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KBC Bank

Half-Year Report - 1H2014

Company name

'KBC', 'the group' or 'KBC Bank' as used in this report refer to the consolidated bank entity (i.e. KBC Bank NV including all companies that are included in the scope of consolidation). 'KBC Bank NV' refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank (see below).

Difference between KBC Bank and KBC Group

KBC Bank is a subsidiary of KBC Group. Simplified, the KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank and KBC Insurance.

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.

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Glossary of ratios used

Common equity ratio: [common equity tier-1 capital] / [total weighted risks]. The calculation is based on the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) approved and published by the EU.

Cost/income ratio: [operating expenses] / [total income].

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 impairment for credit risks] / [average outstanding loan portfolio]. Note that, *inter alia,* government bonds are not included in this formula.

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

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

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]

Management certification

'I, Luc Popelier, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the abbreviated financial statements included in the interim report are based on the relevant accounting standards and fairly present in all material respects the financial means, financial condition and results of KBC Bank NV including its consolidated subsidiaries, and that the interim report provides a fair overview 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.'

Contents

This report contains information that is subject to transparency regulations for listed companies. 29 August 2014, 8 a.m. CEST.

Report for the first six months of 2014

KBC Bank

Summary

KBC Bank ended the first six months of 2014 (1H2014) with a consolidated net profit under IFRS of 472 million euros, as opposed to a net profit of 824 million euros in the first six months of 2013 (1H2013).

In order to give a better insight into the ongoing business performance, KBC Bank also provides *'adjusted'* figures that exclude the impact of the legacy business (remaining divestments and CDOs) and the impact of the valuation of own credit risk. These items are discussed elsewhere in this report. After excluding the impact of these items, adjusted net profit came to 458 million euros in 1H2014, compared with 700 million euros in 1H2013. The decline was due principally to the change in marked-to-market valuations in respect of derivatives used for ALM purposes (positive in 1H2013, negative in 1H2014) and the one-off impact of the new Hungarian act on retail loans in 1H2014.

Key consolidated figures, KBC Bank (in millions of EUR)				
			1H2013	1H2014
Net result, IFRS			824	472
Adjusted net result			700	458
	by business unit:	Belgium	574	480
		Czech Republic	271	265
		International Markets	-111	-215
		Group Centre	-34	-73
			31-12-2013	30-06-2014
Total assets			206 087	218 944
Total equity			12 313	12 974
Common equity ratio (Basel III, fully loaded)			12.0%	12.1%

A summary table containing the IFRS results and adjusted results can be found elsewhere in this report. Restatement of 2013 reference figure due to the application of the new IFRS 11 standard (see below).

Financial highlights for 1H2014 compared to 1H2013

- Excellent adjusted net result, excluding the impact of new legislation in Hungary and the negative marked-to-market valuations of derivatives used for ALM purposes.
- Net interest income up by 6%* on a comparable basis; net interest margin up 15 basis point to 2.03%.
- Loan volumes up in all Central European core countries; stable in Belgium and down in Ireland. Customer deposits increase in all countries except Hungary.
- Significant negative impact of marked-to-market valuations of ALM derivatives in the period under review.
- Lower realised gains on the sale of bonds and shares.
- Net fee and commission income up by 4%* on a comparable basis.
- Negative other net income, due entirely to the one-off provisioning of 231 million euros (pre-tax) for the Hungarian retail loan book following new legislation there.
- Cost/income ratio* of 63% year-to-date, or 55% when adjusted for specific items (mainly the impact of marked-to-market valuations in respect of ALM derivatives, and the new Hungarian act on retail loans).
- Lower loan loss impairment; credit cost ratio at a very low 0.34% year-to-date, thanks to the Czech Republic and Belgium.
- Consistently solid liquidity position, with an LCR at 123% and an NSFR at 109%.
- Solvency: strong capital base, with a Basel III common equity ratio (fully loaded) of 12.1%.

* Based on adjusted results.

Note: changes to the reference figures

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

a) The application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint venture of ČSOB in the Czech Republic. This change does not affect the net result, but does have an impact on various items in the consolidated income statement and balance sheet.
b) The shift from Basel II to Basel III. Among other things, this has affected the risk-weighted asset figures and related ratios.
c) An enhanced definition for net interest margin across all business units. This is aimed at better showing the margin generated by KBC's core business. Hence, volatile assets related to general liquidity management or derivatives (such as reverse repos, cash balances with central banks, etc.) have been eliminated, while companies that have still to be divested and those in run down have been excluded from the scope (whereas in the past, it was only those companies classified as 'disposal groups' under IFRS 5).

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

Analysis of the result

A full overview of the IFRS consolidated income statement and balance sheet is provided in the ‘Consolidated financial statements’ section of this interim 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 addition to these figures, KBC Bank also provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below (the ‘adjusted result’ columns), 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 the segment reporting presentation, these items are all included in the Group Centre). Moreover, in the adjusted result overview, a different accounting treatment for capital-market income was applied to the Belgium Business Unit (all trading results are 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 this interim report.

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS	IFRS	Adjusted result	Adjusted result
	1H2013	1H2014	1H2013	1H2014
Net interest income	1 717	1 743	1 656	1 726
Interest income	3 913	3 621	*	*
Interest expense	-2 195	-1 878	*	*
Dividend income	8	7	7	2
Net result from financial instruments at fair value through profit and loss	602	60	458	63
Net realised result from available-for-sale assets	157	34	110	32
Net fee and commission income	867	883	863	889
Fee and commission income	1 195	1 122	*	*
Fee and commission expense	-328	-239	*	*
Other net income	5	-89	95	-111
Total income	3 357	2 637	3 188	2 601
Operating expenses	-1 631	-1 648	-1 612	-1 633
Impairment	-562	-249	-523	-234
on loans and receivables	-545	-239	-506	-233
on available-for-sale assets	-2	-2	-2	-2
on goodwill	0	0	0	0
on other	-15	-8	-15	0
Share in results of associated companies and joint ventures	15	12	15	12
Result before tax	1 180	753	1 068	746
Income tax expense	-294	-204	-306	-212
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	886	548	762	534
attributable to minority interests	62	76	62	76
attributable to equity holders of the parent	**824**	**472**	**700**	**458**
By business unit:				
Belgium	574	480	574	480
Czech Republic	271	265	271	265
International Markets	-111	-215	-111	-215
Group Centre	90	-58	-34	-73
Legacy business and own credit risk (after tax)	(included in above P/L scheme)	(included in above P/L scheme)	(excluded in above P/L scheme, but mentioned separately below)	(excluded in above P/L scheme, but mentioned separately below)
Legacy – gains/losses on CDOs	-	-	260	23
Legacy – divestments	-	-	-90	-2
MTM of own credit risk	-	-	-46	-6
Net result				
attributable to equity holders of the parent	824	472	824	472

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

KBC Bank ended the first six months of 2014 (1H2014) with a net profit of 472 million euros, as opposed to a net profit of 824 million euros in the first six months of 2013 (1H2013).

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

In order to give a good insight into the ongoing business performance, KBC Bank also provides adjusted figures that exclude 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 of the valuation of own credit risk. For 1H2014, these items had the following impact:

- CDOs: During the first six months of 2014, corporate and ABS credit spreads tightened further. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the net effect of reducing the exposure to CDOs and the remaining maturity of the products, there was a positive post-tax impact of some 23 million euros (compared with 260 million in 1H2013).
- Remaining divestments: A limited post-tax impact of -2 million euros was recorded for 1H2014 (compared to -90 million in 1H2013, which mainly related to the placement of the stake in Bank Zachodni WBK, the sale of the participation in Nova Ljubljanska banka (NLB), the impairment on a subordinated loan to NLB, and the sale of Absolut Bank).
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of December 2013 and the end of June 2014 resulted in a negative (post-tax) marked-to-market adjustment of 6 million euros (compared to -46 million in 1H2013), and had no impact on regulatory capital.

After excluding the impact of the above-mentioned items, adjusted net profit came to 458 million euros in 1H2014, compared with 700 million euros in 1H2013. The main components of the adjusted net profit are discussed below.

Please note that the comparison between 1H2014 and 1H2013 was slightly affected by the deconsolidation of Absolut Bank. Where relevant, this will be disregarded in the analysis below to enable a meaningful comparison to be made ('on a comparable basis').

