Press Release

Outside trading hours - Regulated information*

Brussels, 15 May 2014 (07.00 a.m. CET)

Good start to the year:

close to 400 million euros profit.

KBC ended the first quarter of 2014 with a net profit of 397 million euros, compared with a loss of 294 million euros in the last quarter of 2013 and a profit of 520 million euros in the first 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 387 million euros for the first quarter of 2014, compared with a loss of 340 million euros in the last quarter of 2013 and a profit of 359 million euros in the first quarter of 2013.

Johan Thijs, Group CEO:

'Against a background of modest economic growth, low interest rates and low inflation in Europe, KBC started 2014 with a net result of 397 million euros for the first quarter, or 387 million euros on an adjusted-profit basis. When compared with the previous quarter, the group managed to increase net interest income, with loan volumes stable 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. Nevertheless, our total income was impacted by negative marked-to-market changes in the value of derivatives used for asset/liability management purposes. The low level of claims ensured that we had an excellent combined ratio for our non-life insurance activities. The cost/income ratio was rather high, owing to the Hungarian bank tax being booked for the full year and the marked-to-market changes just referred to. Loan loss impairment charges were significantly reduced in Ireland, and were very low in the other countries.

In the first quarter of 2014, the Belgium Business Unit generated a net result of 351 million euros, somewhat below the average figure of 393 million euros for the four preceding quarters and due entirely to the negative impact of the marked-to-market valuations in respect of ALM derivatives. Compared with the previous quarter, the first quarter of 2014 was characterised by higher net interest income, net fee and commission income and gains on the sale of shares, as well as a solid combined ratio for non-life insurance. However, sales of interest-guaranteed life products were lower. Costs were down slightly and impairment charges decreased. The banking activities accounted for 74% of the net result in the quarter under review, and the insurance activities for 26%.

In the quarter under review, the Czech Republic Business Unit posted a net result of 138 million euros, in line with the average figure of 139 million euros for the four preceding quarters. Compared with the previous quarter, the results for the first quarter of 2014 rose strongly and were characterised by a further weakening of the Czech koruna, higher net interest income and gains on the sale of bonds, lower net results from financial instruments and from fees and commissions, an increase in what is still a good non-life combined ratio and lower sales of unit-linked life insurance products. Costs improved, as did loan loss impairment charges. Banking activities accounted for 96% of the net result in the quarter under review, and the insurance activities for 4%.

In the first quarter of this year, the International Markets Business Unit recorded a net result of -26 million euros, significantly better than the average of -213 million euros for the four preceding quarters. Were the Hungarian bank tax to be spread over the year, the net result would be slightly positive. The main factor explaining the improvement on the fourth quarter of 2013 was the sharp drop in loan loss provisions at KBC Bank Ireland. The first quarter of 2014 was also characterised by higher net interest income and an improved result from financial instruments, a solid non-life combined ratio, lower net fee and commission income and flat costs, excluding the entire bank tax in Hungary being booked for the full year. Overall, the banking activities accounted for a net result of -33 million euros (the positive results in Slovakia and Bulgaria were eliminated by the negative results in Ireland and in Hungary), while the insurance activities accounted for a net result of 7 million euros.

As announced previously, we collapsed one CDO in the first quarter of 2014, which led to a further decrease in our legacy asset exposure of roughly 2 billion euros in nominal terms.

At the beginning of 2014, we repaid a second instalment (0.5 billion euros, comprising 0.33 billion euros in principal plus a penalty of 50%) to the Flemish Regional Government. This repayment was again ahead of the schedule agreed with the European Commission and was made possible on account of KBC's robust capital position. The remaining state aid now amounts to 2 billion 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 pro forma common equity ratio of 12.5% (Basel III fully loaded under the Danish compromise). In the first quarter, 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 quarterly results and a pro rata provision for the proposed dividend to be paid over 2014. Also included in the pro forma calculation is the impact of the divestment of KBC Deutschland and Antwerp Diamond Bank, agreements for which have been signed but not yet approved by the regulators. The common equity ratio therefore continues to be well above our target of 10%.

