

# KBC Group / Bank Debt presentation February 2016

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- By reading this presentation, each investor is deemed to represent that it possesses sufficient expertise to understand the risks involved.

# 4Q 2015 key takeaways for KBC Group

## ■ STRONG BUSINESS PERFORMANCE IN 4Q15

Good net result of 862m EUR in 4Q15 (and 2.6bn EUR in FY15), supported by a gain of 765m EUR as a result of the liquidation of KBC Financial Holding, partly offset by 344m EUR goodwill impairments

Excluding these two items, net result amounted to 441m EUR in 4Q15 (and 2.2bn in FY15):

- Good commercial bank-insurance franchises in our core markets and core activities
- Q-o-q increase in customer loan volumes in most of our core countries
- Higher net interest income, despite lower net interest margin q-o-q
- Net asset management inflows, but lower net fee and commission income q-o-q (slightly above the guided range)
- Higher net gains from financial instruments at fair value (excluding impact KBC FH), lower net other income and lower realised AFS gains
- Excellent combined ratio (91% in FY15). Excellent sales of both non-life and life insurance products
- Cost/income ratio (55% in FY15) adjusted for specific items (one of which was the impact of the liquidation of KBC FH)
- Seasonally higher impairment charges (excluding goodwill impairments) q-o-q, but sharply lower y-o-y. Loan loss provisions in Ireland amounted to 16m EUR in 4Q15 and 48m EUR in FY15, fully in line with our guidance. We are maintaining our guidance for Ireland, namely the lower end of the 50m-100m EUR range for FY16

## ■ SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS

- **Common equity ratio (B3 phased-in) of 15.2% based on the Danish Compromise** at end 2015, which clearly exceeds the new 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 14.9% based on the Danish Compromise at end 2015**
- At the end of 2015, KBC repaid the full outstanding tranche of 2bn EUR of remaining state aid plus a penalty of 1bn EUR to the Flemish Regional Government, well ahead of the official deadline of 2020.
- Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to 6.3% at KBC Group
- **Continued strong liquidity position** (NSFR at 121% and LCR at 127%) at end 2015

## ■ DIVIDEND PROPOSAL\*:

- As guided, no dividend will be proposed to the AGM for the 2015 accounting year
- As of the 2016 accounting year, the target for the dividend payout ratio (including the coupon paid on AT1) is at least 50%

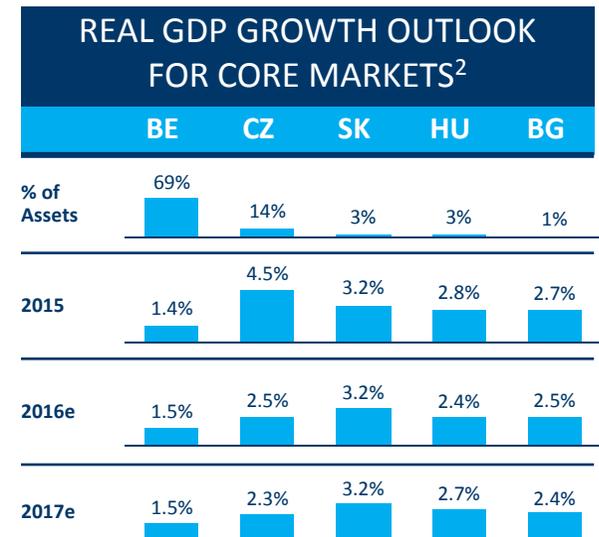
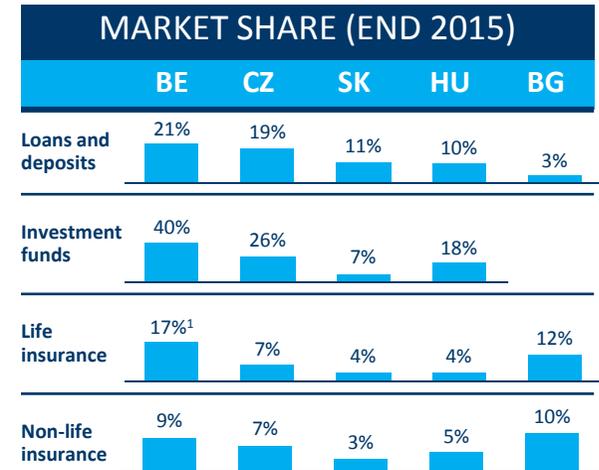
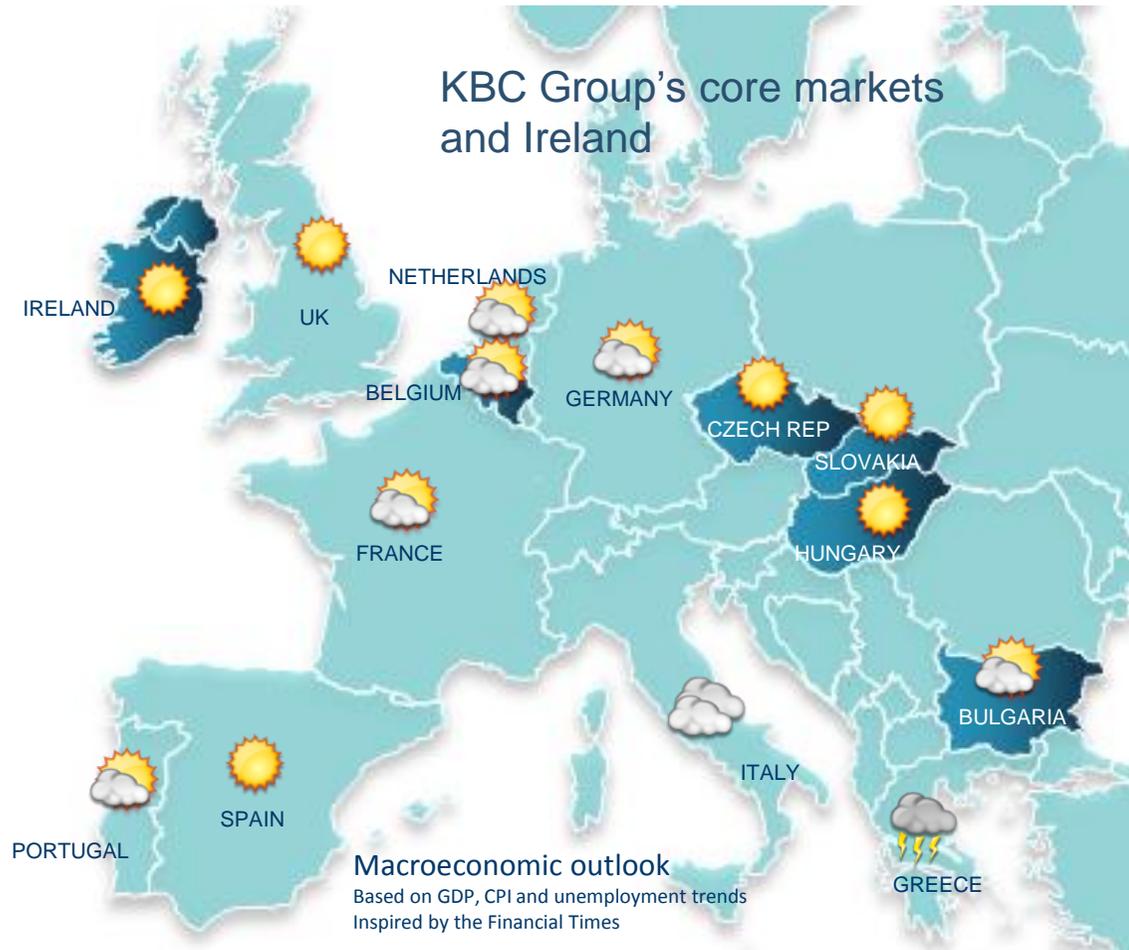
# Contents

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- 1** Strategy and business profile
- 2** Financial performance
- 3** Asset quality
- 4** Solvency and liquidity
- 5** MREL strategy
- 6** 4Q15 Wrap up

Appendices

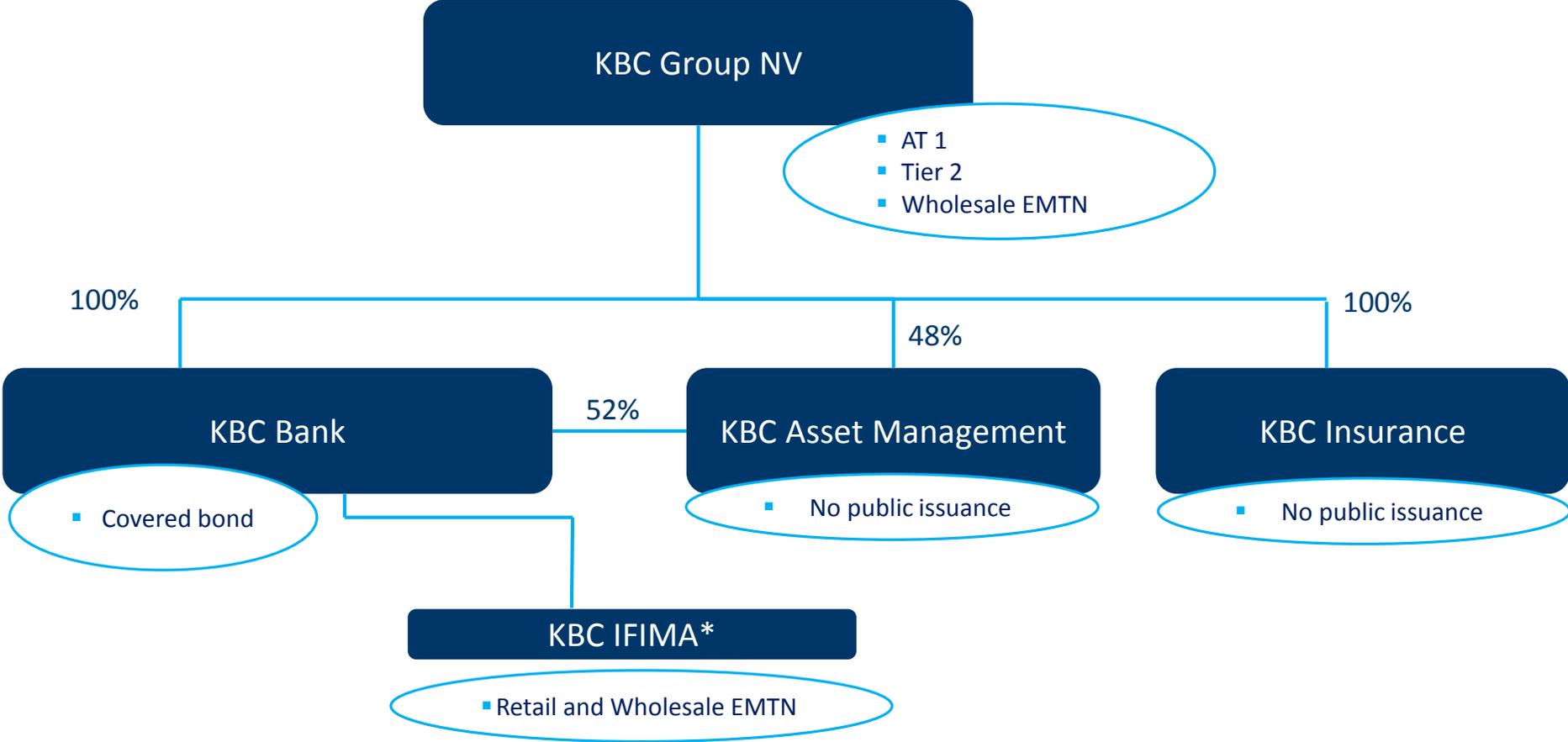
# Well-defined core markets provide access to 'new growth' in Europe



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

2. Source: KBC data, February 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 4Q 2015

## KBC Group

- Market cap (17/02/16): EUR 21bn
- Net result FY 2015: EUR 2.6bn
- Total assets: EUR 252bn
- Total equity: EUR 16bn
- CET1 ratio (Basel 3 transitional<sup>1</sup>): 15.2%
- CET1 ratio (Basel 3 fully loaded<sup>1</sup>): 14.9%

## KBC Bank

- Net result FY 2015: EUR 2.4bn<sup>2</sup>
- Total assets: EUR 218bn
- Total equity: EUR 13bn
- CET1 ratio (Basel 3 transitional): 14.1%
- CET1 ratio (Basel 3 fully loaded): 13.7%
- C/I ratio FY 2015: 55%<sup>3</sup>

## KBC Insurance

- Net result FY 2015: EUR 354m
- Total assets: EUR 38bn
- Total equity: EUR 3bn
- Solvency I ratio: 289%
- Solvency II ratio: 231%
- Combined operating ratio FY15: 91%

## Credit Ratings of KBC Bank (*KBC Group*) as at 15 February 2016

	S&P	Moody's	Fitch
<b>Long-term</b> <i>(KBC Group)</i>	<b>A (Negative)</b> <i>BBB+ (Stable)</i>	<b>A1 (Stable)</b> <i>Baa1 (Stable)</i>	<b>A- (Stable)</b> <i>A- (Stable)</i>
<b>Short-term</b>	<b>A-1</b>	<b>Prime-1</b>	<b>F1</b>

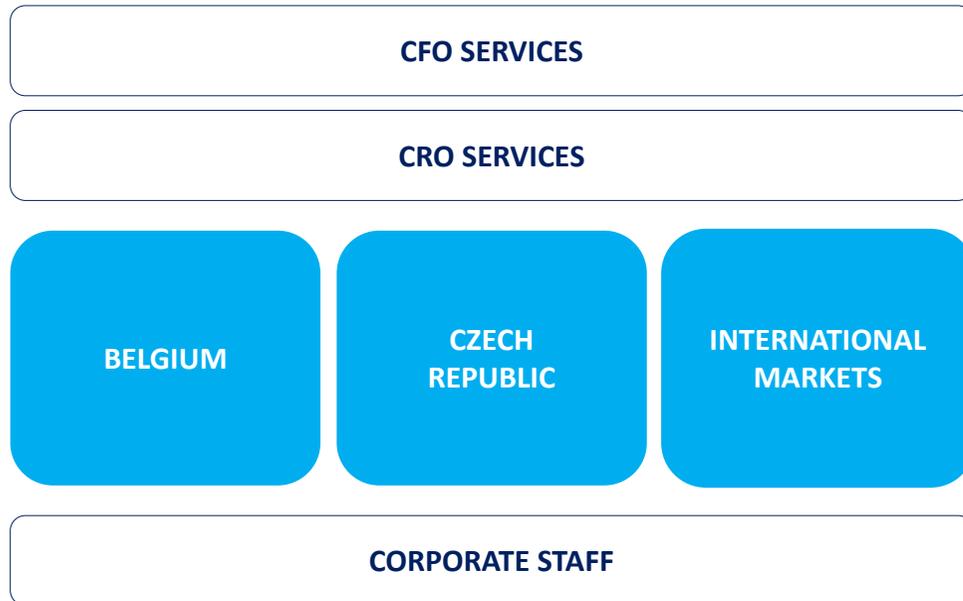
1. After taking into account the full reimbursement of remaining state aid of 2bn EUR (and penalty)
2. Includes KBC Asset Management ; excludes holding company eliminations
3. Adjusted for specific items, the C/I ratio amounted to c.59% in 4Q 2015

# Overview of KBC Group

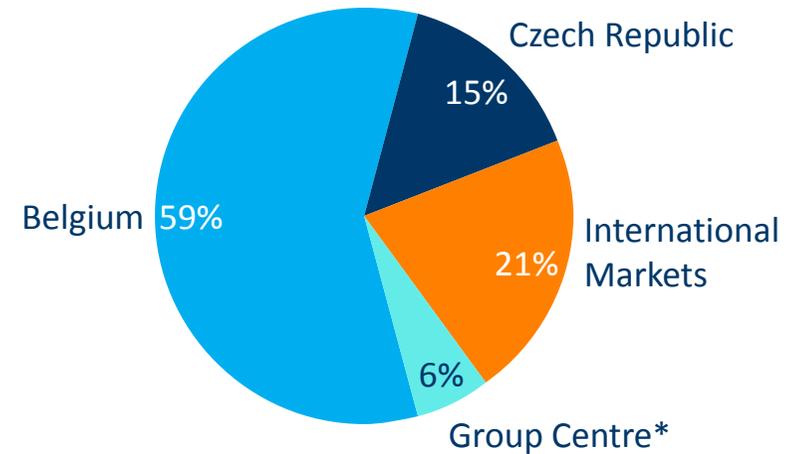
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- **STRONG BANK-INSURANCE GROUP PRESENT WITH LEADING MARKET POSITIONS IN ITS CORE GEOGRAPHIES (BELGIUM AND CEE)**
  - A leading financial institution in both Belgium and the Czech Republic
  - Business focus on Retail, SME & Midcap clients
  - Unique 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 31 December 2015



\*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

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- 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

<b>Targets...</b>		<b>by...</b>
<b>CAGR total income ('13-'17)<sup>1</sup></b>	≥ 2.25%	2017
<b>CAGR bank-insurance gross income ('13-'17)</b>	≥ 5%	2017
<b>C/I ratio</b>	≤ 53%	2017
<b>Combined ratio</b>	≤ 94%	2017
<b>Common equity ratio</b> (phased-in, Danish compromise)	≥ 10.25% <sup>2</sup>	2016
<b>Total capital ratio</b> (fully loaded, Danish compromise)	≥ 17%	2017
<b>NSFR</b>	≥ 105%	2014
<b>LCR</b>	≥ 105%	2014
<b>Dividend payout ratio</b>	≥ 50%	2016

Based on adjusted figures

1. Excluding marked-to-market valuations of ALM derivatives
2. 2016 minimum phased-in CET1 ratio of 10.25% set by the ECB (9.75% minimum CET1) in combination with NBB's systemic buffer (0.5% minimum in 2016, gradually increasing over a 3-year period and reaching 1.5% in 2018) under the Danish compromise

# Contents

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**1** Strategy and business profile

**2** Financial performance

**3** Asset quality

**4** Solvency and liquidity

**5** MREL strategy

**6** 4Q15 Wrap up

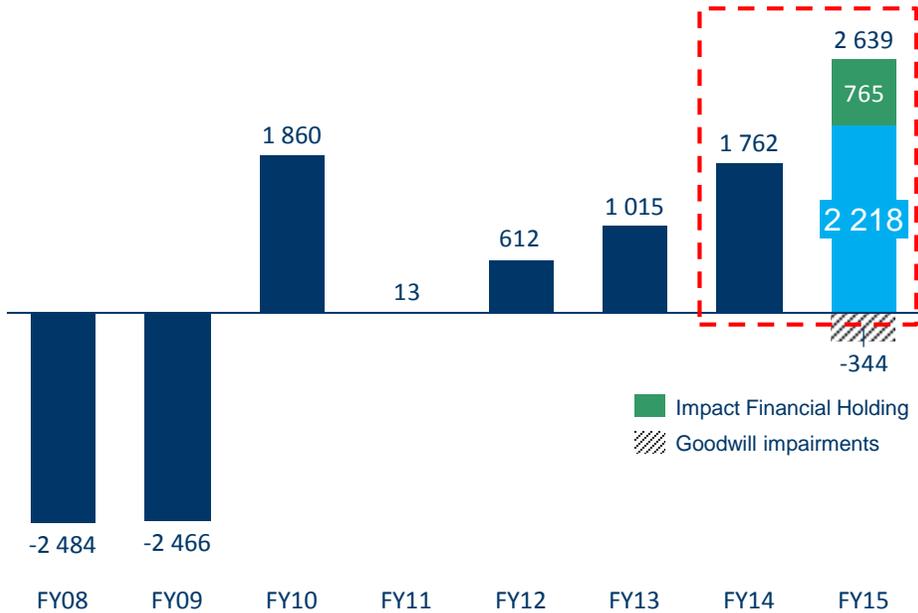
Appendices

# Some specific remarks for 4Q15

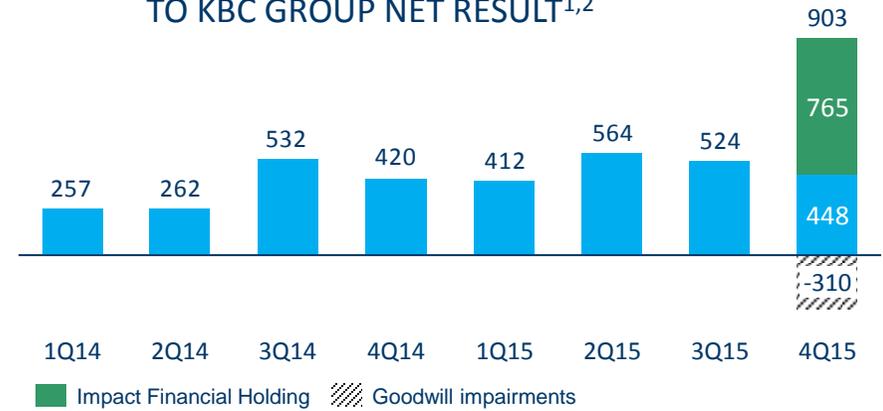
- At the end of 2015, **KBC repaid the full outstanding tranche** of 2bn EUR of remaining state aid plus a penalty of 1bn EUR **to the Flemish Regional Government**, well ahead of the official deadline of 2020
- As mentioned together with the 3Q15 results, **KBC liquidated KBC Financial Holding Inc. (US)**. This resulted in the tax deductibility of losses already booked in previous years (specifically 2008 and 2009), for which a DTA was booked, leading to:
  - an one-off gain in the IFRS P&L of 765m EUR in 4Q15: -156m EUR translation differences booked in net gains from FIFV and +921m EUR in the tax expense line (recognition of tax loss carry forward DTAs and current tax impact on translation differences)
  - initially only a limited positive impact of 0.19% on KBC's fully loaded CET1 ratio under the Danish Compromise
- **Goodwill impairments of 344m EUR** (191m EUR on Istrobanka<sup>1</sup> in Slovakia, 117m EUR CI Bank and 34m EUR DZI, 2m EUR at Hypotecni Banka<sup>2</sup>) were recorded in 4Q15, mainly the result of higher local capital targets and a higher discount rate
- In 4Q15, the final calculation for 2015 led to an extra 15m EUR contribution to the **European Single Resolution Fund** (on top of the 50m EUR booked in 9M15)

