KBC

KBC Bank

Annual Report for 2013

To the reader

Company name

'KBC', 'the group', 'we' or 'KBC Bank' as used in this annual report refer to the consolidated bank entity, i.e. KBC Bank NV including all group companies included in the scope of consolidation. 'KBC Bank NV' refers solely to the non-consolidated entity. The 'Company annual accounts' section deals only with the non-consolidated entity.

Difference between KBC Bank and KBC Group

KBC Bank NV is a subsidiary of KBC Group NV. The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV. All KBC Bank NV shares are owned (directly and indirectly) by KBC Group NV. A number of KBC Bank's debt instruments are exchange-listed. Everywhere where mention is made of KBC Group or the KBC group in this annual report, KBC Group NV is meant, including all group companies included in the scope of consolidation.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments made when drawing up this report. By their nature, forward-looking statements involve risk and uncertainty. Various factors could cause actual results and developments to differ from the initial statements.

Translation

This annual report is available in Dutch and English. The Dutch version is the original and the English-language version 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.

Ratios used

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

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

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.

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

Credit cost ratio: [net changes in impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section (government bonds, for instance, are excluded).

Liquidity coverage ratio (LCR): [stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days].

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

Net interest margin: [adjusted net interest income] / [average interest-bearing assets].

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]. In accordance with the new EBA Guidelines, KBC might change its definition of non-performing in 2014, which means that loans with a PD-10 rating, which are currently classified as performing, will be reclassified as non-performing.

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

Articles 96 and 119 of the Belgian Companies Code

These articles specify the minimum content of company and consolidated annual reports required by law. This information has been incorporated into the different sections of the 'Report of the Board of Directors', which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this report. Pursuant to Article 119, KBC Bank NV has combined the reports for its company and consolidated annual accounts. The Risk Report, the CSR Report and the www.kbc.com website referred to in certain sections do not form part of the annual report.

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Remarks

- In relation to the determination of globally systemic banks, KBC Bank has been requested by the National Bank of Belgium to publish additional information relating to 2013. This information will be made available in the second quarter of 2014 at www.kbc.com.
- Nothing in this annual report constitutes an offer to sell securities in the United States, Canada, Japan, Australia or any other jurisdiction.

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Group profile

Statement by the Chairman of the Board of Directors and the Chief Executive Officer

Our group celebrated its fifteenth anniversary in 2013. In the course of those years, we have developed into a major European player, with a robust business model and sharp geographical focus. Although we were not immune to the financial crisis, we drew lessons from it and continued to adapt, placing an even greater emphasis on our core activities and risk management. The present economic climate is encouraging, but a number of uncertainties nevertheless remain. We have firmly armed ourselves against these uncertainties, as can be seen from our results for the past financial year. Our pursuit of a decent level of profitability has also been accompanied by embedding that profitability in a sustainable framework.

Thomas Leysen, Chairman of the Board of Directors, and Johan Thijs, CEO, reflect below on the main events of the past year.

The consolidated net result for 2013 came to roughly 0.6 billion euros. Are you satisfied with that?

Thomas Leysen: I am especially pleased with the significant steps we took in 2013 to move on from the aftermath of the financial crisis. We are again the type of group we want to be. One that is client-oriented, focused and profitable.

Johan Thijs: Our net result rose by about 900 million euros compared to last year and came to 590 million euros. If we exclude non-operating items, such as the valuation of CDOs and valuation markdowns on the remaining divestments, our adjusted result came to 666 million euros, compared with 1 138 million euros in 2012. This decline is entirely attributable to Ireland, where we set aside significant extra loan loss provisions after reviewing our loan portfolio there in the fourth quarter. Other elements that stood out in 2013 were a stable net interest margin, the recovery in our net fee and commission income and ongoing rigorous cost control, which was reflected in an excellent cost/income ratio of 52%.

Sustainability is more than just a buzzword for KBC. Could you expand on that?

Thomas Leysen: It is vital for us as an institution and a sector to fully win back trust. Sustainability in the financial sector means four things to us. First, we put the client's interests at the centre of all we do; second, we focus on long term performance; third, we enforce strict risk management procedures; and fourth, we take account of societal expectations and engage in dialogue with our stakeholders.

Johan Thijs: We launched a programme at KBC Group level in 2013 to enable us to switch over time to integrated reporting, in which we handle financial and non-financial information within a consistent and integrated framework. We believe that good communication in general is extremely important, so it was particularly pleasing to receive the Belgian Financial Analysts Association's prize in October 2013 for 'Best Financial Information'.

Is the period of divestments now behind us?

Thomas Leysen: We finalised the last remaining divestments in 2013. We sold our stake in Nova Ljubljanska banka in Slovenia and Bank Zachodni in Poland, and completed the sale of Absolut Bank in Russia. We also reached agreement to sell KBC Bank Deutschland and Antwerp Diamond Bank. In other words, we rigorously implemented our divestment programme in difficult market conditions and bode farewell, with considerable regret, to a number of group companies. But all that now leaves us slimmed down and fit. Our focus and area of operation have been clearly marked out, our objectives set and our structure optimised.

Johan Thijs: We improved our risk profile in other areas too. For instance, we slashed our exposure to CDOs in 2013, thanks to sales and other risk-mitigating measures, as a result of which our net exposure at year-end 2013 was just 6.3 billion euros for the KBC group as a whole. What's more, a considerable portion of the remaining CDO exposure is covered by a guarantee agreement with the Belgian State, which therefore also has an interest in reducing the net exposure. We had already substantially scaled down our exposure to GIIPS sovereign bonds in recent years.

KBC Group has already repaid 5 billion of the 7 billion euros received in state aid.

Thomas Leysen: Having paid back all the aid received from the Belgian Federal Government in 2012, KBC Group – the parent company of KBC Bank – repaid 1.17 billion euros to the Flemish Regional Government in 2013 and a further 0.33 billion euros at the start of 2014, together with a 50% penalty on both occasions. We intend to repay the remaining balance of 2 billion euros plus penalties in instalments by 2020 or sooner, subject to the approval of the regulator and only, of course, if our capital position allows us to do so. I can only repeat that we are very grateful to the governments for supporting us in our time of difficulty, and we consider it only natural that we should pay a penalty for that support. On the other hand, we would like to correct the impression that the banks have cost the taxpayer a lot of money. That is certainly not the case in our situation. In fact, by the end of the process, the KBC group will have repaid over 13 billion euros in principal, penalties, interest and CDO guarantee fees in return for the 7 billion euros in aid and the CDO guarantee agreement.

Johan Thijs: Our solvency position remains robust. Our tier-1 ratio under Basel II amounted to 16.2% at year-end 2013, while the common equity ratio under fully loaded Basel III comes to 12%. Our liquidity position remains as solid as ever, a fact that is reflected in our LCR and NSFR ratios, which stood at 131% and 111% respectively.

The new KBC strategy is now a little over a year old. What are your thoughts about it?

Johan Thijs: The figures prove that the new strategy and structure are working. Our financial and operating results are satisfactory but – even more importantly – our clients and our employees are generally satisfied too, as demonstrated by a number of surveys. We therefore believe more than ever in our policy choices, and even more so in our unique integrated bank-insurance model, and in our choice of core countries. Each day brings us closer to our goal of being the reference bank-insurer in all our core markets.

Thomas Leysen: Local embeddedness is an important pillar in our new strategy. It means that we are and want to be firmly rooted in the community in each of our core markets. We are also constantly adapting to the changing attitudes of our clients and to the justifiable expectations of society as a whole. We are convinced that these strong local ties are the greatest strength of our strategy and our business model.

How do you see things down the line?

Johan Thijs: Although I have to repeat myself this year again, it remains far from easy in the current climate to make a statement regarding future economic developments. Relative calm returned to the euro area in 2013 and the economy started to pick up, certainly from the autumn onwards. This recovery is likely to continue in 2014. Fundamentally, therefore, we are confident about the direction the economy will take, despite the many challenges facing the economic and political world in 2014. At KBC, we are looking forward with a sense of confidence and can now focus all our efforts on further developing our bank-insurance group. We are now in a position to devote our full attention to our clients, to meeting their financial needs and to building a long-term working relationship with them, based on the right mix in terms of risk, cost-consciousness and profitability.

Thomas Leysen: We have demonstrated in recent years that, even after exceptionally difficult circumstances, we can bounce back strongly thanks to a fundamentally healthy and strong business model that is underpinned by a committed workforce. We would therefore like to express our thanks to all our employees and all other stakeholders, especially our clients, shareholders, the Belgian State and Flemish Region for the confidence they have placed in our group. We remain committed to retaining that confidence.

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank focused on serving retail, private banking SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. We are also present in Ireland and, to a limited extent, elsewhere in the world, primarily to support corporate clients from our core markets.

Summary of the main events in 2013

January

- Successful placement of 1 billion US dollars' worth of contingent capital notes.
- Repayment of 8.3-billion-euro LTRO to the ECB (in January and February).
- EMAS (Eco-Management and Audit Scheme) certification awarded to KBC Belgium.
- KBC Mobile Business Banking launched.

February

- Gap in the Market' campaign launched in Belgium to stimulate entrepreneurship.

March

- Sale of remaining 22% stake in Slovenian Nova Ljubljanska banka completed.
- Successful sale of remaining 16% stake in Polish Bank Zachodni.

May

- New bank branch concept launched in Ghent.
- Sale of Russian Absolut Bank completed.

June

- KBC celebrates its fifteenth anniversary.

July

- Repayment by KBC Group – the parent company of KBC Bank – of 1.17 billion euros (plus 50% penalty) to the Flemish Regional Government.
- Sale of a portion of shareholder loans.

September

- Agreement reached on sale of KBC Bank Deutschland.
- 'Do your bit and add a brick' campaign launched in Belgium to encourage local savers to channel funds into their own economy.

October

- KBC receives prize from the Belgian Association of Financial Analysts for 'Best Financial Information'.

November

- 18.8 million KBC Group shares sold by Cera and KBC Ancora (core shareholders of KBC Group) for the purpose of repaying loans granted by KBC.
- KBC launches the Start it @kbc initiative to help business start-ups in Flanders.

December

- Agreement reached on sale of Antwerp Diamond Bank.

Early 2014

- January 2014: KBC Group – the parent company of KBC Bank – pays 0.33 billion euros (plus 50% penalty) to the Flemish Regional Government.
- February 2014: announcement that the management structure is to be simplified and the composition of the Executive Committee changed.
- March 2014: issue of a 1.4 billion euros a CRD IV compliant additional Tier-1 instrument by KBC Group and use of the proceeds to strengthen KBC Bank's tier-1 capital.

More detailed information on the events summarised above can be found in the relevant sections.

Shareholders

Shareholder structure on 31-12-2013	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches (31-12-2013)	
Belgium	827
Central and Eastern Europe (the four home markets of the Czech Republic, Slovakia, Hungary and Bulgaria)	771
Number of staff (2013 average in FTEs)	approx. 28 000

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com/investor relations/financial information on KBC Bank.

Financial calendar for KBC Group and KBC Bank	
2013 financial year	Earnings release for KBC Group: 13 February 2014 KBC Group Annual Report for 2013 and Risk Report for 2013 available: 31 March 2014 KBC Bank Annual Report for 2013 available: 31 March 2014 AGM of KBC Bank: 23 April 2014 AGM of KBC Group: 30 April 2014
1Q2014	Earnings release for KBC Group: 15 May 2014
2Q2014/1H2014	Earnings release for KBC Group: 7 August 2014 Earnings release for KBC Bank: 29 August 2014
3Q2014/9M2014	Earnings release for KBC Group: 13 November 2014
4Q2014/FY2014	Earnings release for KBC Group: 12 February 2015

The most up-to-date version of the financial calendar is available at www.kbc.com.

Long-term credit ratings

Credit ratings for KBC Bank (10 March 2014)	long-term ratings	short-term ratings
Fitch	A- (stable outlook)	F1
Moody's	A3 (stable outlook)	P-2
Standard & Poor's	A (stable outlook)	A-1

Please refer to the respective credit rating agencies for definitions of the different ratings and methodologies.

The table shows the long-term and short-term credit ratings of KBC Bank NV. The ratings remained stable in 2013. In March 2014, S&P's upgraded the ratings.

Strategy, company profile and structure

The strategy, company profile and management structure of KBC Bank is embedded in that of the KBC group.

A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the 2013 annual report for the KBC group.

Integrated bank-insurance

The KBC group confirms its commitment to the bank-insurance model, which has generated excellent results throughout the cycle. The group therefore owns both a bank and an insurance company in all its core markets.

It is in this capacity that the KBC group aims to respond pro-actively and in an integrated way to clients' financial needs in the widest sense. This means, for instance, that clients can come to us for a loan to finance their dream project, take out insurance to protect that dream, or grow their wealth by investing in deposit products or by making use of our asset management services. Given that we do not limit ourselves to just one activity (banking or insurance), we can offer our clients a broad and optimum mix of banking and insurance products, with clients selecting those products that are best for them.

An important feature of our bank-insurance model in Belgium is the unique cooperation between the bank branches and insurance agencies in 'micro markets'. The branches focus on bank and standard insurance products. For other insurance products, they refer clients to the insurance agency in the same micro market. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch. In Central and Eastern Europe, the group's bank branches concentrate on providing bank products and – to an increasing extent – standard insurance products too. The insurance agents sell the full range of insurance products. Besides the agents, sales through other channels continue to be important, with brokers in particular playing a significant role in the non-life segment and collaboration with multi-level agents (where relevant) also being embarked upon in the life segment. Initiatives have been launched in these countries to optimise cooperation between the bank and insurer and to develop sales of insurance products through the bank channel. Although the group only owns a bank in Ireland, fire and life insurance products have recently started to be sold through the bank's branches.

The KBC group positions itself as an integrated bank-insurer not only in the commercial network, but also throughout the entire organisation. This means specifically that, apart from the pure banking and insurance product factories, virtually all our services (marketing, ICT, procurement, etc.) operate at group level (banking and insurance together) and that the group is also managed in an integrated style (one CEO, one CFO, etc.).

Our bank-insurance concept offers clients a number of benefits, including a comprehensive one-stop financial service that meets all their banking, asset management and insurance needs. Clients can select from a wider, complementary and optimum range of products and services, enabling them to choose the best product mix for them individually. This also boosts client loyalty. Moreover, working together in the area of bank-insurance offers significant benefits to the group in terms of diversifying income, enhanced risk diversification, and additional sales potential through the leveraging of our extensive bank and insurance distribution channels. It also generates significant cost-savings and synergies thanks in part to shared support activities, such as ICT, marketing, and product development.

Geographic focus on five core markets

KBC Group defines its core markets as those in which it has a banking and insurance presence, namely Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria.

These countries were chosen over time, beginning with Belgium as the country of origin. We gradually strengthened our presence in specific Central and Eastern European markets where we could grow a significant position (resulting in economies of scale) and where the companies in question were strongly embedded locally (in accordance with our relationship bank-insurance concept). The current five core countries include both developed and growth markets (see table) and are all members of the European Union.

All other activities that do not contribute to supporting client relationships in these core markets will, in principle, be discontinued. Ireland remains an exception. In the years ahead, KBC Bank Ireland will focus on raising profitability by developing its retail business.

Local responsiveness

KBC focuses on the client and wishes to build and deepen sustainable relationships with private individuals, SMEs and mid-caps. Local responsiveness implies that we understand local clients better, that we pick up signals effectively and respond to them proactively, and that we offer products and services tailored to these local needs. Local responsiveness means, therefore, that we respond readily to local opportunities in each of our core markets where we are firmly embedded.

Relationship bank-insurance is key to local responsiveness. In other words, KBC will focus on those banking and insurance activities that are needed to support sustainable client relationships.

Elsewhere in this annual report, you will find various examples of initiatives and product innovation that reflect our focus on local responsiveness (including the launch of flexible loans in the Czech Republic, the launch of a number of initiatives to raise financial literacy, and the release of numerous mobile apps in the group's different core markets). In the Czech Republic, ČSOB even has a dedicated Customer Insight department to ensure that it is even more responsive to its clients' needs.
Our involvement in the local economy is also reflected in a number of eye-catching campaigns that were launched in 2013, a good example of which was 'Start it @kbc'. One of the main reasons for the decline in the number of business start-ups in Flanders has been the cost and other difficulties of creating a new business. In response, KBC – together with a number of partners – decided to help start-ups with various aspects of doing business, such as making contacts and developing a network, and to facilitate all this by making office space available free of charge.

Cooperation

KBC Group fosters cross-border collaboration and leverage effects at group level in order to enhance cost-efficiency across the group. International product factories and service providers offer products and services tailored to the distribution strategy of the different business units, and to local responsiveness.

Exchange of know-how, best practices, experience, products and services between the different business units and corporate functions is stimulated by means of communities. Their mission is to promote synergy, dialogue and exchange wherever deemed useful within the group. The community approach has a significant effect on motivating staff and, therefore, indirectly impacts the company's results too.

Several community initiatives in 2013 are shown below.

Examples of synergy initiatives and best-practice sharing via the community approach
Private Banking staff in Belgium, the Czech Republic, Hungary and Slovakia worked together in 2013 to strengthen operational risk management, fine-tune the commercial approach and sharpen up the value proposition. Building on each other's experiences, specific initiatives were developed, tailored to each of the countries concerned.
The focus in the *Direct Channels* community was on sharing recent developments and initiatives. This allowed local initiatives in certain countries to be reproduced intelligently in others (the development of different types of mobile app is a good example in this regard).
Non-life insurance staff used the community approach to set up a project to combat fraud. The success of this project led to the creation of a permanent community for this issue.

Business-driven corporate structure

The management structure is geared toward strategic choices (local responsiveness, bank-insurance, client focus, etc.) and supports effective decision-making and accountability. A simplified overview of the management structure is shown below. At year-end 2013, the structure comprised:

- the four business units, which focus on the local business and are expected to contribute to sustainable earnings and growth:
  - Belgium.
  - Czech Republic.
  - International Markets: encompasses the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria), KBC Bank Ireland, and the remaining non-core entities whose sale has still to be completed.
  - International Product Factories: comprises group-wide product factories such as Asset Management, Trade Finance, Consumer Finance, Markets and KBC Securities.
- the auxiliary Corporate Change & Support, CRO Services and CFO Services pillars, which act as an internal regulator, and whose main role is to support the business units.
- the Corporate Staff pillar, which is a competence centre for strategic know-how and best practices in corporate organisation and communication. It supports both the Group Executive Committee and the business units, and is tasked to stimulate cooperation within the organisation.

The management structure also forms the basis for financial segment reporting.
The segments in this reporting presentation are:

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

As indicated, the group's management structure also includes an International Product Factories Business Unit. We report the results relating to the activities of this business unit in the results of the other business units on the basis of geography. Therefore, we do not present this business unit separately when reporting the results by segment.

The main differences between the former and new management structures are described under 'Notes on segment reporting' in the 'Consolidated annual accounts' section.

The management structure and composition of the Executive Committee are due to change in May 2014. The main changes are as follows:

- The International Markets Business Unit and International Product Factories Business Unit will merge.
- The Corporate Change & Support pillar will cease to exist (the departments affected will be transferred to other entities).
- The Executive Committee will be reduced to six members who will occupy the following positions:
  - Johan Thijs, Group CEO
  - Daniel Falque, CEO of the Belgium Business Unit
  - John Hollows, CEO of the Czech Republic Business Unit
  - Luc Gijsens, CEO of the International Markets Business Unit
  - Luc Popelier, CFO
  - Christine Van Rijsseghem, CRO

This annual report deals with financial year 2013 and, therefore, is based on the management structure that was in place at 31 December 2013.

Group culture and targets

KBC Group is committed to a clearly defined group culture. The group aims to become more versatile and alert by focusing on streamlined performance management and accountability for all employees.

Using *performance indicators*, we establish a clear link between strategic priorities and individual accountability. The strategic priorities relate to profit, capital and liquidity, and people (clients, employees, community). The profit, capital and liquidity targets, which the group aims to achieve at the highest level, are set out in KBC Group's annual report.

Targets (KPIs) have also been set for the 'People' dimension. They relate to factors such as customer and employee satisfaction and brand awareness, measured using promoter scores, reputation indices, etc. The group is currently developing a new, granular reporting and tracking system for this dimension.

Divestment programme fully implemented, CDO risk substantially scaled back and further sharp reduction in state aid (at KBC Group level)

The group's restructuring plan included a summary of the operations we were required to divest. By the end of 2013, the plan had been fully implemented. The following milestones were achieved in 2013, specifically:

- March: sale of the 22% minority interest in Nova Ljubljanska banka in Slovenia and the 16.17% minority interest in Bank Zachodni in Poland;
- May: completion of the sale of Absolut Bank in Russia;
- September: agreement on the sale of KBC Bank Deutschland;
- December: completion of the sale of KBC Banka in Serbia (a subsidiary of KBC Insurance) and agreement on the sale of Antwerp Diamond Bank.

At year-end 2013, therefore, we had carried out all the divestments and have only to complete the sale of Antwerp Diamond Bank and KBC Bank Deutschland (the sale agreements for which have already been signed).

As in previous years, we further improved our risk profile in 2013, also by means of other measures including the further scaling back of our historical portfolios of CDO and ABS paper. CDO and ABS risk was reduced substantially at KBC Group level in 2013, amounting to a net exposure of 7.5 billion euros at year-end (6.3 billion euros in CDOs and 1.2 billion euros in ABS). That is a quarter of the original amount at the start of 2010. What's more, a considerable portion of the remaining amount has been covered by valuation markdowns and especially the guarantee provided by the Belgian State. The guarantee agreement signed in 2009 initially related to a nominal amount of 20 billion euros, but – as indicated above – this has been scaled back in the past few years to approximately 5.9 billion euros at year-end 2013.

KBC Group sold a total of 7 billion euros' worth of core-capital securities to the Belgian State and Flemish Region (3.5 billion euros each) in 2008 and 2009. It repaid all the aid provided by the Belgian Federal Government in 2012 (3.5 billion euros plus a 15% penalty). In 2013, we paid back 1.17 billion euros (and a 50% penalty) of the remaining 3.5 billion euros in aid received from the Flemish Regional Government. At the start of 2014, a further 0.33 billion euros' worth of aid was repaid to the Flemish Regional Government, along with a 50% penalty. KBC Group intends to repay the outstanding balance of 2 billion euros (plus penalties) in instalments by 2020 or sooner, subject to the approval of the supervisory authority. While doing so, we will ensure at all times that our solvency remains at a sufficiently high level.

KBC in society

We take our responsibility towards society very seriously indeed and aim to reflect that in our everyday activities. For that reason, we have deliberately opted not to formulate a separate CSR strategy. Our involvement in and commitment to society are interwoven with our overall strategy, which makes us a stronger business, capable of surviving in what is still a turbulent financial world, while also focusing on the future. Responsibility for social, economic and environmental matters has been incorporated into our business values and is promoted at every level of our organisation.

We want to give concrete shape to socially responsible bank-insurance in the long-term relationships with our clients and so create a win-win situation for all the parties concerned. We are also committed to the local economy – the communities in which we do our everyday work. We likewise pursue transparency in the way we conduct business. For us, sustainable bank-insurance means that we also think long-term as an organisation to ensure that all our stakeholders stand to benefit. In doing so, we aim to build the necessary resilience to enable us to adapt quickly to changing needs, demands, laws and economic climate.

The *Edelman Trust Barometer* shows us that trust in the financial sector remains at a low ebb. We understand all too clearly that this trust needs to be rebuilt by focusing on clients and local economies, transparency, flexibility and the sustainable development of our business.

Stakeholder survey

Transparency and dialogue begin with listening. We want to maintain a dialogue with all our stakeholders, not in terms of a one-way process, but rather as an open discussion that allows scope for feedback, questions and criticism. To ensure this is the case, we started an extensive survey in 2013, inviting stakeholders to rate a number of themes by importance and to evaluate KBC's performance in those areas. In this first year, we limited the scope of our survey to a number of stakeholder groups in Belgium.

More information in this regard can be found in our Report to Society at www.kbc.com.

Open communication and steps toward integrated reporting

KBC aims to communicate as openly and transparently as possible with its stakeholders. To that end, we organise various contact opportunities between them and management. These include things like investor events, employee satisfaction surveys, customer satisfaction surveys, conferences, road shows and Investor Days, all dealing with specific matters. Corporate Communication, Investor Relations, HR, Marketing and the CSR team are just some of the entities that facilitate those contacts and deal with the various stakeholders' questions.

KBC provides information all year round in a number of ways, including press releases and presentations, and publishes reports to coincide with the quarterly, half-year and annual results. This information is available at www.kbc.com, which in addition to various notifications required by law (including those relating to AGMs), provides general company information and specific reports, such as risk and corporate social responsibility reports.

In June 2013, KBC Investor Relations came second at the Extel Awards for Best Corporate Firm for IR in Belgium. KBC's efforts were also recognised by the Belgian Association of Financial Analysts, which awarded it the prize for 'Best Financial Information', with top scores for Investor Relations and the kbc.com website, among others.

We organised a stakeholder debate in April 2013 at which we presented our Report to Society and gave participants the opportunity to put questions to management. The debate led to constructive feedback, which we will take into account in our Report to Society. We do not consider this stakeholder debate to be a one-off event and will continue to organise them in the years ahead in order to address different themes. We also organise face-to-face interviews with NGOs to explore more specific themes at greater depth. For instance, we have organised a debate with the cattle feed and agricultural businesses regarding the role that KBC plays and can play in the trade in agricultural commodity derivatives.

Corporate reporting is gradually moving from a purely financial focus to an integrated focus. Integrated reporting provides a complete picture of a business's strategy and performance, explaining how value is created and preserved now and in the future. The International Integrated Reporting Council is one of the main driving forces behind this move toward integrated reporting, but consideration is also being given in Europe to the expansion of non-financial reporting.

KBC supports the pursuit of more integrated reporting and transparency. The KBC group already attaches considerable importance to corporate social responsibility in its communication. For a number of years now, for instance, we have been publishing an annual Corporate Social Responsibility Report (www.kbc.com), which deals with our vision and achievements in this area. The group has also been publishing a Report to Society for two years, dealing with all the society-related themes encountered in our business operations of the past year. The report is written in language that is clear and understandable, without jargon, and with a focus on what is happening in society. As a group, we also have a common goal of incorporating more information on the non-financial and social aspects of our business operations into our reports. Our annual report is also moving in that direction. Moreover, we launched a programme in 2013 to help guide the development towards integrated reporting in the right direction.

Corporate social responsibility – different things to different people

When we are asked about corporate social responsibility, the first association is often with the direct impact on the environment. This is certainly something we work at hard, making a continuous effort to reduce our ecological footprint and concentrating on both our direct and indirect impact on the environment. Elsewhere in this annual report, you will find a variety of tables containing environmental efficiency data. Ecology has an influence on our activities too. To give just one example, climate change (more storms, more extreme weather) can have a direct negative impact on our insurance results due to higher levels of claims.

Social impact is the other aspect that immediately comes to mind. We naturally remain sensitive to the social impact we have on the communities in which we operate, especially in the urban areas where we have head offices, for instance. In Brussels, for example, we continue to support projects with which we have a long-standing cooperation agreement, such as 'Foyer', 'Yes' and 'Bonnevie', while new projects too are receiving due attention. An example of the latter is the 'Toekomst Atelier' ('Future Workshop'), which aims to inspire children by giving them an idea of what the future could hold for them.

Our role goes further, however, than simply supporting social projects. Through our patronage activities and the Rockox House in Antwerp, we help preserve Belgium's cultural heritage and make it accessible to the public. In Hungary, K&H is systematically building up its art collection ('Art For a Better and More Meaningful World'), with the works of art capturing and reflecting K&H's values of dynamism, renewal and social development. Each of the group's business units engages in local community projects, the precise focus of which depends on local priorities and culture. The sections devoted to the individual business units in this report provide a range of examples and initiatives in the field of corporate social responsibility in 2013.

We are, however, increasingly aware that our social responsibility lies first and foremost in the way we conduct our everyday business, i.e. what impact can we have on the local economies in which we operate, how do we meet our responsibility to the governments that supported the KBC group financially in 2008 and 2009, and above all, how do we treat our clients and employees?

Socially responsible business and our clients

Being a sustainable financial group primarily means having sustainable and respectful relationships with our clients.

We must continue to respond as a group to the shifting needs of our clients and to constantly changing market conditions. The commercial relationship with our clients is increasingly shaped by a strict legal framework that aims to protect them and defend their interests. Compliance with these rules is naturally the minimum requirement. However, trust in KBC will be determined chiefly by client experience and how they perceive KBC's service.

That is why we are collecting their experiences in the various markets in which our group is active and using that information to improve our services and products. Customer satisfaction surveys performed at our various entities all paint the same positive picture, i.e. generally speaking, KBC clients are satisfied with the service, accessibility and products of their bank. More information in this regard can be found in the sections devoted to the individual business units.
The reputation study we performed this year in all countries for the first time produced similar results. It also told us that the confidence of non-clients in KBC is lower. Much remains to be done, therefore, in this particular area.

In addition to our everyday service, we focus on the needs of specific client groups. In each of our core markets, for instance, we are working on solutions for clients who need to get through a difficult financial period (by postponing repayment, adjusting credit terms, setting up debt repayment plans, etc.). Raising financial literacy also remains one of our priorities. Fine examples in this regard are the 'Een klare kijk op je geld' teaching package for primary schools and the 'Een klare kijk op je geld en verzekering' teaching package for secondary schools in Belgium, and the 'Financial Literacy Program' in the Czech Republic.

Corporate social responsibility in the economic fabric

It is important to KBC that, as a major player in the market, we can be a driving force behind the local economies of our home markets. We do this in a number of ways, including by providing loans and financing specific projects.

Our loan portfolio contains loans not only to individuals and businesses, but also to the social profit sector (hospitals, retirement and nursing homes, educational institutions, local authorities and the like). We also provide funding to infrastructure projects that have a major impact on economic development in Belgium (Public Private Partnerships to fund sports halls in Flanders, funding of road schemes, etc.) and to the development of green energy projects (for instance, by funding various onshore wind projects).

A good example of our local involvement is the 'Gap in the Market' campaign, where KBC seeks to help interested entrepreneurs identify and start up the right type of projects.

External parties also challenge us about our indirect impact on society. They look at who we provide financial services to and whether our position can be justified. We take their comments to heart, are open to dialogue, and review our policy principles in respect of these themes. The themes arising in these debates include our policy towards nuclear weapons, the UN Global Compact principles and the trade in agricultural commodities. In 2013, we decided to extend our blacklist for controversial weapons to include companies that fundamentally violate the principles enshrined in the UN Global Compact. We expect the results for the other themes in 2014.

Socially responsible business and our employees

As a large employer, we are also a major driving force behind the economy.

We are well aware that it is thanks to the involvement, satisfaction and effort of our employees that we achieve strong underlying results and realise our strategy. In an external survey organised by the Vlerick Business School in 2013, KBC was again recognised as one of the ten 'Best Large Employers in Belgium'.

Employees take centre stage in the group's updated strategy in an innovative and clearly defined corporate culture. KBC has developed several tools to help and encourage employees to adapt their own behaviour to the new corporate culture and strategy. Uniform measurement of this new culture has been introduced in order to identify strengths and points requiring attention at every level of the group.

By continually assessing and adjusting its remuneration policy, KBC aims to provide its employees with development opportunities and to pay them a salary commensurate with their performance. KBC embarked several years ago on a thorough updating of its HR policy, which it called 'HRinEvolution'. Since then, we have continued to update the job classification system, formulated a policy on developing talent, drawn up a career growth path for new junior managerial staff and introduced further alternative remuneration schemes. The launch of the new 'Safe4Future' pension plan in Belgium means that building up a supplementary pension will also be dovetailed with the concepts of the new remuneration policy.

KBC is sensitive to its employees' mobility problems. Initiatives in this area include projects for staff to work locally or from home. This gives employees the opportunity to achieve a better work-life balance. KBC also offers free shuttle buses between railway stations and head office buildings, and encourages carpooling, cycling, the use of public transport and a green vehicle fleet.

In its staff regulations, its selection and promotion policy, as well as in its performance appraisal systems, the group does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation. Equal treatment of employees is also addressed in the *KBC Code of Conduct* and in the various anti-discrimination manifestos and charters KBC has endorsed. As an employer, KBC wants to give a clear signal to society: we treat our employees in a socially responsible manner and mutual trust and respect is one of our goals.

We want to offer people a challenging job and to give them the opportunity to further develop their talents. This applies not just to the younger generation, but also to all the generations that make up our workforce. The latter is illustrated in KBC Belgium's approach to the possibility that the age of retirement will be raised and to the employability of older members of staff. Older employees can consult with KBC and decide for themselves which way of working is most suited to them, so that they can continue to work fully motivated and for much longer.

'Lifelong learning' is our motto. Accordingly, the group devotes considerable attention to training and provides an extensive range of development opportunities. Employees can choose from a number of training programmes which complement and reinforce each other, including conventional training courses, individual study, e-learning, learning on the job and mentoring. Developmental needs are also an important element in the annual performance and development appraisal reviews held between employees and their managers. We have adapted our range of development opportunities for managers to take account of KBC strategy, the corporate culture it defines, and our updated leadership model.

Additional information on staff expenses and the average number of persons employed can be found in Notes 9 and 10 of the 'Consolidated financial statements' section.

Corporate social responsibility and government

Since the end of 2008, KBC Group – the parent company of KBC Bank – has issued 7 billion euros in core-capital securities to the Belgian State and the Flemish Region (each in the amount of 3.5 billion euros). In principle, KBC pays an annual coupon of 8.5% for this financial support (provided a dividend has also been paid to the shareholders) and a penalty when the securities are redeemed. In May 2009, it also signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio (CDOs). That guarantee basically comprises a notional amount that initially totalled 20 billion euros, but has now been reduced to 5.9 billion euros. The group also pays a sizeable fee for this guarantee.

KBC Group repaid the entire 3.5 billion euros (plus a 15% penalty) to the Belgian Federal Government in 2012 and 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government in mid-2013. At the start of 2014, it repaid a further 0.33 billion euros, together with a 50% penalty. It intends to repay the outstanding balance of 2 billion euros (plus penalties) in instalments by 2020, or sooner if possible. Repayments are subject to the usual approval of the National Bank of Belgium and the capital position of the group. By the time KBC Group has repaid all the aid it received, the total amount in repayments, coupon payments, penalties and fees for the CDO guarantee will have risen to over 13 billion euros.

Of course, our relationship with government is not confined solely to state aid. Besides lending to private individuals and companies, we also pump money into the economy by lending directly and indirectly to government. At the end of 2013, for instance, we invested approximately 25 billion euros in Belgian government paper at KBC group level. We have also been involved for years in providing insurance to various institutions of the Flemish Regional Government and in Public Private Partnerships for major social projects.

Review of the consolidated financial statements

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS		Adjusted result	
	2012	2013	2012	2013
Net interest income	3 838	3 456	3 701	3 369
Interest income	9 389	7 828	*	*
Interest expense	-5 551	-4 372	*	*
Dividend income	13	18	11	12
Net result from financial instruments at fair value through profit or loss	37	884	781	756
Net realised result from available-for-sale assets	90	202	89	158
Net fee and commission income	1 589	1 699	1 597	1 703
Fee and commission income	2 046	2 311	*	*
Fee and commission expenses	-457	-612	*	*
Other net income	370	51	262	235
Total income	5 937	6 309	6 442	6 233
Operating expenses	-3 666	-3 280	-3 611	-3 238
Impairment	-2 323	-1 827	-1 130	-1 656
on loans and receivables	-1 063	-1 715	-1 063	-1 634
on available-for-sale assets	-10	-14	-3	-4
on goodwill	-386	0	-2	0
other	-863	-98	-62	-18
Share in results of associated companies	8	1	-26	1
Result before tax	-44	1 203	1 675	1 339
Income tax expense	-147	-486	-423	-545
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	-191	717	1 253	794
Result after tax, attributable to minority interests**	115	128	115	128
Result after tax, attributable to equity holders of the parent	**-306**	**590**	**1 138**	**666**

The adjusted results are defined in this section of the report.
* Not available, as the analysis of these underlying result components is performed on a net basis within the group.
** Primarily the 48.14% stake that KBC Group holds in KBC Asset Management.

This section of the annual report deals with the consolidated results. A concise review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts' section.

IFRS results compared with adjusted results

To provide an even clearer insight into the operating results, we have provided – in addition to the income statement according to IFRS (the 'IFRS' column in the overview) – an adjusted presentation of the income statement (the 'Adjusted result' column in the overview), in which we exclude a limited number of non-operating items under the usual headings, but summarise them instead in three lines at the bottom of the overview.

These items, and their impact in 2013, are:

- Legacy CDO business: includes changes in the value of CDOs held in portfolio (positive in 2013, thanks chiefly to the narrowing of credit spreads on corporate bonds and ABS); the fee for the CDO guarantee agreement with the Belgian Federal Government; costs and gains related to scaling down the exposure to CDOs; and the impact of MBIA coverage (positive in 2013, due to the improved credit valuation adjustment on MBIA). All this had a positive effect totalling 244 million euros (after taxes) in 2013.

- Legacy business of divestment companies: comprises gains, losses and impairment charges on group companies on the divestment list. In 2013, it related primarily to KBC Banka in Serbia, Absolut Bank in Russia, Antwerp Diamond Bank in Belgium, the minority interest in Nova Ljubljanska banka in Slovenia, the minority stake in Bank Zachodni in Poland, plus the impact of the reduction in shareholder loans. On balance, this had a negative effect of 277 million euros (after taxes) in 2013.
- Valuation of own credit risk: comprises the impact of changes in the fair value of own debt instruments due to own credit risk. The improvement in KBC's credit spread led to a negative adjustment of 43 million euros (after taxes) in 2013.

We have also moved the trading results, which are included under different headings in the IFRS-based overview, to 'Net result from financial instruments at fair value through profit or loss' in the overview of adjusted results. For reasons of materiality, this has only been done for KBC Bank Belgium (Belgium Business Unit). The overall impact of this reclassification on the net result is, of course, neutral.

We refer to the net result, excluding the three items referred to above and after the aforementioned reclassification, as the 'adjusted net result'.

The information by segment (business unit) is based on the adjusted overview, and the excluded items (the legacy business relating to CDOs and divestment companies, and the valuation of own credit risk) are allocated in their entirety to the Group Centre. The overview of adjusted results is also presented as segment reporting in consolidated annual accounts and thus complies with IFRS 8. This standard specifies that IFRS principles should be deviated from if such deviation reflects the management view. That is the case, as the relevant results are an important element in assessing and managing the business units. The statutory auditor has audited the segment reporting presentation as part of the consolidated financial statements.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2012	2013
Total assets[1]	224 840	208 708
Loans and advances to customers	128 474	123 204
Securities (equity and debt instruments)	48 230	46 276
Deposits from customers and debt securities	163 107	165 418
Risk-weighted assets (Basel II)	88 927	78 120
Total equity[1]	11 902	12 313
Parent shareholders' equity[1]	11 184	11 662
Minority interests	718	651
Tier-1 ratio (Basel II)	13,8%	16.2%
Core tier-1 ratio (Basel II)	11,4%	13.5%
Common equity ratio (fully loaded Basel III)	-	12,0%

1 Figures for 31-12-2012 restated according to revised IAS 19, which became effective on 1 January 2013.

Additional information

- The (now almost completed) divestment programme obviously influences the comparison of results between 2012 and 2013:
- We recognise realised gains, losses and impairment charges on divestments as exceptional items and have, therefore, excluded them from the adjusted results.
- The results for the divested group companies are included in principle in the group results until the moment of sale. An indication of the period for which the results of the most important of these companies are recognised in the group result can be found in the table, 'Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations', in the 'Consolidated financial statements' section. Where relevant, the growth figures on the following pages are based on amounts excluding the most important companies deconsolidated during 2012 and 2013 (primarily Absolut Bank, Kredyt Bank and Nova Ljubljanska banka), in order to correct the percentage growth as much as possible for changes in the scope of consolidation.
- The assets and liabilities of deconsolidated companies no longer appear, of course, in the balance sheet. A number of group companies scheduled for divestment fell, moreover, under the scope of IFRS 5 on 31 December 2013 (i.e. KBC Bank Deutschland and Antwerp Diamond Bank, for which sale agreements have been signed but still not finalised at year-end 2013). This means that their assets and liabilities are grouped together under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'.

- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was very limited (in the order of -25 million euros).
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1b, 5 and 14-25 among others) and in the 'Value and risk management' section.
- All KBC Bank shares are owned directly and indirectly by KBC Group. In the fourth quarter of 2013, KBC Bank paid an interim dividend of 503 million euros to KBC Group, and will pay it a final dividend for 2013 of 677 million euros in 2014.

Analysis of the main income statement and balance sheet items

Unless stated otherwise, the information that follows refers to the *adjusted* results, i.e. after the impact of the legacy business and the valuation of own credit risk has been excluded. We have already discussed these items in a separate section.

Net interest income

Net interest income came to 3 369 million euros in 2013. Excluding changes in the scope of consolidation, the figure was 2% below its year-earlier level, partly due to such factors as the run-down of activities, weaker Czech koruna and lower reinvestment income, while commercial margins remained healthy.

Consequently, the net interest margin came to 1.75% in 2013 (1.2% in the Belgium Business Unit, 3.0% in the Czech Republic Business Unit, 2.1% in the International Markets Business Unit), roughly the same level as in 2012.

On a comparable basis (and after eliminating transactions between KBC group companies), loans and advances to customers (excluding reverse repos) fell on balance by 2% in 2013 (122 billion euros at year-end 2013), contracting by 2% at the Belgium Business Unit (0% excluding the portfolios of the foreign branches and the shareholder loans), increasing by 6% at the Czech Republic Business Unit and declining by 7% at the International Markets Business Unit (growth in Slovakia and Bulgaria, but a decline in Ireland and Hungary). On a comparable basis (and after eliminating transactions between KBC group companies), the total volume of deposits (155 billion euros in deposits from customers and debt securities (excluding repos) at year-end 2013) remained virtually unchanged in 2013, with the Belgium Business Unit recording an increase of 2%, the Czech Republic Business Unit 4%, the International Markets Business Unit almost 9% (with Ireland posting substantial growth, thanks to the success of the retail deposit campaign in that country), and the Group Centre recording a decline (primarily at KBC Ifima).

Net fee and commission income

Net fee and commission income came to 1 703 million euros in 2013, up 14% on the year-earlier figure (excluding changes in the scope of consolidation). The increase was accounted for primarily by Hungary and Belgium, with the main driving factor in Belgium being growth in entry charges and management fees for investment funds.

At the end of 2013, the KBC group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 163 billion euros, 5% more than the year-earlier figure on a comparable basis, due to positive price and volume effects. Most of these assets were managed at the Belgium Business Unit (151 billion euros) and the Czech Republic Business Unit (6 billion euros).

Other income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 756 million euros in 2013, as opposed to 781 million euros in 2012. We reiterate that several items have been excluded from this trading and fair value income (i.e. the impact of the legacy CDO portfolio and of the valuation of own credit risk) and that the trading-related income of the Belgium Business Unit recorded under IFRS in various other income items has been included. The positive development of this results component partly reflects the very favourable marked-to-market valuation of certain derivatives used for the purposes of asset/liability management.

Other income (dividends, realised gains and other net income) came to an aggregate 405 million euros in 2013, 43 million euros more than in 2012. The difference is partly attributable to higher net realised gains from available-for-sale securities and a slightly lower level of other net income.

Operating expenses

Operating expenses amounted to 3 238 million euros in 2013. Excluding changes in the scope of consolidation, they were roughly the same as their year-earlier level, owing in part to the introduction of a financial transactions levy in Hungary (including an additional related one-off levy), higher costs in Ireland (a larger workforce) and increased pension-related costs, all of which offset lower ordinary staff expenses and the positive exchange rate effect.

The cost/income ratio came to approximately 52% in 2013 (54% after excluding a number of volatile items), an improvement on the 56% recorded in 2012. It was 47% for the Belgium Business Unit, 47% for the Czech Republic Business Unit and 69% for the International Markets Business Unit.

Impairment

Impairment on loans and receivables (loan loss provisions) amounted to 1 634 million euros in 2013, compared with 1 063 million euros in 2012. The increase was almost entirely attributable to Ireland, where we set aside significant extra loan loss provisions after reviewing our loan portfolio there in the fourth quarter: for 2013 as a whole, they amounted to 1 059 million euros, compared with 547 million euros in 2012. Other loan loss impairment charges totalled 575 million euros in 2013, with Belgium accounting for 328 million euros of this figure, Hungary for 76 million euros (31 million euros more than in 2012, also due largely to the review of the loan portfolio there), the Czech Republic for 52 million euros and other countries for 119 million euros.

Overall, the group's credit cost ratio subsequently deteriorated from 70 basis points in 2012 to 119 basis points in 2013 (37 basis points at the Belgium Business Unit, 25 basis points at the Czech Republic Business Unit and 448 basis points at the International Markets Business Unit (Ireland: 672 basis points; Slovakia: 60 basis points; Hungary: 150 basis points; and Bulgaria: 119 basis points)). The proportion of non-performing loans in the total loan portfolio was 5.9% at year-end 2013, compared with 5.3% in 2012. This breaks down into 2.5% at the Belgium Business Unit, 3.0% at the Czech Republic Business Unit, and a high 19.2% at the International Markets Business Unit (due primarily to Ireland, which had a non-performing loan ratio of 26.2%). At year-end 2013, 49% of non-performing loans (see definition in 'Ratios used') were covered by impairment charges, or 72% if all impairment charges for loans are included. More information on the composition of the loan portfolio is provided in the 'Value and risk management' section.

Other impairment charges totalled a limited 22 million euros in 2013. However, they relate to the adjusted net result and, therefore, exclude impairment on divestments (legacy business). Although relatively limited in 2013, these charges totalled a high 1.2 billion euros in 2012 and related to the then remaining companies earmarked for divestment (impairment on goodwill and impairment on other, particularly in respect of Absolut Bank, Nova Ljubljanska banka, Antwerp Diamond Bank and KBC Bank Deutschland).

Net results per business unit

The group's adjusted net result in 2013 breaks down as follows among its business units: Belgium 1 147 million euros (up 212 million euros on the figure for 2012, due primarily to robust net fee and commission income and other income), Czech Republic 529 million euros (a decline of 85 million euros on the figure for 2012, owing chiefly to the negative impact of the exchange rate and lower level of other income), International Markets -864 million euros (down 580 million euros on the figure for 2012, due almost entirely to the higher level of impairment charges in Ireland) and Group Centre -147 million euros, (down 20 million euros on the figure for 2012).

Balance sheet, solvency, liquidity

At the end of 2013, the group's consolidated total assets came to 209 billion euros, down 7% year-on-year. Risk-weighted assets fell by 12% to 78 billion euros in 2013.

Loans and advances to customers (122 billion euros in loans at the end of 2013, not including reverse repos) continued to be the main products on the assets side of the balance sheet. On a comparable basis (and after eliminating transactions between KBC group companies), loans and advances to customers fell by 2% in total (down 2% at the Belgium Business Unit, up 6% at the Czech Republic Business Unit, and down 7% at the International Markets Business Unit). The main credit products (including reverse repos) were again term loans (55 billion euros) and mortgage loans (53 billion euros). Securities amounted to 46 billion euros at year-end 2013, 4% less than the year-earlier figure. Of these securities, 1% were shares and 99% bonds and similar instruments. Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (16 billion euros) and derivatives (positive mark-to-market valuation of 9 billion euros).

On a comparable basis (and after eliminating transactions between KBC group companies), the group's total customer deposits (deposits from customers and debt securities, excluding repos) remained virtually unchanged at 155 billion euros. Deposits increased by 2% at the Belgium Business Unit, by 4% at the Czech Republic Business Unit and by 9% at the International Markets Business Unit (thanks primarily to the retail deposit campaign in Ireland), but fell by 9% in the Group Centre. As in 2012, the main products (including repos) were time deposits (56 billion euros), demand deposits (39 billion euros) and savings deposits (35 billion euros, the same level year-on-year). Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 10 billion euros) and deposits from credit institutions and investment firms (14 billion euros).

On 31 December 2013, the group's total equity came to 12.3 billion euros. This figure included parent shareholders' equity (11.7 billion euros) and minority interests (0.7 billion euros). On balance, total equity rose by 0.4 billion euros in 2013, primarily as a result of the inclusion of the annual profit (+0.6 billion euros); payment of the interim dividend to KBC Group (-0.5 billion euros); and changes in the available-for-sale reserve and cashflow hedge reserve (+0.3 billion euros in total).

At year-end 2013, the group's tier-1 ratio under Basel II amounted to 16.2% and its core tier-1 ratio to 13.5%. The common equity ratio under Basel III (fully loaded) came to 12.0%.

The group's liquidity position remained excellent, as reflected in an LCR ratio of 131% and an NSFR ratio of 111% at year-end 2013.

Review of the business units

Net results per business unit

Consolidated income statement, KBC Bank: breakdown of result after tax, attributable to equity holders of the parent (in millions of EUR)	2012	2013
IFRS result	-306	590
Adjusted result	1 138	666
Belgium Business Unit	935	1 147
Czech Republic Business Unit	614	529
International Markets Business Unit	-284	-864
Hungary	61	58
Slovakia	50	60
Bulgaria	9	10
Ireland	-405	-992
Group Centre (including planned divestments)	-127	-147

A complete overview of the underlying results and a brief commentary for each business unit is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

Belgium Business Unit

The Belgium Business Unit essentially comprises the activities of KBC Bank NV and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group (Belgium) and KBC Securities.

The business unit contributed 1 147 million euros to the adjusted result in 2013.

The economic context in Belgium

Economic growth improved a little in 2013, inflation cooled down substantially and long-term rates began to rise – albeit haltingly – especially in the United States.

It was a year of relative calm in the European Monetary Union, certainly compared to previous years. Structural reforms began to bear fruit and significant steps were taken towards a banking union, resulting in reduced tension on the European financial markets, despite problems in a few small countries.

Against a backdrop of sharply easing inflation and extremely weak lending, the European Central Bank cut its policy rate twice and announced that it was likely to keep the rate low for some time to come. There is little prospect of an increase in the policy rate in the US, either. The US Federal Reserve had been looking since May 2013 for the right moment to begin tapering its quantitative easing, and effectively started doing so at the start of 2014. This quest was, incidentally, the key driver of the upward trend in US long-term rates.

Structural improvements and the recovery in confidence finally began to weigh more heavily in the euro area, causing risk premiums to narrow and long-term rates to rise less sharply than in the US. The rate spread between ten-year Belgian and German government paper narrowed from the summer, falling to around 60 basis points by the end of the year.

