2Q2014

KBC Group Extended Quarterly Report

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KBC

Management certification of financial statements and quarterly report

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

Forward-looking statements

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

Glossary of ratios used

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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KBC Group Report for 2Q2014 and 1H2014

This press release contains information that is subject to transparency regulations for listed companies.
Date of release: 7 August 2014

Summary: Excellent commercial results in the second quarter, impacted by severe legislation in Hungary.

KBC ended the second quarter of 2014 with a net profit of 317 million euros, compared with 397 million euros in the previous quarter and 517 million euros in the second quarter of 2013.

After excluding the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk, adjusted net profit came to 287 million euros for the second quarter of 2014, compared with 387 million euros in the first quarter of 2014 and 485 million euros in the second quarter of 2013.

Johan Thijs, Group CEO:

'2014 continued in a relatively benign global economic environment, with improving consumer and producer confidence and falling unemployment rates. On the other hand, low interest rates and low inflation also reign in Europe. Against this background, KBC posted a net result of 317 million euros for the second quarter, or 287 million euros on an adjusted-profit basis. When compared with the previous quarter, the group managed to post excellent commercial results: net interest income increased, with loan volumes up and client deposits growing relative to a decrease in wholesale funding. We also collected higher revenues in the form of fees and commissions particularly in Belgium, the Czech Republic and Hungary. The combined ratio for our non-life insurance activities remained strong, despite the higher level of claims, especially related to the hailstorm in Belgium. Sales of life insurance products were also slightly up. The cost/income ratio adjusted for specific items remained robust. Loan loss impairment charges remained relatively low overall, but went up somewhat in Ireland. Our total income remained impacted by negative marked-to-market changes in the value of derivatives used for asset/liability management purposes. More importantly, the negative impact of the provision of 231 million euros, which was booked to cover the consequences of the new Hungarian act on retail loans, has weighed on the result for this quarter. 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.

In the second quarter of 2014, the Belgium Business Unit generated a net result of 383 million euros, in line with the average figure of 384 million euros for the four preceding quarters. Compared with the previous quarter, the second quarter of 2014 was characterised by flat net interest income, strong net fee and commission income, seasonally higher dividend income, the negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, as well as a deterioration in the combined ratio for non-life insurance due to the hailstorm, increased sales of unit-linked life insurance products and higher other net income. Costs were up slightly and impairment charges remained at a low level. The banking activities accounted for 78% of the net result in the quarter under review, and the insurance activities for 22%.

In the quarter under review, the Czech Republic Business Unit posted a net result of 140 million euros, fully in line with the average for the four preceding quarters. Compared with the previous quarter, the results for the second quarter featured slightly higher net interest income, increased net fee and commission income, the absence of realised gains on the sale of financial assets, higher net results from financial instruments, increased other income, a further improvement in the non-life combined ratio and higher sales of unit-linked life insurance products. Costs went up slightly and loan loss impairment remained very low. Banking activities accounted for 95% of the net result in the quarter under review, and the insurance activities for 5%.

In the quarter under review, the International Markets Business Unit recorded a net result of -176 million euros, a small improvement on the average of -198 million euros for the four preceding quarters. The second quarter of 2014 was characterised by higher net interest income, a decline in the result from financial instruments, higher realised gains on bonds, increased net fee and commission income, a deterioration in the non-life combined ratio and increased life insurance sales, as well as the significantly negative impact of the new Hungarian act on retail loans. Cost were lower, as the previous quarter had included the entire bank tax in Hungary being booked for the full year, and loan loss provisions went up, mainly due to Ireland. The guidance for full-year loan loss provisioning in Ireland is at the high end of the 150 to 200 million euro range. Overall, the banking activities accounted for a negative net result of -182 million euros (the positive results in Slovakia and Bulgaria were wiped out by the negative result in Ireland (due to loan loss provisioning) and Hungary (owing to the impact of the new consumer loans act), while the insurance activities accounted for a positive net result of 6 million euros.

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

Our capital position also continues to be very robust, as illustrated by a common equity ratio of 12.9% (Basel III fully loaded under the Danish compromise). In the first half of the year, the repayment of 0.5 billion euros to the Flemish Regional Government at the beginning of January has been taken into account, as have the half-year results and a pro rata provision for the proposed dividend, the coupon on the additional tier-1 instruments and the coupon on the remaining state aid to be paid over 2014. The common equity ratio therefore continues to be well above our target of 10.5%.

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, KBC will become the reference in bank-insurance in its core markets.'

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

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

- CDOs: During the second quarter, corporate and ABS credit spreads tightened. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the diminishing time to maturity, there was a positive post-tax impact of 30 million euros.
- Remaining divestments: A total post-tax positive impact of 8 million euros was recorded for this quarter, based mainly on a gain realised on a sale in the real estate portfolio.
- Impact of own credit risk valuation: The narrowing of the credit spread on KBC debt between the end of March 2014 and the end of June 2014 resulted in a slight negative marked-to-market adjustment of 8 million euros (post tax), but had no impact on regulatory capital.

Financial highlights for 2Q2014 compared with 1Q2014:

- Excellent net result, excluding the impact of legislation in Hungary.
- Net interest income up by 5%.
- Net interest margin up from 2.00% to 2.05%.
- Strong loan growth in all core countries.
- Robust deposit growth in the Czech Republic and Ireland.
- Non-life combined ratio of 97% for the quarter, attributable to storm-related claims in 2Q2014, and at 93% year-to-date.
- Higher life insurance sales in Central Europe.
- Negative impact of marked-to-market valuations of ALM derivatives[1], mitigated by decent level of dealing-room income.
- Higher net fee and commission income, thanks to Belgium, the Czech Republic and Hungary.
- Negative other net income, due entirely to one-off provisioning of 231 million euros for the Hungarian retail loan book.
- Cost/income ratio of 63% year-to-date, and 55% when adjusted for specific items (mainly the impact of marked-to-market valuations in respect of ALM derivatives, and the Hungarian act on FX retail loans).
- 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) at 12.9%, well above the 10.5% target.

Overview KBC Group (consolidated)	2Q2013	1Q2014	2Q2014	1H2013	1H2014
Net result, IFRS (in millions of EUR)	517	397	317	1 037	714
Basic earnings per share, IFRS (in EUR)[1]	1.24	0.45	0.63	2.49	1.08
Adjusted net result (in millions of EUR)	485	387	287	843	675
Basic earnings per share, based on adjusted net result (in EUR)[1]	1.16	0.42	0.56	2.02	0.98
Breakdown by business unit (in millions of EUR)					
Belgium	418	351	383	803	734
Czech Republic	146	138	140	279	277
International Markets	-23	-26	-176	-110	-202
Group Centre	-56	-75	-59	-128	-135
Parent shareholders' equity per share (in EUR, end of period)	29.1	28.7	29.5	29.1	29.5

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

[1] Note that the negative impact of marked-to-market valuations of ALM derivatives has been more than offset by the positive impact of the revaluation reserves of the available-for-sale assets through changes in equity.

Overview of results according to IFRS

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

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

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1H 2013	1H 2014
Net interest income	1 053	1 003	1 014	1 008	1 010	1 056	-	-	2 056	2 065
Interest income	2 161	2 079	2 037	2 067	1 930	1 971	-	-	4 239	3 901
Interest expense	-1 108	-1 076	-1 023	-1 060	-920	-915	-	-	-2 184	-1 835
Non-life insurance (before reinsurance)	149	115	145	127	149	102	-	-	264	251
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	-	-	*621*	*623*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	-	-	*-357*	*-372*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-	-	-122	-114
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	-	-	*512*	*606*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	-	-	*-634*	*-720*
Ceded reinsurance result	-12	13	1	-6	-17	19	-	-	1	3
Dividend income	5	20	14	8	14	24	-	-	25	38
Net result from financial instruments at fair value through profit or loss	314	425	223	229	40	44	-	-	739	84
Net realised result from available-for-sale assets	142	47	34	29	51	49	-	-	189	100
Net fee and commission income	389	381	337	362	374	387	-	-	771	761
Fee and commission income	636	560	507	564	557	533	-	-	1 197	1 090
Fee and commission expense	-247	-179	-170	-202	-182	-147	-	-	-426	-329
Other net income	76	-20	51	15	52	-99	-	-	56	-47
Total income	2 058	1 921	1 754	1 715	1 615	1 526	-	-	3 979	3 141
Operating expenses	-1 033	-924	-918	-968	-973	-933	-	-	-1 957	-1 906
Impairment	-350	-275	-362	-940	-114	-142	-	-	-625	-255
on loans and receivables	-293	-254	-230	-937	-102	-136	-	-	-547	-238
on available-for-sale assets	-13	-3	-8	-10	-5	-3	-	-	-16	-8
on goodwill	-7	0	0	0	0	0	-	-	-7	0
on other	-37	-18	-125	7	-6	-3	-	-	-55	-9
Share in results of associated companies and joint ventures	8	8	9	6	7	7	-	-	15	13
Result before tax	683	729	483	-187	535	457	-	-	1 412	992
Income tax expense	-159	-210	-207	-103	-138	-140	-	-	-368	-278
Net post-tax result from discontinued operations	0	0	0	0	0	0	-	-	0	0
Result after tax	524	520	276	-290	397	317	-	-	1 044	714
attributable to minority interests	4	3	4	4	0	0	-	-	7	0
attributable to equity holders of the parent	**520**	**517**	**272**	**-294**	**397**	**317**	**-**	**-**	**1 037**	**714**
Basic earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	-	-	2.49	1.08
Diluted earnings per share (EUR)	1.25	1.24	-0.75	-0.71	0.45	0.63	-	-	2.49	1.08

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

Overview of adjusted results

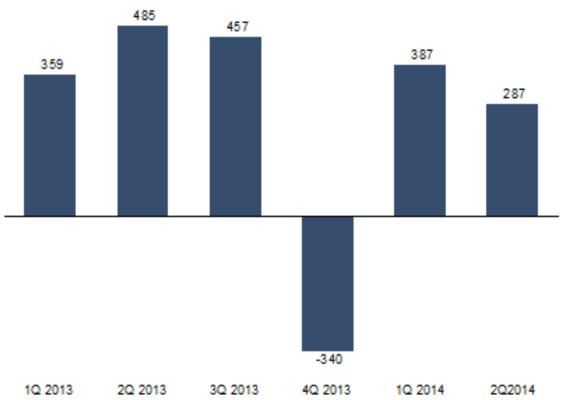
In addition to the figures according to IFRS (previous section), KBC provides figures aimed at giving more insight into the ongoing business performance. Hence, in the overview below, the impact of legacy activities (remaining divestments, CDOs) and of the valuation of own credit risk is excluded from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

Consolidated income statement, KBC Group (in millions of EUR)	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1H 2013	1H 2014
Adjusted net result (i.e. excluding legacy business and own credit risk)										
Net interest income	1 018	976	999	996	1 002	1 047	-	-	1 994	2 049
Non-life insurance (before reinsurance)	149	115	145	127	149	102	-	-	264	251
Earned premiums	*305*	*316*	*321*	*317*	*307*	*315*	-	-	*621*	*623*
Technical charges	*-156*	*-201*	*-176*	*-190*	*-158*	*-214*	-	-	*-357*	*-372*
Life insurance (before reinsurance)	-59	-62	-63	-57	-59	-56	-	-	-122	-114
Earned premiums	*271*	*241*	*238*	*381*	*308*	*297*	-	-	*512*	*606*
Technical charges	*-331*	*-303*	*-302*	*-438*	*-367*	*-353*	-	-	*-634*	*-720*
Ceded reinsurance result	-12	13	1	-6	-17	19	-	-	1	3
Dividend income	4	19	11	7	11	22	-	-	23	33
Net result from financial instruments at fair value through profit or loss	218	256	146	159	17	37	-	-	473	54
Net realised result from available-for-sale assets	96	46	42	29	50	49	-	-	141	99
Net fee and commission income	382	385	341	365	378	389	-	-	767	766
Other net income	76	68	151	47	52	-124	-	-	145	-72
Total income	1 872	1 815	1 773	1 668	1 584	1 485	-	-	3 686	3 069
Operating expenses	-1 023	-914	-906	-955	-965	-926	-	-	-1 936	-1 891
Impairment	-333	-234	-208	-949	-107	-134	-	-	-567	-241
on loans and receivables	*-293*	*-215*	*-185*	*-939*	*-103*	*-130*	-	-	*-509*	*-233*
on available-for-sale assets	*-13*	*-3*	*-2*	*-3*	*-5*	*-3*	-	-	*-16*	*-8*
on goodwill	*-7*	*0*	*0*	*0*	*0*	*0*	-	-	*-7*	*0*
on other	*-20*	*-15*	*-22*	*-7*	*0*	*0*	-	-	*-35*	*0*
Share in results of associated companies and joint ventures	8	8	9	6	7	7	-	-	15	13
Result before tax	524	675	667	-230	518	431	-	-	1 199	950
Income tax expense	-161	-187	-206	-106	-131	-144	-	-	-349	-275
Result after tax	363	487	460	-336	387	288	-	-	850	675
attributable to minority interests	4	3	4	4	0	0	-	-	7	0
attributable to equity holders of the parent	**359**	**485**	**457**	**-340**	**387**	**287**	**-**	**-**	**843**	**675**
Belgium	385	418	391	376	351	383			803	734
Czech republic	132	146	157	119	138	140			279	277
International Markets	-87	-23	-12	-731	-26	-176			-110	-202
Group Centre	-71	-56	-79	-104	-75	-59			-128	-135
Basic earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56			2.02	0.98
Diluted earnings per share (EUR)	0.86	1.16	-0.30	-0.82	0.42	0.56			2.02	0.98
Legacy business and own credit risk impact (after tax)										
Legacy – gains/losses on CDOs	165	180	34	65	16	30			346	46
Legacy – divestments	22	-128	-231	-10	-9	8			-106	-1
MTM of own credit risk	-26	-20	12	-9	2	-8			-46	-6
Net result (IFRS)										
Result after tax, attributable to equity holders of the parent (IFRS)	**520**	**517**	**272**	**-294**	**397**	**317**	**-**	**-**	**1 037**	**714**

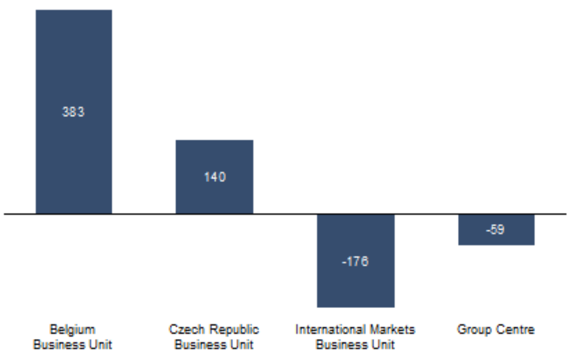
Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this applies to ČMSS, a joint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

Analysis of the quarter under review (2Q2014)

Adjusted net result (in millions of EUR)



Adjusted net result by business unit, 2Q2014 (in millions of EUR)



The net result for the quarter under review amounted to 317 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result came to 287 million euros, compared with 387 million euros in 1Q2014 and 485 million euros in 2Q2013.

Total income (adjusted net result)

- Net interest income stood at 1 047 million euros, up 5% quarter-on-quarter and 7% year-on-year. The net interest margin came to 2.05% for the quarter under review, 5 basis points higher than the level of the previous quarter, and 18 basis points higher than the (recalculated) level of the year-earlier quarter. Deposit volumes were marginally down quarter-on-quarter (growth in client deposits was offset by maturing wholesale debt) and were down 2% year-on-year (primarily through maturing wholesale debt). Loan volumes were up 1% quarter-on-quarter and declined by 1% year-on-year. The loan book in the Belgium Business Unit grew by 2% quarter-on-quarter but was flat year-on-year (primarily through a reduction at the foreign branches and the decrease in shareholder loans, while mortgages grew by 1.5%). Deposits in the Belgium Business Unit grew slightly quarter-on-quarter and by 1% year-on-year. The loan book in the Czech Republic increased by 3% year-on-year and 1% quarter-on-quarter, while deposits rose by 8% year-on-year and 2% quarter-on-quarter. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year, owing to the contraction in the Irish loan portfolio offsetting the strong growth in Bulgaria and Slovakia, and was almost flat quarter-on-quarter. Its deposit base grew by 2% year-on-year (driven primarily by Ireland, where there is a successful ongoing retail campaign), but contracted by 1% quarter-on-quarter (on the account of Hungary).
- The life and non-life insurance businesses turned in the following performance during the quarter under review. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 65 million euros, down 11% quarter-on-quarter and 2% year-on-year.

  In the non-life segment, earned premiums were up 3% quarter-on-quarter and flat year-on-year. Claims during the second quarter were substantially higher (35%) than their quarter-earlier level (due to the storms in Belgium in 2Q2014 and a mild winter in 1Q2014) and were up somewhat (6%) on their level in the second quarter of 2013, which had also been impacted by storms. Nevertheless, the combined ratio came to a solid 93% year-to-date.

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were up 2% on their level in 1Q2014, boosted by the increase in unit-linked products. Year-on-year, they fell by 1%, with the increase in sales of guaranteed-interest products offsetting the decline in sales of unit-linked products.

