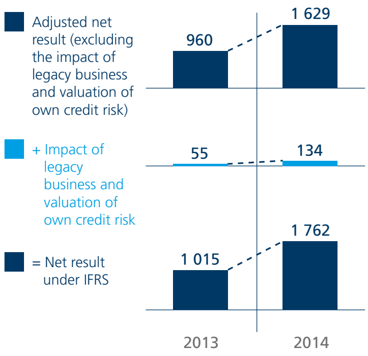
KBC Group 2014 Annual Report

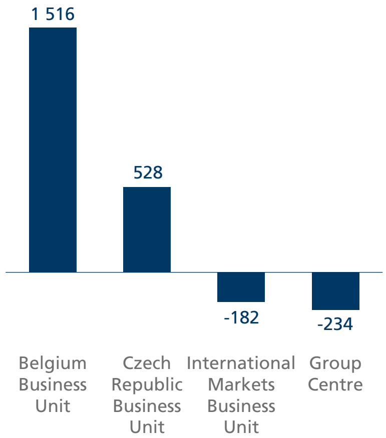
KBC group passport

2014

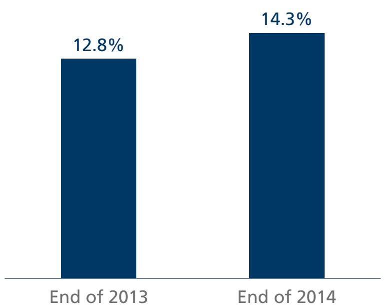
Results
(in millions of EUR)



Breakdown of adjusted net result by business unit
(2014, in millions of EUR)



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



Our area of operation

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. 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)	36 187
Bank branches	1 601
Insurance network	459 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings[2] (19-03-2015)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A-	A2	A
KBC Insurance NV	A-	–	A
KBC Group NV	A-	A3	A-

Our core shareholders

KBC Ancora	18.6%
Cera	2.7%
MRBB	11.5%
Other core shareholders	7.7%

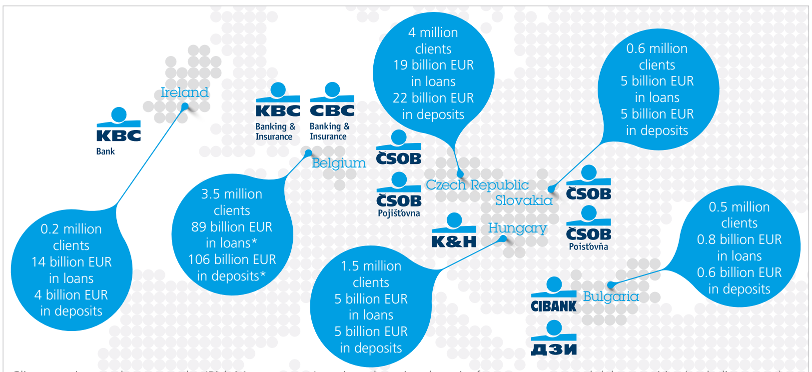
More information

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

Data relates to year-end 2014, 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.

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



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

Key figures

	2010	2011	2012	2013	2014
Consolidated balance sheet and assets under management, end of period (in millions of EUR)					
Total assets	320 823	285 382	256 928	238 686	245 174
Loans and advances to customers	150 666	138 284	128 492	120 371	124 551
Securities	89 395	65 036	67 295	64 904	70 359
Deposits from customers and debt securities	197 870	165 226	159 632	161 135	161 783
Technical provisions and liabilities under investment contracts, insurance	29 948	26 928	30 058	30 488	31 487
Total equity	18 674	16 772	15 879	14 514	16 521
Risk-weighted assets (Basel II to 2012, Basel III from 2013)	132 034	126 333	102 148	91 216	91 236
Assets under management	208 813	192 795	155 216	162 977	185 704
Consolidated income statement (in millions of EUR)					
Total income	8 378	7 310	7 733	7 448	6 720
Operating expenses	-4 436	-4 344	-4 248	-3 843	-3 818
Impairment	-1 656	-2 123	-2 511	-1 927	-506
Net result, group share	1 860	13	612	1 015	1 762
Basic earnings per share (in EUR)	3.72	-1.93	-1.09	1.03	3.32
Diluted earnings per share (in EUR)	3.72	-1.93	-1.09	1.03	3.32
Adjusted net result, group share	–	–	1 496	960	1 629
Belgium	–	–	1 360	1 570	1 516
Czech Republic	–	–	581	554	528
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	–	–	-260	-853	-182
Group Centre	–	–	-185	-311	-234
Gender diversity					
Gender diversity in the workforce (percentage of women)	60%	59%	58%	57%	57%
Gender diversity in the Board of Directors (percentage of women)	4%	4%	10%	15%	22%
Environmental efficiency data for the KBC group in Belgium (per FTE)					
Electricity consumption (in GJ)	24.3	21.3	20.8	21.3	21.2
Gas and heating oil consumption (in GJ)	15.0	12.6	12.6	16.0	12.7
Distances travelled (in km; commuter and business travel)	14 836	14 563	14 440	13 646	13 524
Paper consumption (in tonnes)	0.17	0.14	0.13	0.12	0.11
Water consumption (in m^3)	9.3	8.2	8.5	9.0	9.1
Greenhouse gas emissions (in tonnes)	2.4	2.2	1.8	2.5	2.2
KBC share					
Number of shares outstanding, end of period ('000)	357 938	357 980	416 967	417 364	417 781
Parent shareholders' equity per share, end of period (in EUR)	32.8	28.7	29.0	28.3	31.4
Average share price for the financial year (in EUR)	32.6	22.3	17.3	32.8	43.1
Share price at year-end (in EUR)	25.5	9.7	26.2	41.3	46.5
Gross dividend per share (in EUR)	0.75	0.01	1.00	0.00	2.00
Equity market capitalisation, end of period (in billions of EUR)	9.1	3.5	10.9	17.2	19.4
Financial ratios					
Return on equity	12%	-6%	1%	9%	14%
Return on equity (based on adjusted result*)	11%	5%	9%	9%	13%
Cost/income ratio, banking (based on adjusted result*)	56%	60%	57%	52%	57%
Combined ratio, non-life insurance	100%	92%	95%	94%	94%
Credit cost ratio, banking	0.91%	0.82%	0.71%	1.21%	0.42%
Common equity ratio, group (CET1; Basel III, fully loaded – Danish compromise method)	–	–	10.5%	12.8%	14.3%
Net stable funding ratio (NSFR)	–	–	105%	111%	110%
Liquidity coverage ratio (LCR)	–	–	107%	131%	120%

For definitions and comments, please see the detailed tables, analyses and glossary in this report. The adjusted results are described in the 'Consolidated results in 2014' section. The proposed dividend for 2014 is subject to the approval of the General Meeting of Shareholders. Certain figures for 2013 have been restated to take account of the retroactive application of IFRS 11 (see below).

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

Report of the Board of Directors

Consolidated financial statements

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.

Disclaimer: 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.

Among other things, Articles 96 and 119 of the Belgian Companies Code specify the minimum content of company and consolidated financial statements 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 financial statements. The Risk Report, the CSR Report and the websites referred to in certain sections do not form part of the annual report.

Company annual accounts

Additional information

People are not solitary creatures. We prefer instead to live together in family units, to make friends and to develop networks. In a globalising world, our networks can help us go far, or bring us surprisingly close together.

Stefan and Katka's international network

Throughout this report, we follow two KBC members of staff, Stefan Garaleas and Katka Hamersky. He has Greek roots and she is from the Czech Republic. Love blossomed in Brussels, where Katka was following a training course at KBC. After deciding to set up home in Belgium, they married and had two kids, Alexander and Sofia. Stefan and Katka are keen basketball players, have many interests and a wide circle of friends and acquaintances. Their international relationships take us from the Czech Republic, Hungary and Slovakia to Ireland and back.

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Orsi Horvath, neighbour of Stefan's parents and violinist from Hungary.

Report of the Board of Directors

‘My passion is chamber music. Playing in small orchestras gives me and my fellow musicians the opportunity to get close to the audience, which is an intense and deeply personal way to make music. What’s my connection with KBC? Well, I’m well covered by their insurance!’

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).

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.

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

Principal activity: integrated bank-insurance.

Client base: approximately 10 million clients worldwide.

Principal brands and estimated share of the core markets and Ireland:

- Belgium: KBC and CBC (20% in banking, 17% in life insurance, 9% in non-life insurance).
- Czech Republic: ČSOB (20% in banking, 6% in life insurance, 7% 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 (3% in banking, 10% in life insurance, 10% in non-life insurance).
- Ireland: KBC Bank Ireland (5% in retail deposits, 10% in retail loans).

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

Total assets: 245 billion euros; total equity: 16.5 billion euros.

Our vision and strategy

Our vision: to be the reference for bank-insurance in all our core markets.

Our strategy: to be one of the best-performing, retail-oriented financial institutions in Europe, by:

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

Data relates to year-end 2014. For definitions and comments, please see the detailed tables and analyses in this report.

1 January

- Repayment of 0.33 billion euros in state aid (plus 50% penalty) to the Flemish Regional Government.

3 March

- Placement of a CRD IV-compliant additional tier-1 instrument for 1.4 billion euros.

4 April

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

5 May

- KBC launches the 'Room for improvement' campaign to encourage entrepreneurship in Belgium.
- Further rationalisation of the group's management structure and changes to the Executive Committee.
- Publication of first-quarter results for 2014: consolidated net profit of 397 million euros, adjusted net profit (excluding influence of legacy business and valuation of own credit risk) of 387 million euros.

6 June

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

8 August

- Publication of second-quarter results for 2014: consolidated net profit of 317 million euros, adjusted net profit of 287 million euros. New Hungarian legislation on retail loans negatively impacts the figures.

9 September

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

10 October

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

11 November

- Publication of third-quarter results for 2014: consolidated net profit of 591 million euros, adjusted net profit of 477 million euros.
- Issue of 750 million euros in tier-2 instruments.

12 December

- Launch of a crowdfunding platform to enable entrepreneurs and investors to connect with each other.
- Announcement of a number of measures to further optimise the capital structure of KBC Insurance and KBC Group NV, including KBC Insurance buying back own shares and taking out a tier-2 loan with KBC Group NV to replace shareholder capital.

Early 2015

- February 2015: Publication of fourth-quarter results for 2014: consolidated net profit of 457 million euros, adjusted net profit of 477 million euros. For 2014 as a whole, profit came to 1 762 million euros, or 1 629 million euros on an adjusted basis.
- March 2015: Publication of the new ECB capital and liquidity requirements, which KBC comfortably exceeds.

Want to know more?

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

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

KBC set out its updated strategy and targets at an Investor Day in June. Why then, and what are the key messages?
Thomas Leysen: The time had come to turn a new page. We've slimmed our group down and made it fighting fit; we've rigorously implemented our divestment plan and have already repaid most of the state aid we received; and we've also scaled back our CDO exposure – the most significant legacy of the past – to zero. What's more, a great deal of uncertainty about Basel III, the European banking union and other regulatory matters has gradually dissipated.

Johan Thijs: Our key message is that we want to become one of the best-performing, retail-oriented financial institutions in Europe. Nothing more, nothing less. We aim to achieve that by continuing to focus on our successful bank-insurance model in our core markets, in a cost-effective manner. We will concentrate on sustainable and profitable growth within a framework of strong risk, capital and liquidity management, and we aim to create outstanding client satisfaction through a seamless, multi-channel and client-centric distribution approach. This approach is designed to meet our clients' preferences in terms of contact opportunities. Our extensive network of bank branches and insurance agencies obviously remains crucial to us as a bank-insurer, as those are the places where we can engage with our clients directly. But we have also fully committed ourselves to digital systems in our new strategy.

The consolidated net result for 2014 came to roughly 1.8 billion euros, 74% higher than the figure for 2013. Are you satisfied with that?
Thomas Leysen: Our net result for 2014 is indeed a solid one, which also reflects the persistent strength of our business model. Moreover, we combine our solid levels of profitability and efficiency with robust solvency and liquidity, which we will return to later. It all fits perfectly into our strategy of profitable growth, set firmly in a framework of strong risk, capital and liquidity management.

Johan Thijs: Our net result rose by 747 million euros compared to last year and came to

▲ **Thomas Leysen** and **Johan Thijs**

1 762 million euros. Leaving aside non-operating items, such as the valuation of CDOs and results relating to divestments, our adjusted result amounted to 1 629 million euros, an impressive increase on the 960 million euros posted in 2013. And this was achieved despite a number of negative items, such as the provision of 183 million euros (after tax) we set aside in response to stringent new Hungarian legislation on retail loans and the negative (after tax) marked-to-market valuation of 135 million euros for derivatives used for asset/liability management purposes. We owe the good final result to our strong commercial performance, especially in Belgium and the Czech Republic, our two most important markets, as well as to the less negative result in Ireland after significant additional loan loss provisions had been set aside at the end of 2013.

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

Thomas Leysen: It goes without saying that profitability is important for any business. Sustainable profitability, however, means that we focus primarily on our performance in the long term. Corporate sustainability also means that we put our clients' interests at the heart of everything we do; that we place our operations within a framework of stringent risk management; and, lastly, that we take account of society's expectations and engage in dialogue with our stakeholders. We realise all too well that our reputation is something fragile and that it is built on the totality of our actions.

Johan Thijs: Corporate sustainability also means transparent reporting, with an eye to all our stakeholders. It's broader, therefore, than pure financial reporting. That's why we began to move towards consistent and integrated reporting of financial and non-financial information in 2014. We believe that good communication in general is extremely important. We were delighted, therefore, to follow up the 'Best Financial Information' award we received in 2013 from the Belgian Association of Financial Analysts with *IR Magazine*'s 2014 award for 'Best Investor Relations in Belgium'.

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

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

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

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

Thomas Leysen: The situation at year-end 2014 is this: we have already repaid the entire 3.5 billion euros in aid from the Belgian Federal Government and 1.5 billion of the 3.5 billion euros in aid from the Flemish Regional Government, plus a penalty in both cases. That now leaves a further 2 billion euros in state aid to be repaid, together with a 50% penalty. As a result of that penalty and the interest we have paid, the government has earned a good return on the aid it provided. We intend to repay this aid in full by no later than the end of 2017. That's considerably earlier, by the way, than originally agreed with the European Commission.

Johan Thijs: Our solvency position strengthened further even after the repayment of state aid. Our fully loaded Common Equity Tier-1 Ratio under Basel III, according to the Danish compromise method, stood at 14.3% at the end of 2014. That means the ratio is well above our own target of 10.5%, which we further tightened in 2014. Our liquidity position remains as solid as ever, as demonstrated by our LCR and NSFR ratios, which stood at 120% and 110% respectively at year-end 2014. The result of the ECB's comprehensive assessment in October also shows our ability to meet strict solvency requirements, even in negative scenarios.

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

Johan Thijs: If we focus on our most important region – the euro area – we saw limited real growth of 0.8% in 2014, with factors like a more growth-friendly budget policy, a weaker euro and a gradual improvement in the labour market supporting that growth. On the other hand, geopolitical tensions weighed on sentiment until the summer. Growth in the euro area started to improve again slightly from the third quarter on. A striking feature, incidentally, was the relatively good economic performance in 2014 of Central European economies like the Czech Republic, Hungary and Bulgaria, compared with the euro area average. Like other energy-importing economies, the euro area has benefited from the sharp fall in the price of oil since mid-2014, which should also provide an additional boost to growth in 2015, not least in Belgium. The prospects for our Central European core markets likewise remain above the euro area average. As in the second half of 2014, lower energy prices will ensure that inflation and interest rates remain at low levels for a while to come.

Thomas Leysen: So, we are looking ahead with a sense of confidence at KBC. We have tightened up our strategy, set our long-term goals and are now fully focused on the further development of our bank-insurance group. Paramount in this regard is putting the client firmly centre stage.
We would also like to express our gratitude once again to the Belgian and the Flemish governments, which have helped us through a difficult period in recent years. The fact that we are now back in shape is equally due, however, to the unflagging support and trust of all our stakeholders, most notably our clients, our staff and our shareholders. We remain totally committed to retaining that confidence.

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Our business model and strategy

Part 1: Our business model

How do we create value for all our stakeholders?

We announced our group's updated strategy and targets at an Investor Day in June 2014. Our aim is to be one of the best-performing, retail-oriented financial institutions in Europe. To achieve this, we will concentrate on sustainable, cost-effective and profitable growth, set in a framework of robust risk, capital and liquidity management. Client satisfaction is central to our model, which we will pursue through a seamless, multi-channel, client-centric distribution approach.
In the following section, we provide a concise and integrated account of our group's current business model and strategy. To find out more about a particular aspect, please refer to the other sections of this annual report and to our other group publications.

The value we create as bank and insurer, in brief

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

In our capacity as a bank, we ensure that our clients can use our savings accounts to put their money away safely. We also offer a wide and varied range of other savings and investment products, including ones with capital protection. In this way, savers and investors of every kind can grow their assets in keeping with their personal risk profile. They can also rely on the expertise and advice provided by our staff through our different distribution channels.
We use money acquired through deposits to provide loans to private individuals and businesses, so that the money is put to work to the benefit of society.
Our loan portfolio contains loans not only to individuals and businesses, but also to specific sectors and target groups, such as the social profit sector (hospitals, retirement and nursing homes, educational institutions, local authorities and the like). We also provide funding to infrastructure projects that have a major impact on economic development in Belgium (Public Private Partnerships to fund sports halls in Flanders, funding of road schemes, etc.) and to the development of green energy projects (for instance, by funding various onshore wind projects).
An overview of our loan portfolio and deposit base in each individual country is provided in 'Our position in the main markets'.
In addition to deposit, investment and loan products, we offer our clients a variety of other banking services, including payments, money and capital market operations, brokerage and corporate finance, trade finance, cash management and leasing. In this way too, we contribute to the economic system.

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

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

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

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

Who are we?
The specific characteristics of our business model

Group focus			What differentiates us from our peers
Geographical	**Clients**	**Activity**	
• Core countries: Belgium, Czech Republic, Slovakia, Hungary, Bulgaria • Presence in Ireland • Elsewhere in the world: limited presence to support activities in our core markets	• Private individuals • SMEs • Mid-cap enterprises	• Integrated bank-insurance	• Integrated bank-insurance model Why? Optimised one-stop offering for clients, integrated group management, enhanced diversification and spreading of risk. • Local responsiveness Why? Product and service offering tailored to local clients in each market, focus on sustainable development of the group and the communities in which we operate, affinity with local clients. • Geographical focus Why? Mix of mature and growth markets, growth and catch-up potential for financial services in Central and Eastern Europe. • Core shareholder syndicate Why? Contributes to our group's stability, continuity and long-term thinking.
10 million clients	36 000 employees (FTEs)	5 core countries	245 billion euros in total assets

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

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

Geographically, we concentrate on a strict selection of core markets in Belgium and Central and Eastern Europe. These core markets are those in which we have a banking and insurance presence, namely Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. These countries were chosen over time, beginning with Belgium as the country of origin. We gradually strengthened our presence in specific Central and Eastern European markets where the companies in question were strongly embedded at the local level.
In this way, we operate within a mix of mature and growth markets, while also taking advantage of the additional growth and catch-up potential for financial services in Central and Eastern Europe. All other activities that do not contribute to supporting client relationships in these core markets will, in principle, be discontinued. Ireland remains an exception. In the years ahead, our operations in that country will focus on raising profitability by developing the retail business.

▲ KBC employees, **Stefan Garaleas** and **Katka Hamersky**

In the core countries where we have a presence, we want to build and deepen sustainable local relationships with private individuals, SMEs and mid-caps. Local responsiveness is very important to us in that regard. It implies that we understand these local clients better, that we pick up signals effectively and respond to them proactively, and that we offer products and services tailored to these local needs. It also means that we focus on the sustainable development of the markets and communities in which we operate.

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

Want to know more?

More information on each business unit and country can be found in the 'Our business units' section.

Who are we?
Our culture and values

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

We use the acronym ‘PEARL’ to define that culture.

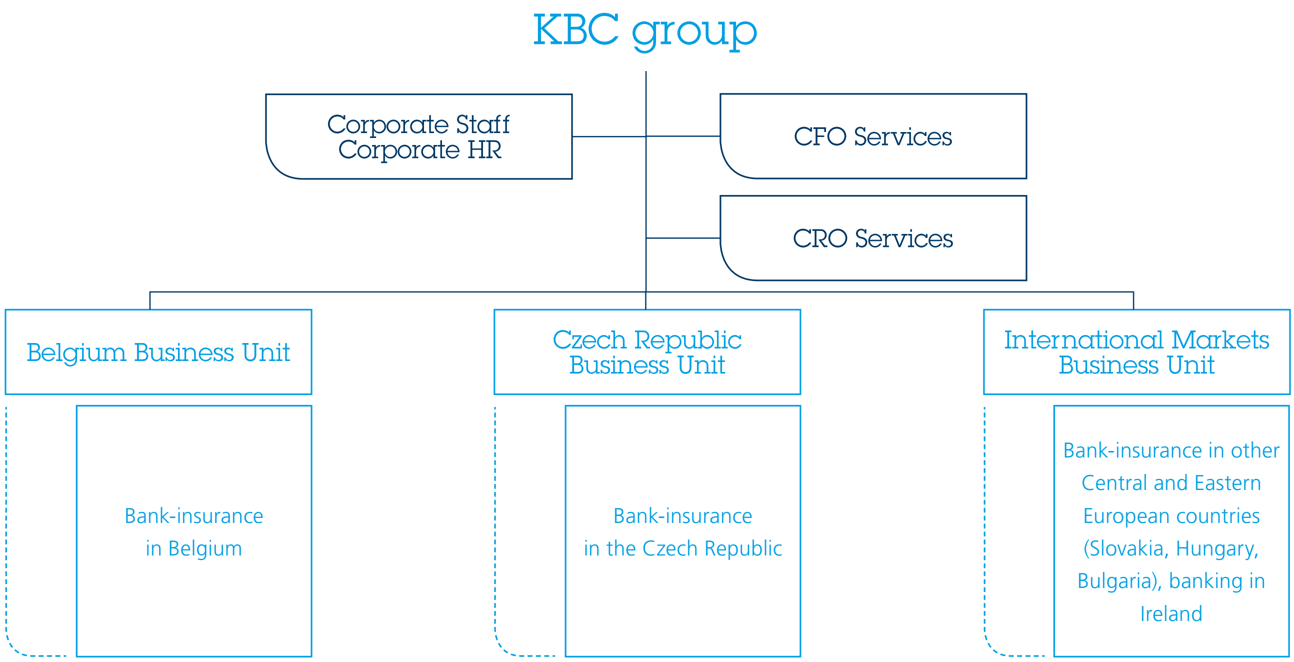
These letters stand for ‘Performance’ (we are dedicated to delivering outstanding results in everything we do and strive to continuously improve the quality of our products and services), ‘Empowerment’ (we give our employees the room and opportunity to develop their professional skills), ‘Accountability’ (we accept our individual responsibilities and disclose our results in a transparent manner), ‘Responsiveness’ (we anticipate and respond readily to the questions and suggestions of our clients and employees) and ‘Local Embeddedness’ (we embrace and respond to the diversity of our clients in our core markets).

We also champion three values for our employees, i.e. those of being ‘Respectful’ (showing respect for our internal and external clients), ‘Responsive’ (listening to clients and colleagues, and endeavouring to find a solution to their needs) and ‘Results-driven’ (delivering what we promise).

Who are we?
Our governance

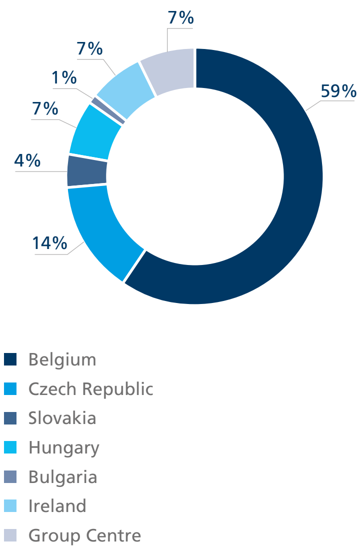
We have aligned the governance of our group with our strategic choices and our business model, and have ensured that this structure supports effective decision-making and individual accountability.

A simplified overview of the management structure is shown in the diagram below. Our group is essentially structured around three business units, which focus on the local business and are expected to contribute to sustainable earnings and growth. The business units are Belgium, the Czech Republic and International Markets (encompassing the activities in the other core countries in Central and Eastern Europe, namely Slovakia, Hungary and Bulgaria, and operations in Ireland).

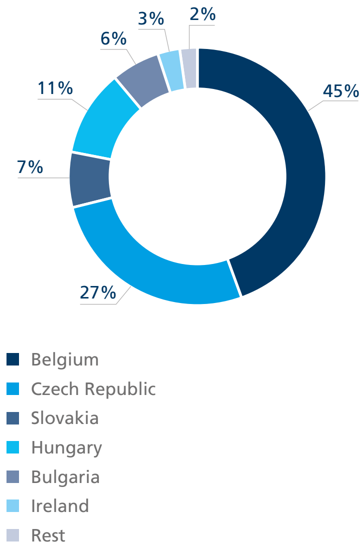


The graphs below illustrate the importance of the different business units and countries.

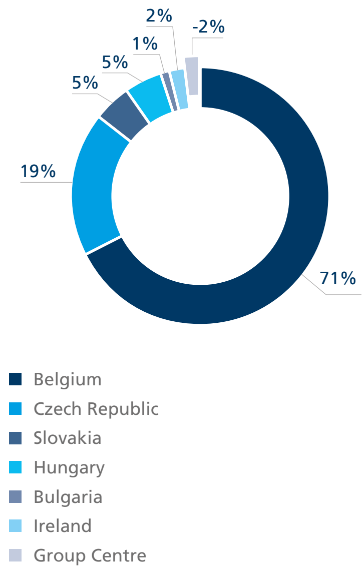
Allocated capital at year-end 2014: breakdown by business unit and country



Number of staff (in FTEs) at year-end 2014: breakdown by business unit and country



Total (adjusted) income at year-end 2014: breakdown by business unit and country



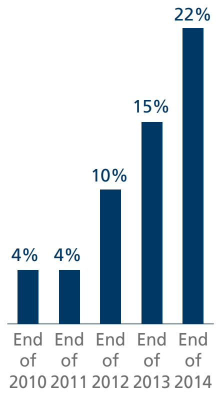
More information on the Group Centre can be found in the 'Our business units' section.

Want to know more? More detailed information on the business units can be found in the 'Our business units' section.

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

The table contains details of the composition and diversity of our Board of Directors and our Executive Committee.

Percentage of women on the Board of Directors



Composition of the Board of Directors and Executive Committee (year-end 2014)

Board of Directors	Number of members	18
	Men/Women	78%/22%
	Principal qualifications*	economics/trade/finance, law, actuarial sciences, other (mathematics, biology, philosophy, etc.)
	Nationality	Belgian, Hungarian, Czech
	Independent directors	4
Executive Committee	Number of members	6
	Men/Women	83%/17%
	Principal qualifications*	law, economics, actuarial sciences, other (mathematics, international relations)
	Nationality	Belgian, British

* Based on all qualifications (certain people have more than one degree).

The most important matters discussed by the Board of Directors in 2014 are listed in the 'Corporate governance statement' section.

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

Want to know more?

See the 'Corporate governance statement' section in this report and the group's Corporate Governance Charter at www.kbc.com.

Who are we? Our view on corporate sustainability and responsibility

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

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

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

Selection of non-financial data	Scope	2013	2014
Electricity consumption	Belgium and the Czech Republic	480 774 GJ	480 382 GJ
Water consumption	Belgium and the Czech Republic	302 708 m^3	302 173 m^3
CO_2 emissions	Belgium and the Czech Republic	56 244 tonnes	56 107 tonnes
Charity sponsorship budget	Group as a whole	4.1 million euros	4.2 million euros

Want to know more?

A variety of tables containing environmental efficiency data can be found elsewhere in this annual report.

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

Since CSR constitutes an integral part of our group's strategy, we have decided to switch to integrated reporting. The 'Our business model' and 'Our strategy' sections mark our first steps in that direction. We have consciously opted not to include a separate CSR section any longer, but to incorporate this information into the description of our model and our strategy. We also focus in this regard on a selection of what we consider the most relevant financial and non-financial data. We keep this deliberately concise, so that you are not overwhelmed by masses of information. For more details on a particular topic, please refer to the other sections of this annual report, to our other group reports, and to www.kbc.com.

Want to know more?

More information on corporate sustainability and responsibility can be found at www.kbc.com, under 'social responsibility'.

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

Major CSR achievements in recent years

Stakeholder interaction programme	We organised the first structured survey of our stakeholders in Belgium in 2013. This was extended to our Czech Republic Business Unit in 2014. We also held a comprehensive stakeholder debate in May, during which we presented our third 'Report to Society'.
Creation of an External Advisory Board for Sustainability Analysis and a CSR Board	In 2004, we set up an External Advisory Board to support our asset manager in the development of SRI funds. We established the CSR Board in 2014 as an international group of experts that supports and advises the management of the KBC group.
Separate CSR department and CSR committees in each country	We took the decision in 2012 to set up a separate CSR department reporting directly to the CEO, with responsibility for drawing up and implementing a group-wide sustainability strategy. We set up CSR committees in our core countries and Ireland in 2014, tasked with reporting on this matter and implementing local and group-wide CSR policy guidelines.
Range of sustainable products	We have offered a range of SRI funds for some time now, including our Eco Funds and our Impact Investing Funds (in which clients invest with a measurable social and ecological impact, while simultaneously generating a financial return). The group also offers a variety of other sustainable products, including IBRD Green Bonds, green loans in Hungary (to fund ecologically efficient building improvements), the KBC Environmental Policy in Belgium (soil decontamination insurance for SMEs), and microfinance and microinsurance for projects in the Global South (via BRS).

Ongoing ecological efforts	We have launched a number of initiatives in recent years to reduce our ecological footprint. Examples include: • Efforts focused on our branch network and head offices: creating various energy-efficient branches in Belgium (so-called Bamboo branches); construction of ecologically efficient head offices in the Czech Republic, Hungary, Belgium (Ghent); etc. • Attaching ecological targets to the non-recurrent variable component of employees' pay in Belgium. • Active participation in various environmental initiatives, such as *Leuven Klimaatneutraal 2030* in Leuven and *Stadslab 2050* in Antwerp (initiatives to make urban areas climate-neutral) and the establishment of a Green Team in Ireland to raise environmental awareness and reduce our ecological footprint. • Various initiatives in all core countries to help cut down the use of water, energy and paper. • Various environmental certificates and prizes, including EMAS certification for our Belgian head office, ISO 14001 certification for support services in Belgium, application for ISO 14001 certification for KBC Ireland, LEED (Leadership in Energy and Environmental Design) certification for our head offices in the Czech Republic and Hungary, etc.
Drawing up of codes of conduct for society-related themes	We have drafted codes of conduct for key themes, including: • Ethics & Fraud Policy • Whistleblower Protection Policy • Anti-Money Laundering Policy • Anti-Corruption Policy • Anti-Corruption Policy Statement • Controversial Weapons Policy (includes blacklist) • General Investment Policy • Soft Commodity Policy • Community Involvement Policy • Human Rights Statement • Environmental Policy • Investor Relations Policy • Customer Policy • Supplier Policy • Employee Policy • Responsible Tax Strategy • Employee Code of Conduct

Who are we?
Our position in the main markets

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

Belgium

- Main brands: KBC and CBC
- 818 bank branches, 459 insurance agencies, electronic channels
- 20% share of the market for traditional bank products, 37% for investment funds, 17% for life insurance and 9% for non-life insurance
- 3.5 million clients
- 89-billion-euro loan portfolio and 106 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2014: 1 516 million euros

Market environment in Belgium in 2014

- 1.0% real GDP growth, thanks to household spending, investment and exports.
- Further decline in long-term interest rates and inflation, unemployment stabilising.
- Weak credit demand from businesses; growth in demand for mortgage loans due to announcement of less favourable tax regime as from 2015. Strong growth in business deposits, slowdown in household deposits in favour of investment funds.
- Forecast real GDP growth of 1.3% in 2015.

Czech Republic

- Main brand: ČSOB
- 319 bank branches, various distribution channels for insurance, electronic channels
- 20% share of the market for traditional bank products, 27% for investment funds, 6% for life insurance and 7% for non-life insurance
- 4 million clients
- 19-billion-euro loan portfolio and 22 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2014: 528 million euros

Market environment in the Czech Republic in 2014

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

Slovakia

- Main brand: ČSOB
- 129 bank branches, various distribution channels for insurance, electronic channels
- 10% share of the market for traditional bank products, 6% for investment funds, 5% for life insurance and 3% for non-life insurance
- 0.6 million clients
- 5.1-billion-euro loan portfolio and 4.9 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2014: 75 million euros

Market environment in Slovakia in 2014

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

Want to know more? See the 'Our business units' section of this report.

Hungary

- Main brand: K&H
- 210 bank branches, various distribution channels for insurance, electronic channels
- 9% share of the market for traditional bank products, 16% for investment funds, 3% for life insurance and 5% for non-life insurance
- 1.5 million clients
- 5.1-billion-euro loan portfolio and 5.2 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2014: -94 million euros

Market environment in Hungary in 2014

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

Bulgaria

- Main brands: CIBANK and DZI Insurance
- 103 bank branches, various distribution channels for insurance, electronic channels
- 3% share of the market for traditional bank products, 10% for life insurance and 10% for non-life insurance
- 0.5 million clients
- 0.8-billion-euro loan portfolio and 0.6 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2014: 15 million euros

Market environment in Bulgaria in 2014

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

Ireland

- Main brand: KBC Bank Ireland
- 12 bank branches, electronic channels
- 10% share of the market for retail mortgage loans, 5% for retail deposits
- 0.2 million clients
- 14.5-billion-euro loan portfolio and 4.2 billion euros in deposits and debt securities
- Contribution to adjusted net profit in 2014: -179 million euros

Market environment in Ireland in 2014

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

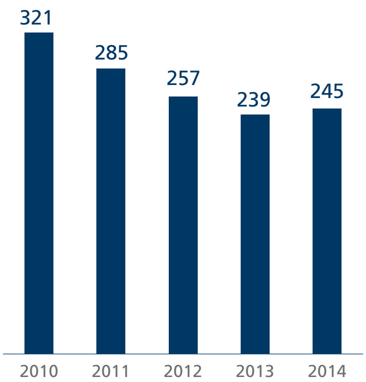
Who are we?
Our financial performance

We included an overview of our most important financial data (balance sheet figures, results, share data, financial ratios) and their development over the past five years under 'Key figures' at the beginning of this annual report. We carried out an onerous divestment programme during that period, as reflected in the steady decline in our total assets. That programme has now been completed.

Our business model remained profitable and efficient in the years in question, despite the difficult market conditions. This was demonstrated in part by the change in our adjusted net profit (to put it simply, net profit corrected for the influence of divestments and CDOs) and our cost/income ratio. During that time, we also maintained a strong capital base. We take a closer look at the financial results in the 'Consolidated results in 2014' section.

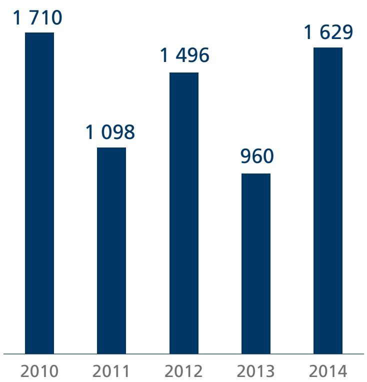
A slimmed-down group …

Total assets
(in billions of EUR)



with strong operating results …

Net profit
(adjusted, in millions of EUR)



Underlying result for 2010 and 2011

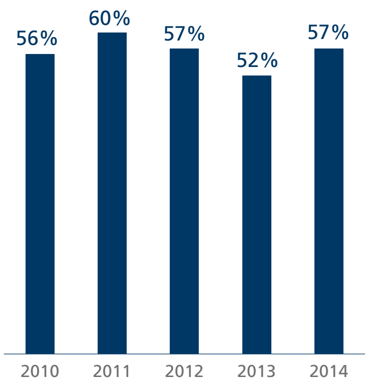
Selection of financial data*

(KBC group as a whole)		2013	2014	change
Total assets	millions of EUR	238 686	245 174	+3%
Loans and advances to customers	millions of EUR	120 371	124 551	+3%
Deposits from customers and debt securities	millions of EUR	161 135	161 783	+0%
Technical reserves, insurance (incl. unit-linked)	millions of EUR	30 488	31 487	+3%
Total equity	millions of EUR	14 514	16 521	+14%
Risk-weighted assets (fully loaded Basel III, Danish compromise method)	millions of EUR	91 216	91 236	+0%
Net result	millions of EUR	1 015	1 762	+74%
Adjusted net result	millions of EUR	960	1 629	+70%
Total income (adjusted result)	millions of EUR	7 127	6 647	-7%
KBC share price (closing price, in EUR)	EUR	41.3	46.5	+13%
Gross dividend per share (proposal, in EUR)	EUR	0.00	2.00	–
Net interest margin	%	1.90%	2.08%	+0.18 percentage points
Cost/income ratio, banking (based on adjusted result)	%	52%	57%	+5 percentage points
Combined ratio, non-life insurance	%	94%	94%	+0.8 percentage points
Credit cost ratio	%	1.21%	0.42%	-0.79 percentage points
LCR	%	131%	120%	-11 percentage points
NSFR	%	111%	110%	-1 percentage point
Common equity ratio (fully loaded Basel III, Danish compromise method)	%	12.8%	14.3%	+1.5 percentage points

* The change in the different figures and ratios has been affected by various one-off factors. For more information, definitions and explanations, see the 'Consolidated results in 2014' section.

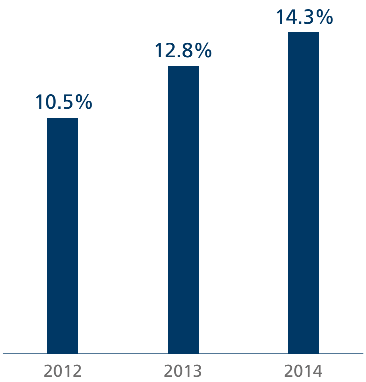
a focus on efficiency …

Cost/income ratio
(based on adjusted results)



and a solid capital base

Common equity ratio
(fully loaded Basel III, Danish compromise method)



Want to know more?

Detailed information on our financial performance can be found in our presentations and reports at www.kbc.com.

Who are we?
Major achievements in the past five years

Recent years have been extremely turbulent and challenging ones for the world economy and for the financial sector in particular. Like many of our sector peers, we too were adversely affected by the financial crisis and had to adjust to the changed world.
A substantial proportion of our efforts therefore were focused on measures relating to repayment of the state aid we received and the associated divestment plan. At the same time, however, we redefined our strategy, thought about sustainability and developed numerous new products and services. An overview of what we achieved in those years, and which brought us to where we are today, is provided below.

Major achievements in recent years	Explanation	More information in this report
Stronger positioning of CSR within the organisation	We refer in this regard to the 'Major CSR achievements in recent years' table in this section.	'Our business model' section
Formulation and roll-out of an updated strategy	We redefined our business model and strategy. With our focus on bank-insurance in five core countries, we aim to be one of Europe's best-performing retail-oriented financial institutions.	'Our strategy' section
Roll-out of a business-driven management structure and adjustment of highest management bodies	We introduced a management structure based on three business units (Belgium, the Czech Republic and International Markets), which focus on the local business and are expected to contribute to sustainable earnings and growth. Over the past five years, we have reduced the number of members of our Board of Directors and our Executive Committee, and have introduced measures to enhance diversity (gender, background, nationality, etc.).	'Our business model' section and 'Corporate governance statement' section

Major achievements in recent years	Explanation	More information in this report
Key product renewals	We developed a variety of new products and services, including numerous innovative investment funds in different countries, the Bolero crowdfunding platform, and innovative funeral insurance and long-term care insurance in Belgium. We made enormous strides in the field of electronic and mobile banking and insurance, including the launch of various mobile apps in different countries, KBC Touch in Belgium, electronic power of attorney management, *Start it @kbc* (a platform for business start-ups) and various new websites.	'Our business units' section
Advanced repayment of state aid and full implementation of the divestment plan imposed by Europe	We received 7 billion euros in aid from the Belgian Federal and Flemish Regional governments in 2008 and 2009. By the end of 2014, 5 billion euros had already been repaid, and we intend to repay the full amount by the end of 2017. The provision of state aid was accompanied by the requirement to divest a number of group companies and activities. By the end of 2014, the divestment plan had been fully implemented. A list of group companies that have been sold can be found in the 'Group Centre' section.	'Additional information' and the 'Our business units' section ('Group Centre')
Complete run-down of CDO portfolio and significant decline in GIIPS government bonds; implementation of various capital-strengthening measures	The main initiatives to help reduce our risk profile included the complete run-down of our CDO exposure (from 25 billion euros originally) and the sharp contraction in our portfolio of government paper from GIIPS countries (from 16 million euros to less than 5 billion euros). We strengthened our capital base, apart from the reserved profit, by measures including a capital increase in 2012, the sale of treasury shares in 2013 and the issue of loss-absorbing AT1 instruments in 2014.	'Risk management' section and 'Capital adequacy' section

Our business model and strategy

Part 2: Our strategy

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

The core of our strategy for the future

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

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

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

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

Sustainability

putting the client's interests at the centre

focusing on long-term performance

being responsive to the expectations of society

ensuring stringent risk management

Our goal:
to put the client at the centre of our business culture

Sustainability

putting the client's interests at the centre

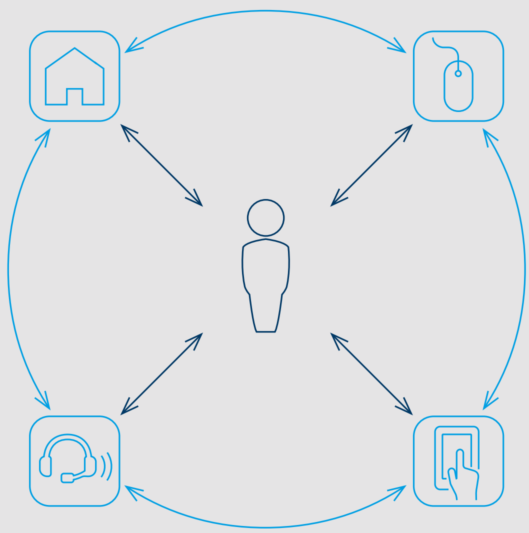
focusing on long-term performance

being responsive to the expectations of society

ensuring stringent risk management

We want to create added value for our clients by accurately meeting their needs in terms of financial products. Therefore, everything at KBC is based on the client's needs and not on our banking or insurance products and services. To ensure this happens, we analyse a raft of information in our databases. We want to allow clients to decide for themselves whether they want a more personalised approach and the resultant offering. Clients who so wish can then change their privacy requirements at any time. It is also the client who chooses how and when these products and services are provided and through which distribution channel. That's why the different channels are accorded equal status at KBC and need to seamlessly complement and reinforce each other.
With this in mind, we intend to invest around 0.5 billion euros between 2014 and 2020.

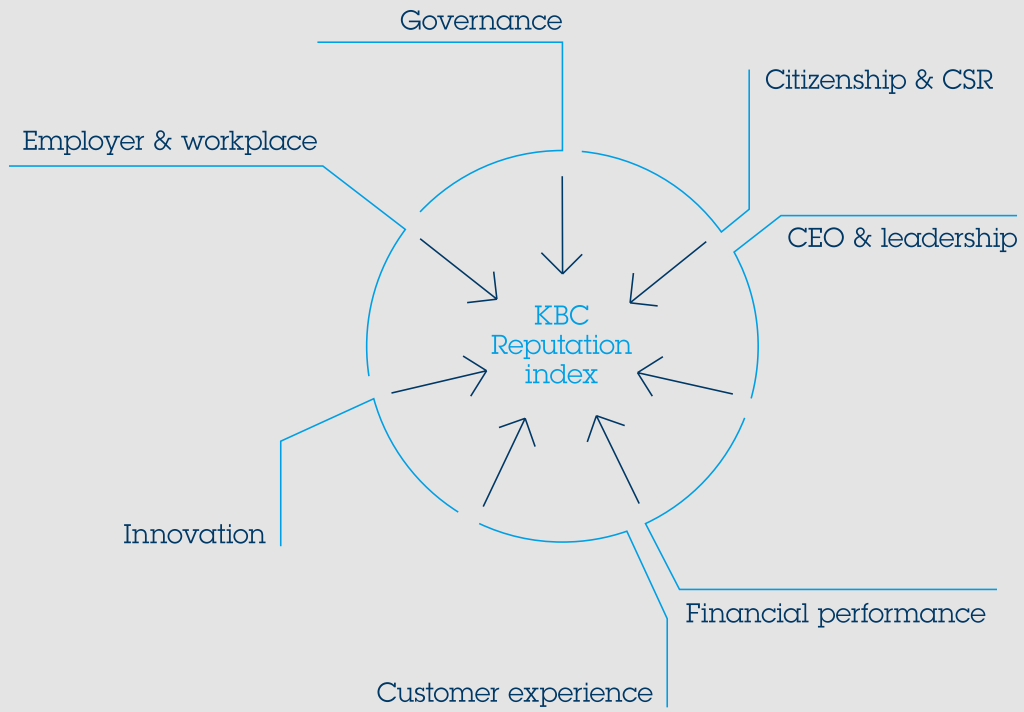
Given that each of our core markets has its own local needs and focuses, each country will make the necessary changes and investments at its own pace to create a dynamic and client-centric distribution model. This will enable the optimum deployment of staff and efficient targeting of investments to where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



We want not only to respond to our clients' needs, but also to shield them from certain risks. As a bank, we are working in each of our core markets, for instance, on solutions for clients who need to get through a difficult financial period (by postponing repayment, adjusting credit terms, setting up debt repayment plans, etc.). As an insurer, our focus is firmly on prevention, health and safety, with a variety of prevention campaigns being launched throughout the year.

