KBC Bank

Annual Report for 2014

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 NV'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 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

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: [specific impairment on loans] / [outstanding impaired loans]. For a definition of 'impaired', see 'Impaired loans ratio'. Where appropriate, the numerator and denominator may be limited to impaired loans that are more than 90 days past due.

Impaired loans ratio: [amount outstanding of impaired loans] / [total outstanding loan portfolio]. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority. Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 and PD 12). This corresponds to the concept of 'non-performing' used in previous reports.

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 '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].

Total capital ratio (CRR/CRD IV/Basel III): [total regulatory capital] / [total risk-weighted assets]. The calculation is based on the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV).

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 financial statements. 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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Report of the Board of Directors

Group profile

Introduction

KBC turned a fresh page in its history in 2014. We have learned lessons from the worst financial crisis in recent decades. We completed our divestment programme and reduced our CDO portfolio to zero. With our capital position, liquidity and profitability all at robust levels, we can now fully devote ourselves to the future and aim to become the reference for bank-insurance in all our core markets.
Thomas Leysen, Chairman of the Board of Directors, and Johan Thijs, CEO, reflect below on the main events of the past year.

KBC set out its updated strategy and targets at an Investor Day in June. Why then, and what are the key messages?

Thomas Leysen: The time had come to turn a new page. We've slimmed our group down and made it fighting fit; we've rigorously implemented our divestment plan and have already repaid most of the state aid provided to KBC Group; and we've also scaled back our CDO exposure – the most significant legacy of the past – to zero. What's more, a great deal of uncertainty about Basel III, the European banking union and other regulatory matters has gradually dissipated.
Johan Thijs: Our key message is that we want to become one of the best-performing, retail-oriented financial institutions in Europe. Nothing more, nothing less. We aim to achieve that by continuing to focus on our successful bank-insurance model in our core markets, in a cost-effective manner. We will concentrate on sustainable and profitable growth within a framework of strong risk, capital and liquidity management, and we aim to create outstanding client satisfaction through a seamless, multi-channel and client-centric distribution approach. This approach is designed to meet our clients' preferences in terms of contact opportunities. Our extensive network of bank branches obviously remains crucial to us, as this is where we can engage with our clients directly. But we have also fully committed ourselves to digital systems in our new strategy.

The consolidated net result for 2014 came to roughly 1.3 billion euros. Are you satisfied with that?

Thomas Leysen: Our net result for 2014 is indeed a solid one, which also reflects the persistent strength of our business model. Moreover, we combine our solid levels of profitability and efficiency with robust solvency and liquidity, which we will return to later. It all fits perfectly into our strategy of profitable growth, set firmly in a framework of strong risk, capital and liquidity management.
Johan Thijs: Our net result rose by 722 million euros compared to last year and came to 1 312 million euros. Leaving aside non-operating items, such as the valuation of CDOs and results relating to divestments, our adjusted result amounted to 1 217 million euros, an impressive increase on the 666 million euros posted in 2013. And this was achieved despite a number of negative items, such as the provision of 183 million euros (after tax) we set aside in response to stringent new Hungarian legislation on retail loans and the negative (after tax) marked-to-market valuation of 124 million euros for derivatives used for asset/liability management purposes. We owe the good final result to our strong commercial performance, especially in Belgium and the Czech Republic, our two most important markets, as well as to the less negative result in Ireland after significant additional loan loss provisions had been set aside at the end of 2013.

Profitability needs to be embedded in a sustainable framework. How do you interpret that?

Thomas Leysen: It goes without saying that profitability is important for any business. Sustainable profitability, however, means that we focus primarily on our performance in the long term. Corporate sustainability also means that we put our clients' interests at the heart of everything we do; that we place our operations within a framework of stringent risk management; and, lastly, that we take account of society's expectations and engage in dialogue with our stakeholders. We realise all too well that our reputation is something fragile and that it is built on the totality of our actions.
Johan Thijs: Corporate sustainability also means transparent reporting, with an eye to all our stakeholders. It's broader, therefore, than pure financial reporting. That's why we began to move towards consistent and integrated reporting of financial and non-financial information at KBC group level in 2014. We believe that good communication in general is extremely important. We were delighted, therefore, to follow up the 'Best Financial Information' award we received in 2013 from the Belgian Association of Financial Analysts with IR Magazine's 2014 award for 'Best Investor Relations in Belgium'.

Is the phase of scaling down and divestment now finally over?

Johan Thijs: We did indeed complete the divestment phase in 2014 by finalising the agreement on the sale of KBC Bank Deutschland, which had been signed some time previously. The originally planned sale of Antwerp Diamond Bank did not go ahead, so we decided to run down its loan portfolio and operations in a gradual and orderly manner. We also closed the CDO chapter in 2014 by collapsing the final two CDOs in our portfolio at the beginning of October. We're now slimmed down and fighting fit: our focus and area of operation have been clearly marked out, our objectives set and our structure optimised.

Thomas Leysen: We are not planning to broaden our geographical focus or to alter it significantly. Our sole aim is to optimise our current geographical presence and become a reference in bank-insurance in our core countries of Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. If necessary or opportune, therefore, we will consolidate our presence in these core countries by means of organic growth or attractive add-on takeovers, but only if this fits in with our strategy and is in line with clear and strict financial criteria.

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

Thomas Leysen: The situation at year-end 2014 is this: at KBC group level, we have already repaid the entire 3.5 billion euros in aid from the Belgian Federal Government and 1.5 billion of the 3.5 billion euros in aid from the Flemish Regional Government, plus a penalty in both cases. That now leaves a further 2 billion euros in state aid to be repaid, together with a 50% penalty. Thanks to that penalty and the interest we have paid, the government has ended up doing well from the aid it provided. We intend to repay this aid in full by no later than the end of 2017. That's considerably earlier, by the way, than originally agreed with the European Commission.
Johan Thijs: Our solvency position strengthened further even after the repayment of state aid. KBC group's fully loaded Common Equity Tier-1 Ratio under Basel III, according to the Danish compromise method, stood at 14.3% at the end of 2014. For KBC Bank, it was 12.1%. Our liquidity position remains as solid as ever, as demonstrated by our LCR and NSFR ratios, which stood at 120% and 110% respectively at year-end 2014. The result of the ECB's comprehensive assessment in October also shows our ability to meet strict solvency requirements, even in negative scenarios.

What was the economic environment like in 2014 and how do you see the future?

Johan Thijs: If we focus on our most important region – the euro area – we saw limited real growth of 0.8% in 2014, with factors like a more growth-friendly budget policy, a weaker euro and a gradual improvement in the labour market supporting that growth. On the other hand, geopolitical tensions weighed on sentiment until the summer. Growth in the euro area started to improve again slightly from the third quarter on. A striking feature, incidentally, was the relatively good economic performance in 2014 of Central European economies like the Czech Republic, Hungary and Bulgaria, compared with the euro area average. Like other energy-importing economies, the euro area has benefited from the sharp fall in the price of oil since mid-2014, which should also provide an additional boost to growth in 2015, not least in Belgium. The prospects for our Central European core markets likewise remain above the euro area average. As in the second half of 2014, lower energy prices will ensure that inflation and interest rates remain at low levels for a while to come.
Thomas Leysen: So, we are looking ahead with a sense of confidence at KBC. We have tightened up our strategy, set our long-term goals and are now fully focused on the further development of our bank-insurance group.
We would also like to express our gratitude once again to the Belgian and the Flemish governments, which have helped us through a difficult period in recent years. The fact that we are now back in shape is equally due, however, to the unflagging support and trust of all our stakeholders, most notably our clients and our staff. We remain totally committed to retaining that confidence.

Johan Thijs
President of the Executive Committee

Thomas Leysen
Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for 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 2014

January
- KBC Group repays 0.33 billion euros in state aid (plus 50% penalty) to the Flemish Regional Government.

March
- Utilisation of proceeds of 1.4 billion euros arising from a CRD IV-compliant additional tier-1 instrument.

April
- Announcement that a series of classic tier-1 securities would be called.

May
- KBC launches the 'Room for improvement' campaign to encourage entrepreneurship in Belgium.
- Further rationalisation of the group's management structure and changes to the Executive Committee.

June
- Announcement during an Investor Day of the updated strategy and introduction of new financial targets for the KBC Group and each business unit.

August
- Publication of first-half results for 2014: consolidated net profit of 472 million euros and adjusted net profit of 458 million euros (i.e. after excluding the legacy business and valuation of own credit risk). New Hungarian legislation on retail loans negatively impacts the figures.

September
- Launch of KBC Touch for clear and user-friendly online banking and insurance.
- Decision taken to run down the activities of Antwerp Diamond Bank in a gradual and orderly manner, as the previously announced sale did not go through.
- Announcement that the 'KBC Group anchoring agreements' made by Cera, KBC Ancora, MRBB and the other core shareholders would be extended.

October
- Final two CDOs in portfolio collapsed.
- Completion of the sale of KBC Bank Deutschland, marking the end of the divestment programme.
- Announcement of the results of the European Asset Quality Review and stress tests, which showed that KBC exceeds the thresholds for both by an ample margin.

December
- Launch of a crowdfunding platform to enable entrepreneurs and investors to connect with each other.

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

Shareholders

Shareholder structure (31-12-2014)	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 (31-12-2014)	
Belgium	818
Central and Eastern Europe (the four home markets of the Czech Republic, Slovakia, Hungary and Bulgaria)	761
Rest of the world	22
Number of staff (2014 average in FTEs)	approx. 27 000

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	
FY2014	Earnings release for KBC Group: 12 February 2015
	KBC Group Annual Report for 2014 and Risk Report for 2015 available: 2 April 2015
	KBC Bank Annual Report for 2014 available: 2 April 2015
	AGM of KBC Bank: 29 April 2015
	AGM of KBC Group: 7 May 2015
1Q2015	Earnings release for KBC Group: 12 May 2015
1Q2015/1H2015	Earnings release for KBC Group: 6 August 2015
	Earnings release for KBC Bank: 31 August 2015
2Q2015/9M2015	Earnings release for KBC Group: 16 November 2015
4Q2015/FY2015	Earnings release for KBC Group: 18 February 2016

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 (19 March 2015)	long-term ratings	short-term ratings
Fitch	A- (stable outlook)	F1
Moody's	A2 (under review for possible upgrade)	P-1
Standard & Poor's	A (negative 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 were upgraded by Standard & Poor's in March 2014 and by Moody's in May.

Our business model

The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the business model 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 2014 annual report for the KBC group.

The value we create as bank and insurer, in brief (KBC Group)

As a major player in our core markets, we make a crucial contribution to the economic and social system of the countries concerned. We create value in a variety of ways for a range of different parties through our banking and insurance activities.

In our capacity as a bank, we ensure that our clients can use our savings accounts to put their money away safely. We also offer a wide and varied range of other savings and investment products, including ones with capital protection. In this way, savers and investors of every kind can grow their assets in keeping with their personal risk profile. They can also rely on the expertise and advice provided by our staff through our different distribution channels.
We use money acquired through deposits to provide loans to private individuals and businesses, so that the money is put to work to the benefit of society.
Our loan portfolio contains loans not only to individuals and businesses, but also to specific sectors and target groups, such as 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).
An overview of our loan portfolio and deposit base in each individual country is provided in 'Our position in the main markets'.
In addition to deposit, investment and loan products, we offer our clients a variety of other banking services, including payments, money and capital market operations, brokerage and corporate finance, trade finance, cash management and leasing. In this way too, we contribute to the economic system.

In other words, we bring together investors, individuals and businesses and offer them a wide range of financial products and services that meet their requirements and needs, making us a driver of the real local economies in our core markets.

As a large-scale insurer in Belgium and most of our core markets in Central and Eastern Europe, we give our clients the opportunity to operate free of worry and to limit their risks. The relevance of insurance for the economy and for society as a whole speaks for itself. It is the ideal means of covering the risks associated with activities that are essential in our day-to-day lives. For instance, without car insurance, goods and people would not be transported; without public liability insurance, businesses could not be run; without fire insurance, property would not be protected; without industrial accident insurance, people would not be protected at work; and without income and health insurance, health care would become unaffordable. In this regard, we have a tradition going back many years of working closely with numerous organisations that are involved in road safety, welfare and victim assistance. We are therefore totally committed as an insurer to 'prevention', and would even go as far to say that 'prevention' is in our genes. Preventing human suffering and focusing on values such as safety, security, health and concern for victims are just some of the social objectives we have given ourselves, which is reflected in our awareness-raising campaigns (such as the 'Mums Know Best Safety Shop') among other initiatives.

To put it briefly, clients can turn to us for deposit products and asset management services to grow their assets; for loans to realise their dreams and projects; and for insurance to protect those dreams and projects. In this way, we create added value in various fields for our stakeholders and for society as a whole.

We are a major employer too in all our core markets, which likewise enables us to contribute to local prosperity.

Who are we? The specific characteristics of our business model (KBC Group)

Group focus			What differentiates us from our peers
Geographical	Clients	Activity	
• Core countries: Belgium, Czech Republic, Slovakia, Hungary, Bulgaria • Presence in Ireland • Elsewhere in the world: limited presence to support activities in our core markets	• Private individuals • SMEs • Mid-cap enterprises	• Integrated bank-insurance	• Integrated bank-insurance model Why? Optimised one-stop offering for clients, integrated group management, enhanced diversification and diversification of risk. • Local responsiveness Why? Product and service offering tailored to local clients in each market, focus on sustainable development of the group and the communities in which we operate, affinity with local clients. • Geographical focus Why? Mix of mature and growth markets, growth and catch-up potential for financial services in Central and Eastern Europe. • Core shareholder syndicate Why? Contributes to our group's stability, continuity and long-term thinking.

Our basic activities are banking and insurance, including asset management. However, we are more than just a bank and an insurance company: we are a bank-insurer, and as such we want to respond in a proactive and holistic way to all our clients' financial needs, in the broadest sense. We position ourselves as an integrated bank-insurer in our organisation too. This means that, apart from the pure banking and insurance product factories, virtually all our services operate at group level and that the group is also managed in an integrated style.

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. Moreover, working together in the area of bank-insurance offers major benefits to the group in terms of diversifying income, enhanced risk diversification, additional sales potential through the leveraging of our extensive bank and insurance distribution channels, and significant cost-savings and synergies.

Geographically, we concentrate on a strict selection of core markets in Belgium and Central and Eastern Europe. These core markets are those in which we have 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 the companies in question were strongly embedded at the local level.
In this way, we operate within a mix of mature and growth markets, while also taking advantage of the additional growth and catch-up potential for financial services in Central and Eastern Europe. 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, our operations in that country will focus on raising profitability by developing the retail business.

In the core countries where we have a presence, we want to build and deepen sustainable local relationships with private individuals, SMEs and mid-caps. Local responsiveness is very important to us in that regard. It implies that we understand these 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. It also means that we focus on the sustainable development of the markets and communities in which we operate.

KBC Group's shareholder structure is characterised by a core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the Other Core Shareholders. The syndicate held just over 40% of KBC Group shares at the end of 2014. These core shareholders extended the 'KBC Group anchoring agreement' in 2014, confirming their intention to continue to act in concert with regard to KBC Group NV for the next ten years. In doing so, they will ensure continued shareholder stability and support the further development of the group.

Who are we? Our culture and values (KBC Group)

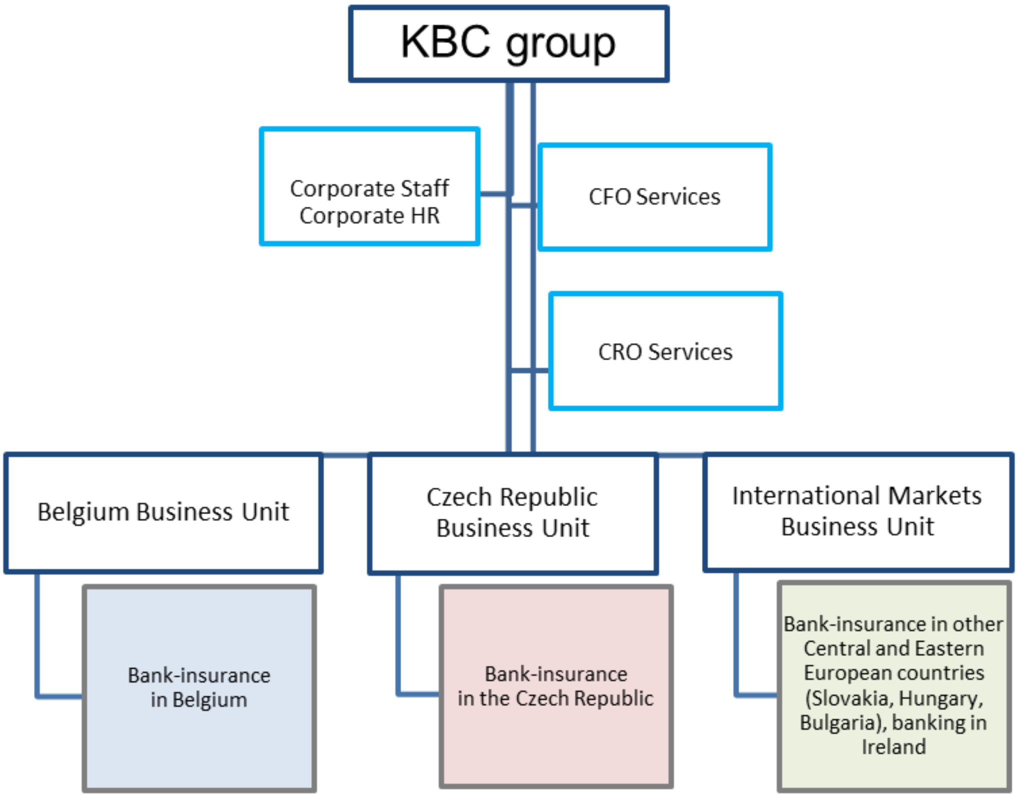
Our business culture is focused on a sustainable and long-term bank-insurance relationship with our clients.

We use the acronym 'PEARL' to define that culture.
These letters stand for 'Performance' (we are dedicated to delivering outstanding results in everything we do and strive to continuously improve the quality of our products and services), 'Empowerment' (we give our employees the room and

opportunity to develop their professional skills), 'Accountability' (we accept our individual responsibilities and disclose our results in a transparent manner), 'Responsiveness' (we anticipate and respond readily to the questions and suggestions of our clients and employees) and 'Local Embeddedness' (we embrace and respond to the diversity of our clients in our core markets).
We also champion three values for our employees, i.e. those of being 'Respectful' (showing respect for our internal and external clients), 'Responsive' (listening to clients and colleagues, and endeavouring to find a solution to their needs) and 'Results-driven' (delivering what we promise).

Who are we? Our governance (KBC Group)

We have aligned the governance of our group with our strategic choices and our business model, and have ensured that this structure supports effective decision-making and individual accountability.
A simplified overview of the management structure is shown in the diagram below. Our group is essentially structured around three business units, which focus on the local business and are expected to contribute to sustainable earnings and growth. The business units are Belgium, the Czech Republic and International Markets (encompassing the activities in the other core countries in Central and Eastern Europe, namely Slovakia, Hungary and Bulgaria, and operations in Ireland).



The *Board of Directors* is responsible for defining general strategy and policy within our group. It decides on matters such as the overall risk appetite. The *Executive Committee* is responsible for the operational management of the group within the confines of the general strategy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the Executive Committee appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

The KBC Group annual report has a table containing details of the composition and diversity of the Board of Directors and the Executive Committee.

Detailed information on our remuneration policy for senior management can also be found under 'Remuneration report' in the 'Corporate governance statement' section of the KBC Group annual report. The principle underpinning our remuneration policy for senior management – and indeed for all our staff – is that good performance deserves to be rewarded. It is only fair that every employee who works hard deserves to be properly rewarded for their efforts, including our senior management. What KBC Group pays its top managers certainly does not exceed the average paid at other European financial institutions. Indeed, our CEO's pay is clearly below that average, which is also the case when a comparison is made with the CEOs of other BEL-20 companies. After the total remuneration package of the CEO and members of the Executive Committee was restructured in 2013, the variable component amounted to a maximum of 30% of total remuneration. On the advice of the Remuneration Committee, the Board of Directors determines the size of this component following an assessment of a number of quantitative and qualitative objectives, both per individual and as a group. In addition, the payment of 50% of the variable remuneration is spread over three years.

Who are we? Our view on corporate sustainability and responsibility (KBC Group)

The direct impact on the environment is often the first thing we associate with corporate sustainability and responsibility (CSR). 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. Ecology has an influence on our activities too. To give just one example, climate change (more extreme weather) can have a direct negative impact on our insurance results due to higher claim levels. KBC works in Belgium with the non-profit organisation ARGUS on various aspects of our environmental strategy.

Social impact is the other aspect of CSR that immediately comes to mind. We naturally remain sensitive to the social impact we have on the communities in which we operate, especially the urban areas where our business is focused, and we play an active role in patronage. Each of the group’s business units engages in local community projects, the precise focus of which depends on local priorities and culture.

A brief idea of the ecological and social impact of our group is given in the table below.

Selection of non-financial data	Scope	2013	2014
Electricity consumption	Belgium and the Czech Republic	480 774 GJ	480 382 GJ
Water consumption	Belgium and the Czech Republic	302 708 m3	302 173 m3
CO_2 emissions	Belgium and the Czech Republic	56 244 tonnes	56 107 tonnes
Charity sponsorship budget	Group as a whole	4.1 million euros	4.2 million euros

We take a much broader view of sustainability, however, than environmental or social impact alone. What CSR means to us above all is that the client’s interests are at the centre of everything we do, that we focus on our long-term performance, that we are responsive to the expectations of society, and that we surround all this with stringent risk management.
All these elements are embedded in our strategy for the future, which is discussed at length in the ‘Our strategy’ section.

Since CSR constitutes an integral part of our group’s strategy, we have decided to switch to integrated reporting. The ‘Our business model’ and ‘Our strategy’ sections of the KBC Group annual report (shortened versions of which are included in this publication) mark our first steps in that direction. We have consciously opted not to include a separate CSR section any longer, but to incorporate this information into the description of our model and our strategy. We also focus in this regard on a selection of what we consider the most relevant financial and non-financial data. We keep this deliberately concise, so that you are not overwhelmed by masses of information.

The table contains an overview of major achievements realised by the group in the area of CSR in recent years. Our sustainable way of thinking has, moreover, been enshrined in our codes of conduct and policies, the most important of which are listed. The full texts of these codes of conduct can be found at www.kbc.com, under ‘social responsibility’.

Major CSR achievements in recent years	
Stakeholder interaction programme	We organised the first structured survey of our stakeholders in Belgium in 2013. This was extended to our Czech Republic Business Unit in 2014. We also held a comprehensive stakeholder debate in May, during which we presented our third 'Report to Society'.
Creation of an External Advisory Board for Sustainability Analysis and a CSR Board	In 2004, we set up an External Advisory Board to support our asset manager in the development of SRI funds. We established the CSR Board in 2014 as an international group of experts that supports and advises the management of the KBC group.
Separate CSR department and CSR committees in each country	We took the decision in 2012 to set up a separate CSR department reporting directly to the CEO, with responsibility for drawing up and implementing a group-wide sustainability strategy. We set up CSR committees in our core countries and Ireland in 2014, tasked with reporting on this matter and implementing local and group-wide CSR policy guidelines.
Range of sustainable products	We have offered a range of SRI funds for some time now, including our Eco Funds and our Impact Investing Funds (in which clients invest with a measurable social and ecological impact, while simultaneously generating a financial return). The group also offers a variety of other sustainable products, including IBRD Green Bonds, green loans in Hungary (to fund ecologically efficient building improvements), the KBC Environmental Policy in Belgium (soil decontamination insurance for SMEs), and microfinance and microinsurance for projects in the Global South (via BRS).
Ongoing ecological efforts	We have launched a number of initiatives in recent years to reduce our ecological footprint. Examples include: • Efforts focused on our branch network and head offices: creating various energy-efficient branches in Belgium (so-called Bamboo branches); construction of ecologically efficient head offices in the Czech Republic, Hungary, Belgium (Ghent); etc. • Attaching ecological targets to the non-recurrent variable component of employees' pay in Belgium. • Active participation in various environmental initiatives, such as Leuven Klimaatneutraal 2030 in Leuven and Stadslab 2050 in Antwerp (initiatives to make urban areas climate-neutral) and the establishment of a Green Team in Ireland to raise environmental awareness and reduce our ecological footprint. • Various initiatives in all core countries to help cut down the use of water, energy and paper. • Various environmental certificates and prizes, including EMAS certification for our Belgian head office, ISO 14001 certification for support services in Belgium, application for ISO 14001 certification for KBC Ireland, LEED (Leadership in Energy and Environmental Design) certification for our head offices in the Czech Republic and Hungary, etc.
Drawing up of codes of conduct for society-related themes	We have drafted codes of conduct for key themes, including: • Ethics & Fraud Policy • Whistleblower Protection Policy • Anti-Money Laundering Policy • Anti-Corruption Policy • Anti-Corruption Policy Statement • Controversial Weapons Policy (includes blacklist) • General Investment Policy • Soft Commodity Policy • Community Involvement Policy • Human Rights Statement • Environmental Policy • Investor Relations Policy • Customer Policy • Supplier Policy • Employee Policy • Responsible Tax Strategy • Employee Code of Conduct

Who are we? Our position in the main markets (KBC Group)

A summary of our market position and the economic context of our most important countries are given below. Definitions and a more detailed explanation of the information presented are given in the sections devoted to each of the business units in this annual report.

Belgium

- Main brands: KBC and CBC
- 818 bank branches, 459 insurance agencies, electronic channels
- 20% share of the market for traditional bank products, 37% for investment funds, 17% for life insurance and 9% for non-life insurance
- 3.5 million clients (bank: 3.2 million clients)
- 89-billion-euro loan portfolio and 109 billion euros in deposits and debt securities

Market environment in Belgium in 2014

- 1% real GDP growth, thanks to household spending, investment and exports.
- Further decline in long-term interest rates and inflation, unemployment stabilising.
- Weak credit demand from businesses; growth in demand for mortgage loans due to announcement of less favourable tax regime as from 2015. Strong growth in business deposits, slowdown in household deposits in favour of investment funds.
- Forecast real GDP growth of 1.3% in 2015.

Czech Republic

- Main brand: ČSOB
- 319 bank branches, various distribution channels for insurance, electronic channels
- 20% share of the market for traditional bank products, 27% for investment funds, 6% for life insurance and 7% for non-life insurance
- 4 million clients (bank: 3 million clients)
- 19-billion-euro loan portfolio and 22 billion euros in deposits and debt securities

Market environment in the Czech Republic in 2014

- 2.0% real GDP growth, thanks primarily to investment, consumer spending and exports.
- Further decline in inflation and improvement on labour market.
- Limited growth in corporate credit, decent growth in home loans, acceleration in deposit growth.
- Forecast real GDP growth of 2.0% in 2015.

Slovakia

- Main brand: ČSOB
- 129 bank branches, various distribution channels for insurance, electronic channels
- 10% share of the market for traditional bank products, 6% for investment funds, 5% for life insurance and 3% for non-life insurance
- 0.6 million clients (bank: 0.4 million clients)
- 5.1-billion-euro loan portfolio and 5 billion euros in deposits and debt securities

Market environment in Slovakia in 2014

- 2.4% real GDP growth, due primarily to consumer spending and investment.
- Reduced but still high unemployment rate, inflation around 0%.
- Robust growth in home loans and consumer loans, weak corporate credit trend and slowdown in deposit growth.
- Forecast real GDP growth of 2.4% in 2015.

Hungary

- Main brand: K&H
- 210 bank branches, various distribution channels for insurance, electronic channels
- 9% share of the market for traditional bank products, 16% for investment funds, 3% for life insurance and 5% for non-life insurance
- 1.5 million clients (bank: 0.8 million clients)
- 5.1-billion-euro loan portfolio and 5.2 billion euros in deposits and debt securities

Market environment in Hungary in 2014

- 3.3% real GDP growth, thanks primarily to (government) investment and consumer spending.
- Unemployment and inflation down.
- Recovery in lending to business supported by central bank's funding for growth programme. Continued reduction in foreign-currency home loans, slightly offset by growth in local-currency home loans in the first half of the year. Limited recovery in deposit growth.
- Forecast real GDP growth of 2.4% in 2015.

Bulgaria

- Main brands: CIBANK and DZI Insurance
- 103 bank branches, various distribution channels for insurance, electronic channels
- 3% share of the market for traditional bank products, 10% for life insurance and 10% for non-life insurance
- 0.5 million clients (bank: 0.3 million clients)
- 0.8-billion-euro loan portfolio and 0.6 billion euros in deposits and debt securities

Market environment in Bulgaria in 2014

- 1.5% real GDP growth, thanks primarily to consumer and public spending.
- Reduced but still high unemployment rate, negative inflation.
- Growth in corporate credit, weak retail lending and slowdown in deposit growth.
- *Run* on two banks in mid-2014, but systemic crisis averted with the help of European support.
- Forecast real GDP growth of 1.5% in 2015.

Ireland

- Main brand: KBC Bank Ireland
- 12 bank branches, electronic channels
- 10% share of the market for retail mortgage loans, 5% for retail deposits
- 0.2 million clients
- 14.5-billion-euro loan portfolio and 4.2 billion euros in deposits and debt securities

Market environment in Ireland in 2014

- 5.0% real GDP growth, thanks to domestic demand and net exports.
- Unemployment declining, very low inflation, sharp fall in government bond yields.
- Weak lending and robust deposit growth.
- Forecast real GDP growth of 3.5% in 2015.

Who are we? Our financial performance (KBC Bank)

Our business model remained profitable and efficient in the years in question, despite the difficult market conditions. This was demonstrated in part by the change in our adjusted net profit (to put it simply, net profit corrected for the influence of divestments and CDOs) and our cost/income ratio. During that time, we also maintained a strong capital base.

An analysis of the results of KBC Bank is provided in the next section of this annual report.

Selection of financial data* (at KBC Bank level)		2013	2014	change
Total assets	millions of EUR	206 087	211 116	+2%
Loans and advances to customers	millions of EUR	120 784	125 550	+4%
Deposits from customers and debt securities	millions of EUR	162 412	163 647	+1%
Total equity	millions of EUR	12 313	13 336	+8%
Risk-weighted assets (fully loaded Basel III)	millions of EUR	79 822	80 232	+0,5%
Net result	millions of EUR	590	1 312	+122%
Adjusted net result	millions of EUR	666	1 217	+83%
Total income (adjusted result)	millions of EUR	6 163	5 717	-7%
Net interest margin	%	1,90%	2,08%	+0.18 percentage points
Cost/income ratio (based on adjusted result)	%	52%	57%	+5 percentage points
Credit cost ratio	%	1,21%	0,42%	+-0.79 percentage points
LCR	%	131%	120%	-11 percentage points
NSFR	%	111%	110%	-1 percentage point
Common equity ratio (fully loaded Basel III)	%	12,0%	12.1%	+0.1 percentage points

* The change in the different figures and ratios has been affected by various one-off factors.

Who are we? Major achievements in the past five years (KBC Group)

Recent years have been extremely turbulent and challenging ones for the world economy and for the financial sector in particular. Like many of our sector peers, we too were adversely affected by the financial crisis and had to adjust to the changed world.

A substantial proportion of our efforts therefore were focused on measures relating to the state aid KBC Group received and the associated divestment plan. At the same time, however, we redefined our strategy, thought about sustainability and developed numerous new products and services.

An overview of what we achieved in those years, and which brought us to where we are today, is provided below.

Major achievements in recent years	Explanation
Stronger positioning of CSR within the organisation	We refer in this regard to the ‘Major CSR achievements in recent years’ table in this section.
Formulation and roll-out of a new strategy	We redefined our business model and strategy. With our focus on bank-insurance in five core countries, we aim to be one of Europe’s best-performing retail-oriented financial institutions.
Roll-out of a business-driven management structure and adjustment of highest management bodies	We introduced a management structure based on three business units (Belgium, the Czech Republic and International Markets), which focus on the local business and are expected to contribute to sustainable earnings and growth. Over the past five years, we have reduced the number of members of the Board of Directors and the Executive Committee of KBC Group, and have introduced measures to enhance diversity (gender, background, nationality, etc.).
Key product renewals	We developed a variety of new products and services, including numerous innovative investment funds in different countries, the Bolero crowdfunding platform, and innovative funeral insurance and long-term care insurance in Belgium. We made enormous strides in the field of electronic and mobile banking and insurance, including the launch of various mobile apps in different countries, KBC Touch in Belgium, electronic power of attorney management, Start it @kbc (a platform for business start-ups) and various new websites.
Advanced repayment of state aid and full implementation of the divestment plan imposed by Europe	KBC Group received 7 billion euros in aid from the Belgian Federal and Flemish Regional governments in 2008 and 2009. By the end of 2014, 5 billion euros had already been repaid, and we intend to repay the full amount by the end of 2017. The provision of state aid was accompanied by the requirement to divest a number of group companies and activities. By the end of 2014, the divestment plan had been fully implemented. A list of group companies that have been sold can be found in the ‘Group Centre’ section.
Complete run-down of CDO portfolio and significant decline in GIIPS government bonds; implementation of various capital-strengthening measures	The main initiatives to help reduce our risk profile included the complete run-down of our CDO exposure (from 25 billion euros originally at KBC Group level) and the sharp contraction in our portfolio of government paper from GIIPS countries. We strengthened our capital base at KBC Group level, apart from the reserved profit, by measures including a capital increase in 2012, the sale of treasury shares in 2013 and the issue of loss-absorbing AT1 instruments in 2014.

Our strategy

The strategy, business model 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 2014 annual report for the KBC group.

Our vision in brief (KBC Group)

‘We want to be the reference for bank-insurance in all our core markets.’

Johan Thijs, CEO of the KBC group

The core of our strategy for the future (KBC Group)

We want to build further on the strong foundations of our business model and to be one of Europe’s best-performing retail-orientated financial institutions, by:

- further strengthening our successful bank-insurance business model for retail, SME, and mid-cap clients in our core markets in a highly cost-efficient way;
- focusing on sustainable and profitable growth within the framework of solid risk, capital and liquidity management;
- creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach.

We have integrated all this into a sustainable approach, while paying attention in everything we do, to:

- putting the client’s interests at the centre;
- focusing on long-term performance;
- being responsive to the expectations of society;
- ensuring stringent risk management.

Our goal: to put the client at the centre of our business culture (KBC Group)

We want to create added value for our clients by accurately meeting their needs in terms of financial products. Therefore, everything is based on the client's needs and not on KBC’s bank-insurance products and services. In that respect, we analyse the many data from our files. We want to allow clients to decide for themselves whether they want a more personalised approach and the resultant offering. Clients who so wish can change their privacy requirements at any time.
It is also the client who chooses how and when these products and services are provided and through which distribution channel. That's why the different channels are accorded equal status at KBC and need to seamlessly complement and reinforce each other. In view of this, we plan to invest around 0.5 billion euros between 2014 and 2020.

Given that each of our core markets has its own local needs and focuses, each country will make the necessary changes and investments at its own pace, to create a dynamic and client-centric distribution model. This will enable the optimum deployment of staff and efficient targeting of investments to where the client most needs it.

We want not only to respond to our clients’ needs, but also to shield them from certain risks. As a bank, we are working in each of our core markets, for instance, 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.). As an insurer, our focus is firmly on prevention, health and safety, with a variety of prevention campaigns being launched throughout the year.

Since putting the interests of our clients at the centre of all we do is the cornerstone of our strategy, we want to be able to keep a close eye on the situation. That is why we are collecting their experiences in the various markets in which we are active and using that information to improve our services and products.

In 2014, we commissioned an external party to conduct a reputation study in all our core countries. Our company’s reputation is influenced by a variety of factors (see diagram). Our group-wide reputation study gives us an idea of how our company is perceived as a bank-insurer and the opportunity to define actions in response. The general findings from the study indicated that confidence in the economic situation and in the financial sector in our core countries remains fairly low. Based on the individual scores, we will take initiatives in each country to improve the results.

This in itself is not enough for us, however: we also monitor and measure the client experience. This means reviewing responses to statements such as: ‘Offers quality products and services’, ‘Offers transparent products and services’, ‘Is easy to interact with’, ‘Offers good value for money’, ‘Understands client needs’. Mystery shoppers are also deployed in order to ascertain whether our clients are being given high-quality advice that matches their profile.

We have also been using net promoter scores since 2014 to discover the attitude of clients in our core markets towards KBC, based on questions like ‘How likely are you to recommend KBC to a friend or colleague?’. The net promoter score is calculated by subtracting the percentage of respondents with a score of 6 or less from the percentage with a score of 9 or 10. Monitoring these scores will be further refined in 2015.

The targets we set ourselves are naturally intended to raise the general level of client satisfaction, but we also want them to make everyone at our group aware of our client approach. Putting the client at the centre of all we do has to be in our DNA and must be part of our everyday routine.

The most important Key Performance Indicators (KPIs) relating to reputation and client satisfaction are set out in the KBC Group annual report.

Our goal: to focus on sustainable long-term performance (KBC Group)

Our financial performance is important, but must above all be sustainable. This means not fixating on short-term returns, but focusing on long-term performance that contributes to sustainable growth.

We have deliberately opted, therefore, not to set a target for return on equity (ROE), because we want to be profitable on a sustainable basis and avoid getting caught up in the kind of short-term thinking that means pursuing the highest possible ROE every quarter. At the same time, we have set a time horizon to 2017 for most of our financial targets and have embedded them in a stringent risk management framework, which will be discussed in more detail below.

Sustainable and long-term thinking also means focusing on the real local economies of the core markets in which we operate and that we do not invest, in principle, in exotic projects far beyond these markets. Speculative trading activities are likewise limited. Even though the new Banking Act of 25 April 2014 concerning speculative trading activities only came into force in 2015, we were already well below the specified limits at year-end 2014.

We view our presence in all our core countries (Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria) as a long-term commitment.
We are not planning, moreover, to increase our geographical footprint or to alter it significantly. We want to further optimise our current geographical presence in order to become a reference in bank-insurance in each core country. We will consolidate our presence in these core countries by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria, and will seek to be a market leader (top three for banking activities, top four for insurance activities) by 2020. The target for Ireland is to return to profitability from 2016, after which all options will be considered (growing organically into a profitable bank; building an attractive bank-insurance group; or selling a profitable bank).

A few of the most important strategic initiatives in the years ahead are set out per country in the table below.

Business unit	Strategic initiatives for the years ahead (the KBC group)
Belgium	• Seamless integration of the branch network via new, accessible and client-centric technologies. • More efficient utilisation of the potential of Brussels by launching a separate KBC Brussels brand. • Growth in Wallonia in selected market segments. • Further optimisation of the bank-insurance model by applying digital solutions and specific initiatives.
Czech Republic	• Switch from channel-centric to more client-centric approach. • Extension of offering to include non-financial products. • Ongoing simplification of processes. • Increasing bank-insurance activities. • Growth in selected areas, such as lending to SMEs and consumer finance.
Slovakia, Hungary, Bulgaria, Ireland	• Transition from branch-oriented to hybrid distribution model, focus on growth in key segments, progress on efficiency, and growth in bank-insurance activities in Slovakia, Hungary and Bulgaria. • Switch from digitally led monoliner to fully fledged retail bank in Ireland.

We intend to gradually strengthen our bank-insurance model in a cost-effective manner in all our core markets.

The roll-out of this model will occur in several phases in the various core markets. The bank-insurance business is already operating as a single company in Belgium, enabling it to achieve both commercial and non-commercial synergies. In our other core countries (the Czech Republic, Slovakia, Hungary and Bulgaria), we want to create an integrated distribution model by no later than 2017, which will facilitate commercial synergies.
Uniting the banking and insurance activities in a single group generates added value for both clients and KBC (see 'Our business model'). Cross-selling of banking and insurance products in 2014 accounted for approximately 0.4 billion euros in revenue (KBC Group).

Sustainable and long-term thinking also means that we go beyond pure financial operations and deliver initiatives that offer genuine, long-term support for the local economies in which we operate.
The 'Start it' project in Belgium is an excellent example in this regard. We launched Start it @kbc in 2013 in response to the fact that the cost and other difficulties of creating a new business has been one of the main reasons for the decline in the number of start-ups in Flanders. 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. The 'Start it' project has been extended in the meantime to Hasselt and Leuven. A total of 118 companies took part in the initiative in 2014.

We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the KBC Group annual report.

Our goal: to be responsive to society's expectations and to maintain a dialogue with our stakeholders (KBC Group)

The way society, especially consumers, views the financial sector is changing. Consumers are increasingly rewarding those brands that listen to them, rating them on relevant aspects such as delivering good quality, launching innovative products at fair prices, focusing on things which make their lives happier, easier and healthier, and which are beneficial to the economy, environment and community. Value is no longer measured purely in terms of money, but also based on emotional parameters like trust and pride.

At the same time, suspicion of business – in the financial sector certainly – has never been greater, and companies are also being held to account on issues like fair trade, their impact on the environment and responsible behaviour, even at the local level. The bar for the financial world has been set at a high level, especially after the crisis, and 'trust' is now the licence to operate. Being a responsible and respected player in this new world therefore means primarily working to create or restore trust.

Consequently, we are keen to know what our stakeholders consider important. To this end, we launched an extensive survey of our stakeholders in 2013, further developing it in 2014. We invited five stakeholder groups in Belgium (employees, clients, suppliers, the Board of Directors and government representatives) to take part in our online survey, so we could find out what they thought we should be focusing on. We also surveyed our stakeholders in the Czech Republic. A similar range of stakeholder groups took part in the same online survey there to enable us to compare the results. These are set out in the matrix below.

