www.kbc.com/kbcbank

KBC Bank

Half-Year Report 1H 2010

Company name

Everywhere where mention is made of KBC, the group or KBC Bank in this report, the consolidated bank entity is meant, i.e. KBC Bank NV, including all its subsidiaries and sub-subsidiaries. Where KBC Bank NV is used, this refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank (see below).

Difference between KBC Bank and KBC Group

KBC group's legal structure has one single entity – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL European Private Bankers (KBL EPB; an agreement was signed in May 2010 to sell this company). All KBC Bank shares are owned (directly and indirectly) by KBC Group.

Management certification of financial statements and half-year report

'I, Luc Philips, Chief Financial Officer of KBC Bank, certify that, to the best of my knowledge, the abbreviated financial statements included in the half-year report are based on the relevant accounting standards and fairly present in all material respects the financial condition and results of KBC Bank NV, including its consolidated subsidiaries, and that the half-year report provides a fair view of the information that must be included in such a report.'

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.

Translation

This half-year report is available in Dutch and English. The Dutch version is the original; the English language version is an unofficial translation. KBC warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

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Glossary of ratios used

CAD ratio
[regulatory capital] / [total risk-weighted volume].

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

Cover ratio
[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.

Credit cost ratio
[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio].

Net Interest Margin
[net interest income (underlying)] / [average interest-bearing assets].

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

Return on equity
[profit after tax, attributable to the equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale investments].

(Core) Tier-1 ratio
[tier-1 capital] / [total risk-weighted volume]. The calculation of the core tier-1 ratio does not include hybrid instruments.

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This report contains regulated information. 31 August 2010, 8 a.m. CEST

Report for the first six months of 2010

KBC Bank

Summary

KBC Bank ended the first half of 2010 with a consolidated net profit (IFRS) of 0.7 billion euros, as opposed to a net loss of 2.8 billion euros in the first half of 2009, which had been seriously affected by a number of factors, including valuation losses relating to structured investments (CDOs).

On an underlying basis (i.e. excluding exceptional items), net profit for the first six months of 2010 came to 835 million euros, up 65% on the year-earlier figure of 505 million euros.

Key figures, KBC Bank (IFRS, in millions of EUR)	1H 2009	1H 2010
Total income	387	3 057
Operating expenses	-2 308	-1 855
Impairment	-1 058	-668
Profit after tax, attributable to the equity holders of the parent	**-2 815**	**698**
Underlying profit after tax, attributable to equity holders of the parent*	505	835
Cost/income ratio (based on underlying results)*	*55%*	*50%*
Credit cost ratio	*1.03%*	*0.77%*

* Excluding exceptional items (see the ‘Consolidated financial statements’ section under ‘Segment reporting’).

Financial highlights for the first half of 2010 (compared to the year-earlier period):

- Healthy net interest margin and continued positive trend in net fee and commission income
- Lower operating expenses due to ongoing rigorous cost containment and run-down of certain activities
- Considerably lower loan loss impairment, notably in Merchant Banking activities
- On balance, far fewer negative exceptional items: -0.1 billion euros in 1H 2010, compared with -3.3 billion euros a year earlier, when significant losses were recorded primarily on CDO-related risks.
- Tier-1 capital ratio of 10.9% at 30 June 2010.

Earnings – 1H 2010

A summary of the consolidated income statement for KBC Bank, based on the *International Financial Reporting Standards* (IFRS), is given below. A complete overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated financial statements' section of this report. Condensed statements of comprehensive income, changes in equity, and cash flow, as well as several notes to the accounts, are also available in the same section.

In order to provide a clear insight into the *underlying* business trends (i.e. excluding exceptional items), KBC also publishes its 'underlying' results in the 'Consolidated financial statements' section under 'Segment reporting'.

Consolidated income statement, KBC Bank (in millions of EUR) - IFRS	1H 2009	1H 2010
Net interest income	2 358	2 611
Interest income	5 879	4 816
Interest expense	-3 521	-2 205
Dividend income	37	25
Net (un)realised gains from financial instruments at fair value through profit or loss	-2 995	-700
Net realised gains from available-for-sale assets	10	26
Net fee and commission income	736	871
Fee and commission income	1 019	1 162
Fee and commission expense	-283	-291
Other net income	241	224
Total income	387	3 057
Operating expenses	-2 308	-1 855
Impairment	-1 058	-668
On loans and receivables	-885	-635
On available-for-sale assets	-80	-2
On goodwill	-93	-28
On other	-1	-2
Share in results of associated companies	5	-6
Profit before tax	-2 975	528
Income tax expense	224	237
Net post-tax income from discontinued operations	0	0
Profit after tax	-2 751	765
attributable to minority interests	64	67
attributable to equity holders of the parent	**-2 815**	**698**
Underlying profit after tax, attributable to equity holders of the parent*	**505**	**835**

* Excluding exceptional items (see the 'Consolidated financial statements' section under 'Segment reporting').

Financial highlights – 1H 2010:

- Net profit after tax attributable to the equity holders of the parent came to a positive 698 million euros, as opposed to a negative 2 815 million euros in the first half of 2009. On balance, this negative figure included -3.3 billion euros' worth of exceptional items, with primarily negative adjustments to the value of CDO investments, and losses incurred on running off certain investment banking activities at KBC Financial Products, having a particularly adverse impact. An overview of all the exceptional items in the first half of both 2009 and 2010, and full income statements reflecting underlying results (i.e. excluding exceptional items) is provided under 'Segment reporting' in the 'Consolidated financial statements' section. Excluding all exceptional items, 'underlying' net profit amounted to 835 million euros in the first half of 2010 (505 million euros in the year-earlier period). The underlying profit for 1H 2010 breaks down as follows: 367 million euros for the Belgium Business Unit, 233 million euros for the Central & Eastern Europe Business Unit, 204 million euros for the Merchant Banking Business Unit, and 32 million euros for the Group Centre.

- In the first half of 2010, there was no material impact on the income statement arising from changes in the scope of consolidation or from changes to the accounting policies. The local currencies in Central and Eastern Europe appreciated on average by 7% against the euro (weighted average in the first half of 2010 compared with weighted average in the first half of 2009). Significant changes in these exchange rates clearly have an impact on the result components of the Central & Eastern Europe Business Unit.

- Net interest income amounted to 2 611 million euros. On an underlying basis (see the 'Consolidated financial statements' section under 'Segment reporting'), this was roughly 2% higher than the year-earlier figure. The net interest margin moved to 1.83%, up from 1.75% a year earlier. On 30 June 2010, the customer loan book (excluding reverse repos) was approximately 5% lower than its year-earlier level. This breaks down as follows: +3% in the Belgium Business Unit, -5% in the Central & Eastern Europe Business Unit, and -14% in the Merchant Banking Business Unit (the last decline being due to the pursuit of a new strategy that, among other things, aims to scale down the size of international loan portfolios not linked to the home markets). Customer deposits rose by 6% year-on-year.

- Net (un)realised gains from financial instruments at fair value came to a negative 700 million euros in the first half of 2010, compared with a negative 2 995 million euros in the corresponding period of 2009. As already stated, however, this heading contains a number of major exceptional items, including adjustments to the value of CDOs (including the effect of the government guarantee) and the losses relating to the run-down of certain merchant banking activities, etc. (both items were very negative in the first half of 2009). On an underlying basis (i.e. excluding these and other exceptional items, and after shifts between this line and other income lines – see the 'Consolidated financial statements' section under 'Segment reporting'), 'Net (un)realised gains from financial instruments at fair value' came to a positive 412 million euros (compared to 516 million euros in the first half of 2009).

- Net fee and commission income amounted to 871 million euros in the first six months of 2010, a robust 18% increase on its year-earlier level, thanks chiefly to the growth in asset-management-related fee and commission income (from the sale and management of investment funds etc.), due to the improved investment climate.

- The other income components (dividend income, net realised gains from available-for-sale assets, and other net income) came to an aggregate 275 million euros, roughly the same as the 288 million euros recorded in the first half of 2009.

