Press Release

Outside trading hours - Regulated information*

Brussels, 7 August 2014 (07.00 a.m. CET)

Excellent commercial results in the second quarter, impacted by severe legislation in Hungary

KBC ended the second quarter of 2014 with a net profit of 317 million euros, compared with 397 million euros in the previous quarter and 517 million euros in the second 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 287 million euros for the second quarter of 2014, compared with 387 million euros in the first quarter of 2014 and 485 million euros in the second quarter of 2013.

Johan Thijs, Group CEO:

'2014 continued in a relatively benign global economic environment, with improving consumer and producer confidence and falling unemployment rates. On the other hand, low interest rates and low inflation also reign in Europe. Against this background, KBC posted a net result of 317 million euros for the second quarter, or 287 million euros on an adjusted-profit basis. When compared with the previous quarter, the group managed to post excellent commercial results: net interest income increased, with loan volumes up and client deposits growing relative to a decrease in wholesale funding. We also collected higher revenues in the form of fees and commissions particularly in Belgium, the Czech Republic and Hungary. The combined ratio for our non-life insurance activities remained strong, despite the higher level of claims, especially related to the hailstorm in Belgium. Sales of life insurance products were also slightly up. The cost/income ratio adjusted for specific items remained robust. Loan loss impairment charges remained relatively low overall, but went up somewhat in Ireland. Our total income remained impacted by negative marked-to-market changes in the value of derivatives used for asset/liability management purposes. More importantly, the negative impact of the provision of 231 million euros, which was booked to cover the consequences of the new Hungarian act on retail loans, has weighed on the result for this quarter. The legal basis of this act will be challenged, with support coming from the opinion of the European Central Bank of 28 July 2014 on this matter and its call for consultation.

In the second quarter of 2014, the Belgium Business Unit generated a net result of 383 million euros, in line with the average figure of 384 million euros for the four preceding quarters. Compared with the previous quarter, the second quarter of 2014 was characterised by flat net interest income, strong net fee and commission income, seasonally higher dividend income, the negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, as well as a deterioration in the combined ratio for non-life insurance due to the hailstorm, increased sales of unit-linked life insurance products and higher other net income. Costs were up slightly and impairment charges remained at a low level. The banking activities accounted for 78% of the net result in the quarter under review, and the insurance activities for 22%.

In the quarter under review, the Czech Republic Business Unit posted a net result of 140 million euros, fully in line with the average for the four preceding quarters. Compared with the previous quarter, the results for the second quarter featured slightly higher net interest income, increased net fee and commission income, the absence of realised gains on the sale of financial assets, higher net results from financial instruments, increased other income, a further improvement in the non-life combined ratio and higher sales of unit-linked life insurance products. Costs went up slightly and loan loss impairment remained very low. Banking activities accounted for 95% of the net result in the quarter under review, and the insurance activities for 5%.

In the quarter under review, the International Markets Business Unit recorded a net result of -176 million euros, a small improvement on the average of -198 million euros for the four preceding quarters. The second quarter of 2014 was characterised by higher net interest income, a decline in the result from financial instruments, higher realised gains on bonds, increased net fee and commission income, a deterioration in the non-life combined ratio and increased life insurance sales, as well as the significantly negative impact of the new Hungarian act on retail loans. Cost were lower, as the previous quarter had included the entire bank tax in Hungary being booked for the full year, and loan loss provisions went up, mainly due to Ireland. The guidance for full-year loan loss provisioning in Ireland is at the high end of the 150 to 200 million euro range. Overall, the banking activities accounted for a negative net result of -182 million euros (the positive results in Slovakia and Bulgaria were wiped out by the negative result in Ireland (due to loan loss provisioning) and Hungary (owing to the impact of the new consumer loans act), while the insurance activities accounted for a positive net result of 6 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 12.9% (Basel III fully loaded under the Danish compromise). In the first half 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 half-year results and a pro rata provision for the proposed dividend, the coupon on the additional tier-1 instruments and the coupon on the remaining state aid to be paid over 2014. The common equity ratio therefore continues to be well above our target of 10.5%.

