

# KBC Group

## Company presentation

### FY 2017 / 4Q 2017

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# 4Q 2017 key takeaways for KBC Group (1)

## ▪ GOOD BUSINESS PERFORMANCE IN 4Q17

Net result of 399m EUR in 4Q17 (and 2,575m EUR in FY17), impacted by the one-off upfront negative P&L effect of 211m EUR due to the Belgian corporate income tax reform. ROE of 17%\* in FY17

**Excluding this one-off, net result amounted to 610m EUR in 4Q17:**

- Good 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
- Excluding dealing room effect, roughly stable net interest income and higher net interest margin q-o-q
- High net fee and commission income
- High net gains from financial instruments at fair value and stable realised AFS gains
- Other net income was negatively impacted by an additional provision of 61.5m EUR related to the industry wide review of the tracker rate mortgage products originated in Ireland before 2009
- Combined ratio of 88% in FY17. Excellent sales of non-life and life insurance products
- Strict cost management resulted in a cost/income ratio of 55% YTD adjusted for specific items
- Net loan impairment releases of 30m EUR, mainly driven by Ireland (net release of 52m EUR in 4Q17 and 215m EUR in FY17). We are guiding for a net loan loss provision release for Ireland in the range of 100m-150m EUR for FY18

\* 18% excluding the one-off, upfront negative effect of 211m euros due to the Belgian corporate income tax reform

# 4Q 2017 key takeaways for KBC Group (2)

## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- The B3 common equity ratio based on the Danish Compromise at end 2017 amounted to **16.5% phased-in and 16.3% fully loaded\***
- **B4 impact** for KBC Group is estimated at **roughly 8bn EUR higher RWA** on a fully loaded basis as at year-end 2017, which corresponds with a **RWA inflation of 9%** and an impact on the **CET1 ratio of -1.3%**
- For our capital deployment plan, the 1% Basel IV buffer relative to our peer group is no longer required. Taking into account the updated median common equity ratio of our 12 peers, our **'own capital target'** and **'reference capital position'** have been lowered to **14%** and **16%**, respectively (vs 14.6% and 16.6% previously)
- **A negative impact of the first-time application of IFRS 9** (as of 1 January 2018) **on our fully loaded CET1 ratio** is estimated at **approximately 41 bps** mainly on account of reclassifications in the banking book
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **6.1%** at KBC Group
- **Continued strong liquidity position** (NSFR at 134% and LCR at 139%) at end 2017

## ■ CAPITAL DEPLOYMENT / DIVIDEND PROPOSAL

- **A total gross dividend of 3 EUR per share will be proposed to the AGM for the 2017 accounting year**, of which:
  - the interim dividend of 1 EUR per share paid in November 2017
  - a final dividend of 2 EUR per share
- **Also a buy-back of 2.7 million shares** (roughly 0.2bn EUR) will be proposed to the AGM (i.e. a **pay-out ratio of 59%** including the total dividend, AT1 coupon and share buy-back)
- The pay-out ratio policy (i.e. dividend + AT1 coupon) of **at least 50%** of consolidated profit is reconfirmed for the future

\* This clearly exceeds the minimum capital requirements set by the competent supervisors of respectively 9.875% and 10.60% for 2018. On top of the above-mentioned capital requirements, the ECB expects KBC to hold a pillar 2 guidance (P2G) of 1.0% CET1

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- 4 4Q 2017 wrap up
- 5 FY 2017 key takeaways

Annex 1: FY 2017 performance of KBC Group

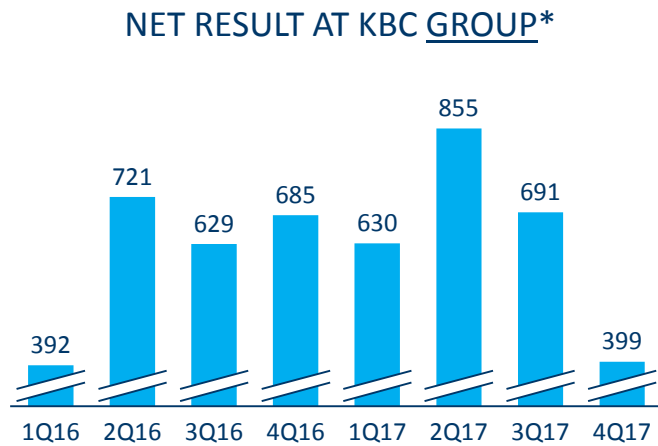
Annex 2: Company profile

Annex 3: Other items

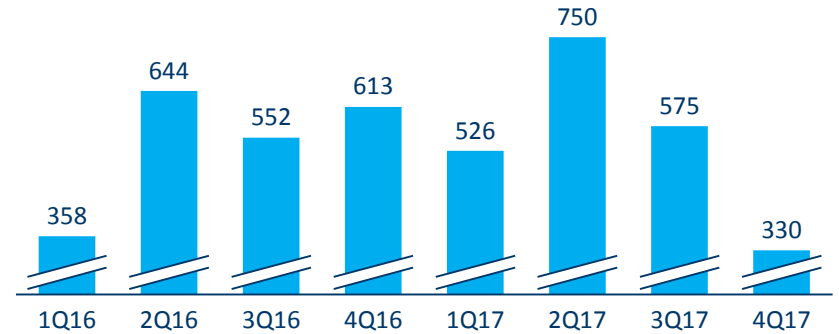
## Section 1

# 4Q 2017 performance of KBC Group

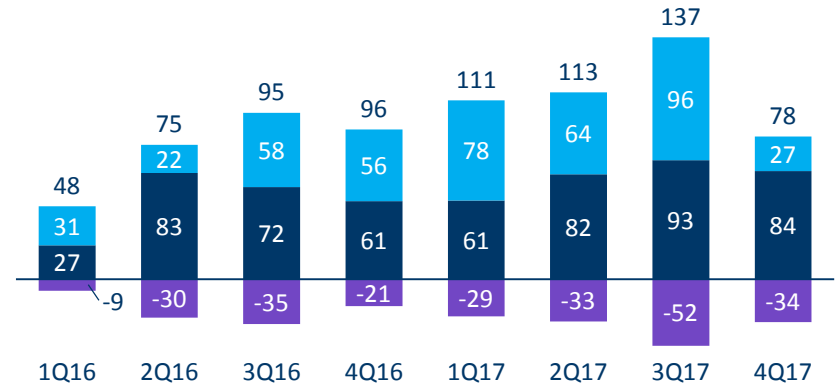
# Net result at KBC Group



CONTRIBUTION OF BANKING ACTIVITIES TO KBC GROUP NET RESULT\*



CONTRIBUTION OF INSURANCE ACTIVITIES TO KBC GROUP NET RESULT\*

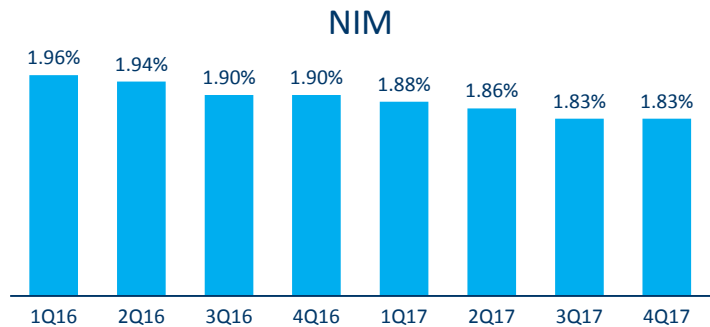
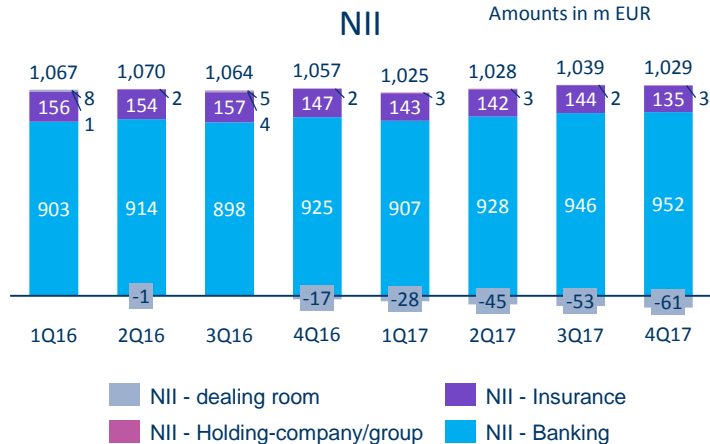


■ Non-Life result
 ■ Life result
 ■ Non-technical & taxes



\* Difference between net result at KBC Group and the sum of the banking and insurance contribution is accounted for by the holding-company/group items

# Lower net interest income, despite flat net interest margin



## Net interest income (1,029m EUR)

- Down by 1% q-o-q and by 3% y-o-y, including 27m EUR contribution of UBB/Interlease
- The small q-o-q decrease was driven primarily by:
  - more negative NII of dealing room activities
  - lower reinvestment yields
  - more negative pressure on commercial loan margins in most core countries
- partly offset by:
  - lower funding costs
  - continued good loan volume growth
  - positive impact of both short & long term increasing interest rates in the Czech Republic

## Net interest margin (1.83%)

- Flat q-o-q and down by 7 bps y-o-y

## VOLUME TREND

Excluding FX effect	Total loans ***	o/w retail mortgages	Customer deposits****	Customer deposit volumes excluding debt certificates & repos +1% q-o-q and +7% y-o-y	
				AuM	Life reserves
Volume	141bn	60bn	194bn	219bn	29bn
Growth q-o-q*	+1%	+1%	+2%	+1%	+1%
Growth y-o-y	+5%**	+4%**	+8%**	+3%	-1%

\* Non-annualised, and including UBB/Interlease (as UBB/Interlease was already consolidated in the balance sheet as of 2Q17)

\*\* Y-o-y growth excluding UBB/Interlease amounted to +4% for total loans, +3% for mortgages and +7% for customer deposits

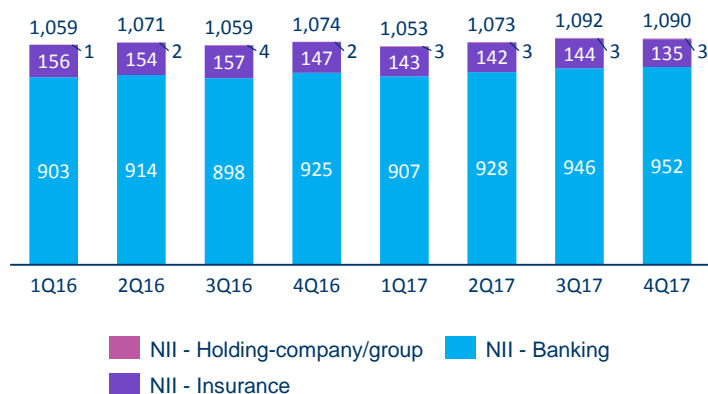
\*\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\*\* Customer deposits, including debt certificates but excluding repos

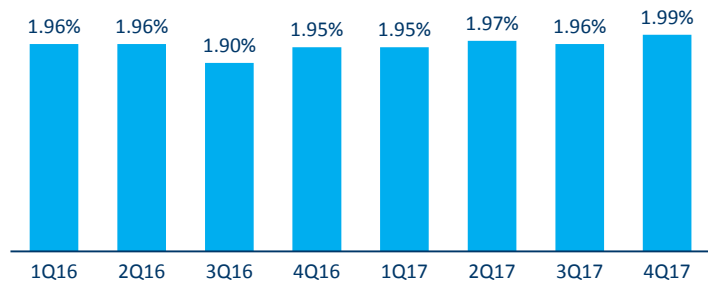


# NII/NIM excluding dealing room effect

## NII EXCLUDING DEALING ROOM EFFECT



## NIM EXCLUDING DEALING ROOM EFFECT



- **NII excluding dealing room effect increased by 1.5% y-o-y, which is an excellent performance in the current low interest rate environment**

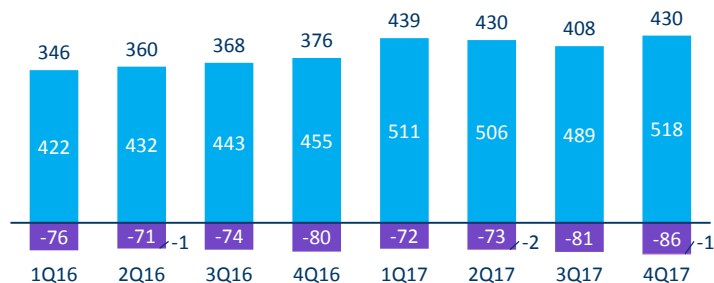
- NII banking rose by 3% y-o-y. Excluding the 27m EUR contribution of UBB/Interlease), NII banking stabilised y-o-y
- NII insurance decreased by 8% y-o-y due mainly to lower reinvestment yields

- Note that as of 2018, the interest accrual of FX derivatives in the banking book will also be booked in NII instead of FIFV in line with the transition to IFRS 9. **This means that the impact of the FX derivatives will be 'netted' in NII as of 2018** (no asymmetric presentation anymore)

- **NIM corrected for dealing room effect increased both q-o-q and y-o-y**

# High net fee and commission income

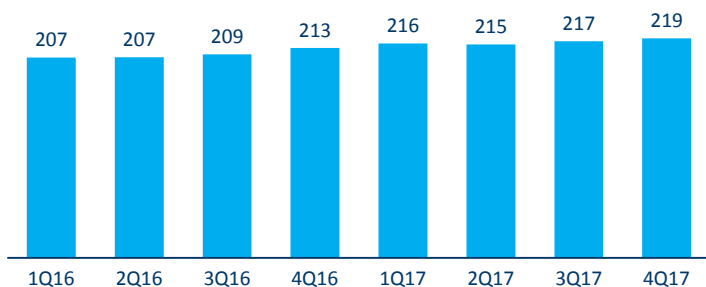
## F&C



■ F&C - insurance contribution    ■ F&C - contribution of holding-company/group  
■ F&C - banking contribution

Amounts in m EUR

## AuM



Amounts in bn EUR

## Net fee and commission income (430m EUR)

- Up by 5% q-o-q and by 14% y-o-y, including 11m EUR contribution of UBB/Interlease
- Positive net sales of mutual funds in 4Q17
- Q-o-q increase was the result chiefly of:
  - higher securities-related fees
  - higher entry fees from mutual funds & unit-linked life insurance products
  - slightly higher management fees and fees from credit files & bank guarantees
 partly offset by:
  - slightly lower fees from payment services
  - higher commissions paid on insurance sales
- Y-o-y increase was mainly the result of:
  - higher management and entry fees from mutual funds & unit-linked life insurance products (mainly thanks to a good equity market performance and a higher assets base)
  - higher fees from payment services
  - higher securities-related fees
 partly offset by:
  - lower fees from credit files & bank guarantees
  - higher commissions paid on insurance sales

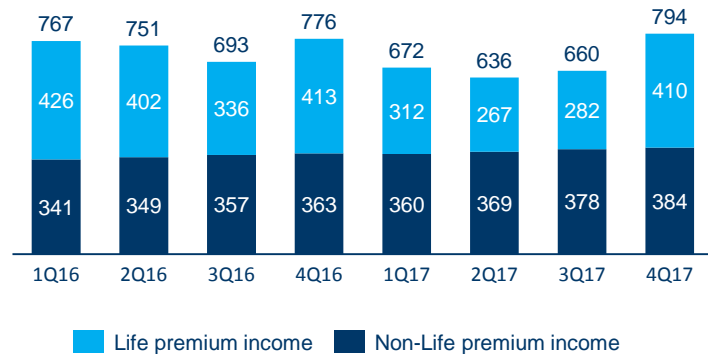
## Assets under management (219bn EUR)

- Rose by 1% q-o-q and by 3% y-o-y owing entirely to a positive price effect
- The mutual fund business has seen net inflows again, but this was offset entirely by net outflows in group assets



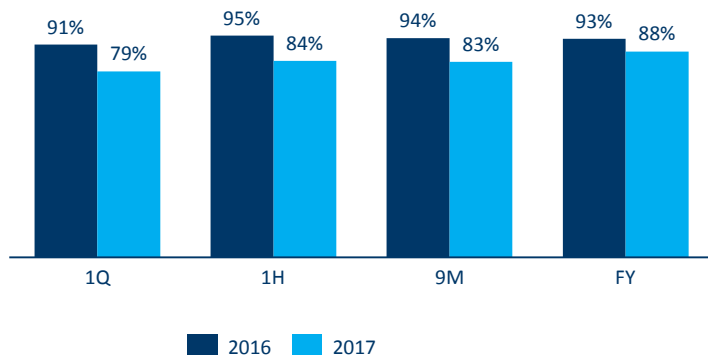
# Insurance premium income sharply up and exceptional combined ratio

## PREMIUM INCOME (GROSS EARNED PREMIUM)



- Insurance premium income (gross earned premium) at 794m EUR
  - Non-life premium income (384m) increased by 6% y-o-y
  - Life premium income (410m) up by 46% q-o-q and down by 1% y-o-y

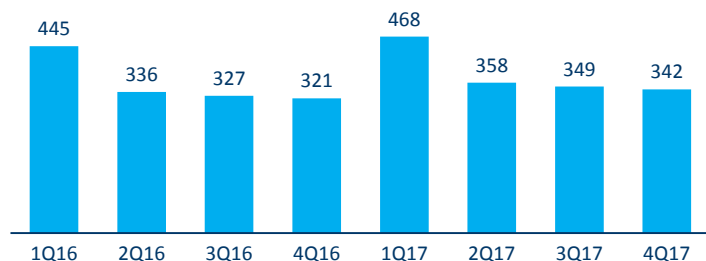
## COMBINED RATIO (NON-LIFE)



- The non-life **combined ratio** at FY17 amounted to **88%**, an improvement compared with 93% in FY16 due to low technical charges (especially in 1Q17) and a one-off release of provisions in Belgium in 3Q17 (positive effect of 26m EUR). Excluding this one-off release in 3Q17, the combined ratio amounted to 90% at FY17

# Non-life sales up y-o-y, life sales sharply up q-o-q and y-o-y

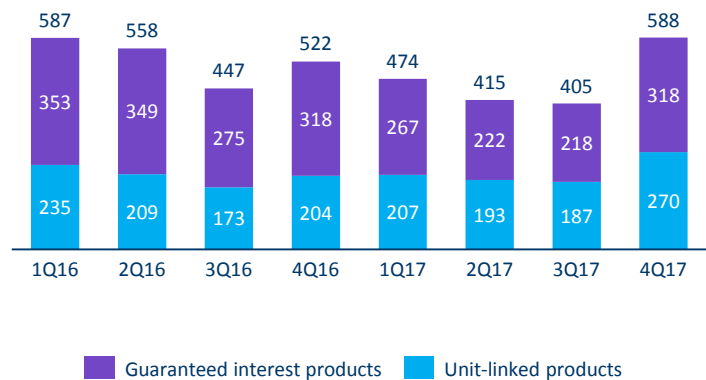
## NON-LIFE SALES (GROSS WRITTEN PREMIUM)



### ■ Sales of non-life insurance products

- Up by 7% y-o-y thanks to a good commercial performance in all major product lines in our core markets and tariff increases

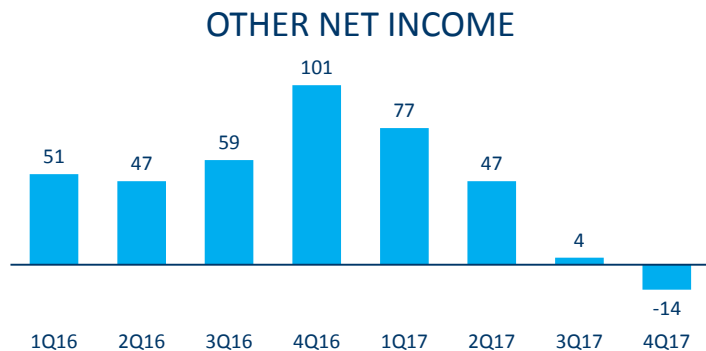
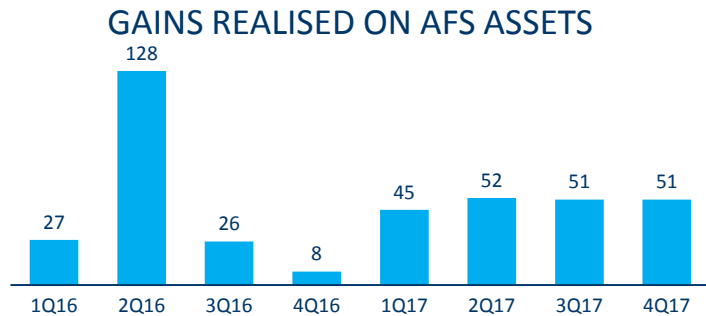
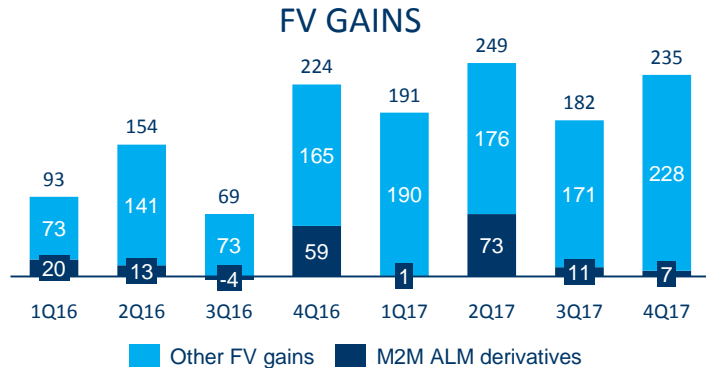
## LIFE SALES



### ■ Sales of life insurance products

- Increased by 45% q-o-q and by 13% y-o-y
- The q-o-q increase was driven mainly by higher sales of guaranteed interest products in Belgium (attributable chiefly to traditionally higher volumes in tax-incentivised pension saving products in 4Q17 and extra sales for individual pension agreements for self-employed business leaders, anticipating the reduction of corporate tax as of 2018) and higher sales of unit-linked products in Belgium and the Czech Republic
- The y-o-y increase was driven entirely by higher sales of unit-linked products in Belgium
- Sales of unit-linked products accounted for 46% of total life insurance sales

# High FV gains, stable gains realised on AFS assets, lower other net income



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

- higher dealing room income
- a slightly positive change in market, credit and funding value adjustments (mainly as a result of changes in the underlying market value of the derivative portfolio and decrease of the credit spreads)

partly offset by:

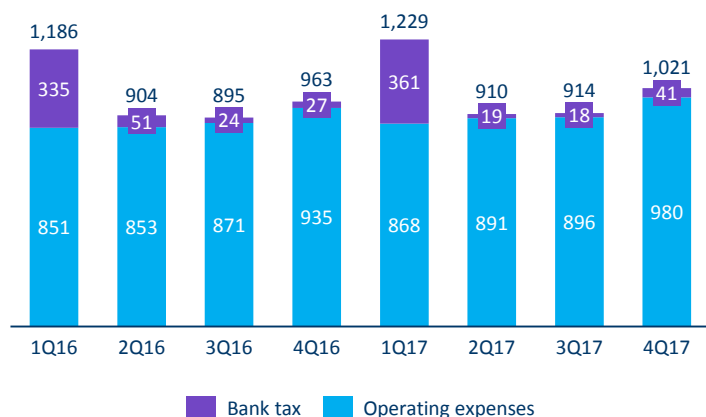
- an 7m EUR contribution of ALM derivatives in 4Q17, slightly down compared with 11m EUR in 3Q17

- **Stable gains realised on AFS assets** (for the largest part on shares)

- **Other net income** amounted to -14m EUR, sharply lower than the normal run rate of around 50m EUR. This is mainly the result of an additional provision of 61.5m EUR (compared with an additional provision of 54m EUR in 3Q17) related to the 2017 industry wide review of the tracker rate mortgage products originated in Ireland before 2009

# Seasonally higher operating expenses, but good cost/income ratio

OPERATING EXPENSES



- Cost/income ratio (banking) adjusted for specific items\* at 59% in 4Q17 and 55% in FY17 (57% in FY16)

- Operating expenses excluding bank tax increased by 9% q-o-q due mainly to:
  - seasonal effects such as traditionally higher ICT, marketing and professional fee expenses
  - higher staff expenses (wage drift in most countries and slightly higher pension costs)
- Operating expenses without bank tax increased by 5% y-o-y due chiefly to the consolidation of UBB/Interlease (20m EUR), higher ICT costs, higher marketing expenses and higher depreciation & amortisation costs (due to the capitalisation of some projects)
- Operating expenses excluding bank tax increased by 3.6% y-o-y or 125m EUR y-o-y in FY17. Taking into account a doubling of the digitalisation investments through opex (from roughly 125m EUR in FY16 to roughly 250m EUR in FY17) and the 40m EUR impact of UBB/Interlease, this implies **strict cost control thanks to many (small) cost-efficiency measures**
- Total bank taxes (including ESRF contribution) slightly increased from 437m EUR in FY16 to 439m EUR in FY17

BANK TAX SPREAD IN 2017

	TOTAL	Upfront				Spread out over the year			
	4Q17	1Q17	2Q17	3Q17	4Q17	1Q17	2Q17	3Q17	4Q17
BU BE	0	278	-6	-8	0	0	0	1	0
BU CZ	0	26	1	0	0	0	0	0	0
Hungary	22	26	0	0	0	18	20	21	22
Slovakia	5	3	0	0	0	4	4	4	5
Bulgaria	0	3	1	0	0	0	0	0	0
Ireland	14	3	0	0	0	1	0	1	14
GC	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>41</b>	<b>338</b>	<b>-4</b>	<b>-8</b>	<b>0</b>	<b>22</b>	<b>23</b>	<b>26</b>	<b>41</b>

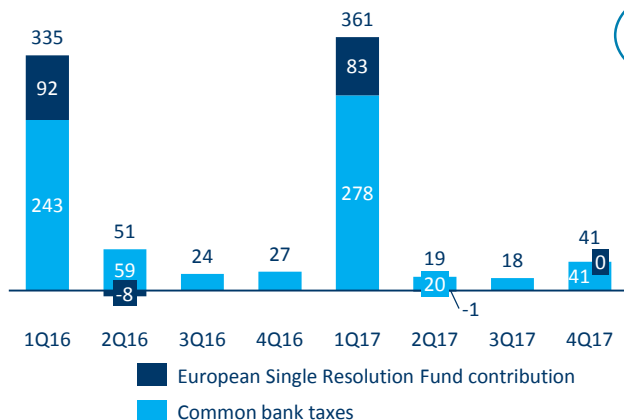
Amounts in m EUR

\* See glossary (slide 109) for the exact definition



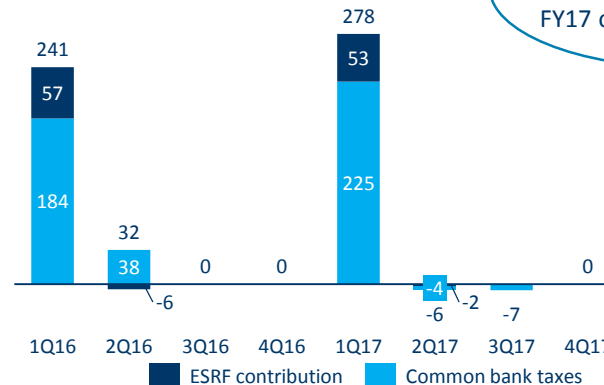
# Overview of bank taxes\*

## KBC GROUP



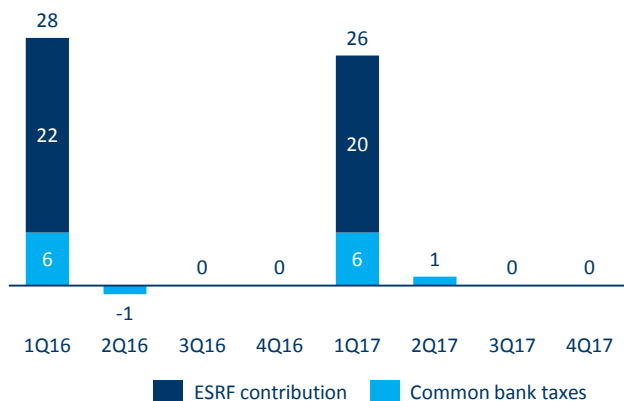
Bank taxes of 439m EUR in FY17, representing 10.9% of FY17 opex at KBC Group\*\*

## BELGIUM BU



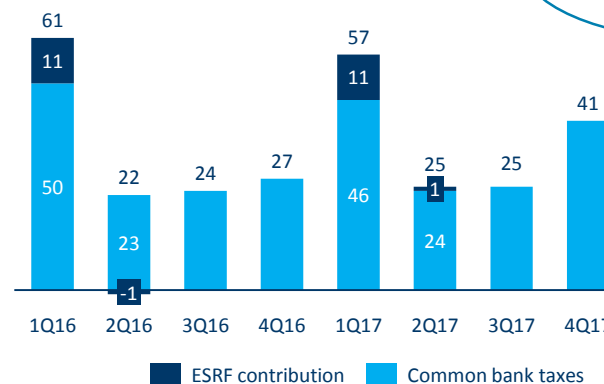
Bank taxes of 264m EUR in FY17, representing 10.8% of FY17 opex at the Belgium BU

## CZECH REPUBLIC BU



Bank taxes of 27m EUR in FY17, representing 4.2% of FY17 opex at the CZ BU

## INTERNATIONAL MARKETS BU



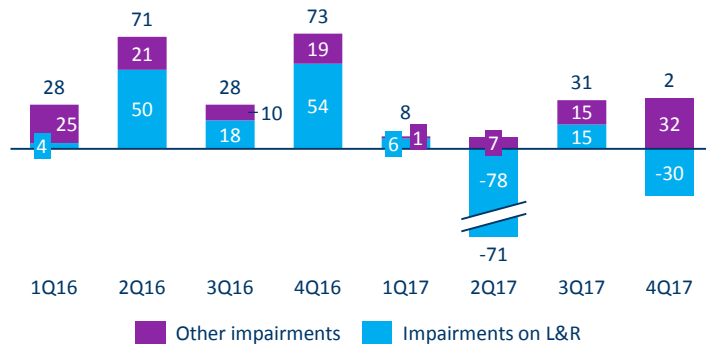
Bank taxes of 147m EUR in FY17, representing 17.6% of FY17 opex at the IM BU

\* 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.