In conclusion, our strong belief in our core business of bank-insurance in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria has been confirmed through these results, marking a good start to the year. We are particularly pleased with and truly grateful for the continued trust that clients and stakeholders have placed in our firm and its employees.'

Impact of the legacy business and valuation of own credit risk:

In order to give a good insight into the ongoing business performance, KBC also provides adjusted figures that exclude a) the impact of the legacy business, i.e. the valuation of the remaining CDOs in portfolio (including fees for the related guarantee agreement with the Belgian State) and the impact of divestments, and b) the impact of the valuation of own credit risk. For the quarter under review, these items had the following impact:

- CDOs: During the first quarter, corporate and ABS credit spreads remained more or less stable. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the further reduction of approximately 2 billion euros in the net exposure to legacy CDO positions, along with the termination costs, there was a positive post-tax impact of 16 million euros.
- Remaining divestments: A total post-tax negative impact of 9 million euros was recorded for this quarter, mainly to offset the positive results of Antwerp Diamond Bank given its sale.
- Impact of own credit risk valuation: The stabilisation of the credit spread on KBC debt between the end of December 2013 and the end of March 2014 resulted in a slight positive marked-to-market adjustment of 2 million euros (post tax), and had no impact on regulatory capital.

Financial highlights for 1Q2014 compared with 4Q2013:

- Good level of total income based on commercial results.
- Net interest margin up from 1.92% to 2%. [1]
- Stable loan volume; strong deposit growth in Belgium and Ireland.
- Solid mortgage growth in the Czech Republic and Slovakia.
- Excellent non-life combined ratio of 89% for the quarter, reflecting a low claims ratio in 1Q2014. Lower life insurance sales.
- Good level of dealing room income, but considerable negative impact of marked-to-market valuations of ALM derivatives.
- Higher net fee and commission income, thanks to Belgium.
- Higher cost/income ratio of 62% year-to-date, impacted by the Hungarian bank tax being booked for the full year.
- Credit cost ratio at a very low 0.29% year-to-date, thanks to the Czech Republic and Belgium.
- Consistently solid liquidity position, with an LCR at 130% and an NSFR at 108%.
- Solvency: strong capital base, with a Basel III common equity ratio (fully loaded, pro forma) at 12.5%, well above the 10% target.

Overview KBC Group (consolidated)	1Q2013	4Q2013	1Q2014
Net result, IFRS (in millions of EUR)	0	94	7
Basic earnings per share, IFRS (in EUR)[1]	1.25	-0.71	0.45
Adjusted net result (in millions of EUR)	359	-340	387
Basic earnings per share, based on adjusted net result (in EUR)[1]	0.86	-0.82	0.42
Breakdown by business unit (in millions of EUR)			
Belgium	385	376	351
Czech Republic	132	119	138
International Markets	-87	-731	-26
Group Centre	-71	-104	-75
Parent shareholders' equity per share (in EUR, end of period)	30.0	28.3	28.7

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 Using a new methodology for calculating the net interest margin.

Changes to the reference figures

A number of changes have affected the financial reporting figures. KBC has restated its 2013 quarterly reference figures in order to enhance comparability. The changes concern:

a) 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 does have an impact on various items in the consolidated income statement.

b) The shift from Basel II to Basel III. Among other things, this has affected the risk-weighted asset figures and related ratios.

c) An enhanced definition for net interest margin across all business units. This is aimed at better showing the margin generated by KBC's core business. Hence, volatile assets related to general liquidity management or derivatives (such as reverse repos, cash balances with central banks, etc.) have been eliminated, while companies that have still to be divested and those in run down have been excluded from the scope (whereas in the past, it was only those companies classified as 'disposal groups' under IFRS 5).

Moreover, risk-weighted assets have also been affected by the National Bank of Belgium's request to remove the possibility of applying a zero weight to domestic sovereign exposures (Belgium, the Czech Republic, Slovakia and Hungary). This change has been taken into account as of the first quarter of 2014 (on a fully loaded basis), but the 2013 figures have not been restated.