KBC wants to build on its strengths and be among the best-performing, retail-focused financial institutions in Europe. 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. By achieving this, KBC will become the reference in bank-insurance in its core markets.'

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. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the diminishing time to maturity, there was a positive post-tax impact of 30 million euros.
- Remaining divestments: A total post-tax positive impact of 8 million euros was recorded for this quarter, based mainly on a gain realised on a sale in the real estate portfolio.
- Impact of own credit risk valuation: The narrowing of the credit spread on KBC debt between the end of March 2014 and the end of June 2014 resulted in a slight negative marked-to-market adjustment of 8 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 2Q2014 compared with 1Q2014:

- Excellent net result, excluding the impact of legislation in Hungary.
- Net interest income up by 5%.
- Net interest margin up from 2.00% to 2.05%.
- Strong loan growth in all core countries.
- Robust deposit growth in the Czech Republic and Ireland.
- Non-life combined ratio of 97% for the quarter, attributable to storm-related claims in 2Q2014, and at 93% year-to-date.
- Higher life insurance sales in Central Europe.
- Negative impact of marked-to-market valuations of ALM derivatives[1], mitigated by decent level of dealing-room income.
- Higher net fee and commission income, thanks to Belgium, the Czech Republic and Hungary.
- Negative other net income, due entirely to one-off provisioning of 231 million euros for the Hungarian retail loan book.
- Cost/income ratio of 63% year-to-date, and 55% 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).
- Credit cost ratio at a very low 0.34% year-to-date, thanks to the Czech Republic and Belgium.
- Consistently solid liquidity position, with an LCR at 123% and an NSFR at 109%.
- Solvency: strong capital base, with a Basel III common equity ratio (fully loaded) at 12.9%, well above the 10.5% target.

Overview KBC Group (consolidated)	2Q2013	1Q2014	2Q2014	1H2013	1H2014
Net result, IFRS (in millions of EUR)	517	397	317	1 037	714
Basic earnings per share, IFRS (in EUR)[1]	1.24	0.45	0.63	2.49	1.08
Adjusted net result (in millions of EUR)	485	387	287	843	675
Basic earnings per share, based on adjusted net result (in EUR)[1]	1.16	0.42	0.56	2.02	0.98
Breakdown by business unit (in millions of EUR)					
Belgium	418	351	383	803	734
Czech Republic	146	138	140	279	277
International Markets	-23	-26	-176	-110	-202
Group Centre	-56	-75	-59	-128	-135
Parent shareholders' equity per share (in EUR, end of period)	29.1	28.7	29.5	29.1	29.5

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

[1] Note that the negative impact of marked-to-market valuations of ALM derivatives has been more than offset by the positive impact of the revaluation reserves of the available-for-sale assets through changes in equity.

