Press Release

Outside trading hours - Regulated information*

Brussels, 14 November 2013 (07.00 a.m. CET)

3Q2013: Strong commercial result and one-off impact from divestments

KBC ended the third quarter of 2013 with a net profit of 272 million euros, compared with a net profit of 517 million euros in the previous quarter and 531 million euros a year earlier. For the first nine months of the year, therefore, net profit has come in at 1 309 million euros as opposed to 372 million euros in the first nine months of 2012.

After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 457 million euros, compared with 485 million euros in the previous quarter and 373 million euros in the corresponding quarter of 2012. For the first nine months of the year, the adjusted net profit stood at 1 300 million euros compared with 1 217 million euros in the first nine months of 2012.

Johan Thijs, Group CEO:

'The latest confidence indicators have confirmed the ongoing global recovery and gradually improving economic conditions. Against this background, KBC posted a net result of 272 million euros in the third quarter and a high adjusted net result of 457 million euros. At group level, and excluding deconsolidated entities, we managed to increase levels of net interest income and net interest margin, while posting growth in deposits and mortgages, retain a good combined ratio, keep an excellent cost/income ratio and reduce impairments. However, fee and commission income was weaker, mainly due to the seasonal dip, and the net result from financial instruments at fair value was lower.

In the quarter under review, the Belgium Business Unit generated a net result of 391 million euros, above the average figure of 358 million euros for the four preceding quarters. Compared with the previous quarter, this one was characterised by higher net interest income, lower net fee and commission income, weak unit-linked life insurance sales but an excellent non-life combined ratio, a very good cost/income ratio and a lower level of loan loss impairment charges. The banking activities accounted for 79% of the net result in the quarter under review, and insurance activities for 21%.

The Czech Republic Business Unit posted a net result of 157 million euros, above the average figure of 135 million euros for the four preceding quarters. Compared with the previous quarter, this quarter included a small decline in net interest income, an improved combined ratio in non-life insurance, increased unit-linked life insurance sales, higher net fee and commission income, an excellent cost/income ratio and lower loan loss impairment charges. Banking activities accounted for 96% of the net result in the quarter under review and insurance activities for 4%.

The International Markets Business Unit recorded a net result of -12 million euros, an improvement on the average of -42 million euros for the four preceding quarters. Compared with the previous quarter, the third quarter was characterised by slightly higher net interest income and net fee and commission income, lower costs (these were higher in the previous quarter on account chiefly of the one-off financial levy in Hungary), and slightly higher loan loss impairment charges, with Ireland still accounting for the bulk of the impairments. Overall, the banking activities accounted for a negative net result of -17 million euros (the positive results in Slovakia, Hungary and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a positive net result of 6 million euros.

In light of the paper published by the European Banking Association on forbearance and non-performing loans as well as the upcoming asset quality review in 2014, we are reassessing our loan book with specific focus on the Irish loan portfolio. We expect to add additional provisions due to the reclassification of 2 billion euros' worth of restructured mortgage loans. As regards our corporate loan book, given the slower than expected recovery of the SME sector in Ireland, we expect to add provisions due to a more prudent outlook on future cashflows and collateral values. In total, this will lead to an expected impairment charge in Ireland of up to 775 million euros in the fourth quarter of this year. Our guidance for loan loss provisions in Ireland for the coming years is 150 to 200 million euros for 2014 and 50 to 100 million euros for each of 2015 and 2016. This is based on current economic projections. As regards all the other countries, the currently estimated impact is considered to be immaterial.

We also continued to finalise our divestment plan. In September, we announced the agreement to sell KBC Bank Deutschland, a deal which will improve our solvency position by roughly 15 basis points. On the remaining divestment files , we have taken additional impairments of 30 million euros for NLB, 55 million euros for KBC Banka and 73 million euros for Antwerp Diamond Bank. This, together with the discount for the transferred shareholder loan and some smaller items, resulted in a net result that is substantially below the adjusted net result.

The liquidity position of our group remained very strong, with both the LCR and NSFR being well above 100%.

Our capital position has remained strong, with a tier-1 ratio of 15.8%, even after the large repayment of 1.17 billion euros of Flemish state aid (plus a penalty of 0.58 billion euros) at the beginning of July. Our common equity ratio under Basel III at the end of the quarter stood at 12.5% (fully loaded), well above our goal to maintain a target common equity ratio under Basel III (fully loaded) of 10% as of 1 January 2013.

These results confirm our belief in our core business, which is bank-insurance in Belgium, Czech Republic and a selection of countries in Central and Eastern Europe. Our 37 000 employees act to serve and benefit our clients, shareholders and other stakeholders. We are truly appreciative of the continued trust placed in us.'

