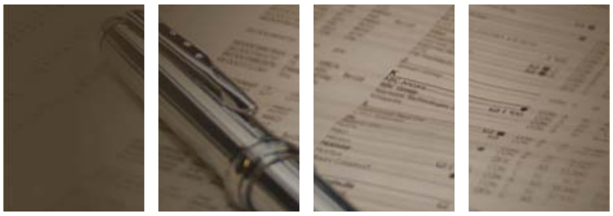
KBC ancora

ANNUAL REPORT 2013/2014



KBC ANCORA BACKGROUND

1998

KBC Ancora SCA (Société en commandité par actions) was incorporated on 18 December 1998 as Cera Ancora SA (Société anonyme). Cera Ancora's capital was formed by the contribution of 35,950,000 Almanij shares and approximately EUR 12.4 million in cash, subscribed virtually entirely by Cera (then 'Cera Holding') SCRL (Société coopérative à responsabilité limitée). Cera Ancora was thus an almost wholly owned subsidiary of Cera.

2001

The foundations were laid in 2000 for the fundamental restructuring of Cera Ancora and of Cera, with approval being granted on 12 and 13 January 2001, respectively. The restructuring was carried out in implementation of a settlement reached in conclusion of a legal dispute which went back to the merger in 1998 of CERA Bank, ABB and Kredietbank.

On the one hand, the restructuring led to the conversion of Cera Ancora SA to Almancora SCA, the splitting of the Almancora shares, so that the capital of the company was represented by 55,929,510 shares, and an increase (through contributions and purchase) of the participating interest in Almanij to 55,929,510 shares (28.56%). On the other hand, the restructuring of Cera gave Cera members the right to three Almancora shares for each cooperative D-share surrendered on withdrawal.

Almancora was listed on the stock exchange for the first time on 4 April 2001. From that date onwards it was possible to trade the shares on the 'double fixing' segment of the Brussels Stock Exchange.

2005

On 2 March 2005 the structure of the Almanij/KBC group was simplified by means of a merger in the form of the acquisition of Almanij by KBC Bancassurance Holding.

The merger to form KBC Group had a number of important consequences for Almancora:

- As a result of the merger Almancora acquired KBC Group shares on 2 March 2005, based on an exchange ratio of 1.35 KBC Group shares for each Almanij share.
- Until the merger the shareholder stability of the Almanij/KBC group was guaranteed by Cera, Almancora and the Other Permanent Shareholders via a shareholder agreement. Following the merger this was replaced by a new shareholder agreement, to which MRBB also became a party. The core shareholders of the KBC group were henceforth Cera, Almancora, MRBB and the Other Permanent Shareholders.
- The disappearance of Almanij also brought to an end the reserving of profit at Almanij level.

2007

On 15 June 2007 the company name Almancora was changed to KBC Ancora and the Almancora share was split by a factor of 1.4 (seven new KBC Ancora shares per five existing Almancora shares). The purpose of these two changes was to make the link between the KBC Ancora share and the KBC Group share even more explicit.

The split also means that since 15 June 2007, Cera members who withdraw with their D-shares have the right to receive 4.2 KBC Ancora shares in exchange for each D-share surrendered. This 'reimbursement on withdrawal' means that the proportion of Cera's participation in KBC Ancora to be distributed will decline steadily over time.

Since 15 June 2007, the KBC Ancora share has been listed on the continuous segment of the Euronext Brussels stock exchange.

On 8 August 2007, Cera and KBC Ancora reported that their joint participating interest in KBC Group had been increased to over 30%. Exceeding the 30% threshold was important in the context of the law on public takeover bids which came into effect in Belgium on 1 September 2007. Under this law, participating interests of more than 30% which were in existence at the time the law came into force are exempt from any obligation to issue a bid, whereas after this date exceeding this threshold carried a mandatory requirement to issue a public bid.

2012

KBC Group increased its capital by EUR 1.25 billion in December 2012 through the issue of new shares. KBC Ancora supported this capital increase but did not participate in it itself. Cera participated less than proportionately in the capital increase. As a result of this, the joint participating interest of Cera and KBC Ancora fell below the 30% threshold. Cera and KBC Ancora did however contribute additional KBC Group shares which they already held to the shareholders' agreement between Cera, KBC Ancora, MRBB and the Other Permanent Shareholders, so that this agreement continues to represent more than 30% of the total number of KBC Group shares.

2013

Since July 2013, KBC Ancora has a new lender for EUR 325 million of its debt, which had previously been provided by KBC Bank in 2007.

KBC Ancora sold 4.7 million KBC Group shares in November 2013. The proceeds of this sale were used to repurchase a loan with a nominal amount of EUR 175 million, which had been provided to KBC Ancora by KBC Bank in 2007.

Both transactions had a positive impact on the capital position of KBC Bank.

ANNUAL REPORT 2013/2014

KBC Ancora
Legal form: Civil company having taken the form of a partnership limited by shares
Registered office: Mgr. Ladeuzeplein 15, 3000 Leuven
Company number: 0464.965.639
Website: www.kbcancora.be

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BOARD OF DIRECTORS OF ALMANCORA SOCIETÉ DE GESTION

Top, from left to right:

Herman Vandaele
Luc Discry
Jules Stuyck
Anita Verresen
Koen Kerremans
Danielle Sougné
Jean-François Dister
Ghislaine Van Kerckhove

Bottom, from left to right:

Franky Depickere
Katelijn Callewaert
Johan Massy

LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTORS

KBC Ancora's results for the financial year

KBC Ancora recorded a profit of EUR 26.4 million in the financial year 2013/2014, compared with a profit of EUR 50.8 million in the previous year.

As KBC Group did not distribute a dividend in 2014 in respect of the financial year 2013, KBC Ancora's income in the year under review was principally determined by the result of the sale of 4.7 million KBC Group shares in November 2013 and the subsequent repurchase of a loan provided by KBC Bank. The nominal amount of the repurchased loan was EUR 175 million, with full repayment scheduled on the maturity date in 2027. The sale of the KBC Group shares generated funds totalling EUR 184 million, which were used mainly to repurchase this loan. The balance was used among other things to pay the accrued interest on this loan.

KBC Ancora realised a gain of EUR 36 million on the sale of the 4.7 million KBC Group shares. On the repurchase of the loan from KBC Bank, a discount of 9% of the nominal value was obtained, resulting in a gain of EUR 15.8 million.

KBC Ancora's recurring expenses consisted mainly of the usual costs. The repurchase of the loan of EUR 175 million led to a reduction in interest charges to EUR 23.2 million, EUR 5.8 million less than in the previous financial year. Operating costs amounted to EUR 2.3 million, EUR 0.2 million less than a year earlier.

Despite the fact that, after setting off the loss carried forward from the previous financial year (EUR -9.3 million) against the profit recorded for the financial year (EUR 26.4 million), KBC Ancora had an accounting profit to be appropriated of EUR 17.1 million, it is proposed that no dividend be distributed in respect of the year under review. This is because the result for the financial year 2013/2014 includes a partial reversal of a substantial value write-down that was applied on 31 March 2009. Steps were taken at that time to neutralise the negative impact of this write-down on KBC Ancora's ability to distribute dividends. It was announced at the time that the impact of any later full or partial reversal of the write-down would also be neutralised (see KBC Ancora press release dated 4 May 2009).

A proposal will therefore be submitted to the General Meeting of Shareholders that the result of the sale of the 4.7 million KBC Group shares in November 2013, amounting to a net total of EUR 35,955 million, should not be distributed as dividend. Specifically, the Meeting will be invited to add the balance of the result for the financial year (EUR 26.4 million) after set-off of the loss carried forward from the previous financial year (EUR -9.3 million) and the formation of the legal reserve (EUR 0.9 million), amounting to EUR 16.2 million, to the unavailable reserves. When appropriating the next available profit, KBC Ancora will propose adding the remaining amount (EUR 19.7 million) to the unavailable reserves.

Balance sheet

KBC Ancora's balance sheet total fell by just over 5.7% in the year under review to EUR 2.44 billion. The main reason for this reduction was the sale of KBC Group shares and subsequent paying down of debt as referred to above.

Participation in KBC Group

As at the balance sheet date, KBC Ancora held 77,516,380 KBC Group shares, equivalent to 18.57% of the total number of KBC Group shares in issue. This means that, following the sale of 4.7 million KBC Group shares, KBC Ancora is still the biggest shareholder in KBC Group and, together with Cera and the other stable shareholders, continues to play its role in the anchoring of the KBC group.

Debt

Total debt stood at EUR 402.8 million as at the balance sheet date, a reduction of EUR 174.4 million compared with the previous financial year. The reduction was due to the repurchase referred to earlier of a loan of EUR 175 million provided by KBC Bank. The remaining long-term financial liabilities totalled EUR 375 million, with maturity dates in 2017 (EUR 175 million), 2022 (EUR 100 million) and 2027 (EUR 100 million).

Since July 2013, KBC Ancora has a new lender for EUR 325 million of its debt, which had previously been provided by KBC Bank. The conditions governing the terms and interest rates applying to these loans remained unchanged. Collateral was provided in the form of a pledge on KBC Group shares.

Both transactions (the repurchase by KBC Ancora of a loan of EUR 175 million provided by KBC Bank, and the transfer by KBC Bank of loans totalling EUR 325 million to another lender) had a positive impact on the regulatory capital position of KBC Bank. Under the advance 'fully loaded' application of the Basel III capital rules, the amount of shareholder loans is deducted in full from the bank's capital.

Changes at the statutory manager, Almancora Société de gestion

Cynthia Van Hulle (permanent representative of Van Hulle & Cie SCS), who had chaired the Board of Directors of the statutory manager, Almancora Société de gestion, since the flotation of KBC Ancora (2001), stood down in the year under review on reaching the prescribed maximum of 12 years for her term of office. We would like to express our appreciation for the important role she played during this period.

Cynthia Van Hulle was succeeded by Katelijn Callewaert as chairman of the Board of Directors. Jules Stuyck was appointed as a new independent director (C director) for a term of four years.

Ghislaine Van Kerckhove and Johan Massy, directors nominated as representatives of Cera members, were reappointed as B directors for a new term of four years.

The Board of Directors of Almancora Société de gestion currently comprises eleven members: two managing directors (A directors), five non-executive directors from the consultative bodies within Cera (B directors) and four independent non-executive directors (C directors).

KBC Group

KBC Group held its Investor Day on 17 June 2014. KBC wishes to build on its strengths and be among the best-performing, retail-focused financial institutions in Europe. KBC will seek to achieve this by:

- strengthening its bank-insurance business model for retail, SME and midcap clients in its core markets in a highly cost-effective way;
- concentrating 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.

In doing this, KBC is seeking to become the reference in bank-insurance in its core markets.

In addition to renewed financial targets, KBC among other things also announced its intention to:

- accelerate its repayment of the remainder of the aid received from the Flemish government, repaying the final tranche by the end of 2017 at the latest instead of the end of 2020 as agreed with the European Commission.
- aim for a dividend payout ratio (including the coupon on the government aid and issued Additional Tier 1 instruments) of at least 50% from 2016 onwards. The aim will be to distribute a dividend of up to EUR 2.00 per share in respect of the financial year 2014 (provided the available profit for the financial year permits this). No dividend will be distributed in respect of the financial year 2015.

The results for the first half of 2014 as announced by KBC Group on 7 August 2014 showed a profit of EUR 714 million. This compared with a profit of EUR 1,037 million in the same period in the previous year.

The adjusted net result for the first half-year came to EUR 675 million, compared with EUR 843 million in the first half of 2013. This solid underlying result reflects the strong commercial results of KBC's bank-insurance model, especially when seen in an economic context of weak growth and low interest rates.

If the above intentions are realised, from the financial year 2016/2017 KBC Ancora will once again be able to post positive annual recurring results.

Leuven, 27 August 2014

Franky Depickere
Managing Director and
Permanent representative of
Almancora Société de gestion[1]

Katelijn Callewaert
Chairman of the Board of Directors
of Almancora Société de gestion

Luc Discry
Managing Director of
Almancora Société de gestion

1 Almancora Société de gestion is the statutory manager of KBC Ancora (*see 2.1.2 Almancora Société de gestion SA*)

DECLARATION BY THE RESPONSIBLE INDIVIDUALS

Declaration pursuant to the European regulations on transparency as imposed by the Belgian Royal Decree of 14 November 2007.

"We, the members of the Board of Directors of Almancora Société de gestion[2], statutory manager of KBC Ancora SCA, hereby declare that, as far as we are aware, a) the KBC Ancora financial statements, which have been prepared in accordance with the financial reporting standards applicable in Belgium, give a true and fair view of the net worth, financial position and results of KBC Ancora; b) the KBC Ancora annual report gives a true and fair view of the development and results of the business and of the position of KBC Ancora, as well as a description of the principal risks and uncertainties with which the company is confronted."

DECLARATION IN CONNECTION WITH RISKS

Certain risk factors could have an impact on the value of the assets held by KBC Ancora and on its ability to distribute a dividend.

The assets of KBC Ancora consist almost entirely of a participating interest in KBC Group. For information on the specific risks to which KBC Group is exposed, reference is made to the annual report and press releases of KBC Group, which are available on the website www.kbc.com.

A fall in the KBC Group share price will inevitably have a negative influence on the value of the assets of KBC Ancora.

The investment in KBC Group is funded from capital and reserves in combination with loans taken out from financial institutions. As at the balance sheet date, those loans amounted to EUR 400.8 million. Of this total, EUR 375 million related to long-term loans carrying fixed rates of interest, with repayment dates in 2017 (EUR 175 million), 2022 (EUR 100 million) and 2027 (EUR 100 million). The remainder (EUR 25.8 million) consisted of short-term drawdowns. KBC Ancora closely monitors the interest rate and refinancing risk.

The recurrent income of KBC Ancora consists principally of the dividend it receives from its participating interest in KBC Group. In the event that KBC Ancora does not receive a dividend from its participating interest in KBC Group in any given year, KBC Ancora will itself not pay a dividend in that year. If KBC Ancora receives KBC Group dividend again in a subsequent financial year, its result carried forward will be taken into account when determining the profit available for distribution.

KBC Group has announced its intention to distribute a dividend of up to EUR 2.00 per share in respect of the financial year 2014 (provided the available profit for the financial year permits this), and will not distribute a dividend in respect of the financial year 2015. Based on this announcement, KBC Ancora will close the financial year 2015/2016 with a loss and will naturally not distribute a dividend. KBC Ancora will use debt finance to meet its operating costs and interest charges in the financial year 2015/2016.

2 The individual members of the Board of Directors of Almancora Société de gestion are listed in section 2.2.2. of this Annual Report.

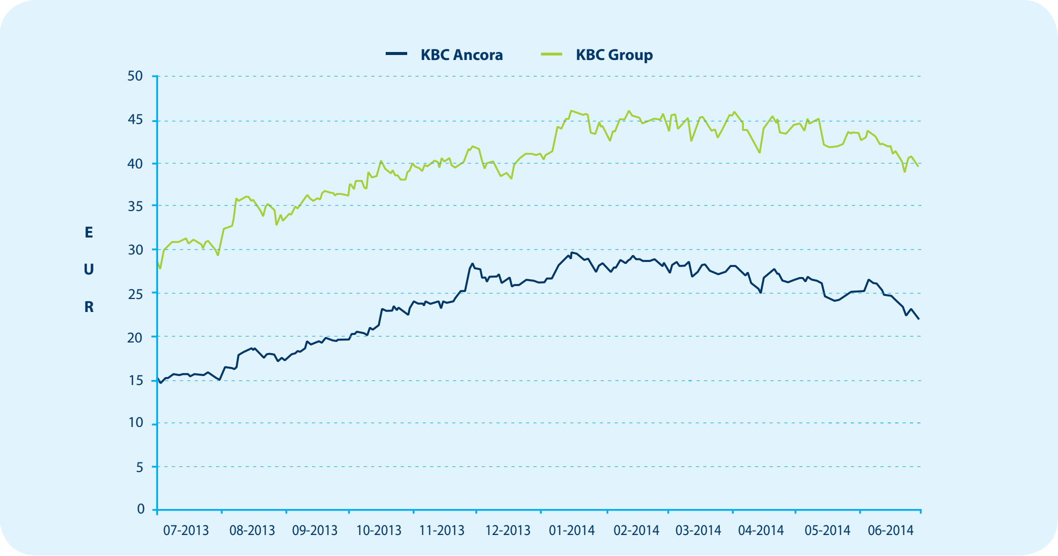
1 Investor information

1.1 Share price, discount and traded volumes

As at the balance sheet date, KBC Ancora had a total of 77,516,380 KBC Group shares in portfolio. Debt less current assets amounted to EUR 402.8 million. KBC Ancora has itself issued 78,301,314 shares. The intrinsic value[3] of one KBC Ancora share as at the balance sheet date accordingly corresponded to the price of 0.99 KBC Group shares less EUR 5.14.