  It should be noted that the second quarter was a good one for investment income derived from insurance activities, with the quarter-on-quarter results being driven by the seasonal effect of dividend income, stable net interest income and lower – but still decent – realised gains on available-for-sales assets in the investment portfolio. Lastly, the technical-financial result also benefited from general administrative expenses being kept strictly under control.
- The net result from financial instruments at fair value amounted to 37 million euros in the quarter under review, significantly below the 145-million-euro average for the four preceding quarters. This figure was driven by dealing-room income, which stood at a respectable level in 2Q2014, but the quarter under review was quite badly impacted by negative marked-to-market valuations in respect of derivative instruments used for asset/liability management purposes. These adjustments came to -57 million euros (compared to a quarterly average of +70 million euros in 2013).

- Net realised gains from available-for-sale assets stood at 49 million euros for the quarter under review, up on the 42-million-euro average for the four preceding quarters. These gains were realised on the sale of both shares and bonds.
- Net fee and commission income amounted to 389 million euros, up 3% quarter-on-quarter and 1% year-on-year. The main drivers for the quarter-on-quarter trend were the higher level of management fees for mutual funds in Belgium and the better level of fee income in the Czech Republic. Assets under management stood at 172 billion euros, up 4% on their level of the previous quarter (accounted for by the investment performance (+3%) and net entries (+1%)) and up 11% year-on-year, driven by the investment performance (+8%) and by net inflows (+3%).
- Other net income came to a negative 124 million euros, substantially lower than the 80-million-euro average for the four preceding quarters. This item was affected most by provisioning for the new Hungarian act on consumer loans: 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' (-231 million euros), but was mitigated somewhat by the positive settlement of a case in the London branch (31 million euros) and by real estate gains.

Operating expenses (adjusted net result)

- Operating expenses came to 926 million euros in 2Q2014, down 4% on their level in the previous quarter but up 1% year-on-year. The quarter-on-quarter decrease was entirely attributable to the 2014 Hungarian bank tax being charged in full in the first quarter (51 million euros). On the other hand, variable staff remuneration and marketing and communication costs in the second quarter were higher in Belgium and charges were incurred for the Asset Quality Review (AQR) exercise. Costs were up 1% year-on-year, driven by the higher bank tax in Belgium (the reference quarter benefited from a recuperation from the old deposit guarantee fund), the AQR-related costs, and higher staff expenses and general administrative expenses in Ireland, but were mitigated somewhat by the fact that the year-earlier quarter had included a one-off additional charge in Hungary.
- The year-to-date cost/income ratio came to a relatively high 63%, but this was largely caused by the bank tax being charged for the full year in Hungary and the fact that the denominator (total income) suffered from the negative marked-to-market valuations of the ALM derivatives and the impact of the new Hungarian act on retail loans. Adjusted for specific items (including the bank tax, ALM derivatives and Hungarian act), the cost/income ratio stood at 55%.

Impairment charges (adjusted net result)

- Loan loss impairment stood at 130 million euros in 2Q2014, up on the 103 million euros recorded in the previous quarter but down on the 215 million euros recorded a year earlier. The quarterly increase was attributable to Ireland (lower IBNR release) and the Group Centre (KBC Bank Deutschland). The annualised credit cost ratio for the whole group stood at 0.34%. This breaks down into a very favourable 0.15% for the Belgium Business Unit (down from 0.37% for FY2013), an unsustainably low 0.04% in the Czech Republic Business Unit (down from 0.26% for FY2013), and 1.14% for the International Markets Business Unit (an improvement from 4.48% for FY2013, which had clearly been impacted by the large loan loss impairment charges in Ireland in 4Q2013).
- Impairment charges on assets other than loans were limited in the quarter under review, amounting to 3 million euros and relating to available-for-sale assets.

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

- CDOs: During the second quarter, corporate and ABS credit spreads tightened. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, along with the diminishing time to maturity, there was a positive post-tax impact of 30 million euros.
- Remaining divestments: A total post-tax positive impact of 8 million euros was recorded for this quarter, based mainly on a gain realised on a sale in the real estate portfolio.
- Impact of own credit risk valuation: The narrowing of the credit spread on KBC debt between the end of March 2014 and the end of June 2014 resulted in a slight negative marked-to-market adjustment of 8 million euros (post tax), but had no impact on regulatory capital.

Breakdown by business unit

- In 2Q2014, the Belgium Business Unit generated a net result of 383 million euros, in line with the average figure of 384 million euros for the four preceding quarters. Compared with the previous quarter, 2Q2014 was characterised by flat net interest income, strong net fee and commission income, seasonally higher dividend income, the negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, as well as a deterioration in the combined ratio for non-life insurance due to the hailstorm, increased sales of unit-linked life insurance products and higher other net income, thanks to a one-off recuperation relating to an old credit file. Costs were up slightly and impairment charges remained at a low level. The banking activities accounted for 78% of the net result in the quarter under review, and the insurance activities for 22%.
- In the quarter under review, the Czech Republic Business Unit posted a net result of 140 million euros, fully in line with the average for the four preceding quarters. Compared with the previous quarter, the results for 2Q2014 featured slightly higher net interest income, increased net fee and commission income, the absence of realised gains on the sale of financial assets, higher net results from financial instruments, increased other income, a further improvement in the non-life combined ratio and higher sales of unit-linked life insurance products. Costs went up slightly and loan loss impairment remained very low. Banking activities accounted for 95% of the net result in the quarter under review, and the insurance activities for 5%.
- In the quarter under review, the International Markets Business Unit recorded a net result of -176 million euros, a slight improvement on the average of -198 million euros for the four preceding quarters. The second quarter of 2014 was characterised by higher net interest income, a decline in the result from financial instruments, higher realised gains on bonds, increased net fee and commission income, a deterioration in the non-life combined ratio and increased life insurance sales, as well as the significantly negative impact of the new Hungarian act on retail loans. Cost were lower, as the previous quarter had included the entire bank tax in Hungary being booked for the full year, and loan loss provisions went up, mainly due to Ireland. Overall, the banking activities accounted for a negative net result of -182 million euros (the positive results in Slovakia and Bulgaria were wiped out by the negative result in Ireland (due to loan loss provisioning) and Hungary (owing to the impact of new consumer loans act), while the insurance activities accounted for a positive net result of 6 million euros.
- The Group Centre’s net result amounted to -30 million euros in 2Q2014. This includes not only a number of group items and the results of companies earmarked for divestment, but also the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk. Disregarding the latter two items, the adjusted net result for the Group Centre stood at -59 million euros, an improvement on the figure for the previous quarter. This was due largely to the decrease in the cost of subordinated debt, after several outstanding Tier-1 debt instruments were called for redemption in 2Q2014.

Analysis of the half year period under review (1H2014)

The net result for 1H2014 amounted to 714 million euros. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to 675 million euros, compared with 843 million euros in 1H2013.

Total income (adjusted net result)

- The year-on-year performance was affected in part by the deconsolidation of Absolut Bank. This item will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').
- Net interest income stood at 2 049 million euros, up 3% year-on-year. On a comparable basis, it was up 4% year-on-year. 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. 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).
- The life and non-life insurance businesses turned in the following performance during the first half of 2014. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled 140 million euros, down 2% year-on-year.

  Premiums in the non-life segment were flat year-on-year. The claims arising from the storms in Belgium resulted in a somewhat higher level of technical charges compared with 1H2013, which had been affected by claims relating to the floods in the Czech Republic. Nevertheless, the combined ratio still came to a solid 93% year-to-date.

  In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were down 13% on their level in 1H2013. The increase in sales of guaranteed interest products was more than offset by a contraction in sales of unit-linked products.

  It should be noted that the insurance results also benefited from higher investment income, driven by higher dividend income and a higher net realised result from the sale of available-for-sale assets. General administrative expenses were kept strictly under control and fell by 5% year-on-year.
- The net result from financial instruments at fair value amounted to 54 million euros in the first half of 2014, compared with 473 million euros for the first half of the previous year, or 470 million euros on a comparable basis. This figure is usually impacted by dealing-room income, but the first six months of this year was influenced primarily by a negative result of 140 million euros on the marked-to-market valuations in respect of the derivative instruments used for asset/liability management purposes, compared to a positive 211 million euros for the first half of 2013.
- Net realised gains from available-for-sale assets stood at 99 million euros for the period under review, compared with 141 million euros for the first half of the previous year. One-third of the gains were realised on the sale of bonds and two-thirds on the sale of shares.
- Net fee and commission income amounted to 766 million euros, flat year-on-year but up 1% on a comparable basis. Assets under management 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 -72 million euros as opposed to 145 million euros in the year-earlier period. This item was affected by provisioning for the new Hungarian act on consumer loans: 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' (-231 million euros).

Operating expenses (adjusted net result)

- Operating expenses came to 1 891 million euros in 1H2014, down 2% on their year-earlier level. On a comparable basis, costs decreased by 1%, owing in part to a negative foreign exchange impact in the Czech Republic and Hungary and partly offset by higher expenses at KBC Ireland. 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, well down on the 509 million euros recorded a year earlier. The annualised credit cost ratio stood at 0.34% year-to-date. This breaks down into 0.15% for the Belgian Business Unit (down from 0.37% for FY2013), 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).
- Other impairment charges came to 8 million euros and were exclusively related to impairment on available-for-sale assets.

Income tax

- Income tax amounted to 275 million euros for the first six months of 2014.

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

- 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 46 million euros.
- Remaining divestments: A total post-tax impact of -1 million euros was recorded for this first half year.
- Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of 6 million euros (post tax), but had no impact on regulatory capital.

Equity and solvency

- At the end of June 2014, total equity came to 15.7 billion euros – up 1.2 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 repayment of 0.5 billion euros (including the 50% penalty) in Flemish state aid, the inclusion of the 1H2014 results (+0.7 billion euros) and the calling for redemption of Funding Trust securities (-0.4 billion euros in minority interests).
- The group's common equity ratio (Basel III, fully loaded, under the Danish Compromise, including the remaining aid from the Flemish Regional Government) stood at a strong 12.9% at 30 June 2014.
- The solvency ratio for KBC Insurance was an excellent 317% at 30 June 2014, up from the already high 281% at the end of 2013.

Liquidity

- The group's liquidity remains excellent, as reflected in an LCR ratio of 123% and an NSFR ratio of 109% at the end of the second quarter.

Selected balance sheet data

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

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

Selected ratios

Selected ratios KBC Group (consolidated)	FY2013	1H2014
Profitability and efficiency (based on adjusted net result)		
Return on equity*	9%	11%
Cost/income ratio, banking	52%	63%
Combined ratio, non-life insurance	94%	93%
Solvency		
Common equity ratio (Basel III, fully loaded, including remaining state aid)	12.8%	12.9%
Credit risk		
Credit cost ratio	1.21%	0.34%
Non-performing ratio	5.9%	6.2%

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

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

Strategy highlights and main events

Strategy and business highlights (2Q to date)

- KBC's core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. In line with its strategic plan, the group has 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.
- On 2 April 2014, KBC announced its intention to call its outstanding stock of 5 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 these securities have since been called.
- On 8 May 2014, KBC's long-term ratings were upgraded by Moody's to 'A2' for KBC Bank and to 'A3' for KBC Group, while on 29 May, KBC's long-term 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 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, KBC will become the reference in bank-insurance in its core markets. The group also announced new financial targets, which can be found at www.kbc.com.
- In July 2014, Fitch affirmed KBC's long-term ratings at 'A-' (with stable outlook) for both KBC Bank and KBC Group.

Developments on the Corporate Sustainability & Responsibility front (2Q to date)

- K&H's *CSR Report for 2013* and the ČSOB Group's *Social Responsibility Report for 2013* were published.
- 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 launched its new version of the KBC *CSR Suppliers Policy*, which introduces the *Sustainability Code of Conduct for Suppliers* and allows performance monitoring.
- K&H Bank was 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. ČSOB in the Czech Republic was 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 client workers was held focusing on communication with people with hearing and vision impairment. In May and June, client workers in the Era Financial Centres were trained in the basics of communicating with people with a hearing impairment.
- 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.
- 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.
- 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.

Statement of risk

- Mainly active in banking, insurance and asset management, KBC is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing divestment plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.

- Risk management data are provided in KBC's annual reports, the extended quarterly reports and the dedicated risk reports, all of which are available at www.kbc.com.
- The economic recovery has become broader and more sustainable in the euro area, while the sovereign and financial crises are moving into the background. Economic growth, albeit still very moderate, is gradually broadening and has become even more pronounced in the crisis-hit southern EMU countries. 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.
- Global growth disappointed in the first half of 2014, with a weaker performance in the US, a policy-induced setback (VAT hike) in Japan, difficult rebalancing in China and a less optimistic outlook for several emerging markets. Nevertheless, growth is expected to rebound in the second half of 2014. Underlying drivers of the first-quarter weakness of the US economy, such as the cold weather and inventory corrections, are expected to have only temporary effects. So far, China has been successful in implementing pro-growth measures to offset the economic slowdown. The Japanese economy has been benefiting from the expansionary policies known as 'Abenomics' and now seems robust enough to digest the VAT hikes there. Downside risks remain a concern, however. Global growth could be weaker for longer, given the lack of robust momentum in advanced economies despite the very low level of interest rates and the fact that the other headwinds to recovery are fading. Geopolitical risks (Ukraine, Middle East) have escalated and could lead to energy price and confidence shocks, 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.

KBC Group Analysis of 2Q2014 results by business unit

Unless otherwise specified,
all amounts are given in euros

Breakdown by business unit

Business unit structure

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

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

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

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

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

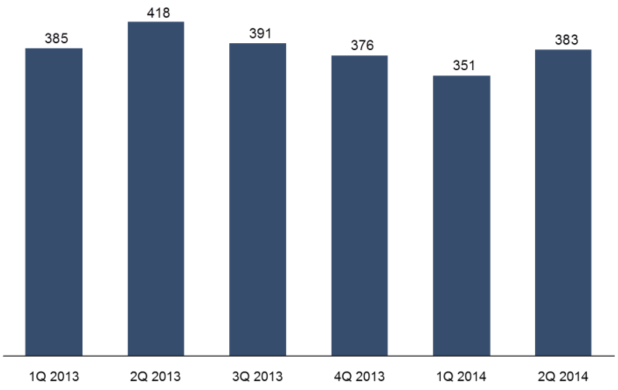
The items in question are:

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

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

Analysis of the results – Belgium Business Unit

Net result – Belgium
(in millions of EUR)



The Belgium Business unit includes the activities of KBC Bank NV and KBC Insurance NV, as well as their Belgian subsidiaries (CBC Banque, KBC Asset Management, KBC Lease Group, KBC Securities, KBC Group Re, etc.). Results related to legacy businesses and the valuation of own credit risk have been moved to the Group Centre.

Income statement, Belgium Business Unit (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	658	640	670	680	696	697	-	-
Non-life insurance (before reinsurance)	117	96	111	86	118	66	-	-
Earned premiums	*234*	*239*	*241*	*241*	*236*	*240*	-	-
Technical charges	*-117*	*-143*	*-130*	*-155*	*-118*	*-174*	-	-
Life insurance (before reinsurance)	-69	-69	-70	-66	-65	-65	-	-
Earned premiums	*195*	*180*	*162*	*295*	*255*	*234*	-	-
Technical charges	*-263*	*-249*	*-232*	*-361*	*-320*	*-299*	-	-
Ceded reinsurance result	-10	4	0	-1	-17	22	-	-
Dividend income	4	18	11	7	11	20	-	-
Net result from financial instruments at fair value through profit or loss	135	201	83	125	-19	-6	-	-
Net realised result from available-for-sale assets	85	30	40	15	42	33	-	-
Net fee and commission income	291	288	240	241	278	283	-	-
Other net income	66	49	124	53	42	104	-	-
Total income	1 278	1 257	1 210	1 141	1 086	1 154	-	-
Operating expenses	-575	-544	-568	-562	-555	-567	-	-
Impairment	-140	-98	-65	-59	-38	-36	-	-
on loans and receivables	-138	*-82*	-43	-65	-34	-34	-	-
on available-for-sale assets	-2	*-2*	-1	-2	-5	-3	-	-
on goodwill	0	*0*	0	0	0	0	-	-
other	1	*-14*	-21	7	0	1	-	-
Share in results of associated companies and joint ventures	0	0	0	0	-1	0	-	-
Result before tax	562	615	577	519	492	551	-	-
Income tax expense	-176	-198	-186	-142	-142	-168	-	-
Result after tax	386	417	391	377	351	383	-	-
attributable to minority interests	1	-1	0	0	0	0	-	-
attributable to equity holders of the parent	**385**	**418**	**391**	**376**	**351**	**383**	**-**	**-**
Banking	300	329	307	319	261	297	-	-
Insurance	85	89	83	57	90	86	-	-
Risk-weighted assets banking (end of period, Basel III)	42 287	40 947	38 491	40 307	40 858	41 032	-	-
Required capital insurance (end of period, Solvency I)	839	842	846	850	851	854	-	-
Allocated capital (end of period)	5 697	5 569	5 330	5 518	5 575	5 597	-	-
Return on allocated capital (ROAC)	26%	29%	29%	28%	25%	27%	-	-
Cost/income ratio, banking	46%	44%	49%	49%	53%	51%	-	-
Combined ratio, non-life insurance	85%	93%	90%	103%	88%	98%	-	-
Net interest margin, banking	1.78%	1.72%	1.81%	1.87%	1.98%	1.96%	-	-

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

In 2Q2014, the Belgium Business Unit generated a net result of 383 million, in line with the average figure of 384 million for the four preceding quarters. Compared with the previous quarter, 2Q2014 was characterised by flat net interest income, strong net fee and commission income, seasonally higher dividend income, the negative impact of the valuation of ALM derivatives, lower gains on the sale of financial assets, a deterioration in the combined ratio for non-life insurance due to the hailstorm, increased sales of unit-linked life insurance products and higher other net income thanks to a one-off item. Costs were up slightly and impairment charges remained at a low level. The banking activities accounted for 78% of the net result in the quarter under review, and the insurance activities for 22%.

