

# KBC Group Company presentation 2Q 2015

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- By reading this presentation, each investor is deemed to represent that it possesses sufficient expertise to understand the risks involved.
- Some specific remarks for 2Q15 can be found in annex (on slide 64).

# 2Q 2015 key takeaways for KBC Group

## ■ STRONG BUSINESS PERFORMANCE IN 2Q15

**Exceptionally good net result of 666m EUR in 2Q15 (and 1.18bn EUR in 1H15), as a result of:**

- Strong commercial bank-insurance franchises in our core markets and core activities
- Increasing customer loan and deposit volumes q-o-q in most of our core countries
- Resilient net interest income, despite lower NIM q-o-q
- Q-o-q slight increase of net fee and commission income
- Significantly higher net gains from financial instruments at fair value and net other income, but lower realised AFS gains
- Excellent combined ratio (91% in 2Q15 and 86% YTD). Good sales of non-life insurance products, while sales of life insurance products were lower
- Good cost/income ratio (52% in 2Q15 and YTD) adjusted for specific items
- Good level of impairment charges. Loan loss provisions in Ireland amounted to 16m EUR in 2Q15. We have fine-tuned our guidance for Ireland towards the lower end of the 50m-100m EUR range for both FY15 and FY16

## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- **Common equity ratio** (B3 fully loaded<sup>1</sup>) of **16.7% based on the Danish Compromise** and of **16.4% based on the FICOD<sup>2</sup>** at end 1H15, which clearly exceeds the fully loaded CET1 ratio target of 10.5% set by the ECB
- Fully loaded B3 **leverage ratio**, based on the current CRR legislation, amounted to **6.7%** at KBC Group
- **Continued strong liquidity position** (NSFR at 126% and LCR at 130%) at end 1H15

1. Including remaining state aid of 2bn EUR  
2. FICOD: Financial Conglomerate Directive

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- 1** 2Q 2015 performance of KBC Group
- 2** 2Q 2015 performance of business units
- 3** Strong solvency and solid liquidity
- 4** 2Q 2015 wrap up

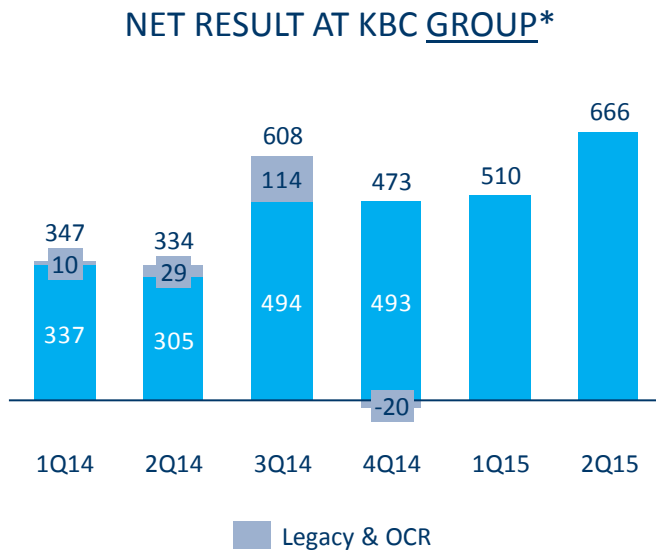
Annex 1: Company profile

Annex 2: Other items

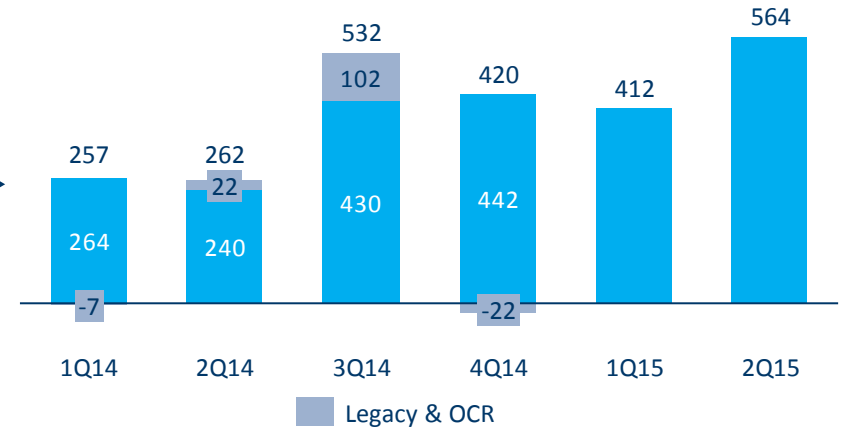
Section 1

# 2Q 2015 performance of KBC Group

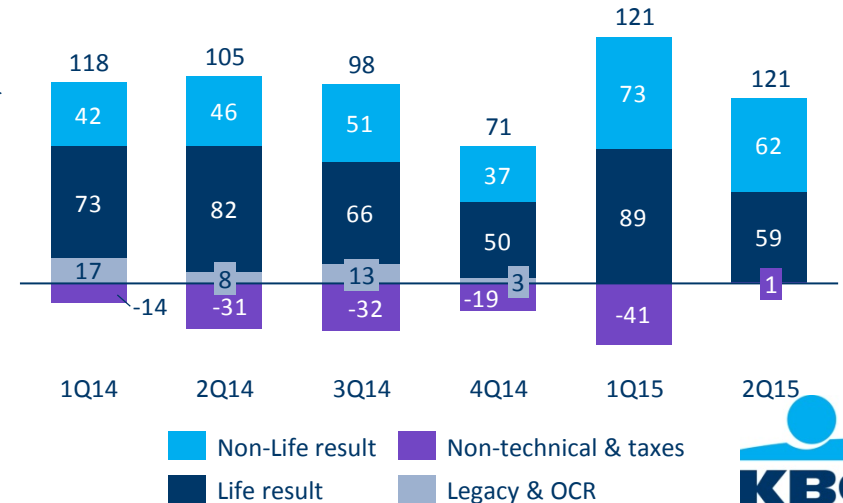
# Net result at KBC Group



## CONTRIBUTION OF BANKING ACTIVITIES TO KBC GROUP NET RESULT\*



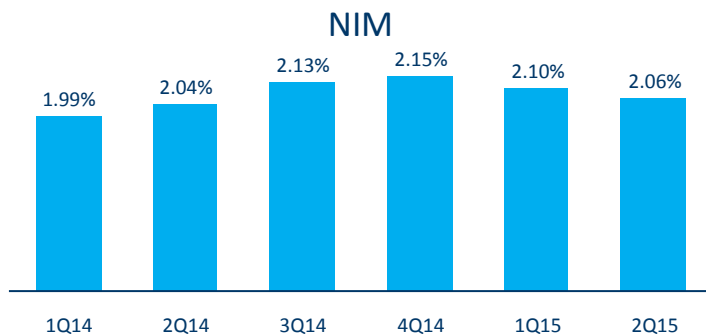
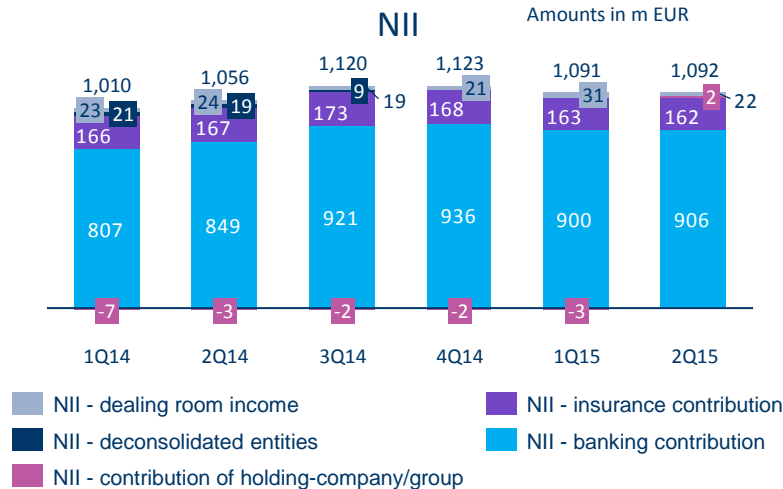
## CONTRIBUTION OF INSURANCE ACTIVITIES TO KBC GROUP NET RESULT\*



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



# Flat net interest income and margin slightly under pressure



## Net interest income

- Stabilised q-o-q, but increased by 3% y-o-y (flat q-o-q and +5% y-o-y pro forma, disregarding the change in the consolidation scope)
- The stabilisation q-o-q was driven primarily by:
  - lower funding costs
  - additional rate cuts on savings accounts
  - volume growth
 partly offset by:
  - mortgages in Belgium: lower upfront prepayment fees (4m EUR less fees in 2Q15) and hedging losses on previously refinanced mortgages
  - lower reinvestment yields
  - 9m EUR lower dealing room related NII
- The 5% y-o-y increase was the result of sound commercial margins (on both loans and deposits), volume increases in current accounts and mortgage loans, lower funding costs and higher prepayment fees
- Increasing customer loan and deposit volumes q-o-q

## Improved net interest margin (2.06%)

- Down by 4 bps q-o-q and up by 2 bps y-o-y
- Q-o-q decrease is almost entirely due to lower reinvestment yields (mainly visible in the Czech Republic) and increase in debt instruments (Group Centre), partly compensated by lower funding costs in Ireland

## VOLUME TREND

Excluding FX effect	Total loans **	Of which mortgages	Customer deposits***	AuM	Life reserves
Volume	125bn	54bn	162bn!	204bn	28bn
Growth q/q*	+1%	+1%	+2%	-2%	-1%
Growth y/y	+3%	+4%	+8%	+18%	+3%

Customer deposit volumes excluding debt certificates & repos +3% q-o-q and +9% y-o-y

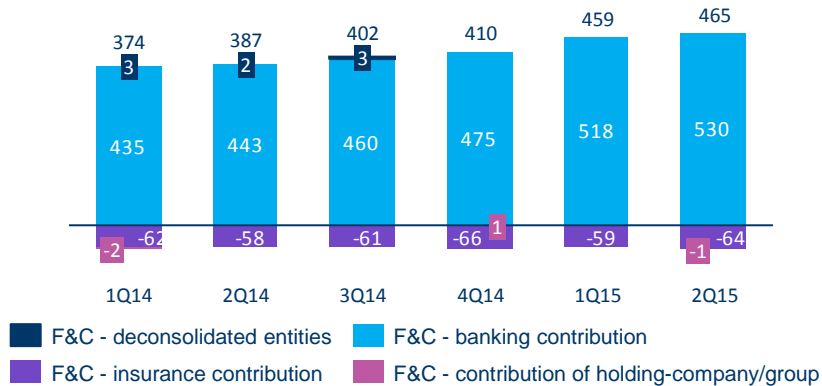
\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and not including bonds)

\*\*\* Customer deposits, including debt certificates but excluding repos. Please be aware of the significant impact of calling most of the hybrid tier-1 instruments and maturing wholesale debt

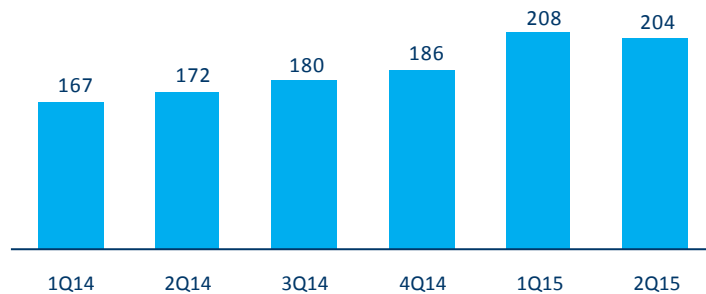
# Strong net fee and commission income and AuM

## F&C



Amounts in m EUR

## AuM



Amounts in bn EUR

### Strong net fee and commission income

- Increased by 1% q-o-q and by 20% y-o-y (+1% q-o-q and +21% y-o-y pro forma, disregarding the change in the consolidation scope)
- Q-o-q increase was mainly the result of:
  - higher management fees from mutual funds and higher fees from securities transactions in Belgium
  - higher fee income from transactional services (traditionally lower in 1Q) and investment services in Hungary
- Y-o-y increase resulted chiefly from higher management fees from mutual funds, higher entry fees from mutual funds and unit-linked life insurance products, higher fees from credit files and bank guarantees (benefiting from the refinancing of mortgage loans) and higher fees from securities transactions in Belgium

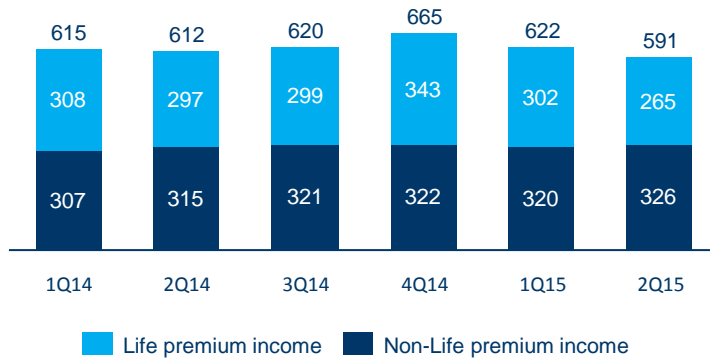
### Assets under management (204bn EUR)

- Down by 2% q-o-q as a result of net inflows (+1%) and a negative price effect (-3%).
- Rose by 18% y-o-y owing to net inflows (+9%) and a positive price effect (+9%)



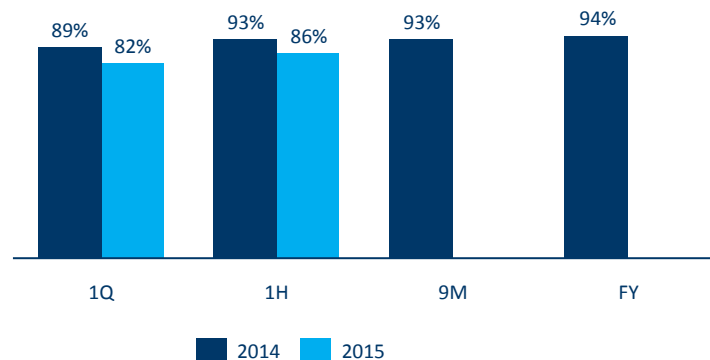
# Insurance premium income down, but excellent combined ratio

## PREMIUM INCOME (GROSS EARNED PREMIUM)



- **Insurance premium income** (gross earned premium) at 591m EUR
  - Non-life premium income (326m) increased by 3% y-o-y
  - Life premium income (265m) down by 12% q-o-q and 11% y-o-y, both driven chiefly by the Belgium Business Unit (and to a lesser extent by Slovakia)

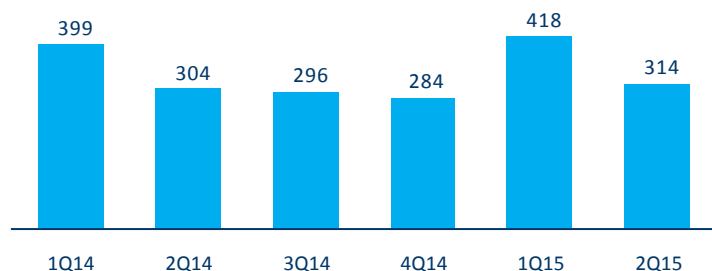
## COMBINED RATIO (NON-LIFE)



- The non-life **combined ratio** in 1H15 stood at an **excellent 86%**, a strong improvement compared to 1H14 (as 1H14 was negatively impacted by hailstorms in Belgium)

# Non-life sales up y-o-y and life sales down q-o-q and y-o-y

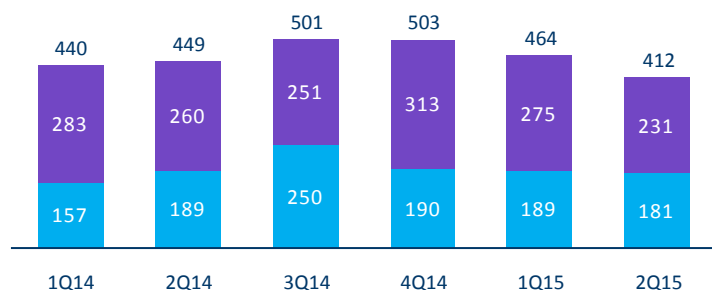
## NON-LIFE SALES (GROSS WRITTEN PREMIUM)



### ■ Sales of non-life insurance products

- Up by 3% y-o-y thanks to a good commercial performance in all major product lines in our core markets

## LIFE SALES

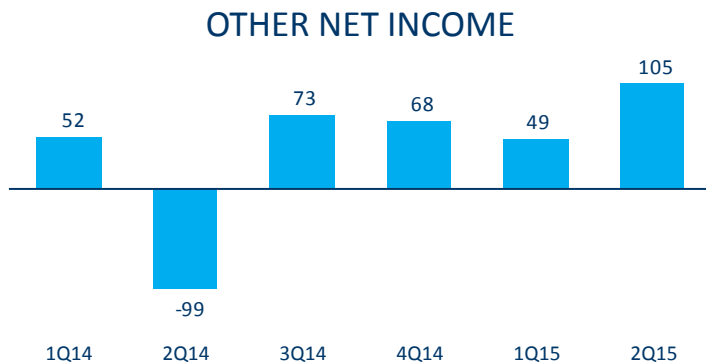
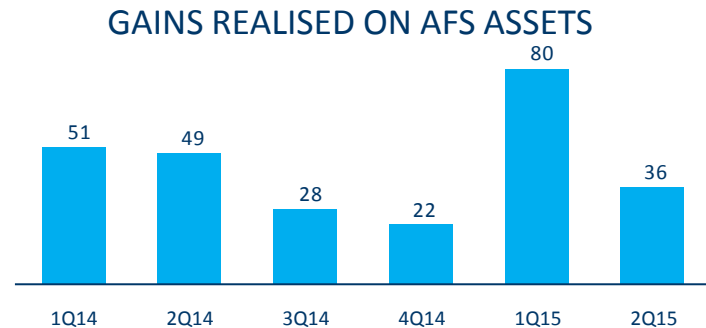
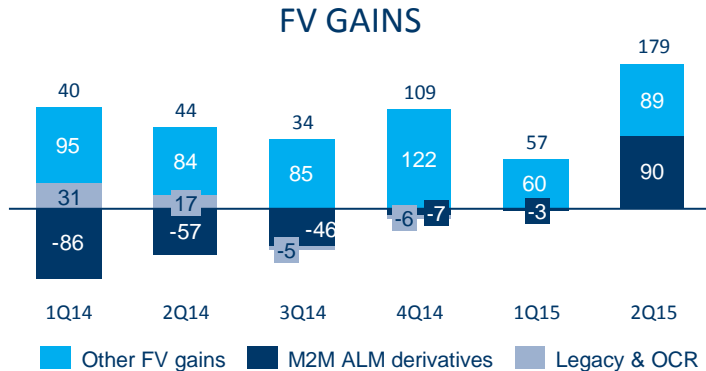


### ■ Sales of life insurance products

- Decreased by 11% q-o-q and by 8% y-o-y
- The q-o-q and y-o-y decrease in sales of guaranteed interest products was attributable chiefly to a further decrease in the guaranteed interest in the Belgium Business Unit
- Sales of unit-linked products accounted for 44% of total life insurance sales

■ Guaranteed interest products ■ Unit-linked products

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



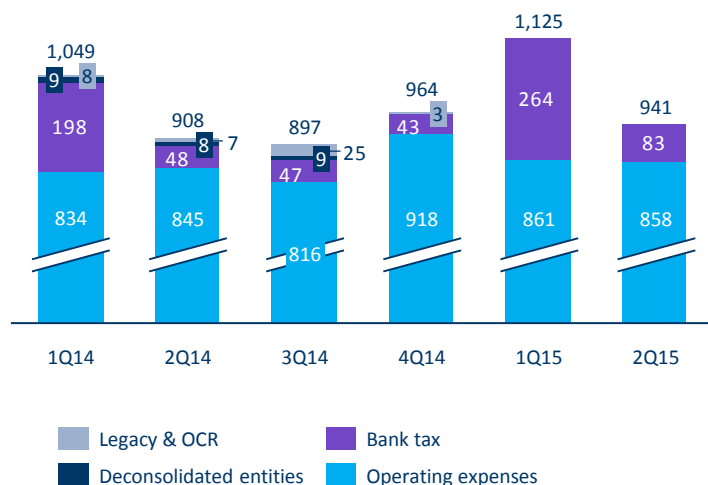
- The higher q-o-q figures for **net gains from financial instruments at fair value** were attributable mainly to a positive change in ALM derivatives (90m EUR in 2Q15 compared with -3m EUR in 1Q15 and -57m EUR in 2Q14) and a positive change in market value adjustments

- **Lower gains realised on AFS assets** (both shares and bonds)

- **Other net income** amounted to 105m EUR, roughly double the normal run rate due to, among other things, 22m EUR real estate gains in the Belgium Business Unit, a release of 8m EUR from the previously booked Curia provision and 16m EUR from (previously announced) divestments in the Group Centre

