2Q2013

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

CAD ratio: [total regulatory capital] / [total weighted risks].

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).

(Core) Tier-1 capital ratio (Basel II): [tier-1 capital] / [total weighted risks]. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian Federal and Flemish Regional governments).

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

Cover ratio: [impairment on loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing loan ratio'. Where appropriate, the numerator may be limited to individual impairment on non-performing loans.

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, it will be deducted from the numerator (*pro rata*). If a penalty 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, it will be deducted from the numerator (*pro rata*). If a penalty 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].

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

Non-performing loan ratio: [amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than 90 days in arrears or overdrawn)] / [total outstanding loan portfolio]

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, adjusted for income on allocated capital instead of real capital] / [average capital allocated to the business unit]. The capital allocated to a business unit is based on risk-weighted assets for banking and risk-weighted asset equivalents for insurance.

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, 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 on 2Q2013 and 1H2013

This press release contains information that is subject to transparency regulations for listed companies.
Date of release: 8 August 2013

Summary: Strong first-half profit of 1 037 million euros, advanced repayment of 1 750 million euros of Flemish state aid.

KBC ended the second quarter of 2013 with a net profit of 517 million euros, compared with a net profit of 520 million euros in the previous quarter and a loss of 539 million euros a year earlier. For the first six months of the year, therefore, net profit has come in at 1 037 million euros as opposed to a net loss of 160 million euros in the first half of last year.

After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 485 million euros, compared with 359 million euros in the previous quarter and 343 million euros in the corresponding quarter of 2012. For the first six months of the year, the adjusted net profit stood at 843 million euros compared with 844 million euros in 1H2012.

Johan Thijs, Group CEO:

'KBC continued to benefit from its strong commercial franchise in banking and insurance in the second quarter and recorded a high 517 million euros in net profit against an economic background of low growth and low interest rates. At group level and excluding deconsolidated entities, we managed to maintain levels of net interest income and net interest margin, while posting robust fee and commission income for the second quarter in a row, recording a good combined ratio, achieving an excellent cost/income ratio and reducing impairment.

In this quarter, the Belgium Business Unit generated a net result of 418 million euros, an even higher figure than the 385 million euros for the previous quarter. Both our deposit volume and lending to individuals and SMEs rose again. The quarter under review was characterised by good levels of commercial net interest income and net fee and commission income, modest unit-linked life insurance sales and a low non-life combined ratio. The significantly positive marked-to-market revaluation of our ALM derivatives also boosted the revenue stream. The excellent cost/income ratio proves that costs are well under control and the reduced level of loan loss impairment is encouraging. The banking activities accounted for 79% of the net result in the quarter under review, and insurance activities for 21%.

The Czech Republic Business Unit posted a net result of 146 million euros this quarter, slightly above the average figure of 139 million euros for the four preceding quarters. Compared to the previous quarter, this one had slightly higher net interest income (excluding FX effects), somewhat lower net fee and commission income and lower sales of unit-linked life insurance. The impact of the floods on the results of the non-life business was limited. Roughly flat costs and lower loan loss impairment contributed to the net result. Banking activities accounted for 98% of the net result in the quarter under review and insurance activities for 2%.

The International Markets Business Unit recorded a net result of -23 million euros for the second quarter, an improvement on the average of -46 million euros for the four preceding quarters. Quarter-on-quarter, the positive impact was chiefly attributable to the bank tax for the full year in Hungary being charged in the first quarter (notwithstanding an additional bank tax burden in the second quarter) and a decreasing – though still significant – level of loan loss impairment in Ireland. This impairment is in line with the earlier guidance of 300 to 400 million euros for full-year 2013. Overall, the banking activities accounted for a net result of -29 million euros (the positive results in Slovakia, Hungary and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a net result of 6 million euros.

Following on the announcement at the end of 2012, we completed the sale in May of our Russian banking subsidiary, Absolut Bank, to a group of Russian companies that manage the assets of Blagosostoyanie. The deal has freed up 0.3 billion euros of capital.

We also managed to reduce the remaining CDO exposure to a net exposure of 6.3 billion euros at the end of this quarter. Even when account is taken of both the costs and benefits of reducing this CDO exposure and of the fee for the guarantee scheme, the market valuation of this exposure increased by some 0.2 billion euros, post tax.

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

Our capital position has strengthened further to a tier-1 ratio of 16.8%. When account is taken of the effects of the transfer of 0.3 billion euros' worth of shareholder loans, the repayment of 1.17 billion euros of Flemish state aid (plus the penalty of 0.58 billion euros) and the sale of KBC Banka, the pro forma ratio stands at 14.9%. Our pro forma common equity ratio under Basel III at *the end of the quarter stood at 11.8% (fully loaded), well above our goal to maintain a target common equity ratio under Basel III (fully loaded) of 10% as of 1 January 2013.*

We are particularly pleased with the continued trust that clients and stakeholders have placed in our firm and its employees. Our enduring efforts have ensured that we are moving – and will continue to move – towards becoming a strong and independent reference in the European financial sector.'

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 second quarter, corporate and ABS credit spreads tightened further, as had been the case during previous quarters. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the costs and benefits of reducing the CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 180 million euros.
- Remaining divestments: The closure of the deal to sell Absolut Bank to a group of Russian companies that manage the assets of Blagosostoyanie had a negative impact of about -0.1 billion euros on the results, but none on regulatory capital. An impairment of 20 million euros (post tax) on the 75-million-euro subordinated loan to NLB has also been recorded under this line for this quarter.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of March 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of 20 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 2Q2013 compared to 1Q2013:

- High level of group profit thanks to continued strong commercial franchise and positive CDO valuation.
- Attractive return on equity of 15% based on adjusted results.
- Net interest margin stable and net interest income roughly flat on a comparable basis.
- Stable deposit and loan portfolio.
- Good combined ratio of 91% year-to-date, although uptick of claims.
- Satisfactory level of dealing room income.
- Strong net fee and commission income, comparable to 1Q2013.
- Excellent cost/income ratio of 50% year-to-date, based on adjusted results.
- Credit cost ratio down to 0.75% year-to-date; Ireland's ratio reduced further to 2.35%.
- Consistently strong liquidity position, with LCR at 125% and NSFR at 107%.
- Solvency: strong capital base: *pro forma* tier-1 ratio – including the effect of the repayment of Flemish state aid, the transfer of shareholder loans and the sale of KBC Banka – at 14.9% (with a core tier-1 ratio of 12.6%). *Pro forma* Basel III common equity ratio (fully loaded) at 11.8%, well above the 10% target.

Overview KBC Group (consolidated)	2Q2012	1Q2013	2Q2013	1H2012	1H2013
Net result, IFRS (in millions of EUR)	-539	520	517	-160	1 037
Basic earnings per share, IFRS (in EUR)[1]	-1.99	1.25	1.24	-1.28	2.49
Adjusted net result (in millions of EUR)	343	359	485	844	843
Basic earnings per share, based on adjusted net result (in EUR)[1]	0.49	0.86	1.16	1.67	2.02
Breakdown by business unit (in millions of EUR)[2]					
Belgium	244	385	418	730	803
Czech Republic	159	132	146	318	279
International Markets	-41	-87	-23	-204	-110
Group Centre	-19	-71	-56	0	-128
Parent shareholders' equity per share (in EUR, end of period)	28.5	30.0	29.1	28.5	29.1

1 Note: If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator (*pro rata*). If a penalty has to be paid, it will likewise be deducted.
2 A new breakdown by business unit entered into force in 2013 (more information on this breakdown can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section of the quarterly report). The 2012 reference figures have been restated in order to reflect this new breakdown.

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).

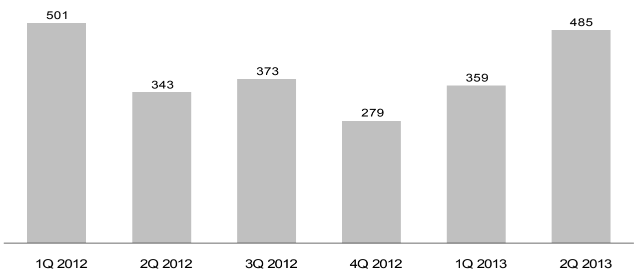
Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1H 2012	1H 2013
Net interest income	1 261	1 190	1 097	1 121	1 068	1 016	-	-	2 451	2 084
Interest income	2 695	2 563	2 493	2 382	2 193	2 109	-	-	5 258	4 302
Interest expense	-1 434	-1 374	-1 396	-1 261	-1 125	-1 093	-	-	-2 808	-2 218
Non-life insurance (before reinsurance)	204	200	157	61	149	115	-	-	403	264
Earned premiums	438	442	307	313	305	316	-	-	880	621
Technical charges	-234	-243	-150	-252	-156	-201	-	-	-477	-357
Life insurance (before reinsurance)	-72	-67	-79	-22	-59	-62	-	-	-139	-122
Earned premiums	446	448	271	310	271	241	-	-	894	512
Technical charges	-518	-514	-350	-332	-331	-303	-	-	-1 033	-634
Ceded reinsurance result	-14	-1	-12	13	-12	13	-	-	-14	1
Dividend income	6	21	13	5	5	20	-	-	27	25
Net result from financial instruments at fair value through profit or loss	60	43	275	42	314	425	-	-	103	739
Net realised result from available-for-sale assets	32	9	56	85	142	47	-	-	41	189
Net fee and commission income	304	309	343	360	393	385	-	-	613	778
Fee and commission income	492	479	494	541	641	565	-	-	970	1 206
Fee and commission expense	-188	-170	-151	-181	-248	-180	-	-	-358	-428
Other net income	73	368	106	187	76	-20	-	-	441	56
Total income	1 853	2 072	1 954	1 854	2 076	1 938	-	-	3 925	4 014
Operating expenses	-1 132	-1 033	-1 003	-1 081	-1 039	-931	-	-	-2 165	-1 971
Impairment	-273	-1 473	-302	-463	-352	-276	-	-	-1 746	-628
on loans and receivables	-261	-198	-283	-330	-295	-255	-	-	-459	-550
on available-for-sale assets	-5	-75	-4	-11	-13	-3	-	-	-79	-16
on goodwill	0	-414	0	-8	-7	0	-	-	-414	-7
on other	-7	-786	-15	-114	-37	-18	-	-	-794	-55
Share in results of associated companies	-9	17	-6	1	0	0	-	-	8	0
Result before tax	439	-417	644	310	684	731	-	-	22	1 415
Income tax expense	-93	-110	-103	-56	-160	-211	-	-	-202	-372
Net post-tax result from discontinued operations	40	-8	0	-6	0	0	-	-	33	0
Result after tax	387	-535	540	249	524	520	-	-	-148	1 044
attributable to minority interests	7	5	9	9	4	3	-	-	12	7
attributable to equity holders of the parent	**380**	**-539**	**531**	**240**	**520**	**517**	**-**	**-**	**-160**	**1 037**
Basic earnings per share (EUR)	0.71	-1.99	1.16	-0.97	1.25	1.24	-	-	-1.28	2.49
Diluted earnings per share (EUR)	0.71	-1.99	1.16	-0.97	1.25	1.24	-	-	-1.28	2.49

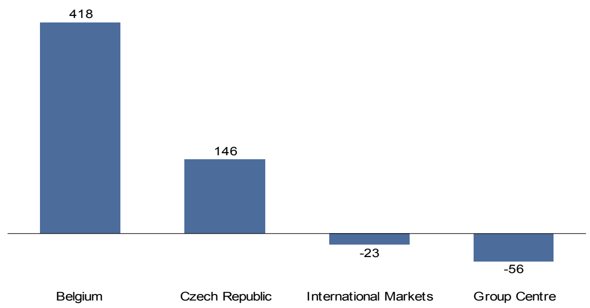
Overview of adjusted results

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 (all trading results shifted to 'Net results from financial instruments at fair value'). A full explanation of the differences between the IFRS and adjusted figures is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section of the quarterly report.

Consolidated income statement, KBC Group (in millions of EUR)	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1H 2012	1H 2013
Adjusted net result (i.e. excluding legacy business and own credit risk)										
Net interest income	1 217	1 153	1 078	1 084	1 032	990	-	-	2 370	2 022
Non-life insurance (before reinsurance)	204	200	157	61	149	115	-	-	403	264
Earned premiums	438	442	307	313	305	316	-	-	880	621
Technical charges	-234	-243	-150	-252	-156	-201	-	-	-477	-357
Life insurance (before reinsurance)	-72	-67	-79	-22	-59	-62	-	-	-139	-122
Earned premiums	446	448	271	310	271	241	-	-	894	512
Technical charges	-518	-514	-350	-332	-331	-303	-	-	-1 033	-634
Ceded reinsurance result	-14	-1	-12	13	-12	13	-	-	-14	1
Dividend income	5	22	10	5	4	19	-	-	27	23
Net result from financial instruments at fair value through profit or loss	353	58	223	156	218	256	-	-	410	473
Net realised result from available-for-sale assets	31	9	55	85	96	46	-	-	40	141
Net fee and commission income	312	309	345	359	385	388	-	-	621	773
Other net income	22	60	80	89	76	69	-	-	83	145
Total income	2 057	1 743	1 857	1 831	1 890	1 832	-	-	3 801	3 722
Operating expenses	-1 110	-1 016	-990	-1 068	-1 029	-921	-	-	-2 126	-1 950
Impairment	-271	-241	-305	-378	-335	-235	-	-	-512	-570
on loans and receivables	-261	-198	-283	-329	-295	-217	-	-	-459	-512
on available-for-sale assets	-5	-24	-4	-4	-13	-3	-	-	-29	-16
on goodwill	0	0	0	0	-7	0	-	-	0	-7
on other	-5	-18	-18	-45	-20	-15	-	-	-24	-35
Share in results of associated companies	-9	-9	-13	1	0	0	-	-	-19	0
Result before tax	667	477	549	385	526	677	-	-	1 144	1 202
Income tax expense	-159	-129	-167	-98	-163	-189	-	-	-289	-352
Result after tax	508	348	382	287	363	487	-	-	855	850
attributable to minority interests	7	5	9	9	4	3	-	-	12	7
attributable to equity holders of the parent	**501**	**343**	**373**	**279**	**359**	**485**	**-**	**-**	**844**	**843**
Belgium	486	244	335	295	385	418	-	-	730	803
Czech Republic	158	159	149	114	132	146	-	-	318	279
International Markets	-163	-41	-38	-18	-87	-23	-	-	-204	-110
Group Centre	19	-19	-72	-113	-71	-56	-	-	0	-128
Basic earnings per share (EUR)	1.19	0.49	0.69	-0.92	0.86	1.16	-	-	1.67	2.02
Diluted earnings per share (EUR)	1.19	0.49	0.69	-0.92	0.86	1.16	-	-	1.67	2.02
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	138	-39	280	46	165	180	-	-	99	346
Legacy – divestments	81	-884	23	3	22	-128	-	-	-803	-106
MTM of own credit risk	-340	41	-144	-87	-26	-20	-	-	-300	-46
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent: IFRS	**380**	**-539**	**531**	**240**	**520**	**517**	**-**	**-**	**-160**	**1 037**

Analysis of the quarter under review (2Q2013)





The net result for the quarter under review amounted to 517 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 485 million euros, compared with 359 million euros in 1Q2013 and 343 million euros in 2Q2012.

Total income (adjusted net result)

- The quarter-on-quarter comparison was partially impacted by the deconsolidation of Absolut Bank, while the year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, Warta, Żagiel, Absolut Bank and certain other sales. These items will be disregarded to enable a meaningful comparison to be made.
- Net interest income stood at 990 million euros, down 4% quarter-on-quarter and 14% year-on-year. On a comparable basis, net interest income fell by just 2% quarter-on-quarter and 7% year-on-year. This was due primarily to the lower income generated by asset and liability management (lower reinvestment yields), while commercial margins remained healthy. The net interest margin came to 1.72% for the quarter under review, a level similar to the one in the previous quarter, but 6 basis points lower than the level of the year-earlier quarter. In the Belgium Business Unit, deposit and loan volumes were flat quarter-on-quarter. On a yearly comparison, the loan book contracted by 1% (due to the loan book deliberately being reduced at the foreign branches while the other segments posted growth), while the deposit base grew by 6%. The loan book in the Czech Republic increased by 8% year-on-year and by 3% quarter-on-quarter, while deposits rose by 2% year-on-year and stayed flat quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 5% year-on-year (due to Ireland and Hungary) and by 1% quarter-on-quarter, while the deposit base grew by 20% year-on-year (driven by Ireland, Hungary and Slovakia) and by 3% quarter-on-quarter.
- The life and non-life insurance businesses turned in the following performance during the quarter under review. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 66 million euros, down 15% quarter-on-quarter and 50% year-on-year. However, when account is taken of the deconsolidation of Warta, this result was 20% higher than the year-earlier figure.

  Premiums in the non-life segment were 3% higher quarter-on-quarter and 4% higher year-on-year (on a comparable basis). The claims arising from *inter alia* the floods in the Czech Republic resulted in a significantly higher level of technical charges compared with 1Q2013 and 2Q2012. Nevertheless, the combined ratio still came to a good 91% year-to-date (95% for the quarter itself).

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were down 20% on their level in 1Q2013. Year-on-year on a comparable basis, these sales have fallen by as much as 65%, triggered by a number of factors, including a change in the tax treatment of unit-linked life insurance contracts in Belgium since the beginning of 2013 and a shift towards mutual funds.

  It should be noted that the second quarter was a good one for investment income from insurance activities, with the quarter-on-quarter results being boosted by substantially higher dividend income in the investment portfolio – a typical effect of the second quarter – and by lower impairment charges. 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 256 million euros in the quarter under review, higher than the 164-million-euro average for the last four quarters. This figure is usually defined by dealing-room income, but this quarter has been influenced primarily by a positive result of 126 million euros on the marked-to-market valuations in respect of derivative instruments used in asset and liability management.

- Net realised gains from available-for-sale assets stood at 46 million euros for the quarter under review, below the 61-million-euro average for the last four quarters. These gains were realised on the sale of both bonds and shares, and were lower than the previous quarter, which had benefited largely from gains on the sale of Belgian government bonds.
- Net fee and commission income continued to grow and amounted to 388 million euros, up 1% quarter-on-quarter and 26% year-on-year. On a comparable basis, income was up by as much as 2% quarter-on-quarter and by 23% year-on-year. The main drivers for this increase were higher management fees on mutual funds, despite a lower level of transaction fees. Assets under management stood at 156 billion euros, flat compared to the quarter earlier (net new inflows were fully offset by the negative investment performance) and up 3% year-on-year, driven by investment performance.
- Other net income came to 69 million euros, down somewhat on the 76-million-euro average of the four preceding quarters.

