KBC Group

2011 2Q Results

Press conference

9 August 2011 - 11.30 AM CEST

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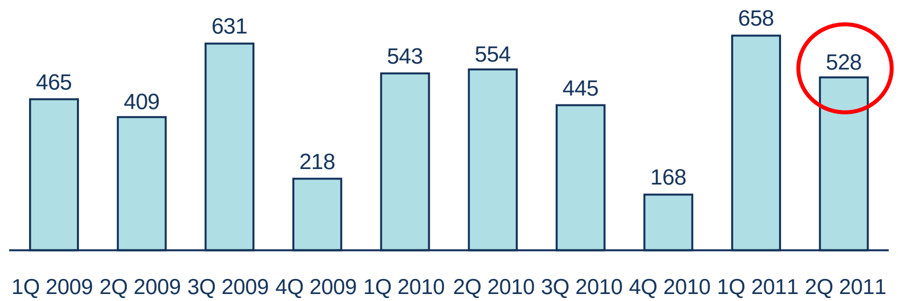
KBC Group - Investor Relations Office - E-mail: investor.relations@kbc.com

Solid earnings power

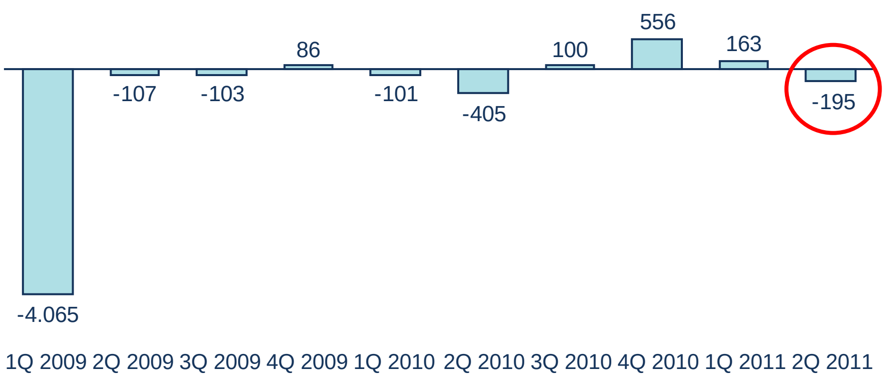
Underlying net profit 528m EUR

Reported net profit 333m EUR

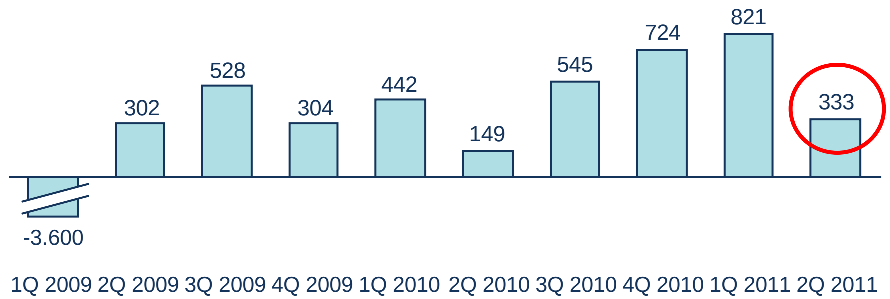
Underlying net profit



Exceptional items

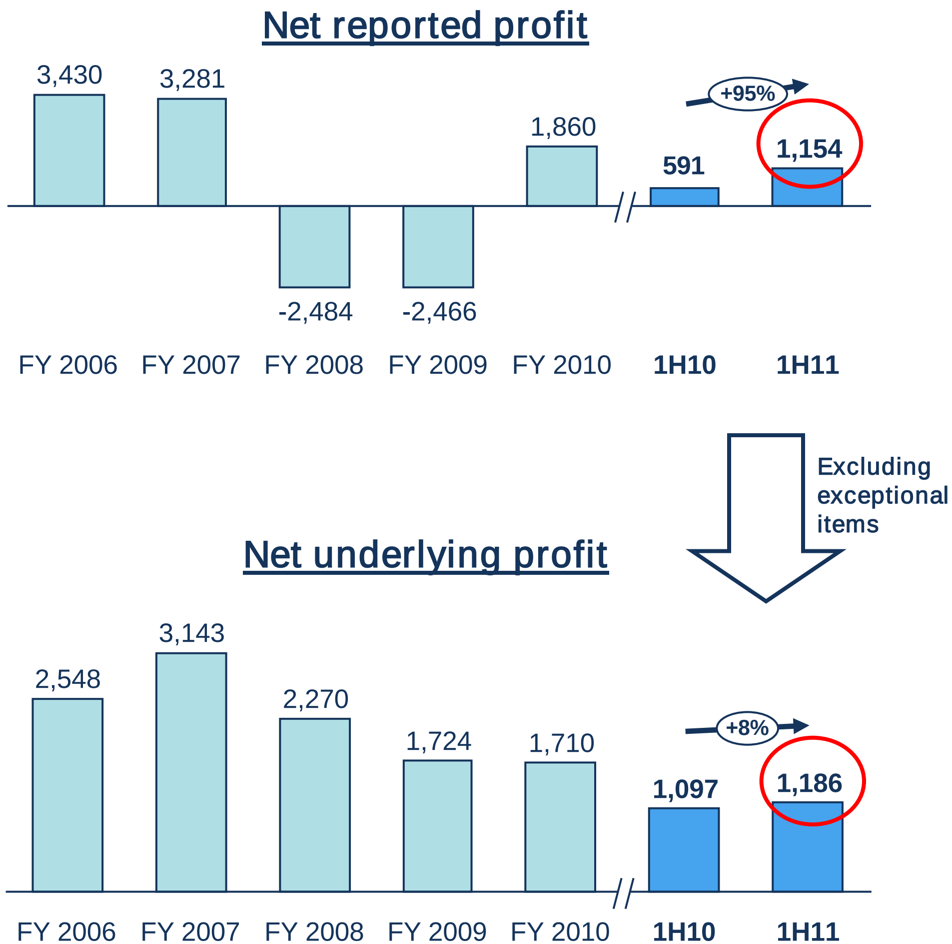


Reported net profit



Amounts in m. EUR

1H11 Group profit



- 1.15bn EUR net reported profit in 1H11, almost a doubling y-o-y
- Net underlying profit increased 8% y-o-y to 1.19bn EUR in 1H11
  - Slightly increased NII
  - Better insurance result, mainly thanks to lower claims
  - Lower loan loss provisions
  - Despite items such as lower net fee and commission income, lower trading and fair value income, higher bank tax and (one-off) impairments for Greece

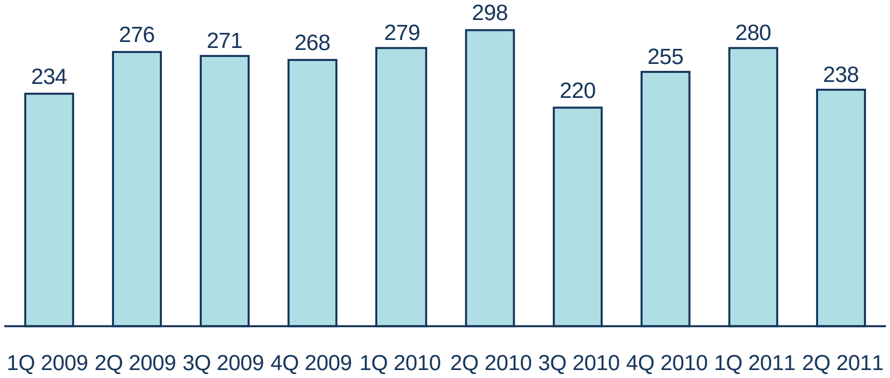