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
Net interest income	1 053	1 003	1 014	1 008	1 010	-	-	-
Interest income	2 161	2 079	2 037	2 067	1 930	-	-	-
Interest expense	-1 108	-1 076	-1 023	-1 060	-920	-	-	-
Non-life insurance (before reinsurance)	149	115	145	127	149	-	-	-
Earned premiums	*305*	*316*	*321*	*317*	*307*	-	-	-
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	-	-	-
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-	-	-
Earned premiums	*271*	*241*	*238*	*381*	*308*	-	-	-
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	-	-	-
Ceded reinsurance result	-12	13	1	-6	-17	-	-	-
Dividend income	5	20	14	8	14	-	-	-
Net result from financial instruments at fair value through profit or loss	314	425	223	229	40	-	-	-
Net realised result from available-for-sale assets	142	47	34	29	51	-	-	-
Net fee and commission income	389	381	337	362	374	-	-	-
Fee and commission income	636	560	507	564	557	-	-	-
Fee and commission expense	-247	-179	-170	-202	-182	-	-	-
Other net income	76	-20	51	15	52	-	-	-
Total income	2 058	1 921	1 754	1 715	1 615	-	-	-
Operating expenses	-1 033	-924	-918	-968	-973	-	-	-
Impairment	-350	-275	-362	-940	-114	-	-	-
on loans and receivables	-293	-254	-230	-937	-102	-	-	-
on available-for-sale assets	-13	-3	-8	-10	-5	-	-	-
on goodwill	-7	0	0	0	0	-	-	-
on other	-37	-18	-125	7	-6	-	-	-
Share in results of associated companies and joint ventures	8	8	9	6	7	-	-	-
Result before tax	683	729	483	-187	535	-	-	-
Income tax expense	-159	-210	-207	-103	-138	-	-	-
Net post-tax result from discontinued operations	0	0	0	0	0	-	-	-
Result after tax	524	520	276	-290	397	-	-	-
attributable to minority interests	4	3	4	4	0	-	-	-
attributable to equity holders of the parent	**520**	**517**	**272**	**-294**	**397**	**-**	**-**	**-**
Basic earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	-	-	-
Diluted earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	-	-	-

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

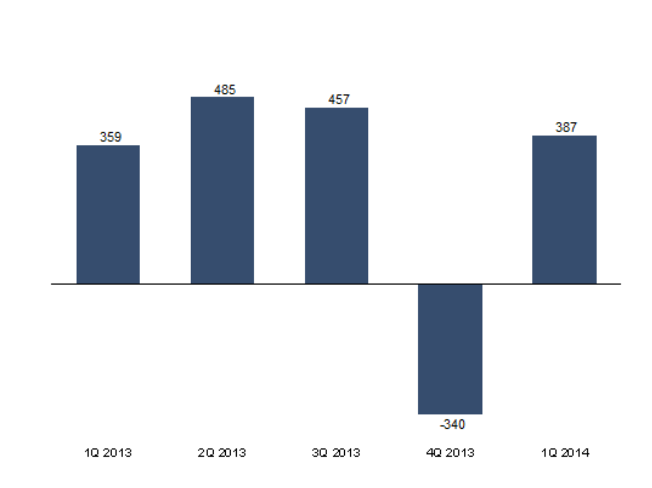
In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from 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
Adjusted net result (i.e. excluding legacy business and own credit risk)								
Net interest income	1 018	976	999	996	1 002	-	-	-
Non-life insurance (before reinsurance)	149	115	145	127	149	-	-	-
Earned premiums	*305*	*316*	*321*	*317*	*307*	-	-	-
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	-	-	-
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-	-	-
Earned premiums	*271*	*241*	*238*	*381*	*308*	-	-	-
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	-	-	-
Ceded reinsurance result	-12	13	1	-6	-17	-	-	-
Dividend income	4	19	11	7	11	-	-	-
Net result from financial instruments at fair value through profit or loss	218	256	146	159	17	-	-	-
Net realised result from available-for-sale assets	96	46	42	29	50	-	-	-
Net fee and commission income	382	385	341	365	378	-	-	-
Other net income	76	68	151	47	52	-	-	-
Total income	1 872	1 815	1 773	1 668	1 584	-	-	-
Operating expenses	-1 023	-914	-906	-955	-965	-	-	-
Impairment	-333	-234	-208	-949	-107	-	-	-
on loans and receivables	*-293*	*-215*	*-185*	*-939*	-103	-	-	-
on available-for-sale assets	-13	-3	-2	-3	-5	-	-	-
on goodwill	-7	0	0	0	0	-	-	-
on other	-20	-15	-22	-7	0	-	-	-
Share in results of associated companies and joint ventures	8	8	9	6	7	-	-	-
Result before tax	524	675	667	-230	518	-	-	-
Income tax expense	-161	-187	-206	-106	-131	-	-	-
Result after tax	363	487	460	-336	387	-	-	-
attributable to minority interests	4	3	4	4	0	-	-	-
attributable to equity holders of the parent	**359**	**485**	**457**	**-340**	**387**	**-**	**-**	**-**
Belgium	385	418	391	376	351			
Czech republic	132	146	157	119	138			
International Markets	-87	-23	-12	-731	-26			
Group Centre	-71	-56	-79	-104	-75			
Basic earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	-	-	-
Diluted earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	-	-	-
Legacy business and own credit risk impact (after tax)								
Legacy – gains/losses on CDOs	165	180	34	65	16	-	-	-
Legacy – divestments	22	-128	-231	-10	-9	-	-	-
MTM of own credit risk	-26	-20	12	-9	2	-	-	-
Net result (IFRS)								
Result after tax, attributable to equity holders of the parent (IFRS)	**520**	**517**	**272**	**-294**	**397**	**-**	**-**	**-**