The Belgian economy was likewise on the up from the spring of 2013 on. Producer and consumer confidence improved early in the year, and the recovery was increasingly evident from the summer onwards in hard figures, including GDP growth and industrial production. Household consumption revived, and a tentative but clear recovery in growth in the euro area boosted exports. The first positive signals from the labour market emerged toward the end of the year, including an increase in the number of vacancies and hours worked by temporary staff. Having gone up from 7.2% at year-end 2011 to 8.1% at year-end 2012, unemployment peaked at 8.5% in the summer of 2013.

Despite the upturn in the economy, bankruptcy figures surged in 2013. A significant group of businesses only made it relatively unscathed through the deep recession of 2008 and 2009 by drawing on their reserves. This meant, however, that they suffered all the more during the relatively mild recession of 2012. The construction sector was especially hard hit and so remained the negative outlier in the recovery. All the same, the wave of bankruptcies that persisted in 2013 needs to be placed in perspective. Although recent years have seen the worst economic slump of the post-war period, the year-on-year rise in bankruptcies did not hit the peak numbers seen in 1981 and 1992. All this did, however, translate into weaker lending figures, especially for business credit.

The budget deficit fell below the 3% threshold in 2013, and Belgium achieved the one percentage point in structural spending cuts it had promised Europe.

Following virtually zero growth in 2012 and 2013, real GDP growth of between just 1% and 1.5% is still all that is in prospect for 2014. Belgian economic growth should be boosted by an improvement in the global economy, but it will also be tempered by the need to restore the health of public finances. This outlook is based on forecasts made at the start of 2014 and, therefore, the actual situation could differ (considerably).

Our activities in Belgium

Position in the Belgian market in 2013*

827 bank branches

Estimated market share of 20% for traditional bank products and 33% for investment funds

Approx. 3.2 million customers

Loan portfolio of 87 billion euros and deposits and debt securities of 99 billion euros

* Market shares and customer numbers: based on own estimates (mostly at 30 September). Share for traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Value and risk management' section. Deposits and debt securities: deposits from customers and debt securities (excluding repos).

The KBC Bank and CBC Banque networks offer a wide range of loan, deposit, asset management, insurance and other financial products for private individuals, local businesses and wealthy individuals and for larger companies.

The retail strategy in Belgium is based on being deeply embedded locally through a close-knit network of bank branches (working closely with KBC Insurance agencies), backed up by complementary direct channels. At the end of 2013, our Belgian retail network consisted of around 800 KBC Bank and CBC Banque retail and private banking branches. We focus explicitly on relationship bank-insurance, tailored to each client and offering every client readily available expertise.

We cater for larger companies primarily through a network of thirteen corporate centres and a number of CBC Banque branches that serve both retail and corporate clients. Services for corporate clients comprise a wide range of activities, including lending, cash management, payments, trade finance, leasing, money market activities, capital market products, stockbroking and corporate finance. The Belgium Business Unit also includes the small network of ten KBC Bank branches abroad, which focus on activities and clients with links to KBC's core markets and in particular to Belgium.

An important feature of our model in Belgium is the unique cooperation between KBC Bank branches and KBC Insurance agencies in micro markets (for more detailed information in this regard, see the 'Strategy, company profile and structure' section). Working together like this enables us to deliver a product offering to our clients that is aligned with their needs. A few figures help illustrate the success of our model. At year-end 2013, almost 50% of households that are clients of KBC Bank held at least one banking and one insurance product from KBC in their portfolio. In another example, we sold a KBC Home Insurance policy to go with eight out of every ten home loans granted.

Given its importance to relationship bank-insurance, we track customer satisfaction very closely. The annual survey of our bank branches conducted in 2013 confirmed the trend of recent years, which is one of persistently high satisfaction and loyalty among our clients. In statistical terms, 81% of our clients rated themselves as 'very satisfied' (i.e. they gave a score of eight or more out of ten), a result virtually unchanged from the previous year.
Satisfaction levels are also exceptionally high among our employees. The most recent survey found that 96% of staff describe themselves as 'satisfied', 51% of whom rate themselves as either 'very satisfied' or 'extremely satisfied'.

We believe in the power of a physical presence through a branch and agency network that is close to our clients. At the same time, however, we expect the importance of online and mobile bank-insurance to grow further. We are also constantly working on new applications in these areas, including our various mobile banking apps for smartphones and tablets, which we are continuously improving and expanding. KBC Mobile Banking now has over 160 000 active users. KBC and CBC launched their app for business clients at the beginning of 2013 under the names KBC Mobile Business Banking and CBC Mobile Business Banking. KBC-Online too is providing clients with ever more information and facilities to perform their own banking and/or insurance transactions. It already boasts 1.2 million subscribers, almost 900 000 of whom are active users. And we are constantly increasing our accessibility via social media like LinkedIn, Facebook, YouTube and Twitter. What's more, we launched two new websites in 2013, www.kbccorporates.com specifically for corporate clients and www.kbcfi.com for financial institutions.

We adjust our product and service offering all the time to take account of the changing needs of our clients, new legislation and social trends.

We highlighted our local responsiveness with the 'Do your bit and add a brick' campaign, an eye-catching initiative showing how KBC reinvests virtually all of its Belgian clients' savings in the Belgian economy. The campaign makes it clear that – thanks to our strong local presence – we can bridge the gap between the savings requirements of our private individual clients and the borrowing requirements of both our private individual and business clients. To give concrete shape to this commitment, clients were able to visit our website and choose the KBC-funded local project that most caught their imagination. Savers could also leave messages, which were engraved on real miniature bricks that were later presented to the head of the relevant ventures.

We also offer our clients a whole range of savings and investment products linked directly to the Belgian economy, including the KBC Time Deposit Account 100% Invest. KBC undertakes to reinvest every euro deposited through this account in lending to SMEs in Flemish provinces chosen by investors themselves. In addition, we offer a variety of specific investment funds that invest directly in Belgian and/or Flemish businesses, such as KBC EquiPlus 90 Belgian Economy, KBC Participation Belgian Economy and KBC Equity Fund Flanders.

Another example of our local responsiveness is our response to the decline in the number of business start-ups in Flanders – with the costs and other difficulties of creating a new business cited as one of the main reasons – with the launch of 'Start it @kbc'. The aim here is for KBC, together with a number of partners, to help start-ups with various aspects of doing business, such as making contacts and developing a network. We have also made office space available to start-ups at the KBC Tower in Antwerp. The project is targeted primarily at businesses with an innovative approach that are capable of contributing to a sustainable local economy.

Our wide-ranging and bespoke product offering makes us one of Belgium's leading financial institutions. Based on provisional data and our own estimates, our share of the Belgian market amounted to almost 23% in lending and just over 17% in deposits at year-end 2013. As in previous years, we did very well in the investment fund market, as illustrated by an estimated share of 33%.

Despite our strong position – especially in Flanders – our ambition is to grow further, but in a profitable and responsible manner. We intend to do so by, for instance, continuing to focus firmly on innovation, investigating whether specific opportunities exist in particular regions and product segments, and further developing our strong direct channels (online and mobile banking).

Our involvement in society and community engagement in Belgium go beyond offering the right products and services. They are also expressed in a range of initiatives we take in the areas of the environment, health and safety, and combating social deprivation and exclusion. Here are a few examples:

- Through our social sponsorship activities, we focus on projects in the area of health and road safety, with the emphasis on prevention. We have partnered the Belgian road safety campaigns *Levenslijn* and *Mobiel 21*, for instance, for many years now. We hold regular blood donation sessions at our head offices in collaboration with the Red Cross, and have worked closely for numerous years with the cancer charity, *Kom Op Tegen Kanker*. We actively sponsor many cultural and sporting events as well, such as the *Ronde van Vlaanderen* (a road cycling race held in Flanders), the *KBC Nacht van de Atletiek* (an athletics event) and a number of summer festivals.
- We are working hard to reduce our ecological footprint. For example, we began in 2013 to replace the fluorescent light fittings at our head office in Brussels with energy-saving LED lighting, which only uses a third of the energy of fluorescent lights and lasts much longer. Environmental awareness is, incidentally, an issue for all KBC staff. To that end, the non-recurrent results-based bonus KBC pays its employees in Belgium has been subject for two years now to the achievement of green, sustainable targets, including electricity consumption, CO2 emissions from company cars, kilometres driven and paper usage.
- We opened a brand-new branch in June 2013 at a new location in Ghent. The new design concept implemented there focuses entirely on the client and the community, and we intend to open more branches like this in the future. These branches will have a smaller floor area, be more ecological and will be based on the concept of a cashless and paperless branch.

Environmental efficiency data for the KBC group in Belgium is shown below.

Environmental efficiency data for the KBC group in Belgium (per FTE)		2012	2013*
Energy consumption (in GJ)	Electricity	20,8	21,3
	Provided by renewable energy sources	100%	100%
	Fossil fuels (gas and heating oil)	12,6	16,0
Distances travelled (in km)	Commuter travel	8 867	8 288
	Business travel	5 573	5 358
Paper and water consumption, waste	Paper (in tonnes)	0,13	0,12
	Water (in m^3)	8,5	9,0
	Waste (in tonnes)	0,29	0,33
Greenhouse gas emissions (in tonnes)*		1,8	2,5

* The increases relate in part to weather conditions (the harsh winter) and partly to reduced occupation of our office buildings and refinement of the methodology used.

Not only is it important to us to reduce our own ecological footprint, we also try to support initiatives that aim to achieve a climate-neutral or more sustainable environment. Examples include the innovative initiatives *Leuven KlimaatNeutraal* and *Stadslab 2050* in Antwerp, in which we collaborate with different partners in society to look for ways of reducing the energy consumption of our homes, cities, businesses and mobility in general.

As in previous years, we received a number of awards in Belgium that not only recognised our financial performance, but also rewarded our social commitment. A few examples are provided below.

- At the beginning of 2013, KBC was voted one of the best employers in Belgium in the Great Place to Work® survey for the eighth time in a row, coming sixth in the category of businesses with over 500 employees.
- In April 2013, KBC received the highest score for mobility from Business & Society Belgium, a business network of over 85 companies and professional federations from different sectors, whose goal is to integrate corporate social responsibility in their management and operations.
- In January 2013, KBC received certification for its support services from and was thus able to register with the EU Eco-Management and Audit Scheme (EMAS).
- In February 2013, *Euromoney* chose KBC Private Banking as the best private banker in Belgium for 2013. KBC Private Banking had already been nominated as a 'highly commended private banker' for 2012 by the *Financial Times/The Banker*.
- In June 2013, KBC won a Golden Lion at the Cannes Lions advertising festival for our 'Gap in the Market' campaign. In this campaign, KBC went in search of professions, services or shops that were lacking in a particular village or town, with the aim of stimulating entrepreneurship. This campaign has since won a number of other prizes.
- In June 2013, Ethibel confirmed KBC's membership of the Ethibel Excellence Investment Register, indicating that the company outperforms its peers in terms of CSR.
- In July 2013, KBC was included in the Euronext-Vigeo Benelux 20 Index, composed of the 20 most advanced companies in the Benelux region in terms of their performance on the environment, social issues and corporate governance.

Our commitment to society has gained us considerable credit with our clients, and we are keen to build on that. Campaigns like 'Gap in the Market' are an excellent example, moreover, of what we refer to in our strategy as 'local responsiveness'. This is a path we definitely intend to follow going forward.

Czech Republic Business Unit

The Czech Republic Business Unit comprises all KBC's activities in the Czech Republic. These consist primarily of the activities of the ČSOB group (under the ČSOB, Era, Postal Savings Bank, Hypotečni banka and ČMSS brands), ČSOB Asset Management and Patria Finance.

The business unit contributed 529 million euros to the adjusted result in 2013.

The economic context in the Czech Republic

The Czech economy began 2013 with its sixth successive quarter of negative growth. Exports suffered from weak euro-area demand, while domestic demand was held back by the restrictive budget policy. This recession ended in the second quarter thanks to an improvement in foreign demand. Private consumption and the pattern of investment, by contrast, remained lacklustre due to ongoing budgetary consolidation.

Economic activity recovered sporadically in 2013, only really gaining strength at the end of the year. This hesitant recovery was accompanied by weak inflation, which fell below the Czech central bank's comfort zone. While the bank considered the risk of deflation to be a real one, it had to look for new policy instruments, having already cut its policy rate to a minimum in November 2012. Having threatened for a year to intervene in the currency market, it decided in November to cap the exchange rate at 27 koruna to the euro, supported by unlimited purchases of the Czech currency.

The economic situation was reflected in weak business lending. Companies sought to meet their financing needs as much as possible with their own funds, while also pursuing more direct financing through the capital markets. By contrast, lending to households – particularly for home purchases – remained much more buoyant.

We expect the Czech economy to resume growth in 2014. On the one hand, exports are likely to benefit from the weaker exchange rate induced by the central bank, while on the other, budget policy will place less of a brake on domestic demand. Low inflation is underpinning growth in real incomes, giving a modest boost to household consumption. A sustainable recovery in the investment cycle is unlikely until such time as surplus production capacity has been used up. This outlook is based on forecasts made at the start of 2014 and, therefore, the actual situation could differ (considerably).

Our activities in the Czech Republic

Position in the Czech market in 2013*

319 bank branches (ČSOB Bank + Era)

Estimated market share of 19% for traditional bank products and 28% for investment funds

Approx. 3 million customers

Loan portfolio of 20 billion euros and deposits and debt securities of 25 billion euros

* Market shares and customer numbers: based on own estimates (mostly at 30 September). Share for traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Value and risk management' section. Deposits and debt securities: deposits from customers and debt securities (excluding repos).

The group operates through an extensive network of 319 ČSOB and Era bank branches. It also has approximately 173 branches belonging to other subsidiaries (ČMSS, Hypotečni banka, ČSOB Leasing) and around 3 100 PSB branches at Czech post offices. In addition to these, there is an extensive network of agents, intermediaries and brokers. As in Belgium, the network is supplemented by various electronic channels, such as ČSOB InternetBanking, ČSOB BusinessBanking and ČSOB SmartBanking.

Our Czech group companies offer a wide range of banking (including loans, deposits, and a variety of specialist financial services) and asset management products. The focus, as in Belgium, is on private individuals and SMEs.

The product offering is regularly screened and adapted. Examples of new products include:
- the launch of a new programme specifically for the agricultural sector, with more flexible repayment terms and the possibility of applying for government subsidies.
- significant improvements in smart banking apps. A trial has been underway since October 2013 in collaboration with T-Mobile in the area of near-field-communication (NFC) payments, enabling clients to pay for goods in stores using a smartphone.

- the launch of flexible ČSOB loans, which allow clients to increase or decrease monthly repayments, suspend repayments for up to three months and make lump-sum repayments.
- the launch of around 58 new issues of investment funds in 2013, 23 of them with capital protection. In that respect, clients shifted preferences in 2013 from 100% protection to slightly lower protection levels.

KBC is a major player in the Czech Republic via its Czech group companies. Our market share in 2013 was estimated at more than 19% for both loans and deposits. The ČSOB group enjoys a top three market position in the Czech Republic for each of the main bank products. As in Belgium, our share of the investment fund market is greater than that of the market in traditional deposit products. At year-end, we estimated it at 28%.

As a major financial player in the Czech Republic, we set great store by our role in Czech society.

We are a large employer and as such we focus intensively on employee satisfaction. We have taken a number of initiatives, for instance, to improve our employees' work-life balance, by offering flexible working hours, home working and so on. We also conduct employee satisfaction surveys of our own every two years, and use the findings to take selective measures. The most recent survey showed that employee satisfaction and loyalty are higher than average for the Czech Republic at ČSOB, and that they have actually risen slightly compared with two years ago.

Given its importance within a relationship bank-insurance approach, we also track customer satisfaction very closely. We conduct regular customer satisfaction surveys and use the results to launch new campaigns and other commercial activities. The surveys conducted in our bank branches in 2013 show that over 80% of our clients describe themselves as 'satisfied' – an excellent performance. The general measurement of customer satisfaction with our brand and product offering is supplemented by specific, active and direct surveys, including ones performed immediately after a branch visit.

Our social engagement in the Czech Republic is also expressed in the initiatives our group companies take in areas like patronage, combating social deprivation and exclusion, the environment and the products we offer. Our focus is on sustainable, long-term activities in the field of education and development, diversity and the environment. Here are a few examples:

- ČSOB promotes financial literacy through its 'ČSOB Education Fund Programme', which includes actual funding for the submitted projects. We backed 11 projects in 2013, with the emphasis on the elderly, children and disabled people.
- The 'ČSOB Helping Together Programme' is a voluntary initiative, where ČSOB employees get the opportunity to do voluntary work for various not-for-profit organisations. Following the serious floods that occurred in mid-2013, ČSOB advised its employees about possible ways to support the NGOs that provided disaster relief to the victims. Money was donated to a number of organisations.
- ČSOB tries to encourage individual initiatives for socially vulnerable people. For example, we set up a new online portal in 2013 to streamline individual donations to NGOs, while also offering donors the opportunity to share their experiences through Facebook and to encourage others to follow their example.
- KBC-group companies are also aware of their ecological footprint and are taking various initiatives to reduce it. The head office in the Czech Republic, for instance, is a model of ecological and sustainable construction.

As in previous years, we were again awarded a number of prizes in the Czech Republic, rewarding not only our financial performance, but our social engagement too. Examples include:

- EMEA Finance named ČSOB as the Best Bank in the Czech Republic for the third time in four years, and The Banker also made ČSOB its 2013 Bank of the Year.
- *Euromoney* chose ČSOB Private Banking as the best private bank in the Czech Republic.
- ČSOB was named the 'Bank without Barriers' (the most accessible bank for people with a physical handicap) for the third time in a row.
- The Employers Club & Sodexo voted ČSOB the second best employer in the Czech Republic in the 5 000+ employees category.
- ČSOB was awarded the 'Family Friendly Company 2013' certificate by the Czech Network of Mother Centres, thanks to its policy on work-life balance, contact with employees on maternity and parental leave, and similar initiatives.

The following table shows a selection of environmental efficiency data for ČSOB in the Czech Republic.

Environmental efficiency data for the KBC group (ČSOB) in the Czech Republic (per FTE)		2012	2013
Energy consumption (in GJ)	Electricity	16.9	16.0
	Fossil fuels (gas and heating oil)	6.1	6,3
Paper and water consumption, waste	Paper (in tonnes)	0,14	0.14
	Water (in m^3)	14.6	15.7
	Waste (in tonnes)	0.23	0.25

International Markets Business Unit

The International Markets Business Unit comprises the activities conducted by entities in the other (non-Czech) Central and Eastern European core countries, namely ČSOB in Slovakia, K&H Bank in Hungary and CIBank in Bulgaria, plus KBC Bank Ireland's operations.

The business unit contributed -864 million euros to the adjusted result in 2013. The adjusted result per country was 58 million euros for Hungary, 60 million euros for Slovakia, 10 million euros for Bulgaria and -992 million euros for Ireland.

The economic context in Slovakia, Hungary, Bulgaria and Ireland

Slovakia, the region's strongest performer, struggled with a sharp slowdown of growth in 2013, the main cause of which was the brake placed on domestic demand by budget policy. Weak economic growth in the euro area also weighed on exports. Improvement is likely in 2014, with the worst of the budgetary correction now over, and exports set to benefit from the recovering economy in the euro area. We anticipate real GDP growth of about 2% in 2014.

Hungary began 2013 in recession, but economic activity staged a fragile recovery in the course of the year, accompanied by a significant relaxation in monetary policy. This relaxation was also made possible by the favourable trend in the Hungarian credit risk premium. The necessary consolidation of public finances occurred primarily at the expense of businesses. Private consumption held up relatively well as a result, but there was a negative impact on the pattern of investment. The economy continued to be dominated by debt reduction, but the central bank's programme of encouraging lending to small and medium-sized enterprises appeared to bring a little respite. We expect stronger real GDP growth of roughly 2% in 2014, stimulated in part by rising exports.

The resignation of the government in February 2013 sparked political and social unrest in Bulgaria, which snuffed out a sustained economic recovery. On top of that, budget policy was restrictive due to the legislative framework to defend the currency board. The economy improved toward the end of the year, a trend we expect to continue in 2014 with real GDP growth of 1.8%.

Ireland made substantial progress in 2013 in the implementation of a far-reaching reform programme. Towards the end of the year, it duly became the first country affected by the euro crisis to exit its international bailout programme. Its competitiveness was largely restored, so that exports can benefit from the economic upturn in the country's key export markets (US, UK and the euro area). Progress was made in restoring the health of public finances, and following the successful restructuring of the banks, the focus now is on reducing past-due loans and restoring profitability in the sector. The reduction of household debt continues to weigh on lending, but the housing market is stabilising and investment demand and job creation are starting to pick up.Although the further reform of public finances and household debt reduction mean that growth in domestic demand will remain limited, the improvement in consumer and producer confidence points toward a significant economic recovery in 2014.

This outlook is based on forecasts made at the start of 2014 and, therefore, the actual situation could differ (considerably).

Our activities in Hungary, Slovakia, Bulgaria and Ireland

Market position in 2013[1]

	Hungary	Slovakia	Bulgaria	Ireland
Bank branches	220	128	104	7
Customers (millions)	0,9	0,4	0,3	0,2
Loan portfolio (in billions of EUR)	5,1	4,6	0,7	15,3
Deposits and debt securities (in billions of EUR)	5,9	4,7	0,6	3,5
Market share - bank products - investment funds	9% 17%	10% 7%	2% -	-[2]

1 Market shares and customer numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Value and risk management' section. Deposits and debt securities: deposits from customers and debt securities (excluding repos).
2 Share of retail market: 10% for mortgage loans and 3% for deposits.

Our companies in each of the Central and Eastern European core markets offer a wide range of bank products (loans, deposits and various specialised financial services), and asset management products (the latter are not sold in Bulgaria).

In Hungary, the group owns K&H Bank – the country's second largest bank – but operates in a relatively difficult market, where taxation on the financial sector has gone up again. We estimate our share of the Hungarian market in 2013 at 8% for loans, 9% for deposits and 17% for investment funds. We cater for a total of some 0.9 million clients there.

ČSOB is among the top four banks in Slovakia and has in recent years become a major player in the market for private individuals, gradually expanding its mortgage portfolio, among other things. We estimate our share of the Slovakian market in 2013 at 10% for loans and for deposits, and 7% for investment funds. We cater for a total of some 0.4 million clients there.

The group owns a relatively small bank in Bulgaria. We estimate our share of the Bulgarian market in 2013 at 2% to 3% for loans and for deposits. We cater for a total of some 0.3 million clients there.

In Ireland, lastly, we have KBC Bank Ireland. It has suffered in recent years from the impact of the property crisis. The Irish loan portfolio stood at about 15 billion euros at the end of 2013, four-fifths of which related to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. The group set aside 1.1 billion euros in loan loss provisions for its Irish portfolio in 2013, considerably more than the 0.5 billion euros in 2012. Higher provisions were set aside in the fourth quarter following an analysis of the loan portfolio. At the end of 2013, some 26% of the total Irish loan portfolio was non-performing, compared with 23% at year-end 2012. In addition to the ongoing management of the outstanding real estate portfolio, we started work in 2013 on transforming and developing KBC in Ireland into an important retail bank, opening new retail branches, expanding our offering of bank products and starting to sell home and life insurance. We estimate our share of the Irish market in 2013 at 10% for mortgage loans and 3% for deposits. We cater for some 0.2 million clients there.

The companies scheduled for divestment also belong to the International Markets Business Unit, but their results are reported under the Group Centre. We finalised or signed sale agreements in 2013 for the last remaining divestments, more information on which is provided in the 'Group Centre' section.

As is the case in Belgium and the Czech Republic, KBC pursues a socially responsible approach in Slovakia, Hungary, Bulgaria and Ireland, too. This is illustrated in our dealings with staff and clients and in our involvement with society as a whole.

Given its importance within a relationship bank-insurance approach, we track customer satisfaction very closely. Customer satisfaction surveys are performed on a regular basis, and the results are used by the relevant group company to launch new campaigns and carry out other commercial activities.

What's more, as a major employer in these countries, we pay much attention to employee satisfaction. We also conduct employee satisfaction surveys of our own, and use the findings to take selective measures. Various possibilities are available to KBC employees in these countries to maintain a better work-life balance. In Hungary, for instance, we have taken initiatives that offer employees the chance of varied jobs and equal development opportunities, while maintaining their work-life balance. In Bulgaria, CIBANK continues to work on its 'ACTIVE' programme, which aims to enhance employee engagement as part of the new corporate culture and to reduce the gap between senior management and all other levels. In Slovakia, ČSOB received PwC's 'Leading HR Organisation 2013 Award' in recognition for its HR projects. We commissioned an employee satisfaction survey at KBC Bank Ireland, the results of which were discussed in interactive workshops and will form the basis for actions to be formulated in 2014.

Our broader social engagement is illustrated in Hungary, for example, through the 'K&H MediMagic Programme', which provides financial and material help for sick children. K&H also promotes financial education by organising the national ‘K&H Ready, Steady, Money’ contest, in which students’ financial knowledge is tested. Financial education is moreover the focus of the ‘ČSOB Head and Heel Programme’ in Slovakia, where university students are encouraged to find a creative approach to a financial topic. In addition, ČSOB in Slovakia organises the ČSOB Bratislava Marathon, with which a variety of charities are affiliated, and supports a number of NGOs through its ‘Employee Grant Programme’. KBC Bank Ireland organises various events for charity projects like Barretstown (a camp for seriously ill children) and Barnardos (an initiative for vulnerable children and children's rights). Lastly, CIBANK in Bulgaria gives orphans the opportunity to go on holiday thanks to its 'Blue Summer' initiative.

The companies belonging to this business unit again picked up various awards in 2013. For example:

- In Hungary, K&H was chosen as ‘Best Bank’ by *Euromoney* and *The Banker*. K&H’s new head office received the LEED© Gold Certificate in recognition of its sustainability.
- The annual *Euromoney* Private Banking and Wealth Management Survey 2013 named ČSOB as the best provider of private banking services in Slovakia.
- In Bulgaria, CIBANK received the Apeiron Academy Grapevine Award 2013 for its ‘ACTIVE’ employee engagement programme in the category ‘Programme or campaign to promote employee engagement’
- The Rep Trak survey identified KBC as the bank with the best reputation in Ireland.

International Product Factories Business Unit

The International Product Factories Business Unit supports and provides products to the other business units. The principal services belonging to this business unit in 2013 were Asset Management, Consumer Finance, Trade Finance, Financial Institutions and Markets & Securities.

The results of this business unit are not reported, as all the income and expenses of the services it provides are included in the results of the group’s other units, based on geography.

Activities of the International Product Factories Business Unit

The International Product Factories Business Unit comprises a wide range of activities conducted across a number of different countries and relating to the money, bond and capital markets, consumer finance, asset management, trade finance and financial institutions.

What these services and activities have in common is that they have little or no direct customer base. Instead, they develop products and services and deliver them to the other business units (Belgium, Czech Republic and International Markets) to be distributed. Another common aspect is that the services and products in question are similar for all the geographical markets and generate economies of scale. In other words, activities of a purely local nature (such as leasing) do not belong to this business unit, but are incorporated into the relevant geographical business units.

The geographical focus of this business unit is naturally aligned with the group’s general strategy, i.e. focus on Belgium and the four Central and Eastern European core markets. In keeping with this, we have largely run down or reorganised the activities of the international product factories in other countries in recent years. For instance, we launched initiatives in Poland to develop a new business model for asset management. In this model, products are distributed by partners who do not belong to the KBC group. The recent signing of a cooperation agreement with BNP Paribas is an important development in this regard.

The activities belonging to this business unit continue to strive in the new group structure to improve service quality by exploiting synergies and sharing best practices. The international boards set up for each field of activity within KBC Asset Management are a good example of this. They exchange best practices at their regular meetings so as to enhance efficiency, improve quality and support commercial activities.

We also regularly screen and optimise our product offering. At KBC Asset Management, for instance, this led once again to the development of numerous innovative investment products, including the Generation Plan – a new product with a mechanism to monitor the floor price, which is ideally suited to estate planning. KBC Participation Belgian Economy and CBC Fonds Local Investors, meanwhile, enable investors to support the local Belgian economy. KBC Asset Management also launched a variety of structured funds with a timing structure, for which the lowest level during a specific time period is taken as the starting point for the investment. Lastly, management techniques for products with a mechanism for monitoring a floor price were optimised to take account of the present low level of interest rates. This approach has proved highly successful, as reflected in persistently strong shares of the investment fund market in Belgium, the Czech Republic and Hungary, where we score considerably higher than with traditional loan and deposit products.

As regards consumer finance in 2013, we introduced a number of important product and process improvements, including the launch of a new range of credit cards and a flexible instalment loan in the Czech Republic and the repositioning of instalment loans at KBC Belgium. We made a start in a number of markets on making our product offering available via smartphones and tablets, to enable our clients to manage their loans themselves. A product factory for consumer finance was set up in Ireland in 2013. This business model will be rolled out further in 2014. KBC estimates its share of the consumer finance market at roughly 5% in Belgium (KBC Bank), 9% in the Czech Republic, 4% in Slovakia and 2% in Hungary.

On the financial markets front, 2013 was marked by the operational merger of the Markets division with KBC Securities in order to heighten focus on the client. By combining our capabilities in this way, we can now offer our clients a full package of financial solutions. This also applies to investors, thanks to the synergies between our bond and equity sales teams. We restructured the organisation and strategy of Bolero, KBC's cutting-edge online investment platform, by introducing a new pricing model and website, developing a mobile offering, cooperating at structural level with the Belgium Business Unit and KBC Asset Management, and rebranding the entire operation.

Research & development

We constantly develop new products and services to align our offering as closely as possible with market demand. To support research and development of new products, we have a specific process within the group that enhances the efficiency with which our business entities receive approval for new product and service launches. The process also entails a thorough analysis of all relevant risks and a proposal for actions that need to be taken to avoid or manage those risks. In addition, we regularly review all our products, so that existing ones can be adapted to evolving client needs and changing market conditions. A custom documentation application is used to help monitor the process and enhance the efficiency of our research.

Besides the projects and products mentioned in this section, we have provided several examples of new product developments in 2013 elsewhere in this annual report. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 30 of the ‘Consolidated financial statements’.

Group Centre

The Group Centre includes that portion of the results not attributable to the other business units (including the funding cost of participating interests), elimination of intersegment transactions and the results of the remaining companies scheduled for divestment and of activities in the process of being run down.

The Group Centre also contains the results of the legacy business (CDOs and divestments) and those relating to the valuation of own credit risk, items which we report separately to gain a better insight into the operating result and the non-operating result.

The Group Centre contributed -147 million euros to the adjusted result in 2013.

Divestment plan virtually complete

The restructuring plan we agreed with the European Commission in 2009 included a list of activities that had to be divested. By the end of 2013, the plan had been fully implemented. The following list contains the principal divestments at KBC Bank level, based on the year in which the agreement was concluded, not the year the deal was closed:

- 2010: KBC Peel Hunt, various specialised merchant banking activities at KBC Financial Products, KBC Asset Management's UK and Irish activities, KBC Securities Baltic Investment Company and KBC Business Capital.
- 2011: Centea, KBC Concord Asset Management and KBC Securities' Serbian and Romanian operations.
- 2012: KBC Goldstate, Żagiel, Kredyt Bank (via merger with Bank Zachodni WBK), KBC Autolease Polska, KBC Lease Deutschland, participating interests held by KBC Private Equity, Absolut Bank, and the minority stake in NLB.
- 2013: minority stake in Bank Zachodni WBK, part of KBC Securities in Poland, KBC Bank Deutschland (yet to be completed) and Antwerp Diamond Bank (yet to be completed).

Notes on recent important divestments (agreement or closure in 2013)			
File	Agreement date	Closure date*	Description (situation and calculation of impact at KBC-group level when deal announced)
Kredyt Bank/Bank Zachodni (banking, Poland)	February 2012	March 2013	Sale of KBC's 16.17% stake in Bank Zachodni (created by the merger of Bank Zachodni WBK and Kredyt Bank) through a secondary offering. The sale raised approximately 0.9 billion euros and strengthened KBC Group's tier-1 ratio (Basel II) by 0.6%.
Absolut Bank (banking, Russia)	December 2012	May 2013	Sale of Absolut Bank to a group of Russian companies that manage the assets of the Blagosostoyanie pension fund for 0.3 billion euros. The deal had a negative impact of -0.1 billion euros on KBC's consolidated second-quarter result in 2013, and freed up 0.3 billion euros in capital, primarily by reducing risk-weighted assets by 2 billion euros. KBC Group's tier-1 ratio (Basel II) rose by approximately 0.4% as a result.
Nova Ljubljanska banka (NLB) (banking, Slovenia)	December 2012	March 2013	Sale of KBC's remaining 22% stake in NLB to the Republic of Slovenia for approximately 3 million euros. The impact on KBC's capital was negligible.
KBC Bank Deutschland (banking, Germany)	September 2013	Not yet closed	In September 2013, KBC signed an agreement to sell KBC Bank Deutschland to a group of investors comprising Teacher Retirement System of Texas, Apollo Global Management LLC, Apollo Commercial Real Estate Finance Inc. and Grovepoint Capital LLP. The deal will free up some 0.1 billion euros of capital for KBC Group, primarily by reducing risk-weighted assets. The deal will improve KBC's solvency position by around 15 basis points (Basel II). The deal has yet to be approved by the regulator.
Antwerp Diamond Bank (diamond trade finance, Belgium)	December 2013	Not yet closed	In December 2013, KBC reached an agreement with the Shanghai-based Yinren Group for the sale of Antwerp Diamond Bank (ADB). The deal has yet to be approved by the regulator. It will free up approximately 0.1 billion euros of capital for KBC Group, primarily by reducing risk-weighted assets, which will ultimately boost KBC's tier-1 ratio (Basel II) by around 0.2 percentage points. Before the deal is completed, part of ADB's loan portfolio (primarily higher-risk and non-performing loans with a net carrying value of 0.4 billion euros) will be transferred to KBC Bank for standard settlement. Following closure, KBC will provide 0.2 billion euros' worth of secured funding to ADB for up to two years.

* Situation when annual report went to press.

Value and risk management

Mainly active in banking and asset management, we are exposed to a number of typical industry-specific risks and uncertainties such as – but not exclusively – credit default risk, country risk, movements in interest rates and exchange rates, liquidity risk, operational risks, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. One aspect of the business risk is that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels. Obviously, the activities of a large financial group such as ours are inherently exposed to other risks that only become apparent with the benefit of hindsight.

This section of our annual report focuses on our risk governance model and most of the material risks we face, namely credit risk, market risk, liquidity risk, operational risk, as well as our capital adequacy.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, viz.:

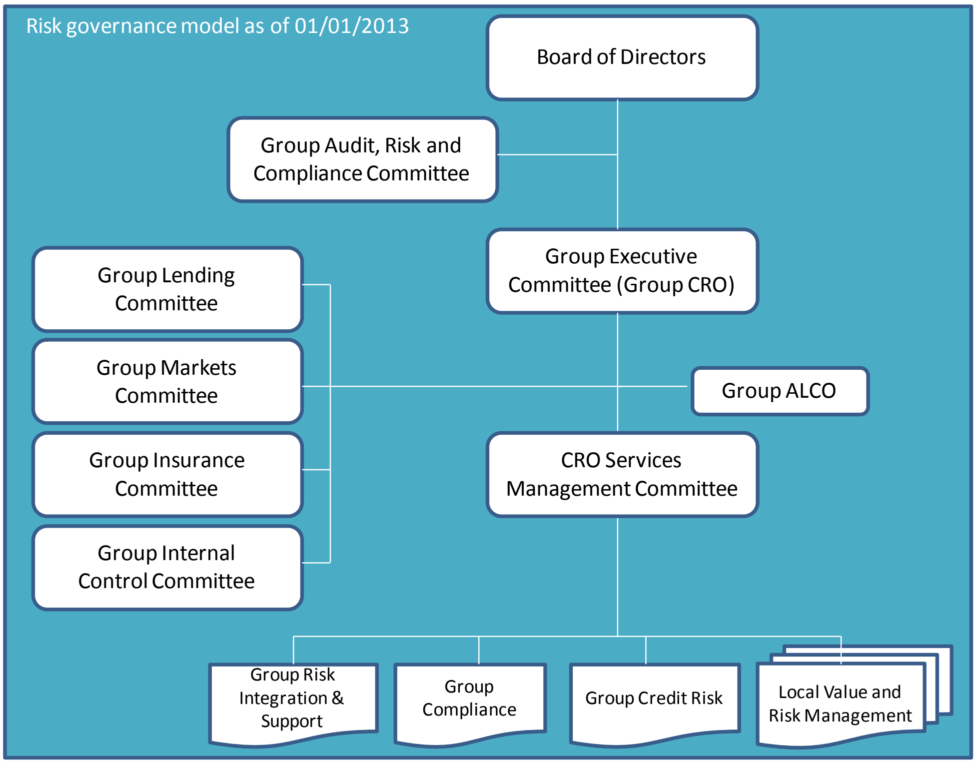
- the entire 'Risk governance' section;
- certain parts of the 'Credit risk' section, namely the introduction, 'Credit risk management at the transactional level' (excluding the table 'Distressed renegotiated loans'), the 'Loan and investment portfolio, banking' table (audited parts are indicated in the footnote to the table), the tables regarding the loan and investment portfolio of KBC Bank Ireland and K&H Bank, the 'Other credit exposure, banking' table and 'Overview of exposure to sovereign bonds';
- certain parts of the 'Market risk in non-trading activities' section, namely the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 100-basis-point increase in the yield curve KBC Bank' table) and 'Foreign exchange risk';
- certain parts of the 'Liquidity risk' section, namely the introduction, 'Managing liquidity risk' and 'Maturity analysis';
- certain parts of the 'Market risk in trading activities' section, namely the introduction, 'Managing market risk' and 'Risk analysis and quantification';
- certain parts of the 'Capital adequacy' section, namely the introduction, 'Managing solvency, Basel II' and the 'Solvency, KBC Bank Basel II' table (audited parts are indicated in the footnote to this table).

Remark:

Please note that, unless otherwise stated, KBC Bank Deutschland (in 2012 and 2013), Antwerp Diamond Bank (in 2012 and 2013), Absolut Bank (in 2012; sold in 2013), and the minority shareholding in Nova Ljubljanska banka (in 2012; sold in 2013), which have all been recognised as 'disposal groups' under IFRS 5, have been excluded from the various tables in order to maintain consistency with their treatment in the balance sheet. Where relevant, we have provided summary information for these entities separately in the footnotes under these tables.

Risk governance

Risk governance in KBC Bank is fully embedded in the risk governance of KBC Group. Below, the risk governance model of KBC Group is highlighted.
As of 2013, a new risk governance model was put in place to take account of changes in the organisational structure of KBC.



This model is characterised primarily by:

- the Board of Directors, assisted by the Audit, Risk and Compliance (ARC) Committee, which sets the risk appetite each year, monitors risks and proposes action, where necessary.
- integrated architecture centred around the Executive Committee that links risk appetite, strategy and performance goal setting.
- the CRO Services Management Committee and activity-based risk committees mandated by the Group Executive Committee.
- risk-aware business people, who act as the first line of defence for conducting sound risk management in the group.
- a single, independent risk function that comprises the Group Chief Risk Officer (CRO), local CROs, local risk functions and the group risk function. The risk function (together with the compliance function) acts as the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

- Group Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the KBC Risk Management Framework;
  - decides on the non-strategy-related building blocks of the KBC Risk Management Framework and monitors its implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Asset/Liability Management Committee (Group ALCO);
  - monitors the group's major risk exposures to ensure conformity with the risk appetite.
- Group ALCO:
  - is a business committee that assists the Group Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The CRO Services Management Committee supports the Group Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The Group Lending Committee (GLC) supports the Group Executive Committee in setting, monitoring and following up limits for lending activities (funding, liquidity and ALM issues related to lending activities remain the responsibility of the Group Executive Commitee/Group ALCO).

  - The Group Markets Committee (GMC) supports the Group Executive Committee in setting, monitoring and following up limits for markets activities (trading activity, where there is not only market risk, but also operational and counterparty credit risks).
  - The Group Insurance Committee (GIC) supports the Group Executive Committee in setting, monitoring and following up limits for insurance activities at group level.
  - The Group Internal Control Committee (GICC) supports the Group Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- Local Chief Risk Officers (LCROs) are situated throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO.
- Group Risk Integration & Support and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Group Executive Committee and the risk committees.

Performance is assessed on a yearly basis as part of the Internal Control Statement.

Credit risk

Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance, a borrower, guarantor, insurer or re-insurer, counterparty in a professional transaction or issuer of a debt instrument), due to that party's insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk for adverse changes in credit ratings.

We manage credit risk at both transactional and portfolio level. Managing credit risk at the transactional level means that we have sound practices, processes and tools in place to identify and measure the risks before and after accepting individual credit exposures. Limits and delegations (based on parameters such as internal risk class, type of counterparty) are set to determine the maximum credit exposure allowed and the level at which acceptance decisions are taken. Managing the risk at portfolio level encompasses *inter alia* periodic measuring and analysing of risk embedded in the consolidated loan and investment portfolios and reporting on it, monitoring limit discipline, conducting stress tests under different scenarios, taking risk mitigating measures and optimising the overall credit risk profile.

Credit risk management at transactional level

We have sound acceptance policies and procedures in place for all kinds of credit risk exposure. We are limiting our description below to exposures related to traditional loans to businesses and to lending to individuals, as these account for the largest part of the group's credit risk exposure.

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Lending to businesses is subject to a more integrated acceptance process in which relationship management, credit acceptance committees and model-generated output are taken into account.

For most types of credit risk exposure, monitoring is determined primarily by the *risk class*, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults.

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. We use a number of uniform models throughout the group (models for governments, banks, large companies, etc.), while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group.

We use the output generated by these models to split the normal loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12.

We review loans to large corporations at least once a year, with the internal rating being updated as a minimum. If ratings are not updated in time, a capital add-on is imposed. Loans to small and medium-sized enterprises as well as to private individual, are reviewed periodically, with account being taken of any new information that is available (such as arrears, financial data, a significant change in the risk class). This monthly exercise can trigger a more in-depth review or may result in action also being taken towards the client.

For credit linked to defaulted borrowers in PD classes 10, 11 and 12 (impaired loans), we record impairment losses based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis, and on a statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, we record impairment losses on a 'portfolio basis', using a formula based on the IRB Advanced models used internally, or an alternative method if a suitable IRB Advanced model is not yet available.

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, we can decide to renegotiate its loans in accordance with internal policy guidelines. Distressed renegotiated loans are loans whose original payment terms have been altered, due to a deterioration in the borrower's financial condition.

Renegotiation may involve:

- declaring a moratorium (temporary principal and/or interest payment holidays);
- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;
- writing off part of the debt and providing debt forgiveness.

The negotiated changes must be reflected in a new, or an amended, and duly signed loan agreement. A renegotiation tag is attached to the file in the credit systems for identificaton, monitoring and reporting purposes.

A client with a distressed renegotiated loan will in principle be assigned PD class 9 or higher.

If – based on the bank's assessment of the borrower's revised financial projections/restructuring plans – there is a reasonable chance that the borrower will be able to meet the renegotiated terms of the loan, and the expected loss (in the broad sense) for the bank after renegotiation will be lower than it would have been without renegotiation, the credit committee will assign/confirm PD 9. Some exceptions to the PD 9 principle exist for certain retail portfolios. In such cases, the PD class to be assigned is determined on the basis of the behavioural score and may end up being lower than 9. However, a higher PD than the one assigned to borrowers without restructured loans is the usual outcome, as the behavioural score takes into account any irregularity in payments.

If a distressed renegotiated loan is approved and the credit committee is of the opinion that it is unlikely that the borrower will be able to meet the renegotiated terms – or if a loan to a counterparty was (partially) charged off – PD class 10 (or higher) will be assigned. In this case, an obligor needs to be classified as 'defaulted' according to KBC's rules and the need for provisioning has to be assessed. It is highly likely that an impairment charge will be recorded.
If, one year after the loan has been renegotiated, the credit committee is of the opinion that the borrower is showing signs of improvement and that the loan's renegotiated terms are likely to be met, then – in the case of PD 9 – a better classification may be assigned to the borrower and the renegotiation tag can be removed. If a borrower is classified as PD 10 (or higher), PD 9 (only) may in principle be assigned for one year and the renegotiation tag kept in place. If the credit committee decides that the existing PD class 9 (or higher) should remain unchanged or that a worse rating should be assigned, the renegotiation tag may not be removed for the time being (i.e. at least until the next review takes place).

At the end of 2013, distressed renegotiated loans accounted for some 5.5% of the total loan portfolio (amount outstanding, excluding entities classified as 'disposal groups' under IFRS 5). A breakdown is provided below.

Distressed renegotiated loans 31-12-2013, in millions of EUR	Total outstanding portfolio [1]	Distressed renegotiated loans						
		Total	(% of outstan-ding portfolio)	Breakdown by PD class				Specific impair-ments
				PD 1-8	PD 9	PD 10 (impaired, less than 90d past due)	PD 11-12 (impaired, 90d and more past due)	
Total	136 525	7 448	5%	581	830	4 309	1 727	1 751
By business unit								
Belgium Business Unit	86 913	2 207	3%	377	446	1 074	311	381
Czech Republic Business Unit	20 234	378	2%	129	25	128	96	83
International Markets Business Unit	25 894	4 845	19%	75	360	3 108	1 303	1 280
Of which:								
Ireland	15 280	3 999	26%	28	281	2 903	787	1 000
Slovakia	4 635	105	2%	23	9	23	49	30
Hungary	5 080	507	10%	9	57	161	281	164
Bulgaria	747	234	31%	15	13	21	185	86
Group Centre	3 483	18	1%	0	0	0	18	8
By client segment								
Private persons[2]	59 014	3 635	6%	278	320	2 314	722	792
SME	32 045	474	1%	107	166	102	100	78
Corporations[3]	45 466	3 339	7%	196	344	1 893	905	881

1 Gross amounts, before impairments (therefore these amounts differ from accounting figures used in other chapters)
2 99% of the renegotiated loans total relates to mortgage loans.
3 49% of the renegotiated loans total relates to commercial real estate loans.

In line with the new (draft) guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority, KBC made preparations for the adaptation of the policies on restructured loans and on the definition of default, which are to be implemented in 2014. When a final decision is reached, new/changed criteria will be put in place to define forborne loans and to reclassify PD 10 as ‘non-performing’ (instead of ‘performing’ at present).

Credit risk management at portfolio level

We also monitor credit risk on a portfolio basis, *inter alia* by means of monthly and/or quarterly reports on the consolidated credit portfolio in order to ensure that lending policy and limits are being respected. In addition, we monitor the largest risk concentrations via periodic and *ad hoc* reports. Limits are in place at borrower/guarantor, issuer or counterparty level, at sector level and for specific activities or geographic areas. Moreover, we perform stress tests on certain types of credit (for instance, mortgages), as well as on the full scope of credit risk.

Whereas some limits are still in notional terms, we also use concepts such as 'expected loss' and 'loss given default'. Together with ‘probability of default’ and ‘exposure at default’, these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Basel II Internal Rating Based (IRB) approach. After receiving the approval of the regulators in 2012, the main group entities adopted the IRB Advanced approach and were joined by a number of smaller entities in 2013. Others are scheduled to shift to the IRB Advanced or Foundation approaches in 2014. ‘Non-material’ entities will continue to adopt the Basel II Standardised approach.

Credit risk exposure in the banking activities

The main source of credit risk is the loan and investment portfolio. This portfolio has been built up mainly through what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the group's bank entities. The table excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds. We describe these items separately below.

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in note 14 of the 'Consolidated financial statements' section. That particular heading, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, or corporate and bank bonds, but does include repurchase transactions with non-banks and is net of specific impairments.

As of this report, most breakdowns in the table are based on amounts outstanding (in previous reports, they had been based on amounts granted).

Loan and investment portfolio, banking	31-12-2012[5]	31-12-2013[5]
Total loan portfolio (in billions of EUR)		
Amount granted	166.6	161.8
Amount outstanding	140.7	136.5
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)		
Belgium	63%	64%
Czech Republic	15%	15%
International Markets	19%	19%
Group Centre	3%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	43%
Financial and insurance services	6%	5%
Governments	4%	4%
Corporates	48%	48%
Non-financial services	11%	11%
Real estate	8%	8%
Retail and wholesale trade	7%	7%
Construction	4%	4%
Automotive	2%	2%
Other[2]	16%	16%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1]		
Western Europe	73%	74%
Central and Eastern Europe	22%	22%
North America	2%	2%
Other	2%	2%
Total	100%	100%
Loan portfolio breakdown by risk class[3] (part of the portfolio, as a % of the portfolio of credit outstanding)		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	28%	29%
PD 2 (0.10% – 0.20%)	10%	11%
PD 3 (0.20% – 0.40%)	14%	12%
PD 4 (0.40% – 0.80%)	19%	17%
PD 5 (0.80% – 1.60%)	11%	14%
PD 6 (1.60% – 3.20%)	7%	7%
PD 7 (3.20% – 6.40%)	5%	5%
PD 8 (6.40% – 12.80%)	3%	2%
PD 9 (highest risk, ≥ 12.80%)	4%	3%
Total	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	10 757	13 717
Specific impairment	4 614	5 451

Portfolio-based impairment (i.e. based on PD 1 to 9)	244	281
Credit cost ratio		
Belgium Business Unit	0.28%	0.37%
Czech Republic Business Unit	0.31%	0.25%
International Markets Business Unit	2.26%	4.48%
Ireland	3.34%	6.72%
Slovakia	0.25%	0.60%
Hungary	0.78%	1.50%
Bulgaria	0.94%	1.19%
Group Centre	1.06%	2.90%
Total	0.69%	1.20%
Total (including entities classified as ‘disposal groups’ under IFRS 5)	0.70%	1.19%
Non-performing loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding[6]	7 397	7 928
Specific impairment for non-performing loans	3 626	3 894
Non-performing ratio		
Belgium Business Unit	2.3%	2.5%
Czech Republic Business Unit	3.2%	3.0%
International Markets Business Unit	17.6%	19.2%
Group Centre	1.3%	5.9%
Total	5.3%	5.8%
Total (Including entities classified as ‘disposal groups’ under IFRS 5)	5.3%	5.9%
Cover ratio		
[Specific impairment for non-performing loans]/[outstanding non-performing loans]		
Total	49%	49%
Total (excluding mortgage loans)	63%	60%
[Specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]		
Total	66%	72%
Total (excluding mortgage loans)	91%	90%

For a definition of the above ratios, see the ‘Glossary of ratios used’.

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 17 of the ‘Consolidated financial statements’ section, due to differences in scope.

