
# KBC Group
# 2Q15 and 1H15 results press presentation

Johan Thijs, CEO

*More detailed analyst presentation available on www.kbc.com.*

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- Some specific remarks for 2Q15 can be found in annex at the end of this presentation.

# Key takeaways

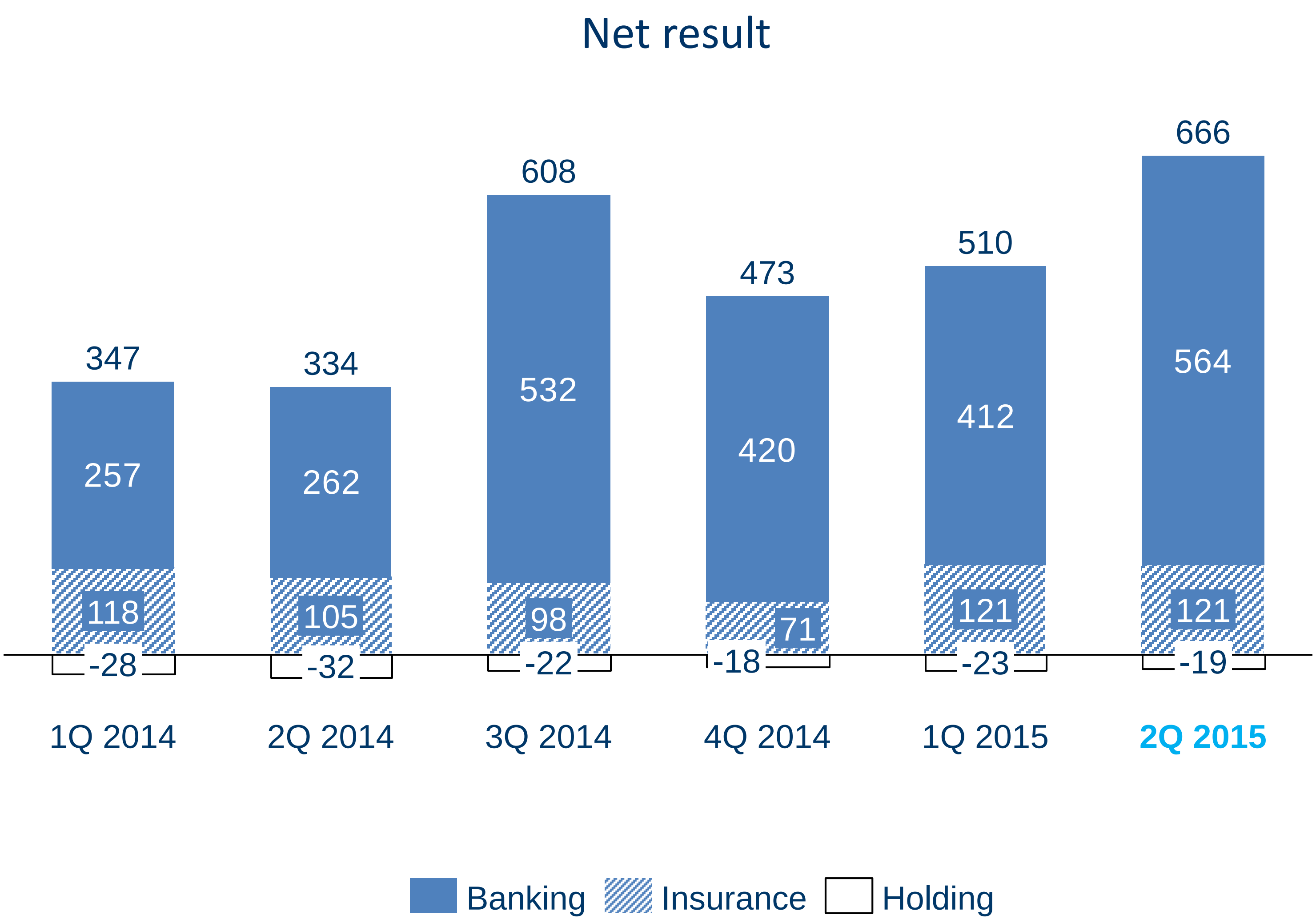
- **BUSINESS PERFORMED STRONGLY WITH AN EXCEPTIONALLY GOOD NET RESULT OF 666m EUR IN 2Q15 AND 1.18bn EUR FOR 1H15**
  - Our commercial bank-insurance franchises in our core markets and core activities performed strongly
  - Customer loan and deposit volumes continued to grow q-o-q in most of our core countries
  - Net interest income remained resilient, despite lower NIM q-o-q
  - Net fee and commission income grew further (slightly)
  - Net gains from financial instruments at fair value and net other income were significantly higher, but realised AFS gains were lower
  - The combined ratio stood at an excellent 91% in 2Q15 (86% YTD) and sales of non-life insurance products were good
  - Sales of life insurance products decreased
  - Good cost control with cost/income ratio adjusted for specific items at 52% (2Q15 and YTD)
  - 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[1]) of **16.7% based on Danish compromise** and of **16.4% based on FICOD[2]** 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 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


