KBC Bank

Annual report 2010

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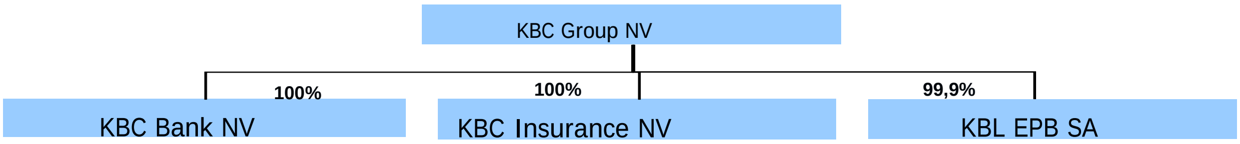
To the reader

Company name

‘KBC’, ‘the group’ or ‘KBC Bank’ as used in this annual report refer to the consolidated bank entity, i.e. KBC Bank NV including its subsidiaries and sub-subsidiaries. ‘KBC Bank NV’ refers solely to the non-consolidated entity. The ‘Company annual accounts' section deals only with the non-consolidated entity.

Difference between KBC Bank and KBC Group

KBC Bank NV is a subsidiary of KBC Group NV. KBC Group NV was created through the merger of KBC Bank and Insurance Holding Company NV with its parent company, Almanij NV. The schematic shows the legal structure of the KBC group, which has one single entity – KBC Group NV – in control of three underlying companies, viz. KBC Bank NV, KBC Insurance NV and KBL European Private Bankers SA (KBL EPB). All KBC Bank shares are owned (directly and indirectly) by KBC Group. A number of KBC Bank’s debt instruments are exchange-listed. Everywhere where mention is made of KBC Group or the KBC group in this annual report, KBC Group NV is meant, including all its subsidiaries and sub-subsidiaries.



Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

Translation

This annual report is available in Dutch and English. The Dutch version is the original; the English version is an unofficial translation. KBC warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Glossary of ratios used

CAD ratio: [consolidated regulatory capital of KBC Bank] / [total risk-weighted volume]. .

Cover ratio: [individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of ‘non-performing’, see ‘Non-performing loan ratio’. The numerator may also include individual impairment on performing loans and portfolio-based impairment.

Cost/income ratio: [operating expenses] / [total income].

Credit cost ratio: [net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the ‘Value and risk management’ section.

Net interest margin: [underlying net interest income / [average interest-bearing assets].

Non-performing loan ratio: [amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears or overdrawn)] / [total outstanding loan portfolio].

(Core) Tier-1 ratio : [consolidated tier-1 capital of KBC Bank] / [total risk-weighted volume of KBC Bank]. For detailed calculations, see the ‘Value and risk management’ section. The calculation of the core tier-1 ratio does not include hybrid instruments.

Articles 96 and 119 of the Belgian Companies Code

These articles specify the minimum content of company and consolidated annual reports required by law. This information has been incorporated into the different sections of the Report of the Board of Directors, which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this brochure. Pursuant to Article 119, KBC Bank NV has combined the reports for its company and consolidated annual accounts.

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Report of the Board of Directors

Profile

Statement by the Chairman of the Board of Directors and the President of the Executive Committee

KBC Bank ended the year with a consolidated net profit of almost 1.4 billion euros, a substantial turnaround compared with 2009, when factors such as valuation losses on structured products pushed our results deep into the red. If we disregard exceptional and non-operating items, our underlying net profit in 2010 came to an excellent 1.2 billion euros. This figure breaks down as follows: 622 million euros from the Belgium Business Unit, 393 million euros from the Central & Eastern Europe Business Unit, 130 million from the Merchant Banking Business Unit and 30 million euros from the Group Centre. The Group Centre also comprises those companies scheduled for divestment in the coming years as part of our strategic plan.

We made good progress with the implementation of our strategic plan. The goal of our strategic plan is to make us an even more focused, regional European player with a considerably lower risk profile. We have reorganised our risk management function, significantly scaled down international lending that is not linked to our home markets and ceased or sold a number of other non-core activities. At the end of 2010, our tier-1 capital ratio according to Basel II was a solid 12.4%. The new, more rigorous Basel III capital requirements also seem to be feasible for our group.