5 Excluding entities classified as ‘disposal groups’ under IFRS 5. In 2013, these entities (see ‘Remark’ at the start of this section) accounted for 5.8 billion euros’ worth of credit granted, 3.7 billion euros of which was outstanding. In 2012, the relevant entities (see ‘Remark’ at the start of this section) accounted for 8.4 billion euros’ worth of credit granted, 6.2 billion euros of which was outstanding.

6 Non-performing loans also include renegotiated loans (where the borrower has been assigned PD class 11 or higher). Reconciliation of year-end figures: the difference of 531 million euros between the figures for 2012 and 2013 is due to an increase of 130 million euros at Business Unit Belgium, an increase of 321 million euros at Business Unit International Markets (of which Ireland 282 million euros), an increase of 145 million euros at Group Centre, and a decrease in Business Unit Czech Republic of -64 million euros. The NP data are based on the current definition (PD 11+12). If PD10 would also have been included in the NP totals, the total outstanding amount as at 31-12-2013 increases to 13 717 million euros, the NP loan ratio to 10.0% and the cover ratio [Specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans] decreases to 42%.

We have provided the following additional information for the loan and investment portfolio in Ireland and Hungary, due to the specific situation on these markets.

Details for Irish and Hungarian portfolios	31-12-2012	31-12-2013
KBC Bank Ireland (Ireland) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	16	15
Breakdown by loan type		
Home loans	78%	79%
SME & corporate loans	11%	10%
Real estate investment and real estate development	11%	11%
Breakdown by risk class		
Normal performing (PD 1-9)	72%	52%
Impaired, still performing (PD 10)	5%	22%
Impaired, non-performing (PD 11+12)	23%	26%
Credit cost ratio[2]	3.34%	6.72%
Cover ratio [total impairment (for both performing and non-performing loans)]/[outstanding non-performing loans]	46%	68%
K&H Bank (Hungary) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	5	5
Breakdown by loan type		
Retail loans	49%	47%
FX mortgage loans	29%	28%
SME & corporate loans	51%	53%
Breakdown by risk class		
Normal performing PD(1-9)	88%	85%
Impaired, still performing (PD 10)	1%	3%
Impaired, non-performing (PD 11+12)	11%	12%
Credit cost ratio[2]	0.78%	1.50%
Cover ratio [total impairment (for both performing and non-performing loans)]/[outstanding non-performing loans]	67%	67%

1 For a definition, see 'Overview of credit risk exposure in the banking activities' (i.e. excluding *inter alia* government bonds).
2 Unaudited.

We decided to reassess our loan book, with particular attention being paid to the Irish and Hungarian loan portfolio. As a result, we set aside additional provisions for Ireland, due to the reclassification of 2 billion euros' worth of restructured mortgage loans. We also increased provisioning in our Irish corporate loan book, owing to a more prudent outlook for future cashflows and collateral values, which had been prompted by the slower-than-expected recovery of the Irish SME sector. Consequently, total loan loss impairments for Ireland came to 1.1 billion euros for full-year 2013. For Hungary, we set aside additional provisions for restructured retail credits in the fourth quarter, while 131 million euros' worth of restructured mortgage loans have been reclassified. As a result, the full year 2013 total provisioning charge for Hungary amounted to 76 million euros.

Besides the credit risks in the loan and investment portfolio, credit risks also arise in other banking activities. The main sources of other credit risk are:

Short-term commercial transactions. This activity involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. We manage risks associated with this activity by setting limits per financial institution and per country or group of countries.

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). We measure exposure to this type of risk on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposure to asset-backed securities and collateralised debt obligations in the trading book is not included in the figures shown in the table, but is reported separately (see the 'Overview of outstanding structured credit exposure' section).

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. Risks are curtailed by setting limits per counterparty. We also use close-out netting and collateral techniques. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II).

Other credit exposure, banking (in billions of EUR)	31-12-2012	31-12-2013
Short-term commercial transactions	3.2	4.2
Issuer risk[1]	0.3	0.2
Counterparty risk in interprofessional transactions[2]	9.0	8.2

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
2 After deduction of collateral received and netting benefits.

Government securities in the investment portfolio of banking entities. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium). We have put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure of the combined banking and insurance activities to government bonds are provided in a separate section below.

Overview of exposure to sovereign bonds

We hold a significant portfolio of government bonds, primarily as a result of our considerable excess liquidity position. A breakdown per country is provided in the table below.

Overview of exposure to sovereign bonds at year-end 2013, carrying value[1] (in millions of EUR)	Total (by portfolio)							Total (by remaining term to maturity)			Economic impact + 100bp[3]
	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2012*	Maturing in 2014	Maturing in 2015	Maturing in 2016 and later	
Southern Europe and Ireland											
Greece	0	0	0	0	0	0	0	0	0	0	0
Portugal	0	36	0	0	0	36	56	0	0	36	-2
Spain	301	0	0	0	0	302	230	0	0	302	-24
Italy	590	47	0	0	1	638	683	0	1	637	-43
Ireland	122	227	0	0	1	350	360	0	0	350	-18
KBC core countries											
Belgium	4 648	13 909	213	0	917	19 687	22 708	3 237	2 137	14 314	-815
Czech Rep.	2 182	5 214	66	29	993	8 484	8 944	933	2 271	5 280	-408
Hungary	175	1 578	8	88	258	2 108	2 439	0	440	1 668	-58
Slovakia	892	1 120	0	0	73	2 086	1 458	66	96	1 923	-109
Bulgaria	83	0	0	0	0	83	88	7	4	73	-3
Other countries											
France	573	1 333	0	0	3	1 909	1 667	186	158	1 565	-135
Germany	98	6	16	0	30	151	402	8	11	131	-7
Austria	132	187	211	0	0	530	164	0	0	530	-16
Netherlands	22	252	100	0	5	380	86	2	1	377	-18
Rest[2]	2 224	1 072	155	0	102	3 553	1 998	254	1 419	1 881	-93
Total carrying value	12 043	24 981	770	118	2 384	40 297	41 283	4 693	6 537	29 068	-

1 Including entities classified as 'disposal groups' under IFRS 5 (accounted for an aggregate 0.4 billion euros at year-end 2013 and 0.5 billion euros at year-end 2012). Excluding exposure to supranational entities of selected countries. There are no material impairments on the government bonds in portfolio.
2 Sum of other countries and also including 1.3 billion euros in deposits at the National Bank of Hungary.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros).

Main changes in 2013:

- The carrying value of the total sovereign bond exposure decreased by 1.0 billion euros. This is predominantly due to the lower exposure to Belgian government bonds (-3.0 billion euros: mainly due to sold and matured OLOs), partly compensated by an increase in Slovakia (+0.6 billion euros) and in the other countries ('rest' in the table; includes a 0.5 billion euros increase of deposits at the National Bank of Hungary).
- In the past few years, KBC has managed to lower considerably its exposure to GIIPS sovereign bonds (bonds issued by Greece, Italy, Ireland, Portugal and Spain, see table). At the end of 2013, the combined exposure to these bonds was 1.3 billion euros.

Net realised gains on government bonds in 2013:

- Totalled 100 million in 2013 and related for the largest part to Belgian sovereing bonds (in the available-for-sale category).

Revaluation reserve available-for-sale assets at year-end 2013:

- At 31 December 2013, the carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve AFS of 353 million euros, before tax.
- This included 192 million euros for Belgium, 86 million euros for Czech Republic, 30 million euros for Slovakia and 45 million euros for the other countries combined.

KBC sees no major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of sovereign debt within the next financial year.

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 49% of the total government bond portfolio at the end of 2013, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table towards the start of this section, in the contribution that Belgium makes to group profit (see 'Belgium') and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2013, the credit ratings assigned to Belgium by the three main international agencies were Aa3 (negative outlook) from Moody's, AA (negative outlook, changed to stable outlook in February 2014) from Standard & Poor's and AA (stable outlook) from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium.

Structured credit exposure (KBC Group, i.e. banking and insurance portfolios combined)

Since 2008, we have pursued a tight strategy towards structured credit products and gradually imposed a moratorium on originating and investing in CDOs and ABS. Before then, we had acted as an *originator* of structured credit transactions and also *invested* in such structured credit products ourselves. The remainder of the CDO and ABS investments from before 2008 are referred to below as 'legacy exposure'. Three categories of legacy investments are distinguished:

- We (via KBC Financial Products) acted as an originator when structuring CDO deals (based on third-party assets) for ourselves or for third party investors. For several outstanding transactions, protection was bought from the US monoline credit insurer MBIA (see 'legacy CDO exposure protected with MBIA' in the table).
- We invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by ourselves and some other CDOs (see 'other legacy CDO exposure' in the table) and in ABS (see 'legacy ABS exposure' in the table).

In 2013, we decided to lift the strict moratorium on investments in ABS and to allow treasury investments (see 'treasury ABS exposure' in the table) in liquid high quality non-synthetic European ABS, which are also accepted as eligible collateral by the ECB. This allows a further diversification to the investment portfolios. It should be noted that the moratorium on CDOs and synthetic securitizations is still in place.

In the table below, the CDO and ABS exposure is presented as net exposure (instead of the original notional amounts as stated in earlier reports). Consequently, all settled credit events, and all fully de-risked (i.e. riskless) positions have been excluded from the figures for CDOs.

In 2013, there was a total reduction in net legacy CDO and ABS exposure of 7.3 billion euros, which was mainly due to the de-risking of several CDOs (an impact of -6.8 billion euros) and some minor redemptions in the other legacy ABS portfolio (an impact of -0.5 billion euros). In the first quarter of 2014, the net legacy CDO exposure decreased further by some 2 billion euros thanks to the further collapsing of CDO exposure. In KBC's treasury portfolio over (the fourth quarter of) 2013, investments to the tune of 45 million euros were done in two RMBS assets.

KBC investments in structured credit products (CDOs and ABS) (in billions of EUR KBC Group)	31-12-2013
Total net exposure	7.5
Legacy CDO exposure protected with MBIA	5.3
Other legacy CDO exposure	1.1
Legacy ABS exposure	1.2
Treasury ABS exposure	0.0
Cumulative value markdowns on legacy investments (mid-2007 to date)[1]	-0.4
Value markdowns	-0.3
for other legacy CDO exposure	-0.2
for legacy ABS exposure	-0.1
Credit Value Adjustment (CVA) on MBIA cover (related to legacy CDO exposure)[2]	-0.1
Cumulative value markdowns on treasury ABS	0.0

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

As stated above, we bought credit protection from MBIA for a large part of the (super senior) CDOs we originated. Moreover, the remaining risk related to MBIA's insurance coverage is largely mitigated, as it is included in the scope of the guarantee agreement that was agreed with the Belgian State on 14 May 2009. At 31 December 2013, this agreement related to a nominal value of 5.9 billion euros, 5.3 billion euros of which relates to the exposure insured with MBIA. The provisioning rate for MBIA was reduced from 80% to 60% in mid-2013 based on a fundamental internal analysis.
The remaining 0.7 billion euros of exposure covered by the agreement with the Belgian State relates to part of the 'other legacy CDO exposure'. Of this portfolio (i.e. CDO exposure not covered by credit protection with MBIA), the super senior assets have also been included in the scope of the guarantee agreement with the Belgian State. More details are provided in the 'Additional information' section of this report.

Details for CDO exposure protected by MBIA (in billions of EUR KBC Group)	31-12-2013
Total amount insured by MBIA (notional amount of super senior swaps)	5.3
Details for MBIA insurance coverage	
- Fair value of insurance coverage received (modelled replacement value, after taking the guarantee agreement into account)	0.1
- CVA for counterparty risk, MBIA	-0.1
(as a % of fair value of insurance coverage received)	60%

Market risk in non-trading activities

The process of managing structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).

'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions. Trading activities are consequently not included. Structural exposure can also be described as a combination of:
- Mismatches linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad).

Managing market risk in non-trading activities

The main building blocks of KBC's ALM Risk Management Framework are:
- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity.
- the use of a uniform ALM methodology for banking activities across the group, based on 'fair value models' that forecast the value of a product group under different market scenarios and that are translated into replicating portfolios (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk).

- the use of a Value-at-Risk (VaR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VaR measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level, as a result of movements in interest rates and other fluctuations in market risk factors. the definition of an ALM VaR limit at group level and the breakdown of this limit into various types of risk and entities.
- the use of VaR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio.
- the use of other risk measurement methods, such as Basis-Point-Value (BPV), notional amounts, etc., to supplement VaR.

KBC Bank non-trading market risk (VaR 99.93%, 1-year time horizon, in billions of EUR)*	31-12-2012	31-12-2013
Total	2.8	2.5

* Excluding a number of small group companies. Cyclical prepayment options embedded in mortgage loans have not been captured. Excluding entities classified as disposal groups' under IFRS 5. In 2013, the impact of these entities (see 'Remark' at the start of this section) on the ALM VaR was 6.3 million euros. In 2012, the impact of the relevant entities (see 'Remark' at the start of this section) on the ALM VaR was 33 million euros. End 2012 reported VaR was restated from (1) 0.74 billion euros to 0.92 billion euros following from alignment of confidence interval of 99% with the 99,93% confidence interval used in internal economic capital modelling and (2) from 0.92 billion euros to 2.8 billion euros following from inclusion of the spread risk driver within the VaR approach. VaR is measured using VaR-CoVaR approach.

Interest rate risk

We use two main techniques to measure interest rate risks: 10 BPV and VaR (see above). The 10 BPV measures the extent to which the value of the portfolio would change if interest rates were to go up by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). We set 10 BPV limits in such a way that interest rate positions combined with the other structural exposures (equity, real estate, etc.) remain within the overall VaR limits. We also use other techniques such as gap analysis, the duration approach, scenario analysis and stress testing (both from an economic value perspective and from an income perspective).

In addition, we report the IFRS sensitivity to interest rate movements on a regular basis. The table illustrates the impact of a 100-basis-point increase in the yield curve on both net profit and value.

Impact of a parallel 100-basis-point increase in the yield curve for KBC Bank* (in millions of EUR)	Impact on net profit (IFRS)		Impact on value[2]	
	2012	2013	2012	2013
Total	-44	87	-396	-216

* Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter). In 2013, a 100-basis-point increase in the yield curve would have had an impact of 0.05 million euros on net profit and an impact of -2.2 million euros on the market value of these entities. In 2012, the corresponding figures would have been -0.6 million euros and -50 million euros, respectively.

We manage the ALM interest rate positions via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique – reviewed on a dynamic basis – for products without a fixed maturity date (e.g., current and savings accounts).
The bank takes interest rate positions mainly through government bonds, with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds. The table shows the bank's exposure to interest rate risk in terms of 10 BPV.

BPV (10 basis points) of the ALM book * (in millions of EUR)	2012	2013
Average for 1Q	-52	-33
Average for 2Q	-49	-27
Average for 3Q	-49	-21
Average for 4Q	-47	-22
As at 31 December	-39	-22
Maximum in year	-57	-40
Minimum in year	-39	-21

* Excluding entities classified 'as disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter). Including these entities would lead to an overall BPV for the banking activities of -22 million euros at year-end 2013 and -44 million euros at year-end 2012.

In line with the Basel II guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book of KBC Bank, this risk came to 12% of total capital and reserves at year-end 2012. This is well below the 20% threshold (where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

The following table shows the interest sensitivity gap of the ALM banking book. In order to determine the sensitivity gap, we break down the carrying value of assets (positive amount) and liabilities (negative amount) according to either the contractual repricing date or the maturity date, whichever is earlier, in order to obtain the length of time for which interest rates are fixed. We include derivative financial instruments, mainly to reduce exposure to interest rate movements, on the basis of their notional amount and repricing date.

Interest sensitivity gap of the ALM book (including derivatives)* (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2012	3 731	3 904	-1 251	-7 095	4 450	2 039	-5 778	0
31-12-2013	13 665	323	-1 653	-3 146	6 730	788	-16 706	0
* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (figures for these entities are given below). In 2013, non-maturity contracts were isolated in the non-interest bearing category, whereas in 2012, the respective contracts were considered in the bucket ≤ 1 month.								
31-12-2012	633	-74	-220	128	258	258	-981	0
31-12-2013	182	-88	46	41	14	0	-196	0

The interest sensitivity gap shows our overall long position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of KBC Bank is predominantly sensitive to movements at the long-term end of the yield curve.

Credit spread risk

We manage the credit spread risk on the sovereign portfolio by monitoring the extent to which the value of the sovereign bonds would change if credit spreads were to go up by 100 basis points across the entire spread curve. In the credit risk section, we summarize the economic sensitivity of the main sovereign positions to changes in spreads.

Equity risk

We have provided more information on total non-trading equity exposures at KBC Bank in the tables below.

Equity portfolio of KBC Bank* (breakdown by sector, in %)	31-12-2012	31-12-2013
Financial	23%	60%
Consumer non-cyclical	11%	1%
Communication	0%	0%
Energy	3%	0%
Industrial	21%	27%
Utilities	2%	0%
Consumer cyclical	4%	1%
Basic materials	3%	0%
Other and not specified	33%	12%
Total	100%	100%
In billions of EUR	0.2	0.2
of which unlisted	0.1	0.0

* Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2012 and 2013, the entities classified as 'disposal groups' (see 'Remark' at the start of this chapter) did not have an equity portfolio.

Impact of a 12.5% drop in equity prices* (in millions of EUR)	Impact on net profit (IFRS)		Impact on value	
	2012	2013	2012	2013
Total	-12	-11	-22	-21

* Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter). At year-end 2012 and 2013, the entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter) did not have any equity exposure.

Non-trading equity exposure* (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2012	31-12-2013	31-12-2012	31-12-2013
Total	11	80	47	73

* Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2012 and 2013, the entities with this classification (see 'Remark' at the start of this report) did not have any equity exposure.

Real estate risk

KBC Bank's real estate businesses hold a limited real estate investment portfolio with a view to realising capital gains over the long term.

The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 12.5% drop in real estate prices* (in millions of EUR)	Impact on value	
	2012	2013
Total	-66	-59

* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (see 'Remark' at the start of this chapter). These entities had no impact in 2012 and 2013.

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk. Foreign exchange exposures in the ALM books of entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee.

We continue to incorporate these Basel III concepts into our liquidity and funding framework, as well as into our financial planning.

Managing liquidity risk

On the level of KBC Group, a Liquidity Risk Management Framework is in place defining the liquidity risk playing field.
Liquidity management itself is organised within the Group Treasury function, which acts as a first line of defence and is responsible for the overall liquidity and funding management of the KBC Group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. Next to that Group Treasury actively monitors its collateral on a group wide basis and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.
The risk department, in its role of second line of defence, consists of the Group Chief Risk Officer (Group CRO), local CRO's and group and local risk functions. Among other things, the task of the risk function consists of monitoring risks at a portfolio / entity level, development of risk measurements, development of frameworks and advise/reporting on issues handled by the group and local ExCo/Risk Committees.

Finally, the third line of defence consists of the audit function, responsible for auditing the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.

The liquidity management framework and group liquidity limits are set by the Group Exco and Board of Directors. By approving the framework, a risk appetite choice is made as the framework describes which measures are subject to limits. Decision which maximum or minimum values are set on the different measures is done within the financial planning process.

Our liquidity risk management framework is based on the following pillars:

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III LCR and NSFR requirements via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

  In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2013, KBC had attracted 25 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

Liquidity risk at year-end (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	On demand	not defined	Total
31-12-2012									
Total inflows	29	12	17	50	44	34	0	39	225
Total outflows	31	20	14	36	5	1	79	39	225
Professional funding	13	12	2	1	0	0	0	0	29
Customer funding	13	5	7	15	4	1	79	0	124
Debt certificates	1	4	4	20	1	1	0	1	32
Other	3	0	0	0	0	0	0	38	40
Liquidity gap (excl. undrawn commitments)	-2	-8	2	15	39	33	-79	1	0
Undrawn commitments	–	–	–	–	–	–	–	-28	–
Financial guarantees	–	–	–	–	–	–	–	-11	–
Net funding gap (incl. undrawn commitments)	-2	-8	2	15	39	33	-79	-38	-39
31-12-2013									
Total inflows	17	10	18	53	42	34	0	32	205
Total outflows	27	11	20	29	7	2	84	25	205
Professional funding	17	2	2	1	0	0	1	1	25
Customer funding	7	6	12	13	3	1	83	0	126
Debt certificates	0	4	6	15	3	1	0	0	29
Other	2	0	0	0	0	0	0	23	25
Liquidity gap (excl. undrawn commitments)	-10	-2	-2	24	35	32	-84	7	0
Undrawn commitments	–	–	–	–	–	–	–	-25	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-10	-2	-2	24	35	32	-84	-28	-35

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) have also been excluded (balance sheet total of 3.9 billion euros for 2013). 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. In the table, instruments are classified based on their first callable date. Some instruments are reported at fair value (on a discounted basis) whereas other instruments are reported on an undiscounted basis (in order to make a reconciliation with note 14 of the consolidated financial statements possible). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'not defined' bucket. The category 'other' under 'Total outflows' contains 'own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.

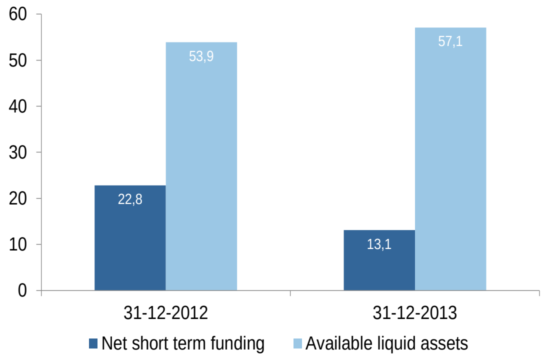
Typical for a banking group, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and positive net liquidity gap in the longer term buckets. This creates liquidity risk if KBC would be unable to renew maturing short-term funding. Our liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the group's risk appetite.

Liquid asset buffer

KBC Bank has a solid liquidity position. Historically, we have always had a substantial amount of liquid assets. At year-end 2013, KBC Bank (at the consolidated level) had 57.1 billion euros' worth of unencumbered central bank eligible assets, 33.5 billion euros of which in the form of liquid government bonds (59%). The remaining available liquid assets at end 2013 concern other ECB/FED eligible bonds (29%) and pledgeable credit claims (12%). Of all liquid assets, most are expressed in EUR, CZK and HUF (all home market currencies).

The unencumbered liquid assets were more than four times the net recourse to short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets. The liquid asset buffer at year-end is presented in the graph.

Short-term unsecured funding compared to liquid assets (KBC Bank, in billions of EUR)*



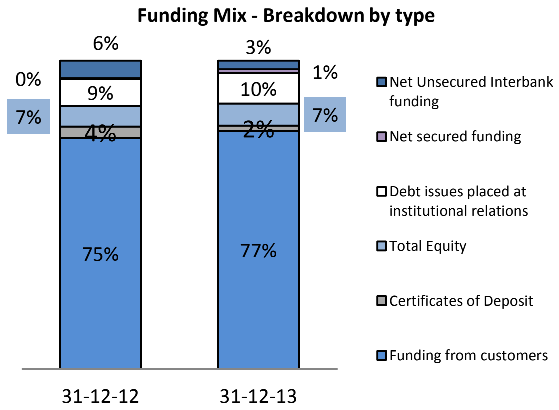
* Excluding divestments that have not yet been completed. Available liquid assets are derived from the treasury management report.

Funding information

KBC Bank continues to have a strong retail/mid-cap deposit base in its core markets, resulting in a stable funding mix. A significant portion of the funding is attracted from core customer segments and markets.

KBC Bank's funding mix can be broken down as follows (figures relate to 31 December 2013):

- Funding from customers (134.4 billion euros, 77% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, saving certificates and debt issues placed in the network. Some 61% of the funding from customers relates to private persons and sme's.
- Debt issues placed with institutional investors (17.2 billion euros, 10% of the total figure), mainly comprising IFIMA debt issues (12.4 billion euros), covered bonds (3.9 billion euros) and the contingent capital notes issued in January 2013 (0.75 billion euros).
- Net unsecured interbank funding (4.9 billion euros, 3% of the total figure)
- Net secured funding (2.3 billion euros, 1% of the total figure and certificates of deposit (3.2 billion euros, 2% of the total figure)
- and total equity (12.3 billion euros, 7% of the total figure).



Please note that:

- We recorded continuous solid growth in customer deposits at different entities, especially in Ireland, where concerted efforts to build a retail deposit base have helped increase KBC Bank Ireland's funding independence. Deposits from customers in KBC Ireland increased from 2.7 billion euros as at end 2012 to 3.5 billion euros at year-end 2013.
- During 2013, KBC Bank used its EMTN programme to raise 1.1 billion euros in long-term funding, of which 0.75 billion euros was raised through wholesale benchmark issues.
- In November 2012, we announced our Belgian residential mortgage covered bonds programme. This 10-billion-euro programme was set up following the entry into force of the Act of 3 August 2012 that established a legal framework for Belgian covered bonds. This new bond programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros. More issues followed in 2013 for a total of 2.67 billion euros.
- In 2013, we also repaid 8.3 billion euros borrowed from the ECB under the long-term refinancing operations (LTROs), given the substantially improved condition of the wholesale funding market and KBC's solid liquidity position.

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in 'Ratios used'. At year-end 2013, our NSFR stood at 111% and our LCR at 131%, both calculated based on KBC's interpretation of current Basel Committee guidance. This is well above the minimum regulatory requirements and KBC's own targets of 105% and 100% for 2015, respectively.

Market risk in trading activities

Market risk is defined as the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g., interest rates, exchange rates and equity or commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk, country risk and liquidity risk. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book and of the insurer's positions are all included in ALM exposure.

The objective of market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, taking into account the main risk factors and specific risk.

We are exposed to market risk via the trading books of our dealing rooms in Western Europe, Central and Eastern Europe, and Asia. The traditional dealing rooms, with the dealing room in Brussels accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, while activity on the FX markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

At KBC Financial Products, the only ongoing activity – European equity derivatives – has been managed directly from Brussels since March 2012. The market risk of the legacy CDO portfolio is managed stringently, with a number of de-risking trades having taken place during the year. These trades have significantly lowered risk and the P&L sensitivity to credit spread movements.
The remaining legacy business lines at KBC Financial Products, namely fund derivatives, reverse mortgages and insurance derivatives, which represent less than 2% of market risk regulatory capital charges for trading activities, continue to be monitored and wound down by dedicated teams.

Managing market risk

The principal tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. We use the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days), and 500 working days of historical data. The HVaR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Note that, as with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2013, the spread risk modelling was improved as well as the addition of the optionality component of the inflation positions in the portfolio. Although this improved the accuracy of the HVaR model calculations the effect on the average HVaR usage was immaterial. Complex and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits.

We monitor risk concentrations via a series of secondary limits, including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits involving multiple shifts of underlying risk factors. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks').

In addition to the daily HVaR calculations, we conduct extensive stress tests. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market.

One of the building blocks of sound risk management is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
In addition to the parameter review, we perform periodic risk controls, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, we set up a business case for every new product or activity in order to analyse the risks and the way in which they will be managed.

Risk analysis and quantification

We calculate an overall VaR for each specialised subsidiary and for all trading entities worldwide based on a ten-day holding period.

In the following table, the VaR for KBC Bank includes both the linear and non-linear exposure of the traditional dealing rooms, as well as KBC Securities (from April 2013 onwards). KBC Financial Products' HVaR, which comprises the single names credit derivatives portfolio and the remaining correlation portfolio, is also shown in the table until the third quarter of 2013. As of October 2013, due to a series of trades with an external counterparty, the HVaR for KBC Financial Products' credit derivatives had fallen to zero. This is because these trades caused the offsetting positions in the scope of KBC Financial Products' VaR model to match exactly (perfect match, Back-to-Back). As a result, and due to the above-mentioned inclusion of KBC Securities in the HVaR for KBC Bank, all trading activity for the KBC group measured by HVaR has been included in the '10-day HVaR for KBC Bank' figure from that point on.

Market risk (VaR) (in millions of EUR)	10-day HVaR for KBC Bank		10-day HVaR for KBC Financial Products	
	31-12-2012	31-12-2013	31-12-2012	31-12-2013
Holding period: 10 days				
Average for 1Q	30	37	12	1
Average for 2Q	34[1,2]	37	2[3]	1
Average for 3Q	30	34	2	1
Average for 4Q	30	29	1	-
As at 31 December	37	28	2	-
Maximum in year	39	50	18	5
Minimum in year	23	26	1	0

1 Change in scope as of 1 March 2012: European equity derivatives moved from KBC Financial Products to KBC Bank.
2 KBL EPB included until the second quarter of 2012.
3 Large decrease in the use of average HVaR at KBC Financial Products, due to simplification of the credit event settlement process.

A breakdown of the risk factors (averaged) in KBC Bank's HVaR model from 1 March 2012 (when the scope changed and the European equity derivatives business was included) to 31 December 2012 and for full-year 2013 is shown in the table below. Please note that the equity risk stems from the European equity business, and also from KBC Securities (from April 2013).

Breakdown by risk factor of the trading HVaR for KBC Bank (in millions of EUR)	Average last 10 months of 2012	Average 2013
Interest rate risk	31.0	33.3
FX risk	2.2	2.9
FX Option Risk	2.0	1.8
Equity risk	1.6	1.9
Diversification effect	-5.7	-5.6
Total HVaR	31.1	34.3

We test the reliability of the VaR model daily via a back-test, which compares the one-day VaR figure with the 'no-action P&L' (i.e. positions remain unchanged, but market data changes to the next day's data). This is done both at the top level and at the level of the different entities and desks.

We have provided an overview of the derivative products under note 25 in the 'Consolidated financial statements' section.

Regulatory capital

Both KBC Bank and KBC Financial Products have been authorised by the Belgian regulator to use their respective VaR models to calculate regulatory capital requirements for part of their trading activities. ČSOB (Czech Republic) has also received approval from the local regulator to use its VaR model for capital requirement purposes. These models are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is based on recent history and is calibrated regularly.

In addition, KBC Financial Products has implemented models (as required by CRD III) to calculate and report an Incremental Risk Charge (IRC) for credit risk positions that carry default and migration risks (i.e. the single name corporate CDS) and a Comprehensive Risk Measure that covers all price risks in the bespoke CDO tranches. However, as mentioned above, because the offsetting positions in the scope of KBC Financial Products' VaR model matched exactly as from October 2013, the IRC and CRM charge fell to zero. It should be noted that the risk attached to ABS and retained CDO positions follows the (re-)securitisation framework.

The resulting capital requirements for trading risk are shown in the table below. The regulatory capital requirements for the trading risk of local KBC entities that did not receive approval from their respective regulator to use an internal model for capital calculations, as well as the business lines not included in the HVaR calculations, are measured according to the Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk).

Trading regulatory capital requirements, by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Incremental Risk Charge	Comprehensive Risk Measure	Re-Securitisation	Total
31-12-2012									
Market risks assessed by internal model	HVaR SVaR	88 114	3 4	10 20	- -	1	34	-	274
Market risks assessed by the Standardised Approach		60	12	11	2	-	-	340	425
Total		263	18	42	2	1	34	340	698
31-12-2013									
Market risks assessed by internal model	HVaR SVaR	83 100	2 6	13 22	– –	–	–	–	226
Market risks assessed by the Standardised Approach		39	7	12	2	–	–	59*	119
Total		222	15	47	2	–	–	59	345

* The scope of this figure is different in comparison with 2012 because the retained CDO positions on the banking book in 2013 are included under credit risk and no longer under market risk (as it was the case until 2012).If the scope had remained the same, the trading regulatory capital requirements for re-securitisation would have dropped from 340 million euros in 2012 to 274 million euros in 2013.

Operational and other non-financial risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.

We have provided information on legal disputes in note 31 of the ‘Consolidated financial statements’ section.

Managing operational risk

We have a single, global framework for managing operational risk across the entire group. It consists of a uniform operational risk language embedded in group-wide key controls, one methodology, one set of centrally developed ICT applications, and centralised and decentralised reporting.

The Group risk function is primarily responsible for defining the operational risk management framework for the entire group. The development and implementation of this framework is supported by an extensive operational risk governance model covering all entities of the group. This framework was redesigned in 2012 in line with the KBC Risk Management Framework and will gradually be implemented (with full implementation in 2014).

The Group risk function creates an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). It is assisted by the local value and risk management units, which are likewise independent of the business.

The building blocks for managing operational risks

We use a number of building blocks for managing operational risks, which cover all aspects of operational risk management.

Between 2011 and 2015, specific attention is being given to the structured set-up of process-based Group Key Controls, which will gradually replace the former Group Standards. These Controls are policies containing top-down basic control objectives and are used to mitigate key and killer risks inherent in the processes of KBC entities. As such, they are an essential building block of both the operational risk management framework and the internal control system. The list below concerns KBC Group:

- A first set was approved in 2011 for the Credit, Life, Non-life, Personal Financial Advice, Legal, Tax, Business Continuity Management and Risk & Capital Management processes.
- A second set was approved in 2012 for the Cash, Current Account, Savings Account, Lease, Trading and Sales (part 1), Portfolio Management, Customer Administration, Human Resources, Corporate Communication and Accounting and External Financial Reporting processes.
- A third set was approved in 2013 for the Balance Sheet Management, Collections (Cheque and Direct Debits), Corporate Governance, Custody, Distribution of Customer Information Output, Funds Transfer, Information Security, Marketing: Commercial Communication, Marketing: New and Active Product Process, Reinsurance, Fixed-Term Savings Products, Retail Brokerage and Information Technology processes.

The business and (local) control functions assess these Group Key Controls. The risk self-assessments are consolidated at the Group risk function and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. KBC created an objective management tool to evaluate its internal control environment and to benchmark the approach across its entities. Each year, we report the assessment results to the National Bank of Belgium in our Internal Control Statement.

Besides these Group Key Controls, there are a number of other building blocks:

- *The Loss Event Database*. All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database also includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the Group Internal Control Committee, the Group Executive Committee and the ARC Committee.
- *Risk Scans (bottom-up and top-down)*. These *self-assessments* focus on the identification of key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level.

- *Case-Study Assessments*. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. Case studies are discussed on a quarterly basis in the Group Internal Control Committee.
- *Key Risk Indicators*. A limited set of KRIs are used to monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.

The quality of the internal control environment and related risk exposure as identified, assessed and managed by means of these building blocks is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium and the FSMA via the annual Internal Control Statement. Information on the internal control and risk management systems can be found in the 'Corporate governance statement' section.

Operational risk and regulatory capital requirements

KBC uses the Standard approach to calculate operational risk capital under Basel II. Operational risk capital for KBC Bank at the consolidated level totalled 847 million euros at the end of 2013, compared with 884 million euros at the end of 2012.

Other non-financial risks

Reputation risk

This is the risk arising from the negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a financial institution's ability to maintain existing, or establish new business relationships and to have continued access to sources of funding (for instance, through the interbank or securitisation markets). Reputation risk is a secondary or derivative risk since it is mostly connected to and will materialise together with another risk.

We redesigned the Reputation Risk Management Framework in 2012, in line with the KBC Risk Management Framework. The pro-active and re-active management of reputation risk is the responsibility of the business, supported by many specialist units (e.g., Group Communication, Investor Relations).

Under the pillar 2 approach to capital adequacy, the impact of reputation risk on the current business is covered in the first place by the capital charge for primary risks (such as credit or operational risk, etc.). It is also covered by the capital reserved for business risk.

Business Risk

Business risk is the risk arising from changes in external factors that impact the demand for and/or profitability of our products and services.

Risk factors that are taken into consideration include the macroeconomic environment, the regulatory framework, client behaviour, the competitive landscape and the socio-demographic environment. Business risk is assessed on the basis of structured risk scans.

KBC reserves a pillar 2 capital charge specifically for business risk. Business risk capital is based on the operating expenses for the various KBC group entities. The portion of operating expenses to be set aside as economic capital for business risk depends on the level of risk attached to the activities of each entity, as determined on the basis of quantitative and qualitative assessments of activities across KBC group entities.

Capital adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios. Capital adequacy is approached from both a regulatory and an internal (economic) perspective.

Managing solvency, Basel II

We report our solvency calculating it on the basis of IFRS figures and the relevant guidelines issued by the Belgian regulator.

In accordance with Basel II, pillar 2 requirements, KBC has an Internal Capital Adequacy Assessment Process (ICAAP) in place. In addition to the regulatory capital requirements, this process also uses an economic capital model to measure capital requirements based on aggregate group-wide risks, and to compare these requirements with the capital available to cover risks. The ICAAP examines both the current and future capital situation. To assess the latter situation, a three-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various alternative scenarios and a recession scenario.

In the following table, we have shown the tier-1 and CAD ratios calculated under Basel II for KBC Bank. More detailed information on the solvency of KBC Bank can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Solvency, KBC Bank Basel II (in millions of EUR)	31-12-2012	31-12-2013
KBC Bank (consolidated, Basel II)		
Total regulatory capital, after profit appropriation	14 390	15 537
of which tier-1 capital*	12 235	12 631
Total weighted risks	88 927	78 120
Tier-1 ratio	13.8%	16.2%
of which core tier-1 ratio	11.4%	13.5%
CAD ratio	16.2%	19.9%

* Audited figures

Basel III

The Basel III proposals and corresponding European Directive and Regulation (CRD IV/CRR) introduce new, more stringent capital requirements for financial institutions. The new Regulation will enter gradually into force, starting on 1 January 2014, and be fully implemented by 1 January 2022.
The legal minimum tier-1 ratio will be increased from 4% under Basel II to 6% under CRD IV/CRR. At least 4.5 percentage points of this tier-1 ratio has to consist of core capital (common equity tier 1 capital, or 'common equity'). On top of this minimum common equity, a number of additional buffers have been put in place, including a capital conservation buffer of 2.5%, a countercyclical buffer in times of credit growth (between 0% and 2.5%, to be determined by the regulator) and a systemic buffer (likewise to be determined by the regulator). Moreover, the quality of the items of the available capital increases, as higher eligibility criteria are defined for instruments to be included in the calculation of regulatory capital.
For KBC, the main impact of the shift from Basel II to CRD IV/CRR is the treatment of deferred tax assets and the removal of the filter for unrealised gains and losses on available-for-sale instruments. Based on a fully loaded approach, KBC Bank estimates that its Basel III Common Equity ratio stands at 12,00% as at end 2013.

Solvency, KBC Bank Basel III (fully loaded) (in millions of EUR)	31-12-2013
KBC Bank (consolidated, Basel III)	
Total regulatory capital, after profit appropriation	14 400
of which tier-1 capital*	9 602
of which common equity tier-1 capital	9 602
Total weighted risks	80 003
Tier-1 ratio	12,0%
of which common equity tier-1 ratio	12,0%
CAD ratio	18,0%

Corporate governance statement

Composition of the Board of Directors during financial year 2013

Name Number of meetings in 2013: 11	Position	Period served on the Board in 2013	End, curre term of offi	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independer directors	Member of the EC	ARC Committee*
LEYSEN Thomas	Chairman	Full year	2015	11	●				
THIJS Johan	President of the Executive Committee	Full year	2017	11				●*	
DE RAYMAEKER Danny	Executive Director	Full year	2016	9				●	
FALQUE Daniel	Executive Director	Full year	2016	8				●	
GIJSENS Luc	Executive Director	Full year	2015	7				●	
HOLLOWS John	Executive Director	Full year	2017	10				●	
KAVANEK Pavel	Executive Director	Full year	2016	7				●	
POPELIER Luc	Executive Director	Full year	2017	11				●	
VOLJC Marko	Executive Director	Full year	2014	9				●	
ARISS Nabil	Independent Director	2 weeks	2014				●		
DE WILDE Julien	Independent Director	11.5 month		10			●		●
van den BRINK Rudolf	Independent Director	Full year	2016	10			●		●
BOSTOEN Alain	Non-Executive Director	Full year	2016	11	●	●			
DEPICKERE Franky	Non-Executive Director	Full year	2015	10	●	●			●*
DISCRY Luc	Non-Executive Director	Full year	2014	11	●	●			
DONCK Frank	Non-Executive Director	Full year	2016	10	●	●			●
MORLION Lode	Non-Executive Director	Full year	2016	11	●	●			
ROUSSIS Theodoros	Non-Executive Director	Full year	2016	7	●	●			
TYTGADT Alain	Non-Executive Director	Full year	2016	10	●	●			
VANTHEMSCHE Piet	Non-Executive Director	Full year	2015	9	●	●			
VAN KERCKHOVE Ghislaine	Non-Executive Director	Full year	2016	11	●	●			
VLERICK Philippe	Non-Executive Director	Full year	2016	11	●	●			
WITTEMANS Marc	Non-Executive Director	Full year	2014	11	●	●			●

* Chairman of this committee.
** Audit, Risk and Compliance Committee.

Mr Nabil Ariss was co-opted to the position of independent director, with effect from 20 December 2013 until the next General Meeting, replacing Mr Julien De Wilde who resigned with effect on that same date.

Secretary to the Board of Directors: Johan Tyteca
Statutory auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and Christel Weymeersch.

Changes in the composition of the Board of Directors in 2013

At the General Meeting of 24 April 2013 and on the advice of KBC Group NV's Nomination Committee, Johan Thijs, Luc Popelier and John Hollows were re-appointed for a further period of four years, i.e. until after the General Meeting of 2017. The mandate granted to Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and/or Christel Weymeersch, was renewed for a statutory period of three years, i.e. until after the General Meeting of 2016.

On the advice of the Nomination Committee, Nabil Ariss was co-opted by the Board of Directors on 13 November 2013 to the position of independent director with effect from 20 December 2013, within the meaning of and in line with the criteria set out in Article 526ter of the Belgian Companies Code.

Julien De Wilde resigned as director on 20 December 2013.

Changes in the composition of the Board of Directors in 2014

The Extraordinary General Meeting held on 25 February 2014 confirmed Nabil Ariss as independent director within the meaning of and in line with the criteria set out in Article 526ter of the Belgian Companies Code, and duly appointed him to this position for a period of four years, i.e. until after the General Meeting of 2018.

Danny De Raymaeker resigned as director with effect from 1 March 2014. Marko Voljč and Pavel Kavanek will resign as director on 1 May 2014.

On the advice of the Nomination Committee, the Board will propose to the General Meeting of 23 April 2014 that Marc Wittemans and Luc Discry, non-executive directors, be re-appointed for a further period of four years, i.e. until after the General Meeting of 2018.

On the advice of the Nomination Committee, the Board will propose to the General Meeting of 23 April 2014 that Christine Van Rijsseghem be appointed as director for a period of four years, i.e. until after the General Meeting of 2018. She will take a seat on the Executive Committee and acquire the capacity of executive director.

Brief CV for the new independent director:

Nabil Ariss
Born in Beirut (Lebanon), in 1961.
Graduate from HEC Paris (1983) and holds an MBA from the University of Chicago Booth School of Business (1987).
Mr Ariss advised corporates and financial institutions for 26 years, first at McKinsey, then at J.P. Morgan (from 1992 on), where he developed the corporate finance business with financial institutions. He retired from J.P. Morgan as vice chairman in Europe in May 2013.

Brief CV for the new executive director:

Christine Van Rijsseghem
Born in Sint-Amandsberg (Belgium), in 1962.
Master's Degree in Law from Ghent University in 1985 and an MBA in Financial Sciences from the Vlerick Management School in Ghent.
Ms Van Rijsseghem started her career at KBC (the former Kredietbank) in 1987 when she joined the International Entities Division. Initially, she was responsible for risk management and control and then for the international acquisitions strategy, before going on to take charge of the division itself. In 1994, she was appointed Head of the Credit Division at Irish Intercontinental Bank, KBC's subsidiary in Ireland. She became CEO of KBC France in 1996 and CEO of KBC London in 1999, before returning to Belgium to take up the post of Senior General Manager of the Securities & Derivatives Processing Directorate at KBC Group (from 2000 until 2003). She has been Senior General Manager of Group Finance since 2003.

Composition of the Executive Committee

With effect from 1 May 2014, the Executive Committee will have six members, viz. Johan Thijs, Luc Popelier, Christine Van Rijsseghem, John Hollows, Luc Gijsens and Daniel Falque.

Main features of the internal control and risk management systems

In application of the provisions of the Belgian Companies Code, the main features of the internal control and risk management systems at the KBC Group are set out below (Part 1 contains general information, while Part 2 deals specifically with the financial reporting process). These features also apply to KBC Bank as it is a member of the KBC group.

Part 1: Description of the main features of the internal control and risk management systems at KBC

1 A clear strategy, organisational structure and division of responsibilities set the framework for the proper performance of business activities

We examine the strategy and organisational structure of the KBC group in the 'Strategy, company profile and structure' section of this annual report.

KBC aims to be an efficient bank-insurer and asset manager that shows a strong affinity for its clients and careful consideration for its employees. It focuses on private individuals, the self-employed, members of the liberal professions, small and medium-sized enterprises and mid-cap clients in selected European countries, while seeking to achieve a sound level of profitability through efficiency, client focus, employee satisfaction and sound risk management.
KBC also seeks to identify with the various communities in which it operates by using local trade names, employing local management and pursuing socially responsible business practices in line with the standards of the countries concerned.

The KBC group has a dual governance structure based on the Belgian model:
- The Board is responsible for defining general strategy and policy. It exercises all the responsibilities and activities reserved to it under the Belgian Companies Code and – based on a proposal by the EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the EC appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

The Charter of KBC Group NV describes the mutual responsibilities of both management bodies, their composition and activities, as well as the qualification requirements for their members. Their composition and activities are dealt with in more detail elsewhere in this Statement.

2 Corporate culture and integrity policy

KBC conducts its activities in compliance with both the letter and the spirit of prevailing laws and regulations, whilst also taking account of changing societal norms and ensuring that its activities contribute towards economic, social and environmental advancement in its areas of operation. KBC gives priority to the needs and interests of its clients, its shareholders, its staff and the broader community in which it operates. In its relationship with them, KBC imposes rules on itself concerning fairness and reasonableness, openness and transparency, discretion and respect for privacy.

These principles are set out in the integrity policy, as well as in specific codes, instructions and codes of conduct. The main guidelines and policy memos on socially responsible business practices can be found at www.kbc.com/csr.

KBC's Integrity Policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:
- combating money laundering and the funding of terrorism, and observing embargoes;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor, including preventing conflicts of interest (MiFID);
- respecting codes of conduct for investment services and the distribution of financial instruments;
- preventing market abuse, including insider trading;
- protecting privacy, confidentiality of information and the professional duty of discretion;
- protecting borrowers of consumer and mortgage loans;
- complying with anti-discrimination legislation;
- respecting rules on market practices and consumer protection.

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:
- The ethical behaviour of employees is inextricably linked to the code of conduct and various other policy guidelines referred to in this section.

- Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. It is the business side that deals primarily with external product-related fraud. Autonomous departments not related to the business side carry out checks and investigations into fraud or ethical offences committed by employees. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The Policy for the Protection of Whistleblowers at KBC Group ensures that employees who act in good faith to report fraud and gross malpractice are protected.
- The Anti-Corruption Policy affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. One element of this is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour.

The *Code of Conduct for KBC Group Employees* is a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level.

KBC's vision on corporate social responsibility is set out in its *Principles for Socially Responsible Business*, which is available at www.kbc.com.

3 The 'Three Lines of Defence' model arms KBC against risks that could prevent targets from being achieved

To support its strategic mission and to arm itself against the risks that could prevent it from achieving its mission, the EC – under its responsibility and the supervision of the Board – has implemented a multi-layered internal control system. This system is commonly known as the 'Three Lines of Defence' model.

3.1 The business side assumes responsibility for managing its own risks

As the first line of defence, the business operations side has to be aware of the risks in its area of activity and have adapted and effective controls in place. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. In this regard, the business side can call upon the services of its own support departments, such as Inspection, Human Resources and Accounting. Besides turning to this first-line expertise, it can also seek advice from independent second-line functions.

3.2 As independent control functions, the Group risk function, Compliance and – for certain matters – Accounting, Legal, Tax and Information Risk Security constitute the second line of defence

Independent of the business side and following specific regulations and advanced industry standards, second-line control functions are tasked with drawing up a group-wide framework for all relevant types of risk. The functions support implementation of this framework in their own particular area of work and monitor how it is used. Besides their support and supervisory tasks, the second-line functions also have an advisory role in assisting business-side management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.

Compliance is an independent function within the KBC group, protected by its modified status (as described in the *Compliance Charter*), its place in the organisation chart (hierarchically under the CRO with a functional reporting line to the President of the EC) and its reporting lines (reporting to the ARC Committee as the highest body and even to the Board in certain cases). Its prime objective is to prevent KBC from running a compliance risk or from incurring loss/damage – regardless of its nature – due to non-compliance with applicable laws, regulations or internal rules that fall either within the scope of the compliance function or within the areas assigned to it by the EC. Hence, the compliance function devotes particular attention to adherence to the integrity policy.

3.3 As independent third line of defence, Internal Audit provides support to the EC and ARC Committee in monitoring the effectiveness and efficiency of the internal control and risk management system

Internal Audit checks whether the risks faced by the KBC group are managed adequately and, where necessary, whether they are being restricted or eliminated. It is responsible for ensuring that business processes and collaboration throughout the organisation occur in an efficient and effective manner and for guaranteeing continuity of operations. Internal Audit's scope covers all legal entities, activities and departments, including the various control functions, within the KBC group.

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the KBC group, and outsourcing of internal audit activities are set out in the *Audit Charter* of KBC Group NV. This charter complies with the stipulations of CBFA/FSMA Circular D1 97/4 (banks) and PPB-2006-8-CPA (insurance).

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2009). The results of that exercise were reported to the EC and ARC Committee within their remit of supervising and assessing Internal Audit.

4 KBC Bank's Audit, Risk and Compliance Committee (ARC Committee) plays a central role in monitoring the internal control and risk management systems

Each year, the EC evaluates the adaptability of the internal control and risk management system and reports its findings to the ARC Committee.

The ARC Committee supervises, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management system set up under the EC, paying special attention to correct financial reporting. The committee also examines the procedures set up by the company to see whether they comply with the law and other regulations.

The role, composition, activities and qualifications of its members are laid down in the ARC Committee charter, the last one of which was approved by the Board on 23 September 2010. More information on the ARC Committee is provided elsewhere in this section.

Part 2: Description of the main features of the internal control and risk management systems in relation to the financial reporting process

It is vitally important that timely, accurate and understandable financial reports are provided to both internal and external stakeholders. To ensure this is the case, the underlying process needs to be sufficiently robust.

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are linked to underlying inventories. The result of these controls can be demonstrated.
Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the National Bank of Belgium (NBB) Resolution of 15 November 2011.