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	1H 2013	1H 2014
Net interest income	1 053	1 003	1 014	1 008	1 010	1 056	-	-	2 056	2 065
Interest income	2 161	2 079	2 037	2 067	1 930	1 971	-	-	4 239	3 901
Interest expense	-1 108	-1 076	-1 023	-1 060	-920	-915	-	-	-2 184	-1 835
Non-life insurance (before reinsurance)	149	115	145	127	149	102	-	-	264	251
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	-	-	*621*	*623*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	-	-	*-357*	*-372*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-	-	-122	-114
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	-	-	*512*	*606*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	-	-	*-634*	*-720*
Ceded reinsurance result	-12	13	1	-6	-17	19	-	-	1	3
Dividend income	5	20	14	8	14	24	-	-	25	38
Net result from financial instruments at fair value through profit or loss	314	425	223	229	40	44	-	-	739	84
Net realised result from available-for-sale assets	142	47	34	29	51	49	-	-	189	100
Net fee and commission income	389	381	337	362	374	387	-	-	771	761
Fee and commission income	636	560	507	564	557	533	-	-	1 197	1 090
Fee and commission expense	-247	-179	-170	-202	-182	-147	-	-	-426	-329
Other net income	76	-20	51	15	52	-99	-	-	56	-47
Total income	2 058	1 921	1 754	1 715	1 615	1 526	-	-	3 979	3 141
Operating expenses	-1 033	-924	-918	-968	-973	-933	-	-	-1 957	-1 906
Impairment	-350	-275	-362	-940	-114	-142	-	-	-625	-255
on loans and receivables	-293	-254	-230	-937	-102	-136	-	-	-547	-238
on available-for-sale assets	-13	-3	-8	-10	-5	-3	-	-	-16	-8
on goodwill	-7	0	0	0	0	0	-	-	-7	0
on other	-37	-18	-125	7	-6	-3	-	-	-55	-9
Share in results of associated companies and joint ventures	8	8	9	6	7	7	-	-	15	13
Result before tax	683	729	483	-187	535	457	-	-	1 412	992
Income tax expense	-159	-210	-207	-103	-138	-140	-	-	-368	-278
Net post-tax result from discontinued operations	0	0	0	0	0	0	-	-	0	0
Result after tax	524	520	276	-290	397	317	-	-	1 044	714
attributable to minority interests	4	3	4	4	0	0	-	-	7	0
attributable to equity holders of the parent	**520**	**517**	**272**	**-294**	**397**	**317**	**-**	**-**	**1 037**	**714**
Basic earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	-	-	2.49	1.08
Diluted earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	-	-	2.49	1.08

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

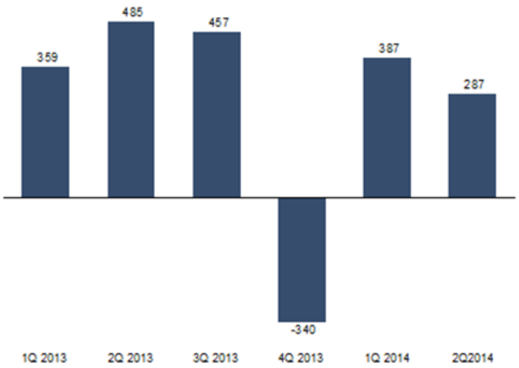
In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from 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	1H 2013	1H 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	-	-	1 994	2 049
Non-life insurance (before reinsurance)	149	115	145	127	149	102	-	-	264	251
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	-	-	*621*	*623*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	-	-	*-357*	*-372*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-	-	-122	-114
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	-	-	*512*	*606*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	-	-	*-634*	*-720*
Ceded reinsurance result	-12	13	1	-6	-17	19	-	-	1	3
Dividend income	4	19	11	7	11	22	-	-	23	33
Net result from financial instruments at fair value through profit or loss	218	256	146	159	17	37	-	-	473	54
Net realised result from available-for-sale assets	96	46	42	29	50	49	-	-	141	99
Net fee and commission income	382	385	341	365	378	389	-	-	767	766
Other net income	76	68	151	47	52	-124	-	-	145	-72
Total income	1 872	1 815	1 773	1 668	1 584	1 485	-	-	3 686	3 069
Operating expenses	-1 023	-914	-906	-955	-965	-926	-	-	-1 936	-1 891
Impairment	-333	-234	-208	-949	-107	-134	-	-	-567	-241
on loans and receivables	*-293*	*-215*	*-185*	*-939*	*-103*	*-130*	-	-	*-509*	*-233*
on available-for-sale assets	*-13*	*-3*	*-2*	*-3*	*-5*	*-3*	-	-	*-16*	*-8*
on goodwill	*-7*	*0*	*0*	*0*	*0*	*0*	-	-	*-7*	*0*
on other	*-20*	*-15*	*-22*	*-7*	*0*	*0*	-	-	*-35*	*0*
Share in results of associated companies and joint ventures	8	8	9	6	7	7	-	-	15	13
Result before tax	524	675	667	-230	518	431	-	-	1 199	950
Income tax expense	-161	-187	-206	-106	-131	-144	-	-	-349	-275
Result after tax	363	487	460	-336	387	288	-	-	850	675
attributable to minority interests	4	3	4	4	0	0	-	-	7	0
attributable to equity holders of the parent	**359**	**485**	**457**	**-340**	**387**	**287**	**-**	**-**	**843**	**675**
Belgium	385	418	391	376	351	383			803	734
Czech republic	132	146	157	119	138	140			279	277
International Markets	-87	-23	-12	-731	-26	-176			-110	-202
Group Centre	-71	-56	-79	-104	-75	-59			-128	-135
Basic earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56			2.02	0.98
Diluted earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56			2.02	0.98
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	165	180	34	65	16	30			346	46
Legacy – divestments	22	-128	-231	-10	-9	8			-106	-1
MTM of own credit risk	-26	-20	12	-9	2	-8			-46	-6
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent (IFRS)	**520**	**517**	**272**	**-294**	**397**	**317**	**-**	**-**	**1 037**	**714**

