# KBC Group / Bank
# Debt presentation
## May 2016

More infomation: www.kbc.com
KBC Group - Investor Relations Office – Email: investor.relations@kbc.com

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# 1Q 2016 key takeaways for KBC Group

- **STRONG BUSINESS PERFORMANCE IN 1Q16**

  **Strong net result of 392m EUR in 1Q16, despite unfavorable market circumstances and the large upfront bank taxes**

  - Good commercial bank-insurance franchises in our core markets and core activities
  - Q-o-q increase in customer loan and deposit volumes in most of our core countries
  - Slightly higher net interest income and net interest margin q-o-q
  - Limited net asset management inflows and lower net fee and commission income q-o-q (fully in line with guidance)
  - Higher net gains from financial instruments at fair value (due mainly to the impact of KBC FH in 4Q15), higher net other income and lower realised AFS gains
  - Combined ratio (91% in 1Q16) distorted by one-off charges due to the terrorist attacks in Belgium (-30m EUR). Underlying quality remained excellent (combined ratio of 82% excluding one-off charges). Excellent sales of both non-life and life insurance products
  - Cost/income ratio (57% in 1Q16) adjusted for specific items
  - Unsustainably low impairment charges (due partly to seasonal effect). Net loan provision release of 3m EUR in 1Q16 in Ireland. We are maintaining our profitability and impairment guidance for Ireland, namely the lower end of the 50m-100m EUR range for FY16 for impairments

- **SOLID CAPITAL AND ROBUST LIQUIDITY POSITIONS**
  - **Common equity ratio (B3 phased-in) of 14.6% based on the Danish Compromise** at end 1Q16, 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 14.6% based on the Danish Compromise at end 1Q16**
  - Fully loaded B3 **leverage ratio**, based on current CRR legislation, amounted to **5.9%** at KBC Group
  - **Continued strong liquidity position** (NSFR at 121% and LCR at 130%) at end 1Q16

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3 Asset quality

4 Solvency and liquidity

5 MREL strategy

6 1Q16 Wrap up

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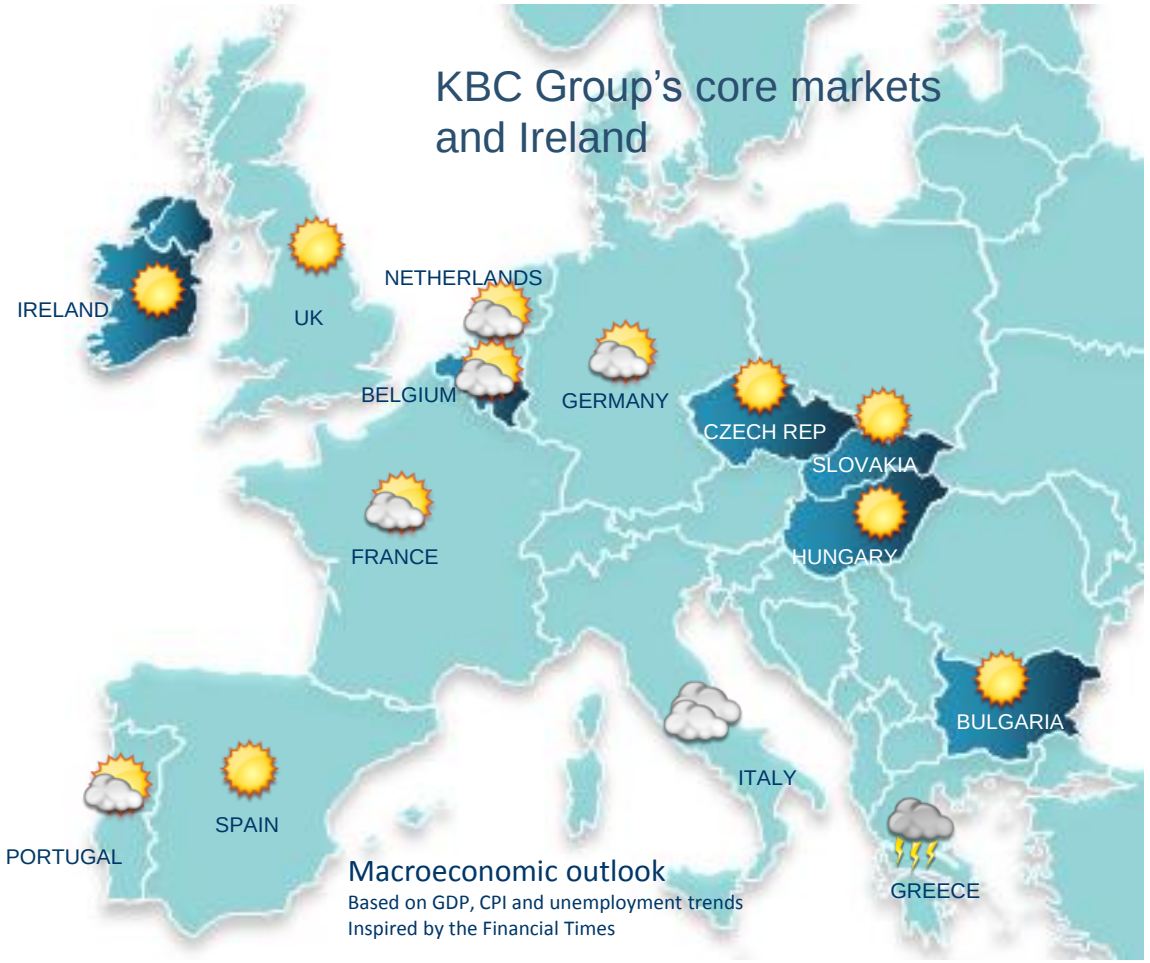
# Well-defined core markets provide access to ‘new growth’ in Europe




## MARKET SHARE (END 2015)

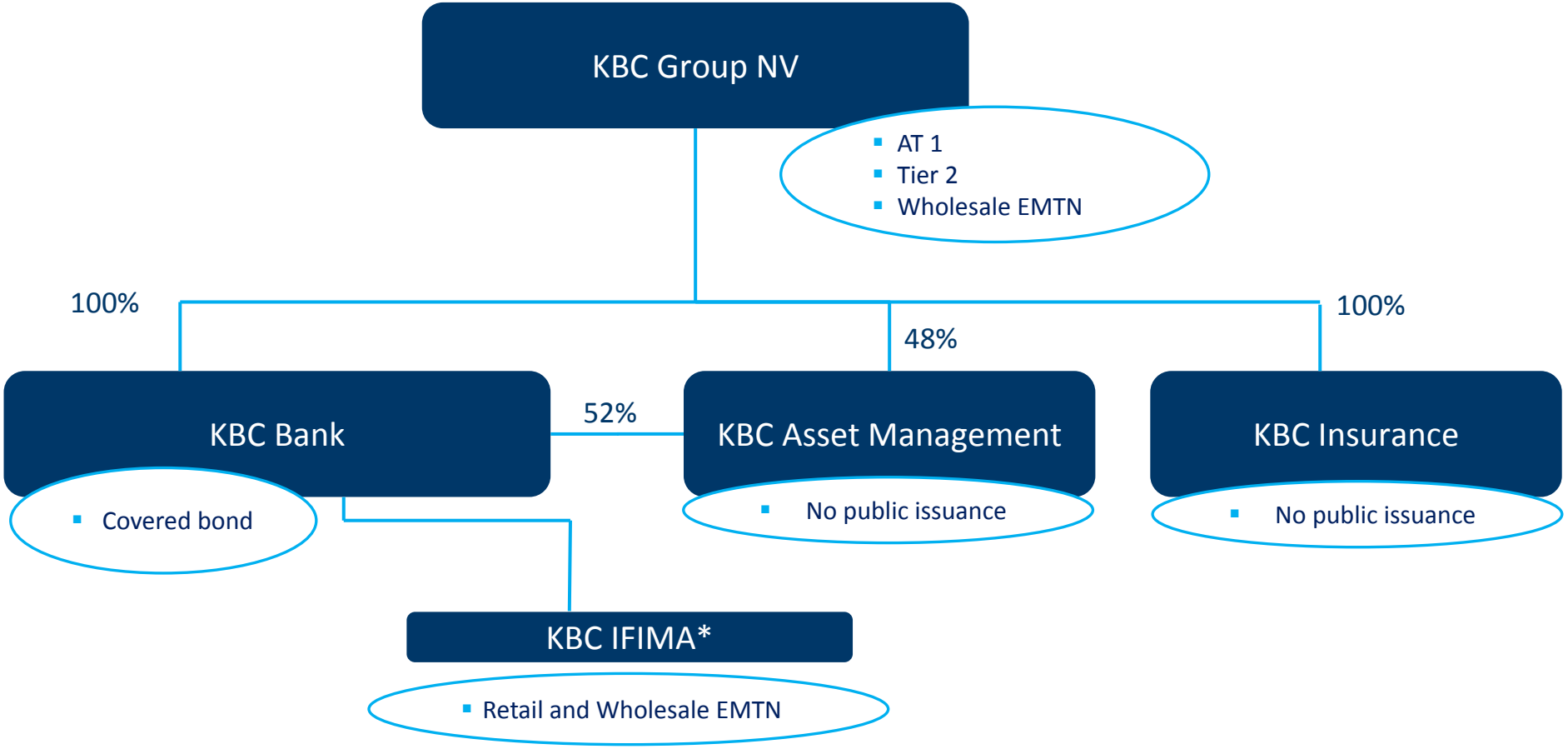
| | BE | CZ | SK | HU | BG |
|---|---|---|---|---|---|
| Loans and deposits | 21% | 19% | 11% | 10% | 3% |
| Investment funds | 40% | 26% | 7% | 18% | |
| Life insurance | 17%[1] | 7% | 4% | 4% | 12% |
| Non-life insurance | 9% | 7% | 3% | 5% | 10% |

## REAL GDP GROWTH OUTLOOK FOR CORE MARKETS[2]

| | BE | CZ | SK | HU | BG |
|---|---|---|---|---|---|
| % of Assets | 70% | 15% | 3% | 3% | 1% |
| 2015 | 1.4% | 4.3% | 3.6% | 2.9% | 3.0% |
| 2016e | 1.4% | 2.5% | 3.3% | 2.4% | 2.4% |
| 2017e | 1.5% | 2.3% | 3.5% | 2.8% | 2.5% |

1. Excluding group insurance. Including group insurance, market share of life insurance amounted to 13% at the end of 2015
2. Source: KBC data, May 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 1Q 2016

## KBC Group

- Market cap (10/05/16): EUR 19bn
- Net result FY 2015: EUR 2.6bn
- Total assets: EUR 262bn
- Total equity: EUR 16bn
- CET1 ratio (Basel 3 transitional): 14.6%
- CET1 ratio (Basel 3 fully loaded): 14.6%

## KBC Bank

- Net result FY 2015: EUR 2.4bn[1]
- Total assets: EUR 227bn
- Total equity: EUR 13bn
- CET1 ratio (Basel 3 transitional): 13.4%
- CET1 ratio (Basel 3 fully loaded): 13.5%
- C/I ratio FY 2015: 55%[2]

## KBC Insurance

- Net result FY 2015: EUR 354m
- Total assets: EUR 39bn
- Total equity: EUR 3bn
- Solvency II ratio: 210%
- Combined operating ratio FY15: 91%

## Credit Ratings of KBC Bank *(KBC Group)* as at 10 May 2016

| | S&P | Moody's | Fitch |
|---|---|---|---|
| **Long-term**<br>*(KBC Group)* | **A (Negative)**<br>*BBB+ (Stable)* | **A1 (Stable)**<br>*Baa1 (Stable)* | **A- (Positive)**<br>A- (Positive) |
| **Short-term** | **A-1** | **Prime-1** | **F1** |

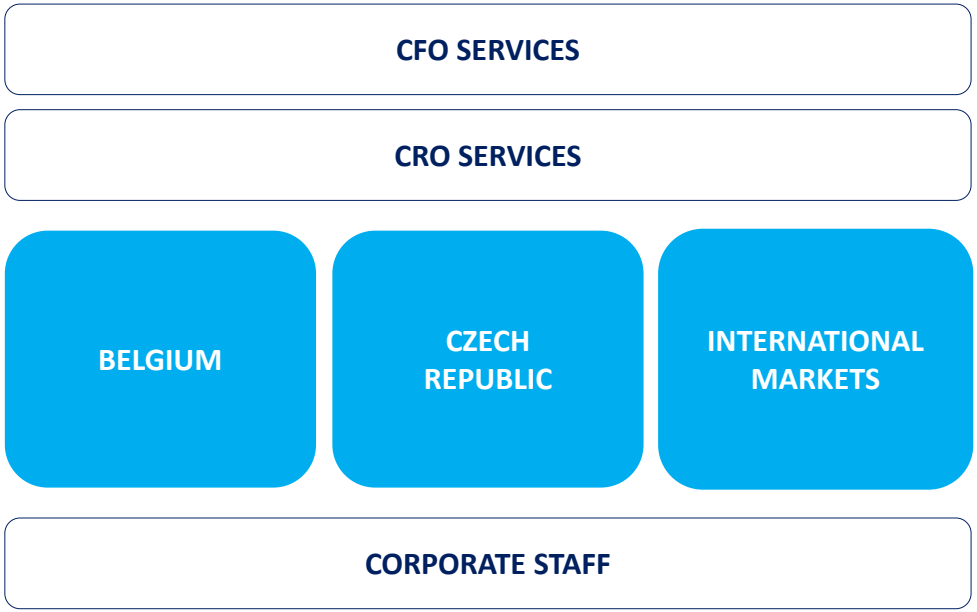
1. Includes KBC Asset Management ; excludes holding company eliminations
2. Adjusted for specific items, the C/I ratio amounted to c.57% in 1Q 2016

# Overview of KBC Group

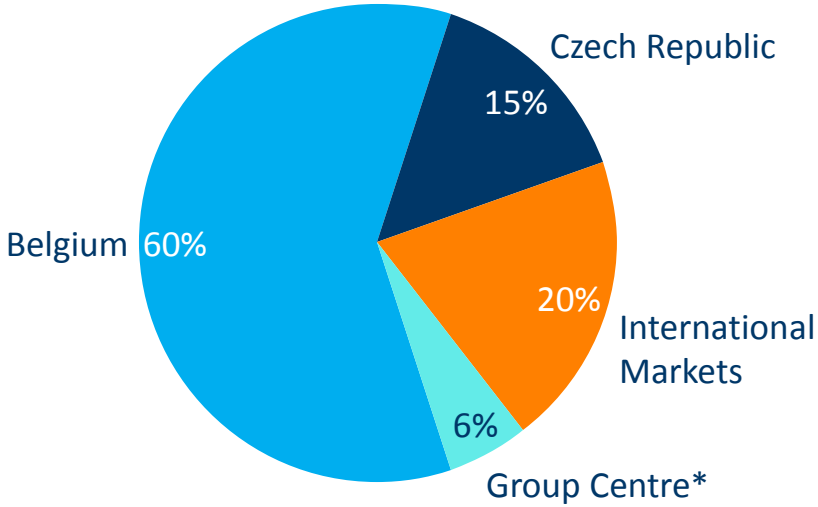
- STRONG **BANK-INSURANCE GROUP PRESENT WITH LEADING MARKET POSITIONS IN ITS CORE GEOGRAPHIES** (BELGIUM AND CEE)
  - A leading financial institution in both Belgium and the Czech Republic
  - Business focus on Retail, SME & Midcap clients
  - Unique selling proposition: in-depth knowledge of local markets 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 31 March 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** (phased-in, Danish compromise) | ≥ 10.25%[2] | 2016 |
| **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. 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

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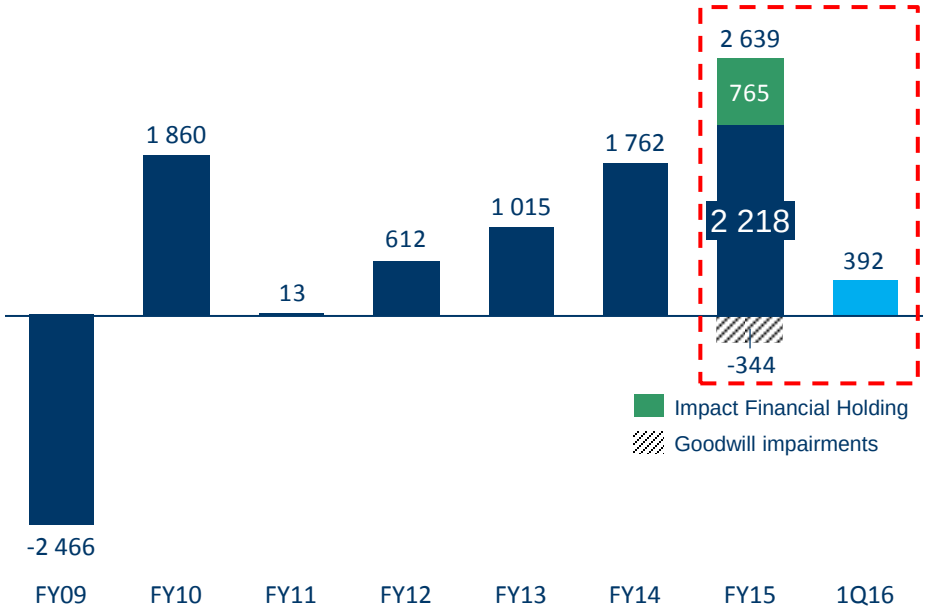
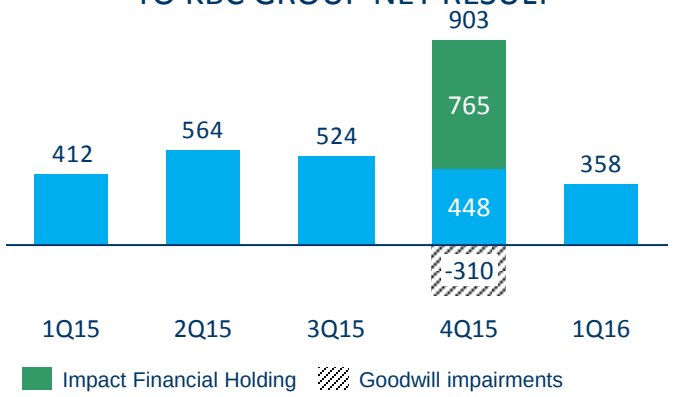
# Earnings capacity

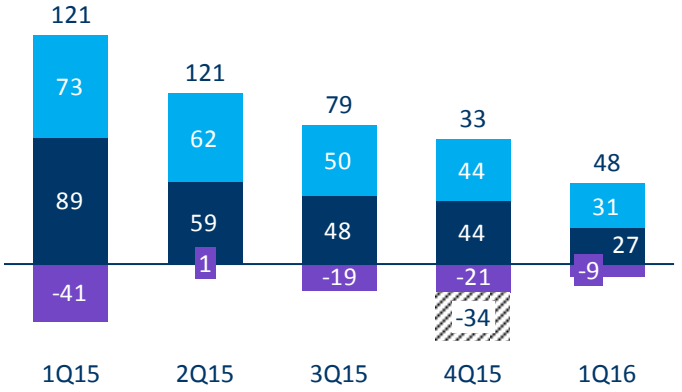
## NET RESULT[1]




## CONTRIBUTION OF BANKING ACTIVITIES TO KBC GROUP NET RESULT[1,2]




## CONTRIBUTION OF INSURANCE ACTIVITIES TO KBC GROUP NET RESULT[1,2]

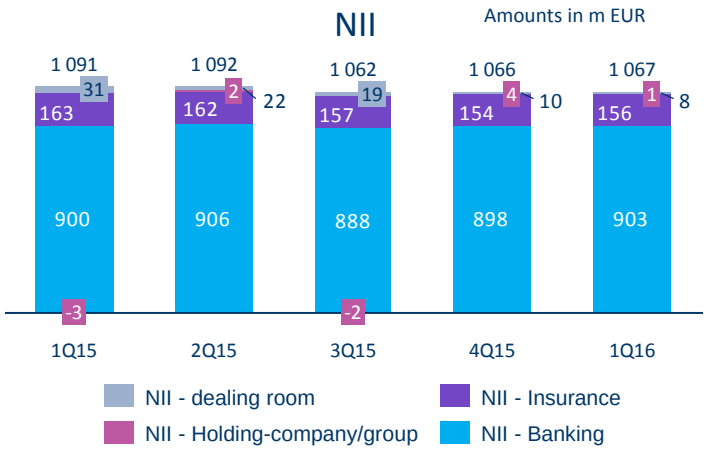


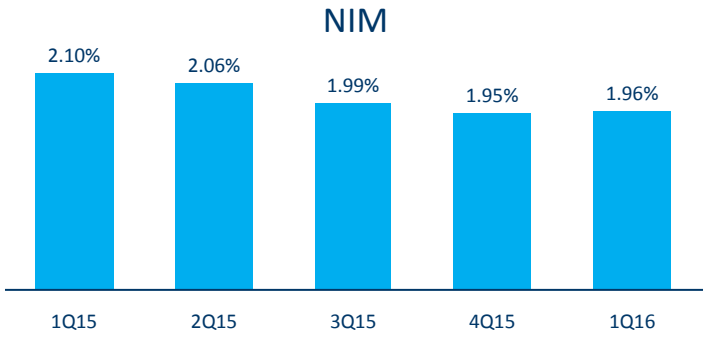

1 Note that the scope of consolidation has changed over time, due partly to divestments

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

Amounts in m EUR

# Slightly higher net interest income and net interest margin




- **Net interest income**
  - Slightly up q-o-q and down by 2% y-o-y
  - The slight q-o-q increase was driven primarily by:
    - lower funding costs
    - additional rate cuts on savings accounts
    - continued good volume growth in current accounts and loans

    almost fully offset by:
    - lower reinvestment yields
    - pressure on commercial loan margins in most core countries
    - a decrease of 2m EUR in NII from the dealing room

