Press release

Outside trading hours - Regulated information*

Brussels, 18 February 2016 (07.00 a.m. CET)

KBC 4Q2015: Returns profit of 2.6 billion euros for the full year, driven by strong business fundamentals and boosted by non-recurring items in the fourth quarter.

Profit of 862 million euros posted for last quarter of 2015.

Our client-centric business model continued to thrive. We have lent more to clients and they have taken up more insurance products in almost all the countries we operate in. Clients entrusted more assets to us, leading to higher sales of investment products. The low cost of credit also underpinned the net result. Against a background of low interest rates, modest economic growth in Belgium and stronger growth in Central Europe, KBC ended the last quarter of 2015 with an exceptional net profit of 862 million euros, compared to 600 million euros in the preceding quarter and 473 million euros in the last quarter of 2014. Profit was boosted by the liquidation of KBC Financial Holding Inc., but tempered by impairment on goodwill. Excluding these two items, the net result amounted to 441 million euros in the fourth quarter. The result for full year 2015 came to 2 639 million euros (2 218 million euros excluding these two items), with all countries generating a profit.

Financial highlights for the fourth quarter of 2015, compared with the third quarter of 2015:

- Both the banking and insurance franchises in our core markets and core activities prospered.
- We again granted more loans in Belgium (+1% in just one quarter), the Czech Republic (+2%), Slovakia (+4%) and Bulgaria (+3%), while clients further increased their deposits in most of our countries: the Czech Republic (+3%), Hungary (+8%), Slovakia (+3%), Bulgaria (+4%) and Ireland (+1%).
- Net interest income was slightly higher despite the low interest rate environment and some pressure on lending margins. Our net interest margin narrowed from 1.99% to 1.95%.

- Sales of non-life insurance products across all our markets were up year-on-year, and the non-life combined ratio stood at an excellent 91% for the full year. Aggregate sales of life products increased, with the Czech Republic turning in a particularly impressive performance.
- Clients continued to entrust their assets to KBC. Total assets under management of our group ended higher at 209 billion euros, thanks to net entries and the market performing well. Our net fee and commission income dropped by 3%, due mainly to lower management fees stemming from a more cautious investment allocation.
- Excluding special bank taxes, end-of-year costs were seasonally up, primarily at the Group Centre. The cost/income ratio stood at a good 55% for the full year.
- The cost of credit for 2015 amounted to an excellent 0.23% of our loan portfolio.
- The previously announced liquidation of KBC Financial Holding Inc. resulted in a positive income tax figure and a negative net result from financial instruments at fair value of 765 million euros, combined.
- Impairment on goodwill came to 344 million euros in the fourth quarter, though it did not impact our capital ratios.
- Our liquidity position remains solid, and our capital base – with a common equity ratio of 15.2% (phased-in, Danish compromise) – remains well above the regulators' target, even after repayment of the final instalment of state aid.

Johan Thijs, our group CEO added:

'Clients continue to entrust their assets to us and to rely on us for the realisation of their projects. We are genuinely grateful for that. It's all systems go at KBC and the results show that our client-centric approach is paying off. We posted an excellent result of 2.6 billion euros in 2015. Some 862 million euros of that figure came in the last quarter, thanks to the good performance of the underlying business and exceptional items.

The underlying business thrived as illustrated by the increase in lending, as well as growth in assets under management and insurance contracts. A continued focus on cost control and excellent cost of credit are adding to the prosperity of the business.

The announced liquidation of KBC Financial Holding has taken place, leading to a post-tax impact on the result of 765 million euros.

Besides that, higher local capital targets and a higher discount rate lay behind impaired goodwill totalling 344 million euros being recorded almost entirely on our businesses in Bulgaria and Slovakia. This had no impact on our capital ratios. The franchise, reputation and opportunity of these businesses are beyond dispute.