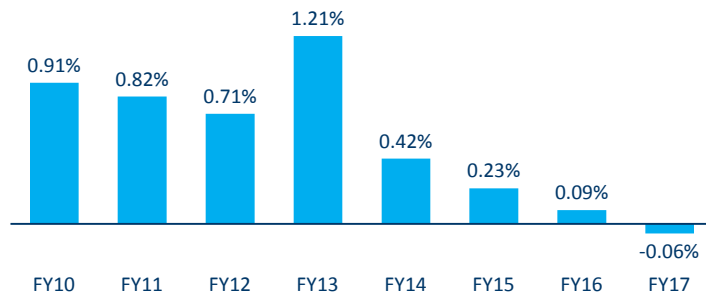
\*\* The C/I ratio adjusted for specific items of 55% in FY17 amounts to roughly 48% excluding these bank taxes

# Very low asset impairments, excellent credit cost ratio and improved impaired loans ratio

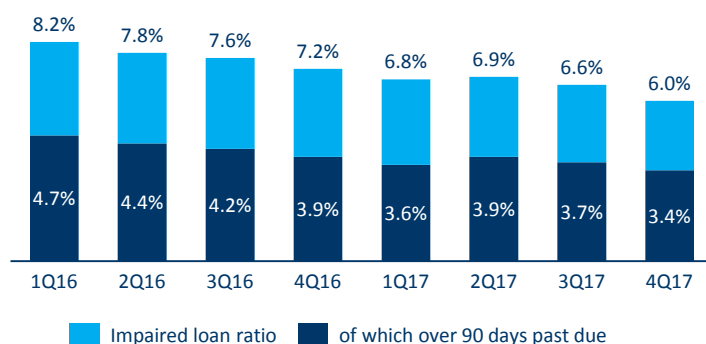
ASSET IMPAIRMENT



CREDIT COST RATIO



IMPAIRED LOANS RATIO



## Very low asset impairments

- This was attributable mainly to:
  - net loan loss provision releases in Ireland of 52m EUR (compared with 26m in 3Q17)
  - also small net loan provision reversals in the Czech Republic and Hungary
  - continued low level of loan impairments throughout the Group
  - a 6m EUR contribution of UBB/Interlease
- Impairment of 3m EUR on AFS shares (mainly in Belgium)
- Impairment of 29m on other, of which:
  - 12m EUR in the Czech Republic, mainly on ICT and a revaluation of leased cars in CSOB Leasing
  - 9m EUR in Belgium, mainly on facilities
  - 5m EUR in the International Markets Business Unit, mainly on ICT

- The **credit cost ratio** amounted to -0.06% in FY17 due to low gross impairments and several releases

- The **impaired loans ratio** improved to 6.0%, 3.4% of which over 90 days past due



# Reform of the Belgian corporate income tax regime (the so-called 'Belgian Summer Agreement')\*

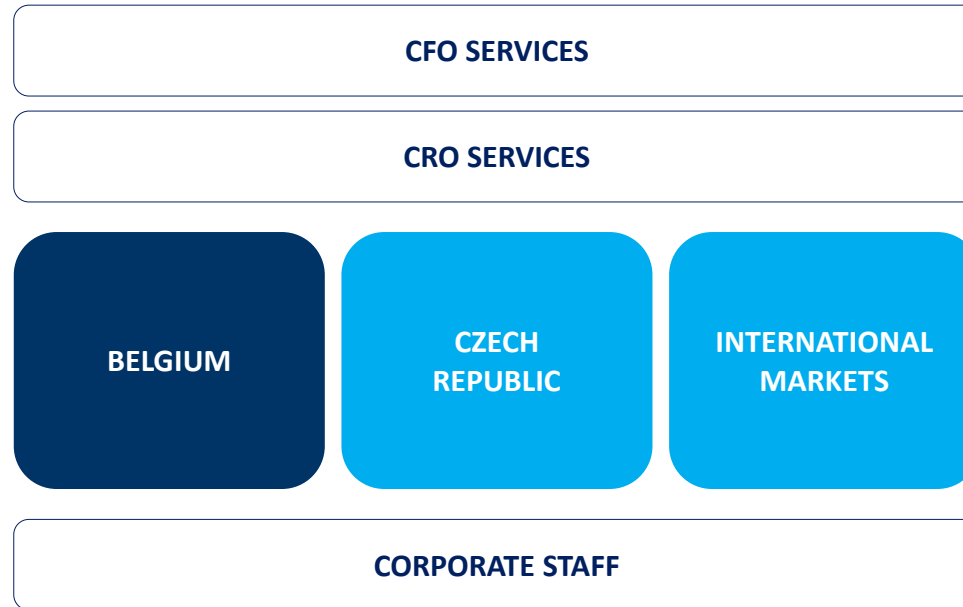
- **Impacted KBC by a one-off upfront negative P&L impact of 211m EUR in 4Q17 due mainly to:**
  - **the gradual decrease of the tax rate from 33.99% to 29.58% as of accounting year 2018 and 25.00% as of accounting year 2020. This led in 4Q17 to:**
    - a slightly positive one-off impact on the CET1 ratio (fully loaded under the Danish Compromise) in 4Q17 of roughly +0.1% thanks to amongst others:
      - higher AFS revaluation reserves after tax
      - lower risk weighted assets due to lower outstanding deferred tax assets
  - despite
    - a one-off upfront negative P&L impact of 243m EUR in 4Q17 (of which -85m EUR in BU BE and -158m EUR in GC), which only have a small effect on CET1 as most of the impact was already deducted from common equity through the deduction of tax-loss-carry-forward DTAs
  - **the introduction of a 100% exemption for dividends received (instead of 95%)**
    - For qualifying dividends, i.e. received from participations in which 10% is held or an acquisition price of 2.5m EUR is paid and the dividend is distributed out of principally taxed profits, a 95% tax exemption existed until income year 2017. Qualified dividends received from 2018 onwards are fully exempt from Belgian Corporate Income Tax. This led to a one-off positive P&L impact of 32m EUR in 4Q17 (included in Group Centre)
- **Will be fully recuperated in roughly 3 years' time due mainly to:**
  - a recurring positive P&L impact on income taxes of the Belgian KBC entities: amount depending on pre-tax profit numbers in the years ahead
  - the introduction of a 100% exemption for dividends received (instead of 95%): amount depending on qualifying dividends received partly offset by
  - the negative impact of some offsetting measures, of which the reform of the Notional Interest Deduction regime, currently estimated at roughly 15m EUR

\* Already announced together with the 2Q17 results

Section 2

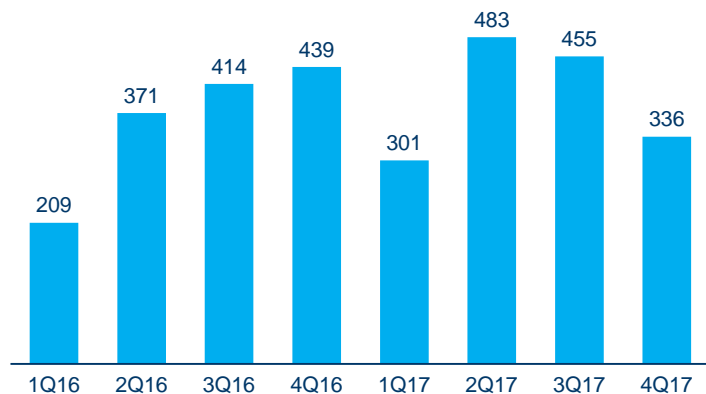
# 4Q 2017 performance of business units

# BELGIUM BUSINESS UNIT



# Belgium BU (1): net result of 336m EUR

## NET RESULT



Amounts in m EUR

## Net result at the Belgium Business Unit amounted to 336m EUR

- The quarter under review was characterised by lower net interest income, an increase in net fee and commission income, increased trading and fair value income, stable realised gains on AFS assets, lower other net income, a deteriorated combined ratio, higher sales of life insurance products, seasonally higher operating expenses, lower impairment charges q-o-q and a one-off upfront negative P&L impact of 85m EUR due to the Belgian corporate income tax reform
- Customer deposits excluding debt certificates and repos rose by 3% y-o-y, while customer loans also increased by 3% y-o-y

## VOLUME TREND

	Total loans **	o/w retail mortgages	Customer deposits***	AuM	Life reserves
Volume	94bn	34bn	133bn	205bn	27bn
Growth q-o-q*	+1%	+1%	+3%	+1%	0%
Growth y-o-y	+3%	+1%	+6%	+3%	-1%

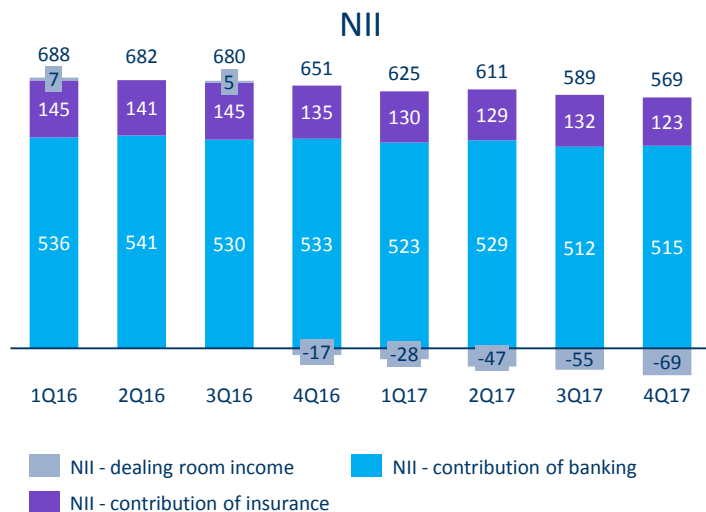
Customer deposit volumes excluding debt certificates & repos +1% q-o-q and +3% y-o-y

\* Non-annualised

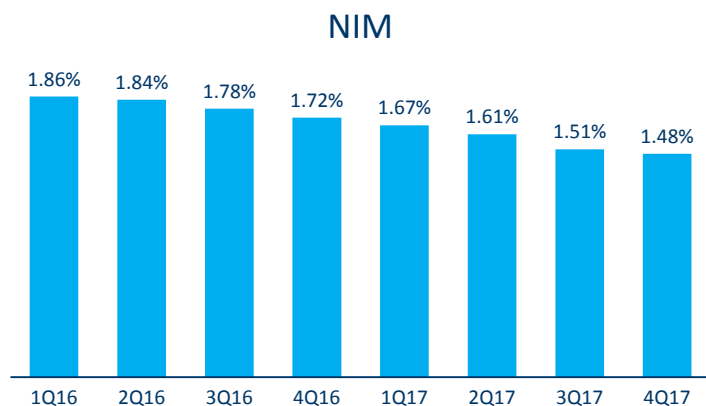
\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

# Belgium BU (2): lower NII and NIM



Amounts in m EUR



## ■ Net interest income (569m EUR)

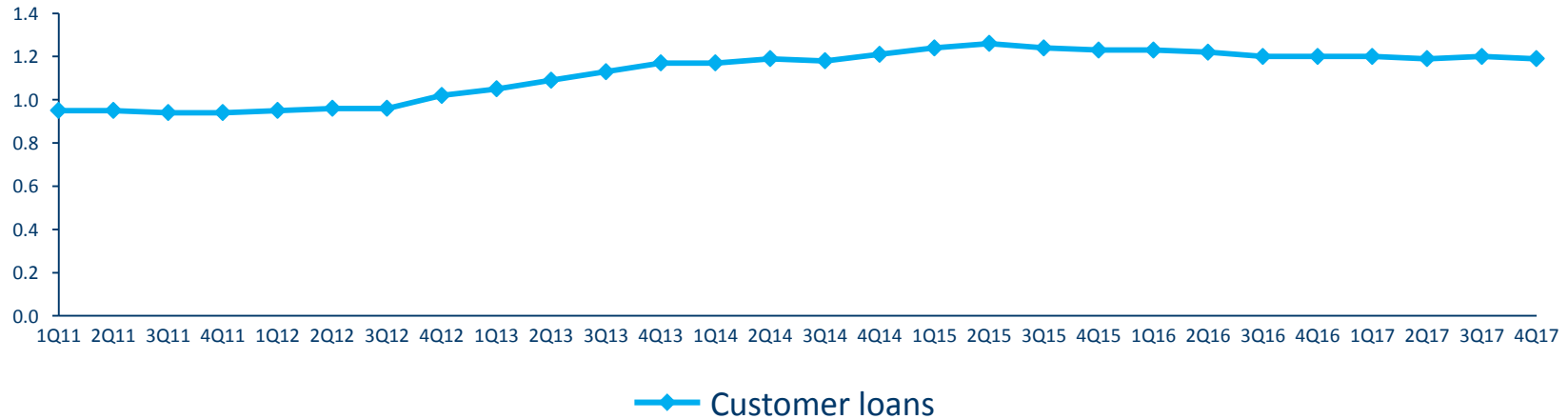
- Down by 3% q-o-q and by 13% y-o-y
- Down by 13% y-o-y, driven primarily by:
  - lower contribution of dealing room
  - lower reinvestment yields
  - pressure on commercial loan margins
  - lower upfront prepayment fees (6m EUR in 4Q17 compared with 13m EUR in 4Q16)
- partly offset by:
  - lower funding costs on term deposits
  - good loan volume growth

## ■ Net interest margin (1.48%)

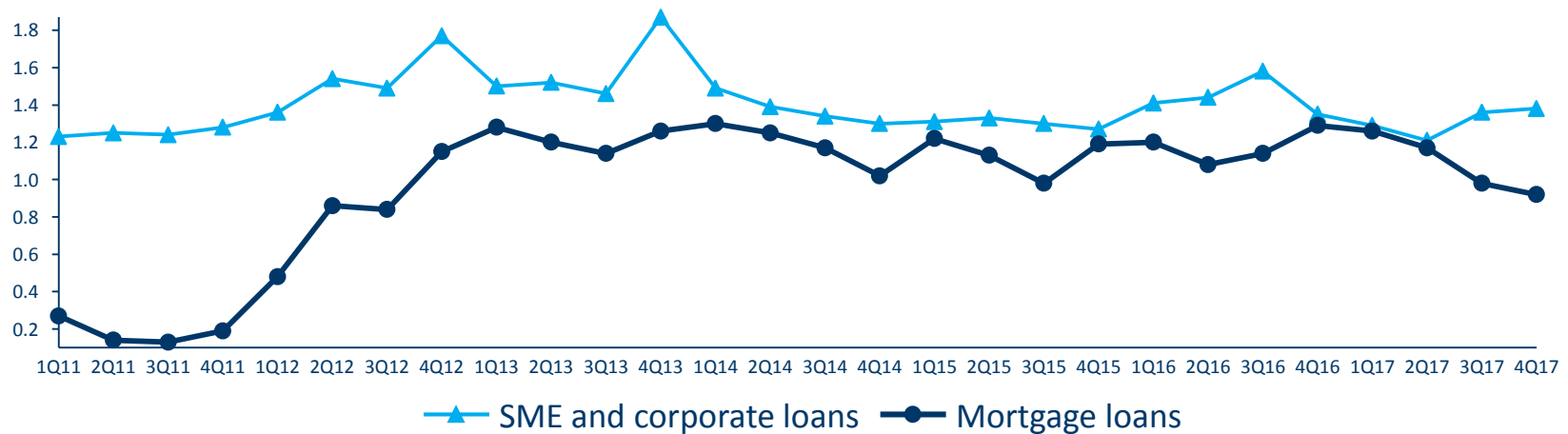
- Fell by 3 bps q-o-q and 24 bps y-o-y due to the negative impact of lower reinvestment yields, decreased net interest income from the dealing room and some pressure on commercial loan margins

# Credit margins in Belgium

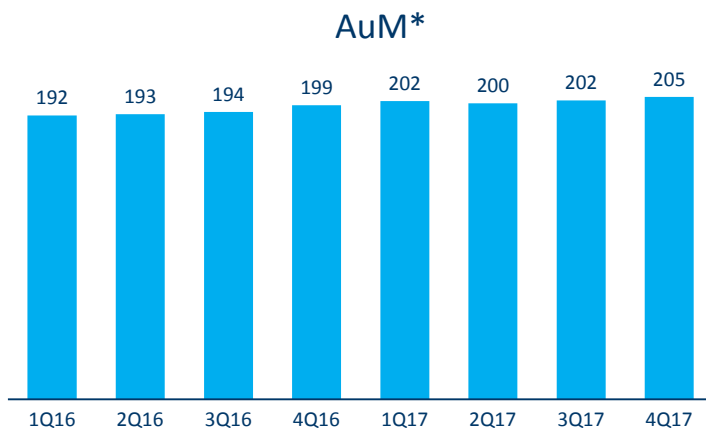
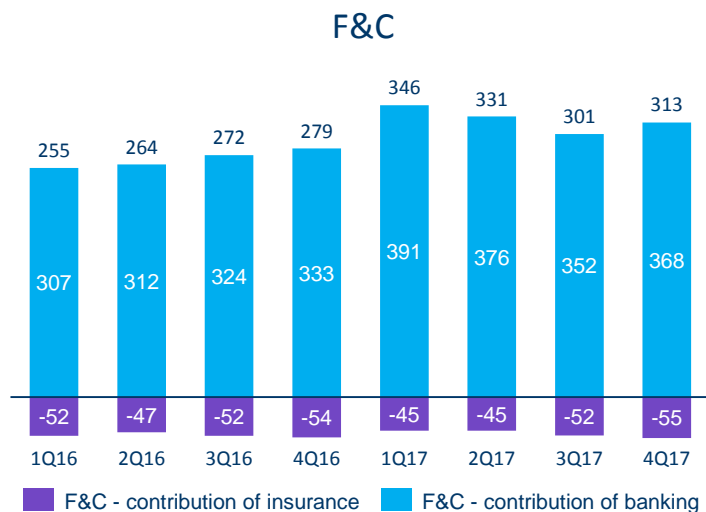
PRODUCT SPREAD ON CUSTOMER LOAN BOOK, OUTSTANDING



PRODUCT SPREAD ON NEW PRODUCTION



# Belgium BU (3): good net F&C income



\* The breakdown across the BUs is based on the 'Assets under Distribution' in each BU

## Net fee and commission income (313m EUR)

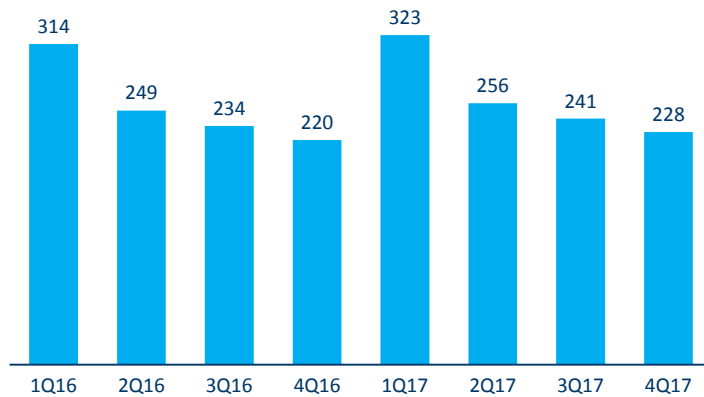
- Positive net sales of mutual funds in 4Q17
- Net F&C income increased by 4% q-o-q due mainly to:
  - higher securities-related fees
  - higher entry fees from mutual funds and unit-linked life insurance products
  - slightly higher management fees partly offset by
    - lower fees from payment services
    - higher commissions paid on insurance sales
- Rose by 12% y-o-y driven chiefly by higher management fees from mutual funds and unit-linked life insurance products (mainly thanks to a more favourable asset mix and a higher assets base), higher securities-related fees, higher entry fees from unit-linked life insurance products and slightly higher fees from payment services, which were only partly offset by lower fees from credit files & bank guarantees

## Assets under management (205bn EUR)

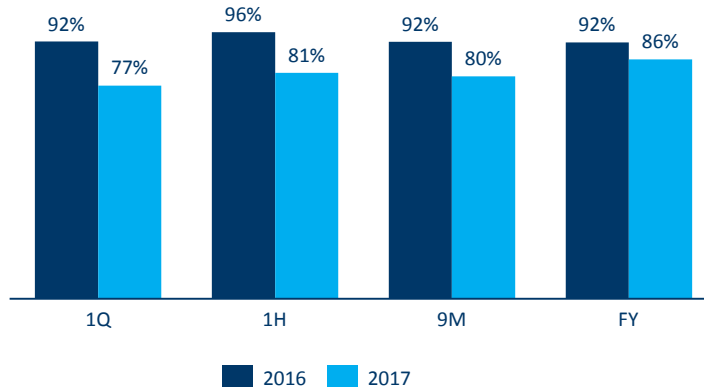
- Rose by 1% q-o-q and by 3% y-o-y owing entirely to a positive price effect

# Belgium BU (4): higher y-o-y non-life sales and exceptional combined ratio

NON-LIFE SALES (GROSS WRITTEN PREMIUM)



COMBINED RATIO (NON-LIFE)



## ■ Sales of non-life insurance products

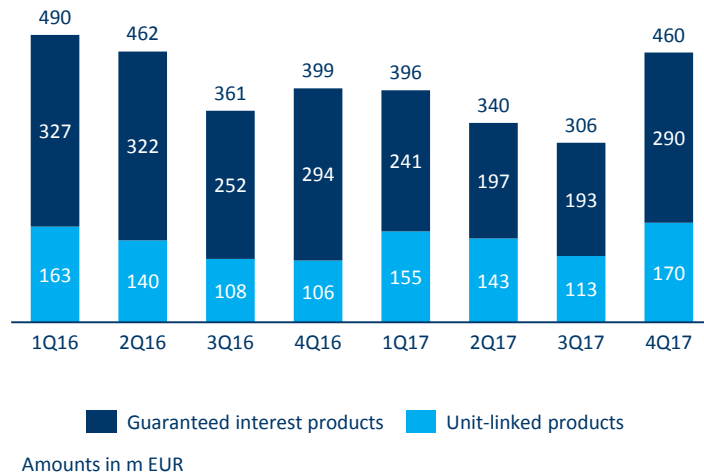
- Increased by 4% y-o-y driven mainly by a good commercial performance and some tariff increases. Premium growth was situated in all classes, except for 'Accident & Health'

- **Combined ratio** amounted to **86%** in FY17 (92% in FY16), an exceptional level as a result of low technical charges (especially in 1Q17) and a one-off release of provisions in 3Q17 (positive effect of 26m EUR). Excluding this one-off release in 3Q17, the combined ratio amounted to 88% at FY17. 4Q17 was negatively impacted by higher claims (partly seasonal) and the impact of updated mortality tables



# Belgium BU (5): higher life sales and good cross-selling ratios

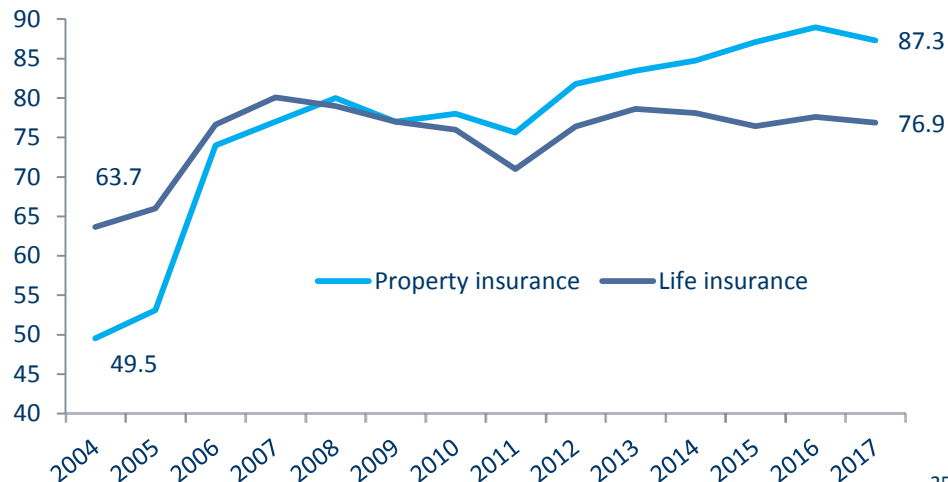
## LIFE SALES



## ■ Sales of life insurance products

- Rose by 50% q-o-q due mainly to higher sales of guaranteed interest products in Belgium (attributable chiefly to traditionally higher volumes in tax-incentivised pension saving products in 4Q17 and extra sales for individual pension agreements for self-employed business leaders, anticipating the reduction of corporate tax as of 2018) and higher sales of unit-linked products due to commercial efforts and favourable investment climate
- Increased by 15% y-o-y driven entirely by higher sales of unit-linked products
- As a result, guaranteed interest products and unit-linked products accounted for 63% and 37%, respectively, of life insurance sales in 3Q17

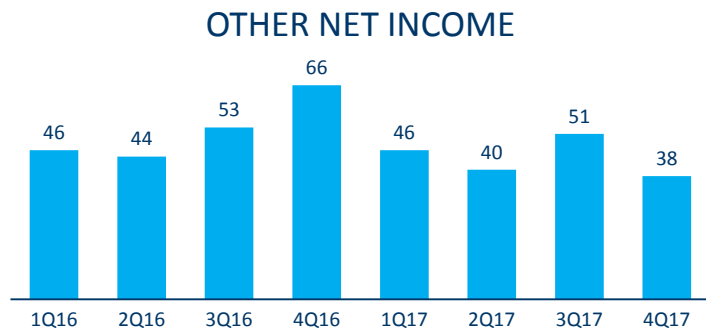
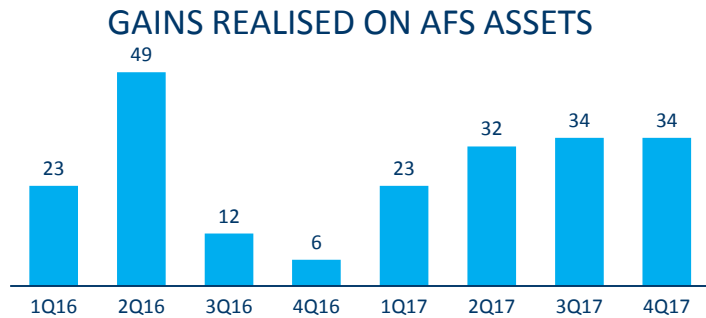
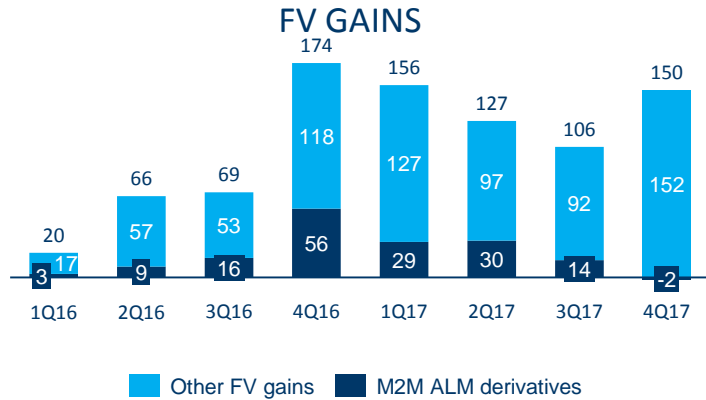
## MORTGAGE-RELATED CROSS-SELLING RATIOS



## ■ Mortgage-related cross-selling ratios

- 87.3% for property insurance
- 76.9% for life insurance

# Belgium BU (6): high FV gains, stable gains realised on AFS assets and lower other net income



- The higher q-o-q figures for **net gains from financial instruments at fair value** were the result mainly of strong dealing room income and a slightly positive q-o-q change in market, credit and funding value adjustments (mainly as a result of changes in the underlying market value of the derivative portfolio and decrease of the credit spreads) partly offset by a negative q-o-q change in M2M ALM derivatives

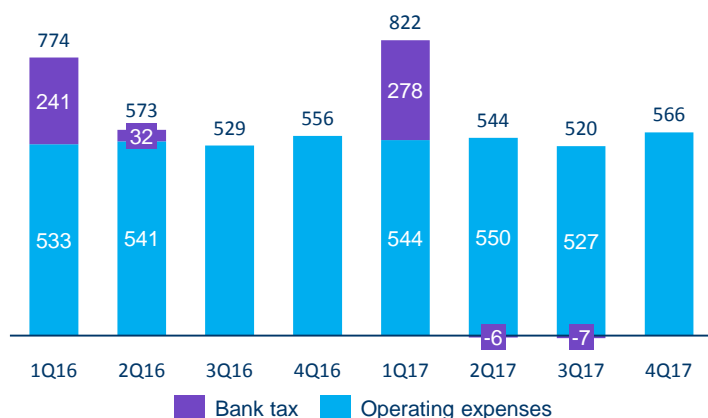
- **Gains realised on AFS assets** stabilised at 34m EUR

- **Other net income** amounted to 38m EUR in 4Q17, lower than the normal run rate of around 50m EUR

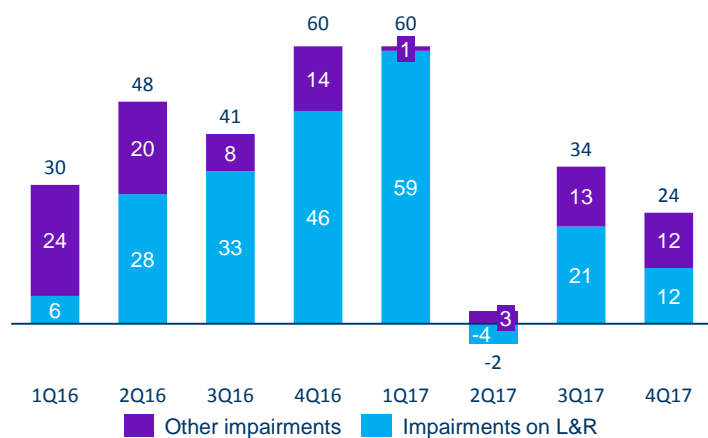


# Belgium BU (7): seasonally higher operating expenses, lower impairments, good credit cost ratio

## OPERATING EXPENSES



## ASSET IMPAIRMENT

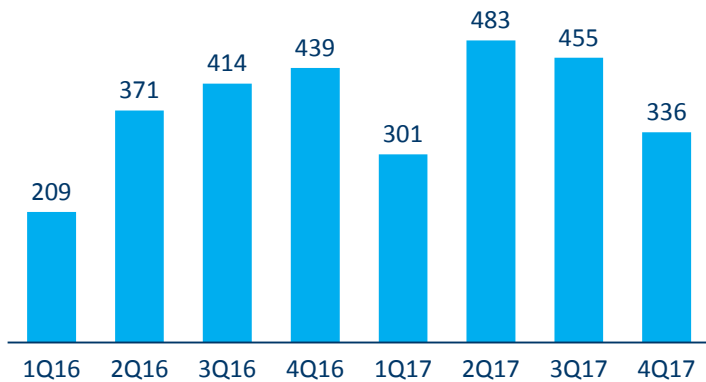


Amounts in m EUR

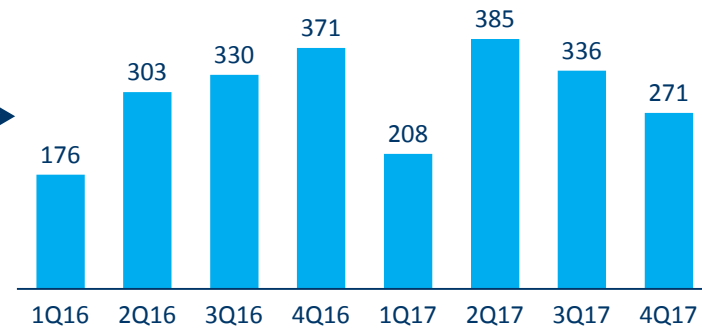
- Operating expenses: +9% q-o-q and +2% y-o-y**
  - Operating expenses without bank tax rose by 7% q-o-q due mainly to seasonal effects such as traditionally higher ICT, marketing and professional fee expenses
  - Operating expenses without bank tax increased by 2% y-o-y as lower staff, facilities and professional fee expenses were more than offset by higher ICT & marketing expenses
  - Cost/income ratio: 49% in 4Q17 and 52% in FY17, distorted mainly by the bank taxes. Adjusted for specific items, the C/I ratio amounted to 54% in 4Q17 and 53% in FY17 (55% in FY16)
- Loan loss provisions** amounted to 12m EUR in 4Q17 (compared with loan loss provisions of 21m EUR in 3Q17). The q-o-q improvement was due to overall low gross impairments (in all segments) in 4Q17, while 3Q17 was negatively impacted by one large corporate file. **Credit cost ratio** amounted to 9 bps in FY17 (12 bps in FY16). Impairments on AFS shares (at KBC Insurance) and other (mainly on facilities) amounted to 3m EUR and 9m EUR respectively
- Impaired loans ratio** stabilised at 2.8%, 1.4% of which over 90 days past due

