KBC Group

2011 1Q Results

Press Tele-conference

12 May 2011 - 11.30 AM CEST

More information www.kbc.com
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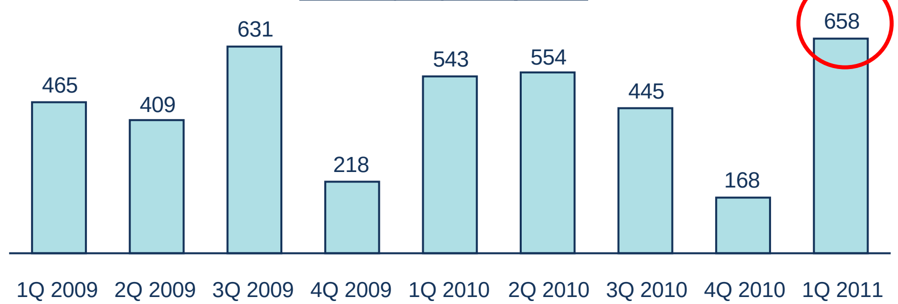
KBC Group - Investor Relations Office - E-mail: investor.relations@kbc.com

Good start to the year

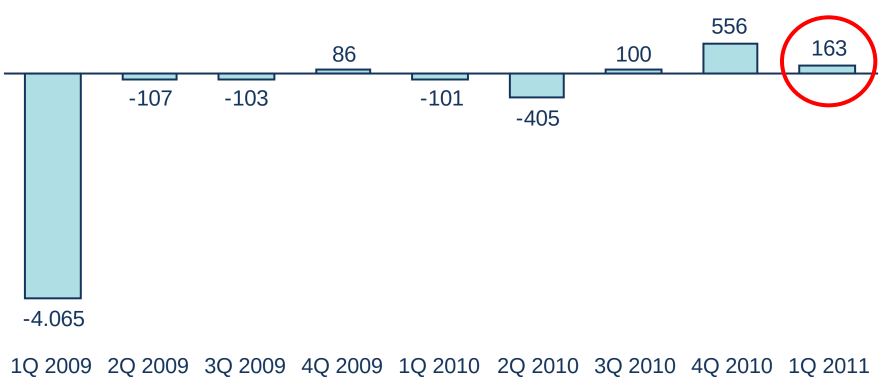
Underlying net profit 658m EUR

Reported net profit 821m EUR

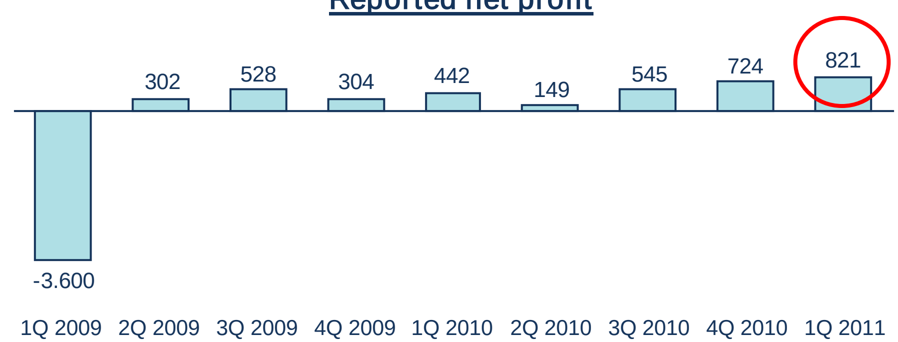
Underlying net profit



Exceptional items



Reported net profit



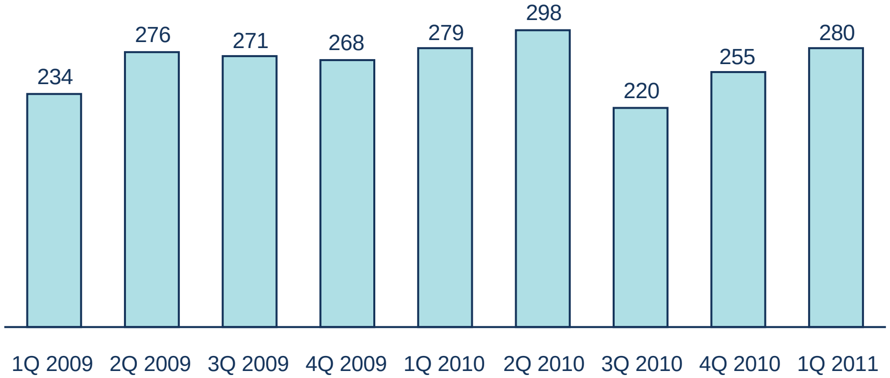
Amounts in m. EUR

Financial highlights 1Q 2011

- Reported net profit up by more than 13% quarter-on-quarter
- Good level of net interest income with increased volumes
- Slightly reduced fee and commission income attributable to lower AuM, caused by both price effects and limited net outflow of funds
- Excellent combined ratio of 85% thanks to low claims; higher level of earned premiums in the CEE life insurance business
- Robust level of income generated by the dealing room
- Lower operational expenses, despite the recording of the Hungarian bank tax for the full year in 1Q11. Cost/Income ratio at a favourable 55%
