

KBC Group / Bank Debt presentation December 2016

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3Q 2016 key takeaways for KBC Group

■ STRONG BUSINESS PERFORMANCE IN 3Q16

Good net result of 629m EUR in 3Q16 (and 1.74bn EUR in 9M16)

- Good commercial bank-insurance franchises in our core markets and core activities
- Slight q-o-q increase in customer loan volumes in most of our core countries
- Slightly lower net interest income and net interest margin q-o-q
- Higher net fee and commission income q-o-q, despite net asset management outflows
- Lower net gains from financial instruments at fair value, lower realised AFS gains and higher net other income
- Combined ratio of 94% YTD. Excellent sales of non-life products, but decline in sales of life insurance products
- Good cost management resulted in a cost/income ratio of 57% YTD adjusted for specific items
- Excellent, but unsustainably low level of impairment charges. Net loan provision release of 28m EUR in 3Q16 in Ireland. The impairment guidance for Ireland is updated towards a release of a 10m-50m EUR range for FY16

■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- **Common equity ratio (B3 phased-in) of 15.1% based on the Danish Compromise** at end 9M16, which clearly exceeds the minimum capital requirements set by the ECB (9.75%) and the NBB (0.5%), i.e. an aggregate 10.25% for 2016. **The B3 fully loaded common equity ratio stood at 15.3% based on the Danish Compromise at end 9M16**
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **6.2%** at KBC Group
- **Continued strong liquidity position** (NSFR at 123% and LCR at 137%) at end 9M16
- An **interim dividend of 1 EUR per share** (an advance payment on the total 2016 dividend) will be paid on 18 November 2016

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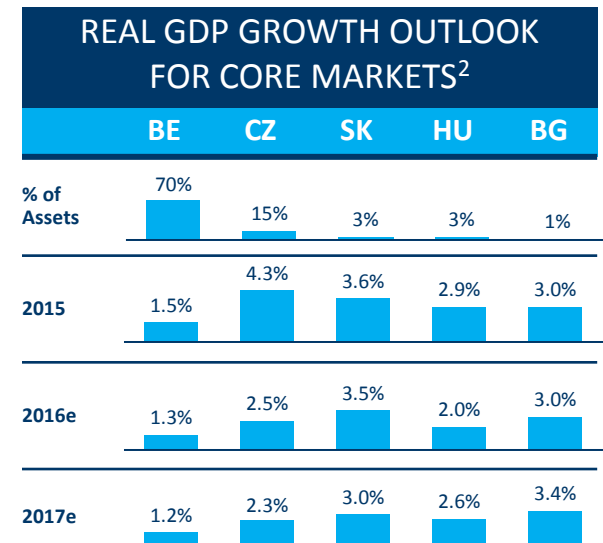
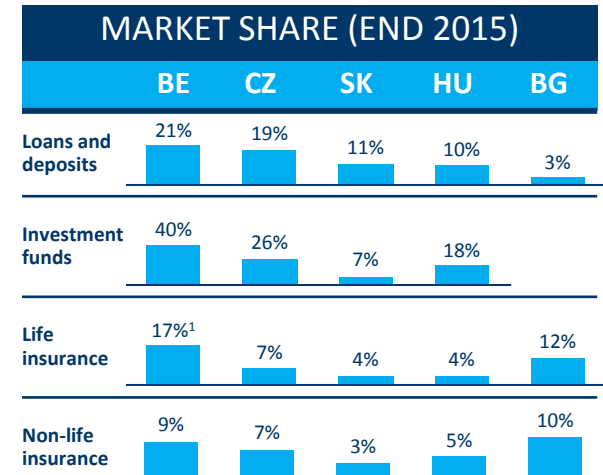
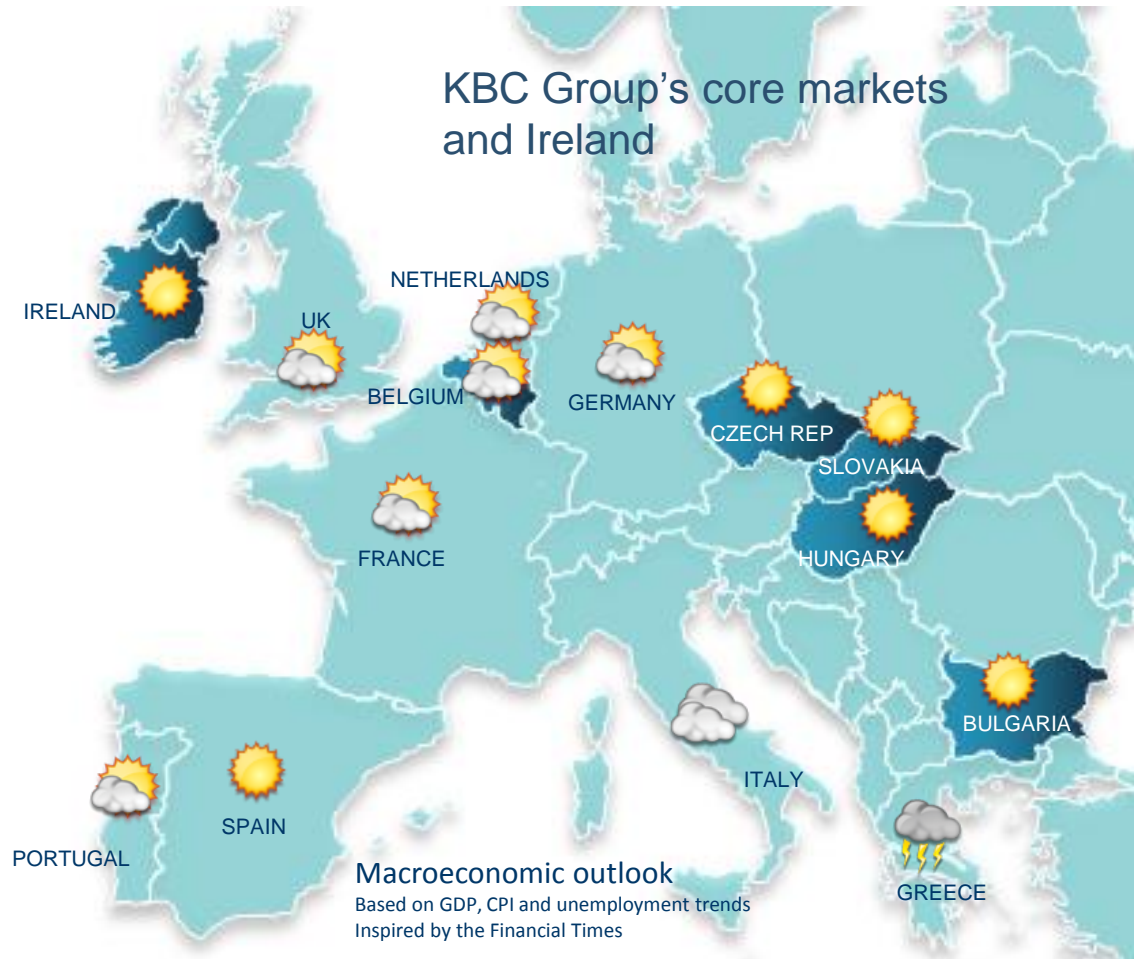
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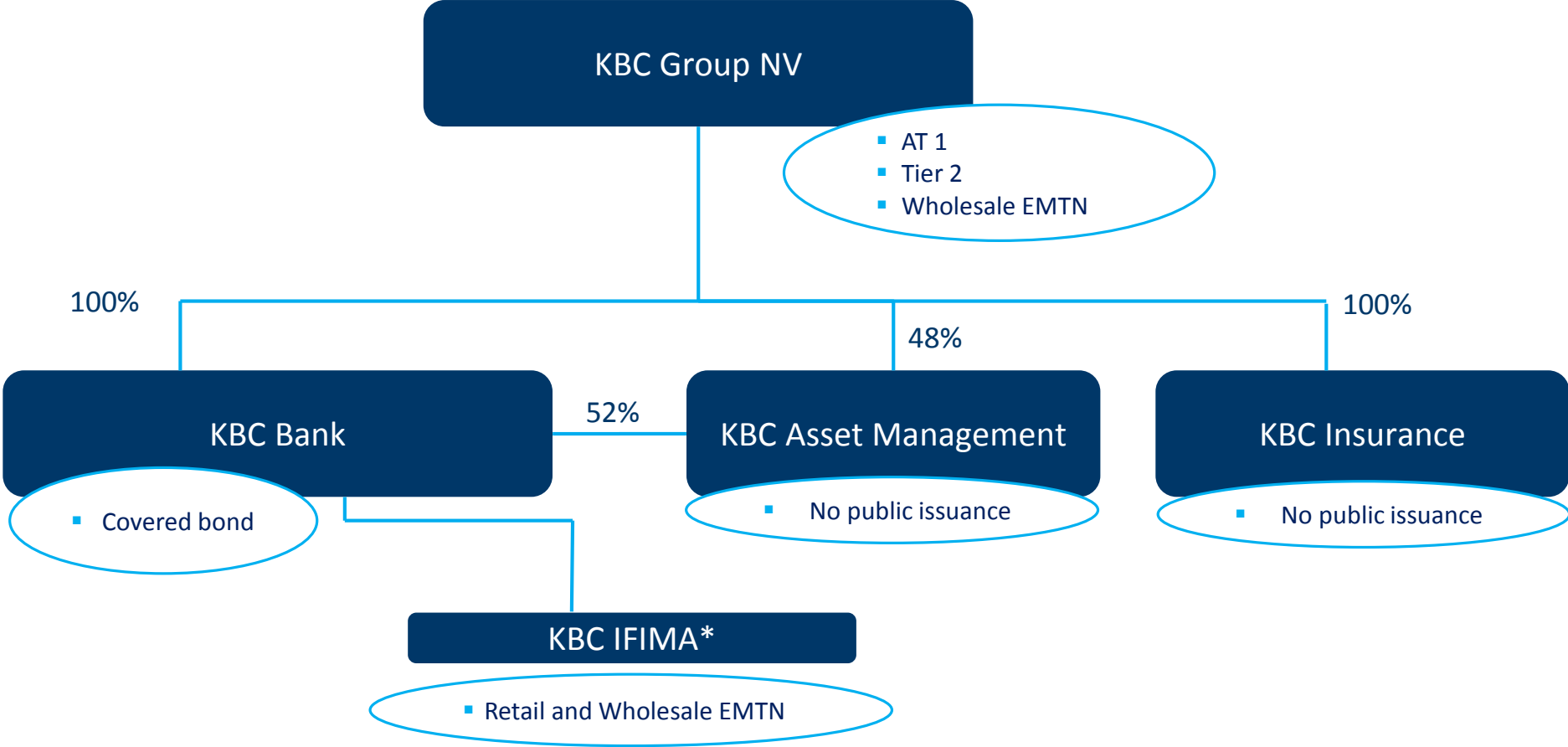
Well-defined core markets provide access to 'new growth' in Europe



1. Excluding group insurance. Including group insurance, market share of life insurance amounted to 13% at the end of 2015

2. Source: KBC data, November 2016

Group's legal structure and issuer of debt instruments



* All debt obligations of KBC IFIMA are unconditionally and irrevocably guaranteed by KBC Bank.



Overview of key financial data at 3Q 2016



KBC Bank

Net result 9M 2016³:	1 554m EUR
Total assets:	230bn EUR
Total equity:	14bn EUR
CET1 ratio²:	14.3%
C/I ratio⁴:	52%
Credit Cost Ratio 9M 2016:	0.07%

KBC Insurance

Net result 9M 2016:	217m EUR
Total assets:	39bn EUR
Total equity:	3bn EUR
Solvency II ratio:	170%
Combined operating ratio 9M 2016:	94%

1. As at 15 November 2016
 2. Presented ratio is fully loaded; on a phased-in basis the ratio as at 3Q 2016 stands at 15.1% for KBC Group and 14.1% for KBC Bank
 3. Includes KBC Asset Management ; excludes holding company eliminations
 4. Adjusted for specific items, the C/I ratio amounted to c.57% in 3Q 2016



Credit ratings as at 15 November 2016

	Moody's	S&P	Fitch
Group	Senior Unsecured	Baa1	A-
	Tier II	-	BBB+
	Additional Tier I	-	BB
	Short-term	P-2	A-2
	Outlook	Stable	Stable
Bank	Covered Bonds	AAA	AAA
	Senior Unsecured	A1	A-
	Tier II (CoCo) ¹	-	BBB-
	Additional Tier I	_2	_2
	Short-term	P-1	A-1
	Outlook	Stable	Stable
Insurance	Financial Strength Rating	-	A-
	Issuer Credit Rating	-	A-
	Outlook	-	Stable

1. Next to a Contingent Convertible Tier II debt obligation, KBC Bank has approx. 0.6bn EUR of unrated non-convertible Tier II debt outstanding issued as private placement or to retail investors.

2. Outstanding Tier I, net amount 44.5m GBP and callable as of December 2019, rated Baa3 by Moody's, BB+ by S&P and BB+ by Fitch.

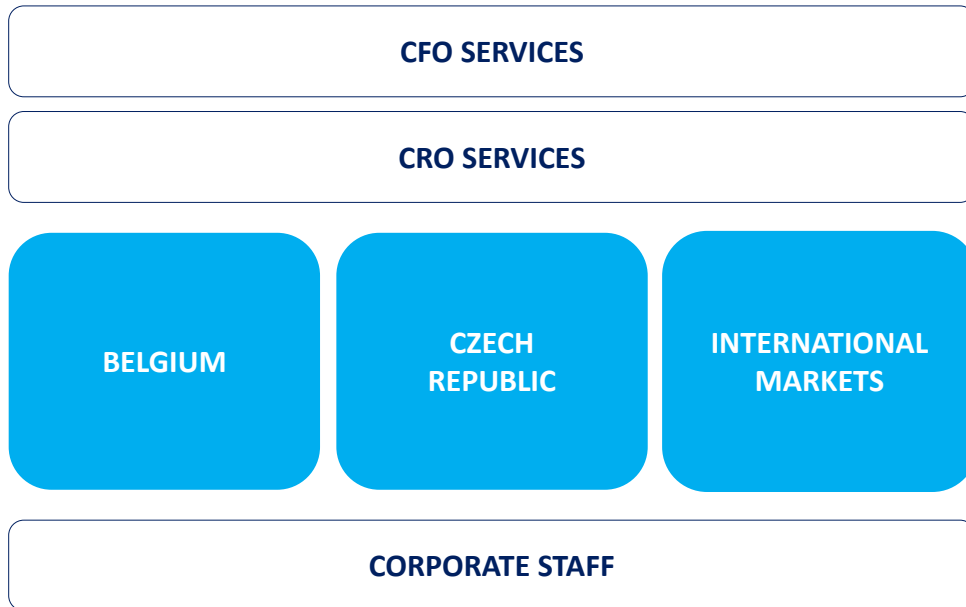
On **24 October 2016**, S&P revised the outlook of KBC Bank to Stable from Negative “reflecting the continued strengthening of KBC group's balance sheet, and its solid and resilient earnings profile despite the low-interest-rate environment”. At the same time all KBC's ratings were affirmed.

Overview of KBC Group

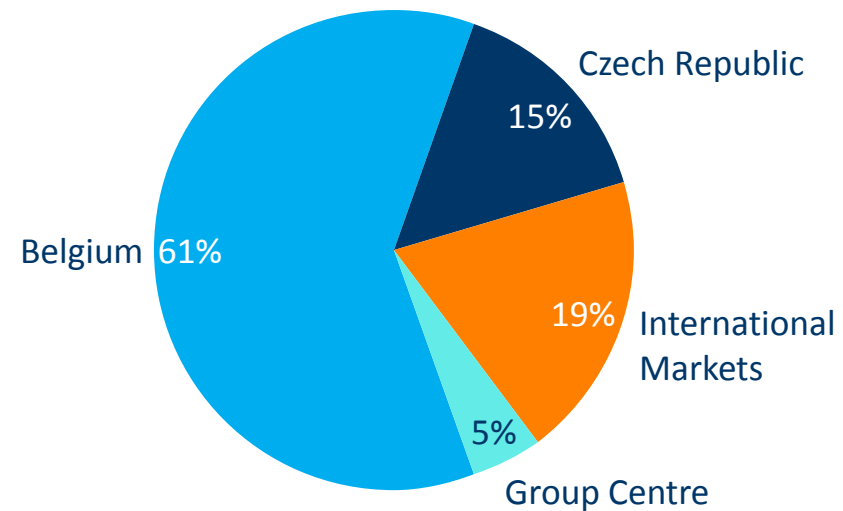
- **STRONG BANK-INSURANCE GROUP PRESENT WITH LEADING MARKET POSITIONS IN ITS CORE GEOGRAPHIES (BELGIUM AND CEE)**
 - A leading financial institution in both Belgium and the Czech Republic
 - Business focus on Retail, SME & Midcap clients
 - Unique selling proposition: in-depth knowledge of local markets and profound relationships with clients

- **INTEGRATED BANK-INSURANCE BUSINESS MODEL, LEADING TO HIGH CROSS-SELLING RATES**
 - Strong value creator with good operational results through the cycle
 - Integrated model creates cost synergies by avoiding overlap of supporting entities and generates added value for our clients through a complementary and optimised product and service offering

Business profile: KBC is a leading player in Belgium and its 4 core countries in CEE



BREAKDOWN OF ALLOCATED CAPITAL BY BUSINESS UNIT AT 30 September 2016



* Covers inter alia impact own credit risk and results of holding company

KBC Group going forward:

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

- KBC wants to 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 as announced at our investor day in June 2014

Targets...		by...
CAGR total income ('13-'17)¹	≥ 2.25%	2017
CAGR bank-insurance gross income ('13-'17)	≥ 5%	2017
C/I ratio	≤ 53%	2017
Combined ratio	≤ 94%	2017
Common equity ratio (fully loaded, Danish compromise)	≥ 10.40% ²	2019
Total capital ratio (fully loaded, Danish compromise)	≥ 17%	2017
NSFR	≥ 105%	2014
LCR	≥ 105%	2014
Dividend payout ratio	≥ 50%	2016

Based on adjusted figures

1. Excluding marked-to-market valuations of ALM derivatives
2. 2019 minimum fully loaded CET1 ratio under the Danish compromise of 10.40% set by the ECB (minimum Pillar 1 of 4.5% plus 1.75% P2R) in combination with a capital conservation buffer of 2.5%, NBB's systemic buffer (1% minimum in 2017 increasing to 1.5% in 2018) and 0.15% of countercyclical buffer from the Czech and Slovak competent authorities. P2G is set at 1%

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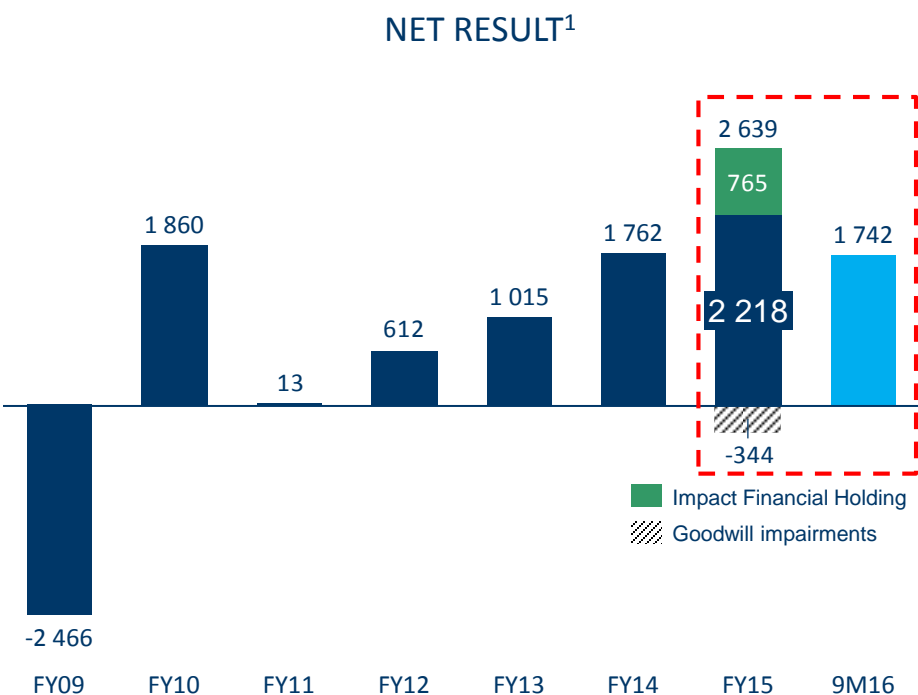
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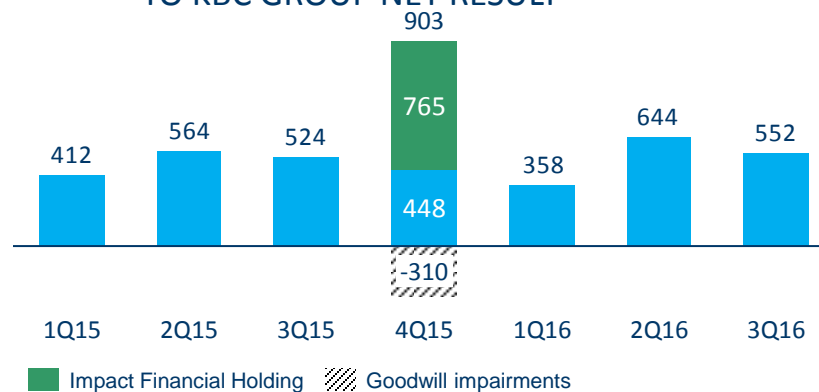
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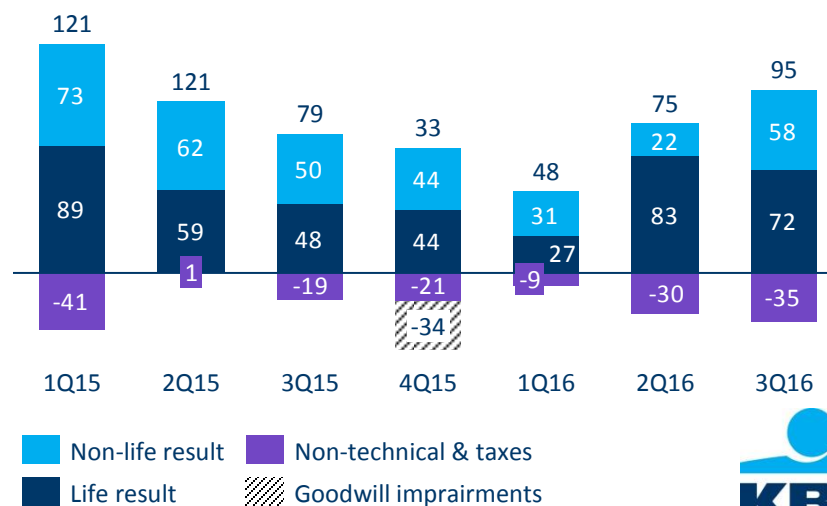
Earnings capacity



CONTRIBUTION OF BANKING ACTIVITIES TO KBC GROUP NET RESULT^{1,2}



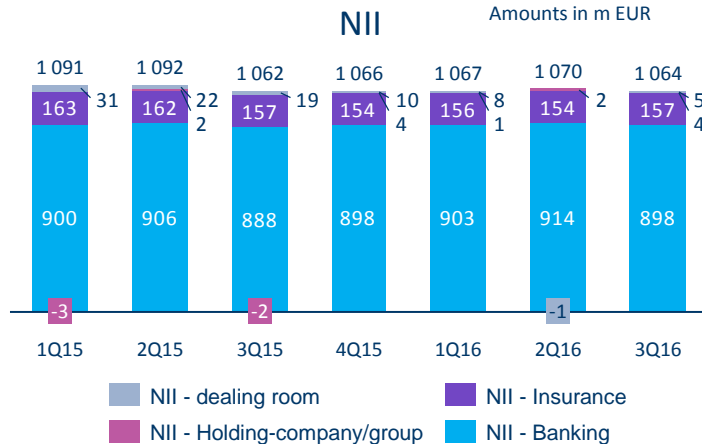
CONTRIBUTION OF INSURANCE ACTIVITIES TO KBC GROUP NET RESULT^{1,2}



1 Note that the scope of consolidation has changed over time, due partly to divestments

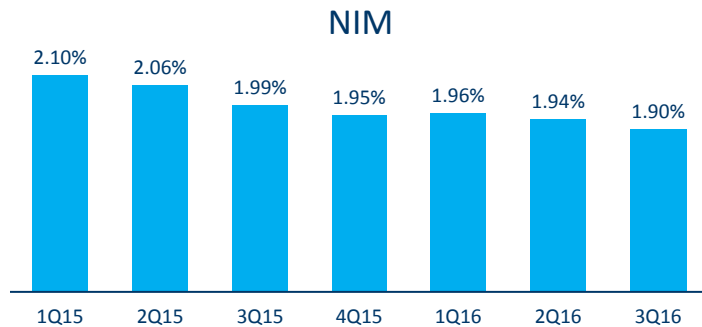
2 Difference between the net result at KBC Group and the sum of the banking and insurance contribution are the holding-company/group items

Slightly lower net interest income and net interest margin



Net interest income

- Down by 1% q-o-q and slightly up y-o-y
- The q-o-q decrease was driven primarily by:
 - lower reinvestment yields
 - hedging losses on previously refinanced mortgages
 - pressure on commercial loan margins in most core countries
 - slightly lower upfront prepayment fees
 almost fully offset by:
 - lower funding costs
 - continued good volume growth in current accounts and loans
 - further positive effect of enhanced ALM management
 - an increase of 7m EUR in NII from the dealing room



Net interest margin (1.90%)

- Down by 4 bps q-o-q and by 9 bps y-o-y
- Q-o-q decrease is due to lower reinvestment yields, pressure on commercial loan margins in most core countries and hedging losses on previously refinanced mortgages partly offset by lower funding costs

VOLUME TREND

Excluding FX effect	Total loans **	Of which mortgages	Customer deposits***	AuM	Life reserves
Volume	131bn	57bn	168bn	209bn	28bn
Growth q-o-q*	0%	+1%	-2%	+1%	0%
Growth y-o-y	+4%	+4%	+3%	+4%	1%

