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KBC Bank

Half-Year Report 1H 2011

Company name

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

Difference between KBC Bank and KBC Group

Simplified, the KBC group's legal structure has one single entity – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL European Private Bankers (KBL EPB). All KBC Bank shares are owned (directly and indirectly) by KBC Group.

Forward-looking statements

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

Translation

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

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Glossary of ratios used

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

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

Cover ratio
[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing loan ratio'. Where relevant, the numerator also includes individual impairment on performing loans and portfolio-based impairment.

Credit cost ratio
[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. It should be noted that, *inter alia*, no governments bonds are included in this calculation.

Net interest margin of the group
[underlying 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 ninety days in arrears or overdrawn)] / [total outstanding loan portfolio].

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

Management certification

'I, Luc Popelier, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the abbreviated financial statements, which are based on the relevant accounting standards, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV including its consolidated subsidiaries, and that the half-year report provides a fair overview of the main events and most important related-party transactions in the period under review – and the impact they have had on the abbreviated financial statements – as well as a description of the main risks and uncertainties for the remaining months of the financial year.'

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This report contains information that is subject to transparency regulations for listed companies. 31 August 2011, 8 a.m. CEST

Report for the first six months of 2011

KBC Bank

Summary

KBC Bank ended the first six months of 2011 with a consolidated net profit of 911 million euros, compared with a net profit of 698 million euros in the corresponding period of 2010.

The ‘underlying’ net result for the first half of the year (i.e. excluding exceptional items) came to 861 million euros, compared with a year-earlier figure of 835 million euros.

In July 2011, the KBC group announced a significant change in its strategic plan. The main change concerned replacing the originally intended IPO of a minority share in ČSOB Bank (Czech republic) and K&H Bank (Hungary) by the sale of Kredyt Bank (Poland) and Warta (Poland; subsidiary of KBC Insurance). KBC strongly believes this provides a solid basis for the future achievement of the goals set in the strategic refocusing exercise.

Key consolidated figures, KBC Bank, in millions of EUR		
	1H 2010	1H 2011
Net result, IFRS	698	911
Underlying net result	835	861
	31-12-2010	30-06-2011
Total assets	276 723	268 517
Parent shareholders’ equity	13 193	13 703
Tier-1 ratio (in %)	12.4%	13.1% (13.6%*)

* Including the impact of the sale of Centea (see ‘Additional information’ section).

Summary tables containing the ‘results according to IFRS’ and the ‘underlying results’ can be found further on in this report.

Financial highlights for 1H 2011 compared to 1H 2010:

- Net profit up more than 30%, even after the impact of impairment recorded on Greek government bonds.
- Sustained level of underlying net interest income. Lower net fee and commission income due in part to somewhat lower assets under management.
- Good underlying cost/income ratio of 55% and low credit cost ratio of 0.32%. Post-tax impairment charge of 58 million euros recorded on Greek government bonds.
- Consistently strong liquidity position and strong capital base; *pro forma* tier-1 ratio – including the effect of divestments for which a sale agreement has been signed to date – at approximately 13.6%.

Overview of results according to IFRS and underlying results

A summary of the consolidated income statement of KBC Bank, based on the *International Financial Reporting Standards* (IFRS), and a selection of consolidated balance-sheet information is given below. A complete overview of the IFRS consolidated income statement and balance sheet, condensed statements of comprehensive income, of changes in equity and of cashflow, as well as a number of notes to the accounts, are provided in the *Consolidated financial statements* section of this report.

In order to provide a clear insight into underlying business trends, KBC Bank also publishes 'underlying' results. The differences with the IFRS figures relate mainly to the exclusion of exceptional or non-operating items, as well as the different accounting treatment of certain hedging results and capital-market income. In view of their nature and materiality, it is important to adjust the results for these factors in order to gain a better understanding of the profit trend. A more comprehensive explanation of the differences between IFRS results and underlying results can be found in the *Consolidated financial statements* section of this report, under *Notes on segment reporting*.

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS	IFRS	Under-lying	Under-lying
	1H 2010	1H 2011	1H 2010	1H 2011
Net interest income	2 611	2 301	2 187	2 189
Interest income	4 816	5 776	*	*
Interest expense	-2 205	-3 475	*	*
Dividend income	25	21	8	8
Net result from financial instruments at fair value through profit or loss	-700	288	412	352
Net realised result from available-for-sale assets	26	27	24	24
Net fee and commission income	871	792	896	801
Fee and commission income	1 162	1 077	*	*
Fee and commission expense	-291	-286	*	*
Other net income	224	129	106	69
Total income	3 057	3 557	3 633	3 442
Operating expenses	-1 855	-1 933	-1 814	-1 887
Impairment	-668	-354	-640	-348
on loans and receivables	-635	-259	-635	-259
on available-for-sale assets	-2	-66	-2	-66
on goodwill	-28	-6	0	0
on other	-2	-22	-2	-22
Share in results of associated companies	-6	5	-6	5
Result before tax	528	1 275	1 172	1 212
Income tax expense	237	-289	-270	-277
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	765	986	902	935
attributable to minority interests	67	75	67	75
attributable to equity holders of the parent	**698**	**911**	**835**	**861**
Belgium	234	286	367	270
Central & Eastern Europe**	229	209	233	196
Merchant Banking	135	270	204	238
Group Centre**	99	146	32	157

* Not available, as the analysis of these underlying items is performed on a net basis within the group.
** The changes to the KBC group's strategic plan are not yet reflected in the breakdown of results by business unit.

Highlights, consolidated balance sheet and ratios, KBC Bank (in millions of EUR or %)	31-12-2010	30-06-2011
Total assets	276 723	268 517
Loans and advances to customers*	151 326	143 714
Securities (equity and debt instruments)*	66 751	62 346
Deposits from customers and debt certificates*	202 007	192 029
Total equity	14 142	14 630
of which parent shareholders' equity	13 193	13 703
Ratios, KBC Bank (based on underlying results – year-to-date)		
Cost/income ratio	54%	55%
Credit cost ratio	0.91%	0.32%
Solvency, KBC Bank		
Tier-1 ratio	12.4%	13.1%
Core tier-1 ratio	10.5%	11.2%

* In accordance with IFRS 5, the assets and liabilities of certain divestments have been moved to 'Non-current assets held for sale and assets associated with disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.

First six months of 2011: results per heading

- The IFRS-based net result for the first six months of 2011 (further referred to as 1H 2011) amounted to a strong 911 million euros, compared with the year-earlier figure of 698 million euros.
- The main non-operating or exceptional items (i.e. items that are not part of the normal course of business) had a combined impact of +50 million euros in the first half of 2011. An overview of all the non-operating and exceptional items in 1H 2010 and 1H 2011 is provided in the *Consolidated financial statements* section, under *Notes on segment reporting*. Disregarding all these items, the 'underlying' net result came to 861 million euros for 1H 2011, compared with 835 million euros in the corresponding period of 2010.
- In this report, the changes to the KBC group's strategic plan (see 'Additional information' below) are not yet reflected in the breakdown of results per business unit. This means that the results recorded by Kredyt Bank (Poland) are still included in the Central & Eastern Europe Business Unit (as of the next report, they will be recognised under the Group Centre, which covers all the companies earmarked for divestment). Moreover, the Group Centre in this report still includes the results related to the minority stake in ČSOB (Czech Republic) that was originally planned to be floated (as of the next report, these results will again be recognised in the Central & Eastern Europe Business Unit).
- Net interest income came to 2 301 million euros in 1H 2011. On an underlying basis, that is a fairly stable year-on-year performance. On a comparable basis, credit volumes contracted by almost 8% year-on-year in the Merchant Banking Business Unit, in line with our intention to scale down the international loan book. On the other hand, the retail loan portfolio expanded by 4% year-on-year in the Belgium Business Unit, with mortgage loans rising by as much as 7%; it grew by 1% in the Central & Eastern Europe Business Unit (significant increases in the Czech Republic and Slovakia), with mortgage loans going up 4%. Deposits developed along roughly the same lines, with a decline in the Merchant Banking Business Unit, an increase in the Belgium Business Unit and a virtually unchanged situation in the Central & Eastern Europe Business Unit. The group's net interest margin widened from 1.83% in 1H 2010 to 1.90% in 1H 2011.
- Net fee and commission income amounted to 792 million euros in 1H 2011, down approximately 9% on its year-earlier level. Sales of commission-based products were subdued in the first half of 2011. Assets under management stood at roughly 156 billion euros at the end of June 2011, down about 4% on their year-earlier level on account of negative net entry effects, though partly mitigated by a positive investment performance.
- The net result from financial instruments at fair value (trading and fair value income) came to 288 million euros in 1H 2011, as opposed to -700 million euros in 1H 2010. On an underlying basis (i.e. excluding exceptional items such as value adjustments to structured credit, results related to the activities of KBC Financial Products that are being wound down, and after shifting all trading-related income items to this line in the income statement), trading and fair value income amounted to 352 million euros in 1H2011.