- Exceptionally low loan loss provisions in all business units, with the most marked drop in Merchant Banking (including Ireland)
- Strong liquidity position
- Including the impact of the divestments already announced (Centea), regulatory capital accumulated in excess of the tier-1 solvency target of 10% amounted to roughly 4.8bn EUR at the end of 1Q11. Excluding all CDO effects since the end of 3Q09, available surplus capital at the end of 1Q11 amounted to roughly 4.0bn EUR (incl. the effect of divestments already announced)

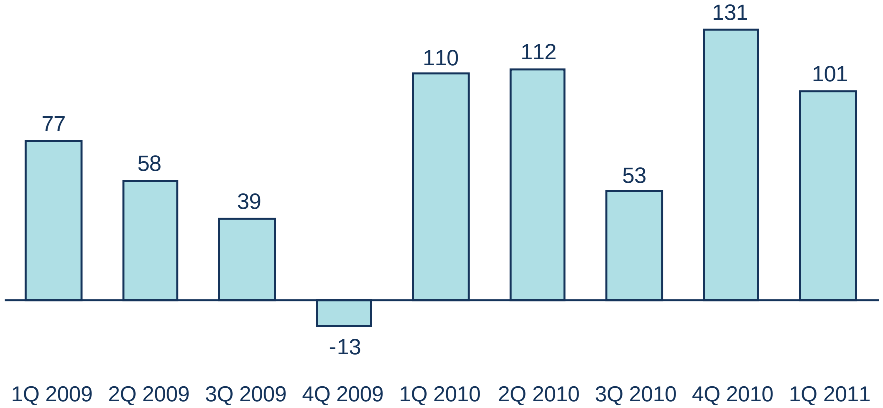
Underlying profit per business unit

Underlying net profit Belgium (retail)

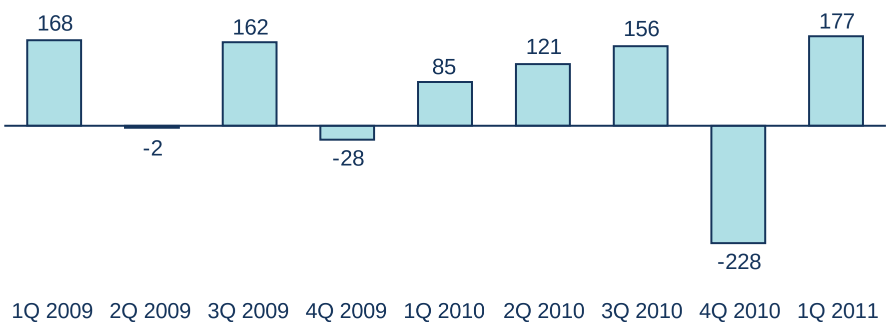


* Note that Secura has been excluded from 4Q10 onwards

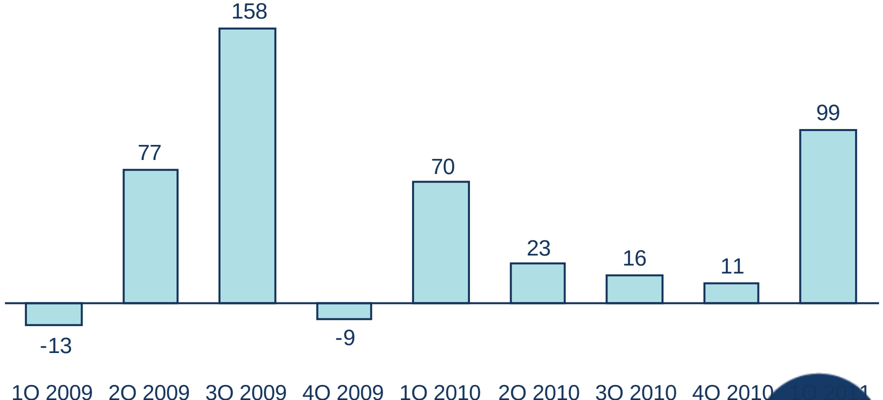
Underlying net profit CEE



Underlying net profit Merchant Banking (BE +Intl)



Underlying net profit Group Centre



Amounts in m EUR

Headlines per business unit

- Underlying net profit of the *Belgium Business Unit* rose 10% q-o-q to 280m EUR. The increase reflects mainly a good insurance result, lower operating costs and very low impairments

