3Q2014

KBC Group

Extended Quarterly Report

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KBC

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

Combined ratio (non-life insurance): [technical insurance charges, including the internal cost of settling claims / earned premiums] + [operating expenses / written premiums] (after reinsurance in each case).

Common equity ratio: [common equity tier-1 capital] / [total weighted risks]. The calculation is based on the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) approved and published by the EU, and includes in the numerator the core-capital securities sold to the government that are grandfathered by the regulator, as well as latent gains (revaluation reserve for available-for-sale assets). The minimum target set by the regulator for the common equity ratio does not take account of these latent gains.

Cost/income ratio (banking): [operating expenses of the banking activities of the group] / [total income of the banking activities of the group].

Cover ratio: [specific loan loss impairment] / [impaired loans]. For a definition of 'impaired', see 'Impaired loans ratio'. Where appropriate, the impairment charges and impaired loans in the formula may be limited to 'more than 90 days overdue'.

Credit cost ratio: [net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. Note that, *inter alia*, government bonds are not included in this formula.

Basic earnings per share: [result after tax, attributable to equity holders of the parent)] / [average number of ordinary shares, less treasury shares]. If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments and the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty on the core-capital securities has to be paid, it will likewise be deducted.

Diluted earnings per share: [result after tax, attributable to equity holders of the parent, adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, less treasury shares, plus non-mandatorily convertible bonds]. If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments and the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty on the core-capital securities has to be paid, it will likewise be deducted.

Liquidity Coverage Ratio (LCR): [stock of high quality liquid assets] / [total net cash outflow over the next 30 calendar days].

Net interest margin of the group: [net interest income of the banking activities] / [average interest-bearing assets of the banking activities]. To more closely reflect the scope of business, the definition has been reworked since 2014 (and applied retroactively) to exclude all divestments and all volatile short-term assets used for liquidity management.

Net stable funding ratio (NSFR): [available amount of stable funding] / [required amount of stable funding].

Impaired loans ratio: [impaired loans] / [total outstanding loan portfolio]. Impaired loans are loans for which full (re)payment of contractual principal and interest is deemed unlikely. This corresponds with KBC's Probability-of-Default classes 10+11+12. These loans are equivalent to 'non-performing loans' under the (new) definition used by the European Banking Authority.

Parent shareholders' equity per share: [parent shareholders' equity] / [number of ordinary shares, less treasury shares (at period-end)].

Return on allocated capital (ROAC) for a particular business unit: [result after tax, including minority interests, of a business unit] / [average capital allocated to the business unit]. The capital allocated to a business unit is based on risk-weighted assets for banking (based on Basel III) and risk-weighted asset equivalents for insurance (based on Solvency I).

Return on equity: [result after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]. If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments and the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*).

Solvency ratio, insurance: [consolidated available capital of KBC Insurance] / [minimum required solvency margin of KBC Insurance].

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KBC Group Report for 3Q2014 and 9M2014

This press release contains information that is subject to transparency regulations for listed companies.
Date of release: 13 November 2014

Summary: Strong results and completion of divestment programme

KBC ended the third quarter of 2014 with a net profit of 591 million euros, compared with 317 million euros in the previous quarter and 272 million euros in the third quarter of 2013.

After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 477 million euros for the third quarter of 2014, compared with 287 million euros in the second quarter of 2014 and 457 million euros in the third quarter of 2013.

Johan Thijs, Group CEO:

'The summer months of 2014 were characterised by a low interest rate environment and a weakening of the economic recovery that had set in earlier this year against a background of low inflation. It was in this context that KBC posted a net result of 591 million euros for the third quarter, or 477 million euros on an adjusted-profit basis. The group continued to record excellent commercial results: net interest income increased, with loan volumes and client deposits growing further. We also collected higher revenues in the form of fees and commissions particularly in the asset management activities. The combined ratio for our non-life insurance activities remained strong and sales of life insurance products were also up. The cost/income ratio adjusted for specific items remained robust. Loan loss impairment charges were up somewhat on the previous quarter's level but remained low overall, with a decrease being recorded in Ireland. Our total income continued to be impacted slightly by negative marked-to-market changes in the value of derivatives used for asset/liability management purposes.

Besides these excellent commercial results, the group managed to complete the divestment programme agreed with the European Commission in 2009. The sale of KBC Deutschland was completed in September, the activities of Antwerp Diamond Bank were put into run down and the two remaining CDOs in the portfolio were collapsed. These operations heralded the completion of the divestment programme.

In the third quarter, the Belgium Business Unit generated a net result of 384 million euros, somewhat above the average figure of 375 million euros for the four preceding quarters. Compared with the previous quarter, the third quarter of 2014 was characterised by higher net interest income and net fee and commission income, a sound combined ratio for non-life insurance and increased sales of unit-linked life insurance products. Other features of the quarter under review were the reduced but still negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, seasonally lower dividend income and a lower level of other net income. Costs were down slightly and impairment charges were up compared to the low level of the second quarter. The banking activities accounted for 80% of the net result in the quarter under review, and the insurance activities for 20%.

In the quarter under review, the Czech Republic Business Unit posted a net result of 130 million euros, somewhat below the 139-million-euro average for the four preceding quarters. Compared with the previous quarter, the results for the third quarter featured (on a comparable basis) flat net interest income and lower net fee and commission income, a lack of realised gains on the sale of financial assets, higher net results from financial instruments, a lower level of other income, a solid non-life combined ratio and increased sales of unit-linked life insurance products. Costs declined slightly and loan loss impairment charges were up on the unsustainably low level recorded in the previous quarter. Banking activities accounted for 95% of the net result in the quarter under review, and insurance activities for 5%.

In the quarter under review, the International Markets Business Unit recorded a positive net result of 27 million euros, a significant improvement on the negative 236-million-euro average for the four preceding quarters (which had been significantly affected by additional loan loss provisioning for Ireland in the fourth quarter of 2013 and by the impact of the new retail loans act in Hungary in the second quarter of 2014). Compared to the previous quarter, the third quarter of 2014 was characterised by slightly higher net interest income and strong net fee and commission income, a stable result from financial instruments at fair value and somewhat lower realised gains on bonds and shares, a deterioration in the non-life combined ratio and lower life insurance sales. It should be noted that the previous quarter had been significantly impacted by the new Hungarian act on retail loans. Costs in the third quarter were flat, and loan loss provisions fell, mainly in Ireland. Overall, the banking activities accounted for a net result of 23 million euros (positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland), while the insurance activities accounted for a net result of 4 million euros.

The liquidity position of our group remains very strong, with both the LCR and NSFR being well above 100%.

Our capital position also continues to be very robust, as illustrated by a common equity ratio of 13.7% (Basel III fully loaded under the Danish compromise). In the analysis for the first nine months of the year, the repayment of 0.5 billion euros to the Flemish Regional Government at the beginning of January has been taken into account, as have the results for this nine-month period and a pro rata provision for the proposed dividend, the coupons on the additional tier-1 instruments and on the remaining state aid, which are all to be paid over 2014. The common equity ratio, therefore, continues to be well above our target of 10.5%.

This strong capital position has also been confirmed by the results of the comprehensive assessment carried out by the ECB. KBC exceeded the ECB's asset quality review and stress test thresholds and maintained a strong buffer of 2.8 percentage points (2.8 billion euros) above the ECB-imposed threshold of 5.5%, an achievement that reflects KBC's resilience.

The group welcomed the extension of the 'KBC Group anchoring agreements' made by Cera, KBC Ancora, MRBB and the other stable shareholders. They have confirmed that they intend to continue acting in concert with respect to KBC Group NV for another term of 10 years. In doing so, they will ensure continued shareholder stability and support the further development of the KBC group.

This anchoring agreement will help KBC realise its ambition of being among the best-performing, retail-focused financial institutions in Europe and becoming the reference in bank-insurance in its core markets. This aim will be achieved by strengthening in a highly cost-efficient way its bank-insurance business model for retail, SME and mid-cap clients in its core markets, by focusing on sustainable and profitable growth within the framework of solid risk, capital and liquidity management, and by creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach. The group is truly grateful for the continued trust that its clients and stakeholders have placed in the firm and its employees.'

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

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

- CDOs: During the third quarter, KBC collapsed the last two CDOs in its portfolio, which had a slightly negative effect on its results but a positive impact on capital. The total impact of this item on KBC's third-quarter income statement amounted to -24 million euros (post tax), account taken of the movement in credit spreads and guarantee-related fees. Collapsing these CDOs freed up 0.3 billion euros of capital and increased KBC's solvency by 0.4%.
- Remaining divestments: A total post-tax positive impact of 132 million euros was recorded for this quarter, based mainly on a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: The narrowing of the senior credit spread combined with the widening of the subordinated credit spread on KBC debt between the end of June 2014 and the end of September 2014 resulted in a slight positive marked-to-market adjustment of 6 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 3Q2014 compared with 2Q2014:

- Strong commercial net result.
- Net interest income up by 6%.
- Net interest margin up from 2.05% to 2.15%.
- Strong loan and deposit growth in all core countries.
- Excellent non-life combined ratio of 93% year-to-date.
- Higher life insurance sales.
- Net fee and commission income up by 4%, notwithstanding the summer months.
- Cost/income ratio of 59% year-to-date, and 54% when adjusted for specific items (mainly the impact of marked-to-market valuations in respect of ALM derivatives, and the Hungarian act on FX retail loans in the previous quarter).
- Credit cost ratio at a low 0.41% year-to-date.
- Consistently solid liquidity position, with an LCR at 120% and an NSFR at 109%.
- Solvency: strong capital base, with a Basel III common equity ratio (fully loaded) at 13.7%, well above the 10.5% target.

Overview KBC Group (consolidated)	3Q2013	2Q2014	3Q2014	9M2013	9M2014
Net result, IFRS (in millions of EUR)	272	317	591	1 309	1 305
Basic earnings per share, IFRS (in EUR)[1]	-0.75	0.63	1.28	1.74	2.35
Adjusted net result (in millions of EUR)	457	287	477	1 300	1 151
Basic earnings per share, based on adjusted net result (in EUR)[1]	-0.30	0.56	1.00	1.72	1.99
Breakdown by business unit (in millions of EUR)					
Belgium	391	383	384	1 193	1 117
Czech Republic	157	140	130	435	408
International Markets	-12	-176	27	-122	-175
Group Centre	-79	-59	-64	-207	-199
Parent shareholders' equity per share (in EUR, end of period)	28.5	29.5	30.8	28.5	30.8

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

Overview of results according to IFRS

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

In order to provide a good insight into the ongoing business performance, KBC also publishes an overview of adjusted results, where the impact of legacy activities (divestments, CDOs) and of the valuation of own credit risk is excluded from P/L and summarised in three lines at the bottom of the presentation (see next section).

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	9M 2013	9M 2014
Net interest income	1 053	1 003	1 014	1 008	1 010	1 056	1 120	-	3 069	3 185
Interest income	2 161	2 079	2 037	2 067	1 930	1 971	2 010	-	6 276	5 911
Interest expense	-1 108	-1 076	-1 023	-1 060	-920	-915	-890	-	-3 207	-2 726
Non-life insurance (before reinsurance)	149	115	145	127	149	102	139	-	409	389
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	*321*	-	*942*	*944*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	*-183*	-	*-533*	*-555*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-57	-	-185	-171
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	*299*	-	*750*	*904*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	*-355*	-	*-936*	*-1 075*
Ceded reinsurance result	-12	13	1	-6	-17	19	4	-	2	6
Dividend income	5	20	14	8	14	24	9	-	39	47
Net result from financial instruments at fair value through profit or loss	314	425	223	229	40	44	34	-	962	118
Net realised result from available-for-sale assets	142	47	34	29	51	49	28	-	223	128
Net fee and commission income	389	381	337	362	374	387	402	-	1 107	1 163
Fee and commission income	636	560	507	564	557	533	579	-	1 704	1 668
Fee and commission expense	-247	-179	-170	-202	-182	-147	-177	-	-596	-505
Other net income	76	-20	51	15	52	-99	73	-	107	26
Total income	2 058	1 921	1 754	1 715	1 615	1 526	1 752	-	5 733	4 892
Operating expenses	-1 033	-924	-918	-968	-973	-933	-923	-	-2 875	-2 829
Impairment	-350	-275	-362	-940	-114	-142	-58	-	-987	-313
on loans and receivables	-293	-254	-230	-937	-102	-136	-190	-	-777	-429
on available-for-sale assets	-13	-3	-8	-10	-5	-3	-6	-	-24	-14
on goodwill	-7	0	0	0	0	0	0	-	-7	0
on other	-37	-18	-125	7	-6	-3	139	-	-179	130
Share in results of associated companies and joint ventures	8	8	9	6	7	7	6	-	24	19
Result before tax	683	729	483	-187	535	457	777	-	1 895	1 769
Income tax expense	-159	-210	-207	-103	-138	-140	-186	-	-575	-464
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	-	0	0
Result after tax	524	520	276	-290	397	317	591	-	1 319	1 305
attributable to minority interests	4	3	4	4	0	0	0	-	10	0
attributable to equity holders of the parent	**520**	**517**	**272**	**-294**	**397**	**317**	**591**	**-**	**1 309**	**1 305**
Basic earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	1.28	-	1.74	2.35
Diluted earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	1.28	-	1.74	2.35

Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect the net result, but has an impact on various items in the consolidated income statement.

Overview of adjusted results

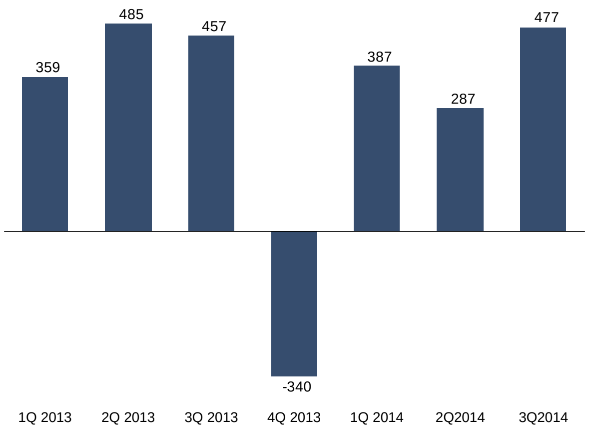
In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from P/L and summarised in three lines at the bottom of the presentation (in segment reporting, these items are all included in the Group Centre). Moreover, a different accounting treatment for capital-market income was applied to the Belgium Business Unit (with all trading results shifting to 'Net result from financial instruments at fair value'). A full explanation of the differences between the IFRS and adjusted figures is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section of the quarterly report.

Consolidated income statement, KBC Group (in millions of EUR)	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	9M 2013	9M 2014
Adjusted net result (i.e. excluding legacy business and own credit risk)										
Net interest income	1 018	976	999	996	1 002	1 047	1 109	-	2 993	3 158
Non-life insurance (before reinsurance)	149	115	145	127	149	102	139	-	409	389
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	*321*	-	*942*	*944*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	*-183*	-	*-533*	*-555*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-57	-	-185	-171
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	*299*	-	*750*	*904*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	*-355*	-	*-936*	*-1 075*
Ceded reinsurance result	-12	13	1	-6	-17	19	4	-	2	6
Dividend income	4	19	11	7	11	22	6	-	34	39
Net result from financial instruments at fair value through profit or loss	218	256	146	159	17	37	49	-	620	103
Net realised result from available-for-sale assets	96	46	42	29	50	49	27	-	183	127
Net fee and commission income	382	385	341	365	378	389	404	-	1 108	1 171
Other net income	76	68	151	47	52	-124	64	-	296	-8
Total income	1 872	1 815	1 773	1 668	1 584	1 485	1 746	-	5 459	4 814
Operating expenses	-1 023	-914	-906	-955	-965	-926	-898	-	-2 843	-2 789
Impairment	-333	-234	-208	-949	-107	-134	-183	-	-775	-424
on loans and receivables	*-293*	*-215*	*-185*	*-939*	*-103*	*-130*	*-165*	-	*-693*	*-398*
on available-for-sale assets	*-13*	*-3*	*-2*	*-3*	*-5*	*-3*	*-6*	-	*-18*	*-14*
on goodwill	*-7*	*0*	*0*	*0*	*0*	*0*	*0*	-	*-7*	*0*
on other	*-20*	*-15*	*-22*	*-7*	*0*	*0*	*-12*	-	*-57*	*-12*
Share in results of associated companies and joint ventures	8	8	9	6	7	7	6	-	24	19
Result before tax	524	675	667	-230	518	431	671	-	1 866	1 620
Income tax expense	-161	-187	-206	-106	-131	-144	-194	-	-555	-469
Result after tax	363	487	460	-336	387	288	477	-	1 310	1 152
attributable to minority interests	4	3	4	4	0	0	0	-	10	0
attributable to equity holders of the parent	**359**	**485**	**457**	**-340**	**387**	**287**	**477**	**-**	**1 300**	**1 151**
Belgium	385	418	391	376	351	383	384	-	1 193	1 117
Czech Republic	132	146	157	119	138	140	130	-	435	408
International Markets	-87	-23	-12	-731	-26	-176	27	-	-122	-175
Group Centre	-71	-56	-79	-104	-75	-59	-64	-	-207	-199
Basic earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56	1.00	-	1.72	1.99
Diluted earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56	1.00	-	1.72	1.99
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	165	180	34	65	16	30	-24	-	380	23
Legacy – divestments	22	-128	-231	-10	-9	8	132	-	-337	131
MTM of own credit risk	-26	-20	12	-9	2	-8	6	-	-34	0
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent (IFRS)	**520**	**517**	**272**	**-294**	**397**	**317**	**591**	**-**	**1 309**	**1 305**

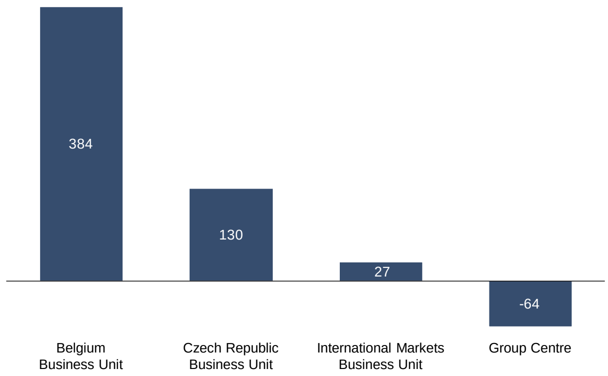
Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect the net result, but has an impact on various items in the consolidated income statement.

Analysis of the quarter under review (3Q2014)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 3Q2014 (in millions of EUR)



The net result for the quarter under review amounted to 591 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to 477 million euros, compared with 287 million euros in 2Q2014 and 457 million euros in 3Q2013.

Total income (adjusted net result)

- Net interest income stood at 1 109 million euros, up 6% quarter-on-quarter and 11% year-on-year. The net interest margin came to 2.15% for the quarter under review, 10 basis points higher than the level of the previous quarter, and 26 basis points higher than the (recalculated) level of the year-earlier quarter. The increase was driven primarily by sound commercial margins, lower funding costs and an increased level of repayment fees. Deposit volumes were up 1% quarter-on-quarter but down 1% year-on-year (due entirely to maturing wholesale debt). Loan volumes were up 1% both quarter-on-quarter and year-on-year. The loan book in the Belgium Business Unit grew by 1% quarter-on-quarter and by 2% year-on-year. Deposits in the Belgium Business Unit grew by 3% quarter-on-quarter and by 4% year-on-year. The loan book in the Czech Republic increased by 6% year-on-year and 2% quarter-on-quarter, while deposits rose by 8% year-on-year and 1% quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year, owing to the contraction in the Irish loan portfolio offsetting the strong growth in Bulgaria and Slovakia, and was almost flat quarter-on-quarter. Its deposit base grew by 1% year-on-year (driven primarily by Ireland, where there is a successful ongoing retail campaign), and by 2% quarter-on-quarter.

- The life and non-life insurance businesses turned in the following performance during the quarter under review. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 86 million euros, up 32% quarter-on-quarter and 4% year-on-year.

  In the non-life segment, earned premiums were up 2% quarter-on-quarter and flat year-on-year. Claims during the third quarter were substantially lower (-14%) than their quarter-earlier level (due to the hailstorms in Belgium in 2Q2014) and were up somewhat (4%) on their level in the third quarter of 2013. Nevertheless, the combined ratio came to a solid 93% year-to-date.

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were up 12% on their level in 2Q2014, with a significant increase in unit-linked products. Year-on-year, they were up by 50% on account of the increase in sales of guaranteed-interest products and unit-linked products.

  It should be noted that the third quarter was a decent one for investment income derived from insurance activities, although down on the level of the previous quarter, with the quarter-on-quarter results being driven by higher net interest income quarter-on-quarter, but lower dividend income after a seasonally strong second quarter, and lower realised gains on available-for-sales assets in the investment portfolio. Lastly, the technical-financial result also benefited from general administrative expenses being kept strictly under control.