On the regulatory front, we were informed during the fourth quarter of 2015 of the new minimum capital requirements, i.e. a common equity tier-1 (CET1) ratio of at least 9.75%, phased in under the Danish compromise. At the end of October, the National Bank of Belgium also announced its new capital buffers for systemically important Belgian banks. For KBC, it means that an additional capital buffer of 0.5% of CET1 *(phased in under the Danish compromise) is required for 2016. We feel comfortable with these targets, which we had already factored in to our capital management models.*

That is also why we were able to pay back the last remaining tranche of 2 billion euros of state aid, along with a penalty of 50%, to the Flemish Regional Government at the end of 2015, five years ahead of schedule. In doing that, we have met all the remaining financial obligations imposed on us during and after the recent financial crisis, and have closed that chapter completely. We are extremely grateful to the government and our clients, employees and shareholders for their trust and support during that time.

In line with our previously announced intention, it will be proposed to the annual general meeting that no dividend be paid for 2015.

Our aim for 2016 is to build on the momentum of previous years and, in particular, to assume our role in society as a client-centric organisation. Our bank-insurance model, supported by solid liquidity and capital bases, allows us to generate sustainable results. However, the continuing low level of interest rates remains a challenge for the entire financial sector. And volatility on the financial markets presents a challenge for our fee business. Fundamentally, we are continuing to invest in the future and to pro-actively roll out our financial technology plans so we can serve our clients even better than today.'

Overview KBC Group (consolidated)	4Q2014	3Q2015	4Q2015	FY2014	FY2015
Net result, IFRS (in millions of EUR)	473	600	862	1 762	2 639
Basic earnings per share, IFRS (in EUR)*	1.00	1.41	-0.36	3.32	3.80
Breakdown of the net result, IFRS, by business unit (in millions of EUR)					
Belgium	414	358	348	1 516	1 564
Czech Republic	121	153	119	528	542
International Markets	-7	92	61	-182	245
Group Centre	-54	-2	334	-100	287
Parent shareholders' equity per share (in EUR, end of period)	31.4	33.6	34.5	31.4	34.5

* Note: if a coupon is paid on the core-capital securities sold to the Flemish Regional Government and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty has to be paid on the core-capital securities, it will likewise be deducted.

Business highlights in the quarter under review

- Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.
- KBC's comfortable capital position was reflected in the following:
    - We continued to work on achieving our strategic objectives within our strict risk and capital framework and under the supervision of the regulatory authorities. In this context, the European Central Bank informed KBC at the end of November 2015 of its new minimum capital requirements, i.e. a common equity tier-1 (CET1) ratio of at least 9.75%, phased in under the Danish compromise. At the end of October, the National Bank of Belgium also announced its new capital buffers for systemically important Belgian banks. For KBC, it means that an additional capital buffer of 0.5% of CET1 (phased in under the Danish compromise) is required for 2016, which is to be built up over three years on a straight-line basis to 1.5% in 2018.
    - At the end of 2015, KBC paid back the last remaining instalment of 2 billion euros of state aid to the Flemish Regional Government five years ahead of schedule, together with a penalty of 50%. In doing that, the group has met all the remaining financial obligations imposed on it during and after the recent financial crisis and has closed that chapter completely.

    - Under the new Solvency II framework, which came into force on 1 January 2016, insurers in Europe have to meet new requirements with regard to required capital, risk management and reporting standards. KBC's healthy insurance business and sound capital and risk management are reflected in a Solvency II ratio of 231% at the end of 2015, clearly ranking KBC Insurance amongst the better-capitalised companies in Europe's insurance industry.

- When KBC agreed its strategic refocus with the European Commission in 2009, it undertook to run down or divest the activities of its subsidiary KBC Financial Holding Inc. (US) in order to reduce KBC's risk profile. As a final step, KBC liquidated KBC Financial Holding Inc. This meant that the losses already booked in previous years (specifically 2008 and 2009) were tax deductible – and for which a deferred tax asset has now been booked – since losses in paid-up capital at KBC Bank are tax deductible for the parent company at the moment of liquidation. On balance, the post-tax impact on the result was 765 million euros. Initially, recognition of the deferred tax asset had only a limited positive impact of 0.2 percentage points (fully loaded CET1 ratio calculated under the Danish compromise method) on KBC's regulatory capital.