# KBC Group
# Consolidated results

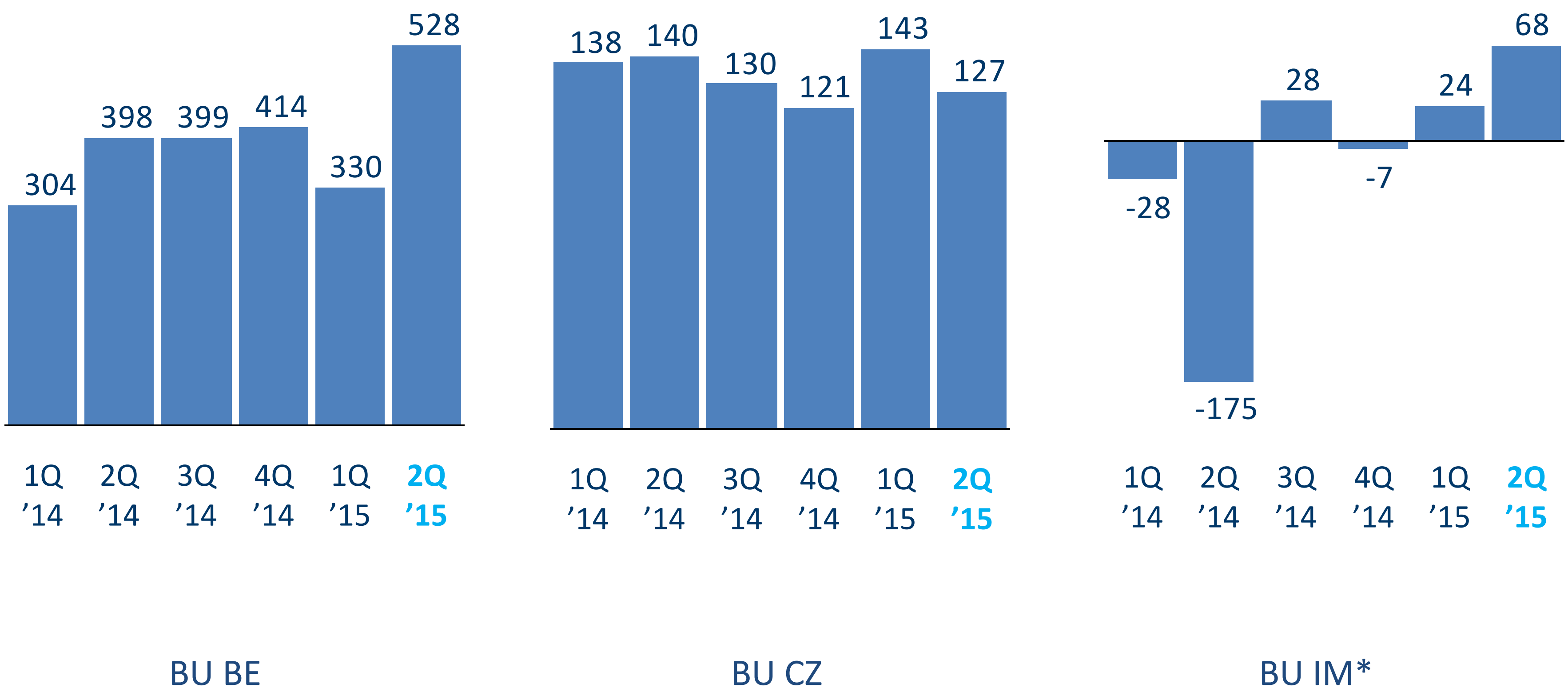
# KBC Group:
## *Overall strong performance in 2Q 2015*




Amounts in millions of EUR

# Net result per business unit (1/2):

*Business units turn in a solid result*

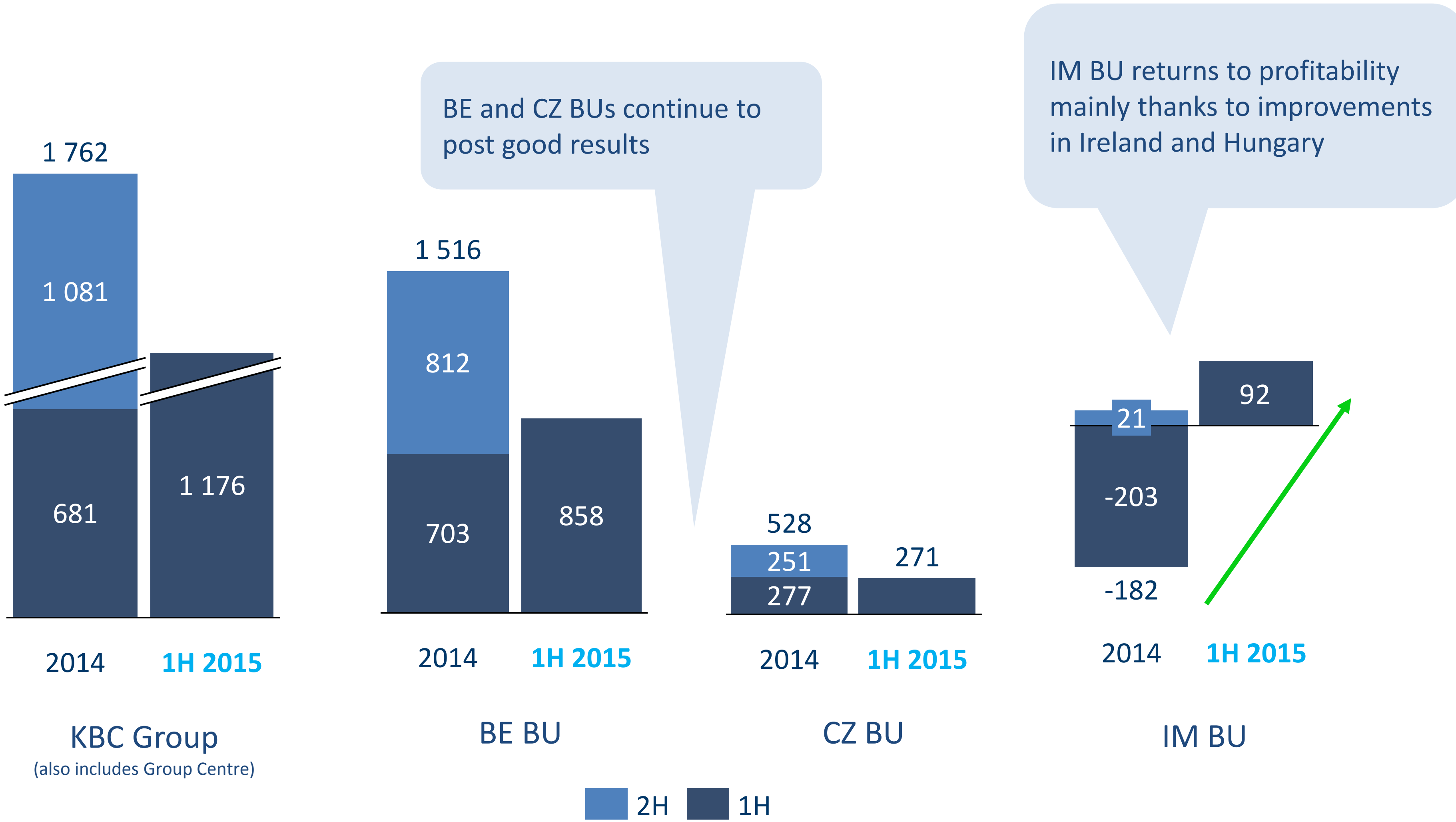



Amounts in millions of EUR



* International Markets (IM) BU includes: Hungary, Slovakia, Bulgaria and Ireland