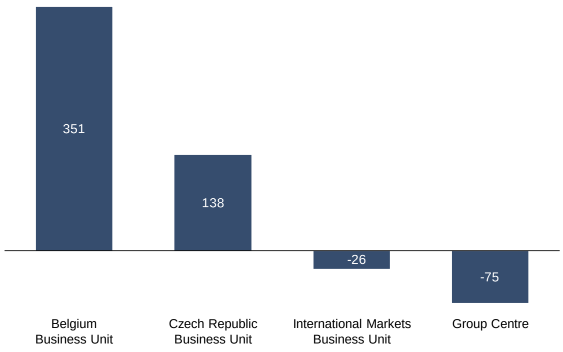
Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint 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 (1Q2014)

Adjusted net result
(in millions of EUR)



Adjusted net result by business unit, 1Q2014
(in millions of EUR)



The net result for the quarter under review amounted to 397 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to 387 million euros, as opposed to -340 million euros in 4Q2013 and 359 million euros in 1Q2013.

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 in the analysis below to enable a meaningful comparison to be made (see 'on a comparable basis').

- Net interest income stood at 1 002 million euros, up 1% quarter-on-quarter and 1% year-on-year on a comparable basis. The net interest margin, calculated on the basis of a new and refined methodology, came to 2% for the quarter under review, 8 basis points higher than the (recalculated) level of the previous quarter, and 11 basis points higher than the (recalculated) level of the year-earlier quarter. Deposit volumes were marginally up quarter-on-quarter (driven mainly by growth in demand deposits offset by maturing wholesale debt) and were down by 2% year-on-year (primarily through maturing wholesale debt). Loan volumes were flat quarter-on-quarter and declined by 2% year-on-year. The loan book in the Belgium Business Unit grew marginally quarter-on-quarter but contracted by 2% year-on-year (primarily through a reduction at the foreign branches and the decrease in shareholder loans, while mortgages grew by a modest 1%). Deposits in the Belgium Business Unit grew by 4% quarter-on-quarter (primarily demand deposits) and 1% year-on-year. The loan book in the Czech Republic increased by 6% year-on-year but contracted by 2% quarter-on-quarter, while deposits rose by 6% year-on-year and 1% quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 7% year-on-year, owing to the Irish and Hungarian loan portfolios, and by 1% quarter-on-quarter. Its deposit base grew by 5% year-on-year (mainly driven by Ireland, where there is a successful ongoing retail campaign), and by 1% 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 73 million euros, up 14% quarter-on-quarter but down 6% year-on-year.