Total income (adjusted net result)

- Net interest income stood at 1 726 million euros in 1H2014, up 4% year-on-year (or 6% on a comparable basis). Commercial margins remained healthy and wholesale (subordinated) funding costs fell considerably. The net interest margin came to 2.03% year-to-date, 15 basis points higher than the (recalculated) level of a year earlier. The loan book (loans and advances to customers, excluding reverse repos) amounted to 120 billion euros, while deposits (deposits from customers and debt certificates, excluding repos) amounted to 152 billion euros at 30 June 2014. When broken down by business unit, loan and deposit volumes changed as follows (percentages calculated after elimination of transactions between KBC Group companies): in the Belgium Business Unit, the loan book remained flat year-on-year (primarily through a reduction at the foreign branches and the decrease in shareholder loans, while mortgages grew by 1.5%), whereas the deposit base grew by 1%. The loan book in the Czech Republic increased by 3% year-on-year, while deposits rose by 8%. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year (due to Ireland), but the deposit base grew by 2% (driven by Ireland, where there is a successful ongoing retail campaign).
- The net result from financial instruments at fair value amounted to 63 million euros in 1H2014, compared to 458 million euros (454 million euros on a comparable basis) for the first half of the previous year. The net result from financial instruments at fair value is usually defined by dealing-room income, but the past six-month period has been influenced primarily by a pre-tax result of -126 million euros on the marked-to-market valuations in respect of the derivative instruments used for ALM purposes, as opposed to +204 million in 1H2013.
- Net realised gains from available-for-sale assets stood at 32 million euros in 1H2014, compared with 110 million euros for the first half of 2013. The vast majority of the gains in 1H2014 were generated by the sale of bonds.
- Net fee and commission income amounted to 889 million euros in 1H2014, up 3% year-on-year (4% on a comparable basis). Assets under management of the group stood at 172 billion euros, up 11% since the end of June 2013 because of price effects (+8%) and net entries (+3%).
- Other net income came to -111 million euros in 1H2014 as opposed to 95 million euros in the year-earlier period. In the period under review, this item was affected (to the tune of -231 million euros) by provisioning for the new Hungarian act on retail loans: 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions'. The legal basis of this act will be challenged, with support coming from the opinion of the European Central Bank of 28 July 2014 on this matter and its call for consultation.

Operating expenses (adjusted net result)

- Operating expenses came to 1 633 million euros in 1H2014, up 1% on their year-earlier level. On a comparable basis, costs increased by 3%, as the negative foreign exchange impact in the Czech Republic and Hungary was more than offset by higher expenses at KBC Ireland (increased FTEs in the arrears unit and due to the ongoing retail campaign), among other things. The year-to-date cost/income ratio came to a relatively high 63%, but resulted primarily from the bank tax being charged for the full year in Hungary and the fact that the denominator (total income) suffered from negative marked-to-market valuations of ALM derivatives and the impact of the new act on retail loans in Hungary. Adjusted for specific items, the cost/income ratio stood at 55%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 233 million euros in 1H2014, down on the 506 million euros recorded a year earlier. The figure for 1H2014 included loan loss impairment of 110 million euros recorded at KBC Bank Ireland (as opposed to 187 million euros in 1H2013), 68 million euros in the Belgium Business Unit (220 million euros in 1H2013) and 55 million euros for all other countries combined (98 million euros in 1H2013). The annualised credit cost ratio for the group stood at 0.34% year-to-date. This breaks down into a very favourable 0.15% for the Belgian Business Unit (down from 0.37% for FY2013), an unsustainably low 0.04% in Czech Republic Business Unit (compared with 0.26% for FY2013) and 1.14% for the International Markets Business Unit (down from 4.48% for FY2013 which had clearly been impacted by the large additional loan loss impairment charges in Ireland in 4Q2013).
- Other impairment charges came to 2 million euros and were exclusively related to impairment on available-for-sale assets (shares).

Income tax (adjusted net result)

- Income tax amounted to 212 million euros for the first six months of 2014.

Highlights of the performance by business unit

- The Belgium Business Unit (encompassing all activities in Belgium) generated a net result of 480 million euros in 1H2014, compared with 574 million euros in 1H2013. The period under review included higher net interest income, a significantly lower net result from financial instruments at fair value (caused by the significantly negative marked-to-market valuations of ALM derivatives, as opposed to a positive amount in the reference period), a lower realised result from available-for-sale assets, strong net fee and commission income and higher other net income (thanks in part to a one-off recuperation relating to an old credit file). Costs stayed more or less the same, leading to a year-to-date cost/income ratio of 52%, and impairment charges stood at a relatively low level, leading to a healthy annualised credit cost ratio of 0.15% in 1H2014.
- The Czech Republic Business Unit (encompassing all activities in the Czech Republic) generated a net result of 265 million euros in 1H2014, compared with 271 million euros in 1H2013, essentially due to the weakening of the Czech koruna. That aside, 1H2014 was characterised by higher net interest income, increased net fee and commission income, lower gains from available-for-sale assets, lower trading and fair value income and higher other net income. Costs remained well under control with a cost/income ratio of 47%, and loan loss impairment stood at a very low level of 3 million euros, leading to an excellent but unsustainable annualised credit cost ratio of 0.04% in 1H2014.
- The International Markets Business Unit (covering activities in Ireland, Hungary, Slovakia and Bulgaria) generated a net result of -215 million euros in 1H2014, compared with -111 million euros in 1H2013. When broken down by country, the net result was as follows: -98 million euros for Ireland (compared to -146 million euros in 1H2013; an improvement thanks primarily to lower loan loss impairment); 30 million euros for Slovakia (in line with the 29 million euros in 1H2013), 5 million euros for Bulgaria (in line with the 5 million euros in 1H2013), and -152 million euros for Hungary (compared to 2 million in 1H2013; a deterioration caused entirely by the impact of the new Hungarian act on retail loans – see the press release of 8 July 2014 at www.kbc.com – with a negative (post-tax) impact of 183 million in 1H2014). As a result, the overall cost/income ratio for the business unit stood at a high 140% in 1H2014 (67% excluding the impact of the new Hungarian act, the Hungarian banking tax and some other minor exceptional items), and the annualised credit cost ratio stood at 1.14%.
- The Group Centre (certain items that are not allocated to the business units, results of companies to be divested, impact of legacy activities and own credit risk) generated a net IFRS result of -58 million euros in 1H2014, as opposed to 90 million euros in 1H2013. Excluding the impact of legacy activities and own credit risk, the adjusted net result of the Group Centre came to -73 million euros in 1H2014.

Equity, solvency and liquidity

- At the end of June 2014, total equity came to 13 billion euros, up 0.7 billion euros on its level at the start of the year, due mainly to the inclusion of the Additional Tier-1 instrument (1.4 billion euros) issued in March. Other factors impacting total equity in the first half of 2014 were the inclusion of the 1H2014 results (0.5 billion euros), the final dividend paid to KBC Group for financial year 2013 (-0.7 billion euros), the changes in the available-for-sale and cashflow hedge reserves (-0.1 billion euros, combined) and the calling for redemption of Funding Trust securities (-0.4 billion euros in minority interests).
- KBC Bank's common equity ratio (Basel III, fully loaded) stood at a strong 12.1% at 30 June 2014.
- The group's liquidity remains excellent, as reflected in an LCR ratio of 123% and an NSFR ratio of 109% at the end of June 2014.

Selected balance sheet data

Highlights, consolidated balance sheet, KBC Bank (in millions of EUR)*	31-12-2013	30-06-2014
Total assets	206 087	218 944
Loans and advances to customers	120 784	125 101
Securities (equity and debt instruments)	46 002	49 042
Deposits from customers and debt securities	162 412	168 036
Risk weighted assets (Basel III, fully loaded)	79 822	82 325
Total equity	12 313	12 974
of which parent shareholders' equity	11 662	11 250

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

Selected ratios

Ratios (year-to-date)	FY2013	1H2014
Cost/income ratio	52%	63%
Common equity ratio (Basel III, fully loaded)	12.0%	12.1%
Credit cost ratio	1.21%	0.34%
Non-performing ratio	5.9%	6.2%

Note: a number of ratios have been affected (with retroactive application) by changes due to the implementation of IFRS11, Basel III and the abolished carve-out of the zero weighting of domestic government bonds.