# Earnings capacity

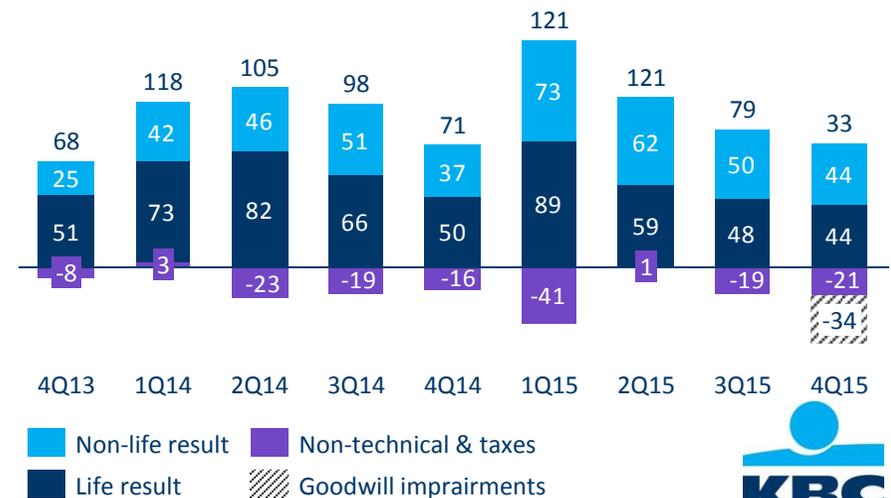
## NET RESULT<sup>1</sup>



## CONTRIBUTION OF BANKING ACTIVITIES TO KBC GROUP NET RESULT<sup>1,2</sup>



## CONTRIBUTION OF INSURANCE ACTIVITIES TO KBC GROUP NET RESULT<sup>1,2</sup>

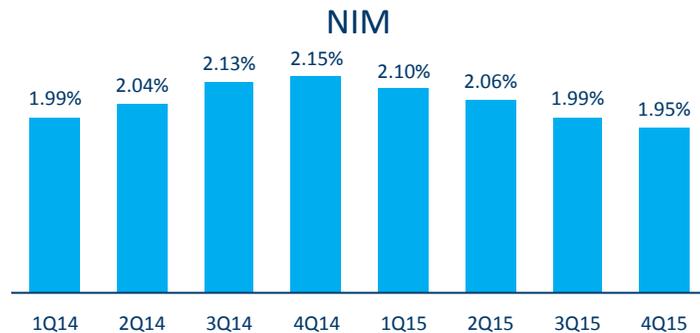
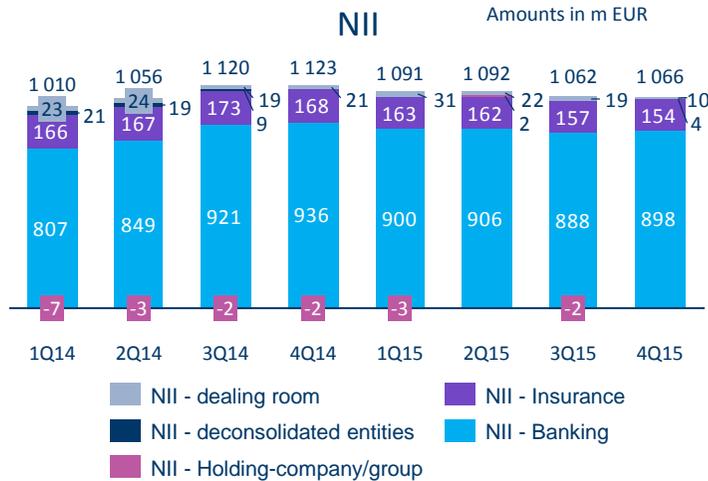


1 Note that the scope of consolidation has changed over time, due partly to divestments

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



# Net interest income slightly up, net interest margin slightly under pressure



## Net interest income

- Slightly up q-o-q and down by 5% y-o-y
- The slight q-o-q increase was driven primarily by:
  - lower funding costs
  - additional rate cuts on savings accounts in all core countries (except in the Czech Republic, which happened at the start of 3Q15)
  - Loan volume growth
- almost fully offset by:
  - mortgages in Belgium: lower upfront prepayment fees (2m EUR less q-o-q) and increased hedging losses on previously refinanced mortgages
  - lower reinvestment yields
  - pressure on commercial loan margins in most core countries
  - a decrease of 9m EUR in NII from the dealing room

## Net interest margin (1.95%)

- Down by 4 bps q-o-q and by 20 bps y-o-y
- Q-o-q decrease is due almost entirely to lower reinvestment yields (mainly in the Czech Republic), the increased hedging losses on previously refinanced mortgages and pressure on commercial loan margins in most core countries, partly offset by rate cuts on savings accounts and lower funding costs

## VOLUME TREND

	Total loans <sup>2</sup>	Of which mortgages	Customer deposits <sup>3</sup>	AuM	Life reserves
Excluding FX effect					
Volume	128bn	55bn	162bn!	209bn	28bn
Growth q-o-q <sup>1</sup>	+1%	+1%	0%	+4%	+1%
Growth y-o-y	+3%	+3%	+5%	+12%	+1%

Customer deposit volumes excluding debt certificates & repos flat q-o-q and +6% y-o-y

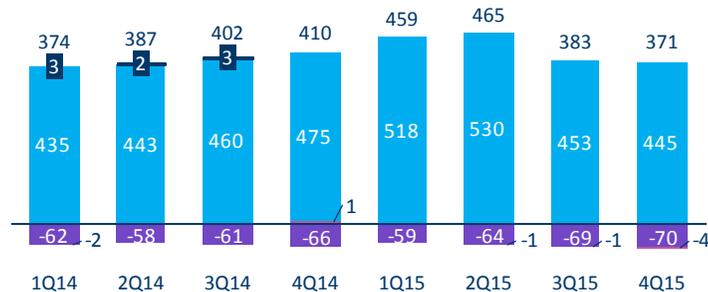
1 Non-annualised

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

3 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

# Net asset management inflows, but lower net fee and commission income (slightly above the guided range)

F&C



■ F&C - deconsolidated entities    ■ F&C - banking contribution  
■ F&C - insurance contribution    ■ F&C - contribution of holding-company/group

Amounts in m EUR

AuM



Amounts in bn EUR

## Net fee and commission income

- Down by 3% q-o-q and by 9% y-o-y
- Q-o-q decrease was the result chiefly of:
  - lower management fees from mutual funds, due mainly to the effect of the very large switch of CPPI products towards cash at the end of August
  - lower entry fees from unit-linked life insurance products, due mainly to less switches
  - higher commissions paid on insurance sales partly offset by:
    - higher entry fees from mutual funds
    - higher fees from securities transactions
- Y-o-y decline resulted chiefly from lower management fees from mutual funds, lower entry fees from mutual funds and unit-linked life insurance products, lower fees from credit files and bank guarantees and higher commissions paid on insurance sales, partly offset by higher fees from payment services
- Note that net F&C income in FY15 increased roughly 7% y-o-y and will remain an important top-line contributor
- Given the current market circumstances, the recovery of net F&C is being delayed

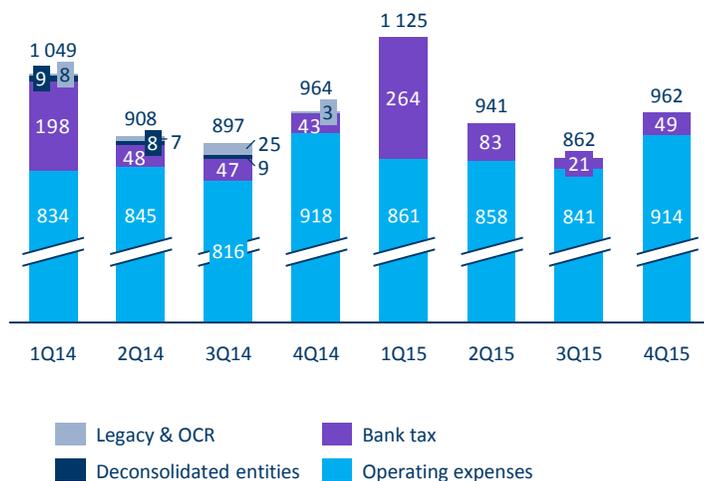
## Assets under management (209bn EUR)

- Up by 4% q-o-q as a result of a net inflows (+2%) and a positive price effect (+2%)
- Up by 12% y-o-y owing to net inflows (+8%) and a positive price effect (+4%)



# Operating expenses up, but good cost/income ratio

## OPERATING EXPENSES



## EXPECTED BANK TAX SPREAD (including ESRF contribution)

	TOTAL	Upfront				Spread out over the year			
	4Q15	1Q15	2Q15	3Q15	4Q15	1Q15	2Q15	3Q15	4Q15
BU BE	13	160	49	0	13	0	0	0	0
BU CZ	7	11	0	-12	0	9	10	9	7
Hungary	20	56	1	0	0	16	19	19	20
Slovakia	5	3	1	0	2	3	3	3	3
Bulgaria	2	0	0	0	1	1	1	1	1
Ireland	0	2	0	0	-1	0	0	0	1
GC	0	5	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>49</b>	<b>237</b>	<b>51</b>	<b>-12</b>	<b>15</b>	<b>28</b>	<b>32</b>	<b>32</b>	<b>33</b>

Amounts in m EUR

### ■ Cost/income ratio (banking) adjusted for specific items\* at 59% in 4Q15 and 55% in FY15

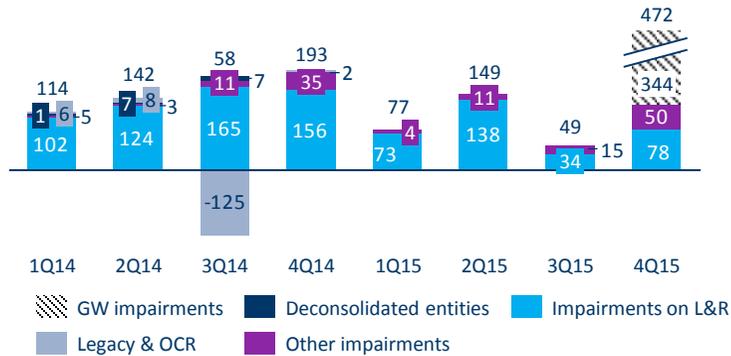
- Operating expenses excluding bank tax went up by 9% q-o-q due to:
  - seasonal effects such as traditionally higher marketing, ICT and professional fee expenses
  - higher pension costs in Belgium
  - a gradual acceleration of (strategic) projects execution
  - restructuring charges in CZ
- Operating expenses without bank tax decreased by 1% y-o-y due to lower staff and marketing expenses in Belgium in 4Q15 and one-off expenses in Hungary in 4Q14, despite higher ICT investments into the strategic programme of KBC Group (digitalisation, mainly in Belgium and the Czech Republic)
- Pursuant to IFRIC 21, certain levies (such as contributions to the new European Single Resolution Fund) have to be recognised in advance, and this adversely impacted the results for 1Q15. In 4Q15, the final disclosure for 2015 led to an extra 15m EUR contribution to the ESRF (on top of the 50m EUR booked in 9M15)



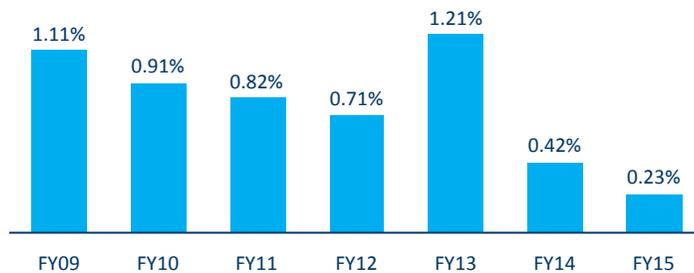
\* See glossary (slide 84) for the exact definition

# Asset impairment driven by GW impairments, excellent credit cost ratio and impaired loans ratio dropped

### ASSET IMPAIRMENT



### CREDIT COST RATIO



### IMPAIRED LOANS RATIO



## Sharply higher impairment charges q-o-q

- The seasonal q-o-q increase in loan loss provisions was attributable mainly to:
  - high impairments in foreign branches, but low impairments in retail, corporates & real estate in the Belgium Business Unit
  - higher impairments on SMEs in the Czech Republic and Slovakia
  - Ireland (16m EUR compared with 9m in 3Q15 and 41m EUR in 4Q14)
- Loan loss provisions significantly decreased y-o-y (-50%)
- Impairment of
  - 21m EUR on AFS shares (18m EUR in Belgium and 4m EUR in the Czech Republic)
  - 344m EUR on goodwill (191m EUR on Istrobanka<sup>1</sup> in Slovakia, 117m EUR at CI Bank, 34m EUR at DZI and 2m EUR at Hypotecni B.<sup>2</sup>) booked in Group Centre (except 2m EUR in the Czech BU)
  - 29m EUR on 'other' (of which 20m EUR on Hungarian Data Center)

The **credit cost ratio** only amounted to 0.23% in FY15 due to low gross impairments (especially in 3Q15) and some releases (especially in 1Q15), despite an increase of IBNR impairments (due to parameter changes) by approximately 34m EUR in 2Q15

The **impaired loans ratio** dropped further to 8.6%

# Overview of results based on business units

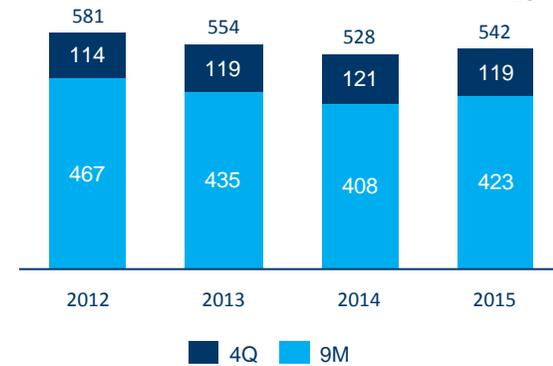
## NET PROFIT – BELGIUM

FY15 ROAC: 26%



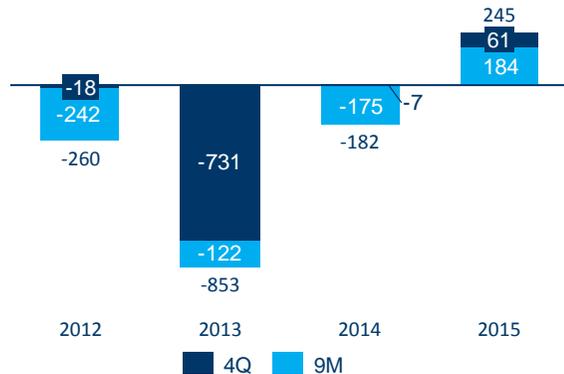
## NET PROFIT – CZECH REPUBLIC

FY15 ROAC: 37%



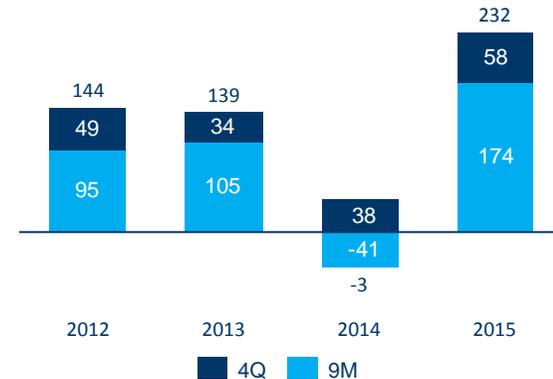
## NET PROFIT – INTERNATIONAL MARKETS

FY15 ROAC: 12%



## NET PROFIT – INTERNATIONAL MARKETS EXCL. IRELAND

FY15 ROAC: 18%



Amounts in m EUR



# Contents

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1 Strategy and business profile

2 Financial performance

3 *Asset quality*

4 Solvency and liquidity

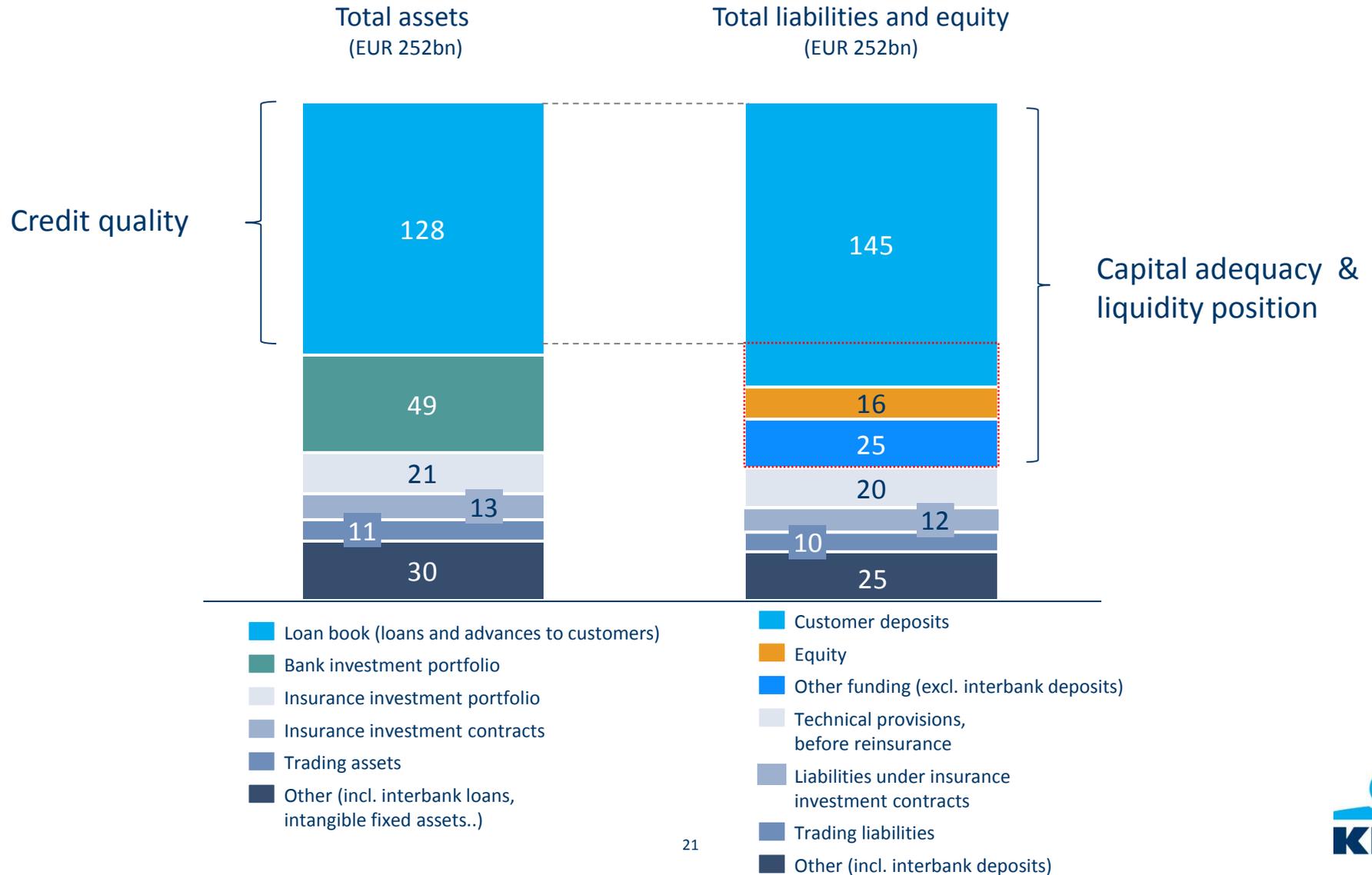
5 MREL strategy

6 4Q15 Wrap up

Appendices

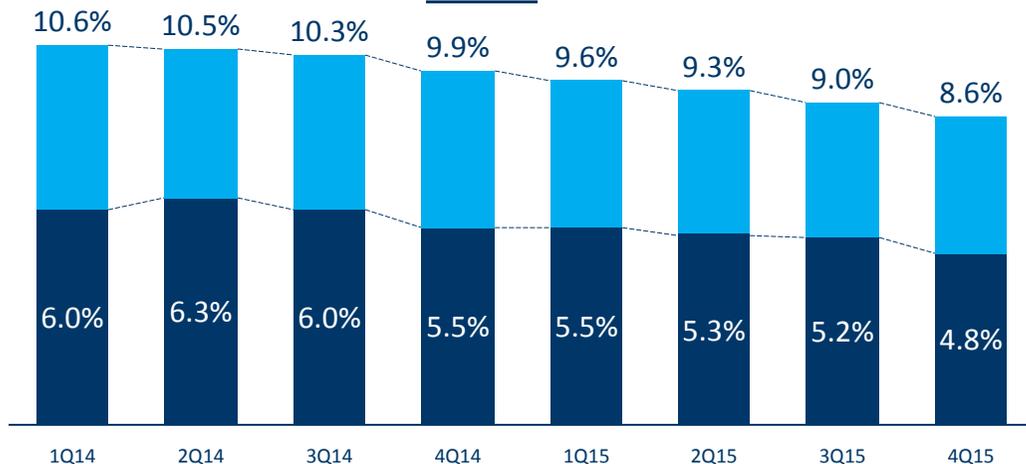
# Balance sheet

## (KBC Group consolidated at 31 December 2015)



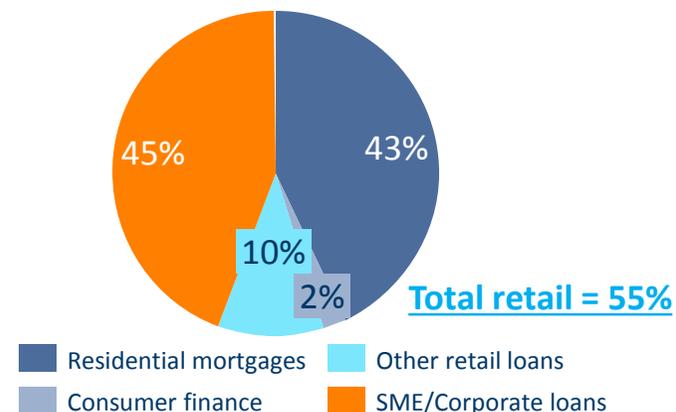
# Impaired loans ratios of KBC Group and per Business Unit, incl. of which over 90 days past due