Amounts in m EUR

Financial highlights 2Q 2011

- Continued high underlying net group profit even after the impact of Greek sovereign bond impairment
- Sustained level of net interest income
- Slight decrease in net fee and commission income, in line with the trend in assets under management given the reduced investors' risk appetite
- Excellent combined ratio of 87% YTD as a result of low claims. Lower life insurance sales due to lower life sales in interest guaranteed products
- Modest level of income generated by the dealing room
- Underlying cost/income ratio at a favourable 56% YTD
- Credit cost ratio at a low 0.32% YTD. Post-tax impairment of 102m EUR for Greece
- Consistently strong liquidity position
- Solvency: continued strong capital base. Pro forma tier-1 ratio – including the effect of divestments for which a sale agreement has been signed to date – at approximately 14.3%

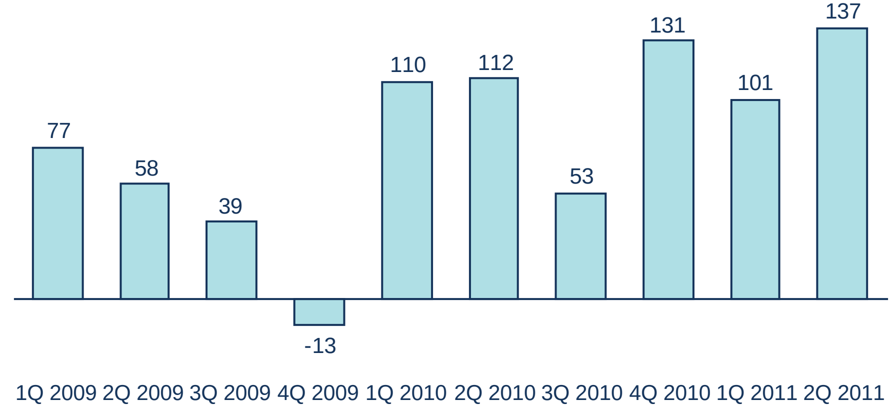
Underlying profit per business unit

Underlying net profit Belgium (retail)