Other information

Strategy and business highlights

- KBC Bank's core strategy is fully embedded in the overall strategy of its parent company, KBC Group. Its strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. In line with its strategic plan, the group has almost completed the sale or run-down of a number of (non-core) activities. For the last two divestments (Antwerp Diamond Bank and KBC Bank Deutschland), sale agreements have been signed and are awaiting regulatory approval.
- In January 2014, KBC Group (KBC Bank's parent company) repaid a second instalment of the aid received from the Flemish Regional Government (0.5 billion euros, comprising 0.33 billion euros in principal plus a penalty of 50%). This repayment was again ahead of the schedule agreed with the European Commission and was made possible on account of KBC's robust capital position.
- In January 2014, the net exposure to legacy CDO positions was further reduced by close to 2 billion euros, thanks to the continued collapsing of CDO exposures.
- In February 2014, KBC announced a further simplification of its management structure, in line with the reduced size of the group and the new situation. The Executive Committee was reduced from eight to six members.
- In March 2014, KBC Bank's long-term ratings were upgraded by S&P to 'A'. In May 2014, its long-term ratings were upgraded by Moody's to 'A2', while later in May, the ratings were put on negative outlook, together with 81 other financial institutions, following the adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation in the European Union. In July 2014, Fitch affirmed KBC Bank's long-term ratings at 'A-' (with stable outlook).
- In April 2014, KBC announced its intention to call its outstanding stock of five classic tier-1 securities for a nominal amount of 2.4 billion euros following the successful closure of the CRD4-compliant AT-1 securities issue worth 1.4 billion euros. All of the classic tier-1 securities have since been called for redemption.
- In June 2014, KBC held an Investor Day to announce its long-term targets and focus of actions. KBC wants to build on its strengths and be among the best-performing, retail-focused financial institutions in Europe. This aim will be achieved by strengthening in a highly cost-efficient way its bank-insurance business model for retail, SME and mid-cap clients in its core markets, by focusing on sustainable and profitable growth within the framework of solid risk, capital and liquidity management, and by creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach. By achieving this, the KBC Group will become the reference in bank-insurance in its core markets. KBC Group also announced new financial targets, which can be found at www.kbc.com.

Developments on the Corporate Sustainability & Responsibility front

- KBC Group published its 'Report to Society for 2013', in which it informs the general public of what it has been doing in 2013 and why.
- KBC Group, K&H (Hungary) and ČSOB (Czech Republic) published their Social Responsibility Reports for 2013.
- KBC created a blacklist of companies breaching the Global Compact Principles and reinforced the policies and procedures for exposure to soft commodities.
- The KBC Group Executive Committee agreed to expand the current Start-it initiative to major cities in Belgium. In this programme, young start-ups receive support in creating business cases and turning their ideas into real working ventures.
- At the end of June, KBC published the new version of its CSR Suppliers Policy, which introduces the *Sustainability Code of Conduct for Suppliers* and allows performance monitoring.
- KBC joined the World Business Council for Sustainable Development (WBCSD) and participated at the liaison delegate meeting in Montreux.
- KBC Bank endorsed the Green Bond Principles and was formally registered as a member of these Principles. It is KBC's intention to actively participate in the Green Bond market, which underlines its interest in green finance.
- In the Czech Republic, ČSOB won the 'Internet Effectiveness Award 2013' in the area of non-profit sector, human rights and the environment for the pilot grant programme called 'Era Helps the Regions', which is aimed at assisting 27 non-profit and contributory organisations in nine regions. Given the success of the pilot programme, 'Era Helps the Regions' will be rolled out countrywide in 2014. ČSOB was also shortlisted in the 'Ashoka Changemakers/Ashoka Social and Business Co-Creation Competition' for its eScribe service, online speech transcription services provided to clients with a hearing impairment at all 75 Era Financial Centres. It was one of the top 15 finalists (out of more than 300 nominees). The eScribe service is newly accessible at all specialised counters of the Czech Post in the region of South Bohemia. In

April 2014, a pilot workshop for staff working directly with clients was held, focusing on communication with people with hearing and vision impairment. In May and June, staff in the Era Financial Centres were trained in the basics of communicating with people with a hearing impairment.

- In Hungary, K&H organised the 'K&H Ready, Steady, Money!' national competition in school year 2013/2014 for the fourth time: 1 081 teams from 350 schools participated in the first round of the competition and more than 4 700 pupils put their knowledge and creativity to the test in dealing with various financial tasks. Participant numbers were up 50% on their level for the previous school year. K&H Bank was also crowned winner in the 'Family Friendly Workplace' competition run by the Hungarian government. The award was given to companies that help their employees to accommodate family and work. K&H's 'MediMagic Storytelling Doctors' entry was selected by the international jury in Amsterdam as winner of the Healthcare category in the 'Golden World Award' competition run by IPRA. This was no mean feat as 415 entries were submitted from all over the world, with 9 being shortlisted in the Healthcare category.
- In Bulgaria, Cibank's 'Blue Summer' project won the Engage 2013 award for corporate social responsibility in the Bulgarian Business Leaders Forum's annual ranking of responsible businesses.
- In Ireland, KBC Ireland launched a new 'KBC Bright Ideas' initiative, a fund for people from Dublin, Cork, Galway or Limerick who want to transform their communities.

Statement of risk

- Mainly active in banking 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, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing divestment plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.

- Risk management data are provided in KBC Group's and KBC Bank's annual reports, KBC Group's extended quarterly reports and the dedicated risk reports, all of which are available at www.kbc.com.

- The global economy is currently painting a mixed picture. After a weak first quarter, mainly reflecting bad weather conditions, the US economy recovered robustly in the second quarter. The Chinese economy also gained strength in the second quarter, while the UK's strong recovery continued. As expected, the Japanese economy shrank in the second quarter, after growing spectacularly in the first quarter in anticipation of the VAT hike in April. Lastly, the euro area economy stagnated compared to the first quarter. German growth was negatively affected by the Ukrainian crisis and trade sanctions between the EU and Russia.

  Looking forward, the economic expansion is expected to continue in the quarters to come. The underlying drivers of the US economy are strong and China has been successful in implementing pro-growth measures to offset the economic slowdown. The Japanese economy will continue to benefit from the expansionary policies known as 'Abenomics' and is probably robust enough to digest (even further) VAT hikes. The economic recovery in the euro area is also expected to become broader and more sustainable, albeit at a very moderate rate. Domestic demand is improving due to fading headwinds, i.e. fiscal drag is easing, inflation remains low, monetary policy is set to remain very accommodative for a long time and lending conditions are easing. The broadening of economic growth has improved the sustainability of public finances, leading to a further decrease in intra sovereign spreads. Meanwhile, the ongoing asset quality review and stress-tests by the ECB and the EBA are helping to improve transparency about the financial health of the European banking sector. The ECB – as single supervisor from November this year – will ensure that rules are uniformly implemented and thus increase financial stability. Downside risks remain a concern, however. Global growth could be weaker for longer, given the lack of robust momentum, particularly in the euro area. Geopolitical risks (Ukraine, Middle East) and trade sanctions have escalated and could further undermine confidence, among other things. The expected tightening of US monetary policy involves some financial market risks, and could lead to a reversal of the recent risk spread and volatility compression.

Financial calendar

The financial calendar of KBC Group and KBC Bank, which includes information on when the results will be published and the dates of analyst and investor meetings, is available at www.kbc.com.

