Press Release

Outside trading hours - Regulated information*

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Strong first-half profit of 1 037 million euros, advanced repayment of 1 750 million euros of Flemish state aid

KBC ended the second quarter of 2013 with a net profit of 517 million euros, compared with a net profit of 520 million euros in the previous quarter and a loss of 539 million euros a year earlier. For the first six months of the year, therefore, net profit has come in at 1 037 million euros as opposed to a net loss of 160 million euros in the first half of last year.

After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 485 million euros, compared with 359 million euros in the previous quarter and 343 million euros in the corresponding quarter of 2012. For the first six months of the year, the adjusted net profit stood at 843 million euros compared with 844 million euros in 1H2012.

Johan Thijs, Group CEO:

'KBC continued to benefit from its strong commercial franchise in banking and insurance in the second quarter and recorded a high 517 million euros in net profit against an economic background of low growth and low interest rates. At group level and excluding deconsolidated entities, we managed to maintain levels of net interest income and net interest margin, while posting robust fee and commission income for the second quarter in a row, recording a good combined ratio, achieving an excellent cost/income ratio and reducing impairment.

In this quarter, the Belgium Business Unit generated a net result of 418 million euros, an even higher figure than the 385 million euros for the previous quarter. Both our deposit volume and lending to individuals and SMEs rose again. The quarter under review was characterised by good levels of commercial net interest income and net fee and commission income, modest unit-linked life insurance sales and a low non-life combined ratio. The significantly positive marked-to-market revaluation of our ALM derivatives also boosted the revenue stream. The excellent cost/income ratio proves that costs are well under control and the reduced level of loan loss impairment is encouraging. 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 146 million euros this quarter, slightly above the average figure of 139 million euros for the four preceding quarters. Compared to the previous quarter, this one had slightly higher net interest income (excluding FX effects), somewhat lower net fee and commission income and lower sales of unit-linked life insurance. The impact of the floods on the results of the non-life business was limited. Roughly flat costs and lower loan loss impairment contributed to the net result. Banking activities accounted for 98% of the net result in the quarter under review and insurance activities for 2%.

The International Markets Business Unit recorded a net result of -23 million euros for the second quarter, an improvement on the average of -46 million euros for the four preceding quarters. Quarter-on-quarter, the positive impact was chiefly attributable to the bank tax for the full year in Hungary being charged in the first quarter (notwithstanding an additional bank tax burden in the second quarter) and a decreasing – though still significant – level of loan loss impairment in Ireland. This impairment is in line with the earlier guidance of 300 to 400 million euros for full-year 2013. Overall, the banking activities accounted for a net result of -29 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 net result of 6 million euros.

Following on the announcement at the end of 2012, we completed the sale in May of our Russian banking subsidiary, Absolut Bank, to a group of Russian companies that manage the assets of Blagosostoyanie. The deal has freed up 0.3 billion euros of capital.

We also managed to reduce the remaining CDO exposure to a net exposure of 6.3 billion euros at the end of this quarter. Even when account is taken of both the costs and benefits of reducing this CDO exposure and of the fee for the guarantee scheme, the market valuation of this exposure increased by some 0.2 billion euros, post tax.

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

Our capital position has strengthened further to a tier-1 ratio of 16.8%. When account is taken of the effects of the transfer of 0.3 billion euros' worth of shareholder loans, the repayment of 1.17 billion euros of Flemish state aid (plus the penalty of 0.58 billion euros) and the sale of KBC Banka, the pro forma ratio stands at 14.9%. Our pro forma common equity ratio under Basel III at the end of the quarter stood at 11.8% (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.

We are particularly pleased with the continued trust that clients and stakeholders have placed in our firm and its employees. Our enduring efforts have ensured that we are moving – and will continue to move – towards becoming a strong and independent reference in the European financial sector.'