Impact of the legacy business and valuation of own credit risk:

In order to give a good insight into the ongoing business performance, KBC also provides adjusted figures that exclude a) the impact of the legacy business, i.e. the valuation of the remaining CDOs in portfolio (including fees for the related guarantee agreement with the Belgian State) and the impact of divestments and b) the impact of the valuation of own credit risk. For the quarter under review, these items had the following impact:

- CDOs: During the third quarter, corporate and ABS credit spreads tightened further, as had been the case during previous quarters. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government as well as the termination costs, there was a positive post-tax impact of some 34 million euros.
- Remaining divestments: A total post-tax negative impact of 231 million euros was recorded for this quarter. This was attributable primarily to the following four items:
  - Impairment of 30 million euros (post tax) on the 75-million-euro subordinated loan to NLB was recognised under this item. Taking into account the impairment on this loan taken in the second quarter, provisioning for this loan is now a full 100%.
  - The profit and loss impact of the transfer of 0.3 billion euros' worth of loans to KBC Ancora to another financial institution, amounted to 43 million euros (post tax) as a result of discount and transaction costs.
  - The signed but not yet closed KBC Banka divestment file triggered an additional loss of 55 million euros (post tax), over and above the initially communicated estimate of 47 million euros (17 million euros of which was taken in the first quarter of this year).
  - The current status of the divestment process of Antwerp Diamond Bank triggered a one-off impairment charge of 73 million euros in this quarter.
- Impact of own credit risk valuation: The small widening in the credit spread on KBC debt between the end of June 2013 and the end of the third quarter resulted in a positive marked-to-market adjustment of 12 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 3Q2013 compared with 2Q2013:

- High level of adjusted group profit thanks inter alia to sustained net interest income, lower impairments and good cost control.
- Net result impacted by impairment on divestments.
- Solid return on equity of 16% year-to-date, based on adjusted results.
- Net interest income slightly higher, net interest margin up to 1.77%.
- Growth in deposit and mortgage loan portfolio.
- Healthy combined ratio of 91% year-to-date, with low claims ratio in 3Q2013.
- Good level of dealing room income but lower impact of marked-to-market valuations of ALM derivatives.
- Weaker net fee and commission income, due partly to seasonality.
- Excellent cost/income ratio of 51% year-to-date, based on adjusted results; 56% excluding specific items.
- Credit cost ratio down further to 0.71% year-to-date; Ireland's ratio at 2.4%.
- Consistently strong liquidity position, with LCR at 132% and NSFR at 108%.
- Solvency: strong capital base, with a tier-1 ratio of 15.8% (core tier-1 ratio of 13.4%). Basel III common equity ratio (fully loaded) at 12.5%, well above the 10% target.

Overview KBC Group (consolidated)	3Q2012	2Q2013	3Q2013	9M2012	9M2013
Net result, IFRS (in millions of EUR)	531	517	272	372	1 309
Basic earnings per share, IFRS (in EUR)[1]	1.16	1.24	-0.75	-0.13	1.74
Adjusted net result (in millions of EUR)	373	485	457	1 217	1 300
Basic earnings per share, based on adjusted net result (in EUR)[1]	0.69	1.16	-0.30	2.36	1.72
Breakdown by business unit (in millions of EUR)[2]					
Belgium	335	418	391	1 064	1 193
Czech Republic	149	146	157	467	435
International Markets	-38	-23	-12	-242	-122
Group Centre	-72	-56	-79	-72	-207
Parent shareholders' equity per share (in EUR, end of period)	31.3	29.1	28.5	31.3	28.5

1 Note: 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*). If a penalty has to be paid, it will likewise be deducted.

2 A new breakdown by business unit entered into force in 2013 (more information on this breakdown can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section of the quarterly report). The 2012 reference figures have been restated in order to reflect this new breakdown.

Overview of results according to IFRS

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

In order to provide a good insight into the ongoing business performance, KBC also publishes an overview of adjusted results, where the impact of legacy activities (divestments, CDOs) and of the valuation of own credit risk is excluded from P/L and summarised in three lines at the bottom of the presentation (see next section).