- Operating expenses came to 1 855 million euros in the first half of 2010, compared with a year-earlier figure of 2 308 million euros. On an underlying basis (i.e. disregarding exceptional items), that is a decline of 9%. This is among other things due to our strategic refocus programme where activities are being wound down. As a result, the underlying cost/income ratio for the first half of 2010 came to an outstanding 50%, an improvement on its year-earlier level of 55%.

- Impairment on loans and receivables (loan loss provisions) amounted to 635 million euros, a significant year-on-year decline (of 250 million euros, chiefly in the Merchant Banking Business Unit), which left the credit cost ratio at 0.77% for the first half of 2010, compared with 1.03% a year earlier. This breaks down as follows: 0.10% in the Belgium Business Unit, 1.23% in the Central & Eastern Europe Business Unit, 1.03% in the Merchant Banking Business Unit, and 0.94% in the Group Centre (which includes the group companies to be divested in accordance with the strategic plan, among other things). The proportion of non-performing loans in the total loan portfolio – the non-performing ratio – was 3.7% at 30 June 2010, compared to 3.3% at 31 December 2009 and 2.8% at 30 June 2009. As regards Ireland, in the first half of 2010, a loan loss impairment of 169 million euros was recorded, resulting in a credit cost ratio of 1.89%.
  Impairment recorded on available-for-sale assets (shares and bonds) fell from 80 million euros to 2 million euros. Moreover, an impairment loss totalling 28 million euros was recognised on the value of goodwill outstanding related to subsidiaries, significantly down on the 93 million euros recorded in the first half of 2009 (which related primarily to Bulgaria).

- The recognition of deferred tax assets meant that taxes were positive in the first half of both 2009 and 2010. The figure for the first half of 2010 includes deferred tax income of 0.4 billion euros resulting from a debt waiver by KBC to a subsidiary that had incurred high CDO-related losses in the past – see Note 13 in the 'Consolidated financial statement' section.

- As at the end of June 2010, total equity came to 13.6 billion euros, 12.7 billion euros of which was accounted for by parent shareholders' equity, up 0.6 billion euros on the figure for the end of 2009. This increase is due primarily to the inclusion of the positive half-year result (0.7 billion euros). At the end of June 2010, the tier-1 capital ratio came to 10.9% (9.1% of which core tier-1 capital).

The main balance sheet figures and a selection of ratios are provided in the table below.

Selected balance sheet figures and ratios, KBC Bank (in millions of EUR or %) – IFRS	31-12-2009	30-06-2010
Total assets	281 613	304 881
Loans and advances to customers*	152 301	157 284
Securities*	71 527	73 163
Deposits from customers and debt certificates*	188 504	208 237
Total equity	13 016	13 633
of which parent shareholders' equity	12 168	12 741
Return on equity (based on underlying results)	9.1%	13.5%
Cost/income ratio (based on underlying results)	53%	50%
Credit cost ratio	1.12%	0.77%
Tier-1 ratio	10.9%	10.9%
Core tier-1 ratio	9.0%	9.1%

* Please note that the comparison is slightly distorted due to the fact that, in accordance with IFRS 5, the assets and liabilities of a number of divestments (primarily the Global Convertibles and Asia Equity Derivatives businesses) were grouped together under 'Non-current assets held for sale and assets associated with disposal groups' and 'Liabilities associated with disposal groups' as of 30 June 2010.

Main events and future developments

Main events

- At the end of 2009, KBC Group – the parent company of KBC Bank – unveiled its new strategy, which is aimed at reducing the group's risk profile, while still retaining its core earnings power and organic growth potential. Going forward, the group will concentrate on growing the bancassurance business on an organic basis in Belgium and a selection of countries in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Bulgaria) with a focus on private customers and SMEs, including local mid-caps. Much of the exposure to corporate lending in non-home markets and non-core capital market activities will be scaled back.
- The refocusing process had made good progress by mid-2010. In the first quarter of 2010, a number of divestment transactions had been concluded, such as for the portfolio of US reverse mortgages and the Japanese cash equity activities. In the ensuing months, agreements were concluded for the sale of KBC Asset Management's UK activities (management buy-out) and Irish activities (to RHJ International), and for the sale of BIC (management buy-out), KBC Peel Hunt (management buy-out) and the convertible bond and Asian equity derivatives business of KBC Financial Products (to Daiwa). These agreements are expected to be closed in the following months. We also completed the novation transactions reducing significantly the group's credit derivatives (as part of the restructuring of KBC Financial Products) to the tune of approx. 1.5 billion euros in risk-weighted assets in 2Q2010. The gradual run-down of the credit portfolio outside the home markets is progressing well too: some 50% of the intended organic risk-weighted assets reduction in the international credit portfolio was already realised by end June 2010. For information purposes: an agreement was also signed at the level of KBC Group NV (the parent company of KBC Bank) relating to one of the most important projects in terms of capital release, viz. the sale of the European private banking network (KBL EPB – KBC Bank's sister company).
- Preparations to float a minority stake in our Czech banking subsidiary are well progressed. The disentanglement process for our Belgian supplementary sales channels (Centea and Fidea), which is designed to prepare these companies for sale, has been completed, which means that we are on standby for the launch of the sales process in the second half of the year.
- Concerns arose during the first half of the year about financial institutions' exposure to government bonds. At 30 June 2010, KBC Bank's exposure to Greek sovereign bonds amounted to roughly 0.7 billion euros (KBC Group: 1 billion euros). More information on KBC Bank's sovereign bond exposure to selected European countries is provided in the 'Consolidated financial statements' section of this report.
- The CEBS organised a stress test for 91 European banks as a way of checking solvency strength. KBC was pleased to have passed the test with a tier-1 ratio of 9.4% in an adverse scenario, with additional sovereign bond shocks applied. Obviously, KBC conducts regular internal stress tests based on its own risk management framework.

Statement of risk

- As a bank and asset manager, KBC Bank is exposed to a number of typical risks such as – but certainly not exclusively - credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, operational risk, exposure to emerging markets, changes in regulations, customer litigations, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or generate additional charges beyond anticipated levels.
- Regulatory changes are currently high on the agenda and KBC is closely monitoring these developments in order to address these issues immediately and adequately. We are referring here to the current Basel III announcements and legislative initiatives in Hungary (bank tax).
- Key risk management data are provided in the annual reports and half-year reports, all of which are available at www.kbc.com.

Financial calendar

- Financial communication is organised at KBC group level. Consequently, the financial calendar can be found on KBC Group's website (www.kbc.com). KBC Bank will publish its 2010 annual report on 8 April 2011.

Consolidated financial statements

KBC Bank (IFRS) – 1H 2010

Consolidated income statement

In millions of EUR	Note	1H 2009	1H 2010
Net interest income	3	2 358	2 611
Interest income	3	5 879	4 816
Interest expense	3	- 3 521	- 2 205
Dividend income	4	37	25
Net (un)realised gains from financial instruments at fair value through profit or loss	5	- 2 995	- 700
Net realised gains from available-for-sale assets	6	10	26
Net fee and commission income	7	736	871
Fee and commission income	7	1 019	1 162
Fee and commission expense	7	- 283	- 291
Other net income	8	241	224
TOTAL INCOME		387	3 057
Operating expenses		- 2 308	- 1 855
Staff expenses		- 966	- 913
General administrative expenses		- 1 225	- 836
Depreciation and amortisation of fixed assets		- 117	- 107
Impairment	11	- 1 058	- 668
on loans and receivables	11	- 885	- 635
on available-for-sale assets	11	- 80	- 2
on goodwill	11	- 93	- 28
on other	11	- 1	- 2
Share in results of associated companies		5	- 6
PROFIT BEFORE TAX		- 2 975	528
Income tax expense	13	224	237
Net post-tax income from discontinued operations		0	0
PROFIT AFTER TAX		- 2 751	765
attributable to minority interest		64	67
attributable to equity holders of the parent		**- 2 815**	**698**

Information on the application of IFRS 5 can be found in Note 40. Not one of the divestments qualifies as a ‘discontinued operation’, which explains why ’Net post-tax income from discontinued operations’ equals zero.

