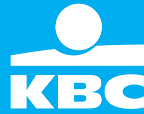
KBC Group

Annual Report 2013



2013

KBC group passport

Our area of operation

KBC is an integrated bank-insurance group, focused on serving retail, private banking, SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. We are also present in Ireland and, to a limited extent, in several other countries to support corporate clients from our core markets.

Our clients, staff and network[1]

Clients (estimate)	10 million
Number of staff (in FTEs)	36 177
Bank branches	1 616
Insurance network	470 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings[2] (10-03-2014)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A-	A3	A
KBC Insurance NV	A-	–	A
KBC Group NV	A-	Baa1	A-

Our core shareholders

KBC Ancora	18.6%
Cera	2.7%
MRBB	12.2%
Other core shareholders	9.7%

More information

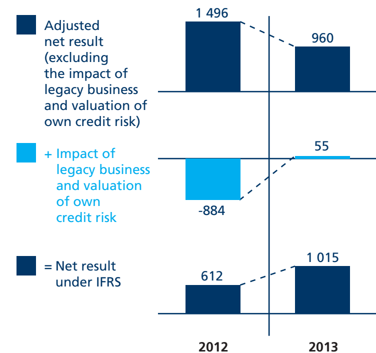
Website	www.kbc.com
KBC Telecenter	kbc.telecenter@kbc.be

Data relates to year-end 2013, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

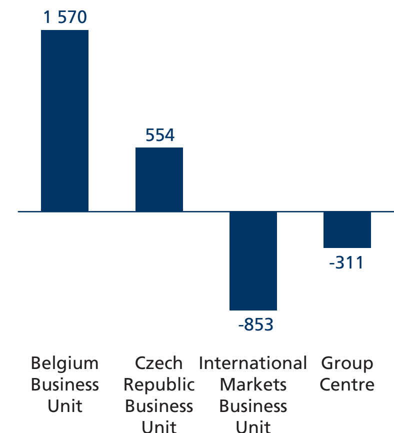
1 Client estimates for the five core markets and Ireland. Bank branches in the same geographical areas, plus the group's international corporate branches. Companies that were still on the divestment list at balance sheet date have been excluded.

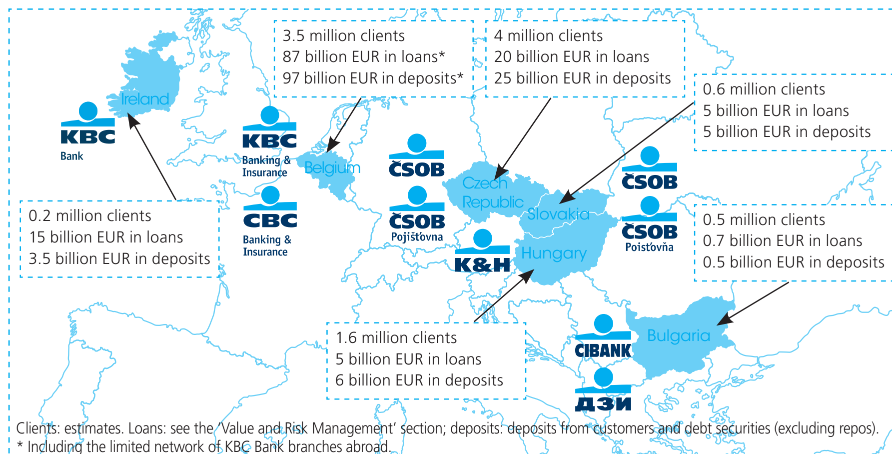
2 Where appropriate, outlook/watch/review data for these ratings is given elsewhere in this report.

Results
(in millions of EUR)



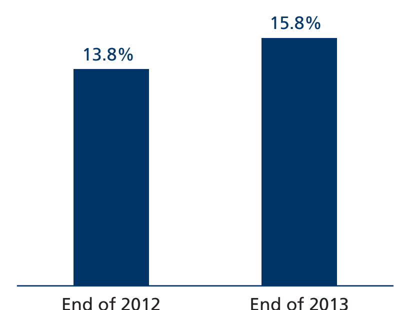
Breakdown of adjusted net result by business unit
(2013, in millions of EUR)





Clients: estimates. Loans: see the 'Value and Risk Management' section; deposits: deposits from customers and debt securities (excluding repos).
* Including the limited network of KBC Bank branches abroad.

Group tier-1 ratio (Basel II)



Total assets	Loans and advances to customers	Deposits from customers and debt securities	Net result	KBC share price	Tier-1 ratio (Basel II)
241 billion euros	123 billion euros	164 billion euros	1 015 million euros	+58%	15.8%

Key figures

	2009	2010	2011	2012	2013
Consolidated balance sheet and assets under management, end of period (in millions of EUR)					
Total assets	324 231	320 823	285 382	256 928	241 306
Loans and advances to customers	153 230	150 666	138 284	128 492	122 790
Securities	98 252	89 395	65 036	67 295	65 177
Deposits from customers and debt securities	193 464	197 870	165 226	159 632	164 141
Technical provisions and liabilities under investment contracts, insurance	29 951	29 948	26 928	30 058	30 488
Total equity	17 177	18 674	16 772	15 879	14 514
Risk-weighted assets (Basel II)	143 359	132 034	126 333	102 148	90 541
Assets under management	205 234	208 813	192 795	155 216	162 977
Consolidated income statement (in millions of EUR)					
Total income	4 625	8 378	7 310	7 733	7 517
Operating expenses	-4 779	-4 436	-4 344	-4 248	-3 871
Impairment	-2 725	-1 656	-2 123	-2 511	-1 933
Net result, group share	-2 466	1 860	13	612	1 015
Basic earnings per share (in EUR)	-7.26	3.72	-1.93	-1.09	1.03
Diluted earnings per share (in EUR)	-7.26	3.72	-1.93	-1.09	1.03
Adjusted net result, group share	–	–	–	1 496	960
Belgium	–	–	–	1 360	1 570
Czech Republic	–	–	–	581	554
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	–	–	–	-260	-853
Group Centre	–	–	–	-185	-311
Environmental efficiency data for the KBC group in Belgium (per FTE)					
Electricity consumption (in GJ)	–	24.3	21.3	20.8	21.3
Gas and heating oil consumption (in GJ)	–	15.0	12.6	12.6	16.0
Distances travelled (in km, commuter and business travel)	–	14 836	14 563	14 440	13 646
Paper consumption (in tonnes)	–	0.17	0.14	0.13	0.12
Water consumption (in m^3)	–	9.3	8.2	8.5	9.0
Greenhouse gas emissions (in tonnes)	–	2.4	2.2	1.8	2.5
KBC share					
Number of shares outstanding, end of period ('000)	357 918	357 938	357 980	416 967	417 364
Parent shareholders' equity per share, end of period (in EUR)	28.4	32.8	28.7	29.0	28.3
Average share price for the financial year (in EUR)	20.9	32.6	22.3	17.3	32.8
Share price at year-end (in EUR)	30.4	25.5	9.7	26.2	41.3
Gross dividend per share (in EUR)	0.00	0.75	0.01	1.00	0.00
Equity market capitalisation, end of period (in billions of EUR)	10.9	9.1	3.5	10.9	17.2
Ratios					
Return on equity	-23%	12%	-6%	1%	9%
Return on equity (based on adjusted result[1])	16%	11%	5%	9%	9%
Cost/income ratio, banking (based on adjusted result[1])	55%	56%	60%	57%	52%
Combined ratio, non-life insurance	101%	100%	92%	95%	94%
Credit cost ratio, banking	1.11%	0.91%	0.82%	0.71%	1.19%
Tier-1 ratio, group (Basel II)	10.8%	12.6%	12.3%	13.8%	15.8%
Common equity ratio, group (Basel III fully loaded, including latent gains and remaining state aid – Danish compromise method)[2]	–	–	–	*10.5%*	*12.8%*
Net stable funding ratio (NSFR)	–	–	–	*105%*	*111%*
Liquidity coverage ratio (LCR)	–	–	–	*107%*	*131%*

For definitions and comments, please see the detailed tables, analyses and glossary of ratios in this report. The adjusted results are described in the 'Consolidated results in 2013' section. The proposed dividend for 2013 is subject to the approval of the General Meeting of Shareholders.

1 Up until year-end 2011, this ratio was based on the *underlying* result (defined in the 2012 Annual Report).

2 For more information on the common equity ratio calculated under the phased-in approach, the building block approach and on a *pro forma* basis (including the amount repaid to the Flemish Regional Government at the start of 2014 and divestments for which an agreement has been signed but not yet completed), see the 'Value and risk management' section.

1.0

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To the reader

Company name *'KBC'*, *'we'*, *'the group'* or *'the KBC group'* as used in this annual report refer to the consolidated entity, i.e. KBC Group NV plus all the group companies included in the scope of consolidation. *'KBC Group NV'* refers solely to the parent company.

Translation This annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are unofficial translations. 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.

Disclaimers

- 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.
- Nothing in this annual report constitutes an offer to sell securities in the United States, Canada, Japan, Australia or any other jurisdiction.

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Annual reports of KBC Bank and KBC Insurance KBC is a bank-insurance group and, therefore, most of the financial information contained in this report is presented on an integrated basis, i.e. banking and insurance information combined. If you are interested in separate details of KBC's banking or insurance activities and results, these may be found in the individual annual reports of KBC Bank NV and KBC Insurance NV.

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 Group NV has combined the reports for its company and consolidated annual accounts. The Risk Report, the CSR Report and the websites referred to in certain sections do not form part of the annual report.

Photographs

Most of the photographs appearing in this report are of KBC clients and their projects. We would like to express our sincere gratitude to them for giving their time and assistance.

Geertje Vandevenne and Bart Houbregs
Owners of retirement home De Vierde Wand

'As a result of our lengthy experience in the care sector, we knew exactly what we wanted and that was to build a retirement home where we too would want to grow old. Thanks to KBC and other external partners we have been able to achieve our dream. De Vierde Wand is a retirement home that stands out from the rest not just because of its architecture, but also because of its décor, management and teamwork. We are a small-scale family business, which means we can be closely involved with both our staff and residents. We set ourselves high standards, and expect the same from all our staff, and that is much appreciated by our staff and residents alike. Our retirement home has an open-door policy, so making it easier for our residents to maintain contact with the outside world. And that's where we want to make a difference – we don't want our residents to feel cut off, but prefer them to be part of society. Our open-door policy provides a link between residents and their environment, so that they still feel valued as they grow old.'

www.devierdewand.be

Report of the Board of Directors

KBC at a glance

Who are we?

Creation:
formed in 1998 after the merger of two large Belgian banks (the Kredietbank and CERA Bank) and a large Belgian insurance company (ABB Insurance).

Principal activity:
integrated bank-insurance.

Client base:
approximately 10 million clients worldwide.

Core markets:
Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Elsewhere in the world, a presence in Ireland and, to a limited extent, in several other countries.

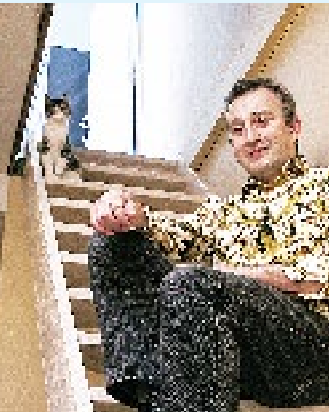
Principal brands and estimated share of the core markets:
- Belgium: KBC and CBC (20% in banking, 17% in life insurance, 9% in non-life insurance).
- Czech Republic: ČSOB (19% in banking, 6% in life insurance, 6% in non-life insurance).
- Slovakia: ČSOB (10% in banking, 5% in life insurance, 3% in non-life insurance).
- Hungary: K&H (9% in banking, 3% in life insurance, 5% in non-life insurance).
- Bulgaria: CIBANK and DZI (2% in banking, 10% in life insurance, 10% in non-life insurance).

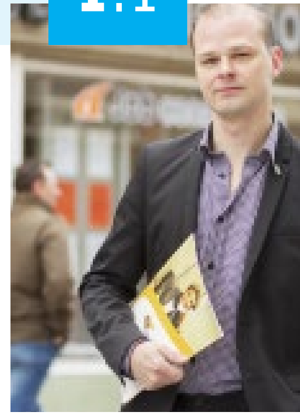
Network:
approximately 1 600 bank branches worldwide, insurance sales via own agents and other channels, together with various electronic channels.

Employees:
approximately 36 000 FTEs worldwide, 45% of which in Belgium and 51% in Central and Eastern Europe.

Total assets:
241 billion euros; total equity 14.5 billion euros.

Data relates to year-end 2013, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.





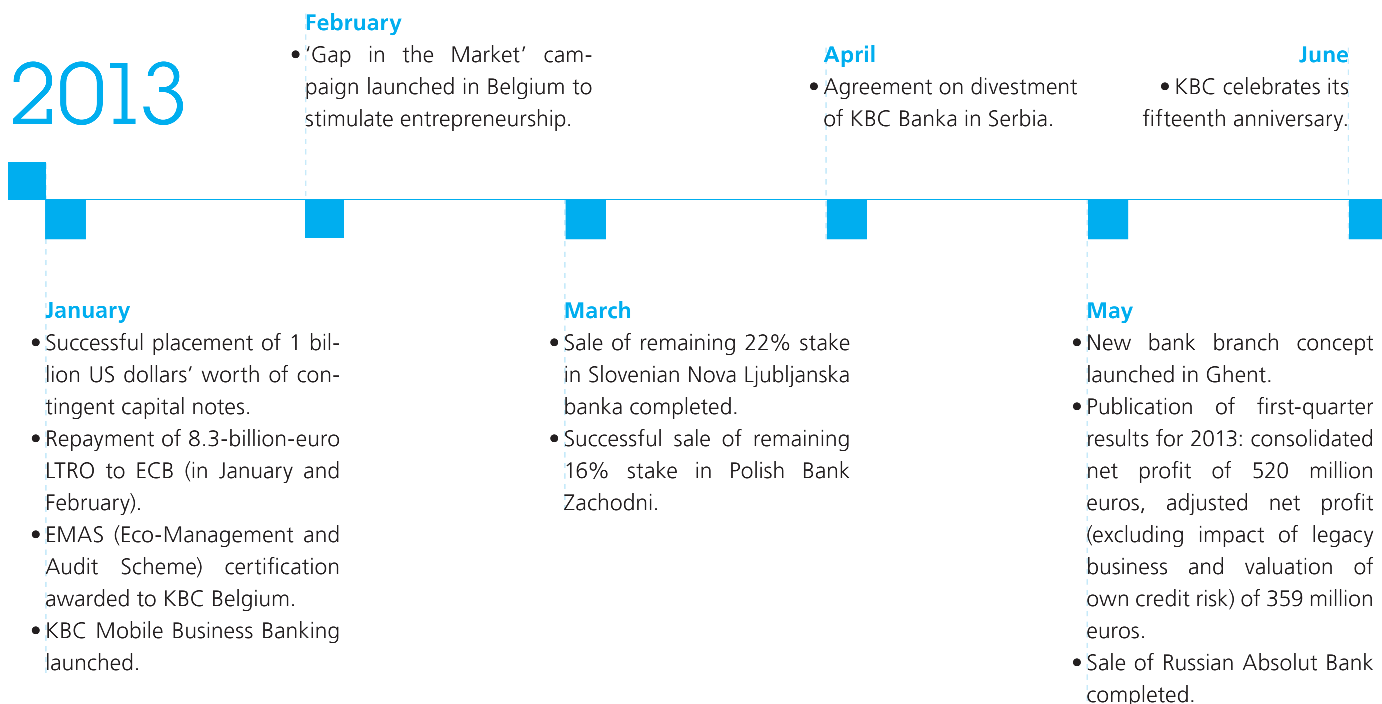
What are our goals?

- Continuing focus on bank-insurance for retail, private banking, SME and mid-cap clients in a carefully selected group of core countries.
- Building on a sustainable business model while respecting all stakeholders.
- Repaying the remaining state aid.
- Maintaining efficiency: maximum cost/income ratio of 55% and maximum combined ratio of 95% in 2015.
- Maintaining solid solvency levels: common equity ratio of at least 10% under Basel III (fully loaded and including remaining state aid and latent gains).
- Maintaining historically robust liquidity levels: minimum NSFR of 105% and minimum LCR of 100% in 2015.

Milestones in 2013

- New corporate structure up and running, with a more activity-driven breakdown into business units.
- Persistently strong operating profit, but high loan loss provisions in Ireland. The adjusted result for 2013 came to almost 1 billion euros.
- Divestment plan completed.
- After Belgian government aid had been repaid in full, now partial repayment of Flemish government aid; overall, 5 billion of the 7 billion euros in total state aid received had been paid back by early January 2014.
- Further reduction in remaining legacy exposure to CDOs.

Main events in 2013



2013

January

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

February

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

March

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

April

- Agreement on divestment of KBC Banka in Serbia.

May

- New bank branch concept launched in Ghent.
- Publication of first-quarter results for 2013: consolidated net profit of 520 million euros, adjusted net profit (excluding impact of legacy business and valuation of own credit risk) of 359 million euros.
- Sale of Russian Absolut Bank completed.

June

- KBC celebrates its fifteenth anniversary.

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

July

- Repayment of 1.17 billion euros (plus 50% penalty) to Flemish Regional Government.
- Sale of a portion of shareholder loans.

August

- Publication of second-quarter results for 2013: consolidated net profit of 517 million euros, adjusted net profit of 485 million euros.

September

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

October

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

November

- Publication of third-quarter results for 2013: consolidated net profit of 272 million euros, adjusted net profit of 457 million euros.
- 18.8 million KBC shares sold by Cera and KBC Ancora, and repayment of loans granted by KBC.
- KBC launches the 'Start it @kbc' initiative to help business start-ups in Flanders.

December

- Sale of KBC Banka completed.
- Agreement reached on sale of Antwerp Diamond Bank.

2014

Early 2014

- January 2014: repayment of 0.33 billion euros (plus 50% penalty) to Flemish Regional Government.
- February 2014: publication of fourth-quarter results for 2013: consolidated net loss of 294 million euros, adjusted net loss of 340 million euros, due primarily to additional loan loss provisioning in Ireland. For 2013 as a whole, profit came to 1 015 million euros, or 960 million euros on an adjusted basis.
- February 2014: announcement that the management structure is to be simplified and the composition of the Executive Committee changed.
- March 2014: placement of CRD-IV compliant Additional tier-1 instruments for 1.4 billion euros.

1.2 Statement

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

Our group celebrated its fifteenth anniversary in 2013.

In the course of those years, we have developed into a major European player, with a robust business model and sharp geographical focus. Although we were not immune to the financial crisis, we drew lessons from it and continued to adapt, placing an even greater emphasis on our core activities and risk management.

The present economic climate is encouraging, but a number of uncertainties nevertheless remain. We have firmly armed ourselves against these uncertainties, as can be seen from our results for the past financial year. Our pursuit of a decent level of profitability has also been accompanied by embedding that profitability in a sustainable framework.

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

The consolidated net result for 2013 came to roughly 1 billion euros, two-thirds higher than the figure for 2012. Are you satisfied with that?

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

Johan Thijs: Our net result did indeed rise by about 400 million euros compared with last year and came to 1 015 million euros. If we exclude non-operating items, such as the valuation of CDOs and valuation markdowns on the remaining divestments, our adjusted result came to 960 million euros, compared with 1 496 million euros in 2012. This decline is entirely attributable to Ireland, where we set aside significant extra loan loss provisions after reviewing our loan portfolio there in the fourth quarter.

Other elements that stood out in 2013 were a stable net interest margin, the increase in non-life insurance premiums and a sound combined ratio of 94%, declining sales of life insurance, the recovery in our net fee and commission income and ongoing rigorous cost control, which was reflected in an excellent cost/income ratio of 52%.

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

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

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

Is the period of divestments now behind us?

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

Johan Thijs: We improved our risk profile in other areas too. For instance, we slashed our exposure to CDOs in 2013, thanks to sales and other risk-mitigating measures, as a result of which our net exposure at year-end 2013 was just 6.3 billion euros. What's more, a considerable portion of the remaining CDO exposure is covered by a guarantee agreement with the Belgian State, which therefore also has an interest in reducing the net exposure. We had already substantially scaled down our exposure to GIIPS sovereign bonds in recent years, and it now stands at just 1.8 billion euros for the five countries combined.

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

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

Johan Thijs: Our solvency position remains robust even after the repayment made in 2013. Our tier-1 ratio under Basel II amounted to 15.8% at year-end 2013. The common equity ratio under fully loaded Basel III – including the remaining state aid and latent gains – is 12.8%. When the divestments that had still to be completed at the end of 2013 and the sum repaid to the Flemish Regional Government at the start of 2014 are taken into account, it comes to 12.5%. That actually puts the common equity ratio well above our internal target of 10%. Our liquidity position remains as solid as ever, a fact that is reflected in our LCR and NSFR ratios, which stood at 131% and 111% respectively at the end of 2013.

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

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

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

How do you see things down the line?

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

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

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Thomas Leysen
Chairman of the Board of Directors

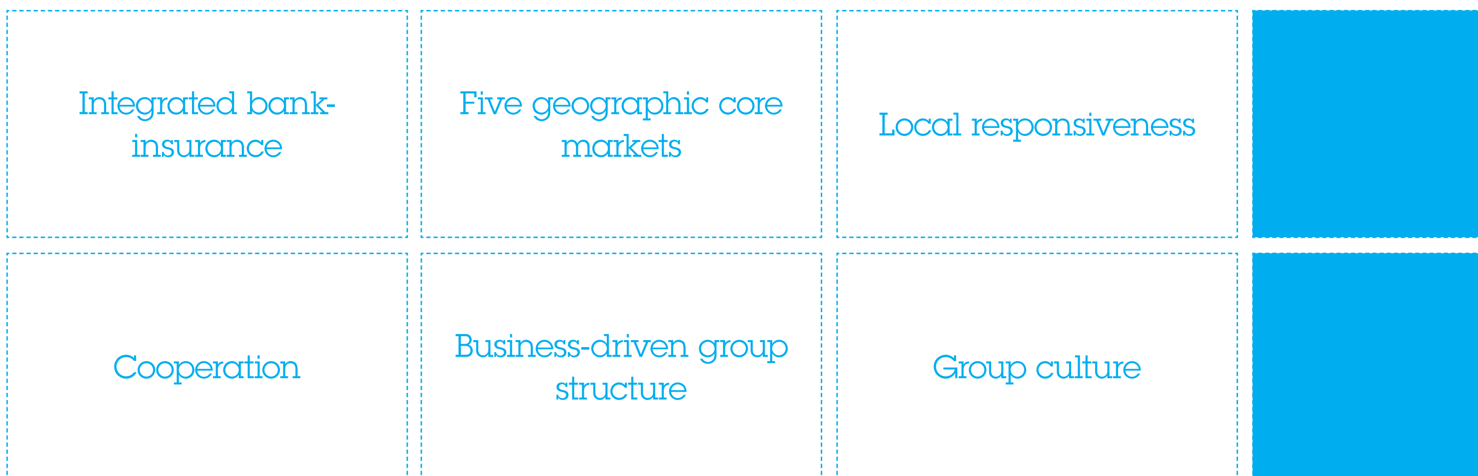
Johan Thijs
Chief Executive Officer

1.3

Strategy, company profile and structure

We took the final steps in our divestment programme in 2013, and once again repaid a substantial portion of the state aid received. We reworked our strategy and introduced a new management structure. At the same time, we continued to build on the transformation of our group in recent years into a sharply focused, regional European bank-insurer with a lower risk profile, while preserving our strengths. The strategic focus therefore remains on integrated bank-insurance for retail, private banking, SME and mid-cap clients in a carefully considered selection of five core countries.

Main thrust of the strategy



We use the acronym 'PEARL' to define our new 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).

Integrated bank-insurance

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

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

An important feature of our bank-insurance model in Belgium is the unique cooperation between the bank branches and insurance agencies in 'micro markets'. The branches focus on bank and standard insurance products. For other insurance products, they refer clients to the insurance agency in the same micro market. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch.

In Central and Eastern Europe, the group's bank branches concentrate on providing bank products and – to an increasing extent – standard insurance products too. The insurance agents sell the full range of insurance products. Besides the agents, sales through other channels continue to be important, with brokers in particular playing a significant role in the non-life segment and collaboration with multi-level agents (where relevant) also being embarked upon in the life segment. Initiatives have been launched in these countries to optimise cooperation between the bank and insurer and to develop sales of insurance products through the bank channel.

Although the group only owns a bank in Ireland, fire and life insurance products have recently started to be sold through the bank's branches.

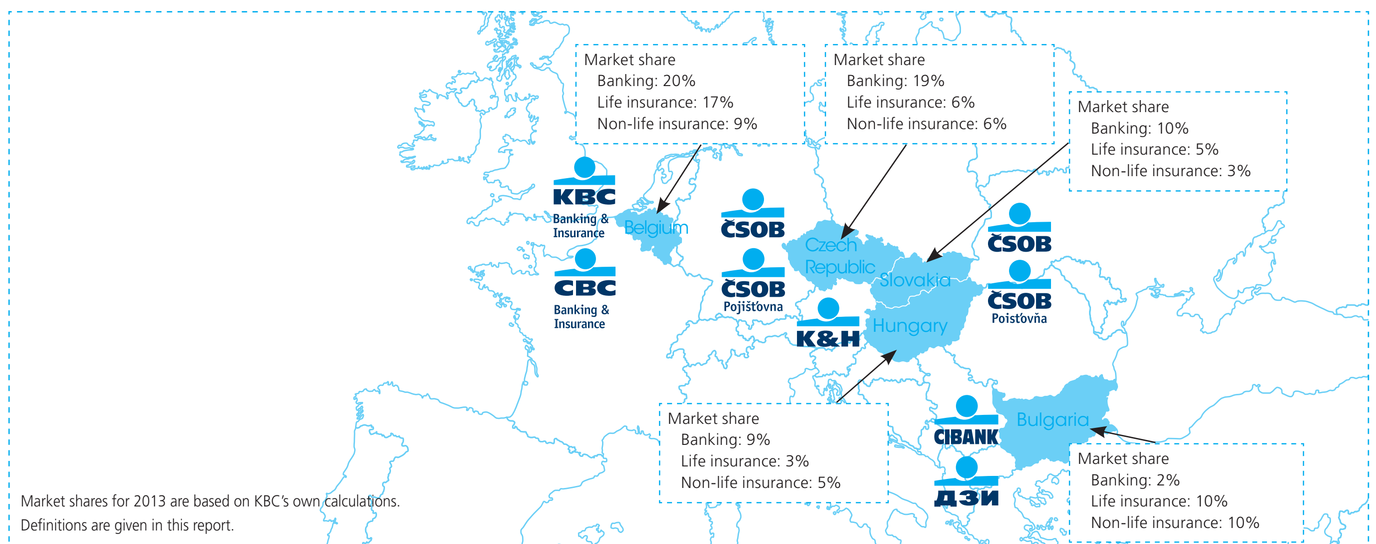
We position ourselves as an integrated bank-insurer not only in our commercial network, but also throughout the entire organisation. This means specifically that, apart from the pure banking and insurance product factories, virtually all our services (marketing, ICT, procurement, etc.) operate at group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

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

Geographic focus on five core markets

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

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



Market shares for 2013 are based on KBC's own calculations.
Definitions are given in this report.

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

Scale and maturity of core markets	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria
Population (million)	11.1	10.5	5.4	9.9	7.2
GDP per capita (euros, Belgium = 100)	100	38	38	27	16
Banking penetration (Belgium = 100)[1]	100	63	60	49	77
Insurance penetration (Belgium = 100)[2]	100	49	36	36	27

Based on KBC's own calculations.

1 Average of (deposits/GDP) and (loans/GDP), recalculated based on Belgium = 100 (2013).

2 Insurance premiums/GDP, recalculated based on Belgium = 100 (2012).

Local responsiveness

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

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

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

Cooperation

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

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

Several community initiatives in 2013 are shown below.

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

Business-driven corporate structure

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

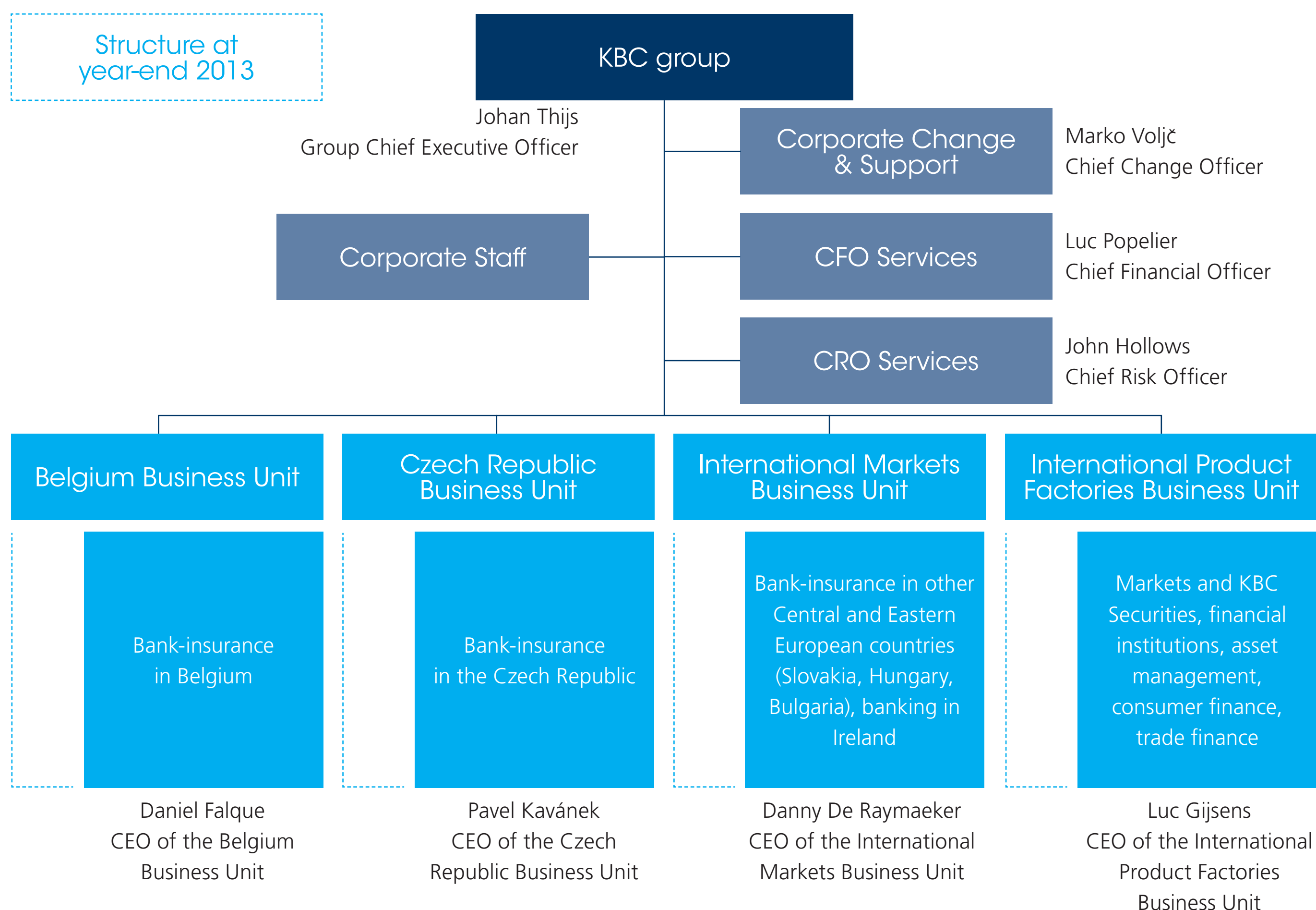
- the four business units, which focus on the local business and are expected to contribute to sustainable earnings and growth:
  - Belgium;
  - Czech Republic;
  - International Markets: encompasses the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria), KBC Bank Ireland,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

The management structure also forms the basis for financial segment reporting. The segments in this reporting presentation are:
- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia, Bulgaria);
- the Group Centre (results of the holding company; items that are not allocated to the other business units; results of companies to be divested; and the impact of the legacy business and own credit risk (see below)).

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

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

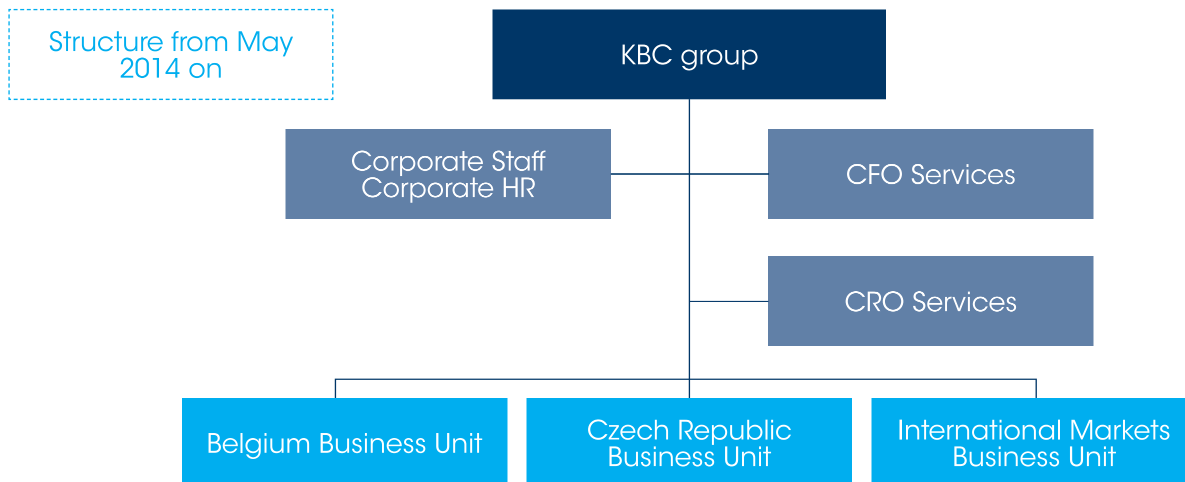
Details of the group's legal structure can be found in Note 44 of the 'Consolidated Financial Statements' section.



The management structure and composition of the Executive Committee are due to change on 1 May 2014. The main changes are as follows:

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

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



Group culture and targets

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

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

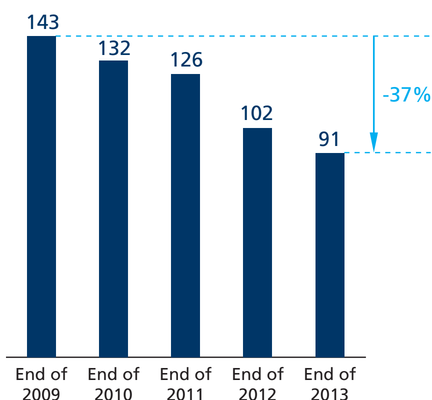
Targets (KPIs) have also been set for the 'People' dimension. They relate to factors such as customer and employee satisfaction and brand awareness, measured using promoter scores, reputation indices, etc. The group is currently developing a new reporting and tracking system for this dimension.

Financial targets at group level

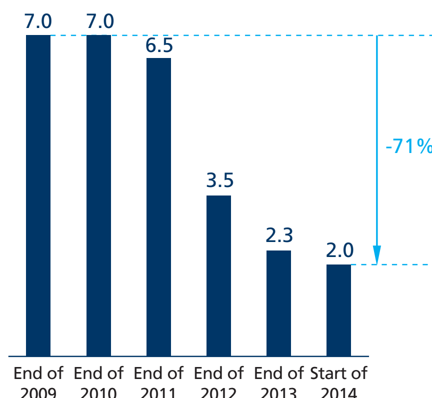
Ratio	Definition	Target	Comparison with current performance
Cost/income ratio banking	[operating expenses of the banking activities] / [total income of the banking activities], based on adjusted results.	Maximum 55% (by 2015)	**Cost/income ratio** (%) 2015 target: maximum 55 40 – 70 FY2013: 52
Combined ratio, non-life insurance	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (after reinsurance in each case).	Maximum 95% (by 2015)	**Combined ratio** (%) 2015 target: maximum 95 80 – 110 FY2013: 94
Common equity ratio, group (Basel III)	[common equity tier-1 capital] / [total weighted risks]. Based on the most recently available Capital Requirement Regulation and Capital Requirement Directive. 'Fully loaded' means assuming that Basel III was already 100% in force today. The remaining state aid and the revaluation reserve for available-for-sale assets have been included.	Minimum 10% (from 2013)	**Common equity ratio** (%) **(Basel III, fully loaded)** (Danish compromise method) Current target: minimum 10 15 – 5 FY2013: 12.8
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding].	Minimum 105% (by 2015)	**Net stable funding ratio** (%) 2015 target: minimum 105 140 – 70 FY2013: 111
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days].	Minimum 100% (by 2015)	**Liquidity coverage ratio** (%) 2015 target: minimum 100 140 – 60 FY2013: 131

The minimum and maximum values in the diagrams have no specific importance.

RWA of the group
(Basel II, in billions of EUR)



Core-capital securities
issued to the Belgian Federal and Flemish Regional governments
(in billions of EUR)



Divestment programme fully implemented, CDO risk substantially scaled back and further significant reduction in state aid

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

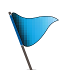
- March: sale of the 22% minority interest in Nova Ljubljanska banka in Slovenia and the 16.17% minority interest in Bank Zachodni in Poland;
- May: completion of the sale of Absolut Bank in Russia;
- September: agreement on the sale of KBC Bank Deutschland;
- December: completion of the sale of KBC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

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

The divestments performed in the past few years have made KBC a smaller, more focused group. The graph, which shows the reduction in the group's risk-weighted assets, illustrates this situation.

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

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



Divestment plan fully implemented

More information on exposure to CDOs is provided under 'Credit risk' in the 'Value and risk management' section

More information about the state aid can be found in 'Additional information'

Summary by country

Belgium

- Principal brands: KBC and CBC
- 827 bank branches, 470 insurance agencies, various electronic channels
- 20% share of the market for traditional bank products, 33% for investment funds, 17% for life insurance and 9% for non-life insurance
- 3.5 million clients
- 87-billion-euro loan portfolio, 97 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2013: 1 570 million euros

Czech Republic

- Principal brand: ČSOB
- 319 bank branches, various distribution channels for insurance, various electronic channels
- 19% share of the market for traditional bank products, 28% for investment funds, 6% for life insurance and 6% for non-life insurance
- 4 million clients
- 20-billion-euro loan portfolio, 25 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2013: 554 million euros

Slovakia

- Principal brand: ČSOB
- 128 bank branches, various distribution channels for insurance, various electronic channels
- 10% share of the market for traditional bank products, 7% for investment funds, 5% for life insurance and 3% for non-life insurance
- 0.6 million clients
- 5-billion-euro loan portfolio, 5 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2013: 70 million euros

Hungary

- Principal brand: K&H
- 220 bank branches, various distribution channels for insurance, various electronic channels
- 9% share of the market for traditional bank products, 17% for investment funds, 3% for life insurance and 5% for non-life insurance
- 1.6 million clients
- 5-billion-euro loan portfolio, 6 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2013: 66 million euros

Bulgaria

- Principal brands: CIBANK and DZI Insurance
- 104 bank branches, various distribution channels for insurance, various electronic channels
- 2% share of the market for traditional bank products, 10% for life insurance and 10% for non-life insurance
- 0.5 million clients
- 0.7-billion-euro loan portfolio, 0.5 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2013: 2 million euros

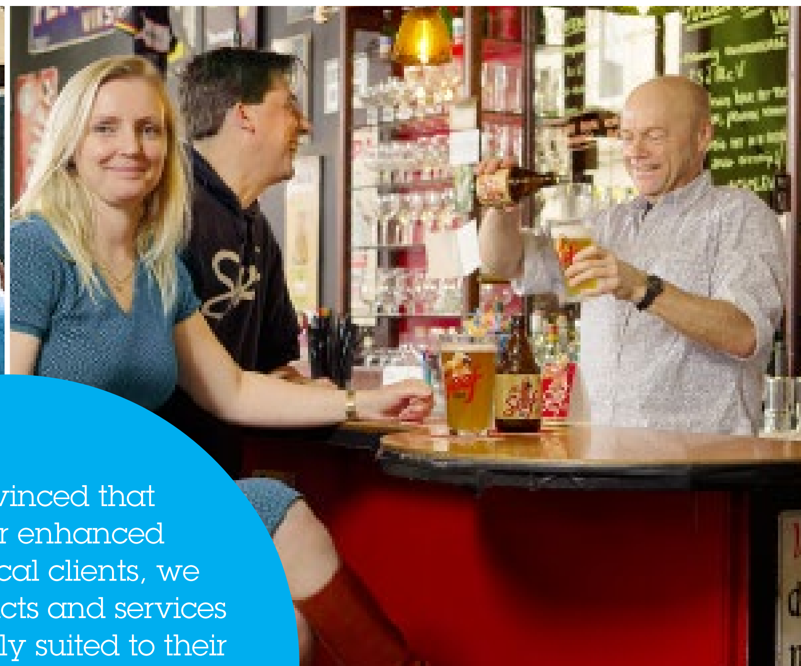
Ireland

- Principal brand: KBC Bank Ireland
- 7 bank branches, various electronic channels
- 10% share of the market for retail mortgage loans and 3% for retail deposits
- 0.2 million clients
- 15-billion-euro loan portfolio, 3.5 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2013: -992 million euros

For definitions and a more detailed explanation of the information presented above, see the sections devoted to each of the business units in this annual report. For a definition of 'loan portfolio', see the 'Value and risk management' section. 'Deposits and debt securities' are deposits from customers and debt securities (excluding repos).

KBC in society

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



We're convinced that through our enhanced insight into local clients, we can offer products and services that are perfectly suited to their needs and that this will increase our competitive advantage even further. That's why we've given local responsiveness an important place in our strategy.

Johan Thijs,
KBC Group CEO

We want to give concrete shape to socially responsible bank-insurance in the long-term relationships with our clients and so create a win-win situation for all the parties concerned. We are also committed to the local economy – the communities in which we do our everyday work.

We likewise pursue transparency in our business and the way we conduct it. For us, sustainable bank-insurance means that we also think long-term as an organisation to ensure that all our stakeholders stand to benefit. In doing so, we aim to build the necessary resilience to enable us to adapt quickly to changing needs, demands, laws and economic climate.

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

Stakeholder survey

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

The areas regarded as 'extremely important' by clients, suppliers and Board members alike were financial stability, quality and transparency of the products and services offered, short-term and long-term strategy, and a sound risk policy.

The findings of our staff survey have not been included in the matrix, due to the fact that the survey is part of a bigger, general satisfaction survey conducted each year and because the responses provided have a different emphasis: besides financial stability, members of staff rate job security as being most important, followed by pay policy and transparency.

The main findings emerging from the survey are presented in the following schematic. More information in this regard can be found in our *Report to Society* at www.kbc.com.

Improve
These are items our stakeholders consider **important** but on which KBC **scores less high**.

Foster
These are items our stakeholders consider **important** and on which KBC was **scored well**.

Monitor
These are items that our stakeholders consider **less important** and on which KBC did **not score highly**.

Maintain
These are factors on which KBC **scores well**, but which our stakeholders consider **less important**.

Open communication and steps toward integrated reporting

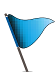
KBC aims to communicate as openly and transparently as possible with its stakeholders. To that end, we organise various contact opportunities between them and management. These include things like investor events, employee satisfaction surveys, customer satisfaction surveys, conferences, road shows and Investor Days, all dealing with specific matters. Corporate Communication, Investor Relations, HR, Marketing and the CSR team are just some of the entities that facilitate those contacts and deal with the various stakeholders' questions. KBC provides information all year round in a number of ways, including press releases and presentations, and publishes reports to coincide with the quarterly, half-year and annual results. This information is available at www.kbc.com, which in addition to various notifications required by law (including those relating to AGMs), provides general company information and specific reports, such as risk and corporate social responsibility reports.

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

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

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

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



First prize for Financial Information awarded by the Belgian Association of Financial Analysts. Second place for Investor Relations in Belgium at the Extel Awards

More information about integrated reporting will be published at www.kbc.com

Corporate social responsibility – different things to different people

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

Social impact is the other aspect that immediately comes to mind. We naturally remain sensitive to the social impact we have on the communities in which we operate, especially in the urban areas where we have head offices, for instance. In Brussels, for example, we continue to support projects with which we have a long-standing cooperation agreement, such as 'Foyer', 'Yes' and 'Bonnevie', while new projects too are receiving due attention. An example of the latter is the 'Toekomst Atelier' ('Future Workshop'), which aims to inspire children by giving them an idea of what the future could hold for them. The workshop offers extra lessons and educational activities to motivated 10 to 14 year-olds from deprived districts in Brussels.

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

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

Socially responsible business and our clients

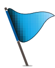
Being a sustainable financial group primarily means having sustainable and respectful relationships with our clients.

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

That is why we are collecting their experiences in the various markets in which our group is active and using that information to improve our services and products. Customer satisfaction surveys performed at our various entities all paint the same positive picture, i.e. generally speaking, KBC clients are satisfied with the service, accessibility and products of their bank. More information in this regard can be found in the sections devoted to the individual business units.

The reputation study we performed this year in all countries for the first time produced similar results. It also told us that the confidence of non-clients in KBC is lower. Much remains to be done, therefore, in this particular area.

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



Approximately 10 million clients in five core markets and Ireland

High scores for customer satisfaction

Corporate social responsibility in the economic fabric

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

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

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

External parties also challenge us about our indirect impact on society. They look at who we provide financial services to and whether our position can be justified. We take their comments to heart, are open to dialogue, and review our policy principles in respect of these themes. The themes arising in these debates include our policy towards nuclear weapons, the UN Global Compact principles and the trade in agricultural commodities. In 2013, we decided to extend our blacklist for controversial weapons to include companies that fundamentally violate the principles enshrined in the UN Global Compact. We expect the results for the other themes in 2014. KBC is no longer involved in what is referred to – rightly or wrongly – as food speculation. Accordingly, we will not create any investment products that are based on food prices. However, we will continue to offer financial products to companies for hedging the economic risks they run due to fluctuating agricultural prices.

KBC is also a large-scale insurer in Belgium and most of its core markets in Central and Eastern Europe. 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.

KBC is totally committed to prevention, which is part of the insurer's *raison-d'être*. Preventing human suffering and focusing on values such as safety, security, health and concern for victims are just some of the social objectives that KBC has adopted for itself.
As an insurer, we have built up considerable knowledge and experience not only of claims and their causes, but also of how best to avoid them in the first place. We share that knowledge with our clients by providing tips through various media. Where we do not have the necessary expertise in-house, we work with specialist partners from outside the company to meet our clients' needs. In Belgium, for instance, we launched the 'Mums Know Best Safety Shop' campaign (www.mumsknowbestsafetyshop.be) – an online shop for mothers and

anyone else, which provides tips and information, and sells accident-prevention products. More information in this regard is provided in the 'Belgium Business Unit' section.

Socially responsible business and our employees

As an employer, we are also a major driving force behind the economy, with – as already stated – around 36 000 people (in FTEs) working for our group worldwide.

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

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

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

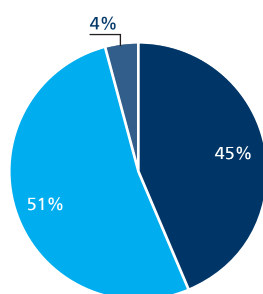
KBC is sensitive to its employees' mobility problems. Initiatives in this area include projects for staff to work locally or from home. This gives employees the opportunity to achieve a better work-life balance. KBC also offers free shuttle buses between railway stations and head office buildings, and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

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

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

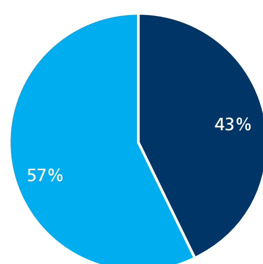
KBC again recognised as one of the 10 best employers in Belgium in 2013 according to the Great Place to Work® Institute

FTEs at year-end 2013: breakdown by region



- Belgium
- Central & Eastern Europe
- Rest of the world

FTEs at year-end 2013: breakdown by gender



- Males
- Females

way of working is most suited to them, so that they can continue to work fully motivated and for much longer.

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

The table provides an overview of the total workforce and a breakdown into various categories. The figures do not include group companies whose divestment has not yet been completed. Additional information on staff expenses and the average number of persons employed can be found in Notes 12 and 13 of the 'Consolidated financial statements' section.