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

In 2014, we commissioned an external party to conduct a reputation study in all our core countries. Our company's reputation is influenced by a variety of factors (see diagram on page 33). Our group-wide reputation study gives us an idea of how our company is perceived as a bank-insurer and the opportunity to define actions in response. The general findings from the study indicated that confidence in the economic situation and in the financial sector in our core countries remains fairly low. Based on the individual scores, we will take initiatives in each country to improve the results.



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

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

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

The most important Key Performance Indicators (KPIs) relating to reputation and client satisfaction are set out in the table below.

KPI	What	Target	2014 result
Reputation index	This tool gives a general idea of how 'being the reference' is perceived among key stakeholder groups, particularly, among the general public. The index reflects the overall public attitude towards the company and is influenced by the performance of seven manageable reputation drivers, which are also measured in this annual strategic study. The survey is performed and followed up by the external firm Ipsos.	To be among the top performers in the financial benchmarks* in each country	Belgium: progress Czech Rep.: achieved Slovakia: progress Hungary: achieved Bulgaria: achieved Ireland: progress
Client experience	Client experience is measured on the basis of responses to statements such as: 'Offers quality products and services', 'Offers transparent products and services', 'Is easy to interact with', 'Offers good value for money' and 'Understands client needs'. The survey is performed and followed up by the external firm Ipsos.	To be among the top performers in the financial benchmarks* in each country	Belgium: progress Czech Rep.: progress Slovakia: progress Hungary: achieved Bulgaria: achieved Ireland: progress

* In Belgium: BNP Paribas Fortis, ING, Argenta, AXA, Ethias; in the Czech Republic: Air Bank, GE Money Bank, Česká spořitelna, Komerční banka, Kooperativa pojišt'ovna , Česká pojišt'ovna; in Hungary: OTP Bank, Erste Bank Hungary, Budapest Bank, CIB Bank, Raiffeisen Bank Hungary, UniCredit Bank Hungary; in Slovakia: Slovenská sporitel'ňa , VUB Banka, Tatra banka, Prima banka, Sberbank Slovensko; in Bulgaria: CCB Bank, Allianz Bank Bulgaria, Piraeus Bank Bulgaria, Alpha Bank Bulgaria, Bulstrad, Armeec; in Ireland: Credit Union, Zurich Ireland, Permanent TSB, Bank of Ireland, Ulster Bank, AIB. In the first instance, the scores relate solely to Flanders for Belgium, to ČSOB Bank for the Czech Republic and to CIBANK for Bulgaria.

Our goal:
to focus on sustainable long-term performance

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

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

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

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

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

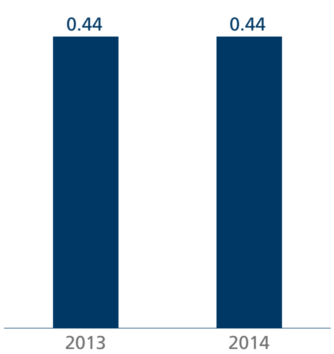
A few of the most important strategic initiatives in the years ahead are set out per country in the table below.

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

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

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

Bank-insurance income (gross)
(in billions of EUR*)



* Fee and commission income received by the bank from the linked insurer plus insurance income for insurance products sold through bank branches.

Sustainable and long-term thinking also means that we go beyond pure financial operations and deliver initiatives that offer genuine, long-term support for the local economies in which we operate.

The 'Start it' project in Belgium is an excellent example in this regard. We launched *Start it @kbc* in 2013 in response to the fact that the cost and other difficulties of creating a new business has been one of the main reasons for the decline in the number of start-ups in Flanders. The aim here is for KBC, together with

a number of partners, to help start-ups with various aspects of doing business, such as making contacts and developing a network. We have also made office space available to start-ups at the KBC Tower in Antwerp. The project is targeted primarily at businesses with an innovative approach that are capable of contributing to a sustainable local economy. The 'Start it' project has been extended in the meantime to Hasselt, Ghent and Leuven. A total of 118 companies took part in the initiative in 2014.

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

KPI	What	Target		2014 result	
GROWTH AND EFFICIENCY					
CAGR of total income	Compound annual growth rate (CAGR) of total income. The calculation is based on the adjusted results, excluding fluctuations in value of the ALM derivatives used for asset/liability management purposes.	2013–2017		2013–2014	
		Group:	≥ 2.25%	Group:	0%
		Belgium:	≥ 2%	Belgium:	+5%
		Czech Rep.:	≥ 3%	Czech Rep.:	+3%[1]
		Slovakia:	≥ 3%	Slovakia:	+1%
		Hungary:	≥ 4%	Hungary:	-40%[1] / +3%[1, 2]
		Bulgaria:	≥ 3%	Bulgaria:	+4%
		Ireland:	≥ 25%	Ireland:	+20%
CAGR of gross bank-insurance income	Compound annual growth rate of: [fee and commission income received by the bank from the linked insurer] + [insurance income for insurance products sold by the bank].	2013–2017		2013–2014	
		Group:	≥ 5%	Group:	-2%
		Belgium:	≥ 5%	Belgium:	-3%
		Czech Rep.:	≥ 15%	Czech Rep.:	+12%[1]
		Slovakia:	≥ 10%	Slovakia:	-5%
		Hungary:	≥ 20%	Hungary:	+12%[1]
		Bulgaria:	≥ 5%	Bulgaria:	-14%
Cost/ income ratio	[operating expenses of the banking activities] / [total income of the banking activities]. The calculation is based on the adjusted results.	By 2017		2014	
		Group:	≤ 53%	Group:	57%
		Belgium:	≤ 50%	Belgium:	50%
		Czech Rep.:	≤ 45%	Czech Rep.:	48%
		Slovakia:	≤ 58%	Slovakia:	62%
		Hungary:	≤ 62%	Hungary:	125% / 69%[2]
		Bulgaria:	≤ 67%	Bulgaria:	63%
		Ireland:	≤ 50%	Ireland:	96%
Combined ratio	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	By 2017		2014	
		Group:	≤ 94%	Group:	94%
		Belgium:	≤ 94%	Belgium:	94%
		Czech Rep.:	≤ 94%	Czech Rep.:	94%
		Slovakia:	≤ 94%	Slovakia:	83%
		Hungary:	≤ 96%	Hungary:	96%
		Bulgaria:	≤ 96%	Bulgaria:	101%

KPI	What	Target	2014 result
FOCUS ON SUSTAINABILITY			
Innovation	Innovation relates to: 'Launches innovative products/services faster than competitors', 'Continuously innovates to improve client experience', 'Exceeds client expectations', 'Uses advanced technologies'. The survey is performed and followed up by the external firm Ipsos.	To be among the top performers in the financial benchmarks[3] in each country	Belgium: progress Czech Rep.: progress Slovakia: achieved Hungary: achieved Bulgaria: achieved Ireland: achieved
Position in sustainable funds	Market share in SRI funds (based on KBC's own calculations)	Market leadership in Belgium	Yes (49% market share at end-September 2014)

1 CAGR ratios calculated in local currency for the Czech Republic and Hungary.
2 Excluding the impact of provisioning related to new legislation on retail loans in Hungary.
3 See list of benchmarks in the KPI table under 'Our goal: to put the client at the centre of our business culture'.

Want to learn more? More information on strategy by business unit and country can be found in the 'Our business units' section.

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

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

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

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

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

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

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

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

The items considered as important and for which we scored well ('Foster') were:

- quality of products and services;
- financial stability;
- sound risk policy;
- combating corruption;
- bank-insurance with respect for all stakeholders.

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

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

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

Our relationship with our employees

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

In our HR policy, recruitment and promotion policy or in our remuneration systems, we do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation. Equal treatment of employees is also enshrined in the *KBC Code of Conduct* and in the various manifestos and charters KBC has endorsed. As an employer, KBC wants to give a clear signal to society: we treat our employees in

Results of the survey of stakeholders in Belgium and the Czech Republic

Stakeholders' views

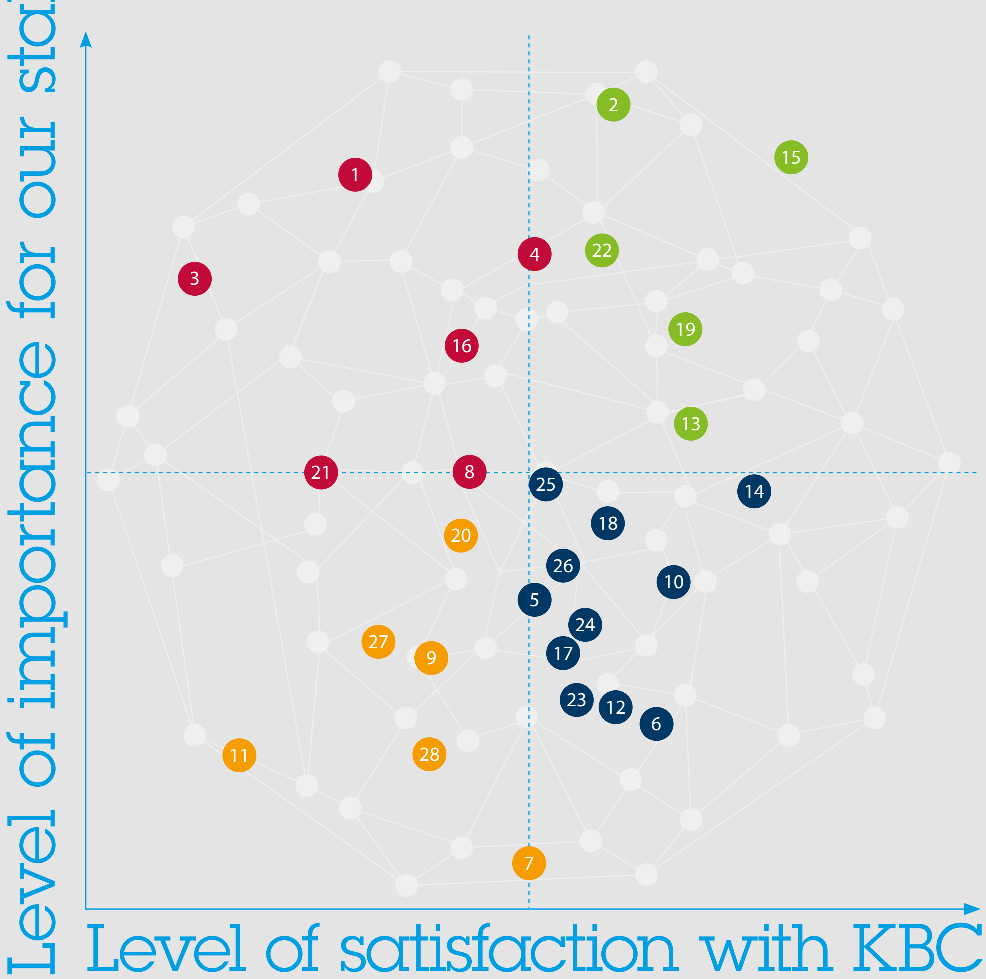
A comparison of the results of the five groups of stakeholders yields the following results.

Foster:
- **02** Quality of products and services
- **15** Financial stability
- **22** Responsible risk management
- **19** Combating corruption, fraud and money laundering
- **13** Bank-insurance with respect for all stakeholders

Maintain:
- **25** Funding and insurance of the (local) economy
- **18** Offering of products in line with risk profile
- **14** Profitability
- **26** Funding and insurance of the social profit sector
- **05** Access to financial services for everyone
- **24** Relationship with government
- **10** Training opportunities
- **17** Offering of socially responsible investment products
- **23** Attention to the environment
- **12** Job security
- **06** Proximity of branches

Monitor:
- **20** Measures taken relating to the rise in the ageing population
- **27** Support for combating poverty
- **09** Pay policy
- **11** Bonus policy
- **28** Support for charities
- **07** International presence

Improve:
- **01** Transparency of products and services
- **03** Price/quality ratio
- **04** Consumer protection
- **08** Equal opportunities for all employees
- **16** Short and long-term strategy
- **21** Products tailored to each stage of life



Improve
These are the items that our stakeholders consider important but on which KBC scores less well.

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

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

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

a socially responsible manner and that relationship is grounded in mutual trust and respect.

In the Czech Republic, for example, diversity is one of the main areas of focus. ČSOB has launched initiatives for three specific groups of employees, viz. female staff members, people with disabilities and people aged 55 and over. Among these initiatives are the provision of child care facilities, support for female senior management and flexible working arrangements.

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

Our HR policy sets out to stimulate talent. One of the ways used to achieve this is by aligning our group HR systems and processes with our core values. This is illustrated by examples like our Reward4Work system (a motivational remuneration package consisting of fixed and variable components, including the Cafeteria Plan), the new competence model (with a clear focus on employee autonomy, result-orientation and initiative) and a constant focus on the training of our employees, which contributes in turn to employee satisfaction and involvement.

We pay particular attention to the lifelong employability of our staff by offering them more training and development opportunities. With the roll-out of Minerva (our programme for older employees in Belgium), we have taken a radical step by shifting from a standard to a more individualised approach that is geared to their needs. We are responding in this way to demographic developments, while also preparing people to work for longer.

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

The table below provides an overview of the total workforce and a breakdown into various categories.

Number of staff, KBC group
(excluding entities that fell under the scope of IFRS 5 on the respective reporting dates)

	31-12-2013	31-12-2014
In FTEs	36 177	36 187
In %		
Belgium	45%	45%
Central and Eastern Europe	51%	51%
Rest of the world	4%	4%
Belgium Business Unit	35%	35%
Czech Republic Business Unit	23%	23%
International Markets Business Unit*	30%	29%
Group Functions and Group Centre	12%	13%
Men	43%	43%
Women	57%	57%
Full-time	81%	81%
Part-time	19%	19%
Average age	42	42
Average seniority	13.6	13.6
Average number of sick days/FTE	2.7	2.8
Number of training days/FTE	10	9

* Includes the International Product Factories Business Unit for 2013.

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

Our relationship with government

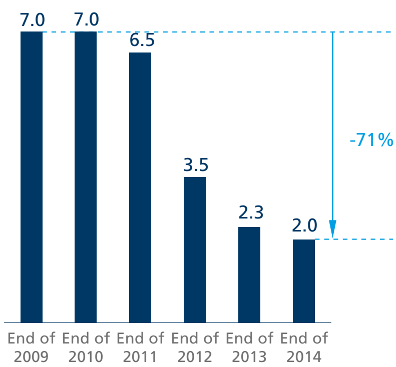
Taking account of the government's priorities is even more important to us, given that we received direct aid from the Belgian Federal and Flemish Regional governments – and hence from the taxpayer – in 2008 and 2009. This state aid stood at an initial 7 billion euros, of which we have already repaid 5 billion euros (plus penalties) in recent years. We intend to speed up the repayment of the remaining 2 billion euros (plus 50% penalty) in state aid to the Flemish Regional Government and to have paid back the last instalment by no later than the end of 2017.

In 2009, we also signed an agreement with the Belgian State regarding a guarantee for a substantial part of our structured credit portfolio (CDOs). The plan comprised a notional amount that initially totalled 20 billion euros. However, thanks to the scaling back of the CDO exposure to zero, the guarantee agreement has since been terminated.

Of course, our relationship with government is not confined solely to state aid. Like any other profitable business, we pay the tax owed on our profit and we are subject in several countries to additional bank taxes, which are not related to profit. The aggregate amount of all these taxes was 949 million euros in 2014, compared with 892 million euros in 2013.

Besides lending to private individuals and companies, we also pump money into the economy by lending directly and indirectly to government. At the end of 2014, for instance, we invested approximately 25 billion euros in Belgian government paper. 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.

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



▲ **Andrea Blomme** and her husband, Hans, got to know Stefan and Katka at KBC, and the colleagues ended up as friends.

'Hans and I were working for the same company in Ireland, and it was there that Cupid struck. Our careers took us around Europe, more specifically to Poland, Slovakia and Sweden. Then Hans decided to apply for a job at KBC. His experience in Central and Eastern Europe gave him the ideal profile for the position. And mine too when I applied for a vacancy, especially because I also speak Slovak and Czech. So now we're colleagues once again.'

As previously stated, we intend to repay the outstanding state aid by year-end 2017 at the latest. We will use an estimated one-third of the capital surplus that will be available between mid-2014 and 2017 for this purpose. We also want to use roughly another one-third of this surplus for organic growth and/or acquisitions, as well as to address situations of regulatory or other uncertainty. We will use the remaining one-third to enable us to pay a dividend of at least 50% of our annual profit (including the coupon on the state aid and the outstanding additional tier-1 instruments) from 2016 on to our shareholders, the government and the investors in additional tier-1 instruments.

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

KPI	What	Target	2014 result
Formal stakeholder process	Does the entity have a formal process to interact with its stakeholders? (materiality index, GRI methodology)	Existence of formal process, in each country	Belgium: yes Czech Rep.: yes Slovakia: partial Hungary: partial Bulgaria: partial Ireland: partial
Governance	'Governance' refers to the statements: 'Behaves ethically', 'Is open and transparent ', 'Acts as an accountable company', 'Is a responsive company', 'Complies with laws, regulations and industry policies'. The survey is performed and followed up by the external firm Ipsos.	To be among the top performers in the financial benchmarks* in each country	Belgium: progress Czech Rep.: progress Slovakia: progress Hungary: achieved Bulgaria: progress Ireland: progress
Repayment of remaining state aid	7 billion euros in non-voting core-capital securities was originally sold to the Belgian Federal and Flemish Regional governments in 2008 and 2009. Reduced via a series of repayments to 2 billion euros (owing to the Flemish Regional Government) at year-end 2014.	Repayment in full by no later than year-end 2017	5 billion of 7 billion euros already repaid
Dividend payout ratio	[(gross dividend x number of shares entitled to dividend) + (any coupon on remaining state aid and on outstanding AT1 securities)] / [consolidated net result]	≥ 50% from financial year 2016	–

* See list in the KPI table under 'Our goal: to put the client at the centre of our business culture'.

Our goal: to embed our ambitions within a stringent risk management framework

Sustainability

putting the client's interests at the centre

focusing on long-term performance

being responsive to the expectations of society

ensuring stringent risk management

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

We have already fully embedded risk management in our strategy and our decision-making process.

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

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

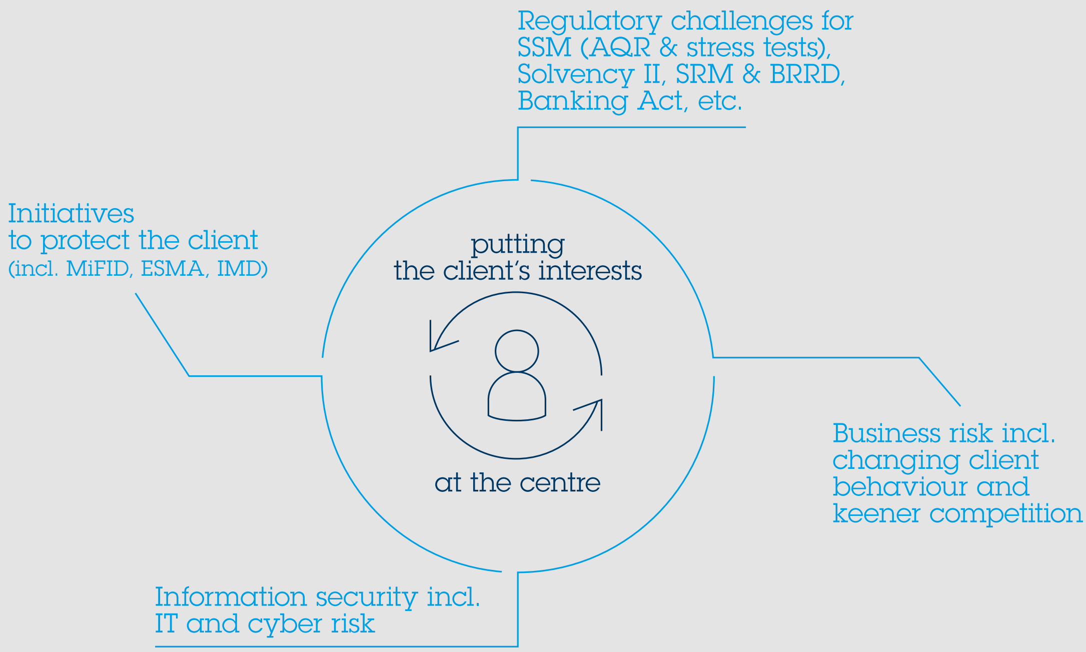
Our risk management is based on a 'Three Lines of Defence' model, to shield us against risks that might threaten the achievement of our goals (see table below).

Our 'Three Lines of Defence' model

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

Although the activities of a large financial group are inherently exposed to various risks that only become apparent in retrospect, we can currently identify a number of major challenges and priorities for our group, which are set out below.

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



Want to learn more?

You can find several examples of recent product developments in the 'Our business units' section of this report.

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

The diagram shows the specific priorities we have set ourselves for the coming years with regard to risk management.

- The main priority is to put the client at the centre of our risk management efforts, too. This requires risk management to support the business side in the offering of appropriate, fair and sustainable products and services.
- An important element in this is protecting the client from unfair or inappropriate practices. Client protection is also increasingly enshrined in regulations like the Markets in Financial Instruments Directive/Regulation (MiFID/MiFIR) and the Insurance Mediation Directive (IMD), and in various initiatives launched by the European Securities and Markets Authority (ESMA).

I've lots of options open to me

Joaquin Heye

▲ **Joaquin Heye**, godparent to Alexander, Katka and Stefan's young son.

'I'm in my final year studying economics and modern languages, so I've lots of options open to me. Outside of school, my main interests are music, rugby, football and the scouts. I want to become a leader in the scouts next year and to take part in a group camp abroad. Is there still enough on my savings account?'

- Increasing regulation in general is a key risk for us, as it is for the financial sector as a whole. A great deal of attention is paid in this regard to the foundations of the Banking Union: on the one hand, harmonised supervision by the European Central Bank of the most important euro-area banks (Single Supervisory Mechanism, SSM), preceded by a 'health check' in the form of an Asset Quality Review (AQR) and a stress test; and on the other, the Single Resolution Mechanism, applying to the same banks, based on the rules of the Bank Recovery and Resolution Directive (BRRD), which apply EU-wide. At national level, the new Banking Act in Belgium represents an important development in terms of prudential legislation and crisis management. For the insurance sector, meanwhile, Solvency II (SII) will impose new solvency rules with effect from 2016.
- We also view cyber risk, including hacking, as a key risk. Cyber-attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm.
- Business risk arises whenever changes in external factors threaten to undermine demand for our products and services, or their profitability. Significant causes of this type of risk include changes in the competitive environment or shifting client behaviour.

In addition to these general risks, we are inherently exposed as a bank-insurer to sector-specific risks such as credit risk, country risk, interest rate risk, foreign exchange risk, insurance underwriting risk and operational risk. A summary of the most important banking and insurance-specific risks can be found on the next page.

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

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

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

KPI	What	Target	2014 result
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation includes in the numerator the core-capital securities sold to the government that are grandfathered by the regulator. The calculation shown here is on a fully-loaded basis and according to the Danish compromise method.	≥ 10.5% in 2014, at group level	14.3%
Total capital ratio	[total regulatory capital] / [total risk-weighted assets]. The calculation includes in the numerator the core-capital securities sold to the government that are grandfathered by the regulator. The calculation shown here is on a fully-loaded basis and according to the Danish compromise method.	≥ 17% in 2017, at group level	18.3%
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding].	≥ 105% in 2014, at group level	110%
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days].	≥ 105% in 2014, at group level	120%

Want to learn more? Detailed information can be found in the 'Risk management' and 'Capital adequacy' sections in this report.

Consolidated results in 2014

Our financial report

- Net profit of 1 762 million euros and adjusted net profit of 1 629 million euros.
- Higher net interest income and net fee and commission income.
- Increased lending and deposits in virtually all core markets.
- Sound combined ratio for non-life insurance of 94%.
- Higher sales of life insurance.
- Costs stable on a comparable basis.
- Sharp decline in loan loss provisioning, especially in Ireland.
- Negative impact of new legislation on retail loans in Hungary and valuation of derivatives used for asset/liability management purposes.
- Robust solvency with fully loaded common equity ratio of 14.3%.

Consolidated income statement, KBC group (in millions of EUR)[1]		**IFRS**		**Adjusted result**
	2013	**2014**	**2013**	**2014**
Net interest income	4 077	4 308	3 990	4 268
Interest income	8 343	7 893	–[3]	–[3]
Interest expense	-4 266	-3 586	–[3]	–[3]
Non-life insurance (before reinsurance)	536	512	536	512
Earned premiums	1 259	1 266	1 259	1 266
Technical charges	-723	-754	-723	-754
Life insurance (before reinsurance)[2]	-242	-216	-242	-216
Earned premiums	1 132	1 247	1 132	1 247
Technical charges	-1 373	-1 463	-1 373	-1 463
Ceded reinsurance result	-5	16	-5	16
Dividend income	47	56	41	47
Net result from financial instruments at fair value through profit or loss	1 191	227	779	233
Net realised result from available-for-sale assets	252	150	213	144
Net fee and commission income	1 469	1 573	1 473	1 580
Fee and commission income	2 268	2 245	–[3]	–[3]
Fee and commission expense	-798	-672	–[3]	–[3]
Other net income	122	94	343	62
Total income	**7 448**	**6 720**	**7 127**	**6 647**
Operating expenses	-3 843	-3 818	-3 798	-3 775
Impairment	-1 927	-506	-1 723	-615
on loans and receivables	-1 714	-587	-1 632	-554
on available-for-sale assets	-34	-29	-20	-29
on goodwill	-7	0	-7	0
other	-173	109	-64	-33
Share in results of associated companies	30	25	30	25
Result before tax	**1 708**	**2 420**	**1 636**	**2 281**
Income tax expense	-678	-657	-662	-652
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**1 029**	**1 763**	**974**	**1 629**
Result after tax, attributable to minority interests	14	0	14	0
Result after tax, attributable to equity holders of the parent (net result)	**1 015**	**1 762**	**960**	**1 629**
Adjusted net result by business unit				
Belgium			1 570	1 516
Czech Republic			554	528
International Markets			-853	-182
Group Centre			-311	-234
Return on equity			9%	13%
Cost/income ratio, banking			52%	57%
Combined ratio, non-life insurance			94%	94%
Credit cost ratio, banking			1.21%	0.42%

1 For a definition of the ratios, see 'Glossary of ratios'. The adjusted results are defined in this section of the report. Note that the 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard (see 'Additional information').

2 Figures for earned premiums (and technical charges) do not include investment contracts without DPF, which roughly correspond to unit-linked life insurance contracts (0.9 billion euros in premiums in 2013, 0.8 billion euros in 2014).

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.

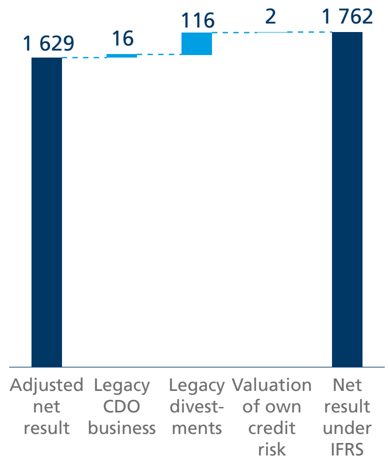
Calculating the adjusted result

To provide an even clearer insight into the operating results, we have provided – in addition to the income statement according to IFRS – an adjusted presentation of the income statement (the 'Adjusted result' columns in the table on the previous page), in which we exclude a limited number of non-operating items under the usual headings.

These items, and their impact in 2014, are:

- Legacy CDO business: includes changes in the value of CDOs held in portfolio; the fee for the CDO guarantee agreement with the Belgian Federal Government; costs and gains related to scaling down the exposure to CDOs; and the impact of MBIA coverage. All this had a positive effect totalling 16 million euros (after taxes) in 2014. The final two CDOs were collapsed at the beginning of October, meaning that the overall CDO exposure has been scaled down to zero over a five-year period. For the record, we would point out that KBC is the counterparty to and issuer of (and consequently has bought risk cover for) a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, minor movements may yet be recorded in the income statement in the near future depending on changes in the value of these notes.
- Legacy business of divestment companies: comprises gains, losses and impairment charges on group companies on the divestment list. In 2014, it related primarily to the positive impact of the reversal of previously recorded impairment charges on Antwerp Diamond Bank, as the planned sale did not go ahead and was replaced with a run-down scenario (see 'Group Centre' for more information). On balance, this – combined with several smaller items – had a positive impact of 116 million euros (after taxes) in 2014.

Reconciliation
Adjusted net result – net result under IFRS
(2014, in millions of EUR)



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

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

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

The result information by segment (business unit) is based on the adjusted overview, and the excluded items (the legacy business relating to CDOs and divestment companies, and the valuation of own credit risk) are allocated in their entirety to the Group Centre.

The overview of adjusted results is also presented as segment reporting in the consolidated financial statements and thus complies with IFRS 8. This standard specifies that IFRS principles should be deviated from if such deviation reflects the management view. That is indeed the case, as the relevant results are an important element in assessing and managing the business units. The statutory auditor has audited the segment reporting presentation as part of the consolidated financial statements.

Key consolidated balance sheet, solvency and liquidity figures

Selected balance-sheet and solvency items, KBC group (in millions of EUR)	**2013***	**2014**
Total assets	238 696	245 174
Loans and advances to customers	120 371	124 551
Securities (equity and debt instruments)	64 904	70 359
Deposits from customers and debt securities	161 135	161 783
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	30 488	31 487
Risk-weighted assets	91 216	91 236
Total equity	14 514	16 521
Common equity ratio (fully loaded Basel III, Danish compromise method)	12.8%	14.3%
Liquidity coverage ratio (LCR)	131%	120%
Net stable funding ratio (NSFR)	111%	110%

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

Additional information

- The (now completed) divestment programme obviously influences the comparison of results between 2013 and 2014:
  - The results for the divested group companies are included in principle in the group results until the moment of sale. The period for which the results of the most important of these companies are recognised in the group result can be found in the table on the main acquisitions and divestments (on the page after the consolidated cashflow statement), in the 'Consolidated financial statements' section. In the analysis in the following pages, we also show – where relevant – the percentage comparisons corrected for the most important changes in scope (see 'on a comparable basis'). This means that Absolut Bank, KBC Bank Deutschland and a ČSOB pension fund (Transformation Fund) have been filtered out of the figures for both years.
  - The assets and liabilities of deconsolidated companies no longer appear, of course, in the balance sheet. Antwerp Diamond Bank (ADB) was still subject to IFRS 5 at year-end 2013. This means that its assets and liabilities were grouped together in the balance sheet under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. Since the sale of ADB did not go ahead, KBC decided to scale down the business's activities in a gradual and orderly manner, which means that ADB no longer falls under the scope of IFRS 5. For purposes of comparison, we have added a column to Note 18 of the 'Consolidated financial statements' section for 2013 in order to keep the scope of consolidation consistent (i.e. through the addition of ADB and the removal of ČSOB's Transformation Fund).
- We have retroactively restated the reference figures for 2013 to take account of (i) the new IFRS 11 standard, which stipulates that joint ventures are consolidated using the equity method and no longer by proportionate consolidation. This relates to ČMSS, a joint venture of ČSOB in the Czech Republic. The adjustment has no impact on the net result, but does affect several items in the consolidated income statement and balance sheet; (ii) the transition from Basel II to Basel III, which – among other things – influences the figures for risk-weighted assets and the associated ratios; and (iii) an improved definition of the net interest margin, with a view to raising the visibility of the margin generated by KBC's core activities (excluding volatile assets relating to general liquidity management or derivatives, and the businesses still scheduled for divestment).
- The figures for risk-weighted assets also differ because a zero weighting can no longer be assigned to domestic government bonds (Belgium, the Czech Republic, Slovakia and Hungary). The figures for (the return on) the allocated capital of the business units take account of the group's stricter capital target (we apply a factor of 10.5% to the risk-weighted assets rather than 10%). Both adjustments took effect as of 2014. We have not restated the figures for 2013.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was limited (in the order of -30 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 'Risk management' section.

I'm still not thinking of calling it a day

Ann Wauters

▲ **Ann Wauters**, top sportswoman who knows Stefan from her basketball background.

'At the same time as I started playing professionally in France as an 18 year-old, I became a client at KBC. I was given guidance and advice on financial planning and management. That was a great thing, because I was too young at the time to realise the importance of it. Thanks to my international career, I've seen a lot of the world with my family and had the opportunity to experience and appreciate many different cultures.'

Review of the main income statement and balance sheet items

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.

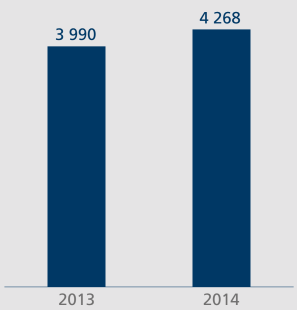
Net interest income

Net interest income came to 4 268 million euros in 2014, up 7% year-on-year. On a comparable basis (i.e. excluding changes in the scope of consolidation), the figure was 9% higher than its year-earlier level, despite generally lower reinvestment yields. This growth was attributable in part to healthy commercial margins, lower rates of interest being paid on savings deposits, lower wholesale funding costs, the positive effect of early-repayment penalties due to a high level of home loan refinancing in Belgium, and higher loan and deposit volumes.

On a comparable basis, loans and advances to customers (excluding reverse repos) – which stood at 123 billion euros at year-end 2014 – rose on balance by 3% in 2014, increasing by 4% at the Belgium Business Unit and by 5% at the Czech Republic Business Unit, and contracting by 1% at the International Markets Business Unit (growth in Slovakia, Hungary and Bulgaria, but a decline in Ireland). On a comparable basis, the total volume of deposits (154 billion euros in deposits from customers and debt securities (excluding repos) at year-end 2014) rose by 3% in 2014, with the Belgium Business Unit recording an increase of 9%, the Czech Republic Business Unit 8%, the International Markets Business Unit 5% (with Ireland posting substantial growth, thanks to the success of the retail deposit campaign in that country), and the Group Centre recording a decline.

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

Net interest income
(in millions of EUR)

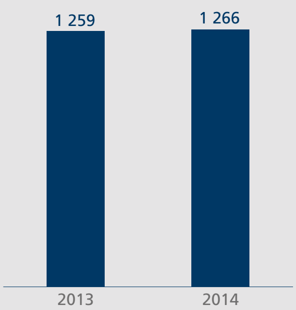


Insurance premiums and technical charges

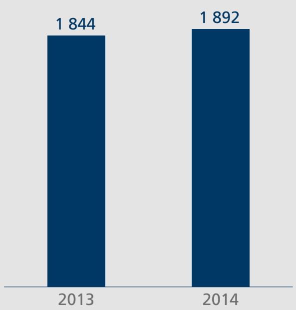
Earned premiums in non-life insurance came to 1 266 million euros in 2014, up 1% on the year-earlier figure (on a comparable basis). They grew by 1% in Belgium, but fell by 3% in the Czech Republic (+3% excluding the effect of exchange rates) and by 1% in the three other Central and Eastern European markets combined. On a comparable basis, the technical insurance charges rose by 4% in 2014, mainly on account of Belgium (hailstorms in the second quarter) and Bulgaria (largely offset by reinsurance in both cases). The combined ratio at group level remained virtually unchanged at a good 94%.

Earned premiums in life insurance amounted to 1 247 million euros in 2014. 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 1.9 billion euros, roughly 3% up on its 2013 level. There was an increase of 7% in the main market of Belgium, thanks to rate-guaranteed products. Overall, products offering guaranteed rates accounted for about 59% of premium income from the life insurance business, and unit-linked products for 41%. On 31 December 2014, the group's life reserves came to 26.5 billion euros for the Belgium Business Unit, 1 billion euros for the Czech Republic and 0.5 billion euros for the three other Central and Eastern European core markets combined.

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



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

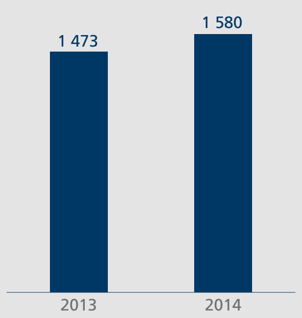


Net fee and commission income

Net fee and commission income came to 1 580 million euros in 2014, up 7% on the year-earlier figure or as much as 8% on a comparable basis. Most of the increase was accounted for by Belgium and related primarily to growth in entry charges and management fees for investment funds and high credit-related fee and commission income.

At the end of 2014, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 186 billion euros, 14% more than the year-earlier figure, due to positive price and volume effects (8% and 6%, respectively). Most of these assets were managed at the Belgium Business Unit (172 billion euros, up 14%) and the Czech Republic Business Unit (7 billion euros, up 20%).

Net fee and commission income
(in millions of EUR)



Other income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 233 million euros in 2014, as opposed to 779 million euros in 2013. We reiterate that several items have been excluded from this trading and fair value income (i.e. the impact of the legacy CDO portfolio and of the valuation of own credit risk) and that the trading-related income of the Belgium Business Unit recorded under IFRS in various other income items has been included. On balance, this results component still chiefly reflects the performance in the dealing rooms, but also the result of the marked-to-market valuation of certain derivatives used for asset/liability management purposes. The latter was extremely negative in 2014 (-201 million euros), but very favourable in 2013 (+279 million euros), which therefore largely accounts for the difference in this particular item.

Other income (dividends, realised gains and other net income) came to an aggregate 253 million euros in 2014, as opposed to 597 million euros a year earlier. The negative difference is attributable in part to the lower level of other net income, as it was severely impacted in 2014 by provisioning related to new legislation on retail loans in Hungary (an impact of -231 million euros before tax; see 'International Markets Business Unit' for more information).

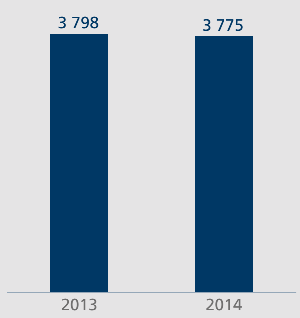
Other income items
(in millions of EUR)

Operating expenses

Operating expenses amounted to 3 775 million euros in 2014, down slightly (by 1%) on their year-earlier level. On a comparable basis, they remained virtually unchanged due to the impact of various factors, including higher costs in Ireland (for more staff in the arrears department, for instance, and in relation to the retail campaign) and in Belgium (slightly higher staff expenses, marketing and communication costs, higher special bank tax, but lower pension expenses, ICT costs and facility services costs), a positive exchange rate effect and lower expenses in the Group Centre.

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

Operating expenses
(in millions of EUR)

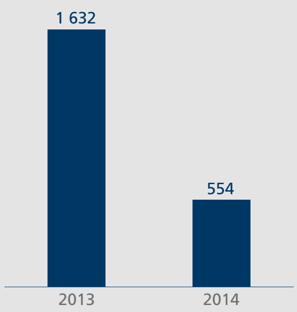


Impairment

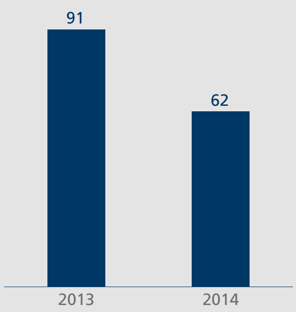
Impairment on loans and receivables (loan loss provisions) amounted to 554 million euros in 2014, compared with 1 632 million euros in 2013. Much of the improvement of 1 078 million euros is attributable to Ireland, where there was considerable extra loan loss provisioning in the fourth quarter of 2013, bringing the loan loss provisions for that country to 1 059 million euros for full-year 2013. That figure declined to 198 million euros in 2014. Loan loss provisions for the other countries in 2014 came to 205 million euros in Belgium (123 million euros less than in 2013), 47 million euros in Hungary (28 million euros less than in 2013, when additional provisions were set aside at year-end for structured loans), 34 million euros in the Czech Republic (13 million euros less than in 2013) and 69 million euros for other countries. Overall, the group's credit cost ratio subsequently improved from 121 basis points in 2013 to 42 basis points in 2014 (23 basis points at the Belgium Business Unit, 18 basis points at the Czech Republic Business Unit and 106 basis points at the International Markets Business Unit (Ireland: 133 basis points; Slovakia: 36 basis points; Hungary: 94 basis points; and Bulgaria: 130 basis points)). The proportion of impaired loans (see 'Glossary of ratios' for definition) in the total loan portfolio was 9.9% at year-end 2014, compared with 10.2% in 2013. This breaks down into 4.3% at the Belgium Business Unit, 3.8% at the Czech Republic Business Unit, and 34.1% at the International Markets Business Unit (due primarily to Ireland, which had an impaired loans ratio of 52%). The proportion of impaired loans more than 90 days past due (referred to in previous reports as 'non-performing loans') came to 5.5% in 2014, compared to the year-earlier figure of 6.0%. At year-end 2014, 42% of the impaired loans were covered by specific impairment charges. More information on the composition of the loan portfolio is provided in the 'Risk management' section.

Other impairment charges totalled 62 million euros in 2014 and related inter alia to available-for-sale securities (shares) and to tangible and intangible fixed assets.

Impairment on loans and receivables
(in millions of EUR)



Other impairment charges
(in millions of EUR)

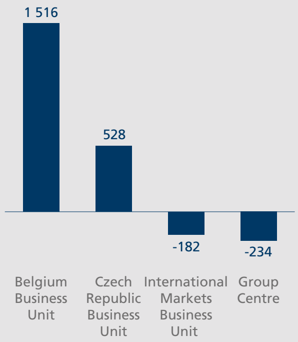


Net results per business unit

The group's adjusted net result in 2014 breaks down by business unit as follows: Belgium 1 516 million euros (down 54 million euros on the figure for 2013, due primarily to the strongly negative marked-to-market valuation of certain derivatives used for asset/liability management purposes, which completely cancelled out the positive impact of higher net interest income and net fee and commission income and lower loan loss impairment charges), Czech Republic 528 million euros (down 26 million euros on the figure for 2013, owing entirely to the lower exchange rate of the Czech koruna; it was even up 7 million euros when the effect of exchange rates is eliminated), International Markets -182 million euros (an improvement of 671 million euros on the figure for 2013, on account of significantly lower loan loss provisioning in Ireland, but partially offset by the posting of a 183-million-euro provision after taxes related to the new Hungarian act on consumer loans) and Group Centre -234 million euros (an improvement of 77 million euros on the figure for 2013, attributable in part to the lower costs in respect of subordinated loans and the decline in the funding cost of participating interests).

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

Breakdown of adjusted net result by business unit
(2014, in millions of EUR)



Balance sheet, solvency, liquidity

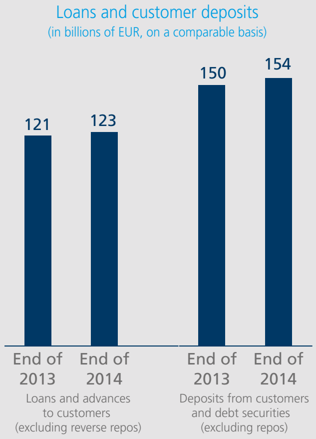
At the end of 2014, the group's consolidated total assets came to 245 billion euros, up 3% year-on-year. At 91 billion euros, risk-weighted assets (Basel III) remained virtually unchanged, despite a number of methodological adjustments (primarily the scrapping of the zero weighting for domestic government bonds).