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 second 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, the costs and benefits of reducing the CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 180 million euros.
- Remaining divestments: The closure of the deal to sell Absolut Bank to a group of Russian companies that manage the assets of Blagosostoyanie had a negative impact of about -0.1 billion euros on the results, but none on regulatory capital. An impairment of 20 million euros (post tax) on the 75-million-euro subordinated loan to NLB has also been recorded under this line for this quarter.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of March 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of 20 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 2Q2013 compared to 1Q2013:

- High level of group profit thanks to continued strong commercial franchise and positive CDO valuation.
- Attractive return on equity of 15% based on adjusted results.
- Net interest margin stable and net interest income roughly flat on a comparable basis.
- Stable deposit and loan portfolio.
- Good combined ratio of 91% year-to-date, although uptick of claims.
- Satisfactory level of dealing room income.
- Strong net fee and commission income, comparable to 1Q2013.
- Excellent cost/income ratio of 50% year-to-date, based on adjusted results.
- Credit cost ratio down to 0.75% year-to-date; Ireland's ratio reduced further to 2.35%.
- Consistently strong liquidity position, with LCR at 125% and NSFR at 107%.
- Solvency: strong capital base: *pro forma* tier-1 ratio – including the effect of the repayment of Flemish state aid, the transfer of shareholder loans and the sale of KBC Banka – at 14.9% (with a core tier-1 ratio of 12.6%). *Pro forma* Basel III common equity ratio (fully loaded) at 11.8%, well above the 10% target.

Overview KBC Group (consolidated)	2Q2012	1Q2013	2Q2013	1H2012	1H2013
Net result, IFRS (in millions of EUR)	-539	520	517	-160	1 037
Basic earnings per share, IFRS (in EUR)[1]	-1.99	1.25	1.24	-1.28	2.49
Adjusted net result (in millions of EUR)	343	359	485	844	843
Basic earnings per share, based on adjusted net result (in EUR)[1]	0.49	0.86	1.16	1.67	2.02
Breakdown by business unit (in millions of EUR)[2]					
Belgium	244	385	418	730	803
Czech Republic	159	132	146	318	279
International Markets	-41	-87	-23	-204	-110
Group Centre	-19	-71	-56	0	-128
Parent shareholders' equity per share (in EUR, end of period)	28.5	30.0	29.1	28.5	29.1

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	1H 2012	1H 2013
Net interest income	1 261	1 190	1 097	1 121	1 068	1 016	-	-	2 451	2 084
Interest income	2 695	2 563	2 493	2 382	2 193	2 109	-	-	5 258	4 302
Interest expense	-1 434	-1 374	-1 396	-1 261	-1 125	-1 093	-	-	-2 808	-2 218
Non-life insurance (before reinsurance)	204	200	157	61	149	115	-	-	403	264
Earned premiums	438	442	307	313	305	316	-	-	880	621
Technical charges	-234	-243	-150	-252	-156	-201	-	-	-477	-357
Life insurance (before reinsurance)	-72	-67	-79	-22	-59	-62	-	-	-139	-122
Earned premiums	446	448	271	310	271	241	-	-	894	512
Technical charges	-518	-514	-350	-332	-331	-303	-	-	-1 033	-634
Ceded reinsurance result	-14	-1	-12	13	-12	13	-	-	-14	1
Dividend income	6	21	13	5	5	20	-	-	27	25
Net result from financial instruments at fair value through profit or loss	60	43	275	42	314	425	-	-	103	739
Net realised result from available-for-sale assets	32	9	56	85	142	47	-	-	41	189
Net fee and commission income	304	309	343	360	393	385	-	-	613	778
Fee and commission income	492	479	494	541	641	565	-	-	970	1 206
Fee and commission expense	-188	-170	-151	-181	-248	-180	-	-	-358	-428
Other net income	73	368	106	187	76	-20	-	-	441	56
Total income	1 853	2 072	1 954	1 854	2 076	1 938	-	-	3 925	4 014
Operating expenses	-1 132	-1 033	-1 003	-1 081	-1 039	-931	-	-	-2 165	-1 971
Impairment	-273	-1 473	-302	-463	-352	-276	-	-	-1 746	-628
on loans and receivables	-261	-198	-283	-330	-295	-255	-	-	-459	-550
on available-for-sale assets	-5	-75	-4	-11	-13	-3	-	-	-79	-16
on goodwill	0	-414	0	-8	-7	0	-	-	-414	-7
on other	-7	-786	-15	-114	-37	-18	-	-	-794	-55
Share in results of associated companies	-9	17	-6	1	0	0	-	-	8	0
Result before tax	439	-417	644	310	684	731	-	-	22	1 415
Income tax expense	-93	-110	-103	-56	-160	-211	-	-	-202	-372
Net post-tax result from discontinued operations	40	-8	0	-6	0	0	-	-	33	0
Result after tax	387	-535	540	249	524	520	-	-	-148	1 044
attributable to minority interests	7	5	9	9	4	3	-	-	12	7
attributable to equity holders of the parent	**380**	**-539**	**531**	**240**	**520**	**517**	**-**	**-**	**-160**	**1 037**
Basic earnings per share (EUR)	0.71	-1.99	1.16	-0.97	1.25	1.24	-	-	-1.28	2.49
Diluted earnings per share (EUR)	0.71	-1.99	1.16	-0.97	1.25	1.24	-	-	-1.28	2.49

