

KBC Group

Media presentation

Acquisition of UBB and Interlease in Bulgaria

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Executive Summary

1 Transaction summary: KBC Bank NV has agreed to acquire 99.9% of United Bulgarian Bank (UBB) and 100.0% of Interlease from NBG for a total consideration of 610m EUR, paid in cash

2 Strong financial rationale, EPS accretive from year two onwards, whereby **purchase price** represents a 1.10x multiple of the 2016e Tangible Book Value of the target and a 1.29x implied multiple of the 2016e Tangible Book Value adjusted for 81m EUR post closing and loan specific negative Net Asset Value Adjustments.

Leveraging on the combined entity & KBC expertise we see benefits from **synergies** quickly ramping up from ~8m EUR in 2017 to ~17m EUR in 2020 and reaching ~20m EUR in 2023 (pre-tax numbers)

3 Indisputable strategic rationale: reaching critical market mass and operating size (#3 in banking) will allow KBC to benefit from the underpenetrated Bulgarian financial services market and strong macroeconomic fundamentals to become the #1 financial group in Bulgaria, one of its core markets

4 Capital Impact on KBC Group's CET1 (3Q16: 15.3%) will be limited (ca. -54bps)

5 KBC Group Dividend Policy to remain unchanged (at least 50% pay-out ratio including interim dividend and AT1 coupon)

6 Transaction is subject to relevant regulatory approvals and **expected to close in 2Q 2017**

Agenda

1

Transaction overview

2

Strategic rationale

3

Financial impact

4

Summary

Transaction highlights

Transaction Overview

- KBC Bank NV has agreed to acquire 99.9% of United Bulgarian Bank (UBB) and 100.0% of Interlease from NBG (together the “Target”) for a total consideration of 610m EUR (the “Transaction”)
- The Purchase Price represents a 1.10x multiple of the 2016e Tangible Book value of the Target and a 1.29x implied multiple of the 2016e Tangible Book value adjusted for the 81m EUR negative Net Asset Value Adjustments¹
- The acquisition price will be paid in cash
- Transaction is subject to the relevant regulatory approvals and expected to close in 2Q 2017

Strategic Rationale

- Creation of the #1 bank-insurer (#3 in banking) in one of KBC Group’s core markets with double digit market shares in banking, leasing, life and non-life insurance
- Substantial value creation for shareholders through synergies which are expected to reach ~ 8m EUR in 2017 quickly ramping up to ~ 17m EUR in 2020 and reaching ~20m EUR by 2023 (pre-tax numbers)
- United Bulgarian Bank is the 4th largest bank in Bulgaria with critical mass in both retail and corporate segment, and strong and consistent track-record of strong revenues, which we can restore under the KBC flag.
- Interlease is the 3rd largest leasing provider in Bulgaria with significant market shares across all major asset classes
- Transaction represents an in-market combination with sound strategic and financial rationale in a growing, underpenetrated banking market underpinned by strong economic fundamentals

Financial Impact

- Estimated capital impact on KBC Group’s CET1 (9M16: 15.3%²) will be limited (ca. -54 bps)
- The Transaction will be accretive to KBC Group’s EPS from year 2 onwards
- KBC Bank is financing the Transaction in cash using internal resources
- KBC Group Dividend policy to remain unchanged (at least 50% pay-out ratio including interim dividend and AT1 coupon)

Source: Company data

¹ Post-tax number. Please refer to following pages for details, ² Fully loaded (Danish Compromise)

Overview of UBB

4th largest bank in Bulgaria with critical mass across retail and corporate segment

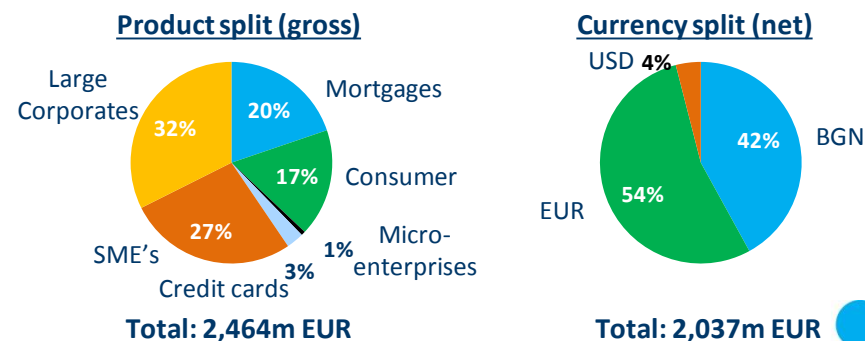
Business description

- UBB is Bulgaria's 4th largest banking group by total assets with a 8% market share as of 9M16
- Universal bank providing retail and corporate banking services in Bulgaria as well as factoring, insurance and asset management through its affiliates
 - Critical mass across all segments (retail, SME, large corporates)
 - Well-balanced business mix: retail (~40%), corporate (~60%)
 - ca. 900 th. retail customers with ~11% market share in retail loans
 - Strong corporate footprint with ~8% market share in corporate loans
 - Client-centric corporate model with well-diversified corporate loan portfolio across sectors
- Established in 1992 through the merger of 22 Bulgarian regional commercial banks and part of the NBG Group since 2000
- Countrywide distribution network with 190 branches and 691 ATMs in prime locations focused on high income/densely populated areas
- Highly regarded brand: considered 3rd most stable bank in Bulgaria in 2015¹
- Self-funded through a strong deposit franchise (L/D ratio 9M16: 71%). Retail-gear deposit base with almost ¾ of deposit base coming from retail clients
- Efficient franchise with C/I ratio of 47% in 2015, among lower-end of sector
- High origination standards over past years supporting low NPL generation: ~85% of current NPL portfolio (+90dpd) attributable to legacy portfolio (loans originated up to 2008)
- Robust capital position (CET1 ratio of 27.8% as per 9M16)¹: UBB reported the highest CET1 ratio among large banks in both the base and adverse stress test scenarios during the 2016 AQR/ST