Consolidated financial statements

according to IFRS, KBC Bank – 1H2014

Reviewed by the statutory auditor

Consolidated income statement

In millions of EUR	Note	1H 2013	1H 2014
Net interest income	3	1 717	1 743
Interest income		3 913	3 621
Interest expense		- 2 195	- 1 878
Dividend income		8	7
Net result from financial instruments at fair value through profit or loss	5	602	60
Net realised result from available-for-sale assets	6	157	34
Net fee and commission income	7	867	883
Fee and commission income		1 195	1 122
Fee and commission expense		- 328	- 239
Net other income	8	5	- 89
TOTAL INCOME		3 357	2 637
Operating expenses		- 1 631	- 1 648
Staff expenses		- 748	- 777
General administrative expenses		- 818	- 808
Depreciation and amortisation of fixed assets		- 65	- 63
Impairment	11	- 562	- 249
on loans and receivables		- 545	- 239
on available-for-sale assets		- 2	- 2
on goodwill		0	0
on other		- 15	- 8
Share in results of associated companies and joint ventures		15	12
RESULT BEFORE TAX		1 180	753
Income tax expense		- 294	- 204
Net post-tax result from discontinued operations	41	0	0
RESULT AFTER TAX		886	548
Attributable to minority interest		62	76
of which relating to discontinued operations		*0*	*0*
Attributable to equity holders of the parent		**824**	**472**
of which relating to discontinued operations		*0*	*0*

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

Condensed consolidated statement of comprehensive income

In millions of EUR	1H 2013	1H 2014
RESULT AFTER TAX	886	548
attributable to minority interest	62	76
attributable to equity holders of the parent	824	472
Other comprehensive income - to be recycled to P&L		
Net change in revaluation reserve (AFS assets) - Equity	- 6	- 1
Net change in revaluation reserve (AFS assets) - Bonds	- 119	233
Net change in revaluation reserve (AFS assets) - Other	0	0
Net change in hedging reserve (cash flow hedge)	261	- 380
Net change in translation differences	- 29	0
Other movements	1	- 2
Other comprehensive income - not to be recycled to P&L		
Net change in defined benefit plans	- 7	- 39
TOTAL COMPREHENSIVE INCOME	988	360
attributable to minority interest	62	76
attributable to equity holders of the parent	926	284

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2013	30-06-2014
Cash and cash balances with central banks		4 294	6 047
Financial assets	14 - 22	191 697	202 864
Held for trading		16 966	12 788
Designated at fair value through profit or loss		4 597	7 307
Available for sale		14 726	17 324
Loans and receivables		129 630	139 800
Held to maturity		25 007	24 649
Hedging derivatives		770	998
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		120	155
Tax assets		1 617	1 542
Current tax assets		200	36
Deferred tax assets		1 417	1 506
Non-current assets held for sale and assets associated with disposal groups	41	3 769	3 774
Investments in associated companies and joint ventures		182	168
Investment property		415	404
Property and equipment		2 190	2 005
Goodwill and other intangible assets		1 035	1 031
Other assets		768	954
TOTAL ASSETS		206 087	218 944

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2013	30-06-2014
Financial liabilities	14 - 22	188 913	200 367
Held for trading		13 113	10 482
Designated at fair value through profit or loss		13 144	13 641
Measured at amortised cost		160 979	173 909
Hedging derivatives		1 678	2 335
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 2	114
Tax liabilities		166	168
Current tax liabilities		97	78
Deferred tax liabilies		68	89
Liabilities associated with disposal groups	41	2 027	2 156
Provisions for risks and charges		491	688
Other liabilities		2 180	2 478
TOTAL LIABILITIES		193 775	205 970
Total equity	34	12 313	12 974
Parent shareholders' equity	34	11 662	11 250
Additional Tier-1 instruments included in equity	34	0	1 400
Minority interests	34	651	324
TOTAL LIABILITIES AND EQUITY		206 087	218 944

In line with IFRS 5, the assets and liabilities of the remaining divestments have been moved from various balance sheet lines to ‘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 41.

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

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit obligations	Reserves	Translation differences	Parent share-holders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
30-06-2013											
Balance at the beginning of the period (31-12-2012)	8 948	1 223	335	-863	0	1 930	-318	11 255	0	718	11 973
First time application IAS19 Revised	0	0	0	0	-63	-8	0	-71	0	0	-71
Adjusted balance at the beginning of the period	8 948	1 223	335	-863	-63	1 921	-318	11 184	0	718	11 902
Net result for the period	0	0	0	0	0	824	0	824	0	62	886
Other comprehensive income for the period	0	0	-124	261	-7	1	-29	102	0	-1	102
Total comprehensive income	**0**	**0**	**-124**	**261**	**-7**	**825**	**-29**	**926**	**0**	**62**	**988**
Dividends	0	0	0	0	0	0	0	0	0	0	0
Capital increase	0	-327	0	0	0	327	0	0	0	0	0
Impact business combinations	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	-54	-54
Change in scope	0	0	0	0	0	0	102	102	0	0	102
Total change	**0**	**-327**	**-124**	**261**	**-7**	**1 152**	**73**	**1 028**	**0**	**8**	**1 035**
Balance at the end of the period	**8 948**	**895**	**211**	**-602**	**-70**	**3 074**	**-245**	**12 212**	**0**	**726**	**12 937**
of which revaluation reserve for shares			38								
of which revaluation reserve for bonds			173								
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			-3	2			2
30-06-2014											
Balance at the beginning of the period (31-12-2013)	8 948	895	264	-522	70	2 337	-331	11 662	0	651	12 313
Net result for the period	0	0	0	0	0	472	0	472	0	76	548
Other comprehensive income for the period	0	0	232	-379	-39	-2	0	-188	0	0	-188
Total comprehensive income	**0**	**0**	**232**	**-379**	**-39**	**471**	**0**	**284**	**0**	**76**	**360**
Dividends	0	0	0	0	0	-691	0	-691	0	0	-691
Capital increase	0	0	0	0	0	0	0	0	0	0	0
Issue of additional Tier-1 instruments included in equity	0	0	0	0	0	-6	0	-6	1 400	0	1 394
Impact business combinations	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	-45	-45
Change in scope	0	0	0	0	0	0	0	0	0	-358	-358
Total change	**0**	**0**	**232**	**-379**	**-39**	**-226**	**0**	**-412**	**1 400**	**-327**	**661**
Balance at the end of the period	**8 948**	**895**	**496**	**-902**	**31**	**2 111**	**-330**	**11 250**	**1 400**	**324**	**12 974**
of which revaluation reserve for shares			69								
of which revaluation reserve for bonds			427								
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			5	1			-3	3			3

Changes in equity in 1H2014 include a final dividend payment of 677 million euros. In 1H2014, the placement of an additional tier-1 instrument for an amount of 1.4 billion euros made a positive contribution to total equity. The quarterly coupon on this additional tier-1 instrument is presented as a dividend (-14 million euros (after tax) in 1H2014). During 1H2014, KBC called all of its Trust preferred securities, which had a -358-million-euro impact on minority interests in equity. Also in 1H2014, revaluation reserves (AFS assets) increased by 232 million euros, due mainly to falling interest rates, which made a positive contribution of 233 million euros to the reserves for bonds. This was offset slightly by the -1-million-euro impact on the reserves for shares. A negative effect of -379 million euros, likewise largely linked to decreasing interest rates, was noted on hedging reserves (cashflow hedges).

Condensed consolidated cash flow statement

In millions of EUR	1H 2013	1H 2014
Net cash from (used in) operating activities	7 798	6 342
Net cash from (used in) investing activities	- 1 321	540
Net cash from (used in) financing activities	- 65	- 4 423
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	6 412	2 458
Cash and cash equivalents at the beginning of the period	1 130	8 803
Effects of exchange rate changes on opening cash and cash equivalents	- 134	- 28
Cash and cash equivalents at the end of the period	7 409	11 234

The sale of KBC Bank Deutschland (announced on 24 September 2013) and Antwerp Diamond Bank (announced on 19 December 2013) will have no material impact on cash flows at the level of KBC Bank.
The issue of an additional tier-1 instrument in March 2014 had a +1.4 billion euro impact on net cash from financing activities. However, maturing senior unsecured debt and subordinated debt more than counterbalanced this positive influence. During the second quarter of 2014 a number of subordinated instruments were called which led to a negative impact of approximately -2.3 billion euros on net cash from financing activities.

Notes on statement of compliance and changes in accounting policies

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

The consolidated financial statements of KBC Bank 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 annual financial statements as at 31 December 2013.