- In the fourth quarter of 2015, impairment on goodwill was recorded, mainly for ČSOB in Slovakia (-191 million euros) and for CIBANK (-117 million euros) and DZI Insurance (-34 million euros) in Bulgaria. These impairment charges came about primarily because of a lower recoverable value (calculated based on discounted cash flow analysis) due mainly to higher capital targets (resulting in a higher level of required capital, which reduces the free cash flows that can be paid as dividend in the valuation model) and a higher discount rate (higher beta and higher market premium). This impairment had no impact on our capital ratios.

- From a macroeconomic point of view, the clear difference in fourth-quarter growth between the emerging and developed markets remained in place. In particular, the sustainability of Chinese economic growth was questioned by the financial markets. However, the strong labour market reports in the US in the fourth quarter dampened the financial markets' fear of a strong negative spill-over from emerging markets to the developed markets. As a result, the Fed raised its policy rate by 25 basis points at its December meeting. Fourth-quarter growth in the US turned out to be weaker than expected, mainly driven by weaker consumption, investment and net exports. The euro area continued its recovery and the unemployment rate fell to 10.6% at the end of 2015. The low level of inflation in the euro area, however, led the ECB to ease its monetary policy stance again in December when it reduced its deposit rate further to -30 basis points. Headline inflation remained below the ECB's target of just below 2%. The main reasons for this remained the sharply falling oil price and continuing high levels of unemployment in the euro area, which prevents meaningful wage growth. The fourth quarter ended with a renewed increase in uncertainty on the financial markets after the depreciation of the Chinese renminbi against the US dollar. Although the result of a change of policy reference, from solely the US dollar towards a basket of currencies from China's main trading partners, the depreciation was enough to raise doubts again about the sustainability of China's economic growth model.

- On the corporate sustainability and responsibility front, we again took a number of initiatives. In Belgium, the Bolero crowd-funding platform won the EFMA & Accenture Innovation Award, the 'Ready Steady Money Program' run by K&H in Hungary received the Social Investment Award MAF (Hungarian Donors Forum), ČSOB Insurance Slovakia was crowned 'Insurer of the Year' by Magazine Trend and ČSOB Private Banking in the Czech Republic was named 'Best Private Bank' by The Banker. In Bulgaria, the Chief Executive Officer of CIBANK was named 'Banker of the Year' by The Banker. In Belgium, the EMAS (European Eco Management and Audit Scheme) environmental certification was reconfirmed and KBC Securities launched the 'Start it Fund' for start-up businesses. KBC also opened a new Start it @KBC centre in the city of Kortrijk, which brings the total number of 'Start it' locations to six.

Overview of our results and balance sheet

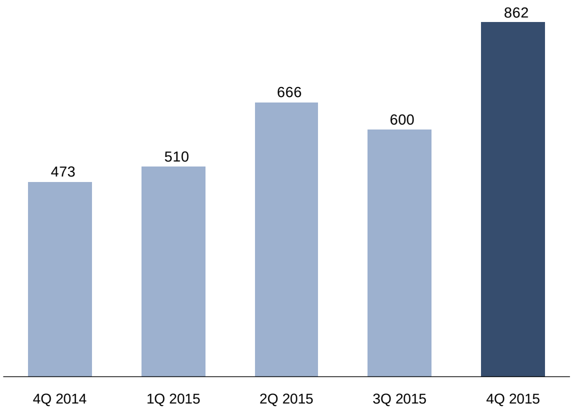
We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available in the same section.