Not only did we concentrate on scaling down our non-core activities in 2010, we also devoted an exceptional amount of time to fleshing out our strategy for the activities that will form the core of KBC going forward. To be more specific, these are our bancassurance activities in Belgium and selected countries in Central Europe, with the emphasis on catering for retail, SME and mid-cap customers. In some cases, we will position ourselves among the leaders and adopt a general approach to the market in question. In others, we will operate as a 'selective champion' and focus on specific customer segments and products capable of generating an above-average return. At the same time, we will further bolster our efficiency by making a judicious choice between local and central product development.

Despite the challenges we faced in the past year, we did not neglect our duty as a member of society. It is and remains our intention to operate in a socially responsible manner, something we work at constantly to put into practice. Customers continue to be central at the new KBC and staff are treated with respect, as borne out by consistently high levels of customer and employee satisfaction. As in previous years, we also undertook a variety of initiatives in 2010 in relation to corporate social responsibility, some examples of which, we have presented in this annual report.

We remain cautiously optimistic about the years to come. Generally speaking, the macroeconomic climate in our home markets is encouraging. In saying that, we are also fully aware of the challenges ahead of us. The budgetary problems confronting certain European countries continue to be a source of uncertainty. And like our peers, we have to contend with higher capital requirements, increased regulation and more intensive competition. However, our new strategic plan has equipped us for the future. We know where we want to be in a few years' time and will do everything in our power to achieve our goals. In closing, we would like to extend a sincere word of thanks to all our customers, employees and all other stakeholders for the confidence they have placed in our group. It is our firm intention to live up to that confidence.

Jan Vanhevel, President of the Executive Committee
Jan Huyghebaert, Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail, SME and mid-cap customers. It concentrates on its home markets of Belgium and certain countries in Central and Eastern Europe. Elsewhere around the globe, the group has established a presence in selected countries and regions.

The group is made up of the Belgium Business Unit (retail banking, asset management and private banking in Belgium), the Central & Eastern Europe Business Unit (retail banking, asset management, private banking and merchant banking in selected countries in Central and Eastern Europe), the Merchant Banking Business Unit (corporate banking and market activities in Belgium and abroad, apart from those in Central and Eastern Europe), and the Shared Services & Operations Business Unit (encompassing a number of services that provide support and products to the other business units).

Shareholders

Shareholder structure on 31-12-2010	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches, 31-12-2010	
Belgium	845
Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Bulgaria)	1 181
Number of staff (2010 average in FTEs)	38 972

Financial calendar

Financial communication is organised at KBC group level. The General Meeting of KBC Bank will be held on 27 April 2011. KBC Bank NV annual report will be available from 8 April 2011.

KBC Group Financial Calendar	
2010 financial year	Earnings release: 10 February 2011
	Annual Report, Risk Report and CSR Report for 2010 available: 8 April 2011
	AGM: 28 April 2011
1Q2011	Earnings release: 12 May 2011
2Q2011	Earnings release: 9 August 2011
3Q2011	Earnings release: 10 November 2011
4Q2011	Earnings release: 9 February 2012
For the most up-to-date version of the financial calendar, see www.kbc.com.	

Long-term credit ratings

Long-term ratings, 31-12-2010	
Fitch	A (stable outlook)
Moody's	Aa3 (negative outlook)
Standard & Poor's	A (stable outlook)

Main events in 2010

January	Further elaboration and implementation of the new strategy, which will make the group an even more focused, regional European financial player with a conservative risk profile.
February	Sale agreement for KBC Financial Products' reverse mortgage portfolio.
March	Divestment of Japanese equities business.
May	Publication of exposure of the KBC group to the government bonds of selected Southern European countries and Ireland; in the case of Greece, the portfolio of government bonds of the KBC group totals 1.9 billion euros at that moment, but falls to 0.6 billion euros by year-end (0.4 billion euros of which is at KBC Bank).
June	Management buyout of KBC Asset Management's British operations and agreement reached for the sale of its Irish activities. Work completed to significantly reduce exposure to credit derivatives at KBC Financial Products. A presentation on the roll-out of the group's new strategy is given by senior management at an Investor Lunch in London.
July	Sale agreements reached for KBC Financial Products' Global Convertible Bonds and Asian Equity Derivatives businesses. Management buyouts at KBC Securities Baltic Investment Company (in Latvia) and KBC Peel Hunt. Publication of the EU stress test results confirms that KBC Bank meets the legal and market requirements in terms of solvency.
August	Publication of half-yearly results of KBC Bank.
September	Agreement reached for the sale of KBC Business Capital (UK), which specialises in asset-based lending.
November	Agreement reached for the sale of the US life settlement portfolio held by KBC Financial Products.
December	As part of the ongoing expansion of its service provision, KBC announces a reorganisation of the commercial approach within its Belgian distribution network. That network will be further optimised in the years ahead and aligned even more closely with customer expectations. Stake in Bulgaria's CIBank is raised to 100%.