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

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

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

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

Notes on segment reporting

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

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

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

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

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

The figures for segment reporting have been prepared in accordance with the general KBC accounting policies (see Note 1) and are thus in compliance with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS).
In addition to the figures according to IFRS, KBC provides figures aimed at giving more insight into the ongoing business performance. The resulting figures are called *'adjusted net result'* and are the current basis for segment reporting.
This means that, in addition to the IFRS income statement, a reworked income statement has been provided, in which a limited number of non-operational items is excluded from P/L and summarised into three lines at the bottom of the reporting presentation. Segment reporting is based on this reworked presentation.
These non-operational items are:

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

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

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

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit International Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre excl inter-segment eliminations	Inter-segment eliminations	KBC Bank
1H 2013										
Net interest income	974	446	302	127	91	15	68	- 64	- 2	1 656
Dividend income	6	0	0	0	0	0	0	0	0	7
Net result from financial instruments at fair value through profit or loss	329	44	37	29	10	1	- 3	48	0	458
Net realised result from available-for-sale assets	87	12	11	6	3	2	1	0	0	110
Net fee and commission income	639	115	101	68	25	8	- 3	4	4	863
Net other income	73	5	23	14	8	1	0	- 10	3	95
TOTAL INCOME	2 107	623	474	244	137	27	63	- 10	- 6	3 188
Operating expenses	- 950	- 291	- 358	- 217	- 80	- 17	- 42	- 19	6	- 1 612
Impairment	- 234	- 28	- 232	- 21	- 18	- 6	- 187	- 29	0	- 523
on loans and receivables	- 220	- 27	- 231	- 20	- 18	- 6	- 187	- 27	0	- 506
on available-for-sale assets	0	0	0	0	0	0	0	- 2	0	- 2
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	- 14	0	- 1	- 1	0	0	0	0	0	- 15
Share in results of associated companies and joint ventures	0	15	0	0	0	0	0	0	0	15
RESULT BEFORE TAX	923	319	- 116	7	39	5	- 167	- 58	0	1 068
Income tax expense	- 294	- 48	6	- 5	- 10	0	21	31	0	- 306
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	629	271	- 110	2	29	5	- 146	- 27	0	762
Attributable to minority interests	55	0	0	0	0	0	0	7	0	62
ADJUSTED NET RESULT	574	271	- 111	2	29	5	- 146	- 34	0	700
Legacy CDOs	0	0	0	0	0	0	0	260	0	260
Own credit risk	0	0	0	0	0	0	0	- 46	0	- 46
Divestments	0	0	0	0	0	0	0	- 90	0	- 90
NET RESULT	574	271	- 111	2	29	5	- 146	90	0	824
1H 2014										
Net interest income	1 080	424	322	135	100	17	69	- 102	3	1 726
Dividend income	2	0	0	0	0	0	0	0	0	2
Net result from financial instruments at fair value through profit or loss	- 15	23	38	36	8	1	- 6	17	0	63
Net realised result from available-for-sale assets	13	8	7	7	0	0	0	4	0	32
Net fee and commission income	645	114	115	82	25	8	- 2	18	- 2	889
Net other income	100	9	- 227	- 227	0	0	0	3	5	- 111
TOTAL INCOME	1 825	578	254	33	133	26	61	- 50	- 6	2 601
Operating expenses	- 952	- 272	- 356	- 193	- 83	- 17	- 62	- 59	6	- 1 633
Impairment	- 68	- 3	- 149	- 25	- 10	- 4	- 110	- 15	0	- 234
on loans and receivables	- 68	- 3	- 148	- 24	- 10	- 4	- 110	- 14	0	- 233
on available-for-sale assets	- 1	0	0	0	0	0	0	- 1	0	- 2
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	1	0	- 1	- 1	0	0	0	0	0	0
Share in results of associated companies and joint ventures	- 1	13	0	0	0	0	0	0	0	12
RESULT BEFORE TAX	804	315	- 250	- 185	41	5	- 111	- 123	0	746
Income tax expense	- 248	- 50	35	33	- 11	0	13	50	0	- 212
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	556	265	- 215	- 152	30	5	- 98	- 73	0	534
Attributable to minority interests	76	0	0	0	0	0	0	0	0	76
ADJUSTED NET RESULT	480	265	- 215	- 152	30	5	- 98	- 73	0	458
Legacy CDOs	0	0	0	0	0	0	0	23	0	23
Own credit risk	0	0	0	0	0	0	0	- 6	0	- 6
Divestments	0	0	0	0	0	0	0	- 2	0	- 2
NET RESULT	480	265	- 215	- 152	30	5	- 98	- 58	0	472

Legacy CDOs: in the first half of 2014, improvements in the market price of corporate credit (as reflected in tightened credit default swap spreads) generated a value mark-up of KBC's CDO exposure. This was to a small extent offset by the further de-risking of the legacy CDO portfolio. The total result also includes the impact of the government guarantee and the related fee, and the coverage (60%) of the CDO-linked counterparty risk against MBIA, a US monoline insurer.

In the first half of 2014, there was only a limited impact on the results due to 'own credit risk' and 'divestments'.

In the table below, an overview is provided of a number of balance sheet items broken down 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 Bank
31-12-2013									
Deposits from customers & debt certificates	99 273	21 977	14 633	5 892	4 711	565	3 466	15 873	151 757
Loans & advances to customers excluding reverse repos	81 188	15 684	21 255	3 864	4 248	606	12 537	1 080	119 207
Term loans excl. Reverse repos	40 111	6 279	5 607	1 772	1 488	236	2 111	1 048	53 045
Mortgage loans	31 101	6 522	13 925	1 548	1 722	236	10 419	24	51 572
Current accounts advances	1 875	19	586	262	324	0	0	0	2 479
Finance leases	3 200	359	484	92	385	0	7	0	4 044
Consumer credit	1 251	1 538	533	112	287	134	0	0	3 322
Other	3 649	967	120	79	41	0	0	8	4 744
30-06-2014									
Deposits from customers & debt certificates	103 998	22 525	14 441	5 191	4 688	589	3 973	11 443	152 407
Loans & advances to customers excluding reverse repos	82 760	15 586	21 031	3 916	4 436	617	12 064	1 096	120 474
Term loans excl. Reverse repos	40 295	5 688	5 356	1 839	1 472	241	1 804	1 041	52 380
Mortgage loans	31 305	6 747	13 844	1 511	1 862	235	10 236	24	51 921
Current accounts advances	2 387	16	686	311	357	0	18	0	3 089
Finance leases	3 157	402	497	89	402	0	6	0	4 056
Consumer credit	1 211	1 592	545	98	305	141	0	0	3 348
Other	4 405	1 141	104	66	38	0	0	30	5 679

Other notes

Net interest income (Note 3 in the annual accounts for 2013)

In millions of EUR	1H 2013	1H 2014
Total	1 717	1 743
Interest income	3 913	3 621
Available-for-sale assets	230	206
Loans and receivables	2 505	2 204
Held-to-maturity investments	418	405
Other assets not at fair value	6	3
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*3 159*	*2 817*
Financial assets held for trading	486	415
Hedging derivatives	215	269
Other financial assets at fair value through profit or loss	53	119
Interest expense	-2 195	-1 878
Financial liabilities measured at amortised cost	-1 213	- 916
Other	- 1	- 1
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-1 215*	*- 917*
Financial liabilities held for trading	- 570	- 525
Hedging derivatives	- 334	- 329
Other financial liabilities at fair value through profit or loss	- 73	- 105
Net interest expense on defined benefit plans	- 4	- 2

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

In 1H2014, the result from financial instruments at fair value through profit or loss was influenced by:

- Gains and losses on CDOs, where improvements in the market price of corporate credit (as reflected in tightened credit default swap spreads) generated a value mark-up of KBC's CDO exposure.
- MtM of ALM derivatives, where fair value changes (due to mark-to-market accounting) of a large proportion of the 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 -126 million euros pre-tax (-81 million euros after tax) as long-term interest rates decreased in the first half of 2014.

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

In millions of EUR	1H 2013	1H 2014
Total	157	34
Breakdown by portfolio		
Fixed-income securities	78	32
Shares	80	1

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

In millions of EUR	1H 2013	1H 2014
Total	867	883
Fee and commission income	1 195	1 122
Securities and asset management	555	574
Commitment credit	126	119
Payments	259	258
Other	256	171
Fee and commission expense	- 328	- 239
Commission paid to intermediaries	- 47	- 43
Other	- 281	- 195

Other net income (Note 8 in the annual accounts for 2013)

In millions of EUR	1H 2013	1H 2014
Total	5	- 89
Of which net realised result following		
The sale of loans and receivables	- 11	2
The sale of held-to-maturity investments	0	0
The repurchase of financial liabilities measured at amortised cost	- 1	0
Other: of which:	17	- 91
Income concerning leasing at the KBC Lease-group	44	40
Realised gains or losses on divestments	- 94	11
New law on retail loans (Hungary)	0	- 231
Legal settlement in 2Q14 of an old credit file	0	31

The pre-tax impact in 1H2014 was -231 million euros (-183 million euros after tax) due to the act, *'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions'*, which was adopted by the Hungarian parliament on 4 July 2014 and to the guidelines issued by the Hungarian Central Bank at the end of July. For more information, see KBC Group's press release of 8 July 2014 at www.kbc.com.