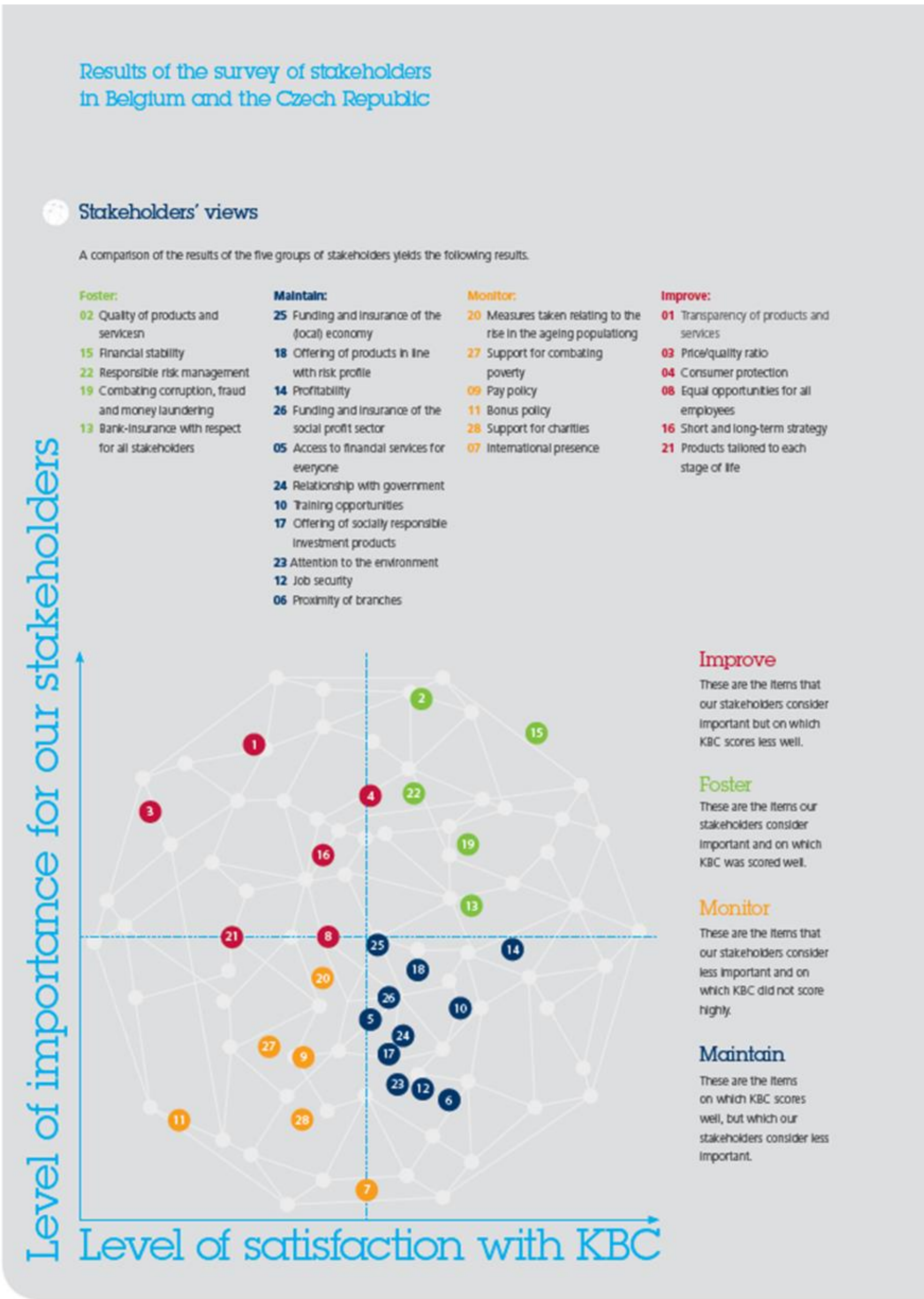
We invited them not only to rate a number of themes by importance, but also to evaluate KBC's performance in those areas. The findings of the survey are presented in a matrix and the different themes divided up into four groups:

- Improve: items our shareholders consider important but for which KBC scored less well
- Foster: items our shareholders consider important and for which KBC scored well
- Monitor: items our shareholders consider less important and for which KBC scored less well
- Maintain: items our shareholders consider less important but for which KBC scored well

When the findings are examined in their entirety, we can conclude that our new strategy and our risk policy have been instrumental in convincing our stakeholders of the merits of our approach.

The items considered as important and for which we scored well ('Foster') were:
- quality of products and services;
- financial stability;
- sound risk policy;
- combating corruption;
- bank-insurance with respect for all stakeholders.

However, we are well aware that we need to work on certain areas (‘Improve’ items). For instance, 'value for money' and the 'transparency of the products and services offered' are two of the main areas requiring our attention.



Moreover, the things that the stakeholders regard as important largely correspond with what we ourselves consider important. In other words, it is clear that we are on the same wavelength as our stakeholders, which means that we can work with them to build a sustainable future.

In various other sections of this report, we cover our relationship with our clients, who are at the centre of everything we do. In the next part of this section, however, we discuss our relationship with two stakeholder groups that have not yet been dealt with specifically, namely our employees and the government.

Our relationship with our employees

Being responsible in our dealings with our employees is, of course, another tenet of corporate sustainability and responsibility. We are fully aware that it is chiefly due to their commitment and efforts that we are able to achieve strong underlying results and to fulfil our strategy.

In our HR policy, recruitment and promotion policy or in our remuneration systems, we do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various 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 that relationship is grounded in mutual trust and respect.
In the Czech Republic, for example, diversity is one of the main areas of focus. ČSOB has launched initiatives for three specific groups of employees, viz. female staff members, people with disabilities and people aged 55 and over. Among these initiatives are the provision of child care facilities, support for female senior management and flexible working arrangements.

As noted earlier, we have summed up our business culture in the acronym 'PEARL' (performance, empowerment, accountability, responsiveness, and local embeddedness). We have opted for a bottom-up approach to promoting these values among our employees, which means building on the initiatives and strengths of our staff themselves. At the same time, we want our management to play an inspiring role, and so we emphasise coaching, effective communication and leading by example. We closely monitor how the new PEARL business culture is understood in each of our core countries, and the extent to which the PEARL values have been absorbed.

Our HR policy sets out to stimulate talent. One of the ways used to achieve this is by aligning our group HR systems and processes with our core values. This is illustrated by examples like our Reward4Work system (a motivational remuneration package consisting of fixed and variable components, including the Cafeteria Plan), the new competence model (with a clear focus on employee autonomy, result-orientation and initiative) and a constant focus on the training of our employees, which contributes in turn to employee satisfaction and involvement.
We pay particular attention to the lifelong employability of our staff by offering them more training and development opportunities. With the roll-out of Minerva (our programme for older employees in Belgium), we have taken a radical step by shifting from a standard to a more individualised approach that is geared to their needs. We are responding in this way to demographic developments, while also preparing people to work for longer.

We have taken a number of initiatives to stimulate the creativity of our employees to enable us to respond even more effectively to our clients' needs and to make optimum use of that creativity. One such initiative is 'The Pitch' – a competition that offers employees in different countries the opportunity to work together in groups to develop innovative ideas that can be put into practice. The best ideas receive a material reward from the Group Executive Committee. In the 2013-2014 competition, for instance, the Bulgarian team won the 'Country Challenge' prize with their 'smart card' idea and the 'Global Challenge' prize was awarded to a multinational team of employees from Belgium, Bulgaria, the Czech Republic and Hungary for their 'gamification' idea of showcasing online banking in a fun way.

The KBC Group annual report contains a table that provides an overview of the total workforce and a breakdown into various categories. Information on KBC Bank's workforce is provided in Note 10 of the 'Consolidated financial statements' section.

In 2014, we conducted surveys of our employees in the various core countries to gauge satisfaction levels. The results were generally positive and in most cases bore out the positive and rising trend of satisfaction and involvement that staff have in the group. In Belgium, staff satisfaction in 2014 even reached its highest level since surveying began. Compared with the market, the engagement index in the Czech Republic confirmed the high level of appreciation among staff at ČSOB. In Slovakia too, satisfaction was up on its 2013 level, while the engagement index in Hungary maintained its traditionally high level above the benchmark. Staff satisfaction in Bulgaria and Ireland remained at a comparable level to the other players on their respective markets. Broadly speaking, therefore, our workforce continued to have a positive impression of the group in 2014, which bears testament to the efforts that KBC has made in its HR policy. Employee engagement will also remain one of KBC's top priorities in the years ahead.

Our relationship with government

Taking account of the government's priorities is even more important to us, given that KBC Group received direct aid from the Belgian Federal and Flemish Regional governments – and hence from the taxpayer – in 2008 and 2009. This state aid

stood at an initial 7 billion euros, of which we have already repaid 5 billion euros (plus penalties) in recent years. We intend to speed up the repayment of the remaining 2 billion euros (plus 50% penalty) in state aid to the Flemish Regional Government and to have paid back the last instalment by no later than the end of 2017.
In May 2009, KBC Group also signed an agreement with the Belgian State regarding a guarantee for a substantial part of the structured credit (CDO) portfolio. The plan comprised a notional amount that initially totalled 20 billion euros. However, thanks to the scaling back of the CDO exposure to zero, the guarantee agreement has since been terminated.
Of course, our relationship with government is not confined solely to state aid. Like any other profitable business, we pay the tax owed on our profit and we are subject in several countries to additional bank taxes, which are not related to profit. The aggregate amount of all these taxes was 949 million euros in 2014, compared with 892 million euros in 2013 (figures in both cases for the entire KBC group). 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 2014, 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.
As previously stated, KBC Group intends to repay the outstanding state aid by year-end 2017 at the latest. We will use an estimated one-third of the capital surplus that, at KBC Group level, will be available between mid-2014 and 2017 for this purpose. We also want to use roughly another one-third of this surplus for organic growth and/or acquisitions, as well as to address situations of regulatory or other uncertainty. We will use the remaining one-third to enable us to pay a dividend of at least 50% of the KBC group annual profit (including the coupon on the state aid and the outstanding additional tier-1 instruments) from 2016 on to the KBC Group shareholders, the government and the investors in additional tier-1 instruments.

We will also follow up our focus on socially relevant themes and on our performance in terms of meeting stakeholder expectations via a number of Key Performance Indicators (KPIs), the most important of which are listed in the KBC Group annual report.

Our goal: to embed our ambitions within a stringent risk management framework (KBC Group)

We have placed our sustainable and profitable performance within a framework of robust risk, capital and liquidity management. An important principle in this regard is that profitability always comes before growth or increasing market share.

We have already fully embedded risk management in our strategy and our decision-making process.
- We perform risk scans to identify all key risks.
- We define our risk appetite in a clear manner.
- We translate that into strict limit tracking per activity and business unit.
- We monitor the risk profile of existing and new products via a New and Active Product Process.
- We challenge the results of the periodic planning process via stress testing.

We have installed independent chief risk officers with a time-out right in all relevant levels of our organisation.

Our risk management is based on a ‘Three Lines of Defence' model, to shield us against risks that might threaten the achievement of our goals (see table).

Our 'Three Lines of Defence' model	
1 The business itself	The business operations side has to be aware of the risks in its area of activity and have effective controls in place. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. The business side can call upon the services of its own support departments and seek advice from independent second-line functions.
2 The risk function, Compliance, and – for certain matters – Accounting, Legal, Tax, and Information Risk Security	Independent of the business side, second-line control functions are tasked with drawing up a group-wide framework for all relevant types of risk. They support the implementation of this framework and monitor how it is used. They also assist business-side management in the use of risk and capital management instruments and techniques. Compliance is an independent function that aims to prevent KBC from exposure to compliance risk or suffering harm through non-compliance with the prevailing laws, regulations or internal rules. It pays particular attention in this regard to compliance with the integrity policy.
3 Internal audit	As the independent third line of defence, Internal Audit provides support to the Executive Committee, the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system. Internal Audit checks whether risks are managed adequately and, where necessary, whether they are being restricted or eliminated. It also ensures that business processes run efficiently and effectively, and that the continuity of operations is guaranteed.

Although the activities of a large financial group are inherently exposed to various risks that only become apparent in retrospect, we currently identify the following as the main challenges and priorities for our group:

In general terms, the world economy, the situation on the financial markets and macroeconomic developments can strongly influence our results. In our case, this applies primarily to Belgium, Ireland and Central and Eastern Europe. We offer further analysis of the economic context and expectations per country elsewhere in this report. It is useful to add that our long-term planning also takes account of the risk of a deteriorating macroeconomic environment. Therefore, in addition to a neutral scenario, we also have an adverse scenario.

We carry out most of our activities, moreover in a highly competitive environment. Besides the traditional players in each of our core countries, there is also intensifying competition from smaller entities and e-commerce in general. It goes without saying that our competitors are also being affected by technological change. Innovation is exceptionally important, therefore, if we are to maintain or further strengthen our market position. We have a specific process (the New and Active Product Process) to support the development of new products by ensuring that the business side receives approval in an efficient manner for new product launches. A thorough analysis is also performed into all relevant risks and actions initiated to manage those risks. We also regularly review all our existing products, so that they can be adapted – where necessary – to take account of evolving client needs and/or changing market conditions.

The specific priorities we have set ourselves for the coming years with regard to risk management are listed below.

- The main priority is to put the client at the centre of our risk management efforts, too. This requires risk management to support the business side in the offering of appropriate, fair and sustainable products and services.
- An important element in this is protecting the client from unfair or inappropriate practices. Client protection is also increasingly enshrined in regulations like the Markets in Financial Instruments Directive/Regulation (MiFID/MiFIR) and the Insurance Mediation Directive (IMD), and in various initiatives launched by the European Securities and Markets Authority (ESMA).
- Increasing regulation in general is a key risk for us, as it is for the financial sector as a whole. A great deal of attention is paid in this regard to the foundations of the Banking Union: on the one hand, harmonised supervision by the European Central Bank of the most important euro-area banks (Single Supervisory Mechanism, SSM), preceded by a ‘health check’ in the form of an Asset Quality Review (AQR) and a stress test; and on the other, the Single Resolution Mechanism, applying to the same banks, based on the rules of the Bank Recovery and Resolution Directive (BRRD), which apply EU-wide. At national level, the new Banking Act in Belgium represents an important development in terms of prudential legislation and crisis management. For the insurance sector, meanwhile, Solvency II (SII) will impose new solvency rules with effect from 2016.
- We also view cyber risk, including hacking, as a key risk. Cyber-attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm.
- Business risk arises whenever changes in external factors threaten to undermine demand for our products and services, or their profitability. Significant causes of this type of risk include changes in the competitive environment or shifting client behaviour.

In addition to these general risks, we are inherently exposed as a bank-insurer to sector-specific risks such as credit risk, country risk, interest rate risk, foreign exchange risk, insurance underwriting risk and operational risk. A summary of the most important banking and insurance-specific risks is provided in the table.

Sector-specific risks*	Explanation	Management
Credit risk	The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular situations or measures on the part of political or monetary authorities in a particular country.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, etc.
Market risk in non-trading activities	Structural market risks, such as interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	• Existence of a robust management framework • ALM VaR limits at group level, for each risk type and entity; supplemented by other risk-measuring methods, such as Basis Point Value (BPV), nominal amounts, limit tracking for crucial indicators, etc.
Liquidity risk	The risk that KBC will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.	• Existence of a robust management framework • Liquidity stress tests, management of funding structure, etc.
Market risk in trading activities	The potential negative deviation from the expected value of a financial instrument caused by fluctuations in interest rates, exchange rates, and share or commodity prices.	• Existence of a robust management framework • Historical VaR method, duration, 'greeks' for products with options, stress tests, etc.
Technical insurance risks	Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Operational and other non-financial risks	The risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural.	• Existence of a robust management framework • Group key controls, Loss Event Databases, Risk Scans (bottom-up and top-down), Case Study Assessments, Key Risk Indicators (KRI), etc.
Solvency risk	Risk that the capital base will fall below an acceptable level.	• Existence of a robust management framework • Statutory and in-house minimum solvency ratios, active capital management, etc.

* Detailed information can be found in the 'Risk management' section.

In addition to the comprehensive monitoring of various risk indicators (see the 'Risk management' section), we monitor our solvency and liquidity performance via a number of Key Performance Indicators (KPIs), the most important of which are listed in the KBC Group annual report.

Review of the consolidated financial statements

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS		Adjusted result	
	2013	2014	2013	2014
Net interest income	3 402	3 648	3 314	3 609
Interest income	7 707	7 305	*	*
Interest expense	-4 306	-3 657	*	*
Dividend income	18	14	12	5
Net result from financial instruments at fair value through profit or loss	884	195	756	250
Net realised result from available-for-sale assets	202	49	158	43
Net fee and commission income	1 685	1 822	1 688	1 829
Fee and commission income	2 291	2 303	*	*
Fee and commission expenses	-606	-482	*	*
Other net income	51	5	235	-19
Total income	6 240	5 734	6 163	5 717
Operating expenses	-3 252	-3 311	-3 210	-3 269
Impairment	-1 821	-472	-1 650	-581
on loans and receivables	-1 709	-587	-1 628	-554
on available-for-sale assets	-14	-4	-4	-4
on goodwill	0	0	0	0
other	-98	119	-18	-23
Share in results of associated companies	30	22	30	22
Result before tax	1 196	1 973	1 332	1 890
Income tax expense	-479	-504	-538	-515
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	717	1 469	794	1 375
Result after tax, attributable to minority interests**	128	157	128	157
Result after tax, attributable to equity holders of the parent	**590**	**1 312**	**666**	**1 217**

The adjusted results are defined in this section of the report. Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard (see ‘Additional information’).
* 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 – 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.

These items, and their impact in 2014, are:

- Legacy CDO business: includes changes in the value of CDOs held in portfolio; 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. All this had a positive effect totalling -19 million euros (after taxes) in 2014. The final two CDOs were collapsed at the beginning of October, meaning that the overall CDO exposure has been scaled down to zero over a five-year period. For the record, we would point out that KBC is the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, minor movements may yet be recorded in the income statement in the near future depending on changes in the value of these notes.

- Legacy business of divestment companies: comprises gains, losses and impairment charges on group companies on the divestment list. In 2014, it related primarily to the positive impact of the reversal of previously recorded impairment charges on Antwerp Diamond Bank, as the planned sale did not go ahead and was replaced with a run-down scenario (see 'Group Centre' for more information). On balance, this – combined with several smaller items – had a positive impact of 112 million euros (after taxes) in 2014.

- Valuation of own credit risk: comprises the impact of changes in the fair value of own debt instruments due to own credit risk. This had a negligible effect of 2 million euros in 2014.

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 result 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 indeed 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)	2013*	2014
Total assets	206 087	211 116
Loans and advances to customers	120 784	125 550
Securities (equity and debt instruments)	46 002	50 175
Deposits from customers and debt securities	162 412	163 647
Risk-weighted assets (Basel III)	79 822	80 232
Total equity	12 313	13 336
of which parent shareholders' equity*	11 662	11 676
Common equity ratio (fully loaded Basel III)	12.0%	12.1%
Liquidity coverage ratio (LCR)	131%	120%
Net stable funding ratio (NSFR)	111%	110%

* A number of figures have been adjusted (with retroactive effect); see 'Additional information'.

Additional information

- The (now completed) divestment programme obviously influences the comparison of results between 2013 and 2014:
- The results for the divested group companies are included in principle in the group results until the moment of sale. 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. In the analysis in the following pages, we also show – where relevant – the percentage comparisons corrected for the most important changes in scope (see 'on a comparable basis'). This means that Absolut Bank, KBC Bank Deutschland and a ČSOB pension fund (Transformation Fund) have been filtered out of the figures for both years
- The assets and liabilities of deconsolidated companies no longer appear, of course, in the balance sheet. Antwerp Diamond Bank (ADB) was still subject to IFRS 5 at year-end 2013. This means that its assets and liabilities were grouped together in the balance sheet under 'Non-current assets held for sale and disposal groups' and 'Liabilities

associated with disposal groups'. Since the sale of ADB did not go ahead, KBC decided to scale down the business's activities in a gradual and orderly manner, which means that ADB no longer falls under the scope of IFRS 5. For purposes of comparison, we have added a column to Note 14 of the 'Consolidated financial statements' section for 2013 in order to keep the scope of consolidation consistent (i.e. through the addition of ADB and the removal of ČSOB's Transformation Fund).

- We have retroactively restated the reference figures for 2013 to take account of (i) the new IFRS 11 standard, which stipulates that joint ventures are consolidated using the equity method and no longer by proportionate consolidation. This relates to ČMSS, a joint venture of ČSOB in the Czech Republic. The adjustment has no impact on the net result, but does affect several items in the consolidated income statement and balance sheet; (ii) the transition from Basel II to Basel III, which – among other things – influences the figures for risk-weighted assets and the associated ratios; and (iii) an improved definition of the net interest margin, with a view to raising the visibility of the margin generated by KBC's core activities (excluding volatile assets relating to general liquidity management or derivatives, and the businesses still scheduled for divestment).
- The figures for risk-weighted assets also differ because a zero weighting can no longer be assigned to domestic government bonds (Belgium, the Czech Republic, Slovakia and Hungary). The figures for (the return on) the allocated capital of the business units take account of the group's stricter capital target (we apply a factor of 10.5% to the risk-weighted assets rather than 10%). Both adjustments took effect as of 2014. We have not restated the figures for 2013.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was limited (in the order of -27 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 'Risk management' section.
- All KBC Bank shares are owned directly and indirectly by KBC Group. KBC Bank did not pay an interim dividend to KBC Group in 2014 and will pay it a final dividend for 2014 of 1 574 million euros in 2015.

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 3 609 million euros in 2014, up 9% year-on-year. On a comparable basis (i.e. excluding changes in the scope of consolidation), the figure was 11% higher than its year-earlier level, despite generally lower reinvestment yields. This growth was attributable in part to healthy commercial margins, lower rates of interest being paid on savings deposits, lower wholesale funding costs, the positive effect of early-repayment penalties due to a high level of home loan refinancing in Belgium, and higher loan and deposit volumes.

On a comparable basis (and after eliminating transactions between KBC group companies), loans and advances to customers (excluding reverse repos) rose on balance by 3% in 2014, increasing by 4% at the Belgium Business Unit and by 5% at the Czech Republic Business Unit, and contracting by 1% at the International Markets Business Unit (growth in Slovakia, Hungary and Bulgaria, but a decline in Ireland). On a comparable basis, the total volume of deposits (deposits from customers and debt securities (excluding repos)) rose by 3% in 2014, with the Belgium Business Unit recording an increase of 9%, the Czech Republic Business Unit 8%, the International Markets Business Unit 5% (with Ireland posting substantial growth, thanks to the success of the retail deposit campaign in that country), and the Group Centre recording a decline.

Consequently, the net interest margin came to 2.08% in 2014 (2.01% in the Belgium Business Unit, 3.18% in the Czech Republic Business Unit, 2.41% in the International Markets Business Unit), 18 basis points higher than in 2013.

Net fee and commission income

Net fee and commission income came to 1 829 million euros in 2014, up 8% on the year-earlier figure or as much as 9% on a comparable basis. Most of the increase was accounted for by Belgium and related primarily to growth in entry charges and management fees for investment funds and high credit-related fee and commission income.
At the end of 2014, the KBC group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 186 billion euros, 14% more than the year-earlier figure, due to positive price and volume effects (8% and 6%, respectively). Most of these assets were managed at the Belgium Business Unit (172 billion euros, up 14%) and the Czech Republic Business Unit (7 billion euros, up 20%).

Other income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 250 million euros in 2014, as opposed to 756 million euros in 2013. 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. On balance, this results component still chiefly reflects the performance in the dealing rooms, but also the result of the marked-to-market valuation of certain derivatives used for asset/liability management purposes. The latter was extremely negative in 2014 (-184 million euros), but very favourable in 2013 (+275 million euros in 2013), which therefore largely accounts for the difference in this particular item.

Other income (dividends, realised gains and other net income) came to an aggregate 29 million euros in 2014, as opposed to 405 million euros a year earlier. The negative difference is attributable in part to the lower gains realised on bonds and shares and especially the lower level of other net income, as it was severely impacted in 2014 by provisioning related to the new law on retail loans in Hungary (an impact of -231 million euros before tax; see Note 8 in the 'Consolidated financial statements' section).

Operating expenses

Operating expenses amounted to 3 269 million euros in 2014, up slightly (by 2%) on their year-earlier level (or by 3% on a comparable basis, due to the impact of various factors, including higher costs in Ireland (for more staff in the arrears department, for instance, and in relation to the retail campaign) and in Belgium (slightly higher staff expenses, marketing and communication costs, higher special bank tax, but lower pension expenses, ICT costs and facility services costs), a positive exchange rate effect and lower expenses in the Group Centre.

The group's cost/income ratio was approximately 57% in 2014, compared with 52% a year earlier. The ratio was adversely affected by a number of non-operating items, such as the severely negative marked-to-market valuations for ALM derivatives and the impact of the Hungarian act on foreign currency-denominated consumer loans. Adjusted for these specific items, the ratio came to a good 54% in 2014, compared to the year-earlier figure of 55% It was 50% for the Belgium Business Unit (49%, excluding specific items), 48% for the Czech Republic Business Unit and 92% for the International Markets Business Unit (69%, excluding specific items).

Impairment

Impairment on loans and receivables (loan loss provisions) amounted to 554 million euros in 2014, compared with 1 628 million euros in 2013. Much of the improvement of 1 074 million euros is almost entirely attributable to Ireland, where there was considerable extra loan loss provisioning in the fourth quarter of 2013, bringing the loan loss provisions for that country to 1 059 million euros for full-year 2013. That figure declined to 198 million euros in 2014. Loan loss provisions for the other countries in 2014 came to 205 million euros in Belgium (123 million euros less than in 2013), 47 million euros in Hungary (28 million euros less than in 2013, when additional provisions were set aside at year-end for structured loans), 34 million euros in the Czech Republic (13 million euros less than in 2013) and 69 million euros for other countries. Overall, the group's credit cost ratio subsequently improved from 121 basis points in 2013 to 42 basis points in 2014 (23 basis points at the Belgium Business Unit, 18 basis points at the Czech Republic Business Unit and 106 basis points at the International Markets Business Unit (Ireland: 133 basis points; Slovakia: 36 basis points; Hungary: 94 basis points; and Bulgaria: 130 basis points)). The proportion of impaired loans (see 'Ratios used' for definition) in the total loan portfolio was 9.9% at year-end 2014, compared with 10.2% in 2013. This breaks down into 4.3% at the Belgium Business Unit, 3.8% at the Czech Republic Business Unit, and 34.1% at the International Markets Business Unit (due primarily to Ireland, which had an impaired loans ratio of 52%). The proportion of impaired loans more than 90 days past due (referred to in previous reports as 'non-performing loans') came to 5.5% in 2014, compared to the year-earlier figure of 6.0%. At year-end 2014, 42% of the impaired loans were covered by specific impairment charges. More information on the composition of the loan portfolio is provided in the 'Risk management' section.

Other impairment charges totalled 27 million euros in 2014 and related inter alia to available-for-sale securities (shares) and to tangible and intangible fixed assets.

Net results per business unit

The group's adjusted net result in 2014 breaks down by business unit as follows: Belgium 1 051 million euros (down 96 million euros on the figure for 2013, due primarily to the strongly negative marked-to-market valuation of certain derivatives used for asset/liability management purposes, which completely cancelled out the positive impact of higher net interest income and net fee and commission income and lower loan loss impairment charges), Czech Republic 500 million euros (down 29 million euros on the figure for 2013, owing almost entirely to the lower exchange rate of the Czech koruna), International Markets -205 million euros (an improvement of 659 million euros on the figure for 2013, on account of significantly lower loan loss provisioning in Ireland, but partially offset by the posting of a 183-million-euro provision after taxes related to the new Hungarian act on consumer loans) and Group Centre -129 million euros.

Balance sheet, solvency, liquidity

At the end of 2014, the group's consolidated total assets came to 211 billion euros, up 2% year-on-year. At 80 billion euros, risk-weighted assets (Basel III) remained virtually unchanged, despite a number of methodological adjustments (primarily the scrapping of the zero weighting for domestic government bonds).

Loans and advances to customers (122 billion euros in loans at the end of 2014, 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), total loans and advances to customers rose by 3% (up 4% at the Belgium Business Unit and 5% at the Czech Republic Business Unit, but down 1% at the International Markets Business Unit on account of Ireland). The main credit products (including reverse repos) were again term loans (58 billion euros) and mortgage loans (53 billion euros). Securities amounted to 50 billion euros at year-end 2014. Of these securities, 1% were shares and 99% bonds (on a comparable basis, bonds grew by 5 billion euros in 2014). Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (13 billion euros, down year-on-year because of lower reverse repos) and derivatives (positive marked-to-market valuation of 10 billion euros, up year-on-year).
On a comparable basis (and after eliminating transactions between KBC group companies), total customer deposits (deposits from customers and debt securities, excluding repos) grew by 3% to 156 billion euros. Deposits increased by 9% at the Belgium Business Unit, by 8% at the Czech Republic Business Unit and by 5% at the International Markets Business Unit (thanks primarily to the retail deposit campaign in Ireland), but fell by 35% in the Group Centre. As in 2013, the main products (including repos) were time deposits (51 billion euros), demand deposits (48 billion euros) and savings deposits (37 billion euros, up 6% on their level at the end of 2013). Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 11 billion euros, up year-on-year) and deposits from credit institutions and investment firms (18 billion euros, up year-on-year).

On 31 December 2014, the group's total equity came to 13.3 billion euros. This figure included 11.7 billion euros in parent shareholders' equity, 1.4 billion euros in additional tier-1 instruments and 0.3 billion euros in minority interests. On balance, total equity grew by 1 billion euros in 2014. The most important components in this regard were the inclusion of the 1.4 billion euros in additional tier-1 instruments issued in March 2014, the inclusion of the annual profit (+1.5 billion euros, including minority interests), changes in the available-for-sale reserve and cashflow hedge reserve (-0.6 billion euros in total), the payment to KBC Group of a final dividend for 2013 (-0.7 billion euros), and the repurchase of Funding Trust securities (-0.4 billion euros in minority interests).

The fully loaded common equity ratio under Basel III – including the available-for-sale reserve – amounted to 12.1% at year-end 2014.

The group's liquidity position remained excellent, as reflected in an LCR ratio of 120% and an NSFR ratio of 110% at year-end 2014.

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)	2013	2014
IFRS result	590	1 312
Adjusted result	666	1 217
Belgium Business Unit	1 147	1 051
Czech Republic Business Unit	529	500
International Markets Business Unit	-864	-205
Hungary	58	-102
Slovakia	60	65
Bulgaria	10	11
Ireland	-992	-179
Group Centre (including planned divestments)	-147	-129

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 1 051 million euros to the adjusted result in 2014.

The economic context in Belgium

The economic recovery that began in Belgium in the spring of 2013 continued in the year under review, albeit with occasional setbacks. Having got off to a strong start, growth virtually stagnated in the spring, before picking up once more in the summer. Belgian real GDP came to 1% on balance, which was slightly higher than the euro area average.

Household consumption remained robust, despite the negative pattern of consumer confidence, which was once again far below its long-term average level at year-end. This probably reflected the spending cuts and reforms announced by the government. On the other hand, the falling price of oil created additional scope for consumer spending, while the job market continued to improve. The annualised rate of unemployment stopped going up from late autumn, due in part to the fall in the number of business failures. Investment contributed even more than consumer spending towards growth in 2014. Positive real growth returned to investment in homes, following the sharp decline seen in recent years. Business investment also bounced back strongly, and the international economic recovery and cheaper euro boosted exports.

Inflation continued to cool sharply in 2014, due in part to a sharp decline in commodity prices. Belgian ten-year government bond yields fell to 0.8% at year-end 2014 compared with the year-earlier figure of 2.5%. The gap with the equivalent German Bund narrowed from 60 to approximately 30 basis points over the same period. Public finances closed 2014 with a deficit that is expected to equal 3.2% of GDP and a debt ratio of 106.6% of GDP. The announced spending cuts are intended to eliminate the budget deficit by 2018. Economic growth is forecast to gather pace, which ought also to contribute to this in the years ahead.

Lending to businesses by banks based in Belgium fell slightly throughout most of the year, despite low interest rates, the easing of the banks' credit terms and the expansion (albeit hesitant) of the economy. Credit demand remained weak, owing partly to high liquidity buffers that are enabling businesses to provide a significant proportion of their own funding needs. Somewhat fewer mortgage loans were granted in the first months of the year, too. However, demand revived in the second half of the year due to low interest rates and the prospect of a reduction in tax relief on mortgage payments as of 2015.

Substantial liquidity buffers fuelled growth in corporate savings deposits at the banks, but growth in household savings at the banks slowed down. Time deposits were scaled down against a backdrop of extremely low interest rates, while growth in the – much larger – market for regulated savings accounts dropped off. The slowdown in growth in the deposit market chiefly benefited the market for investment funds, which saw a fresh influx of savings.

We anticipate real GDP growth of 1.3% in 2015. Wage restraint, the cheap euro and falling commodity prices are giving businesses a tailwind.

This outlook is based on forecasts made at the start of 2015, and so the actual situation could differ (considerably).

Macroeconomic indicators for Belgium	2013	2014*
GDP growth (real)	0,3%	1,0%
Inflation (average annual increase in consumer prices (%))	1,1%	0,3%
Unemployment (% of the labour force at year-end; Eurostat definition)	8,4%	8,4%
Government budget balance (% of GDP)	-2,9%	-3,2%
Public debt (% of GDP)	104,5%	106,6%

* Estimates made at the start of 2015.

Our activities in Belgium

Position in the Belgian market in 2014*

- Main brands: KBC, CBC
- Network: 818 bank branches
- Electronic channels: KBC/CBC Mobile Banking, KBC/CBC-Online, KBC/CBC Touch
- Market share: 20% for traditional bank products and 37% for investment funds
- Approx. 3.2 million clients
- 89-billion-euro loan portfolio and 109 billion euros in deposits and debt securities
- Products and services: wide range of loan, deposit, asset management, insurance (via KBC Insurance) and other financial products for private individuals, local businesses, wealthy individuals and larger companies. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance.

* Market shares and client numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). 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.

An important feature of our position in Belgium is the unique cooperation between KBC Bank branches and KBC Insurance agencies in micro markets. The branches focus on bank and standard insurance products, and refer clients to the insurance agency in the same micro market for other insurance products. 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. Working together like this enables us to deliver a comprehensive product offering to our clients that is aligned with their needs. A few figures help illustrate the success of our model. At year-end 2014, almost 50% of households that are clients of KBC Bank held at least one banking and one insurance product from KBC. In another example, we sold a KBC Home Insurance policy to go with approximately 85% of home loans granted.

We want to be close to our clients, through our bricks-and-mortar network, an expanded help centre, a smart and simplified website, mobile apps and ATMs. Technology is one means, but putting our clients centre stage is our ultimate goal. It was with that philosophy in mind that we launched the new KBC and CBC Touch apps in 2014. Touch is the successor to KBC-Online and is available on tablets as well as traditional PCs. We added a number of services for mobile users, such as the ability to make payments, pay bills using Zoomit and read and send messages on smartphones.

We screen our traditional banking products regularly and adjust them where necessary. For instance, Bolero – KBC Securities' online trading platform – launched a crowdfunding platform to bring together entrepreneurs and investors. Start-ups can use the website to seek funding and interested investors can then help them grow their business through relatively small investments.

Given its importance within a relationship bank-insurance approach, we track client satisfaction very closely. We monitor employee satisfaction closely, too.

Our commitment to Belgian society extends beyond offering the right products and services. We also express it in the range of initiatives we take in the areas of the environment, health and safety, combating social deprivation and developing local markets. Here are a few examples:

- A while ago we launched Start it @kbc, through which we aim, together with a number of partners, to help start-ups in Flanders with various aspects of doing business. We also provide office space free of charge to start-ups at the KBC Tower in Antwerp. The selected businesses develop ideas in the fields of high technology, e-platforms, sustainability and mobility. The initiative has proved highly successful, so we decided in 2014 to extend it to other important cities in Belgium, including Leuven, Ghent and Hasselt.
- Our 'Room for improvement' campaign, which we launched in 2014, offers self-employed people, liberal professionals and business owners the chance to pitch their ideas to the public. In this way, we demonstrate our commitment to Flemish enterprise, while helping entrepreneurs become even better at what they do.
- 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 years now, we hold regular blood donation sessions at our head offices in collaboration with the Red Cross and we have worked closely for many years with cancer charity, *Kom Op Tegen Kanker*. We 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 make a continuous effort to reduce our ecological footprint. In 2014, for instance, we took a fresh step towards low-energy construction when we began the renovation of our data centre in Mechelen, with the project making maximum use of energy-saving measures. As partner of *Leuven Klimaatneutraal* – a not-for-profit organisation that aims to make the city of Leuven climate-neutral by 2030 – we took part in the 'Climate weekend' event in August. We continue to focus very closely on mobility. Teleworking has become firmly embedded in our corporate culture and commuter travel at KBC Belgium fell by just under 5 million kilometres in 2014.
- Environmental awareness is, incidentally, an issue for all KBC staff. To that end, the non-recurrent results-based bonus we pay our employees in Belgium has been subject for three years now to the achievement of green, sustainable targets for electricity consumption, CO_2 emissions from company cars, kilometres driven and paper usage. Environmental efficiency data for the KBC group in Belgium is shown in the table.

Environmental efficiency data for the KBC group in Belgium (per FTE)		2013*	2014
Energy consumption (in GJ)*	Electricity	21,3	21,2
	Provided by renewable energy sources	100%	100%
	Fossil fuels (gas and heating oil)	16,0	12,7
Distances travelled (in km)	Commuting	8 288	8 068
	Business travel	5 358	5 456
Paper and water consumption, waste	Paper (in tonnes)	0,12	0,11
	Water (in m^3)	9,0	9,1
	Waste (in tonnes)	0,19	0,15
Greenhouse gas emissions (in tonnes)*		2,5	2,2

* The relatively high figures in 2013 relate in part to weather conditions (the harsh winter) and partly to reduced occupation of our buildings and refinement of the methodology used.

As in previous years, we received a number of awards in Belgium that not only recognised our financial performance, but also rewarded our social engagement. Here are a few examples:

- KBC was once again voted one of the best employers in Belgium in the 2014 Great Place to Work® survey, coming sixth in the category of companies with over 500 employees.
- KBC won four prizes in the Marketing and Interactive Excellence Awards organised by IAB Belgium and Best of Publishing.
- Professional Wealth Management (from the Financial Times Group) chose KBC as 'Best Private Bank in Belgium', as did Euromoney.
- International Banker presented KBC with two awards, namely 'Best Private Bank Belgium' and 'Best at Innovation in Retail Banking Belgium'.

Focus on the future: accessible, client-centric solutions, a separate 'KBC Brussels' brand and acceleration in Wallonia

As part of our drive to deliver accessible, client-centric solutions, we will make use of technological developments to seamlessly integrate our branch network with our other channels, to transform our contact centres into advisory centres, and to further develop a smart and simple website, mobile apps and ATMs. This will help us achieve our goal of being close to our clients in Belgium, always and everywhere.

We have already launched numerous initiatives in this regard. Towards the end of the year, for instance, we set up our first regional advisory centre, whose role is to provide clients with accessible and personal service and advice. And, as already mentioned, we launched KBC Touch, a convenient new bank-insurance app for computers and tablets.

We likewise intend to focus more closely on sub-markets in Belgium in which we are not yet market leader, specifically Brussels and Wallonia.

Up to now, we had built in Brussels on the strengths of KBC in Flanders and CBC in Wallonia. We decided to exploit the potential of Brussels more efficiently in future, and announced in 2014 the launch of a separate new brand, 'KBC Brussels', that will reflect the capital's special cosmopolitan character and will meet the needs of local people there more effectively. Retail and SME clients will be offered a single integrated range of bank-insurance products and services, the existing KBC/CBC branches in Brussels will be repositioned and we will introduce innovative new branch concepts. The appointment of CEO, Damien Van Renterghem, was an important step in the launch of KBC Brussels.
CBC is interwoven into the local economy in Wallonia and has reported strong and consistent growth in its gross earnings year after year. We want to use CBC to further tap potential growth in bank-insurance in specific market segments. To help achieve this goal, we conducted a new image campaign in 2014 under the slogan *'CBC. Décider d'avancer'* ('CBC. Moving forward'). As of 2015, we intend to expand our presence in Wallonia and our accessibility and service provision there by opening eight new (CBC Assurances) insurance agencies and eight bank branches and relocating 15 existing branches.

We will do all of this while continuing to optimise our bank-insurance model in Belgium. We expect our bank-insurance income to grow by more than 5% annually in the years ahead (at KBC Group level), partly through the provision of digital solutions, intelligent use of banking and insurance data and specific bank-insurance initiatives for specific target groups.

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 Bank, Era, Postal Savings Bank, Hypoteční banka and ČMSS brands), ČSOB Asset Management and Patria.

The business unit contributed 500 million euros to the adjusted result in 2014.

The economic context in the Czech Republic

The Czech economy continued to recover in 2014, owing mainly to investment and consumer spending, but also in part to net exports and government spending. The recovery was all the more remarkable, given that it occurred against a backdrop of weak euro area growth and escalating geopolitical conflict in Ukraine.