Net interest income stable quarter-on-quarter

Net interest income stood at 697 million in the quarter under review, in line with the previous quarter and up 9% on the year-earlier quarter. Quarter-on-quarter, net interest income benefited from higher lending-related income, a wider margin on saving accounts (a rate cut in April) and a higher volume of current accounts. It was also impacted by a lower level of prepayment fees and lower reinvestment yields in general. The 9% year-on-year increase resulted from, *inter alia*, higher lending-related income, a wider margin on saving accounts (interest rates were cut in November 2013 and April 2014), lower reinvestment yields, a bigger banking bond portfolio, and a number of miscellaneous items.

At the end of June 2014, the Belgium Business Unit's loan book ('Loans and advances to customers, excluding reverse repos') amounted to 84 billion, up 2% quarter-on-quarter and more or less unchanged year-on-year. The latter was still impacted by the intentional decrease in lending at KBC Bank's foreign branches and the reduction in shareholder loans (excluding these items, loans went up by some 2% year-on-year). Deposits ('Deposits from customers and debt certificates, excluding repos') stood at 101 billion, slightly up (+0.4%) on the previous quarter's level and up approximately 1% year-on-year.

On the whole, the net interest margin at KBC Bank in Belgium narrowed slightly by 2 basis points quarter-on-quarter and widened by 24 basis points year-on-year, amounting to 196 basis points in 2Q2014.

Non-life combined ratio up due to hailstorm; sales of life insurance products in line with previous quarter

In the non-life business, premium income stood at 240 million, up 2% quarter-on-quarter (partly due to more days in 2Q than in 1Q) and up 1% year-on-year, whereby a 2% increase of direct business sales - chiefly on account of the 'fire' and 'motor' classes - was partly offset by a decrease at Group Re. Technical non-life charges were at a high 174 million, up 48% quarter-on-quarter and 21% year-on-year, as 2Q2014 included the effect of the Pentecost hailstorm in Belgium. After taking into account the effect of ceded reinsurance, earned premiums less technical charges stood at 88 million in the quarter under review, down on the 101 million in 1Q2014 and the 100 million in 2Q2013. As a result, the combined ratio came to a relatively high 98% in the quarter under review, which – in view of the favourable performance in the first quarter – still amounted to a good 93% year-to-date, fully in line with the figure recorded for FY2013.

In the life business, insurance sales (including unit-linked products which are not included in the premium figures under IFRS) remained at a relatively low 376 million in 2Q2014, comparable to the 380 million recorded in the previous quarter and the 382 million recorded in the year-earlier quarter. In the quarter under review, unit-linked products accounted for some 38% of total life sales (up quarter-on-quarter thanks to commercial actions and new products), while guaranteed interest products accounted for 62%.

At the end of June 2014, the life reserves of the Belgium Business Unit (including the liabilities under unit-linked contracts) amounted to 26 billion (up 3% year-on-year).

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

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

Total net fee and commission income amounted to 283 million in the quarter under review, up 2% compared to the previous quarter, but down 2% compared to a year earlier. Quarter-on-quarter, the increase was due primarily to higher management fee income on mutual funds (more AUM), while entry fees on mutual funds declined (sales down after the traditional head start in the first quarter). The 2% year-on-year drop in net fee and commission income was essentially due to lower commission income on the sale of unit-linked life insurance products and lower securities-related fees (cf. issuance of KBC Group notes in the reference quarter), which were only partially offset by the higher management fee income from mutual funds.

Assets under management in this business unit stood at 160 billion at the end of June 2014, up 3% on the level recorded three months previously, roughly 1% of which was due to net inflows and the remainder to a positive price effect. AUM were up by as much as 10% on the year-earlier level, some 3% of which was attributable to net inflows and 8% to a positive price effect.

Other income components

Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to -6 million in the quarter under review, significantly below the positive 98 million average for the four preceding quarters. The 2Q2014 figure includes a negative MTM valuation of ALM derivatives arising partly as a result of decreasing long-term IRS rates (impact of -63 million in 2Q2014, compared to a positive 27 million on average for the four preceding quarters). Dividend income stood at 20 million, up on the 18 million recorded in the year-earlier quarter (higher volume in the share portfolio) and significantly more than the 11 million recorded in 1Q2014, as dividends are traditionally received in the second quarter of the year. The realised result from available-for-sale assets amounted to 33 million, in line with the average figure of 32 million for the four preceding quarters. It included 26 million resulting from the sale of shares, mainly at KBC Insurance (attractive market conditions) and 7 million from the sale of bonds. Other net income amounted to 104 million, well up on the 67 million average for the four preceding quarters, thanks to a recuperation related to a legal case, as well as to real estate gains.

Costs up quarter-on-quarter

The operating expenses of the Belgium Business Unit totalled 567 million in the quarter under review, up 2% on the previous quarter. This came about primarily because of higher marketing expenses, provisioning for invoices related to the AQR exercise and higher variable staff remuneration, while ICT and facilities expenses and long-term employee benefits fell. Compared to the year-earlier quarter, costs rose by 4%, relating predominantly to the higher bank tax (as the reference quarter benefited from a reimbursement from the old deposit guarantee fund), higher variable staff remuneration and the costs related to the AQR exercise referred to above.

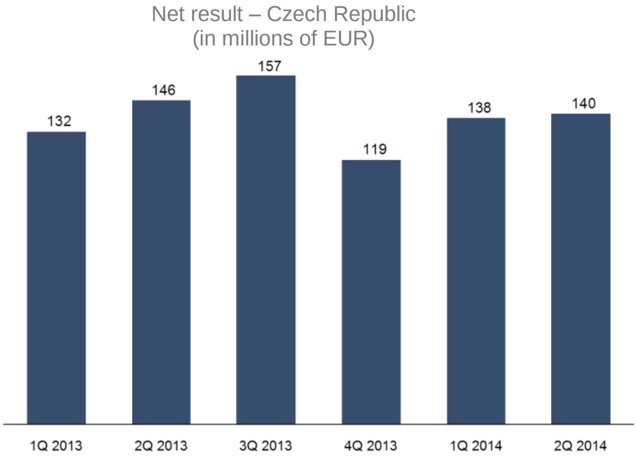
The cost/income ratio in the quarter under review amounted to a sound 51%, or 52% year-to-date, as opposed to an excellent 47% in FY2013. Note, however, that the numerator of this ratio included significantly *negative* MTM valuations of ALM derivatives in 1Q2014 and 2Q2014, while the ratio benefited from large *positive* MTM valuations of such derivatives in 2013. Excluding that item, as well as some exceptional items, the 'sustainable' cost/income ratio stood at 50% in both 2Q2014 and 1H2014, i.e. in line with the 51% recorded for FY2013.

Impairment remains at a low level

Impairment on loans and receivables (loan loss provisions) amounted to a relatively low 34 million in 2Q2014, in line with the figure recorded for the previous quarter, and well down on the 82 million recorded for 2Q2013 (a decrease in both the retail and corporate segments). As a result, the credit cost ratio for 1H2014 stood at a favourable 15 basis points, an improvement on the 37 basis points recorded in FY2013.
At the end of 2Q2014, some 2.6% of the Belgian loan book was non-performing, slightly up on the 2.5% recorded three months earlier.

All other impairment charges combined totalled to 2 million in the quarter under review and mostly related to available-for-sale securities in portfolio.

Analysis of the results – Czech Republic Business Unit



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

Income statement, Czech Republic Business Unit (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	230	232	230	214	219	220	-	-
Non-life insurance (before reinsurance)	16	3	17	26	16	19	-	-
Earned premiums	*41*	*42*	*43*	*43*	*39*	*41*	-	-
Technical charges	*-25*	*-39*	*-27*	*-17*	*-23*	*-21*	-	-
Life insurance (before reinsurance)	7	5	7	6	6	6	-	-
Earned premiums	*48*	*36*	*53*	*61*	*32*	*41*	-	-
Technical charges	*-41*	*-30*	*-47*	*-55*	*-26*	*-35*	-	-
Ceded reinsurance result	-1	10	0	-4	-1	-3	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	16	28	24	14	10	13	-	-
Net realised result from available-for-sale assets	7	6	0	4	8	0	-	-
Net fee and commission income	47	43	45	49	45	48	-	-
Other net income	3	2	8	-4	2	8	-	-
Total income	325	330	330	305	303	312	-	-
Operating expenses	-158	-156	-150	-158	-145	-148	-	-
Impairment	-20	-7	-6	-16	-2	-2	-	-
on loans and receivables	*-20*	*-8*	*-6*	*-13*	-2	*-2*	-	-
on available-for-sale assets	*0*	*0*	*0*	*0*	0	*0*	-	-
on goodwill	*0*	*0*	*0*	*0*	0	*0*	-	-
Other	*0*	*0*	*0*	*-3*	0	*0*	-	-
Share in results of associated companies and joint ventures	7	7	8	6	6	6	-	-
Result before tax	155	174	183	136	163	167	-	-
Income tax expense	-22	-28	-26	-17	-25	-28	-	-
Result after tax	132	146	157	119	138	140	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**132**	**146**	**157**	**119**	**138**	**140**	**-**	**-**
Banking	128	143	150	109	132	133	-	-
Insurance	5	3	7	10	6	7	-	-
Risk-weighted assets banking (end of period, Basel III)	12 234	13 119	13 164	12 563	12 618	12 453	-	-
Required capital insurance (end of period, Solvency I)	72	72	73	69	69	68	-	-
Allocated capital (end of period)	1 349	1 438	1 444	1 378	1 382	1 364	-	-
Return on allocated capital (ROAC)	38%	44%	43%	35%	40%	41%	-	-
Cost/income ratio, banking	48%	46%	45%	52%	47%	47%	-	-
Combined ratio, non-life insurance	99%	104%	97%	84%	94%	92%	-	-
Net interest margin, banking	3.31%	3.33%	3.28%	3.09%	3.29%	3.20%	-	-

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

In the quarter under review, the Czech Republic Business Unit posted a net result of 140 million, fully in line with the average for the four preceding quarters. Compared with the previous quarter, the results for 2Q2014 featured slightly higher net interest income, increased net fee and commission income, the absence of realised gains on the sale of financial assets, higher net results from financial instruments, increased other income, a further improvement in the non-life combined ratio and higher sales of unit-linked life insurance products. Costs went up slightly and loan loss impairment remained very low. Banking activities accounted for 95% of the net result in the quarter under review, and insurance activities for 5%.

Net interest income up slightly quarter-on-quarter

Net interest income generated in this business unit amounted to 220 million in the quarter under review. Excluding the effect of the exchange rate (the Czech koruna weakened only marginally compared to 1Q2014, but has depreciated by 6% on its 2Q2013 level), net interest income was up 1% both quarter-on-quarter and year-on-year. In both cases, net interest income benefited from volume growth and external rate cuts on saving accounts, but remained under pressure due to the lower reinvestment yield. Additionally, interest income related to lending also went up year-on-year (volumes and margins).

Disregarding the FX effect, the group's Czech loan book (16 billion in 'Loans and advances to customers, excluding reverse repos' at 30 June 2014) was up 1% quarter-on-quarter and 3% year-on-year. The latter performance was driven mainly by the growth of mortgage loans and, to a lesser extent, loans to corporations and SMEs. The deposit base (22 billion in 'Deposits from customers and debt certificates, excluding repos') was up 2% quarter-on-quarter and 8% year-on-year.

The overall net interest margin of the ČSOB group in the Czech Republic amounted to 3.20% in the quarter under review, i.e. down 9 and 13 basis points, respectively, on the previous and year-earlier quarters.

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

In the non-life business, premium income stood at 41 million, up 5% quarter-on-quarter and 2% year-on-year (disregarding the FX impact in both cases). At 21 million, technical charges were down 7% on 1Q2014, which had been negatively impacted by one big claim, and down 42% on 2Q2013, which had been heavily impacted by flooding (disregarding the FX impact in both cases). When account is also taken of the impact of reinsurance, earned premiums less technical charges went up by 1 million quarter-on-quarter and by 3 million year-on-year. The combined ratio for the quarter under review stood at a good 92%, compared to 94% in 1Q2014. Year-to-date, the 1H2014 combined ratio hence stood at 93%, an improvement on the FY2013 figure of 96%.

In the life business, sales amounted to 41 million in the quarter under review, significantly up on the previous quarter (32 million) and year-earlier quarter (36 million). Both the quarter-on-quarter and year-on-year increases in life sales were attributable almost entirely to the rise in sales of unit-linked products (Maximal Invest Life products), and as a consequence, these products accounted for almost two-thirds of life sales in the quarter under review. At the end of June 2014, the outstanding life reserves (including the liabilities under unit-linked products) in this business unit stood at 1 billion, down 10% year-on-year.

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

Other income components

Net fee and commission income stood at a strong 48 million in the quarter under review, a 7% increase compared with the previous quarter and up by as much as 19% on its 2Q2013 level (disregarding FX effects in both cases). The quarter-on-quarter increase was caused primarily by higher fees related to the mutual fund business, higher fee income from financial markets activities and increased transaction fees related to the card business. Year-on-year, the growth was driven by higher mutual-fund-related fees, lower fees paid to distribution (Czech Post) and higher fee income from financial markets activities, among other things. Total assets under management in this business unit came to roughly 7 billion at quarter-end, up 5% quarter-on-quarter (3% owing to net entries and 2% due to a positive price effect) and up 9% year-on-year (6% due to net entries and 3% owing to a positive price effect).

Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 13 million, lower than the average figure of 19 million for the four preceding quarters. The net realised result from available-for-sale assets stood at virtually zero, down on the 5 million average for the last four quarters (note: 1Q2014 included 8 million in gains on the sale of bonds, while 2Q2013 included 5 million in gains on the sale of shares). Other net income totalled 8 million in the quarter under review, up on the 2 million average for the four preceding quarters.

Costs up slightly quarter-on-quarter

The operating expenses of this business unit came to 148 million, a 2% increase (disregarding FX effects) compared with 1Q2014, due to higher facilities and marketing expenses (new retail campaign, among other things). Compared to 2Q2013, costs increased by 1% (disregarding FX effects), due to somewhat higher staff expenses, and increased marketing and ICT costs.

Consequently, the cost/income ratio of the Czech Republic Business Unit came to 47%, unchanged on the previous quarter, and the resultant 1H2014 year-to-date ratio likewise came to 47%, comparable to the level recorded for FY2013.

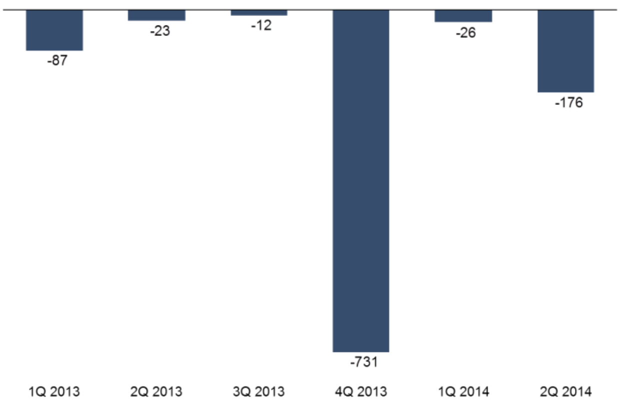
Loan loss provisions remain very low

Impairment on loans and receivables (loan loss provisions) stood at a very favourable 2 million in the quarter under review, down on the 8 million recorded in the year-earlier quarter and in line with the sound figure recorded in the previous quarter. The quarter under review benefited from some impairment releases, and the previous quarter from model-related changes and impairment releases. As a result, the 1H2014 credit cost ratio of this business unit amounted to a fine 4 basis points, a further improvement on what is already a good 26 basis points for FY2013. At the end of the quarter under review, non-performing loans accounted for some 3.1% of the Czech loan book, the same level as three months earlier.

