

Brussels, 13 November 2014 (07.00 a.m. CET)

Strong results and completion of divestment programme

KBC ended the third quarter of 2014 with a net profit of 591 million euros, compared with 317 million euros in the previous quarter and 272 million euros in the third quarter of 2013.

After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 477 million euros for the third quarter of 2014, compared with 287 million euros in the second quarter of 2014 and 457 million euros in the third quarter of 2013.



Johan Thijs, Group CEO:

'The summer months of 2014 were characterised by a low interest rate environment and a weakening of the economic recovery that had set in earlier this year against a background of low inflation. It was in this context that KBC posted a net result of 591 million euros for the third quarter, or 477 million euros on an adjusted-profit basis. The group continued to record excellent commercial results: net interest income increased, with loan volumes and client deposits growing further. We also collected higher revenues in the form of fees and commissions particularly in the asset management activities. The combined ratio for our non-life insurance activities remained strong and sales of life insurance products were also up. The cost/income ratio adjusted for specific items remained robust. Loan loss impairment charges were up somewhat on the previous quarter's level but remained low overall, with a decrease being recorded in Ireland. Our total income continued to be impacted slightly by negative marked-to-market changes in the value of derivatives used for asset/liability management purposes.'

Besides these excellent commercial results, the group managed to complete the divestment programme agreed with the European Commission in 2009. The sale of KBC Deutschland was completed in September, the activities of Antwerp Diamond Bank were put into run down and the two remaining CDOs in the portfolio were collapsed. These operations heralded the completion of the divestment programme.

In the third quarter, the Belgium Business Unit generated a net result of 384 million euros, somewhat above the average figure of 375 million euros for the four preceding quarters. Compared with the previous quarter, the third quarter of 2014 was characterised by higher net interest income and net fee and commission income, a sound combined ratio for non-life insurance and increased sales of unit-linked life insurance products. Other features of the quarter under review were the reduced but still negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, seasonally lower dividend income and a lower level of other net income. Costs were down slightly and impairment charges were up compared to the low level of the second quarter. The banking activities accounted for 80% of the net result in the quarter under review, and the insurance activities for 20%.

In the quarter under review, the Czech Republic Business Unit posted a net result of 130 million euros, somewhat below the 139-million-euro average for the four preceding quarters. Compared with the previous quarter, the results for the third quarter featured (on a comparable basis) flat net interest income and lower net fee and commission income, a lack of realised gains on the sale of financial assets, higher net results from financial instruments, a lower level of other income, a solid non-life combined ratio and increased sales of unit-linked life insurance products. Costs declined slightly and loan loss impairment charges were up on the unsustainably low level recorded in the previous quarter. Banking activities accounted for 95% of the net result in the quarter under review, and insurance activities for 5%.

In the quarter under review, the International Markets Business Unit recorded a positive net result of 27 million euros, a significant improvement on the negative 236-million-euro average for the four preceding quarters (which had been significantly affected by additional loan loss provisioning for Ireland in the fourth quarter of 2013 and by the impact of the new retail loans act in Hungary in the second quarter of 2014). Compared to the previous quarter, the third quarter of 2014 was characterised by slightly higher net interest income and strong net fee and commission income, a stable result from financial instruments at fair value and somewhat lower realised gains on bonds and shares, a deterioration in the non-life combined ratio and lower life insurance sales. It should be noted that the previous quarter had been significantly impacted by the new Hungarian act on retail loans. Costs in the third quarter were flat, and loan loss provisions fell, mainly in Ireland. Overall, the banking activities accounted for a net result of 23 million euros (positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland), while the insurance activities accounted for a net result of 4 million euros.

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

Our capital position also continues to be very robust, as illustrated by a common equity ratio of 13.7% (Basel III fully loaded under the Danish compromise). In the analysis for the first nine months of the year, the repayment of 0.5 billion euros to the Flemish Regional Government at the beginning of January has been taken into account, as have the results for this nine-month period and a pro rata provision for the proposed dividend, the coupons on the additional tier-1 instruments and on the remaining state aid, which are all to be paid over 2014. The common equity ratio, therefore, continues to be well above our target of 10.5%.

This strong capital position has also been confirmed by the results of the comprehensive assessment carried out by the ECB. KBC exceeded the ECB's asset quality review and stress test thresholds and maintained a strong buffer of 2.8 percentage points (2.8 billion euros) above the ECB-imposed threshold of 5.5%, an achievement that reflects KBC's resilience.

The group welcomed the extension of the 'KBC Group anchoring agreements' made by Cera, KBC Ancora, MRBB and the other stable shareholders. They have confirmed that they intend to continue acting in concert with respect to KBC Group NV for another term of 10 years. In doing so, they will ensure continued shareholder stability and support the further development of the KBC group.