Chart 1 traces the performance of the KBC Ancora and KBC Group shares during the last financial year.

Chart 1: Trend in KBC Ancora and KBC Group share price during the last financial year



3 Intrinsic value: value per share calculated on the basis of the stock market price of the underlying listed share, less the liabilities..

Chart 2 shows the trend in the discount of the KBC Ancora share relative to its intrinsic value over the year under review, in relative terms. This fluctuated between 19.9% and 41.0%.

Chart 2: Trend in discount of the KBC Ancora share relative[4] to its intrinsic value over the last financial year

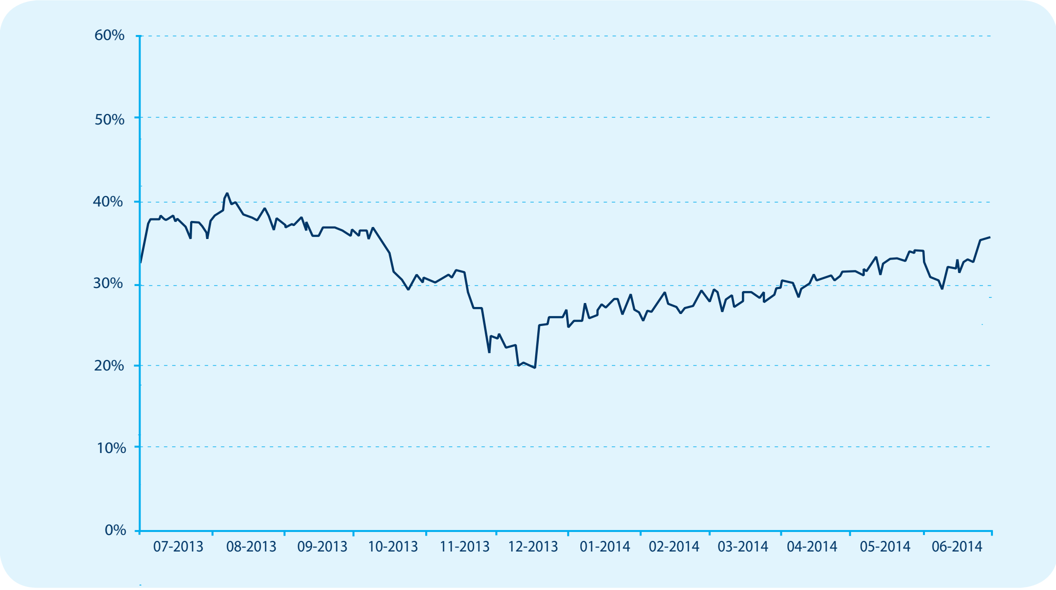
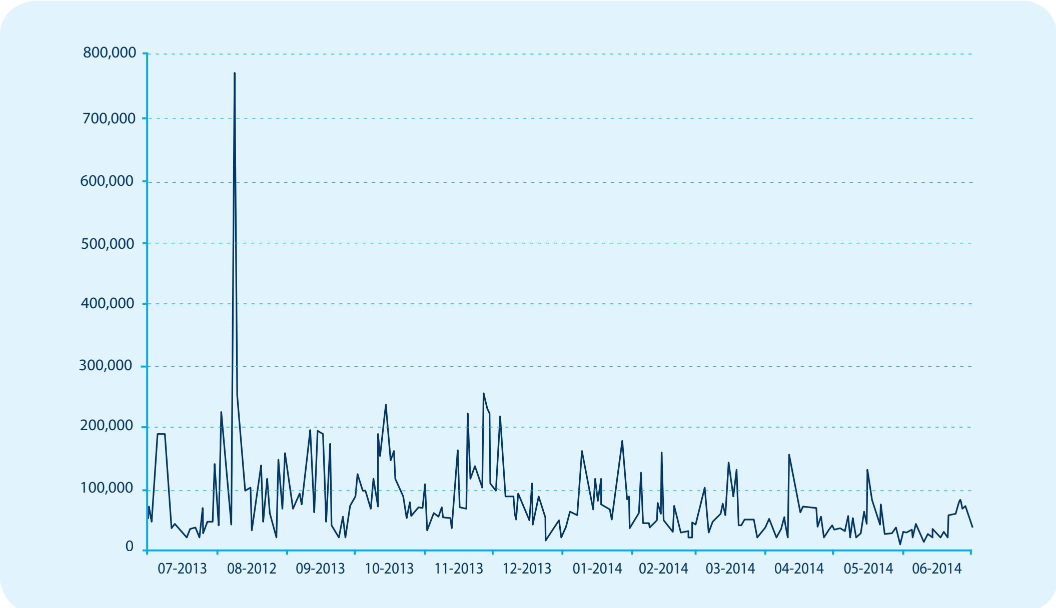


Chart 3 illustrates the liquidity of the KBC Ancora share.

Chart 3: Traded volumes of KBC Ancora shares on a daily basis in the past financial year



4 Intrinsic value per KBC Ancora share (IV) = (price of KBC Group share x number of KBC Group shares held by KBC Ancora + other assets – liabilities) / number of KBC Ancora shares in issue.
Discount in relative terms = (IV – KBC Ancora share price) / IV

Table 1 summarises a number of stock market figures and compares them with the performance in previous financial years.

Table 1: Summary of stock market figures in recent financial years

	Financial year 2013/2014	Financial year 2012/2013	Financial year 2011/2012
High (EUR)	29.71	16.42	12.87
Low (EUR)	14.65	6.02	3.02
Average number of shares traded per day			
• **Period 01.07-30.06 (financial year)**	76,835	120,297	140,755
• **Period 1 Jul-31 Dec**	97,042	116,339	145,681
• **Period 1 Jan-30 June**	55,820	124,318	135,712

Charts 4 and *5* show the trend in KBC Ancora's share price relative to that of the KBC Group share, the BEL20 Index and the Dow Jones EURO STOXX Bank Index in the year under review.

Chart 4: Trend in KBC Ancora and KBC Group share prices relative to BEL20 Index in the past financial year (30.06.2013 = 100)

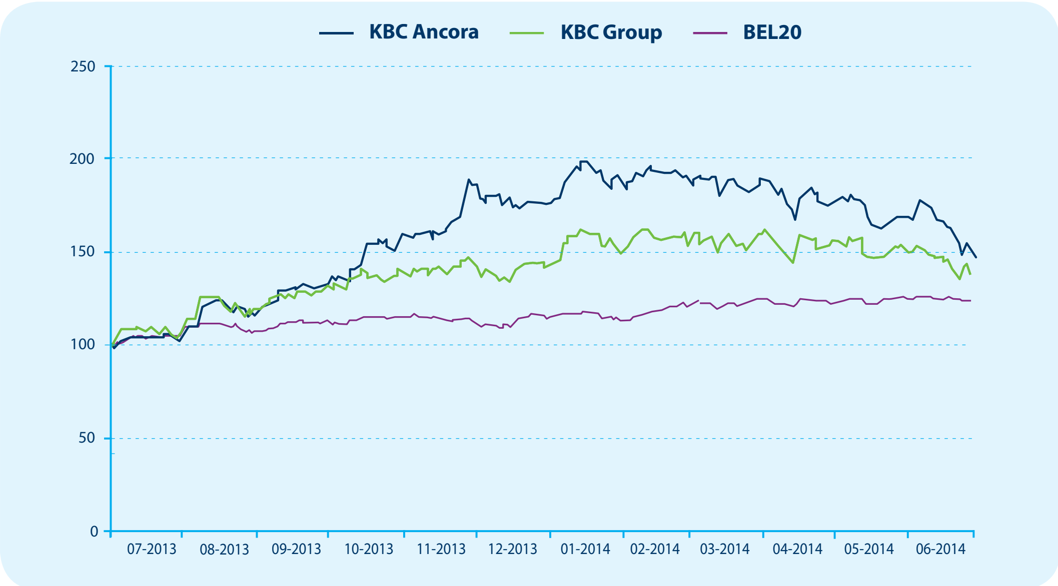
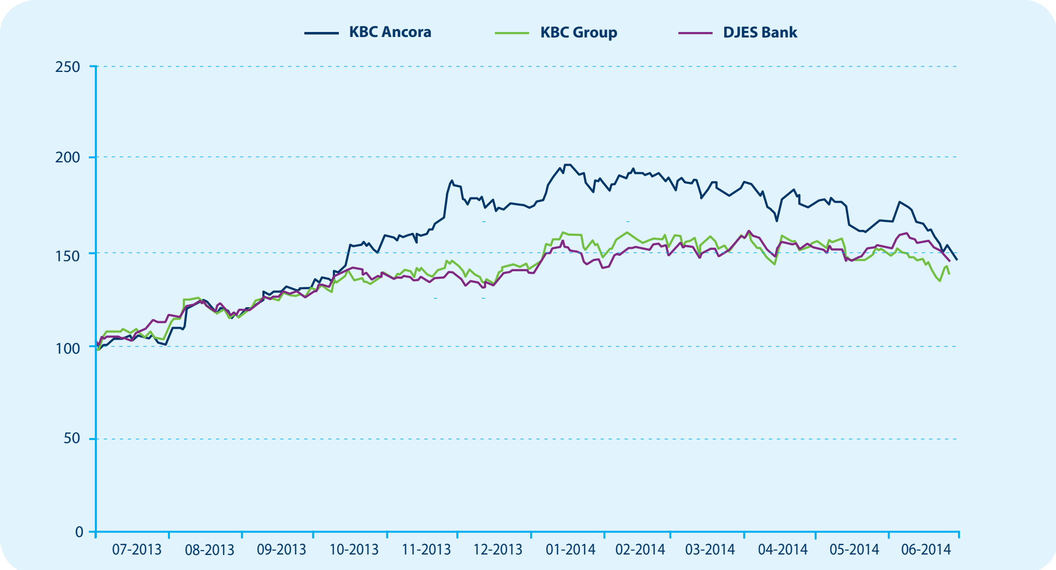


Chart 5: Trend in KBC Ancora and KBC Group share prices relative to Dow Jones EURO STOXX Bank Index in the last financial year (30.06.2013 = 100)



1.2 Key figures as at the balance sheet date

1.2.1 Balance sheet and result

Table 2 contains a number of key figures as at the balance sheet date for the most recent financial years.

Table 2: Basic figures as at balance sheet date

	30 June 2014	30 June 2013	30 June 2012
Number of shares in issue	78,301,314	78,301,314	78,301,314
Number of KBC Group shares in portfolio	77,516,380	82,216,380	82,216,380
Balance sheet total in EUR	2,441,805,249	2,589,823,373	2,589,824,941
Market capitalisation in EUR (based on share price on balance sheet date)	1,727,718,493	1,174,519,710	536,364,001
Book value of capital and reserves in EUR	2,038,975,509	2,012,582,577	1,961,782,224
Market capitalisation/book value of capital and reserves	0.85	0.58	0.27

Table 3 summarises the results recorded in previous financial years in accordance with a schedule designed for companies whose business operations are primarily defined as ownership of equity holdings. A distinction is made between financial and other results. The results are also broken down into recurring and non-recurring elements.

Table 3: Results for the most recent financial years

Result of KBC Ancora (x EUR million)	**Financial year 2013/2014**	**Financial year 2012/2013**	**Financial year 2011/2012**
Recurring financial profit/loss	-7.4[5]	53.2	-28.4
Other recurring profit/loss	-2.1	-2.4	-2.0
Profit/loss from capital operations	36.0	0.0	0.0
Extraordinary profit/loss	0.0	0.0	0.0
Result before taxes	26.4	50.8	-30.4
Result after taxes	**26.4**	**50.8**	**-30.4**
Result of KBC Ancora per share (in EUR)	**Financial year 2013/2014**	**Financial year 2012/2013**	**Financial year 2011/2012**
Recurring financial profit/loss	-0.09	0.68	-0.36
Other recurring profit/loss	-0.03	-0.03	-0.03
Profit/loss from capital operations	0.46	0.00	0.00
Extraordinary profit/loss	0.00	0.00	0.00
Result before taxes	0.34	0.65	-0.39
Result after taxes	**0.34**	**0.65**	**-0.39**

5 This figure includes income of EUR 15.8 million from the repurchase of a loan of EUR 175 million in November 2013 (at a discount of 9%), full repayment of which was scheduled to take place on the maturity date in 2027. This amount is recognised under recurring financial profit/loss because it is related to the financial income and expenditure, although strictly speaking it is a non-recurring item for KBC Ancora.

1.2.2 Cash flow table

Table 4 shows KBC Ancora's cash flows. The operating activities had a negative cash impact of EUR 27.5 million in the financial year 2013/2014, principally due to interest charges. The financing activities also show a cash outflow of EUR 156.4 million, consisting of the repurchase of a loan of EUR 175 million at a discount of 9%, partially offset by an increase in short-term debt. These cash outflows were fully offset by a cash inflow of EUR 184 million in the investing activities thanks to the sale of 4.7 million KBC Group shares.

The net cash flow from operating activities was used to reduce debt in the financial year 2012/2013. In the financial year 2011/2012, in which KBC Ancora realised virtually no income, the interest charges and operating costs were principally financed through the drawdown of debt.

Table 4: Cash flow table for the most recent financial years

Cash flow table (x EUR million)	**Financial year 2013/2014**	**Financial year 2012/2013**	**Financial year 2011/2012**
Operating activities	**-27.5**	**50.8**	**-30.4**
Net profit	26.4	50.8	-30.4
Elimination of net result from the sale of shares (EUR 36.0 million) and gain on repurchase of loan (EUR 15.8 million)	-51.7	n/a	n/a
Movement in net working capital	-2.2	0.0	0.0
Investing activities	**184.0**	**0.0**	**0.0**
Cash revenues from sale of KBC Group shares	184.0	0.0	0.0
Financing activities	**-156.4**	**-50.8**	**30.4**
Short-term financial liabilities	2.8	-50.8	30.4
Long-term financial liabilities (repurchase of loan of EUR 175 million at 9% discount)	-159.2	n/a	n/a
Distribution of interim dividend	0.0	0.0	0.0
Total cash flow	**0.0**	**0.0**	**0.0**

1.2.3 Dividend

KBC Ancora will not distribute a dividend in respect of the last financial year.

Despite the fact that, after setting off the loss carried forward from the previous financial year (EUR -9.3 million) against the profit recorded for the financial year (EUR 26.4 million), KBC Ancora had an accounting profit to be appropriated of EUR 17.1 million, it is proposed that no dividend be distributed in respect of the year under review.

This is because the result for the financial year 2013/2014 includes a partial reversal of a substantial value write-down that was applied on 31 March 2009. Steps were taken at that time to neutralise the negative impact of this write-down on KBC Ancora's ability to distribute dividends[6]. It was announced at the time that the impact of any later full or partial reversal of the write-down would also be neutralised (see KBC Ancora press release dated 4 May 2009).

A proposal will therefore be submitted to the General Meeting of Shareholders that the result of the sale of the 4.7 million KBC Group shares in November 2013, amounting to a net total of EUR 35,955 million, should not be distributed as dividend. Specifically, the Meeting will be invited to add the balance of the result for the financial year (EUR 26.4 million) after set-off of the loss carried forward from the previous financial year (EUR -9.3 million) and the formation of the legal reserve (EUR 0.9 million), amounting to EUR 16.2 million, to the unavailable reserves. When appropriating the next available profit, KBC Ancora will propose adding the remaining amount (EUR 19.7 million) to the unavailable reserves.

6 When a write-down in the value of KBC Group shares was applied on 31 March 2009, a corresponding capital reduction was announced in order to ensure that this write-down would not jeopardise future dividend payouts. It was also announced at that time that the impact of any later full or partial reversal of the write-down on the ability to pay out a dividend would also be neutralised (see KBC Ancora press release dated 4 May 2009).