Operating expenses (adjusted net result)

- Operating expenses came to 921 million euros in 2Q2013, down 10% on their level in the previous quarter and down 9% on their year-earlier level. On a comparable basis, costs decreased by 8% compared with the previous quarter, something that was chiefly attributable to the bank tax for the full year in Hungary being charged in the first quarter (notwithstanding an additional one-off financial transaction levy in the second quarter), as well as to a reimbursement in the second quarter relating to the former deposit guarantee scheme in Belgium. Year-on-year on a comparable basis, costs were 4% higher. This was due primarily to the new financial transaction levy in Hungary and higher bank tax in Belgium, partly offset by lower professional fees and the impact of currency exchanges. The year-to-date cost/income ratio came to 50%, a clear indication that costs remain well under control. However, this ratio was positively impacted by the high level of marked-to-market valuations in respect of the derivative instruments used in asset and liability management.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 217 million euros in 2Q2013, down on the 295 million euros recorded in the previous quarter, but up on the 198 million euros recorded a year earlier. The figure for 2Q2013 included loan loss impairment of 88 million euros recorded at KBC Bank Ireland (as opposed to 99 million euros in the previous quarter and 136 million euros in the year-earlier quarter), as well as 82 million euros in the Belgium Business Unit (compared with 138 million euros in the first quarter of 2013 and 41 million euros in the year-earlier quarter). The annualised credit cost ratio stood at 0.75% year-to-date. This breaks down into 0.49% for the Belgian Business Unit (up from 0.28% for FY2012 mainly as a result of increased impairment recorded in the SME & corporate segment), 0.30% in Czech Republic Business Unit (flat compared with 0.31% for FY2012, but driven by a change in methodology) and 1.76% for the International Markets Business Unit (down from 2.26% for FY2012).
- Impairment charges on available-for-sale assets came to 3 million euros and other impairment charges amounted to 15 million euros in the quarter under review.

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

- CDOs: During the second quarter, corporate and ABS credit spreads tightened further, as had been the case during previous quarters. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the costs and benefits of reducing the CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 180 million euros.
- Remaining divestments: The closure of the deal to sell the Russian banking business, Absolut Bank, to a group of Russian companies that manage the assets of Blagosostoyanie had a negative impact of about -0.1 billion euros on the results, but none on regulatory capital. An impairment of 20 million euros (post tax) on the 75-million-euro subordinated loan to NLB has also been recorded under this line for this quarter. The total post-tax impact was a negative 128 million euros.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of March 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of 20 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 2Q2013, the Belgium Business Unit generated a net result of 418 million euros, well above the average figure of 315 million euros for the four preceding quarters. The quarter under review was characterised by sound levels of commercial net interest income and net fee and commission income, modest unit-linked life insurance sales, a good non-life combined ratio, seasonally higher dividend income, significantly positive MtM valuations of ALM derivatives, low realised gains on the sale of available-for-sale securities, an excellent cost/income ratio and a reduced level of loan loss impairment. The banking activities accounted for 79% of the net result in the quarter under review, and insurance activities for 21%.

- In the quarter under review, the Czech Republic Business Unit generated a net result of 146 million euros, slightly above the average figure of 139 million euros for the four preceding quarters. Compared with the previous quarter, 2Q2013 had slightly higher net interest income (excluding FX effects), a limited flood-related impact on the results of the non-life insurance business, lower unit-linked life insurance sales, higher MtM valuations of ALM derivatives, somewhat lower net fee and commission income, roughly flat costs and lower loan loss impairment charges (driven by changes in methodology). Banking activities accounted for 98% of the net result in the quarter under review and insurance activities for 2%.

- In the quarter under review, the International Markets Business Unit recorded a net result of -23 million euros, an improvement on the average of -46 million euros for the four preceding quarters. Quarter-on-quarter, 2Q2013 was characterised by higher net interest income, net fee and commission income and realised gains on available-for-sale securities, some positive one-off items in other net income, lower costs (related to the booking of bank tax in Hungary) and more or less flat loan loss impairment charges (with Ireland still accounting for a significant, though decreasing, amount). Overall, the banking activities accounted for a negative net result of 29 million euros (the positive results in Slovakia, Hungary and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a positive net result of 6 million euros.

- The Group Centre's net result amounted to -24 million in 2Q2013. As mentioned earlier, this includes not only a number of group items and results of companies earmarked for divestment, but also the full impact of the legacy business (CDOs, divestments) and the valuation of own credit risk. Excluding these items, the Group Centre's adjusted net result was -56 million euros.

Analysis of the year-to-date period under review (1H2013)

The net result for 1H2013 amounted to 1 037 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 843 million euros, compared with 844 million euros in 1H2012.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Kredyt Bank, Warta, Żagiel, Absolut Bank and certain other sales. These items will be disregarded to enable a meaningful comparison to be made.
- Net interest income stood at 2 022 million euros, down 15% year-on-year. On a comparable basis, net interest income fell by 8% year-on-year. This was due primarily to the lower income generated by asset and liability management (lower reinvestment yields), while commercial margins remained healthy. The net interest margin came to 1.72% year-to-date, 10 basis point lower than the high level of a year earlier. In the Belgium Business Unit, the loan book contracted by 1% year-on-year (due to the loan book being deliberately reduced at the foreign branches while the other segments posted growth), while the deposit base grew by 6%. The loan book in the Czech Republic increased by 8% year-on-year, while deposits rose by 2%. The loan portfolio in the International Markets Business Unit declined by 5% year-on-year (due to Ireland and Hungary), while the deposit base grew by 20% (driven by Ireland, Hungary and Slovakia).
- The life and non-life insurance businesses turned in the following performance during the first half of 2013. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 143 million euros, down 43% year-on-year. However, when account is taken of the deconsolidation of Warta, this result was 30% higher than the year-earlier figure.

  Premiums in the non-life segment were 3% higher year-on-year (on a comparable basis). The claims arising from *inter alia* the floods in the Czech Republic resulted in a significantly higher level of technical charges compared with 1H 2012. Nevertheless, the combined ratio still came to a good 91% year-to-date.

  In the life segment, and on a comparable basis, sales of life insurance products (including unit-linked products not included in premium income figures) were down 55% on their level in 1H2012, triggered by a change in the tax treatment of unit-linked life insurance contracts in Belgium since the beginning of 2013 and a shift to mutual funds, amongst other things.

  It should be noted that the insurance results were also impacted by lower investment income, but benefited from general administrative expenses being kept strictly under control.
- The net result from financial instruments at fair value amounted to 473 million euros in the first half of 2013, compared with 410 million euros for the first half of the previous year, or 378 million euros on a comparable basis. This figure is usually defined by dealing-room income, but this first six-month period has been influenced primarily by a positive result of 211 million euros on the marked-to-market valuations in respect of the derivative instruments used in asset and liability management.
- Net realised gains from available-for-sale assets stood at 141 million euros for the period under review, compared with 40 million euros for the first half of the previous year, or 32 million euros on a comparable basis. The gains were realised on the sale of both bonds and shares, with the first quarter benefiting from particularly large gains on the sale of Belgian government bonds.
- Net fee and commission income amounted to 773 million euros, up 25% year-on-year. On a comparable basis, income was up 21% year-on-year. The main drivers for this increase were entry and management fees on mutual funds. Assets under management stood at 156 billion euros, up 1% since the end of 2012 primarily because of price effects.
- Other net income came to 145 million euros as opposed to 83 million euros in the year-earlier period, which had been impacted by provisioning for the 5-5-5 product.

Operating expenses (adjusted net result)

- Operating expenses came to 1 950 million euros in 1H2013, down 8% on their year-earlier level. On a comparable basis, costs increased by 3%, owing in part to the introduction of the financial transaction levy in Hungary, higher pension expenses and higher ICT costs. The year-to-date cost/income ratio came to 50%, a clear indication that costs remain well under control. However, it was positively impacted by the high level of marked-to-market valuations in respect of the derivative instruments used in asset and liability management and by net realised gains from available-for-sale assets.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 512 million euros in 1H2013, up on the 459 million euros recorded a year earlier. The figure for 1H2013 included loan loss impairment of 187 million euros recorded at KBC Bank Ireland (as opposed to 331 million euros in the first six months of 2012), as well as a relatively high 220 million euros in the Belgium Business Unit. The annualised credit cost ratio stood at 0.75% year-to-date. This breaks down into 0.49% for the Belgian Business Unit (up from 0.28% for FY2012), 0.30% in Czech Republic Business Unit (compared with 0.31% for FY2012) and 1.76% for the International Markets Business Unit (down from 2.26% for FY2012).
- Impairment charges on available-for-sale assets came to 16 million euros and other impairment charges amounted to 42 million euros in the six months under review.

Income tax

- Income tax amounted to 352 million euros for the first six months of 2013.

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

- CDOs: During the first six months of 2013, corporate and ABS credit spreads tightened further. When account is taken the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the costs and benefits of reducing the CDO exposure and the improved CVA on MBIA, there was a positive post-tax impact of some 346 million euros.
- Remaining divestments: The successful placement of KBC's 16.2% participation in Bank Zachodni WBK through a secondary offering resulted in an additional capital gain. In contrast, the sale of KBC Banka and the closure of the deal to sell NLB led to a capital loss. Their combined effect amounted to a positive 22 million euros (post tax) in the first quarter. In the second quarter, the closure of the deal to sell the Russian Absolut Bank to a group of Russian companies that manage the assets of Blagosostoyanie had a negative impact on the results of about -0.1 billion euros, but none on regulatory capital. An impairment of 20 million euros (post tax) on the subordinated loan to NLB was also recorded under this line in 2Q2013. The total impact of all these items on the net result for the first six months of 2013 was a negative 106 million euros.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of 2012 and the end of the second quarter resulted in a negative marked-to-market adjustment of 46 million euros (post tax), but had no impact on regulatory capital.

Equity and solvency

- At the end of June 2013, total equity came to 16 billion euros – up 0.1 billion euros on its level at the start of the year – due mainly to the 1H results (1 billion euros) mitigated by the payment of the dividend and the payment of the coupon on non-voting core-capital securities subscribed by the Belgian Federal and Flemish Regional governments (an aggregate -1 billion euros). Repayment of 1.17 billion euros (plus 50% penalty) in Flemish state aid was made on 3 July 2013 and will be reflected in the third-quarter figures.
- The group's tier-1 ratio (under Basel II) stood at a strong 16.8% at 30 June 2013 (core tier-1 ratio of 14.5%). Including the effect of the repayment of Flemish state aid, the transfer of shareholder loans and the sale of KBC Banka, the *pro forma* tier-1 ratio was as high as 14.9% (core tier-1 ratio of 12.6%).
- The solvency ratio for KBC Insurance stood at an excellent 304% at 30 June 2013, slightly down from the very high 322% at the end of 2012.
- The *pro forma* common equity ratio under the current Basel III framework came to 11.8% (fully loaded, but including the remaining aid from the Flemish Region) at the end of the second quarter of 2013, well above the targeted common equity ratio of 10% under Basel III (fully loaded).

Liquidity

- The group's liquidity remains excellent, as reflected in the LCR ratio of 125%, as well as in the NSFR ratio of 107% at the end of the quarter.

Selected balance sheet data

Highlights of consolidated balance sheet KBC Group (in millions of EUR)	31-03-2012	30-06-2012	30-09-2012	31-12-2012	31-03-2013	30-06-2013	30-09-2013	31-12-2013
Total assets	290 635	285 848	270 010	256 928°	258 567	253 297	-	-
Loans and advances to customers*	135 980	133 326	131 048	128 492	129 753	131 769	-	-
Securities (equity and debt instruments)*	65 853	64 227	65 171	67 295	65 071	65 722	-	-
Deposits from customers and debt certificates*	166 551	163 685	160 945	159 632	167 994	167 414	-	-
Technical provisions, before reinsurance*	19 925	19 539	19 637	19 205	18 836	18 805	-	-
Liabilities under investment contracts, insurance*	7 871	8 856	9 680	10 853	11 664	11 606	-	-
Parent shareholders' equity	10 949	9 687	10 629	12 017°	12 505	12 119	-	-
Non-voting core-capital securities	6 500	6 500	6 500	3 500	3 500	3 500+	-	-

* In accordance with IFRS 5, the assets and liabilities of a number of divestments have been reallocated to 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.
° Restated based on IAS19 revision as of 1 January 2013.
+ On 3 July 2013, 1.17 billion euros of non-voting core-capital securities were redeemed, reducing the outstanding position in these securities to 2.3 billion euros.

Selected ratios

Selected ratios KBC Group (consolidated)	FY2012	1H2013
Profitability and efficiency (based on adjusted net result)		
Return on equity[1]	9%	15%
Cost/income ratio, banking	57%	50%
Combined ratio, non-life insurance	95%	91%
Solvency		
Tier-1 ratio (Basel II)	13.8%	16.8%
Core tier-1 ratio (Basel II)	11.7%	14.5%
Common equity ratio (Basel III, fully loaded, including remaining state aid)	10.8%	13.3%
Credit risk		
Credit cost ratio	0.71%	0.75%
Non-performing ratio	5.3%	5.5%

1 If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator (*pro rata*).

Strategy highlights and main events

Strategy and business highlights

- KBC's core strategy remains focused on bank-insurance in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. In line with its strategic plan, the group has almost completed the sale or run-down of a number of (non-core) activities (see below).

- Last steps in the divestment programme (2Q to date):

  - On 24 May 2013, KBC Group completed the deal announced on 24 December 2012, whereby KBC sold its Russian banking business Absolut Bank to a group of Russian companies that manage the assets of Blagosostoyanie.
  - KBC is still in discussions with a number of interested parties as regards two of its remaining divestment files, i.e. Antwerp Diamond Bank (Belgium) and KBC Bank Deutschland (Germany). It is also maintaining an open and constructive dialogue with the European Commission about these files.

- Other business developments:

  - On 3 July 2013, KBC succeeded in reaching an agreement on 0.3 billion euros' worth of loans it had granted to KBC Ancora and transferring them to another international financial institution. The transfer will boost KBC's capital position under the Basel III framework by a further 0.3 billion euros and will generate added value for its shareholders.
  - On 3 July 2013, KBC repaid 1.17 billion euros of state aid plus the penalty of 0.58 billion euros – i.e. 1.75 billion euros in total – to the Flemish Regional Government, six months in advance of the deadline agreed with the European Commission, reducing the outstanding state aid position to 2.3 billion euros.

- Developments on the Corporate Social Responsibility front:

  - On 13 June 2013, the first meeting of KBC's CSR Board took place. Composed of external CSR experts and academics, this board assists, inspires and challenges KBC on different CSR related actions and initiatives.
  - On 15 June 2013, ČSOB Slovakia's employees participated for the fourth time in the 'Our City' event, the biggest event of its kind for corporate volunteering in Slovakia and Central Europe.
  - In June 2013, ČSOB Slovakia published its Corporate Responsibility Report for 2012 for the second year.
  - In June 2013, Ethibel confirmed KBC's membership of the Ethibel Excellence Investment Register, indicating that the company performs better than average in its sector in terms of CSR.
  - On 17 June 2013, K&H Insurance in Hungary came second in the Consumer-Friendly Insurer of the Year competition. The prizes were awarded by an independent professional panel.
  - In the second quarter, ČSOB Czech Republic was named Best Bank in the Czech Republic by EMEA Finance for the third time in four years.
  - On 8 July 2013, CIBANK in Bulgaria received the Grapevine Awards 2013 for its engagement programme 'ACTIVE'. This internal programme aims at increasing employee engagement as part of a new corporate culture initiative and won the Grapevine Award in the category 'Best employee engagement program or campaign'.
  - In July 2013, KBC was included in the Euronext Vigeo Benelux 20 Index, composed of the 20 most advanced companies in the Benelux region in terms of their performance with regard to the environment, social issues and corporate governance.

- 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 restructuring 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.
  - Five trends continued to affect the global economy during 2Q2013. Firstly, the recovery in the US continued, despite the so-called fiscal drag, with net job creation hitting about 200 000 per month. This prompted the Fed to consider starting to phase out its asset purchase programme later in 2013. Secondly, confidence indicators in the EMU suggest that the European economy is moving out of recession and back into positive growth territory in the third quarter. Thirdly, the combination of fiscal reform and strong monetary expansion in Japan ('Abenomics') is boosting producer and consumer confidence and supporting economic growth. Fourthly, China's efforts to rebalance its economic growth away from exports and towards domestic demand, together with the need to preserve the health of its financial system, are leading to a markedly lower growth rate than in the past. Finally, the weak growth of credit and monetary aggregates in developed economies imply that the disinflationary trend will continue for the time being, helped by stable or even falling commodity prices.
  - The main risks for the global economy are:
    - a stronger-than-expected rise in global bond yields following the end of the US Fed's asset purchase programme.
    - economic and/or financial instability in the Chinese economy, leading to a significant economic slowdown.
    - the re-emergence of an acute EMU crisis as a consequence of possible political stalemates. A ruling by the German Constitutional Court in Q32013 that places significant restrictions on the ECB's OMT programme, could also lead to new waves of uncertainty and widening bond yield spreads within the EMU.

The financial calendar, including analyst and investor meetings, is available at www.kbc.com/ir/calendar.

KBC Group Analysis of 2Q2013 results by business unit

Unless otherwise specified,
all amounts are given in euros

New business unit structure since 1 January 2013

A new management structure was introduced at the start of 2013, reflecting the group's updated strategy. More information on this is available in the press release ('KBC 2013 and beyond') and presentation of 8 October 2012, and in the 2012 annual report, which are all available on www.kbc.com. Based on this new management structure, the group also reworked its financial segment reporting presentation.

In the new segment reporting presentation, the segments[1] 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 *legacy and own credit risk* impact (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 profit and loss account, an *adjusted* profit and loss account is provided in which a limited number of non-operational 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 divestments);
- the impact of changes in fair value of own debt instruments due to own credit risk.

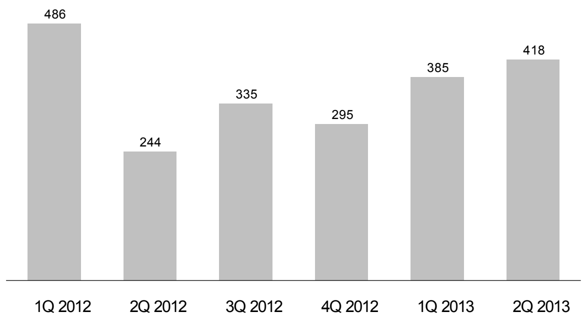
In the segment reporting presentation, these items <u>are all assigned to the Group Centre</u> (hence, for the other business units, there is no additional 'adjusted' net result total).