Main events at the start of 2011

January: additional provisioning for the Irish loan portfolio and a one-off case of irregularities at KBC Lease UK is announced.

January: the Board of Directors decides to nominate Thomas Leysen as director at the General Meeting, with a view to succeeding Jan Huyghebaert as Chairman of the Board of Directors on 1 October 2011.

March: agreement reached for the sale of Centea.

Strategy (KBC group)

The strategy of KBC Bank is embedded in that of the KBC group. The following is a summary of the group strategy. For more detailed information, please see the KBC Group NV 2010 Annual Report.

The KBC group announced its updated strategic plan at the end of 2009. This plan also formed the basis of the reform plan approved by the European Commission in respect of the financial support received from the authorities. The intention is to make our group an even more focused, regional European player with a lower risk profile, while retaining existing strengths, such as the successful bancassurance concept and the extra growth driver in Central and Eastern Europe. The group worked in 2010 to further implement this new strategy, which is summarised below.

The group focuses on providing services to retail, SME and mid-cap customers in its home markets of Belgium and Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Bulgaria). KBC takes the view that its presence in Central and Eastern Europe represents an extra growth driver for the group, given that the region is expected to catch up with other countries in terms of economic growth and financial product penetration. Its presence outside these home markets is geared primarily towards catering for 'network customers', i.e. customers who also use KBC's services or are linked with it in its home markets.

The group is securely anchored to its home markets. Within that geographical target area, we approach the market in a focused and tailored manner. In some markets, we aim to position ourselves (or continue positioning ourselves) among the market leaders, i.e. to be a top-five player with a general approach to the market. In other markets, we see ourselves more as a 'selective champion', which means we will concentrate on specific customer segments and/or products where we enjoy a comparative advantage and/or which generate an above-average return.

The above local responsiveness means that the group can react more effectively to the local needs of the customer in each home market. Where products or services are closely bound up with the local environment, they will be developed locally too. Where the development of services and products can be organised more efficiently at group level, we will opt for group-wide, central product development. This should lead to maximum global efficiency for the group as a whole. The product providers – both local and group-wide – will, moreover, form effective partnerships in each of the relevant markets with the group's local distributors (banks and insurers), as these are close to customers and know which products they want.

We will take account of risk and of responsible use of capital when making all important business decisions. The different business lines will operate within a clearly defined risk profile and assume responsibility for the risks they take and the capital they use.

The refocusing exercise carried out by the KBC group also means that a substantial part of the non-core activities will be scaled down in the years ahead. This relates primarily to the sale of the European private banking network (KBL EPB, a sister company of KBC Bank; the sale agreement entered into in May 2010 for this company will not go through – see press release of 15 March 2011), the sale in due course of the operations in Russia, Serbia and Slovenia, the sale, termination or gradual run-down of various specialised investment banking activities, and the run-down of a substantial portion of the loan portfolios outside the home markets. In addition to scaling down these non-core activities, the plan includes further actions to allow KBC Group NV to redeem the core-capital securities sold to the Belgian State and the Flemish Regional Government (see the 'Additional information' section of this report) within a reasonable period of time. Among these actions are the sale of the complementary distribution channels Centea and Fidea in Belgium and Żagiel (consumer finance) in Poland, and the IPO of a minority interest in our Czech banking subsidiary. A considerable amount of attention was paid in 2010 to preparing these projects. Additional measures might also be taken, such as selling treasury shares (KBC Group NV) currently held on the balance sheet. The group does not intend to make any significant acquisitions in the years ahead.

More details on the status of the refocus programme can be found in the sections devoted to the respective business units in this report.

Management structure

The KBC group's management structure – as well as that of its subsidiary KBC Bank – has been built around a number of business units, which will be dealt with elsewhere in this annual report. The breakdown into business units is based on geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail bancassurance or merchant banking). The Shared Services & Operations Business Unit incorporates a number of services that provide support and products to the other business units.