Condensed consolidated statement of comprehensive income

In millions of EUR	1H 2009	1H 2010
PROFIT AFTER TAX	- 2 751	765
Attributable to minority interest	64	67
Attributable to equity holders of the parent	- 2 815	698
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve (AFS assets) - Equity	39	- 3
Net change in revaluation reserve (AFS assets) - Bonds	243	122
Net change in revaluation reserve (AFS assets) - Other	- 1	0
Net change in hedging reserve (cash flow hedge)	- 7	- 286
Net change in translation differences	9	48
Other movements	0	1
TOTAL OTHER COMPREHENSIVE INCOME	283	- 118
TOTAL COMPREHENSIVE INCOME	- 2 468	647
Attributable to minority interest	58	72
Attributable to equity holders of the parent	- 2 526	574

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2009	30-06-2010
Cash and cash balances with central banks		6 943	16 161
Financial assets	14,20	265 523	277 115
Held for trading	14	40 791	39 149
Designated at fair value through profit or loss	14	22 892	28 522
Available for sale	14	32 878	36 214
Loans and receivables	14	160 144	163 631
Held to maturity	14	8 605	9 297
Hedging derivatives	14	213	302
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		253	306
Tax assets		1 787	2 297
Current tax assets		190	214
Deferred tax assets		1 597	2 083
Non-current assets held for sale and assets associated with disposal groups		71	2 094
Investments in associated companies		638	629
Investment property		461	462
Property and equipment		2 382	2 348
Goodwill and other intangible assets		1 774	1 786
Other assets		1 782	1 684
TOTAL ASSETS		281 613	304 881

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2009	30-06-2010
Financial liabilities	14	264 592	285 743
Held for trading	14	29 613	30 532
Designated at fair value through profit or loss	14	23 828	36 295
Measured at amortised cost	14	210 129	217 692
Hedging derivatives	14	1 022	1 223
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		0	0
Tax liabilities		417	353
Current tax liabilities		322	260
Deferred tax liabilies		95	93
Liabilities associated with disposal groups		0	1 671
Provisions for risks and charges		572	570
Other liabilities		3 015	2 912
TOTAL LIABILITIES		268 596	291 249
Total equity	30	13 016	13 633
Parent shareholders' equity		12 168	12 741
Minority interests		849	892
TOTAL LIABILITIES AND EQUITY		281 613	304 881

Information on the application of IFRS 5 can be found in Note 40. At 30 June 2010, just a few fairly limited divestments qualify as ‘disposal groups’. Their assets and liabilities have been grouped together under 'Non-current assets held for sale and assets associated with disposal groups’ and ‘Liabilities associated with disposal groups’.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
30-06-2009									
Balance at the beginning of the period	5 698	2 490	- 857	- 352	3 957	- 209	10 728	1 610	12 338
Net profit for the period	0	0	0	0	- 2 815	0	- 2 815	64	- 2 751
Other comprehensive income for the period	0	0	275	- 3	0	17	289	- 6	283
Total comprehensive income	**0**	**0**	**275**	**- 3**	**- 2 815**	**17**	**- 2 526**	**58**	**- 2 468**
Dividends	0	0	0	0	0	0	0	0	0
Capital increase/ decrease	3 250	0	0	0	0	0	3 250	0	3 250
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	- 176	- 176
Total change	**3 250**	**0**	**275**	**- 3**	**- 2 815**	**17**	**724**	**- 118**	**606**
Balance at the end of the period	**8 948**	**2 491**	**- 582**	**- 355**	**1 142**	**- 192**	**11 452**	**1 492**	**12 944**
of which revaluation reserve for shares			42						
of which revaluation reserve for bonds			- 623						
of which revaluation reserve for other assets than bonds and shares			- 1						
30-06-2010									
Balance at the beginning of the period	8 948	2 492	- 17	- 374	1 468	- 349	12 168	849	13 016
Net profit for the period	0	0	0	0	698	0	698	67	765
Other comprehensive income for the period	0	0	116	- 286	- 1	47	- 123	5	- 118
Total comprehensive income	**0**	**0**	**116**	**- 286**	**697**	**47**	**574**	**72**	**647**
Dividends	0	0	0	0	0	0	0	0	0
Capital increase/ decrease*	0	- 1 269	0	0	1 269	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0
Business Combinations	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	- 1	0	0	- 1	- 30	- 31
Total change	**0**	**- 1 269**	**116**	**- 287**	**1 967**	**47**	**573**	**43**	**616**
Balance at the end of the period	**8 948**	**1 222**	**99**	**- 662**	**3 435**	**- 302**	**12 741**	**892**	**13 633**
of which revaluation reserve for shares			117						
of which revaluation reserve for bonds			- 18						
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			0	0		0	0	0	0

* Capital decrease in KBC Bank NV by incorporation of reported losses.

Condensed consolidated cashflow statement

In millions of EUR	1H 2009	1H 2010
Net cash from (used in) operating activities	- 857	10 386
Net cash from (used in) investing activities	733	- 502
Net cash from (used in) financing activities	- 288	928
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	- 412	10 811
Cash and cash equivalents at the beginning of the period	8 740	3 518
Effects of exchange rate changes on opening cash and cash equivalents	- 41	1 402
Cash and cash equivalents at the end of the period	8 286	15 731

Notes on the accounting policies

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

The consolidated financial statements of KBC Bank have been prepared in accordance with the International Financial Reporting Standards (IAS 34), as adopted for use in the European Union ('endorsed IFRS'). The consolidated financial statements present one year of comparative information. The condensed interim financial statements do not contain all the information and notes required for annual financial statements and, therefore, should be read in conjunction with the annual financial statements of KBC Bank for the year ended 31 December 2009.

In 2010, KBC adjusted the presentation of the income statement: the heading 'provisions for risks and charges' has been removed as part of 'operating expenses'. Amounts allocated to or reversed from the balance sheet heading 'provisions for risks and charges' will be recorded from now on in the income statement heading where the future cost regarding this provision will be included (staff expenses, general administrative expenses, income tax expense and other net income). In the reference figures, the amounts included in the income statement for 'provisions for risks and charges' have been added to 'general administrative expenses'.

Changes to the segment reporting since the start of 2010: following KBC Group's restructuring plan, approved by the EC at the end of 2009, results of KBC Group and its subsidiaries (among which KBC Bank) for the coming years will be impacted substantially by the foreseen divestments and this for all Business Units (BUs). In order to create more transparency and in order to avoid substantial distortion in the BU-results, a new format for the BU-reporting was needed. This new format includes following BU's: BU Belgium (BU BEL), BU Central and Eastern Europe (BU CEE), BU Merchant Banking (BU MEB) and Group Centre (latter including the former BU Group Item and all companies that are earmarked for divestment). As such, the figures of the new BU's represent the 'new' KBC going forward and the trends within these BU's in the next quarters will be minimally impacted by the future divestments.

In the income statement, the accounting presentation of certain income and expense items have been harmonised further in the group. This caused a limited distortion when comparing the figures for the first half of 2009 and 2010. If the figures for 1H 2009 would be corrected for this classification methodology, the net fee and commission would have been 17 million euros lower, other net income 13 million euros lower and operating expenses 30 million euros less negative.

A summary of all the information required by IFRS 5 is given in a new note at the end of this section.

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

A summary of the main accounting policies is provided in the annual report of KBC Bank. In the first half of 2010, no changes were made to the content of the accounting policies that had a material impact on the results.

Segment reporting

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

KBC Group and its subsidiary KBC Bank are structured and managed according to a number of segments (called 'business units'). This breakdown is based on a combination of geographic criteria (Belgium and Central and Eastern Europe, being the two core geographic areas the group operates in) and activity criteria (retail bancassurance versus merchantbanking). The Shared Services and Operations business unit, which includes a number of divisions that provide support to and serve as a product factory for the other divisions (ICT, leasing, payments, assetmanagement etc.) is not shown as a separate segment, as all costs and income of this business unit are allocated to the other business units and are hence included in their results.
The segment reporting (see below) is based on this breakdown, but, as of this report, also brings together all companies that are up for divestment (according to the new strategic plan) under the Group Centre. Reference figures were adjusted accordingly.

