


KBC Group
2Q and 1H 2018 results
Press presentation

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More detailed analyst presentation available at www.kbc.com

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2Q 2018 key takeaways for KBC Group

2Q18 financial performance

- **Commercial bank-insurance franchises** in core markets performed well
- **Customer loans** and **customer deposits** increased in all business units
- Good **net interest income** and net interest margin
- Lower **net fee and commission income**
- Less **net gains from financial instruments at fair value** and **net other income**
- Excellent sales of **non-life** insurance y-o-y, but lower sales of **life** insurance q-o-q
- **Costs** excluding bank tax seasonally up
- Net **impairment releases on loans**
- Solid **solvency** and **liquidity**
- **Share buy-back** concluded (-0.2% CET1 impact)
- **Interim dividend** of 1 EUR per share in Nov'18

Good net result of **692m** EUR in 2Q18

1H18

- **ROE** 16%*
- **Cost-income ratio** 56% (excl. specfic items)
- **Combined ratio** 88%
- **Credit cost ratio** -0.10%
- **Common equity ratio** 15.8% (B3, DC, fully loaded)
- **Leverage ratio** 6.0% (fully loaded)
- **NSFR** 136% **& LCR** 139%

* ROE including pro rata bank taxes amounted to 17% in 1H18

Comparisons: versus the previous quarter, unless otherwise mentioned

Post-balance sheet event

KBC Bank Ireland sells part of legacy loan portfolio

1 Background

KBC Bank Ireland has been organically building down its legacy portfolio of non-performing loans in Ireland over the past few years. Today, KBC announces the sale of an important part of its non-performing loans

2 Scope and NPL ratio impact

- **KBC Bank Ireland sells approximately 1.9bn EUR of its legacy outstanding loan portfolio:**
  - Non-performing corporate portfolio
  - Non-performing Irish Buy-to-Let mortgage portfolio
  - Performing & non-performing UK Buy-to-let mortgage portfolio
- **This will lead to a roughly 11%-points reduction of the NPL ratio to approximately 25% pro forma at end 2Q18** (versus reported 35.6% at end 2Q18)

3 P&L and Capital impact

- Based on 1Q2018 figures, the transaction will result in a **net P&L impact of +14m EUR (after transaction costs)**, **a release of risk-weighted assets of approximately 0.4bn EUR**, leading to an **improvement of KBC Group's CET1 ratio of 7bps.** These figures might slightly change up until closing date, which is expected in 4Q18
- We **maintain our impairment guidance** for Ireland, namely a net release in a range of 100m-150m EUR for FY18

4 Benefits

By selling all of the sub-portfolio's currently in scope, KBC Bank Ireland would be able to:

(i) Achieve a NPL ratio reduction of c. 11%-points and reach a NPL ratio of approximately 25% pro forma at end 2Q18

(ii) De-risk Brexit implications from the sale of the UK BTL portfolio.

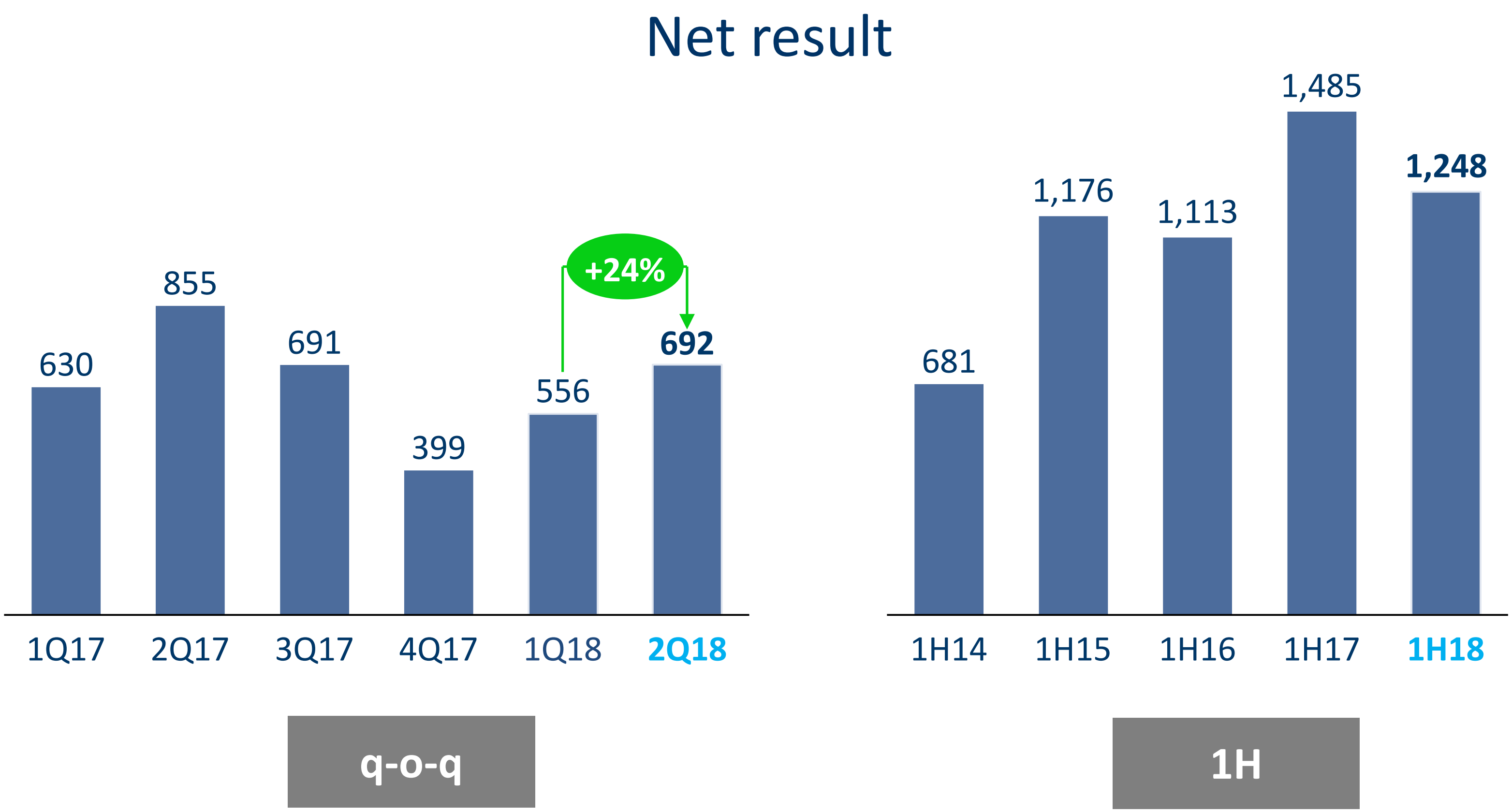
(iii) Enhance focus on its core strategy 'Digital First' in retail banking & micro SME, as presented at our Investor Day mid-2017




