Press Release

Outside trading hours - Regulated information*

Dublin/Brussels, 21 June 2017 (8 a.m. CEST)

Today's KBC investor visit to Ireland:

- **Updated KBC Group strategy: '*More of the same, but differently*'.**
- **Updated Capital deployment plan and financial guidance 2020.**
- **KBC Bank Ireland Digital First Customer Centric strategy.**

Today, Johan Thijs, KBC Group CEO, the other members of the KBC Group Executive Committee and the senior management of KBC Bank Ireland will welcome the analyst and investment community and the media for an onsite visit in Dublin.

KBC will give an update of KBC Group's strategy, capital deployment plan and financial guidance up to year-end 2020.

KBC will also demonstrate how digital transformation has taken place in the different core markets of the group and what initiatives are in place and planned. KBC intends to invest a further 1.5 billion euros in digital transformation between 2017 and year-end 2020.

Lastly, KBC Bank Ireland will detail how it will implement its 'Digital First' customer-centric bank strategy as announced on 9 February 2017, when KBC defined Ireland as a core market.

1. *KBC Group's strategy: More of the same, but differently.*
KBC aims to be among the best performing financial institutions in Europe and the reference in bank-insurance in its core markets.

KBC Group's strategy beyond 2017 continues to build on the existing fundamentals, a business model which has proven to be very successful and which is supported by the strong PEARL company culture. KBC will focus on:

- strengthening in a highly cost-efficient way the integrated bank-insurance business model for retail, SME, private banking and mid-cap clients in its core markets (Belgium, Czech Republic, Slovakia, Hungary, Bulgaria, Ireland);
- 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 be among the best performing financial institutions in Europe.

Johan Thijs, KBC Group CEO explains the plans for the coming years: '*In the coming three years, KBC wishes to continue to provide its clients with a unique bank-insurance experience. Also in the digital world we provide an integrated response to our client's banking and insurance needs, in offering the benefit of a comprehensive one-stop financial service with a wider, complementary and optimised range of products.*

Our geographical footprint (six core countries of Belgium, Czech Republic, Slovakia, Hungary, Bulgaria and Ireland) and current client segments will remain unchanged. If available, we will make selective add-on acquisitions in our core markets taking into account very strict financial and strategic criteria.

As we find ourselves in an ever changing environment and are faced with changing client behaviour and expectations, changing technology and digitalisation, a challenging macroeconomic environment, increasing competition, etc., ***we will fundamentally change the way we implement this strategy.*** *So,* ***it will be more of the same, but differently.***

A diversified income basis becomes more and more important. Therefore we will increase income generation through fee business and insurance business (in addition to interest income). We will continue to build our non-life and risk/life insurance business, boost asset management in core countries (especially outside Belgium) and broaden our 'one-stop shop' offering to our clients via partnerships with fintechs or even competitors and also offer businesses related to bank-insurance (e.g., advisory services, etc.).

Going forward, digitalising the back-end will be as important as front-end digitalisation, in which we have invested significantly in the past years. Hence, client-centricity will be further fine-tuned into 'think client, but design for a digital world'. Clients will continue to choose the channel of their choice: physical branch or agency, smartphone, website, contact centre (KBC Live), apps. The human interface will still play a crucial role but will be augmented by digital capabilities, such as face-to-face underpinned by robo-advice, and chatbots like in the KBC K'Ching app in Belgium. Clients will drive the pace of action and change. Technological development will be the driver and enabler.

This approach requires further internal simplification (processes, systems, products, etc.) to remain a safe and trusted partner for our clients who are looking for convenience, ease of use, zero effort, here and now, anywhere and anytime. Therefore we will further increase the efficiency and effectiveness of our processes and data management to offer our clients a convenient and pleasant experience in a fast and decisive way.'