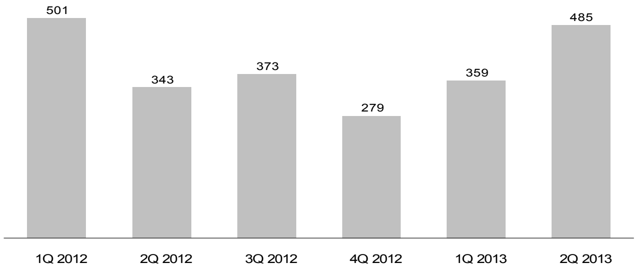
Overview of adjusted results

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 results 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.

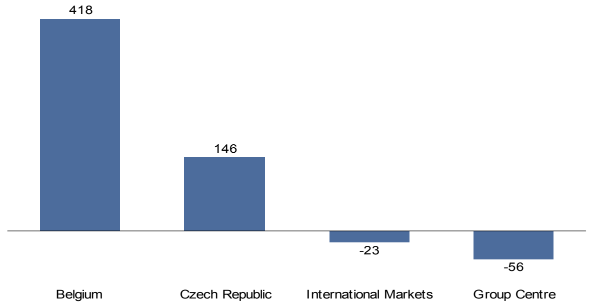
Consolidated income statement, KBC Group (in millions of EUR)	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1H 2012	1H 2013
Adjusted net result (i.e. excluding legacy business and own credit risk)										
Net interest income	1 217	1 153	1 078	1 084	1 032	990	-	-	2 370	2 022
Non-life insurance (before reinsurance)	204	200	157	61	149	115	-	-	403	264
Earned premiums	438	442	307	313	305	316	-	-	880	621
Technical charges	-234	-243	-150	-252	-156	-201	-	-	-477	-357
Life insurance (before reinsurance)	-72	-67	-79	-22	-59	-62	-	-	-139	-122
Earned premiums	446	448	271	310	271	241	-	-	894	512
Technical charges	-518	-514	-350	-332	-331	-303	-	-	-1 033	-634
Ceded reinsurance result	-14	-1	-12	13	-12	13	-	-	-14	1
Dividend income	5	22	10	5	4	19	-	-	27	23
Net result from financial instruments at fair value through profit or loss	353	58	223	156	218	256	-	-	410	473
Net realised result from available-for-sale assets	31	9	55	85	96	46	-	-	40	141
Net fee and commission income	312	309	345	359	385	388	-	-	621	773
Other net income	22	60	80	89	76	69	-	-	83	145
Total income	2 057	1 743	1 857	1 831	1 890	1 832	-	-	3 801	3 722
Operating expenses	-1 110	-1 016	-990	-1 068	-1 029	-921	-	-	-2 126	-1 950
Impairment	-271	-241	-305	-378	-335	-235	-	-	-512	-570
on loans and receivables	-261	-198	-283	-329	-295	-217	-	-	-459	-512
on available-for-sale assets	-5	-24	-4	-4	-13	-3	-	-	-29	-16
on goodwill	0	0	0	0	-7	0	-	-	0	-7
on other	-5	-18	-18	-45	-20	-15	-	-	-24	-35
Share in results of associated companies	-9	-9	-13	1	0	0	-	-	-19	0
Result before tax	667	477	549	385	526	677	-	-	1 144	1 202
Income tax expense	-159	-129	-167	-98	-163	-189	-	-	-289	-352
Result after tax	508	348	382	287	363	487	-	-	855	850
attributable to minority interests	7	5	9	9	4	3	-	-	12	7
attributable to equity holders of the parent	**501**	**343**	**373**	**279**	**359**	**485**	**-**	**-**	**844**	**843**
Belgium	486	244	335	295	385	418	-	-	730	803
Czech Republic	158	159	149	114	132	146	-	-	318	279
International Markets	-163	-41	-38	-18	-87	-23	-	-	-204	-110
Group Centre	19	-19	-72	-113	-71	-56	-	-	0	-128
Basic earnings per share (EUR)	1.19	0.49	0.69	-0.92	0.86	1.16	-	-	1.67	2.02
Diluted earnings per share (EUR)	1.19	0.49	0.69	-0.92	0.86	1.16	-	-	1.67	2.02
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	138	-39	280	46	165	180	-	-	99	346
Legacy – divestments	81	-884	23	3	22	-128	-	-	-803	-106
MTM of own credit risk	-340	41	-144	-87	-26	-20	-	-	-300	-46
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent: IFRS	**380**	**-539**	**531**	**240**	**520**	**517**	**-**	**-**	**-160**	**1 037**