KBC Group
Consolidated results
2Q and 1H 2018 performance

KBC Group

Good net result of 692m in 2Q 2018

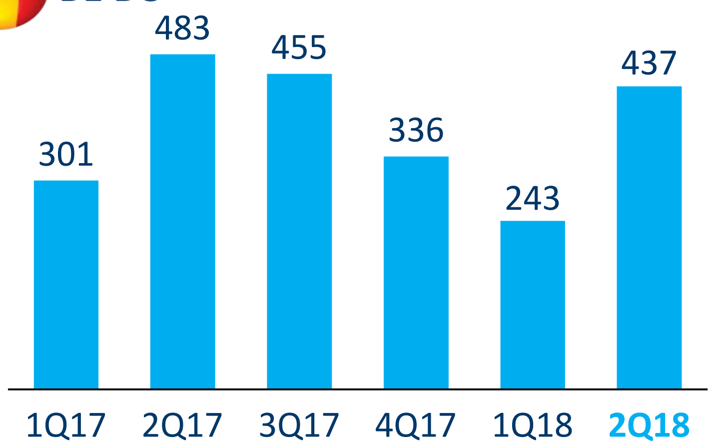


Amounts in millions of EUR

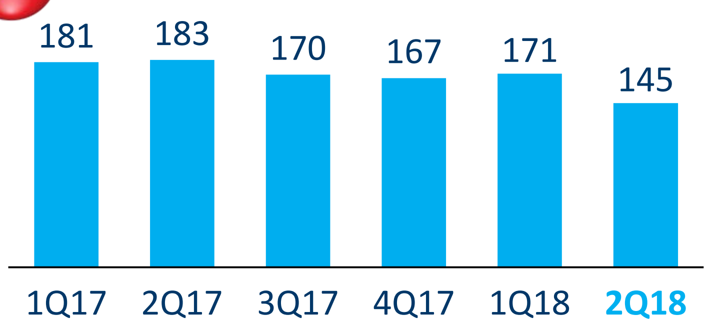
Net result per business unit

Positive contribution of business units in 1H 2018 result

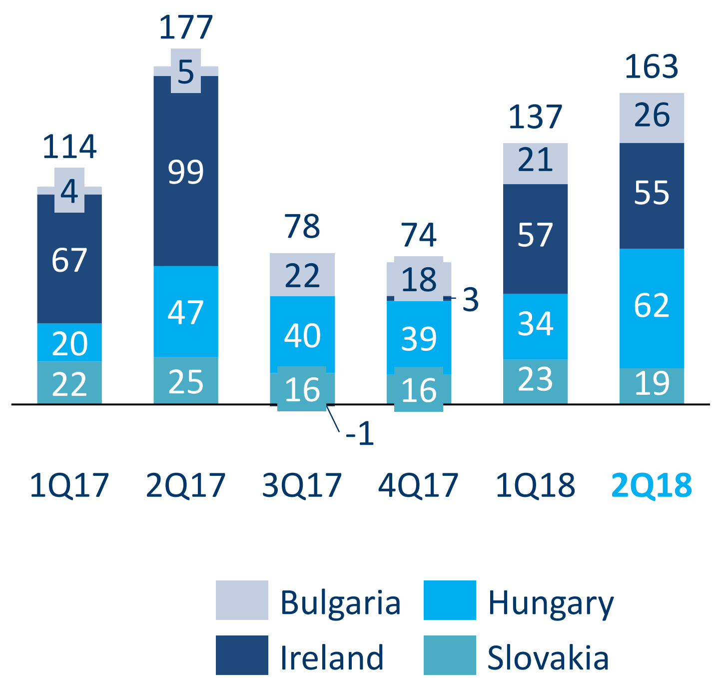
BE BU



CZ BU



IM BU

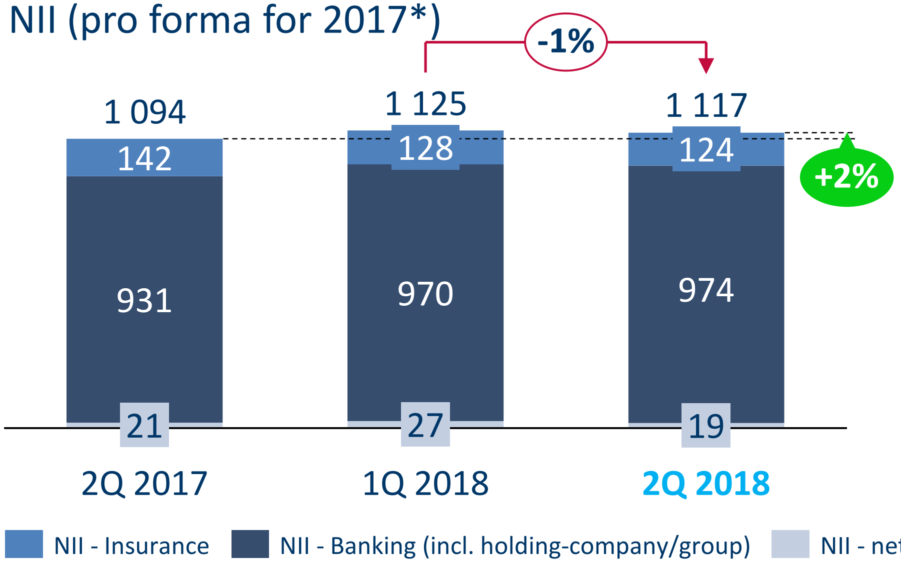


Amounts in millions of EUR

Net interest income

Good net interest income (NII) and net interest margin (NIM)

NII (pro forma for 2017*)



NII down by 1% q-o-q (and up by 2% y-o-y). Note that NII banking slightly increased q-o-q and rose by 5% y-o-y.
(+) lower funding costs (due mainly to the call of the CoCo), continued good loan volume growth, small additional positive impact of both short- & long-term interest rate increases in the Czech Republic and 1 day extra
Partly offset by:
(-) lower netted positive impact of ALM FX swaps, lower reinvestment yields, more pressure on commercial loan margins in most core countries