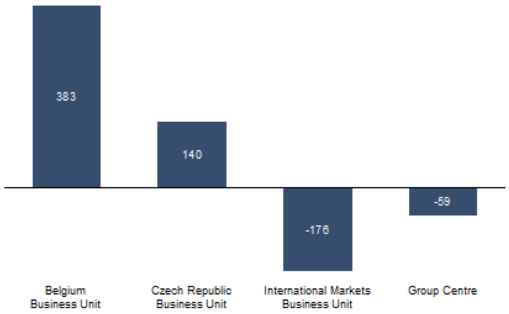
Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint 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 (2Q2014)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 2Q2014 (in millions of EUR)



The net result for the quarter under review amounted to 317 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to 287 million euros, compared with 387 million euros in 1Q2014 and 485 million euros in 2Q2013.

Total income (adjusted net result)

- Net interest income stood at 1 047 million euros, up 5% quarter-on-quarter and 7% year-on-year. The net interest margin came to 2.05% for the quarter under review, 5 basis points higher than the level of the previous quarter, and 18 basis points higher than the (recalculated) level of the year-earlier quarter. Deposit volumes were marginally down quarter-on-quarter (growth in client deposits was offset by maturing wholesale debt) and were down 2% year-on-year (primarily through maturing wholesale debt). Loan volumes were up 1% quarter-on-quarter and declined by 1% year-on-year. The loan book in the Belgium Business Unit grew by 2% quarter-on-quarter but was flat year-on-year (primarily through a reduction at the foreign branches and the decrease in shareholder loans, while mortgages grew by 1.5%). Deposits in the Belgium Business Unit grew slightly quarter-on-quarter and by 1% year-on-year. The loan book in the Czech Republic increased by 3% year-on-year and 1% quarter-on-quarter, while deposits rose by 8% year-on-year and 2% 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 2% year-on-year (driven primarily by Ireland, where there is a successful ongoing retail campaign), but contracted by 1% quarter-on-quarter (on the account of Hungary).
- 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 65 million euros, down 11% quarter-on-quarter and 2% year-on-year.

  In the non-life segment, earned premiums were up 3% quarter-on-quarter and flat year-on-year. Claims during the second quarter were substantially higher (35%) than their quarter-earlier level (due to the storms in Belgium in 2Q2014 and a mild winter in 1Q2014) and were up somewhat (6%) on their level in the second quarter of 2013, which had also been impacted by storms. 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 2% on their level in 1Q2014, boosted by the increase in unit-linked products. Year-on-year, they fell by 1%, with the increase in sales of guaranteed-interest products offsetting the decline in sales of unit-linked products.