## KBC GROUP

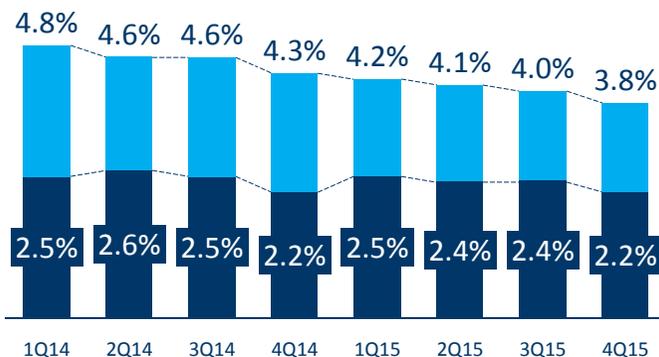


## CUSTOMER LOAN BOOK: EUR 128bn at 31-12-2015

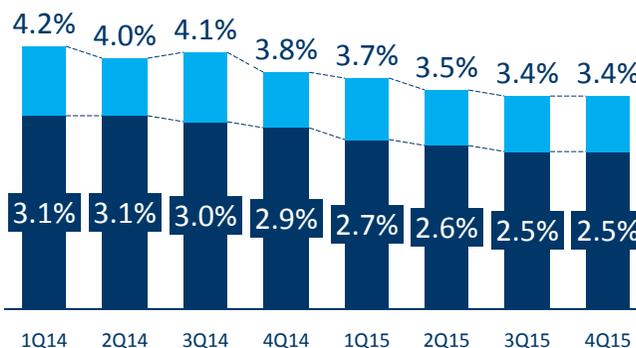
(LARGELY SOLD THROUGH OWN BRANCHES)



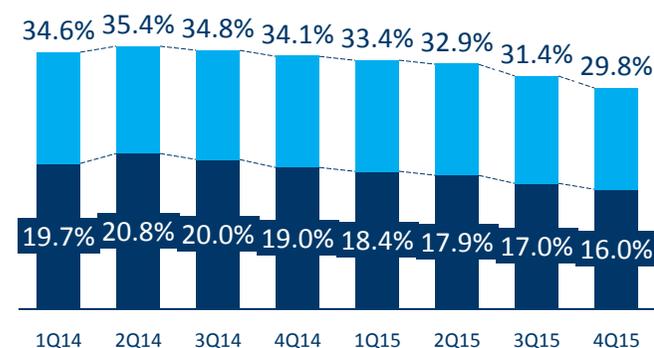
## BELGIUM BU



## 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

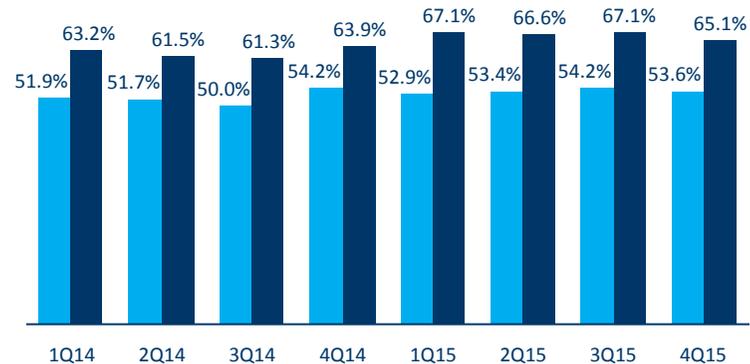


## BELGIUM BU

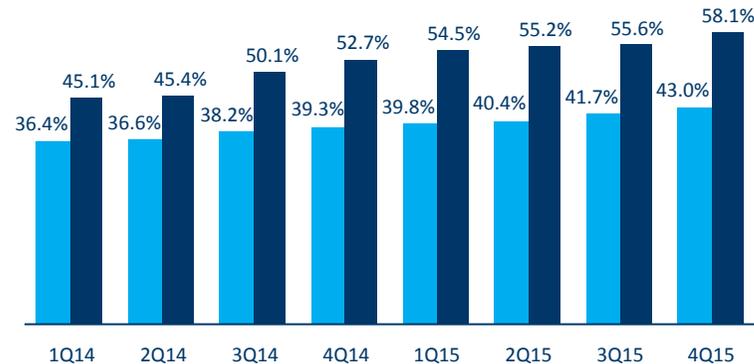


■ Impaired loans cover ratio  
■ Cover ratio for loans with over 90 days past due

## 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

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

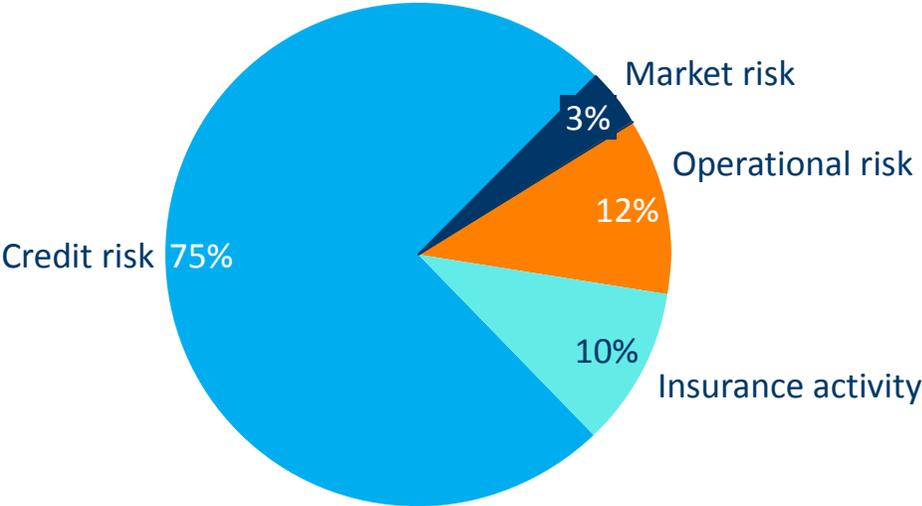
Credit cost ratio: amount of losses incurred on troubled loans as a % of total average outstanding loan portfolio

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\*  
31-12-2015

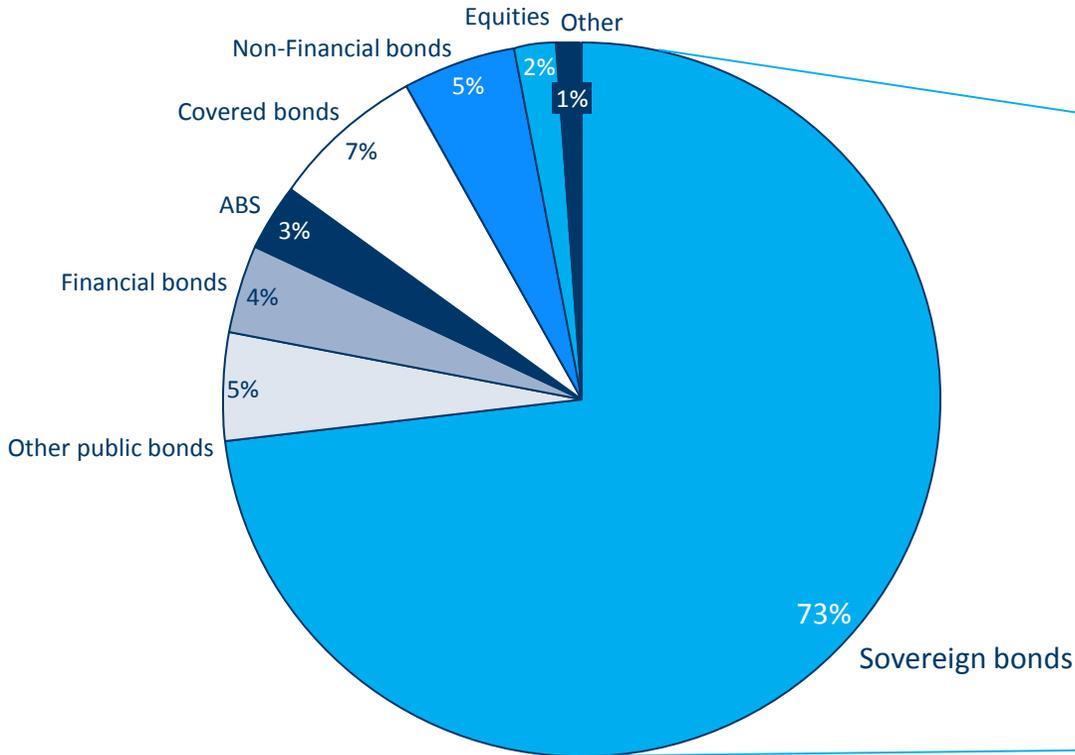


\* RWA on fully loaded basis and under Danish Compromise

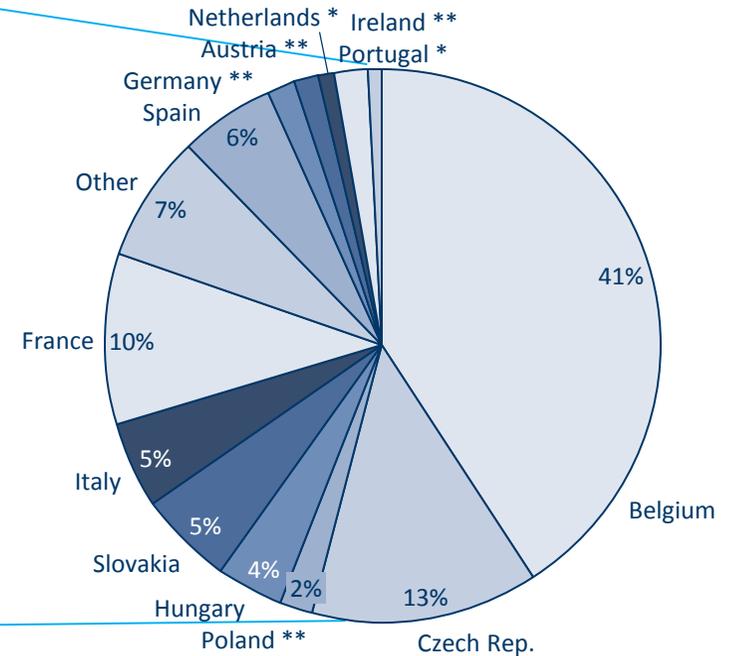


# Investment portfolio (as per 31/12/2015)

**INVESTMENT PORTFOLIO**  
(Total EUR 70bn)



**SOVEREIGN BOND PORTFOLIO**  
(Carrying value<sup>1</sup> EUR 53bn)  
(Notional value EUR 49bn)



(\*) 1%, (\*\*) 2%

<sup>1</sup> 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

# Contents

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**1** Strategy and business profile

**2** Financial performance

**3** Asset quality

**4** Solvency and liquidity

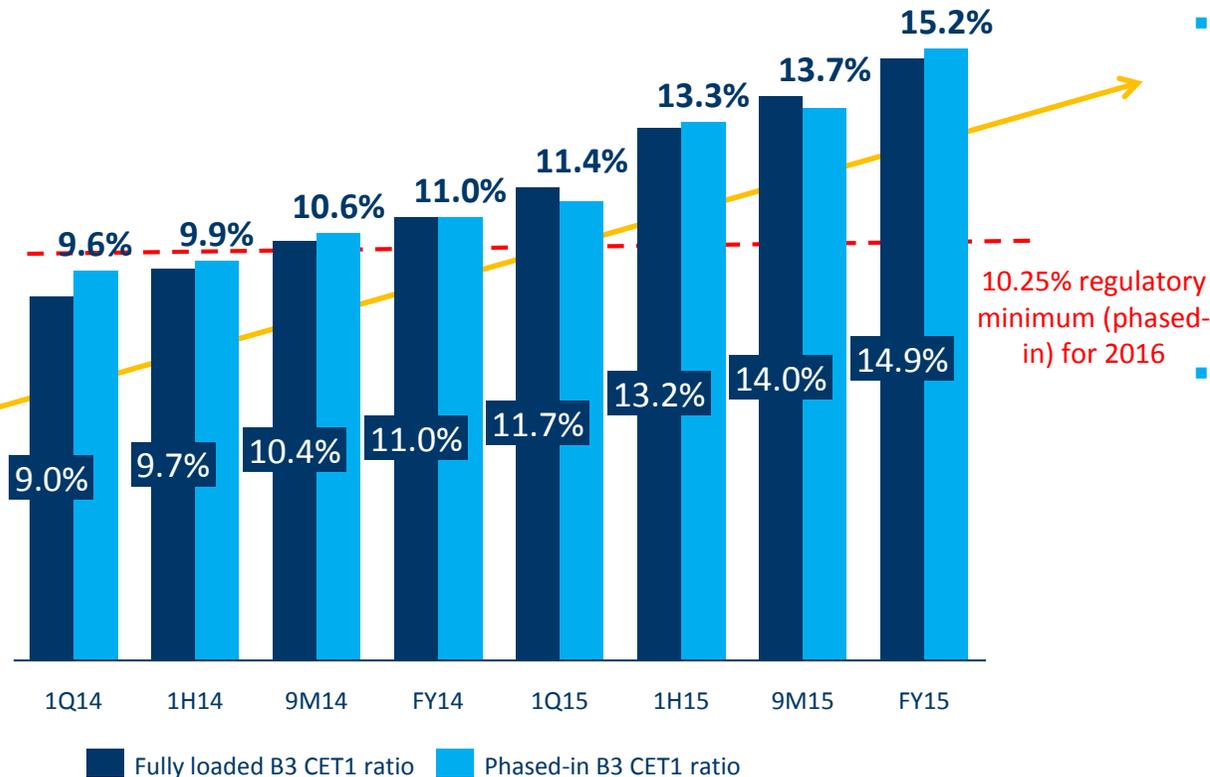
**5** MREL strategy

**6** 4Q15 Wrap up

Appendices

# Strong capital position, also after the full repayment of state aid

BASEL 3 CET1 RATIO AT KBC GROUP BASED ON THE DANISH COMPROMISE\*



- Common equity ratio (B3 phased-in) of **15.2%** based on the Danish Compromise at end 2015, which **clearly exceeds** the new **minimum capital requirements** set by the ECB (9.75%) and the NBB (0.5%), i.e. an aggregate 10.25% for 2016

10.25% regulatory minimum (phased-in) for 2016

- As announced by the NBB the systemic buffer (CET1 phased-in of 0.5% in 2016 under the Danish Compromise) will gradually increase over a 3-year period, reaching 1.5% in 2018.

A pro forma fully loaded minimum common equity ratio translation to 11.25% was clearly exceeded with a **fully loaded B3 common equity ratio of 14.9%** based on the Danish Compromise at end 2015

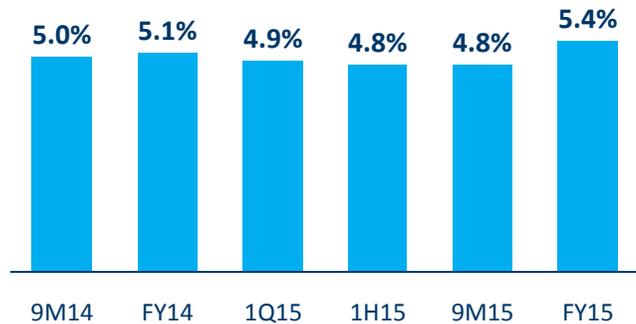
Total distributable items (under Belgian GAAP) KBC Group 6.6bn EUR, of which:

- available reserves 1.3bn EUR
- accumulated profits (losses) 5.3bn EUR

\* Pro forma assuming full state aid repayment (principal + penalty)

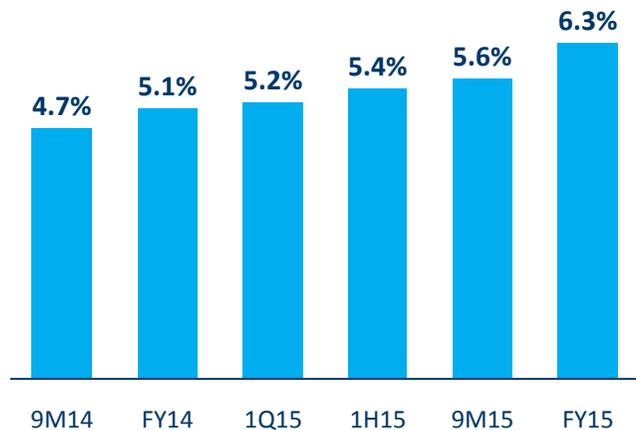
# Fully loaded Basel 3 leverage ratio

## 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):
  - 5.4% at KBC Bank consolidated level
  - 6.3% at KBC Group level

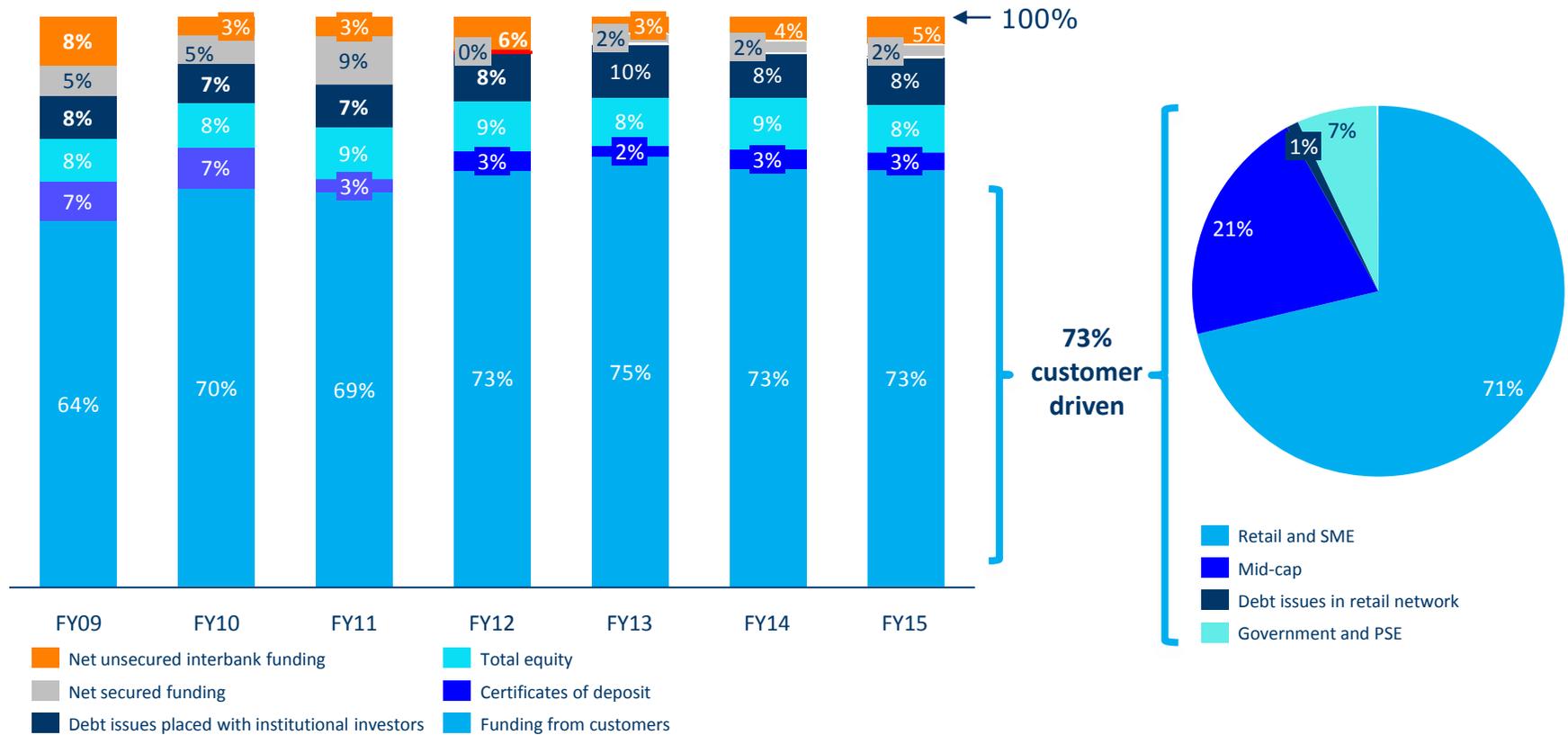
## Fully loaded Basel 3 leverage ratio at KBC Group\*



\* Pro forma assuming full state aid repayment (principal + penalty)

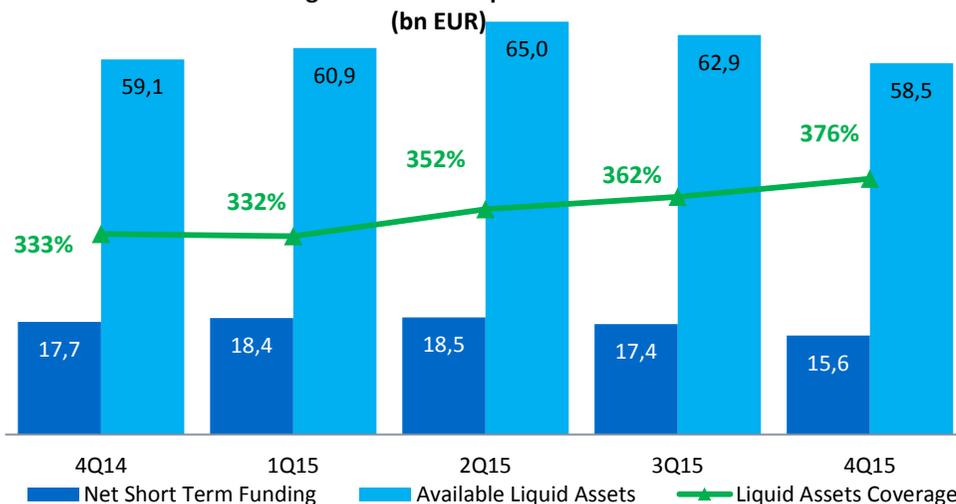
# Solid liquidity position (1)