Consolidated income statement, IFRS KBC Group (in millions of EUR)	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	FY 2014	FY 2015
Net interest income	1 123	1 091	1 092	1 062	1 066	4 308	4 311
Interest income	1 982	1 850	1 804	1 770	1 725	7 893	7 150
Interest expense	-860	-759	-712	-708	-659	-3 586	-2 839
Non-life insurance (before reinsurance)	123	167	155	142	147	512	611
Earned premiums	*322*	*320*	*326*	*335*	*338*	*1 266*	*1 319*
Technical charges	*-200*	*-153*	*-172*	*-193*	*-191*	*-754*	*-708*
Life insurance (before reinsurance)	-45	-48	-51	-51	-51	-216	-201
Earned premiums	*343*	*302*	*265*	*289*	*445*	*1 247*	*1 301*
Technical charges	*-388*	*-350*	*-316*	*-340*	*-496*	*-1 463*	*-1 502*
Ceded reinsurance result	10	-11	-7	0	-10	16	-29
Dividend income	9	12	39	13	12	56	75
Net result from financial instruments at fair value through P&L	109	57	179	47	-68	227	214
Net realised result from available-for-sale assets	22	80	36	44	30	150	190
Net fee and commission income	410	459	465	383	371	1 573	1 678
Fee and commission income	577	632	634	547	533	2 245	2 348
Fee and commission expense	-167	-174	-169	-164	-162	-672	-670
Other net income	68	49	105	96	47	94	297
Total income	1 827	1 855	2 013	1 736	1 543	6 720	7 148
Operating expenses	-964	-1 125	-941	-862	-962	-3 818	-3 890
Impairment	-193	-77	-149	-49	-472	-506	-747
on loans and receivables	-158	-73	-138	-34	-78	-587	-323
on available-for-sale assets	-14	-3	-7	-15	-21	-29	-45
on goodwill	0	0	0	0	-344	0	-344
other	-21	-1	-5	0	-29	109	-34
Share in results of associated companies and joint ventures	6	6	8	6	5	25	24
Result before tax	675	659	930	831	114	2 420	2 535
Income tax expense	-202	-149	-264	-231	749	-657	104
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	473	510	666	600	863	1 763	2 639
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**473**	**510**	**666**	**600**	**862**	**1 762**	**2 639**
of which legacy activities and own credit risk	*-20*	*-*	*-*	*-*	*-*	*134*	*-*
Basic earnings per share (EUR)	1.00	1.19	1.56	1.41	-0.36	3.32	3.80
Diluted earnings per share (EUR)	1.00	1.19	1.56	1.41	-0.36	3.32	3.80

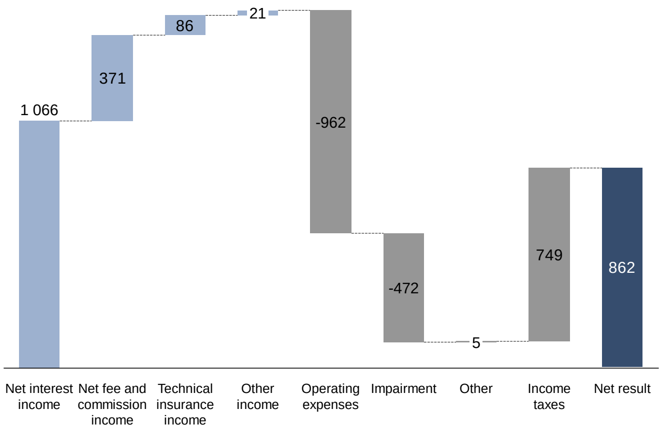
IFRIC 21 (Levies) was approved by the European Union in June 2014 and became effective on 1 January 2015. The main consequence of IFRIC 21 in 2015 is that certain levies have to be recognised in advance, which adversely impacted the results for the first quarter of 2015. As IFRIC 21 needs to be applied retroactively, KBC restated the comparable quarterly figures for 2014. This relates solely to movements between quarters and does not affect the full-year figures.

Highlights of consolidated balance sheet KBC Group (in millions of EUR)	31-12-2014	31-03-2015	30-06-2015	30-09-2015	31-12-2015
Total assets	245 174	258 396	256 654	257 632	252 356
Loans and advances to customers	124 551	124 632	126 093	126 971	128 223
Securities (equity and debt instruments)	70 359	71 948	70 755	71 115	72 623
Deposits from customers and debt certificates	161 783	167 922	170 159	171 412	170 109
Technical provisions, before reinsurance	18 934	19 181	19 198	19 365	19 532
Liabilities under investment contracts, insurance	12 553	13 263	12 937	12 422	12 387
Parent shareholders' equity	13 125	13 928	13 576	14 022	14 411
Non-voting core-capital securities	2 000	2 000	2 000	2 000	0

Net result (in millions of EUR)



Breakdown of net result for 4Q2015 (in millions of EUR)



Up to 2014, we provided not only figures according to IFRS, but also so-called 'adjusted figures'. In these figures, we extracted the impact of legacy activities (remaining divestments and CDOs) as well as the impact of the valuation of own credit risk, and rearranged trading income under 'Net result from financial instruments at fair value'. As these legacy activities have become immaterial (divestments have been finalised and there is no longer any exposure to CDOs) – and in order to simplify reporting – we have now stopped providing adjusted results.

