


KBC Group
1Q2017 results
Press presentation

Johan Thijs, CEO KBC Group
Rik Scheerlinck, CFO KBC Group

More detailed analyst presentation available at www.kbc.com

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1Q 2017 key takeaways for KBC Group

- **STRONG BUSINESS PERFORMANCE IN 1Q17**

  Excellent net result of 630m EUR in 1Q17, despite the large upfront bank taxes. ROE of 17% in 1Q17
  - Strong 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
  - Lower net interest income and net interest margin q-o-q
  - Sharply higher net fee and commission income q-o-q
  - Slightly lower net gains from financial instruments at fair value and lower net other income, higher realised AFS gains
  - Exceptional combined ratio of 79% in 1Q17. Excellent sales of non-life products, while sales of life insurance products were lower
  - Strict cost management resulted in a cost/income ratio of 52% in 1Q17 adjusted for specific items
  - Very low impairment charges due mainly to Ireland (net release of 50m EUR in 1Q17) and seasonal effects. The impairment guidance for Ireland is updated towards a net release of a range of 120m-160m EUR for FY17

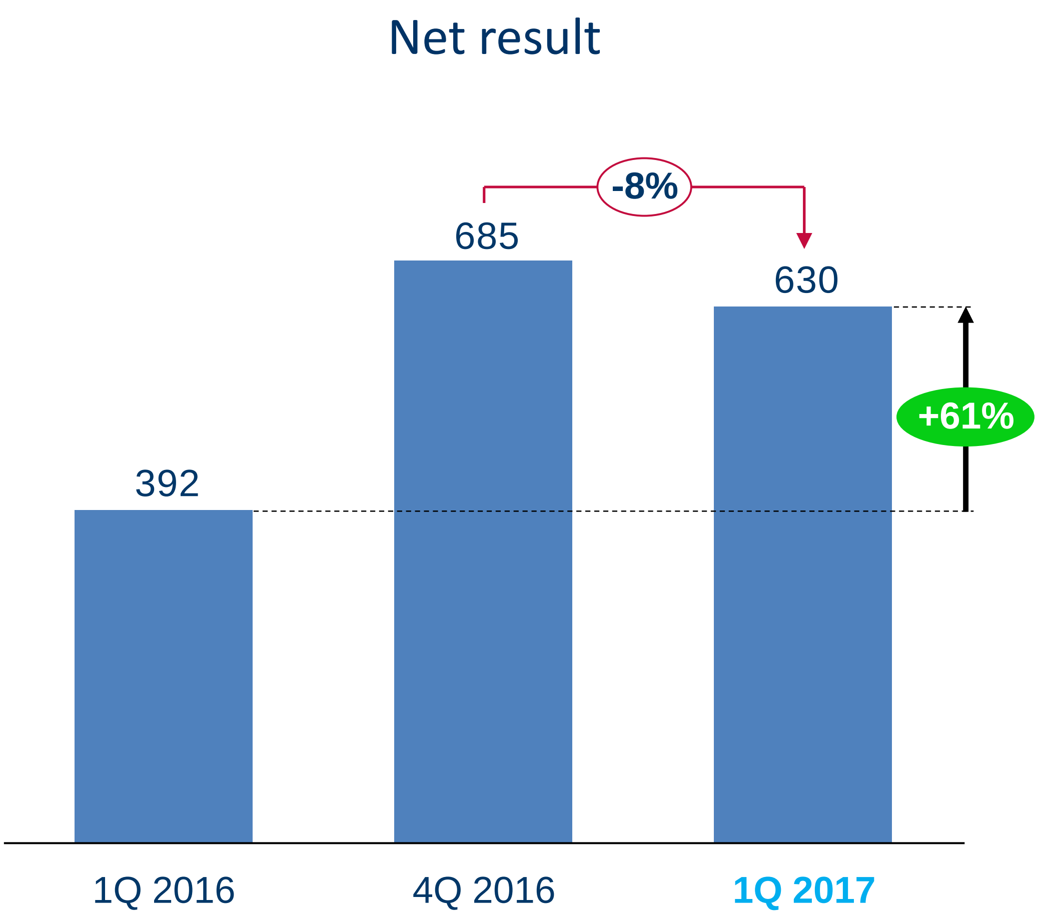
- **SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS**
  - **The B3 common equity ratio based on the Danish Compromise** at end 1Q17 amounted to **15.9% phased-in and 15.7% fully loaded**, which clearly exceeds the minimum capital requirements set by the ECB / NBB of respectively 8.65% and 10.40% for 2017
  - 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 **5.7%** at KBC Group
  - **Continued strong liquidity position** (NSFR at 130% and LCR at 145%) at end 1Q17

- **We will organise a KBC Group investor visit in Dublin on Wednesday 21 June 2017**

KBC Group
Consolidated results
1Q 2017 performance

KBC Group:

Strong business performance in 1Q 2017



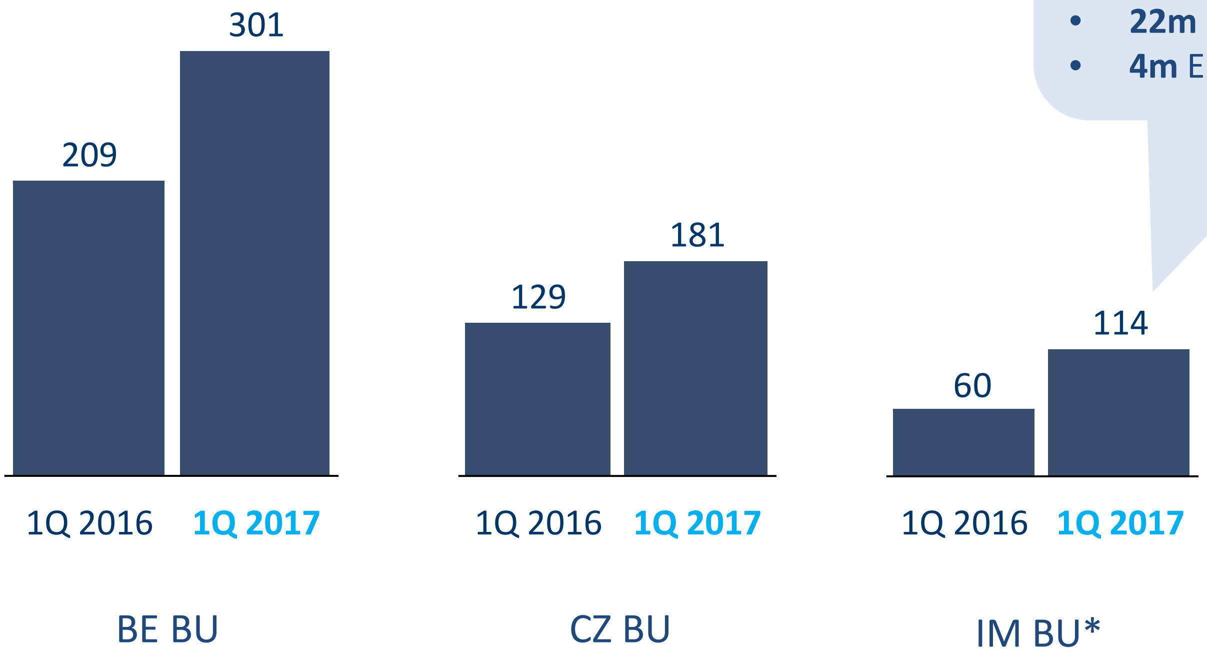
Amounts in millions of EUR

Net result per business unit:

All business units contributed to the positive result

1Q 17 net result breakdown for International Markets:

- **67m** EUR for Ireland
- **20m** EUR for **Hungary**
- **22m** EUR for **Slovakia**
- **4m** EUR for **Bulgaria**



Amounts in millions of EUR

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

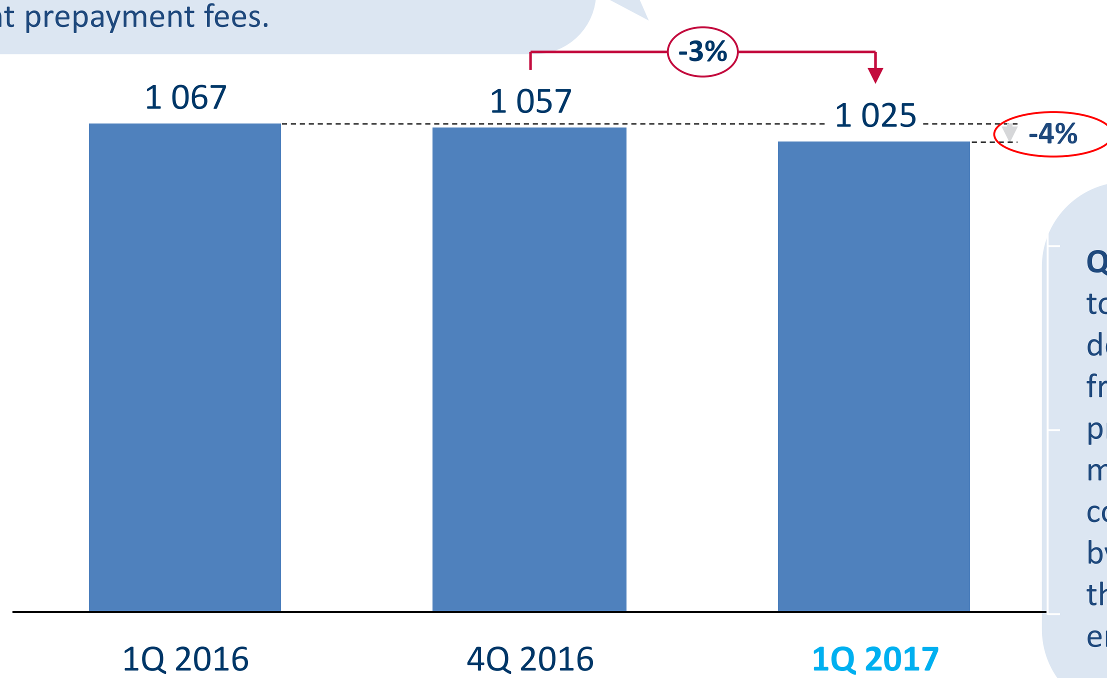
Net interest income:

Lower Net Interest Income (NII) and Net Interest Margin (NIM)

NII down 3% q-o-q (and 4% y-o-y):
(+) lower funding costs, continued volume growth in current accounts and loans and further positive effect of enhanced ALM management.
(-) lower reinvestment yields, more negative NII from dealing room activities, pressure on commercial loan margins in most core countries, lower number of days and slightly lower upfront prepayment fees.

Net Interest Margin

1Q16	4Q16	1Q17
1.96%	1.90%	1.88%



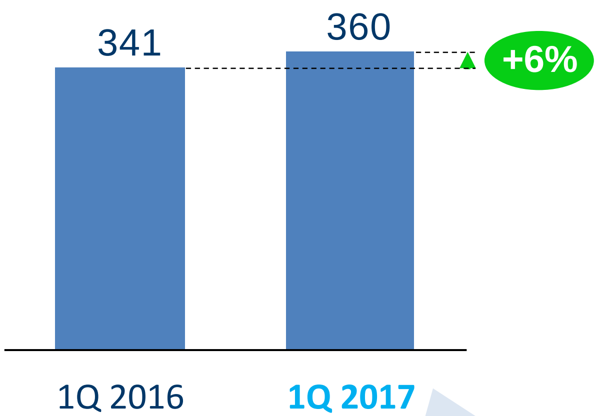
Q-o-q decrease in NIM due to lower reinvestment yields, decline in net interest income from the dealing room and pressure on commercial loan margins in most core countries. Only partly offset by lower funding costs and the further positive effect of enhanced ALM management.