1.3 Distribution of KBC Ancora shares

1.3.1 KBC Ancora shareholder structure

There is a statutory requirement to disclose participating interests in listed companies of (multiples of) 5%. In addition, KBC Ancora's Articles of Association stipulate disclosure thresholds of 1% and 3%.

The company Lansdowne Partners Austria GmbH, which is controlled by Lansdowne Partners International Limited, reported on 16 July 2014 that as at 10 July 2014 it exceeded the 1% disclosure threshold and held 796,477 KBC Ancora shares. These shares represent a participating interest in KBC Ancora of 1.02%, with equivalent voting rights.

On 20 August 2014 Cera reported (pursuant to Article 74 §8 of the law of 1 April 2007 on public takeover bids) that as at 31 July 2014 it (still) held more than 30% of the voting rights in KBC Ancora. Specifically, Cera reported that it held 44,674,394 of the total of 78,301,314 KBC Ancora shares, or 57.05%.

In addition, the disclosures made in earlier financial years by FMR LLC (1.01%) and Portus SA, controlled by Mr Gino Coorevits (1.49%), are also relevant for the shareholder structure.

A complete list of the participating interest disclosures received in previous financial years can be found on the KBC Ancora website.

1.3.2 The road to the market

Members of the Cera cooperative who withdraw with their cooperative D-shares receive a special 'reimbursement on withdrawal', consisting primarily of 4.2 KBC Ancora shares. In other words, members receive 4.2 KBC Ancora shares for each D-share which they surrender on withdrawal from Cera. They can then choose between keeping the KBC Ancora shares or selling them on the stock market.

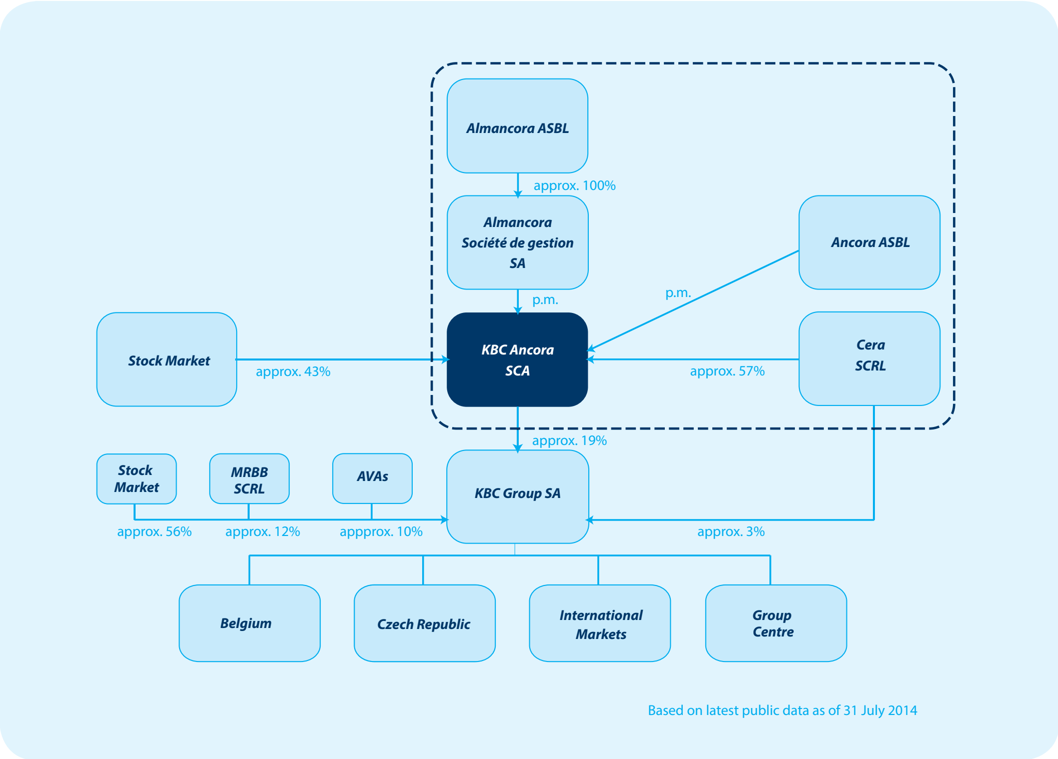
In principle, Cera members are permitted to withdraw voluntarily with their shares during the first half of each financial year. However, Cera's Articles of Association provide the possibility for the statutory manager, Cera Société de gestion, to temporarily refuse or suspend withdrawal by members. After two financial years (2012 and 2013) in which voluntary withdrawal was not permitted, Cera Société de gestion decided in November 2013 to permit voluntary withdrawal once again from 1 January 2014. It did however reserve the right to limit such withdrawals to 10% of the capital, in order to safeguard the stability of the company. Consequently, requests for withdrawal submitted in the first half of the financial year 2014 were not executed until early July 2014, after expiry of the withdrawal period. Since the number of withdrawals was well below the 10% threshold, all withdrawal requests submitted were met in full. Compulsory withdrawals (e.g. as a result of death) were in all cases implemented immediately.

2 Effective corporate governance

2.1 Group structure

Chart 6 shows KBC Ancora's group structure within the KBC group. The dotted line indicates the companies that belong to the Cera/KBC Ancora group.

Chart 6: Group structure[7]



2.1.1 Almancora ASBL

The object of Almancora ASBL ('Association sans but lucratif') is to support the stability and continuity of KBC Group. As controlling shareholder of Almancora Société de gestion, it plays an important part in the appointment of the latter's Board of Directors.

In the same capacity, Almancora ASBL has the casting vote at the General Meeting of Shareholders of Almancora Société de gestion.

Almancora ASBL's Board of Directors comprises the representatives of Cera members and the managing directors holding a directorship mandate at Almancora Société de gestion.

7 AVAs: Other Permanent Shareholders
MRBB Maatschappij voor Roerend Bezit van de Boerenbond SCRL
These parties together with Cera and KBC Ancora constitute the core shareholders of KBC Group and entered into a shareholder agreement to this end on 23 December 2004 with a view to supporting the general policy of KBC Group (*see 2.1.4 KBC Ancora SCA*).

2.1.2 Almancora Société de gestion SA

KBC Ancora does not have a Board of Directors of its own but is administered instead by a statutory manager – Almancora Société de gestion SA – the duties of which include setting out the policy to be pursued by KBC Ancora.

Almancora Société de gestion's Board of Directors (*see 2.2.2 Board of Directors of Almancora Société de gestion SA*) is made up of at least four representatives of Cera members, at least two managing directors and at least three independent directors.

2.1.3 Ancora ASBL

KBC Ancora's Articles of Association include rules for dealing with conflicts of interest. It was in this context that Ancora ASBL was founded.

Ancora ASBL acts as ad hoc representative in the event that Almancora Société de gestion has a conflict of interest with regard to a decision it has to take as manager of KBC Ancora, if Almancora Société de gestion is prevented from fulfilling its duties or if the statutory manager's mandate expires before KBC Ancora's General Meeting of Shareholders is able to appoint a new statutory manager. In such an event, Ancora ASBL will temporarily assume the management role of Almancora Société de gestion.

The Board of Directors of Ancora ASBL consists of Almancora Société de gestion SA's independent directors.

At its meeting of 29 November 2013, the Board of Directors of Ancora ASBL decided to nominate Katelijn Callewaert as the new permanent representative of Ancora ASBL for the performance of the mandate of ad hoc manager of KBC Ancora. She replaces Van Hulle & Cie SCS (with Cynthia Van Hulle as permanent representative), whose directorship ended on 29 November 2013.

2.1.4 KBC Ancora SCA

KBC Ancora's principal activity is the maintenance and management of its shareholding in KBC Group with a view to ensuring, in collaboration with Cera, MRBB and the Other Permanent Shareholders, the shareholder stability and continuity of KBC Group. To this end, KBC Ancora signed a shareholder agreement with these parties on 23 December 2004. Cera and KBC Ancora are viewed as a single party for the purposes of the agreement.

In December 2012, Cera and KBC Ancora contributed additional KBC Group shares which they already held to the shareholders' agreement between Cera, KBC Ancora, MRBB and the Other Permanent Shareholders, so that this agreement continues to represent more than 30% of the total number of KBC Group shares.

The shareholders' agreement currently represents 128.5 million KBC Group shares, equivalent to 30.79% of the total number of shares in issue. Cera and KBC Ancora have together committed 61.7 million KBC Group shares, or 14.8% of the total number of KBC Group shares. KBC Ancora has committed 51.6 million KBC Group shares, or 12.4% of the total, and Cera the rest.

2.2 Declaration concerning effective corporate governance

KBC Ancora attaches great importance to corporate governance.

KBC Ancora applies the Belgian Corporate Governance Code as a reference code. It is committed to implementing the 2009 Code as fully as possible.

KBC Ancora's Corporate Governance Charter explains the principal aspects of the company's policy in relation to corporate governance. It is available on the website: www.kbcancora.be.

As KBC Ancora is managed by a statutory manager, the provisions of the Belgian Corporate Governance Code are applied at the level of the Board of Directors of Almancora Société de gestion SA.

The Board of Directors of Almancora Société de gestion applies the principles from the Corporate Governance Code in full. It deviates from the provisions of the Code where the specific characteristics of KBC Ancora or its statutory manager or specific circumstances make this necessary. In such cases the deviation is explained in accordance with the 'comply or explain' principle.

KBC Ancora's Corporate Governance Charter deviates from only two provisions of the Code.

Contrary to provisions 5.1 and 5.3/4 of the Corporate Governance Code, the Appointments Committee of Almancora Société de gestion may submit proposals directly (i.e. without the intervention of the Board of Directors) to the General Meeting of Shareholders of Almancora Société de gestion as regards the appointment of A, B and C directors. This offers the best guarantee of an independent nominations policy, in which the focus is exclusively on KBC Ancora's interests.

In addition, contrary to Provision 7.11 of the Corporate Governance Code, the members of the Day-to-Day Management Committee receive no variable remuneration for their actual and set functions within KBC Ancora, for the reasons explained in section 2.2.6.

2.2.1 Management structure

The statutory manager bears unlimited liability vis-à-vis KBC Ancora's creditors. KBC Ancora's other shareholders are only liable to the extent of their contribution.

Under the terms of the Belgian Companies' Code (Code des sociétés), the statutory manager's endorsement must be obtained before any decision of the General Meeting of Shareholders affecting third parties (e.g. payment of a dividend) or any amendment to the Articles of Association can be ratified or enacted.

The manager was appointed in the Articles of Association for an indefinite period. Its mandate may only be terminated under exceptional circumstances. The manager may, however, choose to resign without having to seek the endorsement of the General Meeting of Shareholders.

Almancora Société de gestion is authorised as manager to do all that is necessary for or conducive to the achievement of the company's object, with the exception of powers that are reserved by law for the General Meeting of Shareholders.

Almancora Société de gestion receives no remuneration for exercising its managerial mandate, but costs incurred during the exercise of that mandate are reimbursed.

2.2.2 Board of Directors of Almancora Société de gestion SA

The following changes took place in the composition of the Board of Directors in the year under review:

- At the General Meeting of Almancora Société de gestion held on 29 November 2013, Jules Stuyck was appointed as a new C director for a term of four years.

  He was appointed to replace Hulle & Cie SCS (with Cynthia Van Hulle as permanent representative), whose term of office as a C director ended on 29 November 2013 as the maximum permitted total term of office of 12 years had been reached.

  Jules Stuyck *(b. 1948) is an emeritus professor at KU Leuven University, where among other things he taught European Law and Consumer Law in the Faculty of Law. He has been a barrister-at-law in Brussels since 1984, and in 2002 became a partner at the Brussels law firm Liedekerke Wolters Waelbroeck Kirkpatrick, where he is head of the European Law and Competition Law department.*
- At the General Meeting of Almancora Société de gestion held on 29 November 2013, Ghislaine Van Kerckhove and Johan Massy were reappointed as B directors for a further term of four years.
- At the meeting of the Board of Directors of Almancora Société de gestion held on 29 November 2013, Katelijn Callewaert was appointed Chairman of the Board of Directors in replacement of Van Hulle & Cie SCS.

Table 5 sets out the composition of the Board of Directors of Almancora Société de gestion and the committees set up under the Board's aegis. The number of meetings attended by the relevant Board member are reported for the Board of Directors and its committees. The Board met 13 times in the financial year 2013/2014; the Audit Committee met five times, the Appointments Committee five times and the Remuneration Committee once.

Table 5: Composition of the Board of Directors of Almancora Société de gestion and overview of individual attendees

Name	End of current term	A directors	B directors	C directors	Day-to-Day Management Committee	Audit Committee	Appointments Committee	Remuneration Committee
Franky Depickere	2014	13			12		5	
Luc Discry	2014	13			12			
Jean-François Dister	2014		13				5	1
Koen Kerremans	2016		13					
Johan Massy	2017		13			5		
Ghislaine Van Kerckhove	2016		12					
Anita Verresen	2015		13					
Katelijn Callewaert* Chairman	2014			13		3	5	1
Danielle Sougné	2016			12		5		
Jules Stuyck* (since 29.11.2013)	2017			6		2	1	
Vandaele Herman SPRL (permanent representative: Herman Vandaele)	2014			13		5	5	1
Van Hulle & Cie SCS* (permanent representative: Cynthia Van Hulle) (until 29.11.2013)	2013			4			4	-

** The directorship of Van Hulle & Cie SCS, with Cynthia Van Hulle as permanent representative, expired at the General Meeting of 29 November 2013. At the same time, her term of office as Chairman of the Board of Directors and as a member and Chairman of the Appointments Committee and the Remuneration Committee, respectively, also expired.*

At the meeting of the Board of Directors on 29 November 2013, Katelijn Callewaert was nominated as the new Chairman of the Board of Directors of Almancora Société de gestion, as Chairman of the Appointments Committee and as a new member and Chairman of the Remuneration Committee.

On 29 November 2013, Katelijn Callewaert resigned as a member of the Audit Committee. She was replaced on the Audit Committee by Jules Stuyck. Jules Stuyck was also appointed as a new member of the Appointments Committee with effect from 29 November 2013.

2.2.2.1 Composition of the Board of Directors

The mandate of the statutory manager, Almancora Société de gestion, may only be terminated with its agreement or by judicial ruling, if there are legal grounds for this. For that reason, a great deal of attention has been paid to the way in which the Board of Directors of Almancora Société de gestion itself is constituted. Account was taken when drafting the Articles of Association of KBC Ancora's anchoring objective, the principles of effective corporate governance – more specifically recommendations from competent authorities – and the legal rules regarding conflicts of interest in listed companies.

The Board of Directors of Almancora Société de gestion consists of three types of directors, each with its own specific conditions for appointment:

- **A directors** are those whose directorship forms part of their everyday professional activity. The individuals in question are managing directors of Almancora Société de gestion, with individual powers of representation. The two current A directors are also managing directors of Cera Société de gestion, Cera's statutory manager. This creates a personal link between KBC Ancora and Cera.
- **B directors** are non-executive directors who are members of the consultative bodies that operate within Cera Ancora, as long as the latter does not oppose their candidacy. These directors personify the institutional link between KBC Ancora and Cera, as also enshrined in the description of KBC Ancora's object as set out in its Articles of Association.
- **C directors** are independent directors. They are appointed because of their independence vis-à-vis the management of KBC Ancora, Cera and the KBC group.

Directors are appointed for a maximum term of four years.
Directorships may be renewed. If a directorship is renewed within the same category, the director concerned may be reappointed one or more times on expiry of each term of office, though only for immediately following terms. A directorship may not last for more than a total of 12 years[8].

B and C directorships terminate by law following the Annual General Meeting held in the twelfth year of the directorship. A directorship also ends by law in any event following the General Meeting of Shareholders held in the year following the year in which the director in question has reached the age of 70 years. A directorships are renewable without limit and end by law in any event at the moment that the director concerned reaches the age of 65 years.

In the event that there are one or more unfilled directorships, the remaining directors of the same category are authorised to fill the vacancy or vacancies on a temporary basis from candidates proposed by the Appointments Committee until the next General Meeting of Shareholders.

The Board selects a Chairman from its B and C members.