The main affiliated companies have their own accounting and administrative organisation, as well as a set of procedures for internal financial controls. A descriptive document on the consolidation process is available. The consolidation system and the consolidation process have been operational for some time and have numerous built-in consistency controls.

The consolidated financial statements are prepared in accordance with IFRS accounting policies that apply to all the companies included in the scope of consolidation. The relevant senior financial managers (CFOs) of the subsidiaries certify to the accuracy and completeness of the financial figures reported in accordance with group accounting policies. The Approval Committee chaired by the Senior General Manager of Group Finance monitors compliance with IFRS accounting policies.

Pursuant to the Banking Act of 22 March 1993, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The group-wide roll-out of 'fast close' procedures, the monitoring of intercompany transactions within the group, and permanent follow-up of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) continually help raise the quality of both the accounting process and the financial reporting process.

The existence and monitoring of Group Key Control Accounting and External Financial Reporting standards (since 2006) is the mainstay in the internal control of the accounting process. These standards are the rules for managing the main risks attached to the accounting process and involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

The Reporting Framework (2011) and Challenger Framework (2012) define a solid governance structure and clearly describe the roles and responsibilities of the various players in the financial reporting process. The aim here is to radically reduce reporting risks by challenging input data and improving the analysis of – and therefore insight into – the reported figures.

Each year (since 2012), when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function's Group Risk Assessment Tool. It also includes drawing up a list of all the responsibilities (Entity Accountability Excel sheets) for accounting and external financial reporting, along with the underlying Departmental Reference Documents that substantiate how these responsibilities are being shouldered.
In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

KBC Group NV's Internal Audit function conducts an end-to-end audit of the accounting process and external financial reporting process at both company and consolidated level.

For details of the ARC Committee's supervisory work, see the second paragraph of point 4 in the first part of this text.

Shareholder structure on 31 December 2013

The Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions, does not apply to KBC Bank because the securities it issues that carry voting rights are not included on a regulated market.

At 31 December 2013, the shareholder structure of KBC Bank NV was as follows:

	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007

Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts during financial year 2013.
- The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Belgian Companies Code. It has been incorporated into the *Corporate Governance Charter* of KBC Bank NV.

  In application of this rule, the directors representing Cera and KBC Ancora on the Board refrained from deliberating and voting on KBC Bank NV selling the loans that it had granted to Cera and KBC Ancora.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2013.
- At year-end 2013, the ARC Committee comprised the following members:
  - Franky Depickere, Director, who holds Master's Degrees in Trade & Finance and in Corporate Financial Management, is a Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee of Cera CVBA, and a core shareholder in KBC Group NV.
  - Frank Donck, Director, who holds Master's Degrees in Law and in Finance, is Chairman of the Board of Directors of Atenor Group NV (1997-date) and of the Board of Directors of Telenet Group Holding (2004-date). He is also a director of KBC Group NV (2003-date), Zenitel NV (2003-date), Pinguin Lutosa (2011-date) and was a director of KBC Lease NV (1999-2012).

- Marc Wittemans, Director, who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, and a core shareholder in KBC Group NV.

- Rudolf van den Brink, who has a doctorate in Economics (1971, University of Amsterdam) and was admitted to the degree of Doctor of Philosophy in the Faculty of Economics (1977, University of Amsterdam), was Chief Economic Adviser to ABN Amro Bank NV (2002-2008). He is Chairman of the Supervisory Board of Elsevier Reed Finance BV (2006-date), a member of the Supervisory Board of Legal & General Nederland NV (2002-date), Chairman of the Supervisory Board of Nederlandse Waterschapsbank NV (2002-date), a member of the Supervisory Board and Chairman of the Audit Committee of Akzo Nobel NV, and is Professor of Monetary Economy and Financial Institutions at the University of Amsterdam (since 2012).

Julien De Wilde, who holds a Master's Degree in Civil Engineering (KU Leuven) and has extensive experience in industry and management – including as CEO of Alcatel Bell (1995-1998), Vice-President of the Executive Committee of Alcatel in Paris, where he was responsible for Europe, the Middle East, Latin America, India and Africa (1999-2002) and CEO of the Bekaert Group (2002-2006) – and who also chairs the Boards of Directors of the Agfa Gevaert Group and Nyrstar and is a board member at Telenet Group Holding NV and Arseus, sat on the ARC Committee as independent director until 19 December 2013, within the meaning of and in line with the criteria set out in Article 526ter of the Belgian Companies Code.

They possess the requisite individual and collective expertise in the activities conducted by KBC Bank NV and in the areas of accounting and auditing, based on their education and extensive business experience.

- As agreed with the supervisory authorities, the Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2012, the Remuneration Committee comprised Jo Cornu, Júlia Király and Franky Depickere. Marc De Ceuster attends the meetings as an observer. They possess the requisite individual and collective expertise in the activities conducted by KBC Bank NV and in the areas of accounting and auditing, based on their education and extensive business experience. Marc De Ceuster attends the meetings as an observer.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

External offices held by the executive managers and directors of KBC Bank, 31-12-2013

Company name	Registered office	Sector	Office held	Listed (N= no)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Alain Bostoen, Director					
Quatorze Juillet bvba	Belgium	Accountancy & consulting	Executive Director	N	N
Algimo nv	Belgium	Holding company	Executive Director	N	N
Christeyns nv en dochtermaatschappijen	Belgium	Chemicals	Executive Director	N	N
Agrobos nv	Belgium	Agriculture	Executive Director	N	N
Peritus Brands NV	Belgium	Consumer goods	Permanent Representative	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Executive Director	N	N
Miko nv	Belgium	Food/Synthetics	Independent Director	NYSE Euronext	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
Luc Discry, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Director + Executive Director	N	N
Cera cvba	Belgium	Management	Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Precura Verzekeringen NV	Belgium	Insurance	Director	N	N
Frank Donck, Director					
3D NV	Belgium	Investment company	Executive Director	N	N
3D Private Equity nv	Belgium	Investment company	Director	N	N
Anchorage nv	Belgium	Investment company	Director	N	N
Aspel Slovakia sro	Slovakia	Synthetic materials industry	Director	N	N
Atenor Group sa	Belgium	Real estate	Chairman	Euronext	N
Hof Het Lindeken cvba	Belgium	Agriculture	Director	N	N
Huon & Kauri nv	Belgium	Real estate	Executive Director	N	N
Iberanfra bvba	Belgium	Real estate	Director	N	N
Ibervest nv	Belgium	Investment company	Executive Director	N	N
Plastiflex Group nv	Belgium	Synthetic materials industry	Director	N	N
Greenyard Foods nv	Belgium	Foodstuffs	Director	Euronext	N
Telenet nv	Belgium	Telecommunications	Chairman of the Board of Directors	N	N
Telenet Group Holding nv	Belgium	Telecommunications	Chairman of the Board of Directors	Euronext	N
Telenet Vlaanderen nv	Belgium	Telecommunications	Chairman of the Board of Directors	N	N
Ter Wyndt cvba	Belgium	Golf	Chairman	N	N
Ter Wyndt nv	Belgium	Golf	Chairman	N	N
Tris nv	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf club	Director	N	N
Zenitel nv	Belgium	Telecommunications	Director	Euronext	N
Luc Gijsens, Executive Director					
Gemma Frisius-Fonds K.U. Leuven nv	Belgium	Financial sector	Director	N	40,00%
Thomas Leysen, Chairman of the Board of Directors					
Umicore nv	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Corelio nv	Belgium	Media	Chairman of the Board of Directors	N	N
De Vijver nv	Belgium	Media	Director	N	N
Mediacore nv	Belgium	Holding company	Executive Director	N	N
Tradicor nv	Belgium	Holding company	Executive Director	N	N
Booischot nv	Belgium	Real estate	Executive Director	N	N
Mediahuis NV	Belgium	Publishing	Director	N	N
Maxcore NV	Belgium	B&B, hotel and restaurant sector	Charman of the Board of Directors + Executive Director	N	N
Lode Morlion, Director					
M&D Invest nv	Belgium	Assets	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Chairman	N	N
Woonmaatschappij Ijzer en Zee	Belgium	Housing	Director	N	N
Gaselwest	Belgium	Intercommunal association for gas and electricity	Director	N	N
Theo Roussis, Director					
Ravago Holding America Inc.	United States	Plastics company	Director	N	N
Plastomark (Propietary) ltd.	South Africa	Plastics company	Director	N	N
Ravago SA	Luxembourg	Plastics company	CEO	N	N
Alain Tytgadt, Director					
Sinfonia Investments nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
Hallex nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
Metalunion cvba	Belgium	Wholesale trade in steel & HVAC	Chairman of the Board of Directors; Executive Director	N	N
Sobemetal nv	Belgium	Wholesale trade in steel	Chairman of the Board of Directors	N	N
Hallex Nederland bv	Netherlands	Holding company	Executive Director	N	N
Sloestaal bv	Netherlands	Wholesale trade in steel	Director	N	N

Company name	Registered office	Sector	Office held	Listed (N= no)	Share of capital held (N= none)
Dolf van den Brink, Independent Director					
Akzo Nobel	Netherlands	Chemicals	Member of the Board of Directors	AEX	N
Legal & General Nederland Levensverzekering Maatschappij NV	Netherlands	Life insurance	Member of the Board of Directors	N	N
Center Parcs Europe NV	France	Recreation	Chairman of the Board of Directors	N	N
Elsevier Reed Finance B.V.	Switserland	Publishing	Chairman of the Board of Directors	N	N
Nederlandse Waterschapsbank NV	Netherlands	Financial holding company	Chairman of the Board of Directors	N	N
De Heus Veevoeders B.V.	Netherlands	Animal feed	Member of the Board of Directors	N	N
Ghislaine Van Kerkchove, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Deputy Chairman of the Board of Directors	N	N
Almancora Beheersmaatschappij nv	Belgium	Management	Director	N	N
Piet Vanthemsche, Director					
M.R.B.B. - Maatschappij voor Roerend Bezit van de Boerenbond cvba	Belgium	Financial holding company	Chairman of the Board of Directors	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Gimv-Agri+ Investment Fund nv	Belgium	Investment fund	Chairman of the Board of Directors	N	N
Philippe Vlerick, Deputy Chairman					
Besix Group nv	Belgium	Construction	Director	N	N
Exmar nv	Belgium	Trade	Director	Euronext	N
IVC nv	Belgium	Textiles	Director	N	N
Point nv	Belgium	Textiles	Chairman of the Board of Directors	N	N
Spector Photo Group nv	Belgium	Photo development	Deputy Chairman of the Board of Directors	Euronext	N
Batibic nv	Belgium	Real estate	Chairman of the Board of Directors	N	N
Cecan nv	Belgium	Holding company	Executive Director	N	N
Midelco nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
Tessa Lim nv	Belgium	Construction	Chairman of the Board of Directors	N	N
VIT NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
Vlerick Investeringsmaatschappij cvba	Belgium	Investment company	Chairman of the Board of Directors	N	N
Vlerick Vastgoed nv	Belgium	Real estate	Chairman of the Board of Directors	N	N
Raymond UCO denim Private Ltd	India	Textiles	Chairman of the Board of Directors	N	N
Pentahold nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
BMT NV	Belgium	Metallurgical industry	Director	N	N
ETEX GROUP SA	Belgium	Construction	Director	N	N
Corelio nv	Belgium	Media group	Deputy Chairman of the Board of Directors	N	N
LVD Company nv	Belgium	Metallurgical industry	Director	N	N
Lurick nv	Belgium	Real estate	Executive Director	N	N
Therick nv	Belgium	Real estate	Executive Director	N	N
Vobis Finance nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
B.I.C. Carpets nv	Belgium	Textiles	Charman of the Board of Directors + Executive Director	N	N
Concordia Textiles nv	Belgium	Textiles	Director	N	N
Indus Kamdhenu Fund	India	Investment company	Chairman	N	N
Hamon & Cie (International) SA	Belgium	Holding company	Director	Euronext	N
Durabilis	Belgium	Import-export	Deputy Chairman of the Board of Directors	N	N
Lutherick NV	Belgium	Holding company	Executive Director	N	N
De Robaertbeek NV	Belgium	Textiles	Director	N	N
Bareldam SA	Luxembourg	Holding company	Director	N	N
Sapient Investment Managers Ltd	Cyprus	Holding company	Chairman of the Board of Directors	N	N
UCO nv	Belgium	Textiles	Chairman of the Board of Directors	N	N
Cecan Invest nv	Belgium	Holding company	Executive Director	N	N
Marc Wittemans, Director					
Agro - Services cvba	Belgium	Temping agency	Director	N	N
Aktiefinvest cvba	Belgium	Real estate	Director	N	N
Arda Immo nv	Belgium	Real estate	Chairman of the Board of Directors	N	19,06%
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Covalis nv	Belgium	Abbatoirs & meat processing	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N

Consolidated financial statements

Building a better working world

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Statutory auditor's report to the general meeting of shareholders of KBC Bank as of and for the year ended 31 December 2013

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the consolidated financial statements (the "Consolidated Financial Statements") as well as our report on other legal and regulatory requirements as further defined below. The Consolidated Financial Statements include the consolidated balance sheet as of 31 December 2013, the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity and consolidated cashflow statement for the year ended 31 December 2013 and the notes.

Report on the Consolidated Financial Statements - unqualified opinion

We have audited the Consolidated Financial Statements of KBC Bank nv ("the Company") and its subsidiaries (collectively referred to as "the Group") as of and for the year ended 31 December 2013. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The total of the consolidated balance sheet amounts to € 208.708 million and the consolidated income statement shows a profit, share of the Group, for the year of € 590 million.

Responsibility of the board of directors for the preparation of the Consolidated Financial Statements

The board of directors is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union. The board of directors is also responsible for the implementation of internal controls, which it considers necessary for the preparation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA"). Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Group's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

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Audit report dated 17 March 2014 on the Consolidated Financial Statements of KBC Bank nv as of and for the year ended 31 December 2013 (continued)

We have obtained from management and the Company's officials the explanations and information necessary to perform our audit and we believe that the resulting audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the Consolidated Financial Statements of the Company give a true and fair view of the Group's consolidated financial position as of 31 December 2013 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the report of the board of directors on the Consolidated Financial Statements, including the corporate governance statement, in accordance with articles 96 and 119 of the Company code (*Wetboek van vennootschappen/Code des sociétés*) as well as the compliance of these Consolidated Financial Statements with the Company code.

As part of our audit mandate and in accordance with the applicable supplementary standard issued by the Belgian Institute of Registered Auditors (*Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*) as published in the Belgian State Gazette on 28th August 2013 (the "Supplementary Standard"), it is our responsibility to perform certain procedures, in all material respects, on the compliance of certain legal and regulatory requirements, as defined in the Supplementary Standard. As a result of these procedures, we provide the following additional statement which does not modify our opinion on the Consolidated Financial Statements:

- The report of the board of directors on the Consolidated Financial Statements includes the information required by law, is consistent with the Consolidated Financial Statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 17 March 2014

Ernst & Young Bedrijfsrevisoren BCVBA
Statutory auditor
represented by

Pierre Vanderbeek
Partner

Weymeersch

Christel Weymeersch
Partner

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Consolidated income statement

In millions of EUR	Note	2012	2013
Net interest income	3	3 838	3 456
Interest income		9 389	7 828
Interest expense		- 5 551	- 4 372
Dividend income	4	13	18
Net result from financial instruments at fair value through profit or loss	5	37	884
Net realised result from available-for-sale assets	6	90	202
Net fee and commission income	7	1 589	1 699
Fee and commission income		2 046	2 311
Fee and commission expense		- 457	- 612
Net other income	8	370	51
TOTAL INCOME		5 937	6 309
Operating expenses	9	- 3 666	- 3 280
Staff expenses		- 1 780	- 1 560
General administrative expenses		- 1 727	- 1 587
Depreciation and amortisation of fixed assets		- 160	- 132
Impairment	11	- 2 323	- 1 827
on loans and receivables		- 1 063	- 1 715
on available-for-sale assets		- 10	- 14
on goodwill		- 386	0
on other		- 863	- 98
Share in results of associated companies	12	8	1
RESULT BEFORE TAX		- 44	1 203
Income tax expense	13	- 147	- 486
Net post-tax result from discontinued operations		0	0
RESULT AFTER TAX		- 191	717
Attributable to minority interests		115	128
of which relating to discontinued operations		*0*	*0*
Attributable to equity holders of the parent		**- 306**	**590**
of which relating to discontinued operations		*0*	*0*

- Towards the end of 2009, the group unveiled a strategic plan that included a list of companies to be divested. Since then, virtually the entire divestment plan has been implemented. More information on this plan is provided in the ‘Strategy, company profile and structure’ section (which has not been audited by the statutory auditor).
- It will be proposed that, subject to the approval of the General Meeting, KBC Bank pays a dividend of 1.29 euros per share, 1 181 million euros in total, 503 million euros of which was paid as an interim dividend in November 2013.
- We have dealt with the main items in the income statement under ‘Review of the consolidated financial statements’ in the ‘Report of the Board of Directors’ section (which has not been audited by the statutory auditor).

Consolidated statement of comprehensive income

In millions of EUR	2012	2013
RESULT AFTER TAX	- 191	717
attributable to minority interests	115	128
attributable to equity holders of the parent	- 306	590
TOTAL OTHER COMPREHENSIVE INCOME		
a) To be recycled to P&L		
Net change in revaluation reserve (AFS assets) - Equity	12	27
Fair value adjustments before tax	20	40
Deferred tax on fair value changes	- 5	- 1
Transfer from reserve to net profit	- 3	- 11
Impairment losses	1	3
Net gains/losses on disposal	- 6	- 17
Deferred income tax	1	2
Net change in revaluation reserve (AFS assets) - Bonds	742	- 98
Fair value adjustments before tax	814	- 53
Deferred tax on fair value changes	- 213	18
Transfer from reserve to net profit	141	- 63
Impairment losses	0	0
Net gains/losses on disposal	91	- 117
Amortization & impairment re assets transferred to L&R	181	24
Deferred income tax	- 130	30
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Impairment losses	0	0
Net gains/losses on disposal	0	0
Deferred income tax	0	0
Net change in hedging reserve (cash flow hedge)	- 245	341
Fair value adjustments before tax	- 408	532
Deferred tax on fair value changes	156	- 183
Transfer from reserve to net profit	7	- 9
Gross amount	9	- 10
Deferred income tax	- 2	2
Net change in translation differences	67	- 115
Gross amount	32	- 4
Deferred taxes on income	35	- 111
Other movements	- 2	0
b) Not to be recycled to P&L		
Net change in defined benefit plans	- 128	133
Remeasurements (IAS 19)	- 189	198
Deferred tax on remeasurement	61	- 65
TOTAL COMPREHENSIVE INCOME	255	1 005
attributable to minority interests	114	127
attributable to equity holders of the parent	141	878

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2012	31-12-2013
Cash and cash balances with central banks		4 425	4 378
Financial assets	14-25	206 543	194 380
Held for trading		21 493	16 966
Designated at fair value through profit or loss		4 444	4 597
Available for sale		16 728	15 000
Loans and receivables		139 460	132 040
Held to maturity		23 343	25 007
Hedging derivatives		1 075	770
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		204	120
Tax assets	27	2 104	1 620
Current tax assets		141	203
Deferred tax assets		1 963	1 417
Non-current assets held for sale and assets associated with disposal groups	41	6 883	3 769
Investments in associated companies	28	8	8
Investment property	29	412	415
Property and equipment	29	2 286	2 198
Goodwill and other intangible assets	30	1 045	1 048
Other assets	26	930	772
TOTAL ASSETS		224 840	208 708

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2012	31-12-2013
Financial liabilities	14-25	205 770	191 486
Held for trading		19 380	13 113
Designated at fair value through profit or loss		9 666	13 144
Measured at amortised cost		174 294	163 552
Hedging derivatives		2 430	1 678
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		69	- 2
Tax liabilities	27	276	171
Current tax liabilities		167	97
Deferred tax liabilies		110	74
Liabilities associated with disposal groups	41	3 565	2 027
Provisions for risks and charges	31	482	491
Other liabilities	32	2 776	2 222
TOTAL LIABILITIES		212 938	196 395
Total equity		11 902	12 313
Parent shareholders' equity	34	11 184	11 662
Minority interests	34	718	651
TOTAL LIABILITIES AND EQUITY		224 840	208 708

- We have grouped together the assets and liabilities of the remaining divestments under ‘Non-current assets held for sale and disposal groups’ and ‘Liabilities associated with disposal groups’. The entities concerned were KBC Bank Deutschland and Antwerp Diamond Bank at the end of 2013 and Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka at the end of 2012. For additional information, see Note 41.
- The 2012 figures have been restated retroactively owing to amendments to IAS 19 (which had an impact on the 'Other assets', 'Other liabilities' and 'Parent shareholders’ equity' headings, and the related totals and subtotals). For more information, see Note 1 a.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit obligations	Reserves	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2012										
Balance at the beginning of the period	8 948	1 222	- 413	- 612	0	2 362	- 390	11 117	975	12 093
First-time adoption of revised IAS 19	0	0	0	0	65	- 8	0	57	0	57
Restated balance at the beginning of the period	8 948	1 222	- 413	- 612	65	2 353	- 390	11 174	975	12 150
Net result for the period	0	0	0	0	0	- 306	0	- 306	115	- 191
Other comprehensive income for the period	0	0	755	- 245	- 128	- 2	67	446	- 1	446
Subtotal, comprehensive income	0	0	755	- 245	- 128	- 308	67	141	114	255
Dividends	0	0	0	0	0	- 120	0	- 120	0	- 120
Capital increase	0	0	0	0	0	0	0	0	0	0
Effect of business combinations	0	0	0	0	0	- 4	0	- 4	0	- 4
Change in minority interests	0	0	0	0	0	0	0	0	- 224	- 224
Change in scope	0	0	- 7	- 6	0	0	6	- 8	- 147	- 155
Total change	**0**	**0**	**748**	**- 251**	**- 128**	**- 432**	**72**	**10**	**- 257**	**- 248**
Balance at the end of the period	**8 948**	**1 223**	**335**	**- 863**	**- 63**	**1 921**	**- 318**	**11 184**	**718**	**11 902**
of which revaluation reserve for shares			43							
of which revaluation reserve for bonds			292							
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			6	1			0	7		7
31-12-2013										
Balance at the beginning of the period	8 948	1 223	335	- 863	0	1 930	- 318	11 255	718	11 973
First-time adoption of revised IAS 19	0	0	0	0	- 63	- 8	0	- 71	0	- 71
Restated balance at the beginning of the period	8 948	1 223	335	- 863	- 63	1 921	- 318	11 184	718	11 902
Net result for the period	0	0	0	0	0	590	0	590	128	717
Other comprehensive income for the period	0	0	- 71	341	133	0	- 115	288	0	288
Subtotal, comprehensive income	0	0	- 71	341	133	590	- 115	878	127	1 005
Dividends	0	0	0	0	0	- 504	0	- 504	0	- 504
Capital increase	0	0	0	0	0	0	0	0	0	0
Incorporation losses carried forward	0	- 327	0	0	0	327	0	0	0	0
Effect of business combinations	0	0	0	0	0	3	0	3	0	3
Change in minority interests	0	0	0	0	0	0	0	0	- 190	- 190
Change in scope	0	0	0	0	0	0	102	102	- 4	97
Total change	**0**	**- 327**	**- 71**	**341**	**133**	**415**	**- 13**	**478**	**- 67**	**411**
Balance at the end of the period	**8 948**	**895**	**264**	**- 522**	**70**	**2 337**	**- 331**	**11 662**	**651**	**12 313**
of which revaluation reserve for shares			70							
of which revaluation reserve for bonds			194							
of which revaluation reserve for other assets than bonds and shares			0							
of which relating to non-current assets held for sale and disposal groups			4	1			- 3	1		1

- For information on the shareholder structure, see Note XVIII in the ‘Company annual accounts’ section and the ‘Corporate governance statement’ in the ‘Report of the Board of Directors’ section.
- The 'Dividends' heading in 2013 includes recognition of the gross interim dividend of 503 million euros paid in November 2013. KBC Bank will pay an additional 677 million euros to KBC Group in 2014 as final dividend for 2013.
- For information on the retroactive restatement of figures resulting from amendments to IAS 19, see Note 1 a.
- Trust preferred securities are also included under 'Minority interests' (see Note 34 for more information).
- During 2013, the revaluation reserve (for available-for-sale assets) declined by 71 million euros, due to the impact of higher long-term rates on the market value of bonds and the fact that bonds with a positive revaluation reserve were reaching maturity, though the decline was partially offset by the higher revaluation reserve for shares, which had been boosted by rising share prices. Conversely, the hedging reserve (cashflow hedges) was 341 million euros less negative in 2013, owing to the effect of higher long-term rates and the transfer of the reserve to net profit in proportion to the cashflows realised from hedging instruments.

Consolidated cashflow statement

In millions of EUR	Note[1]	2012	2013
Operating activities			
Result before tax	Inc.statem.	- 44	1 203
Adjustments for:		3 121	2 609
Result before tax related to discontinued operations	Inc.statem.	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	17,29,30	1 435	262
Profit/Loss on the disposal of investments		- 257	67
Change in impairment on loans and advances	11	1 063	1 715
Change in other provisions	31	- 359	15
Other non realised gains or losses		1 246	551
Income from associated companies	12	- 8	- 1
Cashflows from operating profit before tax and before changes in operating assets and liabilities		3 078	3 812
Changes in operating assets (excl. cash & cash equivalents)		13 957	12 000
Loans and receivables	14	3 911	4 054
Available for sale	14	6 555	1 717
Held for trading	14	5 266	5 827
Designated at fair value through P&L	14	4 226	- 911
Hedging derivatives	14	- 724	840
Operating assets associated with disposal groups & other assets	41	- 5 278	473
Changes in operating liabilities (excl. cash & cash equivalents)		- 11 858	- 5 435
Deposits at amortised cost	14	4 746	1 622
Debt certificates at amortised cost	14	891	- 4 167
Financial liabilities held for trading	14	- 7 581	- 6 165
Financial liabilities designated at fair value through P&L	14	- 13 229	4 467
Liability-derivatives hedge accounting	14	500	- 752
Operating liabilities associated with disposal groups & other liabilities	41	2 815	- 439
Income taxes paid	13	- 192	- 243
Net cash from (used in) operating activities		4 985	10 135
Investing activities			
Purchase of held-to-maturity securities	14	- 13 987	- 2 600
Proceeds from the repayment of held-to-maturity securities at maturity	14	1 640	1 035
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	Next table	0	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	Next table	76	- 245
Purchase of shares in associated companies	28	0	0
Proceeds from the disposal of shares in associated companies	28	0	0
Dividends received from associated companies	28	0	0
Purchase of investment property	29	- 26	- 20
Proceeds from the sale of investment property	29	4	4
Purchase of intangible fixed assets (excl. goodwill)	30	- 48	- 59
Proceeds from the sale of intangible fixed assets (excl. goodwill)	30	14	1
Purchase of property and equipment	29	- 546	- 410
Proceeds from the sale of property and equipment	29	432	194
Net cash from (used in) investing activities		- 12 441	- 2 100

Financing activities			
Purchase or sale of treasury shares	Changes equity	0	0
Issue or repayment of promissory notes and other debt securities	14	1 004	749
Proceeds from or repayment of subordinated liabilities	14	- 1 657	- 183
Principal payments under finance lease obligations		0	0
Proceeds from the issuance of share capital	Changes equity	0	0
Proceeds from the issuance or repayment of preference shares	Changes equity	0	0
Dividends paid	Changes equity	- 120	- 504
Net cash from (used in) financing activities		- 773	61
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	-	- 8 230	8 096
Cash and cash equivalents at the beginning of the period	-	9 431	1 130
Effects of exchange rate changes on opening cash and cash equivalents	-	- 71	- 423
Cash and cash equivalents at the end of the period	-	1 130	8 803
Additional information			
Interest paid	3	- 5 551	- 4 372
Interest received	3	9 389	7 828
Dividends received (including equity method)	4, 32	13	18
Components of cash and cash equivalents			
Cash and cash balances with central banks	Bal.sheet	4 425	4 378
Loans and advances to banks repayable on demand and term loans to banks < 3 months	18	9 194	8 127
Deposits from banks repayable on demand and redeemable at notice	18	- 12 659	- 3 310
Cash and cash equivalents included in disposal groups	46	170	- 391
Total		1 130	8 803
Of which not available		0	0

1 The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.

2 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- As stated in Note 41, KBC classified a couple of group companies earmarked for divestment as ‘disposal groups’ at the end of 2013. The entities in question were KBC Bank Deutschland and Antwerp Diamond Bank (for which the group had signed sale agreements that had not been finalised by year-end 2013). The sale of these entities will not have any material impact on the group’s cashflows.
- More information on the main acquisitions and divestments of consolidated subsidiaries and activities already completed is provided below. All material acquisitions and divestments of group companies or activities were paid for in cash, except for Kredyt Bank in 2012 (merger with Bank Zachodni WBK). In 2013, KBC Bank sold its stake in Bank Zachodni WBK, which was paid for in cash and had a positive influence of approximately 0.8 billion euros on net cash from or used in operating activities.
- More information on the main divestments can be found under ‘Group Centre’ in the ‘Report of the Board of Directors’ section (not audited by the statutory auditor).

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations	2012	2013
in millions of EUR	Kredyt Bank	Absolut Bank
Purchase or sale	Sale	Sale
Percentage of shares bought (+) or sold (-) in the relevant year	80,00%	100,00%
Total share percentage at the end of the relevant year	0,00%	0,00%
For business unit/segment	Group Centre	Group Centre
Deal date (month and year)	December 2012	May 2013
Incorporation of the result of the company in the result of the group until:	31 December	31 March
Purchase price or sale price	840*	295
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	916	- 245
Assets & liabilities bought or sold		
Cash and cash balances with central banks	188	237
Financial assets	10 248	2 276
Held for trading	173	47
Designated at fair value through profit or loss	16	0
Available for sale	1 836	169
Loans and receivables	7 438	2 061
Held-to-maturity investments	769	0
Hedging derivatives	16	0
of which: cash and cash equivalents	*275*	*540*
Financial liabilities	8 064	2 063
Held for trading	241	1
Designated at fair value through profit or loss	0	0
Measured at amortised cost	7 823	2 061
Hedging derivatives	0	0
of which: cash and cash equivalents	*351*	*0*

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 17 March 2014 by the Board of Directors of KBC Bank NV. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million.

The following IFRS standards became effective on 1 January 2013 and have been applied by KBC in this report.

- Amendment to IAS 19 (Employee Benefits). The main change concerns the elimination of the corridor, which – under the previous standard – permitted actuarial gains and losses to be spread over several years. From 1 January 2013 on, such gains and losses are recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures were changed and expanded. On 1 January 2013, the one-off negative impact on IFRS equity amounted to 71 million euros (net of deferred taxes). In conformity with IFRS, the figures for 2012 have been duly restated. Notes 1 b, 3 and 33 have been adjusted according to the revised IAS 19 standard.
- IFRS 13 (Fair Value Measurement) provides guidance on how the fair value of an asset or liability should be measured under IFRS. The new requirements had no material impact on the fair value measurement of KBC's assets and liabilities. The main consequence for KBC is the requirement of expanded disclosures.
- The amendments to IFRS 7 enhance disclosures about offsetting financial assets and financial liabilities. The main consequence for KBC is the requirement of expanded disclosures (see Note 22). These amendments have been applied together with the amendments to IAS 32, which clarifies the offsetting criteria by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement.
- Amendment to IAS 1 (Presentation of Financial Statements): the main change concerns the grouping of items presented in other comprehensive income. Items that might be reclassified (or recycled) to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The changes are solely presentation-related.

Given the amendments to IAS 36 (Impairment of Assets) on the recoverable amount disclosures for non-financial assets remove the unintended consequences of IFRS 13, KBC has opted to apply them retroactively since 1 January 2013. As a result, KBC has disclosed only the recoverable amounts of the impaired non-financial assets.

Depending on when the European Union approves IFRIC 21 (Levies), it may be necessary – as a result of the retroactive application of IFRIC 21 – to restate the comparable half-yearly figures (relates solely to movements between quarters and has no impact on full-year figures). IFRIC 21 is expected to be approved in 2014.

The following IFRS standards were issued but not yet effective for KBC Bank at year-end 2013. KBC will apply these standards when they become mandatory.

- In November 2009 and October 2010, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The IASB is currently reviewing the first phase of this project and examining the second phase (impairment on financial instruments). In 2013, the IASB published new conditions for hedge accounting that are to be appended to IFRS 9 in the third phase of the project. The mandatory effective date for the entire IFRS 9 standard has not yet been set and will be disclosed by the IASB when the project is closer to completion. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- IFRS 10, 11 and 12 are the new consolidation standards that will become effective in the European Union on or after 1 January 2014. IFRS 10 includes a new definition of control, which could 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 will be the application of the equity method instead of proportionate consolidation for Českomoravská Stavební Spořitelna (CMSS), a jointly owned subsidiary of ČSOB. This change will not affect the result after tax or parent shareholders' equity, but it will have an impact on various items in the consolidated income statement and balance sheet.

New segment reporting format

See Note 2.

Note 1 b: Summary of significant accounting policies

a Criteria for consolidation and for inclusion in the consolidated accounts according to the equity method

All (material) entities (including Special Purpose Entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation.
(Material) companies over which joint control is exercised, directly or indirectly, are consolidated according to the method of proportionate consolidation.
(Material) investments in associates, i.e. companies over which KBC has significant influence, are accounted for using the equity method.
As allowed under IAS 28 (Investments in Associates) and IAS 31 (Interests in Joint Ventures), investments held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit or loss).
Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

b Effects of changes in foreign exchange rates

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the spot rate at balance sheet date.
Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in foreign currency, are recognised in profit or loss.
Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date.
Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined. Translation differences are reported together with changes in fair value.
Income and expense items in foreign currency are taken to profit or loss at the exchange rate prevailing when they were recognised.
The balance sheets of foreign subsidiaries are translated into the reporting currency (euros) at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year as best estimate of the exchange rate at transaction date.

Differences arising from the use of one exchange rate for assets and liabilities, and another for net assets (together with the exchange rate differences – net of deferred taxes – on loans concluded to finance participating interests in foreign currency) are recognised in equity, commensurate with KBC's share.

c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.

All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

- *Loans and receivables (L&R)*. These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- *Held-to-maturity assets (HTM)*. These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.

- *Financial assets at fair value through profit or loss*. This category includes held-for-trading (HFT) assets and any other financial assets designated at fair value through profit or loss (FIFV). *Held-for-trading assets* are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets designated at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use the fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.

- *Available-for-sale assets (AFS)*. These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.

- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.

- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets.

- *Other financial liabilities*. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.

- *Hedging derivatives*. These are derivatives used for hedging purposes.

Financial instruments are reported according to the dirty price convention. Accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

Amounts receivable. These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.

- Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
- Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based primarily on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
- When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.

  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their present value.

  Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

Securities. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.

Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.

Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.

Securities classified initially as ‘Financial assets at fair value through profit or loss’ that are not held for trading are measured in the same way as held-for-trading assets.

Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

Derivatives. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

Amounts owed. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

Embedded derivatives. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

Hedge accounting. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.

For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.

For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.

Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts.* These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments (market value adjustments)*. Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements and counterparty exposures.

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.

If the capitalisation criteria are met, software is recognised as an intangible asset. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment and investment property

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement. The accounting policy outlined for property and equipment also applies to investment property.

External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f Retirement benefit obligations

Retirement benefit obligations are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.

Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.

The retirement benefit obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Changes in the defined benefit liability/asset are recognised in operating expenses (service costs), in interest expense (net interest costs) and in other comprehensive income (remeasurements).

g Tax liabilities

This heading includes current and deferred tax liabilities.

Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate. Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

h Provisions

Provisions are recognised in the balance sheet:
- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event; and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

i Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules.

The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. The difference is recognised either as an asset (goodwill) or in the income statement (negative goodwill).

l Exchange rates used*

	Exchange rate at 31-12-2013		Exchange rate average in 2013	
	1 EUR = … … currency	Change from 31-12-2012 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2012 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	27,427	-8%	25,932	-3%
GBP	0,8337	-2%	0,8493	-4%
HUF	297,04	-2%	297,74	-3%
USD	1,3791	-4%	1,3283	-3%

* Rounded figures.

m Changes made to accounting policies in 2013

No material changes were made to the accounting policies compared with 2013, apart from the amendment to IAS 19 referred to under Note 1 a.

Notes on segment reporting

Note 2: Segment reporting based on the management structure

The group's segments or business units

At the start of 2013, KBC Bank launched a new management structure to reflect the group's renewed strategy, more information on which can be found in the 'Strategy, company profile and structure' section (which has not been audited by the statutory auditor). The group also reworked its financial segment reporting presentation on the basis of this new structure.

Up until the end of 2012, the segments consisted of the Belgium Business Unit (retail banking), the Central & Eastern Europe Business Unit (Czech Republic, Hungary, Slovakia, Bulgaria), the Merchant Banking Business Unit (corporate banking and market activities in Belgium and abroad, plus KBC Bank Ireland) and the Group Centre (certain items that were not allocated to the business units, and the results of companies to be divested).

In the new reporting presentation, the segments 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 (items that are not allocated to the other 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 devoted to the individual business units.

The main differences between the former and new business units are:
- The former Belgium Business Unit has been extended to include the Belgian merchant banking activities (corporate banking and market activities), including KBC Bank's entities abroad (previously part of the Merchant Banking Business Unit).
- The former Central & Eastern Europe Business Unit has been split up into a separate Czech Republic Business Unit, reflecting the importance of that country within the group's operations, while the operations in the other core countries – Hungary, Slovakia and Bulgaria – have been grouped together under the International Markets Business Unit.
- KBC Bank Ireland, which belonged to the former Merchant Banking Business Unit, has now been incorporated into the International Markets Business Unit.

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

Segment reporting based on the *adjusted net result*

The figures in the segment reporting presentation have been prepared in accordance with the general accounting method used at KBC (see Note 1) and, therefore, comply with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS).

In the previous reporting format, the IFRS income statement was supplemented by an 'underlying' income statement (excluding non-operating and exceptional items). This is now no longer the case. However, in addition to the figures according to IFRS, KBC still provides figures aimed at giving more insight into the ongoing business performance. This means that, besides the IFRS income statement, an *adjusted* income statement will be provided in which a limited number of non-operating items are not recognised, but summarised instead in three lines at the bottom of the presentation. We refer to this presentation as the 'adjusted income statement' and the result excluding any non-operating items as the 'adjusted net result'.

Segment reporting is based on this reworked presentation.

The non-operating items are:

- the legacy CDO business (mainly CDO-related valuation adjustments and the fee for the CDO guarantee agreement);
- the legacy business of divestment companies (impairment and gains/losses in relation to divestments);
- the impact of changes in fair value of own debt instruments (due to own credit risk).

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

Moreover, trading results – which are recognised under various headings in the IFRS presentation – are moved to 'Net result from financial instruments at fair value'. This exercise is performed solely for KBC Bank Belgium (Belgium Business Unit), given its importance.

Please note that:

- In principle, we assign a group company in its entirety to one specific segment. Major exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre.
- Transactions among the different segments are reported at arm's length.
- When segment information is recorded, we do not divide 'Net interest income' up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external customers per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per customer group or product group.

We have commented on the results for each business unit in the 'Report of the Board of Directors' section. The statutory auditor has not audited these sections. A reconciliation of the figures at group level is given in the table below.

Information on the items stated separately

Items excluded from the adjusted net result (in millions of EUR)	Footnote	Main heading(s) concerned in the income statement	2012	2013
Legacy business: Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	1	Net result from financial instruments at fair value, Income tax expense	155	244
Legacy business: Divestments	2	Other net income, Net realised result from available-for-sale assets, Net post-tax result from discontinued operations, Impairment, Income tax expense	-1 067	-277
Own credit risk: Changes in fair value of own debt instruments	3	Net result from financial instruments at fair value, Income tax expense	-531	-43

1 In both 2012 and 2013, the improvement in the market price for corporate credit – as reflected in narrowing credit default swap spreads – had a positive impact on the value of CDOs held by KBC. The amounts also included the impact of the government guarantee agreement and the related fees, the gains or losses relating to the de-risking of CDOs and the cover for the CDO-related counterparty exposure to MBIA, the US monoline insurer (this cover was raised from 70% to 80% in 2012, but subsequently reduced to 60% during 2013).

2 In 2013, the sale of Absolut Bank (Russia), the sale of the minority interest in Nova Ljubljanska banka (Slovenia), the sale of shareholder loans, provisioning for the NLB subordinated loan and the impairment charges taken on Antwerp Diamond Bank had a negative impact, whereas the placement of the minority shareholding in Bank Zachodni WBK (Poland) through a secondary offering had a positive effect. The total impact on the result of these items – together with a number of smaller files – was -277 million euros (after tax). The figure for 2012 includes primarily the positive impact of the merger of Kredyt Bank (Poland) (0.1 billion euros) and the impairment charges taken on Absolut Bank (Russia), Antwerp Diamond Bank (Belgium), KBC Bank Deutschland (Germany) and Nova Ljubljanska banka (Slovenia) – an aggregate -1.2 billion euros.

3 The negative impact on the results in 2012 and 2013 is accounted for by a narrowing of the credit spread for KBC's senior and subordinated debt during the period, as reflected in the higher marked-to-market value of debt securities in 'Financial liabilities designated at fair value through profit or loss'.

Underlying results by segment (business unit)

In millions of EUR	Belgium Business Unit	Czech Republic Business Unit	Interna-tional Markets Business Unit	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre excl inter-segment eliminations	Inter-segment eliminations	KBC Bank
ADJUSTED NET RESULT 2012										
Net interest income	1 978	993	614	255	164	29	164	116	0	3 701
Dividend income	9	1	0	0	0	0	0	1	0	11
Net result from financial instruments at fair value through profit or loss	509	96	97	69	25	1	1	79	0	781
Net realised result from available-for-sale assets	38	5	2	0	1	0	0	44	0	89
Net fee and commission income	1 072	236	174	101	46	19	2	116	1	1 597
Net other income	35	79	10	- 1	7	3	0	130	8	262
TOTAL INCOME	3 641	1 411	896	426	244	52	167	507	- 13	6 442
Operating expenses[a]	- 1 838	- 643	- 589	- 300	- 168	- 36	- 82	- 555	13	- 3 611
Impairment	- 294	- 68	- 618	- 46	- 17	- 8	- 547	- 150	0	- 1 130
on loans and receivables	- 246	- 63	- 609	- 44	- 11	- 7	- 547	- 145	0	- 1 063
on available-for-sale assets	- 2	- 1	0	0	0	0	0	0	0	- 3
on goodwill	0	0	0	0	0	0	0	- 2	0	- 2
on other	- 46	- 4	- 9	- 2	- 6	- 1	0	- 3	0	- 62
Share in results of associated companies	0	6	2	2	0	0	0	- 33	0	- 26
RESULT BEFORE TAX	1 510	705	- 310	81	59	9	- 462	- 230	0	1 675
Income tax expense	- 493	- 92	28	- 20	- 9	0	57	134	0	- 423
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	1 017	614	- 282	61	50	9	- 405	- 95	0	1 253
Attributable to minority interests	82	0	1	0	0	0	0	32	0	115
ADJUSTED NET RESULT	935	614	- 284	61	50	9	- 405	- 127	0	1 138
Legacy CDOs	0	0	0	0	0	0	0	155	0	155
Own credit risk	0	0	0	0	0	0	0	- 531	0	- 531
Divestments	0	0	0	0	0	0	0	- 1 067	0	- 1 067
NET RESULT	935	614	- 284	61	50	9	- 405	- 1 571	0	- 306
[a] Of which non-cash expenses:	- 57	- 41	- 46	- 26	- 13	- 2	- 4	- 16	0	- 160
Depreciation and amortisation of fixed assets	- 50	- 34	- 44	- 26	- 11	- 2	- 4	- 28	0	- 157
Other	- 7	- 6	- 2	0	- 2	0	0	12	0	- 3
Acquisitions of non current assets*	456	62	102	35	40	15	13	0	0	621

* Non current assets held for sale and disposal groups, investment property, property and equipment, investments associated companies and goodwill and other intangible assets

In millions of EUR	Belgium Business Unit	Czech Republic Business Unit	Interna-tional Markets Business Unit	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre excl inter-segment eliminations	Inter-segment eliminations	KBC Bank
ADJUSTED NET RESULT 2013										
Net interest income	2 003	929	605	258	191	33	123	- 165	- 2	3 369
Dividend income	11	0	0	0	0	0	0	0	0	12
Net result from financial instruments at fair value through profit or loss	538	81	77	64	19	1	- 7	59	0	756
Net realised result from available-for-sale assets	124	16	13	6	3	4	1	5	0	158
Net fee and commission income	1 202	248	233	166	50	16	- 4	15	5	1 703
Net other income	194	9	23	12	10	1	0	2	7	235
TOTAL INCOME	4 072	1 284	952	505	273	55	114	- 62	- 13	6 233
Operating expenses[a]	- 1 911	- 604	- 659	- 358	- 161	- 34	- 102	- 78	13	- 3 238
Impairment	- 337	- 56	- 1 177	- 76	- 30	- 12	- 1 059	- 87	0	- 1 656
on loans and receivables	- 328	- 52	- 1 171	- 76	- 27	- 9	- 1 059	- 83	0	- 1 634
on available-for-sale assets	0	0	0	0	0	0	0	- 4	0	- 4
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	- 8	- 3	- 7	- 1	- 3	- 3	0	0	0	- 18
Share in results of associated companies	0	0	1	1	0	0	0	0	0	1
RESULT BEFORE TAX	1 824	624	- 883	72	82	9	- 1 047	- 227	0	1 339
Income tax expense	- 564	- 95	20	- 13	- 22	0	55	94	0	- 545
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	1 261	529	- 863	58	60	10	- 992	- 132	0	794
Attributable to minority interests	113	0	1	0	0	0	0	14	0	128
ADJUSTED NET RESULT	1 147	529	- 864	58	60	10	- 992	- 147	0	666
Legacy CDOs	0	0	0	0	0	0	0	244	0	244
Own credit risk	0	0	0	0	0	0	0	- 43	0	- 43
Divestments	0	0	0	0	0	0	0	- 277	0	- 277
NET RESULT	1 147	529	- 864	58	60	10	- 992	- 223	0	590
[a] Of which non-cash expenses:	- 52	- 29	- 45	- 25	- 11	- 2	- 7	- 1	0	- 126
Depreciation and amortisation of fixed assets	- 50	- 33	- 46	- 26	- 11	- 2	- 7	- 4	0	- 132
Other	- 2	4	1	1	0	0	0	3	0	5
Acquisitions of non current assets*	327	65	74	22	21	2	29	4	0	469

* Non current assets held for sale and disposal groups, investment property, property and equipment, investments associated companies and goodwill and other intangible assets

Review of the results by segment (business unit)

Belgium Business Unit

In 2013, the **Belgium Business Unit** generated a net result of 1 147 million euros, compared with 935 million euros a year earlier.

Net interest income totalled 2 003 million euros in 2013, up 1% on the year-earlier figure, which was due primarily to the increase in commercial net interest income (owing to improved margins on loans, among other things), but partially offset by the scaling back of activities in the foreign branches. KBC Bank's net interest margin fell slightly, from 1.26% at year-end 2012 to 1.24%.

At 81 billion euros at year-end, loans and advances to customers (excluding reverse repos) declined by 2% in 2013, but this was attributable in part to the deliberate reduction at KBC Bank's foreign branches and the reduction in shareholder loans (the portfolio remained virtually unchanged when these two factors are excluded). Deposit volumes (deposits from customers and debt securities, excluding repos) came to 99 billion euros, a year-on-year increase of 2% (after eliminating transactions between KBC group companies).

Net fee and commission income amounted to 1 202 million euros. This was 12% more than in 2012, due to factors including asset management activities (increase in entry and management fees for investment funds). At 151 billion euros, assets under management in this business unit were up by 5% year-on-year, due to the combined effect of slightly higher volumes and higher prices.

As regards the other income items, the net realised result from available-for-sale assets came to 124 million euros (in 2012, this item included the losses relating to the sale of GIIPS sovereign bonds); dividend income amounted to 11 million euros; and the net result from financial instruments at fair value through profit or loss totalled 538 million euros, with the higher marked-to-market valuation of certain derivatives used for asset/liability management purposes more than offsetting the lower trading result. Other net income amounted to 194 million euros, compared with 35 million euros in 2012. The 2013 figure includes moratorium interest related to the successful settlement of disputes, whereas the figure for 2012 was negatively influenced by amounts recognised for, among other things, the 5-5-5 product.

Operating expenses totalled 1 911 million euros in 2013, up 4% on balance on the year-earlier figure, with various factors cancelling each other out (slightly higher ICT expenses, increased pension costs, slightly lower standard staff expenses, a somewhat higher bank tax, etc.). Consequently, the cost/income ratio for the banking activities improved from 50% in 2012 to a very favourable 47% in 2013 (though the figure for 2013 was enhanced by a number of positive but volatile income items).

Impairment recorded on loans and receivables in the loan portfolio of the Belgium Business Unit amounted to 328 million euros in 2013 (82 million euros more than the previous year), resulting in a credit cost ratio of 37 basis points, compared with 28 basis points in 2012. Approximately 2.5% of the Belgian Business Unit's portfolio was non-performing (see 'Glossary of ratios used' for definition) at year-end 2013, compared with 2.3% a year earlier.

Czech Republic Business Unit

In 2013, the **Czech Republic Business Unit** generated a net profit of 529 million euros, compared with 614 million euros in 2012. After eliminating movements in exchange rates, the decline was 11%. It was accounted for primarily by the gains realised on the sale in 2012 of a minority interest in ČSOB Pojišťovna a.s. to KBC Insurance.

Net interest income came to 929 million euros in 2013, down 7% on its level in 2012, or just 4% when the effects of currency exchange are excluded (the Czech koruna depreciated by 3% on average in 2013). In addition to technical factors, the main factors behind this decline were the pressure on deposit margins and the generally low level of reinvestment income, which more than cancelled out the higher interest income on lending.

At 18 billion euros at year-end, loans and advances to customers (excluding reverse repos) rose by 6% in 2013 (after being adjusted for currency effects), owing in part to persistently strong growth in home loans and loans to companies. Deposit volumes (deposits from customers and debt securities, excluding repos) stood at 25 billion euros, an increase of 4% on the year-earlier figure. The average net interest margin narrowed from 3.2% in 2012 to 3% in 2013, due in part to technical factors. When these factors are excluded, the 2013 figure came to 3.03%.

Net fee and commission income came to 248 million euros in 2013, up 5% year-on-year (as high as 8% once the effects of currency exchange are eliminated), partly on account of the growth in the fees charged for investment funds. Assets under management in the business unit stood at around 6 billion euros at year-end, a year-on-year increase of some 6%.