Note: A dashed arrow points from the 'Customer deposits***' column to the text: **Customer deposit volumes excluding debt certificates & repos flat q-o-q and +3% y-o-y**

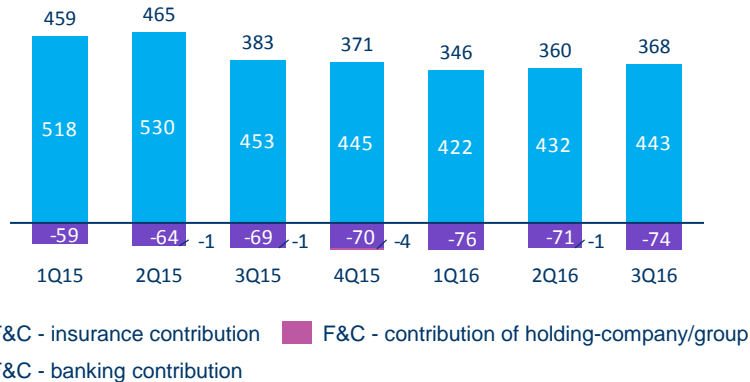
* Non-annualised

** Loans to customers, excluding reverse repos (and bonds)

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

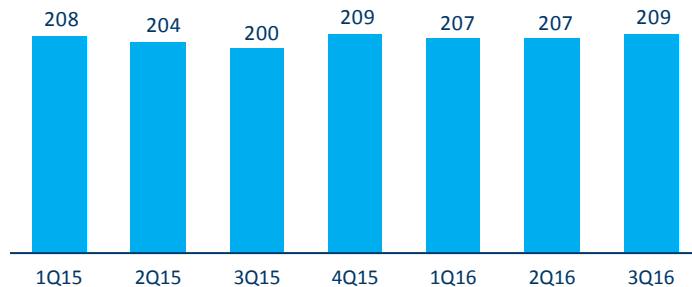
Higher net fee and commission income

F&C



Amounts in m EUR

AuM



Amounts in bn EUR

Net fee and commission income

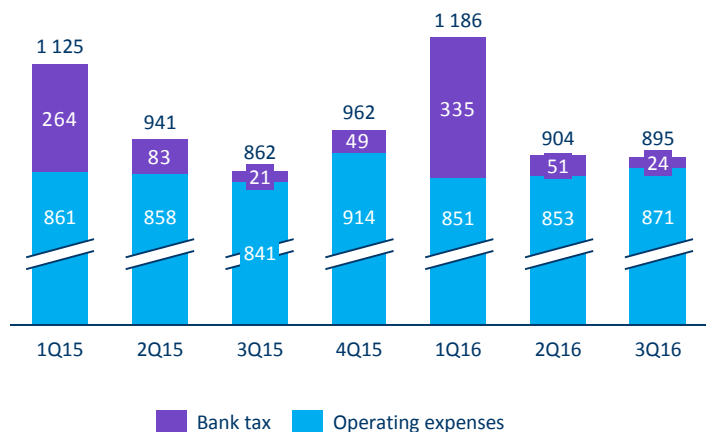
- Up by 2% q-o-q and down by 4% y-o-y
- Q-o-q increase was the result chiefly of:
 - higher management fees from mutual funds & unit-linked life insurance products (thanks to reset date CPPI)
 - higher fees from payment services in Belgium, Slovakia and Hungary
 - slightly higher entry fees from mutual funds partly offset by:
 - lower fees from credit files and bank guarantees (due mainly to less mortgage refinancings in BE)
 - lower securities-related fees in Belgium
 - higher commissions paid on insurance sales
- Y-o-y decline occurred chiefly in the Belgium Business Unit due to lower management fees from mutual funds and unit-linked life insurance products, lower fees from securities transactions and higher commissions paid on insurance sales

Assets under management (209bn EUR)

- Went up by 1% q-o-q as a result of net outflows (-1%) and a positive price effect (+2%)
- Rose by 4% y-o-y owing to net inflows (+1%) and a positive price effect (+3%)

Operating expenses down, due entirely to lower bank taxes

OPERATING EXPENSES



Cost/income ratio (banking) adjusted for specific items* at 57% in 3Q16 and YTD

- Operating expenses excluding bank tax increased by 2% q-o-q as higher professional fees, timing differences and higher staff expenses were only partly offset by lower ICT expenses
- Operating expenses without bank tax increased by 4% y-o-y due mainly to higher ICT expenses, higher professional fees and general administrative expenses (partly timing differences), despite lower staff expenses
- Operating expenses excluding bank tax increased by 1% y-o-y in 9M16

EXPECTED BANK TAX SPREAD

	TOTAL	Upfront			Spread out over the year			
	3Q16	1Q16	2Q16	3Q16	1Q16	2Q16	3Q16	4Q16e
BU BE	0	241	32	0	0	0	0	0
BU CZ	0	28	-1	0	0	0	0	0
Hungary	20	31	0	0	17	19	20	25
Slovakia	3	6	-2	0	3	3	3	3
Bulgaria	0	1	1	0	0	1	0	0
Ireland	1	2	0	0	1	1	1	2
GC	0	5	-3	0	0	0	0	0
TOTAL	24	314	27	0	22	24	24	30

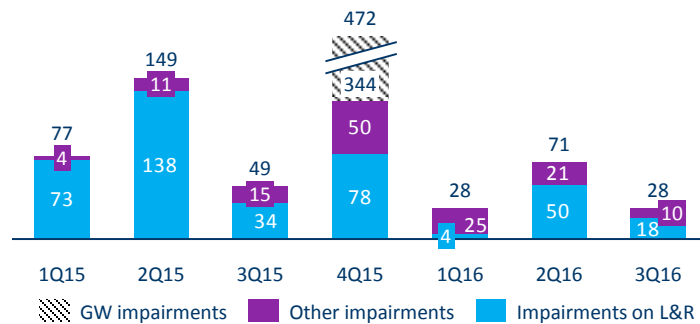
- Pursuant to IFRIC 21, certain levies (such as contributions to the European Single Resolution Fund) have to be recognised in advance, and this adversely impacted the results for 1Q16. In 2Q16, the Belgian government replaced the 4 existing taxes by 1, which led to 38m EUR additional bank taxes in Belgium, partly offset by the ability to book 6m EUR of the ESRF contribution as a non-P&L item

- Total bank taxes (including ESRF contribution) are expected to increase from 417m EUR in FY15 to 441m EUR in FY16

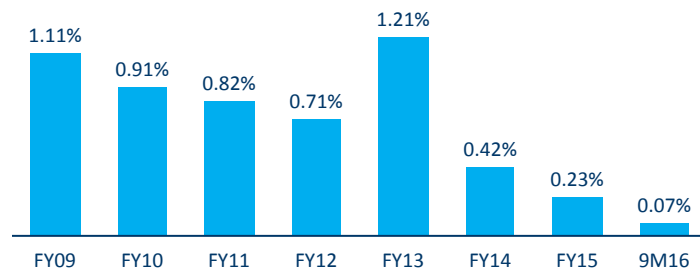
* See glossary (slide 87) for the exact definition

Unsustainably low asset impairments, excellent credit cost ratio and decreased impaired loans ratio

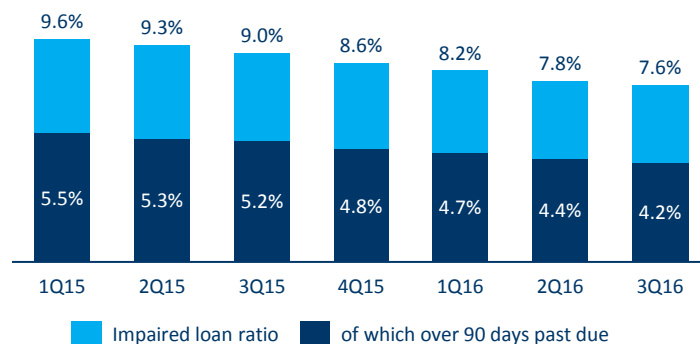
ASSET IMPAIRMENT



CREDIT COST RATIO



IMPAIRED LOANS RATIO



- Lower impairment charges q-o-q (unsustainable low level)

- The q-o-q decrease in loan loss provisions was attributable mainly to:
 - net loan loss provision releases of 28m EUR in Ireland and 11m EUR in Hungary
 - a 25m EUR increase due to IBNR parameter changes in 2Q16
- Impairment of
 - 7m EUR on AFS shares (entirely in Belgium)
 - 3m EUR on other (IT and equipment)

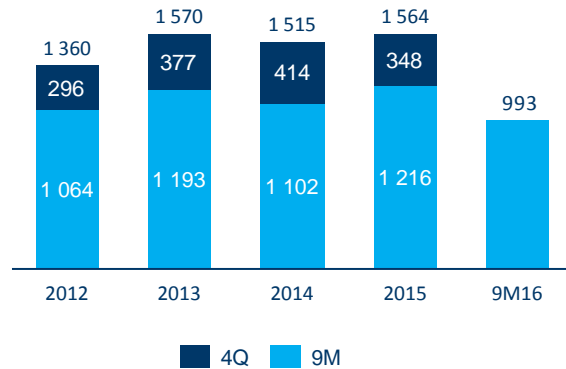
- The **credit cost ratio** only amounted to 0.07% in 9M16 due to low gross impairments and several releases

- The **impaired loans ratio** dropped further to 7.6%

Overview of results based on business units

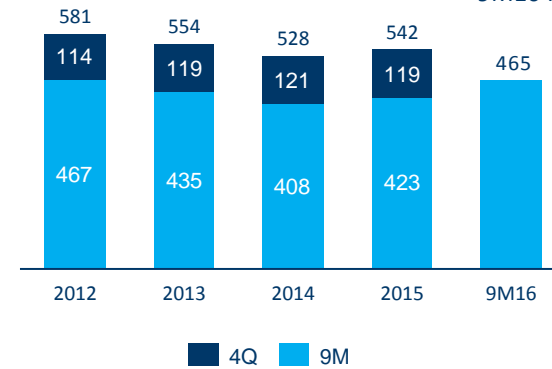
NET PROFIT – BELGIUM

9M16 ROAC: 22%



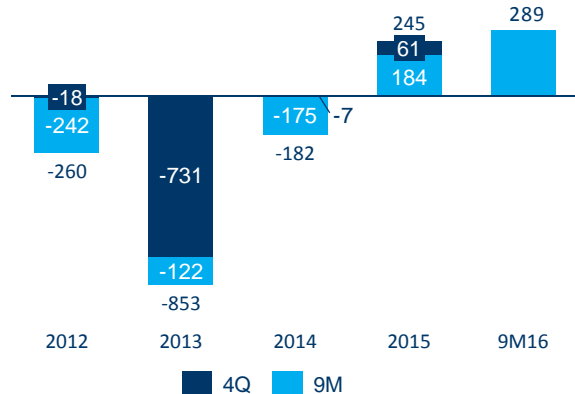
NET PROFIT – CZECH REPUBLIC

9M16 ROAC: 43%



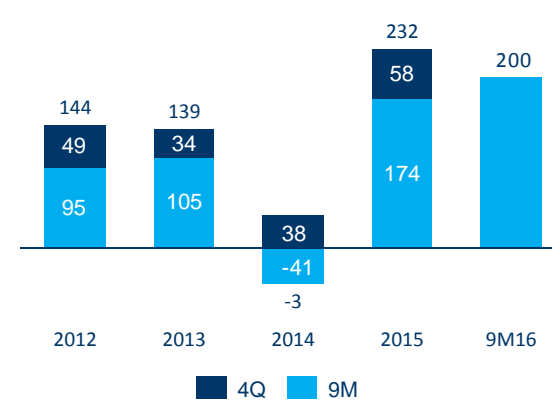
NET PROFIT – INTERNATIONAL MARKETS

9M16 ROAC: 20%



NET PROFIT – INTERNATIONAL MARKETS EXCL. IRELAND

9M16 ROAC: 22%



Amounts in m EUR



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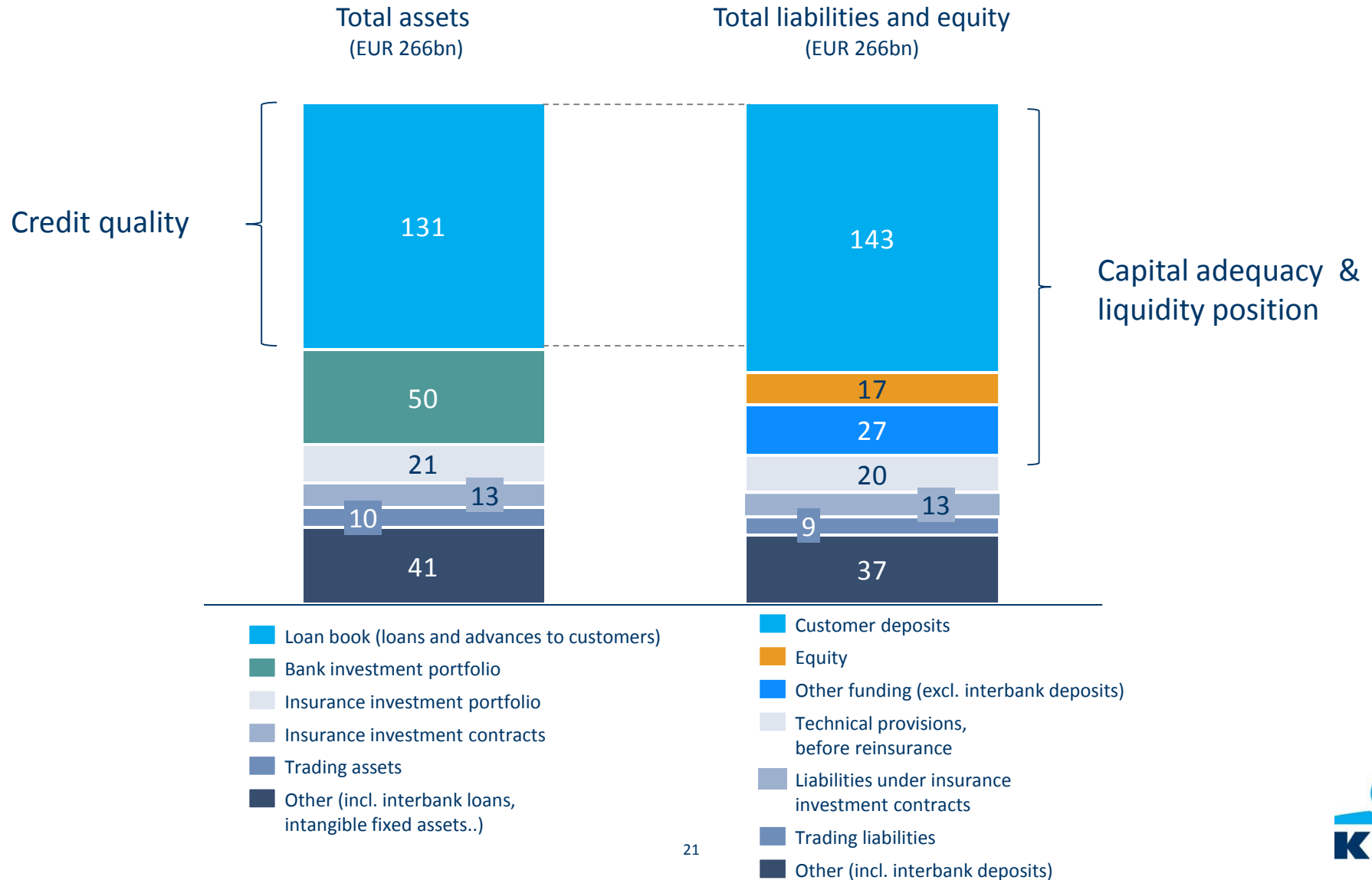
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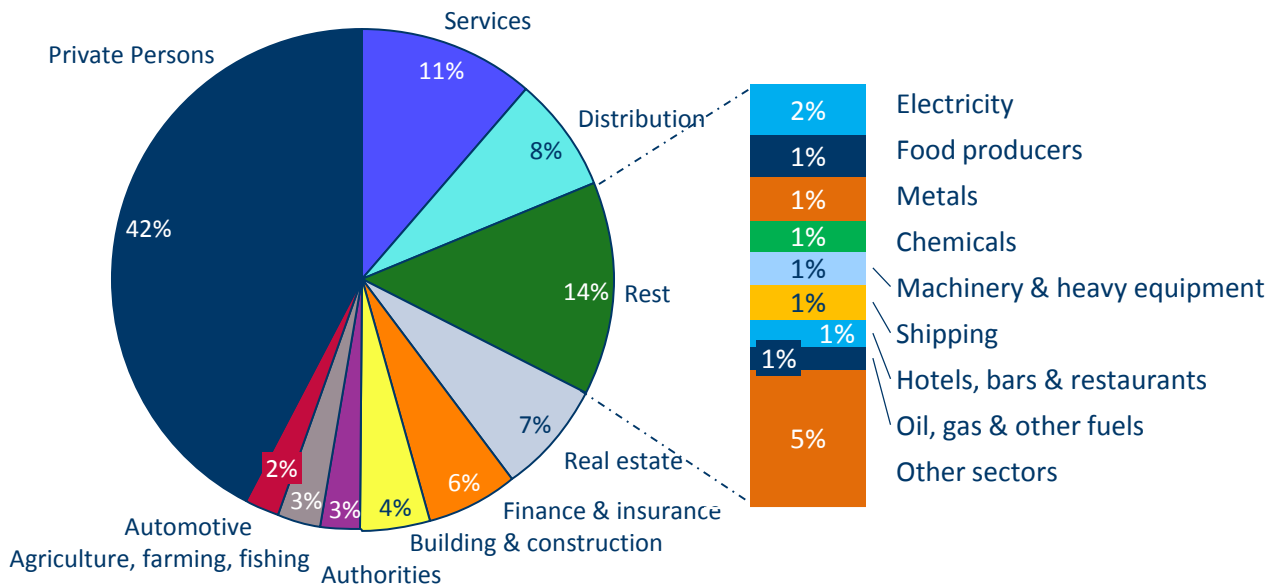
Balance sheet

(KBC Group consolidated at 30 September 2016)

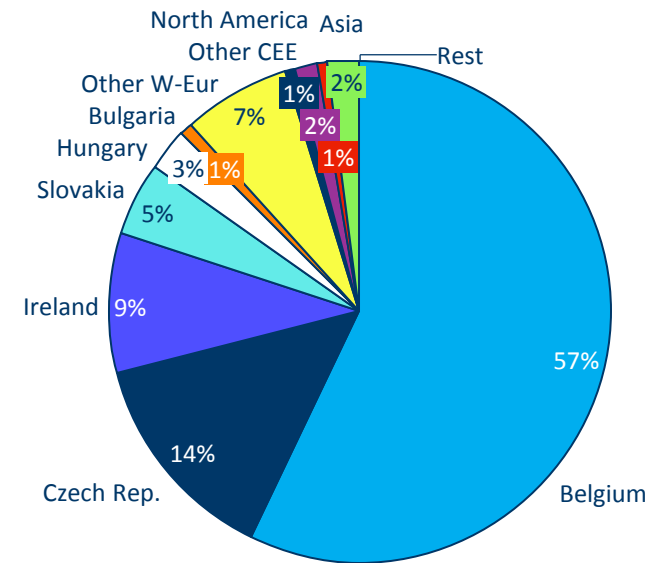


Breakdown of KBC Bank's loan portfolio*

Sector breakdown



Geographic breakdown

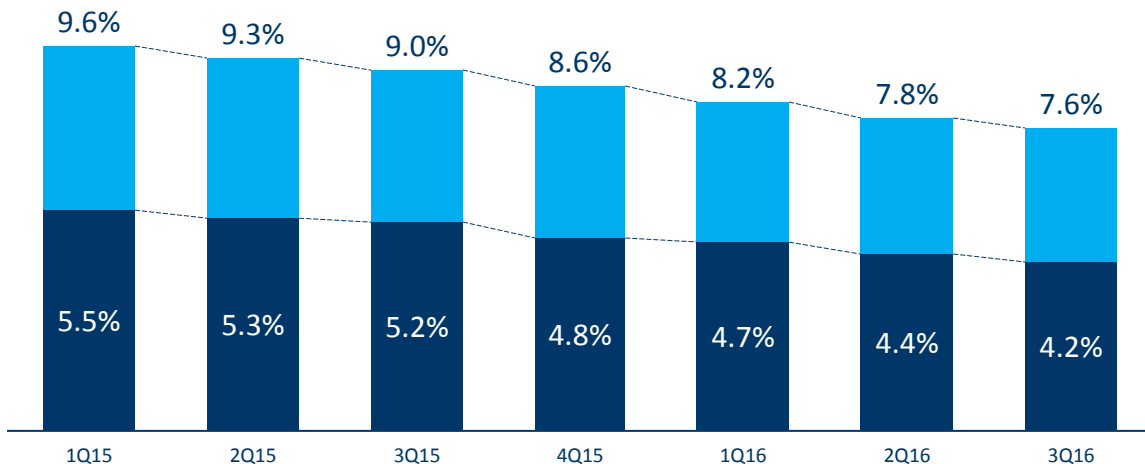


* KBC Bank's loan portfolio, 146bn EUR outstanding as at 30/09/2016, differs from the IFRS balance sheet item 'loans and advances to customers, excl. repos' (131bn EUR as at 30/09/2016) and includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export-/import-related commercial credit), standby credit and credit derivatives, granted by KBC to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.

The breakdowns are based on the outstanding amount and include all on-balance sheet commitments and off-balance sheet guarantees

Impaired loans ratios of KBC Group and per Business Unit, incl. of which over 90 days past due

KBC GROUP

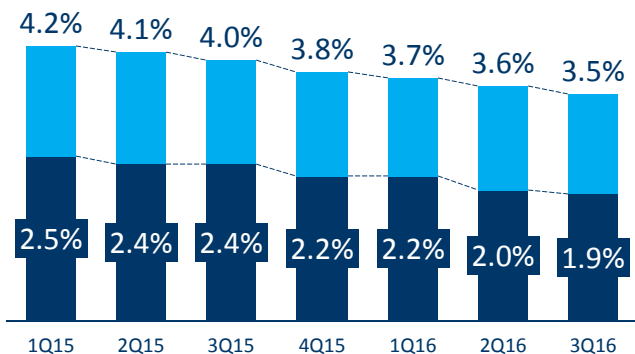


International Markets excl. Ireland:

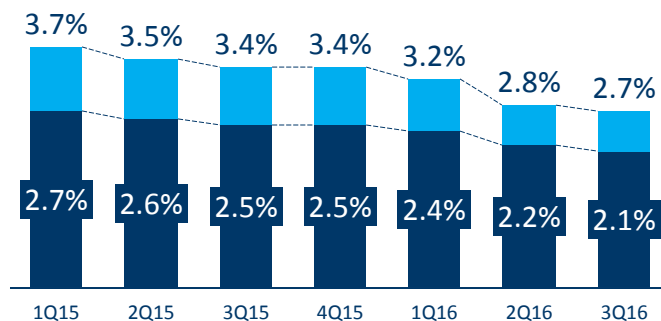
- Impaired loans ratio stands at 7%
- Ratio of 90 days past due at 6%



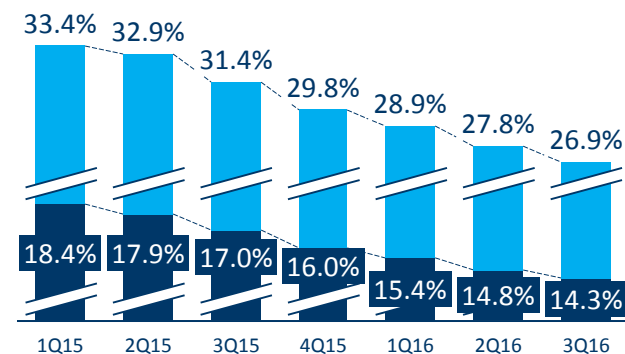
BELGIUM BU



CZECH REPUBLIC BU



INTERNATIONAL MARKETS BU



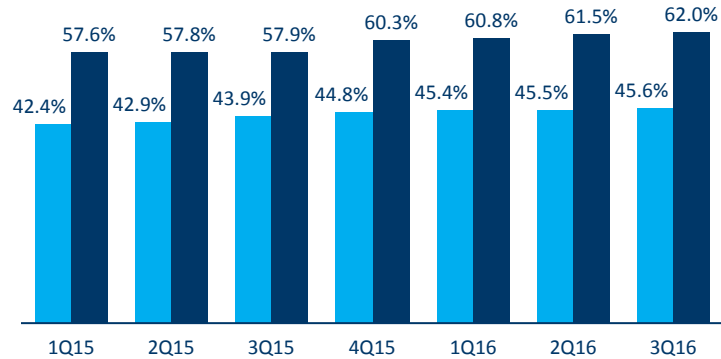
■ Impaired loans ratio * ■ of which over 90 days past due **

* 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

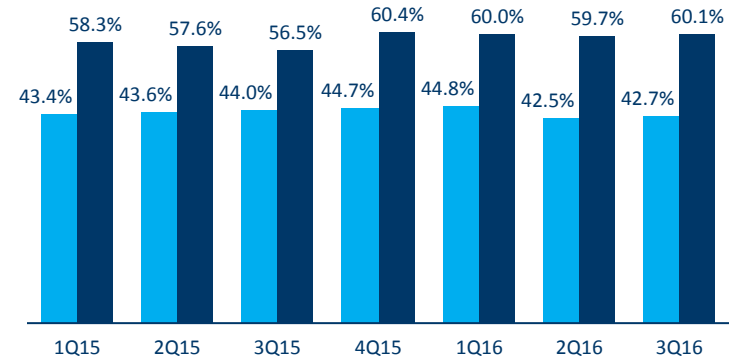


Cover ratios

KBC GROUP

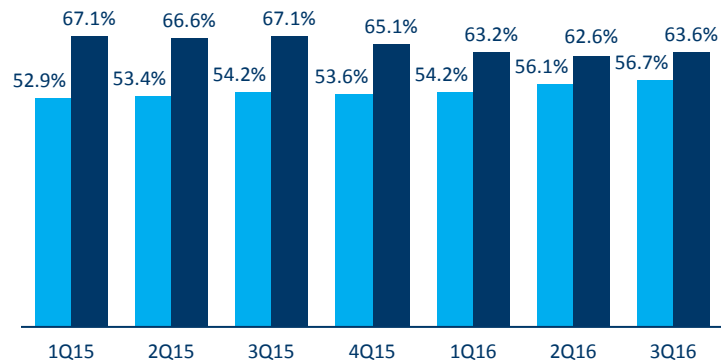


BELGIUM BU

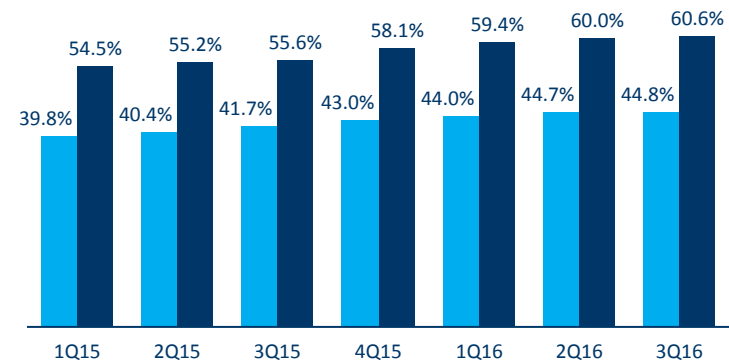


■ Impaired loans cover ratio *
■ Cover ratio for loans with over 90 days past due **