# Operating expenses down and good cost/income ratio (adjusted for specific items)

## OPERATING EXPENSES



## EXPECTED BANK TAX SPREAD (including ESRF contribution)

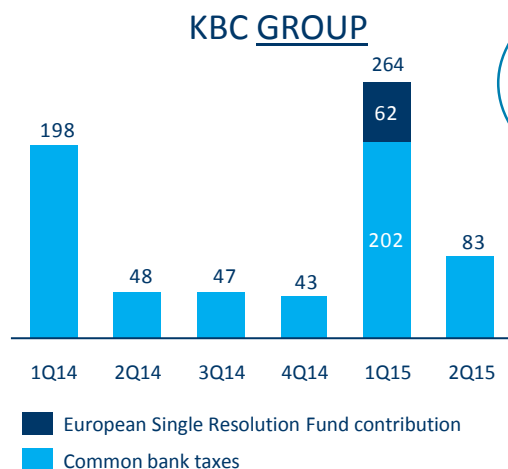
	TOTAL	Upfront		Spread out over the year			
	2Q15	1Q15	2Q15	1Q15	2Q15	3Q15e	4Q15e
BU BE	49	160	49	0	0	0	0
BU CZ	10	11	0	9	10	9	9
Hungary	20	56	1	16	19	18	18
Slovakia	4	3	1	3	3	3	3
Bulgaria	1	0	0	1	1	1	1
Ireland	0	2	0	0	0	0	1
GC	0	5	0	0	0	0	0
<b>TOTAL</b>	<b>83</b>	<b>237</b>	<b>51</b>	<b>28</b>	<b>32</b>	<b>30</b>	<b>32</b>

Amounts in m EUR

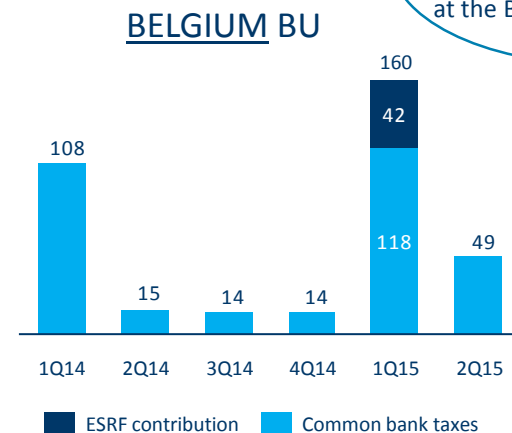
## Cost/income ratio (banking) adjusted for specific items\* at a good 52% in 2Q15 and YTD

- The C/I ratio of 47% in 2Q15 was driven by high M2M ALM derivatives and high other net income, and only somewhat affected by the upfront recognition of the annual deposit guarantee scheme levy in Belgium
- Operating expenses without bank tax stabilised q-o-q as:
  - higher staff expenses in Belgium
  - higher marketing expenses in Belgium and the Czech Republic
  - higher facilities expenses and severance payments in the Czech Republic
 were fully offset by:
  - lower ICT expenses in Belgium and the Czech Republic
  - lower staff expenses in the Czech Republic
- Operating expenses without bank tax stabilised y-o-y (and +1% pro forma, disregarding the change in the consolidation scope) as higher pension expenses in Belgium were offset by lower costs in the Group Centre
- Due to IFRIC 21, certain levies (including the new European Single Resolution Fund) have to be recognised in advance, and this adversely impacted the results for 1Q15. In 2Q15, the ESRF for CSOB Slovakia was also booked at 100% due to a change in local legislation. Based on a recent recommendation by the ESMA/FSMA, KBC has furthermore aligned the accounting treatment of the annual deposit guarantee scheme levy in 2Q15. As a result, the second quarter figures include a 29m EUR charge related to the upfront recognition in Belgium

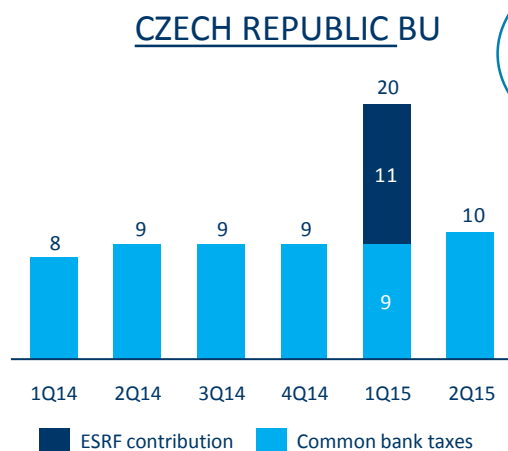
# Overview of bank taxes\*



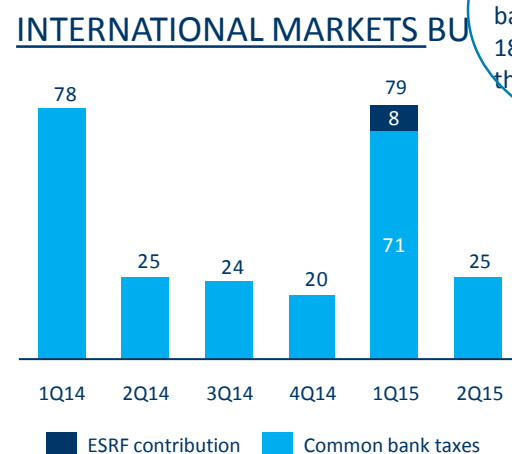
Bank taxes of 347m EUR YTD. On a pro rata basis, bank taxes represented 9.9% of 1H15 opex at KBC Group\*\*



Bank taxes of 209m EUR YTD. On a pro rata basis, bank taxes represented 8.2% of 1H15 opex at the Belgium BU



Bank taxes of 30m EUR YTD. On a pro rata basis, bank taxes represented 7.7% of 1H15 opex at the CR BU



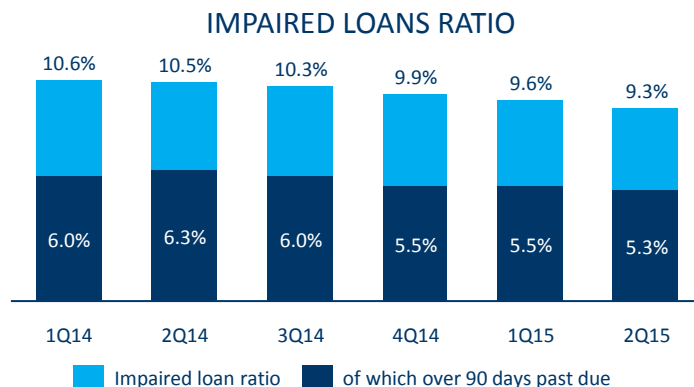
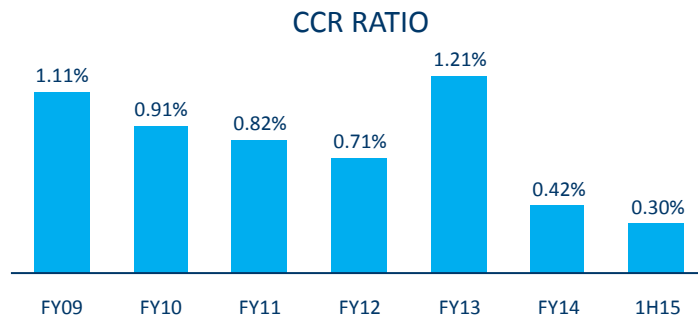
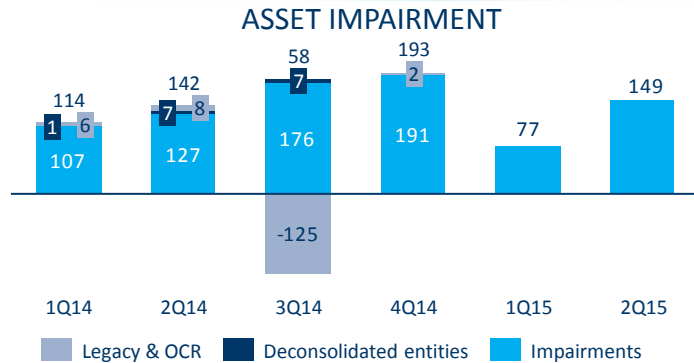
Bank taxes of 103m EUR YTD. On a pro rata basis, bank taxes represented 18.8% of 1H15 opex at the IM BU

\* 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 52% in 1H15 would amount to roughly 46% excluding these bank taxes



# Higher asset impairment, continuing good credit cost and decreasing impaired loans ratio



## Higher but still moderate impairment charges q-o-q

- In 2Q15, a parameter adjustment was made to the IBNR-models. This resulted in an increase of impairments by roughly 34m EUR (of which 21m EUR in the Belgium BU and 11m EUR in the Czech BU)
- The q-o-q increase of loan loss provisions was attributable mainly to:
  - a 34m EUR increase due to IBNR parameter changes
  - a 33m EUR increase in the Group Centre (mainly at ADB and KBC Finance Ireland)
  - Ireland (16m EUR compared with 7m in 1Q15 and 62m EUR in 2Q14)
- Compared with the 2Q14 pro forma level, higher loan loss provisions were recorded mainly in Belgium and the Czech Republic (both as a result of an unsustainable low level recorded in 2Q14 and the increase of IBNR impairments in 2Q15), partly offset by lower loan loss provisions in Ireland
- Impairment of 7m EUR on AFS shares (in Belgium and Group Centre) and 5m EUR in 'other' (in Belgium)

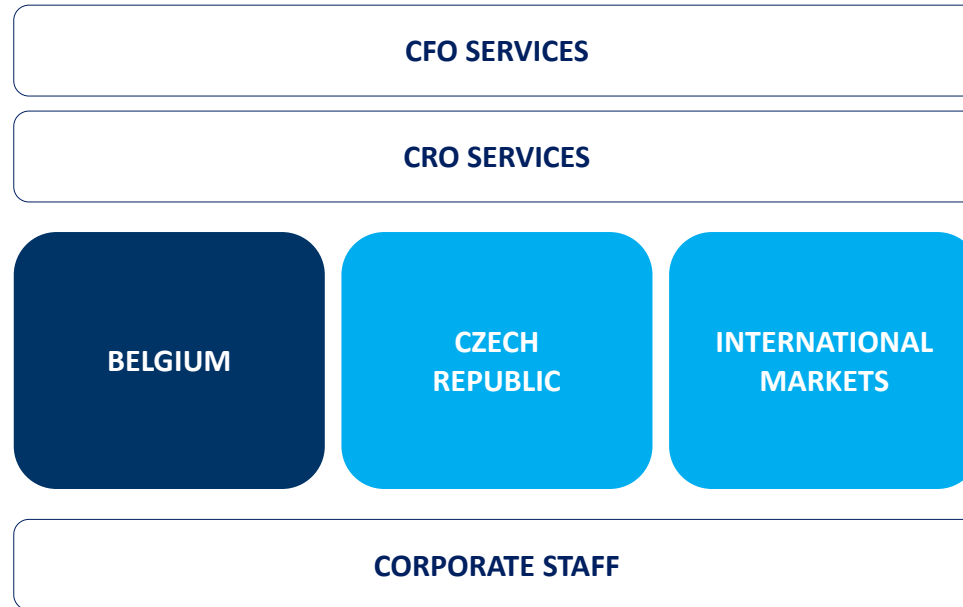
- The **credit cost ratio** only amounted to 0.30% in 1H15 due to low gross impairments and some releases in 1Q15, despite an increase of IBNR impairments (due to parameter changes) by approximately 34m EUR in 2Q15

- The **impaired loans ratio** dropped to 9.3%

Section 2

# 2Q 2015 performance of business units

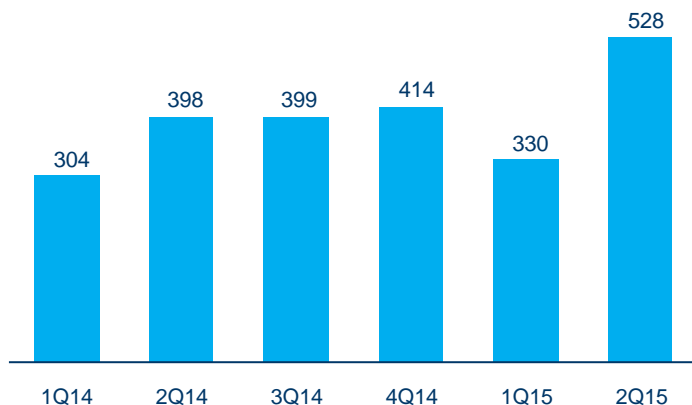
# BELGIUM BUSINESS UNIT





# Belgium BU (1): excellent net result of 525m EUR

## NET RESULT



Amounts in m EUR

- **Net result** at the Belgium Business Unit amounted to 528m EUR
  - The quarter under review was characterised by higher net interest income, strong net fee and commission income, higher trading and fair value income, lower realised gains on AFS assets, higher other net income, an excellent combined ratio in non-life insurance, lower sales of life insurance products, lower opex due entirely to lower bank taxes, higher impairment charges q-o-q
  - Loan volumes rose by 1% q-o-q, while customer deposits increased by 2% q-o-q

## VOLUME TREND

	Total loans **	Of which mortgages	Customer deposits***	AuM	Life reserves
Volume	86bn	33bn	113bn	189bn	27bn
Growth q/q*	+1%	+1%	+2%	-2%	-1%
Growth y/y	+4%	+5%	+12%	+18%	+3%

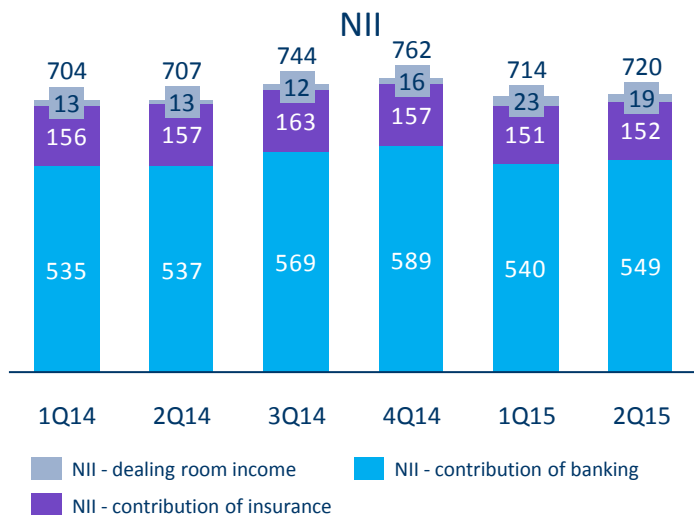
Customer deposit volumes excluding debt certificates & repos +4% q-o-q and +9% y-o-y

\* Non-annualised

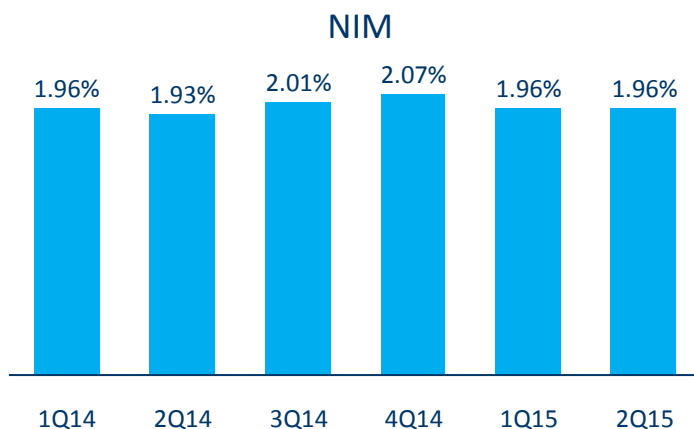
\*\* Loans to customers, excluding reverse repos (and not including bonds)

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

# Belgium BU (2): higher NII and flat NIM



Amounts in m EUR



## Net interest income (720m EUR)

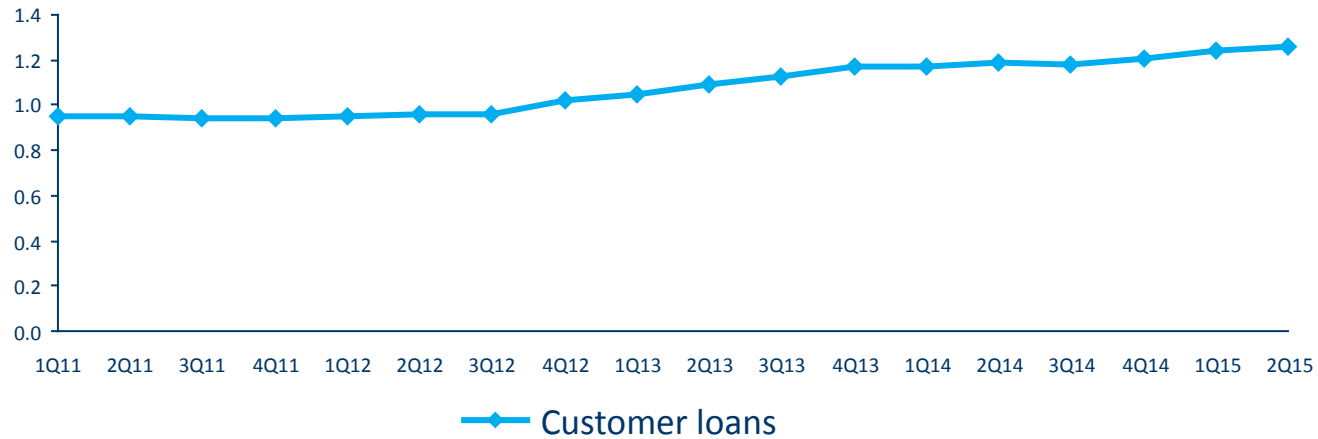
- Up by 1% q-o-q and by 2% y-o-y
- Q-o-q increase was driven primarily by lower funding costs, additional rate cuts on savings accounts and higher volumes on current & savings accounts and mortgage loans, partly offset by lower upfront prepayment fees (25m EUR in 2Q15 compared with 29m EUR in 1Q15), hedging losses on previously refinanced mortgages, lower reinvestment yields and lower dealing room related net interest income
- Increased y-o-y as lower paid interests on savings accounts, volume increases in current and savings accounts, a higher banking bond portfolio, higher net interest income on lending activities, lower funding costs on term deposits and higher prepayment fees (25m EUR in 2Q15 compared with 7m EUR in 2Q14) were offset by lower reinvestment yields, hedging losses on previously refinanced mortgages and the negative impact from deliberately decreasing the loan portfolio at the foreign branches
- Note that customer deposits excluding debt certificates and repos increased by 9% y-o-y, while customer loans rose by 4% y-o-y

## Net interest margin (1.96%)

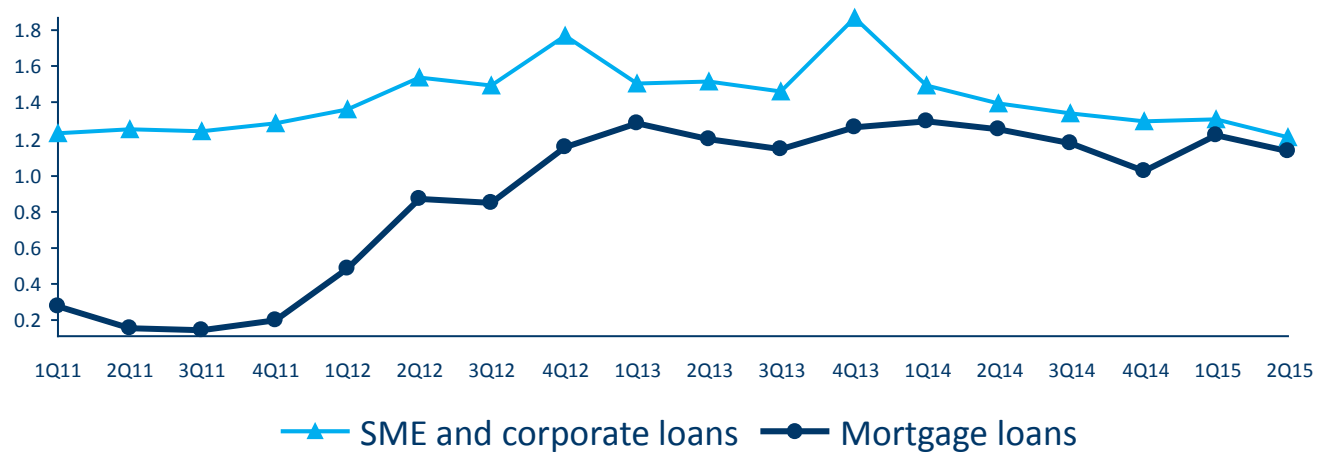
- Stabilised q-o-q, as better commercial margins on refinanced mortgages and the decrease on the savings account base rate (5bps from 23 March onwards) were offset by the negative impact of lower reinvestment yields and hedging losses on refinanced mortgages
- Increased by 3 bps y-o-y