Key financials – UBB

m EUR	2014	2015	9M'16
Net interest income	123	132	98
Operating income ²	176	185	156
Operating expenses	(83)	(87)	(57)
Pre-provision earnings	92	99	99
Net income	39	26	49
Total assets	3,362	3,349	3,658
Net loans	2,121	2,144	2,037
Customer deposits	2,614	2,600	2,869
Shareholders' equity	599	629	685
L/D ratio (net)	81%	82%	71%
NPL (+90dpd) ratio	33%	28%	28%
C/I ratio	47%	47%	37%
Cost of risk (bps) ⁴	188	273	237
CET1 ratio	24.2%	26.1%	27.8% ³

Loan book profile (9M16)



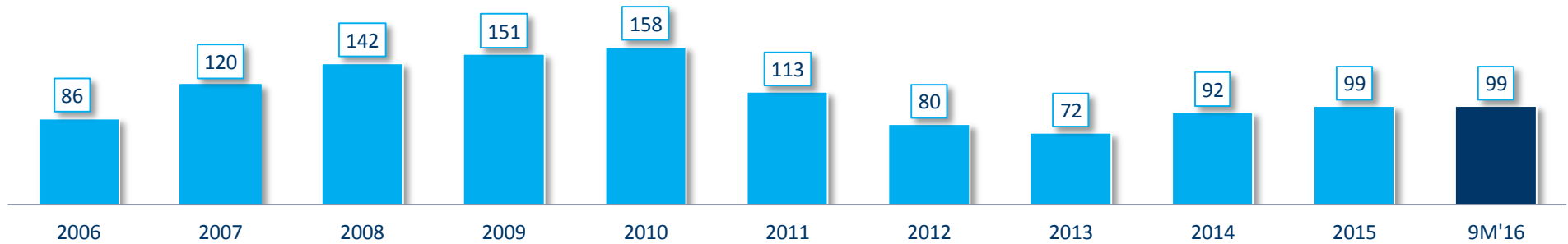
Source: Company data

¹Based on survey conducted by Instant Panel Technologies ²Total operating income of UBB including impairment of investment securities and due from banks ³22.7% as of September 2016 pro forma 2015 and 9M'16 net income (not included in CET1 ratio 9M16) and payment of 183m EUR extraordinary dividend; ⁴Calculated over average gross loans

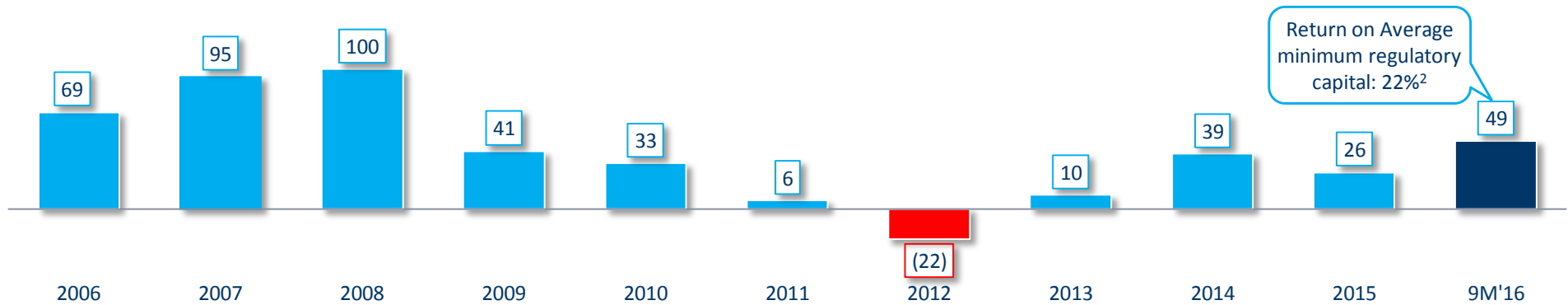
Overview of UBB

Track record of strong pre-impairment profitability

UBB pre-provision earnings¹ (m EUR)



UBB net profit (m EUR)



Source: Company data

Note: Financials converted using the BGNEUR exchange rate of 1.9558

¹ Pre-tax

² Annualized return on minimum regulatory capital of 13.5%







Overview of Interlease

3rd largest leasing provider in Bulgaria

Business description

- 3rd largest leasing provider in Bulgaria with significant market shares¹ across all major asset classes
 - Equipment leasing: 15.7%
 - Car leasing: 13.4%
 - Commercial vehicles: 10.4%
 - Real estate: 8.9%
- Loyal customer base and well established brand build upon a market presence of 21 years
- Fully reliant on group funding
- Drop of lease portfolio in 2015 following pro-active deleveraging driven by changes in NBG's Group funding structure (~30m EUR portfolio transfer)

Top 3 leasing platform in Bulgaria²

	Market share (%)
 UniCredit Leasing	25.7%
 SOGLEASE	13.3%
 INTERLEASE	12.8%
 ДСК Лизинг	8.6%
 Raiffeisen LEASING	8.6%
 Deutsche Leasing	5.4%

Source: Company data

¹ As of 31 Mar 2016

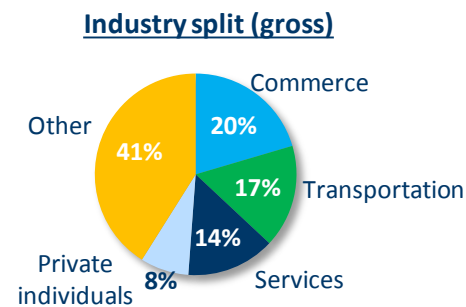
² As of 31 Dec 2015 by net receivables apart from DSK Leasing, RBI Leasing and Deutsche Leasing (31 Dec 2014)