- **Net interest margin (1.96%)**
  - Up by 1 bp q-o-q and down by 14 bps y-o-y
  - Q-o-q increase is due almost entirely to rate cuts on savings accounts and lower funding costs partly offset by lower reinvestment yields and pressure on commercial loan margins in most core countries

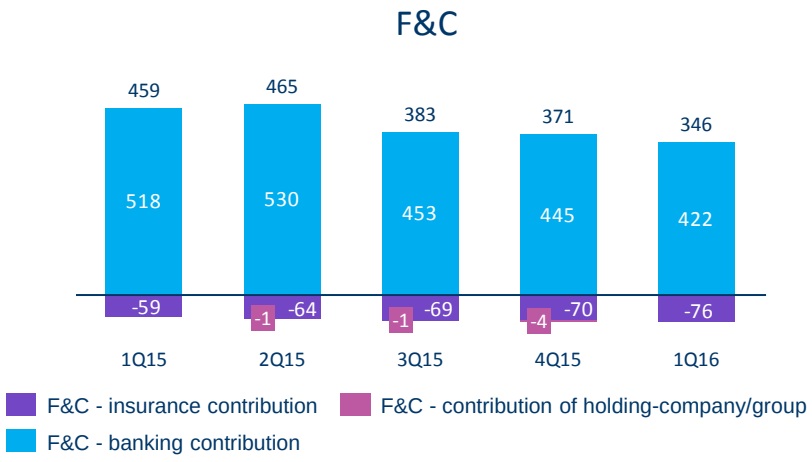
VOLUME TREND

**Customer deposit volumes excluding debt certificates & repos +1% q-o-q and +4% y-o-y**

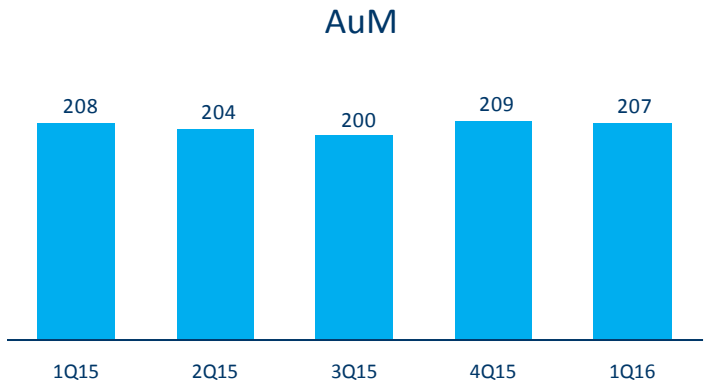
| Excluding FX effect | Total loans[2] | Of which mortgages | Customer deposits[3] | AuM | Life reserves |
|---|---|---|---|---|---|
| Volume | 129bn | 55bn | 165bn | 207bn | 28bn |
| Growth q-o-q[1] | +1% | 0% | +2% | -1% | 0% |
| Growth y-o-y | +4% | +3% | +3% | 0% | -1% |

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

# Small net asset management inflows and lower net fee and commission income (in line with guidance)




Amounts in m EUR



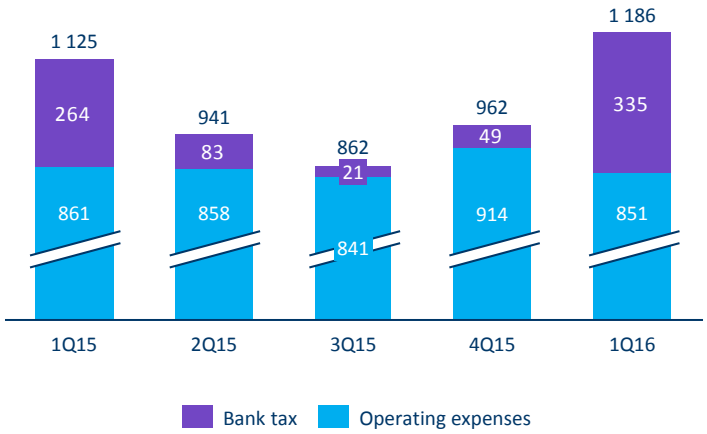

Amounts in bn EUR

- **Net fee and commission income**
  - Down by 7% q-o-q and by 25% y-o-y
  - Q-o-q decrease was the result chiefly of:
    - lower management fees from mutual funds & unit-linked life insurance products (lower AuM and high cash level in CPPI) and lower entry fees from mutual funds in Belgium
    - lower fees from payment services in the Czech Republic (seasonal effect of Christmas and full impact of interchange fees regulation) and Hungary
    - lower fees from credit files and bank guarantees in Belgium, the Czech Republic and Slovakia
    - higher commissions paid on insurance sales

    partly offset by:
    - higher entry fees from unit-linked life insurance products
  - Y-o-y decline resulted chiefly from lower management and entry fees from mutual funds and unit-linked life insurance products in Belgium, lower fees from credit files and bank guarantees in Belgium, lower fees from securities transactions and higher commissions paid on insurance sales
  - Although the recovery of net F&C has been delayed due to the market circumstances in 1Q16, we expect a positive reversal of the trend in net F&C in 2Q16. Net F&C income will remain an important top-line contributor
- **Assets under management (207bn EUR)**
  - Down by 1% q-o-q as a result of small net inflows and a negative price effect (-1%)
  - Flat y-o-y owing to net inflows (+4%) and a negative price effect (-5%)

# Operating expenses up, due entirely to higher bank taxes

OPERATING EXPENSES




EXPECTED BANK TAX SPREAD (PRELIMINARY)[2]

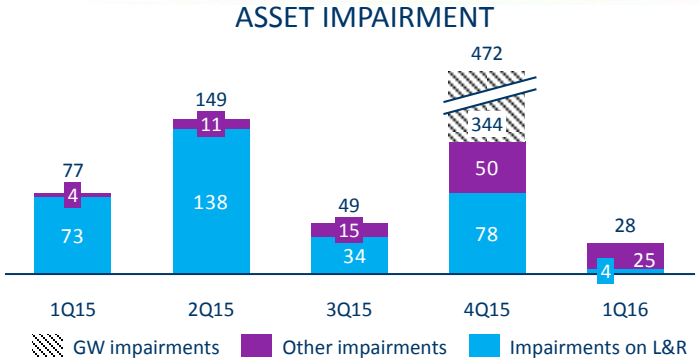
| | TOTAL | Upfront | Spread out over the year | | | |
|---|---|---|---|---|---|---|
| | 1Q16 | 1Q16 | 1Q16 | 2Q16e | 3Q16e | 4Q16e |
| BU BE | **241** | 241 | 0 | 0 | 0 | 0 |
| BU CZ | **28** | 28 | 0 | 0 | 0 | 0 |
| Hungary | **48** | 31 | 17 | 20 | 20 | 25 |
| Slovakia | **9** | 6 | 3 | 3 | 3 | 3 |
| Bulgaria | **2** | 1 | 0 | 0 | 0 | 0 |
| Ireland | **2** | 2 | 1 | 1 | 1 | 2 |
| GC | **5** | 5 | 0 | 0 | 0 | 0 |
| **TOTAL** | **335** | **314** | **22** | **23** | **23** | **30** |

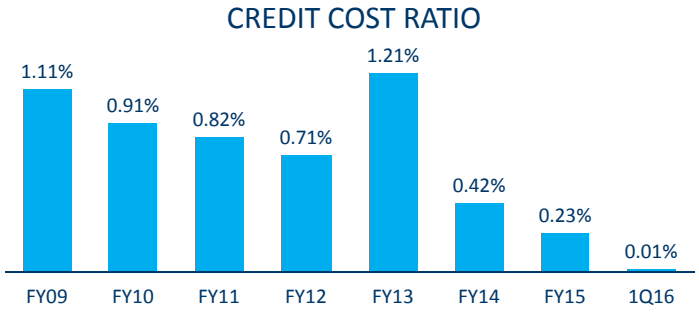
Amounts in m EUR

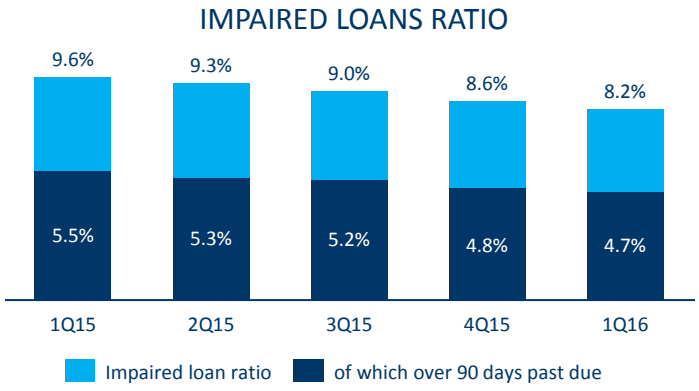
- **Cost/income ratio (banking) adjusted for specific items[1] at 57% in 1Q16**
  - The C/I ratio of 71% was affected mainly by IFRIC 21
  - Operating expenses excluding bank tax went down by 7% q-o-q due to:
    - seasonal effects such as traditionally lower marketing, ICT and professional fee expenses
    - lower depreciation and amortisation costs in Ireland, the Group Centre and Hungary
    - No restructuring charges in CZ in 1Q16
  - Operating expenses without bank tax decreased by 1% y-o-y due to lower ICT expenses (mainly in KBC Group NV due to delayed invoices), lower staff expenses in Belgium and the Czech Republic (both due to lower FTEs) and lower professional fees
  - 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
  - Total bank taxes (including ESRF contribution) are expected to decrease slightly from 417m EUR in FY15 to 412m EUR in FY16, although still subject to changes

1. See glossary (slide 80) for the exact definition
2. Still subject to changes

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



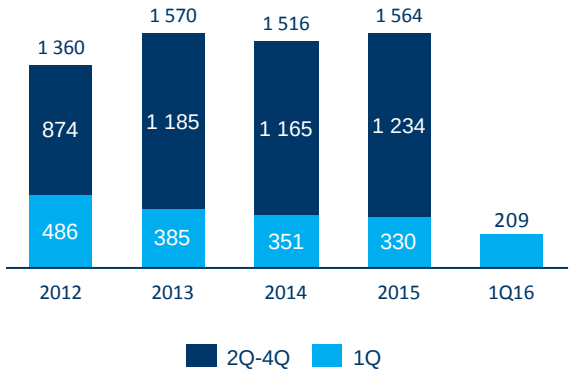




- **Sharply lower impairment charges (-95% both q-o-q and y-o-y)**
  - The seasonal q-o-q decrease in loan loss provisions was attributable mainly to:
    - low gross impairments in all segments in Belgium and the Czech Republic
    - several reversals in Belgium, the Czech Republic and Ireland
    - the positive impact of model changes in the Czech Republic and Hungary
  - Impairment of
    - 24m EUR on AFS shares (entirely in Belgium)
    - 1m EUR on 'other'
- The **credit cost ratio** only amounted to 0.01% in 1Q16 due to low gross impairments and some releases
- The **impaired loans ratio** dropped further to 8.2%

# Overview of results based on business units

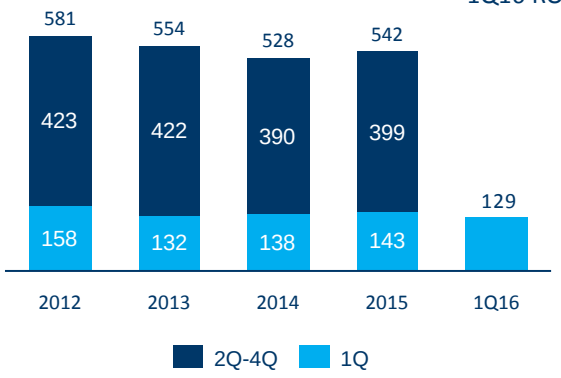
## NET PROFIT – **BELGIUM**

1Q16 ROAC: 14%



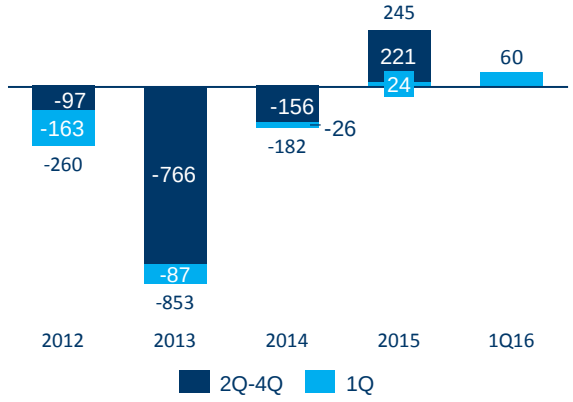

## NET PROFIT – **CZECH REPUBLIC**

1Q16 ROAC: 37%



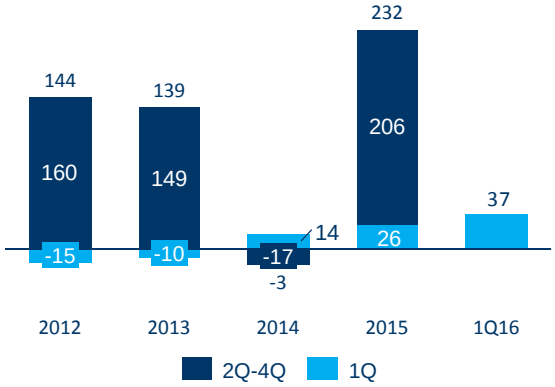

## NET PROFIT – **INTERNATIONAL MARKETS**

1Q16 ROAC: 13%




## NET PROFIT – **INTERNATIONAL MARKETS EXCL. IRELAND**

1Q16 ROAC: 13%




Amounts in m EUR

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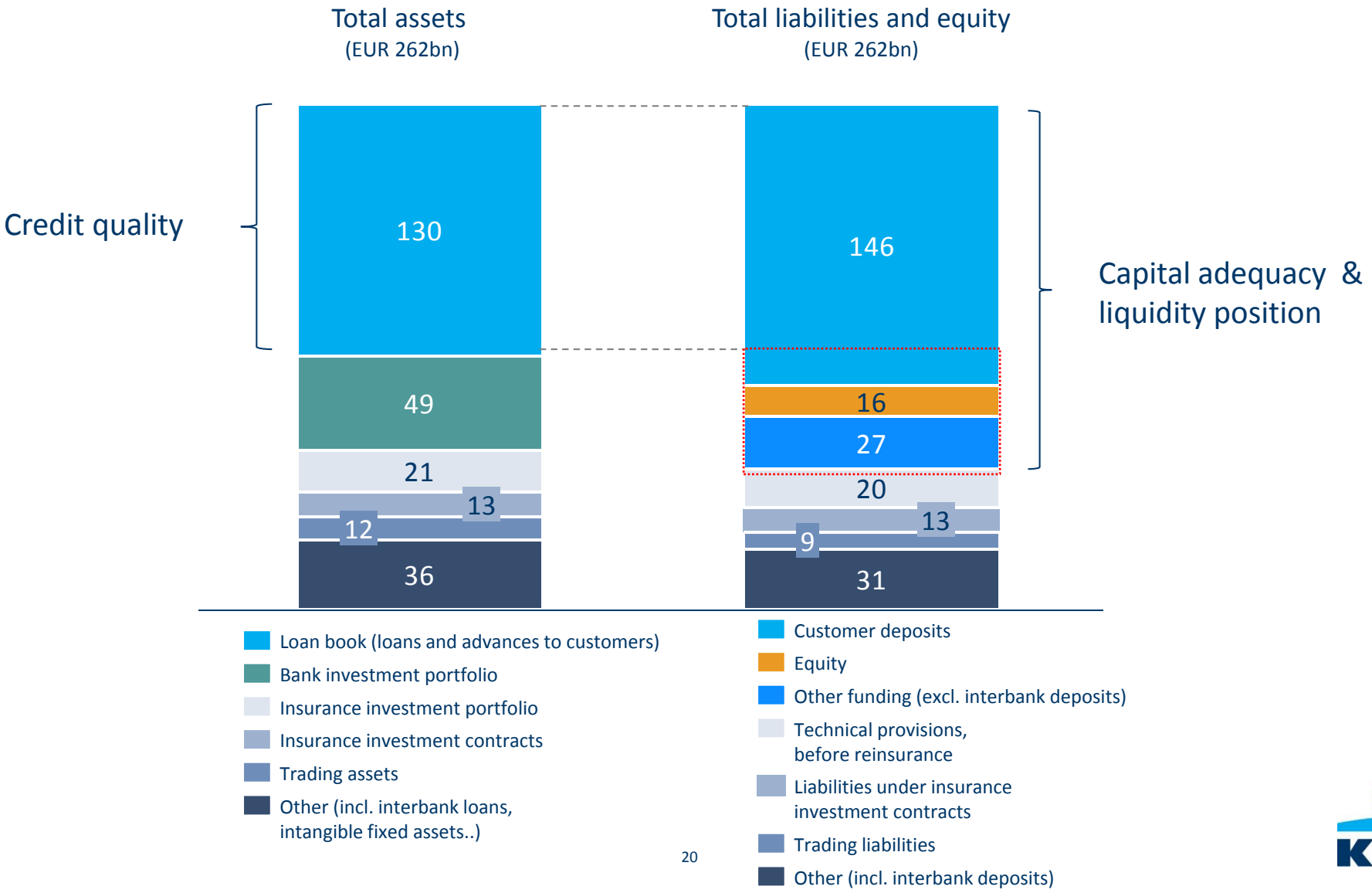
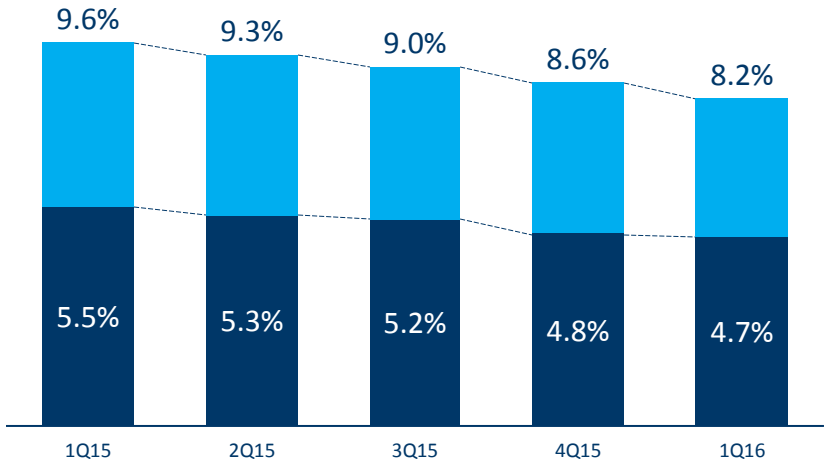
# Balance sheet
# (KBC Group consolidated at 31 March 2016)



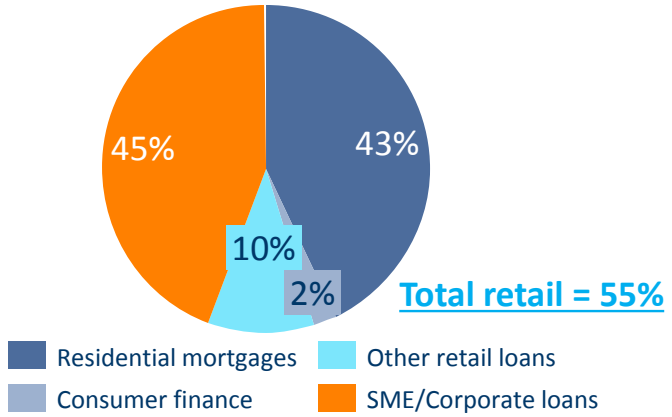
# Impaired loans ratios of KBC Group and per Business Unit,
## *incl. of which over 90 days past due*