Presentation of certain P/L lines relating to insurance results

As of this report, the presentation of P/L lines relating to earned premiums and technical charges in the insurance business has been changed to provide a better insight into the non-life and life businesses separately.

1 The management structure of the group also includes an International Product Factories Business Unit. The results of the activities of this business unit are included in the results of the other business units based on geography. Consequently, this business unit is not presented separately when the results are reported by segment.

Analysis of the results – Belgium Business Unit



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)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	724	671	639	688	658	640	-	-
Non-life insurance (before reinsurance)	114	110	126	24	117	96	-	-
Earned premiums	225	226	228	236	234	239	-	-
Technical charges	-111	-116	-102	-212	-117	-143	-	-
Life insurance (before reinsurance)	-92	-92	-88	-32	-69	-69	-	-
Earned premiums	264	184	166	233	195	180	-	-
Technical charges	-357	-276	-254	-266	-263	-249	-	-
Ceded reinsurance result	-8	-6	-12	15	-10	4	-	-
Dividend income	5	21	9	5	4	18	-	-
Net result from financial instruments at fair value through profit or loss	278	1	134	94	135	201	-	-
Net realised result from available-for-sale assets	40	-8	44	42	85	30	-	-
Net fee and commission income	222	238	234	253	291	288	-	-
Other net income	-14	42	39	39	66	49	-	-
Total income	1 269	976	1 126	1 128	1 278	1 257	-	-
Operating expenses	-568	-536	-535	-557	-575	-544	-	-
Impairment	-6	-79	-84	-159	-140	-98	-	-
on loans and receivables	-1	-41	-66	-139	-138	*-82*	-	-
on available-for-sale assets	-4	-24	-4	-4	-2	*-2*	-	-
on goodwill	0	0	0	0	0	*0*	-	-
other	-1	-14	-14	-16	1	*-14*	-	-
Share in results of associated companies	0	0	0	0	0	0	-	-
Result before tax	695	361	508	413	562	615	-	-
Income tax expense	-209	-118	-174	-119	-176	-198	-	-
Result after tax	486	243	334	294	386	417	-	-
attributable to minority interests	0	-1	-1	-1	1	-1	-	-
attributable to equity holders of the parent	**486**	**244**	**335**	**295**	**385**	**418**	**-**	**-**
Banking	360	171	219	239	300	329	-	-
Insurance	126	73	116	57	85	89	-	-
Risk-weighted assets, group (end of period, Basel II)	60 087	56 501	53 757	52 884	51 486	50 190	-	-
of which banking	49 166	45 747	43 056	42 175	41 002	39 662	-	-
Allocated capital (end of period)	6 446	6 080	5 804	5 717	5 568	5 440	-	-
Return on allocated capital (ROAC)	31%	16%	23%	20%	28%	30%	-	-
Cost/income ratio, banking	48%	59%	51%	50%	46%	44%	-	-
Combined ratio, non-life insurance	81%	91%	88%	122%	85%	93%	-	-
Net interest margin, banking	1.43%	1.28%	1.15%	1.16%	1.17%	1.19%	-	-

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'. Note that this shift does not apply to the other business units for reasons of materiality.

In 2Q2013, the Belgium Business Unit generated a net result of 418 million, well above the average figure of 315 million for the four preceding quarters. Quarter-on-quarter, 2Q2013 was characterised by sound levels of commercial net interest income and net fee and commission income, lower unit-linked life insurance sales, a good non-life combined ratio, seasonally higher dividend income, significantly positive MtM valuation of ALM derivatives, lower realised gains on the sale of available-for-sale securities, an excellent cost/income ratio and lower loan loss impairment charges. The banking activities accounted for 79% of the net result in the quarter under review, and insurance activities for 21%.

Good commercial net interest margins, credit and deposit volumes flat quarter-on-quarter

Net interest income stood at 640 million in the quarter under review, down 3% on the previous quarter and 5% year-on-year. The difference with 1Q2013 was caused by the negative impact of the reduced size of the loan portfolio at the foreign branches and some technical elements, as well as by the positive impact of increased commercial net interest income. The latter came about thanks to the beneficial effects of the lower rate of interest on savings accounts, increases in the volume of current accounts and higher margins on mortgage and investments loans, among other things. Compared to 2Q2012, the higher commercial interest income was more than offset by lower reinvestment yields and the run-down of the loan portfolio in the foreign branches. On the whole, the net interest margin at KBC Bank in Belgium widened slightly by 2 basis points quarter-on-quarter, but narrowed by some 9 basis points year-on-year, to 119 basis points in 2Q2013. At the end of June 2013, the loan book (‘loans and advances to customers, excluding reverse repos’) of the Belgium Business Unit amounted to 83.5 billion, flat quarter-on-quarter but down 1% year-on-year (due to a deliberately decreasing loan book at the foreign branches, while the other segments posted growth), while deposits (‘deposits from customers and debt certificates, excluding repos’) stood at 99.7 billion, flat quarter-on-quarter but up 6% year-on-year.

Year-to-date non-life combined ratio still very good; decrease in unit-linked life insurance sales

In the non-life business, premium income (239 million) increased by 2% quarter-on-quarter and by 5% year-on-year. Technical charges (143 million) went up by a significantly greater extent (+22% quarter-on-quarter and +23% year-on-year), driven in part by a higher level of car insurance claims and a number of other major claims. However, after taking into account the positive ceded reinsurance result, earned premiums less technical charges stood at 100 million in the quarter under review, only slightly below the levels in both reference quarters (107 million in 1Q2013, 104 million in 2Q2012). The combined ratio in the quarter under review increased to what is still a good 93% (up from the excellent 85% recorded in 1Q2013), bringing the 1H2013 combined ratio to 89%, a significant improvement on the 95% recorded in FY2012.
In the life business, sales (including unit-linked products, which are not included in the premium figures under IFRS) amounted to 382 million in 2Q2013, down on the 485 million and 1 047 million recorded in the previous and year-earlier quarters. Most of the decrease was caused by the drop in sales of unit-linked products, which was due in part to the impact of the increased insurance tax, fewer commercial campaigns in the quarter under review and a shift towards asset management products. As a result, unit-linked life insurance sales dropped to around half of total life sales, whereas in previous quarters they had always constituted the vast majority of such sales (over three-quarters in the previous 4 quarters). At the end of June 2013, the life reserves of this business unit (including the liabilities under unit-linked contracts) amounted to 25.2 billion.
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.

Sound level of fee and commission income yet again in the quarter under review

Total net fee and commission income amounted to 288 million in the quarter under review, a continuation of the good level in the previous quarter, and as much as 21% higher than its year-earlier level. The quarter under review benefited from increased fee income from mutual funds, but fee income related to unit-linked life insurance products (margin deposit accounting) fell, owing to the decreased sales of these products. Assets under management in this business unit stood at 145 billion at the end of June 2013, more or less the same level recorded three months ago (with positive net inflows offsetting a negative price effect) and up 4% on their year-earlier level (with the positive price effect more than offsetting the net outflow).

Other income components

Trading and fair value income (recorded under ‘Net result from financial instruments at fair value through profit or loss’) came to a high 201 million in the quarter under review, well above the 91 million average for the four preceding quarters, as the figure for 2Q2013 had been boosted by 126 million relating to the MtM valuation of ALM derivatives. Dividend income stood at 18 million, somewhat below the level recorded in the year-earlier quarter, but up significantly on the 4 million recorded in 1Q2013, since the bulk of dividends is received in the second quarter of the year. The realised result from available-for-sale assets amounted to 30 million, down on the average figure of 41 million for the last four quarters; in the quarter under review, it included 17 million realised on the sale of bonds and 14 million on the sale of shares. Other net income came to 49 million in 2Q2013, comparable with the 47 million average for the four preceding quarters (including positive one-off items related to insurance recuperations, which offset one-off provisions for litigation and other one-off losses).

Costs down quarter-on-quarter

The operating expenses of the Belgium Business Unit totalled 544 million in the quarter under review, down 6% on the previous quarter. The quarter under review benefited from a recuperation related to the old deposit guarantee scheme. Additionally, ICT expenses were lower than in 1Q2013, while marketing and communication costs rose. Compared to the year-earlier quarter, costs were more or less unchanged (+1%). The cost/income ratio in the quarter under review amounted to 44%, compared with 46% in 1Q2013. For 1H2013, the cost/income ratio came to an excellent 45% (the ratio clearly benefited somewhat from the relatively large positive MtM valuations of ALM derivatives in the period under review).

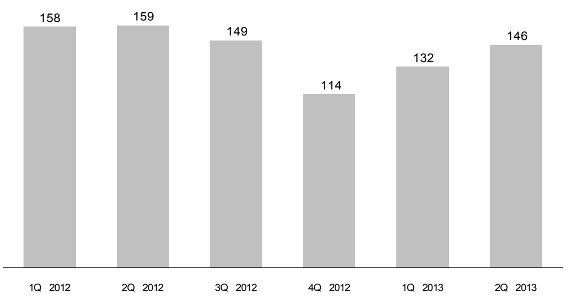
Impairment significantly down on previous quarter

Impairment on loans and receivables (loan loss provisions) amounted to 82 million in 2Q2013, somewhat below the 96 million average for the four preceding quarters, and much lower than the high 138 million recorded in 1Q2013, which had been impacted by significant impairments on a limited number of corporate loans. The 82 million booked in 2Q2013 relates to both retail/SME and corporate lending (roughly 45%/55%, respectively). Consequently, the overall credit cost ratio for 1H2013 stood at 49 basis points, up on the favourable 28 basis points recorded in FY2012 and driven by higher impairment charges on the SME and corporate loan books. At the end of 2Q2013, some 2.3% of the Belgian loan book was non-performing, unchanged from the level recorded three months earlier.

Other impairment charges amounted to 16 million in the quarter under review and related predominantly to real estate.

Analysis of the results – Czech Republic Business Unit

Net result – Czech Republic Business Unit
(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 CMSS), the insurance company ČSOB Pojišťovna, ČSOB Asset Management and Patria Finance.

Income statement, Czech Republic Business Unit, (in millions of EUR)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	261	258	260	249	244	246	-	-
Non-life insurance (before reinsurance)	18	19	16	21	16	3	-	-
Earned premiums	39	41	44	45	41	42	-	-
Technical charges	-21	-22	-28	-24	-25	-39	-	-
Life insurance (before reinsurance)	7	9	8	7	7	5	-	-
Earned premiums	72	160	85	53	48	36	-	-
Technical charges	-64	-151	-77	-46	-41	-30	-	-
Ceded reinsurance result	-1	-2	0	-2	-1	10	-	-
Dividend income	0	0	1	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	33	24	22	17	16	28	-	-
Net realised result from available-for-sale assets	-11	7	5	4	7	6	-	-
Net fee and commission income	49	42	47	41	51	46	-	-
Other net income	10	6	0	13	3	2	-	-
Total income	365	364	359	349	343	347	-	-
Operating expenses	-164	-164	-165	-196	-164	-163	-	-
Impairment	-13	-14	-19	-23	-22	-9	-	-
on loans and receivables	-13	-12	-17	-21	-22	-9	-	-
on available-for-sale assets	0	0	0	-1	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
Other	0	-2	-2	-2	0	0	-	-
Share in results of associated companies	0	0	0	0	0	0	-	-
Result before tax	188	186	175	129	156	176	-	-
Income tax expense	-30	-27	-25	-15	-24	-29	-	-
Result after tax	158	159	149	114	132	146	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**158**	**159**	**149**	**114**	**132**	**146**	**-**	**-**
Banking	154	154	144	106	128	143	-	-
Insurance	5	6	6	9	5	3	-	-
Risk-weighted assets, group (end of period, Basel II)	15 676	16 020	15 218	14 283	13 077	13 962	-	-
of which banking	14 795	15 141	14 316	13 371	12 176	13 062	-	-
Allocated capital (end of period)	1 603	1 637	1 558	1 465	1 344	1 432	-	-
Return on allocated capital (ROAC)	37%	36%	34%	26%	33%	38%	-	-
Cost/income ratio, banking	44%	44%	45%	57%	47%	46%	-	-
Combined ratio, non-life insurance	91%	94%	99%	95%	99%	104%	-	-
Net interest margin, banking	3.36%	3.26%	3.19%	3.03%	3.07%	3.04%	-	-

In the quarter under review, the Czech Republic Business Unit generated a net result of 146 million, slightly above the average figure of 139 million for the four preceding quarters. Compared with the previous quarter, 2Q2013 included slightly higher net interest income (excluding FX effects), a limited impact of the floods on the results of the non-life insurance business, lower unit-linked life insurance sales, a positive MtM valuation of ALM derivatives, somewhat lower net fee and commission income, roughly flat costs and lower loan loss impairment charges. Banking activities accounted for 98% of the net result in the quarter under review and insurance activities for 2%.

Net interest income slightly up quarter-on-quarter, but pressure remains on deposit margins

Net interest income generated in this business unit amounted to 246 million in the quarter under review. Excluding the exchange rate impact (the Czech koruna depreciated by 0.4% quarter-on-quarter and by 2% year-on-year), net interest income went up 2% quarter-on-quarter, thanks mainly to higher net interest income on corporate and SME loans, while retail deposit margins remained under pressure (notwithstanding the repricing of savings accounts in April). Net interest income was down 3% year-on-year (excluding FX effect), which was largely attributable to lower reinvestment yields in general.

The overall net interest margin of the ČSOB group in the Czech Republic amounted to 3.04% in the quarter under review, down slightly quarter-on-quarter (-3 basis points), but down more significantly (-22 basis points) on the situation a year ago. Disregarding the FX effect, the group's Czech loan book ('loans and advances to customers, excluding reverse repos': 18.6 billion at 30 June 2013) was up 3% quarter-on-quarter and by as much as 8% year-on-year, while deposits ('deposits from customers and debt certificates, excluding repos': 25.1 billion) were more or less flat quarter-on-quarter and up 2% year-on-year.

Some flood-related impact on non-life activities; decrease in unit-linked life sales

In the non-life business, premium income (42 million) was slightly up on both reference figures, while technical charges were significantly higher, caused mainly by the floods in the Czech Republic. However, when account is also taken of the positive impact of reinsurance, earned premiums less technical charges fell by only 2 million quarter-on-quarter and by 4 million year-on-year. The combined ratio for the quarter under review deteriorated to 104% (shifting from 99% in 1Q2013), leading to a year-to-date ratio of 102%, compared with 95% for FY2012.

In the life business, sales amounted to 36 million in the quarter under review, down on the level recorded in the previous quarter (48 million) and in the year-earlier quarter (160 million). The drop in life sales was almost entirely attributable to unit-linked products (especially the Maximal Invest Life products), and as a consequence, unit-linked life products accounted for 56% of life sales in the quarter under review, whereas they had generally constituted the vast majority of such sales in previous periods (close to 80% in the four preceding quarters). At the end of June 2013, the outstanding life reserves (including the liabilities under unit-linked products) in this business unit stood at 1.1 billion.

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 46 million in the quarter under review. Year-on-year, this is a 12% increase (excluding FX effects), thanks in part to the mutual fund business. Compared with the previous quarter though, net fee and commission income was down 7% (excluding FX effects), due to a number of elements including lower entry fees on mutual funds and lower sales fees for pension funds. Total assets under management in this business unit came to roughly 6.2 billion at quarter-end.

Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 28 million, up on the average figure of 20 million for the four preceding quarters (the current quarter included a 5 million positive impact of MtM of ALM derivatives). The net realised result from available-for-sale assets came to 6 million, in line with the average for the last four quarters, and related solely to shares whereas the previous quarter had benefited from gains on sales of mortgage bonds. Other net income totalled 2 million in the quarter under review, down on the 5-million average for the last four quarters.

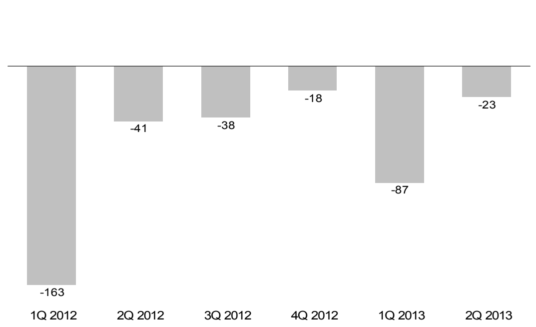
Costs flat quarter-on-quarter

The operating expenses of this business unit came to 163 million, which is more or less stable compared with both 1Q2013 and 2Q2012 (excluding FX effects), with several smaller items offsetting each other (quarter-on-quarter slightly lower staff and marketing expenses, higher ICT expenses, etc.). Consequently, the cost/income ratio of the Czech Republic Business Unit came to a good 46%, in line with the figure recorded in the previous quarter. The year-to-date cost/income ratio accordingly stood at 46% too.

Loan loss provisions down on the previous quarter

Impairment on loans and receivables (loan loss provisions) stood at 9 million in the quarter under review, lower than the previous quarter (22 million) and the year-earlier quarter (12 million), boosted by releases in the corporate/SME segment (thanks to improved models and a better performing portfolio). As a result, the credit cost ratio of this business unit amounted to 30 basis points for 1H2013, in line with the 31 basis points recorded for FY2012. At the end of the quarter under review, non-performing loans accounted for some 3.3% of the Czech loan book, slightly up on the level recorded three months earlier (3.2%). There were no impairments 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)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	164	161	162	157	155	160	-	-
Non-life insurance (before reinsurance)	20	19	19	22	21	19	-	-
Earned premiums	43	41	41	39	39	38	-	-
Technical charges	-23	-21	-22	-17	-18	-20	-	-
Life insurance (before reinsurance)	0	1	1	3	2	0	-	-
Earned premiums	20	22	17	20	25	20	-	-
Technical charges	-20	-21	-15	-17	-23	-21	-	-
Ceded reinsurance result	-1	-1	-2	-3	-2	-2	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	24	26	35	23	21	22	-	-
Net realised result from available-for-sale assets	0	0	0	1	2	8	-	-
Net fee and commission income	35	34	36	38	41	45	-	-
Other net income	1	4	1	5	2	19	-	-
Total income	242	245	253	246	242	272	-	-
Operating expenses	-199	-143	-145	-164	-210	-176	-	-
Impairment	-229	-144	-142	-108	-127	-116	-	-
on loans and receivables	-228	-143	-141	-98	-117	-114	-	-
on available-for-sale assets	0	0	0	0	-10	0	-	-
on goodwill	0	0	0	0	0	0	-	-
other	-1	-1	-1	-10	-1	-1	-	-
Share in results of associated companies	0	0	0	1	0	0	-	-
Result before tax	-185	-41	-34	-26	-95	-19	-	-
Income tax expense	22	0	-5	8	8	-4	-	-
Result after tax	-163	-41	-38	-18	-87	-23	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-163**	**-41**	**-38**	**-18**	**-87**	**-23**	**-**	**-**
Banking	-166	-49	-43	-24	-82	-29	-	-
Insurance	3	8	5	6	-6	6	-	-
Risk-weighted assets, group (end of period, Basel II)	17 438	17 280	17 509	18 224	17 699	17 086	-	-
of which banking	16 801	16 664	16 904	17 673	17 162	16 555	-	-
Allocated capital (end of period)	1 769	1 753	1 775	1 844	1 791	1 730	-	-
Return on allocated capital (ROAC)	-38%	-11%	-11%	-6%	-21%	-7%	-	-
Cost/income ratio, banking	82%	58%	57%	67%	88%	65%	-	-
Combined ratio, non-life insurance	98%	99%	100%	94%	87%	98%	-	-
Net interest margin, banking	2.05%	2.06%	2.08%	2.03%	2.04%	2.11%	-	-

In the quarter under review, the International Markets Business Unit generated a net result of -23 million, an improvement on the average of -46 million for the four preceding quarters. Quarter-on-quarter, 2Q2013 was characterised by higher net interest income, net fee and commission income and realised gains on available-for-sale securities, some positive one-off items in other net income, lower costs (related to the booking of bank tax in Hungary) and more or less flat loan loss impairment charges (with Ireland still accounting for a significant, though decreasing, amount). Overall, the banking activities accounted for a negative net result of 29 million (the positive results in Slovakia, Hungary and Bulgaria were wiped out by the negative result in Ireland), while the insurance activities accounted for a positive net result of 6 million.