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

Loan loss experience at KBC

	9M16 CREDIT COST RATIO	FY15 CREDIT COST RATIO	FY14 CREDIT COST RATIO	FY13 CREDIT COST RATIO	FY 2012 CREDIT COST RATIO	AVERAGE '99 –'15
Belgium	0.07%	0.19%	0.23%	0.37%	0.28%	n/a
Czech Republic	0.09%	0.18%	0.18%	0.26%	0.31%	n/a
International Markets	-0.18%	0.32%	1.06%	4.48% ¹	2.26%	n/a
Group Centre	0.73%	0.54%	1.17%	1.85%	0.99%	n/a
Total	0.07%	0.23%	0.42%	1.21%²	0.71%	0.52%

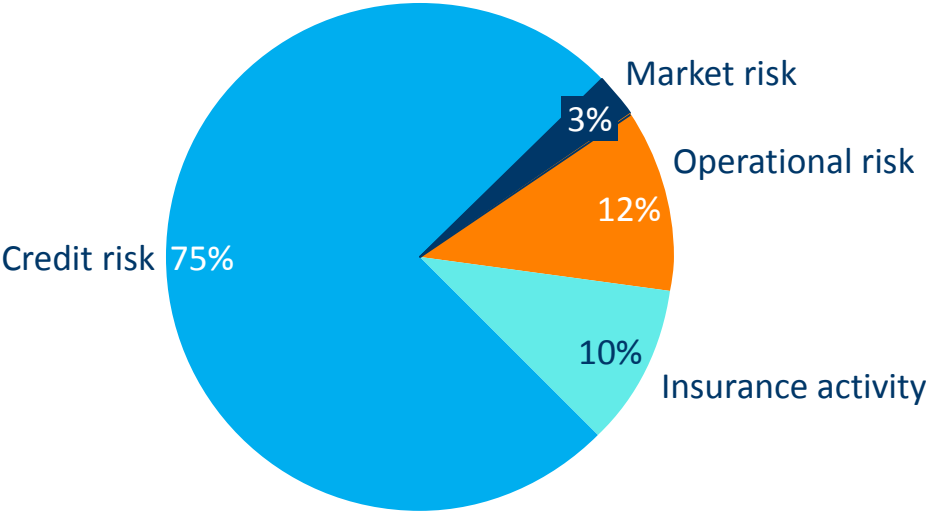
Credit cost ratio: amount of losses incurred on troubled loans as a % of total average outstanding loan portfolio

1 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

2 Credit cost ratio amounted to 1.21% in FY13 due to the reassessment of the loan books in Ireland and Hungary

Limited trading activity at KBC Group

BREAKDOWN ACCORDING TO RWA*
30-09-2016

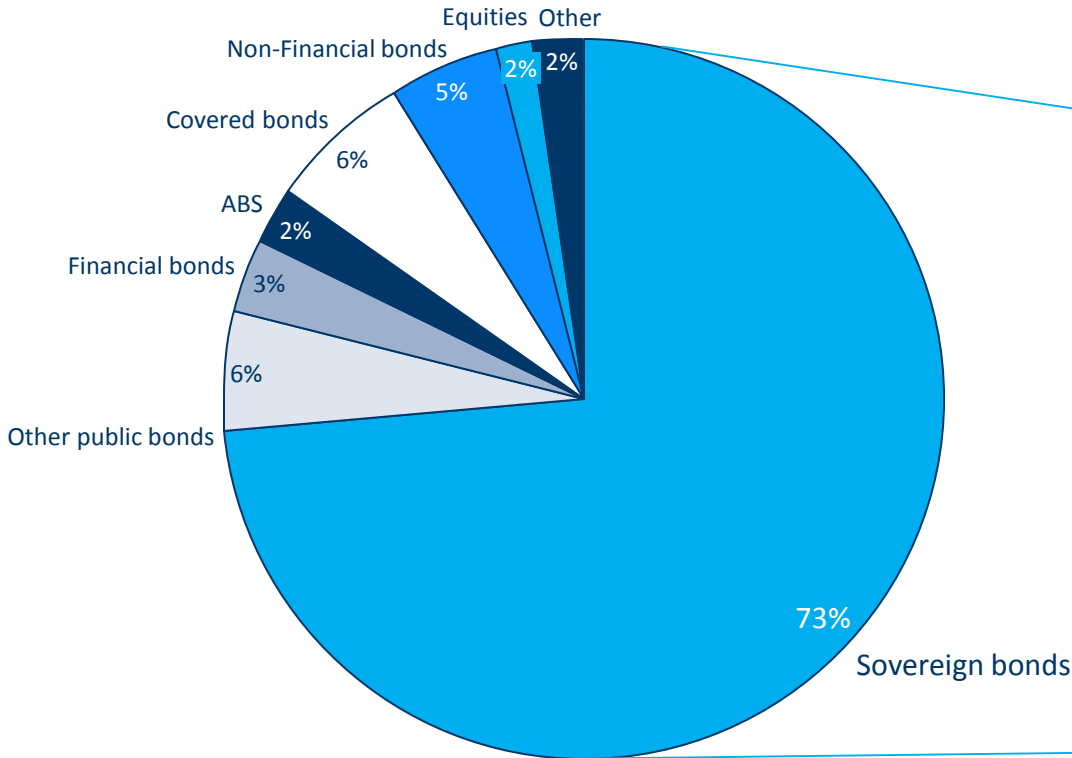


* RWA on fully loaded basis and under Danish Compromise

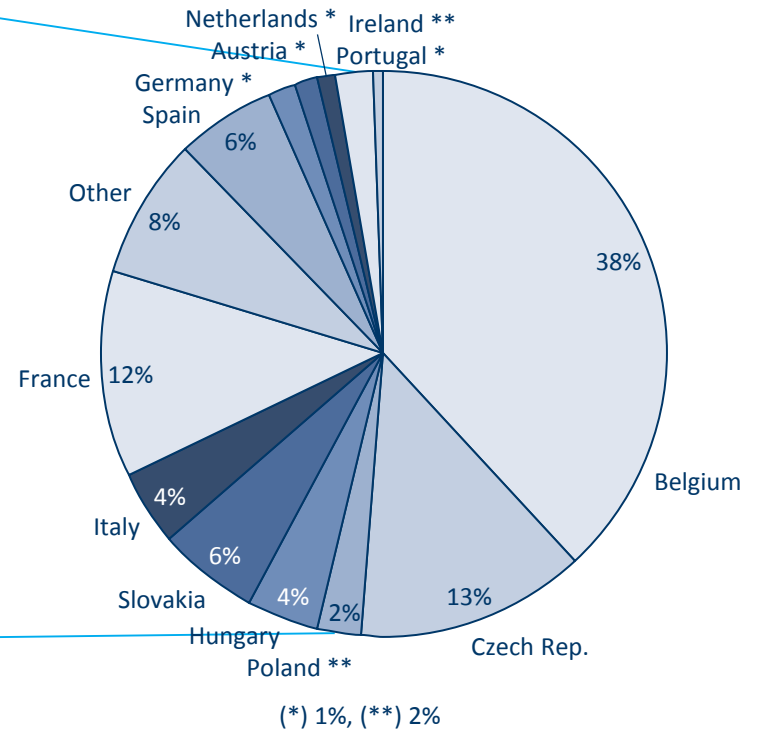


Investment portfolio (as per 30/09/2016)

INVESTMENT PORTFOLIO
(Total EUR 71bn)



SOVEREIGN BOND PORTFOLIO
(Carrying value¹ EUR 54bn)
(Notional value EUR 49bn)



1. 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

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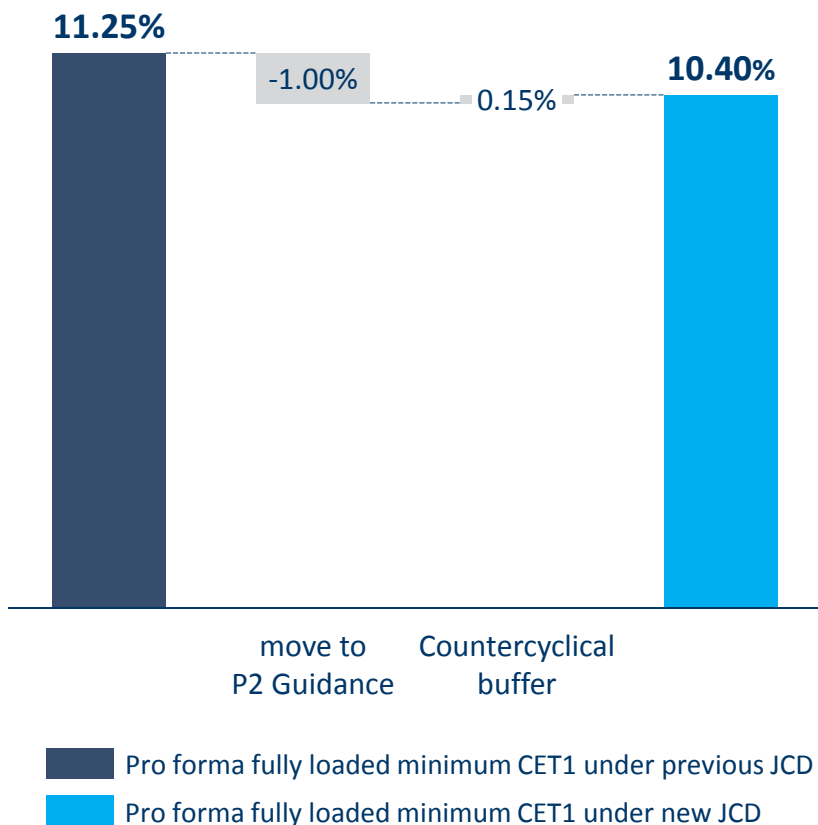
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KBC's capital remains well above the minimum requirements

Change in pro forma fully loaded CET1 requirement



- KBC was informed by the European Central Bank of its **new minimum capital requirements**, leading to a combined overall **fully loaded regulatory CET1 requirement** (under the Danish Compromise) of **10.40%**

At the **close of the third quarter of 2016**, KBC's **fully loaded CET1 ratio came to 15.3%**, well above the new CET1 requirement

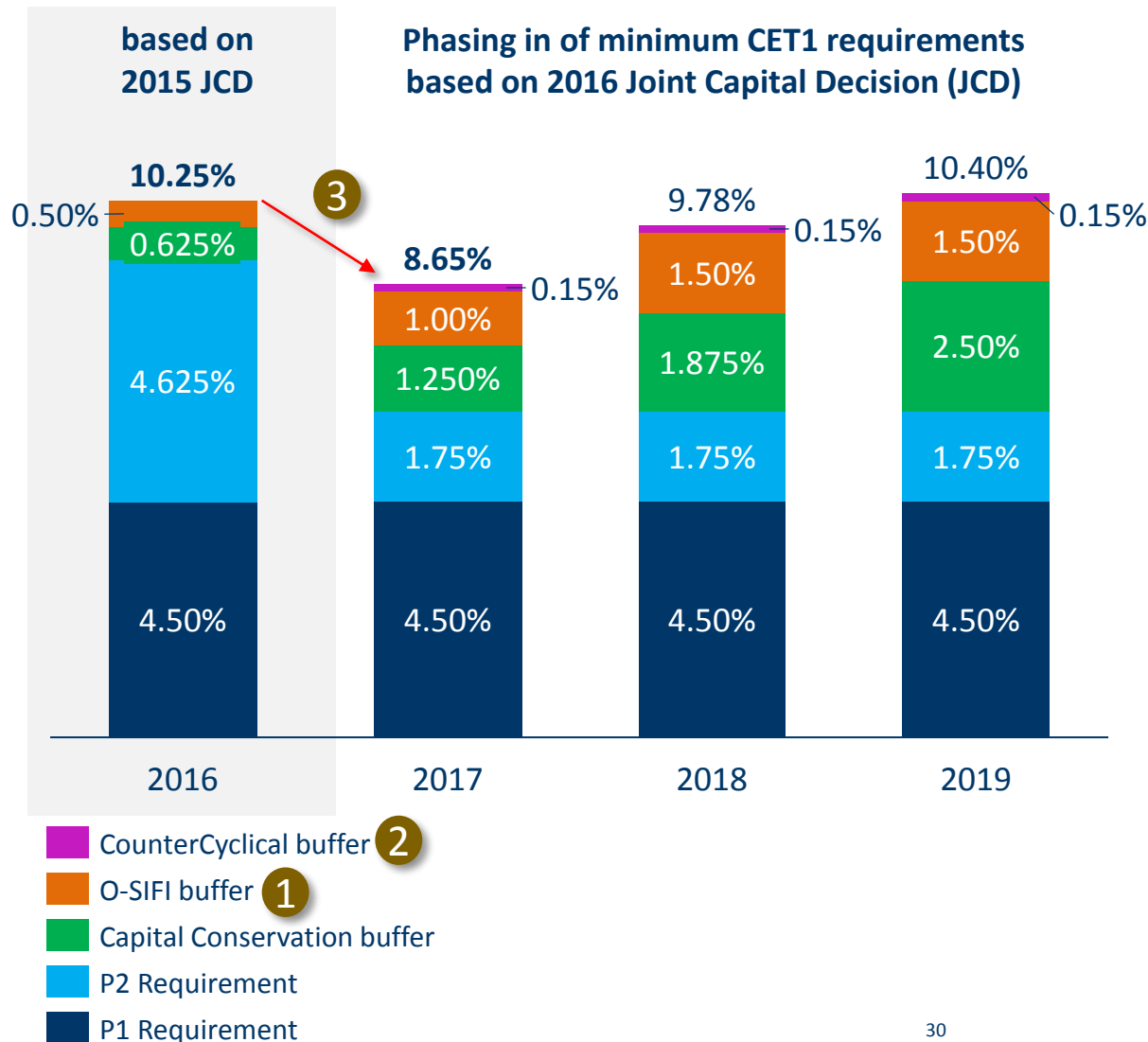
- Following the Supervisory Review and Evaluation Process (SREP) performed for 2016, **the ECB formally notified KBC of its decision to set**
 - a pillar 2 requirement (**P2R**) of **1.75% CET1**
 - a pillar 2 guidance (**P2G**) of **1.0% CET1**
- The **Czech and Slovak** competent authorities introduce 0.5% of **countercyclical buffer, respectively in 1Q 2017 and 3Q 2017**, which corresponds with an additional 0.15% CET1 requirement at KBC Group level

For more information, see the press release of 14 December 2016 on www.kbc.com



Minimum CET1 requirements in detail

AT1 coupon non-payment level falling to 8.65% in 2017



1

The National Bank of Belgium decided upon a **systemic buffer** (CET1 phased-in of 0.5% in 2016 under the Danish Compromise) that **gradually increases over a 3-year period, reaching 1.5% in 2018**

2

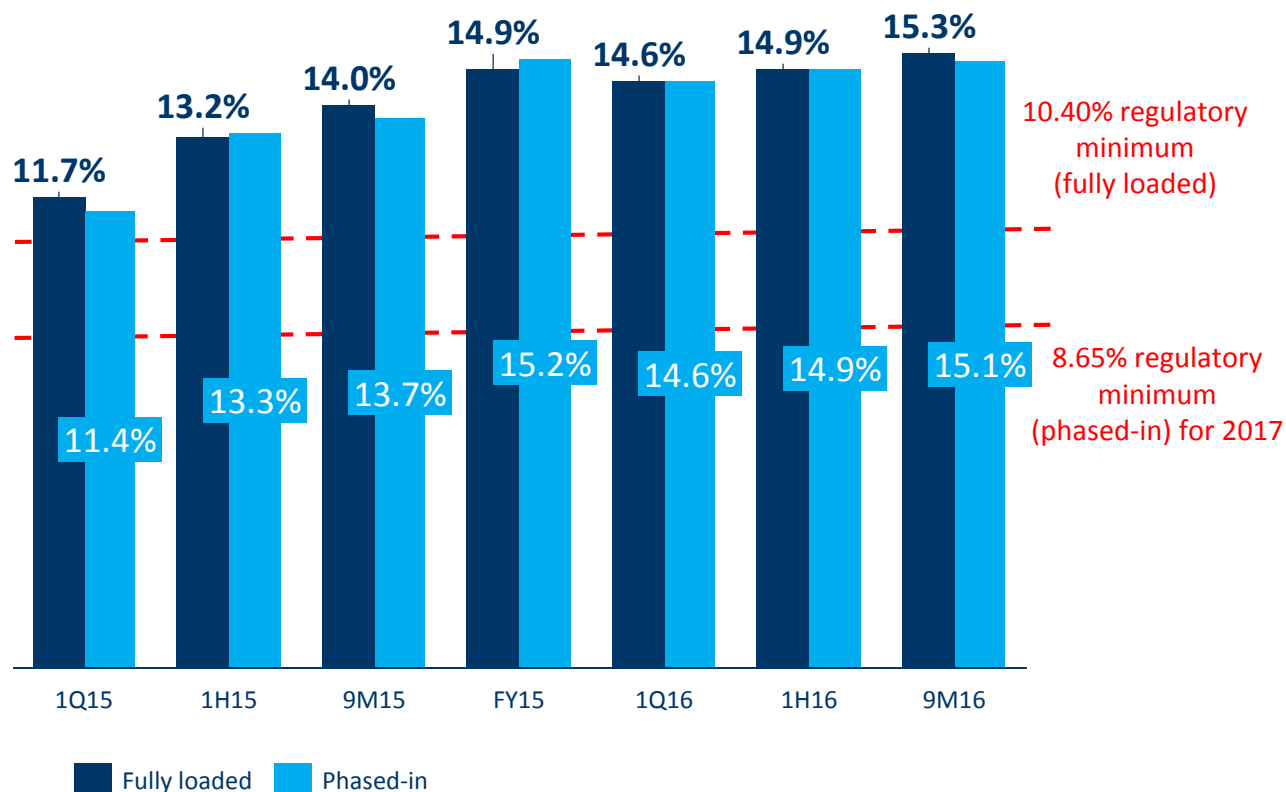
The **Czech and Slovak competent authorities decided to introduce a countercyclical buffer requirement** of 0.5% in 1Q2017 and 3Q2017 respectively, corresponding to an additional 0.15% CET1 requirement at KBC Group level (0.10% + 0.05% respectively)

3

Under the new framework on Maximum Distributable Amounts (MDA), the **restriction to pay coupons on AT1 instruments falls from 10.25% in 2016 to 8.65% in 2017**. (assuming that the T1 and T2 minimum capital bucket continue to be adequately filled with externally placed instruments)

Strong capital position

CET1 RATIO AT KBC GROUP BASED ON THE DANISH COMPROMISE



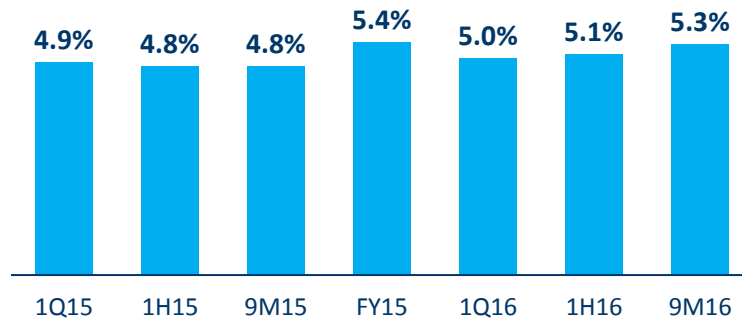
- **Common equity ratio (phased-in) of 15.1%** based on the Danish Compromise at end 9M16, which **clearly exceeds** the minimum **capital requirements of 8.65%** based on the **2016 Joint Capital Decision (JCD)**
- A **pro forma fully loaded minimum common equity ratio translation to 10.40%** based on the 2016 Joint Capital Decision (JCD) **was clearly exceeded** with a fully loaded common equity ratio of 15.3% based on the Danish Compromise at end 9M16
- **Including the 1% Pillar 2 Guidance the implied fully loaded minimum CET1 requirement stands at 11.40%** (9.65% phased-in for 2017), which is **also amply exceeded** by the actual CET1 ratio at end 9M16

Total distributable items (under Belgian GAAP) KBC Group 6.5bn EUR as at 3Q16, of which:

- available reserves 1.3bn EUR
- accumulated profits 5.2bn EUR

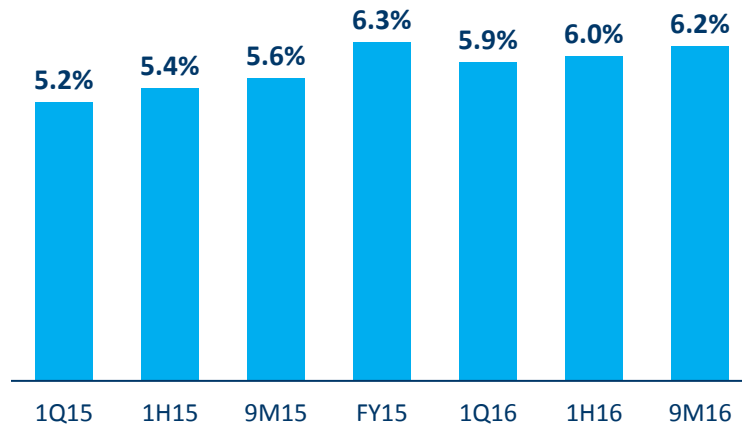
Fully loaded Basel 3 leverage ratio

Fully loaded Basel 3 leverage ratio at KBC Bank



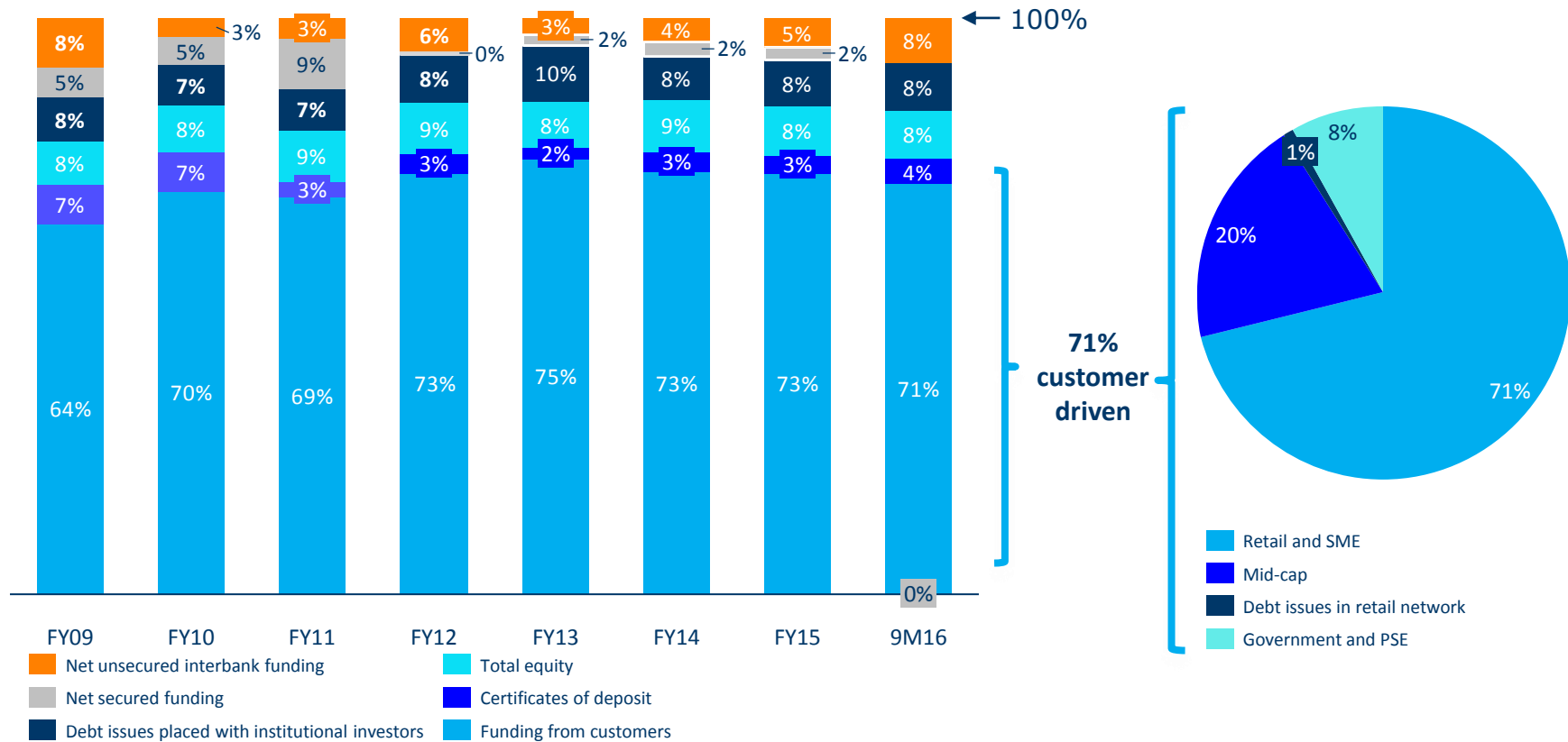
- Fully loaded B3 leverage ratio, based on the current CRR legislation (which was adapted during 4Q14):
 - 5.3% at KBC Bank consolidated level
 - 6.2% at KBC Group level

