

INTERIM FINANCIAL REPORT FOR THE HALF YEAR TO JUNE 30, 2014

(Unaudited)

of

**KBC INTERNATIONALE FINANCIERINGSMAATSCHAPPIJ N.V.,
ROTTERDAM**

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INTERIM DIRECTORS' REPORT

General

In the half year to June 30th, 2014 the company continued to issue bonds and on-lend the proceeds to KBC Bank NV in line with the stated purpose of the company. The principal activity of the company continued to be the administration of the bonds issued and the loans granted. The bonds issued by the company are fully guaranteed by KBC Bank NV.

Financial

The financial indicators for the half year to June 30th, 2014 are summarised as follows:

	June 30th, 2014	June 30th, 2013
Net profit after tax	€2,248,854	€2,529,545
Interest income	€ 227,874,108	€269,755,300
Notes issued and on-lent	€220 million	€199 million
Earnings per share (Diluted and undiluted)	€ 212.5	€238.9

An interim dividend of €3,100,000 was paid on January 2nd, 2014.

The dividend payment was ratified by the Annual General Meeting of Shareholders held on May 27th, 2014.

No further important events, material or financial, occurred relating to the company since June 30th, 2014.

The Financial Report for the half year to June 30th, 2014 is unaudited.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements for the half year to June 30th, 2014 give a true and fair view of the assets, liabilities, financial position and profit of KBC Internationale Financieringsmaatschappij N.V. and the directors' report includes a fair review of the development and performance of the business and the position of KBC Internationale Financieringsmaatschappij N.V. together with a description of the principal opportunities and risks associated with the expected development of KBC Internationale Financieringsmaatschappij N.V.

Risk Management

As stated above under General, the lending of the company is entirely to KBC Bank NV. As such, a credit risk exists in respect of lending to this company. The bonds issued by the company are fully guaranteed by KBC Bank NV; therefore the risk for investors in the company's bonds is ultimately a risk in respect of KBC Bank NV, whose credit rating as at August 12th, 2014 is as follows:

<u>Rating agency</u>	<u>Long-term rating and outlook/watch</u>	<u>Short-term rating</u>
Fitch	A- (stable outlook, since November 2013)	F1, since November 2013
Moody's	A2 (negative outlook, since May 2014)	P-1, since May 2014
Standard & Poor's	A (negative outlook, since April 2014)	A1, since April 2014

Future Developments

We expect that the company will continue to be active in the Group financing programmes; the level of activity will be dependent on market trends and the funding requirements of the KBC Group.

During the present year, the company expects to re-finance at least part of the bonds maturing.

Our current expectations are that in the short term the number and amount of bonds issued will not increase.

Subject to satisfactory conclusion of an ongoing feasibility study being carried out by the company and its shareholder, KBC Bank NV, the company has the intention to effect a cross-border transfer of its legal seat from The Netherlands to Luxembourg. The intended date of transfer is 1st January 2015, which date is still subject to change. The changes to the company's Articles of Association to give effect to the transfer have not yet taken place. If effected, the transfer of seat will have no impact on the position of the note holders, regardless of their nationality or place of residence.

Rotterdam, August 12th, 2014

Management Board:

J.G. Heffernan

H.B.J. Wouters

BALANCE SHEET AS AT JUNE 30, 2014 (UNAUDITED)
(before profit appropriation)

A s s e t s

	June 30, 2014		December 31, 2013	
	€	€	€	€
Fixed assets				
Tangible fixed assets		1,752		1,752
Financial fixed assets	(2)	8,110,440,102		10,296,335,457
Long term bank deposit	(2)	4,803,264		4,803,264
Derivatives	(2)	147,464,119		229,517,096
		8,262,709,237		10,530,657,569
Current assets				
Derivatives	(2)	56,613,596		62,248,917
Loans falling due within one year	(2)	4,343,844,578		6,741,197,758
Interest receivable and accrued expenses	(3)	191,035,799		241,757,826
Cash		4,387,360		5,485,826
		4,595,881,333		7,050,690,327
Total assets		12,858,590,570		17,581,347,896
L i a b i l i t i e s				
Capital and reserves				
Paid-in and called-up share capital	(4)	4,803,264		4,803,264
Retained earnings	(5)	4,185,281		4,211,262
Net profit for the half year/year		2,248,854		3,074,019
		11,237,399		12,088,545
Long term liabilities				
Bonds Issued	(6)	8,114,548,920		10,302,363,547
Derivatives		147,464,119		229,517,096
Current liabilities				
Derivatives	(2)	56,613,596		62,248,917
Issued bonds falling due within one year	(6)	4,340,601,898		6,736,241,998
Other current liabilities	(7)	188,124,638		238,887,793
		4,585,340,132		7,037,378,708
Total liabilities		12,858,590,570		17,581,347,896