Total income up quarter-on-quarter

Net interest income stood at 160 million in 2Q2013, up 4% on 1Q2013 (the increase in Slovakia and Hungary was partially offset by the decrease in Ireland). Net interest income was more or less flat on the year-earlier figure (the increase in Slovakia and Hungary was fully offset by the decrease in Ireland). On a weighted basis, the net interest margin of this business unit amounted to 2.11% in the quarter under review, which is a slight increase on both reference quarters. The total loan portfolio of the International Markets Business Unit ('loans and advances to customers, excluding reverse repos': 22.6 billion) decreased by 1% in the quarter under review and by 5% year-on-year (the year-on-year drop was in Ireland and Hungary). Customer deposits for the entire business unit ('deposits from customer and debt certificates, excluding repos': 14.3 billion) went up by 3% in the quarter under review, and by 20% compared to a year ago. A large part of the year-on-year increase was accounted for by Ireland (successful retail deposit campaign in that country), though deposits rose in Slovakia and Hungary too.

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 insurance activities in Ireland), amounted to 38 million, flat quarter-on-quarter and down 6% on the year-earlier figure. Technical insurance charges in the non-life segment were up (+9%) on the previous quarter (which had benefited from the mild winter and a good claims experience), but down 9% year-on-year. Overall, this caused the non-life combined ratio for the quarter under review to amount to 98%, compared with 87% in 1Q2013. For the first six months of 2013, therefore, the combined ratio amounted to a good 92%, still a significant improvement on the 98% recorded for FY2012. The combined ratio for 1H2013 breaks down as follows: 89% in Hungary, 71% in Slovakia and a comparatively high 102% in Bulgaria.

Life sales, including insurance products not recognised under earned premiums under IFRS, amounted to 31 million in the quarter under review, in line with the levels recorded in 1Q2013 and 2Q2012 (increase in Hungary, decreases in Slovakia and Bulgaria). For the business unit as a whole, sales of unit-linked products accounted for 61% of total life insurance sales in the quarter under review, with interest-guaranteed products accounting for the remainder. At the end of June 2013, the business unit's outstanding life reserves (including the liabilities under unit-linked products) stood at 0.5 billion.

The other income components totalled 94 million in the quarter under review. This included net fee and commission income of 45 million, an increase compared to both reference quarters that was due mainly to Hungary. Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 22 million, somewhat below the average figure of 26 million for the four preceding quarters. The net realised result from available-for-sale bonds and shares amounted to a comparatively high 8 million (located in Slovakia and Hungary) and other net income totalled 19 million. The latter had benefited from a number of positive one-off items in Slovakia and Hungary in the quarter under review.

Costs impacted by the booking of Hungarian bank tax

Operating expenses in the quarter under review amounted to 176 million. The quarter under review included the booking in Hungary of an additional one-off financial transaction levy related charge of 27 million. Nevertheless, costs were still down by 16% on their quarter-earlier level, since that quarter had included the booking of the bank tax for the full year (54 million) in Hungary. Year-on-year, costs increased by 24% (entirely related to the additional one-off charge in 2Q2013 and the financial transaction levy introduced in Hungary in 2013). As a consequence, the cost/income ratio for the business unit as a whole stood at 65% in 2Q2013, an improvement on the 88% recorded for 1Q2013. For the first six months of 2013, the cost/income ratio came to 76%. Per country, the 1H2013 cost/income ratio was 67% in Ireland, 59% in Slovakia, 89% in Hungary and 62% in Bulgaria.

Loan loss provisioning roughly flat quarter-on-quarter

Impairment on loans and receivables (loan loss provisions) amounted to 114 million in the quarter under review, more or less in line with the 117 million recognised in the previous quarter and down on the 143 million recorded in the year-earlier quarter. The bulk of the loan loss provisions related to Ireland, where loan loss provisions of 88 million were booked in the quarter under review (67 million relating to home loans and 22 million to corporate loans), compared with 99 million in 1Q2013 and 136 million in 2Q2012. The remaining 26 million in loan loss provisions in 2Q2013 break down into 14 million for Slovakia (significantly up on both reference quarters due to one large corporate loan), 10 million for Hungary (comparable with 1Q2013, but up on 2Q2012 which included some write-backs) and 2 million for Bulgaria.

Consequently, the 1H2013 credit cost ratio for the entire business unit came to a relatively high 176 basis points, which is still an improvement on the 226 basis points recorded for FY2012. Per country, the 1H2013 credit cost ratio was 235 basis points for Ireland (down on the 334 basis points in FY2012), 79 basis points for Hungary (roughly in line with FY2012), 80 basis points for Slovakia (up on the 25 basis points in FY2012) and 162 basis points for Bulgaria (up on the 94 basis points for FY2012). At the end of June 2013, approximately 18.5% of the International Markets Business Unit's loan book was non-performing, slightly up on the level recorded three months earlier (18.0%); the figure was clearly impacted by the high non-performing ratio of 24.9% for Ireland.

Other impairment charges for this business unit amounted to 1 million in the quarter under review, down on the 11 million recorded in the previous quarter, which had related mainly to a bond at DZI in Bulgaria.

Highlights per country (compared to 1Q2013, unless otherwise indicated)

The net result of the International Markets Business Unit (-23 million) breaks down as follows: 16 million for Slovakia, 26 million for Hungary, 3 million for Bulgaria and -69 million for Ireland. A detailed results table and brief comments per country are provided below.

IRELAND Income statement (in millions of EUR)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	41	45	42	36	35	33	-	-
Non-life insurance (before reinsurance)	0	0	0	0	0	0	-	-
Earned premiums	0	0	0	0	0	0	-	-
Technical charges	0	0	0	0	0	0	-	-
Life insurance (before reinsurance)	0	0	0	0	0	0	-	-
Earned premiums	0	0	0	0	0	0	-	-
Technical charges	0	0	0	0	0	0	-	-
Ceded reinsurance result	0	0	0	0	0	0	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	2	1	3	-4	-3	0	-	-
Net realised result from available-for-sale assets	0	0	0	0	0	1	-	-
Net fee and commission income	1	0	0	0	-1	-2	-	-
Other net income	0	0	0	1	0	0	-	-
Total income	43	46	46	32	32	31	-	-
Operating expenses	-18	-19	-22	-23	-21	-22	-	-
Impairment	-195	-137	-129	-87	-99	-88	-	-
on loans and receivables	-195	-136	-129	-87	-99	-88	-	-
on available-for-sale assets	0	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
Other	0	0	0	0	0	0	-	-
Share in results of associated companies	0	0	0	0	0	0	-	-
Result before tax	-169	-110	-105	-78	-88	-79	-	-
Income tax expense	21	14	12	10	11	10	-	-
Result after tax	-148	-96	-93	-67	-77	-69	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-148**	**-96**	**-93**	**-67**	**-77**	**-69**	**-**	**-**
Banking	-148	-96	-93	-67	-77	-69	-	-
Insurance	0	0	0	0	0	0	-	-
Risk-weighted assets, group (end of period, Basel II)	6 739	6 862	7 049	7 945	7 707	7 302	-	-
of which banking	6 739	6 862	7 049	7 945	7 707	7 302	-	-
Allocated capital (end of period)	674	686	705	795	771	730	-	-
Return on allocated capital (ROAC)	-89%	-58%	-55%	-37%	-40%	-37%	-	-
Cost/income ratio, banking	40%	42%	48%	71%	65%	69%	-	-
Combined ratio, non-life insurance	-	-	-	-	-	-	-	-

- The net result in 2Q2013 was -69 million euros, compared with an average figure of -83 million for the four preceding quarters.
- Total income (31 million) was roughly flat quarter-on-quarter. It included *inter alia* somewhat lower net interest income (wider margins on retail lending and slightly lower funding costs were more than offset by a number of positive one-off items in the previous quarter).
- Costs (22 million) were slightly up on the previous quarter (+4%). The 1H2013 cost/income ratio stood at 67%, compared with 49% for FY2012.
- Loan loss impairment (88 million) was down on the 99 million recorded in 1Q2013, and significantly lower than the 136 million recorded in 2Q2012. The credit cost ratio amounted to 235 basis points in 1H2013.

HUNGARY Income statement (in millions of EUR)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	70	65	66	66	64	69	-	-
Non-life insurance (before reinsurance)	8	7	8	9	7	7	-	-
Earned premiums	16	14	15	15	14	15	-	-
Technical charges	-8	-7	-8	-6	-7	-8	-	-
Life insurance (before reinsurance)	-4	-2	-1	-1	-1	-4	-	-
Earned premiums	3	3	3	4	3	3	-	-
Technical charges	-7	-6	-4	-4	-5	-7	-	-
Ceded reinsurance result	-1	-1	-1	-1	0	-1	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	13	22	26	20	18	18	-	-
Net realised result from available-for-sale assets	0	0	0	1	2	5	-	-
Net fee and commission income	22	22	23	26	30	34	-	-
Other net income	-2	1	-1	1	2	13	-	-
Total income	106	114	120	120	121	141	-	-
Operating expenses	-122	-64	-65	-73	-130	-97	-	-
Impairment	-29	-4	-7	-10	-11	-11	-	-
on loans and receivables	-28	-3	-6	-8	-10	-10	-	-
on available-for-sale assets	0	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
other	-1	-1	-1	-3	-1	-1	-	-
Share in results of associated companies	0	0	0	1	0	0	-	-
Result before tax	-44	46	49	38	-20	33	-	-
Income tax expense	6	-10	-13	-5	1	-7	-	-
Result after tax	-38	36	36	33	-19	26	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-38**	**36**	**36**	**33**	**-19**	**26**	**-**	**-**
Banking	-37	34	34	30	-22	24	-	-
Insurance	-1	2	2	3	3	2	-	-
Risk-weighted assets, group (end of period, Basel II)	5 759	5 537	5 595	5 374	5 158	4 994	-	-
of which banking	5 513	5 302	5 362	5 192	4 991	4 831	-	-
Allocated capital (end of period)	586	563	569	545	522	506	-	-
Return on allocated capital (ROAC)	-28%	22%	22%	20%	-18%	17%	-	-
Cost/income ratio, banking	115%	56%	54%	61%	112%	70%	-	-
Combined ratio, non-life insurance	98%	103%	93%	89%	82%	100%	-	-

- The net result in 2Q2013 was 26 million euros, up on the 22 million average for the four preceding quarters.
- Total income (141 million) was up 17% quarter-on-quarter, due mainly to higher net interest income (partly because of technical elements), an increase in net fee and commission income (in several domains), higher realised gains on shares and higher other net income resulting from positive one-off items. The 1H2013 combined ratio for non-life insurance stood at a good 89% (96% for FY2012). Life insurance sales (including unit-linked products) went up by more than half in the quarter under review.
- Costs (97 million) were significantly lower than in 1Q2013, which was almost entirely attributable to the fact that the first quarter traditionally includes the booking of the bank tax for the full year (54 million). However, part of this positive difference was offset by an additional one-off (financial transaction levy related) charge of 27 million being booked in the quarter under review. The cost/income ratio amounted to 89% in 1H2013, compared with 70% for FY2012.
- Loan loss impairment (10 million) was in line with the previous quarter and related almost entirely to the retail book. The credit cost ratio amounted to 79 basis points in 1H2013.

SLOVAKIA Income statement (in millions of EUR)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	44	42	43	44	46	49	-	-
Non-life insurance (before reinsurance)	6	5	5	4	5	5	-	-
Earned premiums	6	6	6	6	6	6	-	-
Technical charges	0	-1	-1	-2	-1	-1	-	-
Life insurance (before reinsurance)	3	3	2	3	3	2	-	-
Earned premiums	12	15	11	15	16	14	-	-
Technical charges	-10	-12	-9	-12	-14	-11	-	-
Ceded reinsurance result	-1	0	-1	0	0	0	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	8	3	7	7	6	4	-	-
Net realised result from available-for-sale assets	0	0	0	1	0	3	-	-
Net fee and commission income	9	9	10	11	11	11	-	-
Other net income	2	2	1	2	2	6	-	-
Total income	72	64	68	71	72	81	-	-
Operating expenses	-44	-44	-45	-53	-46	-44	-	-
Impairment	-3	-2	-4	-9	-4	-15	-	-
on loans and receivables	-3	-2	-4	-2	-4	-14	-	-
on available-for-sale assets	0	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
other	0	0	0	-7	0	0	-	-
Share in results of associated companies	0	0	0	0	0	0	-	-
Result before tax	25	18	19	10	23	23	-	-
Income tax expense	-5	-4	-4	3	-5	-6	-	-
Result after tax	20	13	15	12	17	16	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**20**	**13**	**15**	**12**	**17**	**16**	**-**	**-**
Banking	16	11	13	11	15	14	-	-
Insurance	4	3	3	2	3	2	-	-
Risk-weighted assets, group (end of period, Basel II)	4 102	4 034	4 028	4 092	4 035	3 970	-	-
of which banking	3 926	3 855	3 849	3 913	3 853	3 788	-	-
Allocated capital (end of period)	417	411	410	416	411	404	-	-
Return on allocated capital (ROAC)	18%	12%	14%	11%	16%	16%	-	-
Cost/income ratio, banking	63%	70%	67%	74%	64%	54%	-	-
Combined ratio, non-life insurance	52%	85%	84%	103%	65%	77%	-	-

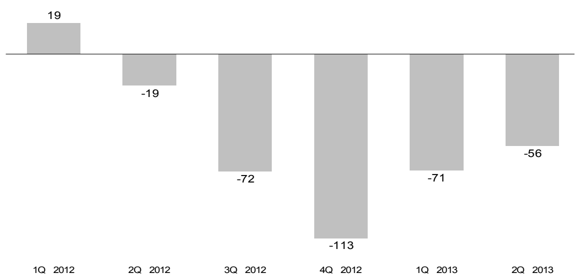
- The net result in 2Q2013 totalled 16 million euros, above the 14 million average for the four preceding quarters.
- Total income (81 million) went up by 13% quarter-on-quarter, due to higher net interest income (increased mortgage portfolio, successful consumer finance and SME campaigns, lower interest expense related to deposits, etc.), higher realised gains on available-for-sale securities and an increase in other net income resulting from positive one-off items. The 1H2013 combined ratio for non-life insurance stood at a very favourable 71%, compared with 80% for FY2012. Life sales (including unit-linked products) were down 16% compared to 1Q2013, which had benefited from the successful Maximal product campaign in the bank branches.
- Costs (44 million) were down 4% quarter-on-quarter, partly due to lower ICT costs. The 1H2013 cost/income ratio stood at 59% (69% for FY2012).
- Loan loss impairment (14 million) went up 11 million compared with the 1Q2013 level, caused by one big corporate loan. The credit cost ratio amounted to 80 basis points in 1H2013.

BULGARIA Income statement (in millions of EUR)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net interest income	10	9	10	10	10	10	-	-
Non-life insurance (before reinsurance)	6	8	6	9	8	7	-	-
Earned premiums	21	21	19	19	18	18	-	-
Technical charges	-15	-13	-13	-9	-10	-11	-	-
Life insurance (before reinsurance)	1	1	0	1	1	1	-	-
Earned premiums	4	3	3	2	5	3	-	-
Technical charges	-3	-2	-2	-1	-4	-2	-	-
Ceded reinsurance result	0	0	-1	-2	-1	-1	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	0	0	0	0	0	0	-	-
Net realised result from available-for-sale assets	0	0	0	0	1	0	-	-
Net fee and commission income	0	1	1	0	0	0	-	-
Other net income	1	1	0	1	-2	1	-	-
Total income	19	20	17	20	16	18	-	-
Operating expenses	-14	-14	-12	-15	-13	-13	-	-
Impairment	-2	-1	-2	-2	-13	-2	-	-
on loans and receivables	-2	-1	-2	-1	-4	-2	-	-
on available-for-sale assets	0	0	0	0	-10	0	-	-
on goodwill	0	0	0	0	0	0	-	-
Other	0	0	0	-1	0	0	-	-
Share in results of associated companies	0	0	0	0	0	0	-	-
Result before tax	2	5	3	3	-10	4	-	-
Income tax expense	0	0	0	0	1	0	-	-
Result after tax	2	5	3	4	-9	3	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**2**	**5**	**3**	**4**	**-9**	**3**	**-**	**-**
Banking	2	2	2	2	2	2	-	-
Insurance	1	3	0	1	-11	1	-	-
Risk-weighted assets, group (end of period, Basel II)	808	817	808	799	784	805	-	-
of which banking	593	614	614	610	595	620	-	-
Allocated capital (end of period)	89	90	89	88	86	88	-	-
Return on allocated capital (ROAC)	4%	18%	11%	12%	-42%	15%	-	-
Cost/income ratio, banking	69%	72%	61%	68%	57%	67%	-	-
Combined ratio, non-life insurance	110%	99%	111%	94%	101%	103%	-	-

- The net result in 2Q2013 came to 3 million, up on the 1 million average for the four preceding quarters (which had been impacted by the loss in 1Q2013).
- Total income (18 million) increased 14% quarter-on-quarter, due mainly to higher other net income (owing to negative one-off items in the previous quarter). The combined ratio for non-life insurance amounted to 102% in 1H2013, compared with 104% for FY2012. Life insurance sales were down 38% compared with a strong 1Q2013, partly due to seasonal effects.
- Costs (13 million) increased only slightly quarter-on-quarter. The 1H2013 cost/income ratio stood at 62%, an improvement on the 68% for FY2012, thanks to cost optimisation measures.
- Total impairment charges (2 million) decreased significantly, as the previous quarter had included a 10 million impairment charge on an available-for-sale bond. The credit cost ratio amounted to 162 basis points in 1H2013.