Analysis of the quarter under review (2Q2013)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 2Q 2013 (in millions of EUR)



The net result for the quarter under review amounted to 517 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 485 million euros, compared with 359 million euros in 1Q2013 and 343 million euros in 2Q2012.

Total income (adjusted net result)

- The quarter-on-quarter comparison was partially impacted by the deconsolidation of Absolut Bank, while the year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, Warta, Żagiel, Absolut Bank and certain other sales. These items will be disregarded to enable a meaningful comparison to be made.
- Net interest income stood at 990 million euros, down 4% quarter-on-quarter and 14% year-on-year. On a comparable basis, net interest income fell by just 2% quarter-on-quarter and 7% 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 1.72% for the quarter under review, a level similar to the one in the previous quarter, but 6 basis points lower than the level of the year-earlier quarter. In the Belgium Business Unit, deposit and loan volumes were flat quarter-on-quarter. On a yearly comparison, the loan book contracted by 1% (due to the loan book deliberately being reduced at the foreign branches while the other segments posted growth), while the deposit base grew by 6%. The loan book in the Czech Republic increased by 8% year-on-year and by 3% quarter-on-quarter, while deposits rose by 2% year-on-year and stayed flat quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 5% year-on-year (due to Ireland and Hungary) and by 1% quarter-on-quarter, while the deposit base grew by 20% year-on-year (driven by Ireland, Hungary and Slovakia) and by 3% 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 66 million euros, down 15% quarter-on-quarter and 50% year-on-year. However, when account is taken of the deconsolidation of Warta, this result was 20% higher than the year-earlier figure.

  Premiums in the non-life segment were 3% higher quarter-on-quarter and 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 1Q2013 and 2Q2012. Nevertheless, the combined ratio still came to a good 91% year-to-date (95% 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 20% on their level in 1Q2013. 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 towards mutual funds.

  It should be noted that the second quarter was a good one for investment income from insurance activities, with the quarter-on-quarter results being boosted by substantially higher dividend income in the investment portfolio – a typical effect of the second quarter – and by lower impairment charges. 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 256 million euros in the quarter under review, higher than the 164-million-euro average for the last four quarters. This figure is usually defined by dealing-room income, but this quarter has been influenced primarily by a positive result of 126 million euros 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 46 million euros for the quarter under review, below the 61-million-euro average for the last four quarters. These gains were realised on the sale of both bonds and shares,

and were lower than the previous quarter, which had benefited largely from gains on the sale of Belgian government bonds.

- Net fee and commission income continued to grow and amounted to 388 million euros, up 1% quarter-on-quarter and 26% year-on-year. On a comparable basis, income was up by as much as 2% quarter-on-quarter and by 23% year-on-year. The main drivers for this increase were higher management fees on mutual funds, despite a lower level of transaction fees. Assets under management stood at 156 billion euros, flat compared to the quarter earlier (net new inflows were fully offset by the negative investment performance) and up 3% year-on-year, driven by investment performance.
- Other net income came to 69 million euros, down somewhat on the 76-million-euro average of the four preceding quarters.

Operating expenses (adjusted net result)