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	9M 2012	9M 2013
Net interest income	1 261	1 190	1 097	1 121	1 068	1 016	1 028	-	3 548	3 111
Interest income	2 695	2 563	2 493	2 382	2 193	2 109	2 066	-	7 752	6 369
Interest expense	-1 434	-1 374	-1 396	-1 261	-1 125	-1 093	-1 039	-	-4 204	-3 257
Non-life insurance (before reinsurance)	204	200	157	61	149	115	145	-	561	409
Earned premiums	438	442	307	313	305	316	321	-	1 187	942
Technical charges	-234	-243	-150	-252	-156	-201	-176	-	-626	-533
Life insurance (before reinsurance)	-72	-67	-79	-22	-59	-62	-63	-	-218	-185
Earned premiums	446	448	271	310	271	241	238	-	1 165	750
Technical charges	-518	-514	-350	-332	-331	-303	-302	-	-1 383	-936
Ceded reinsurance result	-14	-1	-12	13	-12	13	1	-	-27	2
Dividend income	6	21	13	5	5	20	14	-	39	39
Net result from financial instruments at fair value through profit or loss	60	43	275	42	314	425	223	-	378	962
Net realised result from available-for-sale assets	32	9	56	85	142	47	34	-	97	223
Net fee and commission income	304	309	343	360	393	385	340	-	955	1 118
Fee and commission income	492	479	494	541	641	565	512	-	1 464	1 717
Fee and commission expense	-188	-170	-151	-181	-248	-180	-171	-	-509	-599
Other net income	73	368	106	187	76	-20	51	-	547	108
Total income	1 853	2 072	1 954	1 854	2 076	1 938	1 772	-	5 879	5 786
Operating expenses	-1 132	-1 033	-1 003	-1 081	-1 039	-931	-925	-	-3 167	-2 895
Impairment	-273	-1 473	-302	-463	-352	-276	-363	-	-2 048	-991
on loans and receivables	-261	-198	-283	-330	-295	-255	-231	-	-742	-781
on available-for-sale assets	-5	-75	-4	-11	-13	-3	-8	-	-83	-24
on goodwill	0	-414	0	-8	-7	0	0	-	-414	-7
on other	-7	-786	-15	-114	-37	-18	-125	-	-809	-179
Share in results of associated companies	-9	17	-6	1	0	0	0	-	2	1
Result before tax	439	-417	644	310	684	731	485	-	666	1 900
Income tax expense	-93	-110	-103	-56	-160	-211	-209	-	-306	-581
Net post-tax result from discontinued operations	40	-8	0	-6	0	0	0	-	33	0
Result after tax	387	-535	540	249	524	520	276	-	392	1 319
attributable to minority interests	7	5	9	9	4	3	4	-	21	10
attributable to equity holders of the parent	**380**	**-539**	**531**	**240**	**520**	**517**	**272**	**-**	**372**	**1 309**
Basic earnings per share (EUR)	0.71	-1.99	1.16	-0.97	1.25	1.24	-0.75	-	-0.13	1.74
Diluted earnings per share (EUR)	0.71	-1.99	1.16	-0.97	1.25	1.24	-0.75	-	-0.13	1.74

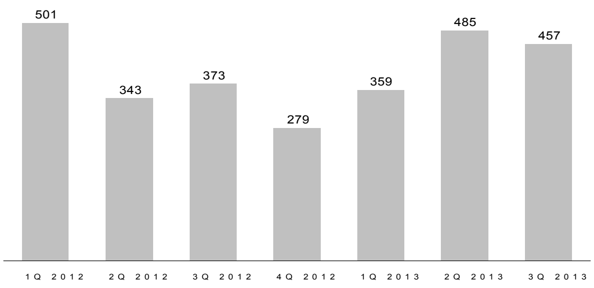
Overview of adjusted results

In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from P/L and summarised in three lines at the bottom of the presentation (in segment reporting, these items are all included in the Group Centre). Moreover, a different accounting treatment for capital-market income was applied to the Belgium Business Unit (all trading results shifted to 'Net result from financial instruments at fair value'). A full explanation of the differences between the IFRS and adjusted figures is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section of the quarterly report.