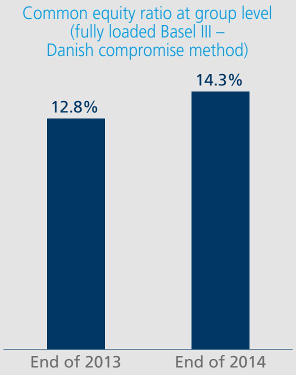
Loans and advances to customers (123 billion euros in loans at the end of 2014, not including reverse repos) continued to be the main products on the assets side of the balance sheet. On a comparable basis, total loans and advances to customers rose by 3% (up 4% at the Belgium Business Unit and 5% at the Czech Republic Business Unit, but down 1% at the International Markets Business Unit on account of Ireland). The main credit products (including reverse repos) were again term loans (57 billion euros) and mortgage loans (53 billion euros). Securities amounted to 70 billion euros at year-end 2014. Of these securities, 3% were shares and 97% bonds (on a comparable basis, bonds grew by 6 billion euros in 2014). Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (13 billion euros, down year-on-year because of lower reverse repos), derivatives (positive marked-to-market valuation of 10 billion euros, up year-on-year) and investment-linked life insurance contracts (13 billion euros, up year-on-year).
On a comparable basis, the group's total customer deposits (deposits from customers and debt securities, excluding repos) grew by 3% to 154 billion euros. Deposits increased by 9% at the Belgium Business Unit, by 8% at the Czech Republic Business Unit and by 5% at the International Markets Business Unit (thanks primarily to the retail deposit campaign in Ireland), but fell by 35% in the Group Centre. As in 2013, the main products (including repos) were time deposits (50 billion euros), demand deposits (47 billion euros) and savings deposits (37 billion euros, up 6% on their level at the end of 2013).
Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 31 billion euros, up year-on-year), derivatives (negative marked-to-market value of 11 billion euros, up year-on-year) and deposits from credit institutions and investment firms (18 billion euros, up year-on-year).

On 31 December 2014, the group's total equity came to 16.5 billion euros. This figure included 13.1 billion euros in parent shareholders' equity, 1.4 billion euros in additional tier-1 instruments and the remaining 2 billion euros in non-voting core-capital securities underwritten by the Flemish Regional Government. On balance, total equity grew by 2 billion euros in 2014. The most important components in this regard were the inclusion of the 1.4 billion euros in additional tier-1 instruments issued in March 2014, the further partial repayment of aid provided by the Flemish Regional Government (-0.5 billion euros plus the 50% penalty), the inclusion of the annual profit (+1.8 billion euros), changes in the available-for-sale reserve and cashflow hedge reserve (-0.2 billion euros in total), and the repurchase of Funding Trust securities (-0.4 billion euros in minority interests).

The fully loaded common equity ratio under Basel III (Danish compromise method) – including the outstanding state aid and the available-for-sale reserve – amounted to 14.3% at year-end 2014, comfortably above the internal target of 10.5%.

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





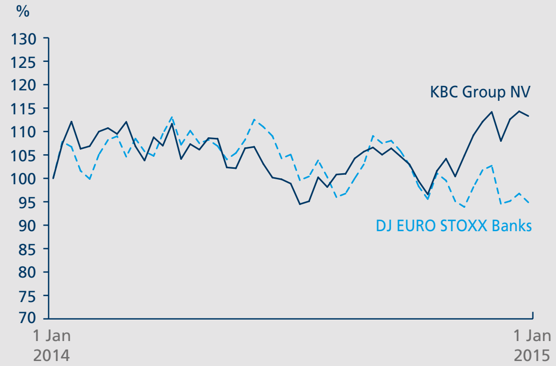
Information for shareholders and bondholders

KBC on the financial market

The price of our share rose by almost 13% in 2014, bringing our equity market capitalisation to 19.4 billion euros at year-end. Our long-term credit ratings were upgraded by Standard & Poor's in March and by Moody's in May 2014. We launched an additional tier-1 instrument, issued tier-2 instruments and called a number of classic tier-1 securities. We again issued several series of covered bonds. We propose paying a gross dividend for 2014 of 2 euros per share entitled to dividend.

KBC share price over one year

(1 January 2014 = 100%, end-of-week prices)



▲ **Alekos Garaleas** – Stefan's father – came to Belgium through his work at the Greek embassy and ended up meeting his wife, Denise, here. Alekos followed his heart and opted for a permanent job in Belgium. Katka's parents, Eva Hamerska and Jaroslav Hamersky, who live in the Czech Republic, are also in the photograph.

KBC share in 2014

The closing price of our share at year-end 2014 was 46.5 euros, up almost 13% on the year-earlier figure (having risen 58% in 2013). As a result, our equity market capitalisation amounted to 19.4 billion euros at year-end 2014.

There was a small increase of 416 300 shares due to the capital increase reserved for staff in December 2014. This brought the total number of shares outstanding at year-end to 417 780 658. More information in this regard can be found in the 'Company annual accounts' section.

In view of the insignificant volume of trading in the share on the Luxembourg stock exchange, the decision was taken to cease listing on that market. The KBC share has been listed solely on Euronext Brussels since the end of September 2014.

KBC share	2013	2014
Number of shares outstanding at year-end (in millions)	417.4	417.8
Share price*		
Highest share price for the financial year (in EUR)	42.0	46.9
Lowest share price for the financial year (in EUR)	25.8	38.0
Average share price for the financial year (in EUR)	32.8	43.1
Closing share price for the financial year (in EUR)	41.3	46.5
Difference between closing share price at financial year-end and previous financial year-end	+58%	+13%
Equity market capitalisation at year-end (in billions of EUR)	17.2	19.4
Average daily volume traded on NYSE Euronext Brussels (source: Bloomberg)		
Number of shares (in millions)	1.14	1.03
In millions of EUR	36.1	44.2
Equity per share (in EUR)	28.3	31.4

* 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 (December 2014)	77 516 380	18.6%
Cera (December 2014)	11 127 166	2.7%
MRBB (December 2014)	47 889 864	11.5%
Other core shareholders (December 2014)	32 020 498	7.7%
Subtotal for core shareholders	168 553 908	40.3%
Free float*	249 226 750	59.7%
Total	417 780 658	100.0%

* Details of notifications from shareholders under this heading can be found in the 'Company annual accounts' section.

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'.

MRBB, Cera, Ancora and the other core shareholders signed a syndicate agreement in 2004, with an initial term of 10 years. This agreement was updated in 2014 and extended for another 10-year period. In that context, Cera, KBC Ancora, MRBB and the other core shareholders adhered to the agreement by putting in all their shares.

Dividend on shares and coupon on core-capital securities

Intention* regarding dividend payment	
For financial year 2014	Gross dividend of 2 euros per share (hence also payment of a coupon on the outstanding state aid – 171 million euros in total)
For financial year 2015	No dividend (hence no payment either of a coupon on the outstanding state aid)
For financial year 2016 and beyond	Payment of at least 50% of the consolidated profit available for distribution (in the form of dividends, coupons on state aid and AT1 instruments combined) plus the coupon on the outstanding balance of state aid

* Subject at all times to the approval of the relevant General Meeting of Shareholders and the supervisory authorities (dividend proposal for 2014 already approved by the ECB).

Special issues and covered bonds

The KBC group is a regular issuer of debt instruments and issues ordinary and subordinated bonds in various currencies in a number of ways, including through issues as part of the wholesale and retail programmes of KBC IFIMA.

In November 2012, we announced a programme for the issue of 10 billion euros' worth of Belgian bonds, covered by Belgian mortgage loans (i.e. covered bonds), with a view to widening our investor base and diversifying 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 and 2014 (a total of 2.7 billion euros was raised in 2013 and 0.9 billion euros in 2014).

In addition, the group recently launched several other special issues, including:

- January 2013: placement of 1 billion US dollars' worth of tier-2 contingent capital notes.
- March 2014: placement of a 1.4-billion-euro CRD IV-compliant additional tier-1 instrument. Five outstanding classic tier-1 securities were subsequently called.
- November 2014: placement of 750 million euros' worth of CRD IV-compliant tier-2 instruments.

More information on group funding is provided under 'Liquidity risk' in the 'Risk management' section.

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 were upgraded by Standard & Poor's in March 2014 and by Moody's in May 2014.

Credit ratings* on 19-03-2015	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	A2	(Under review for possible upgrade)	P-1
KBC Group NV	A3	(Under review for possible downgrade)	P-2
Standard & Poor's			
KBC Bank NV	A	(Negative outlook)	A-1
KBC Insurance NV	A	(Negative outlook)	–
KBC Group NV	A-	(Negative outlook)	A-2

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

Want to learn more?

See www.kbc.com, under 'investor relations', 'credit ratings'.

Overview of our business units

Our business units

Our group's management structure centres on three business units, each of which focuses on local business in its country or countries and is expected to contribute to sustainable profit and growth. The three business units are Belgium, the Czech Republic and International Markets. The latter is responsible for activities in the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and in Ireland.

The management structure forms the basis for our financial reporting. Added to that are the results of our Group Centre, which contains the results of the group's holding-company activities, a number of items not allocated to the business units, the results of the remaining companies scheduled for divestment and the impact of legacy business and own credit risk.

The Belgium Business Unit 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.

The economic context in Belgium

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

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

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

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

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

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

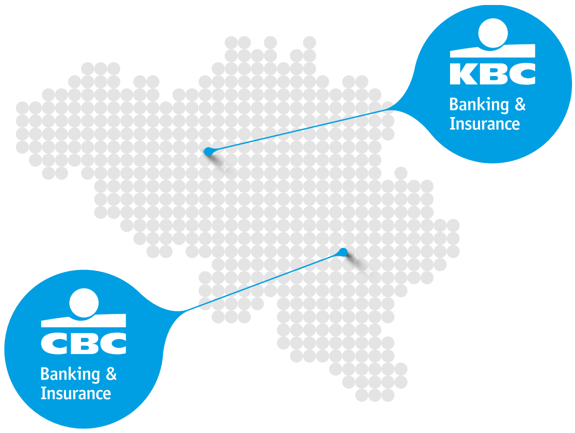
This outlook is based on forecasts made at the start of 2015, and so the actual situation could differ (considerably).

Macroeconomic indicators for Belgium	2013	2014*
GDP growth (real)	0.3%	1.0%
Inflation (average annual increase in consumer prices (%))	1.1%	0.3%
Unemployment (% of the labour force at year-end; Eurostat definition)	8.4%	8.4%
Government budget balance (% of GDP)	-2.9%	-3.2%
Public debt (% of GDP)	104.5%	106.6%

* Estimates made at the start of 2015.

Our activities in Belgium

Position in the Belgian market in 2014*



- Main brands: KBC, CBC
- Network: 818 bank branches and 459 insurance agencies
- Electronic channels: KBC/CBC Mobile Banking, KBC/CBC-Online, KBC/CBC Touch
- Market share: 20% for traditional bank products, 37% for investment funds, 17% for life insurance and 9% for non-life insurance
- Approx. 3.5 million clients
- Loan portfolio of 89 billion euros and deposits and debt securities of 106 billion euros
- Products and services: wide range of loan, deposit, asset management, insurance and other financial products for private individuals, local businesses, wealthy individuals and larger companies. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance.

* Market shares and client numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Market share for life insurance: guaranteed-interest and unit-linked products (combined). Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The Belgium Business Unit also includes the small network of ten KBC Bank branches abroad, which focus on activities and clients with links to KBC's core markets.

▲ **Daniel Falque**, CEO of the Belgium Business Unit

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

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

We screen our traditional banking and insurance products regularly and adjust them where necessary. For instance, we launched the KBC Care Plan, which is the first of its kind in Europe and essentially an investment-type insurance policy offering life-long payments to offset the cost of severe long-term care needs. Bolero, KBC Securities' online trading platform, launched a crowdfunding platform to bring together entrepreneurs and investors. Start-ups can use the website to seek funding and interested investors can then help them grow their business through relatively small investments.

Given its importance within a relationship bank-insurance approach, we track client satisfaction very closely. We monitor employee satisfaction closely, too. For more details on this, see 'Our business model and strategy'.

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

- A while ago we launched *Start it @kbc*, through which we aim, together with a number of partners, to help start-ups in Flanders with various aspects of doing business. We also provide office space free of charge to start-ups at the KBC Tower in Antwerp. The selected businesses develop ideas in the fields of high technology, e-platforms, sustainability and mobility. The initiative has proved highly successful, so we decided in 2014 to extend it to other important cities in Belgium, including Leuven, Ghent and Hasselt.
- Our 'Room for improvement' campaign, which we launched in 2014, offers self-employed people, liberal professionals and business owners the chance to pitch their ideas to the public. In this way, we demonstrate our commitment to Flemish enterprise, while helping entrepreneurs become even better at what they do.
- Through our social sponsorship activities, we focus on projects in the area of health and road safety, with the emphasis on prevention. We have partnered the Belgian road safety campaigns *Levenslijn* and *Mobiel 21* for years now, we hold regular blood donation sessions at our head offices in collaboration with the Red Cross and we have worked closely for many years with cancer charity, *Kom Op Tegen Kanker*. We sponsor many cultural and sporting events as well, such as the *Ronde van Vlaanderen* (a road cycling race held in Flanders), the *KBC Nacht van de Atletiek* (an athletics event) and a number of summer festivals.
- Our 'Wonder Years' campaign is a response to the concerns of active older people and the KBC Care Plan is designed to help those who need long-term care bridge the income gap.
- We make a continuous effort to reduce our ecological footprint. In 2014, for instance, we took a fresh step towards low-energy construction when we began the renovation of our data centre in Mechelen, with the project making maximum use of energy-saving measures. As partner of *Leuven Klimaatneutraal* – a not-for-profit organisation that aims to make the city of Leuven climate-neutral by 2030 – we took part in the 'Climate weekend' event in August. We continue to focus very closely on mobility. Teleworking has become firmly embedded in our corporate culture and commuter travel at KBC Belgium fell by just under 5 million kilometres in 2014.
- Environmental awareness is, incidentally, an issue for all KBC staff. To that end, the non-recurrent results-based bonus we pay our employees in Belgium has been subject for three years now to the achievement of green, sustainable targets for electricity consumption, CO_2 emissions from company cars, kilometres driven and paper usage. Environmental efficiency data for the KBC group in Belgium is shown in the table.

Environmental efficiency data for the KBC group in Belgium (per FTE)		2013*	2014
Energy consumption (in GJ)*	Electricity	21.3	21.2
	Provided by renewable energy sources	100%	100%
	Fossil fuels (gas and heating oil)	16.0	12.7
Distances travelled (in km)	Commuting	8 288	8 068
	Business travel	5 358	5 456
Paper and water consumption, waste	Paper (in tonnes)	0.12	0.11
	Water (in m³)	9.0	9.1
	Waste (in tonnes)	0.19	0.15
Greenhouse gas emissions (in tonnes)*		2.5	2.2

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

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

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

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

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

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

We likewise intend to focus more closely on sub-markets in Belgium in which we are not yet among the market leaders, specifically Brussels and Wallonia.
Up to now, we had built in Brussels on the strengths of KBC in Flanders and CBC in Wallonia. We decided to exploit the potential of

Brussels more efficiently in future, and announced in 2014 the launch of a separate new brand, ‘KBC Brussels’, that will reflect the capital’s special cosmopolitan character and will meet the needs of local people there more effectively. Retail and SME clients will be offered a single integrated range of bank-insurance products and services, the existing KBC/CBC branches in Brussels will be repositioned and we will introduce innovative new branch concepts. The appointment of CEO, Damien Van Renterghem, was an important step in the launch of KBC Brussels.

CBC is interwoven into the local economy in Wallonia and has reported strong and consistent growth in its gross earnings year after year. We want to use CBC to further tap potential growth in bank-insurance in specific market segments. To help achieve this goal, we conducted a new image campaign in 2014 under the slogan ‘*CBC. Décider d'avancer*' ('CBC. Moving forward'). As of 2015, we intend to expand our presence in Wallonia and our accessibility and service provision there by opening eight new insurance agencies and eight bank branches and relocating 15 existing branches.

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

Based on the macroeconomic forecasts and with ongoing attention to cost-efficiency and risk management, we have translated this new strategy into a number of financial targets for the Belgium Business Unit. These are set out, together with the non-financial objectives, in ‘Our strategy’.

Contribution to group results

Our operations in Belgium generated a net result of 1 516 million euros in 2014, compared with 1 570 million euros a year earlier.

Net interest income at this business unit totalled 2 877 million euros, 9% more than in 2013, due primarily to higher volumes of and higher margins on lending, lower funding costs for term deposits, higher volumes of and lower interest rates on savings accounts, the positive impact of a high level of refinancing of home loans, and a larger bond portfolio. The average net interest margin rose from 1.80% in 2013 to 2.01% in 2014.

Loans and advances to customers, excluding reverse repos (84 billion euros at year-end) went up by 4%, while deposits from customers and debt securities, excluding repos (106 billion euros at year-end) grew by 9% year-on-year.

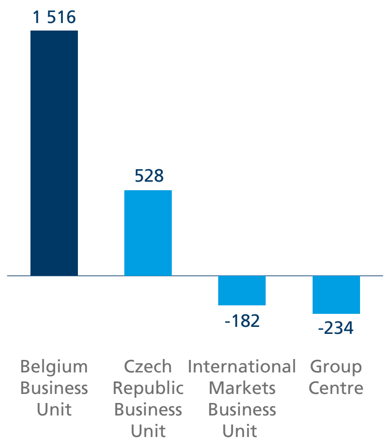
Earned insurance premiums came to 1 968 million euros, 1 004 million euros of which related to life insurance and 964 million euros to non-life insurance.

Non-life premiums increased by roughly 1%, owing mainly to fire and other property insurance classes. The level of claims was 8% higher than in 2013, partly because of the hailstorms in the second quarter. The combined ratio nevertheless remained at a good 94% in 2014, compared with 93% in the previous year.

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 1.6 billion euros, up slightly on the 1.5 billion euros recorded a year earlier. While sales of unit-linked products fell by 10% to 0.6 billion euros, sales of products offering guaranteed rates went up sharply (by 21%) to 1 billion euros. At year-end, the outstanding life reserves in this business unit totalled 26.5 billion euros, up 4% on the year-earlier figure.

Net fee and commission income amounted to 1 160 million euros. This was 9% more than the previous year, due mainly to asset management activities (increase in entry and management fees for investment funds) and, to a lesser extent, to lending-related fee and commission income, cancelled out in part by lower fee and commission income from unit-linked life insurance products (the margin on which is reported under net fee and commission income). At 172 billion euros, assets under management in this business unit were up by 14% year-on-year, owing to the combined effect of higher volumes (+5%) and higher prices (+8%).

Breakdown of adjusted net result by business unit
(2014, in millions of EUR)



As regards the other income items, the net realised result from available-for-sale assets came to 109 million euros (80% of which was generated by shares and 20% by bonds), dividend income amounted to 45 million euros, and the net result from financial instruments at fair value through profit or loss totalled 86 million euros. The latter was considerably lower than in 2013 (544 million euros) on account of the strongly negative marked-to-market valuation of certain derivatives used for asset/liability management purposes in 2014 (-196 million euros) compared with a positive year-earlier figure (+250 million euros). Other net income stood at 269 million euros and, besides the usual items such as the results from KBC Autolease, VAB, etc., included the positive outcome of a court case involving the London subsidiary, whereas the 2013 figure benefited from moratorium interest related to the successful settlement of disputes and capital gains on the sale of real estate.

Operating expenses totalled 2 282 million euros, 1% higher than the year-earlier figure, with various factors, such as slightly higher staff expenses, lower pension costs, somewhat lower costs for ICT and facility services, higher marketing and communication costs and higher special bank taxes all playing a role. Consequently, the cost/income ratio for the banking activities remained at a good 50%, although it was slightly less favourable than in 2013 (47%). However, the relative deterioration was attributable for the most part to the negative valuation of the ALM derivatives. Adjusted for that item (and several other smaller exceptional items), the ratio came to just under 49%, compared with 51% for the previous year.

Impairment on loans and receivables stood at 205 million euros at year-end, down 123 million euros on its year-earlier level, with the decline related mainly to corporate lending. This resulted in a favourable credit cost ratio of 23 basis points in 2014, compared with 37 basis points in

2013. Approximately 4.3% of the Belgium Business Unit’s loan portfolio was impaired (see 'Glossary of ratios' for definition) at year-end 2014, as opposed to 4.7% a year earlier. Impaired loans more than 90 days past due amounted to 2.2% (2.5% in 2013).

The 46 million euros in other impairment charges related primarily to available-for-sale securities (shares) and other assets.

Belgium Business Unit results* (in millions of EUR)	**2013**	**2014**
Net interest income	2 648	2 877
Non-life insurance (before reinsurance)	409	374
Earned premiums	955	964
Technical charges	-546	-590
Life insurance (before reinsurance)	-274	-252
Earned premiums	831	1 004
Technical charges	-1 105	-1 256
Ceded reinsurance result	-6	19
Dividend income	40	45
Net result from financial instruments at fair value through profit or loss	544	86
Net realised result from available-for-sale assets	171	109
Net fee and commission income	1 061	1 160
Other net income	292	269
Total income	4 885	4 688
Operating expenses	-2 249	-2 282
Impairment	-363	-251
on loans and receivables	-328	-205
on available-for-sale assets	-7	-27
on goodwill	0	0
other	-28	-19
Share in results of associated companies	0	-1
Result before tax	2 273	2 154
Income tax expense	-703	-638
Net post-tax result from discontinued operations	0	0
Result after tax	1 570	1 517
attributable to minority interests	0	0
attributable to equity holders of the parent (net result)	**1 570**	**1 516**
Banking	1 255	1 205
Insurance	315	311
Risk-weighted assets, banking (Basel III; period-end)	40 307	42 919
Solvency, insurance (Solvency I; period-end)	850	868
Allocated capital (period-end)	5 518	6 026
Return on allocated capital	28%	26%
Cost/income ratio, banking	47%	50%
Combined ratio, non-life insurance	93%	94%

* Some reference figures for 2013 have been restated (see ‘Consolidated results in 2014’).

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

The economic context in the Czech Republic

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

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

Budgetary policy weighed less on domestic demand in 2014 than it did in the previous year. The slight increase in the budget deficit to an estimated 1.3% of GDP chiefly reflected a rise in public consumption and a resumption in public-sector spending.

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

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

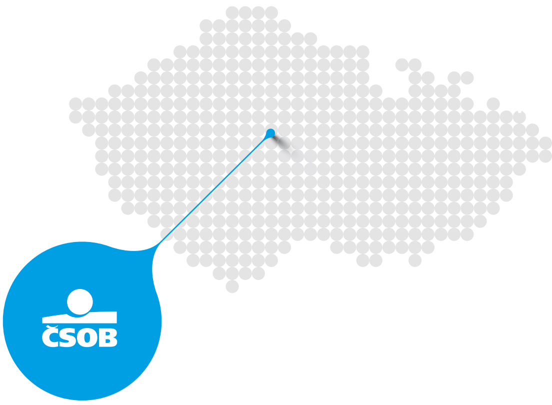
This outlook is based on forecasts made at the start of 2015, and so the actual situation could differ (considerably).

Macroeconomic indicators for the Czech Republic	2013	2014*
GDP growth (real)	-0.7%	2.0%
Inflation (average annual increase in consumer prices (%))	1.4%	0.4%
Unemployment (% of the labour force at year-end; Eurostat definition)	6.7%	5.8%
Government budget balance (% of GDP)	-1.3%	-1.3%
Public debt (% of GDP)	45.7%	44.1%

* Estimates made at the start of 2015.

Our activities in the Czech Republic

Position in the Czech market in 2014[1]



- Main brands; ČSOB, Era, PSB, ČSOB Pojišťovna, ČMSS, Hypoteční banka
- Network: 319 bank branches[2], insurance network including tied ČSOB insurance agencies, multi-agents, branches and brokers
- Electronic channels: ČSOB InternetBanking, ČSOB BusinessBanking and ČSOB SmartBanking
- Market share: 20% for traditional bank products, 27% for investment funds, 6% for life insurance and 7% for non-life insurance
- Approx. 4 million clients
- Loan portfolio of 19 billion euros and deposits and debt securities of 22 billion euros
- Products and services: wide range of banking (including loans, deposits, and a variety of specialist financial services), insurance (life and non-life) and asset management products. Focus on retail/SMEs

1 Market shares and client numbers: based on own estimates; when calculating the figure for client 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 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos).
2 ČSOB Bank and Era.

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

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

One of the main objectives of our strategy is to put the client at the centre of everything we do in all our core markets. For that reason, we track the satisfaction of our clients very closely in the Czech Republic, too. We do this through regular surveys, which we use as the basis to take the necessary action. We supplement the general measurement of client satisfaction with our brand and product offering by specific, active and direct client surveys, including ones performed immediately after a branch visit.

In addition, as a large employer in the Czech Republic, we pay a great deal of attention to employee satisfaction and involvement. We have taken a number of initiatives, for instance, to improve our employees' work-life balance, by offering flexible working hours, home working and so on. Employee satisfaction at ČSOB is high and even rose slightly in 2014. The net promoter score – employees' readiness to recommend ČSOB as an employer – also rose further in 2014.

For more information on client and employee satisfaction, see 'Our business model and strategy'.

ČSOB
Přátelská a odpovědná

Our social commitment in the Czech Republic is also expressed in the initiatives our group companies take in this area. The focus is on socially responsible enterprise, education, diversity and the environment (see logo).

ČSOB promotes education and financial literacy, for example, through its ČSOB Education Programme and Education Fund, and supports the training and development of NGOs and social entrepreneurship. The group also focuses particular attention on combating exclusion, which includes providing branches with wheelchair access, ATMs adapted to blind and partially sighted people, and the eScribe transcription service for people with hearing difficulties. In recognition of this, ČSOB was awarded second place in 2014 in 'Bank without Barriers', which investigated how accessible bank branches are to people with a physical handicap.

In addition, ČSOB launched the ČSOB Private Banking Good Will Card, where 0.6% of every payment made with the card is donated to a good cause.

Furthermore, ČSOB has strategic partnerships with various NGOs that focus on supporting the socially deprived, older people, children and people with a handicap.

KBC-group companies are conscious about their ecological footprint and are taking various initiatives to reduce it. The head office in the Czech Republic, for instance, is a model of ecological and sustainable construction.

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

Environmental efficiency data for the KBC group (ČSOB) in the Czech Republic (per FTE)

		2013	2014
Energy consumption (in GJ)	Electricity	16.0	15.4
	Fossil fuels (gas and heating oil)	6.3	5.3
Paper and water consumption, waste	Paper (in tonnes)	0.14	0.13
	Water (in m^3)	15.7	14.8
	Waste (in tonnes)	0.25	0.22

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

- *Global Finance Magazine* and *Euromoney* named ČSOB as 'Best Bank' in the Czech Republic.
- ČSOB won the 'Internet Effectiveness Award' in the non-profit, human rights and environment field for its 'Era Helps the Regions' pilot programme, which sets out to assist a number of non-profit and aid organisations in nine regions. Following the success of the pilot, 'Era Helps the Regions' was rolled out country-wide in 2014.
- ČSOB was also shortlisted in the 'Ashoka Changemakers – Ashoka Social and Business Co-Creation Competition' for the Era eScribe online speech transcription service which is

available at all Era Financial Centres for clients with hearing difficulties. The eScribe service was recently extended to all specialised counters of the Czech postal service in South Bohemia.

- ČSOB was awarded the 'Best Private Bank in the Czech Republic' prize by Professional Wealth Management and *The Banker*, while Patria won Acquisition International's 'Investment Bank of the Year' award.

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

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

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

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

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

Based on the macroeconomic forecasts and with ongoing attention to cost-efficiency and risk management, we have translated this new strategy into a number of financial targets for the Czech Republic Business Unit. These are set out, together with the non-financial objectives, in 'Our strategy'.

Contribution to group results

In 2014, the Czech Republic Business Unit generated a net profit of 528 million euros, compared with 554 million euros in 2013. On a comparable basis (i.e. disregarding movements in exchange rates – the Czech koruna depreciated by an average 6% over the year – and a few minor adjustments in the scope of consolidation), the increase was just over 1%.

Net interest income came to 860 million euros, down 5% on its level in 2013. However, on the comparable basis, there was a small increase of 2%, with the negative impact of the low reinvestment climate being offset by higher interest income from lending (owing primarily to an increase in volumes) and a decline in external interest rates on savings accounts.
Loans and advances to customers, excluding reverse repos (16 billion euros at year-end), rose by 5% on a comparable basis in 2014, due in part to persistently strong growth in home loans. Deposits from customers and debt securities, excluding repos (22 billion euros at year-end), went up by 8%. The average net interest margin amounted to 3.18% in the period under review, as opposed to 3.25% in 2013.

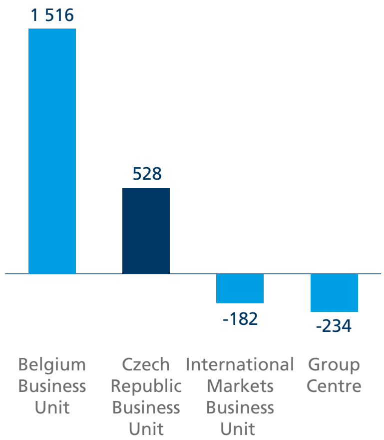
Earned insurance premiums stood at 325 million euros, 160 million euros of which related to life insurance and 165 million euros to non-life insurance.
Excluding the effects of currency exchange, non-life insurance premiums were up 3% and technical charges were down 12% year-on-year (the figure for 2013 was impacted by the floods in the Czech Republic). Consequently, the combined ratio improved from 96% in 2013 to 94% in 2014.

Excluding the effects of currency exchange, at 0.2 billion euros, earned premiums in life insurance were 14% below the year-earlier figure, with the decline related to both unit-linked products (from Maximal Invest) and interest-guaranteed products. Overall, unit-linked products accounted for two-thirds of total sales of life insurance and products offering guaranteed rates for one-third. At year-end, the outstanding life reserves stood at approximately 1 billion euros.

Net fee and commission income came to 194 million euros, an increase of 5% year-on-year (6% on a comparable basis), attributable in part to a rise in the fees charged for investment funds. Assets under management in the business unit stood at around 7 billion euros, some 20% higher than the year-earlier figure (14% accounted for by growth in volumes and 5% by the price effect).

As regards the other income items, the net realised result from available-for-sale assets totalled 9 million euros (16 million euros in

Breakdown of adjusted net result by business unit
(2014, in millions of EUR)



▲ **John Hollows**, CEO of the Czech Business Unit

2013), the net result from financial instruments at fair value through profit or loss stood at 62 million euros (25% below the 2013 figure, as a result primarily of the negative marked-to-market valuation of certain derivatives used for asset/liability management purposes in 2014) and other net income came to 18 million euros.

Operating expenses amounted to 594 million euros, 5% less than the year-earlier figure, but an increase of 1% on a comparable basis. Various factors played a role in this, including higher ICT and staff expenses and lower costs for marketing and facility services. The cost/income ratio for the Czech banking activities stood at a very good 48%, in line with the previous year's 47%.

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

Czech Republic Business Unit results* (in millions of EUR)	2013	2014
Net interest income	906	860
Non-life insurance (before reinsurance)	62	75
Earned premiums	170	165
Technical charges	-108	-89
Life insurance (before reinsurance)	25	24
Earned premiums	199	160
Technical charges	-173	-136
Ceded reinsurance result	4	-7
Dividend income	0	0
Net result from financial instruments at fair value through profit or loss	82	62
Net realised result from available-for-sale assets	16	9
Net fee and commission income	185	194
Other net income	9	18
Total income	1 290	1 235
Operating expenses	-622	-594
Impairment	-50	-36
on loans and receivables	-46	-34
on available-for-sale assets	0	0
on goodwill	0	0
other	-3	-3
Share in results of associated companies	29	23
Result before tax	648	628
Income tax expense	-93	-100
Net post-tax result from discontinued operations	0	0
Result after tax	554	528
attributable to minority interests	0	0
attributable to equity holders of the parent (net result)	**554**	**528**
Banking	529	501
Insurance	26	27
Risk-weighted assets, banking (Basel III; period-end)	12 563	12 345
Solvency, insurance (Solvency I; period-end)	69	67
Allocated capital (period-end)	1 378	1 414
Return on allocated capital	40%	37%
Cost/income ratio, banking	47%	48%
Combined ratio, non-life insurance	96%	94%

* The reference figures for 2013 have been restated (see 'Consolidated results in 2014').

The International Markets Business Unit comprises the activities conducted by entities in the other 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.

The economic context in Slovakia, Hungary, Bulgaria and Ireland

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

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

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

▲ **Luc Gijsens**, CEO of the International Markets Business Unit

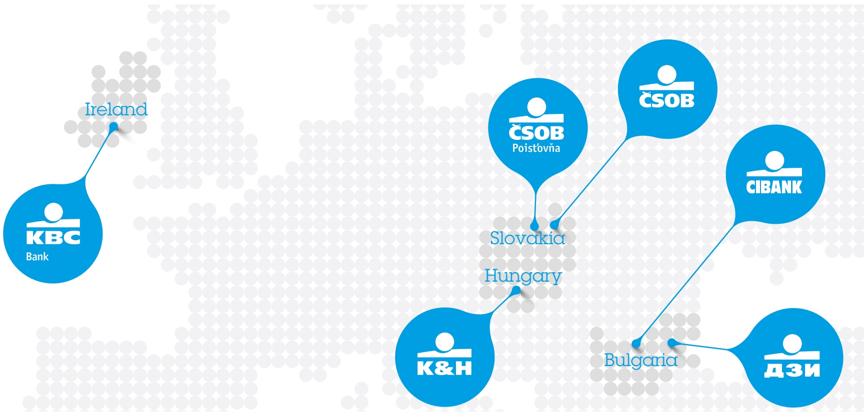
Ireland was the strongest-growing economy in the euro area, benefiting in equal measure from domestic demand and net exports. Unemployment fell in response to this robust expansion, which in turn kick-started growth in consumer spending. There was a positive impact, moreover, on public finances, as a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

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

Macroeconomic indicators		Hungary		Slovakia		Bulgaria		Ireland
	2013	2014*	2013	2014*	2013	2014*	2013	2014*
GDP growth (real)	1.5%	3.3%	1.4%	2.4%	1.1%	1.5%	0.2%	5.0%
Inflation (average annual increase in consumer prices (%))	1.7%	0.0%	1.5%	-0.1%	0.4%	-1.6%	0.5%	0.3%
Unemployment (% of the labour force at year-end; Eurostat definition)	8.7%	7.3%	14.0%	12.5%	12.8%	10.8%	12.1%	10.5%
Government budget balance (% of GDP)	-2.4%	-2.6%	-2.6%	-3.0%	-1.2%	-3.4%	-5.7%	-4.0%
Public debt (% of GDP)	77.3%	77.7%	54.6%	53.6%	18.3%	27.0%	123.3%	110.8%

* Estimates made at the start of 2015.

Our activities in Hungary, Slovakia, Bulgaria and Ireland



Market position in 2014[1]

	Hungary	Slovakia	Bulgaria	Ireland
Main brands	K&H	ČSOB	CIBANK/DZI	KBC Bank Ireland
Network	210 bank branches	129 bank branches	103 bank branches	12 bank branches
	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	–
Clients (in millions)	1.5	0.6	0.5	0.2
Loan portfolio (in billions of EUR)	5.1	5.1	0.8	14.5
Deposits and debt securities (in billions of EUR)	5.2	4.9	0.6	4.2
Market shares				
– Bank products	9%	10%	3%	–[2]
– Investment funds	16%	6%	–	–
– Life insurance	3%	5%	10%	–
– Non-life insurance	5%	3%	10%	–

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

2 Retail market share: 10% for mortgage loans and 5% for deposits.

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

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

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

Given its importance within a relationship bank-insurance approach, we track client satisfaction very closely, and we monitor employee satisfaction closely, too. For more information, see 'Our business model and strategy'.

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

- Our broader social engagement is illustrated in Hungary, for example, through the ‘K&H MediMagic’ programme, which provides financial and material help for sick children. K&H organised the seventh edition of ‘ART for a better and more meaningful world’ in 2014, which gives young artists the opportunity to win a scholarship. Through its ‘K&H for the Underprivileged’ programme, K&H furthermore supports the 47 most disadvantaged micro-regions in the areas of children's healthcare, performing arts, education for young adults and sports. K&H promotes financial education, meanwhile, by organising the national ‘K&H Ready, Steady, Money’ contest, in which students’ financial knowledge is tested.
- Financial education is also the focus of the ‘ČSOB Head and Heel’ programme in Slovakia, where university students are encouraged to find a creative approach to a financial topic. The target group for this programme was extended to secondary school pupils in 2014. In addition, ČSOB in Slovakia organises the ČSOB Bratislava Marathon, with which a variety of charities are affiliated, and, through its ‘Employee Grant’ programme, supports a number of NGOs that promote an active and healthy lifestyle and children's education and health.
- In Bulgaria, CIBANK gives orphans the opportunity to go on holiday thanks to its ‘Blue Summer’ project. In 2014, this project also organised various workshops in CIBANK's branches and head offices together with the children of CIBANK staff. In addition, CIBANK launched the second KBC Economic Forum on the role that financial institutions can play in supporting SMEs. Also in Bulgaria, DZI introduced extra measures to help out clients who had been affected by the July hailstorm. Lastly, DZI and CIBANK launched a joint campaign on traffic safety.
- With its Mortgage Arrears Resolution Strategy, KBC Ireland offers clients with financial difficulties suitable short or long term solutions for their home loans. And, like in past years, KBC Ireland continues to support the Barretstown and Barnardos projects, both of which focus on child welfare.

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

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

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

The International Markets Business Unit wants to transform K&H in Hungary and ČSOB in Slovakia from branch-centric distribution models to hybrid ones.

The intention is for K&H to continue using its surplus liquidity to support the local economy, to grow its market share in all main segments, and to go on improving its efficiency and profitability. Client acquisition and share-of-wallet campaigns among retail clients, SMEs and other companies will remain the top priority for the Hungarian banking operations. Cost containment is important, too, but costs will naturally remain subject to the negative impact of the high taxes imposed by the Hungarian government. Growth in our Hungarian insurance activities will have to come primarily from sales through the bank branches.

We expect our income in Slovakia to increase considerably more than the market is expecting, especially in the retail asset classes (home loans, consumer finance, SME funding and leasing), which, combined with cost containment, ought to ensure a positive trend in the cost/income ratio.

We assume that CIBANK and DZI in Bulgaria will develop in a similar direction to K&H and ČSOB, albeit at a slower pace, given the less developed market. CIBANK has grown appreciably since 2012. It is concentrating on specific client segments within a controlled and robust risk framework. DZI is focused on operational efficiency, simplification and excellent service provision to its clients. Collaboration in the field of bank-insurance between DZI and CIBANK has grown significantly in recent years, and we want to extend that collaboration by further developing products and setting up distribution channels.

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

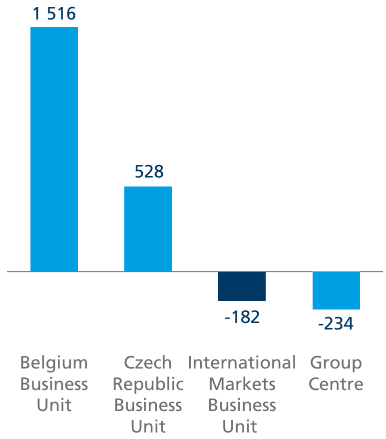
Based on the macroeconomic forecasts and with ongoing attention to cost-efficiency and risk management, we have translated this new strategy into a number of financial targets for each country. These are set out, together with the non-financial objectives, in ‘Our strategy’.

Contribution to group results

In 2014, the net result at the International Markets Business Unit amounted to -182 million euros, compared with -853 million euros a year earlier. This was attributable almost entirely to the significantly lower loan loss provisions set aside for Ireland, partially offset by the negative impact of new legislation in Hungary (see elsewhere in this report).
The net result broken down by country stood at -94 million euros for Hungary (66 million euros in 2013), 75 million euros for Slovakia (70 million euros in 2013), 15 million euros for Bulgaria (2 million euros in 2013) and -179 million euros for Ireland (-992 million euros in 2013).

Net interest income at the business unit totalled 677 million euros, a year-on-year increase of 7% and figures up in all countries. The biggest rise was in Ireland (with various factors playing a part, including lower funding costs).

Breakdown of adjusted net result by business unit
(2014, in millions of EUR)



At 21 billion euros, loans and advances to customers (excluding reverse repos) fell by 1%, with the increases in Slovakia (+8%), Hungary (+5%) and Bulgaria (+9%) being cancelled out by a decline in Ireland (-6%). Deposits from customers and debt securities, excluding repos (15 billion euros at year-end), went up by 5%, attributable largely to the successful retail deposit campaign in Ireland (+21%). Deposit volumes increased in Slovakia (+6%) and Bulgaria (+10%), too, but fell in Hungary (-7%). The average net interest margin rose from 2.10% at year-end 2013 to 2.41% at the end of the period under review.

Earned insurance premiums relate only to Hungary, Slovakia and Bulgaria (we have no insurance activities in Ireland, although we do sell third-party products there) and amounted to 237 million euros, 84 million euros of which came from life insurance and 153 million euros from non-life insurance. Non-life insurance premiums fell by roughly 1% (attributable to Hungary), and the claims level rose by 14% (owing to the weather conditions and natural disasters in Bulgaria and Slovakia). The combined ratio for the three Central and Eastern European countries as a whole deteriorated slightly from 95% in 2013 to 96% in 2014. Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figure – came to 0.1 billion euros, some 5% above the year-earlier figure. Products offering guaranteed rates accounted for 44% of life insurance sales, and unit-linked products for 56%. At year-end, the outstanding life reserves stood at 0.5 billion euros.

The net result from financial instruments at fair value through profit or loss came to 73 million euros. This was roughly 20% less than in 2013, owing to factors such as the negative marked-to-market valuation of certain derivatives used for asset/liability management in 2014. Net fee and commission income amounted to 208 million euros, up 2% year-on-year, attributable chiefly to growth in Slovakia (among other things, in credit-related commissions). The net realised result from available-for-sale assets totalled 16 million euros. Other net income stood at a negative 227 million euros (compared with a positive 20 million euros a year earlier), due primarily to the new Hungarian law on consumer loans (act on the 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions'). The act prohibits use of exchange rate margins and requires the retroactive correction of the bid/offer spreads applied to the relevant loans. It also revokes all unilateral changes to interest rates and fees executed by the banks with respect to all consumer loans. As a consequence of the new law, KBC set aside a provision of 231 million euros to cover the correction of bid/offer spreads and unilateral changes to interest rates.

Operating expenses came to 740 million euros, an increase of 4% on the year-earlier figure that was attributable chiefly to Ireland (owing to factors such as higher costs linked to the increased workforce and to the retail campaign). The cost/income ratio of this business unit therefore ended the year at a high 92%, although the numerator in this ratio was naturally affected by the provisions set aside on account of the new Hungarian law with regard to consumer loans. Adjusted for that item (and several other small exceptional items), the ratio amounted to 69%, compared with 68% in 2013.

▲ *Close the Gap* collects used computers from companies and makes them available for re-use in developing countries. KBC has been a strategic partner of this NGO for many years and will continue to support it in the years ahead.

Impairment on loans and receivables (loan loss provisions) came to 273 million euros, significantly below the 1 171 million euros recorded for the previous year. The decline was attributable mainly to Ireland where 1 059 million euros had been set aside for loan loss provisions in 2013, but only 198 million euros in the period under review. The Irish loan portfolio still stood at about 14.5 billion euros at the end of the year, approximately four-fifths of which was made up of mortgage loans. Loan loss provisions totalling 74 million euros were set aside in 2014 for all three Central and Eastern European countries, compared with 112 million euros a year earlier, with decreases in Hungary and Slovakia.As a result, the credit cost ratio at business unit level came to 106 basis points, as opposed to 448 basis points in 2013. The figures per country were 133 basis points for Ireland, 94 basis points for Hungary, 36 basis points for Slovakia and 130 basis points for Bulgaria. At year-end, around 34% of the business unit's loan portfolio was impaired (see 'Glossary of ratios' for definition), compared with the year-earlier figure of 33%. Broken down by country, the figures were 52% in Ireland, 14% in Hungary, 4% in Slovakia and 28% in Bulgaria. Impaired loans more than 90 days past due amounted to 19% of the portfolio (19.2% in 2013). The figures for each country were 27% for Ireland, 11% for Hungary, 3% for Slovakia and 25% for Bulgaria.

Other impairment charges at the business unit totalled 11 million euros.

International Markets Business Unit results* (in millions of EUR)

	Total	
	2013	**2014**
Net interest income	632	677
Non-life insurance (before reinsurance)	80	68
Earned premiums	155	153
Technical charges	-75	-86
Life insurance (before reinsurance)	4	12
Earned premiums	83	84
Technical charges	-79	-71
Ceded reinsurance result	-9	2
Dividend income	0	0
Net result from financial instruments at fair value through profit or loss	90	73
Net realised result from available-for-sale assets	13	16
Net fee and commission income	204	208
Other net income	20	-227
Total income	1 034	828
Operating expenses	-715	-740
Impairment	-1 189	-284
on loans and receivables	-1 171	-273
on available-for-sale assets	-10	0
on goodwill	0	0
other	-8	-11
Share in results of associated companies	1	0
Result before tax	-869	-196
Income tax expense	15	14
Net post-tax result from discontinued operations	0	0
Result after tax	-853	-182
attributable to minority interests	0	0
attributable to equity holders of the parent (net result)	**-853**	**-182**
Banking	-863	-204
Insurance	10	23
Risk-weighted assets, banking (Basel III; period-end)	16 247	18 425
Solvency, insurance (Solvency I; period-end)	44	44
Allocated capital (period-end)	1 702	2 011
Return on allocated capital	-49%	-9%
Cost/income ratio, banking	69%	92%
Combined ratio, non-life insurance	95%	96%

* Some reference figures for 2013 have been restated (see 'Consolidated results in 2014'). The increase in risk-weighted assets in Hungary was due primarily to the scrapping of the zero weighting for domestic government bonds.