# Credit margins in Belgium

PRODUCT SPREAD ON CUSTOMER LOAN BOOK, OUTSTANDING

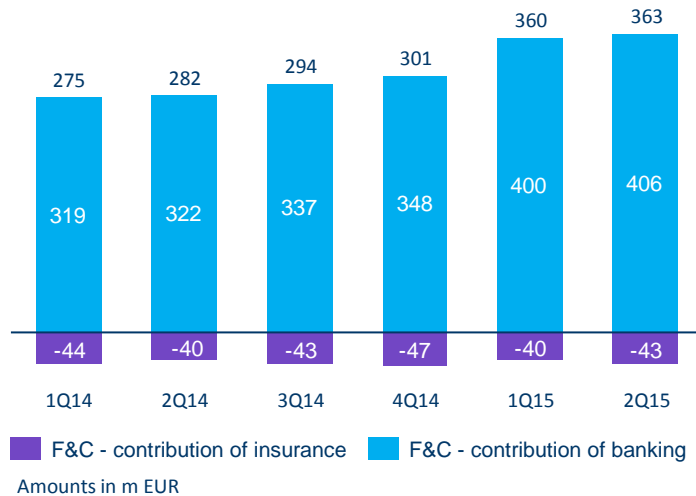


PRODUCT SPREAD ON NEW PRODUCTION

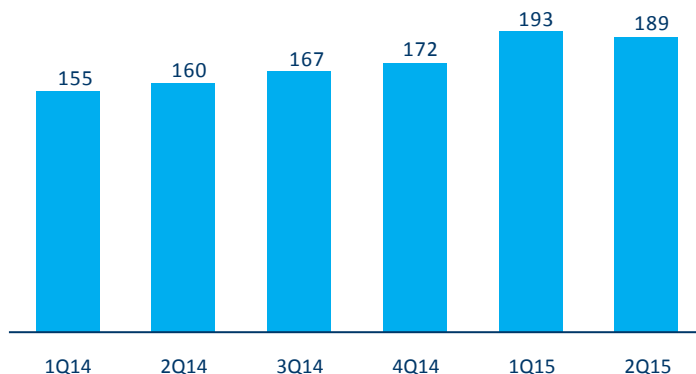


# Belgium BU (3): higher net F&C income and positive net entries

## F&C



## AuM\*



\* The split among the BUs is based on the Assets under Distribution in each BU

Amounts in bn EUR

### Net fee and commission income (363m EUR)

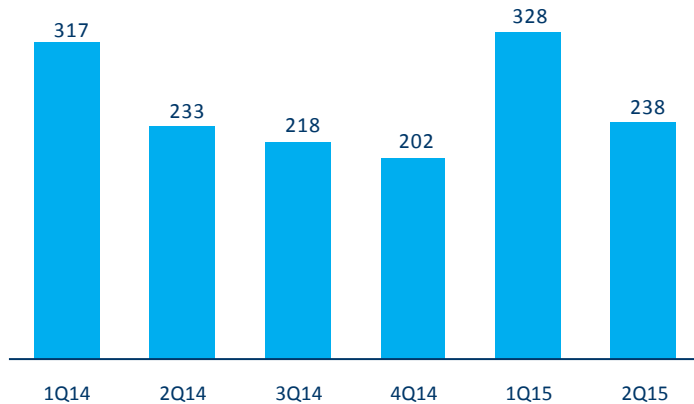
- Increased by 1% q-o-q, due mainly to the result of higher management fees from mutual funds and higher fees from securities transactions (owing to KBC Securities), which more than offset lower entry fees from mutual funds and unit-linked life insurance products (traditionally strong in 1Q), lower fees from payment transactions and higher commissions paid on insurance sales.
- Rose by 29% y-o-y driven chiefly by higher management fees from mutual funds, higher entry fees from mutual funds and unit-linked life insurance products, higher fees from credit files and bank guarantees (benefiting from the refinancing of mortgage loans) and higher fees from securities transactions

### Assets under management (189bn EUR)

- Down by 2% q-o-q, as a result of net entries (+1%) and a negative price effect (-3%).
- Rose by 18% y-o-y, as a result of net entries (+9%) and a positive price effect (+9%)

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

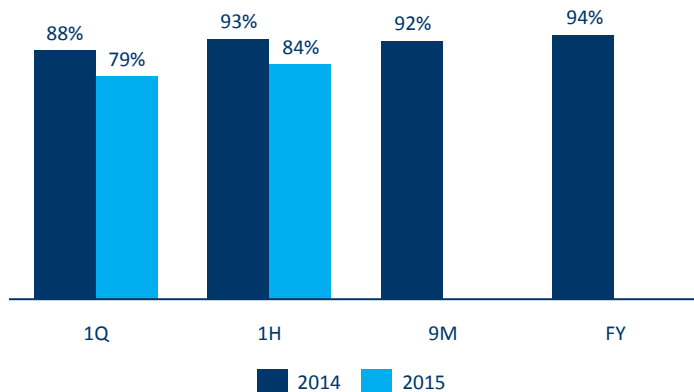
## NON-LIFE SALES (GROSS WRITTEN PREMIUM)



### ■ Sales of non-life insurance products

- Increased by 2% y-o-y driven by growth in casco, property and health insurance

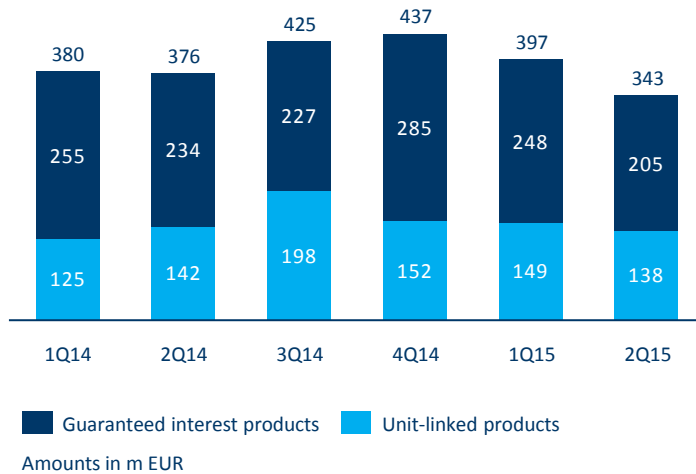
## COMBINED RATIO (NON-LIFE)



- **Combined ratio** amounted to 84% in 1H15, a strong improvement compared to 1H14 (as 1H14 was negatively impacted by hailstorms in Belgium)

# Belgium BU (5): lower life sales, but good cross-selling ratios

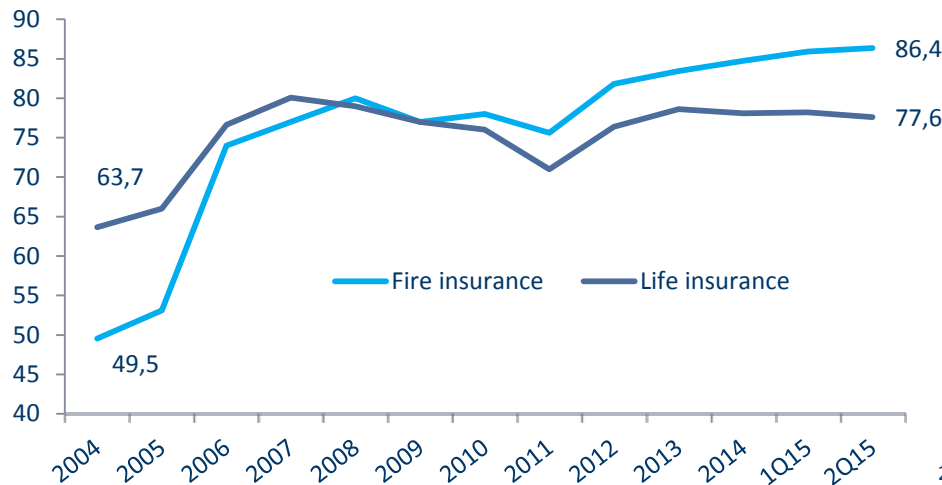
LIFE SALES



## ■ Sales of life insurance products

- Fell by 13% q-o-q and by 9% y-o-y as the sales of guaranteed interest products were impacted by a further decrease in the guaranteed interest
- As a result, guaranteed interest products and unit-linked products accounted for 60% and 40%, respectively, of life insurance sales in 2Q15

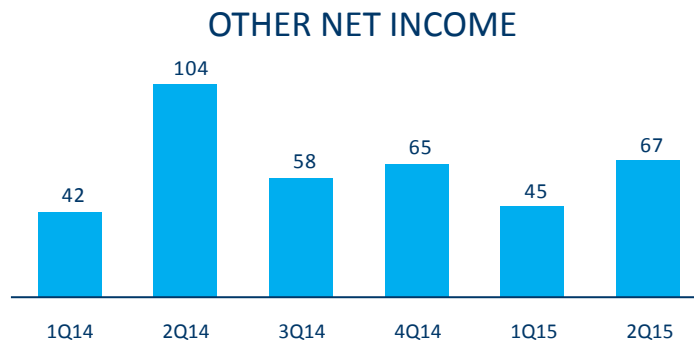
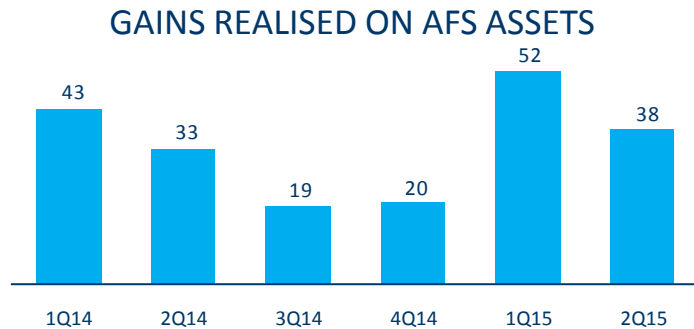
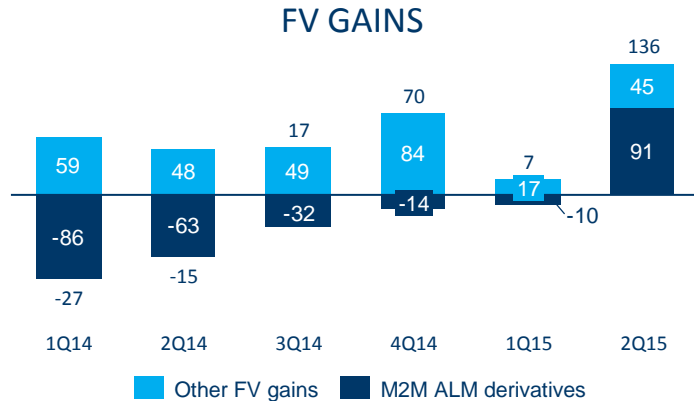
MORTGAGE-RELATED CROSS-SELLING RATIOS



## ■ Mortgage-related cross-selling ratios

- 86.4% for fire insurance
- 77.6% for life insurance

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



- The higher q-o-q and y-o-y figures for **net gains from financial instruments at fair value** were mainly the result of a positive q-o-q and y-o-y change in ALM derivatives (91m EUR in 2Q15 compared with -10m EUR in 1Q15 and -63m EUR in 2Q14), on account of increasing long-term IRS rates. Furthermore, the higher q-o-q figure was due partly to a positive change in market value adjustments

- **Gains realised on AFS assets** came to 38m EUR (less gains realised on both shares and bonds in 2Q15 compared with 1Q15)

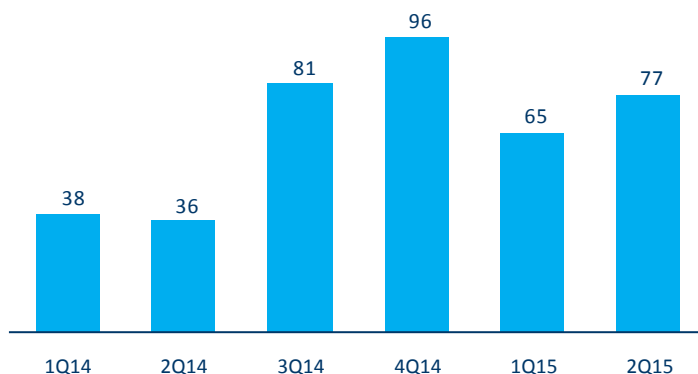
- **Other net income** amounted to 67m EUR in 2Q15, somewhat above the normal run rate due to real estate gains

# Belgium BU (7): lower opex and good credit cost ratio

## OPERATING EXPENSES



## ASSET IMPAIRMENT



Amounts in m EUR

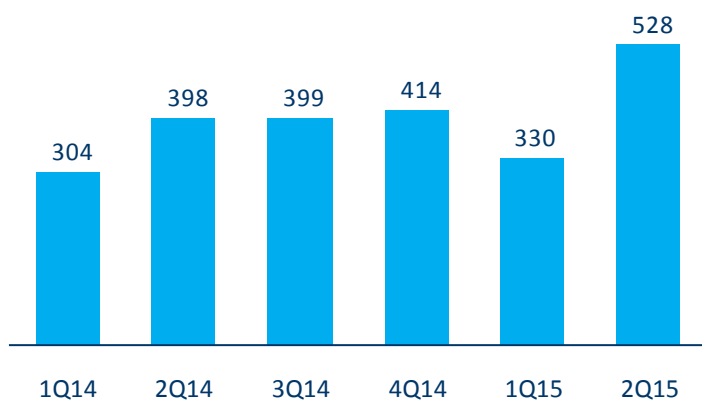
- **Operating expenses:** -16% q-o-q and +7% y-o-y
  - The q-o-q decrease was attributable almost entirely to lower bank taxes. Opex without bank tax stabilised q-o-q mainly as lower ICT costs were offset by higher staff expenses and marketing expenses
  - The y-o-y increase was driven chiefly by higher bank taxes. Opex without bank tax rose by 1% y-o-y driven mainly by higher staff expenses, higher professional fees. These items more than offset lower facilities expenses and marketing expenses
  - Based on European market practice, KBC has furthermore aligned the accounting treatment of the annual deposit guarantee scheme levy in 2Q15. As a result, the second quarter figures include a 29m EUR charge related to the upfront recognition in Belgium
  - Cost/income ratio: 42% in 2Q15 and 50% YTD, distorted mainly by the bank taxes and high M2M ALM derivatives. Adjusted for specific items, the C/I ratio amounted to roughly 48% in 2Q15 and 49% in 1H15
- **Loan loss provisions** amounted to 67m EUR in 2Q15. The q-o-q increase was due chiefly to 21m EUR extra portfolio-based impairments as a result of IBNR parameter changes, partly offset by lower specific impairment charges (especially in corporates and real estate). **Credit cost ratio** amounted to 29 bps in 1H15 (23 bps in FY14)
- **Impaired loans ratio** amounted to 4.1%, of which 2.4% over 90 days past due
- **Impairment on AFS shares** (3m EUR) and **on 'other'** (6m EUR)



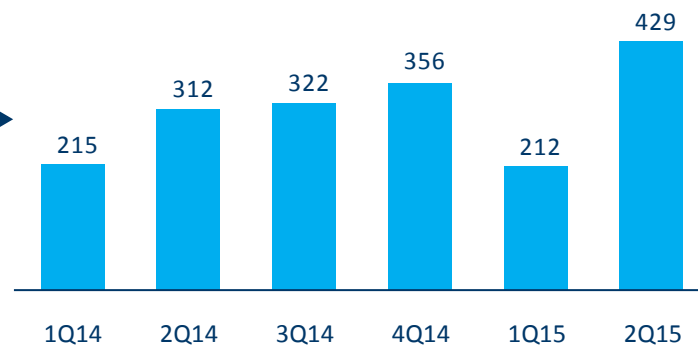


# Net result at the Belgium BU

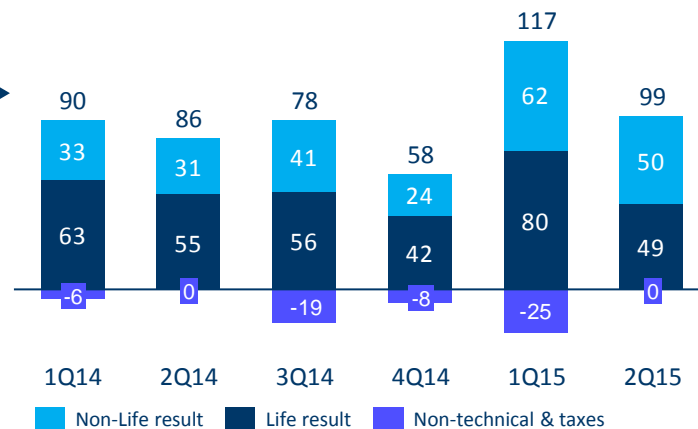
NET RESULT AT THE BELGIUM BU \*



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

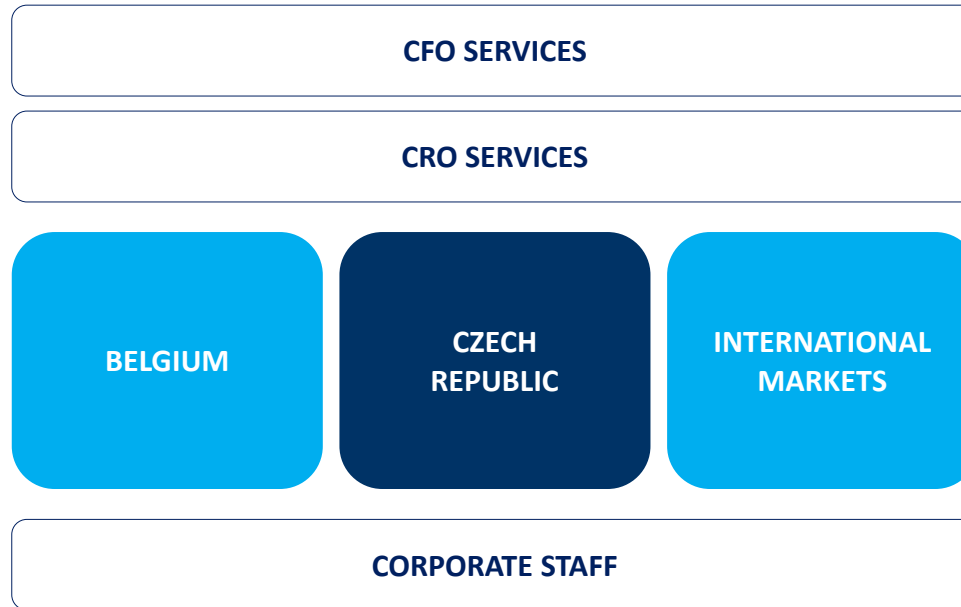


CONTRIBUTION OF INSURANCE ACTIVITIES TO NET RESULT OF THE BELGIUM BU \*



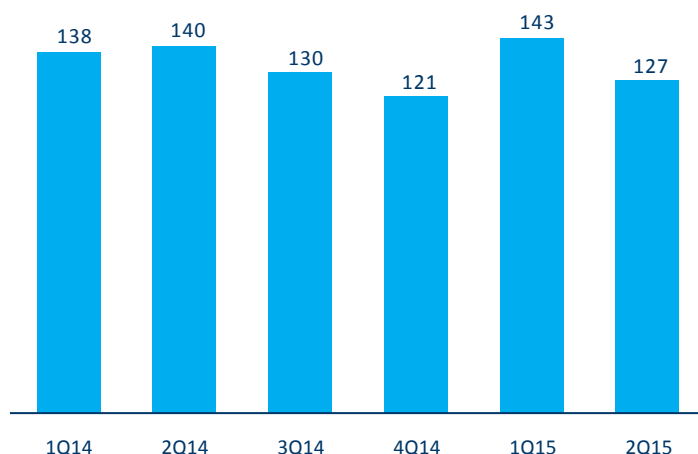
\* Difference between net profit at the Belgium Business Unit and the sum of the banking and insurance contribution is accounted for by the rounding up or down of figures

# CZECH REPUBLIC BUSINESS UNIT



# Czech Republic BU (1): net result of 127m EUR

## NET RESULT



Amounts in m EUR

- **Net result** at the Czech Republic Business Unit of 127m EUR
  - Results were characterised by lower net interest income, stable net fee and commission income, lower net results from financial instruments, no realised gains on AFS assets, a deteriorated combined ratio in non-life insurance, higher sales of life and non-life insurance products, lower costs due largely to lower bank taxes and higher loan loss impairment charges q-o-q due to IBNR parameter changes
  - Profit contribution from the insurance business remained limited in comparison to the banking business

## VOLUME TREND

Excluding FX effect	Total loans **	Of which mortgages	Customer deposits***	AuM	Life reserves
Volume	17bn	8bn	23bn	8.3bn	0.9bn
Growth q/q*	+2%	+2%	+1%	+2%	-2%
Growth y/y	+10%	+8%	+7%	+24%	-8%

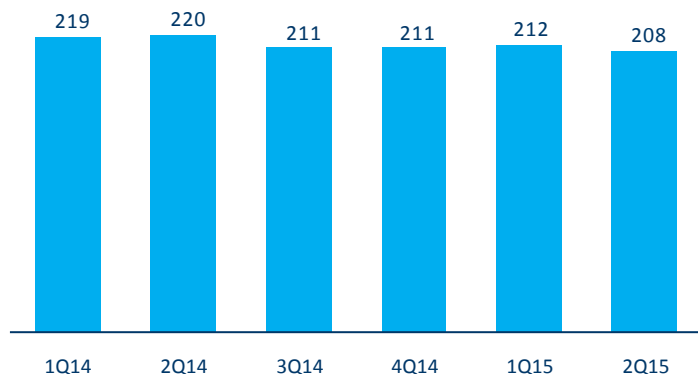
\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and not including bonds)