KBC GROUP

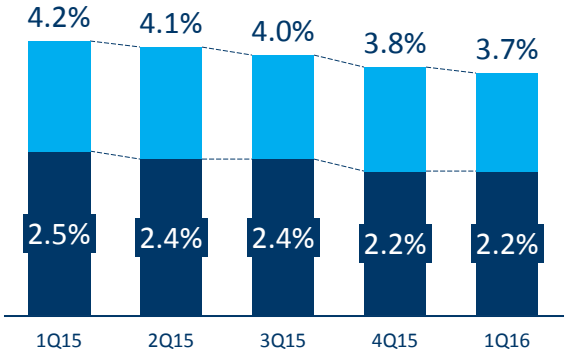



CUSTOMER LOAN BOOK: EUR 130bn at 31-03-2016

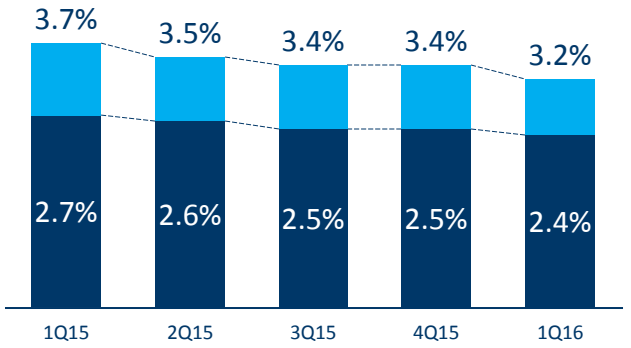
*(LARGELY SOLD THROUGH OWN BRANCHES)*



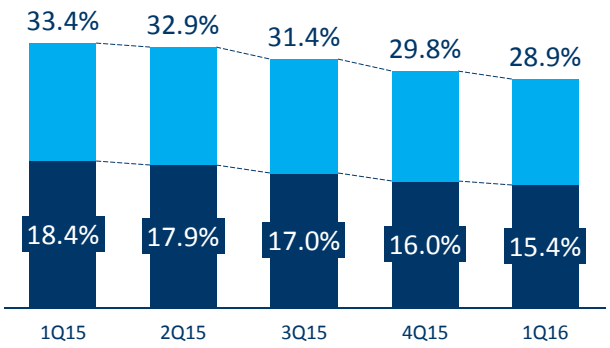

BELGIUM BU




CZECH REPUBLIC BU




INTERNATIONAL MARKETS BU



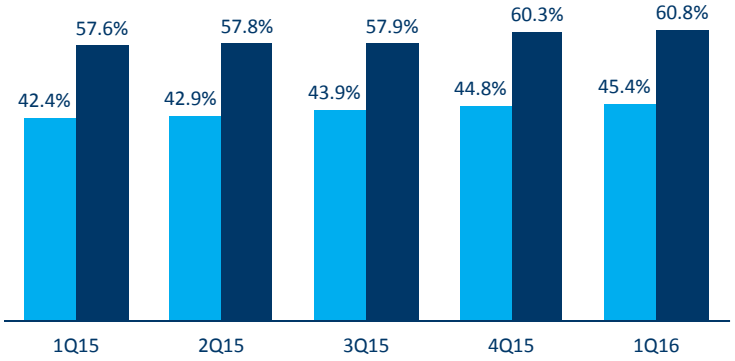

Impaired loans ratio * | of which over 90 days past due **

* Impaired loans ratio : total outstanding impaired loans (PD 10-12)/total outstanding loans

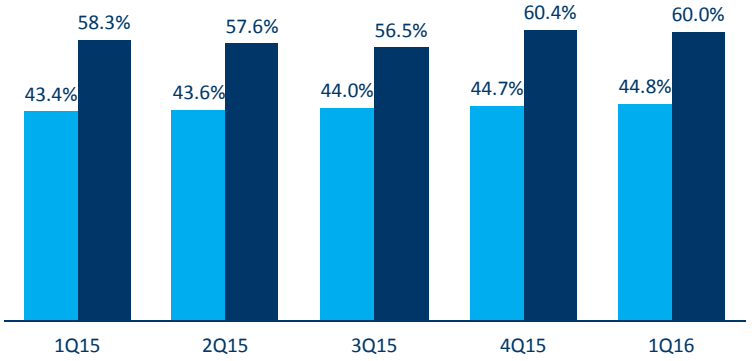
** of which total outstanding loans with over 90 days past due (PD 11-12)/total outstanding loans

# Cover ratios

## KBC GROUP



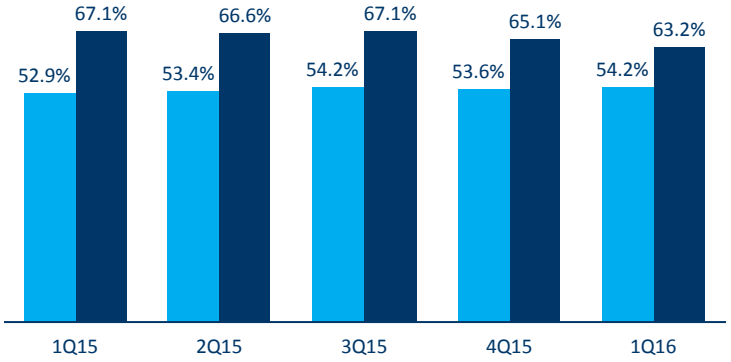

## BELGIUM BU



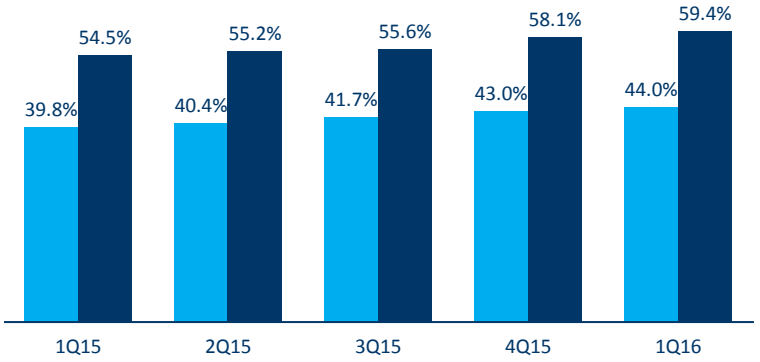

Impaired loans cover ratio*

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

| | 1Q16 CREDIT COST RATIO | FY15 CREDIT COST RATIO | FY14 CREDIT COST RATIO | FY13 CREDIT COST RATIO | FY 2012 CREDIT COST RATIO | AVERAGE '99 –'15 |
|---|---|---|---|---|---|---|
| **Belgium** | **0.02%** | **0.19%** | 0.23% | 0.37% | 0.28% | n/a |
| **Czech Republic** | **0.01%** | **0.18%** | 0.18% | 0.26% | 0.31% | n/a |
| **International Markets** | **-0.04%** | **0.32%** | 1.06% | 4.48%[1] | 2.26% | n/a |
| **Group Centre** | **-0.02%** | **0.54%** | 1.17% | 1.85% | 0.99% | n/a |
| **Total** | **0.01%** | **0.23%** | **0.42%** | **1.21%[2]** | **0.71%** | **0.52%** |

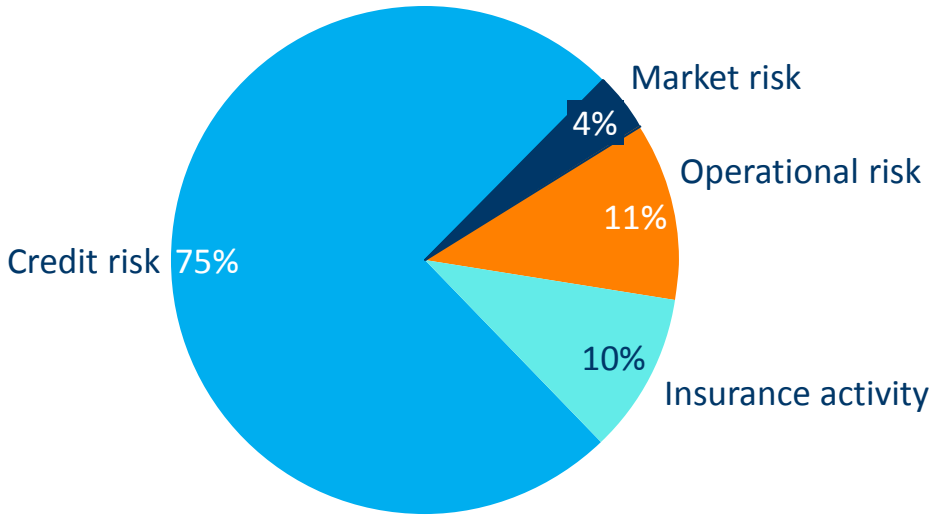
Credit cost ratio: amount of losses incurred on troubled loans as a % of total average outstanding loan portfolio

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

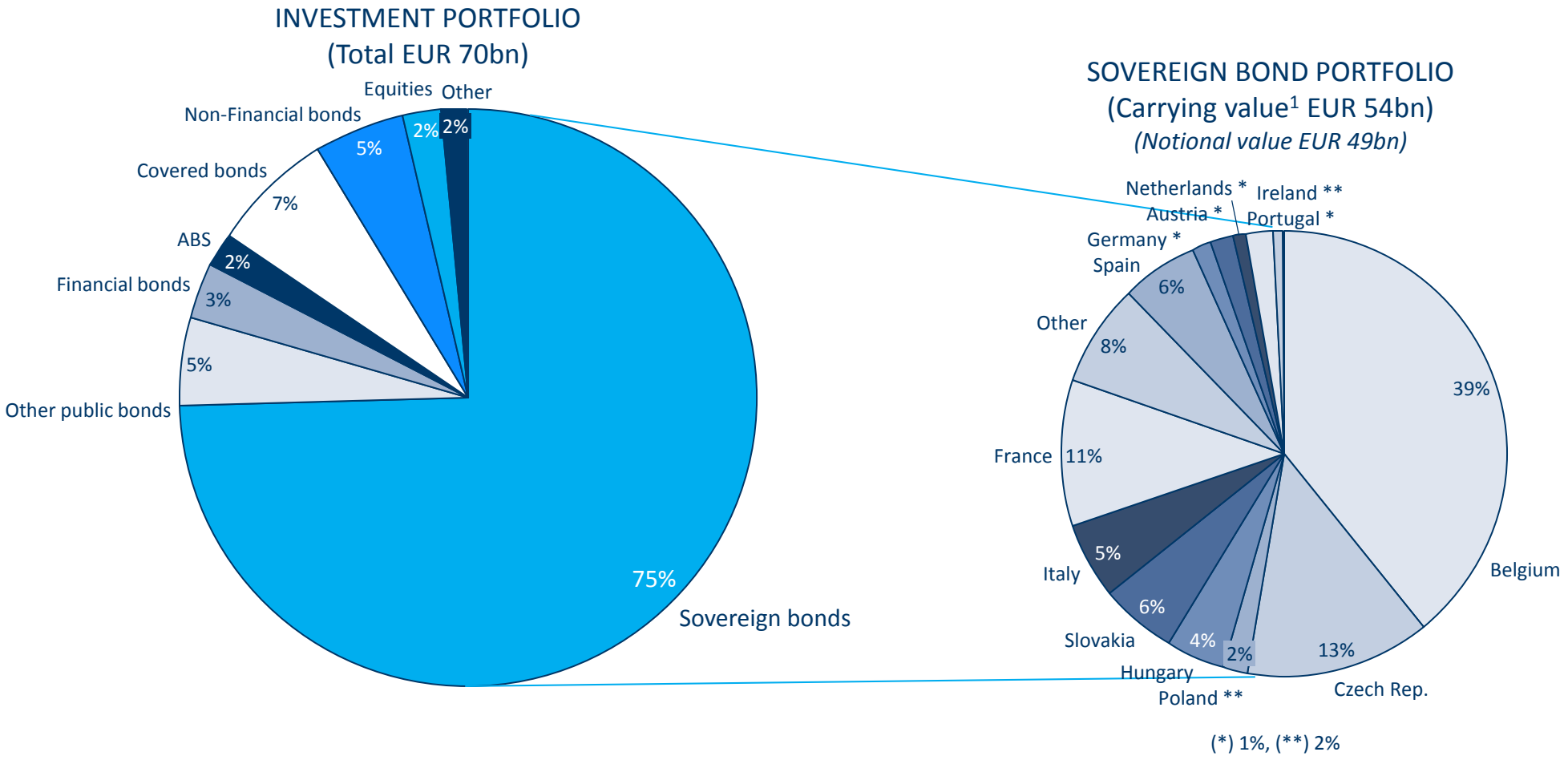
BREAKDOWN ACCORDING TO RWA*

31-03-2016




* RWA on fully loaded basis and under Danish Compromise

# Investment portfolio (as per 31/03/2016)




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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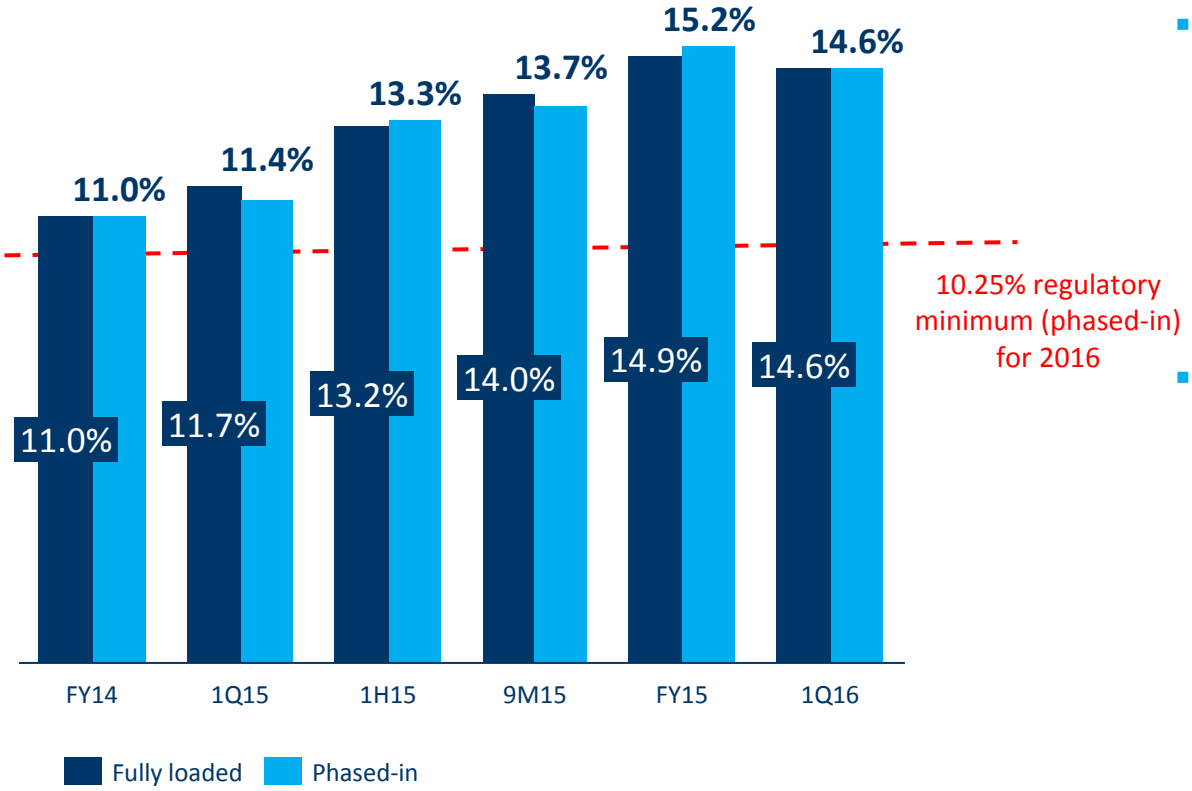
# Strong capital position

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




- **Common equity ratio (B3 phased-in) of 14.6%** based on the Danish Compromise at end 1Q16, 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

- 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.

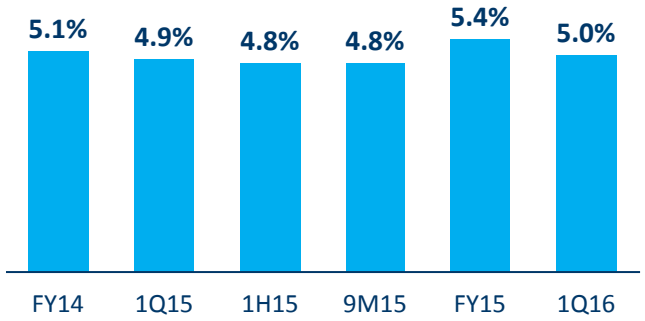
  A pro forma fully loaded minimum common equity ratio translation to 11.25% was clearly exceeded with a **fully loaded B3 common equity ratio of 14.6%** based on the Danish Compromise at end 1Q16

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

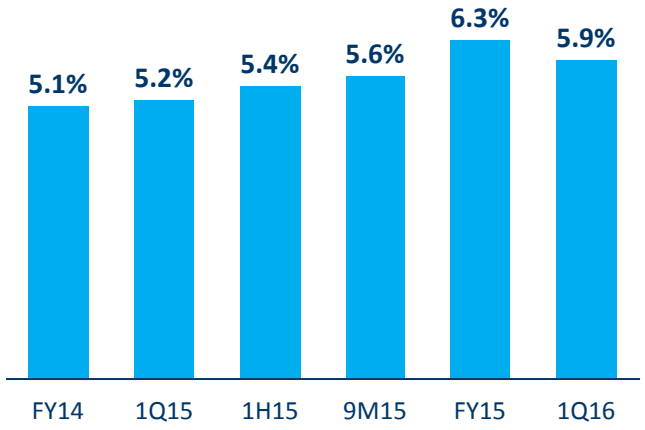
- available reserves 1.3bn EUR
- accumulated profits (losses) 5.3bn EUR

# Fully loaded Basel 3 leverage ratio

## Fully loaded Basel 3 leverage ratio at KBC Bank



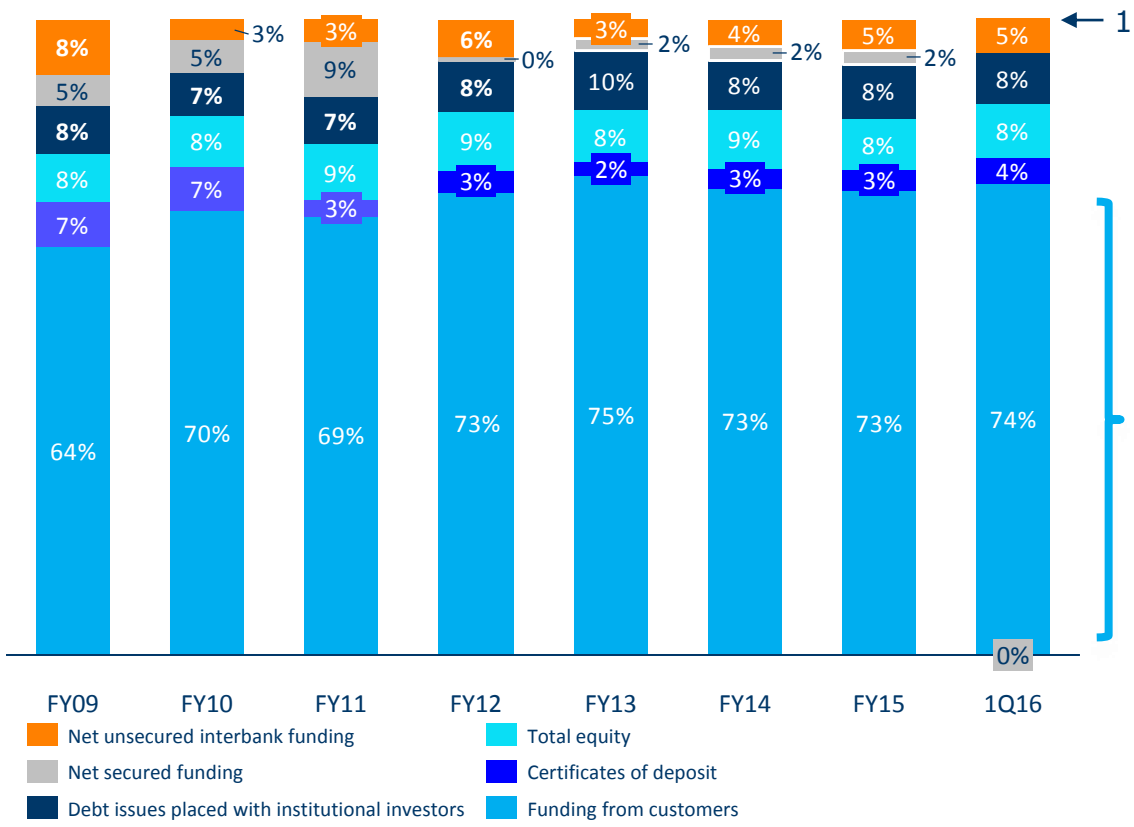

## Fully loaded Basel 3 leverage ratio at KBC Group



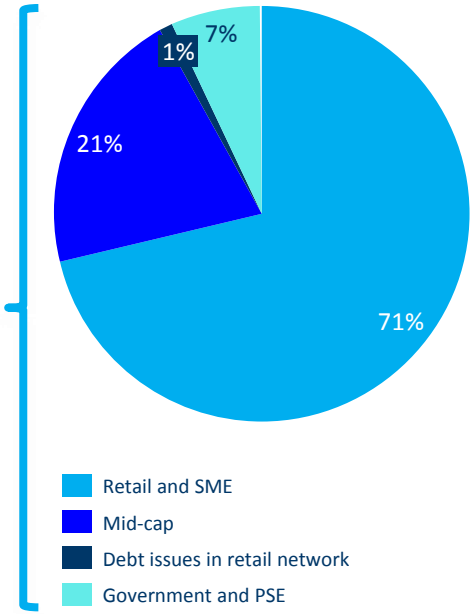

- **Fully loaded B3 leverage ratio, based on the current CRR legislation** (which was adapted during 4Q14):
  - **5.0%** at KBC Bank consolidated level
  - **5.9%** at KBC Group level