This anchoring agreement will help KBC realise its ambition of being among the best-performing, retail-focused financial institutions in Europe and becoming the reference in bank-insurance in its core markets. This aim will be achieved by strengthening in a highly cost-efficient way its bank-insurance business model for retail, SME and mid-cap clients in its core markets, by focusing on sustainable and profitable growth within the framework of solid risk, capital and liquidity management, and by creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach. The group is truly grateful for the continued trust that its clients and stakeholders have placed in the firm and its employees.'

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, KBC collapsed the last two CDOs in its portfolio, which had a slightly negative effect on its results but a positive impact on capital. The total impact of this item on KBC's third-quarter income statement amounted to -24 million euros (post tax), account taken of the movement in credit spreads and guarantee-related fees. Collapsing these CDOs freed up 0.3 billion euros of capital and increased KBC's solvency by 0.4%.
- Remaining divestments: A total post-tax positive impact of 132 million euros was recorded for this quarter, based mainly on a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: The narrowing of the senior credit spread combined with the widening of the subordinated credit spread on KBC debt between the end of June 2014 and the end of September 2014 resulted in a slight positive marked-to-market adjustment of 6 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 3Q2014 compared with 2Q2014:

- Strong commercial net result.
- Net interest income up by 6%.
- Net interest margin up from 2.05% to 2.15%.
- Strong loan and deposit growth in all core countries.
- Excellent non-life combined ratio of 93% year-to-date.
- Higher life insurance sales.
- Net fee and commission income up by 4%, notwithstanding the summer months.
- Cost/income ratio of 59% year-to-date, and 54% when adjusted for specific items (mainly the impact of marked-to-market valuations in respect of ALM derivatives, and the Hungarian act on FX retail loans in the previous quarter).
- Credit cost ratio at a low 0.41% year-to-date.
- Consistently solid liquidity position, with an LCR at 120% and an NSFR at 109%.
- Solvency: strong capital base, with a Basel III common equity ratio (fully loaded) at 13.7%, well above the 10.5% target.

Overview KBC Group (consolidated)	3Q2013	2Q2014	3Q2014	9M2013	9M2014
Net result, IFRS (in millions of EUR)	272	317	591	1 309	1 305
Basic earnings per share, IFRS (in EUR) ¹	-0.75	0.63	1.28	1.74	2.35
Adjusted net result (in millions of EUR)	457	287	477	1 300	1 151
Basic earnings per share, based on adjusted net result (in EUR) ¹	-0.30	0.56	1.00	1.72	1.99
Breakdown by business unit (in millions of EUR)					
Belgium	391	383	384	1 193	1 117
Czech Republic	157	140	130	435	408
International Markets	-12	-176	27	-122	-175
Group Centre	-79	-59	-64	-207	-199
Parent shareholders' equity per share (in EUR, end of period)	28.5	29.5	30.8	28.5	30.8

¹ Note: If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments and 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.

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 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	9M 2013	9M 2014
Net interest income	1 053	1 003	1 014	1 008	1 010	1 056	1 120	-	3 069	3 185
Interest income	2 161	2 079	2 037	2 067	1 930	1 971	2 010	-	6 276	5 911
Interest expense	-1 108	-1 076	-1 023	-1 060	-920	-915	-890	-	-3 207	-2 726
Non-life insurance (before reinsurance)	149	115	145	127	149	102	139	-	409	389
<i>Earned premiums</i>	305	316	321	317	307	315	321	-	942	944
<i>Technical charges</i>	-156	-201	-176	-190	-158	-214	-183	-	-533	-555
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-57	-	-185	-171
<i>Earned premiums</i>	271	241	238	381	308	297	299	-	750	904
<i>Technical charges</i>	-331	-303	-302	-438	-367	-353	-355	-	-936	-1 075
Ceded reinsurance result	-12	13	1	-6	-17	19	4	-	2	6
Dividend income	5	20	14	8	14	24	9	-	39	47
Net result from financial instruments at fair value through profit or loss	314	425	223	229	40	44	34	-	962	118
Net realised result from available-for-sale assets	142	47	34	29	51	49	28	-	223	128
Net fee and commission income	389	381	337	362	374	387	402	-	1 107	1 163
Fee and commission income	636	560	507	564	557	533	579	-	1 704	1 668
Fee and commission expense	-247	-179	-170	-202	-182	-147	-177	-	-596	-505
Other net income	76	-20	51	15	52	-99	73	-	107	26
Total income	2 058	1 921	1 754	1 715	1 615	1 526	1 752	-	5 733	4 892
Operating expenses	-1 033	-924	-918	-968	-973	-933	-923	-	-2 875	-2 829
Impairment	-350	-275	-362	-940	-114	-142	-58	-	-987	-313
on loans and receivables	-293	-254	-230	-937	-102	-136	-190	-	-777	-429
on available-for-sale assets	-13	-3	-8	-10	-5	-3	-6	-	-24	-14
on goodwill	-7	0	0	0	0	0	0	-	-7	0
on other	-37	-18	-125	7	-6	-3	139	-	-179	130
Share in results of associated companies and joint ventures	8	8	9	6	7	7	6	-	24	19
Result before tax	683	729	483	-187	535	457	777	-	1 895	1 769
Income tax expense	-159	-210	-207	-103	-138	-140	-186	-	-575	-464
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	-	0	0
Result after tax	524	520	276	-290	397	317	591	-	1 319	1 305
attributable to minority interests	4	3	4	4	0	0	0	-	10	0
attributable to equity holders of the parent	520	517	272	-294	397	317	591	-	1 309	1 305
Basic earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	1.28	-	1.74	2.35
Diluted earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	1.28	-	1.74	2.35

Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect the net result, but has an impact on various items in the consolidated income statement.

Overview of adjusted results

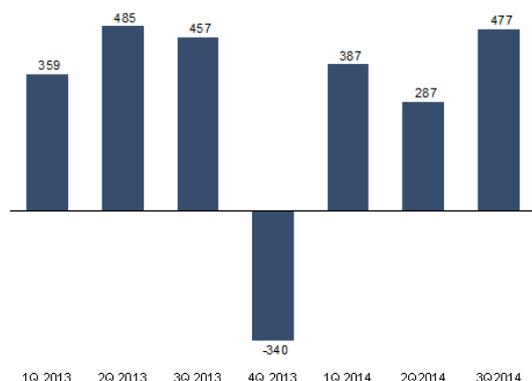
In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from 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 (with all trading results shifting 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 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	9M 2013	9M 2014
Adjusted net result (i.e. excluding legacy business and own credit risk)										
Net interest income	1 018	976	999	996	1 002	1 047	1 109	-	2 993	3 158
Non-life insurance (before reinsurance)	149	115	145	127	149	102	139	-	409	389
<i>Earned premiums</i>	305	316	321	317	307	315	321	-	942	944
<i>Technical charges</i>	-156	-201	-176	-190	-158	-214	-183	-	-533	-555
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-57	-	-185	-171
<i>Earned premiums</i>	271	241	238	381	308	297	299	-	750	904
<i>Technical charges</i>	-331	-303	-302	-438	-367	-353	-355	-	-936	-1 075
Ceded reinsurance result	-12	13	1	-6	-17	19	4	-	2	6
Dividend income	4	19	11	7	11	22	6	-	34	39
Net result from financial instruments at fair value through profit or loss	218	256	146	159	17	37	49	-	620	103
Net realised result from available-for-sale assets	96	46	42	29	50	49	27	-	183	127
Net fee and commission income	382	385	341	365	378	389	404	-	1 108	1 171
Other net income	76	68	151	47	52	-124	64	-	296	-8
Total income	1 872	1 815	1 773	1 668	1 584	1 485	1 746	-	5 459	4 814
Operating expenses	-1 023	-914	-906	-955	-965	-926	-898	-	-2 843	-2 789
Impairment	-333	-234	-208	-949	-107	-134	-183	-	-775	-424
on loans and receivables	-293	-215	-185	-939	-103	-130	-165	-	-693	-398
on available-for-sale assets	-13	-3	-2	-3	-5	-3	-6	-	-18	-14
on goodwill	-7	0	0	0	0	0	0	-	-7	0
on other	-20	-15	-22	-7	0	0	-12	-	-57	-12
Share in results of associated companies and joint ventures	8	8	9	6	7	7	6	-	24	19
Result before tax	524	675	667	-230	518	431	671	-	1 866	1 620
Income tax expense	-161	-187	-206	-106	-131	-144	-194	-	-555	-469
Result after tax	363	487	460	-336	387	288	477	-	1 310	1 152
attributable to minority interests	4	3	4	4	0	0	0	-	10	0
attributable to equity holders of the parent	359	485	457	-340	387	287	477	-	1 300	1 151
Belgium	385	418	391	376	351	383	384	-	1 193	1 117
Czech Republic	132	146	157	119	138	140	130	-	435	408
International Markets	-87	-23	-12	-731	-26	-176	27	-	-122	-175
Group Centre	-71	-56	-79	-104	-75	-59	-64	-	-207	-199
Basic earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56	1.00	-	1.72	1.99
Diluted earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56	1.00	-	1.72	1.99
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	165	180	34	65	16	30	-24	-	380	23
Legacy – divestments	22	-128	-231	-10	-9	8	132	-	-337	131
MTM of own credit risk	-26	-20	12	-9	2	-8	6	-	-34	0
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent (IFRS)	520	517	272	-294	397	317	591	-	1 309	1 305