# Net result per business unit (2/2):
## *IM BU* returning to profitability*




Amounts in millions of EUR



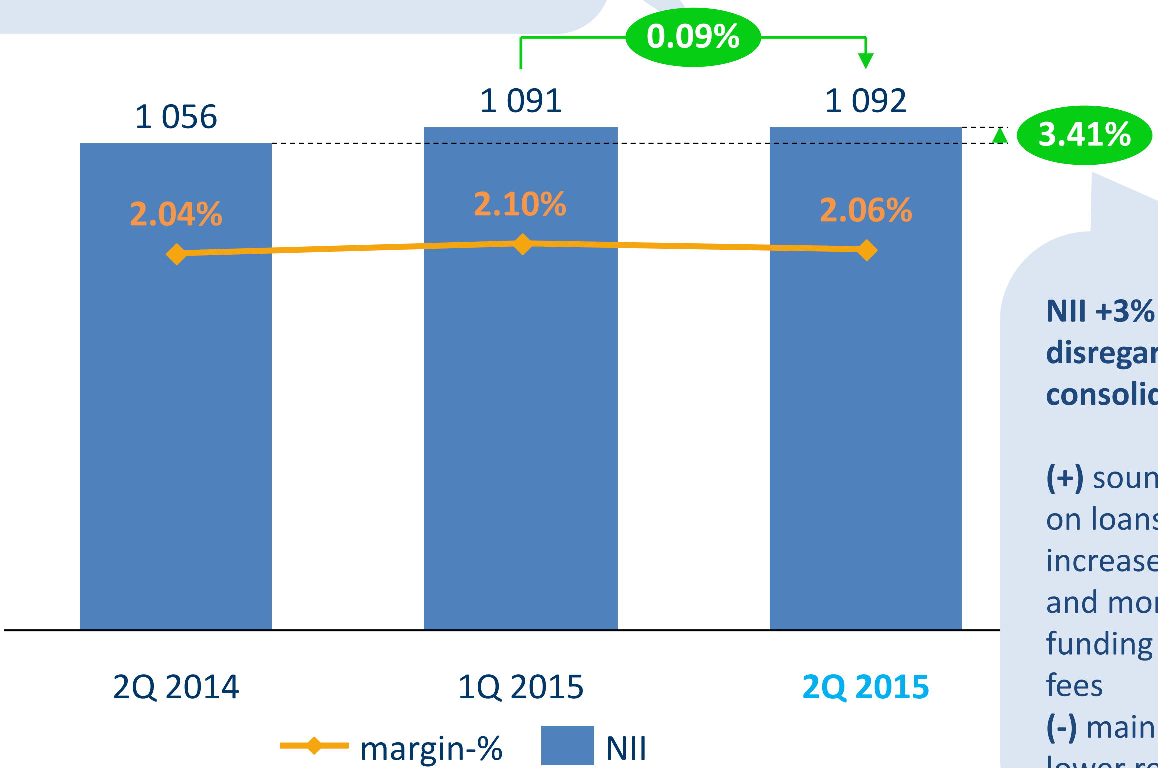
* International Markets (IM) BU includes: Hungary, Slovakia, Bulgaria and Ireland

# Net interest income:

## *NII stands firm, but margin narrows*

**NII stable q-o-q:**

**(+)** lower funding costs, volume growth and additional rate cuts on savings accounts
**(-)** in BE BU 4m EUR less upfront prepayment fees on mortgages , hedging losses on previously refinanced mortgages, lower reinvestment yields and 9m lower dealing room NII




**NII +3% y-o-y (+5% disregarding changes in consolidation):**

**(+)** sound commercial margins on loans and deposits, volume increases in current accounts and mortgage loans, lower funding costs and prepayment fees
**(-)** main negative driver is the lower reinvestment yields

Amounts in millions of EUR

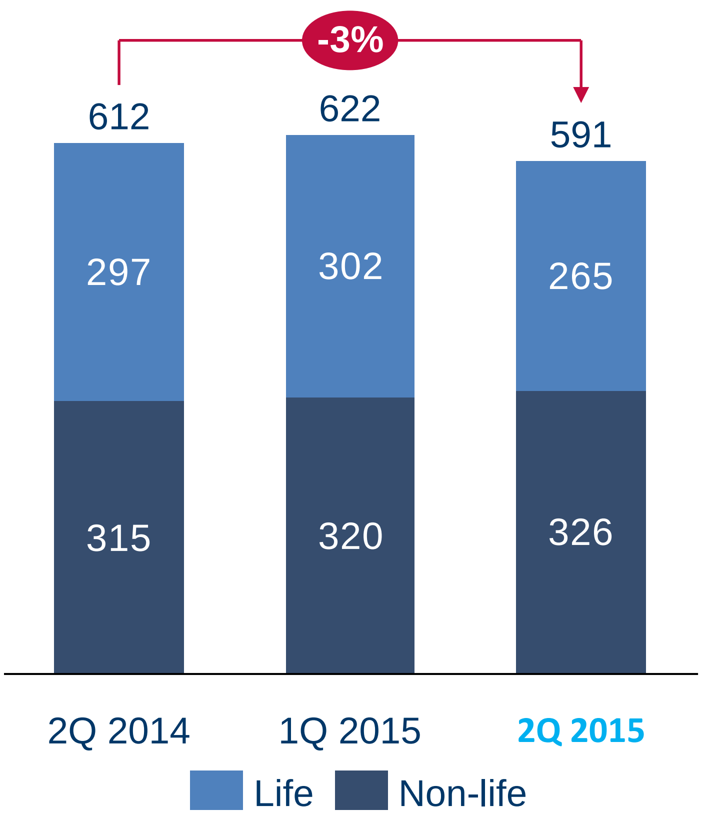
# Insurance (1/2):