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

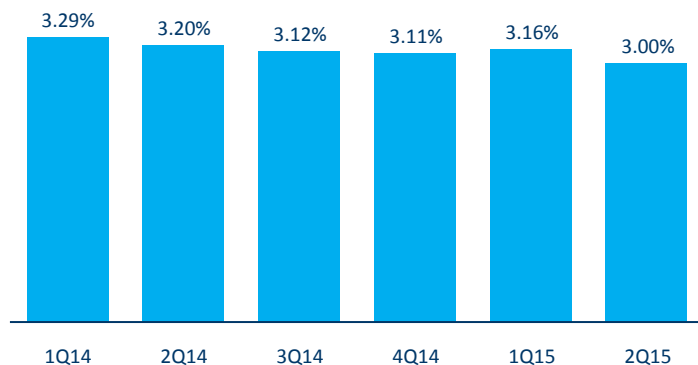
# Czech Republic BU (2): lower NII and NIM

## NII



Amounts in m EUR

## NIM



### Net interest income (208m EUR)

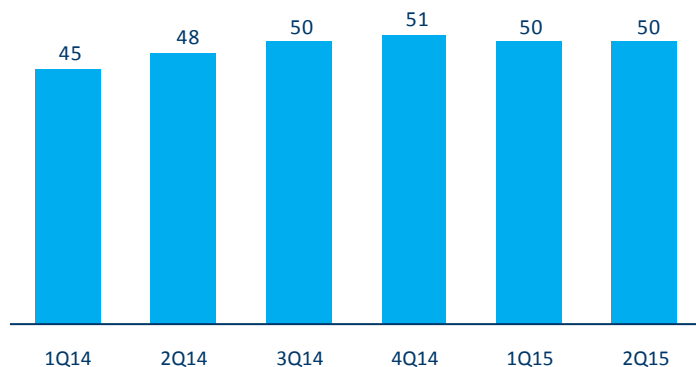
- Down by 2% q-o-q and 5% y-o-y to 208m EUR. Corrected for FX effects and the change in the consolidation scope (mainly deconsolidation of a pension fund in 3Q14), NII decreased by 3% q-o-q and by 2% y-o-y pro forma
- The pro forma q-o-q and y-o-y decreases were primarily the result of lower reinvestment yields and pressure on mortgage margins, which more than offset a reduction in the average offered rate on savings accounts and growth in loans and current accounts volumes
- Loan volumes up by 10% y-o-y, driven mainly by growth in mortgages and corporate loans and to a lesser extent in SME loans
- Customer deposit volumes up by 7% y-o-y

### Net interest margin (3.00%)

- Fell by 16 bps q-o-q and by 20 bps y-o-y to 3.00%
- The q-o-q and y-o-y decreases were the result of a lower reinvestment yield, pressure on current account margins and margin pressure on new production mortgages due to competition, despite higher margins on savings accounts (as a result of several cuts in interest rates during the last year)

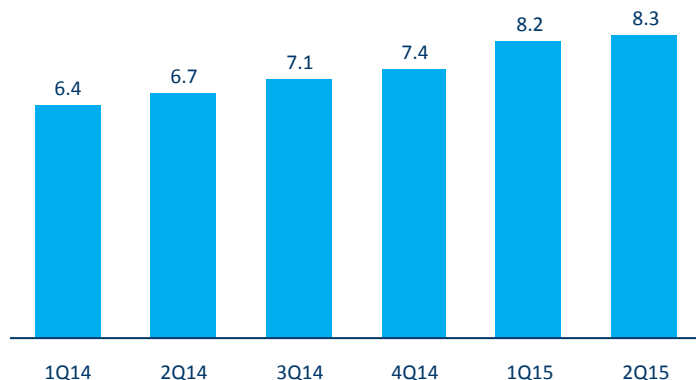
# Czech Republic BU (3): stable net F&C income and positive net entries

## F&C



Amounts in m EUR

## AuM\*



\* The split among the BUs is based on the Assets under Distribution in each BU

Amounts in bn EUR

### Net fee and commission income (50m EUR)

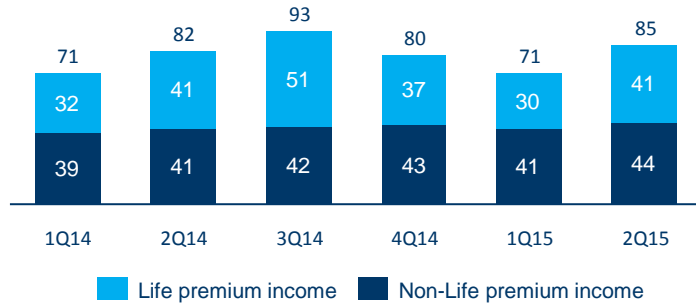
- Stabilised q-o-q and rose by 5% y-o-y (or flat q-o-q and -1% y-o-y pro forma, corrected for FX effects and the change in the consolidation scope)
- The pro forma q-o-q stabilisation was the result of higher account fees and higher credit and guarantee fees, fully offset by lower entry fees from mutual funds (mainly due to impact of volatile markets), slightly lower management fees (negative price effect) and higher fees paid to the Czech Post and to insurance agents
- The pro forma y-o-y decrease was attributable mainly to lower credit and guarantee fees, lower transaction fees and higher fees paid to the Czech Post, despite an increase in entry & management fees on mutual funds

### Assets under management (8.3bn EUR)

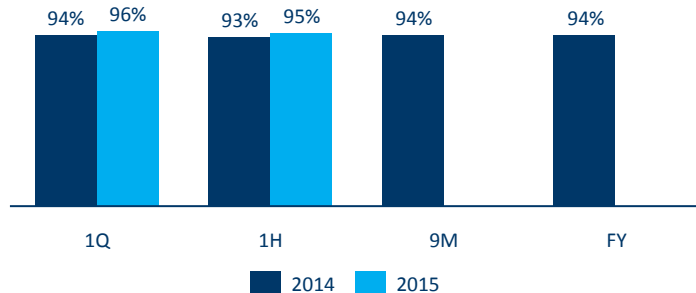
- Went up by 2% q-o-q to roughly 8.3bn EUR, as a result of net entries (+2%). Especially balanced funds and CPPI products witnessed strong net sales
- Y-o-y, assets under management rose by 24%, driven by net entries (+17%) and a positive price effect (+7%)

# Czech Republic BU (4): higher premium income and good combined ratio

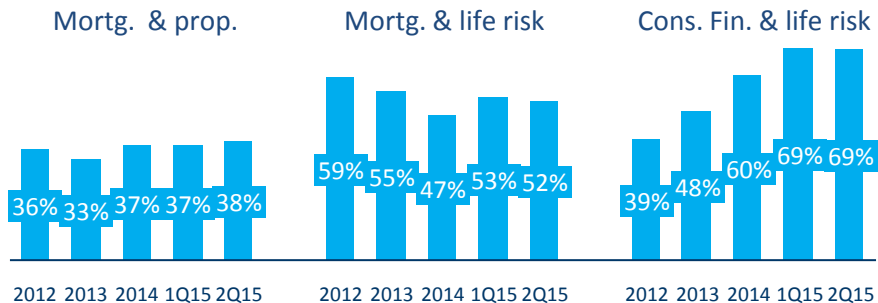
## PREMIUM INCOME (GROSS EARNED PREMIUM)



## COMBINED RATIO (NON-LIFE)



## CROSS-SELLING RATIOS



- **Insurance premium income** (gross earned premium) stood at 85m EUR

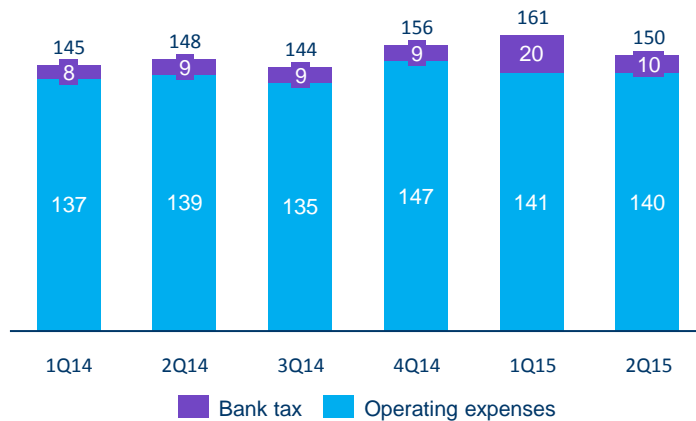
- Non-life premium income (44m) rose by 7% y-o-y excluding FX effect, due mainly to improved retail (in motor and households businesses) and corporate sales
- Life premium income (41m) went up by 34% q-o-q and stabilized y-o-y, excluding FX effect. Note that 2Q15 included higher unit-linked single premiums as a first tranche of a new product for Private Banking was issued in 2Q15

- **Combined ratio:** 95% in 1H15 due to several large corporate claims in 1Q15 and higher claims in motor and property in 2Q15

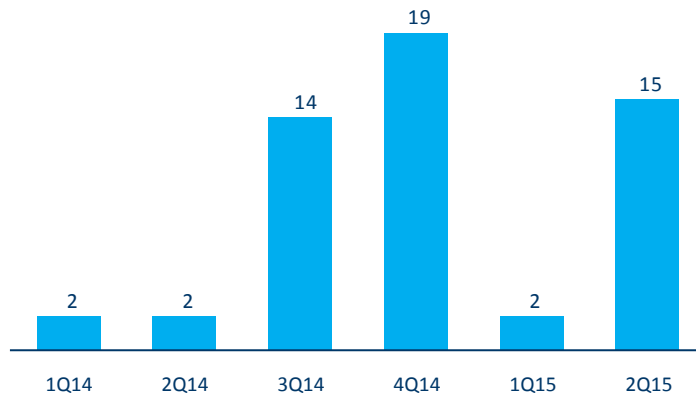
- **Cross-selling ratios:** increased commercial focus and sales activities helped to improve demand for property insurance combined with a mortgage

# Czech Republic BU (5): lower opex and good credit cost ratio

OPERATING EXPENSES



ASSET IMPAIRMENT



## Opex (150m EUR)

- Fell by 7% q-o-q and rose by 1% y-o-y, excluding FX effect
- Excluding FX effect and bank tax, opex decreased by 1% q-o-q, but increased by 1% y-o-y
- The q-o-q decrease excluding FX effect and bank tax was due mainly to lower staff expenses (less FTEs), and lower IT expenses, partly offset by higher marketing expenses, facilities expenses and severance payments
- The y-o-y increase excluding FX effect and bank tax was attributable primarily to higher severance payments and higher professional fees, partly offset by lower staff and pension expenses
- Cost/income ratio at 48% in 2Q15 and 1H15. Adjusted for specific items, the C/I ratio amounted to roughly 50% in 2Q15 and 48% YTD

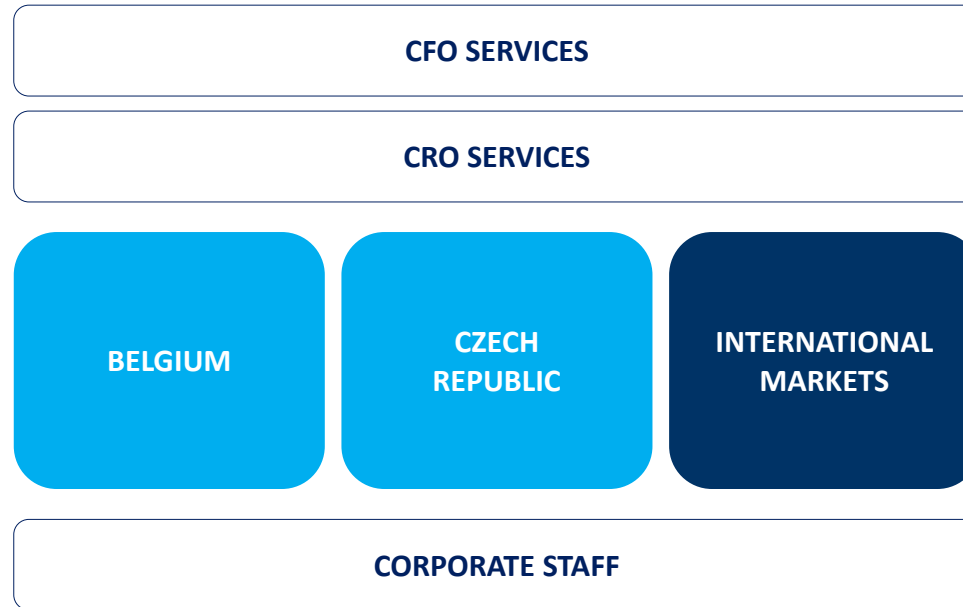
- **Impairments on L&R** were extremely low in 1Q15, while the increase in 2Q15 was mainly the result of IBNR parameter changes (11m EUR impact)

- **Credit cost ratio** amounted to 0.18% in 1H15

	2011	2012	2013	2014	1H15
CCR	0.37%	0.31%	0.26%	0.18%	0.18%

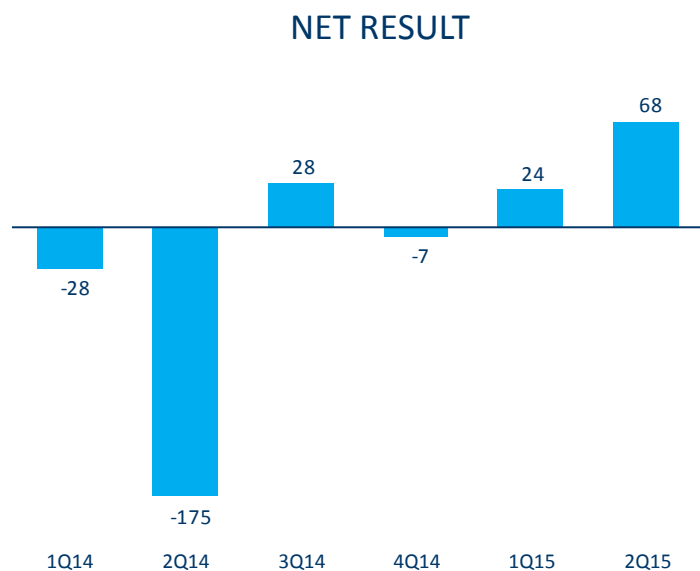
- **Impaired loans ratio** dropped to 3.5%, of which 2.6% over 90 days past due

# INTERNATIONAL MARKETS BUSINESS UNIT





# International Markets BU (1): net result of 68m EUR



Amounts in m EUR

- **Net result: 68m EUR**, despite 25m EUR bank taxes
  - Profit **breakdown** for International Markets: 17m EUR for Slovakia, 41m EUR for Hungary, 7m EUR for Bulgaria and 2m EUR for Ireland.
  - Q-o-q **results** were characterised by higher net interest income, higher net fee and commission income, lower result from financial instruments at fair value, a deteriorated combined ratio and lower life insurance sales, lower net other income, lower costs due almost entirely to higher bank tax and higher loan loss impairment charges

## VOLUME TREND

	Total loans **	Of which mortgages	Customer deposits***	AuM	Life reserves
Volume	21bn	14bn	16bn	6.7bn	0.5bn
Growth q/q*	-1%	0%	+5%	-2%	-3%
Growth y/y	-1%	+1%	+13%	+15%	+6%

\* Non-annualised

\*\* Loans to customers, excluding reverse repos (and not including bonds)

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

# International Markets BU (2): organic growth

## ORGANIC GROWTH\*

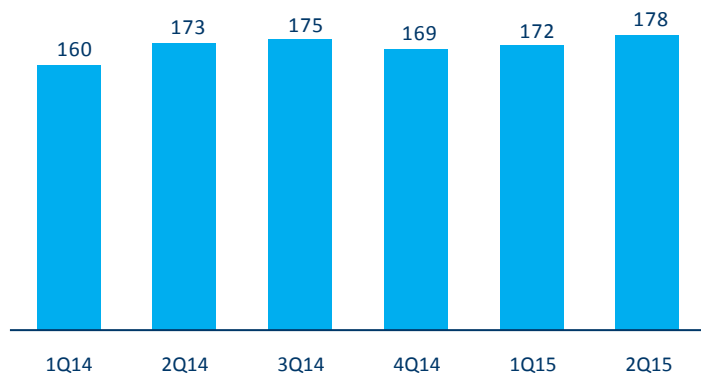
	TOTAL LOANS		MORTGAGES		DEPOSITS	
	q/q	y/y	q/q	y/y	q/q	y/y
IRE	-1%	-4%	0%	-1%	+7%	+26%
SL	+3%	+9%	+3%	+12%	+3%	+10%
HU	-4%	-3%	+1%	+1%	+4%	+6%
BG	+2%	+9%	+2%	+4%	+3%	+16%
TOTAL	-1%	-1%	0%	+1%	+5%	+13%

- The **total loan book** decreased by 1% both q-o-q and y-o-y
  - On a y-o-y basis, the 4% decrease in Ireland (matured and impaired mortgage loans surpassed new production + deleveraging of the corporate loan portfolio) and 3% decrease in Hungary (due to large repayments within the Corporate portfolio) was largely offset by the 9% increase in Slovakia (due mainly to the continuously increasing mortgage portfolio) and the 9% increase in Bulgaria (as a result of consumer, SME and Corporate loans)
- **Total deposits** were up by 5% q-o-q and by 13% y-o-y
  - The 5% q-o-q increase was the result of a 7% increase in Ireland (both retail and corporate deposit growths), a 4% increase in Hungary (mainly in current accounts) and 3% increase in both Slovakia and Bulgaria
  - The 13% y-o-y increase was due mainly to the successful retail deposit campaign in Ireland. We also noticed solid growth in Slovakia (supported by campaigns) and Bulgaria

\* Organic growth excluding FX impact, q-o-q figures are non-annualised. Loan and mortgage figures after impairment charges

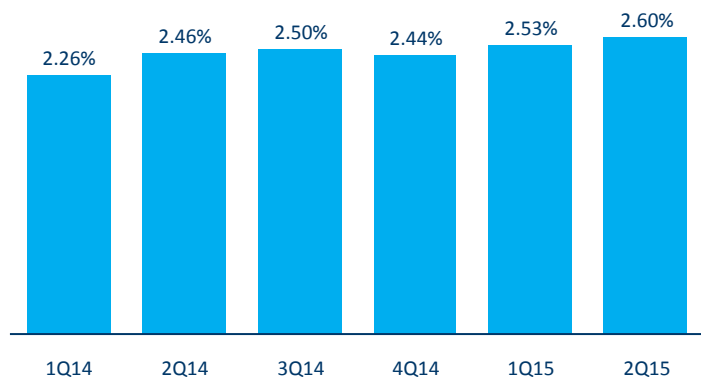
# International Markets BU (3): higher NII and NIM

## NII



Amounts in m EUR

## NIM



### ▪ Net interest income (178m EUR)

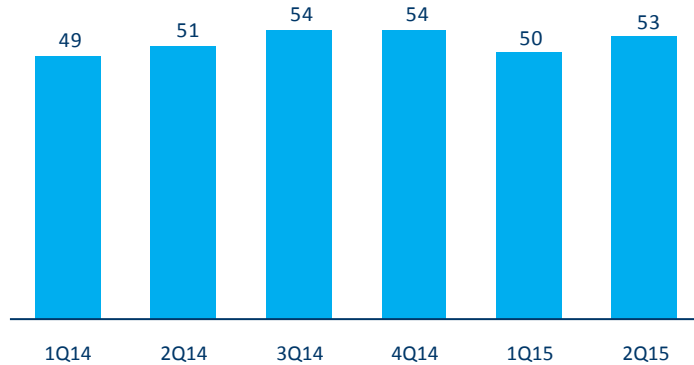
- Rose by 3% q-o-q and y-o-y
- The q-o-q and y-o-y increases were driven chiefly by Ireland (favourable mortgage margin income, lower allocated liquidity and funding costs)

### ▪ Net interest margin (2.60%)

- Up by 7 bps q-o-q and by 14 bps y-o-y
- The q-o-q increase was accounted for mainly by Ireland
- The y-o-y increase was attributable primarily to a considerable rise in NIM in Hungary (improved funding structure and a change in business mix) and Ireland (mainly as a result of favourable mortgage margin income, lower allocated liquidity and funding costs)

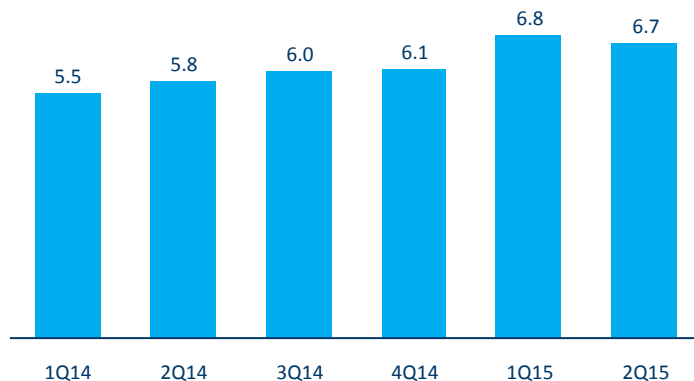
# International Markets BU (4): higher net F&C income and positive net entries

