

FINANCIAL REPORT 2014

of

**KBC INTERNATIONALE FINANCIERINGSMAATSCHAPPIJ N.V.
ROTTERDAM**

(as from 1st January 2015, KBC IFIMA S. A., LUXEMBOURG)

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DIRECTORS' REPORT

Transfer of corporate seat to the Grand Duchy of Luxembourg

The company carried out a cross-border transfer of its legal seat from The Netherlands to Luxembourg, effective at midnight on December 31st, 2014. At the same time the name of the company was changed to KBC Ifima S.A. The transfer and all exigencies related thereto were executed in a notarial deed dated December 31st, 2014, including the changes in management described below. The activities of the company remain unchanged after the transfer of legal seat.

The company was located and registered in The Netherlands in 2014, up to and including 31st December. Therefore this Financial Report has been drawn up under generally accepted accounting principles applicable in The Netherlands.

General

The purpose of KBC Internationale Financieringsmaatschappij N.V. (the "company") was the issue of bonds and on-lending the proceeds to KBC Bank NV, its subsidiaries and associated companies. The company had two employees and two directors up to December 31st, 2014. The principal activity of the company consists of the administration of the bonds issued and the loans made.

The bonds issued by the company are fully guaranteed by KBC Bank NV.

The company issues a variety of bond types, including fixed interest bonds with different maturities and bonds related to market linked instruments under its various programmes.

With respect to bond issues, a description of the bond types and of the risk factors involved for investors in the bonds is set out comprehensively in the relevant prospectus and final terms which are available at the offices of the company and at the offices of KBC Bank NV, Havenlaan 2, Brussels and at Luxemburg Stock Exchange.

Financial

The company continued to issue bonds under the various financing programmes during 2014, albeit in lower volumes than in previous years.

The net profit after tax for 2014 amounted to Eur 1,768,717. An interim dividend of Eur 1,700,000 was paid on January 2nd, 2015 out of net profit after tax for 2014. The dividend will be recommended to the Annual General Meeting of Shareholders for ratification.

During 2014 the company issued bonds amounting in total to Eur 328,154,761 (2013: Eur 1,104,698,281); the interest income of the company amounted to Eur 408,791,652 as compared to Eur 527,560,801 in 2013.

The solvency ratio was 0.10% at December 31st, 2014 (2013: 0.07%).

The liquidity ratio (current assets to current liabilities) was 1 at December 31st, 2014 (2013: 1).

No further important events, material or financial, occurred relating to the company since December 31st 2014.

Management

Mr. R.J.G. Janssen and Mr. K. Hoffman resigned as supervisory directors of the company on

December 31st, 2014. Ms. H.B.J. Wouters and Mr. J.G. Heffernan resigned as directors of the company on December 31st, 2014.

The following persons were appointed directors of the company on December 31st, 2014:

Mr. I. Bauwens, Ms. F. Boudabza, Mr. F.M. Caestecker, Mr. R.J.G. Janssen and Ms. S. Gockel.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit of the company and the directors' report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal opportunities and risks associated with the expected development of the company.

Corporate Governance

The company is a wholly owned subsidiary of KBC Bank NV Brussels and, as such, complies with the control requirements and standards of the KBC Group with regard to accounting, operations, internal controls and risk management. Furthermore, the company is subject to audits carried out periodically by the internal audit department of the KBC Group.

The directors' reporting line is to the corporate treasury department within KBC Bank NV and directors' remuneration is set by KBC Bank NV.

During 2014 the Board of Supervisory Directors of the company was comprised of senior officials of KBC Bank NV. The Supervisory Directors monitor the transactions and operations of the company periodically during the financial year. Because of the limited size of the company's operations, a separate report of the Supervisory Directors is not considered necessary.

The members of the Board of Directors and the Supervisory Directors of the company are appointed by KBC Bank NV. In connection with the transfer of the corporate seat of the company to Luxembourg, the management of the company was reconstituted as described in the Management paragraph above and as from January 1st, 2015 the company no longer has a Board of Supervisory Directors.

Risk Management

The structure and organisation of the company are such that liquidity risk, interest rate risk, exchange rate risk and credit risk to the company are strictly limited. All bonds issued are on-lent within the KBC Group for the same amount and currency and the same maturities. In addition, the coupon dates for interest receivable on the loans coincide with the dates of the coupons payable on the bonds.

The company's liquidity is generated by the cash flows from interest margins earned on the loans granted. The cash inflows and outflows coincide with respect to the maturity dates and currencies of the loans outstanding and the bonds issued are matched, as are the due dates of interest coupons receivable and payable. The company is therefore not exposed to a liquidity risk.

Interest margins earned on the loans are principally in Euro. For margins received in other currencies, modest foreign exchange limits are in place. It is policy to convert such amounts promptly to Euro. In this manner, foreign exchange risks are kept to a minimum.

Similarly, interest rate risk is eliminated by virtue of the matching of the periods for which interest is received and paid and of the maturities of loans and bonds issued.