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

Analysis of the results – International Markets Business Unit

Net result – International Markets
(in millions of EUR)



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

Income statement, International Markets Business Unit (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	155	160	163	155	160	173	-	-
Non-life insurance (before reinsurance)	21	19	20	20	19	19	-	-
Earned premiums	*39*	*38*	*39*	*39*	*37*	*38*	-	-
Technical charges	*-18*	*-20*	*-19*	*-18*	*-18*	*-19*	-	-
Life insurance (before reinsurance)	2	0	0	2	1	4	-	-
Earned premiums	*25*	*20*	*18*	*19*	*22*	*22*	-	-
Technical charges	*-23*	*-21*	*-18*	*-17*	*-21*	*-19*	-	-
Ceded reinsurance result	-2	-2	-2	-4	-2	-2	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	21	22	29	17	25	17	-	-
Net realised result from available-for-sale assets	2	8	2	1	2	7	-	-
Net fee and commission income	41	45	50	68	49	51	-	-
Other net income	2	19	1	-2	0	-227	-	-
Total income	242	272	262	258	253	44	-	-
Operating expenses	-210	-176	-156	-173	-216	-166	-	-
Impairment	-127	-116	-119	-827	-64	-84	-	-
on loans and receivables	-117	-114	-118	-821	-64	-84	-	-
on available-for-sale assets	-10	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
other	-1	-1	0	-6	0	-1	-	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	-	-
Result before tax	-95	-19	-12	-742	-27	-207	-	-
Income tax expense	8	-4	0	11	1	31	-	-
Result after tax	-87	-23	-12	-731	-26	-176	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-87**	**-23**	**-12**	**-731**	**-26**	**-176**	-	**-**
Banking	-82	-29	-17	-735	-33	-182	-	-
Insurance	-6	6	6	4	7	6	-	-
Risk-weighted assets banking (end of period, Basel III)	16 963	16 356	16 110	16 247	18 484	17 506	-	-
Required capital insurance (end of period, Solvency I)	43	42	42	44	44	44	-	-
Allocated capital (end of period)	1 772	1 710	1 684	1 702	1 925	1 828	-	-
Return on allocated capital (ROAC)	-19%	-5%	-3%	-176%	-6%	-37%	-	-
Cost/income ratio, banking	88%	65%	59%	67%	88%	-	-	-
Combined ratio, non-life insurance	87%	98%	97%	103%	89%	99%	-	-
Net interest margin, banking	2.06%	2.10%	2.11%	2.07%	2.26%	2.46%	-	-

In the quarter under review, the International Markets Business Unit recorded a net result of -176 million, a slight improvement on the average of -198 million for the four preceding quarters. 2Q2014 was characterised by higher net interest income, a decline in the result from financial instruments, higher realised gains on bonds, increased net fee and commission income, a deterioration in the non-life combined ratio and increased life insurance sales, as well as the significantly negative impact of the new Hungarian act on retail loans. Costs were lower as the previous quarter had included the entire bank tax in Hungary being booked for the full year, and loan loss provisions went up, mainly due to Ireland.

Overall, the banking activities accounted for a negative net result of -182 million (the positive results in Slovakia and Bulgaria were wiped out by the negative result in Ireland (loan loss provisioning) and Hungary (impact of new consumer loan act), while the insurance activities accounted for a positive net result of 6 million.

Total income significantly down quarter-on-quarter, due to the negative impact of the new Hungarian act on retail loans. Furthermore, a positive change in net interest income, commission income and realised gains, and negative change in fair value income.

Net interest income stood at 173 million in 2Q2014, up 8% on the figures for 1Q2014 and 2Q2013. Both quarter-on-quarter and year-on-year, net interest income rose in Ireland (lower reserved interest charges quarter-on-quarter), Hungary and Slovakia (growth of mortgage portfolio, etc.).
The total loan portfolio of the International Markets Business Unit (21 billion in 'Loans and advances to customers, excluding reverse repos' at 30 June 2014) was down slightly (-0.4%) quarter-on-quarter and down 6% year-on-year. This year-on-year decline was almost entirely attributable to Ireland (-13%; matured and impaired loans surpassing new production and the corporate loan portfolio is being deleveraged), which more than offset loan growth in Slovakia (+6%) and Bulgaria (+14%). Customer deposits for the entire business unit (14 billion in 'Deposits from customers and debt certificates, excluding repos') decreased by 1% in the quarter under review (down in Hungary, but up in Ireland), but grew by 2% compared to the situation a year ago. Almost the entire year-on-year increase was accounted for by Ireland (+21%, owing to the ongoing retail deposit campaign in that country), while deposits rose moderately (+1%) in both Slovakia and Bulgaria and declined by 9% in Hungary.
On a weighted basis, the net interest margin of this business unit amounted to 246 basis points in the quarter under review, up 20 basis points quarter-on-quarter and 36 basis points year-on-year. The net interest margin in 2Q2014 amounted to 326 basis points in Slovakia, 385 basis points in Hungary, 478 basis points in Bulgaria and 117 basis points in Ireland.

In the non-life business, earned insurance premiums in the quarter under review (which relate solely to Hungary, Slovakia and Bulgaria, as there are no direct insurance activities in Ireland) amounted to 38 million, up 2% on the quarter-earlier figure and in line with 2Q2013. At 19 million, technical insurance charges in the non-life segment were up 5% compared with the previous quarter, but were down 2% year-on-year. Overall, this caused the non-life combined ratio for the quarter under review to deteriorate to 99%, compared with 89% in 1Q2014. Consequently, the ratio stood at 93% for 1H2014, still an improvement on the 95% recorded for FY2013. The combined ratio for 1H2014 breaks down into 90% for Hungary, 85% for Slovakia (further release of claims reserves, etc.) and 99% for Bulgaria.

Life sales, including insurance products not recognised as earned premiums under IFRS, amounted to 32 million in the quarter under review, in line with the level recorded in the year-earlier quarter and up some 5 million on 1Q2014 (increase mainly in unit-linked products in Hungary). For the business unit as a whole, sales of unit-linked products accounted for almost 60% of total life insurance sales in the quarter under review, and interest-guaranteed products for the remainder. At the end of June 2014, the business unit's outstanding life reserves (including the liabilities under unit-linked products) stood at 0.5 billion, up 4% year-on-year.

The other income components totalled -152 million in the quarter under review. This included net fee and commission income of 51 million, down slightly on the average of 53 million in the four preceding quarters. Trading and fair value income (recorded under 'Net result from financial instruments at fair value through profit or loss') came to 17 million, down on the average figure of 23 million for the four preceding quarters (half of which was accounted for by the more negative impact of the marked-to-market valuation of ALM derivatives). The net realised result from available-for-sale financial assets amounted to 7 million and was almost entirely related to the sale of government bonds in Hungary. Other net income stood at -227 million, a significant deterioration on the positive 5 million average for the four preceding quarters, because the quarter under review includes the impact of provisioning for the new Hungarian act on retail loans, i.e. the so-called 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions'.

The scope of the act includes retail loans in both foreign currency and Hungarian forints. According to the act, the use of foreign-exchange-rate margins in consumer loans denominated in foreign currency is void and, therefore, bid-ask spreads applied to those foreign currency loans need to be retroactively corrected. Furthermore, as regards all consumer loans, the act repeals unilateral changes to interest rates and fees applied by the banks. KBC set aside one-off provisions of 231 million euros (pre-tax) in the second quarter of 2014 for both the correction to bid-offer spreads and the unilateral changes to interest rates.

Costs down quarter-on-quarter due to full-year Hungarian bank tax being booked in the first quarter

Operating expenses in the quarter under review amounted to 166 million, at first sight down 23% on the previous quarter, but this was due entirely to the 2014 Hungarian bank tax being charged in full as usual in the first quarter (51 million). Costs were down 6% year-on-year, the increase in Ireland (where the number of FTEs has increased due to recruitment related to the retail programme and for the arrears support unit) being more than offset by lower costs in Hungary (as the reference quarter included 27 million for an additional one-off financial transaction levy related charge).

As a consequence, and taking into account the significant drop in total income, the cost/income ratio for the business unit as a whole increased to 140% for the first six months of the year, compared to 69% for FY2013 (excluding the main exceptional items, the 'sustainable' ratio would have been 67% in 1H2014, as opposed to 68% in FY2013). The 1H2014 cost/income ratio of 140% breaks down as follows per country: 102% for Ireland, 62% for Slovakia, 590% for Hungary (owing to the impact of the new retail loans law and the full-year bank tax being charged in 1Q2014; 64% on a sustainable basis) and 65% for Bulgaria.

Loan loss provisioning up, due mainly to the increase at KBC Ireland

Impairment on loans and receivables (loan loss provisions) amounted to 84 million, compared to 64 million in 1Q2014 and 114 million in 2Q2013. The 2Q2014 figures includes 62 million for Ireland (lower than the 88 million recorded in 2Q2013, but up on the 1Q2014 figure of 48 million), and 6 million in loan loss provisions for Slovakia, 13 million for Hungary and 3 million for Bulgaria.

Consequently, the 1H2014 credit cost ratio for the entire business unit improved to 114 basis points, down from a high 448 basis points for FY2013. Broken down by country, it was 144 basis points for Ireland (672 basis points in FY2013), 96 basis points for Hungary (150 basis points in FY2013), 40 basis points for Slovakia (60 basis points in FY2013) and 117 basis points for Bulgaria (119 basis points for FY2013). At the end of June 2014, 20.8% of the International Markets Business Unit's loan book was non-performing, up on the 19.7% recorded three months earlier. The business unit's figure continues to be impacted by the high non-performing ratio of 29.7% for Ireland.

Impairment charges on assets other than on loans and receivables for this business unit amounted to a mere 1 million in the quarter under review.

Highlights per country (compared with 1Q2014, unless otherwise indicated)

The net result of the International Markets Business Unit (-176 million) breaks down as follows: 17 million for Slovakia, -139 million for Hungary, 3 million for Bulgaria and -57 million for Ireland. A detailed results table and brief comments per country are provided below.

IRELAND Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	35	33	32	24	31	38	-	-
Non-life insurance (before reinsurance)	0	0	0	0	0	0	-	-
Earned premiums	*0*	*0*	*0*	*0*	*0*	*0*	-	-
Technical charges	*0*	*0*	*0*	*0*	*0*	*0*	-	-
Life insurance (before reinsurance)	0	0	0	0	0	0	-	-
Earned premiums	*0*	*0*	*0*	*0*	*0*	*0*	-	-
Technical charges	*0*	*0*	*0*	*0*	*0*	*0*	-	-
Ceded reinsurance result	0	0		0	0	0	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	-3	0	0	-3	0	-6	-	-
Net realised result from available-for-sale assets	0	1	0	0	0	0	-	-
Net fee and commission income	-1	-2	0	-2	-1	-1	-	-
Other net income	0	0	0	0	0	0	-	-
Total income	32	31	32	19	30	31	-	-
Operating expenses	-21	-22	-25	-35	-29	-33	-	-
Impairment	-99	-88	-98	-773	-48	-62	-	-
on loans and receivables	-99	-88	-98	-773	-48	-62	-	-
on available-for-sale assets	0	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
Other	0	0	0	0	0	0	-	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	-	-
Result before tax	-88	-79	-92	-789	-47	-64	-	-
Income tax expense	11	10	11	23	7	6	-	-
Result after tax	-77	-69	-80	-766	-40	-57	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-77**	**-69**	**-80**	**-766**	**-40**	**-57**	**-**	**-**
Banking	-77	-69	-80	-766	-40	-57	-	-
Insurance	0	0	0	0	0	0	-	-
Risk-weighted assets banking (end of period, Basel III)	7 653	7 248	6 952	7 357	6 558	5 650	-	-
Required capital insurance (end of period, Solvency I)	0	0	0	0	0	0	-	-
Allocated capital (end of period)	765	725	695	736	656	565	-	-
Return on allocated capital (ROAC)	-39%	-36%	-45%	-444%	-23%	-35%	-	-
Cost/income ratio, banking	65%	69%	79%	183%	98%	106%	-	-
Combined ratio, non-life insurance	-	-	-	-	-	-	-	-

- The net result in 2Q2014 was -57 million euros, compared to an average figure of -239 million for the four preceding quarters (clearly impacted by the high loss recorded in 4Q2013).
- Total income (31 million) increased by 4% quarter-on-quarter, due mainly to higher net interest income (largely related to a reduction in the reserved interest charge compared to 1Q2014), but partially offset by the negative impact of a change in accounting methodology for swaps used to hedge structured deposits.
- Costs (33 million) were up 13% on the previous quarter, due in part to the higher number of FTEs. The 1H2014 cost/income ratio stood at 102%, compared with 90% for FY2013.
- Loan loss impairment (62 million) was higher than the 48 million recorded in 1Q2014. The 2Q2014 figure breaks down into 27 million for corporate loans (up on 1Q2014) and 35 million for retail loans (in line with 1Q2014). The credit cost ratio amounted to 144 basis points in 1H2014.

HUNGARY Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	64	69	68	68	68	72	-	-
Non-life insurance (before reinsurance)	7	7	7	5	7	6	-	-
Earned premiums	*14*	*15*	*16*	*14*	*13*	*14*	-	-
Technical charges	*-7*	*-8*	*-8*	*-9*	*-6*	*-8*	-	-
Life insurance (before reinsurance)	-1	-4	-3	-2	-2	-1	-	-
Earned premiums	*3*	*3*	*3*	*4*	*3*	*4*	-	-
Technical charges	*-5*	*-7*	*-7*	*-5*	*-6*	*-5*	-	-
Ceded reinsurance result	0	-1	-1	-1	-1	-1	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	18	18	25	16	20	20	-	-
Net realised result from available-for-sale assets	2	5	0	0	1	7	-	-
Net fee and commission income	30	34	37	58	38	40	-	-
Other net income	2	13	0	-4	1	-228	-	-
Total income	121	141	134	141	132	-84	-	-
Operating expenses	-130	-97	-73	-78	-128	-74	-	-
Impairment	-11	-11	-13	-43	-12	-13	-	-
on loans and receivables	-10	-10	-12	-43	-11	-13	-	-
on available-for-sale assets	0	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
Other	-1	-1	0	0	0	-1	-	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	-	-
Result before tax	-20	33	48	20	-8	-171	-	-
Income tax expense	1	-7	-5	-4	0	32	-	-
Result after tax	-19	26	43	16	-8	-139	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-19**	**26**	**43**	**16**	**-8**	**-139**	**-**	**-**
Banking	-22	24	41	15	-11	-141	-	-
Insurance	3	2	2	1	3	2	-	-
Risk-weighted assets banking (end of period, Basel III)	4 919	4 759	4 827	4 434	7 562	7 440	-	-
Required capital insurance (end of period, Solvency I)	13	13	12	14	14	14	-	-
Allocated capital (end of period)	515	499	504	469	781	769	-	-
Return on allocated capital (ROAC)	-14%	20%	34%	13%	-5%	-72%	-	-
Cost/income ratio, banking	112%	70%	55%	54%	100%	-	-	-
Combined ratio, non-life insurance	82%	100%	95%	120%	82%	102%	-	-

- The net result in 2Q2014 was a negative 139 million euros, down on the positive 19 million average for the four preceding quarters.
- Total income (a negative 84 million) was down 215 million quarter-on-quarter, which was caused entirely by the booking (under ‘Other net income’) of the provision for the new Hungarian act on retail loans (pre-tax impact of -231 million, and post-tax impact of -183 million: see press release of 8 July 2014 at www.kbc.com). That aside, total income in 2Q2014 was characterised by a good level of net interest income, healthy net fee and commission income and realised gains on the sale of government bonds. The 1H2014 combined ratio for non-life insurance stood at an excellent 90%, compared with 97% in FY2013. Life insurance sales (including unit-linked products) went up by around 50% quarter-on-quarter, thanks to a significant increase in the sale of unit-linked life insurance products.
- Costs (74 million) were 54 million lower than in 1Q2014, as the bank tax for the full year (51 million) had been charged as usual in the first quarter. Excluding the impact of the new act on retail loans and a number of minor unsustainable items, the ‘sustainable’ 1H2014 cost/income ratio stood at 64%, compared to 69% in FY2013.
- Loan loss impairment (13 million) was up 2 million on the previous quarter, mainly in the retail (mortgage) book. The credit cost ratio amounted to 96 basis points in 1H2014.
- Note: the increase in RWA compared to 2013 is related to the home country government bonds carve-out being abolished.

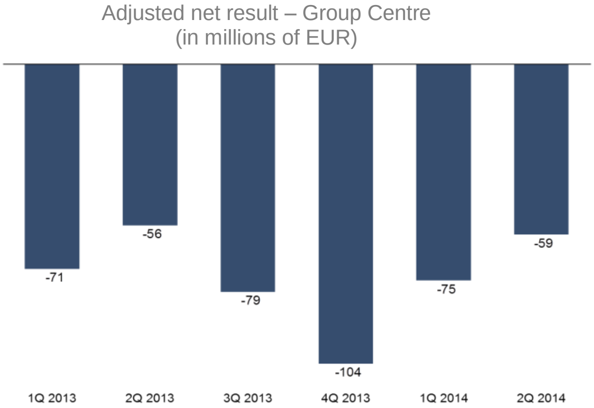
SLOVAKIA Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	46	49	52	52	51	53	-	-
Non-life insurance (before reinsurance)	5	5	6	6	4	5	-	-
Earned premiums	*6*	*6*	*7*	*7*	*7*	*7*	-	-
Technical charges	*-1*	*-1*	*-1*	*0*	*-2*	*-2*	-	-
Life insurance (before reinsurance)	3	2	2	3	3	3	-	-
Earned premiums	*16*	*14*	*12*	*12*	*13*	*15*	-	-
Technical charges	*-14*	*-11*	*-9*	*-9*	*-11*	*-12*	-	-
Ceded reinsurance result	0	0	0	-1	0	0	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	6	4	5	4	4	3	-	-
Net realised result from available-for-sale assets	0	3	0	0	1	0	-	-
Net fee and commission income	11	11	11	11	11	11	-	-
Other net income	2	6	1	1	-1	1	-	-
Total income	72	81	76	76	73	76	-	-
Operating expenses	-46	-44	-44	-46	-46	-45	-	-
Impairment	-4	-15	-7	-5	-4	-6	-	-
on loans and receivables	-4	-14	-7	-2	-4	-6	-	-
on available-for-sale assets	0	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
other	0	0	0	-3	0	0	-	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	-	-
Result before tax	23	23	25	25	23	24	-	-
Income tax expense	-5	-6	-6	-8	-6	-7	-	-
Result after tax	17	16	19	17	18	17	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**17**	**16**	**19**	**17**	**18**	**17**	**-**	**-**
Banking	15	14	17	15	15	15	-	-
Insurance	3	2	3	2	3	2	-	-
Risk-weighted assets banking (end of period, Basel III)	3 780	3 715	3 689	3 776	3 725	3 772	-	-
Required capital insurance (end of period, Solvency I)	15	15	15	15	15	15	-	-
Allocated capital (end of period)	403	397	395	404	398	403	-	-
Return on allocated capital (ROAC)	17%	16%	19%	17%	17%	18%	-	-
Cost/income ratio, banking	64%	54%	58%	61%	64%	60%	-	-
Combined ratio, non-life insurance	65%	77%	81%	83%	82%	89%	-	-

- The net result in 2Q2014 totalled 17 million euros, more or less in line with the 18 million average for the four preceding quarters.
- Total income (76 million) increased by 3 million quarter-on-quarter, thanks mainly to increased net interest income (expanding mortgage book, maturing LT deposits at higher external rates being replaced by bank deposits at lower rates, some one-off items). The 1H2014 combined ratio for non-life insurance stood at 85%, compared with 76% for FY2013 (including releases of claims reserves in both cases). Life sales (including unit-linked products) were up on their level for 1Q2014, thanks to the successful sale of the single premium product 'maximal'.
- Costs (45 million) were virtually flat quarter-on-quarter. The 1H2014 cost/income ratio stood at 62%, as opposed to 59% for FY2013.
- Loan loss impairment (6 million) rose by 2 million compared with the previous quarter. The credit cost ratio amounted to 40 basis points in 1H2014.