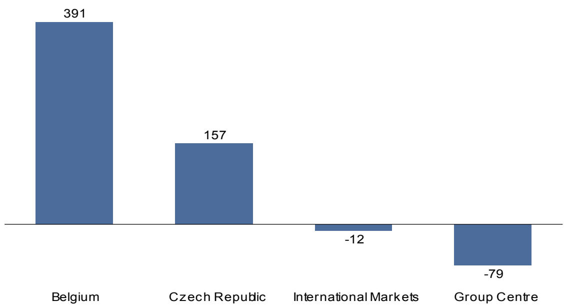
Consolidated income statement, KBC Group (in millions of EUR)	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	9M 2012	9M 2013
Adjusted net result (i.e. excluding legacy business and own credit risk)										
Net interest income	1 217	1 153	1 078	1 084	1 032	990	1 013	-	3 448	3 035
Non-life insurance (before reinsurance)	204	200	157	61	149	115	145	-	561	409
Earned premiums	438	442	307	313	305	316	321	-	1 187	942
Technical charges	-234	-243	-150	-252	-156	-201	-176	-	-626	-533
Life insurance (before reinsurance)	-72	-67	-79	-22	-59	-62	-63	-	-218	-185
Earned premiums	446	448	271	310	271	241	238	-	1 165	750
Technical charges	-518	-514	-350	-332	-331	-303	-302	-	-1 383	-936
Ceded reinsurance result	-14	-1	-12	13	-12	13	1	-	-27	2
Dividend income	5	22	10	5	4	19	11	-	37	34
Net result from financial instruments at fair value through profit or loss	353	58	223	156	218	256	146	-	633	620
Net realised result from available-for-sale assets	31	9	55	85	96	46	42	-	95	183
Net fee and commission income	312	309	345	359	385	388	345	-	965	1 118
Other net income	22	60	80	89	76	69	151	-	163	296
Total income	2 057	1 743	1 857	1 831	1 890	1 832	1 791	-	5 657	5 512
Operating expenses	-1 110	-1 016	-990	-1 068	-1 029	-921	-913	-	-3 116	-2 863
Impairment	-271	-241	-305	-378	-335	-235	-209	-	-816	-779
on loans and receivables	-261	-198	-283	-329	-295	-217	-186	-	-742	-698
on available-for-sale assets	-5	-24	-4	-4	-13	-3	-2	-	-33	-18
on goodwill	0	0	0	0	-7	0	0	-	0	-7
on other	-5	-18	-18	-45	-20	-15	-22	-	-41	-57
Share in results of associated companies	-9	-9	-13	1	0	0	0	-	-32	1
Result before tax	667	477	549	385	526	677	669	-	1 693	1 871
Income tax expense	-159	-129	-167	-98	-163	-189	-208	-	-455	-560
Result after tax	508	348	382	287	363	487	460	-	1 238	1 310
attributable to minority interests	7	5	9	9	4	3	4	-	21	10
attributable to equity holders of the parent	**501**	**343**	**373**	**279**	**359**	**485**	**457**	**-**	**1 217**	**1 300**
Belgium	486	244	335	295	385	418	391	-	1 064	1 193
Czech Republic	158	159	149	114	132	146	157	-	467	435
International Markets	-163	-41	-38	-18	-87	-23	-12	-	-242	-122
Group Centre	19	-19	-72	-113	-71	-56	-79	-	-72	-207
Basic earnings per share (EUR)	1.19	0.49	0.69	-0.92	0.86	1.16	-0.30	-	2.36	1.72
Diluted earnings per share (EUR)	1.19	0.49	0.69	-0.92	0.86	1.16	-0.30	-	2.36	1.72
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	138	-39	280	46	165	180	34	-	379	380
Legacy – divestments	81	-884	23	3	22	-128	-231	-	-780	-337
MTM of own credit risk	-340	41	-144	-87	-26	-20	12	-	-444	-34
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent: IFRS	**380**	**-539**	**531**	**240**	**520**	**517**	**272**	**-**	**372**	**1 309**

Analysis of the quarter under review (3Q2013)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 3Q 2013 (in millions of EUR)



The net result for the quarter under review amounted to 272 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 457 million euros, compared with 485 million euros in 2Q2013 and 373 million euros in 3Q2012.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Kredyt Bank and Absolut Bank, the sale of NLB and certain other sales. These items will be disregarded (see 'on a comparable basis') in the underlying analysis to enable a meaningful comparison to be made.
- Net interest income stood at 1 013 million euros, up 2% quarter-on-quarter but down 6% year-on-year. On a comparable basis, net interest income was up by 1% year-on-year. This increase was driven primarily by the Belgium Business Unit, but partly offset by a decrease at the Group Centre Business Unit. The net interest margin came to 1.77% for the quarter under review, 5 basis points higher than the level of the previous quarter, and 11 basis points higher than the level of the year-earlier quarter. In the Belgium Business Unit, deposit volumes were flat quarter-on-quarter and up 8% year-on-year. Loan volumes were down 1% quarter-on-quarter. On a yearly comparison, the loan book also contracted by 1% (due to the deliberate reduction at the foreign branches). The loan book in the Czech Republic increased by 5% year-on-year but contracted by 1% quarter-on-quarter, while deposits rose by 3% year-on-year and by 1% quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 5% year-on-year (due to Ireland and Hungary) and was more or less flat quarter-on-quarter, while the deposit base grew by 17% year-on-year (driven by Ireland, Hungary and Slovakia) and by 4% quarter-on-quarter.
- The life and non-life insurance businesses turned in the following performance during the quarter under review. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 83 million euros, up 26% quarter-on-quarter and year-on-year.

  In the non-life segment, earned premiums were 2% higher quarter-on-quarter and 5% higher year-on-year. The claims during the quarter were much lower, resulting in a significantly lower level of technical charges compared with 2Q2013. The combined ratio came to a good 91% year-to-date (92% for the quarter itself).

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were down 27% on their level in 2Q2013. Year-on-year on a comparable basis, these sales have fallen by as much as 65%, triggered by a number of factors, including a change in the tax treatment of unit-linked life insurance contracts in Belgium since the beginning of 2013 and a shift to other wealth management products.