Growth in consumer spending was supported in 2014 by an increase in real disposable household income, attributable to a number of factors such as low inflation and an improvement in the Czech labour market, which saw unemployment falling. The recovery in the investment cycle that began in the middle of 2013 continued, due primarily to improving domestic demand, an increase in foreign industrial orders and a rise in construction sector activity. Public-sector investments also contributed to economic growth. Net exports likewise contributed positively, supported by factors like the weak Czech koruna as a consequence of an exchange rate policy designed to combat low inflation. The Czech central bank's policy rate stands at 0.05%, making any further cuts unlikely.
Budgetary policy weighed less on domestic demand in 2014 than it did in the previous year. The slight increase in the budget deficit to an estimated 1.3% of GDP chiefly reflected a rise in public consumption and a resumption in public-sector spending.

Business lending went up only a little, all in all, despite the vigorous economic recovery. Lending growth was very volatile. Increasing use of capital market funding and the availability of internal funds dampened demand for bank loans, despite the fact that the banks eased their lending conditions. Home loans continued to grow at a decent rate. Uncertainty regarding legal issues following the introduction of a new civil code generated a certain amount of hesitation at the beginning of the year, but the upturn in home-building and the favourable outlook for the residential real estate market underpinned robust growth in home loans throughout the year. Growth in deposits accelerated in line with the economic recovery, with deposits remaining the most important savings instrument for households.

Despite risks such as further economic developments in the euro area and the conflict in nearby Ukraine, we expect the economic recovery to continue in 2015, owing mainly to domestic demand. The central bank is likely to continue its present monetary policy in 2015. This, combined with a further decline in the rate of unemployment, will probably cause inflation to rise gradually from its current low level. We also expect a growth-friendly budgetary policy in 2015. The budget deficit might increase a little, but will remain well below the 3% level. This outlook is based on forecasts made at the start of 2015, and so the actual situation could differ (considerably).

Macroeconomic indicators for the Czech Republic	2013	2014*
GDP growth (real)	-0,7%	2,0%
Inflation (average annual increase in consumer prices (%))	1,4%	0,4%
Unemployment (% of the labour force at year-end; Eurostat definition)	6,7%	5,8%
Government budget balance (% of GDP)	-1,3%	-1,3%
Public debt (% of GDP)	45,7%	44,1%

* Estimates made at the start of 2015.

Our activities in the Czech Republic

Position in the Czech market in 2014[1]

- Main brands; ČSOB, Era, PSB, ČMSS, Hypoteční banka
- Network: 319 bank branches[2]
- Electronic channels: ČSOB InternetBanking, ČSOB BusinessBanking and ČSOB SmartBanking
- Market share: 20% for traditional bank products and 27% for investment funds
- Approx. 3 million clients
- 19-billion-euro loan portfolio and 22 billion euros in deposits and debt securities
- Products and services: wide range of banking (including loans, deposits, and a variety of specialist financial services), insurance (life and non-life via ČSOB Pojišťovna) and asset management products. Focus on retail/SMEs.

1 Market shares and client numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos).
2 ČSOB Bank and Era.

As in Belgium, the KBC group owns both a bank (a KBC Bank subsidiary) and an insurance company (a KBC Insurance subsidiary) in the Czech Republic, which work together closely. On the banking side, we operate through the bank branches of ČSOB and Era, the branches belonging to other subsidiaries (ČMSS, Hypoteční banka, ČSOB Leasing) and the PSB branches in the Czech postal network. We sell insurance through various distribution channels, including a network of tied ČSOB insurance agents, ČSOB Pojišťovna agencies, ČSOB bank branches and multi-agents and individual brokers.

Just like in Belgium, we offer a wide range of banking, insurance and asset management products in the Czech Republic, and we constantly adapt this offering to the changing needs of clients, new legislation and trends in society. In 2014, for instance, we took further major steps in the field of electronic and online bank-insurance, including the launch of contactless payment cards, a banking app for smartphones and tablets with a growing number of features (the ability to make payments to mobile operators, take out travel insurance, etc.), the possibility of applying for loans through our website or a call centre, and the ability to make payments using QR codes. We also launched numerous new products, including various funds and an innovative cash loan, for which a zero interest rate applies during the second half of the repayment period.

One of the main objectives of our strategy is to put the client at the centre of everything we do in all our core markets. For that reason, we track the satisfaction of our clients very closely in the Czech Republic, too. We do this through regular surveys, which we use as the basis to take the necessary action. We supplement the general measurement of client satisfaction with our brand and product offering by specific, active and direct client surveys, including ones performed immediately after a branch visit.
In addition, as a large employer in the Czech Republic, we pay a great deal of attention to employee satisfaction and involvement. 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. Employee satisfaction at ČSOB is high and even rose slightly in 2014. The net promoter score – employees' readiness to recommend ČSOB as an employer – also rose further in 2014.

Our social commitment in the Czech Republic is also expressed in the initiatives our group companies take in this area. The focus is on socially responsible enterprise, education, diversity and the environment.
ČSOB promotes education and financial literacy, for example, through its ČSOB Education Programme and Education Fund, and supports the training and development of NGOs and social entrepreneurship. The group also focuses particular attention on combating exclusion, which includes providing branches with wheelchair access, ATMs adapted to blind and partially sighted people, and the eScribe transcription service for people with hearing difficulties. In recognition of this, ČSOB was awarded second place in 2014 in 'Bank without barriers', which investigated how accessible bank branches are to people with a physical handicap. In addition, ČSOB launched the ČSOB Private Banking Good Will Card, where 0.6% of every payment made with the card is donated to a good cause. Furthermore, ČSOB has strategic partnerships with various NGOs that focus on supporting the socially deprived, older people, children and people with a handicap.

KBC-group companies are conscious about 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.

A selection of environmental efficiency data for ČSOB in the Czech Republic is shown in the table.

Environmental efficiency data for the KBC group (ČSOB) in the Czech Republic (per FTE)		2013	2014
Energy consumption (in GJ)	Electricity	16,0	15,4
	Fossil fuels (gas and heating oil)	6,3	5,3
Paper and water consumption, waste	Paper (in tonnes)	0,14	0,13
	Water (in m^3)	15,7	14,8
	Waste (in tonnes)	0,25	0,22

As in previous years, we were awarded a number of prizes in the Czech Republic in 2014, rewarding not only our financial performance, but our social engagement too. Here are a few examples:

- Global Finance Magazine and Euromoney named ČSOB as 'Best Bank' in the Czech Republic.
- ČSOB won the 'Internet Effectiveness Award' in the non-profit, human rights and environment field for its Era Helps the Regions pilot programme, which sets out to assist a number of non-profit and aid organisations in nine regions. Following the success of the pilot, Era Helps the Regions was rolled out country-wide in 2014.
- ČSOB was also shortlisted in the 'Ashoka Changemakers – Ashoka Social and Business Co-Creation Competition' for the Era eScribe online speech transcription service which is available at all Era Financial Centres for clients with hearing difficulties. The eScribe service was recently extended to all specialised counters of the Czech postal service in South Bohemia.
- ČSOB was awarded the 'Best Private Bank in the Czech Republic' prize by Professional Wealth Management and The Banker, while Patria won Acquisition International's 'Investment Bank of the Year' award.

Focus on the future: switch from channel-centric to client-centric solutions and simplification to generate cost efficiency

Our ambition in the Czech Republic is to create added value for our clients by moving from largely channel-centric solutions to ones that are more client-centric, based on an integrated model that brings together clients, third parties and our bank-insurer.

We will also offer new non-financial products (such as document management) to add value for our clients and to further enhance client satisfaction.

Our Czech group companies will, moreover, concentrate even more on simplifying their products, IT, organisation, bank distribution network, head office and branding, to become more cost efficient. KBC wants to expand and accelerate its bank-insurance business in the Czech Republic through steps like introducing a progressive and flexible pricing model, developing combined banking and insurance products and strengthening our insurance sales teams.

We are also seeking, lastly, to maintain growth in the fields in which we have traditionally been strong in the Czech Republic, such as lending to business and providing home loans. We want to move forward in fields in which we have yet to tap our full potential, such as the attractive market for lending to SMEs and consumer finance.

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 -205 million euros to the adjusted result in 2014. The adjusted result per country was -102 million euros for Hungary, 65 million euros for Slovakia, 11 million euros for Bulgaria and -179 million euros for Ireland.

The economic context in Slovakia, Hungary, Bulgaria and Ireland

The Slovakian economy experienced a robust recovery in 2014, expanding at a rate well above the euro area average, and driven chiefly by investment and consumer spending. The unemployment rate fell gradually during the period, but it remains high. Lending growth benefited initially from the economic upturn, with a recovery in business lending in the first six months in particular following on from the slide in 2013, but slipped back again at the end of the year. Growth in home loans and consumer credit strengthened further. The combination of high unemployment and falling energy prices meant that inflation fluctuated around zero or was even slightly negative in 2014. Budgetary policy was loosened a little for a while in 2014, pushing up the budget deficit to around 3%. However, we expect further budgetary consolidation to be pursued in 2015. We also assume that the decline in unemployment will support growth in consumer spending and that net exports will begin to positively contribute to growth once more. We anticipate real GDP growth of about 2.4% in 2015.

The Hungarian economy expanded significantly in the first two quarters of 2014, before subsequently easing back a little. At the same time, it remained in the grip of debt reduction, resulting in a prolonged contraction in bank lending. The central bank's Funding for Growth programme got lending to businesses back on track. Generally speaking, however, the robust economic growth was driven mainly by (public-sector) investment. Consumer spending also contributed significantly to growth in the year under review. Available household income received an additional boost from the compensation banks have to pay to families to wind up outstanding loans denominated in foreign currencies. Robust growth also pushed down the jobless rate. Inflation declined over the year, due primarily to intervention in regulated prices and to falling energy prices, and even turned negative at the end of the year. The budget deficit remained below 3%. We anticipate real GDP growth of about 2.4% in 2015.

The Bulgarian economy and public finances were also healthy in 2014. The country suffered, however, from political and institutional instability. Growth gradually gained pace in the course of the year, and lending to businesses gathered speed. This acceleration in growth combined with a shrinking labour force to push down the unemployment rate, although this remains high. Factors such as falling energy prices and reductions in regulated prices resulted in negative inflation in 2014. Household lending remained weak and deposit growth slowed down, owing in part to deflation. On the other hand, deflation boosted real growth in household income, thereby contributing positively to consumer spending. Government spending also contributed to the economic expansion. The budget deficit was significantly higher than 3%. Confidence in the banking sector was tested in June 2014 by a run on two Bulgarian banks. When it emerged that irregularities had been detected at these banks, the Bulgarian central bank requested that it be placed under the umbrella of the ECB as regulator. None of this hindered strong economic growth in the third quarter. We anticipate real GDP growth of about 1.5% in 2015.

Ireland was the strongest-growing economy in the euro area, benefiting in equal measure from domestic demand and net exports. Unemployment fell in response to this robust expansion, which in turn kick-started growth in consumer spending. There was a positive impact, moreover, on public finances, as a result of which the deficit fell by 1.7 percentage points over the year. The vigorous economic growth was not wholly matched by increased lending, but the firming of deposit growth contributed to a more favourable funding profile for the banking sector. The sharp improvement in the Irish economy was also expressed in the figures for the financial markets, which saw a substantial decline in ten-year bond yields and the raising of the country's credit rating by S&P in December. We anticipate real GDP growth of about 3.5% in 2015.

This outlook is based on forecasts made at the start of 2015, and so the actual situation could differ (considerably).

Macroeconomic indicators	Hungary		Slovakia		Bulgaria		Ireland	
	2013	2014 *	2013	2014 *	2013	2014 *	2013	2014 *
GDP growth (real)	1,5%	3,3%	1,4%	2,4%	1,1%	1,5%	0,2%	5,0%
Inflation (average annual increase in consumer prices (%))	1,7%	0,0%	1,5%	-0,1%	0,4%	-1,6%	0,5%	0,3%
Unemployment (% of the labour force at year-end; Eurostat definition)	8,7%	7,3%	14,0%	12,5%	12,8%	10,8%	12,1%	10,5%
Government budget balance (% of GDP)	-2,4%	-2,6%	-2,6%	-3,0%	-1,2%	-3,4%	-5,7%	-4,0%
Public debt (% of GDP)	77,3%	77,7%	54,6%	53,6%	18,3%	27,0%	123,3%	110,8%

* Estimates made at the start of 2015.

Our activities in Hungary, Slovakia, Bulgaria and Ireland

Market position in 2014[1]

	Hungary	Slovakia	Bulgaria	Ireland
Main brands	K&H	ČSOB	CIBANK	KBC Bank Ireland
Network	210 bank branches	129 bank branches	103 bank branches	12 bank branches
Clients (in millions)	0,8	0,4	0,3	0,2
Loan portfolio (in billions of EUR)	5,1	5,1	0,8	14,5
Deposits and debt securities (in billions of EUR)	5,2	5,0	0,6	4,2
Market shares				
- bank products	9%	10%	3%	-[2]
- investment funds	16%	6%	-	-

Products and services: our companies in each of the Central and Eastern European core markets offer a wide range of loans, deposits and various specialised financial services, insurance products (life and non-life, in cooperation with the related subsidiaries of KBC Insurance) and asset management products (the latter are not sold in Bulgaria). We offer a wide and general range of products in and have strong shares of most markets, although in some markets we focus on specific sub-markets and/or products. In Ireland, we have only a banking subsidiary.

1 Market shares and client numbers: based on own estimates. For traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos).
2 Retail market share: 10% for mortgage loans and 5% for deposits.

The International Markets Business Unit comprises KBC's activities in Hungary, Slovakia, Bulgaria and Ireland. In each of the Central and Eastern European core countries, KBC Group owns a bank (a KBC Bank subsidiary) and an insurance company (a KBC Insurance subsidiary) that work together closely. In Ireland, we have only a bank, which began recently to sell insurance products, too.

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

Given its importance within a relationship bank-insurance approach, we track client satisfaction very closely. We monitor employee satisfaction closely, too.

As an important financial player in all these countries, we also set great store by our role in local society.

- 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 organised the seventh edition of 'ART for a better and more meaningful world' in 2014, which gives young artists the opportunity to win a scholarship. Through its 'K&H for the Underprivileged' programme, K&H furthermore supports the 47 most disadvantaged micro-regions in the areas of children's healthcare, performing arts, education for young adults and sports. K&H promotes financial education, meanwhile, by organising the national 'K&H Ready, Steady, Money' contest, in which students' financial knowledge is tested.
- Financial education is also 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. The target group for this programme was extended to secondary school pupils in 2014. In addition, ČSOB in Slovakia organises the ČSOB Bratislava Marathon, with which a variety of charities are affiliated, and, through its 'Employee Grant' programme, supports a number of NGOs that promote an active and healthy lifestyle and children's education and health.
- in Bulgaria, CIBANK gives orphans the opportunity to go on holiday thanks to its 'Blue Summer' project. In 2014, this project also organised various workshops in CIBANK's branches and head offices together with the children of CIBANK staff. In addition, CIBANK launched the second KBC Economic Forum on the role that financial institutions can play in supporting SMEs.
- With its Mortgage Arrears Resolution Strategy, KBC Ireland offers clients with financial difficulties short and long-term solutions to ease the burden of their home loans. And, like in past years, KBC Ireland continues to support the Barretstown and Barnardos projects, both of which focus on child welfare.

The companies belonging to this business unit again picked up various awards in 2014. Here are a few examples:

- K&H Bank won the 'Family Friendly Workplace' competition run by the Hungarian government. This award is given to the ten companies that best help their employees combine family and work in a positive way.
- K&H's 'MediMagic Storytelling Doctors' entry was selected at the grand jury meeting in Amsterdam as winner of the Healthcare category in the 'Golden World Award' competition run by IPRA. This was no mean feat as 415 entries were submitted from all over the world, with nine being shortlisted in the Healthcare category.
- K&H won second prize in the 'Consumer-friendly company' awards. Both Euromoney and The Banker handed K&H the 'Best bank in Hungary' award.
- In Bulgaria, CIBANK's Blue Summer project won the 'Engage 2013' award for corporate social responsibility in the Bulgarian Business Leaders Forum's annual ranking of responsible businesses.
- KBC Ireland won the prestigious 'Mortgage Lending Accolade' at the PIBA Awards for its excellence in mortgage lending.

Focus on the future: clear emphasis on a hybrid distribution model

The International Markets Business Unit wants to transform K&H in Hungary and ČSOB in Slovakia from branch-centric distribution models to hybrid ones.
The intention is for K&H to continue using its surplus liquidity to support the local economy, to grow its market share in all main segments, and to go on improving its efficiency and profitability. Client acquisition and share-of-wallet campaigns among retail clients, SMEs and other companies will remain the top priority for the Hungarian banking operations. Cost containment is important, too, but costs will naturally remain subject to the negative impact of the high taxes imposed by the Hungarian government.
We expect our income in Slovakia to increase considerably more than the market is expecting, especially in the retail asset classes (home loans, consumer finance, SME funding and leasing), which, combined with cost containment, ought to ensure a positive trend in the cost/income ratio.
We expect CIBANK in Bulgaria to develop in a similar direction to K&H and ČSOB, albeit at a slower pace, given the less developed market. CIBANK has grown appreciably since 2012. It is concentrating on specific client segments within a controlled and robust risk framework. Collaboration in the field of bank-insurance between DZI and CIBANK has grown significantly in recent years, and we want to extend that collaboration by further developing products and setting up distribution channels.

The principal strategic objective of our subsidiary in Ireland is to move from being a primarily digital monoliner (home loans and deposits) to becoming a fully fledged retail bank with a complete retail product offering provided through a small number of branches. The intention is for distribution to occur through various channels, but primarily online and mobile channels and via a contact centre, supported by a flexible physical presence (hubs, mobile banks and advisers) in the main urban areas. Our ambition is to grow strongly in new retail mortgage loans and we want to expand the range of retail products, while simultaneously continuing to scale down the existing portfolio of loans to large companies and SMEs. Cost containment is crucial, given the significant investment required in staff, IT and marketing to allow implementation of the retail strategy. We expect our Irish activities to return to profit in 2016.

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 -129 million euros to the adjusted result in 2014.

Divestment plan 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 2014, we had implemented the plan in full.

The principal divestments (limited to KBC Bank) that we completed in recent years are 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, KBC Business Capital, Centea, KBC Concord Asset Management, KBC Securities' Serbian and Romanian operations, KBC Goldstate, Żagiel, Kredyt Bank, KBC Autolease Polska, KBC Lease Deutschland, participating interests held by KBC Private Equity, Absolut Bank, the minority interest in NLB, and KBC Bank Deutschland.

The previously announced sale of Antwerp Diamond Bank (ADB) to Yinren Group was not completed successfully and so we decided to run down ADB's loan portfolio and operations in a gradual and orderly manner. ADB will not provide any further loans or develop any new business. The run-down will occur by means of a merger, through which ADB will be absorbed by KBC Bank NV. Pursuant to the applicable IFRS accounting rules, we reversed the impairment charges on the sale of ADB recorded in 2012 and 2013, which had a positive impact of approximately 0.1·billion euros on the result. However, further loan write-downs might follow during the run-down period, as a result of which, the combined impact on the KBC group's net result could ultimately be slightly negative.

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.

This section of our annual report focuses on our risk governance model and the most material sector-specific risks we face, namely credit risk, market risk, liquidity risk, operational risk.

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 transactional level', 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, 'Forbearance measures', 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 10-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' and the 'Solvency, KBC Bank' table (audited parts are indicated in the footnote to these tables).

Please note that:

- KBC Bank Deutschland was recognised as a 'disposal group' under IFRS 5 in 2013. In the various tables of this section, this entity has been excluded from the 2013 figures, but, where relevant, summary information has been provided for it separately in the footnotes under these tables. KBC Bank Deutschland was sold in 2014.
- Antwerp Diamond Bank was originally recognised as a 'disposal group' under IFRS 5 in 2013, but was consolidated again in 2014 (the sale of the entity did not go through and was replaced by an orderly run-down of its activities). Consequently, Antwerp Diamond Bank has been included in the 2013 and 2014 figures in the various tables.
- Due to the adoption of IFRS 11 in 2014, the reference figures for 2013 have been restated retroactively. This standard stipulates that joint ventures must be accounted for using the equity method instead of the proportionate consolidation method. For KBC, this only applies to Českomoravská Stavební Spořitelna (ČMSS), a joint venture of ČSOB in the Czech Republic.

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.

Our risk governance model is characterised primarily by:

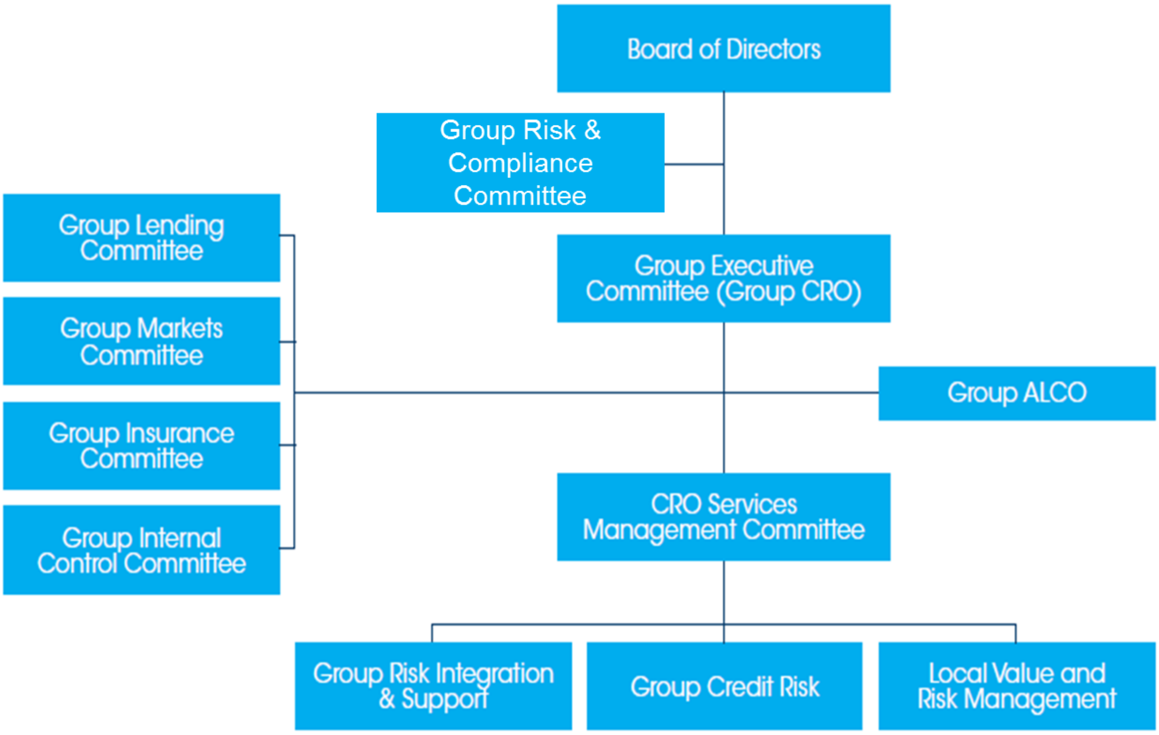
- the Board of Directors, assisted by the Group Risk & Compliance Committee (RCC), which sets the risk appetite each year, monitors risks and proposes action, where necessary;
- integrated architecture centred on the Executive Committee that links risk appetite, strategy and performance goal setting;
- 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 exposure 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 Committee/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.

A simplified schematic of our risk governance model is shown below.



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 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. Loans in PD classes 10, 11 and 12 are referred to as 'impaired loans' and are equivalent to 'non-performing loans' under the (new) definition used by the European Banking Authority (EBA).

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 and to private individuals 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 being taken towards the client.

For credit linked to defaulted borrowers in PD classes 10, 11 and 12, 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.

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 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 and 2014. Others are scheduled to shift to the IRB Advanced or Foundation approaches in 2015. 'Non-material' entities will continue to adopt the Standardised approach.

Credit risk exposure

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 impairment.

It should be noted that the terminology regarding bad loans in this report has changed somewhat. From now on, we will report on:

- impaired loans (PD classes 10, 11 and 12). This coincides with the new definition of 'non-performing loans' used by the EBA.
- impaired loans that are more than 90 days past due (PD classes 11 and 12). This coincides with the former definition of 'non-performing loans' used in previous annual reports.

Loan and investment portfolio	31-12-2013[5]	31-12-2014
Total loan portfolio (in billions of EUR)		
Amount granted	161	166
Amount outstanding	135	139
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)		
Belgium	64%	64%
Czech Republic	13%	14%
International Markets	19%	18%
Group Centre	4%	4%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	42%
Financial and insurance services	5%	6%
Governments	4%	4%
Corporates	49%	49%
Non-financial services	11%	11%
Retail and wholesale trade	8%	8%
Real estate (risk)	8%	7%
Construction	4%	4%
Agriculture, farming, fishing	3%	3%
Automotive	2%	2%
Other[2]	14%	14%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1]		
Western Europe	75%	75%
Central and Eastern Europe	21%	21%
North America	2%	1%
Other	2%	2%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1,3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	29%	30%
PD 2 (0.10% – 0.20%)	11%	11%
PD 3 (0.20% – 0.40%)	12%	13%
PD 4 (0.40% – 0.80%)	16%	15%
PD 5 (0.80% – 1.60%)	14%	11%
PD 6 (1.60% – 3.20%)	8%	10%
PD 7 (3.20% – 6.40%)	5%	5%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	3%	2%
Total	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	13 871	13 692
Specific impairment	5 521	5 709
Portfolio-based impairment (i.e. based on PD 1 to 9)	284	215
Credit cost ratio		
Belgium Business Unit	0.37%	0.23%
Czech Republic Business Unit	0.26%	0.18%
International Markets Business Unit	4.48%	1.06%
Ireland	6.72%	1.33%
Slovakia	0.60%	0.36%
Hungary	1.50%	0.94%
Bulgaria	1.19%	1.30%
Group Centre	2.40%	1.17%
Total	1.21%	0.41%
Total (including entities classified as ‘disposal groups’ under IFRS 5)	1.21%	0.42%
Impaired loans ratio		
Belgium Business Unit	4.7%	4.3%

Czech Republic Business Unit	4.3%	3.8%
International Markets Business Unit	33.0%	34.1%
Group Centre	10.6%	8.6%
Total	10.2%	9.9%
Total (including entities classified as 'disposal groups' under IFRS 5)	10.2%	9.9%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)		
Impaired loans that are more than 90 days past due	8 086	7 676
Specific impairment for impaired loans that are more than 90 days past due	4 046	4 384
Ratio of impaired loans that are more than 90 days past due		
Belgium Business Unit	2.5%	2.2%
Czech Republic Business Unit	3.1%	2.9%
International Markets Business Unit	19.2%	19.0%
Group Centre	8.5%	6.3%
Total	6.0%	5.5%
Total (including entities classified as 'disposal groups' under IFRS 5)	6.0%	5.5%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	40%	42%
Total (excluding mortgage loans)	47%	51%

For a definition of the above ratios, see the 'Glossary of ratios'.
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 KBC Bank Deutschland (classified as a 'disposal group' under IFRS 5 in 2013, sold in 2014). In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) accounted for 3.3 billion euros' worth of credit granted, 2.3 billion euros of which was outstanding.
6 Impaired loans also include forborne loans (where the borrower has been assigned PD class 10 or higher). Reconciliation of year-end figures: the difference of 179 million euros between the figures for 2013 and 2014 was due to this category of loan decreasing by 246 million euros at the Belgium Business Unit, by 49 million euros at the Czech Republic Business Unit and by 23 million euros at the Group Centre, and to it increasing by 139 million euros at the International Markets Business Unit (239 million euros of which in Ireland).

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	31-12-2013	31-12-2014
KBC Bank Ireland (Ireland) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	15	14
Breakdown by loan type		
Home loans	79%	82%
SME & corporate loans	10%	9%
Real estate investment and real estate development	11%	9%
Breakdown by risk class		
Normal (PD 1-9)	52%	48%
Impaired (PD 10)	22%	25%
Impaired (PD 11+12)	26%	27%
Credit cost ratio[2]	6.72%	1.33%
Cover ratio	35%	37%
K&H Bank (Hungary) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	5	5
Breakdown by loan type		
Retail loans	47%	47%
FX mortgage loans	28%	25%
SME & corporate loans	53%	53%
Breakdown by risk class		
Normal (PD 1-9)	85%	86%
Impaired (PD 10)	3%	3%
Impaired (PD 11+12)	12%	11%
Credit cost ratio[2]	1.50%	0.94%
Cover ratio	50%	56%

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

Forbearance measures

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, we can decide to renegotiate its loans and grant forbearance measures in accordance with internal policy guidelines. These internal policies were updated in 2014 to take account of the new (draft) guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority (EBA).

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties.

Forbearance measures 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;
- providing debt forgiveness.

After a forbearance measure has been decided upon, the modified terms/conditions must be confirmed in writing. A forbearance tag is attached to the file in the credit systems for identification, monitoring and reporting purposes.

A client with a forborne loan will in principle be assigned a PD class that is higher than the one it had before the forbearance measure was granted, given the higher risk of the client.

If the client had not yet defaulted, and after being granted the forbearance measure – 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 PD class assigned by the model can be applied or overruled according to the existing policies. However, if the PD is overruled, the assigned PD would be higher than the PD assigned to borrowers/files with similar loans but without forbearance measures, reflecting the higher risk of default attached to the forborne facility.

If the forborne facility was non-defaulted prior to the forbearance measures, but becomes defaulted due to these measures, PD class 10 has to be assigned. If the facility had already been classified as 'defaulted' prior to the forbearance measure, the facility/client has to be assigned at least PD class 10 ('unlikely to pay') or worse (PD class 11 if other facilities are more than 90 days past due and default status is assigned at client level) after forbearance has been granted.

Only after at least one year and on the condition that, following the forbearance measures, no amount is past due or there are no concerns regarding full repayment of the exposure according to the post-forbearance conditions, can the client be reclassified as 'non-defaulted'. However, the forbearance tag will stay in place for at least two years after the forbearance measure has been granted, or after the client becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.). If the conditions are not met at the end of the probation period, the facility will continue to be identified as 'forborne under probation' (i.e. forbearance tag) until the conditions are met. The conditions will be assessed on at least a quarterly basis.

If a client has been granted a forbearance measure, and remains non-defaulted, a default status will be assigned as soon as this forborne loan becomes more than 30 days past due or if an additional forbearance measure (from the second restructuring on) is granted during the probation period.

As forbearance measures constitute an objective indicator (i.e. impairment trigger) that requires assessing whether impairment is needed, all forbearance measures are subject to an impairment test. This means that, when a forbearance measure is granted, an evaluation should always be made as to whether this loss event has an impact on the estimated future cashflows of the financial assets, and if accordingly an impairment loss should be recognised.

From the moment an obligor needs to be classified as 'defaulted' according to KBC's rules, the need for provisioning has to be assessed. It is highly likely that an impairment charge will be recorded.

At the end of 2014, forborne loans accounted for some 6% of the total loan portfolio. A breakdown is provided below.

Fluctuations in forborne exposure are mainly the result of the implementation in 2014 of the new EBA based policy on forbearance measures. Additionally:
- Ireland: substantial share of forborne exposure included in the total exposure, and the further increase of this share in 2014 is due to the continued legacy impact of Ireland having been hit severely by the economic and financial crisis, resulting in large numbers of forbearance measures (restructured under the MARS program)
- Hungary: decrease in 2014 due to the curia decision on a debtor relief program, resulting in a significant slowdown of restructuring activities

• Bulgaria: forborne exposure (which represents a substantial share of the total portfolio) is largely concentrated in the (corporate) legacy portfolio and is in default, which is in a running down process.

Forborne loans (in millions of EUR)	Total outstanding portfolio[1]	Forborne loans						
		Total	(% of outstan-ding portfolio)	Breakdown by PD class				Specific impair-ment
				PD 1-8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11-12 (impaired, 90 days and more past due)	
31-12-2013								
Total	135 364	7 429	5%	581	830	4 307	1 711	1 744
By business unit								
Belgium Business Unit	86 913	2 207	3%	377	446	1 074	311	381
Czech Republic Business Unit	17 716	359	2%	129	25	126	79	77
International Markets Business Unit	25 894	4 845	19%	75	360	3 108	1 303	1 280
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	4 840	18	0%	0	0	0	18	8
By client segment								
Private individuals[2]	56 583	3 616	6%	278	320	2 312	705	786
SMEs	32 029	474	1%	107	166	102	100	78
Corporations[3]	46 752	3 339	7%	196	344	1 893	905	881
31-12-2014								
Total	138 931	7 928	6%	470	551	4 608	2 299	2 095
By business unit								
Belgium Business Unit	89 060	1 288	1%	336	91	783	77	188
Czech Republic Business Unit	18 775	241	1%	36	38	111	56	53
International Markets Business Unit	25 446	6 209	24%	70	378	3 635	2 126	1 817
Ireland	14 498	5 682	39%	33	354	3 453	1 842	1 638
Slovakia	5 065	102	2%	24	8	44	25	25
Hungary	5 089	209	4%	3	10	115	81	73
Bulgaria	794	217	27%	10	7	23	178	82
Group Centre	5 650	190	3%	28	44	78	40	37
By client segment								
Private individuals[2]	58 192	4 907	8%	290	360	3 027	1 230	1 040
SMEs	32 089	349	1%	73	57	138	82	69
Corporations[3]	48 649	2 671	5%	108	134	1 442	987	986

1 Gross amounts, before impairment (these amounts therefore differ from the accounting figures used in other sections).
2 99% of the forborne loans total relating to mortgage loans in 2013 and 99% in 2014.
3 49% of the forborne loans total relating to commercial real estate loans in 2103 and 55% in 2014.

Other credit risks

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 III).

Other credit exposure, banking (in billions of EUR)	31-12-2013	31-12-2014
Short-term commercial transactions	4.2	4.4
Issuer risk[1]	0.2	0.2
Counterparty risk in interprofessional transactions[2]	8.2	10.1

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 banking activities to government bonds are provided in a separate section below.

Exposure to sovereign bonds in the banking portfolios

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

Overview of exposure to sovereign bonds at year-end 2014, carrying value[1] (in millions of EUR)

Total (by portfolio)	Avail-able 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 2013*	Economic impact of +100 basis points[3]
Southern Europe and Ireland								
Greece	0	0	0	0	0	0	0	0
Portugal	0	36	0	0	1	37	36	-2
Spain	1 400	0	0	0	3	1 403	302	-79
Italy	1 569	47	0	0	11	1 627	638	-83
Ireland	432	227	0	0	2	661	350	-38
KBC core countries								
Belgium	3 543	15 020	93	0	794	19 449	19 687	-980
Czech Rep.	1 244	4 949	0	23	869	7 085	8 484	-415
Hungary	399	1 337	0	8	171	1 914	2 108	-61
Slovakia	1 236	1 127	0	0	69	2 432	2 086	-140
Bulgaria	158	0	0	0	0	158	83	-2
Other countries								
France	1 090	1 557	0	0	120	2 766	1 909	-223
Poland	292	0	12	0	36	340	205	-13
Germany	169	0	0	0	23	192	151	-8
Austria	270	181	379	0	0	830	530	-33
Netherlands	22	224	265	0	36	546	380	-19
Rest[2]	914	1 147	315	0	256	2 632	3 349	-125
Total carrying value	12 738	25 852	1 063	31	2 391	42 074	40 297	–
Total nominal value								–

1 Including entities classified as 'disposal groups' under IFRS 5 (accounted for an aggregate 0.2 billion euros at year-end 2013 and 0.0 billion euros at year-end 2014). Excluding exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of remaining countries at year-end 2014.
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). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to banking book exposure only (impact on trading book exposure is very limited and amounted to -36 million euros at year-end 2014)

Main changes in 2014:

The carrying value of the total sovereign bond exposure increased slightly by 1.8 billion euros, due primarily to the higher exposure to Spanish, Italian and French government bonds (+1.1 billion euros, +1.0 billion euros, +0.9 billion euros, respectively), but partly offset by a decrease in exposure to Czech government bonds (-1.4 billion euros).

Revaluation reserve for available-for-sale assets at year-end 2014:

At 31 December 2014, the carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 0.9 billion euros, before tax. This included 268 million euros for Belgium, 60 million euros for the Czech Republic, 146 million euros for Italy, 59 million euros for France, 84 million euros for Slovakia, 101 million euros for Spain, 51 million euros for Luxembourg, 9 million euros for Germany, 34 million euros for Hungary, 26 million euros for Ireland and 87 million euros for the other countries combined.

KBC sees no major sources of estimation uncertainty that would significantly increase the risk of a material adjustment to the carrying value of sovereign debt over financial year 2015.

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 46% of the total government bond portfolio at the end of 2014, 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 2014, the credit ratings assigned to Belgium by the three main international agencies were Aa3 from Moody's, AA from Standard & Poor's and AA from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more ratings information, updates and outlooks, please refer to the rating agencies' websites.
- The main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2014) can be broken down as follows:
  - Theoretical full economic impact (see previous table):
    - the impact of which on IFRS profit or loss: very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (18%) and 'Held To Maturity' (77%);
    - the impact of which on IFRS unrealised gains on available-for-sale assets: -99 million euros (after tax).
  - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.

Structured credit exposure (banking and insurance portfolios combined)

KBC has gradually been running down its CDO portfolio over the past few years. In September 2014, we collapsed the last two CDOs in our portfolio. Collapsing these CDOs also released us from the CDO guarantee agreement with the Belgian Federal Government (see 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section) and completely eliminated the group's exposure to MBIA. Standing at more than 25 billion euros in 2008, we have fully scaled down the CDO portfolio in the space of five years. It should be noted that KBC is the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. This effectively means that KBC is now a net buyer of credit risk protection, which is valued at fair value. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters based on changes in the value of these notes (due primarily to credit spreads on the underlying portfolio and reducing time value).

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 for further diversification in the investment portfolios. The moratorium on new CDOs and synthetic securitisations is still in place.

KBC investments in structured credit products (CDOs and ABS) (in billions of EUR)	31-12-2013	31-12-2014
Total net exposure[1]	7.5	1.7
Legacy CDO exposure protected with MBIA	5.3	0.0
Other legacy CDO exposure	1.1	0.1
Legacy ABS exposure	1.2	0.7
Treasury ABS exposure	0.0	1.0
Cumulative value markdowns for legacy investments (mid-2007 to date)[2]	-0.4	-0.1
Value markdowns	-0.3	-0.1
for legacy CDO exposure	-0.2	0.0
for legacy ABS exposure	-0.1	-0.1
Credit Value Adjustment (CVA) on MBIA cover (related to legacy CDO exposure)[2]	-0.1	0.0
Cumulative value markdowns for treasury ABS exposure	0.0	0.0

1 CDO and ABS exposure is presented as net exposure. Consequently, all claimed and settled credit events, and all fully de-risked (i.e. riskless) positions have been excluded from the figures for CDOs

2 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.

As mentioned above, KBC turned the page on KBC Financial Product's legacy CDO exposure when the two remaining CDOs were collapsed in 2014. The net legacy ABS portfolio declined by 0.5 billion euros following the transfer of 0.3 billion euros of assets to the treasury ABS portfolio and also due to redemptions. In KBC's treasury portfolio, investments to the tune of 0.7 billion euros were made in high-quality RMBS and other ABS assets.

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 (banking and insurance). 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, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

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 and insurance 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 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)[1]	31-12-2013	31-12-2014[2]
Total	2.46	3.49

1 Excluding a number of small group companies. Cyclical prepayment options embedded in mortgage loans have not been captured. In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of 0.7 million euros. VaR is measured using the VaR-CoVaR approach.
2 Increase in 2014 is mainly driven by higher spread risk following from additional investments in sovereign bonds (mainly in Italian, Spanish and French sovereigns).

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).

Impact of a parallel 10-basis-point increase in the yield curve for the KBC Bank[1] (in millions of EUR)	Impact on value[2]	
	2013	2014
Total	-22	-57

1 In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of 0.8 million euros.
2 Full market value, regardless of accounting classification or impairment rules.

We manage the ALM interest rate positions of the banking entities 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[1] (in millions of EUR)	2013	2014
Average for 1Q	-33	-55
Average for 2Q	-28	-61
Average for 3Q	-21	-71
Average for 4Q	-22	-57
As at 31 December[2]	-22	-57
Maximum in year	-41	-71
Minimum in year	-21	-55

1 At year-end 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of -0.1 million euros. The year-over-year change in BPV is partially caused by the change in non-maturity deposit modelling.
2 Audited figures.

In line with the Basel 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 at KBC group level, this risk came to 14.9% of total capital and reserves at year-end 2014. 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* (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2013	13 787	78	-1 641	-3 170	6 852	766	-16 672	0
31-12-2014	-13 126	-2 961	5 099	20 560	9 205	-2 172	-16 606	0

* In 2014, a change in the modelling of non-maturity deposits led to a different distribution of cash flows over time.
In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of:

31-12-2013	5	126	60	6	0	0	-198	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 the KBC group is predominantly sensitive to movements at the long-term end of the yield curve.

Credit spread risk

We manage the credit spread risk for 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 curve. The economic sensitivity of the main sovereign positions to changes in spreads is dealt with in the 'Credit risk' section.

Equity risk

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

Equity portfolio of KBC Bank (breakdown by sector, in %)	31-12-2013	31-12-2014
Financial	60%	68%
Consumer non-cyclical	1%	1%
Communication	0%	0%
Energy	0%	0%
Industrial	27%	17%
Utilities	0%	0%
Consumer cyclical	1%	0%
Basic materials	0%	0%
Other and not specified	12%	13%
Total	100%	100%
In billions of EUR	0.2	0.2*
of which unlisted	0.0	0.1

* The main differences between the 0.2 billion euros in this table and the 0.75 billion euros for 'Equity instruments' in the table appearing in Note 14 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.3 billion euros) are excluded above, but are included in the table in Note 14.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 14 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 14.