³ Excluding one-off gains

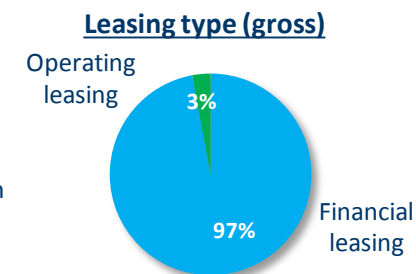
Key financials – Interlease

m EUR	2014	2015	9M'16
Net interest income	3.5	2.3	1.8
Operating income	8.8	8.1	7.5
Operating expenses	(2.7)	(2.7)	(1.9)
Pre-provision earnings	2.5	2.2	3.7
Provisions	(10.8)	(4.4)	(4.0)
Net income	(7.5)	(2.2)	(0.3)
Total assets	227	199	188
Net lease receivables	156	131	133
Group funding	166	140	134
Shareholders' equity	52	50	50
C/I ratio	52%	55%	61% ³

Portfolio breakdown (9M16)



Total: 171m EUR



Total: 171m EUR



Purchase price & closing requirements

Purchase Price Considerations

- KBC Bank NV has agreed to acquire 99.9% of United Bulgarian Bank (UBB) and 100.0% of Interlease from NBG (together the “Target”) for a total cash consideration of 610m EUR (the “Purchase Price”), payable at closing
- Pre-closing UBB intends to make a 183m EUR extraordinary dividend payment to NBG subject to authorization from the Bulgarian National Bank
- The Purchase Price reflects the 183m EUR extraordinary dividend as well as negative Net Asset Value Adjustments for the amount 81m EUR¹ which KBC identified during the due diligence process
- The Purchase Price represents a 1.10x multiple of the 2016e Tangible Book value of the Target² and a 1.29x implied multiple of the 2016e Tangible Book value adjusted³ for the 81m EUR negative Net Asset Value Adjustments

Closing Requirements

- Closing of the Transaction dependent upon the regulatory approvals from the Bulgarian National Bank (BNB) and the Bulgarian Financial Supervision Commission (FSC), the authorization by the National Bank of Belgium (NBB) / the European Central Bank (ECB) and anti-trust approval.
- The Transaction is expected to close in 2Q 2017

¹ Post-tax number of which 78m EUR relating to UBB and 3m EUR relating to Interlease

² 2016e Tangible Book value estimated at 552m EUR (502m EUR UBB + 50m EUR Interlease) (which reflects the 183m EUR dividend payment)

³ 2016e Adjusted Tangible Book value estimated at 472m EUR (which reflects both the 183m EUR dividend payment and the 81m EUR negative NAV adjustments)