NIM (pro forma for 2017***)

Quarter	2Q17	1Q18	**2Q18**
NIM	1.96%	2.01%	**2.00%**

(1) Year-end 2018

- NIM down by 1 bp q-o-q due mainly to a slight increase in interest-bearing assets
- Up by 4 bps y-o-y, thanks to lower funding costs and the positive impact of repo rate hikes in the Czech Republic

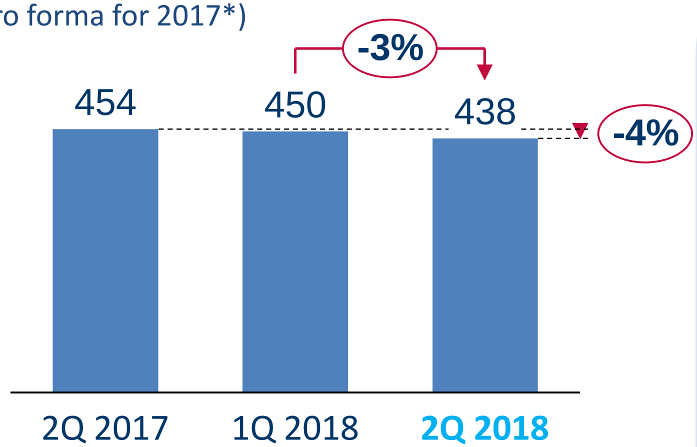
* *2017 pro forma figures for NII as the impact of ALM FX derivatives was 'netted' in NII as of 2018*
** *Both from Brussels & London desk*
*** *NIM is calculated excluding the dealing room and the net positive impact of ALM FX swaps & repos*

Amounts in millions of EUR

Net fee and commission income

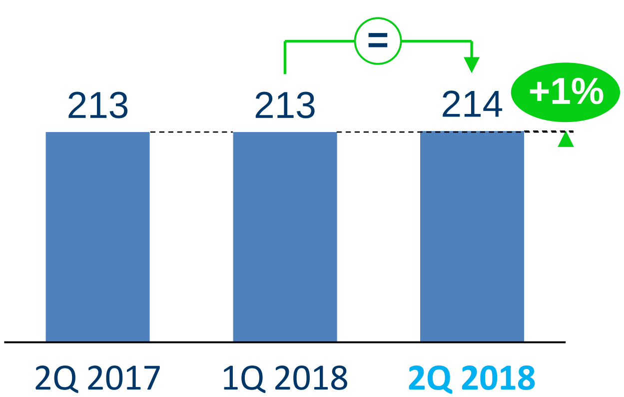
Lower net fee and commission income

Net fee and commission income
(pro forma for 2017*)



Amounts in millions of EUR

Assets under management (AUM)



Amounts in billions of EUR

Net fee and commission income (438m EUR)

- **Q-o-q decrease of 3% was the result chiefly of:**
  - lower entry fees from mutual funds and unit-linked life insurance products
  - lower securities-related fees
  - sligthly lower management fees and stable management fee margin
  - higher commissions paid on insurance sales

  partly offset by:
  - higher fees from payment services
  - higher fees from credit files & bank guarantees
- **Y-o-y decrease of 4% was mainly the result of:**
  - lower enty fees (as 2Q17 benefited from the launch of Expertease/Easy Invest in Belgium)
  - lower securities-related fees
  - sligthly lower management fees
  - lower fees from credit files & bank guarantees

  partly offset by:
  - higher fees from payment services
  - the contribution of UBB/Interlease
  - lower commissions paid on insurance sales

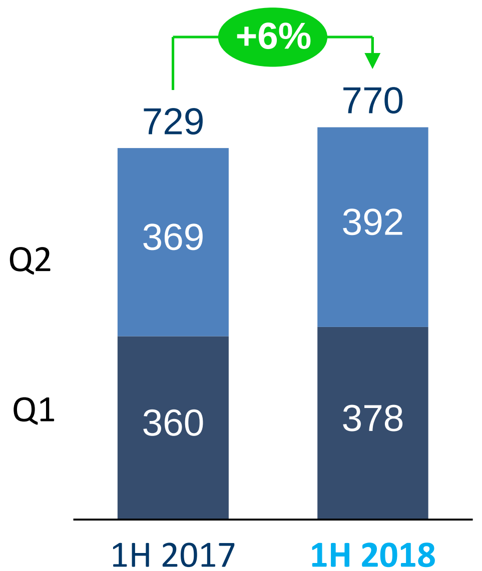
Assets under management (214bn EUR)

- Stabilised q-o-q
- Rose by 1% y-o-y owing entirely to a positive price effect
- The mutual fund business has seen net outflows, mainly in group assets and investment advice

Non-life insurance

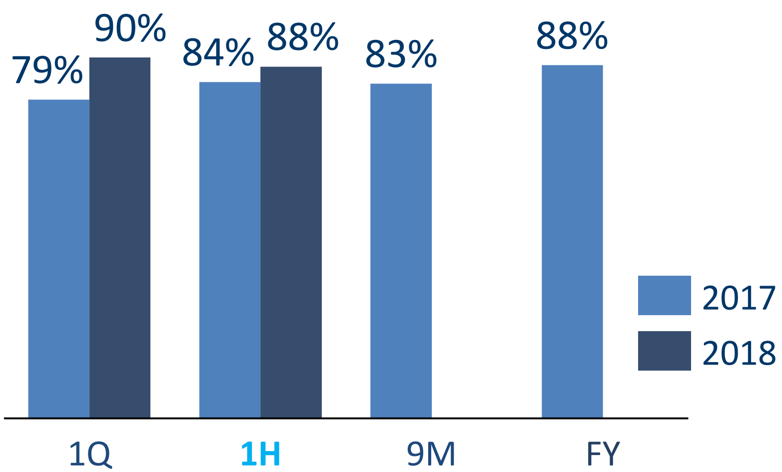
Insurance premium income up y-o-y and excellent combined ratio

Gross earned premiums non-life insurance



Up y-o-y due to a good commercial performance in all major product lines in our core markets

Combined ratio non-life



The **non-life combined ratio** at 1H18 amounted to 88%, an excellent number despite high technical charges in 1Q18 due mainly to high storm claims in Belgium and thanks to low technical charges in 2Q18

