



Press release

Outside trading hours - Regulated information*

Brussels, 6 August 2015 (07.00 a.m. CEST)

First half of 2015 generates a firm 1.2 billion euros of profit.

Liquidity and capital bases remain strong.

Thanks to increasing client confidence, lending and deposit volumes went up in almost all of the countries where we operate. Income generated by our investment and asset management activities remained firm, as well. Against an economic background of low interest rates, a gradual economic recovery and political challenges for Europe, KBC ended the second quarter of 2015 with an exceptionally good net profit of 666 million euros, considerably higher than the 510 million euros recorded in the previous quarter and the 334 million euros recorded in the year-earlier quarter. The total result for the first half year of 2015 stands at 1 176 million euros. Moreover, our liquidity position remains strong and our capital base has strengthened further.

Financial highlights for the second quarter of 2015, compared with the first quarter of 2015

- Both the banking and insurance franchises in our core markets and core activities turned in a strong performance.
- We granted again more loans in Belgium (+1%), the Czech Republic (+2%), Slovakia (+3%) and Bulgaria (+2%), while clients further increased their deposits with us in all our countries: Belgium (+2%), the Czech Republic (+1%), Hungary (+4%), Slovakia (+3%), Bulgaria (+3%) and Ireland (+7%).
- Our net interest income remained firm, but the net interest margin narrowed from 2.10% to 2.06%.
- Sales of non-life insurance products across all our markets were robust year-on-year, and the non-life combined ratio stood at an excellent 86% year-to-date. Sales of life products decreased.

- Clients further increased their assets managed by KBC. Total assets under management of our group ended at 204 billion euros, notwithstanding a negative price performance. Our net fee and commission income remained strong, up by 1% quarter-on-quarter.
- Increasing interest rates had a beneficial effect on the valuation of the derivatives we use for asset/liability management purposes.
- Excluding special bank taxes, costs were flat. The cost/income ratio stood at a favourable 55% year-to-date or 52% on an adjusted basis.
- The cost of credit amounted to a low 0.30% of our loan portfolio year-to-date.
- Our liquidity position remains very good, and our capital base – with a common equity ratio of 16.7% (fully loaded, Danish compromise) – remains well above the regulator’s target.



Johan Thijs, our group CEO added:

*'KBC is constantly seeking ways to better identify its clients' fast-changing needs and expectations in order to enhance the client experience. We put the **clients centre stage** in the projects and initiatives we undertake.*

The increasing levels of satisfaction and confidence among both existing and new clients show that this approach is paying off. In the second quarter of 2015, we recorded an excellent net result of 666 million euros in what are challenging political and economic times. Clients continued to put their trust in us, as shown in the growth of our deposit

base, our loan book and the net increase in sales of our investment products. However, the continuing low level of interest rates remained a challenge for the entire financial sector.

*This firm result endorses our belief in the strength of our core business of **bank-insurance** in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Day in day out, our employees do everything in their power to ensure that our clients, shareholders and other stakeholders benefit from our activities. We are truly grateful for the trust that our clients and stakeholders place in our company and employees.*

*An acquisition in Slovakia in the past quarter marks our renewed ambition to **grow** both externally and organically **in our core markets**. Indeed, the acquisition of Volksbank Leasing Slovakia forms an excellent business opportunity in terms of strengthening our Slovak franchise. At the same time, it is fully in line with our strategy to focus on our strong fundamentals. This means having a healthy client-driven bank-insurance business model and a strong risk profile.*

*Next to this, it also implies a **robust liquidity position** supported by a very solid and loyal client deposit base in our core markets of Belgium and Central Europe, and a comfortable solvency position. This enables us to continue to increase lending to our clients and actively support the communities and economies in which we operate.'*