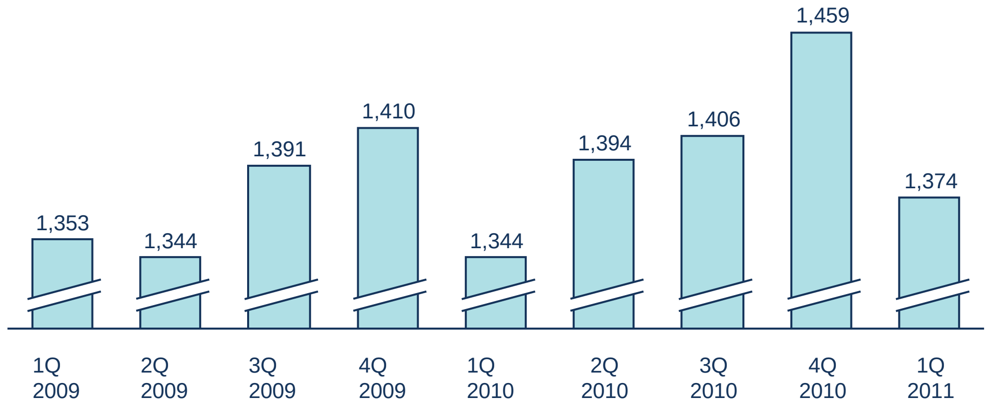
- The profit contribution of *Central and Eastern Europe* amounted to 101m EUR in 1Q11, which had been adversely impacted by the recording of the bank tax for the full year in Hungary. Results from the banking business were positively impacted by lower loan loss provisions. Results from the insurance business benefited from the success of the ‘Maximal Invest’ insurance (unit-linked life insurance product) at CSOB Pojist’ovna in the Czech Republic

- In *Merchant Banking*, the underlying net profit (177m EUR) was significantly above the average of the last four quarters (33m EUR). This can mainly be explained by the solid dealing room activity

- Attention is drawn to the fact that the *Group Centre* includes all planned divestments of KBC Group since 1Q10. By doing so, the objective is to clearly indicate the financial performances of the long term activities and the planned divestments separately. Note that the divestment of Centea has already been signed in 1Q11, which should be finalised in the coming months

Net interest income

Net Interest Income

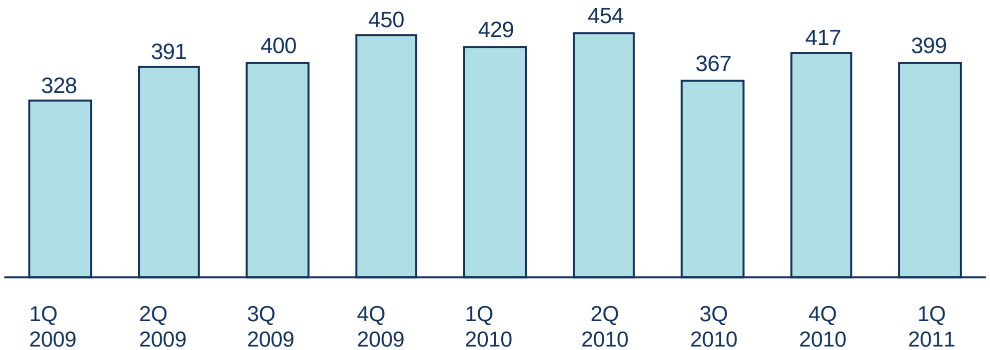


- Net interest income increased by 2% year-on-year (as much as 3% y-o-y excluding Secura, which was sold in 4Q10) with continued loan volume growth in Belgium, driven by mortgages. Net interest income fell by 6% q-o-q
- Net interest margin (1.93%)
  - NIM in Belgium went down slightly (-2bps q-o-q), while the margin in Central/Eastern Europe decreased more markedly (-15bps q-o-q) due to technical items. Excluding these technical elements, 1Q11 NIM is virtually stable in CEE BU.
  - The 14bps q-o-q decrease in NIM at group level is for a large part attributable to some technical items (with positive impact in 4Q10)
- Loan volumes down year-on-year (-1%) due, among other things, to a reduction in the international loan book (Merchant Banking and Russia) in line with strategic focus. Deposit volumes rose 2% year-on-year

