KBC Group

2010 2Q Results

Press conference

5 August 2010 – 11.00 CEST

More information www.kbc.com
on your mobile m.kbc.com

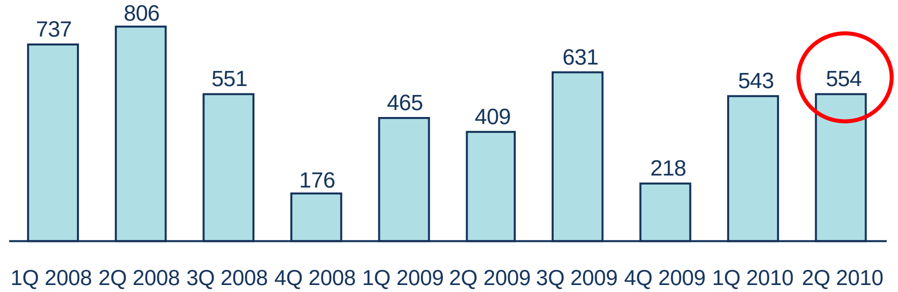
KBC Group - Investor Relations Office - E-mail: investor.relations@kbc.com

Upward underlying trend confirmed

Underlying net profit 554m EUR

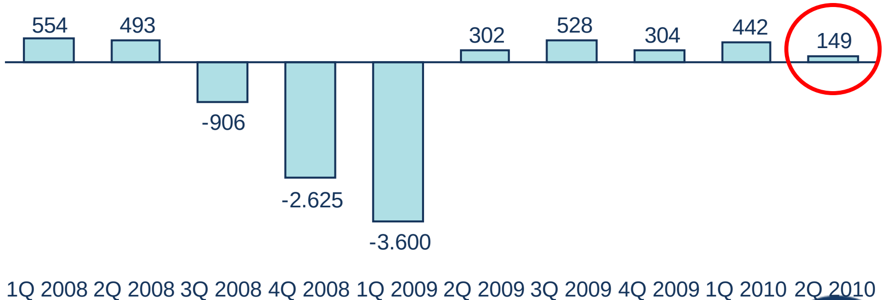
Reported net profit 149m EUR

Underlying net profit



Exceptional items

Reported net profit



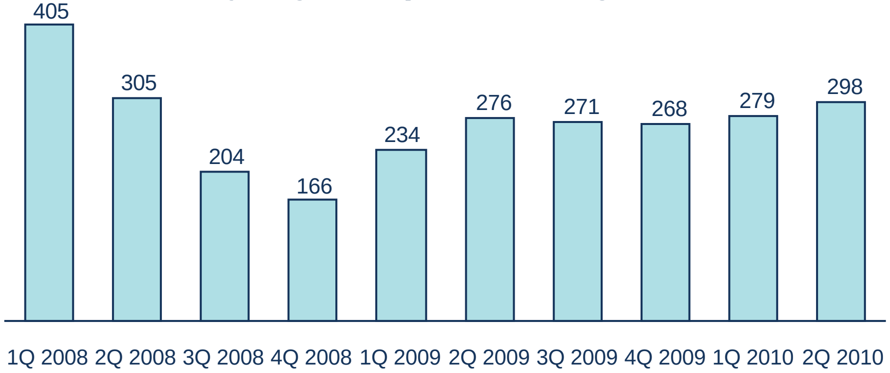
Amounts in m. EUR

Financial highlights 2Q 2010

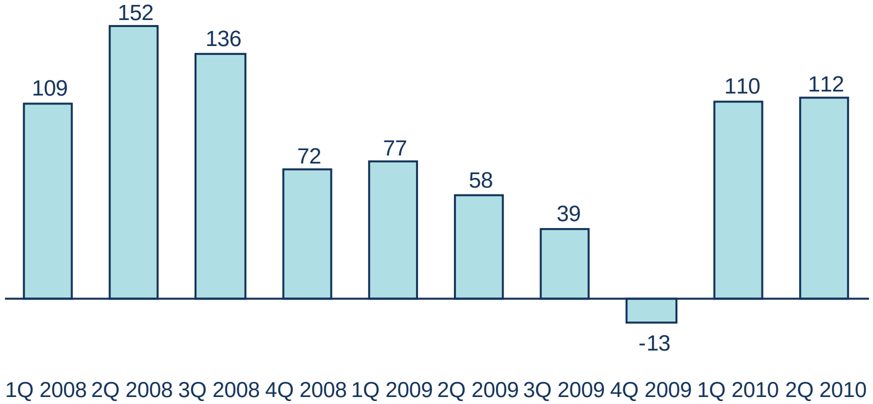
- Net interest income at continued high level thanks to sound deposit and loan margins
- Gradual recovery of fee and commission income confirmed
- Weak dealing room activity
- Dip in combined ratio because of lower premium income at group level combined with higher claims related to flooding in CEE
- Operational expenses are bottoming out in 2Q10 as well, rigorous cost containment continued
- Significantly lower loan loss impairments, notably in Merchant Banking activities
- Reduction of the exposure to Greek government bonds, related to the containment of sovereign risks
- Including the effect of the sale of KBL EPB, the excess regulatory capital accumulated beyond the 10% tier 1-solvency target amounted to roughly 3.0bn EUR at the end of 2Q10. Excluding all CDO effects, available surplus capital at the end of 2Q10 amounted to roughly 2.6bn EUR (incl. KBL EPB effect)