# 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

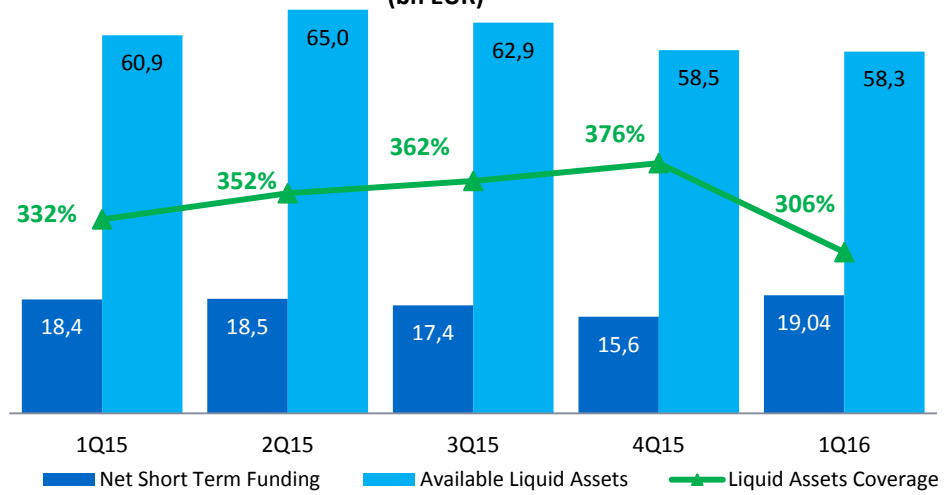



**74% customer driven**



# Solid liquidity position (2/2)

**Short term unsecured funding KBC Bank vs Liquid assets as of end March 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

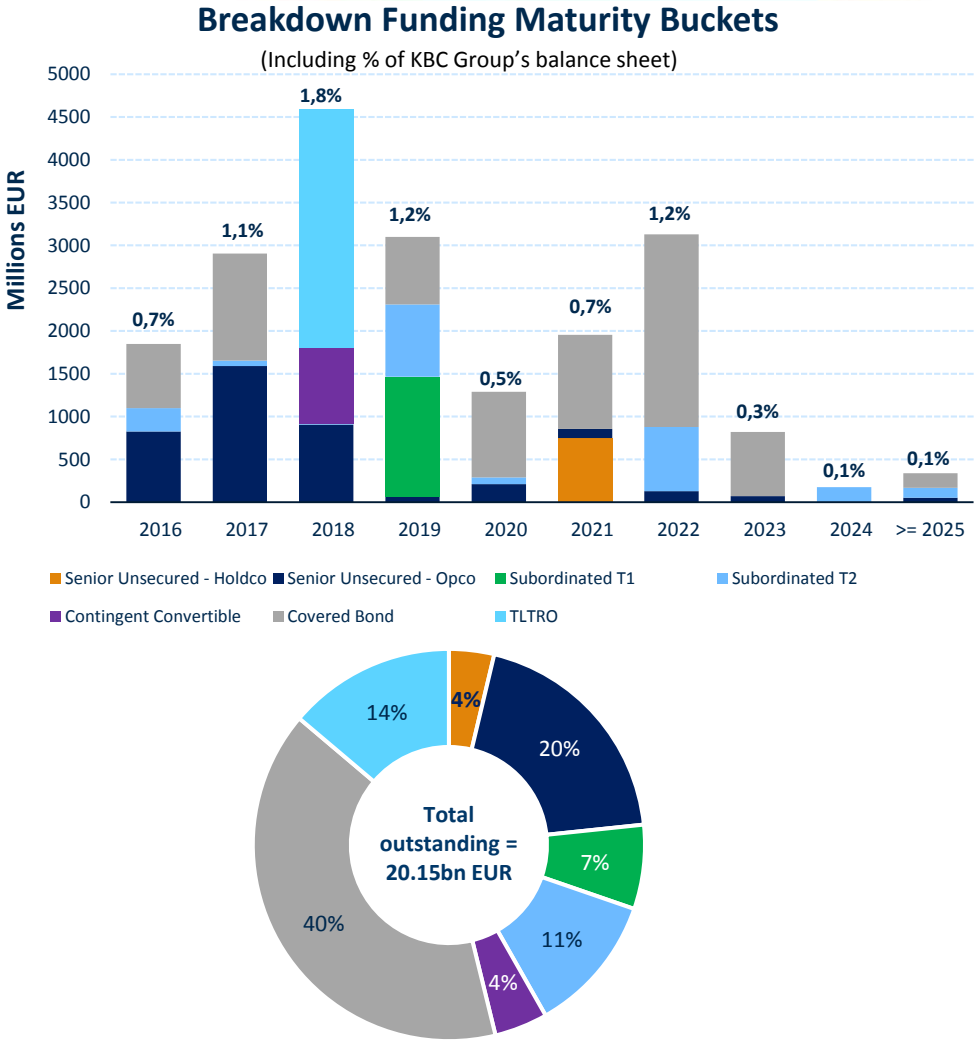
- KBC maintains a solid **liquidity position,** given that:
  - Available liquid assets are more than 3 times the amount of the net recourse on short-term wholesale funding
  - Funding from non-wholesale markets is stable funding from core-customer segments in core markets

| Ratios* | FY15 | 1Q16 | Target |
|---|---|---|---|
| **NSFR** | 121% | 121% | >105% |
| **LCR** | 127% | 130% | >105% |

* 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

- **NSFR is at 121% and LCR is at 130% by the end of 1Q16**
  - 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

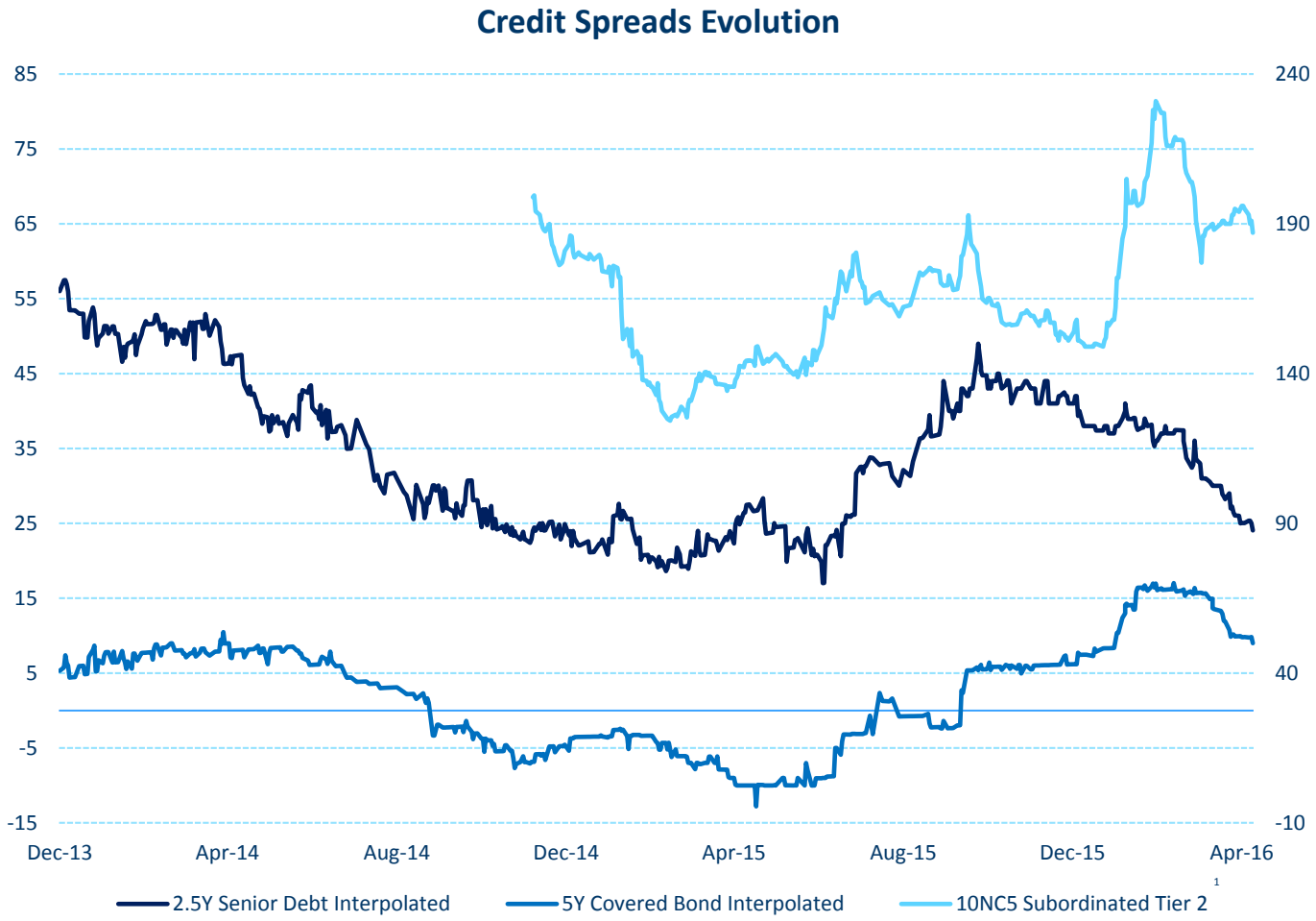



- KBC Bank has successfully issued a 1.250 bn EUR covered bond with 6.5-year maturity in March 2016. KBC Group has also successfully issued an inaugural 750 mln EUR senior unsecured bond with 5-year maturity in April 2016

- KBC's credit spreads have narrowed during 1Q16

- 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 HAS ISSUED 8 SUCCESSFUL BENCHMARK COVERED BONDS AND PRIVATE PLACEMENTS FOR AN AMOUNT OF 8.06BN 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

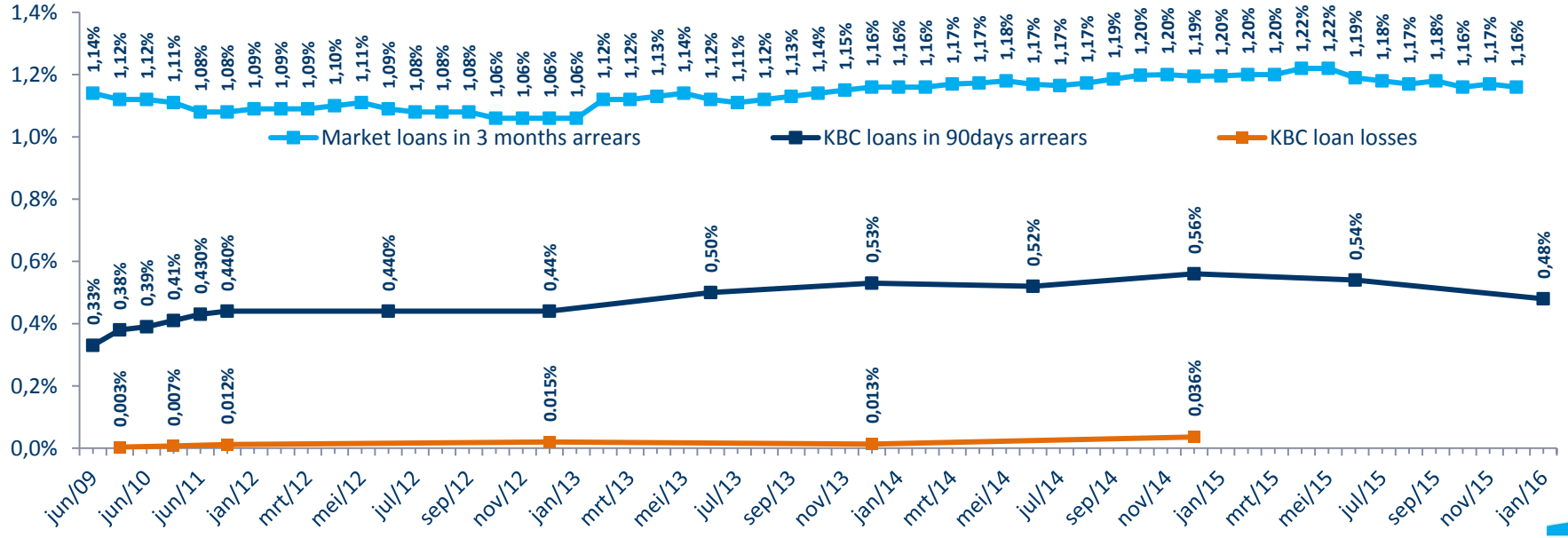
- **KBC'S COVERED BONDS ARE BACKED BY STRONG LEGISLATION AND SUPERIOR COLLATERAL**
  - Cover pool: Belgian residential mortgage loans
  - Strong Belgian legislation – inspired by German Pfandbriefen law
  - Direct covered bond issuance from a bank's balance sheet
  - Dual recourse, including recourse 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 (63.9%) and high seasoning (43 months)

- **KBC HAS A DISCIPLINED ORIGINATION POLICY**
  - 2007 to 2015 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



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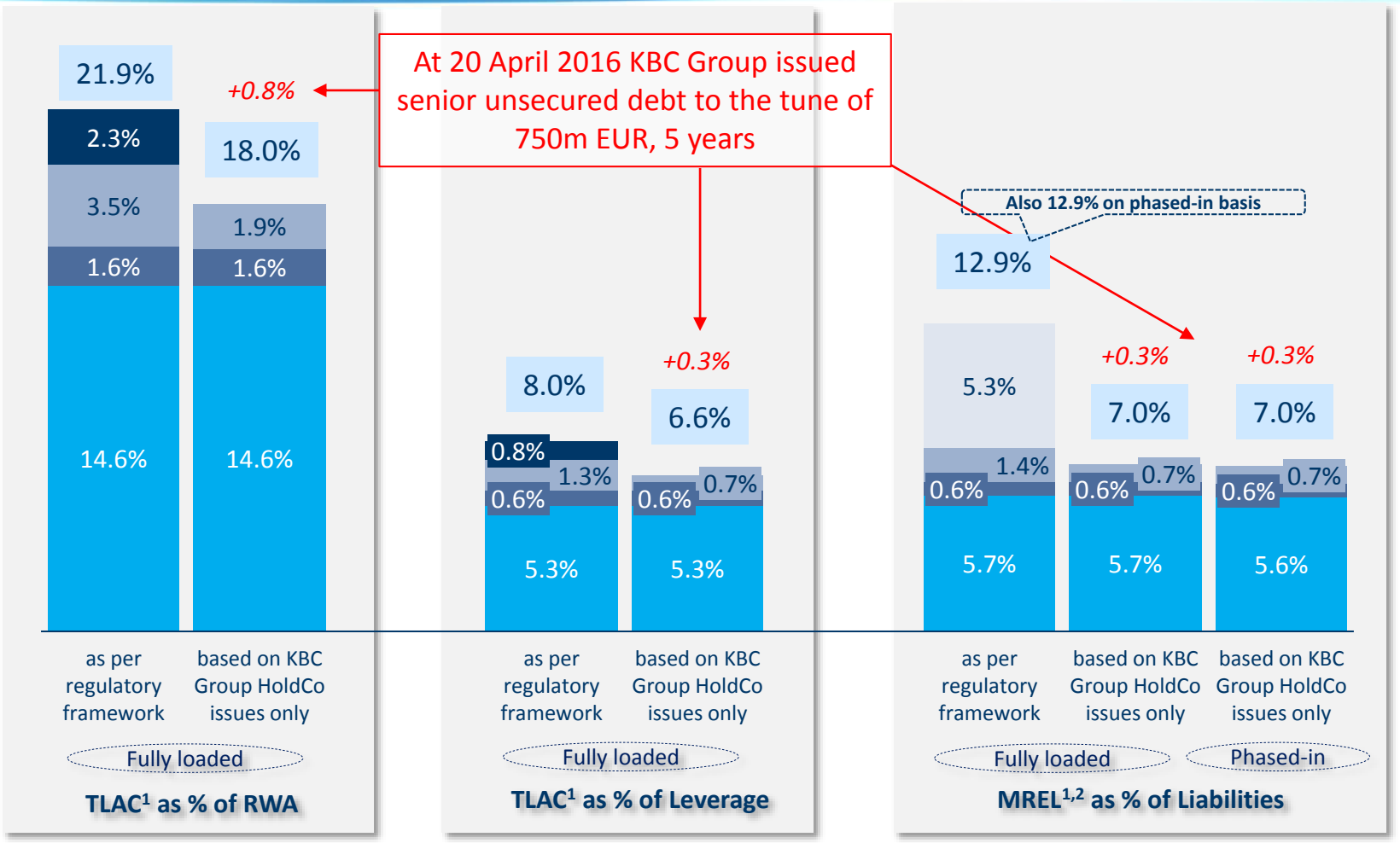
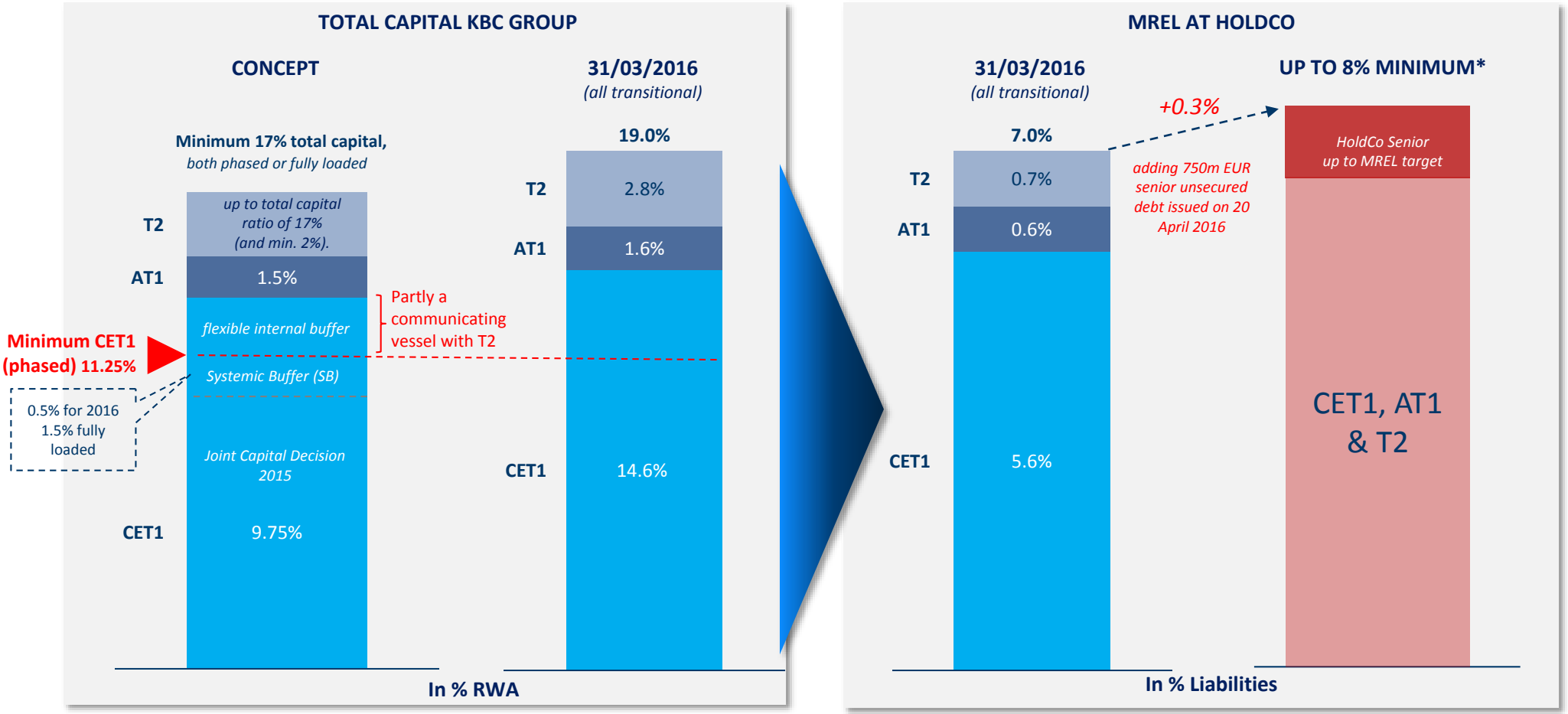
# KBC Group: Already comfortable bail-in buffer (31/03/2016)




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

# KBC Group: Moving towards MREL via HoldCo issues*



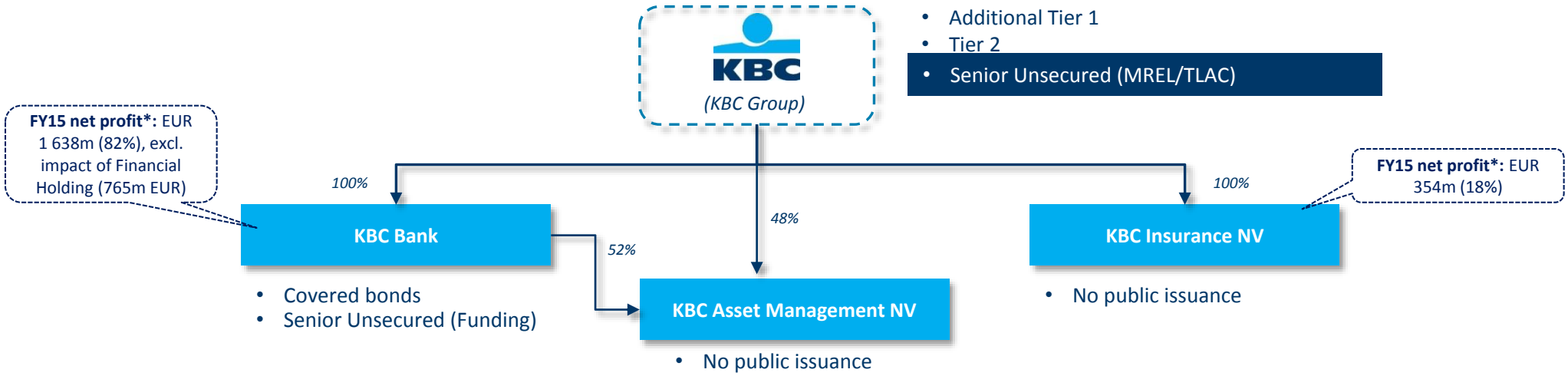

KBC Bank has a limited reliance on wholesale funding and has a number of transactions through KBC IFIMA (fully guaranteed subsidiary of KBC Bank) outstanding. Going forward, KBC will issue public senior unsecured from KBC Group to fulfil MREL needs and use KBC IFIMA issues to supplement remaining wholesale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

On 20 April 2016, KBC issued its first senior unsecured HoldCo issue and for an amount of 750 million euros 5 year maturity.