PROFIT AND LOSS ACCOUNT FOR THE HALF YEAR ENDED JUNE 30, 2014 (UNAUDITED)

	June 30, 2014		June 30, 2013	
	€	€	€	€
Interest Income				
Interest on fixed income investments	105,799		106,580	
Other interest income (8)	<u>227,768,309</u>		<u>269,648,720</u>	
Total interest income	227,874,108		269,755,300	
Interest Expense (8)	<u>(224,547,371)</u>		<u>(266,146,034)</u>	
Gross margin		3,326,737		3,609,266
Change in fair value of derivatives		-		-
Fair value change-profit	242,729,281		253,709,333	
Fair value change -loss	<u>(242,729,281)</u>		<u>(253,709,333)</u>	
	-		-	
Income from participating Interests		-		-
Staff and other operating expenses				
General & administrative expenses	(341,032)		(248,898)	
Exchange rate differences	(1,953)		(975)	
Total		<u>(342,985)</u>		<u>(249,873)</u>
Profit before taxation		2,983,752		3,359,393
Corporation tax		(734,898)		(829,848)
Net profit for the half year		<u>2,248,854</u>		<u>2,529,545</u>

CASH FLOW STATEMENT FOR THE HALF YEAR ENDED JUNE 30, 2014 (UNAUDITED)

	June 30, 2014	June 30,
	€	2013
		€
Net profit	2,248,854	2,529,545
Adjustments for:		
Amortization on loans and bonds	(159,081)	(113,920)
Income from participating interest	-	-
	<u>2,089,773</u>	<u>2,415,625</u>
Change in other assets and liabilities	(287,876)	711,734
Taxes received/ (paid)	246,765	163,145
(Pre)retirement costs paid	-	-
Net cash flow from operational activities	<u>2,048,662</u>	<u>3,290,504</u>
Financial fixed assets- increase	(220,198,914)	(199,444,808)
Financial fixed assets- decrease	<u>4,827,294,617</u>	<u>1,632,547,877</u>
Net cash flow from investment activities	<u>4,607,095,703</u>	<u>1,433,103,069</u>
Bonds issued	220,198,914	199,444,808
Bonds repaid	(4,827,341,745)	(1,632,562,551)
Dividend paid	<u>(3,100,000)</u>	<u>(3,500,000)</u>
Net cash flow from financing activities	<u>(4,610,242,831)</u>	<u>(1,436,617,743)</u>
Net cash flow	<u>(1,098,466)</u>	<u>(224,170)</u>
Cash balance as at January 1	5,485,826	5,294,533
Cash balance as at June 30	<u>4,387,360</u>	<u>5,070,363</u>
Net cash flow	<u>(1,098,466)</u>	<u>(224,170)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR TO JUNE 30, 2014**1 Accounting principles**

The company is a wholly-owned subsidiary of KBC Bank NV, Brussels. The main activity of the company is to assist in financing the activities of KBC Bank NV, its subsidiaries and associated companies. The address of the company is Watermanweg 92, 3067 GG Rotterdam, The Netherlands.

The same accounting principles as were applied in the Financial Report 2013 have also been applied in the financial statements for the half year to June 30th, 2014.

2 Financial fixed assets

The breakdown of the financial fixed assets is as follows:

	June 30 2014	December 31 2013
	€	€
Loans to group companies	12,454,284,680	17,037,533,215
of which falling due within one year	(4,343,844,578)	(6,741,197,758)
	<u>8,110,440,102</u>	<u>10,296,335,457</u>

Activity in loans to group companies

	June 30 2014	June 30 2013
	€	€
Loans issued in the half year to June 30	220,198,914	199,444,808
Loan repayments in the half year to June 30,	4,827,294,617	1,632,547,877

Long term bank deposit

June 30 2014	December 31 2013
€	€
4,803,264	4,803,264

The long term bank deposit is placed with KBC Bank NV and will mature on February 28th, 2018.

Derivatives

Derivatives	June 30 2014	December 31 2013
	€	€
Derivative Assets		
Falling due within 1 year	56,613,596	62,248,917
Balance at June 30/ December 31, over 1 year	<u>147,464,119</u>	<u>229,517,096</u>
Total Derivative assets	<u>204,077,715</u>	<u>291,766,013</u>
Derivative Liabilities		
Falling due within 1 year	56,613,596	62,248,917
Balance at June 30/ December 31, over 1 year	<u>147,464,119</u>	<u>229,517,096</u>
Total Derivative Liabilities	<u>204,077,715</u>	<u>291,766,013</u>

The derivative assets and liabilities are embedded in the loans and bonds issued and are stated at fair value.