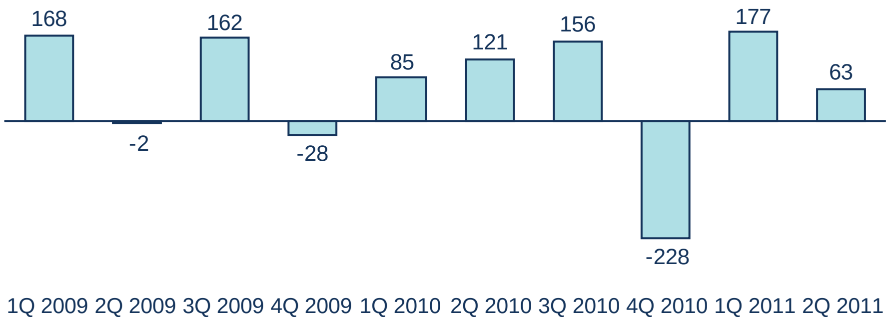


* Note that Secura has been excluded from 4Q10 onwards

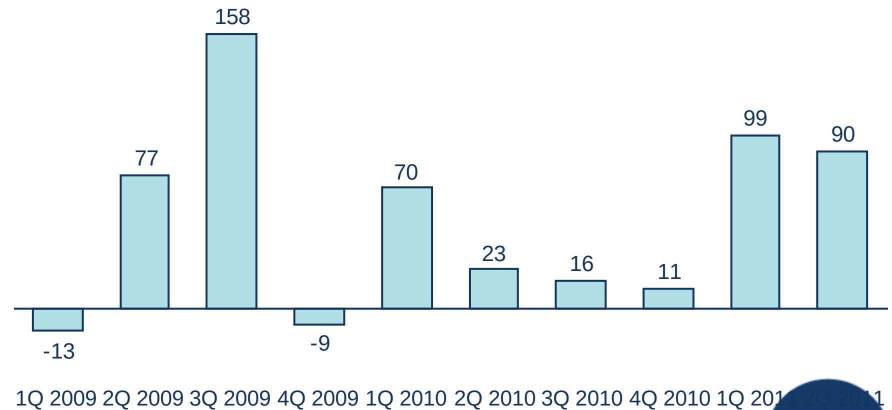
Underlying net profit CEE



Underlying net profit Merchant Banking (BE +Intl)



Underlying net profit Group Centre



Amounts in m EUR

Headlines per business unit

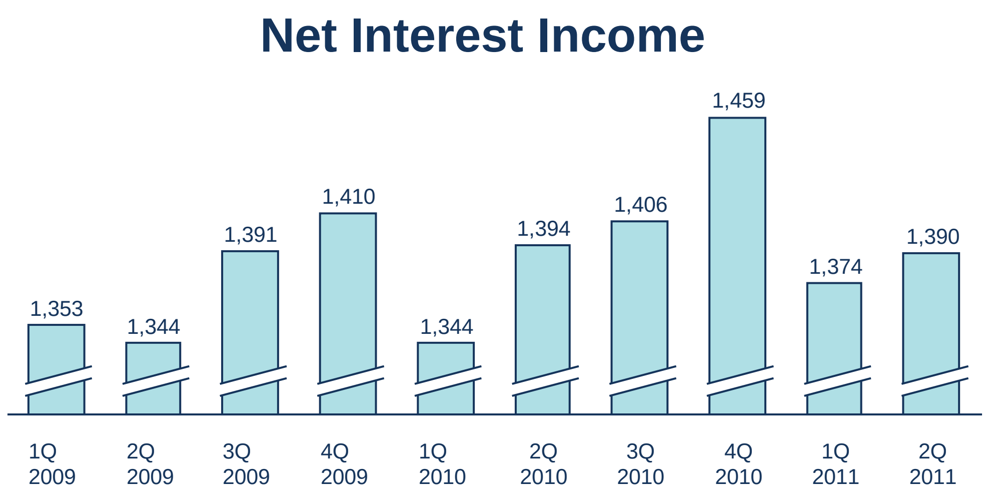
- Underlying net group profit of the Belgium Business Unit of 238m EUR in 2Q11 is roughly 10% below the average of the last four quarters (263m EUR), which can be explained by the 30m EUR post-tax impairment for Greece. Loan volume rose by 2% q-o-q and 4% y-o-y driven by mortgage loan growth. Deposit volumes increased 3% quarter-on-quarter and as much as 6% year-on-year

- The profit contribution of *Central and Eastern Europe* amounted to 137m EUR in 2Q11. Results from the banking business were positively impacted by good quality of revenues, strict cost control and continuing low loan loss provisions, partly offset by the 26m EUR post-tax impairment for Greece (fully borne by the Czech Republic). Results from the insurance business benefited from a low(er) combined ratio (both claims and cost ratio)

- In *Merchant Banking*, the underlying net profit (63m EUR) was still above the average of the last four quarters (56m EUR), despite modest 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, in a deal signed in 1Q11, was finalised on 1 July 2011 (3Q11)

Net interest income

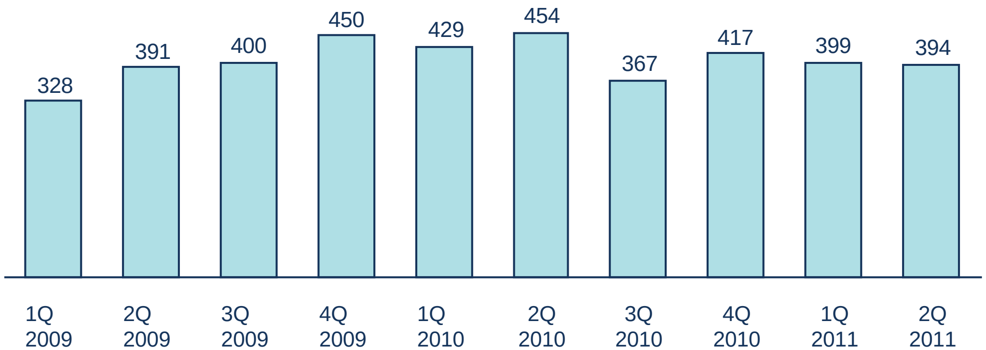


- Net interest income stabilised year-on-year and rose by 1% quarter-on-quarter
- Net interest margin (1.98%)
  - The 5bps q-o-q increase in NIM at group level is for a large part attributable to a technical item
  - Both NIM in Belgium and in Central/Eastern Europe stabilised quarter-on-quarter
- Loan volumes flat year-on-year, despite a further reduction in the international loan book (Merchant Banking and Russia) in line with strategic focus. Deposit volumes fell 2% year-on-year mainly due to a decrease in corporate deposits (BU MEB)