Impact of a 12.5% drop in equity prices (in millions of EUR)	Impact on value	
	2013	2014
Total	-21	-20

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2013	31-12-2014	31-12-2013	31-12-2014
Total*	85	2	73	108

* The total figure includes gains from some equity positions directly attributable to the KBC group.

Real estate risk

KBC Bank's real estate businesses hold a limited real estate investment portfolio. 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	
	2013	2014
Total	-59	-51

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 banking 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 banking entities without a trading book, of the insurance entities 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 and transposed into European law through CRD IV/CRR for the liquidity coverage ratio. We continue to incorporate these concepts into our liquidity and funding framework, as well as into our financial planning.

Managing liquidity risk

A group-wide 'liquidity risk management framework' is in place to define the 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. It also 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.

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 2014, KBC had attracted 26 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
31-12-2013									
Total inflows	18	10	18	52	41	33	4	31	206
Total outflows	27	12	20	29	7	2	81	28	206
Professional funding	18	2	2	1	0	0	1	1	25
Customer funding	7	6	12	13	3	1	80	0	123
Debt certificates	0	4	6	15	3	1	0	0	29
Other	2	0	0	0	0	0	0	27	29
Liquidity gap (excl. undrawn commitments)	-10	-2	-2	23	35	31	-77	2	0
Undrawn commitments	–	–	–	–	–	–	–	-25	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-10	-2	-2	23	35	31	-77	-33	-35
31-12-2014									
Total inflows	16	8	16	55	45	33	3	35	211
Total outflows	35	9	15	31	8	1	84	27	211
Professional funding	15	3	1	5	0	0	0	0	26
Customer funding	17	5	9	11	4	0	84	0	130
Debt certificates	0	2	4	14	4	1	0	0	26
Other	2	–	–	–	–	–	–	27	30
Liquidity gap (excl. undrawn commitments)	-19	-1	2	24	37	32	-81	7	0
Undrawn commitments	–	–	–	–	–	–	–	-32	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-19	-1	2	24	37	32	-81	-34	-42

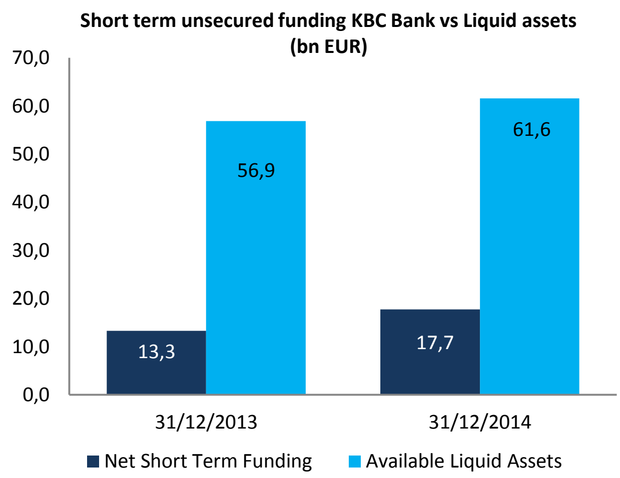
* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of 1.9 billion euros. 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 14 of the 'Consolidated financial statements' section). 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 'Other' category 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, it has always had a substantial amount of liquid assets. At year-end 2014, KBC Bank (at the consolidated level) had 61.6 billion euros' worth of unencumbered central bank eligible assets, 41.1 billion euros of which in the form of liquid government bonds (67%). The remaining available liquid assets were other ECB/FED eligible bonds (10%) and pledgeable credit claims (12%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies).

Unencumbered liquid assets were more than three 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.

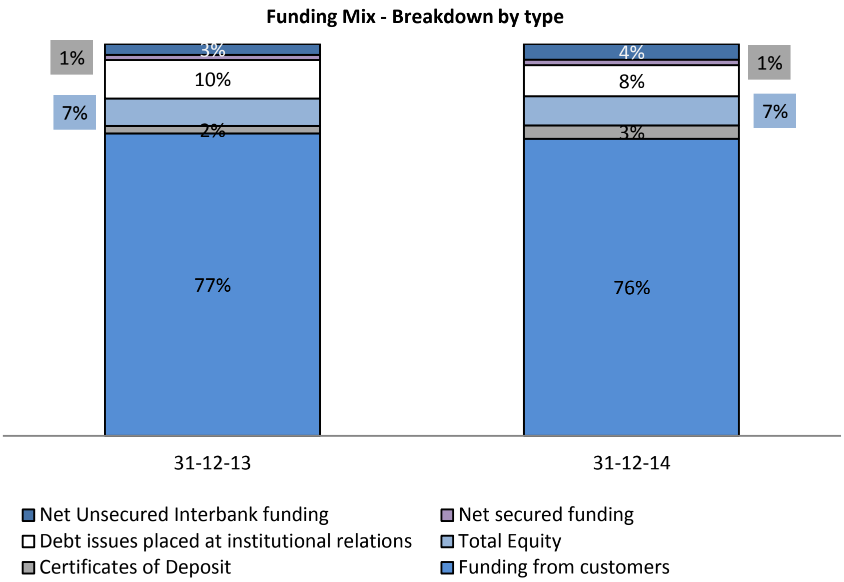


Funding information

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 2014):

- Funding from customers (136 billion euros, 76% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 61% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (14 billion euros, 8% of the total figure), mainly comprising IFIMA debt issues (6 billion euros), covered bonds (5 billion euros), the contingent capital notes issued in January 2013 (0.75 billion euros) and the additional tier-1 issue (1.4 billion euros).
- Net unsecured interbank funding (7 billion euros, 4% of the total figure).



- Net secured funding (2.6 billion euros in repo funding, 1% of the total figure) and certificates of deposit (6 billion euros, 3% of the total figure).
- Total equity (13.3 billion euros, 7% of the total figure).

Please note that:

- During 2014, KBC Bank used its EMTN programme to raise 0.3 billion euros in long-term funding.
- 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 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 2.7 billion euros and in 2014 for a total of 0.9 billion euros.
- In 2014, we also borrowed 2.8 billion euros from the ECB under the targeted long-term refinancing operations (TLTROs).
- In 2014, we successfully issued an additional tier-1 instrument totalling 1.4 billion euros. Conversely, the innovative and non-innovative tier-1 debt instruments (totalling 2.3 billion euros) were called for redemption in May-June 2014.

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the first section of the Annual Report. At year-end 2014, our NSFR stood at 110% and our LCR at 120%. The LCR was calculated based on KBC's interpretation of CRD IV/CRR. This is well above the minimum regulatory requirements and KBC's internal floors of 105% for both ratios.

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 Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. The traditional dealing rooms, with the dealing room in Belgium 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.

There is also a limited market risk in the four legacy business lines of KBC Investments Limited (formerly KBC Financial Products), namely the CDO, fund derivatives, reverse mortgages and insurance derivatives businesses.
Regarding the CDO business – and as mentioned in other parts of this report – KBC has now fully scaled down its CDO portfolio. However, the position pertaining to the remaining 0.3 billion euros of CDO notes held by investors is located in the trading books of KBC Investments Limited. Consequently, the market risk regulatory capital for this position is recorded under the re-securitisation column (19 million euros) in the 'Trading regulatory capital requirements' table.
The remaining three legacy business lines, which represent less than 2% of market risk regulatory capital charges for trading activities, continue to be monitored and wound down by dedicated teams. The most significant progress made in 2014 regarding these other legacy business lines was in the fund derivatives business, with most of the portfolio being sold in June, which left a portfolio book value of about 1 million euros.

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. The HVaR is calculated and monitored at desk and entity level, as well as at KBC group level.

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2014, the main improvement to the model was the use of Overnight Index Swap (OIS) curves for discounting future cash flows for derivative transactions, as this has now become the market standard.

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

The table below shows the Historical Value-at-Risk (HVaR; 99% confidence interval, ten-day holding period, historical simulation) for the linear and non-linear exposure of all the dealing rooms of KBC (KBC Securities was included from April 2013 onwards). To allow a year-on-year comparison, the HVaR for KBC Investments Limited (relating to KBC's discontinued CDO business) is also shown.

Market risk (VaR) (in millions of EUR)	10-day HVaR for KBC Group		10-day HVaR for KBC Investments Limited	
	2013	2014	2013	2014
Holding period: 10 days				
Average for 1Q	37	24	1	-
Average for 2Q	37	19	1	-
Average for 3Q	34	15	1	-
Average for 4Q	29	15	-	-
As at 31 December	28	15	-	-
Maximum in year	50	29	5	-
Minimum in year	26	11	0	-

A breakdown of the risk factors (averaged) in KBC Group's HVaR model 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 Group (in millions of EUR)	Average for 2013	Average for 2014
Interest rate risk	33.3	18.7
FX risk	2.9	2.3
FX option risk	1.8	1.8
Equity risk	1.9	1.4
Diversification effect	-5.6	-6.2
Total HVaR	34.3	18.1

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 Investments 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.

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). Note that, as mentioned earlier in this section, the re-securitisation regulatory capital for 2014 (19 million euros) emanates from the counterposition for the 0.3 billion euros of CDO notes held by investors (the counterposition is located in the trading books of KBC Investments Limited).

Trading regulatory capital requirements, by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Re-securitisation	Total
31-12-2013							
Market risks assessed by internal model	HVaR	83	2	13	-	-	226
	SVaR	100	6	22	-		
Market risks assessed by the Standardised approach		39	7	12	2	59	119
Total		222	15	47	2	59	345
31-12-2014							
Market risks assessed by internal model	HVaR	38	2	11	-	-	126
	SVaR	56	3	17	-		
Market risks assessed by the Standardised approach		27	4	14	3	19	68
Total		120	9	43	3	19	194

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 sudden external events, whether man-made or natural. Operational risks exclude business, strategic and reputational 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.

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 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 are gradually replacing 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.

- 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.

- A fourth set was approved in 2014 for the Clearing and Settlement for Securities and Derivatives, Collateral Management Services for Third Parties, Debt Issues for Own Account, Debt and Equity Capital Market Activities, Facility Management, Independent Intermediaries, Procurement and Trade Finance processes.
- The final set of process based Group Key Controls will be set-up and approved in 2015.

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 RCC 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.
- *Maturity Model.* In 2014, the group operational risk function developed a maturity model to support KBC entities in building a mature control environment in which process improvements, control monitoring and remedial actions are embedded even more deeply into day-to-day business practices.

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 849 million euros at the end of 2014, compared with 847 million euros at the end of 2013.

Other non-financial risks

Reputation risk

This is the risk arising from the negative perception on the part of clients, 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

KBC defines business risk as the risk arising from changes in external factors (the macroeconomic environment, regulations, client behaviour, competitive landscape, socio-demographic environment, etc.) that impact the demand for and/or profitability of our products and services.

Business risk is assessed using structured risk scans, but also on an ongoing basis by reporting 'risk signals' to top management.

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 requirements and against in-house solvency ratios.

Managing our solvency

We report our solvency based on IFRS data and according to the rules imposed by the regulator. For KBC Bank, this implies that we calculate our solvency ratios based on Basel III and the corresponding European regulation and directive (CRR/CRD IV).

In accordance with Basel, pillar 2 requirements, KBC has an 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.

The supervisory authorities (with the NBB as the consolidating supervisor) requested at the end of 2013 that a permanent minimum fully loaded common equity ratio of 9.25%, excluding latent gains, be maintained. According to the latter calculation, this ratio stood at 11.3% at year-end 2014, which represented a capital buffer of 1.6 billion euros relative to the targeted 9.25%.

Regulatory minimum solvency targets were amply exceeded in 2014, not only at year-end, but also throughout the entire financial year.

In mid-March 2015, we received a new target for this ratio from the ECB, which had assumed responsibility from the NBB in November 2014 for supervising KBC under the Single Supervisory Mechanism (SSM). Consequently, KBC Bank is required to maintain a minimum fully loaded common equity ratio (including latent gains on available-for-sale securities) of 10.5%. At year-end 2014, this ratio was 12.2% (phased-in 12.1%), which represented a capital buffer of 1.3 billion euros relative to the targeted 10.5%.

In the table, we have provided certain solvency information for KBC Bank. More detailed information 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).

In millions of EUR, consolidated, CRR/CRD IV, fully loaded	2013	2014
Total regulatory capital, KBC Bank (after profit appropriation)	14 400	14 154
Tier-1 capital[1]	9 602	11 132
Common equity[1]	9 602	9 727
Parent shareholders' equity (excluding minorities)	11 662	11 676
Intangible fixed assets (including deferred tax impact) (-)	- 105	- 114
Goodwill on consolidation (including deferred tax impact) (-)	- 944	- 915
Minority interests	147	15
Hedging reserve (cash flow hedges) (-)	522	1 391
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 6	- 21
Value adjustment due to the requirements for prudent valuation (-)[2]		- 92
Dividend payout (-)	- 677	- 1 574
Renumeration of AT1 instruments (-)		- 2
Deduction re. financing provided to shareholders (-)	- 176	- 159
IRB provision shortfall (-)[2]	- 225	- 225
Deferred tax assets on losses carried forward (-)	- 595	- 254
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0
Additional going concern capital	0	1 405
Grandfathered innovative hybrid tier-1 instruments	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0
CRR compliant AT1 instruments	0	1 400
Minority interests to be included in additional going concern capital	0	5
Tier 2 capital[1]	4 797	3 021
IRB provision excess (+)[2]	342	375
Subordinated liabilities	4 456	2 640
Subordinated loans non-consolidated financial sector entities (-)	0	0
Minority interests to be included in tier 2 capital	0	7
Capital requirement		
Total weighted risk volume	79 822	80 232
Solvency ratios		
Common equity ratio	12,03%	12,12%
Tier-1 ratio	12,03%	13,87%
CAD ratio	18,04%	17,64%

1 Audited figures, except for (2).

Comprehensive assessment of the European Central Bank

At the end of October 2014, the European Central Bank (ECB) and the National Bank of Belgium announced the results of the comprehensive assessment carried out by the ECB.

The exercise consisted of a review of the books ending on 31 December 2013 (an asset quality review or AQR) and a stress test over a three-year horizon (2014-2016). The stress test started from the AQR-adjusted balance sheet as of year-end 2013 and hence included conservative adjustments.

The AQR was held to enhance the transparency of banks' balance sheets by reviewing the quality of their assets, including the adequacy of asset and collateral valuations and related provisions.

The stress test was performed in close cooperation with the European Banking Authority (EBA), using a common methodology. It examined the resilience of banks' balance sheets and earning power to stress scenarios. The stress test incorporated the simulated impact over a three-year period of two scenarios, namely a baseline scenario and an adverse scenario. Both scenarios were based on a number of assumptions (e.g., a stable balance sheet) and hence were of a hypothetical nature, which is inherent to any stress test.

Whereas the comprehensive assessment targeted the KBC group, only the consolidated accounts of KBC Bank were subject to the book review (AQR). The same held true for the stress test, where the impact of scenarios on the banking activities (not the insurance business) was calculated. The capital position (CET1 ratio), however, was measured at the level of the KBC group.

The impact of the pure stress test on the Common Equity Tier-1 ratio (CET1 ratio) under the adverse scenario in 2016 caused the CET1 ratio to fall by 2.6 percentage points. The impact of the asset quality review (AQR) was limited, reducing the CET1 ratio by 0.6 percentage points.

The combined impact of the repayment of state aid, as agreed with the European Commission, during the three-year stress test horizon (1.8 billion euros including penalties and coupon), the AQR and the pure stress test, resulted in a CET1 ratio of 8.3%, which represents a considerable buffer of 2.8 percentage points (2.8 billion euros) above the ECB-imposed threshold of 5.5%, thus illustrating KBC's resilience.

KBC's management considered all the AQR adjustments and recommendations where relevant for the 2014 financial statements, while taking account of KBC's IFRS valuation rules. During 2014, the main recommendations were proactively addressed and the impact reflected in the 2014 figures:

- Our analysis revealed that the AQR adjustments for the sampled credit files in the selected portfolios were largely recorded during 2014 as part of the normal credit process. The additional provisions recorded in 2014 on the sampled files resulted mainly from full implementation of the new forbearance rules by the third quarter of 2014 and from new facts and/or information on specific files that became available during 2014.
- The AQR adjustments related to collective provisioning (KBC Ireland). The recommendations to parameters and assumptions in the provisioning model were factored in and reflected in the 2014 accounts, where required by IFRS.
- KBC developed a new CVA model which incorporated the AQR recommendations. This model was implemented in the fourth quarter of 2014 and, therefore, the impact of the AQR adjustment on the CVA is properly reflected in the 2014 accounts.

Corporate governance statement

Composition of the Board and its committees at year-end 2014[2]

Name	Position	Period served on the Board in 2014	Expiry date of current term of office	Board meetings attended	Non-executive directors	Shareholder repre-sentatives	Independent directors[3]	Members of the EC	ARCC[3]	AC[3]	RCC[3]
Number of meetings in 2014				10					5	3	3
LEYSEN Thomas	Chairman	Full year	2015	10	●						
THIJS Johan	President of the Executive Committee	Full year	2017	10				●[1]			
FALQUE Daniel	Executive Director	Full year	2016	10				●			
GIJSENS Luc	Executive Director	Full year	2015	7				●			
HOLLOWS John	Executive Director	Full year	2017	9				●			
POPELIER Luc	Executive Director	Full year	2017	10				●			
VAN RIJSSEGHEM Christine	Executive Director	From 23 April 2014	2018	6				●			
ARISS Nabil	Independent Director	Full year	2018	10	●		●			3	3
BOSTOEN Alain	Non-Executive Director	Full year	2016	10	●	●					
DEPICKERE Franky	Non-Executive Director	Full year	2015	10	●	●			5[1]		3[1]
DISCRY Luc	Non-Executive Director	Full year	2018	10	●	●					
DONCK Frank	Non-Executive Director	Full year	2016	10	●	●			5		
MORLION Lode	Non-Executive Director	Full year	2016	10	●	●					
ROUSSIS Theodoros	Non-Executive Director	Full year	2016	10	●	●					
VANTHEMSCHE Piet	Non-Executive Director	Full year	2015	8	●	●					
VAN KERCKHOVE Ghislaine	Non-Executive Director	Full year	2016	9	●	●					
VLERICK Philippe	Non-Executive Director	Full year	2016	10	●	●					
WITTEMANS Marc	Non-Executive Director	Full year	2018	10	●	●			5	3[1]	

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

1 Chairman of this committee.

2 Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit, Risk & Compliance Committee: ARCC ; Audit Committee: AC ; Risk & Compliance Committee: RCC.

3 Dolf van den Brink was an Independent Director of KBC Bank and a member of the ARCC, AC and RCC until 22 December 2014.

Changes in the composition of the Board in 2014

- Danny De Raymaeker resigned as director with effect from 1 March 2014.
- Pavel Kavánek resigned as director with effect from 23 April 2014.
- Marko Voljč resigned as director with effect from 23 April 2014.
- The Extraordinary General Meeting held on 13 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.
- Marc Wiittemans and Luc Discry, non-executive directors, were re-appointed for a further period of four years, i.e. until after the General Meeting of 2018.
- At the General Meeting held on 23 April 2014, Christine Van Rijsseghem was appointed as director for a period of four years, i.e. until after the General Meeting of 2018. She took a seat on the EC and acquired the capacity of executive director.
- Alain Tytgadt resigned with effect on 19 August 2014.
- Following his death, Dolf van den Brink's term of office came to an end on 22 December 2014.

Changes in the composition of the committees of the Board in 2014

- Following the entry into force of the Act of 25 April 2014 on the status and supervision of credit institutions, which obliges credit institutions to set up an audit committee and a risk and compliance committee, the ARCC was split into an AC and a RCC.

  The AC is made up of Marc Wittemans (chairman) and Nabil Ariss (independent director). Dolf van den Brink (independent director) also sat on the AC.

  The RCC is made up of Franky Depickere (chairman) and Nabil Ariss (independent director). Dolf van den Brink (independent director) also sat on the RCC.

- The committees have been active in this new format since June 2014.

Proposed changes in the composition of the Board in 2015

- On the advice of the Nomination Committee of KBC Group NV, the Board will propose that Thomas Leysen be re-appointed as non-executive director for a period of four years, i.e. until after the General Meeting of 2019. He is Chairman of the Board.
- On the advice of the Nomination Committee of KBC Group NV, the Board will propose that Franky Depickere be re-appointed as non-executive director for a period of four years, i.e. until after the General Meeting of 2019. He is the Chairman of the RCC.
- On the advice of the Nomination Committee of KBC Group NV, the Board will propose that Piet Vanthemsche be re-appointed as non-executive director for a period of four years, i.e. until after the General Meeting of 2019.
- On the advice of the Nomination Committee of KBC Group NV, the Board will propose that Luc Gijsens be re-appointed as executive director for a period of four years, i.e. until after the General Meeting of 2019. He sits on the EC and as such has the capacity of executive director.

Composition of the EC

Danny De Raymaeker resigned from the EC with effect from 1 March 2014. Marko Voljč resigned from the EC with effect from 23 April 2014. Christine Van Rijsseghem was appointed to the EC.

As a result, the EC has 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 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 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 *Corporate Governance 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 corporate governance 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 RCC 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, AC and RCC 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 run efficiently and effectively 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) and with the Act of 25 April 2014 on the status and supervision of credit institutions.

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 2014). The results of that exercise were reported to the EC and the AC.

4 The AC and RCC play 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 AC and RCC.

These committees supervise, 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. They also examine 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 their members are laid down in their respective charters, which are included under the Corporate Governance Charter. More information on these committees 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 most recent National Bank of Belgium (NBB) resolutions 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 Act of 25 April 2014 on the status and supervision of credit institutions, 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 AC's supervisory work, see the second paragraph of point 4 in the first part of this text.

Shareholder structure on 31 December 2014

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 2014, 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 Companies Code. There were no such conflicts during financial year 2014.
- 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 524ter of the Companies Code. It has been incorporated into the *Corporate Governance Charter* of KBC Bank NV.
- 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 2014.
- At year-end 2014, the AC comprised the following members:
    - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
    - Nabil Ariss (independent director), who is a 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.

  Until his death, Rudolf van den Brink (independent director) also sat on the AC. He held 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). Mr van den Brink was Chief Economic Adviser to ABN Amro Bank NV (2002-2008), Chairman of the Supervisory Board of Elsevier Reed Finance BV (2006-2014), a member of the Supervisory Board of Legal & General Nederland NV (2002-2014), Chairman of the Supervisory Board of Nederlandse Waterschapsbank NV (2002-2014), a member of the Supervisory Board and Chairman of the Audit Committee of Akzo Nobel NV, and was Professor of Monetary Economy and Financial Institutions at the University of Amsterdam (2012-2014).

  These members 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.

  A new independent director will be sought to sit on the AC.

- At year-end 2014, the RCC comprised the following members:

- Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
- Nabil Ariss (independent director).

Rudolf van den Brink (independent director) also sat on the RCC until his death.

It can be concluded on the basis of the profiles and competences of the members that each individual member and the RCC as a whole possess the requisite skills and 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 KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2014, the Remuneration Committee was made up of Jo Cornu, Júlia Király and Philippe Vlerick. Marc De Ceuster attends the meetings as an observer.
- On the proposal of the Nomination Committee of KBC Group NV, the Board – in implementation of Article 31, § 2 of the Act of 25 April 2014 on the status and supervision of credit institutions – aims to achieve at least a 15% representation of the under-represented sex within a period of three years. When a number of candidates are nominated to fill an office and they all meet the set requirements, preference will be given to appointing a female candidate.
- 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.

Naamloze vennootschap (company with limited liability): KBC Bank nv

Brussels Trade Register: 623 074

VAT number or national number: 462.920.226

Company name	Registered office	Sector	Office held	Listed (N = not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Alain Bostoen, Director					
Quatorze Juillet bvba	Belgium	Accountancy, consulting, management	Executive Director	N	N
Agrobos nv	Belgium	Agriculture	Executive Director	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/plastics	Independent Director	NYSE Euronext	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
FWR Consult cvba	Belgium	Services	Business Manager	N	N
BRS Fonds cvba	Belgium	Finance	Business Manager	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

3D Real Estate	Belgium	Intermediation in the purchase of real estate	Director	N	N
Anchorage nv	Belgium	Investment company	Director	N	N
Atenor Groep NV	Belgium	Real estate	Chairman	Euronext	N
Elia System Operator	Belgium	Electricity & gas, production, sales & transport	Director	Euronext	N
Elia Asset	Belgium	Electricity & gas, production, sales & transport	Director	N	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	Food	Director	Euronext	N
Tele Columbus AG	Germany	Cable provider	Chairman	N	N
Tele Columbus Holdings SA	Luxembourg	Holding company	Director	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

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
Booischot nv	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Director	N	N

Lode Morlion, Director

Cera Beheersmaatschappij nv	Belgium	Management	Chairman	N	N
Woonmaatschappij Ijzer en Zee	Belgium	Housing	Director	N	N
Financieringsvereniging Gemeenten Gaselwest - FIGGA	Belgium	Services	Director	N	N

Theo Roussis, Director

Ravago Management Sarl	Luxemburg	Plastics company	Executive Director	N	N
Asphalia NV	Belgium	Management	Director	N	N
Pentahold	Belgium	Investment company	Director	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
Smartphoto 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	Director	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	Executive Director	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
BMT International	Luxembourg	Mechanical engineering	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	Chairman of the Board of Directors	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	Chairman of the Board of Directors	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
Arteveld bvba	Belgium	Real estate	Business Manager	N	N
Marc Wittemans, Director					
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	Abattoirs & meat processing	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N
Acerta Public nv	Belgium	IT services & software	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N

Consolidated financial statements

Statutory auditor’s report

EY
Building a better working world

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Free translation from the Dutch original

Statutory auditor’s report to the general meeting of the company KBC Bank nv for the year ended 31 December 2014

In accordance with the legal requirements, we report to you in the context of our statutory auditor's mandate. This report includes our opinion on the consolidated balance sheet as at 31 December 2014, 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 2014 and the notes (all elements together "the Consolidated Financial Statements"), and includes as well our report on other legal and regulatory requirements.

Report on the Consolidated Financial Statements - Unqualified opinion

We have audited the Consolidated Financial Statements of KBC Bank nv ("the Company") and its subsidiaries (together "the Group") as of and for the year ended 31 December 2014, prepared in accordance with the *International Financial Reporting Standards* as adopted by the European Union, which show a consolidated balance sheet total of € 211.116 million and of which the consolidated income statement shows a profit, share of the Group, for the year of € 1.312 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 the *International Financial Reporting Standards* as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of Consolidated Financial Statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the given circumstances.

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 ("ISAs"). 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 and presentation of the 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, the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We have obtained from the Board of Directors and the Company's officials the explanations and information necessary for performing our audit and we believe that the audit evidence 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 Group as at 31 December 2014 give a true and fair view of the consolidated net equity and financial position, as well as its consolidated results 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 Board of Director's report on the Consolidated Financial Statements, in accordance with article 119 of the Belgian Company Code.

In the context of our mandate and in accordance with the additional standard issued by the 'Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises' as published in the Belgian Gazette on 28 August 2013 (the "Additional Standard"), it is our responsibility to perform certain procedures to verify, in all material respects, compliance with certain legal and regulatory requirements, as defined in the Additional Standard. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the Consolidated Financial Statements.

- The Board of Director's report to 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, 19 March 2015

Ernst & Young Bedrijfsrevisoren bcvba / Réviseurs d'Entreprises sccrl
Statutory auditor
Represented by

Christel Weymeersch
Partner, permanent representative of Christel Weymeersch bvba
15CW0156

Consolidated income statement

In millions of EUR	Note	2013	2014
Net interest income	3	3 402	3 648
Interest income		7 707	7 305
Interest expense		- 4 306	- 3 657
Dividend income	4	18	14
Net result from financial instruments at fair value through profit or loss	5	884	195
Net realised result from available-for-sale assets	6	202	49
Net fee and commission income	7	1 685	1 822
Fee and commission income		2 291	2 303
Fee and commission expense		- 606	- 482
Net other income	8	51	5
TOTAL INCOME		6 240	5 734
Operating expenses	9	- 3 252	- 3 311
Staff expenses		- 1 549	- 1 577
General administrative expenses		- 1 574	- 1 597
Depreciation and amortisation of fixed assets		- 129	- 136
Impairment	11	- 1 821	- 472
on loans and receivables		- 1 709	- 587
on available-for-sale assets		- 14	- 4
on goodwill		0	0
on other		- 98	119
Share in results of associated companies and joint ventures	12	30	22
RESULT BEFORE TAX		1 196	1 973
Income tax expense	13	- 479	- 504
Net post-tax result from discontinued operations	41	0	0
RESULT AFTER TAX		717	1 469
Attributable to minority interest		128	157
of which relating to discontinued operations		*0*	*0*
Attributable to equity holders of the parent		**590**	**1 312**
of which relating to discontinued operations		*0*	*0*

- Figures have been restated retroactively on the basis of IFRS 11 (see Note 1 a).
- It will be proposed that, subject to the approval of the General Meeting of Shareholders, KBC Bank pays a total dividend of 1 574 million euros for financial year 2014.
- 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. The statutory auditor has not audited these sections.

Consolidated statement of comprehensive income

In millions of EUR	2013	2014
RESULT AFTER TAX	717	1 469
attributable to minority interest	128	157
attributable to equity holders of the parent	590	1 312
Other comprehensive income - to be recycled to P&L		
Net change in revaluation reserve (AFS assets) - Equity	27	36
Fair value adjustments before tax	40	35
Deferred tax on fair value changes	- 1	0
Transfer from reserve to net profit	- 11	1
Impairment losses	3	0
Net gains/losses on disposal	- 17	0
Deferred income tax	2	0
Net change in revaluation reserve (AFS assets) - Bonds	- 98	367
Fair value adjustments before tax	- 53	535
Deferred tax on fair value changes	18	- 180
Transfer from reserve to net profit	- 63	12
Impairment losses	0	0
Net gains/losses on disposal	- 117	- 22
Amortization & impairment re assets transferred to L&R and HTM	24	41
Deferred income tax	30	- 6
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)	341	- 869
Fair value adjustments before tax	532	- 1 288
Deferred tax on fair value changes	- 183	443
Transfer from reserve to net profit	- 9	- 25
Gross amount	- 10	- 28
Deferred income tax	2	3
Net change in translation differences	- 115	78
Gross amount	- 4	6
Deferred taxes on income	- 111	72
Other movements	0	1
Other comprehensive income - not to be recycled to P&L		
Net change in defined benefit plans	133	- 186
Remeasurements (IAS 19)	198	- 262
Deferred tax on remeasurement	- 65	76
TOTAL COMPREHENSIVE INCOME	1 005	896
attributable to minority interest	127	157
attributable to equity holders of the parent	878	738

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2013	31-12-2014
Cash and cash balances with central banks		4 294	5 771
Financial assets	14-25	191 697	198 865
Held for trading	14-25	16 966	12 277
Designated at fair value through profit or loss	14-25	4 597	6 526
Available for sale	14-25	14 726	18 048
Loans and receivables	14-25	129 630	134 955
Held to maturity	14-25	25 007	25 956
Hedging derivatives	14-25	770	1 104
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	120	168
Tax assets	27	1 617	1 702
Current tax assets	27	200	45
Deferred tax assets	27	1 417	1 657
Non-current assets held for sale and assets associated with disposal groups	41	3 769	18
Investments in associated companies and joint ventures	28	182	179
Investment property	29	415	397
Property and equipment	29	2 190	2 029
Goodwill and other intangible assets	30	1 035	1 027
Other assets	26	768	960
TOTAL ASSETS		206 087	211 116

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2013	31-12-2014
Financial liabilities	14-25	188 913	195 038
Held for trading	14-25	13 113	8 510
Designated at fair value through profit or loss	14-25	13 144	11 356
Measured at amortised cost	14-25	160 979	171 682
Hedging derivatives	14-25	1 678	3 491
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	- 2	189
Tax liabilities	27	166	165
Current tax liabilities	27	97	80
Deferred tax liabilies	27	68	85
Liabilities associated with disposal groups	41	2 027	0
Provisions for risks and charges	31	491	527
Other liabilities	32	2 180	1 861
TOTAL LIABILITIES		193 775	197 780
Total equity	34	12 313	13 336
Parent shareholders' equity	34	11 662	11 676
Additional Tier-1 instruments included in equity	34	0	1 400
Minority interests	34	651	260
TOTAL LIABILITIES AND EQUITY		206 087	211 116

- Figures have been restated retroactively on the basis of IFRS 11 (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 shareholders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
31-12-2013											
Balance at the beginning of the period (31-12-2012)	8 948	1 223	335	- 863	0	1 930	- 318	11 255	0	718	11 973
First time application IAS19 Revised	0	0	0	0	- 63	- 8	0	- 71	0	0	- 71
Adjusted balance at the beginning of the period	8 948	1 223	335	- 863	- 63	1 921	- 318	11 184	0	718	11 902
Net result for the period	0	0	0	0	0	590	0	590	0	128	717
Other comprehensive income for the period	0	0	- 71	341	133	0	- 115	288	0	0	288
Total comprehensive income	**0**	**0**	**- 71**	**341**	**133**	**590**	**- 115**	**878**	**0**	**127**	**1 005**
Dividends	0	0	0	0	0	- 504	0	- 504	0	0	- 504
Capital increase	0	0	0	0	0	0	0	0	0	0	0
Incorporation losses carried forward	0	- 327	0	0	0	327	0	0	0	0	0
Impact business combinations	0	0	0	0	0	3	0	3	0	0	3
Change in minorities	0	0	0	0	0	0	0	0	0	- 190	- 190
Change in scope	0	0	0	0	0	0	102	102	0	- 4	97
Total change	**0**	**- 327**	**- 71**	**341**	**133**	**415**	**- 13**	**478**	**0**	**- 67**	**411**
Balance at the end of the period	**8 948**	**895**	**264**	**- 522**	**70**	**2 337**	**- 331**	**11 662**	**0**	**651**	**12 313**
of which revaluation reserve for shares			323								
of which revaluation reserve for bonds			771								
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	0		- 3	1			1
of which relating to equity method			7	0	0		3	10			
31-12-2014											
Balance at the beginning of the period (31-12-2013)	8 948	895	264	- 522	70	2 337	- 331	11 662	0	651	12 313
Net result for the period	0	0	0	0	0	1 312	0	1 312	0	157	1 469
Other comprehensive income for the period	0	0	402	- 869	- 186	1	78	- 574	0	0	- 574
Total comprehensive income	**0**	**0**	**402**	**- 869**	**- 186**	**1 314**	**78**	**738**	**0**	**157**	**896**
Dividends	0	0	0	0	0	- 718	0	- 718	0	0	- 718
Capital increase	0	0	0	0	0	0	0	0	0	0	0
Repayment of non-voting core-capital securities	0	0	0	0	0	0	0	0	0	0	0
Issue of additional Tier-1 instruments included in equity	0	0	0	0	0	- 6	0	- 6	1 400	0	1 394
Impact business combinations	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	- 191	- 191
Change in scope	0	0	0	0	0	0	0	0	0	- 358	- 358
Total change	**0**	**0**	**402**	**- 869**	**- 186**	**590**	**78**	**15**	**1 400**	**- 391**	**1 023**
Balance at the end of the period	**8 948**	**895**	**666**	**- 1 391**	**- 116**	**2 927**	**- 253**	**11 676**	**1 400**	**260**	**13 336**
of which revaluation reserve for shares			105								
of which revaluation reserve for bonds			560								
of which revaluation reserve for other assets than bonds and shares			0								
of which relating to non-current assets held for sale and disposal groups			0	0	0		0	0			
of which relating to equity method			15	0	0		1	16			

- For more information on additional tier-1 instruments, see Note 34.
- For information on the shareholder structure, see the ‘Corporate governance statement’ in the ‘Report of the Board of Directors’ section.
- The 'Dividends' heading in 2014 includes the final dividend of 677 million euros and the 40-million-euro coupon on additional tier-1 instruments. For financial year 2014 (payment in 2015), KBC Bank will – subject to the approval of the General Meeting of Shareholders – pay a total dividend of 1 574 million euros.
- The transaction costs attached to the issue of the additional tier-1 instruments in 2014 were deducted from the reserves (-8 million euros; -6 million euros after tax).
- The sharp decline in 'Minority interests' in 2014 was due to trust preferred securities being called for redemption in that year (impact of -358 million euros). More information on trust preferred securities is provided in Note 34.
- During 2014, the revaluation reserve (for available-for-sale assets) expanded by 402 million euros, due primarily to bonds (an increase of 367 million euros), which had been impacted mainly by falling interest rates, and to a lesser extent to shares (an increase of 36 million euros). The hedging reserve (cashflow hedges) declined by 869 million euros in 2014, again owing chiefly to falling interest rates.

Consolidated cash flow statement

In millions of EUR	Note[1]	2013	2014
Operating activities			
Result before tax	Inc. statement	1 196	1 973
Adjustments for:		2 670	1 282
Result before tax related to discontinued operations	Inc. statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	17,29,30	259	38
Profit/Loss on the disposal of investments		64	- 32
Change in impairment on loans and advances	11	1 709	587
Change in other provisions	31	15	- 29
Other non realised gains or losses		652	739
Income from associated companies and joint ventures	12	- 30	- 22
Cashflows from operating profit before tax and before changes in operating assets and liabilities		3 866	3 255
Changes in operating assets (excl. cash & cash equivalents)		11 632	- 9 777
Loans and receivables	14	3 688	- 4 730
Available for sale	14	1 716	- 3 332
Held for trading	14	5 827	- 262
Designated at fair value through P&L	14	- 911	- 892
Hedging derivatives	14	840	- 332
Operating assets associated with disposal groups & other assets	41	472	- 229
Changes in operating liabilities (excl. cash & cash equivalents)		- 5 179	12 014
Deposits at amortised cost	14	1 884	12 453
Debt certificates at amortised cost	14	- 4 172	3 606
Financial liabilities held for trading	14	- 6 168	- 4 615
Financial liabilities designated at fair value through P&L	14	4 467	347
Liability-derivatives hedge accounting	14	- 752	521
Operating liabilities associated with disposal groups & other liabilities	41	- 438	- 298
Income taxes paid	13	- 237	- 274
Net cash from (used in) operating activities		10 082	5 218
Investing activities			
Purchase of held-to-maturity securities	14	- 2 600	- 1 881
Proceeds from the repayment of held-to-maturity securities at maturity	14	1 035	541
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	- 245	559
Purchase of shares in associated companies and joint ventures	28	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	28	0	0
Dividends received from associated companies and joint ventures	28	- 41	- 30
Purchase of investment property	29	- 20	- 10
Proceeds from the sale of investment property	29	4	41
Purchase of intangible fixed assets (excl. goodwill)	30	- 50	- 63
Proceeds from the sale of intangible fixed assets (excl. goodwill)	30	1	17
Purchase of property and equipment	29	- 409	- 397
Proceeds from the sale of property and equipment	29	197	304
Net cash from (used in) investing activities		- 2 129	- 920

Financing activities			
Purchase or sale of treasury shares	Changes equity	0	0
Issue or repayment of promissory notes and other debt securities	14	748	- 4 308
Proceeds from or repayment of subordinated liabilities	14	- 183	- 2 398
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/AT1	Changes equity	0	1 042
Dividends paid	Changes equity	- 504	- 718
Net cash from (used in) financing activities		61	- 6 381
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents		8 014	- 2 084
Cash and cash equivalents at the beginning of the period		1 096	8 691
Effects of exchange rate changes on opening cash and cash equivalents		- 420	- 84
Cash and cash equivalents at the end of the period		8 691	6 523
Additional information			
Interest paid[2]	3	- 4 306	- 3 657
Interest received[2]	3	7 707	7 305
Dividends received (including equity method)	4, 28	18	14
Components of cash and cash equivalents			
Cash and cash balances with central banks	Bal. sheet	4 294	5 771
Loans and advances to banks repayable on demand and term loans to banks < 3 months	14	8 099	4 292
Deposits from banks repayable on demand and redeemable at notice	14	- 3 311	- 3 539
Cash and cash equivalents included in disposal groups	41	- 391	0
Total		8 691	6 523
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.
- 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.

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations in millions of EUR	2013	2014
	Absolut Bank	KBC Bank Deutschland
Purchase or sale	Sale	Sale
Percentage of shares bought (+) or sold (-) in the relevant year	100,00%	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)	May 2013	September 2014
Incorporation of the result of the company in the result of the group until:	31-03-2013	30-09-2014
Purchase price or sale price	295	90
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	- 245	559
Assets & liabilities bought or sold		
Cash and cash balances with central banks	237	12
Financial assets	2 276	2 230
Held for trading	47	19
Designated at fair value through profit or loss	0	0
Available for sale	169	163
Loans and receivables	2 061	1 985
Held-to-maturity investments	0	64
Hedging derivatives	0	0
of which: cash and cash equivalents	*540*	*14*
Financial liabilities	2 063	1 781
Held for trading	1	9
Designated at fair value through profit or loss	0	0
Measured at amortised cost	2 061	1 772
Hedging derivatives	0	0
of which: cash and cash equivalents	0	483

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 19 March 2015 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 2014 and have been applied by KBC in this report.

- IFRS 10, 11 and 12 (new consolidation standards). IFRS 10 includes a new definition of control, which could lead to changes in the scope of consolidation (but not at KBC). 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 Bank will be the application of the equity method instead of proportionate consolidation for Českomoravská Stavební Spořitelna (ČMSS), 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. For additional information, see Note 28.

The following IFRS standards were issued but not yet effective for the KBC group at year-end 2014. KBC Bank will apply these standards when they become mandatory for the group.

