2Q2016

KBC Group Extended Quarterly Report

Management certification of financial statements and quarterly report

‘I, Luc Popelier, Chief Financial Officer of the KBC Group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the abbreviated financial statements included in the quarterly report are based on the relevant accounting standards and fairly present in all material respects the financial condition and results of KBC Group NV including its consolidated subsidiaries, and that the quarterly report provides a fair view of the main events, the main transactions with related parties in the period under review and their impact on the abbreviated financial statements, and an overview of the main risks and uncertainties for the remainder of the current year.’

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

Glossary of ratios used

See separate section at the end of this report.

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KBC Group

Report for 2Q2016 and 1H2016

This report contains information that is subject to transparency regulations for listed companies.
Date of release: 11 August 2016

Summary: Strong first-half profit of 1.1 billion euros. Interim dividend of 1 euro to be paid in November.

Against a background of persisting low interest rates, modest economic growth in Belgium and firmer growth in Central Europe, KBC posted a strong net profit figure of 721 million euros in the second quarter of 2016, up on the 392 million euros recorded in the preceding quarter and above the 666 million euros returned in the second quarter of 2015. As proof of our clients' trust in us, we again increased our lending and deposit volumes in the second quarter. Our result was driven by a good level of total income in our traditional business activities, flat operating expenses (disregarding bank taxes) and what is still a very low level of loan impairment charges. It was also boosted by the one-off positive impact of our sale of Visa Europe shares. Added to the 392 million euros net profit realised in the first quarter, this brings our result for the first six months of the year to 1 113 million euros, compared to 1 176 million euros for the same period in 2015. The results were complemented by strong fundamentals relating to our solvency and liquidity positions. The Board of Directors approved a new dividend policy for KBC Group. Starting this year, and barring exceptional or unforeseen circumstances, KBC will pay each year an interim dividend of 1 euro in November of the accounting year as well as a final dividend after the Annual Shareholders' Meeting. The interim dividend will be an advance payment on the total dividend. The current policy of paying a total dividend (and additional tier-1 coupon) of at least 50% of the annual consolidated profit is confirmed. The interim dividend of 1 euro per share for the accounting year 2016 will be paid on 18 November 2016.

Financial highlights for the second quarter of 2016, compared with the previous quarter:

- Both our banking and insurance franchises in our core markets and core activities performed well.
- Our lending volume was up in Belgium (+1%), the Czech Republic (+2%), Slovakia (+3%) and Bulgaria (+3%), while clients further increased their deposits in all countries: Belgium (+5%), the Czech Republic (+3%), Slovakia (+4%), Hungary (+4%), Bulgaria (+1%) and Ireland (+2%).
- Our net interest income was more or less unchanged quarter-on-quarter, with the negative impact of low interest rates being offset by positive elements such as growth in both current account and lending volumes, lower funding costs and rate cuts on saving accounts. The group's net interest margin was down slightly quarter-on-quarter, from 1.96% to 1.94% driven by lower reinvestment yields and pressure on commercial margins.
- Premium income earned on our non-life insurance products was up 2%, but claims rose to a greater extent (by 6%), due to the inclement weather and floods in Belgium and the Czech Republic. Our non-life combined ratio ended up at 95% year-to-date.
- Our total assets under management stood at 207 billion euros. This was roughly the same level as in the first quarter, since the small net outflow of assets was offset by a small price increase. Following the decrease in the first quarter, our net fee and commission income went up again (by 4%), due mainly to higher management fees on mutual funds and higher credit fees.
- The sale of our Visa Europe shareholding resulted in one-off additional income of 99 million euros (pre-tax), or 84 million euros (after tax).
- At 904 million euros, costs fell by 24%, since the bulk of bank taxes were booked in the first quarter of the year. Disregarding these taxes, costs remained unchanged quarter-on-quarter. The cost/income ratio stood at 59% year-to-date. After evenly spreading the bank taxes and excluding specific items, the cost/income ratio came to 56%.
- The year-to-date cost of credit amounted to an excellent but unsustainably low 0.07% of our loan portfolio. Lowered guidance for Irish loan impairment charges towards 0-40 million euros for the full year.
- Our liquidity position remained solid, and our capital base – with a common equity ratio of 14.9% (phased-in, Danish compromise) – remained well above the regulators' target of 10.25% for 2016.

Johan Thijs, our group CEO, adds:

'The continuing low level of interest rates, together with volatility on the financial markets, present a challenge for all financial institutions, including our own. In these demanding economic circumstances, we continue to be the bank-insurer that puts its clients centre stage. We see our clients as our partners, with whom we can work together to help build society and create sustainable economic growth. Clients continue to entrust their deposits to us and count on us to help them realise and protect their projects. This quarter, lending and deposit volumes increased again, as did premium income earned in our non-life insurance business.

The second quarter was characterised by a good level of total income in our core business, flat operating expenses and a continuing low cost of credit. The one-off gain on the sale of our Visa Europe shareholding added to the result. Our bank-insurance concept ultimately generated a strong result of 721 million euros in the second quarter of this year.

The solvency and liquidity positions of KBC Group remain very solid, as reflected in the actual ratios but also in the July stress test results published by EBA. This is reassuring to clients, employees and stakeholders alike. The Board of Directors approved *a new dividend policy for KBC Group. Starting this year, and barring exceptional or unforeseen circumstances, KBC will pay each year an interim dividend of 1 euro in November of the accounting year as well as a final dividend after the Annual Shareholders' Meeting. The interim dividend will be an advance payment on the total dividend. The current policy of paying a total dividend (and additional tier-1 coupon) of at least 50% of the annual consolidated profit is confirmed. The interim dividend of 1 euro per share for the accounting year 2016 will be paid on 18 November 2016.*

Ultimately, our goal is to ensure that our clients, shareholders and other stakeholders benefit from our activities, something which all our employees are committed to working towards. The Euromoney Best Bank Awards for Belgium and Hungary which we received in July are not only an encouraging signal for us, they also fill us with pride. We are genuinely grateful for the trust our clients place in us and this yet again illustrates the success of our bank-insurance model.'

Overview KBC Group (consolidated)	2Q2015	1Q2016	2Q2016	1H2015	1H2016
Net result, IFRS (in millions of EUR)	666	392	721	1 176	1 113
Basic earnings per share, IFRS (in EUR)*	1.56	0.91	1.69	2.75	2.60
Breakdown of the net result, IFRS, by business unit (in millions of EUR)					
Belgium	528	209	371	858	579
Czech Republic	127	129	191	271	320
International Markets	68	60	123	92	183
Group Centre	-57	-6	37	-44	31
Parent shareholders' equity per share (in EUR, end of period)	32.5	34.3	35.5	32.5	35.5

* Note: if a coupon were paid on the core-capital securities sold to the Flemish Regional Government (in 2015) and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty had to be paid on the core-capital securities (in 2015), it will likewise be deducted.

Highlights in the quarter under review

- Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.
- On the macroeconomic front, the most significant economic risk to the euro-area economy, the Brexit, materialised after the referendum in the UK on 23 June. This initially increased volatility on the financial markets and weighed on both producer and consumer sentiment. So far, however, the overall real impact has still been limited. Nevertheless, it will have a negative effect on the economic recovery in the euro area. In particular, it will emphasise the main source of fragility, i.e. the relative weakness of investment growth. The Brexit decision occurred against the background of relatively favourable economic data. The strong first-quarter growth of real GDP in the euro area, which accelerated to 0.6%, had supported a somewhat optimistic view. However, this robust performance could not be sustained in the second quarter, when growth came to just 0.3%. This is more in line with the potential growth rate of the euro area. As a result, the euro area unemployment rate continued its slow but steady decline to 10.1% in June. Economic growth in the second quarter was surprisingly weak in the US too (0.3% not annualised), despite the strong increase in private consumption. The weakness was due mainly to disappointing investment growth and a decline in inventories. In the meantime, global inflation remains subdued. In the US, inflation has reached relatively normal levels. In the euro area, on the other hand, the latest core inflation rate is still only half the target rate set by the European Central Bank (2%). The underlying reasons for this include the still high rate of unemployment, subdued nominal wage growth, and the trade-weighted appreciation of the euro, making import price inflation even more negative.
- We remained adequately capitalised under the 2016 EU-wide EBA stress test, as announced by the European Banking Authority (EBA) at the end of July. The impact of the stress test on our fully loaded Common Equity Tier-1 ratio (common equity ratio: 14.9% at year-end 2015) increased this ratio by 1.3 percentage points to 16.2% under the baseline scenario (+1.0 percentage points on a transitional basis). Under the adverse scenario, our fully loaded common equity ratio would fall by 3.6 percentage points to 11.3% (-3.9 percentage points on a transitional basis, likewise falling to 11.3%). So we remain adequately capitalized even in an adverse scenario. Our leverage ratio, which stood at 6.32% at the end of 2015, would increase to 7.4% under the baseline scenario and only decrease to 5.7% under the adverse scenario. The outcome of the exercise provided a reassuring signal to all stakeholders placing their trust in us that our institution is well capitalised. We will continue to ensure that appropriate levels of capital are maintained.
- We are continuing to pro-actively roll out our financial technology plans so we can serve our clients even better going forward. In June 2016, we announced that clients of ČSOB and Era Poštovní spořitelna (Postal Savings Bank) would be able to pay for their shopping by mobile phone, courtesy of a new app called ČSOB NaNákupy (Mobile Wallet). This is the first mobile wallet in the Czech Republic to support both MasterCard and Visa. Another plus point for the app is that it can be used without the need for a new bank card or SIM. By the end of the year, additional features will be provided. The mobile app will allow payments over the Internet, card management and enable the transaction history to be viewed. Users will have the option of downloading their loyalty cards, receipts or using shared shopping lists in their devices.

  In July 2016, we announced the launch of a trial ground-breaking blockchain application for SMEs. Together with IT specialist Cegeka and various other companies, we are the first in the market to successfully test Digital Trade Chain (DTC), a blockchain solution that facilitates secure international trade between SMEs. Large companies use documentary credit as a way of reducing the risks involved in doing business, but this solution is not always suitable for SMEs. We are continuing to develop DTC and are negotiating with additional parties to make the platform more widely available and easier to access.

  In July 2016, we announced that we were cooperating with ING on an integrated payment and loyalty solution in Belgium. In doing so, we are responding to the rapidly changing digital experience of clients. These user-friendly and cost-effective solutions are already being used in the Belgian market by over a million Qustomer, CityLife and Payconiq users at more than 6 500 stores. This network will continue to expand in the months to come.

- In July 2016, KBC in Belgium and K&H in Hungary won the Euromoney Award for 'Best Bank' in their respective countries. Euromoney welcomed 600 senior bankers from around the world to celebrate the 25th anniversary of its Awards for Excellence. The awards are based on year-round monitoring of market share and customer-satisfaction data compiled by Euromoney's industry-leading surveys department. These awards clearly demonstrate that our client-oriented approach is working.

Overview of our results and balance sheet

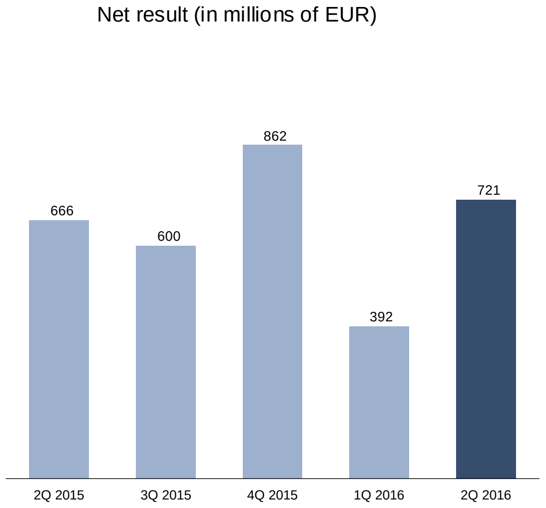
We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available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

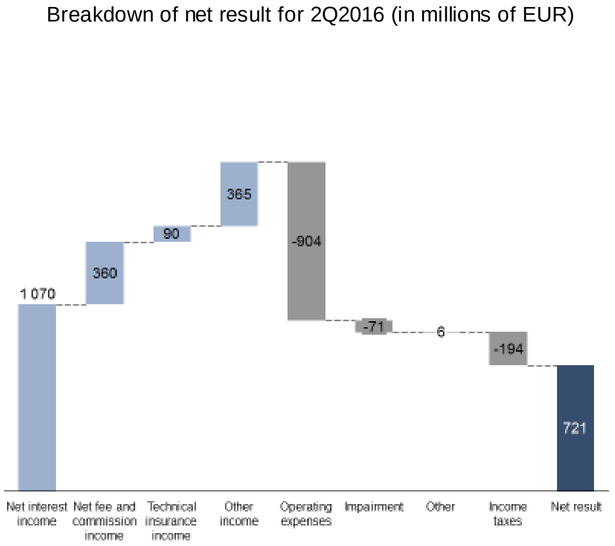
Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q2016	1H2015	1H2016
Net interest income	1 092	1 062	1 066	1 067	1 070	2 183	2 137
Interest income	1 804	1 770	1 725	1 720	1 654	3 654	3 375
Interest expense	-712	-708	-659	-653	-585	-1 471	-1 238
Non-life insurance (before reinsurance)	155	142	147	145	141	322	286
Earned premiums	*326*	*335*	*338*	*341*	*349*	*646*	*690*
Technical charges	*-172*	*-193*	*-191*	*-196*	*-208*	*-324*	*-404*
Life insurance (before reinsurance)	-51	-51	-51	-35	-38	-99	-73
Earned premiums	*265*	*289*	*445*	*426*	*402*	*567*	*827*
Technical charges	*-316*	*-340*	*-496*	*-461*	*-440*	*-666*	*-901*
Ceded reinsurance result	-7	0	-10	-8	-13	-18	-21
Dividend income	39	13	12	10	36	51	46
Net result from financial instruments at fair value through P&L	179	47	-68	93	154	236	247
Net realised result from available-for-sale assets	36	44	30	27	128	116	155
Net fee and commission income	465	383	371	346	360	924	706
Fee and commission income	634	547	533	507	517	1 267	1 024
Fee and commission expense	-169	-164	-162	-161	-157	-343	-318
Other net income	105	96	47	51	47	154	98
Total income	2 013	1 736	1 543	1 697	1 885	3 868	3 581
Operating expenses	-941	-862	-962	-1 186	-904	-2 066	-2 090
Impairment	-149	-49	-472	-28	-71	-226	-99
on loans and receivables	-138	-34	-78	-4	-50	-211	-54
on available-for-sale assets	-7	-15	-21	-24	-20	-9	-43
on goodwill	0	0	-344	0	0	0	0
other	-5	0	-29	-1	-1	-6	-2
Share in results of associated companies and joint ventures	8	6	5	7	6	14	13
Result before tax	930	831	114	489	916	1 589	1 405
Income tax expense	-264	-231	749	-97	-194	-413	-292
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	666	600	863	392	721	1 176	1 113
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**666**	**600**	**862**	**392**	**721**	**1 176**	**1 113**
Basic earnings per share (EUR)*	1.56	1.41	-0.36	0.91	1.69	2.75	2.60
Diluted earnings per share (EUR)*	1.56	1.41	-0.36	0.91	1.69	2.75	2.60

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

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2015	30-09-2015	31-12-2015	31-03-2016	30-06-2016
Total assets	256 654	257 632	252 356	261 551	265 681
Loans and advances to customers	126 093	126 971	128 223	129 703	131 383
Securities (equity and debt instruments)	70 755	71 115	72 623	72 860	73 494
Deposits from customers and debt certificates	170 159	171 412	170 109	173 646	175 870
Technical provisions, before reinsurance	19 198	19 365	19 532	19 619	19 724
Liabilities under investment contracts, insurance	12 937	12 422	12 387	12 508	12 427
Parent shareholders' equity	13 576	14 022	14 411	14 335	14 834
Non-voting core-capital securities	2 000	2 000	0	0	0

Analysis of the quarter (2Q2016)





The net result for the quarter under review amounted to 721 million euros, compared to 392 million euros quarter-on-quarter and 666 million euros year-on-year.

Total income up 11% quarter-on-quarter, thanks to one-off gains on the sale of Visa Europe shares. Excluding this gain, total income increased by 5%.

- Our net interest income stood at 1 070 million euros in the second quarter of 2016. Notwithstanding the current environment of low yields, net interest income remained unchanged quarter-on-quarter, and only contracted by 2% year-on-year. The quarter-on-quarter trend was driven by lower funding costs, higher income from an increased bond position, good credit volume growth and reduced rates on savings accounts. This offset the heightened pressure on lending margins and the negative impact from the low yield environment on the investment book. For the sake of completeness, it is worth mentioning that increased hedging losses on refinanced home loans in the second quarter are being offset this year by the prepayment fees received on these loans. As a result, our net interest margin came to 1.94% for the quarter under review, 2 basis points down on the level of the previous quarter, and 12 basis points lower than the level of the year-earlier quarter. In general, interest income continued to be supported by volume growth: our total lending volume went up both quarter-on-quarter (by 1%) and year-on-year (by 4%), while deposit volumes grew by as much as 4% quarter-on-quarter and 6% year-on-year.