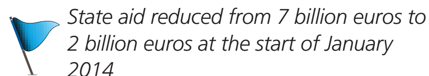
Number of staff, KBC group (excluding entities that fell under the scope of IFRS 5 on the respective reporting dates)	**31-12-2012**	**31-12-2013**
In FTEs	37 083	36 177
In %		
Belgium	44%	45%
Central and Eastern Europe	52%	51%
Rest of the world	4%	4%
Belgium Business Unit	–	35%
Czech Republic Business Unit	–	23%
International Markets Business Unit	–	25%
International Product Factories Business Unit, Group Functions and Group Centre	–	17%
Men	42%	43%
Women	58%	57%
Full-time	81%	81%
Part-time	19%	19%
Average age	41	42
Average seniority	14.1	13.6
Average number of sick days/FTE	–	2.7
Number of training days/FTE	–	10

Corporate social responsibility and government

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

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

Of course, our relationship with government is not confined solely to state aid. Besides lending to private individuals and companies, we also pump money into the economy by lending directly and indirectly to government. At the end of 2013, for instance, we invested approximately 25 billion euros in Belgian government paper. 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.

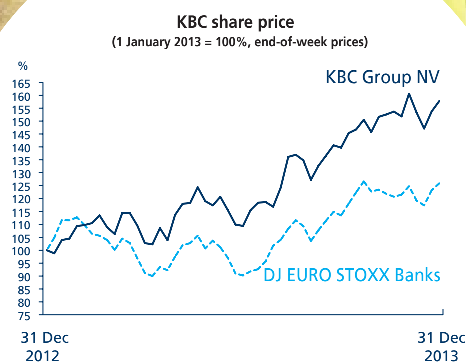


State aid reduced from 7 billion euros to 2 billion euros at the start of January 2014

1.5

Information for shareholders and bondholders

The price of our share rose by 58% in 2013, bringing our market capitalisation to 17.2 billion euros at year-end. Our long-term credit ratings remained stable throughout the year and were upgraded by Standard & Poor's in March 2014. We again issued several series of covered bonds. We will not pay a dividend for 2013.



KBC share in 2013

The closing price of our share at year-end 2013 was 41.25 euros, up 58% on the year-earlier figure (having risen almost 170% in 2012) and more than double the increase in the DJ EURO STOXX Banks index in 2013. As a result, our equity market capitalisation amounted to 17.2 billion euros at year-end 2013.

KBC share	2012	2013
Number of shares outstanding at year-end (in millions)	417.0	417.4
Change in the number of shares in 2013	Small increase of 397 003 shares due to the capital increase reserved for staff in December 2013[1]	
Number of shares entitled to dividend at year-end (in millions)	417.0	417.4
KBC share price[2]		
Highest share price for the financial year (in EUR)	26.2	42.0
Lowest share price for the financial year (in EUR)	9.1	25.8
Average share price for the financial year (in EUR)	17.3	32.8
Closing share price for the financial year (in EUR)	26.2	41.3
Difference between closing share price at financial year-end and previous financial year-end	+169%	+58%
Equity market capitalisation at year-end (in billions of EUR)	10.9	17.2
Average daily volume traded on NYSE Euronext Brussels (source: Bloomberg)		
millions of shares	1.72	1.14
millions of EUR	30.0	36.1
Equity per share (in EUR)	29.0	28.3

1 For more information, see the 'Company annual accounts' section.

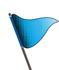
2 Based on closing prices and rounded to one decimal place.

Shareholders

The shareholder structure shown in the table below is based on the most recent notifications made under the transparency rules or (if they are more recent) on disclosures made under the Act on public takeover bids or other available information.

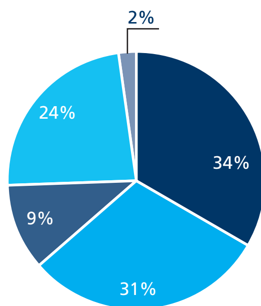
Shareholder structure of KBC Group NV (based on notifications)	Number of shares at the time of disclosure	% of the current number of shares
KBC Ancora (on 19 November 2013)	77 516 380	18.6%
Cera (on 19 November 2013)	11 127 166	2.7%
MRBB (end 2013)	50 889 864	12.2%
Other core shareholders (mid-2013)	40 371 943	9.7%
Subtotal for core shareholders	179 905 353	43.1%
Free float*	237 459 005	56.9%
Total	417 364 358	100.0%

* Details of notifications from shareholders under this heading can be found in the 'Company annual accounts' section; in 2013, the only notifications came from BlackRock Inc.



The KBC share rose by 58% in 2013

Breakdown by country/region of institutional investors in the free float
(estimate)



Notifications received under the transparency rules and information on treasury shares held by group companies are listed in the 'Corporate governance statement' and 'Company annual accounts'.

Cera and KBC Ancora sold 18.8 million KBC shares in November 2013, reducing their share-holding to 21.3%. They used the proceeds of this sale to repay loans granted by KBC, which had a positive impact for KBC on the common equity ratio under Basel III (fully loaded) of approximately 0.7 percentage points.

The graph shows an estimate of the breakdown per country of the institutional investors under the 'free float' heading (they account for more than two-thirds of the free float), based on a study at the beginning of 2014.

Dividend on shares and coupon on core-capital securities

As previously announced, we do not propose to pay a dividend for financial year 2013 (payment in 2014), subject to the approval of the General Meeting of Shareholders. Payment of a coupon on the remaining core-capital securities sold to the Flemish Regional Government is related to payment of a dividend on ordinary shares. For financial year 2013, therefore, we will not pay a coupon to the Flemish Regional Government.

KBC Group NV intends to pay a maximum gross dividend of 2 euros per share for financial year 2014 based on the profit available for distribution that is generated in that year (subject to the approval of the relevant General Meeting).

It does not intend to pay a dividend for financial year 2015 (likewise subject to the approval of the relevant General Meeting) and, therefore, will not pay a coupon either on the core capital securities sold to the Flemish Regional Government.

The aim is to start paying a dividend as normal from financial year 2016 on. The exact dividend policy from then on will be announced at the KBC Investor Day in June 2014.

As is always the case, each dividend payment has to be approved by the regulator. We will also ensure that the Flemish Regional Government receives an average return of over 10% per year on the financial aid it provided.

Credit ratings

The table shows the long-term and short-term credit ratings of KBC Group NV, KBC Bank NV and KBC Insurance NV. The ratings remained stable in 2013 and were upgraded by Standard & Poor's on 10 March 2014.

Credit ratings* on 10-03-2014	Long-term rating	Outlook/watch/ review	Short-term rating
Fitch			
KBC Bank NV	A-	(Stable outlook)	F1
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	F1
Moody's			
KBC Bank NV	A3	(Stable outlook)	P-2
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A	(Stable outlook)	A-1
KBC Insurance NV	A	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	A-2

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

New issues of covered bonds

In November 2012, we announced a programme for the issue of 10 billion euros' worth of Belgian covered bonds. We welcome the opportunity to widen our investor base and diversify our funding mix and sources in the long-term by means of such bonds.

In December 2012, we launched a first, highly successful issue of covered bonds, for an amount of 1.25 billion euros and with a maturity of five years. A number of new issues with various maturities followed in 2013, raising a total of roughly 2.7 billion euros.

Financial calendar and contact details

The financial calendar and contact details can be found under 'Additional information'.

More information on covered bonds can be found in our Debt Investor Presentations at www.kbc.com

1.6

Consolidated results in 2013

Net profit of 1 015 million euros ▪ Adjusted net profit of 960 million euros ▪ Stable net interest margin ▪ Higher net fee and commission income ▪ Combined ratio for non-life insurance of 94% ▪ Excellent cost/income ratio of 52% ▪ High impairment charges on loans in Ireland.

Overview of the income statement

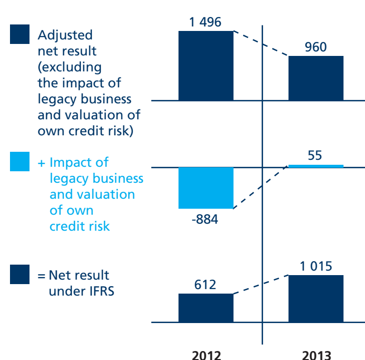
Consolidated income statement, KBC group (in millions of EUR)[1]	2012	IFRS 2013	2012	Adjusted result 2013
Net interest income	4 669	4 132	4 532	4 044
Interest income	10 134	8 464	[3]	[3]
Interest expense	-5 465	-4 332	[3]	[3]
Non-life insurance (before reinsurance)	622	536	622	536
Earned premiums	1 500	1 259	1 500	1 259
Technical charges	-878	-723	-878	-723
Life insurance (before reinsurance)[2]	-240	-242	-240	-242
Earned premiums	1 475	1 132	1 475	1 132
Technical charges	-1 714	-1 373	-1 714	-1 373
Ceded reinsurance result	-13	-5	-13	-5
Dividend income	45	47	43	41
Net result from financial instruments at fair value through profit or loss	420	1 191	789	779
Net realised result from available-for-sale assets	181	252	180	213
Net fee and commission income	1 315	1 484	1 324	1 487
Fee and commission income	2 005	2 286	[3]	[3]
Fee and commission expense	-690	-802	[3]	[3]
Other net income	734	123	252	343
Total income	**7 733**	**7 517**	**7 488**	**7 197**
Operating expenses	-4 248	-3 871	-4 184	-3 826
Impairment	-2 511	-1 933	-1 195	-1 729
on loans and receivables	-1 072	-1 719	-1 072	-1 638
on available-for-sale assets	-95	-34	-37	-20
on goodwill	-421	-7	0	-7
other	-923	-173	-86	-64
Share in results of associated companies	2	1	-31	1
Result before tax	**976**	**1 714**	**2 078**	**1 643**
Income tax expense	-362	-685	-553	-668
Net post-tax result from discontinued operations	27	0	0	0
Result after tax	**641**	**1 029**	**1 525**	**974**
Result after tax, attributable to minority interests	29	14	29	14
Result after tax, attributable to equity holders of the parent (net result)	**612**	**1 015**	**1 496**	**960**
Adjusted net result by business unit				
Belgium			1 360	1 570
Czech Republic			581	554
International Markets			-260	-853
Group Centre			-185	-311
Return on equity			9%	9%
Cost/income ratio, banking			57%	52%
Combined ratio, non-life insurance			95%	94%
Credit cost ratio, banking			0.71%	1.19%

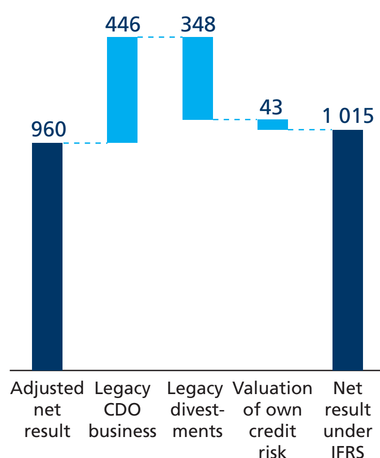
1 For a definition of the ratios, see 'Glossary of ratios used'. The adjusted results are defined in this section of the report. The way items relating to earned premiums and technical charges for the insurance activities are presented has been changed. For more information in this regard, see Note 1 a of the 'Consolidated financial statements' section.

2 Figures for earned premiums (and technical charges) do not include investment contracts without DPF, which roughly correspond to unit-linked life insurance contracts (3.6 billion euros in premiums in 2012, 0.9 billion euros in 2013).

3 Not available, as the analysis of these result components is performed on a net basis within the group.

We discuss the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts' section.





Calculating the adjusted result

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

These items, and their impact in 2013, are:

- Legacy CDO business: includes changes in the value of CDOs held in portfolio (positive in 2013, thanks chiefly to the narrowing of credit spreads on corporate bonds and ABS); the fee for the CDO guarantee agreement with the Belgian Federal Government; costs and gains related to scaling down the exposure to CDOs; and the impact of MBIA coverage (positive in 2013, due to the improved credit valuation adjustment on MBIA). All this had a positive effect totalling 446 million euros (after taxes) in 2013.
- Legacy business of divestment companies: comprises gains, losses and impairment charges on group companies on the divestment list. In 2013, it related primarily to KBC Banka in Serbia, Absolut Bank in Russia, Antwerp Diamond Bank in Belgium, the minority interest in Nova Ljubljanska banka in Slovenia, the minority stake in Bank Zachodni in Poland, plus the impact of the reduction in shareholder loans. On balance, this had a negative effect of 348 million euros (after taxes) in 2013.
- Valuation of own credit risk: comprises the impact of changes in the fair value of own debt instruments due to own credit risk. The improvement in KBC's credit spread led to a negative adjustment of 43 million euros (after taxes) in 2013.

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

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

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

Reconciliation of the IFRS result and the adjusted result (for 2013, in millions of EUR)	IFRS presentation A	Reclassification of trading results (Belgium) B	Impact of legacy CDO business C	Impact of legacy business of divestment companies D	Impact of own credit risk E	Adjusted presentation A+B -C-D-E
Net interest income	4 132	-82	5	0	0	4 044
Non-life insurance (before reinsurance)	536	0	0	0	0	536
Earned premiums	1 259	0	0	0	0	1 259
Technical charges	-723	0	0	0	0	-723
Life insurance (before reinsurance)	-242	0	0	0	0	-242
Earned premiums	1 132	0	0	0	0	1 132
Technical charges	-1 373	0	0	0	0	-1 373
Ceded reinsurance result	-5	0	0	0	0	-5
Dividend income	47	-4	2	0	0	41
Net result from financial instruments at fair value through profit or loss	1 191	87	559	0	-60	779
Net realised result from available-for-sale assets	252	2	0	42	0	213
Net fee and commission income	1 484	-3	-7	0	0	1 487
Other net income	123	-1	-1	-220	0	343
Total income	7 517	0	559	-179	-60	7 197
Operating expenses	-3 871	0	-37	-9	0	-3 826
Impairment	-1 933	0	0	-204	0	-1 729
on loans and receivables	-1 719	0	0	-82	0	-1 638
on available-for-sale assets	-34	0	0	-13	0	-20
on goodwill	-7	0	0	0	0	-7
other	-173	0	0	-109	0	-64
Share in results of associated companies	1	0	0	0	0	1
Result before tax	1 714	0	522	-391	-60	1 643
Income tax expense	-685	0	-77	43	17	-668
Net post-tax result from discontinued operations	0	0	0	0	0	0
Result after tax	1 029	0	446	-348	-43	974
attributable to minority interests	14	0	0	0	0	14
attributable to equity holders of the parent	**1 015**	**0**	**446**	**-348**	**-43**	**960**

Key consolidated balance sheet, assets under management, solvency and liquidity figures

Selected balance-sheet and solvency items, KBC group (in millions of EUR)	2012[1]	2013
Total assets	256 928	241 306
Loans and advances to customers	128 492	122 790
Securities (equity and debt instruments)	67 295	65 177
Deposits from customers and debt securities	159 632	164 141
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	30 058	30 488
Risk-weighted assets	102 148	90 541
Total equity[2]	15 879	14 514
Parent shareholders' equity	12 017	11 826
Non-voting core-capital securities	3 500	2 333
Minority interests	362	354
Parent shareholders' equity per share (in EUR)	29.0	28.3
Assets under management	155 216	162 977
Tier-1 ratio, group (Basel II)	13.8%	15.8%
Core tier-1 ratio, group (Basel II)	11.7%	13.5%
Common equity ratio, (fully loaded Basel III, including remaining state aid and latent gains – Danish compromise method)	*10.5%*	*12.8% (13.2%[3])*
Liquidity coverage ratio	*107%*	*131%*
Net stable funding ratio	*105%*	*111%*

1 Total assets and equity restated according to revised IAS 19, which became effective on 1 January 2013.

2 For movements in equity, see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

3 According to the building block method.

Additional information

- The (now almost completed) divestment programme obviously influences the comparison of results between 2012 and 2013:

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

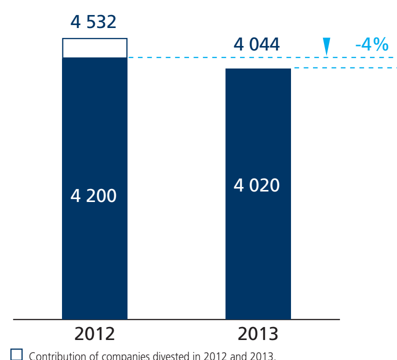
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was very limited (in the order of -25 million euros).

- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1b, 5 and 18–29 among others) and in the 'Value and risk management' section.

Review of the main income statement and balance sheet items

Unless stated otherwise, the information and graphs that follow refer 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
(in millions of EUR)



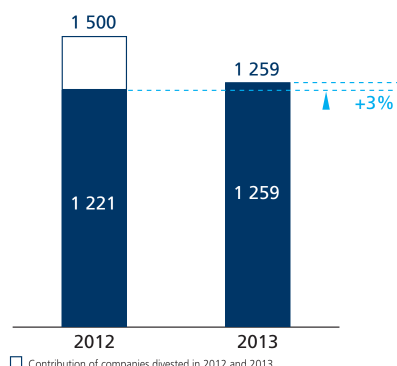
Net interest income

Net interest income came to 4 044 million euros in 2013. Excluding changes in the scope of consolidation, the figure was 4% below its year-earlier level, partly due to such factors as the lower level of reinvestment income, while commercial margins remained healthy.

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

On a comparable basis, loans and advances to customers (excluding reverse repos) – which came to 122 billion euros at year-end 2013 – fell on balance by 2% in 2013, contracting by 2% at the Belgium Business Unit (0% excluding the portfolios of the foreign branches and shareholder loans), increasing by 6% at the Czech Republic Business Unit and declining by 7% at the International Markets Business Unit (growth in Slovakia and Bulgaria, but a decline in Ireland and Hungary). On a comparable basis, the total volume of deposits (153 billion euros in deposits from customers and debt securities (excluding repos) at year-end 2013) remained virtually unchanged in 2013, with the Belgium Business Unit recording an increase of 2%, the Czech Republic Business Unit 4% and the International Markets Business Unit almost 9% (with Ireland posting substantial growth, thanks to the success of the retail deposit campaign in that country), and the Group Centre recording a decline (mainly at KBC IFIMA).

Earned premiums in non-life insurance
(in millions of EUR)

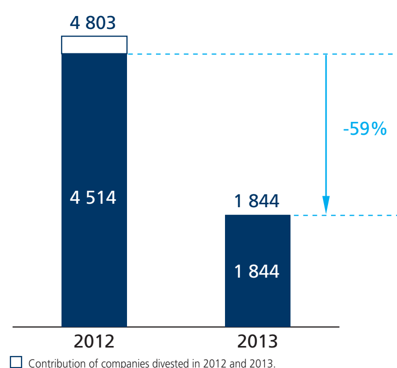


Insurance premiums and technical charges

Earned premiums in non-life insurance came to 1 259 million euros in 2013, up 3% on the year-earlier figure (excluding changes in the scope of consolidation). They grew by 4% in Belgium and by 3% in the Czech Republic, but fell by 5% in the three other Central and Eastern European markets combined. On a comparable basis, the technical insurance charges rose by 2% in 2013, due in part to the floods in the Czech Republic and the storms in Belgium. The combined ratio at group level improved by 1 basis point to a good 94%.

Earned premiums in life insurance amounted to 1 132 million euros in 2013. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled around 1.8 billion euros, compared with an exceptionally high 4.8 billion euros in 2012. There was a decline in the two main markets of Belgium and the Czech Republic, particularly in the case of unit-linked products. This came about in Belgium partly as a consequence of the changes in the tax treatment of unit-linked life insurance contracts that took effect at the start of 2013, the low level of interest rates and a shift towards investment funds. Overall, products offering guaranteed rates accounted for about 52% of premium income from the life insurance business, and unit-linked products for 48%. On 31 December 2013, the group's life reserves came to 25.4 billion euros for the Belgium Business Unit, 1.1 billion euros for the Czech Republic and 0.5 billion euros for the three other Central and Eastern European core markets combined.

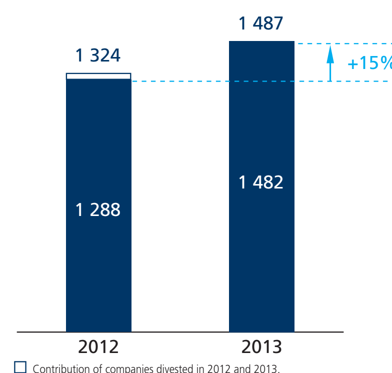
Sales of life insurance
(in millions of EUR, non-IFRS figures)



Net fee and commission income

Net fee and commission income came to 1 487 million euros in 2013, up 15% on the year-earlier figure (excluding changes in the scope of consolidation). The increase was accounted for primarily by Hungary and Belgium, with the main driving factor in Belgium being growth in entry charges and management fees for investment funds.

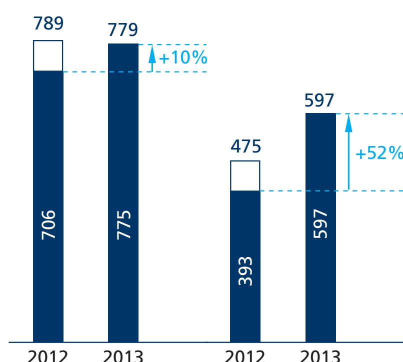
At the end of 2013, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 163 billion euros, 5% more than the year-earlier figure on a comparable basis, due to positive price and volume effects. Most of these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



Other income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 779 million euros in 2013, as opposed to 789 million euros in 2012. We reiterate that several items have been excluded from this trading and fair value income (i.e. the impact of the legacy CDO portfolio and of the valuation of own credit risk) and that the trading-related income of the Belgium Business Unit recorded under IFRS in various other income items has been included. The positive development of this results component partly reflects the very favourable marked-to-market valuation of certain derivatives used for the purposes of asset/liability management (280 million euros, as opposed to -61 million euros in 2012).

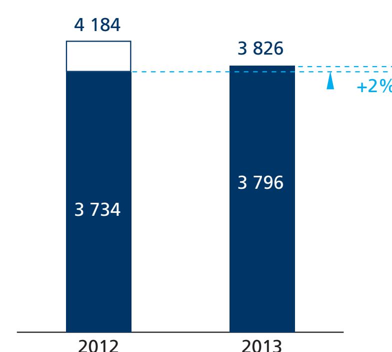
Other income (dividends, realised gains and other net income) came to an aggregate 597 million euros in 2013, 122 million euros more than in 2012. The difference is attributable in part to the higher level of other net income; in 2012, this item included the recovery of 126 million euros in relation to an earlier fraud case at KBC Lease UK and an additional amount set aside for the 5-5-5 product, and in 2013 to the recovery of moratorium interest for a number of successfully concluded cases and capital gains on the sale of several buildings.



Operating expenses

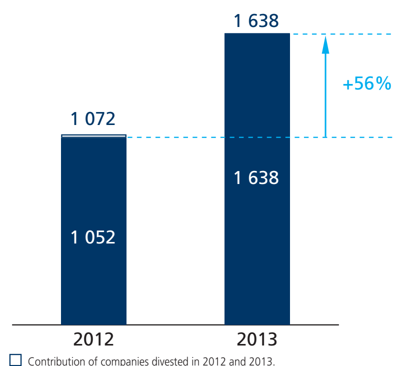
Operating expenses amounted to 3 826 million euros in 2013. Excluding changes in the scope of consolidation, they were up 2% on their year-earlier level, owing in part to the introduction of a financial transactions levy in Hungary (including an additional related one-off levy), higher costs in Ireland (a larger workforce) and increased pension-related expenses, all of which offset lower ordinary staff expenses and the positive effect of exchange rates. Excluding the effect of exchange rates and the one-off items, costs remained virtually unchanged from their 2012 level.

The cost/income ratio for the group's banking activities was approximately 52% in 2013 (54% after eliminating a number of volatile items), an improvement on the 57% in 2012. It was 47% for the Belgium Business Unit, 47% for the Czech Republic Business Unit and 69% for the International Markets Business Unit.

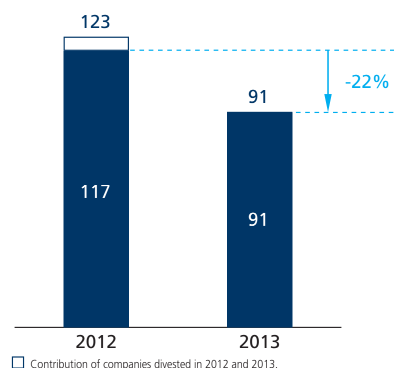


Impairment

Impairment on loans and receivables (loan loss provisions) amounted to 1 638 million euros in 2013, compared with 1 072 million euros in 2012. The increase was almost entirely attributable to Ireland, where we set aside significant extra loan loss provisions after reviewing our loan portfolio there in the fourth quarter. For 2013 as a whole, they amounted to 1 059 million euros, compared with 547 million euros in 2012. Other loan loss provisions amounted to an aggregate 579 million euros in 2013, with Belgium accounting for 328 million euros of this figure, Hungary for 76 million euros (31 million euros more than in 2012, also due largely to the review of the loan portfolio there), the Czech Republic for 52 million euros and other countries for 123 million euros.



Overall, the group's credit cost ratio subsequently deteriorated from 71 basis points in 2012 to 119 basis points in 2013 (37 basis points at the Belgium Business Unit, 25 basis points at the Czech Republic Business Unit and 448 basis points at the International Markets Business Unit (Ireland: 672 basis points; Slovakia: 60 basis points; Hungary: 150 basis points; and Bulgaria: 119 basis points)). The proportion of non-performing loans in the total loan portfolio was 5.9% at year-end 2013, compared with 5.3% in 2012. This breaks down into 2.5% at the Belgium Business Unit, 3.0% at the Czech Republic Business Unit, and a high 19.2% at the International Markets Business Unit (due primarily to Ireland, which had a non-performing loan ratio of 26.2%). At year-end 2013, 49% of non-performing loans (see definition in 'Glossary of ratios used') were covered by impairment charges, or 72% if all impairment charges for loans are included. More information on the composition of the loan portfolio is provided in the 'Value and risk management' section.

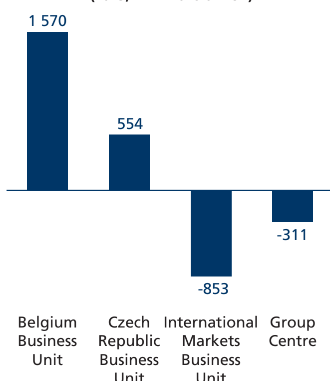


Other impairment charges totalled 91 million euros in 2013 and related *inter alia* to bonds and real estate.

Please note that, as the graph is based on the adjusted net result, impairment charges relating to divestments (legacy business) were not included. These charges were relatively limited in 2013. In 2012, however, they totalled a high 1.2 billion euros, relating primarily to the then remaining companies earmarked for divestment (impairment on goodwill and impairment on other, particularly in respect of Absolut Bank, KBC Banka, Nova Ljubljanska bank, Antwerp Diamond Bank and KBC Bank Deutschland).

Net results per business unit

The group's adjusted net result in 2013 breaks down as follows among its business units: Belgium 1 570 million euros (up 210 million euros on the figure for 2012, due primarily to robust net fee and commission income and other income), Czech Republic 554 million euros (a slight decline of 27 million euros on the figure for 2012, owing chiefly to the negative impact of the exchange rate), International Markets -853 million euros (down 593 million euros on the figure for 2012, due almost entirely to the higher level of impairment charges in Ireland) and Group Centre -311 million euros, (down 126 million euros on the figure for 2012).



A more detailed analysis of the results for each business unit can be found in the relevant sections of this annual report.

Balance sheet, solvency, liquidity

At the end of 2013, the group's consolidated total assets came to 241 billion euros, down 6% year-on-year. Risk-weighted assets fell by 11% to 91 billion euros in 2013.

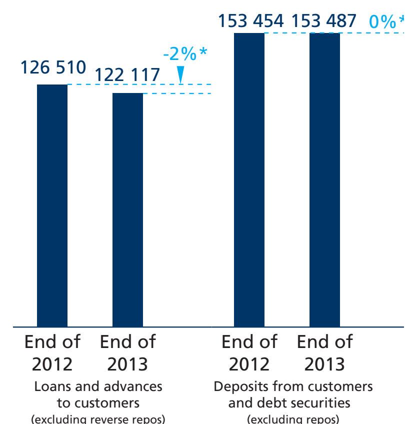
Loans and advances to customers (122 billion euros in loans at the end of 2013, not including reverse repos) continued to be the main products on the assets side of the balance sheet. On a comparable basis, total loans and advances to customers fell by 2% (down 2% at the Belgium Business Unit, up 6% at the Czech Republic Business Unit, and down 7% at the International Markets Business Unit). The main credit products (including reverse repos) were again term loans (55 billion euros) and mortgage loans (54 billion euros). Securities amounted to 65 billion euros at year-end 2013, 3% less than the year-earlier figure. Of these securities, 3% were shares and 97% bonds and similar instruments. Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (16 billion euros), derivatives (positive market value of 9 billion euros) and investment-linked life insurance contracts (13 billion euros).

On a comparable basis, the group's total customer deposits (deposits from customers and debt securities, excluding repos) remained virtually unchanged at 153 billion euros. Deposits increased by 2% at the Belgium Business Unit, by 4% at the Czech Republic Business Unit and by 9% at the International Markets Business Unit (thanks primarily to the retail deposit campaign in Ireland), but fell by 9% in the Group Centre. As in 2012, the main products (including repos) were time deposits (55 billion euros), demand deposits (39 billion euros) and savings deposits (35 billion euros, the same level year-on-year). Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 30 billion euros), derivatives (negative market value of 10 billion euros) and deposits from credit institutions and investment firms (14 billion euros).

On 31 December 2013, the group's total equity came to 14.5 billion euros. This figure included 11.8 billion euros in parent shareholders' equity, 0.4 billion euros in minority interests and the remaining 2.33 billion euros in non-voting core-capital securities sold to the Flemish Regional Government. On balance, total equity fell by 1.4 billion euros in 2013, primarily as a result of the partial repayment of aid provided by the Flemish Regional Government (-1.75 billion euros, including a 50% penalty); the inclusion of the annual profit (+1 billion euros); the coupon payments on the core-capital securities sold to the governments in respect of 2012 (-0.5 billion euros); payment of the dividend for 2012 (-0.4 billion euros); and changes in the available-for-sale reserve and cashflow hedge reserve (+0.2 billion euros in total).

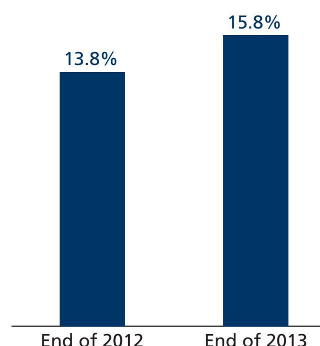
At year-end 2013, the group's tier-1 ratio under Basel II amounted to 15.8% and its core tier-1 ratio to 13.5%. The common equity ratio under fully loaded Basel III (Danish compromise method) – and including the outstanding state aid and the available-for-sale reserve – amounted to 12.8% at year-end 2013, comfortably above the internal target of 10%. The group's liquidity position remained excellent, as reflected in an LCR ratio of 131% and an NSFR ratio of 111% at year-end 2013.

Loans and customer deposits
(in billions of EUR)

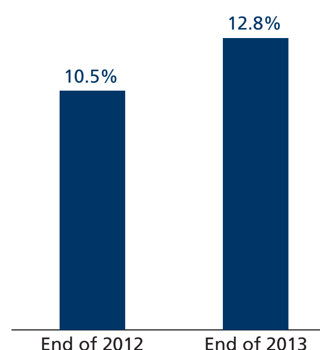


* After adjusting for movements in exchange rates.

Group tier-1 ratio (Basel II)



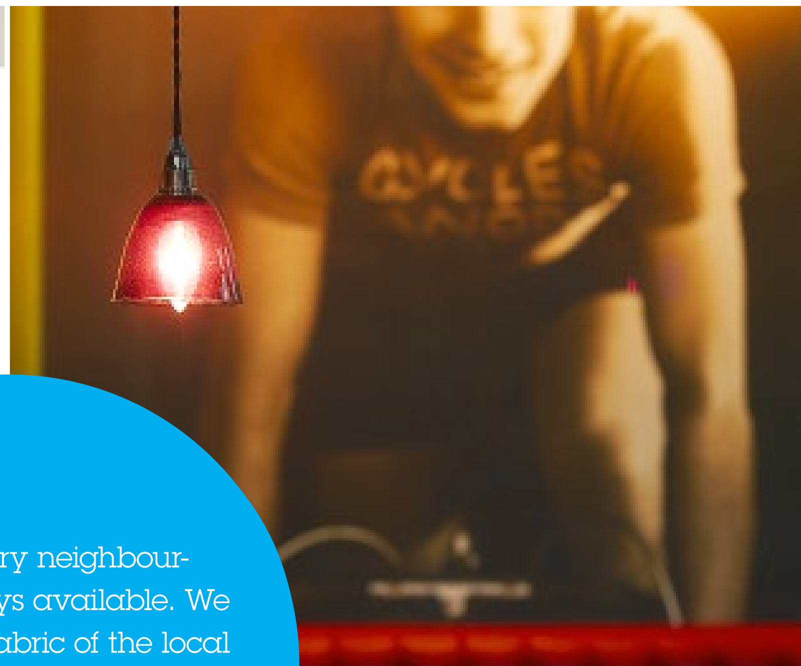
Common equity ratio at group level (fully loaded Basel III – Danish Compromise method)



1.7

Belgium

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



KBC is in every neighbourhood and always available. We are part of the fabric of the local community. And with our aim of sharing our expertise even more effectively, we can truly make the difference.

Daniel Falque, CEO, Belgium

The economic context in Belgium

Economic growth improved a little in 2013, inflation cooled down substantially and long-term rates began to rise – albeit haltingly – especially in the United States. It was a year of relative calm in the European Monetary Union, certainly compared to previous years. Structural reforms began to bear fruit and significant steps were taken towards a banking union, resulting in reduced tension on the European financial markets, despite problems in a few small countries.

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

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

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

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

Macroeconomic indicators for Belgium	2012	2013*
GDP growth (real)	-0.1%	0.2%
Inflation (average annual increase in consumer prices (%))	2.8%	1.1%
Unemployment (% of the labour force at year-end)	8.1%	8.4%
Government budget balance (% of GDP)	-4.0%	-2.7%
Public debt (% of GDP)	99.8%	99.7%

* Estimates made at the start of 2014.

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

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

Our activities in Belgium

Position in the Belgian market in 2013*

- 827 bank branches
- 470 insurance agencies
- Estimated market share of 20% for traditional bank products, 33% for investment funds, 17% for life insurance and 9% for non-life insurance
- Approx. 3.5 million customers
- Loan portfolio of 87 billion euros and deposits and debt securities of 97 billion euros

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

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

The strategy we pursue in Belgium for our retail clients is based on being deeply embedded locally through a close-knit network of bank branches and insurance agencies, backed up by complementary direct channels. At the end of 2013, our Belgian retail network consisted of around 800 KBC Bank and CBC Banque retail and private banking branches, and a little under 500 tied KBC Insurance and CBC Assurances agencies. We focus explicitly on relationship bank-insurance, tailored to each client and offering every client readily available expertise.

We cater for larger companies primarily through a network of thirteen corporate centres and a number of CBC Banque branches that serve both retail and corporate clients. Services for corporate clients comprise a wide range of activities, including lending, cash management, payments, trade finance, leasing, money market activities, capital market products, stockbroking and corporate finance. The Belgium Business Unit also includes the small network of

ten KBC Bank branches abroad, which focus on activities and clients with links to KBC's core markets and in particular to Belgium.

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

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

Satisfaction levels are also exceptionally high among our employees. The most recent survey found that 96% of staff describe themselves as 'satisfied', 51% of whom rate themselves as either 'very satisfied' or 'extremely satisfied'.

We believe in the power of a physical presence through a branch and agency network that is close to our clients. At the same time, however, we expect the importance of online and mobile bank-insurance to grow further and are constantly developing new applications in these areas. That includes our various mobile banking apps for smartphones and tablets, which we are continuously improving and expanding. KBC Mobile Banking now has over 160 000 active users. KBC and CBC launched their app for business clients at the beginning of 2013 under the names KBC Mobile Business Banking and CBC Mobile Business Banking.

KBC-Online too is providing clients with ever more information and facilities to perform their own banking and/or insurance transactions. It already boasts 1.2 million subscribers, almost 900 000 of whom are active users. And we are constantly increasing our accessibility via social media like LinkedIn, Facebook, YouTube and Twitter. What's more, we launched two new websites in 2013, www.kbccorporates.com specifically for corporate clients and www.kbcfi.com for financial institutions.

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

Unique and successful bank-insurance cooperation

High level of customer satisfaction

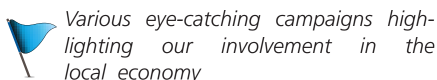
Continuous development and expansion of electronic channels

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

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

Our wide-ranging and bespoke product offering makes us one of Belgium's leading financial institutions. Based on provisional data and our own estimates, our share of the Belgian market amounted to almost 23% in lending and just over 17% in deposits at year-end 2013. Our share of the insurance market came to an estimated 17% for life insurance (guaranteed-interest and unit-linked products, combined) and close to 9% for non-life insurance. As in previous years, we did very well in the investment fund market, as illustrated by an estimated share of 33%.

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



Various eye-catching campaigns highlighting our involvement in the local economy

Clear and explicit social engagement

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

Here are a few examples:

- Through our social sponsorship activities, we focus on projects in the area of health and road safety, with the emphasis on prevention. We have partnered the Belgian road safety campaigns *Levenslijn* and *Mobiel 21*, for instance, for many years now. We hold regular blood donation sessions at our head offices in collaboration with the Red Cross, and have worked closely for numerous years with the cancer charity, *Kom Op Tegen Kanker*. We actively sponsor many cultural and sporting events as well, such as the *Ronde van Vlaanderen* (a road cycling race held in Flanders), the *KBC Nacht van de Atletiek* (an athletics event) and a number of summer festivals.
- We view health and safety as a logical extension of insurance, which actually makes it part of our company's DNA. This is reflected in initiatives like our 'Mums Know Best Safety Shop', an online shop where visitors can find tips and information and buy health and safety products that can help prevent accidents. The shop's themes include fire, water damage, safety in and around the home, and road safety.
- We are working hard to reduce our ecological footprint. For example, we began in 2013 to replace the fluorescent light fittings at our head office in Brussels with energy-saving LED lighting, which only uses a third of the energy of fluorescent lights and lasts much longer. Environmental awareness is, incidentally, an issue for all KBC staff. To that end, the non-recurrent results-based bonus KBC pays its employees in Belgium has been subject for two years now to the achievement of green, sustainable targets, including electricity consumption, CO_2 emissions from company cars, kilometres driven and paper usage.
- We opened a brand-new branch in June 2013 at a new location in Ghent. The new design concept implemented there focuses entirely on the client and the community, and we intend to open more branches like this in the future (we had already opened one in Mol at the end of 2012). These branches will have a smaller floor area, be more ecological and will be based on the concept of a cashless and paperless branch.

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

Environmental efficiency data for the KBC group in Belgium (per FTE)		2012	2013
Energy consumption (in GJ)*	Electricity	20.8	21.3
	Provided by renewable energy sources	100%	100%
	Fossil fuels (gas and heating oil)	12.6	16.0
Distances travelled (in km)	Commuter travel	8 867	8 288
	Business travel	5 573	5 358
Paper and water consumption, waste	Paper (in tonnes)	0.13	0.12
	Water (in m^3)	8.5	9.0
	Waste (in tonnes)	0.29	0.33
Greenhouse gas emissions (in tonnes)*		1.8	2.5

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

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

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

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

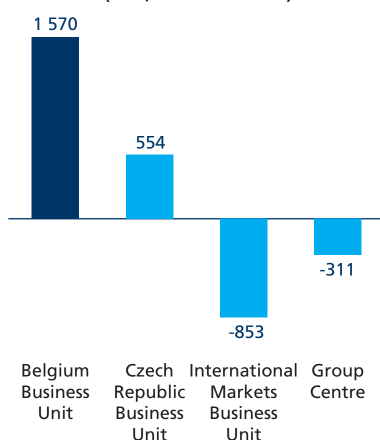
Our commitment to society has gained us considerable credit with our clients, and we are keen to build on that. Campaigns like 'Gap in the Market' are an excellent example, moreover, of what we refer to in our strategy as 'local responsiveness'. This is a path we definitely intend to follow going forward.

Contribution to group results

Belgium Business Unit* (in millions of EUR)	**2012**	**2013**
Net interest income	2 722	2 648
Non-life insurance (before reinsurance)	375	409
Earned premiums	916	955
Technical charges	-541	-546
Life insurance (before reinsurance)	-305	-274
Earned premiums	847	831
Technical charges	-1 153	-1 105
Ceded reinsurance result	-11	-6
Dividend income	40	40
Net result from financial instruments at fair value through profit or loss	506	544
Net realised result from available-for-sale assets	119	171
Net fee and commission income	948	1 061
Other net income	107	292
Total income	4 499	4 885
Operating expenses	-2 195	-2 249
Impairment	-328	-363
on loans and receivables	-246	-328
on available-for-sale assets	-36	-7
on goodwill	0	0
other	-46	-28
Share in results of associated companies	0	0
Result before tax	1 976	2 273
Income tax expense	-619	-703
Net post-tax result from discontinued operations	0	0
Result after tax	1 357	1 570
attributable to minority interests	-3	0
attributable to equity holders of the parent (net result)	**1 360**	**1 570**
Banking	988	1 255
Insurance	371	315
Risk-weighted assets (period-end) (Basel II)	52 884	49 751
Allocated capital (period-end)	5 717	5 400
Return on allocated capital	23%	28%
Cost/income ratio, banking	51%	47%
Combined ratio, non-life insurance	95%	93%

* The reference figures have been restated to take account of the new business unit structure that has been in place since 2013. Independently of the IFRS classification, all trading-related income has been grouped under 'Net result from financial instruments at fair value through profit or loss' in this table (though not for the other business units as it is immaterial).

Breakdown of adjusted net result by business unit
(2013, in millions of EUR)



In 2013, the Belgium Business Unit generated a net result of 1 570 million euros, compared with 1 360 million euros a year earlier.

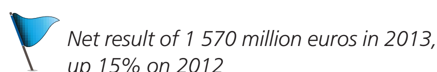
Net interest income totalled 2 648 million euros at year-end, 3% less than in 2012. This was due primarily to the lower level of income generated by the insurer's bond portfolio (mainly on account of the lower yield on the reinvestment portfolio) and the run-down of activities at the foreign branches, whereas commercial net interest income went up (owing to improved margins on loans, among other things). KBC Bank's net interest margin fell slightly, from 1.26% at year-end 2012 to 1.24%.

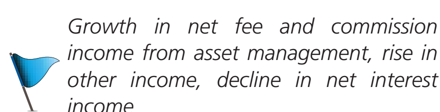
At 82 billion euros at year-end, loans and advances to customers (excluding reverse repos) went down by 2% in 2013, but this was attributable partly to the deliberate reduction at KBC Bank's foreign branches and the reduction in loans to shareholders (excluding these foreign branches and loans to shareholders, the loan portfolio remained more or less unchanged). Deposit volumes (deposits from customers and debt securities, excluding repos) came to 97 billion euros, a year-on-year increase of 2%.

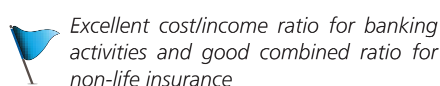
Earned insurance premiums amounted to 1 786 million euros, 831 million euros of which related to life insurance and 955 million euros to non-life insurance. Non-life premiums rose by roughly 4% (primarily fire and other property insurance classes) and the level of claims was only slightly higher than in 2012. As a result, the combined ratio stood at a good 93% in 2013, compared with 95% in 2012.

Sales of life insurance – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance policies), which are excluded from the IFRS figures – ended the year at 1.5 billion euros, down considerably on the very high 3.9 billion euros in 2012. This was attributable virtually entirely to a sharp decline in sales of unit-linked products, which was partly a consequence of the changes in tax treatment since 2013 and a shift toward investment funds. Overall, products offering guaranteed rates thus accounted for 55% of life insurance sales in 2013, and unit-linked products for a relatively low 45%. At year-end, the outstanding life reserves in this business unit totalled 25.4 billion euros, up 1% on the year-earlier figure.

Net fee and commission income amounted to 1 061 million euros. This was 12% more than in 2012, due to factors including asset management activities (increase in entry and management fees for investment funds, etc.), cancelled out in part by lower fee and commission income related to unit-linked life insurance products (the margin on these is reported under net fee and commission income). At 151 billion euros, assets under management in this business unit were up by 5% year-on-year, due to the combined effect of slightly higher volumes and higher prices.







As regards the other income items, the net realised result from available-for-sale assets came to 171 million euros – 42% of which was generated by shares and 58% by bonds (in 2012, this item included the losses relating to the sale of GIIPS sovereign bonds); dividend income amounted to 40 million euros; and the net result from financial instruments at fair value through profit or loss totalled 544 million euros, with the higher marked-to-market valuation of certain derivatives used for asset/liability management purposes more than offsetting the lower trading result. Other net income amounted to 292 million euros, compared with 107 million euros in 2012. The 2013 figure includes moratorium interest related to the successful settlement of disputes, capital gains on the sale of real estate, etc., whereas the figure for 2012 was negatively influenced by amounts recognised for, among other things, the 5-5-5 product.

Operating expenses totalled 2 249 million euros in 2013, up 2% on balance on the year-earlier figure, with various factors cancelling each other out (slightly higher ICT expenses, increased pension costs, slightly lower standard staff expenses, a somewhat higher bank tax, etc.). Consequently, the cost/income ratio for the banking activities improved from 51% in 2012 to a very favourable 47% in 2013 (though the figure for 2013 was enhanced by a number of positive but volatile income items).

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

1.8

Czech Republic

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, Hypotečni banka and ČMSS brands), the insurer ČSOB Pojišťovna, ČSOB Asset Management and Patria Finance.

Pavel Kavánek, CEO, Czech Republic
(to be succeeded by John Hollows in May 2014)

The economic context in the Czech Republic

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

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

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

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

Macroeconomic indicators for the Czech Republic	2012	2013*
GDP growth (real)	-0.9%	-1.1%
Inflation (average annual increase in consumer prices (%))	3.5%	1.4%
Unemployment (% of the labour force at year-end)	7.1%	6.8%
Government budget balance (% of GDP)	-4.4%	-2.9%
Public debt (% of GDP)	46.2%	49.0%

* Estimates made at the start of 2014.

Our activities in the Czech Republic

Position in the Czech market in 2013*

- 319 bank branches (ČSOB Bank + Era)
- Insurance network consisting of tied insurance agencies, multi-agents, brokers, etc.
- Estimated market share of 19% for traditional bank products, 28% for investment funds, 6% for life insurance and 6% for non-life insurance
- Approx. 4 million customers
- Loan portfolio of 20 billion euros and deposits and debt securities of 25 billion euros

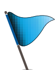
* Market shares and customer numbers: based on own estimates (mostly at 30 September); when calculating the figure for customer numbers, account was taken of the overlap (roughly estimated) between the various companies in the group. Share for traditional bank products: average estimated market share for loans and deposits. Market share for life insurance: guaranteed-interest and unit-linked products (combined). Loan portfolio: see 'Value and risk management' section. Deposits and debt securities: deposits from customers and debt securities (excluding repos).

As in Belgium, KBC owns both a bank and an insurance company in the Czech Republic, which work together closely. On the banking side, the group operates through the 319 bank branches of ČSOB and Era. It also has approximately 173 branches belonging to other subsidiaries (ČMSS, Hypotečni banka, ČSOB Leasing) and around 3 100 PSB branches at Czech post offices. In addition to these, there is an extensive network of agents, intermediaries and brokers.

Insurance is also sold through various distribution channels including a network of tied insurance agents, ČSOB Pojišťovna agencies, ČSOB bank branches and multi-agents and individual brokers. As in Belgium, the network is supplemented by various electronic channels, such as ČSOB InternetBanking, ČSOB BusinessBanking and ČSOB SmartBanking.

Our Czech group companies offer a wide range of banking (including loans, deposits, and a variety of specialist financial services), insurance (life and non-life) and asset management products. The focus, as in Belgium, is on private individuals and SMEs. The product offering is regularly screened and adapted. Examples of new products include:

- the launch of a new programme specifically for the agricultural sector, with more flexible repayment terms and the possibility of applying for government subsidies.
- significant improvements in smart banking apps. A trial has been underway since October 2013 in collaboration with T-Mobile in the area of near-field-communication (NFC) payments, enabling clients to pay for goods in stores using a smartphone.
- the launch of flexible ČSOB loans, which allow clients to increase or decrease monthly repayments, suspend repayments for up to three months and make lump-sum repayments.