Amounts in millions of EUR

Non-life insurance:

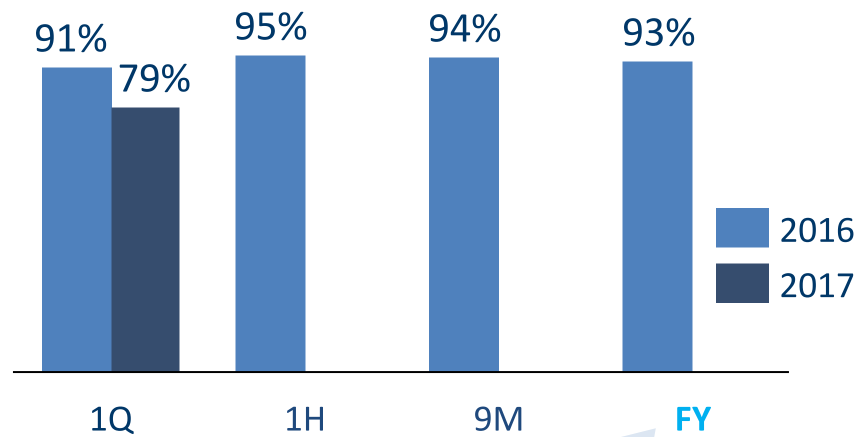
Strong performance for non-life sales, excellent combined ratio

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 and tariff increases

Combined ratio non-life



An **excellent 79%,** an improvement compared with 93% in FY16 due to extremely low technical charges (in all countries, except for the Czech Republic) resulting from mild winter conditions. 1Q16 was negatively impacted by one-off charges due to terrorist attacks in Belgium.

Amounts in millions of EUR

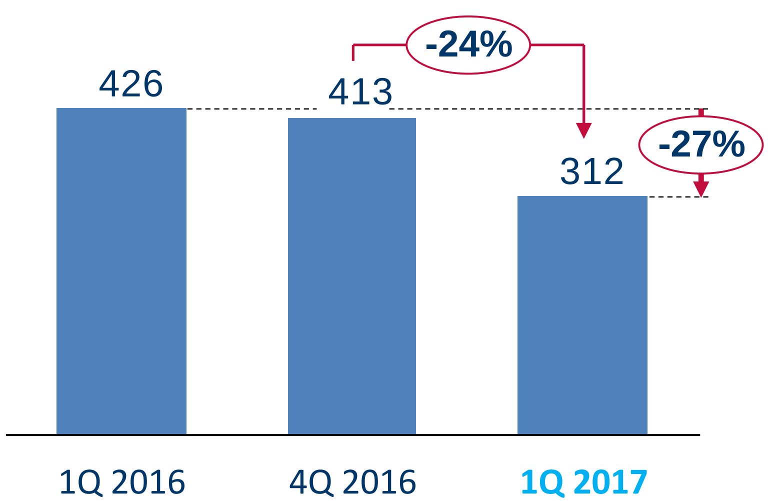
Life insurance:

Premium income down q-o-q

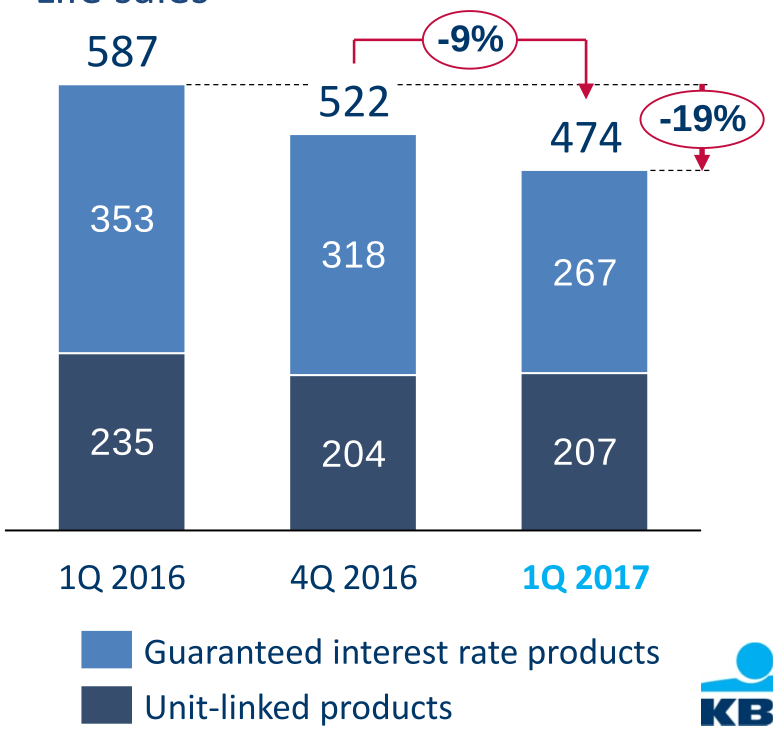
Decreased by 9% q-o-q driven mainly by lower sales of guaranteed interest rate products in Belgium (attributable chiefly to traditionally higher volumes in tax-incentivised pension saving products in 4Q16) and lower sales of unit-linked products in the Czech Republic

Decreased by 19% y-o-y mainly by lower sales of guaranteed interest products in Belgium (driven by reduced guaranteed interest offered) and lower sales of unit-linked products in the Czech Republic