- Operating expenses came to 921 million euros in 2Q2013, down 10% on their level in the previous quarter and down 9% on their year-earlier level. On a comparable basis, costs decreased by 8% compared with the previous quarter, something that was chiefly attributable to the bank tax for the full year in Hungary being charged in the first quarter (notwithstanding an additional one-off financial transaction levy in the second quarter), as well as to a reimbursement in the second quarter relating to the former deposit guarantee scheme in Belgium. Year-on-year on a comparable basis, costs were 4% higher. This was due primarily to the new financial transaction levy in Hungary and higher bank tax in Belgium, partly offset by lower professional fees and the impact of currency exchanges. The year-to-date cost/income ratio came to 50%, 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.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 217 million euros in 2Q2013, down on the 295 million euros recorded in the previous quarter, but up on the 198 million euros recorded a year earlier. The figure for 2Q2013 included loan loss impairment of 88 million euros recorded at KBC Bank Ireland (as opposed to 99 million euros in the previous quarter and 136 million euros in the year-earlier quarter), as well as 82 million euros in the Belgium Business Unit (compared with 138 million euros in the first quarter of 2013 and 41 million euros in the year-earlier quarter). The annualised credit cost ratio stood at 0.75% year-to-date. This breaks down into 0.49% for the Belgian Business Unit (up from 0.28% for FY2012 mainly as a result of increased impairment recorded in the SME & corporate segment), 0.30% in Czech Republic Business Unit (flat compared with 0.31% for FY2012, but driven by a change in methodology) and 1.76% for the International Markets Business Unit (down from 2.26% for FY2012).
- Impairment charges on available-for-sale assets came to 3 million euros and other impairment charges amounted to 15 million euros in the quarter under review.

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

- CDOs: During the second 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, the costs and benefits of reducing the CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 180 million euros.
- Remaining divestments: The closure of the deal to sell the Russian banking business, Absolut Bank, to a group of Russian companies that manage the assets of Blagosostoyanie had a negative impact of about -0.1 billion euros on the results, but none on regulatory capital. An impairment of 20 million euros (post tax) on the 75-million-euro subordinated loan to NLB has also been recorded under this line for this quarter. The total post-tax impact was a negative 128 million euros.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of March 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of 20 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 2Q2013, the Belgium Business Unit generated a net result of 418 million euros, well above the average figure of 315 million euros for the four preceding quarters. The quarter under review was characterised by sound levels of commercial net interest income and net fee and commission income, modest unit-linked life insurance sales, a good non-life combined ratio, seasonally higher dividend income, significantly positive MtM valuations of ALM derivatives, low realised gains on the sale of available-for-sale securities, an excellent cost/income ratio and a reduced level of loan loss impairment. 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 146 million euros, slightly above the average figure of 139 million euros for the four preceding quarters. Compared with the previous quarter,

2Q2013 had slightly higher net interest income (excluding FX effects), a limited flood-related impact on the results of the non-life insurance business, lower unit-linked life insurance sales, higher MtM valuations of ALM derivatives, somewhat lower net fee and commission income, roughly flat costs and lower loan loss impairment charges (driven by changes in methodology). Banking activities accounted for 98% of the net result in the quarter under review and insurance activities for 2%.

- In the quarter under review, the International Markets Business Unit recorded a net result of -23 million euros, an improvement on the average of -46 million euros for the four preceding quarters. Quarter-on-quarter, 2Q2013 was characterised by higher net interest income, net fee and commission income and realised gains on available-for-sale securities, some positive one-off items in other net income, lower costs (related to the booking of bank tax in Hungary) and more or less flat loan loss impairment charges (with Ireland still accounting for a significant, though decreasing, amount). Overall, the banking activities accounted for a negative net result of 29 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 -24 million in 2Q2013. As mentioned earlier, this includes not only 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. Excluding these items, the Group Centre's adjusted net result was -56 million euros.

Analysis of the year-to-date period under review (1H2013)

The net result for 1H2013 amounted to 1 037 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 843 million euros, compared with 844 million euros in 1H2012.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, Warta, Żagiel, Absolut Bank and certain other sales. These items will be disregarded to enable a meaningful comparison to be made.
- Net interest income stood at 2 022 million euros, down 15% year-on-year. On a comparable basis, net interest income fell by 8% 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 1.72% year-to-date, 10 basis point lower than the high level of a year earlier. In the Belgium Business Unit, the loan book contracted by 1% year-on-year (due to the loan book being deliberately reduced at the foreign branches while the other segments posted growth), while the deposit base grew by 6%. The loan book in the Czech Republic increased by 8% year-on-year, while deposits rose by 2%. 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 20% (driven by Ireland, Hungary and Slovakia).
- The life and non-life insurance businesses turned in the following performance during the first half of 2013. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 143 million euros, down 43% year-on-year. However, when account is taken of the deconsolidation of Warta, this result was 30% higher than the year-earlier figure.

  Premiums in the non-life segment were 3% 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 1H 2012. Nevertheless, the combined ratio still came to a good 91% year-to-date.