- Technical income from our non-life and life insurance activities decreased quarter-on-quarter and year-on-year. In the quarter under review, gross earned premiums less gross technical charges and the ceded reinsurance result contributed 90 million euros to total income, 12% less than in the previous quarter and 7% less than in the year-earlier quarter.

  The earned premiums from our non-life insurance activities continued to increase, going up 2% quarter-on-quarter and 7% year-on-year, thanks to commercial efforts and some pricing increases. Non-life claims during the second quarter were up by 6% on the previous quarter and by 21% on their level in the second quarter of 2015, caused mainly by the impact of storms and floods. As a result, our combined ratio came to 95% for the first six months of the year.

  Sales of our guaranteed-rate life insurance products were down slightly (-1%) quarter-on-quarter but well up (+51%) year-on-year. On the other hand, sales of our unit-linked life insurance products (not included in life premium income) declined 16% quarter-on-quarter, but rose 9% year-on-year.

  It should be noted that, during the second quarter of 2016, investment income derived from insurance activities was up 24% on its level of the previous quarter, but down 10% on the year-earlier quarter. The quarter-on-quarter improvement was driven primarily by seasonally higher dividend income, as well as by realised gains on shares. The year-on-year drop was due chiefly to higher impairment on available-for-sale shareholdings.

- In the quarter under review – and especially following the turmoil of the Brexit vote – the financial markets continued to experience uncertainty and investment behaviour remained hesitant. Even so, our total assets under management remained at their level of the previous quarter (207 billion euros), with the slight net outflow of assets (-1%) being offset by a comparable positive price performance. Compared to a year ago, our total assets under management were still slightly up (+2%), thanks to the growth in net entries which more than offset the slight negative price performance. Our asset management services are the main contributor to our net fee and commission income which, following the decrease in the previous quarter, rose again by 4% quarter-on-quarter to 360 million, thanks to higher management fees for mutual funds, triggered by a shift in asset allocation from cash positions. In addition, an increase in credit and guarantee-related fees contributed to the quarterly improvement. However, compared to the year-earlier quarter, net fee and commission income was down 23%, due to substantially lower management fees and entry fees for mutual funds, as well as lower securities-related fees.

- The net result from financial instruments at fair value stood at 154 million euros in the second quarter of 2016, compared to 93 million euros in the previous quarter and 179 million euros in the year-earlier quarter. The relatively strong quarter-on-quarter increase is due largely to one-off changes to our valuation adjustment models (CVA/MVA).
- All other income items amounted to an aggregate 211 million euros, 123 million more than in the previous quarter and 31 million more than in the year-earlier quarter. The quarter under review benefited from 99 million euros (pre-tax) in gains resulting from the sale of Visa Europe shares. In addition, the second quarter was characterised by seasonally high dividend income.

Operating expenses distorted by bank taxes being booked upfront in the previous quarter: excluding these taxes, operating expenses in line with the previous quarter and down 1% year-on-year.

- Our operating expenses amounted to 904 million euros for the second quarter of 2016, which is a significant reduction on their level in the previous quarter (-24%). However, it should be noted that the bulk of the special bank taxes is traditionally booked in the first quarter of the year. Disregarding these taxes (335 million euros in the first quarter of 2016 and 51 million euros in the second quarter), our operating expenses stood at roughly the same level as in the previous quarter and were even down 1% year-on-year. The quarter-on-quarter cost trend was impacted by such factors as higher marketing expenses and lower staff expenses. The 1% year-on-year decrease resulted from a number of factors, including lower staff expenses that were somewhat mitigated by higher IT expenses.

  As a result, the cost/income ratio of our banking activities stood at 59% year-to-date, compared to 55% for 2015. Excluding a number of specific items and after evenly spreading the bank taxes, the cost/income ratio would be 56% (likewise compared to 55% for 2015).

Loan impairment charges: extremely low credit cost ratio of 0.07% year-to-date

- Loan loss impairment charges stood at a favourable 50 million euros in the second quarter of 2016, clearly up on the all-time low 4 million euros recorded in the previous quarter, but down on the 138 million recorded a year earlier. The quarter-on-quarter increase was partly caused by model parameter changes in the majority of portfolios, while the number of new impaired loans in all segments was limited. Loan loss impairment came to 28 million euros in Belgium, 9 million euros in the Czech Republic, 6 million euros in Slovakia, 1 million euros in Bulgaria, 7 million euros in the Group Centre and there were net loan loss releases (positive impact) of 1 million euros in both Hungary and Ireland. For the entire group, annualised loan loss impairment in the first half of 2016 accounted for some 0.07% the total loan portfolio.
- Impairment on available-for-sale assets stood at 20 million euros, a slight decrease on the quarter-earlier figure of 24 million euros but up on the year-earlier figure of 7 million euros. Impairment in the quarter under review was primarily on shares in the insurance investment portfolio.

Results per business unit

- Our quarterly profit of 721 million euros breaks down into 371 million euros for the Belgium Business Unit, 191 million euros for the Czech Republic Business Unit, 123 million euros for the International Markets Business Unit and 37 million euros for the Group Centre. A full results table and a short analysis per business unit are provided in the 'Results per business unit' section of the quarterly report, while more information for each business unit is also given in the analyst presentation (both available at www.kbc.com).

Strong fundamentals: equity, solvency and liquidity

- At the end of June 2016, our total equity (including our additional tier-1 issues) stood at 16.2 billion euros, up 0.4 billion euros on its level at the end of 2015. The change in total equity during the first six months of 2016 resulted from the inclusion of half-year profit (+1.1 billion euros), the lower valuation of cash flow hedges (-0.5 billion euros) and remeasurements of defined benefit plans (-0.2 billion euros).
- Our solvency ratios comfortably passed the regulators' joint solvency test for 2016 (a minimum of 10.25%, Basel III, phased-in under the Danish compromise). At 30 June 2016, our common equity ratio at group level (Basel III, under the Danish compromise) stood at a strong 14.9% (phased-in and fully loaded). The group's leverage ratio (Basel III, fully loaded) came to 6.0%. Although impacted by a new cap imposed by the Belgian regulator, the solvency ratio for KBC Insurance at 30 June 2016 was a good 187% under the new Solvency II framework.
- The group's liquidity position remained at an excellent level, as reflected in an LCR ratio of 132% and an NSFR ratio of 123% at the end of June 2016.

Analysis of the year-to-date period (1H2016)

Our aggregate result for the first six months of the year now stands at 1 113 million euros, compared to 1 176 million euros a year earlier.

Compared to the first half of 2015, the result for the first half of 2016 was characterised by:

- Slightly lower net interest income (-2% to 2 137 million euros), due primarily to the current low interest rate environment leading to a lower transformation result and a lower level of dealing room income, somewhat offset by lower funding costs and higher interest income from lending activities. The deposit volume increased (+6%), as did the lending volume (+4%).
- A lower contribution of the technical insurance results (gross earned premiums less gross technical charges and the ceded reinsurance result: -6% to 192 million euros), due in part to higher claims. In non-life insurance, the resulting year-to-date combined ratio stood at 95%. In life insurance, sales were up by almost 30%, thanks mainly to interest-guaranteed products in Belgium.
- Lower net fee and commission income (-24% to 706 million euros), due to substantially lower management fees and entry fees for mutual funds. At the end of June 2016, total assets under management stood at 207 billion euros, a year-on-year increase of close to 2% resulting from a 2% net inflow increase and a -1% average price decrease.
- A virtually unchanged level of all other income items (an aggregate 546 million euros). This included a slightly higher net result from financial instruments at fair value (+5% to 247 million euros), significantly higher net realised gains from available-for-sale assets (+34% to 155 million euros, thanks to a gain on the sale of Visa Europe shares), somewhat lower dividend income (-10% to 46 million euros) and a decrease in other net income (-36% to 98 million euros, since the second quarter of 2015 had benefited from a number of positive one-off items).
- Slightly higher operating expenses (+1% to 2 090 million euros), owing essentially to higher bank taxes (up 11%). Excluding these taxes, operating expenses were down 1% on their level for the first half of 2015. As a result, the year-to-date cost/income ratio came to 59%, or 56% when adjusted for specific items.
- Significantly lower loan loss impairment charges (-75% to 54 million euros). As a result, the annualised credit cost ratio for the whole group stood at an excellent 0.07%.

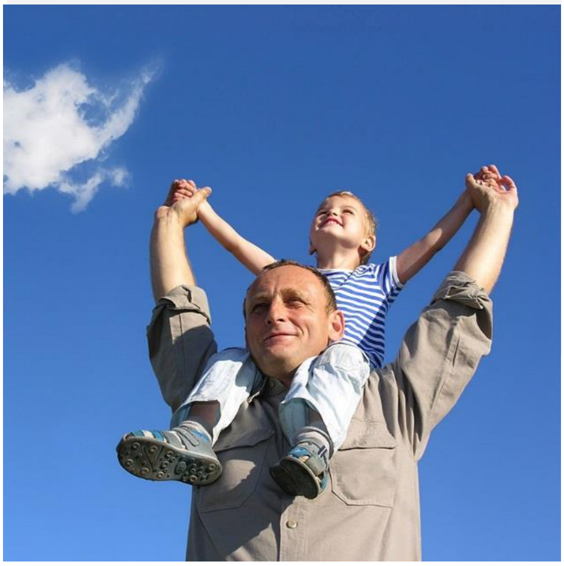
Selected ratios for the KBC group (consolidated)	FY2015	1H2016
Profitability and efficiency		
Return on equity	22%	17%
Cost/income ratio, banking	55%	59%
Combined ratio, non-life insurance	91%	95%
Solvency		
Common equity ratio according to Basel III Danish Compromise method (phased-in)	15.2%	14.9%
Common equity ratio according to Basel III Danish Compromise method (fully loaded)	14.9%	14.9%
Common equity ratio according to FICOD method (fully loaded)	14.0%	13.5%
Leverage ratio according to Basel III (fully loaded)	6.3%	6.0%
Credit risk		
Credit cost ratio	0.23%	0.07%
Impaired loans ratio	8.6%	7.8%
for loans more than 90 days overdue	4.8%	4.4%
Liquidity		
Net stable funding ratio (NSFR)	121%	123%
Liquidity coverage ratio (LCR)	127%	132%

Statement of risk

- As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. Although KBC closely monitors and manages each of these risks within a strict risk framework containing governance and limits, they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- At present, a number of items are considered to constitute the main challenges for the financial sector in general and, as a consequence, are also relevant to KBC. Increasing capital requirements are a dominant theme for the sector. Major current regulatory initiatives relate to credit risk, operational risk, trading risk, ALM risk and consumer protection. Besides regulation, the low interest rate environment remains a continuing challenge. If low rates were to persist, this would put considerable pressure on the long-term profitability of banks and especially insurers. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or concerns about the banking sector in some countries. The risk radar screens of financial institutions show that financial technology is an additional challenge for the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.
- Risk management data are provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.
- On the macroeconomic front, given the uncertainty caused by the Brexit vote in the UK referendum on 23 June, we are working on the assumption that the Fed will keep its policy rate on hold for the remainder of 2016 and will only raise it gradually in 2017, probably in three steps of 25 basis points each time. In the meantime, the ECB has announced that it was keeping its negative deposit rate unchanged, or would even lower it, until well after its Asset Purchase Programme ends, which is currently scheduled for March 2017. The ECB will probably only raise its deposit rate in 2018 at the earliest. As a result of the 'flight to quality' on the financial markets after the Brexit vote, it is expected that the US dollar will strengthen moderately against the euro in 2016 and 2017. The expected further economic expansion in the US, together with the expected Fed rate hikes in 2017, should lead to a modest rise in US bond yields. This will also pull up German rates to a certain extent, given the global integration of the main bond markets.
- Despite the relatively weak second quarter in macroeconomic terms and higher-than-average economic and political uncertainty arising from Brexit, Turkish political tensions, the refugee crisis, upcoming elections in Europe and the US, fragility in emerging markets, and so on, we nevertheless expect the remainder of 2016 to be a year of sustained economic growth in both the euro area and the US. The fundamental reasons for this are the resilience of domestic demand, in particular private consumption, somewhat accommodating fiscal policy, and resuming investment growth, especially in the US. Growth contribution from international trade, on the other hand, is expected to be rather weak. As a result, economic growth in the euro area and the US will be somewhat lower than in 2015 and is expected to accelerate again in 2017. We remain cautiously positive about growth in Belgium, although the figures for 2016 and 2017 are likely to remain below euro area levels, given the continuing fiscal austerity and the relatively higher-than-expected impact of Brexit. In Central Europe, robust GDP growth is expected to ease somewhat in 2016, as the impulse provided by European cohesion funds for government investment dissipates.

KBC Group

2Q2016 results by business unit



Unless otherwise stated, all amounts are given in euros.

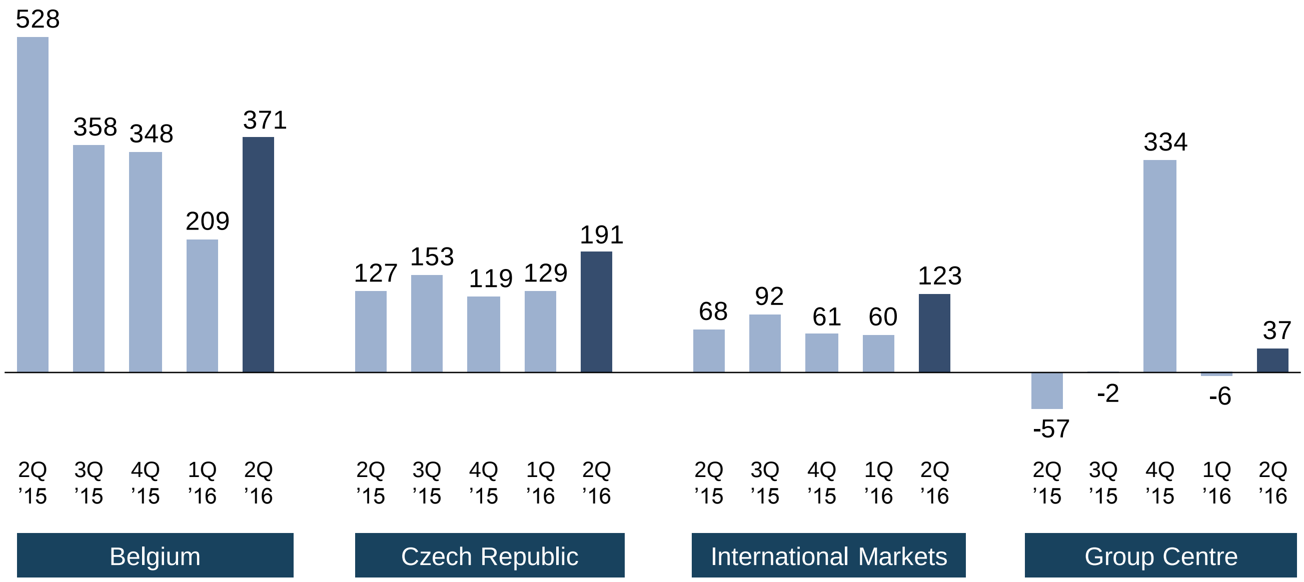
Business unit overview

Our segments or business units

In our segment reporting presentation, the segments (or business units) are:

- the Belgium Business Unit: this unit includes the activities of KBC Bank NV and KBC Insurance NV, as well as their Belgian subsidiaries (CBC Banque, KBC Asset Management, KBC Lease Group, KBC Securities, etc.). Note that Group Re was moved to the Group Centre as of 1Q2016 (with limited impact).
- the Czech Republic Business Unit: this unit groups together all of KBC's activities in the Czech Republic. It encompasses the ČSOB group (operating mainly under the brands ČSOB, Era, Postal Savings Bank, Hypotečni banka, ČMSS and Patria), the insurance company ČSOB Pojišťovna and ČSOB Asset Management.
- the International Markets Business Unit: this unit includes primarily the activities in the other (i.e. non-Czech) Central and Eastern European core markets (ČSOB Bank and ČSOB Poisťovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, and CIBANK and DZI Insurance in Bulgaria), plus KBC Bank Ireland.
- the Group Centre: this entity includes the operating expenses of the group’s holding-company activities, certain capital and liquidity management-related costs, costs related to the holding of participations, the results of the companies or activities that are earmarked for divestment or are in run-down, and the elimination of inter-segment transactions.