The inclusion of the acquisition of Volksbank Leasing in the results is covered in the International Markets Business Unit.

Analysis of the quarter (4Q2015)

The net result for the quarter under review amounted to 862 million euros, compared to 600 million euros quarter-on-quarter and 473 million euros year-on-year.

Total income down 11% quarter-on-quarter, given the liquidation of KBC Financial Holding Inc, but down just 2% excluding this item. Net interest income slightly higher and net fee and commission income down.

- Net interest income stood at 1 066 million euros in the last quarter of 2015. In the current environment of low yields, our net interest income was slightly higher quarter-on-quarter, but contracted by 5% year-on-year. The quarter-on-quarter increase was driven by lower funding costs in Ireland and by term deposits in Belgium, better lending income through volume growth and rate cuts on savings accounts. However, it was partly offset by lower reinvestment yields, the continued impact of mortgage prepayments in Belgium in previous quarters, some pressure on commercial lending margins and the weak level of dealing room income. Compared to a year ago, the 5% drop in net interest income was largely driven by a negative hedging result relating to mortgage loans in Belgium, despite sound commercial margins, volume increases and lower funding costs. As a result, the net interest margin came to 1.95% for the quarter under review, 4 basis points lower than the level of the previous quarter, and 20 basis points lower than the level of the year-earlier quarter. Interest income continued to be supported by volume growth: loans went up both quarter-on-quarter (by 1%) and year-on-year (by 3%) and deposit volumes stayed flat quarter-on-quarter but went up by 5% year-on-year.

- Technical income from our non-life and life insurance activities fell both quarter-on-quarter and year-on-year. Gross earned premiums less gross technical charges and the ceded reinsurance result contributed 86 million euros to total income, 5% less than in the previous quarter and 1% less than in the year-earlier quarter.

  Earned premiums from our non-life insurance activities increased by 1% quarter-on-quarter and by 5% year-on-year. Claims during the fourth quarter were down 1% on the previous quarter and 4% on their level in the fourth quarter of 2014. The combined ratio came to an excellent 91% for the full year.

  Sales of life insurance products (including unit-linked products not included in premium income) were up 40% quarter-on-quarter and 6% year-on-year. The result was partly seasonal owing to tax-deductible contracts with a regular premium, but it was also driven by the savings campaign.

  It should be noted that, during the last quarter of 2015, investment income derived from insurance activities was down 4% on its level of the previous quarter, and down 5% on the year-earlier quarter. Both changes were driven by the lower level of net interest income caused by decreasing yields on the bond position and hedging instruments on the equity portfolio, somewhat offset by a higher realised result from available-for-sale assets.

- The investment climate has been volatile since the autumn. Despite this, new entries and a positive price performance boosted total assets under management by 4% (to 209 billion euros) in the quarter under review. Compared to a year ago, they have increased by as much as 12%, two-thirds of which through net entries. As regards net fee and commission income, it needs to be mentioned that the sales-related increase in entry fees on investment products was offset by a lower level of management fees for mutual funds, due to a different asset allocation. This was the main reason for the decrease in our net fee and commission income, which came to 371 million euros, down 9% year-on-year and 3% quarter-on-quarter.

- The net result from financial instruments at fair value was a negative 68 million euros in the fourth quarter of 2015, compared to a positive 47 million euros in the previous quarter and 109 million euros in the year-earlier quarter. This was triggered by the one-off translation difference on the liquidation of KBC Financial Holding Inc. (-156 million euros). Disregarding this impact, fair value income increased by 87% quarter-on-quarter. To a lesser extent, the trend was influenced by a marginally higher valuation of derivative instruments used for asset/liability management purposes, a higher level of income generated by the dealing rooms and a substantial positive impact of valuation adjustments (MVA/CVA/FVA) because of lower exposure and/or lower credit spreads.