- IFRIC 21 (Levies) was approved by the European Union in June 2014 and became effective on 1 January 2015. As it needs to be applied retroactively, KBC Bank will have to restate the comparable half-yearly figures for 2014. This relates solely to movements between half-years and does not affect the full-year figures (impact on the two successive half-years: -50 million euros (-33 million euros after tax) and +50 million euros (+33 million euros after tax), respectively). The main consequence of IFRIC 21 in 2015 is that certain levies will have to be recognised in advance, which will adversely impact the results for the first half of 2015.
- In July 2014, 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 mandatory effective date for the entire IFRS 9 standard is 1 January 2018. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. The standard will become effective on or after 1 January 2017 and its potential impact is currently being analysed.
- During 2014, the IASB also issued IFRS 14 (Regulatory Deferral Accounts), as well as a number of limited amendments to existing IFRSs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

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 structured entities) over which the consolidating entity exercises, directly or indirectly, exclusive control – as defined in IFRS 10 – 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 equity method (IFRS 11).
(Material) investments in associates, i.e. companies over which KBC has significant influence, are also accounted for using the equity method.
As allowed under IAS 28, 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 a 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 a 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 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. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.

- *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, i.e. 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' and 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 PD depends on a number of loan-specific characteristics, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other elements key to a borrower's risk profile. 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 an event 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. The emergence period is between 1 and 12 months for retail portfolios and between 1 and 11 months for corporate portfolios. On average, emergence periods for corporate portfolios are shorter than for their retail counterparts.
- 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.
Software is recognised as an intangible asset if the capitalisation criteria are met. 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, while for core systems with a longer useful life, the period is eight 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).

j Exchange rates used*

	Exchange rate at 31-12-2014		Exchange rate average in 2014	
	1 EUR = … … currency	Change from 31-12-2013 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2014 Positive: appreciation relative to EUR) Negative: depreciation relative to EUR)
CZK	27,735	-1%	27,539	-6%
GBP	0,7789	7%	0,8054	5%
HUF	315,54	-6%	309,21	-4%
USD	1,2141	14%	1,3280	0%

* Rounded figures.

k Changes made to accounting policies in 2014

No material changes were made to the accounting policies in 2014, apart from the amendments to IFRS 10 and 11 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 'Overview of our business units' section (which has not been audited by the statutory auditor). This structure forms the basis for KBC's financial segment reporting presentation.

In the 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 (results of the holding company, certain 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.

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 addition to the figures according to IFRS, KBC 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 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.

It should be noted that:

- In principle, we assign a group company in its entirety to one specific segment (see Note 34). 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 clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.

A review of the results by business unit is also provided in this note.

Information on the items stated separately

Items excluded from the adjusted net result (in millions of EUR)	Main heading(s) concerned in the income statement	2013	2014
Legacy business: Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	Net result from financial instruments at fair value, Income tax expense	244	-19
Legacy business: Divestments	Other net income, Net realised result from available-for-sale assets, Net post-tax result from discontinued operations, Impairment, Income tax expense	-277	112
Own credit risk: Changes in fair value of own debt instruments	Net result from financial instruments at fair value, Income tax expense	-43	2

- Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement): in both 2013 and 2014, 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 reduced from 80% to 60% during 2013). In 2014, KBC collapsed the last two CDOs in its portfolio. This freed up 0.3 billion euros of capital, increased KBC's solvency by 0.4% and had a negative impact on the income statement of roughly 32 million euros. Collapsing these remaining CDOs also released KBC from the guarantee agreement entered into with the Belgian Federal Government (see 'Additional information') and completely eliminated the group's exposure to MBIA. For the record, KBC wishes to point out that it is the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters based on changes in the value of these notes (due primarily to credit spreads on the underlying portfolio).
- Divestments: 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 2014 figure relates primarily to the reversal of the impairment charges taken on Antwerp Diamond Bank, due to the fact that the previously announced sale did not go through and was replaced by an orderly run-down of its activities. After including a number of smaller items, this had an impact on the result of 112 million euros (after tax).
- Fair value of own debt instruments: the negative impact on the result in 2013 was 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'. On balance, the impact was a negligible 2 million euros in 2014.

Underlying results by segment (business unit)

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre excl inter-segment eliminations	Inter-segment eliminations	KBC Bank
2013										
Net interest income	2 003	874	605	258	191	33	123	- 166	- 2	3 314
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	234	233	166	50	16	- 4	15	5	1 688
Net other income	194	9	23	12	10	1	0	2	7	235
TOTAL INCOME	4 072	1 214	952	505	273	55	114	- 62	- 13	6 163
Operating expenses[a]	- 1 911	- 576	- 659	- 358	- 161	- 34	- 102	- 78	13	- 3 210
Impairment	- 337	- 50	- 1 177	- 76	- 30	- 12	- 1 059	- 87	0	- 1 650
on loans and receivables	- 328	- 46	- 1 171	- 76	- 27	- 9	- 1 059	- 83	0	- 1 628
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 and joint ventures	0	29	1	1	0	0	0	0	0	30
RESULT BEFORE TAX	1 824	617	- 883	72	82	9	- 1 047	- 227	0	1 332
Income tax expense	- 564	- 88	20	- 13	- 22	0	55	94	0	- 538
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	- 133	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	- 26	- 45	- 25	- 11	- 2	- 7	- 1	0	- 123
Depreciation and amortisation of fixed assets	- 50	- 29	- 46	- 26	- 11	- 2	- 7	- 4	0	- 128
Other	- 2	4	1	1	0	0	0	3	0	5
Acquisitions of non current assets*	327	55	74	22	21	2	29	4	0	459

Underlying results by segment (business unit), continued

2014										
Net interest income	2 245	831	653	265	202	36	149	- 125	4	3 609
Dividend income	5	0	0	0	0	0	0	0	0	5
Net result from financial instruments at fair value through profit or loss	97	63	67	56	15	1	- 7	24	0	250
Net realised result from available-for-sale assets	16	8	14	13	1	0	0	5	0	43
Net fee and commission income	1 333	237	238	167	53	16	- 3	23	- 3	1 829
Net other income	180	18	- 226	- 224	0	0	- 2	4	5	- 19
TOTAL INCOME	3 877	1 157	746	278	271	55	138	- 48	- 14	5 717
Operating expensesa	- 1 942	- 550	- 685	- 348	- 167	- 34	- 132	- 107	14	- 3 269
Impairment	- 218	- 35	- 284	- 49	- 18	- 10	- 207	- 44	0	- 581
on loans and receivables	- 205	- 34	- 273	- 47	- 17	- 10	- 198	- 42	0	- 554
on available-for-sale assets	- 3	0	0	0	0	0	0	- 1	0	- 4
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	- 10	- 2	- 11	- 1	0	0	- 9	0	0	- 23
Share in results of associated companies and joint ventures	- 1	23	0	0	0	0	0	0	0	22
RESULT BEFORE TAX	1 716	595	- 223	- 119	86	10	- 202	- 198	0	1 890
Income tax expense	- 509	- 94	19	16	- 21	0	23	69	0	- 515
Net post-tax result from discontinued operations	0	0	0	0	0	0	0	0	0	0
RESULT AFTER TAX	1 207	501	- 204	- 102	65	11	- 179	- 129	0	1 375
Attributable to minority interests	156	1	0	0	0	0	0	0	0	157
ADJUSTED NET RESULT	1 051	500	- 205	- 102	65	11	- 179	- 129	0	1 217
Legacy CDOs	0	0	0	0	0	0	0	- 19	0	- 19
Own credit risk	0	0	0	0	0	0	0	2	0	2
Divestments	0	0	0	0	0	0	0	112	0	112
NET RESULT	1 051	500	- 205	- 102	65	11	- 179	- 34	0	1 312
[a] Of which non-cash expenses:	- 45	- 23	- 64	- 34	- 11	- 2	- 18	- 2	0	- 134
Depreciation and amortisation of fixed assets	- 46	- 25	- 59	- 34	- 11	- 2	- 13	- 3	0	- 134
Other	2	2	- 5	0	0	0	- 5	1	0	0
Acquisitions of non current assets*	332	30	35	9	19	3	5	0	0	397

* 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

Our operations in Belgium generated a net result of 1 051 million euros in 2014, compared with 1 147 million euros a year earlier.

Net interest income at this business unit totalled 2 245 million euros, 12% more than in 2013, due primarily to higher volumes and margins on lending, lower funding costs for term deposits, higher volumes and lower rates on savings accounts, the positive impact of a high level of refinancing of home loans, and a larger bond portfolio. The average net interest margin rose from 1.80% in 2013 to 2.01% in 2014.
Loans and advances to customers, excluding reverse repos (83 billion euros at year-end) went up by 4%, while deposits from customers and debt securities, excluding repos (109 billion euros at year-end) grew by 9% year-on-year.

Net fee and commission income amounted to 1 333 million euros. This was 11% more than the previous year, due mainly to asset management activities (increase in entry and management fees for investment funds) and, to a lesser extent, to lending-related fee and commission income. At 172 billion euros, assets under management in this business unit were up by 14% year-on-year, owing to the combined effect of higher volumes (+5%) and higher prices (+8%).

As regards the other income items, the net realised result from available-for-sale assets totalled 16 million euros, dividend income amounted to 5 million euros, and the net result from financial instruments at fair value through profit or loss totalled 97 million euros. The latter was considerably lower than in 2013 (538 million euros) on account of the strongly negative marked-to-market valuation of certain derivatives used for asset/liability management purposes in 2014 (-196 million euros) compared with a positive year-earlier figure (+250 million euros). Other net income stood at 180 million euros and, besides the usual items such as the results from KBC Autolease, etc., included the positive outcome of a court case involving the London subsidiary, whereas the 2013 figure (194 million euros) benefited from moratorium interest related to the successful settlement of disputes and capital gains on the sale of real estate.

Operating expenses totalled 1 942 million euros, 2% higher than the year-earlier figure, with various factors, such as slightly higher staff expenses, lower pension costs, somewhat lower costs for ICT and facility services, higher marketing and communication costs and higher special bank taxes all playing a role. Consequently, the cost/income ratio for the banking activities remained at a good 50%, although it was slightly less favourable than in 2013 (47%). However, the relative deterioration was attributable for the most part to the negative valuation of the ALM derivatives.

Impairment on loans and receivables stood at 205 million euros at year-end, down 123 million euros on its year-earlier level, with the decline related mainly to corporate lending. This resulted in a favourable credit cost ratio of 23 basis points in 2014, compared with 37 basis points in 2013. Approximately 4.3% of the Belgium Business Unit's loan portfolio was impaired at year-end 2014, as opposed to 4.7% a year earlier. Impaired loans more than 90 days past due amounted to 2.2% (2.5% in 2013).

CZECH REPUBLIC BUSINESS UNIT

In 2014, the Czech Republic Business Unit generated a net profit of 500 million euros, compared with 529 million euros in 2013. On a comparable basis (i.e. disregarding movements in exchange rates – the Czech koruna depreciated by an average 6% over the year – and a few minor adjustments in the scope of consolidation), net profit was virtually unchanged.

Net interest income came to 831 million euros, down 5% on its level in 2013. However, on the comparable basis, there was a small increase of 2%, with the negative impact of the low reinvestment climate being offset by higher interest income from lending (owing primarily to an increase in volumes) and a decline in external interest rates on savings accounts.
Loans and advances to customers, excluding reverse repos (16 billion euros at year-end), rose by 5% on a comparable basis in 2014, due in part to persistently strong growth in home loans. On a comparable basis, deposits from customers and debt securities, excluding repos (22 billion euros at year-end), went up by 8%. The average net interest margin amounted to 3.18% in the period under review, as opposed to 3.25% in 2013.

Net fee and commission income came to 237 million euros, up 1% year-on-year, partly on account of the growth in the fees charged for investment funds. Assets under management in the business unit stood at around 7 billion euros, some 20% higher than the year-earlier figure (14% accounted for by growth in volumes and 5% by the price effect).

As regards the other income items, the net realised result from available-for-sale assets totalled 8 million euros (16 million euros in 2013), the net result from financial instruments at fair value through profit or loss stood at 63 million euros (22% below the 2013 figure, as a result primarily of the negative marked-to-market valuation of certain derivatives used for asset/liability management purposes in 2014) and other net income came to 18 million euros.

Operating expenses amounted to 550 million euros in 2014, 5% less than the year-earlier figure, but an increase of 1% on a comparable basis. Various factors played a role in this, including higher ICT and staff expenses and lower costs for marketing and facility services. The cost/income ratio for the Czech banking activities stood at a very good 48%, in line with the previous year's 47%.

Impairment on loans and receivables came to 34 million euros, a further reduction on the very low figure of 46 million euros recorded for 2013 that was attributable chiefly to the retail loan portfolio. Consequently, the business unit's credit cost ratio amounted to an exceptionally favourable 18 basis points in 2014, compared with 26 basis points in 2013. Approximately 3.8% of the Czech loan portfolio was impaired at year-end 2014, compared with 4.3% a year earlier. Impaired loans more than 90 days past due accounted for 2.9% of this figure (3.1% in 2013). Other impairment charges totalled 3 million euros.

INTERNATIONAL MARKETS BUSINESS UNIT

In 2014, the net result at the International Markets Business Unit amounted to -205 million euros, compared with -864 million euros a year earlier. This was attributable almost entirely to the significantly lower loan loss provisions set aside for Ireland, partially offset by the negative impact of new legislation in Hungary (see elsewhere in this report).
The net result broken down by country stood at -102 million euros for Hungary (58 million euros in 2013), 65 million euros for Slovakia (60 million euros in 2013), 11 million euros for Bulgaria (10 million euros in 2013) and -179 million euros for Ireland (-992 million euros in 2013).

Net interest income at the business unit totalled 653 million euros, a year-on-year increase of 8% and figures up in all countries. The biggest rise was in Ireland (owing to various items, including lower funding costs).
At 21 billion euros, loans and advances to customers (excluding reverse repos) fell by 1%, with the increases in Slovakia (+8%), Hungary (+5%) and Bulgaria (+9%) being cancelled out by a decline in Ireland (-6%). Deposits from customers and debt securities, excluding repos (15 billion euros at year-end), went up by 5%, attributable largely to the successful retail deposit campaign in Ireland (+21%). Deposit volumes increased in Slovakia (+6%) and Bulgaria (+10%), too, but fell in Hungary (-7%). The average net interest margin rose from 2.10% in 2013 to 2.41% in 2014.

The net result from financial instruments at fair value through profit or loss came to 67 million euros. This was roughly 13% less than in 2013, owing to factors such as the negative marked-to-market valuation of certain derivatives used for asset/liability management in 2014. Net fee and commission income amounted to 238 million euros, up 2% year-on-year, attributable chiefly to growth in Slovakia (among other things, in credit-related commissions). The net realised result from available-for-sale assets totalled 14 million euros. Other net income stood at a negative 226 million euros (compared with a positive 23 million euros a year earlier), due primarily to the new Hungarian law on consumer loans (act on the 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions'). The act prohibits use of exchange rate margins and requires the retroactive correction of the bid/offer spreads applied to the relevant loans. It also revokes all unilateral changes to interest rates and fees executed by the banks with respect to all consumer loans. As a consequence of the new law, KBC set aside a provision of 231 million euros to cover the correction of bid/offer spreads and unilateral changes to interest rates.

Operating expenses came to 685 million euros, an increase of 4% on the year-earlier figure that was attributable chiefly to Ireland (owing to factors such as higher costs linked to the increased workforce and to the retail campaign). The cost/income ratio of this business unit therefore ended the year at a high 92%, although the numerator in this ratio was naturally affected by the provisions set aside on account of the new Hungarian law with regard to consumer loans. Adjusted for that item (and several other small exceptional items), the ratio amounted to 69%, the same as in 2013.

Impairment on loans and receivables (loan loss provisions) came to 273 million euros, significantly below the 1 171 million euros recorded for the previous year. The decline was attributable mainly to Ireland where 1 059 million euros had been set aside for loan loss provisions in 2013, but only 198 million euros in the period under review. The Irish loan portfolio still stood at about 14.5 billion euros at the end of the year, roughly four-fifths of which was made up of mortgage loans. Loan loss provisions totalling 74 million euros were set aside in 2014 for all three Central and Eastern European countries, compared with 112 million euros a year earlier, with decreases in Hungary and Slovakia.
As a result, the credit cost ratio at business unit level came to 106 basis points, as opposed to 448 basis points in 2013. The figures per country were 133 basis points for Ireland, 94 basis points for Hungary, 36 basis points for Slovakia and 130 basis points for Bulgaria. At year-end, around 34% of the business unit's loan portfolio was impaired (see 'Glossary of ratios' for definition), compared with the year-earlier figure of 33%. Broken down by country, the

figures were 52% in Ireland, 14% in Hungary, 4% in Slovakia and 28% in Bulgaria. Impaired loans more than 90 days past due amounted to 19% of the portfolio (19.2% in 2013).
Other impairment charges at the business unit totalled 11 million euros.

GROUP CENTRE

In 2014, the Group Centre generated a net result of -34 million euros, compared with -223 million euros a year earlier. Excluding the results of legacy business (divestments and CDOs) and the results relating to the valuation of own credit risk, the adjusted net result amounted to -129 million euros, compared with -147 million euros for the previous year.

More detailed information on the impact of the legacy business and own credit risk has already been provided in this note (see above).

Excluding these items, and as stated above, the Group Centre's adjusted net result stood at -129 million euros, compared with -147 million euros a year earlier. This comprised, inter alia, certain costs related to capital and liquidity management (to achieve liquidity and solvency targets at bank group level, and including the subordination charges attached to subordinated loans), costs related to the holding of participating interests (chiefly funding costs), and the results of the remaining companies scheduled for divestment or run-down (Antwerp Diamond Bank, KBC Finance Ireland, etc.). The improvement on the adjusted net result for 2013 could be accounted for by lower subordination charges and the lower 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	Business unit Belgium	Business unit Czech Republic	Business unit International Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
31-12-2013									
Deposits from customers & debt certificates excl. repos	99 273	21 977	14 633	*5 892*	*4 711*	*565*	*3 466*	15 873	151 757
Loans & advances to customers excluding reverse repos	81 188	15 684	21 255	*3 864*	*4 248*	*606*	*12 537*	1 080	119 207
Term loans excl. Reverse repos	40 111	6 279	5 607	*1 772*	*1 488*	*236*	*2 111*	1 048	53 045
Mortgage loans	31 101	6 522	13 925	*1 548*	*1 722*	*236*	*10 419*	24	51 572
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
31-12-2014									
Deposits from customers & debt certificates excl. repos	109 228	22 144	15 046	*5 238*	*4 992*	*631*	*4 185*	9 424	155 843
Loans & advances to customers excluding reverse repos	83 359	16 216	20 784	*3 770*	*4 578*	*660*	*11 776*	1 990	122 349
Term loans excl. Reverse repos	41 193	6 360	5 283	*1 915*	*1 527*	*278*	*1 562*	1 792	54 627
Mortgage loans	32 279	7 251	13 561	*1 320*	*1 807*	*239*	*10 195*	26	53 117
Current accounts advances	2 319	922	653	*312*	*329*	*0*	*12*	161	4 054
Finance leases	3 172	442	523	*92*	*425*	*0*	*6*	0	4 138
Consumer credit	1 088	1 028	654	*59*	*452*	*142*	*0*	0	2 770
Other	3 309	213	110	*72*	*38*	*0*	*0*	12	3 643

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2013	2014
Total	3 402	3 648
Interest income	7 707	7 305
Available-for-sale assets	436	404
Loans and receivables	4 860	4 489
Held-to-maturity investments	848	825
Other assets not at fair value	11	15
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*6 156*	*5 734*
of which : impaired financial assets	*123*	*119*
Financial assets held for trading	905	905
Hedging derivatives	464	457
Other financial assets at fair value through profit or loss	183	209
Interest expense	-4 306	-3 657
Financial liabilities measured at amortised cost	-2 304	-1 736
Other	- 2	- 1
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-2 306*	*-1 738*
Financial liabilities held for trading	-1 085	-1 084
Hedging derivatives	- 673	- 636
Other financial liabilities at fair value through profit or loss	- 231	- 193
Net interest expense on defined benefit plans	- 10	- 6

Note 4: Dividend income

In millions of EUR	2013	2014
Total	18	14
Breakdown by type	18	14
Held-for-trading shares	6	7
Shares initially recognised at fair value through profit or loss	0	2
Available-for-sale shares	11	5

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

In millions of EUR	2013	2014
Total	884	195
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	717	120
Other financial instruments initially recognised at fair value through profit or loss	- 293	- 43
Of which: gains/losses own credit risk	- 62	- 2
Foreign exchange trading	456	107
Fair value adjustments in hedge accounting	4	12
Microhedge	- 1	12
Fair value hedges	0	6
Changes in the fair value of the hedged item	104	- 504
Changes in the fair value of the hedging derivatives, including discontinuation	- 104	510
Cashflow hedges	- 1	6
Changes in the fair value of the hedging derivatives, ineffective portion	- 1	6
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	0
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	- 78	18
Changes in the fair value of the hedging derivatives, including discontinuation	78	- 19
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	5	0

- 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 2013, the market price for corporate credit improved, 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. On balance, that led to a positive adjustment of roughly 0.3 billion euros. In 2014, the market price for corporate credit continued to improve – reflected in credit default swap spreads – and we also collapsed the remaining CDOs in our portfolio. Collapsing the last two CDOs had a negative impact on our income statement of approximately 32 million euros in the third quarter of 2014. For the record, we would point out that KBC is the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters depending on changes in the value of those notes. On balance, the impact of changes in the value of the exposure to CDOs came to 0.04 billion euros in 2014.
- The impact of the CDO guarantee agreement and related fee is also recognised under this heading. 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 marked-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. Collapsing the last two CDOs (see previous point) released KBC from the guarantee agreement entered into with the Belgian Federal Government and completely eliminated the group's exposure to MBIA.

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (in millions of EUR, before tax)	2013	2014
Cash guarantee (for the third tranche)	85	0
Equity guarantee (for the second tranche)	- 92	- 14
Total recognised in the income statement	- 6	- 14

- 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'. 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 184 million euros (before tax) in 2014 and +275 million euros in 2013.

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

In millions of EUR	2013	2014
Total	202	49
Breakdown by portfolio		
Fixed-income securities	117	47
Shares	85	2

Note 7: Net fee and commission income

In millions of EUR	2013	2014
Total	1 685	1 822
Fee and commission income	2 291	2 303
Securities and asset management	1 082	1 189
Commitment credit	243	245
Payments	539	524
Other	427	344
Fee and commission expense	- 606	- 482
Commission paid to intermediaries	- 91	- 88
Other	- 515	- 393

- 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	2013	2014
Total	51	5
Of which net realised result following		
The sale of loans and receivables	- 112	3
The sale of held-to-maturity investments	8	1
The repurchase of financial liabilities measured at amortised cost	- 1	0
Other: of which:	155	1
Income concerning leasing at the KBC Lease-group	93	74
Realised gains or losses on divestments	- 94	13
Legal interests	71	15
New law on retail loans (Hungary)	0	- 231
Legal settlement in 2Q14 of an old credit file	0	31

- 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, plus the negative effect of selling loans and receivables as part of the process to divest KBC Banka.
- 'Gains and losses on divestments' in 2013 related mainly to the sale of Absolut Bank (-91 million euros). In 2014, it comprised a number of smaller sales deals. 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).
- In 2013, the receipt of moratorium interest due had a positive impact of 71 million euros (before tax).
- Provisions for the new Hungarian act on consumer loans' concerns new legislation approved by the Hungarian parliament on 4 July 2014 that applies to the entire banking sector in Hungary (the act on the resolution of certain issues related to the Supreme Court’s (Curia) uniformity decision on consumer loan agreements concluded by financial institutions). The scope of the act covers consumer loans denominated in foreign currency and in Hungarian forint. As regards consumer loans denominated in foreign currency, the act prohibits the use of exchange rate margins and the bid-ask spreads that applied to such loans have to be corrected with retroactive effect. As far as all consumer loans are concerned, the act repeals all unilateral changes that banks made to interest rates and fees. As a result of this act, KBC Bank set aside additional, one-off net provisions of 231 million euros (before tax) in the second quarter of 2014 for correcting the bid-ask spreads and the unilateral changes to interest rates.

Note 9: Operating expenses

In millions of EUR	2013	2014
Total	- 3 252	- 3 311
Breakdown by type		
Staff expenses	- 1 549	- 1 577
General administrative expenses	- 1 574	- 1 597
Of which bank tax	- 309	- 319
Depreciation and amortisation of fixed assets	- 129	- 136

- 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 309 million euros in 2013 and 319 million euros in 2014).
- 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	2013 Number of options[1]	Average exercise price	2014 Number of options[1]	Average exercise price
Outstanding at beginning of period	184 326	72,53	183 526	72,69
Granted during period	0	0,00	0	0,00
Exercised during period	- 800	34,91	- 1 566	37,50
Expired during period	0	0,00	- 7 300	97,94
Outstanding at end of period [2]	183 526	72,69	174 660	71,95
Exercisable at end of period	176 226	72,60	174 660	71,95

1 In KBC Group share equivalents.
2 2014: range of exercise prices: 37.50–89.21 euros; weighted average residual term to maturity: 33 months.
2013: range of exercise prices: 46.45–97.94 euros; weighted average residual term to maturity: 20 months.

- The main cash-settled share-based payment arrangements for 2013 included less than 4 million euros in costs related to a phantom stock plan (included under ‘Staff expenses’). This item came to 4 million euros for 2014.

Note 10: Personnel

	2013	2014
Total average number of persons employed (in full-time equivalents)	**27 684**	**26 941**
Breakdown by employee classification		
Blue-collar staff	128	74
White-collar staff	27 361	26 682
Senior management	195	185

Note 11: Impairment (income statement)

In millions of EUR	2013	2014
Total	- 1 821	- 472
Impairment on loans and receivables	- 1 709	- 587
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 1 668	- 676
Provisions for off-balance-sheet credit commitments	1	19
Portfolio-based impairments	- 42	70
Breakdown by business unit		
Business unit Belgium	- 328	- 205
Business unit Czech Republic	- 46	- 34
Business unit International Markets	- 1 171	- 273
of which: Hungary	*- 76*	*- 47*
of which: Slovakia	*- 27*	*- 17*
of which: Bulgaria	*- 9*	*- 10*
of which: Ireland	*- 1 059*	*- 198*
Group Centre	- 164	- 75
Impairment on available-for-sale assets	- 14	- 4
Breakdown by type		
Shares	- 14	- 4
Other	0	0
Impairment on goodwill	0	0
Impairment on other	- 98	119
Intangible assets, other than goodwill	- 2	- 13
Property and equipment and investment property	- 19	- 8
Held-to-maturity assets	0	1
Associated companies and joint ventures	0	0
Other	- 77	140

- 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 2014 and 198 million euros in 2014 (see separate paragraph)), in Hungary (76 million euros in 2013, 47 million euros in 2014), in Slovakia (27 million euros in 2013, 17 million euros in 2014) and in Bulgaria (9 million euros in 2013, 10 million euros in 2014). 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 2014, it included 30 million euros at Antwerp Diamond Bank, 20 million euros at KBC Finance Ireland and 14 million euros at KBC Bank Deutschland.
- 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 14.5 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 (most of which were set aside in the fourth quarter following an analysis of the loan portfolio). In the third quarter of 2014, we modified the model for calculating impairment charges on mortgage loans in Ireland. Including the effects relating specifically to the third quarter, the impact of this adjustment was limited. The reason for adjusting the model was that a significant portion of these loans have been going through a long-term restructuring process, which changes their cashflow profiles. In 2014, the amount of loan loss provisions set aside fell to 198 million euros.

- Impairment on available-for-sale assets in 2013 was accounted for mainly by impairment on shares (14 million euros). In 2014, it comprised virtually only impairment on shares.
- 'Impairment on goodwill' and 'Impairment on other' in 2013 included 69 million euros relating to the divestment of Antwerp Diamond Bank. In 2014, these headings included the reversal of the impairment charges previously recognised for Antwerp Diamond Bank, as its planned sale failed to go through and KBC decided to run down that entity's activities in an orderly manner (see Note 41). 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.
- For information on the comprehensive assessment conducted by the ECB, see 'Capital adequacy' (which has not been audited by the statutory auditor).

Note 12: Share in results of associated companies and joint ventures

In millions of EUR	2013	2014
Total	30	22
of which Ceskomoravská stavebni sporitelna a.s.	29	23

- As a result of the retroactive application of IFRS 11, which stipulates that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation, the share in results of associated companies and joint ventures is now accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. For additional information, see Note 28.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 11). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 13: Income tax expense and activities per country ('country-by-country reporting')

In millions of EUR	2013	2014
Total	- 479	- 504
Breakdown by type	- 479	- 504
Current taxes on income	- 237	- 274
Deferred taxes on income	- 242	- 229
Tax components		
Profit before tax	1 196	1 973
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 407	- 671
Plus/minus tax effects attributable to	- 72	167
Differences in tax rates, Belgium - abroad	- 25	121
Tax-free income	130	98
Adjustments related to prior years	14	15
Adjustments, opening balance of deferred taxes due to change in tax rate	- 1	0
Unused tax losses and unused tax credits to reduce current tax expense	59	3
Unused tax losses and unused tax credits to reduce deferred tax expense	1	1
Reversal of previously recognised deferred tax due to tax losses	0	- 14
Other (mainly non-deductible expenses)	- 251	- 57
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*	132	153

* Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will 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.
- Breakdown of activities by country in 2014.

The table below provides a clearer insight into the activities of KBC Bank (at the consolidated level) by country and complies with the Royal Decree of 27 November 2014 (which amends the royal decrees on the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment).

To see the names of the various entities and the nature of their activities for each country given in this table, please refer to the information included in the scope of consolidation (see Note 39).

in million euros	2013 Turnover (*)	2013 Average number of employees in FTE	2013 Result before tax	2013 Income tax expense	2013 Received government funding	2014 Turnover (*)	2014 Average number of employees in FTE	2014 Result before tax	2014 Income tax expense	2014 Current tax on income	2014 Deferred tax	2014 Received government funding
KBC home Countries (incl. Ireland)												
Belgium	3 109	10 798	785	- 375	0	3 120	10 746	1 112	- 365	- 76	- 289	0
Czech Republic	1 215	7 410	617	- 88	0	1 156	7 604	595	- 94	- 85	- 8	0
Hungary	504	3 386	72	- 13	0	277	3 332	- 119	16	- 48	65	0
Slovakia	271	2 265	85	- 22	0	268	2 287	87	- 21	- 19	- 2	0
Bulgaria	55	1 350	9	0	0	54	1 333	10	0	0	0	0
Ireland	437	786	- 772	20	0	445	934	75	- 12	- 12	0	0
Other countries												
Great Britain[1]	352	132	282	- 3	0	106	85	56	- 7	- 4	- 3	0
USA[1]	46	64	23	7	0	33	62	10	7	0	7	0
France[1]	31	83	- 9	3	0	30	78	- 9	- 2	- 5	4	0
Netherlands[1]	24	31	18	- 4	0	24	26	18	- 4	- 4	0	0
Luxembourg	40	39	34	3	0	101	38	93	- 14	- 11	- 3	0
Romania	1	50	- 1	0	0	0	29	1	0	0	0	0
Germany	87	184	21	- 6	0	53	138	14	- 6	- 5	- 1	0
Isle of Man	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	0	0	0	0	0	0	0	0	0	0	0	0
Cayman islands	0	0	0	0	0	0	0	0	0	0	0	0
Hong Kong[1]	16	50	13	4	0	17	48	15	0	0	0	0
Monaco	0	3	0	0	0	0	0	0	0	0	0	0
Singapore[1]	27	85	15	- 1	0	27	80	12	- 2	- 2	0	0
Poland[1]	5	83	2	0	0	4	72	1	0	0	0	0
China[1]	18	52	4	- 1	0	18	50	4	- 1	- 2	1	0
British Virgin Islands	0	0	0	0	0	0	0	0	0	0	0	0
Spain	0	0	0	0	0	0	0	0	0	0	0	0
Italy	0	0	0	0	0	0	0	0	0	0	0	0
India	1	50	- 1	0	0	0	0	- 1	0	0	0	0
Russia	2	784	0	- 1	0	0	0	0	0	0	0	0
Total	6 240	27 684	1 196	- 479	0	5 734	26 941	1 973	- 504	- 274	- 229	0

(*) Based on 'Total Income'
[1] Incl. branch of KBC Bank

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).

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

(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	Pro forma
FINANCIAL ASSETS, 31-12-2013									
Loans and advances to credit institutions and investment firms [a,c]	5 100	1 595	0	9 545	-	-	-	16 240	16 267
Loans and advances to customers[b]	706	1 678	0	118 400	-	-	-	120 784	121 947
Excluding reverse repos	*703*	*200*	*0*	*118 304*	-	-	-	*119 207*	*120 370*
Discount and acceptance credit	0	0	0	605	-	-	-	605	605
Consumer credit	0	0	0	3 322	-	-	-	3 322	3 322
Mortgage loans	0	34	0	51 538	-	-	-	51 572	51 572
Term loans	696	1 601	0	52 326	-	-	-	54 623	55 569
Finance leasing	0	0	0	4 044	-	-	-	4 044	4 044
Current account advances	0	0	0	2 479	-	-	-	2 479	2 695
Securitised loans	0	0	0	0	-	-	-	0	0
Other	10	43	0	4 087	-	-	-	4 140	4 140
Equity instruments	283	5	275	-	-	-	-	564	561
Investment contracts (insurance)	-	0	-	-	-	-	-	0	0
Debt securities issued by	2 977	1 318	14 451	1 685	25 007	-	-	45 438	44 573
Public bodies	2 384	770	11 462	118	24 908	-	-	39 643	38 813
Credit institutions and investment firms	268	195	1 768	149	82	-	-	2 462	2 427
Corporates	325	353	1 221	1 418	17	-	-	3 334	3 334
Derivatives	7 900	-	-	-	-	770	-	8 670	8 673
Other	0	0	0	0	-	-	-	0	0
Total carrying value	16 966	4 597	14 726	129 630	25 007	770	0	191 697	192 022
[a] *Of which reverse repos*								*8 483*	
[b] *Of which reverse repos*								*1 577*	
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*8 099*	
FINANCIAL ASSETS, 31-12-2014									
Loans and advances to credit institutions and investment firms [a,b]	141	1 636	0	10 773	-	-	-	12 550	
Loans and advances to customers[c]	27	3 127	0	122 396	-	-	-	125 550	
Excluding reverse repos	*20*	*101*	*0*	*122 228*	-	-	-	*122 349*	
Trade receivables	0	0	0	3 291	-	-	-	3 291	
Consumer credit	0	0	0	2 770	-	-	-	2 770	
Mortgage loans	0	33	0	53 085	-	-	-	53 117	
Term loans	7	3 094	0	54 726	-	-	-	57 828	
Finance leasing	0	0	0	4 138	-	-	-	4 138	
Current account advances	0	0	0	4 054	-	-	-	4 054	
Securitised loans	0	0	0	0	-	-	-	0	
Other	20	0	0	332	-	-	-	352	
Equity instruments	301	0	450	-	-	-	-	751	
Investment contracts (insurance)	-	0	-	-	-	-	-	0	
Debt securities issued by	2 900	1 763	17 598	1 207	25 956	-	-	49 424	
Public bodies	2 391	1 063	12 719	31	25 852	-	-	42 055	
Credit institutions and investment firms	297	293	2 683	159	96	-	-	3 528	
Corporates	212	407	2 196	1 018	9	-	-	3 842	
Derivatives	8 905	-	-	-	-	1 104	-	10 008	
Other	3	0	0	579	0	0	0	582	
Total carrying value	12 277	6 526	18 048	134 955	25 956	1 104	0	198 865	
[a] *Of which reverse repos*								*3 319*	
[b] *Of which reverse repos*								*3 200*	
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*4 292*	

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).
3. To make the breakdown by product more transparent, and based on the new framework for reporting to the ECB (FINREP), factoring (2.4 billion euros at year-end 2014 and 2.2 billion euros at year-end 2013) is no longer included in 'Other' under 'Loans and advances to customers' as of 2014, and is instead being combined with discount and acceptance credit, and recognised under 'Trade receivables'. The reference figures have not been restated in order to maintain the link with the 2013 annual report.
4. Financial assets that (from 2014) are intentionally not included under 'Loans and advances to customers' to avoid inflating that item with items that are not directly related to commercial lending.
5. Antwerp Diamond Bank (ADB) fell within the scope of IFRS 5 in 2013 and, therefore, was not recognised under the items specified in this note. At year-end 2014, it no longer fell within the scope of that standard, since its planned sale did not go through and it was decided instead to run down its activities in a controlled manner. To enable a comparison to be made, the pro forma column contains the figures for 2013 including ADB. The Transformation Fund (pension fund) in the Czech Republic has been excluded from the figures in that column, because that entity was removed from the scope of consolidation in 2014.

(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	Pro forma
FINANCIAL LIABILITIES, 31-12-2013									
Deposits from credit institutions and investment firms [a,c]	939	896	-	-	-	-	12 890	14 725	14 739
Deposits from customers and debt certificates [b]	3 637	12 248	-	-	-	-	146 528	162 412	161 459
Excluding repos	*321*	*5 292*	-	-	-	-	*146 144*	*151 757*	*150 804*
Deposits from customers	3 350	7 836	-	-	-	-	122 052	133 238	132 285
Demand deposits	0	50	-	-	-	-	39 278	39 328	39 556
Time deposits	3 350	7 786	-	-	-	-	45 071	56 207	56 210
Savings deposits	0	0	-	-	-	-	34 990	34 990	34 990
Special deposits	0	0	-	-	-	-	1 335	1 335	1 335
Other deposits	0	0	-	-	-	-	1 378	1 378	195
Debt certificates	286	4 412	-	-	-	-	24 476	29 174	29 174
Certificates of deposit	0	6	-	-	-	-	3 228	3 234	3 234
Customer savings certificates	0	0	-	-	-	-	473	473	473
Convertible bonds	0	0	-	-	-	-	0	0	0
Non-convertible bonds	286	3 763	-	-	-	-	14 691	18 741	14 492
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	0
Non-convertible subordinated liabilities	0	643	-	-	-	-	6 084	6 726	6 726
Liabilities under investment contracts	-	0	-	-	-	-	0	0	0
Derivatives	8 152	-	-	-	-	1 678	-	9 830	9 835
Short positions	386	0	-	-	-	-	-	386	386
in equity instruments	40	0	-	-	-	-	-	40	40
in debt instruments	345	0	-	-	-	-	-	345	345
Other	0	0	-	-	-	-	1 561	1 561	1 561
Total carrying value	13 113	13 144	-	-	-	1 678	160 979	188 913	187 980
[a] *Of which repos*								*1 672*	
[b] *Of which repos*								*10 655*	
[c] *Of which deposits from banks repayable on demand*								*3 311*	
FINANCIAL LIABILITIES, 31-12-2014									
Deposits from credit institutions and investment firms [a,c]	60	1 004	-	-	-	-	16 651	17 715	
Deposits from customers and debt certificates [b]	370	10 352	-	-	-	-	152 925	163 647	
Excluding repos	*370*	*3 058*	-	-	-	-	*152 415*	*155 843*	
Deposits from customers	72	8 077	-	-	-	-	129 962	138 111	
Demand deposits	0	35	-	-	-	-	47 639	47 674	
Time deposits	72	8 028	-	-	-	-	42 890	50 991	
Savings deposits	0	0	-	-	-	-	37 163	37 163	
Special deposits	0	0	-	-	-	-	1 715	1 715	
Other deposits	0	14	-	-	-	-	555	569	
Debt certificates	298	2 275	-	-	-	-	22 963	25 536	
Certificates of deposit	9	3	-	-	-	-	6 000	6 013	
Customer savings certificates	0	0	-	-	-	-	762	762	
Convertible bonds	0	0	-	-	-	-	0	0	
Non-convertible bonds	289	1 732	-	-	-	-	12 403	14 423	
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	
Non-convertible subordinated liabilities	0	540	-	-	-	-	3 798	4 338	
Liabilities under investment contracts	-	0	-	-	-	-	0	0	
Derivatives	7 754	0	-	-	-	3 491	-	11 245	
Short positions	325	0	-	-	-	-	-	325	
in equity instruments	71	0	-	-	-	-	-	71	
in debt instruments	254	0	-	-	-	-	-	254	
Other	0	0	-	-	-	-	2 107	2 107	
Total carrying value	8 510	11 356	-	-	-	3 491	171 682	195 038	
[a] *Of which repos*								*1 315*	
[b] *Of which repos*								*7 804*	
[c] *Of which deposits from banks repayable on demand*								*3 539*	

1. 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.
2. Antwerp Diamond Bank (ADB) fell within the scope of IFRS 5 in 2013 and, therefore, was not recognised under the items specified in this note. At year-end 2014, it no longer fell within the scope of that standard, since its planned sale did not go through and it was decided instead to run down its activities in a controlled manner. To enable a comparison to be made, the pro forma column contains the figures for 2013 including ADB. The Transformation Fund (pension fund) in the Czech Republic has been excluded from the figures in that column, because that entity was removed from the scope of consolidation in 2014.

- For reclassifications, see Note 24.
- 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' (see accounting policies).
- Non-convertible subordinated liabilities: also include the contingent capital note issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments.
- 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 2014, KBC Bank had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 5 876 million euros (debt instruments classified as ‘held for trading’ (280 million euros), ‘designated at fair value’ (764 million euros), ‘available for sale’ (454 million euros), and ‘held to maturity’ (4 378 million euros)); and an associated financial liability with a carrying value of 5 673 million euros (277 million euros classified as ‘held for trading’, 769 million euros as ‘designated at fair value’, 470 million euros as ‘available for sale’, and 4 157 million euros as ‘held to maturity’). 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 million euros as ‘held to maturity’). It should be noted that, at year-end 2013 and 2014, 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.