* Resolution strategy and the individual institution MREL requirements are subject to the decision of the Single Resolution Board.

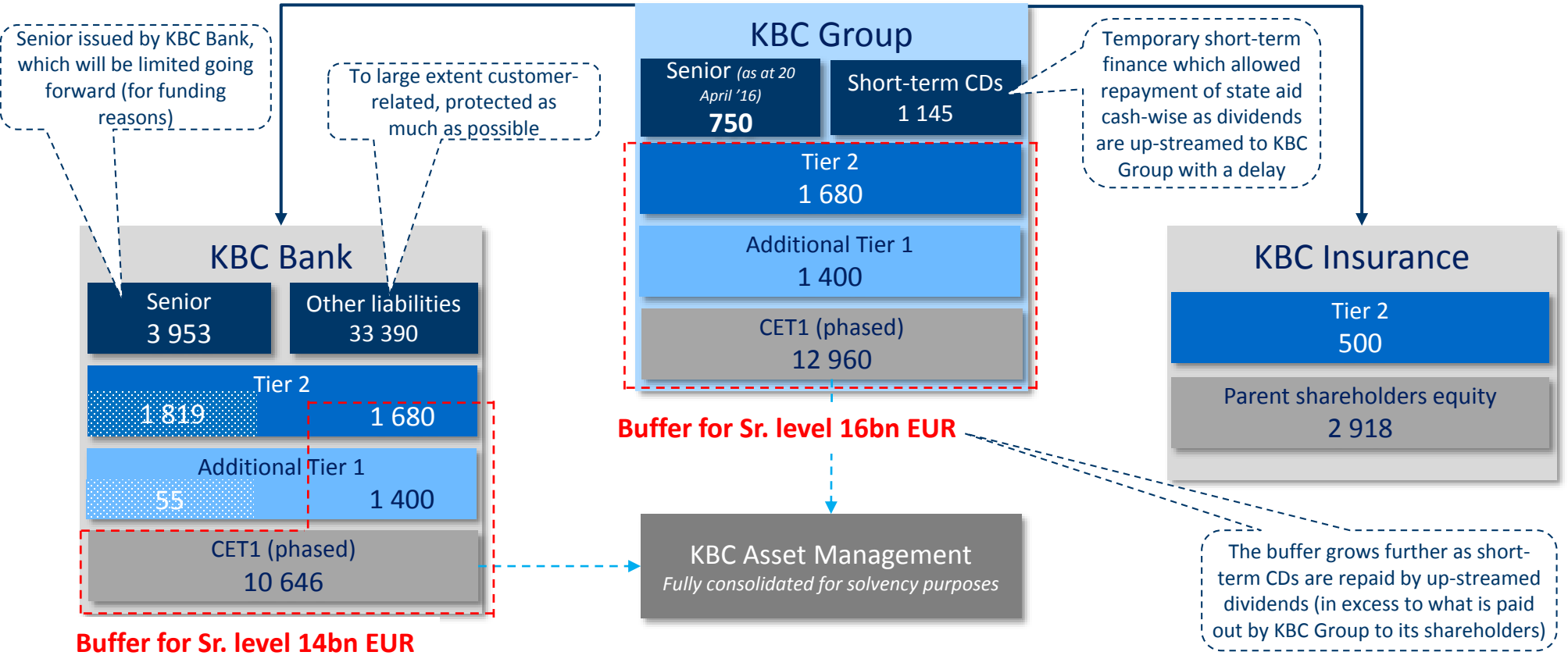
# KBC has a diversified holding structure which helps mitigate risks




- 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** = 7.0% (13.0+1.4+1.7)/229 831)
- **MREL KBC GROUP INSTRUMENTS + BANK INSTRUMENTS** = 12.9% BASED ON PHASED CET1 ( ALSO 12.9% ON FULLY LOADED BASIS)

*31/12/2015 – nominal amounts in million EUR*

# 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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# 1Q 2016 wrap up

- ✓ 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 Business Units
- ✓ Turnaround achieved in the International Markets Business Unit
- ✓ As per guidance already issued, profitability in Ireland expected to continue for the FY16…
- ✓ …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) ≥ 50% as of FY2016*

* Subject to the approval of the general meeting of shareholders

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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

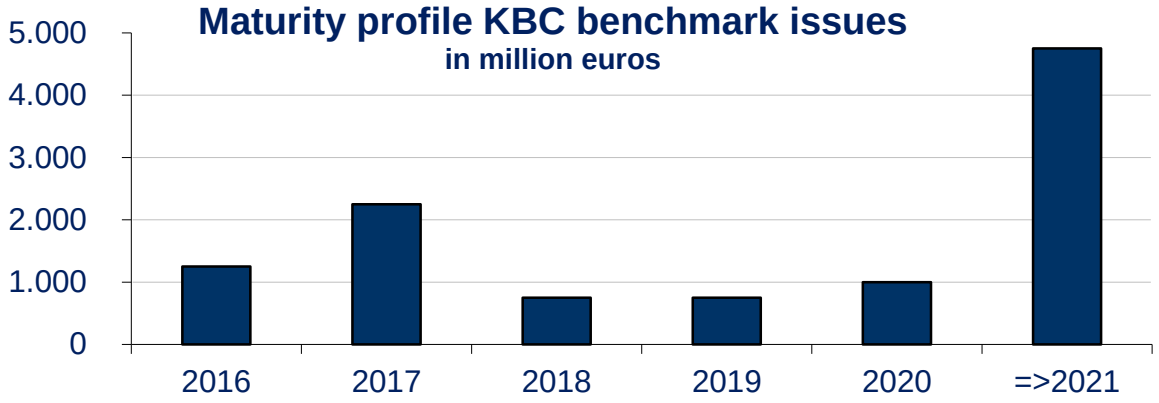
- KBC 6.5Y Fixed – Covered – BE0002498732
  - Notional: 1.25bn EUR
  - Issue Date: 01 March 2016 – Maturity: 01 September 2022
  - Coupon: 0.375% A, Act/Act
  - Re-offer spread: Mid Swap +19 bp (issue price 99.770%)
  - Joint lead managers: KBC, Commerzbank, Credit Agricole, LBBW and Credit Suisse

- 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

# Outstanding benchmarks

| Tranche Report | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuer | Curr | Amount issued | Coupon | Settlement Date | Maturity Date | ISIN | YEAR |
| | | | 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 | 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 |
| KBC Group | EUR | 750 000 000 | 1.000 | 26/04/2016 | 26/04/2021 | BE6286238561 | 2021 |
| | | | 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 | 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 |
| KBC Bank N.V. | EUR | 1 250 000 000 | 0.375 | 1/03/2016 | 01/09/2022 | BE0002498732 | 2022 |

*Total: EUR 10.75bn*



# 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<br>Tendered | GBP 525 000 000<br>GBP 480 500 000 | USD 1 000 000 000 | EUR 1 400 000 000 | EUR 750 000 000 | EUR 750 000 000 |
| 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 "concursus creditorum" | CT1/CET1 < 7% at KBC Group level<br>Full and permanent write-down | Trigger CET1 RATIO < 5.125% Temporary write-down | Regulatory+Tax Call | Regulatory+Tax Call |

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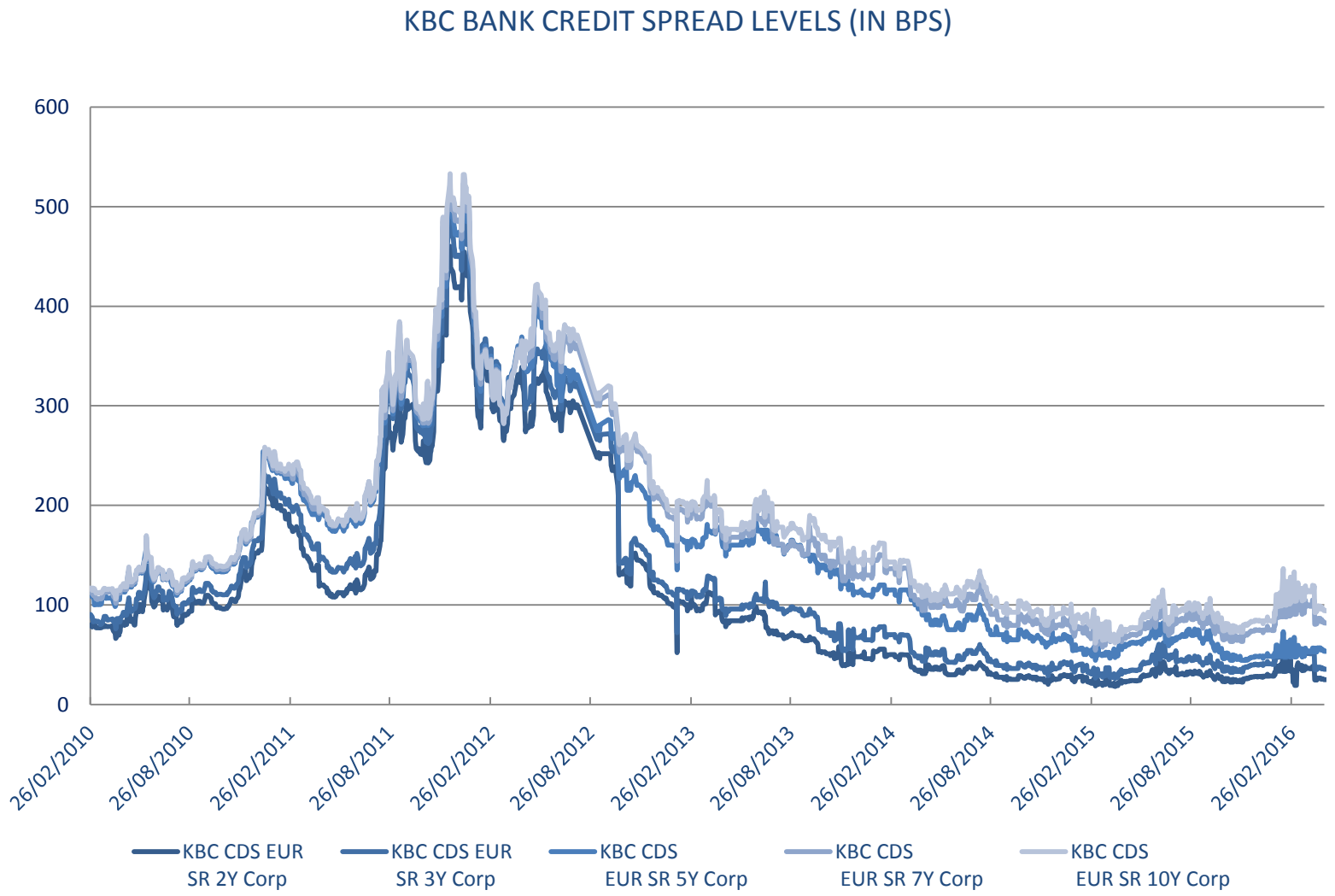
# KBC Bank CDS levels



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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 – 2007 to 2015 average 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**

- **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

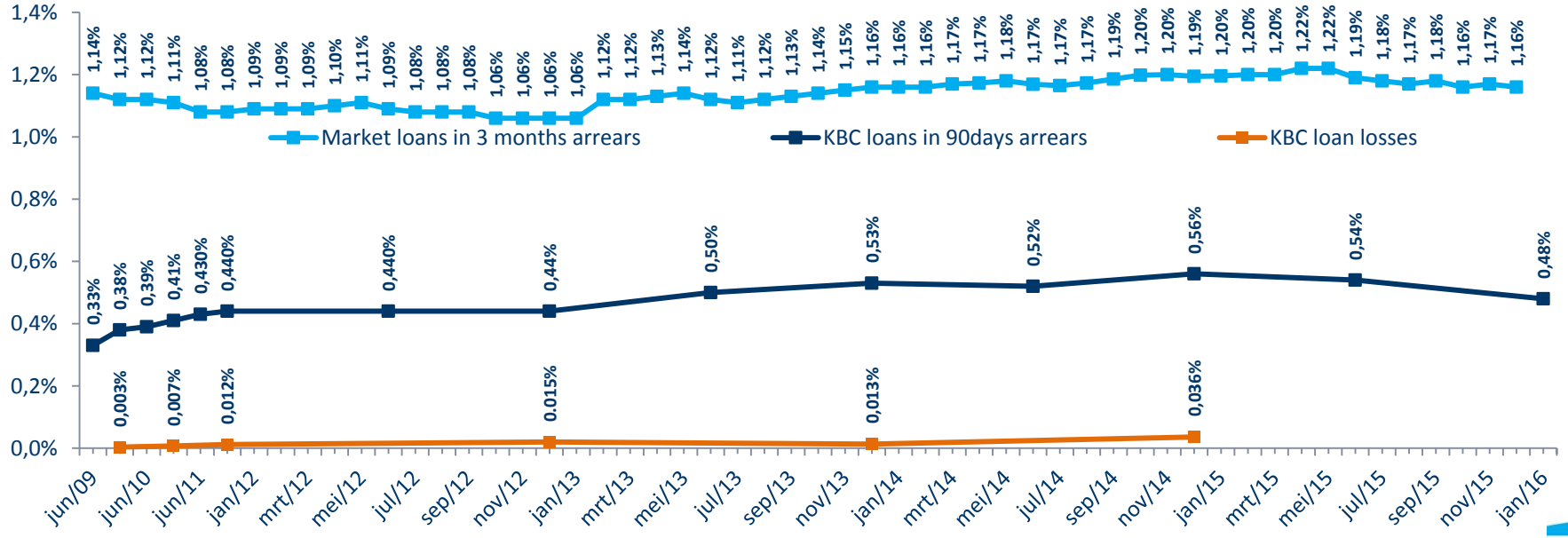
# KBC's disciplined origination leads to low arrears and extremely low loan losses

BELGIUM SHOWS A SOLID PERFORMANCE OF MORTGAGES…

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

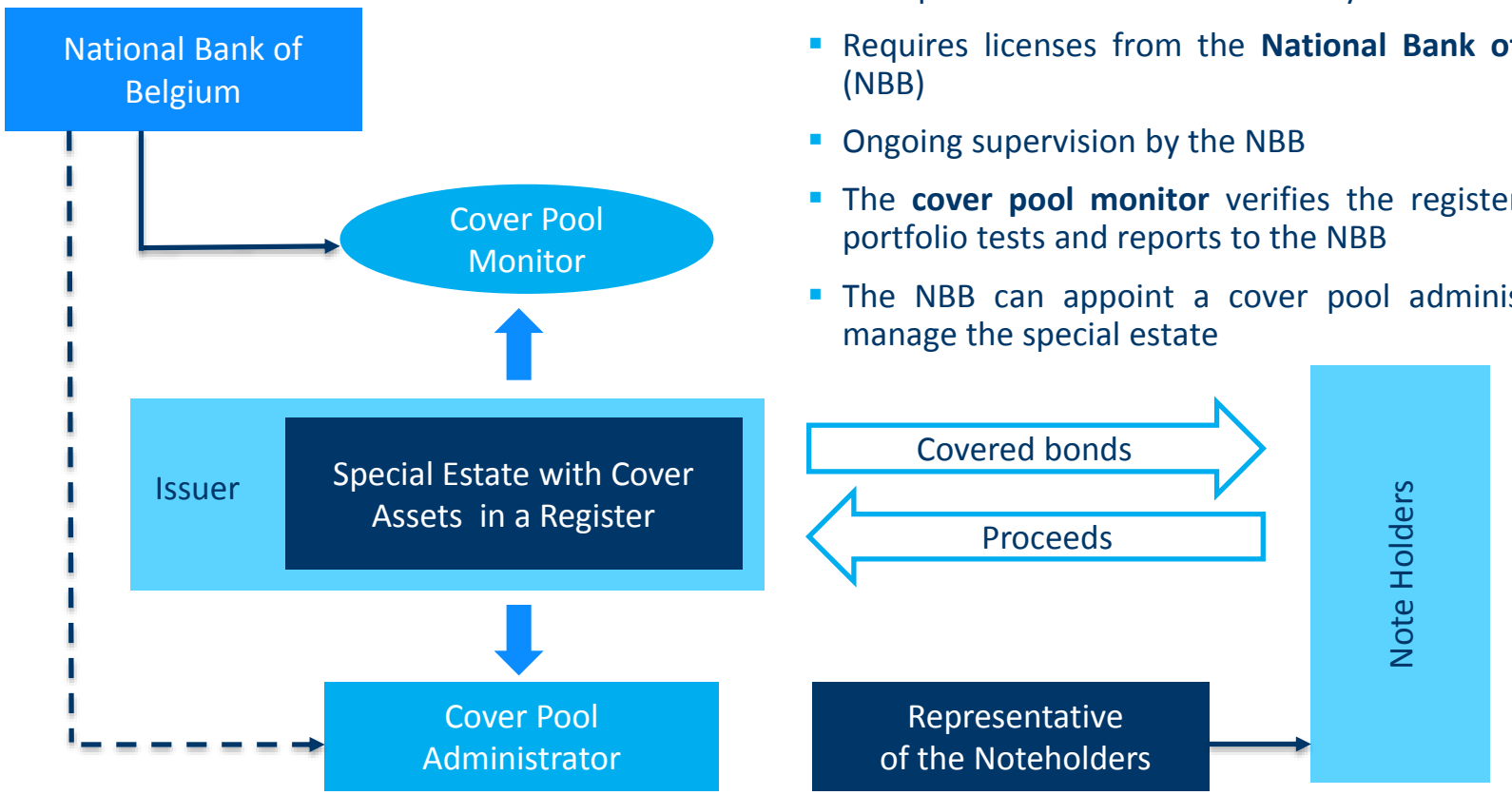
- Cultural aspects, stigma associated with arrears, importance attached to owning one's property
- High home ownership also implies that the change in house prices itself has limited impact on loan performance
- Well established credit bureau and surrounding legislation
- Housing market environment (no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