As regards the other income items, the net realised result from available-for-sale assets totalled 16 million euros (5 million euros in 2012), the net result from financial instruments at fair value through profit or loss stood at 81 million euros (16% below the year-earlier figure), and other net income came to 9 million euros (which benefited from a number of factors, including interest on an earlier loan; in 2012, this particular item came to 79 million euros, 49 million euros of which related to the sale of a minority interest in ČSOB Pojišťovna a.s. to KBC Insurance).

Operating expenses amounted to 604 million euros in 2013, down 6% on the figure for 2012 (-3% excluding the effects of currency exchange). Various factors were involved, including lower restructuring costs, ICT expenses and marketing costs. The cost/income ratio stood at a very good 47% in 2013, roughly the same level as a year earlier.

Impairment on loans and receivables (loan loss provisions) came to 52 million euros in 2013, a decrease on the 63 million euros recorded for 2012. Consequently, the business unit's credit cost ratio amounted to 25 basis points in 2013, compared with 31 basis points in 2012. Approximately 3% of the Czech Republic Business Unit's loan portfolio was non-performing at year-end 2013, compared with 3.2% a year earlier. Other impairment charges totalled 3 million euros.

International Markets Business Unit

In 2013, the net result at the **International Markets Business Unit** amounted to -864 million euros, compared with -284 million euros a year earlier. This related almost entirely to the additional loan loss provisions set aside in Ireland (see below). The net result per country amounted to 58 million euros for Hungary (61 million euros in 2012), 60 million euros for Slovakia (50 million euros in 2012), 10 million euros for Bulgaria (9 million euros in 2012) and -992 million euros for Ireland (-405 million euros in 2012).

Net interest income came to 605 million euros, down 1% on the year-earlier figure, with the increase in Slovakia (thanks in part to the expansion of the loan portfolio) unable to fully offset the decline in Ireland. At 21 billion euros, loans and advances to customers (excluding reverse repos) were down by 7% in 2013 (after eliminating transactions between KBC group companies), owing to increases in Slovakia and Bulgaria, and a decline in Ireland and Hungary. At 15 billion euros, deposits (deposits from customers and debt securities, excluding repos) rose by 9% (after eliminating transactions between KBC group companies), attributable largely to the successful retail deposit campaign in Ireland, although deposit volumes also rose in Hungary and Slovakia.

The net result from financial instruments at fair value through profit or loss came to 77 million euros in 2013. This was roughly 21% less than in 2012, due in part to the lower trading result in Slovakia. Net fee and commission income amounted to 233 million euros, up 34% mainly owing to Hungary. As regards the other income items, the net realised result from available-for-sale assets came to 13 million euros and other net income 23 million euros (as opposed to 10 million euros in 2012) on account of a number of one-off gains.

Operating expenses at this business unit came to 659 million euros, an increase of 12% on the year-earlier figure that was attributable chiefly to Hungary (relating in part to the introduction of the financial transactions levy) and Ireland (higher costs linked to the increased workforce (arrears department) and the retail campaign). The cost/income ratio therefore ended the year at 69%, compared with 66% in 2012.

Impairment on loans and receivables (loan loss provisions) amounted to 1 171 million euros in 2013, which was considerably higher than the 609 million euros recorded for 2012. The increase was due entirely to KBC Bank Ireland where a significant additional amount was set aside in the fourth quarter, following an analysis of the portfolio. Loan loss provisions for the year as a whole, therefore, ended the year at 1 059 million euros – considerably higher than the year-earlier figure (547 million euros). The three Central and Eastern European countries together accounted for 112 million euros (62 million euros in 2012), with relatively strong increases in Hungary (retail) and Slovakia (corporate). As a result, the credit cost ratio at business unit level came to 448 basis points, compared with 226 basis points in 2012. The figures per country were 672 basis points for Ireland, 150 basis points for Hungary, 60 basis points for Slovakia and 119 basis points for Bulgaria. At year-end 2013, around 19% of the business unit's loan portfolio was non-performing, compared with 18% a year earlier. The per-country figures were 26% in Ireland, 12.1% in Hungary, 3.7% in Slovakia and 27% in Bulgaria.

Group Centre

In 2013, the Group Centre generated a net result of -223 million euros, compared with -1 571 million euros a year earlier. Excluding the results of the legacy business (divestments and CDOs) and the results relating to the valuation of own credit risk, the adjusted net result amounted to -147 million euros, compared with -127 million euros for the previous year.

The impact of the legacy business and own credit risk is explained in the 'Review of the consolidated financial statements' section. Excluding these items, the Group Centre's adjusted net result (-147 million euros) consists of the results of the remaining companies scheduled for divestment whose sale has yet to be completed and activities in the process of being run down, the results generated by KBC Bank's holding-company activities, and expenses not allocated to other business units (primarily accounted for by subordination charges attached to subordinated loans and the funding cost of participating interests).

Balance-sheet information by segment (business unit)

The table below presents some of the main on-balance-sheet products by segment.

In millions of EUR	Belgium Business Unit	Czech Republic Business Unit	Interna-tional Markets Business Unit	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
31-12-2012									
Deposits from customers & debt certificates excl. repos	98 572	26 397	13 530	5 766	4 439	639	2 687	18 430	156 929
Loans & advances to customers excluding reverse repos	83 314	18 581	23 103	4 057	4 129	557	14 360	1 495	126 492
Term loans excl. Reverse repos	42 030	7 590	6 217	1 719	1 615	175	2 708	1 468	57 305
Mortgage loans	30 794	7 919	15 069	1 701	1 519	255	11 594	27	53 810
Current accounts advances	2 778	15	653	291	349	0	12	0	3 446
Finance leases	3 224	373	512	104	363	0	46	0	4 110
Consumer credit	1 282	1 561	520	152	241	127	0	0	3 364
Other	3 205	1 122	131	90	41	0	0	0	4 458
31-12-2013									
Deposits from customers & debt certificates excl. repos	99 273	24 984	14 633	5 892	4 711	565	3 466	15 873	154 763
Loans & advances to customers excluding reverse repos	81 188	18 103	21 255	3 864	4 248	606	12 537	1 080	121 626
Term loans excl. Reverse repos	40 111	6 848	5 607	1 772	1 488	236	2 111	1 048	53 614
Mortgage loans	31 101	8 373	13 925	1 548	1 722	236	10 419	24	53 423
Current accounts advances	1 875	19	586	262	324	0	0	0	2 479
Finance leases	3 200	359	484	92	385	0	7	0	4 044
Consumer credit	1 251	1 538	533	112	287	134	0	0	3 322
Other	3 649	967	120	79	41	0	0	8	4 744

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2012	2013
Total	3 838	3 456
Interest income	9 389	7 828
Available-for-sale assets	695	442
Loans and receivables	6 026	4 975
Held-to-maturity investments	750	848
Other assets not at fair value	26	11
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*7 497*	*6 276*
of which : impaired financial assets	95	123
Financial assets held for trading	1 165	905
Hedging derivatives	564	464
Other financial assets at fair value through profit or loss	162	183
Interest expense	-5 551	-4 372
Financial liabilities measured at amortised cost	-3 159	-2 370
Other	- 3	- 2
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-3 162*	*-2 372*
Financial liabilities held for trading	-1 402	-1 085
Hedging derivatives	- 790	- 673
Other financial liabilities at fair value through profit or loss	- 197	- 231
Net interest expense on defined benefit plans	0	- 10

- Following the amendment to IAS 19 (Employee Benefits – also see Note 1 a), the net interest expense relating to defined benefit plans is now recognised under 'Net interest income' (whereas it had previously been recorded under 'Operating expenses' – 'Staff expenses'). Net interest comprises the expected interest income on plan assets (calculated at the interest rate at which the retirement benefit obligations are calculated) and the interest costs relating to defined benefit obligations.

Note 4: Dividend income

In millions of EUR	2012	2013
Total	13	18
Breakdown by type	13	18
Held-for-trading shares	2	6
Shares initially recognised at fair value through profit or loss	1	0
Available-for-sale shares	10	11

Note 5: Net result from financial instruments at fair value through profit or loss

In millions of EUR	2012	2013
Total	37	884
Breakdown by type		
Trading instruments (including interest* and fair value changes in trading derivatives)	258	717
Other financial instruments initially recognised at fair value through profit or loss	245	- 293
Of which: gains/losses own credit risk	- 709	- 62
Foreign exchange trading	- 448	456
Fair value adjustments in hedge accounting	- 18	4
Microhedge	0	- 1
Fair value hedges	- 1	0
Changes in the fair value of the hedged item	108	104
Changes in the fair value of the hedging derivatives, including discontinuation	- 110	- 104
Cashflow hedges	1	- 1
Changes in the fair value of the hedging derivatives, ineffective portion	1	- 1
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	- 1	0
Fair value hedges of interest rate risk	- 1	0
Changes in the fair value of the hedged item	- 30	- 78
Changes in the fair value of the hedging derivatives, including discontinuation	29	78
Cashflow hedges of interest rate risk	0	0
Changes in the fair value of the hedging instrument, ineffective portion	0	0
Discontinuation of hedge accounting in the case of a cash flow hedge	- 16	5

- Changes in the value of CDOs: the ‘Net result from financial instruments at fair value through profit or loss’ also includes the effect of changes in the value of CDOs held in portfolio. In 2012, the market price for corporate credit improved – reflected in credit default swap spreads – and we increased coverage of the counterparty risk for MBIA from 70% to 80%. On balance, that led to a positive adjustment of roughly 0.4 billion euros. In 2013, the market price for corporate credit continued to improve, there was an effect related to de-risking, and we reduced coverage of the counterparty risk for MBIA from 80% to 60% based on an internal fundamental analysis (which had a *ceteris paribus* impact of 40 million euros). On balance, that led to a positive adjustment of roughly 0.3 billion euros. The impact of the CDO guarantee agreement and related fee is also recognised under this heading (see next point).
- CDO guarantee agreement concluded with the Belgian State: in May 2009, KBC Group signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. More details in this regard can be found in ‘Additional information’. The total fee to be paid by KBC Group to the Belgian State for the third tranche (the cash guarantee) initially amounted to approximately 1.1 billion euros (present value at the time the agreement entered into effect and recognised upfront in 2009). There was also a positive effect on the mark-to-market value of the guaranteed positions. In addition, KBC Group has to pay a commitment fee of roughly 60 million euros per half year for the second tranche (the equity guarantee). The contract, including the fee due, is measured at fair value through profit or loss. The fair value model is described in Note 22. The government guarantee agreement was modified in 2012, with additional clauses being added to the revised agreement that grant KBC Group a conditional discount on the outstanding fees (under certain strict conditions and also limited to a set maximum amount).

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (part KBC Bank, in millions of EUR, before tax)	2012	2013
Cash guarantee (for the third tranche)	- 13	70
Equity guarantee (for the second tranche)	- 238	- 77
Total recognised in the income statement	- 250	- 7

- Foreign exchange trading' results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- For more information on the impact of changes in own credit risk, see Note 23.
- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. However, it should be noted that, under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%-125%, which is currently the case.
  - For cashflow micro hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%-125%, which is currently the case.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. However, the impact of this is negligible for KBC.

- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market). The net result from these financial instruments came to +275 million euros (before tax) in 2013 and -53 million euros in 2012.

Note 6: Net realised result from available-for-sale assets

In millions of EUR	2012	2013
Total	90	202
Breakdown by portfolio		
Fixed-income securities	78	117
Shares	12	85

- The figure for 2013 includes a gain on the sale of the shares in Bank Zachodni WBK (50 million euros) and on the sale of Belgian government bonds. The figure for 2012 includes the impact of the settlement of events concerning Greece in the first quarter and the continued reduction throughout the year in holdings of sovereign bonds issued by other GIIPS countries (an aggregate impact of -41 million euros).

Note 7: Net fee and commission income

In millions of EUR	2012	2013
Total	1 589	1 699
Fee and commission income	2 046	2 311
Securities and asset management	871	1 083
Commitment credit	290	246
Payments	569	539
Other	316	443
Fee and commission expense	- 457	- 612
Commission paid to intermediaries	- 103	- 97
Other	- 355	- 515

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).

Note 8: Other net income

In millions of EUR	2012	2013
Total	370	51
Of which net realised result following		
The sale of loans and receivables	- 96	- 112
The sale of held-to-maturity investments	- 1	8
The repurchase of financial liabilities measured at amortised cost	0	- 1
Other: of which:	467	155
KBC Lease UK	126	0
Income concerning leasing at the KBC Lease-group	86	79
Income from consolidated private equity participations	15	0
5/5/5 loans	- 56	0
Realised gains or losses on divestments	158	- 94
Legal interests	0	71

- In 2013, 'Sale of loans and receivables' included the adverse impact of refinancing 0.3 billion euros' worth of shareholder loans via a third party and the repayment of shareholder loans by Cera and KBC Ancora. In 2012, it included -59 million euros relating to the sale of assets previously attributable to Atomium.
- Gains and losses on divestments' in 2013 related mainly to the sale of Absolut Bank (-91 million euros). In 2012, it related to Dynaco (a KBC Private Equity participation, 21 million euros) and Kredyt Bank (136 million euros). Information on the most recent divestments can be found under 'Group Centre' in the 'Report of the Board of Directors' section (which has not been audited by the statutory auditor).
- Irregularities at KBC Lease UK' concerns the amounts recovered in relation to the fraud case at that company. KBC recognised an amount to cover the maximum potential net cost of these irregularities. KBC Lease UK has engaged in a number of actions to recover amounts from various sources. This resulted in a total of 126 million euros being recovered in 2012.
- In 2012, 'the 5-5-5-product' related to the commercial concession that KBC itself decided to make for structured 5-5-5 bonds that KBC Bank and its Belgian subsidiaries sold to clients in April and May 2008. To cover this, KBC had set aside provisions of 334 million euros in 2011. The figure ultimately paid could only be calculated after the value had been set at the ISDA auction of 19 March 2012. That led to an additional negative impact of 56 million euros in the first quarter of 2012.
- In 2013, the receipt of moratorium interest due had a positive impact of 71 million euros (before tax).

Note 9: Operating expenses

In millions of EUR	2012	2013
Total	- 3 666	- 3 280
Breakdown by type		
Staff expenses	- 1 780	- 1 560
General administrative expenses	- 1 727	- 1 587
Of which bank tax	- 226	- 309
Depreciation and amortisation of fixed assets	- 160	- 132

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 226 million euros in 2012 and 309 million euros in 2013). The latter figure comprises 113 million euros in Belgium, 34 million euros in the Czech Republic, 21 million euros in Slovakia, 3 million euros in Bulgaria and 138 million euros in Hungary (besides the bank tax of 60 million euros, this figure includes 51 million euros for the financial transactions levy introduced in 2013 and a one-off levy of 27 million euros based on this financial transactions levy, calculated as 208% of the financial transactions levy paid by K&H for the period January through April 2013).
- Share-based payments are included under staff expenses.
- The main equity-settled share-based payments are described below.

  Since 2000, KBC Group has launched a number of stock option plans for all or certain members of staff of the company and various subsidiaries. The stock options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The stock options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels.

  IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size. The largest stock option plans have now expired.

  We have provided an overview of the number of stock options for staff in the table.

Options	2012 Number of options[1]	2012 Average exercise price	2013 Number of options[1]	2013 Average exercise price
Outstanding at beginning of period	578 302	51,17	184 326	72,53
Granted during period	0	0,00	0	0,00
Exercised during period	0	0,00	- 800	34,91
Expired during period	- 393 976	41,18	0	0,00
Forfeited during period	0	0,00	0	0,00
Outstanding at end of period [2]	184 326	72,53	183 526	72,69
Exercisable at end of period	177 026	72,43	176 226	72,60

[1] In KBC Group share equivalents.
[2] 2013: range of exercise prices: 46,45–97,94 euros; weighted average residual term to maturity: 20 months.
2012: range of exercise prices: 34.91–97.94 euros; weighted average residual term to maturity: 33 months.

- The main cash-settled share-based payment arrangements for 2012 included less than 1 million euros in costs related to a phantom stock plan (included under 'Staff expenses'). This item came to 4 million euros for 2013.

Note 10: Personnel

	2012	2013
Total average number of persons employed (in full-time equivalents)	**35 938**	**27 964**
Breakdown by employee classification		
Blue-collar staff	411	131
White-collar staff	35 331	27 638
Senior management	196	195

Note 11: Impairment (income statement)

In millions of EUR	2012	2013
Total	- 2 323	- 1 827
Impairment on loans and receivables	- 1 063	- 1 715
Breakdown by type		
Specific impairment, on-balance-sheet lending	- 1 105	- 1 674
Provisions for off-balance-sheet credit commitments	- 39	1
Portfolio-based impairment	80	- 42
Breakdown by business unit		
Belgium	- 246	- 328
Czech Republic	- 63	- 52
International Markets	- 609	- 1 171
of which: Hungary	*- 44*	*- 76*
of which: Slovakia	*- 11*	*- 27*
of which: Bulgaria	*- 7*	*- 9*
of which: Ireland	*- 547*	*- 1 059*
Group Centre	- 145	- 164
Impairment on available-for-sale assets	- 10	- 14
Breakdown by type		
Shares	- 10	- 14
Other	0	0
Impairment on goodwill	- 386	0
Impairment on other	- 863	- 98
Intangible fixed assets (other than goodwill)	0	- 2
Property and equipment (including investment property)	- 62	- 19
Held-to-maturity assets	- 2	0
Associated companies (goodwill)	- 433	0
Other	- 365	- 77

- Impairment on loans and receivables was accounted for primarily by loans and advances to customers. Impairment charges in the International Markets Business Unit included loan loss provisioning in Ireland – due to the economic situation there, especially on the real estate market (1 059 million euros in 2013 and 547 million euros in 2012 (see separate paragraph)) – in Hungary (76 million euros in 2013, 44 million euros in 2012, with the increase due partly to an assessment of the loan portfolio), in Slovakia (27 million euros in 2013, 11 million euros in 2012) and in Bulgaria (9 million euros in 2013, 7 million euros in 2012). In 2013, impairment in the Group Centre included 75 million euros to cover a subordinated loan to Nova Ljubljanska banka, 32 million euros at KBC Bank Deutschland and 39 million euros at KBC Finance Ireland. In 2012, it included 38 million euros at Kredyt Bank, 47 million euros at KBC Bank Deutschland, 22 million euros at Antwerp Diamond Bank, 79 million euros at KBC Finance Ireland and a net reversal of 18 million euros at Absolut Bank.

- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered as a consequence of the property crisis. The Irish loan portfolio stood at about 15 billion euros at the end of the year, four fifths of which relates to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. The group set aside 1.1 billion euros in loan loss provisions for its Irish portfolio in 2013, considerably more than the 0.5 billion euros in 2012. Higher provisions were set aside in the fourth quarter following an analysis of the loan portfolio.
- Impairment on available-for-sale assets in 2013 was accounted for mainly by impairment on shares (14 million euros).
- In 2013, impairment on goodwill, on associated companies and on other included 69 million euros relating to the divestment of Antwerp Diamond Bank. In 2012, these headings included 1.2 billion euros in relation to companies falling within the scope of IFRS 5 (at the time the results for the second quarter were published), i.e. Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka. The impairment reflects the difference between the carrying value before impairment and the value in use. For companies falling within the scope of IFRS 5, however, it is the estimated sales value less costs to sell. For information on goodwill, see Note 30.
- For information on total impairment recognised in the balance sheet, see Note 17.

Note 12: Share in results of associated companies

In millions of EUR	2012	2013
Total	8	1
of which NLB	1	0

- Impairment on (goodwill on) associated companies is included in ‘Impairment’ (see Note 11). The share in results of associated companies does not therefore take this impairment into account.
- It should be noted that, in December 2012, KBC signed an agreement to sell its stake in Nova Ljubljanska banka (Slovenia). The deal was completed in March 2013.

Note 13: Income tax expense

In millions of EUR	2012	2013
Total	- 147	- 486
Breakdown by type	- 147	- 486
Current taxes on income	- 192	- 243
Deferred taxes on income	44	- 243
Tax components		
Profit before tax	- 44	1 203
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	15	- 409
Plus/minus tax effects attributable to	- 162	- 77
Differences in tax rates, Belgium - abroad	50	- 19
Tax-free income	358	131
Adjustments related to prior years	26	14
Adjustments, opening balance of deferred taxes due to change in tax rate	24	- 1
Unused tax losses and unused tax credits to reduce current tax expense	43	59
Unused tax losses and unused tax credits to reduce deferred tax expense	54	1
Reversal of previously recognised deferred tax due to tax losses	- 1	0
Other (mainly non-deductible expenses)	- 718	- 261
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized*	329	132

* Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, w ill be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed).

- For information on tax assets and tax liabilities, see Note 27.
- For a breakdown of taxes by country in 2013, see the table below.

In millions of EUR	Current taxes on income	2013 Deferred taxes on income
KBC's core markets and Ireland		
Belgium	- 89	- 275
Czech Republic	- 97	2
Hungary	- 16	3
Slovakia	- 23	1
Bulgaria	0	0
Ireland	0	19
Other countries		
Great Britain	0	- 2
USA	- 1	2
France	- 4	0
Netherlands	- 6	7
Luxembourg	- 4	0
Rest of the world	- 2	- 1
Total	- 243	- 243

A breakdown of taxes by country in 2013 is given in the following table. Taxes are broken down into 'Current taxes on income' and 'Deferred taxes on income' (also see Note 1 b). Current taxes on income are recognised on the basis of the amount expected to be paid (a portion of which has already been paid in advance to the tax authorities). Deferred taxes on income are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base (partly due to differences in value recognised under IFRS and the tax base, and to tax losses carried forward).

Notes on the financial assets and liabilities on the balance sheet

We group financial assets and liabilities into categories. These categories are defined and relevant valuation rules provided under the heading ‘Financial assets and liabilities (IAS 39)’ in Note 1 b.

Whenever we refer in this section to the category ‘Designated at fair value’, we mean ‘Designated at fair value through profit or loss’ (fair value option).

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 41) to the relevant headings in the balance sheet (under ‘Non-current assets held for sale and disposal groups’ on the assets side and under ‘Liabilities associated with disposal groups’ on the liabilities side).

Note 14: Financial assets and liabilities, breakdown by portfolio and product

(In millions of EUR)	Held for trading	Designated at fair value[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2012								
Loans and advances to credit institutions and investment firms [a]	3 802	915	0	11 622	-	-	-	16 339 [c]
Loans and advances to customers [b]	600	2 197	0	125 677	-	-	-	128 474
Excluding reverse repos								*126 492*
Discount and acceptance credit	0	0	0	131	-	-	-	131
Consumer credit	0	0	0	3 364	-	-	-	3 364
Mortgage loans	0	184	0	53 626	-	-	-	53 810
Term loans	600	2 013	0	56 674	-	-	-	59 286
Finance leasing	0	0	0	4 110	-	-	-	4 110
Current account advances	0	0	0	3 446	-	-	-	3 446
Securitised loans	0	0	0	0	-	-	-	0
Other	0	0	0	4 327	-	-	-	4 327
Equity instruments	451	50	1 243	-	-	-	-	1 745
Debt instruments issued by	4 213	1 282	15 485	2 162	23 343	-	-	46 485
Public bodies	3 390	811	13 144	190	23 224	-	-	40 758
Credit institutions and investment firms	361	199	1 533	153	104	-	-	2 350
Corporates	461	272	808	1 819	16	-	-	3 376
Derivatives	12 427	-	-	-	-	1 075	-	13 502
Total carrying value	21 493	4 444	16 728	139 460	23 343	1 075	0	206 543
[a] *Of which reverse repos* [2]								*5 160*
[b] *Of which reverse repos* [2]								*1 981*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*9 194*
FINANCIAL ASSETS, 31-12-2013								
Loans and advances to credit institutions and investment firms [a]	5 100	1 595	0	9 535	-	-	-	16 230 [c]
Loans and advances to customers [b]	706	1 678	0	120 820	-	-	-	123 204
Excluding reverse repos	*703*	*200*	*0*	*120 724*	-	-	-	*121 626*
Discount and acceptance credit	0	0	0	605	-	-	-	605
Consumer credit	0	0	0	3 322	-	-	-	3 322
Mortgage loans	0	34	0	53 389	-	-	-	53 423
Term loans	696	1 601	0	52 895	-	-	-	55 192
Finance leasing	0	0	0	4 044	-	-	-	4 044
Current account advances	0	0	0	2 479	-	-	-	2 479
Securitised loans	0	0	0	0	-	-	-	0
Other	10	43	0	4 087	-	-	-	4 140
Equity instruments	283	5	275	-	-	-	-	564
Debt instruments issued by	2 977	1 318	14 724	1 685	25 007	-	-	45 712
Public bodies	2 384	770	11 695	118	24 908	-	-	39 876
Credit institutions and investment firms	268	195	1 809	149	82	-	-	2 502
Corporates	325	353	1 221	1 418	17	-	-	3 334
Derivatives	7 900	-	-	-	-	770	-	8 670
Total carrying value	16 966	4 597	15 000	132 040	25 007	770	0	194 380
[a] *Of which reverse repos* [2]								*8 483*
[b] *Of which reverse repos* [2]								*1 577*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*8 127*

1 Loans and advances in the ‘Designated at fair value’ column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.

2 A ‘reverse repo’ transaction is a transaction where one party (KBC) buys securities from another party and undertakes to resell these securities at a designated future date at a set price. In most cases, reverse repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The reverse repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for the counterparty. The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).

(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, 31-12-2012								
Deposits from credit institutions and investment firms [a]	375	884	-	-	-	-	21 661	22 920 [c]
Deposits from customers and debt certificates [b]	4 162	8 782	-	-	-	-	150 163	163 107
Excluding repos								*156 929*
Deposits from customers	3 777	3 420	-	-	-	-	123 865	131 062
Demand deposits	0	0	-	-	-	-	38 380	38 380
Time deposits	3 777	3 336	-	-	-	-	45 391	52 504
Savings deposits	0	0	-	-	-	-	34 904	34 904
Special deposits	0	0	-	-	-	-	3 941	3 941
Other deposits	0	84	-	-	-	-	1 250	1 334
Debt certificates	385	5 362	-	-	-	-	26 298	32 045
Certificates of deposit	0	27	-	-	-	-	6 442	6 469
Customer savings certificates	0	0	-	-	-	-	524	524
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	385	4 705	-	-	-	-	13 100	18 189
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	630	-	-	-	-	6 232	6 862
Derivatives	14 351	0	-	-	-	2 430	-	16 781
Short positions	491	0	-	-	-	-	-	491
in equity instruments	17	0	-	-	-	-	-	17
in debt instruments	475	0	-	-	-	-	-	475
Other[2]	0	0	-	-	-	-	2 470	2 470
Total carrying value	19 380	9 666	-	-	-	2 430	174 294	205 770
[a] *Of which repos* [1]								*1 589*
[b] *Of which repos* [1]								*6 178*
[c] *Of which deposits from banks repayable on demand*								*12 659*
FINANCIAL LIABILITIES, 31-12-2013								
Deposits from credit institutions and investment firms [a]	939	896	-	-	-	-	12 446	14 281 [c]
Deposits from customers and debt certificates [b]	3 637	12 248	-	-	-	-	149 534	165 418
Excluding repos	*321*	*5 292*	-	-	-	-	*149 150*	*154 763*
Deposits from customers	3 350	7 836	-	-	-	-	125 089	136 275
Demand deposits	0	50	-	-	-	-	39 278	39 328
Time deposits	3 350	7 786	-	-	-	-	45 071	56 207
Savings deposits	0	0	-	-	-	-	34 990	34 990
Special deposits	0	0	-	-	-	-	4 370	4 370
Other deposits	0	0	-	-	-	-	1 380	1 380
Debt certificates	286	4 412	-	-	-	-	24 445	29 144
Certificates of deposit	0	6	-	-	-	-	3 228	3 234
Customer savings certificates	0	0	-	-	-	-	473	473
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	286	3 763	-	-	-	-	14 661	18 711
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	643	-	-	-	-	6 084	6 726
Derivatives	8 152	0	-	-	-	1 678	-	9 830
Short positions	386	0	-	-	-	-	-	386
in equity instruments	40	0	-	-	-	-	-	40
in debt instruments	345	0	-	-	-	-	-	345
Other[2]	0	0	-	-	-	-	1 572	1 572
Total carrying value	13 113	13 144	-	-	-	1 678	163 552	191 486
[a] *Of which repos* [1]								*1 672*
[b] *Of which repos* [1]								*10 655*
[c] *Of which deposits from banks repayable on demand*								*3 310*

1 A ‘repo’ transaction is a transaction where one party buys securities from another party (KBC) and undertakes to resell these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

2 Financial liabilities that were intentionally not included under deposits from customers to avoid inflating that item with items that are not directly related to commercial deposit acquisition.

- For reclassifications, see Note 24.
- Deposits from credit institutions and investment firms: declined partly on account of the LTRO being repaid (8.3 billion euros) in the first quarter of 2013.
- Non-convertible bonds comprise mainly KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (in line with the accounting policies).
- Non-convertible subordinated liabilities also includes the contingent capital note issued in January 2013 for an amount of 1 billion US dollars.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2013, KBC Bank had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 6 716 million euros (debt instruments classified as ‘held for trading’ (630 million euros), ‘designated at fair value’ (101 million euros), ‘available for sale’ (1 911) million euros, and ‘held to maturity’ (4 074 million euros)); and an associated financial liability with a carrying value of 6 493 million euros (568 million euros classified as ‘held for trading’, 103 million euros as ‘designated at fair value’, 1 889 million euros as ‘available for sale’, and 3 933 as ‘held to maturity’). It should be noted that, at year-end 2013, KBC Bank had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph. At year-end 2012, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 3 173 million euros (debt instruments classified as ‘held for trading’ (296 million euros), ‘designated at fair value’ (195 million euros), ‘available for sale’ (780 million euros), and ‘held to maturity’ (1 904 million euros)); and an associated financial liability with a carrying value of 3 254 million euros (293 million euros classified as ‘held for trading’, 192 million euros as ‘designated at fair value’, 770 million euros as ‘available for sale’, and 1 998 million euros as ‘held to maturity’).

Note 15: Financial assets and liabilities, breakdown by portfolio and geographic location

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, 31-12-2012								
Belgium	2 430	1 546	8 532	75 950	13 232	792	-	102 482
Central and Eastern Europe	7 420	381	5 141	30 613	8 136	282	-	51 973
Rest of the world	11 642	2 518	3 056	32 897	1 975	0	-	52 088
Total	21 493	4 444	16 728	139 460	23 343	1 075	-	206 543
FINANCIAL ASSETS, 31-12-2013								
Belgium	2 179	1 554	4 538	74 290	13 898	28	-	96 488
Central and Eastern Europe	7 907	268	5 853	30 324	8 087	303	-	52 742
Rest of the world	6 880	2 774	4 609	27 425	3 022	439	-	45 150
Total	16 966	4 597	15 000	132 040	25 007	770		194 380
FINANCIAL LIABILITIES, 31-12-2012								
Belgium	534	706	-	-	-	2 190	90 712	94 141
Central and Eastern Europe	5 358	958	-	-	-	143	39 048	45 507
Rest of the world	13 488	8 002	-	-	-	97	44 535	66 122
Total	19 380	9 666	-	-	-	2 430	174 294	205 770
FINANCIAL LIABILITIES, 31-12-2013								
Belgium	1 806	193	-	-	-	94	87 262	89 355
Central and Eastern Europe	5 144	941	-	-	-	464	38 249	44 799
Rest of the world	6 163	12 009	-	-	-	1 119	38 041	57 333
Total	13 113	13 144	-	-	-	1 678	163 552	191 486

Note 16: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

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, 31-12-2012								
Not more than one year	6 230	2 938	3 696	46 493	1 367	-	-	60 724
More than one year	2 370	1 470	11 787	86 231	21 976	-	-	123 834
Not specified*	12 893	36	1 245	6 737	0	1 075	-	21 985
Total	21 493	4 444	16 728	139 460	23 343	1 075	-	206 543
FINANCIAL ASSETS, 31-12-2013								
Not more than one year	7 368	3 359	4 737	43 460	1 225	-	-	60 149
More than one year	1 415	1 233	9 987	80 061	23 782	-	-	116 478
Not specified*	8 183	5	275	8 519	0	770	-	17 752
Total	16 966	4 597	15 000	132 040	25 007	770	-	194 380
FINANCIAL LIABILITIES, 31-12-2012								
Not more than one year	4 854	4 052	-	-	-	-	93 299	102 205
More than one year	163	5 614	-	-	-	-	43 382	49 159
Not specified*	14 362	0	-	-	-	2 430	37 613	54 405
Total	19 380	9 666	-	-	-	2 430	174 294	205 770
FINANCIAL LIABILITIES, 31-12-2013								
Not more than one year	4 803	10 719	-	-	-	-	94 114	109 636
More than one year	122	2 425	-	-	-	-	31 535	34 082
Not specified*	8 188	0	-	-	-	1 678	37 902	47 768
Total	13 113	13 144	-	-	-	1 678	163 552	191 486

* Maturity date *has not been specified* or there is no point in classifying the financial asset or liability in terms of when it matures. Financial assets that do not have a specified maturity date concern primarily hedging derivatives ('Hedging derivatives' column), derivatives and shares held for trading ('Held-for-trading' column), shares available for sale ('Available-for-sale' column) and current account advances and irrecoverable or doubtful receivables ('Loans and receivables' column). Financial liabilities that do not have a specified maturity date relate mainly to savings deposits ('Measured at amortised cost' column), hedging derivatives ('Hedging derivatives' column) and derivatives held for trading ('Held-for-trading' column).

- The difference between short-term financial assets and short-term financial liabilities reflects, among other things, the fundamental operation of a bank, i.e. converting short-term deposits into long-term loans. Consequently, the volume of deposits at not more than one year (recognised under financial liabilities) is generally greater than loans at not more than one year (recorded under financial assets), a ratio that indicates liquidity risk. More information on liquidity risk and how it is monitored is provided in the 'Value and risk management' section.

Note 17: Financial assets, breakdown by portfolio and quality

Impaired financial assets

in millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2012							
Unimpaired assets	21 493	4 444	16 695	133 786	23 342	1 075	200 834
Impaired assets	-	-	125	10 419	9	-	10 553
Impairment	-	-	- 91	- 4 745	- 8	-	- 4 844
Total	21 493	4 444	16 728	139 460	23 343	1 075	206 543
FINANCIAL ASSETS, 31-12-2013							
Unimpaired assets	16 966	4 597	14 936	124 357	25 006	770	186 632
Impaired assets	-	-	124	13 293	9	-	13 425
Impairment	-	-	- 60	- 5 610	- 8	-	- 5 678
Total	16 966	4 597	15 000	132 040	25 007	770	194 380

- Impairment: the concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis (IBNR), using a formula that takes account of the expected loss (EL) calculated using the internal rating based (IRB) advanced models and emergence period (or an alternative method if an IRB advanced model is not yet available).
- KBC has developed various rating models to determine the PD class. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). More information on PD is provided under ‘Credit risk’ in the ‘Value and risk management’ section.

Impairment details

in millions of EUR	Available for sale		Held to maturity	Loans and receivables		Provision, off-balance-sheet credit commit-ments*
	Fixed-income securities	Shares	Fixed-income securities	Specific impairment	Portfolio-based impairment	
IMPAIRMENTS 31-12-2012						
Opening balance	172	281	33	4 783	352	89
Movements with an impact on results						
Impairment recognised	0	10	2	2 208	252	155
Impairment reversed	- 1	0	0	- 1 103	- 336	- 112
Movements without an impact on results						
Write-offs	- 169	- 12	0	- 486	0	- 4
Change in the scope of consolidation	0	- 9	0	- 345	- 33	- 9
Transfer to or from non-current assets held for sale and disposal groups	0	0	- 18	- 412	- 23	- 7
Other	- 2	- 180	- 10	- 130	17	- 20
Closing balance	0	91	8	4 515	230	92
IMPAIRMENTS 31-12-2013						
Opening balance	0	91	8	4 515	230	92
Movements with an impact on results						
Impairment recognised	0	14	0	2 307	143	62
Impairment reversed	0	0	0	- 633	- 106	- 57
Movements without an impact on results						
Write-offs	0	- 3	0	- 601	0	- 9
Change in the scope of consolidation	0	- 35	0	- 10	1	0
Transfer to or from non-current assets held for sale and disposal groups						
Other	0	- 7	0	- 231	- 3	25
Closing balance	0	60	8	5 347	264	114

* These impairment losses are recognised on the liabilities side of the balance sheet. Changes in impairment losses of this kind are recorded under 'Impairment on loans and receivables' in the income statement.

- For information regarding the impact of changes in impairment on the income statement, see Note 11.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Value and risk management' section.

Past due, but not impaired assets

in millions of EUR	less then 30 days past due	30 days or more, but less then 90 days past due
FINANCIAL ASSETS, 31-12-2012		
Loans & advances	3 482	1 469
Debt instruments	0	0
Derivatives	0	0
Total	3 482	1 469
FINANCIAL ASSETS, 31-12-2013		
Loans & advances	3 213	1 184
Debt instruments	0	0
Derivatives	0	0
Total	3 213	1 184

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due. Financial assets that are 90 days or more past due are always considered 'impaired'.

Guarantees received

- See Notes 18 and 35.

Overview of KBC's exposure to structured credit and sovereign bonds

- See 'Credit risk' in the 'Value and risk management' section.

Note 18: Maximum credit exposure and offsetting

in millions of EUR	31-12-2012			31-12-2013		
	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount
Equity	1 745	0	1 745	564	0	564
Debt instruments	46 485	54	46 431	45 712	76	45 636
Loans & advances	144 813	72 246	72 567	139 434	76 995	62 439
Of which designated at fair value through profit or loss	3 112	3 013	99	3 273	3 143	130
Derivatives	13 502	2 039	11 463	8 670	2 027	6 643
Other	27 698	5 141	22 557	26 587	4 409	22 178
Total	234 242	79 480	154 762	220 967	83 508	137 459

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under 'Other'.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail under 'Credit risk' in the 'Value and risk management'

section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements in millions of EUR	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
				Financial instru-ments	Cash collateral received	Securities collateral received	
FINANCIAL ASSETS 31-12-2012							
Derivatives	13 519	0	13 519	7 754	1 852	0	3 914
Reverse repurchase, securities borrowing and lending and similar agreements	7 141	0	7 141	1 830	0	5 286	25
Reverse repurchase	7 141	0	7 141	1 830	0	5 286	25
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	20 661	0	20 661	9 584	1 852	5 286	3 939
FINANCIAL ASSETS 31-12-2013							
Derivatives	9 125	454	8 670	5 026	1 813	0	1 832
Reverse repurchase, securities borrowing and lending and similar agreements	10 060	0	10 060	539	0	9 497	24
Reverse repurchase	10 060	0	10 060	539	0	9 497	24
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	19 185	454	18 731	5 565	1 813	9 497	1 856
FINANCIAL LIABILITIES 31-12-2012							
Derivatives	16 901	0	16 901	7 754	5 249	0	3 898
Repurchase, securities lending and borrowing and similar agreements	7 697	0	7 697	1 830	0	5 859	8
Repurchase	7 697	0	7 697	1 830	0	5 859	8
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 598	0	24 598	9 584	5 249	5 859	3 906
FINANCIAL LIABILITIES 31-12-2013							
Derivatives	10 284	454	9 830	5 026	2 634	0	2 170
Repurchase, securities lending and borrowing and similar agreements	12 327	0	12 327	539	0	11 778	9
Repurchase	12 327	0	12 327	539	0	11 778	9
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	22 611	454	22 156	5 565	2 634	11 778	2 179

The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.

The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

Note 19: Fair value of financial assets and liabilities – general

- Fair value: in line with the IFRS definition, KBC defines 'fair value' as ‘the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced transactions are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity or client-driven.
- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *CDO Revaluation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and operating expenses. Credit value adjustments (CVA) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and a potential future increase in its value (add-on) are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, an index of bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). This adjustment is similar to a CVA except that it is always based on KBC's quoted CDS spread.
- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.
- Financial assets and liabilities that are measured at fair value are those classified as ‘available for sale’, ‘held for trading’, ‘designated at fair value’ and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not measured in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial instruments which are not recognised at fair value in the balance sheet, in millions of euro	Loans and advances		Financial assets held to maturity		Financial liabilities at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2012						
Loans and advances to credit institutions and investment firms	11 622	11 362	-	-	-	-
Loans and advances to customers	125 677	131 999	-	-	-	-
Debt instruments	2 162	2 079	23 343	25 638	-	-
Total, incl.accrued interest	139 460	145 440	23 343	25 638	-	-
FINANCIAL ASSETS, 31-12-2013						
Loans and advances to credit institutions and investment firms	9 535	9 773	-	-	-	-
Loans and advances to customers	120 820	122 857	-	-	-	-
Debt instruments	1 685	1 641	25 007	25 926	-	-
Total, incl.accrued interest	132 040	134 271	25 007	25 926	-	-
Of which level 1		1 408		24 155		
Of which level 2		25 643		1 206		
Of which level 3		107 220		564		
FINANCIAL LIABILITIES, 31-12-2012						
Deposits from credit institutions and investment firms	-	-	-	-	21 661	21 543
Deposits from customers and debt certificates	-	-	-	-	150 163	155 184
Other	-	-	-	-	2 470	2 470
Total, incl.accrued interest	-	-	-	-	174 294	179 197
FINANCIAL LIABILITIES, 31-12-2013						
Deposits from credit institutions and investment firms	-	-	-	-	12 446	13 742
Deposits from customers and debt certificates	-	-	-	-	149 534	152 377
Other	-	-	-	-	1 572	1 586
Total, incl.accrued interest	-	-	-	-	163 552	167 706
Of which level 1						1 122
Of which level 2						85 511
Of which level 3						81 072

Note 20: Financial assets and liabilities measured at fair value – fair value hierarchy

In millions of EUR				31-12-2012				31-12-2013
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	2 289	15 162	4 042	21 493	2 559	11 881	2 526	16 966
Loans and advances to credit institutions	0	3 802	0	3 802	0	5 100	0	5 100
Loans and advances to customers	0	600	0	600	0	706	0	706
Equity instruments	220	34	197	451	265	18	1	283
Debt instruments*	2 036	1 654	523	4 213	2 294	341	342	2 977
Derivatives	33	9 072	3 322	12 427	1	5 716	2 183	7 900
Designated at fair value	836	3 262	347	4 444	836	3 379	382	4 597
Loans and advances to credit institutions	0	915	0	915	0	1 595	0	1 595
Loans and advances to customers	0	2 170	27	2 197	0	1 654	24	1 678
Equity instruments	0	0	50	50	0	0	5	5
Debt instruments*	836	177	269	1 282	836	130	352	1 318
Available for sale	12 987	2 186	1 556	16 728	11 081	3 245	674	15 000
Equity instruments	161	62	1 020	1 243	61	12	202	275
Debt instruments*	12 826	2 123	535	15 485	11 020	3 233	471	14 724
Hedging derivatives	0	1 075	0	1 075	0	770	0	770
Derivatives	0	1 075	0	1 075	0	770	0	770
Total	16 112	21 684	5 944	43 740	14 477	19 275	3 582	37 333
Financial liabilities measured at fair value								
Held for trading	499	13 791	5 090	19 380	374	10 100	2 639	13 113
Deposits from credit institutions	0	375	0	375	0	939	0	939
Deposits from customers and debt certificates	0	3 981	181	4 162	0	3 535	102	3 637
Derivatives	16	9 426	4 909	14 351	1	5 627	2 524	8 152
Short positions	483	8	0	491	373	0	13	386
Other	0	0	0	0	0	0	0	0
Designated at fair value	0	8 300	1 366	9 666	0	12 600	543	13 144
Deposits from credit institutions	0	884	0	884	0	896	0	896
Deposits from customers and debt certificates	0	7 416	1 366	8 782	0	11 704	543	12 248
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	2 430	0	2 430	0	1 678	0	1 678
Derivatives	0	2 430	0	2 430	0	1 678	0	1 678
Total	499	24 520	6 456	31 475	374	24 378	3 183	27 935

* Of the amounts under this item in 2013, government bonds accounted for (in millions of euros) 2 068 in level 1, 261 in level 2 and 55 in level 3 under 'Held for trading', 716 in level 1, 22 in level 2 and 32 in level 3 under 'Designated at fair value' and 9 810 in level 1, 1 747 in level 2 and 139 in level 3 under 'Available for sale'.

- The IAS 39 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.

  The fair value hierarchy gives the highest priority to ‘level 1 inputs’.

  This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm’s length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.

  If there are no price quotations available, an entity establishes fair value by using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.

  Observable inputs are also referred to as ‘level 2 inputs’ and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.

  Unobservable inputs are also referred to as ‘level 3 inputs’ and reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 21.
- The significant decline in available-for-sale equity instruments classified in level 3 was attributable to the sale of the stake in Bank Zachodni WBK in 2013.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets)
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS	Option pricing model based on observable inputs (e.g., volatilities)
		Credit default swaps (CDS)	CDS model based on credit spreads
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Asset backed securities	Medium liquid asset backed securities	Third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, target strike forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (CDOs: notes and super senior tranches, including the related guarantee from the Belgian State)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

Note 21: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 2012, KBC transferred a significant amount in debt instruments (the vast majority of which were classified as 'available for sale') out of level 1 and into level 2. More specifically, roughly 1 billion euros was transferred from level 1 to level 2 due to a reduction in market activity for various types of debt instrument. KBC also reclassified around 0.05 billion euros' worth of bonds from level 2 to level 1 because the market for these instruments became more active in 2012.
- In 2013, KBC transferred 0.2 billion euros' worth of debt instruments (mainly classified as 'available for sale) out of level 1 and into level 2 due to the decline in market activity for certain bonds. KBC also reclassified around 0.2 billion euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2013.

Note 22: Financial assets and liabilities measured at fair value – focus on level 3

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at 31-12-2012, in millions of EUR

LEVEL 3 FINANCIAL ASSETS

	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Debt instruments	Derivatives	Loans and advances	Equity instruments	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	757	198	5 475	27	8	136	187	178	0
Total gains/losses	0	-239	-77	-1 507	0	35	141	-8	-6	0
in profit and loss[1]	0	-239	-77	-1 507	0	35	141	4	0	0
in other comprehensive income	0	0	0	0	0	0	0	-12	-6	0
Acquisitions	0	0	7	204	0	0	0	72	0	0
Sales	0	-367	-14	-604	0	0	-55	-70	-1	0
Settlements	0	0	0	-296	0	0	0	0	0	0
Transfers into level 3	0	55	411	77	0	8	51	0	373	0
Transfers out of level 3	0	0	-1	-7	0	0	0	-5	-8	0
Tranfers from/to non-current assets held for sale[2]	0	-6	0	0	0	0	0	840	0	0
Translation differences	0	-3	-2	-21	-1	-1	-4	5	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	
Other	0	0	0	0	0	0	0	0	0	0
Closing balance	0	197	523	3 322	27	50	269	1 020	535	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	-130	-81	-1 300	0	-2	141	-1	0	0

LEVEL 3 FINANCIAL LIABILITIES

	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Other	Derivatives
Opening balance	0	4	9 370	0	0	0	1 352	0	0
Total gains/losses	0	40	-3 136	0	0	0	365	0	0
in profit and loss[1]	0	40	-3 136	0	0	0	365	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	244	0	0	0	0	0	0
Repurchases/disposals	0	0	0	0	0	0	0	0	0
Settlements	0	-145	-1 727	0	0	0	-349	0	0
Transfers into level 3	0	286	68	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Translation differences	0	-4	-34	0	0	0	-2	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Closing balance	0	181	4 787	0	0	0	1 366	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	17	-2 202	0	0	0	243	0	0

1 Recognised primarily in ‘Net result from financial instruments at fair value’, ‘Net realised result from available-for-sale assets’ and ‘Impairment on available-for-sale assets’.
2 The figure for equity instruments appearing under ‘Transfers into/out of non-current assets held for sale’ in the ‘Available for sale’ column relates largely to the shareholding in Bank Zachodni WBK following the merger with Kredyt Bank.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at 31-12-2013, in millions of EUR

LEVEL 3 FINANCIAL ASSETS	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Debt instruments	Derivatives	Loans and advances	Equity instruments	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	197	523	3 322	27	50	269	1 020	535	0
Total gains/losses	0	-7	31	-326	3	-11	161	20	12	0
in profit and loss[1]	0	-7	31	-326	3	-11	161	15	1	0
in other comprehensive income	0	0	0	0	0	0	0	5	11	0
Acquisitions	0	0	183	307	0	0	16	11	93	0
Sales	0	0	-219	-21	0	-7	-64	-849	-54	0
Settlements	0	-170	-19	-776	-4	0	0	0	-10	0
Transfers into level 3	0	0	25	102	0	0	23	3	55	0
Transfers out of level 3	0	0	-153	0	0	0	0	0	-128	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	-26	0	0	0	0
Translation differences	0	-1	-16	-16	-1	-1	-14	-2	-15	0
Changes in scope	0	-19	0	0	0	0	0	0	0	0
Other	0	0	-13	-408	0	0	-38	0	-18	0
Closing balance	0	1	342	2 183	24	5	352	202	471	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	0	37	-324	3	-10	157	0	37	0

LEVEL 3 FINANCIAL LIABILITIES	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Other	Derivatives
Opening balance	0	181	4 787	0	0	0	1 366	0	0
Total gains/losses	0	36	-1 257	0	0	0	41	0	0
in profit and loss[1]	0	36	-1 257	0	0	0	41	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	251	13	0	0	0	0	0
Repurchases	0	0	-1	0	0	0	0	0	0
Settlements	0	-97	-666	0	0	0	-368	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Translation differences	0	-5	-23	0	0	0	-8	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Other	0	-13	-567	0	0	0	-488	0	0
Closing balance	0	102	2 524	13	0	0	543	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	34	-1 229	0	0	0	39	0	0

1 Recognised primarily in ‘Net result from financial instruments at fair value’, ‘Net realised result from available-for-sale assets’ and ‘Impairment on available-for-sale assets’.

- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures given in the table.
- Valuation of CDOs: KBC uses a Gaussian Copula Mixture model to value all the remaining CDOs and CDO notes of KBC Financial Products. This model models the distribution of default moments and probabilities of the underlying corporate and ABS names. The asset default trigger in the model is derived from the credit default spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and is, therefore, simulated. The value of a CDO tranche is determined by discounting the cashflows associated with the various default curves. The model also ensures that the inner tranches are valued in line with the market, through calibration with CDX and iTraxx credit spread indices. For more information on the structured credit portfolio (CDOs and other ABS), see the 'Value and risk management' section. The table below provides an overview of the main unobservable inputs used for the Gaussian Copula Mixture model.