Gross earned premiums Life insurance



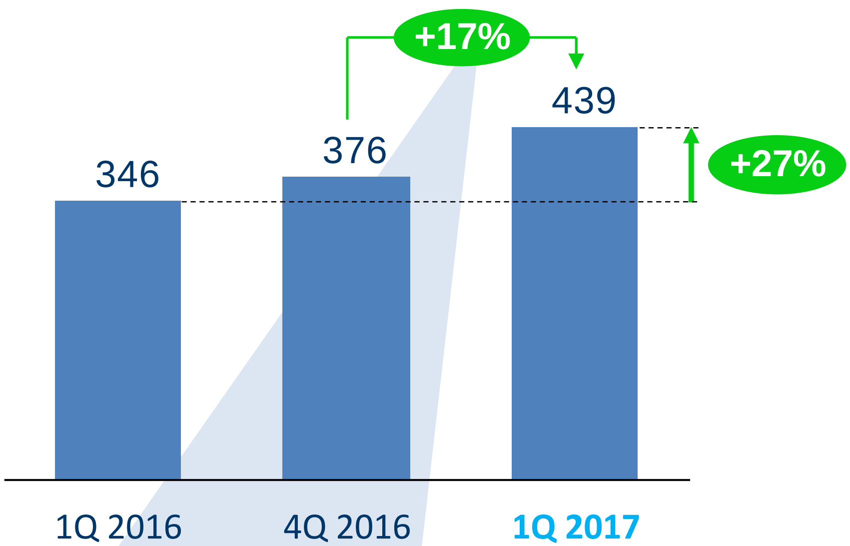
Life sales



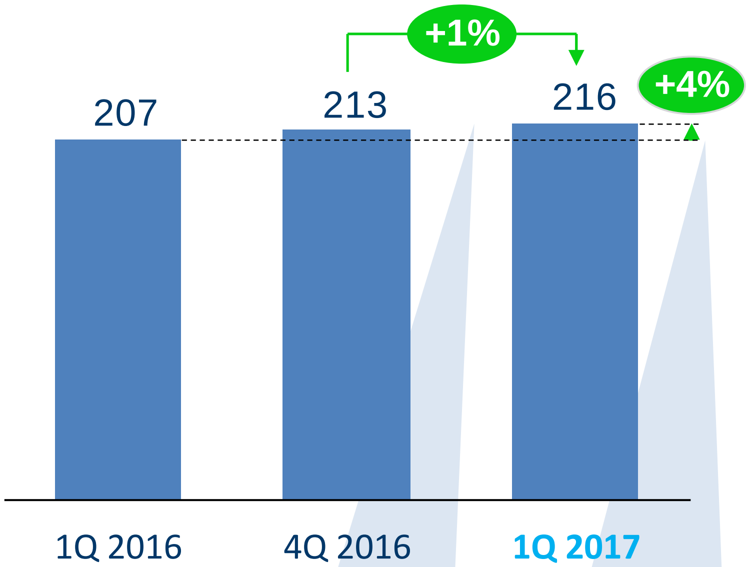
Amounts in millions of EUR

Net fee and commission income:
Higher fee and commission income

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 mainly to a good equity market performance)
- 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

partly offset by:
- lower fees from credit files and bank guarantees (due mainly to less mortgage refinancing's in Belgium & Slovakia and specific event fees in 4Q16)
- slightly lower fees from payment services (seasonal effect)

Up q-o-q owing entirely to a positive price effect.
Increased y-o-y owing to net outflows (-2%) and a positive price effect (+6%)

Amounts in millions of EUR *(left chart)*

Amounts in billions of EUR *(right chart)*

Net gains on financial instruments at fair value:

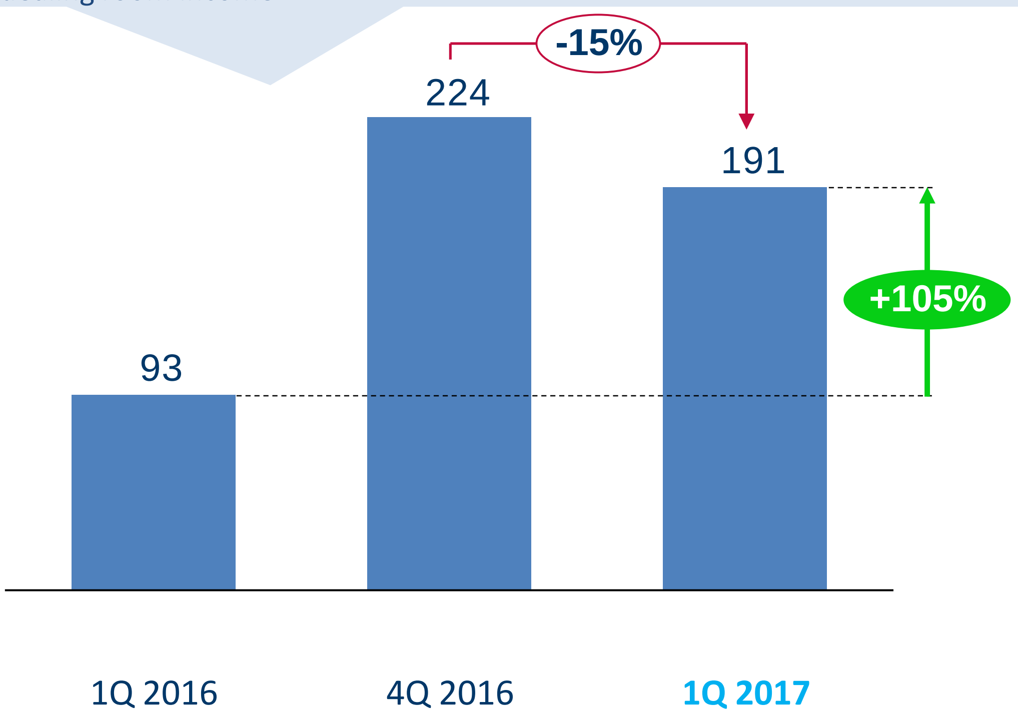
Lower fair value gains q-o-q

Q-o-q decrease attributable to:

- a negative change in ALM derivatives (1m EUR in 1Q17 compared with 59m EUR in 4Q16) due to a negative mark-to-market value of EUR/CZK FX swaps in 1Q17 and higher increase of IRS rates in 4Q16.

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 derivatives portfolio)
- better dealing room income



Amounts in millions of EUR

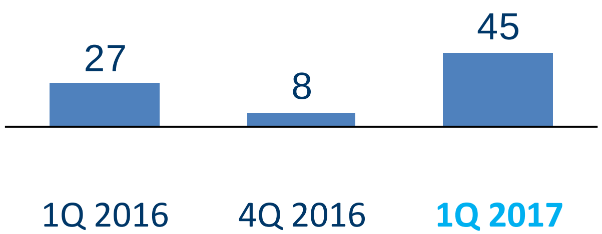
The other net income drivers:

Higher gains realised on AFS assets and lower other net income

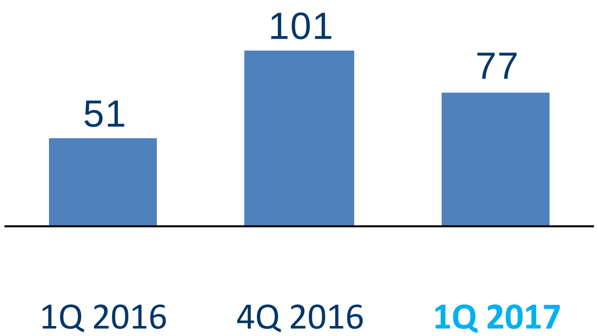
Q-o-q, increase in gains on both on bonds and shares