Erik Luts, KBC Group Chief Innovation Officer adds*: 'We are setting up an open architecture IT package as the core banking system for our International Markets Business Unit, to prepare our applications to engage with fintechs and other value chain players. We are making sure our systems are ready to pick up digital change when it occurs, and increasing synergy throughout the KBC group. Together with the innovation leaders in each core country, we are making sure we share ideas and copy/paste applications as much as possible throughout the group, thus creating further synergies and leveraging the available talent, entrepreneurship and resources. We intend to invest a further 1.5 billion euros group-wide in digital transformation between 2017 and year-end 2020.'*

Participants to the onsite visit will also experience demonstrations of a brand new mobile app in Ireland with a new customer onboarding process, reducing the steps the customer has to take from 26 to only 5 and totally re-imagining the customer journey. They will see how clients in Belgium can obtain both a home loan and a home insurance, without even having to leave the comfort of their home, making use of KBC's real-time omni-channel offer. They will see how DZI Insurance in Bulgaria is currently making active use of drones to assess crop claims in agriculture. This professional solution provides customers with a much faster and more objective and accurate assessment of the damage. Drones can also be used to assess the risk of large or complex properties such as factories, tall buildings, dangerous places (e.g., a conservatory after a natural disaster) and large areas (after floods).

In a separate **Innovation Zone** KBC is also presenting a number of client-centric innovative solutions, such as K'Ching, the mobile banking app for youngsters in Belgium (with an interactive chatbot using AI/IBM's Watson Conversation), ČSOB's Investment Platform that allows Czech clients and bankers to trade all major investment instruments (funds, bonds and investment certificates) online and on the go, the unique invoice scanner in Slovakia (to automatically convert invoices into payment orders), Mobile Token (authentication and authorisation) in Hungary, a new customer onboarding process in Ireland, and drones in insurance claims handling in Bulgaria. ***More information on each innovation can be found in the 'Innovation' corner on www.kbc.com.***

2. KBC's updated capital deployment plan and financial guidance up to year-end 2020.

As far as **capital management** is concerned, KBC has a consistent track record of strengthening its capital. Today, KBC boasts strong capital ratios and it will continue to optimise its capital structure going forward.
KBC has translated its updated strategy into its capital deployment plan and updated guidance on certain financial parameters and indicators (*see table below*).
KBC wishes to remain one of the better capitalised financial institutions in Europe. KBC 's capital policy has the minimum capital requirements set by the ECB and NBB as an absolute minimum. These minimum capital requirements may change over time.

Rik Scheerlinck, KBC Group's newly appointed CFO explains: *'We are starting from a strong capital position with a fully loaded common equity ratio of 15.7% based on the Danish Compromise at the end of the first quarter of this year. Even after taking into account the limited impact of -54bps of the UBB/Interlease acquisition in Bulgaria (which has been closed mid-June), our fully loaded Basel III CET1 ratio still clearly exceeds the minimum capital requirements of 10.40% set by the ECB and NBB.*
We aim to be one of the better capitalised financial institutions in Europe. By way of comparison: the median fully loaded Basel III CET1 ratio for a peer group of European banks active in retail, SME and corporate client segments amounted to 13.6% at the end of 2016.
There is still a lot of uncertainty regarding the expected impact of Basel IV and its timeline for implementation. Major uncertainties relate to the calibration of the floor, the level of granularity on which it should be applied, and the calculation characteristics of the new standardised formulas for the different risk types and exposures. Based on internal benchmarking (using the recently rumoured 75% aggregate output floor), Basel IV will impact KBC relatively more than the sector average. Therefore, we are factoring in an additional impact versus our peers of up to 1% on our CET1 ratio. This can be explained by KBC's high use of risk sensitive internal models for credit risk and our low risk portfolios. At KBC we use the Internal Ratings Based (IRB) method for almost all our credit risk weighted assets (94%). IRB is our preferred approach as it presents a more precise measure of credit risk than the standardised method, but internal models typically lead to lower risk weights for banks with low risk portfolios such as KBC, such as retail (including mortgage) exposures in Belgium. Therefore, we are more vulnerable than our peers if Basel IV would impose (high) floors on risk weighted assets based on the revised standardised approaches.