Amounts in m EUR

Fee and commission income

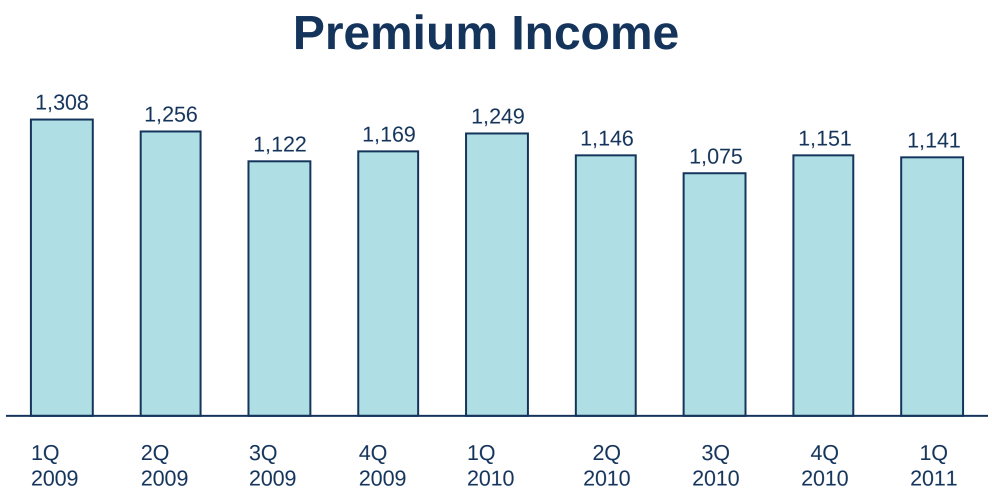
Fee & Commission Income



- Net fee and commission income fell by 4% quarter-on-quarter and 7% year-on-year
  - The fourth quarter benefited from increased marketing of mutual fund and insurance products
  - Net fee and commission income from the banking business went down by 5% q-o-q in line with the trend in assets under management
  - Commission paid on the sale of insurance contracts rose by 5% q-o-q due to an increase in commission paid on gross written non-life premiums, partly offset by a decrease in commission paid on gross written life premiums
- Assets under management fell by 3% year-on-year and 2% quarter-on-quarter (caused by both a decline in net inflow (-1%) and decrease in prices (-1%)) to 205bn EUR at the end of 1Q11

Amounts in m EUR

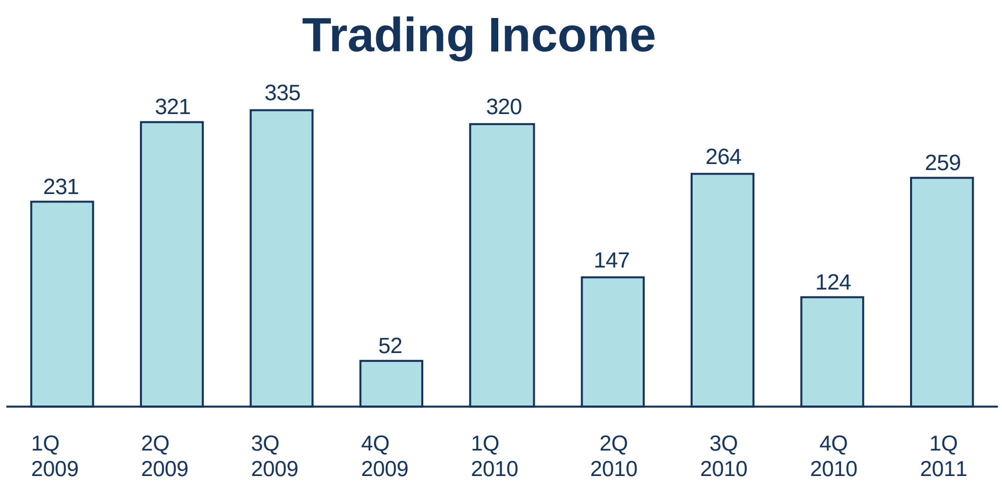
Insurance premium income



- Insurance premium income at 1,141m EUR
  - Non-life premium income (451m) flat q-o-q and down 8% y-o-y, due entirely to the sale of Secura in 4Q10
  - Life premium income (691m) down 1% q-o-q and 9% y-o-y, mainly due to lower sale of guaranteed-interest products at both the Belgium and CEE business units. This decrease on 1Q10 in guaranteed-interest products was partly offset by the increase in unit-linked sales at the CEE Business Unit.
- Excellent combined ratio of 85% in 1Q11, down on the 98% recorded in 1Q10 (impacted by storm Xynthia) and 4Q10 primarily thanks to a lower level of claims

Amounts in m EUR

Good trading income

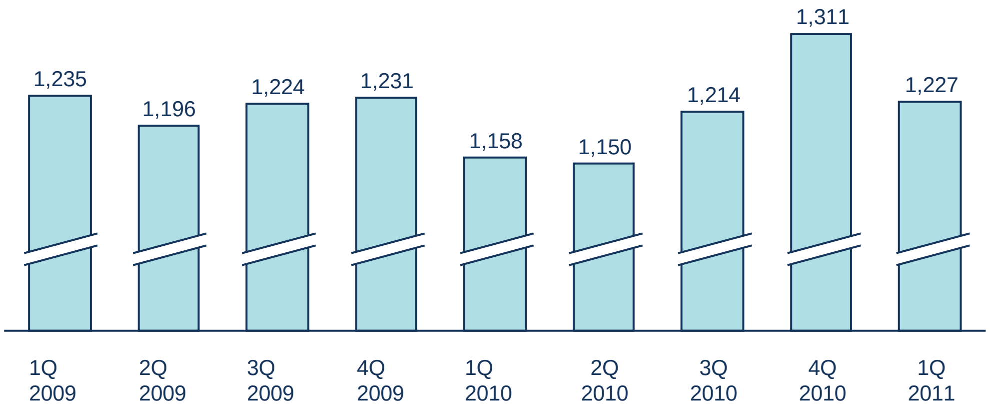


- The solid figure for net gains from financial instruments at fair value (259m EUR) is the result of good dealing room activity