Overview KBC Group (consolidated)	2Q2014	1Q2015 ¹	2Q2015	1H2014	1H2015
Net result, IFRS (in millions of EUR)	334	510	666	681	1 176
Basic earnings per share, IFRS (in EUR) ²	0.67	1.19	1.56	1.00	2.75
Breakdown of the net result, IFRS, by business unit (in millions of EUR)					
Belgium	398	330	528	703	858
Czech Republic	140	143	127	277	271
International Markets	-175	24	68	-203	92
Group Centre	-29	13	-57	-96	-44
Parent shareholders' equity per share (in EUR, end of period)	29.4	33.3	32.5	29.4	32.5

¹ Distorted on account of the largest part of the special bank taxes for the year being posted in the first quarter (IFRIC 21).

² Note: if a coupon is paid on the core-capital securities sold to the Flemish Regional Government and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (pro rata). If a penalty has to be paid on the core-capital securities, it will likewise be deducted.

Business highlights in the quarter under review

- Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.
- In this context, we continued to work on achieving our strategic objectives. ČSOB Leasing increased its share of the Slovak market and its client base. On 1 July 2015, ČSOB Leasing and Volksbank Leasing International reached agreement for ČSOB Leasing to acquire all the shares of Volksbank Leasing Slovakia and its insurance brokerage subsidiary, Volksbank Sprostredkovateľ'ska. Volksbank Leasing Slovakia is a universal leasing company ranked 7th on the Slovak leasing market with a market share of approximately 6% and a balance sheet total of approximately 170 million euros. KBC is the clear leader on the Slovak leasing market through ČSOB Leasing. The deal, which is expected to close in 3Q2015, will have no material impact on the KBC group's earnings and capital.
- On the macroeconomic front, recent economic indicators pointed to a gradual recovery of the global economy in the second quarter after the weak performance of the first quarter. Euro area confidence indicators extended their upward trajectory in the second quarter and exporters continued to enjoy the competitive advantage of the relatively weak euro that resulted from the ECB's accommodative monetary policy and the monetary divergence with the US.
- We have fine-tuned our guidance for impairment charges on loans and receivables for Ireland towards the lower end of the previously stated range of 50 to 100 million euros for both 2015 and 2016.
- On the corporate sustainability and responsibility front, we again took a number of initiatives. Given the importance we attach to our role in society, KBC in Belgium organised a stakeholder debate on 27 May 2015, when it presented the KBC Report to Society for 2014. In June, ČSOB likewise organised a stakeholder debate and had the unique opportunity to discuss CSR and its approach to socially responsible products and services with a variety of relevant stakeholders. It also published its Sustainability Report for 2014 at the beginning of May. CIBANK and DZI presented their report at a round-table event entitled 'What Makes Financial Institutions Socially Responsible', which was organised jointly with a number of other organisations, including the United Nations Global Compact Network Bulgaria.

Overview of our results and balance sheet

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

Consolidated income statement, IFRS

KBC Group (in millions of EUR)