Executive Committee Group-level support services			
Belgium Business Unit	**Central & Eastern Europe Business Unit**	**Merchant Banking Business Unit**	**Shared Services & Operations Business Unit**
Retail and private banking in Belgium	Retail and private banking and merchant banking in Central and Eastern Europe	Corporate banking and market activities in Belgium and abroad (apart from those in Central and Eastern Europe)	Services providing support and products to other business units
*Main companies:** KBC Bank (retail and private banking activities), CBC Banque KBC Asset Management, KBC Lease (retail Belgium)*	*Main companies:** ČSOB (Czech Republic), ČSOB (Slovakia), K&H Bank (Hungary), Kredyt Bank (Poland), CIBank (Bulgaria)*	*Main companies:** KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Clearing, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financierings-maatschappij, KBC Real Estate, KBC Securities*	*Main services: asset management, payments, consumer finance, trade finance, ICT, leasing, organisation*

* The full name of this business unit is the 'Central & Eastern Europe and Russia Business Unit'. However, for the sake of simplicity, and since the results from Russia (and some other countries) have been transferred to the Group Centre, the unit is referred to as the 'Central & Eastern Europe Business Unit' throughout this annual report.
** Excluding the activities earmarked for sale or run-down under the strategic plan (these are listed in the sections dealing with the individual business units).

Each business unit is managed by its own management committee, which operates under the Executive Committee. The management committees are chaired by a Chief Executive Officer (CEO), except at the Shared Services & Operations Business Unit, where the management committee is chaired by the Chief Operating Officer (COO). Together with the Group CEO, the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), these individuals constitute the Group Executive Committee (see below).

The results by segment or business unit that are dealt with in this annual report are based on the business units referred to above, with two exceptions:

- No results are allocated to the Shared Services & Operations Business Unit, since all its income and expenses are passed on to the other business units and reflected in their results. Consequently, this business unit is not presented separately when the results are reported by segment.
- With effect from 2010 (and with the reference figures being restated retroactively), all the group companies earmarked for sale under the strategic plan have been combined in the Group Centre. As before, the Group Centre also includes a limited amount relating to head-office services and costs that cannot be allocated.

The members of the Group Executive Committee are appointed by the Board of Directors and also sit on the Board as executive directors. On 31 December 2010, the Executive Committee of KBC Bank NV comprised the following members:

- Jan Vanhevel, Chief Executive Officer (CEO)
- Danny De Raymaeker, Chief Operating Officer (COO)
- John Hollows, Chief Risk Officer (CRO)
- Luc Philips, Chief Financial Officer (CFO)
- Luc Popelier, CEO of the Merchant Banking Business Unit (market activities)
- Johan Thijs, CEO of the Belgium Business Unit
- Marko Voljc, CEO of the Central & Eastern Europe Business Unit

Review of the consolidated financial statements

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS		Underlying result	
	2009	2010	2009	2010
Net interest income	4 920	5 279	4 372	4 483
Interest income	10 821	9 621	*	*
Interest expense	-5 901	-4 341	*	*
Dividend income	80	51	36	19
Net result from financial instruments at fair value through profit or loss	-3 126	-277	868	766
Net realised result from available-for-sale assets	174	45	161	37
Net fee and commission income	1 545	1 638	1 622	1 699
Fee and commission income	2 141	2 222	*	*
Fee and commission expenses	-595	-584	*	*
Other net income	313	259	228	14
Total income	3 907	6 995	7 286	7 019
Operating expenses	-4 241	-3 861	-3 841	-3 767
Impairment	-2 400	-1 635	-1 895	-1 507
on loans and receivables	-1 901	-1 485	-1 880	-1 485
on available-for-sale assets	-84	-12	-1	-12
on goodwill	-402	-85	0	0
other	-14	-54	-14	-10
Share in results of associated companies	-11	-54	-11	-54
Result before tax	-2 745	1 445	1 538	1 692
Income tax expense	237	88	-334	-378
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	-2 508	1 533	1 205	1 314
Result after tax, attributable to minority interests	-17	139	123	140
Result after tax, attributable to equity holders of the parent	**-2 491**	**1 395**	**1 082**	**1 174**

The underlying results are examined in more detail in this section of the report.
* Not available, as the analysis of these underlying result components is performed on a net basis within the group.

This section of the annual report deals with the consolidated results. A concise review of the non-consolidated results and balance sheet is provided in the ‘Company annual accounts’ section.