Agenda

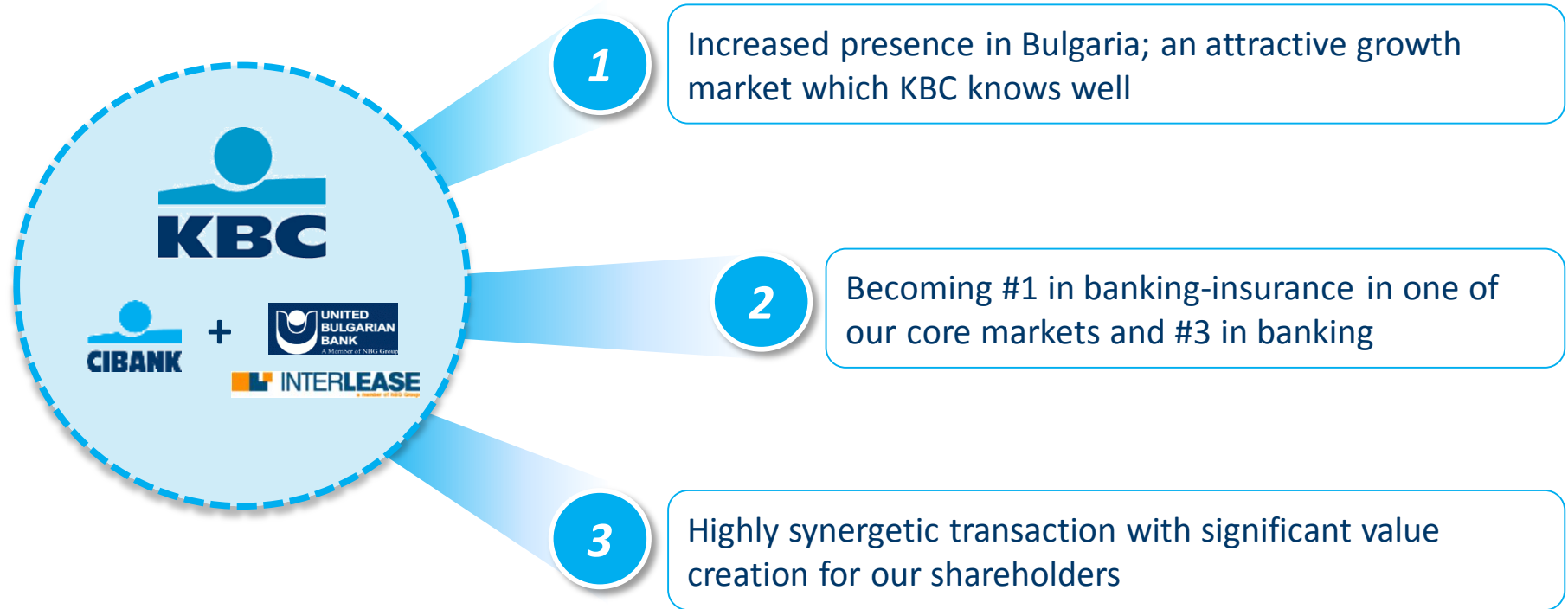
1 Transaction overview

2 Strategic rationale

3 Financial impact

4 Summary

In-market combination with sound strategic and financial rationale

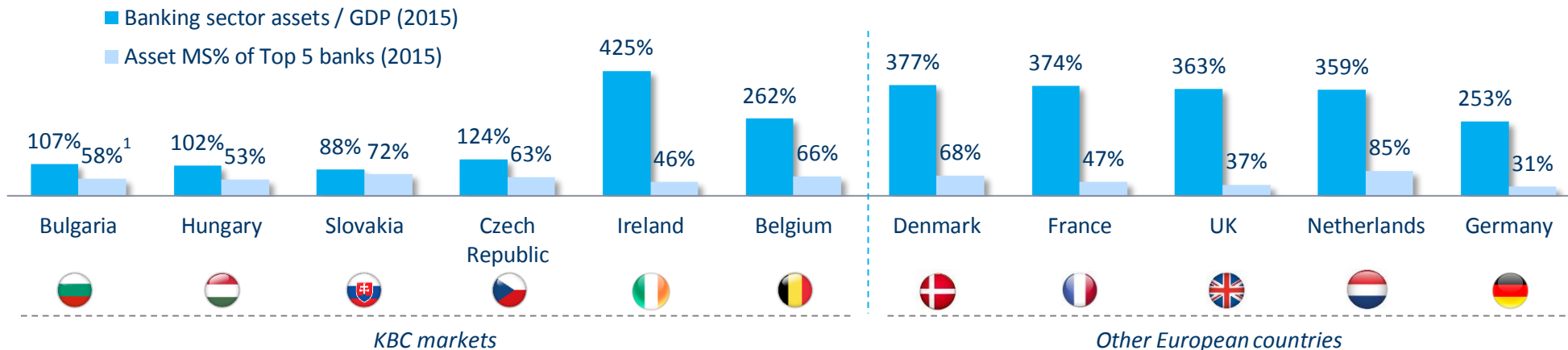


An attractive transaction with immediate effects

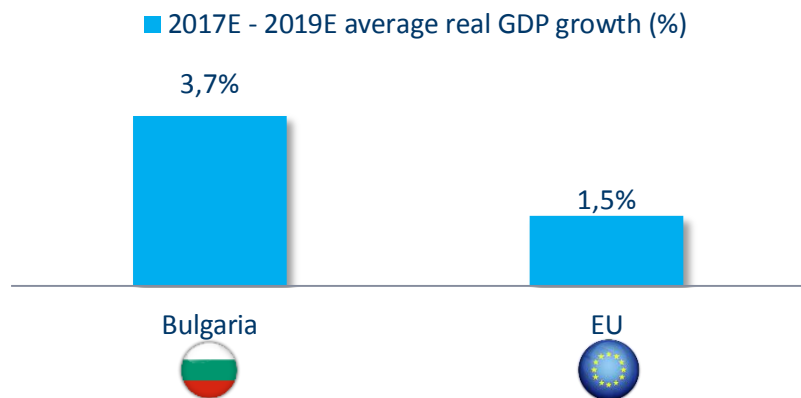
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Increased presence in an attractive, underpenetrated and fast growing market

Becoming Top 3 player in the relatively fragmented and underpenetrated Bulgarian banking sector



Solid GDP growth trajectory



Comments

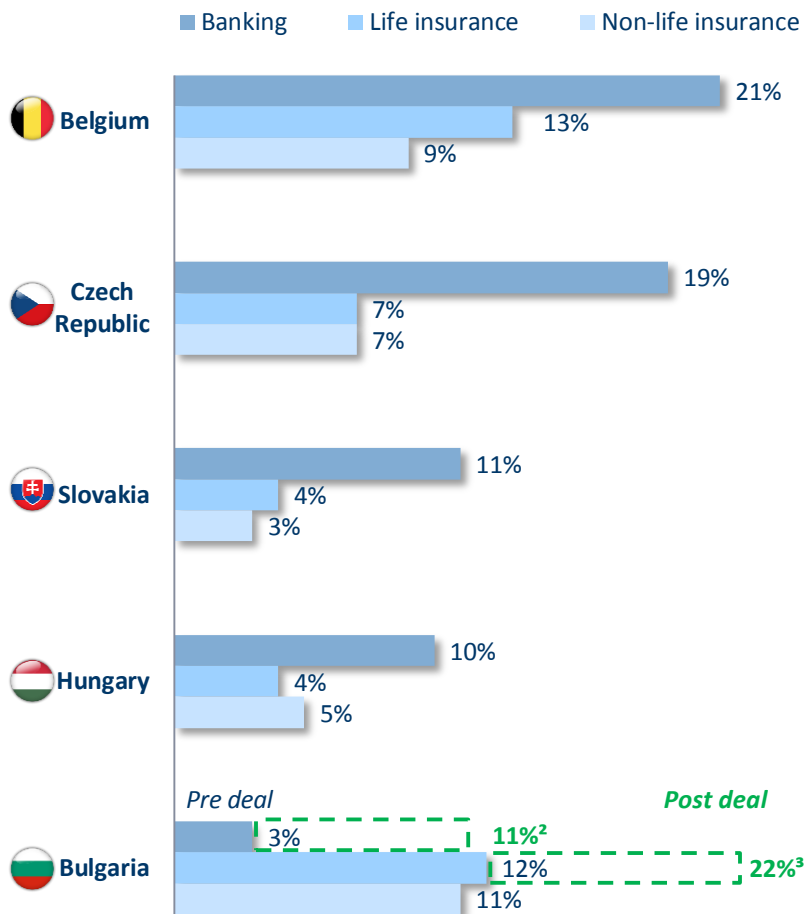
- Further investment in Bulgaria would allow KBC to benefit further from positive Bulgarian macro-economic environment
 - Real GDP growth on average to reach 3.7% vs. 1.5% in EU in 2017-19E
 - Bulgaria benefits from EU membership and close cooperation with European Union (2/3 export geared towards EU, structured funds and FDI)
 - Bulgarian Lev is pegged to EUR; prudent policy with low public debt ratio
 - Strengthening legal framework
- Bulgarian banking sector (similarly to other CEE markets) is currently under penetrated as evidenced by 107% assets / GDP ratio as of 2015 vs. average of 345% of group other European countries
- Banking sector under penetration coupled with higher expected economic growth of Bulgaria expected to become key drivers behind expected high growth of Bulgarian market and increased importance for KBC Group

Source: Company Information, Bulgaria National Bank, ECB, IMF
¹ Bulgarian Top 5 bank asset market share as of Sep-16 as per BNB disclosure (pre CIBANK and UBB combination)