Amounts in m EUR

Costs remained well under control

Operating expenses

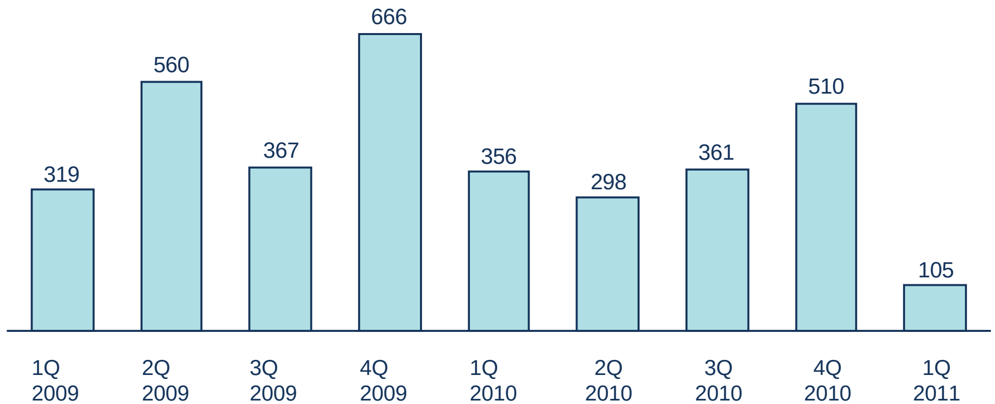


- Costs remained well under control: -6.4% q-o-q and +6.0% y-o-y
  - Operating expenses fell by 6.4% q-o-q to 1,227m EUR in 1Q11 as 4Q10 was impacted by some typical year-end effects, such as higher marketing, communication and ICT expenses and certain restructuring charges. Excluding the Hungarian bank tax in 1Q11, operating expenses fell by as much as 11% q-o-q
  - Operating expenses rose by 6.0% y-o-y in 1Q11, due entirely to the booking of the Hungarian bank tax for the full year (62m EUR pre-tax) and costs related to the Belgian Deposit Guarantee Scheme (26m EUR pre-tax). Excluding both items, operating expenses fell by as much as 1% y-o-y
  - Underlying cost/income ratio for banking stood at 55% YTD (compared to 56% for full year 2010)
  - We still believe that costs in 2011 on a like-for-like basis will start to increase somewhat going forward

Amounts in m EUR

Substantially lower impairments

Asset impairment



- Substantially lower impairments (105m EUR)
  - Quarter-on-quarter decrease of 405m EUR in impairments, mainly thanks to much lower loan losses in Ireland (MEB) and several impairment releases (at Absolut Bank, Kredyt Bank, K&H Bank and Atomium assets)

Amounts in m EUR

Loan loss provisions

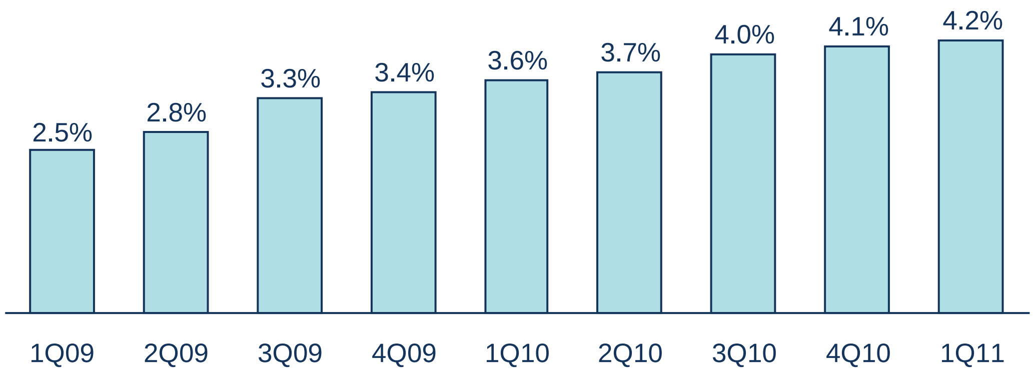
- Credit cost ratio fell to 0.24% (compared to 0.91% in 2010 and 1.11% in 2009) thanks to several impairment releases. Excluding these releases, the credit cost ratio is still at a low 0.42%. NPL ratio amounted to 4.2%
- Credit cost in Belgium remained at a low level
- Sharply lower credit cost in CEE (-37m EUR q-o-q), driven mainly by several impairment releases: 20m EUR release at Kredyt Bank following the sale of a part of the non-performing consumer finance portfolio and 9m EUR release at K&H Bank
- Credit cost significantly lower in Merchant Banking (-293m EUR q-o-q), chiefly attributable to KBC Bank Ireland and a 15m-euro write-back regarding Atomium assets