  In the life segment, and on a comparable basis, sales of life insurance products (including unit-linked products not included in premium income figures) were down 55% on their level in 1H2012, 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, but benefited from general administrative expenses being kept strictly under control.
- The net result from financial instruments at fair value amounted to 473 million euros in the first half of 2013, compared with 410 million euros for the first half of the previous year, or 378 million euros on a comparable basis. This figure is usually defined by dealing-room income, but this first six-month period has been influenced primarily by a positive result of 211 million euros on the marked-to-market valuations in respect of the derivative instruments used in asset and liability management.
- Net realised gains from available-for-sale assets stood at 141 million euros for the period under review, compared with 40 million euros for the first half of the previous year, or 32 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 773 million euros, up 25% year-on-year. On a comparable basis, income was up 21% year-on-year. The main drivers for this increase were entry and management fees on mutual funds. Assets under management stood at 156 billion euros, up 1% since the end of 2012 primarily because of price effects.
- Other net income came to 145 million euros as opposed to 83 million euros in the year-earlier period, which had been impacted by provisioning for the 5-5-5 product.

Operating expenses (adjusted net result)

- Operating expenses came to 1 950 million euros in 1H2013, 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 50%, 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 and by net realised gains from available-for-sale assets.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 512 million euros in 1H2013, up on the 459 million euros recorded a year earlier. The figure for 1H2013 included loan loss impairment of 187 million euros recorded at KBC Bank Ireland (as opposed to 331 million euros in the first six months of 2012), as well as a relatively high 220 million euros in the Belgium Business Unit. The annualised credit cost ratio stood at 0.75% year-to-date. This breaks down into 0.49% for the Belgian Business Unit (up from 0.28% for FY2012), 0.30% in Czech Republic Business Unit (compared with 0.31% for FY2012) and 1.76% for the International Markets Business Unit (down from 2.26% for FY2012).
- Impairment charges on available-for-sale assets came to 16 million euros and other impairment charges amounted to 42 million euros in the six months under review.

Income tax

- Income tax amounted to 352 million euros for the first six months of 2013.

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

- CDOs: During the first six months of 2013, corporate and ABS credit spreads tightened further. When account is taken the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the costs and benefits of reducing the CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 346 million euros.
- Remaining divestments: 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 to a group of Russian companies that manage the assets of Blagosostoyanie had a negative impact on the results of about -0.1 billion euros, but none on regulatory capital. An impairment of 20 million euros (post tax) on the subordinated loan to NLB was also recorded under this line in 2Q2013. The total impact of all these items on the net result for the first six months of 2013 was a negative 106 million euros.
- 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 second quarter resulted in a negative marked-to-market adjustment of 46 million euros (post tax), but had no impact on regulatory capital.

Equity and solvency

- At the end of June 2013, total equity came to 16 billion euros – up 0.1 billion euros on its level at the start of the year – due mainly to the 1H results (1 billion euros) mitigated by the payment of the dividend and the payment of the coupon on non-voting core-capital securities subscribed by the Belgian Federal and Flemish Regional governments (an aggregate -1 billion euros). Repayment of 1.17 billion euros (plus 50% penalty) in Flemish state aid was made on 3 July 2013 and will be reflected in the third-quarter figures.
- The group's tier-1 ratio (under Basel II) stood at a strong 16.8% at 30 June 2013 (core tier-1 ratio of 14.5%). Including the effect of the repayment of Flemish state aid, the transfer of shareholder loans and the sale of KBC Banka, the *pro forma* tier-1 ratio was as high as 14.9% (core tier-1 ratio of 12.6%).
- The solvency ratio for KBC Insurance stood at an excellent 304% at 30 June 2013, slightly down from the very high 322% at the end of 2012.
- The *pro forma* common equity ratio under the current Basel III framework came to 11.8% (fully loaded, but including the remaining aid from the Flemish Region) at the end of the second 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 125%, as well as in the NSFR ratio of 107% 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	-	-
Loans and advances to customers*	135 980	133 326	131 048	128 492	129 753	131 769	-	-
Securities (equity and debt instruments)*	65 853	64 227	65 171	67 295	65 071	65 722	-	-
Deposits from customers and debt certificates*	166 551	163 685	160 945	159 632	167 994	167 414	-	-
Technical provisions, before reinsurance*	19 925	19 539	19 637	19 205	18 836	18 805	-	-
Liabilities under investment contracts, insurance*	7 871	8 856	9 680	10 853	11 664	11 606	-	-
Parent shareholders' equity	10 949	9 687	10 629	12 017°	12 505	12 119	-	-
Non-voting core-capital securities	6 500	6 500	6 500	3 500	3 500	3 500[+]	-	-

* 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.
[+] On 3 July 2013, 1.17 billion euros of non-voting core-capital securities were redeemed, reducing the outstanding position in these securities to 2.3 billion euros.