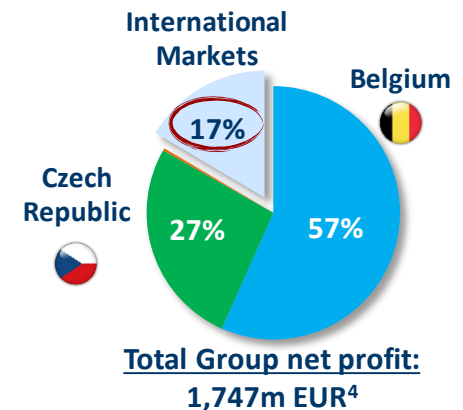
1 Delivering on the promise of achieving market leadership in core markets and increasing share of profit from International Markets to almost 20%

Market shares in KBC Core Markets (2015)

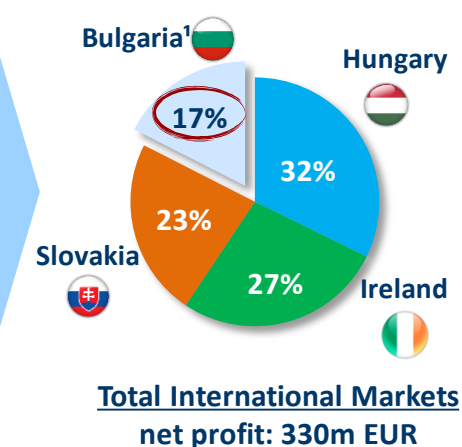
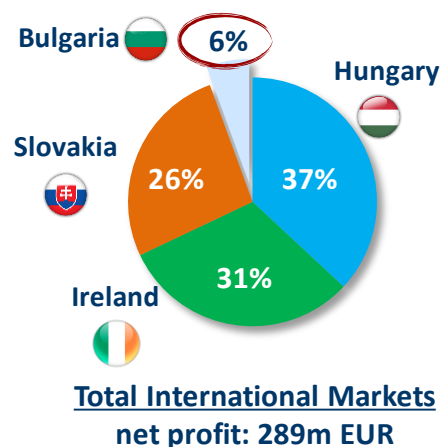
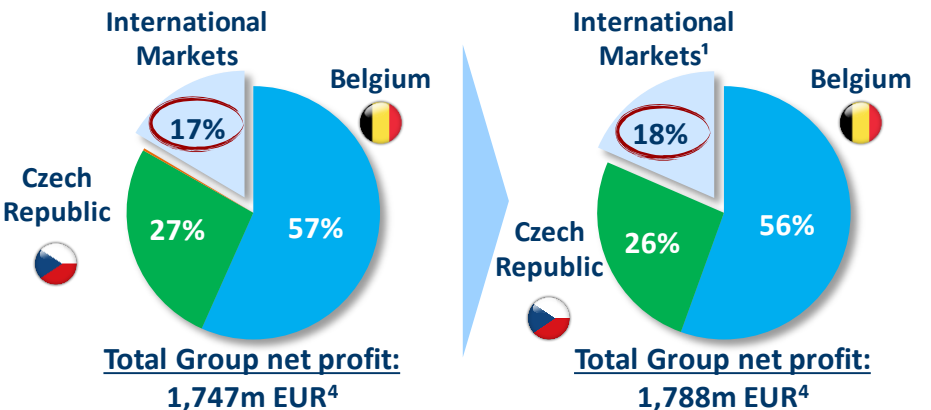


Increased importance of International Markets (9M 2016)

Pre UBB acquisition



Pro forma UBB acquisition



Note: Bulgarian banking market shares as of Sep-16, insurance as of Aug-16

¹ Proforma excluding one-offs in 9M'16 (pre-tax: gain on sale of VISA shares of 16m EUR, net trading income of 8m EUR in Q3'16 and service fees related to AQR of 1m EUR) and including for illustrative purposes fully phased in synergies (pre tax: 9 month synergies of 15m EUR based on annual run rate of 20m EUR); ² Market share by assets; ³ Post-closing KBC Bank will own 60% stake in the UBB MetLife Joint Venture, which had a market share of 9.4% as per YE 2015; ⁴ Excluding Group Centre

1

Undisputable strategic value to become the reference in bank-insurance in Bulgaria

1 Market presence

- KBC had significant market presence in banking in all of its Core markets (>10% market share) apart from Bulgaria (defined core country in 2009)
 - UBB's acquisition builds on KBC's strategy of gaining significant market power in its Core markets
 - Combination of CIBANK and UBB would create #3 largest bank in Bulgaria (CIBANK currently #9); a rather fragmented market with expected short-to mid-term consolidation, providing KBC with strong sustainable presence
 - Acquisition would level the current market size gap between the insurance operations and the smaller banking operations
 - A compelling opportunity for KBC Group to become the reference in bank-insurance in Bulgaria
- Post transaction, pro forma CEE contribution to KBC's bottom line (9M16) to reach c.40%, out of which Bulgaria's contribution to reach 8%

2 Customer base

- The combined customer base (ca. 1,4 M) with good retail/corporate mix and distribution power combined with KBC revenue capabilities
- Well balanced business mix consisting of retail / Micro, SME and Midcaps/Corporates with critical mass across these segments
- Transaction adds potential customer base and additional distribution power

3 Brand Value

- UBB as first and largest banking consolidation project in BG through merger of 22 state-owned banks in 1992
- UBB is one of the leading banks together with Bulbank and DSK with strongly recognized brand

4 Cross-selling potential

- Becoming one of the market leaders in BG will lead to important cross-selling potential, leveraging on KBC Group capabilities:
 - Bank-Insurance
 - Asset Management / Factoring / Leasing
- Full range of banking products supplemented by ancillary services across insurance, asset management, payments and leasing allowing for significant cross-selling opportunities. Penetration of key retail credit products (mortgages, consumer loans) with insurance is above 90%