  It should be noted that the third quarter was a decent one for investment income from insurance activities, with the quarter-on-quarter results being somewhat dampened by lower dividend income in the investment portfolio – following a typical second-quarter dividend receipt– and by the lower net result from financial instruments at fair value through profit and loss. Lastly, the technical-financial result also benefited from general administrative expenses being kept strictly under control.
- The net result from financial instruments at fair value amounted to 146 million euros in the quarter under review, lower than the 213-million-euro average for the last four quarters. This figure is usually defined by dealing-room income, which was stable, but the first and second quarters of 2013 were influenced primarily by positive results on the marked-to-market valuations in respect of derivative instruments used in asset and liability management.

- Net realised gains from available-for-sale assets stood at 42 million euros for the quarter under review, below the 71-million-euro average for the last four quarters. These gains were realised on the sale of both bonds and shares, and were similar to the previous quarter.
- Net fee and commission income amounted to 345 million euros, down 11% quarter-on-quarter and flat year-on-year. On a comparable basis, income was up by as much as 8% year-on-year. The main driver for the quarter-on-quarter decline was a lower level of transaction fees in the summer months. Assets under management stood at 160 billion euros, up 2% compared with the quarter earlier (1% accounted for by net new inflows and 1% by investment performance) and up 3% year-on-year, driven by investment performance.
- Other net income came to 151 million euros, higher than the 79-million-euro average of the last four quarters. In the quarter under review, this item benefited from a number of significant positive one-off items.

Operating expenses (adjusted net result)

- Operating expenses came to 913 million euros in 3Q2013, down 1% on their level in the previous quarter and down 8% on their year-earlier level. The quarter-on-quarter decrease is attributable to a huge decline in Hungary (an additional one-off financial transaction levy was charged in the second quarter), offset by an increase in Belgium (where the second quarter benefitted from a reimbursement relating to the former deposit guarantee scheme). Year-on-year on a comparable basis, costs were 2% higher. This was due primarily to the new financial transaction levy in Hungary and higher bank taxes and increased costs related to staff transition arrangements in Belgium. The year-to-date cost/income ratio came to 51%, a clear indication that costs remain well under control. However, this ratio was positively impacted by the high level of marked-to-market valuations in respect of the derivative instruments used in asset and liability management and the substantially higher level of other income.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 186 million euros in 3Q2013, down on the 217 million euros recorded in the previous quarter, and on the 283 million euros recorded a year earlier. The figure for 3Q2013 included loan loss impairment of 98 million euros recorded at KBC Bank Ireland (as opposed to 88 million euros in the previous quarter and 129 million euros in the year-earlier quarter), as well as 43 million euros in the Belgium Business Unit (compared with 82 million euros in the second quarter of 2013 and 66 million euros in the year-earlier quarter). The annualised credit cost ratio stood at 0.71% year-to-date. This breaks down into 0.39% for the Belgium Business Unit (up from 0.28% for FY2012 mainly as a result of increased impairment recorded in the SME and corporate segments), 0.24% in the Czech Republic Business Unit (an improvement compared with 0.31% for FY2012, but driven by a change in methodology) and 1.78% for the International Markets Business Unit (down from 2.26% for FY2012).
- Impairment charges on available-for-sale assets came to 2 million euros and other impairment charges amounted to 22 million euros in the quarter under review (essentially related to real estate).

Impact of the legacy business and own credit risk on the result:

- CDOs: During the third quarter, corporate and ABS credit spreads tightened further, as had been the case during previous quarters. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government as well as termination costs, there was a positive post-tax impact of some 34 million euros.
- Remaining divestments: A total post-tax impact of 231 million euros was recorded for this quarter. This was attributable primarily to the following four items.
    - Impairment of 30 million euros (post tax) on the 75-million-euro subordinated loan to NLB was recorded under this item. Taking into account the impairment on this loan taken in the second quarter, provisioning for this loan is now a full 100%.
    - The profit and loss impact of the transfer of 0.3 billion euros' worth of loans to KBC Ancora to another financial institution, amounted to 43 million euros (post tax) as a result of discount and transaction costs.
    - The signed but not yet closed KBC Banka divestment file triggered an additional loss of 55 million euros (post tax), over and above the initially communicated estimate of 47 million euros (17 million euros of which was taken in the first quarter of this year).
    - The current status of the divestment of Antwerp Diamond Bank triggered a one-off impairment charge of 73 million euros in this quarter.
- Impact of own credit risk valuation: The small widening in the credit spread on KBC debt between the end of June 2013 and the end of the third quarter resulted in a positive marked-to-market adjustment of 12 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 3Q2013, the Belgium Business Unit generated a net result of 391 million euros, above the average figure of 358 million for the four preceding quarters. Compared with the previous quarter, 3Q2013 was characterised by higher net interest income, lower net fee and commission income, weak unit-linked life insurance sales but an excellent non-life combined ratio, seasonally lower dividend income, lower MTM of ALM derivatives, higher realised gains on the sale of available-for-sale securities and some positive one-off items in other income, a very good cost/income ratio and a lower level of loan loss impairment charges. The banking activities accounted for 79% of the net result in the quarter under review, and insurance activities for 21%.
- In the quarter under review, the Czech Republic Business Unit generated a net result of 157 million euros, above the average figure of 135 million for the four preceding quarters. Compared with the previous quarter, 3Q2013 included a small decline in net interest income, an improved combined ratio in non-life insurance, increased unit-linked life insurance sales, higher net fee and commission income, increased other net income thanks to a one-off item, lower MTM of ALM derivatives and net realised gains from the sale of AFS securities, an excellent cost/income ratio and lower loan loss impairment charges. Banking activities accounted for 96% of the net result in the quarter under review and insurance activities for 4%.
- In the quarter under review, the International Markets Business Unit generated a net result of -12 million euros, an improvement on the average of -42 million euros for the four preceding quarters. Compared with the previous quarter, 3Q2013 was characterised by slightly higher net interest income, trading income and net fee and commission income, lower realised gains on available-for-sale securities and other net income, lower costs (although this item was higher in the second quarter due to the one-off financial transaction levy in Hungary) and slightly higher loan loss impairment charges, with Ireland still accounting for the bulk of the impairments. Overall, the banking activities accounted for a negative net result of -17 million euros (the positive results in Slovakia, Hungary and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a positive net result of 6 million euros.
- The Group Centre's net result amounted to -264 million in 3Q2013. As mentioned earlier, this includes a number of group items and results of companies earmarked for divestment, but also the full impact of the legacy business (CDOs, divestments) and the valuation of own credit risk (see above).

Analysis of the year-to-date period under review (9M2013)

The net result for 9M2013 amounted to 1 309 million euros, compared with 372 million euros for the same period a year earlier. Excluding the legacy business and impact of own credit risk, the adjusted net result amounted to 1 300 million euros, compared with 1 217 million euros for the first nine months of 2012.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, Warta, Żagiel, NLB, Absolut Bank and certain other sales. These items will be disregarded to enable a meaningful comparison to be made.
- Net interest income stood at 3 035 million euros, down 12% year-on-year. On a comparable basis, net interest income fell by 5% year-on-year. This was due primarily to the lower income generated by asset and liability management (lower reinvestment yields), while commercial margins remained healthy. The net interest margin came to 1.74% year-to-date, 3 basis point lower than the level of a year earlier. In the Belgium Business Unit, deposit volumes were up 8% year-on-year and loan volumes were down 1% on a yearly comparison, due to the deliberate reduction of the loan book at the foreign branches). The loan book in the Czech Republic increased by 5% year-on-year, while deposits rose by 3% year-on-year. The loan portfolio in the International Markets Business Unit declined by 5% year-on-year (due to Ireland and Hungary), while the deposit base grew by 17% year-on-year (driven by Ireland, Hungary and Slovakia).
- The life and non-life insurance businesses turned in the following performance during the first nine months of 2013. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 226 million euros, down 28% year-on-year. However, on a comparable basis (excluding the effect of the deconsolidation of Warta), this result was 28% higher than the year-earlier figure.

  In the non-life segment, earned premiums were 4% higher year-on-year (on a comparable basis). The claims arising from inter alia the floods in the Czech Republic resulted in a significantly higher level of technical charges compared with 9M2012. Nevertheless, the combined ratio still came to a good 91% year-to-date.

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were down 62% on their level in 9M2012, triggered by a change in the tax treatment of unit-linked life insurance contracts in Belgium since the beginning of 2013 and a shift to mutual funds, amongst other things.

  It should be noted that the insurance results were also impacted by lower investment income, particularly net interest income, but benefited from general administrative expenses being kept strictly under control.
- The net result from financial instruments at fair value amounted to 620 million euros in the first three quarters of 2013, compared with 633 million euros for the first three quarters of the previous year, or 576 million euros on a comparable basis. This figure is usually defined by dealing-room income, but this first nine-month period has been influenced primarily by a positive result of 250 million euros on the marked-to-market valuations in respect of certain derivative instruments used in asset and liability management.
- Net realised gains from available-for-sale assets stood at 183 million euros for the period under review, compared with 95 million euros for the equivalent period of the previous year, or 80 million euros on a comparable basis. The gains were realised on the sale of both bonds and shares, with the first quarter benefiting from particularly large gains on the sale of Belgian government bonds.
- Net fee and commission income amounted to 1 118 million euros, up 16% year-on-year. On a comparable basis, fee income was likewise 16% higher year-on-year. The main drivers for this year-to-date increase compared to 2012 were entry and management fees on mutual funds. Assets under management stood at 160 billion euros, up 3% since the end of 2012, 1% because of net sales and 2% due to price effects.
- Driven by a number of exceptional items, other net income came to 296 million euros, compared with 163 million euros in 9M2012.

