

Press Release

Outside trading hours - Regulated information\*



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

**2013: 1 billion euros profit.**

**2014: beyond restructuring at KBC**

**KBC ended 2013 with a net profit of 1 015 million euros, compared with 612 million euros in 2012.**

**In the fourth quarter of 2013, KBC incurred a net loss of 294 million euros, as opposed to a net profit of 272 million euros in the third quarter and 240 million euros a year earlier.**

**After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 960 million euros for 2013, compared with 1 496 million euros in 2012. For the last quarter of the year, the adjusted net profit stood at -340 million euros, as opposed to +457 million euros in the third quarter and +279 million euros in the last quarter of 2012.**

**Johan Thijs, Group CEO:**

*‘Recent indicators are confirming that the economic recovery, which had been gradually building up in 2013, is continuing into 2014. Against this background of improving economic conditions, KBC posted a net result of 1 015 million euros for full-year 2013, or 960 million euros on an adjusted-profit basis. The result for the fourth quarter was influenced primarily by the announced impairment charges on Irish loans, which led to a net loss of 294 million euros, or 340 million euros on an adjusted-profit basis. Excluding this one-off additional impairment (a post-tax figure of 688 million euros), the net result amounted to 394 million euros, while the adjusted net result came to 348 million euros. When compared with the previous quarter, the group managed to increase the net interest margin further, with deposits and mortgages going up in several countries. We also collected higher revenues from fees and commissions, maintained a good combined ratio as well as an excellent cost/income ratio. However, loan loss impairment charges were somewhat higher (when Ireland is disregarded), while operating expenses increased somewhat due to seasonal effects.*

*In the quarter under review, the Belgium Business Unit generated a net result of 376 million euros, substantially above the figure of 295 million euros for the last quarter of 2012. Compared with the third quarter, the fourth quarter was characterised by higher net interest income, stable net fee and commission income, good life insurance sales, though a weaker non-life combined ratio due to higher claims, lower operating expenses and a higher level of loan loss impairment charges. The banking activities accounted for 85% of the net result in the quarter under review, and the insurance activities for 15%.*

*The Czech Republic Business Unit posted a net result of 119 million euros, slightly above the figure for the last quarter of 2012. In general, the results have been impacted by a weaker Czech koruna in the last three months of the year. Compared with the third quarter, this quarter included a decline in net interest income, an improved combined ratio in non-life insurance, increased unit-linked life insurance sales, higher net fee and commission income, higher operating expenses due to seasonal effects and higher loan loss impairment charges. Banking activities accounted for 92% of the net result in the quarter under review, and the insurance activities for 8%.*

*The International Markets Business Unit recorded a net result of -731 million euros, a one-off low. Compared with the previous quarter, the fourth quarter was affected predominantly by impairment charges of 773 million euros recorded for the Irish loan portfolio. Besides this, net interest income was lower (due to Ireland), but net fee and commission income substantially higher (thanks to Hungary). Seasonal effects and a higher cost base in Ireland meant that costs were also higher. Overall, the banking activities accounted for a negative net result of -735 million euros (the positive results in Hungary (with its adverse tax environment), Slovakia (where profit growth was robust) and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a positive net result of 4 million euros.*

*As announced in November 2013, we have reassessed our loan book, paying specific attention to the Irish loan portfolio, and set aside additional provisions due to the reclassification of 2 billion euros’ worth of restructured mortgage loans. Given the slower-than-expected recovery of the SME sector in Ireland and a more prudent outlook for future cashflows and collateral values, we have also added provisions in our corporate loan book. This has led to an overall impairment charge in Ireland of 773 million euros for the fourth quarter of 2013. Our guidance for loan loss provisions in Ireland for the coming years remains at 150 to 200 million euros for 2014 and 50 to 100 million euros for both 2015 and 2016. This guidance is based on current economic projections. As regards the other countries, the estimated impact is considered to be immaterial at present.*

*We also finalised our divestment plan. In December, we completed the sale of KBC Banka and announced that an agreement had been reached to sell Antwerp Diamond Bank to the Yinren Group. As announced before, we reached an agreement in September to sell KBC Bank Deutschland AG. These deals will ultimately improve KBC's tier-1 ratio (Basel II) by around 0.3%.*

*We have collapsed one CDO in the first quarter of 2014, which will lead to a further decrease in exposure of our legacy assets of roughly 2 billion euros in nominal value.*

*On the subject of capital management, 0.7 billion euros in loans that KBC had granted to Cera and KBC Ancora was repaid during the fourth quarter. The proceeds of the sale of some of the KBC Group shares owned by these two entities were used to finance this operation. This reduction improved regulatory capital by 0.7 billion euros and the common equity ratio (Basel III fully loaded) by 0.7%.*

*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 tier-1 ratio of 15.6% (Basel II). This calculation takes into account the repayment of 0.5 billion euros to the Flemish Regional Government at the beginning of January and the divestments for which agreements have been signed. At year-end 2013, our common equity ratio under Basel III stood at 12.5% (fully loaded, pro forma, Danish compromise method), well above our goal of maintaining a target common equity ratio under Basel III (fully loaded) of 10%.*

*As regards to future dividend pay-outs, we will propose to the respective Annual General Meetings of Shareholders that no dividend be paid over accounting years 2013 and 2015. This would imply that no coupon will be paid on the outstanding Yield Enhanced Securities subscribed to by the Flemish Regional Government over those accounting years.*