Of which

	Hungary		Slovakia		Bulgaria		Ireland
2013	2014	2013	2014	2013	2014	2013	2014
269	274	200	210	40	43	123	149
26	27	22	20	31	21	0	0
59	55	26	27	70	71	0	0
-32	-29	-3	-7	-40	-50	0	0
-10	-1	10	10	3	4	0	0
14	15	54	53	15	16	0	0
-24	-16	-44	-43	-11	-12	0	0
-3	-2	-2	-2	-4	6	0	0
0	0	0	0	0	0	0	0
77	62	19	15	1	2	-7	-7
7	14	3	2	3	0	1	0
159	160	43	46	1	1	-4	-3
11	-225	10	0	-1	0	0	-2
536	307	305	301	74	77	114	138
-379	-368	-180	-185	-52	-52	-102	-132
-78	-49	-30	-18	-22	-10	-1 059	-207
-76	-47	-27	-17	-9	-10	-1 059	-198
0	0	0	0	-10	0	0	0
0	0	0	0	0	0	0	0
-2	-1	-3	0	-3	0	0	-9
1	0	0	0	0	0	0	0
81	-109	95	98	1	15	-1 047	-202
-15	15	-25	-24	1	0	55	23
0	0	0	0	0	0	0	0
66	-94	70	75	2	15	-992	-179
0	0	0	0	0	0	0	0
66	**-94**	**70**	**75**	**2**	**15**	**-992**	**-179**
58	-102	60	65	10	11	-992	-179
8	8	10	10	-8	5	0	0
4 434	6 996	3 776	3 815	668	671	7 357	6 931
14	14	15	15	15	15	0	0
469	759	404	426	93	96	736	728
13%	-12%	17%	18%	2%	16%	-134%	-28%
71%	125%	59%	62%	61%	63%	90%	96%
97%	96%	76%	83%	101%	101%	–	–

The Group Centre includes the operating results of the group's holding-company activities, certain costs related to capital and liquidity management, costs related to the holding of participating interests, 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 legacy business (CDOs and divestments) and 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 complete

The restructuring plan we agreed with the European Commission in 2009 included a list of activities that had to be divested. By the end of 2014, we had implemented the plan in full.

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

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

Contribution to group results

In 2014, the Group Centre generated a net result of -100 million euros, compared with -256 million euros a year earlier. Excluding the results of legacy business (divestments and CDOs) and the results relating to the valuation of own credit risk, the adjusted net result amounted to -234 million euros, compared with -311 million euros for the previous year.

The impact of the legacy business and own credit risk is explained in the 'Consolidated results in 2014' section.

Excluding these items, and as stated above, the Group Centre's adjusted net result stood at -234 million euros. This consisted of the operating expenses of the group's holding-company activities (-74 million euros, compared with -93 million euros in 2013), certain costs related to capital and liquidity management (to achieve liquidity and solvency targets at group level, and including the subordination charges attached to subordinated loans; -45 million euros, a sharp improvement on the -120 million euros recorded a year earlier, owing largely to lower subordination charges), costs related to the holding of participating interests (chiefly funding costs; -99 million euros, compared with a year-earlier figure of -106 million euros), the results of the remaining companies scheduled for divestment or run-down (Antwerp Diamond Bank, KBC Finance Ireland, etc.; -22 million euros, as opposed to -27 million euros at year-end 2013) and 7 million euros in other items.

Group Centre results* (in millions of EUR)	**2013**	**2014**
Adjusted net result (i.e. excluding the impact of legacy business and valuation of own credit risk)		
Net interest income	-197	-145
Non-life insurance (before reinsurance)	-15	-6
Earned premiums	-21	-16
Technical charges	6	10
Life insurance (before reinsurance)	3	-1
Earned premiums	19	0
Technical charges	-16	0
Ceded reinsurance result	6	2
Dividend income	0	1
Net result from financial instruments at fair value through profit or loss	62	12
Net realised result from available-for-sale assets	13	11
Net fee and commission income	23	19
Other net income	22	2
Total income	-82	-104
Operating expenses	-212	-160
Impairment	-122	-44
on loans and receivables	-87	-42
on available-for-sale assets	-4	-1
on goodwill	-7	0
other	-25	0
Share in results of associated companies	0	3
Result before tax	-417	-305
Income tax expense	120	71
Net post-tax result from discontinued operations	0	0
Result after tax	-297	-234
attributable to minority interests	14	0
attributable to equity holders of the parent	**-311**	**-234**
Banking	-137	-126
Insurance	-21	-9
Holding	-153	-99
Risk-weighted assets, banking (Basel III; period-end)	11 031	6 650
Risk-weighted assets, insurance (Basel III, Danish compromise method; period-end)	11 068	10 897
Solvency, insurance (Solvency I; period-end)	4	1
Allocated capital (period-end)	1 111	701
Legacy business and valuation of own credit risk		
Legacy – CDOs	446	16
Legacy – divestments	-348	116
Valuation of own credit risk	-43	2
Net result		
Result after tax, attributable to equity holders of the parent	-256	-100

* Some reference figures for 2013 have been restated (see 'Consolidated results in 2014').

Risk management

How do we manage our risks?

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.

This section of our annual report focuses on our risk governance model and the most material sector-specific risks we face, namely credit risk, market risk, liquidity risk, technical insurance risk and operational risk. The general risks (relating to the macroeconomic situation, competition, regulations, etc.) are described in the 'Our strategy' section.

▲ **Christine Van Rijsseghem**, Chief Risk Officer

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’, ‘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, ‘Forbearance measures’, the ‘Investment portfolio of KBC group insurance entities’ table, the ‘Credit exposure to (re) insurance companies by risk class’ table and the ‘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 10-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.

Please note that:

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

Risk governance

Our risk governance model is characterised primarily by:

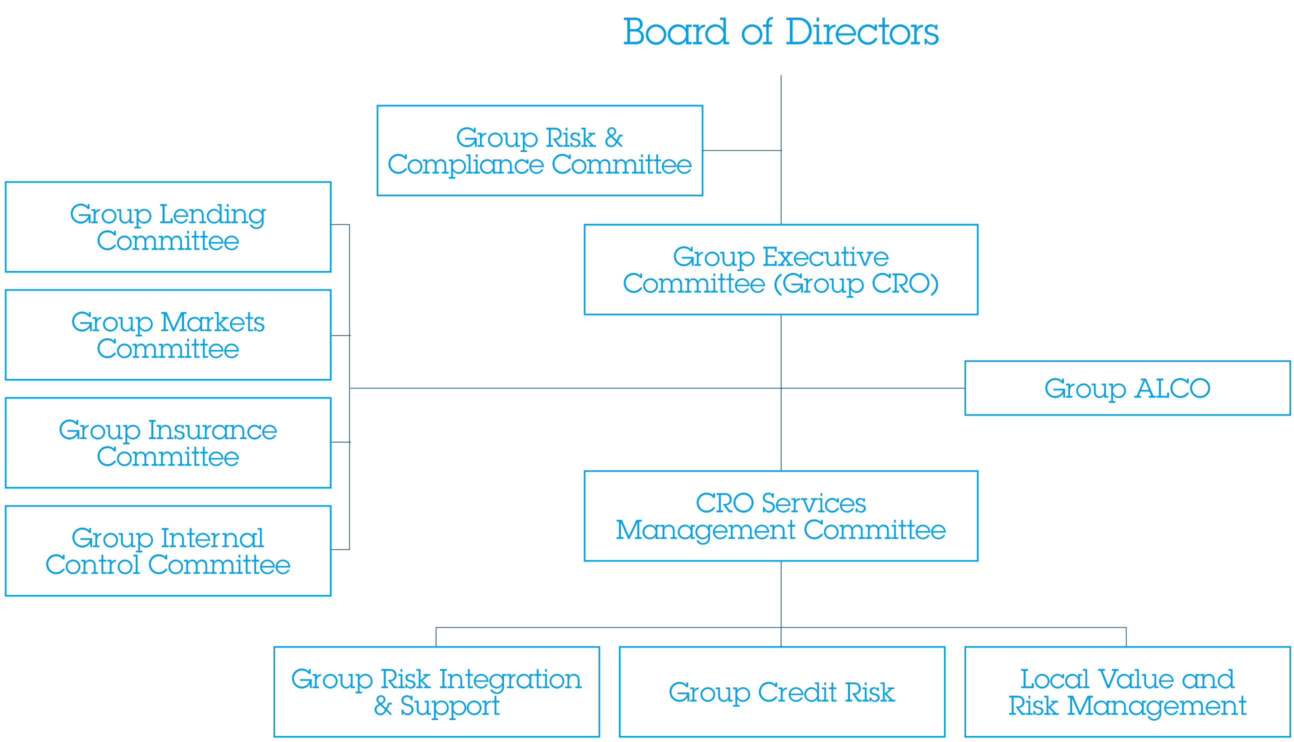
- the Board of Directors, assisted by the Group Risk & Compliance Committee (RCC), which sets the risk appetite each year, monitors risks and proposes action, where necessary.
- integrated architecture centred on the Executive Committee that links risk appetite, strategy and performance goal setting.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

Relevant risk management bodies and control functions:

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

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

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



Credit risk

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

We manage credit risk at both transactional and portfolio level. Managing credit risk at the transactional level means that we have sound practices, processes and tools in place to identify and measure the risks before and after accepting individual credit exposures. Limits and delegations are set to determine the maximum credit exposure allowed and the level at which acceptance decisions are taken. Managing the risk at portfolio level encompasses, *inter alia*,

Want to learn more?

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

periodic measuring and analysing of risk embedded in the consolidated loan and investment portfolios and reporting on it, monitoring limit discipline, conducting stress tests under different scenarios, taking risk mitigating measures and optimising the overall credit risk profile.

Credit risk management at transactional level

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

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

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

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

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

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

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

Credit risk management at portfolio level

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

Whereas some limits are still in notional terms, we also use concepts such as 'expected loss' and 'loss given default'. Together with ‘probability of default’ and ‘exposure at default’, these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Rating Based (IRB) approach. After receiving the approval of the regulators in 2012, the main group entities adopted the IRB Advanced approach and were joined by a number of smaller entities in 2013 and 2014. Others are scheduled to shift to the IRB Advanced or Foundation approaches in 2015. ‘Non-material’ entities will continue to adopt the Standardised approach.

Credit risk exposure 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.

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

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

Loan and investment portfolio, banking	31-12-2013[6]	31-12-2014
Total loan portfolio (in billions of EUR)		
Amount granted	161	166
Amount outstanding	135	139
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)		
Belgium	64%	64%
Czech Republic	13%	14%
International Markets	19%	18%
Group Centre	4%	4%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	42%
Financial and insurance services	5%	6%
Governments	4%	4%
Corporates	49%	49%
Non-financial services	11%	11%
Retail and wholesale trade	8%	8%
Real estate (risk)	8%	7%
Construction	4%	4%
Agriculture, farming, fishing	3%	3%
Automotive	2%	2%
Other[2]	14%	14%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1]		
Western Europe	75%	75%
Central and Eastern Europe	21%	21%
North America	2%	1%
Other	2%	2%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	29%	30%
PD 2 (0.10% – 0.20%)	11%	11%
PD 3 (0.20% – 0.40%)	12%	13%
PD 4 (0.40% – 0.80%)	16%	15%
PD 5 (0.80% – 1.60%)	14%	11%
PD 6 (1.60% – 3.20%)	8%	10%
PD 7 (3.20% – 6.40%)	5%	5%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	3%	2%
Total	100%	100%

Loan and investment portfolio, banking	31-12-2013[6]	31-12-2014
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[5]	13 871	13 692
Specific impairment	5 521	5 709
Portfolio-based impairment (i.e. based on PD 1 to 9)	284	215
Credit cost ratio		
Belgium Business Unit	0.37%	0.23%
Czech Republic Business Unit	0.26%	0.18%
International Markets Business Unit	4.48%	1.06%
Ireland	6.72%	1.33%
Slovakia	0.60%	0.36%
Hungary	1.50%	0.94%
Bulgaria	1.19%	1.30%
Group Centre	2.40%	1.17%
Total	1.21%	0.41%
Total (including entities classified as 'disposal groups' under IFRS 5)	1.21%	0.42%
Impaired loans ratio		
Belgium Business Unit	4.7%	4.3%
Czech Republic Business Unit	4.3%	3.8%
International Markets Business Unit	33.0%	34.1%
Group Centre	10.6%	8.6%
Total	10.2%	9.9%
Total (including entities classified as 'disposal groups' under IFRS 5)	10.2%	9.9%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)		
Impaired loans that are more than 90 days past due	8 086	7 676
Specific impairment for impaired loans that are more than 90 days past due	4 046	4 384
Ratio of impaired loans that are more than 90 days past due		
Belgium Business Unit	2.5%	2.2%
Czech Republic Business Unit	3.1%	2.9%
International Markets Business Unit	19.2%	19.0%
Group Centre	8.5%	6.3%
Total	6.0%	5.5%
Total (including entities classified as 'disposal groups' under IFRS 5)	6.0%	5.5%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	40%	42%
Total (excluding mortgage loans)	47%	51%

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

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

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

5 Impaired loans also include forborne loans (where the borrower has been assigned PD class 10 or higher). Reconciliation of year-end figures: the difference of 179 million euros between the figures for 2013 and 2014 was due to this category of loan decreasing by 246 million euros at the Belgium Business Unit, by 49 million euros at the Czech Republic Business Unit and by 23 million euros at the Group Centre, and to it increasing by 139 million euros at the International Markets Business Unit (239 million euros of which in Ireland).

6 Excluding KBC Bank Deutschland (classified as a 'disposal group' under IFRS 5 in 2013, sold in 2014). In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) accounted for 3.3 billion euros' worth of credit granted, 2.3 billion euros of which was outstanding.

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

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

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

Forbearance measures

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

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

Forbearance measures may involve:

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

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

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

If the client had not yet defaulted, and after being granted the forbearance measure – based on the bank's assessment of the borrower's revised financial projections/restructuring plans – there is a reasonable chance that the borrower will be able to meet the renegotiated terms of the loan, and the expected loss (in the broad sense) for the bank after renegotiation will be lower than it would have been without renegotiation, the PD class assigned by the model can be applied or overruled according to the existing policies. However, if the PD is overruled, the assigned PD would be higher than the PD assigned to borrowers/files with similar loans but without forbearance measures, reflecting the higher risk of default attached to the forborne facility.

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

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

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

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

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

At the end of 2014, forborne loans accounted for some 6% of the total loan portfolio. A breakdown is provided below.
The fluctuation in exposure to forborne loans was caused mainly by the implementation in 2014 of the new EBA-based policy on forbearance measures. Additionally:

- in Ireland, a substantial proportion of the forborne exposure is included in the total exposure. This proportion increased further in 2014, due to the continued legacy impact of Ireland having been hit severely by the economic and financial crisis, which resulted in a large number of forbearance measures being taken (restructured under the MARS programme).
- in Hungary, the decrease in 2014 was accounted for by the 'Curia' decision on a debtor relief programme, which significantly slowed down restructuring activities.
- in Bulgaria, exposure to forborne loans (which accounts for a substantial proportion of the total portfolio) was mainly concentrated in the (corporate) legacy portfolio, which is being run down. Forborne loans and the legacy portfolio both relate largely to clients that are in default.

Forborne loans (in millions of EUR)	Total outstanding portfolio[1]	Forborne loans						
		Total	(% of outstanding portfolio)	Breakdown by PD class				Specific impairment
31-12-2013				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	135 364	7 429	5%	581	830	4 307	1 711	1 744
By business unit								
Belgium Business Unit	86 913	2 207	3%	377	446	1 074	311	381
Czech Republic Business Unit	17 716	359	2%	129	25	126	79	77
International Markets Business Unit	25 894	4 845	19%	75	360	3 108	1 303	1 280
Ireland	15 280	3 999	26%	28	281	2 903	787	1 000
Slovakia	4 635	105	2%	23	9	23	49	30
Hungary	5 080	507	10%	9	57	161	281	164
Bulgaria	747	234	31%	15	13	21	185	86
Group Centre	4 840	18	0%	0	0	0	18	8
By client segment								
Private individuals[2]	56 583	3 616	6%	278	320	2 312	705	786
SMEs	32 029	474	1%	107	166	102	100	78
Corporations[3]	46 752	3 339	7%	196	344	1 893	905	881
31-12-2014								
Total	138 931	7 928	6%	470	551	4 608	2 299	2 095
By business unit								
Belgium Business Unit	89 060	1 288	1%	336	91	783	77	188
Czech Republic Business Unit	18 775	241	1%	36	38	111	56	53
International Markets Business Unit	25 446	6 209	24%	70	378	3 635	2 126	1 817
Ireland	14 498	5 682	39%	33	354	3 453	1 842	1 638
Slovakia	5 065	102	2%	24	8	44	25	25
Hungary	5 089	209	4%	3	10	115	81	73
Bulgaria	794	217	27%	10	7	23	178	82
Group Centre	5 650	190	3%	28	44	78	40	37
By client segment								
Private individuals[2]	58 192	4 907	8%	290	360	3 027	1 230	1 040
SMEs	32 089	349	1%	73	57	138	82	69
Corporations[3]	48 649	2 671	5%	108	134	1 442	987	986

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

Other credit risks

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

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

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

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

Other credit exposure, banking

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

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

2 After deduction of collateral received and netting benefits.

Government securities in the investment portfolio of banking entities. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium). We have put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure of the 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]

	31-12-2013	31-12-2014
Per balance sheet item		
Securities	19 284	21 282
Bonds and other fixed-income securities	18 003	19 935
Held to maturity	6 731	6 982
Available for sale	11 266	12 952
At fair value through profit or loss and held for trading	1	1
As loans and receivables	5	0
Shares and other variable-yield securities	1 262	1 345
Available for sale	1 260	1 340
At fair value through profit or loss and held for trading	3	5
Other	19	3
Property and equipment and investment property	354	373
Investment contracts, unit-linked[2]	12 745	13 425
Other	701	1 074
Total	33 084	36 155
Details for bonds and other fixed-income securities		
By rating[3, 4]		
Investment grade	96%	96%
Non-investment grade	3%	2%
Unrated	1%	2%
By sector[3]		
Governments	64%	65%
Financial[5]	21%	13%
Other	15%	22%
By currency[3]		
Euro	94%	95%
Other European currencies	6%	5%
US dollar	0%	0%
By remaining term to maturity[3]		
Not more than 1 year	15%	12%
Between 1 and 3 years	20%	18%
Between 3 and 5 years	19%	20%
Between 5 and 10 years	29%	30%
More than 10 years	18%	20%

1 The total carrying value amounted to 32 576 million euros at year-end 2013 and to 34 716 million euros at year-end 2014.
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 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 2013**	**EL 2013**	**EAD 2014**	**EL 2014**
AAA up to and including A-	141	0.05	190	0.06
BBB+ up to and including BB-	147	0.13	123	0.12
Below BB-	0	0	0	0
Unrated	3	0.07	6	0.65
Total	**291**	**0.24**	**341**	**0.83**

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 2014, carrying value[1] (in millions of EUR)

Total (by portfolio)

	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 2013*	Economic impact of +100 basis points[3]
Southern Europe and Ireland								
Greece	0	0	0	0	0	0	*0*	0
Portugal	46	36	0	0	1	83	*77*	-6
Spain	1 606	0	0	0	3	1 609	*348*	-92
Italy	2 018	93	0	0	11	2 123	*865*	-123
Ireland	465	308	0	0	2	775	*462*	-42
KBC core countries								
Belgium	7 123	16 535	93	0	794	24 545	*24 586*	-1 343
Czech Republic	1 390	5 305	0	23	869	7 587	*8 970*	-455
Hungary	464	1 431	0	8	171	2 073	*2 267*	-68
Slovakia	1 448	1 274	0	0	69	2 792	*2 395*	-163
Bulgaria	263	15	0	0	0	279	*16*	-9
Other countries								
France	1 634	2 460	0	0	120	4 214	*3 312*	-342
Poland	522	55	12	0	36	624	*398*	-29
Germany	356	482	0	0	23	861	*942*	-57
Austria	407	396	379	0	0	1 182	*894*	-67
Netherlands	182	422	265	0	36	905	*797*	-38
Rest[2]	1 543	1 528	315	0	257	3 643	*4 400*	-221
Total carrying value	**19 469**	**30 342**	**1 063**	**31**	**2 391**	**53 298**	***50 876***	**–**
Total nominal value	**16 807**	**28 562**	**933**	**31**	**2 314**	**48 646**	***47 978***	**–**

1 Including entities classified as 'disposal groups' under IFRS 5 (accounted for an aggregate 0.2 billion euros at year-end 2013 and 0.0 billion euros at year-end 2014). Excluding exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2014.

3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to banking book exposure only (impact on trading book exposure was very limited and amounted to -36 million euros at year-end 2014).

Main changes in 2014:

- The carrying value of the total sovereign bond exposure increased slightly by 2.4 billion euros, due primarily to the higher exposure to Spanish, Italian and French government bonds (+1.3 billion euros, +1.3 billion euros, +0.9 billion euros, respectively), but partly offset by a decrease in exposure to Czech government bonds (-1.4 billion euros).

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

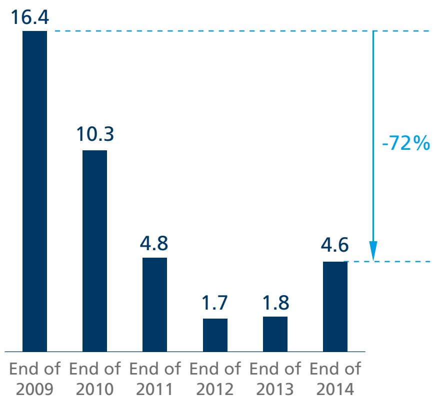
- At 31 December 2014, the carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 1.8 billion euros, before tax.
- This included 731 million euros for Belgium, 83 million euros for the Czech Republic, 200 million euros for Italy, 157 million euros for France, 109 million euros for Slovakia, 111 million euros for Spain, 51 million euros for Luxembourg, 48 million euros for Germany, 38 million euros for Hungary, 30 million euros for Ireland, 23 million euros for the Netherlands, and 175 million euros for the other countries combined.

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

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 46% of the total government bond portfolio at the end of 2014, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table towards the start of this section, in the contribution that Belgium makes to group profit (see 'Belgium') and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2014, the credit ratings assigned to Belgium by the three main international agencies were Aa3 from Moody's, AA from Standard & Poor's and AA from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more ratings information, updates and outlooks, please refer to the rating agencies' websites.
- The main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2014) can be broken down as follows:
  - Theoretical full economic impact (see previous table):
    - the impact of which on IFRS profit or loss: very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (29%) and 'Held To Maturity' (67%);
    - the impact of which on IFRS unrealised gains on available-for-sale assets: -213 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.

Government bonds issued by Portugal, Italy, Ireland, Greece and Spain
(in billions of EUR, carrying value)



Structured credit exposure (banking and insurance portfolios)

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

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

KBC investments in structured credit products (CDOs and ABS)
(in billions of EUR)

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

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

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

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

Market risk in non-trading activities

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

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

- mismatches 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, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

Managing market risk in non-trading activities

The main building blocks of KBC's ALM Risk Management Framework are:

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity.
- the use of a uniform ALM methodology for banking and insurance activities across the group, based on 'fair value models' that forecast the value of a product group under different market scenarios and that are translated into replicating portfolios (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk).
- the use of a Value-at-Risk (VaR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VaR measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level, as a result of movements in interest rates and other fluctuations in market risk factors.
- the 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)*	31-12-2013	31-12-2014
Total	3.84	4.89

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

Interest rate risk

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

Impact of a parallel 10-basis-point increase in the yield curve for the KBC group[1]

	Impact on value[2]	
(in millions of EUR)	2013	2014
Banking	-22	-57
Insurance	10	16
Total	-11	-41

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

We manage the ALM interest rate positions of the banking entities via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique – reviewed on a dynamic basis – for products without a fixed maturity date (e.g., current and savings accounts).

The bank takes interest rate positions mainly through government bonds, with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds. The table shows the bank's exposure to interest rate risk in terms of 10 BPV.

BPV (10 basis points) of the ALM book, banking activities*

(in millions of EUR)	2013	2014
Average for 1Q	-33	-55
Average for 2Q	-28	-61
Average for 3Q	-21	-71
Average for 4Q	-22	-57
As at 31 December	-22	-57
Maximum in year	-41	-71
Minimum in year	-21	-55

* At year-end 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of -0.1 million euros. The year-on-year difference in BPV was accounted for in part by the change in non-maturity deposit modelling. Unaudited figures, except for those 'As at 31 December'.

In line with the Basel guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level, this risk came to 14.9% of total capital and reserves at year-end 2014. This is well below the 20% threshold (where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

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

Interest sensitivity gap of the ALM book (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
31-12-2013	13 787	78	-1 641	-3 170	6 852	766	-16 672	0
31-12-2014	-13 126	-2 961	5 099	20 560	9 205	-2 172	-16 606	0

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

31-12-2013	5	126	60	6	0	0	-198	0

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

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
31-12-2013						
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
31-12-2014						
Fixed-income assets backing liabilities, guaranteed component	10 466	4 639	2 332	865	1 050	19 351
Liabilities, guaranteed component	10 282	3 303	1 994	1 402	1 986	18 967
Difference in expected cashflows	184	1 336	338	-537	-936	384
Mean duration of assets						5.85 years
Mean duration of liabilities						6.72 years

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	31-12-2013	31-12-2014
5.00% and higher*	3%	3%
More than 4.25% up to and including 4.99%	10%	11%
More than 3.50% up to and including 4.25%	4%	5%
More than 3.00% up to and including 3.50%	27%	22%
More than 2.50% up to and including 3.00%	22%	22%
2.50% and lower	32%	35%
0.00%	2%	2%
Total	100%	100%

* 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 (breakdown by sector, in %)	**Banking activities**		**Insurance activities**		**Group**	
	31-12-2013	**31-12-2014**	**31-12-2013**	**31-12-2014**	**31-12-2013**	**31-12-2014**
Financial	60%	68%	20%	18%	25%	23%
Consumer non-cyclical	1%	1%	10%	10%	8%	9%
Communication	0%	0%	0%	2%	0%	2%
Energy	0%	0%	7%	5%	6%	4%
Industrial	27%	17%	38%	40%	37%	37%
Utilities	0%	0%	3%	2%	3%	2%
Consumer cyclical	1%	0%	15%	12%	13%	11%
Basic materials	0%	0%	5%	8%	4%	7%
Other and not specified	12%	13%	3%	4%	4%	5%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.2	0.2	1.3	1.3	1.4	1.5*
of which unlisted	0.0	0.1	0.0	0.0	0.1	0.1

* The main differences between the 1.5 billion euros in this table and the 2.1 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 value**	
	2013	**2014**
Banking activities	-21	-20
Insurance activities	-158	-166
Total	-179	-186

Non-trading equity exposure (in millions of EUR)	**Net realised gains (in income statement)**		**Net unrealised gains on year-end exposure (in equity)**	
	31-12-2013	**31-12-2014**	**31-12-2013**	**31-12-2014**
Banking activities	85	2	73	108
Insurance activities	44	84	252	261
Total*	130	86	335	385

* 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. 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 2013	2014
Bank portfolios	-59	-51
Insurance portfolios	-28	-30
Total	-86	-81

* The figures for 2013 have been restated. Some buildings used by KBC Insurance for its own activities were excluded from the scope of risk, which reduced the impact of a 12.5% drop in real estate prices by 12 million euros.

Foreign exchange risk

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

Liquidity risk

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

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee and transposed into European law through CRD IV/CRR for the liquidity coverage ratio. We continue to incorporate these concepts into our liquidity and funding framework, as well as into our financial planning.

Managing liquidity risk

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

Liquidity management itself is organised within the Group Treasury function, which acts as a first line of defence and is responsible for the overall liquidity and funding management of the KBC group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. It also actively monitors its collateral on a group-wide basis and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.

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

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to

▲ **Claire Noonan** used to work with Andrea Blomme in Ireland.

'We were looking to take out a mortgage, but that was proving difficult because my husband has had cancer. However, KBC was there to provide us with a solution. Fortunately, we didn't suffer as badly as some from the crisis in Ireland and are now able to pay back what we borrowed more quickly than planned.'

restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.

- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III LCR and NSFR requirements via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.
  In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2014, KBC had attracted 26 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

Liquidity risk (excluding intercompany deals)* (in billions of EUR)	**<= 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**> 10 years**	**On demand**	**Not defined**	**Total**
31-12-2013									
Total inflows	18	10	18	52	41	33	4	31	206
Total outflows	27	12	20	29	7	2	81	28	206
Professional funding	18	2	2	1	0	0	1	1	25
Customer funding	7	6	12	13	3	1	80	0	123
Debt certificates	0	4	6	15	3	1	0	0	29
Other	2	0	0	0	0	0	0	27	29
Liquidity gap (excl. undrawn commitments)	-10	-2	-2	23	35	31	-77	2	0
Undrawn commitments	–	–	–	–	–	–	–	-25	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-10	-2	-2	23	35	31	-77	-33	-35
31-12-2014									
Total inflows	16	8	16	55	45	33	3	35	211
Total outflows	35	9	15	31	8	1	84	27	211
Professional funding	15	3	1	5	0	0	0	0	26
Customer funding	17	5	9	11	4	0	84	0	130
Debt certificates	0	2	4	14	4	1	0	0	26
Other	2	–	–	–	–	–	–	27	30
Liquidity gap (excl. undrawn commitments)	-19	-1	2	24	37	32	-81	7	0
Undrawn commitments	–	–	–	–	–	–	–	-32	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-19	-1	2	24	37	32	-81	-34	-42

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) had an impact of 1.9 billion euros. Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 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.

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

The KBC group has a solid liquidity position. Historically, it has always had a substantial amount of liquid assets. At year-end 2014, the KBC group had 62 billion euros' worth of unencumbered central bank eligible assets, 41 billion euros of which in the form of liquid government bonds (67%). The remaining available liquid assets were other ECB/FED eligible bonds (10%) and pledgeable credit claims (12%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies).

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

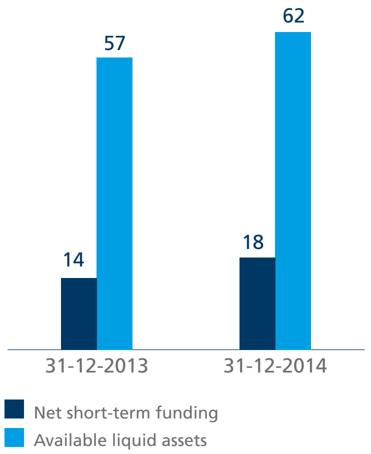
Funding information

KBC 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.

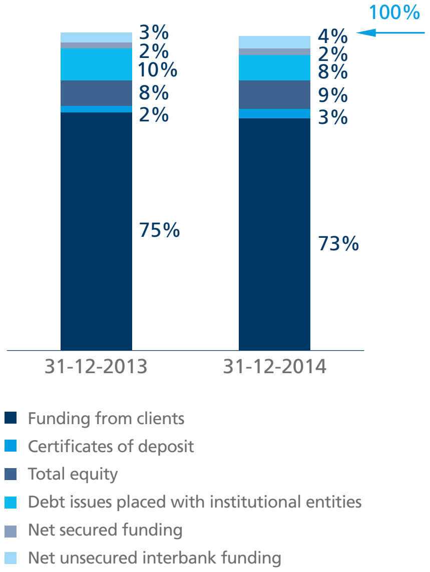
The KBC group's funding mix can be broken down as follows (figures relate to 31 December 2014):

- Funding from customers (circa 130 billion euros, 73% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 62% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (14 billion euros, 8% of the total figure), mainly comprising IFIMA debt issues (6 billion euros), covered bonds (5 billion euros), the contingent capital notes issued in January 2013 (0.75 billion

Unsecured short-term funding compared to liquid assets
(in billions of EUR)



Funding mix by type



euros), the additional tier-1 issue (1.4 billion euros) and tier-2 issue (0.9 billion euros).
- Net unsecured interbank funding (7 billion euros, 4% of the total figure).
- Net secured funding (4 billion euros in repo funding, 2% of the total figure) and certificates of deposit (6 billion euros, 3% of the total figure).
- Total equity (16.5 billion euros, 9% of the total figure).

Please note that:
- During 2014, KBC Bank used its EMTN programme to raise 0.3 billion euros in long-term funding.
- In November 2012, we announced our Belgian residential mortgage covered bonds programme. This 10-billion-euro programme was set up following the entry into force of the Act of 3 August 2012 that established a legal framework for Belgian covered bonds. This bond programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros. More issues followed in 2013 for a total of 2.7 billion euros and in 2014 for a total of 0.9 billion euros.
- In 2014, we also borrowed 2.8 billion euros from the ECB under the targeted long-term refinancing operations (TLTROs). The maturity of the TLTROs depends on future credit growth, which cannot be specified in advance.
- In 2014, we successfully issued an additional tier-1 instrument totalling 1.4 billion euros and tier-2 instruments worth 0.9 billion euros (0.75 billion euros of which was issued in November 2014). Conversely, the innovative and non-innovative tier-1 debt instruments (totalling 2.3 billion euros) were called for redemption in May-June 2014.

LCR and NSFR

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

Market risk in trading activities

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

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

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. The traditional dealing rooms, with the dealing room in Belgium accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, while activity on the FX markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

There is also a limited market risk in the four legacy business lines of KBC Investments Limited (formerly KBC Financial Products), namely the CDO, fund derivatives, reverse mortgages and insurance derivatives businesses.

Regarding the CDO business – and as mentioned in other parts of this report – KBC has now fully scaled down its CDO portfolio. However, the position pertaining to the remaining 0.3 billion euros of CDO notes held by investors is located in the trading books of KBC Investments Limited. Consequently, the market risk regulatory capital for this position is recorded under the re-securitisation column (19 million euros) in the 'Trading regulatory capital requirements' table.

The remaining three legacy business lines, which represent less than 2% of market risk regulatory capital charges for trading activities, continue to be monitored and wound down by dedicated teams. The most significant progress made in 2014 regarding these other legacy business lines was in the fund derivatives business, with most of the portfolio being sold in June, which left a portfolio book value of about 1 million euros.

Managing market risk

The principal tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. We use the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days), and 500 working days of historical data. The HVaR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. The HVaR is calculated and monitored at desk and entity level, as well as at KBC group level.

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

Complex and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits.

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

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

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

Risk analysis and quantification

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

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

A breakdown of the risk factors (averaged) in the KBC group's HVaR model is shown in the table below. Please note that the equity risk stems from the European equity business, and also from KBC Securities (from April 2013).

Breakdown by risk factor of trading HVaR (in millions of EUR)	Average for 2013	Average for 2014
Interest rate risk	33.3	18.7
FX risk	2.9	2.3
FX option risk	1.8	1.8
Equity risk	1.9	1.4
Diversification effect	-5.6	-6.2
Total HVaR	34.3	18.1

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

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

Regulatory capital

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

The resulting capital requirements for trading risk are shown in the table below. The regulatory capital requirements for the trading risk of local KBC entities that did not receive approval from their respective regulator to use an internal model for capital calculations, as well as the business lines not included in the HVaR calculations, are measured according to the

Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk). Note that, as mentioned earlier in this section, the resecuritisation regulatory capital for 2014 (19 million euros) emanates from the counterposition for the 0.3 billion euros of CDO notes held by investors (the counterposition is located in the trading books of KBC Investments Limited).

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

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.

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 identified by year-end 2014, 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 Pojišt'ovna (Czech Republic), ČSOB Poist'ovňa (Slovak Republic), DZI Insurance (from financial year 2008), K&H Insurance, and KBC Group Re. All provisions for claims to be paid at the close of 2014 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 2014.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence 2005	Year of occurrence 2006	Year of occurrence 2007	Year of occurrence 2008*	Year of occurrence 2009	Year of occurrence 2010	Year of occurrence 2011	Year of occurrence 2012	Year of occurrence 2013	Year of occurrence 2014
Estimate at the end of the year of occurrence	578	631	686	793	824	871	806	849	917	996
1 year later	506	537	621	757	724	773	714	743	770	–
2 years later	484	511	588	728	668	725	656	707	–	–
3 years later	483	500	567	714	652	720	638	–	–	–
4 years later	474	486	561	710	635	715	–	–	–	–
5 years later	461	478	557	702	627	–	–	–	–	–
6 years later	462	464	550	677	–	–	–	–	–	–
7 years later	458	458	550	–	–	–	–	–	–	–
8 years later	454	455	–	–	–	–	–	–	–	–
9 years later	446	–	–	–	–	–	–	–	–	–
Current estimate	446	455	550	677	627	715	638	707	770	996
Cumulative payments	382	403	470	596	524	601	511	511	507	420
Current provisions	64	52	79	80	103	114	127	196	263	576

* From financial year 2008, the figures for 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): 475 for 2005; 501 for 2006; and 587 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 and systems, human error or sudden external events, whether man-made or natural. Operational risks exclude business, strategic and reputational risks.

We have provided information on legal disputes in Note 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.

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

The building blocks for managing operational risks

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

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

- A first set was approved in 2011 for the Credit, Life, Non-life, Personal Financial Advice, Legal, Tax, Business Continuity Management and Risk & Capital Management processes.
- A second set was approved in 2012 for the Cash, Current Account, Savings Account, Lease, Trading and Sales (part 1), Portfolio Management, Customer Administration, Human Resources, Corporate Communication and Accounting and External Financial Reporting processes.
- A third set was approved in 2013 for the Balance Sheet Management, Collections (Cheque and Direct Debits), Corporate Governance, Custody, Distribution of Customer Information Output, Funds Transfer, Information Security, Marketing: Commercial Communication, Marketing: New and Active Product Process, Reinsurance, Fixed-Term Savings Products, Retail Brokerage and Information Technology processes.
- A fourth set was approved in 2014 for the Clearing and Settlement for Securities and Derivatives, Collateral Management Services for Third Parties, Debt Issues for Own Account, Debt and Equity Capital Market Activities, Facility Management, Independent Intermediaries, Procurement and Trade Finance processes.
- The final set of process-based Group Key Controls will be set up and approved in 2015.

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

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

- *The Loss Event Database*. All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database also includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the Group Internal Control Committee, the Group Executive Committee and the RCC.
- *Risk Scans (bottom-up and top-down)*. These *self-assessments* focus on the identification of key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level.
- *Case-Study Assessments*. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. Case studies are discussed on a quarterly basis in the Group Internal Control Committee.
- *Key Risk Indicators*. A limited set of KRIs are used to monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.
- *Maturity Model*. In 2014, the group operational risk function developed a maturity model to support KBC entities build a mature control environment in which process improvements, control monitoring and remedial actions are embedded even more deeply into day-to-day business practices.

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

Operational risk and regulatory capital requirements

KBC uses the Standard approach to calculate operational risk capital under Basel II. Operational risk capital for KBC Bank at the consolidated level totalled 849 million euros at the end of 2014, compared with 847 million euros at the end of 2013.

Other non-financial risks

Reputation risk

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

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

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

Business risk

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

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

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

Capital adequacy

How do we manage our capital?

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 requirements and against in-house solvency ratios. Hence, capital adequacy is approached from both a regulatory and an internal (economic) perspective.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, namely 'Managing our solvency' (excluding the graph), the table under 'Solvency at group level' (audited parts are indicated in the footnote to this table), and 'Economic capital and ICAAP'.

Managing our solvency

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on Basel III and the corresponding European regulation and directive (CRR/CRD IV). This regulation entered gradually into force on 1 January 2014, and will be fully implemented by 1 January 2022.

The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company, after having deconsolidated KBC Insurance from the group figures.

The legal minimum tier-1 ratio is 6% under CRR/CRD IV. The common equity tier-1 ratio has to be at least 4.5%. 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). The NBB has confirmed that the state aid (the non-voting core-capital securities) will be fully grandfathered as common equity under CRR.

KBC maintains a minimum target of 10.5% for the common equity ratio under the Danish compromise method, and 17% for the total capital ratio, both on a fully loaded basis (presuming full implementation of all CRR/CRD IV rules, and including the remaining financial support provided by the Flemish Regional Government until 2018).

Moreover, the supervisory authorities (with the NBB as the consolidating supervisor) requested at the end of 2013 that a permanent minimum fully loaded common equity ratio of 9.25%, excluding latent gains, be maintained. According to the latter calculation, this ratio (under the Danish compromise method) stood at 13.6% at year-end 2014, which represented a capital buffer of 4 billion euros relative to the targeted 9.25%.

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

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

In mid-March 2015, we received a new solvency target from the ECB, which had assumed responsibility from the NBB in November 2014 for supervising KBC under the Single Supervisory Mechanism (SSM). Consequently, KBC is required to maintain a minimum fully loaded common equity ratio (including latent gains on available-for-sale securities) of 10.5%. At year-end 2014, this ratio (fully loaded under the Danish compromise method) was 14.3%, which represented a capital buffer of 3.5 billion euros relative to the targeted 10.5%.

In addition to the solvency ratios under CRR/CRD IV, KBC – as a financial conglomerate – now also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). Previously, KBC Group NV – as a financial holding company – did not fall under the scope of that directive, but reported on one solvency calculation at group level, the 'building block' method, at the request of the NBB. KBC will meet this requirement by aligning the building block method with method 1 (the accounting consolidation method) under FICOD. This implies that available capital will be calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRR/CRD IV for the banking business and Solvency I for the insurance business. To date, available capital had been determined under the building block method solely on the basis of bank capital rules. Nothing will change in the calculation of risk weighted assets. In other words, the capital requirements for the insurance business based on Solvency I will be multiplied by 12.5 to obtain a risk weighted asset equivalent. At year-end 2014, the fully loaded common equity ratio (under FICOD) was 14.6%, which represented a capital buffer of 3.8 billion euros relative to the targeted 10.5%.

More details are provided in the relevant press release (available at www.kbc.com).

Solvency at KBC group level

A detailed calculation of the KBC group's solvency ratios, calculated according to the Danish compromise method and on a fully loaded basis, is given below. Alternative calculations (based on the phased-in method) are provided in the following table.

Solvency at group level (consolidated; under CRD IV/CRR (Basel III), Danish compromise method) (in millions of EUR)	31-12-2013 Fully loaded	31-12-2014 Fully loaded
Total regulatory capital, after profit appropriation	**16 258**	**16 688**
Tier-1 capital	**11 711**	**14 476**
Common equity[1]	**11 711**	**13 076**
Parent shareholders' equity (after deconsolidating KBC Insurance)	11 361	12 592
Non-voting core-capital securities	2 333	2 000
Intangible fixed assets, incl. deferred tax impact (-)	-341	-334
Goodwill on consolidation, incl. deferred tax impact (-)	-950	-769
Minority interests	-3	-3
Hedging reserve, cashflow hedges (-)	497	1 391
Valuation differences in financial liabilities at fair value – own credit risk (-)	-6	-21
Value adjustment due to requirements for prudent valuation (-)	0	-92
Equalisation reserve (-)	-131	0
Dividend payout (-)	0	-836
Coupon on government securities (-)	0	-171
Coupon on AT1 instruments (-)	0	-2
Deduction with regard to financing provided to shareholders (-)	-176	-159
IRB provision shortfall (-)	-225	-225
Deferred tax assets on losses carried forward (-)	-648	-297
Additional going concern capital[2]	**0**	**1 400**
Grandfathered innovative hybrid tier-1 instruments	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0
CRR-compliant AT1 instruments	0	1 400
Minority interests to be included in additional going concern capital	0	0
Tier-2 capital	**4 547**	**2 212**
IRB provision excess (+)	342	375
Subordinated liabilities	4 206	1 837
Subordinated loans non-consolidated financial sector entities (-)	0	0
Minority interests to be included in tier-2 capital	0	0
Total weighted risk volume	**91 216**	**91 236**
Banking	80 189	80 232
Insurance	11 068	10 897
Holding-company activities	72	191
Elimination of intercompany transactions	-113	-85
Solvency ratios		
Common equity ratio	12.8%	14.3%
Tier-1 ratio	12.8%	15.9%
Total capital ratio	17.8%	18.3%

1 Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').