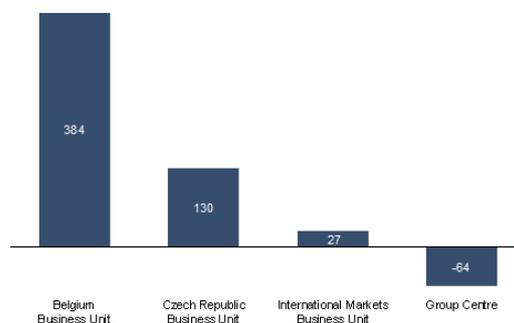
Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect the net result, but has an impact on various items in the consolidated income statement.

Analysis of the quarter under review (3Q2014)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 3Q2014 (in millions of EUR)



The net result for the quarter under review amounted to 591 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to 477 million euros, compared with 287 million euros in 2Q2014 and 457 million euros in 3Q2013.

Total income (adjusted net result)

- Net interest income stood at 1 109 million euros, up 6% quarter-on-quarter and 11% year-on-year. The net interest margin came to 2.15% for the quarter under review, 10 basis points higher than the level of the previous quarter, and 26 basis points higher than the (recalculated) level of the year-earlier quarter. The increase was driven primarily by sound commercial margins, lower funding costs and an increased level of repayment fees. Deposit volumes were up 1% quarter-on-quarter but down 1% year-on-year (due entirely to maturing wholesale debt). Loan volumes were up 1% both quarter-on-quarter and year-on-year. The loan book in the Belgium Business Unit grew by 1% quarter-on-quarter and by 2% year-on-year. Deposits in the Belgium Business Unit grew by 3% quarter-on-quarter and by 4% year-on-year. The loan book in the Czech Republic increased by 6% year-on-year and 2% quarter-on-quarter, while deposits rose by 8% year-on-year and 1% quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year, owing to the contraction in the Irish loan portfolio offsetting the strong growth in Bulgaria and Slovakia, and was almost flat quarter-on-quarter. Its deposit base grew by 1% year-on-year (driven primarily by Ireland, where there is a successful ongoing retail campaign), and by 2% 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 86 million euros, up 32% quarter-on-quarter and 4% year-on-year.

In the non-life segment, earned premiums were up 2% quarter-on-quarter and flat year-on-year. Claims during the third quarter were substantially lower (-14%) than their quarter-earlier level (due to the hailstorms in Belgium in 2Q2014) and were up somewhat (4%) on their level in the third quarter of 2013. Nevertheless, the combined ratio came to a solid 93% year-to-date.

In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were up 12% on their level in 2Q2014, with a significant increase in unit-linked products. Year-on-year, they were up by 50% on account of the increase in sales of guaranteed-interest products and unit-linked products.

It should be noted that the third quarter was a decent one for investment income derived from insurance activities, although down on the level of the previous quarter, with the quarter-on-quarter results being driven by higher net interest income quarter-on-quarter, but lower dividend income after a seasonally strong second quarter, and lower realised gains on available-for-sales assets in the investment portfolio. 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 49 million euros in the quarter under review, significantly below the 90-million-euro average for the four preceding quarters. This figure was driven by dealing-room income, which stood at a modest level in 3Q2014, whilst the quarter under review was impacted by lower negative marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes. These valuations came to -46 million euros in the third quarter (compared to a quarterly average of +70 million euros in 2013 and to -57 million euros in the second quarter).
- Net realised gains from available-for-sale assets stood at 27 million euros for the quarter under review, down on the 43-million-euro average for the four preceding quarters and lower than the previous quarter. These gains were realised on the sale of both shares and bonds.
- Net fee and commission income amounted to 404 million euros, up 4% quarter-on-quarter and 19% year-on-year. The main driver for the quarter-on-quarter trend was the higher level of management fees for mutual funds. Assets under management stood at 180 billion euros, up 4% on their level of the previous quarter (accounted for by the investment performance (+2%) and net entries (+2%)) and up 13% year-on-year, driven by the investment performance (+9%) and by net inflows (+4%).
- Other net income came to 64 million euros, substantially higher than the 32-million-euro average for the four preceding quarters (the latter figure had been impacted to the tune of -231 million euros by provisioning for the new Hungarian act on retail loans in 2Q2014).