- The remaining income components were as follows: dividend income from equity investments amounted to 21 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 27 million euros and other net income totalled 129 million euros.
- Operating expenses amounted to 1 933 million euros in 1H 2011, 4% higher than in 1H 2010. The cost comparison is distorted by the booking in 1Q 2011 of the Hungarian bank tax for FY 2011 (58 million euros). Excluding this item, costs increased by a mere 1% year-on-year. The underlying cost/income ratio – a measure of cost efficiency – stood at 55% in 1H 2011, in line with the 54% recorded for FY 2010.
- Total impairment stood at 354 million euros in 1H 2011. Impairment on loans and receivables came to 259 million euros, well down on the 635 million euros recorded in the first six months of 2010. As a result, the credit cost ratio for 1H 2011 came to a favourable 0.32%, a vast improvement on the figure of 0.91% for FY 2010. Broken down by business unit, the credit cost ratio for 1H 2011 was a very favourable 0.10% in Belgium, 0.53% in Central & Eastern Europe, 0.58% in Merchant Banking and -0.27% (net reversal) in the Group Centre (which also includes those group companies scheduled for divestment in the strategic plan). Other impairment charges totalled 94 million euros in 1H 2011 and relate mainly to Greek government bonds (75 million euros, pre-tax).
- Income tax amounted to 289 million euros for 1H 2011.
- At the end of the first half of 2011, total equity came to 14.6 billion euros, an increase of 0.5 billion euros year-to-date, due primarily to the inclusion of the half-year profit (+0.9 billion euros), the dividends paid to KBC Group (-0.6 billion euros) and the change in the revaluation reserve for available-for-sale financial assets and cashflow hedges (an aggregate +0.2 billion euros). The tier-1 capital ratio – a measure of financial strength – stood at a sound 13.1% at end-June 2011. Including the effect of sale agreements announced to date (i.e. Centea), the *pro forma* tier-1 ratio amounts to approximately 13.6%.
- Highlights of *underlying* performance per business unit (as already mentioned, the changes to the KBC group's strategic plan are not yet reflected in the breakdown of results by business unit) for KBC Bank:
    - The Belgium Business Unit contributed 270 million euros to underlying profit in 1H 2011, compared with 367 million euros a year earlier. The difference is mainly accounted for by lower net fee and commission income and a number of technical or one-off elements (such as the impairment recorded on Greek government bonds, the higher costs related to the deposit protection scheme, etc.). Net interest income increased and loan loss provisioning remained at a very favourable level.
    - The Central & Eastern Europe Business Unit contributed 196 million euros to underlying profit in 1H 2011, compared with 233 million euros a year earlier. The difference is accounted for primarily by the Hungarian bank tax for FY 2011 being booked in 1H 2011 and an impairment charge being recorded on Greek government bonds in 1H 2011, though these elements were partially offset by lower loan loss provisioning.
    - The Merchant Banking Business Unit's contribution to underlying profit came to 238 million euros in the period under review, compared to 204 million euros in 1H 2010, thanks in part to lower loan loss provisioning.
    - It should be noted that the results for the group's planned divestments are not included in the respective business units, but have been grouped together in the Group Centre in order to gain a clear insight into the financial performance of the retained activities and the planned divestments separately. In the first half of 2011, the Group Centre's net underlying result amounted to 157 million euros.

Additional information

Main events in the first six months of 2011

- KBC Bank posted a good result for the first half of 2011, indicating that the business strategy is working and reflecting the current economic state of the markets where KBC is active.
- In the first half of 2011, we continued to implement our strategic refocusing plan. In March 2011, it was announced that Crédit Agricole (Belgium) would acquire Centea. This deal, which was closed on 1 July 2011, will free up around 0.4 billion euros of capital for KBC Bank, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost the bank's tier-1 ratio by around 0.5%.
- In addition, Value Partners Ltd., a Hong Kong-based and listed asset management firm, reached an agreement with KBC Asset Management (KBC AM – a KBC Bank subsidiary) in April 2011 for the acquisition of KBC AM's 55.46% stake in KBC Concord Asset Management Co. Ltd.
- During the second quarter of 2011, KBC Bank and the International Finance Corporation (IFC) – the private sector arm of the World Bank Group – signed and closed an agreement through which KBC Bank would acquire a large part of IFC's 5% stake in Absolut Bank. The sale is the result of the IFC exercising the put option it had agreed with KBC Bank in 2007. As a result, KBC Bank now holds a 99% stake in Absolut Bank. The transaction did not have any impact on KBC's capital position.
- At the start of August 2011, KBC Securities – a KBC Bank subsidiary – divested its operations in Serbia and Romania, reaching an agreement on management buyouts with local management.
- A number of companies are still scheduled for divestment as part of the planned reduction in the international loan portfolio. The sales process for KBC Bank Deutschland has been started and the files for the sales process of Antwerp Diamond Bank are being prepared.
- On 13 July 2011, it was announced that KBC Group had formally applied to the European Commission to amend its 2009 strategic plan. Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS rules on leases) and the difficulty involved in floating K&H Bank in the current circumstances, some measures presented in the initial plan had become less effective in achieving the intended aim. KBC Group and the Belgian authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake in CSOB Bank (Czech Republic) and in K&H Bank (Hungary), as well as the sale and lease back of KBC's head office in Belgium, by the divestment of KBC's Polish subsidiaries, Kredyt Bank (subsidiary of KBC Bank) and Warta (subsidiary of KBC Insurance), and their subsidiaries, and the sale or unwinding of selected ABS and CDO assets. The application was approved by the European Commission on 27 July 2011. KBC firmly believes that the amended strategy will help the group achieve its objectives. The main objective of KBC Group is and remains to execute the plan within the agreed timeframe and to repay the Belgian authorities in a timely manner.
- As a result of the current credit stress on Greek government bonds, KBC Bank decided to record pre-tax impairment of 75 million euros on its exposure to these bonds (see Note 41 in the *Consolidated financial statements* section). KBC supports the voluntary rollover of Greek debt, as proposed by the IIF.
- Given the current economy and domestic Irish Marketplace has not improved as was envisaged and the austerity measures do have a sizeable impact on households, challenging credit conditions will remain, fuelled by continued downward pressure on asset values and rising interest rates generating pressure on borrowers. This might lead to a higher loan loss provisions rate in the next quarters.
- KBC Bank was subjected to the 2011 EU-wide stress test conducted by the European Banking Authority (EBA) in co-operation with the National Bank of Belgium, the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB). The test seeks to assess the resilience of European banks to severe shocks and their specific solvency to hypothetical stress events under certain restrictive conditions. The assumptions and methodology were established to assess banks' capital adequacy against a 5% core tier-1 capital benchmark and are intended to restore confidence in the resilience of the banks tested. The adverse stress test scenario was set by the ECB and covers a two-year time horizon (2011-2012). The stress test was carried out using a static balance sheet assumption as at December 2010. It does not take into account future business strategies and management actions and is not a forecast of KBC Bank's profits. As a result of the assumed shock, the estimated consolidated core tier-1 capital ratio of KBC Bank would change to 10.0% under the adverse scenario in 2012 compared to 10.5% at year-end 2010. This result incorporates the effects of the mandatory restructuring plans agreed with the EC before 31 December 2010.

