Press Release

Outside trading hours - Regulated information*

Brussels, 12 February 2015 (07.00 a.m. CET)

Last quarter continues profitable trend. 2014 profit at 1.8 billion euros.

KBC ended 2014 with a net profit of 1 762 million euros, compared with 1 015 million euros in 2013.
In the last quarter of 2014, KBC posted a net profit of 457 million euros, compared with 591 million euros in the previous quarter and -294 million euros in the last 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 last quarter of 2014, unchanged on its level for the third quarter of 2014 and well up on the -340 million euros recorded in the fourth quarter of 2013. For full-year 2014, adjusted net profit amounted to 1 629 million euros, compared with 960 million euros in 2013.

Johan Thijs, Group CEO:

'The final months of 2014 were characterised by a continued low interest rate environment and modest economic growth, with slightly lower unemployment rates being observed against a background of low inflation. In this context, KBC posted a strong net result of 457 million euros for the last quarter of 2014, which translates into 477 million euros on an adjusted-profit basis. On a comparable basis, net interest income increased, with the net interest margin edging up and loan volumes and client deposits growing further in the majority of our core markets. Just like the previous quarter, we earned higher fees and commissions particularly in the asset management activities. The combined ratio for our non-life insurance activities remained robust and sales of life insurance products were comparable to their level in the third quarter. Our total income was affected much less by negative marked-to-market changes in the value of derivatives used for asset/liability management purposes. The cost/income ratio adjusted for specific items continued to be strong, illustrating the validity of our business model. Loan loss impairment charges were moderate, although they were up somewhat on the previous quarter's level.

In the fourth quarter, the Belgium Business Unit generated a net result of 399 million euros, somewhat above the average figure of 374 million euros for the four preceding quarters. Compared with the previous quarter, the quarter was characterised by strong net interest income and net fee and commission income, seasonally higher gross non-life technical charges, increased sales of guaranteed-interest life insurance *products, and a reduced – but still negative – impact of ALM derivative valuations. Gains on the sale of financial assets were down, whereas other net income was up, as were costs and impairment charges. The banking activities accounted for 85% of the net result in the quarter under review, and the insurance activities for 15%.*

In the quarter under review, the Czech Republic Business Unit posted a net result of 121 million euros, somewhat below the 132-million-euro average for the four preceding quarters. Compared with the previous quarter, the results for this quarter featured flat net interest income, slightly higher net fee and commission income, lower net results from financial instruments, higher non-life premiums, a higher level of other income, a solid non-life combined ratio, but a drop in sales of unit-linked life insurance products. Costs increased and loan loss impairment charges edged up, but were still at a moderate level. Banking activities accounted for 93% of the net result in the quarter under review, and insurance activities for 7%.

In the last quarter of 2014, the International Markets Business Unit recorded a slightly negative net result of -7 million euros, a vast improvement on the negative -227-million-euro average for the four preceding quarters, which had been significantly affected by the additional loan loss provisions 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 quarter was characterised by lower net interest income and stable net fee and commission income, a lower result from financial instruments at fair value, a reduction in realised gains on bonds and shares and a decline in other income. There was also a sharp improvement in the non-life combined ratio and an increase in life insurance sales. Costs in this quarter were up, and loan loss provisions slightly down. Overall, the banking activities accounted for a net result of -12 million euros, with positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland, while the insurance activities accounted for a net result of 5 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 14.3% (Basel III fully loaded under the Danish compromise), well above our target of 10.5%. We further optimised the capital structure of the group when KBC Insurance bought back 203 million euros' worth of its shares from KBC Group before year-end 2014 and also through the replacement of shareholder capital by an intra-group tier-2 loan in the amount of 500 million euros, which KBC Group will subscribe to in the first quarter of 2015. As a result of the proposed transactions, the common equity ratio of the group will improve further whilst the solvency of KBC Insurance will remain exceptionally solid.

For 2014 as a whole, KBC generated a profit of 1 762 million euros. On an adjusted basis, this figure stood at 1 629 million euros. When account is taken of the repayment penalty of 167 million euros paid to the Flemish Regional Government at the beginning of January 2014, and the coupon of 212 million euros to be paid on the core capital securities sold to the Flemish Regional Government and the additional tier-1 instruments, our adjusted earnings per share come to 3.00 euros, while reported earnings per share amount to 3.32 euros. Given our strong solvency position – as reflected in our common equity ratio of 14.3% – we will propose to the Annual General Meeting of Shareholders that a dividend of 2.00 euros per share be paid this year.