*In relation to accounting year 2014, the intention is to propose to pay, out of the available profits generated in that accounting year, a dividend of up to 2 euros per share.*

*From accounting year 2016 onwards, it is the intention to resume regular dividend payments. The precise dividend policy from then on will be presented at the KBC investor day in June 2014.*

*Despite the fact that no coupons would be paid on the Yield Enhanced Securities in relation to accounting year 2013 and 2015, the return which the Flemish Region will receive on these instruments will remain well in excess of the minimum guaranteed return of 10% per year for the full holding period.*

*Any dividend payment will of course be subject to the usual approval of the regulator.*

*In conclusion, the results for 2013 reconfirm our strong belief in our core business of bank-insurance in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.. Our utmost priority is to ensure that our clients, shareholders and other stakeholders benefit from our activities, and our 36 000 employees are committed to achieving this goal. We are truly appreciative of the trust that continues to be placed in us.’*

**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, corporate and ABS credit spreads tightened further, as had been the case during previous quarters. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the termination costs, there was a positive post-tax impact of 65 million euros.
* Remaining divestments: A total post-tax negative impact of 10 million euros was recorded for this quarter. This was attributable primarily to the completion of the sale of KBC Banka, as well as to the costs linked to the reduction in shareholders’ loans.
* Impact of own credit risk valuation: The slight tightening of the credit spread on KBC debt between the end of September 2013 and year-end 2013 resulted in a negative marked-to-market adjustment of 9 million euros (post tax), but had no impact on regulatory capital.

**Financial highlights for 4Q2013 compared with 3Q2013:**

* Sound commercial results.
* Net result distorted by high level of loan loss impairment in Ireland.
* Net interest margin up to 1.80%.
* Strong deposit growth in the Czech Republic, Slovakia and Bulgaria.
* Solid mortgage growth in Belgium, the Czech Republic and Slovakia.
* Healthy combined ratio of 94% for the full year, despite a relatively high claims ratio in 4Q2013.
* Good level of dealing room income, modest impact of marked-to-market valuations of ALM derivatives.
* Higher net fee and commission income, thanks to the Czech Republic and Hungary.
* Excellent cost/income ratio of 52% for the full year.
* Credit cost ratio up to 1.19% for the full year, due to impairment charges on Irish loans. Ireland’s credit cost ratio at 6.72%.
* Consistently solid liquidity position, with LCR at 131% and NSFR at 111%.
* Solvency: strong capital base, with a pro forma tier-1 ratio of 15.6% (core tier-1 ratio of 13.2%). Basel III common equity ratio (fully loaded, pro forma) at 12.5%, well above the 10% target.
* No dividend payment for 2013 to be proposed to AGM.

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| --- | --- | --- | --- | --- | --- |
| OverviewKBC Group (consolidated) | 4Q2012 | 3Q2013 | 4Q2013 | FY2012 | FY2013 |
| Net result, IFRS (in millions of EUR) | 240 | 272 | -294 | 612 | 1 015 |
| Basic earnings per share, IFRS (in EUR)1 | -0.97 | -0.75 | -0.71 | -1.09 | 1.03 |
| Adjusted net result (in millions of EUR) | 279 | 457 | -340 | 1 496 | 960 |
| Basic earnings per share, based on adjusted net result (in EUR)1  | -0.92 | -0.30 | -0.82 | 1.44 | 0.90 |
| Breakdown by business unit (in millions of EUR)2 |  |  |  |  |  |
|  Belgium | 295 | 391 | 376 | 1 360 | 1 570 |
|  Czech Republic | 114 | 157 | 119 | 581 | 554 |
|  International Markets | -18 | -12 | -731 | -260 | -853 |
|  Group Centre | -113 | -79 | -104 | -185 | -311 |
| Parent shareholders’ equity per share (in EUR, end of period) | 29.0 | 28.5 | 28.3 | 29.0 | 28.3 |
| 1 Note: If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator (*pro rata*). If a penalty has to be paid, it will likewise be deducted.2 A new breakdown by business unit entered into force in 2013 (more information on this breakdown can be found under ‘Notes on segment reporting’ in the ‘Consolidated financial statements’ section of the quarterly report). The 2012 reference figures have been restated in order to reflect this new breakdown. |