Underlying profit per business unit

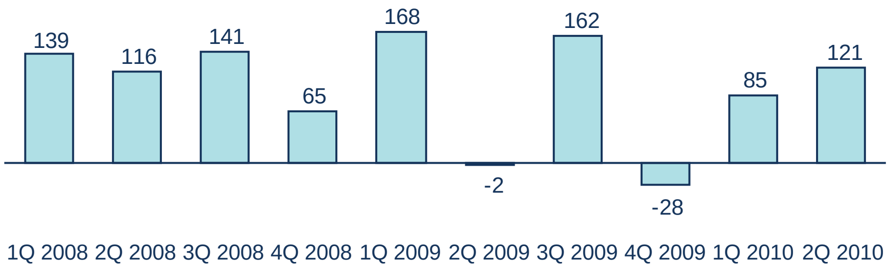
Underlying net profit Belgium (retail)



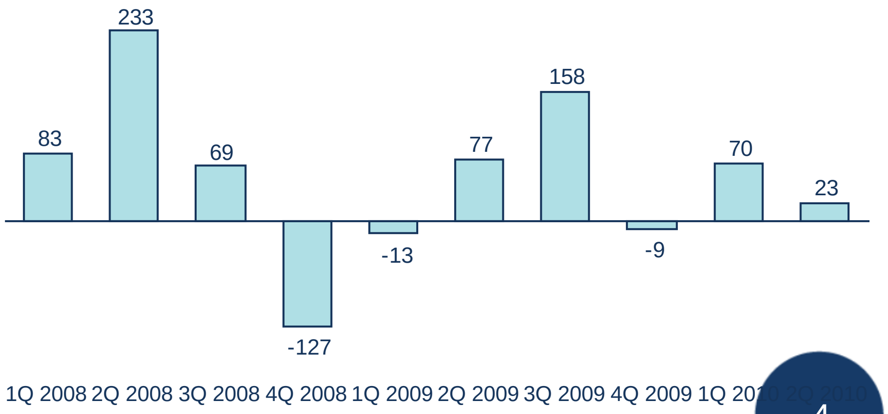
Underlying net profit CEE



Underlying net profit Merchant Banking (BE +Int'l)



Underlying net profit Group Centre



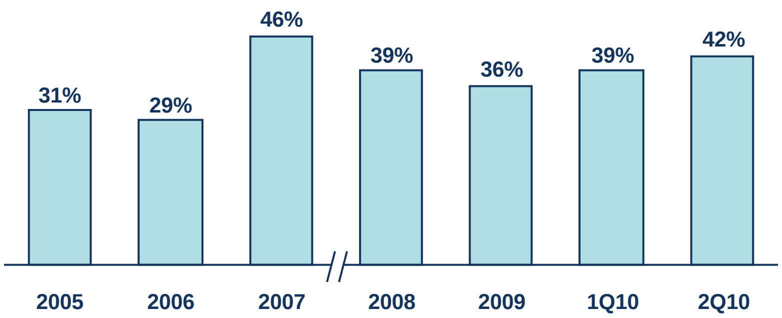
Headlines per business unit

- Net interest income and fee and commission income has remained at a satisfactory level. Combined with operating expenses bottoming out, this has led to a higher net result in the *Belgium Business Unit* (+7% q-o-q to 298m EUR).
- Y-o-y, higher revenues combined with lower impairment charges led to a 112m EUR net result for *Central and Eastern Europe*. Notably higher insurance premium income has been offset by higher claims, resulting from the flooding in CEE. As an overall conclusion: CEE continues to perform well.
- In *Merchant Banking*, substantially lower impairment charges (mainly in Ireland) more than offset the weak dealing room results and lower revenues due to the intentional run-down of the loan book. This resulted in a 42% q-o-q increase of the bottom line (121m EUR) in 2Q10.
- 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.