Other net income higher than the normal run rate of around 50m EUR thanks to the settlement of an old legal file

Gains realised on AFS assets



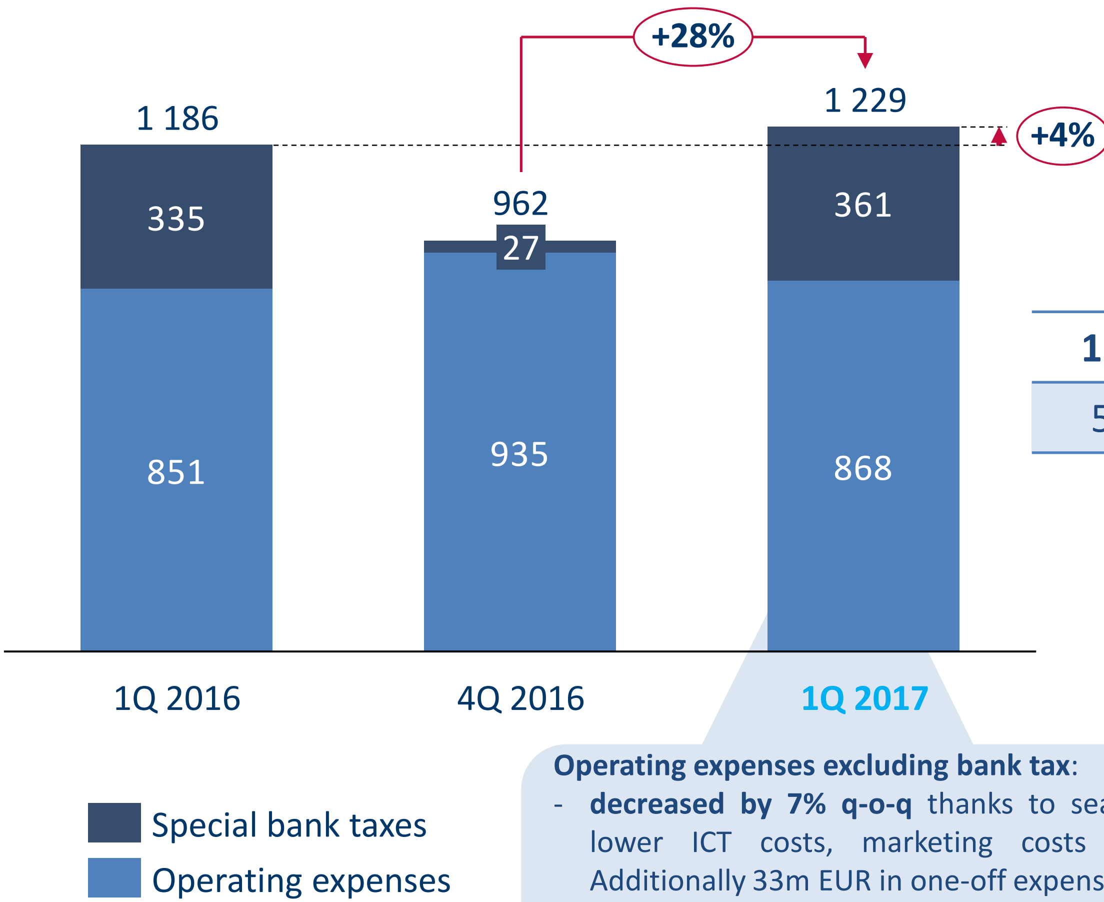
Other net income



Amounts in millions of EUR

Operating expenses:

Expenses up q-o-q, due entirely to higher bank taxes, but good cost/income ratio



Quarterly C/I ratio*

1Q16	4Q16	1Q17
57%	57%	52%

Operating expenses excluding bank tax:

- **decreased by 7% q-o-q** thanks to seasonal effects such as traditionally lower ICT costs, marketing costs and professional fee expenses. Additionally 33m EUR in one-off expenses for early retirement in 4Q16
- **increased by 2% y-o-y** mainly due to higher staff expenses (higher pension costs in Belgium and wage drift in most countries), higher ICT costs, higher professional fee expenses and higher depreciation and amortization costs