- The net result from financial instruments at fair value amounted to 49 million euros in the quarter under review, significantly below the 90-million-euro average for the four preceding quarters. This figure was driven by dealing-room income, which stood at a modest level in 3Q2014, whilst the quarter under review was impacted by lower negative marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes. These valuations came to -46 million euros in the third quarter (compared to a quarterly average of +70 million euros in 2013 and to -57 million euros in the second quarter).

- Net realised gains from available-for-sale assets stood at 27 million euros for the quarter under review, down on the 43-million-euro average for the four preceding quarters and lower than the previous quarter. These gains were realised on the sale of both shares and bonds.
- Net fee and commission income amounted to 404 million euros, up 4% quarter-on-quarter and 19% year-on-year. The main driver for the quarter-on-quarter trend was the higher level of management fees for mutual funds. Assets under management stood at 180 billion euros, up 4% on their level of the previous quarter (accounted for by the investment performance (+2%) and net entries (+2%)) and up 13% year-on-year, driven by the investment performance (+9%) and by net inflows (+4%).
- Other net income came to 64 million euros, substantially higher than the 32-million-euro average for the four preceding quarters (the latter figure had been impacted to the tune of -231 million euros by provisioning for the new Hungarian act on retail loans in 2Q2014).

Operating expenses (adjusted net result)

- Operating expenses came to 898 million euros in 3Q2014, down 3% on their level in the previous quarter and 1% year-on-year. The quarter-on-quarter decrease was mainly attributable to timing differences at the Group Centre. Costs were down 1% year-on-year, with the higher bank tax in Belgium and Hungary and higher staff expenses and general administrative expenses in Ireland being offset by lower operating expenses at the Group Centre and a positive foreign exchange impact.
- The year-to-date cost/income ratio came to a relatively high 59%, but this was largely caused by the fact that the denominator (total income) suffered from the negative marked-to-market valuations of the ALM derivatives and the impact of the new Hungarian act on retail loans. Adjusted for specific items (*inter alia* the bank tax, ALM derivatives and Hungarian act), the cost/income ratio stood at 54%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 165 million euros in 3Q2014, up on the 130 million euros recorded in the previous quarter but down on the 185 million euros recorded a year earlier. The quarterly increase was attributable mainly to a number of corporate loans in the Belgium Business Unit and in the legacy project finance portfolio. The annualised credit cost ratio for the whole group stood at 0.41%. This breaks down into a favourable 0.20% for the Belgium Business Unit (down from 0.37% for FY2013), a very low 0.13% in the Czech Republic Business Unit (down from 0.26% for FY2013), and 1.09% for the International Markets Business Unit (an improvement from 4.48% for FY2013, which had clearly been impacted by the large loan loss impairment charges in Ireland in 4Q2013).
- Impairment charges on assets other than loans were limited in the quarter under review, amounting to 18 million euros and relating to available-for-sale assets and software.

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

- CDOs: During the third quarter, KBC collapsed the last two CDOs in its portfolio, which had a slightly negative effect on its results but a positive impact on capital. The total impact of this item on KBC's third-quarter income statement amounted to -24 million euros (post tax), account taken of the movement in credit spreads and guarantee-related fees. Collapsing these CDOs freed up 0.3 billion euros of capital and increased KBC's solvency by 0.4%.
- Remaining divestments: A total post-tax positive impact of 132 million euros was recorded for this quarter, based mainly on a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: The narrowing of the senior credit spread combined with the widening of the subordinated credit spread on KBC debt between the end of June 2014 and the end of September 2014 resulted in a slight positive marked-to-market adjustment of 6 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 3Q2014, the Belgium Business Unit generated a net result of 384 million euros, somewhat above the average figure of 375 million euros for the four preceding quarters. Compared with the previous quarter, 3Q2014 was characterised by higher net interest income and net fee and commission income, a sound combined ratio for non-life insurance and increased sales of unit-linked life insurance products. Other features of the quarter under review were the reduced but still negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, seasonally lower dividend income and a lower level of other net income. Costs were down slightly and impairment charges were up compared to the low level of the second quarter. The banking activities accounted for 80% of the net result in the quarter under review, and the insurance activities for 20%.
- In the quarter under review, the Czech Republic Business Unit posted a net result of 130 million euros, somewhat below the 139-million-euro average for the four preceding quarters. Compared with the previous quarter, the results for 3Q2014 featured (on a comparable basis (see the 'Analysis of the results – Czech Republic Business Unit' section below)) flat net interest income and lower net fee and commission income, a lack of realised gains on the sale of financial assets, higher net results from financial instruments, a lower level of other income, a solid non-life combined ratio and increased sales of unit-linked life insurance products. Costs declined slightly and loan loss impairment charges were up on the unsustainably low level recorded in the previous quarter. Banking activities accounted for 95% of the net result in the quarter under review, and insurance activities for 5%.
- In the quarter under review, the International Markets Business Unit recorded a positive net result of 27 million euros, a significant improvement on the negative 236-million-euro average for the four preceding quarters (which had been significantly affected by additional loan loss provisioning for Ireland in 4Q2013 and by the impact of the new retail loans act in Hungary in 2Q2014). Compared to the previous quarter, 3Q2014 was characterised by slightly higher net interest income and strong net fee and commission income, a stable result from financial instruments at fair value and somewhat lower realised gains on bonds and shares, a deterioration in the non-life combined ratio and lower life insurance sales. It should be noted that the previous quarter had been significantly impacted by the new Hungarian act on retail loans. Costs in 3Q2014 were flat, and loan loss provisions fell, mainly in Ireland. Overall, the banking activities accounted for a net result of 23 million euros (positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland), while the insurance activities accounted for a net result of 4 million euros.
- The Group Centre's net result amounted to 50 million in 3Q2014. As stated earlier, this entity includes not only a number of group items and the results of companies earmarked for divestment, but also the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk. Excluding the legacy business and own credit risk impact, the adjusted net result amounted to -64 million in 3Q2014.

Analysis of the year-to-date period under review (9M2014)

The net result for 9M2014 amounted to 1 305 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 1 151 million euros, compared with 1 300 million euros in 9M2013.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Absolut Bank and by some minor changes. These items will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').
- Net interest income stood at 3 158 million euros, up 6% year-on-year. On a comparable basis, it was up 7% year-on-year. Commercial margins remained healthy, interest rates on savings accounts were reduced and wholesale funding costs fell considerably. The net interest margin came to 2.06% year-to-date, 17 basis points higher than the (recalculated) level of a year earlier. In the Belgium Business Unit, the loan book grew by 2% year-on-year and the deposit base by 4%. The loan book in the Czech Republic increased by 6% year-on-year, while deposits rose by 8%. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year (due to Ireland), but the deposit base grew by 1% (driven by Ireland).
- The life and non-life insurance businesses turned in the following performance during the first nine months of 2014. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 224 million euros, down 1% year-on-year.

  Premiums in the non-life segment were flat year-on-year. The claims arising from the hailstorms in Belgium resulted in a somewhat higher level of technical charges compared with 9M2013, which in turn had been affected by claims relating to flooding in the Czech Republic. Nevertheless, the combined ratio still came to a solid 93% year-to-date.

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were up 3% on their level in 9M2013. The increase in sales of guaranteed interest products exceeded the contraction in sales of unit-linked products.

  It should be noted that the insurance results also benefited from slightly higher investment income, driven by the higher net realised result from the sale of available-for-sale assets, lower impairment charges and higher dividend income, all of which outweighed the lower level of net interest income and the net result from financial instruments at fair value. General administrative expenses were kept strictly under control and fell by 5% year-on-year.
- The net result from financial instruments at fair value amounted to 103 million euros in the first nine months of 2014, compared with 620 million euros for the corresponding period of the previous year. The first nine months of this year were influenced primarily by a negative result of 186 million euros on the marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes, compared to a positive 250 million euros for the first nine months of 2013.
- Net realised gains from available-for-sale assets stood at 127 million euros for the period under review, compared with 183 million euros for the first nine months of the previous year. Some 43% of the gains were realised on the sale of bonds and 57% on the sale of shares.
- Net fee and commission income amounted to 1 171 million euros, up 6% year-on-year (even on a comparable basis). Assets under management stood at 180 billion euros, up 13% since the end of September 2013 because of price effects (9%) and net entries (4%).
- Other net income came to -8 million euros as opposed to 296 million euros in the year-earlier period. This item was strongly affected by provisioning in 2Q2014 for the new Hungarian act on retail loans: 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' (-231 million euros).

Operating expenses (adjusted net result)

- Operating expenses came to 2 789 million euros in 9M2014, down 2% on their year-earlier level. On a comparable basis, costs decreased by 1%, with the higher bank tax in Belgium and Hungary and higher staff expenses and general administrative expenses in Ireland being offset by lower operating expenses at the Group Centre and a positive foreign exchange impact. The year-to-date cost/income ratio came to a relatively high 59%, but resulted primarily from the fact that the denominator (total income) suffered from negative marked-to-market valuations of ALM derivatives and the impact of the new act on retail loans in Hungary. Adjusted for specific items, the cost/income ratio stood at 54%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 398 million euros in 9M2014, well down on the 693 million euros recorded a year earlier. The annualised credit cost ratio stood at 0.41% year-to-date. This breaks down into 0.20% for the Belgian Business Unit (down from 0.37% for FY2013), 0.13% in Czech Republic Business Unit (compared with 0.26% for FY2013) and 1.09% for the International Markets Business Unit (down from 4.48% for FY2013).
- Other impairment charges came to 26 million euros and were related to impairment on available-for-sale assets and other items.

Income tax

- Income tax amounted to 469 million euros for the first nine months of 2014.

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

- CDOs: During the first nine months of 2014, KBC collapsed the remaining CDOs in its portfolio. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the movement of the corporate and ABS credit spreads, the reduction in the net exposure to legacy CDO positions, along with the termination costs, the total impact on KBC's income statement for 9M2014 came to a positive 23 million euros (post tax).
- Remaining divestments: A total positive post-tax impact of 131 million euros was recorded for 9M2014, based mainly on a reversal of the impairment recorded on the participation in Antwerp Diamond Bank in 2012 and 2013.
- Impact of own credit risk valuation: The comparable levels of credit spreads on KBC debt at the end of December 2013 and the end of September 2014 resulted in a virtually no marked-to-market adjustments being made in 9M2014.

Equity and solvency

- At the end of September 2014, total equity came to 16.2 billion euros – up 1.7 billion euros on its level at the start of the year – due mainly to the inclusion of the Additional Tier-1 instrument (+1.4 billion euros) issued in March. Other factors impacting total equity in the first nine months of 2014 were the repayment of 0.5 billion euros (including the 50% penalty) in Flemish state aid, the inclusion of the 9M2014 results (+1.3 billion euros) and the calling for redemption of Funding Trust securities (-0.4 billion euros in minority interests).
- The group's common equity ratio (Basel III, fully loaded, under the Danish Compromise, including the remaining aid from the Flemish Regional Government) stood at a strong 13.7% at 30 September 2014.
- The solvency ratio for KBC Insurance was an excellent 329% at 30 September 2014, up from the already high 281% at the end of 2013.

Liquidity

- The group's liquidity remains excellent, as reflected in an LCR ratio of 120% and an NSFR ratio of 109% at the end of the third quarter.

Selected balance sheet data

Highlights of consolidated balance sheet * KBC Group (in millions of EUR)	31-03-2013	30-06-2013	30-09-2013	31-12-2013	31-03-2014	30-06-2014	30-09-2014	31-12-2014
Total assets	255 753	250 557	247 530	238 686	246 179	252 768	251 612	-
Loans and advances to customers	127 112	129 179	125 795	120 371	120 810	124 661	125 898	-
Securities (equity and debt instruments)	64 777	65 435	63 854	64 904	66 313	68 380	69 530	-
Deposits from customers and debt certificates	164 766	164 213	166 223	161 135	163 838	166 407	166 843	-
Technical provisions, before reinsurance	18 836	18 805	18 803	18 701	18 941	19 007	19 065	-
Liabilities under investment contracts, insurance	11 664	11 606	11 684	11 787	11 976	12 322	12 540	-
Parent shareholders' equity	12 505	12 119	11 895	11 826	11 968	12 318	12 840	-
Non-voting core-capital securities	3 500	3 500	2 333	2 333	2 000	2 000	2 000	-

* Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect equity, but has an impact on various items in the consolidated balance sheet. Moreover, in accordance with IFRS 5, the assets and liabilities of a number of divestments have been reallocated to 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.

Selected ratios

Selected ratios KBC Group (consolidated)	FY2013	9M2014
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	12%
Cost/income ratio, banking	52%	59%
Combined ratio, non-life insurance	94%	93%
Solvency		
Common equity ratio (Basel III, fully loaded, including remaining state aid)	12.8%	13.7%
Credit risk		
Credit cost ratio	1.21%	0.41%
Impaired loans ratio	10.2%	10.3%
for loans more than 90 days overdue	5.9%	6.0%

* If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments and the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*).
Note: a number of ratios have been affected (with retroactive application) by changes due to the implementation of IFRS11, Basel III and the abolished carve-out of the zero weighting of domestic government bonds.

Strategy highlights and main events

Strategy and business highlights (3Q to date)

- KBC's core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. In line with its strategic plan, the group has now completed the divestment programme.
- In July 2014, Fitch confirmed the long-term ratings for both KBC Bank and KBC Group at 'A-' (with stable outlook). It also confirmed the exact same long-term ratings for both KBC Insurance and KBC Group Re in November 2014.
- In September 2014, KBC decided – in implementation of the agreement made with the European Commission – to run down the loan portfolio and activities of Antwerp Diamond Bank (ADB) in a gradual and orderly manner. The run-down process will be carried out through a merger by absorption in which ADB will be absorbed into KBC. Over time, therefore, the activities, portfolio and the legal entity of ADB will be removed entirely from KBC's scope.
- In September 2014, KBC completed the sale of KBC Bank Deutschland AG to a group of investors. The deal freed up some 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets.
- In September 2014, KBC collapsed the last two CDOs in its portfolio, which freed up 0.3 billion euros in capital. Collapsing these CDOs also ended the Portfolio Protection Agreement that KBC had entered into with the Belgian Federal Government and completely eliminated the group's exposure to MBIA.
- The above operations are the last ones to be completed under the divestment programme agreed with the European Commission in 2009.
- In September 2014, KBC welcomed the extension of the 'KBC Group anchoring agreements' made by Cera, KBC Ancora, MRBB and the other stable shareholders. Together with MRBB and the other stable shareholders, Cera and KBC Ancora have confirmed their intention to continue acting in concert with respect to KBC Group NV for another term of 10 years. In doing so, they will ensure continued shareholder stability and support the further development of the KBC group.
- In October 2014, announcements were made by the European Central Bank (ECB) and the National Bank of Belgium regarding the results of the comprehensive assessment carried out by the ECB. KBC exceeded the ECB's asset quality review and stress test thresholds and maintained a strong buffer. The impact of the stress test on the Common Equity Tier-1 ratio (CET1 ratio) under the adverse scenario in 2016 caused the CET1 ratio to fall by 2.6 percentage points. The impact of the asset quality review (AQR) was limited, reducing the CET1 ratio by 0.6 percentage points. The combined impact of the repayment of state aid, as agreed with the European Commission, during the 3-year stress test horizon (1.8 billion euros including penalties and coupon), the AQR and the pure stress test resulted in a CET1 ratio of 8.3%, which represents a considerable buffer of 2.8 percentage points (2.8 billion euros) above the ECB-imposed threshold of 5.5%, showing KBC's resilience.
- ČSOB received the 'Best Private Bank in the Czech Republic' award from PWM/The Banker, and Patria received the 'Investment Bank of the Year' award from Acquisition International.
- KBC received 4 prizes at the 'Marketing and Interactive Excellence Awards' from IAB Belgium and Best of Publishing.
- KBC received the award for 'Best Private Bank in Belgium' from Professional Wealth Magazine.
- KBC was named 'Private Bank of the Year Belgium' and granted the 'Innovation in Retail Banking Belgium' award by the International Banker.
- K&H again received the 'insurer of the year' award from Biztositas.hu.

Developments on the Corporate Sustainability & Responsibility front (3Q to date)

- As partner of *Leuven Klimaat Neutraal*, a not-for-profit organisation that aims to make the city of Leuven climate-neutral by 2030, KBC participated in the 'Climate weekend' in August. KBC organised an entertainments stand where visitors could try out electric bikes and participate in different games that gave them the chance to win gifts donated by KBC Insurance's 'Mums know best safety shop'.
- K&H held the seventh edition of 'ART for a better and more meaningful world', which gives a young artist the opportunity to win a scholarship. K&H was one of the first companies in Hungary to rebuild its art collection, which has now become one of the country's most up-to-date and steadily growing corporate collections. Its motto – 'Art for a better and more meaningful world' – perfectly encapsulates the art trends that K&H prefers and appreciates.
- The 'K&H for the underprivileged' programme provides support to the 47 most disadvantaged micro-regions in the areas of children's healthcare, performing arts, pre-adult education and sports.

- In Belgium, KBC continues to focus on mobility. Teleworking has become firmly embedded in KBC's corporate culture and commuter travel at KBC Belgium is expected to drop by 15 million kilometres in 2014.
- KBC confirms its listing on FTSE4Good Index.
- KBC is a member of the STOXX Sustainability Index.
- KBC partner in Horizon 2050: 'Money makes the world go round!'. The newly launched Horizon 2050 covers a lecture tour where Argus, Cera and KBC focus on sharing inspiring views with a broad group of stakeholders. In this first edition, the impact of sustainable investors on listed companies was discussed.
- KBC launched a crowdfunding platform to bring together entrepreneurs and investors. On the website of Bolero, the online broker of KBC Securities, (starting) entrepreneurs can launch an appeal for financing, and interested investors can support them in growing their business through relatively small investments.
- ČSOB announced the 'Stabilisation of Social Enterprises' grant programme. In July 2014, it launched its second annual grant programme for providing support to social entrepreneurship. The programme is identical to last year's pilot project, but now includes two day-long workshops. Financial support of up to 400 000 Czech korunas will be given to between three and five social enterprises. Eleven such enterprises were selected in the second round of the grant programme (out of 27 candidates).

Statement of risk

- Mainly active in banking, insurance and asset management, KBC is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing divestment plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- Risk management data are provided in KBC's annual reports, the extended quarterly reports and the dedicated risk reports, all of which are available at www.kbc.com.
- In the third quarter, global economic data were disappointing on balance. In the US, the ISM report for the manufacturing sector fell slightly in September (albeit from a high level), while producer confidence in the UK, Japan and China also weakened. Nevertheless, the business cycles in the US and UK still seem to be on a recovery track, as reflected by the continuing decline in unemployment rates in those countries. More worrying is the persisting deterioration of producer confidence in the euro area, and particularly in Germany. Both the current and leading components of the German Ifo index have been falling since late spring, increasing downside growth risks in the second half of 2014.
- There is, however, positive news too. First of all, the euro area's labour market continues to improve: Germany remains close to full employment and the number of unemployed is decreasing in most euro countries, with France being the notable exception. Peripheral countries like Ireland and Spain are starting to reap the benefits from their structural reforms. Finally, fiscal policy is becoming less of a drag on growth. The introduction of the Fiscal Compact, and its focus on structural rather than nominal deficits, allows the fiscal stance to become less restrictive and – according to the EC – it may even become accommodating in 2015. In combination with the ECB's very accommodating monetary policy, these positives should allow the euro area to avoid another recession in spite of the recent market turmoil.
- Currently, the biggest risk is a further slowdown of economic momentum and a 'triple dip' recession in the euro area. At the same time, falling energy and commodity prices may well put more downward pressure on European inflation, particularly if the recent depreciation of the euro exchange rate comes to an end.
- Although lower commodity prices are a positive supply shock for the euro area and should support real economic growth, the lower inflation rate might put even more pressure on the ECB. Taken together with Mr Draghi's recent remarks that there are currently no bubbles in the bond markets (this is the opposite view of the IMF), this increases the likelihood that the ECB will eventually start a sovereign bond buying programme (we now give it a 50% chance of going through in 2015). The impact of this is already discounted to a large extent in the extremely low level of interest rates at present.
- Geopolitical risks remain in place (including in Syria, Iraq and Ukraine) but will probably not play a major role in the months to come. Finally, the risk of weaker-than-expected growth in the emerging markets still exists. Commodity exporting emerging markets are suffering from the current decline in commodity prices. In the meantime, both cyclical and financial stability risks continue to hang over the Chinese economy.

KBC Group Analysis of 3Q2014 results by business unit

Unless otherwise specified,
all amounts are given in euros

Breakdown by business unit

Business unit structure

In the segment reporting presentation, the segments, or business units, are essentially:

- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia, Bulgaria);
- the Group Centre (results of the holding company, certain items that are not allocated to the business units, results of companies to be divested, and the impact of the *legacy business and own credit risk* (see below)).

A more detailed definition is provided in the sections per business unit below.