Breakdown of net result by business unit (in millions of EUR)



Belgium Business Unit

- The business unit's net result amounted to 371 million in 2Q2016, compared to 209 million in 1Q2016 and 528 million in 2Q2015. The quarter-on-quarter comparison is distorted by the full-year special bank taxes being booked in the first quarter and the booking of gains realised on the sale of Visa Europe shares in the quarter under review (20 million; see below).
- Total income in 2Q2016 was significantly up on its quarter-earlier level (+79 million or +7%). Despite the environment of low interest rates and a lower contribution to interest income by the dealing room, *net interest income* – the main income line – fell only marginally quarter-on-quarter (-5 million or -1%), thanks to several positive elements including the April cut in the savings account rate, good volume growth, decreased customer term deposit funding costs and a higher level of prepayment fees following a rise in home loan prepayments (though offset by increased hedging losses on previously refinanced home loans). Following the drop in the previous quarter, *net fee and commission income* was up again quarter-on-quarter (+10 million or +4%), with increased management fees related to asset management activities and increased credit-related fees more than offsetting the drop in mainly entry fees, payment services fees and securities-related fees. *Trading and fair value* income went up significantly (+47 million) due to higher dealing room income, an increase in the value of ALM derivatives, and various other positive value adjustments (MVA/CVA/FVA, partly related to model changes). On the other hand, *technical non-life insurance income* fell: earned premiums minus technical charges, plus the impact of ceded reinsurance, was down 12 million (-12%) on its 1Q2016 level, caused by the impact of storms and floods, among other things. Gross non-life premiums, however, went up by 5% year-on-year. Sales of *life insurance* products were down (-6%) on the relatively strong performance in the previous quarter, due primarily to a decrease in the sale of unit-linked products. *Realised gains on available-for-sale assets* were boosted (+25 million) by the gains on the sale of Visa Europe shares (20 million). Last but not least, *dividend income* benefited from the traditional seasonal peak (as most dividends are received in the second quarter of the year) and increased by 19 million.
- Lending and deposit volumes continued to rise in 2Q2016. The loan book on the balance sheet expanded by 1% quarter-on-quarter to 90 billion, while customer deposits increased by 5% to 120 billion. There was also a small 0.4% increase in total assets under management (to 193 billion), as the (0.8%) positive impact of increased prices more than offset the small outflow in volumes (-0.4%). Life reserves in Belgium stood at 27 billion, virtually unchanged on the level of the previous quarter.
- At first sight, costs were down significantly on the previous quarter (-201 million or -26%), but this was distorted by the bulk of the special bank taxes for the full year being booked in the first quarter (241 million in 1Q2016, only 32 million in 2Q2016 – note that the 2Q2016 figure is related to the reorganisation of the various Belgian bank taxes). Excluding these bank taxes, costs went up by 2% partly as a result of seasonally higher marketing expenses and increased ICT and facilities costs. The resulting cost/income ratio for 1H2016 stood at 62% (or 56% excluding a number of exceptional items and after evenly spreading the special bank taxes) compared to 50% for FY2015 (or 53% excluding exceptional items). The combined ratio for non-life insurance stood at 96% in 1H2016 (FY2015: 90%).
- Loan loss impairment remained very low, but was up on the extremely low level recorded in 1Q2016, due mainly to higher portfolio-based impairments (IBNR parameter changes). Overall, this still resulted in a very favourable credit cost ratio of 0.07% in 1H2016. Impaired loans accounted for 3.6% of the loan book at the end of June 2016. Impairment on available-for-sale assets (mainly shares) stood at 20 million, down 4 million on its level in 1Q2016.

Belgium Business Unit (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	720	694	691	688	682
Non-life insurance (before reinsurance)	121	103	104	107	94
Earned premiums	*247*	*250*	*250*	*248*	*251*
Technical charges	*-126*	*-146*	*-146*	*-141*	*-158*
Life insurance (before reinsurance)	-60	-62	-63	-49	-50
Earned premiums	*206*	*187*	*329*	*335*	*327*
Technical charges	*-266*	*-249*	*-391*	*-384*	*-377*
Ceded reinsurance result	-6	1	-8	-8	-7
Dividend income	34	11	9	8	27
Net result from financial instr. at fair value through P/L	136	-32	51	20	66
Net realised result from available-for-sale assets	38	33	26	23	49
Net fee and commission income	363	287	270	255	264
Other net income	67	55	41	46	44
Total income	1 412	1 090	1 121	1 090	1 169
Operating expenses	-584	-540	-554	-774	-573
Impairment	-77	-28	-52	-30	-48
on loans and receivables	*-67*	*-13*	*-34*	*-6*	*-28*
on available-for-sale assets	*-3*	*-15*	*-18*	*-24*	*-20*
on goodwill	*0*	*0*	*0*	*0*	*0*
Other	*-6*	*0*	*0*	*0*	*0*
Share in results of associated companies & joint ventures	0	0	0	-1	0
Result before tax	751	522	515	286	548
Income tax expense	-223	-164	-166	-77	-177
Result after tax	528	358	349	209	371
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**528**	**358**	**348**	**209**	**371**
Banking	*429*	*300*	*288*	*176*	*303*
Insurance	*99*	*58*	*60*	*33*	*68*
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	40 262	40 582	42 157	43 112	42 697
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	872	884	891	1 652	1 639
Allocated capital (end of period)	5 753	5 808	5 985	6 071	6 016
Return on allocated capital (ROAC)	35%	25%	24%	14%	25%
Cost/income ratio, banking	42%	51%	50%	74%	50%
Combined ratio, non-life insurance	89%	95%	98%	92%	100%
Net interest margin, banking	1.96%	1.86%	1.85%	1.86%	1.84%

Czech Republic Business Unit

- The business unit's net result amounted to 191 million in 2Q2016, up significantly on the 129 million recorded in the previous quarter and the 127 million posted in the year-earlier quarter. Part of the increase relates to the gain realised on the sale of Visa Europe shares in 2Q2016 (39 million after tax; see below).
- Total income increased significantly in 2Q2016 (+60 million or +19% compared to 1Q2016). Some 80% of this quarterly increase related to gains realised on the sale of Visa Europe shares (48 million pre-tax or 39 million after tax) recorded under *net realised gains from available-for-sale assets*. Changes in the other income lines were less pronounced. Notwithstanding the negative impact of the continuing low interest rate environment, *net interest income*, for instance, remained unchanged on its level of the previous quarter (-1 million or -0%), thanks in part to the positive effects of cuts in the savings account rate and to higher lending-related income (generally good volume growth – see below – and improved margins for corporate and SME loans but lower margins for mortgage and consumer finance loans). *Net fee and commission income* was up on the previous quarter (+3 million or +8%) thanks mainly to higher credit-related and payment service fees. The *net result from financial instruments at fair value* increased significantly (+10 million or +31%), thanks to the positive impact of various valuation adjustments (MVA/FVA/CVA, partly related to model changes) and the higher valuation of derivatives used for asset/liability management. The contribution to income growth made *by non-life insurance activities* (premiums minus charges, plus the effect of reinsurance) decreased slightly (-2 million quarter-on-quarter) due essentially to a number of large hailstorm, agricultural and industrial claims, while *life insurance sales* were down by almost one quarter owing to lower sales of unit-linked products (Maximal Invest products).
- Generally speaking, 2Q2016 was another quarter of good lending and deposit growth. The loan book on the balance sheet expanded by 2% quarter-on-quarter to 19 billion. Customer deposits also went up, increasing by 3% to 25 billion. However, total assets under management fell by 1.4% to 8.6 billion, as price increases (2.1%) were unable to fully offset the decrease in net sales (-3.5%). Life reserves stood at roughly 1 billion, down 1% on their level at the end of the previous quarter.
- At first sight, costs were down significantly on the previous quarter (-27 million or -16%), since the previous quarter had included the negative impact of the full-year bank tax. Excluding these taxes, costs in 2Q2016 were slightly up quarter-on-quarter (+2 million or +2%) due to a variety of reasons, including higher marketing expenses (several campaigns in 2Q2016) and higher professional fees. The resulting cost/income ratio for 1H2016 remained at a sound 44% (also 44% excluding a number of exceptional items and after evenly spreading the special bank taxes), compared to 48% for FY2015 (also 48% excluding exceptional items). The non-life insurance combined ratio for 1H2016 amounted to 98% (FY2015: 94%).
- Loan loss impairment in 2Q2016 remained low, but was up on the extremely low level recorded in the previous quarter (+8 million). The 2Q2016 figure is driven mainly by the negative effect of some parameter changes to portfolio-based impairments (IBNR). The credit cost ratio for 1H2016 still amounted to a very favourable 0.09%. Impaired loans declined further to 2.8% of the loan book at the end of June 2016.

Czech Republic Business Unit (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	208	215	210	211	210
Non-life insurance (before reinsurance)	19	21	23	20	17
Earned premiums	*44*	*45*	*47*	*45*	*46*
Technical charges	*-25*	*-24*	*-24*	*-25*	*-29*
Life insurance (before reinsurance)	6	7	7	8	8
Earned premiums	*41*	*76*	*95*	*67*	*51*
Technical charges	*-34*	*-69*	*-88*	*-59*	*-43*
Ceded reinsurance result	-1	-2	-3	-2	-1
Dividend income	0	0	0	0	0
Net result from financial instr. at fair value through P/L	20	26	26	32	41
Net realised result from available-for-sale assets	0	0	0	0	48
Net fee and commission income	50	49	52	46	49
Other net income	7	5	6	5	4
Total income	310	322	320	318	378
Operating expenses	-150	-140	-166	-170	-143
Impairment	-15	-4	-20	-1	-10
on loans and receivables	-16	*-5*	*-14*	*-1*	*-9*
on available-for-sale assets	0	*0*	*-4*	*0*	*0*
on goodwill	0	*0*	*-2*	*0*	*0*
Other	0	*0*	*0*	*0*	*-1*
Share in results of associated companies & joint ventures	7	5	4	6	5
Result before tax	151	183	138	154	231
Income tax expense	-24	-30	-19	-25	-40
Result after tax	127	153	119	129	191
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**127**	**153**	**119**	**129**	**191**
Banking	*121*	*144*	*113*	*123*	*186*
Insurance	*6*	*8*	*6*	*6*	*5*
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	13 032	12 902	12 919	13 238	13 571
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	69	70	72	80	84
Allocated capital (end of period)	1 489	1 478	1 482	1 437	1 475
Return on allocated capital (ROAC)	35%	40%	32%	37%	54%
Cost/income ratio, banking	48%	43%	52%	53%	36%
Combined ratio, non-life insurance	94%	93%	92%	95%	100%
Net interest margin, banking	3.00%	3.01%	2.95%	3.00%	2.91%

International Markets Business Unit

- The business unit's net result amounted to 123 million in 2Q2016, significantly up on the 60 million recorded in the previous quarter and on the 68 million posted in the year-earlier quarter, with a positive performance in almost every country. Part of the increase relates to the gain realised on the sale of Visa Europe shares in 2Q2016 (25 million after tax; see below).
- Total income rose quarter-on-quarter (+37 million or +13%). Over 80% (31 million pre-tax, 25 million after tax) of this increase related to gains realised on the sale of Visa Europe shares, recorded under *net realised gains from available-for-sale assets*. The remainder of the increase in total income was accounted for by various other income lines. *Net interest income*, the main contributor to income, rose slightly (+1 million or +1%), with the decrease in Slovakia and Hungary being offset by higher net interest income in Ireland, thanks essentially to lower funding and liquidity costs there. *Net fee and commission income* went up quarter-on-quarter (+2 million or +5%), which was due in part to seasonal effects (increased payment-related fees in Hungary, among other things). The *net result from financial instruments* grew significantly (+8 million or +35% compared to 1Q2016) due largely to the increased value of derivatives used for asset/liability management purposes and other valuation adjustments (MVA/CVA/FVA, partly related to model changes). The *technical non-life insurance result* (earned premiums minus technical charges, including the impact of ceded reinsurance) increased too (+2 million or +10%), and *sales of life insurance* products were up slightly quarter-on-quarter (+8%), thanks mainly to higher sales of unit-linked products in Hungary.
- The overall loan book on the balance sheet (21 billion) was virtually unchanged quarter-on-quarter, with growth in Slovakia and Bulgaria being offset by a contraction in Ireland and Hungary. Customer deposits (18 billion) were up 3% on the previous quarter's level, with increases being recorded in all countries. Total assets under management fell by 8% to 5.6 billion, due to a combination of a price decrease (-2%) and a decline in net entries (-6%). Life reserves stood at 0.6 billion, up 3% on the previous quarter.
- Costs in the second quarter were down on the previous quarter (-36 million, or -17%), but this was due to the bulk of full-year special bank taxes being booked in the first quarter. Excluding these taxes, costs went up somewhat (+3 million or +2%) with increases being recorded in all countries except Ireland. The resulting cost/income ratio for the entire business unit stood at 64% for 1H2016 (also 64% excluding a number of exceptional items and after evenly spreading the special bank taxes) compared to 66% for FY2015 (also 66% excluding exceptional items). The combined ratio for the non-life insurance activities amounted to an excellent 90% for the same period (FY2015: 95%).
- At 6 million, loan loss impairment charges were still very low in the quarter under review, compared to a net release of 3 million in the previous quarter. Impairment was very low or even positive (i.e. a net release) in all countries. For the business unit as a whole, this still resulted in a very favourable credit cost ratio of 0.03% for 1H2016. Impaired loans accounted for a still high but decreasing 27.8% of the loan book at the end of June 2016 (due to Ireland).
- The 2Q216 net result of the International Markets Business Unit breaks down as follows: 37 million for Slovakia, 53 million for Hungary, 4 million for Bulgaria and 30 million for Ireland. A results table and brief comments for each country are provided on the following pages.

International Markets Business Unit (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	178	180	181	178	179
Non-life insurance (before reinsurance)	17	21	23	20	24
Earned premiums	*41*	*43*	*46*	*46*	*49*
Technical charges	*-24*	*-22*	*-23*	*-26*	*-25*
Life insurance (before reinsurance)	3	5	5	6	4
Earned premiums	*19*	*27*	*21*	*24*	*24*
Technical charges	*-16*	*-22*	*-16*	*-18*	*-19*
Ceded reinsurance result	-2	-1	-2	0	-2
Dividend income	0	0	0	0	0
Net result from financial instr. at fair value through P/L	12	20	16	23	31
Net realised result from available-for-sale assets	4	-1	0	4	32
Net fee and commission income	53	51	51	48	51
Other net income	10	19	5	1	-2
Total income	277	294	279	280	317
Operating expenses	-170	-171	-184	-208	-172
Impairment	-28	-12	-28	2	-6
on loans and receivables	-29	*-12*	*-26*	*3*	*-6*
on available-for-sale assets	0	*0*	*0*	*0*	*0*
on goodwill	0	*0*	*0*	*0*	*0*
other	1	*0*	*-3*	*-1*	*0*
Share in results of associated companies & joint ventures	0	0	0	0	0
Result before tax	79	111	66	74	139
Income tax expense	-11	-18	-5	-14	-16
Result after tax	68	92	61	60	123
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**68**	**92**	**61**	**60**	**123**
Banking	*63*	*86*	*58*	*52*	*119*
Insurance	*5*	*6*	*3*	*7*	*4*
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	18 467	18 627	19 424	17 928	17 406
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	45	46	48	106	98
Allocated capital (end of period)	2 018	2 037	2 123	1 944	1 882
Return on allocated capital (ROAC)	13%	18%	12%	13%	26%
Cost/income ratio, banking	61%	58%	65%	75%	53%
Combined ratio, non-life insurance	103%	94%	97%	88%	93%
Net interest margin, banking	2.60%	2.56%	2.50%	2.47%	2.48%

Ireland

- Ireland's net result amounted to 30 million in 2Q2016, up on the 23 million recorded in the previous quarter and the 2 million in the year-earlier quarter.
- Compared to the previous quarter, total income in 2Q2016 went up (+8 million or +13%), thanks mainly to an increase in net interest income (lower funding and liquidity costs, among other things) and higher trading and fair value income (positive impact of market value adjustments).
- The Irish loan book on the balance sheet continued to decline, contracting by 1% quarter-on-quarter to 10.9 billion (due to further deleveraging of the corporate loan book and a decline in the retail loan book as mortgage redemptions outpaced new production). Customer deposits, on the other hand, continued to rise, going up by 2% on their level in the previous quarter to 5.6 billion.
- Costs in the second quarter were down on their quarter-earlier level (-2 million or -5%), due to lower bank taxes and other regulatory levies, notwithstanding slightly higher staff expenses and depreciation costs. The resulting cost/income ratio for 1H2016 stood at 63% (FY2015: 75%).
- Loan loss impairment in 2Q2016 stood at a positive 1 million (indicating a net release of impairments), compared to a positive 3 million net release in the previous quarter. The change is driven mainly by an increase in the 9-month average House Price Index and positive pool migrations, and partly offset by the negative impact of model changes. The credit cost ratio for 1H2016 accordingly stood at an excellent -0.06% (a negative figure implies a net release of impairments). Impaired loans – though still high – continue their downward trend and stood at 45% of the loan book at the end of June 2016.