  In the non-life segment, earned premiums were down 3% quarter-on-quarter, but up 1% year-on-year. Claims during the first quarter were substantially lower (17%) than their quarter-earlier level (due to storms in Belgium in 2013 and a mild winter in 2014) and marginally up (1%) on their level in the first quarter of 2013. The combined ratio came to a solid 89% year-to-date.

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were down 10% on their level in 4Q2013, when there had been a successful savings campaign and a seasonal effect. Year-on-year, these sales have fallen by as much as 23%, with the increase in sales of guaranteed-interest products not offsetting the decline in sales of unit-linked products.

  It should be noted that the first quarter was a good one for investment income from insurance activities, with the quarter-on-quarter results being driven by 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 17 million euros in the quarter under review, significantly below the 194-million-euro average for the four preceding quarters. This figure is driven by dealing-room income, which stood at a good level in 1Q2014, but the quarter under review was significantly impacted by negative marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes. These adjustments came to -83 million euros (compared to a quarterly average in 2013 of +70 million euros).
- Net realised gains from available-for-sale assets stood at 50 million euros for the quarter under review, in line with the 53-million-euro average for the four preceding quarters. These gains were realised primarily on the sale of shares.
- Net fee and commission income amounted to 378 million euros, up 4% quarter-on-quarter and flat year-on-year (on a comparable basis). The main drivers for the quarter-on-quarter trend were the higher level of entry fees on the sale of investment products in Belgium, somewhat mitigated by the lower level of transaction fees in Hungary (payment transactions). Assets under management stood at 167 billion euros, up 2% on their level of the previous quarter (accounted for by the investment performance (+1%) and net entries (+1%)) and up 7% year-on-year, driven by the investment performance (+4%) and by net inflows (+3%).
- Other net income came to 52 million euros, lower than the 86-million-euro average for the four preceding quarters, which had benefited from a number of significant positive one-off items.

Operating expenses (adjusted net result)

- Operating expenses came to 965 million euros in 1Q2014, up 1% on their level in the previous quarter. The quarter-on-quarter increase was entirely attributable to the 2014 Hungarian bank tax being charged in full in the first quarter (51 million euros). On the other hand, there were some positive seasonal effects, such as the traditionally lower marketing costs in the first quarter. On a comparable basis, costs were down 3% year-on-year, due to a number of factors but primarily to a weaker Czech koruna and Hungarian forint, and lower pension expenses.
- The year-to-date cost/income ratio came to a relatively high 62%, 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. Adjusted for specific items (bank tax and ALM derivatives), the cost/income ratio stood at 56%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 103 million euros in 1Q2014, down on the 939 million euros recorded in the previous quarter and on the 293 million euros recorded a year earlier. The figure for 4Q2013 had included loan loss impairment of 773 million euros recorded at KBC Bank Ireland and 43 million euros in Hungary, which was largely related in both cases to the review of their loan books in that quarter. In 1Q2014, loan loss provisioning dropped to 48 million for Ireland and to 11 million for Hungary. The annualised credit cost ratio for the whole group stood at 0.29%. This breaks down into a very favourable 0.15% for the Belgium Business Unit (down from 0.37% for FY2013), an unsustainably low 0.03% in the Czech Republic Business Unit (down from 0.26% for FY2013), and 0.99% 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 5 million euros and relating to available-for-sale assets.

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

- CDOs: During the first quarter, corporate and ABS credit spreads remained more or less stable. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the further reduction of approximately 2 billion euros in the net exposure to legacy CDO positions, along with the termination costs, there was a positive post-tax impact of 16 million euros.
- Remaining divestments: A total post-tax negative impact of 9 million euros was recorded for this quarter, mainly to offset the positive results of Antwerp Diamond Bank given its sale.
- Impact of own credit risk valuation: The stabilisation of the credit spread on KBC debt between the end of December 2013 and the end of March 2014 resulted in a slight positive marked-to-market adjustment of 2 million euros (post tax), and had no impact on regulatory capital.