BULGARIA Income statement (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Net interest income	10	10	10	11	10	10	-	-
Non-life insurance (before reinsurance)	8	7	7	9	8	8	-	-
Earned premiums	*18*	*18*	*17*	*18*	*17*	*18*	-	-
Technical charges	*-10*	*-11*	*-10*	*-9*	*-10*	*-10*	-	-
Life insurance (before reinsurance)	1	1	1	1	1	1	-	-
Earned premiums	*5*	*3*	*3*	*4*	*5*	*4*	-	-
Technical charges	*-4*	*-2*	*-2*	*-3*	*-4*	*-2*	-	-
Ceded reinsurance result	-1	-1	-1	-1	-1	-1	-	-
Dividend income	0	0	0	0	0	0	-	-
Net result from financial instruments at fair value through profit or loss	0	0	0	0	0	0	-	-
Net realised result from available-for-sale assets	1	0	1	1	0	0	-	-
Net fee and commission income	0	0	1	0	0	0	-	-
Other net income	-2	1	0	0	0	0	-	-
Total income	16	18	20	21	18	19	-	-
Operating expenses	-13	-13	-13	-14	-12	-13	-	-
Impairment	-13	-2	-1	-6	-1	-3	-	-
on loans and receivables	-4	-2	-1	-2	-1	-3	-	-
on available-for-sale assets	-10	0	0	0	0	0	-	-
on goodwill	0	0	0	0	0	0	-	-
Other	0	0	0	-3	0	0	-	-
Share in results of associated companies and joint ventures	0	0	0	0	0	0	-	-
Result before tax	-10	4	6	1	5	3	-	-
Income tax expense	1	0	0	0	0	0	-	-
Result after tax	-9	3	6	1	5	3	-	-
attributable to minority interests	0	0	0	0	0	0	-	-
attributable to equity holders of the parent	**-9**	**3**	**6**	**1**	**5**	**3**	**-**	**-**
Banking	2	2	5	0	4	1	-	-
Insurance	-11	1	1	1	1	2	-	-
Risk-weighted assets banking (end of period, Basel III)	595	620	627	668	626	632	-	-
Required capital insurance (end of period, Solvency I)	15	15	15	15	15	15	-	-
Allocated capital (end of period)	86	88	88	93	89	89	-	-
Return on allocated capital (ROAC)	-40%	16%	27%	5%	22%	14%	-	-
Cost/income ratio, banking	57%	67%	61%	61%	64%	65%	-	-
Combined ratio, non-life insurance	101%	103%	104%	97%	99%	99%	-	-

- The net result in 2Q2014 came to 3 million, down on the 4 million average for the four preceding quarters.
- Total income (19 million) was up 8% on the previous quarter. Despite the floods, the non-life combined ratio amounted to 99% for 1H2014, comparable with 101% for FY2013. Total life insurance sales were down roughly 30% on their level for 1Q2014 (partly a seasonal effect).
- Costs (13 million) went up 5% quarter-on-quarter, due to a number of factors, including higher marketing expenses and variable staff remuneration. The 1H2014 cost/income ratio stood at 65%, compared to 61% for FY2013.
- Loan loss impairment charges stood at 3 million, up on the 1 million in 1Q2014, due to one-off impairment charges in the legacy portfolio. The credit cost ratio amounted to 117 basis points in 1H2014.

Analysis of the results – Group Centre



The Group Centre incorporates the results of the holding company KBC Group NV, some results that are not attributable to the other business units, the elimination of intersegment transactions and the results of the remaining companies that have still to be divested and activities in run-off. It also includes results related to the legacy businesses (CDOs, divestment results) and the valuation of own credit risk.

Income statement, Group Centre (in millions of EUR)	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Adjusted net result (i.e. excluding legacy and own credit risk impact)								
Net interest income	-24	-57	-63	-52	-73	-43	-	-
Non-life insurance (before reinsurance)	-4	-3	-3	-5	-4	-3	-	-
Earned premiums	-8	-4	-3	-5	-5	-4	-	-
Technical charges	4	1	1	0	1	0	-	-
Life insurance (before reinsurance)	0	1	0	1	0	0	-	-
Earned premiums	4	5	5	5	0	0	-	-
Technical charges	-3	-3	-5	-4	0	0	-	-
Ceded reinsurance result	1	0	2	2	3	2	-	-
Dividend income	0	0	0	0	0	1	-	-
Net result from financial instruments at fair value through profit or loss	45	4	10	3	2	12	-	-
Net realised result from available-for-sale assets	2	1	0	9	-1	9	-	-
Net fee and commission income	2	10	5	7	7	6	-	-
Other net income	5	-2	18	0	8	-9	-	-
Total income	28	-44	-30	-36	-59	-24	-	-
Operating expenses	-79	-39	-33	-61	-49	-45	-	-
Impairment	-46	-12	-18	-46	-3	-11	-	-
on loans and receivables	-18	-11	-17	-40	-3	-11	-	-
on available-for-sale assets	-1	-1	-1	-1	0	-1	-	-
on goodwill	-7	0	0	0	0	0	-	-
Other	-20	0	0	-5	0	0	-	-
Share in results of associated companies and joint ventures	0	0	0	0	1	1	-	-
Result before tax	-97	-95	-81	-143	-110	-80	-	-
Income tax expense	29	42	6	42	34	21	-	-
Result after tax	-68	-53	-75	-101	-75	-59	-	-
attributable to minority interests	3	4	4	4	0	0	-	-
attributable to equity holders of the parent	**-71**	**-56**	**-79**	**-104**	**-75**	**-59**	**-**	**-**
Banking	17	-44	-49	-60	-46	-25	-	-
Insurance	-11	-1	-7	-3	-1	-2	-	-
Group	-78	-12	-23	-41	-28	-32	-	-
Adjustments								
Legacy – gains/losses on CDOs	165	180	34	65	16	30	-	-
Legacy – divestments	22	-128	-231	-10	-9	8	-	-
MTM of own credit risk	-26	-20	12	-9	2	-8	-	-
Net result	90	-24	-264	-58	-65	-30		
Risk-weighted assets banking (end of period, Basel III)	16 813	13 141	12 189	11 031	11 145	11 814	-	-
Risk-weighted assets, insurance (end of period, Basel III Danish compromise)	11 068	11 068	11 068	11 068	11 068	11 068	-	-
Required capital insurance (end of period, Solvency I)	16	15	9	4	2	2	-	-
Allocated capital (end of period)	1 709	1 341	1 234	1 111	1 118	1 185	-	-

The Group Centre's net result amounted to -30 million in 2Q2014. As stated earlier, this entity includes not only a number of group items and the results of companies earmarked for divestment, but also the impact of the legacy business (CDOs, divestments) and the valuation of own credit risk. Excluding the legacy and own credit risk impact, the adjusted net result amounted to -59 million in 2Q2014.

Legacy and own credit risk:

- Following the reduction in the remaining legacy CDO portfolio and the virtual completion of the divestment programme, the net impact of these two *legacy* items was relatively limited in 2Q2014, namely a positive 30 million CDO-related impact and a positive 8 million divestment-related impact. The impact of the MTM of own credit risk (changes in the fair value of own debt instruments) was likewise limited in the quarter under review (a negative 8 million), given the narrowing of credit spreads on KBC debt.

Other results

- Accounted for a total of -59 million in 2Q2014. This item includes the operational costs of the holding activities of the group (-18 million in total, in line with the previous quarter), certain capital and liquidity management-related costs (for the purpose of reaching solvency and liquidity targets at group level, such as the subordination cost of subordinated loans: -12 million in total, an improvement on the previous quarter thanks to lower subordinated debt costs, among other things), costs related to the holding of participations (mainly funding costs: -26 million in total, compared to -21 million in the previous quarter), the results of the remaining companies or activities earmarked for divestment or in run-down (KBC Bank Deutschland, Antwerp Diamond Bank, KBC Finance Ireland, etc.: -8 million in total, as opposed to 6 million in the previous quarter) and 4 million in other items.

KBC Group

Consolidated financial statements according to IFRS 2Q 2014 and 1H 2014

Reviewed by the auditors

Consolidated income statement

In millions of EUR	Note	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
Net interest income	3	1 003	1 010	1 056	2 056	2 065
Interest income		2 079	1 930	1 971	4 239	3 901
Interest expense		- 1 076	- 920	- 915	- 2 184	- 1 835
Non-life insurance before reinsurance	9	115	149	102	264	251
Earned premiums Non-life		316	307	315	621	623
Technical charges Non-life		- 201	- 158	- 214	- 357	- 372
Life insurance before reinsurance	9	- 62	- 59	- 56	- 122	- 114
Earned premiums Life		241	308	297	512	606
Technical charges Life		- 303	- 367	- 353	- 634	- 720
Ceded reinsurance result	9	13	- 17	19	1	3
Dividend income		20	14	24	25	38
Net result from financial instruments at fair value through profit or loss	5	425	40	44	739	84
Net realised result from available-for-sale assets	6	47	51	49	189	100
Net fee and commission income	7	381	374	387	771	761
Fee and commission income		560	557	533	1 197	1 090
Fee and commission expense		- 179	- 182	- 147	- 426	- 329
Net other income	8	- 20	52	- 99	56	- 47
TOTAL INCOME		1 921	1 615	1 526	3 979	3 141
Operating expenses		- 924	- 973	- 933	- 1 957	- 1 906
Staff expenses		- 576	- 556	- 559	- 1 170	- 1 115
General administrative expenses		- 282	- 352	- 311	- 652	- 664
Depreciation and amortisation of fixed assets		- 66	- 65	- 63	- 135	- 128
Impairment	14	- 275	- 114	- 142	- 625	- 255
on loans and receivables		- 254	- 102	- 136	- 547	- 238
on available-for-sale assets		- 3	- 5	- 3	- 16	- 8
on goodwill		0	0	0	- 7	0
on other		- 18	- 6	- 3	- 55	- 9
Share in results of associated companies and joint ventures		8	7	7	15	13
RESULT BEFORE TAX		729	535	457	1 412	992
Income tax expense		- 210	- 138	- 140	- 368	- 278
Net post-tax result from discontinued operations	46	0	0	0	0	0
RESULT AFTER TAX		520	397	317	1 044	714
Attributable to minority interest		3	0	0	7	0
of which relating to discontinued operations		*0*	*0*	*0*	*0*	*0*
Attributable to equity holders of the parent		**517**	**397**	**317**	**1 037**	**714**
of which relating to discontinued operations		*0*	*0*	*0*	*0*	*0*
Earnings per share (in EUR)						
Basic		1.24	0.45	0.63	2.49	1.08
Diluted		1.24	0.45	0.63	2.49	1.08

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

Consolidated statement of comprehensive income (condensed)

In millions of EUR	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
RESULT AFTER TAX	520	397	317	1 044	714
attributable to minority interest	3	0	0	7	0
attributable to equity holders of the parent	517	397	317	1 037	714
Other comprehensive income - to be recycled to P&L					
Net change in revaluation reserve (AFS assets) - Equity	- 35	- 37	18	- 7	- 19
Net change in revaluation reserve (AFS assets) - Bonds	- 171	167	234	- 291	401
Net change in revaluation reserve (AFS assets) - Other	0	0	- 1	0	- 1
Net change in hedging reserve (cash flow hedge)	195	- 180	- 192	256	- 372
Net change in translation differences	- 20	- 13	13	- 30	0
Other movements	1	0	0	2	0
Other comprehensive income - not to be recycled to P&L					
Net change in defined benefit plans	- 12	- 19	- 23	- 5	- 43
TOTAL COMPREHENSIVE INCOME	477	315	365	969	679
attributable to minority interest	2	0	0	7	0
attributable to equity holders of the parent	475	315	365	962	679

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	18 - 26	222 887	234 975
Held for trading		16 885	12 717
Designated at fair value through profit or loss		16 441	19 284
Available for sale		27 307	30 730
Loans and receivables		130 153	140 660
Held to maturity		31 323	30 574
Hedging derivatives		777	1 010
Reinsurers' share in technical provisions		146	172
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		120	155
Tax assets		1 723	1 656
Current tax assets		242	80
Deferred tax assets		1 481	1 576
Non-current assets held for sale and assets associated with disposal groups	46	3 769	3 774
Investments in associated companies and joint ventures		182	188
Investment property		598	579
Property and equipment		2 457	2 260
Goodwill and other intangible assets		1 277	1 274
Other assets		1 233	1 689
TOTAL ASSETS		238 686	252 768

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2013	30-06-2014
Financial liabilities	18 - 26	199 421	211 157
Held for trading		13 119	10 448
Designated at fair value through profit or loss		24 931	25 962
Measured at amortised cost		159 693	172 412
Hedging derivatives		1 678	2 335
Technical provisions, before reinsurance		18 701	19 007
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 2	114
Tax liabilities		518	650
Current tax liabilities		109	122
Deferred tax liabilies		409	528
Liabilities associated with disposal groups	46	2 027	2 156
Provisions for risks and charges		523	717
Other liabilities		2 983	3 252
TOTAL LIABILITIES		224 172	237 054
Total equity	39	14 514	15 715
Parent shareholders' equity	39	11 826	12 318
Non-voting core-capital securities	39	2 333	2 000
Additional Tier-1 instruments included in equity	39	0	1 400
Minority interests		354	- 3
TOTAL LIABILITIES AND EQUITY		238 686	252 768

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

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

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit obligations	Reserves	Translation differences	Parent share-holders' equity	Non-voting core-capital securities	Additional Tier-1 instruments included in equity	Minority interests	Total equity
30-06-2013													
Balance at the beginning of the period (31-12-2012)	1 450	5 388	- 1	1 263	- 834	0	5 192	- 360	12 099	3 500	0	362	15 961
First time application IAS19 Revised	0	0	0	0	0	- 71	- 11	0	- 82	0	0	0	- 82
Adjusted balance at the beginning of the period	1 450	5 388	- 1	1 263	- 834	- 71	5 182	- 360	12 017	3 500	0	362	15 879
Net result for the period	0	0	0	0	0	0	1 037	0	1 037	0	0	7	1 044
Other comprehensive income for the period	0	0	0	- 298	256	- 5	2	- 30	- 75	0	0	0	- 75
Total comprehensive income	**0**	**0**	**0**	**- 298**	**256**	**- 5**	**1 038**	**- 30**	**962**	**0**	**0**	**7**	**969**
Dividends	0	0	0	0	0	0	- 961	0	- 961	0	0	0	- 961
Capital increase	0	1	0	0	0	0	0	0	1	0	0	0	1
Repayment of non-voting core-capital securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	1	0	0	0	0	0	1	0	0	0	1
Impact business combinations	0	0	0	0	0	0	- 3	0	- 3	0	0	0	- 3
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	- 6	- 6
Change in scope	0	0	0	0	0	0	0	102	102	0	0	- 4	97
Total change	**0**	**1**	**1**	**- 298**	**256**	**- 5**	**75**	**72**	**102**	**0**	**0**	**- 4**	**98**
Balance at the end of the period	**1 450**	**5 390**	**0**	**965**	**- 578**	**- 76**	**5 257**	**- 288**	**12 119**	**3 500**	**0**	**358**	**15 977**
of which revaluation reserve for shares				199									
of which revaluation reserve for bonds				766									
of which revaluation reserve for other assets than bonds and shares				0									
of which relating to non-current assets held for sale and disposal groups				4	1			- 38	- 33				- 33
30-06-2014													
Balance at the beginning of the period (31-12-2013)	1 452	5 404	0	1 094	- 497	65	4 648	- 340	11 826	2 333	0	354	14 514
Net result for the period	0	0	0	0	0	0	714	0	714	0	0	0	714
Other comprehensive income for the period	0	0	0	381	- 372	- 43	0	0	- 35	0	0	0	- 35
Total comprehensive income	**0**	**0**	**0**	**381**	**- 372**	**- 43**	**714**	**0**	**679**	**0**	**0**	**0**	**679**
Dividends	0	0	0	0	0	0	- 14	0	- 14	0	0	0	- 14
Capital increase	0	0	0	0	0	0	0	0	0	0	0	0	0
Repayment of non-voting core-capital securities	0	0	0	0	0	0	- 167	0	- 167	- 333	0	0	- 500
Issue of additional Tier-1 instruments included in equity	0	0	0	0	0	0	- 6	0	- 6	0	1 400	0	1 394
Impact business combinations	0	0	0	0	0	0	- 1	0	- 1	0	0	0	- 1
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	0	0	0	0	0	- 358	- 358
Total change	**0**	**0**	**0**	**381**	**- 372**	**- 43**	**526**	**0**	**492**	**- 333**	**1 400**	**- 358**	**1 201**
Balance at the end of the period	**1 452**	**5 404**	**0**	**1 474**	**- 869**	**23**	**5 175**	**- 340**	**12 318**	**2 000**	**1 400**	**- 3**	**15 715**
of which revaluation reserve for shares				304									
of which revaluation reserve for bonds				1 171									
of which revaluation reserve for other assets than bonds and shares				- 1									
of which relating to non-current assets held for sale and disposal groups				5	1	0		- 3	3				3

The changes in equity do not include any dividend or coupon for 2013 as none is paid out. For 2014, KBC foresees a dividend of up to 2 euros per share. On 8 January 2014, KBC repaid 0.33 billion euros (plus a penalty of 50% or 0.17 billion euros) worth of core-capital securities to the Flemish Regional Government.