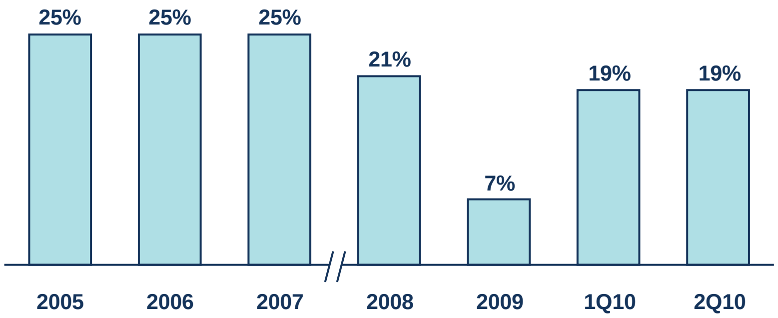
A successful core strategy

- Strategic review November 2009
  - Core earnings power in Belgium and CEE largely intact
  - Our business model generates consistently high returns in core geographies (cyclical 1.7% loan provision charge was the main swing factor in CEE in 2009)

Return on allocated capital Belgium*



Return on allocated capital CEE*



  - Remaining asset risks manageable, therefore capital buffer sufficient
  - Reimbursement of the State capital will be based on internal capital generation from retained earnings and RWA reduction combined with divestment of non core assets

* excl. non-operating items (incl. investment markdowns). Note change in business unit reporting as of 2008.

2010-2013 Business Plan

1. Leverage Earnings Power

- Generate capital by leveraging our successful business model in core markets (retained earnings)

2. Shrink RWA By 25% (2008-2013)

- Free up capital by:
  - Reducing international lending & capital market activities
  - Divesting European Private Banking (transaction since completed), complementary channels in Belgium (giving up 1-2% market share) and non-EU CEE (Russia and Serbia, post 2011)
  - IPO of minority of CSOB (Czech bank, EUR 2.2bn book value)
  - Some other measures

3. Pay Back State Capital & Continue Growth

- Accumulated capital will be sufficient to reimburse the State, whilst maintaining sound solvency (10% Tier1 target) and steady organic growth

Reminder: new business unit reporting

Since the quarterly reporting for 1Q 2010

- Entities to be divested were shifted to 'Group Centre' Business Unit

Belgium
- KBC Bank
- KBC Insurance
- CBC Banque
- ADD
- Centea
- Fidea

CEE
- Czech Republic
- Slovakia
- Hungary
- Poland
- Bulgaria
- Russia
- Serbia
- Slovenia
- Zagiel (Poland)

Merchant Banking
- KBC Lease
- KBC Securities
- KBC Bank Ireland
- KBC Clearing
- KBC Commercial Finance
- Antwerp Diamond Bank
- KBC Bank Deutschland
- KBC Peel Hunt
- KBC Finance Ireland
- KBC Financial Products

- Assurisk

European Private Banking
- KBL EPB
- Vitis Life

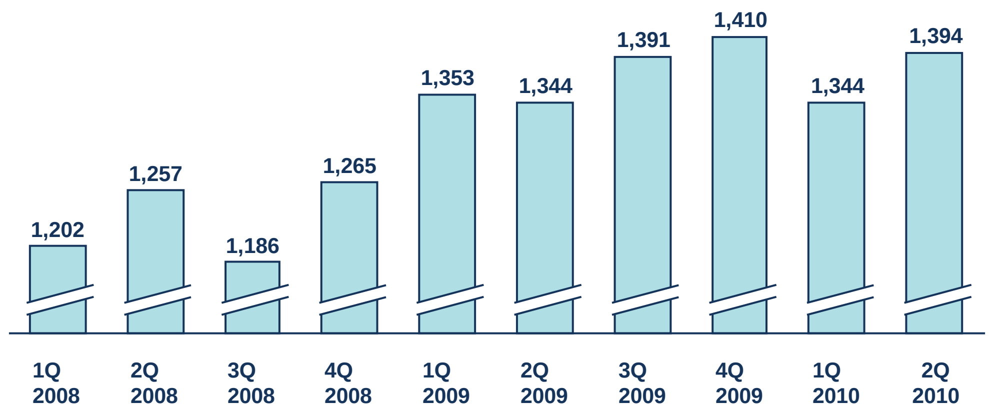
Group Centre
- KBC Group
- Fin-Force
- KBC Global Services

Indicated divestments + minority interest line for % of CSOB CZ that will be floated