The A and C directors together constitute the majority on the Board of Directors; there must be a minimum of three C directors. Persons may only be appointed as A, B or C directors by the General Meeting of Shareholders at the nomination of the Appointments Committee of Almancora Société de gestion. The C directors constitute the majority of the members of this Appointments Committee.

8 The following transitional rules apply in relation to the length of directorships and their possible extension for directors who were incumbent as at 24 October 2003: directorships which were current on 24 October 2003 may be ended before the end of the period for which they (the directors) were appointed. After the ending of these directorships, the terms of office of the directors concerned may be extended by periods of up to six years, until they have reached the age limit of seventy years or have completed three terms of six years. Pursuant to the Law of 17 December 2008 concerning the 'creation of an Audit Committee in listed companies and financial enterprises', these transitional rules will not be applied to the independent directors (the C directors) to the extent that the statutory criteria as set out in the new Section 526 of the Belgian Commercial Code (Code des sociétés) (no more than three consecutive terms of office, with a maximum of 12 years) would be exceeded.

The company applies strict independence criteria. These independence criteria are set out in Article 9 of the Articles of Association of Almancora Société de gestion. All C directors also comply with the new statutory independence criteria as defined in Section 526ter of the Belgian Companies' Code (Code des sociétés).

2.2.2.2 Powers of the Board of Directors

The Board of Directors of Almancora Société de gestion is authorised to perform all acts which are necessary for or conducive to the achievement of its object and, in the context of its management of KBC Ancora, for the achievement of the object of KBC Ancora.

In exercising its management mandate within KBC Ancora, Almancora Société de gestion pays particular attention to KBC Ancora 's object. That object is aimed at the maintenance and management of a participating interest in KBC Group, or of every company and/or group of companies which is a continuation thereof in order, together with Cera, to achieve and maintain the anchoring of KBC Group as described in the KBC Ancora Articles of Association.

The Board of Directors carries out all tasks which are assigned to it by law and/or the Articles of Association. Decisions on the strategy of the company, its values and the focus of its policy take account of the consultations between KBC Ancora and Cera.

The Board of Directors exercises these powers with regard both to the management of Almancora Société de gestion itself and in relation to the management of KBC Ancora, given the capacity of Almancora Société de gestion as statutory manager of KBC Ancora, all in accordance with the respective provisions of the Articles of Association. Where relevant, the Board of Directors also takes into account the cost-sharing association between Cera and KBC Ancora (*see 3.2.2.1 Costs within the cost-sharing association with Cera*).

The Board of Directors is also authorised, in view of the capacity of Almancora Société de gestion as statutory manager of KBC Ancora, to consult and collaborate with Cera in the light of their parallel anchoring objective.

Almancora Société de gestion is bound to implement its mandate as statutory manager personally. However, as permitted by the KBC Ancora Articles of Association, the Board of Directors of Almancora Société de gestion has delegated the day-to-day management of KBC Ancora and of Almancora Société de gestion, as well as the implementation of the decisions taken by the statutory manager, to two A directors who together constitute the Day-to-Day Management Committee.

2.2.2.3 Functioning of the Board of Directors

The functioning of the Board of Directors is governed by the Articles of Association, supplemented by the relevant provisions of the Belgian Companies' Code (Code des sociétés). Further details are contained in the 'Guidelines for Directors of Almancora Société de gestion for the exercise of their directorship', which form part of the Internal Addendum to the KBC Ancora Corporate Governance Charter.

The Board of Directors met 13 times in the year under review. Each of these meetings was attended by virtually all members. In addition to its traditional duties (adopting the annual and interim results, proposal for appropriation of result, monitoring the activities of the Audit Committee, Appointments Committee and Remuneration Committee, approving the budgets, etc.), the Board of Directors also dealt with the following topics among others in the financial year 2013/2014:

- Transfer of loans provided by KBC Bank SA in 2007 to an amount of EUR 325 million to a new lender;
- Sale in November 2013 of 4.7 million KBC Group shares and repurchase of a loan provided by KBC Bank in 2007 with a nominal amount of EUR 175 million (full repayment of which was scheduled on the maturity date in 2027);
- Monitoring of strategy and results of the KBC group and functioning of shareholder syndicate;
- Risk management within the Cera/KBC Ancora group;
- Valuation of financial fixed assets of KBC Ancora;
- Legal proceedings in relation to the purchase of KBC Group shares by KBC Ancora in 2007 (minority claim proceedings);
- Overseeing directorships (appointment of a C director, reappointment of two B directors, appointment of a new Chairman of the Board of Directors, extension of the term of office of the vice-chairman of the Board of Directors, appointment of a new member of the Audit Committee, appointment of a new member of the Appointments committee and appointment of a new member of the Remuneration Committee);
- Updating the KBC Ancora Corporate Governance Charter.

2.2.3 Committees appointed within the Board of Directors

2.2.3.1 Day-to-Day Management Committee

- **Composition:**

  The Day-to-Day Management Committee is a collegial body and comprises the two A directors.

  The term of office of the members of the Day-to-Day Management Committee ends on expiry of their term of office as A directors on the Board of Directors.

- **Powers:**

  The Day-to-Day Management Committee prepares the meetings of the Board of Directors and forwards proposals for decisions to the Board.

  The Committee exercises its powers autonomously, but always within the framework of the general strategy as adopted by the Board of Directors.

  The Day-to-Day Management Committee is authorised to conduct the day-to-day management of both Almancora Société de gestion and KBC Ancora.

- **Functioning:**

  The Day-to-Day Management Committee has been charged by the Board of Directors with the day-to-day management of the company. In principle, the Day-to-Day Management Committee meets once a month. The Committee met 12 times in the year under review. In addition, there were of course the ongoing informal contacts between the Managing Directors.

2.2.3.2 Audit Committee

- **Composition:**

  The Audit Committee comprises a minimum of three directors, other than A directors. More than half the members of the Audit Committee must be C directors.

  C directors are independent directors, all of whom meet the independence criteria as set forth in the Belgian Corporate Governance Code and in Section 526ter of the Belgian Companies' Code (Code des sociétés).

  Herman Vandaele (as permanent representative of Vandaele Herman SPRL) and Danielle Sougné were designated as the Audit Committee members with specific experience in relation to accounting and audit.

  Herman Vandaele *obtained a degree in Applied Economics (Licentiaat in de Toegepaste Economische Wetenschappen) at the University of Antwerp (UFSIA) and the degree of Master in Treasury & Banking and Tax Management at IPO Antwerpen (now Antwerp Management School). He also followed an Executive Management Programme at CEDEP/INSEAD in Fontainebleau and a Leadership Program at the University of Colorado Denver. Until the end of December 2010 he was General Manager Corporate Projects at NV Bekaert, and since 1975 has held various posts within the Bekaert group both within Belgium and abroad. He possesses years of experience in corporate and headquarter responsibilities. His expertise extends among other things to plant control, corporate finance, audit, personnel management, IT, corporate treasury and banking, M&A, shared services, investor relations and general management. In the period 1985-2000 he worked as a lecturer at the Ehsal and Vlekho Institutes (now University College Brussels) and at IPO Antwerpen (now Antwerp Management School).*

  Danielle Sougné *obtained the degree of Licentiaat in Business Studies and a teaching certificate in Economics at the Management School of the University of Liège (HEC). She also obtained the degree of Master in Administration and Management (Finance orientation) and a PhD in Applied Economics (Finance orientation) at Université Catholique de Louvain (UCL). Since 1999 she has been a lecturer in Financial Management at the Management School of the University of Liège, where she became chair of the 'Finance et Droit' (Finance and Law) department in 2008. She has been a full-time academic since 1999, teaching a range of subjects including Capital Budgeting and Valuation, Corporate Finance, Introduction to Consolidation, Accountancy and Taxation, and Financial Markets.*

  It is evident from the foregoing that a sufficient number of the independent directors who are members of the Audit Committee meet the independence and expertise criteria as laid down in Section 96, §1, 9° of the Belgian Companies' Code, and that the Audit Committee therefore possesses sufficient relevant expertise in relation to accounting and audit.

  The Audit Committee elects a Chairman from among its members, who may not also be the Chairman of the Board of Directors, and appoints a secretary.

- **Powers:**

  The Audit Committee supports the Board of Directors in the performance of its supervisory tasks in respect of audit in the widest sense.

  The Audit Committee's tasks relate in particular to:

  - Financial reporting and communication;
  - Internal control and risk management;
  - Overseeing the effective functioning of the company's internal control system;
  - The external audit function performed by the auditor;
  - Additional audit duties.

- **Functioning:**

  The Audit Committee meets as often as necessary for its proper functioning, and at least four times a year.

  The Audit Committee's activities are governed by the Internal Rules of the Audit Committee, which are incorporated in the Corporate Governance Charter.

  The managing directors are not members of the Audit Committee, but are invited to attend meetings. This arrangement guarantees the necessary dialogue between the Board of Directors and the executive management.

  The Audit Committee met five times during the year under review. Among the topics discussed in the financial year 2013/2014 were the following:

  - Transfer of loans provided by KBC Bank SA in 2007 to an amount of EUR 325 million to a new lender;
  - Sale in November 2013 of 4.7 million KBC Group shares and repurchase of a loan provided by KBC Bank in 2007 with a nominal amount of EUR 175 million (full repayment of which was scheduled on the maturity date in 2027);
  - Draft financial statements and draft annual report of KBC Ancora for the financial year 2012/2013;
  - Remuneration report of KBC Ancora for the financial year 2012/2013;
  - Valuation of KBC Ancora's financial fixed assets;
  - Overseeing the procedure in relation to the minority claim;
  - Evaluation of the effectiveness of the Audit Committee and the adequacy of the Internal Rules of the Audit Committee;
  - Budgets for the cost-sharing association between Cera and KBC Ancora;
  - Audit planning by the auditor;
  - Interim figures of KBC Ancora;
  - Administrative organisation and internal control;
  - Budgets for the next financial year.

2.2.3.3 Appointments Committee

- **Composition:**
  The Appointments Committee comprises a minimum of three directors. The C directors together constitute the majority of the Appointments Committee.
  The Appointments Committee is chaired by the Chairman of the Board of Directors of Almancora Société de gestion, except where the choice of his or her successor is being discussed.

- **Powers:**
  The Appointments Committee submits proposals directly (i.e. without the intervention of the Board of Directors) to the General Meeting of Shareholders of Almancora Société de gestion as regards the appointment of A, B and C directors. The Appointments Committee nominates at least two candidates for each vacancy.

  As the majority of the Appointments Committee consists of independent, non-executive directors (C directors), the direct nomination of candidate directors offers the best guarantee of an independent nominations policy, in which the focus is exclusively on KBC Ancora's interests.

  No directors may be appointed who have not been nominated by the Appointments Committee.

- **Functioning:**
  The Appointments Committee meets as often as necessary for its proper functioning, and at least twice a year.

  The Appointments Committee's activities are governed by the Internal Rules of the Appointments Committee, which are incorporated in the Corporate Governance Charter.

  The Appointments Committee met five times during the year under review. Among the matters discussed at these meetings were the following:

  - Appointment of a new C director;
  - Reappointment of two B directors;
  - Appointment of a new Chairman of the Board of Directors;
  - Extension of the term of office of the vice-chairman of the Board of Directors;
  - Appointment of a new member of the Audit Committee;
  - Appointment of a new member and a new Chairman of the Appointments Committee;
  - Appointment of a new member and a new Chairman of the Remuneration Committee;
  - Evaluation of the activities of the Appointments Committee;
  - Evaluation of the composition and size of the Committees.

  Whenever necessary or appropriate, joint meetings were organised between the Appointments Committee of Almancora Société de gestion and the Appointments Committee of Cera Société de gestion.

2.2.3.4 Remuneration Committee

- **Composition:**
  The Remuneration Committee comprises at least three directors, other than A directors, of whom the majority are C directors.

  The Remuneration Committee is chaired by the Chairman of the Board of Directors of Almancora Société de gestion.

- **Powers:**

  The Remuneration Committee:
    - makes proposals regarding the remuneration policy for B and C directors;
    - makes proposals regarding the remuneration policy for members of the Day-to-Day Management Committee (A directors);
    - makes recommendations concerning the individual remuneration of B and C directors and of members of the Day-to-Day Management Committee;
    - makes proposals regarding the remuneration policy for management members other than the members of the Day-to-Day Management Committee of Almancora Société de gestion.

  Where relevant, consultation takes place with the Remuneration Committee of Cera Société de gestion.

- **Functioning:**

  The Remuneration Committee meets as often as necessary for its proper functioning, and in principle at least twice a year. The Remuneration Committee met only once in the year under review, however.

  The Remuneration Committee has sufficient relevant expertise in the field of remuneration policy. Among the members of the Remuneration Committee, Herman Vandaele possesses specific experience in the field of HR management and remuneration of company directors.

  Herman Vandaele *obtained a degree in Applied Economics (Licentiaat in de Toegepaste Economische Wetenschappen) at the University of Antwerp (UFSIA) and the degree of Master in Treasury & Banking and Tax Management at IPO Antwerpen (now Antwerp Management School). He also followed an Executive Management Programme at CEDEP/INSEAD in Fontainebleau and a Leadership Program at the University of Colorado Denver. Until the end of December 2010 he was General Manager Corporate Projects at NV Bekaert, and since 1975 has held various posts within the Bekaert group both within Belgium and abroad. He possesses years of experience in corporate and headquarter responsibilities. His expertise extends among other things to plant control, corporate finance, audit, personnel management, IT, corporate treasury and banking, M&A, shared services, investor relations and general management. In the period 1985-2000 he worked as a lecturer at the Ehsal and Vlekho Institutes (now University College Brussels) and at IPO Antwerpen (now Antwerp Management School).*

  The Remuneration Committee's activities are governed by the Internal Rules of the Remuneration Committee, which are incorporated in the KBC Ancora Corporate Governance Charter.

  Among the matters discussed by the Remuneration Committee in the year under review were the remuneration of B and C directors, the evaluation of the managing directors, the evaluation of the functioning of the Remuneration Committee and the Remuneration Report for the financial year 2013/2014 to be submitted to a vote by the General Meeting of Shareholders of KBC Ancora.

2.2.4 Auditor

The General Meeting of Shareholders of 28 October 2011 appointed KPMG Reviseurs d'entreprises (KPMG) as auditor for a period of three years. With effect from the financial year 2013/2014, Erik Clinck has been succeeded as permanent representative of KPMG by Olivier Macq.

KPMG Réviseurs d'entreprises received a fee of EUR 15,742 (excluding VAT) in the financial year 2013/2014 for the performance of its audit activities.

2.2.5 Main features of the evaluation process for the Board of Directors, its committees and its individual members

The Board of Directors discusses and evaluates its size, composition and activities on a regular basis, and at least once every three years, as well as the functioning of the Board and its committees and the interaction between the Board of Directors and the Day-to-Day Management Committee. This evaluation is performed by the Board of Directors on the initiative of the chairman and assisted by the Appointments Committee. In addition, each committee tests and assesses its effectiveness each year and submits a report on this to the Board of Directors. Where necessary, the committee in question proposes changes to the Board of Directors.

The contribution of each member of the Board of Directors is periodically evaluated in order to be able to adapt the composition of the Board of Directors to take account of changing circumstances. The evaluation takes into account their general role as directors as well as their specific roles as Chairman or member/Chairman of a committee, respectively. In the event of a reappointment, the commitment and effectiveness of the director are assessed in accordance with a predetermined and transparent procedure.

The Board of Directors acts on the basis of the results of the evaluation by identifying its strengths and addressing its weaknesses. Where appropriate this means that new members are proposed for appointment, that a proposal is made that existing members should not be reappointed or that measures are taken that are deemed conducive to the effective functioning of the Board of Directors.

B and C directors meet at least once a year in the absence of the A directors in order to evaluate their interaction with the Day-to-Day Management Committee.

2.2.6 Remuneration report for the financial year 2013/2014

Description of the procedures for the development of the remuneration policy of individual directors and members of the Day-to-Day Management Committee

Almancora Société de gestion receives no separate remuneration for performing its mandate as a statutory manager. It does receive reimbursement of the costs it incurs in respect of the remuneration paid to the directors and for the reimbursement of expenses paid to B and C directors[9].