*Premium income down, but difference between Life and Non-life insurance*

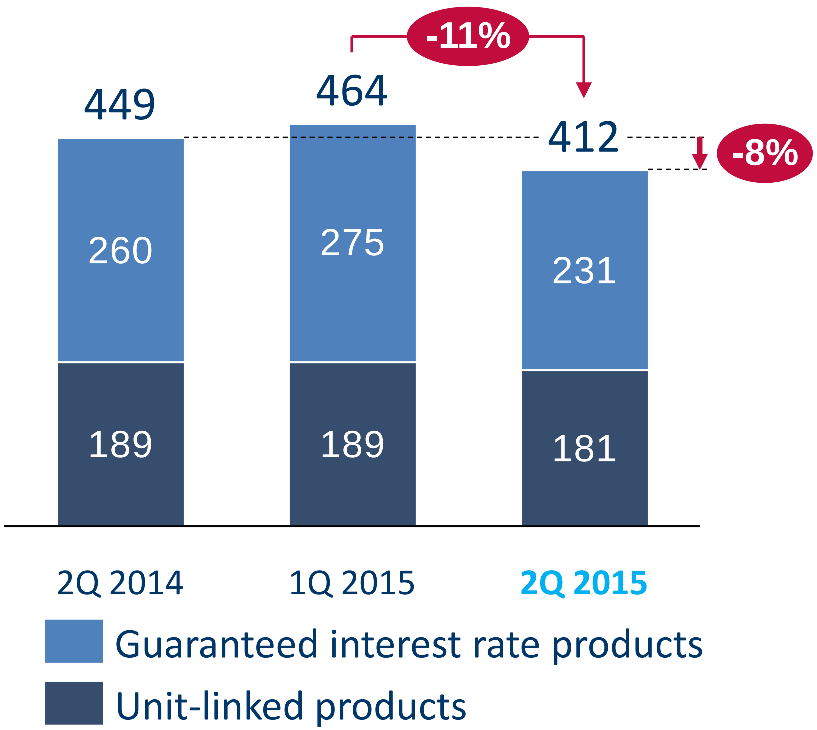
Life premiums down 11% y-o-y chiefly in the Belgium BU (and to a lesser extent in Slovakia)

Guaranteed interest rate products down mainly as a result of decreased guaranteed interest rate in Belgium

## Gross earned premiums




## Life sales
(gross written premium)

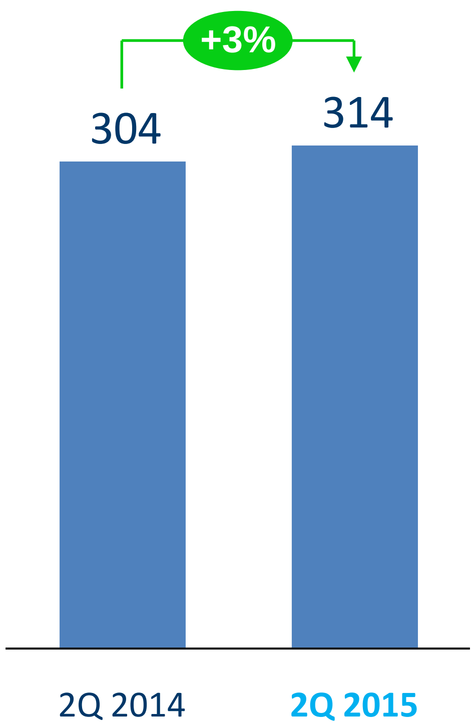



Amounts in millions of EUR

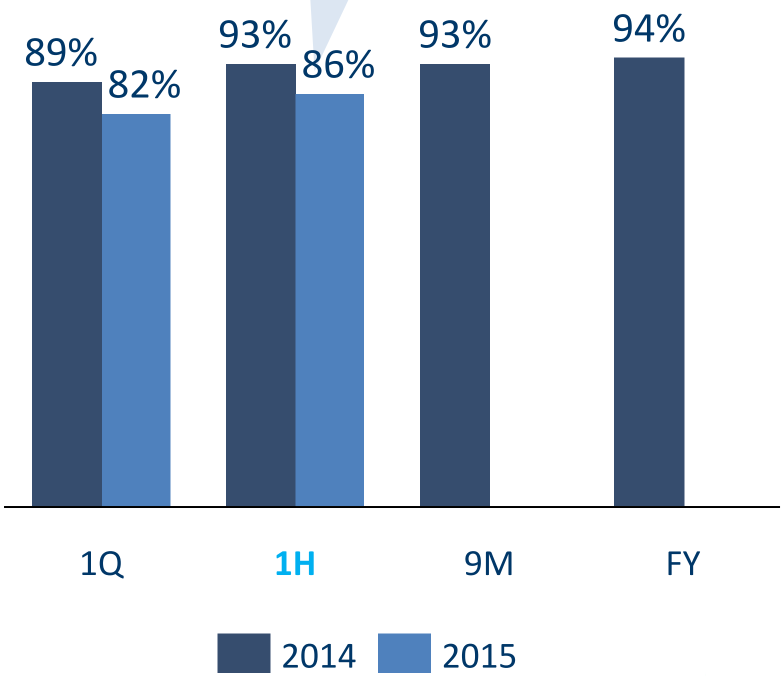
# Insurance (2/2):
## *Strong Non-life sales with good technical quality*

Good commercial performance in all major product lines and in our core markets

Non-life sales
(gross written premium)




1H15 a strong improvement compared to 1H14 (as 1H14 was negatively impacted by hailstorms in Belgium)