Fully loaded Basel 3 leverage ratio at KBC Group



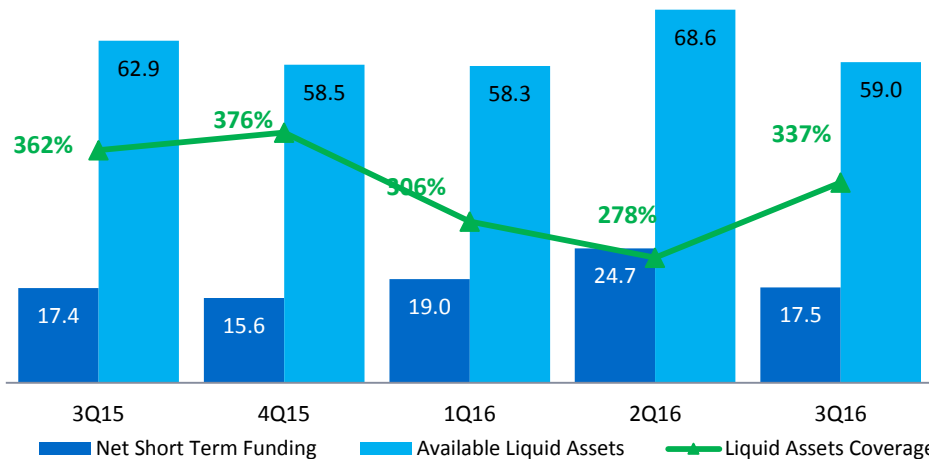
Solid liquidity position (1/2)

- 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 (2/2)

Short-term unsecured funding KBC Bank vs Liquid assets as of end September 2016^(*)
(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	FY15	9M16	Target
NSFR ¹	121%	123%	>105%
LCR ¹	127%	137%	>105%

¹ Liquidity coverage ratio (LCR) is based on the Delegated Act requirements, while the Net Stable Funding Ratio (NSFR) is based on KBC's interpretation of current Basel Committee guidance

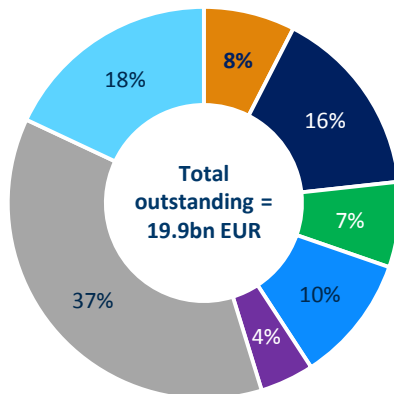
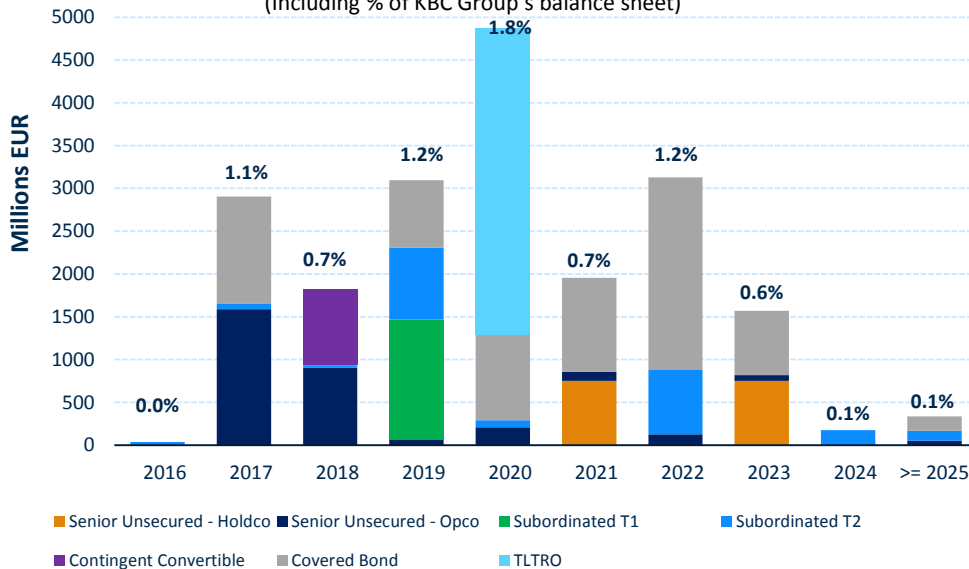
- KBC maintains a solid **liquidity position**, given that:
 - Available liquid assets are more than 3 times the amount of the net recourse on short-term wholesale funding
 - Funding from non-wholesale markets is stable funding from core-customer segments in core markets

- **NSFR is at 123% and LCR is at 137% by the end of 9M16**
 - Both ratios were well above the minimum target of at least 105%, in compliance with the implementation of Basel 3 liquidity requirements

Upcoming mid-term funding maturities

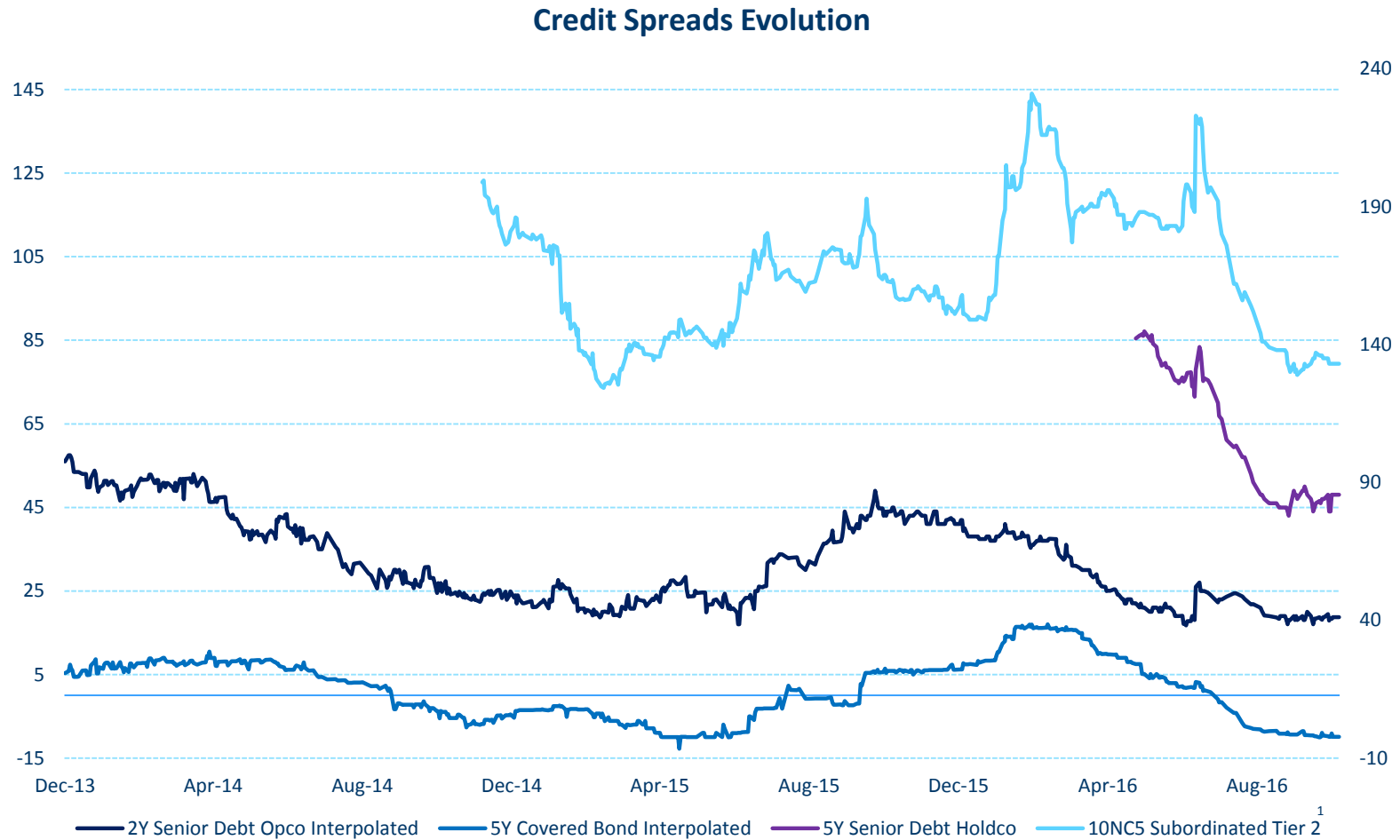
Breakdown Funding Maturity Buckets

(Including % of KBC Group's balance sheet)



- KBC Group has successfully issued a 750m EUR senior unsecured bond with 7-year maturity in October 2016
- KBC's credit spreads remained stable during 3Q16
- KBC Bank has 6 solid sources of long-term funding:
 - Retail term deposits
 - Retail EMTN
 - Public benchmark transactions
 - Covered bonds
 - Structured notes and covered bonds using the private placement format
 - Senior unsecured, T1 and T2 capital instruments issued at KBC Group level and down-streamed to KBC Bank

Credit spreads evolution



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

Summary covered bond programme (1/2) (details, see Annex 3)

- **KBC IS A FREQUENT ISSUER OF BENCHMARK COVERED BONDS AND PRIVATE PLACEMENTS FOR AN AMOUNT OF 7.31 BN EUR**
 - KBC's 10bn EUR covered bond programme is rated Aaa/AAA (Moody's/Fitch)
 - CRD and UCITS compliant / 10% risk-weighted
 - All issues performed well in the secondary market
- **KBC'S COVERED BONDS ARE BACKED BY STRONG LEGISLATION AND SUPERIOR COLLATERAL**
 - Cover pool: Belgian residential mortgage loans
 - Strong Belgian legislation – inspired by German Pfandbriefen law
 - Direct covered bond issuance from a bank's balance sheet
 - Dual recourse, including recourse to a special estate with cover assets included in a register
 - Requires license from the National Bank of Belgium (NBB)
 - The special estate is not affected by a bank insolvency. In that case, the NBB can appoint a cover pool administrator to manage the special estate in issuer ; both monitor the pool on a ongoing basis
 - The value of one asset category must be at least 85% of the nominal amount of covered bonds
 - The value of the cover assets must at least be 105% of the covered bonds (value of mortgage loans is limited to 80% LTV)
 - Maximum 8% of a bank's assets can be used for the issuance of covered bonds
- **THE COVERED BOND PROGRAMME IS CONSIDERED AS AN IMPORTANT FUNDING TOOL FOR THE TREASURY DEPARTMENT**
 - KBC's intentions are to be a frequent benchmark issuer if markets permit

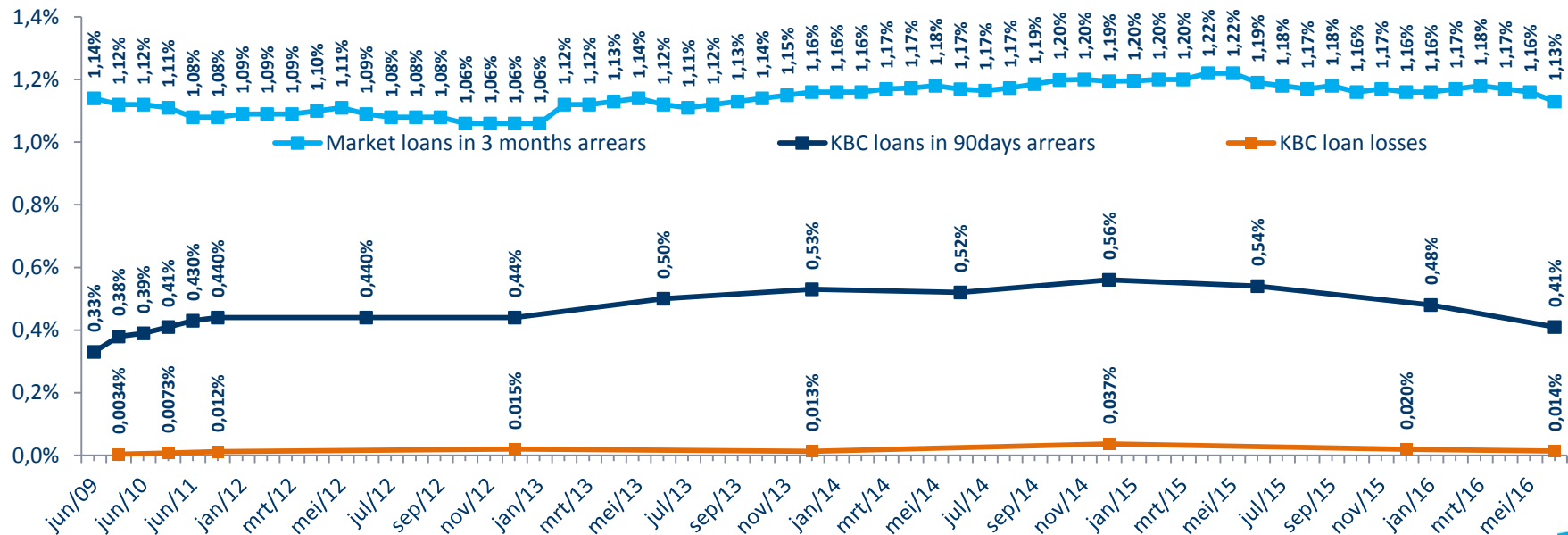
Summary covered bond programme (2/2) (details, see Annex 3)

■ COVER POOL: BELGIAN RESIDENTIAL MORTGAGE LOANS

- Exclusively, this is selected as main asset category
- Value (including collections) at least 105% of the outstanding covered bonds
- Branch originated prime residential mortgages predominantly out of Flanders
- Selected cover asset have low average LTV (62%) and high seasoning (48 months)

■ KBC HAS A DISCIPLINED ORIGINATION POLICY

- 2009 to 2016 residential mortgage loan losses below 4 bp
- Arrears in Belgium approx. stable over the past 10 years:
 - (i) Cultural aspects, stigma associated with arrears, importance attached to owning one's property
 - (ii) High home ownership also implies that the change in house prices itself has limited impact on loan performance
 - (iii) Well established credit bureau, surrounding legislation and positive property market



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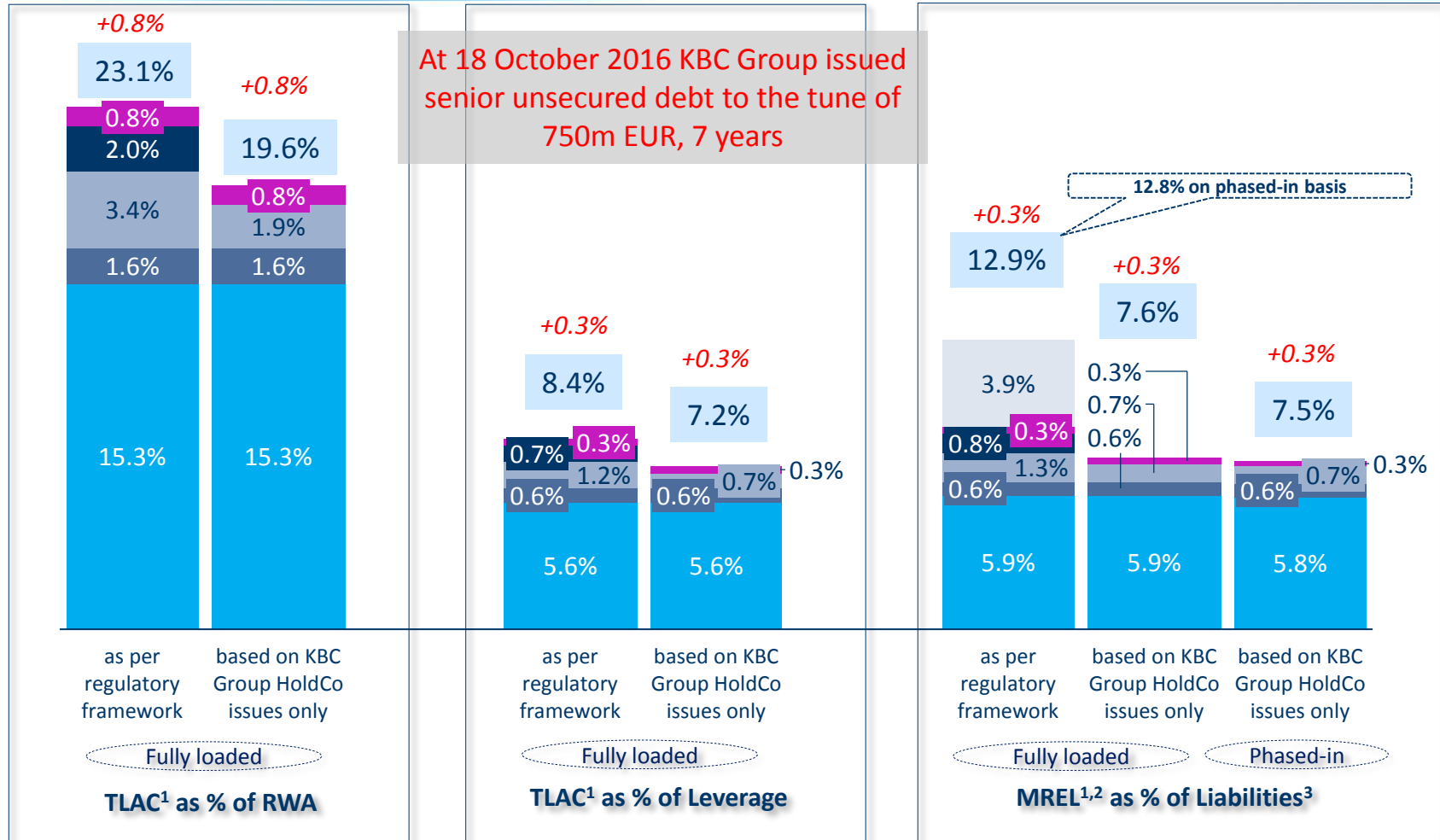
4 Solvency and liquidity

5 MREL strategy

6 3Q16 Wrap up

Appendices

KBC Group: Already comfortable bail-in buffer (30/09/2016)

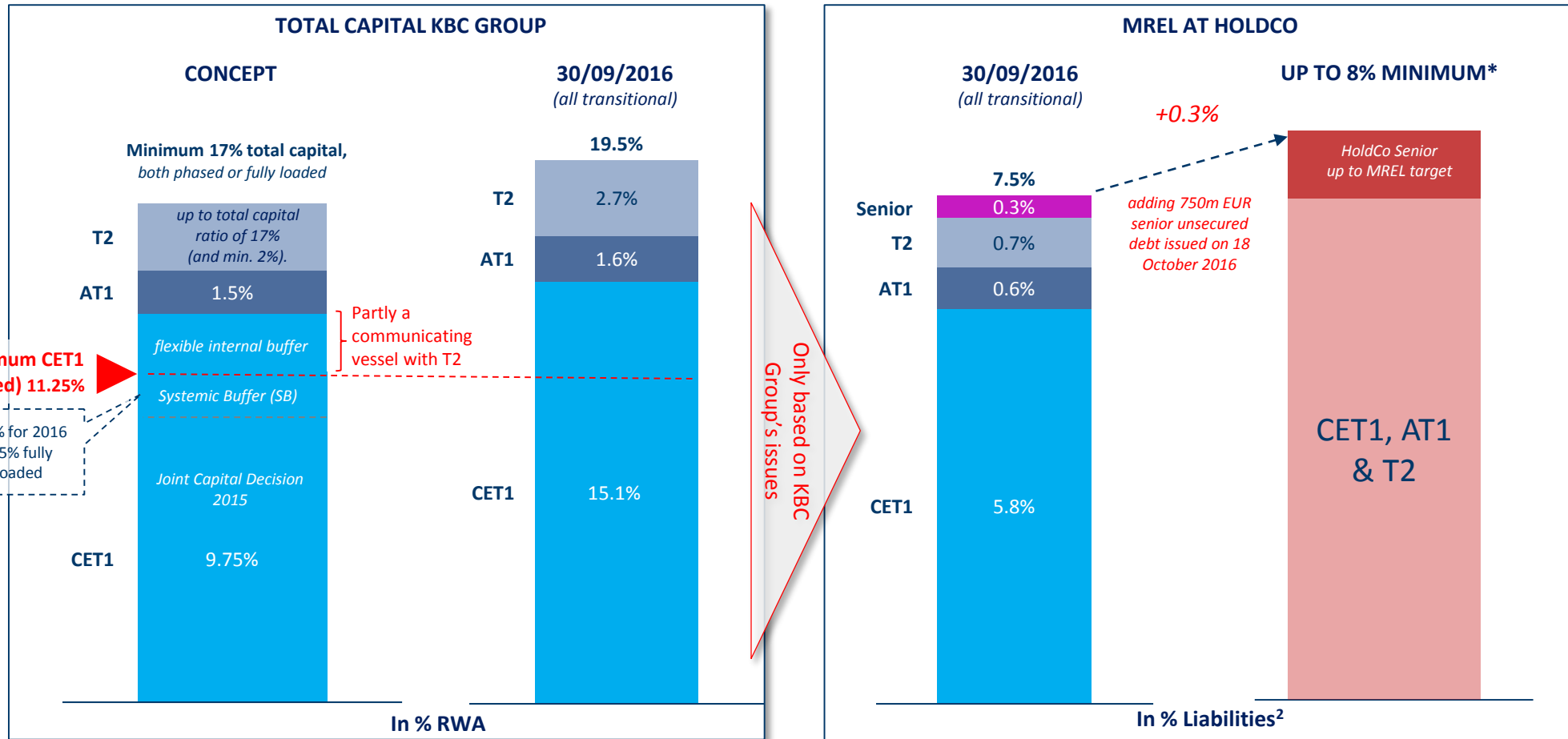


■ Other MREL eligible liabilities > 1y
 ■ Senior unsecured debt HoldCo
 ■ Senior unsecured debt OpCo
 ■ Eligible T2
 ■ AT1
 ■ CET1

1 TLAC: Total loss-absorbing capacity / MREL: Minimum Requirement for own funds and Eligible Liabilities
 2 Resolution strategy and the individual institution MREL requirements are subject to the decision of the Single Resolution Board
 3 TLOF: Total Liabilities and Own Funds



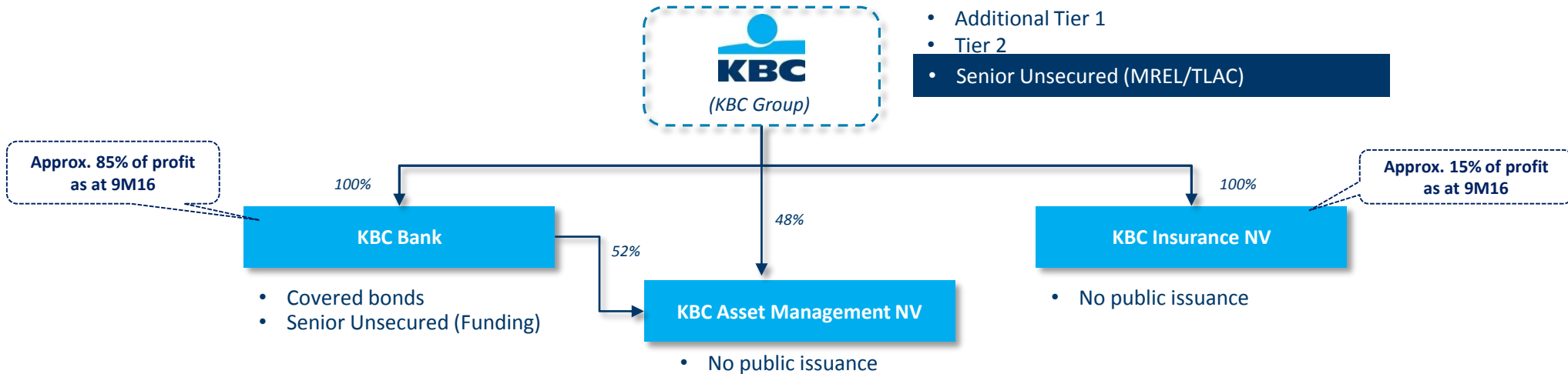
KBC Group: Moving towards MREL via HoldCo issues¹



KBC Bank has a limited reliance on wholesale funding and has a number of transactions through KBC IFIMA (fully guaranteed subsidiary of KBC Bank) outstanding. Going forward, KBC will issue public senior unsecured from KBC Group to fulfil MREL needs and use KBC IFIMA issues to supplement remaining wholesale funding needs

1. Resolution strategy and the individual institution's MREL requirements are subject to the decision of the Single Resolution Board
 2. TLOF: Total Liabilities and Own Funds