We also intend not to pay a dividend in respect of 2015, which means that no coupon will be paid to the Flemish Regional Government either. Taking all factors into account, the return that the Flemish Region will receive on the core capital securities will still be higher than 10% per year. As of 2016, the target for the dividend pay-out ratio is at least 50%, including the coupon paid on the core capital securities and the additional tier-1 instruments.

All this 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. The results for 2014 reaffirm our strong belief in our core business of bank-insurance in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Our goal is to ensure that our clients, shareholders and other stakeholders benefit from our activities, something which all our employees are committed to working towards. We are truly grateful for the trust that continues to be placed in the company 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 fourth quarter, there was only a minimal impact on the income statement, due to the fact that KBC had collapsed the last two CDOs in its portfolio in the previous quarter. The total impact of this item on KBC's final-quarter income statement amounted to -7 million euros (post tax).
- Remaining divestments: A total post-tax impact of -15 million euros was recorded for this quarter, based mainly on impairment recorded on a credit file in the legacy portfolio at Antwerp Diamond Bank.
- Impact of own credit risk valuation: A slightly positive marked-to-market adjustment of 1 million euros (post tax) was recorded.

Financial highlights for 4Q2014 compared with 3Q2014 (on a comparable basis):

- High net result.
- Slightly higher net interest income.
- Net interest margin widens from 2.15% to 2.16%.
- Strong loan and deposit growth in Belgium, the Czech Republic, Slovakia and Bulgaria.
- Excellent non-life combined ratio of 94% for the full year.
- Flat life insurance sales.
- Net fee and commission income up by 2%.
- Cost/income ratio of 57% 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 modest 0.42% year-to-date.
- Consistently solid liquidity position, with an LCR at 120% and an NSFR at 110%.
- Solvency: strong capital base, with a Basel III common equity ratio (fully loaded) at 14.3%, well above the 10.5% target.

Overview KBC Group (consolidated)	4Q2013	3Q2014	4Q2014	FY2013	FY2014
Net result, IFRS (in millions of EUR)	-294	591	457	1 015	1 762
Basic earnings per share, IFRS (in EUR)[1]	-0.71	1.28	0.96	1.03	3.32
Adjusted net result (in millions of EUR)	-340	477	477	960	1 629
Basic earnings per share, based on adjusted net result (in EUR)[1]	-0.82	1.00	1.01	0.90	3.00
Breakdown by business unit (in millions of EUR)					
Belgium	376	384	399	1 570	1 516
Czech Republic	119	130	121	554	528
International Markets	-731	27	-7	-853	-182
Group Centre	-104	-64	-35	-311	-234
Parent shareholders' equity per share (in EUR, end of period)	28.3	30.8	31.4	28.3	31.4

[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, 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	FY 2013	FY 2014
Net interest income	1 053	1 003	1 014	1 008	1 010	1 056	1 120	1 123	4 077	4 308
Interest income	2 161	2 079	2 037	2 067	1 930	1 971	2 010	1 982	8 343	7 893
Interest expense	-1 108	-1 076	-1 023	-1 060	-920	-915	-890	-860	-4 266	-3 586
Non-life insurance (before reinsurance)	149	115	145	127	149	102	139	123	536	512
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	*321*	*322*	*1 259*	*1 266*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	*-183*	*-200*	*-723*	*-754*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-57	-45	-242	-216
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	*299*	*343*	*1 132*	*1 247*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	*-355*	*-388*	*-1 373*	*-1 463*
Ceded reinsurance result	-12	13	1	-6	-17	19	4	10	-5	16
Dividend income	5	20	14	8	14	24	9	9	47	56
Net result from financial instruments at fair value through profit or loss	314	425	223	229	40	44	34	109	1 191	227
Net realised result from available-for-sale assets	142	47	34	29	51	49	28	22	252	150
Net fee and commission income	389	381	337	362	374	387	402	410	1 469	1 573
Fee and commission income	636	560	507	564	557	533	579	577	2 268	2 245
Fee and commission expense	-247	-179	-170	-202	-182	-147	-177	-167	-798	-672
Other net income	76	-20	51	15	52	-99	73	68	122	94
Total income	2 058	1 921	1 754	1 715	1 615	1 526	1 752	1 827	7 448	6 720
Operating expenses	-1 033	-924	-918	-968	-973	-933	-923	-989	-3 843	-3 818
Impairment	-350	-275	-362	-940	-114	-142	-58	-193	-1 927	-506
on loans and receivables	-293	-254	-230	-937	-102	-136	-190	-158	-1 714	-587
on available-for-sale assets	-13	-3	-8	-10	-5	-3	-6	-14	-34	-29
on goodwill	-7	0	0	0	0	0	0	0	-7	0
other	-37	-18	-125	7	-6	-3	139	-21	-173	109
Share in results of associated companies and joint ventures	8	8	9	6	7	7	6	6	30	25
Result before tax	683	729	483	-187	535	457	777	651	1 708	2 420
Income tax expense	-159	-210	-207	-103	-138	-140	-186	-194	-678	-657
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
Result after tax	524	520	276	-290	397	317	591	457	1 029	1 763
attributable to minority interests	4	3	4	4	0	0	0	0	14	0
attributable to equity holders of the parent	**520**	**517**	**272**	**-294**	**397**	**317**	**591**	**457**	**1 015**	**1 762**
Basic earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	1.28	0.96	1.03	3.32
Diluted earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	1.28	0.96	1.03	3.32