Amounts in millions of EUR

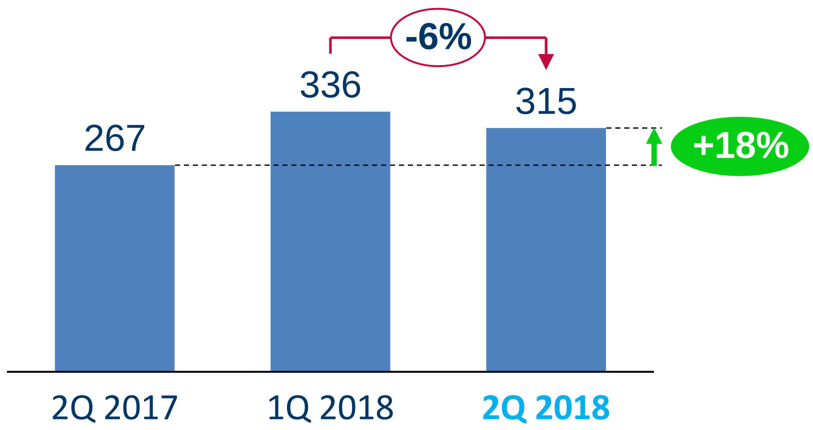
Life insurance

y-o-y increase of Life sales

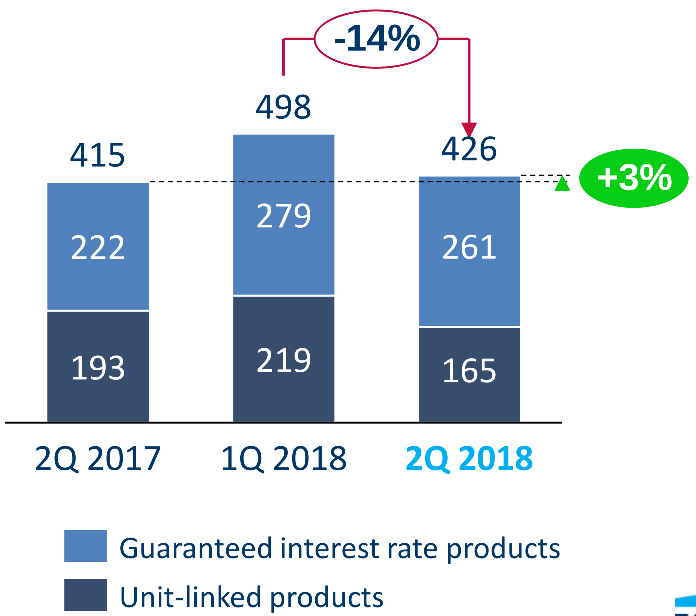
Sales of Life insurance products decreased by 14% q-o-q and up by 3% y-o-y

- The q-o-q decrease was primarily due to lower sales of unit-linked products in Belgium
- The y-o-y increase was driven mainly by higher sales of guaranteed interest products in Belgium
- Sales of unit-linked products accounted for 39% of total life insurance sales

Gross earned premiums Life insurance



Life sales



Amounts in millions of EUR

Net gains from financial instruments at fair value

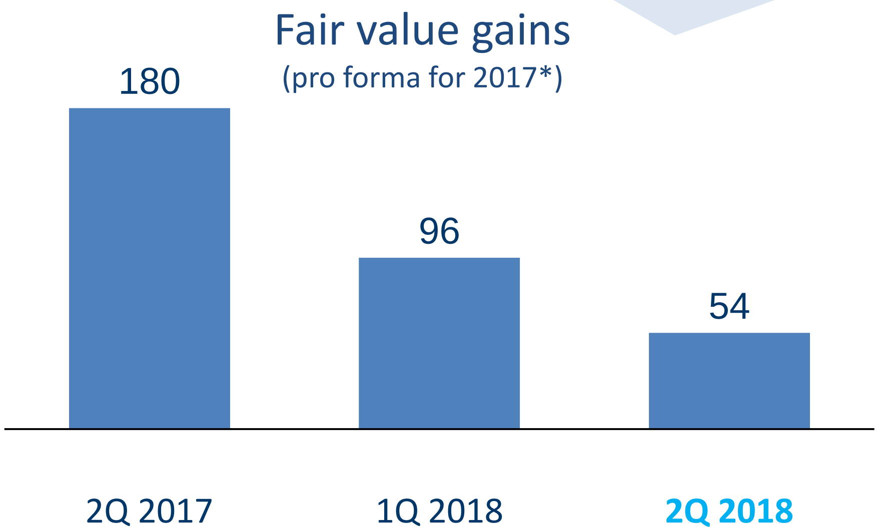
Lower fair value gains

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

- a negative change in ALM derivatives
- a negative change in market, credit and funding value adjustments (mainly as a result of changes in the underlying market value of the derivatives portfolio, increased credit spreads and model changes)
- lower dealing room income in the Czech Republic

partly offset by

- higher net result on equity instruments (insurance)



* *2017 pro forma figures as:*
1) the impact of the FX derivatives was 'netted' in NII as of 2018
2) the shift from realised gains AFS shares and impairments on AFS shares to FIFV due to IFRS 9 (overlay approach for insurance)

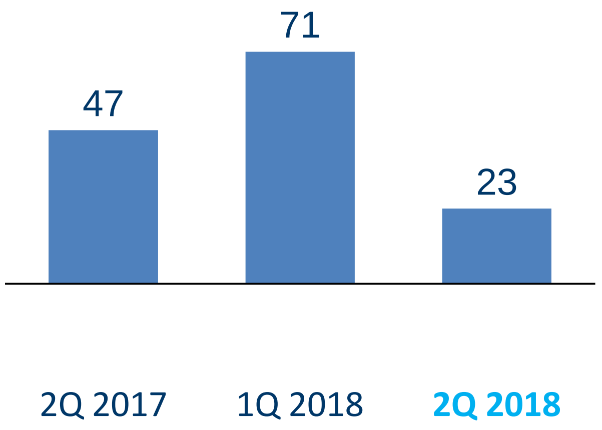
Amounts in millions of EUR

Other net income

Lower other net income q-o-q

Other net income amounted to 23m EUR, lower than the normal run rate of around 50m EUR due to the settlement of an old legal file in the Group Centre