In 1Q 2014, the placement of an additional tier-1 instrument for an amount of 1.4 billion euros positively contributed to the total equity. The quarterly coupon on this additional tier-1 instrument is presented as dividend (-14 million euros after tax in 2Q 2014).

During 2Q 2014, KBC executed a call on all of its Trust preferred securities which negatively influences the minority interests in equity for an amount of approximately -358 million euros.

In 1H 2014, revaluation reserves (AFS assets) increased by 381 million euros mainly due to decreasing interest rates which positively contributed to reserves on bonds to the tune of 401 million euros (of which 234 million euros in 2Q 2014). This was offset by a slightly negative impact on reserves on shares to the tune of -19 million euros. A negative effect, also for a large part linked to decreasing interest rates, of -372 million euros (of which -192 million euros in 2Q 2014) 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	9 342	6 364
Net cash from (used in) investing activities	- 2 497	931
Net cash from (used in) financing activities	- 345	- 4 916
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	6 500	2 379
Cash and cash equivalents at the beginning of the period	982	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	7 347	11 154

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 Group.

On 8 January 2014, KBC repaid 0.33 billion euros principal (plus a penalty of 50% or 0.17 billion euros) to the Flemish Regional Government. This has had an influence in the first quarter of 2014 on the net cash from financing activities to the tune of -0.5 billion euros.

In the first quarter of 2014, the issue of an additional tier-1 instrument in March 2014 has had an influence on the net cash from financing activities to the tune of +1.4 billion euros. However, maturing senior unsecured debt and subordinated debt, more than counterbalanced this positive influence.

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

Notes on statement of compliance and changes in accounting policies

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

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

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

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

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

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

Notes on segment reporting

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

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

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

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

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

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

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

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

These non-operational items are:

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

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

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

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit International Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre excl inter-segment eliminations	Inter-segment eliminations	KBC Group
1H 2013										
Net interest income	1 298	462	315	132	96	19	68	- 80	- 2	1 994
Non-life insurance before reinsurance	212	19	40	14	11	15	0	3	- 10	264
Earned premiums Non-life	473	84	77	29	12	36	0	- 2	- 10	621
Technical charges Non-life	- 260	- 64	- 37	- 15	- 2	- 21	0	5	0	- 357
Life insurance before reinsurance	- 138	12	2	- 5	5	2	0	3	- 1	- 122
Earned premiums Life	374	84	45	7	30	8	0	10	- 1	512
Technical charges Life	- 512	- 71	- 43	- 12	- 25	- 7	0	- 7	0	- 634
Ceded reinsurance result	- 5	8	- 4	- 1	- 1	- 2	0	2	0	1
Dividend income	22	0	0	0	0	0	0	0	0	23
Net result from financial instruments at fair value through profit or loss	336	44	44	36	10	1	- 3	49	0	473
Net realised result from available-for-sale assets	115	12	11	6	3	1	1	4	0	141
Net fee and commission income	579	90	86	64	22	1	- 3	7	4	767
Net other income	115	5	21	14	8	- 2	0	0	3	145
TOTAL INCOME	2 534	655	514	261	153	34	63	- 11	- 6	3 686
Operating expenses	- 1 119	- 314	- 386	- 227	- 89	- 25	- 42	- 123	6	- 1 936
Impairment	- 238	- 27	- 243	- 22	- 18	- 15	- 187	- 58	0	- 567
on loans and receivables	- 220	- 27	- 231	- 20	- 18	- 6	- 187	- 29	0	- 509
on available-for-sale assets	- 5	0	- 10	0	0	- 10	0	- 2	0	- 16
on goodwill	0	0	0	0	0	0	0	- 7	0	- 7
on other	- 13	0	- 2	- 2	0	0	0	- 20	0	- 35
Share in results of associated companies and joint ventures	0	15	0	0	0	0	0	0	0	15
RESULT BEFORE TAX	1 177	329	- 114	13	45	- 6	- 167	- 192	0	1 199
Income tax expense	- 374	- 50	4	- 6	- 12	1	21	71	0	- 349
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	803	279	- 110	7	34	- 5	- 146	- 121	0	850
Attributable to minority interests	0	0	0	0	0	0	0	7	0	7
ADJUSTED NET RESULT	803	279	- 110	7	34	- 5	- 146	- 128	0	843
Legacy CDOs	0	0	0	0	0	0	0	346	0	346
Own credit risk	0	0	0	0	0	0	0	- 46	0	- 46
Divestments	0	0	0	0	0	0	0	- 106	0	- 106
NET RESULT	803	279	- 110	7	34	- 5	- 146	66	0	1 037
1H 2014										
Net interest income	1 393	438	333	139	104	21	69	- 118	3	2 049
Non-life insurance before reinsurance	185	35	38	13	9	15	0	2	- 10	251
Earned premiums Non-life	476	79	75	27	13	35	0	1	- 10	623
Technical charges Non-life	- 292	- 44	- 37	- 14	- 4	- 19	0	1	0	- 372
Life insurance before reinsurance	- 130	11	5	- 3	6	2	0	1	- 1	- 114
Earned premiums Life	489	73	44	7	28	9	0	1	- 1	606
Technical charges Life	- 619	- 61	- 39	- 10	- 22	- 7	0	0	0	- 720
Ceded reinsurance result	5	- 4	- 3	- 1	- 1	- 2	0	5	0	3
Dividend income	31	0	0	0	0	0	0	1	0	33
Net result from financial instruments at fair value through profit or loss	- 26	23	42	40	8	1	- 6	14	0	54
Net realised result from available-for-sale assets	75	8	9	8	1	0	0	7	0	99
Net fee and commission income	561	93	100	78	22	0	- 2	16	- 2	766
Net other income	146	9	- 227	- 227	0	0	0	- 5	5	- 72
TOTAL INCOME	2 240	615	297	48	149	37	61	- 77	- 6	3 069
Operating expenses	- 1 122	- 293	- 383	- 203	- 91	- 25	- 62	- 99	6	- 1 891
Impairment	- 74	- 4	- 149	- 25	- 10	- 4	- 110	- 15	0	- 241
on loans and receivables	- 67	- 3	- 148	- 24	- 10	- 4	- 110	- 14	0	- 233
on available-for-sale assets	- 7	0	0	0	0	0	0	- 1	0	- 8
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	1	0	13
RESULT BEFORE TAX	1 043	330	- 234	- 179	48	8	- 111	- 190	0	950
Income tax expense	- 309	- 53	32	32	- 13	0	13	55	0	- 275
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	734	277	- 202	- 148	35	8	- 98	- 135	0	675
Attributable to minority interests	0	0	0	0	0	0	0	0	0	0
ADJUSTED NET RESULT	734	277	- 202	- 148	35	8	- 98	- 135	0	675
Legacy CDOs	0	0	0	0	0	0	0	46	0	46
Own credit risk	0	0	0	0	0	0	0	- 6	0	- 6
Divestments	0	0	0	0	0	0	0	- 1	0	- 1
NET RESULT	734	277	- 202	- 148	35	8	- 98	- 95	0	714

Legacy CDO's: Over the first half of 2014, improvements in market price of corporate credit as reflected in tightened credit default swap spreads generated a value mark-up of KBC's CDO exposure, both in 1Q and 2Q 2014. This was to a small extent offset by the further de-risking of the legacy CDO portfolio in the first quarter of 2014. 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 limited influence 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 divided by segment.

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
31-12-2013									
Deposits from customers & debt certificates excl. repos	97 051	21 834	14 472	5 878	4 583	544	3 466	17 123	150 480
Loans & advances to customers excluding reverse repos	81 673	15 684	21 261	3 864	4 248	612	12 537	1 080	119 698
Term loans excl. Reverse repos	40 566	6 279	5 612	1 772	1 488	242	2 111	1 048	53 506
Mortgage loans	31 146	6 522	13 925	1 548	1 722	236	10 419	24	51 617
Current accounts advances	1 847	19	586	262	324	0	0	0	2 451
Finance leases	3 200	359	484	92	385	0	7	0	4 044
Consumer credit	1 251	1 538	533	112	287	134	0	0	3 322
Other	3 663	967	121	80	41	0	0	8	4 758
30-06-2014									
Deposits from customers & debt certificates excl. repos	100 910	22 390	14 248	5 175	4 547	553	3 973	13 231	150 778
Loans & advances to customers excluding reverse repos	83 542	15 586	21 038	3 916	4 436	623	12 064	1 096	121 262
Term loans excl. Reverse repos	40 976	5 688	5 361	1 839	1 472	246	1 804	1 041	53 067
Mortgage loans	31 347	6 747	13 844	1 511	1 862	235	10 236	24	51 963
Current accounts advances	2 381	16	686	311	357	0	18	0	3 083
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	4 469	1 141	105	67	38	0	0	30	5 745

Other notes

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

In millions of EUR	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
Total	1 003	1 010	1 056	2 056	2 065
Interest income	2 079	1 930	1 971	4 239	3 901
Available-for-sale assets	216	194	185	440	380
Loans and receivables	1 219	1 068	1 143	2 517	2 211
Held-to-maturity investments	259	232	262	514	494
Other assets not at fair value	7	4	1	6	5
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*1 701*	*1 498*	*1 592*	*3 478*	*3 089*
Financial assets held for trading	239	225	198	492	423
Hedging derivatives	115	139	132	216	271
Other financial assets at fair value through profit or loss	24	69	49	53	118
Interest expense	-1 076	- 920	- 915	-2 184	-1 835
Financial liabilities measured at amortised cost	- 581	- 431	- 462	-1 194	- 893
Other	- 1	- 1	- 1	- 3	- 2
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 582*	*- 432*	*- 463*	*-1 197*	*- 895*
Financial liabilities held for trading	- 290	- 270	- 259	- 576	- 530
Hedging derivatives	- 167	- 179	- 151	- 337	- 331
Other financial liabilities at fair value through profit or loss	- 35	- 37	- 40	- 70	- 77
Net interest expense on defined benefit plans	- 2	- 2	- 1	- 5	- 3

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

In 1H 2014, the result from financial instruments at fair value through profit or loss was influenced by:

- Gains and losses on CDO's, 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, both in 1Q and 2Q 2014.

- MtM ALM Derivatives, where fair value changes (due to mark-to-market accounting) of a large proportion of ALM hedging instruments (that are treated as trading instruments) appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value. The net realised result from these financial instruments at fair value through profit or loss amounted to -140 million euros pre tax (-90 million euros after tax), of which -83 million euros in 1Q 2014 and -57 million euros in 2Q 2014, as long-term interest rates decreased over the first half of 2014.

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

In millions of EUR	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
Total	47	51	49	189	100
Breakdown by portfolio					
Fixed-income securities	22	16	23	88	39
Shares	24	35	26	101	62

In 1H 2014, the net realised result from available-for-sale assets is for the largest part related to sales of shares at KBC Insurance.

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

In millions of EUR	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
Total	381	374	387	771	761
Fee and commission income	560	557	533	1 197	1 090
Securities and asset management	275	278	290	556	568
Margin on deposit accounting (life insurance investment contracts w ithout DPF)	31	20	22	78	42
Commitment credit	61	59	60	126	119
Payments	128	130	127	260	257
Other	65	71	34	177	104
Fee and commission expense	- 179	- 182	- 147	- 426	- 329
Commission paid to intermediaries	- 77	- 73	- 71	- 150	- 144
Other	- 102	- 109	- 76	- 276	- 184

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

In millions of EUR	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
Total	- 20	52	- 99	56	- 47
Of which net realised result following					
The sale of loans and receivables	- 7	0	2	- 4	2
The sale of held-to-maturity investments	0	0	0	0	0
The repurchase of financial liabilities measured at amortised cost	0	0	0	- 1	0
Other: of which:	- 13	52	- 101	61	- 49
Income concerning leasing at the KBC Lease-group	22	24	16	44	40
Income from Group VAB	17	18	16	35	35
Realised gains or losses on divestments	- 91	- 2	16	- 94	14
New law on retail loans (Hungary)	0	0	- 231	0	- 231
Legal settlement in 2Q14 of an old credit file	0	0	31	0	31

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

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

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
1H 2013				
Earned premiums, insurance (before reinsurance)	513	631	-	1 144
Technical charges, insurance (before reinsurance)	- 634	- 357	-	- 991
Net fee and commission income	- 18	- 114	34	- 98
Ceded reinsurance result	- 1	2	0	1
Operating expenses	- 63	- 123	- 1	- 186
Internal costs claim paid	- 4	- 30	-	- 34
Administration costs related to acquisitions	- 17	- 36	-	- 52
Administration costs	- 42	- 57	-	- 99
Management costs investments	0	0	- 1	- 1
Technical result	- 202	39	33	- 129
Net interest income			354	354
Dividend income			16	16
Net result from financial instruments at fair value			139	139
Net realised result from AFS assets			28	28
Net other income			- 9	- 9
Impairments			- 43	- 43
Allocation to the technical accounts	353	57	- 411	0
Technical-financial result	151	97	107	355
Share in results of associated companies and joint ventures			0	0
RESULT BEFORE TAX	151	97	107	355
Income tax expense				- 116
Net post-tax result from discontinued operations				0
RESULT AFTER TAX				240
attributable to minority interest				0
attributable to equity holders of the parent				239
1H 2014				
Earned premiums, insurance (before reinsurance)	607	633	-	1 240
Technical charges, insurance (before reinsurance)	- 720	- 372	-	- 1 092
Net fee and commission income	- 6	- 114	-	- 120
Ceded reinsurance result	- 1	3	0	3
Operating expenses	- 61	- 119	0	- 180
Internal costs claim paid	- 4	- 29	-	- 33
Administration costs related to acquisitions	- 14	- 37	-	- 51
Administration costs	- 43	- 53	-	- 96
Management costs investments	0	0	0	0
Technical result	- 180	31	0	- 150
Net interest income			334	334
Dividend income			30	30
Net result from financial instruments at fair value			27	27
Net realised result from AFS assets			64	64
Net other income			1	1
Impairments			- 7	- 7
Allocation to the technical accounts	335	57	- 392	0
Technical-financial result	155	88	57	299
Share in results of associated companies and joint ventures			1	1
RESULT BEFORE TAX	155	88	58	301
Income tax expense				- 78
Net post-tax result from discontinued operations				0
RESULT AFTER TAX				223
attributable to minority interest				0
attributable to equity holders of the parent				223

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

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

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

In millions of EUR	2Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014
Total	- 275	- 114	- 142	- 625	- 255
Impairment on loans and receivables	- 254	- 102	- 136	- 547	- 238
Breakdown by type					
Specific impairments for on-balance-sheet lending	- 239	- 150	- 189	- 496	- 339
Provisions for off-balance-sheet credit commitments	0	- 2	20	- 8	18
Portfolio-based impairments	- 15	49	33	- 44	82
Breakdown by business unit					
Business unit Belgium	- 82	- 34	- 34	- 220	- 67
Business unit Czech Republic	- 8	- 2	- 2	- 27	- 3
Business unit International Markets	- 114	- 64	- 84	- 231	- 148
of which: Hungary	*- 10*	*- 11*	*- 13*	*- 20*	*- 24*
of which: Slovakia	*- 14*	*- 4*	*- 6*	*- 18*	*- 10*
of which: Bulgaria	*- 2*	*- 1*	*- 3*	*- 6*	*- 4*
of which: Ireland	*- 88*	*- 48*	*- 62*	*- 187*	*- 110*
Group Centre	- 50	- 3	- 17	- 68	- 20
Impairment on available-for-sale assets	- 3	- 5	- 3	- 16	- 8
Breakdown by type					
Shares	- 3	- 5	- 3	- 7	- 8
Other	0	0	0	- 10	0
Impairment on goodwill	0	0	0	- 7	0
Impairment on other	- 18	- 6	- 3	- 55	- 9
Intangible assets, other than goodwill	0	0	0	0	0
Property and equipment and investment property	- 14	0	0	- 14	- 1
Held-to-maturity assets	0	1	0	0	1
Associated companies and joint ventures	0	0	0	0	0
Other	- 3	- 7	- 2	- 40	- 9