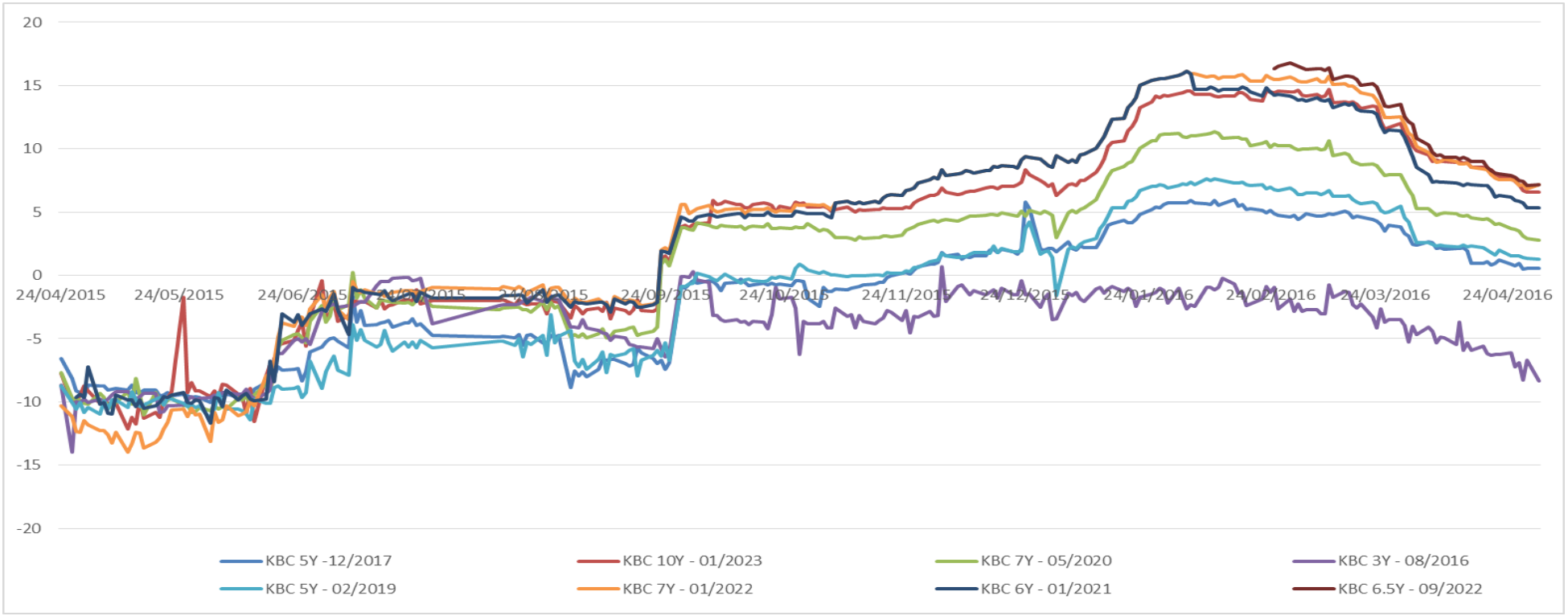
| | |
|---|---|
| **Issuer:** | • KBC Bank NV |
| **Main asset category:** | • min 105% of covered bond outstanding is covered by residential mortgage loans and collections thereon |
| **Programme size:** | • Up to 10bn EUR (only) |
| **Interest rate:** | • Fixed rate, floating rate or zero coupon |
| **Maturity:** | • 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<br>• Extension period is 12 months for all series |
| **Events of default:** | • Failure to pay any amount of principal on the extended final maturity date<br>• A default in the payment of an amount of interest on any interest payment date |
| **Rating agencies:** | • Moody's Aaa / Fitch AAA |

| | **Moody's** | **Fitch** |
|---|---|---|
| **Over-collateralisation** | **15%** | **25%** |
| | **TPI Cap Probable** | **D-cap 4 (moderate risk)** |

# 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)




Source Bloomberg Mid ASW levels

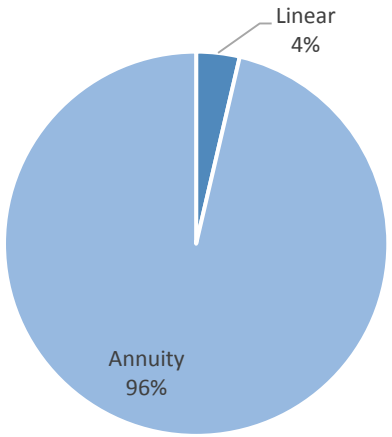
# Key cover pool characteristics (1/3)

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

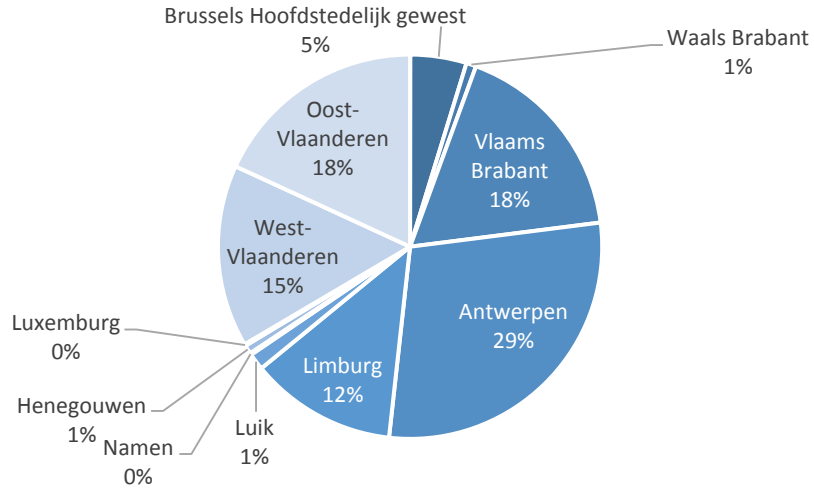
| Portfolio data as of : | 31 March 2016 |
|---|---|
| Total Outstanding Principal Balance | 11 950 582 078 |
| Total value of the assets for the over-collateralisation test | 10 980 171 011 |
| No. of Loans | 143 093 |
| Average Current Loan Balance per Borrower | 117 058 |
| Maximum Loan Balance | 1 000 000 |
| Minimum Loan Balance | 1 000 |
| Number of Borrowers | 101 707 |
| Longest Maturity | 359 month |
| Shortest Maturity | 1 month |
| Weighted Average Seasoning | 43 months |
| Weighted Average Remaining Maturity | 194 months |
| Weighted Average Current Interest Rate | 2.55% |
| Weighted Average Current LTV | 63.9% |
| No. of Loans in Arrears (+30days) | 279 |
| Direct Debit Paying | 97.8% |

# Key cover pool characteristics (2/3)

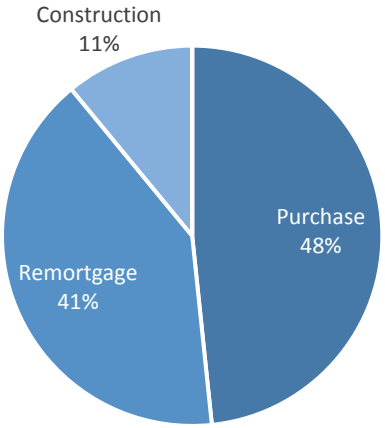
## REPAYMENT TYPE (LINEAR VS. ANNUITY)



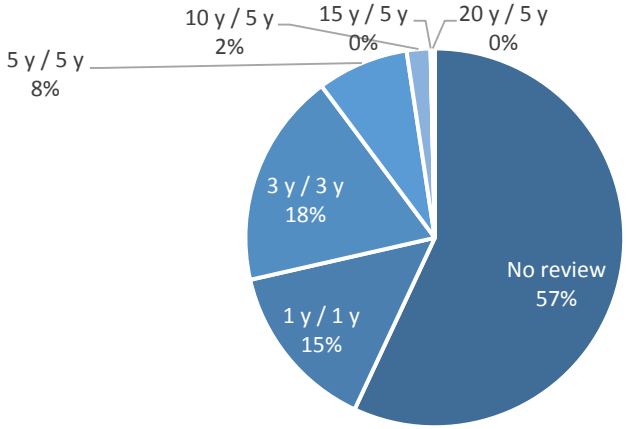

## GEOGRAPHICAL ALLOCATION




## LOAN PURPOSE

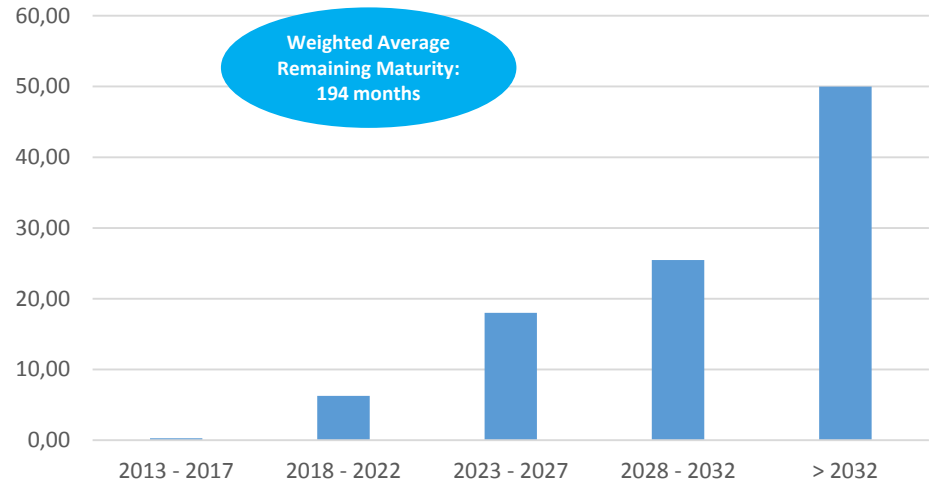



## INTEREST RATE TYPE (FIXED PERIODS)

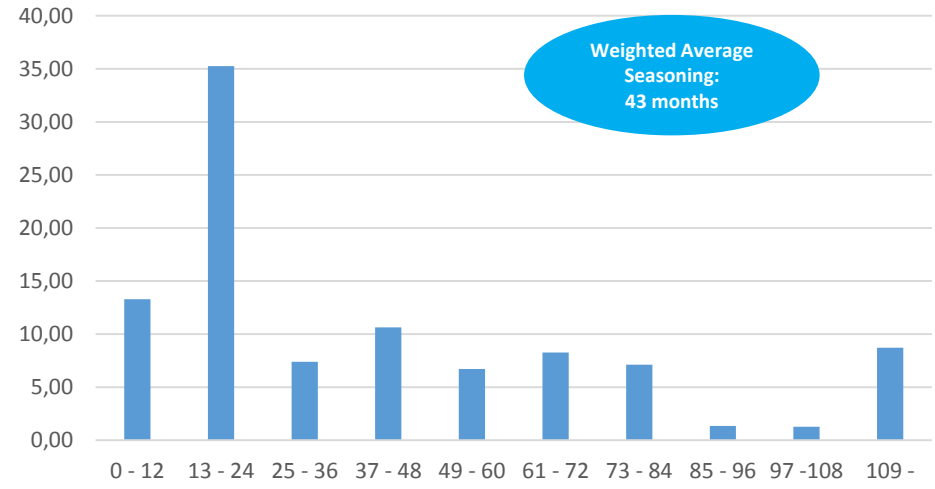


# Key cover pool characteristics (3/3)

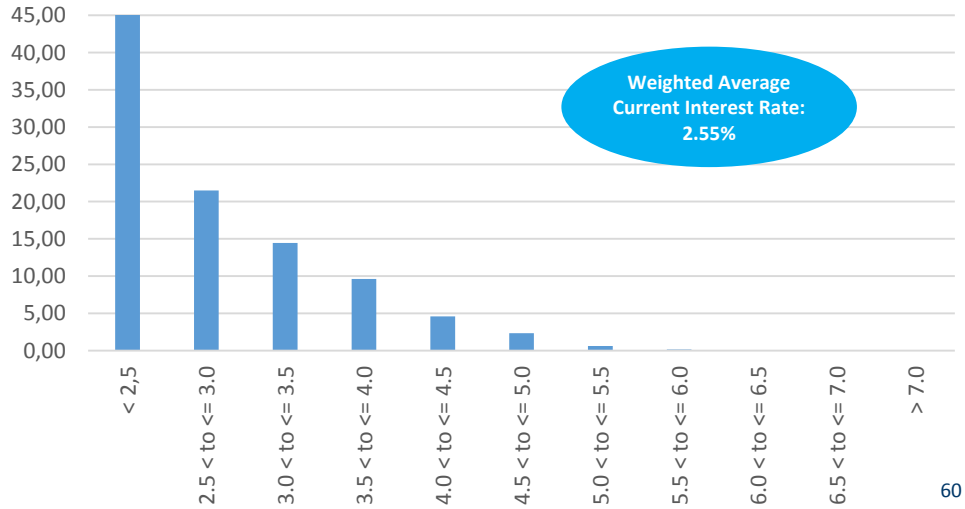
## FINAL MATURITY DATE



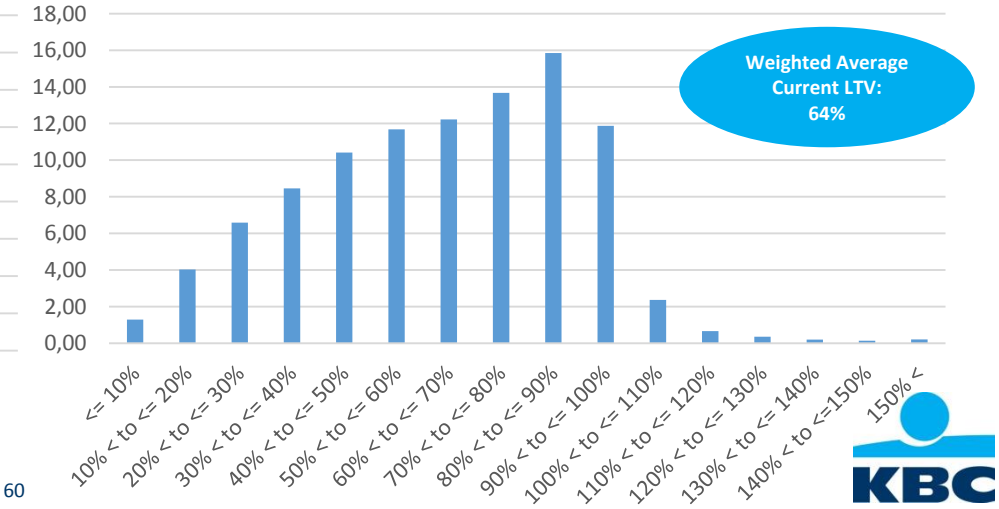

## SEASONING




## INTEREST RATE




## CURRENT LTV



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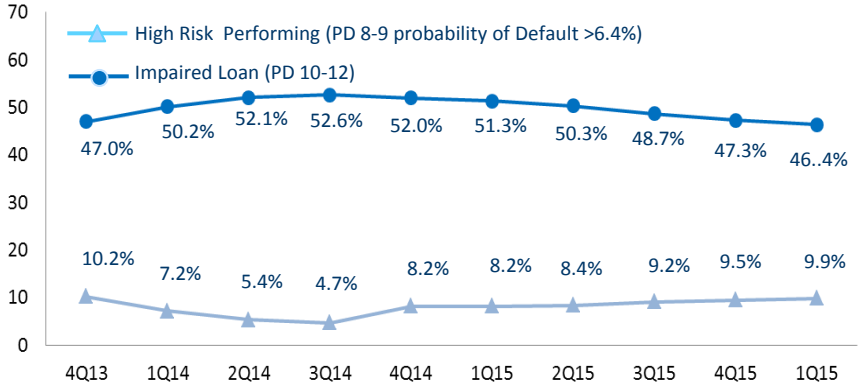
# Ireland (1/2): profitable in 2016

| LOAN PORTFOLIO € | OUT-STANDING € | IMPAIRED LOANS € | IMPAIRED LOANS PD 10-12 | SPECIFIC PROVISIONS € | IMPAIRED LOANS PD 10-12 COVERAGE |
|---|---|---|---|---|---|
| Owner occupied mortgages | 9.1bn | 3.0bn | 33.5% | 1.0bn | 33% |
| Buy to let mortgages | 2.5bn | 1.7bn | 68.4% | 0.7bn | 40% |
| SME /corporate | 1.1bn | 0.7bn | 61.0% | 0.4bn | 60% |
| Real estate<br>- Investment<br>- Development | <br>0.8bn<br>0.3bn | <br>0.6bn<br>0.3bn | <br>65.2%<br>72.5% | <br>0.3bn<br>0.2bn | <br>55%<br>91% |
| **Total** | **13.7bn** | **6.4bn** | **46.4%** | **2.7bn** | **42%** |

**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 is expected to remain strong in 2016, with GDP growth of about 5%
- Domestic spending is expected to improve further, supporting solid jobs growth and driving a reduction in unemployment rate towards 8% by end 2016
- The housing market recovery is continuing, but a supply shortfall in key segments and macro-prudential regulations are restraining the pace of increase in transaction levels and property prices
- Customer Deposits (Retail & Corporate) net inflows of 0.3bn EUR in 1Q16, resulting in a deposit portfolio of 5.4bn EUR (compared with 5.1bn EUR in 4Q15). Growth of customer deposits amounted to 22% y-o-y
- Loan loss provision release of 3m EUR in 1Q16 compared with 16m EUR charge in 4Q15 (release due to improving economic conditions). Coverage ratio increased from 41% in 4Q15 to 42% in 1Q16
- 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

**1Q16 Retail Portfolio**

| | PD | Exposure | Impairment | Cover % |
|---|---|---|---|---|
| Performing | PD 1-8 | 5,927 | 26 | 0.4% |
| | Of which non Forborne | 5,868 | | |
| | Of which Forborne | 59 | | |
| | PD 9 | 901 | 46 | 5.1% |
| | Of which non Forborne | 219 | | |
| | Of which Forborne | 682 | | |
| Impaired | PD 10 | 2,678 | 640 | 23.9% |
| | PD 11 | 1,313 | 476 | 36.3% |
| | PD 12 | 752 | 564 | 75.0% |
| | **TOTAL PD1-12** | **11,571** | **1,752** | |
| | *Specific Impairment/(PD 10-12)* | | | *35.4%* |

'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.

**1Q16 Corporate Loan Portfolio**

| | PD | Exposure | Impairment | Cover % |
|---|---|---|---|---|
| Perf. | PD 1-8 | 492 | 4 | 0.9% |
| | PD 9 | 43 | 5 | 11.0% |
| Impaired | PD 10 | 556 | 206 | 37.1% |
| | PD 11 | 305 | 188 | 61.6% |
| | PD 12 | 747 | 618 | 82.7% |
| | **TOTAL PD1-12** | **2,143** | **1,021** | |
| | *Specific Impairment/(PD 10-12)* | | | *62.9%* |

## 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 0.8bn EUR y-o-y)
- Coverage ratio for impaired loans increased to 35.4% in 1Q16 (from 34.4% in 4Q15)
- Overall exposure has decreased due to a reduction of the impaired book and loan amortisations, partly offset by new mortgage production

## Corporate loan portfolio

- Impaired portfolio has reduced by roughly 60m EUR q-o-q. Reduction driven mainly by continued deleverage of the portfolio (reduction of 0.2bn EUR y-o-y)
- Coverage ratio for impaired loans has increased to 62.9% in 1Q16 (from 61.8% in 4Q15)
- Overall exposure has dropped by 0.4bn EUR y-o-y

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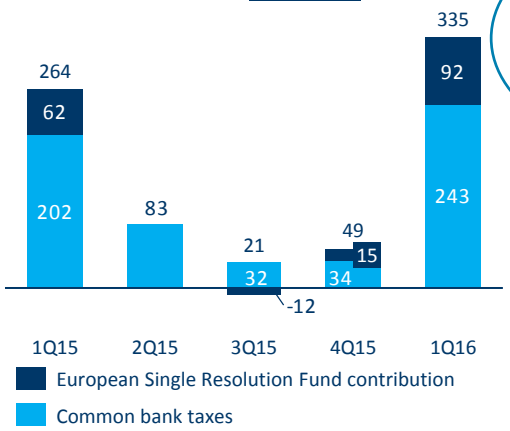
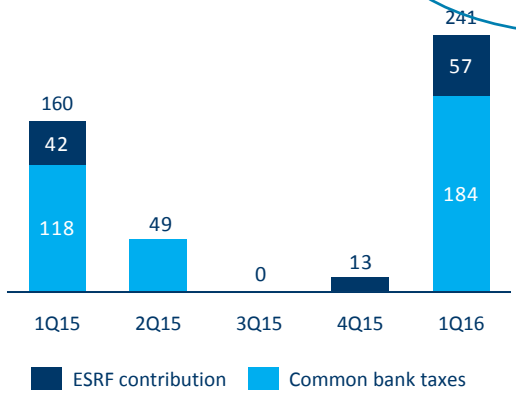
# Overview of bank taxes[1]

## KBC GROUP



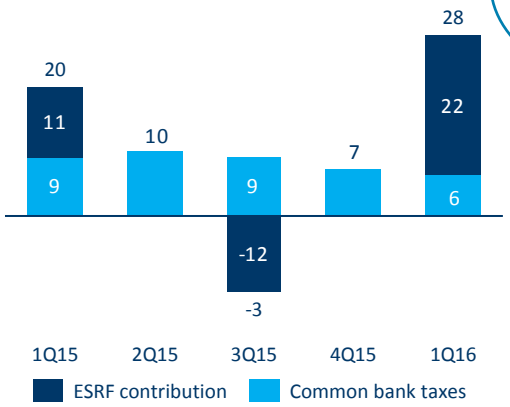

**Bank taxes of 335m EUR in 1Q16. On a pro rata basis, bank taxes represented 8.7% of 1Q16 opex at KBC Group[2]**

## BELGIUM BU



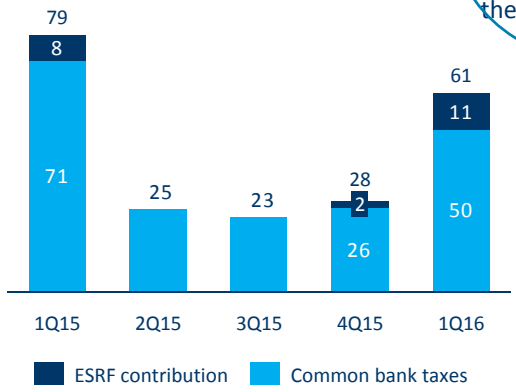

Bank taxes of 241m EUR in 1Q16. On a pro rata basis, bank taxes represented 7.8% of 1Q16 opex at the Belgium BU