Other net income

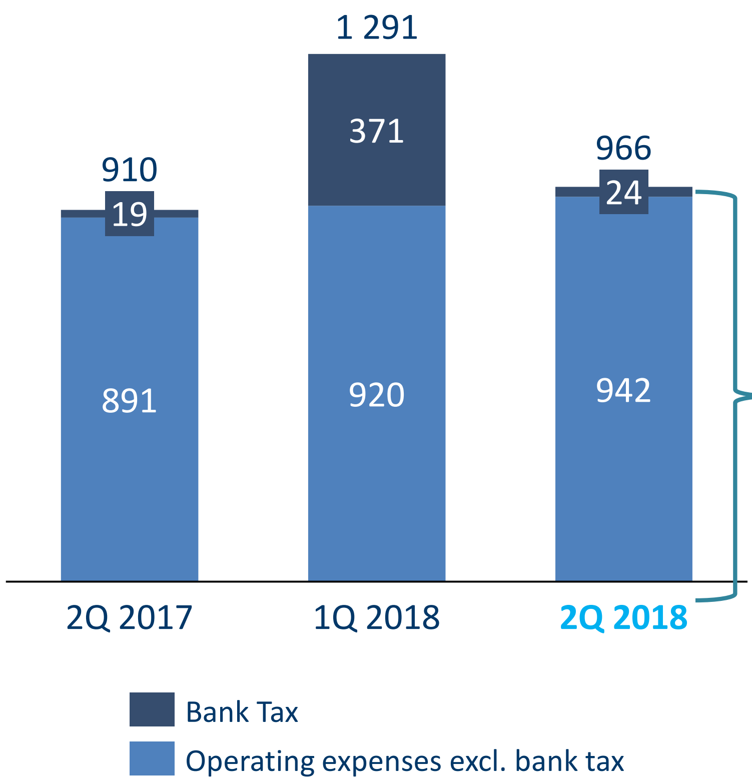


Amounts in millions of EUR

Operating expenses

Q-o-q lower OPEX entirely due to bank taxes, but good cost/income ratio

Operating expenses



	FY17	1Q18	1H18
C/I ratio*	55%	55%	56%

Operating expenses without bank tax went up by 2% q-o-q due mainly to:

- seasonal effects such as traditionally lower ICT, marketing and professional fee expenses in 1Q18
- Higher staff expenses in Belgium and the Czech Republic (mostly due to wage inflation)

Operating expenses without bank tax increased by 6% y-o-y due to:

- the consolidation of UBB/Interlease
- higher ICT costs
- higher marketing expenses
- higher depreciation & amortisation costs (due to capitalisation of some projects)

Bank taxes of 395m EUR in 1H18 represented 11.0% of 1H18 OPEX at KBC Group**

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

*** 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.*

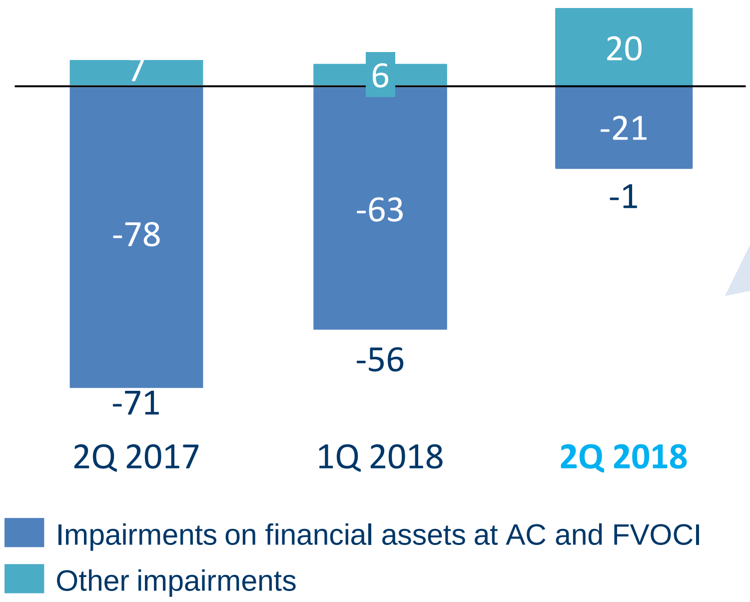
Amounts in millions of EUR

Asset impairments

Net impairment releases and excellent credit cost ratio

Asset impairment

(negative sign is write-back)



Credit cost ratio (YTD)

FY16	FY17	1H18
0.09%	-0.06%	-0.10%

Very low asset impairments, mainly to:

- net loan loss impairment releases in Ireland of 39m EUR (compared with 43m in 1Q18)
- also small net loan loss impairment reversals in the Czech Republic, Hungary, Bulgaria and Group Centre

partly offset by

- additional loan loss impairments of 26m EUR in Belgium on corporate files

Impairment of 20m on 'other', of which:

- 13m EUR in the Czech Republic mostly resulting from a review of residual values of financial car leases under short-term contracts
- 6m EUR in Bulgaria mainly on a legacy property file

The credit cost ratio amounted to -0,10% in 1H18 due to low gross impairments and several releases

Amounts in millions of EUR

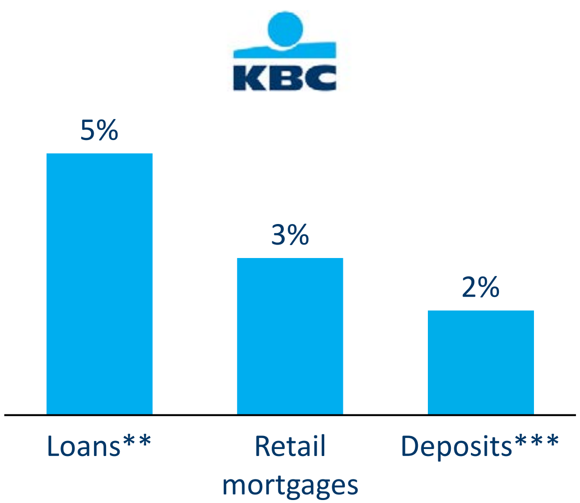
KBC Group

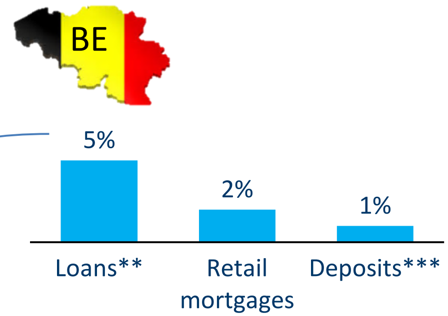
Balance sheet, capital and liquidity

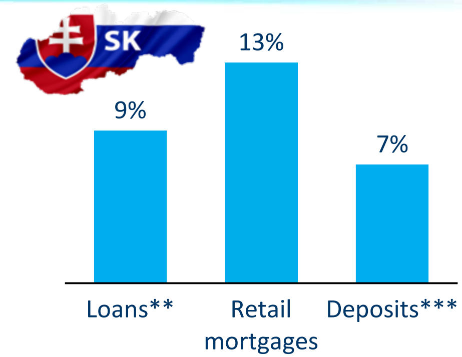
Balance sheet

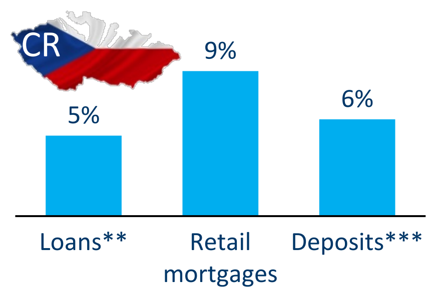
Loans and deposits continue to grow in most core countries