Amounts in m EUR

Fee and commission income

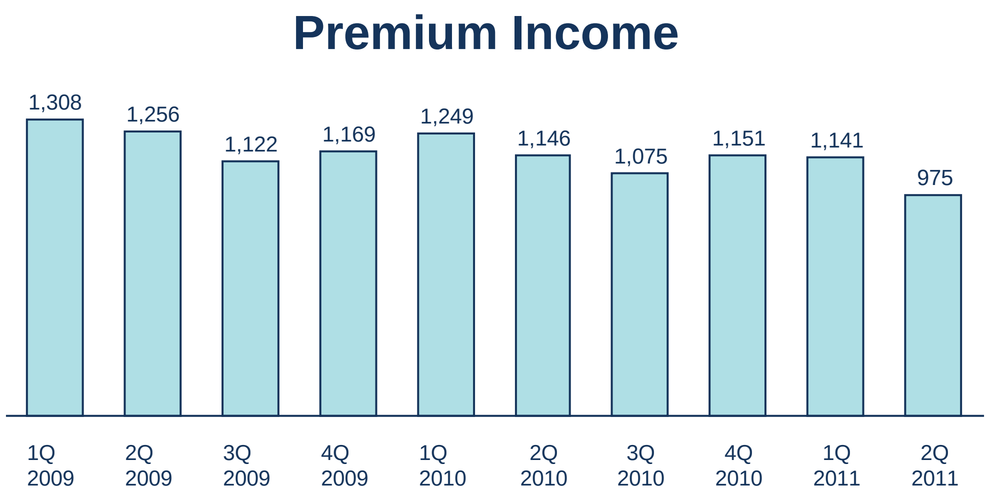
Fee & Commission Income



- Net fee and commission income fell by 1% quarter-on-quarter and 13% year-on-year
  - Net F&C income from the banking business went down by 1% q-o-q in line with the trend in assets under management given the reduced investors' risk appetite
  - Commission paid on the sale of insurance contracts fell by 5% q-o-q
- Assets under management dropped by 3% year-on-year and 1% quarter-on-quarter (caused by a decline in net inflow) to 203bn EUR at the end of 2Q11

Amounts in m EUR

Insurance premium income

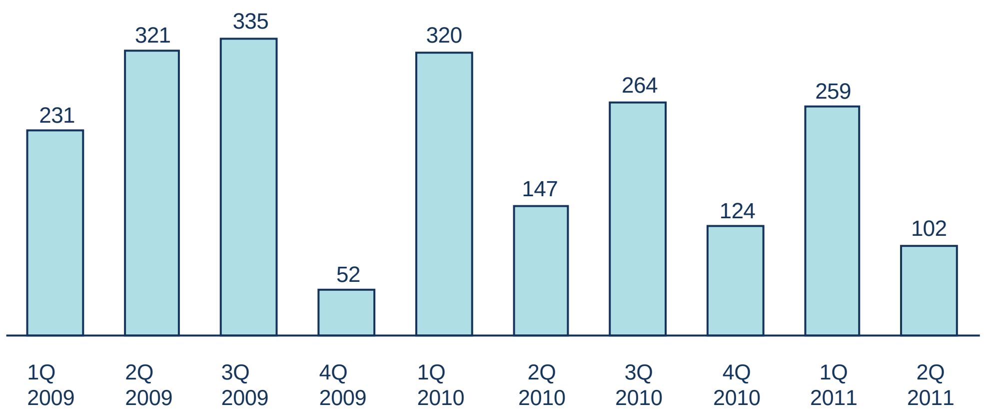


- Insurance premium income at 975m EUR
  - Non-life premium income (468m) up 4% q-o-q and up 7% y-o-y excluding Secura, which was sold in 4Q10
  - Life premium income (507m) down 27% q-o-q and down 24% y-o-y, mainly due to lower sale of guaranteed-interest products at the Belgium Business Unit, but partially compensated by a higher sale of unit-linked products at the Belgium Business Unit
- Excellent combined ratio of 90% in 2Q11, down on the 104% recorded in 2Q10 primarily thanks to a lower level of claims (versus high flooding claims in CEE in 2Q10). Combined ratio of 87% YTD

Amounts in m EUR

Modest trading income

Trading Income

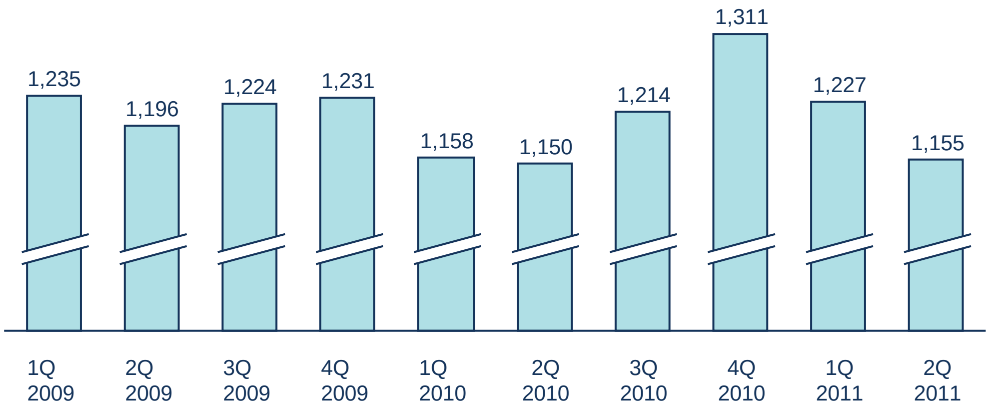


- The low figure for net gains from financial instruments at fair value (102m EUR) is the result of modest dealing room activity