- Assurisk (reinsurance captive) was moved from Merchant Banking to Belgium BU
- The objective is to clearly indicate the financial performances of the long term activities and the planned divestments separately

Net interest income remains high

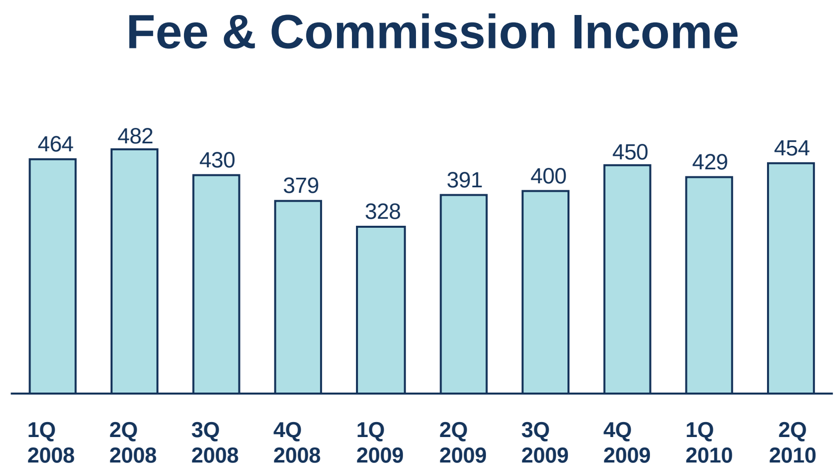
Net Interest Income



- Net interest income increased 4% both year-on-year and quarter-on-quarter thanks to moderate volume growth
- Net interest margin at 1.87%
  - Loan and deposit margins remained sound
- Loan volumes down year on year (-5%) based on (among other factors) reduction of international loan book (Merchant Banking and Russia) in line with strategic focus

Amounts in m. EUR

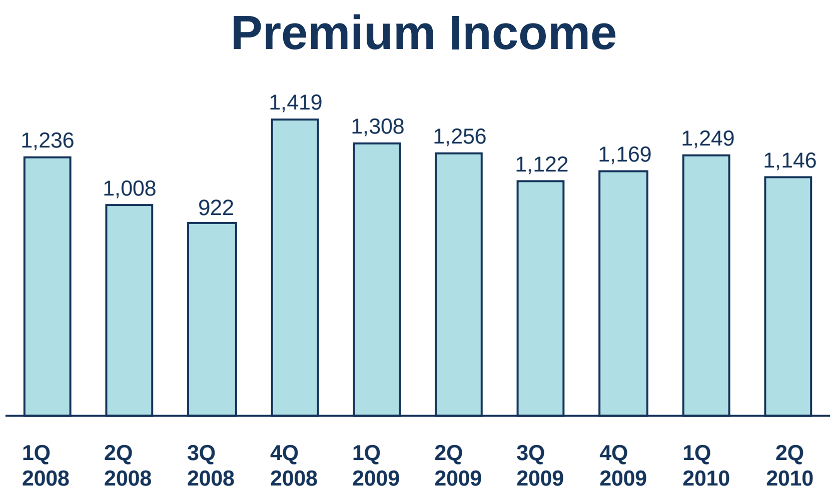
Recovering fee and commission income



- Net fee and commission income rose sharply year-on-year (+16%) and slightly quarter-on-quarter (+6%)
  - Gradual recovery of fee and commission income confirmed, although the global economic scenario (impacting the business) is one of moderate and fragile growth
- Assets under management at 209bn EUR (+5% y-o-y and -1% q-o-q, of which 1% net outflow a.o. due to higher risk-aversion)

Amounts in m. EUR

Insurance premium income

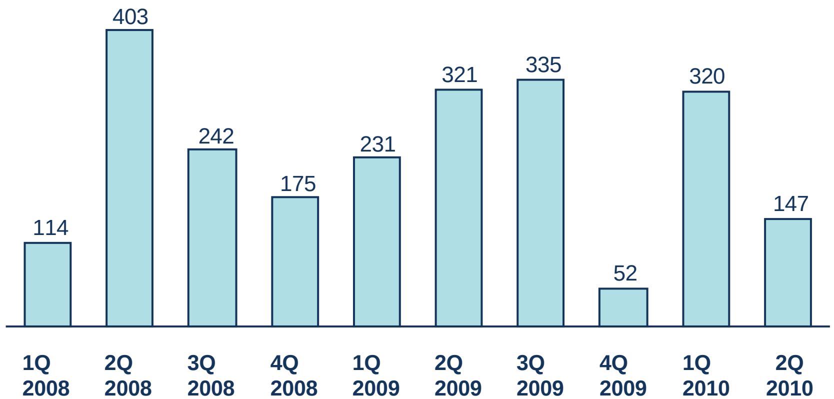


- Insurance premium income at 1,146m EUR
  - Non-life premium income (480m), up 1% y-o-y and down 2% q-o-q
  - Life premium income (666m), down 13% q-o-q mainly due to a decrease in the guaranteed interest rate in 2Q10 in Belgium
- Combined ratio at 104%, up compared to 98% in 2Q09 due to lower premium income at group level combined with higher claims related to flooding in CEE