Extensive multichannel bank and insurance network in the Czech Republic

- the launch of around 58 new issues of investment funds in 2013, 23 of them with capital protection. In that respect, clients shifted preferences in 2013 from 100% protection to slightly lower protection levels.

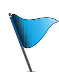
KBC is a major player in the Czech Republic via its Czech group companies. Our market share in 2013 was estimated at more than 19% for both loans and deposits. The ČSOB group enjoys a top three market position in the Czech Republic for each of the main bank products. As in Belgium, our share of the investment fund market is greater than that of the market in traditional deposit products. At year-end, we estimate it at 28%. We estimate our share of the insurance market at just over 6% for both non-life and life insurance.

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

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

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

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



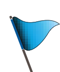
Strong focus on role in society

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

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

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

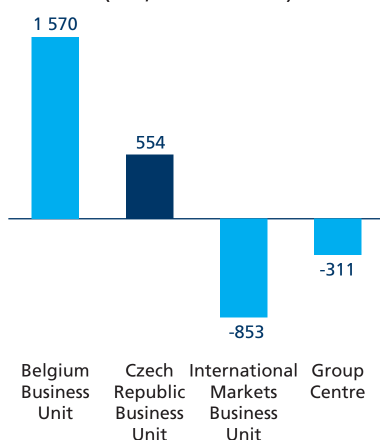
Environmental efficiency data for the KBC group (ČSOB) in the Czech Republic (per FTE)		2012	2013
Energy consumption (in GJ)	Electricity	16.9	16.0
	Fossil fuels (gas and heating oil)	6.1	6.3
Paper and water consumption, waste	Paper (in tonnes)	0.14	0.14
	Water (in m^3)	14.6	15.7
	Waste (in tonnes)	0.23	0.25


Various awards once more in 2013

Contribution to group results

Czech Republic Business Unit* (in millions of EUR)	**2012**	**2013**
Net interest income	1 027	960
Non-life insurance (before reinsurance)	74	62
Earned premiums	169	170
Technical charges	-95	-108
Life insurance (before reinsurance)	31	25
Earned premiums	369	199
Technical charges	-338	-173
Ceded reinsurance result	-6	4
Dividend income	1	0
Net result from financial instruments at fair value through profit or loss	96	82
Net realised result from available-for-sale assets	5	16
Net fee and commission income	180	199
Other net income	28	10
Total income	1 436	1 359
Operating expenses	-689	-649
Impairment	-69	-56
on loans and receivables	-63	-52
on available-for-sale assets	-1	0
on goodwill	0	0
other	-5	-3
Share in results of associated companies	0	0
Result before tax	678	654
Income tax expense	-97	-100
Net post-tax result from discontinued operations	0	0
Result after tax	581	554
attributable to minority interests	0	0
attributable to equity holders of the parent (net result)	**581**	**554**
Banking	557	529
Insurance	25	26
Risk-weighted assets (period-end) (Basel II)	14 283	13 455
Allocated capital (period-end)	1 465	1 380
Return on allocated capital	35%	35%
Cost/income ratio, banking	47%	47%
Combined ratio, non-life insurance	95%	96%

* The reference figures have been restated to take account of the new business unit structure that has been in place since 2013.



In 2013, the Czech Republic Business Unit generated a net profit of 554 million euros, compared with 581 million euros in 2012. Disregarding movements in exchange rates, the decline was less than 2%.

Net interest income at this business unit came to 960 million euros in 2013, down 7% on its level in 2012, or just 4% when the effects of currency exchange are excluded (the Czech koruna depreciated by 3% on average in 2013). In addition to technical factors, the main factors behind this decline were the pressure on deposit margins and generally low level of reinvestment income, which more than cancelled out the higher interest income on lending.

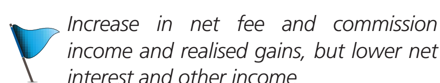
At 18 billion euros at year-end, loans and advances to customers (excluding reverse repos) were up by 6% (adjusted for currency effects), owing, among other things, to persistently strong growth in home loans and loans to companies. Deposit volumes (deposits from customers and debt securities, excluding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

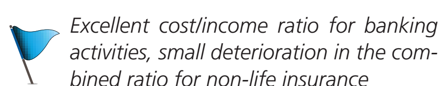
Earned insurance premiums amounted to 369 million euros, 199 million euros of which related to life insurance and 170 million euros to non-life insurance.

Non-life insurance premiums went up by 3% in 2013, while technical charges rose by 17% (excluding the effects of currency exchange) owing in part to the impact of the floods in the Czech Republic. The combined ratio deteriorated slightly from 95% in 2012 to 96% in 2013, partly on account of good reinsurance cover.

At 0.2 billion euros in 2013, earned premiums in life insurance were almost 50% lower than the year-earlier figure, due chiefly to reduced sales of Maximal Invest unit-linked products. Overall, therefore, unit-linked products still accounted for 67% of total sales of life insurance, and products offering guaranteed rates for 33%. At year-end, outstanding life reserves stood at approximately 1.1 billion euros.

Net result of 554 million euros in 2013, down 5% on 2012 (-2% excluding the effects of currency exchange)


Increase in net fee and commission income and realised gains, but lower net interest and other income


Excellent cost/income ratio for banking activities, small deterioration in the combined ratio for non-life insurance

Net fee and commission income came to 199 million euros in 2013, up 11% year-on-year (as high as 14% once the effects of currency exchange are eliminated), partly on account of the growth in the fees charged for investment funds. Assets under management in the business unit stood at around 6 billion euros at year-end, a year-on-year increase of some 6%.

As regards the other income items, the net realised result from available-for-sale assets totalled 16 million euros (5 million euros in 2012), the net result from financial instruments at fair value through profit or loss stood at 82 million euros (14% below the year-earlier figure), and other net income came to 10 million euros (which benefited from a number of factors, including interest on an earlier loan).

Operating expenses amounted to 649 million euros in 2013, down 6% on the figure for 2012 (-3% excluding the effects of currency exchange). Various factors were involved, including lower restructuring costs, ICT expenses and marketing costs. The cost/income ratio for the Czech banking activities stood at a very good 47% in 2013, the same level as a year earlier.

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

International Markets

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

International Markets encompasses a number of countries with, what are at times, widely differing characteristics. That's why 'collaboration in diversity' is our motto. By sharing achievements and exchanging experiences among group companies, we can elevate everyone to a higher level.

Danny De Raymaeker, CEO, International Markets
(Luc Gijsens will head up this business unit from May 2014)

The economic context in Slovakia, Hungary, Bulgaria and Ireland

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

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

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

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

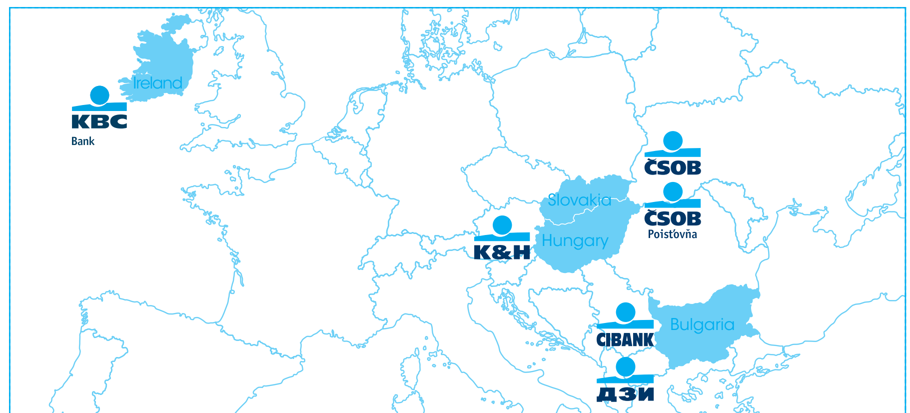
This outlook is based on forecasts made at the start of 2014 and, therefore, the actual situation could differ (considerably).

Macroeconomic indicators	Hungary		Slovakia		Bulgaria		Ireland	
	2012	2013*	2012	2013*	2012	2013*	2012	2013*
GDP growth (real)	-1.7%	1.2%	1.8%	1.0%	0.8%	0.6%	0.2%	0.3%
Inflation (average annual increase in consumer prices %)	5.7%	1.7%	3.7%	1.5%	2.4%	0.4%	2.0%	0.4%
Unemployment (% of the labour force at year-end)	11.1%	8.8%	14.4%	13.8%	12.6%	13.0%	14.0%	12.1%
Government budget balance (% of GDP)	-2.0%	-2.9%	-4.5%	-3.0%	-0.8%	-2.0%	-8.2%	-7.2%
Public debt (% of GDP)	79.8%	80.7%	52.2%	54.3%	18.5%	19.4%	117.4%	122.3%

* Estimates made at the start of 2014.

Our activities in Hungary, Slovakia, Bulgaria and Ireland

The International Markets Business Unit comprises KBC's activities in Hungary, Slovakia, Bulgaria and Ireland. Whereas in Ireland we have only a banking subsidiary (which recently also started to sell insurance products), we have a bank and an insurance company in each Central and Eastern European core market. And whereas KBC carries out its insurance activities in Belgium exclusively through a network of tied agents and bank branches, the group's insurers in Central and Eastern Europe also co-operate with other distribution channels, including brokers and multi-agents.



Market position in 2013[1]

	Hungary	Slovakia	Bulgaria	Ireland
Bank branches	220	128	104	7
Insurance network	Various channels	Various channels	Various channels	–
Customers (millions)	1.6	0.6	0.5	0.2
Loan portfolio (in billions of EUR)	5.1	4.6	0.7	15.3
Deposits and debt securities (in billions of EUR)	5.9	4.6	0.5	3.5
Market shares				
– Bank products	9%	10%	2%	–[2]
– Investment funds	17%	7%	–	–
– Life insurance	3%	5%	10%	–
– Non-life insurance	5%	3%	10%	–

1 Market shares and customer numbers: based on own estimates; when calculating the figure for customer numbers, account was taken of the overlap (roughly estimated) between the various companies in the group. Share for traditional bank products: average estimated market share for loans and deposits. Market share for life insurance: guaranteed-interest and unit-linked products (combined). Loan portfolio: see 'Value and risk management' section. Deposits and debt securities: deposits from customers and debt securities (excluding repos).

2 Retail market share: 10% for mortgage loans; 3% for deposits.

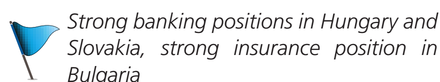
Our companies in each of the Central and Eastern European core markets offer a wide range of bank products (loans, deposits and various specialised financial services), insurance products (life and non-life) and asset management products (the latter are not sold in Bulgaria). We offer a broad and general range of products and occupy a strong position in most markets, although in some markets we focus on specific sub-markets and/or products. For instance, our insurers in Hungary and Slovakia focus on products for private individuals and SMEs.

In Hungary, the group owns K&H Bank – the country's second largest bank – but operates in a relatively difficult market, where taxation on the financial sector has gone up again. Our entities in Hungary work hard at implementing cooperation between the bank and the insurer. We estimate our share of the Hungarian market in 2013 at 8% for loans, 9% for deposits, 17% for investment funds, 3% for life insurance and 5% for non-life insurance. We cater for a total of around 0.9 million banking clients there and 0.8 million insurance clients.

ČSOB is among the top four banks in Slovakia and has in recent years become a major player in the market for private individuals, gradually expanding its mortgage portfolio, among other things. Our insurer aims to scale up in certain segments by, for instance, achieving growth through the bank channel and promoting the professionalisation of the agency network. We estimate our share of the Slovakian market in 2013 at 10% for loans and for deposits, 7% for investment funds, 5% for life insurance and 3% for non-life insurance. We cater for a total of around 0.4 million banking clients there and 0.3 million insurance clients.

The group owns a large insurer – both life and non-life – in Bulgaria, whereas our Bulgarian bank is still relatively small. We estimate our share of the Bulgarian market in 2013 at 2%–3% for loans and for deposits and 10% for life insurance and for non-life insurance. We cater for a total of around 0.3 million banking clients there and 0.3 million insurance clients.

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



Strong banking positions in Hungary and Slovakia, strong insurance position in Bulgaria

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

Development of retail activities in Ireland

As is the case in Belgium and the Czech Republic, KBC pursues a socially responsible approach in Slovakia, Hungary, Bulgaria and Ireland, too. This is illustrated in our 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 customer satisfaction very closely. Customer satisfaction surveys are performed on a regular basis, and the results are used by the relevant group company to launch new campaigns and carry out other commercial activities.

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

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

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

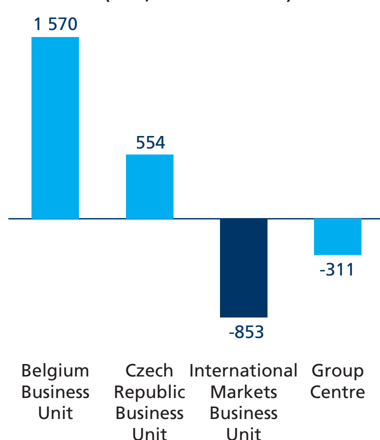
- In Hungary, K&H was chosen as 'Best Bank' by *Euromoney* and *The Banker*. K&H's new head office received the LEED© Gold Certificate in recognition of its sustainability.
- The annual *Euromoney* Private Banking and Wealth Management Survey 2013 named ČSOB as the best provider of private banking services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

Contribution to group results

International Markets Business Unit* (in millions of EUR)		Total
	2012	2013
Net interest income	644	632
Non-life insurance (before reinsurance)	81	80
Earned premiums	164	155
Technical charges	-83	-75
Life insurance (before reinsurance)	6	4
Earned premiums	78	83
Technical charges	-73	-79
Ceded reinsurance result	-7	-9
Dividend income	0	0
Net result from financial instruments at fair value through profit or loss	108	90
Net realised result from available-for-sale assets	2	13
Net fee and commission income	143	204
Other net income	10	20
Total income	986	1 034
Operating expenses	-650	-715
Impairment	-623	-1 189
on loans and receivables	-609	-1 171
on available-for-sale assets	0	-10
on goodwill	0	0
other	-13	-8
Share in results of associated companies	2	1
Result before tax	-285	-869
Income tax expense	25	15
Net post-tax result from discontinued operations	0	0
Result after tax	-260	-853
attributable to minority interests	0	0
attributable to equity holders of the parent (net result)	**-260**	**-853**
Banking	-282	-863
Insurance	22	10
Risk-weighted assets (period-end) (Basel II)	18 224	16 693
Allocated capital (period-end)	1 844	1 691
Return on allocated capital	-16%	-50%
Cost/income ratio, banking	66%	69%
Combined ratio, non-life insurance	98%	95%

* The reference figures have been restated to take account of the new business unit structure that has been in place since 2013.

Of which							
	Hungary		Slovakia		Bulgaria		Ireland
2012	2013	2012	2013	2012	2013	2012	2013
267	269	173	200	39	40	164	123
31	26	20	22	29	31	0	0
61	59	25	26	79	70	0	0
-30	-32	-4	-3	-50	-40	0	0
-8	-10	11	10	3	3	0	0
13	14	53	54	12	15	0	0
-21	-24	-43	-44	-9	-11	0	0
-2	-3	-2	-2	-2	-4	0	0
0	0	0	0	0	0	0	0
81	77	25	19	1	1	1	-7
1	7	1	3	0	3	0	1
94	159	39	43	2	1	2	-4
-1	11	7	10	3	-1	0	0
461	536	275	305	76	74	167	114
-324	-379	-185	-180	-55	-52	-82	-102
-50	-78	-18	-30	-8	-22	-547	-1 059
-44	-76	-11	-27	-7	-9	-547	-1 059
0	0	0	0	0	-10	0	0
0	0	0	0	0	0	0	0
-5	-2	-7	-3	-1	-3	0	0
2	1	0	0	0	0	0	0
89	81	71	95	14	1	-462	-1 047
-22	-15	-10	-25	0	1	57	55
0	0	0	0	0	0	0	0
67	66	61	70	14	2	-405	-992
0	0	0	0	0	0	0	0
67	**66**	**61**	**70**	**14**	**2**	**-405**	**-992**
61	58	50	60	9	10	-405	-992
6	8	11	10	5	-8	0	0
5 374	4 679	4 092	3 955	799	852	7 945	7 195
545	475	416	403	88	93	795	719
8%	10%	14%	17%	11%	1%	-56%	-132%
70%	71%	69%	59%	68%	61%	49%	90%
96%	97%	80%	76%	104%	101%	–	–



In 2013, the net result at the International Markets Business Unit amounted to -853 million euros, compared with -260 million euros a year earlier. This related almost entirely to the additional loan loss provisions set aside in Ireland (see below). The net result per country amounted to 66 million euros for Hungary (67 million euros in 2012), 70 million euros for Slovakia (61 million euros in 2012), 2 million euros for Bulgaria (14 million euros in 2012) and -992 million euros for Ireland (-405 million euros in 2012).

Net interest income came to 632 million euros, down 2% on the year-earlier figure, with the increase in Slovakia (thanks in part to the expansion of the loan portfolio) unable to fully offset the decline in Ireland. At 21 billion euros, loans and advances to customers (excluding reverse repos) were down by 8% in 2013, owing to increases in Slovakia and Bulgaria, and a decline in Ireland and Hungary. At 14 billion euros, deposits (deposits from customers and debt securities, excluding repos) went up by almost 9% in 2013, attributable largely to the successful retail deposit campaign in Ireland, although deposit volumes also rose in Hungary and Slovakia.

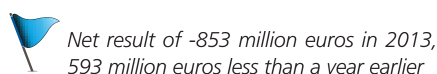
Earned insurance premiums relate only to Hungary, Slovakia and Bulgaria (until 2013 KBC had no insurance activities in Ireland) and amounted to 238 million euros, 83 million euros of which came from life insurance and 155 million euros from non-life insurance.

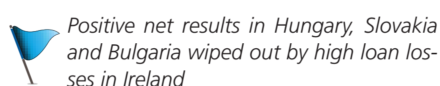
Non-life premiums fell by roughly 5%. The claims level was slightly lower, as a result of which the combined ratio for the three Central and Eastern European countries improved from 98% in 2012 to 95% at year-end.

Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – ended the year at 0.1 billion euros, more or less the same as the year-earlier figure. Products offering guaranteed rates accounted for 46% of life insurance sales in 2013, and unit-linked products for 54%. At year-end, the outstanding life reserves in this business unit totalled 0.5 billion euros.

The net result from financial instruments at fair value through profit or loss came to 90 million euros in 2013. This was roughly 17% less than in 2012, due in part to the lower trading result in Slovakia. Net fee and commission income amounted to 204 million euros, up 43%, attributable mainly to Hungary. As regards the other income items, the net realised result from available-for-sale assets came to 13 million euros and other net income 20 million euros (as opposed to 10 million euros in 2012) on account of a number of one-off gains.

Operating expenses at this business unit came to 715 million euros, an increase of 10% on the year-earlier figure that was attributable chiefly to Hungary (relating in part to the introduction of the financial transactions levy) and Ireland (higher costs linked to the increased workforce (arrears department) and the retail campaign). The cost/income ratio therefore ended the year at 69%, compared with 66% in 2012.


Net result of -853 million euros in 2013, 593 million euros less than a year earlier


Positive net results in Hungary, Slovakia and Bulgaria wiped out by high loan losses in Ireland

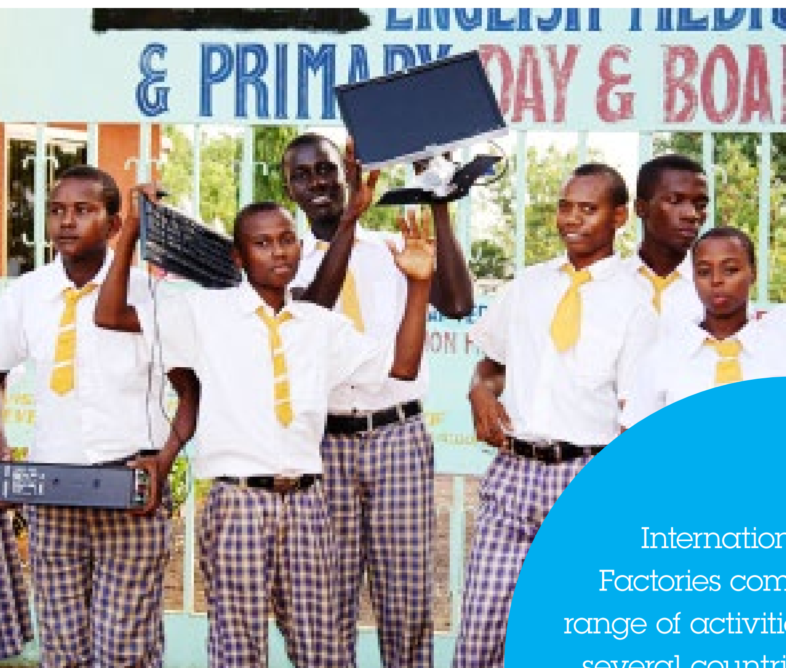
Impairment on loans and receivables (loan loss provisions) amounted to 1 171 million euros in 2013, which was considerably higher than the 609 million euros recorded for 2012. The increase was due entirely to KBC Bank Ireland where a significant additional amount was set aside in the fourth quarter following an analysis of the portfolio. Loan loss provisions for the year as a whole, therefore, ended the year at 1 059 million euros – considerably higher than

the year-earlier figure (547 million euros). The three Central and Eastern European countries together accounted for 112 million euros (62 million euros in 2012), with relatively strong increases in Hungary (retail) and Slovakia (corporate). As a result, the credit cost ratio at business unit level came to 448 basis points, compared with 226 basis points in 2012. The figures per country were 672 basis points for Ireland, 150 basis points for Hungary, 60 basis points for Slovakia and 119 basis points for Bulgaria. At 31 December 2013, around 19% of the business unit's loan portfolio was non-performing (see 'Glossary of ratios used' for definition), compared with 18% a year earlier. The per-country figures were 26% in Ireland, 12.1% in Hungary, 3.7% in Slovakia and 27% in Bulgaria.

Other impairment charges at the business unit amounted to 18 million euros and related to a bond at DZI in Bulgaria and a decline in the value of property, among other things.

International Product Factories

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



International Product Factories comprise a broad range of activities spread across several countries. We operate according to the maxims, 'what makes us different makes us smarter' and 'what unites us makes us stronger'.

Luc Gijsens,
CEO, International Product Factories

Activities of the International Product Factories Business Unit

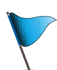
The International Product Factories Business Unit comprises a wide range of activities conducted across a number of different countries and relating to the money, bond and capital markets, consumer finance, asset management, trade finance and financial institutions.

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

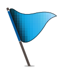
The geographical focus of this business unit is naturally aligned with the group's general strategy, i.e. focus on Belgium and the four Central and Eastern European core markets. In keeping with this, we have largely run down or reorganised the activities of the international product factories in other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

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

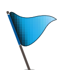
We also regularly screen and optimise our product offering. At KBC Asset Management, for instance, this led once again to the development of numerous innovative investment products, including the Generation Plan – a new product with a mechanism to monitor the floor price, which is ideally suited to estate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



Alignment to the group's geographic core countries



Special focus on synergy and sharing best practices



Various process improvements and product innovations

As regards consumer finance in 2013, we introduced a number of important product and process improvements, including the launch of a new range of credit cards and a flexible instalment loan in the Czech Republic and the repositioning of instalment loans at KBC Belgium. We made a start in a number of markets on making our product offering available via

smartphones and tablets, to enable our clients to manage their loans themselves. A product factory for consumer finance was set up in Ireland in 2013. This business model will be rolled out further in 2014. KBC estimates its share of the consumer finance market at roughly 5% in Belgium (KBC Bank), 9% in the Czech Republic, 4% in Slovakia and 2% in Hungary.

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

Research & development

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

Besides the projects and products mentioned in this section, we have provided several examples of new product developments in 2013 elsewhere in this annual report. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 34 of the 'Consolidated financial statements' section.

Contribution to group results

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

Peiba sows seeds for the future

In 1990, the parents of the current owner of Peiba set up the Hungarian family business that included trading in pumpkin seed. The owner expanded the business in 2012 by installing presses to extract pumpkin seed oil.

'K&H granted loans to cover 58% of the investment. Budapest Bank initially granted a loan of 120 000 euros to finance the purchase of the machinery, but in summer 2013 K&H took over the remaining amount, so becoming Peiba's principal bank. The new installation, covering an area of 66 m^2, makes it possible to produce 40 000 litres of pumpkin seed oil every year, 37 000 litres of which is destined for export. At present there is no other installation of this size or using this technology in Hungary, making Peiba the market leader by definition.'

www.peiba.hu

Group Centre

The Group Centre includes the results of the group's holding-company activities, a 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.

Divestment plan virtually complete

Notes on recent important divestments (agreement or closure in 2013)			
File	**Agreement date**	**Closure date***	**Description (situation and calculation of impact when deal announced)**
Kredyt Bank/Bank Zachodni (banking, Poland)	February 2012	March 2013	Sale of KBC's 16.17% stake in Bank Zachodni (result of the merger between Bank Zachodni WBK and Kredyt Bank) through a secondary offering. The sale raised approximately 0.9 billion euros and strengthened KBC's tier-1 ratio (Basel II) by 0.6%.
Absolut Bank (banking, Russia)	December 2012	May 2013	Sale of Absolut Bank to a group of Russian companies that manage the assets of the Blagosostoyanie pension fund for 0.3 billion euros. The deal had a negative impact of -0.1 billion euros on KBC's consolidated second-quarter result in 2013, and freed up 0.3 billion euros in capital, primarily by reducing risk-weighted assets by 2 billion euros. KBC's tier-1 ratio (Basel II) rose by approximately 0.4% as a result.
Nova Ljubljanska banka (NLB) (banking, Slovenia)	December 2012	March 2013	Sale of KBC's remaining 22% stake in NLB to the Republic of Slovenia for approximately 3 million euros. The impact on KBC's capital was negligible.
KBC Banka (banking, Serbia)	April 2013	December 2013	Sale of KBC Banka to Société Générale Srbija and Telenor Serbia. The impact on KBC's result totalled -64 million euros in 2013 and the amount of capital freed up was negligible.
KBC Bank Deutschland (banking, Germany)	September 2013	Not yet closed	Agreement to sell KBC Bank Deutschland to a group of investors comprising Teacher Retirement System of Texas, Apollo Global Management LLC, Apollo Commercial Real Estate Finance Inc. and Grovepoint Capital LLP. The deal will free up some 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets. The deal will improve KBC's solvency position by around 15 basis points (Basel II). It has yet to be approved by the regulator.
Antwerp Diamond Bank (diamond trade finance, Belgium)	December 2013	Not yet closed	Agreement for the sale of Antwerp Diamond Bank (ADB) to the Shanghai-based Yinren Group. This deal has yet to be approved by the regulator. It will free up approximately 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets, which will ultimately boost KBC's tier-1 ratio (Basel II) by around 0.2 percentage points. Before the deal is completed, part of ADB's loan portfolio (primarily higher-risk and non-performing loans with a net carrying value of 0.4 billion euros) will be transferred to KBC Bank for standard settlement. Following closure, KBC will provide 0.2 billion euros' worth of secured funding to ADB for up to two years.

* Situation when annual report went to press.

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

- 2010: KBC Peel Hunt, various specialised merchant banking activities at KBC Financial Products, Secura, KBC Asset Management's UK and Irish activities, KBC Securities Baltic Investment Company and KBC Business Capital.

- 2011: Centea, KBC Concord Asset Management, KBC Securities' Serbian and Romanian operations, Fidea and KBL EPB.

- 2012: KBC Goldstate, WARTA, Żagiel, Kredyt Bank (via merger with Bank Zachodni WBK), KBC Autolease Polska, KBC Lease Deutschland, participating interests held by KBC Private Equity, Absolut Bank, and the minority stake in Nova Ljubljanska banka (NLB).

- 2013: minority stake in Bank Zachodni WBK, KBC Banka, part of KBC Securities in Poland, WARTA's pension fund activities, KBC Bank Deutschland (yet to be completed) and Antwerp Diamond Bank (yet to be completed).

In 2013, the Group Centre generated a net result of -256 million euros, compared with -1 069 million euros a year earlier. Excluding the results of the legacy business (divestments and CDOs) and the results relating to the valuation of own credit risk, the adjusted net result amounted to -311 million euros, compared with -185 million euros for the previous year.

The impact of the legacy business and own credit risk is explained in the 'Results in 2013' section. Excluding these items, the Group Centre's adjusted net result (-311 million euros) consists of the results of the remaining companies scheduled for divestment whose sale has yet to be completed and activities in the process of being run down (an aggregate -27 million euros), the results generated by the group's holding-company activities (-145 million euros), and expenses not allocated to other business units (-139 million euros, primarily accounted for by subordination charges of subordinated loans and the funding cost of participating interests).

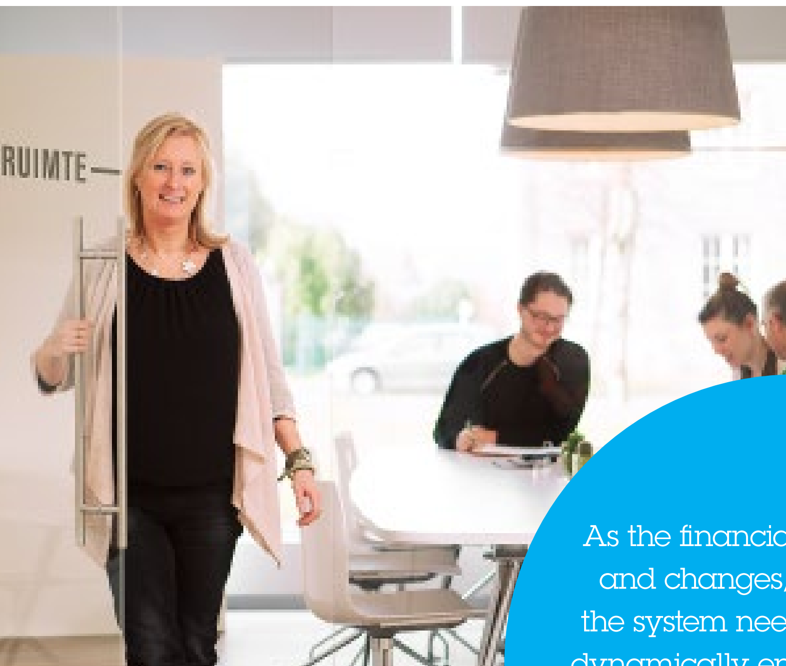
Contribution to group results

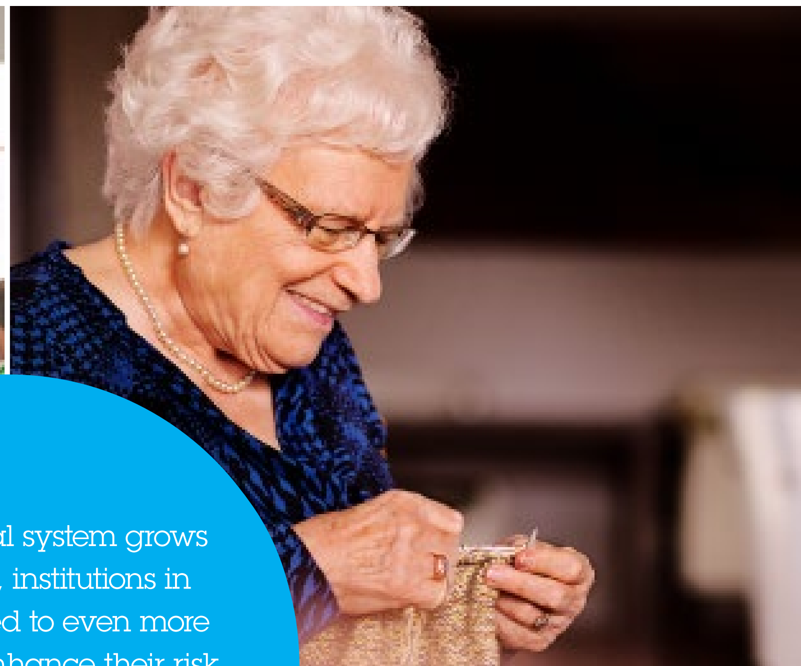
Group Centre* (in millions of EUR)	**2012**	**2013**
Adjusted net result (i.e. excluding the impact of legacy business and valuation of own credit risk)		
Net interest income	139	-197
Non-life insurance (before reinsurance)	93	15
Earned premiums	251	-21
Technical charges	-159	6
Life insurance (before reinsurance)	29	3
Earned premiums	180	19
Technical charges	-151	-16
Ceded reinsurance result	11	6
Dividend income	1	0
Net result from financial instruments at fair value through profit or loss	78	62
Net realised result from available-for-sale assets	55	13
Net fee and commission income	54	23
Other net income	107	22
Total income	566	-82
Operating expenses	-650	-212
Impairment	-175	-122
on loans and receivables	-153	-87
on available-for-sale assets	0	-4
on goodwill	0	-7
other	-22	-25
Share in results of associated companies	-33	0
Result before tax	-291	-417
Income tax expense	138	120
Net post-tax result from discontinued operations	0	0
Result after tax	-153	-297
attributable to minority interests	32	14
attributable to equity holders of the parent	**-185**	**-311**
Banking	-161	-137
Insurance	15	-21
Holding company	-39	-153
Risk-weighted assets (period-end) (Basel II)	16 758	10 642
Allocated capital (period-end)	1 684	1 066
Legacy business and valuation of own credit risk		
Legacy business (CDOs)	425	446
Legacy business (divestments)	-778	-348
Valuation of own credit risk	-531	-43
Net result		
Result after tax, attributable to equity holders of the parent	-1 069	-256

* The reference figures have been restated to take account of the new business unit structure that has been in place since 2013.

Value and risk management

Mainly active in banking, insurance 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, insurance underwriting risk, operational risks, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. Obviously, the activities of a large financial group such as ours are inherently exposed to other risks that only become apparent with the benefit of hindsight.





As the financial system grows and changes, institutions in the system need to even more dynamically enhance their risk and control processes to meet the growing expectations of all stakeholders.

John Hollows, KBC Group CRO (to be succeeded by Christine Van Rijsseghem with effect from May 2014)

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

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

- the entire 'Risk governance' section;
- certain parts of the 'Credit risk' section, namely the introduction, 'Credit risk management at transactional level' (excluding the 'Renegotiated distressed loans' table), 'Credit risk management at portfolio 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, the 'Other credit exposure, banking' table, the 'Investment portfolio of KBC group insurance entities' table, the 'Credit exposure to (re)insurance companies by risk class' table and the 'Overview of exposure to sovereign bonds' table;
- certain parts of the 'Market risk in non-trading activities' section, namely the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 100-basis-point increase in the yield curve for the KBC group' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' 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';
- the 'Technical insurance risk' section in its entirety;
- certain parts of the 'Capital adequacy' section, namely the introduction, 'Managing solvency' (excluding the graphs), the tables under 'Solvency at group level, Basel II' (audited parts are indicated in the footnote to these tables), and 'Economic capital' (except for the table).

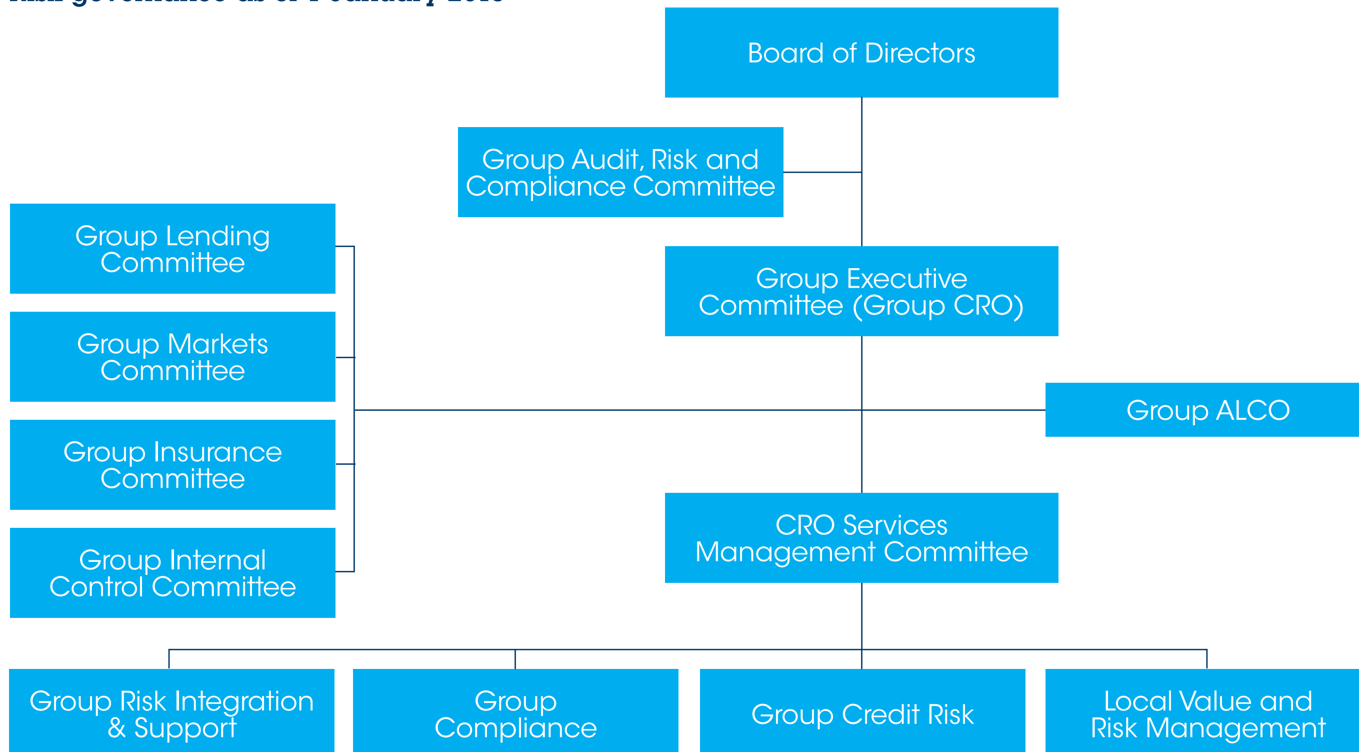
Remark:
Please note that, unless otherwise stated, KBC Bank Deutschland (in 2012 and 2013), Antwerp Diamond Bank (in 2012 and 2013), Absolut Bank (in 2012; sold in 2013), KBC Banka (in 2012; sold in 2013), and the minority shareholding in Nova Ljubljanska banka (in 2012; sold in 2013), which have all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

Risk governance

At the start of 2013, a new risk governance model was put in place to take account of changes in the organisational structure of KBC.

More information on risk management can be found in our Risk Report at www.kbc.com, under 'investor relations', 'risk reports'

Risk governance as of 1 January 2013



This model is characterised primarily by:

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

Relevant risk management bodies and control functions:

- Group Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the KBC Risk Management Framework;
  - decides on the non-strategy-related building blocks of the KBC Risk Management Framework and monitors its implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Asset/Liability Management Committee (Group ALCO);
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.

New risk governance structure in place since 2013

- Group ALCO:
  - is a business committee that assists the Group Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The CRO Services Management Committee supports the Group Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The Group Lending Committee (GLC) supports the Group Executive Committee in setting, monitoring and following up limits for lending activities (funding, liquidity and ALM issues related to lending activities remain the responsibility of the Group Executive Commitee/Group ALCO).
  - The Group Markets Committee (GMC) supports the Group Executive Committee in setting, monitoring and following up limits for markets activities (trading activity, where there is not only market risk, but also operational and counterparty credit risks).
  - The Group Insurance Committee (GIC) supports the Group Executive Committee in setting, monitoring and following up limits for insurance activities at group level.
  - The Group Internal Control Committee (GICC) supports the Group Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- Local Chief Risk Officers (LCROs) are situated throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO.
- Group Risk Integration & Support and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Group Executive Committee and the risk committees.

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

Credit risk

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

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

Credit risk management at transactional level

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

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

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

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

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

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

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

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

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

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

A client with a renegotiated distressed loan will in principle be assigned PD class 9 or higher. If – based on the bank's assessment of the borrower's revised financial projections/restructuring plans – there is a reasonable chance that the borrower will be able to meet the renegotiated terms of the loan, and the expected loss (in the broad sense) for the bank after renegotiation will be lower than it would have been without renegotiation, the credit committee will assign/confirm PD 9. Some exceptions to the PD 9 principle exist for certain retail portfolios. In such cases, the PD class to be assigned is determined on the basis of the behavioural score and may end up being lower than 9. However, a higher PD than the one assigned to borrowers without restructured loans is the usual outcome, as the behavioural score takes into account any irregularity in payments.
If a renegotiated distressed loan is approved and the credit committee is of the opinion that it is unlikely that the borrower will be able to meet the renegotiated terms – or if a loan to a counterparty was (partially) charged off – PD class 10 (or higher) will be assigned. In this case, an obligor needs to be classified as 'defaulted' according to KBC's rules and the need for provisioning has to be assessed. It is highly likely that an impairment charge will be recorded.

If, one year after the loan has been renegotiated, the credit committee is of the opinion that the borrower is showing signs of improvement and that the loan's renegotiated terms are likely to be met, then – in the case of PD 9 – a better classification may be assigned to the borrower and the renegotiation tag can be removed. If a borrower is classified as PD 10 (or higher), PD 9 (only) may in principle be assigned for one year and the renegotiation tag kept in place. If the credit committee decides that the existing PD class 9 (or higher) should remain unchanged or that a worse rating should be assigned, the renegotiation tag may not be removed for the time being (i.e. at least until the next review takes place).

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

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

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

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

Credit risk management at portfolio level

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

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

Credit risk exposure in the banking activities

Credit risk arises in both the banking and insurance activities of the group. In separate sections below, we take a closer look at the credit risk related to the insurance activities, KBC's investments in structured credit products, government bonds, and KBC's Irish and Hungarian portfolios.

Looking at the banking activities first, 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 18 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.

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

Credit cost ratio at 1.19% and non-performing loan ratio at 5.9%

Loan and investment portfolio, banking	31-12-2012[5]	31-12-2013[5]
Total loan portfolio (in billions of EUR)		
Amount granted	166.6	161.8
Amount outstanding	140.7	136.5
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)		
Belgium	63%	64%
Czech Republic	15%	15%
International Markets	19%	19%
Group Centre	3%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	43%
Financial and insurance services	6%	5%
Governments	4%	4%
Corporates	48%	48%
Non-financial services	11%	11%
Real estate	8%	8%
Retail and wholesale trade	7%	7%
Construction	4%	4%
Automotive	2%	2%
Other[2]	16%	16%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1]		
Western Europe	73%	74%
Central and Eastern Europe	22%	22%
North America	2%	2%
Other	2%	2%
Total	100%	100%
Loan portfolio breakdown by risk class (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%)	28%	29%
PD 2 (0.10% – 0.20%)	10%	11%
PD 3 (0.20% – 0.40%)	14%	12%
PD 4 (0.40% – 0.80%)	19%	17%
PD 5 (0.80% – 1.60%)	11%	14%
PD 6 (1.60% – 3.20%)	7%	7%
PD 7 (3.20% – 6.40%)	5%	5%
PD 8 (6.40% – 12.80%)	3%	2%
PD 9 (highest risk, ≥ 12.80%)	4%	3%
Total	100%	100%

Loan and investment portfolio, banking	31-12-2012[5]	31-12-2013[5]
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	10 757	13 717
Specific impairment	4 614	5 451
Portfolio-based impairment (i.e. based on PD 1 to 9)	244	281
Credit cost ratio		
Belgium Business Unit	0.28%	0.37%
Czech Republic Business Unit	0.31%	0.25%
International Markets Business Unit	2.26%	4.48%
Ireland	3.34%	6.72%
Slovakia	0.25%	0.60%
Hungary	0.78%	1.50%
Bulgaria	0.94%	1.19%
Group Centre	1.06%	2.90%
Total	0.69%	1.20%
Total (including entities classified as 'disposal groups' under IFRS 5)	0.71%	1.19%
Non-performing loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding[6]	7 397	7 928
Specific impairment for non-performing loans	3 626	3 894
Non-performing loan ratio		
Belgium Business Unit	2.3%	2.5%
Czech Republic Business Unit	3.2%	3.0%
International Markets Business Unit	17.6%	19.2%
Group Centre	1.3%	5.9%
Total	5.3%	5.8%
Total (including entities classified as 'disposal groups' under IFRS 5)	5.3%	5.9%
Cover ratio		
[Specific impairment for non-performing loans]/[outstanding non-performing loans]		
Total	49%	49%
Total (excluding mortgage loans)	63%	60%
[Specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]		
Total	66%	72%
Total (excluding mortgage loans)	91%	90%

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

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 21 of the 'Consolidated financial statements' section, due to differences in scope.

5 Excluding entities classified as 'disposal groups' under IFRS 5. In 2013, these entities (see 'Remark' at the start of this section) accounted for 5.8 billion euros' worth of credit granted, 3.7 billion euros of which was outstanding. In 2012, the relevant entities (see 'Remark' at the start of this section) accounted for 8.7 billion euros' worth of credit granted, 6.4 billion euros of which was outstanding.

6 Non-performing loans also include renegotiated distressed loans (where the borrower has been assigned PD class 11 or higher). Reconciliation of year-end figures: the difference of 531 million euros between the figures for 2012 and 2013 was due to this category of loan increasing by 130 million euros at the Belgium Business Unit, by 321 million euros at the International Markets Business Unit (282 million euros of which in Ireland) and by 145 million euros at the Group Centre, combined with a decrease of -64 million euros at the Czech Republic Business Unit. The 'non-performing' (NP) data are based on the current definition (PD 11+12). Had PD 10 also been included in the NP totals, the total outstanding amount at year-end 2013 would have risen to 13 717 million euros and the NP loan ratio to 10.0%, while the cover ratio [specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans] would have fallen to 42%.

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

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

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

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

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

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

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

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

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

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.

2 After deduction of collateral received and netting benefits.

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

Credit risk exposure in the insurance activities

For the insurance activities, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings.

Investment portfolio of KBC group insurance entities (in millions of EUR, market value)[1]	**31-12-2012[5]**	**31-12-2013[5]**
Per balance sheet item		
Securities	19 634	19 284
Bonds and other fixed-income securities	18 983	18 003
Held to maturity	5 788	6 731
Available for sale	13 190	11 266
At fair value through profit or loss and held for trading	0	1
As loans and receivables	5	5
Shares and other variable-yield securities	633	1 262
Available for sale	630	1 260
At fair value through profit or loss and held for trading	3	3
Other	18	19
Property and equipment and investment property	408	354
Investment contracts, unit-linked[2]	11 847	12 745
Other	89	701
Total	31 978	33 084
Details for bonds and other fixed-income securities		
By rating[3, 4]		
Investment grade	95%	96%
Non-investment grade	1%	3%
Unrated	4%	1%
By sector[3]		
Governments	63%	64%
Financial[6]	26%	21%
Other	11%	15%
By currency[3]		
Euro	94%	94%
Other European currencies	6%	6%
US dollar	0%	0%
By remaining term to maturity[3]		
Not more than 1 year	13%	15%
Between 1 and 3 years	19%	20%
Between 3 and 5 years	15%	19%
Between 5 and 10 years	33%	29%
More than 10 years	20%	18%

1 The total carrying value amounted to 32 576 million euros at year-end 2013 and to 31 277 million euros at year-end 2012.

2 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.

3 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.

4 External rating scale.

5 Excluding entities classified as 'disposal groups' under IFRS 5. There were no insurance entities in that classification at year-end 2013. In 2012, the relevant entities (see 'Remark' at the start of this section) had an investment portfolio of 0.2 billion euros.

6 Including covered bonds and non-bank financial companies.

We are also exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with us. We measure this particular type of credit risk by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply. PD – and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	**EAD 2012**	**EL 2012**	**EAD 2013**	**EL 2013**
AAA up to and including A-	179	0.03	141	0.05
BBB+ up to and including BB-	111	0.10	147	0.13
Below BB-	0	0	0	0
Unrated	10	0.22	3	0.07
Total	**299**	**0.35**	**291**	**0.24**

1 Based on internal ratings.

2 EAD figures are audited, whereas EL figures are unaudited.

Exposure to sovereign bonds (banking and insurance portfolios combined)

We hold a significant portfolio of government bonds, primarily as a result of our considerable excess liquidity position and for the reinvestment of insurance reserves into fixed instruments. A breakdown per country is provided in the table below.