For reporting purposes, the business units hence are:

- Belgium (retail bancassurance, asset management and private banking in Belgium; companies that are planned for divestment are moved to Group Centre).
- Central & Eastern Europe (retail bancassurance, asset management, private banking and merchant banking in the Czech and Slovak Republics, Hungary, Poland and Bulgaria; companies in other countries that are planned for divestment are moved to Group Centre[1])
- Merchant Banking (commercial banking and market activities in Belgium and selected countries in Europe, America and Southeast Asia; companies that are planned for divestment are moved to Group Centre)
- Group Centre (companies that are planned for divestment[1], as well as some allocated results that cannot be allocated in a reliable way to other segments).

The basic principle of the segment reporting is that an individual subsidiary is allocated fully to one segment. Exceptions are made for costs that can not be allocated reliably to a certain segment (grouped together in Group Centre) and KBC Bank NV (allocated to the different segments and to the Group Centre by means of different allocation keys).

Funding costs of goodwill regarding participations of KBC Bank are allocated to the different segments in function of the subsidiaries concerned.

The transactions conducted between the different segments occur 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). Some exceptions to these accounting policies have been made to better reflect the underlying performance (the resulting figures are named 'underlying results'):

- In order to arrive at the underlying group profit, exceptional factors that do not regularly occur during the normal course of business are eliminated. These factors also include exceptional losses (and gains), such as those incurred on structured credit investments, on exposures to troubled banks (Lehman Brothers, Washington Mutual, Icelandic banks) and on trading positions that were unwound due to the discontinuation of activities of KBC Financial Products. In view of their exceptional nature and materiality, it is important to separate out these factors to understand the profit trend fully. The results of divestments are also considered as 'non-recurring' items.
- In the IFRS accounts, a large part of KBC's derivatives used for Asset and Liability Management (ALM) are treated as 'trading instruments'. These include those derivatives that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk. Consequently, interest results on such hedges are recognised as 'net (un)realised gains from financial instruments at fair value', while the interest paid on the underlying assets is recognised as 'net interest income'. In the underlying accounts, the interest on these derivatives is shifted to the 'net interest income' heading (where interest results on the underlying assets are already presented), without any impact on net profit.

1 Includes also the minority share in CSOB (Czech Republic) that will be floated.

- Moreover, fair value changes (due to marking-to-market) of these ALM derivatives are recognised under 'net (un)realised gains from financial instruments at fair value', while most of the underlying assets are not fair-valued (i.e. not marked-to-market). In order to limit the volatility of this MtM, a (government) bond portfolio has been classified as financial assets at fair value through profit or loss (fair value option). The remaining volatility of the fair value changes in these ALM derivatives versus the fair value changes in the bond portfolio at fair value through profit or loss is excluded in the underlying results.
- In the IFRS accounts, income related to trading activities is split across different components. While trading gains are recognised under 'net (un)realised gains 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 gains on available-for-sale assets' and 'other net income' are also related to trading income. In the underlying figures, all trading income components within the investment banking division are shifted to 'net (un)realised gains from financial instruments at fair value', without any impact on net profit.
- In the IFRS accounts, the effect of changes in own credit risk was taken into account to determine the fair value of liabilities at fair value through profit or loss. This resulted in value changes that had an impact on reported net profit. Since this is a non-operating item, the impact is excluded from the 'underlying figures'.

The reconciliation of net profit under IFRS and 'underlying' net profit is given in the following table:

Reconciliation of underlying profit and profit according to IFRS KBC Bank (in millions of EUR)			1H 2009	1H 2010
Profit after tax, attributable to equity holders of the parent, UNDERLYING	Business Unit	Main heading*	505	835
+ MTM of derivatives for ALM hedging	Various	FIFV	44	-365 (a)
+ gains/losses on CDOs	Various	FIFV	-2 274	66
+ MTM of CDO guarantee and commitment fee	Group Centre	FIFV	-923	-64
+ value losses on AFS shares	Various	IMP, AFS	-72	0
+ (reversal of) impairment on troubled US and Icelandic banks	Various	IMP,FIFV,AFS	16	13
+ impairment on goodwill	Various	IMP	-77	-28
+ loss on legacy structured derivatives business (KBC FP)	Group Centre	FIFV	-760	-202 (b)
+ MTM of own debt issued	Group Centre	FIFV	334	42
+ divestment results	Various	ONI	0	-3
+ other	Various	-	60	-107
+ taxes and minority interests re. items above	Various		333	510 (c)
Profit after tax, attributable to equity holders of the parent, IFRS			-2 815	698

* Main heading in the income statement
FIFV: Net (un)realised gains from financial instruments at fair value
IMP: Impairment
AFS: Net realised gains from available-for-sale assets
ONI: Other net income

(a) See first bullet at the top of this page. Please note that the negative credit environment resulted in a fair value decrease of some government bonds (cf. widening credit spreads, particularly of the PIIGS countries and Belgium).
(b) Trading loss related to legacy structured derivatives positions at KBC Financial Products. Further losses cannot be ruled out in the future whilst exposures continue to be reduced.
(c) Includes the recognition of a deferred tax asset worth 0.4 billion euros (see Note 13).

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre excluding interseg-ment eliminations	Inter-segment eliminations	Total
INCOME STATEMENT - underlying results - 1H 2009						
Net interest income	683	751	396	314	1	2 145
Dividend income	4	7	2	1	0	14
Net (un)realised gains from financial instruments at fair value through profit or loss	25	31	416	45	0	516
Net realised gains from available-for-sale assets	4	7	1	0	0	12
Net fee and commission income	405	220	99	46	- 4	766
Other net income	36	44	77	55	- 24	189
TOTAL INCOME	1 158	1 059	991	459	- 26	3 642
Operating expenses	- 705	- 616	- 281	- 411	26	- 1 986
Impairment	- 36	- 267	- 432	- 141	0	- 875
on loans and receivables	- 36	- 266	- 430	- 141	0	- 873
on available-for-sale assets	0	0	- 1	0	0	- 1
on goodwill	0	0	0	0	0	0
on other	0	0	- 1	0	0	- 1
Share in results of associated companies	0	8	0	- 4	0	5
PROFIT BEFORE TAX	417	185	279	- 96	0	785
Income tax expense	- 121	- 17	- 68	- 9	0	- 215
Net post-tax income from discontinued operations	0	0	0	0	0	0
PROFIT AFTER TAX	296	168	211	- 105	0	570
attributable to minority interests	22	82	44	- 83	0	64
attributable to equity holders of the parent	274	86	167	- 22	0	505
INCOME STATEMENT - underlying results - 1H 2010						
Net interest income	724	852	391	220	0	2 187
Dividend income	4	2	3	0	0	8
Net (un)realised gains from financial instruments at fair value through profit or loss	37	82	276	17	0	412
Net realised gains from available-for-sale assets	6	13	2	3	0	24
Net fee and commission income	505	231	117	43	- 1	896
Other net income	18	41	48	4	- 5	106
TOTAL INCOME	1 294	1 220	837	288	- 5	3 633
Operating expenses	- 646	- 605	- 271	- 298	5	- 1 814
Impairment	- 28	- 227	- 310	- 74	0	- 640
on loans and receivables	- 28	- 225	- 308	- 74	0	- 635
on available-for-sale assets	0	0	- 2	0	0	- 2
on goodwill	0	0	0	0	0	0
on other	0	- 2	0	0	0	- 2
Share in results of associated companies	0	6	0	- 12	0	- 6
PROFIT BEFORE TAX	620	394	255	- 97	0	1 172
Income tax expense	- 195	- 50	- 44	20	0	- 270
Net post-tax income from discontinued operations	0	0	0	0	0	0
PROFIT AFTER TAX	425	344	210	- 77	0	902
attributable to minority interests	58	111	7	- 108	0	67
attributable to equity holders of the parent	367	233	204	32	0	835

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

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Center	Total
Balance sheet information 31-12-2009					
Total loans to customers	49 743	33 848	52 639	16 071	152 301
Of which mortgage loans	24 957	12 075	13 383	8 257	58 672
Of which reverse repos	0	3 177	3 444	0	6 620
Customer deposits	67 140	42 728	64 643	13 993	188 504
Of which repos	320	3 138	9 741	0	13 199
Balance sheet information 30-06-2010					
Total loans to customers	51 113	32 699	57 696	15 776	157 284
Of which mortgage loans	25 919	13 625	13 162	7 217	59 923
Of which reverse repos	0	1 967	11 651	0	13 618
Customer deposits	67 447	43 157	84 167	13 467	208 237
Of which repos	0	2 502	19 595	0	22 097

Segment reporting according to geographic area (Note 2b in the annual accounts)

The geographical information is based on geographic areas, reflecting KBC's focus on Belgium and Central and Eastern Europe (including Russia) and its selective presence in other countries ('rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).
The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.
The geographic segmentation differs significantly from the business unit breakdown, due to, inter alia, a different allocation methodology and the fact that the geographic segment 'Belgium' includes not only the Belgium business unit, but also the Belgian part of the Merchant Banking Business unit.