Statement of risk

- Mainly active in banking and asset management, KBC Bank is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- Information on risk management can be found in the annual report and half-year reports of KBC Bank, which are available at www.kbc.com.
- For the remainder of 2011, special areas of attention from a macroeconomic point of view will be the extent and duration of the current global slowdown of growth. In particular, future job creation on the US labour market and further development of the EMU (and US) sovereign risk issue will be critical determinants.

The financial calendar for KBC Group and KBC Bank, including the dates of earnings releases and analyst and investor meetings, is available at www.kbc.com.

Consolidated financial statements

according to IFRS – KBC Bank – 1H 2011

Reviewed by the statutory auditor

Consolidated income statement

In millions of EUR	Note	1H 2010	1H 2011
Net interest income	3	2 611	2 301
Interest income		4 816	5 776
Interest expense		- 2 205	- 3 475
Dividend income		25	21
Net result from financial instruments at fair value through profit or loss		- 700	288
Net realised result from available-for-sale assets	6	26	27
Net fee and commission income	7	871	792
Fee and commission income		1 162	1 077
Fee and commission expense		- 291	- 286
Other net income	8	224	129
TOTAL INCOME		3 057	3 557
Operating expenses	9	- 1 855	- 1 933
Staff expenses		- 913	- 907
General administrative expenses		- 836	- 938
Depreciation and amortisation of fixed assets		- 107	- 87
Impairment	11	- 668	- 354
on loans and receivables		- 635	- 259
on available-for-sale assets		- 2	- 66
on goodwill		- 28	- 6
on other		- 2	- 22
Share in results of associated companies		- 6	5
RESULT BEFORE TAX		528	1 275
Income tax expense		237	- 289
Net post-tax result from discontinued operations	44	0	0
RESULT AFTER TAX		765	986
Attributable to minority interest		67	75
of which relating to discontinued operations		*0*	*0*
Attributable to equity holders of the parent		**698**	**911**
of which relating to discontinued operations		*0*	*0*

Information on the application of IFRS 5 can be found in Note 44. Not one of the divestments qualified as a ‘discontinued operation’, which explains why ’Net post-tax result from discontinued operations’ equals zero.

Condensed consolidated statement of comprehensive income

In millions of EUR	1H 2010	1H 2011
RESULT AFTER TAX	765	986
attributable to minority interest	67	75
attributable to equity holders of the parent	698	911
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve (AFS assets) - Equity	- 3	9
Net change in revaluation reserve (AFS assets) - Bonds	122	64
Net change in revaluation reserve (AFS assets) - Other	0	0
Net change in hedging reserve (cash flow hedge)	- 286	144
Net change in translation differences	48	7
Other movements	1	1
TOTAL COMPREHENSIVE INCOME	647	1 211
attributable to minority interest	72	77
attributable to equity holders of the parent	574	1 133

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2010	30-06-2011
Cash and cash balances with central banks		15 236	7 908
Financial assets	14	252 035	241 290
Held for trading		30 898	28 031
Designated at fair value through profit or loss		18 560	18 247
Available for sale		34 690	32 445
Loans and receivables		157 109	151 611
Held to maturity		10 495	10 604
Hedging derivatives		284	352
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		218	143
Tax assets		2 305	1 978
Current tax assets		70	74
Deferred tax assets		2 235	1 904
Non-current assets held for sale and assets associated with disposal groups	44	54	9 957
Investments in associated companies		542	551
Investment property		457	579
Property and equipment		2 358	2 326
Goodwill and other intangible assets		1 711	1 709
Other assets		1 807	2 076
TOTAL ASSETS		276 723	268 517

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2010	30-06-2011
Financial liabilities	14	258 577	241 082
Held for trading		24 074	19 875
Designated at fair value through profit or loss		27 985	26 294
Measured at amortised cost		205 394	194 006
Hedging derivatives		1 124	906
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		0	0
Tax liabilities		368	236
Current tax liabilities		281	161
Deferred tax liabilies		87	75
Liabilities associated with disposal groups	44	0	8 686
Provisions for risks and charges	31	554	518
Other liabilities		3 081	3 366
TOTAL LIABILITIES		262 580	253 888
Total equity		14 142	14 630
Parent shareholders' equity	34	13 193	13 703
Minority interests		950	926
TOTAL LIABILITIES AND EQUITY		276 723	268 517

Information on the application of IFRS 5 can be found in Note 44.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
30-06-2010									
Balance at the beginning of the period	8 948	2 492	- 17	- 374	1 468	- 349	12 168	849	13 016
Net result for the period	0	0	0	0	698	0	698	67	765
Other comprehensive income for the period	0	0	116	- 286	- 1	47	- 123	5	- 118
Total comprehensive income	**0**	**0**	**116**	**- 286**	**697**	**47**	**574**	**72**	**647**
Dividends	0	0	0	0	0	0	0	0	0
Capital increase	0	- 1 269	0	0	1 269	0	0	0	0
Change in minorities	0	0	0	- 1	0	0	- 1	- 30	- 31
Total change	**0**	**- 1 269**	**116**	**- 287**	**1 967**	**47**	**573**	**43**	**616**
Balance at the end of the period	**8 948**	**1 222**	**99**	**- 662**	**3 435**	**- 302**	**12 741**	**892**	**13 633**
of which revaluation reserve for shares			117						
of which revaluation reserve for bonds			- 18						
of which revaluation reserve for other assets than bonds and shares			0						
of which relating to non-current assets held for sale and disposal groups			0			0	0		0
30-06-2011									
Balance at the beginning of the period	8 948	1 222	- 387	- 446	4 134	- 279	13 193	950	14 142
Net result for the period	0	0	0	0	911	0	911	75	986
Other comprehensive income for the period	0	0	72	144	1	5	222	3	225
Total comprehensive income	**0**	**0**	**72**	**144**	**912**	**5**	**1 133**	**77**	**1 211**
Dividends	0	0	0	0	- 622	0	- 622	0	- 622
Capital increase	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	- 101	- 101
Total change	**0**	**0**	**72**	**144**	**289**	**5**	**511**	**- 24**	**487**
Balance at the end of the period	**8 948**	**1 222**	**- 314**	**- 302**	**4 423**	**- 274**	**13 703**	**926**	**14 630**
of which revaluation reserve for shares			100						
of which revaluation reserve for bonds			- 414						
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			- 12			0	- 12		- 12

Condensed consolidated cashflow statement

In millions of EUR	1H 2010	1H 2011
Net cash from (used in) operating activities	10 386	- 1 232
Net cash from (used in) investing activities	- 502	30
Net cash from (used in) financing activities	928	- 655
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	10 811	- 1 857
Cash and cash equivalents at the beginning of the period	3 518	17 650
Effects of exchange rate changes on opening cash and cash equivalents	1 402	- 783
Cash and cash equivalents at the end of the period	15 731	15 010

As stated in Note 44, Centea qualifies as a disposal group on account of the agreement entered into in March 2011 to sell it. The main impact this sale will have on cashflows related to investing activities is as follows: receipt of the sales price: 527 million euros; reduction in cash and cash equivalents belonging to disposal groups: 29 million euros (amount at 30 June 2011).

Notes on the accounting policies

Statement of compliance (Note 1a in the 2010 annual accounts)

The consolidated financial statements of KBC Bank have been prepared in accordance with the International Financial Reporting Standards (IAS 34), as adopted for use in the European Union ('endorsed IFRS'). The consolidated financial statements present one year of comparative information. The condensed interim financial statements do not contain all the information and disclosures required in the annual financial statements and, therefore, should be read in conjunction with the financial statements for KBC Bank for the year ended 31 December 2010.