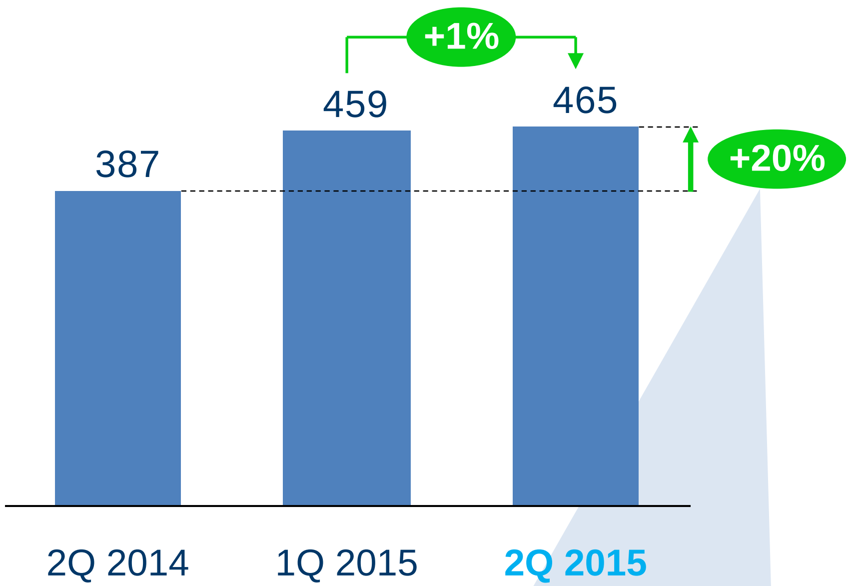



Amounts in millions of EUR

# Net fee and commission income:

*Excellent performance and high level of AUM (204bn EUR)*

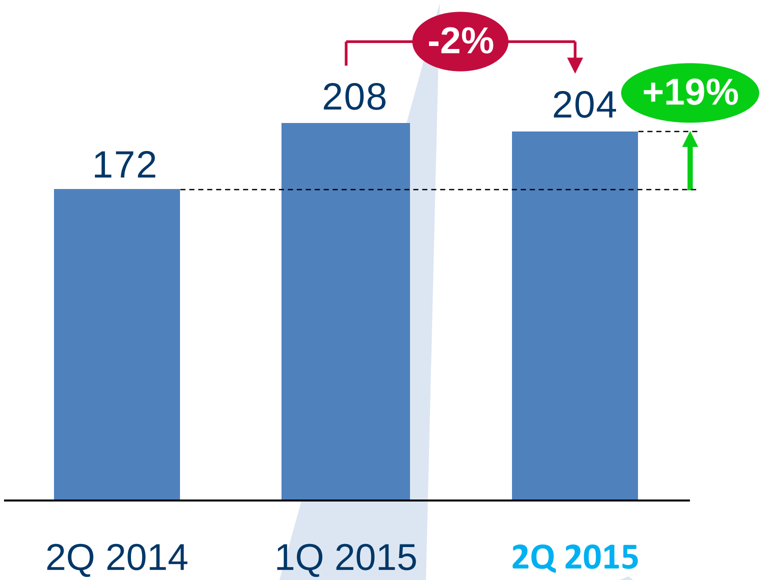
## Net fee and commission income




Strong growth driven primarily by:
- higher management and entry fees from mutual funds
- higher entry fees from unit-linked life insurance products
- higher fees from bank guarantees and credit files (i.e. due to refinancing of mortgages)
- higher fees from securities transactions in Belgium

Amounts in millions of EUR

## Assets under management (AUM)



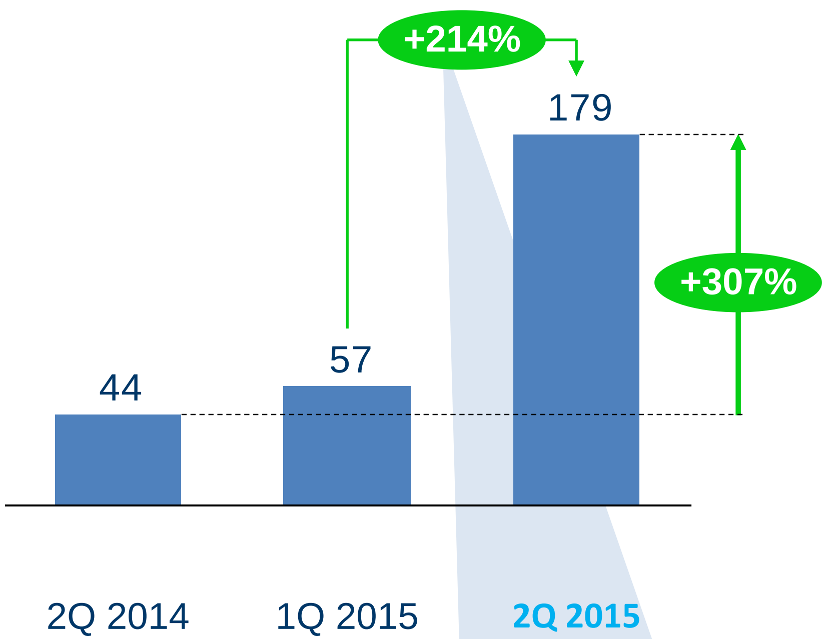

Q-o-q: net inflows (+1%) offset by negative price effect (-3%)

Y-o-y: net inflows (+9%) reinforced by positive price effect (+9%)

Amounts in billions of EUR

# The other net income drivers:
## *Various positive items driving the performance*

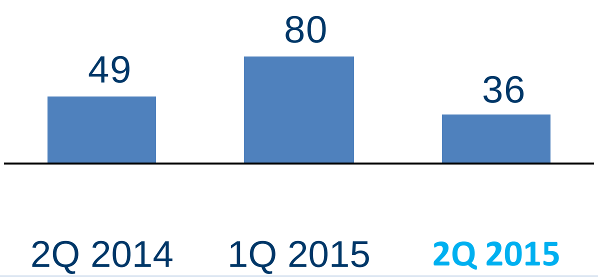
### Net gains on financial instruments at fair value




Increase attributable chiefly to:

- +90m EUR linked to ALM derivatives (-3m EUR in 1Q15 and -57m EUR in 2Q14)
- a positive change in market value adjustment

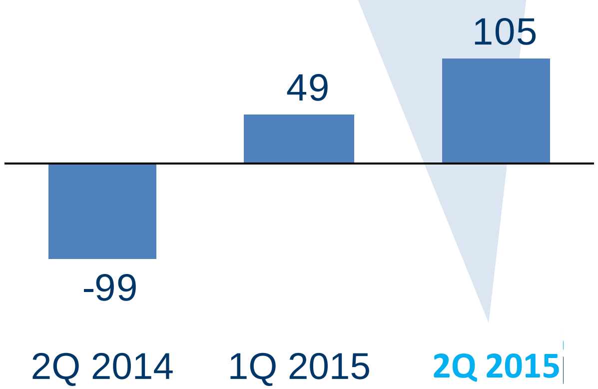
### Gains realised on AFS assets




Roughly double normal run rate thanks to:

- 22m EUR in real estate gains in BE BU
- Releases, 8m EUR Curia provision (Hungary) and 16m EUR for (previously announced) divestments