The 'adjusted' net result
(i.e. net result excluding the impact of legacy CDO and divestment activities and of own credit risk)

In addition to the figures according to IFRS, KBC provides figures aimed at giving more insight into the ongoing business performance. This means that, over and above the IFRS income statement, an *adjusted* income statement is provided in which a limited number of non-operating items is excluded from P/L and summarised in three lines at the bottom of the reporting presentation. Segment reporting is based on this reworked presentation.

The items in question are:

- legacy CDO activities (mainly valuation changes of CDOs and fees for the CDO guarantee agreement);
- legacy divestment activities (impairment and gains/losses in relation to the remaining divestments);
- the impact of changes in fair value of own debt instruments due to own credit risk.

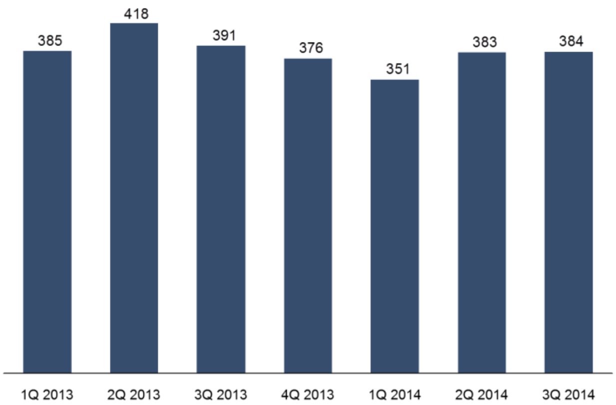
In the segment reporting presentation, these items are all assigned to the Group Centre (hence, there is no additional 'adjusted' net result total for the other business units).

Retroactive changes in allocated capital and ROAC

In order to reflect the increased capital target (see the Investor Day presentation of 17 June 2014), changes were also made in calculating allocated capital (by applying a factor of 10.5% on risk weighted assets instead of 10%) and the resulting ROAC. All the quarterly figures for 2014 have been restated (though the effect is limited).

Analysis of the results – Belgium Business Unit

Net result – Belgium
(in millions of EUR)



The Belgium Business 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, KBC Group Re, etc.). Results related to legacy businesses and the valuation of own credit risk have been moved to the Group Centre.

Income statement, Belgium Business Unit (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	658	640	670	680	696	697	735	-
Non-life insurance (before reinsurance)	117	96	111	86	118	66	113	-
Earned premiums	*234*	*239*	*241*	*241*	*236*	*240*	*244*	-
Technical charges	*-117*	*-143*	*-130*	*-155*	*-118*	*-174*	*-132*	-
Life insurance (before reinsurance)	-69	-69	-70	-66	-65	-65	-66	-
Earned premiums	*195*	*180*	*162*	*295*	*255*	*234*	*228*	-
Technical charges	*-263*	*-249*	*-232*	*-361*	*-320*	*-299*	*-293*	-
Ceded reinsurance result	-10	4	0	-1	-17	22	-2	-
Dividend income	4	18	11	7	11	20	6	-
Net result from financial instruments at fair value through profit or loss	135	201	83	125	-19	-6	27	-
Net realised result from available-for-sale assets	85	30	40	15	42	33	18	-
Net fee and commission income	291	288	240	241	278	283	296	-
Other net income	66	49	124	53	42	104	58	-
Total income	1 278	1 257	1 210	1 141	1 086	1 154	1 185	-
Operating expenses	-575	-544	-568	-562	-555	-567	-562	-
Impairment	-140	-98	-65	-59	-38	-36	-81	-
on loans and receivables	-138	*-82*	-43	-65	-34	-34	*-64*	-
on available-for-sale assets	-2	*-2*	-1	-2	-5	-3	*-5*	-
on goodwill	0	*0*	0	0	0	0	*0*	-
other	1	*-14*	-21	7	0	1	*-12*	-
Share in results of associated companies and joint ventures	0	0	0	0	-1	0	0	-
Result before tax	562	615	577	519	492	551	541	-
Income tax expense	-176	-198	-186	-142	-142	-168	-157	-
Result after tax	386	417	391	377	351	383	384	-
attributable to minority interests	1	-1	0	0	0	0	0	-
attributable to equity holders of the parent	**385**	**418**	**391**	**376**	**351**	**383**	**384**	**-**
Banking	300	329	307	319	261	297	306	-
Insurance	85	89	83	57	90	86	78	-
Risk-weighted assets banking (end of period, Basel III)	42 287	40 947	38 491	40 307	40 858	41 032	42 235	-
Required capital insurance (end of period, Solvency I)	839	842	846	850	851	854	859	-
Allocated capital (end of period)	5 697	5 569	5 330	5 518	5 779	5 803	5 939	-
Return on allocated capital (ROAC)	26%	29%	29%	28%	24%	26%	26%	-
Cost/income ratio, banking	46%	44%	49%	49%	53%	51%	49%	-
Combined ratio, non-life insurance	85%	93%	90%	103%	88%	98%	92%	-
Net interest margin, banking	1.78%	1.72%	1.81%	1.87%	1.98%	1.96%	2.04%	-

Note that in the IFRS accounts, income related to trading activities is split across different components. In the figures for the Belgium Business Unit, all trading income components related to KBC Bank Belgium have been recognised under 'Net result from financial instruments at fair value'. This shift does not apply to the other business units for reasons of materiality.

In 3Q2014, the Belgium Business Unit generated a net result of 384 million, somewhat above the average figure of 375 million for the four preceding quarters. Compared with the previous quarter, 3Q2014 was characterised by higher net interest income and net fee and commission income, a sound combined ratio for non-life insurance, increased sales of unit-linked life insurance products, and a smaller but still negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, seasonally lower dividend income and a lower level of other net income. Costs were down slightly and impairment charges were up compared to the low level of the second quarter. The banking activities accounted for 80% of the net result in the quarter under review, and the insurance activities for 20%.

Net interest income up quarter-on-quarter

Net interest income stood at 735 million in the quarter under review, up by 5% on the previous quarter and by as much as 10% on the year-earlier quarter. Both quarter-on-quarter and year-on-year, net interest income benefited from higher lending-related income, lower term deposit funding costs (drop in volume and pricing), cuts in interest rates for saving accounts, a bigger banking bond portfolio, and a number of one-off items (higher level of prepayment fees resulting from loan refinancings in the third quarter, …), despite the negative impact of lower reinvestment yields (and, year-on-year, the deliberate reduction in the loan portfolio at the foreign branches).

At the end of September 2014, the Belgium Business Unit's loan book ('Loans and advances to customers, excluding reverse repos') amounted to 84 billion, up 1% quarter-on-quarter and 2% year-on-year. Deposits ('Deposits from customers and debt certificates, excluding repos') stood at 104 billion, up 3% on the previous quarter's level and up approximately 4% year-on-year.

On the whole, the net interest margin in Belgium widened by 8 basis points quarter-on-quarter and by 23 basis points year-on-year, amounting to 204 basis points in 3Q2014 (199 basis points for the first nine months of 2014).

Good non-life combined ratio; sales of life insurance products up on the previous quarter

In the non-life business, earned premium income stood at 244 million, up 2% quarter-on-quarter and 1% year-on-year. The quarter-on-quarter increase is mainly situated in the 'Fire and other damage to property' class. Technical non-life charges amounted to 132 million, down 24% quarter-on-quarter (the previous quarter had been significantly affected by a hailstorm) and up 1% year-on-year. After taking into account the effect of ceded reinsurance, earned premiums less technical charges stood at 111 million in the quarter under review, up on the 88 million in 2Q2014 and in line with the 111 million in 3Q2013. As a result, the combined ratio came to a favourable 92% in the quarter under review, which – combined with the excellent performance in the first quarter and the negative impact of the hailstorm in the second quarter – also amounted to 92% year-to-date, compared to the 93% recorded for FY2013.

In the life business, insurance sales (including unit-linked products which are not included in the premium figures under IFRS) stood at 425 million in 3Q2014 (still being impacted by the low interest rate climate), though they were up somewhat on the 376 million recorded in the previous quarter and the 254 million recorded in the year-earlier quarter. The increase in life insurance sales in the quarter under review was due entirely to unit-linked products, which now account for close to half of total life sales.

At the end of September 2014, the life reserves of the Belgium Business Unit (including the liabilities under unit-linked contracts) amounted to 26 billion (up 4% year-on-year).

Note that the life and non-life insurance results described above only relate to premiums and technical charges. The insurance bottom line is also clearly impacted by investment income, costs, taxes, etc., all of which are analysed from a group perspective (i.e. banking and insurance together) in this section.

Increased level of fee and commission income in the quarter under review

Total net fee and commission income amounted to 296 million in the quarter under review, up 5% compared to the previous quarter, and up by as much as 23% on its year–earlier level. Quarter-on-quarter, the increase was due primarily to higher management fee income on mutual funds (increased level of assets under management (AUM), among other things) and, to a lesser extent, to a higher amount in entry fees for mutual funds (summer campaign) and class-23 life insurance sales as well as higher payment-services-related fee income. The 23% year-on-year increase in net fee and commission income was essentially due to significantly higher entry and management fees for mutual funds (increased AUM, see below) and higher fees relating to class-23 life insurance sales.

Assets under management in this business unit stood at 167 billion at the end of September 2014, up 4% on the level recorded three months previously, roughly half of which was due to net inflows and the other half to a positive price effect. AUM were up by as much as 13% on their year-earlier level, some 4 percentage points of which was attributable to net inflows and 9 percentage points to a positive price effect.

Other income components

Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 27 million in the quarter under review, below the 46 million average for the four preceding quarters. The 3Q2014 figure includes a negative marked-to-market valuation of ALM derivatives arising partly as a result of decreasing long-term IRS rates (impact of -32 million in 3Q2014, -63 million in 2Q2014 and +27 million in 3Q2013). Dividend income stood at 6 million, down on the 11 million recorded in the year-earlier quarter (which had benefited from a one-off item) and down on the 20 million recorded in 2Q2014, the quarter in which dividends are traditionally received. The realised result from available-for-sale assets amounted to 18 million, lower than the average figure of 33 million for the four preceding quarters. It included 11 million in net gains from the sale of shares and 8 million from the sale of bonds. Other net income amounted to 58 million, lower than the 81 million average for the four preceding quarters, because the 3Q2014 figure did not include any significant positive one-off items, unlike the previous quarters.

Costs down slightly quarter-on-quarter

The operating expenses of the Belgium Business Unit totalled 562 million in the quarter under review, down 1% on the previous quarter. This came about primarily because of slightly lower marketing, ICT and staff expenses and the fact that 2Q2014 included 5 million in provisioning for invoices related to the AQR exercise. Compared to the year-earlier quarter, costs also declined by 1%, due primarily to the fact that the year-earlier period had been impacted by costs related to staff transitional arrangements, but this was partly offset by somewhat higher bank taxes, among other things.

The cost/income ratio in the quarter under review amounted to a sound 49%, or 51% year-to-date, as opposed to an excellent 47% in FY2013. Note, however, that the numerator of this ratio included significantly *negative* marked-to-market valuations of ALM derivatives in 9M2014, while the ratio benefited from large *positive* marked-to-market valuations of such derivatives in the corresponding period of 2013. Excluding that item and a number of exceptional items, the 'sustainable' cost/income ratio stood at 48% in 3Q2014 and 49% in 9M2014, compared to the 51% recorded for FY2013.

Impairment up, but still at a low level

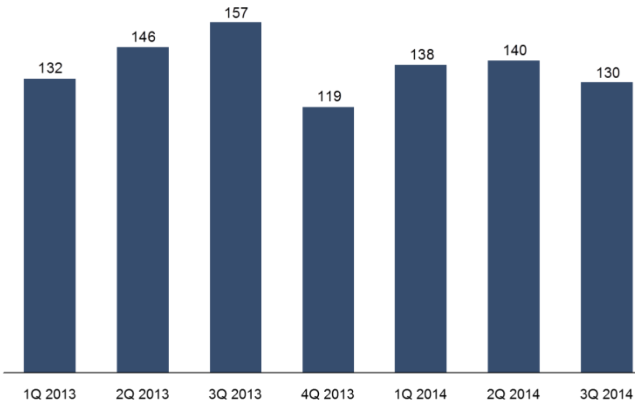
Impairment on loans and receivables (loan loss provisions) amounted to 64 million in 3Q2014, up on the relatively low 34 million and 43 million figures in the previous and year-earlier quarters, respectively. The quarter-on-quarter and year-on-year increase relates mainly to a number of (large) Belgian corporate loans and to the foreign branches of KBC Bank in 3Q2014. Despite this increase, the credit cost ratio for 9M2014 stood at what is still a favourable 20 basis points, an improvement on the 37 basis points recorded in FY2013.

At the end of 3Q2014, some 4.6% of the Belgian loan book was impaired, a slight improvement on the 4.7% recorded at the start of the year. Impaired loans that are more than 90 days overdue (referred to as 'non-performing loans' in previous reports) accounted for 2.5%, the same level as recorded at the start of the year.

All other impairment charges combined totalled 17 million in the quarter under review and related mainly to impairments on the available-for-sale securities in portfolio and to software.

Analysis of the results – Czech Republic Business Unit

Net result – Czech Republic
(in millions of EUR)



The Czech Republic Business Unit includes all of KBC's activities in the Czech Republic. This encompasses the ČSOB group (operating mainly under the brands ČSOB, Era, Postal Savings Bank, Hypoteční banka and ČMSS), the insurance company ČSOB Pojišťovna, ČSOB Asset Management and Patria Finance.

Income statement, Czech Republic Business Unit (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	230	232	230	214	219	220	211	-
Non-life insurance (before reinsurance)	16	3	17	26	16	19	19	-
Earned premiums	*41*	*42*	*43*	*43*	*39*	*41*	*42*	-
Technical charges	*-25*	*-39*	*-27*	*-17*	*-23*	*-21*	*-23*	-
Life insurance (before reinsurance)	7	5	7	6	6	6	6	-
Earned premiums	*48*	*36*	*53*	*61*	*32*	*41*	*51*	-
Technical charges	*-41*	*-30*	*-47*	*-55*	*-26*	*-35*	*-45*	-
Ceded reinsurance result	-1	10	0	-4	-1	-3	-2	-
Dividend income	0	0	0	0	0	0	0	-
Net result from financial instruments at fair value through profit or loss	16	28	24	14	10	13	20	-
Net realised result from available-for-sale assets	7	6	0	4	8	0	0	-
Net fee and commission income	47	43	45	49	45	48	50	-
Other net income	3	2	8	-4	2	8	3	-
Total income	325	330	330	305	303	312	307	-
Operating expenses	-158	-156	-150	-158	-145	-148	-144	-
Impairment	-20	-7	-6	-16	-2	-2	-14	-
on loans and receivables	*-20*	*-8*	*-6*	*-13*	-2	*-2*	*-14*	-
on available-for-sale assets	*0*	*0*	*0*	*0*	0	*0*	*0*	-
on goodwill	*0*	*0*	*0*	*0*	0	*0*	*0*	-
Other	*0*	*0*	*0*	*-3*	0	*0*	*0*	-
Share in results of associated companies and joint ventures	7	7	8	6	6	6	5	-
Result before tax	155	174	183	136	163	167	154	-
Income tax expense	-22	-28	-26	-17	-25	-28	-24	-
Result after tax	132	146	157	119	138	140	130	-
attributable to minority interests	0	0	0	0	0	0	0	-
attributable to equity holders of the parent	**132**	**146**	**157**	**119**	**138**	**140**	**130**	**-**
Banking	128	143	150	109	132	133	123	-
Insurance	5	3	7	10	6	7	7	-
Risk-weighted assets banking (end of period, Basel III)	12 234	13 119	13 164	12 563	12 618	12 453	12 148	-
Required capital insurance (end of period, Solvency I)	72	72	73	69	69	68	67	-
Allocated capital (end of period)	1 349	1 438	1 444	1 378	1 445	1 426	1 393	-
Return on allocated capital (ROAC)	38%	44%	43%	35%	38%	39%	36%	-
Cost/income ratio, banking	48%	46%	45%	52%	47%	47%	46%	-
Combined ratio, non-life insurance	99%	104%	97%	84%	94%	92%	95%	-
Net interest margin, banking	3.31%	3.33%	3.28%	3.09%	3.29%	3.20%	3.12%	-

Note that the 2013 reference figures have been adjusted slightly following the application of the FRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of (until now) the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect the net result, but has an impact on various items in the consolidated income statement.

In the quarter under review, the Czech Republic Business Unit posted a net result of 130 million, somewhat below the 139-million average for the four preceding quarters. Compared with the previous quarter, the results for 3Q2014 featured (on a comparable basis) flat net interest income, lower net fee and commission income, a lack of realised gains on the sale of financial assets, higher net results from financial instruments, a lower level of other income, a solid non-life combined ratio and increased sales of unit-linked life insurance products. Costs declined slightly and loan loss impairment charges were up on the unsustainably low level recorded in the previous quarter. Banking activities accounted for 95% of the net result in the quarter under review, and insurance activities for 5%.

Net interest income flat quarter-on-quarter (on a comparable basis)

Net interest income generated in this business unit amounted to 211 million in the quarter under review. Excluding the effect of the exchange rate (the Czech koruna weakened only marginally during 3Q2014, but has depreciated by 6% on its year-earlier level) and certain changes in the scope of consolidation (mainly the exclusion of a pension fund and the inclusion of Patria Corporate Finance and Patria Online), net interest income was virtually flat quarter-on-quarter but up 1% year-on-year. In both cases, net interest income remained under pressure due to the lower reinvestment yield, though this effect was offset in part by volume growth (loans and current accounts, among other things) and lower interest rates on saving accounts.

Disregarding the FX effect, the group's Czech loan book (16 billion in 'Loans and advances to customers, excluding reverse repos' at 30 September 2014) was up 2% quarter-on-quarter and 6% year-on-year. The latter performance was driven mainly by the growth of mortgage loans and to a lesser extent by loans to SMEs and corporations. The deposit base (21 billion in 'Deposits from customers and debt certificates, excluding repos') was up 1% quarter-on-quarter and 8% year-on-year.

The overall net interest margin of the ČSOB group in the Czech Republic amounted to 312 basis points in the quarter under review, i.e. down 8 and 16 basis points, respectively, on the previous and year-earlier quarters.

Good combined ratio in non-life insurance; increase in sales of unit-linked life products

In the non-life business, premium income stood at 42 million, up 5% quarter-on-quarter and 4% year-on-year (disregarding the FX impact in both cases) thanks mainly to improved sales in the 'motor retail' and 'households' segments. At 23 million, technical charges were up 11% on 2Q2014 (impacted by one large MTPL claim, among other things), but down 6% on 3Q2013 (disregarding the FX impact in both cases). When account is also taken of the impact of reinsurance, earned premiums less technical charges improved slightly on their 2Q2014 (+3%) and 3Q2013 (+2%) levels. The combined ratio for the quarter under review stood at a good 95%. Year-to-date, the 9M2014 combined ratio came to 94%, an improvement on the FY2013 figure of 96%.

In the life business, sales amounted to 51 million in the quarter under review, up on the previous quarter (41 million) and roughly in line with the year-earlier quarter (53 million). The quarter-on-quarter increase was due entirely to higher sales of unit-linked life insurance products (Maximal Invest Life products) and as a consequence, these products accounted for close to three-quarters of life sales in the quarter under review. At the end of September 2014, the outstanding life reserves (including the liabilities under unit-linked products) in this business unit stood at 1 billion, down 11% year-on-year.

Note that the life and non-life insurance results described above only relate to premiums and technical charges. The insurance bottom line is also clearly impacted by investment income, costs, taxes, etc., all of which are analysed from a group perspective (i.e. banking and insurance together) in this section.

Other income components

Net fee and commission income stood at 50 million in the quarter under review, down 6% compared to the previous quarter, but up 6% on its 3Q2013 level (disregarding FX effects and the change in the consolidation scope in both cases). Quarter-on-quarter, the decline was attributable mainly to lower fee income from financial markets activities, somewhat lower account fees and a drop in fees related to mortgage loans, partly offset by higher entry fees on mutual funds. Year-on-year, the increase was accounted for primarily by higher fees in relation to mutual funds and higher loan fees, among other things. Total assets under management in this business unit came to roughly 7 billion at quarter-end, up 6% quarter-on-quarter (5% owing to net entries and 1% due to a positive price effect) and up 14% year-on-year (11% due to net entries and 2% owing to a positive price effect).

Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 20 million, higher than the average figure of 15 million for the four preceding quarters (quarter-on-quarter, the increase is mainly related to less negative marked-to-market valuation of ALM derivatives and improved marked value adjustments). In the quarter under review, there were no realised gains from the sale of available-for-sale assets, as opposed to an average 3 million for the last four quarters. Other net income totalled 3 million in the quarter under review, more or less in line with the 4 million average for the four preceding quarters.

Costs down slightly quarter-on-quarter

The operating expenses of this business unit came to 144 million, a 2% decrease (disregarding FX effects) compared with 2Q2014, thanks mainly to lower ICT, pension and facilities expenses, partly offset by higher staff expenses. Compared to 3Q2013, costs increased by 3% (disregarding FX effects), due primarily to higher staff expenses and ICT costs.