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, 31-12-2013								
Belgium	2 179	1 554	4 538	74 290	13 898	28		96 488
Central and Eastern Europe	7 907	268	5 580	27 915	8 087	303	-	50 060
Rest of the world	6 880	2 774	4 609	27 425	3 022	439	-	45 150
Total	16 966	4 597	14 726	129 630	25 007	770	-	191 697
FINANCIAL ASSETS, 31-12-2014								
Belgium	2 628	2 542	4 201	77 578	15 021	87	-	102 056
Central and Eastern Europe	2 231	140	4 138	28 256	7 516	112	-	42 393
Rest of the world	7 418	3 843	9 709	29 121	3 420	905	-	54 416
Total	12 277	6 526	18 048	134 955	25 956	1 104		198 865
FINANCIAL LIABILITIES, 31-12-2013								
Belgium	1 806	193	-	-	-	94	87 262	89 355
Central and Eastern Europe	5 144	941	-	-	-	464	35 676	42 226
Rest of the world	6 163	12 009	-	-	-	1 119	38 041	57 333
Total	13 113	13 144	-	-	-	1 678	160 979	188 913
FINANCIAL LIABILITIES, 31-12-2014								
Belgium	1 494	84	-	-	-	231	93 565	95 374
Central and Eastern Europe	1 037	837	-	-	-	81	35 796	37 751
Rest of the world	5 979	10 434	-	-	-	3 179	42 321	61 913
Total	8 510	11 356	-	-	-	3 491	171 682	195 038

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, 31-12-2013								
Not more than one year	7 368	3 359	4 734	43 217	1 225	-	-	59 903
More than one year	1 415	1 233	9 718	77 894	23 782	-	-	114 041
Not specified*	8 183	5	275	8 519	0	770	-	17 752
Total	16 966	4 597	14 726	129 630	25 007	770	-	191 697
FINANCIAL ASSETS, 31-12-2014								
Not more than one year	1 372	4 867	1 917	47 253	1 995	-	-	57 404
More than one year	1 597	1 658	15 681	80 789	23 961	-	-	123 685
Not specified*	9 309	1	450	6 913	0	1 104	-	17 776
Total	12 277	6 526	18 048	134 955	25 956	1 104	-	198 865
FINANCIAL LIABILITIES, 31-12-2013								
Not more than one year	4 803	10 719	-	-	-	-	92 135	107 657
More than one year	122	2 425	-	-	-	-	30 942	33 489
Not specified*	8 188	0	-	-	-	1 678	37 902	47 768
Total	13 113	13 144	-	-	-	1 678	160 979	188 913
FINANCIAL LIABILITIES, 31-12-2014								
Not more than one year	534	9 434	-	-	-	-	99 076	109 044
More than one year	158	1 922	-	-	-	-	33 729	35 809
Not specified*	7 818	0	-	-	-	3 491	38 877	50 186
Total	8 510	11 356	-	-	-	3 491	171 682	195 038

* 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 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 '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, 31-12-2013							
Unimpaired assets	16 966	4 597	14 662	121 984	25 006	770	183 985
Impaired assets			124	13 227	9		13 360
Impairment			- 60	- 5 580	- 8		- 5 648
Total	16 966	4 597	14 726	129 630	25 007	770	191 697
FINANCIAL ASSETS, 31-12-2014							
Unimpaired assets	12 277	6 526	17 989	127 501	25 955	1 104	191 352
Impaired assets			117	13 255	6		13 378
Impairment			- 58	- 5 801	- 5		- 5 864
Total	12 277	6 526	18 048	134 955	25 956	1 104	198 865

- 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).
- PD class: 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 ‘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 31-12-2013						
Opening balance	0	91	8	4 488	227	92
Movements with an impact on results						
Impairment recognised	0	14	0	2 301	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	0	0	0	0	0	0
Other	0	- 7	0	- 226	- 3	25
Closing balance	0	60	8	5 319	261	114
IMPAIRMENTS 31-12-2014						
Opening balance	0	60	8	5 319	261	114
Movements with an impact on results						
Impairment recognised	0	6	0	1 295	64	32
Impairment reversed	0	- 2	- 1	- 620	- 130	- 55
Movements without an impact on results						
Write-offs	0	0	0	- 439	0	- 3
Change in the scope of consolidation	0	- 5	0	- 34	1	9
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	174	5	0
Other	0	- 1	- 3	- 96	0	61
Closing balance	0	58	5	5 600	201	158

* 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 '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, 31-12-2013		
Loans & advances	3 095	1 154
Debt instruments	0	0
Derivatives	0	0
Total	3 095	1 154
FINANCIAL ASSETS, 31-12-2014		
Loans & advances	2 172	591
Debt instruments	0	0
Derivatives	0	0
Total	2 172	591

- 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 'Risk management' section.

Note 18: Maximum credit exposure and offsetting

in millions of EUR	31-12-2013			31-12-2014		
Maximum credit exposure	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	564	0	564	751	0	751
Debt instruments	45 438	76	45 362	49 424	59	49 365
Loans & advances	137 024	75 144	61 881	138 100	71 634	66 466
Of which designated at fair value through profit or loss	3 273	3 143	130	4 763	4 380	383
Derivatives	8 670	2 027	6 643	10 008	3 253	6 755
Other	26 493	4 316	22 178	28 278	4 246	24 032
Total	218 190	79 480	138 710	226 561	79 193	147 368

- 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 ‘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	Gross amounts of recognised financial	Net amounts of financial instruments presented in	Amounts not set off in the balance sheet			Net amount
				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2013							
Derivatives	9 125	454	8 670	5 026	1 813	0	1 832
Derivatives (excluding central clearing houses)	8 667	0	8 667	5 026	1 813	0	1 829
Derivatives with central clearing houses (1)	457	454	3	0	0	0	3
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 ASSETS, 31-12-2014							
Derivatives	12 481	2 473	10 008	5 249	2 505	0	2 254
Derivatives (excluding central clearing houses)	10 000	0	10 000	5 249	2 505	0	2 245
Derivatives with central clearing houses (1)	2 481	2 473	8	0	0	0	8
Reverse repurchase, securities borrowing and lending and similar agreements	8 226	1 707	6 519	645	0	5 850	24
Reverse repurchase	8 226	1 707	6 519	645	0	5 850	24
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	20 707	4 180	16 527	5 895	2 505	5 850	2 278
FINANCIAL LIABILITIES, 31-12-2013							
Derivatives	10 284	454	9 830	5 026	2 634	0	2 170
Derivatives (excluding central clearing houses)	9 825	0	9 825	5 026	2 634	0	2 165
Derivatives with central clearing houses (1)	459	454	4	0	0	0	4
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
FINANCIAL LIABILITIES, 31-12-2014							
Derivatives	13 718	2 473	11 245	5 249	3 871	0	2 125
Derivatives (excluding central clearing houses)	11 242	0	11 242	5 249	3 871	0	2 122
Derivatives with central clearing houses (1)	2 476	2 473	3	0	0	0	3
Repurchase, securities lending and borrowing and similar agreements	10 827	1 707	9 120	645	0	8 470	4
Repurchase	10 827	1 707	9 120	645	0	8 470	4
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 544	4 180	20 365	5 895	3 871	8 471	2 128

(1) Cash collateral relating to account at central clearing houses included in the gross amount.

- 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: 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'. This is line with the IFRS definition. 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 Valuation 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 funding costs. Credit value adjustments (CVAs) 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 its expected future fair value 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, bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. Partly on account of the Asset Quality Review, the CVA model was modified in the fourth quarter of 2014 on the basis of the method described above. This change had a small positive impact on the result. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration. A funding value adjustment (FVA) is a correction made to the fair value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.

- 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 eur	Loans and advances Carrying value	Loans and advances Fair value	Financial assets held to maturity Carrying value	Financial assets held to maturity Fair value	Financial liabilities at amortised cost Carrying value	Financial liabilities at amortised cost Fair value
FINANCIAL ASSETS, 31-12-2013						
Loans and advances to credit institutions and investment firms	9 545	9 760	-	-	-	-
Loans and advances to customers	118 400	120 012	-	-	-	-
Debt securities	1 685	1 641	25 007	25 926	-	-
Total	129 630	131 413	25 007	25 926	-	-
Of which level 1		1 408		24 155		
Of which level 2		25 643		1 206		
Of which level 3		104 362		564		
FINANCIAL ASSETS, 31-12-2014						
Loans and advances to credit institutions and investment firms	10 773	10 910	-	-	-	-
Loans and advances to customers	122 975	125 406	-	-	-	-
Debt securities	1 207	1 400	25 956	29 019	-	-
Total	134 955	137 717	25 956	29 019	-	-
Of which level 1		926		28 347		
Of which level 2		19 896		503		
Of which level 3		116 895		169		
FINANCIAL LIABILITIES, 31-12-2013						
Deposits from credit institutions and investment firms	-	-	-	-	12 890	14 195
Deposits from customers and debt certificates	-	-	-	-	146 528	149 223
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	1 561	1 576
Total	-	-	-	-	160 979	164 994
Of which level 1						1 122
Of which level 2						85 964
Of which level 3						77 908
FINANCIAL LIABILITIES, 31-12-2014						
Deposits from credit institutions and investment firms	-	-	-	-	16 651	17 929
Deposits from customers and debt certificates	-	-	-	-	152 925	152 579
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	2 107	1 985
Total	-	-	-	-	171 682	172 493
Of which level 1						1 052
Of which level 2						79 738
Of which level 3						91 703

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

Fair value hierarchy	31-12-2013				31-12-2014			
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	2 559	11 881	2 526	16 966	2 297	7 399	2 581	12 277
Designated at fair value	836	3 379	382	4 597	1 277	4 885	363	6 526
Loans and advances to credit institutions	0	1 595	0	1 595	0	1 636	0	1 636
Loans and advances to customers	0	1 654	24	1 678	0	3 101	26	3 127
Equity instruments	0	0	5	5	0	0	0	0
Investment contracts	0	0	0	0	0	0	0	0
Debt securities	836	130	352	1 318	1 277	149	337	1 763
Of which government securities	716	22	32	770	1 034	29	0	1 063
Available for sale	10 849	3 204	674	14 726	15 651	1 457	940	18 048
Equity instruments	61	12	202	275	200	0	250	450
Debt securities	10 787	3 193	471	14 451	15 451	1 457	690	17 598
Of which government securities	9 577	1 747	139	11 462	12 108	548	63	12 719
Hedging derivatives	0	770	0	770	0	1 104	0	1 104
Derivatives	0	770	0	770	0	1 104	0	1 104
Total	14 244	19 234	3 582	37 060	19 225	14 846	3 884	37 955
Financial liabilities measured at fair value								
Held for trading	374	10 100	2 639	13 113	327	5 809	2 374	8 510
Deposits from credit institutions	0	939	0	939	0	60	0	60
Deposits from customers and debt certificates	0	3 535	102	3 637	0	330	41	370
Derivatives	1	5 627	2 524	8 152	2	5 419	2 333	7 754
Short positions	373	0	13	386	325	0	0	325
Other	0	0	0	0	0	0	0	0
Designated at fair value	0	12 600	543	13 144	0	10 932	424	11 356
Deposits from credit institutions	0	896	0	896	0	1 004	0	1 004
Deposits from customers and debt certificates	0	11 704	543	12 248	0	9 928	424	10 352
Liabilities under investment contracts	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	1 678	0	1 678	0	3 491	0	3 491
Derivatives	0	1 678	0	1 678	0	3 491	0	3 491
Total	374	24 378	3 183	27 935	327	20 232	2 798	23 356

- 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, the reporting entity establishes fair value 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.

	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, compound FX options	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 (notes)	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 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.
- In 2014, 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 various types of debt instruments. KBC also reclassified around 1.3 billion euros' worth of bonds from level 2 to level 1, most of which (roughly 1 billion euros) related to covered bonds. Reclassification was carried out because the market for those instruments became more active in 2014.

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 **31-12-2013**, 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*	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	
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*	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/disposals	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'.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **31-12-2014**, in millions of EUR

LEVEL 3 FINANCIAL ASSETS	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Debt securities	Derivatives	Loans and advances	Equity instruments	Debt securities	Equity instruments	Debt securities	Derivatives
Opening balance	0	1	342	2 183	24	5	352	202	471	0
Total gains/losses	0	0	17	253	1	0	0	30	-24	0
in profit and loss*	0	0	17	253	1	0	0	5	-29	0
in other comprehensive income	0	0	0	0	0	0	0	26	5	0
Acquisitions	0	0	2	305	0	0	18	17	569	0
Sales	0	0	-20	-77	0	-5	-2	-6	-74	0
Settlements	0	0	-61	-359	-3	0	-16	-1	-23	0
Transfers into level 3	0	0	0	0	0	0	0	0	63	0
Transfers out of level 3	0	0	-31	0	0	0	-29	0	-274	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	14	13	3	0	36	0	1	0
Changes in scope	0	0	0	0	0	0	-22	-3	-20	0
Other	0	0	0	0	0	0	0	9	0	0
Closing balance	0	0	263	2 318	26	0	337	250	690	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	0	22	433	1	1	10	-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	
Opening balance	0	102	2 524	13	0	0	543	0	0
Total gains/losses	0	1	-60	0	0	0	-25	0	0
in profit and loss*	0	1	-60	0	0	0	-25	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	293	0	0	0	0	0	0
Repurchases	0	-5	0	0	0	0	-119	0	0
Settlements	0	-66	-433	-13	0	0	0	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	7	10	0	0	0	23	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	41	2 333	0	0	0	424	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	0	329	0	0	0	-8	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.
- As a result of the further de-risking of the portfolio of legacy CDOs in 2014, that portfolio's sensitivity in profit or loss to credit spreads widening by 50% was reduced from -64 million euros at year-end 2013 to a negligible amount at the close of 2014. The remaining minor fluctuations in value are attributable to the fact that 0.3 billion euros' worth of CDO notes that are held by investors will remain outstanding until November 2017. KBC issued these notes and is counterparty for them. The notes could continue to fluctuate in value, mainly on account of movements in credit spreads on the underlying portfolio.

Note 23: Changes in own credit risk

In millions of EUR (+: gain, -: loss, amounts before tax)	
OWN EMISSIONS VALUED AT FAIR VALUE, 31-12-2013	
Impact of change in own creditspread on the income statement	- 62
Total cumulated impact on date of balance sheet	- 32
OWN EMISSIONS VALUED AT FAIR VALUE, 31-12-2014	
Impact of change in own creditspread on the income statement	- 2
Total cumulated impact on date of balance sheet	- 31

- 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 2 billion euros on 31 December 2014. 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%
31-12-2013	-0,02	-0,01	-0,00	+0,00	+0,01	+0,02
31-12-2014	-0,01	-0,00	-0,00	+0,00	+0,00	+0,01

- 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 0.1 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 31-12-2014	
Carrying value	890
Fair value	950

	If not reclassifed (available for sale)	After reclassifica-tion (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 50	- 110	- 60
Impact on income statement, before taxes	0	2	2

- 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 60 million euros on equity and a positive impact of 2 million euros on the income statement.
- 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 2014, no debt instruments 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

	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge *				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.

	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge *				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
31-12-2014																
Total	8 905	7 754	382 505	379 553	426	736	25 223	25 223	650	2 610	25 711	25 647	28	144	2 749	2 749
Breakdown by type																
Interest rate contracts	5 392	4 652	219 148	216 302	426	736	25 223	25 223	642	2 600	25 525	25 525	28	144	2 749	2 749
Interest rate swaps	4 208	4 113	150 016	150 630	426	736	25 223	25 223	642	2 600	25 525	25 525	28	144	2 749	2 749
Forward rate agreements	0	3	1 880	2 385	0	0	0	0	0	0	0	0	0	0	0	0
Futures	3	3	12 879	13 727	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 181	534	54 374	49 560	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	1 344	989	125 761	126 629	0	0	0	0	7	10	186	122	0	0	0	0
Forward foreign exchange operations/Currency forwards	189	180	17 419	17 394	0	0	0	0	0	1	31	31	0	0	0	0
Currency and interest rate swaps	1 033	628	96 114	95 694	0	0	0	0	7	9	155	91	0	0	0	0
Futures	0	0	284	284	0	0	0	0	0	0	0	0	0	0	0	0
Options	121	180	11 944	13 257	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	2 016	2 020	32 162	31 911	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 674	1 704	30 120	30 120	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	342	317	2 042	1 791	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	102	42	4 823	4 100	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	102	42	4 823	4 100	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	51	51	611	611	0	0	0	0	0	0	0	0	0	0	0	0

*Including hedges of net investments in foreign operations.

- 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	16	- 16
More than three but not more than six months	27	- 57
More than six months but not more than one year	86	- 120
More than one but not more than two years	160	- 364
More than two but not more than five years	431	- 980
More than five years	1 273	- 2 391

Notes on other balance sheet items

Note 26: Other assets

in millions of EUR	31-12-2013	31-12-2014
Total	768	960
Breakdown by type	768	960
Income receivable (other than interest income from financial assets)	167	82
Other Assets	602	878

Note 27: Tax assets and tax liabilities

in millions of EUR	31-12-2013	31-12-2014
CURRENT TAXES		
Current tax assets	200	45
Current tax liabilities	97	80
DEFERRED TAXES	**1 348**	**1 572**
Tax assets by type of temporary difference	1 658	2 039
Employee benefits	76	149
Losses carried forward	595	468
Tangible and intangible fixed assets	36	41
Provisions for risks and charges	21	52
Impairment for losses on loans and advances	308	228
Financial instruments at fair value through profit or loss and fair value hedges	259	208
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	336	828
Other	27	65
Unused tax losses and unused tax credits*	1 204	1 283
Deferred tax liabilities by type of temporary difference	310	467
Employee benefits	5	2
Losses carried forward	0	
Tangible and intangible fixed assets	98	96
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	17	7
Financial instruments at fair value through profit or loss and fair value hedges	7	15
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	135	296
Other	47	52
Recognised in the balance sheet as follows:		
Deferred tax assets	1 417	1 657
Deferred tax liabilities	68	85

* 2013: adjusted figures

- 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 (+224 million euros in 2014) breaks down as follows:
  - an increase in deferred tax assets: +381 million euros;
  - an increase in deferred tax liabilities: +157 million euros.
- The change in deferred tax assets was accounted for by:
  - the decrease in deferred tax assets via the income statement: -243 million euros (due primarily to losses carried forward (-209 million euros), impairment relating to losses on loans and advances (-20 million euros), financial instruments at fair value through profit or loss (-38 million euros), provisions for risks and charges (+33 million euros));
  - the decrease in deferred tax assets following changes in the revaluation reserve for available-for-sale financial assets: -18 million euros;
  - the increase in deferred tax assets consequent on movements in the market value of cashflow hedges: +455 million euros;
    - the increase in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: +83 million euros;
    - the increase in deferred tax assets owing to changes in the revaluation reserve for hedges of net investments in foreign operations: +55 million euros.

- The change in deferred tax liabilities was accounted for chiefly by:
    - the decrease in deferred tax liabilities via the income statement: -13 million euros;
    - the decrease in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +169 million euros;
    - the decrease in deferred tax liabilities on account of changes in the market value of cashflow hedges: +8 million euros;
        - the decrease in deferred tax liabilities owing to changes in the revaluation reserve for hedges of net investments in foreign operations: -17 million euros.

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

Note 28: Investments in associated companies and joint ventures

in millions of EUR	2013	2014
Total	182	179
Overview of investments including goodwill		
Ceskomoravská stavebni sporitelna a.s. (CMSS)	175	175
Other	8	4
Goodwilll on associated companies and joint ventures	0	0
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	182	179
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0
Movements table	**2013**	**2014**
Opening balance (1 January)	213	182
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	30	22
Capital increase	0	0
Dividends paid	- 41	- 30
Share of gains and losses not recognized in the income statement	- 3	8
Translation differences	- 15	0
Changes in goodwill (NLB: impairment on goodwill & other)	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0
Other movements	0	- 3
Closing balance (31 December)	182	179

- Associated companies are 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. Joint ventures are companies over which KBC Bank NV exercises joint control.
- As a result of the retroactive application of IFRS 11, which stipulates that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation, 'Investments in associated companies and joint ventures' is now accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic.
- The following is a summary of financial data for ČMSS (on 100% basis):

Ceskomoravská stavebni sporitelna a.s. (in millions of EUR)	2013	2014
Cash and cash balances with central banks	84	149
Financial assets	2 721	3 089
Non financial assets	464	28
TOTAL ASSETS	3 269	3 266
Financial liabilities	3 047	3 044
Non financial liabilities	48	47
Total equity	175	175
TOTAL LIABILITIES AND EQUITY	3 269	3 266
Total income	69	59
Interest income	122	113
Interest expense	- 65	-68
Opex	- 28	-25
Impairments	- 6	-6
Income tax	- 7	-5
Total profit	29	23
Other comprehensive income	- 19	- 7
Total comprehensive income	10	31

- Goodwill paid on associated companies and joint ventures is included in the nominal value of ‘Investments in associated companies and joint ventures’ 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	31-12-2013	31-12-2014
Property and equipment	2 190	2 029
Investment property	415	397
Rental income	54	49
Direct operating expenses from investments generating rental income	28	32
Direct operating expenses from investments not generating rental income	1	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Total Other equipment	Total property and equipment	Investment property
2013					
Opening balance	1 314	33	928	2 276	412
Acquisitions	16	16	377	409	20
Disposals	- 5	0	- 162	- 168	- 2
Depreciation	- 68	- 13	- 21	- 103	- 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	- 22	0	- 8	- 31	- 1
Changes in the scope of consolidation	15	0	0	16	- 11
Other movements	- 1	0	- 190	- 190	20
Closing balance	1 230	36	924	2 190	415
of which accumulated depreciation and impairment	1 071	117	562	1 749	208
construction	5	6	4	15	
of which finance lease as a lessee	0	0	0	0	
Fair value 31-12-2013					486
2014					
Opening balance	1 230	36	924	2 190	415
Acquisitions	77	10	310	397	10
Disposals	- 152	- 1	- 123	- 276	- 40
Depreciation	- 65	- 13	- 18	- 95	- 17
Impairment					
recognised	- 1	- 6	- 1	- 8	0
reversed	0	0	0	1	0
Transfer to or from non-current assets held for sale and disposal groups	- 20	0	0	- 20	0
Translation differences	- 4	- 1	- 2	- 6	0
Changes in scope of consolidation	8	0	0	9	33
Other movements	2	1	- 165	- 162	- 5
Closing balance	1 076	27	927	2 029	397
of which accumulated depreciation and impairment	1 075	115	593	1 782	217
construction	9	7	4	20	
of which finance lease as a lessee	0	0	0	0	
Fair value 31-12-2014					501

- 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 was a small amount (around 0.2 billion euros) for commitments for the acquisition of property and equipment. There were no significant 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 and on 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; and
  - 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
2013					
Opening balance	969	0	45	24	1 038
Acquisitions	0	14	33	3	50
Disposals	0	0	0	- 1	- 1
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 2	- 22	- 3	- 26
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	- 1	- 1	- 26
Changes in the scope of consolidation	0	0	0	0	0
Other movements	0	2	13	- 15	1
Closing balance	944	15	69	7	1 035
of which accumulated amortisation and impairment	973	2	342	32	1 349
2014					
Opening balance	944	15	69	7	1 035
Acquisitions	0	7	51	5	63
Disposals	0	- 1	0	- 7	- 9
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 10	- 28	0	- 38
Impairment					
recognised	0	- 12	- 1	0	- 13
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	- 16	0	- 2	0	- 18
Changes in the scope of consolidation	0	0	0	0	0
Other movements	- 1	17	- 8	0	7
Closing balance	927	16	80	4	1 027
of which accumulated amortisation and impairment	973	17	264	31	1 284

- 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: 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), and the residual 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)	31-12-2013	31-12-2014	Discount rates throughout the specific period of cashflow projections	
			31-12-2013	31-12-2014
K&H Bank	232	219	13,9%-10,2%	11,6%-8,0%
ČSOB (Czech Republic)	266	264	8,9%-8,6%	8,4%-7,8%
ČSOB (Slovak Republic)	188	188	9,9%-9,1%	8,9%-8,1%
CIBANK	117	117	11,1%-9,4%	9,3%-7,7%
Rest	140	140	-	-
Total	944	927	-	-

- 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 2013.
- 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.

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)	1,0%	2,8%	1,0%	3,8%
CIBANK	2,2%	-	3,3%	11,3%

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
2013						
Opening balance	21	303	65	390	92	482
Movements with an impact on result				0		
Amounts allocated	5	17	18	40	62	102
Amounts used	- 8	- 12	- 2	- 22	- 9	- 31
Unused amounts reversed	0	- 2	- 3	- 5	- 57	- 62
Transfer to or from non-current liabilities regarding disposal groups						0
Change in consolidation scope	0	0	- 6	- 6	0	- 6
Other movements	1	- 14	- 6	- 19	25	6
Closing balance	19	291	68	377	114	491
2014						
Opening balance	19	291	68	377	114	491
Movements with an impact on result				0		
Amounts allocated	24	12	232	269	32	301
Amounts used	- 8	- 80	- 193	- 281	- 3	- 284
Unused amounts reversed	- 2	- 3	- 1	- 6	- 55	- 61
Transfer to or from non-current liabilities regarding disposal groups	2			2	0	2
Change in consolidation scope	- 1	0	0	0	9	9
Other movements	- 2	4	6	8	61	69
Closing balance	31	225	113	369	158	527

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions: included those set aside for miscellaneous risks and future expenditure.
- Information relating to the 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 50 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 58.2 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 58.2 million US dollars plus interest of 57 million US dollars (calculated to the end of March 2013). In accordance with the way proceedings are conducted in the UK, documents and witness statements have since been exchanged, and this will be followed by an exchange of expert reports. A hearing is scheduled for 22 May 2015 to arrange proceedings, after which the case itself will be heard between 20 and 24 July 2015. An appropriate provision has been set aside to cover this risk.
    - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous clients 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. Following a ruling by the court of appeal on 27 May 2010, proceedings were restarted. The criminal case resumed in January 2015. 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 uttering under ordinary law and under tax law. The Belgian State lodged an appeal with the Indictments Division in which the oral hearing was held on 13 January 2015. The court's ruling is expected on 31 March 2015. A suitable provision 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 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 suitable provision has been set aside to cover potential damages.

• Possible outflow:

- On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. Among the issues being addressed by the district court, and presently being briefed, are the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees such as KBC. KBC is participating in that briefing and, together with numerous other defendants, has filed motions for dismissal. District court Judge Jed Rakoff has already made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the ‘good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC). Therefore, the trustee’s recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers.

Note 32: Other liabilities

in millions of EUR	2013	2014
Total	2 180	1 861
Breakdown by type		
Retirement benefit plans or other employee benefits	310	505
Accrued charges (other than from interest expenses on financial liabilities)	342	196
Other	1 527	1 159

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

Note 33: Retirement benefit obligations

in millions of EUR	2013	2014
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 046	1 878
Current service cost	102	93
Interest cost	50	60
Plan amendments	- 1	0
Actuarial gain or loss arising from changes in demographic assumptions	- 99	28
Actuarial gain or loss arising from changes in financial assumptions	- 106	467
Past-service cost	- 3	- 1
Benefits paid	- 111	- 122
Exchange differences	0	7
Curtailments	0	- 2
Transfers under IFRS 5	0	16
Changes in the scope of consolidation	0	0
Other	0	22
Defined benefit obligation at end of the period	1 878	2 444
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 552	1 596
Actual return on plan assets	55	270
Expected return on plan assets	41	53
Employer contributions	73	76
Plan participant contributions	23	22
Benefits paid	- 107	- 118
Exchange differences	0	6
Settlements	0	0
Transfers under IFRS 5	0	14
Changes in the scope of consolidation	0	0
Other	0	73
Fair value of plan assets at the end of the period	1 596	1 939
of which financial instruments issued by the group	10	25
of which property occupied by KBC	11	0
Funded Status		
Plan assets in excess of defined benefit obligations	- 282	- 506
Reimbursement rights	54	54
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	- 228	- 451

Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 440	- 228
Amounts recognised in the income statement	- 87	- 72
Amounts recognised in other comprehensive income	198	- 262
Employer contributions	76	78
Exchange differences	0	- 1
Transfers under IFRS 5	0	- 2
Changes in the scope of consolidation	0	0
Other	24	36
Unfunded accrued/prepaid pension cost at the end of the period	- 228	- 451
Amounts recognised in the income statement	**87**	**72**
Current service cost	102	93
Past-service cost	- 2	- 1
Interest cost	10	6
Plan participant contributions	- 22	- 22
Curtailments	0	- 2
Settlements	- 1	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**- 198**	**262**
Actuarial gain or loss arising from changes in demographic assumptions	- 99	28
Actuarial gain or loss arising from changes in financial assumptions	- 106	467
Actuarial result on plan assets	- 17	- 218
Experience adjustments	0	- 5
Other	0	- 10
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	3,0%	1,6%
Expected rate of salary increase	3,1%	3,0%
Expected rate of inflation	2,0%	2,0%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	5

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank and most of its Belgian subsidiaries are accrued exclusively through the KBC pension funds. Retirement benefits accrued through employer contributions are currently accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC, which use the services of KBC Asset Management for the investment strategy. In addition, there are a number of closed group insurance schemes from the past that will continue to be funded,
- KBC Bank Ireland participated in a fully funded defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan 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 the Dublin branch of KBC Bank 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.

Additional information on retirement benefit obligations	KBC Pension fund
Contributions expected in 2015 (in millions of EUR)	20
Nature of pension plan benefits	Capital at retirement age. Vested rights are paid out on death.
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 3.75% on employee contributions.
Responsibilities of KBC	To provide information following exit from the plan. To deposit employee contributions at the pension institution.
Risks for KBC	Investment risk.
Funding	Contributions to the plan are calculated using the fixed component liability method.
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.
Key actuarial assumptions	
Average discount rate	1.46%
Expected salary increase	n/a
Expected inflation rate	n/a
Expected rate of increase in pension	n/a
Average duration of the obligations	11,42
Weighted average duration of the obligations	11,38
Impact of changes in the assumptions used in the actuarial calculation of the defined benefit obligations	
Increase in the defined benefit obligations on 31-12-2014 consequent on:	
a decrease of 1% in the discount rate	10,15%
an increase of 1% in the expected inflation rate	n/a
an increase that is 1% higher than the expected real increase in salary	n/a
the age of retirement being 65 for all active employees	2,04%
an increase of one year in life expectancy	n/a

*Arising from defined benefit plans. A plus sign signifies a positive impact, a minus sign a negative impact.

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS	KBC Pension fund	KBC Bank Ireland Pension plan
Composition (31-12-2013)		
- Shares	40%	57%
- Bonds	44%	32%
- Real estate	12%	2%
- Cash	4%	9%
of which illiquid assets	12%	2%
Composition (31-12-2014)		
- Shares	39%	36%
- Bonds	51%	42%
- Real estate	9%	3%
- Cash	1%	1%
- Investment funds	0%	18%
of which illiquid assets	3%	0%
Contributions expected in 2015 (in millions of EUR)	70	3
Nature of pension plan benefits	Capital at retirement age. Death benefit in case of death during active career. Monthly annuity payment 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. Funding level calculated every year and certified 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 provide information following exit from the plan.	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 against interest rate risk and inflation risk 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	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one.	The trustees agreed to reduce participants' benefits by 0.75% for 2014 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	Not applicable	The trustees agreed to reduce participants' benefits by 0.75% for 2014 to account for the payment of the pension levy enacted by the Irish government.

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 method 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 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	1,61%	2.35%
Expected rate of salary increase	3,00%	2.50%
Expected inflation rate	2,00%	1.50%
Expected rate of increase in pensions	n/a	1.50%
Average duration of the obligations	14,83 years	17 years
Weighted average duration of the obligations	12,96 years	27 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement obligations		
Increase in the retirement obligations on 31-12-2014 consequent on:		
a decrease of 1% in the discount rate	14,32%	31.39%
an increase of 1% in the expected inflation rate	11,81%	23.58%
an increase that is 1% higher than the expected rate of increase in salary	15,14%	8.44%
the age of retirement being 65 for all active employees	2,23%	–
an increase of one year in life expectancy	n/a	2.98%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital so longevity risk is immaterial. Staff turnover rates, since the expected rate is very low.	Not applicable

Note 34: Parent shareholders' equity

in number of shares	31-12-2013	31-12-2014
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
MOVEMENTS TABLE, in number of shares	Ordinary shares	
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	
2014		
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	

- Ordinary shares: 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 2014, 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.
- 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. 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). On 8 January 2014, KBC Group repaid 0.33 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2014). KBC Group aims to pay back the remaining balance of 2 billion euros (plus penalties) by the end of 2017 at the latest (subject to the customary approval of the regulator).
- Trust preferred securities: 358 million euros at year-end 2013 and 0 million euros at year-end 2014. These 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 had already been bought back in the past, and KBC Bank called all its remaining securities for redemption in 2014 (total amount of 0.4 billion euros).
- For your information: Additional tier-1 instruments KBC Group: in March 2014, KBC Group issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities, and subsequently lent this amount to KBC Bank in the form of a new additional tier-1 instrument. These securities qualify as additional tier-1 capital under Basel III (as adopted in CRD IV) and, therefore, have had a positive impact on the tier-1 capital of KBC Group and KBC Bank. They are perpetual and may be called for redemption from year five onwards. Since they are classified as shares under IAS 32 (because interest payments are discretionary and the securities are perpetual), the annualised coupon of 5.825% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

Other notes

Note 35: Commitments and guarantees granted and received

in millions of EUR	2013	2014
Credit commitments - undrawn amount		
Given	24 780	31 837
Irrevocable	16 082	17 521
Revocable	8 698	14 317
Received	91	33
Financial guarantees		
Given	10 404	9 989
Guarantees received / collateral	36 666	30 383
For impaired and past due assets	2 774	1 741
For assets that are not impaired or past due assets	33 892	28 642
Other commitments		
Given	7	186
Irrevocable	7	186
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged as collateral for		
Liabilities	24 827	29 167
Contingent liabilities	2 657	3 969

*At year-end 2014, some 9.2 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 (8.1 billion euros at year-end 2013). More information on covered bonds is provided under 'Liquidity risk' in the '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 2014, 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	2013	2014	2013	2014
Financial assets	16 990	15 450	6 603	5 208
Equity instruments	2	7	0	0
Debt instruments	16 802	15 297	6 603	5 208
Loans & advances	185	146	0	0
Cash	0	0	0	0
Non-financial assets	2	2	0	0
Property and equipment	2	2	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession during the period	2013	2014
Non-current assets held-for-sale	2	1
Property and equipment	0	0
Investment property	1	2
Equity and debt instruments	0	0
Cash	173	89
Other	25	26
Total	201	118

Note 36: Leasing

In millions of EUR	2013	2014
Finance lease receivables		
Gross investment in finance leases, receivable	4 652	4 774
At not more than one year	1 119	1 133
At more than one but not more than five years	2 320	2 376
At more than five years	1 213	1 265
Unearned future finance income on finance leases	651	636
Net investment in finance leases	4 044	4 138
At not more than one year	978	999
At more than one but not more than five years	2 046	2 105
At more than five years	1 020	1 034
Of which unguaranteed residual values accruing to the benefit of the lessor	22	23
Accumulated impairment for uncollectable lease payments receivable	137	120
Contingent rents recognised in income	105	102
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	435	411
Not more than one year	137	149
More than one but not more than five years	281	253
More than five years	17	9
Contingent rents recognised in income	1	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: involve 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)	31-12-2013 Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Flemish region	Other	Total	31-12-2014 Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Flemish region	Other	Total
Assets	178	237	104	92	574	1 125	2 311	51	131	207	68	369	2 116	2 941
Loans and advances	145	85	55	87	0	947	1 319	0	63	158	64	0	1 993	2 278
Current accounts	28	0	0	0	0	9	36	0	0	0	0	0	145	145
Term loans	117	85	55	87	0	939	1 282	0	62	158	64	0	1 848	2 133
Finance leases	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	3	70	25	0	0	0	98	7	67	42	4	13	0	133
Trading securities	3	0	0	0	0	0	3	7	0	0	0	0	0	7
Investment securities	0	70	25	0	0	0	95	0	67	42	4	13	0	126
Other receivables	30	82	25	5	574	177	894	44	1	6	0	356	123	530
Liabilities	403	524	124	877	0	2 502	4 430	1 628	545	123	782	0	2 398	5 477
Deposits	112	521	14	877	0	1 568	3 092	399	543	15	782	0	1 679	3 418
Deposits	106	518	14	877	0	1 568	3 084	399	543	15	782	0	1 679	3 418
Other	6	2	0	0	0	0	8	0	0	0	0	0	0	0
Other financial liabilities	251	0	0	0	0	865	1 116	1 150	0	0	0	0	693	1 843
Debt certificates	0	0	0	0	0	865	865	0	0	0	0	0	693	693
Subordinated liabilities	251	0	0	0	0	0	251	1 150	0	0	0	0	0	1 150
Share based payments, granted	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share based payments, exercised	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities (including accrued exp	40	3	110	0	0	69	222	79	2	108	0	0	27	216
Income statement	- 801	28	- 3	- 4	14	40	- 725	- 863	4	- 2	- 8	10	- 37	- 895
Net interest income	3	5	- 1	- 9	15	- 54	- 42	- 1	3	0	- 8	11	- 106	- 101
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	0	1	6	0	0	7	0	0	1	0	0	2	3
Net fee and commission income	1	2	- 1	0	0	121	123	0	0	- 1	0	0	91	90
Other income	62	22	0	0	0	1	85	0	1	0	0	0	1	2
Other expenses	- 867	- 1	- 2	0	- 1	- 28	- 899	- 862	0	- 3	0	0	- 24	- 890
Guarantees														
Guarantees issued by the group							0							0
Guarantees received by the group							0							0

Transactions with key management personnel (members of the Board of Directors and the Executive Committee of KBC Group), in millions of EUR	2013	2014
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	0	0
Granted	0	0
Exercised	0	0
Changes in composition of directors	0	0
At the end of the period	0	0
Advances and loans granted to the directors and partners	3	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 Insurance group and to a lesser extent KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Flemish Region: considered in the strict sense only (i.e. excluding companies it controls).
- There were no significant transactions with associated companies other than those shown in the table.
- Key management: the members of the Board of Directors and Group Executive Committee.
- Information on the capital transactions and guarantee agreements with the Belgian Federal and Flemish Regional governments is provided under 'Additional information'.
- There were no significant impairment charges vis-à-vis related parties.

Note 38: Statutory auditor's remuneration

In 2014, KBC Bank NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 8 476 982 euros (2 456 199 euros for the account of KBC Bank NV) for standard audit services (9 051 775 euros in 2013). Remuneration paid for other services came to 1 499 643 euros (596 807 euros for the account of KBC Bank NV) in 2014 (973 415 euros in 2013) and comprised 882 878 euros for other certifications, 60 881 euros for tax advice and 555 884 euros for other non-audit assignments (708 644, 50 994 and 213 777 euros, respectively, in 2013).