Operating expenses (adjusted net result)

- Operating expenses came to 898 million euros in 3Q2014, down 3% on their level in the previous quarter and 1% year-on-year. The quarter-on-quarter decrease was mainly attributable to timing differences at the Group Centre. Costs were down 1% year-on-year, with the higher bank tax in Belgium and Hungary and higher staff expenses and general administrative expenses in Ireland being offset by lower operating expenses at the Group Centre and a positive foreign exchange impact.
- The year-to-date cost/income ratio came to a relatively high 59%, but this was largely caused by the fact that the denominator (total income) suffered from the negative marked-to-market valuations of the ALM derivatives and the impact of the new Hungarian act on retail loans. Adjusted for specific items (inter alia the bank tax, ALM derivatives and Hungarian act), the cost/income ratio stood at 54%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 165 million euros in 3Q2014, up on the 130 million euros recorded in the previous quarter but down on the 185 million euros recorded a year earlier. The quarterly increase was attributable mainly to a number of corporate loans in the Belgium Business Unit and in the legacy project finance portfolio. The annualised credit cost ratio for the whole group stood at 0.41%. This breaks down into a favourable 0.20% for the Belgium Business Unit (down from 0.37% for FY2013), a very low 0.13% in the Czech Republic Business Unit (down from 0.26% for FY2013), and 1.09% for the International Markets Business Unit (an improvement from 4.48% for FY2013, which had clearly been impacted by the large loan loss impairment charges in Ireland in 4Q2013).
- Impairment charges on assets other than loans were limited in the quarter under review, amounting to 18 million euros and relating to available-for-sale assets and software.

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

- CDOs: During the third quarter, KBC collapsed the last two CDOs in its portfolio, which had a slightly negative effect on its results but a positive impact on capital. The total impact of this item on KBC's third-quarter income statement amounted to -24 million euros (post tax), account taken of the movement in credit spreads and guarantee-related fees. Collapsing these CDOs freed up 0.3 billion euros of capital and increased KBC's solvency by 0.4%.
- Remaining divestments: A total post-tax positive impact of 132 million euros was recorded for this quarter, based mainly on a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: The narrowing of the senior credit spread combined with the widening of the subordinated credit spread on KBC debt between the end of June 2014 and the end of September 2014 resulted in a slight positive marked-to-market adjustment of 6 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 3Q2014, the Belgium Business Unit generated a net result of 384 million euros, somewhat above the average figure of 375 million euros for the four preceding quarters. Compared with the previous quarter, 3Q2014 was characterised by higher net interest income and net fee and commission income, a sound combined ratio for non-life insurance and increased sales of unit-linked life insurance products. Other features of the quarter under review were the reduced but still negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, seasonally lower dividend income and a lower level of other net income. Costs were down slightly and impairment charges were up compared to the low level of the second quarter. The banking activities accounted for 80% of the net result in the quarter under review, and the insurance activities for 20%.
- In the quarter under review, the Czech Republic Business Unit posted a net result of 130 million euros, somewhat below the 139-million-euro average for the four preceding quarters. Compared with the previous quarter, the results for 3Q2014 featured (on a comparable basis) flat net interest income and lower net fee and commission income, a lack of realised gains on the sale of financial assets, higher net results from financial instruments, a lower level of other income, a solid non-life combined ratio and increased sales of unit-linked life insurance products. Costs declined slightly and loan loss impairment charges were up on the unsustainably low level recorded in the previous quarter. Banking activities accounted for 95% of the net result in the quarter under review, and insurance activities for 5%.
- In the quarter under review, the International Markets Business Unit recorded a positive net result of 27 million euros, a significant improvement on the negative 236-million-euro average for the four preceding quarters (which had been significantly affected by additional loan loss provisioning for Ireland in 4Q2013 and by the impact of the new retail loans act in Hungary in 2Q2014). Compared to the previous quarter, 3Q2014 was characterised by slightly higher net interest income and strong net fee and commission income, a stable result from financial instruments at fair value and somewhat lower realised gains on bonds and shares, a deterioration in the non-life combined ratio and lower life insurance sales. It should be noted that the previous quarter had been significantly impacted by the new Hungarian act on retail loans. Costs in 3Q2014 were flat, and loan loss provisions fell, mainly in Ireland. Overall, the banking activities accounted for a net result of 23 million euros (positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland), while the insurance activities accounted for a net result of 4 million euros.
- The Group Centre's net result amounted to 50 million in 3Q2014. As stated earlier, this entity includes not only a number of group items and the results of companies earmarked for divestment, but also the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk. Excluding the legacy business and own credit risk impact, the adjusted net result amounted to -64 million in 3Q2014.