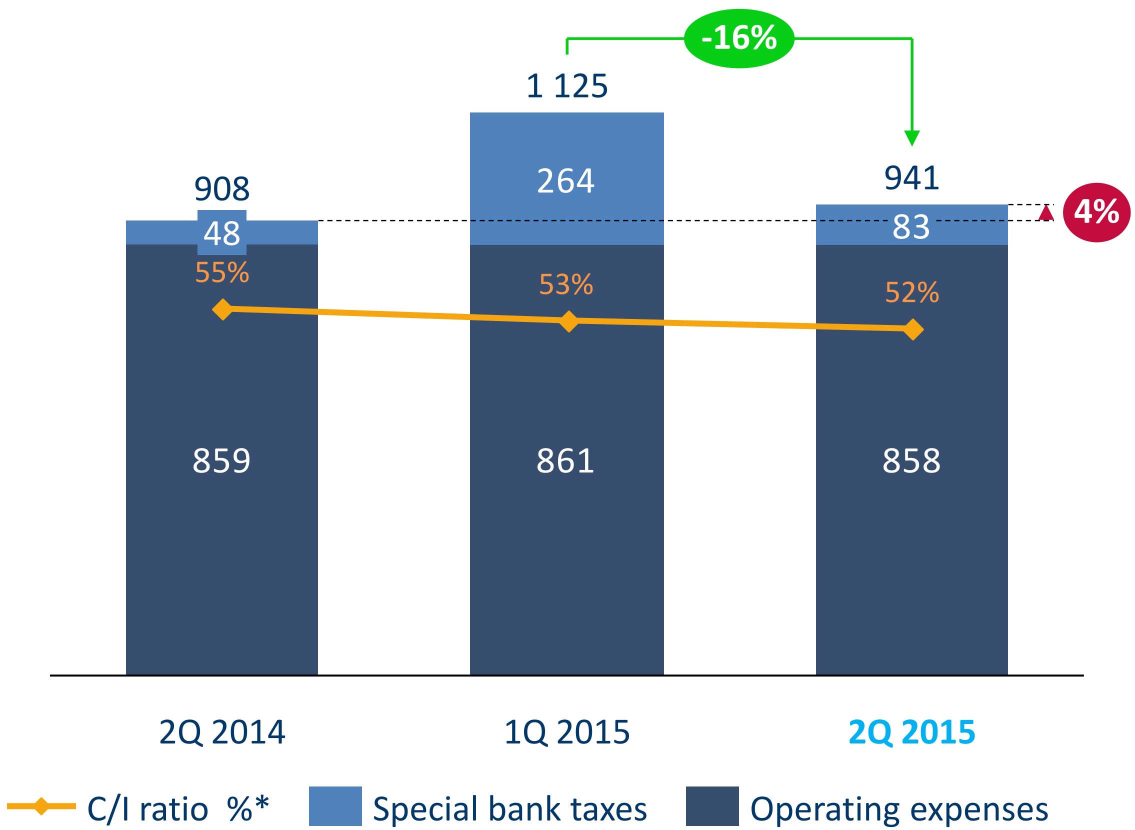
### Other net income




Amounts in millions of EUR

# Operating expenses:

## *Expenses well under control (excluding special bank taxes)*




Amounts in millions of EUR



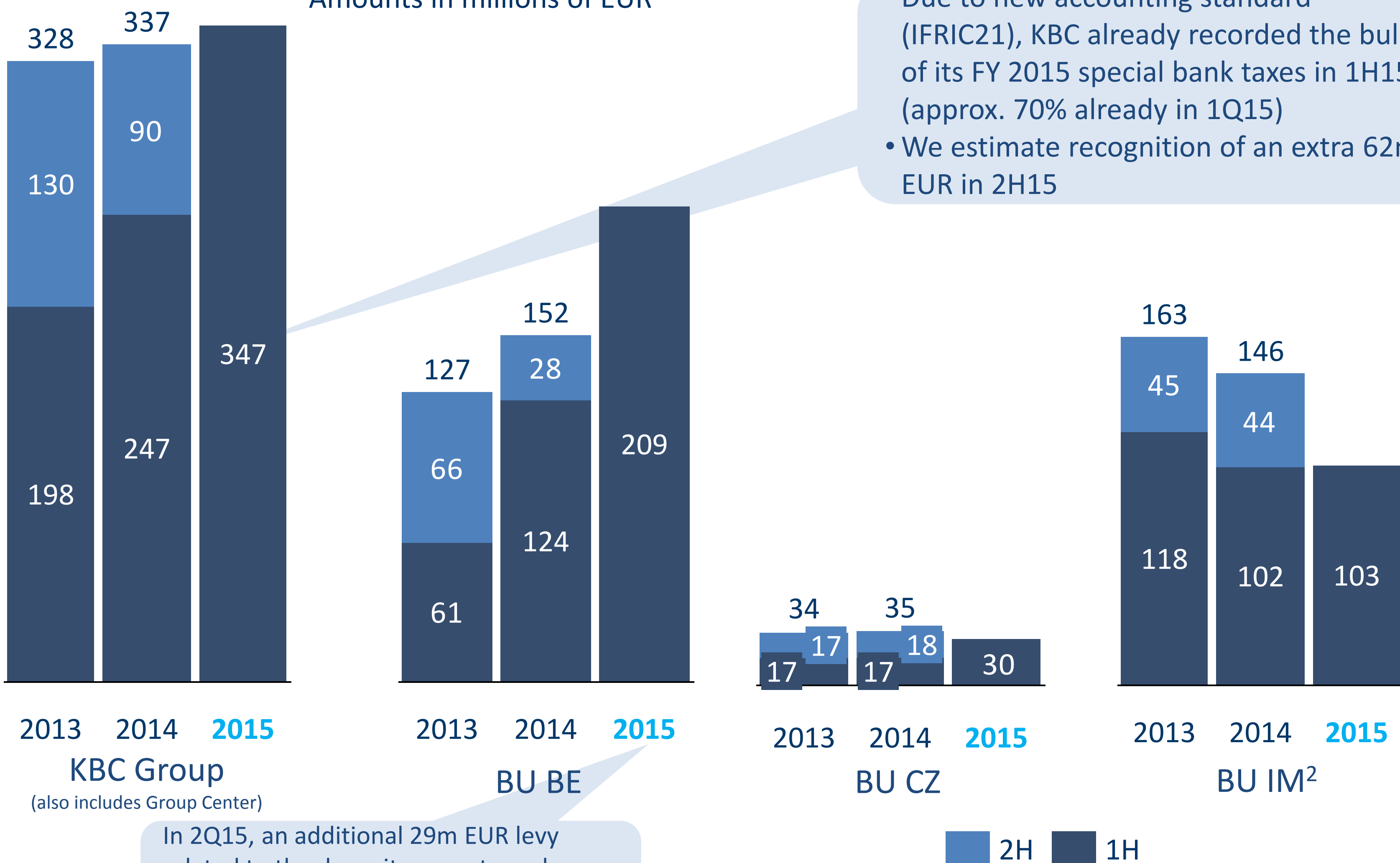
* adjusted for specific items: MtM ALM derivatives, special bank taxes, etc