In millions of EUR	Belgium	Central and Eastern Europe	Rest of the world	Total
1H 2009				
Total income from external customers	1 715	1 271	656	3 642
31-12-2009				
Total assets (period-end)	179 912	55 840	45 861	281 613
Total liabilities (period-end)	160 771	50 425	57 400	268 596
1H 2010				
Total income from external customers	1 642	1 361	630	3 633
30-06-2010				
Total assets (period-end)	204 263	56 262	44 357	304 881
Total liabilities (period-end)	186 846	51 019	53 384	291 249

Other notes

Net interest income (Note 3 in the annual accounts)

In millions of EUR	1H 2009	1H 2010
Total	2 358	2 611
Interest income	5 879	4 816
Available-for-sale assets	629	605
Loans and receivables	3 946	3 315
Held-to-maturity investments	165	196
Other assets not at fair value	25	13
Subtotal, interest income from financial assets not measured at fair value through profit or loss	4 764	4 129
Financial assets held for trading	347	197
Hedging derivatives	341	164
Other financial assets at fair value through profit or loss	427	326
Interest expense	- 3 521	- 2 205
Financial liabilities measured at amortised cost	- 2 581	- 1 610
Other	- 7	0
Subtotal, interest expense for financial assets not measured at fair value through profit or loss	- 2 588	- 1 610
Financial liabilities held for trading	- 52	- 47
Hedging derivatives	- 470	- 406
Other financial liabilities at fair value through profit or loss	- 411	- 142

Dividend income (Note 4 in the annual accounts)

In millions of EUR	1H 2009	1H 2010
Total	37	25
Breakdown by type		
Held-for-trading shares	23	16
Shares initially recognised at fair value through profit or loss	0	2
Available-for-sale shares	15	6

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

After improving in the first quarter of 2010, the market price for corporate credit deteriorated in the second quarter, as reflected in credit default swap spreads, which meant that – on balance – the value adjustment of KBC's exposure to CDOs (a figure that also includes the impact of the government guarantee scheme, but not the related fee) remained very limited (-15 million euros in the first half of 2010). The coverage of CDO-related counterparty risk against MBIA, the US monoline insurer, remained at 70%, i.e. the level at year-end 2009.

Information on the P&L impact of the valuation changes related to the government bonds of selected European countries is provided in Note 39.

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

In millions of EUR	1H 2009	1H 2010
Total	10	26
Breakdown by portfolio		
Fixed-income securities	9	20
Shares	1	6

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

In millions of EUR	1H 2009	1H 2010
Total	736	871
Fee and commission income	1 019	1 162
Securities and asset management	480	601
Commitment credit	129	134
Payments	244	251
Other	166	176
Fee and commission expense	- 283	- 291
Commission paid to intermediaries	- 36	- 59
Other	- 246	- 232

Other income (Note 8 in the annual accounts)

In millions of EUR	1H 2009	1H 2010
Total	241	224
Net realised gain on loans and receivables	6	4
Net realised gain on held-to-maturity investments	- 1	0
Net realised gain on financial liabilities measured at amortised cost	1	0
Other	234	220
Of which: realised gain on sale of shares Prague Stock Exchange	0	0
Of which: impact ownership percentage NLB	0	0
Of which: income concerning leasing at the KBC Lease-group	25	36
Of which: income from consolidated private equity participations	40	27

Impairment (income statement) (Note 11 in the annual accounts)

In millions of EUR	1H 2009	1H 2010
Total	- 1 058	- 668
Impairment on loans and receivables	- 885	- 635
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 695	- 584
Specific impairments for off-balance-sheet credit commitments	- 12	- 8
Portfolio-based impairments	- 178	- 43
Impairment on available-for-sale assets	- 80	- 2
Breakdown by type		
Shares	- 79	- 2
Other	- 1	0
Impairment on goodwill	- 93	- 28
Impairment on other	- 1	- 2
Intangible assets, other than goodwill	0	0
Property and equipment	1	- 1
Held-to-maturity assets	0	0
Associated companies (goodwill)	0	0
Other	- 2	- 1

Income tax expense (Note 13 in the annual accounts)

In 2009, KBC Bank recorded a loss of 2.5 billion euros largely on account of (fair value) losses incurred on its CDO portfolio and related activities. Untill 31 March 2010, KBC had not booked a tax impact on the larger part of these losses, given the fact that these losses occured in subsidiaries which had insufficient future taxable profits to offset these tax losses. In order to recapitalise one of the major subsidiaries involved, KBC Bank proposed to the local regulator and the Belgian tax office a debt waiver in favour of this subsidiary.
At the end of April, the Belgian tax ruling office ruled positively, confirming the general principle that, if certain criteria are being met, a debt waiver is tax deductible. In practice, this means KBC has booked in the second quarter of 2010 a net positive deferred tax income of EUR 0.4 billion. The deferred tax asset is justified by the availability of sufficient taxable profit in a reasonably foreseeable future. The estimated future profits are based on macro economic assumptions and take into account the most conservative of a range of scenarios.

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

FINANCIAL ASSETS (in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and recei-vables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2009								
Loans and advances to credit institutions and investment firms [a]	566	3 975	0	13 850	-	-	-	18 391
Loans and advances to customers [b]	3 328	6 355	0	142 618	-	-	-	152 301
Discount and acceptance credit	0	9	0	105	-	-	-	114
Consumer credit	0	0	0	4 939	-	-	-	4 939
Mortgage loans	0	2 349	0	56 323	-	-	-	58 672
Term loans	3 328	3 824	0	64 482	-	-	-	71 634
Finance leasing	0	0	0	5 569	-	-	-	5 569
Current account advances	0	0	0	4 738	-	-	-	4 738
Securitised loans	0	0	0	0	-	-	-	0
Other	0	173	0	6 462	-	-	-	6 635
Equity instruments [c]	2 940	18	821	-	-	-	-	3 778
Debt instruments issued by	12 343	12 301	31 498	3 208	8 400	-	-	67 749
Public bodies	8 031	11 183	27 007	3	8 032	-	-	54 256
Credit institutions and investment firms	2 460	285	2 772	0	300	-	-	5 817
Corporates	1 852	832	1 720	3 205	68	-	-	7 677
Derivatives	21 414	-	-	-	-	165	-	21 579
Total carrying value excluding accrued intrest income	40 591	22 648	32 319	159 676	8 400	165	-	263 799
Accrued interest income	200	244	559	468	205	48	-	1 724
Total carrying value including accrued interest income	40 791	22 892	32 878	160 144	8 605	213	-	265 523
[a] Of which reverse repos								*4 187*
[b] Of which reverse repos								*6 620*
[c] For AFS equity: of which:								
Real estate certificates			*1*					
Bonds and cash			*392*					
Shares			*428*					
30-06-2010								
Loans and advances to credit institutions and investment firms [a]	889	4 172	0	17 349	-	-	-	22 409
Loans and advances to customers [b]	2 210	12 997	0	142 077	-	-	-	157 284
Discount and acceptance credit	0	0	0	210	-	-	-	210
Consumer credit	0	0	0	4 432	-	-	-	4 432
Mortgage loans	0	664	0	59 259	-	-	-	59 923
Term loans	2 210	12 237	0	63 773	-	-	-	78 220
Finance leasing	0	0	0	5 225	-	-	-	5 225
Current account advances	0	0	0	5 247	-	-	-	5 247
Securitised loans	0	0	0	0	-	-	-	0
Other	0	96	0	3 932	-	-	-	4 028
Equity instruments	2 278	17	649	-	-	-	-	2 944
Debt instruments issued by	11 266	11 107	35 036	3 694	9 116	-	-	70 219
Public bodies	8 170	9 967	30 625	72	8 840	-	-	57 673
Credit institutions and investment firms	1 563	340	2 742	214	213	-	-	5 072
Corporates	1 533	800	1 669	3 408	63	-	-	7 474
Derivatives	22 345	-	-	-	-	256	-	22 601
Total carrying value excluding accrued interest income	38 986	28 293	35 685	163 120	9 116	256	-	275 456
Accrued interest income	163	229	529	511	181	46	-	1 658
Total carrying value including accrued interest income	39 149	28 522	36 214	163 631	9 297	302	-	277 115
[a] Of which reverse repos								*4 431*
[b] Of which reverse repos								*13 618*
[c] For AFS equity: of which:								
Real estate certificates			13					
Bonds and cash			96					
Shares			541					