Amounts in m. EUR

Weak trading income

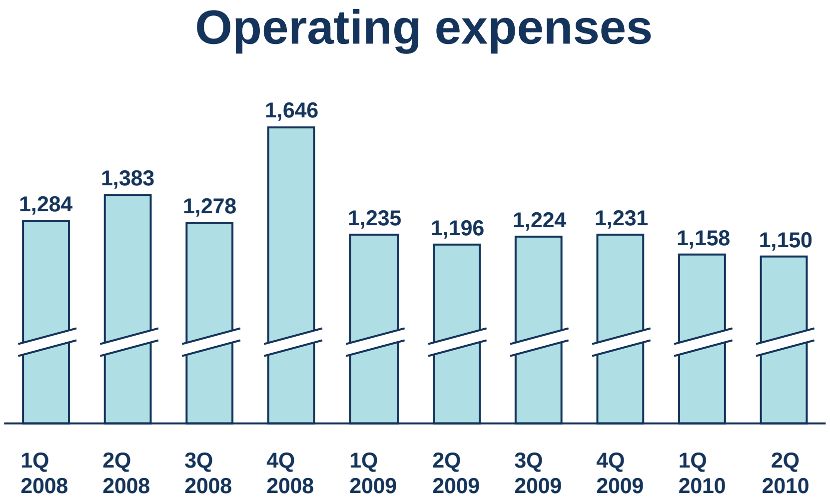
Trading Income



- Net gains from financial instruments at fair value (147m EUR) is the result of weak dealing room activity, in line with the negative market trend

Amounts in m. EUR

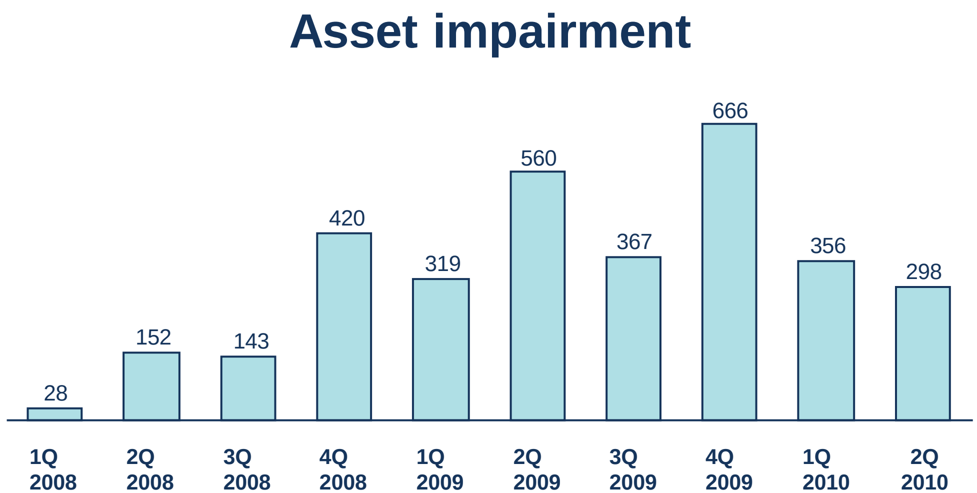
Good control of operating expenses



- Operating expenses fell 4% y-o-y and 1% q-o-q to 1,150m EUR, still benefiting from cost containment measures initiated in 2008
- Underlying cost/income ratio for banking stood at 52% YTD (compared to 55% for full year 2009)
- We still believe that costs will start to increase going forward

Amounts in m. EUR

Asset impairment



- Sharply lower impairments (298m EUR)
  - 262m EUR year-on-year decrease, mainly thanks to much lower impairments on Asset Backed Securities (ABS) assets
  - 58m EUR quarter-on-quarter decrease, mainly thanks to lower impairments at KBC Bank Ireland