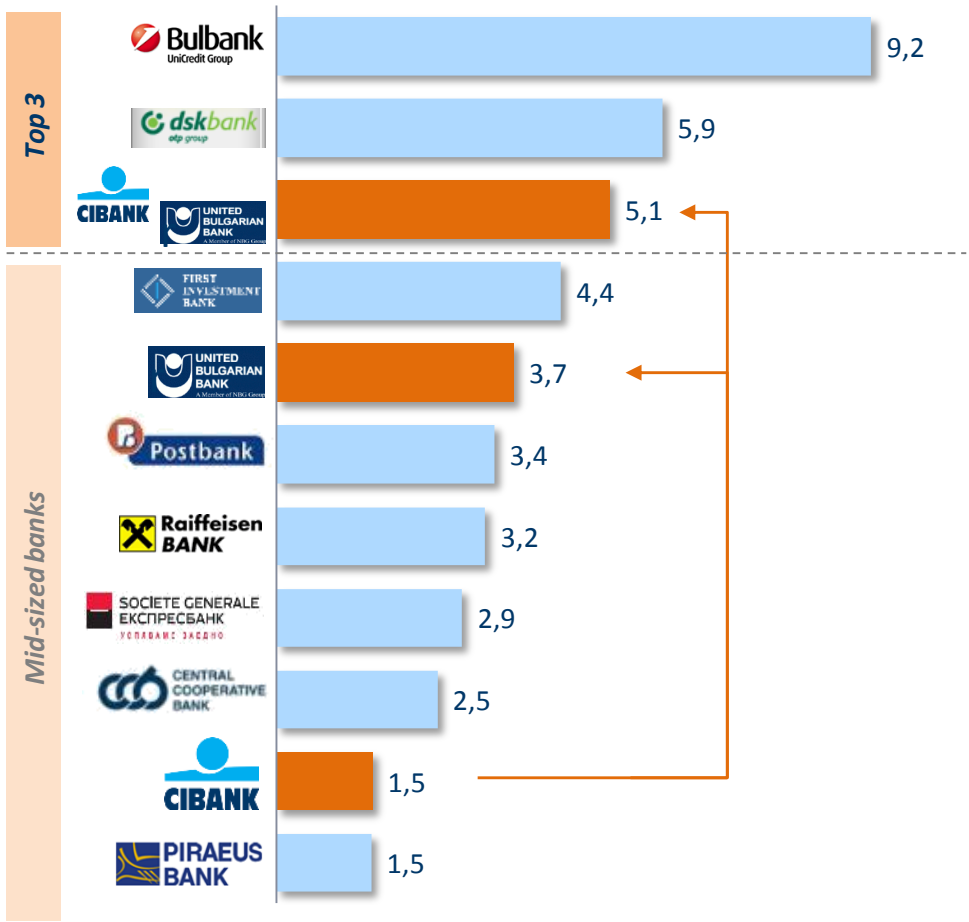
5 Asset optimisation

- Based on CIBank's track record in dealing with legacy portfolio's and reshaping banking businesses
- Based on KBC/CIBank's credit policies

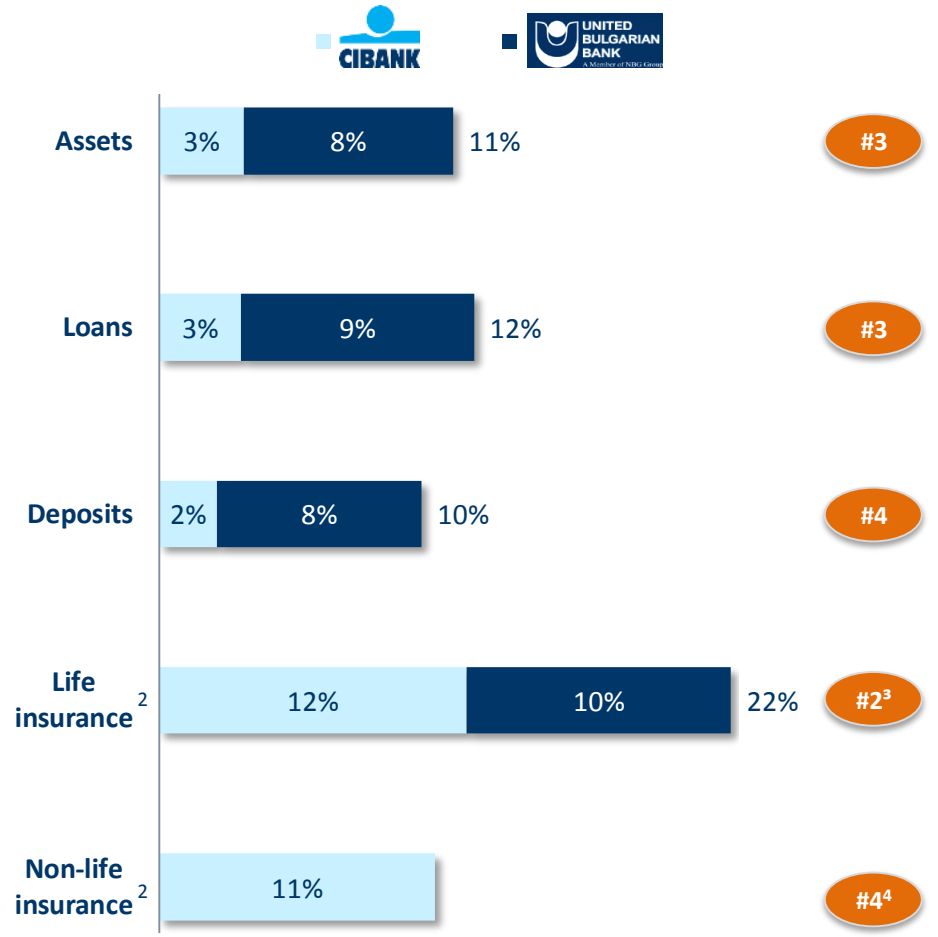
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Creation of a top 3 bank in Bulgaria by assets and loans closing the gap to market leaders

Bank assets (bn EUR, Sep-16)¹



Improved market shares (Sep-16 banking, Aug-16 insurance)