	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	1H 2014	1H 2015
Net interest income	1 056	1 120	1 123	1 091	1 092	2 065	2 183
Interest income	1 971	2 010	1 982	1 850	1 804	3 901	3 654
Interest expense	-915	-890	-860	-759	-712	-1 835	-1 471
Non-life insurance (before reinsurance)	102	139	123	167	155	251	322
<i>Earned premiums</i>	315	321	322	320	326	623	646
<i>Technical charges</i>	-214	-183	-200	-153	-172	-372	-324
Life insurance (before reinsurance)	-56	-57	-45	-48	-51	-114	-99
<i>Earned premiums</i>	297	299	343	302	265	606	567
<i>Technical charges</i>	-353	-355	-388	-350	-316	-720	-666
Ceded reinsurance result	19	4	10	-11	-7	3	-18
Dividend income	24	9	9	12	39	38	51
Net result from financial instruments at fair value through P&L	44	34	109	57	179	84	236
Net realised result from available-for-sale assets	49	28	22	80	36	100	116
Net fee and commission income	387	402	410	459	465	761	924
Fee and commission income	533	579	577	632	634	1 090	1 267
Fee and commission expense	-147	-177	-167	-174	-169	-329	-343
Other net income	-99	73	68	49	105	-47	154
Total income	1 526	1 752	1 827	1 855	2 013	3 141	3 868
Operating expenses	-908	-897	-964	-1 125	-941	-1 957	-2 066
Impairment	-142	-58	-193	-77	-149	-255	-226
on loans and receivables	-136	-190	-158	-73	-138	-238	-211
on available-for-sale assets	-3	-6	-14	-3	-7	-8	-9
on goodwill	0	0	0	0	0	0	0
other	-3	139	-21	-1	-5	-9	-6
Share in results of associated companies and joint ventures	7	6	6	6	8	13	14
Result before tax	483	803	675	659	930	942	1 589
Income tax expense	-149	-194	-202	-149	-264	-261	-413
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	334	608	473	510	666	681	1 176
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	334	608	473	510	666	681	1 176
<i>of which legacy activities and own credit risk</i>	29	114	-20	-	-	39	-
Basic earnings per share (EUR)	0.67	1.32	1.00	1.19	1.56	1.00	2.75
Diluted earnings per share (EUR)	0.67	1.32	1.00	1.19	1.56	1.00	2.75

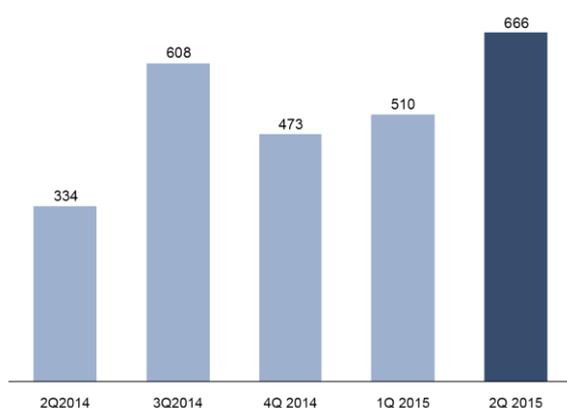
IFRIC 21 (Levies) was approved by the European Union in June 2014 and became effective on 1 January 2015. The main consequence of IFRIC 21 in 2015 is that certain levies have to be recognised in advance, which adversely impacted the results for the first quarter of 2015. As IFRIC 21 needs to be applied

retroactively, KBC restated the comparable quarterly figures for 2014. This relates solely to movements between quarters and does not affect the full-year figures.

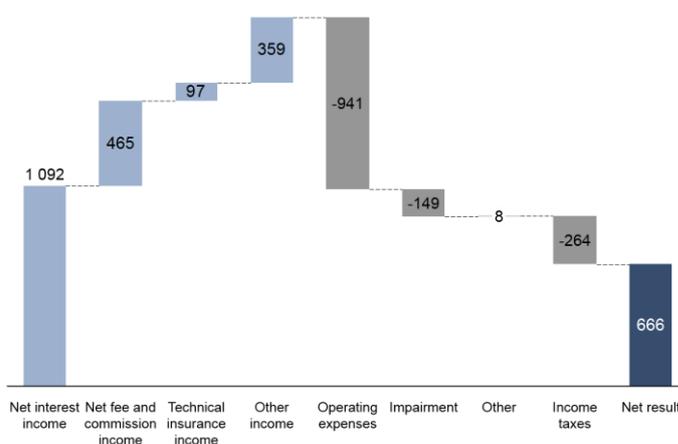
Highlights of consolidated balance sheet KBC Group (in millions of EUR)