Consequently, the cost/income ratio of the Czech Republic Business Unit came to a good 46%, more or less comparable to the previous quarters, and as a consequence the resultant 9M2014 year-to-date ratio came to 47%, the same level as in FY2013.

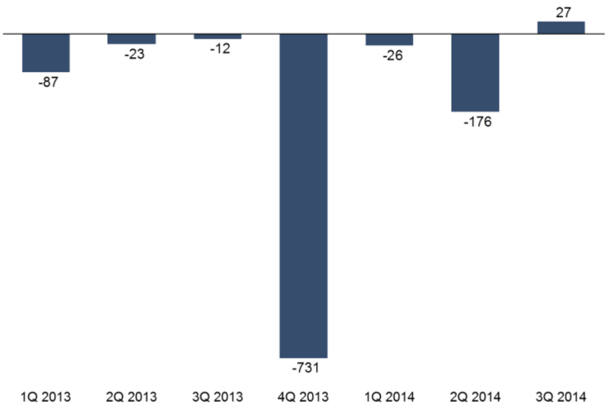
Increased but still low level of loan loss provisions

Impairment on loans and receivables (loan loss provisions) stood at what is still a favourable 14 million in the quarter under review, but was clearly up on the very low (and unsustainable) 2 million recorded in the previous quarter and up on the 6 million recorded in 3Q2013. The quarter under review included 5 million in impairment charges related to forbearance, whereas the reference quarters benefited from loan loss provision releases.

As a result, the 9M2014 credit cost ratio of this business unit amounted to a fine 13 basis points, a further improvement on what was already a good 26 basis points for FY2013. At the end of 3Q2014, some 4.1% of the Czech loan book was impaired, an improvement on the 4.3% recorded at the start of the year. Impaired loans that are more than 90 days overdue (referred to as 'non-performing loans' in previous reports) accounted for 3.0%, as opposed to 3.1% at the start of the year.

There were no impairment charges on assets other than loans and receivables in the quarter under review.

Analysis of the results – International Markets Business Unit



The International Markets Business Unit mainly includes the activities in the other (i.e. non-Czech) Central and Eastern European core markets (ČSOB Bank and ČSOB Poist'ovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, CIBank and DZI Insurance in Bulgaria) and KBC Bank Ireland.

Income statement, International Markets Business Unit (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	155	160	163	155	160	173	175	-
Non-life insurance (before reinsurance)	21	19	20	20	19	19	8	-
Earned premiums	*39*	*38*	*39*	*39*	*37*	*38*	*39*	-
Technical charges	*-18*	*-20*	*-19*	*-18*	*-18*	*-19*	*-31*	-
Life insurance (before reinsurance)	2	0	0	2	1	4	4	-
Earned premiums	*25*	*20*	*18*	*19*	*22*	*22*	*21*	-
Technical charges	*-23*	*-21*	*-18*	*-17*	*-21*	*-19*	*-17*	-
Ceded reinsurance result	-2	-2	-2	-4	-2	-2	7	-
Dividend income	0	0	0	0	0	0	0	-
Net result from financial instruments at fair value through profit or loss	21	22	29	17	25	17	17	-
Net realised result from available-for-sale assets	2	8	2	1	2	7	6	-
Net fee and commission income	41	45	50	68	49	51	54	-
Other net income	2	19	1	-2	0	-227	3	-
Total income	242	272	262	258	253	44	273	-
Operating expenses	-210	-176	-156	-173	-216	-166	-167	-
Impairment	-127	-116	-119	-827	-64	-84	-63	-
on loans and receivables	-117	-114	-118	-821	-64	-84	*-63*	-
on available-for-sale assets	-10	0	0	0	0	0	*0*	-
on goodwill	0	0	0	0	0	0	*0*	-
other	-1	-1	0	-6	0	-1	*0*	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	0	-
Result before tax	-95	-19	-12	-742	-27	-207	43	-
Income tax expense	8	-4	0	11	1	31	-16	-
Result after tax	-87	-23	-12	-731	-26	-176	27	-
attributable to minority interests	0	0	0	0	0	0	0	-
attributable to equity holders of the parent	**-87**	**-23**	**-12**	**-731**	**-26**	**-176**	**27**	**-**
Banking	-82	-29	-17	-735	-33	-182	23	-
Insurance	-6	6	6	4	7	6	4	-
Risk-weighted assets banking (end of period, Basel III)	16 963	16 356	16 110	16 247	18 484	17 506	18 342	-
Required capital insurance (end of period, Solvency I)	43	42	42	44	44	44	44	-
Allocated capital (end of period)	1 772	1 710	1 684	1 702	2 017	1 915	2 003	-
Return on allocated capital (ROAC)	-19%	-5%	-3%	-176%	-5%	-35%	6%	-
Cost/income ratio, banking	88%	65%	59%	67%	88%	-	60%	-
Combined ratio, non-life insurance	87%	98%	97%	103%	89%	99%	105%	-
Net interest margin, banking	2.06%	2.10%	2.11%	2.07%	2.26%	2.46%	2.50%	-

In the quarter under review, the International Markets Business Unit recorded a positive net result of 27 million, a significant improvement on the negative 236-million-average for the four preceding quarters (which had been significantly affected by the additional loan loss provisions for Ireland in 4Q2013 and by the impact of the new retail loans act in Hungary in 2Q2014). Compared to the previous quarter, 3Q2014 was characterised by slightly higher net interest income and strong net fee and commission income, a stable result from financial instruments at fair value and somewhat lower realised gains on bonds and shares, a deterioration in the non-life combined ratio and lower life insurance sales. It should be noted that the previous quarter had been significantly impacted by the new Hungarian act on retail loans. Costs in 3Q2014 were flat, and loan loss provisions fell, mainly in Ireland.

Overall, the banking activities accounted for a net result of 23 million (positive results in Slovakia, Hungary and Bulgaria, but negative in Ireland), while the insurance activities accounted for a net result of 4 million.

Total income significantly up quarter-on-quarter, as the previous quarter had been adversely impacted by the new Hungarian act on retail loans. Furthermore, net interest income and net fee and commission income were up whilst non-life insurance income suffered from higher level of claims.

Net interest income stood at 175 million in 3Q2014, up 1% on 2Q2014 and up 7% on 3Q2013. The year-on-year increase was accounted for mainly by Ireland (lower funding and allocated liquidity costs) and to a lesser extent by Hungary (improved funding structure).

The total loan portfolio of the International Markets Business Unit (21 billion in 'Loans and advances to customers, excluding reverse repos at 30 September 2014) was up slightly (0.4%) quarter-on-quarter and down 5% year-on-year. This year-on-year decline was entirely attributable to Ireland (-12%; matured and impaired loans surpassing new mortgage production and the corporate loan portfolio being deleveraged), which more than offset loan growth in Slovakia (+5%), Hungary (+3%) and Bulgaria (+17%). Customer deposits for the entire business unit (15 billion in 'Deposits from customers and debt certificates, excluding repos') increased by 2% in the quarter under review (mainly in Slovakia and Hungary), and by 1% compared to the situation a year ago (thanks mainly to the successful retail deposit campaign in Ireland).

On a weighted basis, the net interest margin of this business unit amounted to 250 basis points in the quarter under review, up 4 basis points quarter-on-quarter and 39 basis points year-on-year. The net interest margin in 3Q2014 amounted to 315 basis points in Slovakia (down both quarter-on-quarter and year-on-year), 411 basis points in Hungary (up both quarter-on-quarter and year-on-year), 485 basis points in Bulgaria (up quarter-on-quarter but down year-on-year), and 121 basis points in Ireland (up both quarter-on-quarter and year-on-year).

In the non-life business, earned insurance premiums in the quarter under review (which relate solely to Hungary, Slovakia and Bulgaria, as there are no direct insurance activities in Ireland) amounted to 39 million, up 2% on the quarter-earlier figure and down 2% compared to 3Q2013. At 31 million, technical insurance charges in the non-life segment were up significantly (by 59% and 57%) on the previous and year-earlier quarters, respectively, due mainly to Bulgaria (bad weather conditions; largely reinsured). Overall, the non-life combined ratio for the quarter under review deteriorated to 105%, compared with 99% in 2Q2014. Consequently, the ratio came to 97% for 9M2014, compared to the 95% recorded for FY2013. The combined ratio for 9M2014 breaks down into 93% for Hungary, 89% for Slovakia and 103% for Bulgaria.

Life sales, including insurance products not recognised as earned premiums under IFRS, amounted to 25 million in the quarter under review, down 7 million on the level recorded in the previous quarter (due primarily to a decline in Hungary) but up some 4 million on 3Q2013 (increase in Slovakia and Hungary). For the business unit as a whole, sales of unit-linked products accounted for 56% of total life insurance sales in the quarter under review, and interest-guaranteed products for the remainder. At the end of September 2014, the business unit's outstanding life reserves (including the liabilities under unit-linked products) stood at 0.5 billion, up 5% year-on-year.

The other income components totalled 80 million in the quarter under review. This included net fee and commission income of 54 million, up 6% on the previous quarter (increases in every country) and 9% on 3Q2013 (increases in Hungary and Slovakia). Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 17 million, down on the average figure of 22 million for the four preceding quarters. The current quarter includes a negative impact of 7 million related to the marked-to-market valuation of ALM derivatives (versus -7 million in 2Q2014 and no impact in 3Q2013). The net realised result from available-for-sale financial assets amounted to 6 million, and other net income to 3 million, as opposed to -227 million in the previous quarter. That quarter had included the impact of a 231-million-pre-tax provision for the new Hungarian act on retail loans, i.e. the so-called 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions'.

Costs flat quarter-on-quarter

Operating expenses in the quarter under review amounted to 167 million, flat on the previous quarter and up 7% compared to a year ago. This increase was accounted for almost entirely by Ireland (an increasing number of FTEs due to recruitment related to the retail programme and for the arrears support unit, among other things) and by Slovakia (higher staff expenses, ICT and marketing costs, etc.).

As a consequence, the cost/income ratio for the business unit as a whole stood at 60% in the quarter under review, or 100% for the first nine months of the year (the latter figure is relatively high, as the second quarter had been hit by the impact of the new retail loans act in Hungary), compared to 69% for FY2013. Excluding the main exceptional items, the 'sustainable' ratio would have been 66% in 9M2014, as opposed to 68% in FY2013. The 9M2014 cost/income ratio of 100% breaks down as follows per country: 97% for Ireland, 62% for Slovakia, 158% for Hungary (including the impact of the new retail loans act in 2Q2014; 62% on a sustainable basis) and 63% for Bulgaria.

Loan loss provisioning down, due mainly to Ireland

Impairment on loans and receivables (loan loss provisions) amounted to 63 million, an improvement on the 84 million recorded in 2Q2014 and the 118 million recorded in 3Q2013. The 3Q2014 figure includes 47 million for Ireland (lower than the 62 million recorded in 2Q2014 and the 98 million recorded in 3Q2013), and 3 million in loan loss provisions for Slovakia, 11 million for Hungary and 2 million for Bulgaria.
Consequently, the 9M2014 credit cost ratio for the entire business unit improved to 109 basis points, down from a high 448 basis points for FY2013. Broken down by country, it was 140 basis points for Ireland (672 basis points in FY2013), 92 basis points for Hungary (150 basis points in FY2013), 34 basis points for Slovakia (60 basis points in FY2013) and 119 basis points for Bulgaria (119 basis points for FY2013). At the end of 3Q2014, some 35% of the business unit's loan book was impaired, slightly up on the 33% recorded at the start of the year. Impaired loans that are more than 90 days overdue (referred to as 'non-performing loans' in previous reports) account for 20%, as opposed to 19.2% at the start of the year. The business unit's 3Q2014 figure continues to be impacted by the high impaired loans ratio for Ireland (impaired loans: 53%, 28% of which more than 90 days overdue).

There were no impairment charges on assets other than on loans and receivables for this business unit in the quarter under review.

Highlights per country (compared with 2Q2014, unless otherwise indicated)

The net result of the International Markets Business Unit (27 million) breaks down as follows: 20 million for Slovakia, 39 million for Hungary, 3 million for Bulgaria and -36 million for Ireland. A detailed results table and brief comments per country are provided below.

IRELAND Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	35	33	32	24	31	38	39	-
Non-life insurance (before reinsurance)	0	0	0	0	0	0	0	-
Earned premiums	*0*	*0*	*0*	*0*	*0*	*0*	*0*	-
Technical charges	*0*	*0*	*0*	*0*	*0*	*0*	*0*	-
Life insurance (before reinsurance)	0	0	0	0	0	0	0	-
Earned premiums	*0*	*0*	*0*	*0*	*0*	*0*	*0*	-
Technical charges	*0*	*0*	*0*	*0*	*0*	*0*	*0*	-
Ceded reinsurance result	0	0		0	0	0	0	-
Dividend income	0	0	0	0	0	0	0	-
Net result from financial instruments at fair value through profit or loss	-3	0	0	-3	0	-6	-2	-
Net realised result from available-for-sale assets	0	1	0	0	0	0	0	-
Net fee and commission income	-1	-2	0	-2	-1	-1	0	-
Other net income	0	0	0	0	0	0	0	-
Total income	32	31	32	19	30	31	37	-
Operating expenses	-21	-22	-25	-35	-29	-33	-33	-
Impairment	-99	-88	-98	-773	-48	-62	-47	-
on loans and receivables	-99	-88	-98	-773	-48	-62	-47	-
on available-for-sale assets	0	0	0	0	0	0	0	-
on goodwill	0	0	0	0	0	0	0	-
Other	0	0	0	0	0	0	0	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	0	-
Result before tax	-88	-79	-92	-789	-47	-64	-43	-
Income tax expense	11	10	11	23	7	6	7	-
Result after tax	-77	-69	-80	-766	-40	-57	-36	-
attributable to minority interests	0	0	0	0	0	0	0	-
attributable to equity holders of the parent	**-77**	**-69**	**-80**	**-766**	**-40**	**-57**	**-36**	**-**
Banking	-77	-69	-80	-766	-40	-57	-36	-
Insurance	0	0	0	0	0	0	0	-
Risk-weighted assets banking (end of period, Basel III)	7 653	7 248	6 952	7 357	6 558	5 650	5 641	-
Required capital insurance (end of period, Solvency I)	0	0	0	0	0	0	0	-
Allocated capital (end of period)	765	725	695	736	689	593	592	-
Return on allocated capital (ROAC)	-39%	-36%	-45%	-444%	-22%	-34%	-25%	-
Cost/income ratio, banking	65%	69%	79%	183%	98%	106%	88%	-
Combined ratio, non-life insurance	-	-	-	-	-	-	-	-

- The net result in 3Q2014 was -36 million euros, compared to an average figure of -236 million for the four preceding quarters (clearly impacted by the high loss recorded in 4Q2013).
- Total income (37 million) increased by 20% quarter-on-quarter, due mainly to slightly higher net interest income, and the fact that the previous quarter had been negatively impacted by a one-off item.
- Costs (33 million) were flat compared with the previous quarter. The 9M2014 cost/income ratio stood at 97%, compared with 90% for FY2013.
- Loan loss impairment (47 million) was lower than the 62 million recorded in 2Q2014. The 3Q2014 figure breaks down into 31 million for corporate loans (up slightly on 2Q2014) and 16 million for retail loans (down significantly on 2Q2014). The credit cost ratio amounted to 140 basis points in 9M2014.

HUNGARY Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	64	69	68	68	68	72	72	-
Non-life insurance (before reinsurance)	7	7	7	5	7	6	6	-
Earned premiums	*14*	*15*	*16*	*14*	*13*	*14*	*14*	-
Technical charges	*-7*	*-8*	*-8*	*-9*	*-6*	*-8*	*-8*	-
Life insurance (before reinsurance)	-1	-4	-3	-2	-2	-1	0	-
Earned premiums	*3*	*3*	*3*	*4*	*3*	*4*	*3*	-
Technical charges	*-5*	*-7*	*-7*	*-5*	*-6*	*-5*	*-3*	-
Ceded reinsurance result	0	-1	-1	-1	-1	-1	0	-
Dividend income	0	0	0	0	0	0	0	-
Net result from financial instruments at fair value through profit or loss	18	18	25	16	20	20	14	-
Net realised result from available-for-sale assets	2	5	0	0	1	7	6	-
Net fee and commission income	30	34	37	58	38	40	41	-
Other net income	2	13	0	-4	1	-228	1	-
Total income	121	141	134	141	132	-84	140	-
Operating expenses	-130	-97	-73	-78	-128	-74	-73	-
Impairment	-11	-11	-13	-43	-12	-13	-11	-
on loans and receivables	-10	-10	-12	-43	-11	-13	-11	-
on available-for-sale assets	0	0	0	0	0	0	0	-
on goodwill	0	0	0	0	0	0	0	-
Other	-1	-1	0	0	0	-1	0	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	0	-
Result before tax	-20	33	48	20	-8	-171	56	-
Income tax expense	1	-7	-5	-4	0	32	-17	-
Result after tax	-19	26	43	16	-8	-139	39	-
attributable to minority interests	0	0	0	0	0	0	0	-
attributable to equity holders of the parent	**-19**	**26**	**43**	**16**	**-8**	**-139**	**39**	**-**
Banking	-22	24	41	15	-11	-141	37	-
Insurance	3	2	2	1	3	2	2	-
Risk-weighted assets banking (end of period, Basel III)	4 919	4 759	4 827	4 434	7 562	7 440	8 263	-
Required capital insurance (end of period, Solvency I)	13	13	12	14	14	14	14	-
Allocated capital (end of period)	515	499	504	469	818	806	892	-
Return on allocated capital (ROAC)	-14%	20%	34%	13%	-5%	-69%	18%	-
Cost/income ratio, banking	112%	70%	55%	54%	100%	-	52%	-
Combined ratio, non-life insurance	82%	100%	95%	120%	82%	102%	100%	-

- The net result in 3Q2014 was a positive 39 million euros, up on the negative 22 million average for the four preceding quarters (which included a large provision in 2Q1014 for the new Hungarian act on retail loans).
- Total income (140 million) was up 223 million quarter-on-quarter, due to the fact that the previous quarter had suffered from the booking (under 'Other net income') of the provision for the new Hungarian act on retail loans (pre-tax impact in 2Q2014 of -231 million, and post-tax impact of -183 million: see press release of 8 July 2014 at www.kbc.com). That aside, total income in 3Q2014 was characterised by stable net interest income and net fee and commission income, and a decrease in trading income and realised gains on available-for-sale assets. The 9M2014 combined ratio for non-life insurance stood at 93%, compared with 97% in FY2013. Life insurance sales fell, due mainly to a decrease in the sale of unit-linked life insurance products.
- Costs (73 million) were more or less flat compared to 2Q2014. The 9M2014 cost/income ratio stood at 158%. Excluding the impact of the new act on retail loans in 2Q2014 and a number of minor unsustainable items, the 'sustainable' 9M2014 cost/income ratio came to 62%, compared with 69% in FY2013.
- Loan loss impairment (11 million) was down 2 million on the previous quarter, with a drop in the retail (mortgage) book being partly offset by higher loan loss provisioning for corporations. The credit cost ratio amounted to 92 basis points in 9M2014.
- Note: the increase in RWA since the start of 2014 is related to the carve-out for home country government bonds being abolished.