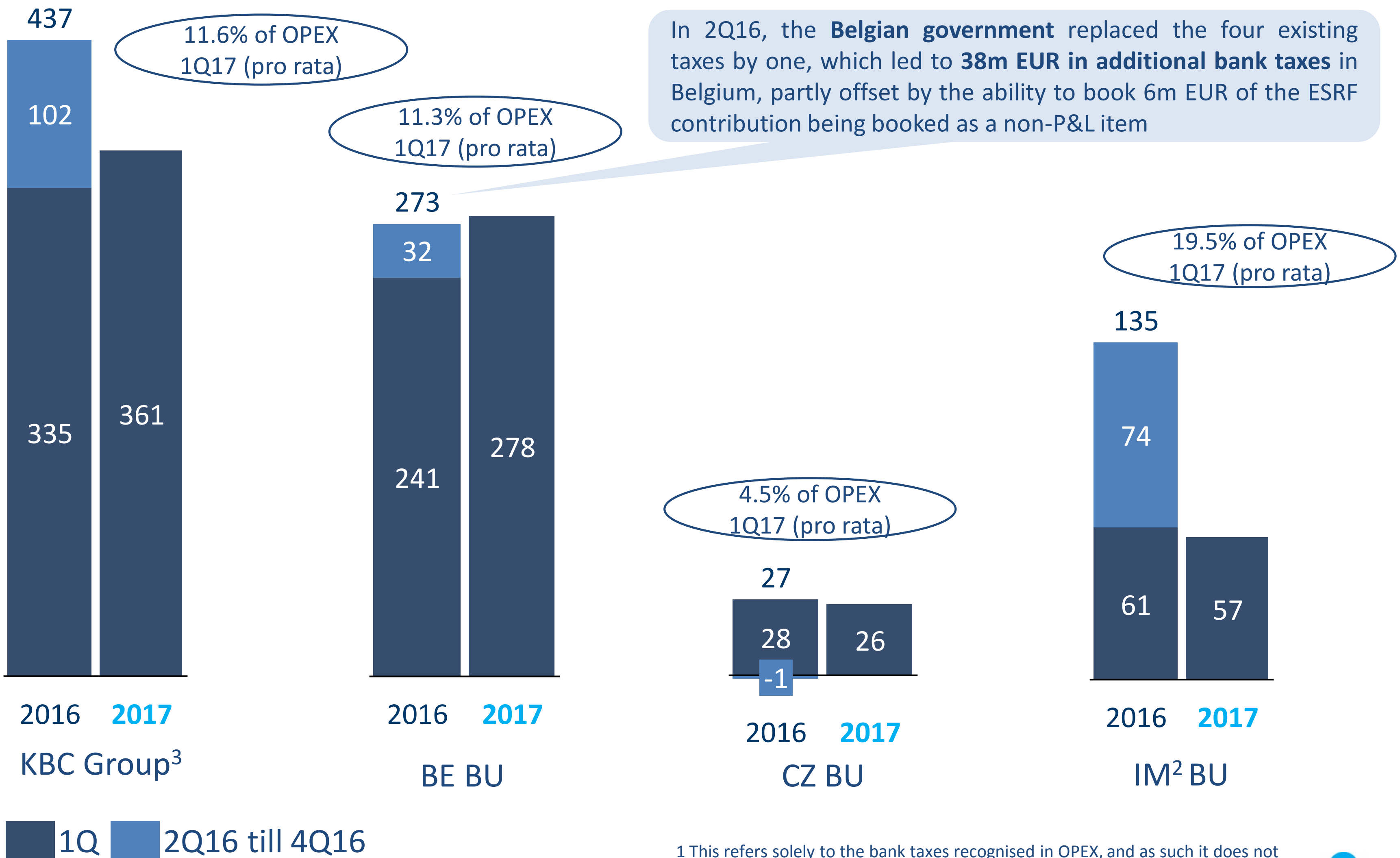
* adjusted for specific items: MtM ALM derivatives, equally spread special bank taxes, etc.

Amounts in millions of EUR

Special bank taxes[1]:

Represent 11.6% of operational expenses in 1Q17 (pro rata)

In 2Q16, the **Belgian government** replaced the four existing taxes by one, which led to **38m EUR in additional bank taxes** in Belgium, partly offset by the ability to book 6m EUR of the ESRF contribution being booked as a non-P&L item



Amounts in millions of EUR

1 This refers solely to the bank taxes recognised in OPEX, and as such it 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 the Group Centre

Asset impairments:

Very low asset impairment and excellent credit cost ratio

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

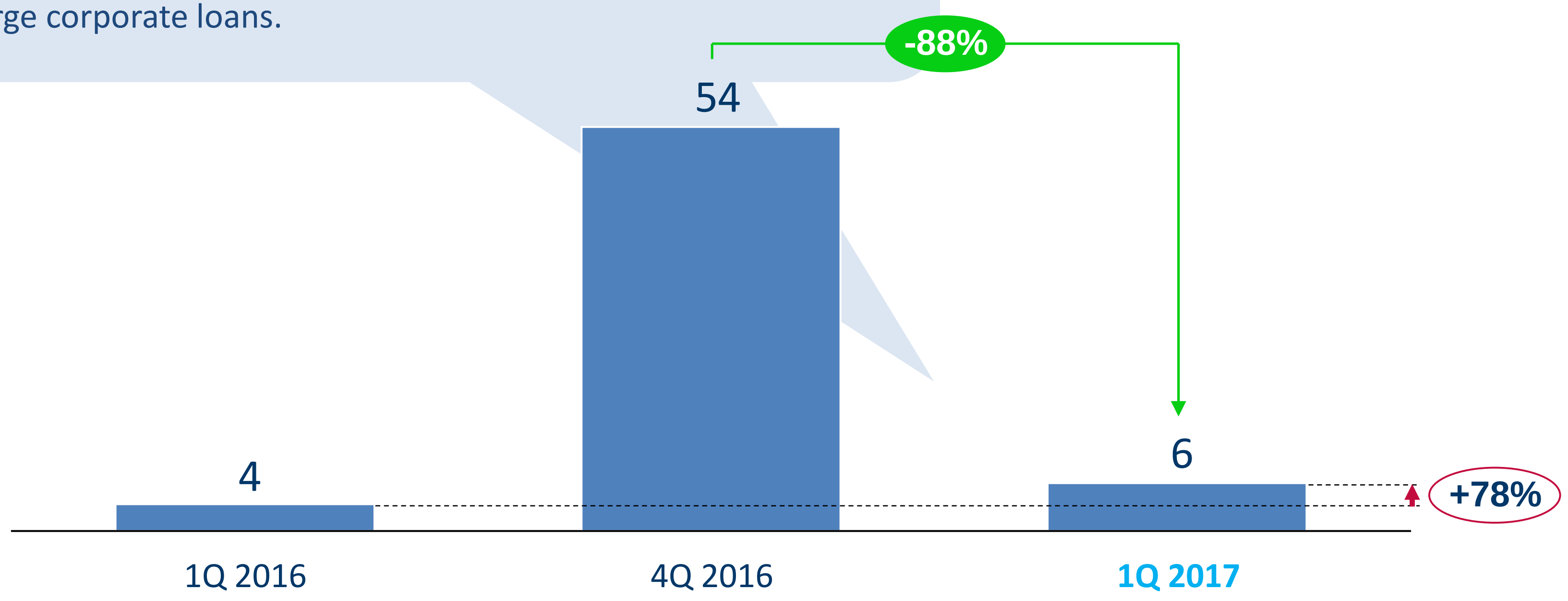
Impairments on loans and receivables

The **q-o-q decrease** in loan loss provisions was **attributable mainly to:**

- net loan loss provision releases of 50m EUR in Ireland (compared with 12m EUR in 4Q16)
- despite relatively high gross impairments charges in Belgium due to two large corporate loans.