- 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)

Short term unsecured funding KBC Bank vs Liquid assets as of end December 2015 (\*)



\* 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	FY14	FY15	Target
NSFR <sup>1</sup>	123%	121%	>105%
LCR <sup>1</sup>	120%	127%	>105%

<sup>1</sup> 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

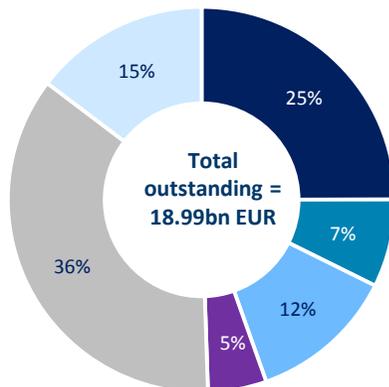
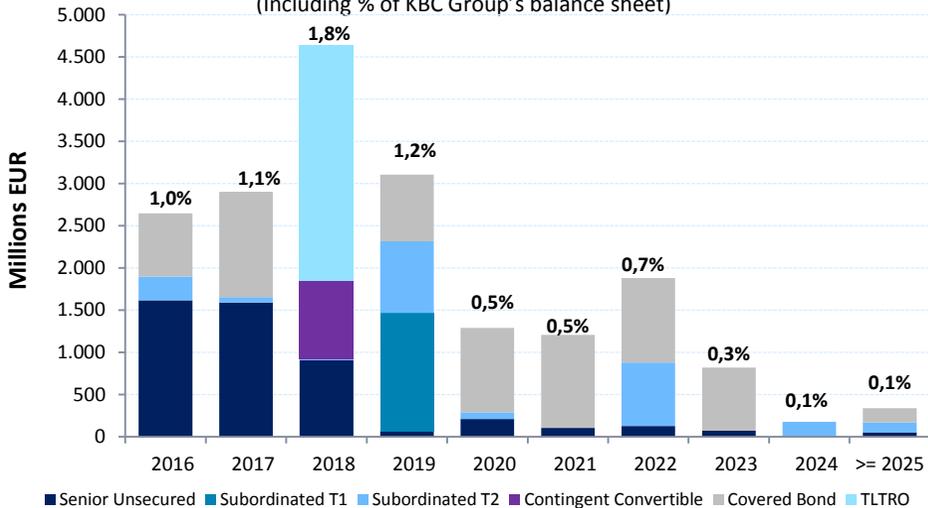
- KBC maintains a solid **liquidity position**, given that:
  - Available liquid assets are more than 3.5 times the amount of the net recourse on short-term wholesale funding
  - Funding from non-wholesale markets is stable funding from core-customer segments in core markets

- **NSFR at 121% and LCR at 127% by the end of FY15**
  - 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

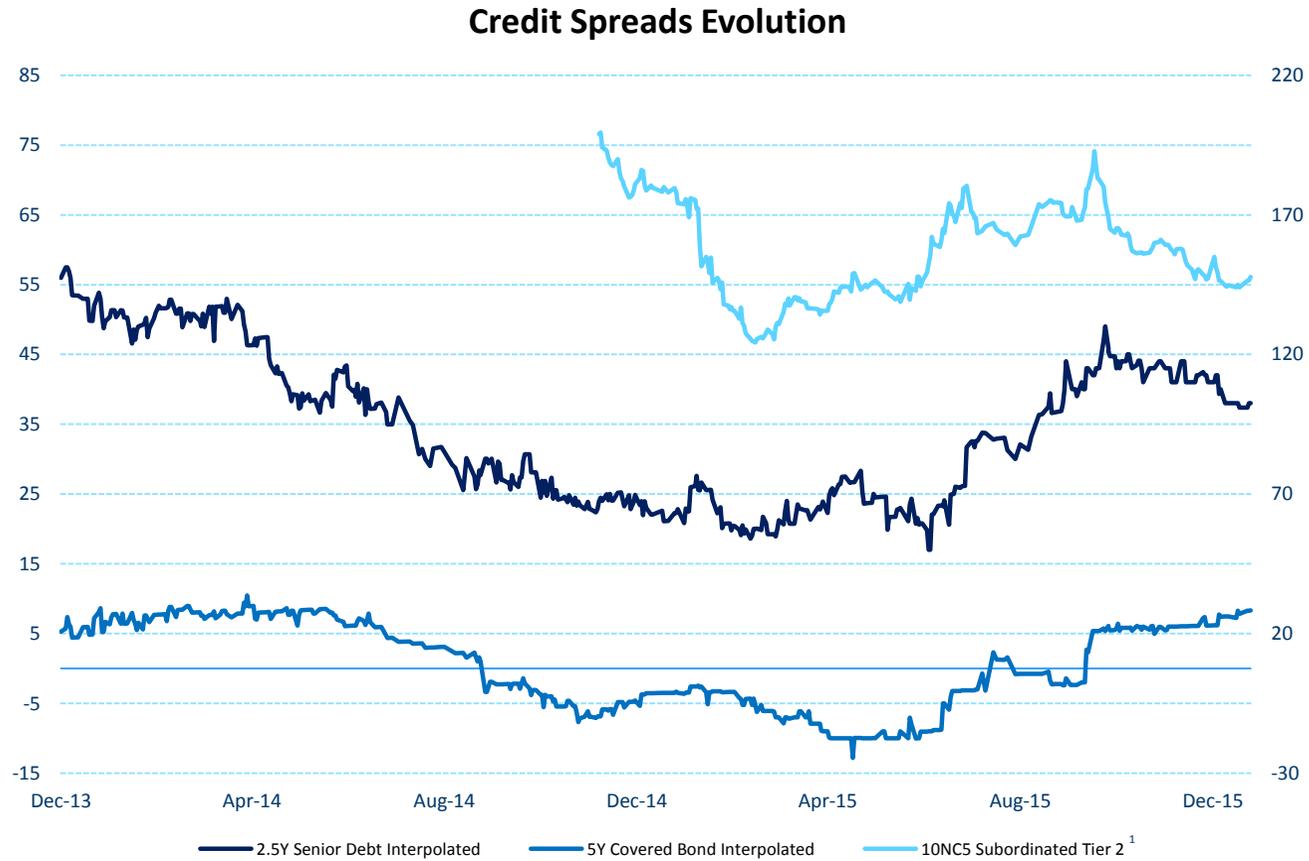
## Breakdown of Funding Maturity Buckets

(Including % of KBC Group's balance sheet)



- KBC Bank has overall a limited reliance on wholesale funding
- Senior debt and subordinated Tier 2 spreads have moderately narrowed towards the end of 4Q15
- 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
  - T1 and T2 capital instruments issued at KBC Group level and down-streamed to KBC Bank

# Credit spreads evolution



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

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

- **KBC HAS ISSUED 7 SUCCESSFUL BENCHMARK COVERED BONDS AND PRIVATE PLACEMENTS FOR AN AMOUNT OF 6.81BN 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

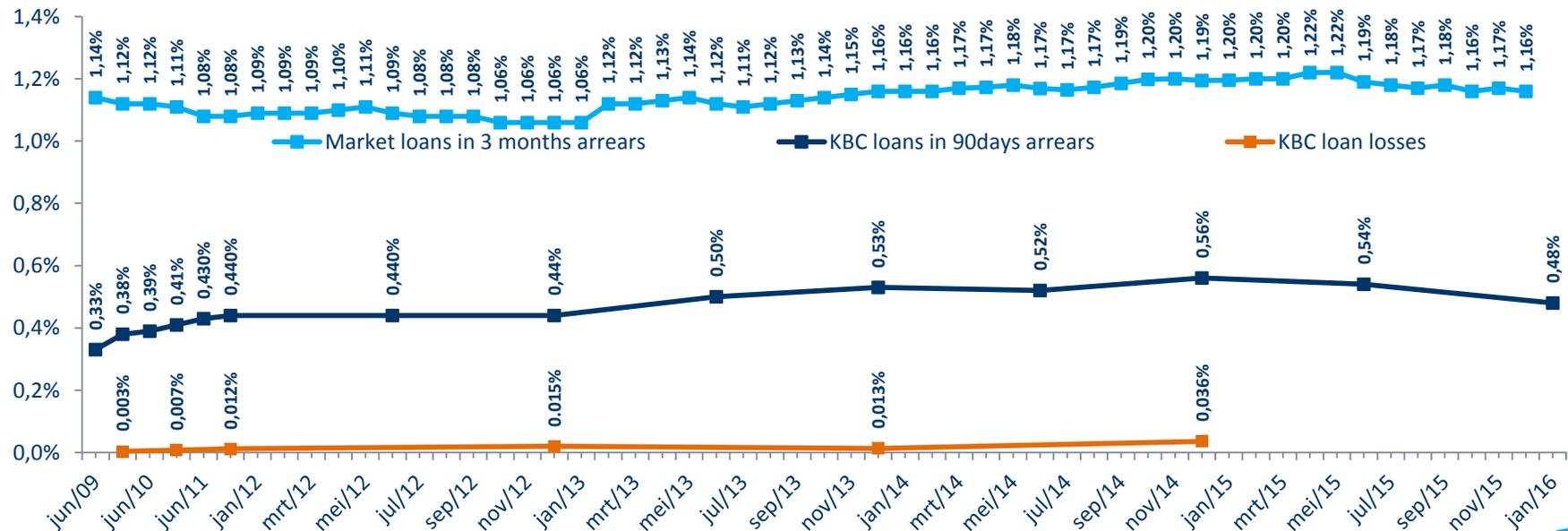
# Summary covered bond programme (2/2) (details, see Annex 3)

## ■ 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 (64.1%) and high seasoning (42 months)

## ■ KBC HAS A DISCIPLINED ORIGINATION POLICY

- 2007 to 2014 average 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



# Contents

---

1 Strategy and business profile

2 Financial performance

3 Asset quality

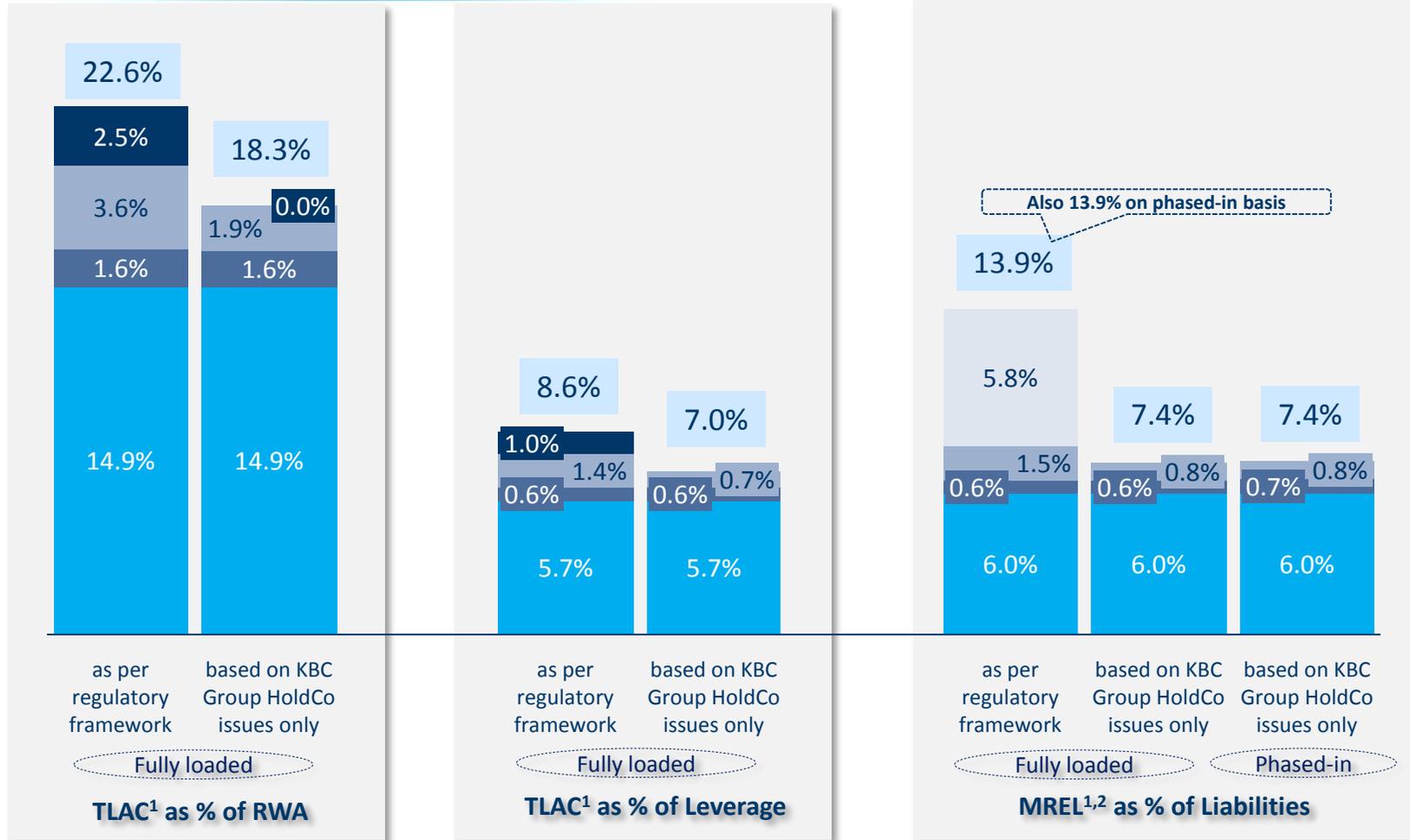
4 Solvency and liquidity

5 MREL strategy

6 4Q15 Wrap up

Appendices

# Already comfortable bail-in buffer

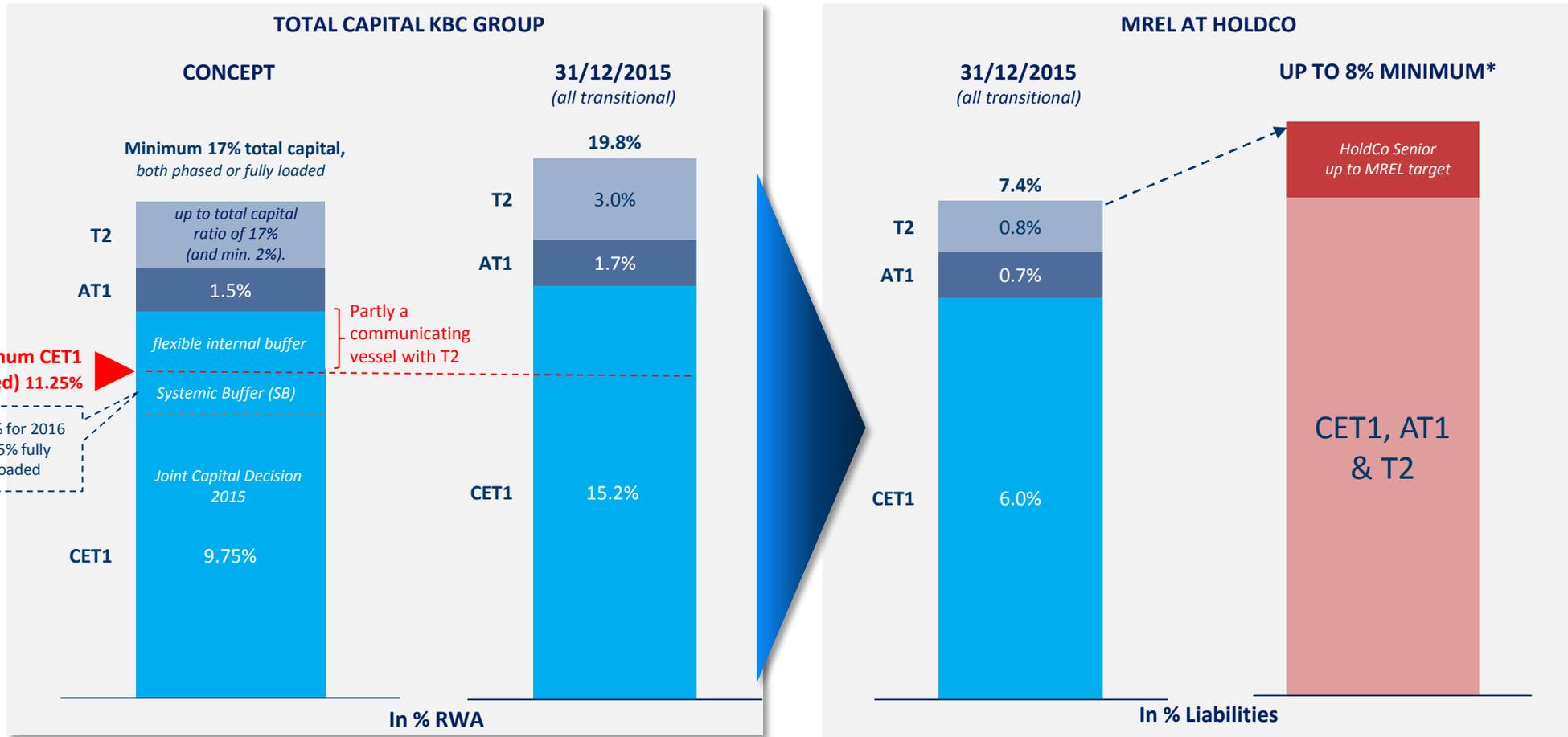


Other MREL eligible liabilities > 1y    Senior unsecured debt    T2 eligible TLAC    AT1    CET1

1 TLAC: Total loss-absorbing capacity / MREL: Minimum Required Eligible Liabilities  
 2 Resolution strategy and the individual institution MREL requirements are subject to the decision of the Single Resolution Board

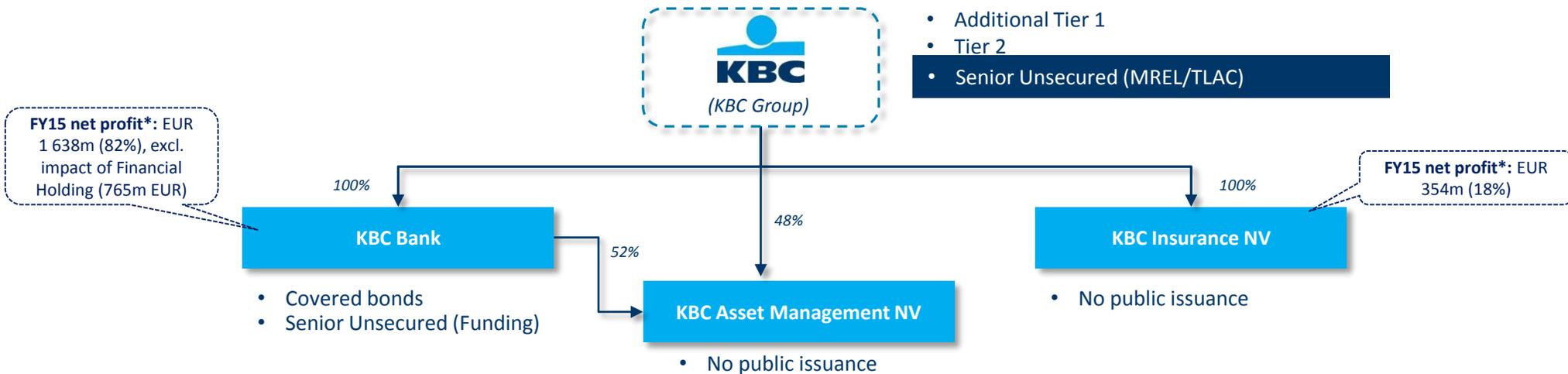


# Moving towards MREL via HoldCo issues\*



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

# KBC has a diversified holding structure which helps mitigate risks

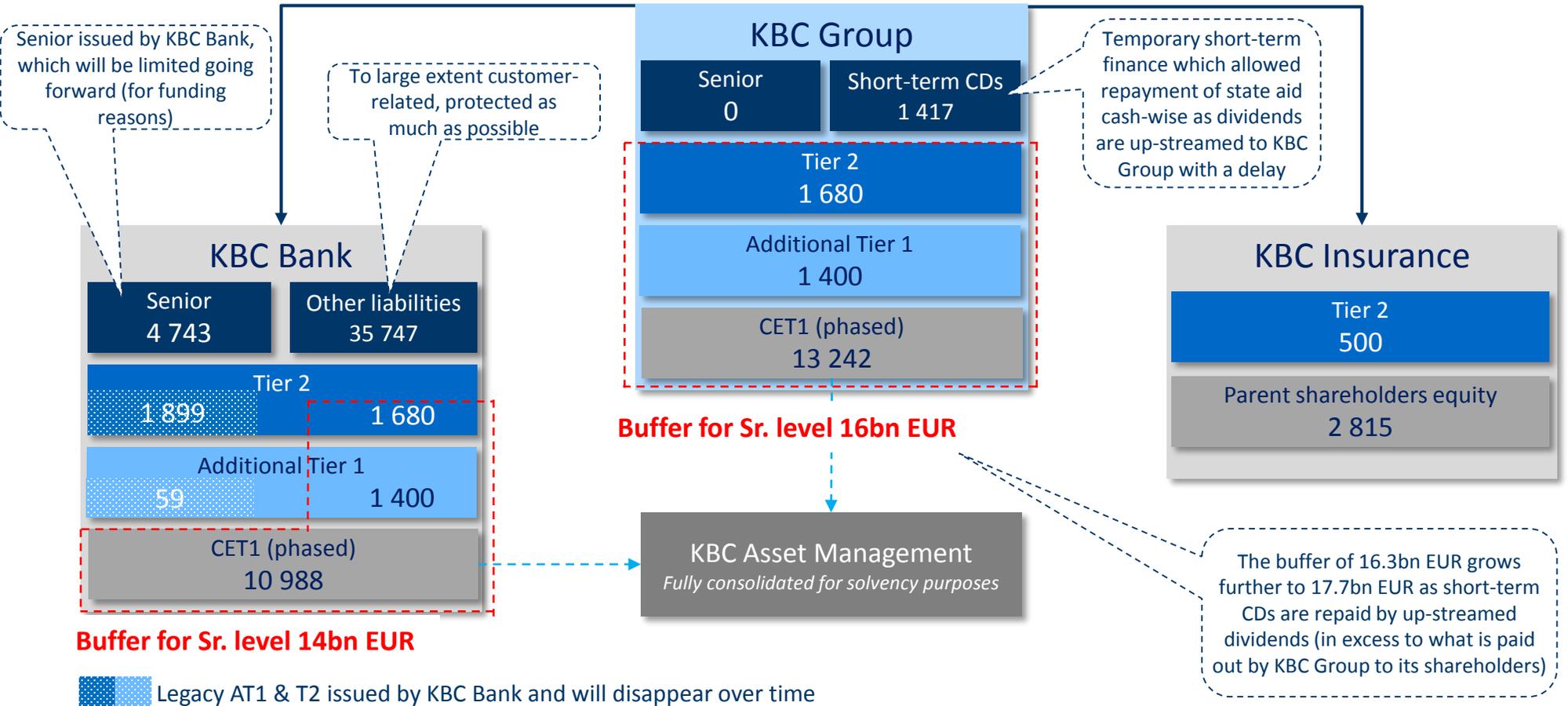


- KBC'S DIVERSIFIED GROUP STRUCTURE ALLOWS HOLDCO DEBT INVESTORS TO HAVE A CLAIM ON SUBSIDIARIES THAT ARE LESS IMPACTED BY LOSSES (LOWER CORRELATION BETWEEN ENTITIES) OR THAT ARE EVEN OUTSIDE THE RESOLUTION PERIMETER:
  - in a case where KBC Bank is fully wiped out by losses, investors in KBC Group will 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