Note 39: List of subsidiaries and associated companies at year-end 2014

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
Subsidiaries that are fully consolidated					
Almafin Real Estate NV	Brussels – BE	0403.355.494	100.00	BEL	real estate
Almafin Real Estate Services NV	Brussels – BE	0416.030.525	100.00	BEL	real estate
Immo Arenberg NV	Brussels – BE	0471.901.337	100.00	BEL	real estate
Antwerp Diamond Bank NV	Antwerp – BE	0404.465.551	100.00	GRP	credit institution
ADB Asia Pacific Limited	Singapore – SG	--	100.00	GRP	credit institution
Banque Diamantaire (Suisse) SA	Geneva – CH	--	100.00	GRP	credit institution
Apitri NV	Brussels – BE	0469.889.873	100.00	BEL	real estate
CBC Banque SA	Brussels – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IMA	credit institution
ČSOB Centrála, s.r.o.	Bratislava – SK	--	100.00	IMA	facilities management and support services
ČSOB Factoring a.s.	Bratislava – SK	--	100.00	IMA	factoring
ČSOB Leasing a.s.	Bratislava – SK	--	100.00	IMA	leasing
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava – SK	--	100.00	IMA	leasing support
ČSOB Stavebná Sporitel'na a.s.	Bratislava – SK	--	100.00	IMA	building society
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZR	credit institution
Bankovní Informační Technologie s.r.o.	Prague – CZ	--	100.00	CZR	automatic data processing
Centrum Radlická a.s.	Prague – CZ	--	100.00	CZR	real estate
ČSOB Advisory a.s.	Prague – CZ	--	100.00	CZR	investment administration
ČSOB Factoring a.s.	Prague – CZ	--	100.00	CZR	factoring
ČSOB Leasing a.s.	Prague – CZ	--	100.00	CZR	leasing
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague – CZ	--	100.00	CZR	leasing support
ČSOB Penzijní společnost a.s.	Prague – CZ	--	100.00	CZR	pension insurance fund
ČSOB Property Fund a.s.	Prague – CZ	--	62.87	CZR	real estate fund
Merrion Properties a.s.	Prague – CZ	--	62.87	CZR	real estate
Hypoteční banka a.s.	Prague – CZ	--	100.00	CZR	mortgage credit institution
Radlice Rozvojava a.s.	Prague - CZ	--	100.00	CZR	real estate
CIBANK EAD	Sofia – BG	--	100.00	IMA	credit institution
Management of Assets for Sale – 2 EOOD	Sofia – BG	--	100.00	IMA	real estate
Katarino Spa Hotel EAD	Sofia – BG	--	100.00	IMA	real estate
IIB Finance Ireland	Dublin – IE	--	100.00	GRP	holding company
KBC Finance Ireland	Dublin – IE	--	100.00	GRP	lending
KBC Financial Services (Ireland) Limited	Dublin – IE	--	100.00	GRP	holding company
Immo-Quinto NV	Brussels – BE	0466.000.470	100.00	BEL	real estate
Julienne Holdings S.à.r.l.	Luxembourg – LU	--	93.00	BEL	holding company
Julie LH BVBA	Brussels – BE	0890.935.201	93.00	BEL	real estate
Juliette FH BVBA	Brussels – BE	0890.935.397	93.00	BEL	real estate
KBC Asset Management NV	Brussels – BE	0469.444.267	51.86	BEL	asset management
KBC Asset Management SA	Luxembourg – LU	--	46.30	BEL	asset management
KBC Fund Management Limited	Dublin – IE	--	51.86	BEL	asset management
KBC Participations Renta B	Luxembourg – LU	--	51.86	BEL	asset management
KBC Participations Renta C	Luxembourg – LU	--	51.86	BEL	asset management
ČSOB Asset Management, a.s., Investiční Společnost	Prague – CZ	--	71.15	CZR	asset management
KBC Participations Renta SA	Luxembourg – LU	--	51.86	BEL	asset management
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsaw – PL	--	51.86	IMA	asset management
KBC Bank Ireland Plc.	Dublin – IE	--	100.00	IMA	credit institution
Boar Lane Nominee (Number 1) Limited	Dublin – IE	--	100.00	IMA	*
Boar Lane Nominee (Number 2) Limited	Dublin – IE	--	100.00	IMA	*
Boar Lane Nominee (Number 3) Limited	Dublin – IE	--	100.00	IMA	*
Danube Holdings Limited	Dublin – IE	--	100.00	IMA	real estate
Fermion Limited	Dublin – IE	--	100.00	IMA	mortgages management
Glare Nominee Limited	Dublin – IE	--	100.00	IMA	*

IIB Finance Limited	Dublin – IE	--	100.00	IMA	commercial and financial services
IIB Asset Finance Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Commercial Finance Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Leasing Limited	Dublin – IE	--	100.00	IMA	leasing
Lease Services Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Homeloans and Finance Limited	Dublin – IE	--	100.00	IMA	holding company
KBC Homeloans and Finance Limited	Dublin – IE	--	100.00	IMA	holding company
Premier Homeloans Limited	Surrey – GB	--	100.00	IMA	home loans
Intercontinental Finance	Dublin – IE	--	100.00	IMA	leasing
Irish Homeloans and Finance Limited	Dublin – IE	--	100.00	IMA	real estate
KBC ACS Limited	Dublin – IE	--	100.00	IMA	*
KBC Mortgage Finance	Dublin – IE	--	100.00	IMA	mortgage financing
KBC Nominees Limited	Dublin – IE	--	100.00	IMA	*
Linkway Developments Limited	Dublin – IE	--	100.00	IMA	*
Merrion Commercial Leasing Limited	Surrey – GB	--	100.00	IMA	leasing
Merrion Equipment Finance Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Assets Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Finance Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Industrial Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Services Limited	Surrey – GB	--	100.00	IMA	leasing
Monastersky Limited	Dublin – IE	--	100.00	IMA	holding company
Needwood Properties Limited	Dublin – IE	--	100.00	IMA	real estate
Phoenix Funding 2 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 3 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 4 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 5 Limited	Dublin – IE	--	100.00	IMA	securitisation
Rolata Limited	Douglas – IM	--	100.00	IMA	investment
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC Credit Investments NV	Brussels – BE	0887.849.512	100.00	BEL/GRP	investment firm
KBC Financial Products UK Limited	London – GB	--	100.00	GRP	(derivative) financial products
KBC Financial Products Hong Kong Limited	Hong Kong – HK	--	100.00	GRP	(derivative) financial products
KBC Financial Holding Inc.	Wilmington – US	--	100.00	GRP	holding company
KBC Financial Products (Cayman Islands) Limited 'Cayman I'	George Town – KY	--	100.00	GRP	stockbroker
Pacifica Group LLC	New York – US	--	100.00	GRP	derivatives trading
Midas Life Settlements LLC	Delaware – US	--	100.00	GRP	life settlement service provider
Reverse Mortgage Loan Trust 2008-1	New York – US	--	100.00	GRP	reverse mortgages
World Alliance Financial Corporation	New York – US	--	100.00	GRP	reverse mortgages
KBC Financial Products International SA	Luxembourg – LU	--	100.00	GRP	stockbroker
KBC Investments Hong Kong Limited	Hong Kong – HK	--	100.00	GRP	stockbroker
KBC Investments Limited	London – GB	--	100.00	GRP	stockbroker
111 OBS (General Partner) Limited	London – GB	--	100.00	GRP	real estate
Baker Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Dorset Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Hanover Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
KBC AIM Feeder Fund	George Town – KY	--	100.00	GRP	fund
KBC AIM Master Fund	George Town – KY	--	100.00	GRP	fund
KBC Investments Cayman Islands V Limited	George Town – KY	--	100.00	GRP	fund
Pembridge Square Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Regent Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Sydney Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
KBC IFIMA SA	Luxembourg – LU	--	100.00	GRP	financing
KBC Lease Holding NV	Leuven – BE	0403.272.253	100.00	BEL	leasing
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Lease (Luxembourg) SA	Bertrange – LU	--	100.00	BEL	leasing
KBC Bail Immobilier France sas	Lille – FR	--	100.00	BEL	leasing
KBC Immolease NV	Leuven – BE	0444.058.872	100.00	BEL	leasing
KBC Lease Belgium NV	Leuven – BE	0426.403.684	100.00	BEL	leasing
KBC Lease France SA	Lyon – FR	--	100.00	GRP	leasing

KBC Lease (UK) Limited	Surrey – GB	--	100.00	GRP	leasing
RSL Leasing IFN SA	Bucharest – RO	--	100.00	GRP	leasing
Kredietbank North American Finance Corp	Delaware – US	--	100.00	GRP	issuance of bonds
KBC Real Estate Luxembourg SA	Luxembourg – LU	--	100.00	BEL	real estate
KBC Vastgoedinvesteringen NV	Brussels – BE	0455.916.925	100.00	BEL	real estate
KBC Vastgoedportefeuille België NV	Brussels – BE	0438.007.854	100.00	BEL	real estate
Apicing NV	Brussels – BE	0469.891.457	100.00	BEL	real estate
KBC Rusthuisvastgoed NV	Brussels – BE	0864.798.253	100.00	BEL	real estate
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
Patria Online a.s.	Prague – CZ	--	100.00	CZR	online investment data
Patria Finance a.s.	Prague – CZ	--	100.00	CZR	online securities trading
Patria Finance CF a.s.	Prague – CZ	--	100.00	CZR	agent and consulting services
K&H Bank Zrt.	Budapest – HU	--	100.00	IMA	credit institution
K&H Befektetési Alapkezelő Zrt.	Budapest – HU	--	100.00	IMA	securities broking and fund management
K&H Csoportszolgáltató Központ Kft.	Budapest – HU	--	100.00	IMA	accounting and tax collection
K&H Equities Tanácsadó Zrt.	Budapest – HU	--	100.00	IMA	business and management advice
K&H Faktor Pénzügyi Szolgáltató Zrt.	Budapest – HU	--	100.00	IMA	factoring
K&H Alkusz Biztosításközvetítő Kft.	Budapest – HU	--	100.00	IMA	insurance broker
K&H Autópark Bérleti és Szolgáltató Kft.	Budapest – HU	--	100.00	IMA	fleet management
K&H Eszközlizing Gép-és Tehergépjármű Bérleti Kft.	Budapest – HU	--	100.00	IMA	leasing
K&H Ingatlanlizing Zrt.	Budapest – HU	--	100.00	IMA	leasing
Loan Invest NV 'Institutional company for investment in receivables under Belgian law'	Brussels – BE	0889.054.884	100.00	BEL	securitisation vehicle
Mechelen City Center NV	Brussels – BE	0471.562.332	100.00	BEL	real estate
Old Broad Street Invest NV	Brussels – BE	0871.247.565	100.00	GRP	real estate
111 OBS Limited Partnership	London – GB	--	100.00	GRP	real estate
Poelaert Invest NV	Brussels – BE	0478.381.531	100.00	BEL	real estate
Subsidiaries that are not fully consolidated					
111 OBS (Nominee) Limited[1]	London – GB	--	100.00	BEL	real estate
2 B Delighted Italia Srl[1]	Turin – IT	--	99.58	GRP	lighting
2 B Delighted NV[1]	Roeselare – BE	0891.731.886	99.58	GRP	lighting
Wever & Ducré NV[1]	Roeselare – BE	0412.881.191	99.58	GRP	lighting
Asia Pacific Trading & Investment Co Limited[1]	Hong Kong – HK	--	99.58	GRP	lighting
Dark NV[1]	Roeselare – BE	0472.730.389	99.58	GRP	lighting
Limis Beyond Light NV[1]	Roeselare – BE	0806.059.310	99.58	GRP	lighting
Wever & Ducré BV[1]	The Hague – NL	--	99.58	GRP	lighting
Wever & Ducré GmbH[1]	Herzogenrath – DE	--	99.58	GRP	lighting
Wever & Ducré Iluminación SL[1]	Madrid – ES	--	99.58	GRP	lighting
Almaloisir & Immobilier sas[1]	Nice – FR	--	100.00	BEL	real estate
Brussels North Distribution NV[1]	Brussels – BE	0476.212.887	100.00	BEL	real estate SPV
ČSOB Nadácia[1]	Bratislava – SK	--	100.00	IMA	real estate
De Klinckaert NV[2]	Brussels – BE	0539.765.408	100.00	BEL	issuance of real estate certificates
Eurincasso s.r.o.[1]	Prague – CZ	--	100.00	CZR	debt collection
Fitraco NV[1]	Leuven – BE	0425.012.626	100.00	BEL	leasing
Immo-Antares NV[2]	Brussels – BE	0456.398.361	100.00	BEL	issuance of real estate certificates
Immo-Basilix NV[2]	Brussels – BE	0453.348.801	100.00	BEL	issuance of real estate certificates
Immo-Beaulieu NV[2]	Brussels – BE	0450.193.133	50.00	BEL	issuance of real estate certificates
Immobilière Distri-Land NV[2]	Brussels – BE	0436.440.909	87.52	BEL	issuance of real estate certificates
Immo Genk-Zuid NV[2]	Brussels – BE	0464.358.497	100.00	BEL	issuance of real estate certificates
Immolease-Trust NV[1]	Brussels – BE	0406.403.076	100.00	BEL	real estate
Immo Lux-Airport SA[2]	Luxembourg – LU	--	100.00	BEL	issuance of real estate certificates
Immo-Marcel Thiry NV[2]	Brussels – BE	0450.997.441	100.00	BEL	issuance of real estate certificates
Immo NamOtt NV[2]	Brussels – BE	0840.412.849	100.00	BEL	issuance of real estate certificates

Immo NamOtt Tréfonds NV[2]	Brussels – BE	0840.620.014	100.00	BEL	issuance of real estate certificates
Immo-Zénobe Gramme NV[2]	Brussels – BE	0456.572.664	100.00	BEL	issuance of real estate certificates
IP Exit, a.s.[2]	Prague – CZ	--	71.30	CZR	*
KB-Consult NV[1]	Brussels – BE	0437.623.220	99.95	BEL	*
KBC Bail France II sas[1]	Lyon – FR	--	100.00	GRP	leasing
KBC Clearing NV[1]	Amsterdam – NL	--	100.00	BEL	clearing house
KBC Lease (Nederland) BV[1]	Almere – NL	--	100.00	GRP	leasing
KBC Private Equity NV[1]	Brussels – BE	0403.226.228	100.00	GRP	investment firm
KBC Securities USA, Inc.[1]	New York – US	--	100.00	GRP	stockbroker
Luxembourg North Distribution SA[2]	Luxembourg – LU	--	100.00	BEL	issuance of real estate certificates
Motokov a.s.[1]	Prague – CZ	--	70.09	CZR	vehicles
Newcourt Street Finance Limited[1]	Jersey – GB	--	100.00	GRP	CDO activities
Novoli Investors BV[1]	Amsterdam – NL	--	83.33	BEL	real estate
NV ACTIEF NV[1]	Brussels – BE	0824.213.750	57.14	BEL	training
Oxford Street Finance Limited[1]	Jersey – GB	--	100.00	GRP	CDO activities
Posselton Limited[1]	Dublin – IE	--	100.00	GRP	energy
Property LM s.r.o.[1]	Bratislava – SK	--	62.87	CZR	real estate
Quietas NV[2]	Brussels – BE	0539.764.121	100.00	BEL	issuance of real estate certificates
Rodenbach NV[2]	Brussels – BE	0539.765.012	100.00	BEL	issuance of real estate certificates
Ruscus sp. z o. o.[1]	Warsaw – PL	--	80.00	BEL	real estate leasing
Securitas sam[1]	Monaco – MC	--	100.00	GRP	leasing
Sisyphus Holding Corporation[1]	Delaware – US	--	100.00	GRP	holding company
Setanta Energy LLC[1]	Delaware – US		100.00	GRP	energy
Spanjeberg NV[2]	Brussels – BE	0539.764.814	100.00	BEL	issuance of real estate certificates
TEE Square Limited[1]	Road Town – VG	--	100.00	CZR	*
Ter Bake NV[2]	Brussels – BE	0539.764.517	100.00	BEL	issuance of real estate certificates
Transformation fund Stabilita[1]	Prague – CZ	--	100.00	CZR	pension insurance
Vastgoed Ruimte Noord NV[1]	Brussels – BE	0863.201.515	100.00	BEL	real estate
Weyveld Vastgoedmaatschappij NV[2]	Brussels – BE	0425.517.818	100.00	BEL	Issuance of real estate certificates
Willowvale Company[1]	Dublin – IE	--	99.99	GRP	real estate
Joint ventures accounted for using the equity method					
Českomoravská Stavební Spořitelna (ČMSS)	Prague – CZ	--	55.00	CZR	building society
Union KBC Asset Management Company Private Limited	Mumbai – IN	--	25.41	BEL	asset management
Joint ventures not accounted for using the equity method[1]					
Atrium Development SA	Luxembourg – LU	--	25.00	BEL	real estate
Covent Garden Development NV	Brussels – BE	0892.236.187	25.00	BEL	real estate
Covent Garden Real Estate NV	Zaventem – BE	0872.941.897	50.00	BEL	real estate
Immobiliare Novoli SpA	Florence – IT	--	45.00	BEL	real estate
Immo VAC Gent NV	Brussels – BE		50.00	BEL	real estate
Jesmond Amsterdam BV	Amsterdam – NL	--	50.00	BEL	holding company
Miedziana Sp z.o.o.	Warsaw – PL	--	47.75	BEL	real estate
Real Estate Participation NV	Zaventem – BE	0473.018.817	50.00	BEL	real estate
Sandonato Parcheggi Srl	Florence – IT	--	44.98	BEL	real estate
Sandonato Srl	Florence – IT	--	44.98	BEL	real estate
UNION KBC Trustee Company Private Limited	Mumbai – IN	--	25.41	BEL	trustee
Xiongwei Lighting (Guangzhou) Co., Ltd	Guangzhou – CY	--	49.79	GRP	lighting
Associated companies accounted for using the equity method					
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	0,24	CZR	Insurance company
HAGE Hajdúsági Agráripari Zrt.	Nádudvar – HU	--	25.00	IMA	agriculture
Associated companies not accounted for using the equity method[1]					
Bancontact-MisterCash NV	Brussels – BE	0884.499.250	20.00	BEL	credit cards
Banking Funding Company NV	Brussels – BE	0884.525.182	20.22	BEL	payment atransactions
Bedrijvencentrum Regio Roeselare NV	Roeselare – BE	0428.378.724	22.22	BEL	business centre

Brussels I3 Fund NV	Brussels – BE	0477.925.433	36.37	BEL	private equity funds
Cofely Ren s.r.o.	Prague – CZ	--	42.82	CZR	lease
Consorzio Sandonato Est	Florence – IT	--	20.32	BEL	real estate
Czech Banking Credit Bureau a.s.	Prague – CZ	--	20.00	CZR	ICT
Etoiles d'Europe sas	Paris – FR	--	45.00	BEL	hotels
Gemma Frisius-Fonds K.U. Leuven	Leuven – BE	0477.960.372	40.00	BEL	venture capital
Isabel NV	Brussels – BE	0455.530.509	25.33	BEL	ICT
Justinvest NV	Antwerp – BE	0476.658.097	33.33	BEL	real estate
První Certifikačni Autorita a.s.	Prague – CZ	--	23.25	CZR	certification services
Qbic Feeder Fund NV	Brussels – BE	846.493.561	22.26	BEL	venture capital
Rabot Invest NV	Antwerp – BE	0479.758.733	25.00	BEL	real estate
Xenarjo CVBA	Mechelen – BE	0899.749.531	22.75	BEL	social sector

* Not active.
Reason for exclusion:
1 Immaterial.
2 Issuers of real estate certificates and companies whereby the group is not exposed to a variable return.
3 BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:

- the group share in equity exceeds 2.5 million euros;
- the group share in the results exceeds 1 million euros;
- 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.

- As set out in the accounting policies, all (material) entities (including structured entities (SPVs)) 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 structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see below table). A number of structured 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 structured entities set up for the remaining CDO activities. Please note that these entities only exceed one threshold (balance sheet total) since their equity and net results are always very limited. However, the remaining CDO-related results are recorded under the KBC Financial Products group, which is, of course, consolidated. Consequently, excluding these structured entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.
- Disclosures of interests in other entities (IFRS 12)

  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC Bank does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Certain structured entities that are included in the scope of consolidation are subject to significant restrictions. In the past, KBC Bank initiated a number of CDO and RMBS note issues, in each case through a structured entity established for the sole purpose of entering into the relevant transaction (collectively referred to as the 'vehicles' and the 'transactions'). Each of the vehicles invested the proceeds of its notes issue in order to collateralise its obligations under both the notes and a portfolio credit default swap. All shares in the vehicles are wholly owned by a trust company. Nevertheless, the vehicles are consolidated in KBC Bank based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC Bank's ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the KBC group. All the assets of the vehicles are assigned to the security trustee (for itself and as trustee for the holders of the notes) as continuous security for the payment and discharge of the obligations of the vehicles under the notes. Unless explicitly authorised by the agreements or unless the security trustee provides consent in writing beforehand, neither the vehicle nor KBC Bank as administrator can access, transfer or use the cash or other assets of the vehicles to settle liabilities of other KBC entities.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.

- Interests in joint ventures and associated companies
    - For a summary of the financial information on ČMSS, see Note 28.
    - For a summary of the financial information on Asset Management, see Note 39.
    - No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
- Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 27 unconsolidated structured entities established for that purpose. Between 2006 and 2010, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2014, the assets under management at these entities amounted to 17.2 billion euros.
    - Interests in unconsolidated structured entities are defined as structured entities where KBC Bank NV or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC Bank NV or one of its subsidiaries. As a result, these entities are not consolidated.
    - At year-end 2014, KBC Bank had received income from unconsolidated structured entities in the form of management fees (38 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - Its liabilities towards the unconsolidated structured entities amounted to 6.5 billion euros and comprised mainly term deposits (5.6 billion euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC Bank.

- The following is a summary of financial data for the KBC Asset Management Group:

KBC Asset Management Group (in millions of EUR)	2013	2014
Cash and cash balances with central banks	1	0
Financial assets	324	156
Non financial assets	- 51	- 51
TOTAL ASSETS	670	599
Financial liabilities	0	0
Non financial liabilities	78	78
Total equity	592	521
TOTAL LIABILITIES AND EQUITY	670	599
Total income	390	461
Interest income	7	4
Interest expense	- 151	- 182
Opex	- 88	- 80
Impairments	0	0
Income tax	- 62	- 77
Total profit	239	303
Other comprehensive income	0	2
Total comprehensive income	238	306

Note 40: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level		Comments
For balance sheet comparison		31/12/2013	31/12/2014	
Additions				
None				
Exclusions				
Absolut Bank	Full	------	------	Sold in 2Q 2013
KBC Bank Deutschland AG	Full	100%	------	Sold in 3Q 2014
Transformation fund Stabilita	Full	100%	------	Deconsolidated in 3Q 2014
Name Changes				
KBC Ifima SA	Full	100,00%	100,00%	Before : KBC Internationale Financieringsmaatschappij NV
Changes in ownership percentage and internal mergers				
KBC Consumer Finance NV	Full	100%	------	Merged with KBC Bank NV on 1 January 2014

Note 41: Non-current assets held for sale and discontinued operations (IFRS 5)

- Main companies falling under the scope of IFRS 5:
  - At year-end 2013: Antwerp Diamond Bank and KBC Bank Deutschland.
  - At year-end 2014: none (sale of KBC Bank Deutschland was completed; see below concerning Antwerp Diamond Bank).
  - 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.
- Since the previously announced sale of Antwerp Diamond Bank (ADB) to Yinren Group did not go through, it was decided to run down the loan portfolio and activities of ADB in a gradual and orderly manner and not to grant any further loans or to develop any new business. The run-down is being carried out by means of a merger, through which ADB is absorbed by KBC Bank NV. Pursuant to the applicable IFRS accounting rules, the impairment charges taken on the sale of ADB in 2012 and 2013 were reversed in 2014, which had a positive impact of approximately 0.1 billion euros on the 2014 results of KBC Group NV.
- 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	31-12-2013	31-12-2014
Assets		
Cash and cash balances with central banks	57	0
Financial assets	3 627	0
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0
Tax assets	49	0
Investments in associated companies and joint ventures	0	0
Investment property and property and equipment	22	18
Goodwill and other intangible assets	2	0
Other assets	13	0
Total assets	3 769	18
Liabilities		
Financial liabilities	1 977	0
Technical provisions insurance, before reinsurance	0	0
Tax liabilities	11	0
Provisions for risks and charges	10	0
Other liabilities	28	0
Total liabilities	2 027	0
Other comprehensive income		
Available-for-sale reserve	- 3	0
Deferred tax on available-for-sale reserve	0	0
Cash flow hedge reserve	0	0
Translation differences	0	0
Total other comprehensive income	- 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 'Risk management' and 'Capital adequacy' sections that have been audited by the statutory auditor.

Note 43: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved by the Board of Directors (19 March 2015):

- In mid-March 2015, KBC was advised by the ECB of the new minimum capital requirements. KBC comfortably meets these requirements (see the ‘Capital adequacy’ section for more information).

Note 44: General information on the company

Name: KBC Bank.

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 seeks to attract or has sought to attract savings from the public; the company is a credit institution that is subject to the prudential supervision of the European Central Bank and the National Bank of Belgium.

Life: undefined.

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 performance of all other activities which banks are or shall be permitted to pursue (see Article 2 of the Articles of Association for a full description of the object).

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Commercial Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium. The annual report can also be obtained from the company's registered office or downloaded from www.kbc.com. It is sent every year to the holders of registered shares and to those who have requested a copy. Extracts of minutes concerning decisions on the appointment and the termination of the offices 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 are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the Belgian Official Gazette, in the financial press, in the media and on www.kbc.com.

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.
The holders of bearer bonds which are only issued abroad or which are subject to foreign law must, within the same timeframe, deposit at the registered office or at another place designated in the convening notice, their bonds or a certificate drawn up by a financial intermediary to which the bonds had been submitted or with which the bonds had been

entered on an account, attesting to the non-availability of the bonds until the date of the General Meeting.

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 29/04/2015

concerning the financial year covering the period from 01/01/2014 till 31/12/2014

Previous period from 01/01/2013 till 31/12/2013

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

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	entire year	2018
Mr. Alain BOSTOEN, Coupure 126, 9000 Gent	entire year	2016
Mr. Danny DE RAYMAEKER, Brabançonnestraat 84, 3000 Leuven	resignation as of 01/03/2014	
Mr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2015
Mr. Luc DISCRY, Bosduifdreef 4, 2970 Schilde	entire year	2018
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, V Ulickach 882 164 00, Praha - Nebusice, Czech Republic	entire year	2017
Mr. Pavel KAVANEK, Ostrovni 2064/5, Praha 1, Czech Republic	until 23/04/2014	
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	resignation as of 19/08/2014	
Mr. Dolf van den BRINK, Raboes 19, NL 1251 AK Laren, Nederland	until 22/12/2014 (decease)	
Ms. Ghislaine VAN KERCKHOVE, Wegvoeringstraat 62, 9230 Wetteren	entire year	2016
Ms. Christine VAN RIJSSEGHEM, Avenue du Manoir 59, 1410 Waterloo	as of 23/04/2014	2018
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	until 23/04/2014	
Mr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2018

AUDITOR:

Ernst & Young Bedrijfsrevisoren bcvba / Réviseurs d'Entreprises sccrl

De Kleetlaan 2 - 1831 Diegem, V.A.T. BE 0446.334.711, Registry number at the IBR/IRE (B160)
Represented by Christel Weymeersch
Partner, permanent representative of Christel Weymeersch bvba

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

	Notes	Code	Current period	Previous period
ASSETS				
I. Cash in hand, balances with central banks and post office banks		10100	1.051.392.920,88	2.724.450.503,29
II. Treasury bills eligible for refinancing at central banks		10200	682.119.786,08	832.712.354,40
III. Loans and advances to credit institutions	5.1	10300	21.856.266.308,08	22.346.788.994,12
A. Repayable on demand		10310	1.608.111.520,00	1.851.696.799,75
B. Other loans and adv. (with agreed maturity dates)		10320	20.248.154.788,08	20.495.092.194,37
IV. Loans and advances to customers	5.2	10400	85.886.204.458,21	72.374.198.990,87
V. Debt securities and other fixed-income securities	5.3	10500	23.345.266.107,39	27.246.056.347,46
A. Issued by public bodies		10510	16.535.010.496,83	16.888.072.728,14
B. Issued by other borrowers		10520	6.810.255.610,56	10.357.983.619,32
VI. Shares and other variable-yield securities	5.4	10600	186.573.729,00	251.937.131,15
VII. Financial fixed assets	5.5/ 5.6.1	10700	13.754.872.381,98	13.294.988.646,29
A. Participating interests in affiliated enterprises		10710	13.104.502.684,10	12.587.144.172,18
B. Participating interests in other enterprises linked by participating interests		10720	139.270.019,77	137.950.153,85
C. Other shares held as financial fixed assets		10730	24.711.350,40	25.807.888,11
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	486.388.327,71	544.086.432,15
VIII. Formation expenses and intangible fixed assets	5.7	10800	484.386,03	300.035,19
IX. Tangible fixed assets	5.8	10900	801.231.112,28	774.697.201,40
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.942.085.685,73	1.892.370.483,82
XII. Accrued income	5.10	11200	9.941.907.880,65	8.102.159.616,27
TOTAL ASSETS		19900	159.448.404.756,31	149.840.660.304,26

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	149.435.790.420,46	139.920.172.293,72
I. Amounts owed to credit institutions	5.11	20100	14.329.640.977,27	11.012.123.394,55
A. Repayable on demand		20110	2.668.632.657,98	2.502.264.705,48
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	11.661.008.319,29	8.509.858.689,07
II. Amounts owed to customers	5.12	20200	107.873.921.644,07	104.869.642.825,90
A. Savings deposits		20210	33.351.026.487,55	31.407.920.395,63
B. Other debts		20220	74.522.895.156,52	73.461.722.430,27
1. repayable on demand		20221	32.252.988.048,96	24.195.915.971,10
2. with agreed maturity dates or periods of notice		20222	42.269.907.107,56	49.265.806.459,17
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	10.600.170.476,99	6.038.450.523,22
A. Debt securities and other fixed-income securities in circulation		20310	5.471.575.695,70	4.346.320.868,57
B. Other		20320	5.128.594.781,29	1.692.129.654,65
IV. Other liabilities	5.14	20400	2.808.501.889,32	1.747.272.882,03
V. Accrued charges and deferred income	5.15	20500	8.151.574.318,44	9.307.910.916,97
VI. Provisions and deferred taxes		20600	277.544.361,10	361.904.905,82
A. Provisions for liabilities and charges		20610	276.192.876,59	360.982.178,09
1. Pensions and similar obligations		20611	31.874.152,08	32.641.725,83
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	244.318.724,51	328.340.452,26
B. Deferred taxes		20620	1.351.484,51	922.727,73
VII. Fund for general banking risks		20700	0,00	0,00
VIII. Subordinated liabilities	5.17	20800	5.394.436.753,27	6.582.866.845,23
OWN FUNDS		209/213	10.012.614.335,85	9.920.488.010,54
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	895.449.646,51
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	160.411.490,37	76.139.557,51
A. Legal reserve		21210	147.438.242,14	63.166.309,28
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	12.973.248,23
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	8.313.546,58	459.154,13
TOTAL LIABILITIES		29900	159.448.404.756,31	149.840.660.304,26

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	20.484.554.797,78	28.604.806.187,41
A. Non-negotiated acceptances		30110	118.765.351,03	16.488.852,07
B. Guarantees serving as direct credit substitutes		30120	2.999.723.886,48	3.515.219.781,55
C. Other guarantees		30130	15.269.184.630,69	23.141.426.411,27
D. Documentary credits		30140	2.096.880.929,58	1.931.671.142,52
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	31.123.999.826,56	30.522.281.023,06
A. Firm credit commitments		30210	1.708.208.498,39	3.200.625.454,68
B. Commitments as a result of spot purchases of transferable or other securities		30220	134.100.940,50	108.017.727,77
C. Undrawn margin on confirmed credit lines		30230	29.281.690.387,67	27.213.637.840,61
D. Underwriting and placing commitments		30240	0,00	0,00
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	191.913.723.355,16	183.240.783.541,69
A. Assets held by the credit institution for fiduciary purposes		30310	4.174.311.000,64	3.911.764.453,54
B. Safe custody and equivalent items		30320	187.739.412.354,52	179.329.019.088,15
IV. Uncalled amounts of share capital		30400	8.744.136,73	6.251.296,40

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	3.277.353.448,94	3.388.524.048,02
A. Of which: from fixed-income securities			40110	736.890.118,66	884.513.236,91
II. Interest payable and similar charges			40200	1.876.680.395,47	2.423.634.432,13
III. Income from variable-yield securities		5.23	40300	683.706.227,13	1.138.622.527,99
A. From shares and other variable-yield securities			40310	4.113.347,65	5.025.380,43
B. From participating interests in affiliated enterprises			40320	676.714.314,88	1.131.435.426,24
C. From participating interests in other enterprises linked by participating interests			40330	1.480.165,43	1.380.923,16
D. From other shares held as financial fixed assets			40340	1.398.399,17	780.798,16
IV. Commissions receivable		5.23	40400	1.039.139.966,24	1.099.296.421,45
A. Brokerage and related commissions			40410	604.271.205,75	568.387.792,39
B. Management, consultancy and conservation commissions			40420	40.799.501,21	37.019.807,95
C. Other commissions received			40430	394.069.259,28	493.888.821,11
V. Commissions payable			40500	136.478.576,53	158.528.637,65
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	-65.580.613,42	732.834.085,21
A. On trading of securities and other financial instruments			40610	64.068.192,84	384.726.335,86
B. On disposal of investment securities			40620	-129.648.806,26	348.107.749,35
VII. General administrative expenses			40700	1.674.634.639,00	1.665.138.930,36
A. Remuneration, social security costs and pensions			40710	793.751.143,96	786.967.157,03
B. Other administrative expenses			40720	880.883.495,04	878.171.773,33
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	52.224.130,97	46.212.726,15
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	-202.158.670,02	-481.207.334,82
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-3.320.327,19	481.899,03
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	100.606.607,63	37.146.000,79
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	17.361.585,43	47.461.808,44
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	253.296.083,33	349.770.940,91
XV. Other operating charges		5.23	41500	122.592.028,67	69.169.647,02
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.203.071.366,57	1.855.322.406,83

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	551.820.863,12	1.475.966.220,16
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	549.802.066,48	1.244.053.478,90
C. Adjustments to provisions for extraordinary liabilities and charges			41730	1.617.084,66	366.444,49
D. Gain on disposal of fixed assets			41740	191.016,64	231.467.868,38
E. Other extraordinary income		5.25	41750	210.695,34	78.428,39
XVIII. Extraordinary charges			41800	58.333.550,85	2.068.543.707,71
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	109.783,78	
B. Write-downs on financial fixed assets			41820	21.416.711,25	772.253.966,95
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	0,00	916.497,08
D. Loss on disposal of fixed assets			41840	36.803.445,50	1.287.507.962,20
E. Other extraordinary charges		5.25	41850	3.610,32	8.706,48
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	1.696.558.678,84	1.262.744.919,28
XIXbis. A. Transfer to deferred taxes			41921	16.497.318,49	58.860,20
B. Transfer from deferred taxes			41922	9.029.844,72	17.648.639,57
XX. Income taxes	(+/-)	5.26	42000	3.652.547,90	17.048.399,60
A. Income taxes			42010	17.461.424,37	22.477.219,34
B. Adjustement of income taxes and write-back of tax provisions			42020	13.808.876,47	5.428.819,74
XXI. Profits (Losses) for the period	(+/-)		42100	1.685.438.657,17	1.263.286.299,05
XXII. Transfer to untaxed reserves	(+/-)		42200	0,00	39.886,47
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	1.685.438.657,17	1.263.326.185,52

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	1.685.897.811,30	817.927.388,28
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	1.685.438.657,17	1.263.326.185,52
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	459.154,13	-445.398.797,24
B. Transfers from capital and reserves		49200	0,00	445.398.797,24
1. From capital and share premium account		49210	0,00	326.133.036,36
2. From reserves		49220	0,00	119.265.760,88
C. Transfers to capital and reserves		49300	84.271.932,86	63.166.309,28
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	84.271.932,86	63.166.309,28
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	8.313.546,58	459.154,13
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	1.593.312.331,86	1.199.700.722,11
1. Dividends		49610	1.574.192.989,04	1.180.644.741,78
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	19.119.342,82	19.055.980,33

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)	21.856.266.308,08	22.346.788.994,12
1. Loans and advances to affiliated enterprises	50101	12.435.404.910,58	14.720.758.844,24
2. Loans and advances to other enterprises linked by participating interests	50102	0,00	0,00
3. Subordinated loans and advances	50103	93.088.376,88	11.943.222,42
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	20.248.154.788,08	20.495.092.194,37
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	16.391.581.839,00	
b. Over 3 months up to 1 year	50106	1.916.415.008,16	
c. Over 1 year up to 5 years	50107	1.642.540.141,36	
d. Over 5 years	50108	148.043.631,97	
e. Undated	50109	149.574.167,59	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	18.335.237.351,09	12.903.895.251,56
2. Loans to other enterprises linked by participating interests	50202	52.884.222,13	54.872.147,87
3. Subordinated loans	50203	393.643.431,04	339.145.158,87
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	23.660.115.953,37	
b. Over 3 months up to 1 year	50206	4.359.463.932,48	
c. Over 1 year up to 5 years	50207	10.992.725.579,78	
d. Over 5 years	50208	42.472.882.012,51	
e. Undated	50209	4.401.016.980,07	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	4.335.224.983,90	1.994.672.943,34
b. Retail exposures	50211	29.715.391.770,76	23.494.736.848,20
c. Claims on enterprises	50212	51.835.587.703,55	46.884.789.199,33
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	108.654.460,75	
b. Loans and advances as a result of leasing and similar agreements	50214	398.354.461,20	
c. Fixed-rate loans	50215	930.782.512,35	
d. Mortgage loans	50216	24.826.287.076,06	
e. Other term loans with a maturity over 1 year	50217	34.699.948.253,43	
f. Other loans and advances	50218	24.922.177.694,42	
8. Geographical breakdown			
a. Belgian origin	50219	74.141.380.853,45	
b. Foreign	50220	11.744.823.604,76	
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)	23.345.266.107,39	27.246.056.347,46
1. Securities issued by affiliated enterprises	50301	5.159.648.509,06	9.166.411.092,44
2. Securities issued by enterprises linked by participating interests	50302	0,00	0,00
3. Securities representing subordinated loans	50303	182.804.177,89	260.326.530,46
4. Country analysis of the securities issued			
a. By public bodies	50304	13.178.324.722,15	
b. By other borrowers	50305	3.356.685.774,68	
c. Belgian issuers other than public bodies	50306	3.670.750.547,99	
d. Foreign issuers other than public bodies	50307	3.139.505.062,57	
5. Listing			
a. Book value of listed securities	50308	23.265.759.472,57	
b. Market value of listed securities	50309	25.366.293.306,79	
c. Book value of unlisted securities	50310	79.506.634,82	
6. Maturities			
a. Remaining maturity of up to one year	50311	3.461.722.078,54	
b. Remaining maturity of over one year	50312	19.883.544.028,85	
7. Analysis by portfolio			
a. Trading portfolio	50313	809.293.574,71	
b. Investment portfolio	50314	22.535.972.532,68	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	15.949.803,89	
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	43.633.709,75	
b. Difference between redemption value (if lower) and carrying value	50318	1.053.447.243,39	

			Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES					
1.	**As at end of the preceding period**		50323P	xxxxxxxxxxxxxxx	26.731.714.665,70
2.	**Movements during the the period**		50319	-4.176.800.848,79	
a .	Acquisitions		50320	4.057.794.666,40	
b .	Sales		50321	-8.084.588.176,70	
c .	Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-150.007.338,49	
3.	**Acquisition cost as at end of the period**		50323	22.554.913.816,91	
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	18.981.749,92
6.	**Movements during the the period**		50327	-40.466,29	
a .	Recorded		50328	4.938.722,00	
b .	Excess written back		50329	-2.971.869,96	
c .	Cancellations		50330	-3.479.426,90	
d .	Transfers from one caption to another	(+/-)	50331	1.472.108,57	
7.	**Write-downs as at end of the period**		50332	18.941.283,63	
8.	**Carrying value as at end of the period**		(50314)	22.535.972.533,28	

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	186.573.729,00	251.937.131,15
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	3.947.051,61	351.094,90
b. Foreign issuers	50402	182.626.677,39	251.586.036,25
2. Listing			
a. Carrying value	50403	159.523.791,57	
b. Market value	50404	205.069.339,21	
c. Carrying value of unlisted securities	50405	27.049.937,43	
3. Analysis by portfolio			
a. Trading portfolio	50406	116.243.717,01	
b. Investment portfolio	50407	70.330.011,99	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	17.269.851,73	
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	148.996.496,65
2. Movements during the the period		50410	-60.162.826,11	
a. Acquisitions		50411	23.415.485,29	
b. Sales		50412	-86.172.588,51	
c. Other adjustments	(+/-)	50413	2.594.277,10	
3. Acquisition cost as at end of the period		50414	88.833.670,54	
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	16.745.350,83
6. Movements during the period		50418	1.758.307,72	
a. Recorded		50419	1.675.462,36	
b. Excess written back		50420	-321.987,81	
c. Cancellations		50421	-7.132,79	
d. Transfers from one caption to another	(+)/(-)	50422	411.965,96	
7. Write-downs as at end of the period		50423	18.503.658,55	
8. Carrying value as at end of the period		(50407)	70.330.011,99	

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	6.556.009.892,50	6.407.397.189,07
b. Participating interests in enterprises that are not credit institutions	50502	6.548.492.791,60	6.179.746.983,11
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	5.839,10	5.453,65
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	139.264.180,67	137.944.700,20
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0,00	149.000,01
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	24.711.350,40	25.658.888,10
g. Subordinated loans in linked enterprises that are credit institutions	50507	361.200.000,00	365.200.000,00
h. Subordinated loans in linked enterprises that are not credit institutions	50508	82.688.327,71	101.851.432,15
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	42.500.000,00	77.035.000,00
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	13.104.502.684,10	
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	125.348.764,14	
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	14.522.698,40	
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	18.967.347.971,03
2. Movements during the period	50518	-27.237.020,64	
a. Acquisitions	50519	155.570.211,37	
b. Sales and disposals	50520	-182.807.232,01	
c. Transfers from one caption to another (+/-)	50521	0,00	
3. Acquisition cost as at the end of the period	50522	18.940.110.950,39	
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	6.380.203.798,85
8. Movements during the period	50529	-544.595.532,56	
a. Recorded	50530	3.025.714,00	
b. Excess written back	50531	-508.522.304,76	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-39.098.941,80	
e. Transfers from one caption to another (+/-)	50534	0,00	
9. Write-downs as at end of the period	50535	5.835.608.266,29	
10. Net carrying value as at the end of the period	10710	13.104.502.684,10	

		Codes	Current period	Previous period
C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	200.794.775,49
2. Movements during the period		50536	833.588,44	
a. Acquisitions		50537	2.573.975,78	
b. Sales and disposals		50538	-1.740.387,34	
c. Transfers from one caption to another	(+/-)	50539	0,00	
3. Acquisition cost as at end of the period		50540	201.628.363,93	
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	62.844.621,64
8. Movements during the period		50547	-486.277,48	
a. Recorded		50548	73.055,73	
b. Excess written back		50549	-559.333,21	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	0,00	
e. Transfers from one caption to another	(+/-)	50552	0,00	
9. Write-downs as at the end of the period		50553	62.358.344,16	
10. Net carrying value as at end of the period		10720	139.270.019,77	