Credit cost ratio

	Loan book	2007 FY	2008 FY	2009 FY	2009 FY	2010 FY	1Q11 YTD
		'Old' BU reporting			'New' BU reporting		
Belgium	**54bn**	0.13%	0.09%	0.17%	0.15%	0.15%	0.08%
CEE	**38bn**	0.26%	0.73%	2.12%	1.70%	1.22%	0.51%
Merchant B. **(incl. Ireland)**	**53bn**	0.02%	0.48%	1.32%	1.19%	1.38%	0.43%
Total Group	**164bn**	0.13%	0.46%	1.11%	1.11%	0.91%	0.24%

NPL ratio at Group level

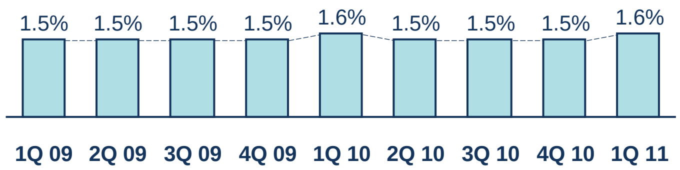
NPL ratio at Group level



FY 2010	**Non-Performing Loans** (>90 days overdue)	**High risk** (probability of default >6.4%)	**Restructured loans** (probability of default >6.4%)
Belgium BU	1.6%	2.8%	0.9%
CEE BU	5.7%	5.6%	1.7%
MEB BU	5.6%	6.7%	4.4%

NPL ratios per business unit

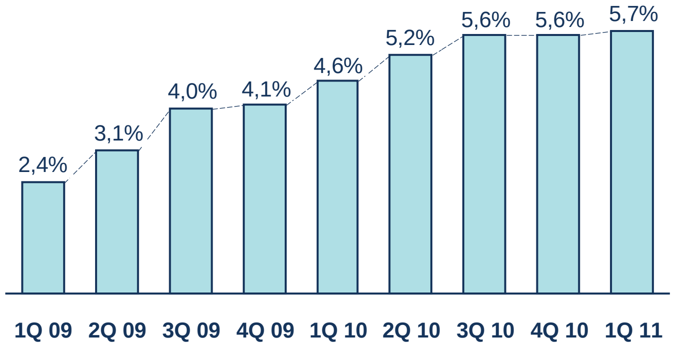
BELGIUM BU



non performing loans

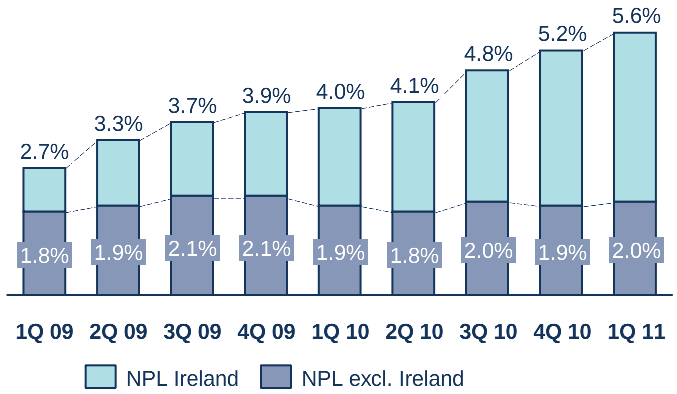
New BU reporting as of 2010
(pro forma 2009 figures)

CEE BU



MEB BU

(incl. Ireland)



Additional data set

Exposure to Southern Europe

Total exposure to Greece, Portugal & Spain at the end of 1Q11 (bn EUR)

	Banking and Insurance book			Trading book Gov. Bonds	Total exposure
	Credit & corporate bonds	Bank bonds	Gov. bonds		
Greece	0.1	0.0	0.6	0.0	**0.7 (vs 0.7 end 2010)**
Portugal	0.3	0.0	0.3	0.0	**0.6 (vs 0.6 end 2010)**
Spain	1.8	0.6	2.2	0.1	**4.7 (vs 5.0 end 2010)**

- Total exposure to the most stressed countries Greece and Portugal amounted to only 1.3bn EUR at the end of 1Q11 (in line with the situation at the end of 2010)
- Total exposure to Spain amounted to 4.7bn EUR at the end of 1Q11 (versus 5.0bn EUR at the end of 2010)

Breakdown of government bond portfolio, banking and insurance, at the end of 1Q11 (bn EUR)

	Banking	Insurance	Total
Greece	0.4	0.2	**0.6**
Portugal	0.2	0.2	**0.3**
Spain	1.5	0.7	**2.2**
TOTAL	**2.0**	**1.1**	**3.1**