Pro forma market position in Bulgaria

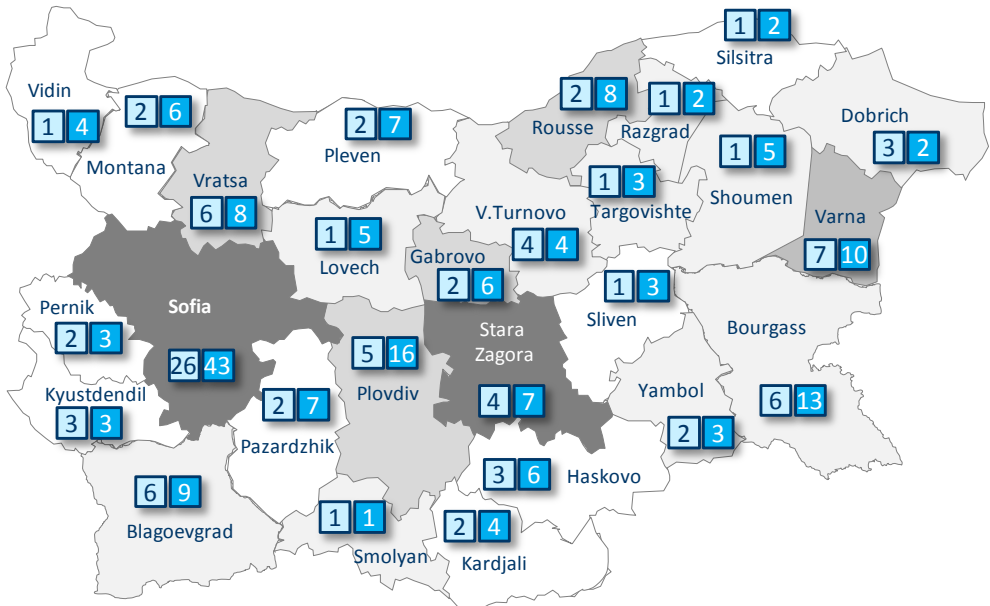
Source: Bulgarian National Bank, Financial Supervision Commission

¹ Bulgarian National Bank ² As of Aug-16 (based on GWP); ³ Post-closing KBC Bank will own 60% stake in the UBB Metlife Joint Venture. For illustration, full market share of UBB Metlife added; ⁴ UBB currently has a non-life insurance distribution agreement with Bulstrad (VIG)

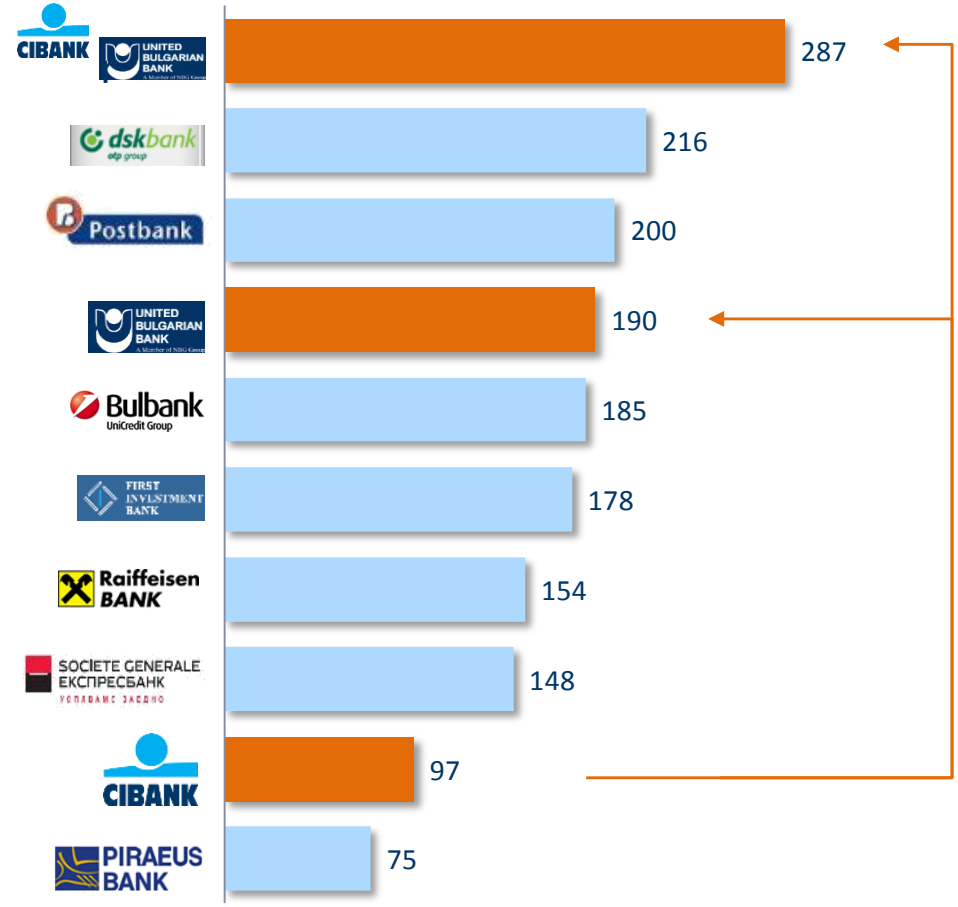


2 Creating a leading distribution network in the market

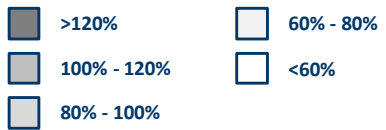
Combined branch network



The largest branch network in the country (Dec-15)¹



Regional GDP per capita vs. Bulgarian average (2014)



Branches



Source: Company information, National Statistical Institute of Bulgaria

Note: Branch network of UBB and CIBANK as of Sep-16

¹ Excluding Central Co-operative Bank, for which publicly disclosed branch network includes "remote outlets" (cashier desks service in governmental institutions); no data available to adjust the branch network to be comparable