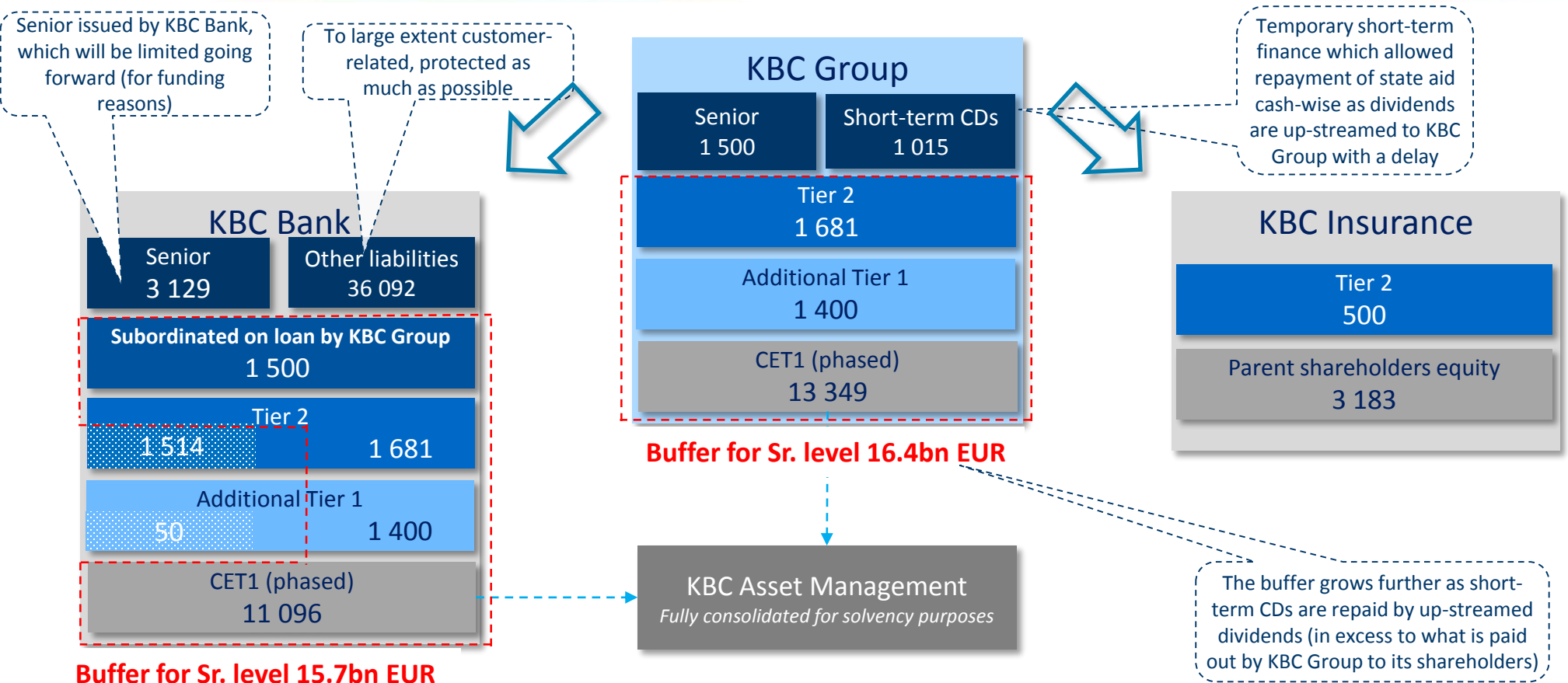
KBC has a diversified holding structure which helps mitigate risks



- KBC'S DIVERSIFIED GROUP STRUCTURE ALLOWS HOLDCO DEBT INVESTORS TO HAVE A CLAIM ON SUBSIDIARIES THAT ARE LESS IMPACTED BY LOSSES (LOWER CORRELATION BETWEEN ENTITIES) OR THAT ARE EVEN OUTSIDE THE RESOLUTION PERIMETER:
 - in a case where KBC Bank is fully wiped out by losses, investors in KBC Group will always have a claim on KBC Insurance and on part of KBC Asset Management
 - In a case where KBC Insurance is fully wiped out by losses, investors in KBC Group will always have a claim on KBC Bank and on part of KBC Asset Management (*note that, KBC Insurance is outside the scope of BRRD*)
- ISSUING SENIOR UNSECURED FROM KBC GROUP WILL PROVIDE FOR EXTRA CUSHION TO THE SENIOR DEBT INVESTORS AT KBC BANK LEVEL GIVEN THE SUBORDINATED ON-LOAN
- FROM KBC PERSPECTIVE, THE BANK-INSURANCE MODEL (I.E. OUR LONG-TERM STRATEGIC VIEW) IS MAINTAINED IN ALL BUT THE MOST EXTREME RESOLUTION SCENARIOS
- WILL KBC ISSUE FROM OTHER ENTITIES WITHIN THE GROUP?
 - Recent capital issuances (AT1 & T2) have come from KBC Group – this approach will continue in the future (*providing support to potential KBC Group senior creditors*)
 - Covered bonds will continue to be issued by KBC Bank
 - Senior unsecured from KBC Bank for funding reasons

KBC has strong buffers cushioning Sr. debt at all levels

(pro forma: 30-09-2016 incl. KBC Group Sr. unsecured bond of 750m EUR issued at 18-10-2016)



Legacy AT1 & T2 issued by KBC Bank and will disappear over time

- **MREL GROUP INSTRUMENTS** = 7.8% $(13.3+1.4+1.7+1.5)/229\ 135$ BASED ON PHASED CET1
- **MREL KBC GROUP INSTRUMENTS + BANK INSTRUMENTS** = 13.1% BASED ON PHASED CET1 (13.2% ON FULLY LOADED BASIS)

Key investment highlights

- ✓ **KBC is one of the strongest capitalised and most capital generative financials in Europe**
 - Compared with other European financials to have issued from their Holding Companies, KBC has one of the strongest leverage ratios and one of the highest CET1 and total capital positions
 - According to market estimates, KBC generates at least an approximated additional 2% of CET1 on a yearly basis before dividends
 - Proven track record of prudent capital management (e.g. shareholder loans (2013), capital increase (2012), final repayment of YES (2015))
- ✓ **Given its already strong capitalisation and liquidity, KBC currently foresees relatively limited amounts of senior debt in the future to reach MREL targets (at group level) and/or to complete its funding needs**
- ✓ **A really diversified holding company and the absence of ring-fencing helps to mitigate the risks of structural subordination of Senior debt of KBC Group compared to other issuers**

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Wrap up

- ✓ Strong commercial bank-insurance results in our core countries
- ✓ Successful underlying earnings track record
- ✓ Solid capital and robust liquidity position

Looking forward

- ✓ KBC Group is the bank-insurer that puts its clients centre stage, even in demanding economic circumstances
- ✓ We expect the remainder of 2016 to be a year of sustained economic growth in both the euro area and the US
- ✓ Management guides for:
 - continued stable and solid returns for all Business Units
 - loan impairments for Ireland towards a release of a 10m-50m EUR range for FY16

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1 KBC 2015/16 benchmarks + overview of outstanding benchmarks

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KBC 2015 benchmarks

■ KBC 7Y Fixed – Covered – BE0002482579

- Notional: 1bn EUR
- Issue Date: 22 January 2015 – Maturity: 22 January 2022
- Coupon: 0.45% A, Act/Act
- Re-offer spread: Mid Swap +2bp (issue price 99.815%)
- Joint lead managers: KBC, HSBC, ING Bank, LBBW and Unicredit

■ KBC 12NC7 Fixed – Tier 2 – BE0002485606

- Notional: 750m EUR
- Issue Date: 11 March 2015 – Maturity: 11 March 2027
- Coupon: 1.875 %, A, Act/Act
- Re-offer spread: Mid Swap +150bp (issue price 99.49%)
- Joint lead managers: KBC, Bank of America, BNP Parisbas , Deutsche Bank and Morgan Stanley

■ KBC 6Y Fixed – Covered – BE0002489640

- Notional: 1bn EUR
- Issue Date: 28 April 2015 – Maturity: 28 April 2021
- Coupon: 0.125% A, Act/Act
- Re-offer spread: Mid Swap -8 bp (issue price 99.678%)
- Joint lead managers: KBC, Commerzbank, Natixis, RBS and Unicredit

KBC 2016 Benchmarks

■ KBC 6.5Y Fixed – Covered – BE0002498732

- Notional: 1.25bn EUR
- Issue Date: 01 March 2016 – Maturity: 01 September 2022
- Coupon: 0.375% A, Act/Act
- Re-offer spread: Mid Swap +19 bp (issue price 99.770%)
- Joint lead managers: KBC, Commerzbank, Credit Agricole, LBBW and Credit Suisse

■ KBC Groep 5Y Fixed – Senior – BE6286238561

- Notional: 750m EUR
- Issue Date: 26 April 2016 – Maturity: 26 April 2021
- Coupon: 1%, A, Act/Act
- Re-offer spread: Mid Swap +112bp (issue price 99.396%)
- Joint lead managers: KBC, Deutsche Bank, Goldman Sachs, JP Morgan and Société Générale

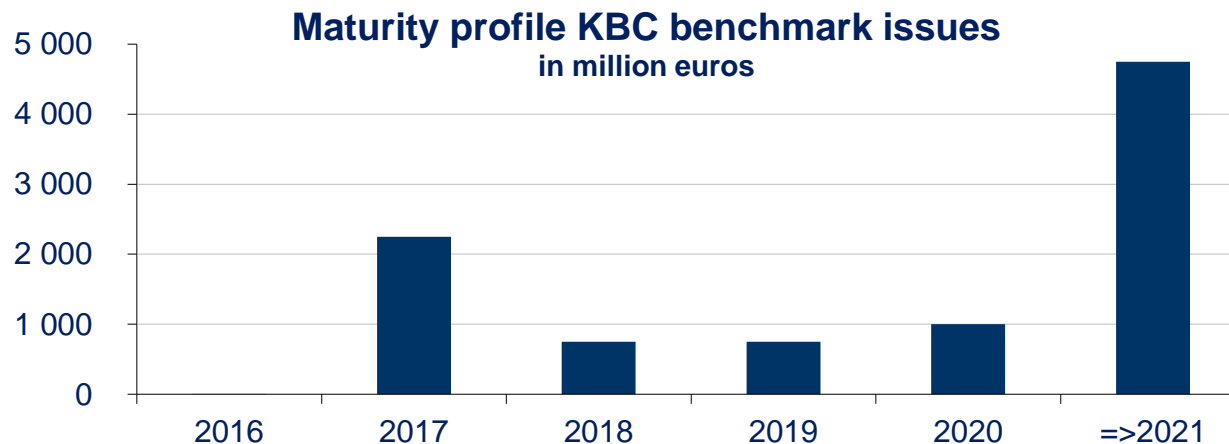
■ KBC Groep 7Y Fixed – Senior – BE0002266352

- Notional: 750m EUR
- Issue Date: 18 Oct 2016 – Maturity: 18 Oct 2023
- Coupon: 0,75%, A, Act/Act
- Re-offer spread: Mid Swap +65bp (issue price 99,925%)
- Joint lead managers: KBC, Bank of America Merrill Lynch, ING, Morgan Stanley and Natixis

Outstanding benchmarks

Issuer	Curr	Amount issued	Tranche Report		Settlement Date	Maturity Date	ISIN	YEAR
			Coupon					
UNSECURED								
KBC Ifima N.V.	EUR	1 000 000 000	4.5		27/03/2012	27/03/2017	XS0764303490	2017
KBC Ifima N.V.	EUR	750 000 000	2.125		10/09/2013	10/09/2018	XS0969365591	2018
KBC Group	EUR	750 000 000	1.000		26/04/2016	26/04/2021	BE6286238561	2021
KBC Group	EUR	750 000 000	0.750		18/10/2016	18/10/2023	BE0002266352	2023
COVERED								
KBC Bank N.V.	EUR	1 250 000 000	1.125		11/12/2012	11/12/2017	BE6246364499	2017
KBC Bank N.V.	EUR	750 000 000	2		31/01/2013	31/01/2023	BE0002425974	2023
KBC Bank N.V.	EUR	1 000 000 000	1.25		28/05/2013	28/05/2020	BE0002434091	2020
KBC Bank N.V.	EUR	750 000 000	1		25/02/2014	25/02/2019	BE0002462373	2019
KBC Bank N.V.	EUR	1 000 000 000	0.45		22/01/2015	22/01/2022	BE0002482579	2022
KBC Bank N.V.	EUR	1 000 000 000	0.125		28/04/2015	28/04/2021	BE0002489640	2021
KBC Bank N.V.	EUR	1 250 000 000	0.375		1/03/2016	01/09/2022	BE0002498732	2022

Total: EUR 10.25bn



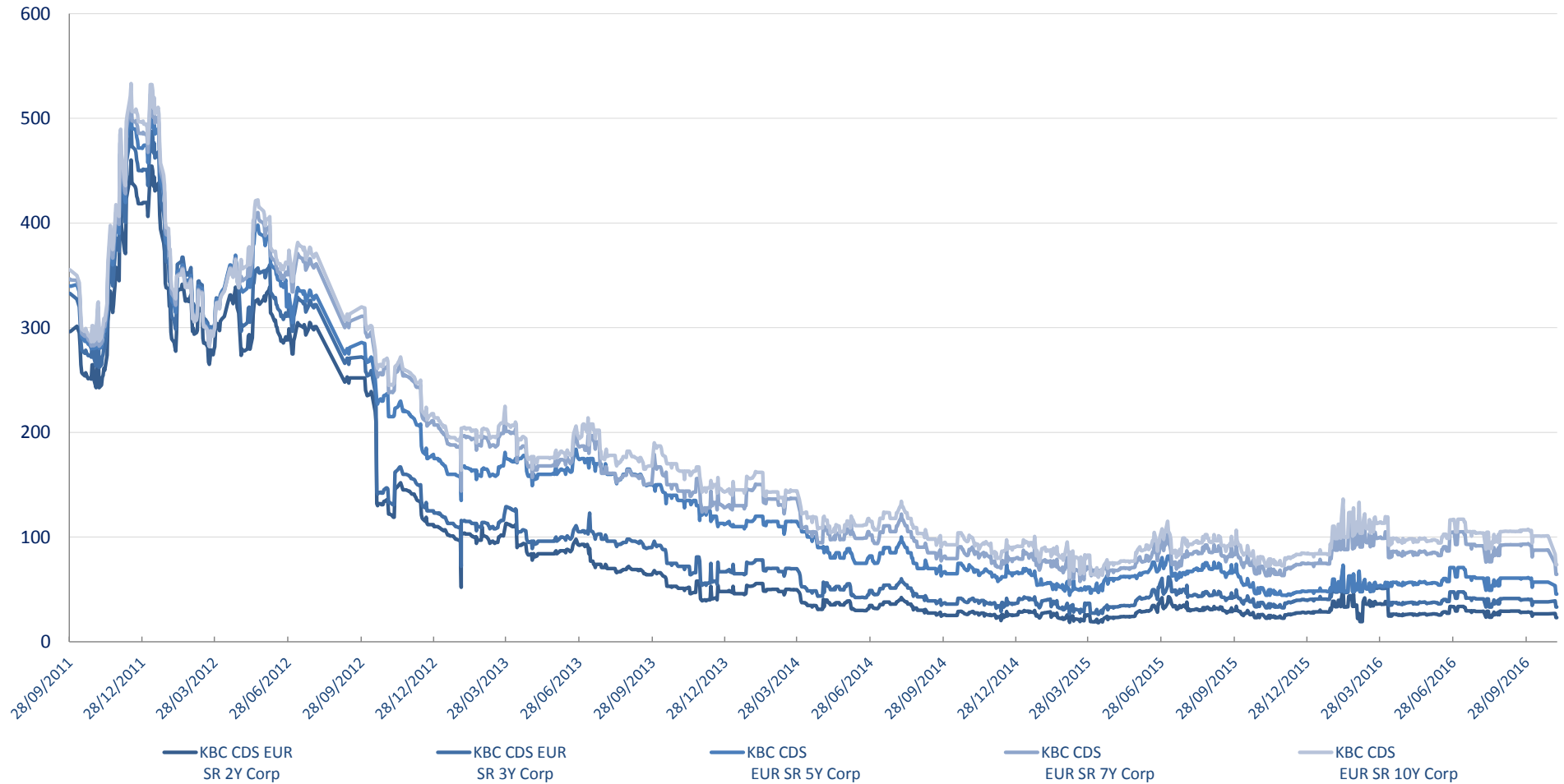
Main characteristics of subordinated debt issues

SUBORDINATED BOND ISSUES KBC					
	KBC Bank NV	KBC Bank NV T2 Coco	KBC Groep NV AT1	KBC Groep NV Tier II	KBC Groep NV Tier II
Amount issued	GBP 525 000 000	USD 1 000 000 000	EUR 1 400 000 000	EUR 750 000 000	EUR 750 000 000
Tendered	GBP 480 500 000				
Net Amount	GBP 44 500 000	USD 1 000 000 000	EUR 1 400 000 000	EUR 750 000 000	EUR 750 000 000
ISIN-code	BE0119284710	BE6248510610	BE0002463389	BE0002479542	BE0002485606
Call date	19/12/2019	25/01/2018	19/03/2019	25/11/2019	11/03/2022
Initial coupon	6.202%	8%	5.625%	2.375%	1.875%
Coupon step-up / reset	3m gbp libor + 193bps	\$ MS 5Y + 7.097%	€ MS 5Y + 4.759%	€ MS 5Y + 1.980%	€ MS 5Y + 1.50%
First (next) call date	19/12/2019	25/01/2018	19/03/2019	25/11/2019	11/03/2022
ACPM	Yes	-	-	-	-
Dividend Stopper	Yes	-	-	-	-
Conversion into PSC	Yes	-	-	-	-
Trigger	Supervisory Event or general "concursum creditorum"	CT1/CET1 < 7% at KBC Group level Full and permanent write-down	Trigger CET1 RATIO < 5.125% Temporary write-down	Regulatory+Tax Call	Regulatory+Tax Call

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KBC Bank CDS levels (in bp)



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Key messages on KBC's covered bond programme

- **KBC's covered bonds are backed by strong legislation and superior collateral**
 - KBC's covered bonds are rated Aaa/AAA (Moody's/Fitch)
 - Cover pool: Belgian residential mortgage loans
 - Strong Belgian legislation – inspired by German Pfandbriefen law
 - KBC has a disciplined origination policy – 2009 to 2016 residential mortgage loan losses below 4 bp
 - CRD and UCITS compliant / 10% risk-weighted
- **KBC already issued 8 successful benchmark covered bonds in different maturity buckets**
 - First covered bond matured in August 2016
- **The covered bond programme is considered as an important funding tool**
- **Sound economic picture provides strong support for Belgian housing market**
 - Private savings ratio of approx. 12 %
 - Belgian unemployment is significantly below the EU average
 - Demand still outstrips supply

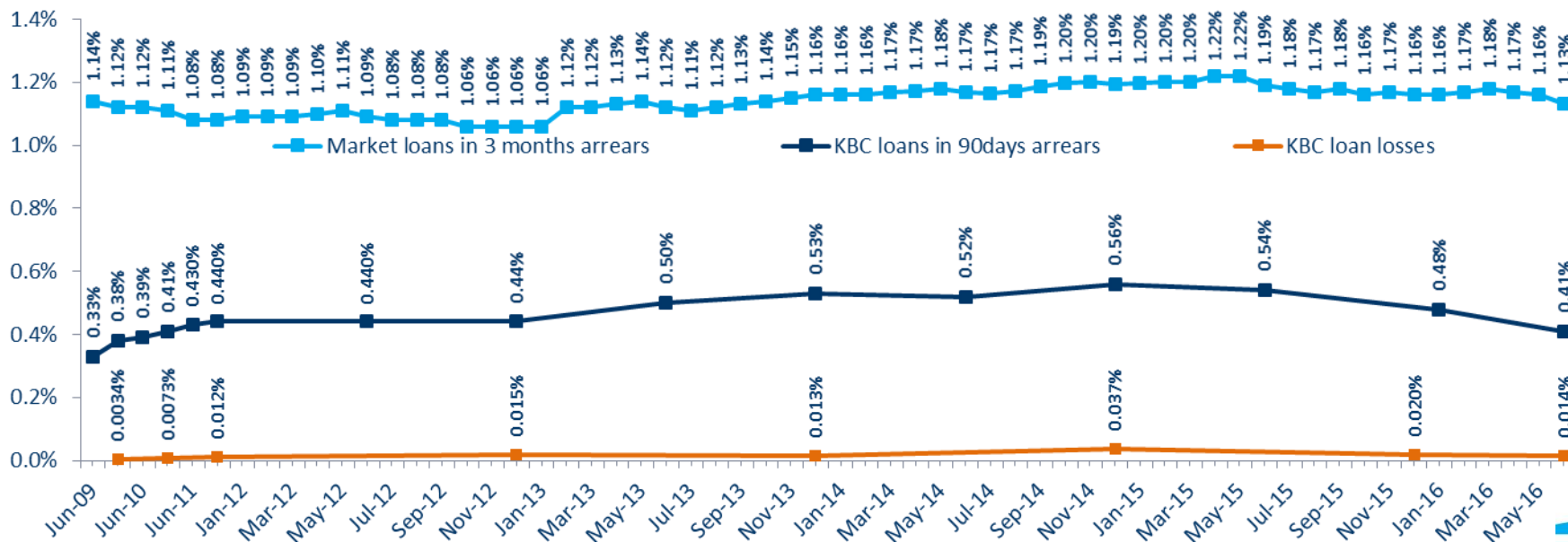
KBC's disciplined origination leads to low arrears and extremely low loan losses

BELGIUM SHOWS A SOLID PERFORMANCE OF MORTGAGES...

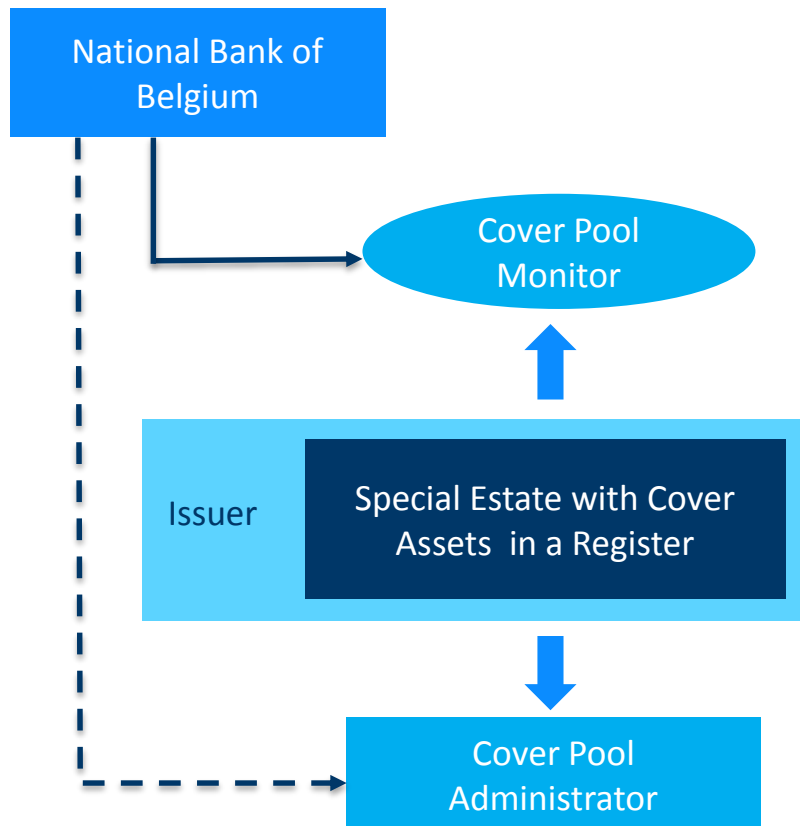
Arrears have been very stable over the past 10 years. Arrears in Belgium are low due to:

- Cultural aspects, stigma associated with arrears, importance attached to owning one's property
- High home ownership also implies that the change in house prices itself has limited impact on loan performance
- Well established credit bureau and surrounding legislation
- Housing market environment (no large house price declines)

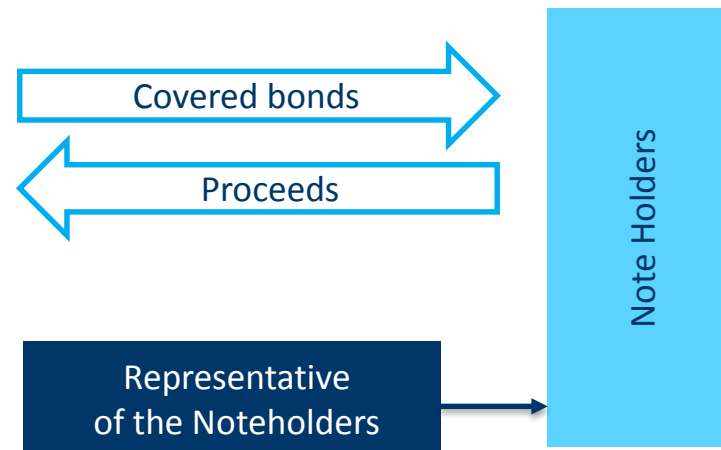
... AND KBC HAS EXTRAORDINARY LOW LOAN LOSSES



Belgian legal framework



- Direct covered bond issuance from a bank's balance sheet
- Dual recourse, including recourse to a special estate with cover assets included in a register
- The special estate is not affected by a bank's insolvency
- Requires licenses from the **National Bank of Belgium (NBB)**
- Ongoing supervision by the NBB
- The **cover pool monitor** verifies the register and the portfolio tests and reports to the NBB
- The NBB can appoint a cover pool administrator to manage the special estate



Strong legal protection mechanisms

1

Collateral type

- The value of one asset category must be at least 85% of the nominal amount of covered bonds
 - KBC Bank selects residential mortgage loans and commits that their value (including collections) will be at least 105%

2

Over-collateralisation Test

- The value of the cover assets must at least be 105% of the covered bonds
 - The value of residential mortgage loans:
 - 1) is limited to 80% LTV
 - 2) must be fully covered by a mortgage inscription (min 60%) plus a mortgage mandate (max 40%)
 - 3) 30 day overdue loans get a 50% haircut and 90 days (or defaulted) get zero value

3

Cover Asset Coverage Test

- The sum of interest, principal and other revenues of the cover assets must at least be the interest, principal and costs relating to the covered bonds
 - Interest rates are stressed by plus and minus 2% for this test

4

Liquidity Test

- Cover assets must generate sufficient liquidity or include enough liquid assets to pay all unconditional payments on the covered bonds falling due the next 6 months
 - Interest rates are stressed by plus and minus 2% for this test