	30-06-2014	30-09-2014	31-12-2014	31-03-2015	30-06-2015
Total assets	252 768	251 612	245 174	258 396	256 654
Loans and advances to customers	124 661	125 898	124 551	124 632	126 093
Securities (equity and debt instruments)	68 380	69 530	70 359	71 948	70 755
Deposits from customers and debt certificates	166 407	166 843	161 783	167 922	170 159
Technical provisions, before reinsurance	19 007	19 065	18 934	19 181	19 198
Liabilities under investment contracts, insurance	12 322	12 540	12 553	13 263	12 937
Parent shareholders' equity	12 318	12 840	13 125	13 928	13 576
Non-voting core-capital securities	2 000	2 000	2 000	2 000	2 000

Net result (in millions of euro)



Breakdown of net result for 2Q2015 (in millions of euro)



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

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

Analysis of the quarter (2Q2015)

The net result for the quarter under review amounted to 666 million euros, compared to 510 million euros quarter-on-quarter and 334 million euros year-on-year.

Total income up by 9% quarter-on-quarter, with resilient net interest income, increased net fee and commission income, higher valuations of ALM derivatives and increased net other income.

- Net interest income stood at 1 092 million euros in the second quarter of 2015. In the current environment of low yields, our net interest income held up well, exhibiting a stable trend quarter-on-quarter and even up 5% year-on-year, on a comparable basis. The quarter-on-quarter trend was driven by higher income generated by our lending activities and the lower cost of funding, but was partly offset by lower dealing room-related interest income and hedging losses related to mortgage loan refinancing in Belgium in recent quarters. The trend in mortgage loan refinancing in Belgium continued in the second quarter, although it did slow down. Compared to a year ago, the 5% rise in net interest income was driven by sound commercial margins, volume increases, lower funding cost and higher prepayment fees, but was also impacted by a negative hedging result relating to mortgage loans in Belgium. As a result, the net interest margin came to 2.06% for the quarter under review, 4 basis points lower than the level of the previous quarter, but 2 basis points higher than the level of the year-earlier quarter. Interest income continued to be supported by volume growth: loans and deposit volumes went up both quarter-on-quarter (by 1% and 2%, respectively) and year-on-year (by 3% and 8%, respectively).
- Technical income from our non-life and life insurance activities went up year-on-year, but fell quarter-on-quarter. Gross earned premiums less gross technical charges and the ceded reinsurance result contributed 97 million euros to total income, 10% less than in the previous quarter due essentially to higher non-life claims. However, it was up almost 50% year-on-year, driven chiefly by lower non-life claims.
- Earned premiums from our non-life insurance activities increased by 2% quarter-on-quarter and by 3% year-on-year. Claims during the second quarter were up 12% on the previous quarter but down 20% on their level in the second quarter of 2014. As a consequence, the combined ratio came to an excellent 86% year-to-date.
- Sales of life insurance products (including unit-linked products not included in premium income) were down 11% quarter-on-quarter and 8% year-on-year, due essentially to lower sales of guaranteed-interest life products.
- It should be noted that, during the second quarter, investment income derived from insurance activities was down 3% on its level of the previous quarter, and down 4% on the year-earlier quarter. The quarter-on-quarter change was driven chiefly by the lower level of net realised result from available-for-sale assets more than offsetting higher dividend income.
- The investment climate for clients remained buoyant in the quarter under review, as reflected in increased sales of our mutual funds, among other things. Despite these new entries, a negative price performance reduced total assets under management (204 billion euros) by 2% in the quarter under review. Compared to a year ago, however, they have increased by a splendid 18%. The related rise in

entry fees on these investment products, as well as the higher level of management fees for mutual funds, were the main reasons for the significant increase in our net fee and commission income, which came to 465 million euros, up 21% year-on-year and 1% quarter-on-quarter on a comparable basis.

- All other income items combined amounted to 359 million euros. They comprised the net result from financial instruments at fair value (a high 179 million euros in the quarter under review, including a positive 90 million euros arising from valuation changes in respect of ALM derivative instruments), realised gains on the sale of available-for-sale assets (36 million euros for the quarter under review), seasonally high dividend income (39 million euros) and other net income (105 million euros, benefiting from a number of positive one-off items in the quarter under review).