2 CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.

Solvency at group level (consolidated; under CRD IV/CRR (Basel III), alternative calculation methods (in millions of EUR or %)	31-12-2013 Fully loaded	31-12-2013 Phased-in	31-12-2014 Fully loaded	31-12-2014 Phased-in
Danish compromise method				
Common equity	11 711	12 095	13 076	12 684
Total weighted risk volume	91 216	91 216	91 236	88 382
Common equity ratio	12.8%	13.3%	14.3%	14.4%
Tier-1 ratio	12.8%	15.3%	15.9%	16.0%
Total capital ratio	17.8%	18.4%	18.3%	18.9%

Additional information concerning the calculation of solvency according to Basel III (Danish compromise method, fully loaded):

- Parent shareholders' equity: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.
- Non-voting core-capital securities: see 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section.
- CRR-compliant additional tier-1 instruments: the increase in 2014 was due to the placement in March 2014 of a CRR-compliant additional tier-1 instrument for 1.4 billion euros.
- Total weighted risk volume: since its implementation in 2008, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 80% of the weighted credit risks, approximately 68% of which are calculated according to the Advanced approach and roughly 12% according to the Foundation approach. The remaining weighted credit risks (about 20%) are calculated according to the Standardised approach. The 2013 reference figures for total weighted risk volume have been restated to account for the different treatment of the joint venture ČMSS in the Czech Republic Business Unit (shift from proportionate consolidation to the equity method – for more information, see Note 1a of the 'Consolidated financial statements' section). The increase in weighted risks in 2014 was largely driven by a change in methodology, where the 'carve out' of home-country sovereign bonds (risk weighting these bonds at zero percent) was no longer applied. This change increased risk weighted assets by approximately 4.4 billion euros, as calculated based on positions at the end of 2013.

At year-end 2014, the fully loaded Basel III leverage ratio – based on current CRR legislation – stood at 6.4% for the KBC group at the consolidated level. This includes the remaining state aid of 2 billion euros (as agreed with the regulator) and the requirements for prudent valuation.

Want to learn more?

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

Solvency of KBC Bank and KBC Insurance separately

As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV.

The solvency of KBC Insurance is calculated on the basis of Solvency I rules. Solvency II is the new regulatory solvency regime for all EU insurance and reinsurance companies. Whereas 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 is January 2016. Based on the most recent draft version of the Solvency II regulations, the Solvency II ratio of the KBC Insurance Group in 2014 amply exceeds the minimum requirements.

In the table, we have provided certain solvency information for KBC Bank and KBC Insurance, separately. More detailed information 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)	**31-12-2013**	**31-12-2014**
KBC Bank (consolidated, CRR/CRD IV, fully loaded)		
Total regulatory capital, after profit appropriation	14 400	14 154
Tier-1 capital	9 602	11 132
Of which common equity	9 602	9 727
Tier-2 capital	4 797	3 021
Total weighted risks	79 822	80 232
Common equity ratio (fully loaded)	12.0%	12.1%
Tier-1 ratio (fully loaded)	12.0%	13.9%
Total capital ratio (fully loaded)	18.0%	17.6%
KBC Insurance (consolidated, Solvency I)		
Available capital	2 721	3 166
Required solvency margin	968	981
Solvency ratio (%)	281%	323%
Solvency surplus	1 753	2 185

In December 2014, the group announced a number of measures to further optimise its capital structure. The transactions involved KBC Insurance NV buying back 203 million euros' worth of its own shares from KBC Group NV before year-end 2014 and shareholder capital of KBC Insurance being replaced by an intra-group tier-2 loan in the amount of 500 million euros to be subscribed by KBC Group NV in the first quarter of 2015. As a result of the transactions, the solvency/CET1 ratio of KBC Group NV will improve, whilst the solvency of KBC Insurance NV will remain exceptionally solid.

Comprehensive assessment of the European Central Bank

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

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

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

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

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

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

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

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

- Our analysis revealed that the AQR adjustments for the sampled credit files in the selected portfolios were largely recorded during 2014 as part of the normal credit process. The additional provisions recorded in 2014 on the sampled files resulted mainly from full implementation of the new forbearance rules by the third quarter of 2014 and from new facts and/or information on specific files that became available during 2014.

Want to learn more?

More information on the comprehensive risk assessment is given in the press release of 26 October 2014 at www.kbc.com.

- The AQR adjustments related to collective provisioning (KBC Ireland). The recommendations related to parameters and assumptions in the provisioning model were factored in and reflected in the 2014 accounts, where required by IFRS.
- KBC developed a new CVA model which incorporated the AQR recommendations. This model was implemented in the fourth quarter of 2014 and, therefore, the impact of the AQR adjustment on the CVA is properly reflected in the 2014 accounts.

It should also be noted that, in 2014, KBC also participated in the EU-wide Insurance Stress Test exercise carried out by EIOPA. The purpose of this test was to assess the resilience of the insurance sector and to identify its major vulnerabilities. The core module of the EIOPA stress test contained adverse market scenarios, which were complemented by a set of independent insurance-specific shocks covering mortality, longevity, insufficient reserves and catastrophes.

Economic capital and ICAAP

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 Group Executive Committee, the Risk & Compliance 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.

Economic capital is used as a major building block for Internal Capital Adequacy Assessment Process (ICAAP). In addition, it provides essential input for risk-adjusted performance measurement (see below).

New guidelines could lead to a review of the economic capital and ICAAP methodology.

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

Risk-Adjusted Performance Measurement

In 2011, KBC developed a Risk-Adjusted Performance Measurement (RAPM) policy, whereby risk-adjusted performance metrics (risk-adjusted profit, return on capital, group economic value added) 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. These risk measures are calculated and reported quarterly.

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

How do we govern our group?

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.

▲ **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. The Charter is published at 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 2014 to 31 December 2014.
The Statement also contains certain other information required by law.
A number of 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 Committee of KBC Group NV: AC
- Risk & Compliance Committee of KBC Group NV: RCC
- Audit, Risk and Compliance Committee of KBC Group NV: ARCC

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2014. 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 2014*

Name	Primary responsibility	Period served on the Board in 2014	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Government-appointed directors	EC	ARCC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2014				10						5	3	3	6	4
Thomas Leysen	Chairman of the Board	Full year	2015	10	■		■						6 (c)	
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2017	10	■	■							4	4
Johan Thijs	President of the EC and Executive Director	Full year	2016	10					■ (c)					
Alain Bostoen	CEO, Christeyns Group	1 Jan – 1 May 12 Nov – 31 Dec	2015	6	■	■								
Jo Cornu	CEO, NMBS	Full year	2016	10	■		■						5	4 (c)
Marc De Ceuster	Professor, Accounting and Finance Department, University of Antwerp	Full year	2018	10	■			■		5		3		
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	■	■				5 (c)		3 (c)	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	10	■	■								
Frank Donck	Managing Director, 3D NV	Full year	2015	10	■	■				5	2	2		
Júlia Király	Head of Department, International Business School of Budapest	Full year	2018	10	■		■			5	3			4
Lode Morlion	Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	10	■	■								
Vladimira Papirnik	Senior Partner, Squire Patton Boggs (US) LLP	Full year	2016	10	■		■			5	3	3		
Luc Popelier	Executive Director	Full year	2015	10					■					
Theodoros Roussis	CEO, Ravago Plastics NV	Full year	2016	10	■	■								
Ghislaine Van Kerckhove	Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	9	■	■								
Christine Van Rijsseghem	Executive Director	From 1 May	2018	6					■					
Piet Vanthemsche	Chairman of the Boerenbond and MRBB CVBA	Full year	2018	8	■	■							6	
Marc Wittemans	Managing Director, MRBB CVBA	Full year	2018	10	■	■				5	3 (c)	3		

Auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Christel Weymeersch and/or Jean-François Hubin. Secretary to the Board of Directors: Johan Tyteca.

(c) Chairman of this committee.

* Alain Tytgadt was a member of the Board until 19 August 2014 (attended 6 meetings). Tom Dechaene was a member of the Board until 23 December 2014 (attended 9 meetings); he also sat on the ARCC, AC and Nomination Committee in his capacity as a government-appointed director.

Changes in the composition of the Board in 2014

- At the General Meeting, Júlia Király – an independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the *Companies Code* and in the *Corporate Governance Code* – was appointed in this capacity for a period of four years.
- Marc De Ceuster, Piet Vanthemsche and Marc Wittemans were re-appointed as non-executive directors for a further period of four years.
- Christine Van Rijsseghem was appointed as director for a period of four years. She took a seat on the EC and holds the office of executive director, replacing John Hollows who resigned as director.
- The term of office of Alain Bostoen was not renewed at the General Meeting of 30 April 2014. On the proposal of the Nomination Committee, he was co-opted by the Board at its meeting of 12 November 2014.
- For the remaining term of his office (i.e. until after the General Meeting of 2015), Thomas Leysen would hold the position of independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the *Companies Code*.
- Alain Tytgadt resigned with effect on 19 August 2014.
- Tom Dechaene resigned with effect on 23 December 2014.

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

- In accordance with the new Banking Act, which obliges credit institutions to set up an audit committee and a risk and compliance committee, the decision was also taken to split the ARCC of KBC Group NV into an AC and a RCC. At year-end 2014, the AC was made up of Marc Wittemans (chairman), Frank Donck, Júlia Király and Vladimira Papirnik. Tom Dechaene (representative of the Flemish Regional Government) also sat on the AC until 22 December 2014. The RCC comprises Franky Depickere (chairman), Frank Donck, Marc Wittemans, Vladimira Papirnik and Marc De Ceuster.
- The composition of the Nomination Committee and the Remuneration Committee has also been changed. At year-end 2014, the Nomination Committee was made up of Thomas Leysen (chairman and independent director), Jo Cornu (independent director), Franky Depickere, Philippe Vlerick and Piet Vanthemsche. Tom Dechaene (representative of the Flemish Regional Government) sat on this committee until 22 December 2014. The Remuneration Committee comprises Jo Cornu (chairman and independent director), Júlia Király (independent director) and Philippe Vlerick. Marc De Ceuster sits on the Remuneration Committee as an observer, representing the Flemish Regional Government.
- The committees have been active in this new format since June 2014.

Want to learn more?

The corporate governance charter can be found under 'corporate governance' at www.kbc.com.

Changes in the composition of the Board proposed to the General Meeting on 7 May 2015

- After reaching the age limit, Mr Jo Cornu (independent director) will resign from the Board following the General Meeting of 7 May 2015 and will not be replaced. The Board deeply appreciates all the work he has done for the KBC group over the years as an independent director.
- On the advice of the Nomination Committee, the Board will propose that Thomas Leysen – independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the *Companies Code* and in the *Corporate Governance Code* – be re-appointed in this capacity for a period of four years.
- On the advice of the Nomination Committee, the Board will propose that Alain Bostoen (non-executive director) be appointed for a four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Franky Depickere, Luc Discry, Frank Donck and Luc Popelier be re-appointed for a four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Koen Algoed be appointed for a four-year term of office. He will represent the Flemish Regional Government in his capacity as director. This nomination is subject to the approval of the ECB.

Brief CV for the new director

Koen Algoed was born in Kortrijk (Belgium) in 1965. After gaining a Master's Degree in Economics from the Katholieke Universiteit Leuven (KU Leuven, 1988) and a MSc in Econometrics & Mathematical Economics from the London School of Economics (1991), he obtained a Ph.D in Economics from the KU Leuven with his thesis entitled 'Essays on insurance: a view from a dynamic perspective' (1995). He is Professor of Economics at the KU Leuven, where he was director of the VIVES Research Centre for Regional Economics in the period 2008–2009. He is a member of the Centre for Research on Economic Markets and their Environments (KU Leuven, Brussels Campus).

Agenda for the General Meeting of 7 May 2015

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

Composition of the EC at the end of 2014

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)

Christine Van Rijsseghem

°1962

Belgian

Master's Degree in Law (U Gent)

Joined company in 1987*

CRO (Chief Risk Officer)

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 Popelier

°1964

Belgian

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

Joined company in 1988*

CFO (Chief Financial Officer)

Luc Gijsens

°1953

Belgian

Master's Degree in Law (KU Leuven)

Joined company in 1977*

CEO of the International Markets Business Unit

John Hollows

°1956

British

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

Joined company in 1996*

CEO of the Czech Republic Business Unit

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

On 1 May 2014, the organisational structure of KBC was simplified and adjusted to take account of the reduced size of the group. The International Markets and International Product Factories business units merged to become the International Markets Business Unit, while Corporate Change & Support ceased to exist and its departments were integrated into the existing organisation.

As a result, the composition of the EC also changed on that date, and now comprises six members instead of eight (see diagram).

More information

– including CVs – is provided at www.kbc.com.

Report on the activities of the Board and its committees

Report on the activities of the Board and its committees in 2014

Composition, meetings, attendance figures	See the table at the start of this section.
Board	Besides carrying out the activities required under the *Companies Code*, reviewing the quarterly results and the activities of the ARCC (until June), AC, RCC, 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 strategy pursued by the KBC group; • the strategy pursued by KBC in Wallonia and Brussels; • the activities of KBC in Ireland and Slovakia; • Antwerp Diamond Bank; • the repayment of 500 million euros to the Flemish Regional Government; • Corporate Sustainability and Responsibility (CSR); • Consumer Finance; • the *Integrated Risk Report* (monthly); • the Asset Quality Review and ECB stress test; • the report on effective management with regard to the assessment of internal control systems; • the *Risk Appetite Statement*; • the *Recovery Plan*; • cyber security; • the investment policy; • the *Compliance Annual Report*; • the HR policy; • the remuneration policy. 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.
ARCC until June 2014 AC and RCC from June 2014	Until June 2014: ARCC The ARCC 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 ARCC also reviewed the progress made in implementing 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 ARCC 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 area of compliance. The ARCC also reviewed the progress made in implementing the 2014 compliance plan, as well as the report on conflicts of interest.

On 12 February 2014, the ARCC reviewed the consolidated and non-consolidated financial statements for the year ended 31 December 2013, and approved the press release. The auditor explained the key audit findings. On 14 May, the auditors explained their key findings following their review of the accounts for the quarter ending 31 March. The ARCC also approved the relevant press release.

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 *2014 Internal Capital Adequacy Assessment Process Report*;
- the ORSA Policy;
- the *Risk Appetite Statement*;
- the KBC Recovery Plan for 2014.

From June 2014: split up into the AC and the RCC

In accordance with Article 29 of the Act of 25 April 2014 on the status and supervision of credit institutions (the 'Banking Act'), the ARCC was split up into an Audit Committee (AC) and a Risk & Compliance Committee (RCC).
The AC is tasked with advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and oversees the external auditor.
The RCC advises the Board on current and future risk tolerance and on risk strategy. It assists the statutory management body in supervising how the EC implements this strategy. It ensures that the prices of assets and liabilities and of categories of off-balance-sheet products that are offered to clients, factor in the risks run by the institution, with due account taken of its business model and risk strategy, viz. risks – especially reputation risks – that might arise from the types of product offered to clients. The RCC oversees the risk and compliance functions.

The AC met three times in its new format in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. It approved its charter on 6 August 2014. Besides reviewing the half-year and quarterly figures, approving the relevant press releases and discussing the auditor's findings, it also discussed the quarterly reports (see above) drawn up by the internal auditor.

The RCC met three times in its new format in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. It approved its charter on 6 August 2014. Besides discussing the periodic reports from the risk function and the compliance officer, it also examined the reports drawn up by the legal, tax and branch inspection departments. In addition to these regular reports, the following special reports were dealt with:

- the *Compliance Annual Report to the Board*;
- the *Risk Appetite Statement*;
- the outcome of the comprehensive assessment conducted by the ECB;
- Information Security and Cyber Risk.

Report on the activities of the Board and its committees in 2014

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: • the composition of the Executive Committees of KBC Group NV, KBC Bank and KBC Insurance; • appointments and re-appointments to the Board; • the composition of the Board of KBC Bank and of the advisory committees of KBC Group NV, KBC Bank and KBC Insurance, due in particular to the entry into effect of the new banking act; • 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.
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. 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 changes to the remuneration policy; • the remuneration package for the new member of the EC; • the severance package for Danny De Raymaeker; • the assessment of the criteria for evaluating the EC in 2013; • the criteria for evaluating the EC in 2014; • the annual remuneration review; • the remuneration paid to the chairmen of the AC and RCC and to non-Belgian directors; • KBC pension plans and pension funds.
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).

AC: application of Article 96 § 1 9° of the *Companies Code*

On 31 December 2014, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the *Companies Code* and in the *Corporate Governance Code*.

- Vladimira Papirnik (independent director), who holds a Juris Doctor Degree (Northwestern University (US), 1982). She is a senior partner in the global law firm of Squire Sanders and works in both Prague and Chicago, focusing her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance).
- Júlia Király (independent director), who is a graduate of the Budapest University of Economics (1980) and holds a Ph.D in Economics from the Hungarian Academy of Sciences. She was Associate Professor of Finance at the Corvinus University of Budapest for 15 years, specialising in enterprise-wide risk management, risk measurement, Basel principles in theory and practice, capital budgeting and bank financial management. She was also responsible for risk management at the Hungarian Central Bank. At present, Ms Király is Head of Department at the International Business School of Budapest.

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

The other members of the AC are:

- Marc Wittemans (non-executive director), who holds a Master’s Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers’ union), and is the Chairman of the AC.
- Frank Donck (non-executive director), who holds a Master’s Degree in Law (U Gent) and a Master’s Degree in Finance (Vlerick Business School). He has held different directorships (including the office of independent director) in various companies. He is currently Managing Director of 3D NV and Chairman of Atenor Group NV and Tele Columbus AG.

Tom Dechaene sat on the AC up to and including 22 December 2014. A former non-executive director and representative of the Flemish Regional Government, he holds a Master’s Degree in Law (Central Exam Commission), a Master’s Degree in Applied Sciences (University of Antwerp) and an MBA (INSEAD, France). He also studied Bank Risk Management at INSEAD. Mr Dechaene has held directorships (including the office of independent director) in a number of different companies.

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee as a whole has the requisite skills and experience.

RCC: application of section 6.3.6 of the Charter of KBC Group NV

On 31 December 2014, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the *Companies Code* and in the *Corporate Governance Code* (see below).

The RCC comprises:

- Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
- Frank Donck (see CV above).
- Marc Wittemans (see CV above).
- Vladimira Papirnik, independent director (see CV above).
- Marc De Ceuster (non-executive director), who represents the Flemish Regional Government, holds a Ph.D in Applied Economics (University of Antwerp, 1992) and a Master's Degree in Law (UFSIA – UIA Antwerp, 1987). He is Professor of Finance (University of Antwerp) and Academic Director of the master's courses in Real Estate Management, Personal Financial Planning and Finance at the Antwerp Management School.

It can be concluded on the basis of the profiles and competences of the members of the RCC that each individual member and the committee as a whole possess the requisite skills and experience.

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 *Companies Code*. It has been incorporated into the Charter of KBC Group NV.

Measures regarding insider dealing and market manipulation

The Board of KBC Group NV 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, proposed agenda items 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.

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 2014

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 *Corporate Governance 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 *Corporate Governance 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 AC or RCC receive additional remuneration (attendance fees) for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive 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.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) is paid to them for each meeting attended (starting in 2014).
- 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 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

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;
  - 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 2015, these include:
  - implementing the strategy;
  - implementing the financial plans (including profitability, capital and liquidity planning);

- strengthening the risk control environment (including risk limits and audit and compliance recommendations);
- further increasing staff, client and other stakeholder satisfaction.

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

In 2013, the Board decided to revise the remuneration package for the President and members of the EC by increasing the fixed component in two phases and reducing 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 (though not in the Czech Republic where virtual investment certificates are used), 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. As regards the remuneration paid to members of the EC, a comparative study is currently being carried out on the size of their supplementary pension. Depending on the findings of this study, there may be a proposal to modify the relevant supplementary pension plan.

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/holdback provisions are put in place;
- the ratio of fixed to variable remuneration components be set at a maximum one to one half;
- variable remuneration be capped at a nominal 750 000 euros.

Besides the risk gateway, a 'Risk-Adjusted Performance Measurement Framework' 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 chairmen of the AC and RCC 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 2014)	Remuneration for AC and RCC members (for FY 2014)	Attendance fees (for FY 2014)
Thomas Leysen	500 000	0	0
Alain Bostoen	20 000	0	55 000
Jo Cornu	20 000	0	55 000
Marc De Ceuster	20 000	40 000	55 000
Tom Dechaene	20 000	40 000	55 000
Franky Depickere	65 000	140 000	62 500
Luc Discry	40 000	0	55 000
Frank Donck	40 000	35 000	55 000
Júlia Király	20 000	40 000	82 500
Lode Morlion	40 000	0	55 000
Vladimira Papirnik	20 000	40 000	82 500
Theodoros Roussis	40 000	0	55 000
Alain Tytgadt	25 315	0	35 000
Ghislaine Van Kerckhove	40 000	0	50 000
Piet Vanthemsche	40 000	0	45 000
Philippe Vlerick	70 000	0	55 000
Marc Wittemans	40 000	52 500	55 000

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, 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 2014 that equalled 93.75%.

In 2014, the Board decided to award the members of the EC performance-related variable remuneration of 83%, but not to pay it to them for as long as KBC fitted the banking bill's description of an institution that receives exceptional state aid. The Board is of the opinion that KBC no longer fits that specific description and, therefore, agreed to pay the variable remuneration for 2013 pursuant to the terms and conditions set out in the remuneration policy.

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 *Corporate Governance 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 2014 financial year is also shown in the table. The EC has comprised six members (including the President) since 1 May 2014. It had comprised eight members until 1 March 2014 and seven members from 1 March 2014 to 1 May 2014.

Remuneration paid to the EC of KBC Group NV (in EUR)	President: Johan Thijs 2013	2014	Other members of the EC (combined)[1] 2013	2014
Employment status	Self-employed	Self-employed	Self-employed	Self-employed
Base remuneration (fixed)	879 005	1 040 000	4 403 393	3 936 202
Individual remuneration for the financial year[1] (variable)	0	21 667	0	75 526
Performance-related remuneration for the financial year[1] (variable)	0	70 312	0	264 965
Results-based remuneration for previous financial years[2] (variable)	28 800	72 447	118 258	341 189
Performance-related remuneration for previous financial years[2] (variable)	19 676	35 743	82 286	140 183
Total	927 481	1 240 169	4 603 937	4 758 065
Pension[3]				
Supplementary defined benefit pension plan (service cost)	94 106	116 343	651 468	820 318
Supplementary defined contribution pension plan (contribution transferred to pension fund)	25 373	44 060	98 935	88 120
Other benefits[4]	16 218	14 853	201 955	122 248

1 Half of the variable remuneration component is awarded in the form of phantom stocks, and variable remuneration is paid over four years (50% in the first year and the rest spread equally over the next three years). Consequently, the amount stated here is solely the portion of total variable remuneration payable in cash in 2015 (25% of the total amount awarded).

2 Given that no variable remuneration at all was awarded for 2011, these items relate to a deferred portion of the variable component for 2012 and 2013 (for 2012, 16.66% of the cash component of the total remuneration package). The variable remuneration for 2013 relates to the first payment (i.e. half of the cash component of the total remuneration package), because the Board decided in March 2014 to award variable remuneration for financial year 2013 after all, but to defer payment until January 2015 at the earliest.

3 The pension scheme for members of the EC (except John Hollows) 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. John Hollows participates in a defined contribution pension plan in the Czech Republic.

4 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 include hospitalisation insurance, assistance insurance and accident insurance.

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 following amounts were awarded in the form of phantom stocks for 2014 (the number of phantom stocks is calculated on the basis of the average price of the KBC share during the first three months of the year of allocation).

Amounts awarded in the form of phantom stocks (in EUR)	Total	Vesting in 2015	Vesting in 2016	Vesting in 2017	Vesting in 2018
Johan Thijs	183 958	91 979	31 273	31 273	29 433
Luc Popelier	124 083	62 042	21 094	21 094	19 853
John Hollows[1]	123 500	61 750	20 720	20 720	20 310
Luc Gijsens	121 167	60 583	20 598	20 598	19 388
Daniel Falque	117 667	58 833	20 003	20 003	18 828
Christine Van Rijsseghem	81 167	40 583	13 798	13 798	12 988
Marko Voljč	39 611	19 805	6 734	6 734	6 338
Danny De Raymaeker	20 194	10 097	3 433	3 433	3 231
Pavel Kavánek[2]	53 593	26 797	8 932	8 932	8 932

1 Partly in phantom stocks and partly in virtual investment certificates (VICs).
2 VICs (instead of phantom stocks).

As mentioned above, payment of the variable remuneration awarded for 2013 was deferred, which also meant that no phantom stocks were allocated in 2014. Given that the Board decided to also pay the variable remuneration for 2013, the following quantities of phantom stocks were awarded (quantities calculated on the basis of the average price of the KBC share during the first three months of 2014).

Quantities awarded in the form of phantom stocks	Total	Vesting in 2015	Vesting in 2016	Vesting in 2017	Vesting in 2018
Johan Thijs	3 769	1 884	641	641	603
Luc Popelier	2 516	1 258	428	428	402
John Hollows	2 469	1 235	420	420	394
Luc Gijsens	2 414	1 207	410	410	387
Daniel Falque	2 414	1 207	410	410	387
Marko Voljč	2 469	1 235	420	420	394
Danny De Raymaeker	2 359	1 180	401	401	377
Pavel Kavánek (amounts)*	178 843	89 422	29 807	29 807	29 807

* No phantom stocks but amounts awarded in the form of VICs.

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

Some of the phantom stocks awarded both in 2011 for financial year 2010 and in 2013 for financial year 2012 were converted into cash at 44.53 euros per share in April 2014. The following amounts were paid (in euros):

- Johan Thijs 153 139
- Danny De Raymaeker 142 407
- Luc Popelier 130 161
- John Hollows 130 161
- Marko Voljč 117 292
- Luc Gijsens 78 640
- Daniel Falque 46 267

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. Following the introduction of the new Banking Act of 25 April 2014, such payment was reduced to nine months' fixed remuneration with effect on 7 May 2014. Since 18 November 2014, however, it has again been made equal to 12 months' fixed remuneration on account of the special provision in Article 14 of Annex 2 to this Act.
As a result of the structure of the group being reorganised, Danny De Raymaeker's office as a member of the EC was ended on 1 March 2014. On the proposal of the Remuneration Committee, the Board decided that – on the basis of the above provisions – he was eligible to receive a severance payment equal to 12 months' fixed remuneration (720 000 euros).

Main features of the internal control and risk management systems

In application of the provisions of the *Companies Code* and the *Corporate Governance 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 'Our business model and strategy' section of this annual report.

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

The KBC group has a dual governance structure based on the Belgian model:

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

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

2 Corporate culture and integrity policy

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

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

KBC's *Integrity Policy* focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- combating money laundering and the funding of terrorism, and observing embargoes;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor, including preventing conflicts of interest (MiFID);
- respecting codes of conduct for investment services and the distribution of financial instruments;
- preventing market abuse, including insider trading;
- protecting privacy, confidentiality of information and the professional duty of discretion;
- protecting borrowers of consumer and mortgage loans;
- complying with anti-discrimination legislation;
- respecting rules on market practices and consumer protection.

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

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

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

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

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

To arm itself against the risks that it is exposed to in 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 has 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 risk management is provided in the relevant section of this report.

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

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

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

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the KBC group, and outsourcing of internal audit activities are set out in the *Audit Charter* of KBC Group NV. This charter complies with the stipulations of CBFA/FSMA Circular D1 97/4 (banks) and PPB-2006-8-CPA (insurance) and with the Act of 25 April 2014 on the status and supervision of credit institutions.

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2014). The results of that exercise were reported to the EC and the AC.

4 The AC and RCC play a central role in monitoring the internal control and risk management systems

Each year, the EC evaluates whether the internal control and risk management system is still compliant and reports its findings to the AC and RCC.

These committees supervise, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management system set up under the EC, paying special attention to correct financial reporting. They also examine the procedures set up by the company to see whether they comply with the law and other regulations.

Their role, composition and activities, along with the qualifications of their members, are laid down in their respective charters, which are included under the Charter of KBC Group NV. More information on these committees is provided elsewhere in this section.

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

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

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

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

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

Pursuant to the Act of 25 April 2014 on the status and supervision of credit institutions, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

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

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

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

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

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

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

Non-compliance with the *Corporate Governance Code*

The corporate governance statement included in the annual report must also indicate whether any provisions of the *Corporate Governance 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 *Corporate Governance 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 *Corporate Governance 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 *Corporate Governance Code* stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2014, the AC was composed of four non-executive directors, two of whom were independent and two who represented the core shareholders. The director appointed by the Flemish Regional Government also sat on the AC up to and including 22 December 2014. Independent directors were, therefore, in the minority on this committee.

On 31 December 2014, the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director and three representatives of the core shareholders. The director appointed by the Flemish Regional Government likewise sat on the Nomination Committee up to and including 22 December 2014. 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 AC 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, and of a government-appointed director's right to participate in the meeting. 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 (AC) 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, company law has included a provision 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 *Corporate Governance Code* stipulates that one of the factors for deciding the composition of a board should be gender diversity.

Following the appointment of Christine Van Rijsseghem as an executive director, four women and fourteen men sat on the Board at year-end 2014. The Board endeavours to achieve a greater representation of women among its ranks. Further steps will be taken to increase the number of female directors to the required quota by no later than 2017. After the General Meeting of 7 May 2015, the Board will comprise four women and fourteen men.

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

There were no conflicts of interest during the 2014 financial year that required the application of Article 523, 524 or 524*ter* of the *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 Christel Weymeersch and/or Jean-François Hubin – 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 2014

The share capital was fully paid up and was represented by 417 780 658 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 12 November 2014 are blocked until 15 December 2016.

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 2014, these rights were suspended for 488 shares (0.00% of the shares in circulation at that time).

The voting rights attached to bearer shares still not presented at year-end 2014 are suspended, due to the conversion of such shares into book-entry form. At 31 December 2014, these rights were suspended for 202 789 shares (0.0485% of the 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 disclosure, the number of voting rights held by these entities and individuals was:

- KBC Ancora Comm. VA: 77 516 380
- Cera Comm. VA: 11 127 166
- MRBB CVBA: 47 889 864
- Other core shareholders: 32 020 498

That is a total of 168 553 908 shares carrying voting rights, or 40.35% of the total number of such shares on 31 December 2014.

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.
The agreement was extended for a new ten-year period, with effect from 1 December 2014.

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 (2 billion euros of this amount was still outstanding at year-end 2014), 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 supervisory authority, 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 *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 of office 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 *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 *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 *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.

On 12 November 2014, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 34.35 euros per share and with a limit of 101 shares per employee. On 17 December 2014, the issued share capital was increased by 1 448 724 euros (represented by 416 300 new shares).

As a result, the authorised capital amounted to 697 169 705.56 euros at year-end 2014. Consequently, when account is taken of the accounting par value of the share on 31 December 2014, a maximum of 200 336 122 new shares can still be issued, i.e. 47.95% of the number of shares in circulation at that time.

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 2014, KBC Group NV and its *direct* subsidiaries held 486 KBC Group NV shares.

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 2014

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 below provides an overview of the shareholder structure at year-end 2014, based on all the notifications received by 31 December 2014. The 'Company annual accounts' section also contains an overview of notifications received in 2014 (and the first two months of 2015).

Shareholder structure on 31-12-2014 (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 (18.55%)	1 December 2014
Cera CVBA	Mgr. Ladeuzeplein 15, 3000 Leuven, Belgium	11 127 166 (2.66%)	1 December 2014
MRBB CVBA	Diestsevest 40, 3000 Leuven, Belgium	47 889 864 (11.46%)	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 (7.66%)	1 December 2014
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 (0.00%)	16 October 2012
Blackrock Inc.	12 Throgmorton Avenue, London EC2N 2DL, United Kingdom	20 932 157 (5.01%)	5 June 2014
FMR LLC (Fidelity)	245 Summer Street, Boston, Massachusetts 02210, United States	12 308 475 (2.95%)	17 October 2014*
Parvus Asset Management Europe Ltd.	7 Clifford Street, London W1S 2FT, United Kingdom	12 900 729 (3.09%)	30 December 2014

* New notifications were received at the start of 2015 (see the 'Company annual accounts' section).

B) Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received a number of updated disclosures on 1 December 2014. 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	77 516 380	18.55%	Sereno SA	321 401	0.08%
MRBB CVBA	47 889 864	11.46%	Rodep Comm. VA	300 000	0.07%
Cera CVBA	11 127 166	2.66%	Colver NV	271 784	0.07%
SAK AGEV	8 978 885	2.15%	Efiga Invest SPRL	230 806	0.06%
Plastiche NV	3 855 915	0.92%	Gavel Comm. VA	200 000	0.05%
VIM CVBA	3 834 500	0.92%	Ibervest	190 000	0.05%
3D NV	2 491 893	0.60%	Promark International NV	189 000	0.05%
De Berk BVBA	1 318 208	0.32%	Niramore International SA	150 700	0.04%
Algimo NV	1 040 901	0.25%	SAK Iberanfra	120 107	0.03%
Rainyve SA	941 958	0.23%	Edilu NV	64 800	0.02%
SAK PULA	933 798	0.22%	Isarick NV	45 056	0.01%
Stichting Amici Almae Matris	912 731	0.22%	Agrobos	42 500	0.01%
Cecan NV	871 002	0.21%	Wilig NV	40 446	0.01%
Ceco CVA	568 849	0.14%	Filax Stichting	38 529	0.01%
Van Holsbeeck NV	502 822	0.12%	I.B.P Ravaga Pensioenfonds	34 833	0.01%
Cecan Invest NV	397 563	0.10%	Lycol NV	30 806	0.01%
Bareldam SA	387 544	0.09%	Hendrik Van Houtte CVA	25 920	0.01%
Dufinco BVBA	357 002	0.09%	Asphalia NV	14 241	0.00%
Robor NV	352 667	0.08%	Vobis Finance NV	685	0.00%

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]
477 395	0.11%	159 100	0.04%	80 000	0.02%	20 836	0.00%
285 000	0.07%	125 900	0.03%	50 664	0.01%	19 522	0.00%
285 000	0.07%	107 744	0.03%	41 500	0.01%	3 431	0.00%
166 200	0.04%	105 000	0.03%	32 554	0.01%	2 800	0.00%

1 No such disclosures were received.
2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2014.


We've
only got
one earth
Jesse Sels

Consolidated financial statements

‘We rent out durable plastic pallets that are used in 27 countries. Our principal banker, KBC, has supported our plans for a sustainable product from the outset.’

Jesse Sels, CEO of his own company and Stefan’s basketball friend

Building a better
working world

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Réviseurs d'Entreprises
Bedrijfsrevisoren
De Kleetlaan 2
B - 1831 Diegem

Tel: +32 (0)2 774 91 11
Fax: +32 (0)2 774 90 90
ey.com

Free translation from the Dutch original

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

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

Report on the Consolidated Financial Statements - Unqualified opinion

We have audited the Consolidated Financial Statements of KBC Group nv ("the Company") and its subsidiaries (together "the Group") as of and for the year ended 31 December 2014, prepared in accordance with the *International Financial Reporting Standards* as adopted by the European Union, which show a consolidated balance sheet total of € 245.174 million and of which the consolidated income statement shows a profit for the year of € 1.762 million.

Responsibility of the Board of Directors for the preparation of the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with the *International Financial Reporting Standards* as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of Consolidated Financial Statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the given circumstances.

Responsibility of the statutory auditor

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

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

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

Unqualified opinion

In our opinion, the Consolidated Financial Statements of the Group as at 31 December 2014 give a true and fair view of the consolidated net equity and financial position, as well as its consolidated results and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The Board of Directors is responsible for the preparation and the content of the Board of Director's report on the Consolidated Financial Statements, in accordance with article 119 of the Belgian Company Code.

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

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

Brussels, 19 March 2015

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

Weymeersch

Christel Weymeersch
Partner, permanent representative of
Christel Weymeersch bvba
15CW0157

Jean-François Hubin
Partner, permanent representative of
Jean-François Hubin & Co sprl

Consolidated income statement

(in millions of EUR)	Note	2013	2014
Net interest income	3	4 077	4 308
Interest income	3	8 343	7 893
Interest expense	3	-4 266	-3 586
Non-life insurance (before reinsurance)	9, 11	536	512
Earned premiums	9, 11	1 259	1 266
Technical charges	9, 11	-723	-754
Life insurance (before reinsurance)	9, 10	-242	-216
Earned premiums	9, 10	1 132	1 247
Technical charges	9, 10	-1 373	-1 463
Ceded reinsurance result	9	-5	16
Dividend income	4	47	56
Net result from financial instruments at fair value through profit or loss	5	1 191	227
Net realised result from available-for-sale assets	6	252	150
Net fee and commission income	7	1 469	1 573
Fee and commission income	7	2 268	2 245
Fee and commission expense	7	-798	-672
Other net income	8	122	94
TOTAL INCOME		**7 448**	**6 720**
Operating expenses	12	-3 843	-3 818
Staff expenses	12	-2 312	-2 248
General administrative expenses	12	-1 262	-1 303
Depreciation and amortisation of fixed assets	12	-269	-266
Impairment	14	-1 927	-506
on loans and receivables	14	-1 714	-587
on available-for-sale assets	14	-34	-29
on goodwill	14	-7	0
other	14	-173	109
Share in results of associated companies and joint ventures	15	30	25
RESULT BEFORE TAX		**1 708**	**2 420**
Income tax expense	16	-678	-657
Net post-tax result from discontinued operations	46	0	0
RESULT AFTER TAX		**1 029**	**1 763**
attributable to minority interests		14	0
of which relating to discontinued operations		*0*	*0*
attributable to equity holders of the parent		**1 015**	**1 762**
of which relating to discontinued operations		*0*	*0*
Earnings per share (in EUR)			
Ordinary	17	1.03	3.32
Diluted	17	1.03	3.32

- Figures have been restated retroactively on the basis of IFRS 11 (see Note 1 a).
- It will be proposed that, subject to the approval of the General Meeting of Shareholders, the group pays a gross dividend of 2 euros per share for financial year 2014 (total dividend of 836 million euros). 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 be paid as well (171 million euros). 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 2014' 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)	2013	2014
RESULT AFTER TAX	**1 029**	**1 763**
attributable to minority interests	14	0
attributable to equity holders of the parent	1 015	1 762
OTHER COMPREHENSIVE INCOME		
Recycled to profit or loss		
Net change in revaluation reserve for shares	117	47
Fair value adjustments before tax	171	119
Deferred tax on fair value changes	-6	-4
Transfer from reserve to net result	-48	-68
Impairment	4	8
Net gains/losses on disposal	-54	-76
Deferred taxes on income	2	0
Net change in revaluation reserve for bonds	-287	675
Fair value adjustments before tax	-328	1 006
Deferred tax on fair value changes	107	-334
Transfer from reserve to net result	-66	2
Impairment	0	0
Net gains/losses on disposal	-121	-34
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' and 'held-to-maturity assets'	24	38
Deferred taxes on income	31	-2
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)	338	-871
Fair value adjustments before tax	533	-1 287
Deferred tax on fair value changes	-185	440
Transfer from reserve to net result	-11	-25
Gross amount	-13	-28
Deferred taxes on income	3	3
Net change in translation differences	-116	79
Gross amount	0	9
Deferred taxes on income	-116	70
Other movements	0	1
Not recycled to profit or loss		
Net change in defined benefit plans	136	-198
Remeasurements (IAS 19)	206	-281
Deferred tax on remeasurements (IAS 19)	-69	83
TOTAL COMPREHENSIVE INCOME	**1 218**	**1 495**
attributable to minority interests	14	0
attributable to equity holders of the parent	1 203	1 494

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2013	31-12-2014
Cash and cash balances with central banks	–	4 294	5 771
Financial assets	18–29	222 887	231 421
Held for trading	18–29	16 885	12 182
Designated at fair value through profit or loss	18–29	16 441	18 163
Available for sale	18–29	27 307	32 390
Loans and receivables	18–29	130 153	135 784
Held to maturity	18–29	31 323	31 799
Hedging derivatives	18–29	777	1 104
Reinsurers' share in technical provisions, insurance	35	146	194
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	120	168
Tax assets	31	1 723	1 814
Current tax assets	31	242	88
Deferred tax assets	31	1 481	1 726
Non-current assets held for sale and disposal groups	46	3 769	18
Investments in associated companies and joint ventures	32	182	204
Investment property	33	598	568
Property and equipment	33	2 457	2 278
Goodwill and other intangible assets	34	1 277	1 258
Other assets	30	1 233	1 480
TOTAL ASSETS		**238 686**	**245 174**
LIABILITIES AND EQUITY (in millions of EUR)	**Note**	**31-12-2013**	**31-12-2014**
Financial liabilities	18–29	199 421	205 644
Held for trading	18–29	13 119	8 449
Designated at fair value through profit or loss	18–29	24 931	23 908
Measured at amortised cost	18–29	159 693	169 796
Hedging derivatives	18–29	1 678	3 491
Technical provisions (before reinsurance)	35	18 701	18 934
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	-2	189
Tax liabilities	31	518	697
Current tax liabilities	31	109	98
Deferred tax liabilities	31	409	599
Liabilities associated with disposal groups	46	2 027	0
Provisions for risks and charges	36	523	560
Other liabilities	37	2 983	2 629
TOTAL LIABILITIES		**224 172**	**228 652**
Total equity	**39**	**14 514**	**16 521**
Parent shareholders' equity	39	11 826	13 125
Non-voting core-capital securities	39	2 333	2 000
Additional tier-1 instruments included in equity	39	0	1 400
Minority interests	39	354	-3
TOTAL LIABILITIES AND EQUITY		**238 686**	**245 174**

- Figures have been restated retroactively on the basis of IFRS 11 (see Note 1 a).

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit plans	Reserves	Translation differences	Parent shareholders' equity	Non-voting core-capital securities	Additional tier-1 instruments included in equity	Minority interests	Total equity
2013													
Balance at the beginning of the period	1 450	5 388	-1	1 263	-834	0	5 192	-360	12 099	3 500	0	362	15 961
First time adoption of revised IAS 19	0	0	0	0	0	-71	-11	0	-82	0	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	0	362	15 879
Net result for the period	0	0	0	0	0	0	1 015	0	1 015	0	0	14	1 029
Other comprehensive income	0	1	0	-170	338	136	-1	-116	189	0	0	0	189
Subtotal, comprehensive income	0	1	0	-170	338	136	1 014	-116	1 203	0	0	14	1 218
Dividends	0	0	0	0	0	0	-961	0	-961	0	0	0	-961
Capital increase	1	15	0	0	0	0	0	0	16	0	0	0	16
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-583	0	-583	-1 167	0	0	-1 750
Sales of treasury shares	0	0	1	0	0	0	0	0	1	0	0	0	1
Effect of business combinations	0	0	0	0	0	0	-3	0	-3	0	0	0	-3
Change in minority interests	0	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	0	-4	132
Total change	1	16	1	-170	338	136	-533	20	-191	-1 167	0	-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	0	354	14 514
of which revaluation reserve for shares	–	–	–	323	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	771	–	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	4	1	0	0	-3	1	–	–	–	1
of which relating to application of the equity method	–	–	–	7	0	0	0	3	10	–	–	–	10
2014													
Balance at the beginning of the period	1 452	5 404	0	1 094	-497	65	4 648	-340	11 826	2 333	0	354	14 514
Net result for the period	0	0	0	0	0	0	1 762	0	1 762	0	0	0	1 763
Other comprehensive income	0	0	0	722	-871	-198	1	79	-268	0	0	0	-268
Subtotal, comprehensive income	0	0	0	722	-871	-198	1 763	79	1 494	0	0	0	1 495
Dividends	0	0	0	0	0	0	-39	0	-39	0	0	0	-39
Capital increase	1	17	0	0	0	0	0	0	19	0	0	0	19
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-167	0	-167	-333	0	0	-500
Issue of additional tier-1 instruments included in equity	0	0	0	0	0	0	-6	0	-6	0	1 400	0	1 394
Effect of business combinations	0	0	0	0	0	0	-2	0	-2	0	0	0	-2
Change in minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	0	0	0	0	0	-358	-358
Total change	1	17	0	722	-871	-198	1 548	79	1 298	-333	1 400	-358	2 007
Balance at the end of the period	1 453	5 421	0	1 815	-1 368	-133	6 197	-261	13 125	2 000	1 400	-3	16 521
of which revaluation reserve for shares	–	–	–	370	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 445	–	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	–	–	–	–	–	–
of which relating to application of the equity method	–	–	–	23	0	0	0	0	23	–	–	–	23

- For information on capital increases, non-voting core-capital securities (stemming from the capital-strengthening transactions concluded with the Belgian Federal and Flemish Regional governments), additional tier-1 instruments and number of shares, see Note 39. More detailed information on the non-voting core-capital securities can be found in 'Additional information'. The transaction costs attached to the issue of the additional tier-1 instruments in 2014 were deducted from the reserves (-10 million euros (-6 million euros after tax)).
- 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.
- At year-end 2014, the KBC group held 488 treasury shares.
- The 'Dividends' heading in 2014 does not include any dividend payment or coupon payment on state aid for financial year 2013. For financial year 2014, however, it does include the 39-million-euro coupon on additional tier-1 instruments. For financial year 2014 (payment in 2015), KBC will – subject to the approval of the General Meeting of Shareholders – pay a gross dividend of 2 euros per share entitled to dividend, along with a coupon on the remaining state aid.
- The sharp decline in 'Minority interests' in 2014 was due to trust preferred securities being called for redemption in that year (impact of -358 million euros). More information on trust preferred securities is provided in Note 39.
- During 2014, the revaluation reserve (for available-for-sale assets) expanded by 722 million euros, due primarily to bonds (an increase of 675 million euros), which had been impacted mainly by falling interest rates, and to a lesser extent to shares (an increase of 47 million euros). The hedging reserve (cashflow hedges) declined by 871 million euros in 2014, again owing chiefly to falling interest rates.

