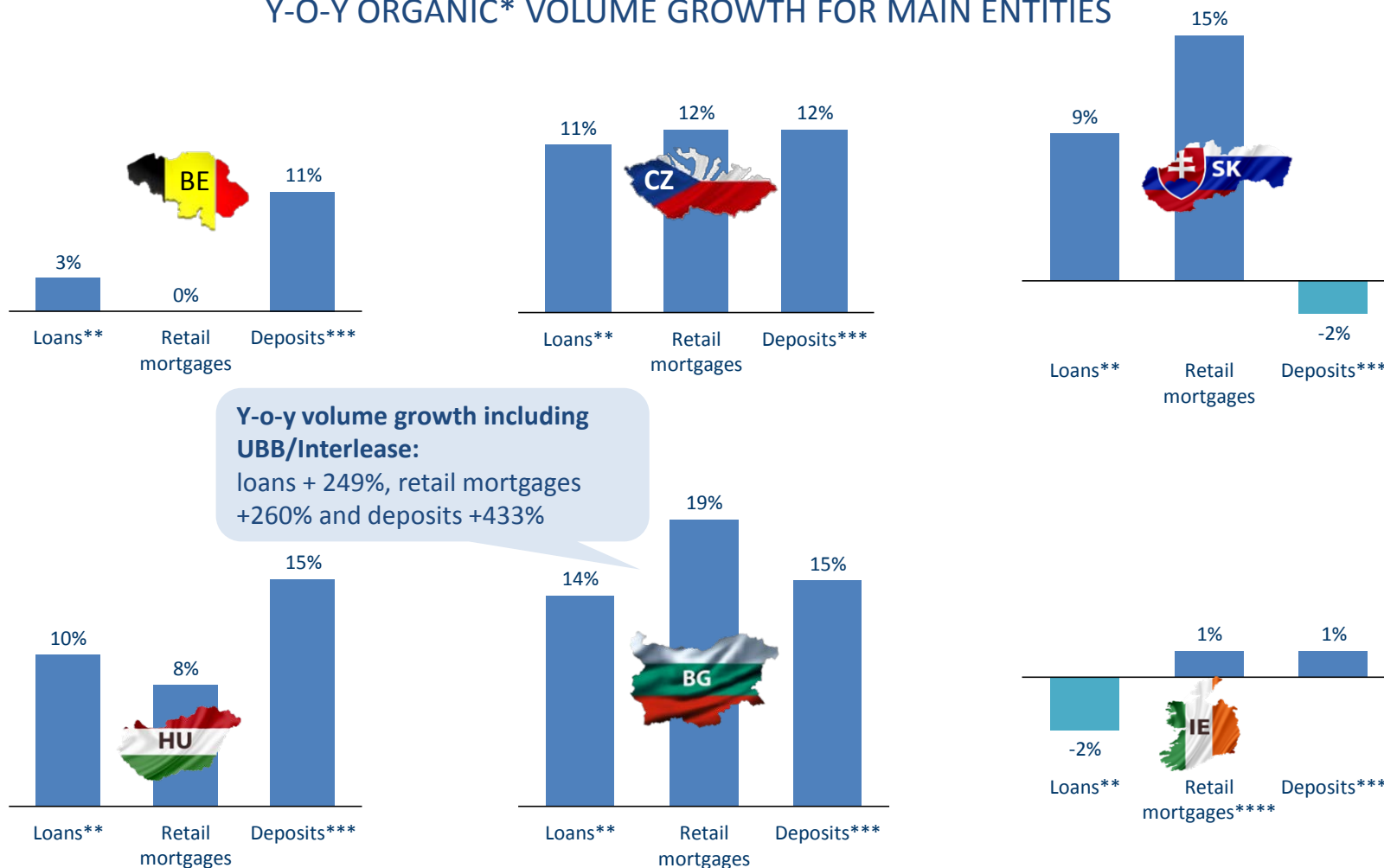
\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