SLOVAKIA Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	46	49	52	52	51	53	53	-
Non-life insurance (before reinsurance)	5	5	6	6	4	5	5	-
Earned premiums	*6*	*6*	*7*	*7*	*7*	*7*	*7*	-
Technical charges	*-1*	*-1*	*-1*	*0*	*-2*	*-2*	*-3*	-
Life insurance (before reinsurance)	3	2	2	3	3	3	3	-
Earned premiums	*16*	*14*	*12*	*12*	*13*	*15*	*14*	-
Technical charges	*-14*	*-11*	*-9*	*-9*	*-11*	*-12*	*-11*	-
Ceded reinsurance result	0	0	0	-1	0	0	0	-
Dividend income	0	0	0	0	0	0	0	-
Net result from financial instruments at fair value through profit or loss	6	4	5	4	4	3	3	-
Net realised result from available-for-sale assets	0	3	0	0	1	0	0	-
Net fee and commission income	11	11	11	11	11	11	12	-
Other net income	2	6	1	1	-1	1	1	-
Total income	72	81	76	76	73	76	76	-
Operating expenses	-46	-44	-44	-46	-46	-45	-47	-
Impairment	-4	-15	-7	-5	-4	-6	-3	-
on loans and receivables	-4	-14	-7	-2	-4	-6	-3	-
on available-for-sale assets	0	0	0	0	0	0	0	-
on goodwill	0	0	0	0	0	0	0	-
other	0	0	0	-3	0	0	0	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	0	-
Result before tax	23	23	25	25	23	24	26	-
Income tax expense	-5	-6	-6	-8	-6	-7	-6	-
Result after tax	17	16	19	17	18	17	20	-
attributable to minority interests	0	0	0	0	0	0	0	-
attributable to equity holders of the parent	**17**	**16**	**19**	**17**	**18**	**17**	**20**	**-**
Banking	15	14	17	15	15	15	18	-
Insurance	3	2	3	2	3	2	2	-
Risk-weighted assets banking (end of period, Basel III)	3 780	3 715	3 689	3 776	3 725	3 772	3 745	-
Required capital insurance (end of period, Solvency I)	15	15	15	15	15	15	15	-
Allocated capital (end of period)	403	397	395	404	417	422	419	-
Return on allocated capital (ROAC)	17%	16%	19%	17%	17%	17%	19%	-
Cost/income ratio, banking	64%	54%	58%	61%	64%	60%	62%	-
Combined ratio, non-life insurance	65%	77%	81%	83%	82%	89%	97%	-

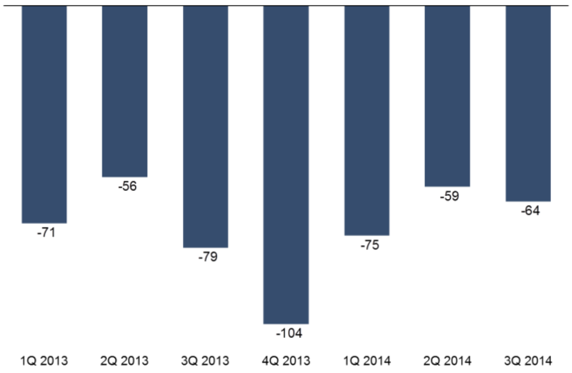
- The net result in 3Q2014 totalled 20 million euros, somewhat higher than the 18 million average for the four preceding quarters.
- Total income (76 million) was roughly flat quarter-on-quarter, with net fee and commission income up and only minor changes occurring in the other income lines. The 9M2014 combined ratio for non-life insurance stood at 89%, compared with 76% for FY2013. Life sales (including unit-linked products) were virtually unchanged on their level for 2Q2014, with unit-linked products accounting for two-thirds of total life sales.
- Costs (47 million) were up 4% quarter-on-quarter, owing mainly to higher staff costs and higher ICT expenses. The 9M2014 cost/income ratio stood at 62%, as opposed to 59% for FY2013.
- Loan loss impairment charges (3 million) were at a modest level in the quarter under review, down 3 million on the previous quarter. The credit cost ratio amounted to 34 basis points in 9M2014.

BULGARIA Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	10	10	10	11	10	10	11	-
Non-life insurance (before reinsurance)	8	7	7	9	8	8	-3	-
Earned premiums	*18*	*18*	*17*	*18*	*17*	*18*	*18*	-
Technical charges	*-10*	*-11*	*-10*	*-9*	*-10*	*-10*	*-20*	-
Life insurance (before reinsurance)	1	1	1	1	1	1	1	-
Earned premiums	*5*	*3*	*3*	*4*	*5*	*4*	*3*	-
Technical charges	*-4*	*-2*	*-2*	*-3*	*-4*	*-2*	*-2*	-
Ceded reinsurance result	-1	-1	-1	-1	-1	-1	8	-
Dividend income	0	0	0	0	0	0	0	-
Net result from financial instruments at fair value through profit or loss	0	0	0	0	0	0	1	-
Net realised result from available-for-sale assets	1	0	1	1	0	0	0	-
Net fee and commission income	0	0	1	0	0	0	1	-
Other net income	-2	1	0	0	0	0	0	-
Total income	16	18	20	21	18	19	19	-
Operating expenses	-13	-13	-13	-14	-12	-13	-13	-
Impairment	-13	-2	-1	-6	-1	-3	-2	-
on loans and receivables	-4	-2	-1	-2	-1	-3	-2	-
on available-for-sale assets	-10	0	0	0	0	0	0	-
on goodwill	0	0	0	0	0	0	0	-
Other	0	0	0	-3	0	0	0	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	0	-
Result before tax	-10	4	6	1	5	3	3	-
Income tax expense	1	0	0	0	0	0	0	-
Result after tax	-9	3	6	1	5	3	3	-
attributable to minority interests	0	0	0	0	0	0	0	-
attributable to equity holders of the parent	**-9**	**3**	**6**	**1**	**5**	**3**	**3**	**-**
Banking	2	2	5	0	4	1	3	-
Insurance	-11	1	1	1	1	2	0	-
Risk-weighted assets banking (end of period, Basel III)	595	620	627	668	626	632	680	-
Required capital insurance (end of period, Solvency I)	15	15	15	15	15	15	15	-
Allocated capital (end of period)	86	88	88	93	92	92	98	-
Return on allocated capital (ROAC)	-40%	16%	27%	5%	21%	13%	15%	-
Cost/income ratio, banking	57%	67%	61%	61%	64%	65%	60%	-
Combined ratio, non-life insurance	101%	103%	104%	97%	99%	99%	112%	-

- The net result in 3Q2014 came to 3 million, down slightly on the 4 million average for the four preceding quarters.
- Total income (19 million) was down 3% on the previous quarter. Whereas net interest income and net fee and commission income increased, the non-life insurance technical result fell due to higher claims (weather related), but was largely offset by reinsurance. Consequently, the 9M214 non-life combined ratio amounted to 103%, compared with 101% for FY2013. Total life insurance sales were down roughly a quarter on their level for 2Q2014.
- Costs (13 million) were more or less flat quarter-on-quarter. The 9M2014 cost/income ratio stood at 63%, compared with 61% for FY2013.
- Loan loss impairment charges stood at 2 million, down on the 3 million recorded in 2Q2014. The credit cost ratio amounted to 119 basis points in 9M2014.

Analysis of the results – Group Centre

Adjusted net result – Group Centre
(in millions of EUR)



The Group Centre 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 remaining companies or activities that are earmarked for divestment or are in run-down, and the elimination of intersegment transactions. It also includes results related to the legacy businesses (CDOs, divestment results) and the valuation of own credit risk.

Income statement, Group Centre (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Adjusted net result (i.e. excluding legacy and own credit risk impact)								
Net interest income	-24	-57	-63	-52	-73	-43	-10	-
Non-life insurance (before reinsurance)	-4	-3	-3	-5	-4	-3	-1	-
Earned premiums	-8	-4	-3	-5	-5	-4	-4	-
Technical charges	4	1	1	0	1	0	3	-
Life insurance (before reinsurance)	0	1	0	1	0	0	0	-
Earned premiums	4	5	5	5	0	0	0	-
Technical charges	-3	-3	-5	-4	0	0	0	-
Ceded reinsurance result	1	0	2	2	3	2	0	-
Dividend income	0	0	0	0	0	1	0	-
Net result from financial instruments at fair value through profit or loss	45	4	10	3	2	12	-14	-
Net realised result from available-for-sale assets	2	1	0	9	-1	9	3	-
Net fee and commission income	2	10	5	7	7	6	4	-
Other net income	5	-2	18	0	8	-9	0	-
Total income	28	-44	-30	-36	-59	-24	-19	-
Operating expenses	-79	-39	-33	-61	-49	-45	-25	-
Impairment	-46	-12	-18	-46	-3	-11	-25	-
on loans and receivables	-18	-11	-17	-40	-3	-11	-24	-
on available-for-sale assets	-1	-1	-1	-1	0	-1	1	-
on goodwill	-7	0	0	0	0	0	0	-
Other	-20	0	0	-5	0	0	0	-
Share in results of associated companies and joint ventures	0	0	0	0	1	1	1	-
Result before tax	-97	-95	-81	-143	-110	-80	-68	-
Income tax expense	29	42	6	42	34	21	4	-
Result after tax	-68	-53	-75	-101	-75	-59	-64	-
attributable to minority interests	3	4	4	4	0	0	0	-
attributable to equity holders of the parent	**-71**	**-56**	**-79**	**-104**	**-75**	**-59**	**-64**	**-**
Banking	17	-44	-49	-60	-46	-25	-40	-
Insurance	-11	-1	-7	-3	-1	-2	-3	-
Group	-78	-12	-23	-41	-28	-32	-21	-
Legacy – gains/losses on CDOs	165	180	34	65	16	30	-24	-
Legacy – divestments	22	-128	-231	-10	-9	8	132	-
MTM of own credit risk	-26	-20	12	-9	2	-8	6	-
Net result	90	-24	-264	-58	-65	-30	50	
Risk-weighted assets banking (end of period, Basel III)	16 813	13 141	12 189	11 031	11 145	11 814	7 256	-
Risk-weighted assets, insurance (end of period, Basel III Danish compromise)	11 068	11 068	11 068	11 068	11 068	11 068	11 068	-
Required capital insurance (end of period, Solvency I)	16	15	9	4	2	2	2	-
Allocated capital (end of period)	1 709	1 341	1 234	1 111	1 174	1 244	766	-

The Group Centre's net result amounted to 50 million in 3Q2014. As stated earlier, this entity includes not only a number of group items and the results of companies earmarked for divestment, but also the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk. Excluding the legacy business and own credit risk impact, the adjusted net result amounted to -64 million in 3Q2014.

Legacy and own credit risk:

- Following the run-down of the remaining legacy CDO portfolio, the net impact of this *legacy* item amounted to a limited -24 million (mainly related to the collapse of the last two CDOs in portfolio). The impact of the legacy divestments came to a positive 132 million, the largest part of which related to Antwerp Diamond Bank (due to the fact that the previously agreed sale did not go through and was replaced by a run-down of activities, previously booked impairments could be reversed). The impact of the marked-to-market valuation of own credit risk (changes in the fair value of own debt instruments) was limited in the quarter under review (a positive 6 million,versus -8 million in the previous quarter), owing primarily to credit spreads widening on KBC (Ifima) subordinated debt.

Other results

- Accounted for a total of -64 million in 3Q2014. This item includes:
  - the operating expenses of the group activities (-5 million in total, an improvement on the previous quarter, mainly caused by seasonal effects);
  - certain capital and liquidity management-related costs (for the purpose of reaching solvency and liquidity targets at group level, such as the subordination cost of subordinated loans: -3 million in total, an improvement on the previous quarter thanks to the lower cost of subordinated debt after most of the classic tier-1 perpetuals had been called for redemption over the previous few months, among other things);
  - costs related to the holding of participations (mainly funding and hedging costs): -35 million in total, compared to -26 million in the previous quarter;
  - the results of the remaining companies or activities earmarked for divestment or in run-down (KBC Bank Deutschland, Antwerp Diamond Bank, KBC Finance Ireland, etc.: -17 million in total, compared to -8 million in the previous quarter, accounted for mainly by higher loan loss impairment at KBC Finance Ireland);
  - and -4 million in other items.

KBC Group

Consolidated financial statements according to IFRS 3Q 2014 and 9M 2014

Reviewed by the auditors

Consolidated income statement

In millions of EUR	Note	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
Net interest income	3	1 014	1 056	1 120	3 069	3 185
Interest income		2 037	1 971	2 010	6 276	5 911
Interest expense		- 1 023	- 915	- 890	- 3 207	- 2 726
Non-life insurance before reinsurance	9	145	102	139	409	389
Earned premiums Non-life		321	315	321	942	944
Technical charges Non-life		- 176	- 214	- 183	- 533	- 555
Life insurance before reinsurance	9	- 63	- 56	- 57	- 185	- 171
Earned premiums Life		238	297	299	750	904
Technical charges Life		- 302	- 353	- 355	- 936	- 1 075
Ceded reinsurance result	9	1	19	4	2	6
Dividend income		14	24	9	39	47
Net result from financial instruments at fair value through profit or loss	5	223	44	34	962	118
Net realised result from available-for-sale assets	6	34	49	28	223	128
Net fee and commission income	7	337	387	402	1 107	1 163
Fee and commission income		507	533	579	1 704	1 668
Fee and commission expense		- 170	- 147	- 177	- 596	- 505
Net other income	8	51	- 99	73	107	26
TOTAL INCOME		1 754	1 526	1 752	5 733	4 892
Operating expenses		- 918	- 933	- 923	- 2 875	- 2 829
Staff expenses		- 584	- 559	- 559	- 1 754	- 1 675
General administrative expenses		- 267	- 311	- 298	- 919	- 962
Depreciation and amortisation of fixed assets		- 67	- 63	- 65	- 202	- 193
Impairment	14	- 362	- 142	- 58	- 987	- 313
on loans and receivables		- 230	- 136	- 190	- 777	- 429
on available-for-sale assets		- 8	- 3	- 6	- 24	- 14
on goodwill		0	0	0	- 7	0
on other		- 125	- 3	139	- 179	130
Share in results of associated companies and joint ventures		9	7	6	24	19
RESULT BEFORE TAX		483	457	777	1 895	1 769
Income tax expense		- 207	- 140	- 186	- 575	- 464
Net post-tax result from discontinued operations		0	0	0	0	0
RESULT AFTER TAX		276	317	591	1 319	1 305
Attributable to minority interest		4	0	0	10	0
of which relating to discontinued operations		*0*	*0*	*0*	*0*	*0*
Attributable to equity holders of the parent		**272**	**317**	**591**	**1 309**	**1 305**
of which relating to discontinued operations		*0*	*0*	*0*	*0*	*0*
Earnings per share (in EUR)						
Basic		-0.75	0.63	1.28	1.74	2.35
Diluted		-0.75	0.63	1.28	1.74	2.35

Due to the application of IFRS 11 as from 1 January 2014, the reference figures of the consolidated income statement have been restated to account for the different treatment of the joint venture ČMSS in the Czech Business Unit (from proportionate consolidation to equity method - for more information see note 1a).

Consolidated statement of comprehensive income (condensed)

In millions of EUR	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
RESULT AFTER TAX	276	317	591	1 319	1 305
attributable to minority interest	4	0	0	10	0
attributable to equity holders of the parent	272	317	591	1 309	1 305
Other comprehensive income - to be recycled to P&L					
Net change in revaluation reserve (AFS assets) - Equity	41	18	6	34	- 13
Net change in revaluation reserve (AFS assets) - Bonds	2	234	151	- 290	552
Net change in revaluation reserve (AFS assets) - Other	0	- 1	1	0	0
Net change in hedging reserve (cash flow hedge)	52	- 192	- 210	308	- 583
Net change in translation differences	- 14	13	67	- 44	67
Other movements	1	0	0	2	0
Other comprehensive income - not to be recycled to P&L					
Net change in defined benefit plans	6	- 23	- 67	2	- 110
TOTAL COMPREHENSIVE INCOME	364	365	538	1 332	1 218
attributable to minority interest	4	0	0	10	0
attributable to equity holders of the parent	360	365	538	1 322	1 217

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2013	30-09-2014
Cash and cash balances with central banks		4 294	8 245
Financial assets	18 - 26	222 887	235 087
Held for trading		16 885	13 032
Designated at fair value through profit or loss		16 441	18 850
Available for sale		27 307	30 958
Loans and receivables		130 153	140 118
Held to maturity		31 323	31 067
Hedging derivatives		777	1 062
Reinsurers' share in technical provisions		146	183
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		120	163
Tax assets		1 723	1 779
Current tax assets		242	127
Deferred tax assets		1 481	1 653
Non-current assets held for sale and assets associated with disposal groups		3 769	24
Investments in associated companies and joint ventures		182	196
Investment property		598	580
Property and equipment		2 457	2 254
Goodwill and other intangible assets		1 277	1 266
Other assets		1 233	1 834
TOTAL ASSETS		238 686	251 612

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2013	30-09-2014
Financial liabilities	18 - 26	199 421	212 012
Held for trading		13 119	9 428
Designated at fair value through profit or loss		24 931	28 499
Measured at amortised cost		159 693	171 234
Hedging derivatives		1 678	2 852
Technical provisions, before reinsurance		18 701	19 065
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 2	137
Tax liabilities		518	717
Current tax liabilities		109	144
Deferred tax liabilies		409	573
Liabilities associated with disposal groups		2 027	0
Provisions for risks and charges		523	721
Other liabilities		2 983	2 722
TOTAL LIABILITIES		224 172	235 375
Total equity	39	14 514	16 237
Parent shareholders' equity	39	11 826	12 840
Non-voting core-capital securities	39	2 333	2 000
Additional Tier-1 instruments included in equity	39	0	1 400
Minority interests		354	- 3
TOTAL LIABILITIES AND EQUITY		238 686	251 612

Due to the application of IFRS 11 as from 1 January 2014, the reference figures of the consolidated balance sheet have been restated to account for the different treatment of the joint venture ČMSS in the Czech Business Unit (from proportionate consolidation to equity method - for more information see note 1a).

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)	Remeasurement of defined benefit obligations	Reserves	Translation differences	Parent share-holders' equity	Non-voting core-capital securities	Additional Tier-1 instruments included in equity	Minority interests	Total equity
30-09-2013													
Balance at the beginning of the period (31-12-2012)	1 450	5 388	- 1	1 263	- 834	0	5 192	- 360	12 099	3 500	0	362	15 961
First time application IAS19 Revised	0	0	0	0	0	- 71	- 11	0	- 82	0	0	0	- 82
Adjusted balance at the beginning of the period	1 450	5 388	- 1	1 263	- 834	- 71	5 182	- 360	12 017	3 500	0	362	15 879
Net result for the period	0	0	0	0	0	0	1 309	0	1 309	0	0	10	1 319
Other comprehensive income for the period	0	1	0	- 255	308	2	1	- 44	13	0	0	0	13
Total comprehensive income	**0**	**1**	**0**	**- 255**	**308**	**2**	**1 310**	**- 44**	**1 322**	**0**	**0**	**10**	**1 332**
Dividends	0	0	0	0	0	0	- 961	0	- 961	0	0	0	- 961
Capital increase	0	0	0	0	0	0	0	0	0	0	0	0	0
Repayment of non-voting core-capital securities	0	0	0	0	0	0	- 583	0	- 583	- 1 167	0	0	- 1 750
Sales of treasury shares	0	0	1	0	0	0	0	0	1	0	0	0	1
Impact business combinations	0	0	0	0	0	0	- 2	0	- 2	0	0	0	- 2
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	- 14	- 14
Change in scope	0	0	0	0	0	0	0	102	102	0	0	- 4	97
Total change	**0**	**1**	**1**	**- 255**	**308**	**2**	**- 237**	**58**	**- 122**	**- 1 167**	**0**	**- 8**	**- 1 297**
Balance at the end of the period	**1 450**	**5 390**	**0**	**1 008**	**- 526**	**- 70**	**4 945**	**- 302**	**11 895**	**2 333**	**0**	**354**	**14 582**
of which revaluation reserve for shares				240									
of which revaluation reserve for bonds				768									
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				4	1	0		- 38	- 33				
30-09-2014													
Balance at the beginning of the period (31-12-2013)	1 452	5 404	0	1 094	- 497	65	4 648	- 340	11 826	2 333	0	354	14 514
Net result for the period	0	0	0	0	0	0	1 305	0	1 305	0	0	0	1 305
Other comprehensive income for the period	0	0	0	538	- 583	- 110	0	67	- 88	0	0	0	- 88
Total comprehensive income	**0**	**0**	**0**	**538**	**- 583**	**- 110**	**1 305**	**67**	**1 217**	**0**	**0**	**0**	**1 218**
Dividends	0	0	0	0	0	0	- 28	0	- 28	0	0	0	- 28
Capital increase	0	0	0	0	0	0	0	0	0	0	0	0	0
Repayment of non-voting core-capital securities	0	0	0	0	0	0	- 167	0	- 167	- 333	0	0	- 500
Issue of additional Tier-1 instruments included in equity	0	0	0	0	0	0	- 6	0	- 6	0	1 400	0	1 394
Impact business combinations	0	0	0	0	0	0	- 2	0	- 2	0	0	0	- 2
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	0	0	0	0	0	- 358	- 358
Total change	**0**	**0**	**0**	**538**	**- 583**	**- 110**	**1 102**	**67**	**1 014**	**- 333**	**1 400**	**- 358**	**1 723**
Balance at the end of the period	**1 452**	**5 404**	**0**	**1 632**	**- 1 080**	**- 45**	**5 750**	**- 273**	**12 840**	**2 000**	**1 400**	**- 3**	**16 237**
of which revaluation reserve for shares				309									
of which revaluation reserve for bonds				1 322									
of which revaluation reserve for other assets than bonds and shares				0									
of which relating to equity method				20	0	0		1	21				

The changes in equity do not include any dividend or coupon for 2013 as none is paid out. For 2014, KBC foresees a dividend of up to 2 euros per share. On 8 January 2014, KBC repaid 0.33 billion euros (plus a penalty of 50% or 0.17 billion euros) worth of core-capital securities to the Flemish Regional Government.
In 1Q 2014, the placement of an additional tier-1 instrument for an amount of 1.4 billion euros positively contributed to the total equity. The quarterly coupon on this additional tier-1 instrument is presented as dividend (total -28 million euros after tax in 2Q and 3Q 2014 combined).
During 2Q 2014, KBC executed a call on all of its Trust preferred securities which negatively influences the minority interests in equity for an amount of approximately -358 million euros.
In 9M 2014, revaluation reserves (AFS assets) increased by 538 million euros mainly due to decreasing interest rates which positively contributed to reserves on bonds to the tune of 551 million euros (of which 151 million euros in 3Q 2014). This was offset by a slightly negative impact on reserves on shares to the tune of -14 million euros. A negative effect, also for a large part linked to decreasing interest rates, of -583 million euros (of which -211 million euros in 3Q 2014) was noted on hedging reserves (cashflow hedges).