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2013	2014
Operating activities			
Result before tax	See consolidated income statement	1 708	2 420
Adjustments for:	–		
Result before tax from discontinued operations	See consolidated income statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	21, 33, 34	508	213
Profit/Loss on the disposal of investments	–	32	-25
Change in impairment on loans and advances	14	1 714	587
Change in technical provisions (before reinsurance)	35	28	143
Change in the reinsurers' share in the technical provisions	35	-11	-48
Change in other provisions	36	15	-37
Other unrealised gains or losses	–	187	967
Income from associated companies and joint ventures	15	-30	-25
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	4 150	4 195
Changes in operating assets (excluding cash and cash equivalents)	–	12 070	-11 151
Financial assets held for trading	18	5 574	-248
Financial assets at fair value through profit or loss	18	-904	-686
Available-for-sale assets	18	2 866	-4 561
Loans and receivables	18	3 280	-5 037
Hedging derivatives	18	844	-325
Operating assets associated with disposal groups, and other assets	46	411	-294
Changes in operating liabilities (excluding cash and cash equivalents)	–	-2 671	11 913
Deposits measured at amortised cost	18	3 046	12 076
Debts represented by securities measured at amortised cost	18	-3 625	3 218
Financial liabilities held for trading	18	-6 241	-4 682
Financial liabilities at fair value through profit or loss	18	5 357	1 112
Hedging derivatives	18	-752	522
Operating liabilities associated with disposal groups, and other liabilities	46	-457	-333
Income taxes paid	16	-372	-407
Net cash from or used in operating activities		13 177	4 550

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2013	2014
Investing activities			
Purchase of held-to-maturity securities	18	-3 892	-1 929
Proceeds from the repayment of held-to-maturity securities at maturity	18	1 277	1 012
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	-260	559
Purchase of shares in associated companies and joint ventures	32	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	32	0	0
Dividends received from associated companies and joint ventures	32	-41	-30
Purchase of investment property	33	-21	-19
Proceeds from the sale of investment property	33	36	53
Purchase of intangible fixed assets (excluding goodwill)	34	-116	-153
Proceeds from the sale of intangible fixed assets (excluding goodwill)	34	24	28
Purchase of property and equipment	33	-452	-441
Proceeds from the sale of property and equipment	33	197	304
Net cash from or used in investing activities		-3 248	-615
Financing activities			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	18	1 113	-4 148
Proceeds from or repayment of subordinated liabilities	18	-184	-2 396
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	16	19
Redemption of non-voting core-capital securities	See consolidated statement of changes in equity	-1 750	-500
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	1 042
Dividends paid	See consolidated statement of changes in equity	-961	-39
Net cash from or used in financing activities		-1 766	-6 023
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	–	8 163	-2 088
Cash and cash equivalents at the end of the period	–	948	8 691
Effects of exchange rate changes on opening cash and cash equivalents	–	-420	-84
Cash and cash equivalents at the end of the period	–	8 691	6 518
Additional information			
Interest paid[2]	3	-4 266	-3 586
Interest received[2]	3	8 343	7 893
Dividends received (including equity method)	4, 32	47	56
Components of cash and cash equivalents			
Cash and cash balances with central banks	See consolidated balance sheet	4 294	5 771
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	18	8 094	4 287
Deposits from banks repayable on demand	18	-3 307	-3 539
Cash and cash equivalents belonging to disposal groups	46	-391	0
Total	–	8 691	6 518
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.
- 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.

Year	2013	2013	2014
(in millions of EUR)	**Absolut Bank**	**KBC Banka**	**KBC Bank Deutschland**
Purchase or sale	Sale	Sale	Sale
Percentage of shares bought or sold in the relevant year	100%	100%	100%
Total share percentage at the end of the relevant year	0%	0%	0%
For business unit/segment	Group Centre	Group Centre	Group Centre
Deal date (month and year)	May 2013	December 2013	September 2014
Results of the relevant company/business recognised in the group result up to and including:	31 March 2013	31 December 2013	30 September 2014
Purchase price or sale price	295	12	90
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	-245	-15	559
Assets and liabilities bought or sold			
Cash and cash balances with central banks	237	25	12
Financial assets	2 276	37	2 230
Held for trading	47	0	19
Designated at fair value through profit or loss	0	0	0
Available for sale	169	0	163
Loans and receivables	2 061	37	1 985
Held to maturity	0	0	64
Hedging derivatives	0	0	0
of which cash and cash equivalents	*540*	*26*	*14*
Financial liabilities	2 063	47	1 781
Held for trading	1	0	9
Designated at fair value through profit or loss	0	0	0
Measured at amortised cost	2 061	47	1 772
Hedging derivatives	0	0	0
of which cash and cash equivalents	*0*	*0*	*483*
Technical provisions (before reinsurance)	0	0	0

Notes on the accounting policies

Note 1 a: Statement of compliance

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

- IFRS 10, 11 and 12 (new consolidation standards). IFRS 10 includes a new definition of control, which could lead to changes in the scope of consolidation (but not at KBC). Under IFRS 11 (Joint Arrangements), it is specified that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities (the new name for Special Purpose Entities). The main change for KBC will be the application of the equity method instead of proportionate consolidation for Českomoravská Stavební Spořitelna (ČMSS), a jointly owned subsidiary of ČSOB. This change will not affect the result after tax or parent shareholders' equity, but it will have an impact on various items in the consolidated income statement and balance sheet. For additional information, see Note 32.

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

- IFRIC 21 (Levies) was approved by the European Union in June 2014 and became effective on 1 January 2015. As it needs to be applied retroactively, KBC will have to restate the comparable quarterly figures for 2014. This relates solely to movements between quarters and does not affect the full-year figures (impact on the four successive quarters: -76 million euros (-51 million euros after tax), +26 million euros (+17 million euros after tax), +26 million euros (+17 million euros after tax) and +25 million euros (+16 million euros after tax), respectively). The main consequence of IFRIC 21 in 2015 is that certain levies will have to be recognised in advance, which will adversely impact the results for the first quarter of 2015.
- In July 2014, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for the entire IFRS 9 standard is 1 January 2018. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. The standard will become effective on or after 1 January 2017 and its potential impact is currently being analysed.
- During 2014, the IASB also issued IFRS 14 (Regulatory Deferral Accounts), as well as a number of limited amendments to existing IFRSs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1 b: Summary of significant accounting policies

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

All (material) entities (including structured entities) over which the consolidating entity exercises, directly or indirectly, exclusive control – as defined in IFRS 10 – are consolidated according to the method of full consolidation.
(Material) companies over which joint control is exercised, directly or indirectly, are consolidated according to the equity method (IFRS 11).
(Material) investments in associates, i.e. companies over which KBC has significant influence, are also accounted for using the equity method.
As allowed under IAS 28, investments held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit or loss).
Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

b Effects of changes in foreign exchange rates

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

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

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

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

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

- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.

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

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

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

KBC applies the following general rules:

- *Amounts receivable*. These are classified under 'Loans and receivables' and are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost. Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The PD depends on a number of loan-specific characteristics, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other elements key to a borrower's risk profile. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based primarily on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between an event that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties. The emergence period is between 1 and 12 months for retail portfolios and between 1 and 11 months for corporate portfolios. On average, emergence periods for corporate portfolios are shorter than for their retail counterparts.

- When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their present value.
  Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
  Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.

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

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

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

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

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

- *Hedge accounting.* KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  - 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.
Software is recognised as an intangible asset if the capitalisation criteria are met. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years, while for core systems with a longer useful life, the period is eight years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment and investment property

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f 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 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 31-12-2014		Exchange rate average in 2014	
	1 EUR = … … currency	Change from 31-12-2013 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2013 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	27.735	-1%	27.539	-6%
GBP	0.7789	7%	0.8054	5%
HUF	315.54	-6%	309.21	-4%
USD	1.2141	14%	1.3280	0%

* Rounded figures.

m Changes made to accounting policies in 2014

No material changes were made to the accounting policies in 2014, apart from the amendments to IFRS 10 and 11 referred to under Note 1 a.

Notes on segment reporting

Note 2: Segment reporting based on the management structure

The group's segments or business units

At the start of 2013, KBC launched a new management structure to reflect the group's renewed strategy, more information on which can be found in the 'Overview of our business units' section (which has not been audited by the statutory auditor). This structure forms the basis for KBC's financial segment reporting presentation.

In the reporting presentation, the segments are (essentially):

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

A more detailed definition is provided in the sections devoted to the individual business units.

Segment reporting based on the *adjusted net result*

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

In addition to the figures according to IFRS, KBC provides figures aimed at giving more insight into the ongoing business performance. This means that, besides the IFRS income statement, an *adjusted* income statement will be provided in which a number of non-operating items are not recognised, but summarised instead in three lines at the bottom of the presentation. We refer to this presentation as the 'adjusted income statement' and the result excluding any non-operating items as the 'adjusted net result'.

Segment reporting is based on this reworked presentation.

The non-operating items are:

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

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

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

It should be noted that:

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

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.

Information on the items stated separately

Items excluded from the adjusted net result (in millions of EUR)	Main heading(s) concerned in the income statement	2013	2014
Legacy business: Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	Net result from financial instruments at fair value, Income tax expense	446	16
Legacy business: Divestments	Other net income, Net realised result from available-for-sale assets, Impairment, Income tax expense	-348	116
Own credit risk: Changes in fair value of own debt instruments	Net result from financial instruments at fair value, Income tax expense	-43	2

- Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement): in both 2013 and 2014, the improvement in the market price for corporate credit – as reflected in narrowing credit default swap spreads – had a positive impact on the value of CDOs held by KBC. The amounts also included the impact of the government guarantee agreement and the related fees, the gains or losses relating to the de-risking of CDOs and the cover for the CDO-related counterparty exposure to MBIA, the US monoline insurer (this cover was reduced from 80% to 60% during 2013). In 2014, KBC collapsed the last two CDOs in its portfolio. This freed up 0.3 billion euros of capital, increased KBC's solvency by 0.4% and had a negative impact on the income statement of just over 20 million euros. Collapsing these remaining CDOs also released KBC from the guarantee agreement entered into with the Belgian Federal Government (see 'Additional information') and completely eliminated the group's exposure to MBIA. For the record, we wish to point out that we are the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters based on changes in the value of these notes (due primarily to credit spreads on the underlying portfolio).
- Divestments: in 2013, the sale of 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 2014 figure relates primarily to the reversal of the impairment charges taken on Antwerp Diamond Bank, due to the fact that the previously announced sale did not go through and was replaced by an orderly run-down of its activities. After including a number of smaller items, this had an impact on the result of 116 million euros (after tax).
- Fair value of own debt instruments: the negative impact on the result in 2013 was accounted for by a narrowing of the credit spread for KBC's senior and subordinated debt during the period, as reflected in the higher marked-to-market value of debt securities in 'Financial liabilities designated at fair value through profit or loss'. On balance, the impact was a negligible 2 million euros in 2014.

Underlying results by segment (business unit)

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre (excl. inter-segment eliminations)	Interseg-ment elimina-tions	KBC group
ADJUSTED INCOME STATEMENT FOR 2013										
Net interest income	2 648	906	632	*269*	*200*	*40*	*123*	-194	-2	3 990
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	185	204	*159*	*43*	*1*	*-4*	19	5	1 473
Other net income	292	9	20	*11*	*10*	*-1*	*0*	15	7	343
TOTAL INCOME	4 885	1 290	1 034	*536*	*305*	*74*	*114*	-69	-13	7 127
Operating expenses[a]	-2 249	-622	-715	*-379*	*-180*	*-52*	*-102*	-225	13	-3 798
Impairment	-363	-50	-1 189	*-78*	*-30*	*-22*	*-1 059*	-122	0	-1 723
on loans and receivables	-328	-46	-1 171	*-76*	*-27*	*-9*	*-1 059*	-87	0	-1 632
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 and joint ventures	0	29	1	*1*	*0*	*0*	*0*	0	0	30
RESULT BEFORE TAX	2 273	648	-869	*81*	*95*	*1*	*-1 047*	-417	0	1 636
Income tax expense	-703	-93	15	*-15*	*-25*	*1*	*55*	120	0	-662
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	-66	-40	-49	*-27*	*-14*	*-4*	*-4*	-153	0	-309
Depreciation and amortisation of fixed assets	-59	-34	-47	*-27*	*-12*	*-4*	*-4*	-165	0	-304
Other	-7	-6	-2	*0*	*-2*	*0*	*0*	11	0	-5
Acquisitions of non-current assets*	337	56	79	*25*	*22*	*3*	*29*	97	0	569

* 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. intersegment eliminations)	Intersegment eliminations	KBC group
ADJUSTED INCOME STATEMENT FOR 2014										
Net interest income	2 877	860	677	*274*	*210*	*43*	*149*	-150	4	4 268
Non-life insurance (before reinsurance)	374	75	68	*27*	*20*	*21*	*0*	13	-19	512
Earned premiums	964	165	153	*55*	*27*	*71*	*0*	3	-19	1 266
Technical charges	-590	-89	-86	*-29*	*-7*	*-50*	*0*	10	1	-754
Life insurance (before reinsurance)	-252	24	12	*-1*	*10*	*4*	*0*	2	-2	-216
Earned premiums	1 004	160	84	*15*	*53*	*16*	*0*	2	-2	1 247
Technical charges	-1 256	-136	-71	*-16*	*-43*	*-12*	*0*	0	0	-1 463
Ceded reinsurance result	19	-7	2	*-2*	*-2*	*6*	*0*	2	0	16
Dividend income	45	0	0	*0*	*0*	*0*	*0*	1	0	47
Net result from financial instruments at fair value through profit or loss	86	62	73	*62*	*15*	*2*	*-7*	12	0	233
Net realised result from available-for-sale assets	109	9	16	*14*	*2*	*0*	*0*	11	0	144
Net fee and commission income	1 160	194	208	*160*	*46*	*1*	*-3*	22	-3	1 580
Other net income	269	18	-227	*-225*	*0*	*0*	*-2*	-3	5	62
TOTAL INCOME	4 688	1 235	828	*307*	*301*	*77*	*138*	-90	-14	6 647
Operating expenses[a]	-2 282	-594	-740	*-368*	*-185*	*-52*	*-132*	-174	14	-3 775
Impairment	-251	-36	-284	*-49*	*-18*	*-10*	*-207*	-44	0	-615
on loans and receivables	-205	-34	-273	*-47*	*-17*	*-10*	*-198*	-42	0	-554
on available-for-sale assets	-27	0	0	*0*	*0*	*0*	*0*	-1	0	-29
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0	0
other	-19	-3	-11	*-1*	*0*	*0*	*-9*	0	0	-33
Share in results of associated companies and joint ventures	-1	23	0	*0*	*0*	*0*	*0*	3	0	25
RESULT BEFORE TAX	2 154	628	-196	*-109*	*98*	*15*	*-202*	-305	0	2 281
Income tax expense	-638	-100	14	*15*	*-24*	*0*	*23*	71	0	-652
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0	0
ADJUSTED NET RESULT	1 517	528	-182	*-94*	*75*	*15*	*-179*	-234	0	1 629
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0	0
attributable to equity holders of the parent	**1 516**	**528**	**-182**	***-94***	***75***	***15***	***-179***	**-234**	**0**	**1 629**
Net impact of legacy business (CDOs)	–	–	–	–	–	–	–	16	–	16
Net impact of legacy business (divestments)	–	–	–	–	–	–	–	116	–	116
Net impact of own credit risk	–	–	–	–	–	–	–	2	–	2
NET RESULT **attributable to equity holders of the parent**	**1 516**	**528**	**-182**	***-94***	***75***	***15***	***-179***	**-100**	**0**	**1 762**
a Of which non-cash expenses	-61	-28	-48	*-26*	*-11*	*-3*	*-7*	-124	0	-260
Depreciation and amortisation of fixed assets	-59	-31	-49	*-27*	*-11*	*-3*	*-7*	-129	0	-268
Other	-1	4	1	*1*	*0*	*0*	*0*	4	0	7
Acquisitions of non-current assets*	346	39	89	*21*	*29*	*6*	*33*	121	0	594

* 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 31-12-2013									
Deposits from customers and debt certificates (excluding repos)	97 051	21 834	14 472	*5 878*	*4 583*	*544*	*3 466*	17 123	150 480
Loans and advances to customers (excluding reverse repos)	81 673	15 684	21 261	*3 864*	*4 248*	*612*	*12 537*	1 080	119 698
Term loans (excluding reverse repos)	40 566	6 279	5 612	*1 772*	*1 488*	*242*	*2 111*	1 048	53 506
Mortgage loans	31 146	6 522	13 925	*1 548*	*1 722*	*236*	*10 419*	24	51 617
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
BALANCE SHEET AT 31-12-2014									
Deposits from customers and debt certificates (excluding repos)	105 885	22 047	14 860	*5 220*	*4 856*	*600*	*4 185*	11 187	153 979
Loans and advances to customers (excluding reverse repos)	84 165	16 216	20 790	*3 771*	*4 578*	*666*	*11 776*	1 990	123 161
Term loans (excluding reverse repos)	41 926	6 360	5 289	*1 915*	*1 527*	*284*	*1 562*	1 792	55 366
Mortgage loans	32 318	7 251	13 561	*1 320*	*1 807*	*239*	*10 195*	26	53 156
Current account advances	2 318	922	653	*312*	*329*	*0*	*12*	161	4 054
Finance leases	3 172	442	523	*92*	*425*	*0*	*6*	0	4 138
Consumer credit	1 088	1 028	654	*59*	*452*	*142*	*0*	0	2 770
Other loans and advances	3 343	213	111	*72*	*38*	*0*	*0*	12	3 678

Notes to the income statement

Note 3: Net interest income

(in millions of EUR)	2013	2014
Total	**4 077**	**4 308**
Interest income	**8 343**	**7 893**
Available-for-sale assets	830	763
Loans and receivables	4 882	4 510
Held-to-maturity investments	1 054	1 006
Other liabilities not at fair *value*	14	22
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*6 781*	*6 301*
of which impaired financial assets	*123*	*119*
Financial assets held for trading	916	926
Hedging derivatives	467	459
Other financial assets at fair value through profit or loss	179	208
Interest expense	**-4 266**	**-3 586**
Financial liabilities measured at amortised cost	-2 257	-1 691
Other liabilities not at fair value	-5	-4
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-2 262*	*-1 695*
Financial liabilities held for trading	-1 097	-1 093
Hedging derivatives	-679	-639
Other financial liabilities at fair value through profit or loss	-217	-151
Net interest expense relating to defined benefit plans	-12	-7

Note 4: Dividend income

(in millions of EUR)	2013	2014
Total	**47**	**56**
Shares held for trading	6	7
Shares initially recognised at fair value through profit or loss	4	2
Available-for-sale shares	37	46

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

(in millions of EUR)	2013	2014
Total	**1 191**	**227**
Trading instruments (including interest and fair value changes in trading derivatives)	962	144
Other financial instruments initially recognised at fair value through profit or loss	-236	-37
of which gains/losses on own credit risk	*-62*	*-2*
Foreign exchange trading	462	110
Fair value adjustments in hedge accounting	3	10
Micro hedge	-2	10
Fair value hedges	-1	4
Changes in the fair value of the hedged items	92	-465
Changes in the fair value of the hedging derivatives, including discontinuation	-93	469
Cashflow hedges	-1	6
Changes in the fair value of the hedging derivatives, ineffective portion	-1	6
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	0
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged items	-78	18
Changes in the fair value of the hedging derivatives, including discontinuation	78	-19
Cashflow hedges of interest rate risk	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Discontinuation of hedge accounting in the event of cashflow hedges	5	0

- Changes in the value of CDOs: the 'Net result from financial instruments at fair value through profit or loss' also includes the effect of changes in the value of CDOs held in portfolio. In 2013, the market price for corporate credit improved, there was an effect related to de-risking, and we reduced coverage of the counterparty risk for MBIA from 80% to 60% based on an internal fundamental analysis. On balance, that led to a positive adjustment of roughly 0.6 billion euros. In 2014, the market price for corporate credit improved – reflected in credit default swap spreads – and we also collapsed the remaining CDOs in our portfolio. Collapsing the last two CDOs had a negative impact on our income statement of just over 20 million euros in the third quarter of 2014. For the record, we wish to point out that we are the counterparty to and issuer of a further 0.3 billion euros' worth of CDO notes held by investors that will remain outstanding until year-end 2017. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters based on changes in the value of these notes. On balance, the impact of changes in the value of the exposure to CDOs came to 0.04 billion euros in 2014.
- The impact of the CDO guarantee agreement and related fee is also recognised under this heading. In May 2009, KBC 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 marked-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. Collapsing the last two CDOs (see previous point) released KBC from the guarantee agreement entered into with the Belgian Federal Government and completely eliminated the group's exposure to MBIA.

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (in millions of EUR, before tax)	2013	2014
Cash guarantee (for the third tranche) – change in fair value	85	0
Equity guarantee (for the second tranche)	-92	-16
Total recognised in the income statement	-6	-17

- 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'. 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 -201 million euros (before tax) in 2014 and +279 million euros in 2013.

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

(in millions of EUR)	2013	2014
Total	**252**	**150**
Fixed-income securities	126	64
Shares	126	86

Note 7: Net fee and commission income

(in millions of EUR)	2013	2014
Total	**1 469**	**1 573**
Fee and commission income	**2 268**	**2 245**
Securities and asset management	1 090	1 179
Margin on life insurance investment contracts without DPF (deposit accounting)	103	89
Commitment credit	243	245
Payments	539	522
Other	293	209
Fee and commission expense	**-798**	**-672**
Commission paid to intermediaries	-303	-295
Other	-496	-377

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

Note 8: Other net income

(in millions of EUR)	2013	2014
Total	**122**	**94**
of which gains or losses on		
Sale of loans and receivables	-157	3
Sale of held-to-maturity investments	8	1
Repurchase of financial liabilities measured at amortised cost	-1	0
Other, including:	272	90
Income from (mainly operational) leasing activities, KBC Lease Group	93	87
Income from VAB Group	65	69
Gains and losses on divestments	-78	21
Moratorium interest	71	15
Provisions for the new Hungarian act on consumer loans	0	-231
Settlement of an old credit file (Bell Group)	0	31

- In 2013, 'Sale of loans and receivables' included the adverse impact of refinancing 0.3 billion euros' worth of shareholder loans via a third party and the repayment of shareholder loans by Cera and KBC Ancora, plus the negative effect of selling loans and receivables as part of the process to divest KBC Banka.
- 'Gains and losses on divestments' in 2013 related mainly to the sale of Absolut Bank (-91 million euros). In 2014, it comprised a number of smaller sales deals. Information on the most recent divestments can be found under 'Group Centre' in the 'Report of the Board of Directors' section (which has not been audited by the statutory auditor).
- In 2013, the receipt of moratorium interest due had a positive impact of 71 million euros (before tax).
- 'Provisions for the new Hungarian act on consumer loans' concerns new legislation approved by the Hungarian parliament on 4 July 2014 that applies to the entire banking sector in Hungary (the act on the resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions). The scope of the act covers consumer loans denominated in foreign currency and in Hungarian forint. As regards consumer loans denominated in foreign currency, the act prohibits the use of exchange rate margins and the bid-ask spreads that applied to such loans have to be corrected with retroactive effect. As far as all consumer loans are concerned, the act repeals all unilateral changes that banks made to interest rates and fees. As a result of this act, KBC set aside additional, one-off net provisions of 231 million euros (before tax) in the second quarter of 2014 for correcting the bid-ask spreads and the unilateral changes to interest rates.

Note 9: Insurance results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
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	12	-229	0	-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	-357	81	0	-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	627	99	-726	0
Technical-financial result	270	180	240	690
Share in results of associated companies and joint ventures	–	–	0	0
RESULT BEFORE TAX	**270**	**180**	**240**	**690**
Income tax expense	–	–	–	-227
RESULT AFTER TAX	**–**	**–**	**–**	**463**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**462**
2014				
Earned premiums, insurance (before reinsurance)	1 249	1 286	0	2 535
Technical charges, insurance (before reinsurance)	-1 463	-755	0	-2 218
Net fee and commission income	-13	-234	0	-247
Ceded reinsurance result	-2	18	0	16
General administrative expenses	-121	-240	-1	-362
Internal claims settlement expenses	-7	-58	0	-66
Indirect acquisition costs	-30	-79	0	-109
Administrative expenses	-84	-103	0	-187
Investment management fees	0	0	-1	-1
Technical result	-350	74	-1	-276
Net interest income	–	–	675	675
Net dividend income	–	–	40	40
Net result from financial instruments at fair value through profit or loss	–	–	42	42
Net realised result from available-for-sale assets	–	–	96	96
Other net income	–	–	2	2
Impairment	–	–	-34	-34
Allocation to the technical accounts	620	101	-721	0
Technical-financial result	270	176	99	544
Share in results of associated companies and joint ventures	–	–	3	3
RESULT BEFORE TAX	**270**	**176**	**102**	**547**
Income tax expense	–	–	–	-156
RESULT AFTER TAX	**–**	**–**	**–**	**392**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**391**

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts.
- Due to a change in presentation, 75 million euros in net fee and commission income was moved from the 'Non-technical account' column to the 'Life' column in the overview for 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 and 44 (KBC Insurance section), in the 'Risk management' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk'), and in the 'Capital adequacy' section ('Solvency of KBC Bank and KBC Insurance separately').

Note 10: Earned premiums, life insurance

(in millions of EUR)	2013	2014
Total	**1 134**	**1 249**
Breakdown by IFRS category		
Insurance contracts	776	765
Investment contracts with DPF	357	485
Breakdown by type		
Accepted reinsurance	1	0
Primary business	1 133	1 249
Breakdown of primary business		
Individual premiums	876	984
Single premiums	285	364
Periodic premiums	592	619
Premiums under group contracts	257	265
Single premiums	46	50
Periodic premiums	210	215
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	887	785
Guaranteed-rate	957	1 107

- 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 2014 for premium income of 0.8 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
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
2014					
Total	**1 286**	**-755**	**-474**	**18**	**74**
Accepted reinsurance	21	22	-6	-38	-2
Primary business	1 265	-777	-468	56	76
Accident & health (classes 1 & 2, excl. industrial accidents)	115	-64	-38	0	13
Industrial accidents (class 1)	72	-63	-19	-1	-12
Motor, third-party liability (class 10)	342	-211	-122	-2	7
Motor, other classes (classes 3 & 7)	182	-130	-67	25	10
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	-1	-1	0	0
Fire and other damage to property (classes 8 & 9)	391	-239	-155	37	34
General third-party liability (class 13)	86	-43	-37	-1	5
Credit and suretyship (classes 14 & 15)	1	0	-1	0	0
Miscellaneous pecuniary losses (class 16)	9	-1	-3	-2	4
Legal assistance (class 17)	45	-19	-19	0	8
Assistance (class 18)	17	-4	-6	0	6

- The figures include intragroup transactions concluded between the insurance and banking businesses.

Note 12: Operating expenses

(in millions of EUR)	2013	2014
Total	**-3 843**	**-3 818**
Staff expenses	-2 312	-2 248
General administrative expenses	-1 262	-1 303
of which bank taxes	-327	-335
Depreciation and amortisation of fixed assets	-269	-266

- 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 327 million euros in 2013 and 335 million euros in 2014). The latter figure comprises 150 million euros in the Belgium Business Unit, 34 million euros in the Czech Republic Business Unit, 19 million euros in Slovakia, 3 million euros in Bulgaria, 125 million euros in Hungary and 4 million euros in the Group Centre.
- 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 to 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.

	2013		2014	
Options	**Number of options[1]**	**Average exercise price**	**Number of options[1]**	**Average exercise price**
Outstanding at beginning of period	184 326	72.53	183 526	72.69
Granted during period	0	–	0	–
Exercised during period	-800	34.91	-1 566	37.50
Expired during period	0	–	-7 300	97.94
Outstanding at end of period[2]	183 526	72.69	174 660	71.95
Exercisable at end of period	176 226	72.60	174 660	71.95

1 In share equivalents.
2 2013: range of exercise prices: 46.45–97.94 euros; weighted average residual term to maturity: 20 months.
2014: range of exercise prices: 37.50–89.21 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 2014, this resulted in the recognition of a limited employee benefit (4 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 2013 included less than 5 million euros in costs related to a phantom stock plan (included under 'Staff expenses'). This item came to 4 million euros for 2014.

Note 13: Personnel

(number)	2013	2014
Total average number of persons employed (in full-time equivalents)	**37 887**	**36 258**
Breakdown by legal entity		
KBC Bank NV	27 684	26 941
KBC Insurance NV	4 638	4 147
KBC Group NV (holding company)	5 565	5 170
Breakdown by employee classification		
Blue-collar staff	437	361
White-collar staff	37 159	35 612
Senior management	291	285

- 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)	2013	2014
Total	**-1 927**	**-506**
Impairment on loans and receivables	**-1 714**	**-587**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-1 673	-676
Provisions for off-balance-sheet credit commitments	1	19
Portfolio-based impairment	-42	70
Breakdown by business unit		
Belgium	-328	-205
Czech Republic	-46	-34
International Markets	-1 171	-273
Group Centre	-169	-75
Impairment on available-for-sale assets	**-34**	**-29**
Breakdown by type		
Shares	-24	-29
Other	-10	0
Impairment on goodwill	**-7**	**0**
Impairment on other	**-173**	**109**
Intangible fixed assets (other than goodwill)	-2	-23
Property and equipment (including investment property)	-39	-8
Held-to-maturity assets	0	1
Associated companies and joint ventures	0	0
Other	-132	139

- '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 198 million euros in 2014 (see separate paragraph)), in Hungary (76 million euros in 2013, 47 million euros in 2014), in Slovakia (27 million euros in 2013, 17 million euros in 2014) and in Bulgaria (9 million euros in 2013, 10 million euros in 2014). In 2013, impairment in the Group Centre included 75 million euros to cover a subordinated loan to Nova Ljubljanska banka, 32 million euros at KBC Bank Deutschland and 39 million euros at KBC Finance Ireland. In 2014, it included 30 million euros at Antwerp Diamond Bank, 20 million euros at KBC Finance Ireland and 14 million euros at KBC Bank Deutschland.
- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered as a consequence of the property crisis. The Irish loan portfolio stood at about 14.5 billion euros at the end of the year, four-fifths of which relates to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. The group set aside 1.1 billion euros in loan loss provisions for its Irish portfolio in 2013 (most of which were set aside in the fourth quarter following an analysis of the loan portfolio). In 2014, the amount of loan loss provisions set aside fell to 198 million euros.
- In the third quarter of 2014, we modified the model for calculating impairment charges on mortgage loans in Ireland. Including the effects relating specifically to the third quarter, the impact of this adjustment was limited. The reason for adjusting the model was that a significant portion of these loans have been going through a long-term restructuring process, which changes their cashflow profiles.
- '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 2014, this item comprised virtually only impairment on shares.
- 'Impairment on goodwill' and 'Impairment 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 2014, these headings included the reversal of the impairment charges previously recognised for Antwerp Diamond Bank, as its planned sale failed to go through and KBC decided to run down that entity's activities in an orderly manner (see Note 46). 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.
- For information on the comprehensive assessment conducted by the ECB, see the relevant paragraph in 'Capital adequacy'. The statutory auditor has not audited that paragraph.

Note 15: Share in results of associated companies and joint ventures

(in millions of EUR)	2013	2014
Total	**30**	**25**
of which ČMSS	29	23

- As a result of the retroactive application of IFRS 11, which stipulates that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation, the share in results of associated companies and joint ventures is now accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. For additional information, see Note 32.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 14). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 16: Income tax expense

(in millions of EUR)	2013	2014
Total	**-678**	**-657**
Breakdown by type		
Current taxes on income	-372	-407
Deferred taxes on income	-306	-250
Tax components		
Result before tax	1 708	2 420
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-580	-823
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	-31	126
tax-free income	182	140
adjustments related to prior years	17	17
adjustments, opening balance of deferred taxes due to change in tax rate	-1	0
unused tax losses and unused tax credits to reduce current tax expense	59	3
unused tax losses and unused tax credits to reduce deferred tax expense	1	1
reversal of previously recognised deferred tax assets due to tax losses	0	-14
other (mainly non-deductible expenses)	-325	-108
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*	**201**	**207**

* 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.

Note 17: Earnings per share

(in millions of EUR)	2013	2014
Basic earnings per share		
Result after tax, attributable to equity holders of the parent	1 015	1 762
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-583	-337
Coupon on AT1 instruments[1]	0	-41
Net result used to determine basic earnings per share	432	1 384
Weighted average number of ordinary shares outstanding ('000 of units)	417 017	417 416
Basic earnings per share (in EUR)	1.03	3.32
Diluted earnings per share		
Result after tax, attributable to equity holders of the parent	1 015	1 762
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-583	-337
Coupon on AT1 instruments[1]	0	-41
Net result used to determine diluted earnings per share	432	1 384
Weighted average number of ordinary shares outstanding ('000 of units)	417 017	417 416
Dilutive potential ordinary shares ('000 of units)[2]	1	0
Weighted average number of ordinary shares for diluted earnings ('000 of units)	417 017	417 416
Diluted earnings per share (in EUR)	1.03	3.32

1 The 41 million euros in 2014 includes the 39 million euros (as indicated in the 'Consolidated statement of changes in equity' table) and 2 million euros recognised on an accruals basis for the last two weeks of the financial year.

2 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 486 at year-end 2014)).

- For a definition of basic earnings per share and diluted earnings per share, see the 'Glossary of ratios'.

Notes on the financial assets and liabilities on the balance sheet

We group financial assets and liabilities into categories. These categories are defined and relevant valuation rules provided under the heading 'Financial assets and liabilities (IAS 39)' in Note 1 b. Whenever we refer in this section to the category ‘Designated at fair value’, we mean ‘Designated at fair value through profit or loss’ (fair value option).

Note 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	Pro forma total[5]
FINANCIAL ASSETS, 31-12-2013									
Loans and advances to credit institutions and investment firms[a]	5 100	1 596	0	9 571	–	–	–	16 267[c]	16 294
Loans and advances to customers[b]	706	774	0	118 892	–	–	–	120 371	121 534
Discount and acceptance credit	0	0	0	605	–	–	–	605	605
Consumer credit	0	0	0	3 322	–	–	–	3 322	3 322
Mortgage loans	0	34	0	51 583	–	–	–	51 617	51 617
Term loans	696	697	0	52 786	–	–	–	54 179	55 125
Finance leases	0	0	0	4 044	–	–	–	4 044	4 044
Current account advances	0	0	0	2 451	–	–	–	2 451	2 667
Other	10	43	0	4 101	–	–	–	4 154	4 154
Equity instruments	283	8	1 579	–	–	–	–	1 870	1 868
Investment contracts (insurance)	–	12 745	–	–	–	–	–	12 745	12 745
Debt instruments issued by	2 974	1 319	25 728	1 690	31 323	–	–	63 034	62 168
Public bodies	2 385	771	17 337	118	29 630	–	–	50 240	49 409
Credit institutions and investment firms	268	195	3 289	154	1 040	–	–	4 946	4 911
Corporates	321	353	5 102	1 418	654	–	–	7 848	7 848
Derivatives	7 823	–	–	–	–	777	–	8 600	8 603
Other[4]	–	–	–	–	–	–	–	–	–
Total	16 885	16 441	27 307	130 153	31 323	777	–	222 887	223 212
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								*8 094*	–
FINANCIAL ASSETS, 31-12-2014									
Loans and advances to credit institutions and investment firms[a]	141	1 636	0	10 812	–	–	–	12 590[c]	–
Loans and advances to customers[b]	27	1 335	0	123 189	–	–	–	124 551	–
Trade receivables[3]	0	0	0	3 291	–	–	–	3 291	–
Consumer credit	0	0	0	2 770	–	–	–	2 770	–
Mortgage loans	0	33	0	53 123	–	–	–	53 156	–
Term loans	7	1 303	0	55 446	–	–	–	56 755	–
Finance leases	0	0	0	4 138	–	–	–	4 138	–
Current account advances	0	0	0	4 054	–	–	–	4 054	–
Other[3]	20	0	0	367	–	–	–	387	–
Equity instruments	303	3	1 826	–	–	–	–	2 132	–
Investment contracts (insurance)	–	13 425	–	–	–	–	–	13 425	–
Debt instruments issued by	2 894	1 763	30 564	1 207	31 799	–	–	68 227	–
Public bodies	2 391	1 063	19 469	31	30 342	–	–	53 296	–
Credit institutions and investment firms	297	293	4 427	159	859	–	–	6 035	–
Corporates	206	407	6 667	1 018	598	–	–	8 896	–
Derivatives	8 814	–	–	–	–	1 104	–	9 918	–
Other[4]	3	–	–	576	0	0	–	579	
Total	12 182	18 163	32 390	135 784	31 799	1 104	–	231 421	–
a of which reverse repos[2]								*3 319*	–
b of which reverse repos[2]								*1 389*	–
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*4 287*	–

1. Loans and advances in the 'Designated at fair value' column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
2. A 'reverse repo' transaction is a transaction where one party (KBC) buys securities from another party and undertakes to resell these securities at a designated future date at a set price. In most cases, reverse repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The reverse repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for the counterparty. The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).
3. To make the breakdown by product more transparent, and based on the new framework for reporting to the ECB (FINREP), factoring (2.4 billion euros at year-end 2014 and 2.2 billion euros at year-end 2013) is no longer included in 'Other' under 'Loans and advances to customers' as of 2014, and is instead being combined with discount and acceptance credit, and recognised under 'Trade receivables'. The reference figures have not been restated in order to maintain the link with the 2013 annual report.
4. Financial assets that (from 2014) are intentionally not included under 'Loans and advances to customers' to avoid inflating that item with items that are not directly related to commercial lending.
5. Antwerp Diamond Bank (ADB) fell within the scope of IFRS 5 in 2013 and, therefore, was not recognised under the items specified in this note. At year-end 2014, it no longer fell within the scope of that standard, since its planned sale did not go through and it was decided instead to run down its activities in a controlled manner. To enable a comparison to be made, the pro forma column contains the figures for 2013 including ADB. The Transformation Fund (pension fund) in the Czech Republic has been excluded from the figures in that column, because that entity was removed from the scope of consolidation in 2014.

(in millions of EUR)	Held for trading	Desig-nated at fair value	Available for sale	Loans and receiv-ables	Held to maturity	Hedging deriva-tives	Measured at amor-tised cost	Total	Pro forma total[3]
FINANCIAL LIABILITIES, 31-12-2013									
Deposits from credit institutions and investment firms[a]	939	896	–	–	–	–	12 884	14 719[c]	14 733
Deposits from customers and debt securities[b]	3 634	12 248	–	–	–	–	145 253	161 135	160 182
Demand deposits	0	50	–	–	–	–	38 999	39 049	39 277
Time deposits	3 347	7 786	–	–	–	–	43 837	54 970	54 973
Savings deposits	0	0	–	–	–	–	34 990	34 990	34 990
Special deposits	0	0	–	–	–	–	1 335	1 335	1 335
Other deposits	0	0	–	–	–	–	1 378	1 378	195
Certificates of deposit	0	6	–	–	–	–	3 540	3 546	3 546
Savings certificates	0	0	–	–	–	–	473	473	473
Convertible bonds	0	0	–	–	–	–	0	0	0
Non-convertible bonds	286	3 763	–	–	–	–	14 869	18 919	18 919
Convertible subordinated liabilities	0	0	–	–	–	–	0	0	0
Non-convertible subordinated liabilities	0	643	–	–	–	–	5 832	6 475	6 475
Liabilities under investment contracts	–	11 787	–	–	–	–	0	11 787	11 787
Derivatives	8 161	–	–	–	–	1 678	–	9 838	9 844
Short positions	386	–	–	–	–	–	–	386	386
In equity instruments	40	–	–	–	–	–	–	40	40
In debt instruments	345	–	–	–	–	–	–	345	345
Other[2]	–	–	–	–	–	–	1 556	1 556	1 556
Total	13 119	24 931	–	–	–	1 678	159 693	199 421	198 488
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*	–
FINANCIAL LIABILITIES, 31-12-2014									
Deposits from credit institutions and investment firms[a]	60	1 004	–	–	–	–	16 628	17 692[c]	–
Deposits from customers and debt securities[b]	367	10 352	–	–	–	–	151 064	161 783	–
Demand deposits	0	35	–	–	–	–	47 020	47 055	–
Time deposits	69	8 028	–	–	–	–	41 638	49 735	–
Savings deposits	0	0	–	–	–	–	37 163	37 163	–
Special deposits	0	0	–	–	–	–	1 715	1 715	–
Other deposits	0	14	–	–	–	–	555	569	–
Certificates of deposit	9	3	–	–	–	–	5 922	5 935	–
Savings certificates	0	0	–	–	–	–	762	762	–
Convertible bonds	0	0	–	–	–	–	0	0	–
Non-convertible bonds	289	1 732	–	–	–	–	12 741	14 761	–
Convertible subordinated liabilities	0	0	–	–	–	–	0	0	–
Non-convertible subordinated liabilities	0	540	–	–	–	–	3 549	4 088	–
Liabilities under investment contracts	–	12 553	–	–	–	–	0	12 553	–
Derivatives	7 697	–	–	–	–	3 491	–	11 188	–
Short positions	325	–	–	–	–	–	–	325	–
In equity instruments	71	–	–	–	–	–	–	71	–
In debt instruments	254	–	–	–	–	–	–	254	–
Other[2]	–	–	–	–	–	–	2 103	2 104	–
Total	8 449	23 908	–	–	–	3 491	169 796	205 644	–
a of which repos[1]								*1 315*	–
b of which repos[1]								*7 804*	–
c of which deposits from banks repayable on demand								*3 539*	–

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

- For reclassifications, see Note 28.
- Non-convertible bonds: comprise mainly KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies).
- Non-convertible subordinated liabilities: also include the contingent capital note issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2014, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 5 876 million euros (debt instruments classified as 'held for trading' (280 million euros), 'designated at fair value' (764 million euros), 'available for sale' (454 million euros), and 'held to maturity' (4 378 million euros)); and an associated financial liability with a carrying value of 5 673 million euros (277 million euros classified as 'held for trading', 769 million euros as 'designated at fair value', 470 million euros as 'available for sale', and 4 157 million euros as 'held to maturity'). At year-end 2013, KBC 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 and 2014, 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.