Amounts in m EUR

Costs remained well under control

Operating expenses

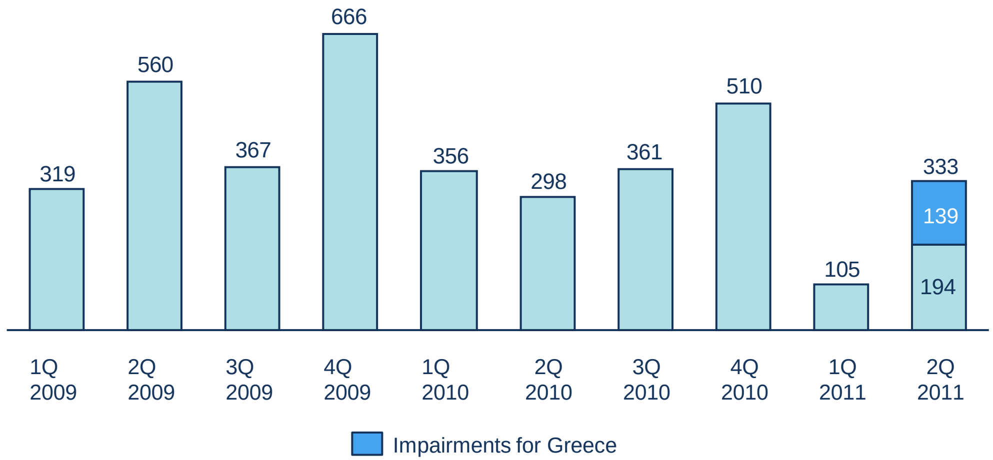


- Costs remained well under control: -6% q-o-q and flat y-o-y
  - Operating expenses fell by 6% q-o-q to 1,155m EUR in 2Q11 as 1Q11 was impacted by the recognition of the Hungarian bank tax for the full year. Excluding the Hungarian bank tax in 1Q11 (62m EUR pre-tax), operating expenses remained more or less stable
  - Operating expenses remained flat y-o-y in 2Q11, despite higher costs related to the Belgian Deposit Guarantee Scheme in 2Q11 (22.2m EUR in 2Q11 versus 4.6m EUR in 2Q10). Excluding this extra cost in 2Q11, operating expenses fell by as much as 1% y-o-y
  - Underlying cost/income ratio for banking stood at 56% YTD (in line with full year 2010)

Amounts in m EUR

Higher impairments due to Greece

Asset impairment



- Substantially higher impairments (333m EUR) due to Greece
  - Quarter-on-quarter increase of 66m EUR in loan loss provisions, mainly due to the lack of impairment releases as in 1Q11
  - Impairment of 139m EUR for Greece (102m EUR post-tax)

Amounts in m EUR

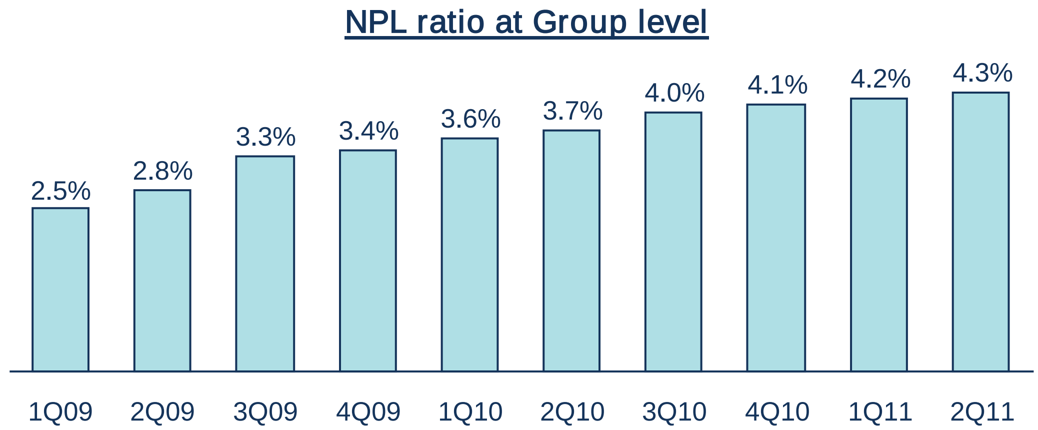
Loan loss provisions

- Credit cost ratio fell to 0.32% YTD (compared to 0.91% in 2010 and 1.11% in 2009) thanks to several impairment releases in 1Q11. Excluding these releases, the credit cost ratio is still at a low 0.41%. NPL ratio amounted to 4.3%
- Credit cost in Belgium remained at a low level
- Slightly higher credit cost in CEE (+6m EUR q-o-q), mainly thanks to (unsustainable) low loan loss provisions for corporates and despite several impairment releases (29m EUR in total) in 1Q11
- Credit cost significantly higher in Merchant Banking (+38m EUR q-o-q, of which +4m EUR q-o-q due to KBC Bank Ireland), chiefly attributable to the Atomium assets (6m EUR additional provisions in 2Q11 versus 15m EUR write-back regarding Atomium assets in 1Q11)