\* Before intragroup / consolidation effects



# KBC has strong buffers cushioning Sr. debt at all levels



- **MREL GROUP INSTRUMENTS** = 7.4% ( 13.2+1.4+1.7)/220 809)
- **MREL KBC GROUP INSTRUMENTS + BANK INSTRUMENTS** = 13.9% BASED ON PHASED CET1 ( ALSO 13.9% 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 (see also annex 6), KBC has the strongest leverage ratio and one of the highest CET1 and total capital position
  - 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**

# Contents

---

**1** Strategy and business profile

**2** Financial performance

**3** Asset quality

**4** Solvency and liquidity

**5** MREL strategy

**6** 4Q15 Wrap up

Appendices

# 4Q 2015 wrap up

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

# Looking forward to 2016

## Looking forward, management envisages:

- ✓ Continued stable and solid returns for the Belgium & Czech Republic BUs
- ✓ With 245m EUR profit in FY15, the International Markets BU more than achieved its profitability target, which was to become at least profitable as of FY15
- ✓ As per guidance already issued, profitability in Ireland expected to continue in FY 2016....
- ✓ ...moreover, we are maintaining our guidance on impairments for Ireland, namely the lower end of the 50m-100m EUR range for FY16
- ✓ A phased-in B3 common equity ratio of minimum 10.25% for 2016
- ✓ LCR and NSFR of at least 105%
- ✓ Dividend payout ratio (including the coupon paid on AT1)  $\geq$  50% as of FY2016\*

\* Subject to the approval of the general meeting of shareholders

# Appendices

---

**1** KBC 2014/15 benchmarks + overview of outstanding benchmarks

**2** KBC Bank CDS levels

**3** Summary of KBC's covered bond programme

**4** Details on selective credit exposure

**5** Summary of government transactions + bank taxes

**6** Solvency: details on capital

**7** Macroeconomic views

# KBC 2014 Benchmarks

- KBC 5Y Fixed – Covered – BE0002462373
  - Notional: 750m EUR
  - Issue Date: 25 February 2014 – Maturity: 25 February 2019
  - Coupon: 1%, A, Act/Act
  - Re-offer spread: Mid Swap +10bp (issue price 99.391%)
  - Joint lead managers: KBC, Deutsche Bank, DZ Bank, ING Bank, and Unicredit
  
- KBC 10NC5 Fixed – Tier 2 – BE0002479542
  - Notional: 750m EUR
  - Issue Date: 25 November 2014 – Maturity: 25 November 2024
  - Coupon: 2.375 %, A, Act/Act
  - Re-offer spread: Mid Swap +198bp (issue price 99.874%)
  - Joint lead managers: KBC, DZ Bank, Goldman Sachs, JP Morgan and Natixis
  
- KBC PerpNC5Y Fixed – Additional Tier 1 – BE0002463389
  - Notional: 1.4bn EUR
  - Issue Date: 19 March 2014 – Maturity: perpetual NC5
  - Coupon: 5.625%, A, Act/Act
  - Re-offer spread: Mid Swap + 475,9bp (issue price 100%)
  - Joint lead managers: KBC, Goldman Sachs, JP Morgan, Morgan Stanley and UBS

# 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

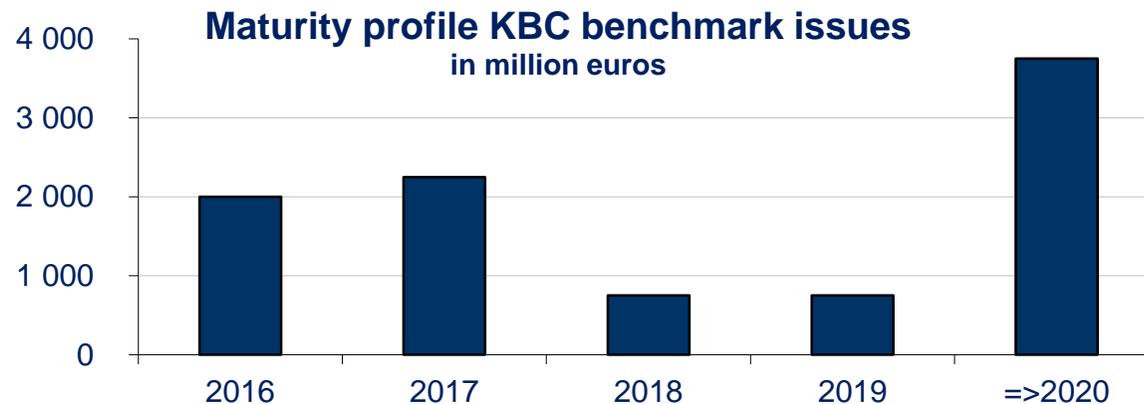
## ■ KBC 6Y Fixed – Covered – BE0002489640

- 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

# Outstanding benchmarks

Issuer	Curr	Tranche Report			Maturity Date	ISIN	YEAR
		Amount issued	Coupon	Settlement Date			
<b>UNSECURED</b>							
KBC Ifima N.V.	EUR	750 000 000	5	16/03/2011	16/03/2016	XS0605440345	2016
KBC Ifima N.V.	EUR	1 000 000 000	4.5	27/03/2012	27/03/2017	XS0764303490	2017
KBC Ifima N.V.	EUR	500 000 000	3	29/08/2012	29/08/2016	XS0820869948	2016
KBC Ifima N.V.	EUR	750 000 000	2.125	10/09/2013	10/09/2018	XS0969365591	2018
<b>COVERED</b>							
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	0.875	29/08/2013	29/08/2016	BE0002441161	2016
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

Total: EUR 9.5bn



# 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

# Appendices

---

**1** KBC 2014/15 benchmarks + overview of outstanding benchmarks

**2** KBC Bank CDS levels

**3** Summary of KBC's covered bond programme

**4** Details on selective credit exposure

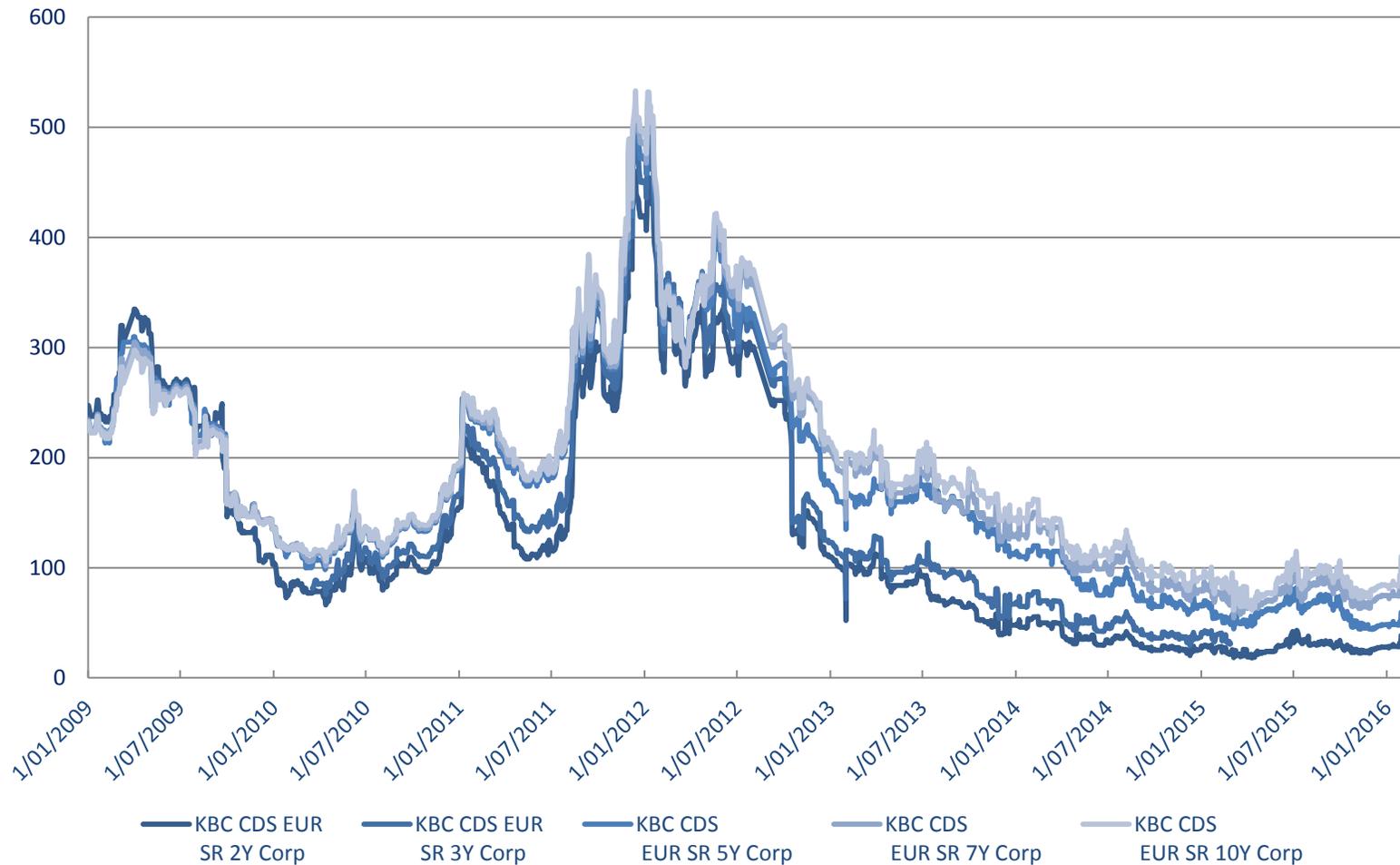
**5** Summary of government transactions + bank taxes

**6** Solvency: details on capital

**7** Macroeconomic views

# KBC Bank CDS levels

KBC BANK CREDIT SPREAD LEVELS (IN BPS)



# Appendices

---

**1** KBC 2014/15 benchmarks + overview of outstanding benchmarks

**2** KBC Bank CDS levels

**3** Summary of KBC's covered bond programme

**4** Details on selective credit exposure

**5** Summary of government transactions + bank taxes

**6** Solvency: details on capital

**7** Macroeconomic views

# 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 – 2007 to 2014 average residential mortgage loan losses below 4 bp
  - CRD and UCITS compliant / 10% risk-weighted
  
- **KBC already issued seven successful benchmark covered bonds in different maturity buckets**
  
- **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

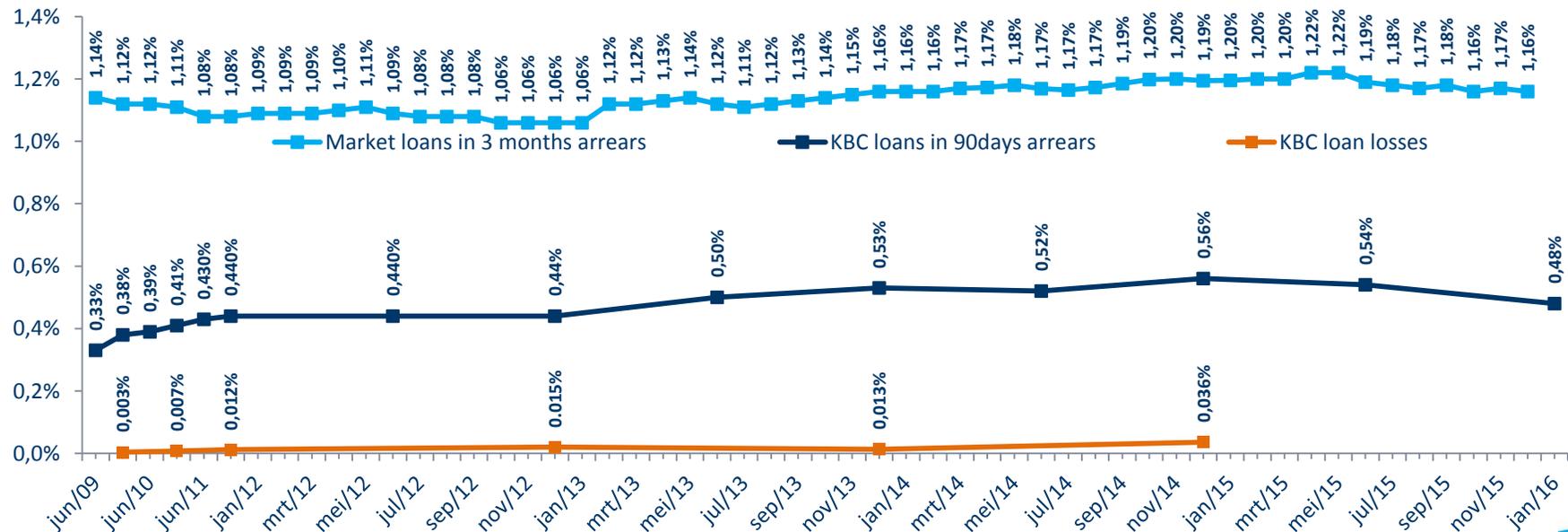
# KBC's disciplined origination leads to low arrears and extremely low loan losses

BELGIUM SHOWS A SOLID PERFORMANCE OF MORTGAGES...

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

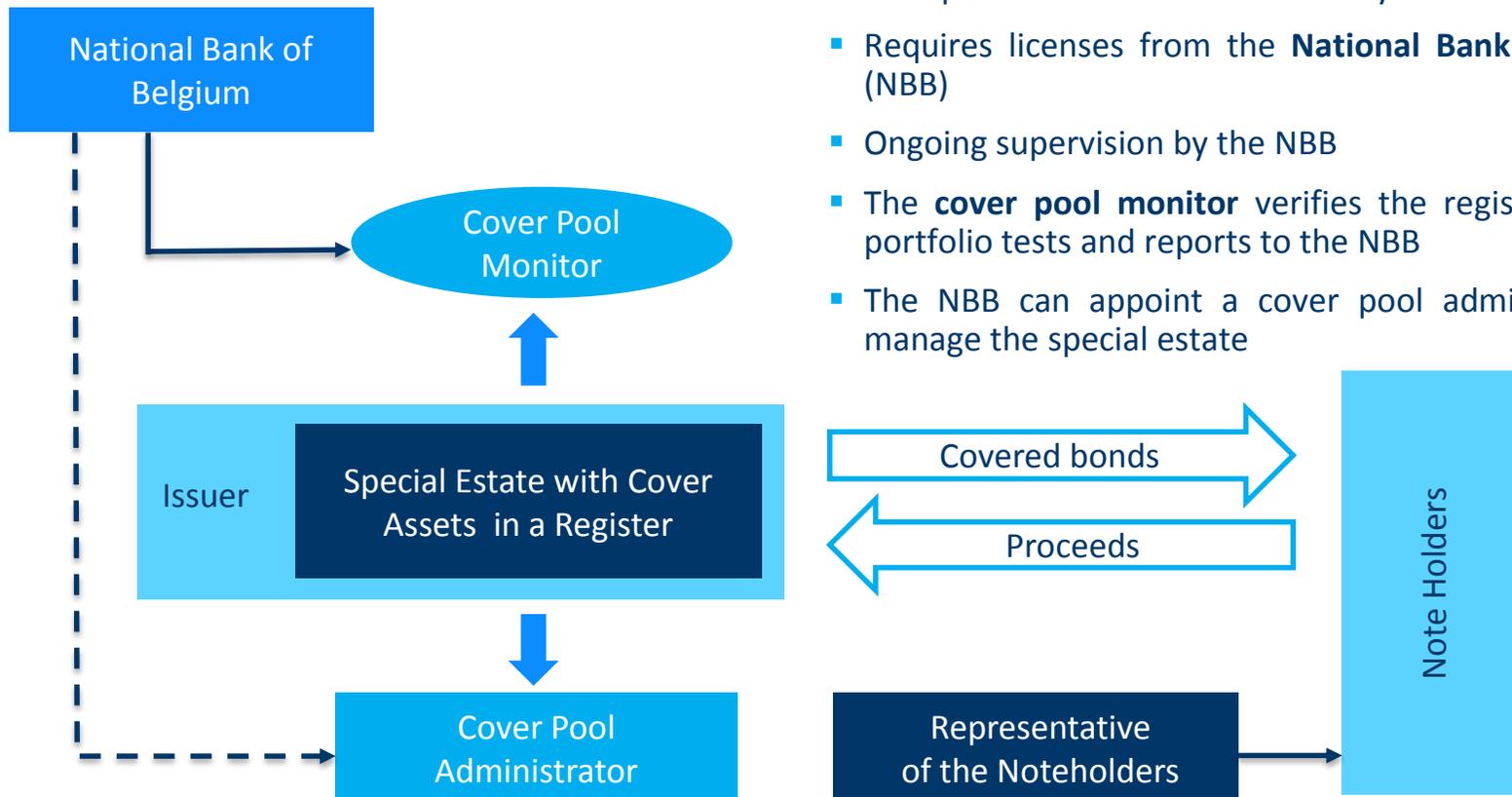
- Cultural aspects, stigma associated with arrears, importance attached to owning one's property
- High home ownership also implies that the change in house prices itself has limited impact on loan performance
- Well established credit bureau and surrounding legislation
- Housing market environment (no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

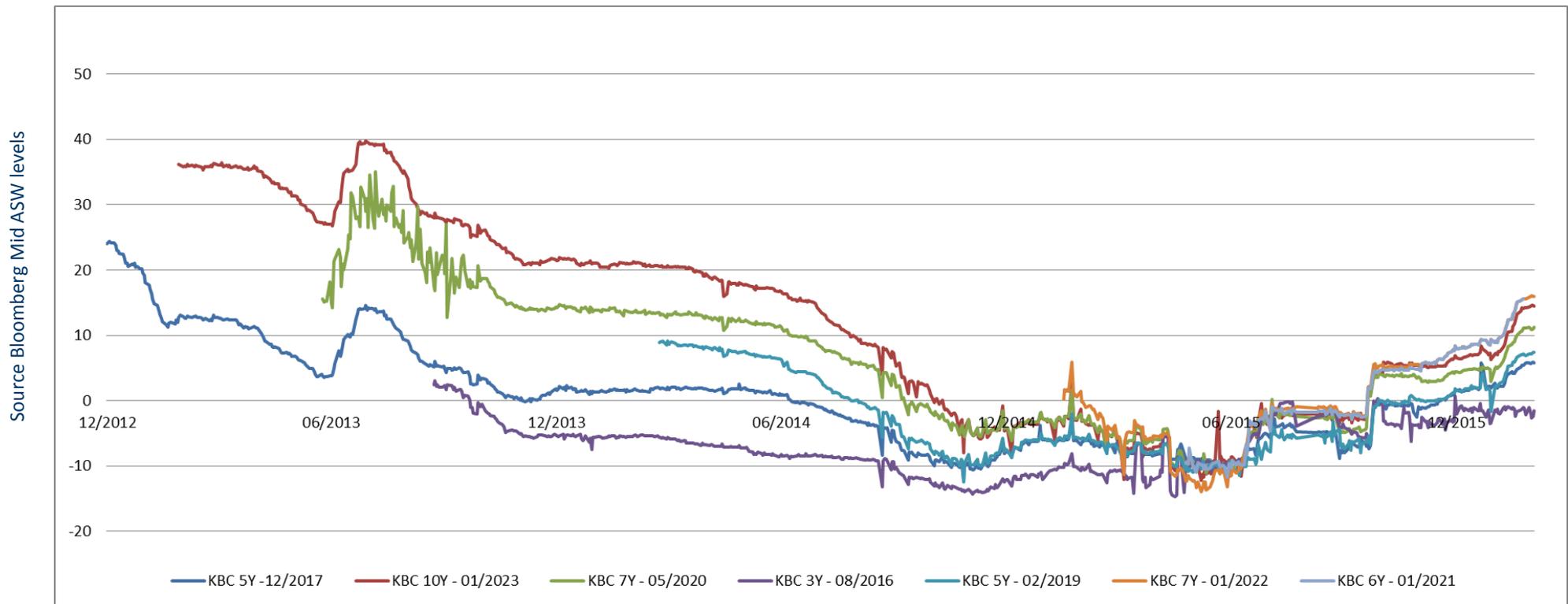
<b>Issuer:</b>	<ul style="list-style-type: none"> <li>KBC Bank NV</li> </ul>
<b>Main asset category:</b>	<ul style="list-style-type: none"> <li>min 105% of covered bond outstanding is covered by residential mortgage loans and collections thereon</li> </ul>
<b>Programme size:</b>	<ul style="list-style-type: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