To increase transparency, interest on ALM hedging derivatives (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are presented as from 2011 as 'Net interest income' whereas in previous periods it was recorded under 'Net result from financial instruments at fair value'. Since the interest earned on the related assets appears under 'Net interest income', interest on the ALM hedging derivatives will also be presented under this heading as from 2011 (but not retroactively). The net interest income on ALM hedging derivatives included under 'Net interest income' amounted to -0.2 billion euros for the first half of 2011.

Summary of significant accounting policies (Note 1b in the 2010 annual accounts)

A summary of the main accounting policies is provided in the annual report of KBC Bank. In the first half of 2011, no changes were made to the content of the accounting policies that had a material impact on the results.

Notes on segment reporting

Segment reporting according to the management structure of the group (Note 2a in the 2010 annual accounts)

The KBC group, and its subsidiary KBC Bank, is structured and managed according to a number of segments, known as business units. This breakdown is based on a combination of geographic criteria (Belgium and Central and Eastern Europe, the group's two core geographic areas) and activity criteria (retail bancassurance or merchant banking). The Shared Services & Operations Business Unit – which includes a number of divisions (e.g., ICT, Lease, Payments, Asset Management) that provide support to and serve as a product factory for the other business units – is not disclosed as a separate segment, since all its income and expenses are passed on to the other business units and reflected in their results.
The segment reporting (see below) is based on this breakdown. However, since 2010, all group companies earmarked for divestment under the new strategic plan have also been grouped under the Group Centre.

For reporting purposes, therefore, the composition of the business units of KBC Bank is as follows:

- Belgium (retail banking, asset management and private banking in Belgium; companies earmarked for divestment under the strategic plan are recognised under Group Centre).
- Central & Eastern Europe (retail banking, asset management, private banking and merchant banking in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria; companies in other countries that have been earmarked for divestment are recognised under Group Centre).
- Merchant Banking (corporate banking and market activities in Belgium and in a selection of countries in Europe, America and Southeast Asia; companies earmarked for divestment are recognised under Group Centre).
- Group Centre (all companies earmarked for divestment and certain allocated expenses that cannot reliably be allocated to the other segments).

On 13 July 2011, KBC Group submitted a formal application to the European Commission to amend its 2009 strategic plan (see the 'Post-balance-sheet events' section). The Commission approved the application on 27 July 2011. The amendments will change the segment reporting as of the next report (and will be applied retroactively).

The basic principle underlying segment reporting is that a group company is assigned in its entirety to one specific segment. The only exception to this rule concerns those charges that cannot clearly be allocated to a specific segment (such charges are grouped together and presented under 'Group Centre') and KBC Bank NV (which is assigned to various segments and to the Group Centre, using a set of allocation rules).

The funding cost of goodwill related to participations held by KBC Bank is allocated to the segment to which the relevant participation belongs.

Transactions are conducted among the different segments at arm's length.

The figures in the segment reporting presentation have been prepared in accordance with the general KBC accounting policies (see Note 1) and, therefore, comply with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS). However, a number of changes have been made to this methodology in order to provide a better insight into the underlying business performance (the results generated in this way are referred to as 'underlying results'):

- To arrive at the figure for the underlying group result, items that do not regularly occur during the normal course of business are eliminated. These items also include exceptional losses (and gains), such as those incurred on structured credit investments and on trading positions that were unwound due to the discontinuation of activities at KBC Financial Products. In view of their exceptional nature and materiality, it is important to separate out these items in order to gain a full understanding of the results trend. The realised gains or losses or impairment relating to actual divestments are also considered to be exceptional items.
- With the IFRS figures, many of the ALM hedging derivatives (i.e. those that do not qualify for 'fair value hedge accounting for a portfolio hedge of interest rate risk') are regarded as trading instruments so that interest relating to these instruments used to appear under 'Net gains from financial instruments at fair value', whereas interest on the related asset appears under 'Net interest income'. In the underlying figures, interest on these derivatives has therefore been moved to 'Net interest income' (the heading under which interest results generated by the related assets is recognised), without this having any impact on net profit. However, as of 2011, interest on ALM hedging derivatives is also included in the IFRS figures under 'Net interest income' (see Note 1a).
- Moreover, the fair value changes (due to marking-to-market) of the above ALM hedging instruments appear under 'Net result from financial instruments at fair value', whereas most related assets are not recognised at fair value (i.e. not marked-to-market). To limit the volatility arising from the marking-to-market of these instruments, a (government)

bond portfolio was classified as 'measured at fair value through profit or loss' (fair value option). The remaining volatility stemming from the fair value changes of these ALM hedging derivatives relative to the fair value changes in the relevant bond portfolio is excluded from the underlying results.

- In the IFRS figures, income from trading activities is divided up among different components. While trading profit is recognised under 'Net result from financial instruments at fair value', the funding costs and the fees and commission paid to realise this trading profit are recognised under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, some 'Dividend income', 'Net realised result from available-for-sale assets' and 'Other net income' also relates to trading activities. In the underlying figures, all trading income components have been moved to 'Net result from financial instruments at fair value', without this having any impact on the net result.
- The IFRS figures take into account the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss. The resultant valuation adjustments have an impact on the reported net result. Since this is a non-operating item, its impact is excluded from the underlying figures.

The table reconciles the net result according to IFRS and the underlying net result:

Reconciliation of IFRS and underlying result KBC Bank (in millions of EUR)	Business Unit	Main heading	1H 2010	1H 2011
Result after tax, attributable to equity holders of the parent (underlying)			835	861
+ MTM of ALM hedging derivatives	Various	FIFV	-238	22
+ Gains/losses relating to CDOs	Various	FIFV	540	52
+ MTM of CDO guarantee and commitment fee	Various	FIFV	-42	-26
+ Impairment on goodwill (and associated companies)	Various	I	-28	-6
+ Result from legacy structured derivatives business (KBC FP)	Group Centre	FIFV, OE	-336	57
+ MTM of own debt instruments	Group Centre	FIFV	31	-41
+ Results on divestments	Various	ONI, OE	-3	-8
+ Other	Various	-	-62	0
Result after tax, attributable to equity holders of the parent (IFRS)			698	911

Main heading in the income statement
FIFV: net result from financial instruments at fair value through profit or loss
I: impairment
ONI: other net income
OE: operating expenses

In order to provide a more transparent view, taxes and minority interests have been allocated to the various headings in the above table rather than being reported separately as was the case in previous reports.

After improving in the first quarter of 2011, the market price for corporate credit (as reflected in credit default swap spreads) deteriorated in the second quarter, which – on balance – caused the value of KBC's exposure to CDOs to be adjusted by roughly +0.1 billion euros in the first half of the year (this figure includes the impact of the government guarantee scheme (but not the related fee) as well as the cover for the CDO-related counterparty exposure to MBIA, the US monoline insurer, which remained at its level of year-end 2010 (i.e. 70%)).