The lending of the company is entirely to KBC Bank NV. As such, a credit risk exists in respect of lending to this company. The bonds issued by the company are fully guaranteed by KBC Bank NV; therefore the credit risk for investors in the company's bonds is ultimately a risk in respect of KBC Bank NV, whose credit rating as at March 31st, 2015 is as follows:

<u>Rating agency</u>	<u>Long-term rating and outlook/watch</u>	<u>Short-term rating</u>
Fitch	A- (stable outlook, since November 2013)	F1, since November 2013
Moody's	A2 (under review for possible upgrade, since March 2015)	P1, since June 2012
Standard & Poor's	A (negative outlook, since April 2014)	A1, since March 2014

Future Developments

It is expected that the company will continue to be active in the Group financing programmes in the present year. However, we expect the volume of new bond issues to remain low as determined by the funding requirements of the KBC Group and market conditions.

During the present year, the company expects to re-finance at least part of the bonds maturing. As in 2014, the market conditions associated with margins on the company's bond issues eased and we expect this trend to continue this year.

Rotterdam, April 20th, 2015

Management Board

I. Bauwens

F. Boudabza

F.M. Caestecker

R.J.G. Janssen

S. Gockel

BALANCE SHEET AS AT DECEMBER 31ST, 2014
(before profit appropriation)

A s s e t s

	<u>2014</u>		<u>2013</u>	
	€	€	€	€
Fixed assets				
Tangible fixed assets (1)	-		1,752	
Financial fixed assets (2)	6,635,195,158		10,296,335,457	
Long term bank deposit (2)	4,803,264		4,803,264	
Derivatives (2)	<u>92,632,296</u>		<u>229,517,096</u>	
		6,732,630,718		10,530,657,569
Current assets				
Derivatives (2)	46,415,965		62,248,917	
Loans falling due within one year (2)	3,462,407,525		6,741,197,758	
Interest receivable and prepaid expenses (3)	154,836,326		241,757,826	
Cash	<u>4,606,635</u>		<u>5,485,826</u>	
		3,668,266,451		7,050,690,327
Total assets		<u><u>10,400,897,169</u></u>		<u><u>17,581,347,896</u></u>

L i a b i l i t i e s

	<u>2014</u>		<u>2013</u>	
	€	€	€	€
Capital and reserves				
Paid-in and called-up share capital (4)	4,803,264		4,803,264	
Retained earnings (5)	4,185,281		4,211,262	
Net profit for the year	<u>1,768,717</u>		<u>3,074,019</u>	
		10,757,262		12,088,545
Provision for costs relating to the Transfer of the company's corporate seat (6)		360,000		-
Long term liabilities				
Bonds issued (7)		6,638,881,509		10,302,363,547
Derivatives (2)		92,632,296		229,517,096
Current liabilities				
Derivatives (2)	46,415,965		62,248,917	
Issued bonds falling due within one year (7)	3,459,372,263		6,736,241,998	
Other current liabilities (8)	<u>152,477,874</u>		<u>238,887,793</u>	
		3,658,266,102		7,037,378,708
Total liabilities		<u><u>10,400,897,169</u></u>		<u><u>17,581,347,896</u></u>

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31ST, 2014

	<u>2014</u>		<u>2013</u>	
	€	€	€	€
Interest income				
Interest on fixed income investments		213,254		214,331
Other income		408,578,398		527,346,470
Total interest income	(11)	408,791,652		527,560,801
Interest expense	(11)	<u>(405,155,308)</u>		<u>(522,868,940)</u>
Gross margin		3,636,344		4,691,861
Change in fair value of derivatives				
Fair value change -profit		179,631,519		211,742,604
Fair value change -loss		<u>(179,631,519)</u>		<u>(211,742,604)</u>
		-		-
Staff and other operating expenses				
General & administrative expenses	(12)	(904,896)		(605,221)
Costs of transfer of the corporate seat to Luxembourg	(12)	(390,362)		
Depreciation of fixed assets		(1,752)		(233)
Exchange rate differences		5,355		1,953
Total		<u>(1,291,655)</u>		<u>(603,501)</u>
Profit before taxation		2,344,689		4,088,360
Corporation tax	(13)	<u>(575,972)</u>		<u>(1,014,341)</u>
Net profit for the year		<u>1,768,717</u>		<u>3,074,019</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31ST, 2014

	<u>2014</u>	<u>2013</u>
	€	€
Net profit	1,768,717	3,074,019
Adjustments for:		
Depreciation	1,752	233
Amortization on loans and bonds	(374,421)	(142,631)
	<u>1,396,048</u>	<u>2,931,621</u>
Change in other assets and liabilities	920,310	856,233
Taxes (paid)/received	(48,729)	(57,431)
Pre-retirement costs paid	-	-
Net cash flow from operational activities	<u>2,267,629</u>	<u>3,730,423</u>
Distribution on liquidation of subsidiary	-	-
Financial fixed assets – issued	(328,366,811)	(1,104,698,281)
Financial fixed assets – repaid	7,321,451,623	3,164,041,950
Net cash flow from investment activities	<u>6,993,084,812</u>	<u>2,059,343,669</u>
Bonds issued	328,366,811	1,104,698,281
Bonds repaid	(7,321,498,443)	(3,164,081,080)
Dividend paid	(3,100,000)	(3,500,000)
Net cash flow from financing activities	<u>(6,996,231,632)</u>	<u>(2,062,882,799)</u>
Net cash flow	<u>(879,191)</u>	<u>191,293</u>
Cash balance as at January 1 st	5,485,826	5,294,533
Cash balance as at December 31 st	4,606,635	5,485,826
Net cash flow	<u>(879,191)</u>	<u>191,293</u>