Operating expenses (adjusted net result)

- Operating expenses came to 2 863 million euros in 9M2013, down 8% on their year-earlier level. On a comparable basis, costs increased by 3%, owing in part to the introduction of the financial transaction levy in Hungary, higher pension expenses and higher ICT costs. The year-to-date cost/income ratio came to 51%, a clear indication that costs remain well under control. However, it was positively impacted by the high level of marked-to-market valuations in respect of the derivative instruments used in asset and liability management, by net realised gains from available-for-sale assets and by a high level of other income.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 698 million euros in 9M2013, down on the 742 million euros recorded a year earlier. The figure for 9M2013 included loan loss impairment of 286 million euros recorded at KBC Bank Ireland (as opposed to 460 million euros in the first nine months of 2012), as well as a relatively high 263 million euros in the Belgium Business Unit (as opposed to 108 million euros in 9M2012). The annualised credit cost ratio stood at 0.71% year-to-date. This breaks down into 0.39% for the Belgium Business Unit (up from 0.28% for FY2012), 0.24% in the Czech Republic Business Unit (compared with 0.31% for FY2012) and 1.78% for the International Markets Business Unit (down from 2.26% for FY2012).
- Impairment charges on available-for-sale assets came to 18 million euros, on goodwill came to 7 million euros and on other items amounted to 57 million euros in the nine months under review.

Income tax

- Income tax amounted to 560 million euros for the first nine months of 2013, as opposed to 455 million euros in the reference period.

Impact of the legacy business and own credit risk on the result:

- CDOs: During the first nine months of 2013, corporate and ABS credit spreads tightened further. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the costs and benefits of reducing CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 380 million euros.
- Remaining divestments: The total impact of several items relating to divestments on the net result for the first nine months of 2013 was a negative 337 million euros.
  - In the first quarter, the successful placement of KBC's 16.2% participation in Bank Zachodni WBK through a secondary offering resulted in an additional capital gain. In contrast, the sale of KBC Banka and the closure of the deal to sell NLB led to a capital loss. Their combined effect amounted to a positive 22 million euros (post tax) in the first quarter.
  - In the second quarter, the closure of the deal to sell the Russian Absolut Bank had a negative impact on the results of about -0.1 billion euros, but none on regulatory capital. Impairment of 20 million euros (post tax) on the 75-million-euro subordinated loan to NLB was also recorded under this item in 2Q2013. The total impact for this quarter, including some other minor items, was a negative 128 million euros.
  - In the third quarter, an additional impairment charge of 30 million euros (post tax) on the subordinated loan to NLB was recorded. In addition, the transfer of 0.3 billion euros' worth of loans to KBC Ancora to another financial institution led to a profit and loss impact of 43 million euros (post tax) as a result of discount and transaction costs. Furthermore, the signed but not yet closed KBC Banka divestment file triggered an additional loss of 55 million euros (post tax). Lastly, the current status of the divestment of Antwerp Diamond Bank resulted in a one-off impairment charge of 73 million euros. A total post-tax impact, including also some minor other items, of a negative 231 million euros was recognised for the quarter.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of 2012 and the end of the third quarter resulted in a negative marked-to-market adjustment of 34 million euros (post tax), but had no impact on regulatory capital.

Equity and solvency

- At the end of September 2013, total equity came to 14.6 billion euros – down 1.3 billion euros on its level at the start of the year – due mainly to the payment of the dividend (-0.4 billion euros), the payment of the coupon on non-voting core-capital securities subscribed by the Belgian Federal and Flemish Regional governments (-0.5 billion euros) and the repayment of 1.17 billion euros (plus 50% penalty) in Flemish state aid (-1.8 billion euros). All of these payments were mitigated by the 9M2013 results (1.3 billion euros).
- The group's tier-1 ratio (under Basel II) stood at a strong 15.8% at 30 September 2013 (core tier-1 ratio of 13.4%). The solvency ratio for KBC Insurance stood at an excellent 312% at 30 September 2013, down slightly from the very high 322% at the end of 2012.
- The common equity ratio under the current Basel III framework came to 12.5% (fully loaded, but including the remaining aid from the Flemish Region) at the end of the third quarter of 2013, well above the targeted common equity ratio of 10% under Basel III (fully loaded).

Liquidity

- The group's liquidity remains excellent, as reflected in the LCR ratio of 132%, as well as in the NSFR ratio of 108% at the end of the quarter.