Analysis of the results – Group Centre

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



The Group Centre incorporates the results of the holding company KBC Group NV, some results that are not attributable to the other business units, the elimination of intersegment transactions and the results of the remaining companies that have still to be divested and activities in run-off. 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)	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Adjusted net result (i.e. excluding legacy and own credit risk impact)								
Net interest income	68	63	17	-9	-24	-57	-	-
Non-life insurance (before reinsurance)	52	51	-4	-6	-4	-3	-	-
Earned premiums	131	134	-7	-7	-8	-4	-	-
Technical charges	-79	-83	2	1	4	1	-	-
Life insurance (before reinsurance)	13	15	0	1	0	1	-	-
Earned premiums	90	82	4	4	4	5	-	-
Technical charges	-77	-67	-4	-3	-3	-3	-	-
Ceded reinsurance result	-3	9	2	3	1	0	-	-
Dividend income	0	1	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	18	7	31	22	45	4	-	-
Net realised result from available-for-sale assets	3	9	5	37	2	1	-	-
Net fee and commission income	5	-6	28	26	2	10	-	-
Other net income	26	9	39	33	5	-2	-	-
Total income	181	158	119	108	28	-44	-	-
Operating expenses	-179	-174	-146	-151	-79	-39	-	-
Impairment	-23	-4	-60	-88	-46	-12	-	-
on loans and receivables	-19	-3	-59	-72	-18	-11	-	-
on available-for-sale assets	0	0	0	1	-1	-1	-	-
on goodwill	0	0	0	0	-7	0	-	-
Other	-3	-1	-1	-17	-20	0	-	-
Share in results of associated companies	-10	-10	-13	0	0	0	-	-
Result before tax	-31	-29	-100	-131	-97	-95	-	-
Income tax expense	57	16	37	28	29	42	-	-
Result after tax	26	-13	-63	-104	-68	-53	-	-
attributable to minority interests	7	6	10	9	3	4	-	-
attributable to equity holders of the parent	**19**	**-19**	**-72**	**-113**	**-71**	**-56**	**-**	**-**
Banking	8	-25	-55	-89	17	-44	-	-
Insurance	10	19	-10	-4	-11	-1	-	-
Group	1	-13	-7	-20	-78	-12		
Legacy and own credit risk (after tax)								
Legacy – gains/losses on CDOs	138	-39	280	46	165	180	-	-
Legacy – divestments	81	-884	23	3	22	-128	-	-
MTM of own credit risk	-340	41	-144	-87	-26	-20	-	-
Net result	-102	-901	86	-152	90	-24		
Risk-weighted assets, group (end of period, Basel II)	29 907	27 928	24 630	16 758	16 295	12 618	-	-
of which banking	28 328	27 702	24 414	16 543	16 097	12 426	-	-
Allocated capital (end of period)	3 054	2 802	2 472	1 684	1 637	1 269	-	-

The Group Centre's net result amounted to -24 million in 2Q2013. As mentioned earlier, this includes not only a number of group items and results of companies earmarked for divestment, but also the full impact of the legacy business (CDOs, divestments) and the valuation of own credit risk.

Legacy and own credit risk:

- Legacy CDOs:
  Accounted for a positive post-tax impact of 180 million in 2Q2013, including mainly the positive impact of the increase in the value of CDOs owing to tightening credit spreads in general, the improved credit value adjustment (CVA) on MBIA (from 80% to 60%) and the costs and benefits related to the reduction of CDO exposure in the second quarter.
- Legacy divestments:
  Accounted for a negative post-tax impact of -128 million in 2Q2013, and included mainly the negative impact related to the closure of the deal to sell Absolut Bank (no impact on capital) and, to a lesser extent, an impairment on a 75-million subordinated loan to NLB in Slovenia. It should be noted that the -884 million recorded in the year-earlier quarter included a positive impact of 0.3 billion related to the sale of the Polish insurance company Warta and a negative 1.2 billion relating to impairment recorded on the remaining divestment files at that time (Absolut Bank, Antwerp Diamond Bank, KBC Banka, KBC Bank Deutschland, NLB).
- Own credit risk:
  Accounted for a negative post-tax impact of -20 million in 2Q2013, due to narrowing KBC credit spreads (no impact on regulatory capital).

Other results

- Accounted for a total of -56 million in 2Q2013 and included the results of the holding company KBC Group NV (including KBC Global Services), the allocation of certain central costs and a limited amount (4 million in total) relating to the results of the remaining companies or activities earmarked for divestment or run-down. Note: following its divestment, Absolut Bank in Russia has been deconsolidated as of 2Q2013.

KBC Group

Consolidated financial statements

according to IFRS

2Q 2013 and 1H 2013

Reviewed by the auditors

Consolidated income statement

In millions of EUR	Note	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
Net interest income	3	1 190	1 068	1 016	2 451	2 084
Interest income		2 563	2 193	2 109	5 258	4 302
Interest expense		- 1 374	- 1 125	- 1 093	- 2 808	- 2 218
Non-life insurance before reinsurance	9	200	149	115	403	264
Earned premiums Non-life		442	305	316	880	621
Technical charges Non-life		- 243	- 156	- 201	- 477	- 357
Life insurance before reinsurance	9	- 67	- 59	- 62	- 139	- 122
Earned premiums Life		448	271	241	894	512
Technical charges Life		- 514	- 331	- 303	- 1 033	- 634
Ceded reinsurance result	9	- 1	- 12	13	- 14	1
Dividend income		21	5	20	27	25
Net result from financial instruments at fair value through profit or loss	5	43	314	425	103	739
Net realised result from available-for-sale assets	6	9	142	47	41	189
Net fee and commission income	7	309	393	385	613	778
Fee and commission income		479	641	565	970	1 206
Fee and commission expense		- 170	- 248	- 180	- 358	- 428
Other net income	8	368	76	- 20	441	56
TOTAL INCOME		2 072	2 076	1 938	3 925	4 014
Operating expenses	12	- 1 033	- 1 039	- 931	- 2 165	- 1 971
Staff expenses		- 639	- 598	- 579	- 1 273	- 1 176
General administrative expenses		- 316	- 372	- 286	- 732	- 658
Depreciation and amortisation of fixed assets		- 79	- 69	- 67	- 159	- 137
Impairment	14	- 1 473	- 352	- 276	- 1 746	- 628
on loans and receivables		- 198	- 295	- 255	- 459	- 550
on available-for-sale assets		- 75	- 13	- 3	- 79	- 16
on goodwill		- 414	- 7	0	- 414	- 7
on other		- 786	- 37	- 18	- 794	- 55
Share in results of associated companies		17	0	0	8	0
RESULT BEFORE TAX		- 417	684	731	22	1 415
Income tax expense		- 110	- 160	- 211	- 202	- 372
Net post-tax result from discontinued operations	46	- 8	0	0	33	0
RESULT AFTER TAX		- 535	524	520	- 148	1 044
Attributable to minority interest		5	4	3	12	7
of which relating to discontinued operations		*0*	*0*	*0*	*0*	*0*
Attributable to equity holders of the parent		**- 539**	**520**	**517**	**- 160**	**1 037**
of which relating to discontinued operations		*- 8*	*0*	*0*	*33*	*0*
Earnings per share (in EUR)						
Basic		-1.99	1.25	1.24	-1.28	2.49
Diluted		-1.99	1.25	1.24	-1.28	2.49

Consolidated statement of comprehensive income (condensed)

In millions of EUR	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
RESULT AFTER TAX	- 535	524	520	- 148	1 044
attributable to minority interest	5	4	3	12	7
attributable to equity holders of the parent	- 539	520	517	- 160	1 037
OTHER COMPREHENSIVE INCOME					
Net change in revaluation reserve (AFS assets) - Equity	- 47	28	- 35	- 10	- 7
Net change in revaluation reserve (AFS assets) - Bonds	93	- 120	- 171	825	- 291
Net change in revaluation reserve (AFS assets) - Other	0	0	0	0	0
Net change in hedging reserve (cash flow hedge)	- 118	61	195	- 123	256
Net change in Defined Benefit Plans	- 2	8	- 12	- 65	- 5
Net change in translation differences	- 57	- 10	- 20	50	- 30
Other movements	0	0	1	- 1	2
TOTAL COMPREHENSIVE INCOME	- 665	491	477	527	969
attributable to minority interest	2	5	2	22	7
attributable to equity holders of the parent	- 667	487	475	506	962

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2012	30-06-2013
Cash and cash balances with central banks		4 426	4 742
Financial assets	18 - 26	236 898	235 892
Held for trading		21 159	17 585
Designated at fair value through profit or loss		16 295	21 486
Available for sale		30 622	27 058
Loans and receivables		139 225	137 874
Held to maturity		28 510	31 141
Hedging derivatives		1 088	748
Reinsurers' share in technical provisions		137	156
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		204	125
Tax assets		2 188	1 959
Current tax assets		174	179
Deferred tax assets		2 014	1 780
Non-current assets held for sale and assets associated with disposal groups	46	7 138	4 313
Investments in associated companies		8	7
Investment property		638	617
Property and equipment		2 581	2 534
Goodwill and other intangible assets		1 328	1 282
Other assets		1 383	1 671
TOTAL ASSETS		256 928	253 297

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2012	30-06-2013
Financial liabilities	18 - 26	213 265	211 850
Held for trading		19 459	14 824
Designated at fair value through profit or loss		20 563	27 443
Measured at amortised cost		170 813	167 770
Hedging derivatives		2 430	1 812
Technical provisions, before reinsurance		19 205	18 805
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		69	- 5
Tax liabilities		647	517
Current tax liabilities		192	137
Deferred tax liabilies		455	380
Liabilities associated with disposal groups	46	3 739	2 318
Provisions for risks and charges		526	541
Other liabilities		3 598	3 294
TOTAL LIABILITIES		241 048	237 319
Total equity	39	15 879	15 977
Parent shareholders' equity	39	12 017	12 119
Non-voting core-capital securities	39	3 500	3 500
Minority interests		362	358
TOTAL LIABILITIES AND EQUITY		256 928	253 297

In line with IFRS 5, the assets and liabilities of the largest part of the remaining divestments have been moved from various balance sheet lines towards the lines ‘Non-current assets held for sale and assets associated with disposal groups’ and ‘Liabilities associated with disposal groups’. More information on divestments can be found in note 46.

For more information on retroactive adjustments with regard to IAS 19 see note 1b.

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 shareholders' equity	Non-voting core-capital securities	Minority interests	Total equity
30-06-2012												
Balance at the beginning of the period	1 245	4 341	- 1 529	- 117	- 594	0	6 831	- 422	9 756	6 500	516	16 772
First time application IAS19 Revised	0	0	0	0	0	63	0	0	63	0	0	63
Adjusted balance at the beginning of the period	1 245	4 341	- 1 529	- 117	- 594	63	6 831	- 422	9 819	6 500	516	16 835
Net result for the period	0	0	0	0	0	0	- 160	0	- 160	0	12	- 148
Other comprehensive income for the period	0	0	0	812	- 123	- 65	- 1	43	666	0	10	675
Total comprehensive income	**0**	**0**	**0**	**812**	**- 123**	**- 65**	**- 161**	**43**	**506**	**0**	**22**	**527**
Dividends	0	0	0	0	0	0	- 599	0	- 599	0	0	- 599
Capital increase	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	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	- 5	0	0	0	0	0	- 5	0	0	- 5
Impact business combinations	0	0	0	0	0	0	- 6	0	- 6	0	0	- 6
Change in minorities	0	0	0	0	0	0	0	0	0	0	- 8	- 8
Change in scope	0	0	0	- 53	0	0	0	23	- 30	0	0	- 30
Total change	**0**	**0**	**- 5**	**759**	**- 123**	**- 65**	**- 766**	**66**	**- 134**	**0**	**14**	**- 120**
Balance at the end of the period	**1 245**	**4 341**	**- 1 534**	**642**	**- 717**	**- 2**	**6 065**	**- 355**	**9 685**	**6 500**	**529**	**16 714**
of which revaluation reserve for shares				220								
of which revaluation reserve for bonds				422								
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				27				- 8	20			20
30-06-2013												
Balance at the beginning of the period	1 450	5 388	- 1	1 263	- 834	0	5 192	- 360	12 099	3 500	362	15 961
First time application IAS19 Revised	0	0	0	0	0	- 71	- 11	0	- 82	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	362	15 879
Net result for the period	0	0	0	0	0	0	1 037	0	1 037	0	7	1 044
Other comprehensive income for the period	0	0	0	- 298	256	- 5	2	- 30	- 75	0	0	- 75
Total comprehensive income	**0**	**0**	**0**	**- 298**	**256**	**- 5**	**1 038**	**- 30**	**962**	**0**	**7**	**969**
Dividends	0	0	0	0	0	0	- 961	0	- 961	0	0	- 961
Capital increase	0	1	0	0	0	0	0	0	1	0	0	1
Repayment of non-voting core-capital securities	0	0	0	0	0	0	0	0	0	0	0	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	1	0	0	0	0	0	1	0	0	1
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0	0
Impact business combinations	0	0	0	0	0	0	- 3	0	- 3	0	0	- 3
Change in minorities	0	0	0	0	0	0	0	0	0	0	- 6	- 6
Change in scope	0	0	0	0	0	**0**	0	102	102	0	- 4	97
Total change	**0**	**1**	**1**	**- 298**	**256**	**- 5**	**75**	**72**	**102**	**0**	**- 4**	**98**
Balance at the end of the period	**1 450**	**5 390**	**0**	**965**	**- 578**	**- 76**	**5 257**	**- 288**	**12 119**	**3 500**	**358**	**15 977**
of which revaluation reserve for shares				199								
of which revaluation reserve for bonds				766								
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			- 38	- 33			- 33

The first half of 2013 includes the accounting of a gross dividend of 1 euro per share (417 million euros in total) and the coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments (543 million euros or 8.5% on 6.5 billion euros, of which 3.0 billion euros to the Belgian Government outstanding until 17 December 2012), both paid in the second quarter of 2013.

For information on the repayment of 1.17 billion euros to the Flemish Regional Government in the third quarter of 2013 see note 48 on post-balance sheet events.

For more information on retroactive adjustments with regard to IAS 19 see note 1b.

Condensed consolidated cash flow statement

In millions of EUR	1H 2012	1H 2013
Operating activities		
Net cash from (used in) operating activities	4 899	9 342
Investing activities		
Net cash from (used in) investing activities	- 10 274	- 2 497
Financing activities		
Net cash from (used in) financing activities	- 2 061	- 345
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	- 7 437	6 500
Cash and cash equivalents at the beginning of the period	13 997	982
Effects of exchange rate changes on opening cash and cash equivalents	166	- 134
Cash and cash equivalents at the end of the period	6 726	7 347

As mentioned in note 45, KBC sold its stake in the merged entity Bank Zachodni WBK. This had a positive impact of approximately +0.8 billion euros on cash flows of operating activities in 1H 2013.

At 3 July 2013, KBC repaid 1.17 billion euros (+0.58 billion euros penalty) to the Flemish Regional Government (see note 48 on post-balance sheet events for more information). In the third quarter of 2013 this will influence the net cash from financing activities by -1.75 billion euros.

Notes on statement of compliance and changes in accounting policies

Statement of compliance (note 1a in the annual accounts 2012)

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 2012.

If the EU endorses IFRIC 21 (relates to levies), and as such the IFRIC becomes applicable for annual periods beginning on or after 1 January 2014, we may have to restate 2013 quarterly comparative figures as a result of the retrospective application of IFRIC 21 (concerns only shifts between quarters, no impact on the full year figures of 2013).

Summary of significant accounting policies (note 1b in the annual accounts 2012)

A summary of the main accounting policies is provided in the annual report. In 1H 2013, following changes in content were made in the accounting policies that had a material impact on the results:

Amendment to IAS 19 (Employee Benefits): the main change concerns the elimination of the corridor, which – under the previous standard – permitted actuarial gains and losses to be spread over several years. From the first of January 2013 on, such gains and losses are recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures have been changed and expanded. On 1 January 2013, the one-off negative impact on IFRS equity amounted to 82 million euros (net of deferred taxes). Compliant with IFRS, comparative figures have been restated.

As of 2Q 2013 the presentation of the P/L-lines concerning the earned premiums and technical charges of the insurance activities before reinsurance has been changed , in order to provide a better view on the non-life and life business separately.

Notes on segment reporting

Segment reporting according to the management structure of the group (note 2a in the annual accounts 2012)

A new management structure was introduced at the start of 2013, reflecting KBC's updated strategy. More information on this is available in the press release ('KBC 2013 and beyond') and presentation of 8 October 2012, and the 2012 annual report, available on www.kbc.com.

Based on this new management structure, KBC also reworked its financial segment reporting presentation and therefore also retroactively adjusted its 1H 2012 segmented figures. For a description of the changes compared to the previous management structure, and the effect on the financial segment reporting and figures, reference is made to the press release of 25 April 2013 which is available on www.kbc.com.

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, 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)).

The management structure of the group also includes an International Product Factories Business Unit. The results of the activities of this business unit are included in the results of the other business units based on geography. Consequently, this business unit is not presented separately when the results are reported by segment.

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 the previous reporting framework, the IFRS profit and loss account was supplemented by a so-called 'underlying' profit and loss account (excluding non-operational and exceptional items), which was the basis of the segment reporting. This is not the case anymore. However, in addition to the figures according to IFRS, KBC will still provide 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. One of the main changes compared to the previous reporting framework is that the fair value of certain ALM hedging instruments is now included in the business units' results, which previously was not the case.