Analysis of the year-to-date period under review (9M2014)

The net result for 9M2014 amounted to 1 305 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 1 151 million euros, compared with 1 300 million euros in 9M2013.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Absolut Bank and by some minor changes. These items will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').
- Net interest income stood at 3 158 million euros, up 6% year-on-year. On a comparable basis, it was up 7% year-on-year. Commercial margins remained healthy, interest rates on savings accounts were reduced and wholesale funding costs fell considerably. The net interest margin came to 2.06% year-to-date, 17 basis points higher than the (recalculated) level of a year earlier. In the Belgium Business Unit, the loan book grew by 2% year-on-year and the deposit base by 4%. The loan book in the Czech Republic increased by 6% year-on-year, while deposits rose by 8%. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year (due to Ireland), but the deposit base grew by 1% (driven by Ireland).
- The life and non-life insurance businesses turned in the following performance during the first nine months of 2014. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 224 million euros, down 1% year-on-year.

Premiums in the non-life segment were flat year-on-year. The claims arising from the hailstorms in Belgium resulted in a somewhat higher level of technical charges compared with 9M2013, which in turn had been affected by claims relating to flooding in the Czech Republic. Nevertheless, the combined ratio still came to a solid 93% year-to-date.

In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were up 3% on their level in 9M2013. The increase in sales of guaranteed interest products exceeded the contraction in sales of unit-linked products.

It should be noted that the insurance results also benefited from slightly higher investment income, driven by the higher net realised result from the sale of available-for-sale assets, lower impairment charges and higher dividend income, all of which outweighed the lower level of net interest income and the net result from financial instruments at fair value. General administrative expenses were kept strictly under control and fell by 5% year-on-year.

- The net result from financial instruments at fair value amounted to 103 million euros in the first nine months of 2014, compared with 620 million euros for the corresponding period of the previous year. The first nine months of this year were influenced primarily by a negative result of 186 million euros on the marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes, compared to a positive 250 million euros for the first nine months of 2013.
- Net realised gains from available-for-sale assets stood at 127 million euros for the period under review, compared with 183 million euros for the first nine months of the previous year. Some 43% of the gains were realised on the sale of bonds and 57% on the sale of shares.
- Net fee and commission income amounted to 1 171 million euros, up 6% year-on-year (even on a comparable basis). Assets under management stood at 180 billion euros, up 13% since the end of September 2013 because of price effects (9%) and net entries (4%).
- Other net income came to -8 million euros as opposed to 296 million euros in the year-earlier period. This item was strongly affected by provisioning in 2Q2014 for the new Hungarian act on retail loans: 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' (-231 million euros).

Operating expenses (adjusted net result)

- Operating expenses came to 2 789 million euros in 9M2014, down 2% on their year-earlier level. On a comparable basis, costs decreased by 1%, with the higher bank tax in Belgium and Hungary and higher staff expenses and general administrative expenses in Ireland being offset by lower operating expenses at the Group Centre and a positive foreign exchange impact. The year-to-date cost/income ratio came to a relatively high 59%, but resulted primarily from the fact that the denominator (total income) suffered from negative marked-to-market valuations of ALM derivatives and the impact of the new act on retail loans in Hungary. Adjusted for specific items, the cost/income ratio stood at 54%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 398 million euros in 9M2014, well down on the 693 million euros recorded a year earlier. The annualised credit cost ratio stood at 0.41% year-to-date. This breaks down into 0.20% for the Belgian Business Unit (down from 0.37% for FY2013), 0.13% in Czech Republic Business Unit (compared with 0.26% for FY2013) and 1.09% for the International Markets Business Unit (down from 4.48% for FY2013).
- Other impairment charges came to 26 million euros and were related to impairment on available-for-sale assets and other items.

Income tax

- Income tax amounted to 469 million euros for the first nine months of 2014.

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

- CDOs: During the first nine months of 2014, KBC collapsed the remaining CDOs in its portfolio. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the movement of the corporate and ABS credit spreads, the reduction in the net exposure to legacy CDO positions, along with the termination costs, the total impact on KBC's income statement for 9M2014 came to a positive 23 million euros (post tax).
- Remaining divestments: A total positive post-tax impact of 131 million euros was recorded for 9M2014, based mainly on a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: The comparable levels of credit spreads on KBC debt at the end of December 2013 and the end of September 2014 resulted in a virtually no marked-to-market adjustments being made in 9M2014.

Equity and solvency

- At the end of September 2014, total equity came to 16.2 billion euros – up 1.7 billion euros on its level at the start of the year – due mainly to the inclusion of the Additional Tier-1 instrument (+1.4 billion euros) issued in March. Other factors impacting total equity in the first nine months of 2014 were the repayment of 0.5 billion euros (including the 50% penalty) in Flemish state aid, the inclusion of the 9M2014 results (+1.3 billion euros) and the calling for redemption of Funding Trust securities (-0.4 billion euros in minority interests).
- The group's common equity ratio (Basel III, fully loaded, under the Danish Compromise, including the remaining aid from the Flemish Regional Government) stood at a strong 13.7% at 30 September 2014.
- The solvency ratio for KBC Insurance was an excellent 329% at 30 September 2014, up from the already high 281% at the end of 2013.