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

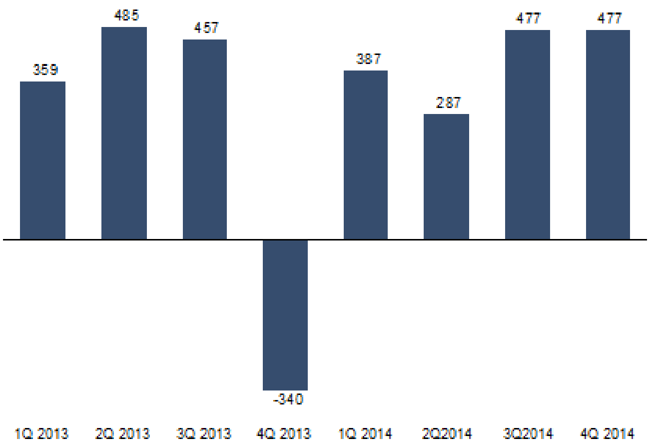
In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from 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	FY 2013	FY 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	1 110	3 990	4 268
Non-life insurance (before reinsurance)	149	115	145	127	149	102	139	123	536	512
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	*321*	*322*	*1 259*	*1 266*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	*-183*	*-200*	*-723*	*-754*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-57	-45	-242	-216
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	*299*	*343*	*1 132*	*1 247*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	*-355*	*-388*	*-1 373*	*-1 463*
Ceded reinsurance result	-12	13	1	-6	-17	19	4	10	-5	16
Dividend income	4	19	11	7	11	22	6	7	41	47
Net result from financial instruments at fair value through profit or loss	218	256	146	159	17	37	49	130	779	233
Net realised result from available-for-sale assets	96	46	42	29	50	49	27	18	213	144
Net fee and commission income	382	385	341	365	378	389	404	410	1 473	1 580
Other net income	76	68	151	47	52	-124	64	70	343	62
Total income	1 872	1 815	1 773	1 668	1 584	1 485	1 746	1 832	7 127	6 647
Operating expenses	-1 023	-914	-906	-955	-965	-926	-898	-986	-3 798	-3 775
Impairment	-333	-234	-208	-949	-107	-134	-183	-191	-1 723	-615
on loans and receivables	*-293*	*-215*	*-185*	*-939*	*-103*	*-130*	*-165*	*-156*	*-1 632*	*-554*
on available-for-sale assets	*-13*	*-3*	*-2*	*-3*	*-5*	*-3*	*-6*	*-14*	*-20*	*-29*
on goodwill	*-7*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*-7*	*0*
other	*-20*	*-15*	*-22*	*-7*	*0*	*0*	*-12*	*-21*	*-64*	*-33*
Share in results of associated companies and joint ventures	8	8	9	6	7	7	6	6	30	25
Result before tax	524	675	667	-230	518	431	671	661	1 636	2 281
Income tax expense	-161	-187	-206	-106	-131	-144	-194	-183	-662	-652
Result after tax	363	487	460	-336	387	288	477	477	974	1 629
attributable to minority interests	4	3	4	4	0	0	0	0	14	0
attributable to equity holders of the parent	**359**	**485**	**457**	**-340**	**387**	**287**	**477**	**477**	**960**	**1 629**
Belgium	385	418	391	376	351	383	384	399	1 570	1 516
Czech Republic	132	146	157	119	138	140	130	121	554	528
International Markets	-87	-23	-12	-731	-26	-176	27	-7	-853	-182
Group Centre	-71	-56	-79	-104	-75	-59	-64	-35	-311	-234
Basic earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56	1.00	1.01	0.90	3.00
Diluted earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56	1.00	1.01	0.90	3.00
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	165	180	34	65	16	30	-24	-7	446	16
Legacy – divestments	22	-128	-231	-10	-9	8	132	-15	-348	116
MTM of own credit risk	-26	-20	12	-9	2	-8	6	1	-43	2
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent (IFRS)	**520**	**517**	**272**	**-294**	**397**	**317**	**591**	**457**	**1 015**	**1 762**