	Moody's	Fitch
<b>Over-collateralisation</b>	15%	25%

# Benchmark issuance KBC covered bonds

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

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



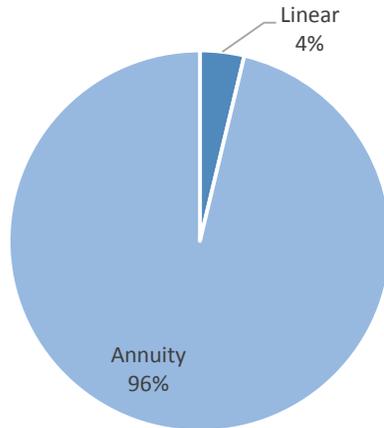
# Key cover pool characteristics (1/3)

Investor reports, final terms and prospectus are available on [www.kbc.com/covered\\_bonds](http://www.kbc.com/covered_bonds)

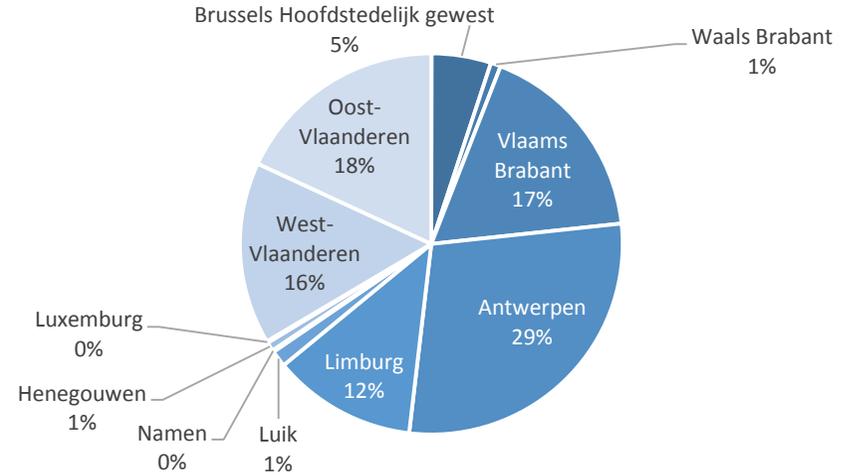
Portfolio data as of :	31 December 2015
Total Outstanding Principal Balance	11 646 819 260
Total value of the assets for the over-collateralisation test	10 722 161 327
No. of Loans	138 739
Average Current Loan Balance per Borrower	117 397
Maximum Loan Balance	1 000 000
Minimum Loan Balance	1 000
Number of Borrowers	99 208
Longest Maturity	359 month
Shortest Maturity	1 month
Weighted Average Seasoning	42 months
Weighted Average Remaining Maturity	195 months
Weighted Average Current Interest Rate	2.61%
Weighted Average Current LTV	64.1%
No. of Loans in Arrears (+30days)	279
Direct Debit Paying	97.8%

# Key cover pool characteristics (2/3)

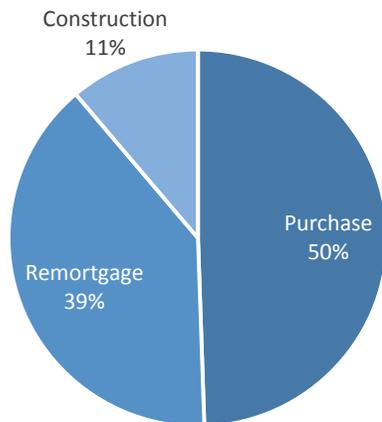
## REPAYMENT TYPE (LINEAR VS. ANNUITY)



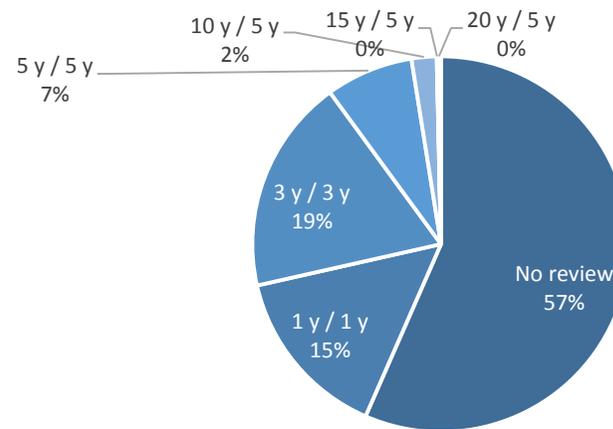
## GEOGRAPHICAL ALLOCATION



## LOAN PURPOSE



## INTEREST RATE TYPE (FIXED PERIODS)

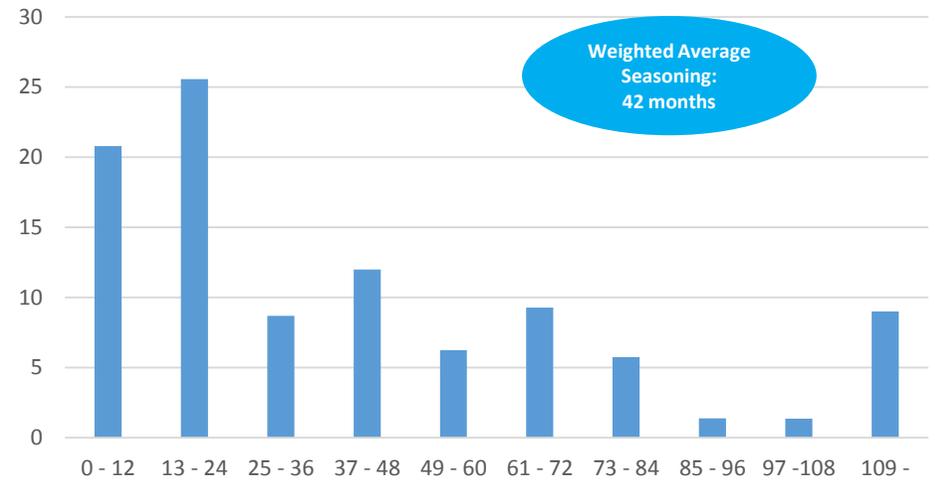


# Key cover pool characteristics (3/3)

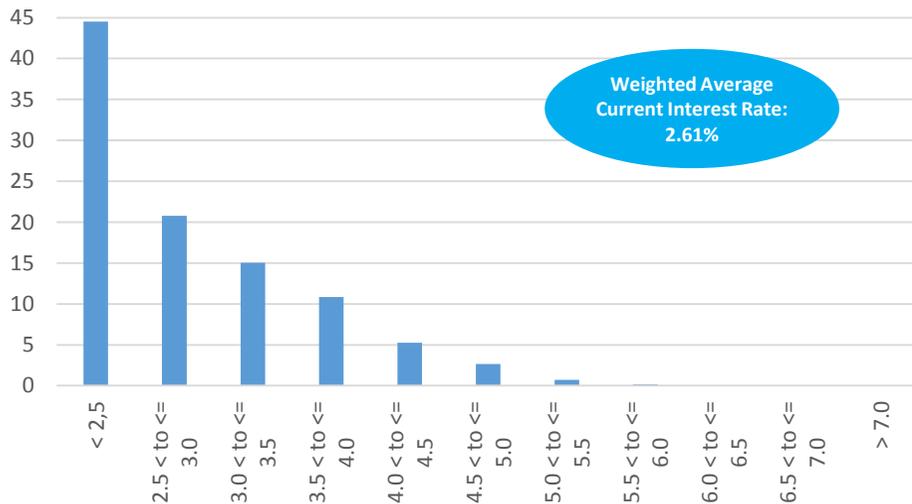
## FINAL MATURITY DATE



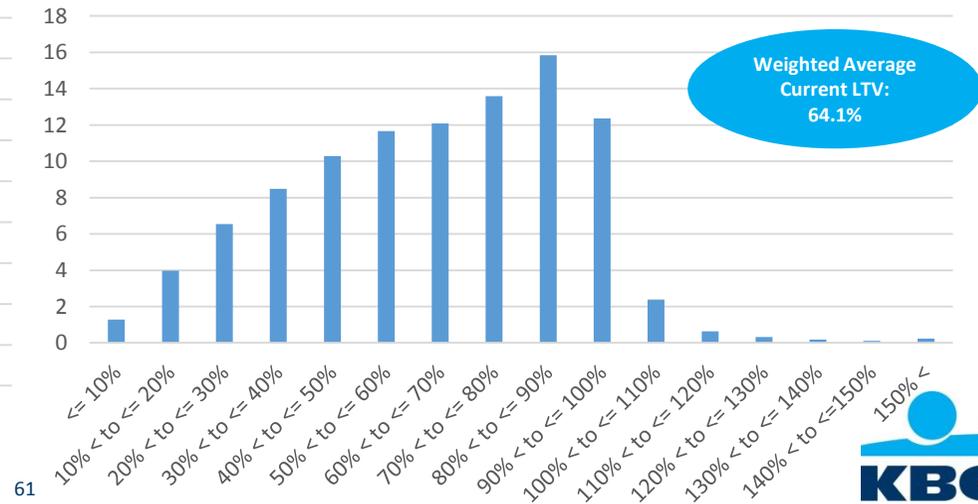
## SEASONING



## INTEREST RATE



## CURRENT LTV



# Appendices

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**3** Summary of KBC's covered bond programme

**4** Details on selective credit exposure

**5** Summary of government transactions + bank taxes

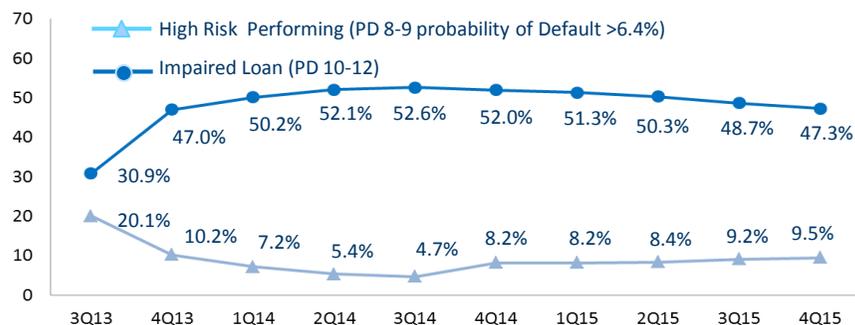
**6** Solvency: details on capital

**7** Macroeconomic views

# Ireland (1/2): already profitable in FY15

LOAN PORTFOLIO €	OUT-STANDING €	IMPAIRED LOANS €	IMPAIRED LOANS PD 10-12	SPECIFIC PROVISIONS €	IMPAIRED LOANS PD 10-12 COVERAGE
Owner occupied mortgages	9.1bn	3.1bn	34.6%	1.0bn	31%
Buy to let mortgages	2.6bn	1.8bn	68.4%	0.7bn	38%
SME /corporate	1.1bn	0.7bn	64.6%	0.4bn	61%
Real estate - Investment - Development	0.9bn 0.3bn	0.7bn 0.3bn	77.9% 100%	0.4bn 0.2bn	52% 84%
<b>Total</b>	<b>13.9bn</b>	<b>6.6bn</b>	<b>47.3%</b>	<b>2.7bn</b>	<b>41%</b>

## PROPORTION OF HIGH RISK AND IMPAIRED LOANS



The Impaired portion of loans increased significantly in 4Q13 due to the reassessment of the loan book. KBC's definition of impaired loans includes PD 10-12. PD 10 is considered as unlikely to pay exposure.

- Irish economic growth has moved onto a stronger trajectory, with GDP growth of about 7% in 2015
- Improvement in domestic spending supporting jobs growth, which reduced unemployment to 8.8% at end 2015
- Economic conditions supportive of solid Irish housing market with recovery now becoming established outside Dublin
- Customer Deposits (Retail & Corporate) net inflows of 0.1bn EUR in 4Q15, resulting in a deposit portfolio of 5.1bn EUR (compared with 5.0bn EUR in 3Q15). Full year growth in 2015 of Customer Deposits amounted to 27% y-o-y
- Loan loss provisions amounted to 16m EUR in 4Q15 compared to 9m EUR in 3Q15 (increase driven by model adjustments). Coverage ratio increased from 40% in 3Q15 to 41% in 4Q15
- Looking forward, we are maintaining our guidance for Ireland, namely:
  - continued profitability on an annual basis
  - loan loss provisions at the lower end of the 50m-100m EUR range for FY16

# Ireland (2/2): Portfolio analysis

## 4Q15 Retail Portfolio

	PD	Exposure	Impairment	Cover %
Performing	PD 1-8	5,922	25	0.4%
	Of which non Forborne	5,873		
	Of which Forborne	49		
	PD 9	838	42	5.0%
	Of which non Forborne	235		
	Of which Forborne	604		
Impaired	PD 10	2,733	620	22.7%
	PD 11	1,455	539	37.0%
	PD 12	728	535	73.5%
	<b>TOTAL PD1-12</b>	<b>11,676</b>	<b>1,759</b>	
	<i>Specific Impairment/(PD 10-12)</i>			34.4%

'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 0.2bn EUR q-o-q due to a combination of property sales and improvement in the portfolio performance. This was in line with previous quarter (reduction of 0.2bn EUR q-o-q and 0.7bn EUR y-o-y)
- Coverage ratio for impaired loans increased to 34.4% in 4Q15 (from 33.0% in 3Q15)
- Overall exposure has decreased due to a reduction of the impaired book, partly offset by new mortgage production

## 4Q15 Corporate Loan Portfolio

	PD	Exposure	Impairment	Cover %
Performing	PD 1-8	541	4	0.8%
	PD 9	45	5	11.8%
Impaired	PD 10	560	211	37.6%
	PD 11	335	195	58.2%
	PD 12	770	624	81.0%
	<b>TOTAL PD1-12</b>	<b>2,251</b>	<b>1,040</b>	
	<i>Specific Impairment/(PD 10-12)</i>			61.8%

### Corporate loan portfolio

- Impaired portfolio has reduced by roughly 50m EUR q-o-q. Reduction driven mainly by continued deleveraging of the portfolio (reduction of 0.2bn EUR y-o-y)
- Coverage ratio for impaired loans has increased to 61.8% in 4Q15 (from 60.9% in 3Q15)
- Overall exposure has dropped by 0.4bn EUR y-o-y

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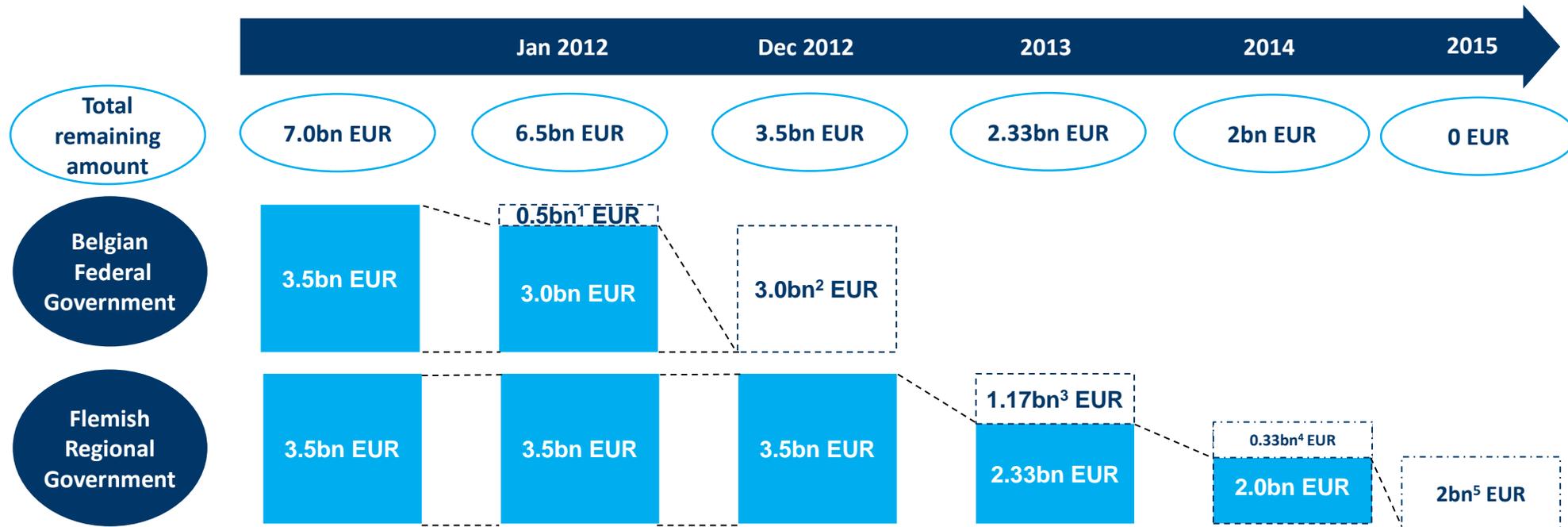
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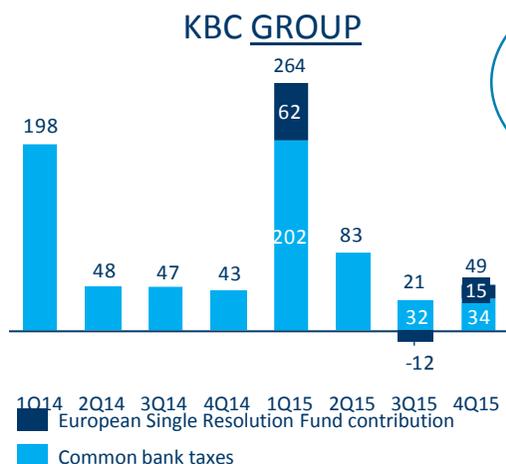
# State aid position fully paid back by the end of 2015

- KBC made accelerated full repayment of 3.0bn EUR of state aid to the Belgian Federal Government in December 2012 and accelerated repayment of 1.17bn EUR of state aid to the Flemish Regional Government mid-2013, approved by the NBB
- At the beginning of 2014, KBC accelerated the repayment of 0.33bn EUR (plus penalty), and as such saved 28m EUR in coupon payments
- At the end of 2015, KBC repaid the full outstanding tranche of 2bn EUR of remaining state aid plus a penalty of 1bn EUR to the Flemish Regional Government, well ahead of the official deadline of 2020

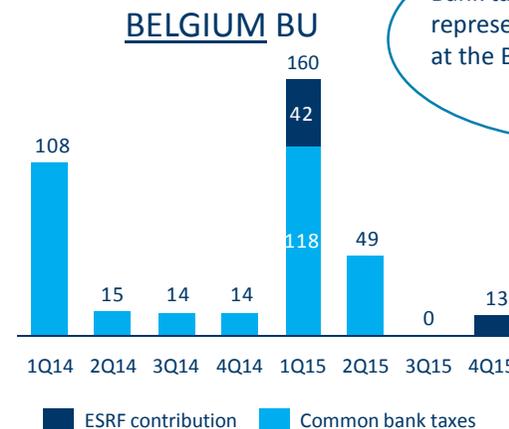


1. Plus 15% penalty amounting to 75m EUR
2. Plus 15% penalty amounting to 450m EUR
3. Plus 50% penalty amounting to 583m EUR
4. Plus 50% penalty amounting to 167m EUR
5. Plus 50% penalty amounting to 1 000m EUR

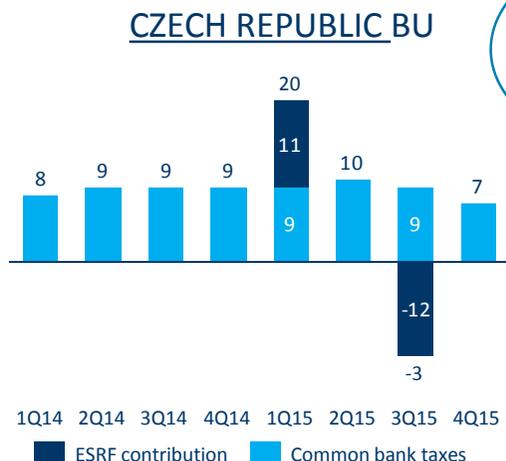
# Overview of bank taxes<sup>1</sup>



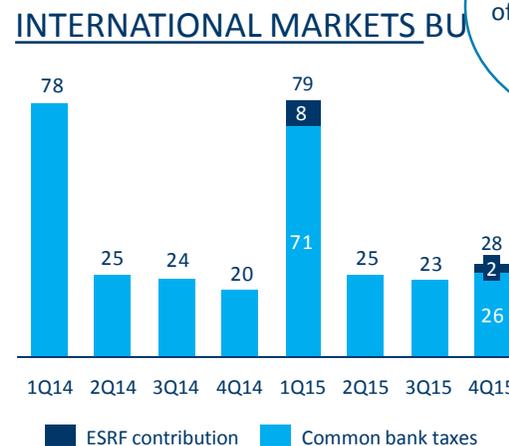
Bank taxes of 417m EUR YTD, representing 10.7% of FY15 opex at KBC Group<sup>2</sup>



Bank taxes of 222m EUR YTD, representing 9.4% of FY15 opex at the Belgium BU



Bank taxes of 35m EUR YTD, representing 5.7% of FY15 opex at the CR BU



Bank taxes of 154m EUR YTD, representing 20.5% of FY15 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 55% in FY15 amounts to roughly 49% excluding these bank taxes