# Net result at the Belgium BU

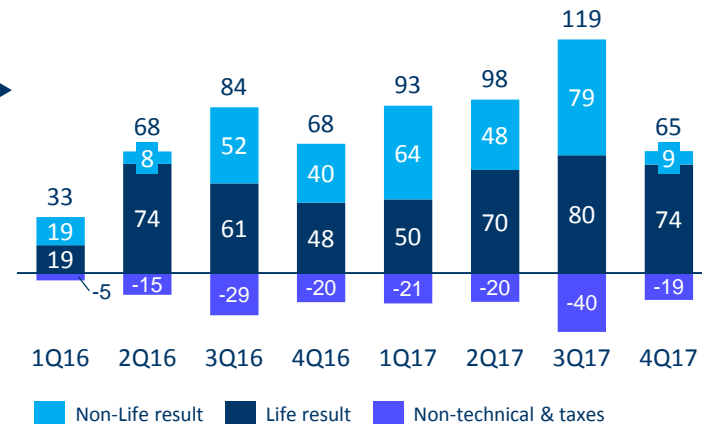
NET RESULT AT THE BELGIUM BU\*



CONTRIBUTION OF BANKING ACTIVITIES TO NET RESULT OF THE BELGIUM BU\*

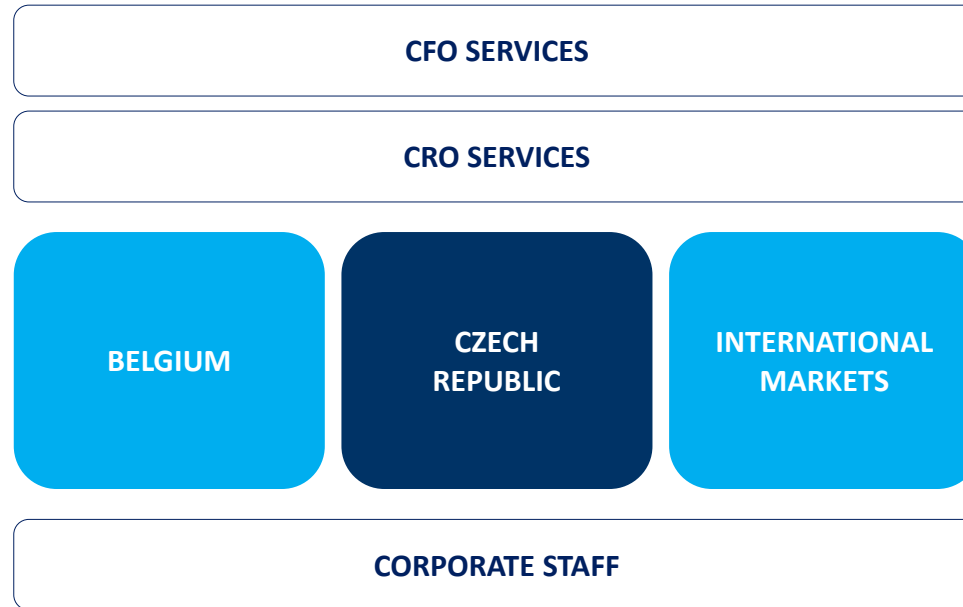


CONTRIBUTION OF INSURANCE ACTIVITIES TO NET RESULT OF THE BELGIUM BU\*



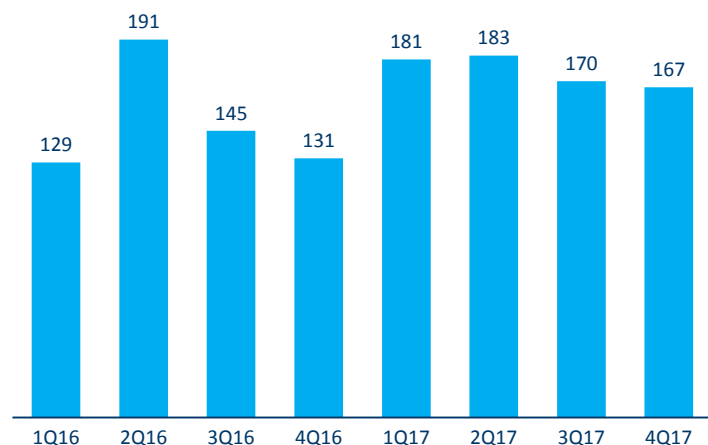
\* Difference between net profit at the Belgium Business Unit and the sum of the banking and insurance contribution is accounted for by the rounding up or down of figures

# CZECH REPUBLIC BUSINESS UNIT



# Czech Republic BU (1): net result of 167m EUR

## NET RESULT



Amounts in m EUR

- **Net result** at the Czech Republic Business Unit of 167m EUR
  - Q-o-q results were characterised by higher net interest income, higher net fee and commission income, again very favourable net results from financial instruments at fair value (although flat q-o-q), stable net other income, a deteriorated combined ratio, higher sales of life insurance products, seasonally higher operating expenses and impairment charges
  - Profit contribution from the insurance business remained limited in comparison to the banking business

## VOLUME TREND

Excluding FX effect	Total loans **	o/w retail mortgages	Customer deposits***	AuM	Life reserves
Volume	22bn	11bn	30bn	9.6bn	1.2bn
Growth q-o-q*	-1%	+2%	+1%	+4%	+7%
Growth y-o-y	+8%	+11%	+9%	+13%	+12%

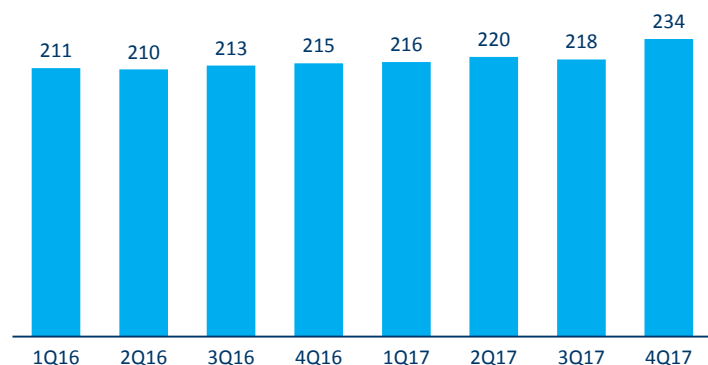
\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

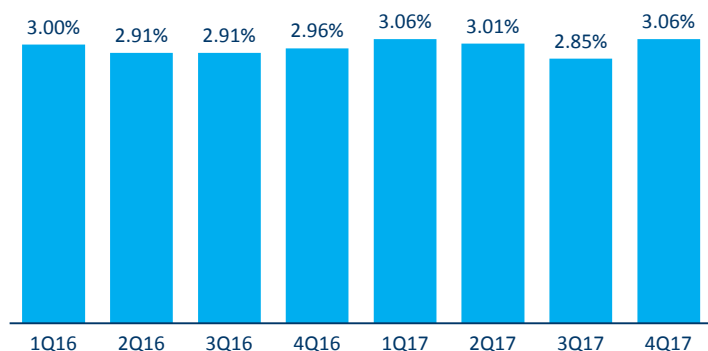
# Czech Republic BU (2): higher NII and NIM

## NII



Amounts in m EUR

## NIM



### ■ Net interest income (234m EUR)

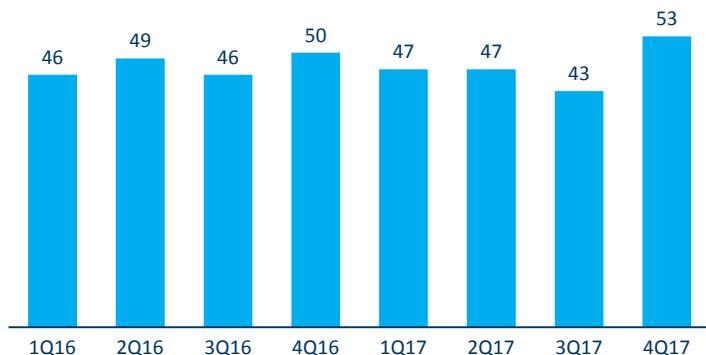
- Up by 8% q-o-q and by 9% y-o-y to 234m EUR. Corrected for FX effects, NII rose by 6% q-o-q and by 4% y-o-y pro forma
- The pro forma q-o-q increase was the result primarily of the positive impact of both short & long term increasing interest rates and the growth in retail loan volumes, which were partly offset by pressure on lending margins in mortgages and consumer finance
- Loan volumes up by 8% y-o-y, driven mainly by growth in mortgages and consumer finance and, to a lesser extent, in SME loans
- Customer deposit volumes up by 9% y-o-y

### ■ Net interest margin (3.06%)

- Up by 21 bps q-o-q and by 10 bps y-o-y to 3.06%
- The q-o-q increase was driven mainly by the positive impact of repo rate hikes
- The y-o-y increase was the result of the positive impact of repo rate hikes and a reduction of the average offered rate on savings accounts, partly offset by a lower reinvestment yield and pressure on lending margins (especially in mortgages and consumer finance)

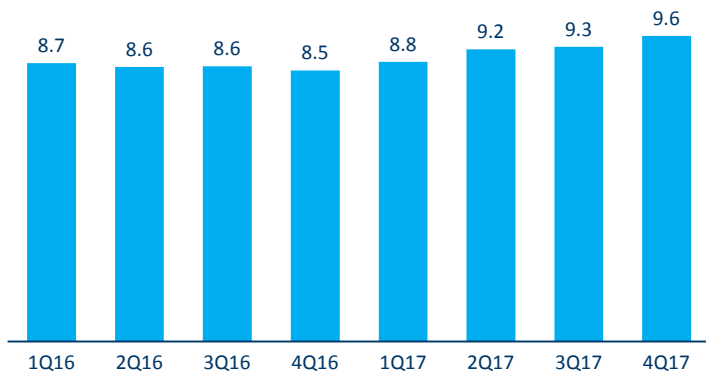
# Czech Republic BU (3): higher net F&C income

## F&C



Amounts in m EUR

## AuM\*



\* The breakdown across the BUs is based on the 'Assets under Distribution' in each BU

Amounts in bn EUR

## Net fee and commission income (53m EUR)

- Up by 23% q-o-q and by 7% y-o-y (or +21% q-o-q and +2% y-o-y pro forma, adjusted to take account of FX effect)
- The q-o-q increase was mainly the result of higher fees from payment services (seasonal effect of Christmas), higher management fees, higher fees from credit files & bank guarantees (higher prepayments of corporate loans) and less fees paid to the Czech Post
- The y-o-y increase was attributable chiefly to higher management & entry fees and less fees paid to the Czech Post, partly offset by lower securities-related fees

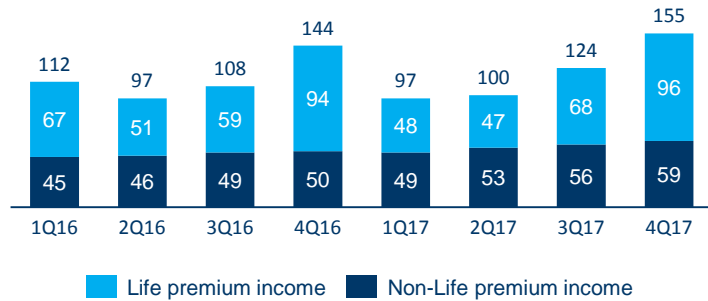
## Assets under management (9.6bn EUR)

- Increased by 4% q-o-q owing to net inflows (+2%) and a positive price effect (+1%)
- Y-o-y, assets under management rose by 13%, driven by net inflows (+4%) and a positive price effect (+8%)



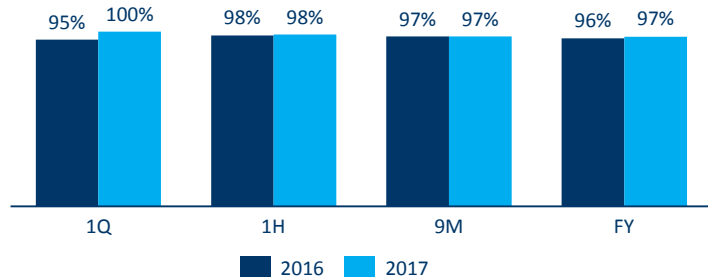
# Czech Republic BU (4): higher premium income, combined ratio impacted by several large claims

## PREMIUM INCOME (GROSS EARNED PREMIUM)



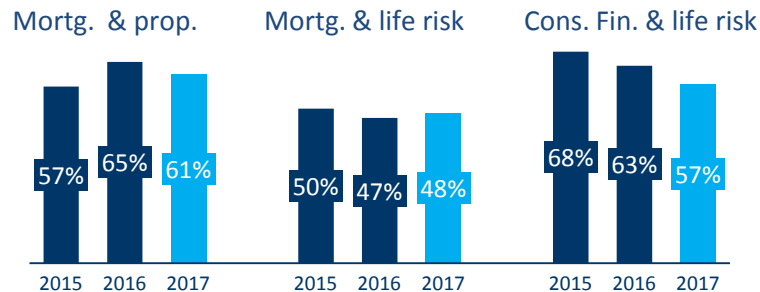
- Insurance premium income (gross earned premium) stood at 155m EUR
  - Non-life premium income (59m) rose by 11% y-o-y excluding FX effect, due mainly to growth in all products
  - Life premium income (96m) went up by 39% q-o-q and decreased by 2% y-o-y, excluding FX effect. Q-o-q increase entirely in unit-linked single premiums

## COMBINED RATIO (NON-LIFE)



- Combined ratio: 97% in FY17 (compared with 96% in FY16) due mainly to higher claims in MTPL

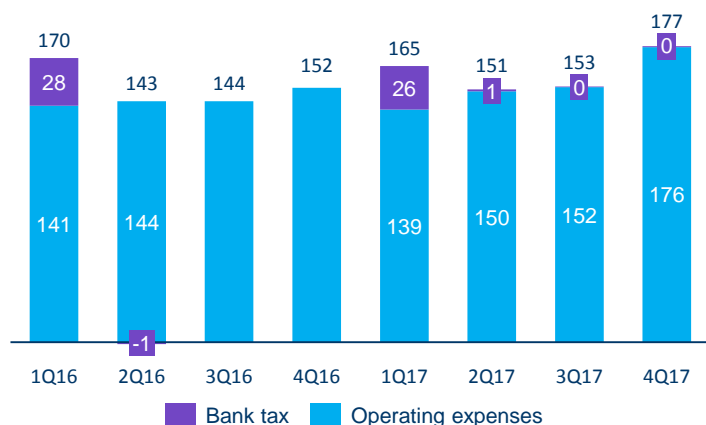
## CROSS-SELLING RATIOS



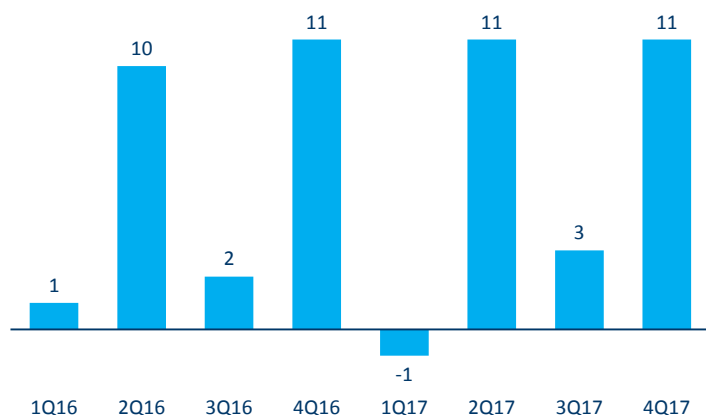
- Cross-selling ratios remained at a good level

# Czech Republic BU (5): seasonally higher operating expenses, higher impairments, excellent credit cost ratio

OPERATING EXPENSES



ASSET IMPAIRMENT



## Operating expenses (177m EUR)

- Rose by 14% q-o-q and by 11% y-o-y, excluding FX effect and bank tax
- The q-o-q increase excluding FX effect and bank tax was due mainly to traditionally higher marketing expenses and professional fees, higher ICT costs and facilities expenses
- The y-o-y increase excluding FX effect and bank tax was attributable primarily to higher ICT costs and higher staff expenses (mainly due to wage inflation)
- Cost/income ratio at 45% in 4Q17 and 42% in FY17. Adjusted for specific items, the C/I ratio amounted to roughly 48% in 4Q17 and 43% in FY17 (and 46% in FY16)

- **Net impairment release on L&R** was the result of several releases in retail and leasing (which more than offset the low gross impairments)

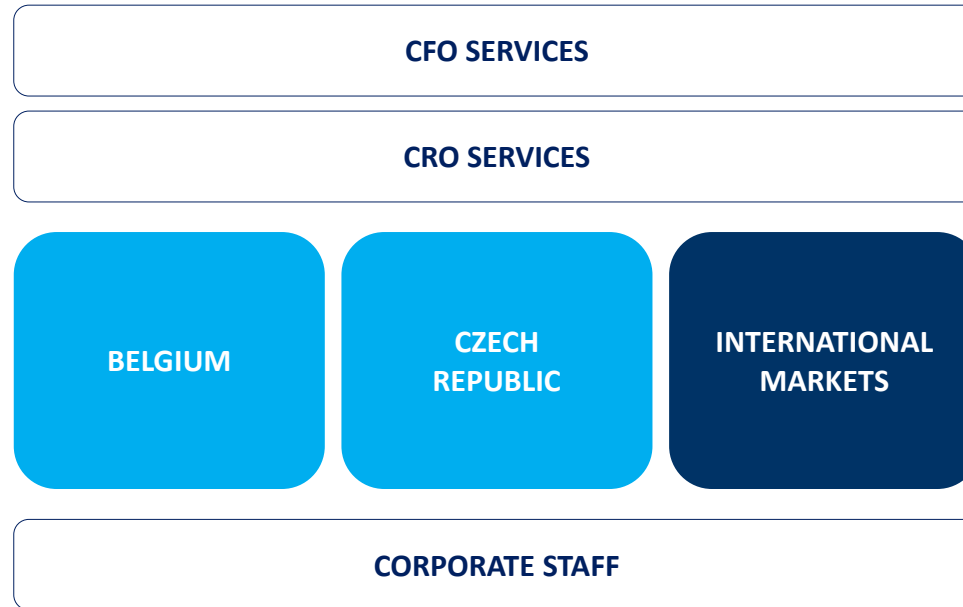
- **Impairment of 12m EUR on 'other'**, mainly on ICT and a revaluation of leased cars in CSOB Leasing

- **Credit cost ratio** amounted to 0.02% in FY17

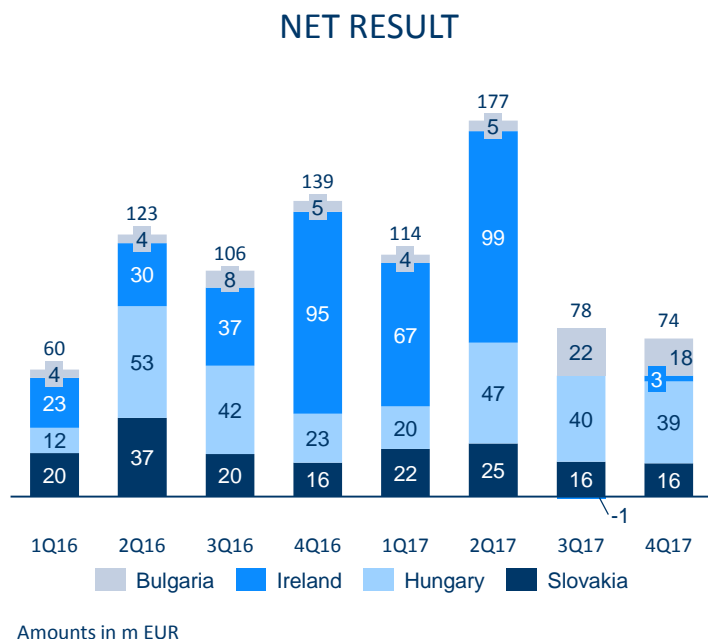
	2013	2014	2015	2016	2017
CCR	0.26%	0.18%	0.18%	0.11%	0.02%

- **Impaired loans ratio** improved to 2.4%, 1.6% of which over 90 days past due

# INTERNATIONAL MARKETS BUSINESS UNIT



# International Markets BU (1): net result of 74m EUR



- **Net result: 74m EUR** partly thanks to the consolidation of UBB/Interlease (+13m EUR), despite an additional provision of 61.5m EUR related to the tracker mortgage review in Ireland

The q-o-q **results** were characterised by:

- higher net interest income (especially in IRL). NIM amounted to 2.84% in 4Q17 (2.83% in 3Q17)
  - slightly higher net fee and commission income (in HU & SK)
  - slightly lower result from financial instruments at fair value
  - lower net other income (especially in IRL)
  - a very good combined ratio of 93% (especially in SK)
  - slightly higher life insurance sales (in SK & BG)
  - seasonally higher costs
  - higher net impairment releases (especially in IRL)
- Profit **breakdown** for International Markets (next slides): 16m EUR for Slovakia, 39m EUR for Hungary, 3m EUR for Ireland and 18m EUR for Bulgaria

## VOLUME TREND

Excluding FX effect	Total loans ***	o/w retail mortgages	Customer deposits****	AuM*****	Life reserves
Volume	24bn	15bn	23bn	5.0bn	0.6bn
Growth q-o-q*	+1%	+2%	+3%	-16%	+1%
Growth y-o-y	+13%**	+8%**	+24%**	-12%	+2%

\* Non-annualised, and including UBB/Interlease (as UBB/Interlease was already consolidated in the balance sheet as of 2Q17)

\*\* Y-o-y growth excluding UBB/Interlease amounted to +4% for total loans, +5% for mortgages and +7% for customer deposits

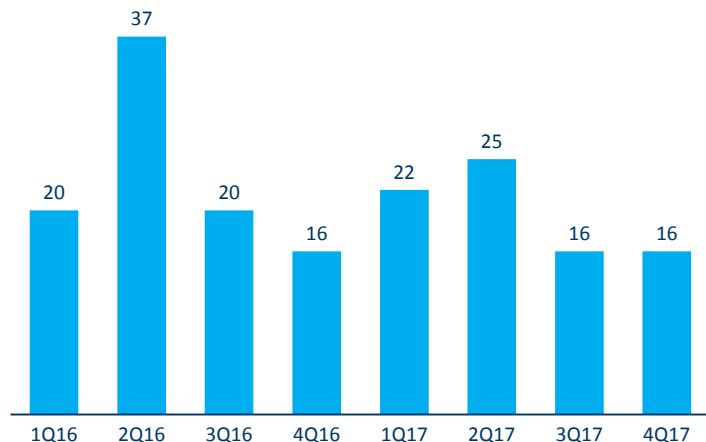
\*\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\*\* Customer deposits, including debt certificates but excluding repos

\*\*\*\*\* The decrease can (almost) entirely be explained by the divestment of KBC TFI in Poland in December 2017 (-0.93bn AuM q-o-q)

# International Markets BU (2): Slovakia

## NET RESULT



Amounts in m EUR

## VOLUME TREND

	Total loans **	o/w retail mortgages	Customer deposits***
Volume	7bn	3bn	6bn
Growth q-o-q*	+2%	+3%	+6%
Growth y-o-y	+8%	+13%	+6%

\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

### ▪ Net result of 16m EUR characterised by (q-o-q):

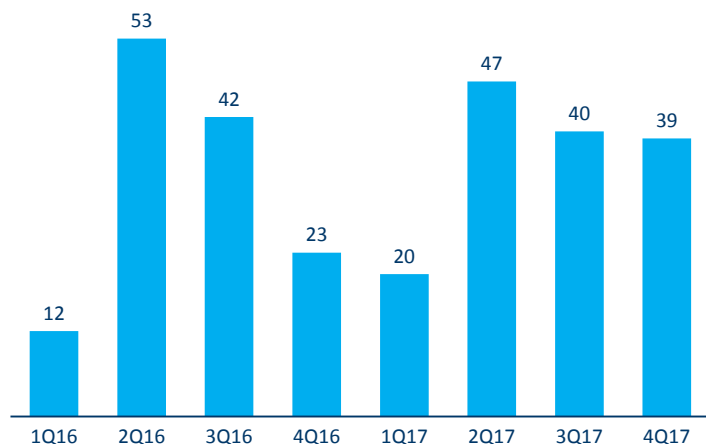
- roughly stable net interest income as volume growth was offset by margin pressure
- higher net fee and commission income mainly the result of higher fees from credit files & bank guarantees (more refinancings), securities-related fees and fees from payment services
- stable net results from financial instruments at fair value and net other income
- higher technical insurance result in non-life; an excellent combined ratio (82% in FY17); roughly stable technical insurance result in life
- higher operating expenses driven by higher ICT, marketing and staff expenses
- lower impairment charges as 3Q17 was impacted by some large corporate files
- credit cost ratio of 0.16% in FY17

### ▪ Volume trend:

- Total customer loans rose by 2% q-o-q and by 8% y-o-y, amongst other things due to the continuously increasing mortgage portfolio and consumer finance
- Total customer deposits rose by 6% both q-o-q and y-o-y thanks to retail as well as corporates

# International Markets BU (3): Hungary

## NET RESULT



Amounts in m EUR

## VOLUME TREND

Excl. FX effect	Total loans **	o/w retail mortgages	Customer deposits***
Volume	4bn	2bn	7bn
Growth q-o-q*	+3%	+1%	+4%
Growth y-o-y	+11%	+7%	+7%

\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

### Net result of 39m EUR characterised by (q-o-q):

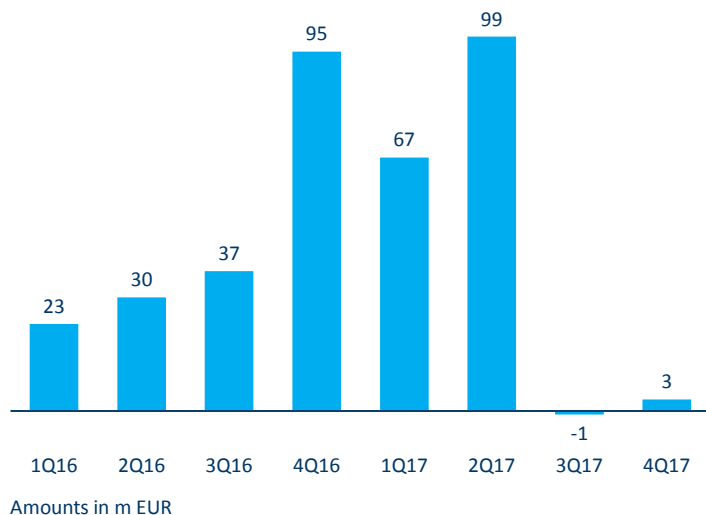
- stable net interest income as volume growth was offset by margin pressure
- higher net fee and commission income due mainly to higher fees from payment transactions and higher management fees
- stable net results from financial instruments
- higher net other income
- lower sales of life insurance products q-o-q (fully due to unit-linked); good non-life commercial performance y-o-y in all major product lines and growing average tariff in motor retail; a good combined ratio (94% in FY17)
- higher operating expenses due mainly to higher staff & ICT expenses and higher bank taxes
- very low impairments
- credit cost ratio of -0.22% in FY17

### Volume trend:

- Total customer loans rose by 3% q-o-q and by 11% y-o-y, mainly in mortgages and corporates
- Total customer deposits rose by 4% q-o-q and by 7% y-o-y due to strong growth in corporates

# International Markets BU (4): Ireland

## NET RESULT



## VOLUME TREND

	Total loans **	o/w retail mortgages	Customer deposits***
Volume	11bn	10bn	5bn
Growth q-o-q*	0%	+1%	+1%
Growth y-o-y	-1%	+2%	+8%

\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

## Net result of 3m EUR characterised by (q-o-q):

- higher net interest income due to lower funding costs
- lower net other income due to an additional provision of 61.5m EUR (versus 54m EUR provision in 3Q17) related to the industry-wide review of the tracker rate mortgage products originated in Ireland before 2009
- higher operating expenses due mainly to higher bank taxes, higher professional fees and staff expenses
- higher net impairment releases (-52m EUR in 4Q17 compared with -26m EUR in 3Q17), driven by:
  - 31m EUR IBNR parameter changes
  - an increase in the 9-month average House Price Index and an improved non-performing portfolio performance
  - lower provisions on existing non-performing loans driven by improved macro-economic conditions and provision releases following deleveraging for corporates
- credit cost ratio of -1.70% in FY17

## Volume trend:

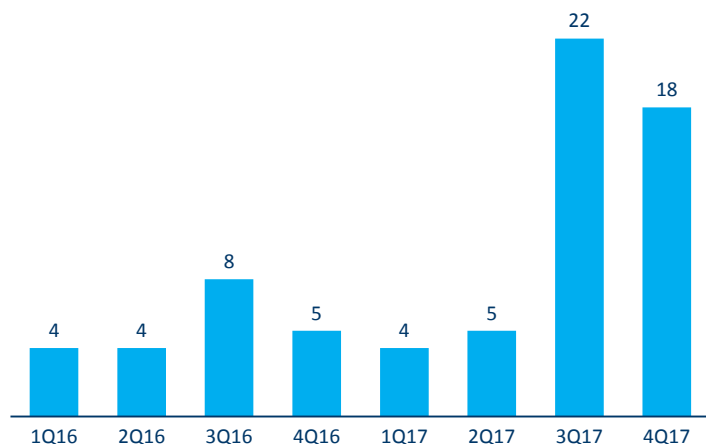
- Total customer loans stabilised q-o-q and decreased by 1% y-o-y, the latter due mainly to deleveraging the corporate loan portfolio
- Retail mortgages: new business (written from 1 Jan 2014) +12% q-o-q and +47% y-o-y, while legacy -2% q-o-q and -7% y-o-y
- Total customer deposits:
  - rose by 1% q-o-q
  - rose by 8% y-o-y