NOTES TO THE FINANCIAL STATEMENTS 2014

Accounting principles

General

KBC Internationale Financieringsmaatschappij N.V. (the “company”) is a wholly-owned subsidiary of KBC Bank NV, Brussels. As from January 1st, 2015 the name of the company is KBC Ifima S.A.

The main activity of the company is to assist in financing the activities of KBC Bank NV, its subsidiaries and associated companies.

The address of the company up to December 31st 2014, was Watermanweg 92, 3067 GG Rotterdam, The Netherlands and the company was registered in The Netherlands Chamber of Commerce, Rotterdam under number 33168630 up to that date.

As from January 1st, 2015 the address of the company is: 5, Place de la Gare, L-1616 Luxembourg and the company is registered under number B193577 at Registre de Commerce et des Sociétés, Luxembourg.

The financial statements are prepared in accordance with accounting principles generally accepted in The Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of The Netherlands Civil Code. The financial statements are prepared under the historic cost convention and presented in the joint currency of the European Monetary Union, the euro (“Eur”). Assets and liabilities are stated at amortized cost, unless otherwise stated.

Currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Resulting translation differences are taken to the profit and loss account.

Balance sheet

Tangible fixed assets

Tangible fixed assets are stated at acquisition cost less straight line depreciation over the estimated life of the assets. The tangible assets concerned are depreciated at 10% straight line per year over the lifetime of the assets. In connection with the transfer of the company to Luxembourg, the tangible fixed assets, consisting of office equipment, have been fully written down in 2014.

Financial fixed assets / Bonds issued

Loans to group companies and bonds issued under the various programmes are stated at amortized cost. The differences with the proceeds resulting from premiums or discounts are taken to the profit and loss account on the basis of effective interest over the remaining term of the loans/bonds concerned; the unamortized amounts are added to, or deducted from, the amounts of the loans/bonds issued.

Derivatives

The contractual terms of bonds issued, other than fixed interest bonds, can entitle the bondholders to coupons and/or redemptions based on reference items such as floating interest rates (for example Euribor, Libor), the performance of indices or shares, or other underlying factors. These terms constitute derivatives embedded in the bonds issued and are recorded and accounted for as such by the company. In every such case, equal and opposite derivatives are recorded in respect of the on-lending of the bond proceeds. Derivative assets and derivative liabilities are equal and opposite. There are, therefore, no exposed positions in derivatives.

The derivatives are stated in the balance sheet at fair value.

At balance sheet date, derivatives with a positive fair value are shown as assets; derivatives with a negative fair value are shown as liabilities. The methodology used to calculate fair values is explained in note 9 (page 20).

Changes in fair value are recorded in the profit and loss account. Because derivative assets and derivative liabilities are equal, the net effect of changes in fair values is equal to zero.

The derivatives consist of interest rate, credit, equity, commodity, and foreign exchange contracts, depending on the terms of the bond issues, and determine the cash flows received and paid in respect of coupons and redemptions for the related loans and bonds, respectively.

The dates of the derivative cash flows coincide exactly with the coupons and redemptions of the loans and bonds to which they relate.

Interest rate contracts are classified as closely related as defined in RJ290. This means that these embedded derivatives are not separated from the host contract and not revalued to fair value. As all embedded derivatives in the bonds issues are back-to-back hedged in the loans issued, the embedded derivatives have no impact on net profit and equity.

Pension obligations

The company operates a defined benefit pension plan for its employees under which the vested benefits are funded through an insurance contract with a major insurance company in The Netherlands. The defined benefits are based on either final or average salary earned. Pension insurance premiums are charged to income and any unpaid premiums or charges are recorded as a liability or, where paid in advance, as prepaid expense.

Profit and loss account

Income and expenses are recognized in the financial year to which they relate.

Interest

Interest is accrued based on the effective interest level in the financial year. Both loans granted to group companies, and bonds issued have been treated in the same way.

Corporation tax

Corporation tax is based on the income for the year, using the corporation tax rates applicable for year concerned.

Consolidation

The accounts of the company are included in the Financial Statements of KBC Groep NV, Brussels, Belgium. A copy of the annual accounts of KBC Groep NV, of which KBC Bank NV (the sole shareholder of KBC Internationale Financieringsmaatschappij N.V.) is a wholly-owned subsidiary, is deposited at the Luxembourg Register of Companies.