Liquidity

- The group's liquidity remains excellent, as reflected in an LCR ratio of 120% and an NSFR ratio of 109% at the end of the third quarter.

Selected balance sheet data

Highlights of consolidated balance sheet * KBC Group (in millions of EUR)	31-03- 2013	30-06- 2013	30-09- 2013	31-12- 2013	31-03- 2014	30-06- 2014	30-09- 2014	31-12- 2014
Total assets	255 753	250 557	247 530	238 686	246 179	252 768	251 612	-
Loans and advances to customers	127 112	129 179	125 795	120 371	120 810	124 661	125 898	-
Securities (equity and debt instruments)	64 777	65 435	63 854	64 904	66 313	68 380	69 530	-
Deposits from customers and debt certificates	164 766	164 213	166 223	161 135	163 838	166 407	166 843	-
Technical provisions, before reinsurance	18 836	18 805	18 803	18 701	18 941	19 007	19 065	-
Liabilities under investment contracts, insurance	11 664	11 606	11 684	11 787	11 976	12 322	12 540	-
Parent shareholders' equity	12 505	12 119	11 895	11 826	11 968	12 318	12 840	-
Non-voting core-capital securities	3 500	3 500	2 333	2 333	2 000	2 000	2 000	-

* Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect equity, but has an impact on various items in the consolidated balance sheet. Moreover, 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.

Selected ratios

Selected ratios KBC Group (consolidated)	FY2013	9M2014
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	12%
Cost/income ratio, banking	52%	59%
Combined ratio, non-life insurance	94%	93%
Solvency		
Common equity ratio (Basel III, fully loaded, including remaining state aid)	12.8%	13.7%
Credit risk		
Credit cost ratio	1.21%	0.41%
Impaired loans ratio	10.2%	10.3%
for loans more than 90 days overdue	5.9%	6.0%

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

Note: a number of ratios have been affected (with retroactive application) by changes due to the implementation of IFRS11, Basel III and the abolished carve-out of the zero weighting of domestic government bonds.

Strategy and business highlights (3Q to date)

- KBC's 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. In line with its strategic plan, the group has now completed the divestment programme.
- In July 2014, Fitch confirmed the long-term ratings for both KBC Bank and KBC Group at 'A-' (with stable outlook). It also confirmed the exact same long-term ratings for both KBC Insurance and KBC Group Re in November 2014.
- In September 2014, KBC decided – in implementation of the agreement made with the European Commission – to run down the loan portfolio and activities of Antwerp Diamond Bank (ADB) in a gradual and orderly manner. The run-down process will be carried out through a merger by absorption in which ADB will be absorbed into KBC. Over time, therefore, the activities, portfolio and the legal entity of ADB will be removed entirely from KBC's scope.
- In September 2014, KBC completed the sale of KBC Bank Deutschland AG to a group of investors. The deal freed up some 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets.
- In September 2014, KBC collapsed the last two CDOs in its portfolio, which freed up 0.3 billion euros in capital. Collapsing these CDOs also ended the Portfolio Protection Agreement that KBC had entered into with the Belgian Federal Government and completely eliminated the group's exposure to MBIA.
- The above operations are the last ones to be completed under the divestment programme agreed with the European Commission in 2009.
- In September 2014, KBC welcomed the extension of the 'KBC Group anchoring agreements' made by Cera, KBC Ancora, MRBB and the other stable shareholders. Together with MRBB and the other stable shareholders, Cera and KBC Ancora have confirmed their intention to continue acting in concert with respect to KBC Group NV for another term of 10 years. In doing so, they will ensure continued shareholder stability and support the further development of the KBC group.
- In October 2014, announcements were made by the European Central Bank (ECB) and the National Bank of Belgium regarding the results of the comprehensive assessment carried out by the ECB. KBC exceeded the ECB's asset quality review and stress test thresholds and maintained a strong buffer. The impact of the stress test on the Common Equity Tier-1 ratio (CET1 ratio) under the adverse scenario in 2016 caused the CET1 ratio to fall by 2.6 percentage points. The impact of the asset quality review (AQR) was limited, reducing the CET1 ratio by 0.6 percentage points. The combined impact of the repayment of state aid, as agreed with the European Commission, during the 3-year stress test horizon (1.8 billion euros including penalties and coupon), the AQR and the pure stress test resulted in a CET1 ratio of 8.3%, which represents a considerable buffer of 2.8 percentage points (2.8 billion euros) above the ECB-imposed threshold of 5.5%, showing KBC's resilience.
- ČSOB received the 'Best Private Bank in the Czech Republic' award from PWM/The Banker, and Patria received the 'Investment Bank of the Year' award from Acquisition International.
- KBC received 4 prizes at the 'Marketing and Interactive Excellence Awards' from IAB Belgium and Best of Publishing.
- KBC received the award for 'Best Private Bank in Belgium' from Professional Wealth Magazine.
- KBC was named 'Private Bank of the Year Belgium' and granted the 'Innovation in Retail Banking Belgium' award by the International Banker.
- K&H again received the 'insurer of the year' award from Biztositas.hu.