Impairment –income statement (Note 11 in the annual accounts for 2013)

In millions of EUR	1H 2013	1H 2014
Total	- 562	- 249
Impairment on loans and receivables	- 545	- 239
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 493	- 339
Provisions for off-balance-sheet credit commitments	- 8	18
Portfolio-based impairments	- 44	82
Breakdown by business unit		
Business unit Belgium	- 220	- 68
Business unit Czech Republic	- 27	- 3
Business unit International Markets	- 231	- 148
of which: Hungary	*- 20*	*- 24*
of which: Slovakia	*- 18*	*- 10*
of which: Bulgaria	*- 6*	*- 4*
of which: Ireland	*- 187*	*- 110*
Group Centre	- 65	- 20
Impairment on available-for-sale assets	- 2	- 2
Breakdown by type		
Shares	- 2	- 2
Other	0	0
Impairment on goodwill	0	0
Impairment on other	- 15	- 8
Intangible assets, other than goodwill	0	0
Property and equipment and investment property	- 14	- 1
Held-to-maturity assets	0	1
Associated companies and joint ventures	0	0
Other	0	- 9

Financial assets and liabilities: breakdown by portfolio and product (Note 14 in the annual accounts for 2013)

(In millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2013								
Loans and advances to credit institutions and investment firms [a]	5 100	1 595	0	9 545	-	-	-	16 240
Loans and advances to customers [b]	706	1 678	0	118 400	-	-	-	120 784
Excluding reverse repos	*703*	*200*	*0*	*118 304*	-	-	-	*119 207*
Discount and acceptance credit	0	0	0	605	-	-	-	605
Consumer credit	0	0	0	3 322	-	-	-	3 322
Mortgage loans	0	34	0	51 538	-	-	-	51 572
Term loans	696	1 601	0	52 326	-	-	-	54 623
Finance leasing	0	0	0	4 044	-	-	-	4 044
Current account advances	0	0	0	2 479	-	-	-	2 479
Securitised loans	0	0	0	0	-	-	-	0
Other	10	43	0	4 087	-	-	-	4 140
Equity instruments	283	5	275	-	-	-	-	564
Debt securities issued by	2 977	1 318	14 451	1 685	25 007	-	-	45 438
Public bodies	2 384	770	11 462	118	24 908	-	-	39 643
Credit institutions and investment firms	268	195	1 768	149	82	-	-	2 462
Corporates	325	353	1 221	1 418	17	-	-	3 334
Derivatives	7 900	-	-	-	-	770	-	8 670
Total carrying value	16 966	4 597	14 726	129 630	25 007	770	0	191 697
[a] *Of which reverse repos*								*8 483*
[b] *Of which reverse repos*								*1 577*
FINANCIAL ASSETS, 30-06-2014								
Loans and advances to credit institutions and investment firms [a]	330	1 109	0	18 093	-	-	-	19 533
Loans and advances to customers [b]	189	4 471	0	120 441	-	-	-	125 101
Excluding reverse repos	*21*	*135*	*0*	*120 318*	-	-	-	*120 474*
Trade receivables	0	0	0	3 026	-	-	-	3 026
Consumer credit	0	0	0	3 348	-	-	-	3 348
Mortgage loans	0	34	0	51 887	-	-	-	51 921
Term loans	168	4 437	0	52 403	-	-	-	57 007
Finance leasing	0	0	0	4 056	-	-	-	4 056
Current account advances	0	0	0	3 089	-	-	-	3 089
Securitised loans	0	0	0	0	-	-	-	0
Other	21	0	0	2 632	-	-	-	2 653
Equity instruments	297	1	442	-	-	-	-	741
Debt securities issued by	3 780	1 726	16 881	1 265	24 649	-	-	48 301
Public bodies	3 215	1 160	11 398	37	24 557	-	-	40 368
Credit institutions and investment firms	241	171	3 685	155	83	-	-	4 335
Corporates	324	395	1 798	1 073	9	-	-	3 598
Derivatives	8 191	-	-	-	-	998	-	9 188
Total carrying value	12 788	7 307	17 324	139 800	24 649	998	0	202 864
[a] *Of which reverse repos*								*11 229*
[b] *Of which reverse repos*								*4 627*

As of 1H2014, in order to provide a more transparent view of products, factoring is no longer included in ‘Other loans and advances to customers’ (total impacted amount of 2.4 billion euros), but – together with ‘Discount and acceptance credit’ – combined in ‘Trade receivables’.

(In millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2013								
Deposits from credit institutions and investment firms [a]	939	896	-	-	-	-	12 890	14 725
Deposits from customers and debt certificates [b]	3 637	12 248	-	-	-	-	146 528	162 412
Excluding repos	*321*	*5 292*	-	-	-	-	*146 144*	*151 757*
Deposits from customers	3 350	7 836	-	-	-	-	122 052	133 238
Demand deposits	0	50	-	-	-	-	39 278	39 328
Time deposits	3 350	7 786	-	-	-	-	45 071	56 207
Savings deposits	0	0	-	-	-	-	34 990	34 990
Special deposits	0	0	-	-	-	-	1 335	1 335
Other deposits	0	0	-	-	-	-	1 378	1 378
Debt certificates	286	4 412	-	-	-	-	24 476	29 174
Certificates of deposit	0	6	-	-	-	-	3 228	3 234
Customer savings certificates	0	0	-	-	-	-	473	473
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	286	3 763	-	-	-	-	14 691	18 741
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	643	-	-	-	-	6 084	6 726
Derivatives	8 152	-	-	-	-	1 678	-	9 830
Short positions	386	0	-	-	-	-	-	386
in equity instruments	40	0	-	-	-	-	-	40
in debt instruments	345	0	-	-	-	-	-	345
Other	0	0	-	-	-	-	1 561	1 561
Total carrying value	13 113	13 144	-	-	-	1 678	160 979	188 913
[a] *Of which repos*								*1 672*
[b] *Of which repos*								*10 655*
FINANCIAL LIABILITIES, 30-06-2014								
Deposits from credit institutions and investment firms [a]	554	1 473	-	-	-	-	16 463	18 490
Deposits from customers and debt certificates [b]	934	12 167	-	-	-	-	154 934	168 036
Excluding repos	*334*	*3 192*	-	-	-	-	*148 881*	*152 407*
Deposits from customers	618	9 756	-	-	-	-	133 621	143 996
Demand deposits	0	- 1	-	-	-	-	44 978	44 978
Time deposits	618	9 717	-	-	-	-	49 054	59 389
Savings deposits	0	0	-	-	-	-	36 394	36 394
Special deposits	0	0	-	-	-	-	1 751	1 751
Other deposits	0	40	-	-	-	-	1 445	1 484
Debt certificates	316	2 412	-	-	-	-	21 313	24 040
Certificates of deposit	0	4	-	-	-	-	3 287	3 291
Customer savings certificates	0	0	-	-	-	-	712	712
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	316	1 882	-	-	-	-	13 787	15 985
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	526	-	-	-	-	3 527	4 052
Derivatives	8 558	0	-	-	-	2 335	-	10 893
Short positions	437	0	-	-	-	-	-	437
in equity instruments	50	0	-	-	-	-	-	50
in debt instruments	386	0	-	-	-	-	-	386
Other	0	0	-	-	-	-	2 512	2 512
Total carrying value	10 482	13 641	-	-	-	2 335	173 909	200 367
[a] *Of which repos*								*1 987*
[b] *Of which repos*								*15 629*

Financial assets and liabilities measured at fair value – fair value hierarchy (Note 20 in the annual accounts 2013)

For more details on how KBC defines and determines fair value and the fair value hierarchy and level 3 valuations, reference is made to Notes 19 up to and including 22 of the 2013 annual accounts.