Credit cost ratio

	Loan book	2007 FY	2008 FY	2009 FY	2009 FY	2010 FY	1H11 YTD
		'Old' BU reporting			'New' BU reporting		
Belgium	**55bn**	0.13%	0.09%	0.17%	0.15%	0.15%	0.10%
CEE	**38bn**	0.26%	0.73%	2.12%	1.70%	1.22%	0.53%
Merchant B. (incl. Ireland)	**53bn**	0.02%	0.48%	1.32%	1.19%	1.38%	0.58%
Merchant B. (excl. Ireland)	**36bn**	0.02%	0.53%	1.44%	1.27%	0.67%	0.32%
Total Group	**162bn**	0.13%	0.46%	1.11%	1.11%	0.91%	0.32%

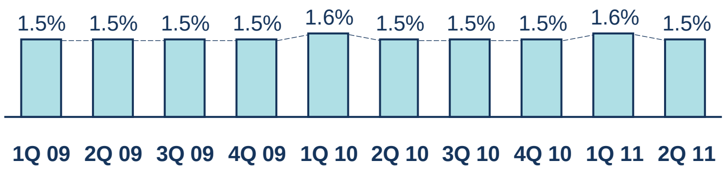
NPL ratio at Group level



2Q 2011	**Non-Performing Loans** (>90 days overdue)	**High risk** (probability of default >6.4%)	**Restructured loans** (probability of default >6.4%)
Belgium BU	1.5%	2.3%	1.2%
CEE BU	5.3%	5.0%	2.1%
MEB BU	6.4%	5.4%	4.4%

NPL ratios per business unit

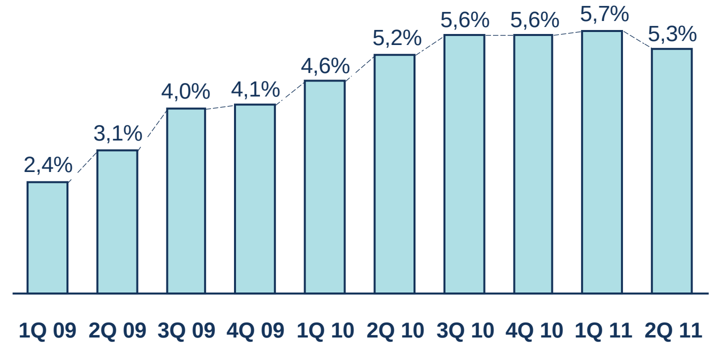
BELGIUM BU



non performing loans

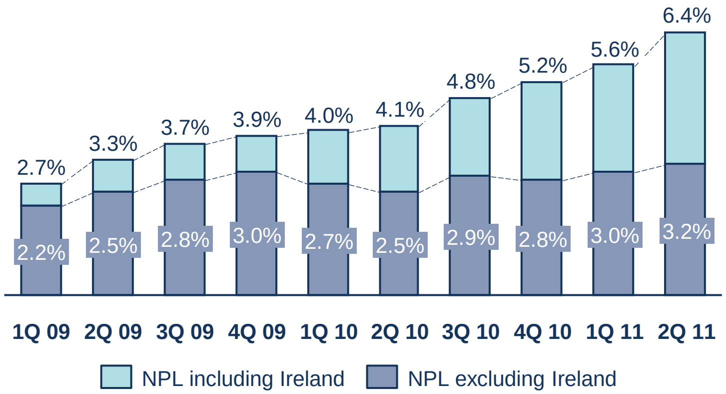
New BU reporting as of 2010
(pro forma 2009 figures)

CEE BU



MEB BU

(incl. Ireland)



Additional data set

Effects of Greek assistance programme

- With regard to the Greek sovereign bonds that mature before the end of 2020, KBC decided to record 139m EUR pre-tax impairments (102m post-tax) at *underlying* level

- *Calculation* method:
  - As required by IAS 39, the **AFS bonds** are impaired to their *fair value* (market prices) as at 30 June 2011
  - For the **HTM bonds**, the impairment is calculated based on the *21% expected discount* resulting from the IFF proposal for Greece decided on 21 July 2011

- *Breakdown* of the impairments *per business unit* at underlying level:

(m EUR)	Impairments on AFS	Impairments on HTM	Total pre-tax impairments	Total post-tax impairments
Belgium BU	-41	-4	-45	-30
CEE BU	-53	0	-53	-26*
MEB BU	-1	-4	-5	-4
GC BU	-27	-9	-36	-42*
TOTAL	**-122**	**-17**	**-139**	**-102**

* Transfer from CEE BU to GC BU for 40% of the impairment at CSOB Bank (as the 2Q11 results of the business units are still based on the ‘old’ restructuring plan)

Exposure to PIIGS

Breakdown of government bond portfolio, banking and insurance, at the end of 2Q11 (bn EUR)

	Banking	Insurance	Total
Portugal	0.1	0.2	**0.3**
Ireland	0.3	0.1	**0.4**
Italy	5.3	0.8	**6.1**
Greece	0.3	0.2	**0.5**
Spain	1.5	0.7	**2.2**
TOTAL	**7.6**	**1.9**	**9.6**