In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Endorsed by the European Union on 15 October 2008, these amendments permit an entity to reclassify financial assets in particular circumstances. Certain non-derivative financial assets measured at fair value through profit or loss (other than those classified under the fair value option) may in certain cases be reclassified to 'held to maturity', 'loans and receivables' or 'available for sale assets'. Certain assets classified as 'available for sale' may be transferred to 'loans and receivables', likewise in particular cases. The amendments to IFRS 7 also impose additional disclosure requirements if the reclassification option is used.
Following the implementation of these amendments, KBC reclassified on 31 December 2008 a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. Both the carrying value and the fair value of these reclassified assets was 3.6 billion euros on 31 December 2008.

Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008
In millions of EUR (30-06-2010)

Carrying value	3 105
Fair value	3 176

Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008
In millions of EUR (30-06-2010) – amounts before tax

	If not reclassified	After reclassification	Impact
Outstanding revaluation reserve (available-for-sale assets)	-540	-655	-115
Income statement	-11	-56	-45

In 1H 2010, the reclassification resulted in (pre-tax):

- a negative effect on equity to the tune of 115 million euro regarding the revaluation reserve AFS (and a positive impact on reserves of +18 million euro regarding the income statement of 2009)
- a negative effect on the income statement amounting to 45 million euro.

Besides specific impairments, 9 million euro was also added for portfolio-based impairment (IBNR) on loans and receivables in the first half of 2010.

FINANCIAL LIABILITIES (in millions of EUR)	Held for trading	Designated at fair value [c]	Available for sale	Loans and recei-vables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2009								
Deposits from credit institutions and investment firms [a]	211	6 778	-	-	-	-	36 997	43 987
Deposits from customers and debt certificates [b]	834	16 961	-	-	-	-	170 709	188 504
Deposits from customers	0	13 175	-	-	-	-	127 460	140 635
Demand deposits	0	150	-	-	-	-	39 617	39 767
Time deposits	0	13 013	-	-	-	-	44 442	57 455
Savings deposits	0	0	-	-	-	-	38 645	38 645
Special deposits	0	0	-	-	-	-	3 677	3 677
Other deposits	0	11	-	-	-	-	1 080	1 091
Debt certificates	834	3 786	-	-	-	-	43 249	47 869
Certificates of deposit	0	287	-	-	-	-	15 663	15 950
Customer savings certificates	0	0	-	-	-	-	2 579	2 579
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	834	3 218	-	-	-	-	16 444	20 495
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	282	-	-	-	-	8 564	8 845
Derivatives	26 100	0	-	-	-	831	-	26 931
Short positions	2 072	0	-	-	-	-	-	2 072
in equity instruments	451	0	-	-	-	-	-	451
in debt instruments	1 621	0	-	-	-	-	-	1 621
Other	250	0	-	-	-	-	1 536	1 785
Total carrying value excluding accrued interest expense	29 467	23 739	-	-	-	831	209 242	263 279
Accrued interest expense	146	89	-	-	-	191	887	1 313
Total carrying value including accrued interest expense	29 613	23 828	-	-	-	1 022	210 129	264 592
[a] *Of which repos*								*10 437*
[b] *Of which repos*								*13 199*
[c] *Of which valuation own credit risk*								*- 204*
30-06-2010								
Deposits from credit institutions and investment firms [a]	23	7 829	-	-	-	-	33 573	41 425
Deposits from customers and debt certificates [b]	656	28 386	-	-	-	-	179 194	208 237
Deposits from customers	0	24 391	-	-	-	-	134 951	159 342
Demand deposits	0	201	-	-	-	-	49 326	49 527
Time deposits	0	24 190	-	-	-	-	40 494	64 684
Savings deposits	0	0	-	-	-	-	40 106	40 106
Special deposits	0	0	-	-	-	-	3 822	3 822
Other deposits	0	0	-	-	-	-	1 202	1 202
Debt certificates	656	3 995	-	-	-	-	44 244	48 895
Certificates of deposit	0	369	-	-	-	-	17 647	18 016
Customer savings certificates	0	0	-	-	-	-	2 377	2 377
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	656	3 310	-	-	-	-	14 874	18 841
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	316	-	-	-	-	9 346	9 662
Derivatives	28 979	0	-	-	-	1 190	-	30 169
Short positions	830	0	-	-	-	-	-	830
in equity instruments	35	0	-	-	-	-	-	35
in debt instruments	795	0	-	-	-	-	-	795
Other	0	0	-	-	-	-	3 692	3 692
Total carrying value excluding accrued interest expense	30 489	36 215	-	-	-	1 190	216 459	284 353
Accrued interest expense	44	80	-	-	-	33	1 233	1 390
Total carrying value including accrued interest expense	30 532	36 295	-	-	-	1 223	217 692	285 743
[a] *Of which repos*								*12 612*
[b] *Of which repos*								*22 097*
[c] *Of which valuation own credit risk*								*- 249*

Impairment on loans and receivables (Note 20 in the annual accounts)

In millions of EUR	31-12-2009	30-06-2010
Total	3 942	4 500
Breakdown by type		
Specific impairment, on-balance-sheet loans and receivables	3 535	4 035
Specific impairment, off-balance-sheet credit commitments	84	93
Portfolio-based impairment	323	372
Breakdown by counterparty		
Impairment for loans and advances to banks	36	39
Impairment for loans and advances to customers	3 797	4 346
Bijzondere en op portefeuillebasis berekende waardeverminderingen voor verbinteniskredieten buiten balans	109	114

Parent shareholders equity (Note 30 in the annual accounts)

In number of shares	31-12-2009	30-06-2010
Ordinary shares	915 228 482	915 228 482
Non-voting core-capital securities	0	0
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in euros)	9,78	9,78
Number of shares issued but not fully paid up	0	0

All KBC Bank ordinary shares are owned by KBC Group NV (915 228 481 shares) and its subsidiary KBC Insurance (1 share).