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, all trading income components within investment banking are recognised under 'net result from financial instruments at fair value', without any impact on net profit. Whereas this was performed for every business unit in the former reporting presentation, it is now limited to KBC Bank Belgium (Belgium Business Unit), 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
1H 2012										
Net interest income	1 395	519	325	134	86	19	86	133	- 2	2 370
Non-life insurance before reinsurance	224	37	40	15	11	14	0	112	- 10	403
Earned premiums Non-life	452	80	84	30	12	41	0	274	- 10	880
Technical charges Non-life	- 227	- 44	- 44	- 15	- 1	- 27	0	- 162	0	- 477
Life insurance before reinsurance	- 185	16	1	- 6	5	2	0	29	- 1	- 139
Earned premiums Life	449	232	41	6	27	8	0	173	- 1	894
Technical charges Life	- 633	- 215	- 40	- 13	- 22	- 6	0	- 144	0	- 1 033
Ceded reinsurance result	- 15	- 4	- 2	- 1	- 1	0	0	6	0	- 14
Dividend income	26	0	0	0	0	0	0	1	0	27
Net result from financial instruments at fair value through profit or loss	278	57	50	35	11	1	3	24	0	410
Net realised result from available-for-sale assets	32	- 4	0	0	0	0	0	12	0	40
Net fee and commission income	460	92	69	45	19	1	1	- 4	4	621
Other net income	28	15	4	- 1	4	2	0	33	2	83
TOTAL INCOME	2 245	729	487	220	135	39	89	346	- 7	3 801
Operating expenses	- 1 104	- 328	- 341	- 186	- 88	- 28	- 37	- 360	7	- 2 126
Impairment	- 86	- 27	- 373	- 33	- 6	- 3	- 331	- 27	0	- 512
on loans and receivables	- 42	- 25	- 371	- 31	- 5	- 3	- 331	- 22	0	- 459
on available-for-sale assets	- 28	0	0	0	0	0	0	0	0	- 29
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	- 16	- 2	- 2	- 2	0	0	0	- 4	0	- 24
Share in results of associated companies	0	0	1	1	0	0	0	- 19	0	- 19
RESULT BEFORE TAX	1 055	374	- 226	2	42	8	- 279	- 60	0	1 144
Income tax expense	- 326	- 57	22	- 4	- 9	0	35	73	0	- 289
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	729	318	- 204	- 2	33	8	- 244	13	0	855
Attributable to minority interests	- 1	0	0	0	0	0	0	13	0	12
ADJUSTED NET RESULT	730	318	- 204	- 2	33	8	- 244	0	0	844
Legacy CDOs	0	0	0	0	0	0	0	99	0	99
Own credit risk	0	0	0	0	0	0	0	- 300	0	- 300
Divestments	0	0	0	0	0	0	0	- 803	0	- 803
NET RESULT	730	318	- 204	- 2	33	8	- 244	- 1 003	0	- 160
1H 2013										
Net interest income	1 298	490	315	132	96	19	68	- 80	- 2	2 022
Non-life insurance before reinsurance	212	19	40	14	11	15	0	3	- 10	264
Earned premiums Non-life	473	84	77	29	12	36	0	- 2	- 10	621
Technical charges Non-life	- 260	- 64	- 37	- 15	- 2	- 21	0	5	0	- 357
Life insurance before reinsurance	- 138	12	2	- 5	5	2	0	3	- 1	- 122
Earned premiums Life	374	84	45	7	30	8	0	10	- 1	512
Technical charges Life	- 512	- 71	- 43	- 12	- 25	- 7	0	- 7	0	- 634
Ceded reinsurance result	- 5	8	- 4	- 1	- 1	- 2	0	2	0	1
Dividend income	22	0	0	0	0	0	0	0	0	23
Net result from financial instruments at fair value through profit or loss	336	44	44	36	10	1	- 3	49	0	473
Net realised result from available-for-sale assets	115	12	11	6	3	1	1	4	0	141
Net fee and commission income	579	97	86	64	22	1	- 3	7	4	773
Other net income	115	6	21	14	8	- 2	0	0	3	145
TOTAL INCOME	2 534	690	514	261	153	34	63	- 11	- 6	3 722
Operating expenses	- 1 119	- 327	- 386	- 227	- 89	- 25	- 42	- 123	6	- 1 950
Impairment	- 238	- 31	- 243	- 22	- 18	- 15	- 187	- 58	0	- 570
on loans and receivables	- 220	- 31	- 231	- 20	- 18	- 6	- 187	- 29	0	- 512
on available-for-sale assets	- 5	0	- 10	0	0	- 10	0	- 2	0	- 16
on goodwill	0	0	0	0	0	0	0	- 7	0	- 7
on other	- 13	0	- 2	- 2	0	0	0	- 20	0	- 35
Share in results of associated companies	0	0	0	0	0	0	0	0	0	0
RESULT BEFORE TAX	1 177	332	- 114	13	45	- 6	- 167	- 192	0	1 202
Income tax expense	- 374	- 53	4	- 6	- 12	1	21	71	0	- 352
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	803	279	- 110	7	34	- 5	- 146	- 121	0	850
Attributable to minority interests	0	0	0	0	0	0	0	7	0	7
ADJUSTED NET RESULT	803	279	- 110	7	34	- 5	- 146	- 128	0	843
Legacy CDOs	0	0	0	0	0	0	0	346	0	346
Own credit risk	0	0	0	0	0	0	0	- 46	0	- 46
Divestments	0	0	0	0	0	0	0	- 106	0	- 106
NET RESULT	803	279	- 110	7	34	- 5	- 146	66	0	1 037

Legacy CDO's: In the first half of 2013 (both in the first quarter as well as in the second quarter), the market price for corporate credit improved, as reflected in tightened credit default swap spreads, generating a value mark-up of KBC's CDO exposure (also includes the impact of the government guarantee and the related fee, cost and benefit of de-risking and the coverage of the CDO-linked counterparty risk against MBIA, the US monoline insurer which in the course of the second quarter of 2013 was adjusted from 80% to 60%).

Own credit risk: The negative impact on the results of the first half of 2013 (both in the first quarter as wel as in the second quarter) can be explained by a decrease of the senior and subordinated credit spreads of KBC, leading to a higher MtM of debt certificates included in the financial liabilities designated at fair value through profit or loss.

Divestments: In the first half of 2013, the negative result was mainly driven by negative results related to the closing of the sale of Absolut Bank in the second quarter of 2013 and the signing of the sale of KBC Banka in the first quarter of 2013, both were partly compensated by positive results related to the sale of the stake in Bank Zachodni WBK in the first quarter of 2013.

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 Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
31-12-2012									
Deposits from customers & debt certificates excl. Repos	95 073	26 228	13 426	5 749	4 389	601	2 687	18 728	153 454
Loans & advances to customers excluding reverse repos	83 332	18 581	23 103	4 057	4 129	557	14 360	1 495	126 510
Term loans excl. Reverse repos	42 151	7 590	6 217	1 719	1 615	175	2 708	1 468	57 426
Mortgage loans	30 847	7 919	15 069	1 701	1 519	255	11 594	27	53 862
Current accounts advances	2 623	15	653	291	349	0	12	0	3 291
Finance leases	3 224	373	512	104	363	0	46	0	4 110
Consumer credit	1 282	1 561	520	152	241	127	0	0	3 364
Other L&A	3 204	1 122	131	90	41	0	0	0	4 458
30-06-2013									
Deposits from customers & debt certificates excl. Repos	99 672	25 085	14 300	5 958	4 506	550	3 287	17 786	156 843
Loans & advances to customers excluding reverse repos	83 453	18 562	22 561	4 019	4 187	546	13 808	1 323	125 899
Term loans excl. Reverse repos	41 806	7 534	6 030	1 750	1 554	172	2 554	1 269	56 639
Mortgage loans	30 891	7 928	14 730	1 618	1 629	246	11 236	27	53 576
Current accounts advances	2 620	17	656	318	338	0	0	1	3 294
Finance leases	3 247	350	490	100	372	0	18	0	4 087
Consumer credit	1 400	1 527	510	129	254	127	0	0	3 437
Other L&A	3 489	1 206	145	105	40	0	0	26	4 866

Other notes

Net interest income (note 3 in the annual accounts 2012)

In millions of EUR	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
Total	1 190	1 068	1 016	2 451	2 084
Interest income	2 563	2 193	2 109	5 258	4 302
Available-for-sale assets	311	226	217	661	443
Loans and receivables	1 540	1 328	1 248	3 120	2 576
Held-to-maturity investments	229	255	259	412	514
Other assets not at fair value	7	0	7	15	7
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*2 086*	*1 809*	*1 731*	*4 209*	*3 540*
Financial assets held for trading	313	254	239	657	492
Hedging derivatives	135	101	115	296	216
Other financial assets at fair value through profit or loss	29	29	24	96	53
Interest expense	-1 374	-1 125	-1 093	-2 808	-2 218
Financial liabilities measured at amortised cost	- 776	- 630	- 598	-1 538	-1 228
Other	- 6	- 1	- 1	- 7	- 3
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 782*	*- 632*	*- 599*	*-1 545*	*-1 231*
Financial liabilities held for trading	- 381	- 286	- 290	- 772	- 576
Hedging derivatives	- 169	- 170	- 167	- 389	- 337
Other financial liabilities at fair value through profit or loss	- 42	- 37	- 37	- 102	- 74

Net realised result from financial instruments at fair value through profit or loss (note 5 in the annual accounts 2012)

In the first half of 2013, the result from financial instruments at fair value through profit or loss was influenced by:

- Gains and losses on CDO's, where a positive net result mainly stems from an improved market price for corporate credit, as reflected in tightened credit default swap spreads, generating a value mark-up of KBC's CDO exposure and a positive evolution of the related fee and the coverage of the CDO-linked counterparty risk against MBIA, the US monoline insurer which in the course of the second quarter of 2013 was adjusted from 80% to 60%, but also includes amongst other things the impact of the government guarantee, and the cost and benefit of de-risking.

- 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. The net realised result from these financial instruments at fair value through profit or loss amounted to +211 million (of which +126 million euros in the second quarter of 2013).

Net realised result from available-for-sale assets (note 6 in the annual accounts 2012)

In millions of EUR	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
Total	9	142	47	41	189
Breakdown by portfolio					
Fixed-income securities	- 22	66	22	- 51	88
Shares	31	77	24	93	101

The net realised result from available-for-sale shares includes +50 million euros (+43 million euros after tax) stemming from an extra gain on the sale of the stake in Bank Zachodni WBK in 1Q 2013.

The net realised result from available-for-sale fixed-income securities is for the largest part related to Belgian government bonds in the first quarter of 2013 and also, albeit to a lesser extent, in the second quarter of 2013.

Net fee and commission income (note 7 in the annual accounts 2012)

In millions of EUR	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
Total	309	393	385	613	778
Fee and commission income	479	641	565	970	1 206
Securities and asset management	202	282	275	403	557
Margin on deposit accounting (life insurance investment contracts w ithout DPF)	33	47	31	57	78
Commitment credit	70	66	62	146	128
Payments	139	131	128	276	260
Other	35	114	69	89	183
Fee and commission expense	- 170	- 248	- 180	- 358	- 428
Commission paid to intermediaries	- 105	- 74	- 78	- 205	- 152
Other	- 65	- 174	- 102	- 153	- 276

Other net income (note 8 in the annual accounts 2012)

In millions of EUR	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
Total	368	76	- 20	441	56
Of which net realised result following					
The sale of loans and receivables	- 3	4	- 7	- 52	- 4
The sale of held-to-maturity investments	- 5	0	0	- 9	0
The repurchase of financial liabilities measured at amortised cost	0	- 1	0	- 1	- 1
Other: of which:	376	73	- 12	502	61
KBC Lease UK	0	0	0	41	0
Income concerning leasing at the KBC Lease-group	19	22	22	40	44
Income from consolidated private equity participations	5	0	0	9	0
Income from Group VAB	15	18	17	33	35
5/5/5 loans	0	0	0	- 56	0
Realised gains or losses on divestments	334	- 3	- 91	406	- 94

In 2Q 2013, there was an impact in realised gains or losses on divestments to the tune of -103 million euros post tax stemming from the closing of the sale of Absolut Bank.

Breakdown of the insurance results (note 9 in the annual accounts 2012)

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
1H 2012				
Technical result	- 191	239	36	84
Earned premiums, insurance (before reinsurance)	895	890	-	1 785
Technical charges, insurance (before reinsurance)	- 1 032	- 482	-	- 1 513
Net fee and commission income	- 53	- 156	36	- 174
Ceded reinsurance result	- 1	- 14	0	- 14
Financial result	378	77	299	754
Net interest income			444	444
Dividend income			24	24
Net result from financial instruments at fair value			231	231
Net realised result from AFS assets			55	55
Allocation to the technical accounts (*)	378	77	- 455	0
Operating expenses	- 69	- 174	0	- 243
Internal costs claim paid	- 4	- 40	-	- 44
Administration costs related to acquisitions	- 21	- 47	-	- 68
Administration costs	- 44	- 87	-	- 131
Management costs investments	0	0	0	0
Other net income			370	370
Impairments			- 153	- 153
Share in results of associated companies			0	0
RESULT BEFORE TAX	118	142	552	811
Income tax expense				- 129
Net post-tax result from discontinued operations				1
RESULT AFTER TAX				684
attributable to minority interest				1
attributable to equity holders of the parent				683
1H 2013				
Technical result	- 139	162	34	57
Earned premiums, insurance (before reinsurance)	513	631	-	1 144
Technical charges, insurance (before reinsurance)	- 634	- 357	-	- 991
Net fee and commission income	- 18	- 114	34	- 98
Ceded reinsurance result	- 1	2	0	1
Financial result	353	57	126	537
Net interest income			354	354
Dividend income			16	16
Net result from financial instruments at fair value			139	139
Net realised result from AFS assets			28	28
Allocation to the technical accounts (*)	353	57	- 411	0
Operating expenses	- 63	- 123	- 1	- 186
Internal costs claim paid	- 4	- 30	-	- 34
Administration costs related to acquisitions	- 17	- 36	-	- 52
Administration costs	- 42	- 57	-	- 99
Management costs investments	0	0	- 1	- 1
Other net income			- 9	- 9
Impairments			- 43	- 43
Share in results of associated companies			0	0
RESULT BEFORE TAX	151	97	107	355
Income tax expense				- 116
Net post-tax result from discontinued operations				0
RESULT AFTER TAX				240
attributable to minority interest				0
attributable to equity holders of the parent				239

* Also includes the allocation of impairment losses.

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 2012 annual report).

Operating expenses (note 12 in the annual accounts 2012)

The operating expenses for the second quarter of 2013 include the expenses related to a special one-off additional Financial Transaction Levy-related charge imposed on financial institutions in Hungary (27 million euros cost pre-tax and 22 million euros post-tax, deductible charges). This additional charge is determined as 208% of the Financial Transaction Levy paid by K&H in the period January 2013 up to and including April 2013.

Impairment – income statement (note 14 in the annual accounts 2012)

In millions of EUR	2Q 2012	1Q 2013	2Q 2013	1H 2012	1H 2013
Total	- 1 473	- 352	- 276	- 1 746	- 628
Impairment on loans and receivables	- 198	- 295	- 255	- 459	- 550
Breakdown by type					
Specific impairments for on-balance-sheet lending	- 182	- 259	- 240	- 481	- 499
Provisions for off-balance-sheet credit commitments	- 1	- 8	0	- 6	- 8
Portfolio-based impairments	- 16	- 29	- 15	28	- 44
Breakdown by business unit					
Business unit Belgium	- 41	- 138	- 82	- 42	- 220
Business unit Czech Republic	- 12	- 22	- 9	- 25	- 31
Business unit International Markets	- 143	- 117	- 114	- 371	- 231
of which: Hungary	*- 3*	*- 10*	*- 10*	*- 31*	*- 20*
of which: Slovakia	*- 2*	*- 4*	*- 14*	*- 5*	*- 18*
of which: Bulgaria	*- 1*	*- 4*	*- 2*	*- 3*	*- 6*
of which: Ireland	*- 136*	*- 99*	*- 88*	*- 331*	*- 187*
Group Centre	- 3	- 18	- 50	- 22	- 68
Impairment on available-for-sale assets	- 75	- 13	- 3	- 79	- 16
Breakdown by type					
Shares	- 24	- 3	- 3	- 29	- 7
Other	- 50	- 10	0	- 50	- 10
Impairment on goodwill	- 414	- 7	0	- 414	- 7
Impairment on other	- 786	- 37	- 18	- 794	- 55
Intangible assets, other than goodwill	0	0	0	0	0
Property and equipment and investment property	- 14	0	- 14	- 15	- 14
Held-to-maturity assets	0	0	0	0	0
Associated companies	- 334	0	0	- 334	0
Other	- 438	- 36	- 3	- 445	- 40

In 1Q 2013, the impairment on other (other) contains -17 million of euros booked on KBC Banka for which a sales agreement has been signed (see further note 46).

In 2Q 2013 an impairment to the tune of -30 million euros pre-tax (-20 million euros post-tax) for a subordinated loan to Nova Ljubljanska banka was noted at Group Centre.

Financial assets and liabilities: breakdown by portfolio and product (note 18 in the annual accounts 2012)

(In millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and recei-vables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2012								
Loans and advances to credit institutions and investment firms [a]	3 802	916	0	11 363	-	-	-	16 081
Loans and advances to customers [b]	600	2 197	0	125 695	-	-	-	128 492
Excluding reverse repos								*126 510*
Discount and acceptance credit	0	0	0	131	-	-	-	131
Consumer credit	0	0	0	3 364	-	-	-	3 364
Mortgage loans	0	184	0	53 678	-	-	-	53 862
Term loans	600	2 013	0	56 795	-	-	-	59 407
Finance leasing	0	0	0	4 110	-	-	-	4 110
Current account advances	0	0	0	3 291	-	-	-	3 291
Securitised loans	0	0	0	0	-	-	-	0
Other	0	0	0	4 327	-	-	-	4 327
Equity instruments	451	53	1 931	-	-	-	-	2 435
Investment contracts (insurance)		11 847	-	-	-	-	-	11 847
Debt instruments issued by	4 210	1 282	28 691	2 167	28 510	-	-	64 860
Public bodies	3 390	811	19 929	190	27 346	-	-	51 666
Credit institutions and investment firms	361	199	3 335	158	670	-	-	4 724
Corporates	459	272	5 427	1 819	494	-	-	8 471
Derivatives	12 095	-	-	-	-	1 088	-	13 183
Total carrying value including accrued interest income	21 159	16 295	30 622	139 225	28 510	1 088	0	236 898
[a] *Of which reverse repos*								*5 160*
[b] *Of which reverse repos*								*1 981*
FINANCIAL ASSETS, 30-06-2013								
Loans and advances to credit institutions and investment firms [a]	3 169	1 882	0	10 909	-	-	-	15 961
Loans and advances to customers [b]	664	5 999	0	125 106	-	-	-	131 769
Excluding reverse repos	650	256	0	124 993	-	-	-	*125 899*
Discount and acceptance credit	0	0	0	622	-	-	-	622
Consumer credit	0	0	0	3 437	-	-	-	3 437
Mortgage loans	0	52	0	53 524	-	-	-	53 576
Term loans	658	5 912	0	55 939	-	-	-	62 509
Finance leasing	0	0	0	4 087	-	-	-	4 087
Current account advances	0	0	0	3 294	-	-	-	3 294
Securitised loans	0	0	0	0	-	-	-	0
Other	6	35	0	4 202	-	-	-	4 243
Equity instruments	454	11	1 217	-	-	-	-	1 682
Investment contracts (insurance)	-	12 565	-	-	-	-	-	12 565
Debt instruments issued by	4 170	1 029	25 841	1 859	31 141	-	-	64 040
Public bodies	3 370	503	18 043	87	29 377	-	-	51 379
Credit institutions and investment firms	354	211	3 197	155	1 059	-	-	4 976
Corporates	446	315	4 602	1 617	705	-	-	7 686
Derivatives	9 127	-	-	-	-	748	-	9 875
Total carrying value including accrued interest income	17 585	21 486	27 058	137 874	31 141	748	0	235 892
[a] *Of which reverse repos*								*6 874*
[b] *Of which reverse repos*								*5 871*

In 1H 2013, an amount of 1.8 billion euros of debt instruments was reclassified from available-for-sale to held-to-maturity.