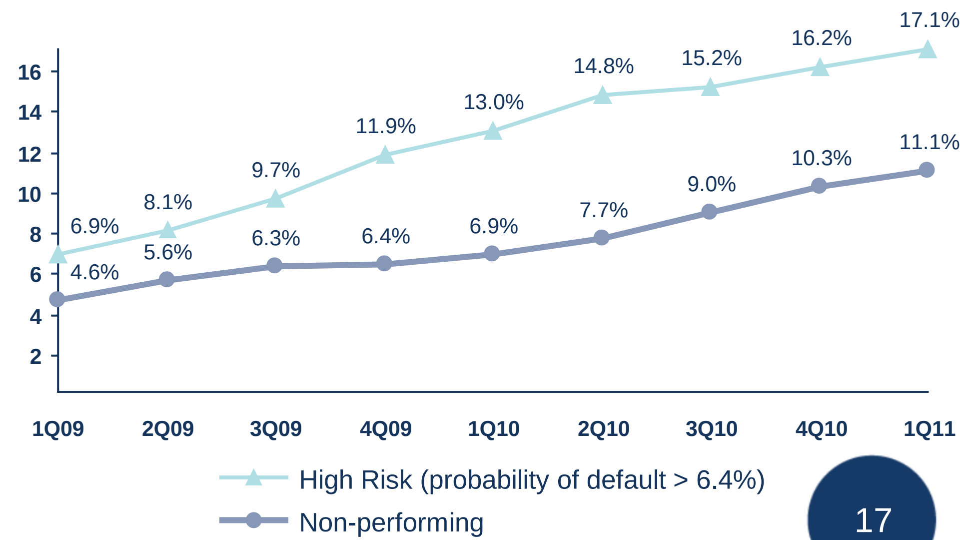
Update on Ireland

- Economy beginning to show signs of stabilisation as exports offset continued weakness in domestic spending
- Unemployment remains high, but there are signs of reduction in redundancies and small improvement in hiring. However, household incomes continue to be under pressure following recent budgetary measures
- Economic growth likely to be marginally positive in 2011, but progressive improvement expected in 2012 and 2013
- Initial EU/IMF programme targets met and new Irish bank stress tests seen as credible given the severity of the assumptions. The assumptions disclosed for the new PCAR test confirms sufficient provisioning for KBCBI in the base case scenario
- The Irish business contributed 13m EUR to group profit after a YTD loan impairment of 45m EUR
- NPL rose to 11.1% in 1Q11 (10.3% in 4Q10) which related mainly to the commercial portfolio and was due to a number of specific events in regard to already provisioned cases.
- Local tier-1 ratio was 9.9% at the end of 1Q11 (10.3% at the end of 4Q10)

Irish loan book – key figures March 2011

Loan portfolio	Outstanding	NPL	NPL coverage
Owner occupied mortgages	9.7bn	7.7%	29%
Buy to let mortgages	3.3bn	12.2%	33%
SME /corporate	2.3bn	10.8%	41%
Real estate investment	1.3bn	16.0%	47%
Real estate development	0.6bn	48.8%	82%
	17.1bn	11.1%	42%

Proportion of High Risk and NPLs



Hungary (1)

Should be profitable in 2011

- K&H Group realised an underlying net loss of 16m EUR in 1Q11, due entirely to the recognition of the Hungarian bank tax for the full year in 1Q11. The bank tax for 2011 amounted to 62m EUR before tax / 51m post-tax
- Barring unforeseen events, we expect K&H Group to remain profitable for 2011 as well

Economic scenario

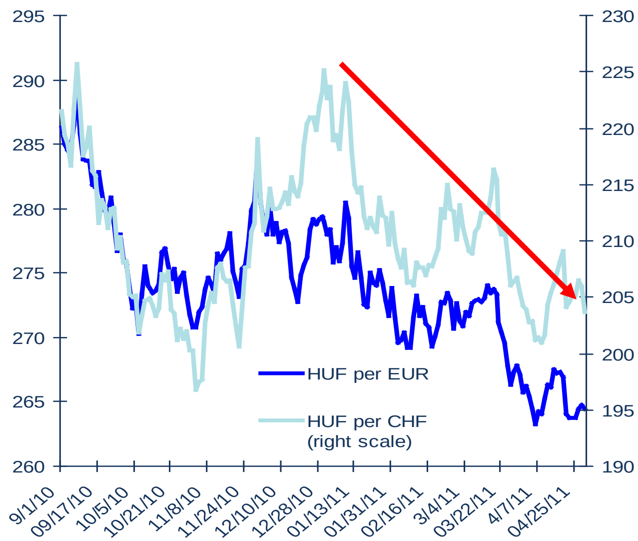
- Economic recovery will remain supported by external demand as domestic demand is lagging. Although private consumption growth will continue to suffer from weak labour market conditions, investments could pick up as financial markets have stabilised. On balance, growth is expected to accelerate to around 2.7% in 2011 (from 1.1% in 2010)
- Budget deficit in 2011 will be below 3% of GDP - mainly as a result of short-term solutions (crisis taxes till 2013 and pension transfers). But the government also announced more structural measures to reduce the budget deficit further in the coming years: savings are coming from curbing early retirement, limiting disability pension, cutting drug and public transport subsidies. These measures, including the take-over of the private pension assets should result in a decline in public debt from 80% of GDP in 2010 to 66% of GDP in 2014. Nevertheless, it remains to be seen how much of the structural measures will actually be implemented

