



Press Release

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KBC Group strategy update:

Becoming the reference in bank-insurance

'Going for sustainable and profitable growth through bank-insurance and superior client satisfaction' is the focus of KBC's strategy update today. Johan Thijs, KBC Group CEO, and the other members of the KBC Group Executive Committee will address the analyst and investment community together with the media at an Investor Day in Brussels, Belgium. The strategy update has been elaborated on and discussed in depth with the group's senior managers in recent months.

KBC wants to build on its strengths and be among the best-performing, retail-focused financial institutions in Europe. This aim will be achieved by:

- **strengthening in a highly cost-efficient way its bank-insurance business model for retail, SME and mid-cap clients in its core markets;**
- **focusing on sustainable and profitable growth within the framework of solid risk, capital and liquidity management;**
- **creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach.**

By achieving this, KBC wants to become the reference in bank-insurance in its core markets.

As far as repaying the outstanding amount of state aid to the Flemish Regional Government is concerned, and on account of KBC's robust capital position, KBC intends to accelerate its repayments and to make the final one at the end of 2017 at the latest, instead of at the end of 2020 as agreed with the European Commission.

1. KBC has left the past behind

'In the past five years, we have worked hard to honour our commitments towards the European Commission. We have carried out divestments, significantly de-risked our group and also repaid the bulk of the state aid we received during the financial crisis. Our integrated bank-insurance group, with its diversified presence across Belgium, Central Europe and Ireland, is now more sustainable, less complex, more low risk and more

cost efficient. We are one of the best capitalised, profitable and well-positioned financial institutions in Europe, with returns well above the sector average. Today, our 36 000 FTEs are fully focused on creating superior client satisfaction, which will ensure sustainable and profitable growth and so make us the reference in bank-insurance in our core markets,' said Johan Thijs, KBC Group CEO.

2. KBC tomorrow: to be among the best-performing, retail-focused financial institutions in Europe and the reference in bank-insurance in its core markets

KBC wants to build on its strengths and be among Europe's best-performing, retail-focused financial institutions. KBC will achieve this aim by **further strengthening its bank-insurance business model for retail, SME and mid-cap clients in its core markets in a highly cost-efficient way**. The model has reached different stages of implementation in the different core countries. In Belgium, the bank and the insurance company already act as a single operational unit, achieving both commercial and non-commercial synergies. In its other core countries (the Czech Republic, Slovakia, Hungary and Bulgaria), KBC is targeting at least integrated distribution, so that commercial synergies can be realised by 2017 at the latest.

Having both banking and insurance activities integrated within one group creates added value for both clients and KBC. Within the KBC group, the bank-insurance business already generates 50% of the total insurance income and 11% of the retail income of the banks in the core countries. Going forward, KBC will put further emphasis on the seamless fulfilment of client needs through its bank-insurance offering in the core countries, allowing it to create sustainable, long-term client relationships and to diversify its income streams.

KBC Group has reflected this in the following targets. *(KBC has also provided separate targets per business unit/core country in its detailed PowerPoint presentation at www.kbc.com)*

- **CAGR for total income (2013-2017) ≥ 2.25% (excl. marked-to-market valuations of ALM derivatives)**
- **CAGR for bank-insurance gross income (2013-2017) ≥ 5%**
- **Combined ratio ≤ 94% (by 2017)**
- **Cost/income ratio ≤ 53% (by 2017)**
- **Target common equity ratio (Basel III, fully loaded ,Danish compromise) ≥ 10.50% (2014)**
- **Total capital ratio (fully loaded, Danish compromise) ≥ 17% (by 2017)**
- **NSFR ≥ 105% (2014)**
- **LCR ≥ 105% (2014)**

KBC will focus on sustainable and profitable growth within a solid risk, capital and liquidity framework. Profitability will always take priority over growth or increasing market shares.

Risk management is already fully embedded in KBC's strategy and decision-making process and KBC wishes to secure the independence of the embedded risk framework through closer monitoring by the Group CRO and by reporting to the Board of Directors of each business entity.

The competitive landscape is undergoing rapid and important changes, with new players entering the financial market. At the same time, client needs, behaviour and expectations are changing too. Digital innovation and technological developments offer new opportunities for clients, financial institutions and the way they interact. In recent years, KBC has invested heavily in its various distribution channels, i.e. its bank branches and insurance agencies, client contact/service centres, websites and mobile apps. **KBC wishes to make increasing, efficient and intelligent use of the client data already available to it to better understand**

and fulfil client needs and pro-actively offer better solutions to them. Moreover, the data will be made available in real time to all distribution channels through seamless and dynamic integration of the various channels, which will facilitate more pro-active solutions and thus create superior client satisfaction. To that end, KBC will invest roughly 0.5 billion euros between 2014 and 2020 (around 50% of which will be spent in the first two years).