## F&C



Amounts in m EUR

## AuM\*



\* The split among the BUs is based on the Assets under Distribution in each BU

Amounts in bn EUR

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

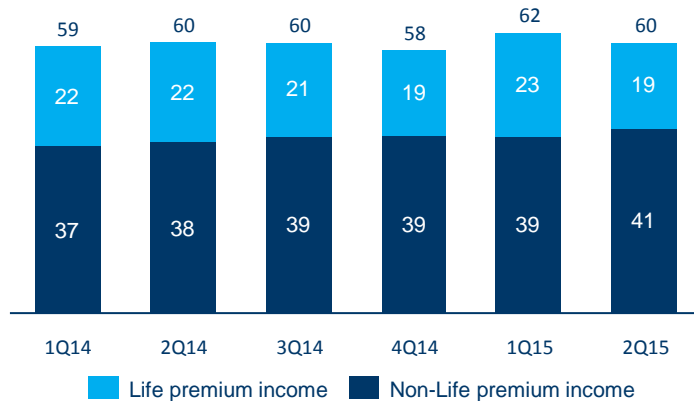
- Up by 6% q-o-q and by 4% y-o-y
- The q-o-q increase was driven mainly by Hungary, due to higher fee income from transactional services (traditionally lower in 1Q) and investment services
- The y-o-y increase was the result of:
  - higher fee income from securities transactions and payment services in Slovakia
  - higher fee income from transactional, investment and insurance services in Hungary

## Assets under management (6.7bn EUR)

- Decreased by 2% q-o-q, as a result of net entries (+2%) and negative price effects (-4%)
- Y-o-y, assets under management rose by 15% (11% net entries and 4% positive price effects)

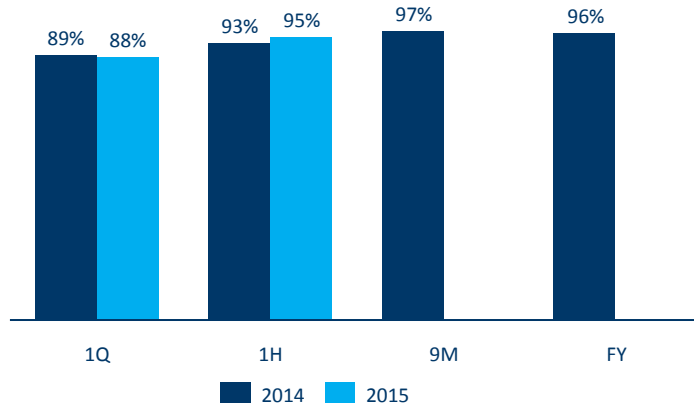
# International Markets BU (5): lower premium income, but good combined ratio

PREMIUM INCOME  
(GROSS EARNED PREMIUM)



- **Insurance premium income** (gross earned premium) stood at 60m EUR
  - Non-life premium income (41m) rose by 7% y-o-y as a result of:
    - growth in MTPL and property insurance in Slovakia
    - improved sales in motor retail in Hungary
    - good performance in casco, retail fire and big contracts in property and general third party liability in Bulgaria
  - Life premium income (19m) fell by 20% q-o-q and by 16% y-o-y driven mainly by lower unit-linked single premiums in Slovakia

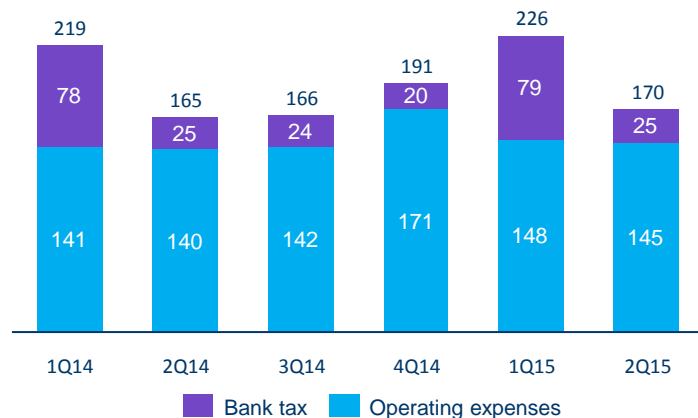
COMBINED RATIO (NON-LIFE)



- **Combined ratio** at a good 95% in 1H15. The combined ratio for 1H15 breaks down into 94% for Hungary, 88% for Slovakia and 100% for Bulgaria

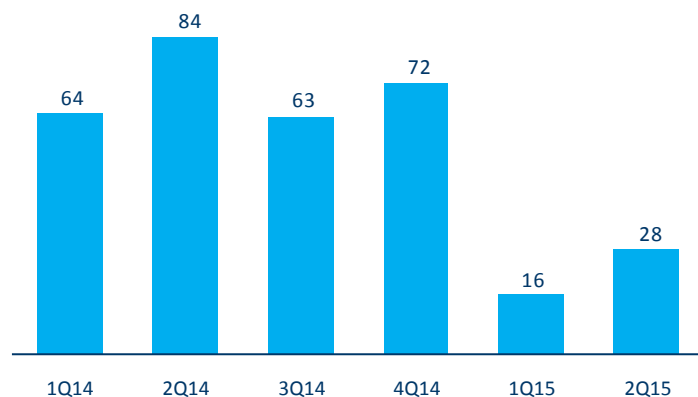
# International Markets BU (6): lower opex and higher impairments

## OPERATING EXPENSES



Amounts in m EUR

## ASSET IMPAIRMENT



### Opex (170m EUR)

- Fell by 25% q-o-q and rose by 3% y-o-y
- The q-o-q decrease was attributable largely to higher bank taxes. Opex without bank tax fell 1% q-o-q mainly as a result of:
  - lower marketing expenses and reduced professional fees in Ireland
  - lower staff expenses in Hungary
- The 3% y-o-y increase of opex without bank tax was driven by:
  - higher marketing expenses and higher depreciation & amortisation costs in Ireland
  - higher staff expenses and higher professional fees in Slovakia
- C/I ratio stood at 61% in 2Q15 and 70% in 1H15 (the latter mainly distorted by IFRIC 21). Adjusted for specific items, the C/I ratio amounted to 66% in 2Q15 and 64% in 1H15

- Impairments on L&R (29m EUR)** increased q-o-q from a very low level and dropped sharply y-o-y owing mainly to Ireland. Loan loss provisions amounted to 16m EUR in 2Q15 in Ireland compared with 7m EUR in 1Q15 and 62m EUR in 2Q14

### Credit cost ratio of 0.35% in 1H15

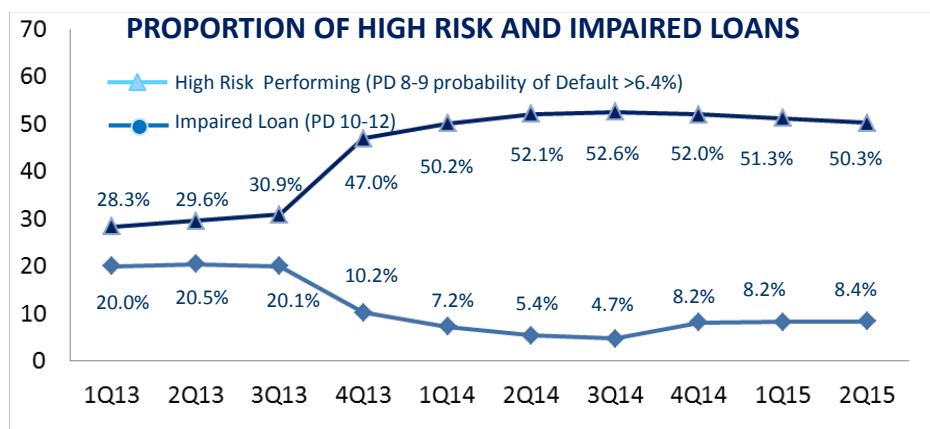
	Loan book	2011 CCR	2012 CCR	2013 CCR	2014 CCR	1H15 CCR
<b>IM BU</b>	<b>25bn</b>		<b>2.26%</b>	<b>4.48%</b>	<b>1.06%</b>	<b>0.35%</b>
- Ireland	14bn	3.01%	3.34%	6.72%	1.33%	0.32%
- Hungary	5bn	4.38%	0.78%	1.50%	0.94%	0.47%
- Slovakia	5bn	0.25%	0.25%	0.60%	0.36%	0.19%
- Bulgaria	1bn	14.73%	0.94%	1.19%	1.30%	1.19%

- Impaired loans ratio** amounted to 32.9%, of which 17.9% over 90 days past due

# Ireland (1): loan loss provisions towards the lower end of the guided range for both FY15 and FY16

LOAN PORTFOLIO €	OUT-STANDING €	IMPAIRED LOANS €	IMPAIRED LOANS PD 10-12	SPECIFIC PROVISIONS €	IMPAIRED LOANS PD 10-12 COVERAGE
Owner occupied mortgages	9.0bn	3.5bn	38.4%	1.0bn	30%
Buy to let mortgages	2.8bn	1.9bn	69.2%	0.6bn	33%
SME /corporate	1.2bn	0.8bn	64.2%	0.4bn	58%
Real estate - Investment - Development	0.9bn 0.3bn	0.7bn 0.3bn	77.9% 100%	0.4bn 0.2bn	50% 88%
<b>Total</b>	<b>14.2bn</b>	<b>7.1bn</b>	<b>50.3%</b>	<b>2.7bn</b>	<b>38%</b>

- Healthier Irish economic growth as continuing export growth is accompanied by a pick-up in domestic spending. Estimated GDP growth of 4.5% in 2015
- The unemployment rate looks set to fall towards 9% over the remainder of the year
- The underlying trend in the Irish housing market remains positive
- Retail Deposit net inflows increased in 2Q15, resulting in a retail deposit portfolio of 3.8bn EUR (compared with 3.6bn EUR in 1Q15). The corporate deposit portfolio rose 0.1bn EUR q-o-q to 1.0bn EUR in 2Q15
- Loan loss provisions amounted to 16m EUR in 2Q15. The underlying provision level was broadly in line with 1Q15 (note that 1Q15 benefited from a 14m EUR write-back on one significant impaired corporate loan)
- Looking forward, we have fine-tuned our loan loss provisioning guidance towards the lower end of the 50m-100m EUR range for both FY15 and FY16



The Impaired portion of loans increased significantly in 4Q13 due to the reassessment of the loan book. KBC's definition of impaired loans includes PD 10-12. PD 10 is considered as unlikely to pay exposure.

# Ireland (2): portfolio analysis

## 2Q15 Retail Portfolio

	PD	Exposure	Impairment	Cover %
Performing	PD 1-8	5,715	37	0.6%
	Of which non Forborne	5,685		
	Of which Forborne	31		
	PD 9	703	46	6.5%
	Of which non Forborne	319		
	Of which Forborne	385		
Impaired	PD 10	2,933	540	18.4%
	PD 11	1,779	695	39.1%
	PD 12	665	457	68.7%
	<b>TOTAL PD1-12</b>	<b>11,795</b>	<b>1,774</b>	
	<i>Specific Impairment/(PD 10-12)</i>			31.5%

'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.

## Homeloans Portfolio

- Impaired portfolio reduced by roughly 170m EUR q-o-q. Reduction is due to a combination of property sales and improvement in the portfolio performance resulting in loans positively migrating to a performing status (PD 1-9)
- Coverage ratio for impaired loans has increased to 31.5% in 2Q15 (from 30.7% in 1Q15)

## 2Q15 Corporate Loan Portfolio

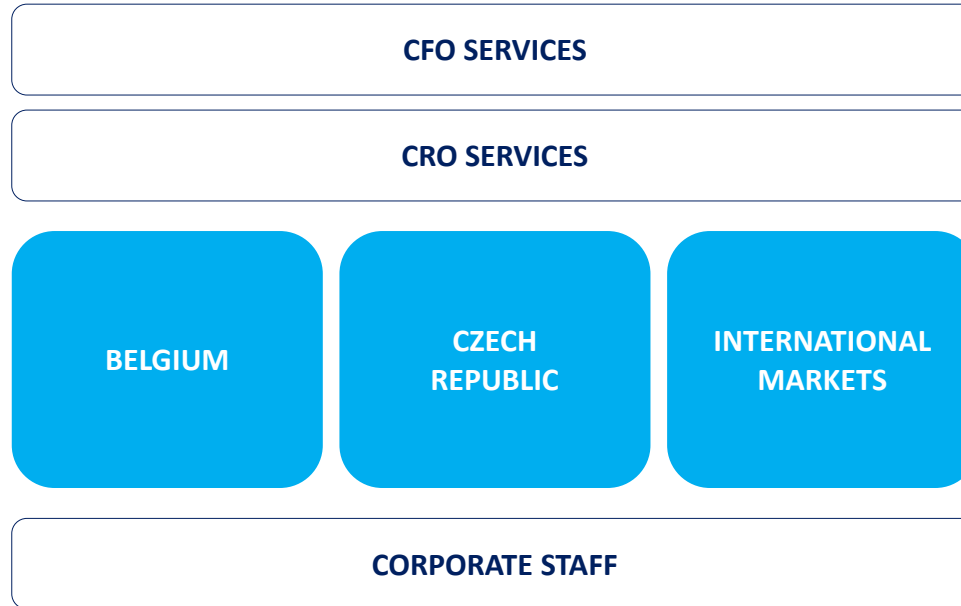
	PD	Exposure	Impairment	Cover %
Perf.	PD 1-8	606	5	0.8%
	PD 9	24	3	14.5%
Impaired	PD 10	619	238	38.4%
	PD 11	407	237	58.2%
	PD 12	730	574	78.6%
	<b>TOTAL PD1-12</b>	<b>2,387</b>	<b>1,057</b>	
	<i>Specific Impairment/(PD 10-12)</i>			59.7%

## Corporate loan Portfolio

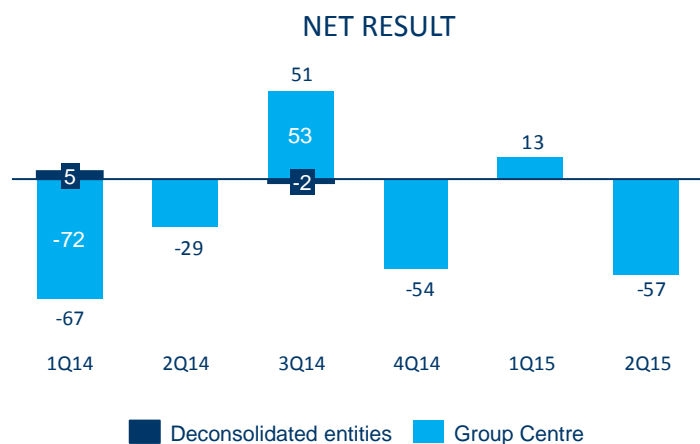
- Impaired portfolio has reduced by roughly 70m EUR q-o-q. Reduction driven mainly by continued deleveraging of the portfolio, including underlying asset sales and loan amortisation
- Coverage ratio impaired loans remained at 59.7% in 2Q15



# GROUP CENTRE



# Group Centre: net result of -57m EUR



- **Net result: -57m EUR**
- The net result for Group Centre contains the results coming from activities and/or decisions specifically made for group purposes (please see table below for components)
- The q-o-q deterioration of the net result was mainly the result of:
  - 33m EUR higher loan loss provisions in 2Q15, mainly at ADB and KBC Finance Ireland
  - The income tax expenses were positively influenced by 49m EUR of Deferred Tax Assets (DTA) in 1Q15

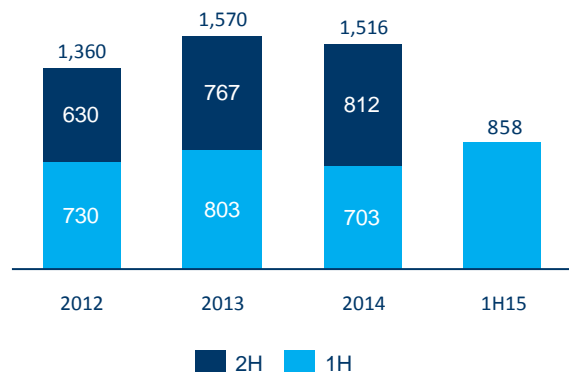
## BREAKDOWN OF NET RESULT AT GROUP CENTRE

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
<b>Group item (ongoing business)</b>	<b>-81</b>	<b>-52</b>	<b>-48</b>	<b>-31</b>	<b>11</b>	<b>-36</b>
- Opex of Group activities	-22	-19	-7	-26	-19	-15
- Capital and treasury management	-38	-11	-1	4	5	7
o/w net subordinated debt cost	-39	-26	-9	-9	-9	-10
- Holding of participations	-22	-25	-34	-17	-17	-26
o/w net funding cost of participations	-10	-11	-11	-8	-7	-7
- Other	-1	4	-4	8	41	-2
<b>Ongoing results of divestments and companies in run-down</b>	<b>6</b>	<b>-8</b>	<b>-17</b>	<b>-4</b>	<b>2</b>	<b>-22</b>
<b>Legacy &amp; OCR</b>	<b>10</b>	<b>29</b>	<b>114</b>	<b>-20</b>	<b>-</b>	<b>-</b>
<b>Total net result at GC</b>	<b>-67</b>	<b>-29</b>	<b>51</b>	<b>-54</b>	<b>13</b>	<b>-57</b>

# Overview of results based on business units

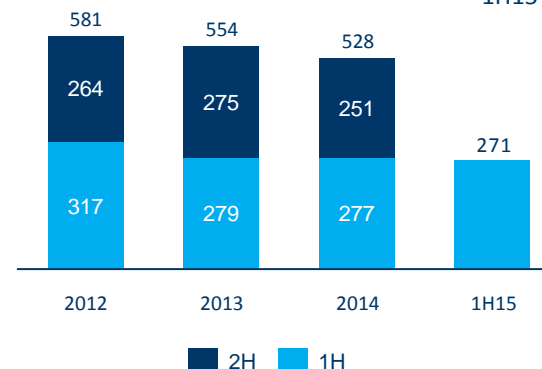
## NET PROFIT – BELGIUM

1H15 ROAC: 28%



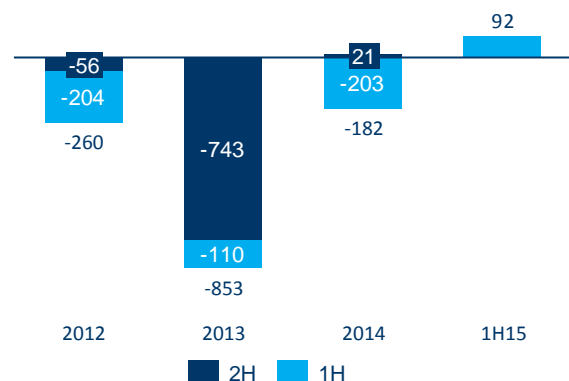
## NET PROFIT – CZECH REPUBLIC

1H15 ROAC: 37%

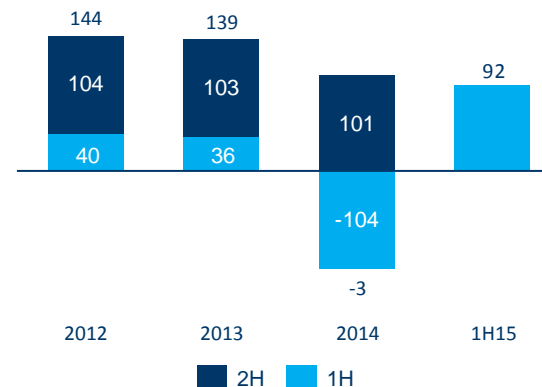


## NET PROFIT – INTERNATIONAL MARKETS

1H15 ROAC: 9%



## NET PROFIT – INTERNATIONAL MARKETS EXCL. IRELAND



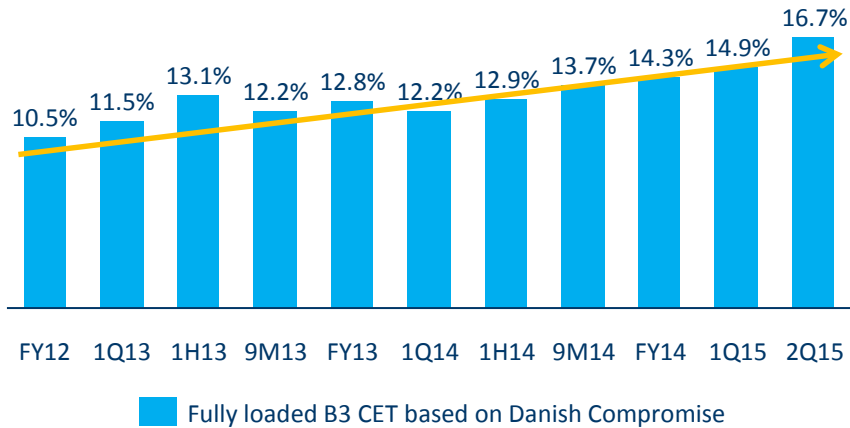
Amounts in m EUR

## Section 3

# Strong solvency and solid liquidity

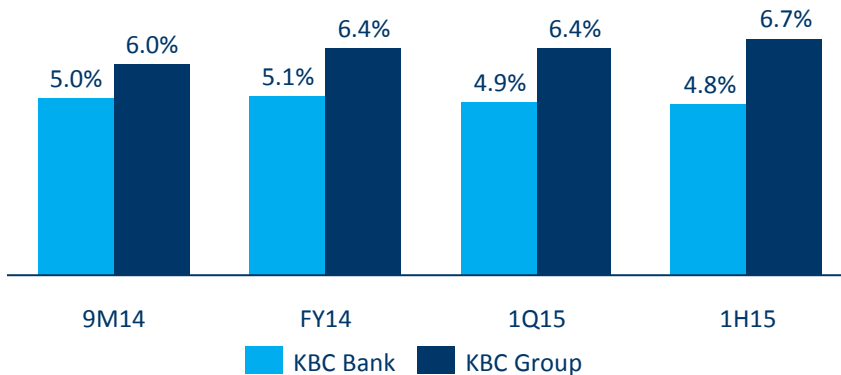
# Strong capital position

## Fully loaded Basel 3 CET1 ratio



- Common equity ratio (B3 fully loaded\*) of **16.7%** based on the Danish Compromise and of 16.4% based on the FICOD\*\* at end 1Q15, which **clearly exceeded** the fully loaded CET1 ratio target of 10.5% set by the ECB