As KBC Ancora is managed by a statutory manager, the statutory provisions in respect of remuneration policy and the relevant provisions of the Belgian Corporate Governance Code

9 In addition to the payments to directors, which account for the vast majority of the total expenses incurred by Almancora Société de gestion in the performance of its mandate as manager, Almancora Société de gestion's other operating costs are also charged in full to KBC Ancora (*see section 3.2.2.4 of this Annual Report*).

are applied transparently at the level of the Board of Directors of Almancora Société de gestion SA. The Board of Directors of Almancora Société de gestion has appointed a Remuneration Committee which advises the Board of Directors on the remuneration policy and individual remuneration of B and C directors and of members of the Day-to-Day Management Committee (A directors) and makes proposals for the remuneration policy for the other Board members. The Remuneration Committee has an advisory function.

The Remuneration Committee monitors trends in legislation, the Corporate Governance Code and market practices, paying particular attention to developments in the remuneration policy at KBC Group SA, and may seek external advice where necessary. The Board of Directors may also instruct the Remuneration Committee on its own initiative or at the proposal of the Day-to-Day Management Committee to investigate possible changes to the remuneration policy and to advise the Board of Directors accordingly.

Whenever necessary or appropriate, joint meetings were organised between the Remuneration Committee of Almancora Société de gestion and the Remuneration Committee of Cera Société de gestion.

Declaration concerning the remuneration policy pursued during the year under review with respect to directors and members of the Day-to-Day Management Committee

The Remuneration Committee hereby declares the following:

Principles of the remuneration policy with due observance of the relationship between remuneration and performance

Non-executive directors:

As a basic principle, non-executive directors (B and C directors) of Almancora Société de gestion receive a fair level of remuneration which is proportionate to their contribution to the policy of KBC Ancora and which is based on the following principles:

- The remuneration of B and C directors takes into account their responsibilities and time investment.
- B and C directors receive a fixed remuneration and an attendance fee for each meeting of the Board of Directors attended. The remuneration of B directors also takes into account the remuneration they receive for their membership of the Board of Directors of Cera Société de gestion.
- Given the large amount of time he/she invests in KBC Ancora, the Chairman of the Board of Directors enjoys a deviating remuneration regime. He or she receives a higher fixed remuneration, but no attendance fees.
- B and C directors who are members of the Audit Committee also receive an attendance fee for each meeting of the Committee they attend. The chairman of the Audit Committee receives a fixed remuneration.
- The members of the Appointments Committee do not receive attendance fees, but merely a travel allowance.
- Finally, B and C directors are entitled to reimbursement of expenses incurred in exercising their function as directors.Where relevant, this is discussed with the Remuneration Committee of Cera Société de gestion.

Where relevant, this is discussed with the Remuneration Committee of Cera Société de gestion.

Executive directors:

The Day-to-Day Management Committee is a collegial body comprising two managing directors (A directors) and is charged with the day-to-day management of both Almancora Société de gestion and KBC Ancora.

The present A directors of Almancora Société de gestion are also the A directors of Cera Société de gestion, statutory manager of Cera.

As members of the Day-to-Day Management Committees, A directors are charged among other things with the day-to-day management of KBC Ancora and Cera, respectively. Their remuneration package is fixed contractually by Cera. With the exception of any variable remuneration of the chairman of the Day-to-Day Management Committee (which is paid in full by Cera), 20% of their total reimbursement is charged on to KBC Ancora in the context of the cost-sharing association between Cera and KBC Ancora (*see 3.2.2.1 Costs within the cost-sharing association with Cera*). Where relevant, this is discussed with the Remuneration Committee of Cera Société de gestion.

The proposals in respect of the remuneration policy for members of the Day-to-Day Management Committee incorporate the principal elements of the remuneration. The remuneration of the members of the Day-to-Day Management Committee, 20% of which is paid by KBC Ancora, consists of a fixed remuneration, the use of a company car or travel allowance and a competitive insurance package, which among other things includes a supplementary retirement or survivor's pension, disability insurance, hospitalisation insurance and emergency assistance insurance.

The amount of the fixed remuneration is determined on the basis of the individual responsibilities and powers of the A directors, taking into account the remuneration paid for comparable functions in the marketplace.

Any variable remuneration of the A directors within Cera is not passed on via the cost-sharing association. These directors also receive no variable remuneration from KBC Ancora. The ultimate objective of KBC Ancora, namely the anchoring of KBC Group, is predicated on a very long-term vision. In the light of this, it is not entirely appropriate to formulate performance criteria, the assessment of which will inevitably be based on a relatively short-term perspective. Moreover, variable remuneration which is based solely on individual performance criteria pertaining to one A director within KBC Ancora will inevitably be limited in scope compared with the fixed remuneration. Bearing in mind the modest share taken by KBC Ancora in the fixed remuneration (20%), the benefits of this limited variable remuneration are not sufficient to justify the administrative complexity it involves, because it would bring the personal financial interests of the A directors and the interests of KBC Ancora into line to only a limited extent. For this reason, KBC Ancora decided to deviate from Provision 7.11 of the Corporate Governance Code, which recommends that an appropriate portion of the remuneration package of the executive management be linked to the performance of the company and to the performance of the individuals concerned.

Relative weight of the different remuneration components

During the year under review, the fixed portion of the remuneration and the pension contributions were the most important components.

Features of the performance bonuses in the form of shares, options or other rights to acquire shares

Not applicable.

Information on the remuneration policy for the next two financial years

The Remuneration Committee periodically evaluates the remuneration policy, and at the time of writing has no intention of materially amending the principles on which that policy is based.

Remuneration of individual non-executive directors of Almancora Société de gestion SA

Table 6: Remuneration of non-executive directors of Almancora Société de gestion

	Board of Directors (fixed)	Board of Directors (attendance fee)	Audit Committee (fixed)	Audit Committee (attendance fee)	Total
Katelijn Callewaert Chairman since 29.11.2013)	16,199	4,530	-	1,275	22,004
Jean-François Dister	3,120	3,765	-	-	6,885
Koen Kerremans	3,120	3,765	-	-	6,885
Johan Massy	3,120	3,765	-	2,265	9,150
Danielle Sougné	3,900	6,360	-	2,265	12,525
Jules Stuyck* (since 29.11.2013)	2,483	3,810	-	990	7,283
Vandaele Herman SPRL	3,900	7,020	6,240	-	17,160
Van Hulle & Cie SCS (until 29.11.2013)	9,563	-	-	-	9,563
Ghislaine Van Kerckhove	4,680	3,435	-	-	8,115
Anita Verresen	3,120	3,765	-	-	6,885
Total	**53,205**	**40,215**	**6,240**	**6,795**	**106,455**

Information on the remuneration that members of the Day-to-Day Management Committee who are also members of the Board of Directors would have received in that capacity

Neither fixed remuneration nor attendance fees were paid to the two members of the Day-to-Day Management committee for the performance of their mandate as directors.

Evaluation criteria based on the performance of the company

Not applicable in view of the non-payment of variable remuneration.

Remuneration of the members of the Day-to-Day Management Committee

The Day-to-Day Management Committee is a collegial body. The company is therefore not led by a CEO in the sense of a sole operational and responsible representative of the enterprise. Nonetheless, in implementation of the provisions of the Corporate Governance Code and the Law on reinforcing corporate governance in listed companies, the individual remuneration of the Chairman of the Day-to-Day Management Committee (Franky Depickere) is disclosed.

Table 7: Remuneration of Day-to-Day Management Committee of KBC Ancora

	fixed	pension**	other***
Day-to-Day Management Committee	142,277	19,735	3,896
of which the Chairman*	124,308	16,322	3,102

* *Mandate exercised on the basis of a self-employment contract.*

** *The pension contributions take the form of fixed contributions to fund a supplementary retirement or survivor's pension.*

*** *Other remuneration comprises the use of a company car and a disability insurance, hospital insurance and emergency assistance insurance package.*

Shares, share options and other rights to acquire KBC Ancora shares granted, exercised or lapsed during the year under review, on an individual basis

No shares, share options or other rights to acquire KBC Ancora shares were granted or exercised during or before the year under review.

Provisions on severance packages for the members of the Day-to-Day Management Committee

The terms and conditions governing the employment of members of the Day-to-Day Management Committee are set out in individual employment contracts agreed between Cera and the parties concerned. 20% of the cost price of these contracts (with the exception of the variable remuneration – see above) is passed on to KBC Ancora in the context of the cost-sharing association between Cera and KBC Ancora (*see 3.2.2.1 Costs within the cost-sharing association with Cera*). The employment contract agreed with Mr Franky Depickere took effect on 1 September 2006, well before the new Corporate Governance Code and the Law on reinforcing corporate governance in listed companies came into force. It provides for a severance package equivalent to 24 months' fixed remuneration, and the company is bound to meet this contractual obligation should the situation arise. The employment contract agreed with Luc Discry took effect on 13 August 2010 and provides for a severance package equivalent to 12 months' fixed remuneration.

Information as referred to in Article 14, paragraph 4 of the Law of 2 May 2007 concerning the disclosure of major shareholdings in issuers whose shares have been admitted for trading on a regulated market

Shareholder structure as at 30 June 2014

There is a statutory requirement to disclose participating interests in listed companies of (multiples of) 5%. In addition, KBC Ancora's Articles of Association stipulate disclosure thresholds of 1% and 3%.

KBC Ancora received two notifications in the year under review pursuant to the provisions of the Law of 2 May 2007 concerning the disclosure of major shareholdings.

Lansdowne Partners Austria GmbH, which is controlled by Lansdowne Partners International Limited, reported on 25 October 2013 that as at 15 March 2013 it held 785,645 KBC Ancora shares. These shares represented a participating interest in KBC Ancora of 1.00%, with equivalent voting rights. On 18 November 2013, the same company reported that its participating interest in KBC Ancora had fallen below the 1% threshold on 12 November 2013.

Table 8 summarises the shareholder structure of KBC Ancora based on all notifications received up to and including 30 June 2014. A detailed summary of all participating interest disclosures may be found on the KBC Ancora website.

Table 8: Shareholder structure of KBC Ancora (situation up to 30 June 2014)

Informant	Situation as at	Number of shares	Participating interest
Cera SCRL	30 June 2014	45,791,820	58.48%
FMR LLC	28 June 2013	791,841	1.01%
Gino Coorevits/Portus SA	30 October 2009	1,164,510	1.49%

Notifications received after 30 June 2014

Lansdowne Partners Austria GmbH, which is controlled by Lansdowne Partners International Limited, reported on 16 July 2014 that as at 10 July 2014 it held 796,477 KBC Ancora shares. These shares represent a participating interest in KBC Ancora of 1.02%, with equivalent voting rights.

Information as referred to in Article 34 of the Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments that are admitted for trading on a regulated market

On 30 June 2014 the capital of KBC Ancora was represented by 78,301,314 shares without nominal value, each representing an equal portion of the capital.

The majority of the shares are held by Cera SCRL. On 20 August 2014 Cera reported (pursuant to Article 74 §8 of the law of 1 April 2007 on public takeover bids) that as at 31 July 2014 it (still) held more than 30% of the voting rights in KBC Ancora. Specifically, Cera reported that it held 44,674,394 of the total of 78,301,314 KBC Ancora shares, or 57.05%.

KBC Ancora is managed by a statutory manager appointed pursuant to the Articles of Association. At the Extraordinary General Meeting of Shareholders held on 12 January 2001, Almancora Société de gestion was appointed as statutory manager for the duration of the company. The management mandate of the statutory manager may only be terminated with its agreement or by the courts if there are lawful reasons for doing so. Decisions of the General Meeting which concern the interests of KBC Ancora vis-à-vis third parties, and decisions to amend the Articles of Association,[10] take effect only when and on the condition that the statutory manager gives its consent thereto.

Holders of securities in which special control rights are vested

None.

Limitations to the exercise of the voting right imposed by the law or the Articles of Association

There are no limitations on the exercise of the voting right. Each share confers the right to one vote.

As statutory manager, Almancora Société does have a right of veto in respect of all acts that could affect the interests of the company vis-à-vis third parties or which amend the Articles of Association.

Rules governing the appointment and replacement of members of the management body and amendment of the Articles of Association

When the company was established in 2001, Almancora Société de gestion was appointed as the statutory manager by the Articles of Association for an indefinite period. Its mandate may only be terminated on 'legitimate grounds'.

The attendance and majority requirements as set by the law apply for amendments of the Articles of Association. Pursuant to Article 33 of the Articles of Association, a resolution to amend the Articles of Association takes effect only when and if the statutory manager agrees to it.

Powers of the statutory manager in relation to the issue and repurchase of shares

Within the limits and on the conditions as set out in Article 9 of the Articles of Association, Almancora Société de gestion may decide to increase the authorised capital of KBC Ancora without seeking the prior authorisation of the General Meeting of Shareholders.

Almancora Société de gestion is also authorised to acquire or dispose of shares in the company within the limits and on the conditions as set out in Article 10 of the Articles of Association.

2.3 Internal control and risk management

Since KBC Ancora is a single-asset holding company whose sole asset is a substantial participating interest in KBC Group, the operational activities of KBC Ancora are fairly limited. KBC Ancora employs no staff. The operational activities are in the hands of joint staff of Cera and KBC Ancora (with costs being charged by Cera to KBC Ancora via the cost-sharing association; *see 3.2.2.1 Costs within the cost-sharing association with Cera)*.

The budgets are prepared by the Day-to-Day Management Committee and are explained and discussed in the Audit Committee before being submitted for approval to the Board of Directors. The Day-to-Day Management Committee periodically monitors the budgets and submits a report on them to the Audit Committee and the Board of Directors.

The system of internal control and risk management is characterised by the following elements:

10 To which the statutory attendance and majority requirements as set out in Section 558 ff. of the Belgian Companies' Code (Code des sociétés) also apply.

- sufficient information is made available to the Audit Committee to enable the costs of debt as well as the direct operating costs of KBC Ancora to be discussed and monitored in depth;
- the other operating costs are shared costs of KBC Ancora and Cera, which are borne by Cera and which to the extent that they relate to KBC Ancora are subsequently charged on to KBC Ancora. The Audit Committee of Almancora Société de gestion is closely involved in the following aspects of the discussion and monitoring of the budgets relating to the shared costs:
    - organisation of an annual joint meeting of the Audit Committees of Cera Société de gestion and Almancora Société de gestion to discuss the budgets and cost-sharing association between Cera and KBC Ancora;
    - discussion of the audit cycle during this joint annual meeting;
- the provision of transparent and regular information to the Audit Committee of Almancora Société de gestion concerning the operational activities and controls in place at Cera, in so far as these are relevant for the cost-sharing association between Cera and KBC Ancora;
- taking cognisance and discussion of the annual audit report by the auditor and of the specific activities of the auditor.

During the year under review, the Audit Committee of Almancora Société de gestion evaluated the adequacy of the present system of internal control and risk management. Based on this evaluation, the Audit Committee judged that there is currently no need to install additional control measures or to initiate an internal audit function.

2.4 Rotation system

Directors were appointed for a maximum six-year term on the foundation of Almancora Société de gestion in 2001. To ensure the necessary continuity of management, the Articles of Association provided for a rotation system in which a number of directorships lapse every two years. The rotation system is an optional system, which Almancora Société de gestion applies whenever it deems this necessary to ensure the continuity and proper functioning of the Board of Directors. The rotation system was applied for the first time in 2003.

Since then, a sufficient spread has arisen in the expiry dates of the directorships, and application of this optional system has therefore not been necessary.

2.5 Code of conduct in respect of conflicts of interest

The statutory provisions concerning potential conflicts of interest with a director or with a major shareholder (Sections 523 and 524 of the Belgian Companies' Code (Code des sociétés)) are incorporated and elaborated in Articles 20 and 21 of the Articles of Association. In addition, the Board of Directors of Almancora Société de gestion has formulated rules for dealing with potential conflicts of interest between directors/members of the Day-to-Day Management Committee of Almancora Société de gestion and of KBC Ancora. These rules are incorporated in the KBC Ancora Corporate Governance Charter.

No incidents occurred in the year under review for which the rules on conflicts of interest with the statutory manager or the rules on conflicts of interest with a major shareholder needed to be applied. There were also no conflicts of interest between directors/members of the Day-to-Day Management Committee of Almancora Société de gestion and KBC Ancora.