# International Markets BU (5): Bulgaria

## NET RESULT

Amounts in m EUR



## VOLUME TREND

Excl. FX effect	Total loans ***	o/w retail mortg.	Customer deposits****
Volume	3bn	1bn	4bn
Growth q-o-q*	+1%	+2%	-2%
Growth y-o-y	+225%**	+244%**	+393%**

\* Non-annualised, and including UBB/Interlease (as UBB/Interlease was already consolidated in the balance sheet as of 2Q17)  
 \*\* Y-o-y growth excluding UBB/Interlease amounted to +11% for total loans, +18% for mortgages and +14% for customer deposits  
 \*\*\* Loans to customers, excluding reverse repos (and bonds)  
 \*\*\*\* Customer deposits, including debt certificates but excluding repos

- **Net result** of 18m EUR, of which 13m EUR contribution from UBB/Interlease

- Net result was characterised by (q-o-q):

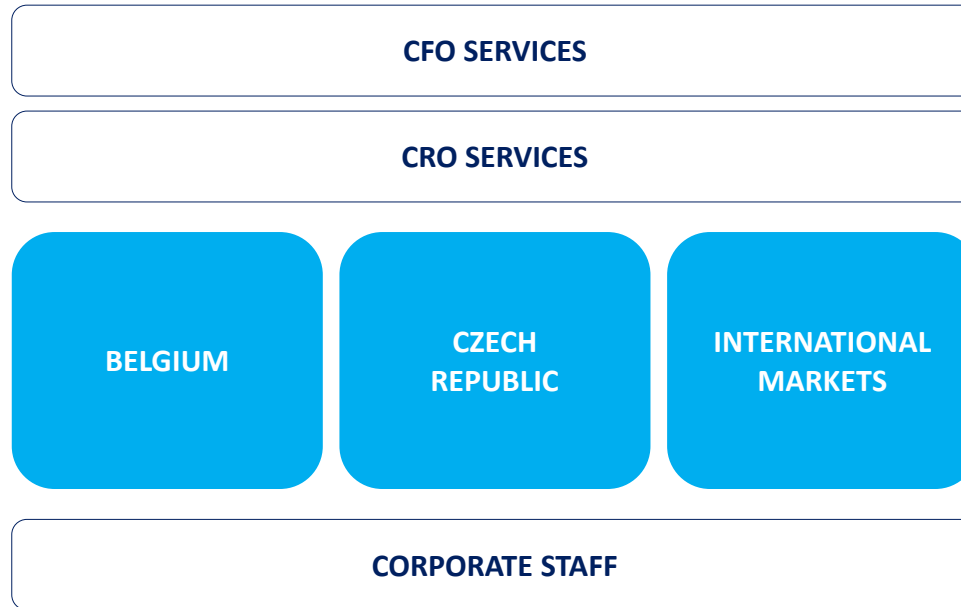
- In banking (CIBank & UBB/Interlease):
  - lower net interest income, mainly due to lower volumes and lower margins at UBB
  - slightly lower net fee and commission income
  - lower net results from financial instruments due to lower revaluations of government bonds
  - higher net other income
  - higher operating expenses due mainly to higher staff & ICT expenses and higher professional fees
  - low impairment charges. Credit ratio of 0.83% in FY17
- In insurance (DZI): slightly higher net result
  - much lower technical charges at non-life (as 3Q17 was impacted by hail storms), largely offset by lower ceded reinsurance result. Combined ratio amounted to 96% in FY17
  - slightly higher technical insurance result at life as higher earned premiums were largely offset by higher technical charges

- **Volume trend:**

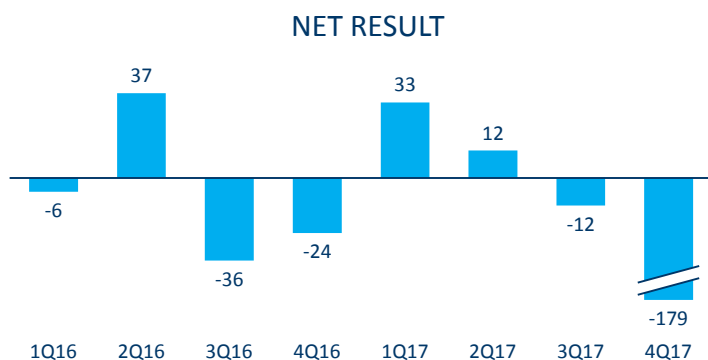
- Total customer loans rose by 1% q-o-q and by 225% y-o-y (11% y-o-y excluding UBB/Interlease), amongst other things due to the continuously increasing mortgage portfolio
- Total customer deposits fell by 2% q-o-q and rose by 393% y-o-y (14% y-o-y excluding UBB/Interlease)



# GROUP CENTRE



# Group Centre: net result of -179m EUR



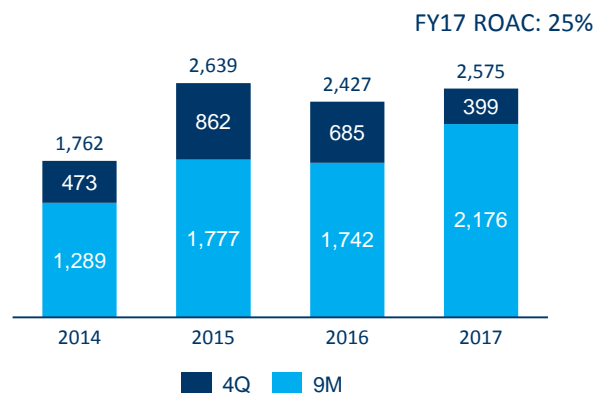
- **Net result: -179m EUR**
- The net result for the Group Centre comprises the results coming from activities and/or decisions specifically made for group purposes (see table below for components)
- The q-o-q deterioration was attributable mainly to:
  - one-off upfront negative P&L impact of 126m EUR due to the Belgian corporate income tax reform
  - lower NII
  - higher operating expenses

## BREAKDOWN OF NET RESULT AT GROUP CENTRE

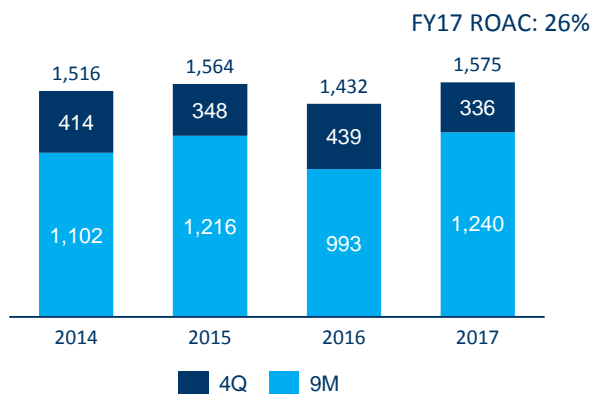
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>Group item (ongoing business)</b>	<b>2</b>	<b>27</b>	<b>-53</b>	<b>-38</b>	<b>-50</b>	<b>0</b>	<b>-31</b>	<b>-157</b>
- Operating expenses of group activities	-18	-7	-21	-39	-14	-14	-20	-25
- Capital and treasury management	1	1	-4	4	-18	17	5	-5
o/w net subordinated debt cost	-9	-9	-10	-10	-9	-9	-9	-13
- Holding of participations	-17	-9	-13	-14	-9	-13	-13	18
o/w net funding cost of participations	-5	-5	-6	-4	-2	0	0	-1
- Group Re	3	2	-3	13	5	6	5	10
- Other	33	39	-11	-2	-14	5	-9	-154
<b>Ongoing results of divestments and companies in run-down</b>	<b>-8</b>	<b>10</b>	<b>17</b>	<b>14</b>	<b>83</b>	<b>11</b>	<b>19</b>	<b>-22</b>
<b>Total net result at GC</b>	<b>-6</b>	<b>37</b>	<b>-36</b>	<b>-24</b>	<b>33</b>	<b>12</b>	<b>-12</b>	<b>-179</b>

# Overview of results based on business units

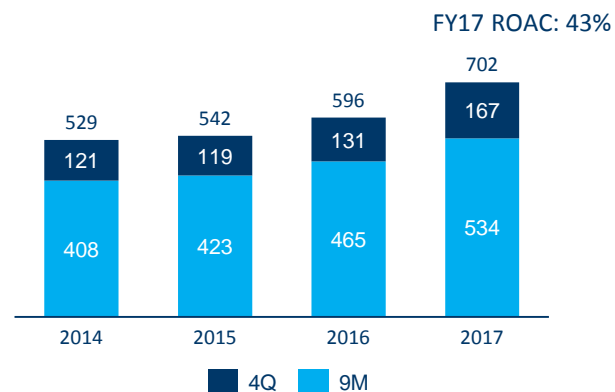
## NET PROFIT – KBC GROUP



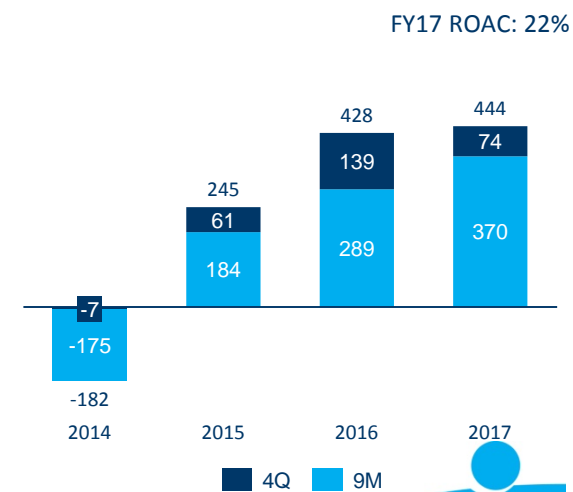
## NET PROFIT – BELGIUM



## NET PROFIT – CZECH REPUBLIC



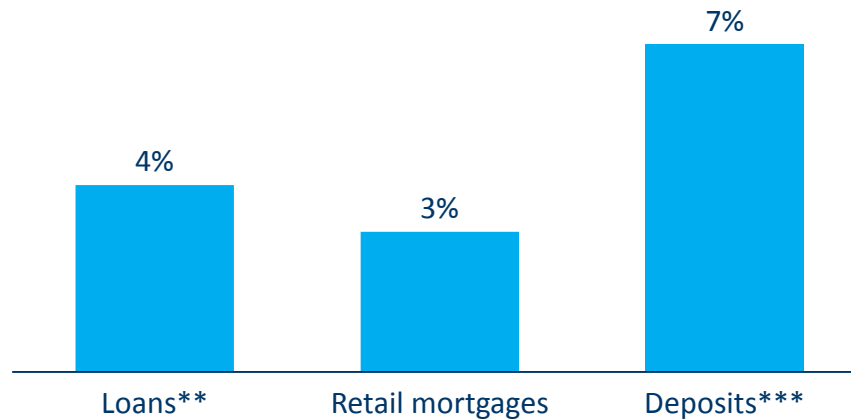
## NET PROFIT – INTERNATIONAL MARKETS



# 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 excluding FX effects and divestments/acquisitions

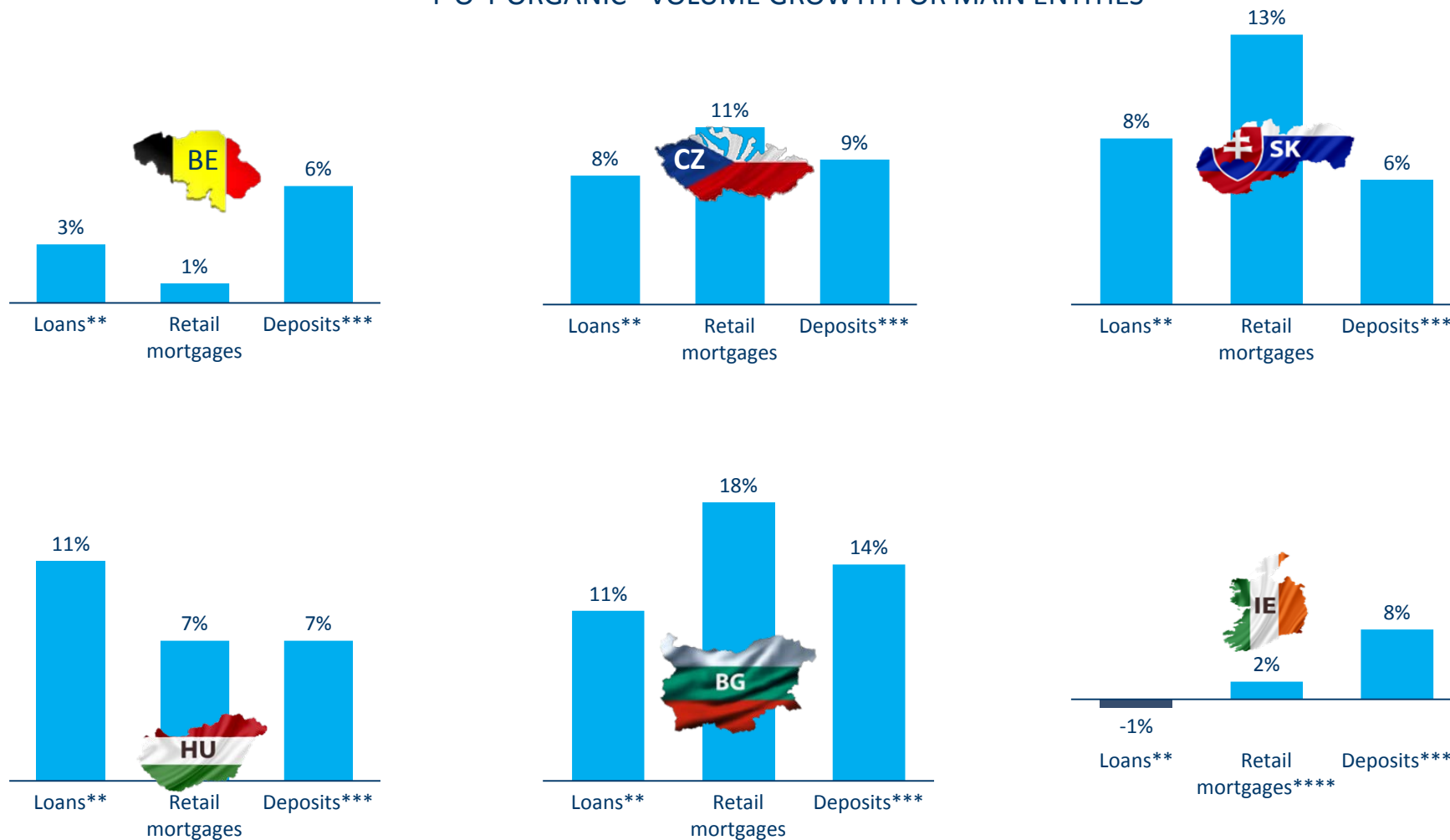
\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* 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



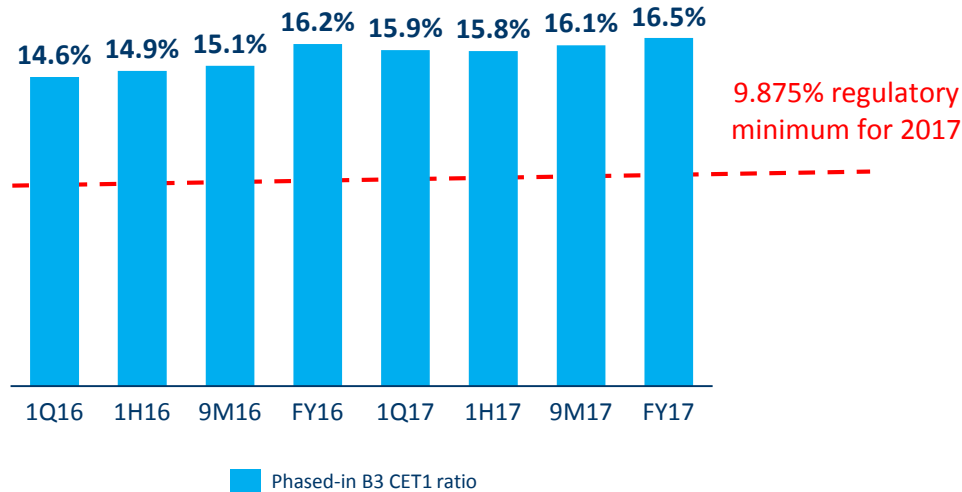
\* Volume growth excluding FX effects and divestments/acquisitions  
 \*\* Loans to customers, excluding reverse repos (and bonds)  
 \*\*\* Customer deposits, including debt certificates but excluding repos  
 \*\*\*\* Retail mortgages in Ireland: new business (written from 1 Jan 2014) +47% y-o-y, while legacy -7% y-o-y

## Section 3

# Strong solvency and solid liquidity

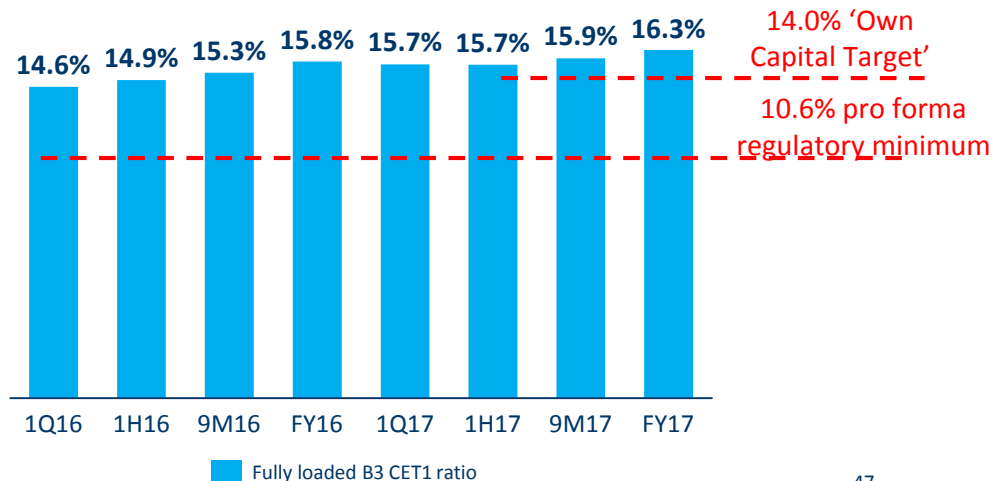
# Strong capital position

## Phased-in Basel 3 CET1 ratio at KBC Group (Danish Compromise)



- Common equity ratio (B3 phased-in) of 16.5% based on the Danish Compromise at end 2017, which **clearly exceeds** the minimum capital requirements set by the competent supervisors of 9.875% for 2018

## Fully loaded Basel 3 CET1 ratio at KBC Group (Danish Compromise)



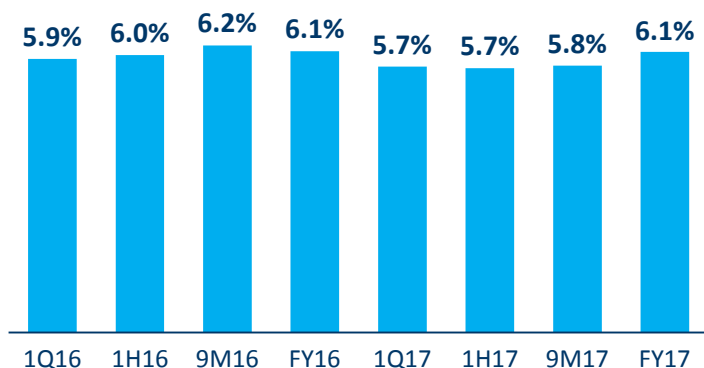
- A fully loaded common equity ratio increased by 0.4% q-o-q at 16.3% based on the Danish Compromise. This **clearly exceeds** the minimum capital requirements set by the competent supervisors of 10.6%\* and our 'Own Capital Target' of 14.0%
- The **pro forma\*\* fully loaded CET1 ratio amounted to roughly 15.7% at the end of 2017**

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

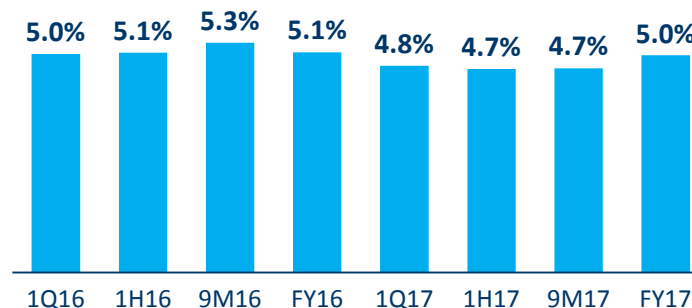
\*\* Also taking into account the impact of the first-time application of IFRS 9 (estimated at approximately -41bps on our fully loaded CET1 ratio) and the share buy-back

# Fully loaded Basel 3 leverage ratio and Solvency II ratio

## Fully loaded Basel 3 leverage ratio at KBC Group



## Fully loaded Basel 3 leverage ratio at KBC Bank



## Solvency II ratio

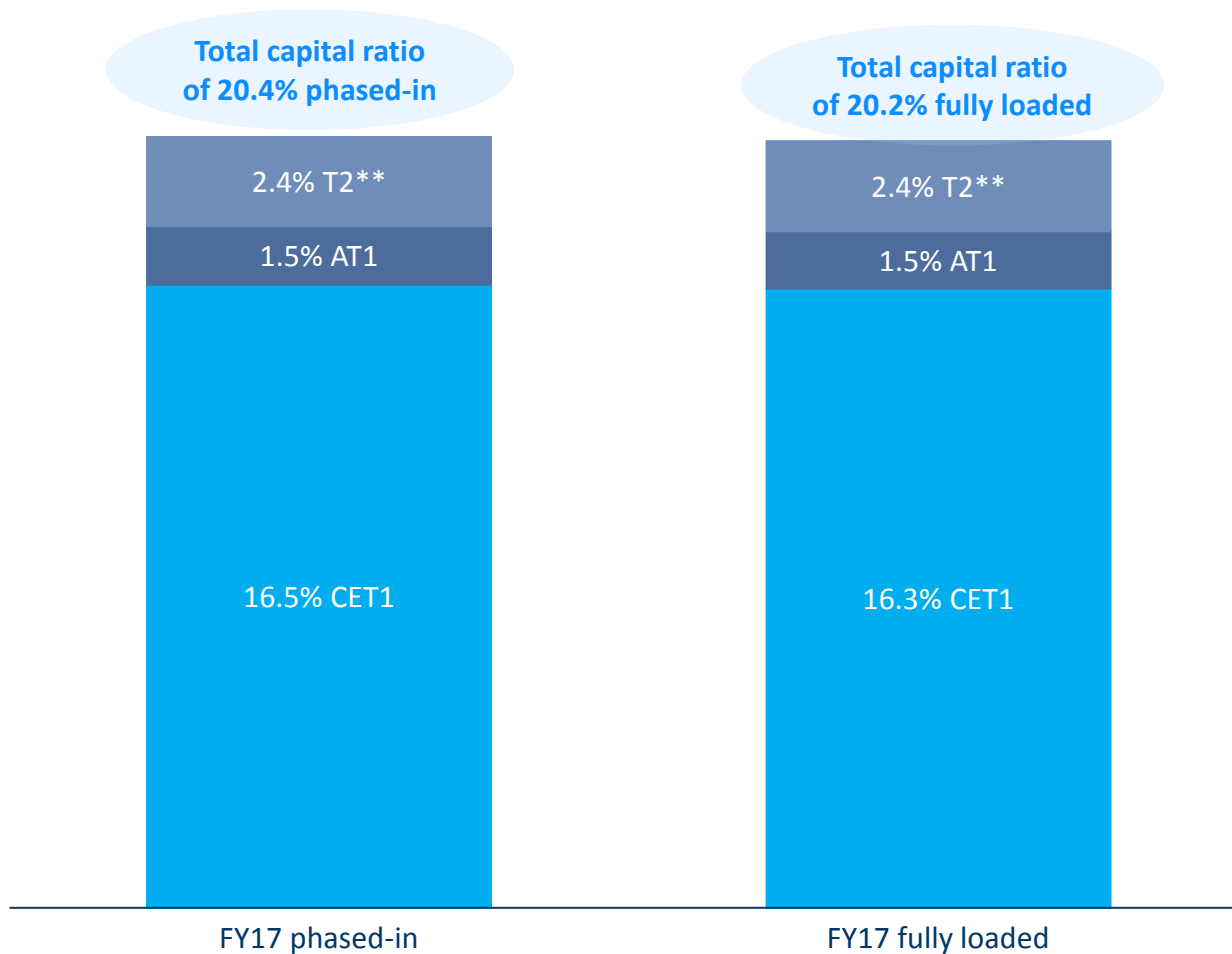
	3Q17	4Q17
Solvency II ratio*	221%	212%

- The decrease (-9%-points) in the Solvency II ratio was mainly the result of a lower Belgian corporate tax rate (which will gradually decrease to 25%): the positive impact on own funds (decrease of net deferred tax liability) is more than counterbalanced by the increase in required capital (lower adjustment of deferred taxes) leading to a negative impact on the SII ratio

\* On 19 April 2017, the NBB retroactively relaxed the strict cap on the loss-absorbing capacity of deferred taxes in the calculation of the required capital. Belgian insurance companies are now allowed to apply a higher adjustment for deferred taxes, in line with general European standards, if they pass the recoverability test. This is the case for KBC



# Total capital ratio\*



\* Basel 3, Danish Compromise

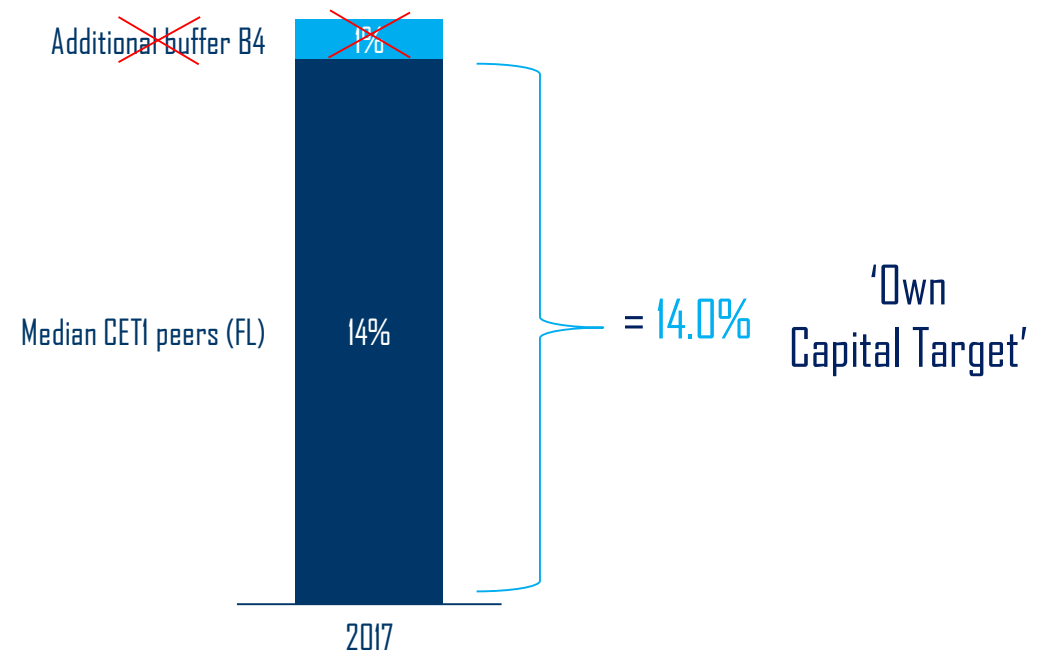
\*\* We called the CoCo in January 2018. Hence, the capital value of the CoCo has already been excluded from Tier-2. The impact of the coco call is largely offset by the successful issuance of a 500m EUR Tier 2 benchmark in September 2017

# Impact of Basel 4 agreement

- On 7 December, the Basel Committee reached an agreement on the remaining Basel 3 post-crisis regulatory reforms (commonly known as Basel 4). The main elements of the Basel 4 agreement are:
  - credit risk: changes to the internal ratings-based approach and a revised standardised approach;
  - market risk: FRTB postponed to 2022;
  - operational risk: a revised and more risk sensitive standardised approach, replacing all existing approaches;
  - an aggregate output floor (gradually phased-in between 2022 and 2027), which will ensure that banks' risk-weighted assets based on internal models are not lower than 72.5% of RWAs as calculated by the revised standardised approaches
- **For KBC Group, the RWA increase related to Basel 4 is estimated at roughly 8bn EUR higher RWA on a fully loaded basis as at year-end 2017, which corresponds with a RWA inflation of 9% and an impact on the CET1 ratio of -1.3%.** This figure is based on our current interpretation of Basel 4, a static balance sheet and the current economic environment. It also does not take into account possible management actions
- We no longer see evidence that KBC is impacted significantly more than our peers. As a consequence, the **1% buffer for Basel 4 in our management targets is no longer required**
- The Basel agreement now needs to be implemented in EU regulation (CRR/CRD package), which might influence (in a positive or negative way) the final impact for KBC
- Elements that are not included in above mentioned RWA impact (and which might affect KBC earlier):
  - the ongoing Targeted Review of Internal Models (TRIM) exercise by ECB;
  - the potential impact of the EBA review of the IRB approach (PD & LGD estimation; treatment defaulted exposures);
  - any impact on the Pillar 2 requirements (given that pillar 1 more adequately captures the risks)