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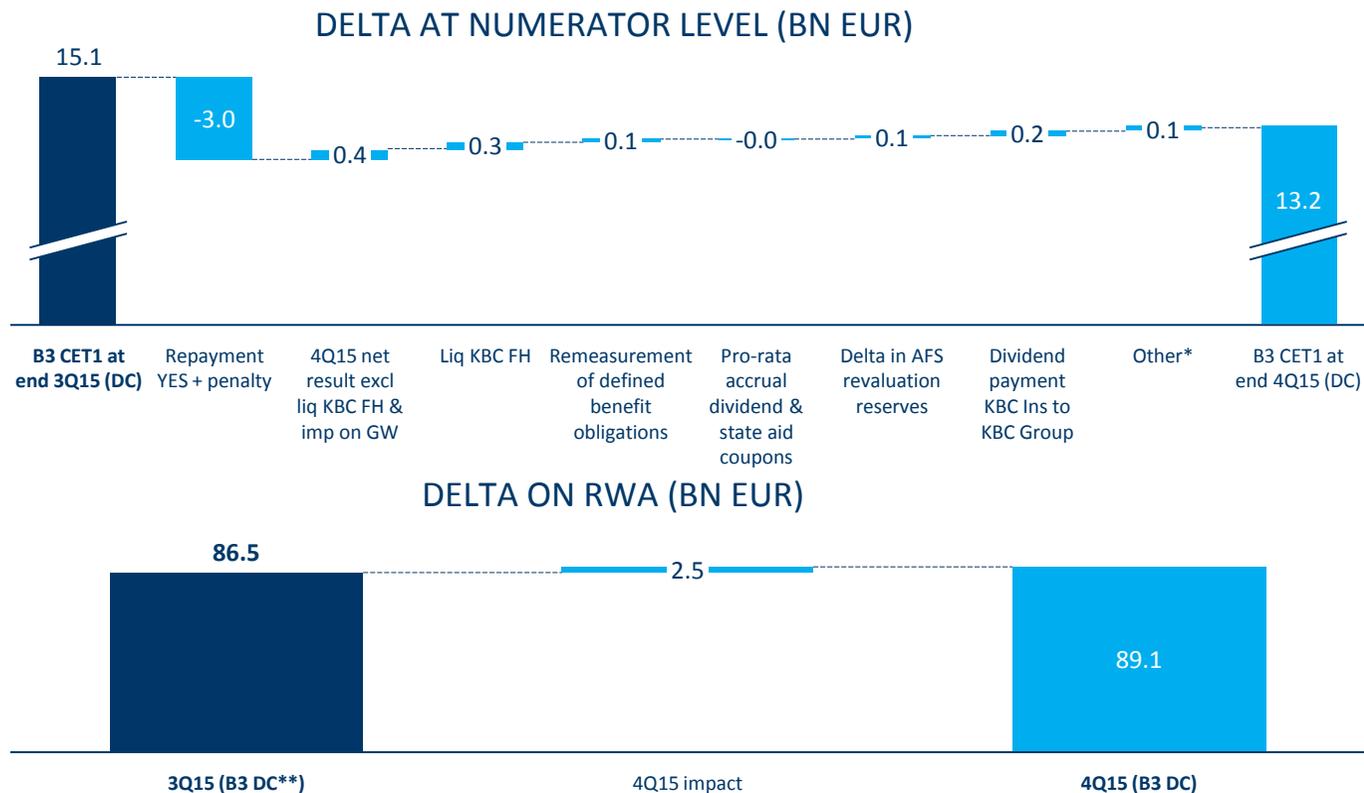
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# Fully loaded B3 CET1 based on the Danish Compromise (DC) From 3Q15 to 4Q15



- Fully loaded B3 common equity ratio of approx. 14.9% at end 2015 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 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 <sup>1</sup> , phased-in	13 503	90 841	14.9%
FICOD, fully loaded	13 508	92 565	14.6%
DC <sup>2</sup> , phased-in	13 242	87 343	15.2%
DC, fully loaded	13 247	89 067	14.9%
DM <sup>3</sup> , fully loaded	12 103	83 245	14.5%

1 FICOD: Financial Conglomerate Directive

2 DC: Danish Compromise

3 DM: Deduction Method

# Active capital management by KBC

>5bn EUR  
in loss  
absorbing  
capital  
generated

2012

- 16 October: sale of treasury shares – capital release 0.35bn EUR
- 10 December: capital increase – common increase 1.25bn EUR

2013

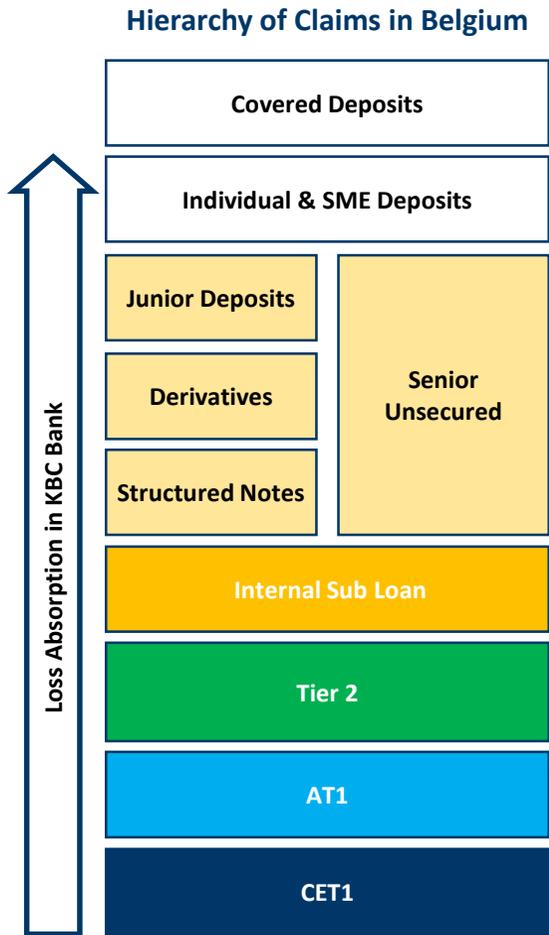
- 18 January: issuance of CoCo - loss absorbing capital increase 1.0bn USD
- 3 July: shareholder loans I – capital release 0.33bn EUR
- 19 November: shareholder loans II – capital release 0.67bn EUR

2014

- 12 March: issuance of AT1 – loss absorbing capital increase 1.4bn EUR
- 18 December: capital structure KBC Insurance – loss absorbing capital increase approx. 0.4bn EUR (+0.49% CET1)

In 2Q14, KBC called almost all its old-style hybrid T1 instruments for a total amount of approx. 2.3bn EUR

# 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?

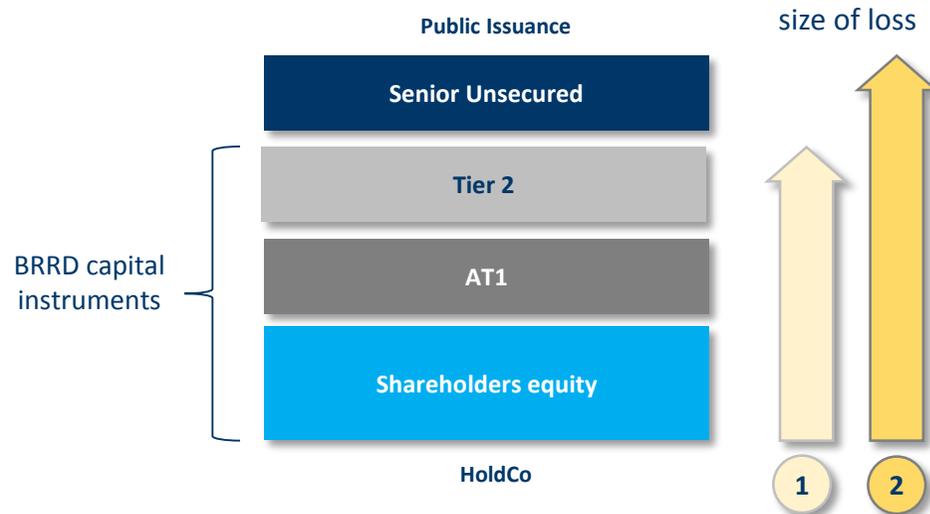


	Business as usual	Recovery plan	Resolution plan
<b>CET1</b>	sufficiently above Joint Capital Decision	in breach (or breach is imminent) of Joint Capital Decision	in breach of minimum requirements (4.5% CET1 / 6% T1 / 8% total capital) or considered as non viable by the competent authorities.
<b>AT1</b>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

# KBC<sup>1</sup> in the context of other HoldCo debt issuers

		Peer 1	Peer 2	Peer 3	Peer 4	Peer 5	Peer 6 <sup>1</sup>	Peer 7 <sup>1</sup>	Peer 8 <sup>1</sup>	Comments
Fully Loaded Leverage Ratio	6.3 %	5.0 %	5.0 %	5.0 %	4.8 %	4.2 %	4.5 %	4.0 %	4.0 %	✓ KBC strongest
CET1 Generation (Improvement in FL CET1 Over Last 12m)	3.9 % <sup>2</sup>	1.7 %	1.9 %	0.4 %	0.8 % <sup>3</sup>	0.9 %	1.3 %	(0.3)%	1.1 %	✓ KBC strongest
Fully Loaded CET1 Ratio	14.9 %	13.7 %	12.7 %	11.8 %	11.4 %	11.1 %	11.4 %	11.6 %	14.5 %	✓ KBC strongest
Phased-in Total Capital / Leverage Exp.	6.6 %	6.9 %	6.0 %	6.7 %	7.3 % <sup>3</sup>	5.5 %	6.3 %	5.3 %	6.3 %	✓ KBC 4 <sup>th</sup> strongest
Phased-in Total Capital Ratio	19.8 %	22.2 %	16.0 %	17.0 %	18.2 % <sup>3</sup>	16.5 %	21.3 %	17.4 %	26.8 %	✓ KBC 4 <sup>th</sup> strongest
Total Risk-Weighted Assets	€89bn	€305bn	€429bn	€1 024bn	€282bn	€518bn	€271bn	€116bn	€195bn	✓ Scarcity value
No Ring-Fencing	✓	*	*	*	*	*	*	*	*	✓ Only bank not impacted by ring-fencing
HoldCo Ratings (M/S/F)	Baa1/BBB+/A-	Baa1/BBB+/A+	Ba1/BBB-/BBB+	A1/A/AA-	Aa3/A-/A+	Baa3/BBB/A	Baa3/BBB+/A	Baa1/BBB/A	Baa3/BBB+/A	✓ Highly rated bank

In addition to the above points, KBC also has limited Investment Banking activities as compared with several UK and Swiss HoldCo issuers

Note: KBC figures adjusted for the repayment of the YES securities. Peers' ratios as reported as of 30-Sep-2015 unless otherwise stated

1 As of 31-Dec-2015

2 Organic change in CET1 ratio (does not take into account the repayment of YES securities)

3 As of 30-Jun-2015 given limited disclosure in Q3 reports

# Appendices

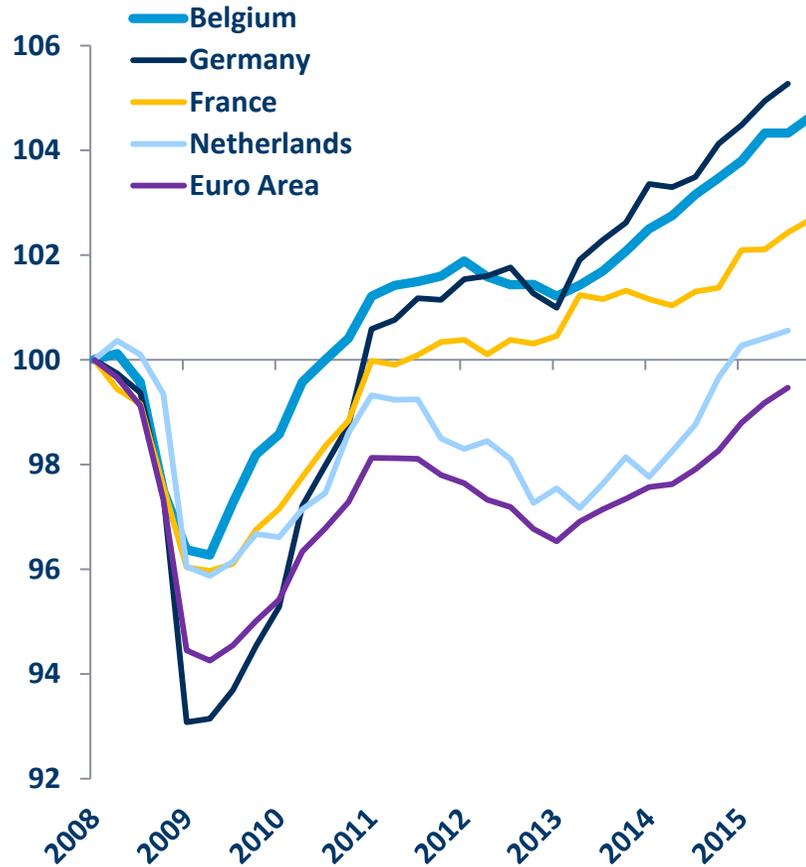
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- 7 **Macroeconomic views**

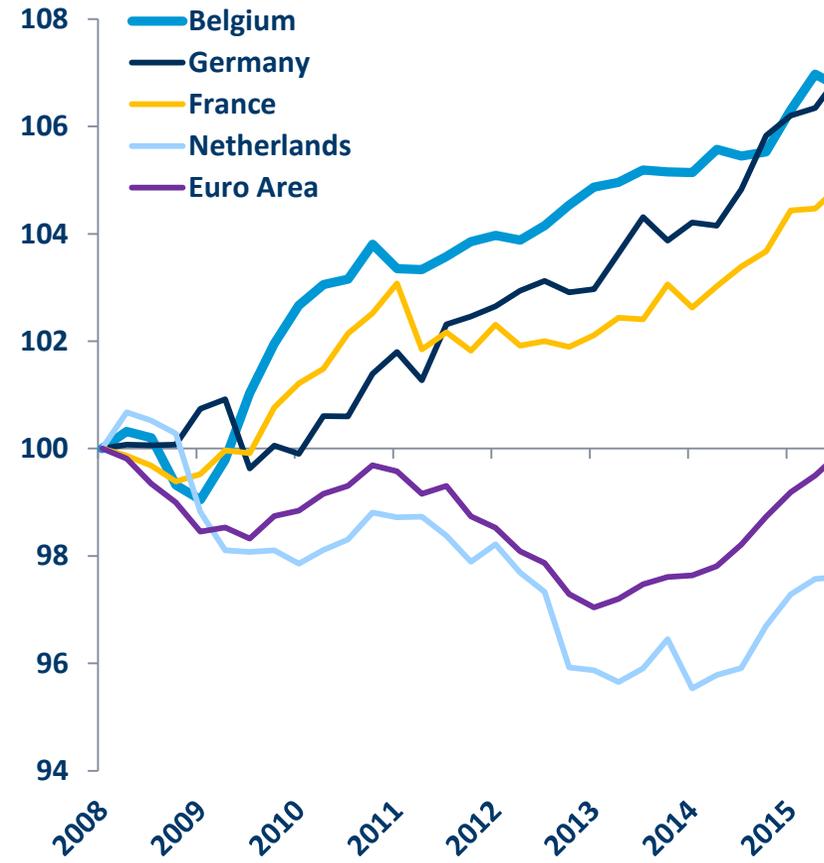
# Belgian economic growth

Moderate but steady GDP growth – with strong consumption

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



**Real private consumption**  
(Q1 2008 = 100)

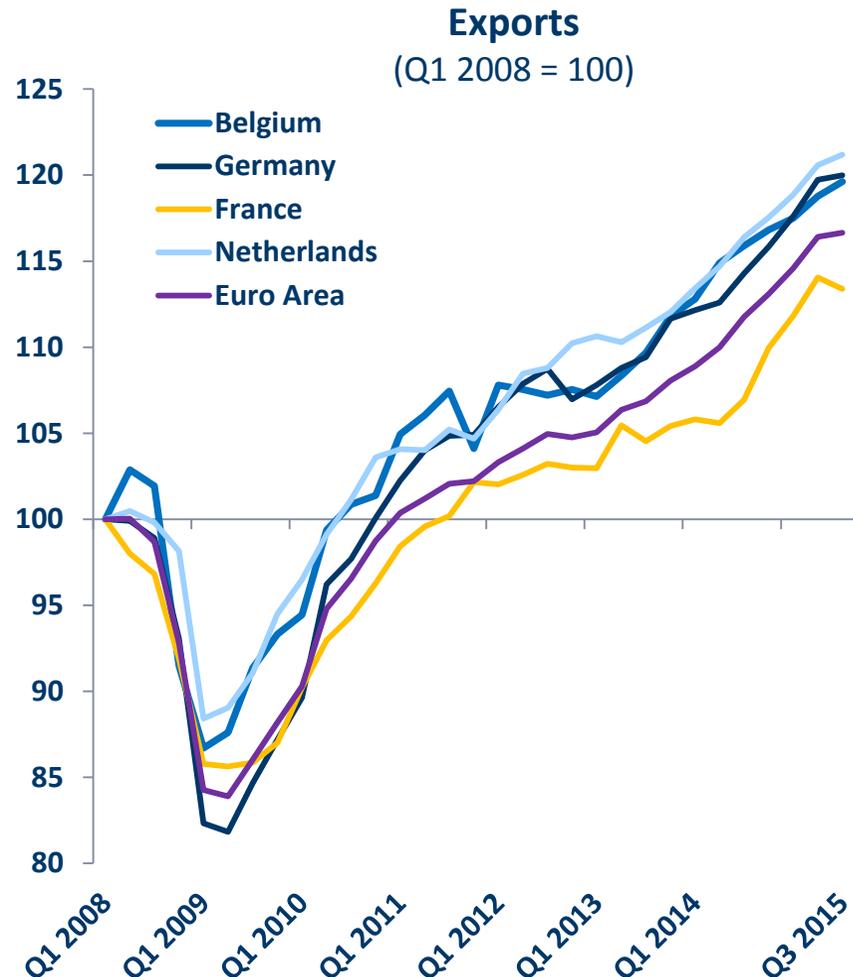
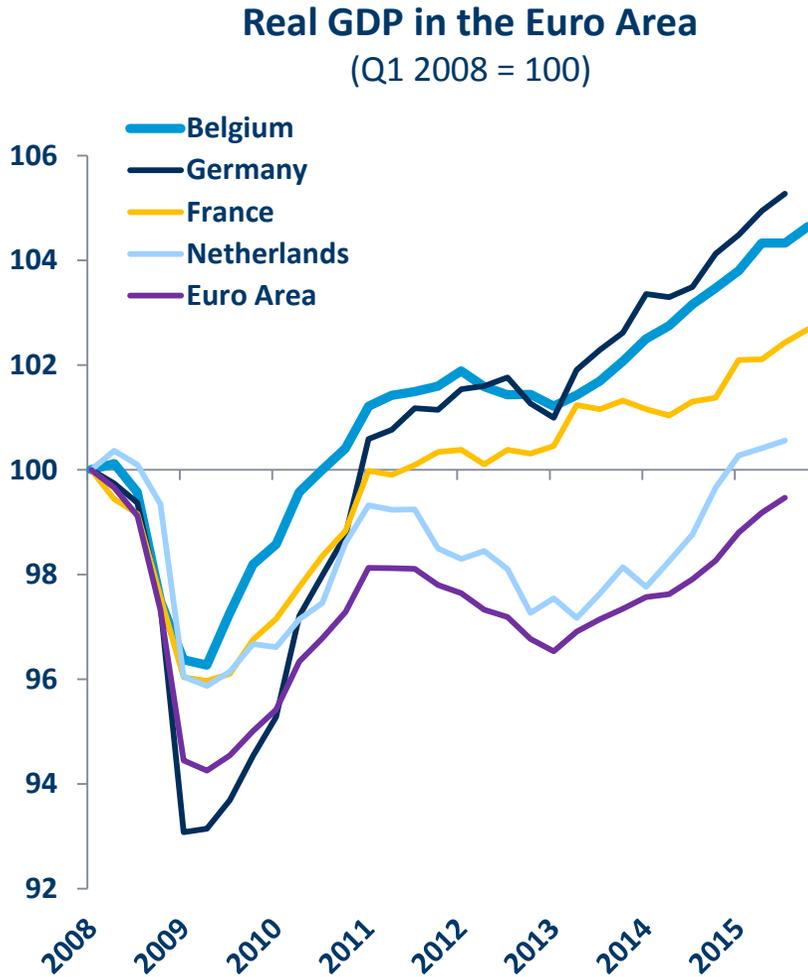


Source: Eurostat; NBB



# Belgian economic growth

## Moderate but steady GDP growth – with rising exports

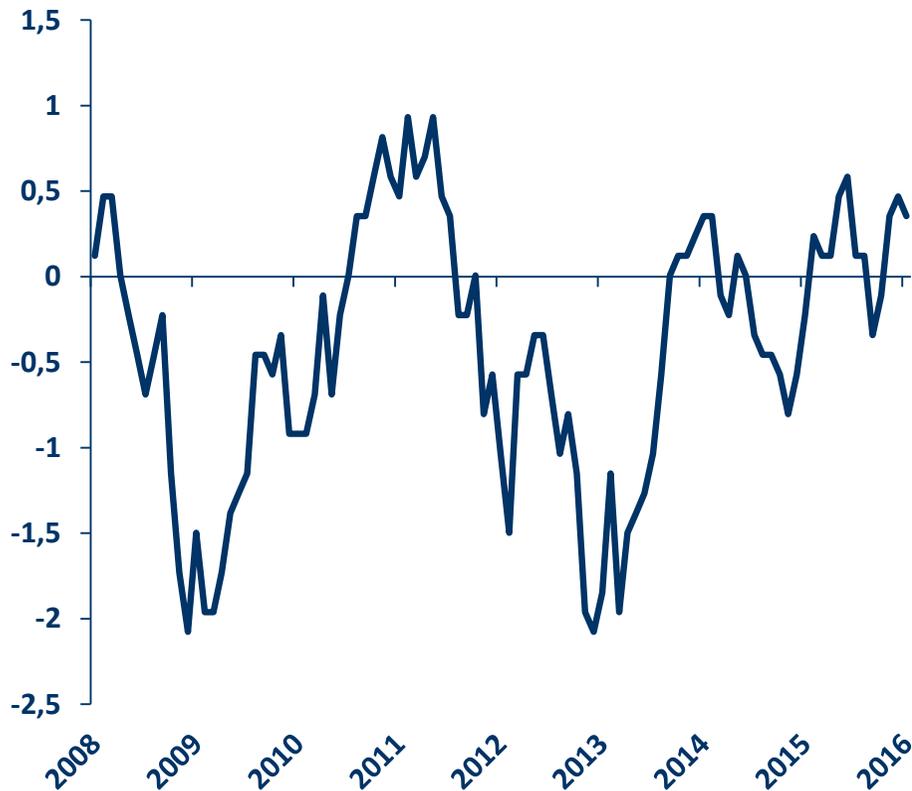


Source: Eurostat; NBB

# Consumer confidence at a high level

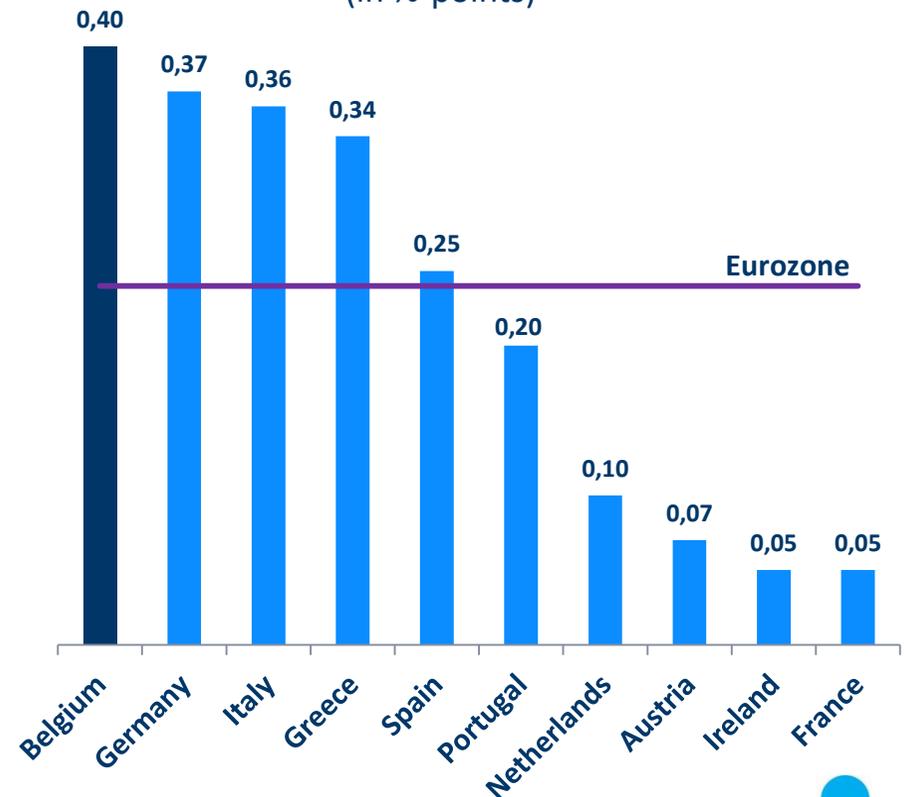
Belgian economy particularly sensitive to the lower oil price