  It should be noted that the second quarter was a good one for investment income derived from insurance activities, with the quarter-on-quarter results being driven by the seasonal effect of dividend income, stable net interest income and lower – but still decent – 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 37 million euros in the quarter under review, significantly below the 145-million-euro average for the four preceding quarters. This figure was driven by dealing-room income, which stood at a respectable level in 2Q2014, but the quarter under review was quite badly impacted by negative marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes. These adjustments came to -57 million euros (compared to a quarterly average of +70 million euros in 2013).
- Net realised gains from available-for-sale assets stood at 49 million euros for the quarter under review, up on the 42-million-euro average for the four preceding quarters. These gains were realised on the sale of both shares and bonds.
- Net fee and commission income amounted to 389 million euros, up 3% quarter-on-quarter and 1% year-on-year. The main drivers for the quarter-on-quarter trend were the higher level of management fees for mutual funds in Belgium and the better level of fee income in the Czech Republic. Assets under management stood at 172 billion euros, up 4% on their level of the previous quarter (accounted for by the investment performance (+3%) and net entries (+1%)) and up 11% year-on-year, driven by the investment performance (+8%) and by net inflows (+3%).
- Other net income came to a negative 124 million euros, substantially lower than the 80-million-euro average for the four preceding quarters. This item was affected most by provisioning for the new Hungarian act on consumer 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), but was mitigated somewhat by the positive settlement of a case in the London branch (31 million euros) and by real estate gains.

Operating expenses (adjusted net result)

- Operating expenses came to 926 million euros in 2Q2014, down 4% on their level in the previous quarter but up 1% year-on-year. The quarter-on-quarter decrease was entirely attributable to the 2014 Hungarian bank tax being charged in full in the first quarter (51 million euros). On the other hand, variable staff remuneration and marketing and communication costs in the second quarter were higher in Belgium and charges were incurred for the Asset Quality Review (AQR) exercise. Costs were up 1% year-on-year, driven by the higher bank tax in Belgium (the reference quarter benefited from a recuperation from the old deposit guarantee fund), the AQR-related costs, and higher staff expenses and general administrative expenses in Ireland, but were mitigated somewhat by the fact that the year-earlier quarter had included a one-off additional charge in Hungary.
- The year-to-date cost/income ratio came to a relatively high 63%, but this was largely caused by the bank tax being charged for the full year in Hungary and 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 (including the bank tax, ALM derivatives and Hungarian act), the cost/income ratio stood at 55%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 130 million euros in 2Q2014, up on the 103 million euros recorded in the previous quarter but down on the 215 million euros recorded a year earlier. The quarterly increase was attributable to Ireland (lower IBNR release) and the Group Centre (KBC Bank Deutschland). The annualised credit cost ratio for the whole group stood at 0.34%. This breaks down into a very favourable 0.15% for the Belgium Business Unit (down from 0.37% for FY2013), an unsustainably low 0.04% in the Czech Republic Business Unit (down from 0.26% for FY2013), and 1.14% 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 3 million euros and relating to available-for-sale assets.