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, IFRSKBC Group (in millions of EUR) | 1Q 2012 | 2Q 2012 | 3Q 2012 | 4Q 2012 | 1Q 2013 | 2Q 2013 | 3Q 2013 | 4Q 2013 | FY2012 | FY2013 |
| Net interest income | 1 261 | 1 190 | 1 097 | 1 121 | 1 068 | 1 016 | 1 028 | 1 020 | 4 669 | 4 132 |
|  Interest income | 2 695 | 2 563 | 2 493 | 2 382 | 2 193 00 | 2 109 | 2 066 | 2 095 | 10 134 | 8 464 |
|  Interest expense | -1 434 | -1 374 | -1 396 | -1 261 | -1 125 00 | -1 093 | -1 039 | -1 075 | -5 465 | -4 332 |
| Non-life insurance (before reinsurance) | 204 | 200 | 157 | 61 | 149 | 115 | 145 | 127 | 622 | 536 |
| *Earned premiums* | 438 | 442 | 307 | 313 | 305 | 316 | 321 | 317 | 1 500 | 1 259 |
| *Technical charges* | -234 | -243 | -150 | -252 | -156 | -201 | -176 | -190 | -878 | -723 |
| Life insurance (before reinsurance) | -72 | -67 | -79 | -22 | -59 | -62 | -63 | -57 | -240 | -242 |
| *Earned premiums* | 446 | 448 | 271 | 310 | 271 | 241 | 238 | 381 | 1 475 | 1 132 |
| *Technical charges* | -518 | -514 | -350 | -332 | -331 | -303 | -302 | -438 | -1 714 | -1 373 |
| Ceded reinsurance result | -14 | -1 | -12 | 13 | -12 | 13 | 1 | -6 | -13 | -5 |
| Dividend income | 6 | 21 | 13 | 5 | 5 | 20 | 14 | 8 | 45 | 47 |
| Net result from financial instruments at fair value through profit or loss | 60 | 43 | 275 | 42 | 314 | 425 | 223 | 229 | 420 | 1 191 |
| Net realised result from available-for-sale assets | 32 | 9 | 56 | 85 | 142 | 47 | 34 | 29 | 181 | 252 |
| Net fee and commission income | 304 | 309 | 343 | 360 | 393 | 385 | 340 | 366 | 1 315 | 1 484 |
|  Fee and commission income | 492 | 479 | 494 | 541 | 641 00 | 565 | 512 | 569 | 2 005 | 2 286 |
|  Fee and commission expense | -188 | -170 | -151 | -181 | -248 00 | -180 | -171 | -203 | -690 | -802 |
| Other net income | 73 | 368 | 106 | 187 | 76 | -20 | 51 | 15 | 734 | 123 |
| Total income | 1 853 | 2 072 | 1 954 | 1 854 | 2 076 | 1 938 | 1 772 | 1 731 | 7 733 | 7 517 |
| Operating expenses | -1 132 | -1 033 | -1 003 | -1 081 | -1 039 | -931 | -925 | -976 | -4 248 | -3 871 |
| Impairment | -273 | -1 473 | -302 | -463 | -352 | -276 | -363 | -942 | -2 511 | -1 933 |
|  on loans and receivables | -261 | -198 | -283 | -330 | -295 | -255 | -231 | -938 | -1 072 | -1 719 |
|  on available-for-sale assets | -5 | -75 | -4 | -11 | -13 | -3 | -8 | -10 | -95 | -34 |
|  on goodwill | 0 | -414 | 0 | -8 | -7 | 0 | 0 | 0 | -421 | -7 |
|  on other | -7 | -786 | -15 | -114 | -37 | -18 | -125 | 7 | -923 | -173 |
| Share in results of associated companies | -9 | 17 | -6 | 1 | 0 | 0 | 0 | 0 | 2 | 1 |
| Result before tax | 439 | -417 | 644 | 310 | 684 | 731 | 485 | -186 | 976 | 1 714 |
| Income tax expense | -93 | -110 | -103 | -56 | -160 | -211 | -209 | -104 | -362 | -685 |
| Net post-tax result from discontinued operations | 40 | -8 | 0 | -6 | 0 | 0 | 0 | 0 | 27 | 0 |
| Result after tax | 387 | -535 | 540 | 249 | 524 | 520 | 276 | -290 | 641 | 1 029 |
|  attributable to minority interests | 7 | 5 | 9 | 9 | 4 | 3 | 4 | 4 | 29 | 14 |
|  **attributable to equity holders of the parent** | **380** | **-539** | **531** | **240** | **520** | **517** | **272** | **-294** | **612** | **1 015** |
| Basic earnings per share (EUR) | 0.71 | -1.99 | 1.16 | -0.97 | 1.25 | 1.24 | -0.75 | -0.71 | -1.09 | 1.03 |
| Diluted earnings per share (EUR) | 0.71 | -1.99 | 1.16 | -0.97 | 1.25 | 1.24 | -0.75 | -0.71 | -1.09 | 1.03 |