Breakdown by business unit

- In the first quarter of 2014, the Belgium Business Unit generated a net result of 351 million euros, somewhat below the average figure of 393 million euros for the four preceding quarters. Compared with the previous quarter, 1Q2014 was characterised by higher net interest income, net fee and commission income and gains on the sale of shares, as well as a solid combined ratio for non-life insurance. However, sales of interest-guaranteed life products were lower and the impact of marked-to-market valuations in respect of ALM derivatives was a negative one. Costs were down slightly and impairment charges decreased. The banking activities accounted for 74% of the net result in the quarter under review, and the insurance activities for 26%.
- In the quarter under review, the Czech Republic Business Unit posted a net result of 138 million euros, in line with the average figure of 139 million euros for the four preceding quarters. Compared with the previous quarter, the results for 1Q2014 were characterised by a further weakening of the Czech koruna, higher net interest income and gains on the sale of bonds, lower net results from financial instruments and from fees and commissions, an increase in what is still a good non-life combined ratio and lower sales of unit-linked life insurance products. Costs improved, as did loan loss impairment charges. Banking activities accounted for 96% of the net result in the quarter under review, and the insurance activities for 4%.
- In the first quarter of this year, the International Markets Business Unit recorded a net result of -26 million euros, significantly better than the average of -213 million euros for the four preceding quarters. The main factor explaining the improvement on 4Q2013 was the huge drop in loan loss provisions at KBC Bank Ireland. 1Q2014 was also characterised by higher net interest income and an improved result from financial instruments, a solid non-life combined ratio, lower net fee and commission income and flat costs, excluding the entire bank tax in Hungary being booked for the full year. Overall, the banking activities accounted for a net result of -33 million euros (the positive results in Slovakia and Bulgaria were eliminated by the negative results in Ireland and in Hungary), while the insurance activities accounted for a net result of 7 million euros.
- The Group Centre's net result amounted to -65 million euros in 1Q2014. 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 -75 million euros.

Equity and solvency

- At the end of March 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 quarter were the repayment of 0.5 billion euros (including the 50% penalty) in Flemish state aid, the inclusion of the 1Q2014 results (0.4 billion euros), the changes in the AFS reserve (0.1 billion euros) and in the cashflow reserve (-0.2 billion euros).
- The group's common equity ratio (Basel III, fully loaded, under the Danish Compromise, including the remaining aid from the Flemish Region) stood at a strong 12.2% at 31 March 2014. The pro forma common equity ratio came to 12.5% (including the impact of the divestment agreements signed for KBC Bank Deutschland and Antwerp Diamond Bank).
- The solvency ratio for KBC Insurance was an excellent 299% at 31 March 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 130% and an NSFR ratio of 108% at the end of the first 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	-	-	-
Loans and advances to customers	127 112	129 179	125 795	120 371	120 810	-	-	-
Securities (equity and debt instruments)	64 777	65 435	63 854	64 904	66 313	-	-	-
Deposits from customers and debt certificates	164 766	164 213	166 223	161 135	163 838	-	-	-
Technical provisions, before reinsurance	18 836	18 805	18 803	18 701	18 941	-	-	-
Liabilities under investment contracts, insurance	11 664	11 606	11 684	11 787	11 976	-	-	-
Parent shareholders' equity	12 505	12 119	11 895	11 826	11 968	-	-	-
Non-voting core-capital securities	3 500	3 500	2 333	2 333	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	1Q2014
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	13%
Cost/income ratio, banking	52%	62%
Combined ratio, non-life insurance	94%	89%
Solvency		
Common equity ratio (Basel III, fully loaded, including remaining state aid)**	12.8%	12.2%
Credit risk		
Credit cost ratio	1.21%	0.29%
Non-performing ratio	5.9%	5.9%

* 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*).

** Including the impact of the divestment agreements signed for KBC Bank Deutschland and Antwerp Diamond Bank, the common equity ratio stood at a 12.5% at the end of 1Q2014.