- All other income items combined amounted to 89 million euros. They comprise realised gains on the sale of available-for-sale assets (30 million euros for the quarter under review), dividend income (12 million euros) and other net income (47 million euros).

Continued focus on cost management: excluding special bank taxes, end-of-year operating expenses up quarter-on-quarter but down year-on-year.

- Our operating expenses amounted to 963 million euros for the fourth quarter of 2015, significantly up (12%) on their level of the previous quarter, but flat year-on-year. Disregarding bank taxes (49 million euros in the fourth quarter of 2015, compared to 264 million in the first quarter of 2015, 83 million euros in the second quarter of 2015, 21 million in the third quarter of 2015 and 44 million euros in the fourth quarter of 2014), our operating expenses increased by 9% quarter-on-quarter but fell by 1% year-on-year. The quarter-on-quarter increase was accounted for by traditionally higher marketing expenses, professional fees and IT expenses at year end, as well as by higher pension expenses (lower interest rates) and expenses related to investments in financial technology. The year-on-year decrease resulted mainly from lower marketing expenses and staff expenses, somewhat mitigated by higher IT expenses.

  The cost/income ratio of our banking activities stood at 55% for the full year (down from 58% for 2014).

Loan impairment charges: low credit cost ratio of 0.23%

- Loan losses stood at 78 million euros, up on the quarter-earlier level of 34 million euros, but down on the level of 158 million euros in the fourth quarter of 2014. The quarter-on-quarter increase came about mainly because of Belgium (an increase of 21 million euros to 34 million euros, specific loan files). The Czech Republic stood at 14 million euros, Hungary at a positive 1 million euros, Slovakia at 9 million euros, Ireland at 16 million euros, Bulgaria at 2 million euros and the Group Centre at 4 million euros. Loan loss impairment in 2015 accounted for some 0.23% the total loan portfolio.

Goodwill impairment charges: exceptional item

- Impairment on goodwill stood at an exceptionally high 344 million euros for the last quarter of 2015. Due to higher local capital targets and a higher discount rate, an impairment on goodwill was recognised for CIBANK (117 million euros) and DZI in Bulgaria (34 million euros), for ČSOB Bank in Slovakia for the acquisition of Istrobanka in 2008 (191 million euros) and for Hypotečni Banka in the Czech Republic (2 million euros). This impairment had no impact on our capital ratios.

Tax: exceptional item

- Consequent on the liquidation of KBC Financial Holding Inc., the loss in paid-up capital at KBC Bank was tax-deductible for the parent company at the moment of liquidation, contributing largely to a total positive income tax figure of 749 million euros in the last quarter of 2015.

Results per business unit

- Our quarterly profit of 862 million euros breaks down into 348 million euros for the Belgium Business Unit, 119 million euros for the Czech Republic Business Unit, 61 million euros for the International Markets Business Unit and 334 million euros for the Group Centre. A full results table and a short analysis per business unit is provided in the 'Results per business unit' section of the quarterly report, while more information for each business unit is also given in the analyst presentation (both available at www.kbc.com).

Strong fundamentals even after repayment of remaining state aid: equity, solvency and liquidity

- At the end of 2015, our total equity stood at 15.8 billion euros, down 0.7 billion euros on its level at the start of the year. The change in total equity during the year resulted from the inclusion of the profit for 2015 (+2.6 billion euros), the payment of dividends for 2014 and the related coupon on the remaining state aid (an aggregate -1.0 billion euros), the repayment of the remaining state aid plus penalty (-3.0 billion euros) and a number of smaller items (an aggregate +0.7 billion euros, mainly translation differences and remeasurements of defined benefit plans).
- Our solvency ratios comfortably passed the newly installed regulators' joint solvency test for 2016 (a minimum 10.25%, Basel III, phased-in under the Danish compromise). At 31 December 2015, the group's common equity ratio (Basel III, phased-in under the Danish compromise) stood at a strong 15.2%. The fully loaded figure is 14.9%. The leverage ratio for the group (Basel III, fully loaded) stood at 6.3%. The solvency ratio for KBC Insurance was an excellent 289% under the Solvency I framework at 31 December 2015 and an equally excellent 231% under the Solvency II framework (which came into force on 1 January 2016).
- The group's liquidity position remained at an excellent level, as reflected in an LCR ratio of 127% and an NSFR ratio of 121% at the end of the fourth quarter of 2015.