Because KBC is strongly embedded in its local markets, and clients' needs are defined by their local environment, each core country will make the necessary changes and investments in its own way and at its own pace.

The seamless integration of the distribution channels will create a dynamic and client-driven distribution model, allowing FTE and financial investments to be made in the most optimal way and where clients need it most. It is the client who will ultimately decide when and what channel they wish to use when interacting with KBC. The client is at the centre of what KBC does. Everything starts from their needs. This will be supported by a performance and client-driven corporate culture that will be implemented throughout the group, with the focus on building long-term client bank-insurance relationships and monitoring conducted through the KBC performance diamond, which includes both financial targets (net profit, capital, liquidity) and non-financial targets (clients, staff, society, shareholders).

Going forward, **KBC will also optimise its geographical footprint to become the reference in bank-insurance in each core country. KBC has no plans to expand beyond its current geographical footprint. In its core markets (Belgium, the Czech Republic, Hungary, Slovakia, Bulgaria), it will strengthen its bank-insurance presence through organic growth or through acquisitions, if attractive opportunities arise (and based on clear and strict financial criteria), and strive for market leadership (a top 3 bank and top 4 insurer) by 2020. For Ireland, KBC's first priority is to become profitable from 2016 onwards.** As of then, all available options will be considered (i.e. whether to organically grow a profitable bank, build a captive bank-insurance group or sell a profitable bank).

As far as **capital management** is concerned, KBC has a consistent track record of strengthening its capital and has been able to raise more than 5 billion euros in the last 18 months. Today, KBC boasts strong capital ratios and will continue to optimise its capital structure going forward.

KBC wishes to maintain a total capital ratio of minimum 17% with a minimum CET1 ratio of 10.5%.

As far as the employment of capital is concerned, KBC wants to keep all its options open. It wishes to accelerate repayment of the remaining state aid (plus penalties) by bringing the deadline forward from 2020 to the end of 2017 at the latest. Around one-third of the excess capital that will be available between now and 2017 will be used for this purpose. Roughly one-third of KBC's capital is earmarked for investments in the business (organic growth and potential add-on acquisitions under very strict financial criteria) or for dealing with regulatory and other uncertainties. Another one-third will be used to fund **a dividend payout ratio (including the coupon paid on the state aid and the outstanding Additional Tier-1 instruments) of at least 50% from 2016 onwards. If there is a lack of value-adding investment opportunities, the payout ratio might surpass 50%.**

3. Specific strategic focus and initiatives per business unit

Belgium Business Unit: accessible client-centric solutions, separate 'KBC Brussels' brand and boost for Wallonia

In Belgium, too, new technologies are considered an important means to focus even more on client-centric solutions, the seamless integration of the dense branch network, the upgrading of contact centres to advisory centres, a smart and simple website, mobile apps and ATMs. Moreover, KBC participates in emerging live and online communities where like-minded clients meet and share their experiences. This way, KBC aims to stay close to its clients in Belgium, regardless of time or location.

In this regard, **various initiatives to enhance client centricity** have been launched or are planned, further details of which will be revealed during today's presentations. For example, a **new simplified offering of current account packages (including a charge-free current account)** is being provided to clients as of today to better respond to their current needs, a new responsive and convenient bank-insurance platform (**Touch**) will be launched later this year, and the **Start it @kbc initiative** for people starting up a business has proven to be a success and is growing steadily.

Up until now, the KBC group was active in Brussels under the 'KBC' and 'CBC' brands. In doing so, the group built on the strengths of KBC and CBC in their respective markets of Flanders and Wallonia. However, the decision has been taken to more efficiently exploit the full – but currently untapped – potential of Brussels.

As of 2015, a new separate 'KBC Brussels' brand will be launched, reflecting the specific cosmopolitan character of Brussels and the needs of its population. Retail and SME clients will receive a single, unified bank-insurance product and service offering, existing KBC/CBC branches will be repositioned and innovative new branch formats will be introduced. This new growth strategy includes reinforcing current staff levels with new recruitments.

In Wallonia, CBC – with its autonomous operational and commercial model and strong embeddedness in the local economy – has recorded solid and constant year-on-year gross revenue growth. It also boasts strong solvency and liquidity positions, and has market shares between 10% and 15% in the professional sector, 35% in the agricultural sector and 6% in the retail client sector. Building on these strong fundamentals, CBC wishes to further mine the growth potential in selected market segments in banking and insurance.

As of 2015, CBC will increase its footprint in Wallonia and enhance its availability and service offering. CBC will open eight new bank branches and relocate 10 existing ones. It will start up eight new insurance agencies, create 90 new FTEs at the bank and 14 support FTEs for the insurance business.

Czech Republic Business Unit: from channel-driven to client-driven solutions and simplification to generate cost-efficiency benefits

The Czech Republic Business Unit's ambition is to create value for its clients by moving from a primarily channel-driven to a client-driven solution, based on the creation of an integrated model, which brings together clients, third parties and bank-insurance. New types of non-financial, service-oriented products will be integrated to create superior client satisfaction and provide added value for clients.