2.6 Code of conduct to prevent market abuse

The Board of Directors of Almancora Société de gestion has drawn up a code of conduct intended to prevent market abuse. The principles of the code of conduct have been incorporated in the KBC Ancora Corporate Governance Charter.

The code of conduct to prevent market abuse provides among other things for the drawing up of a list of insiders, the setting of annual prohibited periods, the reporting of trades by directors and employees involved to the compliance officer and the reporting of trades by management to the Belgian Financial Services and Markets Authority (FSMA).

2.7 Annual notification pursuant to Article 74, §8 of the Law of 1 April 2007 on public takeover bids

The majority of the shares are held by Cera SCRL. On 20 August 2014 Cera reported (pursuant to Article 74 §8 of the law of 1 April 2007 on public takeover bids) that as at 31 July 2014 it (still) held more than 30% of the voting rights in KBC Ancora. Specifically, Cera reported that it held 44,674,394 of the total of 78,301,314 KBC Ancora shares, or 57.05%.
This notification was made with a view to retaining the exemption from the obligation to issue a bid for the entire body of securities with voting rights of KBC Ancora SCA.

2.8 Guidelines for the exercise of directorships

The 'Guidelines for directors of Almancora Société de gestion for the exercise of their directorship mandates' form part of the 'Internal Addendum to the KBC Ancora Corporate Governance Charter'. They were most recently updated on 21 December 2007.

The Audit Committee oversees compliance with the 'Guidelines for directors of Almancora Société de gestion for the exercise of their directorship mandates'.

2.9 Openness in investor communication

In fulfilling its duty to inform, KBC Ancora focuses on natural communication opportunities at which it not only provides accurate information but also strives to convey that information in a comprehensible manner.

KBC Ancora publishes its periodic financial reports, annual reports and all other information that it is required to make public as a listed company on its website www.kbcancora.be.

This information is disseminated using the usual European media and the KBC Ancora website. In addition, every interested party has the opportunity to subscribe to the electronic mailing list of KBC Ancora free of charge via the website.

Since KBC Ancora's principal asset is a major participating interest in KBC Group, specific information – which frequently relates to the underlying group results – can also be found in the KBC Group annual report and website and those of its subsidiaries.

3 Statutory manager's report

3.1 Balance sheet as at 30 June 2014

KBC Ancora's balance sheet total stood at EUR 2,441.8 million on 30 June 2014, a reduction of EUR 148.0 million compared with the previous financial year.

3.1.1 Assets

The assets consist almost entirely of a substantial participating interest in KBC Group.

In the year under review, KBC Ancora sold 4,700,000 KBC Group shares, generating funds of EUR 184 million.

As at the balance sheet date, KBC Ancora held 77,516,380 KBC Group shares.

KBC Ancora has a participating interest of 18.6% in KBC Group. This qualifies as a participating interest within the meaning of Section 13 of the Belgian Companies Code (Code des sociétés) and is treated as a financial fixed asset for accounting purposes.

Accounting valuation of the KBC Group shares

General

KBC Ancora is subject to Belgian accounting rules.

As regards the KBC Group shares, which constitute a financial fixed asset for KBC Ancora, this means that write-downs must be applied in the event of a lasting reduction or depreciation in value, justified by the status, profitability or outlook of the company in which those shares are held (in this case, KBC Group).

Analysis by the Board of Directors

In the spring of 2009, the Board of Directors of the statutory manager was of the opinion that there had been a lasting reduction or depreciation in the value of the KBC Group shares in portfolio, and that the book value of these shares should be written down. In early 2009 the decision was taken to write down the average book value (at that time) from EUR 46.4 to EUR 31.5 per KBC Group share, an amount that corresponded with the (audited) equity value per KBC Group share as at 31 December 2008 (according to the IFRS rules applying for KBC Group).

Since that time, the Board of Directors of the statutory manager has left the book value per KBC Group share unchanged at EUR 31.5.

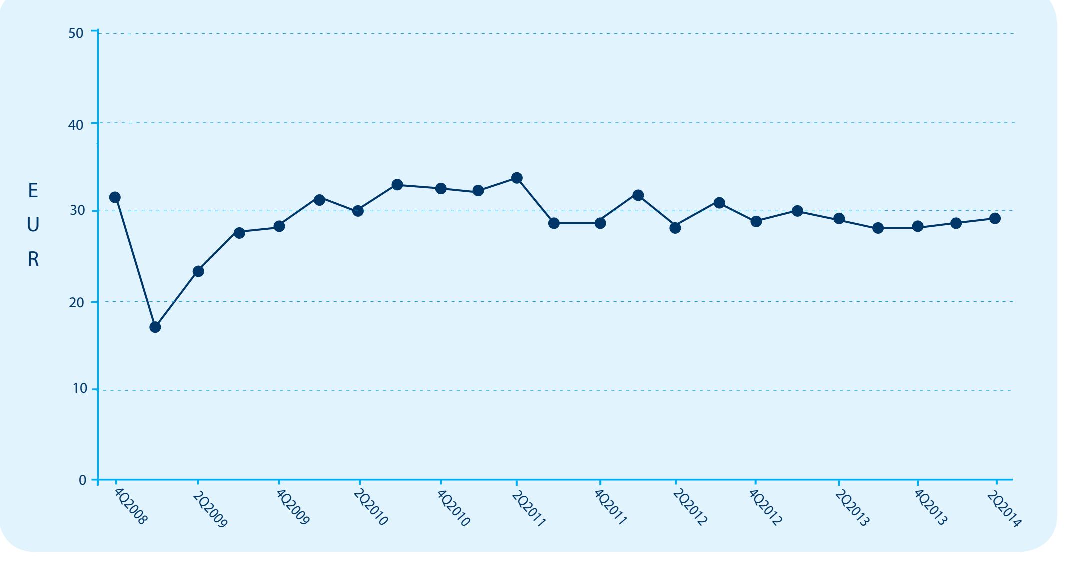
On 27 August 2014, the Board of Directors decided once again to hold the book value of these shares as at 30 June 2014 at EUR 31.5 per KBC Group share.

It may be noted that the stock market price of the KBC Group share has been above the average book value of EUR 31.5 since 1 August 2013, and the adjusted net result of KBC Group over the last two financial years has totalled EUR 1.50 billion (2012) and EUR 1.0 billion (2013). KBC Group recorded an adjusted net result of EUR 714 million for the first six months of 2014.

The trend in the price of the KBC Group share and the equity per KBC Group share since 2009 is presented in the following charts.

Chart 7: Trend in KBC Group share price (daily)

Chart 8: Trend in equity per KBC Group share (quarterly)



As regards the liquidity position of KBC Ancora, KBC Ancora's recurring income consists principally of dividend it receives from its participating interest in KBC Group.

In the event that KBC Ancora does not receive a dividend from its participating interest in KBC Group in any given year, KBC Ancora will itself not pay a dividend in that year. If KBC Ancora receives KBC Group dividend again in a subsequent financial year, its result carried forward will be taken into account when determining the profit available for distribution.

KBC Group has announced its intention to distribute a dividend of up to EUR 2.00 per share in respect of the financial year 2014 (provided the available profit for the financial year permits this), and not to distribute a dividend in respect of the financial year 2015. Based on this announcement, KBC Ancora expects to close the financial year 2015/2016 with a loss and will of course not distribute a dividend itself. KBC Ancora will use debt finance to meet its operating costs and interest charges in the financial year 2015/2016.

In assessing the accounting valuation of the KBC Group shares which constitute KBC Ancora's financial fixed asset, the Board of Directors also forms a view in its analysis of the 'status, profitability or outlook of the company' concerning the likely future developments in the parameters described above. In view of these factors, the Board of Directors does not regard an adjustment of the book value of the KBC Group shares as necessary.

3.1.2 Liabilities

Capital and reserves amounted to EUR 2,039.0 million, an increase of EUR 26.4 million, or 1.3%, compared with the previous financial year.

The profit realised in the year under review (EUR 26.4 million) will be set off against the loss carried forward from the previous financial year (EUR -9.3 million), so that KBC Ancora will close the financial year with capital and reserves comprising capital of EUR 2,021.9 million, a legal reserve of EUR 0.9 million and an unavailable reserve of EUR 16.2 million. The purpose of this unavailable reserve is to neutralise the impact on KBC Ancora's ability to pay dividends of the partial reversal (to an amount of EUR 35.955 million) of an earlier substantial value write-down. The remaining balance (amounting to EUR 19.7 million) will be neutralised when appropriating the next available profit (*see section 1.2.3 Dividend*)

Since July 2013, KBC Ancora has a new lender for EUR 325 million of its debt, which had previously been provided by KBC Bank. The conditions governing the terms and interest rates applying to these loans remained unchanged.

The proceeds of the sale of 4.7 million KBC Group shares were used principally to repurchase a loan of EUR 175 million, which had been provided by KBC Bank, with a discount of EUR 15.8 million (9% of the nominal value). The balance was used among other things to pay the accrued interest on this loan (EUR 5.1 million).

Amounts owed to credit institutions showed a net reduction of EUR 172.2 million to EUR 400.8 million. Of this total, EUR 375 million related to long-term loans carrying fixed rates of interest, with repayment dates in 2017 (EUR 175 million), 2022 (EUR 100 million) and 2027 (EUR 100 million). The remainder (EUR 25.8 million) consisted of short-term drawdowns.

Collateral was provided in the form of a pledge on KBC Group shares. In total, KBC Ancora pledged 25.7 million KBC Group shares. The pledge relates to long-term liabilities totalling EUR 375 million.

Other amounts falling due within one year amounted to EUR 0.2 million.

Accruals and deferrals on the liabilities side of the balance sheet (EUR 1.8 million) relate to interest charges recognised on a pro rata basis.

3.2 Profit and loss account for the financial year 2013/2014

Given the nature of KBC Ancora's operations, the same profit and loss account scheme has been used as was customary for portfolio companies[11].

KBC Ancora recorded a profit for the financial year 2013/2014 of EUR 26.4 million, equivalent to EUR 0.34 per share.

3.2.1 Income

KBC Ancora realised income of EUR 86.1 million, or EUR 1.10 per share, in the year under review.

Table 9 summarises the movements in the various income categories within KBC Ancora in recent financial years.

Table 9: Trend in KBC Ancora income

(x EUR million)	Financial year 2013/2014	Financial year 2012/2013	Financial year 2011/2012
Income from financial fixed assets	0.0	82.2	0.8
Reversal of write-down of financial fixed assets	70.2	0.0	0.0
Other income	15.9	0.0	0.0
TOTAL	**86.1**	**82.2**	**0.8**

3.2.1.1 Income from financial fixed assets

KBC Group decided not to distribute a dividend in 2014 in respect of the financial year 2013. As a result, KBC Ancora received no income from its financial fixed assets, which consist entirely of a participating interest in KBC Group.

3.2.1.2 Reversal of write-down of financial fixed assets

KBC Ancora sold 4.7 million KBC Group shares in November 2013. The value of these shares was written down in 2009; this write-down had to be reversed following the sale of the shares. The reversal amounted to EUR 70.2 million.

However, as the sale price of the KBC Group shares was lower than their original book value (before application of the write-down), a loss also had to be recognised on the realisation of these shares. This amounted to EUR 34.3 million (*see 3.2.2.3 Losses on realisation of KBC Group shares*).

On balance, KBC Ancora recorded a positive result of EUR 35.955 million on the sale of these shares.

11 On 29 October 2004 KBC Ancora obtained the permission of the competent minister to continue using the non-consolidated financial statements as formerly included as an annex to the Royal Decree of 1 September 1986 concerning portfolio companies.

3.2.1.3 Other income

Other income amounted to EUR 15.9 million and consisted principally of a discount of EUR 15.8 million (i.e. 9% of the nominal value) on the repurchase of the loan of EUR 175 million in November 2013.

3.2.2 Expenses

KBC Ancora's total expenses amounted to EUR 59.7 million, equivalent to EUR 0.76 per share.

Table 10 summarises the movements in the various cost categories in recent financial years.

Table 10: Trend in KBC Ancora costs

(x EUR million)	Financial year 2013/2014	Financial year 2012/2013	Financial year 2011/2012
Costs of cost-sharing association	1.6	1.5	1.6
Costs of debt	23.2	29.0	29.2
Losses on realisation of financial assets	34.3	0.0	0.0
Other operating costs	0.7	0.9	0.5
Taxes	0.0	0.0	0.0
TOTAL	**59.7**	**31.4**	**31.3**

3.2.2.1 Costs within the cost-sharing association with Cera

KBC Ancora set up a cost-sharing association with Cera in 2001 in order to enhance the cost-efficiency of both parties' operations. A budget is drawn up annually, setting out the different costs within the cost-sharing association. KBC Ancora reimburses Cera for part of these budgeted costs every quarter on a pro rata basis. Settlement then occurs at the end of each calendar year based on the actual costs.

The costs in connection with the cost-sharing association amounted to EUR 1.57 million in the year under review, EUR 0.03 million more than in the previous financial year.

Table 11 summarises the various cost categories within the cost-sharing association with Cera and the cost allocation percentage as this has been applied since 1 January 2006.

Table 11: Costs within the cost-sharing association with Cera

Cost-sharing association	Cost allocation percentage	Amount (x EUR million)
Administration/management/advice	20%	0.47
Communications	20%	0.14
Financial Unit	50%	0.36
Membership and capital administration	10%	0.14
Support	20%	0.47
TOTAL		**1.57**

3.2.2.2 Costs of debt

The costs of debt amounted to EUR 23.2 million in the year under review, EUR 5.8 million less than in the previous financial year. This reduction was due mainly to the repurchase of the loan of EUR 175 million in November 2013. This led to a substantial reduction in debt and interest charges in the year under review.

3.2.2.3 Losses on realisation of KBC Group shares

KBC Ancora realised a net positive result of EUR 35.955 million on the sale of 4.7 million KBC Group shares in November 2013.
As stated earlier (*see 3.2.1.2 Reversal of write-down of financial fixed assets*), this is recognised in the accounts as a reversal of write-downs in the value of the shares concerned amounting to EUR 70.2 million, and a loss on the realisation of the shares amounting to EUR 34.3 million.

3.2.2.4 Other operating costs

Other operating costs amounted to EUR 0.7 million, EUR 0.2 million less than in the previous financial year. These costs related among other things to listing fees and management costs.

3.2.2.5 Taxes

KBC Ancora has no corporation tax liability in respect of the year under review.

3.3 Result and proposed appropriation of result

KBC Ancora recorded a profit of EUR 26.4 million in the year under review. When set off against the loss of EUR 9.3 million carried forward from the previous financial year, the profit to be appropriated amounted to EUR 17.1 million at the end of the year under review.

Article 616 of the Belgian Commercial Code (Code des sociétés) requires that 5% of net earnings in each financial year (where applicable after reconciliation of the loss carried forward) be placed in a legal reserve until such time as that reserve reaches 10% of the authorised capital. The sum of EUR 0.9 million will therefore be added to the legal reserve in respect of the year under review. The formation of a legal reserve does not entail any economic cost on the part of KBC Ancora's shareholders, as these funds remain part of KBC Ancora's capital and reserves.

Despite the fact that, after setting off the loss carried forward from the previous financial year (EUR -9.3 million) against the profit recorded for the financial year (EUR 26.4 million), KBC Ancora had an accounting profit to be appropriated of EUR 17.1 million, it is proposed that no dividend be distributed in respect of the year under review.

This is because the result for the financial year 2013/2014 includes a partial reversal of a substantial value write-down that was applied on 31 March 2009. Steps were taken at that time to neutralise the negative impact of this write-down on the KBC Ancora's ability to distribute dividends. It was announced at the time that the impact of any later full or partial reversal of the write-down would also be neutralised (see KBC Ancora press release dated 4 May 2009).

A proposal will therefore be submitted to the General Meeting of Shareholders that the result of the sale of the 4.7 million KBC Group shares in November 2013, amounting to a net total of EUR 35,955 million, should not be distributed as dividend. Specifically, the Meeting will be invited to add the balance of the result for the financial year (EUR 26.4 million) after set-off of the loss carried forward from the previous financial year (EUR -9.3 million) and the formation of the legal reserve (EUR 0.9 million), amounting to EUR 16.2 million, to the unavailable reserves. When appropriating the next available profit, KBC Ancora will propose adding the remaining amount (EUR 19.7 million) to the unavailable reserves.