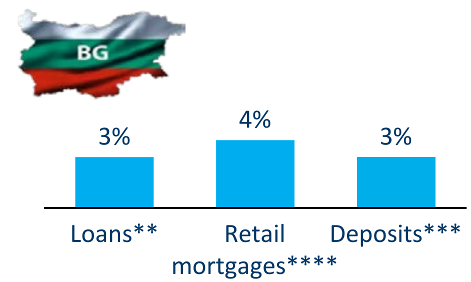
Y-O-Y ORGANIC* VOLUME GROWTH

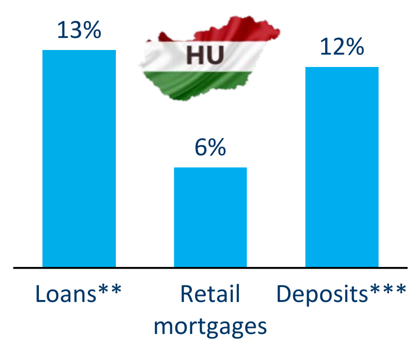


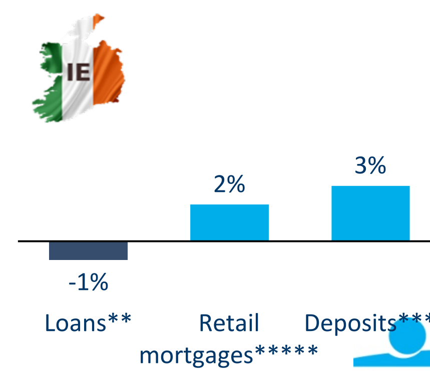






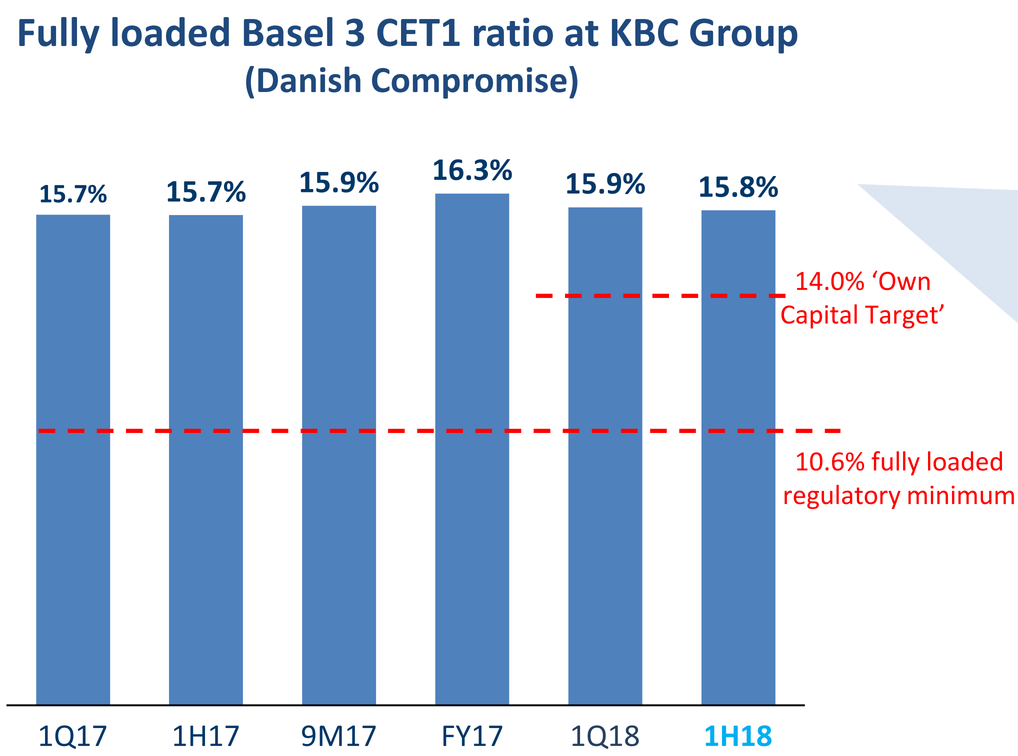






* Volume growth excluding FX effects and divestments/acquisitions
** Loans to customers, excluding reverse repos (and bonds)
*** Customer deposits, including debt certificates but excluding repos
**** Retail mortgages in Bulgaria: new business (written from 1 Jan 2014) +7% y-o-y, while legacy -29% y-o-y
***** Retail mortgages in Ireland: new business (written from 1 Jan 2014) +43% y-o-y, while legacy -8% y-o-y

Strong capital position



- **The common equity ratio* decreased from 15.9% at the end of 1Q18 to 15.8% at the end of 1H18** based on the Danish Compromise, mainly due to the impact of the share buy-back (-0,2%). This **clearly exceeds** the minimum capital requirements** set by the competent supervisors of 9.875% phased-in for 2018 and 10.6% fully loaded and our 'Own Capital Target' of 14.0%

* Note that as from 01/01/2018 onwards, there is no difference anymore between fully loaded and phased-in

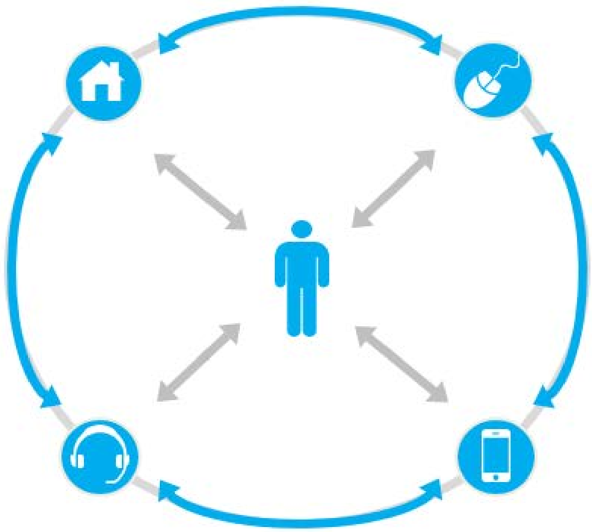
** Excludes a pillar 2 guidance (P2G) of 1.0% CET1