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre excluding interseg-ment eliminations	Inter-segment eliminations	Total KBC Bank
INCOME STATEMENT - underlying results - 1H 2010						
Net interest income	724	852	391	220	0	2 187
Dividend income	4	2	3	0	0	8
Net result from financial instruments at fair value through profit or loss	37	82	276	17	0	412
Net realised result from available-for-sale assets	6	13	2	3	0	24
Net fee and commission income	505	231	117	43	- 1	896
Other net income	18	41	48	4	- 5	106
TOTAL INCOME	**1 294**	**1 220**	**837**	**288**	**- 5**	**3 633**
Operating expenses	- 646	- 605	- 271	- 298	5	- 1 814
Impairment	- 28	- 227	- 310	- 74	0	- 640
on loans and receivables	- 28	- 225	- 308	- 74	0	- 635
on available-for-sale assets	0	0	- 2	0	0	- 2
on goodwill	0	0	0	0	0	0
on other	0	- 2	0	0	0	- 2
Share in results of associated companies	0	6	0	- 12	0	- 6
RESULT BEFORE TAX	**620**	**394**	**255**	**- 97**	**0**	**1 172**
Income tax expense	- 195	- 50	- 44	20	0	- 270
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**425**	**344**	**210**	**- 77**	**0**	**902**
attributable to minority interests	58	111	7	- 108	0	67
attributable to equity holders of the parent	**367**	**233**	**204**	**32**	**0**	**835**
INCOME STATEMENT - underlying results - 1H 2011						
Net interest income	753	890	347	201	- 2	2 189
Dividend income	2	1	4	0	0	8
Net result from financial instruments at fair value through profit or loss	19	50	300	- 17	0	352
Net realised result from available-for-sale assets	3	8	14	- 1	0	24
Net fee and commission income	440	243	104	16	- 1	801
Other net income	13	26	35	- 1	- 4	69
TOTAL INCOME	**1 229**	**1 219**	**804**	**198**	**- 8**	**3 442**
Operating expenses	- 714	- 720	- 291	- 169	8	- 1 887
Impairment	- 39	- 156	- 169	16	0	- 348
on loans and receivables	- 27	- 101	- 152	21	0	- 259
on available-for-sale assets	- 12	- 52	- 1	- 1	0	- 66
on goodwill	0	0	0	0	0	0
on other	0	- 2	- 16	- 4	0	- 22
Share in results of associated companies	0	4	0	0	0	5
RESULT BEFORE TAX	**476**	**347**	**343**	**46**	**0**	**1 212**
Income tax expense	- 151	- 39	- 99	12	0	- 277
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**325**	**308**	**245**	**58**	**0**	**935**
attributable to minority interests	55	112	7	- 99	0	75
attributable to equity holders of the parent	**270**	**196**	**238**	**157**	**0**	**861**

The table presents a number of balance sheet figures broken down by segment.

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre	Total KBC Bank
Balance sheet information 31-12-2010					
Total loans to customers	51 893	35 781	49 120	14 532	151 326
Of which mortgage loans	26 890	14 506	12 809	7 231	61 436
Of which reverse repos	0	4 057	5 932	0	9 989
Customer deposits	68 189	44 826	77 546	11 445	202 007
Of which repos	0	3 219	12 179	0	15 398
Balance sheet information 30-06-2011					
Total loans to customers	53 293	32 789	50 702	6 931	143 714
Of which mortgage loans	27 772	15 099	12 550	1 166	56 587
Of which reverse repos	0	20	7 970	0	7 990
Customer deposits	71 323	45 488	73 208	2 010	192 029
Of which repos	0	3 086	13 642	0	16 728

It should be noted that the reference figures relating to deposits have been adjusted as a result of the changes to the way in which deposits at KBC Bank are allocated to the Belgium and Merchant Banking Business Units.

Segment reporting according to geographic segment (Note 2b in the 2010 annual accounts)

This segment reporting format is based on geographic areas, reflecting KBC's focus on Belgium and Central and Eastern Europe (including Russia), and its selective presence in other countries ('Rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).
The geographic segmentation is based on the location where the services are rendered. Since at least 95% of customers are local, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.
This segment reporting format differs considerably from segment reporting based on business units, partly due to the fact that different allocation methodologies are used and that the Belgium geographic segment includes not only the Belgium Business Unit, but also the Belgian activities of the Merchant Banking Business Unit.

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	Total KBC Bank
1H 2010				
Total income from external customers (underlying)	1 642	1 361	630	3 633
31-12-2010				
Total assets (period-end)	183 692	58 184	34 846	276 723
Total liabilities (period-end)	171 337	52 667	38 576	262 580
1H 2011				
Total income from external customers (underlying)	1 602	1 373	467	3 442
30-06-2011				
Total assets (period-end)	180 006	59 106	29 406	268 517
Total liabilities (period-end)	167 995	53 830	32 063	253 888

Other notes

Net interest income (Note 3 in the 2010 annual accounts)

In millions of EUR	1H 2010	1H 2011
Total	2 611	2 301
Interest income	4 816	5 776
Available-for-sale assets	605	572
Loans and receivables	3 315	3 287
Held-to-maturity investments	196	243
Other assets not at fair value	13	15
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*4 129*	*4 117*
Financial assets held for trading	197	1 152 (*)
Hedging derivatives	164	238
Other financial assets at fair value through profit or loss	326	269
Interest expense	- 2 205	- 3 475
Financial liabilities measured at amortised cost	- 1 610	- 1 638
Other	0	- 1
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 1 610*	*- 1 639*
Financial liabilities held for trading	- 47	- 1 270 (*)
Hedging derivatives	- 406	- 401
Other financial liabilities at fair value through profit or loss	- 142	- 165

(*) including interest on ALM derivatives as of 1H 2011: +1.0 billion euro interest income and -1.2 billion euro interest expense.

Net realised result from available-for-sale assets (Note 6 in the 2010 annual accounts)

In millions of EUR	1H 2010	1H 2011
Total	26	27
Breakdown by portfolio		
Fixed-income securities	20	7
Shares	6	20

Net fee and commission income (Note 7 in the 2010 annual accounts)

In millions of EUR	1H 2010	1H 2011
Total	871	792
Fee and commission income	1 162	1 077
Securities and asset management	601	479
Commitment credit	134	143
Payments	251	273
Other	176	183
Fee and commission expense	- 291	- 286
Commission paid to intermediaries	- 59	- 67
Other	- 232	- 219

Other net income (Note 8 in the 2010 annual accounts)

In millions of EUR	1H 2010	1H 2011
Total	224	129
Of which net realised result following		
The sale of loans and receivables	4	- 14
The sale of held-to-maturity investments	0	0
The sale of financial liabilities measured at amortised cost	0	0
Other: of which:	220	143
Irregularities in KBC Lease UK	0	2
Income concerning leasing at the KBC Lease-group	36	44
Income from consolidated private equity participations	27	28
Realised gains or losses on divestments	0	15

Operating expenses (Note 9 in the 2010 annual accounts)

In 2010, the Hungarian government imposed a new special tax on financial institutions that relates to 2010, 2011 and 2012. The figure for operating expenses for the first six months of 2011 includes expenses relating to this tax for 2011 (58 million euros for the full year, all of which was recognised in the first half of the year, deductible expense).

Impairment – income statement (Note 11 in the 2010 annual accounts)

In millions of EUR	1H 2010	1H 2011
Total	- 668	- 354
Impairment on loans and receivables	- 635	- 259
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 584	- 301
Provisions for off-balance-sheet credit commitments	- 8	7
Portfolio-based impairments	- 43	34
Impairment on available-for-sale assets	- 2	- 66
Breakdown by type		
Shares	- 2	- 1
Other	0	- 65
Impairment on goodwill	- 28	- 6
Impairment on other	- 2	- 22
Intangible assets, other than goodwill	0	0
Property and equipment and investment property	- 1	- 12
Held-to-maturity assets	0	- 9
Associated companies (goodwill)	0	0
Other	- 1	- 2

Impairment on (available-for-sale and held-to-maturity) bonds relates almost entirely to Greek sovereign bonds. For additional information, see Note 41.