# Impact of Basel 4 agreement: update 'Own Capital Target'

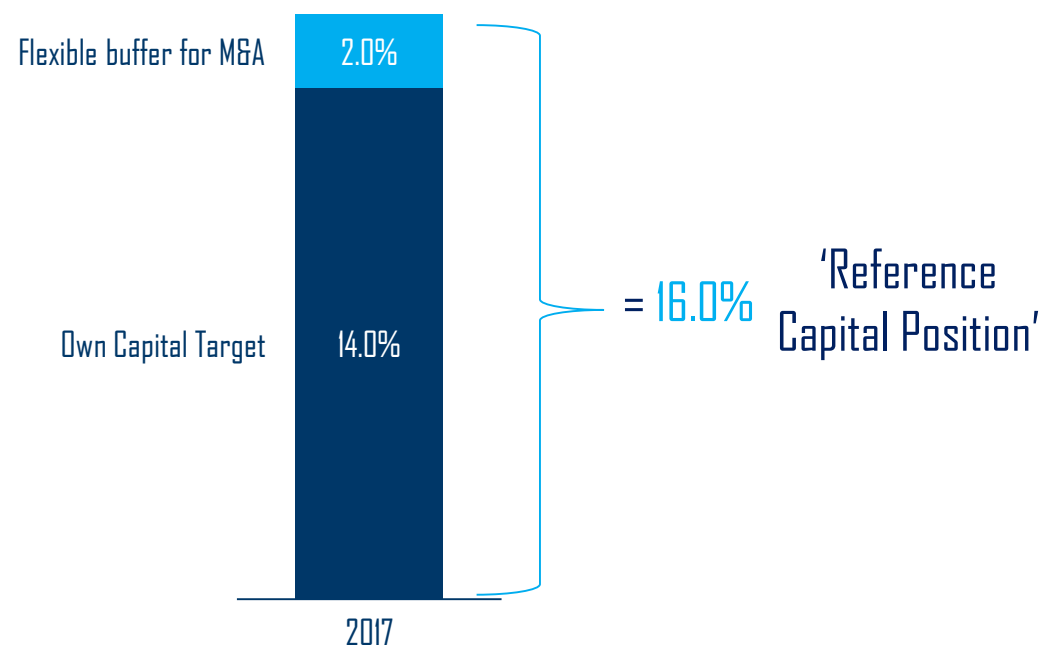
- We aim to be one of the better capitalised financial institutions in Europe. Therefore as a starting position, we assess each year the CET1 ratios of a peer group of European banks active in the Retail, SME, and Corporate client segments. We position ourselves on the fully loaded median CET1 ratio of the peer group\*. The median CET1 of our 12 peers increased from 13.6% end-2016 to 14% end-2017
- Based on internal benchmarking, KBC will no longer be impacted relatively more than the sector average by Basel 4. Therefore, the B4 buffer of 1% versus peers is no longer required



\* The impact of B4 will be fully included at the start of 2022 (Note that all Basel 4 proposals are applicable in 2022, except for the 72.5% floor which is gradually phased-in and only binding for KBC as of 2027)

# Impact of Basel 4 agreement: update 'Reference Capital Position'

- KBC Group wants to keep a flexible buffer of up to 2% CET1 for potential add-on M&A in our core markets
- This buffer comes on top of the 'Own Capital Target' of KBC Group, and all together forms the 'Reference Capital Position'
- Any M&A opportunity will be assessed subject to very strict financial and strategic criteria



# Capital distribution to shareholders

- The **payout ratio policy** (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit is **reconfirmed**, with an annual interim dividend of 1 EUR per share being 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'**
- For the 2017 accounting year: a **total gross dividend of 3 EUR per share** will be proposed to the AGM, of which:
  - the **interim dividend of 1 EUR per share** paid in November 2017
  - a **final dividend of 2 EUR per share**

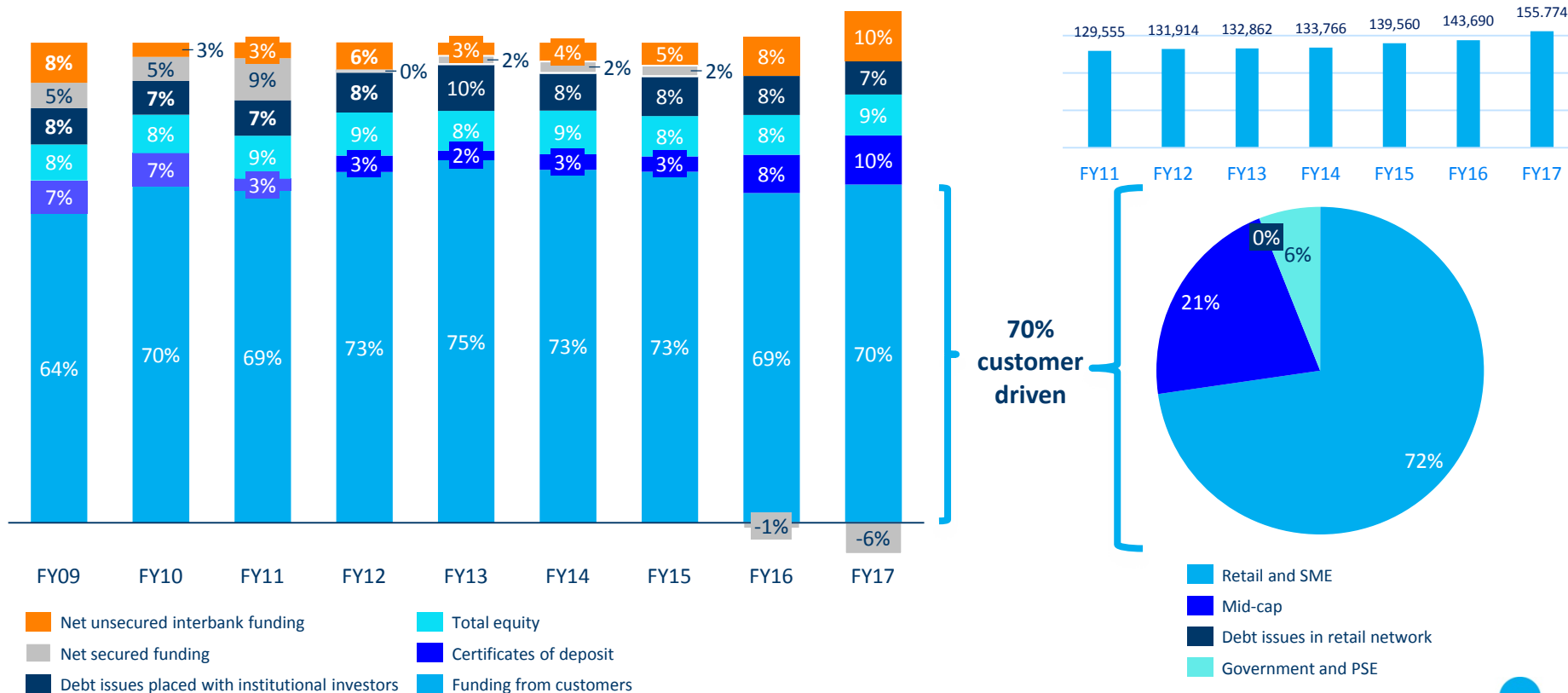
Also a **buy-back of 2.7 million shares (equivalent to roughly 0.2bn EUR)** will be proposed to the AGM (i.e. a **pay-out ratio of 59%** including the total dividend, AT1 coupon and share buy-back)

The rationale behind the share buy-back is to offset the dilution of shareholders that is caused by the annual capital increases for staff

# Solid liquidity position (1)

- KBC Bank continues to have a **strong retail/mid-cap deposit base** in its core markets – resulting in a **stable funding mix** with a significant portion of the funding attracted from core customer segments & markets
- Customer funding further increased y-o-y in FY17. The elevated amount in certificates of deposit and short-term wholesale funding is on the back of short-term EUR/USD and EUR/CZK basis swap arbitrage opportunities

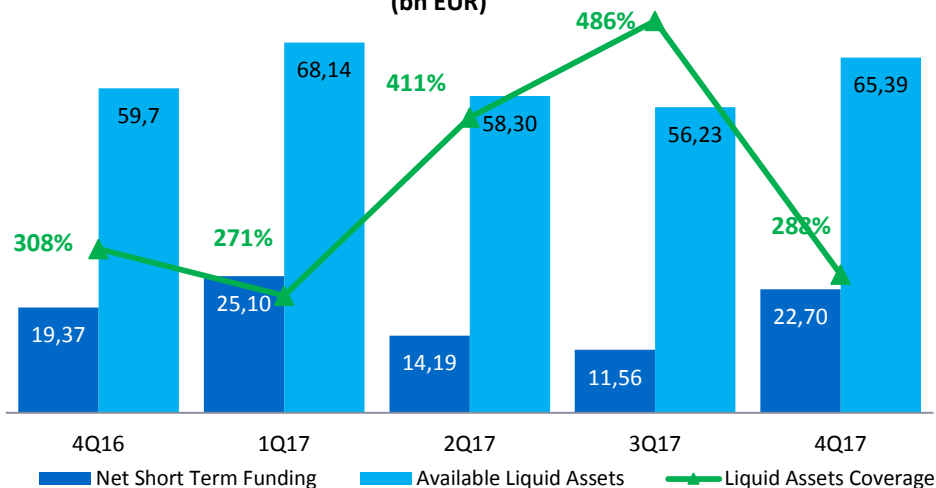
Funding from customers (m EUR)



70% customer driven

# Solid liquidity position (2)

Short term unsecured funding KBC Bank vs Liquid assets as of end December 2017 (\*)  
(bn EUR)



\* Graph is based on Note 18 of KBC's quarterly report, except for the 'available liquid assets' and 'liquid assets coverage', which are based on the KBC Group Treasury Management Report

Ratios	FY16	FY17	Regulatory requirement
NSFR*	125%	134%	≥100%
LCR**	139%	139%	≥100%

\* 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 year-end 2017 onwards, KBC discloses 12 months average LCR in accordance to EBA guidelines on LCR disclosure. As such, the LCR level at FY17 is calculated based on 12 months average, whereas the LCR level at FY16 is based on point-in-time calculation. For the purpose of q-o-q comparison, the 12 months average LCR level at 9M17 was at 138%

- KBC maintains a solid **liquidity position**, given that:
  - Available liquid assets remained very high at almost 3 times the amount of the net short-term wholesale funding
  - Funding from non-wholesale markets is stable funding from core-customer segments in core markets
  - The net nominal amount of excess liquid assets remained above 40bn EUR. The volatility in the liquid assets coverage ratio is mainly driven by the shift of cash excess placements between central bank deposits and reverse repo transactions
  
- **NSFR is at 134% and LCR is at 139% by the end of FY17**
  - Both ratios were well above the regulatory requirement of at least 100%
  - From year-end 2017 onwards, KBC discloses its LCR (and its main components) as the average of 12 consecutive month-end observations

KBC Group

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Section 4

4Q 2017 wrap up



# 4Q 2017 wrap up

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- Strong commercial bank-insurance results in our core countries
- Successful underlying earnings track record
- Solid capital and robust liquidity position

Section 5

# FY 2017 key takeaways

# FY 2017 key takeaways for KBC Group (1)

## ■ STRONG BUSINESS PERFORMANCE IN FY17

**Excellent net result of 2,575m EUR in FY17. ROE amounted to 17%\* in 2017**

- Good performance of the commercial bank-insurance franchises in our core markets and core activities
- Y-o-y increase in customer loan and deposit volumes in most of our core countries
- Lower NII due entirely to dealing room and insurance, while higher NII banking (despite lower net interest margin)
- Net fee and commission income increased by 18% y-o-y; AuM increased by 3% y-o-y
- Sharply higher net gains from financial instruments at fair value, higher realised AFS gains and lower net other income (due mainly to an additional provision of 116m EUR related to the industry-wide review of the tracker rate mortgage products originated in Ireland before 2009)
- Excellent combined ratio (88% in FY17). Increase in sales of non-life insurance products, but decrease in life insurance products
- Cost/income ratio (55% in FY17) adjusted for specific items
- Net loan impairment releases of 87m EUR, mainly driven by Ireland (net release of 215m EUR in FY17, slightly above the guided range of 160m-200m EUR). We are guiding for a net loan loss provision release for Ireland in the range of 100m-150m EUR for FY18
- One-off upfront negative P&L impact of 211m EUR due to the Belgian corporate income tax reform

\* 18% excluding the one-off, upfront negative effect of 211m euros due to the Belgian corporate income tax reform

# FY 2017 key takeaways for KBC Group (2)

## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- The B3 common equity ratio based on the Danish Compromise at end 2017 amounted to **16.5% phased-in and 16.3% fully loaded\***
- **B4 impact** for KBC Group is estimated at **roughly 8bn EUR higher RWA** on a fully loaded basis as at year-end 2017, which corresponds with a **RWA inflation of 9%** and an impact on the **CET1 ratio of -1.3%**
- For our capital deployment plan, the 1% Basel IV buffer relative to our peer group is no longer required. Taking into account the updated median common equity ratio of our 12 peers, our **'own capital target'** and **'reference capital position'** have been lowered to **14%** and **16%**, respectively (vs 14.6% and 16.6% previously)
- **A negative impact of the first-time application of IFRS 9** (as of 1 January 2018) **on our fully loaded CET1 ratio** is estimated at **approximately 41 bps** mainly on account of reclassifications in the banking book
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **6.1%** at KBC Group
- **Continued strong liquidity position** (NSFR at 134% and LCR at 139%) at end 2017

## ■ CAPITAL DEPLOYMENT / DIVIDEND PROPOSAL

- **A total gross dividend of 3 EUR per share will be proposed to the AGM for the 2017 accounting year**, of which:
  - the interim dividend of 1 EUR per share paid in November 2017
  - a final dividend of 2 EUR per share
- **Also a buy-back of 2.7 million shares** (roughly 0.2bn EUR) will be proposed to the AGM (i.e. a **pay-out ratio of 59%** including the total dividend, AT1 coupon and share buy-back)
- The pay-out ratio policy (i.e. dividend + AT1 coupon) of **at least 50%** of consolidated profit is reconfirmed for the future

\* This clearly exceeds the minimum capital requirements set by the competent supervisors of respectively 9.875% and 10.60% for 2018. On top of the above-mentioned capital requirements, the ECB expects KBC to hold a pillar 2 guidance (P2G) of 1.0% CET1

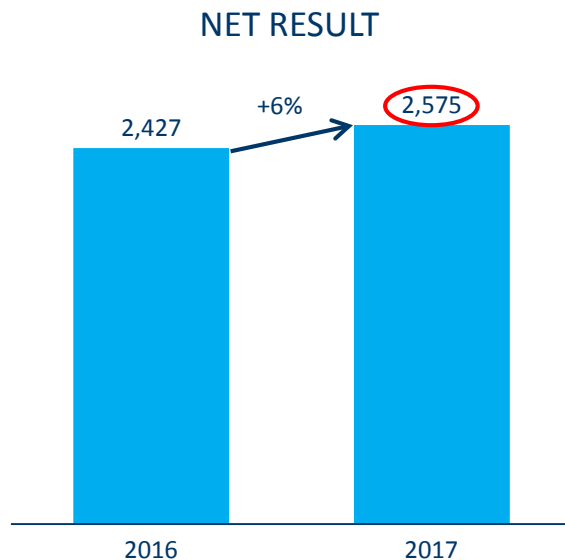
# Looking forward to 2018

- We expect 2018 to be a year of sustained economic growth in both the euro area, the US and in each of our core markets
  
- Management guides for:
  - solid returns for all Business Units
  - loan impairments for Ireland towards a release in a 100m-150m EUR range for FY18
  - a negative impact of the first-time application of IFRS 9 (as of 1 January 2018) on our fully loaded CET1 ratio of approximately 41 bps mainly on account of reclassifications in the banking book
  - the impact of the reform of the Belgian corporate income tax regime: a recurring positive P&L impact as of 2018 onwards and the one-off negative impact in 4Q17 will be fully recuperated in roughly 3 years' time
  - lower funding costs as the CoCo has been called in January 2018
  - B4 impact for KBC Group is estimated at roughly 8bn EUR higher RWA on a fully loaded basis as at year-end 2017, which corresponds with a RWA inflation of 9% and an impact on the CET1 ratio of -1.3%
  - For our capital deployment plan, the 1% Basel IV buffer relative to our peer group is no longer required. Taking into account the updated median common equity ratio of our 12 peers, our 'own capital target' and 'reference capital position' have been lowered to 14% and 16%, respectively
  
- Next to the Belgium and the Czech Republic Business Units, the International Markets Business Unit becomes 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: the legal merger of CIBank into UBB was approved. 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

## Annex 1

# FY 2017 performance of KBC Group

# FY 2017 net result amounted to 2,575m EUR

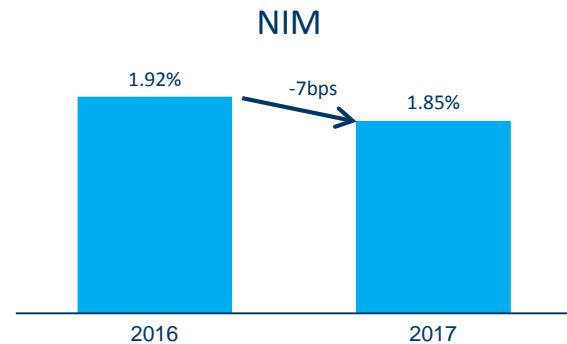
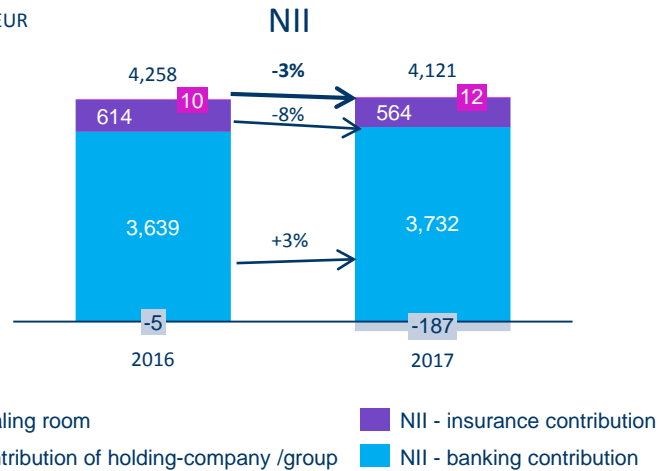


- **Net result increased by 6% y-o-y to 2,575m EUR in 2017,** mainly as a result of:

- Revenues rose by 7% y-o-y mainly due to sharply higher net fee & commission income, net result from FIFV and result from life and non-life insurance after reinsurance, partly offset by lower net interest income and net other income
- Operating expenses excluding bank tax increased by 3.5% y-o-y or 125m EUR y-o-y in FY17. Taking into account a doubling of the digitalisation investments through opex (from roughly 125m EUR in FY16 to roughly 250m EUR in FY17) and the 40m EUR impact of UBB/Interlease, this implies strict cost control thanks to many (small) cost-efficiency measures. Total bank taxes (including ESRF contribution) slightly increased from 437m EUR in FY16 to 439m EUR in FY17
- Net impairment releases of 30m EUR, thanks chiefly to:
  - a net loan loss provision release in Ireland (215m EUR) and Hungary (11m EUR)
  - low gross impairments in all segments and all countries

# Net interest income and net interest margin under pressure

Amounts in m EUR



## Net interest income

- Net interest income fell by 3% y-o-y due entirely to the lower contribution of dealing room and insurance. Net interest income excluding dealing room effect and the 55m EUR contribution of UBB/Interlease stabilised y-o-y
- Net interest income banking rose by 3% y-o-y due mainly to lower funding costs, continued good loan volume growth and the consolidation of UBB, which were partly offset by lower reinvestment yields and pressure on commercial loan margins in most core countries
- Loan volumes increased by 5% y-o-y (+3% in the Belgium BU, +8% in the Czech Republic BU and +13% in the International Markets BU)
- Deposit volumes even rose by 8% y-o-y (+6% in the Belgium BU, +9% in the Czech Republic BU and +24% in the International Markets BU)

## Net interest margin (1.85%)

- Decreased by 7 bps y-o-y due mainly to lower reinvestment yields, decreased net interest income from the dealing room and pressure on commercial margins in most countries

## VOLUME TREND

Excluding FX effect	Total loans **	Of which mortgages	Customer deposits***	AuM	Life reserves
Volume	141bn	60bn	194bn	219bn	29bn
Growth y-o-y	+5%*	+4%*	+8%*	+3%	-1%

Customer deposit volumes excluding debt certificates & repos +7% y-o-y

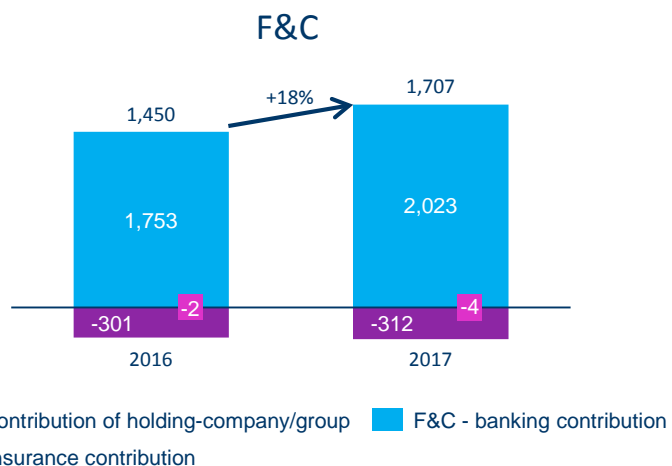
\* Y-o-y growth excluding UBB/Interlease amounted to +4% for total loans, +3% for mortgages and +7% for customer deposits

\*\* Loans to customers, excluding reverse repos (and bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos

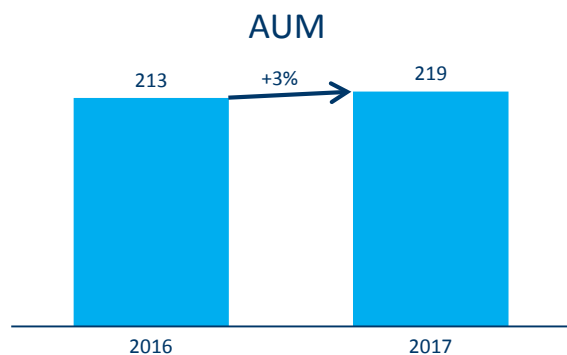


# Higher net fee and commission income and AUM



## Net fee and commission income

- Increased by 18% y-o-y
- This increase was driven mainly by:
  - the Belgium Business Unit (+21% y-o-y) owing mainly to higher management & entry fees on mutual funds & unit-linked life insurance products, increased securities-related fees and higher fees from payment services
  - the consolidation of UBB/Interlease (23m EUR in 2H17)

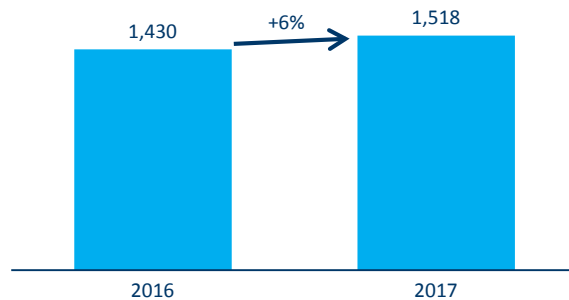


## Assets under management (219bn EUR)

- Rose by 3% y-o-y owing entirely to a positive price effect

# Higher non-life insurance sales and exceptional combined ratio

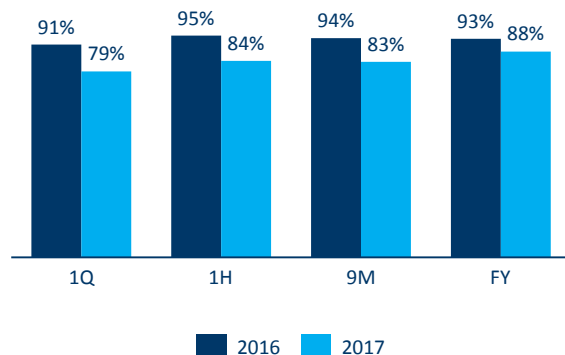
## NON-LIFE SALES (GROSS WRITTEN PREMIUM)



### ■ Sales of non-life insurance products

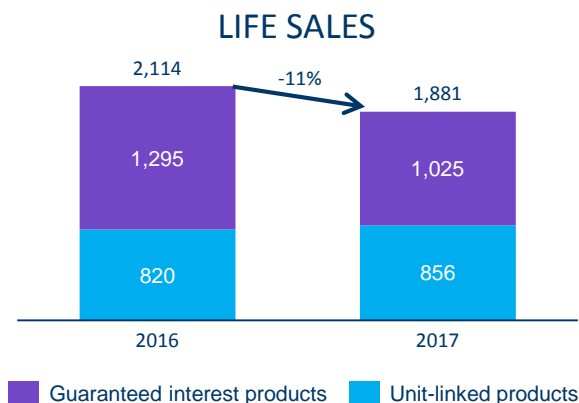
- Up by 6% y-o-y mainly thanks to a good commercial performance in all major product lines in our core markets and tariff increases

## COMBINED RATIO (NON-LIFE)

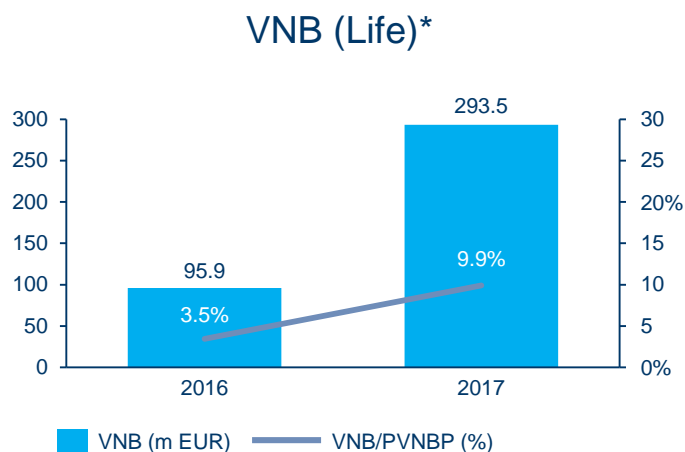


- The **non-life combined ratio** at FY17 stood at an **exceptional 88%** (an improvement compared with 93% in FY16) due to low technical charges (especially in 1Q17) and a one-off release of provisions in Belgium in 3Q17 (positive effect of 26m EUR). Excluding this one-off release in 3Q17, the combined ratio amounted to 90% at FY17. Note that 2016 was negatively impacted by one-off charges due to terrorist attacks in Belgium

# Lower life insurance sales, but higher VNB



Amounts in m EUR



## ■ Sales of life insurance products

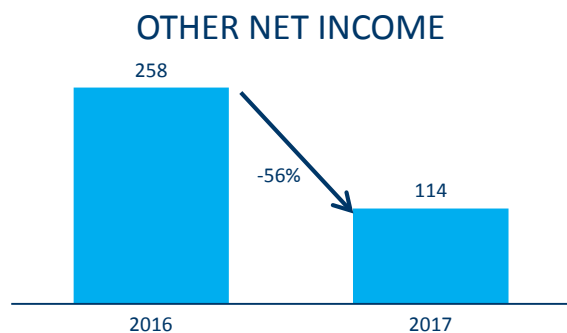
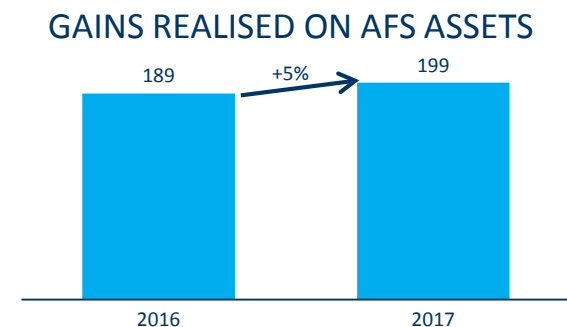
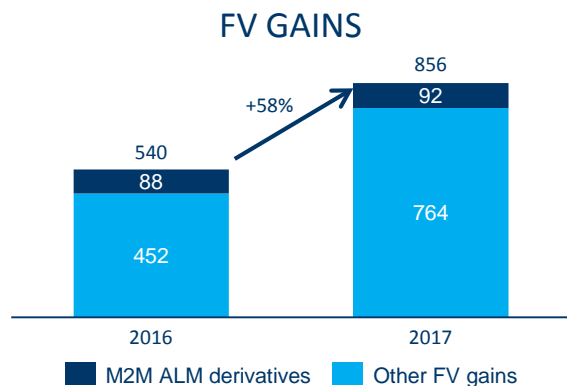
- Down by 11% y-o-y
- The decrease in sales of guaranteed interest products (attributable fully to Belgium) was driven by the low guaranteed interest offered. The increase in sales of unit-linked products was also attributable fully to Belgium, due mainly to the successful shift to the new discretionary-based service proposition
- Sales of unit-linked products accounted for 46% of total life insurance sales

## ■ VNB

- Rose by 206% y-o-y to 293.5m EUR as a result of:
  - an overall enhancement of profitability due to:
    - improvement of the market environment
    - increased sales in KBC Insurance of unit-linked products with higher profit margin
    - the Belgian tax shift
    - clear focus on improving the product mix and the profitability of particular products
  - methodological changes
- Disregarding the methodological changes in 2017, VNB rose by 128% y-o-y

- VNB = Value of New Business = present value of all future profits attributable to the shareholders from the new life insurance policies written during the year
- The VNB of KBC Group includes the expected future income generated by other parties within KBC Group arising from the sales of life insurance business. In 2017, this income amounted to 175m EUR
- VNB/PVNBP = VNB at point of sale compared with the Present Value of New Business Premiums. This ratio reflects the margin earned on total premiums

# Higher FV gains and gains realised on AFS assets, but lower other net income



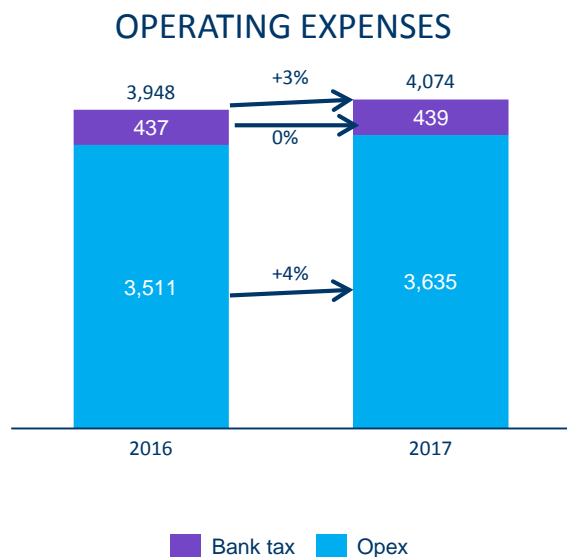
- The sharply higher y-o-y figure for **net gains from financial instruments at fair value** was attributable to:

- strong dealing room results (especially in Belgium and the Czech Republic, partly thanks to the positive impact of the FX swaps)
- a positive y-o-y change in market, credit and fair value adjustments (especially in Belgium)
- a slightly positive change in ALM derivatives (92m EUR in FY17 compared with 88m EUR in FY16)

- **Gains realised on AFS assets** increased to 199m EUR (both on AFS shares and bonds)