Liquidity ratios

Liquidity continues to be solid

KBC Group's liquidity ratios

** Net Stable Funding Ratio (NSFR) is based on KBC's interpretation of the proposal of CRR amendment*
*** Liquidity Coverage ratio (LCR) is based on the Delegated Act requirements. From EOY2017 onwards, KBC discloses 12 months average LCR in accordance to EBA guidelines on LCR disclosure*

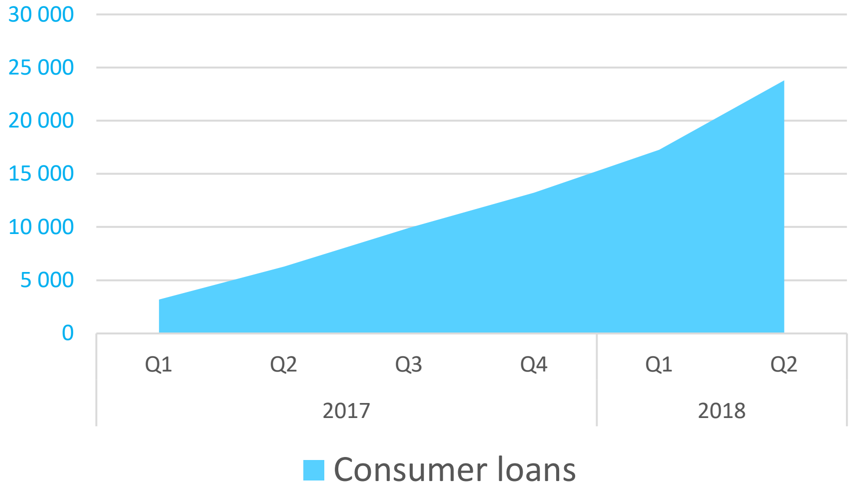


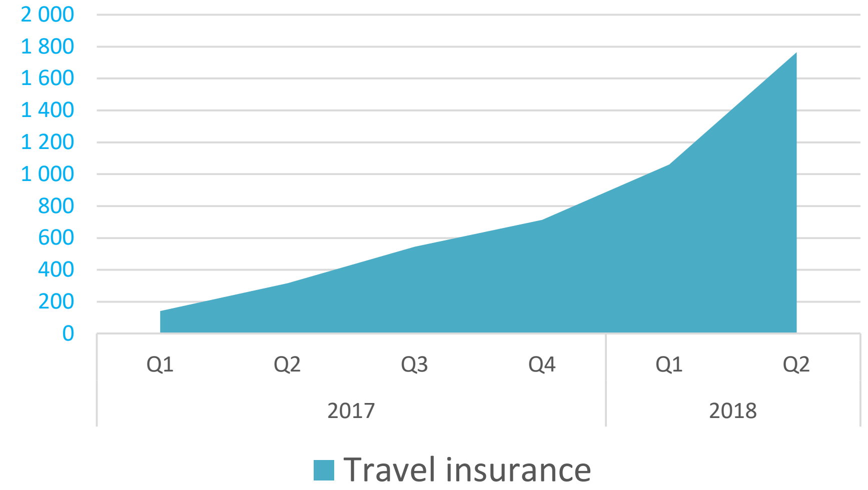
KBC Group

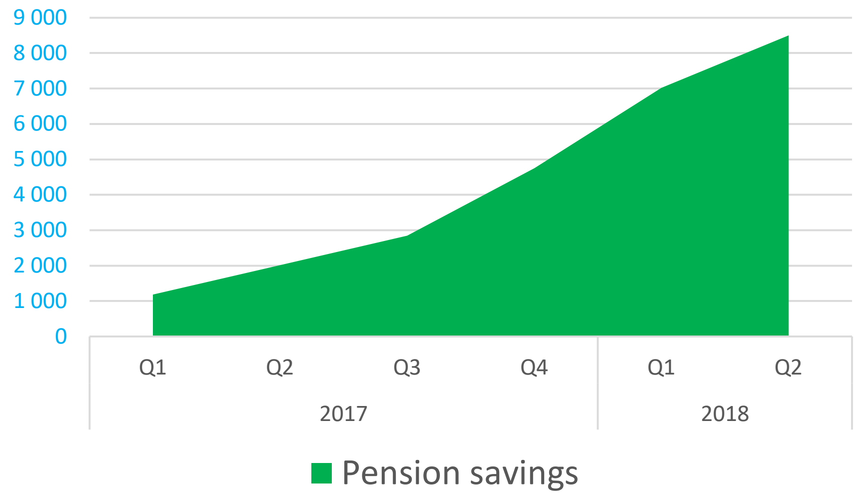
More of the same... but differently ...

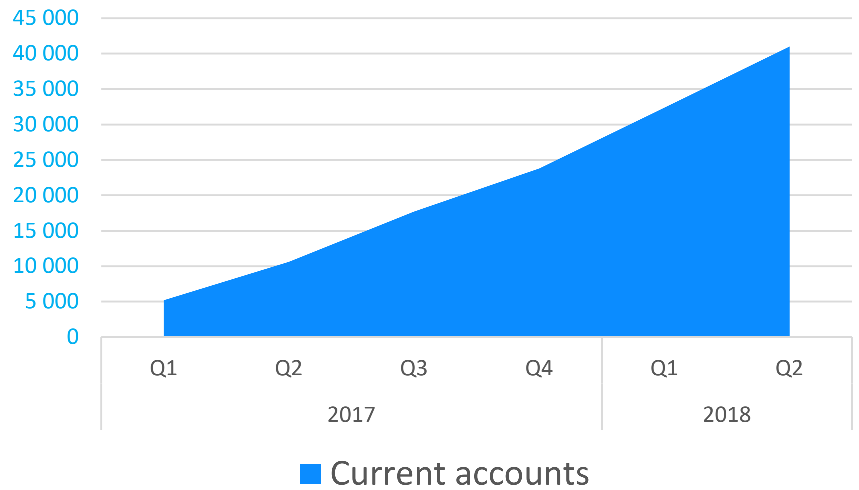
KBC Group and digitalisation

Digital sales are increasing (example BU Belgium)