Financial assets and liabilities: breakdown by portfolio and product (Note 14 in the 2010 annual accounts)

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, 31-12-2010								
Loans and advances to credit institutions and investment firms [a]	696	1 808	0	13 044	-	-	-	15 548
Loans and advances to customers [b]	4 173	6 953	0	140 200	-	-	-	151 326
Discount and acceptance credit	0	0	0	119	-	-	-	119
Consumer credit	0	0	0	4 273	-	-	-	4 273
Mortgage loans	0	380	0	61 056	-	-	-	61 436
Term loans	4 173	6 507	0	61 454	-	-	-	72 135
Finance leasing	0	0	0	4 909	-	-	-	4 909
Current account advances	0	0	0	4 801	-	-	-	4 801
Securitised loans	0	0	0	0	-	-	-	0
Other	0	66	0	3 588	-	-	-	3 654
Equity instruments	1 717	16	613	-	-	-	-	2 346
Debt instruments issued by	7 708	9 591	33 455	3 405	10 246	-	-	64 405
Public bodies	5 806	8 833	29 634	109	10 009	-	-	54 390
Credit institutions and investment firms	739	247	2 442	224	178	-	-	3 830
Corporates	1 162	511	1 379	3 073	58	-	-	6 184
Derivatives	16 304	-	-	-	-	211	-	16 515
Total carrying value excluding accrued intrest income	30 598	18 368	34 068	156 649	10 246	211	0	250 140
Accrued interest income	300	192	621	459	250	73	0	1 895
Total carrying value including accrued interest income	30 898	18 560	34 690	157 109	10 495	284	0	252 035
[a] *Of which reverse repos*								*2 284*
[b] *Of which reverse repos*								*9 989*
FINANCIAL ASSETS, 30-06-2011								
Loans and advances to credit institutions and investment firms [a]	4 376	2 006	0	12 931	-	-	-	19 314
Loans and advances to customers [b]	31	8 554	0	135 130	-	-	-	143 714
Discount and acceptance credit	0	0	0	81	-	-	-	81
Consumer credit	0	0	0	4 089	-	-	-	4 089
Mortgage loans	0	224	0	56 364	-	-	-	56 587
Term loans	31	8 316	0	60 953	-	-	-	69 300
Finance leasing	0	0	0	4 732	-	-	-	4 732
Current account advances	0	0	0	5 444	-	-	-	5 444
Securitised loans	0	0	0	0	-	-	-	0
Other	0	14	0	3 469	-	-	-	3 483
Equity instruments	1 315	15	554	-	-	-	-	1 885
Debt instruments issued by	8 185	7 515	31 383	2 971	10 407	-	-	60 461
Public bodies	5 912	6 795	28 139	107	10 226	-	-	51 178
Credit institutions and investment firms	1 156	252	2 177	226	153	-	-	3 964
Corporates	1 117	468	1 067	2 638	29	-	-	5 318
Derivatives	14 044	-	-	-	-	252	-	14 296
Total carrying value excluding accrued interest income	27 951	18 091	31 937	151 032	10 407	252	0	239 670
Accrued interest income	80	156	508	579	197	100	0	1 621
Total carrying value including accrued interest income	28 031	18 247	32 445	151 611	10 604	352	0	241 290
[a] *Of which reverse repos*								*7 115*
[b] *Of which reverse repos*								*7 990*

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, 31-12-2010								
Deposits from credit institutions and investment firms [a]	21	6 920	-	-	-	-	21 643	28 584
Deposits from customers and debt certificates [b]	648	20 991	-	-	-	-	180 368	202 007
Deposits from customers	0	17 089	-	-	-	-	138 766	155 855
Demand deposits	0	57	-	-	-	-	48 588	48 645
Time deposits	0	17 032	-	-	-	-	44 631	61 663
Savings deposits	0	0	-	-	-	-	40 260	40 260
Special deposits	0	0	-	-	-	-	4 005	4 005
Other deposits	0	0	-	-	-	-	1 282	1 282
Debt certificates	648	3 902	-	-	-	-	41 602	46 152
Certificates of deposit	0	22	-	-	-	-	15 408	15 430
Customer savings certificates	0	0	-	-	-	-	2 155	2 155
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	648	3 600	-	-	-	-	14 935	19 183
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	280	-	-	-	-	9 104	9 384
Derivatives	22 263	0	-	-	-	849	-	23 112
Short positions	1 119	0	-	-	-	-	-	1 119
in equity instruments	10	0	-	-	-	-	-	10
in debt instruments	1 110	0	-	-	-	-	-	1 110
Other	0	0	-	-	-	-	2 594	2 594
Total carrying value excluding accrued interest expense	24 051	27 911	-	-	-	849	204 605	257 416
Accrued interest expense	23	74	-	-	-	276	789	1 161
Total carrying value including accrued interest expense	24 074	27 985	-	-	-	1 124	205 394	258 577
[a] *Of which repos*								*8 212*
[b] *Of which repos*								*15 398*
FINANCIAL LIABILITIES, 30-06-2011								
Deposits from credit institutions and investment firms [a]	19	2 932	-	-	-	-	21 554	24 505
Deposits from customers and debt certificates [b]	389	23 199	-	-	-	-	168 440	192 029
Deposits from customers	0	18 353	-	-	-	-	133 268	151 620
Demand deposits	0	69	-	-	-	-	48 919	48 988
Time deposits	0	18 282	-	-	-	-	45 153	63 435
Savings deposits	0	0	-	-	-	-	33 680	33 680
Special deposits	0	0	-	-	-	-	4 068	4 068
Other deposits	0	2	-	-	-	-	1 448	1 450
Debt certificates	389	4 846	-	-	-	-	35 173	40 408
Certificates of deposit	0	49	-	-	-	-	10 088	10 138
Customer savings certificates	0	0	-	-	-	-	780	780
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	389	4 547	-	-	-	-	15 503	20 439
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	250	-	-	-	-	8 801	9 051
Derivatives	18 979	0	-	-	-	667	-	19 646
Short positions	470	0	-	-	-	-	-	470
in equity instruments	24	0	-	-	-	-	-	24
in debt instruments	447	0	-	-	-	-	-	447
Other	0	0	-	-	-	-	2 999	2 999
Total carrying value excluding accrued interest expense	19 858	26 131	-	-	-	667	192 993	239 649
Accrued interest expense	17	164	-	-	-	239	1 013	1 433
Total carrying value including accrued interest expense	19 875	26 294	-	-	-	906	194 006	241 082
[a] *Of which repos*								*3 180*
[b] *Of which repos*								*16 728*

Provisions for risks and charges (Note 31 in the 2010 annual accounts)

File update:
ČSOB (and KBC Bank NV in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of 62 million euros plus interest. The Czech government had filed a counterclaim, provisionally estimated at the equivalent of 1 billion euros plus interest. On 29 December 2010, an arbitral decision was issued in which ČSOB's claim was allowed and the Czech government's counterclaim dismissed in full. On 28 March 2011, the Czech Ministry of Finance filed a claim before the commercial court in Vienna to have the arbitral decision lifted; this new claim relates solely to the dismissal of the claim filed by ČSOB that had been allowed (and not to the Ministry's counterclaim that had been dismissed).

Possible outflow:
In April and May 2008, KBC Bank and its subsidiaries sold structured 5/5/5 'first-to-default' bonds scheduled to mature in April and May 2013 to retail customers for a total amount of 670 million euros. These bonds are linked to the creditworthiness of Belgium, France, Spain, Italy and Greece. A credit event in one of these countries would adversely affect the invested capital and no further coupons would be paid.
As a result of the successive downgrades of Greek bonds, KBC Bank decided for commercial reasons to offer comfort to all holders of 5/5/5 bonds by proactively clarifying KBC's contingent intention to purchase the bonds at a price equal to the invested capital less any coupons paid by the issuer (all amounts before costs and taxes), whereby such intention is conditional on the occurrence of a credit event. Until the date of this disclosure, no credit event had occurred.
A credit event will have a negative financial impact for KBC if the amount of the recoverable value of the bond in which the credit event occurs is below the nominal capital less the coupons paid.

For additional information on provisions for risks and charges, see the annual report.