Scenario	Description	Model input	Base input in GM	Scenario input in GM	Change	Positions
Outer correlation (GM 50%/50%)	Change in correlation of outer tranches	Outer tranche correlations	60%/95%	50%/50%	-10%/-45%	All positions
Inner correlation (p(t) +25% shift)	Change in inner tranche Vasicek calibration of p(t) + 25% shift	Average Vasicek correlation per position	[37.3%; 63.8%]	[42,5%; 80,9%]	[5,3%; 23,4%]	All positions
Amortisation (prepay-ment halved)	New Intex ABS amortisation schedule generated using halved CPR	CPR in Intex	11,90%	5,95%	-5,9%	Average CPR across all RMBS
Direct pool calibration (27-100% tranche)	Change in calibration of direct pool from 35-100% tranche to 27-100% tranche	Direct pool calibrated Vasicek correlation	[26,0%; 55,3%]	[22,1%; 52,4%]	[-11,6%; -2,8%]	All positions
CDO model risk (base correlation extrapola-tion to 0%)	Change in base 0% detachment point of correlation curve	Itraxx/CDX correlation	37,38% 38,34% 23,15% 22,40%	74,76% 76,68% 46,29% 44,80%	37,38% 38,34% 23,15% 22,40%	iTraxx 7Y 0% detachment point iTraxx 10Y 0% detachment point CDX 7Y 0% detachment point *CDX 10Y 0% detachment point*

The Gaussian Copula Mixture (GM) model is used to value CDO-squared tranches issued by KBC Financial Products. However, the model uses a number of inputs that are not fully observable in the market. This results in a GM model risk which KBC covers by setting aside a model uncertainty reserve. This reserve is based on the profit or loss observed from the GM positions, repriced under five alternative scenarios, as set out in the table above. Each scenario deals with a single specific factor of model risk.

- The first scenario reduces the outer tranche correlation inputs from 60%/95% to 50%/50%. Such a correlation redistributes the losses over the capital structure.
- The second scenario changes the inner tranche Vasicek calibration using an upward shift of 25% in the probability of default at time t (p(t)) input. The range of resulting average Vasicek correlation inputs is given in the table.
- The third scenario estimates the model risk arising from the amortisation curves in the direct pool by halving the estimated constant prepayment rate (CPR). The resulting new set of amortisation curves are then fed into the GM model.
- The fourth scenario questions the assumption to base the direct pool Vasicek calibration on the 35-100% tranche by using an alternative tranche (27-100%). The full 0-100% tranche cannot be used because it does not have any correlation sensitivity. The range of resulting direct pool Vasicek correlation inputs is given in the table.
  The fifth scenario is related to the risk attached to the CDO model. As the CDO model is used to calibrate the inner tranche Vasicek distributions in the GM valuation, some of the model risk is passed on. More specifically, an alternative scenario is applied to measure the uncertainty of the base correlation extrapolation. In the alternative scenario, the base correlation at the 0% detachment point is changed to double the base correlation at the 3% detachment point.

- Profit/loss sensitivity tests: the results of profit/loss sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads of the underlying assets are shifted are given in the table below. Correlation changes have not been included. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 60% for MBIA (80% in 2012). The scope includes the entire remaining (hedged and unhedged) portfolio of CDOs structured by KBC Financial Products. CDOs that have reached maturity or been sold or unwound are not included.

Profit/loss sensitivity test based on corporate and ABS credit spread indices (in billions of EUR)	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2012	0,25	0,10	0,05	-0,04	-0, 09	-0,42
31-12-2013	0,06	0,03	0,012	-0,01	-0,03	-0,06

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined influence of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 60% for MBIA (80% in 2012). The scope of this test is the same as in the above table. A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.05 billion euros (0.22 billion euros in 2012) whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.06 billion euros (0.40 billion euros in 2012).

The next table depicts the results of the profit/loss sensitivity tests performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 60% (in 2012, it was 80%). The scope covers only that portion of CDOs structured by KBC Financial Products and insured by MBIA. The impact of credit spread movements on the CDO positions structured by KBC Financial Products and held or insured by the KBC group is not included.

Profit/loss sensitivity tests based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA (in billions of EUR)	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2012						
MBIA 70%	0,19	0,11	0,09	0,04	0,02	-0,05
MBIA 80%	0,16	0,07	0,03	-0,03	-0,06	-0,14
MBIA 90%	0,14	0,02	-0,02	-0,10	-0,13	-0,23
MBIA 100%	0,12	-0,03	-0,08	-0,17	-0,21	-0,32
31-12-2013						
MBIA 30%	0,05	0,04	0,03	0,02	0,02	0,01
MBIA 40%	0,05	0,03	0,02	0,01	0,01	-0,01
MBIA 60%	0,04	0,02	0,01	-0,01	-0,02	-0,04
MBIA 80%	0,04	0,00	-0,01	-0,03	-0,04	-0,07
MBIA 90%	0,03	-0,00	-0,02	-0,04	-0,05	-0,09
MBIA 100%	0,03	-0,01	-0,02	-0,05	-0,06	-0,11

The main difference in profit/loss sensitivity between year-end 2012 and year-end 2013 is attributable to a sharp narrowing of credit spreads for the underlying assets of the CDOs structured by KBC Financial Products and to de-risking in 2013.

- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in the subordinated credit default

- swap spread of KBC and in the fair value of the hedged super senior exposure since the guarantee agreement was signed. If the fair value of the super senior positions were to improve by 10% on its year-end 2013 and year-end 2012 levels, this would lead to an additional charge of 0.4 million euros and 6 million euros, respectively, while a similar improvement in KBC's subordinated credit spread would lead to an additional charge of 1 million euros and 7 million euros respectively.

Note 23: Changes in own credit risk

Own debt issues designated at fair value (in millions of EUR) ((+) profit (-) loss; amounts before tax)	31-12-2012	31-12-2013
Impact of change in own credit spreads on the income statement	-709	-62
Total cumulative impact at balance sheet date	33	-32

* Differs slightly from the amounts given in Note 2 because group companies for which there are minor amounts are not included in that note.

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. Most of the financial liabilities designated at fair value through profit or loss relates to KBC IFIMA issues. The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 4.1 billion euros on 31 December 2013. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues is given in the table below.

Profit/loss sensitivity based on a relative shift in the funding spread (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2012	-0,06	-0,02	-0,01	+0,01	+0,02	+0,06
31-12-2013	-0,02	-0,01	-0,00	+0,00	+0,01	+0,02

- If no account is taken of the effect of changes in own credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.2 billion euros).

Note 24: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables'(in millions of EUR) - situation at 31-12-2013			
Carrying value			1 110
Fair value			1 134
	If not reclassified (available for sale)	After reclassifica-tion (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 138	- 158	- 20
Impact on income statement, before taxes	1	2	1

- Reclassifications: in October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified 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. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. The above reclassifications had a negative impact of 16 million euros on equity and a positive impact of 1 million euros on the income statement (where – besides reversals of specific impairment – 1 million euros was also reversed for portfolio-based impairment on loans and receivables).
- Other reclassifications (not included in the table):
  - In 2013, 0.6 billion euros' worth of debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - In 2012, 2.9 billion euros were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - As a result, the relevant available-for-sale reserve is no longer exposed to changes in market rates. It has been frozen and is being written down on a *pro rata temporis* basis. As the relevant held-to-maturity security is also being written down, there is no net impact on the results.

Note 25: Derivatives

in millions of EUR	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge [1]				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
31-12-2012																
Total	12 427	14 351	463 200	430 071	400	341	12 552	12 537	659	1 856	25 884	25 932	15	232	3 535	3 535
Breakdown by type																
Interest rate contracts	7 783	8 697	260 098	238 987	400	341	12 552	12 537	633	1 787	25 240	25 240	15	232	3 535	3 535
Interest rate swaps	6 593	8 093	189 979	190 448	400	341	12 552	12 537	633	1 787	25 240	25 240	15	232	3 535	3 535
Forward rate agreements	3	4	2 609	4 829	0	0	0	0	0	0	0	0	0	0	0	0
Futures	2	0	6 090	4 698	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 185	480	61 172	38 736	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	119	247	276	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	949	736	137 796	138 162	0	0	0	0	26	69	644	692	0	0	0	0
Forward foreign exchange operations/Currency forwards	162	152	78 047	78 002	0	0	0	0	0	0	51	51	0	0	0	0
Currency and interest rate swaps	726	526	44 977	44 809	0	0	0	0	26	69	593	641	0	0	0	0
Futures	0	0	155	155	0	0	0	0	0	0	0	0	0	0	0	0
Options	61	59	14 616	15 195	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 817	2 152	35 545	33 579	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 322	1 411	30 289	30 288	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	495	741	5 255	3 290	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	1 857	2 746	29 393	18 978	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	1 857	2 746	29 393	18 978	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	20	20	368	366	0	0	0	0	0	0	0	0	0	0	0	0

[1] Including hedges of net investments in foreign operations.

	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge [1]				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
in millions of EUR	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
31-12-2013																
Total	7 900	8 152	375 395	360 497	218	239	19 286	19 286	546	1 303	26 084	26 039	6	136	2 782	2 782
Breakdown by type																
Interest rate contracts	4 766	4 951	228 440	217 524	218	239	19 286	19 286	515	1 238	25 812	25 812	6	136	2 782	2 782
Interest rate swaps	3 793	4 534	163 858	163 963	218	239	19 286	19 286	515	1 238	25 812	25 812	6	136	2 782	2 782
Forward rate agreements	1	0	2 202	2 717	0	0	0	0	0	0	0	0	0	0	0	0
Futures	2	2	10 948	5 410	0	0	0	0	0	0	0	0	0	0	0	0
Options	970	414	51 432	45 433	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	933	680	96 403	97 464	0	0	0	0	31	64	271	226	0	0	0	0
Forward foreign exchange operations/Currency forwards	148	87	13 105	13 037	0	0	0	0	0	0	0	0	0	0	0	0
Currency and interest rate swaps	701	530	75 556	75 612	0	0	0	0	31	64	271	226	0	0	0	0
Futures	0	0	190	190	0	0	0	0	0	0	0	0	0	0	0	0
Options	84	63	7 553	8 626	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 763	1 876	32 711	31 857	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 420	1 439	29 180	29 176	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	344	437	3 531	2 681	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	408	614	17 271	13 084	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	408	614	17 271	13 084	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	30	30	570	568	0	0	0	0	0	0	0	0	0	0	0	0

[1] Including hedges of net investments in foreign operations.

- The notional amounts (and the carrying values) exclude the entities that fall under the scope of IFRS 5. For additional information, see Note 41.
- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- The accounting mismatches due to the valuation of these derivatives and of the hedged assets and liabilities generate volatility in the income statement. This volatility is dealt with using various techniques provided for under IAS 39 rules for hedge accounting. KBC uses the following techniques:
  - Fair value hedges for a portfolio hedge of interest rate risk: used in interest rate risk management to hedge a portfolio of loans (term loans, home loans, instalment loans, straight loans) using interest rate swaps. The hedges are constructed in accordance with the requirements of the EU carve-out version of IAS 39 and allow changes in the fair value of the derivatives to be offset by changes in the fair value of the hedged assets and liabilities.
  - Various micro-hedging techniques in accordance with the principles of IAS 39 to limit volatility:
    - Cashflow hedges: used to swap floating-rate assets and liabilities for a fixed rate. This technique allows changes in the fair value of the derivative to be recognised in equity (in a cashflow hedge reserve).
    - Fair value hedges: used in certain asset-swap constructions. Using this technique, the interest rate risk attached to a bond is hedged for investments that were made purely on account of the credit spread. The technique is also applied when certain fixed-term debt instruments are issued by the bank (senior debt issues).
    - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity. This way, the translation differences on the hedge can be recognised in equity.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- For information on fair value adjustments in hedge accounting, see Note 5.
- The estimated cashflows from the cashflow hedging derivatives broken down per time bucket is given in the table.

Estimated cashflows from the cashflow hedging derivatives (in millions of EUR)	Inflow	Outflow
Not more than three months	5	- 11
More than three but not more than six months	33	- 59
More than six months but not more than one year	101	- 135
More than one but not more than two years	186	- 381
More than two but not more than five years	662	- 1 121
More than five years	2 466	- 2 718

Notes on other balance sheet items

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 41) to the relevant headings in the balance sheet (under ‘Non-current assets held for sale and disposal groups’ on the assets side and under ‘Liabilities associated with disposal groups’ on the liabilities side).

Note 26: Other assets

in millions of EUR	31-12-2012	31-12-2013
Total	930	772
Breakdown by type	930	772
Accrued (non interest) income	231	169
Other Assets	699	603

Note 27: Tax assets and tax liabilities

in millions of EUR	31-12-2012	31-12-2013
CURRENT TAXES		
Current tax assets	141	203
Current tax liabilities	167	97
DEFERRED TAXES	**1 853**	**1 343**
Tax assets by type of temporary difference	2 762	1 658
Employee benefits	148	76
Losses carried forward	875	595
Tangible and intangible fixed assets	28	36
Provisions for risks and charges	167	21
Impairment for losses on loans and advances	380	308
Financial instruments at fair value through profit or loss and fair value hedges	393	259
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	707	336
Other	63	27
Deferred tax liabilities by type of temporary difference	908	315
Employee benefits	15	5
Losses carried forward	0	0
Tangible and intangible fixed assets	98	98
Provisions for risks and charges	36	0
Impairment for losses on loans and advances	126	17
Financial instruments at fair value through profit or loss and fair value hedges	227	7
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	276	140
Other	131	48
Recognised in the balance sheet as follows:		
Deferred tax assets	1 963	1 417
Deferred tax liabilities	110	74
Unused tax losses and unused tax credits	1 183	1 022

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (-510 million euros in 2013) was due primarily to:
  - a decrease in deferred tax assets: - 1 103 million euros;
  - a decrease in deferred tax liabilities: -593 million euros.
- The change in deferred tax assets was accounted for by:
  - the decrease in deferred tax assets via the income statement: -449 million euros (due primarily to losses carried forward (-294 million euros); impairment relating to losses on loans and advances (+34 million euros); financial instruments at fair value through profit or loss (-144 million euros); employee benefits (-17 million euros));
  - the decrease in deferred tax assets following changes in the revaluation reserve for available-for-sale financial assets: -110 million euros;

- the decrease in deferred tax assets consequent on the rise in the market value of cashflow hedges: -198 million euros;
- the decrease in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: -67 million euros;
- the decrease in deferred tax assets owing to changes in the revaluation reserve for hedges of net investments in foreign operations: -84 million euros (due mainly to the depreciation of the Czech koruna).

- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -206 million euros (owing primarily to financial instruments at fair value through profit or loss (-102 million euros); the reversal of deferred tax liability provisions following the cancellation of trust preferred securities of the Funding Trust companies (-70 million euros));
  - the decrease in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: -148 million euros;
  - the decrease in deferred tax liabilities on account of the rise in the market value of cashflow hedges: -10 million euros.

- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank and KBC Credit Investments.

Note 28: Investments in associated companies

in millions of EUR	31-12-2012	31-12-2013
Total	8	**8**
Overview of investments including goodwill		
NLB	0	0
Other	8	8
Goodwilll on associated companies	0	0
Gross amount	210	0
Accumulated impairment	- 210	0
Breakdown by type		
Unlisted	8	8
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2012**	**2013**
Opening balance (1 January)	475	8
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	8	0
Capital increase	0	0
Dividends paid	0	- 1
Share of gains and losses not recognized in the income statement	10	1
Translation differences	- 2	0
Changes in goodwill	- 179	0
Transfer to or from non-current assets held for sale and disposal groups	- 3	0
Other movements	- 302	0
Closing balance (31 December)	8	8

- Associated companies: companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Following the agreement to sell the stake in Nova Ljubljanska banka (NLB, Slovenia), signed in 2012 and completed in 2013, there are no longer any significant associated companies. Most of the figure for ‘Other movements’ in 2012 was accounted for by impairment relating to NLB due to the fact that the price was below the carrying value.
- Goodwill paid on associated companies: included in the nominal value of ‘Investments in associated companies’ shown on the balance sheet. An impairment test was performed and the necessary impairment losses on goodwill recognised (see table).

Note 29: Property and equipment and investment property

in millions of EUR	31-12-2012	31-12-2013
Property and equipment	2 286	2 198
Investment property	412	415
Rental income	50	54
Direct operating expenses from investments generating rental income	30	28
Direct operating expenses from investments not generating rental income	3	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Total Other equipment	Total property and equipment	Investment property
2012					
Opening balance	1 359	39	959	2 357	552
Acquisitions	148	21	377	546	26
Disposals	- 13	0	- 164	- 177	- 5
Depreciation	- 80	- 20	- 26	- 126	- 16
Impairment					
recognised	- 9	- 1	- 1	- 11	- 52
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	- 78	- 3	- 4	- 85	- 31
Translation differences	22	1	7	31	4
Changes in the scope of consolidation	- 28	- 3	- 53	- 85	- 59
Other movements	0	0	- 166	- 166	- 7
Closing balance	1 322	34	929	2 286	412
of which accumulated depreciation and impairment	999	136	598	1 733	242
construction	2	0	0	2	
of which finance lease as a lessee	0	0	0	0	
Fair value 31-12-2012					495
2013					
Opening balance	1 322	34	929	2 286	412
Acquisitions	16	17	377	410	20
Disposals	- 5	0	- 162	- 168	- 2
Depreciation	- 69	- 14	- 21	- 104	- 18
Impairment					
recognised	- 23	0	0	- 23	- 4
reversed	7	0	1	8	0
Transfer to or from non-current assets held for sale and disposal groups	- 4	0	0	- 5	0
Translation differences	- 23	0	- 8	- 32	- 1
Changes in scope of consolidation	15	0	0	16	- 11
Other movements	- 1	0	- 190	- 190	20
Closing balance	1 236	37	925	2 198	415
of which accumulated depreciation and impairment	1 076	127	568	1 771	208
of which expenditure on items in the course of	5	7	4	15	
of which finance lease as a lessee	0	0	0	0	
Fair value 31-12-2013					486

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on:
  - the current annual rental per building and expected rental movements;
  - an individual capitalisation rate per building.

Note 30: Goodwill and other intangible assets

in millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2012					
Opening balance	1 449	6	53	36	1 543
Acquisitions	0	0	33	15	48
Disposals	- 132	0	0	- 13	- 145
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 1	- 24	- 10	- 34
Impairment					
recognised	- 386	0	0	0	- 387
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	- 5	0	- 4	- 8
Translation differences	37	0	2	2	41
Changes in the scope of consolidation	0	0	- 3	- 10	- 13
Other movements	1	0	- 9	7	- 1
Closing balance	969	0	52	24	1 045
of which accumulated amortisation and impairment	973	0	282	0	1 255
2013					
Opening balance	969	0	52	24	1 045
Acquisitions	0	15	41	3	59
Disposals	0	0	0	- 1	- 1
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 2	- 24	- 3	- 28
Impairment					
recognised	0	0	0	- 1	- 2
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 24	0	- 2	- 1	- 27
Changes in the scope of consolidation	0	0	0	0	0
Other movements	0	2	13	- 15	1
Closing balance	944	16	81	7	1 048
of which accumulated amortisation and impairment	973	2	319	32	1 325

- Goodwill includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 11). This impairment test is performed at least once a year and on a quarterly basis for investments where there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.

- Discounted cashflow method: calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 20 years), and the terminal value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a post-tax compound discount rate which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.
- Multiple-analysis method: calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and, for instance, the carrying value or profit of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
- The main group companies to which goodwill relates are listed in the table (the consolidated entity in each case, i.e. including subsidiaries). All of these companies have been valued using the discounted cashflow method.

Goodwill outstanding (in millions of EUR)	31-12-2012	31-12-2013	Discount rates throughout the specific period of cashflow projections	
			31-12-2012	31-12-2013
K&H Bank	236	232	17,4%-9,5%	13,9%-10,2%
ČSOB (Czech Republic)	252	232	10,1%-9,8%	8,9%-8,6%
ČSOB (Slovak Republic)	191	191	11,6%-9,8%	9,9%-9,1%
CIBANK	117	117	11,1%-9,4%	11,1%-9,4%
Rest	76	70	-	-
Total	987	842	-	-

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- The period to which the cashflow budgets and projections relate is 20 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 20-year period is 2%, which is equal to the rate of inflation forecast for that time. This rate of growth was the same as in 2012.

- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for ČSOB in Slovakia and CIBANK in Bulgaria of the change in key assumptions that would lead to their recoverable amount equalling their carrying value (see table).

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit
ČSOB (Slovak Republic)	0,4%	1,3%	0,35%	1,7%
CIBANK	0,9%	-	1,05%	4,4%

1 Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
2 The discount rate for the first year was increased in absolute terms by the percentage shown. Pursuant to the way in which discount rates (or changes in discount rates) are modelled, the increase in the discount rate for the first year is gradually and diminishingly carried forward as (higher) discount rates for the years ahead.
3 Decrease in absolute terms. Not relevant for CIBANK as it would mean that the terminal growth rate will be negative.
4 Presented as the absolute increase in the tier-1 capital ratio.

Note 31: Provisions for risks and charges

in millions of EUR	Provision for restruc-turing	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2012						
Opening balance	27	693	42	762	89	852
Movements with an impact on result						
Amounts allocated	18	32	17	67	155	222
Amounts used	- 8	- 379	- 6	- 393	- 4	- 397
Unused amounts reversed	- 7	- 21	- 2	- 30	- 112	- 143
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope				0		0
Other movements	- 9	- 21	14	- 16	- 35	- 51
Closing balance	22	303	65	390	92	482
2013						
Opening balance	22	303	65	390	92	482
Movements with an impact on result						
Amounts allocated	5	17	18	40	62	102
Amounts used	- 8	- 13	- 2	- 23	- 9	- 31
Unused amounts reversed	0	- 2	- 3	- 5	- 57	- 62
Transfer to or from non-current liabilities regarding disposal groups						
Change in consolidation scope	0	0	- 6	- 6	- 2	- 8
Other movements	1	- 14	- 6	- 19	27	8
Closing balance	19	291	68	377	114	491

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.

- Restructuring provisions were set aside mainly for:
  - KBC Bank (5 million euros in 2013; 3 million euros in 2012);
  - KBC Financial Products (5 million euros in 2013; 4 million euros in 2012);
  - the Central and Eastern European subsidiaries of KBC Bank (6 million euros in 2013; 10 million euros in 2012).
- As regards provisions for taxes and pending legal disputes:
  - the remaining amount of the provision for commercial disputes involving CDOs came to 0.036 billion euros at the end of 2013;
  - see the information on legal disputes in the bullet points below.
- Other provisions: included those set aside for miscellaneous risks and future expenditure.
- Main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow:
  - When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.1 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. On 25 September 2013, KBC was summoned by LBF in London, where LBF filed the claim of 58.1 million US dollars, plus interest of 57 million US dollars (calculated to the end of March 2013). After KBC had filed a concise written defence with the court, LBF was given until mid-March to reply, but has since been granted postponement. The way proceedings are conducted in the UK means that documents can be exchanged in the meantime and that the judge can organise a case management conference. The steps in these proceedings have not yet been defined. The actual court case will take place a year after the case management conference at the earliest. An appropriate provision has been set aside to cover this risk.
  - KBC Diversified Fund, a segregated portfolio of KBC AIM Master Fund Spc., filed a claim against Lehman Brothers International Europe (LBIE) in relation to derivatives amounting to 44.3 million US dollars. That amount was the result of the setting off of the claims of the various KBC entities and of LBIE. LBIE is disputing how the amount was calculated and the way in which set-off was applied. Consequently, KBC has constituted a provision for the claim. Negotiations are being conducted between KBC and LBIE's administrator on the valuation of a number of terminated transactions.
  - KBC Bank calculated an ISDA close-out amount of 29.2 million US dollars payable by Lehman Brothers Special Financing Inc. (LBSF) to KBC. LBSF's administrator is contesting the valuation of some of the derivative transactions. LBSF and KBC have reached agreement whereby KBC is allowed to file a claim for 22.7 million dollars. Given the slender chance of recovery, a corresponding provision has been set aside.
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. Apart from one case, all claims against K&H Equities have been settled either amicably or following an arbitral decision. The one case referred to is pending before the civil court, with adequate provisions having been set aside to cover it and due account taken of the compensation expected from an external insurer.
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the court sitting in chambers in Bruges. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court charged with forgery and uttering under

ordinary law and under tax law. The Belgian State has lodged an appeal with the Indictment Division, but no date has been set yet for the court case. A provision of 31.4 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.

- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A provision of 30 million euros has been set aside to cover potential damages.
- In 1991, a syndicate of banks (including KBC Bank NV's London branch) refinanced the Bell Group. Some Bell Group companies granted security. When the group collapsed in April 1991, the banks recovered the outstanding amounts by enforcing their security rights. The Bell Group liquidators started legal proceedings, claiming repayment of all amounts recovered by the banks by alleging that the banks' security rights had been granted unlawfully. In a judgment delivered on 28 October 2008, the Supreme Court of Western Australia ordered the banks to repay all the amounts recovered and also to pay compound interest. The syndicate of banks appealed this decision. In a ruling on 17 August 2012, the Supreme Court of Western Australia Court of Appeal increased the amount payable following the recalculation of interest. In view of that decision and pending the decision of the High Court of Australia, KBC Bank has set aside a provision of approximately 64 million euros. Even if the banks are granted leave to appeal, the issue before the High Court will be limited to the amount of interest payable. On 15 March 2013, the High Court granted the banks leave to initiate appeal proceedings before it. The success achieved before this appeal court has opened up the possibility for the banks to begin negotiations aimed at reaching a compromise settlement among all parties involved. These negotiations led in June 2013 to an agreement in principle among all the parties to settle for an amount of 1.7 billion Australian dollars. The final, enforceable version of the settlement agreement was only approved in September 2013. As this agreement includes a number of conditions precedent that have to be fulfilled in advance and the parties have been given six months to meet them, payment under the agreement will only be made in 2014. Consequently, the existing provision was maintained in 2013.

Note 32: Other liabilities

in millions of EUR	31-12-2012	31-12-2013
Total	2 776	2 222
Breakdown by type		
Retirement benefit plans or other employee benefits	789	311
Accrued charges (other than from interest expenses on financial liabilities)	487	352
Other	1 500	1 558

- For more information on retirement benefit obligations, see Note 33 (please note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 32 relates to a broader scope than the amounts for 'Defined benefit plans' presented in Note 33 under 'Amounts recognised in the balance sheet').

Note 33: Retirement benefit obligations

in millions of EUR	31-12-2012	31-12-2013
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 708	2 046
Current service Cost	88	102
Interest cost	69	50
Remeasurement of defined benefit obligation	0	- 1
Actuarial gains and losses arising from changes in demographic assumptions	0	- 99
Actuarial gains and losses arising from changes in financial assumptions	320	- 106
Past service cost	0	- 3
Benefits paid	- 122	- 111
Exchange differences	4	0
Curtailment	- 5	0
Transfer due to IFRS 5	- 16	0
Changes in the scope of consolidation	0	0
Other	0	0
Defined benefit obligation at end of the period	2 046	1 878
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 363	1 552
Actual return on plan assets	196	55
Expected return on plan assets	*73*	*41*
Employer contributions	100	73
Plan participant contributions	20	23
Benefits paid	- 118	- 107
Exchange differences	3	0
Settlements	- 2	0
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 9	0
Fair value of plan assets at the end of the period	1 552	1 596
of which financial instruments issued by the group	0	10
of which property occupied by the group	11	11
Reconciliation of the effect of the asset ceiling		
Asset ceiling at the beginning of the period	0	0
Expected return on plan assets	0	0
Adjustments to limits of the ceiling	0	0
Asset ceiling at the end of the period	0	0
Funded Status		
Plan assets in excess of defined benefit obligations	- 440	- 228
Reimbursement right	0	0
Limit of the asset ceiling	0	0
Unfunded accrued/prepaid pension cost	- 440	- 228

Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 296	- 440
Amounts recognised in the income statement	- 77	- 87
Amounts recognised in OCI	- 189	198
Employer contributions	102	76
Exchange differences	0	0
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	20	24
Unfunded accrued/prepaid pension cost at the end of the period	- 440	- 228
Amounts recognised in the income statement		
Current service cost	88	102
Past service cost	0	- 2
Interest cost	13	10
Plan participant contributions	- 20	- 22
Curtailments	- 4	0
Settlements	2	- 1
Changes in the scope of consolidation	0	0
Remeasurement recognised in OCI	189	- 198
Actuarial gains and losses arising from changes in demographic assumptions	- 25	- 99
Actuarial gains and losses arising from changes in financial assumptions	333	- 106
Actuarial results on plan assets	- 134	- 17
Experience adjustments	2	0
Other	13	24
Principal actuarial assumptions used (based on weighted averages)		
Weighted Average discount rate	2,3%	3,0%
Expected rate of salary increase	3,1%	3,1%
Expected inflation	2,0%	2,0%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	1

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes, the most important of which are defined benefit plans. A defined contribution plan was introduced in 2013 for all new employees joining the company on 1 January 2014 or later. The main defined benefit plans are those managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC which cover KBC Bank and most of its Belgian subsidiaries. The assets of the first two plans are managed chiefly by the pension fund using the services of KBC Asset Management for this purpose. The pension benefits are calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a mathematical formula that applies a progressive rate in line with increases in their salary.
- KBC Bank Ireland participated in a fully funded defined benefit plan until 31 August 2012. As of that date, no additional pension rights can be accumulated for future years of service under that plan. Benefits accrued in the plan until the date it was closed continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and KBC Bank NV Dublin branch are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

- Expected return on plan assets (ROA): calculated on the basis of the rate applying to specific investments, account taken of the new detailed strategy for allocating assets under management.
  ROA = (W x LDI rate T) + (X x corp rate T) + (Y x (govt rate T + 3%)) + (Z x (govt rate T +1.75%)), where:
  LDI rate = 2 x euro swap rate T – 1 x 6-month euro swap rate;
  Govt rate = OLO rate T;
  Corp rate = euro swap rate T + corporate spread;
  T = average duration of the liabilities;
  W = percentage of liability driven investments;
  X = percentage of corporate bonds;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the anticipated long-term returns from shares and real estate.

Additional information regarding retirement benefit obligations (in millions of EUR)					
Changes in main headings in the main table	2009	2010	2011	2012	2013
Defined benefit obligations	1 997	1 645	1 708	2 046	1 878
Fair value of plan assets	1 529	1 439	1 363	1 552	1 596
Unfunded accrued/prepaid pension cost	-512	-437	-296	-440	-228
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations*	2009	2010	2011	2012	2013
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations	-18	-84	-76	213	-85

*Arising from defined benefit plans. A plus sign signifies a positive impact, a minus sign a negative impact; relates to all pension plans combined in the above section.

Additional information on retirement benefit obligations	KBC pension fund	KBC Bank Ireland pension plan
Composition 31-12-2012		
- shares	36%	64%
- bonds	48%	6%
- real estate	10%	2%
- cash	6%	28%
Composition 31-12-2013		
- shares	40%	57%
- bonds	44%	32%
- real estate	12%	2%
- cash	4%	9%
of which illiquid assets	12%	2%
Contributions expected in 2014 (in millions of EUR)	98	1
Nature of pension plan benefits	Capital at retirement age Death benefit in case of death during active career. Monthly annuity in case of work disability.	Life-long annuity at retirement age. The pension fund was closed on 30 August 2012. Accrued benefits continue to be linked to future salary increases.
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.	Regulated by the Irish Pensions Board. Annual calculation of the funding level of the plan. Certification of the funding level at least every three years. Any underfunding must be reported immediately to the Irish Pensions Board.
Responsibilities of KBC	To pay adequate contributions in accordance with the plan's funding agreement. To fund the pension plan. To provide annual pension statements to plan participants.	To pay adequate contributions in accordance with the plan's funding agreement.
Risks for KBC	Investment risk and inflation risk.	Investment risk.
ALM policy	The hedging portfolio hedges the retirement benefit obligations against interest rate risk and inflation risk by using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds and a greater level of diversification by reducing the overall exposure to shares.
Plan amendments	The Gevaert pension plan was integrated into KBC's main fund plan. The discount methodology was changed from a yield curve to a zero coupon curve.	The trustees agreed to reduce participants' benefits by 0.6% for the years 2011-2013 to account for the payment of the pension levy enacted by the Irish government.
Funding	Contributions to the plan are calculated using the projected unit method.	Contributions to the plan are calculated using the projected unit method. The pension fund was closed on 30 August 2012, No further accrual of future years of service.
Curtailments and settlements	Fidea ceased to be a member of the KBC pension fund on 1 January 2014. All pension rights and obligations have been transferred to the Delta Lloyd pension institution. KBC Private Equity ceased to be a member of the KBC pension fund on 1 March 2013 when all its employees either left the company of were transferred to KBC Securities. In 2013, KBC Real Estate was integrated into KBC Bank. KBC Global Services was liquidated on 1 July 2013. All employees and their pension rights were transferred to KBC Group.	Not applicable.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 16, extrapolation is applied to flatten the curve for maturities of 20 years and longer.	The Mercer methodology starts from a self-composed basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of what is an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.

Key actuarial assumptions		
Average discount rate	2,98%	4,00%
Expected salary increase	3,10%	2,90%
Expected inflation rate	2,00%	1,90%
Expected rate of increase in pensions	-	1,90%
Average duration of the obligations	14,1 years	18 years
Weighted average duration of the obligations	10,99 years	24 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2013 consequent on:		
a decrease of 1% in the discount rate	11,46%	27,75%
an increase of 1% in the expected inflation rate	9,95%	23,77%
an increase that is 1% higher than the expected real increase in salary	12,24%	9,90%
the age of retirement being 65 rather than 63 for all active employees	1,88%	-
an increase of one year in life expectancy	-	2,37%
The sensitivity of the following assumptions has not been calculated.	The impact of decreasing mortality rates: pension benefits are paid out in capital so longevity risk is immaterial. The impact of staff turnover: expected turnover rate is very low.	Not applicable

Note 34: Parent shareholders’ equity

in number of shares	31-12-2012	31-12-2013
Ordinary shares	915 228 482	915 228 482
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

	Gewone aandelen
2012	
Opening balance	915 228 482
Issue of shares	0
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482
2013	
Opening balance	915 228 482
Issue of shares/core-capital securities	0
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2013, 915 228 482 ordinary shares were in circulation, of which 915 228 481 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV.
- For information on stock option plans, see Note 9; for information on the authorisation to increase capital, see the ‘Company annual accounts’ section.
- Trust preferred securities: 358 million euros at year-end 2013 and 367 million euros at year-end 2012. These trust preferred securities were issued in 1999 by KBC Funding Trust(s) for an initial equivalent value totalling 1.5 billion euros. They are perpetual hybrid debt instruments that count as innovative hybrid tier-1 instruments. A large amount in trust preferred securities was bought back in the past. The beneficiaries of these securities are institutional investors. The securities are not included in 'Parent shareholders' equity', but in 'Minority interests. They meet the IAS 32 definition of equity instruments, but as they are not owned by the shareholders, they are presented under 'Minority interests'. The structure and terms and conditions are set out in the relevant offering memoranda, which are available at www.kbc.com.
- Core capital securities: since the end of 2008, KBC Group NV (KBC Bank's parent company) has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have been subscribed by the Belgian Federal and Flemish Regional governments (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. On 2 January 2012, KBC Group repaid 0.5 billion euros (plus a 15% penalty) to the Belgian Federal Government (see balance sheet at year-end 2011). On 17 December 2012, KBC Group repaid 3 billion euros (plus a 15% penalty) to the Belgian Federal Government (see balance sheet at year-end 2012).On 3 July 2013, KBC Group repaid 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2013).KBC Group aims to pay back the remaining balance of 2.33 billion euros (plus penalties) in seven equal instalments of 0.33 billion euros (plus penalty) between 2014 and 2020 or sooner (subject to the customary approval of the regulator), and already repaid 0.33 billion euros (plus a penalty of 50%) at the beginning of January 2014.

Other notes

Note 35: Commitments and guarantees granted and received

in millions of EUR	31-12-2012	31-12-2013
Credit commitments - undrawn amount		
Given	28 216	24 832
Irrevocable	16 501	16 176
Revocable	11 715	8 656
Received	503	91
Financial guarantees		
Given	11 082	10 404
Guarantees received / collateral	37 607	37 881
For impaired and past due assets	2 716	2 807
For assets that are not impaired or past due assets	34 891	35 074
Other commitments		
Given	116	7
Irrevocable	116	7
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged as collateral for		
Liabilities	21 441	24 827
Contingent liabilities	5 413	2 657

* At year-end 2013, some 8.1 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (3.5 billion euros at year-end 2012). More information on covered bonds is provided under 'Liquidity risk' in the 'Value and risk management' section.

- Fair value of financial guarantees: based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all of the liabilities referred to in Section 5 (c) of the Irish Companies (Amendment) Act 1986 of the following Irish companies in respect of the financial year ending on 31 December 2013, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986: KBC Financial Services (Ireland) Limited; KBC Fund Management Limited. Since these companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). For additional information, see Note 18.

Collateral held (which may be sold or repledged in the absence of default by the owner)	Fair value of collateral held		Fair value of collateral sold or repledged	
in millions of EUR	31-12-2012	31-12-2013	31-12-2012	31-12-2013
Financial assets	8 248	16 990	4 755	6 603
Equity instruments	7	2	0	0
Debt instruments	8 046	16 802	4 755	6 603
Loans & advances	195	185	0	0
Cash	0	0	0	0
Non-financial assets	3	2	0	0
Property and equipment	3	2	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession during the period	31-12-2012	31-12-2013
Non-current assets held-for-sale	0	2
Property and equipment	0	0
Investment property	2	1
Equity and debt instruments	0	0
Cash	167	173
Other	29	25
Total	197	201

Note 36: Leasing

In millions of EUR	31-12-2012	31-12-2013
Finance lease receivables		
Gross investment in finance leases, receivable	4 792	4 652
At not more than one year	1 208	1 119
At more than one but not more than five years	2 342	2 320
At more than five years	1 241	1 213
Unearned future finance income on finance leases	678	651
Net investment in finance leases	4 110	4 044
At not more than one year	1 054	978
At more than one but not more than five years	2 060	2 046
At more than five years	996	1 020
Of which unguaranteed residual values accruing to the benefit of the lessor	33	22
Accumulated impairment for uncollectable lease payments receivable	174	137
Contingent rents recognised in income	119	105
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	429	435
Not more than one year	137	137
More than one but not more than five years	272	281
More than five years	21	17
Contingent rents recognised in income	0	1

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leases: KBC provides most finance leases through separate companies operating mainly in Belgium and Central Europe. It offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group’s branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involves primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 37: Related-party transactions

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

31-12-2012	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other	Total
Assets	4	219	176	120	24 272	464	1 971	27 225
Loans and advances	0	98	132	83	0	0	1 527	1 841
Current accounts	0	1	1	0	0	0	595	597
Term loans	0	97	131	83	0	0	932	1 244
Finance leases	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0
Equity instruments	0	69	25	23	0	0	0	117
Trading securities	0	0	0	0	0	0	0	0
Investment securities	0	69	25	23	0	0	0	117
Other receivables	4	52	19	14	24 272	464	443	25 267
Liabilities	1 057	636	134	35	95	0	3 241	5 198
Deposits	790	635	126	35	0	0	2 125	3 712
Deposits	784	635	126	35	0	0	2 125	3 706
Other	6	0	1	0	0	0	0	6
Other financial liabilities	250	0	0	0	0	0	923	1 173
Debt certificates	0	0	0	0	0	0	923	923
Subordinated liabilities	250	0	0	0	0	0	0	250
Share based payments, granted	0	0	0	0	0	0	0	0
Share based payments, exercised	0	0	0	0	0	0	0	0
Other liabilities (including accrued expense)	18	0	8	0	95	0	192	313
Income statement	- 15	2	- 2	6	659	19	- 705	- 36
Net interest income	- 10	1	- 1	2	659	19	- 67	604
Dividend income	0	1	3	4	0	0	0	7
Net fee and commission income	1	1	- 2	0	0	0	170	169
Other income	0	0	0	0	0	0	2	2
Other expenses	- 7	0	- 1	0	0	0	- 811	- 819
Guarantees								
Guarantees issued by the group								0
Guarantees received by the group								0

31-12-2013	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Flemish region	Other	Total
Assets	178	237	104	23	574	1 125	2 242
Loans and advances	145	85	55	18	0	947	1 250
Current accounts	28	0	0	0	0	9	36
Term loans	117	85	55	18	0	939	1 213
Finance leases	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0
Equity instruments	3	70	25	0	0	0	99
Trading securities	3	0	0	0	0	0	4
Investment securities	0	70	25	0	0	0	95
Other receivables	30	82	25	5	574	177	894
Liabilities	403	524	124	15	0	2 502	3 568
Deposits	112	521	14	15	0	1 568	2 230
Deposits	106	518	14	15	0	1 568	2 222
Other	6	2	0	0	0	0	8
Other financial liabilities	251	0	0	0	0	865	1 116
Debt certificates	0	0	0	0	0	865	865
Subordinated liabilities	251	0	0	0	0	0	251
Share based payments, granted	0	0	0	0	0	0	0
Share based payments, exercised	0	0	0	0	0	0	0
Other liabilities (including accrued expense)	40	3	110	0	0	69	222
Income statement	- 801	28	- 3	6	14	40	- 715
Net interest income	3	5	- 1	0	15	- 54	- 32
Dividend income	0	0	1	6	0	0	7
Net fee and commission income	1	2	- 1	0	0	121	124
Other income	62	22	0	0	0	1	85
Other expenses	- 867	- 1	- 2	0	- 1	- 28	- 898
Guarantees							
Guarantees issued by the group							0
Guarantees received by the group							0

Transactions with key management personnel (members of the Board of Directors and the Executive Committee of KBC Bank), in millions of EUR	31-12-2012	31-12-2013
Total[1]	1	1
Breakdown by type of remuneration		
Short-term employee benefits	1	1
Post-employment benefits	0	0
Defined benefit plans	0	0
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Share options, in units		
At the beginning of the period	20.300	0
Granted	0	0
Exercised	-3.000	0
Changes in composition of directors	-17.300	0
At the end of the period	0	0
Advances and loans granted to the directors and partners	1	3

[1] Remuneration to directors or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis.

- The ‘Other’ heading in the first table comprises primarily KBC Ancora, Cera, MRBB and KBC Insurance Group.
- The recoverability of the claims outstanding in respect of Cera and KBC Ancora depends in part on the performance of the KBC group. In mid-2013, KBC reached an agreement for the transfer to another financial institution of 0.3 billion euros' worth of loans granted to KBC Ancora. In addition, Cera and KBC Ancora sold a total of 18.8 million KBC shares in November 2013 and used the proceeds to repay outstanding loans with KBC. On balance, loans to shareholders consequently fell from 1.2 billion euros at year-end 2012 to 0.1 billion euros at the end of 2013.
- All related-party transactions occur at arm’s length.
- Belgian State and Flemish Region: considered in the strict sense only (i.e. excluding companies controlled by these parties). Following the redemption in 2012 of all the core-capital securities sold to the Belgian State, it has no longer been considered as a related party since 2013.
- There were no material transactions with associated companies other than shown in the table.
- Key management: the members of the Board of Directors and Group Executive Committee. More detailed information on remuneration paid to key management staff is provided in the ‘Corporate governance statement' section.
- Information on the capital transactions and guarantee agreements KBC Group (KBC Bank's parent company) entered into with the Belgian Federal and Flemish Regional governments is provided under ‘Additional information’. Please note that:
  - KBC Group NV redeemed 0.5 billion euros’ worth of non-voting core-capital securities from the Belgian Federal Government (and paid a 15% penalty) on 2 January 2012 (see balance sheet at year-end 2011). On 17 December 2012, KBC Group NV repaid 3 billion euros (plus a 15% penalty) to the Belgian Federal Government (see balance sheet at year-end 2012). On 3 July 2013, KBC Group NV paid back 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2013), and at the start of 2014, reimbursed an additional 0.33 billion euros (plus a 50% penalty).
  - In 2009, KBC Group entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the results is the related cost which is recognised in ‘Net result from financial instruments at fair value through profit or loss’. The guarantee agreement was reviewed at the end of 2012 (for more details, see the ‘Additional information’ section).
  - In 2012 and 2013, KBC Group paid a coupon (595 million euros and 543 million euros, respectively) on the non-voting core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009.

Note 38: Statutory auditor's remuneration

In 2013, KBC Bank NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 9 051 775 euros for standard audit services (10 169 181 euros in 2012). Remuneration paid for other services came to 973 415 euros in 2013 (2 381 989 euros in 2012) and comprised 708 644 euros for other certifications, 50 994 euros for tax advice and 213 777 euros for other non-audit assignments (1 045 859, 183 927 and 1 152 203 euros, respectively, in 2012).