Ireland (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	53	51	53	55	59
Non-life insurance (before reinsurance)	0	0	0	0	0
Earned premiums	*0*	*0*	*0*	*0*	*0*
Technical charges	*0*	*0*	*0*	*0*	*0*
Life insurance (before reinsurance)	0	0	0	0	0
Earned premiums	*0*	*0*	*0*	*0*	*0*
Technical charges	*0*	*0*	*0*	*0*	*0*
Ceded reinsurance result	0	0	0	0	0
Dividend income	0	0	0	0	0
Net result from financial instr. at fair value through P/L	-6	3	1	2	6
Net realised result from available-for-sale assets	1	0	0	0	0
Net fee and commission income	0	0	-2	0	0
Other net income	0	0	0	0	0
Total income	48	53	53	57	65
Operating expenses	-35	-36	-39	-39	-37
Impairment	-16	-9	-16	3	1
on loans and receivables	*-16*	*-9*	*-16*	*3*	*1*
on available-for-sale assets	*0*	*0*	*0*	*0*	*0*
on goodwill	*0*	*0*	*0*	*0*	*0*
Other	*0*	*0*	*0*	*0*	*0*
Share in results of associated companies & joint ventures	0	0	0	0	0
Result before tax	-3	8	-2	21	28
Income tax expense	5	2	5	2	1
Result after tax	2	10	3	23	30
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**2**	**10**	**3**	**23**	**30**
Banking	*2*	*10*	*3*	*23*	*30*
Insurance	*0*	*0*	*0*	*0*	*0*
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	6 727	7 029	7 449	7 095	6 810
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	-	-	-	-	-
Allocated capital (end of period)	706	738	782	727	698
Return on allocated capital (ROAC)	1%	5%	2%	13%	16%
Cost/income ratio, banking	74%	68%	74%	69%	58%
Combined ratio, non-life insurance	-	-	-	-	-

Hungary

- Hungary's net result amounted to 53 million in 2Q2016, up on the 12 million recorded in the previous quarter (traditionally impacted by the booking of a large part of the full-year special bank tax), but also up on the 41 million in the year-earlier quarter, thanks in part to the gain realised on the sale of Visa Europe shares (12 million after tax; see below).
- Compared to the previous quarter, total income in 2Q2016 was up (+14 million, or +11%), thanks essentially to the gain on the sale of Visa Europe shares (15 million pre-tax, 12 million after tax). There were limited changes in the other income items, compared to the previous quarter (slightly lower net interest income, slightly higher net fee and commission income and other net income). The technical result for the non-life insurance activities (earned premiums minus technical charges, plus the ceded insurance result) increased by 3%, while sales of life products went up 29%, thanks to higher sales of unit-linked products.
- The Hungarian loan book on the balance sheet contracted slightly in the quarter under review, declining by 1% to 3.6 billion. Deposit volumes on the other hand increased by 4% to 6.1 billion. Assets under management remained virtually unchanged at 3.5 billion, as the net volume outflow of 3% was offset by an equivalent price increase. Life reserves stood at 0.3 billion, up 4% on the previous quarter.
- At first sight, costs were down significantly on their level in the previous quarter (-28 million or -27%), but that was due to a large part of the special bank tax for the full year being booked in the first quarter. Excluding this item, costs went up quarter-on-quarter (+1 million or +2%). The resulting cost/income ratio for 1H2016 stood at 69% (or 66% excluding a number of exceptional items and after evenly spreading the special bank taxes) compared to 65% in FY2015 (also 65% excluding exceptional items). The non-life combined ratio for the same period amounted to a very good 86% (FY2015: 97%).
- Loan loss impairment stood at a positive 1 million (a net release), compared to a positive 2 million in the previous quarter. As a result of the net release of impairments, the credit cost ratio for 1H2016 stood at an excellent -0.11%. Impaired loans accounted for some 11% of the loan book at the end of June 2016.

Hungary (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	61	61	61	58	57
Non-life insurance (before reinsurance)	5	7	7	8	8
Earned premiums	*15*	*17*	*18*	*19*	*20*
Technical charges	*-10*	*-9*	*-11*	*-11*	*-11*
Life insurance (before reinsurance)	-1	1	1	1	0
Earned premiums	*4*	*4*	*4*	*4*	*4*
Technical charges	*-4*	*-3*	*-2*	*-3*	*-3*
Ceded reinsurance result	0	0	-1	0	0
Dividend income	0	0	0	0	0
Net result from financial instr. at fair value through P/L	16	15	12	16	17
Net realised result from available-for-sale assets	3	-1	0	3	15
Net fee and commission income	41	40	42	38	40
Other net income	9	13	3	-1	1
Total income	135	136	125	123	137
Operating expenses	-75	-73	-78	-103	-75
Impairment	-5	4	-1	1	0
on loans and receivables	*-6*	*5*	*1*	*2*	*1*
on available-for-sale assets	*0*	*0*	*0*	*0*	*0*
on goodwill	*0*	*0*	*0*	*0*	*0*
Other	*1*	*0*	*-2*	*-1*	*0*
Share in results of associated companies & joint ventures	0	0	0	0	0
Result before tax	55	68	46	22	63
Income tax expense	-14	-13	-4	-9	-10
Result after tax	41	54	42	12	53
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**41**	**54**	**42**	**12**	**53**
Banking	*40*	*52*	*42*	*9*	*50*
Insurance	*1*	*2*	*0*	*3*	*3*
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	6 927	6 529	6 858	5 515	5 197
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	15	16	16	23	26
Allocated capital (end of period)	754	713	749	589	558
Return on allocated capital (ROAC)	22%	29%	23%	8%	35%
Cost/income ratio, banking	54%	53%	61%	85%	55%
Combined ratio, non-life insurance	112%	95%	108%	83%	92%

Slovakia

- Slovakia's net result amounted to 37 million in 2Q2016, up significantly on the 20 million recorded in the previous quarter and the 17 million in the year-earlier quarter, thanks in part to the gain realised on the sale of Visa Europe shares (11 million after tax; see below).
- Compared to the previous quarter, total income was up (+15 million or +19%) as the decrease in net interest income (-2 million) was more than offset by gains realised on the sale of Visa Europe shares (14 million pre-tax, 11 million after tax) and higher trading and fair value income (+3 million). The technical result of the non-life and life insurance activities (earned premiums minus technical charges, plus the ceded insurance result) was slightly lower due a number of large claims. Sales of life insurance products fell by 10% owing to a decrease in the sale of unit-linked products.
- The Slovak loan book on the balance sheet continued to grow, expanding by no less than 3% quarter-on-quarter to 5.8 billion, and customer deposits increased too, going up by almost 4% to 5.8 billion. Assets under management were slightly down on their level of the previous quarter (-1% to 0.6 billion), as the 5% net outflow was not entirely offset by a 4% price increase. Life reserves stood at 0.2 billion, up 1% on the previous quarter.
- At first sight, costs in the first quarter were down (-7 million or -13%) on their 1Q2016 level, due to the bulk of the special bank tax for 2016 being booked in the first quarter. Excluding these taxes, costs were up somewhat (+1 million or +3%) due in part to higher staff expenses and professional fees. Consequently, the cost/income ratio for 1H2016 stood at 55% (or 59% excluding a number of exceptional items and after evenly spreading the special bank taxes) compared to 60% in FY2015 (also 60% excluding exceptional items). The non-life combined ratio for the same period amounted to an excellent 87% (FY2015: 88%).
- Loan loss impairment was up (+5 million) on the extremely low level of the previous quarter, which had benefited from the absence of any large new problem corporate loans. The credit cost ratio for 1H2016, however, remained at a favourable level of just 0.23%. Impaired loans accounted for some 3.4% of the loan book at the end of June 2016.

Slovakia (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	52	55	55	54	52
Non-life insurance (before reinsurance)	4	5	6	5	5
Earned premiums	*7*	*7*	*8*	*8*	*8*
Technical charges	*-3*	*-3*	*-2*	*-3*	*-3*
Life insurance (before reinsurance)	3	3	2	3	3
Earned premiums	*10*	*15*	*12*	*14*	*12*
Technical charges	*-8*	*-12*	*-10*	*-10*	*-10*
Ceded reinsurance result	0	0	0	0	0
Dividend income	0	0	0	0	0
Net result from financial instr. at fair value through P/L	2	2	3	4	7
Net realised result from available-for-sale assets	0	0	0	0	14
Net fee and commission income	12	12	11	11	11
Other net income	1	5	2	1	1
Total income	74	81	78	79	94
Operating expenses	-46	-48	-50	-51	-45
Impairment	-4	-4	-9	-1	-6
on loans and receivables	*-4*	*-4*	*-9*	*-1*	*-6*
on available-for-sale assets	*0*	*0*	*0*	*0*	*0*
on goodwill	*0*	*0*	*0*	*0*	*0*
other	*0*	*0*	*0*	*0*	*0*
Share in results of associated companies & joint ventures	0	0	0	0	0
Result before tax	23	30	20	26	43
Income tax expense	-6	-6	-6	-6	-6
Result after tax	17	24	14	20	37
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**17**	**24**	**14**	**20**	**37**
Banking	*15*	*22*	*12*	*17*	*35*
Insurance	*2*	*2*	*1*	*3*	*2*
Risk-weighted assets, banking (end of period, BaselIII, fully loaded in '15, phased-in as of '16)	4 085	4 313	4 350	4 522	4 592
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	15	15	15	20	22
Allocated capital (end of period)	454	479	483	484	493
Return on allocated capital (ROAC)	15%	21%	11%	18%	32%
Cost/income ratio, banking	63%	59%	62%	67%	46%
Combined ratio, non-life insurance	92%	90%	87%	85%	89%

Bulgaria

- Bulgaria's net result amounted to 4 million in 2Q2016, in line with the figure registered in the previous quarter and down on the 7 million recorded in the year-earlier quarter.
- Compared to the previous quarter, total income in 2Q2016 was up (+1 million or +4%), thanks in part to gains on the sale of Visa Europe shares (2 million), but partially offset by a decline in other net income. Life insurance sales rose by 13%.
- The Bulgarian loan book on the balance sheet grew by 3% quarter-on-quarter, increasing to 0.8 billion, while customer deposits went up by 1% to 0.7 billion. Life reserves stood at 0.05 billion, up 4% on the previous quarter.
- Costs in the quarter under review were up (+1 million or +5%) on their 1Q2016 level as a result of several items, including seasonally lower bank taxes, higher staff expenses, increased marketing expenses and communication costs. The resulting cost/income ratio for 1H2016 stood at 62% (also 62% excluding a number of exceptional items and after evenly spreading the special bank taxes) compared to 65% in FY2015 (also 65% excluding exceptional items). The combined ratio for the non-life insurance activities for the same period amounted to 97% (FY2015: also 97%).
- Loan loss impairment in 2Q2016 was in line with its level recorded in the previous quarter. The credit cost ratio for 1H2016 stood at 0.64%. Impaired loans accounted for some 21% of the loan book at the end of June 2016.

Bulgaria (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	12	12	12	12	12
Non-life insurance (before reinsurance)	8	9	10	7	10
Earned premiums	*19*	*19*	*20*	*20*	*21*
Technical charges	*-11*	*-10*	*-11*	*-12*	*-11*
Life insurance (before reinsurance)	1	1	1	1	1
Earned premiums	*5*	*8*	*5*	*6*	*8*
Technical charges	*-4*	*-7*	*-4*	*-5*	*-6*
Ceded reinsurance result	-1	0	0	1	-1
Dividend income	0	0	0	0	0
Net result from financial instr. at fair value through P/L	0	0	0	0	0
Net realised result from available-for-sale assets	1	0	0	0	3
Net fee and commission income	-1	0	-1	-1	-1
Other net income	0	0	0	-1	-4
Total income	20	22	22	20	21
Operating expenses	-13	-14	-16	-14	-14
Impairment	-3	-3	-2	-1	-1
on loans and receivables	*-3*	*-3*	*-2*	*-1*	*-1*
on available-for-sale assets	*0*	*0*	*0*	*0*	*0*
on goodwill	*0*	*0*	*0*	*0*	*0*
Other	*0*	*0*	*0*	*0*	*0*
Share in results of associated companies & joint ventures	0	0	0	0	0
Result before tax	4	5	3	5	5
Income tax expense	4	-1	0	0	-1
Result after tax	7	4	3	4	4
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**7**	**4**	**3**	**4**	**4**
Banking	*6*	*2*	*1*	*3*	*5*
Insurance	*1*	*2*	*1*	*1*	*-1*
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	710	739	750	779	792
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)	15	16	16	63	50
Allocated capital (end of period)	101	105	108	142	131
Return on allocated capital (ROAC)	29%	15%	10%	14%	12%
Cost/income ratio, banking	62%	61%	74%	67%	58%
Combined ratio, non-life insurance	100%	95%	92%	97%	96%

Group Centre

The Group Centre's net result in 2Q2016 stood at a positive 37 million, as opposed to -6 million in the previous quarter and -57 million in the year-earlier quarter. A breakdown of this result by activity is provided in the table below. The quarter under review benefited from the positive impact of an additional deferred tax asset (47 million) and lower operating expenses (positive impact of banking taxes, lower marketing and facilities expenses, etc.).

Group Centre: breakdown of net result (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Operating expenses of group activities[1]	-15	0	-62	-18	-7
Capital and treasury management-related costs	7	0	0	1	1
Costs related to the holding of participations	-26	-18	-15	-17	-9
Results of remaining companies earmarked for divestments or in run-down[2]	-22	16	756	-8	10
Other items[3]	-2	0	-346	36	41
Total net result for the Group Centre	**-57**	**-2**	**334**	**-6**	**37**

1 4Q2015 includes impairment on the Hungarian Data Centre (-20 million).
2 4Q2015 includes the impact of the liquidation of KBC Financial Holding Inc. (765 million).
3 4Q2015 includes the write-down of goodwill on a number of participations (-341 million); 1Q2016 and 2Q2016 include the impact of a deferred tax asset relating to Credit Investments (18 and 47 million, respectively).

Group Centre (in millions of EUR)	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Net interest income	-15	-26	-16	-10	-2
Non-life insurance (before reinsurance)	-3	-4	-2	-2	6
Earned premiums	*-5*	*-4*	*-4*	*2*	*3*
Technical charges	*3*	*0*	*2*	*-4*	*4*
Life insurance (before reinsurance)	0	0	0	0	0
Earned premiums	*0*	*0*	*0*	*0*	*0*
Technical charges	*0*	*0*	*0*	*0*	*0*
Ceded reinsurance result	2	1	3	2	-4
Dividend income	5	1	2	1	9
Net result from financial instr. at fair value through P/L	11	33	-161	19	16
Net realised result from available-for-sale assets	-6	11	4	0	-1
Net fee and commission income	-1	-4	-2	-3	-4
Other net income	21	18	-5	0	1
Total income	15	30	-177	8	20
Operating expenses	-37	-10	-59	-34	-16
Impairment	-29	-4	-371	0	-7
on loans and receivables	*-26*	*-4*	*-4*	*0*	*-7*
on available-for-sale assets	*-3*	*0*	*0*	*0*	*0*
on goodwill	*0*	*0*	*-342*	*0*	*0*
Other	*0*	*0*	*-25*	*0*	*0*
Share in results of associated companies & joint ventures	1	1	1	1	1
Result before tax	-51	17	-606	-24	-2
Income tax expense	-6	-19	939	19	39
Result after tax	-57	-2	334	-6	37
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**-57**	**-2**	**334**	**-6**	**37**
Banking	-49	-6	443	7	35
Insurance	11	7	-36	2	-1
Group	-19	-4	-73	-14	2
Risk-weighted assets, banking (end of period, Basel III, fully loaded in '15, phased-in as of '16)	5 712	5 280	5 433	5 438	5 341
Risk-weighted assets, insurance (end of period, Basel III Danish compromise)	9 133	9 133	9 133	9 133	9 133
Required capital, insurance (end of period, Solv.I in '15, Solv.II as of '16)*	1	1	0	-20	-35
Allocated capital (end of period)	602	556	571	537	513

* Including diversification effect

KBC Group Consolidated financial statements according to IFRS 2Q 2016 and 1H 2016

This section is reviewed by the auditors

Consolidated income statement

In millions of EUR	Note	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
Net interest income	3	1 092	1 067	1 070	2 183	2 137
Interest income		1 804	1 720	1 654	3 654	3 375
Interest expense		- 712	- 653	- 585	- 1 471	- 1 238
Non-life insurance before reinsurance	9	155	145	141	322	286
Earned premiums Non-life		326	341	349	646	690
Technical charges Non-life		- 172	- 196	- 208	- 324	- 404
Life insurance before reinsurance	9	- 51	- 35	- 38	- 99	- 73
Earned premiums Life		265	426	402	567	827
Technical charges Life		- 316	- 461	- 440	- 666	- 901
Ceded reinsurance result	9	- 7	- 8	- 13	- 18	- 21
Dividend income		39	10	36	51	46
Net result from financial instruments at fair value through profit or loss	5	179	93	154	236	247
Net realised result from available-for-sale assets	6	36	27	128	116	155
Net fee and commission income	7	465	346	360	924	706
Fee and commission income		634	507	517	1 267	1 024
Fee and commission expense		- 169	- 161	- 157	- 343	- 318
Net other income	8	105	51	47	154	98
TOTAL INCOME		2 013	1 697	1 885	3 868	3 581
Operating expenses	12	- 941	- 1 186	- 904	- 2 066	- 2 090
Staff expenses		- 570	- 556	- 555	- 1 131	- 1 111
General administrative expenses		- 309	- 570	- 288	- 811	- 859
Depreciation and amortisation of fixed assets		- 62	- 60	- 61	- 125	- 120
Impairment	14	- 149	- 28	- 71	- 226	- 99
on loans and receivables		- 138	- 4	- 50	- 211	- 54
on available-for-sale assets		- 7	- 24	- 20	- 9	- 43
on goodwill		0	0	0	0	0
on other		- 5	- 1	- 1	- 6	- 2
Share in results of associated companies and joint ventures		8	7	6	14	13
RESULT BEFORE TAX		930	489	916	1 589	1 405
Income tax expense	16	- 264	- 97	- 194	- 413	- 292
Net post-tax result from discontinued operations		0	0	0	0	0
RESULT AFTER TAX		666	392	721	1 176	1 113
Attributable to minority interest		0	0	0	0	0
Attributable to equity holders of the parent		**666**	**392**	**721**	**1 176**	**1 113**
Earnings per share (in EUR)						
Basic		1.56	0.91	1.69	2.75	2.60
Diluted		1.56	0.91	1.69	2.75	2.60