Condensed consolidated cash flow statement

In millions of EUR	9M 2013	9M 2014
Net cash from (used in) operating activities	14 733	10 086
Net cash from (used in) investing activities	- 2 849	540
Net cash from (used in) financing activities	- 1 534	- 6 461
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	10 350	4 166
Cash and cash equivalents at the beginning of the period	982	8 803
Effects of exchange rate changes on opening cash and cash equivalents	- 106	- 22
Cash and cash equivalents at the end of the period	11 226	12 947

On 8 January 2014, KBC repaid 0.33 billion euros principal (plus a penalty of 50% or 0.17 billion euros) to the Flemish Regional Government. This has had an influence in the first quarter of 2014 on the net cash from financing activities to the tune of -0.5 billion euros.
Also in the first quarter of 2014, the issue of an additional tier-1 instrument in March 2014 has had an influence on the net cash from financing activities to the tune of +1.4 billion euros. However, maturing senior unsecured debt and subordinated debt, more than counterbalanced this positive influence.

During the second quarter of 2014 a number of subordinated instruments were called which led to a negative impact of approximately -2.3 billion euros on net cash from financing activities.

The decision not to sell, but to wind down Antwerp Diamond Bank (ADB) (decided on 19 September 2014) has had no significant effect on cash flows at the level of KBC Group and neither did the closure of the sale of KBC Bank Deutschland (closed at 30 September 2014).

Notes on statement of compliance and changes in accounting policies

Statement of compliance (note 1a in the annual accounts 2013)

The consolidated financial statements of the KBC Group have been prepared in accordance with the International Financial Reporting Standards (IAS 34) as adopted for use in the European Union (‘endorsed IFRS’). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2013.

IFRS 10, 11 and 12 are the new consolidation standards that became effective in the European Union on or after 1 January 2014. IFRS 10 includes a new definition of control, which could, but at KBC did not lead to changes in the scope of consolidation. Under IFRS 11 (Joint Arrangements), it is specified that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities (the new name for Special Purpose Entities).The main change for KBC is the application of the equity method instead of proportionate consolidation for Českomoravská Stavební Spořitelna (ČMSS), a jointly owned subsidiary of ČSOB. This change does not affect the result after tax or parent shareholders’ equity, but it has an impact on various items in the consolidated income statement and balance sheet. The disclosure requirements will be added to the annual report for 2014.

IFRIC 21 (Levies) was endorsed by the European Union in June 2014 with application date as from 1 January 2015 and with retroactive application. As a result KBC may have to restate its comparable quarterly figures for 2014 (relates solely to movements between quarters and has no impact on the figures for the full year). The main consequence of the application of IFRIC 21 in 2015 will be that certain levies will need to be taken upfront which will negatively impact the first quarter results in 2015.

Summary of significant accounting policies (note 1b in the annual accounts 2013)

A summary of the main accounting policies is provided in the Group’s annual financial statements as at 31 December 2013.

Notes on segment reporting

Segment reporting according to the management structure of the group (note 2a in the annual accounts 2013)

KBC is structured and managed according to a number of segments (called 'business units'). For reporting purposes, the business units are:

- the Belgium Business Unit (all activities in Belgium)
- the Czech Republic Business Unit (all activities in the Czech Republic)
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria)
- the Group Centre (results of the holding company, certain items that are not allocated to the business units, results of companies to be divested, and the legacy and own credit risk impact (see below)).

Up until 1 May 2014, the management structure of the group also included an International Product Factories Business Unit. From 1 May 2014 onward, this is merged with the International Markets Business Unit. The results of the activities of the former International Product Factories Business Unit have always been and will continue to be included in the results of the business units based on geography. This merger, therefore will not influence the results of the International Markets Business Unit as compared to the situation before the merger.

Inter-segment transactions are presented at arm's length.

The figures of the segment reporting have been prepared in accordance with the general KBC accounting policies (see note 1) and are thus in compliance with the International Financial Reporting Standards as adopted for use in the European Union (endorsed IFRS).

In addition to the figures according to IFRS, KBC provides figures aimed at giving more insight into the ongoing business performance. The resulting figures are called *'adjusted net result'* and are the current basis for the segment reporting.

This means that, over and above the IFRS profit and loss account, a reworked profit and loss account is provided, in which a limited number of non-operational items is excluded from the P/L and summarised into three lines at the bottom of the reporting presentation. Segment reporting is based on this reworked presentation.

These non-operational items are:

- legacy CDO activities (mainly valuation changes of CDOs and fees for the CDO guarantee agreement);
- legacy divestment activities (impairment and gains/losses in relation to divestments);
- the impact of changes in fair value of own debt instruments due to Own Credit Risk (OCR).

In the segment reporting presentation, these items are all assigned to the Group Centre.

In the IFRS accounts, income related to trading activities is split across different components. While trading gains are recognised under 'net result from financial instruments at fair value', the funding costs and commissions paid in order to realise these trading gains are recognised respectively under 'net interest income' and 'net fee and commission income'. Moreover, part of the 'dividend income', 'net realised result on available-for-sale assets' and 'other net income' are also related to trading income. In the net adjusted result of the Belgian Business Unit (KBC Bank Belgium), all trading income components within investment banking are recognised under 'net result from financial instruments at fair value', without any impact on net profit. This recognition is not done for the other business units due to materiality.

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 excl inter-segment eliminations	Inter-segment eliminations	KBC Group
9M 2013										
Net interest income	1 968	692	478	200	148	30	100	- 143	- 2	2 993
Non-life insurance before reinsurance	323	36	60	21	16	22	0	4	- 14	409
Earned premiums Non-life	714	127	116	45	19	53	0	- 1	- 15	942
Technical charges Non-life	- 391	- 91	- 57	- 23	- 3	- 31	0	6	0	- 533
Life insurance before reinsurance	- 208	19	2	- 8	7	2	0	4	- 2	- 185
Earned premiums Life	536	137	63	10	42	11	0	15	- 2	750
Technical charges Life	- 744	- 118	- 62	- 18	- 35	- 9	0	- 11	0	- 936
Ceded reinsurance result	- 5	8	- 5	- 1	- 1	- 3	0	4	0	2
Dividend income	33	0	0	0	0	0	0	0	0	34
Net result from financial instruments at fair value through profit or loss	419	68	73	61	15	1	- 3	60	0	620
Net realised result from available-for-sale assets	155	12	12	7	3	2	1	4	0	183
Net fee and commission income	819	136	136	101	32	1	- 2	11	5	1 108
Net other income	239	13	22	15	9	- 2	0	19	2	296
TOTAL INCOME	3 745	985	776	395	229	54	95	- 36	- 10	5 459
Operating expenses	- 1 687	- 463	- 542	- 300	- 134	- 38	- 67	- 161	10	- 2 843
Impairment	- 303	- 33	- 362	- 35	- 25	- 16	- 286	- 76	0	- 775
on loans and receivables	- 263	- 34	- 350	- 32	- 25	- 7	- 286	- 47	0	- 693
on available-for-sale assets	- 5	0	- 10	0	0	- 10	0	- 3	0	- 18
on goodwill	0	0	0	0	0	0	0	- 7	0	- 7
on other	- 35	0	- 2	- 2	0	0	0	- 20	0	- 57
Share in results of associated companies and joint ventures	0	23	1	1	0	0	0	0	0	24
RESULT BEFORE TAX	1 754	512	- 126	61	70	0	- 259	- 274	0	1 866
Income tax expense	- 561	- 76	4	- 11	- 17	1	32	77	0	- 555
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	1 193	435	- 122	50	53	1	- 227	- 196	0	1 310
Attributable to minority interests	0	0	0	0	0	0	0	11	0	10
ADJUSTED NET RESULT	1 193	435	- 122	50	53	1	- 227	- 207	0	1 300
Legacy CDOs	0	0	0	0	0	0	0	380	0	380
Own credit risk	0	0	0	0	0	0	0	- 34	0	- 34
Divestments	0	0	0	0	0	0	0	- 337	0	- 337
NET RESULT	1 193	435	- 122	50	53	1	- 227	- 198	0	1 309
9M 2014										
Net interest income	2 127	649	508	211	157	31	108	- 130	4	3 158
Non-life insurance before reinsurance	297	54	46	20	14	13	0	6	- 14	389
Earned premiums Non-life	721	122	114	41	20	52	0	2	- 14	944
Technical charges Non-life	- 423	- 68	- 68	- 22	- 7	- 40	0	4	0	- 555
Life insurance before reinsurance	- 196	17	9	- 3	9	3	0	1	- 2	- 171
Earned premiums Life	717	123	65	11	42	12	0	1	- 2	904
Technical charges Life	- 913	- 106	- 56	- 14	- 34	- 9	0	0	0	- 1 075
Ceded reinsurance result	3	- 5	3	- 2	- 1	6	0	5	0	6
Dividend income	38	0	0	0	0	0	0	1	0	39
Net result from financial instruments at fair value through profit or loss	1	44	59	54	11	1	- 8	0	0	103
Net realised result from available-for-sale assets	94	8	15	14	1	0	0	10	0	127
Net fee and commission income	857	143	154	119	34	1	- 2	20	- 2	1 171
Net other income	204	12	- 224	- 225	1	1	0	- 7	7	- 8
TOTAL INCOME	3 425	922	570	188	225	56	98	- 94	- 8	4 814
Operating expenses	- 1 685	- 437	- 549	- 276	- 139	- 38	- 95	- 126	8	- 2 789
Impairment	- 155	- 18	- 212	- 36	- 12	- 7	- 157	- 39	0	- 424
on loans and receivables	- 132	- 17	- 211	- 35	- 12	- 7	- 157	- 38	0	- 398
on available-for-sale assets	- 13	0	0	0	0	0	0	- 1	0	- 14
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	- 11	0	- 1	- 1	0	0	0	0	0	- 12
Share in results of associated companies and joint ventures	- 1	18	0	0	0	0	0	2	0	19
RESULT BEFORE TAX	1 584	485	- 191	- 124	74	11	- 154	- 258	0	1 620
Income tax expense	- 467	- 77	16	15	- 18	0	20	59	0	- 469
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	1 118	408	- 175	- 109	56	11	- 134	- 199	0	1 152
Attributable to minority interests	0	0	0	0	0	0	0	0	0	0
ADJUSTED NET RESULT	1 117	408	- 175	- 109	56	11	- 134	- 199	0	1 151
Legacy CDOs	0	0	0	0	0	0	0	23	0	23
Own credit risk	0	0	0	0	0	0	0	0	0	0
Divestments	0	0	0	0	0	0	0	131	0	131
NET RESULT	1 117	408	- 175	- 109	56	11	- 134	- 45	0	1 305

Legacy CDO's: Over 9M 2014, improvements in market price of corporate credit as reflected in tightened credit default swap spreads generated a value mark-up of KBC's CDO exposure. This was offset by the de-risking of the legacy CDO portfolio during 9M 2014. The most recent de-risking (September 2014) resulted in KBC collapsing the two remaining CDOs in its portfolio. The impact of this latter de-risking was slightly above -20 million euros.
The total result also includes the impact of the government guarantee and the related fee, and the coverage (60%) of the CDO-linked counterparty risk against MBIA, a US monoline insurer. For both of these parties the agreements have been unwound as of the collapse of the last CDO.

Divestments: In 3Q 2014 KBC decided to wind down (instead of sell) Antwerp Diamond Bank. Since it is therefore no longer considered for treatment under IFRS 5 there was an impact to the tune of +123 million euros after tax largely related to the reversal of the impairment recorded in 2012 and 2013 for the sale. Closing the sale for KBC Bank Deutschland (30 September 2014) has had no significant impact.

Own credit risk: In the first nine months of 2014, there was only limited influence on the results.

In the table below, an overview is provided of a number of balance sheet items divided by segment.

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
31-12-2013									
Deposits from customers & debt certificates excl. repos	97 051	21 834	14 472	*5 878*	*4 583*	*544*	*3 466*	17 123	150 480
Loans & advances to customers excluding reverse repos	81 673	15 684	21 261	*3 864*	*4 248*	*612*	*12 537*	1 080	119 698
Term loans excl. Reverse repos	40 566	6 279	5 612	*1 772*	*1 488*	*242*	*2 111*	1 048	53 506
Mortgage loans	31 146	6 522	13 925	*1 548*	*1 722*	*236*	*10 419*	24	51 617
Current accounts advances	1 847	19	586	*262*	*324*	*0*	*0*	0	2 451
Finance leases	3 200	359	484	*92*	*385*	*0*	*7*	0	4 044
Consumer credit	1 251	1 538	533	*112*	*287*	*134*	*0*	0	3 322
Other	3 663	967	121	*80*	*41*	*0*	*0*	8	4 758
30-09-2014									
Deposits from customers & debt certificates excl. repos	103 984	21 385	14 581	*5 298*	*4 748*	*565*	*3 970*	11 448	151 399
Loans & advances to customers excluding reverse repos	84 086	15 899	21 059	*4 023*	*4 464*	*664*	*11 908*	2 157	123 202
Term loans excl. Reverse repos	41 380	5 975	5 364	*1 966*	*1 441*	*277*	*1 680*	1 967	54 686
Mortgage loans	31 518	7 142	13 715	*1 511*	*1 740*	*243*	*10 221*	26	52 400
Current accounts advances	2 758	1 082	688	*309*	*378*	*0*	*1*	150	4 678
Finance leases	3 147	416	506	*91*	*408*	*0*	*6*	0	4 069
Consumer credit	1 126	1 010	685	*82*	*460*	*144*	*0*	0	2 822
Other	4 157	274	101	*64*	*37*	*0*	*0*	15	4 547

Other notes

Net interest income (note 3 in the annual accounts 2013)

In millions of EUR	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
Total	1 014	1 056	1 120	3 069	3 185
Interest income	2 037	1 971	2 010	6 276	5 911
Available-for-sale assets	197	185	183	637	563
Loans and receivables	1 207	1 143	1 171	3 723	3 381
Held-to-maturity investments	266	262	271	780	765
Other assets not at fair value	5	1	8	12	13
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*1 675*	*1 592*	*1 633*	*5 152*	*4 722*
Financial assets held for trading	196	198	260	688	683
Hedging derivatives	127	132	77	343	348
Other financial assets at fair value through profit or loss	39	49	40	92	158
Interest expense	-1 023	- 915	- 890	-3 207	-2 726
Financial liabilities measured at amortised cost	- 551	- 462	- 438	-1 745	-1 331
Other	- 1	- 1	- 1	- 4	- 3
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 552*	*- 463*	*- 439*	*-1 749*	*-1 334*
Financial liabilities held for trading	- 236	- 259	- 265	- 812	- 795
Hedging derivatives	- 187	- 151	- 161	- 524	- 491
Other financial liabilities at fair value through profit or loss	- 45	- 40	- 24	- 114	- 101
Net interest expense on defined benefit plans	- 2	- 1	- 1	- 7	- 5

Net realised result from financial instruments at fair value through profit or loss (note 5 in the annual accounts 2013)

In 9M 2014, the result from financial instruments at fair value through profit or loss was influenced by:

- Gains and losses on CDO's, where over 9M 2014, improvements in market price of corporate credit as reflected in tightened credit default swap spreads generated a value mark-up of KBC's CDO exposure. This was offset by the de-risking of the legacy CDO portfolio during 9M 2014. The most recent de-risking (September 2014) resulted in KBC collapsing the two remaining CDOs in its portfolio. The impact of this latter de-risking was slightly above -20 million euros.

- MtM ALM Derivatives, where fair value changes (due to mark-to-market accounting) of a large proportion of ALM hedging instruments (that are treated as 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 9M 2014, the net realised result from these financial instruments at fair value through profit or loss amounted to -186 million euros pre-tax (-122 million euros after tax), of which -83 million euros in 1Q 2014, -57 million euros in 2Q 2014 and -46 million euros in 3Q 2014, as long-term interest rates decreased over the first nine months of 2014.

Net realised result from available-for-sale assets (note 6 in the annual accounts 2013)

In millions of EUR	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
Total	34	49	28	223	128
Breakdown by portfolio					
Fixed-income securities	28	23	17	116	56
Shares	6	26	11	107	72

In 9M 2014, the net realised result from available-for-sale assets is for the largest part related to sales of shares at KBC Insurance.

Net fee and commission income (note 7 in the annual accounts 2013)

In millions of EUR	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
Total	337	387	402	1 107	1 163
Fee and commission income	507	533	579	1 704	1 668
Securities and asset management	246	290	302	803	870
Margin on deposit accounting (life insurance investment contracts without DPF)	12	22	26	90	68
Commitment credit	61	60	61	187	180
Payments	137	127	133	396	390
Other	51	34	57	227	161
Fee and commission expense	- 170	- 147	- 177	- 596	- 505
Commission paid to intermediaries	- 73	- 71	- 75	- 224	- 219
Other	- 97	- 76	- 101	- 373	- 286

Net other income (note 8 in the annual accounts 2013)

In millions of EUR	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
Total	51	- 99	73	107	26
Of which net realised result following					
The sale of loans and receivables	- 97	2	1	- 100	3
The sale of held-to-maturity investments	0	0	0	0	0
The repurchase of financial liabilities measured at amortised cost	0	0	0	- 1	0
Other: of which:	148	- 101	72	208	23
Income concerning leasing at the KBC Lease-group	25	16	21	69	61
Income from Group VAB	15	16	16	50	51
Realised gains or losses on divestments	0	16	10	- 94	24
Legal interests	66	0	0	66	0
New law on retail loans (Hungary)	0	- 231	0	0	- 231
Legal settlement in 2Q14 of an old credit file	0	31	0	0	31

In 2Q 2014, there was an impact to the tune of -231 million euros pre-tax (-183 million euros after tax) due to the on 4 July by the Hungarian parliament adopted act ‘Resolution of certain issues related to the Supreme Court’s (Curia) uniformity decision on consumer loan agreements concluded by financial institutions’ and the guidelines issued by the Hungarian Central Bank at the end of July. For more information, see KBC’s press release from 8 July 2014 on www.kbc.com.

Breakdown of the insurance results (note 9 in the annual accounts 2013)

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
9M 2013				
Earned premiums, insurance (before reinsurance)	752	956	-	1 708
Technical charges, insurance (before reinsurance)	- 935	- 533	-	- 1 468
Net fee and commission income	17	- 171	-	- 154
Ceded reinsurance result	- 1	3	0	2
Operating expenses	- 93	- 181	- 2	- 276
Internal costs claim paid	- 5	- 45	-	- 50
Administration costs related to acquisitions	- 25	- 53	-	- 78
Administration costs	- 63	- 83	-	- 146
Management costs investments	0	0	- 2	- 2
Technical result	- 260	74	- 2	- 188
Net interest income			530	530
Dividend income			24	24
Net result from financial instruments at fair value			275	275
Net realised result from AFS assets			41	41
Net other income			- 42	- 42
Impairments			- 79	- 79
Allocation to the technical accounts	479	82	- 561	0
Technical-financial result	219	155	187	561
Share in results of associated companies and joint ventures			0	0
RESULT BEFORE TAX	219	155	187	561
Income tax expense				- 193
Net post-tax result from discontinued operations				0
RESULT AFTER TAX				368
attributable to minority interest				0
attributable to equity holders of the parent				368
9M 2014				
Earned premiums, insurance (before reinsurance)	906	958	-	1 865
Technical charges, insurance (before reinsurance)	- 1 075	- 555	-	- 1 630
Net fee and commission income	- 7	- 174	0	- 181
Ceded reinsurance result	- 1	8	0	6
Operating expenses	- 88	- 179	- 1	- 268
Internal costs claim paid	- 6	- 43	-	- 49
Administration costs related to acquisitions	- 21	- 56	-	- 77
Administration costs	- 62	- 80	-	- 141
Management costs investments	0	0	- 1	- 1
Technical result	- 265	58	- 1	- 208
Net interest income			507	507
Dividend income			34	34
Net result from financial instruments at fair value			42	42
Net realised result from AFS assets			81	81
Net other income			1	1
Impairments			- 15	- 15
Allocation to the technical accounts	486	81	- 566	0
Technical-financial result	220	139	83	443
Share in results of associated companies and joint ventures			2	2
RESULT BEFORE TAX	220	139	85	445
Income tax expense				- 124
Net post-tax result from discontinued operations				
RESULT AFTER TAX				321
attributable to minority interest				0
attributable to equity holders of the parent				320

Note: Figures for premium income exclude the investment contracts without DPF, which roughly coincide with the unit-linked products. Figures are before elimination of transactions between the bank and insurance entities of the group (more information in the 2013 annual report).

Due to a presentation change in 9M 2013 figures, 55 million euros in net fee and commission income was transferred from the non-technical account to Life.

The results of 2Q 2014 were negatively influenced for an amount of -41 million euros after reinsurance (pre-tax) by severe hailstorms in Belgium in June 2014. Any additional claims had no further impact as these are covered by reinsurance.