5

Cap on Issuance

- Maximum 8% of a bank's assets can be used for the issuance of covered bonds

KBC Bank NV residential mortgage covered bond programme

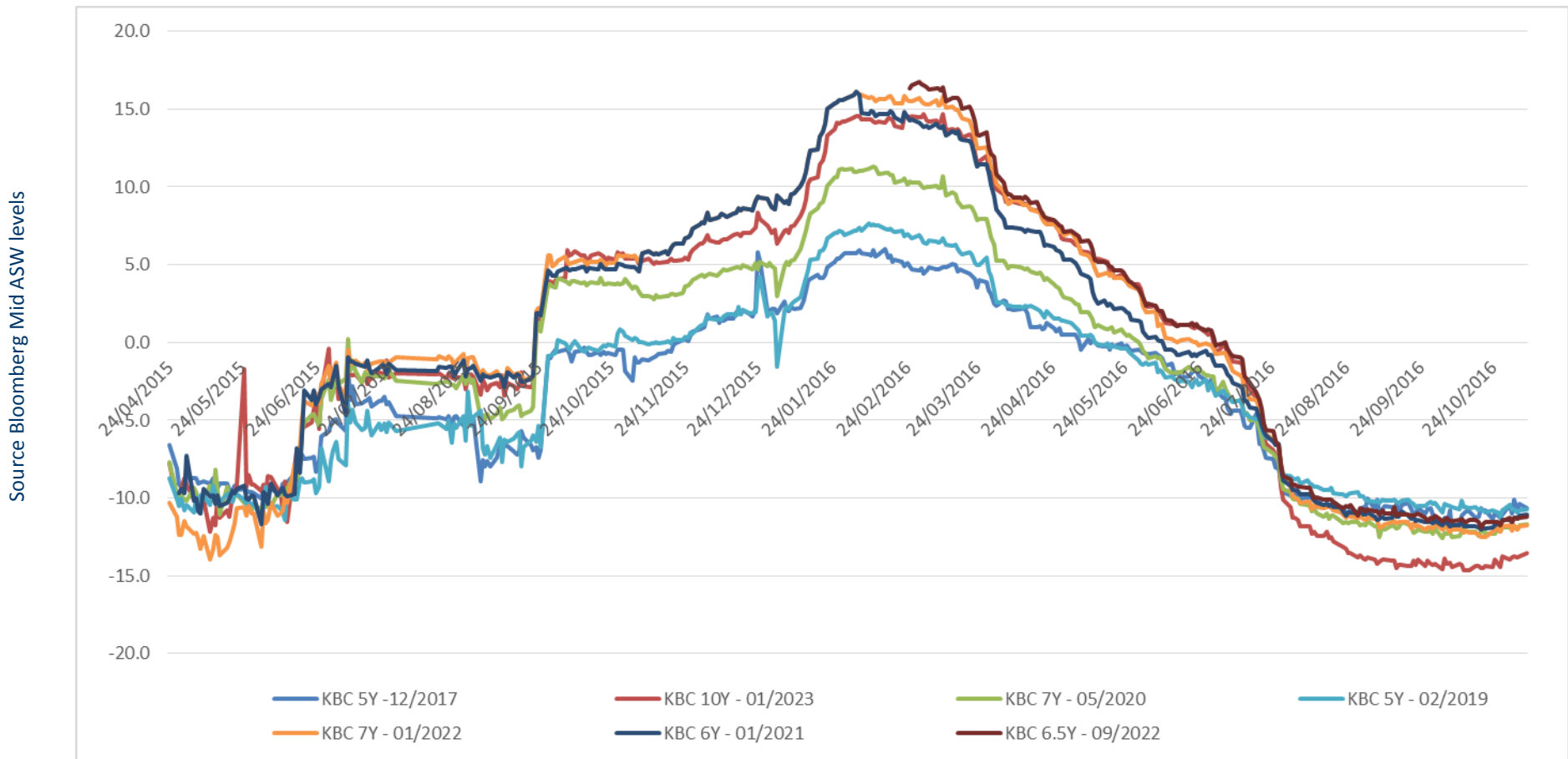
Issuer:	<ul style="list-style-type: none"> • KBC Bank NV
Main asset category:	<ul style="list-style-type: none"> • min 105% of covered bond outstanding is covered by residential mortgage loans and collections thereon
Programme size:	<ul style="list-style-type: none"> • Up to 10bn EUR (only)
Interest rate:	<ul style="list-style-type: none"> • Fixed rate, floating rate or zero coupon
Maturity:	<ul style="list-style-type: none"> • Soft bullet: payment of the principal amount may be deferred past the final maturity date until the extended final maturity date if the issuer fails to pay • Extension period is 12 months for all series
Events of default:	<ul style="list-style-type: none"> • Failure to pay any amount of principal on the extended final maturity date • A default in the payment of an amount of interest on any interest payment date
Rating agencies:	<ul style="list-style-type: none"> • Moody's Aaa / Fitch AAA

	Moody's	Fitch
Over-collateralisation	15%	25%

Benchmark issuance KBC covered bonds

- Since establishment of the covered bond programme KBC has issued eight benchmark issuances:

SPREAD EVOLUTION KBC COVERED BONDS (SPREAD IN BP VERSUS 6 MONTH MID SWAP)



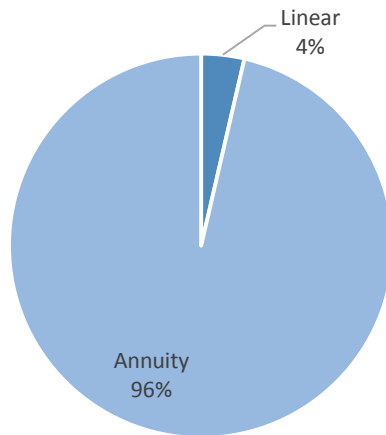
Key cover pool characteristics (1/3)

Investor reports, final terms and prospectus are available on www.kbc.com/covered_bonds

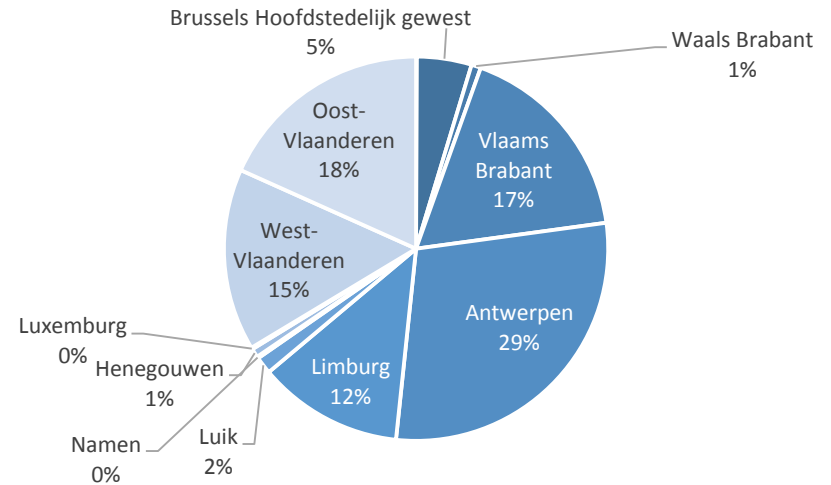
Portfolio data as of :	30 September 2016
Total Outstanding Principal Balance	10 739 772 359
Total value of the assets for the over-collateralisation test	9 975 442 254
No. of Loans	135 428
Average Current Loan Balance per Borrower	111 009
Maximum Loan Balance	1 000 000
Minimum Loan Balance	1 000
Number of Borrowers	96 747
Longest Maturity	359 month
Shortest Maturity	1 month
Weighted Average Seasoning	48 months
Weighted Average Remaining Maturity	188 months
Weighted Average Current Interest Rate	2.38%
Weighted Average Current LTV	62.33%
No. of Loans in Arrears (+30days)	276
Direct Debit Paying	97.8%

Key cover pool characteristics (2/3)

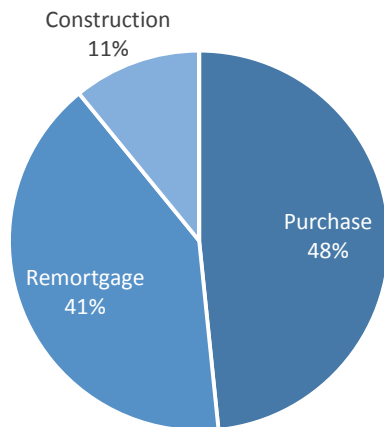
REPAYMENT TYPE (LINEAR VS. ANNUITY)



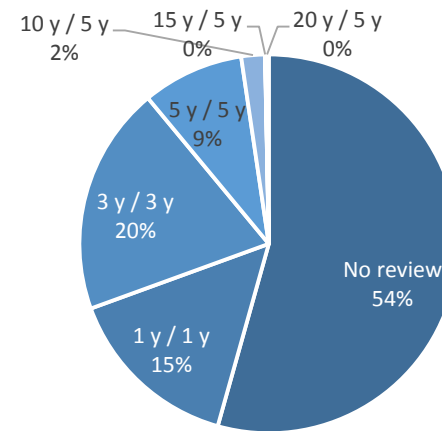
GEOGRAPHICAL ALLOCATION



LOAN PURPOSE

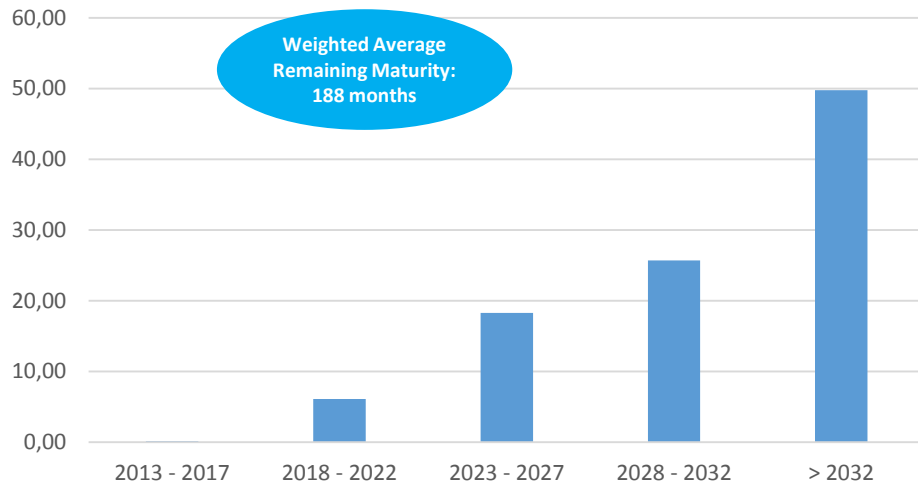


INTEREST RATE TYPE (FIXED PERIODS)

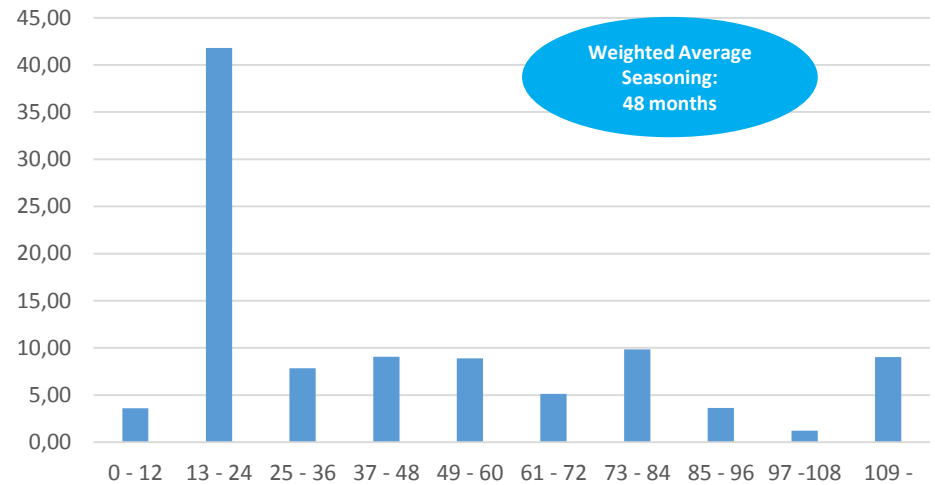


Key cover pool characteristics (3/3)

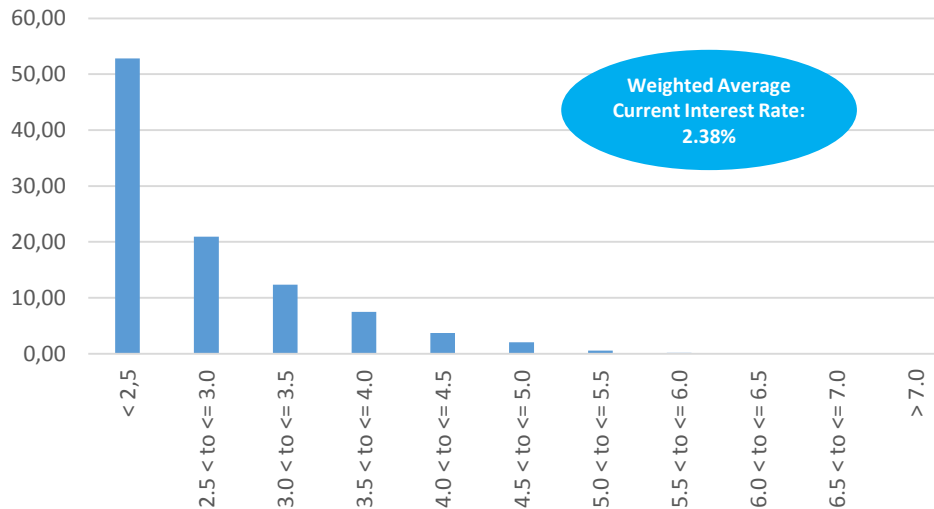
FINAL MATURITY DATE



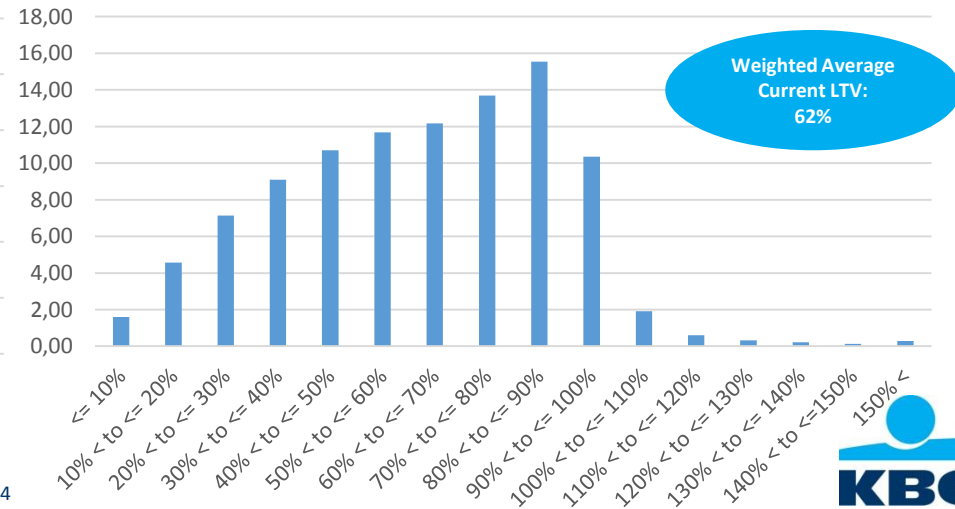
SEASONING



INTEREST RATE



CURRENT LTV



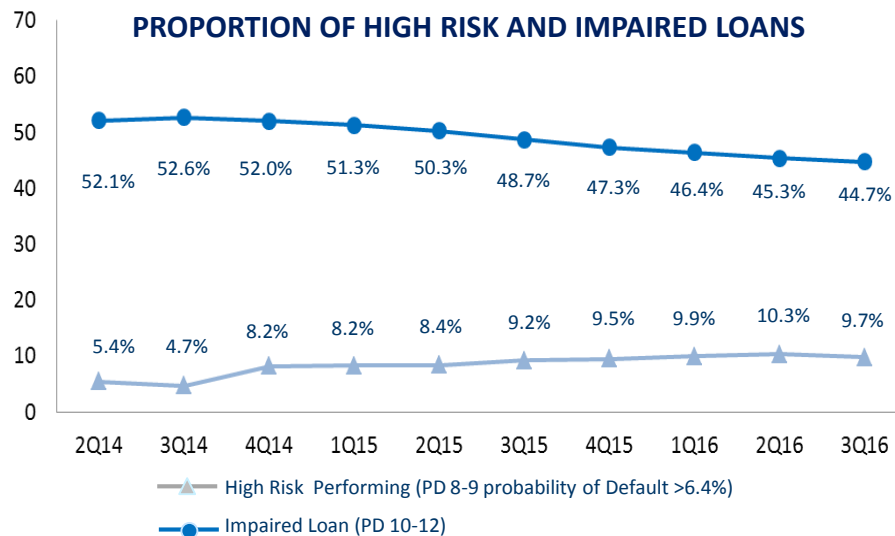
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Ireland (1/2): Profitable YTD (89m EUR)

LOAN PORTFOLIO €	OUT-STANDING €	IMPAIRED LOANS €	IMPAIRED LOANS PD 10-12	SPECIFIC PROVISIONS €	IMPAIRED LOANS PD 10-12 COVERAGE
Owner occupied mortgages	9.0bn	2.9bn	32.2%	1.0bn	33%
Buy to let mortgages	2.4bn	1.6bn	68.6%	0.7bn	43%
SME /corporate	1.0bn	0.7bn	66.9%	0.4bn	62%
Real estate - Investment - Development	0.7bn 0.3bn	0.5bn 0.3bn	74.0% 100.0%	0.3bn 0.2bn	56% 89%
Total	13.4bn	6.0bn	44.7%	2.6bn	43%

- The Irish economy remains on track to record robust GDP growth of around 4% in 2016 as improving domestic demand counters the adverse impact of Sterling weakness and more general Brexit-related uncertainty
- Gains in domestic spending reflect an acceleration in jobs growth, a return to net inward migration and the re-emergence of pent-up consumer demand constrained through the downturn
- With housing demand strong, a modest improvement in new construction is likely to translate into a gradual easing in home price inflation
- Customer Deposits (Retail & Corporate) of 5.3bn EUR (compared with 5.0bn EUR in 3Q15). Growth of Customer Deposits (excluding debt certificates & repos) amounted to 6% y-o-y
- Net loan loss provision release of 28m EUR in 3Q16 compared with 1m EUR release in 2Q16. Coverage ratio has remained at 43% at 3Q16
- The impairment guidance for Ireland is updated towards a release of a 10m-50m EUR range for FY16



Ireland (2/2): Portfolio analysis

3Q16 Retail Portfolio

	PD	Exposure	Impairment	Cover %
Performing	PD 1-8	6,014	26	0.4%
	Of which non Forborne	5,939		
	Of which Forborne	75		
	PD 9	859	43	5.0%
	Of which non Forborne	138		
	Of which Forborne	722		
Impaired	PD 10	2,596	647	24.9%
	PD 11	1,159	400	34.5%
	PD 12	765	598	78.2%
	TOTAL PD1-12	11,393	1,714	
	<i>Specific Impairment/(PD 10-12)</i>			36.4%

'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.

Retail portfolio

- Impaired portfolio fell by roughly 80m EUR q-o-q due to a combination of property sales and improvement in the portfolio performance (reduction of 0.6bn EUR y-o-y)
- Coverage ratio for impaired loans remained at 36.4% in 3Q16
- Overall exposure has decreased due to a reduction of the impaired book and loan amortisations, partly offset by new mortgage production

3Q16 Corporate Loan Portfolio

	PD	Exposure	Impairment	Cover %
Perf.	PD 1-8	445	1	0.1%
	PD 9	69	3	3.6%
Impaired	PD 10	468	172	36.7%
	PD 11	273	173	63.5%
	PD 12	712	594	83.5%
	TOTAL PD1-12	1,967	943	
	<i>Specific Impairment/(PD 10-12)</i>			64.7%

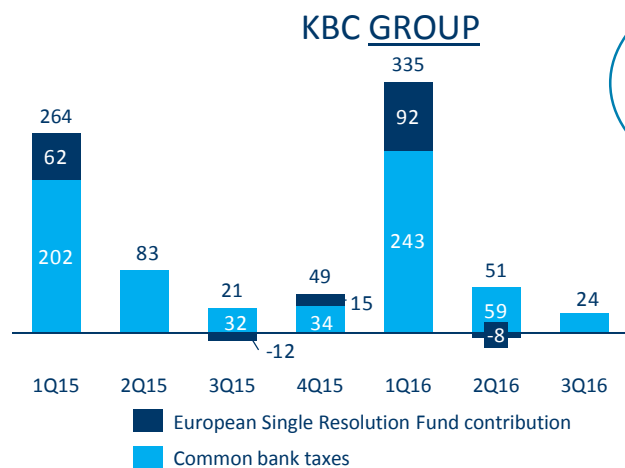
Corporate loan portfolio

- Impaired portfolio has reduced by roughly 70m EUR q-o-q. Reduction driven mainly by continued deleverage of the portfolio (reduction of roughly 0.3bn EUR y-o-y)
- Coverage ratio for impaired loans has increased to 64.7% in 3Q16 (from 64.0% in 2Q16)
- Overall exposure has dropped by 0.4bn EUR y-o-y

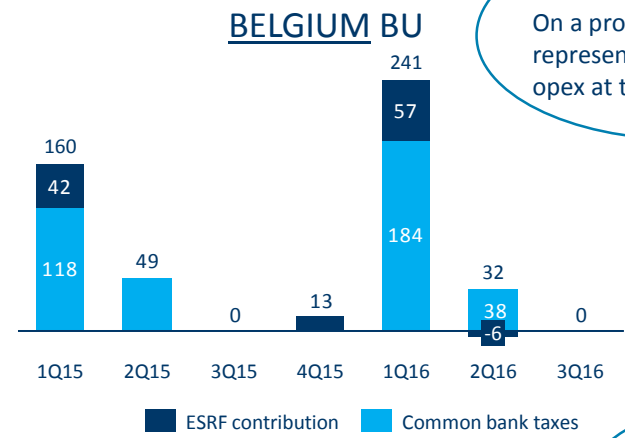
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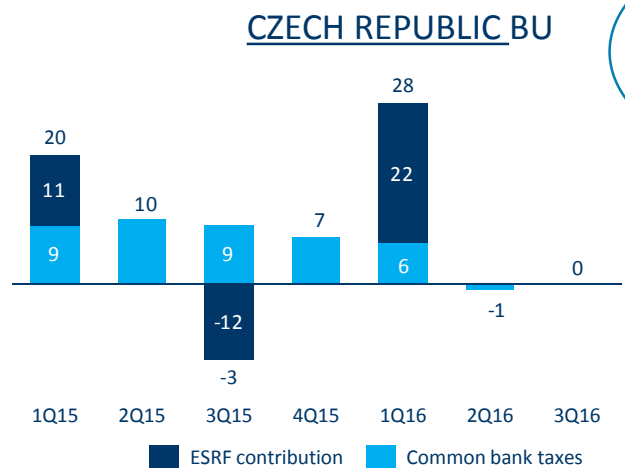
Overview of bank taxes¹



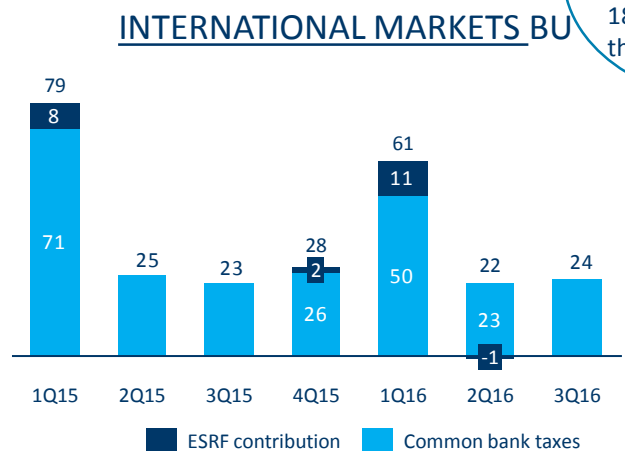
Bank taxes of 410m EUR YTD. On a pro rata basis, bank taxes represented 11.1% of 9M16 opex at KBC Group²



Bank taxes of 273m EUR YTD. On a pro rata basis, bank taxes represented 10.9% of 9M16 opex at the Belgium BU



Bank taxes of 27m EUR YTD. On a pro rata basis, bank taxes represented 4.4% of 9M16 opex at the CZ BU



Bank taxes of 107m EUR YTD. On a pro rata basis, bank taxes represented 18.6% of 9M16 opex at the IM BU

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 The C/I ratio adjusted for specific items of 57% in 9M16 amounts to roughly 50% excluding these bank taxes



Appendices

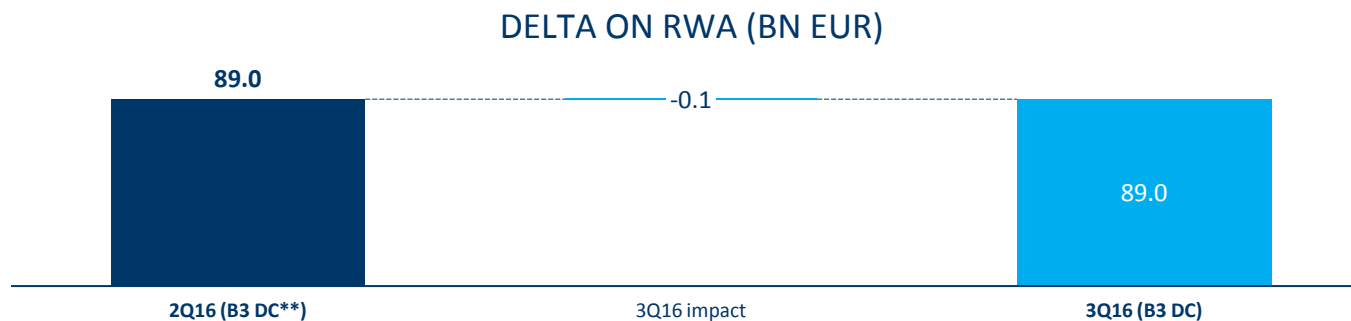
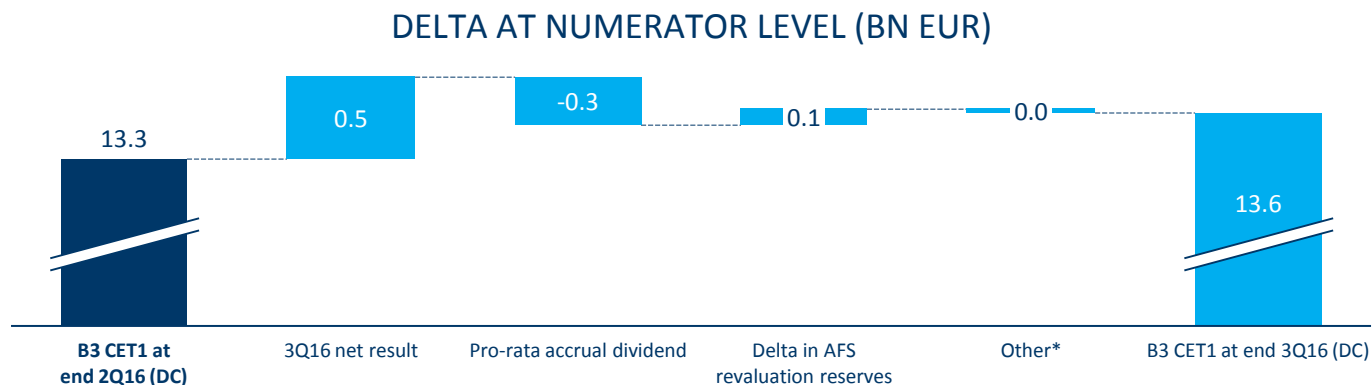
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Details on 2016 Joint Capital Decision

Joint Capital decision (JCD)		JCD 2015	JCD 2016	projection	
Target applicable in		2016 phased	2017 phased	2018 phased	2019 fully loaded
Pillar 1 minimum requirement (P1 min)	CET1	4.5%	4.5%	4.5%	4.5%
	AT1	-	1.5%	1.5%	1.5%
	T2	-	2.0%	2.0%	2.0%
Pillar 2 requirement (P2R)	CET1	phased: 4,625% full: 2,75%	1.75%	1.75%	1.75%
Conservation buffer	CET1	phased: 0,625% full: 2,5%	-	-	-
Total SREP Capital Requirement (TSCR)	CET1	9.75%	6.25%	6.25%	6.25%
	T1	-	7.75%	7.75%	7.75%
	Total capital	-	9.75%	9.75%	9.75%
Combined Buffer Requirement (CBR)					
Conservation buffer	CET1	-	1.25%	1.875%	2.50%
O-SII buffer	CET1	0.50%	1.00%	1.50%	1.50%
Countercyclical buffer	CET1	0.00%	0.15%	0.15%	0.15%
Overall capital requirement (OCR) <i>= MDA threshold*</i>	CET1	10.25%	8.65%	9.775%	10.40%
	T1	-	10.15%	11.275%	11.90%
	Total capital	-	12.15%	13.275%	13.90%
Early warning threshold	CET1	0.25%	-	-	-
Pillar 2 Guidance (P2G)	CET1	-	1.00%	1.00%	1.00%
CET1 requirement + P2G	CET1	10.50%	9.65%	10.775%	11.40%

* Under the Minimum Distributable Amounts framework other distribution restrictions triggers may also apply in the future after approval and implementation of the framework.