Consolidated statement of comprehensive income (condensed)

In millions of EUR	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
RESULT AFTER TAX	666	392	721	1 176	1 113
attributable to minority interest	0	0	0	0	0
attributable to equity holders of the parent	666	392	721	1 176	1 113
Other comprehensive income - to be recycled to P&L	- 157	- 251	- 166	158	- 417
Net change in revaluation reserve (AFS assets) - Equity	- 97	- 106	- 98	99	- 204
Net change in revaluation reserve (AFS assets) - Bonds	- 599	198	75	- 335	272
Net change in revaluation reserve (AFS assets) - Other	0	0	0	0	0
Net change in hedging reserve (cash flow hedge)	571	- 331	- 140	302	- 470
Net change in translation differences	- 32	- 11	- 4	89	- 14
Net change related to associated companies & joint ventures	0	0	0	3	0
Other movements	1	- 1	0	1	- 1
Other comprehensive income - not to be recycled to P&L	159	- 204	- 43	150	- 246
Net change in defined benefit plans	159	- 204	- 43	150	- 246
Net change related to associated companies & joint ventures	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	668	- 63	512	1 485	449
attributable to minority interest	0	0	0	0	0
attributable to equity holders of the parent	668	- 63	512	1 485	449

For more information on amendments to IAS 1, triggering a presentation change of the above table, see note 1a.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2015	30-06-2016
Cash and cash balances with central banks		7 038	5 184
Financial assets	18 - 26	237 346	251 843
Held for trading		10 385	12 086
Designated at fair value through profit or loss		16 514	20 967
Available for sale		35 670	37 070
Loans and receivables		141 305	148 669
Held to maturity		32 958	32 547
Hedging derivatives		514	505
Reinsurers' share in technical provisions		127	127
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		105	397
Tax assets		2 336	2 507
Current tax assets		107	82
Deferred tax assets		2 228	2 425
Non-current assets held for sale and assets associated with disposal groups		15	14
Investments in associated companies and joint ventures		207	194
Investment property		438	433
Property and equipment		2 299	2 343
Goodwill and other intangible assets		959	970
Other assets		1 487	1 668
TOTAL ASSETS		252 356	265 681

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2015	30-06-2016
Financial liabilities	18 - 26	213 333	225 616
Held for trading		8 334	8 941
Designated at fair value through profit or loss		24 426	21 850
Measured at amortised cost		178 383	192 704
Hedging derivatives		2 191	2 120
Technical provisions, before reinsurance		19 532	19 724
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		171	312
Tax liabilities		658	733
Current tax liabilities		109	125
Deferred tax liabilies		549	608
Provisions for risks and charges		310	237
Other liabilities		2 541	2 824
TOTAL LIABILITIES		236 545	249 447
Total equity	39	15 811	16 234
Parent shareholders' equity	39	14 411	14 834
Additional Tier-1 instruments included in equity	39	1 400	1 400
Minority interests		0	0
TOTAL LIABILITIES AND EQUITY		252 356	265 681

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remea-surement of defined benefit obligations	Retained earnings	Translation differences	Parent share-holders' equity	Non-voting core-capital securities	Additional Tier-1 instruments included in equity	Minority interests	Total equity
30-06-2015													
Balance at the beginning of the period (01-01-2015)	1 453	5 421	0	1 815	- 1 368	- 133	6 197	- 261	13 125	2 000	1 400	- 3	16 521
Net result for the period	0	0	0	0	0	0	1 176	0	1 176	0	0	0	1 176
Other comprehensive income for the period	0	0	0	- 236	302	150	1	92	309	0	0	0	309
Total comprehensive income	**0**	**0**	**0**	**- 236**	**302**	**150**	**1 177**	**92**	**1 485**	**0**	**0**	**0**	**1 485**
Dividends	0	0	0	0	0	0	- 836	0	- 836	0	0	0	- 836
Coupon non-voting core-capital securities	0	0	0	0	0	0	- 171	0	- 171	0	0	0	- 171
Coupon additional Tier-1 instruments	0	0	0	0	0	0	- 26	0	- 26	0	0	0	- 26
Purchases of treasury shares	0	0	- 1	0	0	0	0	0	- 1	0	0	0	- 1
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	3	3
Total change	**0**	**0**	**- 1**	**- 236**	**302**	**150**	**144**	**92**	**451**	**0**	**0**	**3**	**455**
Balance at the end of the period	**1 453**	**5 421**	**- 1**	**1 580**	**- 1 066**	**18**	**6 341**	**- 169**	**13 576**	**2 000**	**1 400**	**0**	**16 976**
of which revaluation reserve for shares				470									
of which revaluation reserve for bonds				1 109									
of which revaluation reserve for other assets than bonds and shares				0									
of which relating to non-current assets held for sale and disposal groups				0	0	0	0	0	0				0
of which relating to equity method				23	0	0	0	2	25				25
30-06-2016													
Balance at the beginning of the period (01-01-2016)	1 454	5 437	0	1 782	- 1 146	94	6 779	11	14 411	0	1 400	0	15 811
Net result for the period	0	0	0	0	0	0	1 113	0	1 113	0	0	0	1 113
Other comprehensive income for the period	0	0	0	69	- 470	- 246	- 1	- 15	- 664	0	0	0	- 664
Total comprehensive income	**0**	**0**	**0**	**69**	**- 470**	**- 246**	**1 112**	**- 15**	**449**	**0**	**0**	**0**	**449**
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Coupon additional Tier-1 instruments	0	0	0	0	0	0	- 26	0	- 26	0	0	0	- 26
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	**0**	**0**	**0**	**69**	**- 470**	**- 246**	**1 086**	**- 15**	**423**	**0**	**0**	**0**	**423**
Balance at the end of the period	**1 454**	**5 437**	**0**	**1 851**	**- 1 617**	**- 153**	**7 865**	**- 4**	**14 834**	**0**	**1 400**	**0**	**16 234**
of which revaluation reserve for shares				343									
of which revaluation reserve for bonds				1 509									
of which revaluation reserve for other assets than bonds and shares				0									
of which relating to non-current assets held for sale and disposal groups				0	0	0	0	- 3	- 3				- 3
of which relating to equity method				22	0	0	0	6	28				28

KBC will not pay a dividend for financial year 2015 and has decided to distribute an interim dividend of 1 euro per (418 million euros in total), payable on 18 November 2016 (see note 48 post-balance sheet events for more info).

Condensed consolidated cash flow statement

In millions of EUR	1H 2015	1H 2016
Cash and cash equivalents at the beginning of the period	6 518	10 987
Net cash from (used in) operating activities	11 055	4 583
Net cash from (used in) investing activities	- 1 128	345
Net cash from (used in) financing activities	- 411	294
Effects of exchange rate changes on opening cash and cash equivalents	75	- 32
Cash and cash equivalents at the end of the period	16 110	16 177

Notes on statement of compliance and changes in accounting policies

Statement of compliance (note 1a in the annual accounts 2015)

The condensed interim financial statements of the KBC Group for the second quarter ended 30 June 2016 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS'). The same accounting policies, methods of computation and presentation have been followed in its preparation as were applied in the most recent annual financial statements, except for the following item:

An amendment to IAS 1 (presentation of financial statement) requiring the aggregate share in 'other comprehensive income' of associated companies and joint ventures to be recognised separately was issued but not yet mandatory at year-end 2015. It also has to be grouped according to whether or not it is recycled to profit or loss. As a consequence, the amounts presented in the other items of 'other comprehensive income' exclude the share in results of associated companies and joint ventures. KBC had decided to apply the new standard with effect from 2016. The reference figures have been adjusted accordingly.

Summary of significant accounting policies (note 1b in the annual accounts 2015)

A summary of the main accounting policies is provided in the Group's annual accounts as at 31 December 2015.

Notes on segment reporting

Segment reporting according to the management structure of the group (note 2a in the annual accounts 2015)

For a description on the management structure and linked reporting presentation, reference is made to note 2a in the annual accounts 2015.

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit International Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
1H 2015									
Net interest income	1 434	419	351	125	104	23	99	- 21	2 183
Non-life insurance before reinsurance	253	36	37	13	9	16	0	- 4	322
Earned premiums Non-life	490	85	80	30	14	36	0	- 8	646
Technical charges Non-life	- 237	- 48	- 43	- 18	- 5	- 21	0	4	- 324
Life insurance before reinsurance	- 118	12	7	0	5	2	0	0	- 99
Earned premiums Life	454	71	42	7	24	11	0	0	567
Technical charges Life	- 572	- 59	- 35	- 7	- 19	- 9	0	0	- 666
Ceded reinsurance result	- 14	- 3	- 3	- 1	- 1	- 2	0	2	- 18
Dividend income	45	0	0	0	0	0	0	6	51
Net result from financial instruments at fair value through profit or loss	143	46	40	34	11	1	- 6	7	236
Net realised result from available-for-sale assets	89	12	7	3	2	0	1	8	116
Net fee and commission income	723	101	103	79	24	- 1	- 1	- 3	924
Net other income	112	12	27	26	1	0	0	4	154
TOTAL INCOME	2 667	635	568	278	157	39	92	- 2	3 868
Operating expenses	- 1 279	- 311	- 396	- 202	- 93	- 26	- 74	- 80	- 2 066
Impairment	- 142	- 17	- 43	- 11	- 5	- 5	- 23	- 23	- 226
on loans and receivables	- 129	- 18	- 44	- 12	- 5	- 5	- 23	- 20	- 211
on available-for-sale assets	- 6	0	0	0	0	0	0	- 3	- 9
on goodwill	0	0	0	0	0	0	0	0	0
on other	- 7	0	1	1	0	0	0	0	- 6
Share in results of associated companies and joint ventures	- 1	13	0	0	0	0	0	1	14
RESULT BEFORE TAX	1 246	320	128	65	59	8	- 5	- 104	1 589
Income tax expense	- 387	- 49	- 37	- 30	- 15	4	5	60	- 413
RESULT AFTER TAX	858	271	92	35	44	12	0	- 44	1 176
Attributable to minority interests	0	0	0	0	0	0	0	0	0
NET RESULT	858	271	92	35	44	12	0	- 44	1 176
1H 2016									
Net interest income	1 370	421	358	114	107	24	113	- 12	2 137
Non-life insurance before reinsurance	201	37	44	17	10	17	0	4	286
Earned premiums Non-life	499	91	95	39	15	41	0	5	690
Technical charges Non-life	- 298	- 53	- 51	- 23	- 6	- 23	0	- 1	- 404
Life insurance before reinsurance	- 99	16	10	2	6	2	0	0	- 73
Earned premiums Life	662	118	48	8	26	14	0	0	827
Technical charges Life	- 761	- 102	- 37	- 6	- 20	- 12	0	0	- 901
Ceded reinsurance result	- 15	- 3	- 2	- 1	- 1	0	0	- 2	- 21
Dividend income	36	0	0	0	0	0	0	10	46
Net result from financial instruments at fair value through profit or loss	86	73	53	33	11	1	9	35	247
Net realised result from available-for-sale assets	72	48	36	18	15	3	0	- 1	155
Net fee and commission income	519	95	99	78	22	- 2	0	- 7	706
Net other income	90	9	- 1	0	2	- 4	0	1	98
TOTAL INCOME	2 260	696	597	261	172	41	122	28	3 581
Operating expenses	- 1 347	- 312	- 381	- 178	- 96	- 28	- 77	- 50	- 2 090
Impairment	- 78	- 11	- 4	2	- 7	- 3	4	- 7	- 99
on loans and receivables	- 34	- 10	- 3	3	- 7	- 3	4	- 7	- 54
on available-for-sale assets	- 43	0	0	0	0	0	0	0	- 43
on goodwill	0	0	0	0	0	0	0	0	0
on other	0	- 1	- 1	- 1	0	0	0	0	- 2
Share in results of associated companies and joint ventures	- 1	12	0	0	0	0	0	2	13
RESULT BEFORE TAX	834	385	213	84	69	10	50	- 27	1 405
Income tax expense	- 254	- 65	- 30	- 19	- 13	- 1	3	58	- 292
RESULT AFTER TAX	579	320	183	65	57	8	53	31	1 113
Attributable to minority interests	0	0	0	0	0	0	0	0	0
NET RESULT	579	320	183	65	57	8	53	31	1 113

Other notes

Net interest income (note 3 in the annual accounts 2015)

In millions of EUR	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
Total	1 092	1 067	1 070	2 183	2 137
Interest income	1 804	1 720	1 654	3 654	3 375
Available-for-sale assets	177	175	176	362	351
Loans and receivables	1 034	976	943	2 093	1 920
Held-to-maturity investments	242	245	243	469	488
Other assets not at fair value	11	18	22	21	40
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*1 464*	*1 415*	*1 384*	*2 945*	*2 799*
Financial assets held for trading	210	185	166	425	351
Hedging derivatives	91	76	76	188	153
Other financial assets at fair value through profit or loss	39	43	28	96	71
Interest expense	- 712	- 653	- 585	-1 471	-1 238
Financial liabilities measured at amortised cost	- 303	- 261	- 192	- 642	- 453
Other	- 1	- 4	- 1	- 2	- 5
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 304*	*- 264*	*- 193*	*- 644*	*- 458*
Financial liabilities held for trading	- 238	- 208	- 193	- 478	- 401
Hedging derivatives	- 142	- 146	- 144	- 294	- 291
Other financial liabilities at fair value through profit or loss	- 27	- 33	- 49	- 51	- 82
Net interest expense on defined benefit plans	- 1	- 2	- 5	- 4	- 6

The interest income and expense of ‘other financial assets/liabilities at fair value through profit or loss’ was adjusted for 1Q 2016 triggering a shift of approx. 14 million euros without impact on net interest income itself.

Net result from financial instruments at fair value through profit or loss (note 5 in the annual accounts 2015)

The result from financial instruments at fair value through profit or loss was also influenced by MtM ALM derivatives, where fair value changes (due to marked-to-market accounting) of ALM hedging instruments (that are treated as held for trading instruments) appear under ‘Net result from financial instruments at fair value’, whereas most of the related assets are not recognised at fair value.

In 1H 2016, the net result from these ALM hedging instruments amounted to +34 million euros pre-tax (respectively +20 million euros and +13 million euros for 1Q and 2Q 2016). For 1H 2015 and 2Q 2015 respectively +87 and +90 million euros pre-tax.

Net realised result from available-for-sale assets (note 6 in the annual accounts 2015)

In millions of EUR	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
Total	36	27	128	116	155
Breakdown by portfolio					
Fixed-income securities	4	6	1	43	7
Shares	33	21	127	73	148

The realised gains on available-for-sale shares in 2Q 2016 include the realised gain related to the takeover of Visa Europe by Visa Inc. on the basis of the market value as at 22 June 2016 (99 million euros pre-tax, 84 million euros after tax).

Net fee and commission income (note 7 in the annual accounts 2015)

In millions of EUR	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
Total	465	346	360	924	706
Fee and commission income	634	507	517	1 267	1 024
Securities and asset management	363	264	271	708	535
Margin on deposit accounting (life insurance investment contracts without DPF)	28	12	13	65	24
Commitment credit	70	58	67	140	125
Payments	130	135	139	257	274
Other	44	39	27	96	66
Fee and commission expense	- 169	- 161	- 157	- 343	- 318

Net other income (note 8 in the annual accounts 2015)

In millions of EUR	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
Total	105	51	47	154	98
Of which net realised result following					
The sale of loans and receivables	- 1	0	0	- 1	0
The sale of held-to-maturity investments	3	1	0	5	1
The repurchase of financial liabilities measured at amortised cost	0	0	- 7	- 8	- 7
Other: of which:	103	50	54	158	104
Income concerning leasing at the KBC Lease-group	22	20	19	43	39
Income from Group VAB	18	19	19	35	38
Realised gains or losses on divestments	16	0	0	2	0
New law on retail loans (Hungary)	8	0	0	25	0
Deconsolidation real estate companies	18	0	0	18	0

Breakdown of the insurance results (note 9 in the annual accounts 2015)

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
1H 2015				
Earned premiums, insurance (before reinsurance)	568	656		1 225
Technical charges, insurance (before reinsurance)	- 666	- 324		- 990
Net fee and commission income	0	- 122		- 122
Ceded reinsurance result	- 1	- 17		- 18
Operating expenses	- 67	- 120		- 188
Internal costs claim paid	- 4	- 29		- 33
Administration costs related to acquisitions	- 15	- 40		- 54
Administration costs	- 49	- 51		- 100
Management costs investments	0	0		0
Technical result	- 167	73	0	- 94
Net interest income			325	325
Dividend income			36	36
Net result from financial instruments at fair value			- 2	- 2
Net realised result from AFS assets			64	64
Net other income			8	8
Impairments			- 7	- 7
Allocation to the technical accounts	314	62	- 376	0
Technical-financial result	147	135	47	329
Share in results of associated companies and joint ventures			1	1
RESULT BEFORE TAX	147	135	48	331
Income tax expense				- 88
RESULT AFTER TAX				243
attributable to minority interest				0
attributable to equity holders of the parent				242
1H 2016				
Earned premiums, insurance (before reinsurance)	828	700		1 528
Technical charges, insurance (before reinsurance)	- 901	- 404		- 1 305
Net fee and commission income	- 17	- 133		- 150
Ceded reinsurance result	0	- 21		- 21
Operating expenses	- 74	- 121	- 1	- 197
Internal costs claim paid	- 4	- 29		- 33
Administration costs related to acquisitions	- 16	- 41		- 57
Administration costs	- 54	- 51		- 105
Management costs investments	0	0	- 1	0
Technical result	- 164	21	- 1	- 145
Net interest income			310	310
Dividend income			32	32
Net result from financial instruments at fair value			- 5	- 5
Net realised result from AFS assets			37	37
Net other income			- 4	- 4
Impairments			- 44	- 44
Allocation to the technical accounts	273	32	- 306	0
Technical-financial result	110	53	19	181
Share in results of associated companies and joint ventures			2	2
RESULT BEFORE TAX	110	53	20	183
Income tax expense				- 61
RESULT AFTER TAX				122
attributable to minority interest				0
attributable to equity holders of the parent				123

Note: Figures for premiums exclude the investment contracts without DPF, which roughly coincide with the unit-linked products what more or less coincides with branch-23 products. Figures are before elimination of transactions between the bank and insurance entities of the group (more information in the 2015 annual accounts).