Johan Thijs continues *: 'KBC aims to be one of the better capitalised financial institutions in Europe. Therefore as a starting position, we assess each year the CET1 ratios of a peer group of European banks active in the retail, SME, and corporate client segments and we position ourselves on the fully loaded median CET1 ratio of the peer group (i.e. 13.6% fully loaded). Based on internal benchmarking, KBC will be impacted relatively more than the sector average by Basel IV. Therefore, we are factoring in an impact of an additional 1% CET1.We summarize this capital policy in our **'Own Capital Target',** which currently amounts to 14.6% CET1. On top of this KBC wants to keep a flexible additional buffer of up to 2% CET1 for potential add-on mergers and acquisitions in our core markets. Any M&A opportunity will be assessed subject to very strict financial and strategic criteria. This buffer comes on top of the 'Own Capital Target' of KBC Group (14.6%), and all together forms the **Reference Capital Position**, which currently amounts to 16.6%.'*

Johan Thijs further elaborates on the capital distribution to shareholders: ***'We reconfirm our payout ratio policy (i.e. dividend + coupon paid on the outstanding Additional Tier 1 instruments) of at least 50% of consolidated profit, including an annual interim dividend of 1 euro per share paid in November of each accounting year as an advance on the total dividend. On top of the payout ratio of 50% of consolidated profit, each year the Board of Directors will take a decision, at its discretion, on the distribution of the capital above the Reference Capital Position**.'*

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

Johan Thijs concludes*: 'Today, we are turning yet another important page in the history book of KBC. Our presence here in Ireland today is testimony to our commitment to embrace the future and its challenges. KBC Bank Ireland is a digital frontrunner for our group, in a market where consumers are among the most digitally savvy and open to new ways of banking. Gradually but decisively we are preparing and making sure our group is ready to follow the pace of technology advancement and fully grasp the opportunities it has to offer. But more importantly we are making sure we follow the pace of change and expectations of our clients.*
Our ambition is to remain one of the better capitalised financial institutions in Europe, able to fully play its role in society. Our 43 000 staff group-wide are fully focused on creating superior client satisfaction. This will ensure sustainable and profitable growth to the benefit of all our stakeholders. It will allow us to play our role in society and help our clients realise their dreams and projects'.

Summary of the new financial guidance at KBC Group level

	GUIDANCE	by…
CAGR for total income (2016-2020)[1]	≥ 2.25%	2020
C/I ratio banking excl. bank tax	≤ 47%	2020
C/I ratio banking incl. bank tax	≤ 54%	2020
Combined ratio	≤ 94%	2020
Dividend payout ratio	≥ 50%	As of now
	REGULATORY REQUIREMENTS	
Common equity ratio[2] excl. P2G	≥ 10.40%	2019
Common equity ratio[2] incl. P2G	≥ 11.40%	2019
MREL ratio[3]	≥ 26.25%	2020
NSFR	≥100%	As of now
LCR	≥100%	As of now

1 Excluding marked-to-market valuations of ALM derivatives.
2 Fully loaded, Danish compromise. P2G stands for Pillar 2 Guidance.
3 The SRB has not formally communicated any MREL target at this point in time (expected by the end of 2017). However, an indicative figure is put forward based on the mechanical approach as published by the SRB on 28 November 2016. Note that KBC intends to fill in the AT1 and T2 buckets of respectively 1.5% and 2.0% at any time.

4. KBC Bank Ireland, differentiated customer offering

KBC Bank Ireland's main strategic goal since 2013 was to make the significant transition from a mono-liner (mortgage and deposits) bank to a digitally-led 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. KBC Bank Ireland did not have the heritage of a large branch network, and therefore was able to make a fresh start in developing a complete retail product offering through mainly digital channels. KBC Bank Ireland is the KBC group's frontrunner in that area.