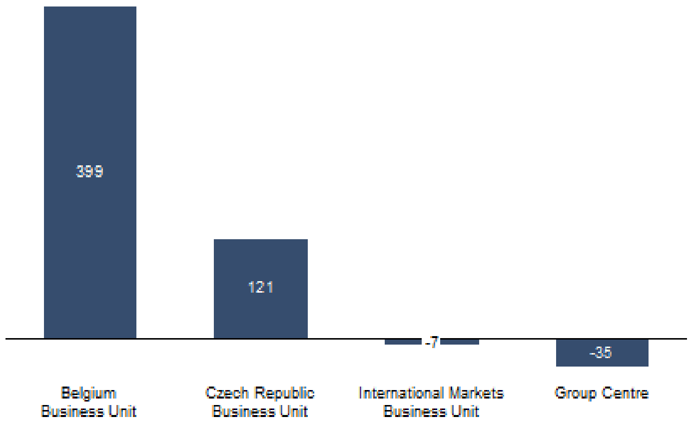
Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint 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 (4Q2014)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 4Q2014 (in millions of EUR)



The net result for the quarter under review amounted to 457 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to 477 million euros, exactly the same as the figure recorded in 3Q2014 and well up on the -340 million euros in 4Q2013.

Total income (adjusted net result)

- The quarter-on-quarter performance was affected in part by the deconsolidation of KBC Bank Deutschland. The year-on-year performance was also partly affected by the deconsolidation of Absolut Bank 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').
- Net interest income stood at 1 110 million euros, flat quarter-on-quarter and up 11% year-on-year. On a comparable basis, this item was up 1% quarter-on-quarter and 14% year-on-year. The net interest margin came to 2.16% for the quarter under review, 1 basis point higher than the level of the previous quarter, and 24 basis points higher than the (recalculated) level of the year-earlier quarter. The increase was driven primarily by higher upfront refinancing fees on mortgage loans in Belgium, mitigated by lower revenues on previously refinanced mortgages in Belgium and on lending in Hungary. Deposit volumes were up 2% quarter-on-quarter and 3% year-on-year. Loan volumes increased by 1% quarter-on-quarter and 3% year-on-year. The loan book in the Belgium Business Unit grew by 1% quarter-on-quarter and by 4% year-on-year. Deposits in the Belgium Business Unit grew by 2% quarter-on-quarter and by 9% year-on-year. The loan book in the Czech Republic increased by 5% year-on-year and 3% quarter-on-quarter, while deposits rose by 8% year-on-year and 4% quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 1% year-on-year, owing to the contraction in the Irish loan portfolio offsetting strong growth in Hungary, Bulgaria and Slovakia, and was almost flat quarter-on-quarter. Its deposit base grew by 5% year-on-year (driven primarily by Ireland, where there is a successful ongoing retail campaign, and Bulgaria), and went up by 3% quarter-on-quarter.
- The life and non-life insurance businesses turned in the following performance during the quarter under review. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 88 million euros, up 2% quarter-on-quarter and 38% year-on-year.

  In the non-life segment, earned premiums were flat quarter-on-quarter and up 2% year-on-year. Claims during the fourth quarter were up 9% compared to their quarter-earlier level and up 5% on their level in the fourth quarter of 2013. The quarter-on-quarter increase was driven by higher claims in Belgium, but was somewhat mitigated by the lower level of claims in Bulgaria, which had to contend with a series of natural disasters in the previous quarter. Nevertheless, the combined ratio came to a solid 94% for the full year.

In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were rather flat on their level in 3Q2014, with a significant increase in interest-guaranteed products offsetting the decrease in unit-linked life products. Year-on-year, they were up by 3%.