Sovereign exposure

- Government bond exposure: 2.1bn EUR at the end of 1Q11 (versus 2.4bn at the end of 4Q10), of which the majority is held by K&H

Hungary (2)

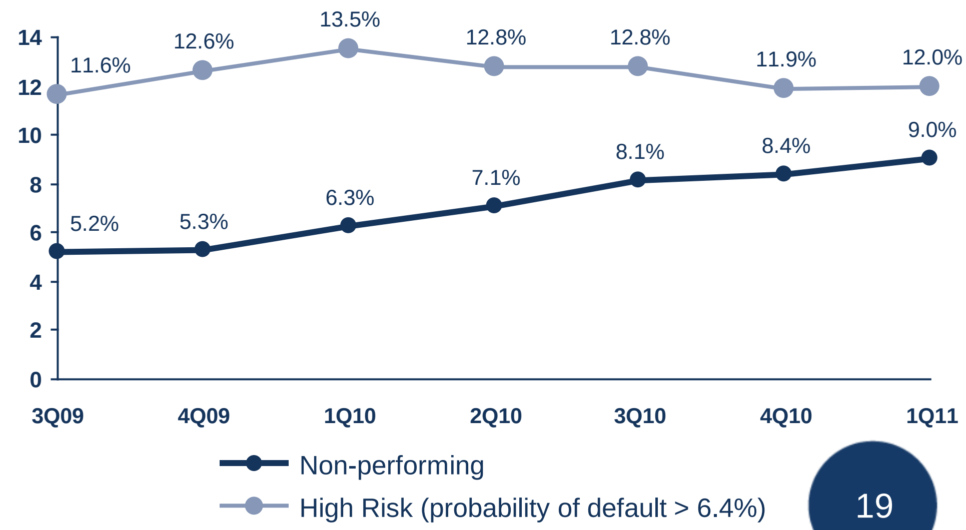
- 1Q11 loan loss provisions amounted to 28m EUR
- NPL rose to 9.0% in 1Q11 (8.4% in 4Q10), situated both in retail and corporate lending
- 78% of the outstanding portfolio remains low or medium risk
- Main driver for 2.2bn EUR FX mortgage portfolio is the CHF/HUF movement. The estimated impact of a further 30% rise (prolonged) in CHF/HUF is an increase of approximately 100m EUR in impairments based on the current portfolio



Hungarian loan book – key figures March 2011

Loan portfolio	Outstanding	NPL	NPL coverage
SME/Corporate	2.9bn	7.8%	68%
Retail	3.4bn	9.9%	71%
o/w private	2.9bn	9.7%	70%
o/w companies	0.5bn	11.5%	78%
	6.3bn	9.0%	70%

Proportion of NPLs



Wrap up

Financial highlights 1Q 2011

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Looking forward

Jan Vanhevel, Group CEO:

- ‘We continued to make good progress regarding the execution of our strategic plan:
  - During 1Q11, we announced the sale of Centea to Landbouwkrediet. This deal will free up around 0.4bn EUR of capital for KBC, primarily by reducing RWAs by 4.2bn EUR, which will ultimately boost KBC’s tier-1 ratio by some 0.4% (impact calculated on 31 December 2010)
  - In April 2011, Value Partners Ltd. reached an agreement with KBC Asset Management on the acquisition of KBC AM’s 55.46% stake in KBC Concord Asset Management Co. Ltd. (KBC Concord)
  - We have restarted the sale process of KBL *epb*
  - The sale process for Fidea is ongoing
  - A number of companies are still scheduled for divestment as part of the planned reduction of the international loan portfolio. The sales process for KBC Bank Deutschland has started and the files for the sales process for Antwerp Diamond Bank are being prepared
  - Preparations to float a minority stake in our Czech banking subsidiary are on track; we are on stand-by to launch the IPO programme when we observe optimal conditions for a successful transaction

- We still believe that costs on a like-for-like basis will start to increase somewhat going forward
- The credit cost ratio in the CEE Business Unit is expected to further improve in 2011
- We reiterate that KBC Group is able to meet the targeted common equity ratio under Basel III. We estimate this ratio at roughly 8.0% at the end of 2013’

KBC Group

2011 1Q Results

Q&A