## CZECH REPUBLIC BU




Bank taxes of 28m EUR in 1Q16. On a pro rata basis, bank taxes represented 4.1% of 1Q16 opex at the CR BU

## INTERNATIONAL MARKETS BU




Bank taxes of 61m EUR in 1Q16. On a pro rata basis, bank taxes represented 16.6% of 1Q16 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 1Q16 amounts to roughly 50% excluding these bank taxes

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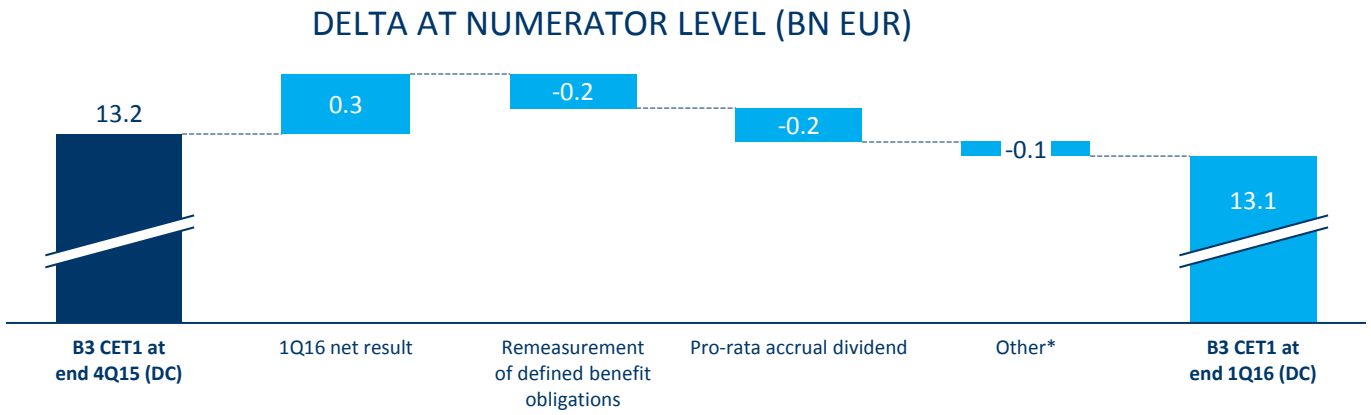
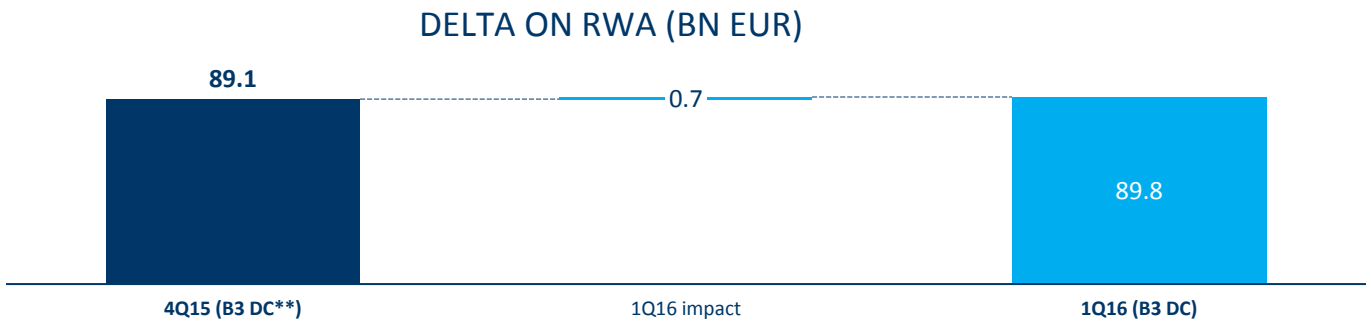
# Fully loaded B3 CET1 based on the Danish Compromise (DC) from 4Q15 to 1Q16




- Fully loaded B3 common equity ratio of approx. 14.6% at end 1Q16 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 AFS revaluation reserves, DTAs on losses carried forward, IRB provision shortfall, deduction re. financing provided to shareholders, translation differences, etc.

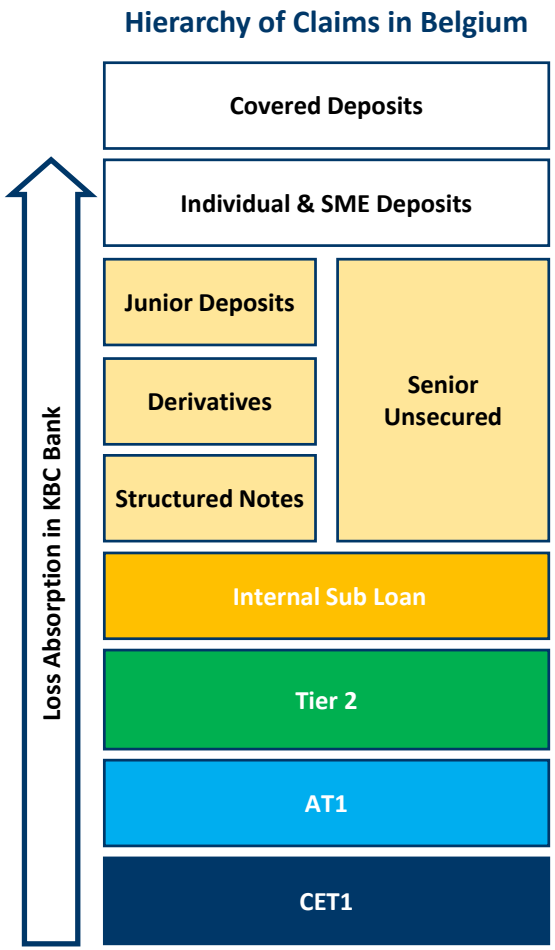
** Includes the RWA equivalent for KBC Insurance based on DC, calculated as the book value of KBC Insurance multiplied by 370%

# Overview of B3 CET1 ratios at KBC Group

| Method | Numerator | Denominator | B3 CET1 ratio |
|---|---|---|---|
| FICOD[1], phased-in | 13 619 | 100 790 | 13.5% |
| FICOD, fully loaded | 13 773 | 101 692 | 13.5% |
| DC[2], phased-in | 12 960 | 88 849 | 14.6% |
| DC, fully loaded | 13 114 | 89 750 | 14.6% |
| DM[3], fully loaded | 11 957 | 83 895 | 14.3% |

1. FICOD: Financial Conglomerate Directive
2. DC: Danish Compromise
3. DM: Deduction Method

# Implementation of the BRRD in Belgium



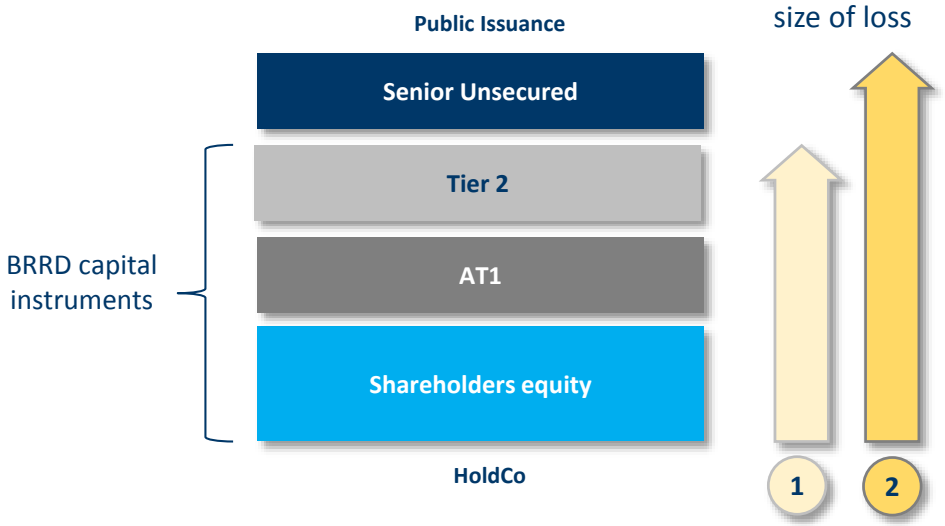

1. The BRRD has been transposed to a large extent by the Act of 25 April 2014 on the legal status and supervision of credit institutions ("The Banking Act") which applies since May-2015, with the exception of some major provisions, such as the bail-in tool. Some provisions will be further implemented 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?

**KBC is in control** | **Resolution Authority is in control**

| | Business as usual | Recovery plan | Resolution plan |
|---|---|---|---|
| **Capital instruments** | | | |
| **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<br>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) |

# 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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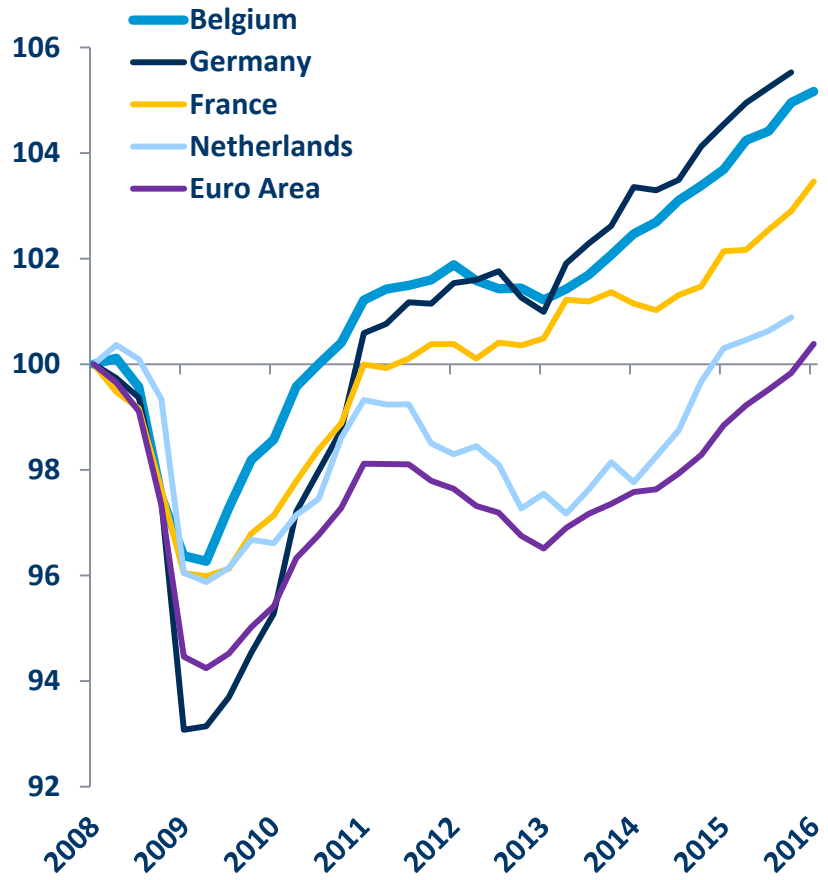
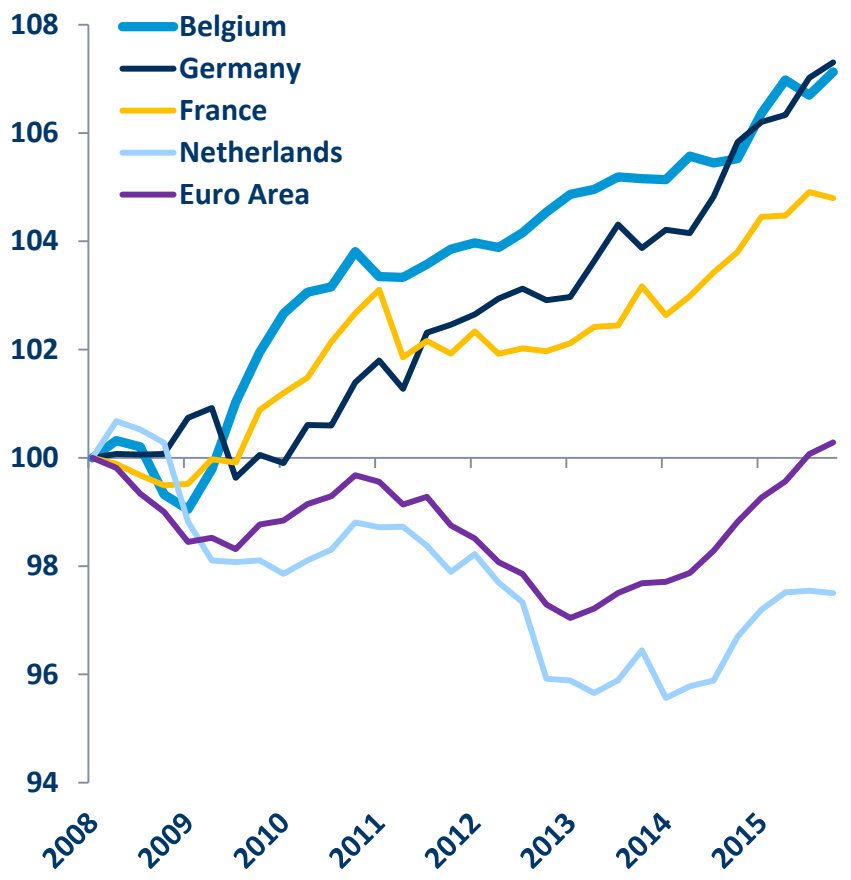
# Belgian economic growth

## Moderate but steady GDP growth – with strong consumption

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




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

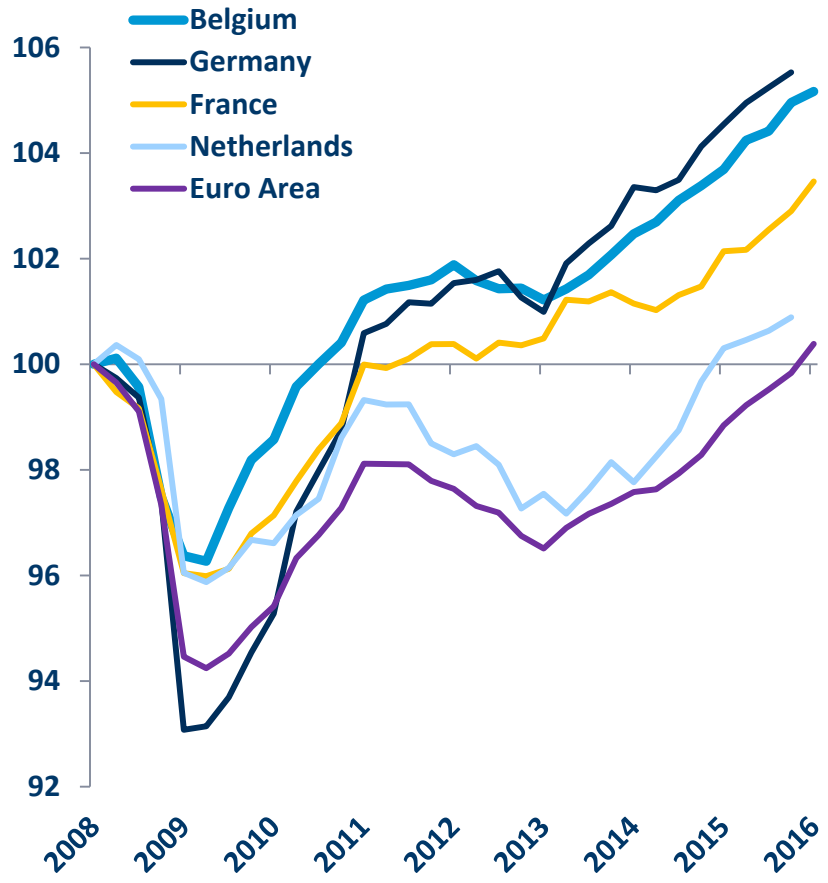



Source: Eurostat; NBB

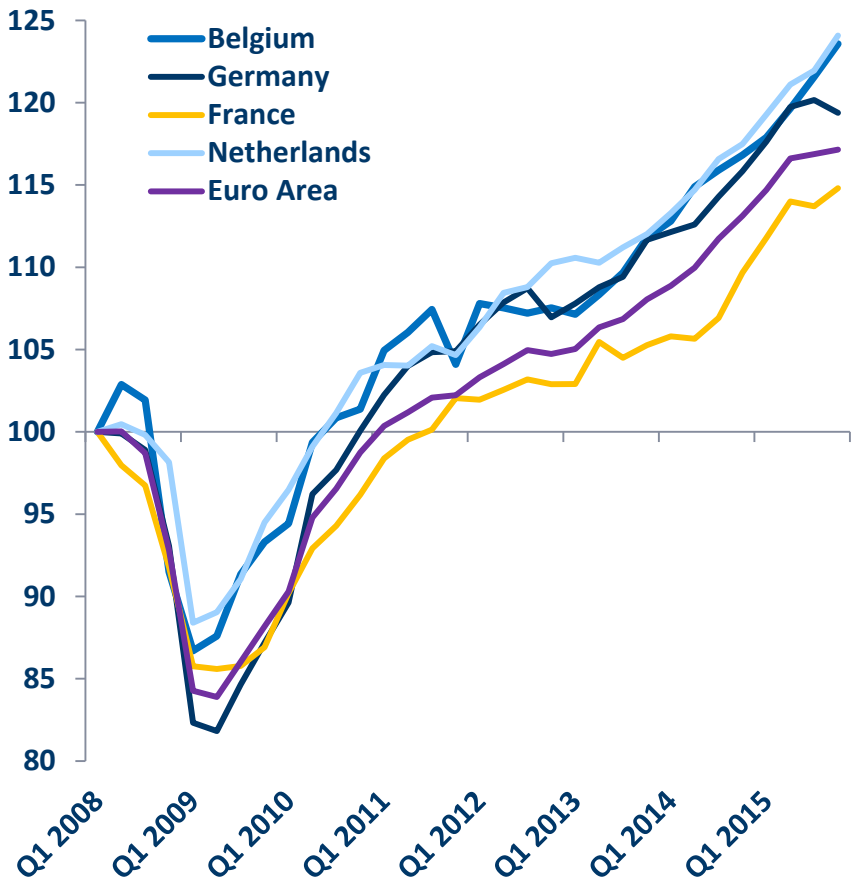
# Belgian economic growth

## Moderate but steady GDP growth – with rising exports

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




**Exports**
(Q1 2008 = 100)




Source: Eurostat; NBB

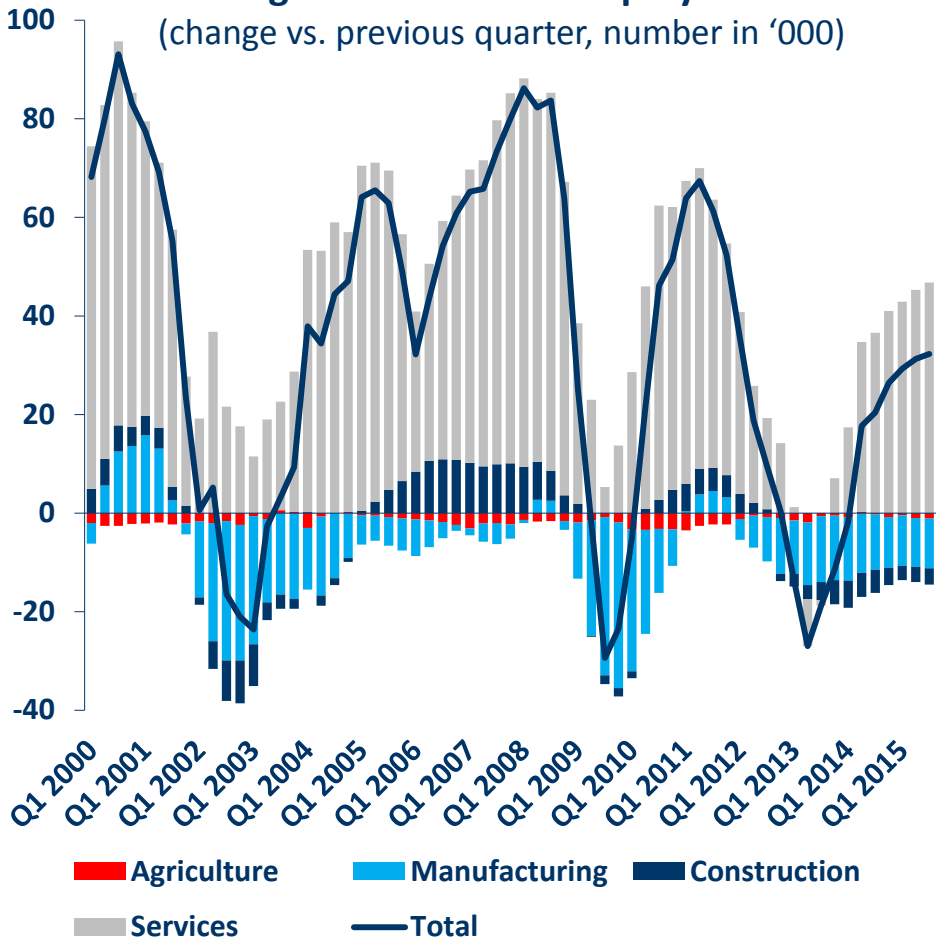
# Belgian labour market

## Wage moderation and tax shift fuelling further job creation

**Most recent unemployment figure on Belgium stands at 8.5% (vs. Eurozone at 10.2%)** (Eurostat, harmonised)

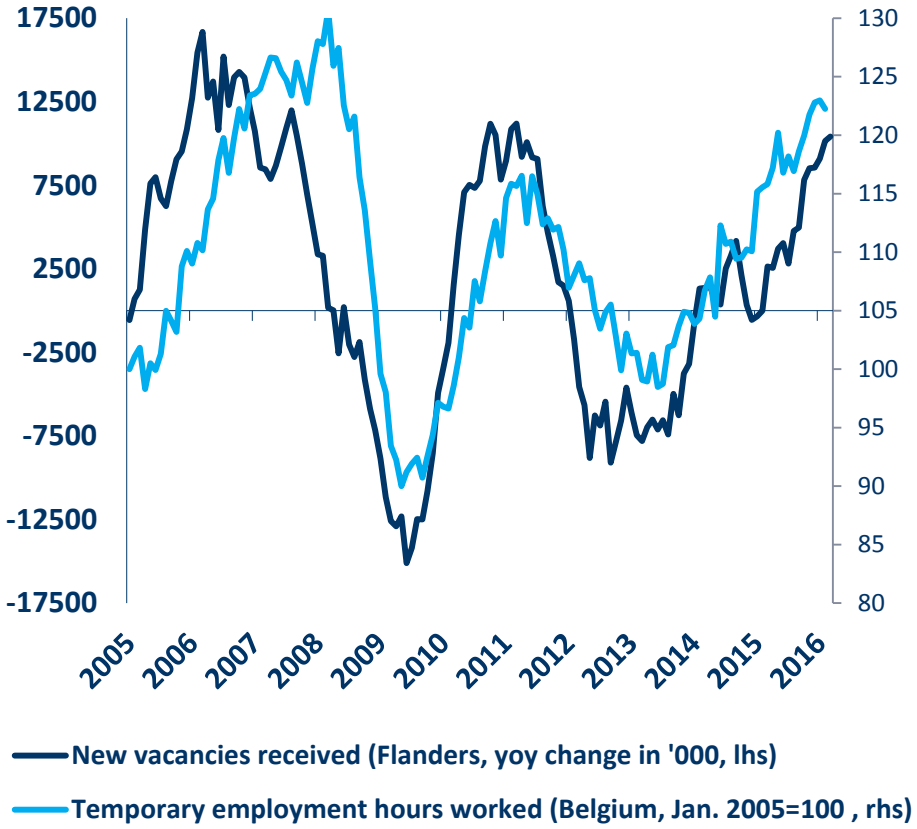
### Belgium - Domestic employment

(change vs. previous quarter, number in '000)