		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	25.807.888,11
2. Movements during the period		50554	-613.673,92	
a. Acquisitions		50555	50.000,00	
b. Sales and disposals		50556	-663.673,92	
c. Transfers from one caption to another	(+/-)	50557	0,00	
3. Acquisition cost as at the end of the period		50558	25.194.214,19	
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	482.863,79	
a. Recorded		50566	482.863,79	
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	482.863,79	
10. Net carrying value as at the end of the period		10730	24.711.350,40	

		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	467.051.432,15
2. Movements during the period		50572	-23.163.104,44	
a. Additions		50573	0,00	
b. Reimbursements		50574	-23.163.104,44	
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	443.888.327,71	
4. Accumulated write-downs as at the end of the period		50580	0,00	

F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS

		Codes	Current period	Previous period
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	77.035.000,00
2. Movements during the period		50581	-34.535.000,00	
a. Additions		50582	0,00	
b. Reimbursements		50583	-34.535.000,00	
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	42.500.000,00	
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	0,65 0,21 33,04 31,25 34,85	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-13	EUR	873	-10
KBC Asset Management NV Brussels BE, 0469.444.267	Brussels	BE,	0469.444.267	Ordinary	2.730.644	47,35	4,51				
KBC Bank Ireland Plc Dublin IE,-	Dublin	IE,	-	Ordinary	1.594.438.510	100,00	0,00				
KBC Clearing NV Amsterdam NL,-	Amsterdam	NL,	-	Ordinary	30.491	100,00	0,00	31-dec-13	EUR	352	229
KBC Commercial Finance NV Brussels BE, 0403.278.488	Brussels	BE,	0403.278.488	Ordinary	119.999	99,99	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 International SA Luxemburg LU -	Luxemburg	LU	-	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 SA Luxemburg LU,-	Luxemburg	LU,	-	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	1.305.000.100	100,00	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 - 44.275% paid up in full	445.416 73.502	85,84 14,16	0,00 0,00	31-dec-13	EUR	18.609	-1.473
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	0,05				
NV ACTIEF NV Brussels BE, 0824.213.750	Brussels	BE,	0824.213.750	Cat "A"	600	57,14	0,00	31-dec-13	EUR	104	4
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-13	EUR	-9.658	-419

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-13	EUR	4.549	-335
Almaloisir & Immobilier SAS Nice, FR, 3542 862 0439	Nice,	FR,	3542 862 043	Ordinary	328	100,00	0,00	31-dec-13	EUR	122	-11
Apitri NV Brussels BE, 0469 889 873	Brussels	BE,	0469 889 873	Ordinary	98	98,00	2,00				
Immo Antares NV Brussels BE, 0456398361	Brussels	BE,	0456398361	Ordinary	2.375	95,00	5,00	10-nov-13	EUR	-2.336	160
Immo Basilix NV Brussels BE, 0453348801	Brussels	BE,	0453348801	Ordinary	2.375	95,00	5,00	12-sep-13	EUR	82	1
Immo Lux - Airport SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	1.456	99,93	0,07	31-dec-13	EUR	-3.799	-696
Immo Marcel Thiry NV Brussels BE, 0450997441	Brussels	BE,	0450997441	Ordinary	1.900	95,00	5,00	05-okt-13	EUR	-7.609	-61
Immo Namott NV Brussels BE, 0840.412.849	Brussels	BE,	0840.412.849	Ordinary	100	99,00	1,00	31-dec-13	EUR	62	0
Immo Namott Tréfonds NV Brussels BE, -	Brussels	BE,	-	Ordinary	1	1,00	99,00	31-dec-13	EUR	1.042	8
Immo Zenobe Gramme Brussels BE, 0456572664	Brussels	BE,	0456572664	Ordinary	99	99,00	1,00	31-dec-13	EUR	77	1
Immobilière Distri-Land NV Brussels BE, 0436440909	Brussels	BE,	0436440909	Ordinary	1.093	87,44	0,08	31-dec-13	EUR	309	31
Luxembourg North Distribution SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	11	11,00	89,00	31-dec-13	EUR	97	63
Brussels North Distribution NV Brussels BE, 0476212887	Brussels	BE,	0476212887	Ordinary	5	5,00	95,00	31-dec-13	EUR	69	24
Mechelen City Center NV Brussels BE, 0471562332	Brussels	BE,	0471562332	Ordinary	1.369	99,93	0,07				
Immo Quinto NV Brussels BE, 0466000470	Brussels	BE,	0466000470	Ordinary	141.935	99,30	0,70				
Almafin Real Estate Services NV Brussels BE, 0416.030.525	Brussels	BE,	0416.030.525	Ordinary	1	0,01	99,99				

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-13	EUR	591	-32
Bancontact-Mistercash NV Brussels BE, 0884.499.250	Brussels	BE,	0884.499.250	Ordinary	5.123	20,00	0,00	31-dec-13	EUR	5.171	667
Isabel NV Brussels BE, 0455.530.509	Brussels	BE,	0455.530.509	Ordinary	253.322	25,33	0,00	31-dec-13	EUR	17.139	4.981
Xenarjo cvba Mechelen BE, 0899.749.531	Mechelen	BE,	0899.749.531	Ordinary	1.009	22,75	0,00	31-dec-13	EUR	180	-422
Etoiles d'Europe SAS Paris FR, -	Paris	FR,	-	Ordinary	2.250	45,00	0,00	30-jun-12	EUR	433	4
Immo Beaulieu NV Brussels BE, 0450193133	Brussels	BE,	0450193133	Ordinary	1.000	50,00	0,00	16-jun-13	EUR	68	108
Justinvest Antwerpen NV Wilrijk BE, 0476658097	Wilrijk	BE,	0476658097	Ordinary	50	33,33	0,00	31-dec-13	EUR	362	32
Rabot Invest NV Wilrijk BE, 0479758733	Wilrijk	BE,	0479758733	Ordinary	60	25,00	0,00	31-dec-13	EUR	575	11
Brussels I3 Fund NV Brussels BE, 0477925433	Brussels	BE,	0477925433	Cat "D"	2.182	36,37	0,00	31-dec-13	EUR	1.367	-638
Real Estate Participation NV Zaventem BE, 0473.018.817	Zaventem	BE,	0473.018.817	Ordinary	500	50,00	0,00	31-dec-13	EUR	6.138	4.734
Covent Garden Real Estate NV Zaventem BE, 0872.941.897	Zaventem	BE,	0872.941.897	Ordinary	750	50,00	0,00	31-dec-13	EUR	1.541	-109
Immo VAC Gent Gent BE, 0557.992.795	Gent	BE,	0557.992.795	Ordinary	150	50,00	0,00	-	EUR	-	-
Gemma Frisius-Fonds K.U. Leuven NV Leuven BE, 0845.961.843	Leuven	BE,	0845.961.843	Cat "B"	4.000	40,00	0,00	31-dec-13	EUR	9.360	-1.324
Banking Funding Company NV Brussels BE, 0884.525.182	Brussels	BE,	0884.525.182	Ordinary	12.437	20,22	0,00	31-dec-13	EUR	229	18

3. Enterprises linked by participating interests

>=10% en <= 20%

Bedrijvencentrum Westhoek NV Ieper BE, 0430.383.258	Ieper	BE,	0430.383.258	Gewone	200	11,85	0,00	31-dec-13	EUR	657	93
Bedrijvencentrum Zaventem NV Zaventem BE, 0426.496.726	Zaventem	BE,	0426.496.726	Gewone	350	11,64	0,00	31-dec-13	EUR	479	41
QBIC Feeder Fund Brussels BE, -	Brussels	BE,	-	Gewone	2.600	16,25	0,00	31-dec-13	EUR	1.785	-368
BH-Capital a.s. Brno CZ, -	Brno	CZ,	-	Gewone	717.300	14,06	0,01	31-dec-13	CZK	530.404	-5.780
De Beitel NV Lier BE, 0869.799.196	Lier	BE,	0869.799.196	Gewone	25	16,34	0,00	31-dec-13	EUR	63	-113
Designcenter De Winkelhaak Antwerp BE, 0470.201.857	Antwerp	BE,	0470.201.857	Cat. B	124	19,47	0,00	31-dec-13	EUR	1.446	-65

Europay Belgium CV Brussels BE, 0434.197.536	Brussels	BE,	0434.197.536	Gewone	4.850	14,17	1,16	31-dec-13	EUR	1.379	94
Impulse Microfinancieringsfonds Wilrijk BE, 0870.792.160	Wilrijk	BE,	0870.792.160	Gewone	2.000	17,57	0,00	31-dec-13	EUR	15.553	685
Rural Impulse Luxemburg LU, -	Luxemburg	LU,	-	Gewone	15.000	16,67	0,00	31-dec-13	EUR	10.242	-420
Visa-Belgium CVBA Brussels BE, 0435.551.972	Brussels	BE,	0435.551.972	Gewone	23	12,85	0,56	31-dec-13	EUR	268	10
Baekeland II NV Gent BE, 0876.424.296	Gent	BE,	0876.424.296	Gewone	2.000.000	18,02	0,00	31-dec-13	EUR	4.668	664
Vives NV Louvain-La-Neuve BE, 0862.398.591	Louvain-La-Neuve	BE,	0862.398.591	Gewone	2.500	16,66	0,00	31-dec-13	EUR	4.596	-3.186
Bedrijvencentra Limburg NV Hasselt BE, 0425.902.353	Hasselt	BE,	0425.902.353	Gewone	1.800	12,50	0,00	31-dec-13	EUR	4.294	-36

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	629.360,37
2. Movements during the period		50734	346.400,04	
a. Acquisitions, including own construction		50735	346.400,04	
b. Sales and disposals		50736	0,00	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	975.760,41	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	329.325,18
5. Movements during the period		50739	162.049,20	
a. Recorded		50740	99.869,70	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	62.179,50	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	491.374,38	
7. Net carrying value as at the end of the period		50746	484.386,03	

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	1.275.946.647,00
2. Movements during the period	(+)/(-)	50801	14.072.809,39	
a. Acquisition, including own construction		50802	28.039.076,77	
b. Sales and disposals		50803	-13.966.267,38	
c. Transfers from one caption to another	(+)/(-)	50804	0,00	
3. Acquisition cost as at the end of the period		50805	1.290.019.456,39	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	58.973.181,77
5. Movements during the period	(+)/(-)	50806	-15.891,91	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	-15.891,91	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	58.957.289,86	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	728.129.424,78
8. Movements during the period	(+)/(-)	50812	22.213.807,55	
a. Recorded		50813	31.424.227,42	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-9.210.419,87	
e. Transfers from one caption to another	(+)/(-)	50817	0,00	
9. Amortizations and write-downs as at the end of the period		50818	750.343.232,33	
10. Net carrying value as at the end of the period		50819	598.633.513,92	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	9.671.185,23
2. Movements during the period	**(+)/(-)**	50820	610.006,30	
a. Acquisition, including own construction		50821	1.727.949,47	
b. Sales and disposals		50822	-466.248,67	
c. Transfers from one caption to another	(+)/(-)	50823	-651.694,50	
3. Acquisition cost as at the end of the period		50824	10.281.191,53	
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	9.093.039,93
8. Movements during the period	**(+)/(-)**	50831	197.419,21	
a. Recorded		50832	477.512,58	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	371.601,13	
e. Transfers from one caption to another	(+)/(-)	50836	-651.694,50	
9. Amortizations and write-downs as at the end of the period		50837	9.290.459,14	
10. Net carrying value as at the end of the period		50838	990.732,39	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	37.117.568,82
2. Movements during the period	**(+)/(-)**	50839	-3.491.109,76	
a. Acquisition, including own construction		50840	865.637,50	
b. Sales and disposals		50841	-5.008.441,76	
c. Transfers from one caption to another	(+)/(-)	50842	651.694,50	
3. Acquisition cost as at the end of the period		50843	33.626.459,06	
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	19.109.761,84
8. Movements during the period	**(+)/(-)**	50850	-2.674.673,18	
a. Recorded		50851	1.333.200,42	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-4.659.568,10	
e. Transfers from one caption to another	(+)/(-)	50855	651.694,50	
9. Amortizations and write-downs as at the end of the period		50856	16.435.088,66	
10. Net carrying value as at the end of the period		50857	17.191.370,40	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	78.883.061,38
2. Movements during the period	(+)/(-)	50858	34.474.464,46	
a. Acquisition, including own construction		50859	34.474.464,46	
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	113.357.525,84	
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	6.521.886,09
8. Movements during the period	(+)/(-)	50869	3.501.352,00	
a. Recorded		50870	3.501.352,00	
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	10.023.238,09	
10. Net carrying value as at the end of the period		50876	103.334.287,75	
11. Of which				
a. Land and buildings		50877	103.334.287,75	
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	206.263.755,89
2. Movements during the period	(+)/(-)	50880	12.542.496,54	
a. Acquisition, including own construction		50881	13.571.199,02	
b. Sales and disposals		50882	-1.028.702,48	
c. Transfers from one caption to another	(+)/(-)	50883	0,00	
3. Acquisition cost as at the end of the period		50884	218.806.252,43	
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	129.304.086,05
8. Movements during the period	(+)/(-)	50891	8.420.958,56	
a. Recorded		50892	9.097.752,36	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	-676.793,80	
e. Transfers from one caption to another	(+)/(-)	50896	0,00	
9. Amortizations and write-downs as at the end of the period		50897	137.725.044,61	
10. Net carrying value as at the end of the period		50898	81.081.207,82	

		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	1.465.841.252,58

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

	Code	Current period
1. Deferred charges	51001	41.926.461,44
2. Accrued income	51002	9.899.981.419,21

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	1.032.177.002,60	1.739.943.310,37
2. Amounts due to other enterprises linked by participating interests	51102	0,00	0,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	7.785.508.171,94	
b. Over 3 months up to 1 year	51104	526.611.380,36	
c. Over 1 year up to 5 years	51105	3.323.878.839,08	
d. Over 5 years	51106	0,00	
e. Undated	51107	25.009.927,91	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	16.271.770.125,51	19.963.823.831,93
2. Other enterprises linked by participating interests	51202	118.396.839,20	121.365.421,96
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	32.252.988.048,96	
b. Up to 3 months	51204	15.005.089.373,95	
c. Over 3 months up to 1 year	51205	8.704.188.435,09	
d. Over 1 year up to 5 years	51206	13.620.837.562,45	
e. Over 5 years	51207	4.897.498.241,83	
f. Undated	51208	33.393.319.981,79	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	2.490.823.885,40	2.197.557.802,07
b. Debt owed to private persons	51210	45.059.108.959,90	44.171.497.194,52
c. Debt owed to enterprises	51211	60.323.988.798,77	57.750.587.829,31
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	71.614.483.927,74	
b. Of foreign origin	51213	36.259.437.716,33	

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	19.974.934,29	748.079.777,36
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	4.978.402.062,11	
b. Over 3 months up to 1 year	51304	242.449.847,40	
c. Over 1 year up to 5 years	51305	3.088.399.211,55	
d. Over 5 years	51306	2.290.919.355,93	
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	0,00
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	0,00
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	59.544.153,58
b. Estimated tax liabilities	51408	4.996.155,55
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Holiday allowance, remuneration and other personnel costs to be paid		160.368.586,91
Option contracts		874.712.592,62
Dividends still to be paid		1.574.192.989,04
Other		199.227.720,75

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

	Codes	Current period
1. Accrued charges	51501	8.102.215.697,06
2. Deferred income	51502	49.358.621,38

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	43.085.483,31
Credit commitments	105.855.782,53
Litigation and operational disputes	59.661.955,40
Provision for disability payments	6.560.895,55
Provision bonds 5-5-5	815.332,60
Other	27.976.866,76

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	1.290.394.470,40	2.545.244.023,52
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	299.259.038,88

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 number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan. b) Conditions for the subordination c) Conditions for conversion into capital
0001	GBP	42.909.444	19/12/2003 - perpetual Issued by KBC Bank	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	606.327.726	Subordinated certificates Issued by KBC Bank	a) Unconditional
0004	EUR	68.969.384	Subordinated Time Deposits Issued by KBC Bank	a) Unconditional
0005	USD	112.505.688	Deposits originated by KBC IFIMA	a) Fiscal requalification
0006	EUR	984.041.436	Deposits originated by KBC IFIMA	a) Fiscal requalification
0007	CZK	2.500.000.000	18/05/2005 - 18/05/2016 Deposits originated by KBC IFIMA (2.500 Mio CZK)	a) Fiscal requalification
0008	USD	150.000.000	07/02/2005 - 07/02/2025 Deposits originated by KBC IFIMA (150 Mio USD)	a) Fiscal requalification
0009	USD	1.000.000.000	25/01/2013 – 25/01/2023 Contingent Capital Notes (1.000 Mio USD)	
0010	EUR	2.300.000.000	Deposits originated by KBC Group	a) Unconditional

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	140.242.554.331,82
b. In foreign currency (equivalent in EUR)	51902	19.205.850.424,49
2. Total liabilities		
a. In Euro	51903	138.441.844.317,28
b. In foreign currency (equivalent in EUR)	51904	21.006.560.439,03

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	

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	10.607.989.641,89
Asset Pledge requirement KBC New York	127.658.636,03
Asset Pledge National Bank of Belgium	3.241.465.992,94
Covered bonds	8.816.610.498,61
b. Off-balance sheet	
Options and futures	5.967.708.375,06
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	12.883.024.801,40	20.194.882.207,42
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	574.848,01	574.848,01
3. Total commitments with a potential credit risk to affiliated companies	52203	0,00	0,00
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)	3.277.353.448,94	3.388.524.048,02
* Belgian sites	52301	3.041.675.879,80	3.111.954.175,66
* Foreign offices	52302	235.677.569,14	276.569.872,36
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	4.113.347,65	5.025.380,43
* Belgian sites	52303	4.082.352,22	3.800.859,90
* Foreign offices	52304	30.995,43	1.224.520,53
c. Income from fixed-income securities: investments in affiliated companies	(40320)	676.714.314,88	1.131.435.426,24
* Belgian sites	52305	676.714.314,88	1.131.435.426,24
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	1.480.165,43	1.380.923,16
* Belgian sites	52307	1.480.165,43	1.380.923,16
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	1.398.399,17	780.798,16
* Belgian sites	52309	1.398.399,17	780.798,16
* Foreign offices	52310	0,00	0,00
f. Commissions received	(40400)	1.039.139.966,24	1.099.296.421,45
* Belgian sites	52311	997.280.924,57	1.057.456.112,82
* Foreign offices	52312	41.859.041,67	41.840.308,63
g. Profit on financial transactions	(40600)	-65.580.613,42	732.834.085,21
* Belgian sites	52313	-77.009.825,26	687.938.712,92
* Foreign offices	52314	11.429.211,84	44.895.372,29
h. Other operating income	(41400)	253.296.083,33	349.770.940,91
* Belgian sites	52315	240.976.988,50	339.243.137,94
* Foreign offices	52316	12.319.094,83	10.527.802,97
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.895	9.786
b. Average number of employees in full-time equivalents	52318	8.933	8.936
* Management Personnel	52319	76	73
* Employees	52320	8.857	8.864
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.615.442	12.444.415
3. Personnel			
a. Remuneration and direct social benefits	52324	558.577.647,03	549.294.435,20
b. Employers' social security	52325	151.591.496,16	154.709.573,29
c. Employers' premiums for extra statutory insurance	52326	53.660.882,33	53.683.415,72
d. Other personnel	52327	27.316.070,00	26.773.081,68
e. Retirement and survivors' pensions	52328	2.605.048,44	2.506.651,14
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	16.315.643,50	22.807.597,79
b. Decrease (-)	52330	17.189.608,74	27.405.948,40

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Recuperation moratorium intrest		15.463.340,97	66.533.636,00
b. Recuperatie CDO-reinsurers		1.047.065,85	25.639.000,00
c. Surplus value on sale buildings		7.624.652,39	22.843.378,00
d. Operational leasing		21.936.256,67	7.577.877,00
e. Other		207.224.767,45	227.177.049,91
6. Other operating expenses			
a. Corporate taxes	52331	87.878.807,53	63.470.005,58
b. Other	52332	34.713.221,14	5.699.641,44
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	2.893.815.018,77	2.895.234.898,38
8. Operating costs relating to affiliated companies	52334	2.316.728.338,02	1.463.160.241,00

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	81.282.503.072,78
* of which: not intended for hedging purposes	52404	81.275.205.713,99
b. Currency and interest rate swaps	52405	26.617.622.416,21
* of which: not intended for hedging purposes	52406	26.611.109.141,87
c. Currency futures	52407	200.961.195,54
* of which: not intended for hedging purposes	52408	200.961.195,54
d. Options on currencies	52409	25.106.557.785,41
* of which: not intended for hedging purposes	52410	25.106.557.785,41
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	250.825.665.260,95
* of which: not intended for hedging purposes	52414	250.457.083.444,29
b. Interest futures transactions	52415	26.605.958.145,69
* of which: not intended for hedging purposes	52416	26.605.958.145,69
c. Future Interest rate Agreements	52417	600.000.000,00
* of which: not intended for hedging purposes	52418	600.000.000,00
d. Interest rate options	52419	104.134.755.317,52
* of which: not intended for hedging purposes	52420	104.134.755.317,52
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	2.360.215.134,40
* of which: not intended for hedging purposes	52422	2.360.215.134,40
f. Other futures transactions	52423	0,00
* of which: not intended for hedging purposes	52424	0,00
g. Other forward purchases and sales	52425	25.354.572,73
* 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	6.906.213.865,68
b. Difference between market value and book value	(+)/(-)	52428	-205.907.522,63
2. Forward transactions in interest rate regarding ALM			
a. Nominal / notional reference amount on the closing date of accounts		52429	114.695.248.659,72
b. Difference between market value and book value	(+)/(-)	52430	-2.139.025.210,09
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	6.742.567.888,07
b. Difference between market value and book value	(+)/(-)	52432	-104.709.174,39

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

XXVI. INCOME TAXES

	Codes	Current period
1. Income taxes for the year	52601	16.644.591,37
a. Taxes and withholding taxes due or paid	52602	23.087.250,70
b. Excess of income tax prepayments and of withholding taxes	52603	-8.915.690,05
c. Estimated additional charges for income taxes	52604	2.473.030,72
2. Income taxes for previous years	52605	816.833,00
a. Additional income taxes due or paid	52606	0,00
b. Additional charges for income taxes, estimated (included in liabilities)	52607	816.833,00
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		-26.194.723,57
The specific tax system applicable to gains and losses on shares		-508.765.973,06
The application of the foreign tax credit scheme on dividends received		-1.083.490.682,01
Disallowed expenses (other than write-downs, losses on shares and corporation tax)		24.247.536,37

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)		-36.605.138,50
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		528.385.355,23

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	624.734.632,11
* Accumulated tax losses deductible from future taxable profits	52609	624.734.632,11
* 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	6.765.230,44	7.402.787,16
b. By the reporting institution	52702	26.240.922,56	29.004.307,51
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	154.446.992,93	153.768.350,84
b. Withholding tax	52704	214.809.271,75	234.190.322,40

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 50 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 uttering under ordinary law and under tax law. The Belgian State lodged an appeal with the Indictments Division in which the oral hearing was held on 13 January 2015. The court's ruling is expected on 31 March 2015. A suitable provision 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 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 suitable provision has been set aside to cover potential damages.

- 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 58.2 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 58.2 million US dollars plus interest of 57 million US dollars (calculated to the end of March 2013). In accordance with the way proceedings are conducted in the UK, documents and witness statements have since been exchanged, and this will be followed by an exchange of expert reports. A hearing is scheduled for 22 May 2015 to arrange proceedings, after which the case itself will be heard between 20 and 24 July 2015. An appropriate provision has been set aside to cover this risk.

- In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous clients 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. Following a ruling by the court of appeal on 27 May 2010, proceedings were restarted. The criminal case resumed in January 2015. 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.

Possible loss:

- On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. Among the issues being addressed by the district court, and presently being briefed, are the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees such as KBC. KBC is participating in that briefing and, together with numerous other defendants, has filed motions for dismissal. District court Judge Jed Rakoff has already made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the ‘good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC). Therefore, the trustee’s recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers.

- Under KBC's divestment programme, various claims were received that were subject to indemnity clauses or reps and warranties under the respective share transfer agreements. A number of these claims are not being disputed and will be honoured, whereas others are either being negotiated or are being dealt with in a disputes procedure. Given that all of these claims combined are just above the 50-million-euro threshold, their existence is being disclosed. However, the assessment of the outflow involved shows that provisioning is not required.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2014 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.

With effect from 2014, a defined contribution plan was introduced that is mandatory for all new employees and optional for employees signed up to the aforementioned defined benefit plan. Since 2014, the defined benefit plan is therefore a closed plan (i.e. no new members can sign up to it). The new defined contribution plan is funded entirely by the employer. The bank guarantees capitalisation of the contributions deposited at an interest rate of 3.25% at the time the benefit is paid out. The management of the reserves built up in this way, the payout of those reserves and the administration of the plan is also entrusted to the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC.

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.

	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 4.302 billion euros and an increase of investment securities for an amount of 3.571 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	253.233.641,31
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	561.238,77
b. To former directors and former managers	52905	10.424,68

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.456.198,49
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	484.588,67
b. Tax advisory services	52908	28.501,00
c. Other non-audit services	52909	83.717,41
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	1.033.515.811,01
2. Financial instruments to be delivered by the institution to clients	53002	736.267.367,71
3. Financial instruments of clients held in custody by the institution	53003	167.966.099.223,61
4. Financial Instruments from clients given in custody by the institution	53004	110.653.494.915,73
5. Financial Instruments from clients held as collateral by the institution	53005	1.380.766.960,81
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	287.455,84
Currency and interest rate swaps	5.481.291,74
Interest rate swap agreements	-2.395.522.554,71
Other option contracts	-193.794,69

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	

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	6.071	3.782	2.289
Part-time	1002	3.271	651	2.620
Total of full-time equivalents (VTE)	1003	8.436	4.239	4.197
Number of hours actually worked				
Full-time	1011	8.431.270	5.359.421	3.071.849
Part-time	1012	3.352.512	752.525	2.599.987
Total	1013	11.783.782	6.111.946	5.671.836
Personnel costs				
Full-time	1021	545.645.291,95	378.682.158,45	166.963.133,50
Part-time	1022	181.111.395,42	39.844.480,24	141.266.915,18
Total	1023	726.756.687,37	418.526.638,69	308.230.048,68
Advantages in addition to wages	1033	14.625.593,29	8.422.626,86	6.202.966,43

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.402	4.260	4.143
Number of hours actually worked	1013	11.646.808	6.083.272	5.563.536
Personnel costs	1023	715.440.329,00	417.338.611,00	298.101.718,00
Advantages in addition to wages	1033	15.356.510,00	8.957.930,00	6.398.580,00

At the closing date of the current period	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded in the personnel register	105	6.030	3.383	8.498,9
By nature of the employment contract				
Contract for an indefinite period	110	6.023	3.383	8.491,9
Contract for a definite period	111	7	0	7,0
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	3.703	741	4.237,5
primary education	1200	0	0	0
secondary education	1201	463	220	609,7
higher education (non-university)	1202	2.192	428	2.510,6
university education	1203	1.048	93	1.117,2
Female	121	2.327	2.642	4.261,4
primary education	1210	0	0	0
secondary education	1211	259	597	661,4
higher education (non-university)	1212	1.425	1.572	2.593,0
university education	1213	643	473	1.007,0
By professional category				
Management staff	130	57	1	57,8
Employees	134	5.973	3.382	8.441
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	56	0
Number of hours actually worked	151	109.616	0
Charges of the enterprise	152	4.207.874,00	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	672	102	751
By nature of the employment contract				
Contract for an indefinite period	210	665	102	744
Contract for a definite period	211	7	0	7
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	326	310	516
By nature of the employment contract				
Contract for an indefinite period	310	325	310	515
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	90	229	219
Unemployment with company bonus	341	0	0	0
Dismissal	342	40	8	46
Other reason	343	196	73	252
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	3.538	5811	3.428
Number of training hours	5802	74.014	5812	88.258
Costs for the company	5803	6.671.022,00	5813	6.463.613,00
of which gross costs directly linked to the training	58031	6.465.636,00	58131	6.264.613,00
of which paid contributions and deposits in collective funds	58032	205.386,00	58132	199.000,00
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	3.955	5831	4.491
Number of training hours	5822	26.012	5832	40.707
Costs for the company	5823	1.667.003,00	5833	1.892.922,00
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 a period of 5 years, except for core systems which have a longer term and are written-off over a period of 8 year. Core systems are standard software like back-end data applications. 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.

4. Information with regards to citizens savings bonds

Note on citizens savings bonds (balance sheet on 31-12-2014)		
1.	Total amount of funds attracted	
	a. In the form of savings certificates	339.794.984,51
	b. In the form of interbank loans granted	-
2.	How those funds were used	
	a. Citizens savings bonds	339.794.984,51
	b. Investments realized in accordance with Article 11	-
	c. Interbank loans attracted	
3.	Income from investments realized in accordance with Article 11	-

Notes to the annual accounts.

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1000 EUR)	31/12/2014	31/12/2013	change
Assets	**159.448.405**	**149.840.660**	**9.607.744**
Cash and cash balances with central banks	1.733.513	3.557.163	-1.823.650
Amounts receivable from credit institutions	21.856.266	22.346.789	-490.523
Of which reverse repos with credit institutions	*7.488.096*	*6.898.856*	589.240
Amounts receivable from clients	85.886.204	72.374.199	13.512.005
Of which reverse repos with professional counterparties	*6.431.050*	*3.435.761*	2.995.289
Bonds and other fixed-income securities	23.345.266	27.246.056	-3.900.790
Shares and other variable-yield securities	186.574	251.937	-65.363
Financial fixed assets	13.754.872	13.294.989	459.884
Formation expenses, tangible and intangible fixed assets	801.715	774.997	26.718
Other assets	1.942.086	1.892.370	49.715
Deferred charges and accrued income	9.941.908	8.102.160	1.839.748
Liabilities	**159.448.405**	**149.840.660**	**9.607.744**
Amounts payable to credit institutions	14.329.641	11.012.123	3.317.518
Of which repos with credit institutions	*992.507*	*768.257*	*224.250*
Amounts payable to clients	107.873.922	104.869.643	3.004.279
Of which repos with professional counterparties	*7.294.111*	*7.051.809*	*242.302*
Debts represented by securities	10.600.170	6.038.451	4.561.720
Other amounts payable	2.808.502	1.747.273	1.061.229
Accrued charges and deferred income	8.151.574	9.307.911	-1.156.337
Provisions for liabilities and charges and deferred taxes	277.544	361.905	-84.361
Subordinated loans	5.394.437	6.582.867	-1.188.430
Equity	10.012.614	9.920.488	92.126

Total assets

Total assets went up by 9.6 billion euros to 159.4 billion euros as a result of the repurchase of securitized loans of Home Loan Invest and of an increase in term loans, primarily with subsidiary KBC Credit Investments. At year-end 2014, assets held abroad accounted for 33.9% of total assets (36.4% at the end of 2013). The branches abroad held 3,9% of the bank's total assets (4,3% at the end of 2013).

Transactions with credit institutions

On balance, net lending to credit institutions[1] came to 6.7 billion euros, as opposed to net borrowing from credit institutions of 7.7 billion euros in 2013, a reflection of the continued strong liquidity position of KBC Bank NV.

At 21.9 billion euros, amounts receivable from credit institutions decreased by 0.5 billion euros. The decline related primarily to term loans with group companies. Reverse repos increased from 6.9 billion euros to a total of 7.5 billion euros. This increase also included a shift from standard (unsecured) term loans to (secured) reverse repos.

Amounts receivable from clients

Amounts receivable from clients went up by 13.5 billion euros to 85.9 billion euros, owing primarily to the 5.7-billion-euro increase in mortgage lending that arose from repurchasing securitised loans of Home Loan Invest. Furthermore, there were additional sales owing to the reduction in tax relief relating to the 'housing bonus' effective from 2015 and because of the low rate of interest. Reverse repos with professional counterparties rose by 3 billion euros and term loans by 3.8 billion euros, both chiefly with subsidiaries.

[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 3.9 billion euros to 23.3 billion euros. Securities issued by public authorities represented 71% 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 3.1 million euros at year-end 2014.

Financial fixed assets

Financial fixed assets went up by 0.5 billion euros to 13.8 billion euros on account of the reversal of write-downs recorded on subsidiaries.

Other asset items

‘Shares and other variable-yield securities’ consisted chiefly of a trading portfolio.

'Other assets' increased 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 rose by 1.8 billion euros on account of the increase in the mark-to-market valuation of the derivatives.

Amounts payable to credit institutions

Amounts payable to credit institutions increased by 3.3 billion euros to 14.3 billion euros. This increase was attributable mainly to participation in the targeted long term refinancing operation (TLTRO) of the European Central Bank.

Amounts payable to clients and debts represented by securities

Total customer deposits came to 118.5 billion euros at year-end 2014, up 7.6 billion euros. Immediately withdrawable deposits went up by 8.1 billion euros, and related to significant increases among both retail and corporate clients. In addition, this item comprised a one-off change in the amount of +1.4 billion euros in the reporting of accrued charges and deferred income. The volume of savings deposits continued its upward trend (+1.9 billion euros). The issue of short-term deposit certificates rose by 3.4 billion euros. Furthermore, there were additional issues under the covered bond programme. Fixed-term time deposits fell by 7.2 billion euros, as a result primarily of wholesale funding through subsidiary KBC IFIMA reaching maturity.

Provisions for liabilities and charges and deferred taxes

In 2014, the provisions for liabilities and charges decreased by 84 million euros to 278 million euros, mainly because of the drop in liabilities and charges relating to legal and operational disputes.

Subordinated loans

Total subordinated debt outstanding fell to 5.4 billion euros and comprised:

- non-convertible bonds amounting to 1.5 billion euros;

- other subordinated term borrowings totalling 3.9 billion euros.

The decline was due chiefly to the call on the outstanding tier-1 debt in the first half of 2014 and issues through KBC IFIMA reaching maturity, this last item being partially offset by the issue of new Additional Tier-1 and Tier-2 instruments.

Equity

Equity increased slightly to 10 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. This item also included a one-off change of -1.4 billion euros in the reporting of amounts payable to clients.

Off-balance-sheet items

Contingent liabilities

The 8.1-billion-euro decline in contingent liabilities to 20.5 billion euros was accounted for almost entirely by the reduction in guarantees granted to subsidiaries (including to KBC Ifima; cf. issues that reached maturity).

Profit and loss account

KBC Bank NV (x1000 EUR)	**31/12/2014**	**31/12/2013**	**change**
Gross income from ordinary activities	3.174.756	4.126.885	-952.129
Operating charges	-1.849.451	-1.780.521	-68.929
Write-downs and provisions	-122.234	-491.041	368.807
Profit on ordinary activities	1.203.071	1.855.322	-652.251
Extraordinary result	493.487	-592.577	1.086.065
Taxes	-11.120	581	-11.701
Result for the period to be appropriated	**1.685.439**	**1.263.326**	**422.112**

Notes to the profit and loss account

(x1000 EUR)	**31/12/2014**	**31/12/2013**	**change**
Net interest income	1.400.673	964.890	435.783
Income from variable-yield securities	683.706	1.138.623	-454.916
Net fee and commission income	902.661	940.768	-38.106
Results from financial transactions	-65.581	732.834	-798.415
Other operating income	253.296	349.771	-96.475
Gross income from ordinary activities	**3.174.756**	**4.126.885**	**-952.129**

'Gross income from ordinary activities' came to 3.2 billion euros, down 1.0 billion euros on its 2013 level.

Despite the fact that interest margins remained under pressure in 2014, net interest income rose by 435 million euros, primarily as a result of falling interest charges. The decline in the rate on savings accounts and reduction in time deposits resulted in lower interest charges. In addition, the rise in interest income from mortgage loans, attributable chiefly to the repurchase of the Home Loan Invest portfolio, was offset by a decrease in interest income from investment credit and from the bond portfolio.

Dividend income was lower than in 2013 thanks in the main to the dividends paid by subsidiaries.

In 2014, the results from financial transactions decreased by 798 million euros to -66 million euros. The 2014 figure was adversely affected mainly by the losses realised on the collapsing of CDOs and by the significant negative impact of the valuation of trading derivatives (primarily interest rate swaps), as a result of the sharp decline in interest rates. Conversely, the figure for 2013 was substantially positively affected by the gains of 348 million euros realised on the investment portfolio.

(x1000 EUR)	31/12/2014	31/12/2013	change
General administrative charges	-1.674.635	-1.665.139	-9.496
Depreciation of and amounts written off tangible and intangible fixed assets	-52.224	-46.213	-6.011
Other operating charges	-122.592	-69.170	-53.422
Operating charges	**-1.849.451**	**-1.780.521**	**-68.929**

Operating charges (including 'depreciation of and amounts written off tangible and intangible fixed assets ' and 'other operating charges') remained virtually unchanged in 2014 at -1.8 billion euros. The bank tax (including the amount contributed to the deposit protection scheme) amounted to 128 million euros (compared with 105 million euros a year earlier).

(x1000 EUR)	31/12/2014	31/12/2013	change
Write-downs on loans	-202.159	-481.207	279.049
Write-downs on investment portfolio	-3.320	482	-3.802
Provisions	83.245	-10.316	93.561
Write-downs and provisions	**-122.234**	**-491.041**	**368.807**

Write-downs on loans fell by 279 million euros to -202 million euros. The decrease was attributable chiefly to the significant decline in write-downs on loans to Belgian retail clients. Provisioning fell by 94 million euros on account of reversals of provisions for legal disputes.

The positive extraordinary result in 2014 (493 million euros) related mainly to the reversal of write-downs on financial fixed assets, mostly for subsidiaries. The negative extraordinary result in 2013 (-593 million euros) related chiefly to the additional write-downs on financial fixed assets for KBC Bank Ireland.

Branch network

At the end of 2014, KBC Bank had a network of 673 branches in Belgium. It also has ten branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Germany 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 the company KBC Bank nv for the year ended 31 December 2014

As required by law and the Company's by-laws, we report to you in the context of our statutory auditor's mandate. This report includes our opinion on the balance sheet as at 31 December 2014, the income statement for the year 31 December 2014 and the disclosures (all elements together "the Annual Accounts") and includes as well our report on other legal and regulatory requirements.

Report on the Annual Accounts - Unqualified opinion

We have audited the Annual Accounts of KBC Bank nv ("the Company") as of and for the year ended 31 December 2014, prepared in accordance with the financial-reporting framework applicable in Belgium, which show a balance sheet total of € 159.448.405 thousand and of which the income statement shows a profit for the year of € 1.685.439 thousand.

Responsibility of the Board of Directors for the preparation of the Annual Accounts

The Board of Directors is responsible for the preparation of Annual Accounts that give a true and fair view in accordance with the financial-reporting framework as applicable in Belgium. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of Annual Accounts that give a true and fair view and that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the given circumstances.

Responsibility of the statutory auditor

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

Société civile ayant emprunté la forme d'une société coopérative à responsabilité limitée
Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
RPM Bruxelles - RPR Brussel - T.V.A. - B.T.W. BE 0446.334.711
Banque BNP Paribas Fortis Bank 210-0905900-69

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the Annual Accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Company's preparation and presentation of the Annual Accounts 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, the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the Annual Accounts.

We have obtained from the Board of Directors and the Company's officials the explanations and information necessary for performing our audit procedure and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the Annual Accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2014, and of its results for the year then ended, prepared 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 Board of Director's report on the Annual Accounts, in accordance with article 96 of the Belgian Company Code, as well as for the compliance with the legal and regulatory requirements regarding bookkeeping, with the Belgian Company Code and with the Company's by-laws.

In the context of our mandate and in accordance with the additional standard issued by the 'Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises' as published in the Belgian Gazette on 28 August 2013 (the "Additional Standard"), it is our responsibility to perform certain procedures to verify, in all material respects, compliance with certain legal and regulatory requirements, as defined in the Additional Standard. On this basis, we make the following additional statements, which do not modify the scope of our opinion on the Annual Accounts.

- The Board of Director's report on the Annual Accounts includes the information required by law, is consistent with the Annual Accounts and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

- Without prejudice to certain 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 general meeting complies with the relevant requirements of the law and the Company's by-laws.

- There are no transactions undertaken or decisions taken in breach of the by-laws or of the Belgian Company Code that we have to report to you.

Brussels, 19 March 2015

Ernst & Young Bedrijfsrevisoren bcvba / Réviseurs d'Entreprises sccrl
Statutory auditor
Represented by

Weymeersch

Christel Weymeersch
Partner, permanent representative of Christel Weymeersch bvba
15CW0158

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 has since repaid the following amounts:

- in 2012: 3.5 billion euros, plus a penalty of 15%, to the Belgian Federal Government;
- in 2013: 1.17 billion euros, plus a penalty of 50% to the Flemish Regional Government;
- in 2014: 0.33 billion euros, plus a penalty of 50% to the Flemish Regional Government;

KBC Group aims to repay the outstanding balance of 2 billion euros (plus penalties) in instalments, with the last instalment scheduled for 2017.

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 initially related to a notional amount totalling 20 billion euros. More information on the structure of that transaction is provided in previous annual reports.

In recent years, KBC Group has rapidly reduced its exposure to CDOs and collapsed the two remaining CDOs in its portfolio in 2014. Over a period of just five years, it has succeeded in scaling back its entire CDO portfolio, which had exceeded 25 billion euros in 2008, thus releasing it from the guarantee agreement.
KBC Group has/had to pay a fee for this agreement. More information on its impact on the income statement is provided in Note 5 in the 'Consolidated financial statements' section.

For the record, we would point out that KBC Group is the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, negligible movements may yet be recorded in its income statement in the coming quarters depending on changes in the value of those notes.

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.’