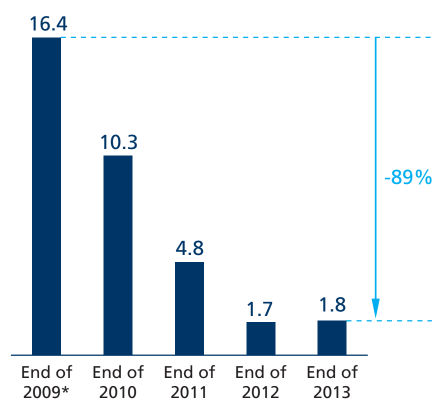
Overview of exposure to sovereign bonds at year-end 2013, carrying value[1] (in millions of EUR)

Total (by portfolio)								**Total (by remaining term to maturity)**			
	Available for sale	**Held to maturity**	**Designated at fair value through profit or loss**	**Loans and receivables**	**Held for trading**	**Total**	***For comparison purposes: total at year-end 2012***	**Maturing in 2014**	**Maturing in 2015**	**Maturing in 2016 and later**	**Economic impact of +100 basis points[3]**
Southern Europe and Ireland											
Greece	0	0	0	0	0	0	*0*	0	0	0	0
Portugal	40	36	0	0	0	77	*94*	0	10	66	-5
Spain	348	0	0	0	0	348	*230*	0	0	348	-27
Italy	783	80	0	0	1	865	*911*	5	1	859	-66
Ireland	153	308	0	0	1	462	*451*	0	0	462	-23
KBC core countries											
Belgium	8 011	15 445	213	0	917	24 586	*27 925*	3 739	2 678	18 168	-1 092
Czech Rep.	2 309	5 573	66	29	993	8 970	*9 503*	976	2 318	5 676	-442
Hungary	235	1 677	8	88	258	2 267	*2 603*	34	448	1 785	-64
Slovakia	1 053	1 269	0	0	73	2 395	*1 751*	83	96	2 216	-125
Bulgaria	146	16	0	0	0	162	*161*	8	7	147	-8
Other countries											
France	1 058	2 251	0	0	3	3 312	*3 091*	333	263	2 716	-227
Germany	364	532	16	0	30	942	*1 206*	104	38	800	-60
Austria	243	440	211	0	0	894	*553*	43	6	845	-44
Netherlands	239	453	100	0	5	797	*530*	66	68	663	-37
Rest[2]	2 918	1 623	155	0	102	4 798	*3 180*	521	1 530	2 747	-175
Total carrying value	**17 900**	**29 703**	**771**	**118**	**2 385**	**50 876**	***52 191***	**5 912**	**7 464**	**37 499**	–
Total nominal value	**16 691**	**28 065**	**728**	**127**	**2 366**	**47 978**	***48 615***	–	–	–	–

1 Including entities classified as 'disposal groups' under IFRS 5 (accounted for an aggregate 0.4 billion euros at year-end 2013 and 0.5 billion euros at year-end 2012). Excluding exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2013 and also including 1.3 billion euros in deposits at the National Bank of Hungary.

3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only part of this impact is reflected in profit or loss and/or equity.



Main changes in 2013:

- The carrying value of the total sovereign bond exposure decreased by 1.3 billion euros, due primarily to the lower exposure to Belgian government bonds (-3.3 billion euros, mainly on account of OLOs that had either been sold or reached maturity), partly offset by increases in Slovakia (+0.6 billion euros) and in other countries (see 'Rest' in the table; this heading also includes a 0.5-billion-euro increase in deposits at the National Bank of Hungary).
- In the past few years, KBC has managed to lower considerably its exposure to GIIPS sovereign bonds (bonds issued by Greece, Italy, Ireland, Portugal and Spain, see graph). At the end of 2013, the combined exposure to these bonds was 1.8 billion euros.

Net realised gains on government bonds in 2013:

- They totalled 125 million euros and were largely realised on Belgian sovereign bonds (in the available-for-sale category).

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

- At 31 December 2013, the carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 871 million euros, before tax.
- This included 519 million euros for Belgium, 91 million euros for the Czech Republic, 63 million euros for France, 46 million euros for Germany, 42 million euros for Slovakia, 20 million euros for the Netherlands, 20 million euros for Italy and 71 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 2014.

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 48% of the total government bond portfolio at the end of 2013, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table towards the start of this section, in the contribution that Belgium makes to group profit (see 'Belgium') and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2013, the credit ratings assigned to Belgium by the three main international agencies were Aa3 (negative outlook) from Moody's, AA (negative outlook – upgraded to stable outlook in February 2014) from Standard & Poor's and AA (stable outlook) from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium.
- 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 2013) 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' (33%) and 'Held To Maturity' (63%);
    - the impact of which on IFRS unrealised gains on available-for-sale assets: -127 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.

Exposure to GIIPS sovereign bonds only 1.8 billion euros

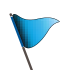
Structured credit exposure (banking and insurance portfolios)

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

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

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

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



Net exposure to CDOs and ABS down to 7.5 billion euros at year-end 2013

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

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

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

2 The provisioning rate for MBIA was reduced from 80% to 60% in mid-2013.

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

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

Market risk in non-trading activities

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

'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- 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, 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 definition of an ALM VaR limit at group level and the breakdown of this limit into various types of risk and entities.
- the use of VaR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio.
- the use of other risk measurement methods, such as Basis-Point-Value (BPV), notional amounts, etc., to supplement VaR.

KBC group non-trading market risk (VaR 99.93%, 1-year time horizon) (in billions of EUR)*	**31-12-2012**	**31-12-2013**
Total	3.81	3.83

* Excluding a number of small group companies. Cyclical prepayment options embedded in mortgage loans have not been captured. Excluding entities classified as 'disposal groups' under IFRS 5. In 2013, the impact of these entities (see 'Remark' at the start of this section) on the group's ALM VaR was 6.3 million euros. In 2012, the impact of the relevant entities (see 'Remark' at the start of this section) on the group's ALM VaR was 11.2 million euros. KBC Pension Fund has been excluded (its impact on the group's ALM VaR was 278 million euros in 2013 and 193 million euros in 2012). The VaR at year-end 2012 was restated from 1.06 billion euros to 1.34 billion euros after the 99% confidence interval was brought into line with the 99.93% used in internal economic capital modelling, and from 1.34 billion euros to 3.81 billion euros including credit spread risk in VaR. VaR is measured using the VaR-CoVaR approach.

Interest rate risk

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

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

Impact of a parallel 100-basis-point increase in the yield curve for the KBC group[1]				
	Impact on net profit (IFRS)		Impact on value[2]	
(in millions of EUR)	2012	2013	2012	2013
Banking	-44	87	-396	-216
Insurance	10	24	82	105
Total	-34	110	-314	-111

1 Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section). In 2013, a 100-basis-point increase in the yield curve would have had an impact of 0.05 million euros on net profit and an impact of -2.2 million euros on the market value of these entities. In 2012, the corresponding figures would have been 0.7 million euros and -51 million euros, respectively.

2 Full market value, regardless of accounting classification or impairment rules. Excluding KBC Pension Fund (impact of 7 million euros on net profit and 12 million euros on value in 2013).

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, banking activities*		
(in millions of EUR)	2012	2013
Average for 1Q	-52	-33
Average for 2Q	-49	-27
Average for 3Q	-49	-21
Average for 4Q	-47	-22
As at 31 December	-39	-22
Maximum in year	-57	-40
Minimum in year	-39	-21

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

In line with the Basel II guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level, this risk came to 11.7% of total capital and reserves at year-end 2013. This is well below the 20% threshold (where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

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

Interest sensitivity gap of the ALM book (including derivatives), banking activities*

(in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2012	3 731	3 904	-1 251	-7 095	4 450	2 039	-5 778	0
31-12-2013	13 665	323	-1 653	-3 146	6 730	788	-16 706	0

* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (figures for these entities are given below). Non-maturity contracts were isolated in the 'non-interest bearing' category in 2013, whereas they had been included in the '≤ 1 month' bucket in 2012.

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2012	633	-74	-220	128	258	258	-981	0
31-12-2013	182	-88	46	41	14	0	-196	0

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

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis.

The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. Unit-linked life insurance investments (class 23) are not dealt with here, since this activity does not entail any market risk for KBC.

In the table below, we have summarised the exposure to interest rate risk in our life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted), life insurance activities* (in millions of EUR)	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2012						
Fixed-income assets backing liabilities, guaranteed component	10 747	5 236	1 745	1 240	810	19 778
Liabilities, guaranteed component	10 131	3 409	1 742	1 209	1 584	18 075
Difference in expected cashflows	616	1 828	3	31	-774	1 703
Mean duration of assets						5.29 years
Mean duration of liabilities						6.11 years
31-12-2013						
Fixed-income assets backing liabilities, guaranteed component	10 725	4 098	2 310	626	765	18 525
Liabilities, guaranteed component	10 086	3 123	1 844	1 311	1 779	18 142
Difference in expected cashflows	640	975	466	-685	-1 014	383
Mean duration of assets						4.90 years
Mean duration of liabilities						6.03 years

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

As mentioned above, the main interest rate risk for the insurer is a downside one. We adopt a liability driven ALM approach focused on mitigating the interest rate risk in accordance with KBC's risk appetite. For the remaining interest rate risk, we adhere to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and have built up adequate supplementary reserves.

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities[1]	31-12-2012	31-12-2013
5.00% and higher[2]	3%	3%
More than 4.25% up to and including 4.99%	10%	10%
More than 3.50% up to and including 4.25%	5%	4%
More than 3.00% up to and including 3.50%	30%	27%
More than 2.50% up to and including 3.00%	24%	22%
2.50% and lower	27%	32%
0.00%	2%	2%
Total	100%	100%

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

2 Contracts in Central and Eastern Europe.

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

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the DPF of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities, e.g., KBC Bank and KBC Asset

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

Equity portfolio of the KBC group[1] (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013
Financial	23%	60%	26%	20%	25%	25%
Consumer non-cyclical	11%	1%	12%	10%	12%	8%
Communication	0%	0%	1%	0%	1%	0%
Energy	3%	0%	7%	7%	6%	6%
Industrial	21%	27%	9%	38%	12%	37%
Utilities	2%	0%	3%	3%	3%	3%
Consumer cyclical	4%	1%	4%	15%	4%	13%
Basic materials	3%	0%	11%	5%	9%	4%
Other and not specified	33%	12%	27%	3%	28%	4%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.2	0.2	0.5	1.3	0.7	1.4[2]
of which unlisted	0.1	0.0	0.1	0.0	0.2	0.0

1 Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2013 and 2012, entities classified as 'disposal groups' (see 'Remark' at the start of this section) did not have an equity portfolio. The equity portfolio of KBC Pension Fund is not included (0.7 billion euros at year-end 2013 and 0.7 billion euros at year-end 2012).

2 The main differences between the 1.4 billion euros in this table and the 1.9 billion euros for 'Equity instruments' in the table appearing in Note 18 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 18.

(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 18 (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 18.

Impact of a 12.5% drop in equity prices* (in millions of EUR)	Impact on net profit (IFRS)		Impact on value	
	2012	2013	2012	2013
Banking activities	-12	-11	-22	-21
Insurance activities	-4	-1	-54	-158
Total	-17	-12	-74	-179

* Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section). At year-end 2013 and 2012, the entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) did not have any equity exposure. Excluding the equity portfolio of KBC Pension Fund (year-end 2013: impact of -1.8 million euros on net profit and -92 million euros on value). Equity positions were increased at KBC Insurance, leading to a heightened economic sensitivity to equity shocks.

Non-trading equity exposure[1] (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2012	31-12-2013	31-12-2012	31-12-2013
Banking activities	11	80	47	73
Insurance activities	143	44	160	252
Total[2]	156	126	215	335

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

2 The total figure includes gains from some equity positions directly attributable to the KBC group. Gains from joint participations involving the banking and insurance entities of the KBC group have been eliminated, since these participations are consolidated at group level.

Real estate risk

The groups' real estate businesses hold a limited real estate investment portfolio with a view to realising capital gains over the long term. KBC Insurance also holds a diversified real estate portfolio, which is held as an investment for non-life reserves and long-term life activities. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios. The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 12.5% drop in real estate prices* (in millions of EUR)	Impact on value 2012	2013
Bank portfolios	-66	-59
Insurance portfolios	-37	-40
Total	-102	-99

* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (see 'Remark' at the start of this section); they had no impact in 2013 and 2012. Excluding the real estate portfolio of KBC Pension Fund (an impact of -18 million euros on value at year-end 2013 and -17 million euros at year-end 2012).

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.

We continue to incorporate these Basel III 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.

Representing the second line of defence, the risk department consists of the Group Chief Risk Officer (Group CRO), local CROs and group and local risk functions. Some of the tasks that fall within the remit of the risk functions are monitoring risks at portfolio/entity level, creating risk measurements, developing frameworks and advising/reporting on issues handled by the group and local Executive Committee/Risk Committees.

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

The liquidity management framework and group liquidity limits are set by the Group Executive Committee and Board of Directors. By approving the framework, a risk appetite is chosen as the framework describes which measures are subject to limits. Decisions on setting maximum or minimum values for the different measures are taken in the financial planning process.

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

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

In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2013, KBC had attracted 25 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.

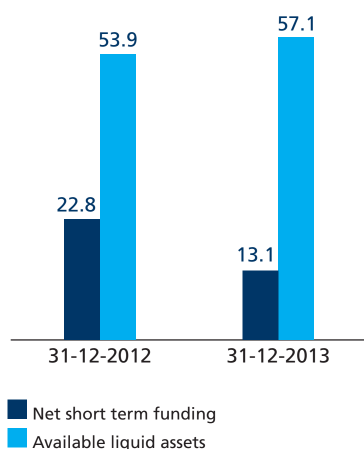
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

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

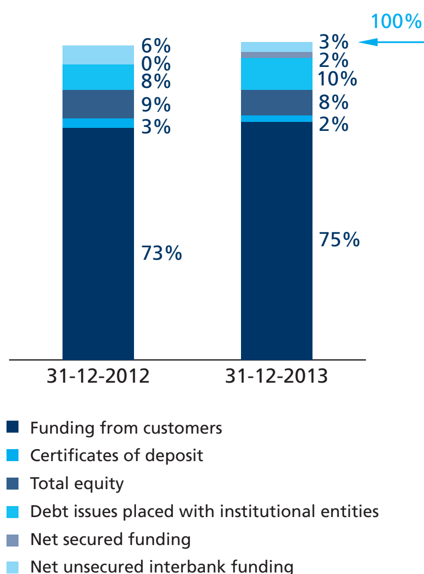
* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) have also been excluded (balance sheet total of 3.9 billion euros for 2013). 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. 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 18 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.

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



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

Funding mix



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

Liquid asset buffer

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

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

Funding information

KBC 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.

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

- Funding from customers (132.9 billion euros, 75% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 63% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (17.1 billion euros, 10% of the total figure), mainly comprising IFIMA debt issues (12.4 billion euros), covered bonds (3.9 billion euros) and the contingent capital notes issued in January 2013 (0.75 billion euros).
- Net unsecured interbank funding (4.8 billion euros, 3% of the total figure).
- Net secured funding (3.2 billion euros in repo funding, 2% of the total figure) and certificates of deposit (3.5 billion euros, 2% of the total figure).
- Total equity (14.5 billion euros, 8% of the total figure).

Please note that:

- We recorded continuous solid growth in customer deposits at different entities, especially in Ireland, where concerted efforts to build a retail deposit base have helped increase KBC Bank Ireland's funding independence. Deposits from customers in KBC Ireland increased from 2.7 billion euros as at end 2012 to 3.5 billion euros at year-end 2013.
- During 2013, KBC Bank used its EMTN programme to raise 1.1 billion euros in long-term funding, 0.75 billion euros of which was raised through wholesale benchmark issues.
- In November 2012, we announced our Belgian residential mortgage covered bonds programme. This 10-billion-euro programme was set up following the entry into force of the Act of 3 August 2012 that established a legal framework for Belgian covered bonds. This

new bond programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros. More issues followed in 2013 for a total of 2.67 billion euros.

- In 2013, we also repaid 8.3 billion euros borrowed from the ECB under the long-term refinancing operations (LTROs), thanks to the vastly improved state of the wholesale funding market and KBC's solid liquidity position.

LCR and NSFR

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

Market risk in trading activities

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

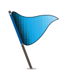
The objective of market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, taking into account the main risk factors and specific risk.

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

At KBC Financial Products, the only ongoing activity – European equity derivatives – has been managed directly from Brussels since March 2012. The market risk of the legacy CDO portfolio is managed stringently, with a number of derisking trades having taken place during the year. These trades have significantly lowered risk and the P&L sensitivity to credit spread movements.

The remaining legacy business lines at KBC Financial Products, namely fund derivatives, reverse mortgages and insurance derivatives, which represent less than 2% of market risk regulatory capital charges for trading activities, continue to be monitored and wound down by dedicated teams.

More information on covered bonds can be found in our Debt Investor Presentations at www.kbc.com



NSFR at 111% and LCR at 131%

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.

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2013, spread risk modelling was improved and the optionality component of the inflation positions added. Although this improved the accuracy of the HVaR model calculations, it hardly affected the average use of HVaR. Complex and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits.

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

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

One of the building blocks of sound risk management is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.

In addition to the parameter review, we perform periodic risk controls, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, we set up a business case for every new product or activity in order to analyse the risks and the way in which they will be managed.

Risk analysis and quantification

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

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

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

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

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

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

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

We have provided an overview of the derivative products under Note 29 in the 'Consolidated financial statements' section.

Regulatory capital

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

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

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

Trading regulatory capital requirements, by risk type

(in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Incremental Risk Charge	Comprehensive Risk Measure	Resecuritisation	Total
31-12-2012									
Market risks assessed by internal model	HVaR	88	3	10	–	1	34	–	274
	SVaR	114	4	20	–				
Market risks assessed by the Standardised Approach		60	12	11	2	–	–	340	425
Total		**263**	**18**	**42**	**2**	**1**	**34**	**340**	**698**
31-12-2013									
Market risks assessed by internal model	HVaR	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**

* The scope represented by this figure is different than in 2012 because the retained CDO positions in the banking book in 2013 have been included under 'credit risk' and not 'market risk' (as was the case until 2012). If the scope had remained the same, the trading regulatory capital requirements for re-securitisation would have fallen from 340 million euros in 2012 to 274 million euros in 2013.

Technical insurance risk

Technical insurance risks stem from uncertainty regarding how often insured losses will occur and how extensive they will be. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

Managing technical insurance risk

The Group risk function develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries.

The insurance risk management framework is designed primarily around the following building blocks:

- Adequate identification and analysis of material insurance risks by, *inter alia*, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals.
- Appropriate risk measurements and use of these measurements to develop applications aimed at guiding the company towards creating maximum shareholder value. Examples include best estimate valuations of insurance liabilities, *ex post* economic profitability analyses, natural catastrophe and other life, non-life and health exposure modelling, stress testing and required economic capital calculations.
- Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programmes.

Risk modelling

We develop models from the bottom up for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, and (iii) the impact of the reinsurance programme on these claims. We use these models to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate economic capital, support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off economic capital requirements against the relevant return in pricing insurance policies.

Stress testing

In 2012, we participated in the IMF Stress Test for insurance companies (a core element of the IMF Financial Sector Assessment Programme 2012). The purpose of this test was to assess the resilience of available capital to stress scenarios. Besides the regulatory required stress tests, we perform internal stress tests.

For the non-life business, KBC's internal natural catastrophe models are able to estimate the anticipated claim costs, should natural catastrophes that have been observed in the past occur again today. Moreover, they can determine the expected impact on bottom-line economic profit of natural catastrophe events, which are expected to occur on average only once within a given time frame (e.g., 100 or 250 years).

For the life insurance business, a sensitivity analysis is typically performed within the framework of the annual calculation of the market consistent embedded value.

Reinsurance

The insurance portfolios are protected against the impact of serious claims or the accumulation of losses (due, for instance, to a concentration of insured risks) by means of reinsurance. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year.

Most of our reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of serious claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes, especially with a view to creating shareholder value. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk. In view of reducing P&L volatility, KBC Insurance Belgium has concluded a multi-line multi-year reinsurance agreement covering the most important Non-Life business lines for three years.

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate. Adequacy is checked per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were recorded by year-end 2013, there was no need for a deficiency reserve to be set aside within the KBC group.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic, from financial year 2008), DZI Insurance (from financial year 2008), K&H Insurance, and KBC Group Re (from financial year 2005). All provisions for claims to be paid at the close of 2013 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2013.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence 2004	Year of occurrence 2005[1]	Year of occurrence 2006	Year of occurrence 2007	Year of occurrence 2008[2]	Year of occurrence 2009	Year of occurrence 2010	Year of occurrence 2011	Year of occurrence 2012	Year of occurrence 2013
Estimate at the end of the year of occurrence	547	578	631	686	793	824	871	806	849	917
1 year later	483	506	537	621	757	724	773	714	743	–
2 years later	454	484	511	588	728	668	725	656	–	–
3 years later	448	483	500	567	714	652	720	–	–	–
4 years later	444	474	486	561	710	635	–	–	–	–
5 years later	445	461	478	557	702	–	–	–	–	–
6 years later	441	462	464	550	–	–	–	–	–	–
7 years later	433	458	458	–	–	–	–	–	–	–
8 years later	431	454	–	–	–	–	–	–	–	–
9 years later	427	–	–	–	–	–	–	–	–	–
Current estimate	427	454	458	550	702	635	720	656	743	917
Cumulative payments	376	377	398	464	589	515	588	495	484	347
Current provisions	51	77	60	86	113	119	133	161	259	570

1 From financial year 2005, KBC Group Re's figures have been included. If these figures had not been taken into account, the following amount would have been arrived at for financial year 2005 (amount and year of occurrence): 455 for 2004.

2 From financial year 2008, the figures for ČSOB Poisťovňa (Slovak Republic) and DZI Insurance (Bulgaria) have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2008 (amount and year of occurrence): 432 for 2004; 453 for 2005; 485 for 2006; and 573 for 2007.

Specific information on the insurance activities of the group can be found in Notes 9, 10, 11 and 35 in the 'Consolidated financial statements' section. We have provided a breakdown by business unit of earned premiums and technical charges in the notes dealing with segment reporting.

Operational and other non-financial risks

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

We have provided information on legal disputes in Note 36 of the 'Consolidated financial statements' section.

Managing operational risk

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

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

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

The building blocks for managing operational risks

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

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

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

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

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

- *The Loss Event Database*. All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database also includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the Group Internal Control Committee, the Group Executive Committee and the ARC Committee.
- *Risk Scans (bottom-up and top-down)*. These *self-assessments* focus on the identification of key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level.
- *Case-Study Assessments*. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. Case studies are discussed on a quarterly basis in the Group Internal Control Committee.
- *Key Risk Indicators*. A limited set of KRIs are used to monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.

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

Operational risk and regulatory capital requirements

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

Other non-financial risks

Reputation risk

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

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

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

Business Risk

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

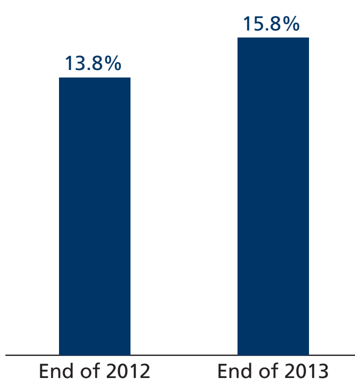
Risk factors that are taken into consideration include the macroeconomic environment, the regulatory framework, client behaviour, the competitive landscape and the socio-demographic environment. Business risk is assessed on the basis of structured risk scans.

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

Capital adequacy

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

Group tier-1 ratio (Basel II)

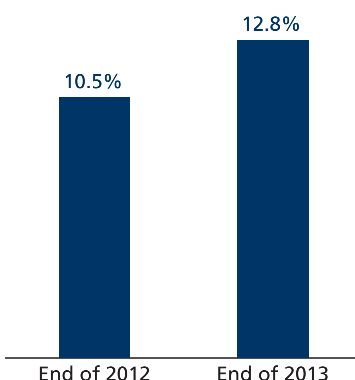


Managing solvency

We report our solvency at group, banking and insurance level, calculating it on the basis of IFRS figures and the relevant guidelines issued by the Belgian regulator.

Under Basel II, we use the so-called ‘building block’ method for group solvency. This entails comparing group regulatory capital (i.e. parent shareholders’ equity adjusted for a number of items (see table)), with the sum of the separate minimum regulatory solvency requirements for KBC Bank and the holding company (after deduction of intercompany transactions between these entities) and KBC Insurance. The total risk-weighted volume of insurance companies is calculated as the required solvency margin under Solvency I divided by 8%. Regulatory minimum solvency targets were amply exceeded in 2013, not only at year-end, but also throughout the entire year.

Common equity ratio at group level (fully loaded Basel III – Danish Compromise method)



As regards group solvency under Basel III (CRD IV/CRR), the participation held in the insurance entity will be deducted from common equity at KBC group level, unless the competent authorities grant permission to apply a risk weighting instead. KBC received this permission from the National Bank of Belgium and will allocate a 370% weighing to the holdings of own funds instruments of the insurance company, after having deconsolidated KBC Insurance from the group consolidated figures. In addition to this calculation method, KBC also has to disclose the capital adequacy ratio, as calculated in accordance with the above-mentioned ‘building block’ method.

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

In 2008 and 2009, a number of capital-strenghthening measures were taken, whereby non-voting core-capital securities were issued to the Belgian State and the Flemish Region, and a guarantee agreement signed with the Belgian State for CDO risks (see the 'Additional information' section for more details). Please note that the Belgian regulator has confirmed that the non-voting core-capital securities will be fully grandfathered as common equity under CRD IV/CRR until 2018.

Solvency at group level, Basel II

Solvency at group level (consolidated; under Basel II) (in millions of EUR)	31-12-2012	31-12-2013
Total regulatory capital, after profit appropriation	**16 113**	**17 169**
Tier-1 capital[1]	**14 062**	**14 286**
Parent shareholders' equity	12 099	11 826
Non-voting core-capital securities	3 500	2 333
Intangible fixed assets (-)	-356	-341
Goodwill on consolidation (-)	-987	-950
Innovative hybrid tier-1 instruments	419	409
Non-innovative hybrid tier-1 instruments	1 692	1 693
Direct and indirect funding of investments in own shares	-250	0
Minority interests	-5	-3
Equity guarantee (Belgian State)	276	22
Revaluation reserve, available-for-sale assets (-)[6]	-1 263	-1 094
Hedging reserve, cashflow hedges (-)[6]	834	497
Valuation differences in financial liabilities at fair value – own credit risk (-)[6]	-22	25
Minority interests in available-for-sale reserve and hedging reserve, cashflow hedges (-)[6]	0	0
Equalisation reserves (-)[6]	-111	-131
Dividend payout (-)[2]	-960	0
IRB provision shortfall (50%) (-)[3]	0	0
Limitation of deferred tax assets	-227	0
Items to be deducted (-)[4]	-577	0
Tier-2 and tier-3 capital	**2 051**	**2 883**
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	0	0
Revaluation reserve, available-for-sale shares (at 90%)	185	290
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	0	0
IRB provision shortfall (50%) (-)[3]	0	0
IRB provision excess (+)[3]	130	342
Subordinated liabilities	2 268	2 237
Tier-3 capital	44	15
Items to be deducted (-)[4]	-577	0
Total weighted risks	**102 148**	**90 541**
Banking[7]	89 532	78 486
Insurance[5]	12 386	12 096
Holding-company activities	304	72
Elimination of intercompany transactions between banking and holding-company activities	-74	-113
Solvency ratios		
Tier-1 ratio	13.8%	15.8%
Core tier-1 ratio	11.7%	13.5%
CAD ratio	15.8%	19.0%

1 Audited figures (except for 'IRB provision shortfall/excess').
2 Includes the dividend on ordinary shares and the coupon on non-voting core-capital securities sold to the Belgian State and Flemish Region.
3 Excess/shortfall is defined as the (positive/negative) difference between the actual loan loss impairment recognised and the 'expected loss' calculation.
4 Items to be deducted, which are split 50/50 over tier-1 and tier-2 capital, include mainly participations in and subordinated claims against financial institutions in which KBC has between a 10% and 50% share (at year-end 2012, mainly the minority shareholding in Bank Zachodni in Poland).
5 Weighted risks for insurance are calculated by multiplying capital under Solvency I by a factor of 12.5 (8% rule similar to the relationship between RWA and capital for banking).
6 Relates to the filtering of these items from shareholders' equity. For example, a negative amount for 'Revaluation reserve, available-for-sale assets' means that a positive revaluation reserve (part of consolidated equity) is filtered out in the solvency calculation table.
7 Until year-end 2014, weighted risks include an amount that decreases annually for residual operational risks related to KBL EPB (sold in 2012).

During 2013:

- We reimbursed 1.17 billion euros (and paid a 50% penalty) to the Flemish Regional Government. As a result, the remaining core-capital securities fell to 2.33 billion euros at the end of 2013 (the additional repayment of 0.33 billion euros at the beginning of 2014 has not been included in this calculation). More information in this regard is available under 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section.
- We issued 1 billion US dollars' worth of contingent capital notes in January 2013 (included in tier-2 capital).
- We further divested a number of entities, including Absolut Bank, the remaining stake in the merged Bank Zachodni-Kredyt Bank, Nova Ljubljanska banka and KBC Banka, which had a positive impact on the solvency ratios.
- The shareholder loans (to Cera and KBC Ancora) were substantially reduced (by 1 billion euros).
- We continued to reduce our CDO exposure (see the 'Credit risk' section).

Taking into account the effects of the repayment of 0.5 billion euros in state aid to the Flemish Regional Government in early 2014 and of the remaining divestments for which sale agreements have been signed but not yet completed, the *pro forma* tier-1 ratio would have been 15.6% at year-end 2013.

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

Solvency, KBC Bank and KBC Insurance separately (in millions of EUR)	**31-12-2012**	**31-12-2013**
KBC Bank (consolidated, Basel II)		
Total regulatory capital, after profit appropriation	14 390	15 537
of which tier-1 capital*	12 235	12 631
Total weighted risks	88 927	78 120
Tier-1 ratio	13.8%	16.2%
of which core tier-1 ratio	11.4%	13.5%
CAD ratio	16.2%	19.9%
KBC Insurance (consolidated, Solvency I)		
Available capital*	3 190	2 721
Required solvency margin	991	968
Solvency ratio (%)	322%	281%
Solvency surplus	2 199	1 753

* Audited figures. The decline in KBC Insurance's available capital was due primarily to the application of more stringent rules imposed by the regulator regarding the inclusion of latent gains in this capital.

Basel III and Solvency II

The Basel III proposals and corresponding European Directive and Regulation (CRD IV/CRR) introduce new, more stringent capital requirements for financial institutions. The new Regulation will enter gradually into force, starting on 1 January 2014, and be fully implemented by 1 January 2022.

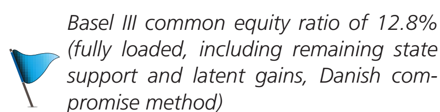
The legal minimum tier-1 ratio will be increased from 4% under Basel II to 6% under CRD IV/CRR. At least 4.5 percentage points of this tier-1 ratio has to consist of core capital (common equity tier-1 capital, or 'common equity'). On top of this minimum common equity, a number of additional buffers have been put in place, including a capital conservation buffer of 2.5%, a countercyclical buffer in times of credit growth (between 0% and 2.5%, to be determined by the regulator) and a systemic buffer (likewise to be determined by the regulator). Moreover, the quality of the items of the available capital increases, as higher eligibility criteria are defined for instruments to be included in the calculation of regulatory capital.

For KBC, the main impact of the shift from Basel II to CRD IV/CRR is the treatment of deferred tax assets and the removal of the filter for unrealised gains and losses on available-for-sale instruments. Additionally, the building block method will be replaced by the so-called Danish compromise method (the general rule in CRD IV/CRR with regard to insurance participations for (mixed) financial holdings and financial conglomerates is that own funds in that entity are deducted from the common equity tier-1 capital. However, national regulators can grant a waiver, permitting institutions to apply a 370% weighting instead (the Danish compromise)). KBC received a waiver from the National Bank of Belgium, but it is still not clear whether this waiver will be granted once the ECB becomes the competent supervisory authority.

KBC's internal minimum target for the common equity ratio is 10% on a fully loaded basis (presuming full implementation of all CRD IV/CRR rules, and including the remaining financial support provided by the Flemish Regional Government until 2018). On 31 December 2013, the fully loaded common equity ratio (Danish compromise method) stood at 12.8% (13.2% on a phased-in basis), well above the in-house target. Taking into account the effects of the repayment of 0.5 billion euros in state aid to the Flemish Regional Government in early 2014 and of the remaining divestments for which sale agreements have been signed but not yet completed, the *pro forma* fully loaded common equity ratio would have been 12.5% at year-end 2013.

Moreover, the supervisory authorities (with the National Bank of Belgium as the consolidating supervisor) have taken their Joint Home-Host Capital Decision for KBC Group NV: KBC has been informed of the request to maintain a permanent minimum fully loaded common equity ratio of 9.25%, excluding latent gains. According to this calculation, this ratio stood at 12.5% at year-end 2013, well above the regulatory minimum.

Solvency II is the new regulatory solvency regime for all EU insurance and reinsurance companies. Whereas the current insurance solvency requirements (Solvency I) are volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and deliver a supervisory system that is consistent across all EU Member States. The official entry into force of Solvency II – previously scheduled for January 2013 – has now been confirmed as January 2016. Based on the most recent draft version of the Solvency II regulations, the Solvency II ratio of the KBC Insurance Group in 2013 amply exceeds the minimum requirements. In 2011, KBC invested in a Solvency II solution, which allows us to follow up our key metrics on a regular basis, with a central Solvency II solution performing the calculations for all insurance entities.



Basel III common equity ratio of 12.8% (fully loaded, including remaining state support and latent gains, Danish compromise method)

Solvency at group level (consolidated; under CRD IV/CRR (Basel III), Danish compromise method) (in millions of EUR)	31-12-2013 Fully loaded
Total regulatory capital, after profit appropriation	16 258
Tier-1 capital	11 711
Common equity	11 711
Parent shareholders' equity (excluding non-voting core-capital securities and minority interests)	11 361
Non-voting core-capital securities	2 333
Intangible fixed assets (-)	-341
Goodwill on consolidation (-)	-950
Minority interests	-3
Hedging reserve, cashflow hedges (-)	497
Valuation differences in financial liabilities at fair value – own credit risk (-)	-6
Equalisation reserve (-)	-131
Dividend payout (-)	0
Coupon on government securities (-)	0
Deduction with regard to financing provided to shareholders (-)	-176
IRB provision shortfall (-)	-225
Deferred tax assets on losses carried forward (-)	-648
Limit on deferred tax assets from temporary differences relying on future profitability and significant participations in financial sector entities (-)	0
Additional going concern capital	0
Grandfathered innovative hybrid tier-1 instruments	0
Grandfathered non-innovative hybrid tier-1 instruments	0
CRR-compliant AT1 instruments	0
Minority interests to be included in additional going concern capital	0
Tier-2 capital	4 547
IRB provision excess (+)	342
Subordinated liabilities	4 206
Subordinated loans non-consolidated financial sector entities (-)	0
Minority interests to be included in tier-2 capital	0
Total weighted risk volume	91 426
Banking	80 399
Insurance	11 068
Holding-company activities	72
Elimination of intercompany transactions	-113
Solvency ratios	
Common equity ratio	12.8%
Tier-1 ratio	12.8%
CAD ratio	17.8%

Solvency at group level (consolidated; under CRD IV/CRR (Basel III), 'building block' method)	31-12-2013 Fully loaded
Common equity ratio	13.2%
Tier-1 ratio	13.2%
CAD ratio	18.1%

Economic capital

We use an economic capital model to measure the overall risk KBC is exposed to through its various activities, taking the different risk factors into consideration. We report the estimates generated by this model on a quarterly basis to the the Group Executive Committee, the ARC Committee and the Board of Directors.

We define economic capital as the amount of capital required to absorb very severe losses, expressed in terms of the potential reduction in the economic value of the group (i.e. the difference between the current economic value and the worst-case economic value over a one-year time horizon and at a certain confidence level), in line with the risk appetite set by the Board of Directors. We calculate economic capital per risk category using a common denominator (the same time horizon of one year and the same confidence interval) and then aggregate them. Since it is extremely unlikely that all risks will materialise at the same time, an allowance is made for diversification benefits when aggregating the individual risks.

As mentioned previously, economic capital is used as a major building block for ICAAP (Basel II, pillar 2). In addition, it provides essential input for risk-adjusted performance measurement.

The breakdown of KBC's economic capital per risk type is provided in the table.

Economic capital distribution, KBC group*	2012	2013
Credit risk	56%	55%
Non-trading market risk	25%	28%
Trading market risk	1%	1%
Business risk	8%	8%
Operational risk	6%	5%
Technical insurance risk	3%	3%
Funding cost and bid/offer spread risk	0%	0%
Total	**100%**	**100%**

* All percentages relate to figures at the end of December. Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) and whose contribution to KBC's economic capital was around 3% in 2013 and 6% in 2012.The figures for the end of December 2012 are significantly different than those for the end of September 2012 in the 2012 report (i.e. non-trading market risk has increased significantly whereas credit risk has decreased owing to the improvements made to the model).

Risk-Adjusted Performance Measurement

In 2011, KBC developed a Risk-Adjusted Performance Measurement (RAPM) policy, whereby risk-adjusted performance metrics were used for allocating capital and setting variable remuneration. The capital allocation track of this policy is embedded in the strategic planning process. The remuneration policy also includes risk-adjusted features based on RAPM metrics.

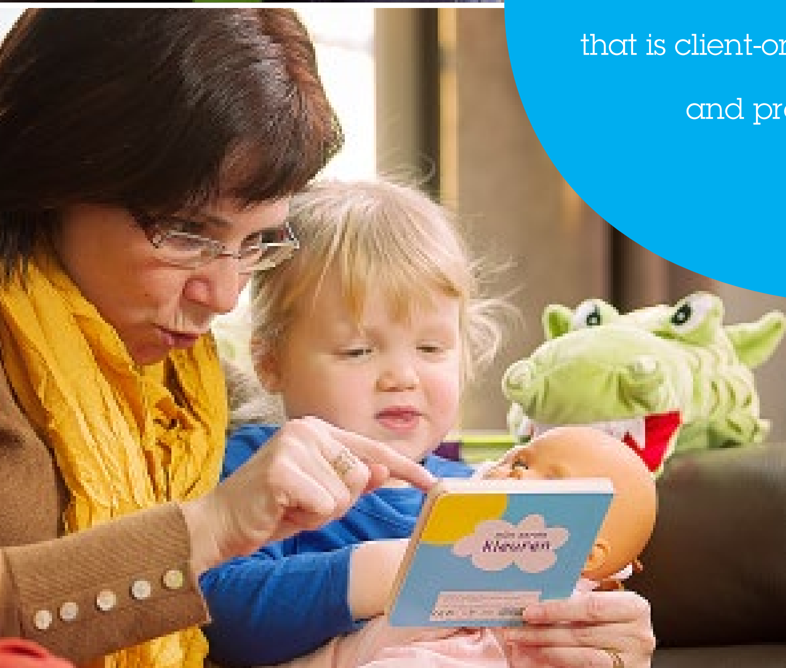
Risk-adjusted measures calculate profitability using expected losses, i.e. losses that are expected given the risk profile of the portfolio. Using expected losses and hence a longer term view of the profitability of the portfolio not only guarantees that management is aware of risks when times are good, but also avoids disproportionate decisions and actions being taken during adverse economic periods.

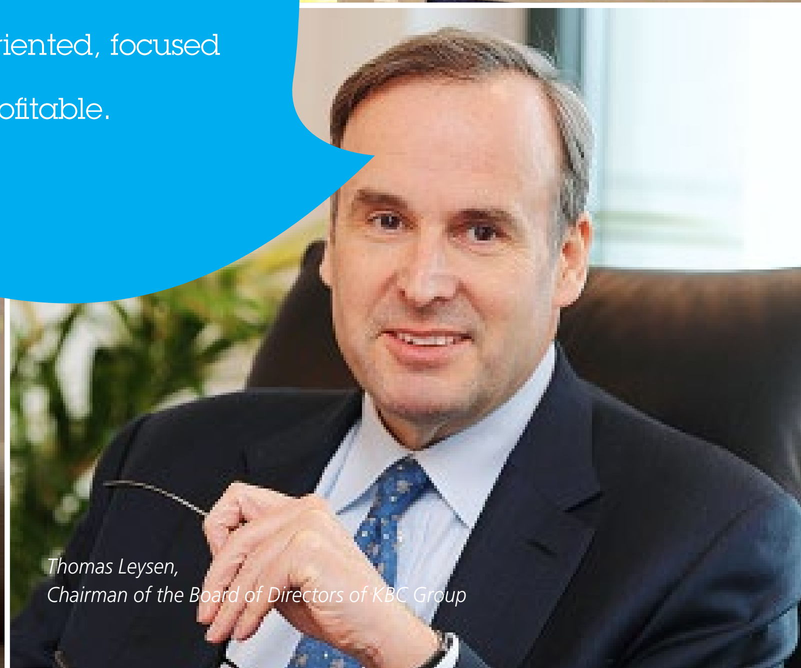
The basic idea behind the risk adjustment of the capital base in the RAPM is that regulatory capital has limited coverage in terms of risk types and only partly reflects the specific characteristics of KBC. Economic capital covers a broader scope of risk and reflects KBC's own estimates of the risk profile.

Corporate governance statement

KBC Group NV has adopted the 2009 version of the Belgian *Corporate Governance Code* (the 'Code') as its benchmark. This Code, which can be downloaded at www.corporategovernancecommittee.be, seeks to ensure transparency in corporate governance by requiring certain information to be disclosed in the *Corporate Governance Charter* (the 'Charter') and in the *Corporate Governance Statement* (the 'Statement') of the annual report.

We are again the type of group we want to be. One that is client-oriented, focused and profitable.





Thomas Leysen,
Chairman of the Board of Directors of KBC Group

The Charter sets out the main aspects of a company's corporate governance, such as its governance structure, the internal rules for the Board of Directors, its committees, and the Executive Committee, together with other important topics. KBC publishes its Charter on www.kbc.com.

The Statement is published in the annual report and contains more factual information regarding the company's corporate governance, including the composition and activities of the Board of Directors, any relevant events during the year under review, the reasons for any non-compliance with the Code, the remuneration report, and a description of the main features of the internal control and risk management systems.

Unless otherwise indicated, the period dealt with runs from 1 January 2013 to 31 December 2013.

The Statement also contains certain other information required by law.

The following terms have been abbreviated as follows in this section of the annual report:

- Board of Directors of KBC Group NV: Board
- Executive Committee of KBC Group NV: EC
- Audit, Risk and Compliance Committee of KBC Group NV: ARC Committee

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2013. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Composition of the Board on 31 December 2013

Name	Primary responsibility	Period served on the Board in 2013	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Government-appointed directors	Members of the EC	ARC Committee	Nomination Committee[2]	Remuneration Committee
Number of meetings in 2013				11						7	5	6
Thomas Leysen	Chairman of the Board	Full year	2015	11	■						5[1]	
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2017	11	■	■					5	
Johan Thijs	President of the EC and Executive Director	Full year	2016	11					■[1]		5	
Alain Bostoen	Managing Director, Christeyns NV	Full year	2014	11	■	■						
Jo Cornu	CEO, NMBS	Full year	2016	11	■		■				5	6[1]
Marc De Ceuster	Professor, Accounting and Finance Department, Universiteit Antwerpen	Full year	2014	10	■			■		7		
Tom Dechaene	Director of various companies	Full year	2016	11	■			■		6	5	
Franky Depickere	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA	Full year	2015	10	■	■				7[1]	5	6
Luc Discry	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA	Full year	2015	11	■	■						
Frank Donck	Managing Director, 3D NV	Full year	2015	10	■	■				6		
John Hollows	Executive Director	Full year	2015	10					■			
Júlia Király	Head of Department, International Business School of Budapest	3 months	2014	2	■		■			1		0
Lode Morlion	Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	11	■	■						
Vladimira Papirnik	Partner, Squire Sanders (US) LLP	Full year	2016	11	■		■			7		
Luc Popelier	Executive Director	Full year	2015	11					■			
Theodoros Roussis	CEO, Ravago Plastics NV	Full year	2016	7	■	■						
Alain Tytgadt	Managing Director, Metalunion CVBA	Full year	2017	10	■	■						
Ghislaine Van Kerckhove	Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	11	■	■						
Piet Vanthemsche	Chairman of the Boerenbond and MRBB CVBA	Full year	2014	9	■	■					5	
Marc Wittemans	Managing Director, MRBB CVBA	Full year	2014	11	■	■				7		

Auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and/or Peter Telders. Secretary to the Board of Directors: Johan Tyteca.

1 Chairman of this committee.

2 Koenraad Debackere, independent director of KBC Insurance NV, was appointed to the Nomination Committee of KBC Group NV in accordance with the provisions of the Code and with effect from 8 October 2013.

Changes in the composition of the Board in 2013

- On the advice of the Nomination Committee, Philippe Vlerick and Alain Tytgadt were re-appointed by the General Meeting for a further period of four years.
- On the advice of the Nomination Committee, Dirk Heremans was re-appointed as an independent director for a period of one year, within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Code. He resigned on 8 October 2013.
- On the advice of the Nomination Committee, Júlia Király was co-opted by the Board on 18 September 2013 to the position of independent director with effect from 8 October 2013, within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Code.

Changes in the composition of the committees of the Board in 2013

- Júlia Király joined the ARC Committee and Remuneration Committee on 8 October 2013, succeeding Dirk Heremans who resigned as a director with effect from the same date.
- In accordance with the provisions of the Code, Koenraad Debackere – independent director of KBC Insurance NV – was appointed to the Nomination Committee of KBC Group NV with effect from 8 October 2013, succeeding Dirk Heremans who resigned as a director of KBC Group NV on the same date.

Changes in the composition of the Board proposed to the General Meeting on 30 April 2014

- The Board will propose that Júlia Király – currently an independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Code – be appointed in this capacity for a period of four years.
- On the advice of the Nomination Committee, the Board will propose that Marc De Ceuster, Piet Vanthemsche and Marc Wittemans, non-executive directors, be re-appointed for a further period of four years.
- On the advice of the Nomination Committee, the Board will propose that Christine Van Rijsseghem be appointed as director for a period of four years. She will take a seat on the EC and hold the office of executive director, replacing John Hollows who is to resign as director.
- The term of office of Alain Bostoen will not be renewed, in line with the aim of further reducing the number of members on the Board, as described in the 2011 Annual Report. The Board will have 19 members with effect from the General Meeting of 30 April 2014.
- For the remaining term of his office (i.e. until after the General Meeting of 2015), Thomas Leysen will hold the position of independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code.

Brief CVs for the new directors

- Júlia Király

Júlia Király was born in Budapest (Hungary) in 1957. She is a graduate of the Budapest University of Economics (1980), where she went on to gain a Doctorate (1984), and also holds a Ph.D in Economics from the Hungarian Academy of Sciences.
Ms Király started her career as a research economist at the Central Statistical Office (1980–1982), before taking up a similar post at the National Planning Office (1982–1989). In 1989, she became CEO and Dean (Banking strategy, Monetary economics, Risk management in financial institutions) of ITCB Consulting & Training (1989–2007), a private training and consulting company in the financial sector. Ms Király then served as Deputy Governor responsible for financial stability

More information on corporate governance is provided in our Charter, which can be found under 'corporate governance' at www.kbc.com

at the MNB, the Central Bank of Hungary (2007–2013).
She was a member of the Board of Directors of the Hungarian Credit Bank Ltd. (1995–1996), a member of the Advisory Board of the Supervisory Authority (1997–2000) and a member of the Board of Directors of K&H Bank (1999–2000). She was chairperson of the Postbank and Savings Bank Corporation (2002–2003) and has been a Professor of Finance at the Corvinus University of Budapest (1993–2012) and a Professor of Economics at the Eötvös Loránd University of Budapest since 2012. On 1 October 2013, she was appointed Head of Department at the International Business School of Budapest.

- Christine Van Rijsseghem

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

Agenda for the General Meeting of 30 April 2014

The agenda for the General Meeting is available at www.kbc.com.

Composition of the EC

The following is an overview of the members of the EC at year-end 2013. More information – including CVs – is provided at www.kbc.com. The composition of the EC remained unchanged in 2013.