NOTES TO THE BALANCE SHEET**1. Tangible fixed assets**

The movement in the cost of tangible fixed assets is as follows:

Cost	<u>2014</u>	<u>2013</u>
	€	€
Balance at January 1 st	2,335	2,335
Additions	-	-
Disposals	-	-
Balance as at December 31 st	<u>2,335</u>	<u>2,335</u>

The movement in the accumulated depreciation of tangible fixed assets is as follows:

Accumulated depreciation	<u>2014</u>	<u>2013</u>
	€	€
Balance at January 1 st	583	350
Depreciation for the year	1,752	233
Disposals	-	-
Balance as at December 31 st	<u>2,335</u>	<u>583</u>

The movement in the tangible fixed assets after deduction of depreciation is as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Balance at January 1 st	1,752	1,985
Investments	-	-
Depreciation	(1,752)	(233)
Balance as at December 31 st	<u>-</u>	<u>1,752</u>

The tangible fixed assets consist of office furniture.

2. Financial fixed assets

Loans to group companies

The movement in loans to group companies is as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Balance as at January 1 st , over 1 year	10,296,335,457	16,729,030,612
Balance as at January 1 st , less than 1 year	6,741,197,758	2,530,393,722
	<u>17,037,533,215</u>	<u>19,259,424,334</u>
Loans issued during the year	328,154,761	1,104,698,281
Amortization of premiums and discounts	8,600,344	13,152,727
Repayments	(7,321,557,854)	(3,164,194,490)
Translation differences	44,872,217	(175,547,637)
	<u>10,097,602,683</u>	<u>17,037,533,215</u>
Falling due within 1 year	(3,462,407,525)	(6,741,197,758)
Balance as at December 31 st , over 1 year	<u>6,635,195,158</u>	<u>10,296,335,457</u>

Early redemption under specified conditions is possible. Such conditions are laid down in the final terms of the loans which reflect the conditions of the bonds. An example where early redemption might occur, is when the credit rating of KBC Bank NV would deteriorate entitling the bondholders to early repayment or where the conditions of bonds entitle the issuer to redeem bonds early; the related loans would then also be early redeemed.

Loans to group companies are at arm's-length basis. The loans reflect exactly the same market prices as the related bonds issued, except for the market value of future interest margins generated by the loans. The effective rate of interest income on loans to group companies is 3 % (2013: 2.9%).

The maturity breakdown of the loans to group companies, being the remaining maturity of the loans based on their contractual redemption dates, as at December 31st is as follows:

	<u>Total</u>	<u>< 1 year</u>	<u>1 < 5 years</u>	<u>> 5 years</u>
Loans:				
As of December 31 st , 2014	10,097,602,683	3,462,407,525	6,093,743,454	541,451,704
As of December 31 st , 2013	17,037,533,215	6,741,197,758	9,282,813,404	1,013,522,053

	<u>2014</u>	<u>2013</u>
	€	€
Long term bank deposit	4,803,264	4,803,264

The long term bank deposit is placed with KBC Bank NV at an annual interest rate of 4.45% and will mature on February 28th, 2018.

	<u>2014</u>	<u>2013</u>
	€	€
Derivative Assets		
Falling due within 1 year	46,415,965	62,248,917
Balance at December 31 st , over 1 year	<u>92,632,296</u>	<u>229,517,096</u>
Total Derivative assets	<u>139,048,261</u>	<u>291,766,013</u>
Derivative Liabilities		
Falling due within 1 year	46,415,965	62,248,917
Balance at December 31 st , over 1 year	<u>92,632,296</u>	<u>229,517,096</u>
Total Derivative Liabilities	<u>139,048,261</u>	<u>291,766,013</u>

The derivatives are embedded in the loans and bonds issued, and are stated at fair value. The breakdown of derivative assets and liabilities is as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Credit contracts	33,677,380	127,878,055
Equity contracts	105,327,560	155,290,102
Commodity contracts	43,321	7,511,411
Foreign exchange contracts	-	1,086,445
Total	<u>139,048,261</u>	<u>291,766,013</u>

The maturity profile of both derivative assets and liabilities, being the remaining maturity of the derivatives based on their contractual redemption dates, is as follows:

	<u>Total</u>	<u>< 1 year</u>	<u>1 < 5 years</u>	<u>> 5 years</u>
As of December 31 st , 2014	139,048,261	46,415,965	28,346,873	64,285,423
As of December 31 st , 2013	291,766,013	62,248,917	84,171,389	145,345,707

Derivative notional amounts

The notional amounts of the derivatives, recorded gross, is the amount of the derivatives underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The breakdown of the notional amount of the derivatives bought (which equals the derivatives sold) is as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Credit contracts	140,167,979	292,772,052
Equity contracts	856,776,863	1,220,537,160
Commodity contracts	7,118,277	11,841,150
Foreign exchange contracts	-	11,501,561
Total	<u><u>1,004,063,119</u></u>	<u><u>1,536,651,923</u></u>

The maturity profile of the notional amount of both derivatives bought and sold, being the remaining maturity of the derivatives based on the contractual terms, is as follows:

	<u>Total</u>	<u>< 1 year</u>	<u>1 < 5 years</u>	<u>> 5 years</u>
As of December 31 st , 2014	1,004,063,119	263,151,831	526,759,258	214,152,030
As of December 31 st , 2013	1,536,651,923	277,241,655	912,696,144	346,714,124

Description of derivatives and of the loans and bonds to which they relate

The characteristics of the derivatives embedded and of the related bonds and loans are described as follows:

Interest rate contracts

Interest rate contracts refer to interest rate swaps which are agreements in which the company either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In the case of bonds whose terms and conditions entitle the investor to an interest rate which can vary and is a function of changes in, for example, Euribor, US Dollar Libor or another interest rate benchmark, the company records an interest rate swap as embedded in the bonds.