A proposal will therefore be submitted to the General Meeting of Shareholders that, after set-off of the result for the financial year (EUR 26.4 million) against the loss carried forward from the previous financial year (EUR -9.3 million), an amount of EUR 0.9 million be added to the legal reserve and that the balance (EUR 16.2 million) be added to the unavailable reserves.

3.4 Legal proceedings

Four KBC Ancora shareholders filed a minority claim in December 2008 against the statutory manager of KBC Ancora and against Cera. The plaintiffs contested the purchase of 2.3 million KBC Group shares by KBC Ancora in March 2007, which was effected in the context of the splitting of the KBC Ancora shares. The plaintiffs also contested the purchase of 3.9 million KBC Group shares by KBC Ancora which was effected in mid-2007 in order to ensure that, together with Cera, its shareholding in KBC Group would exceed the 30% threshold as set out in the Law of 1 April 2007 on public takeover bids, which came into force in Belgium on 1 September 2007. The main objective of their claim was that the defendants should acquire the purchased shares at the acquisition price.

On 24 October 2012, the Court of First Instance in Leuven dismissed the claims filed by minority shareholders in their entirety.

The plaintiffs lodged an appeal against this ruling on 13 March 2013. They have since slightly modified the subject of their claim to take into account the sale of 4.7 million KBC Group shares by KBC Ancora in November 2013.

The statutory manager is convinced that the transactions in question were decided upon and executed correctly, and accordingly looks forward to the outcome of the proceedings with every confidence.

3.5 Additional information

No activities were carried out in the area of research and development.

The company has no branch offices.

KBC Ancora's principal asset is a participating interest in KBC Group. The value of KBC Ancora's assets, as well as its holdings of cash instruments and its results, are dependent on developments relating to the KBC group.

3.6 No consolidated financial statements for KBC Ancora

KBC Ancora has only one equity holding in another company, namely its participating interest in KBC Group. KBC Ancora has no control over that company, either legally or in practice. Consequently, KBC Ancora is not obliged to produce consolidated financial statements.

KBC Ancora shareholders who are interested can however find additional useful information in KBC Group's consolidated annual report, which may be found on the KBC Group website (www.kbc.com). The annual report may also be requested from: KBC Group SA, Investor Relations, Havenlaan 2 SEE, 1080 Brussels or by e-mail from investor.relations@kbc.com.

3.7 Most recent financial year and available information for 2014 on KBC Group

3.7.1 Past financial year of KBC Group

KBC Group's most recent financial year (2013) was discussed in the financial press release on the financial year 2013 and in its last annual report. The main financial highlights are set out below.

The net result for the financial year 2013 amounted to EUR 1,015 million, compared with a net profit of EUR 612 million in 2012. The adjusted net profit for 2013 totalled EUR 960 million, against EUR 1,496 million in 2012. The discussion below concerns the adjusted result, i.e. after exclusion of legacy business and the valuation of own credit risk.

Net interest income

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

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

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

Insurance premiums and technical charges

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

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

Net fee and commission income

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

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

Other income

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

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

Operating expenses

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

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

Impairment

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

Overall, the group's credit cost ratio subsequently deteriorated from 71 basis points in 2012 to 119 basis points in 2013 (37 basis points at the Belgium Business Unit, 25 basis points at the Czech Republic Business Unit and 448 basis points at the International Markets Business Unit (Ireland: 672 basis points; Slovakia: 60 basis points; Hungary: 150 basis points; and Bulgaria: 119 basis points)). The proportion of non-performing loans in the total loan portfolio was 5.9% at year-end 2013, compared with 5.3% in 2012. This breaks down into 2.5% at the Belgium Business

Unit, 3.0% at the Czech Republic Business Unit, and a high 19.2% at the International Markets Business Unit (due primarily to Ireland, which had a non-performing loan ratio of 26.2%). At year-end 2013, 49% of non-performing loans were covered by impairment charges, or 72% if all impairment charges for loans are included.

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

Net results per business unit

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

Balance sheet and solvency

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

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

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

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

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

The profit figures and key ratios in table 12 give an impression of the result of KBC Group in the financial year 2013 and a comparison with the financial year 2012.

Table 12: Profit figures and key ratios of KBC Group for the financial years 2013 and 2012

(x EUR million)	2013	2012
Net group profit	**1,015**	**612**
Adjusted net profit*	**960**	**1,496**
Belgium Business Unit	*1,570*	*1,360*
Czech Republic Business Unit	*554*	*581*
International Markets Business Unit (Slovakia, Hungary, Bulgaria, Ireland)	*-853*	*-260*
Group Center	*-311*	*-185*
Shareholders' equity per share (in EUR)	**28.3**	**29.0**
Net earnings per share (in EUR)**	**1.03**	**-1.09**
Dividend per share (in EUR)	**0.00**	**1.00**
Return on equity	**9%**	**1%**
Cost/income ratio, banking activities	**52%**	**57%**
Credit cost ratio, banking activities	**1.19%**	**0.71%**
Combined ratio, non-life insurance	**94%**	**95%**
Tier 1 ratio of the group (Basel II)	**15.8%**	**13.8%**
Common equity ratio of the group (Basel III, fully loaded, Danish compromise method)	**12.8%**	**10.5%**
Net stable funding ratio (NSFR)	**105%**	**111%**
Liquidity coverage ratio (LCR)	**107%**	**131%**

** Adjusted net profit is the net profit excluding a limited number of non-operational elements (legacy CDO business, legacy divestment activities, valuation of own credit risk).*

*** The coupon payable on the core-capital securities issued to the Belgian Federal and Flemish government's will be deducted (on a pro rata basis) from the profit in calculating the earnings per share.*

3.7.2 First half of KBC Group's financial year 2014

KBC Group published its results for the first half of 2014 on 7 August 2014. The financial highlights are presented below.

The net result for the first half of 2014 amounted to EUR 714 million. Excluding the legacy business and the impact of own credit risk, the adjusted net result amounted to EUR 675 million, compared with EUR 843 million in the first half of 2013.

Total income (adjusted net result)

The year-on-year performance was affected in part by the deconsolidation of Absolut Bank. This item will be disregarded to enable a meaningful comparison to be made ('on a comparable basis').

Net interest income stood at EUR 2,049 million, up 3% year-on-year. On a comparable basis, it was up 4% year-on-year. Commercial margins remained healthy and wholesale (subordinated) funding costs fell considerably. The net interest margin came to 2.03% year-to-date, 15 basis points higher than the (recalculated) level of a year earlier. In the Belgium Business Unit, the loan book remained flat year-on-year (primarily through a reduction at the foreign branches and a decrease in shareholder loans, while mortgages grew by 1.5%), whereas the deposit base grew by 1%. The loan book in the Czech Republic increased by 3% year-on-year, while deposits rose by 8%. The loan portfolio in the International Markets Business Unit declined by 6% year-on-year (due to Ireland), but the deposit base grew by 2% (driven by Ireland).

The **life and non-life insurance businesses** turned in the following performance during the first half of 2014. Gross earned premiums less gross technical charges and the ceded reinsurance result totalled EUR 140 million, down 2% year-on-year.

Premiums in the non-life segment remained were flat year-on-year. The claims arising from storms in Belgium resulted in a somewhat higher level technical charges compared with 1H2013, which had been affected by claims relating to the floods in the Czech Republic. Nevertheless, the combined ratio still came to a solid 93% year-to-date.

In the life segment, sales of life insurance products (including unit-linked products not included in premium income figures) were down 13% on their level in 1H2013. The increase in sales of guaranteed interest products was more than offset by a contraction in sales of unit-linked products.

It should be noted that the insurance results also benefited from the higher investment income, driven by higher dividend income and a higher net realised result from the sale of available-for-sale assets. General administrative expenses were kept strictly under control and fell by 5% year-on-year.

The **net result from financial instruments at fair value** amounted to EUR 54 million in the first half of 2014, compared with EUR 473 million for the first half of the previous year, or EUR 470 million on a comparable basis. This figure is usually impacted by dealing-room income, but in the first six months of the current year was influenced primarily by a negative result of EUR 140 million for the marked-to-market valuations in respect of the derivative instruments used in asset/liability management purposes, compared to a positive EUR 211 million for the first half of 2013.

Net realised gains from available-for-sale financial assets stood at EUR 99 million for the period under review, compared with EUR 141 million for the first half of the previous year. One third of the gains were realised on the sale of bonds and two-thirds on the sale of shares.

Net fee and commission income amounted to EUR 766 million, flat year-on-year but up 1% on a comparable basis. Assets under management stood at EUR 172 billion, up 11% since the end of June 2013 because of price effects (8%) and net entries (3%).

Other net income came to EUR -72 million as opposed to EUR 145 million in the year-earlier period. This item was affected by provisioning for the new Hungarian act on consumer loans: 'Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions' (EUR -231 million).

Operating expenses (adjusted net result)

Operating expenses came to EUR 1,891 million in 1H2014, down 2% on their year-earlier level. On a comparable basis, costs decreased by 1%, owing in part to a negative foreign exchange impact in the Czech Republic and Hungary and partly offset by higher expenses at KBC Ireland. The year-to-date cost/income ratio came to a relatively high 63%, but resulted primarily from the bank tax being charged for the full year in Hungary and the fact that the denominator (total income) suffered from negative marked-to-market valuations of ALM derivatives and the impact of the new act on retail loans. Adjusted for specific items, the cost/income ratio stood at 55%.

Impairment charges (adjusted net result)

Loan loss impairment stood at EUR 233 million in 1H2014, well down on the EUR 509 million recorded a year earlier. The annualised credit cost ratio stood at 0.34% year-to-date. This breaks down into 0.15% for the Belgium Business Unit (down from 0.37% for FY2013), 0.04% in the Czech Republic Business Unit (compared with 0.26% for FY2013) and 1.14% for the International Markets Business Unit (versus 4.48% for FY2013).

Other impairment charges came to EUR 8 million and were exclusively related to impairment on available-for-sale assets.

Income tax

Income tax amounted to EUR 275 million for the first six months of 2014.

Impact of the legacy business and own credit risk on the result

CDOs: During the first six months of 2014, corporate and ABS credit spreads tightened further. When account is taken of the impact of the fee for the CDO guarantee scheme with the Belgian Federal Government, the net effect of reducing the exposure to CDOs and the remaining maturity of the products, there was a positive post-tax impact of some EUR 46 million.

Remaining divestments: A total impact post-tax impact of EUR -1 million was recorded for the first half year.

Impact of own credit risk valuation: The improvement in the credit spread on KBC debt between the end of 2013 and the end of the second quarter resulted in a negative marked-to-market adjustment of EUR 6 million (post-tax), but had no impact on regulatory capital.

Equity and solvency

At the end of June 2014, total equity came to EUR 15.7 billion – up EUR 1.2 billion on its level at the start of the year – due mainly to the inclusion of the Additional Tier-1 instrument (EUR +1.4 billion) issued in March. Other factors impacting total equity in the first half of 2014 were the repayment of EUR 0.5 billion (including the 50% penalty) in Flemish state aid, the inclusion of the 1H2014 results (EUR +0.7 billion) and the calling for redemption of Funding Trust securities (EUR -0.4 billion in minority interests).

The group's common equity ratio (Basel III, fully loaded, under the Danish compromise, including the remaining aid from the Flemish Regional Government) stood at a strong 12.9% at 30 June 2014.

The solvency ratio for KBC Insurance was an excellent 317% at 30 June 2014, up from the already high 281% at the end of 2014.

Liquidity

The group's liquidity remained excellent, as reflected in an LCR ratio of 123% and an NSFR ratio of 109% at the end of the second quarter.

Table 13 compares the trend in profits in the various KBC Group Business Units in the first half of 2014 with the first half of 2013.

Table 13: Profit figures of KBC Group for the first half of the financial years 2014 and 2013

(x EUR million)	1H2014	1H2013
Net group profit	714	1,037
Adjusted net result*	675	843
Belgium	734	803
Czech Republic	277	279
International Markets	-202	-110
Group Center	-135	-128
Basic earnings per share based on the adjusted net result (in EUR)**	0.98	2.02
Shareholders' equity per share (in EUR)	29.5	29.1

** These figures take no account of a) the impact of the legacy business, i.e. the valuation of the remaining CDOs in portfolio (including the payment for the guarantee scheme provided by the Belgian government) and of divestments, and b) the impact of the valuation of own credit risk.*

*** Any coupon payable on the core-capital securities issued to the Belgian Federal and Flemish governments and the Additional Tier 1 instruments included in equity will be deducted (on a pro rata basis) from the numerator. If a penalty premium has to be paid on the core-capital securities, this will also be deducted.*

3.8 Outlook for the financial year 2014/2015

Income

KBC Ancora's income consists of the dividend it receives from its participating interest in KBC Group. Forecasts of KBC Group's future dividend rely heavily on factors such as the projection of KBC Group's future earnings.

In its press release dated 17 June 2014, KBC Group announced that it would aim (in so far as the profit available for distribution in the financial year in question permits this) to distribute dividend of up to EUR 2.00 in respect of the financial year 2014, and that it will not distribute a dividend in respect of the financial year 2015. With effect from the financial year 2016, KBC Group will aim for a dividend payout ratio (including the coupon on the government aid and issued Additional Tier 1 instruments) of at least 50%.

KBC Group published its interim results on 7 August 2014. KBC Group recorded a net result of EUR 714 million in the first six months of 2014, compared with a profit of EUR 1,037 million in the same period in the previous year, and an adjusted net result of EUR 675 million, compared with EUR 843 million in the same period in 2013.

The interim result is discussed in more detail in the previous section of this report.

Expenses

Costs within the cost-sharing association with Cera are expected to amount to approximately EUR 1.6 million.

The total interest charge for the financial year 2014/2015 is estimated at approximately EUR 20 million.

Other operating costs are likely to be around EUR 0.5 million.

It is likely that that KBC Ancora will have no corporation tax liability in the financial year 2014/2015.

FINANCIAL REPORT

4 Financial report

4.1 Balance sheet

Balance sheet after profit appropriation

(in EUR)	Notes	30 June 2014	30 June 2013
ASSETS		**2,441,805,249**	**2,589,823,373**
Fixed assets		**2,441,765,970**	**2,589,815,970**
Financial fixed assets	5.4/5.5.1	2,441,765,970	2,589,815,970
Companies with which there is a participatory relationship	5.14	2,441,765,970	2,589,815,970
Participating interests		2,441,765,970	2,589,815,970
Current assets		**39,279**	**7,403**
Receivables due within one year		32,345	0
Trade receivables		32,345	0
Cash at bank and in hand		3,002	3,471
Prepayments and accrued income	5.6	3,933	3,933

(in EUR)	Notes	30 June 2014	30 June 2013
LIABILITIES		**2,441,805,249**	**2,589,823,373**
Capital and reserves		**2,038,975,509**	**2,012,582,577**
Capital	5.7	2,021,871,293	2,021,871,293
Issued capital		2,021,871,293	2,021,871,293
Reserves		17,104,216	0
Legal reserves		855,211	0
Unavailable reserves		16,249,005	0
Earnings carried forward		0	-9,288,716
Creditors		**402,829,740**	**577,240,796**
Amounts falling due after more than one year	5.9	375,000,000	550,000,000
Financial liabilities		375,000,000	550,000,000
Credit institutions		375,000,000	550,000,000
Amounts falling due within one year		26,063,442	23,277,774
Financial liabilities		25,839,081	23,085,423
Credit institutions		25,839,081	23,085,423
Trade creditors		157,890	134,155
Suppliers		157,890	134,155
Liabilities in respect of taxes, remuneration and social security charges	5.9	0	19
Taxes		0	19
Other creditors		66,471	58,177
Accruals and deferred income	5.9	1,766,299	3,963,022

4.2 Profit and loss account

(in EUR)	30 June 2014	30 June 2013
RESULTS	**26,392,931**	**50,800,354**
Expenses	**59,696,006**	**31,416,027**
Costs of debt	23,163,559	29,006,436
Other financial expenses	841	106
Services and sundry goods	2,260,231	2,408,218
Miscellaneous current expenses	1,216	1,267
Losses on realisation of financial assets	34,270,160	
Income	**86,088,937**	**82,216,381**
Income from financial fixed assets	0	82,216,380
Dividend	0	82,216,380
Income from current assets	1,335	1
Other financial income	15,750,000	0
Other current revenues	112,442	0
Reversal of write-downs of financial fixed assets	70,225,160	0
Treatment of results		
Profit (loss) balance to be appropriated	17,104,216	-9,288,716
Profit (loss) to be appropriated for the year	26,392,931	50,800,354
Profit (loss) brought forward from previous financial year	-9,288,716	-60,089,069
Addition to capital and reserves	17,104,216	0
Addition to legal reserve	855,211	0
Addition to unavailable reserve	16,249,005	
Profit (loss) to be carried forward	0	-9,288,716
Profit (loss) to be carried forward	0	-9,288,716
Profit to be distributed	0	0
Capital remuneration	0	0