It should be noted that, during the last quarter, investment income derived from insurance activities was down 6% on its level of the previous quarter, and down 11% on the year-earlier quarter. Both the quarter-on-quarter and year-on-year change was driven by lower net interest income and a number of impairment charges. Lastly, the technical-financial result also benefited from general administrative expenses being kept strictly under control, although they were 7% higher than the previous quarter, due to end-of-year marketing campaigns.

- The net result from financial instruments at fair value amounted to 130 million euros in the quarter under review, well above the 66-million-euro average for the four preceding quarters. The increase in this item was accounted for by lower negative marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes, as well as a positive CVA (due mainly to model changes). The valuations in respect of the ALM derivative instruments came to -7 million euros in the last quarter (compared to a quarterly average of +70 million euros in 2013 and -46 million euros in the third quarter). Dealing room income, which also drives this item, stood at a modest level in 4Q2014.

- Net realised gains from available-for-sale assets stood at 18 million euros for the quarter under review, down on the 39-million-euro average for the four preceding quarters and lower than the previous quarter. These gains were realised primarily on the sale of shares and to a much lesser extent bonds.

- Net fee and commission income amounted to 410 million euros, up 1% quarter-on-quarter and 12% year-on-year. On a comparable basis, this item was up 2% quarter-on-quarter and 12% year-on-year. The main driver for the quarter-on-quarter change was the higher level of management fees for mutual funds, together with higher fees on credit files (mortgages in Belgium). Assets under management stood at 186 billion euros, up 3% on their level of the previous quarter (accounted for by the investment performance (+1%) and net entries (+2%)) and up 14% year-on-year, driven by the investment performance (+8%) and by net inflows (+6%).

- Other net income came to 70 million euros, substantially higher than the 10-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 986 million euros in 4Q2014, up 10% on their level in the previous quarter and 3% year-on-year. On a comparable basis, this item was up 11% quarter-on-quarter and 4% year-on-year. The quarter-on-quarter increase was primarily attributable to end-of-year effects, like higher marketing costs and ICT expenses, as well as to higher staff expenses arising from Belgian government measures (higher age of retirement for employees) and increased valuations for staff invalidity plans, and certain one-off expenses in Hungary. The year-on-year increase was chiefly attributable to higher staff expenses, due to Belgian government measures, additional hiring and increased valuations for staff invalidity plans, along with a number of one-off expenses in Hungary.

- The year-to-date cost/income ratio came to a relatively high 57%, but this was largely caused by the fact that the denominator (total income) suffered from the negative marked-to-market valuations of 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 156 million euros in 4Q2014, down on the 165 million euros recorded in the previous quarter and lower than the 939 million euros recorded a year earlier. On a comparable basis, loan loss impairment stood at 159 million euros in the previous quarter. The main factors behind the almost flat quarter-on-quarter trend were an increase of 9 million euros in the Belgium Business Unit and a decrease of 13 million euros in the Group Centre. The annualised credit cost ratio for the whole group stood at 0.42%. This breaks down into 0.23% for the Belgium Business Unit (down from 0.37% for FY2013), a low 0.18% in the Czech Republic Business Unit (down from 0.26% for FY2013), and 1.06% 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 35 million euros and relating to available-for-sale assets (14 million euros) and to property and intangible assets (21 million euros, mainly impairment on software assets in Belgium and Ireland).

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

- CDOs: During the fourth quarter, there was only a minimal impact on the income statement, due to the fact that KBC had collapsed the last two CDOs in its portfolio in the previous quarter. The total impact of this item on KBC's final-quarter income statement amounted to -7 million euros (post tax).
- Remaining divestments: A total post-tax impact of -15 million euros was recorded for this quarter, based mainly on impairment recorded on a credit file in the legacy portfolio at Antwerp Diamond Bank.
- Impact of own credit risk valuation: A slightly positive marked-to-market adjustment of 1 million euros (post tax) was recorded.

Breakdown by business unit

- In 4Q2014, the Belgium Business Unit generated a net result of 399 million euros, somewhat above the average figure of 374 million euros for the four preceding quarters. Compared with the previous quarter, 4Q2014 was characterised by strong net interest income and net fee and commission income, seasonally higher gross non-life technical charges, increased sales of guaranteed-interest life insurance products, and a reduced – but still negative – impact of ALM derivative valuations. Gains on the sale of financial assets were down, whereas other net income was up, as were costs and impairment charges. The banking activities accounted for 85% of the net result in the quarter under review, and the insurance activities for 15%.
- In the quarter under review, the Czech Republic Business Unit posted a net result of 121 million euros, somewhat below the 132-million-euro average for the four preceding quarters. Compared with the previous quarter, the results for 4Q2014 featured (on a comparable basis) flat net interest income, slightly higher net fee and commission income, lower net results from financial instruments, a higher level of other income, higher non-life premiums, a solid non-life combined ratio, but decreased sales of unit-linked life insurance products. Costs increased and loan loss impairment charges edged up (still at a

moderate level). Banking activities accounted for 93% of the net result in the quarter under review, and insurance activities for 7%.