Note 39: List of subsidiaries and associated companies at year-end 2013

Name	Registered office	National identification number	Share of capital held at group (%)
Subsidiaries that are fully consolidated			
Almafin Real Estate NV	Brussels - BE	0403.355.494	100
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100
Immo Arenberg NV	Brussels - BE	0471.901.337	100
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100
ADB Asia Pacific Limited	Singapore - SG	--	100
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100
CBC BANQUE SA	Brussels - BE	0403.211.380	100
Československá Obchodná Banka a.s.	Bratislava - SK	--	100
ČSOB Factoring a.s.	Bratislava - SK	--	100
ČSOB Leasing a.s.	Bratislava - SK	--	100
ČSOB Leasing Poisťovaci Maklér s.r.o.	Bratislava - SK	--	100
ČSOB Stavebná Sporiteľ'na a.s.	Bratislava - SK	--	100
Československá Obchodní Banka a.s.	Prague - CZ	--	100
Bankovní Informační Technologie s.r.o.	Prague - CZ	--	100
Centrum Radlická a.s.	Prague - CZ	--	100
ČSOB Advisory a.s.	Prague - CZ	--	100
ČSOB Factoring a.s.	Prague - CZ	--	100
ČSOB Leasing a.s.	Prague - CZ	--	100
ČSOB Leasing Pojisťovaci Maklér s.r.o.	Prague - CZ	--	100
ČSOB Penzijní společnost a.s.	Prague - CZ	--	100
ČSOB Property Fund a.s.	Prague - CZ	--	62,87
Merrion Properties a.s. (spv)	Prague - CZ	--	62,87
Property Skalica s.r.o.	Bratislava - SK	--	62,87
Hypoteční Banka a.s.	Prague - CZ	--	100
Transformation fund Stabilita	Prague - CZ	--	100
CIBANK EAD	Sofia - BG	--	100
Management of Assets for Sale - 2 EOOD	Sofia - BG	--	100
Katarino Spa Hotel EAD	Sofia - BG	--	100
IIB Finance Ireland	Dublin - IE	--	100
KBC Finance Ireland	Dublin - IE	--	100
Julienne Holdings S.à.r.l.	Luxembourg - LU	--	93
Julie LH BVBA	Brussels - BE	0890.935.201	93
Juliette FH BVBA	Brussels - BE	0890.935.397	93
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86
KBC Asset Management SA	Luxembourg - LU	--	51,86
KBC Fund Management Limited	Dublin - IE	--	51,86
KBC Participations Renta B	Luxembourg - LU	--	51,86
KBC Participations Renta C	Luxembourg - LU	--	51,86
ČSOB Asset Management, a.s., Investiční Společnost	Prague - CZ	--	71,15
KBC Participations Renta SA	Luxembourg - LU	--	51,86
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warszawa - PL	--	51,86
KBC Bank Deutschland AG	Bremen - DE	--	100
KBC Bank Funding LLC II	New York - US	--	100
KBC Bank Funding LLC III	New York - US	--	100
KBC Bank Funding LLC IV	New York - US	--	100
KBC Bank Funding Trust II	New York - US	--	100
KBC Bank Funding Trust III	New York - US	--	100
KBC Bank Funding Trust IV	New York - US	--	100

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Bank Ireland Plc.	Dublin - IE	--	100
Bencrest Properties Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100
Danube Holdings Limited	Dublin - IE	--	100
Fermion Limited	Dublin - IE	--	100
Glare Nominee Limited	Dublin - IE	--	100
IIB Finance Limited	Dublin - IE	--	100
IIB Asset Finance Limited	Dublin - IE	--	100
IIB Commercial Finance Limited	Dublin - IE	--	100
IIB Leasing Limited	Dublin - IE	--	100
Lease Services Limited	Dublin - IE	--	100
IIB Homeloans and Finance Limited	Dublin - IE	--	100
KBC Homeloans and Finance Limited	Dublin - IE	--	100
Premier Homeloans Limited	Surrey - GB	--	100
Intercontinental Finance	Dublin - IE	--	100
Irish Homeloans and Finance Limited	Dublin - IE	--	100
KBC ACS Limited	Dublin - IE	--	100
KBC Mortgage Finance	Dublin - IE	--	100
KBC Nominees Limited	Dublin - IE	--	100
Linkway Developments Limited	Dublin - IE	--	100
Maurevel Investment Company Limited	Dublin - IE	--	100
Merrion Commercial Leasing Limited	Surrey - GB	--	100
Merrion Equipment Finance Limited	Surrey - GB	--	100
Merrion Leasing Assets Limited	Surrey - GB	--	100
Merrion Leasing Finance Limited	Surrey - GB	--	100
Merrion Leasing Industrial Limited	Surrey - GB	--	100
Merrion Leasing Limited	Surrey - GB	--	100
Merrion Leasing Services Limited	Surrey - GB	--	100
Monastersky Limited	Dublin - IE	--	100
Needwood Properties Limited	Dublin - IE	--	100
Phoenix Funding 2 Limited	Dublin - IE	--	100
Phoenix Funding 3 Limited	Dublin - IE	--	100
Phoenix Funding 4 Limited	Dublin - IE	--	100
Phoenix Funding 5 Limited	Dublin - IE	--	100
Rolata Limited	Douglas - IM	--	100
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100
KBC Consumer Finance NV	Brussels - BE	0473.404.540	100
KBC Credit Investments NV	Brussels - BE	0887.849.512	100
KBC Financial Products UK Limited	London - GB	--	100
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100
KBC Financial Holding Inc.	Wilmington - US	--	100
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100
Pacifica Group LLC	New York - US	--	100
Equity Key Real Estate Option LLC	San Diego - US	--	100
Midas Life Settlements LLC	Delaware - US	--	100
Reverse Mortgage Loan Trust 2008-1	New York - US	--	100
World Alliance Financial Corporation	New York - US	--	100
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100
KBC Investments Asia Limited	Hong Kong - HK	--	100

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Investments Limited	London - GB	--	100
111 OBS (General Partner) Limited	London - GB	--	100
Baker Street Finance Limited	Jersey - GB	--	100
Baker Street USD Finance Limited	Jersey - GB	--	100
Dorset Street Finance Limited	Jersey - GB	--	100
Hanover Street Finance Limited	Jersey - GB	--	100
KBC Investments Cayman Islands V Limited	George Town - KY	--	100
Pembridge Square Finance Limited	Jersey - GB	--	100
Regent Street Finance Limited	Jersey - GB	--	100
Sydney Street Finance Limited	Jersey - GB	--	100
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100
KBC Lease Holding NV	Leuven - BE	0403.272.253	100
Fitraco NV	Leuven - BE	0425.012.626	100
KBC Autolease NV	Leuven - BE	0422.562.385	100
KBC Bail France II sas	Lyon - FR	--	100
KBC Bail Immobilier France sas	Lille - FR	--	100
KBC Immolease NV	Leuven - BE	0444.058.872	100
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100
KBC Lease France SA	Lyon - FR	--	100
KBC Lease (Nederland) BV	Almere - NL	--	100
KBC Lease (UK) Limited	Surrey - GB	--	100
KBC Lease (Luxembourg) SA	Bertrange - LU	--	100
RSL Leasing IFN SA	Boekarest - RO	--	100
Securitas sam	Monaco - MC	--	100
KBC North American Finance Corporation	Delaware - US	--	100
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	100
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100
KBC Rusthuisvastgoed NV	Brussels - BE	0864.798.253	100
KBC Securities NV	Brussels - BE	0437.060.521	100
Patria Finance a.s.	Prague - CZ	--	100
Patria Direct a.s.	Prague - CZ	--	100
K&H Bank Zrt.	Budapest - HU	--	100
K&H Befektetési Alapkezelő Zrt.	Budapest - HU	--	100
K&H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100
K&H Equities Tanácsadó Zrt.	Budapest - HU	--	100
K&H Faktor Pénzügyi Szolgáltató Zrt.	Budapest - HU	--	100
K&H Alkusz Biztosításközvetítö Kft.	Budapest - HU	--	100
K&H Autópark Bérleti és Szolgáltató Kft	Budapest - HU	--	100
K&H Eszközlizing Gép-és Tehergépjármű Bérleti Kft.	Budapest - HU	--	100
K&H Ingatlanlizing Zrt	Budapest - HU	--	100
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100
Old Broad Street Invest NV	Brussels - BE	0871.247.565	100
111 OBS Limited Partnership	London - GB	--	100
Poelaert Invest NV	Brussels - BE	0478.381.531	100
Subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited (1)	London - GB	--	100
2 B Delighted Italia Srl (1)	Torino - IT	--	99,58
2 B Delighted NV (1)	Roeselare - BE	0891.731.886	99,58
Wever & Ducré NV (1)	Roeselare - BE	0412.881.191	99,58
Asia Pacific Trading & Investment Co Limited (1)	Hong Kong - HK	--	99,58
Dark NV (1)	Roeselare - BE	0472.730.389	99,58
Limis Beyond Light NV (1)	Roeselare - BE	0806.059.310	99,58
Wever & Ducré BV (1)	The Hague - NL	--	99,58
Wever & Ducré GmbH (1)	Herzogenrath - DE	--	99,58
Wever & Ducré Iluminación SL (1)	Madrid - ES	--	99,58

Name	Registered office	National identification number	Share of capital held at group (%)
Almaloisir & Immobilier sas (1)	Nice - FR	--	100
Apicinq NV (1)	Brussels - BE	0469.891.457	100
Apitri NV (1)	Brussels - BE	0469.889.873	100
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100
Clifton Street Finance Limited (1)	Jersey - GB	--	100
ČSOB Nadácia (1)	Bratislava - SK	--	100
Dala Beheer BV (1)	Amsterdam - NL	--	100
Dala Property Holding III BV (1)	Amsterdam - NL	--	100
Dala Property Holding XV BV (1)	Amsterdam - NL	--	100
De Klinckaert NV (2)	Brussels - BE	0539.765.408	100
Eurincasso s.r.o. (1)	Prague - CZ	--	100
Gravenkasteel NV (2)	Brussels - BE	0539.764.418	100
Immo-Antares NV (2)	Brussels - BE	0456.398.361	100
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	100
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52
Immo Genk-Zuid NV (2)	Brussels - BE	0464.358.497	100
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100
Immo-Marcel Thiry NV (2)	Brussels - BE	0450.997.441	100
Immo NamOtt NV (2)	Brussels - BE	0840.412.849	100
Immo NamOtt Tréfonds NV (2)	Brussels - BE	0840.620.014	100
Immo-Quinto NV (1)	Brussels - BE	0466.000.470	100
Immo-Zénobe Gramme NV (2)	Brussels - BE	0456.572.664	100
KB-Consult NV (1)	Brussels - BE	0437.623.220	99,95
KBC Clearing NV (1)	Amsterdam - NL	--	100
KBC Diversified Fund (1)	George Town - KY	--	100
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100
KBC Private Equity NV (1)	Brussels - BE	0403,226,228	100
KBC Securities USA, Inc. (1)	New York - US	--	100
KBC Venture Capital Fund Manager (1)	Budapest - HU	--	100
Lancier LLC (1)	Delaware - US	--	100
Luxembourg North Distribution SA (2)	Luxembourg - LU	--	100
Mechelen City Center NV (1)	Brussels - BE	0471.562.332	100
Motokov a.s. (1)	Prague - CZ	--	69,10
Newcourt Street Finance Limited (1)	Jersey - GB	--	100
Novoli Investors BV (1)	Amsterdam - NL	--	83,33
NV ACTIEF NV (1)	Brussels - BE	0824.213.750	57,14
Oxford Street Finance Limited (1)	Jersey - GB	--	100
Patria Finance CF a.s. (1)	Prague - CZ	--	100
Patria Online a.s. (1)	Prague - CZ	--	100
Patria Finance Slovakia a.s. (1)	Bratislava - SK	--	100
Pericles Invest NV (1)	Brussels - BE	0871.593.005	50
Property LM s.r.o. (1)	Bratislava - SK	--	62,87
Quietas NV (2)	Brussels - BE	0539.764.121	100
Rodenbach NV (2)	Brussels - BE	0539.765.012	100
Ruscus sp. z o. o. (1)	Warszawa - PL	--	80
Sicalis BV (1)	Amsterdam - NL	--	100
Spanjeberg NV (2)	Brussels - BE	0539.764.814	100
TEE Square Limited (1)	Maagdeneilanden -	--	100
Ter Bake NV (2)	Brussels - BE	0539.764.517	100
Vastgoed Ruimte Noord NV (1)	Brussels - BE	0863.201.515	100
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	100
Weyveld Vastgoedmaatschappij NV (2)	Brussels - BE	0425.517.818	100
Willowvale Company (1)	Dublin - IE	--	100
Joint subsidiaries that are proportionally consolidated			
Českomoravská Stavební Spořitelna (CMSS)	Prague - CZ	--	55
Union KBC Asset Management Company Private Limited	Mumbai - IN	--	25,41

Name	Registered office	National identification number	Share of capital held at group (%)
Joint subsidiaries that are not proportionally consolidated (1)			
Atrium Development SA	Luxembourg - LU	--	25
Covent Garden Development NV	Brussels - BE	0892.236.187	25
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50
Immobiliare Novoli SpA	Firenze - IT	--	45
Jesmond Amsterdam B.V.	Amsterdam - NL	--	50
Miedziana Sp z.o.o.	Warszawa - PL	--	47,75
Real Estate Participation NV	Zaventem - BE	0473.018.817	50
Sandonato Parcheggi Srl	Firenze - IT	--	44,98
Sandonato Srl	Firenze - IT	--	44,98
UNION KBC Trustee Company Private Limited	Mumbai - IN	--	25,41
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou - CY	--	49,79
Companies accounted for using the equity method			
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	0,24
Giro Elszámolásforgalmi Zrt	Budapest - HU	--	20,99
HAGE Hajdúsági Agráripari Zrt.	Nádudvar - HU	--	25
K&H Lizingház Zrt.	Budapest - HU	--	100
Companies not accounted for using the equity method (1)			
Bancontact-MisterCash NV	Brussels - BE	0884.499.250	20
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22,22
Brussels I3 Fund NV	Brussels - BE	0477.925.433	36,37
Cofely Ren s.r.o.	Prague - CZ	--	42,82
Consorzio Sandonato Est	Firenze - IT	--	20,32
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20
Etoiles d'Europe sas	Paris - FR	--	45
Gemma Frisius-Fonds K.U. Leuven	Leuven - BE	0477.960.372	40
Isabel NV	Brussels - BE	0455.530.509	25,33
Justinvest NV	Antwerp - BE	0476.658.097	33,33
První Certifikační Autorita a.s.	Prague - CZ	--	23,25
Qbic Feeder Fund NV	Brussels - BE	846.493.561	22,26
Rabot Invest NV	Antwerp - BE	0479.758.733	25
Xenarjo cvba	Mechelen - BE	0899.749.531	22,75

Reason for exclusion : (1) exclusion based on limited importance

(2) real estate companies and certificates w here the result is not allocated to the Group

Companies qualifying for consolidation are also effectively included in the consolidated accounts if tw o of the follow ing criteria are met:

if the Group interest in capital and reserves exceed 2,5 million euro

if the Group interest in the result exceeds 1 million euro

if the balance sheet total exceed 100 miliion euro

The aggregated total balance sheet of the companies excluded from consolidation may not exceed 1 % of the consolidated balance sheet total.

- As set out in the accounting policies, all (material) entities (including special purpose entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation. To assess whether or not special purpose entities have to be consolidated, KBC uses the principles set out in SIC 12, as well as materiality thresholds. Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (a) the group's share in equity exceeds 2.5 million euros (b) the group's share in the results exceeds 1 million euros (c) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total. A number of special purpose entities meet only one of these criteria, which means that (as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total) these entities are not effectively consolidated. This relates chiefly to the special purpose entities set up for CDO activities. Please note that these special purpose entities only exceed one of the materiality thresholds (balance sheet total) since their equity and net results are always very limited. However, the CDO-related results are recorded under KBC Financial Products, which is, of course, consolidated. Consequently, excluding these special purpose entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.

Note 40: Main changes in the scope of consolidation

Company	Consolidation	Ownership percentage		Comments
For balance sheet comparison		2012	2013	
Additions				
None				
Exclusions				
Kredyt Bank SA	Full	-	-	Deconsolidated on 31 December 2012 following merger with Bank Zachodni WBK
KBC Private Equity NV	Full	100,00%	-	Deconsolidated in 1Q13 due to immateriality
Nova Ljubljanska banka d.d. (group)	Equity	22,04%	-	Sold in 1Q 2013
Absolut Bank	Full	99,00%	-	Sold in 2Q 2013
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Real Estate NV	Full	100,00%	-	Merged with KBC Bank on 1 July 2012

Note 41: Non-current assets held for sale and discontinued operations (IFRS 5)

- IFRS 5 specifies that a non-current asset (or disposal group) is to be classified as held for sale if its carrying amount will be recovered primarily through a sales transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. To assess whether a sale is highly probable, IFRS 5 sets out a number of conditions that have to be met before it can be applied, viz.:
  1 Management is committed to a plan to sell.
  2 An active programme to locate a buyer and complete the plan is initiated.
  3 The target price is reasonable in relation to its current fair value.
  4 The sale is within 12 months of classification.
  5 It is unlikely that the plan will be significantly changed or withdrawn.
- If all five of the above conditions are met, the assets and liabilities of the divestments are presented under a separate heading in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). As permitted under IFRS, the reference figures have not been restated. If the disposal groups are also classified as discontinued operations, their results (and the reference figures) are recognised under a single heading in the income statement, i.e. 'Net post-tax result from discontinued operations'.
- Main companies following under the scope of IFRS 5:
  - At year-end 2012: Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland and Nova Ljubljanska banka (NLB).
  - In 2013, Absolut Bank and NLB were sold and agreements to sell Antwerp Diamond Bank and KBC Bank Deutschland were signed. Still falling under the scope of IFRS 5 at year-end 2013: Antwerp Diamond Bank and KBC Bank Deutschland.
  - None of these entities is classified as a 'discontinued operation', since they do not represent a separate major line of business or geographical area of operations within KBC as a whole.
- The following information relates to the divestment agreements that had already been signed, but not yet completed, on 31 December 2013.

Company	Remarks
KBC Bank Deutschland	In September 2013, KBC signed an agreement to sell KBC Bank Deutschland to a group of investors comprising Teacher Retirement System of Texas, Apollo Global Management LLC, Apollo Commercial Real Estate Finance Inc. and Grovepoint Capital LLP. The deal will free up some 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets. It will improve KBC Group's solvency position (tier-1 ratio under Basel II) by around 15 basis points. It has yet to be approved by the regulators.
Antwerp Diamond Bank	In December 2013, KBC reached an agreement with the Shanghai-based Yinren Group for the sale of Antwerp Diamond Bank (ADB). This deal has yet to be approved by the regulators. It will free up approximately 0.1 billion euros of capital for KBC, primarily by reducing risk weighted assets, which will ultimately boost KBC Group's tier-1 ratio (Basel II) by almost 0.2%. Before the deal is completed, part of ADB's loan portfolio (primarily higher-risk and non-performing loans with a net carrying value of 0.4 billion euros) will be transferred to KBC Bank NV for standard settlement. Following completion of the deal, KBC will provide secured funding for up to two years to ADB for a total amount of 0.2 billion euros.

- The table below contains details of the impact of activities falling under the scope of IFRS 5.

NON-CURRENT ASSETS HELD FOR SALE AND ASSETS ASSOCIATED WITH DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS	31-12-2012	*of which: Discon-tinued operations*	31-12-2013	*of which: Discon-tinued operations*
Assets				
Cash and cash balances with central banks	434	*0*	57	*0*
Financial assets	6 212	*0*	3 627	*0*
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	*0*	0	*0*
Tax assets	82	*0*	49	*0*
Investments in associated companies	3	*0*	0	*0*
Investment property and property and equipment	106	*0*	22	*0*
Goodwill and other intangible assets	13	*0*	2	*0*
Other assets	33	*0*	13	*0*
Total assets	6 883	*0*	3 769	*0*
Liabilities				
Financial liabilities	3 486	*0*	1 977	*0*
Tax liabilities	12	*0*	11	*0*
Provisions for risks and charges	8	*0*	10	*0*
Other liabilities	58	*0*	28	*0*
Total liabilities	3 565	*0*	2 027	*0*
Other comprehensive income				
Available-for-sale reserve	22	*0*	- 3	*0*
Deferred tax on available-for-sale reserve	- 5	*0*	0	*0*
Cash flow hedge reserve	7	*0*	0	*0*
Translation differences	5	*0*	0	*0*
Total other comprehensive income	29	*0*	- 4	*0*

Note 42: Risk management

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the 'Value and risk management' section that have been audited by the statutory auditor. The section also includes information on exposure to sovereign bonds and on the portfolio of structured credit (see under 'Credit risk').

Note 43: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2013) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting events after balance sheet date were:

- On 8 January 2014, KBC Group (KBC Bank's parent company) paid a second instalment of state aid (0.33 billion euros + 50% penalty) to the Flemish Regional Government. In addition, the supervisory authorities – with the National Bank of Belgium as the consolidating supervisor – have taken their home-host capital decision for KBC Group NV, which has been informed of the request to maintain a permanent minimum (fully loaded) Basel III common equity ratio of 9.25% (excluding latent gains).
- On 4 March 2014, KBC announced its intention to issue a CRD IV compliant, euro-denominated, non-dilutive, Additional Tier-1 instrument of benchmark size. It will be a 5-year, non-call perpetual instrument with a temporary write-down trigger at 5.125% common equity tier 1. KBC Group intends to use the proceeds of this issue to strengthen KBC Bank's tier-1 capital. Following the Investor Roadshow in Europe and Asia on 10, 11 and 12 March 2014, KBC Group placed 1.4 billion euros. More details are provided in the press release of 13 March 2014, which is available at www.kbc.com.
- In the first quarter of 2014, another portion of the remaining CDO portfolio was collapsed. The impact on the result was negligible.

Note 44: General information on the company

Name: KBC Bank NV

Incorporated: 17 March 1998

Country of incorporation: Belgium.

Registered office: Havenlaan 2, 1080 Brussels, Belgium.

VAT: BE 0462.920.226.

RLP: Brussels.

Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium.

Life: indefinite.

Object: In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection:

The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The financial statements are filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office and/or can be downloaded from www.kbc.com. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders:

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11 a.m. on the business day immediately before it.
Each share gives entitlement to one vote.

Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.

Holders of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office of KBC Bank NV in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting.

Holders of book-entry bonds, warrants or certificates issued in co-operation with the company must, at least four business days prior to the General Meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.

Holders of bearer bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, deposit their securities at the registered office or at another location if specified in the convening notice. They will receive a certificate attesting to the fact that their bonds, warrants or certificates were deposited on time. They will be admitted to the General Meeting upon presentation of proof of their identity and this certificate.

Company annual accounts

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	C-inst 1.1

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

Date 24/04/2013 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 23/04/2014

concerning the financial year covering the period from 01/01/2013 till 31/12/2013

Previous period from 01/01/2012 till 31/12/2012
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2013	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Thomas LEYSEN, Rosier 21, 2000 Antwerpen	entire year	2015
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2017

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: 5.6.2, 5.7.1, 5.7.3, 5.8.6, 5.20, 5.21.1, 5.21.2, 5.21.4, 5.25, 5.32.2

Signature (name and position)	Signature (name and position)
J. THIJS	T. LEYSEN
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Mr. Nabil ARISS, 16 Chiddingstone Street, UK London SW6 3TG	as of 20/12/2013	co-optation until next GM
Mr. Alain BOSTOEN, Coupure 126, 9000 Gent	entire year	2016
Mr. Danny DE RAYMAEKER, Brabançonnestraat 84, 3000 Leuven	entire year	2016
Mr. Julien DE WILDE, Jabekestraat 49, 9230 Wetteren	resignation as of 20/12/2013	
Mr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2015
Mr. Luc DISCRY, Bosduifdreef 4, 2970 Schilde	entire year	2014
Mr. Frank DONCK, Floridalaan 62, 1180 Ukkel	entire year	2016
Mr. Daniel FALQUE, Bovenbosstraat 78, 3053 Haasrode	entire year	2016
Mr. Lucien GIJSENS, Oudenaardsesteenweg 44, 9000 Gent	entire year	2015
Mr. John HOLLOWS, Vlaamse Gaaienlaan 11, 3080 Tervuren	entire year	2017
Mr. Pavel KAVANEK, Ostrovni 2064/5, Praha 1	entire year	2016
Mr. Lode MORLION, Weststraat 18, 8647 Lo-Reninge	entire year	2016
Mr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2017
Mr. Theodoros ROUSSIS, Poederstraat 51, 2370 Arendonk	entire year	2016
Mr. Alain TYTGADT, Prinses Josephinelaan 7, 8300 Knokke	entire year	2016
Mr. Dolf van den BRINK, Raboes 19, NL 1251 AK Laren, Nederland	entire year	2016
Ms. Ghislaine VAN KERCKHOVE, Wegvoeringstraat 62, 9230 Wetteren	entire year	2016
Mr. Piet VANTHEMSCHE, Tombergstraat 57, 1750 St.-Martens-Lennik	entire year	2015
Mr. Philippe VLERICK, Ronsevaalstraat 2, 8510 Bellegem	entire year	2016
Mr. Marko VOLJČ, Winston Churchilllaan 161, PB 15, 1180 Ukkel	entire year	2014
Mr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2014

AUDITOR:

ERNST & YOUNG Bedrijfsrevisoren BCVBA, De Kleetlaan 2, 1831 Diegem
represented by Ms. Christel WEYMEERSCH and/or Mr. Pierre VANDERBEEK

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate.
** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	2.724.450.503,29	2.826.321.208,38
II. Treasury bills eligible for refinancing at central banks		10200	832.712.354,40	616.000.060,55
III. Loans and advances to credit institutions	5.1	10300	22.346.788.994,12	21.338.329.213,96
A. Repayable on demand		10310	1.851.696.799,75	1.559.832.385,87
B. Other loans and adv. (with agreed maturity dates)		10320	20.495.092.194,37	19.778.496.828,09
IV. Loans and advances to customers	5.2	10400	72.374.198.990,87	71.063.002.474,92
V. Debt securities and other fixed-income securities	5.3	10500	27.246.056.347,46	33.064.999.469,41
A. Issued by public bodies		10510	16.888.072.728,14	19.313.244.880,88
B. Issued by other borrowers		10520	10.357.983.619,32	13.751.754.588,53
VI. Shares and other variable-yield securities	5.4	10600	251.937.131,15	296.446.625,74
VII. Financial fixed assets	5.5/ 5.6.1	10700	13.294.988.646,29	14.443.063.618,79
A. Participating interests in affiliated enterprises		10710	12.587.144.172,18	12.236.852.777,51
B. Participating interests in other enterprises linked by participating interests		10720	137.950.153,85	909.338.990,07
C. Other shares held as financial fixed assets		10730	25.807.888,11	29.432.548,47
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	544.086.432,15	1.267.439.302,74
VIII. Formation expenses and intangible fixed assets	5.7	10800	300.035,19	232.080,84
IX. Tangible fixed assets	5.8	10900	774.697.201,40	762.357.850,62
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.892.370.483,82	1.996.133.647,43
XII. Accrued income	5.10	11200	8.102.159.616,27	11.880.347.564,89
TOTAL ASSETS		19900	149.840.660.304,26	158.287.233.815,53

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	139.920.172.293,72	148.430.331.393,07
I. Amounts owed to credit institutions	5.11	20100	11.012.123.394,55	17.745.555.349,89
A. Repayable on demand		20110	2.502.264.705,48	3.025.157.790,87
B. Amounts owed as a result of the rediscounting of trade bills		20120	0,00	0,00
C. Other debts with agreed maturity dates or periods of notice		20130	8.509.858.689,07	14.720.397.559,02
II. Amounts owed to customers	5.12	20200	104.869.642.825,90	101.590.945.111,58
A. Savings deposits		20210	31.407.920.395,63	31.051.080.852,36
B. Other debts		20220	73.461.722.430,27	70.539.864.259,22
1. repayable on demand		20221	24.195.915.971,10	23.286.944.034,43
2. with agreed maturity dates or periods of notice		20222	49.265.806.459,17	47.252.920.224,79
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	6.038.450.523,22	6.183.970.635,71
A. Debt securities and other fixed-income securities in circulation		20310	4.346.320.868,57	1.736.066.652,90
B. Other		20320	1.692.129.654,65	4.447.903.982,81
IV. Other liabilities	5.14	20400	1.747.272.882,03	1.163.056.073,73
V. Accrued charges and deferred income	5.15	20500	9.307.910.916,97	14.092.347.305,45
VI. Provisions and deferred taxes		20600	361.904.905,82	392.034.725,34
A. Provisions for liabilities and charges		20610	360.982.178,09	382.185.833,84
1. Pensions and similar obligations		20611	32.641.725,83	37.240.076,44
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	328.340.452,26	344.945.757,40
B. Deferred taxes		20620	922.727,73	9.848.891,50
VII. Fund for general banking risks		20700	0,00	0,00
VIII. Subordinated liabilities	5.17	20800	6.582.866.845,23	7.262.422.191,37
OWN FUNDS		209/213	9.920.488.010,54	9.856.902.422,46
IX. CAPITAL	5.18	20900	8.948.439.652,39	8.948.439.652,39
A. Subscribed capital		20910	8.948.439.652,39	8.948.439.652,39
B. Uncalled capital (-)		20920	0,00	0,00
X. Share premium account		21000	895.449.646,51	1.221.582.682,87
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	76.139.557,51	132.278.884,44
A. Legal reserve		21210	63.166.309,28	119.265.760,88
B. Reserves not available for distribution		21220	0,00	0,00
1. In respect of own shares held		21221	0,00	0,00
2. Other		21222	0,00	0,00
C. Untaxed reserves		21230	12.973.248,23	13.013.123,56
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	459.154,13	-445.398.797,24
TOTAL LIABILITIES		29900	149.840.660.304,26	158.287.233.815,53

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	28.604.806.187,41	29.838.988.249,88
A. Non-negotiated acceptances		30110	16.488.852,07	45.649.969,08
B. Guarantees serving as direct credit substitutes		30120	3.515.219.781,55	3.767.552.342,63
C. Other guarantees		30130	23.141.426.411,27	23.764.269.006,42
D. Documentary credits		30140	1.931.671.142,52	2.261.516.931,75
E. Assets charged as collateral security on behalf of third parties		30150	0,00	0,00
II. Commitments which could give rise to a risk	5.22	30200	30.522.281.023,06	33.114.787.648,30
A. Firm credit commitments		30210	3.200.625.454,68	5.807.599.588,43
B. Commitments as a result of spot purchases of transferable or other securities		30220	108.017.727,77	62.683.392,53
C. Undrawn margin on confirmed credit lines		30230	27.213.637.840,61	27.240.525.585,94
D. Underwriting and placing commitments		30240	0,00	3.979.081,40
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0,00	0,00
III. Assets lodged with the credit institution		30300	183.240.783.541,69	182.186.877.414,96
A. Assets held by the credit institution for fiduciary purposes		30310	3.911.764.453,54	3.411.593.566,86
B. Safe custody and equivalent items		30320	179.329.019.088,15	178.775.283.848,10
IV. Uncalled amounts of share capital		30400	6.251.296,40	27.807.265,38

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	3.388.524.048,02	3.916.361.162,45
A. Of which: from fixed-income securities			40110	884.513.236,91	1.091.341.972,55
II. Interest payable and similar charges			40200	2.423.634.432,13	2.938.064.104,71
III. Income from variable-yield securities		5.23	40300	1.138.622.527,99	700.113.215,57
A. From shares and other variable-yield securities			40310	5.025.380,43	2.588.291,54
B. From participating interests in affiliated enterprises			40320	1.131.435.426,24	695.068.243,87
C. From participating interests in other enterprises linked by participating interests			40330	1.380.923,16	1.791.010,93
D. From other shares held as financial fixed assets			40340	780.798,16	665.669,23
IV. Commissions receivable		5.23	40400	1.099.296.421,45	1.072.806.902,78
A. Brokerage and related commissions			40410	568.387.792,39	523.250.097,93
B. Management, consultancy and conservation commissions			40420	37.019.807,95	33.309.938,04
C. Other commissions received			40430	493.888.821,11	516.246.866,81
V. Commissions payable			40500	158.528.637,65	149.135.471,66
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	732.834.085,21	250.012.301,04
A. On trading of securities and other financial instruments			40610	384.726.335,86	194.142.715,21
B. On disposal of investment securities			40620	348.107.749,35	55.869.585,83
VII. General administrative expenses			40700	1.665.138.930,36	2.109.058.259,75
A. Remuneration, social security costs and pensions			40710	786.967.157,03	810.130.022,80
B. Other administrative expenses			40720	878.171.773,33	1.298.928.236,95
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	46.212.726,15	41.886.693,46
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	-481.207.334,82	-240.897.483,00
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	481.899,03	48.208.709,55
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	37.146.000,79	408.017.801,50
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	47.461.808,44	51.514.283,02
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	349.770.940,91	238.223.578,26
XV. Other operating charges		5.23	41500	69.169.647,02	54.545.136,67
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.855.322.406,83	1.048.642.238,88

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	1.475.966.220,16	393.579.246,58
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0,00	0,00
B. Adjustments to write-downs on financial fixed assets			41720	1.244.053.478,90	380.810.830,26
C. Adjustments to provisions for extraordinary liabilities and charges			41730	366.444,49	0,00
D. Gain on disposal of fixed assets			41740	231.467.868,38	12.706.581,15
E. Other extraordinary income		5.25	41750	78.428,39	61.835,17
XVIII. Extraordinary charges			41800	2.068.543.707,71	1.773.919.733,36
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	7.856.575,00	
B. Write-downs on financial fixed assets			41820	772.253.966,95	1.582.283.230,23
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	916.497,08	3.713.420,95
D. Loss on disposal of fixed assets			41840	1.287.507.962,20	187.454.230,17
E. Other extraordinary charges		5.25	41850	8.706,48	468.852,01
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	1.262.744.919,28	-331.698.247,90
XIXbis. A. Transfer to deferred taxes			41921	58.860,20	118.251.780,65
B. Transfer from deferred taxes			41922	17.648.639,57	31.698.702,95
XX. Income taxes	(+/-)	5.26	42000	17.048.399,60	29.175.836,08
A. Income taxes			42010	22.477.219,34	36.478.985,92
B. Adjustement of income taxes and write-back of tax provisions			42020	5.428.819,74	7.303.149,84
XXI. Profits (Losses) for the period	(+/-)		42100	1.263.286.299,05	-447.427.161,68
XXII. Transfer to untaxed reserves	(+/-)		42200	39.886,47	24.775,42
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	1.263.326.185,52	-447.402.386,26

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	817.927.388,28	-445.398.797,24
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	1.263.326.185,52	-447.402.386,26
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	-445.398.797,24	2.003.589,02
B. Transfers from capital and reserves		49200	445.398.797,24	0,00
1. From capital and share premium account		49210	326.133.036,36	0,00
2. From reserves		49220	119.265.760,88	0,00
C. Transfers to capital and reserves		49300	63.166.309,28	0,00
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	63.166.309,28	0,00
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	459.154,13	-445.398.797,24
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	1.199.700.722,11	0,00
1. Dividends		49610	1.180.644.741,78	0,00
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	19.055.980,33	0,00

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	22.346.788.994,12	21.338.329.213,96
1. Loans and advances to affiliated enterprises	50101	14.720.758.844,24	13.382.783.574,00
2. Loans and advances to other enterprises linked by participating interests	50102	0,00	75.002.399,00
3. Subordinated loans and advances	50103	11.943.222,42	15.199.272,73
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	20.495.092.194,37	19.778.496.828,09
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	15.664.998.170,02	
b. Over 3 months up to 1 year	50106	2.383.437.461,43	
c. Over 1 year up to 5 years	50107	2.181.689.026,93	
d. Over 5 years	50108	164.907.035,69	
e. Undated	50109	100.060.500,30	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	12.903.895.251,56	12.069.838.158,00
2. Loans to other enterprises linked by participating interests	50202	54.872.147,87	55.307.468,00
3. Subordinated loans	50203	339.145.158,87	2.891.163.596,97
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	21.077.856.365,08	
b. Over 3 months up to 1 year	50206	3.528.447.157,16	
c. Over 1 year up to 5 years	50207	9.442.111.126,62	
d. Over 5 years	50208	34.392.390.160,25	
e. Undated	50209	3.933.394.181,76	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	1.994.672.943,34	1.809.626.044,42
b. Retail exposures	50211	23.494.736.848,20	19.055.415.232,37
c. Claims on enterprises	50212	46.884.789.199,33	50.197.961.198,13
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	79.409.041,02	
b. Loans and advances as a result of leasing and similar agreements	50214	413.093.742,47	
c. Fixed-rate loans	50215	872.542.316,76	
d. Mortgage loans	50216	19.091.063.972,76	
e. Other term loans with a maturity over 1 year	50217	34.894.517.989,26	
f. Other loans and advances	50218	17.023.571.928,60	
8. Geographical breakdown			
a. Belgian origin	50219	61.347.692.749,52	
b. Foreign	50220	11.026.506.241,35	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0,00	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0,00	
c. Net amount outstanding (a-b)	50223	0,00	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

	Code	Current period	Previous period
A. GENERAL	(10500)	27.246.056.347,46	33.064.999.469,41
1. Securities issued by affiliated enterprises	50301	9.166.411.092,44	13.092.380.268,00
2. Securities issued by enterprises linked by participating interests	50302	0,00	0,00
3. Securities representing subordinated loans	50303	260.326.530,46	13.377.510.046,25
4. Country analysis of the securities issued			
a. By public bodies	50304	13.880.086.058,79	
b. By other borrowers	50305	3.007.986.669,35	
c. Belgian issuers other than public bodies	50306	7.077.573.683,64	
d. Foreign issuers other than public bodies	50307	3.280.409.935,68	
5. Listing			
a. Book value of listed securities	50308	27.176.375.877,04	
b. Market value of listed securities	50309	27.848.145.586,22	
c. Book value of unlisted securities	50310	69.680.470,42	
6. Maturities			
a. Remaining maturity of up to one year	50311	3.064.068.898,47	
b. Remaining maturity of over one year	50312	24.181.987.448,99	
7. Analysis by portfolio			
a. Trading portfolio	50313	533.323.431,68	
b. Investment portfolio	50314	26.712.732.915,78	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	5.372.521,00	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	57.589.006,39	
b. Difference between redemption value (if lower) and carrying value	50318	926.454.104,53	

		Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1. As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	31.400.961.072,70
2. Movements during the the period		50319	-4.669.246.407,00	
a . Acquisitions		50320	3.905.757.183,69	
b . Sales		50321	-8.412.964.074,94	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-162.039.515,75	
3. Acquisition cost as at end of the period		50323	26.731.714.665,70	
4. Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324		
b . Transfers from the trading portfolio to the investment portfolio		50325		
c . Impact on result		50326		
5. Write-Downs as at end of the period		50332P	xxxxxxxxxxxxxxx	56.763.089,46
6. Movements during the the period		50327	-37.781.339,54	
a . Recorded		50328	2.633.798,17	
b . Excess written back		50329	-3.550.044,50	
c . Cancellations		50330	-36.307.021,39	
d . Transfers from one caption to another	(+/-)	50331	-558.071,82	
7. Write-downs as at end of the period		50332	18.981.749,92	
8. Carrying value as at end of the period		(50314)	26.712.732.915,78	

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	251.937.131,15	296.446.625,74
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	351.094,90	342.623,08
b. Foreign issuers	50402	251.586.036,25	296.104.002,66
2. Listing			
a. Carrying value	50403	227.674.898,21	
b. Market value	50404	245.506.545,81	
c. Carrying value of unlisted securities	50405	24.262.232,94	
3. Analysis by portfolio			
a. Trading portfolio	50406	119.685.985,33	
b. Investment portfolio	50407	132.251.145,82	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	20.625.878,13	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0,00	

		Code	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1. Acquisition cost as at the end of the period		5041P	xxxxxxxxxxxxxxx	59.962.361,12
2. Movements during the the period		50410	89.034.135,53	
a. Acquisitions		50411	139.118.236,81	
b. Sales		50412	-47.595.563,61	
c. Other adjustments	(+/-)	50413	-2.488.537,67	
3. Acquisition cost as at end of the period		50414	148.996.496,65	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415		
b. Transfers from the trading portfolio to the investment portfolio		50416		
c. Impact on result		50417		
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	16.444.114,79
6. Movements during the period		50418	301.236,04	
a. Recorded		50419	489.854,40	
b. Excess written back		50420	-55.507,25	
c. Cancellations		50421	0,00	
d. Transfers from one caption to another	(+)/(-)	50422	-133.111,11	
7. Write-downs as at end of the period		50423	16.745.350,83	
8. Carrying value as at end of the period		(50407)	132.251.145,82	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

	Codes	Current period	Previous period
A. GENERAL			
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	6.407.397.189,07	6.045.116.156,48
b. Participating interests in enterprises that are not credit institutions	50502	6.179.746.983,11	6.191.736.621,03
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	5.453,65	755.072.001,30
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	137.944.700,20	154.266.988,77
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	149.000,01	5.076.544,34
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	25.658.888,10	24.356.004,13
g. Subordinated loans in linked enterprises that are credit institutions	50507	365.200.000,00	1.069.100.478,91
h. Subordinated loans in linked enterprises that are not credit institutions	50508	101.851.432,15	111.816.223,42
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0,00	0,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	77.035.000,00	86.522.600,41
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	12.587.144.172,18	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	13.921.255,63	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	124.028.898,22	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	10.188.652,00	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	15.619.236,11	
g. Amount of subordinated loans represented by listed securities	50517	0,00	

	Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	18.617.959.171,49
2. Movements during the period	50518	349.388.799,54	
a. Acquisitions	50519	1.386.204.406,40	
b. Sales and disposals	50520	-1.036.815.606,86	
c. Transfers from one caption to another (+/-)	50521	0,00	
3. Acquisition cost as at the end of the period	50522	18.967.347.971,03	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	50523	0,00	
a. Recorded	50524	0,00	
b. Acquisitions from third parties	50525	0,00	
c. Cancellations	50526	0,00	
d. Transfers from one caption to another (+/-)	50527	0,00	
6. Revaluation surpluses as at the end of the period	50528	0,00	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	6.381.106.393,98
8. Movements during the period	50529	-902.595,13	
a. Recorded	50530	752.097.427,15	
b. Excess written back	50531	-67.000.000,00	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-686.000.022,28	
e. Transfers from one caption to another (+/-)	50534	0,00	
9. Write-downs as at end of the period	50535	6.380.203.798,85	
10. Net carrying value as at the end of the period	10710	12.587.144.172,18	

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS

		Codes	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	1.451.599.182,57
2. Movements during the period		50536	-1.250.804.407,08	
a. Acquisitions		50537	592.840,33	
b. Sales and disposals		50538	-1.251.397.247,41	
c. Transfers from one caption to another	(+/-)	50539	0,00	
3. Acquisition cost as at end of the period		50540	200.794.775,49	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of the period		50546	0,00	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	542.260.192,50
8. Movements during the period		50547	-479.415.570,86	
a. Recorded		50548	0,00	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	-479.415.570,86	
e. Transfers from one caption to another	(+/-)	50552	0,00	
9. Write-downs as at the end of the period		50553	62.844.621,64	
10. Net carrying value as at end of the period		10720	137.950.153,85	

		Codes	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	29.432.548,57
2. Movements during the period		50554	-3.624.660,46	
a. Acquisitions		50555	0,00	
b. Sales and disposals		50556	-3.624.660,46	
c. Transfers from one caption to another	(+/-)	50557	0,00	
3. Acquisition cost as at the end of the period		50558	25.807.888,11	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to another	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of the period		50564	0,00	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period		50565	0,00	
a. Recorded		50566	0,00	
b. Excess written back		50567	0,00	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	0,00	
e. Transfers from one caption to another	(+/-)	50570	0,00	
9. Write-downs as at the end of the period		50571	0,00	
10. Net carrying value as at the end of the period		10730	25.807.888,11	

		Codes	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	1.180.916.702,01
2. Movements during the period		50572	-713.865.269,86	
a. Additions		50573	797.841,15	
b. Reimbursements		50574	-714.663.111,01	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	0,00	
f. Other	(+)/(-)	50578	0,00	
3. Net carrying value as at the end of the period		50579	467.051.432,15	
4. Accumulated write-downs as at the end of the period		50580	0,00	

		Codes	Current period	Previous period
F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	86.522.600,73
2. Movements during the period		50581	-9.487.600,73	
a. Additions		50582	5.800.000,00	
b. Reimbursements		50583	-15.287.600,73	
c. Write-downs		50584	0,00	
d. Amounts written back		50585	0,00	
e. Realized exchange gains/losses	(+)/(-)	50586	0,00	
f. Other	(+)/(-)	50587	0,00	
3. Net carrying value as at the end of the period		50588	77.035.000,00	
4. Accumulated write-downs as at the end of the period		50589	0,00	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992 and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER				Shares held				Information from the most recent period for which annual accounts are available			
				directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
				Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises											
Antwerpse Diamantbank NV Antwerp BE, 0404.465.551	Antwerp	BE,	0404.465.551	Ordinary	7.686.355	99,99	0,00				
CBC BANQUE SA Brussels BE, 0403.211.380	Brussels	BE,	0403.211.380	Ordinary	2.989.625	100,00	0,00				
Ceskoslovenska Obchodná Banka a.s. Bratislava SK,-	Bratislava	SK,	-	Ordinary	7.470	100,00	0,00				
Ceskoslovenska Obchodni Banka a.s. Prague CZ,-	Prague	CZ,	-	Ordinary	292.750.001	100,00	0,00				
CIBANK AD Sofia, BG -	Sofia,	BG	-	Ordinary	22.793.251	100,00	0,00				
IIB Finance Ireland Dublin IE,-	Dublin	IE,	-	Ordinary Ordinary AUD Ordinary EUR Ordinary GBP Ordinary USD	2.166.999 700.000 109.965.541 104.000.000 116.000.000	0,33 0,11 16,59 15,69 17,50	0,00 0,00 0,00 0,00 0,00				
K & H Bank Zrt. Budapest HU,-	Budapest	HU,	-	Reg. Sh. HUF 2000	140.978.164.412	100,00	0,00				
KB Consult NV Brussels BE, 0437.623.220	Brussels	BE,	0437.623.220	Ordinary	364.543	99,95	0,00	31-dec-12	EUR	891	-7
KBC Asset Management NV Brussels BE, 0469.444.267	Brussels	BE,	0469.444.267	Ordinary	2.730.644	47,35	4,51				
KBC Bank Deutschland AG Bremen DE,-	Bremen	DE,	-	Ordinary Genussrechte	567.300 97.791.500	99,99 100,00	0,00 0,00				
KBC Bank Funding LLC II New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding LLC III New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding LLC IV New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding Trust II New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding Trust III New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding Trust IV New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Ireland Plc Dublin IE,-	Dublin	IE,	-	Ordinary	1.594.438.509	100,00	0,00				
KBC Clearing NV Amsterdam NL,-	Amsterdam	NL,	-	Ordinary	30.491	100,00	0,00				
KBC Commercial Finance NV Brussels BE, 0403.278.488	Brussels	BE,	0403.278.488	Ordinary	119.999	99,99	0,00				
KBC Consumer Finance NV Brussels BE, 0473.404.540	Brussels	BE,	0473.404.540	Ordinary	5.652	100,00	0,00				
KBC Credit Investments NV Brussels, BE 0887.849.512	Brussels,	BE	0887.849.512	Ordinary	4.999.999	99,99	0,00				
KBC Financial Holding Inc. Wilmington US,-	Wilmington	US,	-	Ordinary	100	100,00	0,00				
KBC Financial Products Intern Cayman III George Town GB,-	George Town	GB	-	Ordinary	100	100,00	0,00				
KBC Financial Products UK Limited London GB,-	London	GB,	-	Ordinary	350.100.000	100,00	0,00				
KBC Ifima NV Rotterdam NL,-	Rotterdam	NL,	-	Ordinary	10.585	100,00	0,00				
KBC Investments Hong Kong Limited Hong Kong, HK,-	Hong Kong,	HK,	-	Ordinary	130.000.000	100,00	0,00				
KBC Investments Limited London, UK,-	London,	UK,	-	Ordinary	1.305.000.000	99,99	0,00				
KBC Lease Holding NV Leuven BE, 0403.272.253	Leuven	BE,	0403.272.253	Ordinary	478.471	99,99	0,00				
KBC Lease (UK) Limited Guildford GB,-	Guildford	GB,	-	Ordinary	7.327.865	34,00	66,00				
KBC North American Finance Corporation Delaware US,-	Delaware	US,	-	Ordinary	1.000	100,00	0,00				
KBC Private Equity NV Brussels BE, 0403.226.228	Brussels	BE,	0403.226.228	Ordinary Ordinary - 44.28% paid u	445.416 73.502	85,84 14,16	0,00 0,00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	99.947	99,95	0,05				
KBC Securities NV Brussels BE, 0437.060.521	Brussels	BE,	0437.060.521	Ordinary	1.898.517	99,95	0,00				
NV ACTIEF NV	Brussels	BE,	0824.213.750	Cat "A"	600	57,14	0,00	31-dec-12	EUR	100	0

Brussels BE, 0824.213.750											
Old Broad Street Invest NV Brussels, BE, 0871.247.565	Brussels,	BE,	0871.247.565	Ordinary	1.581.449	99,99	0,00				
Almafin Real Estate NV Brussels BE, 0403 355 494	Brussels	BE,	0403 355 494	Ordinary	61.999	99,99	0,00				
Julienne Holdings SARL Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	4.500	90,00	0,00				
KBC Rusthuisvastgoed Brussels BE, 0864798253	Brussels	BE,	0864798253	Ordinary	1	0,01	99,99				
KBC Vastgoedinvesteringen Brussels BE, 0455 916 925	Brussels	BE,	0455 916 925	Ordinary	57.909	99,90	0,10				
KBC Vastgoedportefeuille België Brussels, BE, 0438 007 854	Brussels,	BE,	0438 007 854	Ordinary	57.763	99,99	0,01				
Novoli Investors BV Amsterdam NL, -	Amsterdam	NL,	-	Ordinary	1.750	83,33	0,00	31-dec-12	EUR	-9.658	-8.286
Poelaert Invest NV Brussels BE, 0478 381 531	Brussels	BE,	0478 381 531	Ordinary	9.950	99,50	0,50				
Vastgoedruimte Noord NV Brussels BE, 0863201515	Brussels	BE,	0863201515	Ordinary	18.999	99,99	0,01	31-dec-12	EUR	4.885	-6.902
Almaloisir & Immobilier SAS Nice, FR, 3542 862 0439	Nice,	FR,	3542 862 0439	Ordinary	328	100,00	0,00	31-dec-12	EUR	133	-12
Apitri NV Brussels BE, 0469 889 873	Brussels	BE,	0469 889 873	Ordinary	98	98,00	2,00	31-dec-12	EUR	3.517	434
Immo Antares NV Brussels BE, 0456398361	Brussels	BE,	0456398361	Ordinary	2.375	95,00	5,00	10-nov-12	EUR	-2.496	-641
Immo Basilix NV Brussels BE, 0453348801	Brussels	BE,	0453348801	Ordinary	2.375	95,00	5,00	12-sep-12	EUR	80	2
Immo Lux - Airport SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	1.456	99,93	0,07	31-dec-12	EUR	-3.103	-1.806
Immo Marcel Thiry NV Brussels BE, 0450997441	Brussels	BE,	0450997441	Ordinary	1.900	95,00	5,00	05-okt-12	EUR	-7.548	-132
Immo Namott NV Brussels BE, 0840.412.849	Brussels	BE,	0840.412.849	Ordinary	100	99,00	1,00	31-dec-12	EUR	62	0
Immo Namott Tréfonds NV Brussels BE, -	Brussels	BE,	-	Ordinary	1	1,00	99,00	31-dec-12	EUR	1.034	4
Immo Zenobe Gramme Brussels BE, 0456572664	Brussels	BE,	0456572664	Ordinary	99	99,00	1,00	31-dec-12	EUR	77	1
Immobilière Distri-Land NV Brussels BE, 0436440909	Brussels	BE,	0436440909	Ordinary	1.093	87,44	0,08	31-dec-12	EUR	279	10
Luxembourg North Distribution SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	11	11,00	89,00	31-dec-12	EUR	101	67
Brussels North Distribution NV Brussels BE, 0476212887	Brussels	BE,	0476212887	Ordinary	5	5,00	95,00	31-dec-12	EUR	69	23
Mechelen City Center NV Brussels BE, 0471562332	Brussels	BE,	0471562332	Ordinary	1.369	99,93	0,07	31-dec-12	EUR	3.396	380
Immo Quinto NV Brussels BE, 0466000470	Brussels	BE,	0466000470	Ordinary	141.935	99,30	0,70	31-dec-12	EUR	4.247	196

2. Enterprises linked by participating interests

>=20% en <= 50%

Bedrijvencentrum Regio Roeselare NV Roeselare BE, 0428.378.724	Roeselare	BE,	0428.378.724	Ordinary	500	22,22	0,00	31-dec-12	EUR	603	-5
Almafin Real Estate Services NV Brussels BE, 0416.030.525	Brussels	BE,	0416.030.525	Ordinary	1	0,01	29,03				
Bancontact-Mistercash NV Brussels BE, 0884.499.250	Brussels	BE,	0884.499.250	Ordinary	5.123	20,00	0,00	31-dec-12	EUR	4.504	1.976
Isabel NV Brussels BE, 0455.530.509	Brussels	BE,	0455.530.509	Ordinary	253.322	25,33	0,00	31-dec-12	EUR	12.159	-1.397
Xenarjo cvba Mechelen BE, 0899.749.531	Mechelen	BE,	0899.749.531	Ordinary	1.009	22,75	0,00	31-dec-12	EUR	550	264
QBIC Feeder Fund Brussels BE, -	Brussels	BE,	-	Ordinary	1.200	22,26	0,00				
Etoiles d'Europe SAS Paris FR, -	Paris	FR,	-	Ordinary	2.250	45,00	0,00	30-jun-12	EUR	160	-33
Immo Beaulieu NV Brussels BE, 0450193133	Brussels	BE,	0450193133	Ordinary	1.000	50,00	0,00	16-jun-12	EUR	68	114
Justinvest Antwerpen NV Wilrijk BE, 0476658097	Wilrijk	BE,	0476658097	Ordinary	50	33,33	0,00	31-dec-12	EUR	330	26
Rabot Invest NV Wilrijk BE, 0479758733	Wilrijk	BE,	0479758733	Ordinary	60	25,00	0,00	31-dec-12	EUR	564	14
Brussels I3 Fund NV Brussels BE, 0477925433	Brussels	BE,	0477925433	Cat "D"	2.182	36,37	0,00	31-dec-12	EUR	2.005	-418
Real Estate Participation NV Zaventem BE, 0473.018.817	Zaventem	BE,	0473.018.817	Ordinary	500	50,00	0,00	31-dec-12	EUR	4.404	3.533
Covent Garden Real Estate NV Zaventem, BE, 0872.941.897	Zaventem,	BE,	0872.941.897	Ordinary	750	50,00	0,00	31-dec-12	EUR	1.650	37

3. Enterprises linked by participating interests

>=10% en <= 20%

Bedrijvencentrum Westhoek NV Ieper BE, 0430.383.258	Ieper	BE,	0430.383.258	Ordinary	200	11,85	0,00	31-dec-12	EUR	564	73

Bedrijvencentrum Zaventem NV Zaventem BE, 0426.496.726	Zaventem	BE,	0426.496.726	Ordinary	350	11,64	0,00	31-dec-12	EUR	441	67
BH-Capital a.s. Brno CZ, -	Brno	CZ,	-	Ordinary	717.300	14,06	0,01	31-dec-12	CZK	536.184	-2.564
De Beitel NV Lier BE, 0869.799.196	Lier	BE,	0869.799.196	Ordinary	25	16,34	0,00	31-dec-12	EUR	176	-8
Designcenter De Winkelhaak Antwerp BE, 0470.201.857	Antwerp	BE,	0470.201.857	Cat. B	124	19,47	0,00	31-dec-12	EUR	1.646	-61
Europay Belgium CV Brussels BE, 0434.197.536	Brussels	BE,	0434.197.536	Ordinary	4.850	14,17	1,16	31-dec-12	EUR	1.290	102
Impulse Microfinancieringsfonds Wilrijk BE, 0870.792.160	Wilrijk	BE,	0870.792.160	Ordinary	2.000	17,57	0,00	31-dec-12	EUR	15.588	273
Rural Impulse Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	15.000	16,67	0,00	31-dec-12	EUR	10.662	43