Parent shareholders' equity (Note 34 in the 2010 annual accounts)

in number of shares	31-12-2010	30-06-2011
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*
Non-voting core-capital securities	0	0
Other information		
Par value per ordinary share (in euros)	9,78	9,78
Number of shares issued but not fully paid up	0	0

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

Related-party transactions (Note 37 in the 2010 annual accounts)

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

	31-12-2010								30-06-2011							
	Entities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other	Total	Entities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other	Total
Assets	404	382	145	107	24 050	929	2 608	28 625	211	317	137	106	23 698	1 006	2 695	28 169
Loans and advances	240	55	97	73	71		1 938	2 474	0	53	86	73	0	0	2 053	2 265
Current accounts	240	2	1	0	0		511	753		2	2				604	607
Term loans		53	96	73	71		1 425	1 718		52	84	73			1 448	1 657
Finance leases							0	0							0	0
Consumer credit							0	0							0	0
Mortgage loans							2	2							1	1
Equity instruments	106	194	30	26			13	368	110	148	34	26	0	0	0	317
Trading securities	6						12	18	0							0
Investment securities	100	194	30	26			0	350	110	148	34	26			0	317
Other receivables	58	133	18	8	23 980	929	658	25 784	101	115	17	7	23 698	1 006	642	25 586
Liabilities	298	915	172	32	264	0	5 971	7 652	510	1 326	146	36	49	0	6 129	8 195
Deposits	24	886	132	32	176		3 862	5 112	244	1 304	133	36	0	0	4 185	5 902
Deposits	14	885	131	32	176		3 841	5 079	237	1 303	131	36			4 164	5 871
Other	10	1	1				21	33	8	1	1				21	31
Other financial liabilities	250	23	20				1 808	2 101	250	14	0	0	0	0	1 651	1 914
Debt certificates		1	20				1 807	1 828		0					1 650	1 650
Subordinated liabilities	250	22					0	273	250	14					0	264
Share based payments, granted								0								0
Share based payments, exercised								0								0
Other liabilities (including accrued expense)	24	6	21	0	88		301	439	15	8	13	0	49		294	379
Income statement	- 7	10	- 2	2	659	23	- 767	- 82	1	4	0	1	338	12	- 417	- 61
Net interest income	- 4	8	- 1	2	659	23	- 99	588	- 2	3	- 1	1	338	12	- 69	282
Dividend income		2	4					6		1	2					3
Net fee and commission income	0	0	- 3	0			141	139	0	0	- 1	0			72	71
Other income		1	0	0			7	8	3	0	0	0			3	7
Other expenses	- 3	- 1	- 2	0			- 816	- 823	- 1	0	- 1				- 423	- 425
Guarantees																
Guarantees issued by the group								0								0
Guarantees received by the group								0								0

In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the results for the first six months of 2011 is the related cost of the fee for KBC Bank (40 million euros) which is recognised in ‘Net result from financial instruments at fair value through profit or loss’.

Main changes in the scope of consolidation (Note 40 in the 2010 annual accounts)

Company	Consolidation method	Ownership percentage at group level		Comments
		1 H 2010	1 H 2011	
For income statement comparison				
Additions				
None				
Exclusions				
KBC Peel Hunt Ltd.	Full	100,00%	------	Sold in 4Q2010
KBC Financial Products Group	Full	100,00%	100,00%	Sale of a number of activities in 2010
Changes in ownership percentage and internal mergers				
Nova Ljubljanska banka	Equity	30,57%	25,00%	Decrease with 5,57% (1Q11)
Absolut Bank	Full	95,00%	99,00%	Increase with 4,00% (2Q11)
For balance sheet comparison		31/12/2010	30/06/2011	
Additions				
None				
Exclusions				
None				
Changes in ownership percentage and internal mergers				
Nova Ljubljanska banka	Equity	30,57%	25,00%	Decrease with 5,57% (1Q11)
Absolut Bank	Full	95,00%	99,00%	Increase with 4,00% (2Q11)

Risk management (Note 41 in the 2010 annual accounts)

The following is an update of KBC Bank's exposure to the sovereign bonds of a selection of European countries.

Sovereign bonds of a selection of European countries (in billions of EUR); 30-06-2011; carrying value

	Total			Banking book		
	Banking book[1]	Trading book	Total	Amounts maturing in 2011	Amounts maturing in 2012	Amounts maturing after 2012
Greece[2]	0.3	0.0	0.3	0.0	0.1	0.2 [3]
Portugal	0.1	0.0	0.1	0.0	0.0	0.1
Spain	1.4	0.0	1.4	0.0	0.4	1.0
Italy	5.1	0.1	5.2	0.7	0.4	4.1
Ireland	0.3	0.0	0.3	0.0	0.0	0.3

1 Bonds classified as 'available-for-sale', 'held-to-maturity' and 'designated at fair value through profit or loss'.
2 The banking book for Greece consists of 0.2 billion euros' worth of bonds that are available for sale and 0.1 billion euros' worth of bonds that are designated at fair value through profit or loss.
3 Of which 0.002 billion euros matures after 2020.

The market turbulence relating to sovereign bonds had no relevant impact on KBC's liquidity position and strategy. All sovereign bonds remain eligible for being pledged against the ECB.

In the second quarter of 2011, KBC considers Greek government bonds with a maturity date up to and including 2020 to be impaired, due to the current state of the Greek economy, the debate on debt restructuring, the downgrading of debt, the sharp decrease in fair values, very high credit spreads and the expectation that financial institutions will participate in the restructuring plan proposed on 21 July 2011, which includes significant private sector support. For Greek government bonds maturing after 2020, KBC assessed the bonds not to be impaired since they are not included in the scope of the private sector support.

At 30 June 2011, the following impairment charges were recognised on Greek sovereign bonds:

- For the available-for-sale portfolio, impairment was calculated as the difference between the amortised cost amount and the fair value on 30 June 2011. This resulted in a reversal of the available-for-sale revaluation reserve and recognition of impairment of 66 million euros before tax in the income statement.

- For the held-to-maturity portfolio, impairment was assessed as 21% of the nominal amount, resulting in pre-tax impairment of 9 million euros being recognised in the income statement. This calculation is considered to be a best estimate of the recoverable amount (in line with the Institute of International Finance (IIF) proposal).
- Since the bonds held in the trading book and those designated at fair value through profit or loss have already been recorded at fair value through profit and loss, no additional adjustment is required.
- Consequently, the total impact on the income statement is a pre-tax impairment charge of 75 million euros.

If – in line with the IIF proposal – an exchange of Greek sovereign bonds were to lead to a net present value loss of 21%, this would ultimately have a positive effect on the income statement through the available-for-sale portfolio (estimated impact of 15 million euros before tax).
No impairment was recognised on sovereign bonds issued by other European countries because there is no evidence at this point to suggest that future cashflows relating to these securities will be adversely affected.

In the first half of 2011, KBC recorded fair value changes totalling +7 million euros (+24 million euros of which for Italy and -17 million euros for Greece; this impact included fair value changes in the related ALM derivatives) in the income statement for sovereign bonds designated at fair value through profit or loss, and a trading result of -1 million euros. Virtually no realised results were recognised on the sale of available-for-sale sovereign bonds.

On 30 June 2011, the carrying value of the available-for-sale bonds included a negative revaluation. The effect – totalling -89 million euros after tax (with Italy accounting for -6 million euros, Portugal -5 million euros, Spain -48 million euros, Ireland -36 million euros and Hungary +7 million euros) – is included in the revaluation reserve for available-for-sale assets.

Post-balance-sheet events (Note 42 in the 2010 annual accounts)

Significant events between the balance sheet date (30 June 2011) and publication of this report (31 August 2011):

- Centea: on 1 July 2011, KBC and Crédit Agricole Group Belgium finalised the sale of Centea for 527 million euros. Besides the sale price, KBC has received a dividend of 66 million euros from Centea for financial year 2010. This sale was announced in a press release on 4 March 2011. The deal will free up around 0.4 billion euros of capital for KBC Bank, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC Bank's tier-1 ratio by around 0.5%. The gain on this deal is limited.

- Strategic plan: on 13 July 2011, KBC Group formally applied to the European Commission to amend its 2009 strategic plan (that had been approved by the Commission on 18 November 2009). KBC Group and the Belgian authorities formally applied to the European Commission for approval to replace the planned IPOs of a minority stake of ČSOB Bank (Czech Republic) and K&H Bank (Hungary) and sale and lease back of the KBC Group's headquarters in Belgium by the divestment of the group's Polish banking and insurance subsidiaries, Kredyt Bank (a subsidiary of KBC Bank) and Warta (a subsidiary of KBC Insurance) and the sale or unwind of selected ABS and CDO assets. The European Commission approved the application on 27 July 2011.