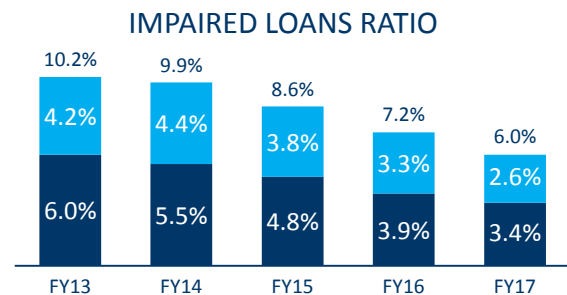
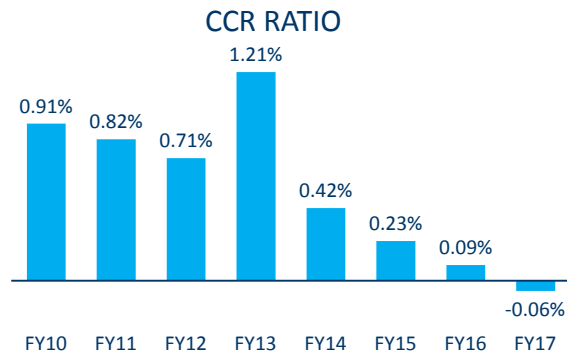
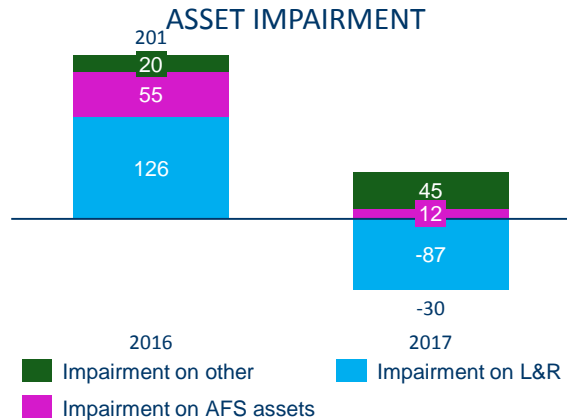
- **Other net income** sharply decreased to 114m EUR in FY17 from a high 258m EUR in FY16. This is mainly the result of an additional provision of 116m EUR related to the 2017 industry wide review of the tracker rate mortgage products originated in Ireland before 2009

# Strict cost control, good cost/income ratio



- **Cost/income ratio (banking) at 55% in FY17 (compared with 57% in FY16) adjusted for specific items. Excluding bank tax, C/I ratio amounted to 48% in FY17**
- Operating expenses excluding bank tax increased by 3.6% y-o-y or 125m EUR in FY17. Taking into account a doubling of the digitalisation investments through opex (from roughly 125m EUR in FY16 to roughly 250m EUR in FY17) and the 40m EUR impact of UBB/Interlease, this implies **strict cost control thanks to many (small) cost-efficiency measures**
- Total bank taxes (including ESRF contribution) increased slightly from 437m EUR in FY16 to 439m EUR in FY17

# Net impairment releases, excellent credit cost and improved impaired loans ratio



Impaired loans ratio of which over 90 days past due

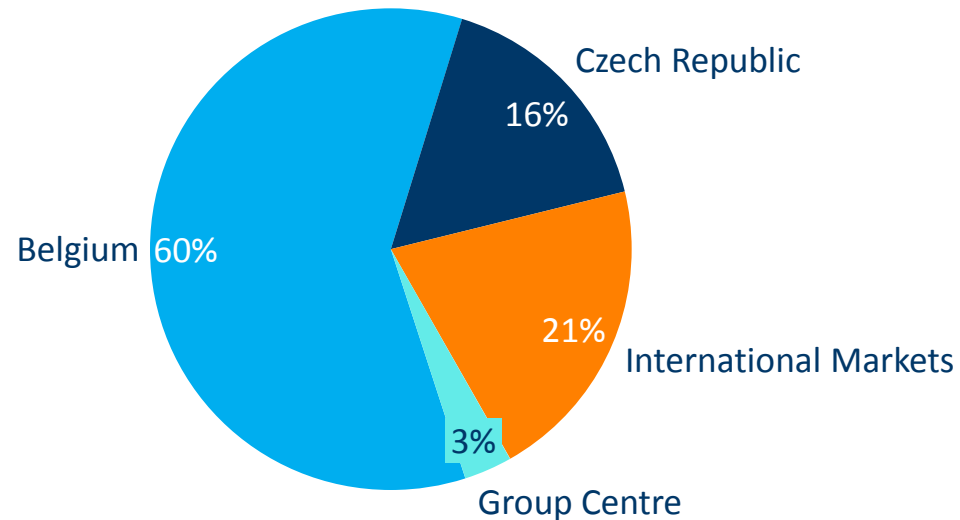
- Net impairment releases of 30m EUR in FY17, thanks chiefly to:**
  - a net loan loss provision release in Ireland (215m EUR) and Hungary (11m EUR)
  - low gross impairments in all segments and all countries
- The credit cost ratio** sharply improved further from 0.09% in FY16 to -0.06% in FY17. The credit cost ratio improved in each business unit
- The impaired loans ratio** dropped to 6.0%, of which 3.4% over 90 days past due

## Annex 2

# Company profile

# Business profile

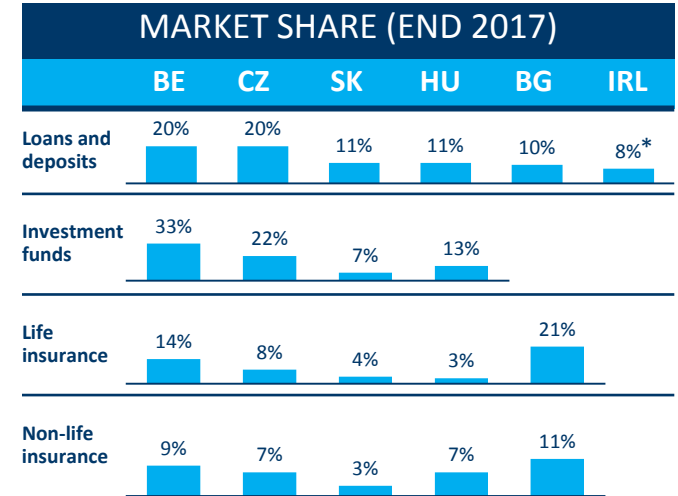
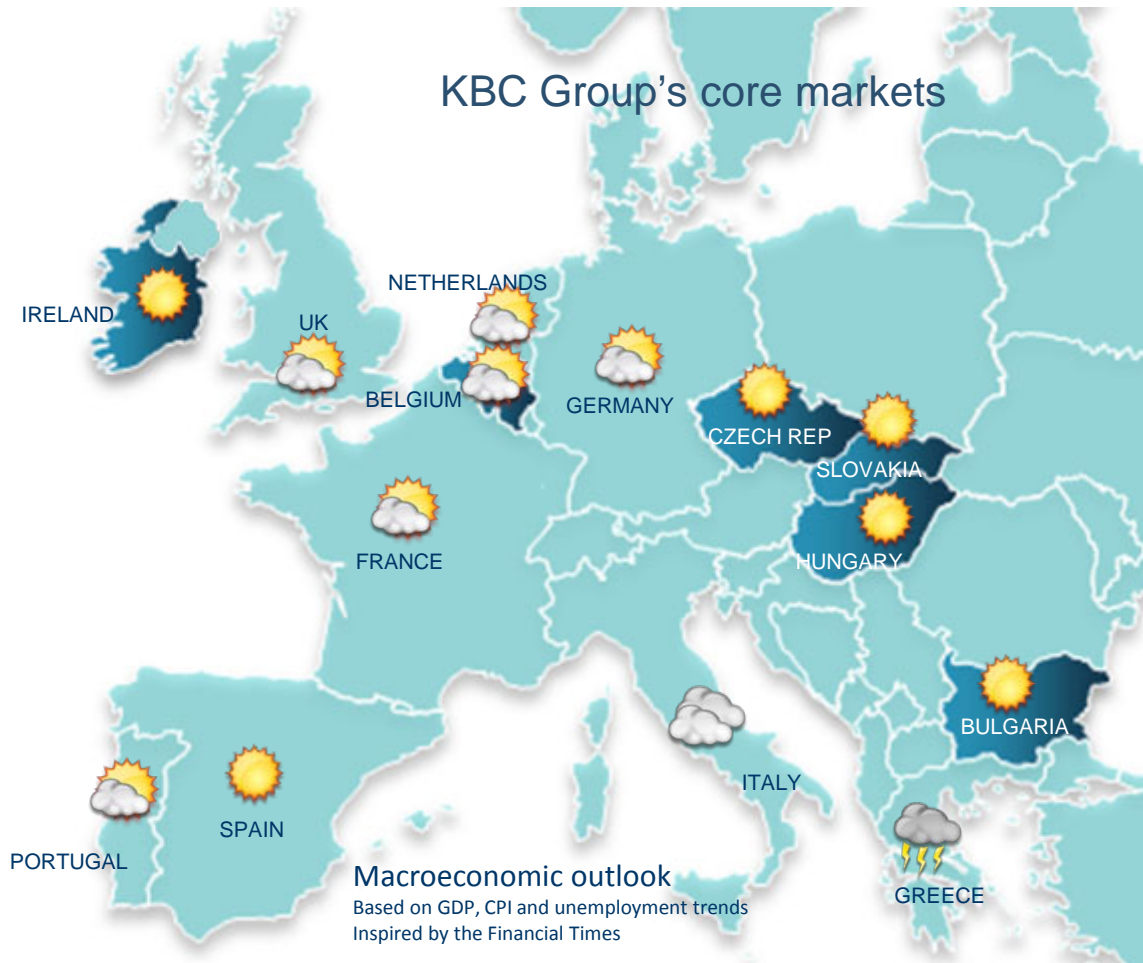
BREAKDOWN OF ALLOCATED CAPITAL BY BUSINESS UNIT AS AT 31 DECEMBER 2017



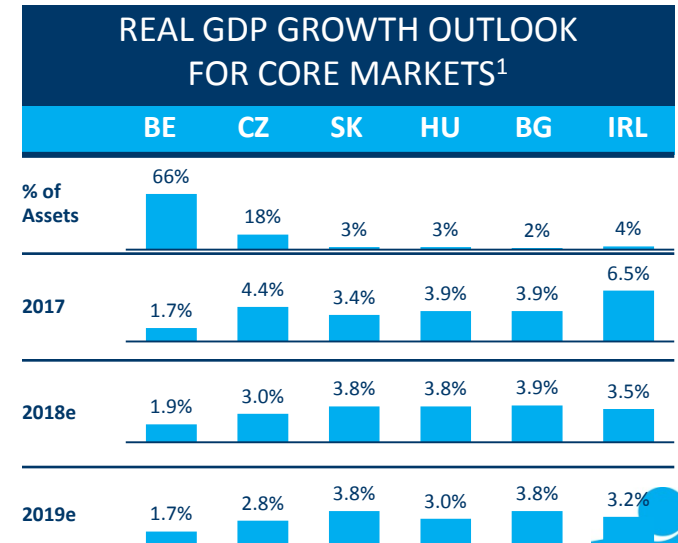
- KBC is a leading player (retail and SME bank-insurance, private banking, commercial and local investment banking) in Belgium, the Czech Republic and its 4 core countries in the International Markets business unit



# Well-defined core markets provide access to 'new growth' in Europe



\* Only for retail segment



1. Source: KBC data, February 2018

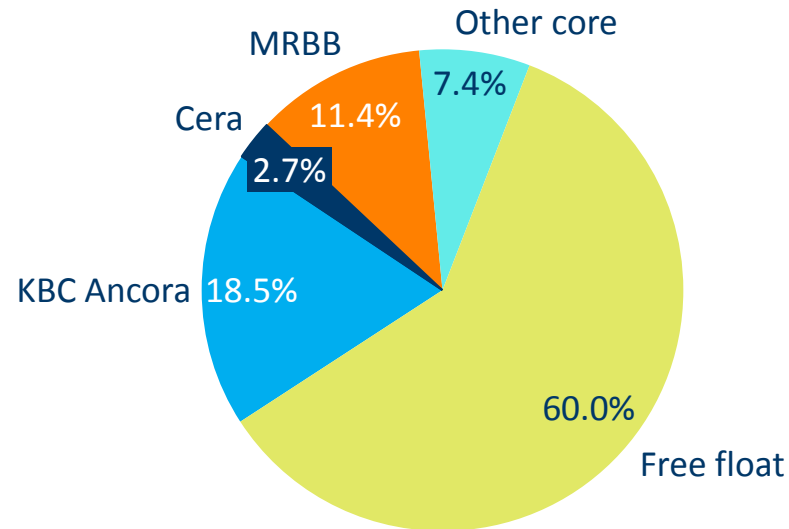
# Key strengths

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- Well-developed bank-insurance strategy and strong cross-selling capabilities
- Strong commercial bank-insurance franchises in Belgium and the Czech Republic with stable and solid returns. The International Markets Business Unit becomes a strong contributor to the net result of KBC Group
- Successful underlying earnings track record
- Solid capital and robust liquidity position

# Shareholder structure

SHAREHOLDER STRUCTURE AT END 2017



- Roughly 40% of KBC shares are owned by a syndicate of core shareholders, providing continuity to pursue long-term strategic goals. Committed shareholders include the Cera/KBC Ancora Group (co-operative investment company), the Belgian farmers' association (MRBB) and a group of industrialist families
- The free float is held mainly by a large variety of international institutional investors

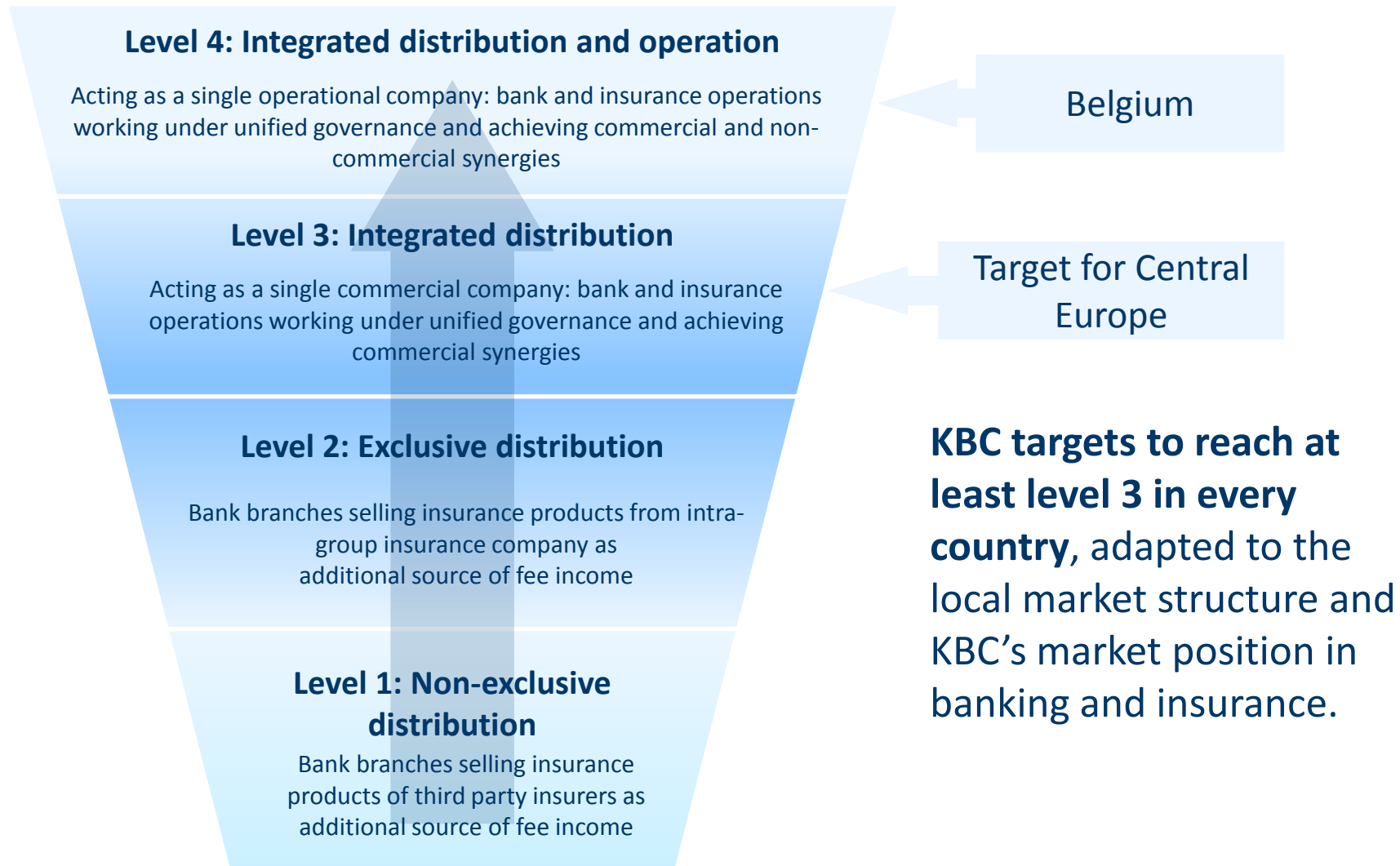
# KBC Group going forward:

## Wants to be among the best performing financial institutions in Europe

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- KBC wants to be among Europe's **best performing** financial institutions. This will be achieved by:
  - Strengthening our bank-insurance business model for retail, SME and mid-cap clients in our core markets, in a highly cost-efficient way
  - 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

# KBC Group going forward: The bank-insurance business model, different countries, different stages of implementation



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

- Integrated distribution model according to a real-time omni-channel approach remains key but client interaction will change over time. Technological development will be the driving force
- Human interface will still play a crucial role
- Simplification is a prerequisite:
  - In the way we operate
  - Is a continuous effort
  - Is part of our DNA



- Client-centricity will be further fine-tuned into 'think client, but design for a digital world'
- Digitalisation end-to-end, front- and back-end, is the main lever:
  - All processes digital
  - Execution is the differentiator
- Further increase efficiency and effectiveness of data management
- Set up an open architecture IT-package as core banking system for our International Markets Unit
- Improve the applications we offer our clients (one-stop-shop offering) via co-creation/partnerships with Fintechs and other value chain players



- Investment in our digital presence (e.g., social media) to enhance client relationships and anticipate their needs
- Easy-to-access and convenient-to-use set-up for our clients
- Clients will drive the pace of action and change
- Further development of a fast, simple and agile organisation structure
- Different speed and maturity in different entities/core markets
- Adaptation to a more open architecture (with easy plug in and out) to be future-proof and to create synergy for all

# Summary of the guidance at KBC Group level as announced at our Investor Visit in June 2017

## More of the same ...

Guidance...		by...
<b>CAGR total income ('16-'20)*</b>	≥ 2.25%	2020
<b>C/I ratio banking excluding bank tax</b>	≤ 47%	2020
<b>C/I ratio banking including bank tax</b>	≤ 54%	2020
<b>Combined ratio</b>	≤ 94%	2020
<b>Dividend payout ratio</b>	≥ 50%	As of now

\* Excluding marked-to-market valuations of ALM derivatives

Regulatory requirements...		by...
<b>Common equity ratio*excluding P2G</b>	≥ 10.6%	2019
<b>Common equity ratio*including P2G</b>	≥ 11.6%	2019
<b>MREL ratio**</b>	≥ 26.25%	2020
<b>NSFR</b>	≥ 100%	As of now
<b>LCR</b>	≥ 100%	As of now

\* Fully loaded, Danish Compromise. P2G = Pillar 2 guidance.

\*\* SRB has not formally communicated any MREL target at this point in time (expected by the end of 2018). However, an indicative figure is put forward based on the mechanical approach as published by SRB on 28 November 2016. Note that KBC intends to fill in the AT1 and T2 buckets of respectively 1.5% and 2.0%.

# Summary of the guidance at KBC Group level as announced at our Investor Visit in June 2017

... but differently...

→ Make further progress in our bank-insurance model

Guidance	by...
<b>CAGR Bank-Insurance clients</b> (1 Bank product + 1 Insurance product)	
BU BE	≥ 2% 2020
BU CR	≥ 15% 2020
BU IM	≥ 10% 2020

Guidance	by...
<b>CAGR Bank-Insurance stable clients</b> (3 Bk + 3 Ins products in Belgium; 2 Bk + 2 Ins products in CE)	
BU BE	≥ 2% 2020
BU CR	≥ 15% 2020
BU IM	≥ 15% 2020

→ Guidance on inbound omni-channel/digital behaviour\*

Guidance	by ...
<b>% Inbound contacts via omni-channel and digital channel</b>	
KBC Group**	≥ 80% 2020

- Clients interacting with KBC through at least one of the non-physical channels (digital or through a remote advisory centre), possibly in addition to contact through physical branches. This means that clients solely interacting with KBC through physical branches (or ATMs) are excluded

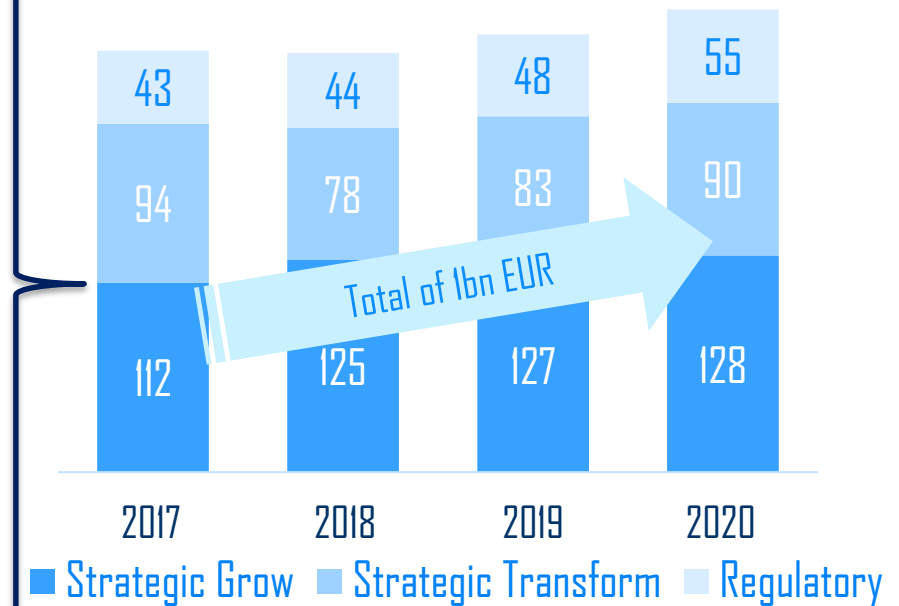
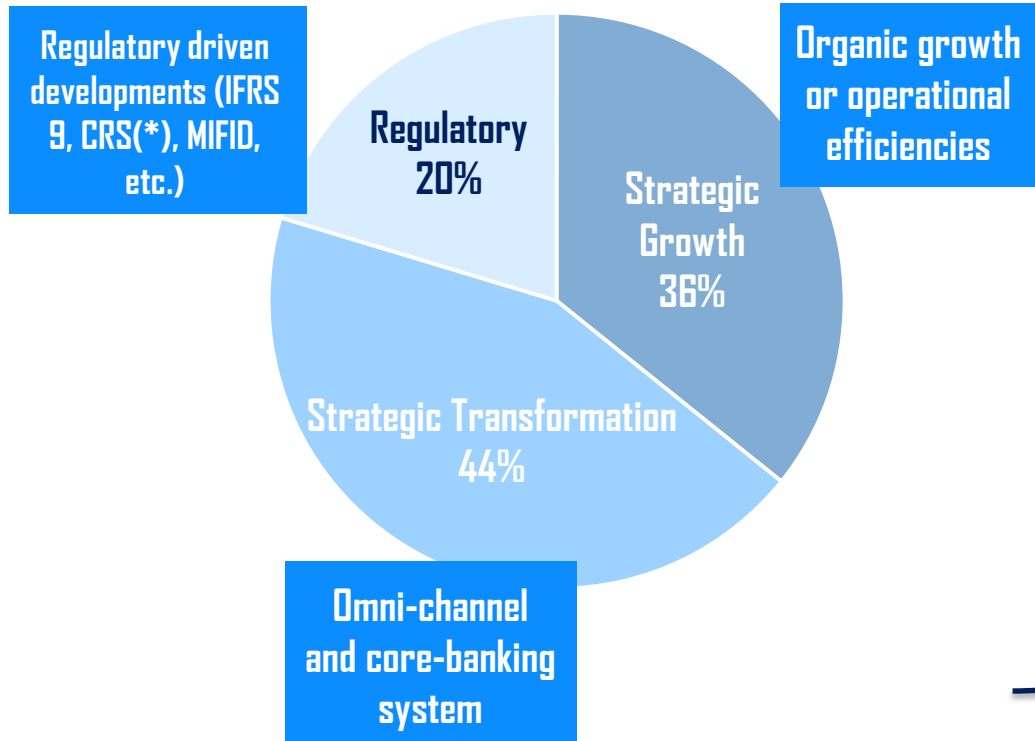
\*\* Bulgaria & PSB out of scope for Group target



# Digital Investments 2017-2020

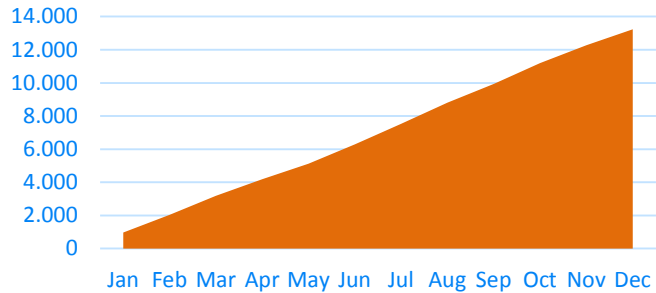
Cashflow 2017-2020 = 1.5bn EUR

Operating Expenses 2017-2020 = 1bn EUR



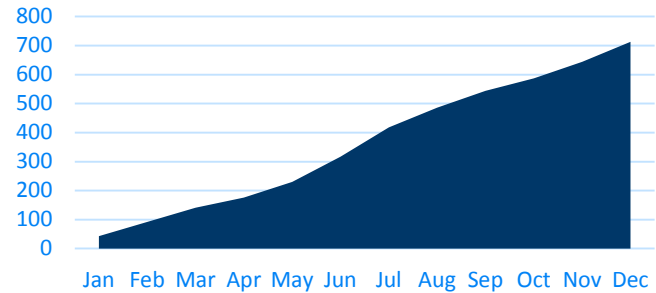
(\*) The Common Reporting Standard (CRS) refers to a systematic and periodic exchange of information at international level aimed at preventing tax evasion. Information on the taxpayer in the country where the revenue was taken is exchanged with the country where the taxpayer has to pay tax. It concerns an exchange of information between as many as 53 OECD countries in the first year (2017). By 2018, another 34 countries will join.

# Digital sales are increasing



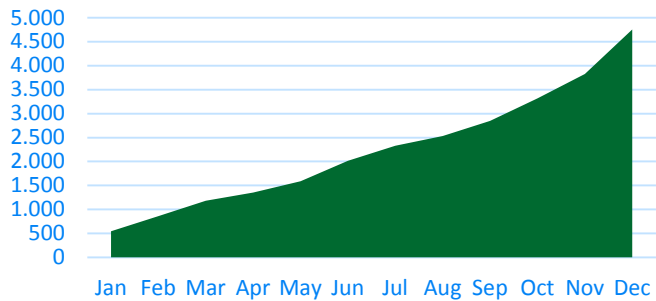
2017

■ Consumer loans



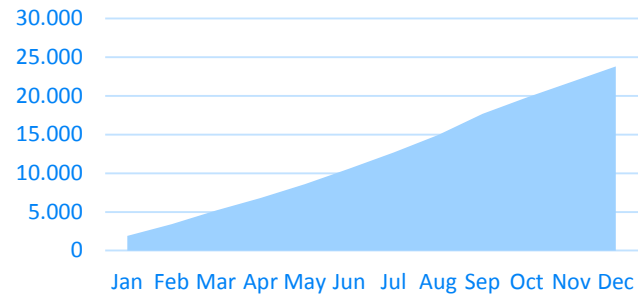
2017

■ Travel insurance



2017

■ Pension savings

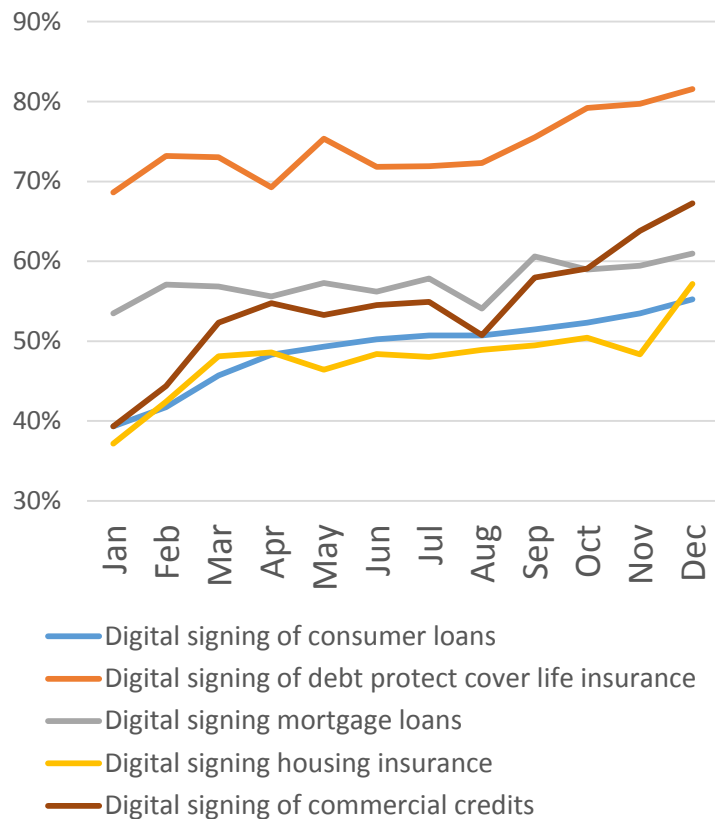


2017

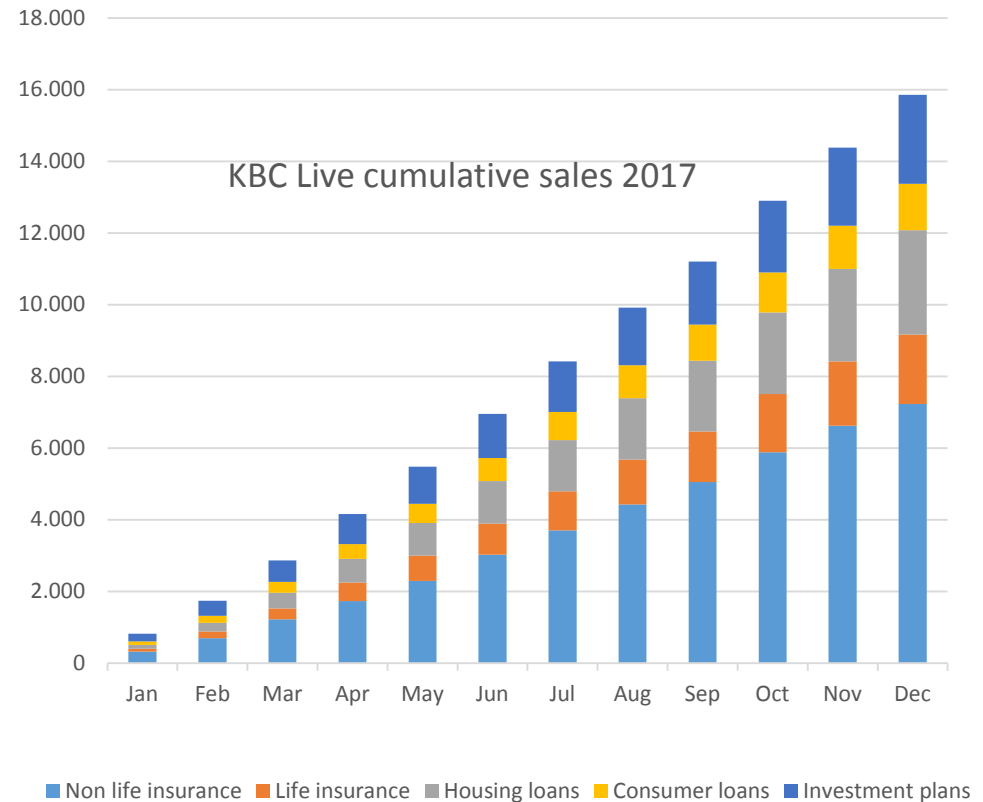
■ Current accounts

# Omnichannel is embraced by our customers

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

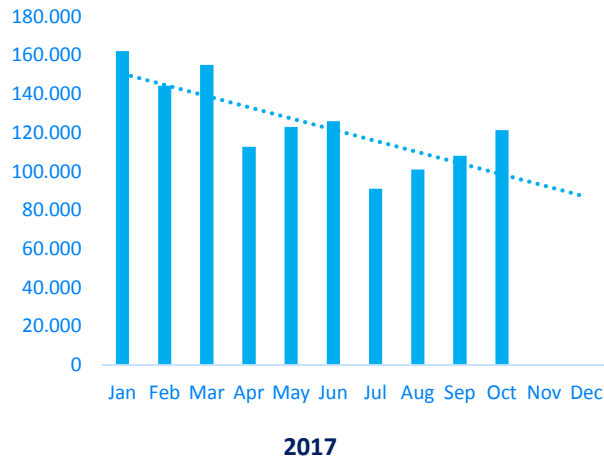


Digital sales @ KBC Live increases, strong performance in non-life

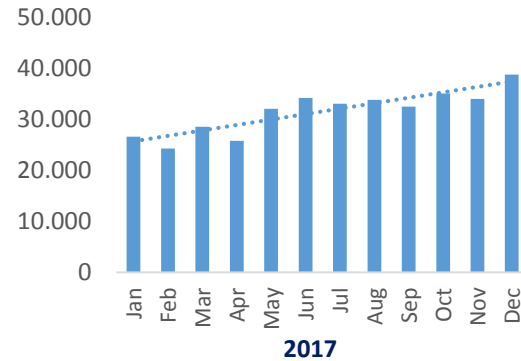


# KBC Live is impacting our customer contacts

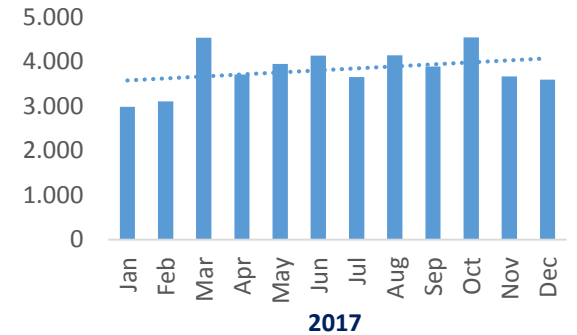
The number of branch appointments decreases as well



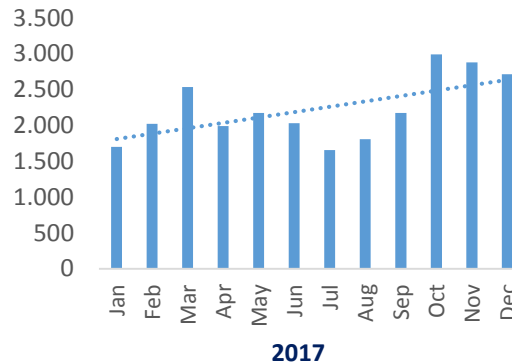
The number of answered phone calls in KBC Live is increasing ...