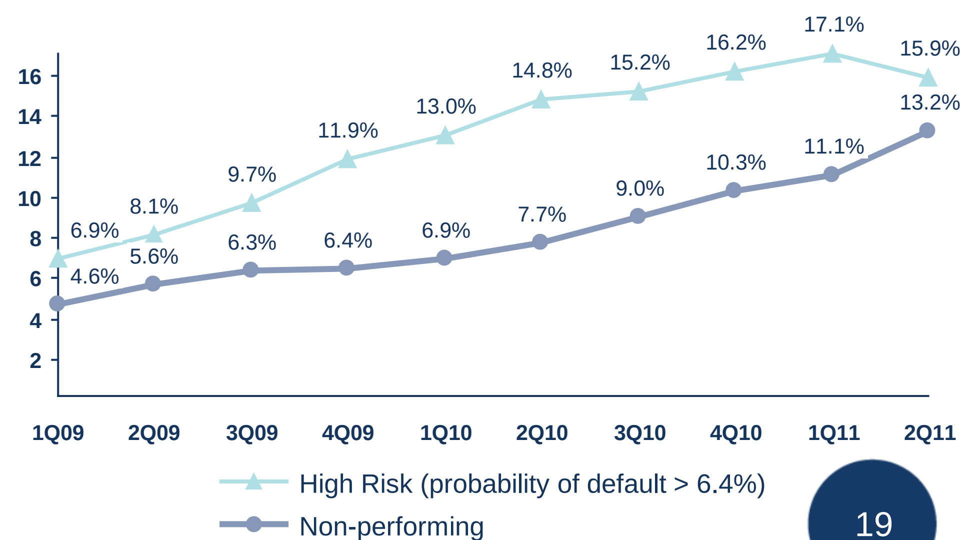
Update on Ireland (1)

- Business conditions continue to be very difficult
- Austerity measures impact consumer incomes and business confidence as a further budget adjustment of 6bn EUR affects the economy this year. Unemployment remains high
- Export performance and foreign direct investment remain strong, but have not yet impacted the domestic economy
- 2Q11 loan loss provisions of 49m EUR in line with 1Q11 and previous guidance
- However, 2Q11 residential mortgage arrears have shown signs of deterioration. Collateral values on commercial exposures, in the absence of domestic liquidity, continue to decline
- Local tier-1 ratio was 10.4% at the end of 2Q11 (9.9% at the end of 1Q11)

Irish loan book – key figures June 2011

Loan portfolio	Outstanding	NPL	NPL coverage
Owner occupied mortgages	9.7bn	8.8%	27%
Buy to let mortgages	3.2bn	13.7%	32%
SME /corporate	2.2bn	13.8%	38%
Real estate investment	1.3bn	20.8%	37%
Real estate development	0.6bn	62.1%	66%
	16.9bn	13.2%	37%

Proportion of High Risk and NPLs



Update on Ireland (2)

- Considering the gradual trend deterioration in the portfolio during 2Q11 and July, we anticipate a higher quarterly run-rate of loan loss provisions going forward

- The current depressed environment in Ireland leads to a further deterioration in the portfolios:
  - The economy and domestic Irish marketplace have not improved as was envisaged
  - The greater than initially envisaged cumulative impact on households of the austerity measures in the economy
  - The operational and regulatory environment has changed. The introduction of new consumer protection legislation has impacted operationally, delaying communication with borrowers, slowing restructuring of mortgages and affecting lenders from being able to react appropriately to the situation

Hungary (1)

Should be profitable in 2011

- K&H Group realised an underlying net profit of 24m EUR in 1H11, despite 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

Economic scenario

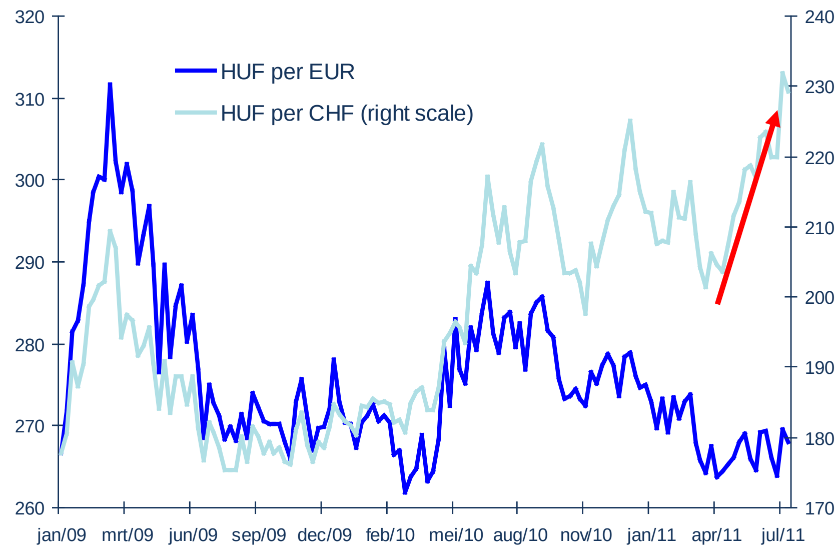
- Economic recovery is mainly driven by the strong export performance, while domestic demand remains subdued due to lower disposable income growth (suffering from the deterioration in the labour market) and an unfriendly investment climate. Real GDP growth is expected to accelerate to around 2.3% in 2011 (from 1.1% in 2010)
- The government plans to have a budget surplus of 2% of GDP in 2011, entirely thanks to non-recurring revenues (crisis taxes and pension transfers), and announced a program to structurally reform public finances and achieve a budget deficit of less than 3% in 2012 (savings resulting 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 73% in 2012. Nevertheless, it remains to be seen how much of the structural measures will actually be implemented