Amounts in m. EUR

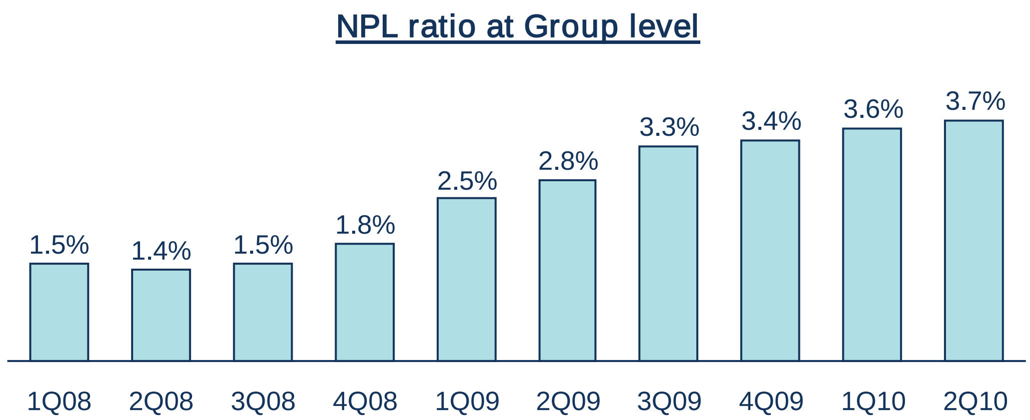
Loan loss provisions may have peaked

- Credit cost ratio went down to 0.77% (vs. 1.11% in 2009). NPL ratio amounted to 3.7%
- Credit cost in Belgium remained at a low level
- Slightly higher credit cost in CEE (+3m EUR q-o-q), mainly due to higher impairments at Kredyt Bank (+12m EUR q-o-q), partially compensated by lower impairments at K&H Bank (-7m EUR q-o-q)
- Sharply decreased credit cost in Merchant Banking (-130m EUR q-o-q), mainly thanks to lower impairments at KBC Bank Ireland and on ABS assets

Credit cost ratio (CCR)

	Loan book	2007 FY	2008 FY	2009 FY	2009 FY	1H10 YTD
		'Old' BU reporting			'New' BU reporting	
Belgium	**53bn**	0.13%	0.09%	0.17%	0.15%	0.10%
CEE	**37bn**	0.26%	0.73%	2.12%	1.70%	1.23%
Merchant B. **(incl. Ireland)**	**59bn**	0.02%	0.48%	1.32%	1.19%	1.03%
Total Group	**168bn**	0.13%	0.46%	1.11%	1.11%	0.77%

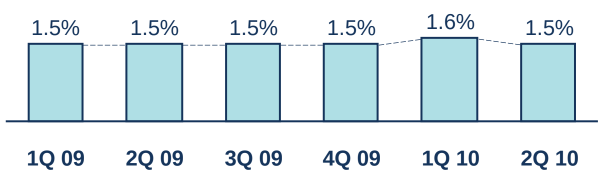
While the NPL formation has stopped growing



2Q 2010	**Non Performing Loans** (>90 days overdue)	**High risk** (probability of default >6.4%)	**Restructured loans** (probability of default >6.4%)
BU Belgium	1.5%	3.6%	1.2%
BU CEE	5.2%	4.8%	3.9%
BU MEB	4.1%	5.1%	4.6%

NPL ratios per business unit

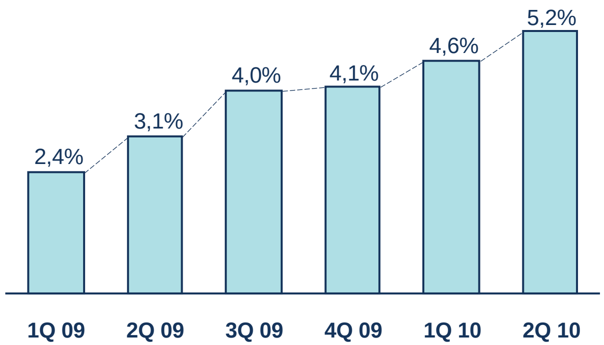
BU BELGIUM



non performing loans

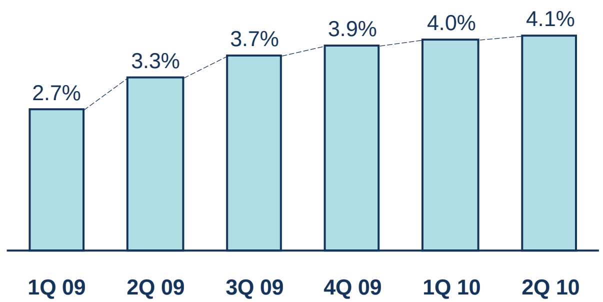
New BU reporting as of 2010
(pro forma 2009 figures)