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

- 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 8 January 2014, KBC repaid a second instalment of the aid received from the Flemish Regional Government (0.5 billion euros, comprising 0.33 billion euros in principal plus a penalty of 50%). This repayment was again ahead of the schedule agreed with the European Commission and was made possible on account of KBC's robust capital position.
- In January 2014, the net exposure to legacy CDO positions was further reduced by approximately 2 billion euros, thanks to the continued collapsing of CDO exposures.
- In February 2014, KBC announced a further simplification of its management structure, in line with the reduced size of the group and the new situation. The Executive Committee was reduced from 8 to 6 members.
- On 12 March 2014, KBC successfully placed a non-dilutive CRD IV-compliant Additional tier-1 instrument for 1.4 billion euros. There was considerable interest in the issue, which was five times oversubscribed.
- In March 2014, KBC's long-term ratings were upgraded by S&P to 'A' for KBC Bank, 'A' for KBC Insurance, and to 'A-' for KBC Group.
- On 2 April 2014, KBC announced its intention to call its outstanding stock of 5 classic tier-1 securities following the successful closure of its AT-1 securities issue. Three of these securities have since been called.
- In May 2014, KBC's long-term ratings were upgraded by Moody's to 'A2' for KBC Bank and to 'A3' for KBC Group.

Developments on the Corporate Sustainability & Responsibility front

- KBC Group published its 'Report to Society for 2013', in which it informs the general public of what it has been doing in 2013 and why.
- ČSOB in the Czech Republic won the 'Internet Effectiveness Award 2013' in the area of non-profit sector, human rights and the environment for the pilot grant programme called 'Era Helps the Regions', which is aimed at assisting 27 non-profit and contributory organisations in nine regions. Given the success of the pilot programme, 'Era Helps the Regions' will be rolled out countrywide in 2014.
- K&H organised the 'K&H Ready, Steady, Money!' national competition in school year 2013/2014 for the fourth time: 1 081 teams from 350 schools participated in the first round of the competition and more than 4 700 pupils put their knowledge and creativity to the test in dealing with various financial tasks. Participant numbers were up 50% on their level for the previous school year.
- KBC Ireland launched a new 'KBC Bright Ideas' initiative, a fund for people from Dublin, Cork, Galway or Limerick who want to transform their communities.
- KBC joined the World Business Council for Sustainable Development (WBCSD) and participated at the liaison delegate meeting in Montreux.
- The KBC group created a blacklist of companies breaching the Global Compact Principles and reinforced the policies and procedures for exposure to soft commodities.

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 global economy has left behind its weak winter period. The latest economic indicators point towards a continuation of the economic recovery, as reflected by the German IFO indicator, among other things. Economic data in other euro zone economies are likewise pointing to improving growth performances, suggesting that the recovery in the euro zone is becoming increasingly broad-based. Moreover, the European business cycle will probably receive some extra support from a more growth-neutral fiscal policy.
- Against the background of a further, albeit moderate, improvement in the euro area's growth dynamic, the risk of a new round of the euro crisis has diminished, as well. Intra-EMU sovereign yield spreads have been narrowing significantly in recent months, due in part to the favourable outcome of the ECB's OMT programme from mid-2012, in which the ECB promised to do 'whatever it takes' to save the euro zone and, if necessary, to buy unlimited amounts of sovereign debt. Apart from that, the recent political progress towards a more genuine banking union also played a crucial part by weakening the potentially dangerous link between banks and their national sovereign. More specifically, the ongoing asset quality review and stress test by the ECB and the EBA are helping to improve transparency about the financial health of the European banking sector, while the ECB – as single supervisor from November this year – will ensure that rules are uniformly implemented. Moreover, the recent agreement on the Single Resolution Mechanism ensures that a possible bank resolution is dealt with on a European rather than a national financial level.
- This relatively favourable economic European trend is part of a more global resumption of the economic recovery. In the US, producer confidence improved again, while job creation – which is critically important to support consumption growth – rose again in April to a level clearly above its pre-severe winter level. The Japanese economy has been benefiting from the expansionary policies known as 'Abenomics', and is also digesting the recent VAT rate hike rather well. The latest Chinese economic data, however, suggest a certain moderation in growth, reflecting the difficulty that policy makers have in restraining investment growth and sufficiently stimulating private consumption growth. Relative calm has returned to the other emerging markets since the fear of an imminent rate hiking cycle by the US Fed has faded somewhat. Since some underlying issues are still present, a number of emerging markets remain vulnerable. Apart from that, political conflicts such as those in Venezuela, Thailand and particularly in Ukraine remain unresolved.

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