Developments on the Corporate Sustainability & Responsibility front (3Q to date)

- As partner of Leuven Klimaat Neutraal, a not-for-profit organisation that aims to make the city of Leuven climate-neutral by 2030, KBC participated in the 'Climate weekend' in August. KBC organised an entertainments stand where visitors could try out electric bikes and participate in different games that gave them the chance to win gifts donated by KBC Insurance's 'Mums know best safety shop'.
- K&H held the seventh edition of 'ART for a better and more meaningful world', which gives a young artist the opportunity to win a scholarship. K&H was one of the first companies in Hungary to rebuild its art collection, which has now become one of the country's most up-to-date and steadily growing corporate collections. Its motto – 'Art for a better and more meaningful world' – perfectly encapsulates the art trends that K&H prefers and appreciates.
- The 'K&H for the underprivileged' programme provides support to the 47 most disadvantaged micro-regions in the areas of children's healthcare, performing arts, pre-adult education and sports.
- In Belgium, KBC continues to focus on mobility. Teleworking has become firmly embedded in KBC's corporate culture and commuter travel at KBC Belgium is expected to drop by 15 million kilometres in 2014.
- KBC confirms its listing on FTSE4Good Index.
- KBC is a member of the STOXX Sustainability Index.
- KBC partner in Horizon 2050: 'Money makes the world go round!'. The newly launched Horizon 2050 covers a lecture tour where Argus, Cera and KBC focus on sharing inspiring views with a broad group of stakeholders. In this first edition, the impact of sustainable investors on listed companies was discussed.
- KBC launched a crowdfunding platform to bring together entrepreneurs and investors. On the website of Bolero, the online broker of KBC Securities, (starting) entrepreneurs can launch an appeal for financing, and interested investors can support them in growing their business through relatively small investments.
- ČSOB announced the 'Stabilisation of Social Enterprises' grant programme. In July 2014, it launched its second annual grant programme for providing support to social entrepreneurship. The programme is identical to last year's pilot project, but now includes two day-long workshops. Financial support of up to 400 000 Czech korunas will be given to between three and five social enterprises. Eleven such enterprises were selected in the second round of the grant programme (out of 27 candidates).

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.
- In the third quarter, global economic data were disappointing on balance. In the US, the ISM report for the manufacturing sector fell slightly in September (albeit from a high level), while producer confidence in the UK, Japan and China also weakened. Nevertheless, the business cycles in the US and UK still seem to be on a recovery track, as reflected by the continuing decline in unemployment rates in those countries. More worrying is the persisting deterioration of producer confidence in the euro area, and particularly in Germany. Both the current and leading components of the German Ifo index have been falling since late spring, increasing downside growth risks in the second half of 2014.

- There is, however, positive news too. First of all, the euro area's labour market continues to improve: Germany remains close to full employment and the number of unemployed is decreasing in most euro countries, with France being the notable exception. Peripheral countries like Ireland and Spain are starting to reap the benefits from their structural reforms. Finally, fiscal policy is becoming less of a drag on growth. The introduction of the Fiscal Compact, and its focus on structural rather than nominal deficits, allows the fiscal stance to become less restrictive and – according to the EC – it may even become accommodating in 2015. In combination with the ECB's very accommodating monetary policy, these positives should allow the euro area to avoid another recession in spite of the recent market turmoil.
- Currently, the biggest risk is a further slowdown of economic momentum and a 'triple dip' recession in the euro area. At the same time, falling energy and commodity prices may well put more downward pressure on European inflation, particularly if the recent depreciation of the euro exchange rate comes to an end.
- Although lower commodity prices are a positive supply shock for the euro area and should support real economic growth, the lower inflation rate might put even more pressure on the ECB. Taken together with Mr Draghi's recent remarks that there are currently no bubbles in the bond markets (this is the opposite view of the IMF), this increases the likelihood that the ECB will eventually start a sovereign bond buying programme (we now give it a 50% chance of going through in 2015). The impact of this is already discounted to a large extent in the extremely low level of interest rates at present.
- Geopolitical risks remain in place (including in Syria, Iraq and Ukraine) but will probably not play a major role in the months to come. Finally, the risk of weaker-than-expected growth in the emerging markets still exists. Commodity exporting emerging markets are suffering from the current decline in commodity prices. In the meantime, both cyclical and financial stability risks continue to hang over the Chinese economy.

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

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