The technical result non-life of the first quarter 2016 was negatively impacted by the terrorist attacks in Brussels (-30 million euros before tax, which corresponds to the maximal exposure of KBC through the Terrorism Reinsurance and Insurance Pool (TRIP)). In 2Q 2016, 10 million euros before tax of this provision were reversed since the estimate of the total damage was decreased.

Operating expenses – income statement (note 12 in the annual accounts 2015)

The operating expenses of 1H 2016 include 386 million euros related to bank (and insurance) levies (51 million euros in 2Q 2016; respectively 347 and 83 million euros in 1H 2015 and 2Q 2015). Application of IFRIC 21 (Levies; in force as of 1 January 2015) has as a consequence that certain levies are taken upfront in expense of the first quarter of the year. The bank levies of 2Q 2016 include the negative impact (-38 million euros) of the reorganisation of the Belgian Banking taxes (one new banking tax replacing the four existing banking taxes), which is partly compensated by the agreement to register 15% of the contribution to the ESRF in some countries (+9 million euros) as an irrevocable payment commitment (booked off-balance as a contingent liability).

Impairment – income statement (note 14 in the annual accounts 2015)

In millions of EUR	2Q 2015	1Q 2016	2Q 2016	1H 2015	1H 2016
Total	- 149	- 28	- 71	- 226	- 99
Impairment on loans and receivables	- 138	- 4	- 50	- 211	- 54
Breakdown by type					
Specific impairments for on-balance-sheet lending	- 99	- 9	- 24	- 181	- 33
Provisions for off-balance-sheet credit commitments	- 4	8	- 1	5	6
Portfolio-based impairments	- 34	- 2	- 25	- 35	- 27
Breakdown by business unit					
Business unit Belgium	- 67	- 6	- 28	- 129	- 34
Business unit Czech Republic	- 16	- 1	- 9	- 18	- 10
Business unit International Markets	- 29	3	- 6	- 44	- 3
of which: Hungary	*- 6*	*2*	*1*	*- 12*	*3*
of which: Slovakia	*- 4*	*- 1*	*- 6*	*- 5*	*- 7*
of which: Bulgaria	*- 3*	*- 1*	*- 1*	*- 5*	*- 3*
of which: Ireland	*- 16*	*3*	*1*	*- 23*	*4*
Group Centre	- 26	0	- 7	- 20	- 7
Impairment on available-for-sale assets	- 7	- 24	- 20	- 9	- 43
Breakdown by type					
Shares	- 7	- 24	- 20	- 9	- 43
Other	0	0	0	0	0
Impairment on goodwill	0	0	0	0	0
Impairment on other	- 5	- 1	- 1	- 6	- 2
Intangible assets, other than goodwill	- 1	0	- 1	- 1	- 1
Property and equipment and investment property	- 5	0	0	- 5	0
Held-to-maturity assets	0	0	0	0	0
Associated companies and joint ventures	0	0	0	0	0
Other	1	- 1	0	0	- 1

Income tax expense – income statement (note 16 in the annual accounts 2015)

In 1Q 2016, the income tax expenses were positively influenced by 18 million euros of Deferred Tax Assets (DTA) at KBC Credit Investments.

In 2Q 2016, an additional +27 million euro DTA was booked: (i) +47 million euros at KBC Credit Investments and (ii) -20 million euros at KBC Securities.

Financial assets and liabilities: breakdown by portfolio and product (note 18 in the annual accounts 2015)

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2015								
Loans and advances to credit institutions and investment firms [a]	0	2 107	0	11 524	-	-	-	13 631
Loans and advances to customers [b]	0	394	0	127 829	-	-	-	128 223
Excluding reverse repos	*0*	*71*	*0*	*127 650*	-	-	-	*127 721*
Trade receivables	0	0	0	3 729	-	-	-	3 729
Consumer credit	0	0	0	2 928	-	-	-	2 928
Mortgage loans	0	28	0	55 050	-	-	-	55 078
Term loans	0	366	0	56 997	-	-	-	57 363
Finance leasing	0	0	0	4 512	-	-	-	4 512
Current account advances	0	0	0	4 026	-	-	-	4 026
Securitised loans	0	0	0	0	-	-	-	0
Other	0	0	0	587	-	-	-	587
Equity instruments	411	2	2 071	-	-	-	-	2 485
Investment contracts (insurance)	-	13 330	-	-	-	-	-	13 330
Debt securities issued by	1 785	681	33 598	1 117	32 958	-	-	70 138
Public bodies	1 408	120	21 892	22	31 353	-	-	54 796
Credit institutions and investment firms	192	104	4 893	158	984	-	-	6 330
Corporates	184	456	6 813	937	622	-	-	9 013
Derivatives	8 188	-	-	-	-	514	-	8 702
Other	1	0	0	835	-	-	-	836
Total carrying value	10 385	16 514	35 670	141 305	32 958	514	0	237 346
[a] *Of which reverse repos*								*5 012*
[b] *Of which reverse repos*								*502*
FINANCIAL ASSETS, 30-06-2016								
Loans and advances to credit institutions and investment firms [a]	507	6 763	0	15 820	-	-	-	23 090
Loans and advances to customers [b]	18	557	0	130 809	-	-	-	131 383
Excluding reverse repos	*18*	*70*	*0*	*130 635*	-	-	-	*130 722*
Trade receivables	0	0	0	3 707	-	-	-	3 707
Consumer credit	0	0	0	3 270	-	-	-	3 270
Mortgage loans	0	27	0	55 976	-	-	-	56 003
Term loans	18	530	0	57 267	-	-	-	57 815
Finance leasing	0	0	0	4 781	-	-	-	4 781
Current account advances	0	0	0	5 357	-	-	-	5 357
Securitised loans	0	0	0	0	-	-	-	0
Other	0	0	0	450	-	-	-	450
Equity instruments	404	2	1 634	-	-	-	-	2 041
Investment contracts (insurance)	-	13 391	-	-	-	-	-	13 391
Debt securities issued by	2 174	253	35 436	1 042	32 547	-	-	71 453
Public bodies	1 796	61	23 359	22	30 979	-	-	56 217
Credit institutions and investment firms	210	3	5 086	151	971	-	-	6 421
Corporates	169	189	6 991	869	597	-	-	8 815
Derivatives	8 982	-	-	-	-	505	-	9 487
Other	0	0	0	999	0	0	0	999
Total carrying value	12 086	20 967	37 070	148 669	32 547	505	0	251 843
[a] *Of which reverse repos*								*15 404*
[b] *Of which reverse repos*								*661*

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2015								
Deposits from credit institutions and investment firms [a]	1	1 123	-	-	-	-	17 828	18 953
Deposits from customers and debt certificates [b]	431	10 916	-	-	-	-	158 762	170 109
Excluding repos	*431*	*2 349*	-	-	-	-	*158 762*	*161 542*
Deposits from customers	57	9 360	-	-	-	-	135 414	144 831
Demand deposits	0	0	-	-	-	-	55 148	55 148
Time deposits	57	9 360	-	-	-	-	27 724	37 141
Saving accounts	0	0	-	-	-	-	50 075	50 075
Special deposits	0	0	-	-	-	-	1 983	1 983
Other deposits	0	0	-	-	-	-	484	484
Debt certificates	374	1 555	-	-	-	-	23 349	25 278
Certificates of deposit	0	10	-	-	-	-	6 159	6 168
Customer savings certificates	0	0	-	-	-	-	1 092	1 092
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	374	1 253	-	-	-	-	12 576	14 203
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	293	-	-	-	-	3 522	3 815
Liabilities under investment contracts	-	12 387	-	-	-	-	0	12 387
Derivatives	7 487	-	-	-	-	2 191	-	9 677
Short positions	415	0	-	-	-	-	-	415
in equity instruments	58	0	-	-	-	-	-	58
in debt instruments	357	0	-	-	-	-	-	357
Other	0	0	-	-	-	-	1 792	1 792
Total carrying value	8 334	24 426	-	-	-	2 191	178 383	213 333
[a] *Of which repos*								*1 128*
[b] *Of which repos*								*8 567*
FINANCIAL LIABILITIES, 30-06-2016								
Deposits from credit institutions and investment firms [a]	174	3 182	-	-	-	-	20 501	23 858
Deposits from customers and debt certificates [b]	545	6 241	-	-	-	-	169 084	175 870
Excluding repos	*545*	*2 094*	-	-	-	-	*168 801*	*171 440*
Deposits from customers	166	5 079	-	-	-	-	140 175	145 421
Demand deposits	0	0	-	-	-	-	61 900	61 900
Time deposits	166	5 079	-	-	-	-	23 314	28 560
Saving accounts	0	0	-	-	-	-	52 330	52 330
Special deposits	0	0	-	-	-	-	2 172	2 172
Other deposits	0	0	-	-	-	-	459	459
Debt certificates	379	1 161	-	-	-	-	28 909	30 449
Certificates of deposit	1	4	-	-	-	-	10 604	10 608
Customer savings certificates	0	0	-	-	-	-	1 519	1 519
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	378	871	-	-	-	-	13 553	14 802
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	286	-	-	-	-	3 233	3 519
Liabilities under investment contracts	-	12 427	-	-	-	-	0	12 427
Derivatives	7 724	0	-	-	-	2 120	-	9 844
Short positions	497	0	-	-	-	-	-	497
in equity instruments	59	0	-	-	-	-	-	59
in debt instruments	438	0	-	-	-	-	-	438
Other	1	0	-	-	-	-	3 119	3 119
Total carrying value	8 941	21 850	-	-	-	2 120	192 704	225 616
[a] *Of which repos*								*3 788*
[b] *Of which repos*								*4 430*

Additional information on quarterly time series

Loans and deposits

In millions of EUR	30-06-2015	30-09-2015	31-12-2015	31-03-2016	30-06-2016
Total customer loans excluding reverse repo					
Business unit Belgium	85 767	87 308	88 017	88 881	90 218
Business unit Czech Republic	17 188	17 618	18 005	18 600	18 983
Business unit International Markets	20 673	20 942	21 035	21 022	21 020
of which: Hungary	*3 632*	*3 577*	*3 552*	*3 592*	*3 556*
of which: Slovakia	*4 838*	*5 237*	*5 462*	*5 584*	*5 756*
of which: Bulgaria	*679*	*702*	*725*	*741*	*762*
of which: Ireland	*11 523*	*11 425*	*11 295*	*11 105*	*10 945*
Group Centre	1 705	764	664	620	501
KBC Group	125 332	126 633	127 721	129 123	130 722
Mortgage loans					
Business unit Belgium	32 790	33 092	33 341	33 394	33 784
Business unit Czech Republic	7 634	7 839	8 079	8 281	8 503
Business unit International Markets	13 597	13 649	13 657	13 643	13 716
of which: Hungary	*1 353*	*1 380*	*1 369*	*1 375*	*1 379*
of which: Slovakia	*1 900*	*1 976*	*2 072*	*2 146*	*2 316*
of which: Bulgaria	*245*	*241*	*242*	*245*	*237*
of which: Ireland	*10 098*	*10 052*	*9 975*	*9 877*	*9 784*
Group Centre	28	27	0	0	0
KBC Group	54 048	54 607	55 078	55 318	56 003
Customer deposits and debt certificates excl. repos					
Business unit Belgium	113 219	112 539	111 136	114 557	120 067
Business unit Czech Republic	22 765	23 323	24 075	24 328	24 888
Business unit International Markets	16 052	16 503	17 089	17 615	18 117
of which: Hungary	*5 403*	*5 474*	*5 862*	*5 879*	*6 054*
of which: Slovakia	*4 982*	*5 132*	*5 263*	*5 559*	*5 773*
of which: Bulgaria	*643*	*666*	*692*	*688*	*694*
of which: Ireland	*5 024*	*5 231*	*5 272*	*5 489*	*5 597*
Group Centre	9 706	9 540	9 241	8 251	8 368
KBC Group	161 743	161 906	161 542	164 750	171 440

Technical provisions plus unit linked, life insurance

Technical provisions, Life Insurance	30-06-2015		30-09-2015		31-12-2015		31-03-2016		30-06-2016	
In millions of EUR	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked
Business unit Belgium	13 832	13 030	14 093	12 514	14 237	12 490	14 102	12 605	14 183	12 525
Business unit Czech Republic	491	451	492	423	495	480	494	488	492	483
Business unit International Markets	208	333	209	346	200	360	202	368	203	383
of which: Hungary	*54*	*228*	*53*	*235*	*51*	*245*	*51*	*254*	*51*	*267*
of which: Slovakia	*116*	*105*	*113*	*111*	*107*	*115*	*107*	*113*	*107*	*116*
of which: Bulgaria	*39*	*1*	*43*	*0*	*42*	*0*	*44*	*0*	*46*	*0*
KBC Group	14 531	13 815	14 794	13 283	14 932	13 330	14 798	13 461	14 877	13 391

Financial assets and liabilities measured at fair value – fair value hierarchy (note 24 in the annual accounts 2015)

For more details on how KBC defines and determines (i) fair value and the fair value hierarchy and (ii) level 3 valuations reference is made to notes 23 up to and including 26 of the annual accounts 2015.

Fair value hierarchy	31-12-2015				30-06-2016			
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	1 510	6 532	2 342	10 385	1 950	7 814	2 322	12 086
Designated at fair value	13 305	2 797	411	16 514	13 154	7 611	202	20 967
Available for sale	30 456	3 505	1 709	35 670	32 335	3 275	1 460	37 070
Hedging derivatives	0	514	0	514	0	505	0	505
Total	45 271	13 348	4 462	63 082	47 439	19 205	3 983	70 627
Financial liabilities measured at fair value								
Held for trading	415	5 859	2 060	8 334	498	6 420	2 023	8 941
Designated at fair value	12 386	11 445	594	24 426	12 427	9 022	401	21 850
Hedging derivatives	0	2 191	0	2 191	0	2 120	0	2 120
Total	12 801	19 495	2 654	34 950	12 924	17 562	2 425	32 911

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (note 25 in the annual accounts 2015)

In the first half of 2016, an approximate total amount of 0.2 billion euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred around 0.2 billion euros in financial instruments at fair value from level 2 to level 1. The majority of the transfers is due to changed liquidity of corporate, covered and regional government bonds.

Financial assets and liabilities measured at fair value – focus on level 3 (note 26 in the annual accounts 2015)

In the first half of 2016 the following material movements are observed with respect to instruments classified in level 3 of the fair value level hierarchy:

- In the financial assets designated at fair value category, the fair value decreased by approximately 0.2 billion euros, which is mainly due to the expiry of a CDO note in January 2016.
- In the available for sale category an approximate total amount of 0.4 billion euros was transferred out of level 3. The majority of the transfers is due to changed liquidity of corporate and regional government bonds.
- In the financial liabilities designated at fair value category, the fair value decreased by 0.2 billion euros, which is mainly due to the expiry of KBC Ifima senior bonds.

Parent shareholders’ equity and AT1 instruments (note 39 in the annual accounts 2015)

in number of shares	31-12-2015	30-06-2016
Ordinary shares	**418 087 058**	**418 087 058**
of which ordinary shares that entitle the holder to a dividend payment	*418 087 058*	*418 087 058*
of which treasury shares	*2*	*2*
Other information		
Par value per ordinary share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0

The ordinary shares of KBC Group NV have no nominal value and are quoted on NYSE Euronext (Brussels).