# Special bank taxes[1]:

## *Represent 9.9% of expenses YTD15 (pro rata)*

Amounts in millions of EUR

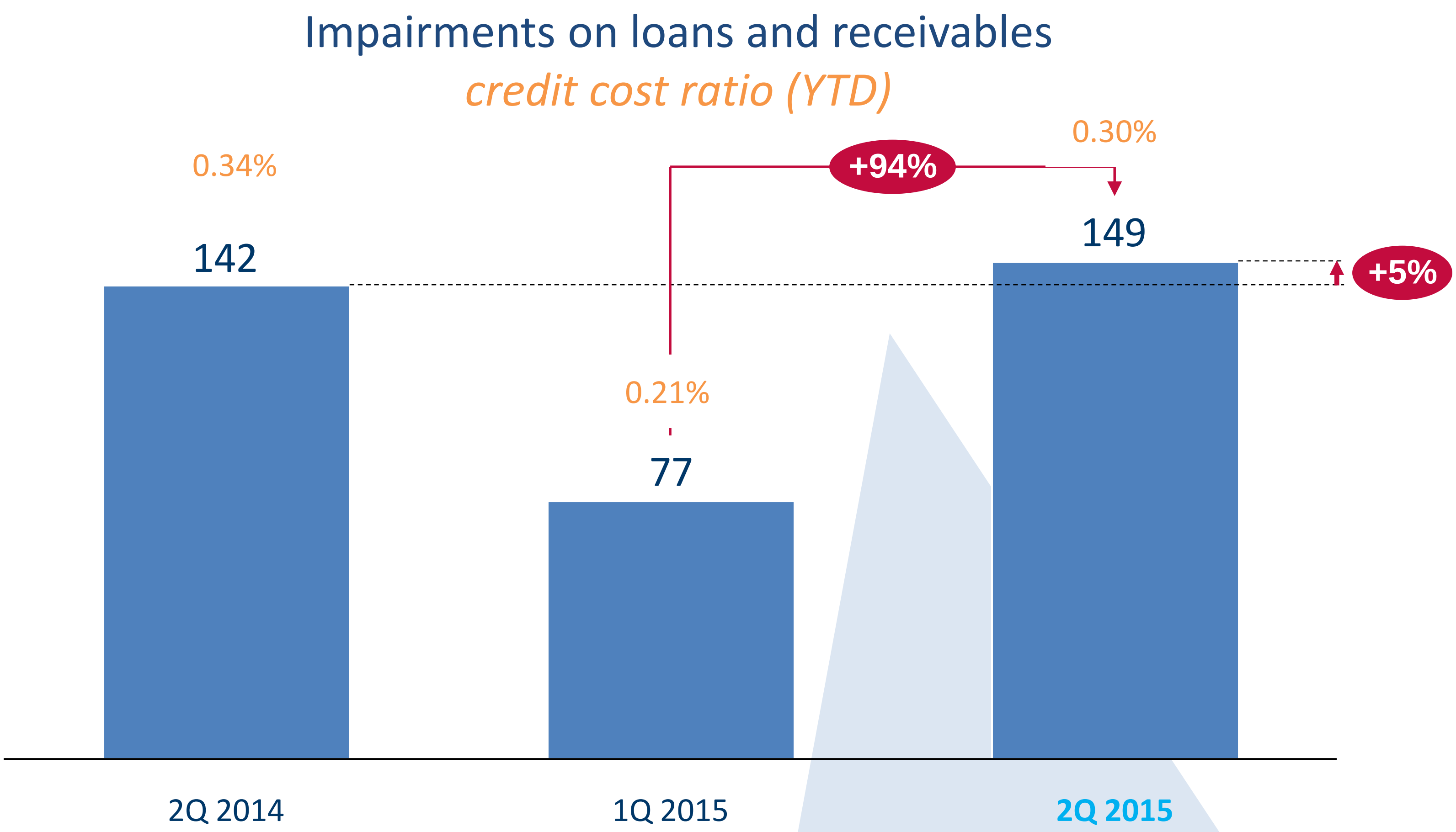
- Due to new accounting standard (IFRIC21), KBC already recorded the bulk of its FY 2015 special bank taxes in 1H15 (approx. 70% already in 1Q15)
- We estimate recognition of an extra 62m EUR in 2H15




In 2Q15, an additional 29m EUR levy related to the deposit guarantee scheme was recognised in advance (instead of spread throughout the year)

1 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.
2 Internation Markets (IM) BU includes: Hungary, Slovakia, Bulgaria and Ireland

# Asset impairments:
## *Good credit cost ratio of 0.30% (historic average '99-'14 of 0.54%)*




Q-o-q higher, but still moderate impairment charges, attributable mainly as follows:

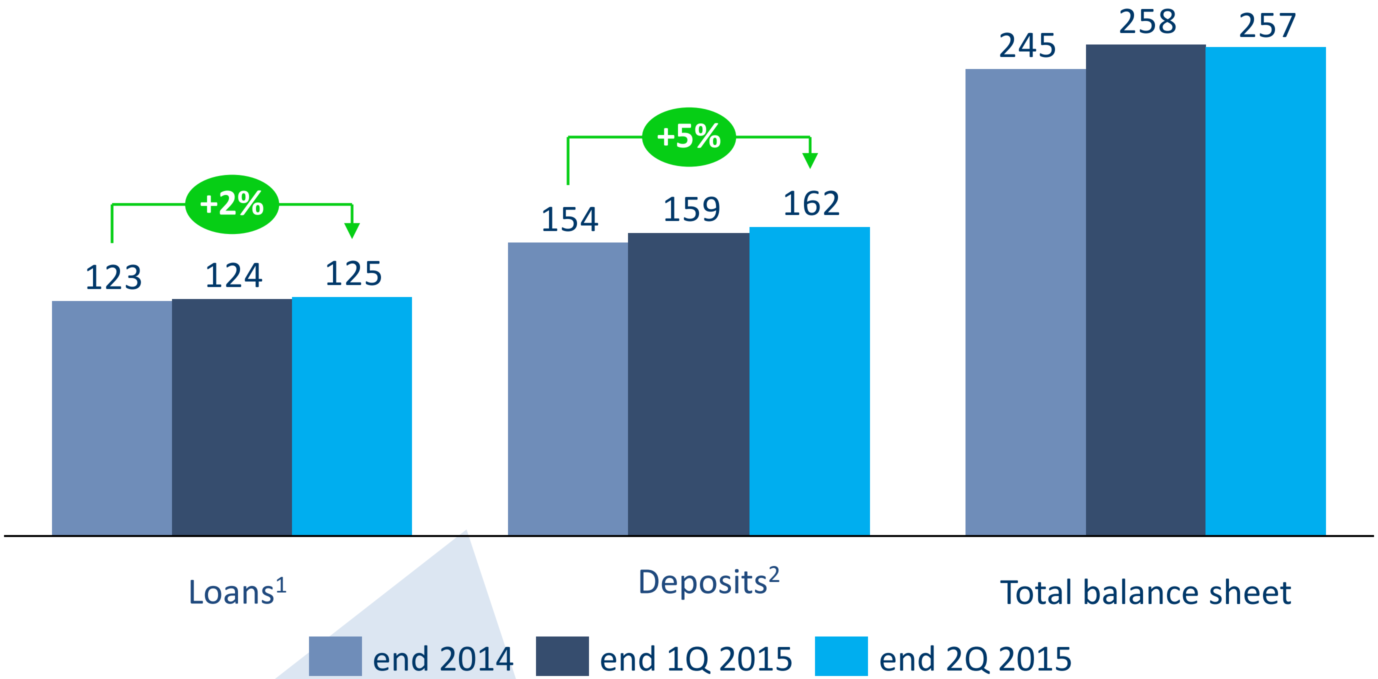
- 34m EUR due to parameter adjustment to the IBNR-models
- increase of 33m EUR in Group Centre (chiefly ADB & Finance Ireland)
- KBC Bank Ireland 16m EUR compared to 7m EUR in 1Q15 → *guidance fine-tuned to lower end of the 50m to 100m EUR range*