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 2012 | 2Q 2012 | 3Q 2012 | 4Q2012 | 1Q 2013 | 2Q 2013 | 3Q 2013 | 4Q2013 | FY2012 | FY2013 |
| Adjusted net result (i.e. excluding legacy business and own credit risk)  |  |  |  |  |  |  |  |  |  |  |
| Net interest income | 1 217 | 1 153 | 1 078 | 1 084 | 1 032 | 990 | 1 013 | 1 009 | 4 532 | 4 044 |
| Non-life insurance (before reinsurance) | 204 | 200 | 157 | 61 | 149 | 115 | 145 | 127 | 622 | 536 |
| *Earned premiums* | 438 | 442 | 307 | 313 | 305 | 316 | 321 | 317 | 1 500 | 1 259 |
| *Technical charges* | -234 | -243 | -150 | -252 | -156 | -201 | -176 | -190 | -878 | -723 |
| Life insurance (before reinsurance) | -72 | -67 | -79 | -22 | -59 | -62 | -63 | -57 | -240 | -242 |
| *Earned premiums* | 446 | 448 | 271 | 310 | 271 | 241 | 238 | 381 | 1 475 | 1 132 |
| *Technical charges* | -518 | -514 | -350 | -332 | -331 | -303 | -302 | -438 | -1 714 | -1 373 |
| Ceded reinsurance result | -14 | -1 | -12 | 13 | -12 | 13 | 1 | -6 | -13 | -5 |
| Dividend income | 5 | 22 | 10 | 5 | 4 | 19 | 11 | 7 | 43 | 41 |
| Net result from financial instruments at fair value through profit or loss | 353 | 58 | 223 | 156 | 218 | 256 | 146 | 159 | 789 | 779 |
| Net realised result from available-for-sale assets | 31 | 9 | 55 | 85 | 96 | 46 | 42 | 29 | 180 | 213 |
| Net fee and commission income | 312 | 309 | 345 | 359 | 385 | 388 | 345 | 369 | 1 324 | 1 487 |
| Other net income | 22 | 60 | 80 | 89 | 76 | 69 | 151 | 47 | 252 | 343 |
| Total income | 2 057 | 1 743 | 1 857 | 1 831 | 1 890 | 1 832 | 1 791 | 1 684 | 7 488 | 7 197 |
| Operating expenses | -1 110 | -1 016 | -990 | -1 068 | -1 029 | -921 | -913 | -963 | -4 184 | -3 826 |
| Impairment | -271 | -241 | -305 | -378 | -335 | -235 | -209 | -950 | -1 195 | -1 729 |
|  on loans and receivables | -261 | -198 | -283 | -329 | -295 | -217 | -186 | -940 | -1 072 | -1 638 |
|  on available-for-sale assets | -5 | -24 | -4 | -4 | -13 | -3 | -2 | -3 | -37 | -20 |
|  on goodwill | 0 | 0 | 0 | 0 | -7 | 0 | 0 | 0 | 0 | -7 |
|  on other | -5 | -18 | -18 | -45 | -20 | -15 | -22 | -7 | -86 | -64 |
| Share in results of associated companies | -9 | -9 | -13 | 1 | 0 | 0 | 0 | 0 | -31 | 1 |
| Result before tax | 667 | 477 | 549 | 385 | 526 | 677 | 669 | -228 | 2 078 | 1 643 |
| Income tax expense | -159 | -129 | -167 | -98 | -163 | -189 | -208 | -108 | -553 | -668 |
| Result after tax | 508 | 348 | 382 | 287 | 363 | 487 | 460 | -336 | 1 525 | 974 |
|  attributable to minority interests | 7 | 5 | 9 | 9 | 4 | 3 | 4 | 4 | 29 | 14 |
|  **attributable to equity holders of the parent** | **501** | **343** | **373** | **279** | **359** | **485** | **457** | **-340** | **1 496** | **960** |
|  Belgium | 486 | 244 | 335 | 295 | 385 | 418 | 391 | 376 | 1 360 | 1 570 |
|  Czech Republic | 158 | 159 | 149 | 114 | 132 | 146 | 157 | 119 | 581 | 554 |
|  International Markets | -163 | -41 | -38 | -18 | -87 | -23 | -12 | -731 | -260 | -853 |
|  Group Centre | 19 | -19 | -72 | -113 | -71 | -56 | -79 | -104 | -185 | -311 |
| Basic earnings per share (EUR) | 1.19 | 0.49 | 0.69 | -0.92 | 0.86 | 1.16 | -0.30 | -0.82 | 1.44 | 0.90 |
| Diluted earnings per share (EUR) | 1.19 | 0.49 | 0.69 | -0.92 | 0.86 | 1.16 | -0.30 | -0.82 | 1.44 | 0.90 |
| Legacy business and own credit risk impact (after tax) |  |  |  |  |  |  |  |  |  |  |
| Legacy – gains/losses on CDOs | 138 | -39 | 280 | 46 | 165 | 180 | 34 | 65 | 425 | 446 |
| Legacy – divestments | 81 | -884 | 23 | 3 | 22 | -128 | -231 | -10 | -778 | -348 |
| MTM of own credit risk | -340 | 41 | -144 | -87 | -26 | -20 | 12 | -9 | -531 | -43 |
| Net result (IFRS) |  |  |  |  |  |  |  |  |  |  |
| **Result after tax, attributable to equity holders of the parent (IFRS)** | **380** | **-539** | **531** | **240** | **520** | **517** | **272** | **-294** | **612** | **1 015** |

**Analysis of the quarter under review (4Q2013)**

Adjusted net result (in millions of EUR) Adjusted net result by business unit, 4Q 2013 (in millions of EUR)



**The net result for the quarter under review amounted to -294 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to -340 million euros, as opposed to 457 million euros in 3Q2013 and 279 million euros in 4Q2012.**

**Total income (adjusted net result)**

* The year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, WARTA, Żagiel, Nova Ljubljanska banka, Absolut Bank and by certain other sales. These items will be disregarded to enable a meaningful comparison to be made (see ‘on a comparable basis’)
* Net interest income stood at 1 009 million euros, flat quarter-on-quarter but down 7% year-on-year (on a comparable basis, however, it was flat year-on-year). The net interest margin came to 1.80% for the quarter under review, 3 basis points higher than the level of the previous quarter, and 9 basis points higher than the level of the year-earlier quarter. Deposit volumes contracted by 3% quarter-on-quarter (driven mainly by lower issues of debt certificates and the depreciation of the Czech koruna) and were flat year-on-year. Loan volumes were down 1% quarter-on-quarter, while the loan book declined by 2% year-on-year. The loan book in the Belgium Business Unit contracted by 1% quarter-on-quarter and 2% year-on-year. This contraction was accounted for by the corporate loan book (due to the deliberate reduction at the foreign branches and the repayment of shareholder loans), while mortgages grew at a modest rate quarter-on-quarter and by 1% year-on-year. Deposits in the Belgium Business Unit contracted by 3% quarter-on-quarter (primarily in the branches) but went up 2% year-on-year. The loan book in the Czech Republic increased by 6% year-on-year and by 4% quarter-on-quarter, while deposits rose by 4% both year-on-year and quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 7% year-on-year and by 5% quarter-on-quarter, owing to the Irish and Hungarian loan portfolios. The deposit base grew by 9% year-on-year (driven by Ireland, Hungary and Slovakia), but declined by 2% quarter-on-quarter.
* The life and non-life insurance businesses turned in the following performance during the quarter under review. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 64 million euros, down 23% quarter-on-quarter but up 23% year-on-year.