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

- CDOs: During the second quarter, corporate and ABS credit spreads tightened. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the diminishing time to maturity, there was a positive post-tax impact of 30 million euros.
- Remaining divestments: A total post-tax positive impact of 8 million euros was recorded for this quarter, based mainly on a gain realised on a sale in the real estate portfolio.
- Impact of own credit risk valuation: The narrowing of the credit spread on KBC debt between the end of March 2014 and the end of June 2014 resulted in a slight negative marked-to-market adjustment of 8 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 2Q2014, the Belgium Business Unit generated a net result of 383 million euros, in line with the average figure of 384 million euros for the four preceding quarters. Compared with the previous quarter, 2Q2014 was characterised by flat net interest income, strong net fee and commission income, seasonally higher dividend income, the negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, as well as a deterioration in the combined ratio for non-life insurance due to the hailstorm, increased sales of unit-linked life insurance products and higher other net income, thanks to a one-off recuperation relating to an old credit file. Costs were up slightly and impairment charges remained at a low level. The banking activities accounted for 78% of the net result in the quarter under review, and the insurance activities for 22%.
- In the quarter under review, the Czech Republic Business Unit posted a net result of 140 million euros, fully in line with the average for the four preceding quarters. Compared with the previous quarter, the results for 2Q2014 featured slightly higher net interest income, increased net fee and commission income, the absence of realised gains on the sale of financial assets, higher net results from financial instruments, increased other income, a further improvement in the non-life combined ratio and higher sales of unit-linked life insurance products. Costs went up slightly and loan loss impairment remained very low. Banking activities accounted for 95% of the net result in the quarter under review, and the insurance activities for 5%.
- In the quarter under review, the International Markets Business Unit recorded a net result of -176 million euros, a slight improvement on the average of -198 million euros for the four preceding quarters. The second quarter of 2014 was characterised by higher net interest income, a decline in the result from financial instruments, higher realised gains on bonds, increased net fee and commission income, a deterioration in the non-life combined ratio and increased life insurance sales, as well as the significantly negative impact of the new Hungarian act on retail loans. Cost were lower, as the previous quarter had included the entire bank tax in Hungary being booked for the full year, and loan loss provisions went up, mainly due to Ireland. Overall, the banking activities accounted for a negative net result of -182 million euros (the positive results in Slovakia and Bulgaria were wiped out by the negative result in Ireland (due to loan loss provisioning) and Hungary (owing to the impact of new consumer loans act), while the insurance activities accounted for a positive net result of 6 million euros.
- The Group Centre’s net result amounted to -30 million euros in 2Q2014. This 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. Disregarding the latter two items, the adjusted net result for the Group Centre stood at -59 million euros, an improvement on the figure for the previous quarter. This was due largely to the decrease in the cost of subordinated debt, after several outstanding Tier-1 debt instruments were called for redemption in 2Q2014.

Analysis of the half year period under review (1H2014)

The net result for 1H2014 amounted to 714 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 675 million euros, compared with 843 million euros in 1H2013.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Absolut Bank. This item will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').
- Net interest income stood at 2 049 million euros, up 3% year-on-year. On a comparable basis, it was up 4% year-on-year. Commercial margins remained healthy and wholesale (subordinated) funding costs fell considerably. The net interest margin came to 2.03% year-to-date, 15 basis points higher than the (recalculated) level of a year earlier. In the Belgium Business Unit, the loan book remained flat year-on-year (primarily through a reduction at the foreign branches and the decrease in shareholder loans, while mortgages grew by 1.5%), whereas the deposit base grew by 1%. The loan book in the Czech Republic increased by 3% 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 2% (driven by Ireland).
- The life and non-life insurance businesses turned in the following performance during the first half of 2014. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 140 million euros, down 2% year-on-year.

  Premiums in the non-life segment were flat year-on-year. The claims arising from the storms in Belgium resulted in a somewhat higher level of technical charges compared with 1H2013, which had been affected by claims relating to the floods 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 down 13% on their level in 1H2013. The increase in sales of guaranteed interest products was more than offset by a contraction in sales of unit-linked products.