Source: NBB; RVA; Federgon

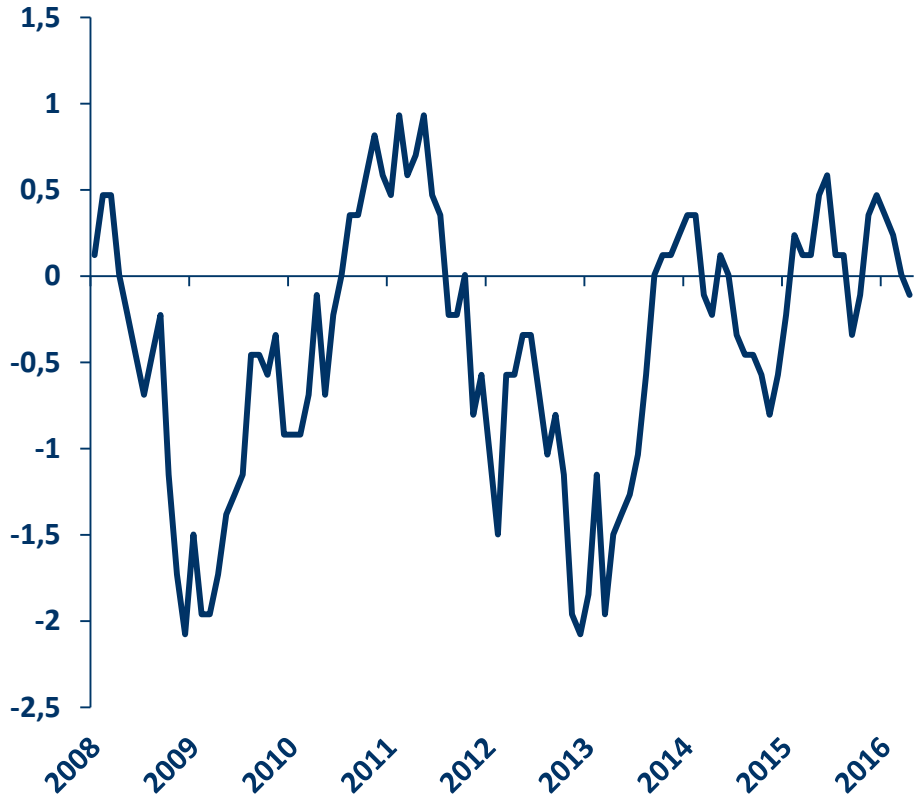
### Continuing positive trend in vacancies and temporary employment



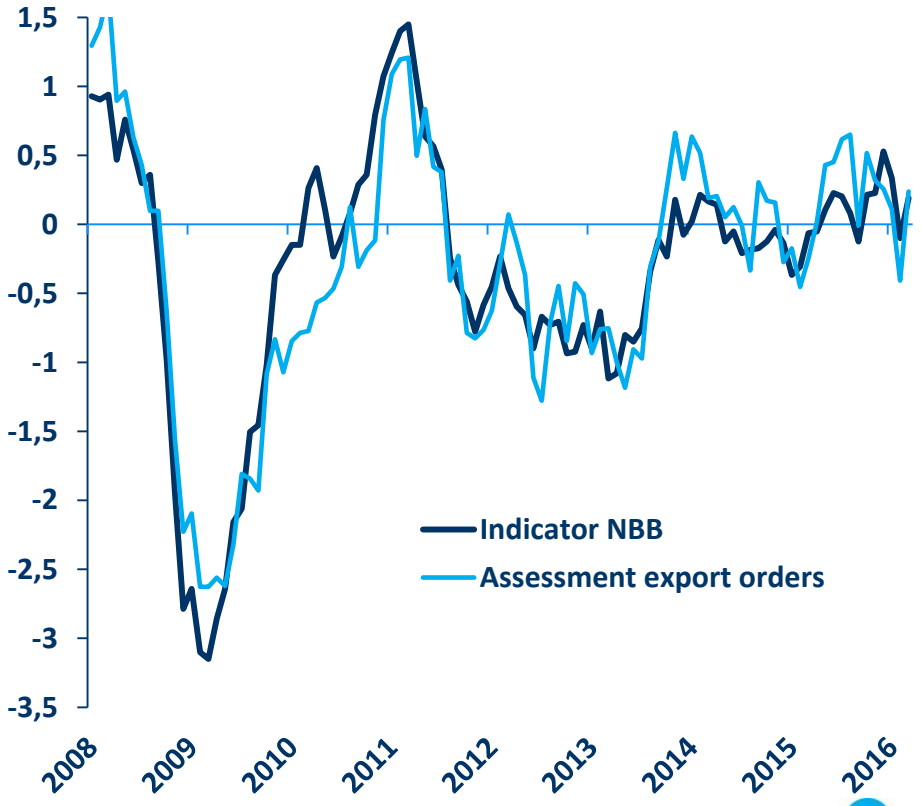
# Confidence indicators

## Recent sentiment indicators indicate the recovery remains fragile

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




**Belgium - Producer confidence**
(standard deviation from long term average)

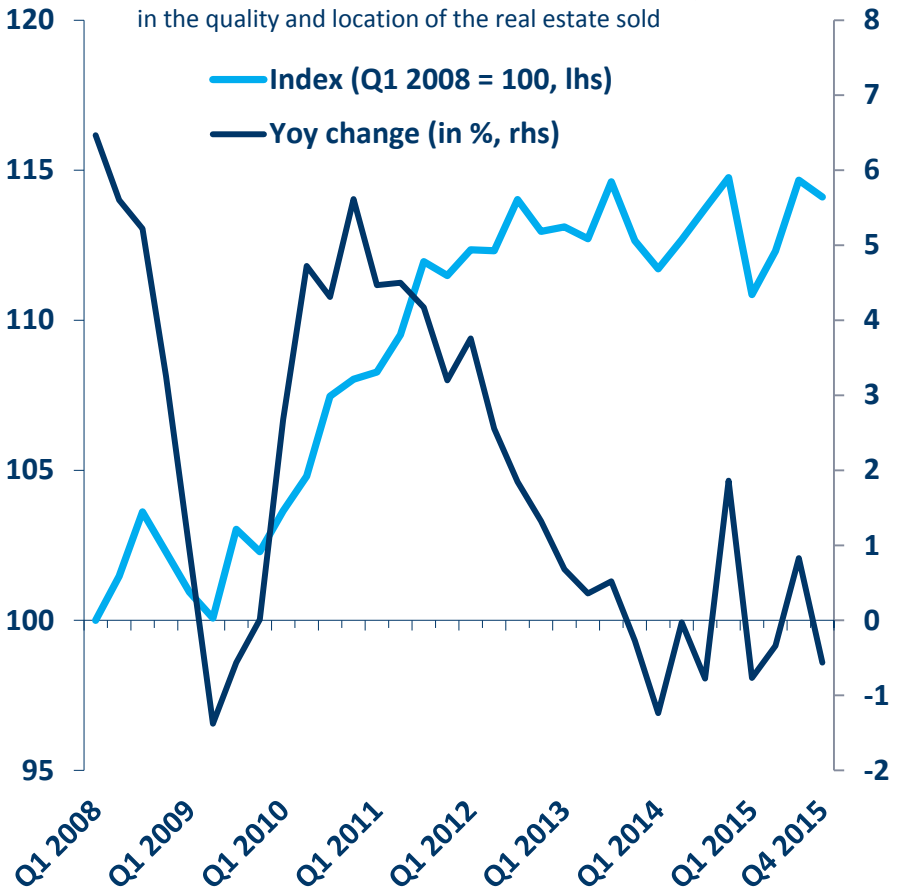



Source: NBB

# Belgian housing market
## A soft landing

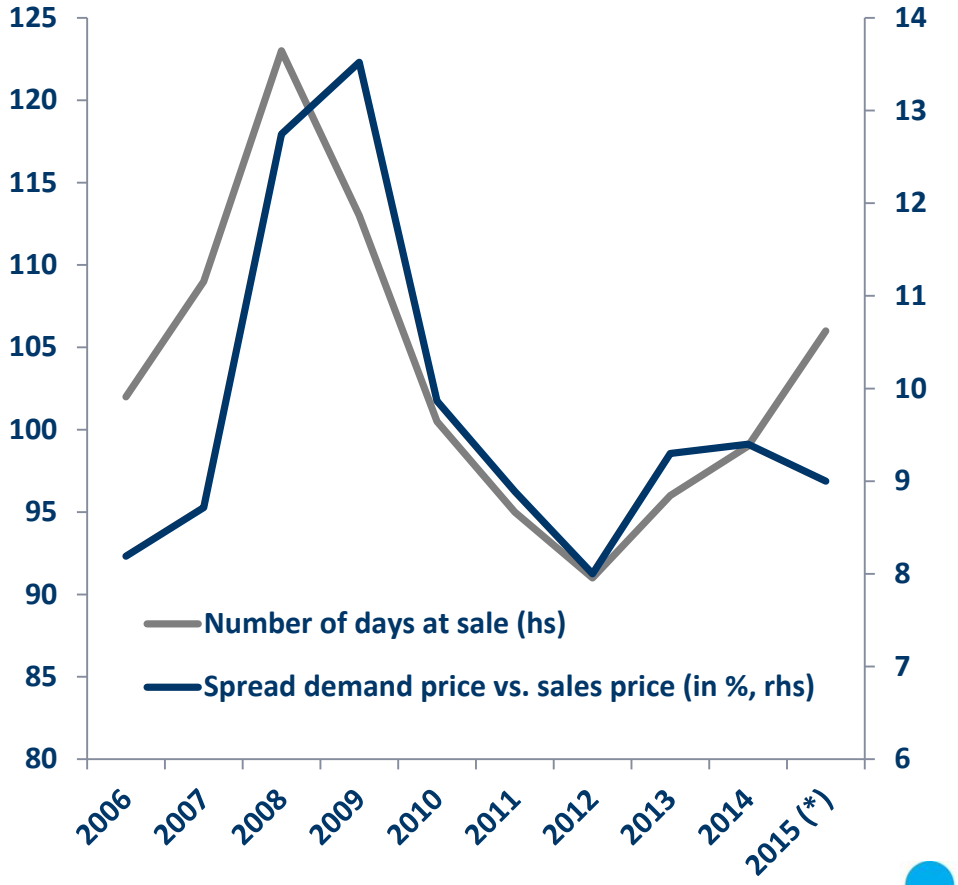
### House prices Belgium (*)

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




Source: FOD Economie

### Indicators home sales Belgium




(*) September 2015

Source: Netwerk ERA-makelaars

# Growth outlook 2016 & 2017

| | REAL GDP GROWTH (IN %, KBC forecast) | | |
|---|---|---|---|
| | 2015 | 2016 | 2017 |
| US | 2.4 | 1.8 | 2.0 |
| EMU | 1.6 | 1.6 | 1.7 |
| GERMANY | 1.7 | 1.7 | 1.8 |
| BELGIUM | 1.4 | 1.4 | 1.5 |
| CZECH REP. | 4.3 | 2.5 | 2.3 |
| SLOVAKIA | 3.6 | 3.3 | 3.5 |
| HUNGARY | 2.9 | 2.4 | 2.8 |
| BULGARIA | 3.0 | 2.4 | 2.5 |
| IRELAND | 7.8 | 5.0 | 3.7 |

Source: KBC (May 2016)

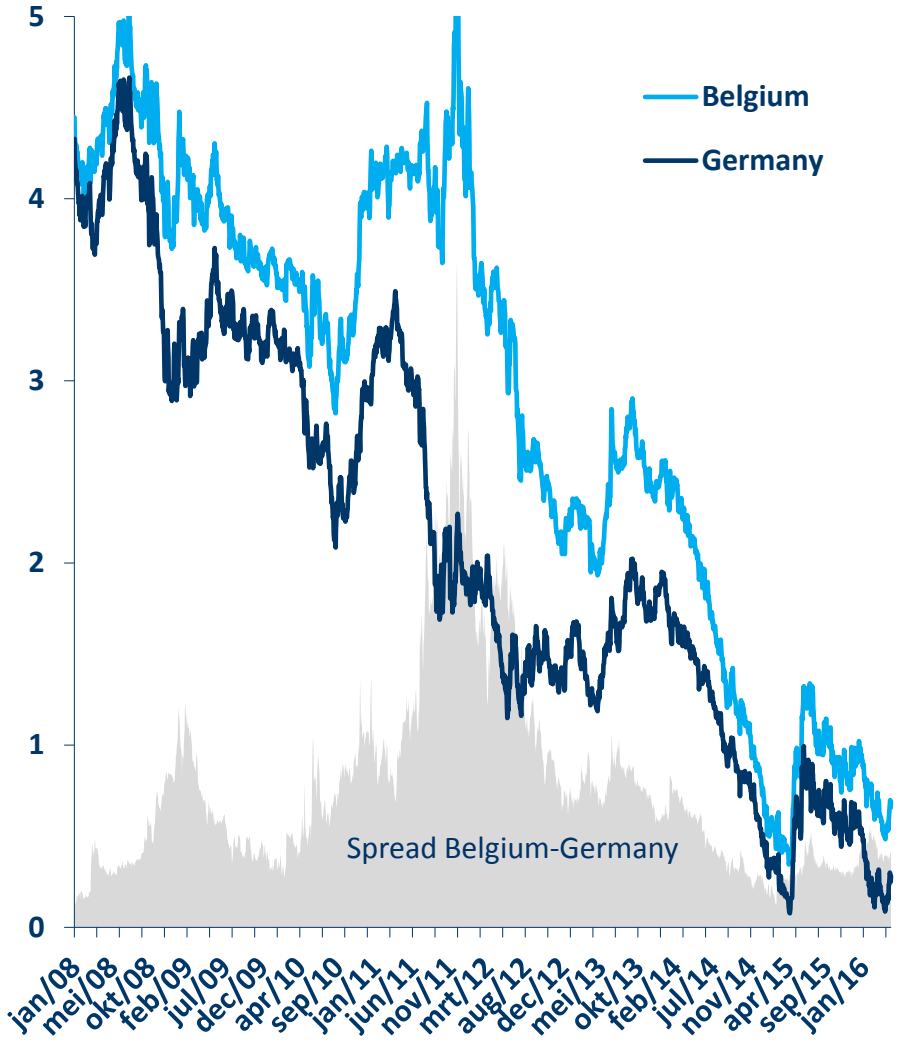
**Comparison with other forecasters**

| 2016 | Belgium | Euro Area |
|---|---|---|
| IMF (April) | 1.2 | 1.5 |
| NBB (December) | 1.3 | - |
| Consensus (April) | 1.3 | 1.5 |
| **KBC (May)** | **1.4** | **1.6** |

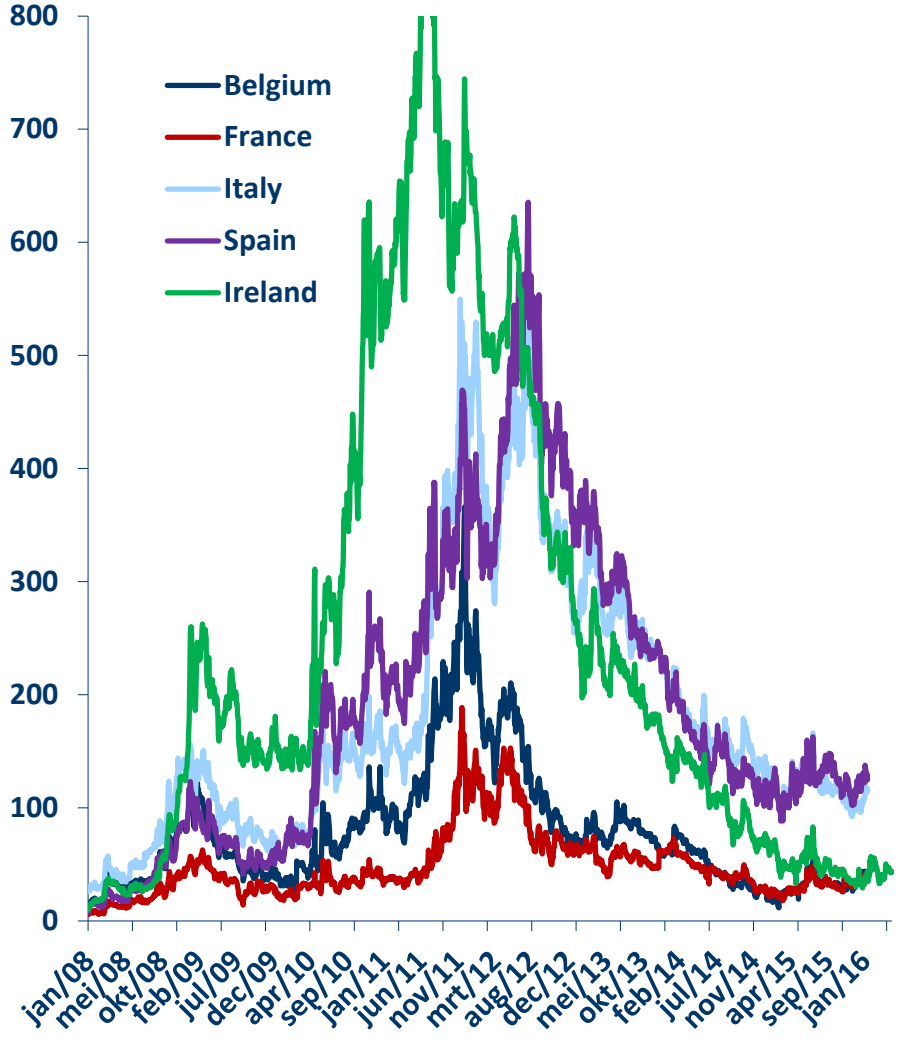
| 2017 | Belgium | Euro Area |
|---|---|---|
| IMF (April) | 1.4 | 1.6 |
| NBB (December) | 1.6 | - |
| Consensus (April) | 1.7 | 1.6 |
| **KBC (May)** | **1.5** | **1.7** |

# 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** | 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:<br>• MtM ALM derivatives (fully excluded)<br>• 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)<br>• Up to the end of 2014, also Legacy & OCR was an important correction<br>• 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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