In the non-life segment, earned premiums were down 1% quarter-on-quarter but up 1% year-on-year. Claims during the fourth quarter were a bit higher than their quarter-earlier level (due to storms in Belgium) and pushed up technical charges. The combined ratio came to a good 94% for the full year (101% for the quarter itself).

In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were up 47% on their level in 3Q2013, thanks to a savings campaign and a seasonal effect. Year-on-year, these sales have fallen by as much as 60%, triggered by a number of factors, including a change in the tax treatment of unit-linked life insurance contracts in Belgium since the beginning of 2013, a climate of low interest rates and a shift to other wealth management products.

It should be noted that the fourth quarter was a decent one for investment income from insurance activities, with the quarter-on-quarter results being somewhat offset by lower dividend income in the investment portfolio and by the deliberately limited gains on the realisation of investments. Lastly, the technical-financial result also benefited from general administrative expenses being kept strictly under control, despite some end-of-year effects.

* The net result from financial instruments at fair value amounted to 159 million euros in the quarter under review, lower than the 194-million-euro average for the four preceding quarters. This figure is usually driven by dealing-room income, which was stable, but the first and second quarters of 2013 were influenced primarily by positive results on the marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes.
* Net realised gains from available-for-sale assets stood at 29 million euros for the quarter under review, below the 67-million-euro average for the four preceding quarters. These gains were realised on the sale of both bonds and shares.
* Net fee and commission income amounted to 369 million euros, up 7% quarter-on-quarter and 3% year-on-year. On a comparable basis, it was up by as much as 11% year-on-year. The main drivers for the quarter-on-quarter trend were the higher level of transaction fees in Hungary, entry fees on the sale of mutual funds in Belgium, and the higher level of management fees generated by these mutual funds. Assets under management stood at 163 billion euros, up 2% on their level of the previous quarter (accounted for by the investment performance) and up 5% year-on-year, driven by the investment performance (+4%) and by net inflows (+1%).
* Other net income came to 47 million euros, lower than the 96-million-euro average of the four preceding quarters. In the third quarter, this item benefited from a number of significant positive one-off items.

**Operating expenses (adjusted net result)**

* Operating expenses came to 963 million euros in 4Q2013, up 5% on their level in the previous quarter but down 10% on their year-earlier level. The quarter-on-quarter increase was attributable to end-of-year effects, like marketing costs and ICT expenses. On a comparable basis, costs were down 1% year-on-year, due primarily to lower staff expenses, a weaker Czech Koruna, partly offset by higher bank taxes in Hungary. The full year cost/income ratio came to 52%, a clear indication that costs remain well under control. However, this ratio was positively impacted by the high level of marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes and the substantially higher level of other non-recurring income. Excluding these specific items, the cost/income ratio came to 54%.

**Impairment charges (adjusted net result)**

* Loan loss impairment stood at 940 million euros in 4Q2013, up on the 186 million euros recorded in the previous quarter, and on the 329 million euros recorded a year earlier. The figure for 4Q2013 included loan loss impairment of 773 million euros recorded at KBC Bank Ireland (as opposed to 98 million euros in the previous quarter and 87 million euros in the year-earlier quarter), as well as impairment of 65 million euros in the Belgium Business Unit (compared with 43 million euros in the third quarter of 2013 and 139 million euros in the year-earlier quarter) and 43 million euros in Hungary (compared with 12 million euros in the third quarter of 2013 and 8 million euros in the year-earlier quarter – due in part to a one-off additional impairment as a result of reassessing the loan book). The annualised credit cost ratio stood at 1.19%. This breaks down into 0.37% for the Belgium Business Unit (up from 0.28% for FY2012 mainly as a result of increased impairment recorded in the SME and corporate segments), 0.25% in the Czech Republic Business Unit (an improvement on the 0.31% for FY2012, but driven partially by a change in methodology) and 4.48% for the International Markets Business Unit (up from 2.26% for FY2012).
* Impairment charges on available-for-sale assets came to 3 million euros and other impairment charges amounted to 7 million euros in the quarter under review.

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

* CDOs: During the fourth quarter, corporate and ABS credit spreads tightened further, as had been the case during previous quarters. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the termination costs, there was a positive post-tax impact of 65 million euros.
* Remaining divestments: A total post-tax negative impact of 10 million euros was recorded for this quarter. This was attributable primarily to the completion of the sale of KBC Banka, as well as to the costs linked to the reduction in shareholders’ loans.
* Impact of own credit risk valuation: The slight tightening of the credit spread on KBC debt between the end of September 2013 and year-end 2013 resulted in a negative marked-to-market adjustment of 9 million euros (post tax), but had no impact on regulatory capital.