- Greece: on 21 July 2011, the members of the Institute of International Finance (IIF) and other major financial institutions put forward a proposal for Greece. As part of a comprehensive plan – which includes additional support from the European Union and the International Monetary Fund – the financial sector is prepared to participate in a voluntary debt exchange programme. This will result in a loss of roughly 21% for private holders of the sovereign bonds in question. More information on exposure to Greek sovereign bonds is provided in Note 41, 'Risk Management'.

Non-current assets held for sale and discontinued operations (IFRS 5) (additional note (44))

Situation on 30 June 2011

On 30 June 2011, the following scheduled divestments met the criteria for IFRS 5:

- as disposal groups that do not constitute a discontinued operation: Centea (Centea's results continue to be presented under the various headings of the income statement).
- as disposal groups that constitute a discontinued operation: none.

The assets and liabilities of these divestments are presented under a separate heading in the balance sheet (on the asset side under 'Non-current assets held for sale and assets associated with disposal groups' and on the liabilities side under 'Liabilities associated with disposal groups'. See the table for more details.

The other participating interests earmarked for divestment did not meet the criteria on 30 June 2011:

- for some, the sale is not planned to take place within a year;
- and/or an active program to locate a buyer has not yet been initiated;
- and/or it is too early to ascertain whether the desired sales price is feasible given the current volatility on the financial markets, which means that significant changes could still be made to the plan.

Information relating to the divestments

Centea:

Activity:	Credit institution
Segment:	Group Centre
Date of sale agreement:	March 2011
Additional information:	Early in March 2011, KBC reached an agreement with Crédit Agricole for the sale of Centea for a total consideration of 527 million euros. This deal will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC Bank's tier-1 ratio by around 0.5% (impact calculated at year-end 2010). The gain on this deal is limited. The sale was finalised on 1 July 2011.

Financial impact of the divestments

In millions of EUR

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

Balance sheet	31-12-2010	30-06-2011
Assets		
Cash and cash balances with central banks	0	23
Financial assets	39	9 859
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0
Tax assets	0	52
Investments in associated companies	0	0
Investment property and property and equipment	6	22
Goodwill and other intangible assets	0	0
Other assets	8	1
Total assets	54	9 957
Liabilities		
Financial liabilities	0	8 670
Tax liabilities	0	- 3
Provisions for risks and charges	0	3
Other liabilities	0	16
Total liabilities	0	8 686
Other comprehensive income		
Available-for-sale reserve	0	- 18
Deferred tax on available-for-sale reserve	0	6
Translation differences	0	0
Total other comprehensive income	0	- 12

Report of the statutory auditor to the shareholders of KBC Bank nv on the review of the interim condensed consolidated financial statements as of 30 June 2011 and for the six months then ended

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of KBC Bank nv (the "Company") as at 30 June 2011 and the related interim consolidated income statement, the condensed consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard *IAS 34 Interim Financial Reporting* ("IAS 34") as adopted for use in the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review ("revue limitée/beperkt nazicht" as defined by the "Institut des Reviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren") in accordance with the recommendation of the "Institut des Reviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren" applicable to review engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
A review is substantially less in scope than an audit conducted in accordance with the auditing standards of the "Institut des Reviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren" and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Brussels, 31 August 2011

Ernst & Young Bedrijfsrevisoren bcvba
Statutory auditor
Represented by

Pierre Vanderbeek Partner	Christel Weymeersch Partner

12PVDB0018

Value and risk management

KBC Bank, 1H 2011

Comprehensive information on risk management and solvency on 31 December 2010 is provided in KBC Bank's annual report for 2010. A summary update of that information is provided below. For an explanation of the methodology used, please refer to the annual report.

Overview of the loan portfolio

A summary of the consolidated loan portfolio of KBC Bank is given in the table. Additional information on these and other sources of credit risk are provided in the annual report.

Loan portfolio, KBC Bank (consolidated)	31-12-2010	30-06-2011
Total loan portfolio (in billions of EUR)		
Amount granted	192	191
Amount outstanding	161	161
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium	31%	32%
Central & Eastern Europe	23%	24%
Merchant Banking	36%	35%
Group Centre (including companies earmarked for divestment)	10%	9%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (selection of sectors, as a % of the portfolio of credit granted)		
Real estate	7%	7%
Electricity	2%	2%
Aviation	0.3%	0.3%
Automotive	2%	2%
Impaired loans (in millions of EUR or as a %)		
Amount outstanding	10 928	10 405
Specific impairment	4 686	4 308
Portfolio-based impairment	351	321
Credit cost ratio		
Belgium	0.15%	0.10%
Central & Eastern Europe	1.22%	0.53%
Czech Republic	0.75%	0.32%
Slovakia	0.96%	0.41%
Hungary	1.98%	1.39%
Poland	1.45%	0.23%
Bulgaria	2.00%	1.90%
Merchant Banking	1.38%	0.58%
Group Centre (including companies earmarked for divestment)	1.10%	-0.27%
Total	0.91%	0.32%
Non-performing loans (in millions of EUR or as a %)		
Amount outstanding	6 531	6 916
Specific impairment for non-performing loans	3 273	3 385
Non-performing ratio		
Belgium	1.5%	1.5%
Central & Eastern Europe	5.6%	5.3%
Merchant Banking	5.2%	6.4%
Group Centre (including companies earmarked for divestment)	5.3%	4.5%
Total	4.1%	4.3%
Cover ratio		
Specific impairment for non-performing loans / outstanding non-performing loans	50%	49%
Specific and portfolio-based impairment for performing and non-performing loans / outstanding non-performing loans	77%	67%

Detailed information on the structured credit exposure of the KBC group is available in the KBC Group Extended Quarterly Report 2Q2011 which you can view at or download from www.kbc.com.

Solvency

In millions of EUR	31-12-2010 Basel II	30-06-2011 Basel II
Regulatory capital		
Total regulatory capital, KBC Bank (after profit appropriation)	18 552	18 264
Tier 1-capital	13 809	14 026
Parent shareholders' equity	13 193	13 703
Intangible fixed assets (-)	- 100	- 98
Goodwill on consolidation (-)	- 1 611	- 1 610
Innovative hybrid tier-1 instruments	414	403
Non-innovative hybrid tier-1 instruments	1 689	1 690
Minority interests	584	570
Equity guarantee (Belgian State)	354	324
Revaluation reserve available-for-sale assets (-)	386	314
Hedging reserve, cashflow hedges (-)	446	302
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 190	- 148
Minority interest in AFS reserve & hedging reserve, cashflow hedges (-)	- 5	- 6
Dividend payout (-)	- 623	- 911
IRB provision shortfall (50%) (-)	0	0
Limitation of deferred tax assets	- 379	- 169
Items to be deducted [1] (-)	- 349	- 337
Tier 2- & 3-capital	4 743	4 238
Perpetuals (incl. hybrid tier-1 not used in tier-1)	250	250
Revaluation reserve, available-for-sale shares (at 90%)	82	90
Minority interest in revaluation reserve AFS shares (at 90%)	1	1
IRB provision excess (+)	132	131
Subordinated liabilities	4 445	3 957
Tier-3 capital	182	146
IRB provision shortfall (50%) (-)	0	0
Items to be deducted [1] (-)	- 349	- 337
Weighted risks		
Total weighted risk volume	111 711	107 015
Credit risk	97 683	93 483
Market risk	3 279	2 783
Operational risk	10 749	10 749
Solvency ratios		
Tier-1 ratio	12,4%	13,1%
Core tier-1 ratio	10,5%	11,2%
CAD ratio	16,6%	17,1%

[1] Items to be deducted are split 50/50 over tier-1 and tier-2 capital. Items to be deducted include mainly participations in and subordinated claims on financial institutions in which KBC Bank has between a 10% to 50% share (predominantly NLB), as well as KBC Group shares held by KBC Bank.