Related-party transactions (Note 33 in the annual accounts)

In millions of EUR	31-12-2009 Parent	Subsidiaries	Associated companies	Other related parties	Belgian Government	Flemish Government	Total	30-06-2010 Parent	Subsidiaries	Associated companies	Other related parties	Belgian Government	Flemisch Government	Total
				parties							parties			
TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS														
Assets	153	383	256	1 774	23 434	54	26 054	247	437	171	1 493	21 312	54	23 715
Loans and advances	0	84	153	595	103	0	935	0	60	128	652	76	0	916
Current accounts	0	1	0	141	4	0	146	0	1	0	161	0	0	162
Term loans	0	83	153	454	99	0	789	0	59	128	491	76	0	753
Finance leases	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	131	213	5	9	0	0	357	182	271	34	11	0	0	497
Trading securities	12	45	5	1	0	0	62	19	45	5	3	0	0	71
Investment securities	119	168	0	8	0	0	295	163	226	29	8	0	0	426
Other Receivables	22	86	98	1 170	23 331	54	24 762	65	107	9	831	21 236	54	22 302
Liabilities	331	150	244	6 120	299	0	7 143	306	327	228	5 198	379	0	6 438
Deposits	55	145	204	4 301	226	0	4 932	35	297	205	3 359	314	0	4 211
deposits	55	144	80	4 301	226	0	4 807	35	296	204	3 359	314	0	4 208
other borrowings	0	1	124	0	0	0	125	0	1	1	0	0	0	2
Other financial liabilities	250	1	30	1 442	0	0	1 723	250	26	1	1 518	0	0	1 794
Debt certificates	0	1	30	1 442	0	0	1 473	0	26	1	1 518	0	0	1 544
Subordinated liabilities	250	0	0	0	0	0	250	250	0	0	0	0	0	250
Share based payments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Granted	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exercised	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	25	4	9	377	72	0	488	21	4	23	320	65	0	434
Income statement	- 18	16	10	- 822	728	0	- 86	- 2	7	- 4	- 390	356	1	- 32
Net interest income	- 7	13	4	- 228	728	0	511	- 2	9	- 1	- 50	356	1	314
Gross earned premiums	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	4	7	0	0	0	11	0	0	1	0	0	0	1
Net fee and commission income	0	3	0	133	0	0	136	0	0	- 2	67	0	0	65
Other income	0	3	1	38	0	0	42	0	0	0	3	0	0	4
General administrative expenses	- 11	- 6	- 2	- 766	0	0	- 785	- 1	- 2	- 2	- 411	0	0	- 416
Guarantees														
Guarantees issued by the group	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guarantees received by the group	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Note: the figure at 31-12-2009 under ‘Assets’, ‘Investment securities’ in the ‘Parent’ column has been adjusted retroactively from 0 to 119 million euros.

In the first half of 2010, there were no significant changes to related parties compared with year-end 2009. In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the results for the first half of 2010 is a related fee (64 million euros) for the portion of this guarantee allocated to KBC Bank, which is recognised in ‘Net (un)realised gains from financial instruments at fair value through profit or loss’.

Main changes in the scope of consolidation (Note 36 in the annual accounts)

Company	Consolidation method	Ownership percentage at KBC Bank level		Comments
For income statement comparison		1H 2009	1H 2010	
Additions				
None				
Exclusions				
None				
Changes in ownership percentage and internal mergers				
Istrobanka a.s.	Full	100,00%	-	Merger with CSOB SR as from 3Q2009
KBC Bank Nederland	Full	100,00%	-	Merger with KBC Bank as from 2Q2009
For balance sheet comparison		31-12-2009	30-06-2010	
Additions				
None				
Exclusions				
None				
Changes in ownership percentage and internal mergers				
None				

During the first half of 2010, there was no material impact on the balance sheet or income statement arising from changes in the scope of consolidation.

Post-balance-sheet events (Note 37 in the annual accounts)

The main events that occurred between the balance sheet date (30 June 2010) the date on which this report was published (31 August 2010) are given below:

- On 5 July 2010, KBC Group reached an agreement with Daiwa Capital Markets for the sale of its Global Convertible Bond and Asian Equity Derivatives businesses for a total consideration of approximately USD 1 billion, consisting of approximately USD 0.2 billion for staff, IT infrastructure and other assets (excluding the trading position) and approximately USD 0.8 billion for the trading position. The acquisition will free up capital resources for KBC in the amount of USD 0.2 billion (of which USD 0.1 billion net realised gains).

- On 7 July 2010, KBC Securities completed the management buy-out of its Latvia based subsidiary KBC Securities Baltic Investment Company with the managing directors Andrei Zadornov and Kirill Jurzditsky. The impact of the buy-out on the KBC group's earnings and capital is negligible.

- On 22 July 2010, the Hungarian Parliament passed the law including the tax law changes. The law introduces a new bank tax that will be imposed for 2010, 2011 and 2012. This tax will have a negative net profit impact on K&H Bank in the second half of 2010 of about 53 million euros before tax (42 million after tax).

- On 29 July 2010, KBC and KBC Peel Hunt reached agreement on a buy-out of KBC Peel Hunt for a total consideration of GBP 74 million. KBC Peel Hunt was no longer deemed a part of the KBC Group going forward. The transaction is still subject to regulatory approval and is expected to be completed in the next few months. The impact of the buy-out on the KBC group's earnings and capital is negligible.

For more information on the divestments, see Note 40.

Additional note (39): overview of sovereign bond risk on selected European countries

Government bonds of selected European countries, in billions of EUR (30-06-2010), carrying amounts

	Total			Banking book		
	Banking book*	Trading book	Total	Of which maturity date in 2H 2010	Of which maturity date in 2011	Of which maturity date after 2011
Greece	0.6	0.1	0.7	0.0	0.0	0.6
Portugal	0.1	0.0	0.1	0.0	0.0	0.1
Spain	1.4	0.2	1.6	0.0	0.0	1.4
Italy	6.1	1.2	7.3	0.1	0.9	5.1
Ireland	0.3	0.0	0.3	0.0	0.0	0.3

* Available-for-sale, held-to-maturity, and designated at fair value through profit or loss.

Recent market turbulences for sovereign bonds have not had any relevant impact on KBC's liquidity position and strategy. All sovereign bonds remain eligible for being pledged against the ECB.

No impairments have been booked for these sovereign bonds. Over 2Q 2010, KBC booked fair value changes in the P&L for a total amount of EUR -115 million (of which EUR -35 million on Greece and EUR -77 million on Italy) on the sovereign bonds designated at fair value through profit or loss and a trading result of EUR -13 million.

Additional note (40): Disclosure related to IFRS 5 ('Non-current Assets Held for Sale and Discontinued Operations')

General

IFRS 5 determines that a non-current asset (or a group of assets which will be disposed of) needs to be classified as 'held for sale' if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable.

To prove that the sale is highly probable, five criteria must all be fulfilled at the same time:
1. Commitment of higher management to a plan of sale;
2. An active programme to locate a buyer and to complete the plan, is launched;
3. The desired sale price is reasonable in relation to its current fair value;
4. Sale within one year;
5. Unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Situation at 30 June 2010

On 30 June 2010, a number of the planned divestments already fulfill the criteria of IFRS 5:
- as disposal groups without being part of a discontinued operation: some activities of the KBC FP-group (Global Convertibles and Asia Equity Derivatives), KBC Asset Management Ltd (Ireland) and KBC Securities Baltic Investment Company sia
- as disposal groups which are part of a discontinued operation: none;

The assets and liabilities of these divestments are shown seperately 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.

The other participations which are up for divestment in the future (such as Centea, Absolut Bank, KBC Peel Hunt, Zagiel…) do not yet fulfil the criteria mentioned above on 30 June 2010:
- for a number of them the sale within one year is not planned
- and/or an active program to locate a buyer has not been launched;
- and/or it is preliminary to conclude that in the current volatile financial markets the desired sale price can be obtained so that is it possible that significant changes to the plan are made.

Information on the divestments

Global convertibles and Asia equity derivatives

Activity: Equities and derivatives trading
Segment: Group Centre
Sale agreement date: 5 July 2010
Other information: KBC Group reached an agreement with Daiwa Capital Markets for the sale of its Global Convertible Bond and Asian Equity Derivatives businesses for a total consideration of approximately USD 1 billion, consisting of approximately USD 0.2 billion for staff, IT infrastructure and other assets (excluding the trading position) and approximately USD 0.8 billion for the trading position. The agreement reached with Daiwa releases 0.2 billion dollars' worth of capital and will have a positive impact of approximately 10 basis points on KBC Bank's tier-1 ratio. Over the last two years, the businesses generated an average net profit contribution to the underlying result of KBC Bank of 3.5%. The transaction is expected to close in the fourth quarter 2010.

KBC Asset management Ltd.