Johan Thijs
1965

Belgian

Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)

Joined company in 1988*

Group CEO (Chief Executive Officer)

Danny De Raymaeker
1959

Belgian

Degree in Commercial and Business-Economic Engineering (KU Leuven); Master's Degree in Internal Auditing (Universiteit Antwerpen)

Joined company in 1984*

CEO of the International Markets Business Unit

Daniel Falque
1963

Belgian

Master's Degree in International Relations (Université catholique de Louvain)

Joined company in 2009*

CEO of the Belgium Business Unit

Luc Gijsens
1953

Belgian

Master's Degree in Law (KU Leuven)

Joined company in 1977*

CEO of the International Product Factories Business Unit

John Hollows
1956

British

Master's Degree in Law and Economics (Cambridge University)

Joined company in 1996*

CRO (Chief Risk Officer)

Pavel Kavánek
1948

Czech

Master's Degree in Economics (Universities of Prague and Georgetown)

Joined company in 1972*

CEO of the Czech Republic Business Unit

Luc Popelier
1964

Belgian

Master's Degree in Applied Economics, (UFSIA Antwerp)

Joined company in 1988*

CFO (Chief Financial Officer)

Marko Voljč
1949

Slovene

Master's Degree in Economics (Universities of Ljubljana and Belgrade)

Joined company in 2004*

CCO (Chief Change Officer)

** 'Joined company in ...' refers to KBC Group NV, group companies or pre-merger entities (Kredietbank, Cera, ABB, etc.).*

With effect from 1 May 2014, the organisational structure of KBC will be simplified and adjusted to take account of the reduced size of the group:

- The International Markets and International Product Factories business units will merge to form a single unit called the International Markets Business Unit.
- The Corporate Change & Support Business Unit will cease to exist and the entities will be integrated into the existing organisation. Corporate HR will report to Johan Thijs, ICT and Shared Services & Operations to Luc Popelier, and the banking and insurance communities to Luc Gijsens.

As a result, the composition of the EC will also change from 1 May 2014 on, comprising six members instead of eight, viz.:

- Johan Thijs, CEO
- Luc Popelier, CFO
- Christine Van Rijsseghem, CRO
- Daniel Falque, CEO of the Belgium Business Unit
- John Hollows, CEO of the Czech Republic Business Unit
- Luc Gijsens, CEO of the International Markets Business Unit

Report on the activities of the Board and its committees

Report on the activities of the Board and its committees in 2013	
Composition, meetings, attendance figures	See the table at the start of this section.
Board	Besides carrying out the activities required under the Belgian Companies Code, reviewing the quarterly results and the activities of the ARC Committee, Nomination Committee and Remuneration Committee, and handling and taking decisions on the dossiers submitted by these committees, the Board also dealt with the following matters: • the monthly evaluation of the status regarding implementation of the restructuring plan agreed with the European Commission; • the implementation of the strategy; • appointments to and resignations from the Board, and the composition of its committees; • the repayment of 1.17 billion euros (plus a penalty of 0.58 billion euros) to the Flemish Regional Government in July 2013; • the sale of the loans that KBC Bank NV had granted to Cera and KBC Ancora; • the *Integrated Group Risk Report* (monthly); • the report on effective management with regard to the assessment of internal control systems; • the annual evaluation of how the Board functions; • the annual evaluation of interaction with the EC; • the *Risk Governance Charter*; • the *Risk Appetite Statement*; • the *Group Value and Risk Management Annual Report*; • the investment policy; • the *Business Continuity Management Annual Report*; • the *Recovery Plan*; • the *Compliance Annual Report*; • the *Compliance Charter*; • the *Integrity Policy*; • the *Remuneration Policy*; • insurance training and reporting on insurance activities. The EC also reported monthly on the trend in the results and the general course of business at the group's various business units. It also paid regular attention to the strategy and specific challenges for the different areas of activity.

Report on the activities of the Board and its committees in 2013	
ARC Committee	The ARC Committee met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor and the compliance officer. The statutory auditors also attended the meetings. The report of the internal auditor, the report of the compliance officer and the report of the risk function were fixed agenda items. The periodic reports from the risk function primarily covered developments regarding the ALM, liquidity, market, credit, operational and insurance risks of the KBC group, and the group's capital requirements. The internal auditor's report provided an overview of recent audit reports, including the most important audit reports for the underlying group entities. The ARC Committee also reviewed the implementation of the 2013 audit plan, and approved the 2014 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations. The periodic reports from the compliance function provided the members of the ARC Committee with information on, among other things, the main developments on the legal and regulatory fronts, as well as the most important findings and projects in the areas of compliance. The ARC Committee also reviewed the implementation of the 2013 compliance plan, and approved the one for 2014. On 13 February 2013, the ARC Committee reviewed the consolidated and non-consolidated financial statements for the year ended 31 December 2012, and approved the press release. The auditor explained the key audit findings. On 15 May, 7 August and 13 November 2013, the auditors explained their key findings following their review of the accounts for the quarters ending 31 March, 30 June and 30 September, respectively. The ARC Committee also approved the respective press releases. The main special reports dealt with were: • the statement of effective management with regard to the assessment of internal control systems (in application of circular NBB_2011_9) and the monitoring of the resulting action plans; • the *Value and Risk Management Annual Report*; • the *Anti-Money Laundering Annual Report*; • the *2013 Internal Capital Adequacy Assessment Process Report*; • the *Risk Governance Charter.*
Nomination Committee	Please note that the Nomination Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank. The main matters dealt with were: • appointments and re-appointments to the Board and various committees of KBC Group NV, KBC Bank and KBC Insurance; • the appointment of independent directors at KBC Group NV, KBC Bank and KBC Insurance; • the implementation of the National Bank of Belgium Circular on standards relating to expertise and professional reliability of executive committee members, directors, persons in charge of individual control functions and senior managers of financial institutions ('fit & proper' standards).

Report on the activities of the Board and its committees in 2013	
Remuneration Committee	The Remuneration Committee usually met in the presence of the Chairman of the Board, the President of the EC and the representative of the Flemish Regional Government. The head of Group HR also regularly attended the meetings. Please note that the Remuneration Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank. The main matters dealt with were: • the application of the risk alignment framework to the results for 2012; • the modification of the remuneration package for members of the EC; • the annual remuneration report; • the annual remuneration review; • the staff retention and incentivisation plans for certain companies earmarked for divestment; • the evaluation of the performance of the EC throughout 2012; • the EC's objectives for 2013; • the changes to the remuneration policy.
More information	For a general description of how the Board and its committees function, see sections 5 and 6 of the Charter of KBC Group NV (at www.kbc.com).

ARC Committee: application of Article 96 §1 9° of the Belgian Companies Code

On 31 December 2013, the ARC Committee of KBC Group NV had two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Code.

- Vladimira Papirnik, who holds a Juris Doctor Degree (Northwestern University (US), 1982) and combined Bachelor's and Master's Degrees in German and German Literature (Northwestern University (US), 1978). She started her career at the Hopkins & Sutter law firm in Chicago, practising as a finance lawyer (1982–1989) before going on to become a partner in the firm (1989–1995). She then joined the global law firm of Squire Sanders as a partner and, after moving to the Czech Republic in 1995, became managing partner of the Prague office (1996–2011). Since 2011, she has been working for Squire Sanders in both Prague and Chicago, focusing her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance). Ms Papirnik served on the Board of Directors of the American Chamber of Commerce in the Czech Republic and was a member of its Executive Committee (1999–2008). She was a member of the Board of Trustees of the International School of Prague and head of its corporate governance committee for four years. She was also a member of the Board of Trustees of the CMC School of Business for three years.
- Júlia Király (whose CV appeared earlier in this section). She has been a member of the ARC Committee since 8 October 2013.

Dirk Heremans had been a member of the ARC Committee until 8 October 2013. He holds a Ph.D in Law, a Master's Degree in Notarial Law and a Master's Degree in Economics from the Katholieke Universiteit Leuven. He also has a Post-Graduate Degree in Etudes supérieures sciences économiques (advanced economics) from the Université de Paris (Sorbonne) and a M.A., C. Phil. and Ph.D. in Economics from the University of California (UCLA.). He is Professor Emeritus at the Faculty of Business and Economics at the Katholieke Universiteit Leuven. In the past, he has been an adviser to the cabinets of the Minister of Economic Affairs and the Minister of Finance, as well as an expert for the European Commission. Mr Heremans is an honorary Board member of the former Belgian Banking and Finance Commission. He was an independent director of KBC Group NV from 2005 until 8 October 2013.

On the basis of the preceding information, it can be concluded that these directors – as members of the ARC Committee – meet the criteria set out in Article 526*ter* of the Belgian Companies Code relating to independence and to expertise in the area of accounting and auditing.

Policy regarding transactions between the company and its directors, not covered by the statutory regulations governing conflicts of interest

The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Belgian Companies Code. It has been incorporated into the Charter of KBC Group NV.

In application of this rule, the directors representing Cera and KBC Ancora on the Board refrained from deliberating and voting on KBC Bank NV selling the loans that it had granted to Cera and KBC Ancora.

Measures regarding insider dealing and market manipulation

The Board has drawn up a *Dealing Code* which, among other things, requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA). The principles of this code have been appended to the Charter of KBC Group NV. The code entered into effect on 10 May 2006 and an updated version was approved by the Board on 8 August 2011.

Principal features of the evaluation process for the Board, its committees and its members

With a view to constantly improving its own effectiveness, the Board – led by its Chairman – evaluates a number of elements each year, including the composition of the Board, the selection, appointment and training of its members, practical operations (relating to the agenda, meetings, chairmanship, secretariat), reporting to the Board, the type of culture within the Board, the performance of its duties, remuneration, the working relationship with the EC, the shareholders and other stakeholders, the Board's committees, the subjects being discussed and training proposals.

On the initiative of the Chairman of the Board, directors who are nominated for re-appointment are subject to an individual evaluation that focuses on their efforts and effectiveness within the Board and – where appropriate – their performance as chairman or member of a committee of the Board. This evaluation is performed by the Chairman. The Board evaluates the Chairman who must not be present when the evaluation is being performed.

Once a year, non-executive directors assess how they interact with the executive management. To that end, they meet at least once a year without the executive directors.

Each Board committee regularly carries out an evaluation of its own composition and workings, before reporting its findings and, where necessary, making proposals to the Board. It also provides an opportunity for, *inter alia*, an analysis to be performed on the skills and experience required by the committee as a whole for its specific area of responsibility.

When their terms of office as a director are being renewed, the chairmen and members of the committees are subject to an individual evaluation.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually. The individual evaluation of the President is performed by the Chairman of the Board.

Remuneration report for financial year 2013

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

General

The remuneration policy for the Board and EC is based on prevailing legislation, the Code and market data. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The Board may also act on its own initiative, or on a proposal from the EC, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval.

Board

On the basis of advice obtained from the Remuneration Committee, the Board decides on the remuneration package for its members. If required, it may also submit proposals in this regard to the General Meeting for decision.

EC

On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit-related/performance-related component.

Declaration regarding the remuneration policy used for members of the Board and the EC during the financial year dealt with in the annual report

The Remuneration Committee declares the following:

Principles of the remuneration policy with due account being taken of the relationship between remuneration and performance

The basic principle applying to non-executive directors, executive directors and other members of the EC is that they are entitled to a fair remuneration that is commensurate with the contribution they have made to the policy and growth of the group.

The following applies to non-executive directors:

- Their remuneration consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the ARC Committee receive additional remuneration (attendance fees) for the work they perform in that regard. The rule likewise applies that, if meetings coincide with ARC Committee meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on different ARC Committees. The Chairman of the ARC Committee receives an additional fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- KBC Group NV does not grant loans or guarantees to directors. Such loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 28 of the Banking Act, meaning that loans may be granted at terms applying to customers.

The following applies to executive directors and other members of the EC:

- The Board determines their remuneration on the basis of advice obtained from the Remuneration Committee and the President of the EC (whose remuneration is set on the basis of the advice of the Remuneration Committee).
- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria));
  - an annual, individual variable emolument based on the performance by each member of the EC (starting in 2014, individual assessments to be conducted on the basis of pre-agreed criteria);
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).

- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will also be suspended.
- The Board sets performance-related variable remuneration on the advice of the Remuneration Committee, based on an evaluation of several pre-agreed criteria. For 2014, these are:
  - implementing the strategy (including the restructuring plan agreed with the European Commission);
  - drawing up proposals for a modified strategy for 2014–2016;
  - implementing the financial plans;
  - strengthening the risk control environment (including reducing the number of audit and compliance recommendations);
  - increasing staff, customer and shareholder satisfaction;
  - establishing and implementing the funding plan for 2014.

  The Remuneration Committee evaluates the extent to which these criteria have been met and, on the basis of its findings and within the limits of the contractually agreed system, makes a proposal regarding the size of the performance-related variable remuneration and duly advises the Board, which takes the final decision. It also advises the Board on the size of the individual variable emolument after assessing the individual performance of each member of the EC and taking due account of the evaluation performed by the President of the EC.

- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

Relative importance of the different components of remuneration

Based on a comparison with the other companies quoted on the BEL 20, as well as with a group of 12 similar financial institutions (Raiffeisen Bank International, Aegon, Bâloise Group, Danske Bank, Rabobank, UniCredit Group, ING Group, Commerzbank, Svenska Handelsbanken, Erste Group, DNB Group and Bank of Ireland), the Remuneration Committee concluded in the first half of 2013 that the remuneration package for the President and other members of the EC should be modified. The Board followed the advice of the Remuneration Committee to raise the fixed component and reduce the relative size of the variable component. The variable component was split into a performance-related variable emolument and an individual variable emolument. The performance-related variable component for the President of the EC is set between 0 and 300 000 euros and the individual variable component between 0 and 100 000 euros. The limits for these components are 200 000 euros and 70 000 euros, respectively, for the other members of the EC. The final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year, with the main emphasis being placed on implementation of the restructuring plan agreed with the European Commission. Consequently, the variable component accounts for less than 30% of the total remuneration package.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares

The total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC is paid over four years, with 50% being paid in the first year and the rest spread equally over the next three years.

Furthermore, 50% of the total variable remuneration is awarded in the form of equity-related instruments called phantom stocks, whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a four-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions' below.

Information regarding the remuneration policy for the next two financial years

It is not the intention to make any changes to the remuneration awarded to non-executive directors. However, it cannot be ruled out that the corporate governance provisions contained in the Belgian banking bill (particularly in relation to keeping audit and risk committees apart) will have an impact on the remuneration paid to members of the ARC Committee.

The policy for remunerating members of senior management is published in the *Remuneration Policy*. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group) and a performance-related component;
- at least 50% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway but its payment is to be spread over a period of three years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments;
- no advance payments may be made in relation to the variable component and clawback/hold-back provisions are put in place;
- the ratio of fixed to variable remuneration components be set at a maximum one to one;
- variable remuneration be capped at 750 000 euros.

A number of these principles will probably have to be re-examined in the short term to take account of the provisions concerning remuneration policy that have been set out in the Belgian banking bill that will enter into force in 2014.

Besides the risk gateway, a 'Risk-Adjusted Performance Measurement Framework' policy has also been introduced to set results-based variable remuneration for performances as from financial year 2012. The basic idea behind this policy used for capital allocation is that neither economic capital nor regulatory capital is suitable as a single driver for capital allocation. Regulatory capital is limited in terms of risk types and only partially reflects the specific characteristics of KBC. Although economic capital comprises more types of risk and reflects KBC's estimation of its own risk profile, it is not available at the same detailed level at the moment. Given these limitations,

the decision was taken to allocate capital on the basis of a risk-weighted asset (RWA) coefficient that reflects the aspects of economic capital. This policy introduces the concept of risk-adjusted profit (RAP) as the (absolute) measure of company profitability, but with an inherent adjustment for capital and risk-related factors. For certain categories of key identified staff for whom the competent control function has assessed that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are to be retained for a period of one year.

The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.

Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement), when:

- There is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks).
- Either the net result excluding non-recurrent profit, or the risk-adjusted (underlying) profit of the KBC group and/or the underlying KBC entity in the year preceding the one in which the amounts are to be acquired, has fallen by at least 50% since the year in which the variable remuneration was awarded. In such a situation, the malus arrangement will be applied to the deferred amounts that have still to be acquired (and that relate to the year they were awarded), unless the Remuneration Committee of KBC Group NV provides well-reasoned advice to the Board not to apply this arrangement. The Remuneration Committee will also provide advice on the percentage that should be applied to the malus arrangement. The Board is responsible for the final decision in this regard.
- Either the net result excluding non-recurrent profit, or the risk-adjusted profit, of the KBC group, is negative in the year preceding the one in which the amounts are to be acquired. In that case, all the deferred amounts that have still to be acquired (usually in the year following the one in which the negative result was posted) will not be acquired and will therefore be relinquished.

In this regard, the Board takes a decision on the advice of the Remuneration Committee.

Variable remuneration already acquired will exceptionally be clawed back when there is:

- evidence of fraud;
- (use of) misleading information.

Individual remuneration awarded to non-executive directors of KBC Group NV

In accordance with the remuneration system in force, non-executive directors received a fixed emolument and attendance fees in proportion to the number of meetings they attended of the Board of KBC Group NV and, where relevant, of the other companies of the KBC group in Belgium or abroad. As mentioned above, the Chairman of the Board received solely a special fixed emolument and the Chairman of the ARC Committee an additional fixed emolument. The Deputy Chairman of the Board also received an additional fixed emolument.

Remuneration per individual director (on a consolidated basis, in EUR)	**Remuneration (for FY 2013)**	**Remuneration for ARC Committee members (for FY 2013)**	**Attendance fees (for FY 2013)**
Thomas Leysen	500 000	0	0
Alain Bostoen	40 000	0	60 000
Jozef Cornu	20 000	0	60 000
Marc De Ceuster	20 000	35 000	55 000
Tom Dechaene	20 000	30 000	60 000
Franky Depickere	65 000	135 000	61 250
Luc Discry	40 000	0	60 000
Frank Donck	50 929	30 000	50 000
Júlia Király	5 000	5 000	5 000
Lode Morlion	40 000	0	60 000
Vladimira Papirnik	20 000	35 000	60 000
Theodoros Roussis	40 000	0	35 000
Alain Tytgadt	40 000	0	55 000
Ghislaine Van Kerckhove	40 000	0	60 000
Piet Vanthemsche	40 000	0	50 000
Philippe Vlerick	70 000	0	60 000
Marc Wittemans	40 000	35 000	60 000

Information regarding the amount of remuneration received by members of the EC of KBC Group NV who are also members of the Board

The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Evaluation criteria used for paying variable remuneration, based on the performance of KBC Group NV and/or person(s) involved

For members of the EC, the individual component is set on the basis of an assessment of the performance of the member in question (with pre-agreed criteria being used from 2014 on), while the performance-related component is set on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These assessments generate a percentage between 0% and 100% that is applied to the maximum variable remuneration. Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2013 that equalled 83%.

Remuneration paid to the President and the other members of the EC of KBC Group NV

The EC of KBC Group NV is a collective body, whose president is the first among equals and not a Chief Executive Officer (CEO) who is the sole executive and accountable representative of the company. Nevertheless, in implementation of company law and the Code, the remuneration paid to the President of the EC is shown separately in the following table.

The aggregate remuneration paid by KBC Group NV and its direct and indirect subsidiaries to members of the EC of KBC Group NV other than the President for the 2013 financial year is also shown in the table. The EC has comprised eight members (including the President) since 1 January 2013 and its composition remained unchanged throughout the year.

Remuneration paid to the EC of KBC Group NV (in EUR)	President: Johan Thijs[1]		Other members of the EC (combined)[2]	
	2012	2013	2012	2013
Employment status	Self-employed	Self-employed	Self-employed	Self-employed
Base remuneration (fixed)	700 693	879 005	3 122 156	4 403 393
Individual remuneration for financial year 2013[3] (variable)	–	0	–	0
Performance-related remuneration for financial year 2013[3] (variable)	–	0	–	0
Results-based remuneration for financial year 2012 (variable)	30 590	–	131 539	–
Performance-related remuneration for financial year 2012 (variable)	42 229	–	180 683	–
Results-based remuneration for previous financial years[4] (variable)	18 603	28 800	107 484	118 258
Performance-related remuneration for previous financial years[4] (variable)	5 600	19 676	31 467	82 286
Total	797 715	927 481	3 573 329	4 603 937
Pension[5]				
Supplementary defined benefit pension plan (service cost)	100 404	94 106	695 068	651 468
Supplementary defined contribution pension plan (contribution transferred to pension fund)	15 295	25 373	45 885	98 935
Other benefits[6]	16 160	16 218	262 439	201 955

1 Johan Thijs had a seat on the EC for four months and was its president for eight months in 2012.

2 The EC comprised six members in 2012 and seven members in 2013 (not counting the president).

3 See 'Remuneration paid' below.

4 Given that no variable remuneration at all was awarded for 2011, these items relate solely to a deferred portion of the variable component for 2010 and 2012 (for each year, 16.66% of the cash component of the total remuneration package).

5 The pension scheme for members of the EC (except Pavel Kavánek) comprises a small defined contribution pension plan and the main defined benefit pension plan. The defined contribution plan applies to all members of the EC as from the year following the year in which the member in question has sat on the EC for three years. It is funded by KBC via an annual contribution (to the KBC pension fund), the size of which is expressed as a percentage of KBC's consolidated net profit. This percentage depends on the trend in earnings per share. The defined benefit plan applies to members of the EC as soon as they take a seat on the committee. Entitlement to a full supplementary retirement pension is acquired after 25 years' service in the KBC group, at least six of which as a member of the EC. Each supplementary pension (unless built up through personal contributions) – the right to which has been acquired elsewhere in the group in whatever capacity (self-employed or employee) – is taken into account when calculating this retirement pension, i.e. no accumulation is possible. Pavel Kavánek participates in a defined contribution pension plan in the Czech Republic.

6 Each member of the EC receives a representation allowance of 400 euros per month. As this is a flat-rate reimbursement of expenses, the amount has not been included in the table. Each member of the EC also has a company car, the personal use of which is charged on the basis of a fixed 7 500 kilometres per year. Other benefits which members of the EC receive are hospitalisation insurance, assistance insurance and accident insurance. Furthermore, the two non-Belgian expatriate members of the EC receive a housing allowance and sickness insurance.

'Remuneration paid': the banking bill contains a number of provisions specifically for institutions that receive 'exceptional state support'. In light of this situation the Board decided not to pay the members of the EC the variable remuneration awarded to them for 2013 as long as KBC fits this particular description.

Long-term cash bonus paid

The remuneration package awarded to members of the EC does not include a long-term cash bonus.

Shares, stock options and other rights to acquire KBC Group NV shares that were allocated during the financial year, on an individual basis

As described above, half of the total annual variable remuneration is awarded in the form of phantom stocks that are to be retained for a period of one year. The decision taken by the Board not to pay the variable remuneration for 2013 as yet to members of the EC (see above) will also apply in full to remuneration payable in the form of phantom stocks.

No other shares, stock options or rights to acquire shares were allocated.

Shares, stock options and other rights to acquire KBC Group NV shares that were exercised or that have lapsed during the financial year, on an individual basis

A second tranche of the phantom stocks awarded in 2011 for financial year 2010 was converted into cash at 28.24 euros per share in April 2013. The following amounts were paid (in euros):

Johan Thijs	24 286
Danny De Raymaeker	32 052
Luc Popelier	24 286
John Hollows	24 286
Marko Voljč	16 125

Provisions concerning individual severance payments for executive directors and members of the EC of KBC Group NV

Under the conditions stipulated by the Belgian Federal and Flemish Regional governments following the transactions to strengthen core capital in 2008 and 2009, severance payments (to be made when departure is at the initiative of the company) for executive directors and members of the EC have been limited to 12 months' fixed remuneration since the end of October 2008.

Main features of the internal control and risk management systems

In application of the provisions of the Belgian Companies Code and the Code, the main features of the internal control and risk management systems at KBC are set out below (Part 1 contains general information, while Part 2 deals specifically with the financial reporting process).

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

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

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

KBC aims to be an efficient bank-insurer and asset manager that shows a strong affinity for its clients and careful consideration for its employees. It focuses on private individuals, the self-employed, members of the liberal professions, small and medium-sized enterprises and mid-cap clients in selected European countries, while seeking to achieve a sound level of profitability through efficiency, client focus, employee satisfaction and sound risk management.

KBC also seeks to identify with the various communities in which it operates by using local trade names, employing local management and pursuing socially responsible business practices in line with the standards of the countries concerned.

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

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

2 Corporate culture and integrity policy

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

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

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

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:

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

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

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

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

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

3.1 The business side assumes responsibility for managing its own risks

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

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

Independent of the business side and following specific regulations and advanced industry standards, second-line control functions are tasked with drawing up a group-wide framework for all relevant types of risk. The functions support implementation of this framework in their

own particular area of work and monitor how it is used. Besides their support and supervisory tasks, the second-line functions also have an advisory role in assisting business-side management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-compliance with the Code

The corporate governance statement included in the annual report must also indicate whether any provisions of the Code have not been complied with and state the reasons for non-compliance (the 'comply-or-explain' principle). This information is provided below.

Provision 2.1. of the Code stipulates that one of the factors for deciding the composition of the Board should be gender diversity (see 'Gender diversity' below).

Provision 5.2./1 of Appendix C to the Code stipulates that the Board should set up an audit committee composed exclusively of non-executive directors. Provision 5.2./4 of the same appendix additionally specifies that at least a majority of its members should be independent. Provision 5.3./1 of Appendix D to the Code stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2013, the ARC Committee was composed of seven non-executive directors, two of whom were independent, two were appointed by the Flemish Regional Government and three who represented the core shareholders. Independent directors are, therefore, in the minority on this committee. On 31 December 2013, the Nomination Committee was composed of eight directors, one of whom was the Chairman of the Board, two independent directors (one from KBC Group NV and one from KBC Insurance NV), one director appointed by the Flemish Regional Government, one executive director and three representatives of the core shareholders. Independent directors are, therefore, in the minority on this committee.

The government-appointed directors help ensure that KBC's activities are viewed from an independent perspective.

When selecting the members of the ARC Committee and Nomination Committee – as is also the case with the Board – the group takes account of the specific shareholder structure and, in particular, of the presence of Cera, KBC Ancora, MRBB and the other core shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group. Moreover, by having their representatives on these Board committees, the core shareholders are able to monitor operational reporting (ARC Committee) and recruitment and nomination matters (Nomination Committee) in full knowledge of the facts. This enhances equilibrium, quality and efficiency within the Board's decision-making process.

Gender diversity

Since 2011, a provision has been included in company law stipulating that, over time, at least one-third of a board's members must be of a different gender than the other members. Provision 2.1. of the Code stipulates that one of the factors for deciding the composition of a board should be gender diversity.

At year-end 2013, three women and seventeen men sat on the Board. The Board endeavours to achieve a greater representation of women among its ranks. Preparations are being made to gradually increase the number of female directors to the required quota by no later than 2017. After the General Meeting of 30 April 2014, the Board will comprise four women and fifteen men.

Conflicts of interest that fall within the scope of Article 523, 524 or 524*ter* of the Belgian Companies Code

There were no conflicts of interest during the 2013 financial year that required the application of Article 523, 524 or 524*ter* of the Belgian Companies Code.

Statutory auditor

At the General Meeting of KBC Group NV of 2 May 2013, the mandate granted to Ernst & Young Bedrijfsrevisoren BCVBA – represented by Pierre Vanderbeek and/or Peter Telders – was renewed for a period of three years.

Details of the statutory auditor's remuneration are provided in Note 43 of the 'Consolidated financial statements' section (consolidated figures for the entire group) and in Note 6 of the 'Company annual accounts' section (for KBC Group NV alone).

Disclosure under 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

1 Capital structure on 31 December 2013

The share capital was fully paid up and was represented by 417 364 358 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts' section.

2 Restrictions on transferring securities as laid down by law or the Articles of Association

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the reference price stated in the issue terms, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board on 13 November 2013 are blocked until 15 December 2015.

The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under stock option plans set up at different points in time, may not be transferred *inter vivos*. For an overview of the number of stock options for staff, see Note 12 in the 'Consolidated financial statements' section.

3 Holders of any securities with special control rights

None.

4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2013, these rights were suspended for 802 shares (0.00% of the number of shares in circulation at that time).

6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

A group of legal entities and individuals act in concert and constitute the core shareholders of KBC Group NV. As indicated in their disclosures, the number of voting rights held by these entities and individuals was:

- KBC Ancora Comm.VA: 51 625 808
- Cera Comm.VA: 10 080 938
- MRBB CVBA: 26 436 213
- Other core shareholders: 40 371 943

That is a total of 128 514 902 shares carrying voting rights, or 30.79% of the total number of such shares on 31 December 2013.

A shareholder agreement was concluded between these parties in order to support and co-ordinate the general policy of KBC Group NV and to supervise its implementation. The agreement provides for a contractual shareholder syndicate. The shareholder agreement includes stipulations on the transfer of securities and the exercise of voting rights within the shareholder syndicate.

When KBC Group NV issued 3.5 billion euros' worth of securities to the Flemish Region in mid-July 2009 in an operation to bolster the group's core capital (1.17 billion euros of this amount was paid back in 2013), the core shareholders of KBC Group NV entered into a number of commitments, including the following one. They formally undertook not to offer their shares if a voluntary or mandatory public takeover bid were to be made for all of KBC's shares nor, as the case may be, to sell a quantity of KBC shares that could trigger a mandatory bid, nor to transfer their shares prior to the start of, during or after a public takeover bid to (a) (future) bidder(s) or related party nor grant any right to that end, without obtaining a formal commitment on the part of the (future) bidder(s) that, when the bid is closed, it (they) would compel KBC to redeem all outstanding core-capital securities (subject to the approval of the NBB) or it (they) would buy all outstanding core-capital securities itself (themselves), in both cases at a price equal to 44.25 euros per security.

7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Appointment and replacement of members of the Board:

Following the advice of the NBB, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee.
Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held.
When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Belgian Companies Code.
The General Meeting appoints directors by a simple majority of votes cast.
From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary.
Outgoing directors are always eligible for re-appointment.
If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term when making the definitive appointment.

Amendment of the Articles of Association:

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Belgian Companies Code).

If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. A statement of assets and liabilities drawn up no longer than three months previously must be included in this report and be reported on separately by the statutory auditors. Copies of the reports in question can be obtained in accordance with Article 535 of the Belgian Companies Code. If these reports do not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions validly on changes in the object of the company if those present not only represent half of the share capital (…). If this condition is not satisfied, a second convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast. (…) (excerpt from Article 559 of the Belgian Companies Code).

8 Powers of the Board with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board until 21 May 2018 to increase, in one or more steps, the share capital by a total amount of 700 million euros, in cash or in kind, by issuing shares or convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise). Under this authorisation, the Board can suspend or restrict preferential subscription rights, subject to the limits laid down by law and the Articles of Association.

The General Meeting authorised the Board until 27 April 2014 to use this authorisation, pursuant to the conditions and within the limits laid down in the Belgian Companies Code, even after the date of receipt of notification from the FSMA that it has been apprised of a public takeover bid for the company's shares.

On 31 December 2013, the authorised capital came to 698 618 429.56 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2013, a maximum of 200 752 422 new shares can still be issued, i.e. 48.12% of the number of shares in circulation at that time.

On 13 November 2013, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 33.49 euros per share and with a limit of 104 shares per employee. On 19 December 2013, the issued share capital was increased by 1 381 570.44 euros (represented by 397 003 new shares).

The General Meeting of 2 May 2013 authorised the Board (and also granted it a power of sub-delegation) to acquire maximum 250 000 shares over a five-year period. The shares may be acquired at a price that may not be higher than the last closing price on Euronext Brussels prior to the date of acquisition, plus 10%, and not lower than 1 euro. Within the confines of the law, this authorisation is valid for all acquisitions for a consideration, in the broadest sense of the term, on or off the exchange.

The boards of KBC Group NV and its direct subsidiaries have been authorised until 29 May 2015 to acquire or dispose of KBC Group NV shares, whenever their acquisition or disposal is necessary to prevent KBC Group NV from suffering imminent serious disadvantage.

These boards received authorisation to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 10%. On 31 December 2013, KBC Group NV and its *direct* subsidiaries held 802 KBC Group NV shares (including two shares held for trading purposes).

9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

Shareholder structure on 31 December 2013

Notifications of shareholdings are provided:
- under the Act of 2 May 2007 (see A below);
- under the Act on public takeover bids (see B below);
- on a voluntary basis.

A summary containing the most recent disclosures is provided in the 'Information for shareholders and bondholders' section.

It should be noted that the figures provided under A) and B) below may differ from the current number of shares in possession, as a change in the number held does not always give rise to a new notification.

A) Shareholder structure based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2013, based on all the notifications received by 31 December 2013. The 'Company annual accounts' section also contains an overview of notifications received in 2012 and 2013.

Shareholder structure on 31-12-2013 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares (as a % of the current number of shares)	Notification relating to
KBC Ancora Comm.VA	Mgr. Ladeuzeplein, 15, 3000 Leuven, Belgium	77 516 380 (18.57%)	19 November 2013
Cera CVBA	Mgr. Ladeuzeplein, 15, 3000 Leuven, Belgium	11 127 166 (2.67%)	19 November 2013
MRBB CVBA	Diestsevest 40, 3000 Leuven, Belgium	42 562 675 (10.20%)	1 September 2008
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	39 867 989 (9.55%)	1 September 2008
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 (0.00%)	16 October 2012
Blackrock Inc.	12 Throgmorton Avenue, London EC2N 2DL, United Kingdom	20 714 324 (4.97%)	9 December 2013

B) Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received an updated disclosure on 28 August 2013. The entities and individuals referred to below act in concert.

A Disclosures by
a legal entities
b individuals holding 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora Comm.VA	51 625 808	12.37%	Konings Invest BM	305 816	0.07%
MRBB	26 436 213	6.33%	Rodep Comm. VA	304 000	0.07%
Cera CVBA	16 115 972	3.86%	SAK Berkenstede	268 970	0.06%
SAK AGEV	11 320 933	2.71%	Robor NV	238 988	0.06%
Plastiche NV	3 855 915	0.92%	Efiga Invest SPRL	233 806	0.06%
VIM CVBA	3 834 500	0.92%	Ibervest	200 028	0.05%
3D NV	2 768 085	0.66%	Promark International NV	189 008	0.05%
Setas SA	1 626 401	0.39%	SAK Hermes controle en beheersmaatschappij	148 527	0.04%
De Berk BVBA	1 138 208	0.27%	Niramore International SA	135 700	0.03%
Cecan NV	1 031 002	0.25%	SAK Iberanfra	120 107	0.03%
SAK PULA	1 016 450	0.24%	Sinfonia Investments NV	115 839	0.03%
Rainyve SA	941 958	0.23%	I.B.P. Ravaga Pensioenfonds	115 833	0.03%
Stichting Amici Almae Matris	912 731	0.22%	Inkao-Invest BVBA	113 679	0.03%
Van Holsbeeck NV	910 322	0.22%	Alia SA	83 702	0.02%
Creatio Invest NV	749 486	0.18%	Edilu NV	64 800	0.02%
Regidor SA	620 000	0.15%	Isarick NV	45 056	0.01%
Ceco c.v.a.	568 849	0.14%	MTV NV	45 056	0.01%
Nascar Finance SA	560 000	0.13%	Wilig NV	40 406	0.01%
Partapar SA	559 818	0.13%	Filax Stichting	38 529	0.01%
Cordalia SA	425 250	0.10%	Agrobos	37 016	0.01%
Mapicius SA	425 250	0.10%	Lycol NV	31 939	0.01%
Algimo NV	414 022	0.10%	Van Vuchelen en Co BVBA	27 785	0.01%
Cecan Invest NV	397 563	0.10%	Asphalia NV	14 241	0.00%
Bareldam SA	384 544	0.09%	Kristo Van Holsbeeck BVBA	7 700	0.00%
Sereno SA	333 408	0.08%	Vobis Finance NV	685	0.00%
Colver NV	322 099	0.08%			

B Disclosures by individuals holding less than 3% of securities carrying voting rights (the identity of the individuals concerned does not have to be disclosed)

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
226 301	0.05%	46 200	0.01%	16 733	0.00%	3 375	0.00%
155 320	0.04%	45 700	0.01%	16 666	0.00%	3 375	0.00%
155 000	0.04%	45 056	0.01%	13 905	0.00%	3 375	0.00%
85 000	0.02%	45 000	0.01%	13 905	0.00%	3 375	0.00%
73 750	0.02%	42 500	0.01%	12 645	0.00%	2 800	0.00%
73 750	0.02%	40 500	0.01%	11 918	0.00%	2 349	0.00%
73 750	0.02%	35 613	0.01%	11 039	0.00%	2 295	0.00%
67 500	0.02%	34 155	0.01%	10 542	0.00%	1 694	0.00%
67 500	0.02%	34 155	0.01%	9 172	0.00%	1 350	0.00%
65 000	0.02%	30 514	0.01%	8 316	0.00%	1 269	0.00%
64 800	0.02%	30 395	0.01%	8 316	0.00%	837	0.00%
57 750	0.01%	24 975	0.01%	8 316	0.00%	513	0.00%
56 345	0.01%	24 120	0.01%	7 500	0.00%	500	0.00%
52 499	0.01%	23 006	0.01%	6 784	0.00%	324	0.00%
50 000	0.01%	22 706	0.01%	6 682	0.00%	270	0.00%
49 600	0.01%	22 221	0.01%	6 330	0.00%	243	0.00%
48 300	0.01%	19 546	0.00%	3 500	0.00%	228	0.00%
48 141	0.01%	19 522	0.00%	3 431	0.00%		
46 441	0.01%	18 055	0.00%	3 375	0.00%		

1 No such disclosures were received.

2 Total outstanding number of shares on 31 December 2013: 417 364 358.

I've gone digital.

Sarah Lavelle

Last summer, Sarah – a student – started working in a restaurant in Dublin, and had to look for a bank that suits her.

'I sometimes work 50 hours a week and I want to spend my free time doing the things I enjoy, such as seeing friends and going to the cinema. So I need a bank account that's easy to open and manage and where the charges are transparent. At KBC Bank Ireland I confirmed my identity and filled in a simple form. A few days later I received confirmation that my account had been opened, along with my bank card and digital key for online banking. My income varies quite a bit and I save as much as I can. This account certainly suits me.'

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Bedrijfsrevisoren
De Kleetlaan 2
B - 1831 Diegem

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<u>Free translation from the Dutch original</u>

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

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

Report on the Consolidated Financial Statements - unqualified opinion

We have audited the Consolidated Financial Statements of KBC Group nv ("the Company") and its subsidiaries (collectively referred to as "the Group") as of and for the year ended 31 December 2013. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The total of the consolidated balance sheet amounts to € 241.306 million and the consolidated income statement shows a profit, share of the Group, for the year of € 1.015 million.

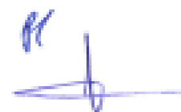
Responsibility of the board of directors for the preparation of the Consolidated Financial Statements

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

Responsibility of the statutory auditor

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

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



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

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

Unqualified opinion

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

Report on other legal and regulatory requirements

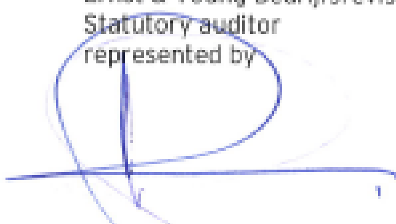
The board of directors is responsible for the preparation and the content of the report of the board of directors on the Consolidated Financial Statements, including the corporate governance statement, in accordance with articles 96 and 119 of the Company code (*Wetboek van vennootschappen/Code des sociétés*)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

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

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

Brussels, 17 March 2014

Ernst & Young Bedrijfsrevisoren BCVBA
Statutory auditor
represented by



Pierre Vanderbeek
Partner

Peter Telders
Partner

14PVDB0115

Consolidated income statement

(in millions of EUR)	Note	2012	2013
Net interest income	3	4 669	4 132
Interest income	3	10 134	8 464
Interest expense	3	-5 465	-4 332
Non-life insurance (before reinsurance)	9, 11	622	536
Earned premiums	9 ,11	1 500	1 259
Technical charges	9, 11	-878	-723
Life insurance (before reinsurance)	9, 10	-240	-242
Earned premiums	9, 10	1 475	1 132
Technical charges	9, 10	-1 714	-1 373
Ceded reinsurance result	9	-13	-5
Dividend income	4	45	47
Net result from financial instruments at fair value through profit or loss	5	420	1 191
Net realised result from available-for-sale assets	6	181	252
Net fee and commission income	7	1 315	1 484
Fee and commission income	7	2 005	2 286
Fee and commission expense	7	-690	-802
Other net income	8	734	123
TOTAL INCOME		**7 733**	**7 517**
Operating expenses	12	-4 248	-3 871
Staff expenses	12	-2 543	-2 324
General administrative expenses	12	-1 396	-1 276
Depreciation and amortisation of fixed assets	12	-310	-272
Impairment	14	-2 511	-1 933
on loans and receivables	14	-1 072	-1 719
on available-for-sale assets	14	-95	-34
on goodwill	14	-421	-7
other	14	-923	-173
Share in results of associated companies	15	2	1
RESULT BEFORE TAX		**976**	**1 714**
Income tax expense	16	-362	-685
Net post-tax result from discontinued operations	46	27	0
RESULT AFTER TAX		**641**	**1 029**
attributable to minority interests		29	14
of which relating to discontinued operations		*0*	*0*
attributable to equity holders of the parent		**612**	**1 015**
of which relating to discontinued operations		*27*	*0*
Earnings per share (in EUR)			
Basic	17	-1.09	1.03
Diluted	17	-1.09	1.03

- Towards the end of 2009, the group unveiled a strategic plan that included a list of companies to be divested. Since then, virtually the entire divestment plan has been implemented. More information on this plan is provided in the 'Strategy, company profile and structure' section (which has not been audited by the statutory auditor).
- It will be proposed that, as previously announced and subject to the approval of the General Meeting, the group does not pay a dividend for financial year 2013. Given that payment of a coupon on the core-capital securities sold to the Flemish Regional Government (see 'Additional information') is related to payment of a dividend on shares, that coupon will not be paid either. It should be noted that any coupon is included in the calculation of earnings per share (see Note 17).
- We have dealt with the main items in the income statement under 'Consolidated results in 2013' in the 'Report of the Board of Directors' section and in the sections devoted to the individual business units. The statutory auditor has not audited these sections.

Consolidated statement of comprehensive income

(in millions of EUR)	2012	2013
RESULT AFTER TAX	**641**	**1 029**
attributable to minority interests	29	14
attributable to equity holders of the parent	612	1 015
OTHER COMPREHENSIVE INCOME		
a) Recycled to profit or loss		
Net change in revaluation reserve for shares	-25	117
Fair value adjustments before tax	33	171
Deferred tax on fair value changes	7	-6
Transfer from reserve to net result	-64	-48
Impairment	22	4
Net gains/losses on disposal	-87	-54
Deferred taxes on income	1	2
Net change in revaluation reserve for bonds	1 465	-287
Fair value adjustments before tax	1 785	-328
Deferred tax on fair value changes	-527	107
Transfer from reserve to net result	207	-66
Impairment	32	0
Net gains/losses on disposal	157	-121
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables'	180	24
Deferred taxes on income	-162	31
Net change in revaluation reserve for other assets	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Impairment	0	0
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	-235	338
Fair value adjustments before tax	-398	533
Deferred tax on fair value changes	156	-185
Transfer from reserve to net result	7	-11
Gross amount	9	-13
Deferred taxes on income	-2	3
Net change in translation differences	59	-116
Gross amount	22	0
Deferred taxes on income	37	-116
Other movements	-2	0
b) Not recycled to profit or loss		
Net change in defined benefit plans	-134	136
Remeasurements (IAS 19)	-198	206
Deferred tax on remeasurements (IAS 19)	64	-69
TOTAL COMPREHENSIVE INCOME	**1 769**	**1 218**
attributable to minority interests	30	14
attributable to equity holders of the parent	1 740	1 203

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2012	31-12-2013
Cash and cash balances with central banks		4 426	4 378
Financial assets	18–29	236 898	225 570
Held for trading	18–29	21 159	16 885
Designated at fair value through profit or loss	18–29	16 295	16 441
Available for sale	18–29	30 622	27 581
Loans and receivables	18–29	139 225	132 562
Held to maturity	18–29	28 510	31 323
Hedging derivatives	18–29	1 088	777
Reinsurers' share in technical provisions, insurance	35	137	146
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	204	120
Tax assets	31	2 188	1 726
Current tax assets	31	174	245
Deferred tax assets	31	2 014	1 481
Non-current assets held for sale and disposal groups	46	7 138	3 769
Investments in associated companies	32	8	7
Investment property	33	638	598
Property and equipment	33	2 581	2 465
Goodwill and other intangible assets	34	1 328	1 289
Other assets	30	1 383	1 237
TOTAL ASSETS		**256 928**	**241 306**
LIABILITIES AND EQUITY (in millions of EUR)	**Note**	**31-12-2012**	**31-12-2013**
Financial liabilities	18–29	213 265	201 994
Held for trading	18–29	19 459	13 119
Designated at fair value through profit or loss	18–29	20 563	24 931
Measured at amortised cost	18–29	170 813	162 266
Hedging derivatives	18–29	2 430	1 678
Technical provisions (before reinsurance)	35	19 205	18 701
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	69	-2
Tax liabilities	31	647	524
Current tax liabilities	31	192	109
Deferred tax liabilities	31	455	415
Liabilities associated with disposal groups	46	3 739	2 027
Provisions for risks and charges	36	526	523
Other liabilities	37	3 598	3 025
TOTAL LIABILITIES		**241 048**	**226 792**
Total equity	**39**	**15 879**	**14 514**
Parent shareholders' equity	39	12 017	11 826
Non-voting core-capital securities	39	3 500	2 333
Minority interests		362	354
TOTAL LIABILITIES AND EQUITY		**256 928**	**241 306**

- We have grouped together the assets and liabilities of the remaining divestments under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. The entities concerned were KBC Bank Deutschland and Antwerp Diamond Bank at the end of 2013 and Absolut Bank, KBC Banka, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka at the end of 2012. For additional information, see Note 46.
- The 2012 figures have been restated retroactively owing to amendments to IAS 19 (which had an impact on the 'Other assets', 'Other liabilities' and 'Parent shareholders' equity' headings, and the related totals and subtotals). For more information, see Note 1 a.

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cash-flow hedges)	Remeasurement of defined benefit plans	Reserves	Translation differences	Parent shareholders' equity	Non-voting core-capital securities	Minority interests	Total equity
2012												
Balance at the beginning of the period	1 245	4 341	-1 529	-117	-594	0	6 831	-422	9 756	6 500	516	16 772
First-time adoption of revised IAS 19	0	0	0	0	0	63	-11	0	52	0	0	52
Restated balance at the beginning of the period	1 245	4 341	-1 529	-117	-594	63	6 821	-422	9 809	6 500	516	16 824
Net result for the period	0	0	0	0	0	0	612	0	612	0	29	641
Other comprehensive income	0	0	0	1 440	-235	-134	-2	59	1 128	0	0	1 128
Subtotal, comprehensive income	0	0	0	1 440	-235	-134	610	59	1 740	0	30	1 769
Dividends	0	0	0	0	0	0	-599	0	-599	0	0	-599
Capital increase	205	1 048	0	0	0	0	-14	0	1 239	0	0	1 239
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-450	0	-450	-3 000	0	-3 450
Sales of treasury shares	0	0	1 527	0	0	0	-1 179	0	349	0	0	349
Effect of business combinations	0	0	0	0	0	0	-6	0	-6	0	0	-6
Change in minority interests	0	0	0	0	0	0	0	0	0	0	-36	-36
Change in scope	0	0	0	-60	-6	0	0	3	-63	0	-147	-210
Total change	205	1 048	1 527	1 380	-241	-134	-1 639	62	2 209	-3 000	-154	-945
Balance at the end of the period	1 450	5 388	-1	1 263	-834	-71	5 182	-360	12 017	3 500	362	15 879
of which revaluation reserve for shares	–	–	–	206	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 057	–	–	–	–	–	–	–	–
of which revaluation reserve for other assets than bonds and shares	–	–	–	0	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	6	1	–	–	-142	-135	–	–	-135
2013												
Balance at the beginning of the period	1 450	5 388	-1	1 263	-834	0	5 192	-360	12 099	3 500	362	15 961
First-time adoption of revised IAS 19	0	0	0	0	0	-71	-11	0	-82	0	0	-82
Restated balance at the beginning of the period	1 450	5 388	-1	1 263	-834	-71	5 182	-360	12 017	3 500	362	15 879
Net result for the period	0	0	0	0	0	0	1 015	0	1 015	0	14	1 029
Other comprehensive income	0	1	0	-170	338	136	-1	-116	189	0	0	189
Subtotal, comprehensive income	0	1	0	-170	338	136	1 014	-116	1 203	0	14	1 218
Dividends	0	0	0	0	0	0	-961	0	-961	0	0	-961
Capital increase	1	15	0	0	0	0	0	0	16	0	0	16
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-583	0	-583	-1 167	0	-1 750
Sales of treasury shares	0	0	1	0	0	0	0	0	1	0	0	1
Effect of business combinations	0	0	0	0	0	0	-3	0	-3	0	0	-3
Change in minority interests	0	0	0	0	0	0	0	0	0	0	-18	-18
Change in scope	0	0	0	0	0	0	0	136	136	0	-4	132
Total change	1	16	1	-170	338	136	-533	20	-191	-1 167	-8	-1 365
Balance at the end of the period	1 452	5 404	0	1 094	-497	65	4 648	-340	11 826	2 333	354	14 514
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	–	–	-3	1	–	–	1

- For information on the capital increase carried out at year-end 2012 and the number of shares, see Note 39.
- For information on the shareholder structure, see Note 3 in the 'Company annual accounts' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- As regards the non-voting core-capital securities, KBC repaid 0.5 billion euros and paid a 15% penalty to the Belgian Federal Government at the start of 2012 (recognised in the balance sheet at year-end 2011), repaid 3 billion euros and paid a 15% penalty to the Belgian Federal Government in December 2012 (recognised in the balance sheet at year-end 2012), and repaid 1.17 billion euros and paid a 50% penalty to the Flemish Regional Government in mid-2013 (recognised in the balance sheet at year-end 2013). The repayment of 0.33 billion euros (plus a 50% penalty) to the Flemish Regional Government at the start of 2014 has not been recognised in the figures for year-end 2013. For information on the capital-strengthening transactions concluded with the Belgian Federal and Flemish Regional governments, see the 'Additional information' section.
- In 2012, KBC sold 18.2 million treasury shares held by KBC Bank NV and KBC Group NV, which increased its capital base by 349 million euros. At year-end 2013, it held 802 treasury shares.