Main changes in the scope of consolidation (note 45 in the annual accounts 2015)

In 2015:

- Volksbank Leasing Slovakia was consolidated for the first time in 3Q 2015: at the beginning of July 2015, KBC reached an agreement to acquire all the shares of Volksbank Leasing Slovakia and its insurance brokerage subsidiary, Volksbank Sprostredkovatel’ska. The deal has no material impact on KBC group’s earnings and capital (balance sheet total of Volksbank Leasing Slovakia is approximately 170 million euros), and
- KBC Bank NV merged with Antwerpse Diamantbank NV and KBC Lease Holding NV in 3Q 2015 (no impact), and
- KBC Bank liquidated KBC Financial Holding Inc. in 4Q 2015

In 1H 2016:

- No material changes.

Post-balance sheet events (note 48 in the annual accounts 2015)

Significant non-adjusting events between the balance sheet date (30 June 2016) and the publication of this report (11 August 2016):

- The Board of Directors of KBC Group of 10 August 2016 has decided to distribute an interim dividend of 1 euro per share (418 million euros in total), payable on 18 November 2016.

Report of the accredited auditor to the shareholders of KBC Group NV on the review of the interim condensed consolidated financial statements as at 30 June 2016 and for the six-month period then ended

Introduction

We have reviewed the accompanying interim consolidated balance sheet of KBC Group NV and its subsidiaries (collectively referred to as "the Group") as at 30 June 2016 and the related interim consolidated income statement and condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended, and the interim consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes, comprising a summary of significant accounting policies and other explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements".

These statements show a consolidated balance sheet total of EUR 265,681 million and a consolidated profit (share of the group) for the six-month period then ended of EUR 1.113 million.

The Board of Directors is responsible for the preparation and fair presentation of these Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34") as adopted for use in the European Union. Our responsibility is to express a conclusion on these Interim Condensed Consolidated Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" applicable to review engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements does not present fairly, in all material respects, the financial position of the Group as at 30 June 2016, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, as adopted for use in the European Union.

Sint-Stevens-Woluwe, 10 August 2016

The statutory auditor,

PwC Bedrijfsrevisoren bcvba
Represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

KBC Group
Risk and
capital management
2Q 2016 and 1H 2016

This section is not reviewed by the auditors

Credit risk

Snapshot of the credit portfolio (banking activities)

The main source of credit risk is the loan portfolio of the bank. A snapshot of the banking portfolio is shown in the table below. It includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export-/import-related commercial credit), standby credit and credit derivatives, granted by KBC to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included. Further on in this chapter, extensive information is provided on the credit portfolio of each business unit. Information specifically on sovereign bonds can be found under 'note 47 (in the annual accounts 2015)'.

Credit risk: loan portfolio overview

Total loan portfolio (in billions of EUR)	31-12-2015	30-06-2016
Amount granted	174	177
Amount outstanding [1]	143	146
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	65%	65%
Czech Republic	14%	15%
International Markets	18%	17%
Group Centre	3%	3%
Total	100%	100%
Total outstanding loan portfolio sector breakdown		
Private persons	42.0%	42.0 %
Finance and insurance	6.0%	5.9%
Authorities	3.4%	3.2%
Corporates	48.7%	49.0%
services	11.2%	11.3%
distribution	7.6%	7.6%
real estate	7.1%	7.1%
building & construction	4.2%	4.3%
agriculture, farming, fishing	2.8%	2.8%
automotive	2.2%	2.2%
electricity	1.6%	1.5%
metals	1.3%	1.4%
food producers	1.3%	1.3%
machinery & heavy equipment	1.0%	1.1%
shipping	1.1%	1.1%
chemicals	1.0%	1.0%
traders	0.9%	0.9%
hotels, bars & restaurants	0.9%	0.9%
oil, gas & other fuels	0.8%	0.7%
electrotechnics	0.5%	0.5%
timber & wooden furniture	0.4%	0.5%
other [2]	2.6%	2.6%
Total outstanding loan portfolio geographical breakdown		
Home countries	87.6%	88.0%
Belgium	*56.6%*	*56.8%*
Czech Republic	*13.3%*	*13.7%*
Ireland	*9.6%*	*9.3%*
Slovakia	*4.4%*	*4.6%*
Hungary	*3.1%*	*3.0%*
Bulgaria	*0.6%*	*0.6%*
Rest of Western Europe	7.7%	7.5%
France	*1.9%*	*1.8%*
Netherlands	*1.6%*	*1.6%*
Great Britain	*1.2%*	*1.3%*
Spain	*0.8%*	*0.7%*
Luxemburg	*0.7%*	*0.7%*
Germany	*0.5%*	*0.5%*
other	*1.1%*	*1.1%*
Rest of Central Europe	0.5%	0.5%
Russia	*0.2%*	*0.2%*
other	*0.4%*	*0.4%*
North America	1.5%	1.5%
USA	*1.3%*	*1.3%*
Canada	*0.2%*	*0.2%*
Asia	0.8%	0.7%
China	*0.3%*	*0.3%*
Hong Kong	*0.2%*	*0.2%*
Singapore	*0.2%*	*0.2%*
other	*0.1%*	*0.1%*
Rest of the world	1.8%	1.7%

Credit risk: loan portfolio overview

Total loan portfolio (in billions of EUR)	31-12-2015	30-06-2016
Impaired loans (in millions of EUR or %)		
Amount outstanding	12 305	11 419
of which: more than 90 days past due	6 936	6 387
Ratio of impaired loans, per business unit		
Belgium	3.8%	3.6%
Czech Republic	3.4%	2.8%
International Markets	29.8%	27.8%
Group Centre	10.0%	8.7%
Total	8.6%	7.8%
of which: more than 90 days past due	4.8%	4.4%
Specific loan loss impairments (in millions of EUR) and Cover ratio (%)		
Specific loan loss impairments	5 517	5 200
of which: more than 90 days past due	4 183	3 927
Cover ratio of impaired loans		
Specific loan loss impairments / impaired loans	45%	46%
of which: more than 90 days past due	60%	61%
Cover ratio of impaired loans, mortgage loans excluded		
Specific loan loss impairments / impaired loans, mortgage loans excluded	53%	53%
of which: more than 90 days past due	69%	70%
Credit cost, by business unit (%)		
Belgium	0.19%	0.07%
Czech Republic	0.18%	0.09%
International Markets	0.32%	0.03%
Slovakia	0.32%	0.23%
Hungary	0.12%	-0.11%
Bulgaria	1.21%	0.64%
Ireland	0.34%	-0.06%
Group Centre	0.54%	0.29%
Total	0.23%	0.07%

1. Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees
2. Other includes corporate sectors not exceeding 0.5% concentration and unidentified sectors

Impaired loans are loans for which full (re)payment of the contractual cash flows is deemed unlikely. This coincides with KBC's Probability-of-Default-classes 10, 11 and 12 (see annual accounts FY 2015 - section on credit risk for more information on PD classification). These impaired loans are equal to 'non-performing loans' under the (new) definition used by EBA.

Credit portfolio per business unit (banking activities)

Legend:

- ***ind. LTV - Indexed Loan To Value:*** *current outstanding loan / current value of property*
- ***Impaired loans:*** *loans for which full (re)payment is deemed unlikely (coincides with KBC's PD-classes 10, 11 or 12)*
- ***Impaired loans that are more than 90 days past due:*** *loans that are more than 90 days overdue and/or loans which have been terminated/cancelled or bankrupt obligors (coincides with KBC's PD-classes 11 and 12)*
- ***Portfolio based impairments:*** *impairments for non-impaired exposure (i.e. exposure with PD < PD 10)*
- ***Specific impairments:*** *loan loss impairments for impaired exposure (i.e. exposure with PD 10, 11 or 12)*
- ***Cover ratio impaired loans:*** *specific impairments / impaired loans*

Loan portfolio Business Unit Belgium

30-06-2016, in millions of EUR	Belgium [1]			Foreign branches			Total Business Unit Belgium		
Total outstanding amount	**88 583**			**5 508**			**94 091**		
Counterparty break down		% outst.			% outst.			% outst.	
SME / corporate	25 245	28.5%		5 508	100.0%		30 753	32.7%	
retail	63 337	71.5%		0	0.0%		63 337	67.3%	
o/w private	34 841	39.3%		0	0.0%		34 841	37.0%	
o/w companies	28 496	32.2%		0	0.0%		28 496	30.3%	
Mortgage loans [2]		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	
total	33 621	38.0%	59%	0	0.0%	-	33 621	35.7%	
o/w FX mortgages	0	0.0%	-	0	0.0%	-	0	0.0%	
o/w ind. LTV > 100%	1 473	1.7%	-	0	0.0%	-	1 473	1.6%	
Probability of default (PD)		% outst.			% outst.			% outst.	
low risk (pd 1-4; 0.00%-0.80%)	67 387	76.1%		3 231	58.7%		70 618	75.1%	
medium risk (pd 5-7; 0.80%-6.40%)	16 019	18.1%		1 659	30.1%		17 678	18.8%	
high risk (pd 8-9; 6.40%-100.00%)	2 227	2.5%		127	2.3%		2 354	2.5%	
impaired loans (pd 10 - 12)	2 883	3.3%		472	8.6%		3 355	3.6%	
unrated	67	0.1%		20	0.4%		86	0.1%	
Overall risk indicators		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	2 883	1 212	42.0%	472	214	45.4%	3 355	1 427	42.5%
o/w pd 10 impaired loans	1 121	183	16.4%	315	97	30.8%	1 436	280	19.5%
o/w more than 90 days past due (pd 11+12)	1 762	1 029	58.4%	157	117	74.5%	1 919	1 146	59.7%
all impairments (specific + portfolio based)	n.a.			n.a.			1 521		
o/w portfolio based impairments	n.a.			n.a.			95		
o/w specific impairments	1 212			214			1 427		
2015 Credit cost ratio (CCR)	0.19%			0.32%			0.19%		
YTD 2016 CCR	0.07%			0.12%			0.07%		

Remarks

1. Belgium = KBC Bank (all retail and corporate credit lending activities except for the foreign branches), CBC, KBC Lease part Belgium, KBC Commercial Finance, KBC Credit Investments (part

2. Mortgage loans: only to private persons (as opposed to the accounting figures)

Loan portfolio Business Unit Czech Republic

30-06-2016, in millions of EUR

	Business Unit Czech Republic			For information: ČMSS [3] *(consolidated via equity-method since 1Q14)*		
Total outstanding amount	**21 328**			**2 413**		
Counterparty break down		% outst.			% outst.	
SME / corporate	7 589	35.6%		43	1.8%	
retail	13 739	64.4%		2 371	98.2%	
o/w private	9 747	45.7%		2 357	97.7%	
o/w companies	3 993	18.7%		14	0.6%	
Mortgage loans [1]		% outst.	ind. LTV		% outst.	ind. LTV
total	8 882	41.6%	59%	1 865	77.3%	66%
o/w FX mortgages	0	0.0%	-	0	0.0%	-
o/w ind. LTV > 100%	327	1.5%	-	180	7.5%	-
Probability of default (PD)		% outst.			% outst.	
low risk (pd 1-4; 0.00%-0.80%)	14 552	68.2%		1 573	65.2%	
medium risk (pd 5-7; 0.80%-6.40%)	5 304	24.9%		614	25.4%	
high risk (pd 8-9; 6.40%-100.00%)	804	3.8%		138	5.7%	
impaired loans (pd 10 - 12)	608	2.8%		89	3.7%	
unrated	60	0.3%		0	0.0%	
Overall risk indicators [2]		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	608	341	56.1%	89	37	41.8%
o/w pd 10 impaired loans	130	42	32.5%	20	2	11.7%
o/w more than 90 days past due (pd 11+12)	478	299	62.6%	69	35	50.5%
all impairments (specific + portfolio based)	384			42		
o/w portfolio based impairments	43			4		
o/w specific impairments	341			37		
2015 Credit cost ratio (CCR)	0.18%			n/a		
YTD 2016 CCR	0.09%			n/a		

1. Mortgage loans: only to private persons (as opposed to the accounting figures)
2. CCR at country level in local currency
3. ČMSS: pro-rata figures, corresponding with KBC's 55% stake in ČMSS

Loan portfolio Business Unit International Markets
30-06-2016, in millions of EUR

	Ireland			Slovakia			Hungary			Bulgaria			Total Int Markets		
Total outstanding amount	**13 515**			**6 386**			**4 479**			**888**			**25 274**		
Counterparty break down		% outst.			% outst.			% outst.			% outst.			% outst.	
SME / corporate	2 022	15.0%		2 668	41.8%		2 205	49.2%		364	41.0%		7 265	28.7%	
retail	11 493	85.0%		3 718	58.2%		2 273	50.8%		524	59.0%		18 008	71.3%	
o/w private	11 480	84.9%		2 995	46.9%		1 729	38.6%		328	36.9%		16 532	65.4%	
o/w companies	14	0.1%		723	11.3%		544	12.1%		196	22.0%		1 476	5.8%	
Mortgage loans [1]		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	
total	11 467	84.8%	89%	2 447	38.3%	68%	1 588	35.4%	78%	173	19.5%	67%	15 674	62.0%	
o/w FX mortgages	0	0.0%	-	0	0.0%	-	13	0.3%	139%	64	7.2%	66%	76	0.3%	
o/w ind. LTV > 100%	3 506	25.9%	-	45	0.7%	-	407	9.1%	-	7	0.8%	-	3 965	15.7%	
Probability of default (PD)		% outst.			% outst.			% outst.			% outst.			% outst.	
low risk (pd 1-4; 0.00%-0.80%)	525	3.9%		3 711	58.1%		2 158	48.2%		161	18.1%		6 555	25.9%	
medium risk (pd 5-7; 0.80%-6.40%)	5 477	40.5%		2 053	32.1%		1 557	34.8%		436	49.1%		9 528	37.7%	
high risk (pd 8-9; 6.40%-100.00%)	1 392	10.3%		285	4.5%		256	5.7%		104	11.7%		2 037	8.1%	
impaired loans (pd 10 - 12)	6 122	45.3%		216	3.4%		504	11.3%		186	21.0%		7 029	27.8%	
unrated	0	0.0%		121	1.9%		3	0.1%		0	0.0%		124	0.5%	
Overall risk indicators [2]		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	6 122	2 645	43.2%	216	126	58.4%	504	286	56.7%	186	86	46.1%	7 029	3 143	44.7%
o/w pd 10 impaired loans	3 133	856	27.3%	50	19	38.4%	104	28	27.4%	10	1	8.7%	3 297	905	27.4%
o/w more than 90 days past due (pd 11+12)	2 989	1 789	59.9%	166	107	64.4%	401	257	64.2%	176	85	48.2%	3 732	2 239	60.0%
all impairments (specific + portfolio based)	2 723			138			297			89			3 247		
o/w portfolio based impairments	78			12			11			3			104		
o/w specific impairments	2 645			126			286			86			3 143		
2015 Credit cost ratio (CCR)	0.34%			0.32%			0.12%			1.21%			0.32%		
YTD 2016 CCR	-0.06%			0.23%			-0.11%			0.64%			0.03%		

Remarks

Total Int Markets: total outstanding amount includes a small amount of KBC internal risk sharings which were eliminated at country level

1. Mortgage loans: only to private persons (as opposed to the accounting figures)

2. CCR at country level in local currency

Loan portfolio Group Centre

30-06-2016, in millions of EUR

	Total Group Centre (mainly KBC Finance Ireland, KBC Credit Investments and ex-Antw erp Diamond Bank (in w ind-dow n))		
Total outstanding amount	**4 880**		
Counterparty break down		% outst.	
SME / corporate	4 880	100.0%	
retail	0	0.0%	
o/w private	0	0.0%	
o/w companies	0	0.0%	
Mortgage loans [1]		% outst.	ind. LTV
total	0	0.0%	-
o/w FX mortgages	0	0.0%	-
o/w ind. LTV > 100%	0	0.0%	-
Probability of default (PD)		% outst.	
low risk (pd 1-4; 0.00%-0.80%)	2 758	56.5%	
medium risk (pd 5-7; 0.80%-6.40%)	1 499	30.7%	
high risk (pd 8-9; 6.40%-100.00%)	195	4.0%	
impaired loans (pd 10 - 12)	426	8.7%	
unrated	0	0.0%	
Overall risk indicators		spec. Imp.	% cover
outstanding impaired loans	426	289	67.7%
o/w pd 10 impaired loans	168	46	27.4%
o/w more than 90 days past due (pd 11+12)	258	243	94.0%
all impairments (specific + portfolio based)	303		
o/w portfolio based impairments	14		
o/w specific impairments	289		
2015 Credit cost ratio (CCR)	0.54%		
YTD 2016 CCR	0.29%		

Remarks

Total Group Centre = KBC Finance Ireland, KBC Credit Investments (legacy & and part of non-legacy portfolio assigned to BU Group)
KBC FP (ex-Atomium assets), KBC Lease UK, KBC Bank part Group (a.o. activities in wind-down: e.g. ex-Antwerp Diamond Bank)

1. Mortgage loans: only to private persons (as opposed to the accounting figures)

Solvency

KBC reports its solvency at group, banking and insurance level, calculating it on the basis of IFRS figures and the relevant guidelines issued by the competent regulator.

Solvency KBC Group

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD IV. This regulation entered gradually into force on 1 January 2014, and will be fully implemented by 1 January 2022. The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company, after having deconsolidated KBC Insurance from the group figures.