Impairment – income statement (note 14 in the annual accounts 2013)

In millions of EUR	3Q 2013	2Q 2014	3Q 2014	9M 2013	9M 2014
Total	- 362	- 142	- 58	- 987	- 313
Impairment on loans and receivables	- 230	- 136	- 190	- 777	- 429
Breakdown by type					
Specific impairments for on-balance-sheet lending	- 216	- 189	- 190	- 712	- 528
Provisions for off-balance-sheet credit commitments	15	20	5	7	23
Portfolio-based impairments	- 28	33	- 5	- 72	77
Breakdown by business unit					
Business unit Belgium	- 43	- 34	- 64	- 263	- 132
Business unit Czech Republic	- 6	- 2	- 14	- 34	- 17
Business unit International Markets	- 118	- 84	- 63	- 350	- 211
of which: Hungary	*- 12*	*- 13*	*- 11*	*- 32*	*- 35*
of which: Slovakia	*- 7*	*- 6*	*- 3*	*- 25*	*- 12*
of which: Bulgaria	*- 1*	*- 3*	*- 2*	*- 7*	*- 7*
of which: Ireland	*- 98*	*- 62*	*- 47*	*- 286*	*- 157*
Group Centre	- 62	- 17	- 49	- 130	- 69
Impairment on available-for-sale assets	- 8	- 3	- 6	- 24	- 14
Breakdown by type					
Shares	- 8	- 3	- 6	- 14	- 14
Other	0	0	0	- 10	0
Impairment on goodwill	0	0	0	- 7	0
Impairment on other	- 125	- 3	139	- 179	130
Intangible assets, other than goodwill	0	0	0	0	0
Property and equipment and investment property	- 31	0	0	- 46	- 1
Held-to-maturity assets	0	0	0	0	1
Associated companies and joint ventures	0	0	0	0	0
Other	- 93	- 2	139	- 133	130

In 3Q 2014 KBC decided to wind down (instead of sell) Antwerp Diamond Bank. Since it is therefore no longer considered for treatment under IFRS 5 there was an impact on other – other which includes the reversal of the impairment recorded in 2012 and 2013 for the sale.

Financial assets and liabilities: breakdown by portfolio and product (note 18 in the annual accounts 2013)

(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	Pro forma
FINANCIAL ASSETS, 31-12-2013									
Loans and advances to credit institutions and investment firms [a]	5 100	1 596	0	9 571	-	-	-	16 267	16 294
Loans and advances to customers [b]	706	774	0	118 892	-	-	-	120 371	121 534
Excluding reverse repos	*703*	*200*	*0*	*118 796*	-	-	-	*119 698*	*120 861*
Discount and acceptance credit	0	0	0	605	-	-	-	605	605
Consumer credit	0	0	0	3 322	-	-	-	3 322	3 322
Mortgage loans	0	34	0	51 583	-	-	-	51 617	51 617
Term loans	696	697	0	52 786	-	-	-	54 179	55 125
Finance leasing	0	0	0	4 044	-	-	-	4 044	4 044
Current account advances	0	0	0	2 451	-	-	-	2 451	2 667
Securitised loans	0	0	0	0	-	-	-	0	0
Other	10	43	0	4 101	-	-	-	4 154	4 154
Equity instruments	283	8	1 579	-	-	-	-	1 870	1 868
Investment contracts (insurance)	-	12 745	-	-	-	-	-	12 745	12 745
Debt securities issued by	2 974	1 319	25 728	1 690	31 323	-	-	63 034	62 168
Public bodies	2 385	771	17 337	118	29 630	-	-	50 240	49 409
Credit institutions and investment firms	268	195	3 289	154	1 040	-	-	4 946	4 911
Corporates	321	353	5 102	1 418	654	-	-	7 848	7 848
Derivatives	7 823	-	-	-	-	777	-	8 600	8 603
Total carrying value	16 885	16 441	27 307	130 153	31 323	777	0	222 887	223 212
[a] *Of which reverse repos*								*8 483*	*8 483*
[b] *Of which reverse repos*								*673*	*673*
FINANCIAL ASSETS, 30-09-2014									
Loans and advances to credit institutions and investment firms [a]	254	1 165	0	15 662	-	-	-	17 080	
Loans and advances to customers [b]	106	2 575	0	123 217	-	-	-	125 898	
Excluding reverse repos	*20*	*124*	*0*	*123 057*	-	-	-	*123 202*	
Trade receivables	0	0	0	3 030	-	-	-	3 030	
Consumer credit	0	0	0	2 822	-	-	-	2 822	
Mortgage loans	0	33	0	52 367	-	-	-	52 400	
Term loans	86	2 542	0	54 755	-	-	-	57 383	
Finance leasing	0	0	0	4 069	-	-	-	4 069	
Current account advances	0	0	0	4 678	-	-	-	4 678	
Securitised loans	0	0	0	0	-	-	-	0	
Other	20	0	0	1 497	-	-	-	1 517	
Equity instruments	297	4	1 669	-	-	-	-	1 970	
Investment contracts (insurance)	-	13 425	-	-	-	-	-	13 425	
Debt securities issued by	4 283	1 681	29 289	1 239	31 067	-	-	67 560	
Public bodies	3 878	930	18 558	37	29 598	-	-	53 001	
Credit institutions and investment firms	235	346	4 437	157	866	-	-	6 041	
Corporates	170	405	6 295	1 045	603	-	-	8 518	
Derivatives	8 092	-	-	-	-	1 062	-	9 153	
Total carrying value	13 032	18 850	30 958	140 118	31 067	1 062	0	235 087	
[a] *Of which reverse repos*								*8 953*	
[b] *Of which reverse repos*								*2 697*	

As of 2Q 2014, in order to provide a more transparent product view, factoring is no longer included in the other loans and advances to customers (total impacted amount of 2.4 billion euros), but – together with the discount and acceptance credits – combined in trade receivables.

Pro forma: the figures of 31-12-2013 are presented pro forma for comparability reasons, whereby the figures of Antwerp Diamond Bank are added (shift from non-current assets held for sale and disposal groups) and the figures of Transformation fund (subsidiary of ČSOB (Czech Republic)) are deducted since it has been deconsolidated as from 3Q 2014.

(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	Pro forma
FINANCIAL LIABILITIES, 31-12-2013									
Deposits from credit institutions and investment firms [a]	939	896	-	-	-	-	12 884	14 719	14 733
Deposits from customers and debt certificates [b]	3 634	12 248	-	-	-	-	145 253	161 135	160 182
Excluding repos	*319*	*5 292*	-	-	-	-	*144 869*	*150 480*	*149 527*
Deposits from customers	3 348	7 836	-	-	-	-	120 538	131 722	130 769
Demand deposits	0	50	-	-	-	-	38 999	39 049	39 277
Time deposits	3 347	7 786	-	-	-	-	43 837	54 970	54 973
Savings deposits	0	0	-	-	-	-	34 990	34 990	34 990
Special deposits	0	0	-	-	-	-	1 335	1 335	1 335
Other deposits	0	0	-	-	-	-	1 378	1 378	195
Debt certificates	286	4 412	-	-	-	-	24 715	29 413	29 413
Certificates of deposit	0	6	-	-	-	-	3 540	3 546	3 546
Customer savings certificates	0	0	-	-	-	-	473	473	473
Convertible bonds	0	0	-	-	-	-	0	0	0
Non-convertible bonds	286	3 763	-	-	-	-	14 869	18 919	18 919
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	0
Non-convertible subordinated liabilities	0	643	-	-	-	-	5 832	6 475	6 475
Liabilities under investment contracts	-	11 787	-	-	-	-	0	11 787	11 787
Derivatives	8 161	-	-	-	-	1 678	-	9 838	9 844
Short positions	386	0	-	-	-	-	-	386	386
in equity instruments	40	0	-	-	-	-	-	40	40
in debt instruments	345	0	-	-	-	-	-	345	345
Other	0	0	-	-	-	-	1 556	1 556	1 556
Total carrying value	13 119	24 931	-	-	-	1 678	159 693	199 421	198 488
[a] *Of which repos*								*1 672*	*1 672*
[b] *Of which repos*								*10 655*	*10 655*
FINANCIAL LIABILITIES, 30-09-2014									
Deposits from credit institutions and investment firms [a]	361	2 697	-	-	-	-	15 342	18 399	
Deposits from customers and debt certificates [b]	683	13 262	-	-	-	-	152 898	166 843	
Excluding repos	*319*	*3 224*	-	-	-	-	*147 856*	*151 399*	
Deposits from customers	408	10 855	-	-	-	-	130 621	141 883	
Demand deposits	0	0	-	-	-	-	46 059	46 059	
Time deposits	408	10 834	-	-	-	-	45 417	56 658	
Savings deposits	0	0	-	-	-	-	37 005	37 005	
Special deposits	0	0	-	-	-	-	1 766	1 766	
Other deposits	0	21	-	-	-	-	374	395	
Debt certificates	275	2 407	-	-	-	-	22 277	24 960	
Certificates of deposit	0	2	-	-	-	-	5 520	5 522	
Customer savings certificates	0	0	-	-	-	-	762	762	
Convertible bonds	0	0	-	-	-	-	0	0	
Non-convertible bonds	275	1 877	-	-	-	-	12 770	14 922	
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	
Non-convertible subordinated liabilities	0	528	-	-	-	-	3 225	3 754	
Liabilities under investment contracts	-	12 540	-	-	-	-	0	12 540	
Derivatives	7 899	0	-	-	-	2 852	-	10 751	
Short positions	484	0	-	-	-	-	-	484	
in equity instruments	55	0	-	-	-	-	-	55	
in debt instruments	429	0	-	-	-	-	-	429	
Other	0	0	-	-	-	-	2 995	2 995	
Total carrying value	9 428	28 499	-	-	-	2 852	171 234	212 012	
[a] *Of which repos*								*3 218*	
[b] *Of which repos*								*15 444*	

Pro forma: the figures of 31-12-2013 are presented pro forma for comparability reasons, whereby the figures of Antwerp Diamond Bank are added (shift from liabilities related to disposal groups) and the figures of Transformation fund (subsidiary of ČSOB (Czech Republic)) are deducted since it has been deconsolidated as from 3Q 2014.

Additional information on quarterly time series

Loans and deposits

In millions of EUR	30-09-2013	31-12-2013	31-03-2014	30-06-2014	30-09-2014
Total customer loans excluding reverse repo					
Business unit Belgium	82 472	81 673	81 967	83 542	84 086
Business unit Czech Republic	16 026	15 684	15 424	15 586	15 899
Business unit International Markets	22 471	21 261	21 119	21 038	21 059
of which: Hungary	*4 103*	*3 864*	*3 863*	*3 916*	*4 023*
of which: Slovakia	*4 247*	*4 248*	*4 342*	*4 436*	*4 464*
of which: Bulgaria	*566*	*612*	*603*	*623*	*664*
of which: Ireland	*13 556*	*12 537*	*12 311*	*12 064*	*11 908*
Group Centre	1 261	1 080	1 095	1 096	2 157
KBC Group	122 231	119 698	119 606	121 262	123 202
Mortgage loans					
Business unit Belgium	31 042	31 146	31 183	31 347	31 518
Business unit Czech Republic	6 805	6 522	6 633	6 747	7 142
Business unit International Markets	14 591	13 925	13 833	13 844	13 715
of which: Hungary	*1 598*	*1 548*	*1 520*	*1 511*	*1 511*
of which: Slovakia	*1 668*	*1 722*	*1 780*	*1 862*	*1 740*
of which: Bulgaria	*239*	*236*	*234*	*235*	*243*
of which: Ireland	*11 086*	*10 419*	*10 299*	*10 236*	*10 221*
Group Centre	26	24	24	24	26
KBC Group	52 465	51 617	51 674	51 963	52 400
Customer deposits and debt certificates excl. repos					
Business unit Belgium	100 071	97 051	100 471	100 910	103 984
Business unit Czech Republic	22 330	21 834	22 025	22 390	21 385
Business unit International Markets	14 730	14 472	14 390	14 248	14 581
of which: Hungary	*6 214*	*5 878*	*5 442*	*5 175*	*5 298*
of which: Slovakia	*4 508*	*4 583*	*4 555*	*4 547*	*4 748*
of which: Bulgaria	*534*	*544*	*547*	*553*	*565*
of which: Ireland	*3 474*	*3 466*	*3 846*	*3 973*	*3 970*
Group Centre	17 578	17 123	14 152	13 231	11 448
KBC Group	154 709	150 480	151 039	150 778	151 399

Technical provisions plus unit linked, life insurance

Technical provisions, Life Insurance In millions of EUR	30-09-2013		31-12-2013		31-03-2014		30-06-2014		30-09-2014	
	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked
Business unit Belgium	13 493	11 754	13 493	11 864	13 589	12 052	13 630	12 402	13 724	12 623
Business unit Czech Republic	570	578	530	546	527	526	520	507	517	502
Business unit International Markets	228	266	228	272	221	271	219	292	218	300
of which: Hungary	*54*	*189*	*54*	*193*	*53*	*186*	*53*	*199*	*53*	*203*
of which: Slovakia	*139*	*74*	*139*	*78*	*133*	*84*	*129*	*92*	*129*	*96*
of which: Bulgaria	*35*	*2*	*35*	*1*	*36*	*1*	*36*	*1*	*36*	*1*
Group Centre	52	62	54	65	0	0	0	0	0	0
KBC Group	14 342	12 660	14 304	12 747	14 338	12 848	14 369	13 201	14 460	13 425

Financial assets and liabilities measured at fair value – fair value hierarchy (note 24 in the annual accounts 2013)

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 2013.

Fair value hierarchy	31-12-2013				30-09-2014			
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	2 556	11 846	2 483	16 885	3 703	7 216	2 113	13 032
Designated at fair value	13 444	2 615	382	16 441	14 460	4 035	356	18 850
Available for sale	21 444	4 091	1 772	27 307	26 855	2 485	1 618	30 958
Hedging derivatives	0	777	0	777	0	1 062	0	1 062
Total	37 444	19 330	4 637	61 411	45 017	14 798	4 087	63 902
Financial liabilities measured at fair value								
Held for trading	374	10 088	2 658	13 119	485	6 756	2 186	9 428
Designated at fair value	11 787	12 600	543	24 931	12 539	15 610	349	28 499
Hedging derivatives	0	1 678	0	1 678	0	2 852	0	2 852
Total	12 161	24 365	3 201	39 728	13 025	25 218	2 535	40 778

In course of the first nine months of 2014, KBC de-risked its legacy CDO portfolio. This de-risking resulted in a decrease of the P/L sensitivity to a +50% credit spread widening from -92 million euros as at 31 December 2013 to an insignificant amount as at 30 September 2014. The remaining minor sensitivity is due to the fact that KBC is still the counterparty to and issuer of a further 0.3 billion euros worth of notes held by investors that will remain outstanding until November 2017. These notes may change in value primarily due to credit spread movements on the underlying portfolio.

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (note 25 in the annual accounts 2013)

In the first nine months of 2014, an approximate total amount of 0.1 billion euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred around 1.4 billion euros in financial instruments at fair value from level 2 to level 1.

Financial assets and liabilities measured at fair value – focus on level 3 (note 26 in the annual accounts 2013)

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **30-09-2014**, in millions of EUR

LEVEL 3 FINANCIAL ASSETS

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts	Debt securities	Derivatives	Loans and advances	Equity instruments	Investment contracts	Debt securities	Equity instruments	Debt securities	Derivatives
Opening balance	0	1	0	342	2 141	24	5	0	352	300	1 472	0
Total gains/losses	0	0	0	10	- 56	1	1	0	22	10	- 13	0
in profit and loss*	0	0	0	10	- 56	1	1	0	22	1	- 25	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	9	11	0
Acquisitions	0	0	0	3	122	0	0	0	22	1	977	0
Sales	0	0	0	- 27	- 89	0	- 5	0	- 2	- 5	- 68	0
Settlements	0	0	0	- 57	- 266	- 2	0	0	- 16	- 1	- 461	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	22	0
Transfers out of level 3	0	0	0	- 31	0	0	0	0	- 28	0	- 657	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	0	13	8	2	0	0	26	0	2	0
Changes in scope	0	0	0	0	0	0	0	0	- 23	- 3	- 20	0
Other	0	0	0	0	0	0	0	0	- 25	62	0	0
Closing balance	0	1	0	252	1 860	26	1	0	329	365	1 254	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	0	0	16	56	1	1	0	22	0	0	0

LEVEL 3 FINANCIAL LIABILITIES

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Liabilities under investment contracts	Other	
Opening balance	0	102	0	2 542	13	0	0	543	0	0	0
Total gains/losses	0	3	0	- 159	0	0	0	- 11	0	0	0
in profit and loss*	0	3	0	- 159	0	0	0	- 11	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	151	0	0	0	0	0	0	0
Repurchases	0	- 1	0	0	0	0	0	- 200	0	0	0
Settlements	0	- 59	0	- 405	- 13	0	0	0	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	5	0	5	0	0	0	16	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	51	0	2 135	0	0	0	349	0	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	0	0	- 22	0	0	0	- 11	0	0	0

* Recognised primarily in 'Net result from financial instruments at fair value through profit or loss', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.

Parent shareholders’ equity, (additional) tier-1 capital and non-voting core-capital securities (note 39 in the annual accounts 2013)

in number of shares	31-12-2013	30-09-2014
Ordinary shares	417 364 358	417 364 358
of which ordinary shares that entitle the holder to a dividend payment	*417 364 358*	*417 364 358*
of which treasury shares	*802*	*542*
Non-voting core-capital securities	79 096 044	67 796 608
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 only on NYSE Euronext (Brussels). As mentioned in a press release on 23 October 2014 KBC decided to delist the shares of KBC Group NV from the Luxembourg Stock Exchange. Shareholders could trade their shares on the Luxembourg Stock Exchange until 26 September 2014.

Non-voting core-capital securities: since the end of 2008, KBC Group NV has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (pari passu) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and Flemish Region (each in the amount of 3.5 billion euros). The other features of the transactions are dealt with under ‘Capital transactions and guarantee agreements with the government in 2008 and 2009’ in the ‘Additional information’ section of the annual report 2013.
In 2012, KBC repaid all of the securities held by the Belgian State to the tune of 3.5 billion euros including a 15% penalty (525 million euros in total).
On 3 July 2013, KBC repaid 1.17 billion euros worth of non-voting core capital securities held by the Flemish Regional Government including a 50% penalty (583 million euros in total). On 8 January 2014, KBC repaid 0.33 billion euros (plus a penalty of 50% or 0.17 billion euros) worth of core-capital securities to the Flemish Regional Government.

On 13 March 2014, KBC placed CRD IV-compliant additional tier-1 securities for a total consideration of 1.4 billion euros. These securities qualify as additional tier-1 capital under the Basel III standards (as transposed in CRD IV) and therefore positively influence KBC’s tier-1 capital. The securities are perpetual with an optional call from year 5 onwards. Following the instruments’ classification as equity, the coupon of 5.625% per annum, payable each quarter is accounted for as dividend. This transaction has no impact on the number of shares.

During the second quarter of 2014, KBC called all its Trust preferred securities for a total amount of 0.4 billion euros. On top of this, KBC also called two other classic subordinated Tier-1 securities, both from KBC Bank NV and for a total consideration of 1.95 billion euros (included in non-convertible subordinated liabilities – see note 18).

Related-party transactions (note 42 in the annual accounts 2013)

On 8 January 2014, KBC repaid 0.33 billion euros (plus a penalty of 50% or 0.17 billion euros) worth of core-capital securities to the Flemish Regional Government.

Over 2013 results, KBC does not pay a coupon on the remaining non-voting core capital securities, given that no dividend is paid on ordinary shares. For 2014, KBC intends to pay a dividend on ordinary shares and therefore also intends to pay a coupon (payment in 2015) on the remaining non-voting core capital securities.

Main changes in the scope of consolidation (note 45 in the annual accounts 2013)

Company	Consolidation method	Ownership percentage at group level		Comments
For income statement comparison		3Q 2013	3Q 2014	
Additions				
None				
Exclusions				
Absolut Bank	Full	------	------	Sold in 2Q 2013
KBC Banka A.D.	Full	100%	------	Sold in 4Q 2013
KBC Bank Deutschland AG	Full	100%	------	Sold in 3Q 2014
Transformation fund Stabilita	Full	100%	------	Deconsolidated in 3Q 2014
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Global Services NV	Full	100%	------	Merged with KBC Group NV on 1 July 2013
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014

		31/12/2013	30/09/2014	
Additions				
None				
Exclusions				
KBC Bank Deutschland AG	Full	100%	------	Sold in 3Q 2014
Transformation fund Stabilita	Full	100%	------	Deconsolidated in 3Q 2014
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014

Due to the application of IFRS 11 as from 1 January 2014, the reference figures throughout the consolidated financial statement have been restated to account for the different treatment of the joint venture ČMSS in the Czech Business Unit (from proportionate consolidation to equity method - for more information see note 1a).