An equal and opposite interest rate swap is recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The interest rate swaps give recognition in the books, records and accounts of the company to the fact that an interest rate may be payable to bondholders which is not fixed and predictable but may vary depending on movements in interest rate benchmarks (such as Euribor, USD libor, etc).

Credit contracts

These are credit default swaps which are agreements determining the amounts paid and received on the occurrence of defined credit events and based on specified notional amounts.

The company has bond issues outstanding whose terms and conditions stipulate that the interest rate payable on the bonds and/or the redemption amount, are a function of the credit rating of an underlying entity or basket of entities, the so-called reference entity. For example, the reference entity could be one or more countries or companies.

The company records credit default swaps as embedded in these bonds. Equal and opposite credit default swaps are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The credit default swaps give recognition in the books, records and accounts of the company to the fact that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on defined credit events, such as deterioration in credit ratings of reference entities.

Equity contracts

Under equity contracts we include equity swaps and equity options.

- Equity swaps are agreements determining the amounts paid and received based on specified notional amounts in relation to movements in a specified underlying equity index.

The company has bond issues outstanding whose terms and conditions stipulate that the interest rate payable on the bonds and/or the redemption amount, are a function of the movement of an underlying equity fund, underlying equity of a company or basket of companies.

The company records equity swaps as embedded in these bonds. Equal and opposite equity swaps are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The equity swaps reflect in the books, records and accounts of the company that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on defined movements in the underlying equity.

- Equity options convey the right, but not the obligation, for the purchaser either to buy (call) or sell (put) a specific quantity of equity shares at a set price within a certain period of time.

The company has bond issues outstanding whose terms and conditions stipulate that the manner of redemption of the bonds is a function of the movement of an underlying equity fund, underlying equity of a company or basket of companies. The condition is present that repayment of the bond to the bondholder may be settled wholly or in part by delivery of shares, dependent on the movements in the specified underlying reference item.

The company records equity options as embedded in these bonds. Equal and opposite equity options are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that the company receives delivery of the quantity of shares from the loan counterparty (KBC Bank NV) so that the stipulated quantity of shares can be delivered to bondholders.

The equity options give recognition in the books, records and accounts of the company to the fact that redemption of the relevant bonds may be made wholly or in part in the underlying shares.

Commodity contracts

These are commodity swaps which are agreements under which the company either receives or pays amounts dependent on movements in specified commodity indices. When the company issues bonds whose terms and conditions lay down that the amount of interest paid to the bondholders and/or the redemption amount is dependent on the movements in a specified commodity index, the company records a commodity swap as embedded in the bonds. An equal and opposite commodity swap is recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The commodity swaps give recognition in the books, records and accounts of the company to the fact that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on movements in specified commodity indices.

Currency linked contracts

Currency linked contracts convey the right to the purchaser or seller either to buy/sell a specific quantity of currency at a set exchange rate on an agreed date.

The company has bond issues outstanding whose terms and conditions stipulate that the interest payable to the bondholders and the redemption of the bonds is a function of an exchange rate between specified currencies at a specified date or during a specified observation period.

The company records currency linked contracts as embedded in these bonds. Equal and opposite currency linked contracts are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The currency linked contracts reflect that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on movements in a specified exchange rate.

3. Interest receivable and prepaid expenses

	<u>2014</u>	<u>2013</u>
	€	€
Interest receivable	154,712,625	241,669,459
Prepaid expenses	10,713	24,108
Tax receivable	<u>112,988</u>	<u>64,259</u>
	<u>154,836,326</u>	<u>241,757,826</u>

Interest receivable relates to interest accrued on loans granted.

Prepaid expenses include a deposit paid to finance future pension indexation costs.

4. Paid-in and called-up share capital

	€
Authorized 50,000 ordinary shares of Eur 453.78	<u>22,689,000</u>
Paid-in and called-up share capital 10,585 ordinary shares of Eur 453.78	<u>4,803,264</u>

The paid-in and called-up share capital consists of 10,585 ordinary shares of Eur 453.78 each, which are fully held by KBC Bank NV, Belgium.

There have been no movements in paid-in and called-up share capital during the year (2013: no movements).