	June 30 2014	December 31 2013
	€	€
Total notional amount of the derivative assets (which equals the derivative liabilities)	1,204,244,591	1,536,651,923

3 Interest receivable and accrued expenses

	June 30 2014	December 31 2013
	€	€
Interest receivable	190,999,338	241,669,459
Prepaid expenses	36,461	24,108
Tax receivable	-	64,259
	<u>191,035,799</u>	<u>241,757,826</u>

The interest on bonds issued and loans granted to group companies is calculated using a straight-line method.

4 Paid-in and called-up share capital

	€
Authorized 50,000 ordinary shares of €453.78	<u>22,689,000</u>
Paid-in and called-up share capital 10,585 ordinary shares of €453.78	<u>4,803,264</u>

The paid-in and called-up share capital is fully held by KBC Bank NV, Belgium.

There have been no movements in paid-in and called-up share capital during the half year to June, 30, 2014 (half year to June 30, 2013 - no movements).

5 Retained earnings

The movement in Retained Earnings is as follows:

	June 30 2014	December 31 2013
	€	€
Balance as at January 1	4,211,262	4,106,733
Net profit appropriation	3,074,019	3,604,529
Dividends paid during the half year/year	(3,100,000)	(3,500,000)
Balance as at June 30/ December 31	<u>4,185,281</u>	<u>4,211,262</u>

6 Bonds Issued

The breakdown of the bonds issued is as follows:

	June 30 2014	December 31 2013
	€	€
Total Bonds Issued	12,455,150,818	17,038,605,545
of which falling due within one year	(4,340,601,898)	(6,736,241,998)
	<u>8,114,548,920</u>	<u>10,302,363,547</u>

Activity in Bonds Issued

	June 30 2014	June 30 2013
	€	€
Bonds issued in the half year to June 30	220,198,914	199,444,808
Bonds repaid in the half year to June 30,	4,827,341,745	1,632,562,551

All bonds are guaranteed by KBC Bank NV, Brussels, Belgium.

7 Other current liabilities

	June 30 2014	December 31 2013
	€	€
Interest payable	187,848,023	238,834,105
Accounts payable and accrued expenses	94,109	36,858
Tax payable	182,506	16,830
	<u>188,124,638</u>	<u>238,887,793</u>

In June 2012 KBC Internationale Financieringsmaatschappij N.V. and KBC Bank NV were summoned to appear before the court in Brussels on foot of a claim brought on behalf of former bondholders. The claim, which currently amounts to Eur 1,636,137, relates to losses incurred by the investors on early redemption of the bonds held by them. The lawsuit is being contested by KBC Internationale Financieringsmaatschappij N.V. and KBC Bank NV. Based on the information available to the directors, they are of the opinion that it is unlikely the company will suffer a loss and therefore no provision has been made in the accounts for this. Judgement is not expected until mid-2015 at the earliest.

NOTES TO THE PROFIT AND LOSS ACCOUNT

8 Interest income and expense

The interest income is earned on the loans granted by the company to KBC Bank NV, Brussels, Belgium and other group companies. The interest expense relates to bonds issued.

9 Risk management

It is the policy of the company to strictly limit interest rate, exchange, market and operational risks to the company and the structure and organisation of the company are designed to give effect to this policy. Furthermore, the company's financial administration is so arranged as to prevent exposures to the above risks and controls are in place to ensure strict adherence.

This policy, which applies to all bond issues, ensures that the company has no exposures in relation to open or unmatched positions in interest rate risk, market risk, currency risk, liquidity risk, cash flow risk or interest re-pricing risk and consequently runs no risks in respect to these categories. A negligible currency exchange risk pertains to the interest margins on loans in foreign currencies. Such risks are governed by limits which are closely monitored.

This policy is the basis of the company's asset and liability management. Credit risks are present in relation to the loans on-lent to KBC Bank NV.

The interest margins on the loans where applicable, have been set in conjunction with KBC Bank NV and take account of the company's obligations under an Advance Pricing Agreement entered into with the Dutch tax authorities.

NOTES TO THE CASH FLOW STATEMENT

10 Cash flow statement

The Cash Flow Statement is compiled according to the indirect method.

The cash balances of the company are free of encumbrance.

Rotterdam, August 12th, 2014

Board of Directors:

J.G. Heffernan

H.B.J. Wouters