Amounts in millions of EUR


# KBC Group
# Balance sheet, capital and liquidity

# Balance sheet:

## *Loans and deposits continue to grow in most core countries*




We granted significantly more loans in Belgium (+1%), the Czech Republic (+2%), Slovakia (+3%) and Bulgaria (+2%), while clients increased their deposits with us in all our countries: Belgium (+2%), the Czech Republic (+1%), Hungary (+4%), Slovakia (+3%), Bulgaria (+3%) and Ireland (+7%)

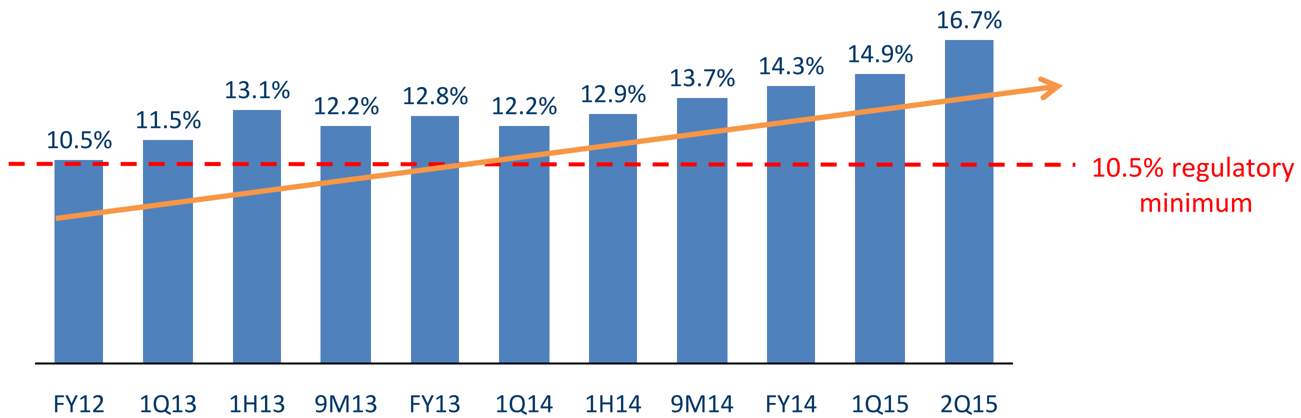
1 Loans to customers, excluding reverse repos (and not including bonds)
2 Customer deposits, including debt certificates but excluding repos. Please be aware of the significant impact of calling most of the hybrid tier-1 instruments and maturing wholesale debt .

Amounts in billions of EUR

# Capital and liquidity ratios:

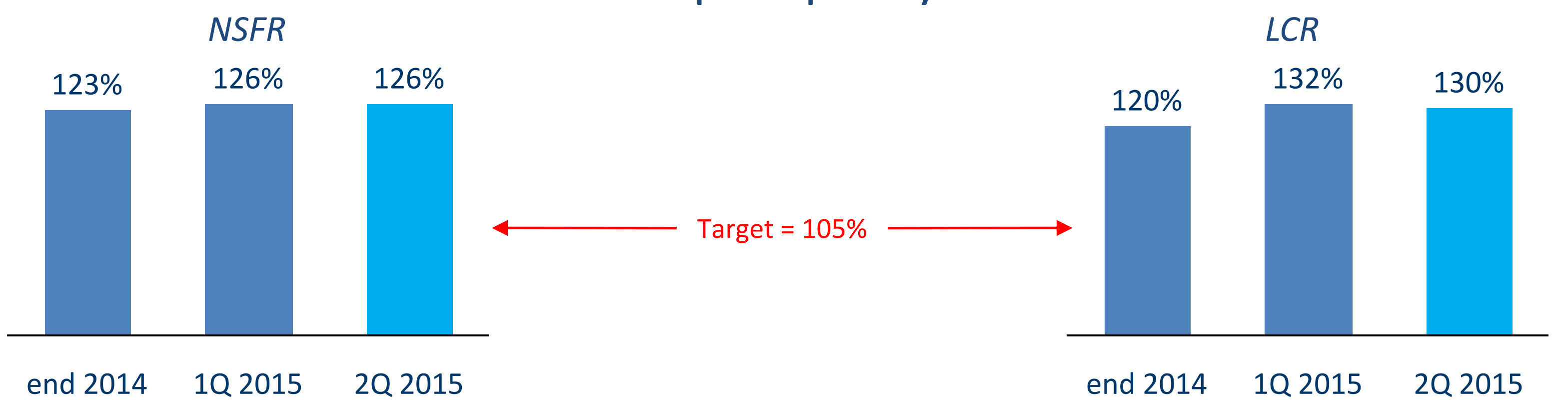
## *All ratios reside comfortably above regulatory minimums*

### KBC Group fully loaded[1] Basel 3 CET1 ratio *(Danish compromise)*




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

### KBC Group's liquidity ratios[2]




2 NSFR (Net Stable Funding Ratio) is calculated based on KBC's interpretation of the new Basel Committee guidance published in October 2014 ; 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 Group
# 2Q15 and 1H15 wrap up

# 2Q 2015 wrap up

- ✓ 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) ≥ 50% as of FY2016*

* Subject to the approval of the General Meeting of Shareholders


# KBC Group
# 2Q15 and 1H15
# Annex

# 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