**Breakdown by business unit**

* In the quarter under review, the Belgium Business Unit generated a net result of 376 million euros, substantially above the figure of 295 million euros for the last quarter of 2012. Compared with the third quarter, the fourth quarter was characterised by higher net interest income, stable net fee and commission income, good guaranteed-rate life insurance sales but weaker non-life combined ratio (due to higher claims), lower operating expenses and a higher level of loan loss impairment charges. The banking activities accounted for 85% of the net result in the quarter under review, and the insurance activities for 15%.
* The Czech Republic Business Unit posted a net result of 119 million euros, slightly above the figure for the last quarter of 2012 and strongly influenced by the depreciation of the Czech koruna. Compared with the third quarter, this quarter included a slight decline in net interest income, an improved combined ratio in non-life insurance, increased unit-linked life insurance sales, higher net fee and commission income, an excellent cost/income ratio and higher loan loss impairment charges. The banking activities accounted for 92% of the net result in the quarter under review, and the insurance activities for 8%.
* The International Markets Business Unit recorded a net result of -731 million euros, a one-off low. Compared with the previous quarter, the fourth quarter was influenced predominantly by the impairment of 773 million euros on the Irish loan portfolio. Besides this, net interest income was lower (due to Ireland) but net fee and commission income substantially higher (thanks to Hungary). Seasonal effects and increased expenses mean that costs were also higher. Overall, the banking activities accounted for a negative net result of -735 million euros (the positive results in Slovakia, Hungary and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a positive net result of 4 million euros.
* The Group Centre’s net result amounted to -58 million in 4Q2013. As mentioned above, this figure includes a number of group items and the results of companies earmarked for divestment, but also the full impact of the legacy business (CDOs, divestments) and the valuation of own credit risk (see above). Excluding the legacy business and the valuation of own credit risk, the adjusted net result of the Group Centre came to -104 million euros.

**Analysis of the year-to-date period under review (FY2013)**

**The net result for 2013 amounted to 1 015 million euros, compared with 612 million euros a year earlier. Excluding the legacy business and impact of own credit risk, the adjusted net result came to 960 million euros, compared with 1 496 million euros for 2012.**

**Total income (adjusted net result)**

* The year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, WARTA, Żagiel, Nova Ljubljanska banka, Absolut Bank and by certain other sales. These items will be disregarded to enable a meaningful comparison to be made (see ‘on a comparable basis’).
* Net interest income stood at 4 044 million euros, down 11% year-on-year. On a comparable basis, it fell by 4% year-on-year, due primarily to the lower level of interest income generated at KBC insurance (lower reinvestment yields), while commercial margins at the bank remained healthy. The net interest margin came to 1.75% for the full year, on a par with its level of a year earlier. In the Belgium Business Unit, deposit volumes were up 2% and loan volumes down 2% year-on-year, due to the deliberate scaling down of the loan book at the foreign branches and the repayment of shareholder loans. The loan book in the Czech Republic expanded by 6% year-on-year, while deposits rose by 4% year-on-year. The loan portfolio in the International Markets Business Unit declined by 7% year-on-year (due to Ireland and Hungary), while the deposit base grew by 9% year-on-year (driven by Ireland, Hungary and Slovakia).
* The life and non-life insurance businesses turned in the following performance during 2013. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 289 million euros, down 22% year-on-year. However, on a comparable basis (excluding the effect of the deconsolidation of WARTA), this result was 26% higher than the year-earlier figure.

In the non-life segment, earned premiums were 3% higher year-on-year (on a comparable basis). The claims arising from inter alia the floods in the Czech Republic and storms in Belgium pushed technical charges 2% higher than their level in 2012. Nevertheless, the combined ratio still came to a good 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 down 58% on their level in 2012, triggered by a change in the tax treatment of unit-linked life insurance contracts in Belgium since the beginning of 2013, a climate of low interest rates and a shift to mutual funds, among other factors.

It should be noted that the insurance results were also impacted by lower investment income, particularly net interest income, but benefited from general administrative expenses being kept strictly under control.

* The net result from financial instruments at fair value amounted to 779 million euros in 2013, compared with 789 million euros for 2012, or 706 million euros on a comparable basis. This figure is usually driven by dealing-room income, but was influenced in 2013 primarily by the positive result of 280 million euros on the marked-to-market valuations in respect of certain derivative instruments used for asset/liability management purposes more than offsetting a decline in dealing room income and lower CVAs.
* Net realised gains from available-for-sale assets stood at 213 million euros for the year under review, compared with 180 million euros for 2012, or 158 million euros on a comparable basis. The gains were realised on the sale of both bonds and shares, with the first quarter benefiting from particularly large gains on the sale of Belgian government bonds.
* Net fee and commission income amounted to 1 487 million euros, up 12% year-on-year. On a comparable basis, fee income was 15% higher year-on-year. The main drivers for this year-on-year increase were entry and management fees on mutual funds and an improvement in fee income in Hungary. Assets under management stood at 163 billion euros, up 5% on their level at year-end 2012 (1% accounted for by net sales and 4% by price effects).
* Driven by a number of exceptional items, other net income came to 343 million euros, compared with 252 million euros in 2012 (or 193 million euros on a comparable basis).

**Operating expenses (adjusted net result)**

* Operating expenses came to 3 826 million euros in 2013, down 9% on their year-earlier level. On a comparable basis, costs increased by 2%, owing in part to the introduction of the financial transaction levy in Hungary, costs associated with early retirement schemes, higher pension expenses, increased ICT costs and higher costs at KBC Ireland. The year-to-date cost/income ratio came to 52%, a clear indication that costs remain well under control. However, it was positively impacted by the high level of marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes, by net realised gains from available-for-sale assets and by a high level of other income. When these specific income items are disregarded, the cost/income ratio amounted to 54%.