BU CEE



BU MEB

(incl. Ireland



Rising NPL ratio vs. decreasing or flat CCR* ratio in 1H10 seems inconsistent, but is caused by:

- Largest part of the NPL increase refers to residential mortgage loans with high quality collateral (hence lower impairment needs)
- The gradual move from impaired performing to non-performing status didn't lead to a significant additional impairment creation (given the already high impairment creation on performing loans during Q4 2009)

* CCR: Credit Cost Ratio

Update on Ireland

- 28m EUR loan impairments charged in 2Q10 (142m EUR in 1Q10). Credit costs for the remainder of 2010 should be significantly lower than 1H10.

- NPL rose to 7.7% in 2Q10 (6.9% in 1Q10), reflecting a continued increase in arrears, primarily for residential customers. This reflects the anticipated lag in employment, income and GDP recovery following initial signs of the Irish economy emerging from recession

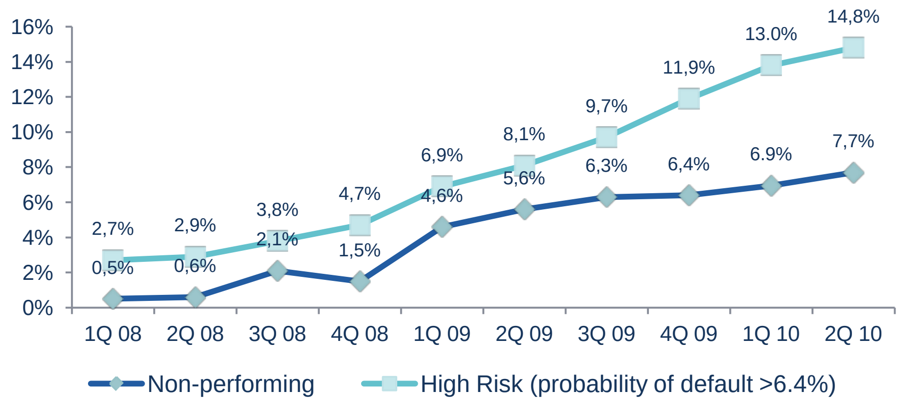
- 77% of the outstanding portfolio remains low or medium risk

- Local Tier 1 ratio of 10.2% at the end of 2Q10

Irish loan book – key figures June 2010

Loan portfolio	Outstanding	NPL Jun 10
Owner occupied mortgages	10.0bn	5.8%
Buy to let mortgages	3.3bn	7.9%
SME /corporate	2.5bn	4.7%
Real estate investment	1.3bn	10.9%
Real estate development	0.6bn	41.3%
	17.7bn	7.7%

Proportion of High Risk and NPL



Exposure to Southern Europe (1)

Total exposure to Greece, Portugal & Spain at the end of 2Q10 (bn EUR)

	Banking and Insurance book			Trading book Gov. Bonds	Total exposure
	Credits & corporate bonds	Bank bonds	Gov. bonds		
Greece	0.1	0.0	0.9	0.1	**1.1**
Portugal	0.3	0.0	0.3	0.0	**0.6**
Spain	2.4	0.6	2.3	0.2	**5.5**

- Total exposure to the most stressed countries Greece and Portugal amounted to EUR 1.7bn, of which EUR 0.1bn trading positions
- No impact on KBC's liquidity position (since the sovereign bonds can still be pledged with the ECB)

Breakdown of government bond portfolio, banking and insurance, at the end of 2Q10 (bn EUR)

	Banking	Insurance	Total
Greece	0.6	0.3	**0.9**
Portugal	0.1	0.2	**0.3**
Spain	1.5	0.8	**2.3**
TOTAL	**2.2**	**1.3**	**3.5**

Exposure to Southern Europe (2)

Maturity date of government bond portfolio of the banking and insurance book (bn EUR)

	2H10	2011	2012	> 2012
Greece	0.0	0.1	0.2	0.6
Portugal	0.0	0.0	0.1	0.2
Spain	0.0	0.1	0.5	1.7

Breakdown of total government bonds, by portfolio at the end 2Q10 (bn EUR)

	AFS	HTM	FIV	Trading	TOTAL
Greece	0.6	0.1	0.2	0.1	**1.0**
Portugal	0.1	0.2	0.0	0.0	**0.3**
Spain	2.1	0.3	0.0	0.2	**2.6**

Hungary: ‘bank tax’ and sovereign exp.