- In the last quarter of 2014, the International Markets Business Unit recorded a slightly negative net result of -7 million euros, a vast improvement on the negative -227-million-euro average for the four preceding quarters (which had been significantly affected by the additional loan loss provisions for Ireland in 4Q2013 and by the impact of the new retail loans act in Hungary in 2Q2014). Compared to the previous quarter, 4Q2014 was characterised by lower net interest income and stable net fee and commission income, a lower result from financial instruments at fair value, a reduction in realised gains on bonds and shares and a drop in the level of other income. There was also a sharp improvement in the non-life combined ratio and an increase in life insurance sales. Costs in 4Q2014 were up, and loan loss provisions slightly down. Overall, the banking activities accounted for a net result of -12 million euros (positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland), while the insurance activities accounted for a net result of 5 million euros.
- The Group Centre's net result amounted to -55 million euros in 4Q2014. 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 -35 million euros in 4Q2014.

Analysis of the the year-to-date period under review (FY2014)

The net result for FY2014 amounted to 1 762 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 1 629 million euros, compared with 960 million euros in FY2013.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Absolut Bank, KBC Bank Deutschland and by some other minor changes. These items will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').
- Net interest income stood at 4 268 million euros, up 7% year-on-year. On a comparable basis, it was up 9% year-on-year. Commercial margins remained healthy, interest rates on savings accounts were reduced, loan and deposit volumes grew, wholesale funding costs fell considerably both on participations and on subordinated debt, and bond positions were increased. The net interest margin came to 2.08% for the full year, 18 basis points higher than the (recalculated) level of a year earlier. In the Belgium Business Unit, the loan book grew by 4% year-on-year and the deposit base by 9%. The loan book in the Czech Republic increased by 5% year-on-year, while deposits rose by 8%. The loan portfolio in the International Markets Business Unit declined by 1% year-on-year (due to Ireland), but the deposit base grew by 5% (driven by Ireland and Bulgaria).
- The life and non-life insurance businesses turned in the following performance during 2014. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 312 million euros, up 8% year-on-year.
- Premiums in the non-life segment were up by 1% year-on-year. The claims arising from the hailstorms in Belgium pushed technical charges up 4% on their 2013 level, which in turn had been affected by claims relating to flooding in the Czech Republic. Nevertheless, the combined ratio still came to a solid 94% 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 2013. 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 good investment income, although it was 1% lower than in 2013. This was 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 mitigated 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 4% year-on-year.
- The net result from financial instruments at fair value amounted to 233 million euros in 2014, compared with 779 million euros for the previous year. The year was influenced primarily by a negative -201 million euros for marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes, compared to a positive 279 million euros for 2013.
- Net realised gains from available-for-sale assets stood at 144 million euros for the period under review, compared with 213 million euros for the previous year. Some 40% of the gains were realised on the sale of bonds and 60% on the sale of shares.

- Net fee and commission income amounted to 1 580 million euros, up 7% year-on-year, and 8% on a comparable basis. Assets under management stood at 186 billion euros, up 14% year-on-year, driven by the investment performance (+8%) and by net inflows (+6%).
- Other net income came to 62 million euros as opposed to 343 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 3 775 million euros in 2014, down 1% on their year-earlier level. On a comparable basis, costs were flat, with the higher bank tax in Belgium, higher staff expenses and general administrative expenses in Ireland being offset by lower operating expenses at the Group Centre and the positive foreign exchange impact of the Czech koruna and the Hungarian forint. The year-to-date cost/income ratio came to a relatively high 57%, 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 554 million euros in 2014, well down on the 1 632 million euros recorded a year earlier mainly on account of Ireland (where large additional impairment charges were booked at the end of 2013). The annualised credit cost ratio stood at 0.42% year-to-date. This breaks down into 0.23% for the Belgian Business Unit (down from 0.37% for FY2013), 0.18% in Czech Republic Business Unit (compared with 0.26% for FY2013) and 1.06% for the International Markets Business Unit (down from 4.48% for FY2013).
- Other impairment charges came to 62 million euros and were related to impairment on available-for-sale assets and other items.