**Consumer confidence**  
(standard deviation from long term average)



Source: NBB

**Cumulative impact of a 10% oil price decline after 3 years on real GDP**  
(in %-points)

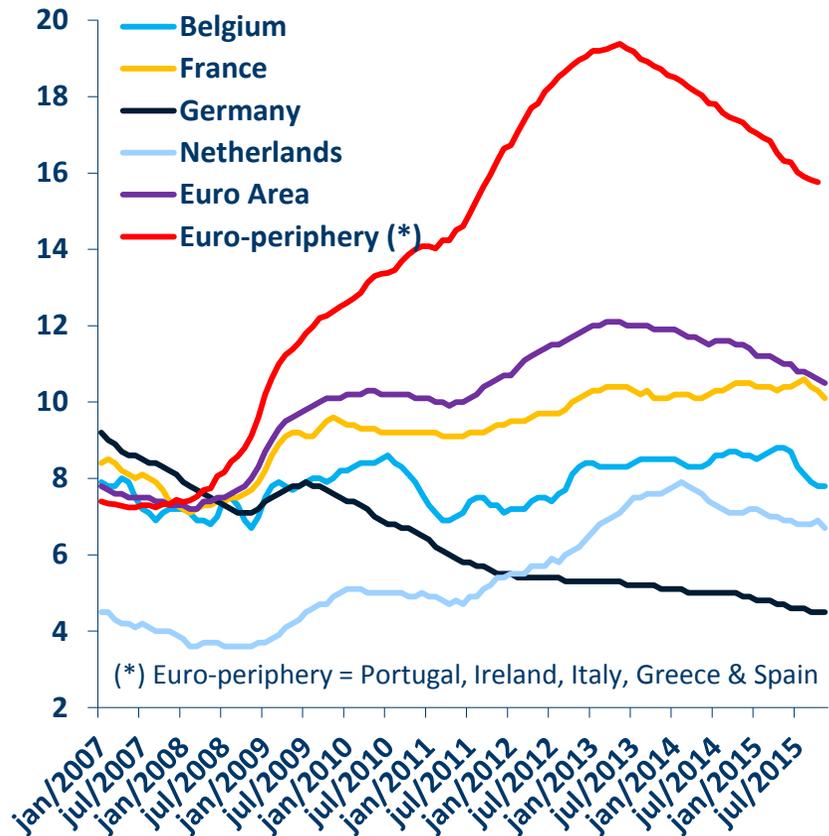


Source: ECB

# Belgian labour market

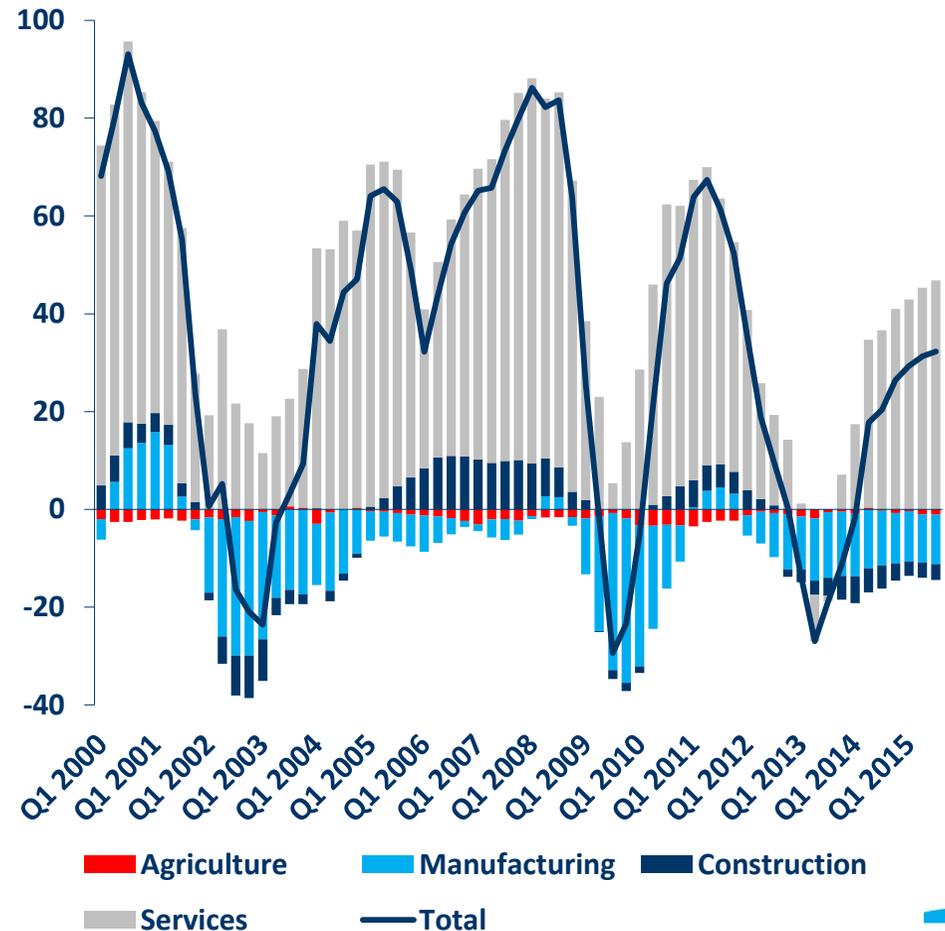
## Wage moderation and tax shift fuelling further job creation

**Unemployment rate in the Euro Area**  
(harmonised and seasonally adjusted, Eurostat)



Source: Eurostat; NBB

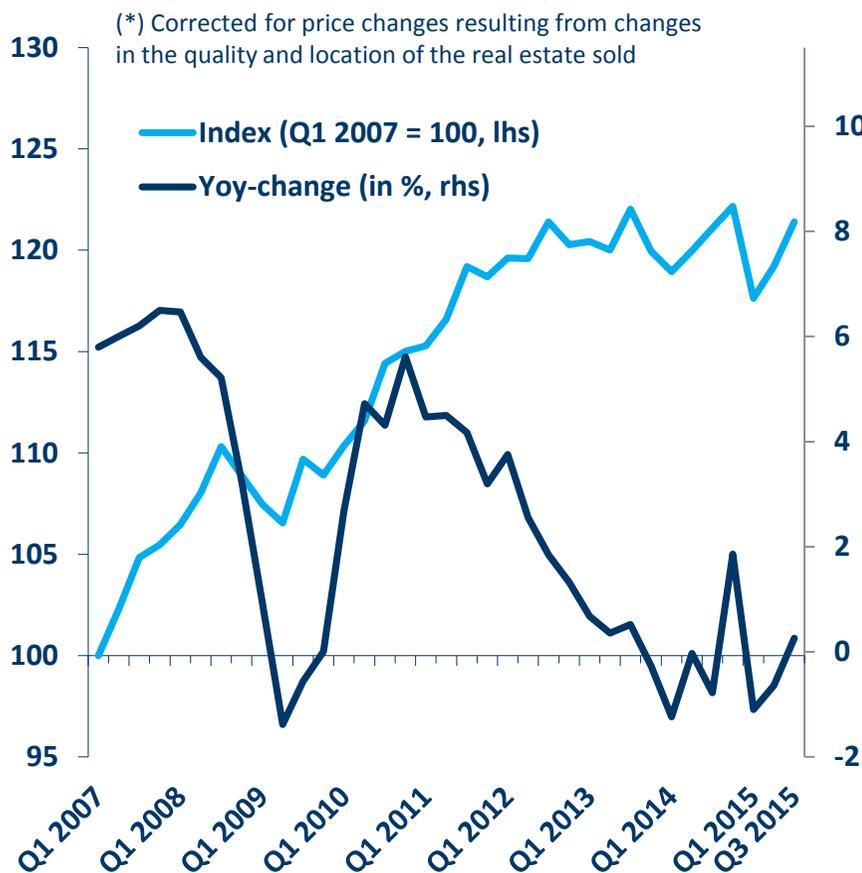
**Belgium - Domestic employment**  
(change vs. previous quarter, number in '000)



# Belgian housing market

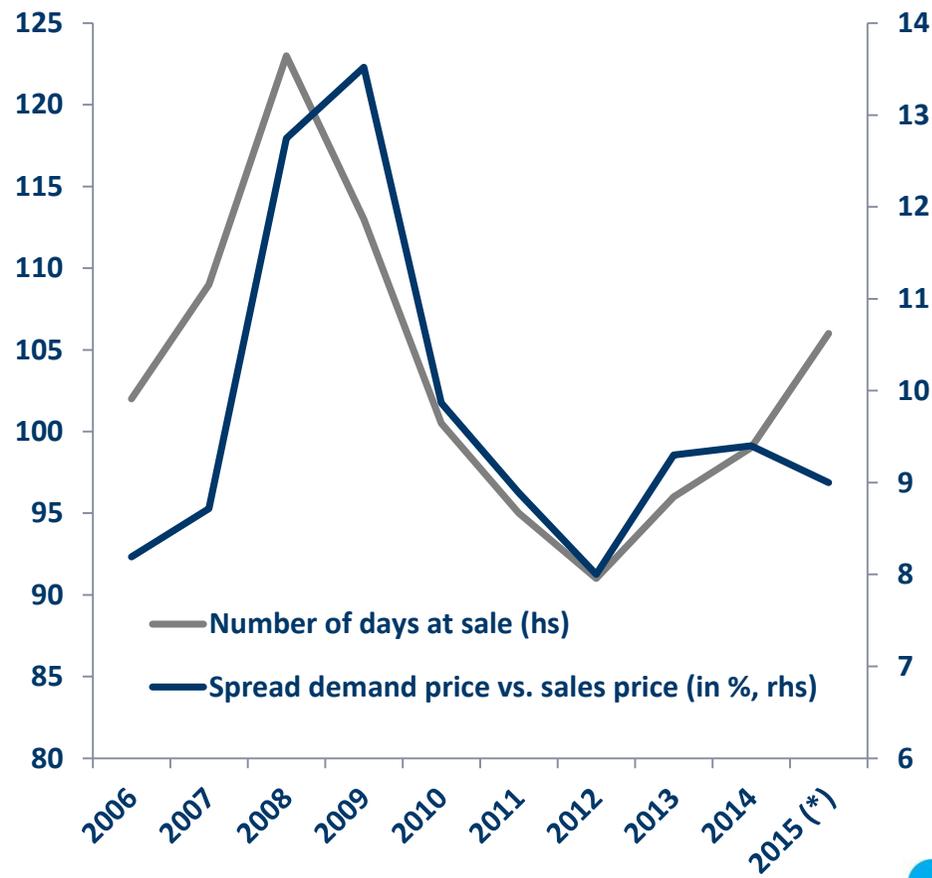
## A soft landing

### House prices Belgium (\*)



Source: FOD Economie

### Indicators home sales Belgium



Source: Netwerk ERA-makelaars

(\*) September 2015

# Growth outlook 2016 & 2017

	REAL GDP GROWTH (IN %, KBC forecast)		
	2015	2016	2017
US	2.5	2.5	2.4
EMU	1.6	1.8	1.8
GERMANY	1.7	1.8	1.8
BELGIUM	1.4	1.6	1.5
CZECH REP.	4.5	2.5	2.3
SLOVAKIA	3.2	3.2	3.2
HUNGARY	2.8	2.3	2.7
BULGARIA	2.7	2.4	2.1
IRELAND	7.2	4.5	3.6

Source: KBC (February 2016)

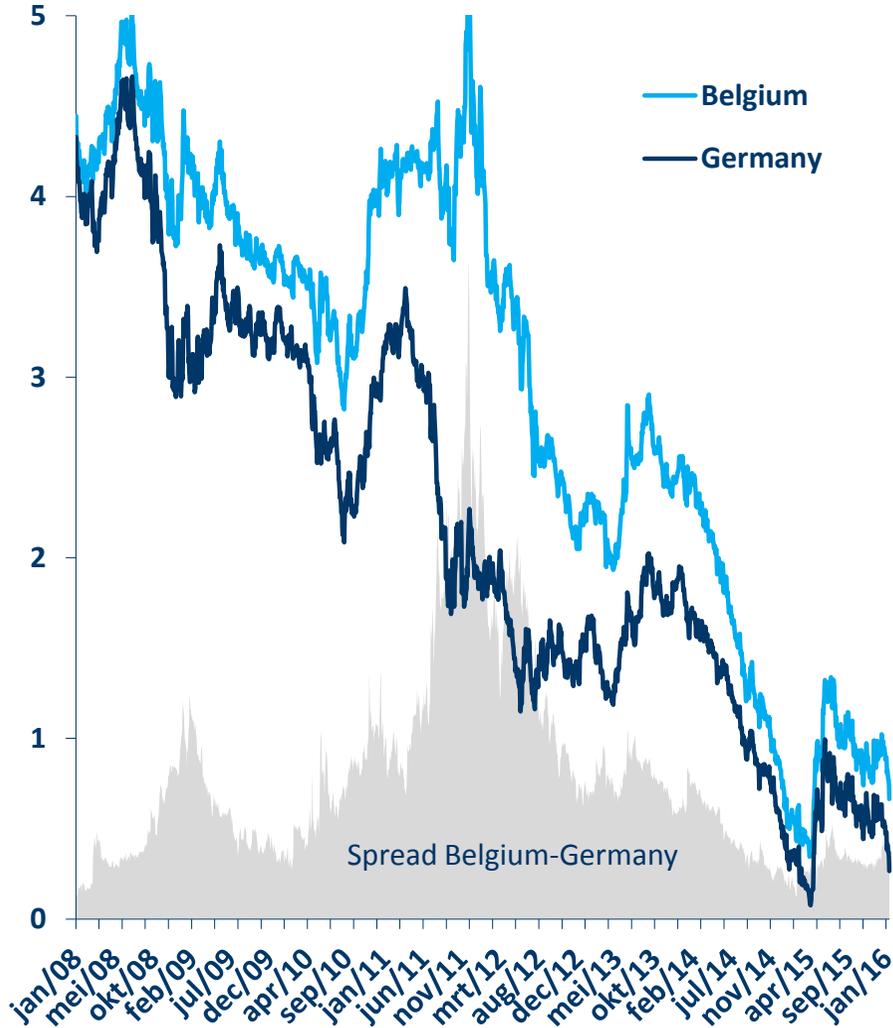
## Comparison with other forecasters

2016	Belgium	Euro Area
OECD (November)	1.5	1.8
IMF (October)	1.5	1.6
European Commission (November)	1.3	1.8
NBB (December)	1.3	-
Consensus (January)	1.5	1.7
<b>KBC (February)</b>	<b>1.6</b>	<b>1.8</b>

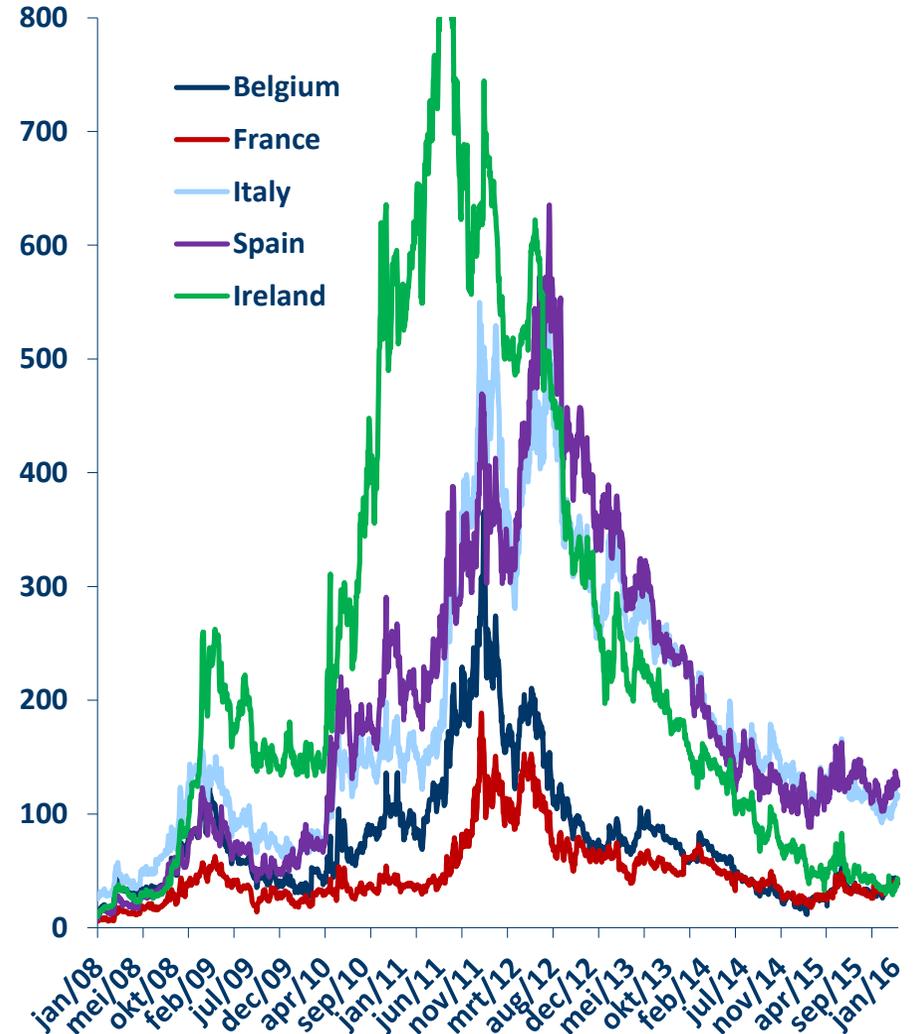
2017	Belgium	Euro Area
OECD (November)	1.6	1.9
IMF (October)	1.5	1.7
European Commission (November)	1.7	1.9
NBB (December)	1.6	-
Consensus (January)	1.7	1.7
<b>KBC (February)</b>	<b>1.5</b>	<b>1.8</b>

# Interest rate down again

### 10-year government bond yields (in %)



### Interest rate spreads Euro Area (10-year rate versus Germanv. in basis points)



# Glossary (1/2)

<b>AQR</b>	Asset Quality Review
<b>B3</b>	Basel III
<b>CBI</b>	Central Bank of Ireland
<b>Combined ratio (non-life insurance)</b>	[technical insurance charges, including the internal cost of settling claims / earned premiums] + [operating expenses / written premiums] (after reinsurance in each case)
<b>Common equity ratio</b>	[common equity tier-1 capital] / [total weighted risks]
<b>Cost/income ratio (banking)</b>	[operating expenses of the banking activities of the group] / [total income of the banking activities of the group]
<b>Cost/income ratio adjusted for specific items</b>	<p>The numerator and denominator are adjusted for (exceptional) items which distort the P&amp;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"> <li>• MtM ALM derivatives (fully excluded)</li> <li>• 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)</li> <li>• Up to the end of 2014, also Legacy &amp; OCR was an important correction</li> <li>• One-off items (such as the impact of the liquidation of KBC FH)</li> </ul>
<b>Credit cost ratio (CCR)</b>	[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
<b>EBA</b>	European Banking Authority
<b>ESMA</b>	European Securities and Markets Authority
<b>ESFR</b>	European Single Resolution Fund
<b>FICOD</b>	Financial Conglomerates Directive
<b>Impaired loans cover ratio</b>	[total impairments (specific) for impaired loans] / [total outstanding impaired loans]. For a definition of 'impaired', see 'Impaired loans ratio'
<b>Impaired loans ratio</b>	[total outstanding impaired loans (PD 10-11-12)] / [total outstanding loans]
<b>Leverage ratio</b>	[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
<b>Liquidity coverage ratio (LCR)</b>	[stock of high quality liquid assets] / [total net cash outflow over the next 30 calendar days].
<b>Net interest margin (NIM) of the group</b>	[net interest income of the banking activities] / [average interest-bearing assets of the banking activities]
<b>Net stable funding ratio (NSFR)</b>	[available amount of stable funding] / [required amount of stable funding]

# Glossary (2/2)

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

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