## Fully loaded Basel 3 leverage ratio

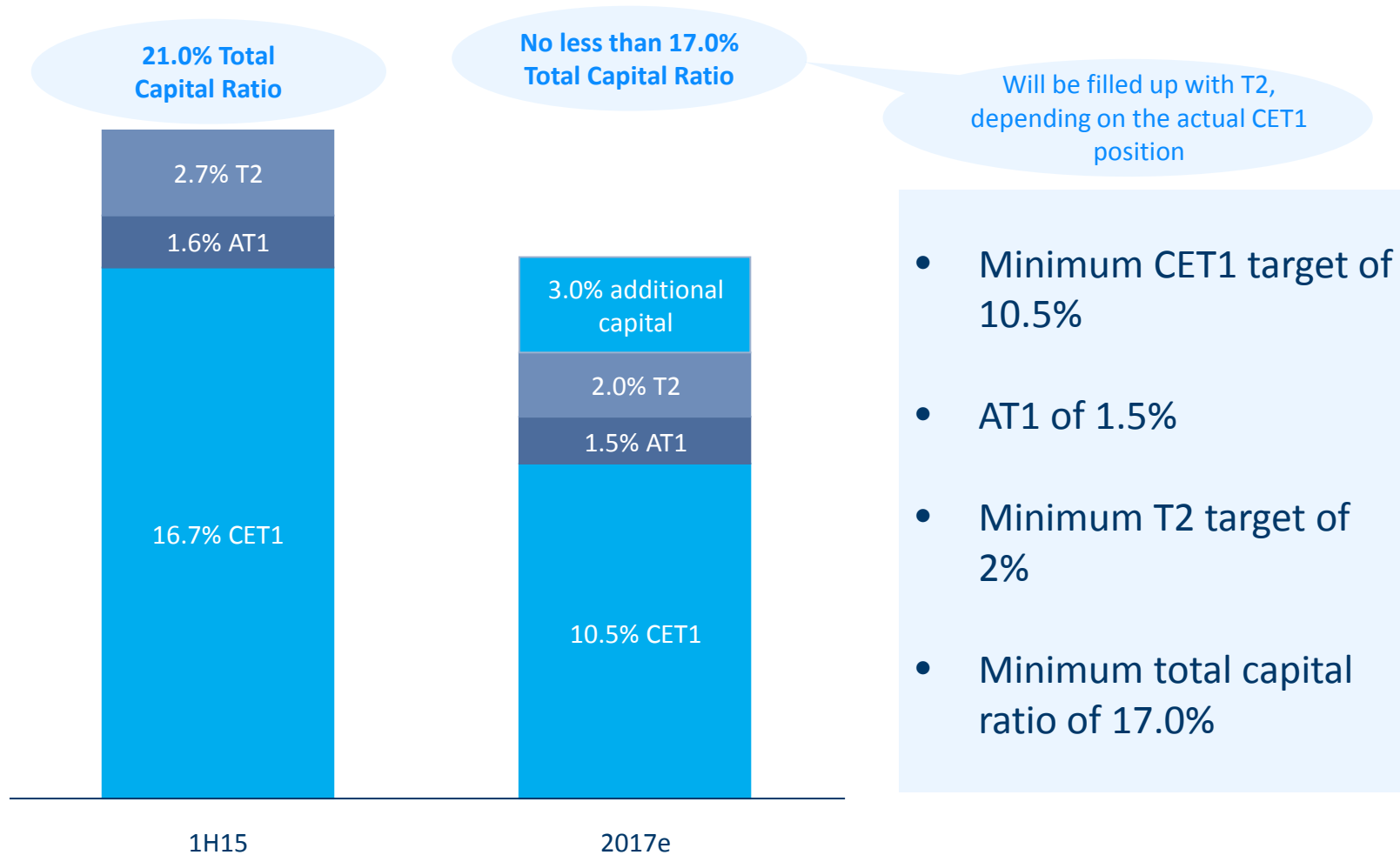


- Fully loaded B3 leverage ratio, based on the current CRR legislation (which was adapted during 4Q14):
  - 4.8% at KBC Bank Consolidated
  - 6.7% at KBC Group\*

\* Including remaining state aid of 2bn EUR as agreed with regulator and also the requirements for prudent valuation

\*\* FICOD: Financial Conglomerate Directive

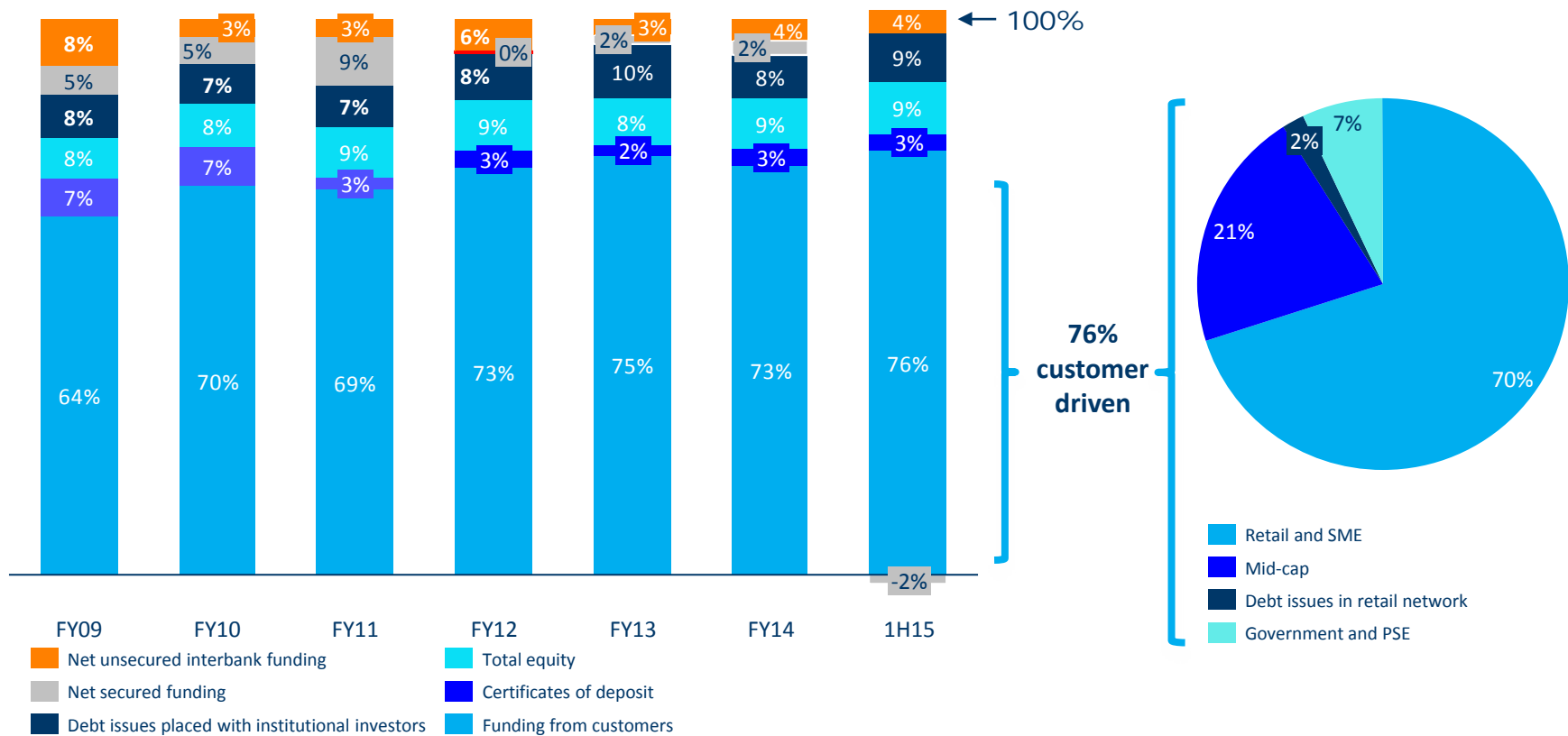
# KBC maintains a minimum 17% total capital ratio\*



\*Basel 3, fully loaded, Danish compromise

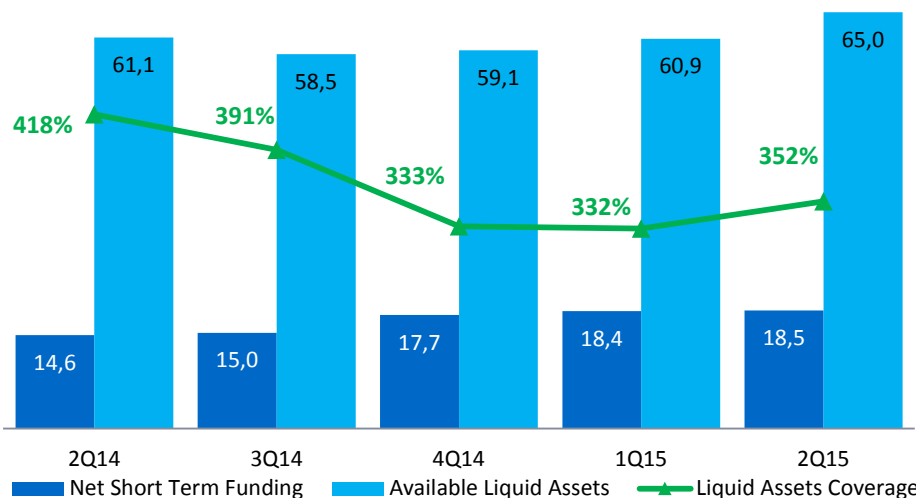
# Solid liquidity position (1)

- 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



# Solid liquidity position (2)

Short term unsecured funding KBC Bank vs Liquid assets as of end June 2015 (bn EUR) (\*)



\* Graphs are 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	FY14	1Q15	2Q15	Target
NSFR <sup>1</sup>	123%	126%	126%	>105%
LCR <sup>2</sup>	120%	132%	130%	>105%

<sup>1</sup> NSFR is calculated based on KBC's interpretation of the Basel Committee guidance published in October 2014

<sup>2</sup> LCR (Liquidity Coverage ratio) is calculated based on KBC's interpretation of the current Basel Committee guidance, which may change in the future. The LCR can be relatively volatile in future due to its calculation method, as month-to-month changes in the difference between inflows and outflows can cause important swings in the ratio even if liquid assets remain stable

- KBC maintains a solid **liquidity position**, given that:
  - Available liquid assets are 3.5 times the amount of the net recourse on short-term wholesale funding
  - Funding from non-wholesale markets is stable funding from core-customer segments in core markets

- **NSFR at 126% and LCR at 130% by the end of 2Q15**
  - Both ratios were well above the minimum target of at least 105%, in compliance with the implementation of Basel 3 liquidity requirements



KBC Group

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Section 4

2Q 2015 wrap up

# 2Q 2015 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

# Looking forward

- Looking forward, management envisages:
  - Continued stable and solid returns for the Belgium & Czech Republic Business Units
  - Breakeven returns by 2015 for the International Markets Business Unit, mid-term returns above cost of capital. As per guidance already issued, profitability in Ireland expected from 2016 onwards
  - A fully loaded B3 common equity ratio of minimum 10.5%
  - LCR and NSFR of at least 105%
  - Dividend payout ratio (including the coupon paid on state aid and AT1)  $\geq$  50% as of FY2016\*

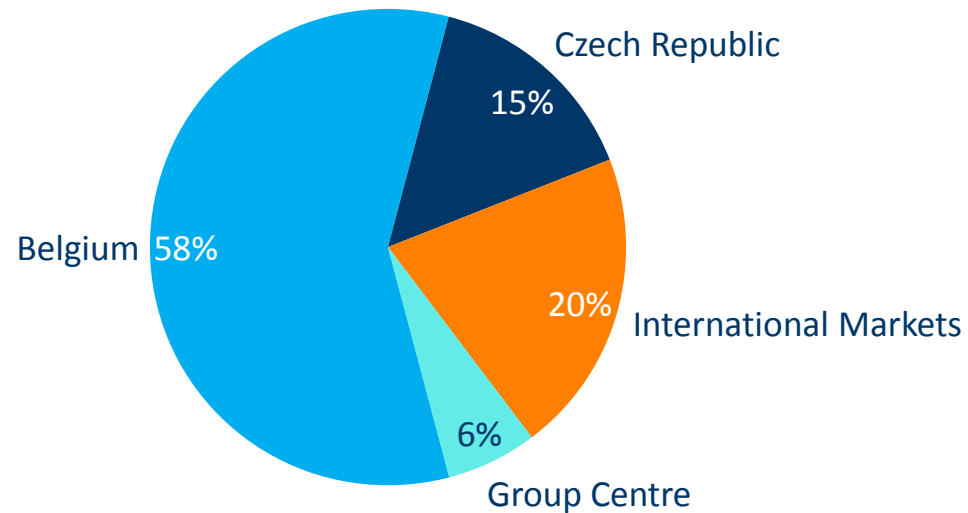
\* Subject to the approval of the General Meeting of Shareholders

## Annex 1

# Company profile

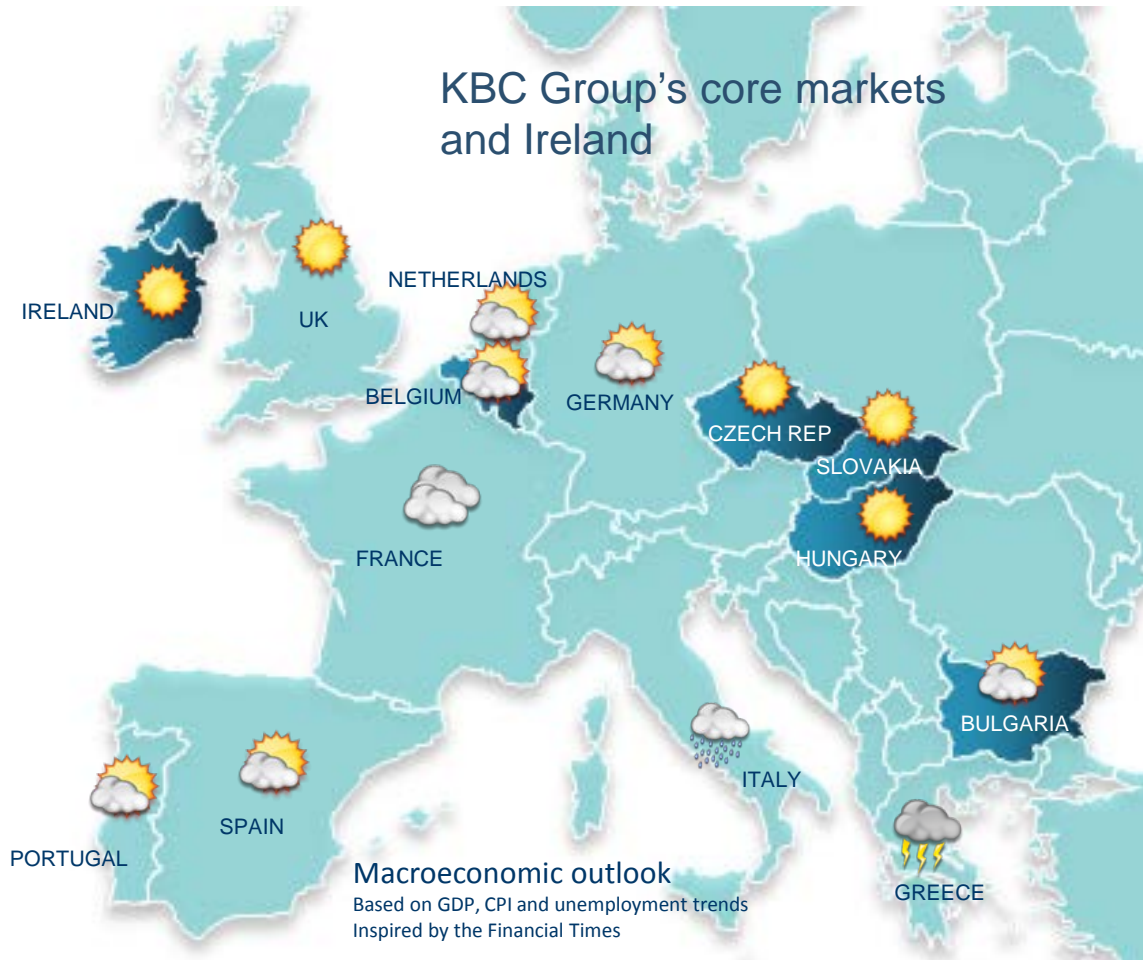
# Business profile

## BREAKDOWN OF ALLOCATED CAPITAL BY BUSINESS UNIT AT 30 JUNE 2015

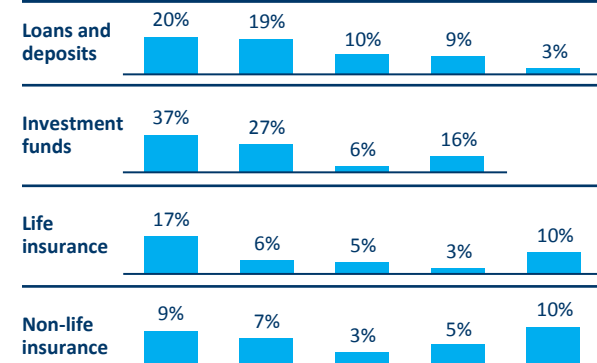


- KBC is a leading player (retail and SME bank-insurance, private banking, commercial and local investment banking) in Belgium and its 4 core countries in CEE

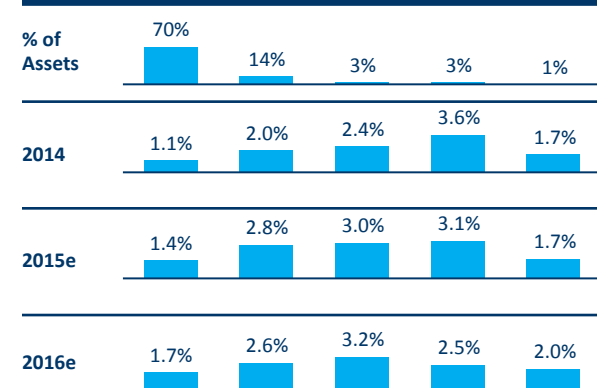
# Well-defined core markets provide access to 'new growth' in Europe



## MARKET SHARE (END 2014)



## REAL GDP GROWTH OUTLOOK FOR CORE MARKETS<sup>1</sup>



1. Source: KBC data, August 2015

# Loan loss experience at KBC

	<b>1H15 CREDIT COST RATIO</b>	<b>FY14 CREDIT COST RATIO</b>	<b>FY13 CREDIT COST RATIO</b>	<b>FY 2012 CREDIT COST RATIO</b>	<b>AVERAGE '99 –'14</b>
<b>Belgium</b>	<b>0.29%</b>	0.23%	0.37%	0.28%	n/a
<b>Czech Republic</b>	<b>0.18%</b>	0.18%	0.26%	0.31%	n/a
<b>International Markets</b>	<b>0.35%</b>	1.06%	4.48%*	2.26%*	n/a
<b>Group Centre</b>	<b>0.72%</b>	1.17%	1.85%	0.99%	n/a
<b>Total</b>	<b>0.30%</b>	<b>0.42%</b>	<b>1.21%**</b>	<b>0.71%</b>	<b>0.54%</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

# Key strengths

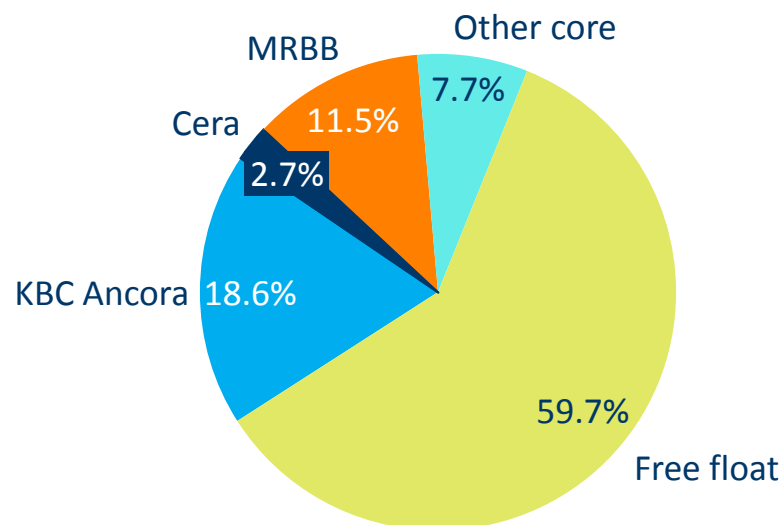
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- Well-developed bank-insurance strategy and strong cross-selling capabilities
- Strong commercial bank-insurance franchises in Belgium and the Czech Republic with stable and solid returns
- Turnaround potential in the International Markets Business Unit
- Successful underlying earnings track record
- Solid capital and robust liquidity position