Continued solid cost management: operating expenses flat quarter-on-quarter and year-on-year, when special bank taxes are excluded

- We continue to focus on strict cost control. Our operating expenses amounted to 941 million euros for the second quarter of 2015, significantly down (-16%) on their level of the previous quarter, when the bulk of the special bank taxes had been posted for the full year. Disregarding all of these bank taxes (264 million in the first quarter, 83 million euros in the second quarter and 48 million euros in the year-earlier quarter), our operating expenses still remained flat quarter-on-quarter and year-on-year.
- Effective cost containment combined with the increase in income helped the cost/income ratio of our banking activities to improve to 55% year-to-date (from 58% for 2014 as a whole). Adjusted for specific items (mainly the special bank tax, but also excluding some other non-operational items such as tax adjustments and divestments), the cost/income ratio stood at a comfortable 52% year-to-date, compared to 54% for 2014 as a whole.

Impairment charges up on the low level of the previous quarter

- Loan losses (138 million) were in line with the level recorded in the year-earlier quarter and up on the relatively benign first quarter. This quarter-on-quarter increase was due mostly to the Group Centre (an increase of 33 million euros, primarily related to the legacy portfolio of Antwerp Diamond Bank) and the Czech Republic (an increase of 14 million euros compared to an unsustainably low level in the first quarter of 2015). In general, 34 million euros extra provisions are due to parameter adjustments to the IBNR-models. Loan loss impairments in the first half of 2015 accounted for some 0.30% the total loan portfolio.

Results per business unit

- Our quarterly profit of 666 million euros breaks down into 528 million euros for the Belgium Business Unit, 127 million euros for the Czech Republic Business Unit, 68 million euros for the International Markets Business Unit and -57 million euros for the Group Centre. A full results table and a short analysis per business unit is provided in the 'Results per business unit' section of the quarterly report, while more information for each business unit is also given in the analyst presentation (both available at www.kbc.com).

Strong fundamentals: equity, solvency and liquidity

- At the end of June 2015, our total equity stood at 17.0 billion, up 0.5 billion euros on its level at the start of the year. The figure at the end of June resulted from the inclusion of the half-year profit (+1.2 billion euros), the payment of dividends for 2014 and the related coupon on the remaining state aid (an aggregate -1.0 billion euros) and a number of smaller items (an aggregate +0.3 billion euros).
- Our solvency ratios comfortably surpassed the regulator's double solvency test (a minimum 10.5%). At 30 June 2015, 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 16.7%. Under the Financial Conglomerates Directive (FICOD), the group's common equity ratio stood at 16.4% (fully loaded, including the remaining aid from the Flemish Regional Government). The leverage ratio for the group (Basel III, fully loaded) stood at 6.7%. The solvency ratio for KBC Insurance was an excellent 281% at 30 June 2015.
- The group's liquidity position remained excellent, as reflected in an LCR ratio of 130% and an NSFR ratio of 126% at the end of the second quarter of 2015.

Analysis of the year-to-date period (1H2015)

Our aggregate result for the first six months of the year now stands at 1 176 million euros, compared to 681 million euros a year earlier.

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

- **Higher net interest income** (+8% on a comparable basis to 2 183 million euros), thanks to substantially lower (subordinated) funding costs, as well as wider margins on loans and lower rates on deposits, all of which somewhat mitigated by losses on prepaid mortgages in Belgium. Volumes increased for deposits (+8%) and lending (+3%).
- **A higher contribution by technical insurance results** (gross earned premiums less gross technical charges and the ceded reinsurance result: +46% to 205 million euros). In non-life insurance, the year-to-date combined ratio stood at an excellent 86%. In life insurance, sales were roughly flat, with the increase in sales of unit-linked life products offset by lower sales of guaranteed-interest life products.
- **A strong increase in asset management activity** led to higher net fee and commission income (+22% on a comparable basis to 924 million euros). As at the end of June 2015, assets under management were 204 billion euros, a year-on-year increase of 18%, half of which was due to net entries and half to the price performance.
- **An increase in other income items.** The net result from financial instruments at fair value amounted to 236 million euros in the first half of 2015 (an increase of almost threefold, thanks mainly to the valuation of ALM derivatives), net realised gains from available-for-sale assets stood at 116 million euros (+15%) and other net income came to 154 million euros (up 201 million euros on the first half of 2014, which had been affected by 231 million euros of provisioning for the new Hungarian act on consumer loans).