Sovereign exposure

- Government bond exposure: 1.8bn EUR at the end of 2Q11 (versus 2.1bn EUR at the end of 1Q11and 2.4bn EUR at the end of 4Q10), of which the majority is held by K&H

Hungary (2)

- 2Q11 loan loss provisions amounted to 18m EUR (46m EUR in 1H11)
- NPL rose to 9.1% in 2Q11 (9.0% in 1Q11), situated mainly in retail lending
- Main driver for 2.3bn EUR FX mortgage portfolio is the CHF/HUF movement. A permanent 230-240 CHF/HUF rate over the quarter would, at worst and excluding the effects of the government FX relief plan, boost our NPL rates to 12% by year-end (Home Equity loans: approximately 20%, housing loans: 7%). In terms of provisions (according to our latest forecast) this would result in a provision increase of 24m EUR within one year. The government FX mortgage relief scheme allows customers facing potential repayment problems to fix the exchange rate at HUF/CHF 180 for a 3-year period, and if present FX rates are sustained over the next months, we expect increased take-up of this offer by clients. We also expect this relief scheme will reduce the moral hazard impact

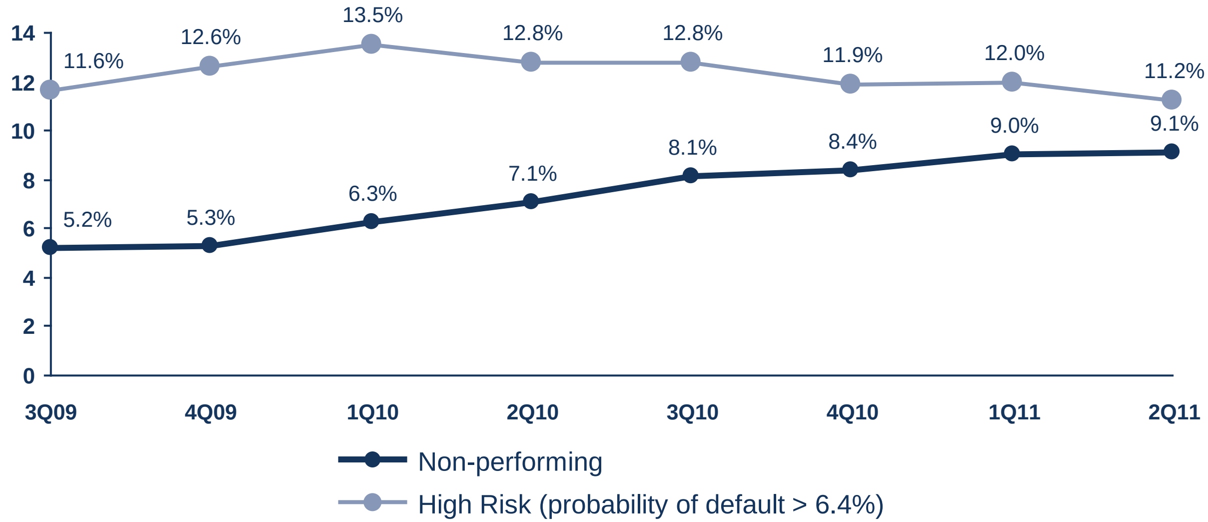


Hungary (3)

Hungarian loan book – key figures June 2011

Loan portfolio	Outstanding	NPL	NPL coverage
SME/Corporate	2.8bn	7.6%	64%
Retail	3.6bn	10.3%	72%
o/w private	3.1bn	10.2%	71%
o/w companies	0.5bn	10.9%	75%
	6.4bn	9.1%	69%

Proportion of NPLs



Wrap up

Financial highlights 2Q 2011

- Continued high underlying net group profit even after the impact of Greek sovereign bond impairment
- Sustained level of net interest income
- Slight decrease in net fee and commission income, in line with the trend in assets under management given the reduced investors' risk appetite
- Excellent combined ratio of 87% YTD as a result of low claims. Lower life insurance sales due to lower life sales in interest guaranteed products
- Modest level of income generated by the dealing room
- Underlying cost/income ratio at a favourable 56% YTD
- Credit cost ratio at a low 0.32% YTD. Post-tax impairment of 102m EUR for Greece
- Consistently strong liquidity position
- Solvency: continued strong capital base. Pro forma tier-1 ratio – including the effect of divestments for which a sale agreement has been signed to date – at approximately 14.3%

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, which was closed on 1 July 2011, 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%
  - We have restarted the sale process of KBL *epb*, for which we notice a large interest through non-binding bids
  - The sale process for Fidea is ongoing. Furthermore, a number of companies are still scheduled for divestment as part of the planned reduction of the international loan portfolio. The sale process for KBC Bank Deutschland has started and the files for the sale process for Antwerp Diamond Bank are being prepared

- KBC and the Belgian Authorities received formal approval from the European Commission on 27 July 2011, to replace the planned IPOs of a minority stake in CSOB Bank (Czech Republic) and K&H Bank (Hungary) and the sale and leaseback of KBC's headquarter offices in Belgium by the divestment of KBC's Polish banking and insurance subsidiaries, Kredyt Bank and Warta (and their subsidiaries) and the sale or unwinding of selected ABS and CDO assets

- KBC is satisfied that the outcome of the stress tests proves that under these stress scenarios, the bank adequately meets the solvency requirements

- We still believe that costs in 2011 on a like-for-like basis may increase somewhat going forward

- Low loan loss provisions of 1H11 may not be extrapolated in 2H11'

KBC Group

2011 2Q Results

Q&A