5. Retained earnings

The movement in the retained earnings is as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Balance as at January 1 st	4,211,262	4,106,733
Net profit appropriation	3,074,019	3,604,529
Dividend paid during the year	<u>(3,100,000)</u>	<u>(3,500,000)</u>
Balance as at December 31 st	<u>4,185,281</u>	<u>4,211,262</u>

An interim dividend of Eur 1,700,000 was paid on January 2nd, 2015.

6. Provision for costs relating to the transfer of the company's corporate seat

The movement is follows:

	<u>2014</u>	<u>2013</u>
	€	€
Balance as at January 1 st	-	-
Provision charged to income	<u>360,000</u>	-
Balance as at December 31 st	<u>360,000</u>	-

7. Long term liabilities

	<u>2014</u>	<u>2013</u>
	€	€
Bonds issued as at January 1 st , over 1 year	10,302,363,547	16,733,265,597
Bonds issued as at January 1 st , less than 1 year	<u>6,736,241,998</u>	<u>2,527,412,828</u>
	17,038,605,545	19,260,678,425
Bonds issued during the year	328,154,761	1,104,698,281
Amortization of premiums, discounts and issue expenses	8,225,923	13,010,096
Repayments	<u>(7,321,498,443)</u>	<u>(3,164,081,080)</u>
Translation differences	<u>44,765,986</u>	<u>(175,700,177)</u>
	10,098,253,772	17,038,605,545
Falling due within 1 year	<u>(3,459,372,263)</u>	<u>(6,736,241,998)</u>
Issued bonds as at December 31 st , over 1 year	<u>6,638,881,509</u>	<u>10,302,363,547</u>

The effective rate of interest on the outstanding bonds is 2.99% (2013: 2.88%).

The maturity breakdown of the bonds issued, being the remaining maturity of the bonds based on their contractual terms, as at December 31st is as follows:

	<u>Total</u>	<u>< 1 year</u>	<u>1 < 5 years</u>	<u>> 5 years</u>
As of December 31 st , 2014	10,098,253,772	3,459,372,263	6,097,307,677	541,573,832
As of December 31 st , 2013	17,038,605,545	6,736,241,998	9,287,581,259	1,014,782,288

All bonds are guaranteed by KBC Bank NV, Brussels, Belgium.

Risk Factors for Investors

A wide range of bonds may be issued by the company under its various medium term programmes. A number of these bonds may have features which contain particular risks for investors. Set out below is a description of the most common such features:

- **The company's ability to fulfil its obligations under bonds issued under the Programme**

The company is a finance vehicle whose principal purpose is to raise debt to be on-lent to KBC Bank NV, its subsidiaries and associated companies. Accordingly, it does not have any trading assets and does not generate other trading income. Bonds issued under its various programmes are guaranteed on a subordinated or an unsubordinated basis, as specified in the applicable final terms, pursuant to the guarantee by KBC Bank NV. Accordingly, if the guarantor's financial condition were to deteriorate, the company and investors in the bonds may suffer direct and materially adverse consequences.

- **Credit risk**

The loans granted by the company are to KBC Bank NV, its subsidiaries and associated companies and the counterparty to the derivatives embedded in the loans is in all cases KBC Bank NV. In this respect a credit risk exists in respect of KBC Bank NV.

- **Interest rate risks**

Investment in fixed rate bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate bonds.

- **Bonds subject to optional redemption by the issuer**

An optional redemption feature of bonds entitling the company to redeem them earlier than final maturity is likely to limit their market value. During any period when the company may elect to redeem bonds, the market value of those bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

- **Risks relating to Reference Item Linked Bonds**

In the case of bonds linked to a reference item (examples of reference items are an index, an equity, a commodity, a credit event, a currency) which bear interest and/or redemption linked to one or more reference items, the amount of interest payable and/or redemption to bondholders will be contingent on

the performance of the relevant reference item(s) and on the structure of such bonds. The risks related to the reference items are recorded by the company in the derivatives embedded in the loans and bonds.

Investors in such bonds may, in certain circumstances and depending on the terms of the bonds, not receive any interest and/or principal amount on redemption. Unless notes are principal protected, the amount paid by the issuer on redemption of the notes may be less than the nominal amount of the notes, together with any accrued interest, and may in certain circumstances be zero.

- **The secondary market**

The company's bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid and an investor may not be able to find a timely and/or suitable counterpart. Therefore, investors may not be able to sell their bonds easily or at prices that will provide them with an acceptable yield.

- **Emerging or volatile markets**

Where the bonds are denominated in a specified currency from an emerging or volatile market, exchange rate and exchange control risks may be greater than they would otherwise be in relation to more developed countries. Such bonds should be considered speculative. Economies in emerging or volatile markets generally are heavily dependent upon international trade and, accordingly, may be affected adversely by trade barriers, foreign exchange controls (including taxes), managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also may be affected adversely by their economic, financial, military and political conditions and the supply and demand for such currency in the global markets. These factors will also impact the market value of the bonds.

8. Other current liabilities

	<u>2014</u>	<u>2013</u>
	€	€
Interest payable	152,412,893	238,834,105
Accounts payable	38,663	36,858
VAT and payroll tax payable	26,318	16,830
	<u>152,477,874</u>	<u>238,887,793</u>

Interest payable is the amount accrued payable on outstanding bonds.