4.3 Notes

STATEMENT OF ASSETS

COMPANIES WITH WHICH THERE IS A PARTICIPATORY RELATIONSHIP – PARTICIPATING INTERESTS AND SHARES (5.4.2)

Acquisition value at end of previous year	3,818,253,932
Movements during the year	
Acquisitions	0
Transfers and decommissioning	218,275,160
Acquisition value at end of year	3,599,978,72
Value write-downs as at end of previous year	1,228,437,962
Movements during the year	
Reversal	-70,225,160
Value write-downs as at end of financial year	1,158,212,802
NET BOOK VALUE AT END OF YEAR	2,441,765,970

NOTES ON THE PARTICIPATING INTERESTS (5.5.1)
PARTICIPATING INTERESTS AND OWNERSHIP RIGHTS IN OTHER COMPANIES AMOUNTING TO AT LEAST 10% OF THE ISSUED CAPITAL

<table>
<tr><th rowspan="3">Name, address and the Company Number</th><th colspan="3">Ownership rights held by</th><th colspan="3">Data drawn from most recently available financial statements</th></tr>
<tr><th colspan="2">Directly</th><th>Sub-sid-iaries</th><th rowspan="2">Financial statements as at</th><th>Capital and reserves</th><th>Net result</th></tr>
<tr><th>Number</th><th>%</th><th>%</th><th colspan="2">(+) of (-)
(in EUR)</th></tr>
<tr><td>KBC Group SA (consolidated)
Havenlaan 2
1080 Brussels 8,
Belgium
BE 0403.227.515</td><td></td><td></td><td></td><td rowspan="3">31.12.2013</td><td rowspan="3">11,826,458,065</td><td rowspan="3">1,014,937,416</td></tr>
<tr><td>Including treasury shares</td><td>77,516,380</td><td>18.57</td><td></td></tr>
<tr><td>Excluding treasury shares</td><td>77,516,380</td><td>18.57</td><td></td></tr>
</table>

STATEMENT OF CAPITAL AND SHAREHOLDER STRUCTURE (5.7)

STATEMENT OF CAPITAL

	Amount	Number of shares
Issued capital		
- at end of previous financial year		2,021,871,293
- at end of financial year		2,021,871,293
Capital composition		
Types of shares		
Ordinary shares	2,021,871,293	78,301,314
Registered		39,804,300
Dematerialised shares		38,497,014

SHAREHOLDER STRUCTURE OF THE COMPANY AT YEAR-END ACCORDING TO NOTIFICATIONS RECEIVED BY THE COMPANY

Cera SCRL: 58.48%
OBA notification dated 20 August 2014 – shareholdership as at 30 June 2014

Gino Coorevits/Portus NV: 1.49%
Transparency report dated 9 December 2009 – shareholdership as at 30 October 2009

FMR LLC: 1.01%
Transparency report dated 1 July 2013 – shareholdership as at 28 June 2013

STATEMENT OF LIABILITIES, ACCRUALS AND DEFERRED INCOME (LIABILITIES) (5.9)

SPECIFICATION OF LIABILITIES WITH AN ORIGINAL TERM OF MORE THAN ONE YEAR, BY REMAINING TERM

	Financial year
Liabilities with a remaining term of between one and five years	
Financial liabilities	175,000,000
Credit institutions	175,000,000
Total liabilities with a remaining term of between one and five years	**175,000,000**
Liabilities with a remaining term of more than five years	
Financial liabilities	200,000,000
Credit institutions	200,000,000
Total liabilities with a remaining term of more than five years	**200,000,000**

SECURED LIABILITIES

Liabilities secured on collateral pledged or irrevocably committed on assets of the company

Financial liabilities	375,000,000
Credit institutions	375,000,000
Total liabilities secured on collateral pledged or irrevocably committed on assets of the company	**375,000,000**

STATEMENT OF ACCRUALS AND DEFERRED INCOME

Specification of item 492/3 of the Liabilities, if a substantial amount falls into that category

Attributable interest	1,766,299

OPERATING RESULTS (5.10)

OPERATING COSTS

Other operating costs	Financial year	Previous financial year
Other	1,216	1,267

FINANCIAL AND EXTRAORDINARY RESULTS (5.11)

FINANCIAL RESULTS

Other financial income		
Breakdown of other financial income		
Discount on repurchase of loan	15,750,000	0

TAXES (5.12)

VALUE ADDED TAX AND TAXES IN RESPECT OF THIRD PARTIES

	Financial year	Previous financial year
Value added tax charged		
By the company	14,693	730

OFF-BALANCE SHEET RIGHTS AND COMMITMENTS (5.13)

COLLATERAL

Collateral pledged by the company on its own assets or irrevocably committed as security for liabilities and commitments of the company

	Financial year
Pledge on other assets – Book value of pledged assets	809,358,260

IMPORTANT LEGAL PROCEEDINGS AND OTHER IMPORTANT OBLIGATIONS

Four KBC Ancora shareholders filed a minority claim in December 2008 against the statutory manager of KBC Ancora and against Cera. The plaintiffs contested the purchase of 2.3 million KBC Group shares by KBC Ancora in March 2007, which was effected in the context of the splitting of the KBC Ancora shares. The plaintiffs also contested the purchase of 3.9 million KBC Group shares by KBC Ancora which was effected in mid-2007 in order to ensure that, together with Cera, its shareholding in KBC Group would exceed the 30% threshold as set out in the Law of 1 April 2007 on public takeover bids, which came into force in Belgium on 1 September 2007. The main objective of their claim was that the defendants should acquire the purchased shares at the acquisition price.

On 24 October 2012, the Court of First Instance in Leuven dismissed the claims filed by minority shareholders in their entirety.

The plaintiffs lodged an appeal against this ruling on 13 March 2013. They have since slightly modified the subject of their claim to take into account the sale of 4.7 million KBC Group shares by KBC Ancora in November 2013.

The statutory manager is convinced that the transactions in question were decided upon and executed correctly, and accordingly looks forward to the outcome of the proceedings with every confidence.

NATURE AND CORPORATE OBJECTIVE OF OFF-BALANCE SHEET SCHEMES
Provided the risks or benefits stemming from such a scheme are of any significance, and to the extent that publication of such risks or benefits is necessary for an assessment of the financial position of the company; if required, the financial consequences of these schemes for the company must also be stated:

KBC Ancora is a member of a VAT group

RELATIONSHIPS WITH ASSOCIATED COMPANIES AND COMPANIES WITH WHICH THERE IS A PARTICIPATORY RELATIONSHIP (5.14)

COMPANIES WITH WHICH THERE IS A PARTICIPATORY RELATIONSHIP

	Financial year	Previous financial year
Financial fixed assets	2,441,765,970	2,589,815,970
Participating interests	2,441,765,970	2,589,815,970

FINANCIAL RELATIONSHIPS WITH (5.15)

THE AUDITOR(S) AND THE PERSONS WITH WHOM HE/THEY IS/ARE ASSOCIATED

	Financial year
Remuneration of the auditor(s)	14,492
Remuneration for exceptional activities or special assignments performed by the auditor within the company	
Other audit activities	1,250

ADDITIONAL INFORMATION (10)

KBC Ancora's principal asset is a participating interest in KBC Group. The value of KBC Ancora's assets, as well as its holdings of cash instruments and its results, are dependent on developments relating to the KBC group.

4.4 Valuation principles

The financial year runs from 1 July to 30 June inclusive.

Formation expenses

Formation expenses are stated at acquisition value and are amortised on a straight-line basis at a rate of 20% per year.

Intangible fixed assets

Intangible fixed assets are stated at acquisition value and are amortised on a straight-line basis at a rate of 20% per year.

Tangible fixed assets

Tangible fixed assets are stated at acquisition value.

Financial fixed assets

Financial fixed assets consist of ownership rights (shares) held in other businesses with a view to creating lasting and specific ties with those businesses, so as to enable the company to influence their orientation and policy.

Financial fixed assets are stated at acquisition value, applying the weighted average prices method.
In accordance with the principle of accounting continuity, historical book values have been retained for participating interests obtained through the contribution of sectors and/or a totality of assets.
Financial fixed assets may be revalued in the event that their value, determined in accordance with their utility to the company, comes to exceed their book value in a clear and lasting manner.
Downward adjustments in value may be effected in the event of a lasting decrease in value or depreciation, justified by the circumstances, profitability or prospects of the company in which the shares are held.
Additional acquisition costs are charged directly to the results.

Amounts receivable and creditors

Amounts receivable and creditors are stated at nominal value.
Downward adjustments in value are effected if uncertainty exists as to the payment of all or part of an amount receivable on the due date.

Investments

Investments are stated at nominal value where they comprise a positive balance at a financial institution, and at their acquisition value in the case of securities.

Acquisition value is determined using the individualisation method.

Additional acquisition costs in the case of securities are charged directly to the result.

In the case of fixed-income securities, where the acquisition value differs from the redemption value, the difference between the two is included in the result in proportion to the securities' remaining term to maturity as an element of the interest income on the securities in question, and is added to or deducted from the acquisition value of the securities, as the case may be. Inclusion in the results occurs on an up-to-date basis, reflecting the actuarial return on purchase.

In the case of non-fixed-income securities (primarily equities), downward adjustments in value are effected if the sale value as at the balance sheet date is lower than the acquisition value.

Cash at bank and in hand

Cash at bank and in hand (current account balances) is stated at nominal value.

Capital, revaluation gains and reserves

Capital, revaluation gains and reserves are stated at nominal value.

Revaluation gains are transferred to taxed reserves in the event that the asset in question is realised.

Provisions and deferred taxes

The purpose of provisions is to cover, according to their specific character, clearly defined losses or costs which, as at the balance sheet date, are likely or certain to be incurred but the amount of which has yet to be determined. Provisions are withdrawn if they cease to be fully or partially necessary.

Other asset or liability components are stated at acquisition value.

4.5 Auditor's report

"Auditor's report to the General Meeting of Shareholders of KBC Ancora SCA on the financial statements for the year ended 30 June 2014

In accordance with legal requirements, we hereby report to you on the performance of our audit. This report includes our opinion on the financial statements for the financial year ending on 30 June 2014, as defined below, together with the additional comments prescribed statutory and regulatory requirements.

Unqualified report on the financial statements

We have audited the financial statements of KBC Ancora SCA ('the Company') for the year ended 30 June 2014, prepared in accordance with the financial reporting framework applicable in Belgium. The financial statements contain the balance sheet as at 30 June 2014, the profit and loss account for the financial year ending on that date, and the notes to the financial statements. The balance sheet total amounts to EUR 2,441,805,249.06 and the profit and loss account shows a profit for the year of EUR 26,392,931.36.

Responsibility of management for the preparation of the financial statements

The management of the Company is responsible for preparing financial statements which present a true and fair view of the financial position of the Company in accordance with the financial reporting framework applicable in Belgium, and for implementing an internal control system which management deems necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We performed our audit in accordance with International Standards on Auditing (ISAs). Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit includes carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the Company's internal control measures relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's system of internal control. An audit also includes an evaluation of the appropriateness of the financial reporting standards applied, the reasonableness of accounting estimates made by the Company and the presentation of the financial statements, taken as a whole.

Those responsible within the Company as well as the management of the Company provided such information and clarification as we requested.

In our opinion, the audit evidence we have obtained is sufficient and suitable to form a basis for our unqualified opinion.

Unqualified opinion

In our opinion, the financial statements as at 30 June 2014 give a true and fair view of the Company's net worth, financial position and results in accordance with the financial reporting framework applicable in Belgium.

Paragraph emphasising a particular circumstance

We would draw attention to the sections in the financial statements explaining that the value of KBC Ancora SCA's assets, as well as its liquidity and results, are determined by developments in relation to KBC Group, and therefore also by the specific risks to which KBC Group is exposed. This situation does not prejudice our opinion.

Report concerning other statutory and regulatory requirements

The preparation of the annual report and its content, as well as the Company's compliance with the applicable statutory and administrative accounting regulations and with the Belgian Companies' Code (Code des sociétés) and the Company's Articles of Association, are the responsibility of the management.

Our responsibility as part of our audit and in accordance with the additional Belgian standard in relation to the International Standards on Auditing (ISAs) applying in Belgium, is to ascertain the compliance in all material respects with specific statutory and regulatory requirements. On that basis, we include the following additional statements, which do not modify our audit opinion on the financial statements:

- The annual report concerning the financial statements contains the information required by law, corresponds in all material respects with the financial statements and contains no material inconsistencies in respect of the information available to us in the context of our audit activities.
- Without prejudice to formal aspects of subordinate importance, the accounting records have been kept in accordance with the statutory and administrative rules applying in Belgium.
- The appropriation of the result as proposed to the General Meeting of Shareholders corresponds with the provisions of the law and the Articles of Association.
- No actions have been performed or decisions taken which we need to advise contravene the Articles of Association or the Belgian Commercial Code (Code des sociétés)."

Brussels, 27 August 2014

KPMG Reviseurs d'entreprises
Auditors

Represented by

Olivier Macq
Partner

5 Colophon

KBC Ancora SCA

Registered office

Mgr. Ladeuzeplein 15

3000 Leuven - Belgium

Tel.: +32 (0)16 27 96 72

e-mail: mailbox@kbcancora.be

Website: www.kbcancora.be

Editorial staff

Jan Bergmans

Luc De Bolle

Franky Depickere

Kristof Van Gestel

Coordination of figures

Ann Thoelen and Els Lefèvre

Design, printing and finishing

Lannoo Drukkerij, Tielt

Cover photo and layout

Raf Berckmans

Coordination

Jan Bergmans, Franciska De Cock and Greet Leynen

Final editing

Greet Leynen

Translation

Julian Ross

Responsible publisher

KBC Ancora SCA
Hilde Talloen, Mgr. Ladeuzeplein 15, 3000 Leuven
Company number RPR Leuven VAT BE 0464.965.639

KBC Ancora's annual report is available in Dutch, French and English from the company's registered office or on its website www.kbcancora.be. Conformity between the translations and the original annual report has been checked by KBC Ancora, which assumes responsibility in this regard. In the event of discrepancies or differences of interpretation, the Dutch version alone shall be legally binding.

PRESS RELEASES IN THE FINANCIAL YEAR 2013/2014

2 July 2013	Disclosure of major shareholding
3 July 2013	New lender for KBC Ancora
30 August 2013	KBC Ancora records annual result of EUR 50.8 million
23 September 2013	Convocation to General Meeting of Shareholders and publication of Annual Report
29 October 2013	Interim statement on the first months of the financial year 2013/2014
29 October 2013	Disclosure of major shareholding
31 October 2013	Disclosure of major shareholding (correction)
18 November 2013	KBC Ancora announces sale of 4.7 million KBC Group shares
19 November 2013	KBC Ancora announces successful sale of 4.7 million KBC Group shares resulting in proceeds of 184 million euros
21 November 2013	Disclosure of downward crossing of the lowest threshold
29 November 2013	Changes to the Board of Directors of the manager of KBC Ancora
31 January 2014	Interim report on the first half of the financial year 2013/2014
2 May 2014	Interim statement for third quarter of financial year 2013/2014

FINANCIAL CALENDAR 2014/2015

29 August 2014	Annual press release for the financial year 2013/2014
30 September 2014	Annual Report 2013/2014 available and convocation to Annual General Meeting of Shareholders
31 October 2014	Annual General Meeting of Shareholders
30 January 2015	Interim financial report on the first half of the financial year
28 August 2015	Annual press release for the financial year 2014/2015

KBC Ancora
Zetel:
Mgr. Ladeuzeplein 15 • 3000 Leuven
Tel. 016 27 96 72 • Fax 016 27 96 94
mailbox@kbcancora.be
www.kbcancora.be