Fully loaded B3 CET1 based on the Danish Compromise (DC) from 2Q16 to 3Q16



- Fully loaded B3 common equity ratio of approx. 15.3% at end 2Q16 based on the Danish Compromise (DC)
- A pro forma fully loaded common equity ratio translation to 11.25% was clearly exceeded

* Includes the q-o-q delta in remeasurement of defined benefit obligations, DTAs on losses carried forward, IRB provision shortfall, deduction re. financing provided to shareholders, translation differences, etc.

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

Overview of B3 CET1 ratios at KBC Group

Method	Numerator	Denominator	B3 CET1 ratio
FICOD ¹ , phased-in	13 921	103 345	13.5%
FICOD, fully loaded	14 166	104 159	13.6%
DC ² , phased-in	13 349	88 154	15.1%
DC, fully loaded	13 593	88 967	15.3%
DM ³ , fully loaded	12 484	83 232	15.0%

1 FICOD: Financial Conglomerate Directive

2 DC: Danish Compromise

3 DM: Deduction Method

Solvency II ratio

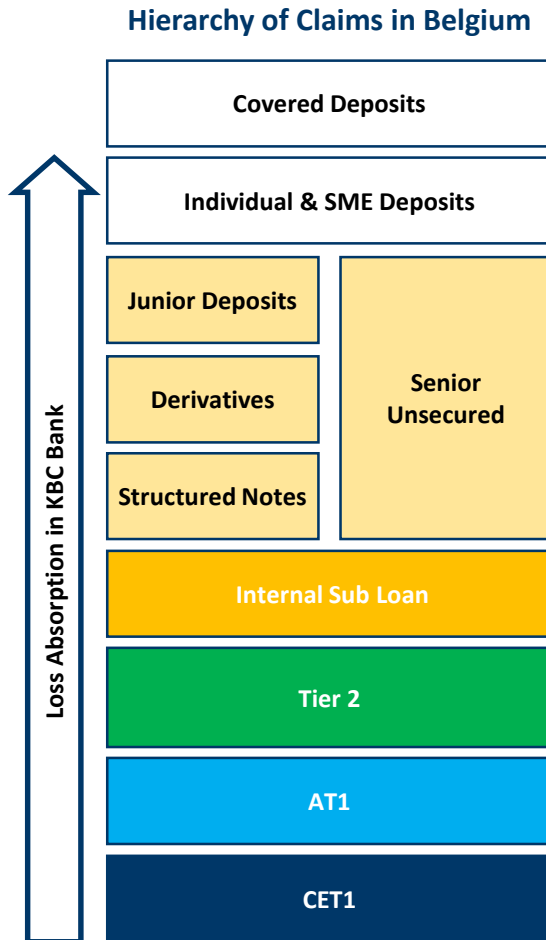
Solvency II ratio

	1Q16	2Q16	3Q16
Solvency II ratio without cap of the NBB (ratio comparable with European peers)	210%	208%	198%
Solvency II ratio with cap of the NBB*	195%	187%	170%

- On 25 April 2016, the NBB decided to impose a cap on the loss absorbing capacity of deferred taxes in the calculation of the required capital with retro-active application from 1 January 2016 onwards*. The introduction of such absolute cap deviates both from the European Solvency II regulation and the practice of most other European regulators and increases the required capital
- As a result of this gold-plating by the NBB, the formal Solvency II ratio came down from 198% to 170% for 3Q16
- The reduction (-10%-points) in the Solvency II ratio without this cap was mainly the result of lower interest rates and lower corporate spreads in combination with an update of the Volatility Adjustment imposed by EIOPA. The stronger reduction of the Solvency II ratio with the application of the cap (-17%-points) is due to a lower cap as a result of the reduction of the available Deferred Tax Liabilities on the economic balance sheet for 3Q16

* On 25 April 2016, the NBB published a circular determining the treatment of the loss absorbing capacity of deferred taxes in the Solvency II calculation. This caps the loss absorbing capacity of deferred taxes for Belgian insurance companies to the net deferred tax liability recognised on the economic balance sheet

Implementation of the BRRD in Belgium



1. The BRRD has been transposed to a large extent by the Act of 25 April 2014 on the legal status and supervision of credit institutions ("The Banking Act") which applies since May-2015, with the exception of some major provisions, such as the bail-in tool. Some provisions will be further implemented by a Royal Decree ("RD"):
 - Bail-in mechanism and MREL requirement of the BRRD: RD was published in the Belgian Official Journal 29 December 2015 and entries into force as from 1 January 2016. However, the resolution strategy and MREL target for KBC are assumptions and have not been determined by the Resolution Authority
 - Group dimension of the BRRD: transposition is currently under preparation
2. The competent authorities are
 - Supervision authority (KBC Bank NV, KBC Group NV): ECB/NBB.
 - Resolution authority (KBC Bank NV, KBC Group NV): Single Resolution Board as from 1 January 2016.
 - Competent authority for conduct supervision of financial institutions and intermediaries (KBC Bank NV): FSMA.
3. The hierarchy of claims in Belgium is in line with the BRRD as provided for in art. 48 BRRD and applies losses accordingly.
 - Creditors are protected by the No Creditor Worse Off ("NCWO") principle which ensures that creditors in resolution can't be worse-off than in normal insolvency proceedings (art 34(1) BRRD).
4. KBC plans on on-lending senior unsecured issued out of KBC Group NV as subordinated instruments at KBC Bank NV to ensure the on-loan would only take losses after Tier 2 securities.
 - Additionally KBC Bank NV's funding needs in senior unsecured are expected to be moderate going forward

General principles (1/2):

What happens in different solvency situations?

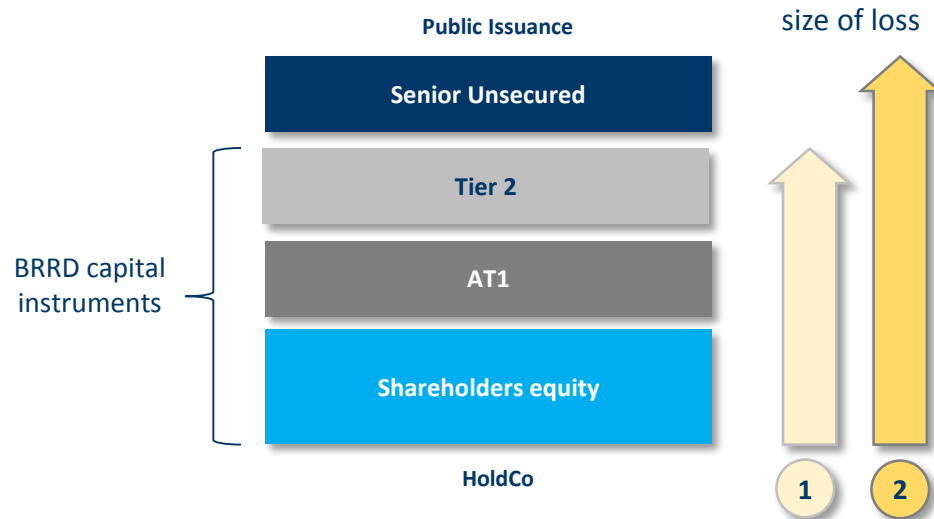


	Business as usual	Recovery plan	Resolution plan
CET1	sufficiently above Joint Capital Decision	in breach (or breach is imminent) of Joint Capital Decision	in breach of minimum requirements (4.5% CET1 / 6% T1 / 8% total capital) or considered as non viable by the competent authorities.
AT1	no impact	coupon uncertain absorbs losses when trigger (5.125% CET1 on transitional basis) is breached	absorb losses at PONV
T2	no impact	no impact (except CoCo: absorbs losses when trigger (7% CET1 on a transitional basis) is breached)	absorb losses at PONV
Senior debt	no impact	no impact	absorb losses beyond PONV (bail-in)

Capital instruments

General principles (2/2):

What are the risks for HoldCo senior investors?



In all scenarios surpassing the Point of Non Viability, the investors are protected by the No Creditor Worse Off principle (“NCWO”), which stipulates that no instrument will be worse off in resolution than in normal insolvency proceedings

- 1 Recapitalisation scenario**, losses (originating in any or in all of the underlying entities*) are lower than the size of the capital instruments at the HoldCo level
⇒ part or all of Senior debt issued by the HoldCo can be converted into shares to recapitalise the HoldCo up to a minimum level as decided by the competent authorities. The investor then has a combination of shares and bonds of the HoldCo instead of only bonds and thus (co-)owns the underlying entities. The conversion factor would be determined by the competent authorities applying the NCWO principle.
- 2 Loss absorption scenario**, losses (originating in any or in all of the underlying entities*) exceed the size of the capital instruments at the HoldCo level
⇒ part or all of Senior issued by the HoldCo can be bailed-in to absorb losses. The NCWO principle implies that losses are only up-streamed to the HoldCo upto the amount of the investment of the HoldCo in the entity(ies) generating the losses. Hence, the investor in the HoldCo Senior will lose (up to) its investment to the extent that the amount of outstanding HoldCo senior debt exceeds the value of the remaining underlying entities of the HoldCo

* In KBC Group’s case this would be KBC Bank and/or KBC Insurance and/or KBC Asset Management

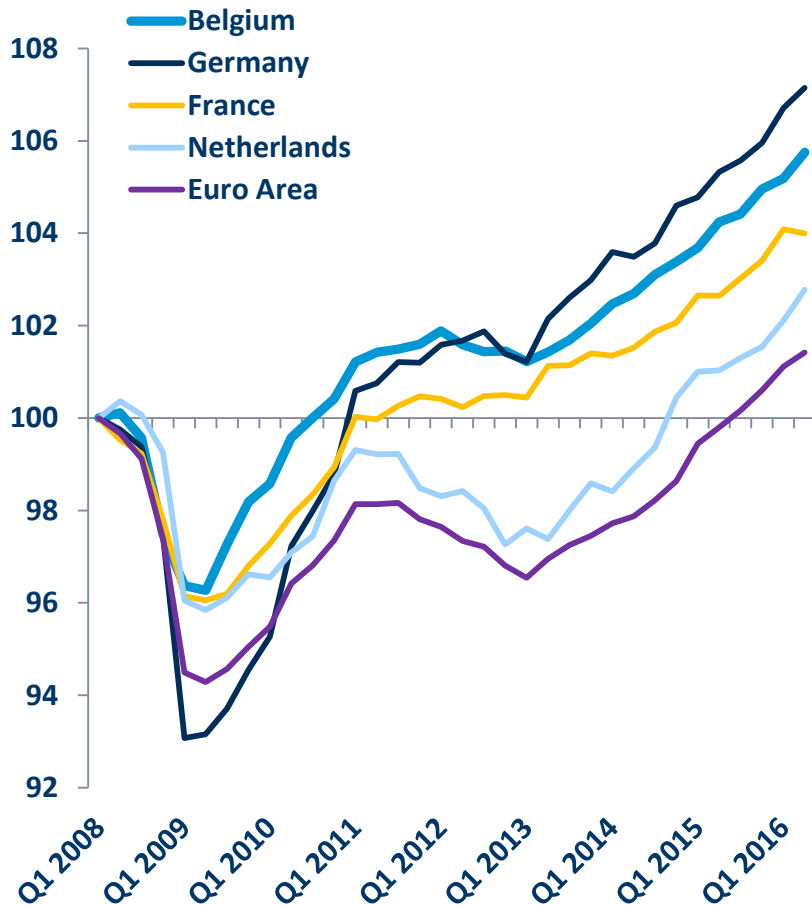
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Belgian economic growth

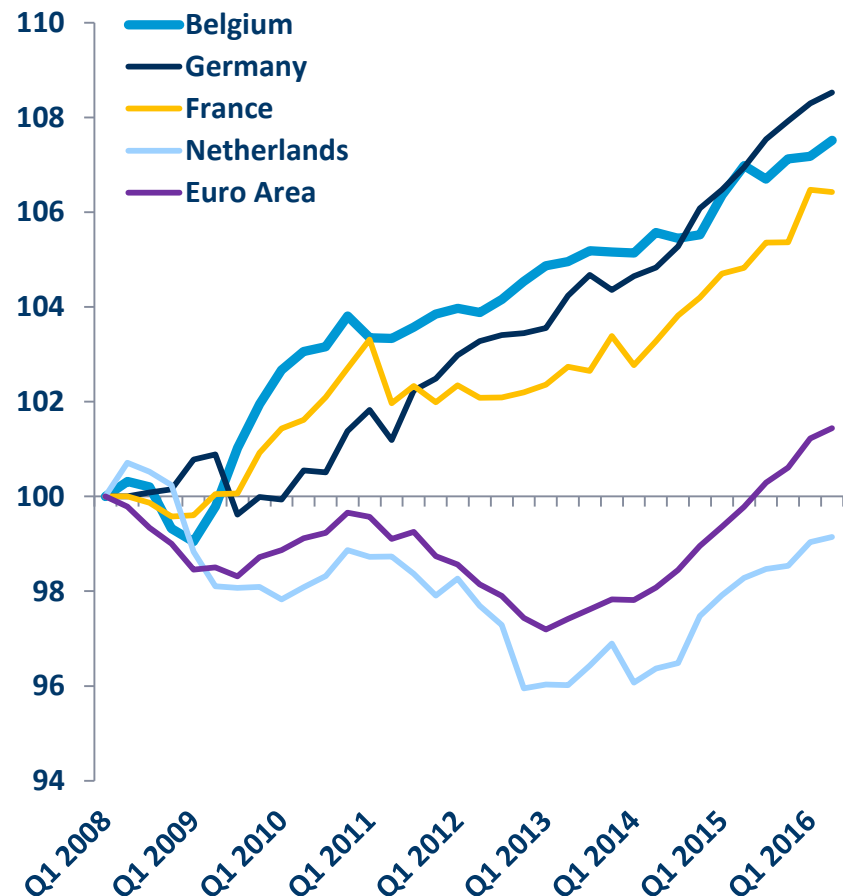
Moderate but steady GDP growth – with strong consumption

Real GDP in the Euro Area (Q1 2008 = 100)



Source: Eurostat; NBB

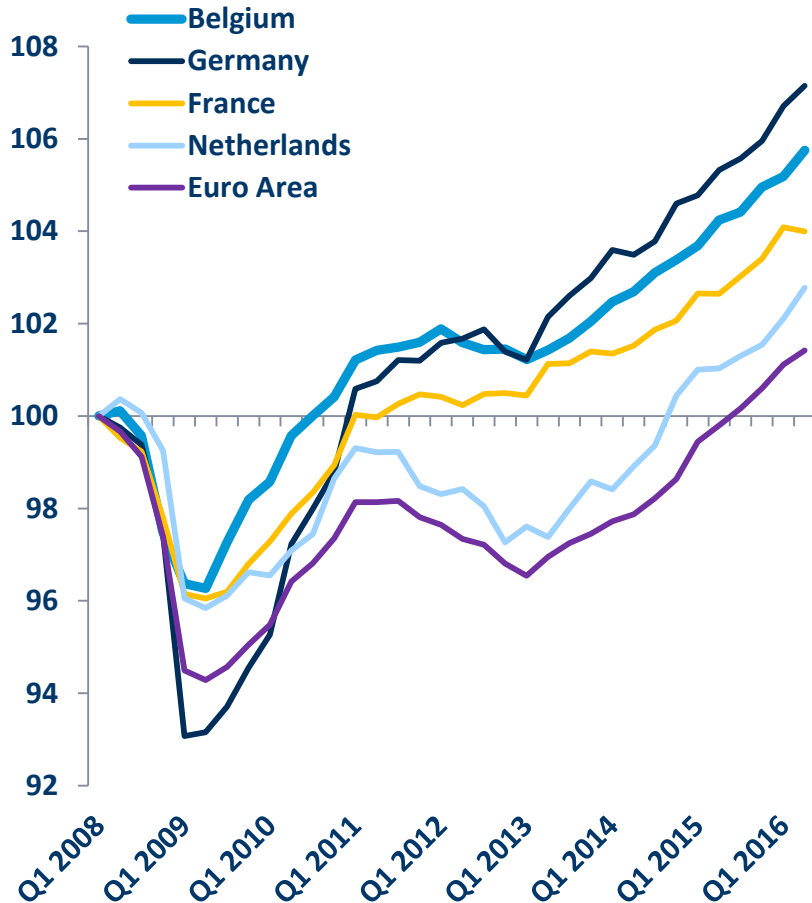
Real private consumption (Q1 2008 = 100)



Belgian economic growth

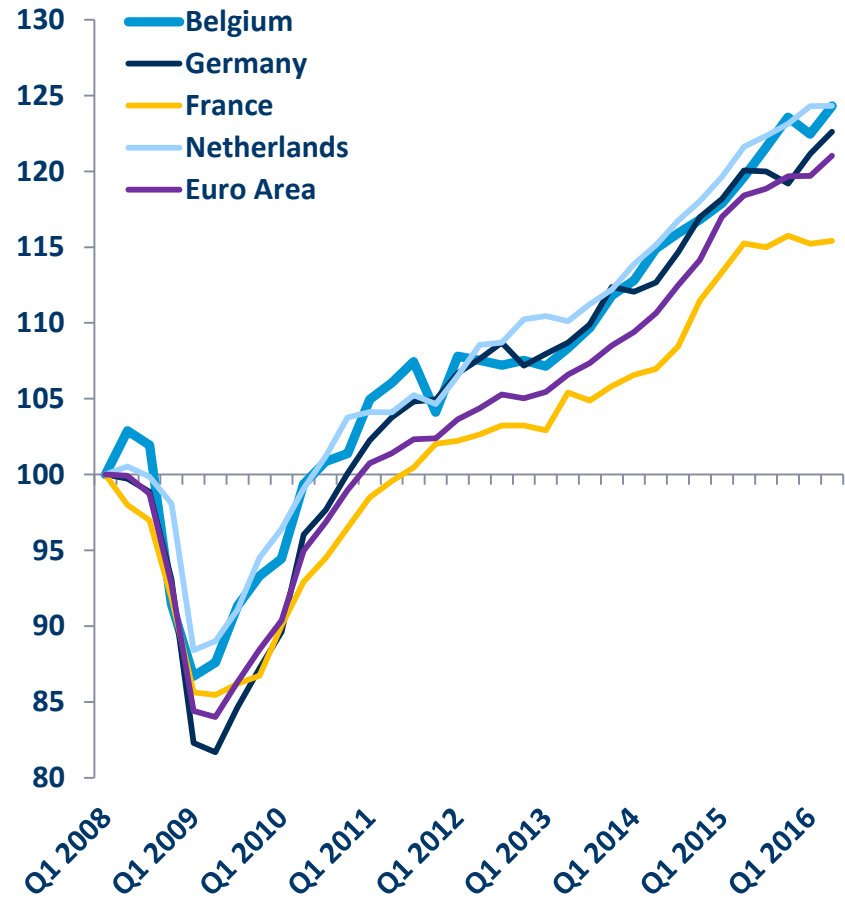
Moderate but steady GDP growth – with rising exports

Real GDP in the Euro Area (Q1 2008 = 100)



Source: Eurostat; NBB

Exports (Q1 2008 = 100)

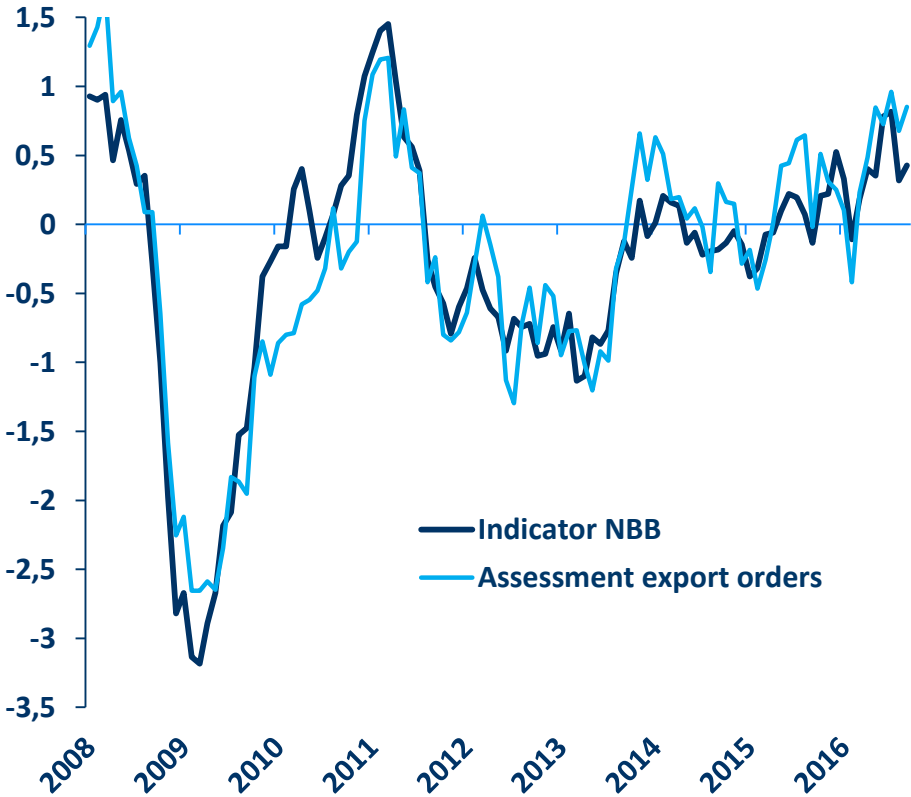


Confidence indicators

Sentiment indicators suggest growth slowed during the summer months

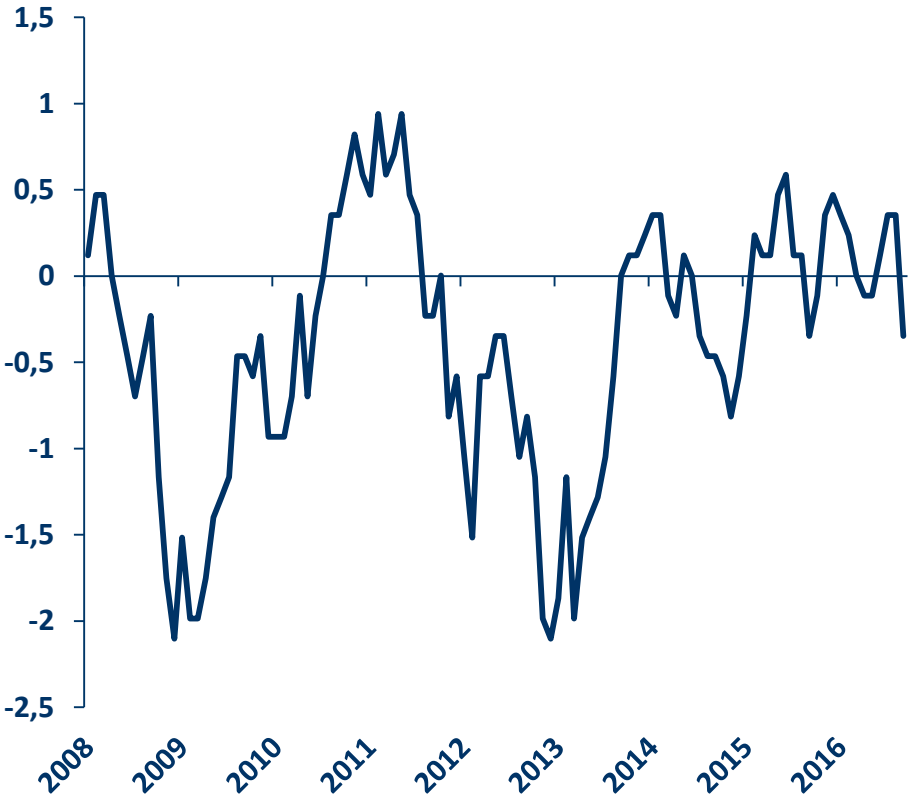
Belgium - Producer confidence

(standard deviation from long term average)