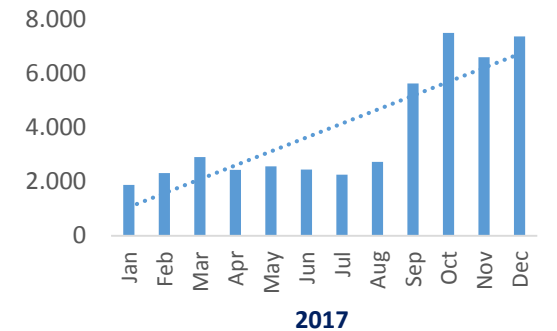
... and so is the number of appointments for advice in KBC Live



Contacts via video chat are on the rise ...



... and our customers start to find their way to KBC via chat.



# KBC Group going forward: An optimised geographic footprint



## Strengthen current geographic footprint

Optimise business portfolio by strengthening current bank-insurance presence through organic growth or through acquisitions if possible

No further plans to expand beyond current geographic footprint

KBC Group will consider acquisition options, if any, to strengthen current geographic bank-insurance footprint

Clear financial criteria for investment decision-making, based on:

- Solid capital position of KBC Group

- Investment returns in the short and mid terms

- New investment contributing positively to group ROE

# KBC Group going forward: An optimised geographic footprint

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Become a **reference in bank-insurance** in each core country

Through a locally embedded bank-insurance business model and a strong corporate culture, creating **superior client satisfaction**

With a clear focus on **sustainable and profitable growth**

# The core of KBC's sustainability strategy (1)

- We apply strict sustainability rules to our business activities, in respect of human rights, environment, business ethics and social themes
- KBC is a market leader in socially responsible investments, offering a full range of SRI funds
- We contribute to the transition to a low-carbon economy by reducing our own environmental footprint, tightening our lending policy to the energy sector and taking initiatives to promote energy efficiency, renewable energy, etc



- Sustainability goes beyond philanthropy and sponsorship
- We focus on a number of societal needs and actively respond to these needs by developing business solutions in which a bank-insurer can provide the elements that make a difference
- We defined the following focus domains: 'financial literacy', 'environmental responsibility', 'entrepreneurship', and 'demographic ageing and health'
- Examples are given on the next slides

- The mindset of all KBC staff should go beyond regulation and compliance
- Responsible behaviour is a requirement to implement an effective and credible sustainability strategy
- Specific focus on responsible selling and responsible advice

# The core of KBC's sustainability strategy (2)



Our focus areas	What?	A few examples
<b>Financial literacy</b>	<ul style="list-style-type: none"> <li>• Transparent advice and clear communication</li> <li>• Improving general public knowledge of financial concepts and products</li> <li>• Using analysis to understand and respond to clients' behaviour more effectively</li> </ul>	<ul style="list-style-type: none"> <li>• ČSOB Education Programme, Education Fund and Blue Life Academy in the Czech Republic</li> <li>• Promotion of financial education through the national 'K&amp;H Ready, Steady, Money' contest in Hungary</li> <li>• Get-A-Teacher service at KBC Bank (teaching and lectures at schools and colleges by a dedicated team of KBC-trainers)</li> </ul>
<b>Environmental responsibility</b>	<ul style="list-style-type: none"> <li>• Developing products and services that can make a positive contribution to society and the environment</li> <li>• Reducing our environmental footprint through a diverse range of initiatives and objectives</li> </ul>	<ul style="list-style-type: none"> <li>• KBC Renovation Loan for Owners' Associations to provide flexible financing solutions for energy-saving investments in apartment blocks</li> <li>• KBC Mobility for sustainable and qualitative mobility solutions in Belgium</li> <li>• Group-wide target to reduce our own greenhouse gas emissions by at least 20% (from 2015 levels) by 2020</li> <li>• We achieved a 'leadership A-' score for the 2017 Carbon Disclosure Project Climate Change Program</li> </ul>



# The core of KBC's sustainability strategy (3)



Our focus areas	What?	A few examples
<p><b>Entrepreneurship</b></p>	<p>Contributing to economic growth by supporting innovative ideas and projects.</p>	<ul style="list-style-type: none"> <li>• 'Gap in the Market' campaign in Hungary</li> <li>• Start it @KBC, a major incubator for start-ups in Belgium</li> <li>• KBC Match'it, a digital platform for transferring businesses</li> <li>• Providing capital for start-ups via the KBC Start it Fund</li> <li>• Supporting local initiatives via the Bolero Crowdfunding platform</li> <li>• Encouraging clients to take the step to e-commerce via Storesquare and Farmcafé</li> <li>• Strengthening our partnership with the Belgian Raiffeisen Foundation</li> </ul>
<p><b>Demographic ageing and health</b></p>	<ul style="list-style-type: none"> <li>• We chose 'demographic ageing' as the fourth pillar in Belgium and the Czech Republic.</li> <li>• We chose 'Health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland.</li> </ul>	<ul style="list-style-type: none"> <li>• ČSOB is collaborating with the Centre of Health Economics and Management at the Faculty of Social Sciences at the Charles University in Prague</li> <li>• Happy@Home, an ecosystem between KBC, the service provider ONS and the software firm CUBIGO to make domestic assistance readily available</li> <li>• Financial and material assistance to sick children through the 'K&amp;H MediMagic Programme' in Hungary</li> <li>• Launching awareness campaigns in various countries in areas such as sports, health and well-being, road safety and child protection, and developing insurance products related to health and personal risks</li> </ul>

More information is available at [www.kbc.com](http://www.kbc.com), under 'Corporate Sustainability'.

## Annex 3

# Other items

# Loan loss experience at KBC

	<b>FY17</b> CREDIT COST RATIO	<b>FY16</b> CREDIT COST RATIO	<b>FY15</b> CREDIT COST RATIO	<b>FY14</b> CREDIT COST RATIO	<b>FY13</b> CREDIT COST RATIO	<b>AVERAGE</b> <b>'99 –'17</b>
<b>Belgium</b>	<b>0.09%</b>	0.12%	0.19%	0.23%	0.37%	n/a
<b>Czech Republic</b>	<b>0.02%</b>	0.11%	0.18%	0.18%	0.26%	n/a
<b>International Markets</b>	<b>-0.74%</b>	-0.16%	0.32%	1.06%	4.48%*	n/a
<b>Group Centre</b>	<b>0.40%</b>	0.67%	0.54%	1.17%	1.85%	n/a
<b>Total</b>	<b>-0.06%</b>	<b>0.09%</b>	<b>0.23%</b>	<b>0.42%</b>	<b>1.21%**</b>	<b>0.47%</b>

Credit cost ratio: amount of losses incurred on troubled loans as a % of total average outstanding loan portfolio

\* The high credit cost ratio at the International Markets Business Unit is due in full to KBC Bank Ireland. Excluding Ireland, the CCR at this business unit amounted to 108 bps in FY13

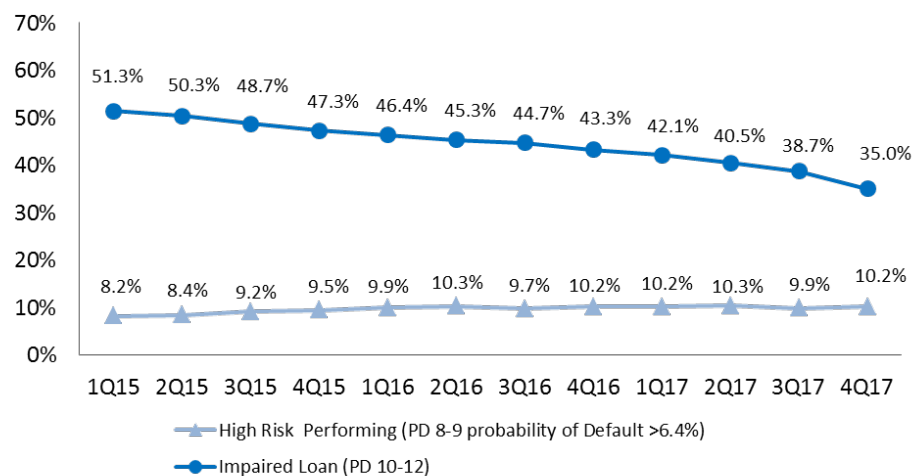
\*\* Credit cost ratio amounted to 1.21% in FY13 due to the reassessment of the loan books in Ireland and Hungary

# Ireland (1): impaired loans ratio further improved

LOAN PORTFOLIO	OUT-STANDING €	IMPAIRED LOANS €	IMPAIRED LOANS PD 10- 12	SPECIFIC PROVISIONS €	IMPAIRED LOANS PD 10-12 COVERAGE
Owner occupied mortgages	8.9bn	2.1bn	24%	0.5bn	23%
Buy to let mortgages	2.1bn	1.3bn	65%	0.5bn	40%
SME /corporate	0.6bn	0.3bn	58%	0.2bn	61%
Real estate					
- Investment	0.5bn	0.4bn	71%	0.2bn	54%
- Development	0.1bn	0.1bn	100%	0.1bn	89%
<b>Total</b>	<b>12.1bn</b>	<b>4.2bn</b>	<b>35%</b>	<b>1.5bn</b>	<b>36%</b>

- The domestic Irish economy continues to perform strongly. This combined with the strong multinational sector, GDP is expected to increase by around 6.5%
- Domestic spending has strengthened and reached more broadly across the economy. This has translated into a robust rate of job gains, leading to a decline in the unemployment rate to 6.2% at year-end as well as encouraging an increase in net inward migration
- While there has been some improvement in new housing supply, demand has also increased because of the strength of the recovery. As a result, house prices have continued to rise at a strong pace
- Total impaired loans have been reduced by 25% y-o-y or 1.4bn EUR in 2017, resulting in a decline in impaired loan ratio to 35% at year-end 2017
- Net loan loss provision release of 52m EUR in 4Q17 driven by 31m EUR IBNR parameter changes, growth in the CSO House Price Index and improved non-performing portfolio performance. This compares with a 26m EUR release in 3Q17
- Looking forward, we are guiding for a net loan loss provision release for Ireland in the range of 100m-150m EUR for FY18

## PROPORTION OF HIGH RISK AND IMPAIRED LOANS



# Ireland (2): portfolio analysis

## 4Q17 Retail Portfolio

	PD	Legacy	New Retail	Impairment Provisions	Cover %
Performing	PD 1-8	4,334	2,334	12	0.2%
	Of which non Forborne	4,317	2,334		
	Of which Forborne	17	0		
Performing	PD 9	808	8	21	2.6%
	Of which non Forborne	174	3		
	Of which Forborne	634	5		
Impaired	PD 10	1,902	5	220	11.5%
	PD 11	862	1	268	31.0%
	PD 12	688	1	546	79.3%
<b>TOTAL PD1-12</b>		<b>8,593</b>	<b>2,348</b>	<b>1,067</b>	
<i>Specific Impairment/(PD 10-12)</i>					29.9%

- Forborne loans (in line with EBA Technical Standards) comprise loans on a live restructure or continuing to serve a probation period post-restructure/cure to Performing

## Retail portfolio

- The New Retail portfolio (all originations post 1 Jan 2014) comprises 2.3bn EUR of the overall Retail portfolio and increased q-o-q by 0.25bn EUR. New Retail at 4Q17 represents 21% of total Retail portfolio (from 14% at 4Q16)
- Impaired portfolio decreased by roughly 444m EUR q-o-q mainly due to the accounting write-off of certain fully provisioned legacy loans during 4Q17 (reduction of 0.9bn EUR y-o-y)
- This write-off has resulted in an overall decrease in the legacy portfolio to 8.6bn EUR (9.1bn EUR at 3Q17) and coverage ratio for impaired loans decreasing to 29.9% at 4Q17 (from 35.4% at 3Q17)
- Weighted average indexed LTV on the impaired portfolio has improved significantly y-o-y and decreased to 94% at 4Q17 (from 104% at 4Q16)

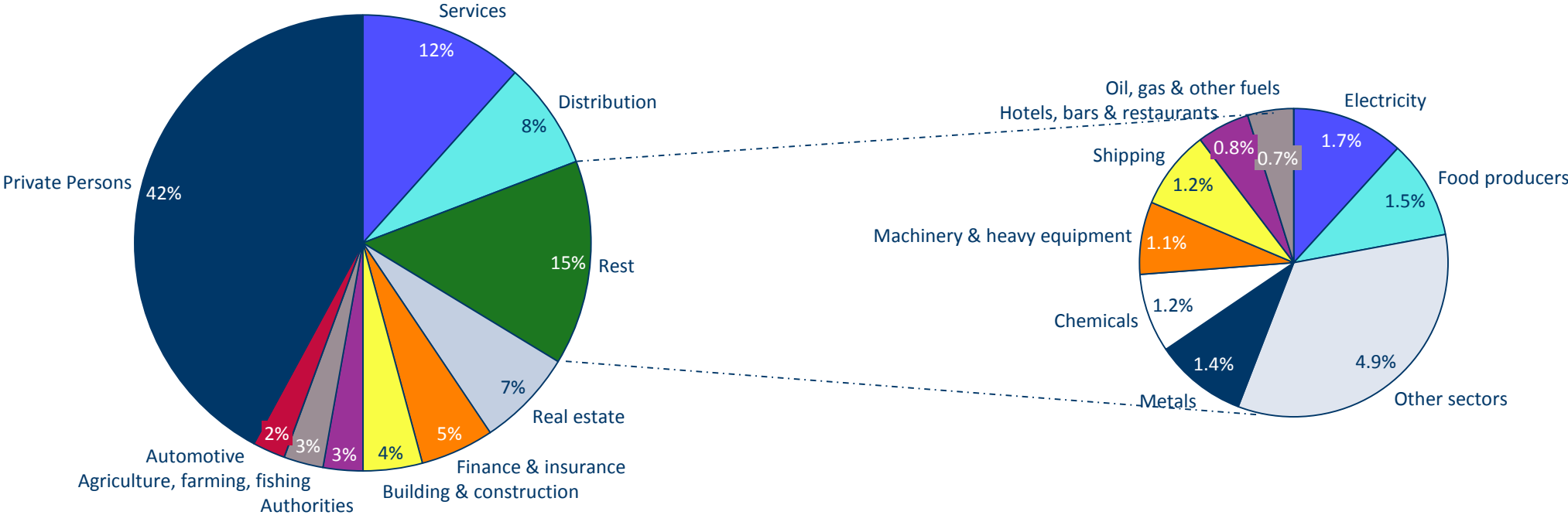
## 4Q17 Corporate Portfolio

	PD	Exposure	Impairment Provisions	Cover %
Perf.	PD 1-8	334	1	0.3%
	PD 9	62	2	3.3%
Impaired	PD 10	257	102	39.7%
	PD 11	198	113	57.0%
	PD 12	336	266	79.2%
	<b>TOTAL PD1-12</b>	<b>1,186</b>	<b>484</b>	
<i>Specific Impairment/(PD 10-12)</i>				60.8%

## Corporate loan portfolio

- Impaired portfolio has reduced by roughly 185m EUR q-o-q. Reduction driven mainly by continued deleverage of portfolio (reduction of 0.5bn EUR y-o-y)
- Coverage ratio for impaired loans has decreased to 60.8% in 4Q17 (from 61.1% in 3Q17)
- Overall exposure has dropped by 0.6bn EUR y-o-y

# Sectorial breakdown of outstanding loan portfolio (1) (154bn EUR\* including UBB) of KBC Bank Consolidated

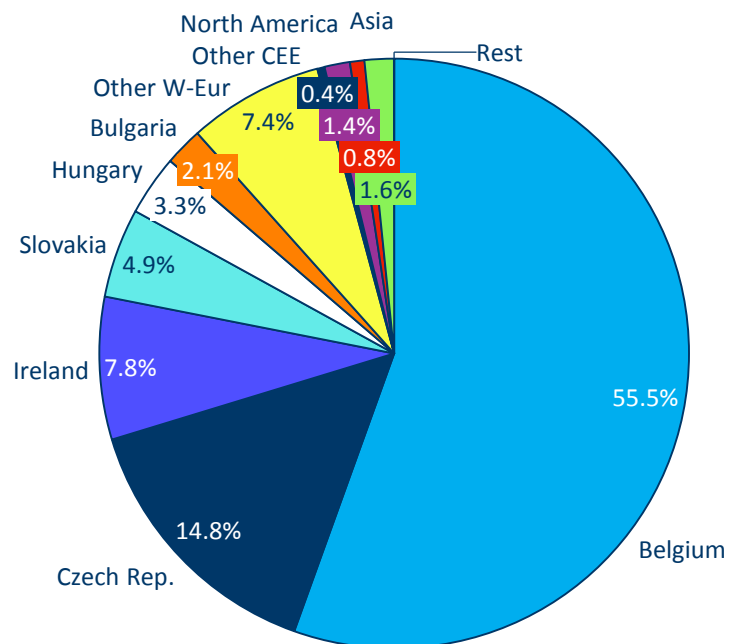


\* It includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export/import related commercial credit), standby credit and credit derivatives, granted by KBC to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate or bank issued, hence government bonds and trading book exposure are not included

\* Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees



# Geographical breakdown of the outstanding loan portfolio (2) (154bn EUR\* including UBB) of KBC Bank Consolidated

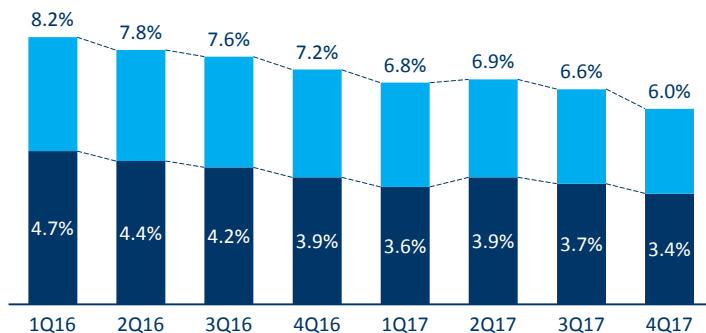


\* It includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export/import related commercial credit), standby credit and credit derivatives, granted by KBC to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate or bank issued, hence government bonds and trading book exposure are not included

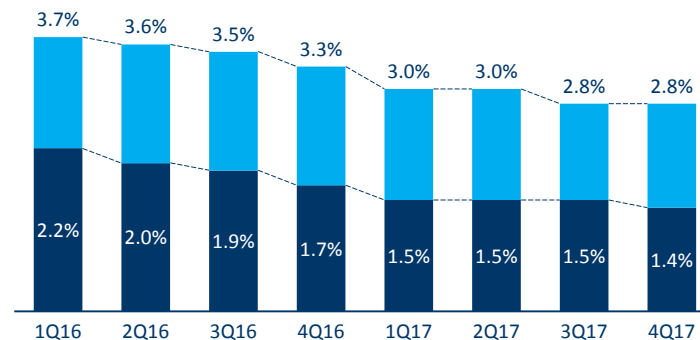
\* Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees

# Impaired loans ratios, of which over 90 days past due

## KBC GROUP

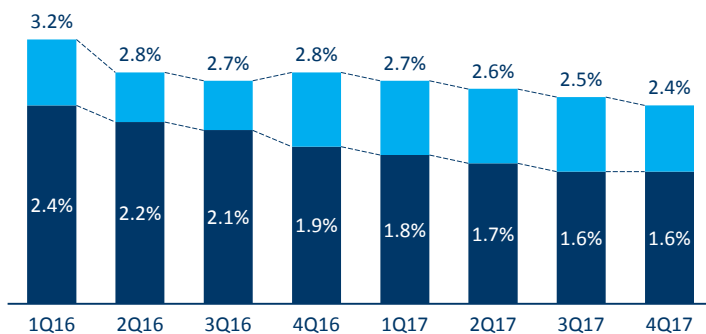


## BELGIUM BU

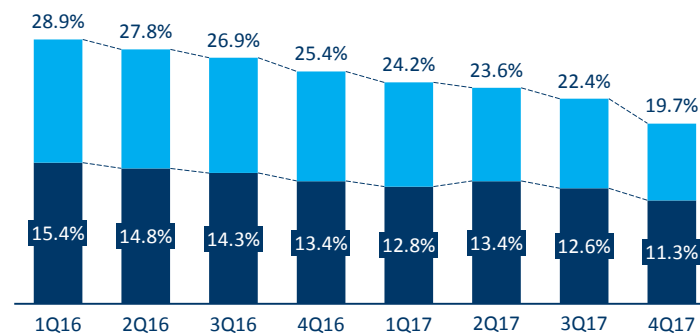


■ Impaired loans ratio \*  
■ Of which over 90 days past due \*\*

## CZECH REPUBLIC BU



## INTERNATIONAL MARKETS BU (including UBB)



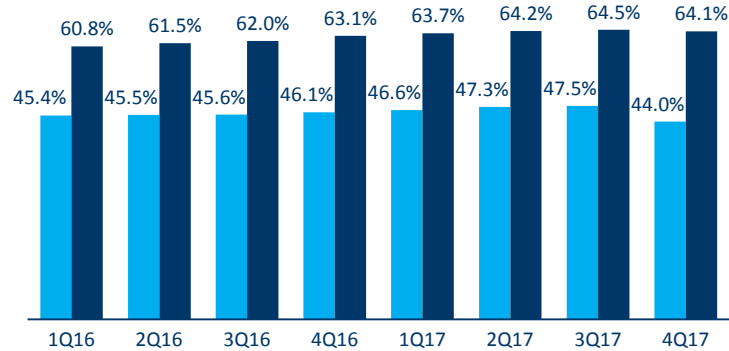
\* Impaired loans ratio: total outstanding impaired loans (PD 10-12)/total outstanding loans

\*\* Of which total outstanding loans with over 90 days past due (PD 11-12)/total outstanding loans

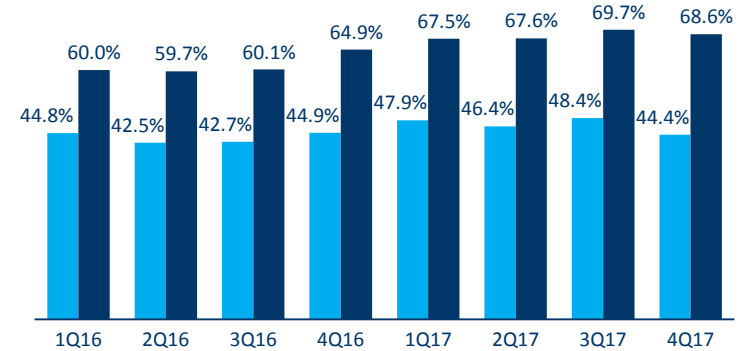


# Cover ratios

## KBC GROUP

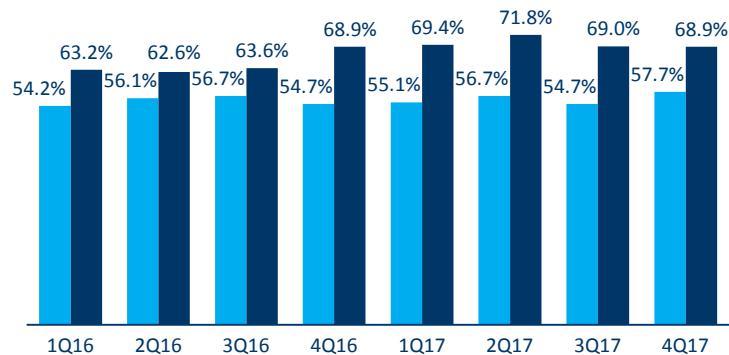


## BELGIUM BU

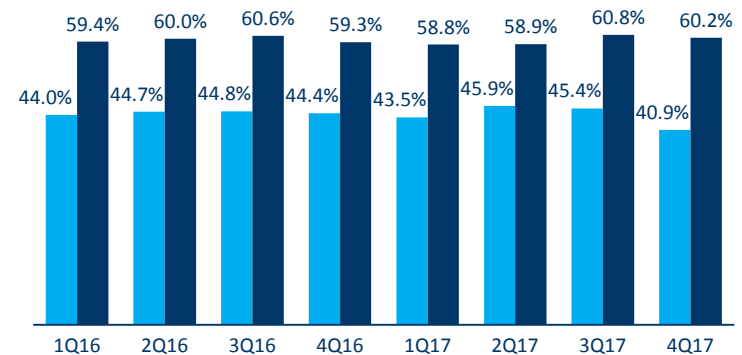


■ Impaired loans cover ratio \*  
■ Cover ratio for loans with over 90 days past due \*\*

## CZECH REPUBLIC BU



## INTERNATIONAL MARKETS BU (including UBB)

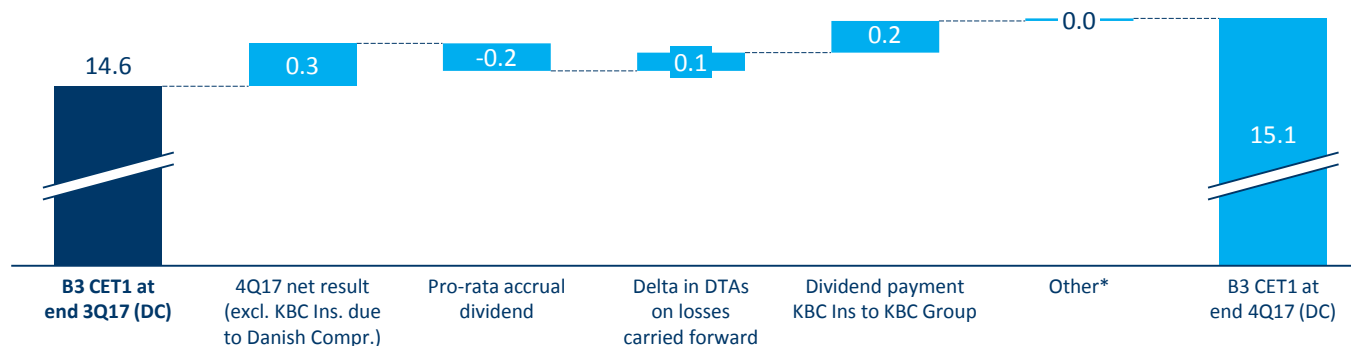


\* Impaired loans cover ratio: total impairments (specific) for impaired loans / total outstanding impaired loans (PD10-12)

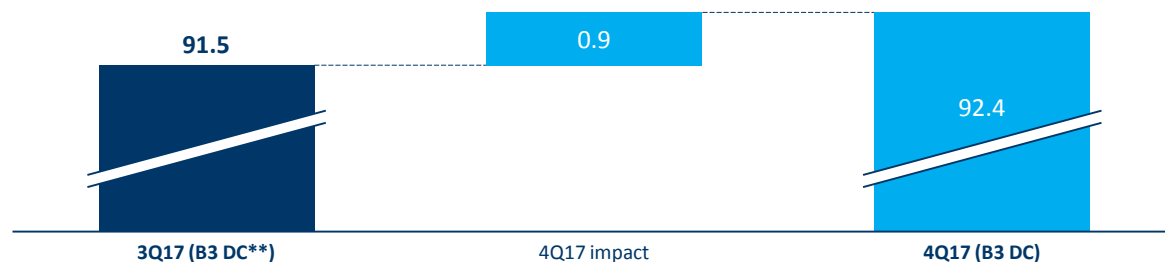
\*\* Cover ratio for loans with over 90 days past due: total impairments (specific) for loans with over 90 days past due / total outstanding PD11-12 loans

# Fully loaded B3 CET1 based on the Danish Compromise (DC) from 3Q17 to 4Q17

DELTA AT NUMERATOR LEVEL (BN EUR)



DELTA ON RWA (BN EUR)



- Fully loaded B3 common equity ratio increased to 16.3% at end-2017 based on the Danish Compromise
- A pro forma fully loaded common equity ratio translation to 10.60% was clearly exceeded

\* Includes the q-o-q delta in AFS revaluation reserves, remeasurement of defined benefit obligations, IRB provision shortfall, deduction re. financing provided to shareholders, translation differences, etc.