Income tax

- Income tax amounted to 652 million euros for 2014 as a whole.

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

- CDOs: During 2014, KBC collapsed the remaining CDOs in its portfolio. When account is taken of the termination of both the CDO guarantee scheme with the Belgian Federal Government and insurance from MBIA (a US monoline insurer), the narrowing of 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 2014 came to a positive 16 million euros (post tax).
- Remaining divestments: A total post-tax impact of +116 million euros was recorded for 2014, mainly because of a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: 2014 was an uneventful year due to the combined impact of maturing senior bonds and the narrowing of subordinated spreads on this item.

Equity and solvency

- At the end of 2014, total equity came to 16.5 billion euros – up 2.0 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 and to the 2014 results (+1.8 billion euros). Other factors impacting total equity in 2014 were the repayment of 0.5 billion euros (including the 50% penalty) in Flemish state aid, the calling for redemption of Funding Trust securities (-0.4 billion euros in minority interests), the AFS revaluation reserve (+0.7 billion euros) and the cash flow hedges (-0.9 billion euros).
- At 31 December 2014, 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 14.3%.
- The solvency ratio for KBC Insurance was an excellent 323% at 31 December 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 110% at the end of 2014.

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	245 174
Loans and advances to customers	127 112	129 179	125 795	120 371	120 810	124 661	125 898	124 551
Securities (equity and debt instruments)	64 777	65 435	63 854	64 904	66 313	68 380	69 530	70 359
Deposits from customers and debt certificates	164 766	164 213	166 223	161 135	163 838	166 407	166 843	161 783
Technical provisions, before reinsurance	18 836	18 805	18 803	18 701	18 941	19 007	19 065	18 934
Liabilities under investment contracts, insurance	11 664	11 606	11 684	11 787	11 976	12 322	12 540	12 553
Parent shareholders' equity	12 505	12 119	11 895	11 826	11 968	12 318	12 840	13 125
Non-voting core-capital securities	3 500	3 500	2 333	2 333	2 000	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	FY2014
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	13%
Cost/income ratio, banking	52%	57%
Combined ratio, non-life insurance	94%	94%
Solvency		
Common equity ratio (Basel III, fully loaded, including remaining state aid)	12.8%	14.3%
Credit risk		
Credit cost ratio	1.21%	0.42%
Impaired loans ratio	10.2%	9.9%
for loans more than 90 days overdue	6.0%	5.5%

* 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 (4Q 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. This also implies that KBC is no longer tied to the price leadership and acquisition bans, two behavioural measures that were included under the conditions the Commission imposed on KBC at the time.
- On 1 December 2014, the extension of the shareholders syndicate agreement officially entered into effect. In September 2014, Cera, KBC Ancora, MRBB and the Other Core Shareholders (collectively referred to as the 'core shareholders') had confirmed that they would extend their agreement to act in concert in relation to KBC Group NV for a further 10 years. By making this move, these shareholders ensure continued shareholder stability and support the further development of the KBC group. When account is also taken of the (limited) impact of the increased number of shares resulting from the annual capital increase reserved for staff in Belgium in 4Q14, the core shareholders now hold 40.35% of all KBC Group shares.
- After obtaining the approval of the National Bank of Belgium, the Boards of Directors of KBC Group NV and KBC Insurance NV decided on 18 December 2014 to further optimise the capital structure of both companies. These decisions were approved by the (Extraordinary) General Meeting of Shareholders of KBC Insurance NV. The transactions involve KBC Insurance NV buying back 203 million euros' worth of its own shares from KBC Group NV before the end of 2014 and shareholder capital being replaced by an intra-group tier-2 loan in the amount of 500 million euros to be subscribed by KBC Group NV in the first quarter of 2015. As a result of the proposed transactions, the solvency/CET1 ratio of KBC Group NV will improve, whilst the solvency of KBC Insurance NV will remain exceptionally solid (and its return on equity increase).