In millions of EUR	31-12-2013				30-06-2014			
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	2 559	11 881	2 526	16 966	3 113	7 013	2 662	12 788
Designated at fair value	836	3 379	382	4 597	1 197	5 683	426	7 307
Available for sale	10 849	3 204	674	14 726	14 291	2 332	700	17 324
Hedging derivatives	0	770	0	770	0	998	0	998
Total	14 244	19 234	3 582	37 060	18 601	16 026	3 788	38 415
Financial liabilities measured at fair value								
Held for trading	374	10 100	2 639	13 113	441	7 219	2 823	10 482
Designated at fair value	0	12 600	543	13 144	0	13 281	360	13 641
Hedging derivatives	0	1 678	0	1 678	0	2 335	0	2 335
Total	374	24 378	3 183	27 935	441	22 834	3 183	26 458

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (Note 21 in the annual accounts 2013)

In 1H2014, an approximate total amount of 0.1 billion euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also reclassified around 0.9 billion euros in financial instruments at fair value from level 2 to level 1.

Financial assets and liabilities measured at fair value – focus on level 3 (Note 22 in the annual accounts 2013)

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **30-06-2014**, in millions of EUR

LEVEL 3 FINANCIAL ASSETS

	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Debt securities	Derivatives	Loans and advances	Equity instruments	Debt securities	Equity instruments	Debt securities	Derivatives
Opening balance	0	1	342	2 183	24	5	352	202	471	0
Total gains/losses	0	0	13	336	1	1	25	23	9	0
in profit and loss*	0	0	13	336	1	1	25	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	23	9	0
Acquisitions	0	0	2	120	0	0	21	15	187	0
Sales	0	0	-10	-85	0	-5	-2	-4	-54	0
Settlements	0	0	-16	-197	-1	0	0	0	-23	0
Transfers into level 3	0	0	1	0	0	0	5	0	10	0
Transfers out of level 3	0	0	-31	0	0	0	-20	0	-146	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	1	2	0	0	3	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	17	9	0	0
Closing balance	0	1	302	2 359	24	1	401	246	454	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	0	14	331	1	1	32	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	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Other	
Opening balance	0	102	2 524	13	0	0	543	0	0
Total gains/losses	0	0	281	0	0	0	-8	0	0
in profit and loss*	0	0	281	0	0	0	-8	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	134	0	0	0	-177	0	0
Repurchases	0	-2	-2	0	0	0	0	0	0
Settlements	0	-20	-198	-13	0	0	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0
Transfers out of level 3	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
Translation differences	0	1	2	0	0	0	2	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Closing balance	0	81	2 742	0	0	0	360	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	0	281	0	0	0	-8	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'.

Thanks mainly to the further de-risking of the legacy CDO portfolio in 1H2014, the P/L sensitivity of this portfolio to a +50% credit spread widening decreased from -64 million euros on 31 December 2013 to -34 million euros on 30 June 2014.

Parent shareholders' equity (Note 34 in the annual accounts for 2013)

in number of shares	31-12-2013	30-06-2014
Ordinary shares	915 228 482	915 228 482
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

The shares of Bank NV are held by KBC Group (915 228 481 shares) and its subsidiary KBC Insurance (1 share).

Information on KBC Group's 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 between KBC Group and the government in 2008 and 2009' in the 'Additional information' section of KBC Bank's annual report for 2013. In 2012, KBC Group repaid all of the securities held by the Belgian State to the tune of 3.5 billion euros including a 15% penalty (525 million euros in total). On 3 July 2013, KBC Group repaid 1.17 billion euros worth of non-voting core capital securities held by the Flemish Regional Government including a 50% penalty (583 million euros in total). On 8 January 2014, KBC Group repaid 0.33 billion euros' worth of core-capital securities to the Flemish Regional Government (plus a penalty of 50% or 0.17 billion euros).

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

During the second quarter of 2014, KBC called all its Trust preferred securities for a total amount of 0.4 billion euros. In addition, KBC also called two other classic subordinated Tier-1 securities for redemption, both issued by KBC Bank NV and for a total consideration of 1.95 billion euros (included in non-convertible subordinated liabilities – see Note 14).

Related-party transactions (Note 37 in the annual accounts for 2013)

Transactions with related parties, excluding key management personnel (in millions of EUR)

	31-12-2013							30-06-2014						
	Parent enitities with joint control	Subsi- diaries	Associa- ted com- panies	Joint Ventures	Flemish region	Other	Total	Parent enitities with joint control	Subsi- diaries	Associa- ted com- panies	Joint Ventures	Flemish region	Other	Total
Assets	178	237	104	92	574	1 125	2 311	67	197	101	81	420	1 452	2 318
Loans and advances	145	85	55	87	0	947	1 319	0	73	54	77	0	1 293	1 497
Current accounts	28	0	0	0	0	9	36	0	0	0	0	0	34	35
Term loans	117	85	55	87	0	939	1 282	0	73	54	77	0	1 259	1 463
Finance leases	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	3	70	25	0	0	0	98	2	70	25	0	0	0	97
Trading securities	3	0	0	0	0	0	3	2	0	0	0	0	0	2
Investment securities	0	70	25	0	0	0	95	0	70	25	0	0	0	95
Other receivables	30	82	25	5	574	177	894	64	54	22	4	420	159	724
Liabilities	403	524	124	877	0	2 502	4 430	1 042	352	129	925	0	2 734	5 181
Deposits	112	521	14	823	0	1 568	3 037	756	350	21	870	0	1 839	3 837
Deposits	106	518	14	823	0	1 568	3 029	753	348	21	870	0	1 839	3 831
Other	6	2	0	0	0	0	8	4	2	0	0	0	0	6
Other financial liabilities	251	0	0	55	0	865	1 171	251	0	0	55	0	810	1 116
Debt certificates	0	0	0	55	0	865	920	0	0	0	55	0	810	865
Subordinated liabilities	251	0	0	0	0	0	251	251	0	0	0	0	0	251
Share based payments, granted	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share based payments, exercised	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities (including accrued expense)	40	3	110	0	0	69	222	34	2	108	0	0	84	228
Income statement	-801	28	-3	-4	14	40	-725	-375	3	-2	-4	9	-26	-396
Net interest income	3	5	-1	-9	15	-54	-42	5	2	-1	-4	9	-60	-50
Dividend income	0	0	1	6	0	0	7	0	0	0	0	0	0	1
Net fee and commission income	1	2	-1	0	0	121	123	-1	0	0	0	0	47	46
Other income	62	22	0	0	0	1	85	56	0	0	0	0	1	58
Other expenses	-867	-1	-2	0	-1	-28	-898	-435	0	-1	0	0	-13	-450
Guarantees														
Guarantees issued by the group							0							0
Guarantees received by the group							0							0

Main changes in the scope of consolidation (Note 40 in the annual accounts for 2013)

Company	Consolidation method	Ownership percentage at group level		Comments
For income statement comparison		1H 2013	1H 2014	
Additions				
None				
Exclusions				
Absolut Bank	Full	99,00%	------	Sold in 2Q 2013
Changes in ownership percentage and internal mergers				
None				
Changes in ownership percentage and internal mergers				
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014
KBC Asset Management SA	Full	51,86%	46,30%	Change in shareholderstructure due to merger of KBC LFM
For balance sheet comparison		31/12/2013	30/06/2014	
Additions				
None				
Exclusions				
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014
KBC Asset Management SA	Full	51,86%	46,30%	Change in shareholderstructure due to merger of KBC LFM

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

Non-current assets held for sale and discontinued operations – IFRS 5 (Note 41 in the annual accounts for 2013)

Situation as at 30 June 2014

On 30 June 2014, the following planned divestments met the criteria of IFRS 5:

- as disposal groups without being part of a discontinued operation: Antwerp Diamond Bank and KBC Bank Deutschland. The results of these companies are still included in the income statement.
- 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.