Analysis of full year 2015

Note: the year-on-year performance was partly affected by the deconsolidation of KBC Bank Deutschland and by a number of other minor changes. These items will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').

Note: the first-time inclusion of the acquisition of Volksbank Leasing in the results is covered in the International Markets Business Unit.

Our aggregate result for the year came to 2 639 million euros, compared to 1 762 million euros a year earlier.

Compared to 2014, the result for 2015 was characterised by:

- Higher net interest income of 4 311 million euros (+1% on a comparable basis), thanks to substantially lower (subordinated) funding costs, as well as wider margins on loans and lower rates on deposits, all of which was mitigated somewhat by losses on prepaid mortgages in Belgium. Volumes increased for deposits (+5%) and lending (+3%).
- A higher contribution by technical insurance results (gross earned premiums less gross technical charges and the ceded reinsurance result: up 22% to 381 million euros). In non-life insurance, earned premiums went up by 4% while the year-to-date combined ratio stood at an excellent 91%. In life insurance, earned premium fell by 7%.
- A strong increase in asset management activity leading to higher net fee and commission income (+7% on a comparable basis, up to 1 678 million euros), especially in the first half of the year. At the end of December 2015, assets under management stood at 209 billion euros, a year-on-year increase of 12%, 8% due to net entries and 4% to the price performance.
- The net result from financial instruments at fair value amounted to 214 million euros in 2015, 5% lower than the 2014 figure on a comparable basis. This item was severely impacted by one-off translation differences on the liquidation of KBC Financial Holding Inc. (-156 million euros), as well as negative value adjustments on the MVA/CVA/FVA items, though mitigated by positive valuation differences on ALM derivatives (101 million euros, over 300 million euros more than the 2014 figure for this item).
- An increase in the following other income items: net realised gains from available-for-sale assets came to 190 million euros (+26%) on a comparable basis, dividend income to 75 million euros (+35%) and other net income to 297 million euros (up 180 million euros on 2014, which had been affected by 231 million euros of provisioning for the new Hungarian act on retail loans).
- Higher operating expenses (+3% on a comparable basis, up to 3 890 million euros), owing essentially to higher special bank taxes (+23%). Excluding these taxes, operating expenses were only slightly up (+2% on a comparable basis), primarily because of higher pension expenses and expenses related to investments in further digitalisation. As a result, the year-to-date cost/income ratio stood at 55%.
- Lower loan losses (-44% on a comparable basis, to 323 million euros). The improvement was most pronounced in Ireland (150 million euros less). As a result, the annualised credit cost ratio for the whole group stood at a satisfying 0.23%.
- The liquidation of KBC Financial Holding Inc., which meant the loss in paid-up capital at KBC Bank was tax-deductible for the parent company at the moment of liquidation, generated a total income tax figure under IFRS of +104 million euros for 2015, as opposed to -654 million euros for 2014, on a comparable basis.
- For impairment on other items, it is worth mentioning that, due to higher local capital targets and a higher discount rate, impairment on goodwill was recognised for a number of entities, including CIBANK in Bulgaria (117 million euros) and ČSOB Bank in Slovakia for the acquisition of Istrobanka in 2008 (191 million euros). This impairment had no impact on our capital. For comparison, it is worth noting that a

reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013 led to a one-off total post-tax positive impact of 132 million euros in 2014.