Significant synergy potential driving value creation in banking

- Important efficiency gains for CIBANK and UBB
- Key synergy sources include:
 - **Optimisation of branch network**
 - **Streamlining HQ functions**
 - **Optimisation of real estate and procurement costs**
 - **Merger of the alternative distribution platforms**
 - **Migration to a single IT platform, data centres, call centres, and product factories**
 - **Combined customer base (1.11M)** with good retail/corporate mix and distribution power through combined network building on **KBC group capabilities for revenue synergies**
 - **Potential to leverage KBC Group's best practices, utilising product capabilities and enhanced commercial acumen**
 - Bank-insurance model
 - Cross-selling opportunities
 - Enhanced product mix
 - Develop unpenetrated asset management business
 - KBC Group's credit and ALM expertise

**Total net pre-tax synergies of
~8m EUR in 2017,
quickly ramping up to
~17m EUR in 2020
and reaching
~20m EUR in 2023**

Agenda

1 Transaction overview

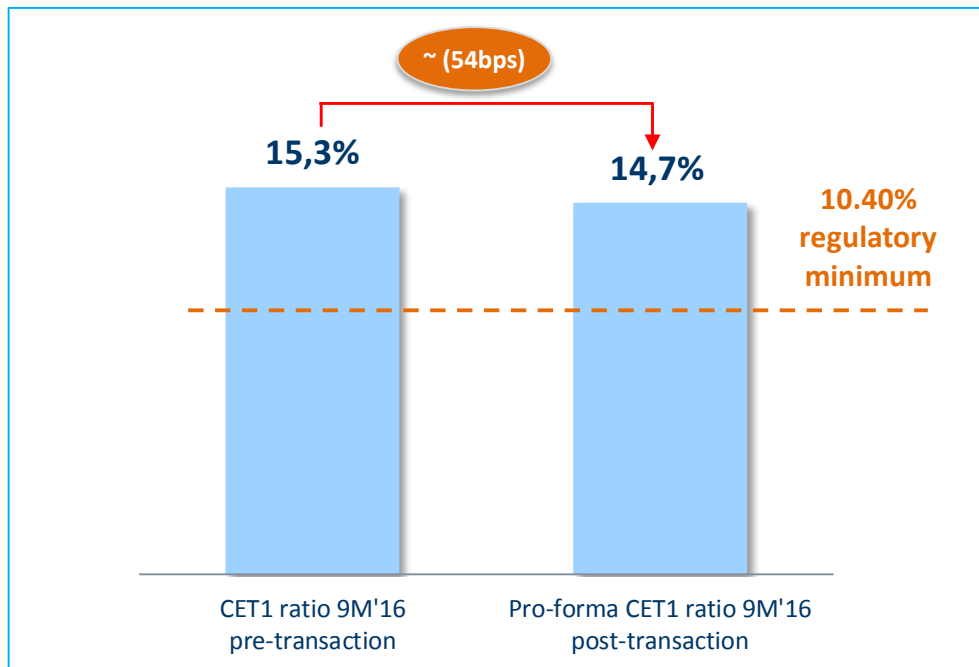
2 Strategic rationale

3 Financial impact

4 Summary

Acquisitions to have limited impact on KBC Group CET1

Pro-forma fully-loaded CET1 ratio at KBC Group (Danish compromise)






Comments

- Consideration will be fully paid in cash from available funds
- Limited impact of the transactions on KBC Group CET1 capital ratio (ca. 54bps)
- KBC Group remains very well capitalized, well above the fully-loaded regulatory minimum of 10.40%
- Dividend policy to remain unchanged

Note: All KBC figures as per 9M'16. UBB CET1 capital as per YE 2016E, including 2015 and 2016 net income but adjusted downwards for 183m EUR dividend and 78m EUR NAV adjustments (post-tax)

Overview of combined financials in Bulgaria

<i>m EUR</i>				
Balance sheet (9M'16)	Total assets	1,478	3,658	5,136
	Net loans	765	2,037	2,803
	Deposits	798	2,869	3,667
	Shareholder equity	166	685	851
Profit & Loss (9M'16)	Net interest income	32	98	130
	Operating income ¹	46	156	202
	Operating expenses	(27)	(57)	(85)
	Loan provisions ²	(4)	(44)	(49)
	Net income	13	49	62
Other Metrics (9M'16)	CET1 ratio ³	18.7%	22.7%	21.7%
	Loan / Deposits ratio	95.9%	71.0%	76.4%
	Cost income ratio	59.1%	36.9%	41.9%
	Cost of risk ⁴	0.7%	2.4%	1.9%
	Employees	1,262	2,476	3,738
	Branches	97	190	287
	Clients (million)	0.21	0.90	1.11

Source: Company data

¹ Total operating income of UBB including impairment of investment securities and due from banks ² Including impairments on guarantees and trade receivables ³ Pro forma 2015 and 9M'16 net income and payment of 183m EUR extraordinary dividend ⁴ On average gross loans

Agenda

1 Transaction overview

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3 Financial impact

4 Summary

Key takeaways

- **Consistency with KBC Group's strategy to become the reference in its core markets**, previously Bulgaria being the only core market with banking market share <10%
- **Improved critical mass**; transformational transaction for the Bulgarian franchise by creating the 3rd largest Bulgarian bank in a fragmented market
- **Further investment in Bulgaria to benefit from positive macro-economic environment**: EU membership and convergence potential, Lev peg to Eur, expected real GDP growth of ca 3.7% over the next few years, strengthening legal framework
- **Highly synergistic transaction** with pre-tax net synergies of ~8m EUR in 2017, quickly ramping up to ~17m EUR in 2020, reaching ~20m EUR in 2023
- **Significant additional growth and profitability potential** by leveraging on KBC Group's ownership and capabilities (e.g. asset management, insurance, leasing expertise, credit risk expertise and ALM)
- **Limited capital impact on KBC Group's CET1** with impact estimated at ca. 54 bps

The Transaction represents a compelling opportunity for KBC Group to become the reference in bank - insurance in Bulgaria

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