(In millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and recei-vables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2012								
Deposits from credit institutions and investment firms [a]	375	884	-	-	-	-	21 660	22 919
Deposits from customers and debt certificates [b]	4 161	8 782	-	-	-	-	146 689	159 632
Excluding repos								*153 454*
Deposits from customers	3 776	3 420	-	-	-	-	121 062	128 258
Demand deposits	0	0	-	-	-	-	37 477	37 477
Time deposits	3 776	3 336	-	-	-	-	43 491	50 602
Savings deposits	0	0	-	-	-	-	34 904	34 904
Special deposits	0	0	-	-	-	-	3 941	3 941
Other deposits	0	84	-	-	-	-	1 250	1 334
Debt certificates	385	5 362	-	-	-	-	25 627	31 373
Certificates of deposit	0	27	-	-	-	-	6 209	6 236
Customer savings certificates	0	0	-	-	-	-	522	522
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	385	4 705	-	-	-	-	12 914	18 003
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	630	-	-	-	-	5 982	6 612
Liabilities under investment contracts	-	10 853	-	-	-	-	0	10 853
Derivatives	14 432	0	-	-	-	2 430	-	16 861
Short positions	491	0	-	-	-	-	-	491
in equity instruments	17	0	-	-	-	-	-	17
in debt instruments	475	0	-	-	-	-	-	475
Other	0	44	-	-	-	-	2 465	2 509
Total carrying value including accrued interest expense	19 459	20 563	-	-	-	2 430	170 813	213 265
[a] *Of which repos*								*1 589*
[b] *Of which repos*								*6 178*
FINANCIAL LIABILITIES, 30-06-2013								
Deposits from credit institutions and investment firms [a]	576	2 648	-	-	-	-	14 516	17 740
Deposits from customers and debt certificates [b]	3 715	13 167	-	-	-	-	150 532	167 414
Excluding repos	388	5 946	-	-	-	-	150 509	*156 843*
Deposits from customers	3 366	8 290	-	-	-	-	123 589	135 244
Demand deposits	0	92	-	-	-	-	38 267	38 359
Time deposits	3 366	8 198	-	-	-	-	43 489	55 052
Savings deposits	0	0	-	-	-	-	35 795	35 795
Special deposits	0	0	-	-	-	-	4 631	4 631
Other deposits	0	0	-	-	-	-	1 407	1 407
Debt certificates	350	4 877	-	-	-	-	26 943	32 169
Certificates of deposit	0	6	-	-	-	-	6 471	6 478
Customer savings certificates	0	0	-	-	-	-	498	498
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	350	4 232	-	-	-	-	13 717	18 299
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	639	-	-	-	-	6 256	6 895
Liabilities under investment contracts	-	11 606	-	-	-	-	0	11 606
Derivatives	10 082	0	-	-	-	1 812	-	11 894
Short positions	452	0	-	-	-	-	-	452
in equity instruments	28	0	-	-	-	-	-	28
in debt instruments	424	0	-	-	-	-	-	424
Other	0	22	-	-	-	-	2 723	2 745
Total carrying value including accrued interest expense	14 824	27 443	-	-	-	1 812	167 770	211 850
[a] *Of which repos*								*3 534*
[b] *Of which repos*								*10 570*

Additional information on quarterly time series

Loans and deposits

In millions of eur	30-06-2012	30-09-2012	31-12-2012	31-03-2013	30-06-2013
Total customer loans excluding reverse repo					
Business unit Belgium	84 295	82 933	83 332	83 562	83 453
Business unit Czech Republic	17 365	18 095	18 581	18 213	18 562
Business unit International Markets	23 881	23 547	23 103	22 723	22 561
of which: Hungary	4 297	4 188	4 057	3 964	4 019
of which: Slovakia	3 994	4 043	4 129	4 144	4 187
of which: Bulgaria	528	544	557	544	546
of which: Ireland	15 062	14 773	14 360	14 071	13 808
Group Centre	1 780	1 704	1 495	1 471	1 323
KBC Group	127 321	126 279	126 510	125 970	125 899
Mortgage loans					
Business unit Belgium	30 131	30 646	30 847	30 781	30 891
Business unit Czech Republic	7 367	7 742	7 919	7 860	7 928
Business unit International Markets	15 357	15 201	15 069	14 868	14 730
of which: Hungary	1 749	1 726	1 701	1 652	1 618
of which: Slovakia	1 425	1 464	1 519	1 564	1 629
of which: Bulgaria	251	251	255	247	246
of which: Ireland	11 933	11 760	11 594	11 405	11 236
Group Centre	29	28	27	27	27
KBC Group	52 884	53 617	53 862	53 536	53 576
Customer deposits excl repos					
Business unit Belgium	94 289	92 673	95 073	99 635	99 672
Business unit Czech Republic	25 059	25 572	26 228	25 309	25 085
Business unit International Markets	12 059	12 812	13 426	13 725	14 300
of which: Hungary	5 530	5 642	5 749	5 663	5 958
of which: Slovakia	4 075	4 319	4 389	4 457	4 506
of which: Bulgaria	614	613	601	593	550
of which: Ireland	1 840	2 238	2 687	3 012	3 287
Group Centre	18 921	19 341	18 728	17 847	17 786
KBC Group	150 328	150 397	153 454	156 516	156 843

Figures as of 31-03-2012 excluding Kredyt Bank; figures as of 30-06-2012 excluding a.o. Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland and KBC Banka

Technical provisions plus unit linked, life insurance

Technical provisions, Life Insurance (In millions of EUR)	30-06-2012		30-09-2012		31-12-2012		31-03-2013		30-06-2013	
	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked
Business unit Belgium	14 784	8 687	14 604	9 741	14 195	10 917	13 514	11 730	13 483	11 673
Business unit Czech Republic	599	624	609	646	608	631	589	601	573	569
Business unit International Markets	236	228	235	241	228	241	226	248	228	261
of which: Hungary	60	172	60	181	55	179	52	180	54	189
of which: Slovakia	137	54	137	58	137	59	138	66	138	69
of which: Bulgaria	39	2	38	2	35	2	36	2	36	2
Group Centre	32	56	33	56	34	59	35	60	48	64
KBC Group	15 651	9 595	15 481	10 684	15 065	11 848	14 365	12 640	14 332	12 566

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Financial assets and liabilities measured at fair value – fair value hierarchy (note 24 in the annual accounts 2012)

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 2012.

In millions of EUR	31-12-2012				30-06-2013			
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	2 285	15 112	3 762	21 159	2 855	12 072	2 658	17 585
Designated at fair value	12 661	3 287	347	16 295	12 996	8 142	348	21 486
Available for sale	24 414	3 431	2 777	30 622	22 356	3 536	1 166	27 058
Hedging derivatives	0	1 088	0	1 088	0	748	0	748
Total, incl.accrued interest	39 360	22 919	6 885	69 163	38 206	24 499	4 172	66 877
Financial liabilities measured at fair value								
Held for trading	498	13 801	5 160	19 459	443	11 229	3 153	14 824
Designated at fair value	10 853	8 300	1 410	20 563	11 606	14 519	1 318	27 443
Hedging derivatives	0	2 430	0	2 430	0	1 812	0	1 812
Total, incl.accrued interest	11 351	24 531	6 570	42 451	12 049	27 560	4 471	44 079

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (note 25 in the annual accounts 2012)

In the first half year of 2013, only a limited amount in debt instruments was transferred between level 1 and level 2.

Financial assets and liabilities measured at fair value – focus on level 3 (note 26 in the annual accounts 2012)

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **30-06-2013**, in millions of EUR0

LEVEL 3 FINANCIAL ASSETS

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	197	0	523	3 041	27	50	0	269	1 117	1 660	0
Total gains/losses	0	15	0	10	- 184	1	- 10	0	89	53	- 8	0
in profit and loss*	0	15	0	10	- 184	1	- 10	0	89	60	1	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	- 8	- 9	0
Acquisitions	0	1	0	102	158	0	0	0	20	15	133	0
Sales	0	0	0	- 77	0	0	- 6	0	0	- 844	- 142	0
Settlements	0	2	0	0	- 628	- 1	0	0	0	0	- 571	0
Transfers into level 3	0	0	0	1	209	0	0	0	0	0	42	0
Transfers out of level 3	0	0	0	- 120	0	0	0	0	0	0	- 307	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	- 28	0	0	0	0	0
Translation differences	0	2	0	- 2	6	0	0	0	1	0	- 5	0
Changes in scope	0	- 19	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	- 1	- 577	0	- 1	0	- 65	0	23	0
Closing balance	0	197	0	436	2 025	27	6	0	315	341	825	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	15	0	16	- 194	0	- 10	0	88	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	181	0	4 979	0	0	0	1 366	0	44	0
Total gains/losses	0	25	0	- 966	0	0	0	- 9	0	- 22	0
in profit and loss*	0	25	0	- 966	0	0	0	- 9	0	- 22	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	86	0	0	0	196	0	0	0
Repurchases	0	0	0	0	0	0	0	- 258	0	0	0
Settlements	0	- 56	0	- 510	0	0	0	0	0	0	0
Transfers into level 3	0	0	0	43	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	1	0	13	0	0	0	1	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	- 644	0	0	0	0	0	0	0
Closing balance	0	152	0	3 000	0	0	0	1 296	0	22	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	25	0	- 879	0	0	0	- 9	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 and non-voting core-capital securities (note 39 in the annual accounts 2012)

in number of shares	31-12-2012	30-06-2013
Ordinary shares	416 967 355	416 967 355
of which ordinary shares that entitle the holder to a dividend payment	*416 967 355*	*416 967 355*
of which treasury shares	*302*	*302*
Non-voting core-capital securities	118 644 067	118 644 067
Other information		
Par value per ordinary share (in euros)	3.48	3.48
Number of shares issued but not fully paid up	0	0

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

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 2012.

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). For information on the repayment of 1.17 billion euros worth of non-voting core capital securities held by the Flemish Regional Government at the beginning of July 2013 see 'note 48 post-balance sheet events'.

Related-party transactions (note 42 in the annual accounts 2012)

During 1H 2013, there was no significant change in related parties compared to the end of 2012. For information on the transfer of part of the loans granted to KBC shareholders and the repayment of 1.17 billion euros worth of non-voting core capital securities held by the Flemish Regional Government at the beginning of July 2013 see 'note 48 post-balance sheet events'.

Over 2013 results, KBC does not intend to pay a coupon on the remaining non-voting core capital securities.

Main changes in the scope of consolidation (note 45 in the annual accounts 2012)

Company	Consolidation method	Ownership percentage at group level		Comments
For income statement comparison		1H2012	1H2013	
Additions				
None				
Exclusions				
TUIR WARTA SA	Full	100.00%	------	Deconsolidated on 30 June 2012 following sale
KBL EPB (Group)	Full	100.00%	------	Sold in 3Q 2012
Kredyt Bank SA	Full	80.00%	------	Deconsolidated on 31 December 2012 following merger with Bank Zachodni WBK
KBC Private Equity NV	Full	100.00%	------	Deconsolidated in 1Q13 due to immateriality
Nova Ljubljanska banka d.d. (group)	Equity	25.00%	------	Sold in 1Q 2013
Absolut Bank	Full	99.00%	------	Sold in 2Q 2013
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Real Estate NV	Full	100.00%	------	Merged with KBC Bank on 1 July 2012
VAB Group	Full	79.81%	95.00%	Stake increased with 15,19% in 2Q 2013

For balance sheet comparison		31-12-2012	30-06-2013	
Additions				
None				
Exclusions				
KBC Private Equity NV	Full	100.00%	------	Deconsolidated in 1Q13 due to immateriality
Nova Ljubljanska banka d.d. (group)	Equity	22.04%	------	Sold in 1Q 2013
Absolut Bank	Full	99.00%	------	Sold in 2Q 2013
Name Changes				
None				
Changes in ownership percentage and internal mergers				
VAB Group	Full	79.81%	95.00%	Stake increased with 15,19% in 2Q 2013

Non-current assets held for sale and discontinued operations (IFRS 5) (note 46 in the annual accounts 2012)

Situation as at 30 June 2013

On 30 June 2013, following planned divestments fulfill the criteria of IFRS 5:

- as disposal groups without being part of a discontinued operation: Antwerp Diamond Bank, KBC Bank Deutschland and KBC Banka. The results of these companies are still included in the income statement's lines.
- as disposal groups which are part of a discontinued operation: none

The assets and liabilities of these divestments are shown separately on the balance sheet (Non-current assets held for sale and assets associated with disposal groups on the asset side and Liabilities associated with disposal groups on the liability side): see table below for more details.

Summary of facts and circumstances regarding divestments which have been signed, but not yet closed on 30 June 2013

KBC Banka:

Activity:	Banking
Segment:	Group Centre
Other information:	On 26 April 2013, KBC has reached an agreement with Société Générale Srbija and Telenor Serbia on the sale of KBC Banka, KBC's banking entity in Serbia. Under the agreement, Telenor will purchase 100% of KBC Banka's shares, while Société Générale Srbija will acquire KBC Banka's key assets and deposits. All the parties involved agreed not to disclose any financial details of the transaction. For KBC, however, the transaction will have an impact on earnings of at the time of signing an estimated -47 million euros (-17m euros of which recorded in 1Q 2013), largely offset by another capital release of an estimated 42 million euros, resulting in a negligible total capital release. Closing of the transaction is subject to the customary regulatory approvals and is expected to be completed in the fourth quarter of 2013.

Financial impact:

NON-CURRENT ASSETS HELD FOR SALE AND ASSETS ASSOCIATED WITH DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS	31-12-2012	*of which: Discontinued operations*	30-06-2013	*of which: Discontinued operations*
Assets				
Cash and cash balances with central banks	484	0	95	0
Financial assets	6 407	0	4 115	0
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	0
Tax assets	83	0	64	0
Investments in associated companies	3	0	0	0
Investment property and property and equipment	113	0	26	0
Goodwill and other intangible assets	14	0	2	0
Other assets	35	0	11	0
Total assets	7 138	0	4 313	0
Liabilities				
Financial liabilities	3 657	0	2 266	0
Technical provisions insurance, before reinsurance	0	0	0	0
Tax liabilities	12	0	14	0
Provisions for risks and charges	9	0	9	0
Other liabilities	61	0	30	0
Total liabilities	3 739	0	2 318	0
Other comprehensive income				
Available-for-sale reserve	101	78	- 3	0
Deferred tax on available-for-sale reserve	- 27	- 22	0	0
Cash flow hedge reserve	7	0	0	0
Translation differences	55	- 4	0	0
Total other comprehensive income	136	52	- 2	0

Post-balance sheet events (note 48 in the annual accounts 2012)

Significant events between the balance sheet date (30 June 2013) and the publication of this report (8 August 2013):

- On 3 July 2013, KBC reached an agreement on the transfer of 0.3 billion euros' worth of loans to KBC Ancora to another international financial institution. In the third quarter of 2013 the P/L will be impacted by approximately -43 million euros post tax emanating from a discount and transaction costs. In doing so, KBC has met the condition shortly before set by the National Bank. The transfer will boost KBC's capital position under Basel III-regulation by a further 0.3 billion euros and will generate added value for its shareholders.

- KBC, on 3 July 2013 also repaid 1.17 billion euros of state aid plus the penalty of 0.58 billion euros – in total, 1.75 billion euros – to the Flemish Regional Government, still six months in advance of the deadline agreed with the European Commission.

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Report of the statutory auditor to the shareholders of KBC Groep nv on the review of the interim condensed consolidated financial statements as of 30 June 2013 and for the six-month period then ended

Introduction

We have reviewed the accompanying interim consolidated balance sheet KBC Groep nv (the "Company") as at 30 June 2013 and the related interim consolidated income statement, the condensed consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes which show a consolidated balance sheet total of € 253.297 million and a consolidated profit (share of the group) for the six-month period of € 1.037 million. Management is responsible for the preparation and 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 ("revue limitée/beperkt nazicht") in accordance with the International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* applicable to review engagements.
A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing (ISA) 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 dated 8 August 2013 on the interim condensed consolidated financial statements of KBC Groep nv as of 30 June 2013 and for the six-month period then ended

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the entity as at 30 June 2013, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, as adopted for use in the European Union.

Brussels, 8 August 2013

Ernst & Young Réviseurs d'Entreprises sccrl
Statutory auditor
represented by

Pierre Vanderbeek
Partner

Peter Telders
Partner

14PVDB0014

KBC Group

Risk and capital management 2Q 2013

This section is not reviewed by the auditors.

Credit risk

Snapshot of the credit portfolio (banking activities, excl. entities marked as 'disposal groups' under IFRS 5)

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 2012)'. Following entities have been recognised as 'disposal groups' under IFRS 5 and have been excluded from the figures since 30-06-2012: Absolut Bank (sale closed in May 2013), Antwerp Diamond Bank, KBC Bank Deutschland and KBC Banka.

Credit risk: loan portfolio overview	31-12-2012	30-06-2013
Total loan portfolio (in billions of EUR)		
Amount granted	167	165
Amount outstanding[1]	141	140
Total loan portfolio, by business unit (as a % of the portfolio of credit granted)		
Belgium	65%	66%
Czech Republic	15%	15%
International Markets	17%	17%
Group Centre	3%	2%
Total	100%	100%
Impaired loans (in millions of EUR or %)		
Amount outstanding	10 757	11 161
Specific loan impairments	4 614	4 753
Portfolio-based loan impairments	244	288
Credit cost ratio, per business unit[3]		
Belgium	0.28%	0.49%
Czech Republic	0.31%	0.30%
International Markets	2.26%	1.76%
Slovakia	0.25%	0.80%
Hungary	0.78%	0.79%
Bulgaria	0.94%	1.62%
Ireland	3.34%	2.35%
Group Centre[2]	1.06%	2.32%
Total[2]	0.69%	0.76%
Non-performing (NP) loans (in millions of EUR or %)		
Amount outstanding	7 397	7 747
Specific loan impairments for NP loans	3 626	3 703
Non-performing ratio, per business unit		
Belgium	2.3%	2.3%
Czech Republic	3.2%	3.3%
International Markets	17.6%	18.5%
Group Centre	1.3%	5.0%
Total	5.3%	5.5%
Cover ratio		
Specific loan impairments for NP loans / Outstanding NP loans	49%	48%
Idem, excluding mortgage loans	63%	61%
Specific and portfolio-based loan impairments for performing and NP loans / outstanding NP loans	66%	65%
Idem, excluding mortgage loans	91%	89%

1. Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees.
2. Including IFRS 5 entities the CCR per 30-06-2013 would be 1.41% for Group Centre and 0.75% for the Total.
3. Annualised credit cost.