The multi-platform distribution reach is 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 enjoys a growing brand reputation and represents a unique alternative to traditional Irish banking players. KBC Bank Ireland has grown strongly in retail mortgages while expanding its overall retail product offering. KBC Bank Ireland also has continued to reduce its existing corporate loan portfolio in line with its deleveraging strategy. It has a clear focus on cost control to (partly) offset the significant investment in staff, IT and marketing to implement its retail strategy. As a result, KBC Bank Ireland successfully returned to profitability in 2015, a year earlier than expected and is now ready to embrace the future. Building on its success in the retail market, **later this year KBC Bank Ireland will launch an appealing proposition for the micro SME segment.**

Today Wim Verbraeken, KBC Bank Ireland CEO will explain in more detail KBC Bank Ireland's attractive offering to the Irish consumers: *'We bring a new way of **personalised** banking to consumers which offers a seamless integration between digital and physical channels, with **immediate** fulfilment, at the **time and place** of the customer's choosing.*
We are already being recognised by consumers as being different and we are winning awards for our products, digital offering and distinctive marketing approach. We feel confident that we will be able to deliver and differentiate ourselves from the competition.
First of all, our core banking platform offers us a single view of the customer. We only have limited legacy systems and light physical presence. Moreover we have proven to be an agile organisation, using a non-conventional approach. And most importantly, we can leverage our digital capability through the KBC group.
We will stay ahead because our investment in open architecture is a key enabler to benefit from the API economy, it allows us to co-create and collaborate with customers and partner also with fintechs (as we have for instance already done for IDScan and Booking Bug). In addition, the KBC group collaboration, support and synergies give us an enormous advantage.'

- **Instant** will mean**:** Immediate opening and activation of accounts; Instant digital card and access to funds; **Instant mortgage decisions (3 hours), loan decision (1 hour) and purchase of mutual funds;** Digital documentation.
- **Accessible** will mean: Always on/available; Mobile First; **Contact centre open 24/7 from now onwards**; Web chat/video chat via mobile.
- **Proactive** will mean Personalised, proactive communications with customers – right time, right place with the right product; Complete customer solutions.

Today, 21 June, the first new customer differentiator is being shared, i.e. the mobile app with new customer onboarding process, reducing the steps the customer has to take from 26 to only 5 and totally re-imagining the customer journey.

Wim Verbraeken concludes: *'Today already we see positive results of our strategic choices. Our brand is perceived as "different and dynamic", "setting the trends" (Ignite Brand Tracker). We were the first to market on a number of digital differentiators: Android Pay, Apple Pay, 360° virtual property viewing. The total number of customers has grown consistently over the last years (from 154 000 in 2013 to 249 000 today). They clearly appreciate what we are doing. Our brand awareness jumped from 51% in 2013 to 70% in 2016. We are increasingly getting external recognition through different awards. We are clearly moving in the right direction and have set ourselves a number of ambitious targets which we feel confident we will achieve by end 2020.'*

KBC Bank Ireland	**End 2020 guidance**	**2016**
Customer numbers	425 000	239 000
Product holdings per customer	2.20	1.60
Legacy bank % pre provision profits	37%	94%
New bank % pre provision profits (new bank includes all new business written from 1 January 2014)	63%	6%
Cost to income ratio (incl. bank tax)	<60%	
CAGR revenue (2016-2020)	>7%	

NOTE FOR THE EDITORS

All presentations (including photos, videos, extra background information) at KBC Group's investor visit in Ireland are available online (www.kbc.com). The keynote presentations (starting at 11 a.m. CEST and lasting until approximately 1 p.m. CEST) can be followed live via webcast at www.kbc.com.

KBC also presents a number of client-centric innovative solutions today. More information on each innovation can be found in **the 'Innovation' corner on www.kbc.com**.

To follow the Investor Event on Twitter, use ***#KBCInvestor2017.***

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