- Besides the gross dividend of 417 million euros for financial year 2012 (1 euro per share entitled to dividend), the 'Dividends' heading in 2013 includes a coupon of 543 million euros paid on the above core-capital securities sold to the Belgian Federal and Flemish Regional governments.
- For information on the retroactive restatement of figures resulting from amendments to IAS 19, see Note 1 a.
- Trust preferred securities are also included under 'Minority interests' (see Note 39 for more information).
- During 2013, the revaluation reserve (for available-for-sale assets) declined by 170 million euros, due to the impact of higher long-term rates on the market value of bonds and the fact that bonds with a positive revaluation reserve were reaching maturity, though the decline was partially offset by the higher revaluation reserve for shares, which had been boosted by rising share prices. Conversely, the hedging reserve (cashflow hedges) was 338 million euros less negative in 2013, owing to the effect of higher long-term rates and the transfer of the reserve to net profit in proportion to the cashflows realised from hedging instruments.

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2012	2013
Operating activities			
Result before tax	See consolidated income statement	976	1 714
Adjustments for:			
Result before tax from discontinued operations	See consolidated income statement	15	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	21, 33, 34	1 774	512
Profit/Loss on the disposal of investments	–	-579	35
Change in impairment on loans and advances	14	1 072	1 719
Change in technical provisions (before reinsurance)	35	121	28
Change in the reinsurers' share in the technical provisions	35	21	-11
Change in other provisions	36	-350	14
Other unrealised gains or losses	–	-59	86
Income from associated companies	15	-2	-1
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	2 988	4 096
Changes in operating assets (excluding cash and cash equivalents)	–	8 391	12 438
Financial assets held for trading	18	4 823	5 574
Financial assets at fair value through profit or loss	18	-1 845	-904
Available-for-sale assets	18	8 701	2 866
Loans and receivables	18	2 959	3 647
Hedging derivatives	18	-722	844
Operating assets associated with disposal groups, and other assets	46	-5 527	412
Changes in operating liabilities (excluding cash and cash equivalents)	–	-4 758	-2 927
Deposits measured at amortised cost	18	5 687	2 784
Debts represented by securities measured at amortised cost	18	1 477	-3 619
Financial liabilities held for trading	18	-7 528	-6 239
Financial liabilities at fair value through profit or loss	18	-8 034	5 357
Hedging derivatives	18	498	-752
Operating liabilities associated with disposal groups, and other liabilities	46	3 142	-458
Income taxes paid	16	-337	-378
Net cash from or used in operating activities		6 284	13 230
Investing activities			
Purchase of held-to-maturity securities	18	-16 417	-3 892
Proceeds from the repayment of held-to-maturity securities at maturity	18	2 304	1 277
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	See next table	0	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	See next table	-941	-260
Purchase of shares in associated companies	32	0	0
Proceeds from the disposal of shares in associated companies	32	0	0
Dividends received from associated companies	32	0	0
Purchase of investment property	33	-55	-21
Proceeds from the sale of investment property	33	8	36
Purchase of intangible fixed assets (excluding goodwill)	34	-136	-126
Proceeds from the sale of intangible fixed assets (excluding goodwill)	34	60	24
Purchase of property and equipment	33	-632	-453
Proceeds from the sale of property and equipment	33	363	194
Net cash from or used in investing activities		-15 444	-3 219

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2012	2013
Financing activities			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	349	0
Issue or repayment of promissory notes and other debt securities	18	136	1 113
Proceeds from or repayment of subordinated liabilities	18	-1 662	-184
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	1 239	16
Redemption of non-voting core-capital securities	See consolidated statement of changes in equity	-3 450	-1 750
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0
Dividends paid	See consolidated statement of changes in equity	-599	-961
Net cash from or used in financing activities		-3 988	-1 766
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	–	-13 149	8 244
Cash and cash equivalents at the beginning of the period	–	13 997	982
Effects of exchange rate changes on opening cash and cash equivalents	–	133	-423
Cash and cash equivalents at the end of the period	–	982	8 803
Additional information			
Interest paid[2]	3	-5 465	-4 332
Interest received[2]	3	10 134	8 464
Dividends received (including equity method)	4, 32	45	47
Components of cash and cash equivalents			
Cash and cash balances with central banks	See consolidated balance sheet	4 426	4 378
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	18	8 994	8 123
Deposits from banks repayable on demand	18	-12 658	-3 307
Cash and cash equivalents belonging to disposal groups	46	220	-391
Total	–	982	8 803
of which not available	–	0	0

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- As stated in Note 46, KBC classified a couple of group companies earmarked for divestment as 'disposal groups' at the end of 2013. The entities in question were KBC Bank Deutschland and Antwerp Diamond Bank (for which the group had signed sale agreements that had not been finalised by year-end 2013). The sale of these entities will not have any material impact on the group's cashflows.
- More information on the main acquisitions and divestments of consolidated subsidiaries and activities already completed is provided below. All material acquisitions and divestments of group companies or activities were paid for in cash, except for Kredyt Bank in 2012 (merger with Bank Zachodni WBK). In 2013, KBC Bank sold its stake in Bank Zachodni WBK, which was paid for in cash and had a positive influence of approximately 0.8 billion euros on net cash from or used in operating activities.
- More information on the main divestments can be found under 'Group Centre' in the 'Report of the Board of Directors' section (not audited by the statutory auditor).

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations						
Year	2012	2012	2012	2012	2013	2013
(in millions of EUR)	WARTA	Fidea	KBL EPB	Kredyt Bank	Absolut Bank	KBC Banka
Purchase or sale	Sale	Sale	Sale	Sale (merger with Bank Zachodni)	Sale	Sale
Percentage of shares bought or sold in the relevant year	100%	100%	100%	80%	100%	100%
Total share percentage at the end of the relevant year	0%	0%	0%	0%	0%	0%
For business unit/segment	Group Centre	Group Centre	Group Centre	Group Centre	Group Centre	Group Centre
Deal date (month and year)	June 2012	March 2012	July 2012	December 2012	May 2013	December 2013
Results of the relevant company/business recognised in the group result up to and including:	30 June 2012	31 December 2011	30 June 2012	31 December 2012	31 March 2013	mid-December 2013
Purchase price or sale price	842	182	1 002	840*	295	12
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	737	150	-1 903	916	-245	-15
Assets and liabilities bought or sold						
Cash and cash balances with central banks	0	0	479	188	237	25
Financial assets	1 511	3 097	11 822	10 248	2 276	37
Held for trading	3	0	558	173	47	0
Designated at fair value through profit or loss	266	48	1 887	16	0	0
Available for sale	761	2 635	3 583	1 836	169	0
Loans and receivables	364	51	5 740	7 438	2 061	37
Held to maturity	117	363	52	769	0	0
Hedging derivatives	0	0	2	16	0	0
of which cash and cash equivalents	*105*	*32*	*3 730*	*275*	*540*	*26*
Financial liabilities	145	45	11 283	8 064	2 063	47
Held for trading	3	0	307	241	1	0
Designated at fair value through profit or loss	0	45	1 871	0	0	0
Measured at amortised cost	141	0	9 057	7 823	2 061	47
Hedging derivatives	0	0	48	0	0	0
of which cash and cash equivalents	*0*	*0*	*824*	*351*	*0*	*0*
Technical provisions (before reinsurance)	1 213	3 011	400	0	0	0

* Not paid for in cash.

Notes on the accounting policies

Note 1 a: Statement of compliance

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

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

- Amendment to IAS 19 (Employee Benefits). The main change concerns the elimination of the corridor, which – under the previous standard – permitted actuarial gains and losses to be spread over several years. From 1 January 2013 on, such gains and losses are recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures were changed and expanded. On 1 January 2013, the one-off negative impact on IFRS equity amounted to 82 million euros (net of deferred taxes). In conformity with IFRS, the figures for 2012 have been duly restated (the restated balance sheet at year-end 2011 has not been included in view of the limited impact). Notes 1 b, 3 and 38 have been adjusted according to the revised IAS 19 standard.
- IFRS 13 (Fair Value Measurement) provides guidance on how the fair value of an asset or liability should be measured under IFRS. The new requirements had no material impact on the fair value measurement of KBC's assets and liabilities. The main consequence for KBC is the requirement of expanded disclosures.
- The amendments to IFRS 7 enhance disclosures about offsetting financial assets and financial liabilities. The main consequence for KBC is the requirement of expanded disclosures (see Note 22). These amendments have been applied together with the amendments to IAS 32, which clarifies the offsetting criteria by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement.
- Amendment to IAS 1 (Presentation of Financial Statements). The main change concerns the grouping of items presented in other comprehensive income. Items that might be reclassified (or recycled) to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The changes are solely presentation-related.

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

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

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

- In November 2009 and October 2010, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). It is currently reviewing the first phase of this project and examining the second phase (impairment on financial instruments). In 2013, the IASB published new conditions for hedge accounting that are to be appended to IFRS 9 in the third phase of the project. The mandatory effective date for the entire IFRS 9 standard is 1 January 2018. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- IFRS 10, 11 and 12 are the new consolidation standards that will become effective in the European Union on or after 1 January 2014. IFRS 10 includes a new definition of control, which could lead to changes in the scope of consolidation. Under IFRS 11 (Joint Arrangements), it is specified that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities (the new name for Special Purpose Entities).The main change for KBC will be the application of the equity method instead of proportionate consolidation for Českomoravská Stavební Spořitelna (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.

Change in presentation of the insurance results in the income statement

With effect from 2013, we are presenting earned insurance premiums and technical insurance charges in a different way in the income statement to give a separate and improved view of the Life and Non-life business lines.

Previous format:
- Earned premiums, insurance (before reinsurance)
  - Non-life
  - Life
- Technical charges, insurance (before reinsurance)
  - Non-life
  - Life

New format:
- Non-life insurance (before reinsurance)
  - Earned premiums
  - Technical charges
- Life insurance (before reinsurance)
  - Earned premiums
  - Technical charges

We also changed the structure of the table in Note 9.

New segment reporting format

See Note 2.

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

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

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

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

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

- *Financial liabilities designated at fair value through profit or loss (FIFV).* These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. 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'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based primarily on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
- When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their present value.
  Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.

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

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

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

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

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

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

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

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

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

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.
If the capitalisation criteria are met, software is recognised as an intangible asset. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment and investment property

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f Technical provisions

Provision for unearned premiums and unexpired risk

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums.
For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own experience regarding the evolution of the risk over time.
The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc.
In principle, this provision is calculated separately for every insurance contract.
For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.
Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

- *Valuation according to the prospective method.* This method is applied for the provisions for conventional non-unit-linked life insurance policies, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- *Valuation according to the retrospective method.* This method is applied for the provision for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based mainly on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

Provision for profit sharing and rebates

This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

Liability adequacy test

A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Ceded reinsurance and retrocession

The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

g Insurance contracts measured in accordance with IFRS 4 – phase 1

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying amount of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying amount of the liability.
Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying amount of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h 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).

i 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.

j 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.

k 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 non-voting core-capital securities (also referred to as yield-enhanced securities or YES) issued to the governments are considered an equity instrument, with the coupon being accounted for directly in equity. Since payment of the coupon on the YES is conditional upon payment of a dividend on ordinary shares, coupons are recognised at the same time as dividends on ordinary shares (i.e. the coupon is not accrued in equity).
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on KBC shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000–2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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

l Exchange rates used*

	Exchange rate at 31-12-2013		Exchange rate average in 2013	
	1 EUR = … … currency	Change from 31-12-2012 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2012 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	27.427	-8%	25.932	-3%
GBP	0.8337	-2%	0.8493	-4%
HUF	297.04	-2%	297.74	-3%
USD	1.3791	-4%	1.3283	-3%

* Rounded figures.

m Changes made to accounting policies in 2013

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

Notes on segment reporting

Note 2: Segment reporting based on the management structure

The group's segments or business units

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

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

In the new reporting presentation, the segments are (essentially):
- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia, Bulgaria);
- the Group Centre (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.

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

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

Segment reporting based on the *adjusted net result*

The figures in the segment reporting presentation have been prepared in accordance with the general accounting method used at KBC (see Note 1) and, therefore, comply with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS).
In the previous reporting format, the IFRS income statement was supplemented by an 'underlying' income statement (excluding non-operating and exceptional items). This is now no longer the case. However, in addition to the figures according to IFRS, KBC still provides figures aimed at giving more insight into the ongoing business performance. This means that, besides the IFRS income statement, an *adjusted* income statement will be provided in which a limited number of non-operating items are not recognised, but summarised instead in three lines at the bottom of the presentation. We refer to this presentation as the 'adjusted income statement' and the result excluding any non-operating items as the 'adjusted net result'.

Segment reporting is based on this reworked presentation.

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

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

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

It should be noted that:

- In principle, we assign a group company in its entirety to one specific segment (see Note 44). 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. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- When segment information is recorded, we do not divide 'Net interest income' up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external customers per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per customer group or product group.

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

Information on the items stated separately

Items excluded from the adjusted net result (in millions of EUR)	Footnote	Main heading(s) concerned in the income statement	2012	2013
Legacy business: Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	1	Net result from financial instruments at fair value, Income tax expense	425	446
Legacy business: Divestments	2	Other net income, Net realised result from available-for-sale assets, Net post-tax result from discontinued operations, Impairment, Income tax expense	-778	-348
Own credit risk: Changes in fair value of own debt instruments	3	Net result from financial instruments at fair value, Income tax expense	-531	-43

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

2 In 2013, the sale of KBC Banka (Serbia) and 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 -348 million euros (after tax). The figure for 2012 includes primarily the positive impact of the sale of WARTA (Poland), Fidea (Belgium) and the merger of Kredyt Bank (Poland) – an aggregate 0.5 billion euros – and the impairment charges taken on Absolut Bank (Russia), Antwerp Diamond Bank (Belgium), KBC Bank Deutschland (Germany), KBC Banka (Serbia) and Nova Ljubljanska banka (Slovenia) – an aggregate -1.2 billion euros.

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

Underlying results by segment (business unit)

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre (excl. interseg-ment elimina-tions)	Interseg-ment elimina-tions	KBC group
ADJUSTED INCOME STATEMENT FOR 2012										
Net interest income	2 722	1 027	644	*267*	*173*	*39*	*164*	138	0	4 532
Non-life insurance (before reinsurance)	375	74	81	*31*	*20*	*29*	*0*	113	-20	622
Earned premiums	916	169	164	*61*	*25*	*79*	*0*	272	-21	1 500
Technical charges	-541	-95	-83	*-30*	*-4*	*-50*	*0*	-159	1	-878
Life insurance (before reinsurance)	-305	31	6	*-8*	*11*	*3*	*0*	31	-2	-240
Earned premiums	847	369	78	*13*	*53*	*12*	*0*	182	-2	1 475
Technical charges	-1 153	-338	-73	*-21*	*-43*	*-9*	*0*	-151	0	-1 714
Ceded reinsurance result	-11	-6	-7	*-2*	*-2*	*-2*	*0*	11	0	-13
Dividend income	40	1	0	*0*	*0*	*0*	*0*	1	0	43
Net result from financial instruments at fair value through profit or loss	506	96	108	*81*	*25*	*1*	*1*	78	0	789
Net realised result from available-for-sale assets	119	5	2	*1*	*1*	*0*	*0*	55	0	180
Net fee and commission income	948	180	143	*94*	*39*	*2*	*2*	53	1	1 324
Other net income	107	28	10	*-1*	*7*	*3*	*0*	99	8	252
TOTAL INCOME	4 499	1 436	986	*461*	*275*	*76*	*167*	579	-13	7 488
Operating expenses[a]	-2 195	-689	-650	*-324*	*-185*	*-55*	*-82*	-663	13	-4 184
Impairment	-328	-69	-623	*-50*	*-18*	*-8*	*-547*	-175	0	-1 195
on loans and receivables	-246	-63	-609	*-44*	*-11*	*-7*	*-547*	-153	0	-1 072
on available-for-sale assets	-36	-1	0	*0*	*0*	*0*	*0*	0	0	-37
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0	0
other	-46	-5	-13	*-5*	*-7*	*-1*	*0*	-22	0	-86
Share in results of associated companies	0	0	2	*2*	*0*	*0*	*0*	-33	0	-31
RESULT BEFORE TAX	1 976	678	-285	*89*	*71*	*14*	*-462*	-291	0	2 078
Income tax expense	-619	-97	25	*-22*	*-10*	*0*	*57*	138	0	-553
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0	0
ADJUSTED NET RESULT	1 357	581	-260	*67*	*61*	*14*	*-405*	-153	0	1 525
attributable to minority interests	-3	0	0	*0*	*0*	*0*	*0*	32	0	29
attributable to equity holders of the parent	**1 360**	**581**	**-260**	***67***	***61***	***14***	***-405***	**-185**	**0**	**1 496**
Net impact of legacy business (CDOs)	–	–	–	–	–	–	–	425	–	425
Net impact of legacy business (divestments)	–	–	–	–	–	–	–	-778	–	-778
Net impact of own credit risk	–	–	–	–	–	–	–	-531	–	-531
NET RESULT **attributable to equity holders of the parent**	**1 360**	**581**	**-260**	***67***	***61***	***14***	***-405***	**-1 069**	**0**	**612**
a Of which non-cash expenses	-66	-43	-49	*-27*	*-14*	*-4*	*-4*	-153	–	-311
Depreciation and amortisation of fixed assets	-59	-36	-47	*-27*	*-12*	*-4*	*-4*	-165	–	-306
Other	-7	-6	-2	*0*	*-2*	*0*	*0*	11	–	-5
Acquisitions of non-current assets*	494	63	109	*38*	*40*	*17*	*13*	158	–	823

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

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre (excl. interseg-ment elimina-tions)	Interseg-ment elimina-tions	KBC group
ADJUSTED INCOME STATEMENT FOR 2013										
Net interest income	2 648	960	632	*269*	*200*	*40*	*123*	-194	-2	4 044
Non-life insurance (before reinsurance)	409	62	80	*26*	*22*	*31*	*0*	5	-20	536
Earned premiums	955	170	155	*59*	*26*	*70*	*0*	-1	-21	1 259
Technical charges	-546	-108	-75	*-32*	*-3*	*-40*	*0*	6	0	-723
Life insurance (before reinsurance)	-274	25	4	*-10*	*10*	*3*	*0*	5	-2	-242
Earned premiums	831	199	83	*14*	*54*	*15*	*0*	21	-2	1 132
Technical charges	-1 105	-173	-79	*-24*	*-44*	*-11*	*0*	-16	0	-1 373
Ceded reinsurance result	-6	4	-9	*-3*	*-2*	*-4*	*0*	6	0	-5
Dividend income	40	0	0	*0*	*0*	*0*	*0*	0	0	41
Net result from financial instruments at fair value through profit or loss	544	82	90	*77*	*19*	*1*	*-7*	62	0	779
Net realised result from available-for-sale assets	171	16	13	*7*	*3*	*3*	*1*	13	0	213
Net fee and commission income	1 061	199	204	*159*	*43*	*1*	*-4*	19	5	1 487
Other net income	292	10	20	*11*	*10*	*-1*	*0*	15	7	343
TOTAL INCOME	4 885	1 359	1 034	*536*	*305*	*74*	*114*	-69	-13	7 197
Operating expenses[a]	-2 249	-649	-715	*-379*	*-180*	*-52*	*-102*	-225	13	-3 826
Impairment	-363	-56	-1 189	*-78*	*-30*	*-22*	*-1 059*	-122	0	-1 729
on loans and receivables	-328	-52	-1 171	*-76*	*-27*	*-9*	*-1 059*	-87	0	-1 638
on available-for-sale assets	-7	0	-10	*0*	*0*	*-10*	*0*	-4	0	-20
on goodwill	0	0	0	*0*	*0*	*0*	*0*	-7	0	-7
other	-28	-3	-8	*-2*	*-3*	*-3*	*0*	-25	0	-64
Share in results of associated companies	0	0	1	*1*	*0*	*0*	*0*	0	0	1
RESULT BEFORE TAX	2 273	654	-869	*81*	*95*	*1*	*-1 047*	-417	0	1 643
Income tax expense	-703	-100	15	*-15*	*-25*	*1*	*55*	120	0	-668
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0	0
ADJUSTED NET RESULT	1 570	554	-853	*66*	*70*	*2*	*-992*	-297	0	974
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	14	0	14
attributable to equity holders of the parent	**1 570**	**554**	**-853**	***66***	***70***	***2***	***-992***	**-311**	**0**	**960**
Net impact of legacy business (CDOs)	–	–	–	*–*	*–*	*–*	*–*	446	–	446
Net impact of legacy business (divestments)	–	–	–	*–*	*–*	*–*	*–*	-348	–	-348
Net impact of own credit risk	–	–	–	*–*	*–*	*–*	*–*	-43	–	-43
NET RESULT **attributable to equity holders of the parent**	**1 570**	**554**	**-853**	***66***	***70***	***2***	***-992***	**-256**	**0**	**1 015**
a Of which non-cash expenses	-61	-31	-48	*-26*	*-11*	*-3*	*-7*	-124	–	-264
Depreciation and amortisation of fixed assets	-59	-34	-49	*-27*	*-11*	*-3*	*-7*	-129	–	-271
Other	-1	4	1	*1*	*0*	*0*	*0*	4	–	7
Acquisitions of non-current assets*	337	66	79	*25*	*22*	*3*	*29*	97	–	578

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

Balance-sheet information by segment (business unit)

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

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* Hungary	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
BALANCE SHEET AT 31-12-2012									
Deposits from customers and debt certificates (excluding repos)	95 073	26 228	13 426	*5 749*	*4 389*	*601*	*2 687*	18 728	153 454
Loans and advances to customers (excluding reverse repos)	83 332	18 581	23 103	*4 057*	*4 129*	*557*	*14 360*	1 495	126 510
Term loans (excluding reverse repos)	42 151	7 590	6 217	*1 719*	*1 615*	*175*	*2 708*	1 468	57 426
Mortgage loans	30 847	7 919	15 069	*1 701*	*1 519*	*255*	*11 594*	27	53 862
Current account advances	2 623	15	653	*291*	*349*	*0*	*12*	0	3 291
Finance leases	3 224	373	512	*104*	*363*	*0*	*46*	0	4 110
Consumer credit	1 282	1 561	520	*152*	*241*	*127*	*0*	0	3 364
Other loans and advances	3 204	1 122	131	*90*	*41*	*0*	*0*	0	4 458
BALANCE SHEET AT 31-12-2013									
Deposits from customers and debt certificates (excluding repos)	97 051	24 840	14 472	*5 878*	*4 583*	*544*	*3 466*	17 123	153 487
Loans and advances to customers (excluding reverse repos)	81 673	18 103	21 261	*3 864*	*4 248*	*612*	*12 537*	1 080	122 117
Term loans (excluding reverse repos)	40 566	6 848	5 612	*1 772*	*1 488*	*242*	*2 111*	1 048	54 074
Mortgage loans	31 146	8 373	13 925	*1 548*	*1 722*	*236*	*10 419*	24	53 468
Current account advances	1 847	19	586	*262*	*324*	*0*	*0*	0	2 451
Finance leases	3 200	359	484	*92*	*385*	*0*	*7*	0	4 044
Consumer credit	1 251	1 538	533	*112*	*287*	*134*	*0*	0	3 322
Other loans and advances	3 663	967	121	*80*	*41*	*0*	*0*	8	4 758

Note 3: Net interest income

(in millions of EUR)	2012	2013
Total	**4 669**	**4 132**
Interest income	**10 134**	**8 464**
Available-for-sale assets	1 203	836
Loans and receivables	6 047	4 997
Held-to-maturity investments	941	1 054
Other liabilities not at fair value	28	14
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*8 218*	*6 901*
of which impaired financial assets	*95*	*123*
Financial assets held for trading	1 185	916
Hedging derivatives	569	467
Other financial assets at fair value through profit or loss	162	179
Interest expense	**-5 465**	**-4 332**
Financial liabilities measured at amortised cost	-3 058	-2 323
Other liabilities not at fair value	-10	-5
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-3 068*	*-2 328*
Financial liabilities held for trading	-1 419	-1 097
Hedging derivatives	-799	-679
Other financial liabilities at fair value through profit or loss	-179	-217
Net interest expense relating to defined benefit plans	0	-12

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

Note 4: Dividend income

(in millions of EUR)	2012	2013
Total	**45**	**47**
Shares held for trading	2	6
Shares initially recognised at fair value through profit or loss	1	4
Available-for-sale shares	41	37

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

(in millions of EUR)	2012	2013
Total	**420**	**1 191**
Trading instruments (including interest and fair value changes in trading derivatives)	496	962
Other financial instruments initially recognised at fair value through profit or loss	386	-236
of which gains/losses on own credit risk	*-709*	*-62*
Foreign exchange trading	-445	462
Fair value adjustments in hedge accounting	-18	3
Micro hedge	0	-2
Fair value hedges	-1	-1
Changes in the fair value of the hedged items	120	92
Changes in the fair value of the hedging derivatives, including discontinuation	-121	-93
Cashflow hedges	1	-1
Changes in the fair value of the hedging derivatives, ineffective portion	1	-1
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	-1	0
Fair value hedges of interest rate risk	-1	0
Changes in the fair value of the hedged items	-30	-78
Changes in the fair value of the hedging derivatives, including discontinuation	29	78
Cashflow hedges of interest rate riskk	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Discontinuation of hedge accounting in the event of cashflow hedges	-16	5

- Changes in the value of CDOs: the 'Net result from financial instruments at fair value through profit or loss' also includes the effect of changes in the value of CDOs held in portfolio. In 2012, the market price for corporate credit improved – reflected in credit default swap spreads – and we increased coverage of the counterparty risk for MBIA from 70% to 80%. On balance, that led to a positive adjustment of roughly 0.8 billion euros. In 2013, the market price for corporate credit continued to improve, there was an effect related to de-risking, and we reduced coverage of the counterparty risk for MBIA from 80% to 60% based on an internal fundamental analysis (which had a *ceteris paribus* impact of 40 million euros). On balance, that led to a positive adjustment of roughly 0.6 billion euros. The impact of the CDO guarantee agreement and related fee is also recognised under this heading (see next point).
- CDO guarantee agreement concluded with the Belgian State: in May 2009, KBC 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 to the Belgian State for the third tranche (the cash guarantee) initially amounted to approximately 1.1 billion euros (present value at the time the agreement entered into effect and recognised upfront in 2009). There was also a positive effect on the mark-to-market value of the guaranteed positions. In addition, KBC has to pay a commitment fee of roughly 60 million euros per half year for the second tranche (the equity guarantee). The contract, including the fee due, is measured at fair value through profit or loss. The fair value model is described in Note 26. The government guarantee agreement was modified in 2012, with additional clauses being added to the revised agreement that grant KBC a conditional discount on the outstanding fees (under certain strict conditions and also limited to a set maximum amount).

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (in millions of EUR, before tax)	**2012**	**2013**
Cash guarantee (for the third tranche) – change in fair value	-15	85
Equity guarantee (for the second tranche)	-282	-92
Total recognised in the income statement	-297	-6

- 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 27.
- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. However, it should be noted that, under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the *dollar offset method* on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro hedges, we compare the designated hedging instrument with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. However, the impact of this is negligible for KBC.
- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market). The net result from these financial instruments came to +280 million euros (before tax) in 2013 and -60 million euros in 2012.

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

(in millions of EUR)	2012	2013
Total	**181**	**252**
Fixed-income securities	22	126
Shares	160	126

- The figure for 2013 includes a gain on the sale of the shares in Bank Zachodni WBK (50 million euros) and on the sale of Belgian government bonds. The figure for 2012 includes the impact of the settlement of events concerning Greece in the first quarter and the continued reduction throughout the year in holdings of sovereign bonds issued by other GIIPS countries (an aggregate impact of -115 million euros).

Note 7: Net fee and commission income

(in millions of EUR)	2012	2013
Total	**1 315**	**1 484**
Fee and commission income	**2 005**	**2 286**
Securities and asset management	847	1 091
Margin on life insurance investment contracts without DPF (deposit accounting)	124	103
Commitment credit	291	246
Payments	570	539
Other	173	307
Fee and commission expense	**-690**	**-802**
Commission paid to intermediaries	-361	-307
Other	-329	-495

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

Note 8: Other net income

(in millions of EUR)	2012	2013
Total	**734**	**123**
of which gains or losses on		
Sale of loans and receivables	-96	-157
Sale of held-to-maturity investments	-7	8
Repurchase of financial liabilities measured at amortised cost	-1	-1
Other, including:	837	273
Income from (mainly operational) leasing activities, KBC Lease Group	86	93
Income from consolidated private equity participations	15	0
Income from VAB Group	63	65
Gains and losses on divestments	562	-78
Irregularities at KBC Lease UK	126	0
The 5-5-5 product	-56	0
Moratorium interest	0	71

- In 2013, 'Sale of loans and receivables' included the adverse impact of refinancing 0.3 billion euros' worth of shareholder loans via a third party and the repayment of shareholder loans by Cera and KBC Ancora, plus the negative effect of selling loans and receivables as part of the process to divest KBC Banka. In 2012, it included -59 million euros relating to the sale of assets previously attributable to Atomium.
- 'Gains and losses on divestments' in 2013 related mainly to the sale of Absolut Bank (-91 million euros). In 2012, it related chiefly to WARTA (0.3 billion euros), Fidea (51 million euros), Dynaco (a KBC Private Equity participation, 21 million euros) and Kredyt Bank (136 million euros). Information on the most recent divestments can be found under 'Group Centre' in the 'Report of the Board of Directors' section (which has not been audited by the statutory auditor).
- 'Irregularities at KBC Lease UK' in 2012 concerns the amount recovered in relation to the fraud case at that company. KBC recognised an amount to cover the maximum potential net cost of these irregularities. KBC Lease UK has engaged in a number of actions to recover amounts from various sources. This resulted in a total of 126 million euros being recovered in 2012 (with 10 million euros recovered from reinsurance company, KBC Group Re, and recognised under 'Technical charges, non-life').
- 'The 5-5-5-product' in 2012 related to the commercial concession that KBC itself decided to make for structured 5-5-5 bonds that KBC Bank and its Belgian subsidiaries sold to clients in April and May 2008. To cover this, KBC had set aside provisions of 334 million euros in 2011. The figure ultimately paid could only be calculated after the value had been set at the ISDA auction of 19 March 2012. That led to an additional negative impact of 56 million euros in the first quarter of 2012.
- In 2013, the receipt of moratorium interest due had a positive impact of 71 million euros (before tax).

Note 9: Insurance results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2012				
Earned premiums, insurance (before reinsurance)	1 477	1 521	0	2 998
Technical charges, insurance (before reinsurance)	-1 710	-887	0	-2 597
Net fee and commission income	-85	-267	77	-274
Ceded reinsurance result	-1	-12	0	-13
General administrative expenses	-137	-287	-5	-429
Internal claims settlement expenses	-8	-68	0	-76
Indirect acquisition costs	-39	-82	0	-121
Administrative expenses	-90	-137	0	-227
Investment management fees	0	0	-5	-5
Technical result	-457	68	73	-316
Net interest income	–	–	834	834
Net dividend income	–	–	31	31
Net result from financial instruments at fair value through profit or loss	–	–	381	381
Net realised result from available-for-sale assets	–	–	93	93
Other net income	–	–	381	381
Impairment	–	–	-166	-166
Allocation to the technical accounts	739	141	-880	0
Technical-financial result	739	141	674	1 554
Share in results of associated companies	–	–	0	0
RESULT BEFORE TAX	**282**	**210**	**747**	**1 238**
Income tax expense	–	–	–	-236
Net post-tax result from discontinued operations	–	–	–	0
RESULT AFTER TAX	**–**	**–**	**–**	**1 003**
attributable to minority interests	–	–	–	1
attributable to equity holders of the parent	**–**	**–**	**–**	**1 001**
2013				
Earned premiums, insurance (before reinsurance)	1 134	1 279	0	2 413
Technical charges, insurance (before reinsurance)	-1 373	-723	0	-2 096
Net fee and commission income	-63	-229	75	-217
Ceded reinsurance result	-2	-3	0	-5
General administrative expenses	-128	-242	0	-370
Internal claims settlement expenses	-8	-59	0	-67
Indirect acquisition costs	-30	-76	0	-106
Administrative expenses	-91	-107	0	-198
Investment management fees	0	0	0	0
Technical result	-432	81	75	-276
Net interest income	–	–	703	703
Net dividend income	–	–	29	29
Net result from financial instruments at fair value through profit or loss	–	–	308	308
Net realised result from available-for-sale assets	–	–	53	53
Other net income	–	–	-46	-46
Impairment	–	–	-81	-81
Allocation to the technical accounts	702	99	-801	0
Technical-financial result	702	99	165	966
Share in results of associated companies	–	–	0	0
RESULT BEFORE TAX	**270**	**180**	**240**	**690**
Income tax expense	–	–	–	-227
Net post-tax result from discontinued operations	–	–	–	0
RESULT AFTER TAX	**–**	**–**	**–**	**463**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**462**

- We changed the structure of the table to gain a better insight into the components of the insurance result (with the figures for 2012 being restated retroactively).
- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts.
- The relatively high figure for 'Other net income' in 2012 was accounted for primarily by the realised gains relating to the sale of WARTA (Poland) and Fidea (Belgium). The sale of WARTA also accounted for most of the decline in earned insurance premiums between 2012 and 2013.
- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance. For the purpose of Note 9, information is provided on the insurance results alone. The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. Additional information on the insurance business is provided separately in Notes 10, 11, 35, 44 (KBC Insurance section) and in the 'Value and risk management' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk', and 'Solvency' (at KBC Insurance)).

Note 10: Earned premiums, life insurance

(in millions of EUR)	2012	2013
Total	**1 477**	**1 134**
Breakdown by IFRS category		
Insurance contracts	1 067	776
Investment contracts with DPF	410	357
Breakdown by type		
Accepted reinsurance	0	1
Primary business	1 477	1 133
Breakdown of primary business		
Individual premiums	1 204	876
Single premiums	625	285
Periodic premiums	579	592
Premiums under group contracts	273	257
Single premiums	44	46
Periodic premiums	229	210
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	3 583	887
Guaranteed-rate	1 220	957

- As required under IFRS, we use deposit accounting for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under 'Earned premiums, insurance (before reinsurance)' (and 'Technical charges, insurance (before reinsurance)'), but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2013 accounted for premium income of 0.9 billion euros and in 2012 for premium income of 3.6 billion euros.
- The figures include intragroup transactions concluded between the insurance and banking businesses.

Note 11: Non-life insurance per class of business

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2012					
Total	**1 521**	**-881**	**-486**	**-12**	**142**
Accepted reinsurance	14	-26	-7	8	-11
Primary business	1 507	-855	-479	-20	153
Accident & health (classes 1 & 2, excl. industrial accidents)	135	-65	-36	2	36
Industrial accidents (class 1)	68	-57	-12	-2	-2
Motor, third-party liability (class 10)	435	-272	-141	0	23
Motor, other classes (classes 3, 7)	253	-156	-84	0	12
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	23	-13	-8	0	2
Fire and other damage to property (classes 8, 9)	419	-195	-145	-18	61
General third-party liability (class 13)	107	-71	-34	0	2
Credit and suretyship (classes 14, 15)	1	0	0	0	0
Miscellaneous pecuniary losses (class 16)	8	0	-2	-1	5
Legal assistance (class 17)	41	-20	-11	0	10
Assistance (class 18)	15	-6	-6	0	3
2013					
Total	**1 279**	**-723**	**-472**	**-3**	**81**
Accepted reinsurance	25	-10	-5	1	11
Primary business	1 254	-713	-467	-4	70
Accident & health (classes 1 & 2, excl. industrial accidents)	118	-61	-39	0	18
Industrial accidents (class 1)	75	-90	-19	-1	-35
Motor, third-party liability (class 10)	341	-188	-120	-2	31
Motor, other classes (classes 3, 7)	182	-105	-72	-1	4
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	3	-1	-1	-1	0
Fire and other damage to property (classes 8, 9)	379	-166	-153	0	61
General third-party liability (class 13)	86	-59	-35	-1	-9
Credit and suretyship (classes 14, 15)	1	0	0	0	1
Miscellaneous pecuniary losses (class 16)	9	-12	-3	1	-5
Legal assistance (class 17)	43	-25	-18	0	0
Assistance (class 18)	15	-6	-7	0	3

- The figures include intragroup transactions concluded between the insurance and banking businesses.

Note 12: Operating expenses

(in millions of EUR)	2012	2013
Total	**-4 248**	**-3 871**
Staff expenses	-2 543	-2 324
General administrative expenses	-1 396	-1 276
of which bank taxes	-248	-327
Depreciation and amortisation of fixed assets	-310	-272

- 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 248 million euros in 2012 and 327 million euros in 2013). The latter figure comprises 127 million euros in Belgium, 34 million euros in the Czech Republic, 21 million euros in Slovakia, 3 million euros in Bulgaria and 139 million euros in Hungary (besides the bank tax of 61 million euros, this figure includes 51 million euros for the financial transactions levy introduced in 2013 and a special one-off levy of 27 million euros based on this financial transactions levy, calculated as 208% of the financial transactions levy paid by K&H for the period January through April 2013).
- Share-based payments are included under staff expenses.
- The main equity-settled share-based payments are described below. Since 2000, KBC 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.

	2012		2013	
Options	**Number of options[1]**	**Average exercise price**	**Number of options[1]**	**Average exercise price**
Outstanding at beginning of period	630 996	50.34	184 326	72.53
Granted during period	0	–	0	–
Exercised during period	0	–	-800	34.91
Expired during period	-446 670	41.18	0	–
Outstanding at end of period[2]	184 326	72.53	183 526	72.69
Exercisable at end of period	177 026	72.43	176 226	72.60

1 In share equivalents.
2 2013: range of exercise prices: 46.45–97.94 euros; weighted average residual term to maturity: 20 months.
2012: range of exercise prices: 34.91–97.94 euros; weighted average residual term to maturity: 33 months.

- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts' section. In 2013, this resulted in the recognition of a limited employee benefit (3 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found under 'Information for shareholders and bondholders' in the 'Report of the Board of Directors' section.
- The main cash-settled share-based payment arrangements for 2012 included less than 1 million euros in costs related to a phantom stock plan (included under 'Staff expenses'). This item came to 5 million euros for 2013.

Note 13: Personnel

(number)	2012	2013
Total average number of persons employed (in full-time equivalents)	**48 026**	**38 167**
Breakdown by legal entity		
KBC Bank	35 938	27 964
KBC Insurance	5 997	4 638
KBC Group NV (holding company)	6 091	5 565
Breakdown by employee classification		
Blue-collar staff	752	440
White-collar staff	46 951	37 436
Senior management	323	291

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures provided elsewhere in this annual report (these end-of-year totals do not include companies that fell within the scope of IFRS 5, nor do they include staff members on maternity leave or employees who have been inactive, etc.).

Note 14: Impairment (income statement)

(in millions of EUR)	2012	2013
Total	**-2 511**	**-1 933**
Impairment on loans and receivables	**-1 072**	**-1 719**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-1 113	-1 679
Provisions for off-balance-sheet credit commitments	-39	1
Portfolio-based impairment	81	-42
Breakdown by business unit		
Belgium	-246	-328
Czech Republic	-63	-52
International Markets	-609	-1 171
Group Centre	-154	-169
Impairment on available-for-sale assets	**-95**	**-34**
Breakdown by type		
Shares	-45	-24
Other	-50	-10
Impairment on goodwill	**-421**	**-7**
Impairment on other	**-923**	**-173**
Intangible fixed assets (other than goodwill)	0	-2
Property and equipment (including investment property)	-62	-39
Held-to-maturity assets	-2	0
Associated companies (goodwill)	-433	0
Other	-425	-132

- 'Impairment on loans and receivables' was accounted for primarily by loans and advances to customers. Impairment charges in the International Markets Business Unit included loan loss provisioning in Ireland – due to the economic situation there, especially on the real estate market (1 059 million euros in 2013 and 547 million euros in 2012 (see separate paragraph)), in Hungary (76 million euros in 2013, 44 million euros in 2012 (the increase was partly attributable to an analysis of the loan portfolio)), in Slovakia (27 million euros in 2013, 11 million euros in 2012) and in Bulgaria (9 million euros in 2013, 7 million euros in 2012). In 2013, impairment in the Group Centre included 75 million euros to cover a subordinated loan to Nova Ljubljanska banka, 32 million euros at KBC Bank Deutschland and 39 million euros at KBC Finance Ireland. In 2012, it included 38 million euros at Kredyt Bank, 47 million euros at KBC Bank Deutschland, 22 million euros at Antwerp Diamond Bank, 79 million euros at KBC Finance Ireland and a net reversal of 18 million euros at Absolut Bank.
- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered as a consequence of the property crisis. The Irish loan portfolio stood at about 15 billion euros at the end of the year, four-fifths of which relates to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. The group set aside 1.1 billion euros in loan loss provisions for its Irish portfolio in 2013, considerably more than the 0.5 billion euros in 2012 (higher provisions were set aside in the fourth quarter following an analysis of the loan portfolio).
- 'Impairment on available-for-sale assets' in 2013 was accounted for mainly by impairment on shares (24 million euros) and impairment on bonds (10 million euros). In 2012, it concerned primarily impairment on shares (45 million euros) and impairment relating to the minority interest held in Nova Ljubljanska banka (50 million euros on NLB subordinated bonds).
- Impairment on goodwill, on associated companies and on other in 2013 included impairment charges of 29 million euros relating to the agreement to sell KBC Banka and 69 million euros in relation to the divestment of Antwerp Diamond Bank. In 2012, these headings included 1.2 billion euros in relation to companies falling within the scope of IFRS 5 (at the time the results for the second quarter were published), i.e. Absolut Bank, KBC Banka, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka. The impairment reflects the difference between the carrying value before impairment and the value in use. For companies falling within the scope of IFRS 5, however, it is the estimated sales value less costs to sell. For information on goodwill, see Note 34.
- For information on total impairment recognised in the balance sheet, see Note 21.

Note 15: Share in results of associated companies

(in millions of EUR)	2012	2013
Total	**2**	**1**
of which Nova Ljubljanska banka	1	0

- Impairment on (goodwill on) associated companies is included in 'Impairment' (see Note 14). The share in results of associated companies does not therefore take this impairment into account.
- It should be noted that, in December 2012, KBC signed an agreement to sell its stake in Nova Ljubljanska banka (Slovenia). The agreement was concluded in March 2013.

Note 16: Income tax expense

(in millions of EUR)	2012	2013
Total	**-362**	**-685**
Breakdown by type		
Current taxes on income	-337	-378
Deferred taxes on income	-25	-307
Tax components		
Result before tax	976	1 714
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-332	-583
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	79	-25
tax-free income	520	182
adjustments related to prior years	43	18
adjustments, opening balance of deferred taxes due to change in tax rate	24	-1
unused tax losses and unused tax credits to reduce current tax expense	68	59
unused tax losses and unused tax credits to reduce deferred tax expense	54	1
reversal of previously recognised deferred tax assets due to tax losses	-1	0
other (mainly non-deductible expenses)	-818	-335
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 recognised*	**507**	**201**

* 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 31.
- A breakdown of taxes by country is given for 2013 in the following table.
- Taxes are broken down into 'Current taxes on income' and 'Deferred taxes on income' (also see Note 1 b). Current taxes on income are recognised on the basis of the amount expected to be paid (a portion of which has already been paid in advance to the tax authorities). Deferred taxes on income are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base (partly due to differences in value recognised under IFRS and the tax base, and to tax losses carried forward).

(in millions of EUR)	2013 Current taxes on income	 Deferred taxes on income
KBC's core markets and Ireland		
Belgium	-206	-244
Czech Republic	-101	1
Hungary	-18	3
Slovakia	-26	0
Bulgaria	0	1
Ireland	0	19
Other countries		
UK	0	-2
US	-1	2
France	-4	0
Netherlands	-5	10
Luxembourg	-13	-97
Rest of the world	-3	-1
Total	**-378**	**-307**

Note 17: Earnings per share

(in millions of EUR)	2012	2013
Basic earnings per share		
Result after tax, attributable to equity holders of the parent	612	1 015
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-993	-583
Net result used to determine basic earnings per share	-381	432
Weighted average number of shares outstanding ('000 of units)	349 456	417 017
Basic earnings per share (in EUR)	-1.09	1.03
Diluted earnings per share		
Result after tax, attributable to equity holders of the parent	612	1 015
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-993	-583
Net result used to determine diluted earnings per share	-381	432
Weighted average number of shares outstanding ('000 of units)	349 456	417 017
Dilutive potential shares ('000 of units)*	0	1
Weighted average number of shares for diluted earnings ('000 of units)	349 456	417 017
Diluted earnings per share (in EUR)	-1.09	1.03

* Account is only taken of employee stock options which are still outstanding and could have a dilutive impact (where the market price is lower than the exercise price and treasury shares have been purchased for this purpose (800 at year-end 2013 and none at year-end 2012)).

- For a definition of basic earnings per share and diluted earnings per share, see the 'Glossary of ratios used'.

Notes on the financial assets and liabilities on the balance sheet

We group financial assets and liabilities into categories. These categories are defined and relevant valuation rules provided under the heading 'Financial assets and liabilities (IAS 39)' in Note 1 b.
Whenever we refer in this section to the category 'Designated at fair value', we mean 'Designated at fair value through profit or loss' (fair value option).

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 46) to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side).