Credit portfolio per business unit (banking activities, excl. entities marked as ‘disposal groups’ under IFRS 5*)

Legend:

- ind. LTV - Indexed Loan to Value: current outstanding loan / current value of property
- NPL - Non-Performing Loans: loans assigned a PD 11 or 12
- Specific provisions: provisions for defaulted exposure (i.e. exposure with PD 10, 11 or 12)
- portfolio provisions: provisions for non-defaulted exposure (i.e. exposure with PD < PD 10)

Loan portfolio Business Unit Belgium 30-06-2013, in millions of EUR	Belgium			Foreign branches			Total Belgium	
Total outstanding amount	82 147			6 698			88 845	
Counterparty break down		*% outst.*			*% outst.*			*% outst.*
SME / corporate	22 674	*27.6%*		6 698	*100.0%*		29 371	*33.1%*
retail	59 474	*72.4%*		0	*0.0%*		59 474	*66.9%*
o/w private	32 044	*39.0%*		0	*0.0%*		32 044	*36.1%*
o/w companies	27 429	*33.4%*		0	*0.0%*		27 429	*30.9%*
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*
total	30 814	*37.5%*	62%	0	*0.0%*	-	30 814	*34.7%*
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*
o/w vintage 2007 and 2008	3 478	*4.2%*	-	0	*0.0%*	-	3 478	*3.9%*
o/w ind. LTV > 100%	2 298	*2.8%*	-	0	*0.0%*	-	2 298	*2.6%*
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*
low risk (pd 1-4; 0.00%-0.80%)	62 102	*75.6%*		4 024	*60.1%*		66 127	*74.4%*
medium risk (pd 5-7; 0.80%-6.40%)	13 869	*16.9%*		1 445	*21.6%*		15 313	*17.2%*
high risk (pd 8-10; 6.40%-100.00%)	4 456	*5.4%*		878	*13.1%*		5 333	*6.0%*
non-performing loans (pd 11 - 12)	1 669	*2.0%*		344	*5.1%*		2 014	*2.3%*
unrated	51	*0.1%*		6	*0.1%*		58	*0.1%*
Other risk measures		*% outst.*			*% outst.*			*% outst.*
outstanding non-performing loans (NPL)	1 669	*2.0%*		344	*5.1%*		2 014	*2.3%*
provisions for NPL	998			216			1 214	
all provisions (specific + portfolio based)	n.a.			n.a.			1 913	
cover NPL by all provisions (specific + portfolio)	n.a.			n.a.			95%	
2012 Credit cost ratio (CCR)	n.a.			n.a.			0.28%	
YTD 2013 CCR	n.a.			n.a.			0.49%	

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 Consumer Finance Belgium, KBC Credit Investments (non-legacy portfolio)

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

* Following entities have been recognised as ‘disposal groups’ under IFRS 5 and have been excluded from the figures: Antwerp Diamond Bank, KBC Bank Deutschland and KBC Banka are excluded as from 30-06-2012.

Loan portfolio Business Unit Czech Republic 30-06-2013, in millions of EUR	**Czech republic**		
Total outstanding amount	20 627		
Counterparty break down		*% outst.*	
SME / corporate	6 529	*31.7%*	
retail	14 098	*68.3%*	
o/w private	10 571	*51.2%*	
o/w companies	3 527	*17.1%*	
Mortgage loans (1)		*% outst.*	ind. LTV
total	9 228	*44.7%*	66%
o/w FX mortgages	0	*0.0%*	-
o/w vintage 2007 and 2008	2 021	*9.8%*	-
o/w ind. LTV > 100%	530	*2.6%*	-
Probability of default (PD)		*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	12 245	*59.4%*	
medium risk (pd 5-7; 0.80%-6.40%)	6 622	*32.1%*	
high risk (pd 8-10; 6.40%-100.00%)	1 018	*4.9%*	
non-performing loans (pd 11 - 12)	679	*3.3%*	
unrated	64	*0.3%*	
Other risk measures		*% outst.*	
outstanding non-performing loans (NPL)	679	*3.3%*	
provisions for NPL	418		
all provisions (specific + portfolio based)	495		
cover NPL by all provisions (specific + portfolio)	73%		
2012 Credit cost ratio (CCR)	0.31%		
YTD 2013 CCR (2)	0.30%		

Remarks

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

(2) individual CCR in local currencies.

Loan portfolio Business Unit International Markets 30-06-2013, in millions of EUR	Ireland			Slovakia			Hungary			Bulgaria			Total Int Markets	
Total outstanding amount	15 626			4 568			5 142			700			26 209	
Counterparty break down		*% outst.*			*% outst.*			*% outst.*			*% outst.*			*% outst.*
SME / corporate	3 370	*21.6%*		2 235	*48.9%*		2 752	*53.5%*		297	*42.4%*		8 827	*33.7%*
retail	12 256	*78.4%*		2 332	*51.1%*		2 390	*46.5%*		403	*57.6%*		17 381	*66.3%*
o/w private	12 256	*78.4%*		1 971	*43.2%*		2 010	*39.1%*		253	*36.1%*		16 490	*62.9%*
o/w companies	0	*0.0%*		361	*7.9%*		379	*7.4%*		151	*21.5%*		891	*3.4%*
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*
total	12 256	*78.4%*	125%	1 643	*36.0%*	58%	1 804	*35.1%*	82%	122	*17.4%*	62%	15 825	*60.4%*
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	1 442	*28.0%*	90%	78	*11.1%*	57%	1 520	*5.8%*
o/w vintage 2007 and 2008	4 536	*29.0%*	-	246	*5.4%*	-	938	*18.2%*	-	47	*6.7%*	-	5 767	*22.0%*
o/w ind. LTV > 100%	8 318	*53.2%*	-	0	*0.0%*	-	536	*10.4%*	-	14	*1.9%*	-	8 868	*33.8%*
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*			*% outst.*			*% outst.*
low risk (pd 1-4; 0.00%-0.80%)	5 621	*36.0%*		2 815	*61.6%*		2 017	*39.2%*		63	*9.1%*		10 501	*40.1%*
medium risk (pd 5-7; 0.80%-6.40%)	2 081	*13.3%*		1 106	*24.2%*		1 880	*36.6%*		214	*30.6%*		5 320	*20.3%*
high risk (pd 8-10; 6.40%-100.00%)	4 039	*25.8%*		332	*7.3%*		604	*11.7%*		98	*14.0%*		5 219	*19.9%*
non-performing loans (pd 11 - 12)	3 885	*24.9%*		187	*4.1%*		576	*11.2%*		206	*29.5%*		4 854	*18.5%*
unrated	0	*0.0%*		127	*2.8%*		65	*1.3%*		118	*16.9%*		313	*1.2%*
Other risk measures		*% outst.*			*% outst.*			*% outst.*			*% outst.*			*% outst.*
outstanding non-performing loans (NPL)	3 885	*24.9%*		187	*4.1%*		576	*11.2%*		206	*29.5%*		4 854	*18.5%*
provisions for NPL	1 498			87			310			101			1 996	
all provisions (specific + portfolio based)	1 879			114			372			116			2 482	
cover NPL by all provisions (specific + portfolio)	48%			61%			65%			56%			51%	
2012 Credit cost ratio (CCR)	3.34%			0.25%			0.78%			0.94%			2.26%	
YTD 2013 CCR (2)	2.35%			0.80%			0.79%			1.62%			1.76%	

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 (IFRS5 scope) 30-06-2013, in millions of EUR	Total Group Centre (mainly KBC Finance Ireland and KBC Credit Investments)			For information: entities marked as 'disposal groups' under IFRS 5					
				Belgium (Antwerp Diamond Bank)			**Western Europe** (KBC Deutschland)		
Total outstanding amount	3 994			1 533			2 459		
Counterparty break down		*% outst.*			*% outst.*			*% outst.*	
SME / corporate	3 994	*100.0%*		1 533	*100.0%*		2 459	*100.0%*	
retail	0	*0.0%*		0	*0.0%*		0	*0.0%*	
o/w private	0	*0.0%*		0	*0.0%*		0	*0.0%*	
o/w companies	0	*0.0%*		0	*0.0%*		0	*0.0%*	
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	ind. LTV
total	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
o/w vintage 2007 and 2008	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
o/w ind. LTV > 100%	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	1 448	*36.3%*		166	*10.9%*		1 396	*56.7%*	
medium risk (pd 5-7; 0.80%-6.40%)	1 578	*39.5%*		991	*64.7%*		682	*27.7%*	
high risk (pd 8-10; 6.40%-100.00%)	756	*18.9%*		148	*9.7%*		253	*10.3%*	
non-performing loans (pd 11 - 12)	200	*5.0%*		212	*13.8%*		117	*4.7%*	
unrated	12	*0.3%*		15	*1.0%*		11	*0.5%*	
Other risk measures		*% outst.*			*% outst.*			*% outst.*	
outstanding non-performing loans (NPL)	200	*5.0%*		212	*13.8%*		117	*4.7%*	
provisions for NPL	75			177			88		
all provisions (specific + portfolio based)	150			181			131		
cover NPL by all provisions (specific + portfolio)	75%			86%			112%		
2012 Credit cost ratio (CCR)	1.06%			1.51%			1.89%		
YTD 2013 CCR (2)	2.32%			0.39%			0.99%		

Remarks
Total Group Centre = KBC Finance Ireland, KBC Credit Investments (legacy portfolio), KBC FP (ex-Atomium assets), KBC Lease UK

(1) mortgage loans: only to private persons (as opposed to the accounting figures)
(2) individual CCR in local currency

Structured credit exposure (banking and insurance activities)

(figures exclude all expired, unwound or terminated CDO positions and after claimed or settled credit events)

In the past, KBC acted as an *originator* of structured credit transactions and also *invested* in such structured credit products itself.

- KBC (via its subsidiary KBC Financial Products) acted as an originator when structuring CDO deals (based on third-party assets) for itself or for third party investors. For several outstanding transactions, protection was bought from the US monoline credit insurer MBIA ('CDO exposure protected with MBIA' in the table).

- KBC invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by KBC itself ('other CDO exposure' in the table) and in other ABS ('other ABS exposure' in the table). The main objective at that time was to differentiate risk and to enhance the yield for the re-investment of the insurance reserves and bank deposits it held in surplus of its loans.

KBC investments in structured credit products (CDOs and other ABS), in billions of EUR	30-06-2013
Total net exposure	7.7
o/w CDO exposure protected with MBIA	5.3
o/w other CDO exposure	1.1
o/w other ABS exposure	1.4
Cumulative value markdowns (mid 2007 to date)[1]	-0.6
Value markdowns	-0.5
for *other CDO exposure*	-0.3
for *other ABS exposure*	-0.1
Credit value adjustment (CVA) on MBIA cover[2]	-0.1

1 Note that, value adjustments to KBC's CDOs are accounted for via profit and loss (instead of directly via shareholders' equity), since the group's CDOs are mostly of a synthetic nature (meaning that the underlying assets are derivative products such as credit default swaps on corporate names). Their synthetic nature is also the reason why KBC's CDOs are *not* eligible for accounting reclassification under IFRS in order to neutralise their impact.
2 The provisioning rate of MBIA was decreased from 80% end of March 2013 to 60% per end of June 2013.

As from 2Q 2013 on, KBC presents the net exposure instead of original notional amounts of its remaining investment in CDOs or other ABS. With regard to CDOs this means that all claimed and settled credit events, and all fully de-risked (i.e. riskless) positions are excluded. With regard to CDOs this effect amounts to -3.1 billion euros. For other ABS exposure there was no effect.

Moreover in the second quarter of 2013, there was a significant further reduction to the tune of -4.6 billion euros in KBC's CDO and ABS exposure. This reduction was mainly due to:

• the de-risking of several CDOs, which reduced the net exposure by -4.5 billion euros.
• some minor redemptions in the other ABS portfolio for a total of -0.1 billion euros.

Protection for CDO exposure

As stated above, KBC bought credit protection from MBIA for a large part of the (super senior) CDOs it originated.

Moreover, the remaining risk related to MBIA's insurance coverage is to a large extent mitigated as it is included in the scope of the Guarantee Agreement that was agreed with the Belgian State on 14 May 2009. The contract with the Belgian State has a nominal value of 5.9 billion euros of which 5.3 billion euros relates to the exposure insured by MBIA. It should be noted that the provisioning rate of MBIA was reduced from 80% to 60% per end June 2013 based on a fundamental internal analysis. The remaining 0.7 billion euros of exposure covered by the contract with the Belgian State relates to part of the 'other CDO exposure'. Of this portfolio (i.e. CDO exposure not covered by credit protection by MBIA) the super senior assets have also been included in the scope of the current Guarantee Agreement with the Belgian State.

Details on the CDO exposure protected with MBIA (insurance for CDO-linked risks received from MBIA), in billions of EUR	30-06-2013
Total insured amount (notional amount of super senior swaps)[1]	5.3
Details for MBIA insurance coverage	
- Fair value of insurance coverage received (modelled replacement value, after taking the Guarantee Agreement into account)	0.2
- CVA for counterparty risk, MBIA	-0.1
(as a % of fair value of insurance coverage received)[2]	60%

1 The amount insured by MBIA is included in the Guarantee Agreement with the Belgian State (14 May 2009).
2 The provisioning rate of MBIA was decreased from 80% end of March 2013 to 60% per end of June 2013.

Solvency

Solvency KBC Group

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. For group solvency, the so-called 'building block' method is used. 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%.

In millions of EUR	31-12-2012	30-06-2013
Regulatory capital		
Total regulatory capital, KBC Group (after profit appropriation)	16 113	18 889
Tier-1 capital	14 062	15 756
Core Tier-1 capital	*11 951*	*13 652*
Parent shareholders' equity	12 099	12 119
Non-voting core-capital securities	3 500	3 500
Intangible fixed assets (-)	- 356	- 319
Goodwill on consolidation (-)	- 987	- 965
Innovative hybrid tier-1 instruments	419	411
Non-innovative hybrid tier-1 instruments	1 692	1 693
Direct & indirect funding of investments in own shares	- 250	- 250
Minority interests	- 5	- 4
Equity guarantee (Belgian State)	276	54
Revaluation reserve available-for-sale assets (-)	- 1 263	- 965
Hedging reserve, cashflow hedges (-)	834	578
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 22	28
Minority interest in AFS reserve & hedging reserve, cashflow hedges (-)	0	0
Equalization reserve (-)	- 111	- 125
Dividend payout (-)	- 960	0
IRB provision shortfall (50%) (-)	0	0
Limitation of deferred tax assets	- 227	0
Items to be deducted [1] (-)	- 577	0
Tier-2 & 3 capital	2 051	3 133
Perpetuals (incl. hybrid tier-1 not used in tier-1)	0	0
Revaluation reserve, available-for-sale shares (at 90%)	185	179
Minority interest in revaluation reserve AFS shares (at 90%)	0	0
IRB provision excess (+)	130	285
Subordinated liabilities	2 268	2 634
Tier-3 capital	44	36
IRB provision shortfall (50%) (-)	0	0
Items to be deducted[1] (-)	- 577	0
Capital requirement		
Total weighted risks	102 148	93 856
Banking[2]	89 532	81 962
Insurance	12 386	12 151
Holding activities	304	217
Elimination of intercompany transactions between banking and holding activities	- 74	- 474
Solvency ratios		
Tier-1 ratio	13.77%	16.79%
Core Tier-1 ratio	11.70%	14.55%
CAD ratio	15.77%	20.13%

1 Items to be deducted fell to zero after KBC closed the sale of NLB and sold its stake in Bank Zachodni WBK.
2 Until the end of 2015, KBC Group's RWA include a yearly decreasing amount of RWA for residual operational risks related to KBL EPB (sold in 2012).

For information on the partial reimbursement of the 7 billion euros worth of non-voting core capital securities sold to the Belgian and Flemish government see note on parent shareholders' equity and non-voting core-capital securities (note 39).

The pro forma tier-1 ratio under Basel II regulation at 30 June 2013 including the impact of the transfer of part of the loans granted to KBC shareholders and the repayment of 1.17 billion euros worth of non-voting core capital securities held by the Flemish Regional Government and the sale of KBC Banka amounts to approximately 14.9%.

The Belgian regulator has confirmed to KBC that the non-voting core capital securities will be fully grandfathered as common equity under the current CRD4 proposal. KBC Group's approximated Basel III fully loaded Common Equity ratio amounts to 13.3%.

Basel II IRB, since its implementation in 2008, is the primary approach (used for approximately 88% of the weighted credit risks, of which approx. 64% according to Advanced and approx. 24% according to Foundation approach). Note that, retail exposure treated under IRB is always subject to an Advanced approach. The remaining weighted credit risks (ca. 12%) are calculated according to the Standardised approach.

Solvency banking and insurance activities separately

The tables below show the tier-1 and CAD ratios calculated under Basel II 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 31-12-2012 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)	31-12-2012	30-06-2013
Total regulatory capital, after profit appropriation	14 390	16 152
Tier-1 capital	12 235	12 914
Tier-2 and tier-3 capital	2 154	3 238
Total weighted risks	88 927	81 358
Credit risk	69 149	62 123
Market risk	8 733	8 189
Operational risk	11 045	11 045
Solvency ratios		
Tier-1 ratio	13.8%	15.9%
of which core tier-1 ratio	11.4%	13.3%
CAD ratio	16.2%	19.9%

Solvency, KBC Insurance consolidated (in millions of EUR)	31-12-2012	30-06-2013
Available capital	3 190	2 954
Required solvency margin	991	972
Solvency ratio and surplus		
Solvency ratio (%)	322%	304%
Solvency surplus (in millions of EUR)	2 199	1 982

During the first quarter of 2013, the Tier-2 capital at KBC Bank increased largely thanks to a combination of the issuance of a Contigent Capital note on 18 January 2013 to the tune of 1 billion USD, and the closure of the sale of NLB and the stake in Bank Zachodni WBK.