**Impairment charges (adjusted net result)**

* Loan loss impairment stood at 1 638 million euros in 2013, up on the 1 072 million euros recorded a year earlier. The figure for 2013 included loan loss impairment of 1 059 million euros recorded at KBC Bank Ireland (as opposed to 547 million euros in 2012), as well as a relatively high 328 million euros in the Belgium Business Unit (as opposed to 246 million euros in 2012). The annualised credit cost ratio stood at 1.19% year-to-date. This breaks down into 0.37% for the Belgium Business Unit (up from 0.28% for FY2012), 0.25% for the Czech Republic Business Unit (compared with 0.31% for FY2012) and 4.48% for the International Markets Business Unit (up from 2.26% for FY2012).
* In the year under review, impairment charges came to 20 million euros for available-for-sale assets, 7 million euros for goodwill and 64 million euros for other items.

**Income tax**

* Income tax amounted to 668 million euros for 2013, as opposed to 553 million euros for 2012.

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

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: In 2013, corporate and ABS credit spreads tightened further. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the costs for early termination or collapse, there was a positive post-tax impact of 446 million euros.
* Remaining divestments: A total post-tax negative impact of 348 million euros was recorded for 2013. This was attributable primarily to the divestments of KBC Banka, Absolut Bank, Antwerp Diamond Bank, Nova Ljubljanska banka, Bank Zachodni, as well as to the costs linked to the reduction in shareholders’ loans.
* Impact of own credit risk valuation: The tightening of the credit spread on KBC debt in 2013 resulted in a negative marked-to-market adjustment of 43 million euros (post tax), but had no impact on regulatory capital.

**Equity and solvency**

* At the end of 2013, total equity came to 14.5 billion euros – down 1.4 billion euros on its level at the start of the year – due mainly to the payment of a dividend (-0.4 billion euros), the payment of the coupon on non-voting core-capital securities subscribed to by the Belgian Federal and Flemish Regional governments (-0.5 billion euros), the repayment of 1.17 billion euros (plus 50% penalty) in Flemish state aid (-1.8 billion euros), but partially offset by the inclusion of the 2013 results (1.0 billion euros) and the changes in the AFS reserve and cashflow reserve (a combined 0.2 billion euros).
* The group’s tier-1 ratio (under Basel II) stood at a strong 15.8% at 31 December 2013 (core tier-1 ratio of 13.5%). Including the impact of the divestment agreements signed for KBC Bank Deutschland and Antwerp Diamond Bank, as well as the repayment of the second instalment of aid received from the Flemish Regional Government, the group’s tier-1 ratio (under Basel II) stood at a robust 15.6% (core tier-1 ratio of 13.2%). The solvency ratio for KBC Insurance was an excellent 281% at 31 December 2013, down somewhat from the very high 322% at the end of 2012.
* The common equity ratio (pro forma) under the current Basel III framework came to 12.5% at the end of the fourth quarter of 2013 (fully loaded, but including the remaining aid from the Flemish Region, the impact of the divestment agreements signed for KBC Bank Deutschland and Antwerp Diamond Bank, as well as the repayment of 500 million euros to the Flemish Regional Government), well above the targeted common equity ratio of 10% under Basel III (fully loaded).

**Liquidity**

* The group’s liquidity remains excellent, as reflected in an LCR ratio of 131% and an NSFR ratio of 111% at the end of the fourth quarter.



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| Highlights of consolidated balance sheet KBC Group (in millions of EUR) | 31-03-2012 | 30-06-2012 | 30-09-2012 | 31-12-2012 | 31-03-2013 | 30-06-2013 | 30-09-2013 | 31-12-2013 |
| Total assets | 290 635 | 285 848 | 270 010 | 256 928° | 258 567 | 253 297 | 250 260 | 241 306 |
| Loans and advances to customers\* | 135 980 | 133 326 | 131 048 | 128 492 | 129 753 | 131 769 | 128 377 | 122 790 |
| Securities (equity and debt instruments)\* | 65 853 | 64 227 | 65 171 | 67 295 | 65 071 | 65 722 | 64 147 | 65 177 |
| Deposits from customers and debt certificates\* | 166 551 | 163 685 | 160 945 | 159 632 | 167 994 | 167 414 | 169 413 | 164 141 |
| Technical provisions, before reinsurance\* | 19 925 | 19 539 | 19 637 | 19 205 | 18 836 | 18 805 | 18 803 | 18 701 |
| Liabilities under investment contracts, insurance\* | 7 871 | 8 856 | 9 680 | 10 853 | 11 664 | 11 606 | 11 684 | 11 787 |
| Parent shareholders’ equity | 10 949 | 9 687 | 10 629 | 12 017° | 12 505 | 12 119 | 11 895 | 11 826 |
| Non-voting core-capital securities | 6 500 | 6 500 | 6 500 | 3 500 | 3 500 | 3 500 | 2 333 | 2 333 |
| \* 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.° Restated to reflect the amendments to IAS 19 that took effect on 1 January 2013. |