Credit cost ratio (YTD)

1Q16	**4Q16**	**1Q17**
0.01%	0.09%	0.02%



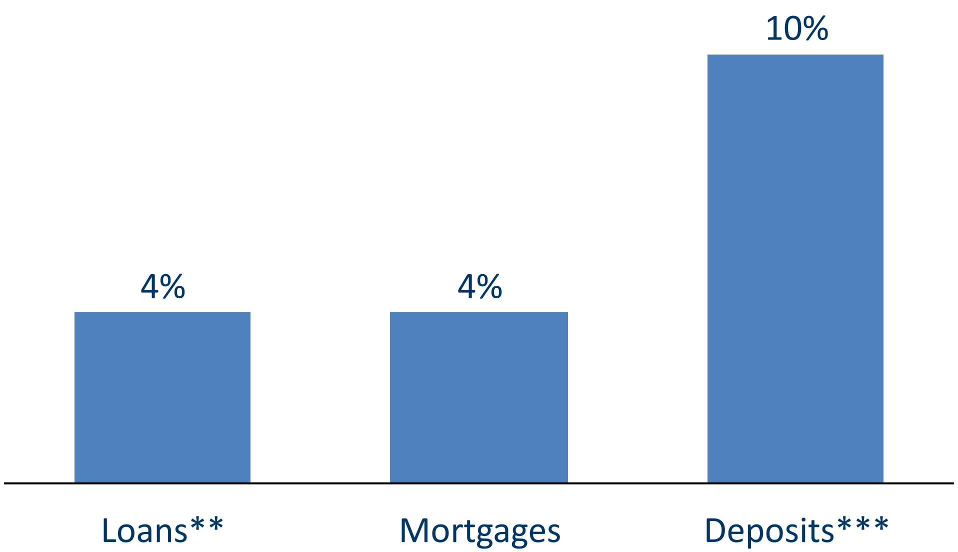
Amounts in millions of EUR

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

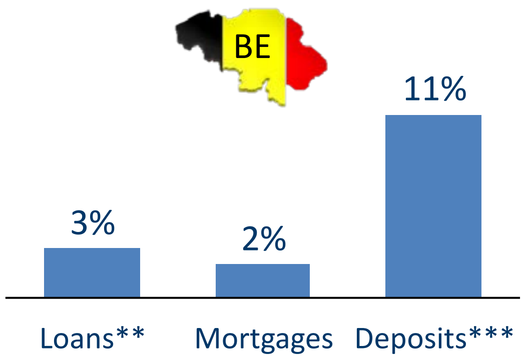


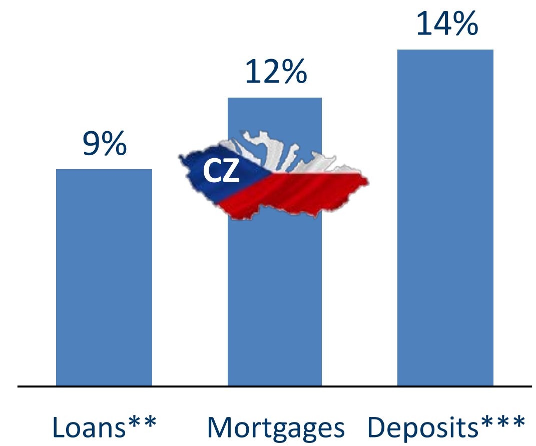
* Volume growth making abstraction of Fx effects and divestments/acquisitions
** Loans to customers, excluding reverse repos (and bonds)
*** Customer deposits, including debt certificates but excluding repos.

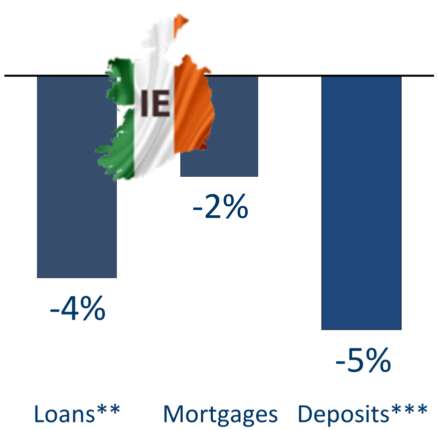
Balance sheet (2/2):

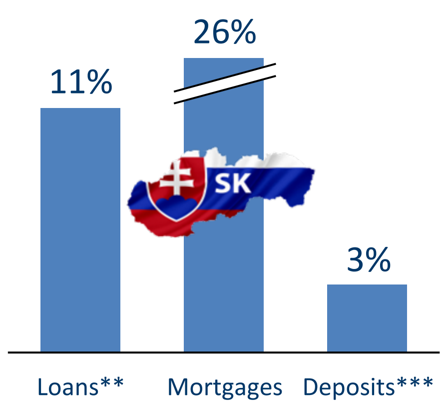
Loans and deposits continue to grow in most core countries