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

		Codes	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50701	0,00	
a. New expenses incurred		50702	0,00	
b. Amortization		50703	0,00	
c. Other	(+)/(-)	50704	0,00	
3. Net carrying value as at the end of the period		50705	0,00	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0,00	
b. Reorganization costs		50707	0,00	

		Codes	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	1.250.874,68
2. Movements during the period		50708	0,00	
a. Acquisitions, including own construction		50709	0,00	
b. Sales and disposals		50710	0,00	
c. Transfers from one caption to another	(+)/(-)	50711	0,00	
3. Acquisition cost as at the end of the period		50712	1.250.874,68	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	1.250.874,68
5. Movements during the period		50713	0,00	
a. Recorded		50714	0,00	
b. Excess written back		50715	0,00	
c. Acquisitions from third parties		50716	0,00	
d. Cancellations		50717	0,00	
e. Transfers from one caption to another	(+/-)	50718	0,00	
6. Amortizations and write-downs as at the end of the period		50719	1.250.874,68	
7. Net carrying value as at the end of the period		50720	0,00	

		Codes	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50721	0,00	
a. Acquisitions, including own construction		50722	0,00	
b. Sales and disposals		50723	0,00	
c. Transfers from one caption to another	(+)/(-)	50724	0,00	
3. Acquisition cost as at the end of the period		50725	0,00	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50726	0,00	
a. Recorded		50727	0,00	
b. Excess written back		50728	0,00	
c. Acquisitions from third parties		50729	0,00	
d. Cancellations		50730	0,00	
e. Transfers from one caption to another	(+)/(-)	50731	0,00	
6. Amortizations and write-downs as at the end of the period		50732	0,00	
7. Net carrying value as at end of the period		50733	0,00	

		Codes	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	625.067,04
2. Movements during the period		50734	4.293,33	
a. Acquisitions, including own construction		50735	129.812,25	
b. Sales and disposals		50736	-125.518,92	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	629.360,37	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	392.986,20
5. Movements during the period		50739	-63.661,03	
a. Recorded		50740	63.191,27	
b. Excess written back		50741	-3.656,82	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	-123.195,48	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	329.325,18	
7. Net carrying value as at the end of the period		50746	300.035,19	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

		Codes	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.271.901.932,04
2. Movements during the period	(+)/(-)	50801	4.044.714,96	
a. Acquisition, including own construction		50802	23.679.515,69	
b. Sales and disposals		50803	-21.467.268,78	
c. Transfers from one caption to another	(+)/(-)	50804	1.832.468,05	
3. Acquisition cost as at the end of the period		50805	1.275.946.647,00	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	65.112.319,00
5. Movements during the period	(+)/(-)	50806	-6.139.137,23	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	-4.302.512,07	
d. Transfers from one caption to another	(+)/(-)	50810	-1.836.625,16	
6. Revaluation surpluses as at the end of the period		50811	58.973.181,77	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	704.208.575,72
8. Movements during the period	(+)/(-)	50812	23.920.849,06	
a. Recorded		50813	40.794.886,73	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-16.874.011,54	
e. Transfers from one caption to another	(+)/(-)	50817	-26,13	
9. Amortizations and write-downs as at the end of the period		50818	728.129.424,78	
10. Net carrying value as at the end of the period		50819	606.790.403,99	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	11.753.728,03
2. Movements during the period	**(+)/(-)**	50820	-2.082.542,80	
a. Acquisition, including own construction		50821	0,00	
b. Sales and disposals		50822	-1.097.340,04	
c. Transfers from one caption to another	(+)/(-)	50823	-985.202,76	
3. Acquisition cost as at the end of the period		50824	9.671.185,23	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50825	0,00	
a. Recorded		50826	0,00	
b. Acquisitions from third parties		50827	0,00	
c. Cancellations		50828	0,00	
d. Transfers from one caption to another	(+)/(-)	50829	0,00	
6. Revaluation surpluses as at the end of the period		50830	0,00	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	10.761.825,31
8. Movements during the period	**(+)/(-)**	50831	-1.668.785,81	
a. Recorded		50832	366.770,73	
b. Excess written back		50833		
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	-1.511.274,41	
e. Transfers from one caption to another	(+)/(-)	50836	-524.281,70	
9. Amortizations and write-downs as at the end of the period		50837	9.093.039,93	
10. Net carrying value as at the end of the period		50838	578.145,30	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	41.977.036,80
2. Movements during the period	**(+)/(-)**	50839	-4.859.467,98	
a. Acquisition, including own construction		50840	16.613,36	
b. Sales and disposals		50841	-8.263.878,92	
c. Transfers from one caption to another	(+)/(-)	50842	3.387.797,58	
3. Acquisition cost as at the end of the period		50843	37.117.568,82	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50844	0,00	
a. Recorded		50845	0,00	
b. Acquisitions from third parties		50846	0,00	
c. Cancellations		50847	0,00	
d. Transfers from one caption to another	(+)/(-)	50848	0,00	
6. Revaluation surpluses as at the end of the period		50849	0,00	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	23.090.091,58
8. Movements during the period	**(+)/(-)**	50850	-3.980.329,74	
a. Recorded		50851	1.732.764,64	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-8.639.970,90	
e. Transfers from one caption to another	(+)/(-)	50855	2.926.876,52	
9. Amortizations and write-downs as at the end of the period		50856	19.109.761,84	
10. Net carrying value as at the end of the period		50857	18.007.806,98	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	26.835.034,99
2. Movements during the period	(+)/(-)	50858	52.048.026,39	
a. Acquisition, including own construction		50859	52.048.026,39	
b. Sales and disposals		50860	0,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	78.883.061,38	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50863	0,00	
a. Recorded		50864	0,00	
b. Acquisitions from third parties		50865	0,00	
c. Cancellations		50866	0,00	
d. Transfers from one caption to another	(+)/(-)	50867	0,00	
6. Revaluation surpluses as at the end of the period		50868	0,00	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	4.110.554,21
8. Movements during the period	(+)/(-)	50869	2.411.331,88	
a. Recorded		50870	2.411.331,88	
b. Excess written back		50871	0,00	
c. Acquisitions from third parties		50872	0,00	
d. Cancellations		50873	0,00	
e. Transfers from one caption to another	(+)/(-)	50874	0,00	
9. Amortizations and write-downs as at the end of the period		50875	6.521.886,09	
10. Net carrying value as at the end of the period		50876	72.361.175,29	
11. Of which				
a. Land and buildings		50877	72.361.175,29	
b. Plant, machinery and equipment		50878	0,00	
c. Furniture and vehicles		50879	0,00	

		Codes	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	217.995.612,61
2. Movements during the period	(+)/(-)	50880	-11.731.856,72	
a. Acquisition, including own construction		50881	3.240.777,67	
b. Sales and disposals		50882	-14.976.791,50	
c. Transfers from one caption to another	(+)/(-)	50883	4.157,11	
3. Acquisition cost as at the end of the period		50884	206.263.755,89	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50885	0,00	
a. Recorded		50886	0,00	
b. Acquisitions from third parties		50887	0,00	
c. Cancellations		50888	0,00	
d. Transfers from one caption to another	(+)/(-)	50889	0,00	
6. Revaluation surpluses as at the end of the period		50890	0,00	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	131.046.765,99
8. Movements during the period	(+)/(-)	50891	-1.742.679,94	
a. Recorded		50892	8.700.355,53	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	-10.443.061,60	
e. Transfers from one caption to another	(+)/(-)	50896	26,13	
9. Amortizations and write-downs as at the end of the period		50897	129.304.086,05	
10. Net carrying value as at the end of the period		50898	76.959.669,84	

		Codes	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	(+)/(-)	50899	0,00	
a. Acquisition, including own construction		50900	0,00	
b. Sales and disposals		50901	0,00	
c. Transfers from one caption to another	(+)/(-)	50902	0,00	
3. Acquisition cost as at the end of the period		50903	0,00	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50904	0,00	
a. Recorded		50905	0,00	
b. Acquisitions from third parties		50906	0,00	
c. Cancellations		50907	0,00	
d. Transfers from one caption to another	(+)/(-)	50908	0,00	
6. Revaluation surpluses as at the end of the period		50909	0,00	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period	(+)/(-)	50910	0,00	
a. Recorded		50911	0,00	
b. Excess written back		50912	0,00	
c. Acquisitions from third parties		50913	0,00	
d. Cancellations		50914	0,00	
e. Transfers from one caption to another	(+)/(-)	50915	0,00	
9. Amortizations and write-downs as at the end of the period		50916	0,00	
10. Net carrying value as at the end of the period		50917	0,00	

IX. OTHER ASSETS (Assets caption XI)

	Current period
Breakdown (if the amount in this caption is significant)	
Options	1.265.192.394,84

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

	Code	Current period
1. Deferred charges	51001	34.394.353,65
2. Accrued income	51002	8.067.765.262,62

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0,00

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	1.739.943.310,37	2.524.938.736,00
2. Amounts due to other enterprises linked by participating interests	51102	0,00	1.269.386,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	6.317.843.656,93	
b. Over 3 months up to 1 year	51104	994.339.334,69	
c. Over 1 year up to 5 years	51105	1.184.019.602,82	
d. Over 5 years	51106	0,00	
e. Undated	51107	13.656.094,63	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	19.963.823.831,93	23.578.658.936,00
2. Other enterprises linked by participating interests	51202	121.365.421,96	121.255.624,00
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	24.195.915.971,10	
b. Up to 3 months	51204	14.618.333.132,53	
c. Over 3 months up to 1 year	51205	11.145.200.812,40	
d. Over 1 year up to 5 years	51206	17.745.957.714,34	
e. Over 5 years	51207	4.390.391.201,58	
f. Undated	51208	32.023.843.993,95	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	2.197.557.802,07	3.361.972.549,12
b. Debt owed to private persons	51210	44.171.497.194,52	43.602.442.456,41
c. Debt owed to enterprises	51211	57.750.587.829,31	54.626.530.106,05
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	67.389.363.148,47	
b. Of foreign origin	51213	36.730.279.677,43	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

	Codes	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	748.079.777,36	0,00
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0,00	0,00
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	991.666.724,57	
b. Over 3 months up to 1 year	51304	777.186.964,54	
c. Over 1 year up to 5 years	51305	2.159.991.493,06	
d. Over 5 years	51306	2.109.605.341,05	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Codes	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	86.348.959,10
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	86.348.959,10
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0,00
a. Overdue debts	51405	0,00
b. Unmatured debts	51406	0,00
3. Taxes		
a. Taxes payable	51407	39.571.835,36
b. Estimated tax liabilities	51408	46.777.123,74
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Holiday allowance, remuneration and other personnel costs to be paid		170.385.438,10
Option contracts		689.758.555,26
Dividends still to be paid		677.269.076,68
Other		123.510.852,34

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

	Codes	Current period
1. Accrued charges	51501	9.229.220.526,94
2. Deferred income	51502	78.690.390,03

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Provision for positions in derivatives and securities	48.806.704,47
Credit commitments	113.964.265,38
Litigation and operational disputes	119.469.417,36
Provision for disability payments	7.731.237,72
Provision bonds 5-5-5	815.332,60
Other	37.553.494,74

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	2.545.244.023,52	3.545.598.926,00
2. Subordinated debts due to other enterprises linked by participating interests	51702	0,00	0,00

	Codes	Current period
3. Charges as a result of subordinated liabilities	51703	389.172.647,72

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturiy	a) Circumstances in which the entreprise is required to repay this loan. b) Conditions for the suborditaion c) Conditions for conversion into capital
0001	GBP	42.595.882	19/12/2003 - perpetual Issued by KBC Bank Hybrid Tier 1 Emission	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandat. conv. Into KBC Bank in case of Superv. Event
0002	EUR	250.000.021	01/08/2006 - 01/08/2016 Issued by KBC Bank	a) Fiscal requalification
0003	EUR	2.882.779.872	Subordinated certificates Issued by KBC Bank	a) Unconditional
0004	EUR	128.639.800	Subordinated Time Deposits Issued by KBC Bank	a) Unconditional
0005	USD	149.304.498	Deposits originated by KBC IFIMA	a) Fiscal requalification
0006	EUR	1.431.945.472	Deposits originated by KBC IFIMA	a) Fiscal requalification
0007	EUR	300.000.000	14/12/2005 - 14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call-option from 14/12/2010 onwards
0008	CZK	2.500.000.000	18/05/2005 - 18/05/2016 Deposits originated by KBC IFIMA (2.500 Mio CZK)	a) Fiscal requalification
0009	EUR	99.581.757	18/05/2005 - 18/05/2016 Deposits originated by KBC IFIMA (3.000 Mio SKK)	a) Fiscal requalification
0010	EUR	48.131.182	21/12/2005 - 21/12/2020 Deposits originated by KBC IFIMA (1.450 Mio SKK)	a) Fiscal requalification
0011	EUR	118.299.000	30/06/1999 - perpetual Deposits originated by KBC Bank Funding Trust (280 Mio EUR)	a) Fiscal requalification and solvency test
0012	EUR	116.941.000	10/11/1999 - perpetual Deposits originated by KBC Bank Funding Trust (300 Mio EUR)	a) Fiscal requalification and solvency test
0013	USD	168.617.000	02/11/1999 - perpetual Deposits originated by KBC Bank Funding Trust (600 Mio USD)	a) Fiscal requalification and solvency test
0014	USD	150.000.000	07/02/2005 - 07/02/2025 Deposits originated by KBC IFIMA (150 Mio USD)	a) Fiscal requalification
0015	USD	1.000.000.000	25/01/2013 - 25/01/2023 Contingent Capital Notes (1 miljard USD)	

XVIII. STATEMENT OF CAPITAL

	Codes	Current period	Previous period
A. CAPITAL			
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	8.948.439.652,39
b. Subscribed capital as at the end of the period	(20910)	8.948.439.652,39	

	Codes	Amounts	Number of shares
c. Changes during the period			
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		8.948.439.652,39	915.228.482
f. Registered shares	51801	xxxxxxxxxxxxxx	915.228.482
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	0

	Codes	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0,00	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0,00
c. Shareholders still owing capital payment			

	Codes	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0,00
* Corresponding number of shares	51805	0,00
b. Held by its subsidiaries		
* Amount of capital held	51806	0,00
* Corresponding number of shares	51807	0,00
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0,00
* Amount of capital to be subscribed	51809	0,00
* Maximum corresponding number of shares to be issued	51810	0,00
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0,00
* Amount of capital to be subscribed	51812	0,00
* Maximum corresponding number of shares to be issued	51813	0,00
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Codes	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0,00
* Number of votes	51816	0,00
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0,00
* Number of parts held by its subsidiaries	51818	0,00

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	915.228.481
KBC Verzekeringen NV	Number of shares:	1

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

	Codes	Current period
1. Total Assets		
a. In Euro	51901	129.930.402.906,75
b. In foreign currency (equivalent in EUR)	51902	19.910.257.397,51
2. Total liabilities		
a. In Euro	51903	134.420.840.280,76
b. In foreign currency (equivalent in EUR)	51904	15.419.820.023,50

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	0,00
	0,00
	0,00
	0,00
	0,00

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	Period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	8.539.974.022,87
Asset Pledge requirement KBC New York	58.002.755,42
Asset Pledge National Bank of Belgium	83.659.198,42
Covered bonds	7.970.667.177,36
b. Off-balance sheet	
Options and futures	3.705.311.137,28
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	20.194.882.207,42	20.964.302.949,00
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	574.848,01	5.979.348,00
3. Total commitments with a potential credit risk to affiliated companies	52203	0,00	3.979.081,00
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0,00	0,00

XXIII. OPERATING RESULTS (items I to XV of the income statement)

	Codes	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	3.388.524.048,02	3.916.361.162,45
* Belgian sites	52301	3.111.954.175,66	3.543.247.345,12
* Foreign offices	52302	276.569.872,36	373.113.817,33
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	5.025.380,43	2.588.291,54
* Belgian sites	52303	3.800.859,90	2.480.146,59
* Foreign offices	52304	1.224.520,53	108.144,95
c. Income from fixed-income securities: investments in affiliated companies	(40320)	1.131.435.426,24	695.068.243,87
* Belgian sites	52305	1.131.435.426,24	695.068.243,87
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	1.380.923,16	1.791.010,93
* Belgian sites	52307	1.380.923,16	1.791.010,93
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	780.798,16	665.669,23
* Belgian sites	52309	780.798,16	665.273,13
* Foreign offices	52310	0,00	396,10
f. Commissions received	(40400)	1.099.296.421,45	1.072.806.902,78
* Belgian sites	52311	1.057.456.112,82	1.020.304.535,82
* Foreign offices	52312	41.840.308,63	52.502.366,96
g. Profit on financial transactions	(40600)	732.834.085,21	250.012.301,04
* Belgian sites	52313	687.938.712,92	231.984.917,95
* Foreign offices	52314	44.895.372,29	18.027.383,09
h. Other operating income	(41400)	349.770.940,91	238.223.578,26
* Belgian sites	52315	339.243.137,94	222.508.516,48
* Foreign offices	52316	10.527.802,97	15.715.061,78
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.786	10.059
b. Average number of employees in full-time equivalents	52318	8.936	9.142
* Management Personnel	52319	73	58
* Employees	52320	8.864	9.084
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.444.415	12.859.168
3. Personnel			
a. Remuneration and direct social benefits	52324	549.294.435,20	550.242.706,62
b. Employers' social security	52325	154.709.573,29	158.873.721,94
c. Employers' premiums for extra statutory insurance	52326	53.683.415,72	63.337.630,45
d. Other personnel	52327	26.773.081,68	32.485.254,54
e. Retirement and survivors' pensions	52328	2.506.651,14	5.190.709,25
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	22.807.597,79	12.297.350,41
b. Decrease (-)	52330	27.405.948,40	30.087.933,07

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Recuperation moratorium intrest		66.533.636,00	327,00
b. Recuperatie CDO-reinsurers		25.639.000,00	
c. Surplus value on sale buildings		22.843.378,00	2.130.356,00
d. Operational leasing		7.577.877,00	13.410.575,00
e. Other		227.177.049,91	222.682.320,26
6. Other operating expenses			
a. Corporate taxes	52331	63.470.005,58	46.762.069,97
b. Other	52332	5.699.641,44	7.783.066,70
c. Analysis of other operating expenses if this represents a			
7. Operating revenue from affiliated companies	52333	2.895.234.898,38	2.937.755.933,00
8. Operating costs relating to affiliated companies	52334	1.463.160.241,00	3.264.972.850,00

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

	Codes	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0,00
* of which: not intended for hedging purposes	52402	0,00
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	55.519.442.722,60
* of which: not intended for hedging purposes	52404	55.519.442.722,60
b. Currency and interest rate swaps	52405	30.376.748.451,73
* of which: not intended for hedging purposes	52406	30.370.235.177,39
c. Currency futures	52407	164.455.605,11
* of which: not intended for hedging purposes	52408	164.455.605,11
d. Options on currencies	52409	16.068.666.948,25
* of which: not intended for hedging purposes	52410	16.068.666.948,25
e. Forward exchange contracts	52411	0,00
* of which: not intended for hedging purposes	52412	0,00
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	266.117.432.377,18
* of which: not intended for hedging purposes	52414	265.742.291.659,90
b. Interest futures transactions	52415	16.357.879.993,55
* of which: not intended for hedging purposes	52416	16.357.879.993,55
c. Future Interest rate Agreements	52417	1.150.000.000,00
* of which: not intended for hedging purposes	52418	1.150.000.000,00
d. Interest rate options	52419	97.284.733.612,64
* of which: not intended for hedging purposes	52420	97.284.733.612,64
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	2.818.412.897,34
* of which: not intended for hedging purposes	52422	2.818.412.897,34
f. Other futures transactions	52423	0,00
* of which: not intended for hedging purposes	52424	0,00
g. Other forward purchases and sales	52425	48.057.316,13
* of which: not intended for hedging purposes	52426	0,00

		Codes	Current period
B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE			
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	2.339.880.235,70
b. Difference between market value and book value	(+)/(-)	52428	-85.774.011,58
2. Forward transactions in interest rate regarding ALM			
a. Nominal / notional reference amount on the closing date of accounts		52429	59.785.060.917,96
b. Difference between market value and book value	(+)/(-)	52430	-1.218.464.772,01
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	5.545.362.944,26
b. Difference between market value and book value	(+)/(-)	52432	-37.385.575,49

XXV. EXTRAORDINARY RESULTS

	Codes	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0,00
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0,00
3. Breakdown of the other exceptional income if it comprises significant amounts		0,00
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0,00
0		

XXVI. INCOME TAXES

	Codes	Current period
1. Income taxes for the year	52601	22.446.397,34
a. Taxes and withholding taxes due or paid	52602	17.273.605,27
b. Excess of income tax prepayments and of withholding taxes	52603	0,00
c. Estimated additional charges for income taxes	52604	5.172.792,07
2. Income taxes for previous years	52605	30.822,00
a. Additional income taxes due or paid	52606	0,00
b. Additional charges for income taxes, estimated (included in liabilities)	52607	30.822,00
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		57.196.076,82
The specific tax system applicable to gains and losses on shares		595.971.391,18
The application of the foreign tax credit scheme on dividends received		-1.826.916.593,04
Disallowed expenses (other than write-downs, losses on shares and corporation tax)		41.542.389,09

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-1.057.670.446,29
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		471.799.511,95

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	1.066.712.221,53
* Accumulated tax losses deductible from future taxable profits	52609	1.066.712.221,53
* Other deferred tax assets		
b. Passive deferrals	52610	0,00
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

	Codes	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	7.402.787,16	7.716.431,53
b. By the reporting institution	52702	29.004.307,51	29.937.868,56
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	153.768.350,84	158.941.465,04
b. Withholding tax	52704	234.190.322,40	241.179.040,30

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS AND TRANSACTIONS WITH RELATED PARTIES

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Codes	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Significant litigation and other significant commitments

Significant disputes pending:

As regards the most significant legal disputes pending, claims filed against KBC Bank companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. ‘probable outflow’, ‘possible outflow’ or ‘remotely probable outflow’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’). No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category.

The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.

Probable outflow:

- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the court sitting in chambers in Bruges. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court charged with forgery and uttering under ordinary law and under tax law. The Belgian State has lodged an appeal with the Indictment Division, but no date has been set yet for the court case. A provision of 31.4 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.

- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A provision of 30 million euros has been set aside to cover potential damages.

- In 1991, a syndicate of banks (including KBC Bank NV’s London branch) refinanced the Bell Group. Some Bell Group companies granted security. When the group collapsed in April 1991, the banks recovered the outstanding amounts by enforcing their security rights. The Bell Group liquidators started legal proceedings, claiming repayment of all amounts recovered by the banks by alleging that the banks’ security rights had been granted unlawfully. In a judgment delivered on 28 October 2008, the Supreme Court of Western Australia ordered the banks to repay all the amounts recovered and also to pay compound interest. The syndicate of banks appealed this decision. In a ruling on 17 August 2012, the Supreme Court of Western Australia Court of Appeal increased the amount payable following the recalculation of interest. In view of that decision and pending the decision of the High Court of Australia, KBC Bank set aside a provision of approximately 64 million euros. Even if the banks are granted leave to appeal, the issue before the High Court will be limited to the amount of interest payable. On 15 March 2013, the High Court granted the banks leave to initiate appeal proceedings before it. The success achieved before this appeal court has opened up the possibility for the banks to begin negotiations aimed at reaching a compromise settlement among all parties involved. These negotiations led in June 2013 to an agreement in principle among all the parties to settle for an amount of 1.7 billion Australian dollars. The final, enforceable version of the settlement agreement was only approved in September 2013. As this agreement includes a number of conditions precedent that have to be fulfilled in advance and the parties have been given six months to meet them, payment under the agreement will only be made in 2014. Consequently, the existing provision was maintained in 2013.

- KBC Diversified Fund, a segregated portfolio of KBC AIM Master Fund Spc., filed a claim against Lehman Brothers International Europe (LBIE) in relation to derivatives amounting to 44.3 million US dollars. That amount was the result of the setting off of the claims of the various KBC entities and of LBIE. LBIE is disputing how the amount was calculated and the way in which set-off was applied. Consequently, KBC has constituted a provision for the claim. Negotiations are being conducted between KBC and LBIE's administrator on the valuation of a number of terminated transactions.
- KBC Bank calculated an ISDA close-out amount of 29.2 million US dollars payable by Lehman Brothers Special Financing Inc. (LBSF) to KBC. LBSF's administrator is contesting the valuation of some of the derivative transactions. LBSF and KBC have reached agreement whereby KBC is allowed to file a claim for 22.7 million dollars. Given the slender chance of recovery, a corresponding provision has been set aside.

- When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.1 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. On 25 September 2013, KBC was summoned by LBF in London, where LBF filed the claim of 58.1 million US dollars, plus interest of 57 million US dollars (calculated to the end of March 2013). After KBC had filed a concise written defence with the court, LBF was given until mid-March to reply, but has since been granted postponement. The way proceedings are conducted in the UK means that documents can be exchanged in the meantime and that the judge can organise a case management conference. The steps in these proceedings have not yet been defined. The actual court case will take place a year after the case management conference at the earliest. An appropriate provision has been set aside to cover this risk.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2012 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV
KBC Securities NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

All members of staff are covered by a supplementary pension scheme that includes an additional death benefit, orphan's annuity and invalidity benefits. The amount covered under these schemes (which are defined benefit schemes) depends on the average final salary, number of years of service and age at the time of retirement.

These pension schemes are financed entirely by the employer through annual contributions that are recognised in the income statement. These contributions, calculated on an actuarial basis using the aggregate cost method, are transferred to the Pensioenfonds KBC OFP (KBC pension fund for employees) and the Pensioenfonds Senior Management KBC OFP (KBC pension fund for senior management), whose specific task is to manage the accrued reserves, to pay out the supplementary pension benefit and to carry out the necessary administration.

Members of the Executive Committee also benefit from a supplementary pension scheme that is based on similar principles.

In addition, staff may contribute to a supplementary pension scheme (capitalisation system). It is based solely on members' personal contributions which are deducted directly from their salaries. The bank guarantees capitalisation of the amounts contributed at an interest rate of 4.75% per year for the period up to and including 30 June 1999, and a rate of 3.75% for the period from 1 July 1999, up to the time the benefit is paid out. Management of the reserves accrued in this way, their payment and associated administration is the responsibility of the Pensioenfonds KBC OFP and Pensioenfonds Senior Management KBC OFP.

During 2012, a collective labour agreement was concluded for the introduction of a defined contribution plan on 1 January 2014 (mandatory for new employees and voluntary for existing members). For the target group in question, this plan will replace the defined benefit plan funded by the employer. No changes at all have been made to the plan funded solely by members' personal contributions.

	Code	Current period
5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services	52801	
Bases and methods of estimation		

6. Nature and business purpose of off balance sheet arrangements

Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution;
where appropriate, the financial consequences of these operations for the facility must also be mentioned:

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Home Loan Invest, which has acquired mortgage loans of KBC Bank, using funds received from the issuance of securities.

KBC Bank carries almost all of these securities on its balance sheet. The interest risk carried by Home Loan Invest is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 9.120 billion euros and an increase of investment securities for an amount of 6.982 billion euros.

The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Home Loan Invest and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Home Loan Invest is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Home Loan Invest are available at the Central Balance Sheet Office.

7. Other off balance sheet rights and commitments

	Period

B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Transactions with affiliated companies were all concluded in line with the prevailing market conditions.

XXIX. FINANCIAL RELATIONS WITH

	Codes	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	277.346.962,00
a. Conditions on amounts receivable		
2. Guarantees granted on their behalf	52902	0,00
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0,00
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	499.999,98
b. To former directors and former managers	52905	9.496,12

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.381.077,10
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	461.869,75
b. Tax advisory services	52908	0,00
c. Other non-audit services	52909	55.984,35
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	0,00
b. Tax advisory services	52911	0,00
c. Other non-audit services	52912	0,00

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

	Codes	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	807.108.706,70
2. Financial instruments to be delivered by the institution to clients	53002	625.531.761,80
3. Financial instruments of clients held in custody by the institution	53003	159.125.068.548,34
4. Financial Instruments from clients given in custody by the institution	53004	111.958.273.902,23
5. Financial Instruments from clients held as collateral by the institution	53005	1.311.353.265,69
6. Financial Instruments from clients given as collateral by the institution	53006	0,00

XXXI. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

	Current period
Estimated fair value of each class of derivative not measured at fair value, with information on the nature and volume of these instruments	
Forward exchange contracts	-478.942,25
Currency and interest rate swaps	-39.903.269,70
Interest rate swap agreements	-1.149.513.067,97
Other option contracts	-5.665.645,47

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

Name and full address of the registered office and, for companies governed by Belgian law, the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where appropriate
** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

	Codes	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	
b. Tax consultancy services	53203	
c. Other non-audit services	53204	
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	
b. Tax consultancy services	53207	
c. Other non-audit services	53208	

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SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	6.101	3.808	2.293
Part-time	1002	3.299	655	2.644
Total of full-time equivalents (VTE)	1003	8.402	4.260	4.143
Number of hours actually worked				
Full-time	1011	8.546.658	5.495.068	3.051.590
Part-time	1012	3.100.149	588.204	2.511.945
Total	1013	11.646.807	6.083.272	5.563.536
Personnel costs				
Full-time	1021	538.412.804,38	377.555.065,72	160.857.738,66
Part-time	1022	177.027.523,93	39.783.544,95	137.243.978,98
Total	1023	715.440.328,31	417.338.610,67	298.101.717,64
Advantages in addition to wages	1033	15.356.509,62	8.957.930,01	6.398.579,61

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.574	4.361	4.213
Number of hours actually worked	1013	11.902.568	6.236.617	5.665.951
Personnel costs	1023	735.867.596,00	434.224.515,00	301.643.081,00
Advantages in addition to wages	1033	15.962.767,00	9.419.391,00	6.543.376,00

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	6.019	3.256	8.352,1
By nature of the employment contract				
Contract for an indefinite period	110	6.008	3.256	8.341,1
Contract for a definite period	111	11	0	11,0
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3.774	653	4.224,4
primary education	1200	0	0	0
secondary education	1201	550	212	683,1
higher education (non-university)	1202	2.217	368	2.482,8
university education	1203	1.007	73	1.058,5
Female	121	2.245	2.603	4.127,7
primary education	1210	0	0	0
secondary education	1211	273	687	727,4
higher education (non-university)	1212	1.391	1.490	2.491,0
university education	1213	581	426	909,3
By professional category				
Management staff	130	58	1	58,8
Employees	134	5.961	3.255	8.293
Workers	132	0	0	0
Other	133	0	0	0

HIRED TEMPORARY STAFF AND PERSONNEL PUT AT THE ENTERPRISE'S DISPOSAL

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	5	0
Number of hours actually worked	151	9.805	0
Charges of the enterprise	152	374.325,00	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	452	61	500
By nature of the employment contract				
Contract for an indefinite period	210	440	61	488
Contract for a definite period	211	12	0	12
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	372	365	597
By nature of the employment contract				
Contract for an indefinite period	310	371	365	596
Contract for a definite period	311	1	0	1
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	85	249	226
Unemployment with company bonus	341	0	0	0
Dismissal	342	43	15	53
Other reason	343	244	101	317
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	3.030	5811	3.198
Number of training hours	5802	72.072	5812	85.009
Costs for the company	5803	6.230.680,00	5813	6.576.144,00
of which gross costs directly linked to the training	58031	6.035.734,00	58131	6.370.389,00
of which paid contributions and deposits in collective funds	58032	194.945,66	58132	205.754,53
of which received subsidies (to be deducted)	58033	0,00	58133	0,00
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	3.355	5831	3.474
Number of training hours	5822	15.493	5832	21.247
Costs for the company	5823	973.556,00	5833	1.008.088,00
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0,00	5853	0,00

Valuation rules

1. General

The accounting principles and valuation rules conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month’s profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.
Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.
Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions awarded by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers’ loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.
If the sales price is made up entirely or in part of a variable element dependent on the buyer’s operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the company’s own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the ‘uncertain outcome’ portfolio that might become ‘doubtful’) and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.
Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to ‘Net interest income’ on an accruals basis.

Deferred taxes are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base, except for deferred tax assets on tax losses or notional interest deductions carried forward, which are not recognised due to the principle of prudence. Deferred taxes to be recognised are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: ‘Profit (Loss) on financial transactions’.

FINANCIAL FIXED ASSETS

Included in KBC Bank’s holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.
Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Groep.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Changes in valuation rules

None.

Notes to the annual accounts.

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1 000 EUR)	31/12/2013	31/12/2012	change
Assets	**149,840,660**	**158,287,234**	**-8,446,574**
Cash and cash balances with central banks	3,557,163	3,442,321	114,842
Amounts receivable from credit institutions	22,346,789	21,338,329	1,008,460
Of which reverse repos with credit institutions	*6,898,856*	*1,811,458*	*5,087,398*
Amounts receivable from clients	72,374,199	71,063,002	1,311,197
Of which reverse repos with professional counterparties	*3,435,761*	*1,873,798*	*1,561,963*
Bonds and other fixed-income securities	27,246,056	33,064,999	-5,818,943
Shares and other variable-yield securities	251,937	296,447	-44,509
Financial fixed assets	13,294,989	14,443,064	-1,148,075
Formation expenses, tangible and intangible fixed assets	774,997	762,590	12,407
Other assets	1,892,370	1,996,134	-103,763
Deferred charges and accrued income	8,102,160	11,880,348	-3,778,188
Liabilities	**149,840,660**	**158,287,234**	**-8,446,574**
Amounts payable to credit institutions	11,012,123	17,745,555	-6,733,432
Of which repos with credit institutions	*627,017*	*783,513*	*-156,496*
Amounts payable to clients	104,869,643	101,590,945	3,278,698
Of which repos with professional counterparties	*7,051,809*	*2,507,355*	*4,544,454*
Debts represented by securities	6,038,451	6,183,971	-145,520
Other amounts payable	1,747,273	1,163,056	584,217
Accrued charges and deferred income	9,307,911	14,092,347	-4,784,436
Provisions for liabilities and charges and deferred taxes	361,905	392,035	-30,130
Subordinated loans	6,582,867	7,262,422	-679,555
Equity	9,920,488	9,856,902	63,586

Total assets

Total assets fell by 8.4 billion euros to 149.8 billion euros due to the continued reduction in non-strategic activities in 2013 and the decline in accrued income resulting from lower mark-to-market values of derivatives. At year-end 2013, assets held abroad accounted for 36.3% of total assets (36.9% at the end of 2012). The branches abroad held 4.3% of the bank's total assets (5% at the end of 2012).

Transactions with credit institutions

On balance, net lending to credit institutions[1] came to 7.7 billion euros, as opposed to net borrowing from credit institutions of 3.0 billion euros in 2012, a reflection of the improved liquidity position of KBC Bank NV.

At 22.3 billion euros, amounts receivable from credit institutions increased by 1.0 billion euros mainly on account of reverse repos, which rose by 5.1 billion euros to a total of 6.9 billion euros. This increase also included a significant shift from standard (unsecured) term loans to (secured) reverse repos.

Amounts receivable from clients

Amounts receivable from clients went up by 1.3 billion euros to 72.3 billion euros, owing primarily to the 4.8-billion-euro increase in mortgage lending that arose from repurchasing securitised loans of Home Loan Invest. In addition, reverse repos with professional counterparties went up by 1.6 billion euros (mainly with subsidiaries). Term loans fell by 4.4 billion euros chiefly on account of the continuing reduction in the non-strategic loan portfolios at branches abroad and the reduction in lending to CERA and KBC Ancora, both shareholders of KBC Group NV.

[1] Amounts receivable from credit institutions + reverse repos with professional counterparties - amounts payable to credit institutions - repos with professional counterparties.

Bonds and other fixed-income securities

The total portfolio of fixed-income securities fell by 5.8 billion euros to 27.2 billion euros. Securities issued by public authorities represented 62% of the portfolio.

The decline in this portfolio was largely attributable to Home Loan Invest repurchasing certificates it had issued (cf. offsetting effect in 'amounts receivable from clients' relating to the repurchase of securitised mortgage loans).

The investment portfolio contains collateral debt obligations (CDOs) for which, in accordance with Belgian accounting policies, a provision must be set aside for the full acquisition cost. Some CDOs still have a fair value, which totalled 19.3 million euros at year-end 2013.

The trading portfolio, which contains primarily government bonds and bonds issued by credit institutions, went down by 0.8 billion euros to 0.3 billion euros, due chiefly to the sale of Belgian and French government bonds.

Financial fixed assets

Financial fixed assets fell by 1.1 billion euros to 13.3 billion euros, owing to the sale of affiliated companies following implementation of the divestment plan (including Absolut Bank, Bank Zachodni (Poland)), the decline in subordinated loans, and capital increases at ČSOB Bank and KBC Bank Ireland, among other entities.

Other asset items

‘Shares and other variable-yield securities’ consisted chiefly of a trading portfolio.

'Other assets' fell slightly to 1.9 billion euros. This heading comprised mainly the revaluation of foreign currency options and interest rate options.

‘Deferred charges and accrued income’ was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). This item went down by 3.8 billion euros on account of the decline in the mark-to-market valuation of the derivatives. In addition, the volume of derivatives decreased in 2013.

Amounts payable to clients and debts represented by securities

Total customer deposits came to 110.9 billion euros at year-end 2013, up 3.1 billion euros owing chiefly to a year-on-year increase of 4.5 billion euros in repos with professional counterparties. This was accounted for largely by a shift from amounts payable to credit institutions due to transactions being settled via central clearing houses that do not belong to the credit institution sector. In addition, the volume of funds on savings accounts continued its upward trend. Conversely, other time deposits declined (due in part to the fall in deposits at KBC Ifima, a subsidiary which issues bonds on the international market and then onlends those funds to KBC Bank).

Provisions for liabilities and charges and deferred taxes

In 2013, the provisions for liabilities and charges decreased by 21 million euros to 361 million euros, mainly because of the drop in liabilities and charges relating to commitment credit.

Subordinated loans

Total subordinated debt outstanding fell to 6.6 billion euros and comprised:

- non-convertible bonds amounting to 4.0 billion euros;

- other subordinated term borrowings totalling 2.6 billion euros.

Equity

Equity remained unchanged at 9.9 billion euros.

Other liability items

'Other amounts payable' comprised mainly amounts relating to options premiums, taxes, remuneration and social security charges.

‘Accrued charges and deferred income’ was made up primarily of interest payable and the revaluation of derivatives. The decrease in this item was attributable chiefly to the decline in the mark-to-market valuation of the derivatives and reduction in the volume of derivatives held in 2013 (also see ‘Deferred charges and accrued income’).

Off-balance-sheet items

Contingent liabilities

The 1.2-billion-euro decline in contingent liabilities to 28.6 billion euros was accounted for almost entirely by the reduction in guarantees granted to subsidiaries (including to KBC Ifima).

Profit and loss account

KBC Bank NV (x1 000 EUR)	**31/12/2013**	**31/12/2012**	**change**
Gross income from ordinary activities	4,126,885	3,090,317	1,036,568
Operating charges	-1,780,522	-2,205,490	424,968
Write-downs and provisions	-491,041	163,815	-654,856
Profit on ordinary activities	1,855,322	1,048,642	806,680
Extraordinary result	-592,577	-1,380,340	787,763
Taxes	581	-115,704	116,285
Result for the period to be appropriated	**1,263,326**	**-447,402**	**1,710,728**

Notes to the profit and loss account

(x1 000 EUR)	**31/12/2013**	**31/12/2012**	**change**
Net interest income	964,890	978,297	-13,407
Income from variable-yield securities	1,138,622	700,113	438,511
Net fee and commission income	940,768	923,671	17,097
Results from financial transactions	732,834	250,012	482,822
Other operating income	349,771	238,224	111,547
Gross income from ordinary activities	**4,126,885**	**3,090,317**	**1,036,568**

'Gross income from ordinary activities' came to 4.1 billion euros, up 1.0 billion euros on its 2012 level.

Even though the interest margin remained under pressure during 2013 and non-strategic participations continued to be scaled back, net interest income remained virtually unchanged. The decline in the interest rate applying to savings accounts mitigated the lower level of revenue generated by reinvestments in the bond portfolio. In addition, margins on mortgage loans and investment credits were higher.

Dividend income was higher than in 2012 thanks in the main to the dividends paid by subsidiaries.

'Results from financial transactions' were positively impacted in 2013 by the gain of 348 million euros realised on the investment portfolio (compared with the 56-million-euro gain the previous year). The results for 2012 also included the adverse effects related to the financial crisis.

(x1 000 EUR)	31/12/2013	31/12/2012	change
General administrative charges	-1,665,139	-2,109,058	443,919
Depreciation of tangible and intangible fixed assets	-46,213	-41,887	-4,326
Other operating charges	-69,170	-54,545	-14,625
Operating charges	**-1,780,522**	**-2,205,490**	**424,968**

Operating charges (including 'depreciation of intangible and tangible fixed assets' and 'other operating charges') fell by 425 million euros to 1.8 billion euros in 2013. The decline was accounted for primarily by one-off charges recorded in 2012 (i.e. the payment of compensation in 2012 to private clients who had been sold KBC Ifima and KBC Group 5-5-5 bonds in 2008). The bank tax (including the amount contributed to the deposit protection scheme) amounted to 102 million euros (compared with 98 million euros a year earlier).

(x1 000 EUR)	31/12/2013	31/12/2012	change
Write-downs on loans	-481,207	-240,897	-240,310
Write-downs on investment portfolio	482	48,209	-47,727
Provisions	-10,316	356,503	-366,819
Write-downs and provisions	**-491,041**	**163,815**	**-654,856**

Write-downs on loans went up by 240 million euros to 481 million euros, and related primarily to special files that had been set up to implement the divestment plan (163 million euros). There was also an increase in write-downs relating to the corporate loan portfolio. Despite the fact that write-downs on loans to Belgian private clients and local businesses rose slightly year-on-year, write-downs in these portfolios remained limited.

Provisioning rose by 367 million euros following the reversal in 2012 of the provision set aside to pay compensation to private clients who had been sold KBC Ifima and KBC Group 5-5-5 bonds.

The negative extraordinary result in 2013 (-593 million euros) related chiefly to the additional write-downs on financial fixed assets for primarily KBC Bank Ireland (-530 million euros).

Branch network

At the end of 2013, KBC Bank had a network of 682 branches in Belgium. It also has nine branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin and Poland.

The legal information required in accordance with Article 96 of the Belgian Companies Code that has not been provided above appears in the 'Report of the Board of Directors' section.

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Free translation from the Dutch original

Statutory auditor's report to the general meeting of shareholders of KBC Bank nv as of and for the year ended 31 December 2013

In accordance with the legal and statutory requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the statutory financial statements (the "Financial Statements"), our report on other legal and regulatory requirements as further defined below as well as the required additional statements. The Financial Statements include the balance sheet as of 31 December 2013, the income statement for the year ended 31 December 2013 and the notes.

Report on the Financial Statements - unqualified opinion

We have audited the Financial Statements of KBC Bank nv ("the Company") as of and for the year ended 31 December 2013, prepared in accordance with the financial reporting framework applicable in Belgium. The total of the balance sheet amounts to € 149.840.660 thousand and the income statement shows a profit for the year of € 1.263.286 thousand.

Responsibility of the board of directors for the preparation of the Financial Statements

The board of directors is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the financial reporting framework applicable in Belgium. The board of directors is also responsible for the implementation of internal controls, which it considers necessary for the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing ("ISA"). Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements.

We have obtained from management and the Company's officials the explanations and information necessary for performing our audit and we believe that the resulting audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Audit report dated 17 March 2014 on the Financial Statements of KBC Bank nv as of and for the year ended 31 December 2013 (continued)

Unqualified opinion

In our opinion, the Financial Statements of the Company give a true and fair view of the Company's financial position as of 31 December 2013 and of the results of its operations for the year then ended in accordance with the financial reporting framework applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the report of the board of directors on the Financial Statements, including the corporate governance statement, in accordance with article 96 of the Company Code (*Wetboek van vennootschappen/Code des sociétés*) as well as the compliance with the legal and regulatory requirements of the accounting records, the compliance with the Company Code and with Company's articles of association.

As part of our audit mandate and in accordance with the applicable supplementary standard issued by the Belgian Institute of Registered Auditors (*Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*) as published in the Belgian State Gazette on 28th August 2013 (the "Supplementary Standard"), it is our responsibility to perform certain procedures, in all material respects, on the compliance of certain legal and regulatory requirements, as defined in the Supplementary Standard. As a result of these procedures, we provide the following additional comments which do not modify our opinion on the Financial Statements:

- The report of the board of directors on the Financial Statements includes the information required by law, is consistent with the Financial Statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.
- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of the results proposed to the shareholders' meeting complies with the legal and statutory provisions.
- We do not have to report any transactions undertaken or decisions taken in violation of the Company's articles of association or the Company Code.
- An interim dividend has been distributed during the year in relation to which we have issued the attached report in accordance with legal requirements.

Brussels, 17 March 2014

Ernst & Young Bedrijfsrevisoren BCVBA
Statutory auditor
represented by

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

14PVDB0113

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Auditor report to the board of directors of KBC Bank nv on the statement of assets and liabilities prepared at the occasion of the distribution of an interim dividend

In accordance with article 618 of the Company Code and the Company's articles of association, and in our capacity as statutory auditor, we report to you on the statement of assets and liabilities as of 30 September 2013, prepared for the purpose of the distribution of an interim dividend.

Intended transaction

The board of directors considers distributing an interim dividend of € 503.375.665,10.

Article 38 of the coordinated articles of association provides the board of directors the authority to distribute interim dividends. More than six months have elapsed since the end of the previous financial year and the financial statements in respect of that financial year were approved by the general shareholders' meeting of 24 April 2013.

Procedures performed

We performed a review, in accordance with the recommendation of the *Institut des Reviseurs d'Entreprises / Instituut van de Bedrijfsrevisoren* applicable to review engagements, of the statement of assets and liabilities as of 30 September 2013. This review consisted primarily of the analysis, comparison and discussion with the management of the company of the financial information.

The statement of assets and liabilities has been derived directly from the accounting records, without any additions or omissions, and has been prepared in accordance with the requirements of accounting law in Belgium and specifically the application of the going concern principle in the valuation rules.

We have no knowledge of any matters occurred after the issue of the above statement of assets and liabilities that would lead to a material misstatement of the statement of assets and liabilities as of 30 September 2013.

Profit available for distribution

In accordance with Article 618 of the Company Code and based on our work performed, the profit available for distribution consists of:

	EUR
- Profit as of 30 September 2013	1.348.998.817,08
- Profit brought forward	0,00
- Minus dotation to legal reserves	-67.449.940,85
	1.281.548.876,23

Auditor report to the board of directors of KBC Bank nv on the statement of assets and liabilities prepared at the occasion of the distribution of an interim dividend

Taken into account the distribution as intended by the board of directors, the distributable profit is sufficient to allow the distribution of an interim dividend from the profit of the period for a total amount of € 503.375.665,10.

Conclusion

We conclude that we have conducted a review of the statement of assets and liabilities of the KBC Bank nv as of 30 September 2013, with a balance sheet total of € 162.069.653.264,35 and a shareholders' equity of € 11.205.901.517,92.

Our review was conducted in the context of the decision of distribution of an interim dividend and consisted primarily of the analysis, comparison and discussion of the financial information and was carried out in conformity with the recommendation of the *Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren* applicable to review engagements. Our review was therefore less extensive than an audit, the objective of which is to express an opinion on the financial statements. Our review did not reveal any matters that would give rise to any material modifications to the interim statement of assets and liabilities as of 30 September 2013.

The profit of the period, as resulted out of the review of the statement of assets and liabilities as of 30 September 2013, increased with the profit brought forward and taking into account the reserves not available for distribution and to be set up according to legal requirements or articles of association, is sufficient to proceed with a distribution of an interim dividend of € 503.375.665,10 from the profit of the current period as intended by the board of directors.

In accordance with article 618 of the Company Code, this report will be attached to our statutory auditor's report on the financial statements of the current year.

Brussels, 13 November 2013

Ernst & Young Bedrijfsrevisoren bcvba
Statutory auditor
Represented by

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

14PVDB0060

Additional information

Capital transactions and guarantee agreements between KBC Group and the government in 2008 and 2009

Core-capital securities sold to the Belgian State and the Flemish Region

In 2008 and 2009, KBC Group NV issued a total of 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These securities were subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region, each in the amount of 3.5 billion euros. KBC Group used the proceeds of these transactions to strengthen the core capital of its banking activities by 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV).

In 2012, KBC Group repaid 3.5 billion euros to the Belgian Federal Government, and paid a 15% penalty. In 2013, it repaid 1.17 billion euros to the Flemish Regional Government, along with a 50% penalty, and at the start of 2014, repaid 0.33 billion euros, plus a penalty of 50%. KBC Group aims to repay the outstanding balance of 2 billion euros (plus penalties) in instalments, with the last instalment scheduled for 2020 (or earlier if its capital position so allows and the National Bank of Belgium grants its approval).

The main features of the remaining core-capital securities are (simplified):

- Issue price: 29.50 euros per security.
- Coupon: higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%) and (ii) 125% of the dividend paid on ordinary shares. No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.

Guarantee agreement in respect of CDO and MBIA-related exposure

In May 2009, KBC Group signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan comprises a notional amount that initially totalled 20 billion euros (currently 5.9 billion euros, see below), with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA.
The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan).

Since the CDO exposure has been reduced considerably since the agreement was entered into, the initial amounts have changed. Amounts at year-end 2013 and the initial amounts are presented in each case below.

- First tranche of 0.8 billion euros (initially 3.2 billion euros): KBC Group bears all credit losses.
- Second tranche of 0.7 billion euros (initially 2 billion euros): KBC Group bears any credit losses and has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value for 90% of the loss in this tranche (KBC bears 10% of the risk).
- Third tranche of 4.4 billion euros (initially 14.8 billion euros): the Belgian State will compensate 90% of any credit losses in cash (KBC Group bears 10% of the risk).

This agreement significantly mitigates the potential negative impact of the relevant MBIA and CDO exposure. KBC Group has to pay a fee for this guarantee agreement. More information on its impact on the income statement is provided in Note 5 in the 'Consolidated financial statements' section.

Management certification

'I, Luc Popelier, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'