# Shareholder structure

SHAREHOLDER STRUCTURE AT END 1H15



- 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:

To be among the best performing retail-focused institutions in Europe

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- KBC wants to build on its strengths and be among Europe's **best performing retail-focused** 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

# Summary of the financial targets at KBC Group level

<b>Targets...</b>		<b>by...</b>
<b>CAGR total income ('13-'17)*</b>	≥ 2.25%	2017
<b>CAGR bank-insurance gross income ('13-'17)</b>	≥ 5%	2017
<b>C/I ratio</b>	≤ 53%	2017
<b>Combined ratio</b>	≤ 94%	2017
<b>Common equity ratio</b> (fully loaded, Danish compromise)	≥ 10.5%	2014
<b>Total capital ratio</b> (fully loaded, Danish compromise)	≥ 17%	2017
<b>NSFR</b>	≥ 105%	2014
<b>LCR</b>	≥ 105%	2014
<b>Dividend payout ratio</b>	≥ 50%	2016

Based on adjusted figures

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

# 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.
- Strive for market leadership (top 3 bank/top 4 insurance) in core countries by 2020
- First priority for Ireland is to become profitable from 2016 onwards. As of then, all available options (organically grow a profitable retail bank, build a captive bank-insurance group or sell a profitable bank) will be considered

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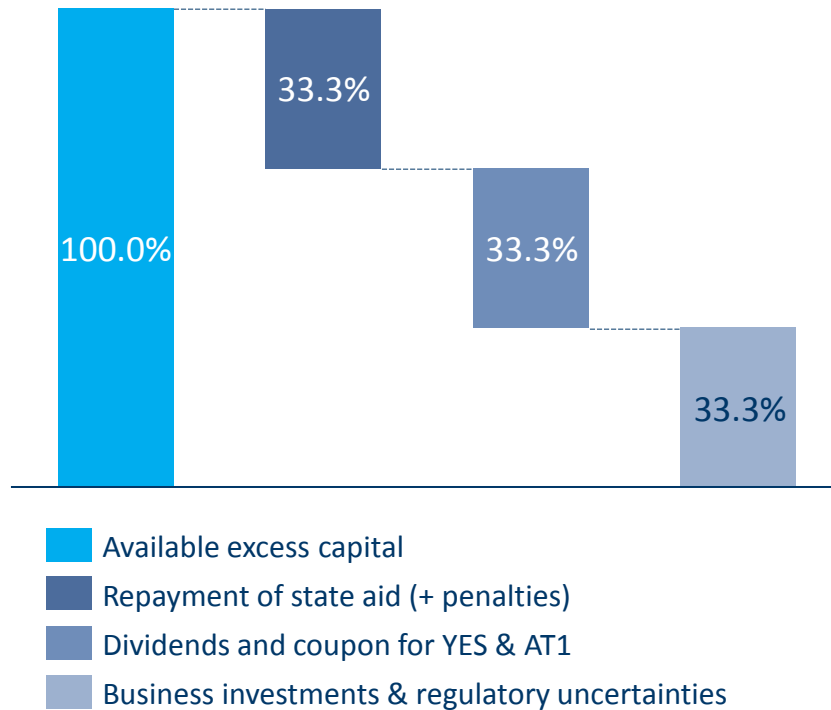
Become a **reference in bank-insurance** in each core country

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**

# KBC wants to keep its options open

Multi-year distribution:  
Planned employment of capital 2Q14-2017  
(current capital buffer + capital generation 2Q14-2017)



## Solid capital generation 2Q14-2017

**Accelerate the repayment of state aid** (+ penalties) by year-end 2017 at the latest: roughly 1/3 of capital available in 2Q14-2017

**Increase dividend payout ratio** (including coupon for YES and AT1) to  $\geq 50\%$  from financial year 2016 onwards. Given the current solvency buffer (above 10.5% B3 CET1) and given no dividend for financial year 2015: roughly 1/3 of capital to 2Q14-2017

**Invest in the business** (organic growth and potential small add-on M&A under very strict financial criteria) and **deal with regulatory uncertainties**: roughly 1/3 of capital to 2Q14-2017

The excess capital can be returned to the shareholders if no value-added business investments are found

## Annex 2

# Other items

# Specific remarks for 2Q15

- As of 2Q15, KBC will only be publishing the IFRS consolidated income statement (and no longer the IFRS P&L and adjusted P&L) as a result of (i) complexity reduction and (ii) the immaterial difference between the IFRS results and adjusted results as of 2015 (because the impact of legacy activities and of the valuation of own credit risk has been limited since the start of 2015)

In addition to legacy & OCR at the Group Centre, capital-market income was treated differently for accounting purposes at KBC Bank Belgium (within the Belgium BU), given its importance:

- in the adjusted accounts: all trading results were recorded under 'Net result from financial instruments at fair value'.
- in the IFRS accounts: income related to trading activities was split across different components. The main shift however is from 'Net result from financial instruments at fair value' to 'net interest income'. We provided a sub-line for NII, namely 'of which dealing room income'. As a result, NIM marginally changed for the KBC Group and the Belgium BU

Please note that in the past, this shift didn't apply to the other (than Belgium BU) business units for reasons of materiality

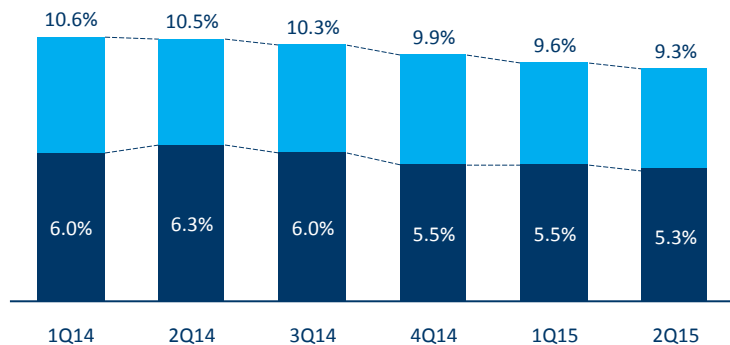
As mentioned before, the impact of Legacy & OCR has been immaterial since the beginning of 2015 (and as a result, not shown separately anymore), which was not yet the case for reference year 2014 (especially 3Q14)

- IBNR parameter changes resulted in an increase in impairments by roughly 34m EUR in 2Q15
- Based on a recent recommendation by the ESMA/FSMA, KBC has furthermore aligned the accounting treatment of the annual deposit guarantee scheme levy in 2Q15. As a result, the second quarter figures include a 29m EUR charge related to the upfront recognition in Belgium
- The decision of the NBB to lift regulatory add-ons and LGD floors related to KBCs IRB-Advanced models led to a 3.8bn RWA reduction in 2Q15

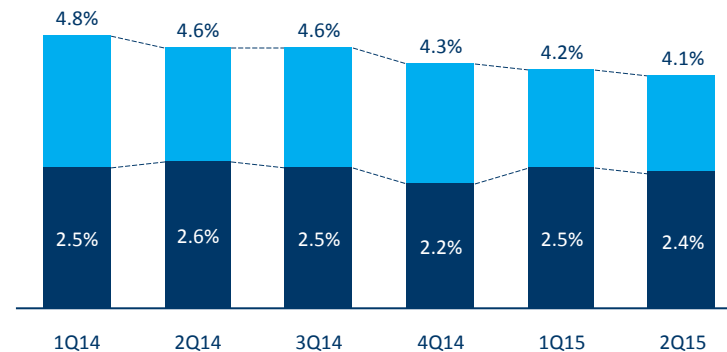


# Impaired loans ratios, of which over 90 days past due

## KBC GROUP

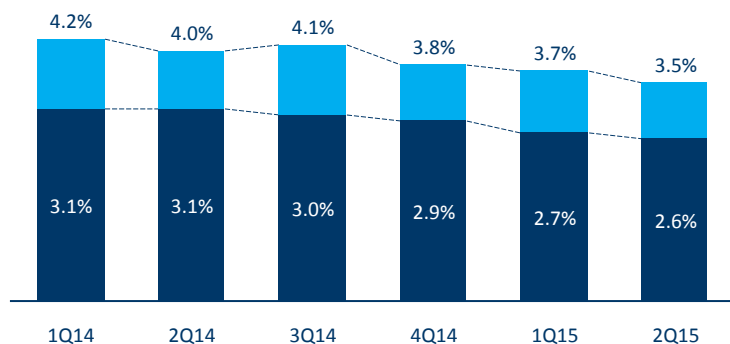


## BELGIUM BU

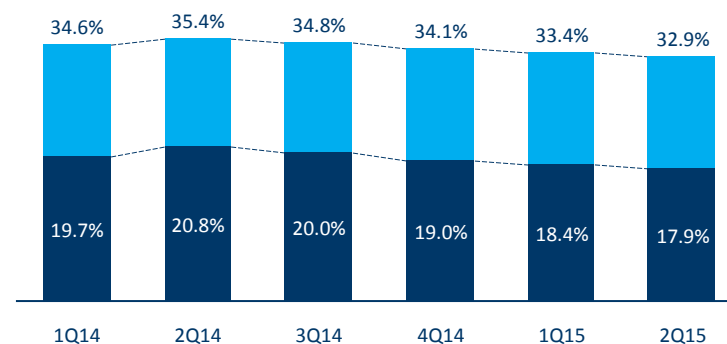


■ Impaired loans ratio \*  
■ of which over 90 days past due \*\*

## CZECH REPUBLIC BU



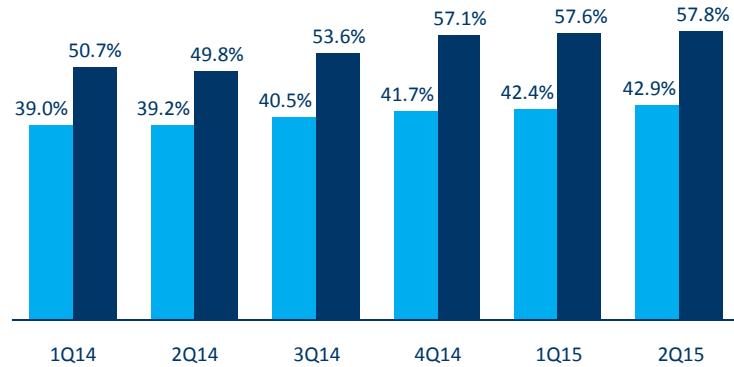
## INTERNATIONAL MARKETS BU



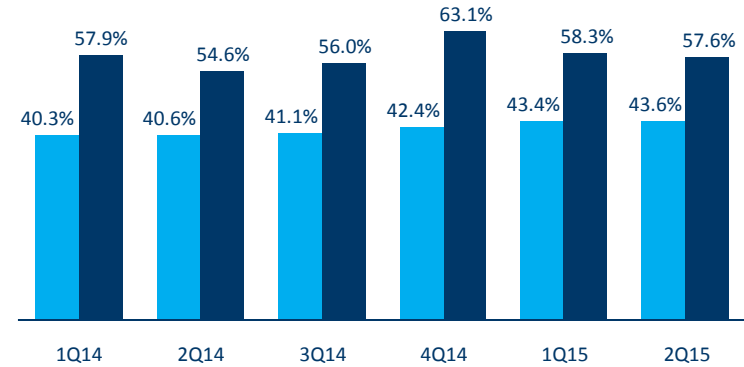
\* Impaired loans ratio : total outstanding impaired loans (PD 10-12)/total outstanding loans  
 \*\* of which total outstanding loans with over 90 days past due (PD 11-12)/total outstanding loans

# Cover ratios

## KBC GROUP

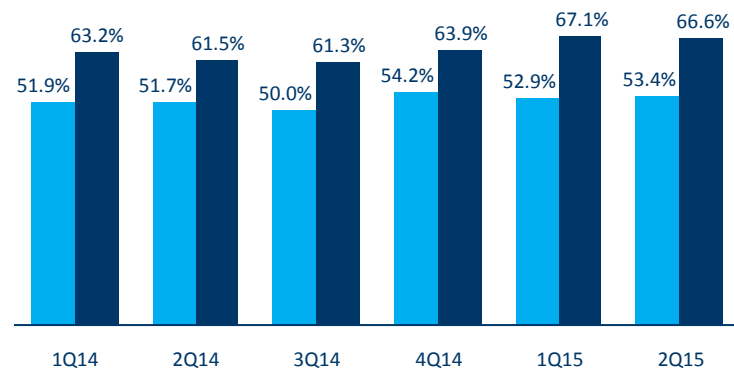


## BELGIUM BU

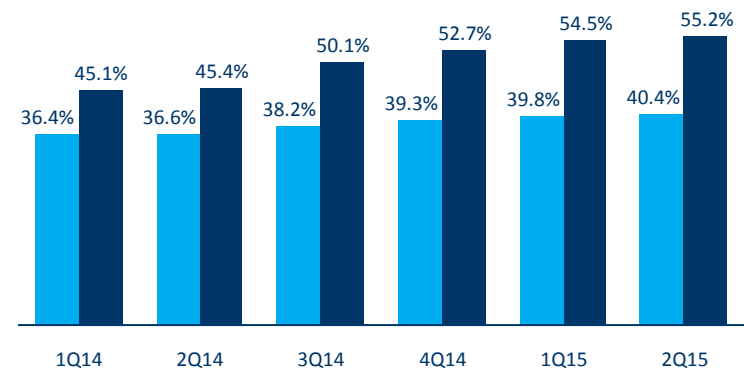


■ Impaired loans cover ratio  
■ Cover ratio for loans with over 90 days past due

## CZECH REPUBLIC BU



## INTERNATIONAL MARKETS BU



\* 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



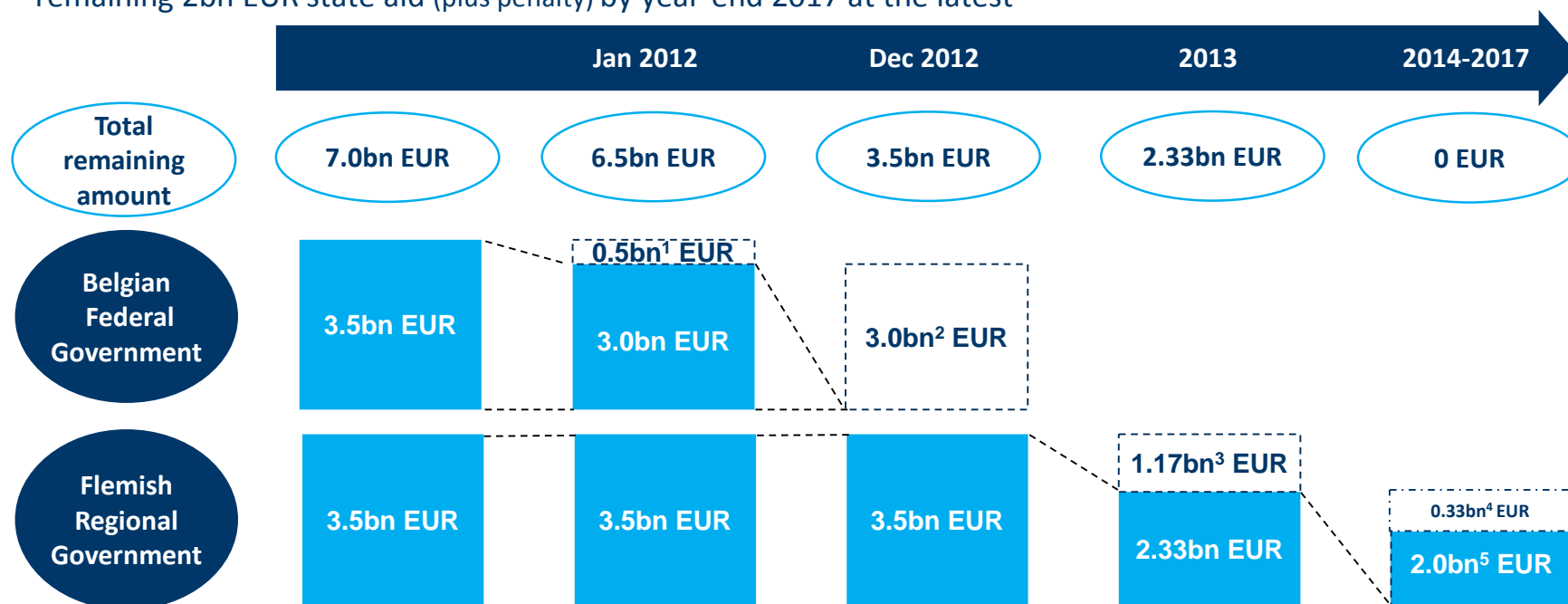
# Summary of government transactions

- ORIGINALLY, 7BN EUR WORTH OF CORE CAPITAL SECURITIES SUBSCRIBED BY THE BELGIAN FEDERAL AND FLEMISH REGIONAL GOVERNMENTS

	BELGIAN STATE	FLEMISH REGION
Amount	3.5bn	3.5bn
Instrument	Perpetual fully paid up new class of non-transferable securities qualifying as core capital	
Ranking	Pari passu with ordinary stock upon liquidation	
Issuer	KBC Group Proceeds used to subscribe ordinary share capital at KBC Bank (5.5bn) and KBC Insurance (1.5bn)	
Issue price	29.5 EUR	
Interest coupon	Conditional on payment of dividend to shareholders The higher of (i) 8.5% or (ii) 120% of the dividend for 2009 and 125% for 2010 onwards Not tax deductible	
Buyback option for KBC	Option for KBC to buy back the securities at 150% of the issue price (44.25)	
Conversion option for KBC	From December 2011 onwards, option for KBC to convert securities into shares (1 for 1). In that case, the State can ask for cash at 115% (33.93) increasing every year by 5% to the maximum of 150%	No conversion option

# Assessment of the state aid position & repayment schedule

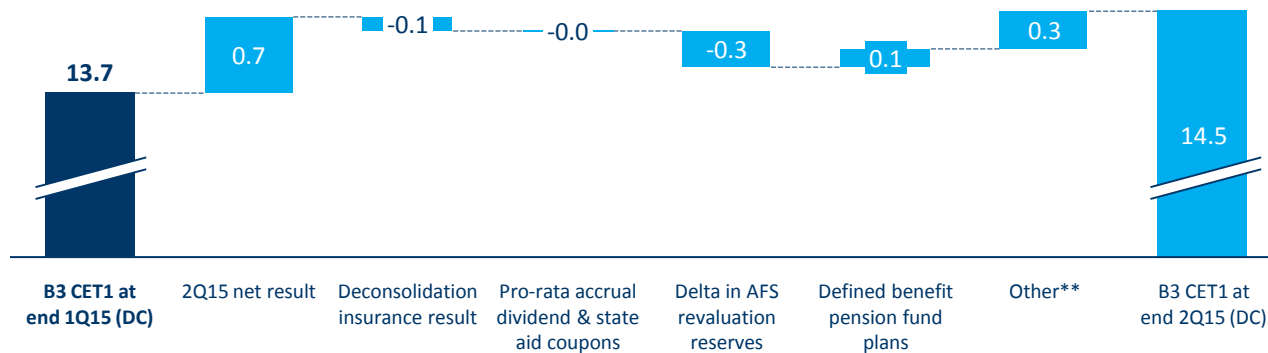
- KBC made accelerated full repayment of 3.0bn EUR of state aid to the Belgian Federal Government in December 2012 and the accelerated repayment of 1.17bn EUR of state aid to the Flemish Regional Government mid-2013, approved by the NBB
- At the beginning of 2014, KBC accelerated the repayment of 0.33bn EUR (plus penalty), and as such saved 28m EUR in coupon payments
- At the Investor Day on 17 June 2014, KBC announced that it will accelerate the reimbursement of the remaining 2bn EUR state aid (plus penalty) by year-end 2017 at the latest



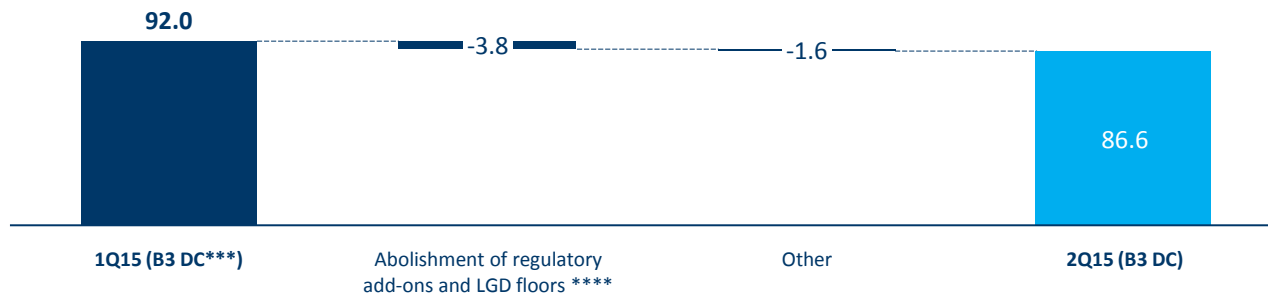
1. Plus 15% penalty amounting to 75m EUR
2. Plus 15% penalty amounting to 450m EUR
3. Plus 50% penalty amounting to 583m EUR
4. Plus 50% penalty amounting to 167m EUR
5. Plus 50% penalty amounting to 1,000m EUR

# Fully loaded B3\* CET1 based on Danish Compromise (DC) From 1Q15 to 2Q15

DELTA AT NUMERATOR LEVEL (BN EUR)



DELTA ON RWA (BN EUR)



- Fully loaded B3 common equity ratio of approx. 16.7% at end 2Q15 based on Danish Compromise (DC)
- The fully loaded common equity ratio target of 10.5% set by the ECB was clearly exceeded

\* Is including remaining State aid of 2bn EUR as agreed with local regulator and also the requirements for prudent valuation

\*\* Is including the q-o-q delta in deferred tax assets on losses carried forward, IRB provision shortfall, deduction re. financing provided to shareholders...