Selected balance sheet data

Highlights of consolidated balance sheet KBC Group (in millions of EUR)	31-03-2012	30-06-2012	30-09-2012	31-12-2012	31-03-2013	30-06-2013	30-09-2013	31-12-2013
Total assets	290 635	285 848	270 010	256 928°	258 567	253 297	250 260	-
Loans and advances to customers*	135 980	133 326	131 048	128 492	129 753	131 769	128 377	-
Securities (equity and debt instruments)*	65 853	64 227	65 171	67 295	65 071	65 722	64 147	-
Deposits from customers and debt certificates*	166 551	163 685	160 945	159 632	167 994	167 414	169 413	-
Technical provisions, before reinsurance*	19 925	19 539	19 637	19 205	18 836	18 805	18 803	-
Liabilities under investment contracts, insurance*	7 871	8 856	9 680	10 853	11 664	11 606	11 684	-
Parent shareholders' equity	10 949	9 687	10 629	12 017°	12 505	12 119	11 895	-
Non-voting core-capital securities	6 500	6 500	6 500	3 500	3 500	3 500	2 333	-

* In accordance with IFRS 5, the assets and liabilities of a number of divestments have been reallocated to 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.
° Restated based on IAS19 revision as of 1 January 2013.

Selected ratios

Selected ratios KBC Group (consolidated)	FY2012	9M2013
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	16%
Cost/income ratio, banking	57%	51%
Combined ratio, non-life insurance	95%	91%
Solvency		
Tier-1 ratio (Basel II)	13.8%	15.8%
Core tier-1 ratio (Basel II)	11.7%	13.4%
Common equity ratio (Basel III, fully loaded, including remaining state aid)	10.8%	12.5%
Credit risk		
Credit cost ratio	0.71%	0.71%
Non-performing ratio	5.3%	5.8%

* 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*).

Strategy highlights and main events

Strategy and business highlights

- KBC's core strategy remains focused on providing bank-insurance products and services in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria to retail, SME and mid-cap clients. In line with its strategic plan, the group has almost completed the sale or run-down of a number of (non-core) activities (see below).
- Last steps in the divestment programme (3Q to date):
    - On 24 September 2013, KBC announced it has reached an agreement to sell KBC Bank Deutschland AG to several investors including affiliates of Teacher Retirement System of Texas, Apollo Global Management, Apollo Commercial Real Estate Finance and Grovepoint Capital. This deal will free up around 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets and will have no material impact on KBC's financial results. This will result in an improvement of KBC's solvency position by roughly 15 basis points.
    - KBC is still in discussions with a number of interested parties for its last remaining divestment file: Antwerp Diamond Bank (Belgium). It is also maintaining an open and constructive dialogue with the European Commission about this file.
- Developments on the Corporate Sustainability & Responsibility front:
    - On 2 August 2013, Bulgarian CIBANK's employees helped children in children's homes across the country to prepare for their seaside vacation under the 'Blue Summer with CIBANK' programme.
    - On 12 August 2013, K&H in Hungary published its Sustainability Report 2012, the seventh issue of this report.
    - On 1 September 2013, the ČSOB Foundation launched the ČSOB Slovakia Employee Grant Programme, a programme designed to give employees the opportunity to help the city or community where they work or live.
    - In the week of 16 September 2013, KBC participated in Belgian 'Mobility Week', encouraging KBC employees to reduce commuter travel and thus reduce their ecological footprint. More than 2 000 employees participated, saving 10 tonnes of CO_2. This corresponds to a wood measuring one hectare.
    - On 25 October 2013, KBC won the 'best financial information' award granted by the Belgian Financial Analysts Association.

Statement of risk

- Mainly active in banking, insurance and asset management, KBC is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing divestment plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- Risk management data are provided in KBC's annual reports, the extended quarterly reports and the dedicated risk reports, all of which are available at www.kbc.com.
- Five trends continued to affect the global economy during 3Q2013. Firstly, the recovery in the US continued, despite the so-called fiscal drag. Secondly, the economy of the EMU as a whole also appears to be gradually turning around, as illustrated by confidence indicators and GDP data. Thirdly, the combination of fiscal reform and strong monetary expansion in Japan ('Abenomics') is boosting producer and consumer confidence and supporting economic growth. Fourthly, China's efforts to rebalance its economic growth away from exports and towards domestic demand, together with the need to preserve the health of its financial system, are leading to a markedly lower growth rate than in the past. Lastly, the weak growth of credit and monetary aggregates in developed economies imply that the disinflationary trend will continue for the time being, helped by stable or even falling commodity prices.

- The main risks for the global economy are:
    - a stronger-than-expected rise in global bond yields following the end of the US Fed's asset purchase programme.
    - economic and/or financial instability in the Chinese economy, leading to a significant economic slowdown.
    - EMU internal structural reforms delivering results slower than expected. The risk of a re-emergence of an acute EMU crisis has, however, clearly diminished.
- The ECB has announced the launch of its comprehensive assessment of euro area banks, including the asset quality review, balance sheet assessment and stress test. The results will be published in late 2014.

The financial calendar, including analyst and investor meetings, is available at www.kbc.com/ir/calendar .

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

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