Selected ratios for the KBC group (consolidated)	FY2014	FY2015
Profitability and efficiency		
Return on equity*	14%	22%
Cost/income ratio, banking	58%	55%
Combined ratio, non-life insurance	94%	91%
Solvency		
Common equity ratio according to Basel III (fully loaded)	14.3%	14.9%
Common equity ratio according to Basel III (phased-in))	14.4%	15.2%
Common equity ratio according to FICOD method (fully loaded)	14.6%	14.6%
Leverage ratio according to Basel III (fully loaded)	6.4%	6.3%
Credit risk		
Credit cost ratio	0.42%	0.23%
Impaired loans ratio	9.9%	8.6%
for loans more than 90 days overdue	5.5%	4.8%
Liquidity		
Net stable funding ratio (NSFR)	123%	121%
Liquidity coverage ratio (LCR)	120%	127%

* If a coupon is paid on the core-capital securities sold to the Flemish Regional Government and/or on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*).

Statement of risk

- As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. Although KBC closely monitors and manages each of these risks within a strict risk framework containing governance and limits, they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- At present, a number of items are considered to constitute the main challenges for the financial sector in general and, as a consequence, are also relevant to KBC. Increasing capital requirements are a dominant theme for the sector and regulatory initiatives are expected on such topics as risk models, floors on risk weighted assets, systemic and other capital buffers and minimum requirement of eligible liabilities and own funds (MREL). Besides these factors, the low interest rate environment remains a continuing challenge. If low rates were to be sustained, this would put material pressure on the long-term profitability of banks and especially insurers. Finally, operational risk and particularly cyber risk have become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.
- Risk management data are provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.
- So far in 2016, uncertainty on the financial markets, stock market corrections and falling benchmark bond yields have continued. In January, the price of Brent oil temporarily fell below 30 US dollar per barrel, driving inflation to lower-than-anticipated levels. The ECB is therefore likely to ease its policy stance further, most likely by cutting its deposit rate again. On the other hand, the Fed is likely to continue cautiously following its rate normalisation path in 2016. This divergence between Fed and ECB policy will probably weaken the euro somewhat against the US dollar in 2016.
- Low inflation, accommodating monetary policy and fears of a global slowdown in growth mean that bond yields will remain low during 2016. They will only rise very gradually once the unemployment rate in the euro area has fallen enough to generate sustainable wage increases and the effect of the sharp fall in oil prices starts to drop out of the annual inflation rate. We expect the oil price to gradually rise again in the

second half of 2016. Despite the expected continued turbulence in emerging markets, we expect 2016 to be a year of sustained economic growth in both the euro area and the US, with a growth rate broadly similar to that in 2015. This growth will be driven mainly by domestic demand against the background of the expected weak contribution from international trade.

Additional information

- Our auditor has confirmed that its audit procedures for the consolidated financial statements, prepared in accordance with the International Financial Reporting Standards as adopted in the European Union, are substantially completed and that they have not revealed any material modification that would have to be made to the accounting information derived from the consolidated financial statements and included in this earnings statement.
- It will be proposed to the Annual General Meeting of Shareholders that no dividend for financial year 2015 be paid in 2016.
- Financial calendar:
    - 31 March 2016: 2015 Annual Report and 2015 Risk Report
    - 4 May 2016: Annual General Meeting
    - 12 May 2016: Publication of 1Q 2016 results
    - 11 August 2016: Publication of 2Q 2016 results
    - 17 November 2016: Publication of 3Q 2016 results
    - 9 February 2017: Publication of 4Q 2016 results

For more information, please contact:

Wim Allegaert, General Manager, Investor Relations, KBC Group
Tel +32 2 429 50 51 - E-mail: wim.allegaert@kbc.be

Viviane Huybrecht, General Manager, Corporate Communication/Spokesperson, KBC Group
Tel +32 2 429 85 45 - E-mail: pressofficekbc@kbc.be

* This news item contains information that is subject to the transparency regulations for listed companies.

KBC Group NV
Havenlaan 2 – 1080 Brussels
Viviane Huybrecht
General Manager
Corporate Communication /Spokesperson
Tel. +32 2 429 85 45

Press Office
Tel. +32 2 429 65 01 Stef Leunens
Tel. +32 2 429 29 15 Ilse De Muyer
Fax +32 2 429 81 60
E-mail: pressofficekbc@kbc.be

KBC press releases are available at www.kbc.com or can be obtained by sending an e-mail to pressofficekbc@kbc.be

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