On the one hand, ČSOB will increasingly focus on reducing complexity (in products, IT, organisation, bank/distribution network, head office and branding) to generate cost-efficiency benefits. On the other, the business unit will further enhance and accelerate bank-insurance in a number of ways, including introducing an advanced and flexible pricing model, developing combined bank-insurance products, and strengthening the insurance sales force (56 insurance specialists have been hired to work in bank branches).

ČSOB wishes to maintain growth in the areas where it traditionally has been very strong, such as corporate loans (market share of 19%) and mortgages (market share of 30%). On top of that, ČSOB will mine the currently untapped potential in the attractive SME loans market by focusing on sustainable client relationships. In the consumer finance market, too, ČSOB is aiming to increase its current market share of 11%, while observing an acceptable cost of risk.

International Markets Business Unit: a clear focus on hybrid affluent/mass affluent clients

In the International Markets Business Unit, **K&H (Hungary) and ČSOB Slovakia** intend to transform their branch-centric model to a hybrid distribution model.

With an excess of liquidity, K&H plans to further support the Hungarian economy and grow its market shares in all key segments, with continuous improvements in efficiency and profitability. For the bank, client acquisitions and 'share of wallet' campaigns in the retail, SME and corporate segments remain the top priority. For the insurer, growth will primarily be driven by sales through the bank channel.

In Slovakia, business income is planned to increase significantly above market expectations, especially in retail asset classes (home loans, consumer finance, SMEs and leasing).

CIBANK and DZI (Bulgaria) are following the same path as K&H and ČSOB, but with slower dynamics due to a less mature market.

CIBANK has been on a visible growth path (since 2012), focusing on selected client segments within a controlled and robust risk framework. DZI's focus is on operational efficiency and reducing complexity, as well as on providing outstanding client service and growing its client base. The bank-insurance partnership between DZI and CIBANK has grown strongly over the past few years and they plan to extend this partnership by further developing products and distribution channels.

KBC Bank Ireland's main strategic goal is to make the transition from a digitally led mono-liner (mortgage and deposits) bank to a full retail bank, with a complete retail product offering (including current accounts, credit cards, personal loans, consumer finance and asset management products) and a limited bricks-and-mortar presence. By not having the heritage of a large branch network, KBC Bank Ireland can make a fresh start in developing a complete retail product offering through digital channels. KBC Bank Ireland will be KBC's frontrunner in that area.

The multi-platform distribution reach will be digitally led via online and mobile solutions and a contact centre supported by an agile physical presence (hubs, mobile banks and mobile advisers) in key urban areas. The bank, which enjoys a growing brand reputation and represents a unique alternative to traditional Irish banking players, has the ambition to grow strongly in retail mortgages while expanding its overall retail product offering. KBC Bank Ireland will continue to reduce its existing corporate and SME loan portfolio in line with its deleveraging strategy. It has a clear focus on cost control given the significant investment in staff, IT and marketing to implement its retail strategy, and is expected to return to profitability by 2016.

4. KBC's ultimate goal: to create superior client satisfaction

'Today, we are turning another page in the history book of KBC. We have learned our lessons during the worst financial crisis in decades. We have substantially reduced the risk profile of our group and restored its capital position, liquidity and profitability, leaving us among the better players in Europe. We can now fully focus on the future, where we want to be among the best-performing, retail-focused financial institutions in Europe. We will achieve this by strengthening in a very cost efficient way our bank-insurance model for retail, SME and midcap clients in our core markets, by focusing on sustainable and profitable growth within the framework of solid risk, capital and liquidity management and by creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach. By achieving this, KBC will become the reference in bank-insurance in its core markets,' concluded Johan Thijs.

Summary of the financial targets at KBC Group level

	Targets...	by...
CAGR for total income (2013-2017)*	≥ 2.25%	2017
CAGR for bank-insurance gross income (2013-2017)	≥ 5%	2017
C/I ratio	≤ 53%	2017
Combined ratio	≤ 94%	2017
Common equity ratio (Basel III, fully loaded, Danish compromise)	≥10.5%	2014
Total capital ratio (fully loaded, Danish compromise)	≥17%	2017
NSFR	≥105%	2014
LCR	≥105%	2014
Dividend payout ratio	≥50%	2016

Based on adjusted figures

* excluding marked-to-market valuations of ALM derivatives.

NOTE FOR THE EDITORS

All presentations (including photos, video statements, extra background information) at the KBC Group Investor Day are available online (www.kbc.com). The keynote presentations (starting at 9.15 a.m. CET and lasting until approximately 11.30 a.m. CET) can be followed live via webcast at www.kbc.com.

To follow the Investor Day on Twitter, use **#KBCInvestorDay**.

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