Note 18: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	Held for trading	Designated at fair value[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2012								
Loans and advances to credit institutions and investment firms[a]	3 802	916	0	11 363	–	–	–	16 081[c]
Loans and advances to customers[b]	600	2 197	0	125 695	–	–	–	128 492
Discount and acceptance credit	0	0	0	131	–	–	–	131
Consumer credit	0	0	0	3 364	–	–	–	3 364
Mortgage loans	0	184	0	53 678	–	–	–	53 862
Term loans	600	2 013	0	56 795	–	–	–	59 407
Finance leases	0	0	0	4 110	–	–	–	4 110
Current account advances	0	0	0	3 291	–	–	–	3 291
Other	0	0	0	4 327	–	–	–	4 327
Equity instruments	451	53	1 931	–	–	–	–	2 435
Investment contracts (insurance)	–	11 847	–	–	–	–	–	11 847
Debt instruments issued by	4 210	1 282	28 691	2 167	28 510	–	–	64 860
Public bodies	3 390	811	19 929	190	27 346	–	–	51 666
Credit institutions and investment firms	361	199	3 335	158	670	–	–	4 724
Corporates	459	272	5 427	1 819	494	–	–	8 471
Derivatives	12 095	–	–	–	–	1 088	–	13 183
Total	21 159	16 295	30 622	139 225	28 510	1 088	–	236 898
a of which reverse repos[2]								*5 160*
b of which reverse repos[2]								*1 981*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*8 994*
FINANCIAL ASSETS, 31-12-2013								
Loans and advances to credit institutions and investment firms[a]	5 100	1 596	0	9 562	–	–	–	16 257[c]
Loans and advances to customers[b]	706	774	0	121 311	–	–	–	122 790
Discount and acceptance credit	0	0	0	605	–	–	–	605
Consumer credit	0	0	0	3 322	–	–	–	3 322
Mortgage loans	0	34	0	53 434	–	–	–	53 468
Term loans	696	697	0	53 355	–	–	–	54 747
Finance leases	0	0	0	4 044	–	–	–	4 044
Current account advances	0	0	0	2 451	–	–	–	2 451
Other	10	43	0	4 101	–	–	–	4 154
Equity instruments	283	8	1 579	–	–	–	–	1 870
Investment contracts (insurance)	–	12 745	–	–	–	–	–	12 745
Debt instruments issued by	2 974	1 319	26 002	1 690	31 323	–	–	63 307
Public bodies	2 385	771	17 570	118	29 630	–	–	50 473
Credit institutions and investment firms	268	195	3 330	154	1 040	–	–	4 986
Corporates	321	353	5 102	1 418	654	–	–	7 848
Derivatives	7 823	–	–	–	–	777	–	8 600
Total	16 885	16 441	27 581	132 562	31 323	777	–	225 570
a of which reverse repos[2]								*8 483*
b of which reverse repos[2]								*673*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*8 123*

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

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

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2012								
Deposits from credit institutions and investment firms[a]	375	884	–	–	–	–	21 660	22 919[c]
Deposits from customers and debt securities[b]	4 161	8 782	–	–	–	–	146 689	159 632
Demand deposits	0	0	–	–	–	–	37 477	37 477
Time deposits	3 776	3 336	–	–	–	–	43 491	50 602
Savings deposits	0	0	–	–	–	–	34 904	34 904
Special deposits	0	0	–	–	–	–	3 941	3 941
Other deposits	0	84	–	–	–	–	1 250	1 334
Certificates of deposit	0	27	–	–	–	–	6 209	6 236
Customer savings certificates	0	0	–	–	–	–	522	522
Convertible bonds	0	0	–	–	–	–	0	0
Non-convertible bonds	385	4 705	–	–	–	–	12 914	18 003
Convertible subordinated liabilities	0	0	–	–	–	–	0	0
Non-convertible subordinated liabilities	0	630	–	–	–	–	5 982	6 612
Liabilities under investment contracts	–	10 853	–	–	–	–	0	10 853
Derivatives	14 432	–	–	–	–	2 430	–	16 861
Short positions	491	–	–	–	–	–	–	491
In equity instruments	17	–	–	–	–	–	–	17
In debt instruments	475	–	–	–	–	–	–	475
Other[2]	0	44	–	–	–	–	2 465	2 509
Total	19 459	20 563	–	–	–	2 430	170 813	213 265
a of which repos[1]								*1 589*
b of which repos[1]								*6 178*
c of which deposits from banks repayable on demand								*12 658*
FINANCIAL LIABILITIES, 31-12-2013								
Deposits from credit institutions and investment firms[a]	939	896	–	–	–	–	12 440	14 275[c]
Deposits from customers and debt securities[b]	3 634	12 248	–	–	–	–	148 260	164 141
Demand deposits	0	50	–	–	–	–	38 999	39 049
Time deposits	3 347	7 786	–	–	–	–	43 837	54 970
Savings deposits	0	0	–	–	–	–	34 990	34 990
Special deposits	0	0	–	–	–	–	4 370	4 370
Other deposits	0	0	–	–	–	–	1 380	1 380
Certificates of deposit	0	6	–	–	–	–	3 540	3 546
Customer savings certificates	0	0	–	–	–	–	473	473
Convertible bonds	0	0	–	–	–	–	0	0
Non-convertible bonds	286	3 763	–	–	–	–	14 839	18 889
Convertible subordinated liabilities	0	0	–	–	–	–	0	0
Non-convertible subordinated liabilities	0	643	–	–	–	–	5 832	6 475
Liabilities under investment contracts	–	11 787	–	–	–	–	0	11 787
Derivatives	8 161	–	–	–	–	1 678	–	9 838
Short positions	386	–	–	–	–	–	–	386
In equity instruments	40	–	–	–	–	–	–	40
In debt instruments	345	–	–	–	–	–	–	345
Other[2]	0	0	–	–	–	–	1 566	1 566
Total	13 119	24 931	–	–	–	1 678	162 266	201 994
a of which repos[1]								*1 672*
b of which repos[1]								*10 655*
c of which deposits from banks repayable on demand								*3 307*

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

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

- For reclassifications, see Note 28.
- Deposits from credit institutions and investment firms: declined partly on account of the LTRO being repaid (8.3 billion euros) in the first quarter of 2013.
- Non-convertible bonds: comprise mainly KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies).
- Non-convertible subordinated liabilities: also includes the contingent capital note issued in January 2013 for an amount of 1 billion US dollars.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2013, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 7 086 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' (4 445 million euros)) and an associated financial liability with a carrying value of 6 864 million euros (569 million euros classified as 'held for trading', 103 million euros as 'designated at fair value', 1 889 million euros as 'available for sale', and 4 304 million euros as 'held to maturity'). It should be noted that, at year-end 2013, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph.
  At year-end 2012, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: a) repo transactions with a carrying value of 3 173 million euros (debt instruments classified as 'held for trading' (296 million euros), 'designated at fair value' (195 million euros), 'available for sale' (780 million euros) and 'held to maturity' (1 904 million euros)) and an associated financial liability with a carrying value of 3 254 million euros (293 million euros classified as 'held for trading', 192 million euros as 'designated at fair value', 770 million euros as 'available for sale', and 1 998 million euros as 'held to maturity'); and b) securities lent with a carrying value of 14 million euros (available-for-sale equity instruments) and an associated financial liability with a carrying value of 15 million euros.

Note 19: Financial assets and liabilities, breakdown by portfolio and geographic location

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2012								
Belgium	2 377	2 021	12 947	75 695	14 635	810	–	108 485
Central and Eastern Europe	7 419	715	5 863	30 649	8 840	278	–	53 765
Rest of the world	11 362	13 559	11 812	32 881	5 034	0	–	74 648
Total	21 159	16 295	30 622	139 225	28 510	1 088	–	236 898
FINANCIAL ASSETS, 31-12-2013								
Belgium	2 143	1 027	8 584	74 759	15 445	45	–	102 004
Central and Eastern Europe	7 907	645	6 783	30 369	8 774	293	–	54 771
Rest of the world	6 835	14 768	12 213	27 434	7 104	439	–	68 794
Total	16 885	16 441	27 581	132 562	31 323	777	–	225 570
FINANCIAL LIABILITIES, 31-12-2012								
Belgium	567	11 556	–	–	–	2 190	87 796	102 109
Central and Eastern Europe	5 356	961	–	–	–	143	38 775	45 235
Rest of the world	13 535	8 046	–	–	–	97	44 242	65 921
Total	19 459	20 563	–	–	–	2 430	170 813	213 265
FINANCIAL LIABILITIES, 31-12-2013								
Belgium	1 815	11 979	–	–	–	94	86 316	100 204
Central and Eastern Europe	5 141	942	–	–	–	464	38 024	44 572
Rest of the world	6 163	12 010	–	–	–	1 119	37 926	57 218
Total	13 119	24 931	–	–	–	1 678	162 266	201 994

Note 20: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2012								
At not more than one year	6 230	2 978	5 938	46 217	1 581	–	–	62 945
At more than one year	2 368	7 490	22 617	86 435	26 928	–	–	145 839
Not specified*	12 561	5 827	2 067	6 572	0	1 088	–	28 114
Total	21 159	16 295	30 622	139 225	28 510	1 088	–	236 898
FINANCIAL ASSETS, 31-12-2013								
At not more than one year	7 368	2 525	6 218	43 401	1 662	–	–	61 174
At more than one year	1 412	7 839	19 651	80 671	29 662	–	–	139 233
Not specified*	8 105	6 077	1 713	8 491	0	777	–	25 163
Total	16 885	16 441	27 581	132 562	31 323	777	–	225 570
FINANCIAL LIABILITIES, 31-12-2012								
At not more than one year	4 854	4 112	–	–	–	–	91 995	100 961
At more than one year	162	11 750	–	–	–	–	41 841	53 753
Not specified*	14 443	4 701	–	–	–	2 430	36 978	58 551
Total	19 459	20 563	–	–	–	2 430	170 813	213 265
FINANCIAL LIABILITIES, 31-12-2013								
At not more than one year	4 803	10 784	–	–	–	–	94 500	110 087
At more than one year	119	9 649	–	–	–	–	30 450	40 218
Not specified*	8 197	4 498	–	–	–	1 678	37 317	51 689
Total	13 119	24 931	–	–	–	1 678	162 266	201 994

* 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), a large proportion of insurance investment contracts ('Designated at fair value' 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), derivatives held for trading ('Held-for-trading' column) and a large proportion of the liabilities under insurance investment contracts ('Designated at fair value' 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 'Value and risk management' section.

Note 21: Financial assets, breakdown by portfolio and quality

Impaired financial assets

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2012							
Unimpaired assets	21 159	16 295	30 478	133 549	28 508	1 088	231 076
Impaired assets	–	–	293	10 420	9	–	10 723
Impairment	–	–	-149	-4 745	-8	–	-4 902
Total	21 159	16 295	30 622	139 225	28 510	1 088	236 898
FINANCIAL ASSETS, 31-12-2013							
Unimpaired assets	16 885	16 441	27 367	124 877	31 322	777	217 670
Impaired assets	–	–	331	13 296	9	–	13 636
Impairment	–	–	-117	-5 610	-8	–	-5 735
Total	16 885	16 441	27 581	132 562	31 323	777	225 570

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

Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for off-balance-sheet credit commitments*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2012						
Opening balance	267	173	56	4 795	354	89
Movements with an impact on results						
Impairment recognised	50	45	2	2 227	256	157
Impairment reversed	-1	0	0	-1 114	-340	-114
Movements without an impact on results						
Write-offs	-262	-86	-22	-486	0	-4
Changes in the scope of consolidation	-3	-10	0	-352	-32	-9
Transfers to/from non-current assets held for sale and disposal groups	0	0	-18	-424	-24	-7
Other	-52	26	-10	-132	17	-20
Closing balance	0	148	8	4 515	230	92
IMPAIRMENT, 31-12-2013						
Opening balance	0	148	8	4 515	230	92
Movements with an impact on results						
Impairment recognised	10	24	0	2 317	144	63
Impairment reversed	0	0	0	-638	-108	-59
Movements without an impact on results						
Write-offs	0	-6	0	-601	0	-9
Changes in the scope of consolidation	-10	-40	0	-16	1	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	-10	0	-231	-3	25
Closing balance	0	117	8	5 347	264	114

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

- For information regarding the impact of changes in impairment on the income statement, see Note 14.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Value and risk management' section.

Past due, but not impaired assets

(in millions of EUR)	Less than 30 days past due	30 days or more, but less than 90 days past due
31-12-2012		
Loans and advances	3 482	1 469
Debt instruments	0	0
Derivatives	0	0
Total	3 482	1 469
31-12-2013		
Loans and advances	3 216	1 201
Debt instruments	0	0
Derivatives	0	0
Total	3 216	1 201

- 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 22 and 40.

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

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

Note 22: Maximum credit exposure and offsetting

(in millions of EUR)			31-12-2012			31-12-2013
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	2 435	0	2 435	1 870	0	1 870
Debt instruments	64 860	54	64 806	63 307	76	63 231
Loans and advances	144 573	72 246	72 327	139 047	76 090	62 957
of which designated at fair value	3 113	3 013	100	2 369	2 238	131
Derivatives	13 183	2 039	11 144	8 600	2 027	6 573
Other (including accrued interest)	27 608	5 141	22 467	26 545	4 409	22 136
Total	252 660	79 480	173 180	239 370	82 603	156 767

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under 'Other'.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail under 'Credit risk' in the 'Value and risk management' section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet: Financial instruments	Amounts not set off in the balance sheet: Cash collateral	Amounts not set off in the balance sheet: Securities collateral	Net amount
FINANCIAL ASSETS, 31-12-2012							
Derivatives	13 183	0	13 183	7 705	1 852	0	3 626
Reverse repos, securities borrowing and similar arrangements	7 141	0	7 141	1 830	0	5 286	25
Reverse repos	7 141	0	7 141	1 830	0	5 286	25
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	20 325	0	20 325	9 535	1 852	5 286	3 651
FINANCIAL ASSETS, 31-12-2013							
Derivatives	9 054	454	8 600	4 992	1 813	0	1 795
Reverse repos, securities lending and similar arrangements	9 156	0	9 156	539	0	8 608	8
Reverse repos	9 156	0	9 156	539	0	8 608	8
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	18 210	454	17 756	5 531	1 813	8 608	1 804
FINANCIAL LIABILITIES, 31-12-2012							
Derivatives	16 861	0	16 861	7 705	5 249	0	3 907
Repos, securities lending and similar arrangements	7 712	0	7 712	1 830	15	5 859	8
Repos	7 697	0	7 697	1 830	0	5 859	8
Securities lending	15	0	15	0	15	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 573	0	24 573	9 536	5 264	5 859	3 915
FINANCIAL LIABILITIES, 31-12-2013							
Derivatives	10 293	454	9 838	4 992	2 626	0	2 220
Repos, securities lending and similar arrangements	12 327	0	12 327	539	0	11 778	9
Repos	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	22 619	454	22 165	5 531	2 626	11 778	2 230

- 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 23: Fair value of financial assets and liabilities – general

- Fair value: in line with the IFRS definition, KBC defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced transactions are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity or client-driven.

- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *CDO Revaluation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy*. The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.

- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and operating expenses. Credit value adjustments (CVA) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and a potential future increase in its value (add-on) are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, an index of bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). This adjustment is similar to a CVA except that it is always based on KBC's quoted CDS spread.

- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.

- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.

- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.

- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.

- Financial assets and liabilities that are measured at fair value are those classified as 'available-for-sale', 'held for trading', 'designated at fair value' and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not measured in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet	Loans and receivables		Financial assets held to maturity		Financial liabilities measured at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2012						
Loans and advances to credit institutions and investment firms	11 363	11 104	–	–	–	–
Loans and advances to customers	125 695	132 018	–	–	–	–
Debt instruments	2 167	2 084	28 510	31 426	–	–
Total	139 225	145 205	28 510	31 426	–	–
FINANCIAL ASSETS, 31-12-2013						
Loans and advances to credit institutions and investment firms	9 562	9 828	–	–	–	–
Loans and advances to customers	121 311	123 346	–	–	–	–
Debt instruments	1 690	1 646	31 323	32 657	–	–
Total	132 562	134 819	31 323	32 657	–	–
Level 1	–	1 416	–	30 193	–	–
Level 2	–	25 692	–	1 789	–	–
Level 3	–	107 711	–	675	–	–
FINANCIAL LIABILITIES, 31-12-2012						
Deposits from credit institutions and investment firms	–	–	–	–	21 660	21 542
Deposits from customers and debt securities	–	–	–	–	146 689	151 435
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 465	2 465
Total	–	–	–	–	170 813	175 441
FINANCIAL LIABILITIES, 31-12-2013						
Deposits from credit institutions and investment firms	–	–	–	–	12 440	13 722
Deposits from customers and debt securities	–	–	–	–	148 260	151 203
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	1 566	1 581
Total	–	–	–	–	162 266	166 505
Level 1	–	–	–	–	–	1 122
Level 2	–	–	–	–	–	84 651
Level 3	–	–	–	–	–	80 733

Note 24: Financial assets and liabilities measured at fair value – fair value hierarchy

Fair value hierarchy (in millions of EUR)	31-12-2012 Level 1	Level 2	Level 3	Total	31-12-2013 Level 1	Level 2	Level 3	Total
Financial assets at fair value								
Held for trading								
Loans and advances to credit institutions and investment firms	0	3 802	0	3 802	0	5 100	0	5 100
Loans and advances to customers	0	600	0	600	0	706	0	706
Equity instruments	220	34	197	451	265	18	1	283
Debt instruments*	2 033	1 654	523	4 210	2 290	341	342	2 974
Derivatives	31	9 023	3 041	12 095	1	5 681	2 141	7 823
Designated at fair value								
Loans and advances to credit institutions and investment firms	1	915	0	916	0	1 595	0	1 596
Loans and advances to customers	0	2 170	27	2 197	0	749	24	774
Equity instruments	2	0	50	53	2	0	5	8
Investment contracts (insurance)	11 822	25	0	11 847	12 605	140	0	12 745
Debt instruments*	836	177	269	1 282	836	131	352	1 319
Available for sale								
Equity instruments	705	109	1 117	1 931	1 226	53	300	1 579
Debt instruments*	23 709	3 322	1 660	28 691	20 451	4 079	1 472	26 002
Hedging derivatives								
Derivatives	0	1 088	0	1 088	0	777	0	777
Total	39 360	22 919	6 885	69 163	37 677	19 370	4 637	61 684
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	375	0	375	0	939	0	939
Deposits from customers and debt securities	0	3 979	181	4 161	0	3 532	102	3 634
Derivatives	14	9 438	4 979	14 432	1	5 617	2 542	8 161
Short positions	483	8	0	491	373	0	13	386
Other	0	0	0	0	0	0	0	0
Designated at fair value								
Deposits from credit institutions and investment firms	0	884	0	884	0	896	0	896
Deposits from customers and debt securities	0	7 416	1 366	8 782	0	11 704	543	12 248
Liabilities under investment contracts	10 853	0	0	10 853	11 787	0	0	11 787
Other	0	0	44	44	0	0	0	0
Hedging derivatives								
Derivatives	0	2 430	0	2 430	0	1 678	0	1 678
Total	11 351	24 531	6 570	42 451	12 161	24 365	3 201	39 728

* Of the amounts under this item in 2013, government bonds accounted for (in millions of euros) 2 068 in level 1, 261 in level 2 and 55 in level 3 under 'Held for trading', 716 in level 1, 23 in level 2 and 32 in level 3 under 'Designated at fair value' and 15 107 in level 1, 1 999 in level 2 and 465 in level 3 under 'Available for sale'.

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

- The fair value hierarchy gives the highest priority to 'level 1 inputs'.

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

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

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

- Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.

- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.

- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in Note 25.

- The significant decline in available-for-sale equity instruments classified in level 3 was attributable to the sale of the stake in Bank Zachodni WBK in 2013.

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

Note 25: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 2012, KBC transferred 1.2 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 0.2 billion euros' worth of bonds from level 2 to level 1 because the market for those instruments became more active in 2012.
- In 2013, KBC transferred 0.3 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 0.7 billion euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2013.

Note 26: 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 – 2012 (in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	749	0	198	4 991	27	8	0	136	259	498	0
Gains or losses	0	-230	0	-77	-1 315	0	35	0	141	-9	8	0
in profit or loss[1]	0	-230	0	-77	-1 315	0	35	0	141	4	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	-13	8	0
Purchases	0	0	0	7	204	0	0	0	0	102	724	0
Disposals	0	-367	0	-14	-604	0	0	0	-55	-75	-55	0
Settlements	0	0	0	0	-296	0	0	0	0	0	0	0
Transfers into level 3	0	55	0	411	77	0	8	0	51	0	524	0
Transfers out of level 3	0	0	0	-1	-7	0	0	0	0	-5	-40	0
Transfers into/out of non-current assets held for sale[2]	0	-6	0	0	0	0	0	0	0	840	0	0
Translation differences	0	-3	0	-2	-16	-1	-1	0	-4	5	1	0
Changes in the scope of consolidation	0	0	0	0	6	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	197	0	523	3 041	27	50	0	269	1 117	1 660	0
Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period	0	-130	0	-81	-1 300	0	-2	0	141	-1	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Other	Derivatives
Opening balance	0	4	0	9 442	0	0	0	1 352	0	173	0
Gains or losses	0	40	0	-3 192	0	0	0	365	0	-129	0
in profit or loss[1]	0	40	0	-3 192	0	0	0	365	0	-129	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	244	0	0	0	0	0	0	0
Repurchases	0	0	0	0	0	0	0	0	0	0	0
Settlements	0	-145	0	-1 727	0	0	0	-349	0	0	0
Transfers into level 3	0	286	0	213	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	-4	0	-34	0	0	0	-2	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	32	0	0	0	0	0	0	0
Closing balance	0	181	0	4 979	0	0	0	1 366	0	44	0
Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period	0	17	0	-3 083	0	0	0	243	0	0	0

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

2 The figure for equity instruments appearing under 'Transfers into/out of non-current assets held for sale' in the 'Available for sale' column relates largely to the shareholding in Bank Zachodni WBK following the merger with Kredyt Bank.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 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	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	197	0	523	3 041	27	50	0	269	1 117	1 660	0
Gains or losses	0	-7	0	31	-186	3	-11	0	161	8	-100	0
in profit or loss*	0	-7	0	31	-186	3	-11	0	161	3	1	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	5	-101	0
Purchases	0	0	0	183	287	0	0	0	0	14	743	0
Disposals	0	0	0	-219	-21	0	-7	0	-49	-840	-179	0
Settlements	0	-170	0	-19	-664	-4	0	0	0	0	-498	0
Transfers into level 3	0	0	0	25	102	0	0	0	23	3	107	0
Transfers out of level 3	0	0	0	-153	0	0	0	0	0	0	-223	0
Transfers into/out of non-current assets held for sale	0	0	0	0	0	0	-26	0	0	0	0	0
Translation differences	0	-1	0	-16	-13	-1	-1	0	-14	-1	-15	0
Changes in the scope of consolidation	0	-19	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	-13	-406	0	0	0	-38	0	-24	0
Closing balance	0	1	0	342	2 141	24	5	0	352	300	1 472	0
Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period	0	0	0	37	-205	3	-10	0	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 securities	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Other	Derivatives
Opening balance	0	181	0	4 979	0	0	0	1 366	0	44	0
Gains or losses	0	36	0	-1 267	0	0	0	41	0	0	0
in profit or loss*	0	36	0	-1 267	0	0	0	41	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	250	13	0	0	0	0	0	0
Repurchases	0	0	0	-1	0	0	0	0	0	0	0
Settlements	0	-97	0	-829	0	0	0	-368	0	-44	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	-5	0	-23	0	0	0	-8	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other	0	-13	0	-567	0	0	0	-488	0	0	0
Closing balance	0	102	0	2 542	13	0	0	543	0	0	0
Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period	0	34	0	-1 214	0	0	0	39	0	0	0

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

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

Scenario	Description	Model input	Base input in GM	Scenario input in GM	Change	Positions
Outer correlation (GM 50%/50%)	Change in correlation of outer tranches	Outer tranche correlations	60%/95%	50%/50%	-10%/-45%	All positions
Inner correlation (p(t) +25% shift)	Change in inner tranche Vasicek calibration of p(t) +25% shift	Average Vasicek correlation per position	[37.3%; 63.8%]	[42.5%; 80.9%]	[5.3%; 23.4%]	All positions
Amortisation (prepayment halved)	New Intex ABS amortisation schedule generated using halved CPR	CPR in Intex	11.90%	5.95%	-5.9%	Average CPR
Direct pool calibration (27–100% tranche)	Change in calibration of direct pool from 35–100% tranche to 27–100% tranche	Direct pool calibrated Vasicek correlation	[26.0%; 55.3%]	[22.1%; 52.4%]	[-11.6%; -2.8%]	All positions
CDO model risk (base correlation extrapolation to 0%)	Change in base 0% detachment point of correlation curve	Itraxx/CDX correlation	37.38% 38.34% 23.15% 22.40%	74.76% 76.68% 46.29% 44.80%	37.38% 38.34% 23.15% 22.40%	iTraxx 7Y 0% detachment point iTraxx 10Y 0% detachment point CDX 7Y 0% detachment point CDX 10Y 0% detachment point

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

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

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

Profit/loss sensitivity test based on corporate and ABS credit spread indices (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2012	0.34	0.14	0.07	-0.06	-0.12	-0.28
31-12-2013	0.09	0.04	0.02	-0.02	-0.04	-0.09

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined influence of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 60% for MBIA (80% in 2012). The scope of this test is the same as in the above table. A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.07 billion euros (0.18 billion euros in 2012) whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.09 billion euros (0.34 billion euros in 2012).
- The next table depicts the results of the profit/loss sensitivity tests performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 60% (in 2012, it was 80%). The scope covers only that portion of CDOs structured by KBC Financial Products and insured by MBIA. The impact of credit spread movements on the CDO positions structured by KBC Financial Products and held or insured by the KBC group is not included.

Profit/loss sensitivity tests based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2012						
MBIA 70%	0.19	0.11	0.09	0.04	0.02	-0.05
MBIA 80%	0.16	0.07	0.03	-0.03	-0.06	-0.14
MBIA 90%	0.14	0.02	-0.02	-0.10	-0.13	-0.23
MBIA 100%	0.12	-0.03	-0.08	-0.17	-0.21	-0.32
31-12-2013						
MBIA 30%	0.05	0.04	0.03	0.02	0.02	0.01
MBIA 40%	0.05	0.03	0.02	0.01	0.01	-0.01
MBIA 60%	0.04	0.02	0.01	-0.01	-0.02	-0.04
MBIA 80%	0.04	0.00	-0.01	-0.03	-0.04	-0.07
MBIA 90%	0.03	-0.00	-0.02	-0.04	-0.05	-0.09
MBIA 100%	0.03	-0.01	-0.02	-0.05	-0.06	-0.11

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

- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in the subordinated credit default swap spread of KBC and in the fair value of the hedged super senior exposure since the guarantee agreement was signed. If the fair value of the super senior positions were to improve by 10% on its year-end 2013 and year-end 2012 levels, this would lead to an additional charge of 0.4 million euros and 7 million euros, respectively, while a similar improvement in KBC's subordinated credit spread would lead to an additional charge of 1.2 million euros and 8 million euros respectively.

Note 27: Changes in own credit risk

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

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

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

Profit/loss sensitivity based on a relative shift in the funding spread (in billions of EUR)	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2012	-0.06	-0.02	-0.01	+0.01	+0.02	+0.06
31-12-2013	-0.02	-0.01	-0.00	+0.00	+0.01	+0.02

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

Note 28: Reclassification of financial assets and liabilities

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

- Reclassifications: in October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. The above reclassifications had a negative impact of 20 million euros on equity and a positive impact of 1 million euros on the income statement (where – besides reversals of specific impairment – 1 million euros was also reversed for portfolio-based impairment on loans and receivables).
- Other reclassifications (not included in the table):
  - In 2013, 1.8 billion euros' worth of debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - In 2012, 4.6 billion euros were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - As a result, the relevant available-for-sale reserve is no longer exposed to changes in market rates. It has been frozen and is being written down on a *pro rata temporis* basis. As the relevant held-to-maturity security is also being written down, there is no net impact on the results.

Note 29: Derivatives

	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2012																
Total	**12 095**	**14 432**	**460 444**	**427 628**	**400**	**341**	**12 552**	**12 537**	**672**	**1 856**	**26 034**	**26 082**	**15**	**232**	**3 535**	**3 535**
Breakdown by type																
Interest rate contracts	7 739	8 613	258 424	237 310	400	341	12 552	12 537	650	1 787	25 390	25 390	15	232	3 535	3 535
Interest rate swaps	6 549	8 035	188 305	188 774	400	341	12 552	12 537	650	1 787	25 390	25 390	15	232	3 535	3 535
Forward rate agreements	3	4	2 609	4 829	0	0	0	0	0	0	0	0	0	0	0	0
Futures	2	0	6 090	4 698	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 185	480	61 172	38 733	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	93	247	276	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	944	736	136 981	137 350	0	0	0	0	22	69	644	692	0	0	0	0
Forward foreign exchange operations/currency forwards	162	152	78 047	78 002	0	0	0	0	0	0	51	51	0	0	0	0
Currency and interest rate swaps	720	525	44 162	43 997	0	0	0	0	22	69	593	641	0	0	0	0
Futures	0	0	155	155	0	0	0	0	0	0	0	0	0	0	0	0
Options	61	59	14 616	15 195	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 815	2 173	35 654	33 577	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 322	1 411	30 289	30 288	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	493	761	5 365	3 289	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	1 576	2 891	29 017	19 025	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	1 576	2 891	29 017	19 025	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	20	20	368	366	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2013																
Total	**7 823**	**8 161**	**373 075**	**358 437**	**218**	**239**	**19 286**	**19 286**	**553**	**1 303**	**26 234**	**26 189**	**6**	**136**	**2 782**	**2 782**
Breakdown by type																
Interest rate contracts	4 734	4 912	226 742	215 826	218	239	19 286	19 286	532	1 238	25 962	25 962	6	136	2 782	2 782
Interest rate swaps	3 760	4 495	162 160	162 265	218	239	19 286	19 286	532	1 238	25 962	25 962	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	930	667	96 048	97 102	0	0	0	0	21	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	698	517	75 200	75 250	0	0	0	0	21	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	1 895	32 755	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	456	3 575	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	365	657	16 961	13 084	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	365	657	16 961	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

* Including hedges of net investments in foreign operations.

- The notional amounts (and the carrying values) exclude the entities that fall under the scope of IFRS 5. For additional information, see Note 46.
- 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 cashflow hedging derivatives (in millions of EUR)	**Inflow**	**Outflow**
Not more than three months	25	-31
More than three but not more than six months	55	-82
More than six months but not more than one year	106	-138
More than one but not more than two years	210	-394
More than two but not more than five years	695	-1 130
More than five years	2 466	-2 718

Notes on other balance sheet items

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 46) to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side).

Note 30: Other assets

(in millions of EUR)	31-12-2012	31-12-2013
Total	**1 383**	**1 237**
Debtors arising out of direct insurance operations	125	322
Debtors arising out of reinsurance operations	36	30
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	12	13
Income receivable (other than interest income from financial assets)	429	372
Other	781	499

Note 31: Tax assets and tax liabilities

(in millions of EUR)	31-12-2012	31-12-2013
CURRENT TAXES		
Current tax assets	174	245
Current tax liabilities	192	109
DEFERRED TAXES	**1 558**	**1 067**
Deferred tax assets by type of temporary difference	2 941	1 856
Employee benefits	182	117
Losses carried forward	922	660
Tangible and intangible fixed assets	34	45
Provisions for risks and charges	170	25
Impairment for losses on loans and advances	382	309
Financial instruments at fair value through profit or loss and fair value hedges	433	296
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	711	342
Technical provisions	41	36
Other	67	26
Deferred tax liabilities by type of temporary difference	1 383	789
Employee benefits	33	6
Losses carried forward	0	0
Tangible and intangible fixed assets	106	103
Provisions for risks and charges	38	0
Impairment for losses on loans and advances	126	17
Financial instruments at fair value through profit or loss and fair value hedges	230	45
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	669	456
Technical provisions	30	87
Other	151	76
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	2 014	1 481
Deferred tax liabilities	455	415
Unused tax losses and unused tax credits	1 183	1 022

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (-492 million euros in 2013) breaks down as follows:
  - decrease in deferred tax assets: -1 085 million euros;
  - decrease in deferred tax liabilities: -594 million euros.
- The change in deferred tax assets was accounted for predominantly by:
  - the decrease in deferred tax assets via the income statement: -436 million euros (due primarily to losses carried forward (-277 million euros); impairment relating to losses on loans and advances (+34 million euros); financial instruments at fair value through profit or loss (-146 million euros); employee benefits (-17 million euros));
  - the decrease in deferred tax assets following changes in the revaluation reserve for available-for-sale financial assets: -108 million euros;
  - the decrease in deferred tax assets consequent on the rise in the market value of cashflow hedges: -198 million euros;
  - the decrease in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: -67 million euros;
  - the decrease in deferred tax assets owing to changes in the revaluation reserve for hedges of net investments in foreign operations: -84 million euros (due mainly to the depreciation of the Czech koruna).
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -128 million euros (owing primarily to financial instruments at fair value through profit or loss (-69 million euros); technical provisions (+57 million euros); employee benefits (-22 million euros); other (-70 million euros));

- the decrease in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: -231 million euros;
- the decrease in deferred tax liabilities due to the rise in the market value of cashflow hedges: -8 million euros.

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

Note 32: Investments in associated companies

(in millions of EUR)	31-12-2012	31-12-2013
Total	**8**	**7**
Overview of investments, including goodwill		
Nova Ljubljanska banka	0	0
Other	8	7
Goodwill on associated companies		
Gross amount	210	0
Accumulated impairment	-210	0
Breakdown by type		
Unlisted	8	7
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2012**	**2013**
Opening balance (1 January)	431	8
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	2	0
Capital increase	0	0
Dividends paid	0	-1
Share of gains and losses not recognised in the income statement	7	1
Translation differences	-2	0
Changes in goodwill	-179	0
Transfers to or from non-current assets held for sale and disposal groups	-3	0
Other movements	-249	0
Closing balance (31 December)	8	7

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

Note 33: Property and equipment and investment property

(in millions of EUR)	31-12-2012	31-12-2013
Property and equipment	**2 581**	**2 465**
Investment property	**638**	**598**
Rental income	69	74
Direct operating expenses from investments generating rental income	58	39
Direct operating expenses from investments not generating rental income	3	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2012					
Opening balance	1 516	150	985	2 651	758
Acquisitions	150	92	390	632	55
Disposals	-13	-8	-167	-188	-6
Depreciation	-88	-76	-35	-199	-25
Impairment					
Recognised	-9	-1	-1	-11	-52
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-82	-4	-6	-91	-31
Translation differences	23	1	7	31	4
Changes in the scope of consolidation	-25	-3	-53	-80	-59
Other movements	-10	1	-155	-164	-7
Closing balance	1 462	152	966	2 581	638
of which accumulated depreciation and impairment	1 052	335	619	2 006	330
of which expenditure on items in the course of construction	2	0	0	2	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2012	–	–	–	–	777
2013					
Opening balance	1 462	152	966	2 581	638
Acquisitions	20	48	385	453	21
Disposals	-5	-1	-162	-168	-18
Depreciation	-76	-65	-29	-170	-27
Impairment					
Recognised	-23	0	0	-23	-24
Reversed	7	0	1	8	0
Transfers to or from non-current assets held for sale and disposal groups	-4	0	0	-5	0
Translation differences	-25	0	-8	-33	-1
Changes in the scope of consolidation	14	1	0	15	-11
Other movements	-1	-2	-190	-192	20
Closing balance	1 369	134	963	2 465	598
of which accumulated depreciation and impairment	1 137	343	598	2 077	310
of which expenditure on items in the course of construction	25	8	22	55	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2013	–	–	–	–	711

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

Note 34: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2012					
Opening balance	1 502	222	134	40	1 898
Acquisitions	1	60	58	17	137
Disposals	-132	-34	-12	-13	-191
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-53	-48	-11	-111
Impairment					
Recognised	-421	0	0	0	-422
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	-5	0	-5	-10
Translation differences	35	0	2	2	40
Changes in the scope of consolidation	0	0	-3	-10	-12
Other movements	2	0	-8	7	1
Closing balance	987	191	124	27	1 328
of which accumulated amortisation and impairment	1 195	208	542	0	1 945
2013					
Opening balance	987	191	124	27	1 328
Acquisitions	0	56	66	4	126
Disposals	0	-17	-5	-1	-24
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-51	-46	- 4	-101
Impairment					
Recognised	-7	0	0	-1	-9
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	-24	0	-2	-1	-27
Changes in the scope of consolidation	0	0	0	0	0
Other movements	-6	2	14	-14	-4
Closing balance	950	180	150	10	1 289
of which accumulated amortisation and impairment	1 202	420	595	53	1 954

- 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 14). This impairment test is performed at least once a year and on a quarterly basis for investments where there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- Discounted cashflow method: calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 20 years), and the 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 discounting cashflow method.

Goodwill outstanding (in millions of EUR)	31-12-2012	31-12-2013	Discount rates throughout the specific period of cash-flow projections 31-12-2012	Discount rates throughout the specific period of cash-flow projections 31-12-2013
K&H Bank	236	232	17.4%–9.5%	13.9%–10.2%
ČSOB (Czech Republic)	252	232	10.1%–9.8%	8.9%–8.6%
ČSOB (Slovak Republic)	191	191	11.6%–9.8%	9.9%–9.1%
CIBANK	117	117	11.1%–9.4%	11.1%–9.4%
DZI Insurance	115	108	11.1%–9.4%	10.6%–8.9%
Rest	76	70	–	–
Total	987	950	–	–

- The period to which the cashflow budgets and projections relate is 20 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 20-year period is 2%, which is equal to the rate of inflation forecast for that time. This rate of growth was the same as in 2012.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for ČSOB in Slovakia and CIBANK in Bulgaria of the change in key assumptions that would lead to their recoverable amount equalling their carrying value. Given that the recoverable amount for DZI Insurance in Bulgaria is not much different from its carrying value, the figure in the table for this company shows the extent to which the key assumptions would have to change for the recoverable amount to be significantly lower than its carrying value (see relevant footnote).

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit
ČSOB (Slovak Republic)	0.4%	1.3%	0.35%	1.7%
CIBANK	0.9%	–	1.05%	4.4%
DZI Insurance[5]	1.4%	0.8%	12.7%	2.7%

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. Note that the valuation of the banking entities is less sensitive to changes in this growth rate than the valuation of the insurance entities since the weighting of the terminal growth rate is lower in the model for banking entities.
4 Presented as the absolute increase in the tier-1 capital ratio for the banking entities and as the relative increase in the internal solvency ratio targeted by the insurance entity.
5 Shows the extent to which the assumptions would have to change to cause the recoverable amount for DZI Insurance to be 5 million euros lower than its carrying value.

Note 35: Technical provisions, insurance

(in millions of EUR)	31-12-2012	31-12-2013
Technical provisions (before reinsurance) (i.e. gross figures)	**19 205**	**18 701**
Insurance contracts	8 811	9 183
Provision for unearned premiums and unexpired risk	358	561
Life insurance provision	5 711	5 788
Provision for claims outstanding	2 232	2 324
Provision for profit sharing and rebates	20	22
Other technical provisions	490	487
Investment contracts with DPF	10 394	9 518
Life insurance provision	10 295	9 421
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	99	97
Reinsurers' share	**137**	**146**
Insurance contracts	137	146
Provision for unearned premiums and unexpired risk	1	1
Life insurance provision	1	1
Provision for claims outstanding	135	144
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	**Gross 2012**	**Reinsurance 2012**	**Gross 2013**	**Reinsurance 2013**
INSURANCE CONTRACTS, LIFE				
Opening balance	5 623	3	6 177	2
Deposits excluding fees	753	0	629	0
Provisions paid	-573	0	-517	0
Accretion of interest	91	0	197	0
Cost of profit sharing	3	0	4	0
Exchange differences	30	0	-109	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	250	-1	-120	0
Closing balance	6 177	2	6 261	2
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	2 533	147	2 633	135
Changes in the provision for unearned premiums*	-4	0	200	0
Payments regarding claims of previous years	-246	-23	-214	-10
Surplus/shortfall of claims provision in previous financial years	-93	13	-99	-1
Provision for new claims	298	6	325	9
Exchange differences	10	1	-16	-1
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	134	-8	94	13
Closing balance	2 633	135	2 922	144
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	11 758	0	10 394	0
Deposits excluding fees	391	0	433	0
Provisions paid	-1 035	0	-948	0
Accretion of interest	336	0	195	0
Cost of profit sharing	0	0	0	0
Exchange differences	1	0	-4	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	-1 057	0	-551	0
Closing balance	10 394	0	9 518	0

* The change in 2013 was accounted for by the recognition of premiums accross the entire term of the contract rather than at the first premium due date. The adjustment is solely presentation-related compared with the previous financial year, with an offset entry being made under 'Other assets'. The adjustment had no impact on the results.

- Technical provisions: relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF: measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 18).
- Technical provisions for life insurance: calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions

are generally calculated using the technical parameters that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key parameters are:
- mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
- expense assumptions, which are based on current expense levels and expense loadings;
- the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.

- Assumptions for the technical provisions for claims outstanding: based on past claims experience (including assumptions in respect of claim numbers, claim payments, and claims handling costs), and adjusted to take account of such factors as anticipated market experience, claims inflation, and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (e.g., hospitalisation, industrial accidents) are involved.
- In 2013, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 36: Provisions for risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Subtotal	Provisions for off-balance-sheet credit commitments	Total
2012						
Opening balance	27	695	78	800	89	889
Movements with an impact on results						
Amounts allocated	20	32	18	70	157	227
Amounts used	-8	-379	-7	-394	-4	-398
Unused amounts reversed	-7	-21	-2	-31	-114	-145
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0
Other movements	-9	-21	19	-12	-36	-47
Closing balance	23	305	105	433	92	526
2013						
Opening balance	23	305	105	433	92	526
Movements with an impact on results						
Amounts allocated	5	17	22	44	63	107
Amounts used	-9	-13	-2	-24	-9	-33
Unused amounts reversed	0	-2	-4	-7	-59	-66
Transfers out of/into liabilities associated with disposal groups					0	0
Changes in the scope of consolidation	0	0	-6	-7	0	-6
Other movements	1	-14	-17	-31	25	-5
Closing balance	20	292	98	409	114	523

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Restructuring provisions were set aside mainly for:
  - KBC Bank (5 million euros in 2013; 3 million euros in 2012);
  - KBC Financial Products (5 million euros in 2013; 4 million euros in 2012);
  - the Central and Eastern European subsidiaries of KBC Bank (6 million euros in 2013; 10 million euros in 2012).
- As regards provisions for taxes and pending legal disputes:
  - the remaining amount of the provision for commercial disputes involving CDOs came to 0.036 billion euros at the end of 2013;
  - see the information on legal disputes in the bullet points below.
- Other provisions: included those set aside for miscellaneous risks and future expenditure.
- Main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow:
  - When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.1 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. On 25 September 2013, KBC was summoned by LBF in London, where LBF filed the claim of 58.1 million US dollars, plus interest of 57 million US dollars (calculated to the end of March 2013). After KBC had filed a concise written defence with the court, LBF was given until mid-March to reply, but has since been granted postponement. The way proceedings are conducted in the UK means that documents can be exchanged in the meantime and that the judge can organise a case management conference. The steps in these proceedings have not yet been defined. The actual court case will take place a year after the case management conference at the earliest. An appropriate provision has been set aside to cover this risk.
  - KBC Diversified Fund, a segregated portfolio of KBC AIM Master Fund Spc., filed a claim against Lehman Brothers International

Europe (LBIE) in relation to derivatives amounting to 44.3 million US dollars. That amount was the result of the setting off of the claims of the various KBC entities and of LBIE. LBIE is disputing how the amount was calculated and the way in which set-off was applied. Consequently, KBC has constituted a provision for the claim. Negotiations are being conducted between KBC and LBIE's administrator on the valuation of a number of terminated transactions.

- KBC Bank calculated an ISDA close-out amount of 29.2 million US dollars payable by Lehman Brothers Special Financing Inc. (LBSF) to KBC. LBSF's administrator is contesting the valuation of some of the derivative transactions. LBSF and KBC have reached agreement whereby KBC is allowed to file a claim for 22.7 million dollars. Given the slender chance of recovery, a corresponding provision has been set aside.
- In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. Apart from one case, all claims against K&H Equities have been settled either amicably or following an arbitral decision. The one case referred to is pending before the civil court, with adequate provisions having been set aside to cover it and due account taken of the compensation expected from an external insurer.
- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the court sitting in chambers in Bruges. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court charged with forgery and uttering under ordinary law and under tax law. The Belgian State has lodged an appeal with the Indictment Division, but no date has been set yet for the court case. A provision of 31.4 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.
- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A provision of 30 million euros has been set aside to cover potential damages.
- In 1991, a syndicate of banks (including KBC Bank NV's London branch) refinanced the Bell Group. Some Bell Group companies granted security. When the group collapsed in April 1991, the banks recovered the outstanding amounts by enforcing their security rights. The Bell Group liquidators started legal proceedings, claiming repayment of all amounts recovered by the banks by alleging that the banks' security rights had been granted unlawfully. In a judgment delivered on 28 October 2008, the Supreme Court of Western Australia ordered the banks to repay all the amounts recovered and also to pay compound interest. The syndicate of banks appealed this decision. In a ruling on 17 August 2012, the Supreme Court of Western Australia Court of Appeal increased the amount payable following the recalculation of interest. In view of that decision and pending the decision of the High Court of Australia, KBC Bank set aside a provision of approximately 64 million euros. Even if the banks are granted leave to appeal, the issue before the High Court will be limited to the amount of interest payable. On 15 March 2013, the High Court granted the banks leave to initiate appeal proceedings before it. The success achieved before this appeal court has opened up the possibility for the banks to begin negotiations aimed at reaching a compromise settlement among all parties involved. These negotiations led in June 2013 to an agreement in principle among all the parties to settle for an amount of 1.7 billion Australian dollars. The final, enforceable version of the settlement agreement was only approved in September 2013. As this agreement includes a number of conditions precedent that have to be fulfilled in advance and the parties have been given six months to meet them, payment under the agreement will only be made in 2014. Consequently, the existing provision was maintained in 2013.

Note 37: Other liabilities

(in millions of EUR)	31-12-2012	31-12-2013
Total	**3 598**	**3 025**
Breakdown by type		
Retirement benefit obligations or other employee benefits	913	398
Deposits from reinsurers	71	80
Accrued charges (other than from interest expenses on financial liabilities)	530	405
Other	2 083	2 143

- For more information on retirement benefit obligations, see Note 38 (please note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 37 relates to a broader scope than the amounts presented in Note 38).

Note 38: Retirement benefit obligations

(in millions of EUR)	31-12-2012	31-12-2013
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 823	2 191
Current service cost	94	108
Interest cost	74	53
Plan amendments		
Actuarial gain or loss resulting from changes in demographic assumptions	4	-93
Actuarial gain or loss resulting from changes in financial assumptions	347	-110
Past-service cost	0	-2
Benefits paid	-127	-119
Exchange differences	4	0
Curtailments	-6	0
Transfers under IFRS 5	-16	0
Changes in the scope of consolidation	0	0
Other	-4	5
Defined benefit obligations at the end of the period	2 191	2 043
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 557	1 765
Actual return on plan assets	218	60
Expected return on plan assets	61	43
Employer contributions	113	85
Plan participant contributions	20	23
Benefits paid	-127	-119
Exchange differences	3	1
Settlements	-2	1
Transfers under IFRS 5	-13	0
Changes in the scope of consolidation	0	0
Other	-3	1
Fair value of plan assets at the end of the period	1 765	1 818
of which financial instruments issued by the group	0	10
of which property occupied by KBC	11	11
Funded status		
Plan assets in excess of defined benefit obligations	-425	-216
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	-425	-216
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-265	-425
Amounts recognised in the income statement	-80	-94
Amounts recognised in other comprehensive income	-198	206
Employer contributions	113	85
Exchange differences	0	-1
Transfers under IFRS 5	1	0
Changes in the scope of consolidation	-4	0
Other	8	14
Unfunded accrued/prepaid pension cost at the end of the period	-425	-216
Amounts recognised in the income statement	**82**	**94**
Current service cost	94	108
Past-service cost	0	-3
Interest cost	12	11
Plan participant contributions	-20	-22
Curtailments	-5	0
Settlements	2	0
Changes in the scope of consolidation	-1	0

(in millions of EUR)		
Changes to the amounts recognised in other comprehensive income	**198**	**-206**
Actuarial gain or loss resulting from changes in demographic assumptions	4	-93
Actuarial gain or loss resulting from changes in financial assumptions	347	-110
Actuarial result on plan assets	-160	-17
Experience adjustmens	0	-5
Other	7	19
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	2.3%	3.0%
Expected rate of salary increase	3.1%	3.1%
Expected rate of inflation	2.0%	2.0%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	1

- The pension claims of the Belgian staff of the various KBC group companies are covered by pension funds and group insurance schemes, the most important of which are defined benefit plans. A defined contribution plan was introduced in 2013 for all new employees joining the company on 1 January 2014 or later. The main defined benefit plans are those managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC which cover KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, and the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007). The assets of the first two plans are managed chiefly by the pension fund using the services of KBC Asset Management for this purpose. The pension benefits are calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a mathematical formula that applies a progressive rate in line with increases in their salary.
- KBC Bank Ireland participated in a fully funded defined benefit plan until 31 August 2012. As of that date, no additional pension rights 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.
- Expected return on plan assets (ROA): calculated on the basis of the rate applying to specific investments, account taken of the new detailed strategy for allocating assets under management.
  ROA = (W x LDI rate T) + (X x corp rate T) + (Y x (govt rate T + 3%)) + (Z x (govt rate T +1.75%)), where:
  LDI rate = 2 x euro swap rate T – 1 x 6-month euro swap rate;
  Govt rate = OLO rate T;
  Corp rate = euro swap rate T + corporate spread;
  T = average duration of the liabilities;
  W = percentage of liability driven investments (LDI);
  X = percentage of corporate bonds;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the anticipated long-term returns from shares and real estate.