IFRS results compared with underlying results

In addition to results prepared in accordance with IFRS as approved for use in the European Union (‘results according to IFRS’ in this annual report), KBC publishes results which exclude all exceptional items and in which certain items have been rearranged to provide a clearer picture of how the results from ordinary business activities are developing (‘underlying results’). These results are presented in segment reporting in the consolidated financial statements and thus comply with IFRS 8. This standard specifies that IFRS principles should be deviated from if such deviation reflects the management view. That is indeed the case, as the underlying results are an important element in assessing and managing the business units, since they provide an insight into the operating results, after one-off or exceptional items have been excluded. The auditor has reviewed the segment reporting presentation as part of the consolidated financial statements.

A description of the differences between the IFRS results and the underlying results is provided under ‘Notes on segment reporting’ in the ‘Consolidated financial statements’ section. Items influencing the net result that have not been included in the underlying results in 2009 and 2010 are summarised below.

Simplified overview of differences between IFRS results and underlying results	Results according to IFRS	Underlying results
Changes in fair value of ALM hedging instruments	Under ‘Net result from financial instruments at fair value’	Excluded
Changes in fair value of own debt instruments	Included	Excluded
Exceptional items (including results from actual divestments and exceptional valuation losses on financial assets – CDOs, shares, etc. – due to the financial crisis)	Included	Excluded
Interest on ALM hedging instruments	Under ‘Net result from financial instruments at fair value’	Under ‘Net interest income’
Income from professional trading activities	Divided up among different items	Grouped together under ‘Net result from financial instruments at fair value’

Overview of items excluded from the underlying result (in millions of EUR); amounts before tax and minority interests[1]	2009	2010
Amounts before tax and minority interests		
Changes in fair value of ALM hedging instruments	54	-287
Gains/losses relating to CDOs	-1 669	391
Fee for government guarantee scheme to cover CDO-related risks	-1 164	-86
Valuation losses on available-for-sale shares	-77	0
(Reversal of) valuation losses relating to troubled US and Icelandic banks	59	13
Gain on repurchase of hybrid tier-1 securities	128	0
Impairment on goodwill and associated companies	-387	-116
Loss on legacy structured derivatives business (KBC Financial Products)	-1 078	-260
Changes in fair value of own debt instruments	44	53
Results on divestments	0	82
Other	-80	-37
Taxes and minority interests relating to the above items[2]	597	468
Total exceptional items	-3 573	221

1 These items are dealt with in more detail under ‘Notes on segment reporting’ in the ‘Consolidated financial statements’ section.
2 Figure for 2010 influenced by the recognition (in 2Q 2010) of a 0.4-billion-euro deferred tax asset relating to earlier CDO losses.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2009	2010
Total assets	281 613	276 723
Loans and advances to customers	152 301	151 326
Securities (equity and debt instruments)	71 527	66 751
Deposits from customers and debt certificates	188 504	202 007
Risk-weighted assets	123 074	111 711
Total equity	13 016	14 142
Parent shareholders' equity	12 168	13 193
Minority interests	849	950
Tier-1 ratio	10,9%	12,4%
Core tier-1 ratio	9,0%	10,5%

Additional information

- The names of several headings in the income statement have been simplified compared to the annual report for 2009. A list is provided in Note 1a of the 'Consolidated financial statements' section.
- The comparison of results between 2009 and 2010 is affected by the ongoing divestment programme (discussed in more detail elsewhere in this annual report).
    - As far as the divestments concluded in 2010 are concerned (primarily KBC Peel Hunt and various activities of KBC Financial Products), the combined impact on the results for the group as a whole was approximately 0.08 billion euros on a total net result of 1.4 billion euros. This includes mainly realised gains and losses upon sale (most of which was recognised as 'Other net income', but excluded from the underlying figures) and a minor amount that is no longer contributed to the results by the divested companies or activities.
    - Material divestments that had not been completed at year-end 2010 but which are covered by IFRS 5.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was very limited (in the order of +20 million euros).
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (primarily Notes 1b, 5 and 14-25) and in the 'Value and risk management' section.

Analysis of the main income statement and balance sheet items

The following is an analysis of the consolidated accounts.
The accounts at company level are dealt with in the 'Company annual accounts' section.