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

(In millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2013								
Loans and advances to credit institutions and investment firms [a]	5 100	1 596	0	9 571	-	-	-	16 267
Loans and advances to customers [b]	706	774	0	118 892	-	-	-	120 371
Excluding reverse repos	*703*	*200*	*0*	*118 796*	-	-	-	*119 698*
Discount and acceptance credit	0	0	0	605	-	-	-	605
Consumer credit	0	0	0	3 322	-	-	-	3 322
Mortgage loans	0	34	0	51 583	-	-	-	51 617
Term loans	696	697	0	52 786	-	-	-	54 179
Finance leasing	0	0	0	4 044	-	-	-	4 044
Current account advances	0	0	0	2 451	-	-	-	2 451
Securitised loans	0	0	0	0	-	-	-	0
Other	10	43	0	4 101	-	-	-	4 154
Equity instruments	283	8	1 579	-	-	-	-	1 870
Investment contracts (insurance)	-	12 745	-	-	-	-	-	12 745
Debt securities issued by	2 974	1 319	25 728	1 690	31 323	-	-	63 034
Public bodies	2 385	771	17 337	118	29 630	-	-	50 240
Credit institutions and investment firms	268	195	3 289	154	1 040	-	-	4 946
Corporates	321	353	5 102	1 418	654	-	-	7 848
Derivatives	7 823	-	-	-	-	777	-	8 600
Total carrying value	16 885	16 441	27 307	130 153	31 323	777	0	222 887
[a] *Of which reverse repos*								*8 483*
[b] *Of which reverse repos*								*673*
FINANCIAL ASSETS, 30-06-2014								
Loans and advances to credit institutions and investment firms [a]	330	1 110	0	18 166	-	-	-	19 606
Loans and advances to customers [b]	189	3 242	0	121 230	-	-	-	124 661
Excluding reverse repos	*21*	*135*	*0*	*121 106*	-	-	-	*121 262*
Trade receivables	0	0	0	3 026	-	-	-	3 026
Consumer credit	0	0	0	3 348	-	-	-	3 348
Mortgage loans	0	34	0	51 929	-	-	-	51 963
Term loans	168	3 208	0	53 090	-	-	-	56 466
Finance leasing	0	0	0	4 056	-	-	-	4 056
Current account advances	0	0	0	3 083	-	-	-	3 083
Securitised loans	0	0	0	0	-	-	-	0
Other	21	0	0	2 698	-	-	-	2 719
Equity instruments	302	5	1 639	-	-	-	-	1 945
Investment contracts (insurance)	-	13 201	-	-	-	-	-	13 201
Debt securities issued by	3 778	1 726	29 091	1 265	30 574	-	-	66 435
Public bodies	3 215	1 160	17 768	37	29 089	-	-	51 269
Credit institutions and investment firms	241	171	5 432	155	882	-	-	6 881
Corporates	322	395	5 892	1 073	604	-	-	8 285
Derivatives	8 117	-	-	-	-	1 010	-	9 127
Total carrying value	12 717	19 284	30 730	140 660	30 574	1 010	0	234 975
[a] *Of which reverse repos*								*11 228*
[b] *Of which reverse repos*								*3 399*

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

(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	-	-	-	-	12 884	14 719
Deposits from customers and debt certificates [b]	3 634	12 248	-	-	-	-	145 253	161 135
Excluding repos	*319*	*5 292*	-	-	-	-	*144 869*	*150 480*
Deposits from customers	3 348	7 836	-	-	-	-	120 538	131 722
Demand deposits	0	50	-	-	-	-	38 999	39 049
Time deposits	3 347	7 786	-	-	-	-	43 837	54 970
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	-	-	-	-	24 715	29 413
Certificates of deposit	0	6	-	-	-	-	3 540	3 546
Customer savings certificates	0	0	-	-	-	-	473	473
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	286	3 763	-	-	-	-	14 869	18 919
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	643	-	-	-	-	5 832	6 475
Liabilities under investment contracts	-	11 787	-	-	-	-	0	11 787
Derivatives	8 161	-	-	-	-	1 678	-	9 838
Short positions	386	0	-	-	-	-	-	386
in equity instruments	40	0	-	-	-	-	-	40
in debt instruments	345	0	-	-	-	-	-	345
Other	0	0	-	-	-	-	1 556	1 556
Total carrying value	13 119	24 931	-	-	-	1 678	159 693	199 421
[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	-	-	-	-	16 587	18 614
Deposits from customers and debt certificates [b]	931	12 167	-	-	-	-	153 309	166 407
Excluding repos	*331*	*3 192*	-	-	-	-	*147 256*	*150 778*
Deposits from customers	615	9 756	-	-	-	-	131 169	141 541
Demand deposits	0	0	-	-	-	-	43 815	43 815
Time deposits	615	9 717	-	-	-	-	47 766	58 098
Savings deposits	0	0	-	-	-	-	36 394	36 394
Special deposits	0	0	-	-	-	-	1 751	1 751
Other deposits	0	39	-	-	-	-	1 445	1 484
Debt certificates	316	2 412	-	-	-	-	22 139	24 866
Certificates of deposit	0	4	-	-	-	-	4 043	4 047
Customer savings certificates	0	0	-	-	-	-	712	712
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	316	1 882	-	-	-	-	14 109	16 307
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	526	-	-	-	-	3 276	3 801
Liabilities under investment contracts	-	12 322	-	-	-	-	0	12 322
Derivatives	8 527	0	-	-	-	2 335	-	10 861
Short positions	437	0	-	-	-	-	-	437
in equity instruments	50	0	-	-	-	-	-	50
in debt instruments	386	0	-	-	-	-	-	386
Other	0	0	-	-	-	-	2 517	2 517
Total carrying value	10 448	25 962	-	-	-	2 335	172 412	211 157
[a] *Of which repos*								*1 987*
[b] *Of which repos*								*15 629*

Additional information on quarterly time series

Loans and deposits

In millions of EUR	30-06-2013	30-09-2013	31-12-2013	31-03-2014	30-06-2014
Total customer loans excluding reverse repo					
Business unit Belgium	83 453	82 472	81 673	81 967	83 542
Business unit Czech Republic	15 972	16 026	15 684	15 424	15 586
Business unit International Markets	22 561	22 471	21 261	21 119	21 038
of which: Hungary	*4 019*	*4 103*	*3 864*	*3 863*	*3 916*
of which: Slovakia	*4 187*	*4 247*	*4 248*	*4 342*	*4 436*
of which: Bulgaria	*546*	*566*	*612*	*603*	*623*
of which: Ireland	*13 808*	*13 556*	*12 537*	*12 311*	*12 064*
Group Centre	1 323	1 261	1 080	1 095	1 096
KBC Group	123 309	122 231	119 698	119 606	121 262
Mortgage loans					
Business unit Belgium	30 891	31 042	31 146	31 183	31 347
Business unit Czech Republic	6 611	6 805	6 522	6 633	6 747
Business unit International Markets	14 730	14 591	13 925	13 833	13 844
of which: Hungary	*1 618*	*1 598*	*1 548*	*1 520*	*1 511*
of which: Slovakia	*1 629*	*1 668*	*1 722*	*1 780*	*1 862*
of which: Bulgaria	*246*	*239*	*236*	*234*	*235*
of which: Ireland	*11 236*	*11 086*	*10 419*	*10 299*	*10 236*
Group Centre	27	26	24	24	24
KBC Group	52 259	52 465	51 617	51 674	51 963
Customer deposits and debt certificates excl. repos					
Business unit Belgium	99 672	100 071	97 051	100 471	100 910
Business unit Czech Republic	21 885	22 330	21 834	22 025	22 390
Business unit International Markets	14 300	14 730	14 472	14 390	14 248
of which: Hungary	*5 958*	*6 214*	*5 878*	*5 442*	*5 175*
of which: Slovakia	*4 506*	*4 508*	*4 583*	*4 555*	*4 547*
of which: Bulgaria	*550*	*534*	*544*	*547*	*553*
of which: Ireland	*3 287*	*3 474*	*3 466*	*3 846*	*3 973*
Group Centre	17 786	17 578	17 123	14 152	13 231
KBC Group	153 643	154 709	150 480	151 039	150 778

Technical provisions plus unit linked, life insurance

Technical provisions, Life Insurance In millions of EUR	30-06-2013		30-09-2013		31-12-2013		31-03-2014		30-06-2014	
	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked	Interest Guaranteed	Unit Linked
Business unit Belgium	13 483	11 673	13 493	11 754	13 493	11 864	13 589	12 052	13 630	12 402
Business unit Czech Republic	573	569	570	578	530	546	527	526	520	507
Business unit International Markets	228	261	228	266	228	272	221	271	219	292
of which: Hungary	*54*	*189*	*54*	*189*	*54*	*193*	*53*	*186*	53	199
of which: Slovakia	*138*	*69*	*139*	*74*	*139*	*78*	*133*	*84*	129	92
of which: Bulgaria	*36*	*2*	*35*	*2*	*35*	*1*	*36*	*1*	36	1
Group Centre	48	64	52	62	54	65	0	0	0	0
KBC Group	14 332	12 566	14 342	12 660	14 304	12 747	14 338	12 848	14 369	13 201

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

For more details on how KBC defines and determines (i) fair value and the fair value hierarchy and (ii) level 3 valuations reference is made to notes 23 up to and including 26 of the annual accounts 2013.

Fair value hierarchy	31-12-2013				30-06-2014			
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	2 556	11 846	2 483	16 885	3 115	6 952	2 650	12 717
Designated at fair value	13 444	2 615	382	16 441	14 213	4 645	426	19 284
Available for sale	21 444	4 091	1 772	27 307	25 720	2 949	2 061	30 730
Hedging derivatives	0	777	0	777	0	1 010	0	1 010
Total	37 444	19 330	4 637	61 411	43 047	15 556	5 137	63 740
Financial liabilities measured at fair value								
Held for trading	374	10 088	2 658	13 119	441	7 174	2 833	10 448
Designated at fair value	11 787	12 600	543	24 931	12 321	13 281	360	25 962
Hedging derivatives	0	1 678	0	1 678	0	2 335	0	2 335
Total	12 161	24 365	3 201	39 728	12 762	22 790	3 193	38 745

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

In the first half of 2014, an approximate total amount of 0.3 billion euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred around 1.3 billion euros in financial instruments at fair value from level 2 to level 1.

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

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **30-06-2014**, 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	Investment contracts	Debt securities	Derivatives	Loans and advances	Equity instruments	Investment contracts	Debt securities	Equity instruments	Debt securities	Derivatives
Opening balance	0	1	0	342	2 141	24	5	0	352	300	1 472	0
Total gains/losses	0	0	0	13	351	1	1	0	25	16	14	0
in profit and loss*	0	0	0	13	351	1	1	0	25	0	4	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	16	10	0
Acquisitions	0	0	0	2	120	0	0	0	21	15	761	0
Sales	0	0	0	-10	-85	0	-5	0	-2	-4	-54	0
Settlements	0	0	0	-16	-181	-1	0	0	0	0	-461	0
Transfers into level 3	0	0	0	1	0	0	0	0	5	0	142	0
Transfers out of level 3	0	0	0	-31	0	0	0	0	-20	0	-187	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	0	1	1	0	0	0	3	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	17	47	0	0
Closing balance	0	1	0	302	2 347	24	1	0	401	375	1 686	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	0	0	14	346	1	1	0	32	0	4	0

LEVEL 3 FINANCIAL LIABILITIES

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Liabilities under investment contracts	Other	
Opening balance	0	102	0	2 542	13	0	0	543	0	0	0
Total gains/losses	0	0	0	283	0	0	0	-8	0	0	0
in profit and loss*	0	0	0	283	0	0	0	-8	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	134	0	0	0	0	0	0	0
Repurchases	0	-2	0	-2	0	0	0	-177	0	0	0
Settlements	0	-20	0	-207	-13	0	0	0	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	1	0	2	0	0	0	2	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	81	0	2 752	0	0	0	360	0	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	0	0	283	0	0	0	-8	0	0	0

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

Mostly thanks to the further de-risking of the legacy CDO portfolio in 1H 2014, the P/L sensitivity of this portfolio to a +50% credit spread widening decreased from -92 million euros as at 31 December 2013 to -44 million euros at 30 June 2014.

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

in number of shares	31-12-2013	30-06-2014
Ordinary shares	417 364 358	417 364 358
of which ordinary shares that entitle the holder to a dividend payment	*417 364 358*	*417 364 358*
of which treasury shares	*802*	*2*
Non-voting core-capital securities	79 096 044	67 796 608
Other information		
Par value per ordinary share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0

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

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

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

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

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

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

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

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

Company	Consolidation method	Ownership percentage at group level		Comments
For income statement comparison		2Q 2013	2Q 2014	
Additions				
None				
Exclusions				
Absolut Bank	Full	------	------	Sold in 2Q 2013
KBC Banka A.D.	Full	100%	------	Sold in 4Q 2013
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Global Services NV	Full	100%	------	Merged with KBC Group NV on 1 July 2013
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014
For balance sheet comparison		31/12/2013	30/06/2014	
Additions				
None				
Exclusions				
None				
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014

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

Non-current assets held for sale and discontinued operations (IFRS 5) (note 46 in the annual accounts 2013)

Situation as at 30 June 2014

On 30 June 2014, following planned divestments fulfill 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's lines.
- as disposal groups which are part of a discontinued operation: none

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

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

Antwerp Diamond Bank:

Activity:	Banking
Segment:	Group Centre
Other information:	On 19 December 2013, KBC has 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 the KBC group'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's tier-1 ratio (Basel II) by almost 0.2% (pro forma impact calculated based on 30 September 2013 data). Before the deal is closed, 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 closure of the deal, KBC will also provide funding to ADB totalling 0.2 billion euros for a maximum period of two years and on a secured basis. Closing of the transaction is subject to the customary regulatory approvals and closure can be expected in the coming quarters.

KBC Bank Deutschland:

Activity:	Banking
Segment:	Group Centre
Other information:	On 24 September 2013, KBC has reached an agreement to sell KBC Bank Deutschland AG, a wholly-owned subsidiary of KBC Bank NV, 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's solvency position with roughly 15bp (impact calculated at the time of signing). The agreement allows KBC to continue supporting its homemarket corporate customers requiring financial services for their German business activities. Closing of the transaction is subject to the customary regulatory approvals and closure can be expected in the coming quarters.

Financial impact:

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
Technical provisions insurance, before reinsurance	0	0
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 48 in the annual accounts 2013)

Significant events between the balance sheet date (30 June 2014) and the publication of this report (7 August 2014):

There were no non-adjusting post balance sheet events.

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Building a better working world

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

Introduction

We have reviewed the accompanying interim consolidated balance sheet of KBC Group nv and its subsidiaries (collectively referred to as "the Group") as at 30 June 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 € 252.768 million and a consolidated profit (share of the group) for the six-month period then ended of € 714 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 7 August 2014 on the interim condensed consolidated financial statements of KBC Group 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, 7 August 2014

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

Christel Weymeersch
Partner

Jean-François Hubin
Partner

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KBC Group

Risk and capital management 2Q 2014 and 1H 2014

This section is not reviewed by the auditors.

Credit risk

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

The main source of credit risk is the loan portfolio of the bank. A snapshot of the banking portfolio is shown in the table below. It includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export-/import-related commercial credit), standby credit and credit derivatives, granted by KBC to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included. Further on in this chapter, extensive information is provided on the credit portfolio of each business unit. Structured credit exposure is described separately. Information specifically on sovereign bonds can be found under 'note 47 (in the annual accounts 2013)'. Following entities have been recognized as 'disposal groups' under IFRS 5 and have been excluded from the figures since 30-06-2012: Antwerp Diamond Bank and KBC Bank Deutschland. 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 proportional 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 IFRS 5 entities the CCR per 30-06-2014 would be 0.52% for Group Centre and 0.34% for the Total.
3. Annualized credit cost.

In the table above non-performing loans (NPL) are based on the current definition (i.e. PD 11 & 12, see annual report FY 2013 - section on credit risk for more information on PD classification). When applying the new definition (includes PD 10) which was aligned with the European Banking Authority's definition and which will be implemented as from 3Q14, the total NPL amount outstanding would increase to 14 110 million EUR and the NPL ratio to 10.4%. This would also reduce the cover ratio of 'specific and portfolio-based loan impairments for performing and NPL/outstanding NPL' from 68% to 40%.