Facts and circumstances regarding divestments which have been signed, but not yet closed on 30 June 2014

Antwerp Diamond Bank:

Activity:	Banking
Segment:	Group Centre
Other information:	On 19 December 2013, KBC reached an agreement with the Shanghai-based Yinren Group for the sale of its subsidiary Antwerp Diamond Bank (ADB). The sale had only a negligible upfront impact on KBC's earnings. The deal will free up around 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets, which will ultimately improve KBC Group's tier-1 ratio (Basel II) by almost 0.2% (*pro forma* impact calculated based on 30 September 2013 data). Before the deal is concluded, part of ADB's loan portfolio – primarily the higher risk and non-performing loans with a net book value of 0.4 billion euros (out of a loan portfolio of 1.2 billion euros in total) – will be transferred to KBC Bank N.V. and put in ordinary run-down. After the deal has been concluded, KBC will also provide funding to ADB totalling 0.2 billion euros for a maximum period of two years and on a secured basis. The deal is subject to the customary regulatory approvals and is expected to be completed in the coming quarters.

KBC Bank Deutschland:

Activity:	Banking
Segment:	Group Centre
Other information:	On 24 September 2013, KBC reached an agreement to sell KBC Bank Deutschland AG to several investors, including affiliates of Teacher Retirement System of Texas (TRS), Apollo Global Management, LLC (NYSE: APO), Apollo Commercial Real Estate Finance, Inc. (NYSE: ARI), and Grovepoint Capital LLP (Grovepoint). This deal will free up around 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets and will have no material impact on KBC's financial results. This will result in an improvement of KBC Group's solvency position by roughly 15 basis points (impact calculated at the time of signing). The agreement allows KBC to continue supporting its home-market corporate customers that require financial services for their German business activities. The deal is subject to the customary regulatory approvals and is expected to be completed in the coming quarters.

Impact on balance sheet and other comprehensive income:

NON-CURRENT ASSETS HELD FOR SALE AND ASSETS ASSOCIATED WITH DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS

	31-12-2013	30-06-2014
Assets		
Cash and cash balances with central banks	57	39
Financial assets	3 627	3 650
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0
Tax assets	49	46
Investments in associated companies and joint ventures	0	0
Investment property and property and equipment	22	30
Goodwill and other intangible assets	2	2
Other assets	13	7
Total assets	3 769	3 774
Liabilities		
Financial liabilities	1 977	2 107
Tax liabilities	11	13
Provisions for risks and charges	10	5
Other liabilities	28	30
Total liabilities	2 027	2 156
Other comprehensive income		
Available-for-sale reserve	- 3	- 2
Deferred tax on available-for-sale reserve	0	0
Cash flow hedge reserve	0	1
Translation differences	0	0
Total other comprehensive income	- 4	- 2

Post balance sheet events (Note 43 in the annual accounts for 2013)

Significant events between the balance sheet date (30 June 2014) and the publication of this report (29 August 2014):

- none

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Report of the statutory auditor to the shareholders of KBC Bank nv on the review of the interim condensed consolidated financial statements as of 30 June 2014 and for the six-month period then ended

Introduction

We have reviewed the accompanying interim consolidated balance sheet of KBC Bank nv and its subsidiaries (collectively referred to as "the Group") as at 30 June 2014 and the related interim consolidated income statement, the condensed consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed cash flow statement for the six-month period then ended, and explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements". These statements show a consolidated balance sheet total of € 218.944 million and a consolidated profit (share of the group) for the six-month period then ended of € 472 million. Management is responsible for the preparation and fair presentation of these Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34") as adopted for use in the European Union. Our responsibility is to express a conclusion on these Interim Condensed Consolidated Financial Statements based on our review.

Scope of Review

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

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Report of the statutory auditor dated 29 August 2014 on the interim condensed consolidated financial statements of KBC Bank nv for the six-month period ended 30 June 2014 (continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements does not present fairly, in all material respects, the financial position of the Group as at 30 June 2014, 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, 29 August 2014

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

Weymeersch

Christel Weymeersch
Partner

15CW0020

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Other information

KBC Bank, 1H2014

Overview of the loan portfolio

The main source of credit risk is the loan portfolio. A snapshot of this 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, which therefore means that government bonds and trading book exposure are not included. Structured credit exposure is described separately in KBC Group's Extended Quarterly Report for 2Q2014, and information on sovereign bonds can be found on page 41 of KBC Bank's 2013 annual report, both available at www.kbc.com.
Antwerp Diamond Bank and KBC Bank Deutschland have been recognised as 'disposal groups' under IFRS 5 and have been excluded from the figures. Moreover, the reference figures of the loan portfolio have been restated to account for the different treatment of the joint venture ČMSS in the Czech Business Unit (from proportionate consolidation to equity method – for more information, see Note 1a of the 'Consolidated financial statements' of this interim report.).

Credit risk: loan portfolio overview	31-12-2013	30-06-2014
Total loan portfolio (in billions of EUR)		
Amount granted	159	160
Amount outstanding[1]	134	136
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	65%	64%
Czech Republic	13%	13%
International Markets	19%	19%
Group Centre	3%	3%
Total	100%	100%
Impaired loans (in millions of EUR or %)		
Amount outstanding	13 641	14 110
Specific loan impairments	5 423	5 478
Portfolio-based loan impairments	279	199
Credit cost ratio, per business unit[3]		
Belgium	0.37%	0.15%
Czech Republic	0.26%	0.04%
International Markets	4.48%	1.14%
Slovakia	0.60%	0.40%
Hungary	1.50%	0.96%
Bulgaria	1.19%	1.17%
Ireland	6.72%	1.44%
Group Centre[2]	2.90%	0.37%
Total[2]	1.22%	0.33%
Non-performing (NP) loans (in millions of EUR or %)		
Amount outstanding	7 878	8 393
Specific loan impairments for NP loans	3 868	4 111
Non-performing ratio, per business unit		
Belgium	2.5%	2.6%
Czech Republic	3.1%	3.1%
International Markets	19.2%	20.8%
Group Centre	5.9%	4.5%
Total	5.9%	6.2%
Cover ratio		
Specific loan impairments for NP loans / Outstanding NP loans	49%	49%
Idem, excluding mortgage loans	60%	61%
Specific and portfolio-based loan impairments for performing and NP loans / outstanding NP loans	72%	68%
Idem, excluding mortgage loans	90%	82%

1. Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees.
2. Including entities recognised as 'disposal groups' under IFRS 5, the CCR at 30 June 2014 would have been 0.52% for the Group Centre and 0.34% for the Total.
3. Annualised credit cost.

In the table above, non-performing loans (NPL) are based on the current definition (i.e. PD 11 and 12, see the section on credit risk in the 2013 annual report for more information on PD classifications). When applying the new definition (includes PD 10), which was aligned with the European Banking Authority's definition and will be implemented as from 3Q2014, the total outstanding NPL amount would increase to 14 110 million euros, the NPL ratio would increase to 10.4% and the cover ratio of 'specific and portfolio-based loan impairments for performing and NP loans / outstanding NP loans' would go down from 68% to 40%.

Solvency

In millions of EUR	31-12-2013 Fully loaded	30-06-2014 Fully loaded
Total regulatory capital, KBC Group (after profit appropriation)	14 400	13 558
Tier-1 capital	9 602	11 343
Common equity	9 602	9 943
Parent shareholders' equity (excluding minorities)	11 662	11 250
Intangible fixed assets (including deferred tax impact) (-)	- 105	- 115
Goodwill on consolidation (including deferred tax impact) (-)	- 944	- 920
Minority interests	147	174
Hedging reserve (cash flow hedges) (-)	522	902
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 6	- 4
Dividend payout (-)	- 677	- 472
Renumeration of AT1 instruments (-)	0	- 2
Deduction re. financing provided to shareholders (-)	- 176	- 159
IRB provision shortfall (-)	- 225	- 288
Deferred tax assets on losses carried forward (-)	- 595	- 423
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0
Additional going concern capital	0	1 400
Grandfathered innovative hybrid tier-1 instruments	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0
CRR compliant AT1 instruments	0	1 400
Minority interests to be included in additional going concern capital	0	0
Tier 2 capital	4 797	2 215
IRB provision excess (+)	342	367
Subordinated liabilities	4 456	1 845
Subordinated loans non-consolidated financial sector entities (-)	0	0
Minority interests to be included in tier 2 capital	0	3
Capital requirement		
Total weighted risk volume	79 822	82 325
Credit risk	64 776	68 751
Market risk	4 308	2 836
Operational risk	10 738	10 738
Solvency ratios		
Common equity ratio	12,0%	12,1%
Tier-1 ratio	12,0%	13,8%
CAD ratio	18,0%	16,5%