Belgium - Consumer confidence

(standard deviation from long term average)

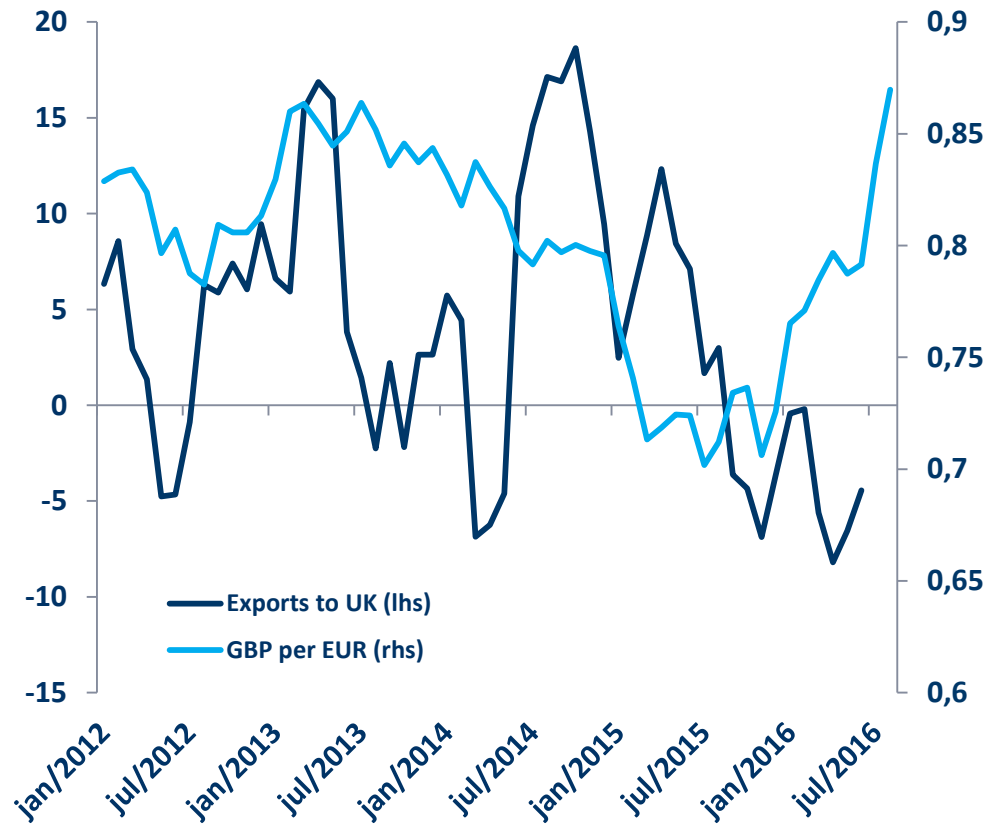
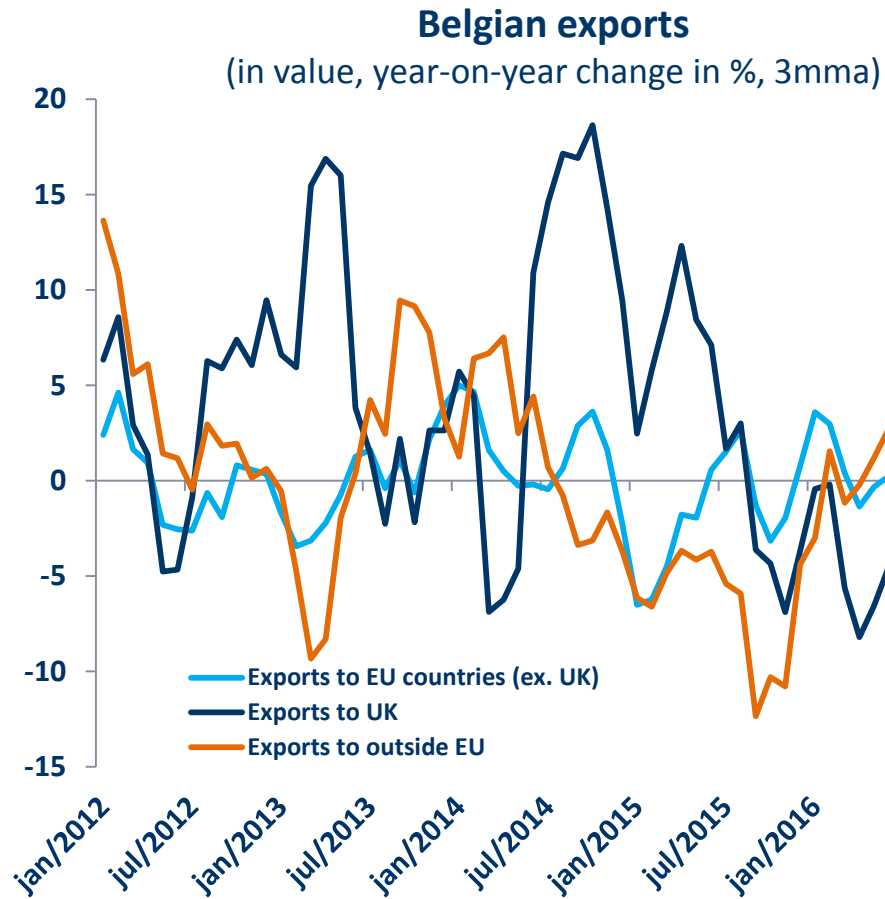


Source: NBB



External trade

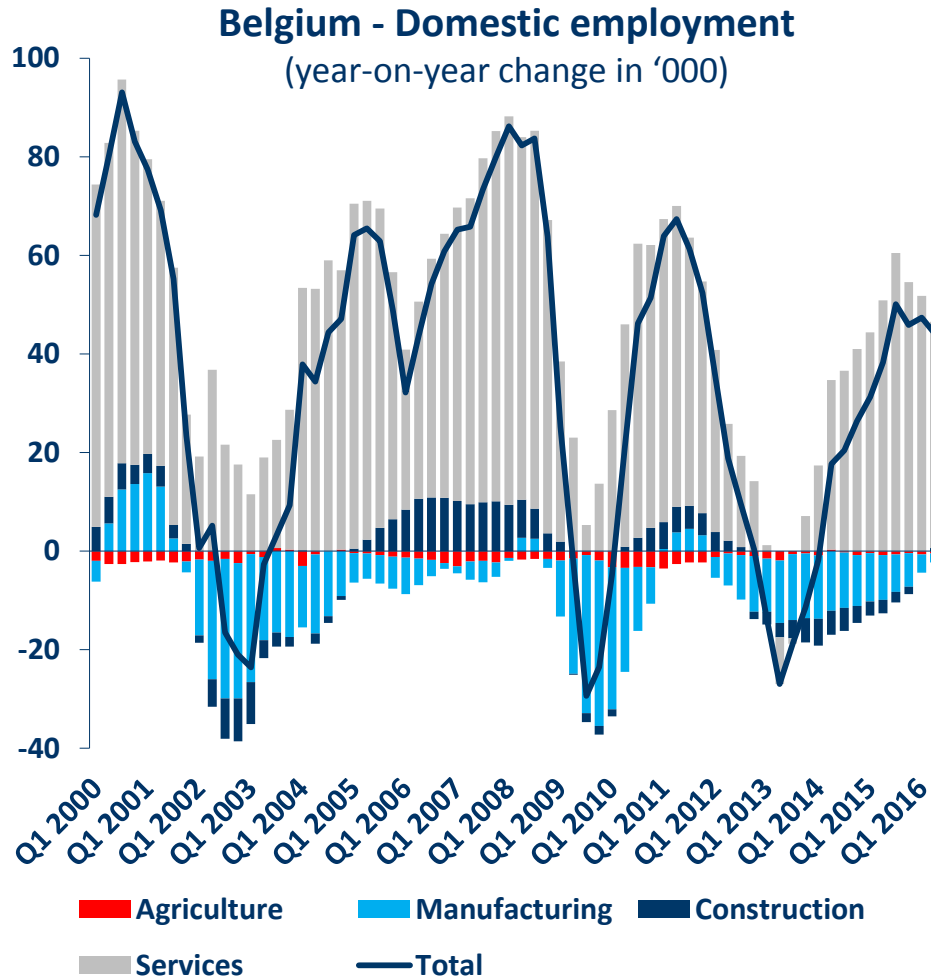
Belgian exports to the UK impacted by the GBP depreciation



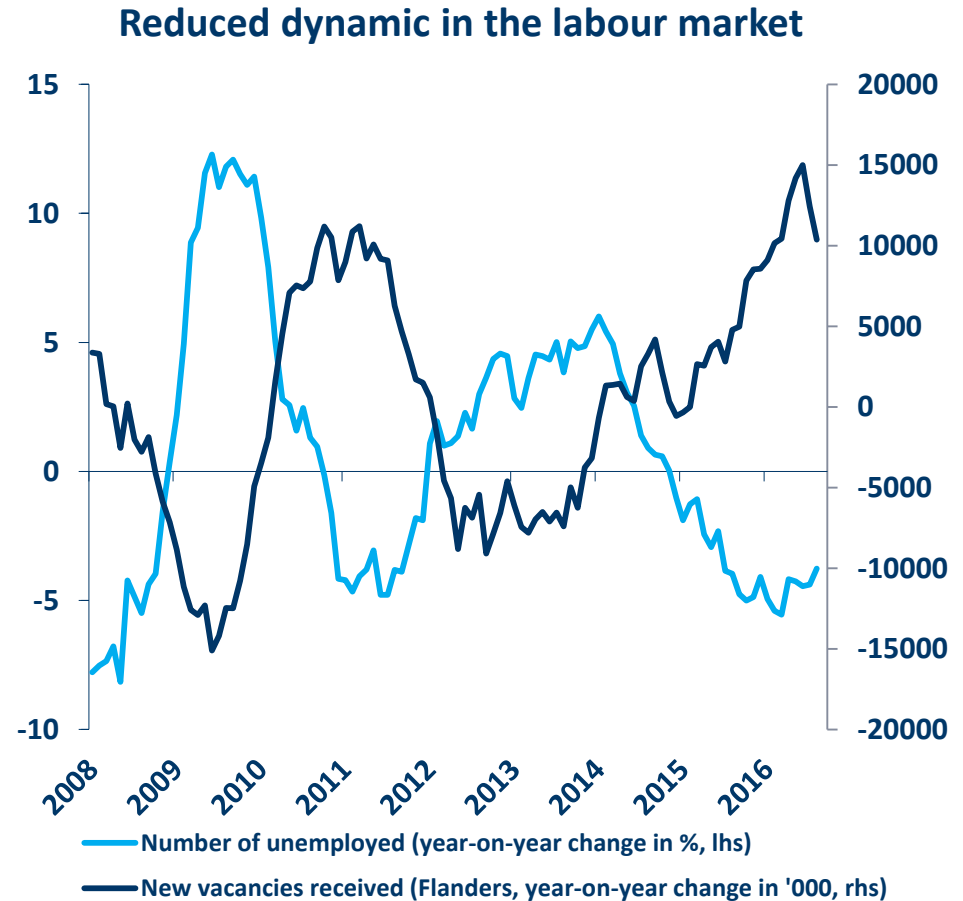
Source: NBB

Belgian labour market

The positive momentum in the job market slowed somewhat



Source: NBB; RVA; Federgon



Growth outlook 2016 & 2017

	REAL GDP GROWTH (IN %, KBC forecast)		
	2015	2016	2017
US	2.6	1.4	2.1
EMU	1.6	1.4	1.3
GERMANY	1.7	1.6	1.5
BELGIUM	1.4	1.3	1.2
CZECH REP.	4.3	2.5	2.3
SLOVAKIA	3.6	3.5	3.0
HUNGARY	2.9	2.0	2.6
BULGARIA	3.0	3.0	3.4
IRELAND	26.3	4.0	3.0

Comparison with other forecasters

2016	Belgium	Euro Area	Germany
IMF (April)	1.2	1.5	1.5
EC (Spring)	1.2	1.6	1.6
OECD (June)	1.2	1.6	1.6
Federal Planning Bureau (Sept.)	1.4	-	-
Consensus Economics (Sept.)	1.3	1.5	1.8
KBC (October)	1.3	1.4	1.6

2017	Belgium	Euro Area	Germany
IMF (April)	1.4	1.6	1.6
EC (Spring)	1.6	1.8	1.6
OECD (June)	1.5	1.7	1.7
Federal Planning Bureau (Sept.)	1.2	-	-
Consensus Economics (Sept.)	1.3	1.3	1.2
KBC (October)	1.2	1.3	1.5

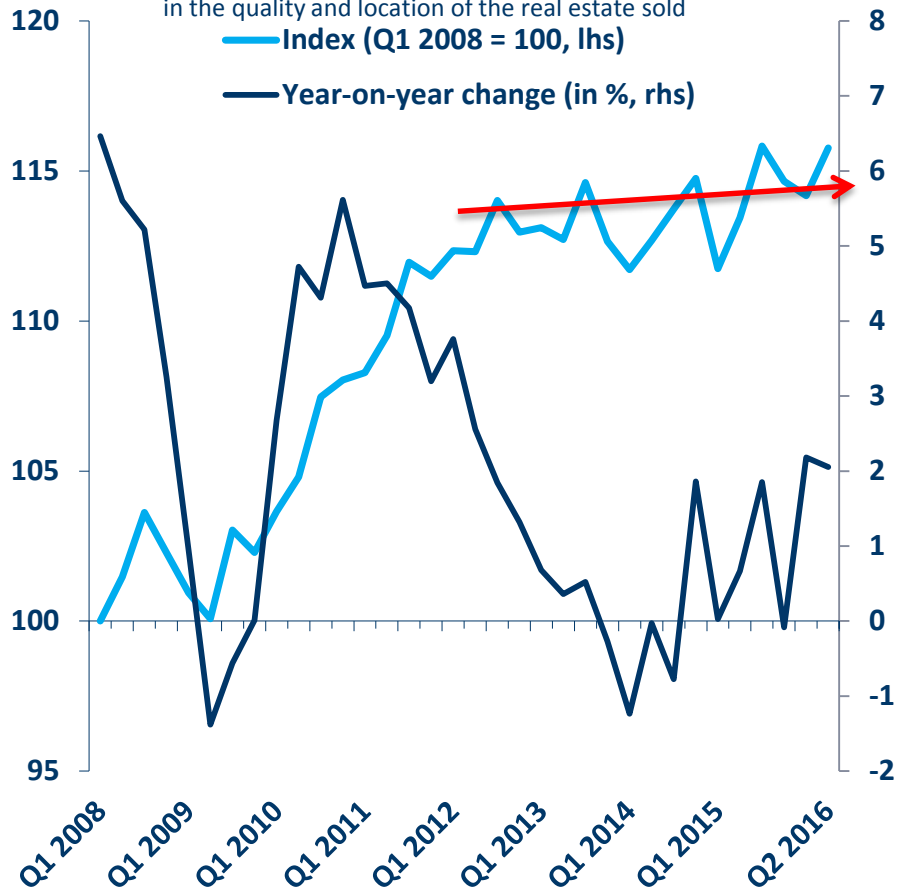
Source: KBC (October 2016)

Belgian housing market

A soft landing

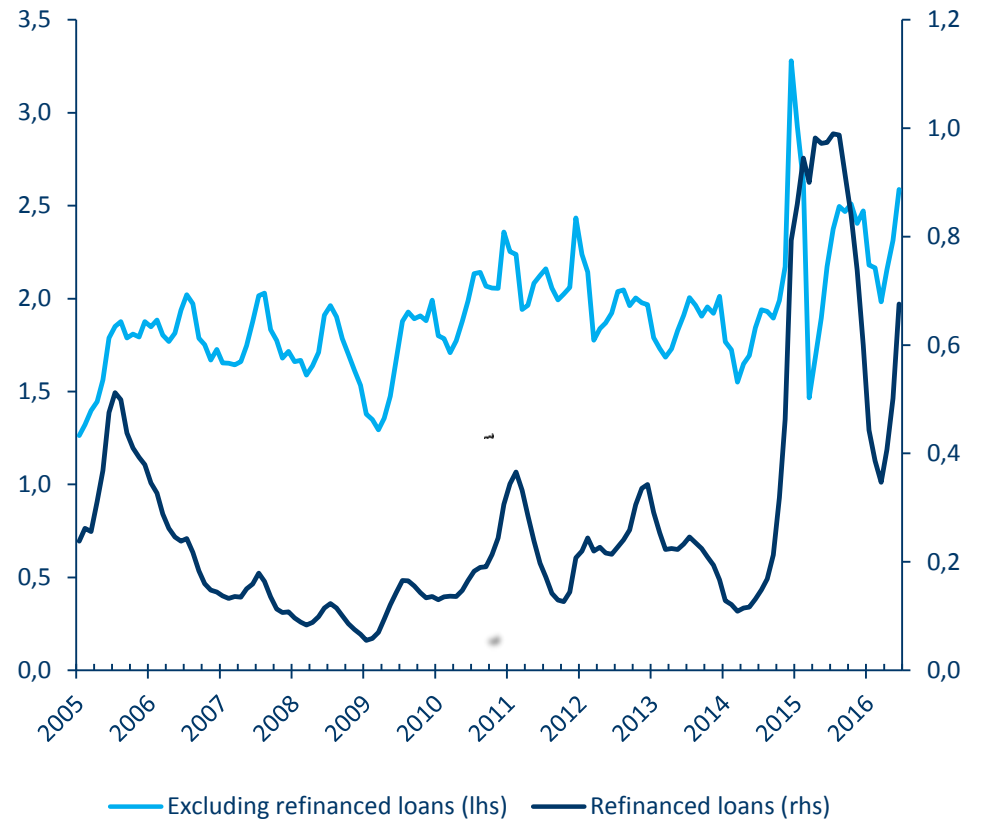
House prices Belgium (*)

(*) Corrected for price changes resulting from changes in the quality and location of the real estate sold



Source: FOD Economie

Mortgage market supported by historical low interest rates

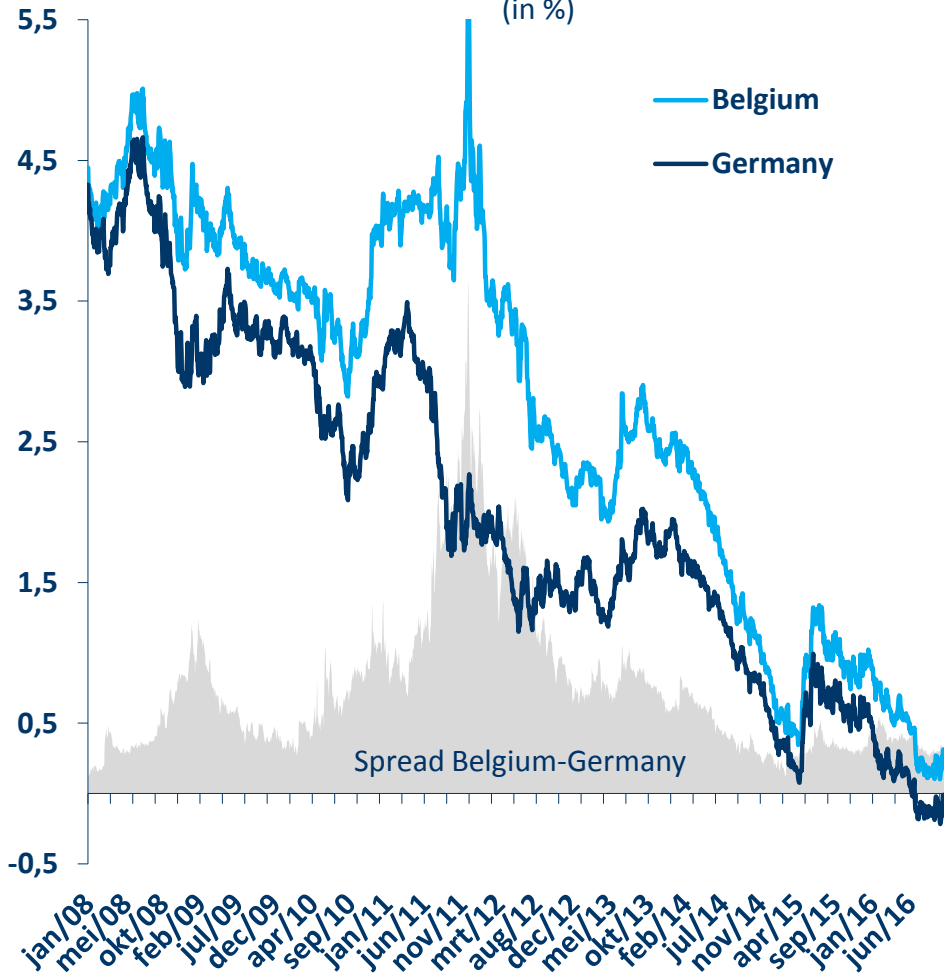


Source: NBB.Stat

Interest rates still at an historically low level

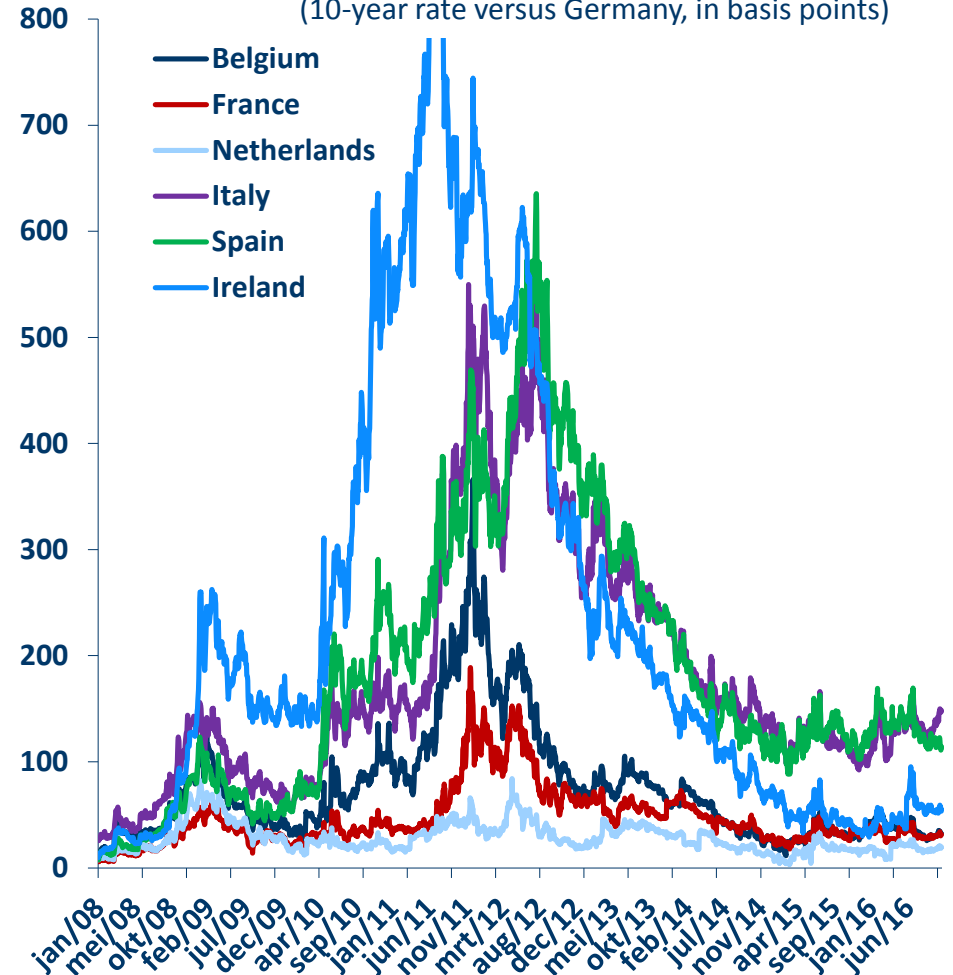
10-year government bond yields

(in %)



Interest rate spreads Euro Area

(10-year rate versus Germany, in basis points)



Glossary (1)

AQR	Asset Quality Review
B3	Basel III
CBI	Central Bank of Ireland
Combined ratio (non-life insurance)	[technical insurance charges, including the internal cost of settling claims / earned premiums] + [operating expenses / written premiums] (after reinsurance in each case)
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]
Cost/income ratio (banking)	[operating expenses of the banking activities of the group] / [total income of the banking activities of the group]
Cost/income ratio adjusted for specific items	<p>The numerator and denominator are adjusted for (exceptional) items which distort the P&L during a particular period in order to provide a better insight into the underlying business trends. Adjustments include:</p> <ul style="list-style-type: none"> • MtM ALM derivatives (fully excluded) • bank taxes (including contributions to European Single Resolution Fund) are included pro rata and hence spread over all quarters of the year instead of being recognised for the most part upfront (as required by IFRIC21) • up to the end of 2014, also Legacy & OCR was an important correction • one-off items (such as the impact of the liquidation of KBC FH)
Credit cost ratio (CCR)	[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
EBA	European Banking Authority
ESMA	European Securities and Markets Authority
ESFR	European Single Resolution Fund
FICOD	Financial Conglomerates Directive
Impaired loans cover ratio	[total impairments (specific) for impaired loans] / [total outstanding impaired loans]. For a definition of 'impaired', see 'Impaired loans ratio'
Impaired loans ratio	[total outstanding impaired loans (PD 10-11-12)] / [total outstanding loans]
Leverage ratio	[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
Liquidity coverage ratio (LCR)	[stock of high quality liquid assets] / [total net cash outflow over the next 30 calendar days].
Net interest margin (NIM) of the group	[net interest income of the banking activities] / [average interest-bearing assets of the banking activities]
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]

Glossary (2)

MARS	Mortgage Arrears Resolution Strategy
MREL	Minimum requirement for own funds and eligible liabilities
PD	Probability of default
Return on allocated capital (ROAC) for a particular business unit	[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
Return on equity	[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)
TLAC	Total loss-absorbing capacity

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