Developments on the Corporate Sustainability & Responsibility front (4Q to date)

- In the Czech Republic, ČSOB and Era developed Klikni a daruj (Click and Donate), an app allowing users to donate money – safely and easily – to a variety of transparent NGOs. They can choose from 91 projects run by 77 NGOs.
- As part of K&H's 'underprivileged' programme in Hungary, a half-day teacher education conference was held on the methods and ideas for teaching finance in elementary schools. K&H plans to organise three more conferences of this kind in March 2015 during 'European Money Week'. 3.7 million forint was distributed for equipment within the K&H MediMagic tender. K&H also organised a sports equipment tender, with the jury selecting five winners in three disadvantaged micro-regions from among 60 applicants. In total, they received 2 million forint from the 'K&H go' fund offered by K&H FM.
- In 2014, KBC Bank Ireland helped communities shine by awarding funding to 28 innovative local projects across Ireland through the 'Bright Ideas' community support programme.
- 12 850 people participated in an online questionnaire in Belgium and the Czech Republic. Five stakeholder groups were asked to rank a number of topics and to evaluate KBC's performance with regard to these topics. Clients, employees, suppliers, politicians and KBC management participated in the questionnaire.

- In Belgium, the environmental targets – set for 2014 and linked to the non-recurrent variable wage – were achieved. The targets related to reducing average CO2 emissions in the KBC vehicle fleet, reducing business and commuter travel by privately-owned cars, cutting electricity consumption and reducing the use of paper.
- Bolero, the online broker of KBC Securities launched a crowdfunding platform to enable entrepreneurs and potential investors to connect with each other. Start-ups can launch an appeal for finance. Interested parties can support business growth by investing relatively low amounts.
- Following on the heels of Antwerp and Hasselt, Start it@KBC offices were opened at Leuven and Ghent. Thanks to this unique partnership between Accenture, Flanders DC, Cronos, iMinds, Mobile Vikings, a number of academic institutions and KBC, passionate entrepreneurs can make use of free accommodation and benefit from coaching, training and networking facilities. Start it @KBC already boasts 143 active start-ups.
- KBC participated in the placement of the Green Growth Bond issued by the International Bank for Reconstruction and Development (more commonly known as the World Bank). This bond supports projects that aim to limit the effects of climate change.

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 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.
- During the fourth quarter of 2014, economic data pointed to robust global GDP growth, albeit with significant regional differences. The strength of growth was most visible in the US, where GDP in Q4 expanded by an annualised 2.6%, after increasing by 5% in Q3. Growth in other developed economies was weaker. Helped by lower energy prices, economic activity in the euro area avoided stagnating in Q3 (growing by an annualised 0.5%) and accelerated moderately in Q4. However, divergence in growth within the euro area remains a source of concern.
- One of the most striking global trends of recent months has been the sharp decline in headline inflation and inflation expectations. This trend had been going on for some time, but has significantly accelerated since the summer of 2014 following the collapse of commodity prices, particularly oil prices.
- The global downward shift of inflation expectations explains why the downtrend of global bond yields accelerated in Q4, with US yields falling even more than German yields. German yields were also put under downward pressure in anticipation of the new asset purchase programme announced by the ECB on 22 January 2015. From a purely European growth and inflation perspective there would be little reason to expect German yields to rise.
- Headline inflation in the euro area fell into negative territory (-0.2% year-on-year) in December, a trend that will continue in the coming months. However, this is not a deflation scenario. Core inflation, which excludes energy and food prices, even rose slightly in December, edging up from 0.7% to 0.8% after several months of stability. In the meantime, monetary policy divergence between the Fed and the ECB

led to a notable depreciation of the euro against the US dollar in Q4, which we expect to continue in 2015.

- Against the background of an improving global economic environment, the main risks for the euro area in 2015 are political ones. The fundamental issue at stake is the political willingness to maintain the monetary union. Judging from the way in which intra-EMU sovereign spreads are moving, the financial markets do seem to be somewhat concerned about this risk, and it cannot be totally ruled out.

Additional information

- Our auditor has confirmed that his audit procedures of the consolidated financial statements, prepared in accordance with the International Financial Reporting Standards as adopted in the European Union, are substantially completed and that these procedures have not revealed any material modification that would have to be made to the accounting information derived from the consolidated financial statements and included in this earnings statement.
- It will be proposed to the Annual General Meeting of Shareholders that a gross dividend of 2 euros per share for financial year 2014 be paid in 2015 (ex-date: 11 May 2015; record date: 12 May 2015; payment date: 13 May 2015).
- Financial calendar for 2015:
  - 2 April 2015: 2014 Annual Report and 2014 Risk Report
  - 7 May 2015: Annual General Meeting
  - 12 May 2015: Publication of 1Q 2015 results
  - 6 August 2015: Publication of 2Q 2015 results
  - 16 November 2015: Publication of 3Q 2015 results
  - 18 February 2016: Publication of 4Q 2015 results

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

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