\*\* Includes the RWA equivalent for KBC Insurance based on DC, calculated as the historical book value of KBC Insurance multiplied by 370%

# Overview of B3 CET1 ratios at KBC Group

Method	Numerator	Denominator	B3 CET1 ratio
FICOD*, phased-in	16,015	105,625	15.2%
FICOD, fully loaded	15,988	106,062	15.1%
DC**, phased-in	15,131	91,972	16.5%
DC, fully loaded	15,104	92,410	16.3%
DM***, fully loaded	14,146	87,052	16.3%

\* FICOD: Financial Conglomerate Directive

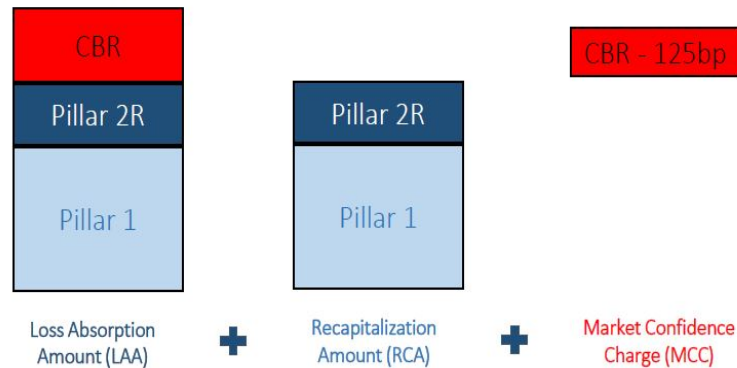
\*\* DC: Danish Compromise

\*\*\* DM: Deduction Method

# Resolution strategy for KBC

- SRB supports KBC's preference for a **Single Point of Entry** approach at the level of KBC Group with **bail-in as primary resolution tool**
- SRB has not formally communicated the binding MREL target at this point in time (expected in 2Q18)
- The mechanical approach published by SRB on 28 November 2016 showed an indicative target of 26.25% as a % of RWA

- Informative MREL Targets in 2016 = Mechanical sum of three amounts



Source: SRB, 4th Industry Dialogue 28/11/2016

Applied to KBC (on a fully loaded basis):

2 x P1	2 x 8%
+ 2 x P2R	2 x 1.75%
+ 2 x CBR	2 x (2.5%+1.5%) (*)
- 1.25%	-1.25%

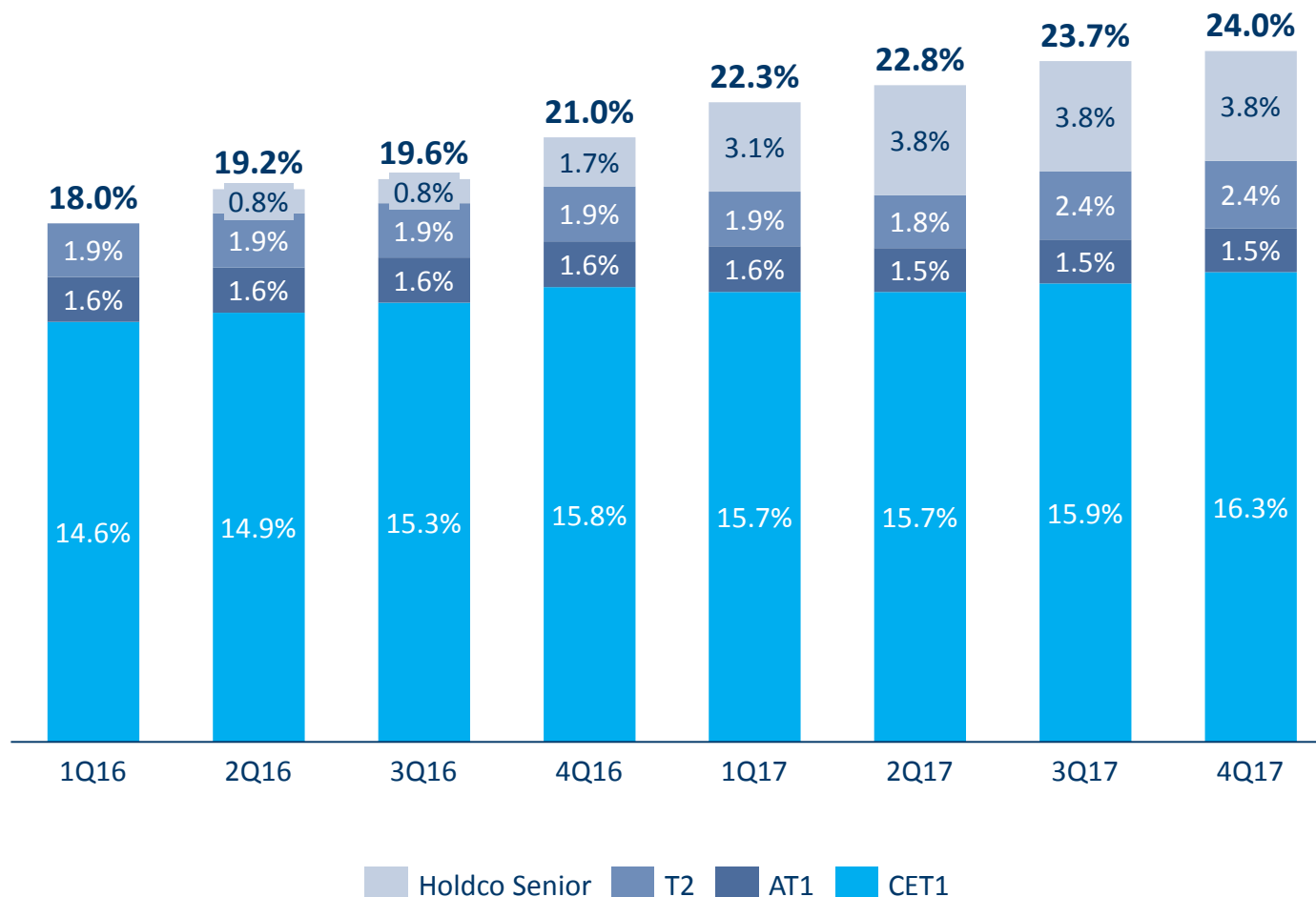
**Indicative target = 26.25% as % of RWA**

(\*) excluding countercyclical buffers that will be introduced in 2017

- Given the SPE approach at KBC Group level, KBC aims to satisfy MREL with instruments issued by KBC Group NV

# Available MREL based on KBC resolution strategy (instruments issued by KBC Group only)

**MREL ratio as a % RWA (fully loaded)**



# P&L volatility from ALM derivatives

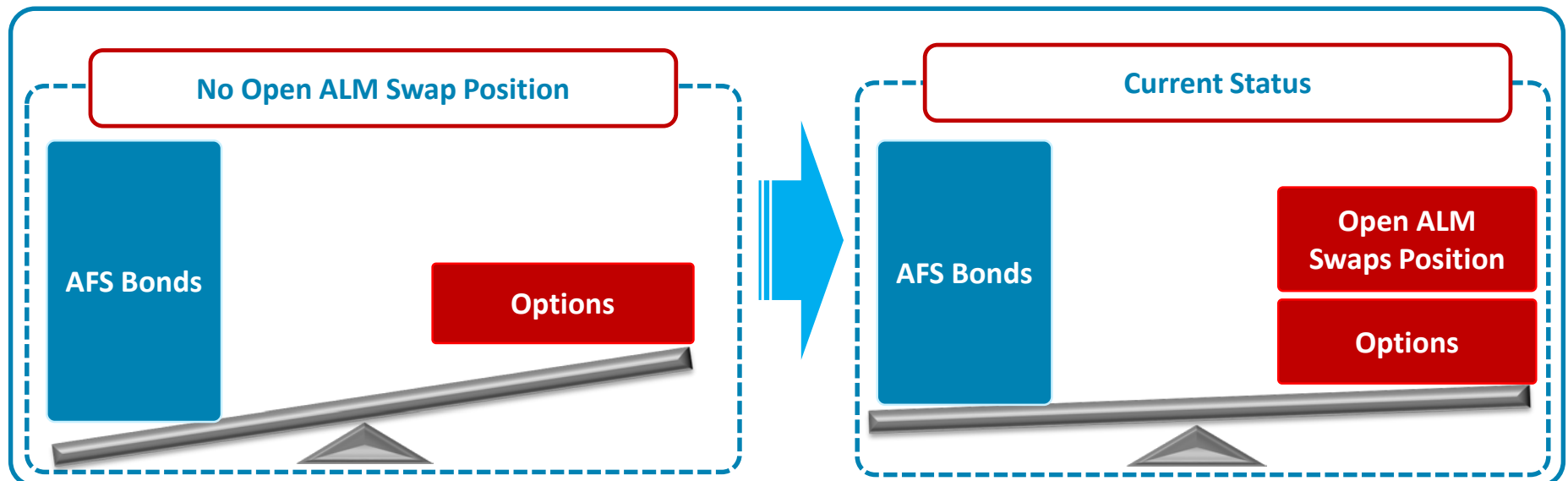
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- ALM derivatives (swaps and options) are used to hedge the interest rate risk of the loan & deposit portfolios. This creates an accounting mismatch between derivatives (at market value) and hedged products (at amortised cost)
  - Options are used to hedge the caps/floors that KBC is obliged by law to include in Belgian mortgages
- Most of this mismatch is removed with IFRS hedge accounting
- A part of the ALM derivatives has not been included in any hedge accounting structure for different reasons:
  - Option hedging for mortgage loans: no hedge accounting possible given the dynamic hedging strategy used
  - Part of the ALM interest rate derivatives has not been included in a hedge accounting structure, due to the offsetting effect with AFS bonds impact on capital ratios (which is not the case with valuation changes of cash flow hedges due to the applied regulatory capital filter)

# Open ALM swap position

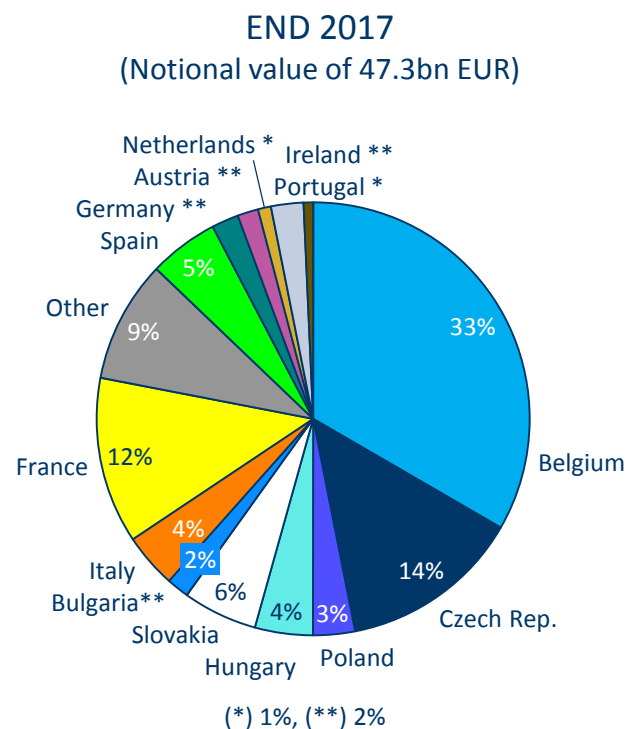
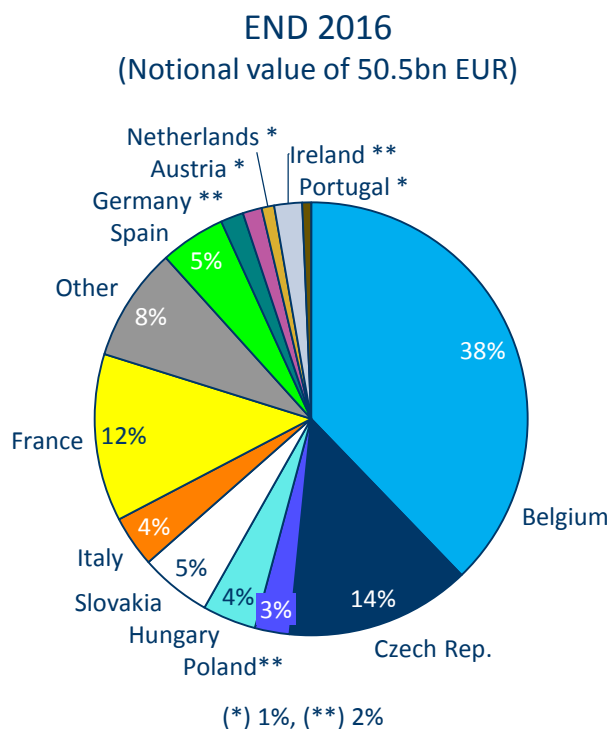
## Protecting stability of capital ratio

- Keeping part of the ALM swaps outside of hedge accounting reduces the volatility of the capital ratios as shown below (Basel III fully loaded + Danish Compromise insurance deconsolidation)
- Drawback is more volatility in P&L as revaluation of swaps recorded in P&L, whereas the revaluation of the AFS bonds is recognised in capital



# Government bond portfolio – Notional value

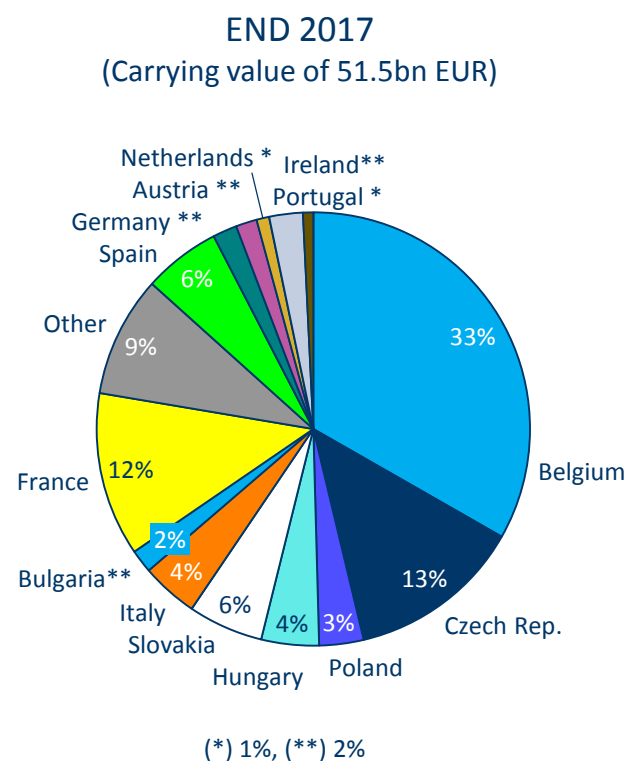
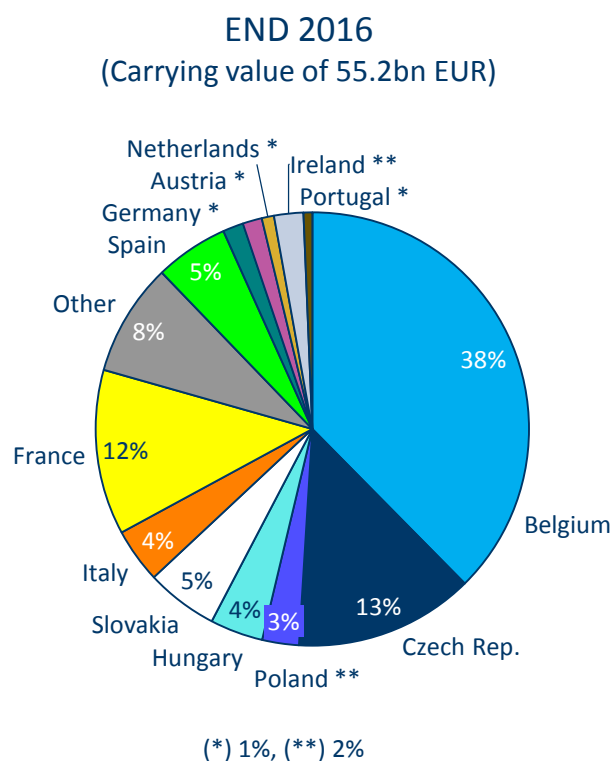
- Notional investment of 47.3bn EUR in government bonds (excl. trading book) at end-2017, primarily as a result of a significant excess liquidity position and the reinvestment of insurance reserves in fixed-income instruments
- Notional value of GIIPS exposure amounted to 5.9bn EUR at end-2017





# Government bond portfolio – Carrying value

- Carrying value of 51.5bn EUR in government bonds (excl. trading book) at end-2017, primarily as a result of a significant excess liquidity position and the reinvestment of insurance reserves in fixed-income instruments
- Carrying value of GIIPS exposure amounted to 6.8bn EUR at end-2017

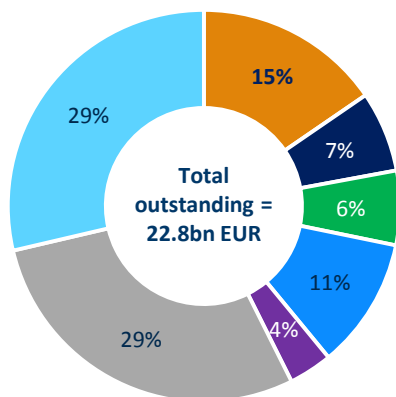
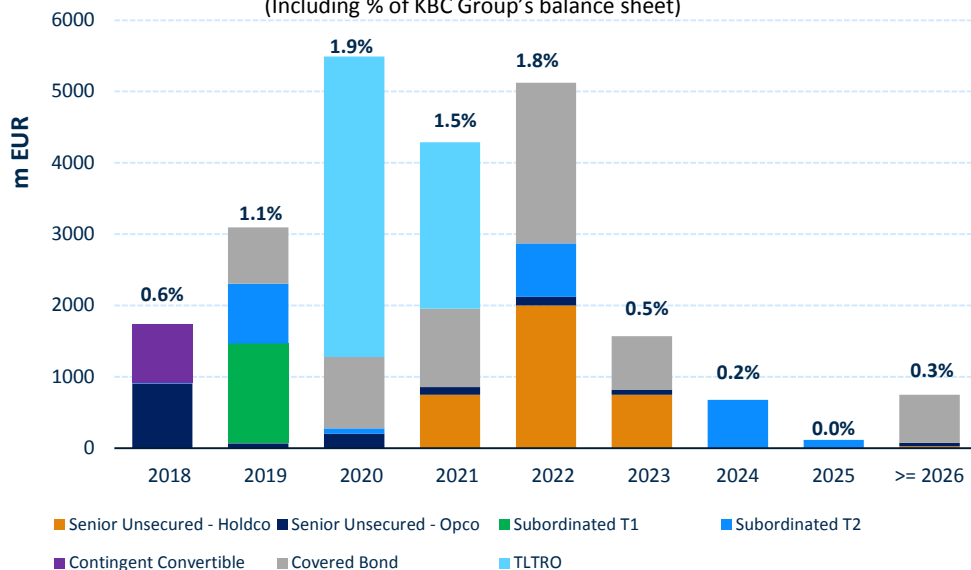


\* Carrying value is the amount at which an asset [or liability] is recognised: for those not valued at fair value this is after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon, while carrying amount is equal to fair value when recognised at fair value

# Upcoming mid-term funding maturities

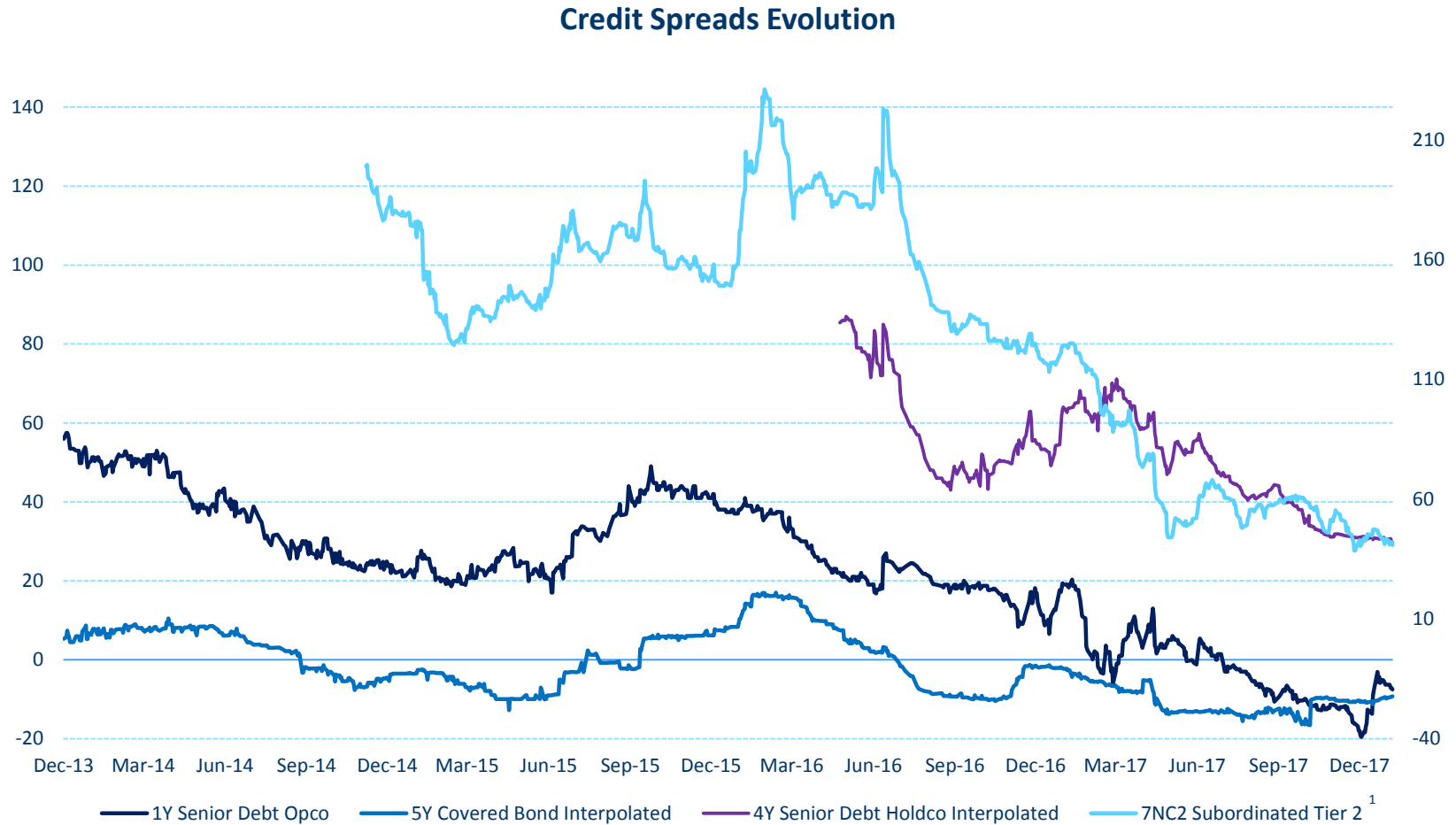
## Breakdown Funding Maturity Buckets

(Including % of KBC Group's balance sheet)



- KBC Bank has successfully issued a 500m EUR covered bond with 10-year maturity in Oct 2017
- CoCo has been called in the meantime (25 January 2018)
- KBC Group's credit spreads have tightened towards the end of 4Q17
- KBC Bank has 6 solid sources of long-term funding:
  - Retail term deposits
  - Retail EMTN
  - Public benchmark transactions
  - Covered bonds
  - Structured notes and covered bonds using the private placement format
  - Senior unsecured, T1 and T2 capital instruments issued at KBC Group level and down-streamed to KBC Bank

# Credit spreads evolution



<sup>1</sup> 7NC2 Subordinated Tier 2 spread is depicted based on the right hand axis.

# Analysts' coverage

Bank/broker	Analyst	Contact details	Rating	Target Price	Upside
ABN Amro	Cor Kluis	cor.kluis@nl.abnamro.com	+	82,00	14%
Alpha Value	Farahad Moshiri	f.moshiri@alphavalue.eu	-	73,70	3%
Autonomous	Farquhar Murray	FMurray@autonomous.com	+	80,00	11%
Bank of America Merrill Lynch	Tarik El Mejjad	tarik.el_mejjad@baml.com	+	77,50	8%
Barclays	Paulina Sokolova	paulina.x.sokolova@barclays.com	=	68,00	-5%
Berenberg	Andrew Lowe	Andrew.Lowe@berenberg.com	=	65,00	-10%
Citi Investment Research	Stefan Nedialkov	stefan.nedialkov@citi.com	+	79,00	10%
Credit Suisse	Marcel Houben	marcell.houben@credit-suisse.com	=	70,00	-3%
Degroof Petercam	Bart Jooris	ba.jooris@degroofpetercam.com	+	79,00	10%
Deutsche Bank	Flora Benhakoun	flora-a.benhakoun@db.com	+	82,00	14%
Exane BNP Paribas	Alicia Chung	Alicia.chung@exanebnpparibas.com	+	77,00	7%
Goldman Sachs	Pawel Dziedzic	Pawel.Dziedzic@gs.com	+	77,00	7%
HSBC	Johannes Thormann	johannes.thormann@hsbc.de	+	75,00	4%
ING	Albert Ploegh	albert.ploegh@ing.com	+	77,00	7%
Jefferies	Maxence Le Gouvello du Timat	mlegouvello@jefferies.com	=	73,80	3%
JP Morgan Securities	Paul Formanko	paul.formanko@jpmorgan.com	+	77,00	7%
Keefe, Bruyette & Woods	Jean-Pierre Lambert	jplambert@kbw.com	=	77,20	7%
Kempen & Co	Matthias De Wit	Matthias.deWit@kempen.com	+	86,00	20%
KeplerCheuvreux	Benoit Petrarque	benoit.petrarque@keplercm.com	=	64,50	-10%
Macquarie	Jain Vardhman	vardhman.jain@macquarie.com	=	65,00	-10%
Mainfirst Bank	Matthew Clark	matthew.clark@mainfirst.com	=	69,00	-4%
Mediobanca	Robin van den Broek	Robin.VanDenBroek@mediobanca.com	+	76,00	6%
Morgan Stanley	Bruce Hamilton	Bruce.Hamilton@morganstanley.com	+	69,90	-3%
Natixis Securities	Alex Koagne	alex.koagne@natixis.com	=	69,90	-3%
Oddo	Steven Gould	Steven.gould@oddo-bhf.com	+	70,50	-2%
Redburn	N Davey	Nick.Davey@redburn.com	=	n/a	
Santander	Coll Catalan José Manuel	joema.coll@gruposantander.com	+	72,70	1%
Societe Generale	Phelbe Pace	phelbe.pace@sgcib.com	+	70,50	-2%
UBS	Johan Ekblom	johan.ekblom@ubs.com	=	75,00	4%

# Glossary (1)

<b>AQR</b>	Asset Quality Review
<b>B3</b>	Basel III
<b>CBI</b>	Central Bank of Ireland
<b>Combined ratio (non-life insurance)</b>	[technical insurance charges, including the internal cost of settling claims / earned premiums] + [operating expenses / written premiums] (after reinsurance in each case)
<b>Common equity ratio</b>	[common equity tier-1 capital] / [total weighted risks]
<b>Cost/income ratio (banking)</b>	[operating expenses of the banking activities of the group] / [total income of the banking activities of the group]
<b>Cost/income ratio adjusted for specific items</b>	<p>The numerator and denominator are adjusted for (exceptional) items which distort the P&amp;L during a particular period in order to provide a better insight into the underlying business trends. Adjustments include:</p> <ul style="list-style-type: none"> <li>• MtM ALM derivatives (fully excluded)</li> <li>• bank taxes (including contributions to European Single Resolution Fund) are included pro rata and hence spread over all quarters of the year instead of being recognised for the most part upfront (as required by IFRIC21)</li> <li>• up to the end of 2014, Legacy &amp; OCR was also an important correction</li> <li>• one-off items (such as the impact of the liquidation of KBC FH)</li> </ul>
<b>Credit cost ratio (CCR)</b>	[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. Note that, inter alia, government bonds are not included in this formula
<b>EBA</b>	European Banking Authority
<b>ESMA</b>	European Securities and Markets Authority
<b>ESFR</b>	European Single Resolution Fund
<b>FICOD</b>	Financial Conglomerates Directive
<b>Impaired loans cover ratio</b>	[total impairments (specific) for impaired loans] / [total outstanding impaired loans]. For a definition of 'impaired', see 'Impaired loans ratio'
<b>Impaired loans ratio</b>	[total outstanding impaired loans (PD 10-11-12)] / [total outstanding loans]
<b>Leverage ratio</b>	[regulatory available tier-1 capital] / [total exposure measures]. The exposure measure is the total of non-risk-weighted on and off-balance sheet items, based on accounting data. The risk reducing effect of collateral, guarantees or netting is not taken into account, except for repos and derivatives. This ratio supplements the risk-based requirements (CAD) with a simple, non-risk-based backstop measure
<b>Liquidity coverage ratio (LCR)</b>	[stock of high quality liquid assets] / [total net cash outflow over the next 30 calendar days].
<b>Net interest margin (NIM) of the group</b>	[net interest income of the banking activities] / [average interest-bearing assets of the banking activities]
<b>Net stable funding ratio (NSFR)</b>	[available amount of stable funding] / [required amount of stable funding]

# Glossary (2)

<b>MARS</b>	Mortgage Arrears Resolution Strategy
<b>MREL</b>	Minimum requirement for own funds and eligible liabilities
<b>PD</b>	Probability of default
<b>Return on allocated capital (ROAC) for a particular business unit</b>	[result after tax, including minority interests, of a business unit, adjusted for income on allocated capital instead of real capital] / [average capital allocated to the business unit]. The capital allocated to a business unit is based on risk-weighted assets for banking and risk-weighted asset equivalents for insurance
<b>Return on equity</b>	[result after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]
<b>TLAC</b>	Total loss-absorbing capacity

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