Post-balance sheet events (note 48 in the annual accounts 2013)

Significant events between the balance sheet date (30 September 2014) and the publication of this report (13 November 2014):

On Sunday 26 October, the European Central Bank (ECB) published the results of the comprehensive assessment carried out by the ECB. KBC exceeded both the asset quality review and the stress test thresholds and maintains strong buffers. Based on the recommendations from the ECB, KBC will re-assess individual files. KBC expects these individual re-assessments to have a non-material impact on provisions.
Furthermore, KBC takes notice of the prudential adjustments to its mortgage portfolio in Ireland for an amount of 0.3 billion euros. KBC does not expect to record extra provisions on the basis of this outcome.
Moreover, KBC points out that with regard to the treatment of risk-weighting of sovereign exposure it has been asked by the National Bank of Belgium to abolish the carve-out of a zero-weighting for home-country sovereign exposure already at the end of 2013. This change in treatment increased the RWA starting base of the ECB's comprehensive assessment.
For more information, see the press release of 26 October 2014 on www.kbc.com.

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Building a better working world

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Report of the statutory auditor to the shareholders of KBC Group nv on the review of the interim condensed consolidated financial statements as of 30 September 2014 and for the nine-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 September 2014 and the related interim consolidated income statement, the condensed consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed cash flow statement for the nine-month period then ended, and explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements". These statements show a consolidated balance sheet total of € 251.612 million and a consolidated profit (share of the group) for the nine-month period then ended of € 1.305 million. Management 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 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.

Report of the statutory auditor dated 13 November 2014 on the interim condensed consolidated financial statements of KBC Group nv for the nine-month period ended 30 September 2014 (continued)

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 September 2014, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34, as adopted for use in the European Union.

Brussels, 13 November 2014

Ernst & Young Réviseurs d'Entreprises
Statutory auditor
represented by

Christel Weymeersch
Partner

Jean-François Hubin
Partner

KBC Group

Risk and capital management 3Q 2014 and 9M 2014

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. Structured credit exposure is described separately. Information specifically on sovereign bonds can be found under 'note 47 (in the annual accounts 2013)'. The reference figures of the loan portfolio have been restated to account for the different treatment of the joint venture ČMSS in the Czech Business Unit (from proportional consolidation to equity method - for more information see note 1a of the Consolidated financial statements of this interim report.). Furthermore, all loans of Antwerp Diamond Bank (in wind-down) have been re-included in the reference figures, since the latter entity is no longer recognized as 'disposal group' under IFRS 5.

Credit risk: loan portfolio overview	31-12-2013 Pro forma	30-09-2014
Total loan portfolio (in billions of EUR)		
Amount granted	161	165
Amount outstanding[1]	135	138
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	64%	64%
Czech Republic	13%	13%
International Markets	19%	19%
Group Centre	4%	4%
Total	100%	100%
Impaired loans (in millions of EUR or %)		
Amount outstanding	13 871	14 198
of which: more than 90 days past due	8 086	8 325
Ratio of impaired loans, per business unit		
Belgium	4.7%	4.6%
Czech Republic	4.3%	4.1%
International Markets	33.0%	34.8%
Group Centre	10.6%	9.7%
Total	10.2%	10.3%
of which: more than 90 days past due	6.0%	6.0%
Specific loan loss impairments (in millions of EUR) and Cover ratio (%)		
Specific loan loss impairments	5 521	5 754
of which: more than 90 days past due	4 046	4 459
Cover ratio of impaired loans		
Specific loan loss impairments / impaired loans	40%	41%
of which: more than 90 days past due	50%	54%
Cover ratio of impaired loans, mortgage loans excluded		
Specific loan loss impairments / impaired loans, mortgage loans excluded	47%	49%
of which: more than 90 days past due	62%	64%
Credit cost, by business unit (%)[2]		
Belgium	0.37%	0.20%
Czech Republic	0.26%	0.13%
International Markets	4.48%	1.09%
Slovakia	0.60%	0.34%
Hungary	1.50%	0.92%
Bulgaria	1.19%	1.19%
Ireland	6.72%	1.40%
Group Centre[3]	2.40%	1.38%
Total[3]	1.21%	0.40%

1. Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees
2. Annualized credit cost.
3. Including IFRS 5 entities (ex KBC Bank Deutschland) the CCR per 30-09-2014 would be 1.42% for Group Centre and 0.41% for the Total.

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+12 (see annual report FY 2013 - 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 (coincides with KBC's PD-classes 11+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 loan loss impairments / impaired loans*

Loan portfolio Business Unit Belgium 30-09-2014, in millions of EUR	**Belgium**			**Foreign branches**			**Total Business Unit Belgium**		
Total outstanding amount	82 848			5 288			88 136		
Counterparty break down		*% outst.*			*% outst.*			*% outst.*	
SME / corporate	23 267	*28.1%*		5 288	*100.0%*		28 555	*32.4%*	
retail	59 581	*71.9%*		0	*0.0%*		59 581	*67.6%*	
o/w private	32 537	*39.3%*		0	*0.0%*		32 537	*36.9%*	
o/w companies	27 044	*32.6%*		0	*0.0%*		27 044	*30.7%*	
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	
total	31 486	*38.0%*	59%	0	*0.0%*	-	31 486	*35.7%*	
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	
o/w vintage 2007 and 2008	2 574	*3.1%*	-	0	*0.0%*	-	2 574	*2.9%*	
o/w ind. LTV > 100%	1 517	*1.8%*	-	0	*0.0%*	-	1 517	*1.7%*	
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	61 250	*73.9%*		2 968	*56.1%*		64 218	*72.9%*	
medium risk (pd 5-7; 0.80%-6.40%)	15 930	*19.2%*		1 393	*26.3%*		17 322	*19.7%*	
high risk (pd 8-9; 6.40%-100.00%)	2 182	*2.6%*		281	*5.3%*		2 463	*2.8%*	
impaired loans (pd 10 - 12)	3 397	*4.1%*		624	*11.8%*		4 021	*4.6%*	
unrated	90	*0.1%*		23	*0.4%*		113	*0.1%*	
Overall risk indicators		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	3 397	1 362	40.1%	624	289	46.3%	4 021	1 651	41.1%
o/w pd 10 impaired loans	1 392	280	20.1%	386	115	29.9%	1 779	395	22.2%
o/w more than 90 days past due (pd 11+12)	2 004	1 083	54.0%	238	173	73.0%	2 242	1 256	56.0%
all impairments (specific + portfolio based)	n.a.			n.a.			1 707		
o/w portfolio based impairments	n.a.			n.a.			56		
o/w specific impairments	1 362			289			1 651		
2013 Credit cost ratio (CCR)	n.a.			n.a.			0.37%		
YTD 2014 CCR	n.a.			n.a.			0.20%		

Remarks

Belgium = KBC Bank (all retail and coporate credit lending activities except for the foreign branches), CBC, KBC Lease part Belgium, KBC Commercial Finance, KBC Credit Investments (part of non-legacy portfolio assigned to BU Belgium)

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

Loan portfolio Business Unit Czech Republic 30-09-2014, in millions of EUR	Czech republic			For information: ČMSS (consolidated via equity-method since 1Q14) Czech Rep (ČMSS) (3)		
Total outstanding amount	18 282			2 513		
Counterparty break down		*% outst.*			*% outst.*	
SME / corporate	6 355	*34.8%*		74	*2.9%*	
retail	11 928	*65.2%*		2 439	*97.1%*	
o/w private	8 339	*45.6%*		2 425	*96.5%*	
o/w companies	3 588	*19.6%*		15	*0.6%*	
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV
total	7 584	*41.5%*	65%	1 875	*74.6%*	66%
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-
o/w vintage 2007 and 2008	1 311	*7.2%*	-	284	*11.3%*	-
o/w ind. LTV > 100%	228	*1.2%*	-	140	*5.6%*	-
Probability of default (PD)		*% outst.*			*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	12 445	*68.1%*		1 080	*43.0%*	
medium risk (pd 5-7; 0.80%-6.40%)	4 478	*24.5%*		1 184	*47.1%*	
high risk (pd 8-9; 6.40%-100.00%)	466	*2.6%*		172	*6.8%*	
impaired loans (pd 10 - 12)	746	*4.1%*		77	*3.1%*	
unrated	147	*0.8%*		0	*0.0%*	
Overall risk indicators (2)		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	746	373	50.0%	77	29	37.2%
o/w pd 10 impaired loans	188	31	16.6%	26	2	6.8%
o/w more than 90 days past due (pd 11+12)	558	342	61.3%	51	27	53.0%
all impairments (specific + portfolio based)	402			31		
o/w portfolio based impairments	29			3		
o/w specific impairments	373			29		
2013 Credit cost ratio (CCR)	0.26%			n/a		
YTD 2014 CCR	0.13%			n/a		

Remarks

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

(2) individual CCR in local currency

(3) ČMSS: pro-rata figures, corresponding with KBC's 55%-participation in ČMSS

Loan portfolio Business Unit International Markets 30-09-2014, in millions of EUR	Ireland			Slovakia			Hungary			Bulgaria			Total Int Markets		
Total outstanding amount	14 590			4 921			5 178			791			25 500		
Counterparty break down		*% outst.*			*% outst.*			*% outst.*			*% outst.*			*% outst.*	
SME / corporate	2 702	*18.5%*		2 032	*41.3%*		2 772	*53.5%*		330	*41.7%*		7 855	*30.8%*	
retail	11 889	*81.5%*		2 889	*58.7%*		2 406	*46.5%*		462	*58.3%*		17 645	*69.2%*	
o/w private	11 889	*81.5%*		2 313	*47.0%*		1 917	*37.0%*		278	*35.1%*		16 396	*64.3%*	
o/w companies	0	*0.0%*		576	*11.7%*		489	*9.4%*		184	*23.2%*		1 249	*4.9%*	
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	
total	11 889	*81.5%*	108%	1 920	*39.0%*	59%	1 747	*33.7%*	94%	131	*16.5%*	70%	15 687	*61.5%*	
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	1 320	*25.5%*	105%	77	*9.7%*	70%	1 397	*5.5%*	
o/w vintage 2007 and 2008	4 403	*30.2%*	-	173	*3.5%*	-	886	*17.1%*	-	38	*4.8%*	-	5 501	*21.6%*	
o/w ind. LTV > 100%	6 446	*44.2%*	-	0	*0.0%*	-	709	*13.7%*	-	11	*1.4%*	-	7 166	*28.1%*	
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*			*% outst.*			*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	2 767	*19.0%*		3 333	*67.7%*		1 911	*36.9%*		103	*13.0%*		8 097	*31.8%*	
medium risk (pd 5-7; 0.80%-6.40%)	3 456	*23.7%*		963	*19.6%*		2 113	*40.8%*		369	*46.7%*		6 906	*27.1%*	
high risk (pd 8-9; 6.40%-100.00%)	688	*4.7%*		311	*6.3%*		406	*7.8%*		65	*8.2%*		1 476	*5.8%*	
impaired loans (pd 10 - 12)	7 680	*52.6%*		218	*4.4%*		740	*14.3%*		239	*30.2%*		8 877	*34.8%*	
unrated	0	*0.0%*		96	*2.0%*		8	*0.2%*		16	*2.0%*		145	*0.6%*	
Overall risk indicators (2)		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	7 680	2 797	36.4%	218	105	48.2%	740	394	53.3%	239	92	38.7%	8 877	3 389	38.2%
o/w pd 10 impaired loans	3 545	766	21.6%	55	17	30.5%	152	54	35.6%	34	0	1.2%	3 787	838	22.1%
o/w more than 90 days past due (pd 11+12)	4134	2 031	49.1%	163	88	54.1%	587	340	57.9%	205	92	44.9%	5090	2 551	50.1%
all impairments (specific + portfolio based)	2870			116			414			94			3494		
o/w portfolio based impairments	73			11			20			1			105		
o/w specific impairments	2797			105			394			92			3389		
2013 Credit cost ratio (CCR)	6.72%			0.60%			1.50%			1.19%			4.48%		
YTD 2014 CCR	1.40%			0.34%			0.92%			1.19%			1.09%		

Remarks
Ireland = KBC Bank Ireland (incl. former KBC Homeloans)
Total Int Markets: outstanding additionally includes 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); For Ireland: only KBC Homeloans exposure

(2) individual CCR in local currency

Loan portfolio Group Centre 30-09-2014, in millions of EUR	**Total Group Centre** (mainly KBC Finance Ireland, KBC Credit Investments and Antwerp Diamond Bank (in wind-down))		
Total outstanding amount	5 713		
Counterparty break down		*% outst.*	
SME / corporate	5 711	*100.0%*	
retail	2	*0.0%*	
o/w private	2	*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 vintage 2007 and 2008	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%)	2 168	*37.9%*	
medium risk (pd 5-7; 0.80%-6.40%)	2 334	*40.8%*	
high risk (pd 8-9; 6.40%-100.00%)	623	*10.9%*	
impaired loans (pd 10 - 12)	554	*9.7%*	
unrated	34	*0.6%*	
Overall risk indicators (2)		spec. Imp.	% cover
outstanding impaired loans	554	341	61.5%
o/w pd 10 impaired loans	119	31	25.8%
o/w more than 90 days past due (pd 11+12)	435	310	71.2%
all impairments (specific + portfolio based)	359		
o/w portfolio based impairments	18		
o/w specific impairments	341		
2013 Credit cost ratio (CCR)	2.90%		
YTD 2014 CCR	1.38%		

Remarks

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

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

(2) individual CCR in local currency

Structured credit exposure

Standing at more than 25 billion euros in 2008, KBC has fully scaled down its CDO portfolio with the last action taking place in September 2014 by collapsing the last two remaining CDOs originated by KBC FP. These collapses ended the guarantee agreement with the Belgian State for KBC and completely eliminates the group's exposure to MBIA.
For the record, KBC wishes to point out that it is the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes issued by KBC FP and held by third-party investors that will remain outstanding until November 2017. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters based on changes in the value of these notes (due primarily to credit spreads on the underlying portfolio). For more information, see the press release of 1 October 2014 on www.kbc.com.

Since 2008, KBC has a tight strategy in place related to structured credit products and gradually imposed a moratorium on all origination and investment activity in CDOs and ABS. In 4Q13 KBC decided to lift the strict moratorium on investments in ABS and to allow new treasury investments in high quality ABS. This allows a further diversification of the investment portfolios. Important to note is that the moratorium on investments in synthetic securitizations or re-securitisations continues to exist.
The total amount of these treasury investments stands at 0.9 billion euros as at 30 September 2014. Next to the treasury ABS, (i) a portfolio for an amount of 0.7 billion euros of other (legacy) ABS and (ii) a small portfolio of below 0.1 billion euros not by KBC FP originated CDOs continue to exist.

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 Belgian regulator.

Solvency KBC Group

Under Basel III (CRDIV/CRR), which is the applicable guideline as from 1 January 2014 onward, for group solvency the insurance participation is to be deducted from common equity at KBC Group level, unless the competent authority grants the permission to apply a risk weighting instead. KBC received this permission from the National Bank of Belgium (NBB) and will allocate a 370% weighting to the holdings of own funds instruments of the insurance company, after having deconsolidated KBC Insurance from the KBC Group consolidated figures. This is the so-called 'Danish compromise'.

In addition to this calculation method, KBC has to disclose also the capital adequacy ratio as calculated in accordance with the 'building block' method. This entails comparing group regulatory capital (i.e. parent shareholders' equity less intangible assets and a portion of the revaluation reserve for available-for-sale assets, plus subordinated debt, etc.) with the sum of the separate minimum regulatory solvency requirements for KBC Bank, the holding company (after deduction of intercompany transactions between these entities) and KBC Insurance. The total risk-weighted volume of insurance companies is calculated as the required solvency margin under Solvency I divided by 8%.

The NBB has confirmed to KBC that the non-voting core capital securities will be fully grandfathered as common equity under CRDIV until the end of 2017.

KBC's own minimum target for the common equity ratio is 10.5% on a fully loaded basis (presuming full implementation of all CRDIV/CRR rules and including the remaining Flemish government support until 2018). KBC's fully loaded common equity ratio stood at 13.7% as at the end of September 2014.

Moreover, the supervisory authorities, with the NBB as the consolidating supervisor, have requested KBC to minimally uphold a fully loaded common equity ratio, excluding latent gains, of 9.25%. According to this calculation, KBC's fully loaded common equity ratio stood at 13.1% as at the end of September 2014.

The Internal Rating Based (IRB) approach is since its implementation in 2008 the primary approach to calculated KBC's risk weighted assets. This is, based on a full application of all the CRD IV/CRR rules, used for approximately 80% of the weighted credit risks, of which approx. 64% according to Advanced and approx. 15% according to Foundation approach. Note that, retail exposure treated under IRB is always subject to an Advanced approach. The remaining weighted credit risks (ca. 21%) are calculated according to the Standardised approach. The latter, under the Danish Compromise, includes the 370% risk-weighted holdings of own funds instruments of the insurance company.

In millions of EUR Danish compromise - Fully loaded	31-12-2013	30-09-2014
Total regulatory capital, KBC Group (after profit appropriation)	16 258	15 376
Tier-1 capital	11 711	13 885
Common equity	11 711	12 485
Parent shareholders' equity (after deconsolidating KBC Insurance)	11 361	12 050
Non-voting core capital securities	2 333	2 000
Intangible fixed assets (incl deferred tax impact) (-)	- 341	- 339
Goodwill on consolidation (incl deferred tax impact) (-)	- 950	- 775
Minority interests	- 3	- 3
Hedging reserve (cash flow hedges) (-)	497	1 104
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 6	- 4
Equalization reserve (-)	- 131	
Dividend payout (-)	0	- 626
Renumeration of government securities (-)	0	- 127
Renumeration of AT1 instruments (-)	0	- 2
Deduction re. financing provided to shareholders (-)	- 176	- 158
IRB provision shortfall (-)	- 225	- 273
Deferred tax assets on losses carried forward (-)	- 648	- 362
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0
Additional going concern capital	0	1 400
Grandfathered innovative hybrid tier-1 instruments	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0
CRR compliant AT1 instruments	0	1 400
Minority interests to be included in additional going concern capital	0	0
Tier 2 capital	4 547	1 491
IRB provision excess (+)	342	367
Subordinated liabilities[1]	4 206	1 123
Subordinated loans non-consolidated financial sector entities (-)	0	0
Minority interests to be included in tier 2 capital	0	0
Capital requirement		
Total weighted risk volume[2,3,4]	91 216	91 048
Banking	80 189	79 791
Insurance	11 068	11 068
Holding activities	72	247
Elimination of intercompany transactions	- 113	- 57
Solvency ratios		
Common equity ratio	12.84%	13.71%
Tier-1 ratio	12.84%	15.25%
CAD ratio	17.82%	16.89%

1.The decrease in subordinated liabilities is amongst other things the result of the call of almost all KBC's classic subordinated instruments.
2 Until the end of 2014, KBC Group's RWA include a yearly decreasing amount of RWA for residual operational risks related to KBL EPB (sold in 2012).
3. The reference figures on total weighted risk volume have been restated to account for the different treatment of the joint venture ČMSS in the Czech Business Unit (from proportionate consolidation to equity method - for more information see note 1a of the Consolidated financial statements of this interim report.).
4. As from 1Q 2014 the RWA methodology changed whereby the 'carve out' of the home-country sovereign bonds (risk weighting these at zero percent) was not applied anymore. This change increased RWA by approximately 4.4 billion euros as calculated based on positions as at the end of 2013.

Following table groups the solvency on the level of KBC according to different methodologies and calculation methods.

Overview of KBC Group CET ratio	Danish Compromise		Building Block Method	
	Fully loaded	Phased-in	Fully loaded	Phased-in
In millions of EUR - 30-09-2014				
Common equity	12 485	12 213	12 950	11 609
Total weighted risk volume	91 048	87 267	92 141	88 359
Common equity ratio	13.71%	14.00%	14.05%	13.14%

Solvency banking and insurance activities separately

The tables below show the tier-1 and CAD ratios calculated under Basel III/CRD IV Danish Compromise for KBC Bank, as well as the solvency ratio of KBC Insurance. More information on the solvency of KBC Bank and KBC Insurance as at 31-12-2013 can be found in their consolidated financial statements and in the KBC Risk Report on www.kbc.com.

Solvency, KBC Bank consolidated (in millions of EUR)	31-12-2013	30-09-2014
Total regulatory capital, after profit appropriation	14 400	13 765
Tier-1 capital	9 602	11 439
Of which common equity	9 602	10 039
Tier-2 capital	4 797	2 326
Total weighted risks	79 822	79 424
Credit risk	64 776	66 089
Market risk	4 308	2 597
Operational risk	10 738	10 738
Solvency ratios		
Common equity ratio	12.0%	12.6%
Tier-1 ratio	12.0%	14.4%
CAD ratio	18.0%	17.3%
Solvency, KBC Insurance consolidated (in millions of EUR)	**31-12-2013**	**30-09-2014**
Available capital	2 721	3 204
Required solvency margin	968	973
Solvency ratio and surplus		
Solvency ratio (%)	281%	329%
Solvency surplus (in millions of EUR)	1 753	2 231