Other current liabilities includes Eur 6,436 for payroll tax and social premiums payable in relation to payroll costs (2013: Eur 8,190).

In June 2012 KBC Internationale Financieringsmaatschappij N.V. and KBC Bank NV were summoned to appear before the court in Brussels on foot of a claim brought on behalf of former bondholders. The claim amounting to Eur 1,728,681 relates to losses incurred by the investors on early redemption of the bonds held by them. The lawsuit is being contested by KBC Internationale Financieringsmaatschappij N.V. and KBC Bank NV. Based on the information available to the directors, they are of the opinion

that it is unlikely the company will suffer a loss and therefore no provision has been made in the accounts for this. Judgement is not expected until mid-2015 at the earliest.

9. Fair value of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction.

The assets and liabilities of the company mainly consist of financial instruments. For most of the financial instruments fair values, such as market values, are not available and can only be estimated using certain calculation models, applying interest rates which are market-conform at balance sheet date. The fair value is determined using valuation models based on the discounted cash flow model. The input for the model consists mainly of market observable data like Euribor and exchange rates. The settlement date is used in accounting for derivatives.

The proceeds of the bonds issued are used for intercompany financing of the KBC Group, in particular KBC Bank NV. The contracts for intercompany financing do not differ other than an interest margin, where applicable, from the structuring of the bonds in terms of maturity, currency, interest terms and rate-fixings.

The financial assets are comprised of derivate assets, loans and a deposit. The financial liabilities are comprised of derivative liabilities and outstanding bonds issued.

The outstanding loans and bonds issued, as well as the related derivatives, are in various currencies, for various periods and at various rates of interest depending on the contractual terms of the individual bonds and related loans.

The fair value of cash balances including long-term bank deposit held at the bank and current liabilities does not differ substantially from the amounts presented in the balance sheet and they are therefore not included here.

The fair value of the financial instruments at December, 31st is as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Financial assets		
Loans	10,706,284,726	17,967,265,345
Financial liabilities		
Bonds issued	10,700,853,496	17,956,545,971

10. Risk management

It is the policy of the company to strictly limit interest rate, exchange, market and operational risks to the company and the structure and organisation of the company are designed to give effect to this policy. Furthermore, the company's financial administration is so arranged as to prevent exposures to the above risks and controls are in place to ensure strict adherence.

This policy, which applies to all bond issues, ensures that the company has no exposures in relation to open or unmatched positions in interest rate risk, market risk, currency risk, liquidity risk, cash flow risk or interest re-pricing risk and consequently runs no risks in respect to these categories. This policy is the basis of the company's asset and liability management. Credit risks are present and are described below. The interest margins on the loans where applicable, have been set in conjunction with KBC Bank NV and take account of the company's obligations under an Advance Pricing Agreement entered into with the Dutch tax authorities.

- **Liquidity risk:** cash inflows and outflows are matched with regard to amount, currency and timing; with the exception of interest margins earned on loans granted which generate positive cash flows on the coupon payment dates, the net cash flows of the company on bond issue, coupon payment and bond redemption dates are zero. In this manner liquidity risk is eliminated.

- **Credit risk:** as explained in the Directors' Report, the company on-lends to KBC Bank NV, its subsidiaries and associated companies, the proceeds of bonds issued. A credit risk therefore exists in relation to lending to these companies. The bonds issued by the company are guaranteed by KBC Bank NV; investors in the bonds issued by the company are therefore subject to a credit risk in KBC Bank NV.

- **Interest rate risk and exchange rate risk:** The operations of the company are such that bonds issued are on-lent within the Group with the same conditions, for the same amount, in the same currency, for precisely the same period, with the same interest re-pricing dates, for the same rate of interest (plus an interest margin where applicable) and with the same maturity date. Risks to the company arising from changes in interest rates and exchange rates are restricted in this manner.

- **Market risk:** The risk of losses on financial assets and liabilities arising from changes in market prices is eliminated by the policy of matching the bonds issued with the loans granted in respect of amount, currency, coupon payment and maturity date. Furthermore, the conditions included in those bonds which constitute embedded derivatives are matched by equal and opposite derivatives entered into in respect of the loans granted. Derivative assets and derivative liabilities are equal and opposite and therefore there are no exposed positions in derivatives or financial assets or liabilities that could give rise to losses or profits through changes in market prices.

NOTES TO THE PROFIT AND LOSS ACCOUNT**11. Interest income and expense**

Income from fixed interest investments results from a fixed interest deposit placed with KBC Bank NV. The interest receivable income results from the loans granted by the company to KBC Bank NV, Brussels, Belgium. The interest expense relates to bonds issued.