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

\*\*\*\* The decision of the NBB to lift regulatory add-ons and LGD floors related to KBCs IRB-Advanced models led to a 3.8bn RWA reduction in 2Q15

# Overview of B3 CET1 ratios at KBC Group

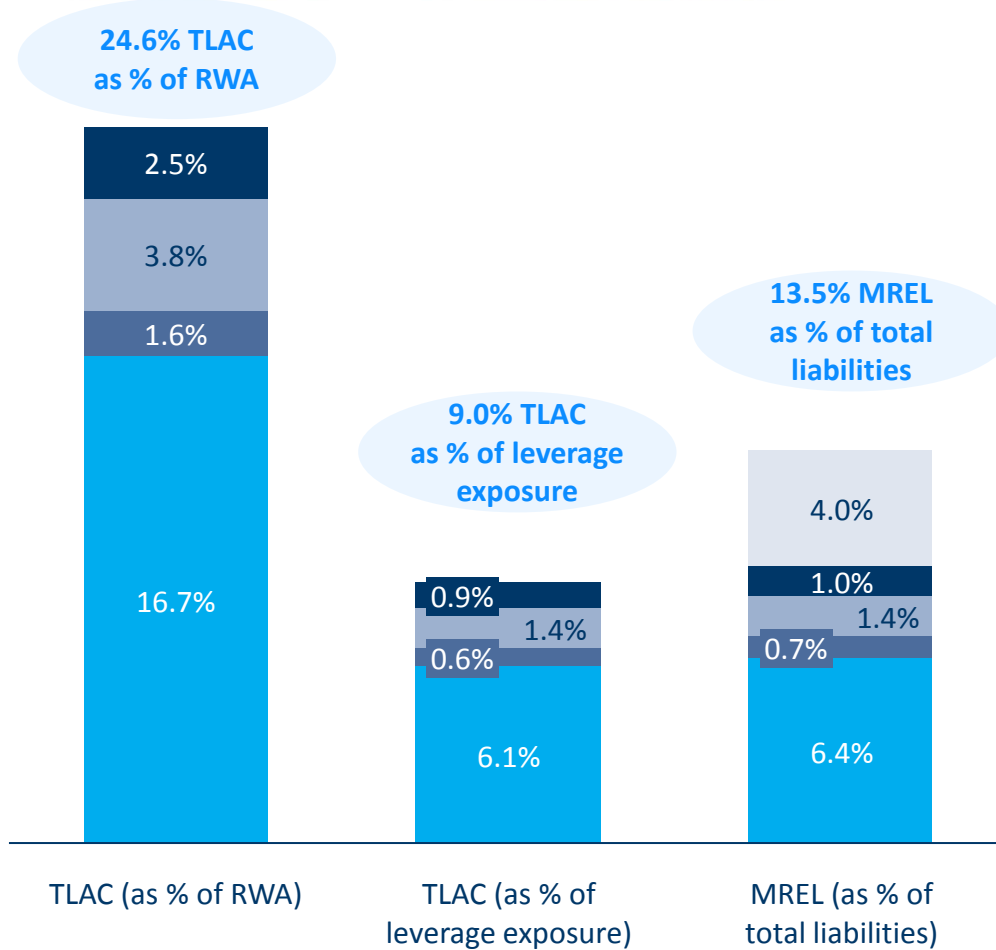
Method	Numerator	Denominator	B3 CET1 ratio
FICOD*, phased-in	14,534	87,579	16.6%
FICOD, fully loaded	14,754	89,811	16.4%
DC**, phased-in	14,248	84,375	16.9%
DC, fully loaded	14,468	86,607	16.7%
DM***, fully loaded	13,446	81,090	16.6%

\* FICOD: Financial Conglomerate Directive

\*\* DC: Danish Compromise

\*\*\* DM: Deduction Method

# Comfortable bail-in buffer



Given the current regulatory framework, KBC Group is comfortable with:

- 24.6% risk-weighted TLAC\*
- 9.0% leveraged TLAC
- 13.5% MREL\*

Other MREL eligible liabilities > 1y
  T2 eligible TLAC (excl. T2 with 1y remaining maturity)
  CET1
   
 Senior unsecured debt, 2,5% of RWA
  AT1

\* TLAC: Total Loss-Absorbing Capacity  
MREL: Minimum Required Eligible Liabilities



# P&L volatility from ALM derivatives

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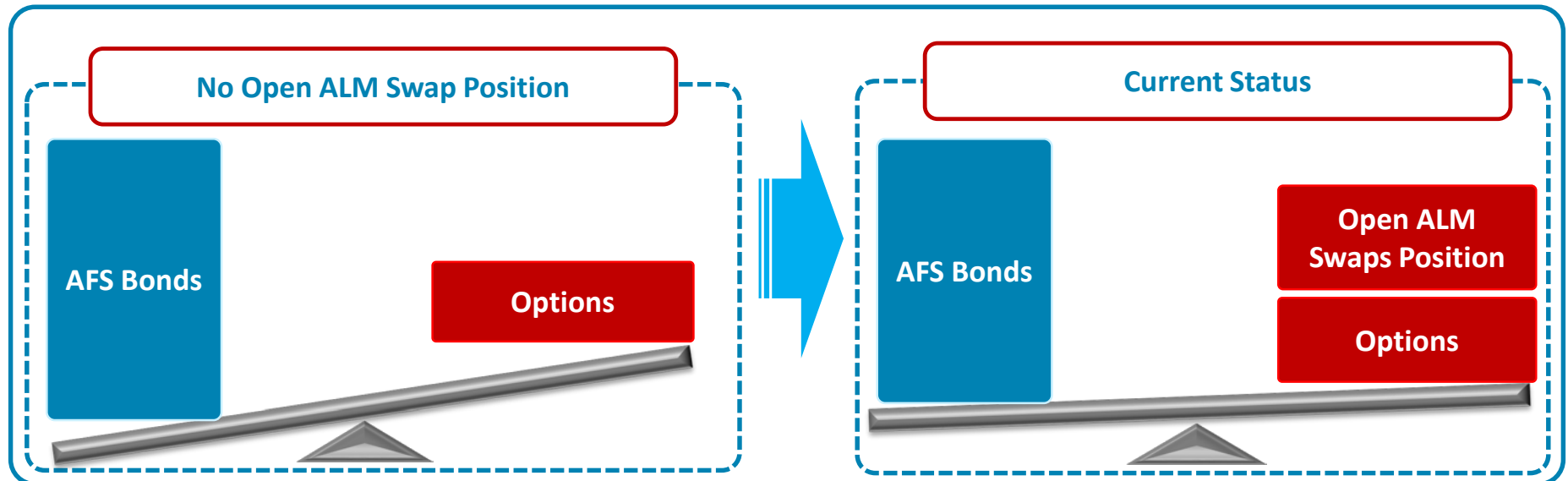
- ALM Derivatives (Swaps and Options) are used to hedge the interest rate risk of the loan & deposit portfolios. This creates an accounting mismatch between derivatives (at market value) and hedged products (at amortised cost)
  - Options are used to hedge the caps/floors that KBC is obliged by law to 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

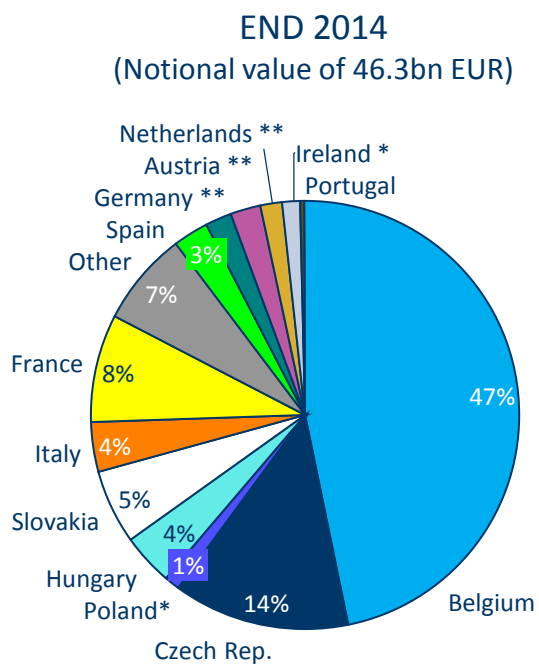
## Protecting stability of capital ratio

- 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 goes through P&L, while the revaluation of the AFS bonds goes only through capital

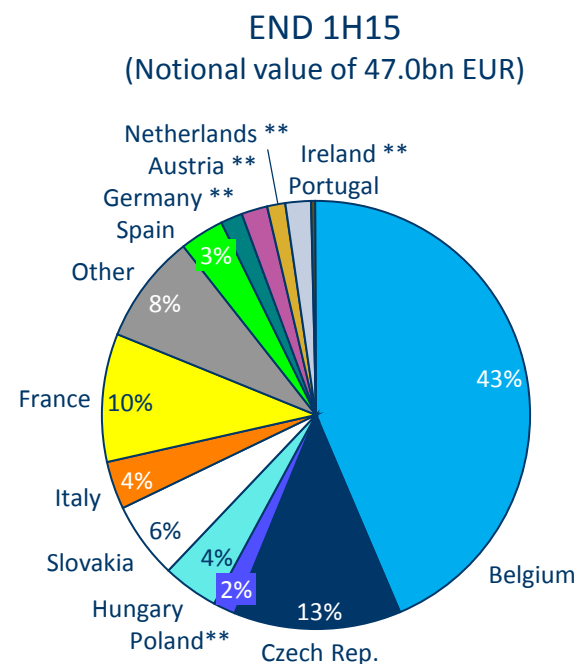


# Government bond portfolio – Notional value

- Notional investment of 47.0bn EUR in government bonds (excl. trading book) at end of 1H15, 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 4.3bn EUR at end of 1H15



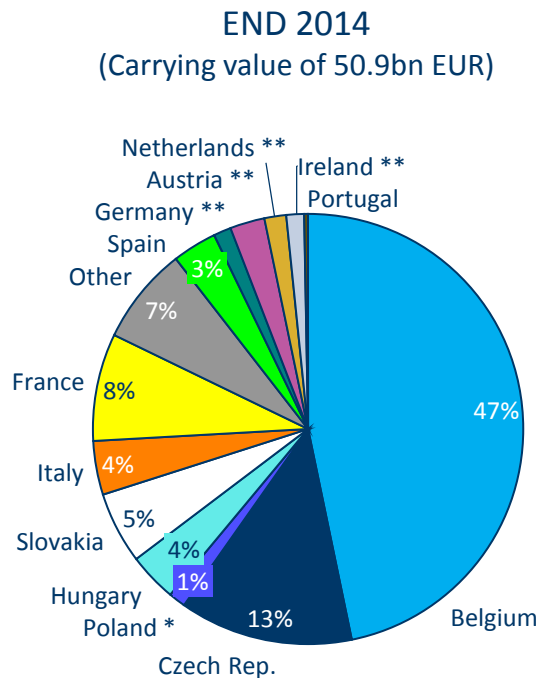
(\* ) 1%, (\*\* ) 2%



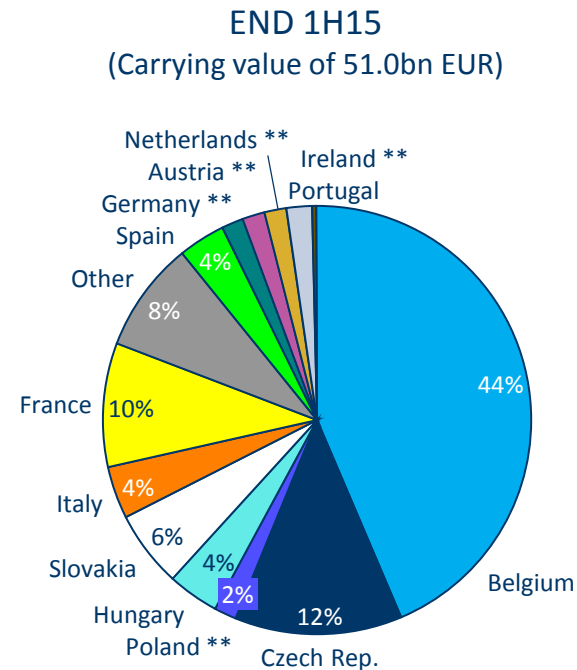
(\* ) 1%, (\*\* ) 2%

# Government bond portfolio – Carrying value

- Carrying value of 51.0bn EUR in government bonds (excl. trading book) at end of 1H15, 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 5.0bn EUR at end of 1H15



(\* ) 1%, (\*\* ) 2%

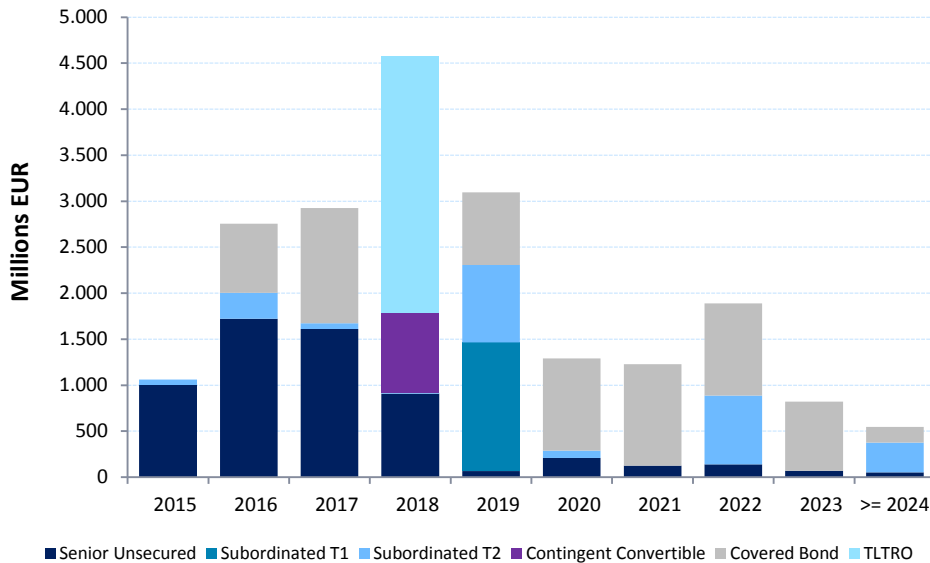


(\* ) 1%, (\*\* ) 2%

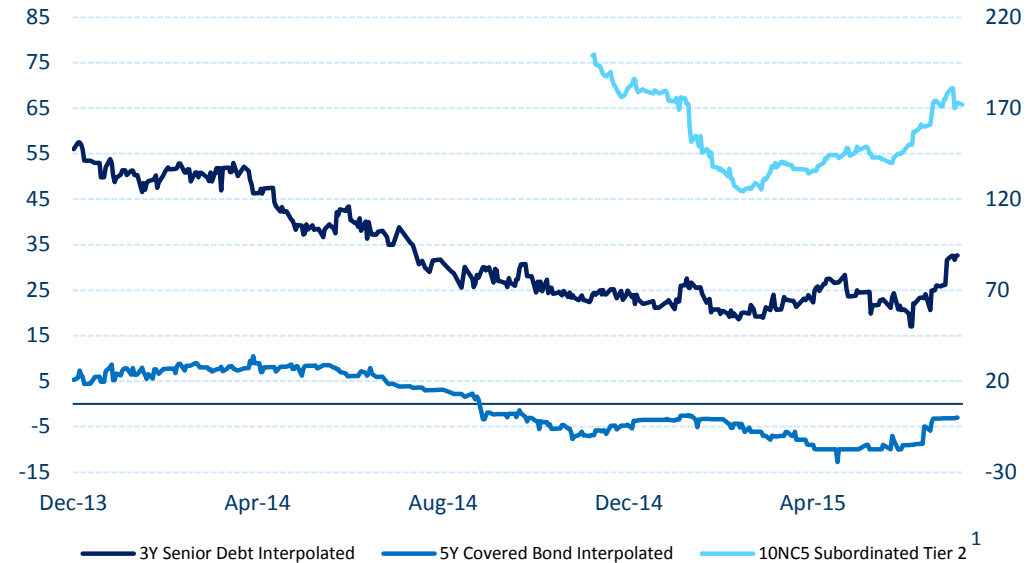
\* Carrying value is the amount at which an asset [or liability] is recognised: for those not valued at fair value this is after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon, while carrying amount is equal to fair value when recognised at fair value

# Upcoming mid-term funding maturities

## Breakdown Funding Maturity Buckets



## Credit Spreads Evolution



<sup>1</sup> 10NC5 Subordinated Tier 2 spread is depicted based on the right hand axis.

- KBC successfully issued a 1bn EUR covered bond with 6 year maturity in April 2015
- KBC’s credit spreads slightly widened towards the end of 2Q15
- KBC Bank has 5 solid sources of long-term funding:
  - Retail term deposits
  - Retail EMTN
  - Public benchmark transactions
  - Covered bonds (supporting diversification of the funding mix)
  - Structured Notes and Covered bonds using the private placement format



# Analysts' coverage

Bank/broker	Analyst	Contact details	Rating	Target Price	Upside
ABN Amro	Jan Willem Knoll	janwillem.knoll@nl.abnamro.com	=	60,00	-4%
Alpha Value	Farahad Moshiri	f.moshiri@alphavalue.eu	-	58,30	-7%
Autonomous	Farquhar Murray	FMurray@autonomous.com	+	52,10	-16%
Bank Degroof	Dirk Peeters	dirk.peeters@degroof.be	-	44,00	-29%
Bank of America Merrill Lynch	Tarik El Mejjad	tarik.el_mejjad@baml.com	=	68,70	10%
Barclays Capital	Kiri Vijayarajah	kiri.vijayarajah@barcap.com	=	56,00	-10%
Berenberg	Eleni Papoula	Eleni.Papoula@berenberg.com	+	55,00	-12%
Citi Investment Research	Andrew Coombs	andrew.coombs@citi.com	+	71,00	14%
Deutsche Bank	Flora Benhakoun	flora-a.benhakoun@db.com	+	66,00	6%
Exane BNP Paribas	Guillaume Tiberghien	guillaume.tiberghien@exanebnpparibas.com	=	63,00	1%
HSBC	Johannes Thormann	Johannes.Thormann@hsbc.de	=	58,00	-7%
ING	Albert Ploegh	albert.ploegh@ing.com	+	66,50	7%
JP Morgan Securities	Paul Formanko	paul.formanko@jpmorgan.com	+	60,00	-4%
Keefe, Bruyette & Woods	Jean-Pierre Lambert	jplambert@kbw.com	=	62,70	1%
KeplerCheuvreux	Benoit Petrarque	benoit.petrarque@keplercm.com	+	65,00	4%
Mediobanca	Riccardo Rovere	riccardo.rovere@mediobanca.it	+	75,00	20%
Morgan Stanley	Bruce Hamilton	Bruce.Hamilton@morganstanley.com	=	60,80	-3%
Natixis Securities	Alex Koagne	alex.koagne@sec.natixis.com	+	54,50	-13%
Nomura	Matthew Clark	matthew.clark@nomura.com	=	55,00	-12%
Oddo	Julie Legrand	jlegrand@oddo.fr	+	61,00	-2%
Rabo Securities	Cor Kluis	cor.kluis@rabobank.com	+	67,00	7%
Societe Generale	Philip Richards	philip.richards@sgcib.com	=	60,00	-4%
UBS	Anton Kryachok	anton-a.kryachok@ubs.com	=	57,00	-9%

Situation as of 28 July 2015, based on a share price of 62.38 EUR

# 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 corrected for (exceptional) items which distort the P&amp;L during a particular period in order to provide a better insight in the underlying business trends. Corrections include among other things:</p> <ul style="list-style-type: none"> <li>• the MtM ALM Derivatives (fully excluded)</li> <li>• the bank taxes (including European Resolution Fund) are included pro rata and hence spread over all quarters of the year instead of for a large part booked upfront (as required by IFRIC21)</li> <li>• Up to the end of 2014, also Legacy &amp; OCR was an important correction</li> </ul>
<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>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>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 Required 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]. If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator (pro rata)
<b>TLAC</b>	Total Loss-Absorbing Capacity

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