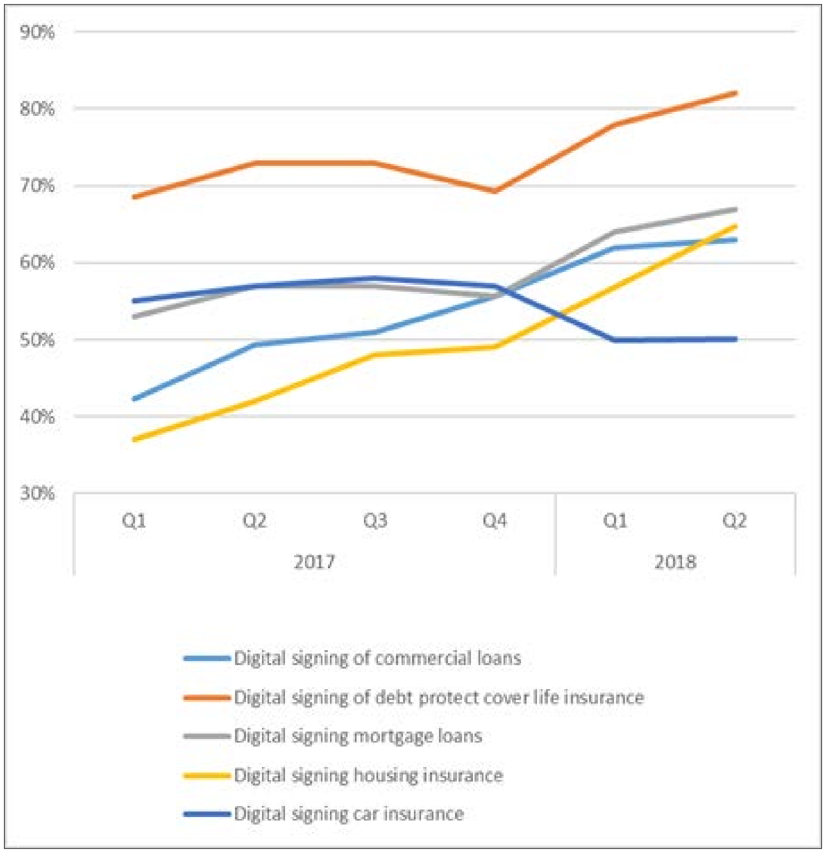




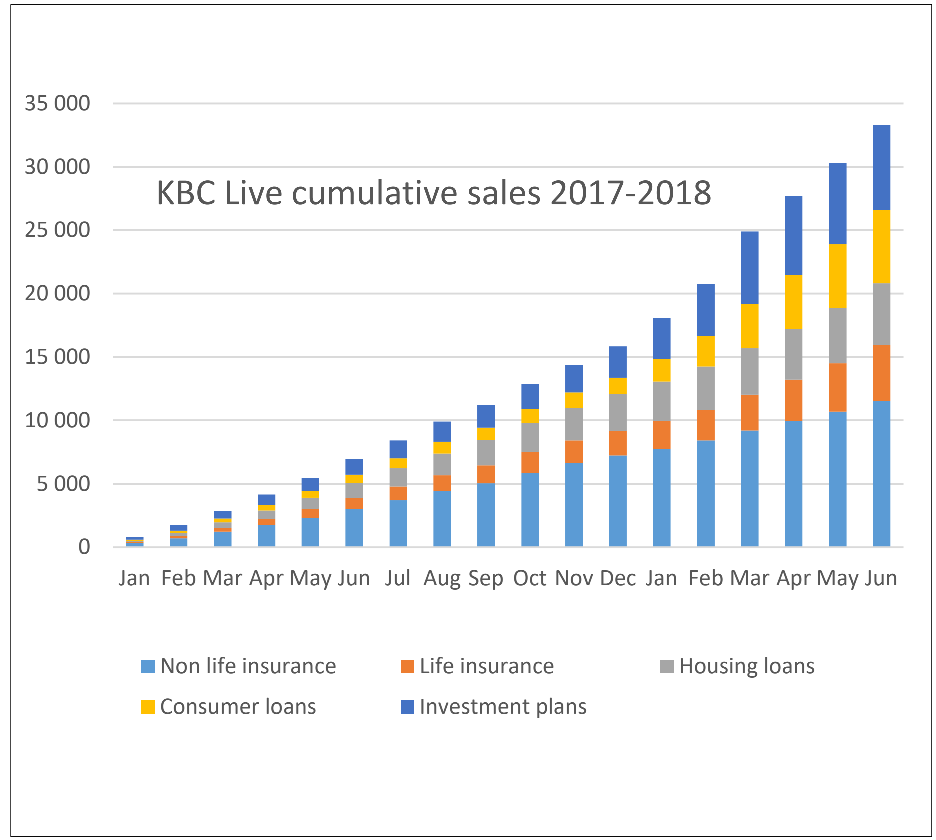
KBC Group and digitalisation

Omnichannel is embraced by our customers (example BU Belgium)

Digital signing after contact with the branches or KBC Live in 2017-2018



Digital sales @ KBC Live increases, strong performance in non-life






KBC Group
2Q and 1H 2018

Looking forward

Looking forward 2018

Economic outlook

- We expect 2018 to be a year of economic growth in the euro area, the US and in all our core markets

Group guidance

- Solid returns for all Business Units
- Loan impairments for Ireland towards a release in 100m-150m EUR range for FY18
- Impact of the reform of the Belgian corporate income tax regime: recurring positive P&L impact as of 2018 onwards and one-off negative impact in 4Q17 will be fully recuperated in roughly 3 years' time
- B4 impact for KBC Group estimated at roughly 8bn EUR higher RWA on fully loaded basis at year-end 2017, corresponding with 9% RWA inflation and -1.3% impact on CET1 ratio
- Referring to our dividend policy, KBC will pay an interim dividend of 1 EUR per share in November 2018, as an advance payment on the total dividend. The pay-out ratio policy (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit is reconfirmed

Business units

- Next to Belgium and Czech Republic, the International Markets Business Unit has become a strong net result contributor, thanks to:
  - Ireland: re-positioning as a core country with a sustainable profit contribution
  - Bulgaria: merger of CIBank into UBB. The new group UBB has 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