In addition to the solvency ratios under CRD IV/CRR, KBC is considered a financial conglomerate since it covers both significant banking and insurance activities. Therefore KBC also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). KBC meets the FICOD requirement by aligning the building block method with method 1 (the accounting consolidation method) under FICOD. This implies that available capital is calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRR/CRD IV for the banking business and Solvency II as of 2016) for the insurance business. The capital requirement for the insurance business based on Solvency II is multiplied by 12.5 to obtain a risk weighted asset equivalent.

The Internal Rating Based (IRB) approach is since its implementation in 2008 the primary approach to calculate KBC's risk weighted assets. This is, based on a full application of all the CRD IV/CRR rules, used for approximately 83% of the weighted credit risks, of which approx. 75% according to Advanced and approx. 8% according to Foundation approach. Note that, retail exposure treated under IRB is always subject to an Advanced approach. The remaining weighted credit risks (ca. 18%) are calculated according to the Standardised approach. 12% of the latter, under the Danish Compromise, are the 370% risk-weighted holdings of own funds instruments of the insurance company.

The ECB required KBC to maintain a CET1 ratio of at least 9.75% (phased-in, Danish Compromise) in 2016, which includes the CRR/CRD IV minimum requirement (4.5%), the conservation buffer (0.625%) and the pillar 2 add-on (4.625%). On top of this, the National Bank of Belgium (NBB) requires KBC – as a systemically important Belgian bank – to hold an additional buffer of 0.5% of CET1 (phased-in, Danish Compromise) in 2016, 1.0% in 2017 and 1.5% in 2018.

Following table groups the solvency on the level of KBC Group according to different methodologies and calculation methods, including the deduction method.

Overview of KBC Group's capital ratios - In millions of EUR - 30-06-2016

		numerator (common equity)	denominator (Total weighted risk volume)	ratio (%)
CRDIV, Common Equity ratio				
Danish Compromise	Phased-in	13 125	88 149	14.89%
	Fully loaded	13 290	89 033	14.93%
Deduction Method	Fully loaded	12 151	83 222	14.60%
Financial Conglomerates Directive*				
	Fully loaded	13 804	102 237	13.50%

* KBC aligned the building block method with method 1 (the accounting consolidation method) under FICOD

On Friday 29 July 2016, the EBA announced the results of the 2016 EU-wide stress test. A brief slide set on the KBC data is available at www.kbc.com.

The impact of the stress test on KBC's fully loaded Common Equity Tier-1 ratio (CET1 ratio: 14.9% at year-end 2015) increased this ratio by 1.3 percentage points to 16.2% under the baseline scenario (+1.0 percentage points on a transitional basis). Under the adverse scenario, KBC's fully loaded CET1 ratio would fall by 3.6 percentage points to 11.3% (-3.9 percentage points on a transitional basis, likewise falling to 11.3%). KBC's leverage ratio, which stood at 6.32% at the end of 2015, would increase to 7.4% under the baseline scenario and only decrease to 5.7% under the adverse scenario.

Danish Compromise	31-12-2015		30-06-2016	
In millions of EUR	Fully loaded	Phased-in	Fully loaded	Phased-in
Total regulatory capital, KBC Group (after profit appropriation)	16 936	17 305	16 990	17 000
Tier-1 capital	14 647	14 691	14 690	14 568
Common equity	13 247	13 242	13 290	13 125
Parent shareholders' equity (after deconsolidating KBC Insurance)	14 075	14 075	14 307	14 307
Intangible fixed assets (incl deferred tax impact) (-)	- 366	- 366	- 382	- 382
Goodwill on consolidation (incl deferred tax impact) (-)	- 482	- 482	- 478	- 478
Minority interests	0	0	0	0
AFS revaluation reserve shares (-)		0		0
AFS revaluation reserve sovereign bonds (-)		- 402		- 397
AFS revaluation reserve other bonds(-)		- 64		- 67
AFS revaluation reserve other (-)		0		0
Hedging reserve (cash flow hedges) (-)	1 163	1 163	1 629	1 629
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 20	- 20	- 93	- 93
Value adjustment due to the requirements for prudent valuation (-)	- 94	- 53	- 123	- 72
Dividend payout (-)	0	0	- 556	- 556
Renumeration of government securities (-)	0	0	0	0
Renumeration of AT1 instruments (-)	- 2	- 2	- 2	- 2
Deduction re. financing provided to shareholders (-)	- 91	- 91	- 91	- 91
IRB provision shortfall (-)	- 171	- 171	- 167	- 167
Deferred tax assets on losses carried forward (-)	- 765	- 345	- 755	- 507
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0	0	0
Additional going concern capital	1 400	1 450	1 400	1 443
Grandfathered innovative hybrid tier-1 instruments	0	50	0	43
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR compliant AT1 instruments	1 400	1 400	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0	0
Tier 2 capital	2 289	2 614	2 300	2 432
IRB provision excess (+)	369	359	370	364
Subordinated liabilities	1 920	2 255	1 930	2 067
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier 2 capital	0	0	0	0
Capital requirement				
Total weighted risk volume	89 067	87 343	89 033	88 149
Banking	79 758	78 034	79 730	78 846
Insurance	9 133	9 133	9 133	9 133
Holding activities	208	208	224	224
Elimination of intercompany transactions	- 33	- 33	- 55	- 55
Solvency ratios				
Common equity ratio	14.87%	15.16%	14.93%	14.89%
Tier-1 ratio	16.44%	16.82%	16.50%	16.53%
CAD ratio	19.01%	19.81%	19.08%	19.29%

FICOD	31/12/2015		30/06/2016	
In millions of EUR	Fully loaded	Phased-in	Fully loaded	Phased-in
Common Equity	14 019	14 014	13 804	13 638
Total weighted risk volume	99 831	98 107	102 237	101 353
Common equity ratio	14.04%	14.28%	13.50%	13.46%

The 31-12-2015 figures on FICOD have been adjusted to reflect the switch from Solvency I to Solvency II regulation for KBC Insurance.

Leverage ratio KBC Group

Leverage ratio KBC Group (Basel III fully loaded) In millions of EUR	31-12-2015	30-06-2016
Tier-1 capital (Danish compromise)	14 647	14 690
Total exposures	233 675	245 314
Total Assets	252 355	265 681
Deconsolidation KBC Insurance	-31 545	-32 231
Adjustment for derivatives	-3 282	-3 923
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	- 806	-1 995
Adjustment for securities financing transaction exposures	1 057	1 444
Off-balance sheet exposures	15 897	16 338
Leverage ratio	6.27%	5.99%

The leverage ratio decreased compared to the end of 2015 due to higher total exposures (higher financial assets, mainly designated at fair value and loans and receivables).

Solvency banking and insurance activities separately

As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV. The solvency of KBC Insurance is calculated on the basis of Solvency II rules as they became effective on 1 January 2016 (reference figures have been adjusted).

The tables below show the tier-1 and CAD ratios calculated under Basel III (CRD IV/CRR) for KBC Bank, as well as the solvency ratio of KBC Insurance under Solvency II.

More information on the solvency of KBC Bank and KBC Insurance as at 31-12-2015 can be found in their annual accounts and in the KBC Risk Report on www.kbc.com.

KBC Bank consolidated - CRD IV/CRR in millions of EUR	Fully loaded	31-12-2015 Phased-in	Fully loaded	30-06-2016 Phased-in
Total regulatory capital, after profit appropriation	16 045	16 075	15 871	15 676
Tier-1 capital	12 346	12 449	12 272	12 134
Of which common equity	10 941	10 988	10 866	10 676
Tier-2 capital	3 699	3 626	3 600	3 542
Total weighted risks	79 758	78 034	79 730	78 846
Credit risk	66 387	64 663	66 551	65 668
Market risk	3 100	3 100	2 907	2 907
Operational risk	10 272	10 272	10 272	10 272
Solvency ratios				
Common equity ratio	13.7%	14.1%	13.6%	13.5%
Tier-1 ratio	15.5%	16.0%	15.4%	15.4%
CAD ratio	20.1%	20.6%	19.9%	19.9%

KBC Insurance consolidated - Solvency II in millions of EUR	31-12-2015	30-06-2016
Own Funds	3 683	3 349
Tier 1	3 180	2 849
IFRS Parent shareholders equity	2 815	3 006
Dividend payout	-71	-144
Deduction intangible assets and goodwill (after tax)	-123	-123
Valuation differences (after tax)	416	-32
Volatility adjustment	195	179
Other	-53	-38
Tier 2	503	500
Subordinated liabilities	503	500
Solvency Capital Requirement (SCR)	1 592	1 787
Market risk	1 472	1 491
Non-life	498	519
Life	594	617
Health	173	196
Counterparty	83	125
Diversification	-840	-900
Other	-389	-261
Solvency II ratio	231%	187%

The Solvency II ratio as at 30-06-2016 stands at 187%. The decrease compared to 31-12-2015 is due mainly to:

- a different treatment of the adjustment deferred taxes in the capital requirements. In April, the National Bank of Belgium issued Belgian specific regulation which limits this adjustment to the amount of net deferred tax liabilities on the economic balance sheet. Without applying this Belgian specific regulation, the Solvency II ratio of 2Q 2016 equals 208%. This latter ratio is comparable to ratios of other (non-Belgian) European insurance companies who also apply this methodology. The SII ratio as at 31 December 2015 in the table above also represents the ratio with application of the Belgian specific regulation. The impact of that regulation was at that moment negligible.
- a decrease of interest rates
- legislative changes impacting spread risk

Details of ratios and terms

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments).

Calculation (in millions of EUR)	Reference	1H 2015	1H 2016
Result after tax, attributable to equity holders of the parent (A)	Consolidated income statement'	1 176	1 113
-			
Coupon (and/or penalty) on the core-capital securities sold to the	'Consolidated statement of changes in equity'	0	0
-			
Coupon on the additional tier-1 instruments included in equity (C)	'Consolidated statement of changes in equity'	- 26	- 26
/			
Average number of ordinary shares less treasury shares (in millions) in the	Note 39	418	418
or			
Average number of ordinary shares plus dilutive options less treasury		418	418
Basic = (A-B-C) / (D) (in EUR)		2.75	2.60
Diluted = (A-B-C) / (E) (in EUR)		2.75	2.60

Combined ratio (non-life insurance)

Gives an insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account.

Calculation (in millions of EUR or %)	Reference	1H 2015	1H 2016
Technical insurance charges, including the internal cost of settling claims	Note 9	354	435
/			
Earned insurance premiums (B)	Note 9	636	679
+			
Operating expenses (C)	Note 9	222	235
/			
Written insurance premiums (D)	Note 9	723	768
= (A/B)+(C/D)		86%	95%

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Phased-in*	Detailed calculation under 'Solvency at group level' in the 'Solvency KBC Group'	15.2%	14.9%
Fully loaded*	section (the ratio given here is based on the Danish compromise)	14.9%	14.9%

* CRD IV capital rules are being implemented gradually to allow banks to build up the necessary capital buffers. The capital position of a bank taking into account the transition period is called 'phased-in'. The capital position of a bank based on a full application of all rules as applicable after the transition period is called 'fully loaded'.

Cost/income ratio

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities.

Calculation (in millions of EUR or %)	Reference	1H 2015	1H 2016
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	1 810	1 854
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	3 301	3 117
=(A) / (B)		55%	59%

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Specific impairment on loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	5 517	5 200
/			
Outstanding impaired loans (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	12 305	11 419
= (A) / (B)		44,8%	45,5%

Where appropriate, the numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due.

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period (in this case, a year), relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio.

Calculation (in millions of EUR or %)	Reference	1H 2015	1H 2016
Net changes in impairment for credit risks (A (annualised)	'Consolidated income statement': component of 'Impairment'	211 (x2)	54 (x2)
/			
Average outstanding loan portfolio (B)	Credit risk: loan portfolio overview in the 'Credit risk' section	140 676	145 299
= (A) / (B)		0.30%	0.07%

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Amount outstanding of impaired loans (A)	' Credit risk: loan portfolio overview' table in the 'Credit risk' section	12 305	11 419
/			
Total outstanding loan portfolio (B)	' Credit risk: loan portfolio overview in the 'Credit risk' section	143 400	145 572
= (A) / (B)		8.6%	7.8%

Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12).

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Regulatory available tier-1 capital (A)	'Leverage ratio KBC Group (Basel III fully loaded' table in the 'Leverage KBC Group' section	14 647	14 690
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)	233 675	245 314
= (A) / (B)		6.3%	6.0%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	47 300	58 700
/			
Total net cash outflows over the next 30 calendar days (B)		37 150	44 400
= (A) / (B)		127%	132%

Loan Portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Loans and advances to customers (related to the group's banking activities) (A)	Note 18, component of 'Loans and advances to customers'	126 812	129 893
-			
Reverse repos with customers (B)	Note 18	-502	- 661
+			
Debt instruments issued by corporates and by credit institutions and investment firms (related to the group's banking activities) (C)	Note 18, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	7 118	7 125
+			
Loans and advances to credit institutions and investment firms (related to the group's banking activities, excluding dealing room activities) (D)	Note 18, component of 'Loans and advances to credit institutions and investment firms '	1 060	1 113
+			
Financial guarantees granted to clients (E)	Note 40, component of 'Financial guarantees given' in the annual report 2015 for 1Q2015 figure only	7 823	7 913
+			
Impairment on loans (F)	Note 21, component of 'Impairment' in the annual report 2015 for 1Q2015 figure only	5 623	5 393
+			
Other (including accrued interest) (G)	Component of Note 18	-4 534	- 5 204
= (A)-(B)+(C)+(D)+(E)+(F)+(G)		143 400	145 572

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the idea that shareholders and debt-holders should bear losses first if a bank fails.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Own funds* and liabilities that satisfy the requirements of the Bank Recovery and Resolution Directive (with the exception of certain excluded liabilities) (A)	Based on BRRD	30 704	30 831
/			
Own funds* and liabilities (B)	'Consolidated balance sheet'	220 809	228 510
= (A) / (B)		13.9%	13.5%

* After deconsolidation of KBC Insurance.

Net interest margin

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities.

Calculation (in millions of EUR or %)	Reference	1H 2015	1H 2016
Net interest income of the banking activities (A)(annualised)	'Consolidated income statement': component of 'Net interest income'	1.840	1.808
/			
Average interest-bearing assets of the banking activities (B)	'Consolidated balance sheet': component of 'Total assets'	176 049	183 126
= (A) / (B) (x 360/number of days)		2,08%	1,95%

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Available amount of stable funding (A)		135 400	141 200
/			
Required amount of stable funding (B)		111 800	114 950
= (A) / (B)		121%	123%

Parent shareholders' equity per share

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or %)	Reference	31/12/2015	30/06/2016
Parent shareholders' equity (A)	'Consolidated balance sheet'	14.411	14 834
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 39	418	418
= (A) / (B) (in EUR)		34,5	35,5

Return on allocated capital (ROAC) for a particular business unit

Gives an idea of the relative profitability of a business unit, more specifically the ratio of the net result to the capital allocated to the business unit.

Calculation (in millions of EUR or %)	Reference	2Q 2015	2Q 2016
BELGIUM BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A) (annualised)	Note 2: Segment reporting based on the management structure	858	579
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I for '15 & II for '16l) (B)	2Q2016 results by business unit' section	6 055	5 841
= (A x4) / (B)		28.8%	19.8%
CZECH REPUBLIC BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A) (annualised)	Note 2: Segment reporting based on the management structure	271	320
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I for '15 & II for '16) (B)	2Q2016 results by business unit' section	1 449	1 413
= (A x4) / (B)		37.3%	45.2%
INTERNATIONAL MARKETS BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A) (annualised)	Note 2: Segment reporting based on the management structure	92	183
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I for '15 & II for '16) (B)	2Q2016 results by business unit' section	2 017	1 928
= (A x4) / (B)		9.1%	18.9%

Return on equity

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	Reference	1H 2015	1H 2016
Result after tax, attributable to equity holders of the parent (A) (annualised)	'Consolidated income statement'	1 176	1 113
-			
Coupon on the core-capital securities sold to the government (B) (annualised)	'Consolidated statement of changes in equity'	0	0
-			
Coupon on the additional tier-1 instruments included in equity (C) (annualised)	'Consolidated statement of changes in equity'	-26	-26
/			
Average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets (D)	'Consolidated statement of changes in equity'	11 653	12 806
= (A-B-C) x2 / (D)		19.7%	17.0%

Solvency ratio (insurance)

Measures the solvency of the insurance business, calculated under Solvency II.

Calculation	Reference	31/12/2015	30/06/2016
Detailed calculation under 'Solvency KBC Insurance consolidated – Solvency II' table in the Solvency banking and insurance activities separately section		231%	187%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	Reference	31/12/2015	30/06/2016
Belgium Business Unit (A)	Company presentation on www.kbc.com	194	193
+			
Czech Republic Business Unit (B)		9	9
+			
International Markets Business Unit (C)		6	6
A)+(B)+(C)		209	207

Total capital ratio

A risk-weighted measure of the group's solvency, based on total regulatory capital.

Calculation	Reference	31/12/2015	30/06/2016
Phased-in	Detailed calculation in the table 'Danish Compromise' under 'Solvency KBC Group' section	19.8%	19.3%
Fully loaded		19.0%	19.1%