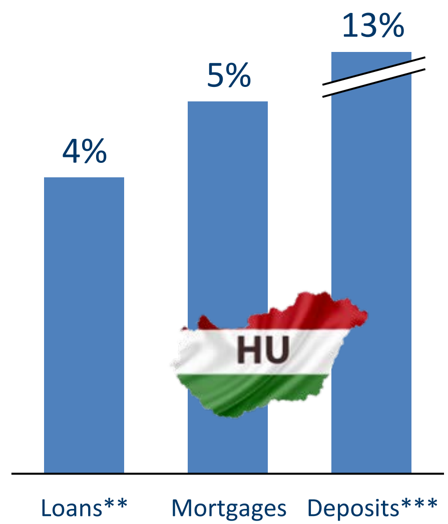
Y-O-Y ORGANIC* VOLUME GROWTH FOR MAIN ENTITIES

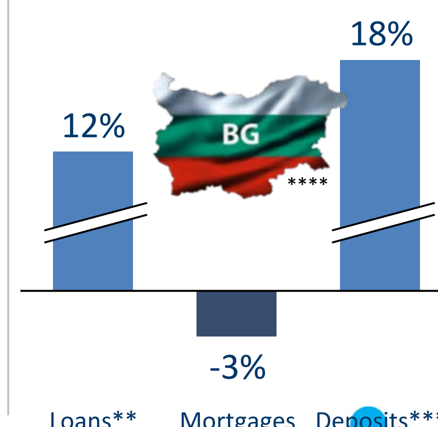










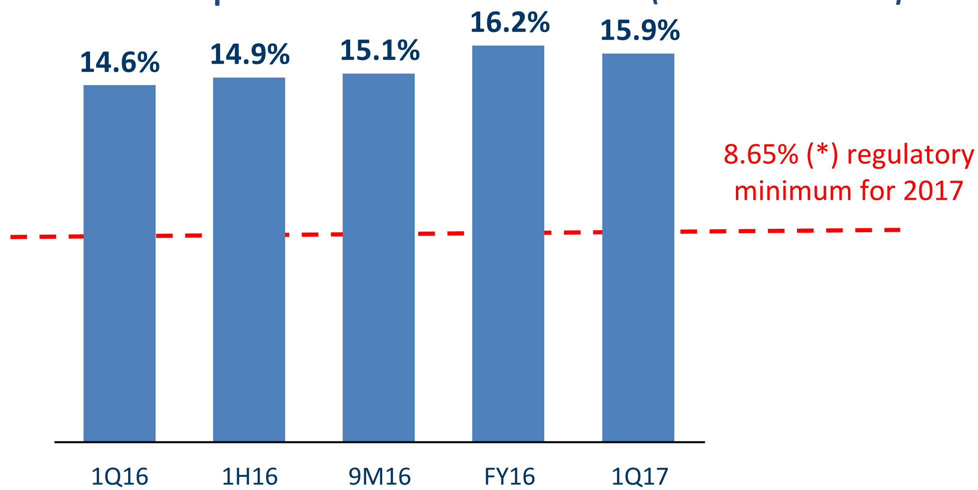


* Volume growth disregarding FX effects and divestments/acquisitions
** Loans to customers including reverse repos (and bonds)
*** Customer deposits, including debt certificates and including repos
****Mortgages in Bulgaria: new business +2% q-o-q and +20% y-o-y, while legacy -8% q-o-q and -39% y-o-y

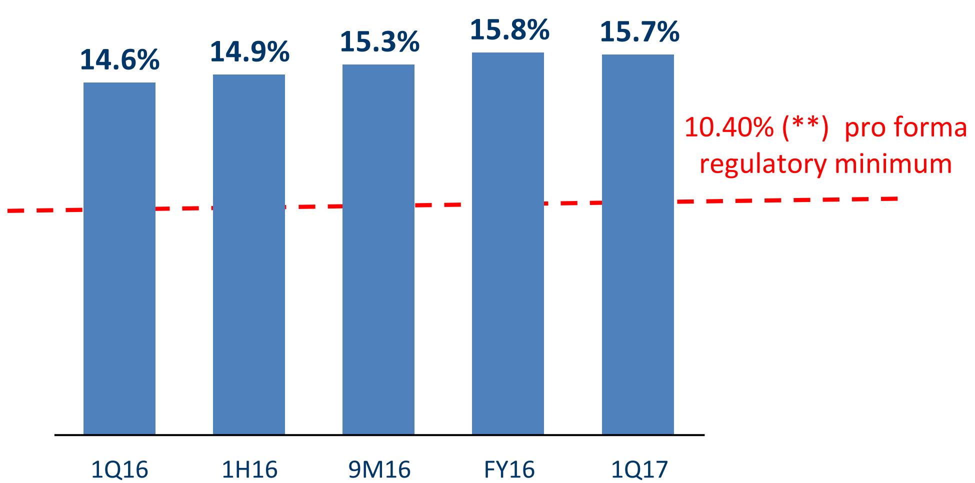
Capital and liquidity ratios (1/2):
Capital ratio resides comfortably above regulatory minimum

KBC Group Basel 3 CET1 ratio *(Danish Compromise)*

Phased-in



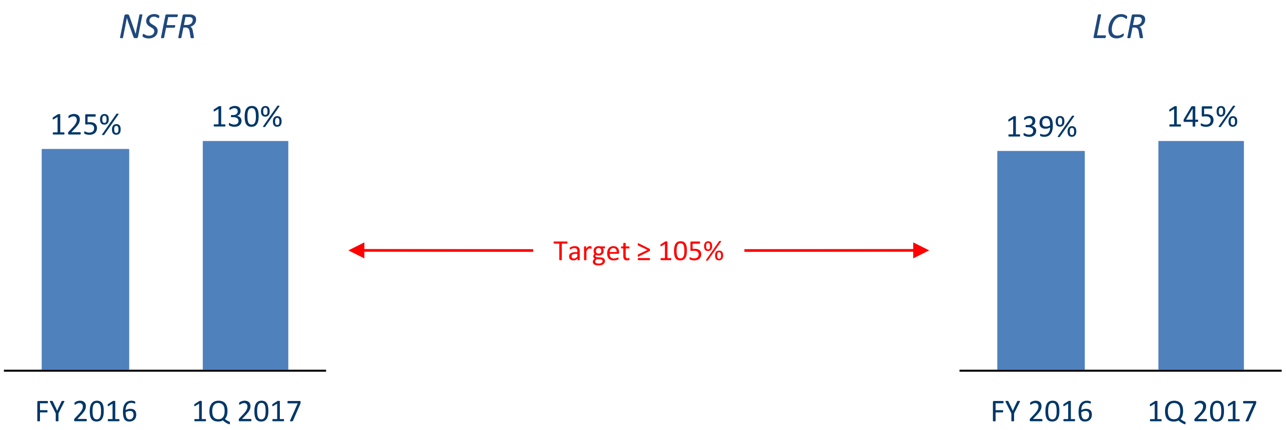
Fully loaded



* Systematic buffer announced by the ECB: phased-in CET 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):
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 could be relatively volatile in future due to the way it is calculated, as month-to-month changes in the difference between inflows and outflows can cause significant fluctuations in the ratio even if liquid assets remain stable

KBC Group 1Q 2017 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

- ✓ Management guides for:
  - solid returns for all Business Units
  - loan impairments for Ireland towards a release of 120m-160m EUR range for FY17

- ✓ Besides the Belgium and the Czech Republic Business Units, the International Markets Business Unit to become 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. The deal is expected to be closed in 2Q17

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