Additional information regarding retirement benefit obligations (in millions of EUR)					
Changes in main headings in the main table	**2009**	**2010**	**2011**	**2012**	**2013**
Defined benefit obligations	1 997	1 645	1 823	2 191	2 034
Fair value of plan assets	1 529	1 439	1 557	1 765	1 818
Unfunded accrued/prepaid pension cost	-512	-437	-372	-425	-216
Impact of changes in the assumptions used in the actuarial calculation of plan assets and defined benefit obligations*	**2009**	**2010**	**2011**	**2012**	**2013**
Impact on plan assets	0	0	0	0	0
Impact on defined benefit obligations	-18	-84	-76	213	-85

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

<table>
<tr><th colspan="4">Additional information on retirement benefit obligations</th></tr>
<tr><th></th><th>KBC pension fund</th><th>KBC Insurance group insurance scheme</th><th>KBC Bank Ireland pension plan</th></tr>
<tr><td>Composition (31-12-2012)</td><td></td><td></td><td></td></tr>
<tr><td>shares</td><td>36%</td><td>4%</td><td>64%</td></tr>
<tr><td>bonds</td><td>48%</td><td>96%</td><td>6%</td></tr>
<tr><td>real estate</td><td>10%</td><td>0%</td><td>2%</td></tr>
<tr><td>cash</td><td>6%</td><td>0%</td><td>28%</td></tr>
<tr><td>Composition (31-12-2013)</td><td></td><td></td><td></td></tr>
<tr><td>shares</td><td>40%</td><td>10%</td><td>57%</td></tr>
<tr><td>bonds</td><td>44%</td><td>90%</td><td>32%</td></tr>
<tr><td>real estate</td><td>12%</td><td>0%</td><td>2%</td></tr>
<tr><td>cash</td><td>4%</td><td>0%</td><td>9%</td></tr>
<tr><td>of which illiquid assets</td><td>12%</td><td>0%</td><td>2%</td></tr>
<tr><td>Contributions expected in 2014 (in millions of EUR)</td><td>98</td><td>3</td><td>1</td></tr>
<tr><td>Nature of pension plan benefits</td><td>Capital at retirement age.
Death benefit in case of death during active career.
Monthly annuity in case of work disability.</td><td>Capital at retirement age.</td><td>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.</td></tr>
<tr><td>Regulatory framework</td><td colspan="2">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.</td><td>Regulated by the Irish Pensions Board.
Annual calculation of the funding level of the plan.
Certification of the funding level at least every three years.
Any underfunding must be reported immediately to the Irish Pensions Board.</td></tr>
<tr><td>Responsibilities of KBC</td><td colspan="2">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.</td><td>To pay adequate contributions in accordance with the plan’s funding agreement.</td></tr>
<tr><td>Risks for KBC</td><td colspan="2">Investment risk and inflation risk.</td><td>Investment risk.</td></tr>
<tr><td>ALM policy</td><td colspan="2">The hedging portfolio hedges against interest rate risk and inflation risk by using interest rate swaps.
The return portfolio aims to generate an extra return.</td><td>Investments in leveraged LDI pooled funds and a greater level of diversification by reducing the overall exposure to shares.</td></tr>
<tr><td>Plan amendments</td><td colspan="2">The Gevaert pension plan was integrated into KBC’s main fund plan.
The discount methodology was changed from a yield curve to a zero coupon curve.</td><td>The trustees agreed to reduce participants’ benefits by 0.6% for the years 2011-2013 to account for the payment of the pension levy enacted by the Irish government.</td></tr>
<tr><td>Funding</td><td colspan="2">Contributions to the plan are calculated using the projected unit method.</td><td>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.</td></tr>
<tr><td>Curtailments and settlements</td><td colspan="2">Fidea ceased to be a member of the KBC pension fund on 1 January 2014. All pension rights and obligations have been transferred to the Delta Lloyd pension institution.
KBC Private Equity ceased to be a member of the KBC pension fund on 1 March 2013 when all its employees either left the company or were transferred to KBC Securities.
In 2013, KBC Real Estate was integrated into KBC Bank.
KBC Global Services was liquidated on 1 July 2013. All employees and their pension rights were transferred to KBC Group.</td><td>Not applicable.</td></tr>
<tr><td>Discounting method</td><td colspan="2">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.</td><td>The Mercer methodology starts from a self-composed basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of what is an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.</td></tr>
</table>

Additional information on retirement benefit obligations	KBC pension fund	KBC Insurance group insurance scheme	KBC Bank Ireland pension plan
Key actuarial assumptions			
Average discount rate	2.98%	2.68%	4.00%
Expected salary increase	3.10%	3.02%	2.90%
Expected inflation rate	2.00%	2.00%	1.90%
Expected rate of increase in pensions	–	–	1.90%
Average duration of the obligations	14.1 years	12.92 years	18 years
Weighted average duration of the obligations	10.99 years	12.47 years	24 years
Impact of changes in the assumptions used in the actuarial calculation of the defined benefit obligations			
Increase in the defined benefit obligations on 31-12-2013 consequent on:			
a decrease of 1% in the discount rate	11.46%	10.22%	27.75%
an increase of 1% in the expected inflation rate	9.95%	8.87%	23.77%
an increase that is 1% higher than the expected real increase in salary	12.24%	12.98%	9.90%
the age of retirement being 65 rather than 63 for all active employees	1.88%	-3.40%	–
an increase of one year in life expectancy	–	–	2.37%
The sensitivity of the following assumptions has not been calculated:	The impact of decreasing mortality rates: pension benefits are paid out in capital so longevity risk is immaterial. The impact of staff turnover: expected turnover rate is very low.		Not applicable

Note 39: Parent shareholders' equity and non-voting core-capital securities

Quantities	31-12-2012	31-12-2013
Ordinary shares	416 967 355	417 364 358
of which ordinary shares that entitle the holder to a dividend payment	*416 967 355*	*417 364 358*
of which treasury shares	*302*	*802*
Mandatorily convertible bonds	0	0
Non-voting core-capital securities	118 644 067	79 096 044
Additional information		
Par value per share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0
MOVEMENTS TABLE Quantities	**Ordinary shares**	**Non-voting core-capital securities**
2012		
Opening balance	357 980 313	220 338 982
Issue of shares	58 987 042	–
Reimbursement of core-capital securities	–	-101 694 915
Closing balance	416 967 355	118 644 067
2013		
Opening balance	416 967 355	118 644 067
Issue of shares	397 003	–
Reimbursement of core-capital securities	–	-39 548 023
Closing balance	417 364 358	79 096 044

- Ordinary shares: the share capital of KBC Group NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed on NYSE Euronext Brussels and on the Luxembourg Stock Exchange.
- Capital increases: in December 2012, the group increased its equity by around 1.25 billion euros by issuing some 59 million new shares following the capital increase announced in December 2012 (+58 835 294 shares) and the capital increase reserved for staff (+151 748 shares). In December 2013, the group increased its equity by 13 million euros by issuing 397 003 new shares following the capital increase reserved for staff. For more information, see the 'Company annual accounts' section.
- Treasury shares: at year-end 2013, KBC group companies held 802 KBC shares in portfolio.
- For information on stock option plans, see Note 12; for information on the authorisation to increase capital, see the 'Company annual accounts' section.
- Trust preferred securities: 358 million euros at year-end 2013 and 367 million euros at year-end 2012. These trust preferred securities were issued in 1999 by KBC Funding Trust(s) for an initial equivalent value totalling 1.5 billion euros. They are perpetual hybrid debt instruments that count as innovative hybrid tier-1 instruments. A large amount in trust preferred securities was bought back in the past. The beneficiaries of these securities are institutional investors. The securities are not included in 'Parent shareholders' equity', but in 'Minority interests'. They meet the IAS 32 definition of equity instruments, but as they are not owned by the shareholders, they are presented under 'Minority interests'. The structure and terms and conditions are set out in the relevant offering memoranda, which are available at www.kbc.com.
- Core capital securities: since the end of 2008, KBC Group NV has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have been subscribed by the Belgian Federal and Flemish Regional governments (each in the amount of 3.5 billion euros). The other features of the transactions are dealt with under 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section. On 2 January 2012, KBC 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 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 repaid 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2013). KBC aims to pay back the remaining balance of 2.33 billion euros (plus penalties) in seven equal instalments of 0.33 billion euros (plus penalty) between 2014 and 2020 or sooner (subject to the customary approval of the regulator), and already repaid 0.33 billion euros (plus a penalty of 50%) at the beginning of January 2014.

Note 40: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2012	31-12-2013
Credit commitments – undrawn amount		
Given	27 802	25 514
Irrevocable	16 440	16 141
Revocable	11 362	8 373
Received	53	91
Financial guarantees		
Given	11 053	10 397
Guarantees/collateral received	37 607	36 954
For impaired and past due assets	2 716	2 807
For assets that are not impaired or past due	34 891	34 147
Other commitments		
Given	116	7
Irrevocable	116	7
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged by KBC as collateral		
For liabilities*	20 811	25 655
For contingent liabilities	5 413	2 657

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

- Fair value of financial guarantees: based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all of the liabilities referred to in Section 5 (c) of the Irish Companies (Amendment) Act 1986 of the following Irish companies in respect of the financial year ending on 31 December 2013, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:
  - KBC Financial Services (Ireland) Limited;
  - KBC Fund Management Limited.

  Since these companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 22.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2012	31-12-2013	31-12-2012	31-12-2013
Financial assets	8 248	8 816	4 755	6 603
Equity instruments	7	2	0	0
Debt instruments	8 046	8 630	4 755	6 603
Loans and advances	195	185	0	0
Cash	0	0	0	0
Other	3	2	0	0
Property and equipment	3	2	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession (in millions of EUR)	31-12-2012	31-12-2013
Non-current assets held for sale	0	2
Property and equipment	0	0
Investment property	2	1
Equity instruments and debt securities	0	0
Cash	167	173
Other	29	25
Total	197	201

Note 41: Leasing

(in millions of EUR)	31-12-2012	31-12-2013
Finance lease receivables		
Gross investment in finance leases, receivable	4 791	4 652
At not more than one year	1 208	1 119
At more than one but not more than five years	2 342	2 320
At more than five years	1 241	1 213
Unearned future finance income on finance leases	678	651
Net investment in finance leases	4 110	4 044
At not more than one year	1 054	978
At more than one but not more than five years	2 060	2 046
At more than five years	996	1 020
of which unguaranteed residual values accruing to the benefit of the lessor	33	22
Accumulated impairment for uncollectable lease payments receivable	174	137
Contingent rents recognised in the income statement	119	105
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	428	429
At not more than one year	136	135
At more than one but not more than five years	271	277
At more than five years	21	17
Contingent rents recognised in the income statement	0	1

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

Note 42: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2012							2013					
	Subsidiaries	Associated companies	Joint ventures	Belgian State	Flemish Region	Other	Total	Subsidiaries	Associated companies	Joint ventures	Flemish Region	Other	Total
Assets	248	183	123	29 263	750	1 229	31 796	299	118	28	852	44	1 341
Loans and advances	98	132	83	0	0	1 227	1 541	85	55	18	0	41	199
Current account advances	1	1	0	0	0	440	441	0	0	0	0	8	8
Term loans	97	131	83	0	0	787	1 099	85	55	18	0	33	190
Finance leases	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
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	96	32	26	0	0	0	155	131	39	5	0	0	176
Held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	96	32	26	0	0	0	155	131	39	5	0	0	175
Other amounts receivable	53	19	14	29 263	750	2	30 100	83	24	5	852	3	967
Liabilities	657	134	35	426	0	85	1 337	535	124	15	0	146	820
Deposits	656	126	35	0	0	83	900	531	14	15	0	142	702
Deposits	656	126	35	0	0	83	900	528	14	15	0	142	700
Other	0	1	0	0	0	0	0	2	0	0	0	0	2
Other financial liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt certificates	0	0	0	0	0	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Share-based payments (granted)	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
Other liabilities	1	8	0	426	0	2	437	4	110	0	0	4	118
Income statement	-8	-5	6	950	35	36	1 013	11	-4	6	25	26	64
Net interest income	0	-1	2	950	35	42	1 028	5	-1	0	25	31	60
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	1	3	4	0	0	0	7	0	2	6	0	0	8
Net fee and commission income	1	-2	0	0	0	-1	-3	2	-1	0	0	0	2
Other net income	0	0	0	0	0	0	0	22	0	0	0	0	22
General administrative expenses	-11	-4	0	0	0	-4	-19	-18	-4	0	0	-5	-27
Guarantees													
Guarantees issued by the group							0						0
Guarantees received by the group							0						0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	2012	2013
Total*	**11**	**10**
Breakdown by type of remuneration		
Short-term employee benefits	9	9
Post-employment benefits	2	1
Defined benefit plans	2	1
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (in units)		
At the beginning of the period	20 300	0
Granted	0	0
Exercised	-3 000	0
Composition-related changes	-17 300	0
At the end of the period	0	0
Advances and loans granted to key management and partners	1	3

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

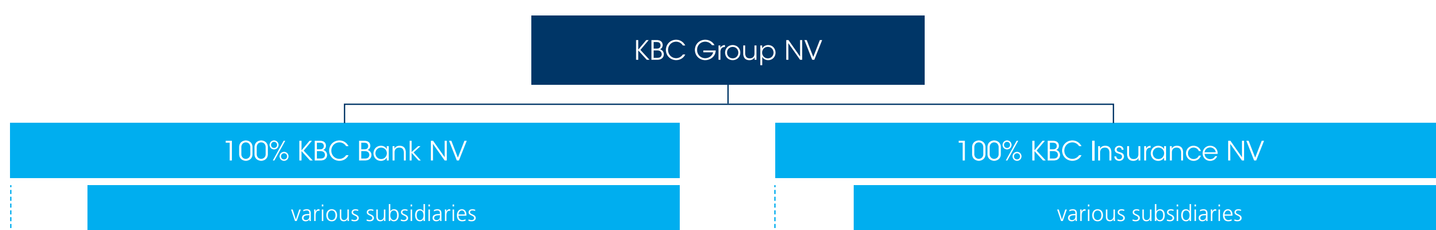
- The 'Other' heading in the first table comprises primarily KBC Ancora, Cera and MRBB. The recoverability of the claims outstanding in respect of Cera and KBC Ancora depends in part on the performance of the KBC group. In mid-2013, KBC reached an agreement for the transfer to another financial institution of 0.3 billion euros' worth of loans granted to KBC Ancora. In addition, Cera and KBC Ancora sold a total of 18.8 million KBC shares in November 2013 and used the proceeds to repay outstanding loans with KBC. On balance, loans to shareholders consequently fell from 1.2 billion euros at year-end 2012 to 0.04 billion euros at the end of 2013.
- All related-party transactions occur at arm's length.
- Belgian State and Flemish Region: considered in the strict sense only (i.e. excluding companies controlled by these parties). Following the redemption in 2012 of all the core-capital securities sold to the Belgian State, it has no longer been considered as a related party since 2013.
- There were no material transactions with associated companies other than shown in the table.
- Key management: the members of the Board of Directors and Group Executive Committee. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- Information on the capital transactions and guarantee agreements with the Belgian Federal and Flemish Regional governments is provided under 'Additional information'. Please note that:
  - KBC Group NV redeemed 0.5 billion euros' worth of non-voting core-capital securities from the Belgian Federal Government (and paid a 15% penalty) on 2 January 2012 (see balance sheet at year-end 2011). On 17 December 2012, KBC Group NV repaid 3 billion euros (plus a 15% penalty) to the Belgian Federal Government (see balance sheet at year-end 2012). On 3 July 2013, KBC Group NV paid back 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2013), and at the start of 2014, reimbursed an additional 0.33 billion euros (plus a 50% penalty).
  - In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the results is the related cost which is recognised in 'Net result from financial instruments at fair value through profit or loss'. The guarantee agreement was reviewed at the end of 2012 (for more details, see the 'Additional information' section).
  - In 2012 and 2013, KBC paid a coupon (595 million euros and 543 million euros, respectively) on the non-voting core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009.

Note 43: Statutory auditor's remuneration

In 2013, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 10 228 937 euros for standard audit services (13 114 829 euros in 2012). Remuneration paid for other services came to 1 108 435 euros in 2013 (2 580 042 euros in 2012) and comprised 843 664 euros for other certifications, 50 994 euros for tax advice and 213 777 euros for other non-audit assignments (1 214 912, 183 927 and 1 181 203 euros, respectively, in 2012).

Note 44: Principal subsidiaries and associated companies at year-end 2013

Essentially, the group's legal structure comprises KBC Group NV (including the former KBC Global Services) which controls two large companies, viz. KBC Bank NV and KBC Insurance NV. Each of these companies has several subsidiaries and sub-subsidiaries, the most important of which are listed in the table.



Company	Registered office	Ownership percentage at group level	Business unit (for recognition of the results)*	Activity
KBC BANK				
Fully consolidated subsidiaries				
Antwerp Diamond Bank NV (sale agreement signed)	Antwerp – BE	100.00	GC	Credit institution
CBC Banque SA	Brussels – BE	100.00	B	Credit institution
CIBANK EAD	Sofia – BG	100.00	IM	Credit institution
ČSOB a.s. (Czech Republic)	Prague – CZ	100.00	CR	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100.00	IM	Credit institution
KBC Asset Management NV	Brussels – BE	100.00	B	Asset management
KBC Bank NV	Brussels – BE	100.00	B/GC	Credit institution
KBC Bank Deutschland AG (sale agreement signed)	Bremen – DE	100.00	GC	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	GC	Issuance of preference shares
KBC Bank Ireland Plc	Dublin – IE	100.00	IM	Credit institution
KBC Commercial Finance NV	Brussels – BE	100.00	B	Factoring
KBC Credit Investments NV	Brussels – BE	100.00	B/GC	Investment in credit-related securities
KBC Finance Ireland	Dublin – IE	100.00	GC	Lending
KBC Financial Products (group)	Various locations	100.00	GC	Equities and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	GC	Issuance of bonds
KBC Lease (group)	Various locations	100.00	B/GC	Leasing
KBC Securities NV	Brussels – BE	100.00	B	Stock exchange broker, corporate finance
K&H Bank Rt.	Budapest – HU	100.00	IM	Credit institution
KBC INSURANCE				
Fully consolidated subsidiaries				
ADD NV	Heverlee – BE	100.00	B	Insurance company
ČSOB Pojišťovna (Czech Republic)	Pardubice – CZ	100.00	CR	Insurance company
ČSOB Poisťovňa (Slovak Republic)	Bratislava – SK	100.00	IM	Insurance company
DZI Insurance	Sofia – BG	100.00	IM	Insurance company
VAB Group	Zwijndrecht – BE	95.00	B	Automobile assistance
K&H Insurance Rt.	Budapest – HU	100.00	IM	Insurance company
KBC Group Re SA	Luxembourg – LU	100.00	B/GC	Insurance company
KBC Insurance NV	Leuven – BE	100.00	B/GC	Insurance company
Proportionately consolidated subsidiaries				
NLB Vita d.d.	Ljubljana – SI	50.00	GC	Insurance company
KBC GROUP NV (other direct subsidiaries)				
Fully consolidated subsidiaries				
KBC Group NV	Brussels – BE	100.00	GC	Holding company and cost-sharing structure

* Business unit in which the results are recognised. B = Belgium; CR = Czech Republic; IM = International Markets; GC = Group Centre.

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

Note 45: Main changes in the scope of consolidation

Company	Direct parent company	Consolidation method	Ownership percentage at group level 31-12-2012	31-12-2013	Remarks
Additions					
None					
Exclusions					
TUiR WARTA SA	KBC Insurance NV	Full	–	–	Deconsolidated on 30 June 2012 following sale
KBL EPB (group)	KBC Group NV	Full	–	–	Deconsolidated on 30 June 2012 following sale
Kredyt Bank SA	KBC Bank NV	Full	–	–	Deconsolidated on 31 December 2012 following merger with Bank Zachodni WBK
KBC Private Equity NV	KBC Bank NV	Full	100.00%	–	Deconsolidated in 1Q2013 due to immateriality
Nova Ljubljanska banka d.d.	KBC Bank NV	Equity	22.04%	–	Deconsolidated on 31 December 2012 following sale in 1Q2013
Absolut Bank	KBC Bank NV	Full	99.00%	–	Deconsolidated on 31 March 2013 following sale in 2Q2013
KBC Banka A.D.	KBC Insurance NV	Full	100.00%	–	Deconsolidated mid-December 2013 following sale in 4Q2013
Name changes					
None					
Changes in ownership percentage and internal mergers					
VAB Group NV	KBC Insurance NV	Full	79.81%	95.00%	Stake increased in 2Q2013
KBC Real Estate NV	KBC Bank NV	Full	100.00%	–	Merged with KBC Bank NV on 1 July 2012
KBC Global Services NV	KBC Group NV	Full	100.00%	–	Merged with KBC Group NV on 1 July 2013

Note 46: Non-current assets held for sale and discontinued operations (IFRS 5)

- IFRS 5 specifies that a non-current asset (or disposal group) is to be classified as held for sale if its carrying amount will be recovered primarily through a sales transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. To assess whether a sale is highly probable, IFRS 5 sets out a number of conditions that have to be met before it can be applied, viz.:
  1 Management is committed to a plan to sell.
  2 An active programme to locate a buyer and complete the plan is initiated.
  3 The target price is reasonable in relation to its current fair value.
  4 The sale is within 12 months of classification.
  5 It is unlikely that the plan will be significantly changed or withdrawn.
- If all five of the above conditions are met, the assets and liabilities of the divestments are presented under a separate heading in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). As permitted under IFRS, the reference figures have not been restated. If the disposal groups are also classified as discontinued operations, their results (and the reference figures) are recognised under a single heading in the income statement, i.e. 'Net post-tax result from discontinued operations'.
- Main companies following under the scope of IFRS 5:
  - At year-end 2012: Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland, KBC Banka and Nova Ljubljanska banka (NLB).
  - In 2013, Absolut Bank, KBC Banka and NLB were sold and agreements to sell Antwerp Diamond Bank and KBC Bank Deutschland were signed. Still falling under the scope of IFRS 5 at year-end 2013: Antwerp Diamond Bank and KBC Bank Deutschland.
  - None of these entities is classified as a 'discontinued operation', since they do not represent a separate major line of business or geographical area of operations within KBC as a whole.
- The following information relates to the divestment agreements that had already been signed, but not yet completed, on 31 December 2013.

Company	Description
KBC Bank Deutschland	In September 2013, KBC signed an agreement to sell KBC Bank Deutschland to a group of investors comprising Teacher Retirement System of Texas, Apollo Global Management LLC, Apollo Commercial Real Estate Finance Inc. and Grovepoint Capital LLP. The deal will free up some 0.1 billion euros of capital for KBC, primarily by reducing risk weighted assets. The deal will improve KBC's solvency position (tier-1 ratio under Basel II) by around 15 basis points. It has yet to be approved by the regulators.
Antwerp Diamond Bank	In December 2013, KBC reached an agreement with the Shanghai-based Yinren Group for the sale of Antwerp Diamond Bank (ADB). The deal has yet to be approved by the regulator. It will free up approximately 0.1 billion euros of capital for KBC, primarily by reducing risk weighted assets, which will ultimately boost KBC's tier-1 ratio (Basel II) by almost 0.2%. Before the deal is completed, part of ADB's loan portfolio (primarily higher-risk and non-performing loans with a net carrying value of 0.4 billion euros) will be transferred to KBC Bank NV for standard settlement. Following completion of the deal, KBC will provide secured funding for up to two years to ADB for a total amount of 0.2 billion euros.

• The table below contains details of the impact of activities falling under the scope of IFRS 5.

(in millions of EUR)		
A DISCONTINUED OPERATIONS		
Income statement	**2012**	**2013**
Income statement, KBL EPB		
Net interest income	55	0
Net fee and commission income	167	0
Other net income	34	0
Total income	257	0
Operating expenses	-220	0
Impairment	-22	0
Share in results of associated companies	0	0
Result before tax	15	0
Income tax expense	-8	0
Result after tax	7	0
Result from sale agreement for KBL EPB		
Impairment recognised on remeasurement to fair value less costs to sell	25	0
Tax income relating to remeasurement to fair value less costs to sell (deferred taxes)	0	0
Result from sale (after tax)	25	0
Net post-tax result from discontinued operations	32	0
Cashflow statement, KBL EPB	**2012**	**2013**
Net cash from or used in operating activities	-1 612	0
Net cash from or used in investing activities	8	0
Net cash from or used in financing activities	6	0
Net cash inflows/outflows	-1 597	0
Earnings per share from discontinued operations, KBL EPB	**2012**	**2013**
Basic	0.09	0.00
Diluted	0.09	0.00
Commitments, KBL EPB	**31-12-2012**	**31-12-2013**
None (KBL EPB was deconsolidated mid-2012)	–	–
Derivatives – notional amounts, KBL EPB	**31-12-2012**	**31-12-2013**
None (KBL EPB was deconsolidated mid-2012)	–	–
B NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS (figures between brackets relate to discontinued operations)		
Balance sheet	**31-12-2012**	**31-12-2013**
Assets		
Cash and cash balances with central banks	484 (0)	57 (0)
Financial assets	6 407 (0)	3 627 (0)
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	0 (0)	0 (0)
Tax assets	83 (0)	49 (0)
Investments in associated companies	3 (0)	0 (0)
Investment property and other property and equipment	113 (0)	22 (0)
Goodwill and other intangible assets	14 (0)	2 (0)
Other assets	35 (0)	13 (0)
Total assets	7 138 (0)	3 769 (0)
Liabilities		
Financial liabilities	3 657 (0)	1 977 (0)
Technical provisions (before reinsurance)	0 (0)	0 (0)
Tax liabilities	12 (0)	11 (0)
Provisions for risks and charges	9 (0)	10 (0)
Other liabilities	61 (0)	28 (0)
Total liabilities	3 739 (0)	2 027 (0)
Other comprehensive income	**2012**	**2013**
Available-for-sale reserve	101 (78)	-3 (0)
Deferred tax on above reserve	-27 (-22)	0 (0)
Hedging reserve (cashflow hedges)	7 (0)	0 (0)
Translation differences	55 (-4)	0 (0)
Total	136 (52)	-4 (0)

Note 47: Risk management

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the 'Value and risk management' section that have been audited by the statutory auditor. The section also includes information on exposure to sovereign bonds and on the portfolio of structured credit (see under 'Credit risk').

Note 48: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2013) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting events after balance sheet date were:

- On 8 January 2014, KBC paid a second instalment of state aid (0.33 billion euros + 50% penalty) to the Flemish Regional Government. In addition, the supervisory authorities – with the National Bank of Belgium as the consolidating supervisor – have taken their home-host capital decision for KBC Group NV, which has been informed of the request to maintain a permanent minimum (fully loaded) Basel III common equity ratio of 9.25% (excluding latent gains).
- In the first quarter of 2014, another portion of the remaining CDO portfolio was collapsed. The impact on the result was negligible.
- On 4 March 2014, KBC announced its intention to issue CRD-IV compliant, euro-denominated, non-dilutive, Additional tier-1 instrument of benchmark size. It will be a 5-year, non-call perpetual instrument with a temporary write-down trigger at 5.125% common equity tier-1. Following the Investor Roadshow in Europe and Asia on 10, 11 and 12 March 2014, KBC placed 1.4 billion euros. More details are provided in the press release of 13 March 2014, which is available at www.kbc.com.

Note 49: General information on the company

- Name: KBC Group.
- Incorporated: 9 February 1935 as Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company that is subject to the prudential supervision of the National Bank of Belgium.
- Life: indefinite.
- Object: the company is a financial holding company, which has as its object, the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in sentence two. In addition, the company may function as an intellectual property company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in sentence two. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium. These documents can also be obtained from the company's registered office or downloaded from www.kbc.com. 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.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq.* of the Articles of Association, which are available at www.kbc.com.

Tomás is a firm believer in ČSOB's recent Instagram campaign in the Czech Republic, so much so that he became one of the faces of this campaign. And he has good reason to do so.

'I had to raise my two boys alone and couldn't get a home loan. One bank even suggested that I should forget trying to get a loan due to my circumstances. I was so discouraged that I didn't apply anywhere else. Some time later, I applied to ČSOB for a loan to buy a car. After my previous experience, I was surprised by their attitude and willingness to help. I was astounded when I was granted a loan in 2004/05 even though there was only a single income to pay it off. That is the main reason why I'm with ČSOB. They helped me when I needed it and didn't look at me askance because I was a single parent.'

www.tomasslavata.cz

I'll go it alone.

Company annual accounts

3.0

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 30 April 2014.

As required by law, the company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com after they have been filed.

The merger between KBC Global Services NV and KBC Group NV in 2013 means that the figures for KBC Group NV at year-end 2013 are not fully comparable with the reference figures for year-end 2012. Consequently, and where relevant, we have added a column with pro forma figures for 2012. We have obtained these figures by adding together the figures for KBC Group NV with those for KBC Global Services NV at year-end 2012 and eliminating the equity of KBC Global Services NV relating to the KBC Global Services NV participation in the accounts of KBC Group NV.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Balance sheet, income statement, and profit appropriation

Company balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2012	31-12-2012 pro forma	31-12-2013
Fixed assets	**15 068**	**15 278**	**15 215**
Intangible fixed assets	0	261	230
Tangible fixed assets	0	177	152
Land and buildings	0	37	34
Plant, machinery and equipment	0	116	94
Furniture and vehicles	0	12	13
Other tangible fixed assets	0	1	1
Assets under construction and advance payments	0	10	11
Financial fixed assets	15 068	14 841	14 833
Affiliated companies	15 068	14 840	14 832
Participating interests	14 818	14 590	14 582
Amounts receivable	250	250	250
Other companies linked by participating interests	1	1	1
Participating interests	1	1	1
Amounts receivable	0	0	0
Current assets	**817**	**1 010**	**221**
Amounts receivable at more than one year	0	5	2
Trade debtors	0	5	2
Other amounts receivable	0	0	0
Stocks and contracts in progress	0	1	1
Stocks	0	1	1
Goods purchased for resale	0	1	1
Amounts receivable within one year	20	168	68
Trade debtors	0	137	33
Other amounts receivable	20	31	35
Current investments	375	375	0
Own shares	0	0	0
Other investments	375	375	0
Cash at bank and in hand	415	434	114
Deferred charges and accrued income	6	27	36
Total assets	**15 885**	**16 289**	**15 436**
Equity	**10 857**	**10 857**	**11 241**
Capital	1 450	1 450	1 452
Issued capital	1 450	1 450	1 452
Share premium account	5 385	5 385	5 397
Reserves	1 447	1 447	1 466
Legal reserve	127	127	145
Reserves not available for distribution	1	1	1
Untaxed reserves	190	190	190
Reserves available for distribution	1 129	1 129	1 129
Profit (Loss (-)) carried forward	2 575	2 575	2 927
Provisions and deferred taxes	**0**	**21**	**20**
Provisions for liabilities and charges	0	21	20
Pensions and similar obligations	0	18	18
Other liabilities and charges	0	2	3
Amounts payable	**5 028**	**5 411**	**4 175**
Amounts payable at more than one year	3 600	3 670	2 970
Financial debt	3 600	3 670	2 970
Subordinated loans	3 500	3 500	2 333
Non-subordinated bonds	100	100	581
Credit institutions	0	69	56
Amounts payable within one year	1 416	1 717	1 157
Amounts payable at more than one year falling due within the year	0	13	14
Financial debt	400	555	971
Credit institutions	0	155	75
Other loans	400	400	896
Trade debt	5	42	34
Taxes, remuneration and social security charges	1	83	81
Taxes	0	4	2
Remuneration and social security charges	1	79	80
Other amounts payable	1 010	1 024	58
Accrued charges and deferred income	12	24	48
Total liabilities	**15 885**	**16 289**	**15 436**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2012	31-12-2012 pro forma	31-12-2013
Operating income	7	1 178	1 093
Turnover	0	1 081	1 017
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	5	0
Own construction capitalised	0	59	41
Other operating income	7	34	35
Operating charges	100	1 278	1 166
Services and other goods	94	620	556
Remuneration, social security charges and pensions	6	476	463
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	0	131	124
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	0	-6	-2
Other operating charges	0	56	25
Operating profit (loss (-))	**-93**	**-99**	**-73**
Financial income	1 171	1 178	1 103
Income from financial fixed assets	913	913	1 093
Income from current assets	10	10	5
Other financial income	249	255	5
Financial charges	1 120	1 135	614
Debt charges	1 004	1 007	608
Amounts written down on current assets: increase (decrease (-))	-120	-120	0
Other financial charges	236	247	6
Profit (Loss (-)) on ordinary activities, before tax	**-42**	**-57**	**416**
Extraordinary income	92	92	0
Write-backs of amounts written down on financial fixed assets	92	92	0
Gains on disposal of fixed assets	0	0	0
Extraordinary charges	6	12	31
Extraordinary depreciation of and extraordinary amounts written off formation expenses and intangible and tangible fixed assets	0	0	2
Provisions for extraordinary liabilities and charges	0	0	1
Losses on disposal of fixed assets	6	6	28
Other extraordinary charges	0	6	0
Profit (Loss (-)) for the period, before tax	**44**	**23**	**385**
Transfers from deferred taxes	0	0	3
Transfers to deferred taxes	0	-2	0
Income tax	-2	2	3
Profit (Loss (-)) for the period	**46**	**23**	**384**
Profit (Loss (-)) for the period available for appropriation	**46**	**23**	**384**

In this lay-out, charges are also depicted with a plus sign, as opposed to the way they are presented in the consolidated income statement.

Company profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2012	31-12-2013
Profit (Loss (-)) to be appropriated	**3 034**	**2 959**
Profit (Loss (-)) for the period available for appropriation	46	384
Profit (Loss (-)) carried forward from the previous period	2 989	2 575
Transfers to equity	**2**	**18**
To the legal reserve	2	18
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**2 575**	**2 927**
Profit to be distributed	**457**	**14**
Dividends	417	0
Directors' entitlements	0	0
Other beneficiaries, employee profit-sharing	40	14

It will be proposed to the General Meeting of Shareholders that the profit for appropriation for the 2013 financial year be distributed as shown in the table. If this proposal is approved, no dividend will be paid for 2013.

Note 1: Financial fixed assets (B-GAAP; non-consolidated)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2012	**14 818**	**250**	**1**	**0**
Acquisitions in 2013	0	0	0	0
Disposals in 2013	0	0	0	0
Other changes in 2013	-235	0	0	0
Carrying value at 31-12-2013	**14 582**	**250**	**1**	**0**

KBC Group NV's participating interests in affiliated companies comprise mainly the shareholdings in:

- KBC Bank NV (99.99%)
- KBC Insurance NV (99.99%)
- KBC Asset Management NV (48.14%)

The main change in 2013 concerned the acquisition by merger of the subsidiary KBC Global Services NV on 1 July 2013 (on the understanding that, with effect from 1 January 2013, all transactions carried out by the acquired company, KBC Global Services NV, would be deemed – for tax and accounting purposes – to have been carried out on behalf of the acquiring company, KBC Group NV). The amount of -235 million euros in the 'Participating interests in affiliated companies' column is the carrying value of KBC Global Services NV before the merger.

The amounts receivable from affiliated companies related to a subordinated perpetual loan of 250 million euros to KBC Bank NV.

Note 2: Changes in equity (B-GAAP; non-consolidated)

(in millions of EUR)	31-12-2012	Capital increase for staff	Appropriation of results	31-12-2013
Capital	1 450	1	–	1 452
Share premium account	5 385	12	–	5 397
Reserves	1 447	0	18	1 466
Profit (Loss) carried forward	2 575	0	352	2 927
Equity	**10 857**	**13**	**370**	**11 241**

At year-end 2013, the company's issued share capital amounted to 1 451 783 018.35 euros, represented by 417 364 358 shares, and the share premium account came to 5 396 555 524.69 euros. The share capital is fully paid up.

Changes in 2013: a capital increase carried out on 19 December 2013 and reserved exclusively for employees of KBC Group NV and some of its Belgian subsidiaries resulted in 397 003 shares being issued at a price of 33.49 euros per share. These shares are blocked for two years, since the issue price was less than the market price of the KBC share on 12 November 2013. Capital was increased by 1 381 570.44 euros and the share premium account went up by 11 914 060.03 euros. By carrying out this capital increase, KBC Group NV aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2013 will also be entitled to dividend from the 2013 financial year.

The authorisation to increase capital may be exercised up to and including 20 May 2018 for an amount of 698 618 429.56 euros. Based on a par value of 3.48 euros a share, a maximum of 200 752 422 new KBC Group NV shares can therefore be issued under this authorisation.

Note 3: Shareholders

Notifications received

The table below gives an overview of the notifications received in 2012 and 2013 and in the first two months of 2014 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market. Article 10*bis* of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

Notifications*	Notification relating to	Explanation	Number of KBC shares (= voting rights) on date concerned	% of total voting rights on date concerned
KBC Group NV	16 October 2012	Size of holding moves below the 5% and 3% notification thresholds (as a result of the sale of all own shares held by KBC Group NV and KBC Bank NV)	300	0.00%
Blackrock Inc.	6 December 2012	Size of holding exceeds the 3% notification threshold	11 026 587	3.08%
Cera CVBA and KBC Ancora Comm. VA (combined)	13 December 2012	Number of shares held by Cera goes up (no change at KBC Ancora), as does the total number of KBC shares (following the capital increase), causing the size of the combined Cera CVBA and KBC Ancora Comm. VA holding to move below the 30% notification threshold	111 443 546	26.74%
Blackrock Inc.	23 July 2013	Size of holding exceeds the 5% notification threshold	20 852 545	5.00%
Cera CVBA and KBC Ancora Comm. VA (combined)	19 November 2013	Number of shares held by Cera and KBC Ancora decreases by 18.8 million following sale, causing the size of the combined Cera and KBC Ancora holding to move below the 25% notification threshold	88 643 546	21.26%
Blackrock Inc.	9 December 2013	Size of holding moves below the 5% notification threshold	20 714 324	4.97%
Blackrock Inc.	7 January 2014	Size of holding exceeds the 5% notification threshold	20 885 509	5.00%
Blackrock Inc.	10 January 2014	Size of holding moves below the 5% notification threshold	20 700 804	4.96%
Blackrock Inc.	13 February 2014	Size of holding exceeds the 5% notification threshold	20 979 496	5.03%

* More detailed information can be found in the respective notification forms available at www.kbc.com.

Shareholder structure

The 'Corporate governance statement' section contains an overview of the shareholder structure at year-end 2013, based on all the notifications received pursuant to the Belgian Act of 2 May 2007.

Own shares held by KBC group companies

KBC shares held by KBC group companies	Address	Number of KBC shares on 31-12-2012	Number of KBC shares on 31-12-2013
KBC Group Re SA (Assurisk)	5, Place de la Gare, 1616 Luxembourg, Grand Duchy of Luxembourg	300	0
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2	2
Total		302	2
As a percentage of the total number of shares		*0.0%*	*0.0%*
KBC Group NV itself	Havenlaan 2, 1080 Brussels, Belgium	0	800
Grand total		302	802
As a percentage of the total number of shares		*0.0%*	*0.0%*

The average par value of the KBC share came to 3.48 euros in 2013. At the end of 2013, KBC bought 800 own shares (on the stock market, for 30 860 euros) which it could provide (in 2014) to employees exercising their options at the end of 2013.

Please note that the number of shares shown in the table may differ from the number stated in the notifications pursuant to the Belgian Act of 2 May 2007, as a change in the number of shares held does not always give rise to a new notification.

Note 4: Balance sheet

- The following review is based on a comparison between the figures at year-end 2013 and the pro forma figures for year-end 2012.
- On 31 December 2013, total assets came to 15 436 million euros, compared with 16 289 million euros (pro forma) a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 221 million euros, whereas the year-earlier pro forma figure was 1 010 million euros. This decline was attributable largely to the use of cash and other investments (time deposit accounts) to repay some of the core-capital securities to the Flemish Regional Government.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 4 175 million euros, compared with 5 411 million euros at year-end 2012 (pro forma). The main changes to this item were the payment (in 2013) of a dividend on shares and a coupon on the core-capital securities for financial year 2012 (see 'Other amounts payable') and the partial repayment of the core-capital securities to the Flemish Regional Government (see 'Subordinated loans'). In addition, both 'Financial debt payable within one year' and 'Non-subordinated bonds at more than one year' went up.

Note 5: Income statement

- The following review is based on a comparison between the figures at year-end 2013 and the pro forma figures for year-end 2012.
- KBC Group NV generated a net profit of 384 million euros in 2013, as opposed to 23 million euros (pro forma) a year earlier.
- 'Operating charges' decreased by 9% year-on-year, owing primarily to:
  - a decline of 64 million euros in 'Services and other goods' (including reduced ICT expenses, consultancy fees and charges for facility services);
  - a reduction of 13 million euros in 'Remuneration, social security charges and pensions', attributable chiefly to the slightly lower number of FTEs;
  - a decline of 31 million euros in 'Other operating charges' on account of lower write-downs and depreciation, particularly on intangible fixed assets.
- Operating income fell by 7% year-on-year, due mainly to the divestment programme and a decrease in allocated charges.
- The main changes in financial income and financial charges were:
  - an increase of 180 million euros in dividend receipts, bringing it to 1 093 million euros;
  - the fact that no coupon will be paid on the core-capital securities for financial year 2013, whereas 543 million euros had been paid in 2012;
  - the payment of a penalty of 583 million euros in 2013 on repayment of core-capital securities, compared with a penalty of 450 million euros in 2012.
- The main extraordinary charge item in 2013 concerned the loss of 28 million euros on KBC Global Services NV incurred at the start of July when the merger took place.

Note 6: Statutory auditor's remuneration

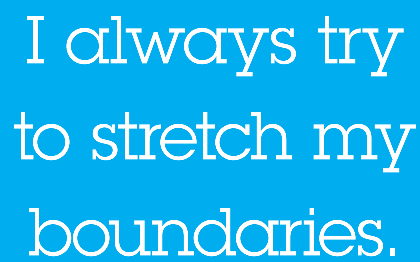
In 2013, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 162 406 euros for standard audit services. Remuneration paid for non-standard audit services came to 124 570 euros.

Note 7: Branch offices

Following the merger with KBC Global Services NV, KBC Group NV had three branch offices (in the Czech Republic, Slovakia and Hungary) at year-end 2013. The merger had no other impact on these offices.

Note 8: Additional information

The 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, which also includes the 'Corporate governance statement' required by law.



Olivier Van den Eynde
Managing Director, Close The Gap

'In 2003, as a new graduate I had an ambitious idea of starting a project that would really make a difference. Ten years later, I can proudly state that I have succeeded in doing so, along with my team and our partners, including KBC.
Because Close the Gap really is helping to bridge the digital divide. Since 2003, Close the Gap has already received more than 280 000 computer assets and helped more than 2 500 projects around the globe.

The projects we support are intended to help the social and economic development of both individuals and society. Access to IT and IT training helps combat extreme poverty and hunger, affords children the opportunity of better education and increases knowledge, so helping to improve general health and living standards.

This is what I believe sustainable business is all about. My vision is to start a chain whereby value is created in a sustainable, respectful manner for these people who are forgotten and slip through the net.'

www.close-the-gap.org

Additional information

Capital transactions and guarantee agreements with 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 used the proceeds of these transactions to strengthen the core capital of its banking activities by 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV).

In 2012, KBC repaid 3.5 billion euros to the Belgian Federal Government, along with a 15% penalty. In 2013, it repaid 1.17 billion euros to the Flemish Regional Government, along with a 50% penalty, and at the start of 2014, repaid an additional 0.33 billion euros, plus a penalty of 50%. KBC aims to repay the outstanding balance of 2 billion euros (plus penalties) in instalments, with the last instalment scheduled for 2020 (or earlier, if its capital position so allows and the National Bank of Belgium grants its approval).

The main features of the remaining core-capital securities are (simplified):

- Issue price: 29.50 euros per security.
- Coupon: higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%) and (ii) 125% of the dividend paid on ordinary shares. No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.

Guarantee agreement in respect of CDO and MBIA-related exposure

In May 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan comprises a notional amount that initially totalled 20 billion euros (currently 5.9 billion euros, see below), with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA.

The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan).

Since the CDO exposure has been reduced considerably since the agreement was entered into, the initial amounts have changed. Amounts at year-end 2013 and the initial amounts are presented in each case below.

- First tranche of 0.8 billion euros (initially 3.2 billion euros): KBC bears all credit losses.
- Second tranche of 0.7 billion euros (initially 2 billion euros): KBC bears any credit losses and has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value for 90% of the loss in this tranche (KBC bears 10% of the risk).
- Third tranche of 4.4 billion euros (initially 14.8 billion euros): the Belgian State will compensate 90% of any credit losses in cash (KBC bears 10% of the risk).

This agreement significantly mitigates the potential negative impact of the relevant MBIA and CDO exposure. KBC has to pay a fee for this guarantee agreement. More information on its impact on the income statement is provided in Note 5 in the 'Consolidated financial statements' section.

Glossary of ratios used

Basic earnings per share
[result after tax, attributable to equity holders of the parent] / [average number of ordinary shares less treasury shares]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

CAD ratio
[regulatory capital] / [total weighted risks]. For detailed calculations, see the 'Value and risk management' section.

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

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) approved and published by the EU, and includes in the numerator the core-capital securities sold to the government that are grandfathered by the regulator, as well as latent gains (reserve for available-for-sale assets).
The minimum target set by the regulator for the common equity ratio does not take account of these latent gains.

Cost/income ratio
[operating expenses of the banking activities] / [total income of the banking activities].

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

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

Diluted earnings per share
[result after tax, attributable to equity holders of the parent] / [average number of ordinary shares less treasury shares]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator. If outstanding employee options on KBC shares are in the money, they will be included in the denominator.

Equity market capitalisation
[closing price of KBC share] x [number of ordinary shares].

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

Net interest margin of the group
[adjusted net interest income of the banking activities] / [average interest-bearing assets of the banking activities].

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

Non-performing loan ratio
[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than 90 days in arrears or overdrawn)] / [total outstanding loan portfolio]. In accordance with the new EBA Guidelines, KBC might change its definition of non-performing in 2014, which means that loans with a PD-10 rating, which are currently classified as performing, will be reclassified as non-performing.

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

Return on allocated capital for a particular business unit
[result after tax (including minority interests) of a business unit, adjusted to take account of allocated capital instead of actual capital] / [average allocated capital of the business unit]. A business unit's result is the sum of the net result of each company belonging to that business unit. The capital allocated to a business unit is based on the risk-weighted assets for the banking activities and risk-weighted asset equivalents for the insurance activities.

Return on equity
[result after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]. If a coupon is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

Solvency ratio, insurance
[available solvency capital] / [minimum regulatory solvency capital].

(Core) Tier-1 ratio
[tier-1 capital] / [total weighted risks]. For detailed calculations, see the 'Value and risk management' section. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian Federal and Flemish Regional governments).

List of companies included in or excluded from the scope of consolidation, and associated companies as at 31 December 2013

The list of companies included in or excluded from the scope of consolidation, and associated companies as at 31 December 2013 is available at www.kbc.com.
An abridged list of the main group companies can be found in Note 44 in the 'Consolidated financial statements' section.

Management certification

'I, Luc Popelier, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the 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 Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

Contact details and financial calendar

Contact details

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Financial calendar

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

Earnings release for 4Q 2013 and full year 2013	13 February 2014
Publication of the *Annual Report* and the *Risk Report for 2013*	31 March 2014
Publication of the *Report to Society*	31 March 2014
General Meeting of Shareholders (agenda available at www.kbc.com)	30 April 2014
Earnings release for 1Q 2014	15 May 2014
Earnings release for 2Q 2014	7 August 2014
Earnings release for 3Q 2014	13 November 2014
Earnings release for 4Q 2014	12 February 2015

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We'd like to take this opportunity to thank our clients for their contribution to this report.