‘Bank tax’ in 2010:

- Indication of the impact of the so-called ‘bank tax’ for K&H Group: roughly 55m-60m EUR pre-tax in 2010
- The bank tax should be accounted for as an expense in the 2010 P&L for corporate income tax purposes. As a result, it is tax deductible, which would imply an impact of roughly 45m-50m EUR after-tax in 2010
- The bank tax determined for 2010 is payable in two equal instalments by 30 September 2010 and 10 December 2010
- The current law only details the rules for determining the tax payable in relation to 2010
- Separate laws should be passed by the Hungarian parliament to determine the detailed rules for establishing the tax liability for 2011 and 2012

Sovereign exposure:

- Government bond exposure: 2.2bn EUR at the end of 2Q10, of which the majority is held by K&H

Satisfactory outcome of the stress test

- The stress test focused on KBC Bank
- Even under stress scenarios, the bank adequately meets the legal and market requirements in terms of solvency
  - Under the adverse scenario: the consolidated tier-1 ratio is estimated at 9.8% in 2011
  - An additional sovereign risk scenario would bring the estimated tier-1 ratio to 9.4% at the end of 2011. This suggests a buffer of EUR 4.6bn of the tier 1 capital against the threshold of a tier-1 ratio of 6% as agreed exclusively for the purposes of this exercise.
- A stress testing exercise does not provide forecasts of expected outcomes, nor does it reflect in any way KBC's own budgets and forecasts. Besides the extreme assumptions selected by CEBS, we want to stress that KBC has been extremely conservative itself. For instance:
  - Implementation of zero-growth assumption (by CEBS): KBC has put all growth at 0%, but expected contraction percentages has been kept intact
  - Macro-economic scenario for Belgium was more severe than that of its neighbouring countries
  - Net trading income before stress estimated (assumption by CEBS): KBC however took into account large negative items (such as negative CDO-related value adjustments, legacy costs related to KBC FP, M2M trading derivatives for hedging purposes,...)
  - KBC excluded 'other' operating income to a large extent

Basel III: first assessment after 26/07/2010 statements

- At first assessment , the impact from the new ‘Basel III’ proposals is manageable as long as the ‘grandfathering clause’ applies temporarily to the State Core Tier 1 securities.

- Although the listing of a minority stake in CSOB will negatively affect the capital treatment of the transaction, it will be less negative than stated in the initial consultation document (released on 17 December 2009)

- We also welcome the new definition of liquid assets, leading to an improved LCR* and NSFR**

- However, there are still several uncertainties, such as timing of implementation, definition of local required minimum capital,...

- As a result, it’s too early to make exact quantitative disclosure of the full effects.

* LCR: Liquidity Coverage Ratio

** NSFR: Net Stable Funding Ratio

Looking forward

Jan Vanhevel, Group CEO:

- 'We continued to make good progress regarding the execution of our strategic plan:
  - We realised one of our most important projects in terms of capital release (sale of KBL EPB).
  - Other, already announced, divestments are the UK and the Dublin activities of KBC AM, Secura, KBC Peel Hunt and the global convertible bond and Asian equity derivatives business of KBC FP.
  - We also completed the novation transactions to significantly reduce the group's credit derivatives to the tune of 1.5bn EUR of RWAs in 2Q10.
  - The gradual run-down of the credit portfolio outside the home markets is progressing well too.
  - Preparations to float a minority stake in our Czech banking subsidiary are well progressed and we are awaiting the right window of opportunity to launch the IPO.
  - We are ready to launch the sales process of our Belgian complementary channels (Centea and Fidea) after the summer.
  - Additional limited losses linked to the 'legacy' structured derivatives positions within KBC FP cannot be excluded for the next few quarters of 2010 as we continue to unwind our risk exposure.'
- 'We continue to expect good revenue generation'
- 'We still believe that costs on a like-for-like basis will start to increase somewhat going forward.'
- 'We may have seen a turn in the credit cycle. Our 2010 base case scenario includes a visible decline in loan losses compared to the 2009 financial year.'
- 'Regulatory changes are currently high on the agenda and KBC is closely monitoring these files in order to address these issues immediately and adequately'

Wrap up

Key strengths and challenges

Key strengths:

- Well-developed bancassurance strategy and strong cross-selling capabilities
- Strong franchise in Belgium with high and stable return levels
- Exposure/access to growth in ‘new Europe’, with mitigated risk profile (most mature markets in the region)
- Successful underlying earnings track record
- Solid liquidity position and satisfactory capital buffer

Key company-specific challenges:

- Orderly running-off of international merchant banking operations and completion of the divestment program
- Maintaining strong risk controls in non-core entities if operating environments were to deteriorate

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Q&A