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, 31-12-2013								
Belgium	2 143	1 027	8 584	74 759	15 445	45	–	102 004
Central and Eastern Europe	7 907	646	6 510	27 960	8 774	293	–	52 089
Rest of the world	6 835	14 768	12 213	27 434	7 104	439	–	68 794
Total	16 885	16 441	27 307	130 153	31 323	777	–	222 887
FINANCIAL ASSETS, 31-12-2014								
Belgium	2 543	1 104	8 804	78 358	16 744	87	–	107 641
Central and Eastern Europe	2 221	491	5 290	28 286	8 183	112	–	44 584
Rest of the world	7 418	16 567	18 295	29 139	6 872	905	–	79 197
Total	12 182	18 163	32 390	135 784	31 799	1 104	–	231 421
FINANCIAL LIABILITIES, 31-12-2013								
Belgium	1 815	11 979	–	–	–	94	86 316	100 204
Central and Eastern Europe	5 141	942	–	–	–	464	35 451	41 999
Rest of the world	6 163	12 010	–	–	–	1 119	37 926	57 218
Total	13 119	24 931	–	–	–	1 678	159 693	199 421
FINANCIAL LIABILITIES, 31-12-2014								
Belgium	1 436	12 635	–	–	–	231	92 010	106 313
Central and Eastern Europe	1 033	838	–	–	–	81	35 597	37 549
Rest of the world	5 979	10 435	–	–	–	3 179	42 189	61 782
Total	8 449	23 908	–	–	–	3 491	169 796	205 644

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, 31-12-2013								
At not more than one year	7 368	2 525	6 214	43 158	1 662	–	–	60 927
At more than one year	1 412	7 839	19 381	78 504	29 662	–	–	136 797
Not specified*	8 105	6 077	1 713	8 491	0	777	–	25 163
Total	16 885	16 441	27 307	130 153	31 323	777	–	222 887
FINANCIAL ASSETS, 31-12-2014								
At not more than one year	1 322	3 146	3 647	47 279	2 213	–	–	57 608
At more than one year	1 593	8 760	26 826	81 592	29 586	–	–	148 357
Not specified*	9 267	6 257	1 916	6 912	0	1 104	–	25 456
Total	12 182	18 163	32 390	135 784	31 799	1 104	–	231 421
FINANCIAL LIABILITIES, 31-12-2013								
At not more than one year	4 803	10 784	–	–	–	–	92 520	108 107
At more than one year	119	9 649	–	–	–	–	29 856	39 624
Not specified*	8 197	4 498	–	–	–	1 678	37 317	51 689
Total	13 119	24 931	–	–	–	1 678	159 693	199 421
FINANCIAL LIABILITIES, 31-12-2014								
At not more than one year	517	9 480	–	–	–	–	99 643	109 639
At more than one year	158	9 576	–	–	–	–	31 306	41 040
Not specified*	7 774	4 853	–	–	–	3 491	38 847	54 965
Total	8 449	23 908	–	–	–	3 491	169 796	205 644

* 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 '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, 31-12-2013							
Unimpaired assets	16 885	16 441	27 094	122 503	31 322	777	215 022
Impaired assets	–	–	331	13 230	9	–	13 570
Impairment	–	–	-117	-5 580	-8	–	-5 705
Total	16 885	16 441	27 307	130 153	31 323	777	222 887
FINANCIAL ASSETS, 31-12-2014							
Unimpaired assets	12 182	18 163	32 153	128 330	31 798	1 104	223 730
Impaired assets	–	–	361	13 255	6	–	13 621
Impairment	–	–	-124	-5 801	-5	–	-5 930
Total	12 182	18 163	32 390	135 784	31 799	1 104	231 421

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

Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for off-balance-sheet credit commit-ments*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2013						
Opening balance	0	148	8	4 488	227	92
Movements with an impact on results						
Impairment recognised	10	24	0	2 311	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	-226	-3	25
Closing balance	0	117	8	5 319	261	114
IMPAIRMENT, 31-12-2014						
Opening balance	0	117	8	5 319	261	114
Movements with an impact on results						
Impairment recognised	0	30	0	1 295	64	32
Impairment reversed	0	-2	-1	-620	-130	-55
Movements without an impact on results						
Write-offs	0	-16	0	-439	0	-3
Changes in the scope of consolidation	0	-5	0	-34	1	9
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	174	5	0
Other	0	-1	-3	-96	0	61
Closing balance	0	124	5	5 600	201	158

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

- For information regarding the impact of changes in impairment on the income statement, see Note 14.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Risk management' section.

Past due, but not impaired assets

(in millions of EUR)	Less than 30 days past due	30 days or more, but less than 90 days past due
31-12-2013		
Loans and advances	3 099	1 171
Debt instruments	0	0
Derivatives	0	0
Total	3 099	1 171
31-12-2014		
Loans and advances	2 173	603
Debt instruments	0	0
Derivatives	0	0
Total	2 173	603

- 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 ‘Risk management’ section.

Note 22: Maximum credit exposure and offsetting

(in millions of EUR)	31-12-2013			31-12-2014		
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	1 870	0	1 870	2 132	0	2 132
Debt instruments	63 034	76	62 957	68 227	59	68 167
Loans and advances	136 638	74 239	62 399	137 140	69 842	67 298
of which designated at fair value	2 369	2 238	131	2 971	2 588	384
Derivatives	8 600	2 027	6 573	9 918	3 253	6 664
Other (including accrued interest)	26 545	4 246	22 299	28 271	4 246	24 025
Total	236 687	80 589	156 099	245 687	77 401	168 286

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under ‘Other’.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail under ‘Credit risk’ in the ‘Risk management' section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements	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			Net amount
(in millions of EUR)				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2013							
Derivatives	9 054	454	8 600	4 992	1 813	0	1 795
Derivatives (excluding central clearing houses)	8 597	0	8 597	4 992	1 813	0	1 792
Derivatives with central clearing houses	457	454	3	0	0	0	3
Reverse repos, securities borrowing 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 ASSETS, 31-12-2014							
Derivatives	12 390	2 473	9 918	5 190	2 505	0	2 223
Derivatives (excluding central clearing houses)	9 910	0	9 910	5 190	2 505	0	2 215
Derivatives with central clearing houses	2 481	2 473	8	0	0	0	8
Reverse repos, securities borrowing and similar arrangements	6 415	1 707	4 708	645	0	4 047	15
Reverse repos	6 415	1 707	4 708	645	0	4 047	15
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	18 805	4 180	14 626	5 835	2 505	4 047	2 238
FINANCIAL LIABILITIES, 31-12-2013							
Derivatives	10 293	454	9 838	4 992	2 626	0	2 220
Derivatives (excluding central clearing houses)	9 834	0	9 834	4 992	2 626	0	2 216
Derivatives with central clearing houses	459	454	4	0	0	0	4
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
FINANCIAL LIABILITIES, 31-12-2014							
Derivatives	13 660	2 473	11 188	5 190	3 871	0	2 127
Derivatives (excluding central clearing houses)	11 184	0	11 184	5 190	3 871	0	2 124
Derivatives with central clearing houses	2 476	2 473	3	0	0	0	3
Repos, securities lending and similar arrangements	10 827	1 707	9 120	645	0	8 470	4
Repos	10 827	1 707	9 120	645	0	8 470	4
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 487	4 180	20 307	5 835	3 871	8 471	2 131

- 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

- 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 Valuation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and funding costs. Credit value adjustments (CVAs) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. Partly on account of the Asset Quality Review, the CVA model was modified in the fourth quarter of 2014 on the basis of the method described above. This change had a small positive impact on the result. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration. A funding value adjustment (FVA) is a correction made to the fair value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.
- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.
- Financial assets and liabilities that are measured at fair value are those classified as 'available-for-sale', 'held for trading', 'designated at fair value' and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not measured in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet (in millions of EUR)	Loans and receivables		Financial assets held to maturity		Financial liabilities measured at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2013						
Loans and advances to credit institutions and investment firms	9 571	9 814	–	–	–	–
Loans and advances to customers	118 892	120 501	–	–	–	–
Debt instruments	1 690	1 646	31 323	32 657	–	–
Total	130 153	131 961	31 323	32 657	–	–
Level 1	–	1 416	–	30 193	–	–
Level 2	–	25 692	–	1 789	–	–
Level 3	–	104 853	–	675	–	–
FINANCIAL ASSETS, 31-12-2014						
Loans and advances to credit institutions and investment firms	11 388	11 529	–	–	–	–
Loans and advances to customers	123 189	126 392	–	–	–	–
Debt instruments	1 207	1 400	31 799	36 001	–	–
Total	135 784	139 322	31 799	36 001	–	–
Level 1	–	929	–	34 848	–	–
Level 2	–	19 992	–	984	–	–
Level 3	–	118 401	–	169	–	–
FINANCIAL LIABILITIES, 31-12-2013						
Deposits from credit institutions and investment firms	–	–	–	–	12 884	14 175
Deposits from customers and debt securities	–	–	–	–	145 253	148 049
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	1 556	1 570
Total	–	–	–	–	159 693	163 794
Level 1	–	–	–	–	–	1 122
Level 2	–	–	–	–	–	85 104
Level 3	–	–	–	–	–	77 569
FINANCIAL LIABILITIES, 31-12-2014						
Deposits from credit institutions and investment firms	–	–	–	–	16 628	17 887
Deposits from customers and debt securities	–	–	–	–	151 064	153 732
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 103	1 981
Total	–	–	–	–	169 796	173 601
Level 1	–	–	–	–	–	1 052
Level 2	–	–	–	–	–	78 637
Level 3	–	–	–	–	–	93 911

Note 24: Financial assets and liabilities measured at fair value – fair value hierarchy

(in millions of EUR)				31-12-2013				31-12-2014
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**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	5 100	0	5 100	0	141	0	141
Loans and advances to customers	0	706	0	706	0	27	0	27
Equity instruments	265	18	1	283	294	8	0	303
Debt instruments	2 290	341	342	2 974	1 998	634	262	2 894
of which sovereign bonds	*2 068*	*261*	*55*	*2 385*	*1 872*	*487*	*32*	*2 391*
Derivatives	1	5 681	2 141	7 823	1	6 492	2 321	8 814
Other	0	0	0	0	0	3	0	3
Designated at fair value								
Loans and advances to credit institutions and investment firms	0	1 595	0	1 596	0	1 636	0	1 636
Loans and advances to customers	0	749	24	774	0	1 309	26	1 335
Equity instruments	2	0	5	8	3	0	0	3
Investment contracts (insurance)	12 605	140	0	12 745	13 270	156	0	13 425
Debt instruments	836	131	352	1 319	1 278	149	337	1 763
of which sovereign bonds	*716*	*23*	*32*	*771*	*1 034*	*29*	*0*	*1 063*
Available for sale								
Equity instruments	1 226	53	300	1 579	1 432	0	393	1 826
Debt instruments	20 218	4 038	1 472	25 728	26 349	3 051	1 163	30 564
of which sovereign bonds	*14 874*	*1 999*	*465*	*17 337*	*18 331*	*982*	*156*	*19 469*
Hedging derivatives								
Derivatives	0	777	0	777	0	1 104	0	1 104
Total	37 444	19 330	4 637	61 411	44 624	14 711	4 503	63 839
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	939	0	939	0	60	0	60
Deposits from customers and debt securities	0	3 532	102	3 634	0	326	41	367
Derivatives	1	5 617	2 542	8 161	2	5 359	2 335	7 697
Short positions	373	0	13	386	325	0	0	325
Other	0	0	0	0	0	0	0	0
Designated at fair value								
Deposits from credit institutions and investment firms	0	896	0	896	0	1 004	0	1 004
Deposits from customers and debt securities	0	11 704	543	12 248	0	9 928	424	10 352
Liabilities under investment contracts	11 787	0	0	11 787	12 552	1	0	12 553
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	1 678	0	1 678	0	3 491	0	3 491
Total	12 161	24 365	3 201	39 728	12 879	20 170	2 800	35 848

- The IAS 39 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
  Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.
  Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 25.

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

Note 25: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 2014, 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 various types of debt instruments. KBC also reclassified around 1.6 billion euros' worth of bonds from level 2 to level 1 – most (some 1 billion euros) of which concerned covered bonds – because the market for those instruments became more active in 2014.
- 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 – 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'.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2014 (in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	1	0	342	2 141	24	5	0	352	300	1 472	0
Gains or losses	0	0	0	17	253	1	0	0	0	41	-11	0
in profit or loss*	0	0	0	17	253	1	0	0	0	4	-24	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	37	13	0
Purchases	0	0	0	2	305	0	0	0	18	23	835	0
Disposals	0	0	0	-20	-77	0	-5	0	-2	-6	-74	0
Settlements	0	0	0	-61	-312	-3	0	0	-16	-1	-464	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	110	0
Transfers out of level 3	0	0	0	-31	0	0	0	0	0	0	-687	0
Transfers into/out of non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	0	14	11	3	0	0	36	0	1	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	-22	-3	-20	0
Other	0	0	0	0	0	0	0	0	-29	39	0	0
Closing balance	0	0	0	263	2 321	26	0	0	337	393	1 163	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	22	304	1	1	0	10	-1	6	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	102	0	2 542	13	0	0	543	0	0	0
Gains or losses	0	1	0	-58	0	0	0	-25	0	0	0
in profit or loss*	0	1	0	-58	0	0	0	-25	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	293	0	0	0	0	0	0	0
Repurchases	0	-5	0	0	0	0	0	-119	0	0	0
Settlements	0	-66	0	-452	-13	0	0	0	0	0	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	7	0	10	0	0	0	23	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	41	0	2 335	0	0	0	424	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	0	0	329	0	0	0	-8	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.
- As a result of the further de-risking of the portfolio of legacy CDOs in 2014, that portfolio's sensitivity in profit or loss to credit spreads widening by 50% was reduced from -92 million euros at year-end 2013 to a negligible amount at the close of 2014. The remaining minor fluctuations in value are attributable to the fact that 0.3 billion euros' worth of CDO notes that are held by investors will remain outstanding until November 2017. KBC issued these notes and is counterparty for them. The notes could continue to fluctuate in value, mainly on account of movements in credit spreads on the underlying portfolio.

Note 27: Changes in own credit risk

Own debt issues designated at fair value
(in millions of EUR) ((+) profit (-) loss; amounts before tax)

	31-12-2013	31-12-2014
Impact of change in own credit spreads on the income statement*	-62	-2
Total cumulative impact at balance sheet date	-32	-31

* 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 2 billion euros on 31 December 2014. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues are given in the table below.

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

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2013	-0.02	-0.01	-0.00	+0.00	+0.01	+0.02
31-12-2014	-0.01	-0.00	-0.00	+0.00	+0.00	+0.01

- If no account is taken of the effect of changes in own credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 28: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' – situation at 31-12-2014
(in millions of EUR)

Carrying value			890
Fair value			950
	If not reclassified (available for sale)	After reclassification (loans and receivables)	Impact
Impact on the revaluation reserve (available-for-sale assets), before tax	-50	-110	-60
Impact on the income statement, before tax	0	2	2

- Reclassifications: in October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. The above reclassifications had a negative impact of 60 million euros on equity and a positive impact of 2 million euros on the income statement.
- Other reclassifications (not included in the table):
  - In 2013, 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 2014, no debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - As a result, the relevant available-for-sale reserve is no longer exposed to changes in market rates. It has been frozen and is being written down on a *pro rata temporis* basis. As the relevant held-to-maturity security is also being written down, there is no net impact on the results.

	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.

	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
31-12-2014																
Total	**8 814**	**7 697**	**380 492**	**377 541**	**426**	**736**	**25 223**	**25 223**	**650**	**2 610**	**25 711**	**25 647**	**28**	**144**	**2 749**	**2 749**
Breakdown by type																
Interest rate contracts	5 304	4 596	217 557	214 711	426	736	25 223	25 223	642	2 600	25 525	25 525	28	144	2 749	2 749
Interest rate swaps	4 120	4 056	148 425	149 039	426	736	25 223	25 223	642	2 600	25 525	25 525	28	144	2 749	2 749
Forward rate agree-ments	0	3	1 880	2 385	0	0	0	0	0	0	0	0	0	0	0	0
Futures	3	3	12 879	13 727	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 181	534	54 374	49 560	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange con-tracts	1 339	982	125 336	126 203	0	0	0	0	7	10	186	122	0	0	0	0
Forward foreign exchange operations/ currency forwards	189	180	17 419	17 394	0	0	0	0	0	1	31	31	0	0	0	0
Currency and interest rate swaps	1 028	621	95 689	95 268	0	0	0	0	7	9	155	91	0	0	0	0
Futures	0	0	284	284	0	0	0	0	0	0	0	0	0	0	0	0
Options	121	180	11 944	13 257	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	2 016	2 022	32 162	31 912	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 674	1 704	30 120	30 120	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	342	318	2 042	1 793	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	105	46	4 826	4 104	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	105	46	4 826	4 104	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	51	51	611	611	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

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

Estimated cashflows from cashflow hedging derivatives (in millions of EUR)	**Inflow**	**Outflow**
Not more than three months	20	-20
More than three but not more than six months	30	-57
More than six months but not more than one year	97	-132
More than one but not more than two years	171	-369
More than two but not more than five years	446	-987
More than five years	1 289	-2 405

Notes on other balance sheet items

Note 30: Other assets

(in millions of EUR)	31-12-2013	31-12-2014
Total	**1 233**	**1 480**
Debtors arising out of direct insurance operations	322	349
Debtors arising out of reinsurance operations	30	13
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	13	13
Income receivable (other than interest income from financial assets)	370	281
Other	498	824

Note 31: Tax assets and tax liabilities

(in millions of EUR)	31-12-2013	31-12-2014
CURRENT TAXES		
Current tax assets	242	88
Current tax liabilities	109	98
DEFERRED TAXES	**1 072**	**1 127**
Deferred tax assets by type of temporary difference	1 856	2 279
Employee benefits	117	198
Losses carried forward	660	540
Tangible and intangible fixed assets	45	48
Provisions for risks and charges	25	53
Impairment for losses on loans and advances	309	230
Financial instruments at fair value through profit or loss and fair value hedges	296	267
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	342	844
Technical provisions	36	33
Other	26	65
Deferred tax liabilities by type of temporary difference	784	1 152
Employee benefits	6	2
Losses carried forward	0	0
Tangible and intangible fixed assets	103	101
Provisions for risks and charges	0	1
Impairment for losses on loans and advances	17	7
Financial instruments at fair value through profit or loss and fair value hedges	45	48
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	454	776
Technical provisions	87	126
Other	72	89
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 481	1 726
Deferred tax liabilities	409	599
Unused tax losses and unused tax credits*	1 204	1 283

* 2013 figure restated.

- 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 (+55 million euros in 2014) breaks down as follows:
  - an increase in deferred tax assets: +423 million euros;
  - an increase in deferred tax liabilities: +368 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -217 million euros (due primarily to losses carried forward (-203 million euros), impairment relating to losses on loans and advances (-20 million euros), financial instruments at fair value through profit or loss (-15 million euros), provisions for risks and charges (+29 million euros));
  - the decrease in deferred tax assets following changes in the revaluation reserve for available-for-sale financial assets: -8 million euros;
  - the increase in deferred tax assets consequent on movements in the market value of cashflow hedges: +455 million euros;
  - the increase in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: +84 million euros;
  - the increase in deferred tax assets owing to changes in the revaluation reserve for hedges of net investments in foreign operations: +55 million euros.

- The change in deferred tax liabilities was accounted for chiefly by:
  - the increase in deferred tax liabilities via the income statement: +34 million euros (owing primarily to technical provisions (+38 million euros));
  - the increase in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +333 million euros;
  - the decrease in deferred tax liabilities on account of changes in the revaluation reserve for hedges of net investments in foreign operations: -17 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 32: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2013	31-12-2014
Total	**182**	**204**
Overview of investments, including goodwill		
ČMSS	175	175
Other	7	28
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	182	204
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0
MOVEMENTS TABLE	**2013**	**2014**
Opening balance (1 January)	212	182
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	30	25
Capital increase	0	0
Dividends paid	-41	-30
Share of gains and losses not recognised in the income statement	-5	11
Translation differences	-14	0
Changes in goodwill	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0
Other movements	0	16
Closing balance (31 December)	182	204

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- As a result of the retroactive application of IFRS 11, which stipulates that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation, 'Investments in associated companies and joint ventures' is now accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic.
- The following is a summary of financial data for ČMSS on 100% basis at year-ends 2014 and 2013 (in brackets); in millions of euros:
  - Total assets: 3 266 (3 269)
  - Cash and cash equivalents: 149 (84)
  - Financial assets: 3 089 (2 721)
  - Non-financial assets: 28 (464)
  - Financial liabilities: 3 044 (3 047)
  - Non-financial liabilities: 47 (48)
  - Total equity: 175 (175)
  - Total income: 59 (69)
  - Interest income: 113 (122)
  - Interest expense: -68 (-65)
  - Operating expenses: -25 (-28)
  - Impairment: -6 (-6)
  - Income tax expense: -5 (-7)
  - Result after tax: 23 (29)
  - Other comprehensive income: 7 (-19)
  - Total comprehensive income: 31 (10)
- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test was performed and the necessary impairment losses on goodwill recognised (see table).

Note 33: Property and equipment and investment property

(in millions of EUR)	31-12-2013	31-12-2014
Property and equipment	**2 457**	**2 278**
Investment property	**598**	**568**
Rental income	74	66
Direct operating expenses from investments generating rental income	39	18
Direct operating expenses from investments not generating rental income	1	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2013					
Opening balance	1 454	151	965	2 571	638
Acquisitions	20	48	385	452	21
Disposals	-5	-1	-162	-168	-18
Depreciation	-76	-65	-28	-169	-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	-24	0	-8	-32	-1
Changes in the scope of consolidation	14	1	0	15	-11
Other movements	-1	-2	-190	-192	20
Closing balance	1 362	133	962	2 457	598
of which accumulated depreciation and impairment	1 131	333	592	2 056	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
2014					
Opening balance	1 362	133	962	2 457	598
Acquisitions	78	42	321	441	19
Disposals	-152	-1	-126	-279	-49
Depreciation	-72	-55	-27	-154	-28
Impairment					
Recognised	-1	-6	-1	-8	0
Reversed	0	0	0	1	0
Transfers to or from non-current assets held for sale and disposal groups	-20	0	0	-20	0
Translation differences	-4	-1	-2	-7	0
Changes in the scope of consolidation	8	0	0	8	33
Other movements	2	-1	-163	-162	-5
Closing balance	1 202	111	965	2 278	568
of which accumulated depreciation and impairment	1 142	338	624	2 104	328
of which expenditure on items in the course of construction	31	9	22	62	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2014	–	–	–	–	716

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.2 billion euros) recognised for commitments for the acquisition of property and equipment. There were no significant restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on 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
2013					
Opening balance	987	191	117	27	1 322
Acquisitions	0	55	57	4	116
Disposals	0	-17	-5	-1	-24
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-51	-44	-4	-99
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	-1	-1	-26
Changes in the scope of consolidation	0	0	0	0	0
Other movements	-6	2	14	-14	-4
Closing balance	950	180	138	9	1 276
of which accumulated amortisation and impairment	1 202	420	571	52	2 245
2014					
Opening balance	950	180	138	9	1 276
Acquisitions	0	56	91	6	153
Disposals	0	-16	-5	-7	-28
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-59	-50	-1	-110
Impairment					
Recognised	0	-22	-1	0	-23
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	-16	0	-2	0	-18
Changes in the scope of consolidation	0	0	-8	0	-8
Other movements	-1	26	-8	0	17
Closing balance	933	165	153	7	1 258
of which accumulated amortisation and impairment	1 202	497	567	52	2 318

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

Goodwill outstanding (in millions of EUR)	31-12-2013	31-12-2014	Discount rates throughout the specific period of cashflow projections 31-12-2013	Discount rates throughout the specific period of cashflow projections 31-12-2014
K&H Bank	232	219	13.9%–10.2%	11.6%–8.0%
ČSOB (Czech Republic)	232	229	8.9%–8.6%	8.4%–7.8%
ČSOB (Slovakia)	191	191	9.9%–9.1%	8.9%–8.1%
CIBANK	117	117	11.1%–9.4%	9.3%–7.7%
DZI Insurance	108	108	10.6%–8.9%	9.4%–8.1%
Rest	70	69	–	–
Total	950	933	–	–

- The period to which the cashflow budgets and projections relate is 20 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 20-year period is 2%, which is equal to the rate of inflation forecast for that time. This rate of growth was the same as in 2013.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for ČSOB in Slovakia and CIBANK and DZI Insurance in Bulgaria of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit
ČSOB (Slovakia)	1.0%	2.8%	1.0%	3.8%
CIBANK	2.2%	–	3.3%	11.3%
DZI Insurance	4.1%	2.1%	59.8%	9.6%

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.

Note 35: Technical provisions, insurance

(in millions of EUR)	31-12-2013	31-12-2014
Technical provisions (before reinsurance) (i.e. gross figures)	**18 701**	**18 934**
Insurance contracts	9 183	9 757
Provision for unearned premiums and unexpired risk	561	603
Life insurance provision	5 788	6 274
Provision for claims outstanding	2 324	2 360
Provision for profit sharing and rebates	22	18
Other technical provisions	487	502
Investment contracts with DPF	9 518	9 176
Life insurance provision	9 421	9 080
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	97	96
Reinsurers' share	**146**	**194**
Insurance contracts	146	194
Provision for unearned premiums and unexpired risk	1	2
Life insurance provision	1	1
Provision for claims outstanding	144	192
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 2013**	**Reinsurance 2013**	**Gross 2014**	**Reinsurance 2014**
INSURANCE CONTRACTS, LIFE				
Opening balance	6 177	2	6 261	2
Deposits excluding fees	629	0	647	0
Provisions paid	-517	0	-547	0
Accretion of interest	197	0	225	0
Cost of profit sharing	4	0	2	0
Exchange differences	-109	0	-27	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	-120	0	193	0
Closing balance	6 261	2	6 754	2
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	2 633	135	2 922	144
Changes in the provision for unearned premiums	200	0	33	0
Payments regarding claims of previous years	-214	-10	-216	-9
Surplus/shortfall of claims provision in previous financial years	-99	-1	-131	-22
Provision for new claims	325	9	370	100
Exchange differences	-16	-1	-7	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	94	13	32	-21
Closing balance	2 922	144	3 004	192
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	10 394	0	9 518	0
Deposits excluding fees	433	0	517	0
Provisions paid	-948	0	-859	0
Accretion of interest	195	0	199	0
Cost of profit sharing	0	0	0	0
Exchange differences	-4	0	0	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	-551	0	-199	0
Closing balance	9 518	0	9 176	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are 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 are 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 assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions 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 are 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 (annuity payments relating to industrial accident, guaranteed income and hospitalisation insurance) are involved.
- In 2014, 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
2013						
Opening balance	23	305	105	433	92	525
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	0	0	0	0
Changes in the scope of consolidation	0	0	-6	-7	0	-6
Other movements	1	-14	-17	-31	25	-5
Closing balance	19	292	98	409	114	523
2014						
Opening balance	19	292	98	409	114	523
Movements with an impact on results						
Amounts allocated	24	12	235	271	32	304
Amounts used	-8	-80	-194	-282	-3	-285
Unused amounts reversed	-2	-3	-11	-16	-55	-71
Transfers out of/into liabilities associated with disposal groups	2	0	0	2	0	2
Changes in the scope of consolidation	-1	0	0	0	9	9
Other movements	-2	4	16	18	61	79
Closing balance	32	225	144	402	158	560

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions: included those set aside for miscellaneous risks and future expenditure.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow:
  - When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.2 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. On 25 September 2013, KBC was summoned by LBF in London, where LBF filed the claim of 58.2 million US dollars plus interest of 57 million US dollars (calculated to the end of March 2013). In accordance with the way proceedings are conducted in the UK, documents and witness statements have since been exchanged, and this will be followed by an exchange of expert reports. A hearing is scheduled for 22 May 2015 to arrange proceedings, after which the case itself will be heard between 20 and 24 July 2015. An appropriate provision has been set aside to cover this risk.
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous clients suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. Following a ruling by the court of appeal on 27 May 2010, proceedings were restarted. The criminal case resumed in January 2015. Apart from one case, all claims against K&H Equities have been settled either amicably or following an arbitral decision. The one case referred to is pending before the civil court, with adequate provisions having been set aside to cover it and due account taken of the compensation expected from an external insurer.
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the court sitting in chambers in Bruges. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court charged with uttering under ordinary

law and under tax law. The Belgian State lodged an appeal with the Indictments Division in which the oral hearing was held on 13 January 2015. The court's ruling is expected on 31 March 2015. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A suitable provision has been set aside to cover potential damages.
- Possible outflow:
  - On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. Among the issues being addressed by the district court, and presently being briefed, are the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees such as KBC. KBC is participating in that briefing and, together with numerous other defendants, has filed motions for dismissal. District court Judge Jed Rakoff has already made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC). Therefore, the trustee's recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers.
  - Under KBC's divestment programme, various claims were received that were subject to indemnity clauses or reps and warranties under the respective share transfer agreements. A number of these claims are not being disputed and will be honoured, whereas others are either being negotiated or are being dealt with in a disputes procedure. Given that all of these claims combined are just above the 50-million-euro threshold, their existence is being disclosed. However, the assessment of the outflow involved shows that provisioning is not required.

Note 37: Other liabilities

(in millions of EUR)	31-12-2013	31-12-2014
Total	**2 983**	**2 629**
Breakdown by type		
Retirement benefit obligations or other employee benefits	397	657
Deposits from reinsurers	80	67
Accrued charges (other than from interest expenses on financial liabilities)	395	254
Other	2 112	1 650

- For more information on retirement benefit obligations, see Note 38 (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)	31-12-2013	31-12-2014
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 191	2 034
Current service cost	108	98
Interest cost	53	63
Plan amendments		
Actuarial gain or loss resulting from changes in demographic assumptions	-93	26
Actuarial gain or loss resulting from changes in financial assumptions	-110	500
Past-service cost	-2	-1
Benefits paid	-119	-128
Exchange differences	0	7
Curtailments	0	-2
Transfers under IFRS 5	0	16
Changes in the scope of consolidation	0	0
Other	5	-3
Defined benefit obligations at the end of the period	2 034	2 610
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 765	1 818
Actual return on plan assets	60	283
Expected return on plan assets	43	57
Employer contributions	85	87
Plan participant contributions	23	22
Benefits paid	-119	-128
Exchange differences	1	6
Settlements	1	0
Transfers under IFRS 5	0	14
Changes in the scope of consolidation	0	0
Other	1	1
Fair value of plan assets at the end of the period	1 818	2 103
of which financial instruments issued by the group	10	25
of which property occupied by KBC	11	0
Funded status		
Plan assets in excess of defined benefit obligations	-216	-507
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	-216	-507
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-425	-216
Amounts recognised in the income statement	-94	-79
Amounts recognised in other comprehensive income	206	-281
Employer contributions	85	87
Exchange differences	-1	-1
Transfers under IFRS 5	0	-2
Changes in the scope of consolidation	0	0
Other	14	-14
Unfunded accrued/prepaid pension cost at the end of the period	-216	-507

(in millions of EUR)	31-12-2013	31-12-2014
Amounts recognised in the income statement	**94**	**79**
Current service cost	108	98
Past-service cost	-3	-1
Interest cost	11	7
Plan participant contributions	-22	-22
Curtailments	0	-2
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**-206**	**281**
Actuarial gain or loss resulting from changes in demographic assumptions	-93	26
Actuarial gain or loss resulting from changes in financial assumptions	-110	500
Actuarial result on plan assets	-17	-227
Experience adjustments	-5	-5
Other	19	-14
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	3.0%	1.6%
Expected rate of salary increase	3.1%	3.0%
Expected rate of inflation	2.0%	2.0%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	5

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Retirement benefits accrued through employer contributions are currently accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC, which use the services of KBC Asset Management for the investment strategy. In addition, there are a number of closed group insurance schemes from the past that will continue to be funded, the main one being the plan for employees of KBC Insurance (a defined benefit plan for the period of employment up to 1 January 2007).
- KBC Bank Ireland participated in a fully funded defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and the Dublin branch of KBC Bank are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

Additional information regarding retirement benefit obligations

(in millions of EUR)	2010	2011	2012	2013	2014
Changes in main headings in the main table					
Defined benefit obligations	1 645	1 823	2 191	2 034	2 610
Fair value of plan assets	1 439	1 557	1 765	1 818	2 103
Unfunded accrued/prepaid pension cost	-437	-372	-425	-216	-507
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations*					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations	-84	-76	213	-85	-135

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

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Insurance group insurance scheme	KBC Bank Ireland pension plan
Composition (31-12-2013)			
Shares	40%	10%	57%
Bonds	44%	90%	32%
Real estate	12%	0%	2%
Cash	4%	0%	9%
of which illiquid assets	12%	0%	2%
Composition (31-12-2014)			
Shares	39%	10%	36%
Bonds	51%	89%	42%
Real estate	9%	0%	3%
Cash	1%	1%	1%
Investment funds	0%	0%	18%
of which illiquid assets	3%	0%	0%
Contributions expected in 2015 (in millions of EUR)	70	2	3
Nature of pension plan benefits	Capital at retirement age. Death benefit in case of death during active career. Monthly annuity payment in case of work disability.	Capital at retirement age.	Life-long annuity at retirement age. The pension fund was closed on 30 August 2012. Accrued benefits continue to be linked to future salary increases.
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.		Regulated by the Irish Pensions Board. Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Board.
Responsibilities of KBC	To pay adequate contributions in accordance with the plan's funding agreement. To fund the pension plan. To provide annual pension statements to plan participants. To provide information following exit from the plan.		To pay adequate contributions in accordance with the plan's funding agreement.
Risks for KBC	Investment risk and inflation risk.		Investment risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.		Investments in leveraged LDI pooled funds and a greater level of diversification by reducing the overall exposure to shares.
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one.		The trustees agreed to reduce participants' benefits by 0.75% for 2014 to account for the payment of the pension levy enacted by the Irish government.
Funding	Contributions to the plan are calculated using the projected unit method.		Contributions to the plan are calculated using the projected unit method. The pension fund was closed on 30 August 2012. No further accrual of future years of service.
Curtailments and settlements	Not applicable.		The trustees agreed to reduce participants' benefits by 0.75% for 2014 to account for the payment of the pension levy enacted by the Irish government.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 16, extrapolation is applied to flatten the curve for maturities of 20 years and longer.		The Mercer method starts from a self-composed basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Insurance group insurance scheme	KBC Bank Ireland pension plan
Key actuarial assumptions			
Average discount rate	1.61%	1.68%	2.35%
Expected rate of salary increase	3.00%	2.73%	2.50%
Expected inflation rate	2.00%	2.00%	1.50%
Expected rate of increase in pensions	–	–	1.50%
Average duration of the obligations	14.83 years	12.36 years	17 years
Weighted average duration of the obligations	12.96 years	12.97 years	27 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement obligations			
Increase in the retirement obligations on 31-12-2014 consequent on:			
a decrease of 1% in the discount rate	14.32%	12.30%	31.39%
an increase of 1% in the expected inflation rate	11.81%	11.75%	23.58%
an increase that is 1% higher than the expected rate of increase in salary	15.14%	25.12%	8.44%
the age of retirement being 65 for all active employees	2.23%	0.94%	–
an increase of one year in life expectancy	–	–	2.98%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital so longevity risk is immaterial. Staff turnover rates, since the expected rate is very low.		Not applicable.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS

	KBC pension fund
Contributions expected in 2015 (in millions of EUR)	20
Nature of pension plan benefits	Capital at retirement age. Vested rights are paid out on death.
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 3.75% on employee contributions.
Responsibilities of KBC	To provide information following exit from the plan. To deposit employee contributions at the pension institution.
Risks for KBC	Investment risk.
Funding	Contributions to the plan are calculated using the fixed component liability method.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 16, extrapolation is applied to flatten the curve for maturities of 20 years and longer.
Key actuarial assumptions	
Average discount rate	1.46%
Expected rate of salary increase	–
Expected inflation rate	–
Expected rate of increase in pensions	–
Average duration of the obligations	11.42 years
Weighted average duration of the obligations	11.38 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2014 consequent on:	
a decrease of 1% in the discount rate	10.15%
an increase of 1% in the expected inflation rate	–
an increase that is 1% higher than the expected real increase in salary	–
the age of retirement being 65 for all active employees	2.04%
an increase of one year in life expectancy	–

Note 39: Parent shareholders' equity, non-voting core-capital securities and additional tier-1 instruments

Quantities	31-12-2013	31-12-2014
Ordinary shares	**417 364 358**	**417 780 658**
of which ordinary shares that entitle the holder to a dividend payment	*417 364 358*	*417 780 658*
of which treasury shares	*802*	*488*
Mandatorily convertible bonds	**0**	**0**
Non-voting core-capital securities	**79 096 044**	**67 796 608**
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**
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
2014		
Opening balance	417 364 358	79 096 044
Issue of shares	416 300	–
Reimbursement of core-capital securities	–	-11 299 436
Closing balance	417 780 658	67 796 608

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on NYSE Euronext Brussels. Due to the insignificant volume of trading in the share on the Luxembourg Stock Exchange, the decision was taken to cease listing on that market at the end of September.
- Capital increases: the group increased its equity by 13 million euros in December 2013 and 14 million euros in December 2014 by issuing new shares following the capital increase reserved for staff. For more information, see the 'Company annual accounts' section.
- Treasury shares: at year-end 2014, KBC group companies held 488 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.
- 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. 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). On 8 January 2014, KBC repaid 0.33 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2014). KBC aims to pay back the remaining balance of 2 billion euros (plus penalties) by the end of 2017 at the latest (subject to the customary approval of the regulator).
- Additional tier-1 instruments: in March 2014, KBC issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities. These securities qualify as additional tier-1 capital under Basel III (as adopted in CRD IV) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption from year five onwards. Since they are classified as shares under IAS 32 (because interest payments are discretionary and the securities are perpetual), the annualised coupon of 5.625% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.
- Trust preferred securities: 358 million euros at year-end 2013 and 0 million euros at year-end 2014. These securities were issued in 1999 by KBC Funding Trust(s) for an initial equivalent value totalling 1.5 billion euros. They are perpetual hybrid debt instruments that count as innovative hybrid tier-1 instruments. A large amount in trust preferred securities had already been bought back in the past, and KBC called all its remaining securities for redemption in 2014 (total amount of 0.4 billion euros).

Other notes

Note 40: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2013	31-12-2014
Credit commitments – undrawn amount		
Given	24 463	31 520
Irrevocable	16 048	17 520
Revocable	8 415	14 000
Received	91	33
Financial guarantees		
Given	10 397	9 985
Guarantees/collateral received	35 738	30 385
For impaired and past due assets	2 774	1 741
For assets that are not impaired or past due	32 964	28 644
Other commitments		
Given	7	186
Irrevocable	7	186
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged by KBC as collateral		
For liabilities*	25 655	30 841
For contingent liabilities	2 657	3 969

* At year-end 2014, some 9.2 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (8.1 billion euros at year-end 2013). More information on covered bonds is provided under 'Liquidity risk' in the 'Risk management' section.

- Fair value of financial guarantees: based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all of the liabilities referred to in Section 5 (c) of the Irish Companies (Amendment) Act 1986 of the following Irish companies in respect of the financial year ending on 31 December 2014, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:
  - KBC Financial Services (Ireland) Limited;
  - KBC Fund Management Limited.

  Since these companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). 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	
	31-12-2013	31-12-2014	31-12-2013	31-12-2014
Financial assets	8 818	15 450	6 603	5 208
Equity instruments	2	7	0	0
Debt instruments	8 630	15 297	6 603	5 208
Loans and advances	185	146	0	0
Cash	0	0	0	0
Other	2	2	0	0
Property and equipment	2	2	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession (in millions of EUR)	31-12-2013	31-12-2014
Non-current assets held for sale	2	1
Property and equipment	0	0
Investment property	1	2
Equity instruments and debt securities	0	0
Cash	173	89
Other	25	26
Total	201	118

Note 41: Leasing

(in millions of EUR)	31-12-2013	31-12-2014
Finance lease receivables		
Gross investment in finance leases, receivable	4 652	4 774
At not more than one year	1 119	1 133
At more than one but not more than five years	2 320	2 376
At more than five years	1 213	1 265
Unearned future finance income on finance leases	651	636
Net investment in finance leases	4 044	4 138
At not more than one year	978	999
At more than one but not more than five years	2 046	2 105
At more than five years	1 020	1 034
of which unguaranteed residual values accruing to the benefit of the lessor	22	23
Accumulated impairment for uncollectable lease payments receivable	137	120
Contingent rents recognised in the income statement	105	101
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	429	407
At not more than one year	135	148
At more than one but not more than five years	277	250
At more than five years	17	9
Contingent rents recognised in the income statement	1	1

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

Note 42: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2013 Subsidiaries	2013 Associated companies	2013 Joint ventures	2013 Flemish Region	2013 Other	2013 Total	2014 Subsidiaries	2014 Associated companies	2014 Joint ventures	2014 Flemish Region	2014 Other	2014 Total
Assets	299	118	97	852	44	1 410	207	233	81	548	179	1 248
Loans and advances	85	55	87	0	41	268	70	159	64	0	175	467
Current account advances	0	0	0	0	8	8	0	0	0	0	145	145
Term loans	85	55	86	0	33	259	69	158	64	0	30	322
Finance leases	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
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	131	39	5	0	0	176	136	68	17	0	0	221
Held for trading	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	131	39	5	0	0	175	136	68	17	0	0	221
Other amounts receivable	83	24	5	852	3	967	2	6	0	548	4	560
Liabilities	535	124	878	0	146	1 683	547	123	782	0	184	1 636
Deposits	531	14	823	0	142	1 509	543	15	782	0	181	1 522
Deposits	528	14	823	0	142	1 507	543	15	782	0	181	1 522
Other	2	0	0	0	0	2	0	0	0	0	0	0
Other financial liabilities	0	0	55	0	0	55	0	0	0	0	0	0
Debt certificates	0	0	55	0	0	55	0	0	0	0	0	0
Subordinated liabilities	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
Share-based payments (exercised)	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	4	110	1	0	4	119	3	108	0	0	3	114
Income statement	11	-4	-7	25	26	50	-3	-1	-10	24	-6	3
Net interest income	5	-1	-9	25	31	50	3	0	-8	24	0	20
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	2	6	0	0	8	1	5	0	0	2	8
Net fee and commission income	2	-1	-4	0	0	-2	0	-1	-3	0	-2	-6
Other net income	22	0	0	0	0	22	3	1	0	0	1	5
General administrative expenses	-18	-4	0	0	-5	-27	-11	-6	0	0	-7	-25
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)*	2013	2014
Total*	**10**	**11**
Breakdown by type of remuneration		
Short-term employee benefits	9	9
Post-employment benefits	1	2
Defined benefit plans	1	2
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	1
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	3	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 includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Flemish Region: considered in the strict sense only (i.e. excluding companies it controls). 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 significant transactions with associated companies other than those shown in the table.
- Key management: the members of the Board of Directors and Group Executive Committee. 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'.
- There were no significant impairment charges vis-à-vis related parties.

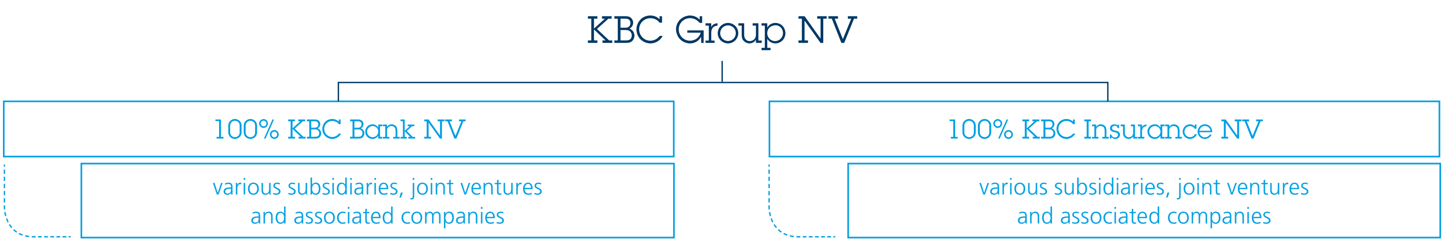
Note 43: Statutory auditor's remuneration

In 2014, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 9 621 322 euros for standard audit services (10 228 937 euros in 2013). Remuneration paid for other services came to 1 628 013 euros in 2014 (1 108 435 euros in 2013) and comprised 979 261 euros for other certifications, 92 868 euros for tax advice and 555 884 euros for other non-audit assignments (843 664, 50 994 and 213 777 euros, respectively, in 2013).

In 2014, KBC Group NV alone paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 149 124 euros for standard audit services. Remuneration paid for non-standard audit services came to 113 144 euros.

Note 44: Subsidiaries, joint ventures and associated companies at year-end 2014

The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV, each of which has several subsidiaries and sub-subsidiaries.