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| Selected ratiosKBC Group (consolidated) |  | FY2012 | FY2013 |
| Profitability and efficiency (based on adjusted net result) |  |  |  |
|  Return on equity\*  |  | 9% | 9% |
|  Cost/income ratio, banking |  | 57% | 52% |
|  Combined ratio, non-life insurance |  | 95% | 94% |
| Solvency |  |  |  |
|  Tier-1 ratio (Basel II)\*\* |  | 13.8% | 15.8% |
|  Core tier-1 ratio (Basel II)\*\* |  | 11.7% | 13.5% |
|  Common equity ratio (Basel III, fully loaded, including remaining state aid)\*\* |  | 10.8% | 12.8% |
| Credit risk |  |  |  |
|  Credit cost ratio |  | 0.71% | 1.19% |
|  Non-performing ratio |  | 5.3% | 5.9% |
| \* If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, 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, as well as the repayment of the second instalment of aid received from the Flemish Regional Government, the tier-1 ratio stood at a 15.6% at 31 December 2013 (core tier-1 ratio of 13.2%); common equity ratio of 12.5%. |



**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 (see below).
* Last steps in the divestment programme (4Q to date):
	+ On 24 September 2013, KBC announced that it had reached an agreement to sell KBC Bank Deutschland AG to several investors including affiliates of Teacher Retirement System of Texas, Apollo Global Management, Apollo Commercial Real Estate Finance and Grovepoint Capital. This deal will free up around 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets and will have no material impact on KBC’s financial results. This will improve KBC's solvency position by roughly 15 basis points.
	+ On 19 November 2013, 0.7 billion euros in loans that KBC had granted to Cera and KBC Ancora was repaid. The costs for KBC of this operation amounted to 15 million euros after tax. The proceeds of the sale of some of the KBC Group shares owned by these two entities were used to finance this operation. This reduction improved regulatory capital by 0.7 billion euros and the common equity ratio (Basel III fully loaded) by 0.7%.
	+ On 19 December 2013, KBC completed the agreements reached with Société Générale Srbija and Telenor Serbia on the divestment of KBC Banka, KBC’s banking entity in Serbia. The impact on the financial results and capital was immaterial.
	+ On 19 December 2013, KBC reached an agreement with the Shanghai-based Yinren Group for the sale of its subsidiary Antwerp Diamond Bank. The deal had only a negligible upfront impact on the KBC group's earnings. It will free up around 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets, which will ultimately improve KBC's tier-1 ratio (Basel II) by almost 0.2%.
	+ 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 on legacy CDO positions was further reduced by approximately 2 billion euros thanks to the continued collapsing of CDO exposures.
* Developments on the Corporate Sustainability & Responsibility front:
	+ On 18 October 2013, KBC Belgium launched ‘a digital back up for its customers’, where Belgian schools, associations and projects could apply for used computers.
	+ On 25 October 2013, KBC received the ‘Best Financial Information’ award from the Belgian Financial Analysts Association.
	+ On 2 December 2013, KBC Ireland lent its support to ‘The EM Ireland 40 Years of Change Bursary Award’, an essay competition that challenges undergraduate students across the island of Ireland to produce an essay on the topic of ‘Ireland and the EU: Forty Years of Change’. The competition invited students to critically examine how Ireland and the EU have developed over the past forty years and how this relationship may develop over the next forty.
	+ On 2 December 2013 – thanks to its ‘Simple bank transaction can save life’ campaign – the ČSOB Foundation donated 62 000 euros to the Children’s Cardio Centre Foundation to buy an extracorporeal circulation device for the Children Cardiac Centre. This device is indispensable during childrens’ heart surgery.
	+ On 17 December 2013, K&H took first prize in the ‘Exemplary CSR project category' of the Hungarian Public Relations Association's ‘CSR Best Practice 2012’ competition. As the jury explained, K&H's ‘Ready, Steady, Money!’ financial competition was instrumental in promoting corporate social responsibility in Hungary.
* 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.
	+ Global economic growth is continuing to gather momentum. In the US, economic growth is being driven mainly by private consumption, which in turn is being supported by the robust dynamic of the US labour market. Moreover, fiscal drag will be substantially lower in 2014 than in 2013 in the light of the bipartisan agreement on the federal budget. In Europe, the economic recovery is also on track, as illustrated by the further improvement of the German IFO indicator. More vulnerable EMU economies are recovering as well, with producer confidence indicators at levels consistent with economic growth.
	+ Chinese economic growth is now starting to slow down. After steadily accelerating during the first three quarters of 2013, GDP growth moderated somewhat in the fourth quarter. The main focus of Chinese policymakers is to facilitate the transition from an investment-led growth model to a consumption-led one. The efforts made by the Chinese central bank to keep credit growth under control fit in with this policy.
	+ Largely as a consequence of the ‘tapering’ of the Fed’s latest bond buying programme, capital flows to many emerging markets have started to reverse. In particular, in countries that have a current account deficit, currencies are depreciating and bond yields rising. However, a crisis similar to that in 1997 is unlikely, since internal debt is accumulating at a much more moderate rate now and FX reserves are considerably higher.
	+ The ECB has announced the launch of its comprehensive assessment of euro area banks, including an asset quality review, balance sheet assessment and stress test. The results will be published in late 2014.
* Additional information
	+ The statutory auditor of KBC Group NV has confirmed that its audit of the consolidated financial statements – which have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union – is substantially completed and that this audit has 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 no dividend for financial year 2013 be paid in 2014.
	+ Financial calendar for 2014:
		- As of 31 March 2014: 2013 Annual Report and 2013 Risk Report
		- 30 April 2014: Annual General Meeting
		- 15 May 2014: KBC Group – Publication of 1Q 2014 results
		- 7 August 2014: KBC Group – Publication of 2Q 2014 results
		- 13 November 2014: KBC Group – Publication of 3Q 2014 results
		- 12 February 2015: KBC Group – Publication of 4Q 2014 results

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