- **Higher operating expenses** (+7% on a comparable basis to 2 066 million euros), owing essentially to higher special bank taxes. Excluding these taxes, operating expenses were only slightly up (+2%), primarily because of staff expenses (more staff, wage drift, higher variable remuneration). As a result, the year-to-date cost/income ratio stood at 55%, or 52% when adjusted for specific items (such as the bank tax).
- **Lower loan losses** (-12% to 211 million euros). The improvement occurred mainly in Ireland (87 million euros less), but was partially offset by an increase in Belgium (an increase of 62 million euros). In general, 34 million euros extra provisions are due to parameter adjustments to the IBNR-models. As a result, the annualised credit cost ratio for the whole group stood at a satisfying 0.30%.

Selected ratios for the KBC Group (consolidated)	FY2014	1H2015
Profitability and efficiency		
Return on equity*	14%	20%
Cost/income ratio, banking	58%	55%
Combined ratio, non-life insurance	94%	86%
Solvency		
Common equity ratio according to Basel III (fully loaded, incl. remaining state aid)	14.3%	16.7%
Common equity ratio according to FICOD method (incl. remaining state aid)	14.6%	16.4%
Leverage ratio according to Basel III (fully loaded, incl. remaining state aid)	6.4%	6.7%
Credit risk		
Credit cost ratio	0.42%	0.30%
Impaired loans ratio	9.9%	9.3%
for loans more than 90 days overdue	5.5%	5.3%
Liquidity		
Net stable funding ratio (NSFR)	123%	126%
Liquidity coverage ratio (LCR)	120%	130%

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

Statement of risk

- As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. Although KBC closely monitors and manages each of these risks within a strict risk framework containing governance and limits, they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- At present, we consider a number of items to constitute the main challenges for the financial sector in general and, as a consequence, are also relevant to KBC. Increasing capital requirements are a dominant theme for the sector and regulatory initiatives are expected on such topics as risk models, floors on risk weighted assets, systemic and other capital buffers and minimum requirement of eligible liabilities and own funds (MREL). Besides these factors, the financial markets have been characterised by relatively low levels of liquidity for fixed income investments and the potential threat of asset bubbles, given the low interest rate environment. The latter also remains a challenge in itself, as illustrated in part by substantial prepayments of mortgages, particularly in Belgium, although this has abated somewhat

recently. Finally, operational risk and particularly cyber risk have become one of the main threats during the past few years, not just for the financial sector, but overall.

- Risk management data are provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.
- As regards macroeconomic trends, in the absence of a negative economic shock, the world economy is expected to grow above its potential pace in the coming quarters. There is a potential risk that the Fed's rate hike expected later this year will negatively impact international capital flows to emerging markets, particularly those with severe macroeconomic imbalances, such as large external deficits. In addition, the rate hike will most likely push up bond yields in the US and Europe. However, we believe this movement will probably be more subdued than in 1994 because of the extremely accommodative monetary policies in the rest of the world. Moreover, we expect the ECB's Extended Asset Purchase Programme to last until at least September 2016, exerting more downward pressure on government bond yields and the euro exchange rate. For the time being, the immediate threat of a Grexit to the European economic recovery has been reduced, but we expect the Greek debt issues to emerge again in the longer term.

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