Complete list of companies of KBC Group NV included in or excluded from the scope of consolidation at year-end 2014

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
KBC Bank: subsidiaries that are fully consolidated					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
Almafin Real Estate NV	Brussels – BE	0403.355.494	100.00	BEL	real estate
Almafin Real Estate Services NV	Brussels – BE	0416.030.525	100.00	BEL	real estate
Immo Arenberg NV	Brussels – BE	0471.901.337	100.00	BEL	real estate
Antwerp Diamond Bank NV	Antwerp – BE	0404.465.551	100.00	GRP	credit institution
ADB Asia Pacific Limited	Singapore – SG	--	100.00	GRP	credit institution
Banque Diamantaire (Suisse) SA	Geneva – CH	--	100.00	GRP	credit institution
Apitri NV	Brussels – BE	0469.889.873	100.00	BEL	real estate
CBC Banque SA	Brussels – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IMA	credit institution
ČSOB Centrála, s.r.o.	Bratislava – SK	--	100.00	IMA	facilities management and support services
ČSOB Factoring a.s.	Bratislava – SK	--	100.00	IMA	factoring
ČSOB Leasing a.s.	Bratislava – SK	--	100.00	IMA	leasing
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava – SK	--	100.00	IMA	leasing support
ČSOB Stavebná Sporitel'ňa a.s.	Bratislava – SK	--	100.00	IMA	building society
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZR	credit institution
Bankovní Informační Technologie s.r.o.	Prague – CZ	--	100.00	CZR	automatic data processing
Centrum Radlická a.s.	Prague – CZ	--	100.00	CZR	real estate
ČSOB Advisory a.s.	Prague – CZ	--	100.00	CZR	investment administration
ČSOB Factoring a.s.	Prague – CZ	--	100.00	CZR	factoring
ČSOB Leasing a.s.	Prague – CZ	--	100.00	CZR	leasing
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague – CZ	--	100.00	CZR	leasing support
ČSOB Penzijní společnost a.s.	Prague – CZ	--	100.00	CZR	pension insurance fund
ČSOB Property Fund a.s.	Prague – CZ	--	100.00	CZR	real estate fund
Merrion Properties a.s.	Prague – CZ	--	100.00	CZR	real estate
Hypoteční banka a.s.	Prague – CZ	--	100.00	CZR	mortgage credit institution
Radlice Rozvojava a.s.	Prague - CZ	--	100.00	CZR	real estate
CIBANK EAD	Sofia – BG	--	100.00	IMA	credit institution
Management of Assets for Sale – 2 EOOD	Sofia – BG	--	100.00	IMA	real estate
Katarino Spa Hotel EAD	Sofia – BG	--	100.00	IMA	real estate
IIB Finance Ireland	Dublin – IE	--	100.00	GRP	holding company
KBC Finance Ireland	Dublin – IE	--	100.00	GRP	lending
KBC Financial Services (Ireland) Limited	Dublin – IE	--	100.00	GRP	holding company
Immo-Quinto NV	Brussels – BE	0466.000.470	100.00	BEL	real estate
Julienne Holdings S.à.r.l.	Luxembourg – LU	--	93.00	BEL	holding company
Julie LH BVBA	Brussels – BE	0890.935.201	93.00	BEL	real estate
Juliette FH BVBA	Brussels – BE	0890.935.397	93.00	BEL	real estate
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Asset Management SA	Luxembourg – LU	--	100.00	BEL	asset management
KBC Fund Management Limited	Dublin – IE	--	100.00	BEL	asset management
KBC Participations Renta B	Luxembourg – LU	--	100.00	BEL	asset management
KBC Participations Renta C	Luxembourg – LU	--	100.00	BEL	asset management
ČSOB Asset Management, a.s., Investiční Společnost	Prague – CZ	--	100.00	CZR	asset management
KBC Participations Renta SA	Luxembourg – LU	--	100.00	BEL	asset management
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsaw – PL	--	100.00	IMA	asset management
KBC Bank Ireland Plc.	Dublin – IE	--	100.00	IMA	credit institution
Boar Lane Nominee (Number 1) Limited	Dublin – IE	--	100.00	IMA	*
Boar Lane Nominee (Number 2) Limited	Dublin – IE	--	100.00	IMA	*
Boar Lane Nominee (Number 3) Limited	Dublin – IE	--	100.00	IMA	*
Danube Holdings Limited	Dublin – IE	--	100.00	IMA	real estate
Fermion Limited	Dublin – IE	--	100.00	IMA	mortgages management
Glare Nominee Limited	Dublin – IE	--	100.00	IMA	*
IIB Finance Limited	Dublin – IE	--	100.00	IMA	commercial and financial services
IIB Asset Finance Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Commercial Finance Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Leasing Limited	Dublin – IE	--	100.00	IMA	leasing
Lease Services Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Homeloans and Finance Limited	Dublin – IE	--	100.00	IMA	holding company
KBC Homeloans and Finance Limited	Dublin – IE	--	100.00	IMA	holding company
Premier Homeloans Limited	Surrey – GB	--	100.00	IMA	home loans

Complete list of companies of KBC Group NV included in or excluded from the scope of consolidation at year-end 2014

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
Intercontinental Finance	Dublin – IE	--	100.00	IMA	leasing
Irish Homeloans and Finance Limited	Dublin – IE	--	100.00	IMA	real estate
KBC ACS Limited	Dublin – IE	--	100.00	IMA	*
KBC Mortgage Finance	Dublin – IE	--	100.00	IMA	mortgage financing
KBC Nominees Limited	Dublin – IE	--	100.00	IMA	*
Linkway Developments Limited	Dublin – IE	--	100.00	IMA	*
Merrion Commercial Leasing Limited	Surrey – GB	--	100.00	IMA	leasing
Merrion Equipment Finance Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Assets Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Finance Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Industrial Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Limited	Surrey – GB	--	100.00	IMA	*
Merrion Leasing Services Limited	Surrey – GB	--	100.00	IMA	leasing
Monastersky Limited	Dublin – IE	--	100.00	IMA	holding company
Needwood Properties Limited	Dublin – IE	--	100.00	IMA	real estate
Phoenix Funding 2 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 3 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 4 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 5 Limited	Dublin – IE	--	100.00	IMA	securitisation
Rolata Limited	Douglas – IM	--	100.00	IMA	investment
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC Credit Investments NV	Brussels – BE	0887.849.512	100.00	BEL/GRP	investment firm
KBC Financial Products UK Limited	London – GB	--	100.00	GRP	(derivative) financial products
KBC Financial Products Hong Kong Limited	Hong Kong – HK	--	100.00	GRP	(derivative) financial products
KBC Financial Holding Inc.	Wilmington – US	--	100.00	GRP	holding company
KBC Financial Products (Cayman Islands) Limited 'Cayman I'	George Town – KY	--	100.00	GRP	stockbroker
Pacifica Group LLC	New York – US	--	100.00	GRP	derivatives trading
Midas Life Settlements LLC	Delaware – US	--	100.00	GRP	life settlement service provider
Reverse Mortgage Loan Trust 2008-1	New York – US	--	100.00	GRP	reverse mortgages
World Alliance Financial Corporation	New York – US	--	100.00	GRP	reverse mortgages
KBC Financial Products International SA	Luxembourg – LU	--	100.00	GRP	stockbroker
KBC Investments Hong Kong Limited	Hong Kong – HK	--	100.00	GRP	stockbroker
KBC Investments Limited	London – GB	--	100.00	GRP	stockbroker
111 OBS (General Partner) Limited	London – GB	--	100.00	GRP	real estate
Baker Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Dorset Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Hanover Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
KBC AIM Feeder Fund	George Town – KY	--	100.00	GRP	fund
KBC AIM Master Fund	George Town – KY	--	100.00	GRP	fund
KBC Investments Cayman Islands V Limited	George Town – KY	--	100.00	GRP	fund
Pembridge Square Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Regent Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
Sydney Street Finance Limited	Jersey – GB	--	100.00	GRP	CDO activities
KBC IFIMA SA	Luxembourg – LU	--	100.00	GRP	financing
KBC Lease Holding NV	Leuven – BE	0403.272.253	100.00	BEL	leasing
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Lease (Luxembourg) SA	Bertrange – LU	--	100.00	BEL	leasing
KBC Bail Immobilier France sas	Lille – FR	--	100.00	BEL	leasing
KBC Immolease NV	Leuven – BE	0444.058.872	100.00	BEL	leasing
KBC Lease Belgium NV	Leuven – BE	0426.403.684	100.00	BEL	leasing
KBC Lease France SA	Lyon – FR	--	100.00	GRP	leasing
KBC Lease (UK) Limited	Surrey – GB	--	100.00	GRP	leasing
RSL Leasing IFN SA	Bucharest – RO	--	100.00	GRP	leasing
Kredietbank North American Finance Corp	Delaware – US	--	100.00	GRP	issuance of bonds
KBC Real Estate Luxembourg SA	Luxembourg – LU	--	100.00	BEL	real estate
KBC Vastgoedinvesteringen NV	Brussels – BE	0455.916.925	100.00	BEL	real estate
KBC Vastgoedportefeuille België NV	Brussels – BE	0438.007.854	100.00	BEL	real estate
Apicing NV	Brussels – BE	0469.891.457	100.00	BEL	real estate
KBC Rusthuisvastgoed NV	Brussels – BE	0864.798.253	100.00	BEL	real estate
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
Patria Online a.s.	Prague – CZ	--	100.00	CZR	online investment data

Complete list of companies of KBC Group NV included in or excluded from the scope of consolidation at year-end 2014

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
Patria Finance a.s.	Prague – CZ	--	100.00	CZR	online securities trading
Patria Finance CF a.s.	Prague – CZ	--	100.00	CZR	agent and consulting services
K&H Bank Zrt.	Budapest – HU	--	100.00	IMA	credit institution
K&H Befektetési Alapkezelő Zrt.	Budapest – HU	--	100.00	IMA	securities broking and fund management
K&H Csoportszolgáltató Központ Kft.	Budapest – HU	--	100.00	IMA	accounting and tax collection
K&H Equities Tanácsadó Zrt.	Budapest – HU	--	100.00	IMA	business and management advice
K&H Faktor Pénzügyi Szolgáltató Zrt.	Budapest – HU	--	100.00	IMA	factoring
K&H Alkusz Biztosításközvetítő Kft.	Budapest – HU	--	100.00	IMA	insurance broker
K&H Autópark Bérleti és Szolgáltató Kft.	Budapest – HU	--	100.00	IMA	fleet management
K&H Eszközlizing Gép-és Tehergépjármö Bérleti Kft.	Budapest – HU	--	100.00	IMA	leasing
K&H Ingatlanlizing Zrt.	Budapest – HU	--	100.00	IMA	leasing
Loan Invest NV 'Institutional company for investment in receivables under Belgian law'	Brussels – BE	0889.054.884	100.00	BEL	securitisation vehicle
Mechelen City Center NV	Brussels – BE	0471.562.332	100.00	BEL	real estate
Old Broad Street Invest NV	Brussels – BE	0871.247.565	100.00	GRP	real estate
111 OBS Limited Partnership	London – GB	--	100.00	GRP	real estate
Poelaert Invest NV	Brussels – BE	0478.381.531	100.00	BEL	real estate
KBC Bank: subsidiaries that are not fully consolidated					
111 OBS (Nominee) Limited[1]	London – GB	--	100.00	BEL	real estate
2 B Delighted Italia Srl[1]	Turin – IT	--	99.58	GRP	lighting
2 B Delighted NV[1]	Roeselare – BE	0891.731.886	99.58	GRP	lighting
Wever & Ducré NV[1]	Roeselare – BE	0412.881.191	99.58	GRP	lighting
Asia Pacific Trading & Investment Co Limited[1]	Hong Kong – HK	--	99.58	GRP	lighting
Dark NV[1]	Roeselare – BE	0472.730.389	99.58	GRP	lighting
Limis Beyond Light NV[1]	Roeselare – BE	0806.059.310	99.58	GRP	lighting
Wever & Ducré BV[1]	The Hague – NL	--	99.58	GRP	lighting
Wever & Ducré GmbH[1]	Herzogenrath – DE	--	99.58	GRP	lighting
Wever & Ducré Iluminación SL[1]	Madrid – ES	--	99.58	GRP	lighting
Almaloisir & Immobilier sas[1]	Nice – FR	--	100.00	BEL	real estate
Brussels North Distribution NV[1]	Brussels – BE	0476.212.887	100.00	BEL	real estate
ČSOB Nadácia[1]	Bratislava – SK	--	100.00	IMA	real estate
De Klinckaert NV[2]	Brussels – BE	0539.765.408	100.00	BEL	issuance of real estate certificates
Eurincasso s.r.o.[1]	Prague – CZ	--	100.00	CZR	debt collection
Fitraco NV[1]	Leuven – BE	0425.012.626	100.00	BEL	leasing
Immo-Antares NV[2]	Brussels – BE	0456.398.361	100.00	BEL	issuance of real estate certificates
Immo-Basilix NV[2]	Brussels – BE	0453.348.801	100.00	BEL	issuance of real estate certificates
Immo-Beaulieu NV[2]	Brussels – BE	0450.193.133	50.00	BEL	issuance of real estate certificates
Immobilière Distri-Land NV[2]	Brussels – BE	0436.440.909	87.52	BEL	issuance of real estate certificates
Immo Genk-Zuid NV[2]	Brussels – BE	0464.358.497	100.00	BEL	issuance of real estate certificates
Immolease-Trust NV[1]	Brussels – BE	0406.403.076	100.00	BEL	real estate
Immo Lux-Airport SA[2]	Luxembourg – LU	--	100.00	BEL	issuance of real estate certificates
Immo-Marcel Thiry NV[2]	Brussels – BE	0450.997.441	100.00	BEL	issuance of real estate certificates
Immo NamOtt NV[2]	Brussels – BE	0840.412.849	100.00	BEL	issuance of real estate certificates
Immo NamOtt Tréfonds NV[2]	Brussels – BE	0840.620.014	100.00	BEL	issuance of real estate certificates
Immo-Zénobe Gramme NV[2]	Brussels – BE	0456.572.664	100.00	BEL	issuance of real estate certificates
IP Exit, a.s.[2]	Prague – CZ	--	71.30	CZR	*
KB-Consult NV[1]	Brussels – BE	0437.623.220	100.00	BEL	*
KBC Bail France II sas[1]	Lyon – FR	--	100.00	GRP	leasing
KBC Clearing NV[1]	Amsterdam – NL	--	100.00	BEL	clearing house
KBC Lease (Nederland) BV[1]	Almere – NL	--	100.00	GRP	leasing
KBC Private Equity NV[1]	Brussels – BE	0403.226.228	100.00	GRP	investment firm
KBC Securities USA, Inc.[1]	New York – US	--	100.00	GRP	stockbroker
Luxembourg North Distribution SA[2]	Luxembourg – LU	--	100.00	BEL	issuance of real estate certificates
Motokov a.s.[1]	Prague – CZ	--	70.09	CZR	vehicles
Newcourt Street Finance Limited[1]	Jersey – GB	--	100.00	GRP	CDO activities
Novoli Investors BV[1]	Amsterdam – NL	--	83.33	BEL	real estate
NV ACTIEF NV[1]	Brussels – BE	0824.213.750	57.14	BEL	training
Oxford Street Finance Limited[1]	Jersey – GB	--	100.00	GRP	CDO activities
Posselton Limited[1]	Dublin – IE	--	100.00	GRP	energy
Property LM s.r.o.[1]	Bratislava – SK	--	100.00	CZR	real estate
Quietas NV[2]	Brussels – BE	0539.764.121	100.00	BEL	issuance of real estate certificates

Complete list of companies of KBC Group NV included in or excluded from the scope of consolidation at year-end 2014

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
Rodenbach NV[2]	Brussels – BE	0539.765.012	100.00	BEL	issuance of real estate certificates
Ruscus sp. z o. o.[1]	Warsaw – PL	--	80.00	BEL	real estate leasing
Securitas sam[1]	Monaco – MC	--	100.00	GRP	leasing
Sisyphus Holding Corporation[1]	Delaware – US	--	100.00	GRP	holding company
Setanta Energy LLC[1]	Delaware – US		100.00	GRP	energy
Spanjeberg NV[2]	Brussels – BE	0539.764.814	100.00	BEL	issuance of real estate certificates
TEE Square Limited[1]	Road Town – VG	--	100.00	CZR	*
Ter Bake NV[2]	Brussels – BE	0539.764.517	100.00	BEL	issuance of real estate certificates
Transformation fund Stabilita[1]	Prague – CZ	--	100.00	CZR	pension insurance
Vastgoed Ruimte Noord NV[1]	Brussels – BE	0863.201.515	100.00	BEL	real estate
Weyveld Vastgoedmaatschappij NV[2]	Brussels – BE	0425.517.818	100.00	BEL	Issuance of real estate certificates
Willowvale Company[1]	Dublin – IE	--	99.99	GRP	real estate
KBC Bank: joint ventures accounted for using the equity method					
Českomoravská Stavební Spořitelna (ČMSS)	Prague – CZ	--	55.00	CZR	building society
Union KBC Asset Management Company Private Limited	Mumbai – IN	--	49.00	BEL	asset management
KBC Bank: joint ventures not accounted for using the equity method[1]					
Atrium Development SA	Luxembourg – LU	--	25.00	BEL	real estate
Covent Garden Development NV	Brussels – BE	0892.236.187	25.00	BEL	real estate
Covent Garden Real Estate NV	Zaventem – BE	0872.941.897	50.00	BEL	real estate
Immobiliare Novoli SpA	Florence – IT	--	45.00	BEL	real estate
Immo VAC Gent NV	Brussels – BE		50.00	BEL	real estate
Jesmond Amsterdam BV	Amsterdam – NL	--	50.00	BEL	holding company
Miedziana Sp z.o.o.	Warsaw – PL	--	47.75	BEL	real estate
Real Estate Participation NV	Zaventem – BE	0473.018.817	50.00	BEL	real estate
Sandonato Parcheggi Srl	Florence – IT	--	44.98	BEL	real estate
Sandonato Srl	Florence – IT	--	44.98	BEL	real estate
UNION KBC Trustee Company Private Limited	Mumbai – IN	--	49.00	BEL	trustee
Xiongwei Lighting (Guangzhou) Co., Ltd	Guangzhou – CY	--	49.79	GRP	lighting
KBC Bank: associated companies accounted for using the equity method					
HAGE Hajdúsági Agráripari Zrt.	Nádudvar – HU	--	25.00	IMA	agriculture
KBC Bank: associated companies not accounted for using the equity method[1]					
Bancontact-MisterCash NV	Brussels – BE	0884.499.250	20.00	BEL	credit cards
Banking Funding Company NV	Brussels – BE	0884.525.182	20.22	BEL	payment atransactions
Bedrijvencentrum Regio Roeselare NV	Roeselare – BE	0428.378.724	22.22	BEL	business centre
Brussels I3 Fund NV	Brussels – BE	0477.925.433	36.37	BEL	private equity funds
Cofely Ren s.r.o.	Prague – CZ	--	42.82	CZR	lease
Consorzio Sandonato Est	Florence – IT	--	20.32	BEL	real estate
Czech Banking Credit Bureau a.s.	Prague – CZ	--	20.00	CZR	ICT
Etoiles d'Europe sas	Paris – FR	--	45.00	BEL	hotels
Gemma Frisius-Fonds K.U. Leuven	Leuven – BE	0477.960.372	40.00	BEL	venture capital
Isabel NV	Brussels – BE	0455.530.509	25.33	BEL	ICT
Justinvest NV	Antwerp – BE	0476.658.097	33.33	BEL	real estate
První Certifikačni Autorita a.s.	Prague – CZ	--	23.25	CZR	certification services
Qbic Feeder Fund NV	Brussels – BE	846.493.561	22.26	BEL	venture capital
Rabot Invest NV	Antwerp – BE	0479.758.733	25.00	BEL	real estate
Xenarjo CVBA	Mechelen – BE	0899.749.531	22.75	BEL	social sector
KBC Insurance: subsidiaries that are fully consolidated					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.350	100.00	BEL	insurance broking
KBC Group Re SA	Luxembourg – LU	--	100.00	BEL/GRP	reinsurance company
Anglesea Financial Products Limited	Dublin – IE	--	100.00	BEL	*
KBC Financial Indemnity Insurance SA	Luxembourg – LU	--	100.00	BEL	*
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	100.00	CZR	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	--	100.00	IMA	insurance company
Double U Building BV	Rotterdam – NL	--	100.00	BEL	real estate
DZI Life Insurance Jsc	Sofia – BG	--	100.00	IMA	life insurance
DZI – GENERAL INSURANCE JSC	Sofia – BG	--	100.00	IMA	non-life insurance
DZI – HEALTH INSURANCE AD	Sofia – BG	--	100.00	IMA	health insurance
Groep VAB NV	Zwijndrecht – BE	0456.267.594	95.00	BEL	holding company
VAB Rijschool NV	Sint-Niklaas – BE	0448.109.811	95.00	BEL	driving school
VAB NV	Zwijndrecht – BE	0436.267.594	95.00	BEL	roadside assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	IMA	insurance company

Complete list of companies of KBC Group NV included in or excluded from the scope of consolidation at year-end 2014

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam – NL	--	100.00	BEL	real estate
KBC Insurance: subsidiaries that are not fully consolidated[1]					
Almarisk NV	Merelbeke – BE	0420.104.030	100.00	BEL	insurance broker
Banden Peeters Overijse BVBA	Overijse – BE	0459.070.118	80.81	BEL	vehicles
ČSOB Insurance Service Limited	Pardubice – CZ	--	100.00	IMA	insurance broker
Depannage 2000 NV	Hoboken – BE	0403.992.429	95.00	BEL	vehicles
Eeman P. BVBA	Sint-Niklaas – BE	0411.530.319	95.00	BEL	vehicles
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100.00	BEL	insurance broker
Maatschappij voor Brandherverzekering CVBA	Leuven – BE	0403.552.761	90.09	BEL	reinsurance
Net Fund Administration Sp z.o.o.	Warsaw – PL	--	100.00	GRP	asset management
Omnia NV	Leuven – BE	0413.646.305	100.00	BEL	travel agency
Probemo Dubbele Bedieningen NV	Sint-Niklaas – BE	0435.357.180	95.00	BEL	driving school
PTE Warta SA	Warsaw – PL	--	100.00	GRP	pension fund
Rijscholen Sanderus NV	Mechelen – BE	0413.004.719	95.00	BEL	driving school
VAB Fleet Services NV	Zwijndrecht – BE	0866.583.053	66.50	BEL	vehicles
VAB Fleet Services BV	Apeldoorn – NL	--	66.50	BEL	vehicles
24+ NV	Zwijndrecht – BE	0895.810.836	97.50	BEL	insurance broker
KBC Insurance: joint ventures accounted for using the equity method					
NLB Vita d.d.	Ljubljana – SI	--	50.00	GRP	life insurance
KBC Insurance: joint ventures not accounted for using the equity method[1]					
Sepia NV	Brussels – BE	0403.251.467	50.00	BEL	insurance company
KBC Insurance: associated companies accounted for using the equity method					
–					
KBC Insurance: associated companies not accounted for using the equity method[1]					
AIA-Pool cvba	Brussels – BE	0453.634.752	33.47	BEL	insurance broker
AssurCard NV	Leuven – BE	0475.433.127	33.33	BEL	automated third-party payment system
Optimobil Belgium NV	Brussels – BE	0471.868.277	24.06	BEL	vehicles
Traject NV	Ghent – BE	0448.394.475	47.50	BEL	mobility
KBC Group: subsidiaries that are fully consolidated					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
Kredietcorp SA	Luxembourg – LU	--	100.00	GRP	investment firm
KBC Group: subsidiaries that are not fully consolidated[1]					
–					
KBC Group: joint ventures accounted for using the equity method					
–					
KBC Group: joint ventures not accounted for using the equity method[1]					
–					
KBC Group: associated companies accounted for using the equity method					
–					
KBC Group: associated companies not accounted for using the equity method[1]					
–					

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

Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:
- the group share in equity exceeds 2.5 million euros;
- the group share in the results exceeds 1 million euros;
- the balance sheet total exceeds 100 million euros.

The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.

- As set out in the accounting policies, all (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see table below). A number of structured entities meet only one of these criteria, which means that (as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total) these entities are not effectively consolidated. This relates chiefly to the structured entities set up for the remaining CDO activities. Please note that these entities only exceed one threshold (balance sheet total) since their equity and net results are always very limited. However, the remaining CDO-related results are recorded under the KBC Financial Products group, which is, of course, consolidated. Consequently, excluding these structured entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.

- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Certain structured entities that are included in the scope of consolidation are subject to significant restrictions. In the past, KBC initiated a number of CDO and RMBS note issues, in each case through a structured entity established for the sole purpose of entering into the relevant transaction (collectively referred to as the 'vehicles' and the 'transactions'). Each of the vehicles invested the proceeds of its notes issue in order to collateralise its obligations under both the notes and a portfolio credit default swap. All shares in the vehicles are wholly owned by a trust company. Nevertheless, the vehicles are consolidated in KBC based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC's ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the group. All the assets of the vehicles are assigned to the security trustee (for itself and as trustee for the holders of the notes) as continuous security for the payment and discharge of the obligations of the vehicles under the notes. Unless explicitly authorised by the agreements or unless the security trustee provides consent in writing beforehand, neither the vehicle nor KBC Bank as administrator can access, transfer or use the cash or other assets of the vehicles to settle liabilities of other KBC-group entities.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in joint ventures and associated companies
    - For a summary of the financial information on ČMSS, see Note 32.
    - No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 27 unconsolidated structured entities established for that purpose. Between 2006 and 2010, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2014, the assets under management at these entities amounted to 17.2 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
    - At year-end 2014, KBC had received income from unconsolidated structured entities in the form of management fees (66 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - At year-end 2014, KBC held 6.7 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 6.5 billion euros and comprised mainly term deposits (5.6 billion euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.

Note 45: Main changes in the scope of consolidation

Company	Direct parent company	Consolidation method	Ownership percentage at group level		Remarks
			31-12-2013	31-12-2014	
Additions					
None					
Exclusions					
Absolut Bank	KBC Bank NV	Full	–	–	Sold in 2Q 2013
KBC Banka A.D.	KBC Insurance NV	Full	–	–	Sold in 4Q 2013
KBC Bank Deutschland AG	KBC Bank NV	Full	100.00%	–	Sold in 3Q 2014
Transformation Fund Stabilita	ČSOB	Full	100.00%	–	Deconsolidated in 3Q 2014
Name changes					
KBC IFIMA SA	KBC Bank NV	Full	100.00%	100.00%	Former name: KBC Internationale financierings-maatschappij NV
Changes in ownership percentage and internal mergers					
KBC Consumer Finance NV	KBC Bank NV	Full	100.00%	–	Merged with KBC Bank NV on 1 January 2014

Note 46: Non-current assets held for sale and discontinued operations (IFRS 5)

- Main companies falling under the scope of IFRS 5:
  - At year-end 2013: Antwerp Diamond Bank and KBC Bank Deutschland.
  - At year-end 2014: none (sale of KBC Bank Deutschland was completed; see below concerning Antwerp Diamond Bank).
  - None of these entities is classified as a 'discontinued operation', since they do not represent a separate major line of business or geographical area of operations within KBC as a whole.
- Since the previously announced sale of Antwerp Diamond Bank (ADB) to Yinren Group did not go through, it was decided to run down the loan portfolio and activities of ADB in a gradual and orderly manner and not to grant any further loans or to develop any new business. The run-down is being carried out by means of a merger, through which ADB is absorbed by KBC Bank NV. Pursuant to the applicable IFRS accounting rules, the impairment charges taken on the sale of ADB in 2012 and 2013 were reversed in 2014, which had a positive impact of approximately 0.1 billion euros on the 2014 results of KBC Group NV.
- The table below contains details of the impact of activities falling under the scope of IFRS 5.

Non-current assets held for sale and disposal groups and liabilities associated with disposal groups (in millions of EUR)

Balance sheet	31-12-2013	31-12-2014
Assets		
Cash and cash balances with central banks	57	0
Financial assets	3 627	0
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	0	0
Tax assets	49	0
Investments in associated companies and joint ventures	0	0
Investment property and other property and equipment	22	18
Goodwill and other intangible assets	2	0
Other assets	13	0
Total assets	3 769	18
Liabilities		
Financial liabilities	1 977	0
Technical provisions (before reinsurance)	0	0
Tax liabilities	11	0
Provisions for risks and charges	10	0
Other liabilities	28	0
Total liabilities	2 027	0
Other comprehensive income		
Available-for-sale reserve	-3	0
Deferred tax on above reserve	0	0
Hedging reserve (cashflow hedges)	0	0
Translation differences	0	0
Total	-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 ‘Risk management’ and 'Capital adequacy' sections that have been audited by the statutory auditor.

Note 48: Post-balance-sheet events

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

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

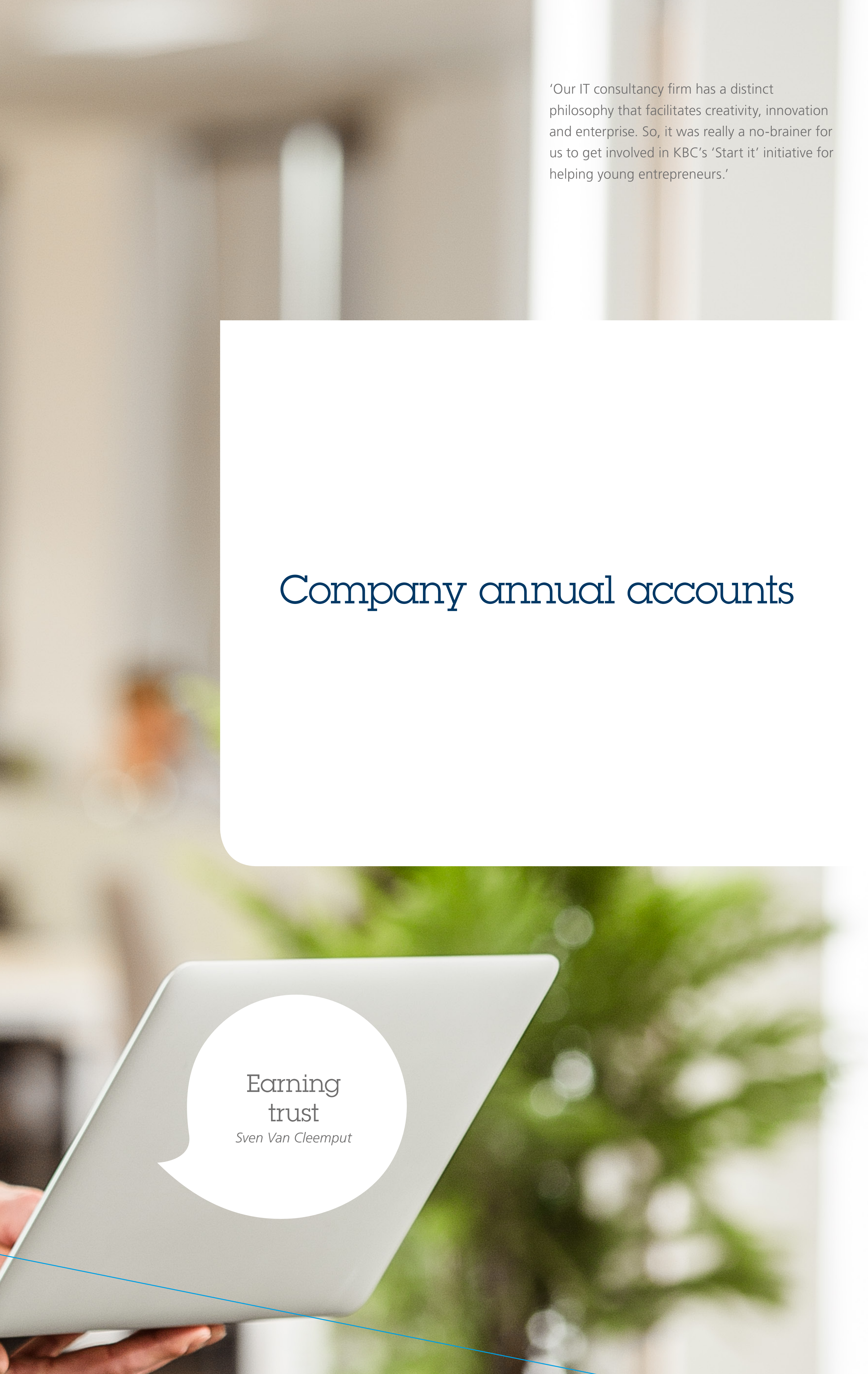
Note 49: General information on the company

- 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 seeks to attract or has sought to attract savings from the public. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium.
- Life: undefined.
- Object: The company 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 the second sentence above. 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 the second sentence above. 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 Dutch-speaking division of the Brussels Commercial Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. 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.

Sven Van Cleemput, IT Consultant and Stefan's basketball friend.

‘Our IT consultancy firm has a distinct philosophy that facilitates creativity, innovation and enterprise. So, it was really a no-brainer for us to get involved in KBC’s ‘Start it’ initiative for helping young entrepreneurs.’

Company annual accounts



Earning trust

Sven Van Cleemput

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 7 May 2015.

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 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)	31-12-2013	31-12-2014
Fixed assets	**15 215**	**17 442**
Intangible fixed assets	230	226
Tangible fixed assets	152	138
Land and buildings	34	32
Plant, machinery and equipment	94	82
Furniture and vehicles	13	12
Other tangible fixed assets	1	1
Assets under construction and advance payments	11	11
Financial fixed assets	14 833	17 078
Affiliated companies	14 832	17 077
Participating interests	14 582	14 529
Amounts receivable	250	2 547
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**221**	**524**
Amounts receivable at more than one year	2	1
Trade debtors	2	0
Other amounts receivable	0	1
Stocks and contracts in progress	1	1
Stocks	1	1
Goods purchased for resale	1	1
Amounts receivable within one year	68	69
Trade debtors	33	33
Other amounts receivable	35	36
Current investments	0	0
Own shares	0	0
Other investments	0	0
Cash at bank and in hand	114	405
Deferred charges and accrued income	36	49
Total assets	**15 436**	**17 966**
Equity	**11 241**	**11 486**
Capital	1 452	1 453
Issued capital	1 452	1 453
Share premium account	5 397	5 409
Reserves	1 466	1 466
Legal reserves	145	145
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	1 129	1 129
Profit (Loss (-)) carried forward	2 927	3 158
Provisions and deferred taxes	**20**	**20**
Provisions for liabilities and charges	20	20
Pensions and similar obligations	18	17
Other liabilities and charges	3	3
Amounts payable	**4 175**	**6 459**
Amounts payable at more than one year	2 970	4 878
Financial debt	2 970	4 878
Subordinated loans	2 333	4 297
Non-subordinated bonds	581	581
Credit institutions	56	0
Amounts payable within one year	1 157	1 363
Amounts payable at more than one year falling due within the year	14	0
Financial debt	971	376
Credit institutions	75	0
Other loans	896	376
Trade debt	34	39
Taxes, remuneration and social security charges	81	80
Taxes	2	3
Remuneration and social security charges	80	77
Other amounts payable	58	868
Accrued charges and deferred income	48	219
Total liabilities	**15 436**	**17 966**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2013	31-12-2014
Operating income	1 093	1 082
Turnover	1 017	1 026
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	41	49
Other operating income	35	7
Operating charges	1 166	1 153
Services and other goods	556	568
Remuneration, social security charges and pensions	463	435
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	124	118
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	-2	1
Other operating charges	25	31
Operating profit (loss (-))	**-73**	**-71**
Financial income	1 103	1 441
Income from financial fixed assets	1 093	1 354
Income from current assets	5	5
Other financial income	5	82
Financial charges	614	444
Debt charges	608	432
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	6	12
Profit (Loss (-)) on ordinary activities, before tax	**416**	**926**
Extraordinary income	0	158
Reversal of provisions for extraordinary liabilities and charges	0	1
Gains on disposal of fixed assets	0	157
Extraordinary charges	31	1
Extraordinary depreciation of and extraordinary amounts written off formation expenses and intangible and tangible fixed assets	2	0
Provisions for extraordinary liabilities and charges	1	0
Losses on disposal of fixed assets	28	1
Other extraordinary charges	0	0
Profit (Loss (-)) for the period, before tax	**385**	**1 083**
Transfers from deferred taxes	3	1
Transfers to deferred taxes	0	0
Income tax	3	4
Profit (Loss (-)) for the period	**384**	**1 080**
Profit (Loss (-)) for the period available for appropriation	**384**	**1 080**

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)	31-12-2013	31-12-2014
Profit (Loss (-)) to be appropriated	**2 959**	**4 006**
Profit (Loss (-)) for the period available for appropriation	384	1 080
Profit (Loss (-)) carried forward from the previous period	2 575	2 927
Transfers to equity	**18**	**0**
To the legal reserves	18	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**2 927**	**3 158**
Profit to be distributed	**14**	**849**
Dividends	0	836
Directors' entitlements	0	0
Other beneficiaries, employee profit-sharing	14	13

It will be proposed to the General Meeting of Shareholders that the profit for appropriation for the 2014 financial year be distributed as shown in the table. If this proposal is approved, a gross dividend of 2 euros per share entitled to dividend will be paid for 2014.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(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 31-12-2013	**14 582**	**250**	**1**	**0**
Acquisitions in 2014	0	0	0	0
Disposals in 2014	52	0	0	0
Other changes in 2014	0	2 297	0	0
Carrying value at 31-12-2014	**14 530**	**2 547**	**1**	**0**

KBC Group NV's participating interests in affiliated companies comprise mainly the shareholdings in:
- KBC Bank NV;
- KBC Insurance NV; and
- KBC Asset Management NV.

The main changes in 2014 concerned the buyback of own shares by KBC Insurance NV (in order to optimise its capital structure), which had an impact of -46 million euros, and the liquidation of GEBEMA NV, which had an impact of -6 million euros.

The amounts receivable from affiliated companies related to:
- loans to KBC Bank NV in the form of additional tier-1 capital (1 400 million euros) and tier-2 capital (897 million euros);
- a subordinated perpetual loan of 250 million euros to KBC Bank NV.

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2013	Capital increase for staff	Appropriation of results	31-12-2014
Capital	1 452	1	0	1 453
Share premium account	5 397	13	0	5 409
Reserves	1 466	0	0	1 466
Profit (Loss) carried forward	2 927	0	231	3 158
Equity	**11 241**	**14**	**231**	**11 486**

At year-end 2014, the company's issued share capital amounted to 1 453 231 742.35 euros, represented by 417 780 658 shares of no nominal value, and the share premium account came to 5 409 406 705.69 euros. The share capital is fully paid up.

Changes in 2014:
- A capital increase under the authorisation to increase capital carried out on 17 December 2014 and reserved exclusively for employees of KBC Group NV and some of its Belgian subsidiaries resulted in 416 300 shares being issued at a price of 34.35 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 11 November 2014. Capital was increased by 1 448 724 euros and the share premium account went up by 12 851 181 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 2014 will also be entitled to dividend from the 2014 financial year.
- Of the 1 080 million euros' worth of profit available for appropriation, 836 million euros will be paid out in dividends and 13 million euros in the form of an employee profit-sharing bonus. The profit carried forward, therefore, is 231 million euros.

The authorisation to increase capital may be exercised up to and including 20 May 2018 for an amount of 697 169 705.56 euros. Based on a par value of 3.48 euros a share, a maximum of 200 336 122 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 2014 and in the first two months of 2015 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 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. 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	Note	Number of KBC shares (= voting rights) on date concerned	% of total voting rights on date concerned*
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%
BlackRock Inc.	21 May 2014	Size of holding moves below the 5% notification threshold	20 687 685	4.96%
BlackRock Inc.	5 June 2014	Size of holding exceeds the 5% notification threshold	20 932 157	5.02%
Parvus Asset Management (UK) LLP	17 September 2014	Size of holding exceeds the 3% notification threshold	12 609 529	3.02%
FMR LLC (Fidelity)	17 October 2014	Size of holding moves below the 3% notification threshold	12 308 475	2.95%
Cera, KBC Ancora, MRBB and the other core shareholders (acting in concert)	1 December 2014	Size of holding exceeds the 40% notification threshold	168 553 908	40.39%
Parvus Asset Management Europe Limited	30 December 2014	Transfer of investment management operations from Parvus Asset Management (UK) LLP to Parvus Asset Management Europe Limited as a result of internal restructuring	12 900 729	3.09%
FMR LLC (Fidelity)	12 January 2015	Size of holding exceeds the 3% notification threshold	12 687 206	3.04%
Parvus Asset Management Europe Limited	13 February 2015	Size of holding moves below the 3% notification threshold	12 341 146	2.95%

* More detailed information can be found in the respective notification forms available at www.kbc.com. Please note that, in other sections of this report, the number of shares/voting rights held by these entities is divided by the total number of shares at year-end 2014 (and not by the total number of shares on the date of the notification).

The 'Corporate governance statement' section contains an overview of the shareholder structure at year-end 2014, 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	31 December 2013	31 December 2014
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2	2
KBC Group NV itself	Havenlaan 2, 1080 Brussels, Belgium	800	486
Total		802	488
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 2014. At year-end 2013, KBC bought 800 own shares (on the stock market, for 30 860 euros), which were given in 2014 to employees who exercised their options at the end of 2013. At the end of 2014, KBC bought 486 own shares (on the stock market, for 22 524 euros) which will be given in 2015 to employees who exercised their options at the end of 2014.

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

- On 31 December 2014, total assets came to 17 966 million euros, compared with 15 436 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 524 million euros, whereas the year-earlier figure was 221 million euros. This change was attributable largely to higher dividends received, which improved the liquidity position.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 6 459 million euros, compared with 4 175 million euros at year-end 2013. The main changes to this item were the issuance of additional tier-1 and tier-2 instruments ('Subordinated loans' heading) and the partial repayment of the core-capital securities to the Flemish Regional Government ('Subordinated loans' heading).

Note 5: Income statement

- KBC Group NV generated a net profit of 1 080 million euros in 2014, as opposed to 384 million euros a year earlier.
- 'Operating income' and 'Operating charges' both fell by 1% year-on-year.
  - 'Other operating income' went down significantly owing primarily to the lower level of charges passed on to divested companies and third parties.
  - The reduction in 'Remuneration, social security charges and pensions' was attributable chiefly to the slightly lower number of FTEs.
- The main changes in financial income and financial charges were:
  - an increase of 262 million euros in dividend received;
  - the coupon payment on the core-capital securities of 171 million euros;
  - a decline of 417 million euros in the premium paid on repayment of core-capital securities.
- The main extraordinary income items in 2014 concerned:
  - the gains realised on the buyback of treasury shares by KBC Insurance NV worth 157 million euros.

Note 6: Statutory auditor's remuneration

In 2014, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 149 124 euros for standard audit services. Remuneration paid for non-standard audit services came to 113 144 euros.

Note 7: Branch offices

KBC Group NV had three branch offices (in the Czech Republic, Slovakia and Hungary) at year-end 2014.

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.

Team spirit, enjoying the sport and each other's company

Katka Hamersky

'We used to play at a higher level, but now that we all have a job and a family to look after, it's more about team spirit, enjoying the sport and each other's company.'

Katka Hamersky often visits Pardubice in the Czech Republic to play basketball with her old girl friends.

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

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

The main features of the remaining core-capital securities are (simplified):
- Issue price: 29.50 euros per security.
- Coupon: higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%) and (ii) 125% of the dividend paid on ordinary shares. No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.

Guarantee agreement in respect of CDO and MBIA-related exposure

In 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan initially related to a notional amount totalling 20 billion euros. More information on the structure of that transaction is provided in previous annual reports.

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

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

Glossary of ratios

Bank-insurance income (gross)
[fee and commission income received by the bank from the linked insurer] + [insurance income for insurance products sold through bank branches].

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 government, and/or a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator.

CAGR
compound annual growth rate.

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.

Cost/income ratio
[operating expenses of the banking activities] / [total income of the banking activities].

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

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

Diluted earnings per share
[result after tax, attributable to equity holders of the parent] / [average number of ordinary shares plus dilutive options less treasury shares]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the government, and/or a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator.

Dividend payout ratio
[amount of dividend to be distributed plus coupon to be paid on the core-capital securities sold to the government and on the additional tier-1 instruments included in equity] / [consolidated net profit].

Equity market capitalisation
[closing price of KBC share] x [number of ordinary shares].

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

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].

Parent shareholders' equity per share
[parent shareholders' equity] / [number of ordinary shares less treasury shares (at period-end)].

Return on allocated capital (ROAC) for a particular business unit
[result after tax (including minority interests) of a business unit] / [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 (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I).

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 government or paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator.

Solvency ratio, insurance
[available solvency capital] / [minimum regulatory solvency capital].

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

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

KBC Telecenter (information on products, services and publications of the KBC group can be obtained on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m.)
+ 32 78 152 153 (Dutch), + 32 78 152 154 (French, German), + 32 16 43 29 15 (English)
kbc.telecenter@kbc.be
Investor Relations Office
investor.relations@kbc.com
www.kbc.com/ir
KBC Group NV, Investor Relations Office – IRO, Havenlaan 2, 1080 Brussels, Belgium
Press
Viviane Huybrecht (General Manager, Corporate Communication/Company Spokesperson)
pressofficekbc@kbc.be
www.kbc.com/press&media
KBC Group NV, Corporate Communication – GCM, Havenlaan 2, 1080 Brussels, Belgium
Corporate Sustainability & Responsibility
Vic Van de Moortel (General Manager, Corporate Sustainability & Responsibility)
csr.feedback@kbc.be
www.kbc.com/csr
KBC Group NV, Corporate Sustainability & Responsibility – CSR, Havenlaan 2, 1080 Brussels, Belgium

Financial calendar

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

Earnings release for 4Q 2014 and full year 2014	12 February 2015
Publication of the *Annual Report* and the *Risk Report for 2014*	2 April 2015
General Meeting of Shareholders (agenda available at www.kbc.com)	7 May 2015
Dividend	ex-date: 11 May 2015 / record date: 12 May 2015 / payment date: 13 May 2015
Earnings release for 1Q 2015	12 May 2015
Earnings release for 2Q 2015	6 August 2015
Earnings release for 3Q 2015	16 November 2015
Earnings release for 4Q 2015	18 February 2016

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