  It should be noted that the insurance results also benefited from higher investment income, driven by higher dividend income and a higher net realised result from the sale of available-for-sale assets. 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 54 million euros in the first half of 2014, compared with 473 million euros for the first half of the previous year, or 470 million euros on a comparable basis. This figure is usually impacted by dealing-room income, but the first six months of this year was influenced primarily by a negative result of 140 million euros on the marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes, compared to a positive 211 million euros for the first half of 2013.
- Net realised gains from available-for-sale assets stood at 99 million euros for the period under review, compared with 141 million euros for the first half of the previous year. One-third of the gains were realised on the sale of bonds and two-thirds on the sale of shares.
- Net fee and commission income amounted to 766 million euros, flat year-on-year but up 1% on a comparable basis. Assets under management stood at 172 billion euros, up 11% since the end of June 2013 because of price effects (8%) and net entries (3%).
- Other net income came to -72 million euros as opposed to 145 million euros in the year-earlier period. This item was affected by provisioning for the new Hungarian act on consumer 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 1 891 million euros in 1H2014, down 2% on their year-earlier level. On a comparable basis, costs decreased by 1%, owing in part to a negative foreign exchange impact in the Czech Republic and Hungary and partly offset by higher expenses at KBC Ireland. The year-to-date cost/income ratio came to a relatively high 63%, but resulted primarily from the bank tax being charged for the full year in Hungary and 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 55%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 233 million euros in 1H2014, well down on the 509 million euros recorded a year earlier. The annualised credit cost ratio stood at 0.34% year-to-date. This breaks down into 0.15% for the Belgian Business Unit (down from 0.37% for FY2013), 0.04% in Czech Republic Business Unit (compared with 0.26% for FY2013) and 1.14% for the International Markets Business Unit (down from 4.48% for FY2013).
- Other impairment charges came to 8 million euros and were exclusively related to impairment on available-for-sale assets.

Income tax

- Income tax amounted to 275 million euros for the first six months of 2014.

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

- CDOs: During the first six months of 2014, corporate and ABS credit spreads tightened further. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the net effect of reducing the exposure to CDOs and the remaining maturity of the products, there was a positive post-tax impact of some 46 million euros.
- Remaining divestments: A total post-tax impact of -1 million euros was recorded for this first half year.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of 6 million euros (post tax), but had no impact on regulatory capital.

Equity and solvency

- At the end of June 2014, total equity came to 15.7 billion euros – up 1.2 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 half of 2014 were the repayment of 0.5 billion euros (including the 50% penalty) in Flemish state aid, the inclusion of the 1H2014 results (+0.7 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 12.9% at 30 June 2014.
- The solvency ratio for KBC Insurance was an excellent 317% at 30 June 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 123% and an NSFR ratio of 109% at the end of the second 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	-	-
Loans and advances to customers	127 112	129 179	125 795	120 371	120 810	124 661	-	-
Securities (equity and debt instruments)	64 777	65 435	63 854	64 904	66 313	68 380	-	-
Deposits from customers and debt certificates	164 766	164 213	166 223	161 135	163 838	166 407	-	-
Technical provisions, before reinsurance	18 836	18 805	18 803	18 701	18 941	19 007	-	-
Liabilities under investment contracts, insurance	11 664	11 606	11 684	11 787	11 976	12 322	-	-
Parent shareholders' equity	12 505	12 119	11 895	11 826	11 968	12 318	-	-
Non-voting core-capital securities	3 500	3 500	2 333	2 333	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	1H2014
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	11%
Cost/income ratio, banking	52%	63%
Combined ratio, non-life insurance	94%	93%
Solvency		
Common equity ratio (Basel III, fully loaded, including remaining state aid)	12.8%	12.9%
Credit risk		
Credit cost ratio	1.21%	0.34%
Non-performing ratio	5.9%	6.2%

* 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 (2Q 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 almost completed the sale or run-down of a number of non-core activities. For the last two divestments (Antwerp Diamond Bank and KBC Bank Deutschland), sale agreements have been signed and are awaiting regulatory approval.
- On 2 April 2014, KBC announced its intention to call its outstanding stock of 5 classic tier-1 securities for a nominal amount of 2.4 billion euros following the successful closure of the CRD4-compliant AT-1 securities issue worth 1.4 billion euros. All of these securities have since been called.
- On 8 May 2014, KBC's long-term ratings were upgraded by Moody's to 'A2' for KBC Bank and to 'A3' for KBC Group, while on 29 May, KBC's long-term ratings were put on negative outlook, together with 81 other financial institutions, following the adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation in the European Union.
- In June 2014, KBC held an Investor Day to announce its long-term targets and focus of actions. KBC wants to build on its strengths and be among the best-performing, retail-focused financial institutions in Europe. 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. By achieving this, KBC will become the reference in bank-insurance in its core markets. The group also announced new financial targets, which can be found at www.kbc.com.
- In July 2014, Fitch affirmed KBC's long-term ratings at 'A-' (with stable outlook) for both KBC Bank and KBC Group.