Activity: Asset management
Segment: Belgium business unit
Sale agreement date: 21 June 2010
Other information: RHJ International and KBC Asset Management NV reached agreement on the sale of KBC Asset Management's Dublin-based subsidiary KBC Asset Management Ltd for a total upfront cash consideration of EUR 23.7 million, subject to closing adjustments. KBC Asset Management NV will also receive 50%, with a maximum of EUR 3.5 million, of a potential future capital reduction at KBCAM Dublin (based on the still to be determined future minimum capital requirements of the company). The transaction is subject to regulatory approval and is expected to be completed in the fourth quarter of 2010. The impact of the sale on KBC's earnings and capital is negligible given the size and nature of the activities.

KBC Securities Baltic Investment Company

Activity: Stock exchange broker/Corporate finance
Segment: Merchant banking business unit
Sale agreement date: 7 July 2010
Other information: KBC Securities completed the management buy-out of its Latvia based subsidiary KBC Securities Baltic Investment Company with the managing directors Andrei Zadornov and Kirill Jurzditsky. The impact of the sale on KBC's earnings and capital is negligible.

Impact of divestments on the balance sheet

'Non-current assets held for sale and assets associated with disposal groups' and 'Liabilities associated with disposal groups' in the balance sheet.

In millions of eur	30-06-2010
Cash and cash balances with central banks	0
Financial assets	2 082
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0
Tax assets	0
Investments in associated companies	0
Investment property and property and equipment	2
Goodwill and other intangible assets	0
Other assets	9
TOTAL ASSETS	2 094
Financial liabilities	1 666
Gross technical provisions, insurance	0
Tax liabilities	0
Provisions for risks and charges	0
Other liabilities	5
TOTAL LIABILITIES	1 671
Available-for-sale reserve	0
Deferred tax on available-for-sale reserve	0
Translation differences	0
TOTAL OTHER COMPREHENSIVE INCOME	0

Report of the statutory auditor to the shareholders of KBC Bank nv on the review of the interim condensed consolidated financial statements as of 30 June 2010 and for the six months then ended

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of KBC Bank nv (the "Company") as at 30 June 2010 and the related interim consolidated income statement, the condensed consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard *IAS 34 Interim Financial Reporting* ("IAS 34") as adopted for use in the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review ("revue limitée/beperkt nazicht" as defined by the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren") in accordance with the recommendation of the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren" 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 auditing standards of the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren" 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as adopted for use in the European Union.

Brussels, 31 August 2010

Ernst & Young Bedrijfsrevisoren bcvba
Statutory auditor
Represented by

Pierre Vanderbeek Partner	Christel Weymeersch Partner

Ref: 11PVDB0011

Value and risk management

KBC Bank, 1H 2010

In-depth information on risk management and solvency at year-end 2009 is given in KBC Bank's annual report for 2009. Some of this information has been updated and presented below. Methodological information is also provided in the annual report.

Snapshot of the loan portfolio

The main source of credit risk is KBC Bank's loan portfolio. A snapshot of this portfolio is shown in the table below. It includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government securities in the investment books of the group. It excludes government bonds, trading book securities, interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) and intragroup transactions. More information on this and other sources of credit risk is provided in the annual report.

KBC Bank loan portfolio	31-12-2009	30-06-2010
Total loan portfolio (in billions of EUR)		
Amount granted	198	196
Amount outstanding	163	165
Loan portfolio by business unit (as a % of the portfolio of credit granted)		
Belgium	29%	30%
Central & Eastern Europe	22%	22%
Merchant Banking	40%	38%
Group Centre (including companies earmarked for divestment)	10%	10%
Total	100%	100%
Loan portfolio, by counterparty sector (selected sectors as a % of the portfolio of credit granted)		
real estate	7%	7%
electricity	3%	3%
aviation	0.3%	0.3%
automobile industry	2%	2%
Impaired loans (in millions of EUR or %)		
Amount outstanding	8 732	9 661
Specific loan impairment	3 696	4 141
Portfolio-based loan impairment	323	372
Credit cost ratio		
Belgium	0.15%	0.10%
Central and Eastern Europe	1.70%	1.23%
Czech Republic	1.12%	0.74%
Slovakia	1.56%	1.22%
Hungary	2.01%	1.84%
Poland	2.59%	1.45%
Bulgaria	2.22%	1.78%
Merchant Banking	1.19%	1.03%
Group Centre (including companies earmarked for divestment)	2.52%	0.94%
Total	1.12%	0.77%
Non-performing (NP) loans (in millions of EUR or %)		
Amount outstanding	5 427	6 070
Specific impairment for non-performing loans	2 657	2 893
Non-performing ratio		
Belgium	1.5%	1.5%
Central & Eastern Europe	4.1%	5.2%
Merchant Banking	3.9%	4.1%
Group Centre (including companies earmarked for divestment)	5.1%	5.8%
Total	3.3%	3.7%
Cover ratio		
Specific impairment for non-performing loans/outstanding non-performing loans	49%	48%
Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans	74%	74%

Detailed information on KBC's structured credit is provided in the 'Extended Quarterly Report for 2Q 2010 – KBC Group' (pp 63-68), which is available at www.kbc.com.

Market risk

Market risk in non-trading activities

The Basis Point Value (BPV) in the table shows the change in the value of the portfolio if interest rates were to fall by ten basis points across the entire curve (positive figures indicate an increase in the value of the portfolio). The figures relate to KBC Bank, CBC Banque, Centea, KBC Lease, KBC Bank Deutschland, KBC Bank Ireland, Antwerp Diamond Bank, ČSOB (Czech Republic), ČSOB (Slovakia), K&H Bank, Kredyt Bank, Absolut Bank, CIBANK and KBC Credit Investments.

BPV of ALM book, KBC Bank (in millions of EUR)	FY 2009	1H 2010
1Q average	84	63
2Q average	90	68
3Q average	81	-
4Q average	64	-
End of period	59	69
Maximum during period	93	69
Minimum during period	59	59

Market risk in trading activities

The table shows the Value-at-Risk (99% confidence interval, 1-day holding period) for the bank's trading activities (KBC Bank in the table) and for KBC Financial Products.

Market risk for trading activities: VAR (1-day holding period; in millions of EUR)	FY 2009		1H 2010	
	KBC Bank	KBC Financial Products	KBC Bank	KBC Financial Products
1Q average	9	14	6	9
2Q average	8	15	8	9
3Q average	6	9	-	-
4Q average	6	10	-	-
End of period	5	11	6	8
Maximum during period	12	21	15	13
Minimum during period	5	6	4	7

Solvency

Solvency, KBC Bank (in millions of EUR)	31-12-2009	31-06-2010
Total regulatory capital, after profit appropriation	17 761	17 939
Tier-1 capital	13 440	12 918
Parent shareholders' equity	12 168	12 741
Intangible fixed assets (-)	-109	-102
Goodwill on consolidation (-)	-1 665	-1 685
Innovative hybrid tier-1 instruments	402	428
Non-innovative hybrid tier-1 instruments	1 945	1 688
Minority interests	492	515
Equity guarantee (Belgian State)	462	516
Revaluation reserve, available-for-sale assets (-)	17	-99
Hedging reserve, cashflow hedges (-)	374	662
Valuation differences in financial liabilities at fair value – own credit risk (-)	-151	-180
Minority interests in available-for-sale reserve and hedging reserve, cashflow hedges (-)	0	-5
Dividend payout assumed (-)	0	-698
IRB provision shortfall (-)	-77	-45
Limitation on deferred tax assets (-)	0	-415
Items to be deducted (-)	-418	-405
Tier-2- and tier-3 capital	4 320	5 021
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	250	250
Revaluation reserve, available-for-sale shares (at 90%)	109	105
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	-1	0
IRB provision excess (+)	0	0
Subordinated liabilities	4 313	4 973
Tier-3 capital	145	142
Items to be deducted (-)	-495	-449
Total weighted risks	123 074	118 642
Credit risk*	107 133	103 195
Market risk*	5 062	4 569
Operational risk	10 879	10 879
Solvency ratios		
Tier-1 ratio	10,9%	10,9%
Core tier-1 ratio	9,0%	9,1%
CAD ratio	14,4%	15,1%

* 31-12-2009: counterparty risk (derivatives) shifted retroactively from market risk to credit risk.