Selected ratios

Selected ratios KBC Group (consolidated)	FY2012	1H2013
Profitability and efficiency (based on adjusted net result)		
Return on equity[1]	9%	15%
Cost/income ratio, banking	57%	50%
Combined ratio, non-life insurance	95%	91%
Solvency		
Tier-1 ratio (Basel II)	13.8%	16.8%
Core tier-1 ratio (Basel II)	11.7%	14.5%
Common equity ratio (Basel III, fully loaded, including remaining state aid)	10.8%	13.3%
Credit risk		
Credit cost ratio	0.71%	0.75%
Non-performing ratio	5.3%	5.5%

1 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 bank-insurance in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. 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 (2Q to date):
  - On 24 May 2013, KBC Group completed the deal announced on 24 December 2012, whereby KBC sold its Russian banking business Absolut Bank to a group of Russian companies that manage the assets of Blagosostoyanie.
  - KBC is still in discussions with a number of interested parties as regards two of its remaining divestment files, i.e. Antwerp Diamond Bank (Belgium) and KBC Bank Deutschland (Germany). It is also maintaining an open and constructive dialogue with the European Commission about these files.

- Other business developments:
  - On 3 July 2013, KBC succeeded in reaching an agreement on 0.3 billion euros' worth of loans it had granted to KBC Ancora and transferring them to another international financial institution. The transfer will boost KBC's capital position under the Basel III framework by a further 0.3 billion euros and will generate added value for its shareholders.
  - On 3 July 2013, KBC repaid 1.17 billion euros of state aid plus the penalty of 0.58 billion euros – i.e. 1.75 billion euros in total – to the Flemish Regional Government, six months in advance of the deadline agreed with the European Commission, reducing the outstanding state aid position to 2.3 billion euros.

- Developments on the Corporate Social Responsibility front:
  - On 13 June 2013, the first meeting of KBC's CSR Board took place. Composed of external CSR experts and academics, this board assists, inspires and challenges KBC on different CSR related actions and initiatives.
  - On 15 June 2013, ČSOB Slovakia's employees participated for the fourth time in the 'Our City' event, the biggest event of its kind for corporate volunteering in Slovakia and Central Europe.
  - In June 2013, ČSOB Slovakia published its Corporate Responsibility Report for 2012 for the second year.
  - In June 2013, Ethibel confirmed KBC's membership of the Ethibel Excellence Investment Register, indicating that the company performs better than average in its sector in terms of CSR.
  - On 17 June 2013, K&H Insurance in Hungary came second in the Consumer-Friendly Insurer of the Year competition. The prizes were awarded by an independent professional panel.
  - In the second quarter, ČSOB Czech Republic was named Best Bank in the Czech Republic by EMEA Finance for the third time in four years.
  - On 8 July 2013, CIBANK in Bulgaria received the Grapevine Awards 2013 for its engagement programme 'ACTIVE'. This internal programme aims at increasing employee engagement as part of a new corporate culture initiative and won the Grapevine Award in the category 'Best employee engagement program or campaign'.
  - In July 2013, KBC was included in the Euronext Vigeo Benelux 20 Index, composed of the 20 most advanced companies in the Benelux region in terms of their performance with regard to the environment, social issues and corporate governance.

- 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 restructuring 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 2Q2013. Firstly, the recovery in the US continued, despite the so-called fiscal drag, with net job creation hitting about 200 000 per month. This prompted the Fed to consider starting to phase out its asset purchase programme later in 2013. Secondly, confidence indicators in the EMU suggest that the European economy is moving out of recession and back into positive growth territory in the

third quarter. 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. Finally, 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.
  - the re-emergence of an acute EMU crisis as a consequence of possible political stalemates. A ruling by the German Constitutional Court in Q32013 that places significant restrictions on the ECB’s OMT programme, could also lead to new waves of uncertainty and widening bond yield spreads within the EMU.

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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