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

Legend:

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

Loan portfolio Business Unit Belgium 30-06-2014, in millions of EUR	**Belgium**			**Foreign branches**			**Total Business Unit Belgium**	
Total outstanding amount	82 286			5 241			87 526	
Counterparty break down		*% outst.*			*% outst.*			*% outst.*
SME / corporate	22 594	*27.5%*		5 241	*100.0%*		27 835	*31.8%*
retail	59 691	*72.5%*		0	*0.0%*		59 691	*68.2%*
o/w private	32 370	*39.3%*		0	*0.0%*		32 370	*37.0%*
o/w companies	27 322	*33.2%*		0	*0.0%*		27 322	*31.2%*
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*
total	31 320	*38.1%*	59%	0	*0.0%*	-	31 320	*35.8%*
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*
o/w vintage 2007 and 2008	2 897	*3.5%*	-	0	*0.0%*	-	2 897	*3.3%*
o/w ind. LTV > 100%	1 541	*1.9%*	-	0	*0.0%*	-	1 541	*1.8%*
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*
low risk (pd 1-4; 0.00%-0.80%)	60 515	*73.5%*		2 988	*57.0%*		63 503	*72.6%*
medium risk (pd 5-7; 0.80%-6.40%)	16 246	*19.7%*		1 309	*25.0%*		17 555	*20.1%*
high risk (pd 8-10; 6.40%-100.00%)	3 421	*4.2%*		635	*12.1%*		4 056	*4.6%*
non-performing loans (pd 11 - 12)	2 021	*2.5%*		261	*5.0%*		2 281	*2.6%*
unrated	83	*0.1%*		49	*0.9%*		132	*0.2%*
Other risk measures		*% outst.*			*% outst.*			*% outst.*
outstanding non-performing loans (NPL)	2 021	*2.5%*		261	*5.0%*		2 281	*2.6%*
provisions for NPL	1 073			173			1 246	
all provisions (specific + portfolio based)	n.a.			n.a.			1 698	
cover NPL by all provisions (specific + portfolio)	n.a.			n.a.			74%	
2013 Credit cost ratio (CCR)	n.a.			n.a.			0.37%	
YTD 2014 CCR	n.a.			n.a.			0.15%	

Remarks

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

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

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

Loan portfolio Business Unit Czech Republic 30-06-2014, in millions of EUR	Czech republic			For information: CMSS (consolidated via equity-method as from 1Q14) Czech Rep (CMSS) (3)		
Total outstanding amount	18 148			2 507		
Counterparty break down		*% outst.*			*% outst.*	
SME / corporate	6 521	*35.9%*		68	*2.7%*	
retail	11 626	*64.1%*		2 438	*97.3%*	
o/w private	8 178	*45.1%*		2 424	*96.7%*	
o/w companies	3 448	*19.0%*		15	*0.6%*	
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV
total	7 424	*40.9%*	67%	1 874	*74.8%*	66%
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-
o/w vintage 2007 and 2008	1 348	*7.4%*	-	171	*6.8%*	-
o/w ind. LTV > 100%	269	*1.5%*	-	140	*5.6%*	-
Probability of default (PD)		*% outst.*			*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	12 568	*69.3%*		1 447	*57.7%*	
medium risk (pd 5-7; 0.80%-6.40%)	4 217	*23.2%*		824	*32.9%*	
high risk (pd 8-10; 6.40%-100.00%)	676	*3.7%*		186	*7.4%*	
non-performing loans (pd 11 - 12)	557	*3.1%*		50	*2.0%*	
unrated	129	*0.7%*		0	*0.0%*	
Other risk measures (2)		*% outst.*			*% outst.*	
outstanding non-performing loans (NPL)	557	*3.1%*		50	*2.0%*	
provisions for NPL	343			24		
all provisions (specific + portfolio based)	399			30		
cover NPL by all provisions (specific + portfolio)	72%			60%		
2013 Credit cost ratio (CCR)	0.26%			n/a		
YTD 2014 CCR	0.04%			n/a		

Remarks

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

(2) individual CCR in local currency

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

Loan portfolio Business Unit International Markets 30-06-2014, in millions of EUR	Ireland (3)			Slovakia			Hungary (4)			Bulgaria			Total Int Markets	
Total outstanding amount	14 951			4 860			5 070			757			25 774	
Counterparty break down		% outst.			% outst.			% outst.			% outst.			% outst.
SME / corporate	2 901	*19.4%*		2 039	*42.0%*		2 694	*53.1%*		314	*41.5%*		8 084	*31.4%*
retail	12 050	*80.6%*		2 820	*58.0%*		2 377	*46.9%*		443	*58.5%*		17 690	*68.6%*
o/w private	12 050	*80.6%*		2 256	*46.4%*		1 919	*37.8%*		269	*35.6%*		16 494	*64.0%*
o/w companies	0	*0.0%*		565	*11.6%*		458	*9.0%*		174	*22.9%*		1 196	*4.6%*
Mortgage loans (1)		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.
total	12 050	*80.6%*	113%	1 876	*38.6%*	58%	1 740	*34.3%*	95%	125	*16.5%*	70%	15 791	*61.3%*
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	1 342	*26.5%*	105%	76	*10.1%*	70%	1 418	*5.5%*
o/w vintage 2007 and 2008	4 435	*29.7%*	-	183	*3.8%*	-	898	*17.7%*	-	40	*5.3%*	-	5 556	*21.6%*
o/w ind. LTV > 100%	7 088	*47.4%*	-	0	*0.0%*	-	720	*14.2%*	-	11	*1.5%*	-	7 820	*30.3%*
Probability of default (PD)		% outst.			% outst.			% outst.			% outst.			% outst.
low risk (pd 1-4; 0.00%-0.80%)	2 634	*17.6%*		2 851	*58.7%*		1 964	*38.7%*		86	*11.4%*		7 553	*29.3%*
medium risk (pd 5-7; 0.80%-6.40%)	3 601	*24.1%*		1 369	*28.2%*		1 939	*38.3%*		298	*39.3%*		7 196	*27.9%*
high risk (pd 8-10; 6.40%-100.00%)	4 282	*28.6%*		383	*7.9%*		600	*11.8%*		60	*7.9%*		5 454	*21.2%*
non-performing loans (pd 11 - 12)	4 434	*29.7%*		161	*3.3%*		562	*11.1%*		200	*26.5%*		5 358	*20.8%*
unrated	0	*0.0%*		96	*2.0%*		4	*0.1%*		112	*14.8%*		213	*0.8%*
Other risk measures (2)		% outst.			% outst.			% outst.			% outst.			% outst.
outstanding non-performing loans (NPL)	4 434	*29.7%*		161	*3.3%*		562	*11.1%*		200	*26.5%*		5 358	*20.8%*
provisions for NPL	1 925			86			328			93			2 433	
all provisions (specific + portfolio based)	2 824			118			411			96			3 449	
cover NPL by all provisions (specific + portfolio)	64%			74%			73%			48%			64%	
2013 Credit cost ratio (CCR)	6.72%			0.60%			1.50%			1.19%			4.48%	
YTD 2014 CCR	1.44%			0.40%			0.96%			1.17%			1.14%	

Remarks

Ireland = KBC Bank Ireland (incl. former KBC Homeloans)

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

(1) mortgage loans: only to private persons (as opposed to the accounting figures); For Ireland: only KBC Homeloans exposure

(2) individual CCR in local currency

(3) Non-performing loans (NPL) as based on the current definition (i.e. PD 11 & 12, see annual report FY 2013 - section on credit risk for more information on PD classification). When applying the new definition (includes PD 10) which was aligned with the European Banking Authority's definition and which will be implemented as from 3Q14, the total NPL amount outstanding would increase to 7 925 million EUR. This change in definition would also reduce the cover ratio of 'specific and portfolio-based loan impairments for performing and NPL/outstanding NPL' from 64% to 36%.

(4) Non-performing loans (NPL) as based on the current definition (i.e. PD 11 & 12, see annual report FY 2013 - section on credit risk for more information on PD classification). When applying the new definition (includes PD 10) which was aligned with the European Banking Authority's definition and which will be implemented as from 3Q14, the total NPL amount outstanding would increase to 746 million EUR. This change in definition would also reduce the cover ratio of 'specific and portfolio-based loan impairments for performing and NPL/outstanding NPL' from 73% to 55%.

Loan portfolio Group Centre 30-06-2014, in millions of EUR	Total Group Centre (mainly KBC Finance Ireland and KBC Credit Investments)			For information: entities marked as 'disposal groups' under IFRS 5 Belgium (Antwerp Diamond Bank)			Western Europe (KBC Deutschland)		
Total outstanding amount	4 329			1 358			2 338		
Counterparty break down		*% outst.*			*% outst.*			*% outst.*	
SME / corporate	4 329	*100.0%*		1 358	*100.0%*		2 338	*100.0%*	
retail	0	*0.0%*		0	*0.0%*		0	*0.0%*	
o/w private	0	*0.0%*		0	*0.0%*		0	*0.0%*	
o/w companies	0	*0.0%*		0	*0.0%*		0	*0.0%*	
Mortgage loans (1)		*% outst.*	ind. LTV		*% outst.*	ind. LTV		*% outst.*	ind. LTV
total	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
o/w FX mortgages	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
o/w vintage 2007 and 2008	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
o/w ind. LTV > 100%	0	*0.0%*	-	0	*0.0%*	-	0	*0.0%*	-
Probability of default (PD)		*% outst.*			*% outst.*			*% outst.*	
low risk (pd 1-4; 0.00%-0.80%)	2 105	*48.6%*		48	*3.6%*		1 020	*43.6%*	
medium risk (pd 5-7; 0.80%-6.40%)	1 395	*32.2%*		944	*69.5%*		936	*40.0%*	
high risk (pd 8-10; 6.40%-100.00%)	563	*13.0%*		140	*10.3%*		234	*10.0%*	
non-performing loans (pd 11 - 12)	197	*4.5%*		212	*15.6%*		144	*6.2%*	
unrated	69	*1.6%*		13	*1.0%*		3	*0.1%*	
Other risk measures (2)		*% outst.*			*% outst.*			*% outst.*	
outstanding non-performing loans (NPL)	197	*4.5%*		212	*15.6%*		144	*6.2%*	
provisions for NPL	89			179			115		
all provisions (specific + portfolio based)	131			189			144		
cover NPL by all provisions (specific + portfolio)	67%			89%			100%		
2013 Credit cost ratio (CCR)	2.90%			0.97%			1.31%		
YTD 2014 CCR	0.37%			0.71%			0.66%		

Remarks

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

(1) mortgage loans: only to private persons (as opposed to the accounting figures); for Ireland: only KBC Homeloans exposure

(2) individual CCR in local currency

Structured credit exposure (banking and insurance activities)

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

Since 2008 KBC has a tight strategy in place related to structured credit products and gradually imposed a moratorium on all origination and investment activity in CDOs and ABS. Prior to 2008, KBC acted as an *originator* of and *investor* in structured credit transactions. The remainder of the investments from before 2008 are referred to as 'legacy exposure'. Three categories of legacy investments are distinguished:

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

- KBC invested in structured credit products, both in
    - CDOs (notes and super senior tranches), largely those originated by KBC itself and some other CDO's, in the table 'other legacy CDO exposure'
    - and in ABS, 'in the table 'other legacy ABS exposure'.

In 4Q13, KBC decided to lift the strict moratorium on investments in ABS and to allow *treasury investments* ('treasury ABS exposure' in the table) in high quality ABS (incl. e.g. cash CLOs). This allows a further diversification of the investment portfolios.
Important to note is that the moratorium on investments in synthetic securitizations or re-securitisations continues to exist.

KBC investments in structured credit products (CDOs and ABS), in billions of EUR	30-06-2014
Total net exposure	5.7
o/w legacy CDO exposure protected with MBIA	3.2
o/w other legacy CDO exposure	1.0
o/w other legacy ABS exposure	0.8
o/w treasury ABS exposure	0.7
Cumulative value markdowns on outstanding legacy investments (mid 2007 to date)*	-0.2
Value markdowns	-0.2
for *other legacy CDO exposure*	-0.1
for *other legacy ABS exposure*	-0.1
Credit value adjustment (CVA) on MBIA cover (related to legacy CDO exposure)	-0.0
Cumulative value markdowns on treasury ABS	0.0

* Note that, value adjustments to KBC's CDOs are accounted for via profit and loss (instead of directly via shareholders' equity), since the group's CDOs are mostly of a synthetic nature (meaning that the underlying assets are derivative products such as credit default swaps on corporate names). Their synthetic nature is also the reason why KBC's CDOs are *not* eligible for accounting reclassification under IFRS in order to neutralise their impact.

In the second quarter of 2014, the net CDO and ABS legacy exposure remained nearly status quo as a reduction in the legacy ABS portfolio as a result of redemptions was almost completely offset by an increase in the legacy CDO exposure following out-of-court settlements with clients. In KBC's treasury portfolio, investments to the tune of 188 million euros were done in RMBS and other ABS assets.

Protection for CDO exposure

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

Moreover, the remaining risk related to MBIA's insurance coverage is to a large extent mitigated as it is included in the scope of the Guarantee Agreement that was agreed with the Belgian State on 14 May 2009. The contract with the Belgian State has a remaining nominal value of 3.8 billion euros, down from 20.0 billion euros at inception, of which 3.2 billion euros relates to the exposure insured by MBIA. For the positions insured by MBIA, a counterparty credit risk provision is in place. Based on a fundamental internal analysis the provisioning rate is determined. Per end June 2014 it was kept constant at 60%. The remaining 0.6 billion euros of exposure covered by the contract with the Belgian State relates to part of the 'other legacy CDO exposure'. Of this portfolio (i.e. other legacy CDO exposure not covered by credit protection by MBIA) the super senior assets have also been included in the scope of the Guarantee Agreement with the Belgian State.

Details on the CDO exposure protected with MBIA (insurance for CDO-linked risks received from MBIA), in billions of EUR	30-06-2014
Total insured amount (notional amount of super senior swaps)*	3.2
Details for MBIA insurance coverage	
- Fair value of insurance coverage received (modelled replacement value, after taking the Guarantee Agreement into account)	0.0
- CVA for counterparty risk, MBIA	-0.0
(as a % of fair value of insurance coverage received)	60%

* The amount insured by MBIA is included in the Guarantee Agreement with the Belgian State (14 May 2009).

Solvency

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

Solvency KBC Group

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

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

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

KBC’s own minimum target for the common equity ratio is 10.5% on a fully loaded basis (presuming full implementation of all CRDIV/CRR rules and including the remaining Flemish government support until 2018). KBC’s fully loaded common equity ratio stood at 12.86% as at the end of June 2014.

Moreover, the supervisory authorities, with the NBB as the consolidating supervisor, have requested KBC to minimally uphold a fully loaded common equity ratio, excluding latent gains, of 9.25%. According to this calculation, KBC’s fully loaded common equity ratio stood at 12.38% as at the end of June 2014.

The Internal Rating Based (IRB) approach is since its implementation in 2008 the primary approach to calculated KBC’s risk weighted assets. This is, based on a full application of all the CRD IV/CRR rules, used for approximately 81% of the weighted credit risks, of which approx. 61% according to Advanced and approx. 20% according to Foundation approach. Note that, retail exposure treated under IRB is always subject to an Advanced approach. The remaining weighted credit risks (ca. 20%) are calculated according to the Standardised approach. The latter, under the Danish Compromise, includes the 370% risk-weighted holdings of own funds instruments of the insurance company.

In millions of EUR	31-12-2013	30-06-2014
Danish compromise - Fully loaded		
Total regulatory capital, KBC Group (after profit appropriation)	16 258	14 886
Tier-1 capital	11 711	13 468
Common equity	11 711	12 068
Parent shareholders' equity (after deconsolidating KBC Insurance)	11 361	11 711
Non-voting core capital securities	2 333	2 000
Intangible fixed assets (incl deferred tax impact) (-)	- 341	- 346
Goodwill on consolidation (incl deferred tax impact) (-)	- 950	- 774
Minority interests	- 3	- 3
Hedging reserve (cash flow hedges) (-)	497	901
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 6	- 4
Equalization reserve (-)	- 131	-
Dividend payout (-)	0	- 417
Renumeration of government securities (-)	0	- 85
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 (-)	- 648	- 467
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0
Additional going concern capital	0	1 400
Grandfathered innovative hybrid tier-1 instruments	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0
CRR compliant AT1 instruments	0	1 400
Minority interests to be included in additional going concern capital	0	0
Tier 2 capital	4 547	1 418
IRB provision excess (+)	342	367
Subordinated liabilities[1]	4 206	1 051
Subordinated loans non-consolidated financial sector entities (-)	0	0
Minority interests to be included in tier 2 capital	0	0
Capital requirement		
Total weighted risk volume[2,3,4]	91 216	93 874
Banking	80 189	82 692
Insurance	11 068	11 068
Holding activities	72	249
Elimination of intercompany transactions	- 113	- 135
Solvency ratios		
Common equity ratio	12.84%	12.86%
Tier-1 ratio	12.84%	14.35%
CAD ratio	17.82%	15.86%

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

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

Overview of KBC Group CET ratio	Danish Compromise		Building Block Method	
	Fully loaded	Phased-in	Fully loaded	Phased-in
In millions of EUR - 30-06-2014				
Common equity	12 068	11 938	12 366	11 266
Total weighted risk volume	93 874	90 559	94 902	91 587
Common equity ratio	12.86%	13.18%	13.03%	12.30%

Solvency banking and insurance activities separately

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

Solvency, KBC Bank consolidated (in millions of EUR)	31-12-2013	30-06-2014
Total regulatory capital, after profit appropriation	14 400	13 558
Tier-1 capital	9 602	11 343
Of which common equity	9 602	9 943
Tier-2 and tier-3 capital	4 797	2 215
Total weighted risks	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%
Solvency, KBC Insurance consolidated (in millions of EUR)	**31-12-2013**	**30-06-2014**
Available capital	2 721	3 064
Required solvency margin	968	968
Solvency ratio and surplus		
Solvency ratio (%)	281%	317%
Solvency surplus (in millions of EUR)	1 753	2 096