# Balance sheet (2/2)

Loans and deposits continue to grow in most core countries

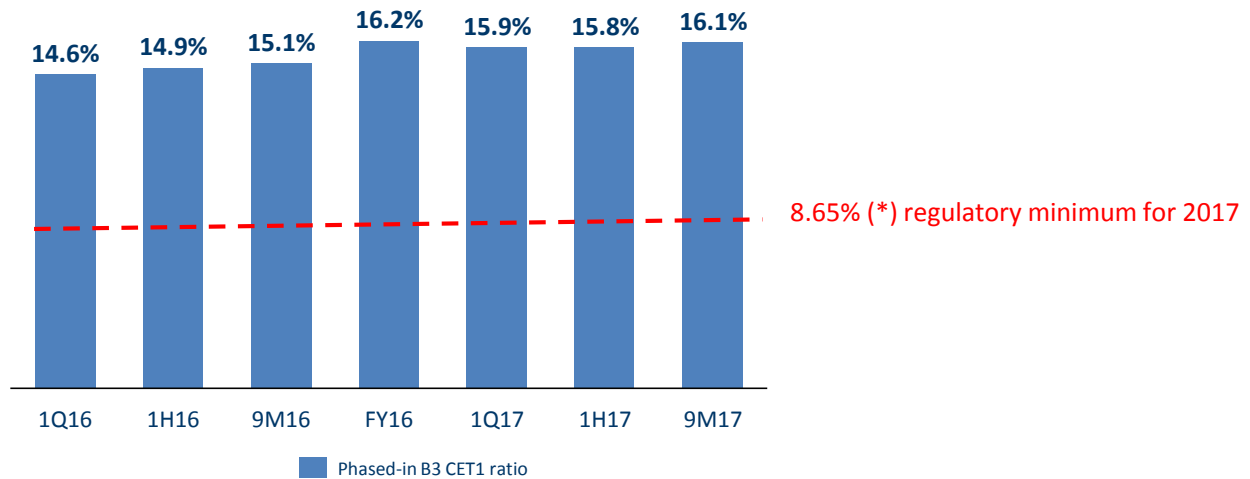
## Y-O-Y ORGANIC\* VOLUME GROWTH FOR MAIN ENTITIES



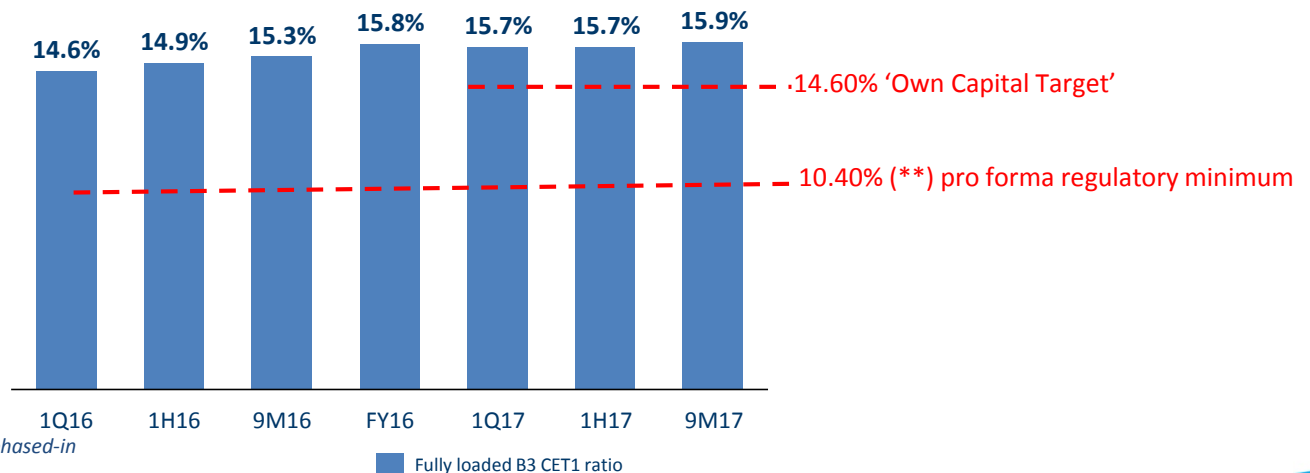
\* Volume growth excluding FX effects and divestments/acquisitions  
 \*\* Loans to customers, excluding reverse repos (and bonds)  
 \*\*\* Customer deposits, including debt certificates but excluding repos  
 \*\*\*\* Retail mortgages in Ireland: new business (written from 1 Jan 2014) +45% y-o-y, while 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)



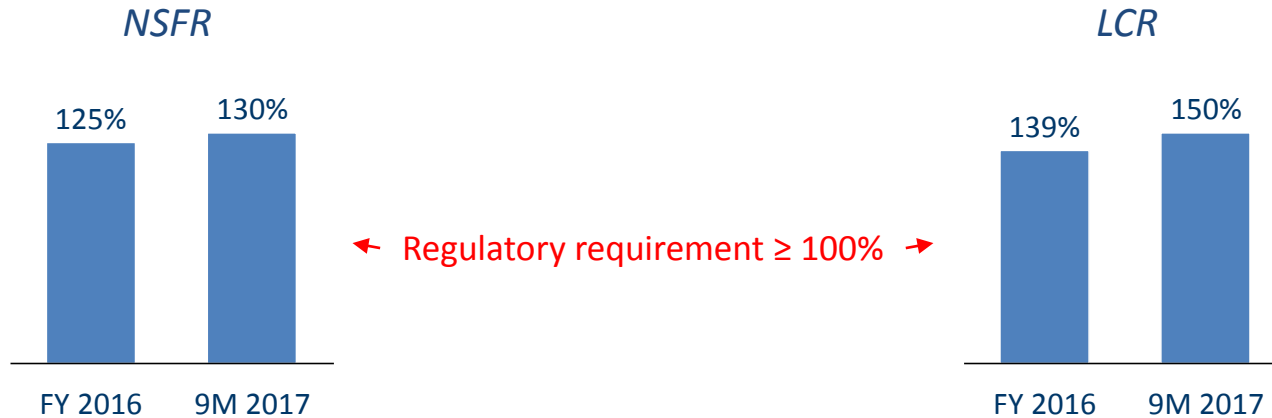
(\*) Systemic buffer announced by the NBB: CET1 phased-in of 1.0% in 2017 under the Danish Compromise

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

# Liquidity ratios

## *Solid liquidity position*

### KBC Group's liquidity ratios\*



\* 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 3Q & 9M 2017 wrap up



# 3Q 2017 wrap up

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

# Looking forward

- ✓ We expect 2018 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
  - a negative impact of the first-time application of IFRS 9 (as of 1 January 2018) on our fully loaded CET1 ratio of 45-55 bps mainly on account of reclassifications in the banking book.
  - the impact of the planned reform of the Belgian corporate income tax regime: an estimated one-off upfront negative P&L impact of 230m EUR in 4Q17, a slightly positive one-off impact (of roughly + 0.2%) on the CET1 ratio in 4Q17 and a recurring positive P&L impact as of 2018 onwards.
  - the intention to call the USD 1bn contingent convertible note (coco) in January in 2018
- ✓ 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 have 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, KBC Group CEO*