12. General and administrative expenses

The General and administrative expenses are as follows:

	<u>2014</u>	<u>2013</u>
	€	€
Salaries	201,549	238,623
Social security costs	21,471	25,164
Pension costs	63,475	57,572
Other staff costs	<u>12,625</u>	<u>17,438</u>
Staff costs	299,120	338,797
Bank charges	5,797	8,464
Office and IT expenses	348,536	130,383
Legal and tax fees	19,050	13,906
Audit fees	48,400	48,500
Management fees	182,655	64,187
Administration expenses	<u>1,338</u>	<u>984</u>
	<u>904,896</u>	<u>605,221</u>

The company had two employees up to December 31st, 2014 (2013: three). The remuneration of the Directors amounted to Eur 112,567 (2013: Eur 114,259). The members of the Supervisory Board did not receive any remuneration. The audit fees actually paid out during the year (i.e. exclusive of VAT due) to the external auditors in 2014 amounted to Eur 41,800 (2013: Eur 40,000).

The costs of transfer of the corporate seat to Luxembourg amount to Eur 390,362. This amount is comprised of Eur 142,240 for redundancy costs, Eur 120,851 for pension costs, Eur 117,733 for legal and audit costs and Eur 9,538 for other costs.

13. Corporation tax

Corporation tax is calculated based on the profit before taxation at the applicable tax rate in The Netherlands at 25% (2013: 25 %). The effective tax rate amounts to 24.6% (2013: 24.8%). The Advance Price Agreement in place with the Dutch Tax Authorities ended on December 31st, 2014.

14. Commitments

No contractual commitments have been entered into.

15. Related Parties

The loans of the company are extended exclusively to group companies and interest income on loans is earned entirely from group companies.

NOTES TO THE CASH FLOW STATEMENT

16. Cash flow statement

The Cash Flow Statement is compiled according to the indirect method. Net cash flow from operational activities includes Interest Received amounting to Eur 495,748,486 (2013: Eur 566,556,737) and Interest Paid amounting to Eur 491,576,520 (2013: Eur 560,982,694).

The cash balances of the company are free of encumbrance.

Rotterdam, April 20th, 2015

Board of Directors

I. Bauwens

F. Boudabza

F.M. Caestecker

R.J.G. Janssen

S. Gockel

OTHER INFORMATION

Statutory rules concerning appropriation of profit

In accordance with Article 26 of the company's Articles of Association, the net profit is at the disposal of the annual General Meeting of Shareholders.

Dividend 2013

An interim dividend amounting to Eur 3,100,000 was paid on January 2nd, 2014 and was ratified by the Annual General Meeting of Shareholders on May 27th, 2014.

Dividend 2014

An interim dividend amounting to Eur 1,700,000 was paid on January 2nd, 2015.

Subsequent events

As already stated in the Director's Report and in the Notes to the Financial Statements - General, the company carried out a cross-border transfer of its legal seat from the Netherlands to Luxembourg, effective from midnight 31st December 2014. At the same time the name of the company was changed to KBC Ifima S.A. The activities of the company are not changed by the transfer.

There have been no other material events subsequent to balance sheet date which impact the balance sheet and profit and loss account. Dividends paid after balance sheet dates are detailed above.

INDEPENDENT AUDITOR'S REPORT

To: the shareholder of KBC IFIMA S.A. (former KBC Internationale Financieringsmaatschappij N.V. up to and including 31 December 2014)

Report on the audit of the financial statements 2014 KBC Internationale Financieringsmaatschappij N.V.

Our opinion

We have audited the financial statements 2014 of KBC Internationale Financieringsmaatschappij N.V. (the company), based in Rotterdam.

In our opinion the financial statements give a true and fair view of the financial position of KBC Internationale Financieringsmaatschappij N.V. as at 31 December 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise the balance sheet as at 31 December 2014, the profit and loss account for 2014 and the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of KBC Internationale Financieringsmaatschappij N.V. in accordance with the *Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)* and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the *Verordening gedrags- en beroepsregels accountants (VGBA)*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at €3.000.000. The materiality is based on 0,75% of revenue. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the management board that misstatements in excess of €150.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the management board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Complexity of financial products

KBC Internationale Financieringsmaatschappij N.V. has several types of derivatives embedded in the bonds and loans. The bifurcation of embedded derivatives from the host contract depends on the terms and conditions of the host contract. Contracts not closely related are separated from the host contract and are stated at fair value and the fair value determination involves relatively complex and subjective estimates. We performed test of control procedures regarding the process of issuing bonds and on lending loans and assessed the correctness of the bifurcation of embedded derivatives. Furthermore, we involved valuation experts on assessing the fair values of the derivatives. Derivatives separated from the host contract are disclosed in note 2 to the financial statements.

Responsibilities of the management board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Director's report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the management board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the management board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Report on other legal and regulatory requirements

Report on the management board report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Director's report and other information):

- ▶ We have no deficiencies to report as a result of our examination whether the Director's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- ▶ We report that the Director's report, to the extent we can assess, is consistent with the financial statements.

Appointment

We were appointed as external auditor of KBC Internationale Financieringsmaatschappij N.V. for the audit of the financial statements 2014 and have been the external auditor since 2001.

Amsterdam, 21 April 2015

Ernst & Young Accountants LLP

Signed by P.J.A.J. Nijssen