Developments on the Corporate Sustainability & Responsibility front (2Q to date)

- K&H's CSR Report for 2013 and the ČSOB Group's Social Responsibility Report for 2013 were published.
- The KBC Group Executive Committee agreed to expand the current Start-it initiative to major cities in Belgium. In this programme, young start-ups receive support in creating business cases and turning their ideas into real working ventures.
- At the end of June, KBC launched its new version of the KBC CSR Suppliers Policy, which introduces the Sustainability Code of Conduct for Suppliers and allows performance monitoring.
- K&H Bank was crowned winner in the 'Family Friendly Workplace' competition run by the Hungarian government. The award was given to companies that help their employees to accommodate family and work. ČSOB in the Czech Republic was shortlisted in the 'Ashoka Changemakers/Ashoka Social and Business Co-Creation Competition' for its eScribe service, online speech transcription services provided to clients with a hearing impairment at all 75 Era Financial Centres. It was one of the top 15 finalists (out of more than 300 nominees). The eScribe service is newly accessible at all specialised counters of the Czech Post in the region of South Bohemia. In April 2014, a pilot workshop for client workers was held focusing on communication with people with hearing and vision impairment. In May and June, client workers in the Era Financial Centres were trained in the basics of communicating with people with a hearing impairment.
- K&H's MediMagic Storytelling Doctors entry was selected by the international jury in Amsterdam as winner of the Healthcare category in the 'Golden World Award' competition run by IPRA. This was no mean feat as 415 entries were submitted from all over the world, with 9 being shortlisted in the Healthcare category.

- Cibank's 'Blue Summer' project won the Engage 2013 award for corporate social responsibility in the Bulgarian Business Leaders Forum's annual ranking of responsible businesses.
- KBC Bank endorsed the Green Bond Principles and was formally registered as a member of these Principles. It is KBC's intention to actively participate in the Green Bond market, which underlines its interest in green finance.

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.
- The economic recovery has become broader and more sustainable in the euro area, while the sovereign and financial crises are moving into the background. Economic growth, albeit still very moderate, is gradually broadening and has become even more pronounced in the crisis-hit southern EMU countries. Domestic demand is improving due to fading headwinds, i.e. fiscal drag is easing, inflation remains low, monetary policy is set to remain very accommodative for a long time and lending conditions are easing. The broadening of economic growth has improved the sustainability of public finances, leading to a further decrease in intra sovereign spreads. Meanwhile, the ongoing asset quality review and stress-tests by the ECB and the EBA are helping to improve transparency about the financial health of the European banking sector. The ECB – as single supervisor from November this year – will ensure that rules are uniformly implemented and thus increase financial stability.
- Global growth disappointed in the first half of 2014, with a weaker performance in the US, a policy-induced setback (VAT hike) in Japan, difficult rebalancing in China and a less optimistic outlook for several emerging markets. Nevertheless, growth is expected to rebound in the second half of 2014. Underlying drivers of the first-quarter weakness of the US economy, such as the cold weather and inventory corrections, are expected to have only temporary effects. So far, China has been successful in implementing pro-growth measures to offset the economic slowdown. The Japanese economy has been benefiting from the expansionary policies known as 'Abenomics' and now seems robust enough to digest the VAT hikes there. Downside risks remain a concern, however. Global growth could be weaker for longer, given the lack of robust momentum in advanced economies despite the very low level of interest rates and the fact that the other headwinds to recovery are fading. Geopolitical risks (Ukraine, Middle East) have escalated and could lead to energy price and confidence shocks, among other things. The expected tightening of US monetary policy involves some financial market risks, and could lead to a reversal of the recent risk spread and volatility compression.

For more information, please contact:

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

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