Net interest income

Net interest income came to 5 279 million euros in 2010. On an underlying basis, the figure was 4 483 million euros, a 3% improvement on its year-earlier level. At 1.89%, the net interest margin was roughly 7 basis points higher than in 2009 (thanks in part to Central and Eastern Europe). On a comparable basis, the total volume of credit declined by 2% in the course of 2010. Implementation of the refocused strategy meant that the increase in Belgian retail credit (+5%) was offset by the ongoing deliberate reduction in international loan portfolios outside the home markets (-13% at the Merchant Banking Business Unit). The loan portfolio in Central and Eastern Europe contracted slightly (-3%), with the biggest relative decline occurring in Hungary. On a comparable basis, the total volume of deposits went up by 7%, with increases being recorded in the Belgium Business Unit, the Central & Eastern Europe Business Unit and the Merchant Banking Business Unit.

Net fee and commission income

Net fee and commission income amounted to 1 638 million euros in 2010. On an underlying basis, it was 1 699 million euros, up 5% on the previous year's figure. The revival in fee and commission income is attributable in part to growth in fee and commission income from asset management activities, which naturally reflected the improved investment climate. At the end of 2010, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 160 billion euros, slightly higher than at year-end 2009. At year-end 2010, most of the assets related to the Belgium Business Unit (146 billion euros), whilst some 13 billion euros' related to the Central & Eastern Europe Business Unit and the remainder related to the Group Centre.

Trading and fair value income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to -277 million euros in 2010, compared with -3 126 million euros in 2009, when relatively high losses on the legacy structured derivatives business of KBC Financial Products and valuation markdowns on CDOs hit extremely hard. Adjustments to the value of CDOs were – on balance – positive in 2010, due mainly to the higher market price for corporate credit, though adjustments to the value of certain PIIGS sovereign bonds (used for the fair value option) did have a negative impact of around 0.3 billion euros. If this and other exceptional items are excluded from this trading and fair value income, and all trading-related income recorded under IFRS in various other income items is included, underlying trading and fair value income amounted to a positive 766 million euros in 2010.

Other income

At 19 million euros, underlying dividend income was roughly half that of the figure for 2009. The underlying net realised result from available-for-sale assets came to 37 million euros, down on its level of the previous year, which had benefitted from sizeable gains on the sale of bonds, whereas 2010 included losses on the sale of certain PIIGS sovereign bonds. Underlying other net income amounted to 14 million euros, compared with 228 million euros in 2009. The 2010 figure was adversely affected by the recognition of 175 million euros (before tax) for irregularities at KBC Lease UK. It should be noted that the IFRS figure for 2010 (259 million euros) also included a gain of 0.1 billion euros on divestments that had been completed (excluded from the underlying figures).

Operating expenses

Operating expenses came to 3 861 million euros in 2010, or 3 767 on an underlying basis, 2% lower than in 2009 despite additional expenses relating to the new bank tax in Hungary and the Belgian deposit protection scheme. Underlying expenses in Belgium and in Central & Eastern Europe (excluding currency differences) remained virtually unchanged, whilst they fell in the Merchant Banking Business Unit and Group Centre. As a result, the underlying cost/income ratio for the group's banking activities (operating expenses/total income) was 54% in 2010, in line with the previous year.

Impairment on loans

Impairment on loans and receivables (loan loss provisions) amounted to 1.5 billion euros in 2010. Despite higher provisioning in Ireland (525 million euros in 2010, compared with 176 million euros in 2009), that was a vast improvement on the 1.9 billion euros recorded in 2009, due primarily to the fact that less provisioning was required in Central and Eastern Europe (mainly Poland and the Czech Republic) and in Russia, for the branches abroad, and for US asset-backed securities (recognised as loans and receivables). As a result, the group's credit cost ratio fell from 112 basis points in 2009 to 91 basis points in 2010 (138 basis points at the Merchant Banking Business Unit, 122 basis points at the Central & Eastern Europe Business Unit and a very favourable 15 basis points at the Belgium Business Unit). The proportion of non-performing loans in the total loan portfolio was 4.1% at year-end 2010, compared with 3.3% in 2009.

Other impairment charges

Impairment on available-for-sale assets came to 12 million euros in 2010 and relate almost entirely to valuation markdowns on shares in the investment portfolio. That is a considerable improvement on 2009 (ref. fall in share prices in the first quarter of that year). The remaining impairment charges relate largely to valuation markdowns on goodwill in relation to certain subsidiaries and associated companies (likewise much lower than in 2009). Goodwill markdowns of this kind have been eliminated from the underlying results.

Balance sheet

At the end of 2010, the consolidated total assets came to 277 billion euros, down 2% year-on-year. Risk-weighted assets fell by 9% and stood at 112 billion euros on 31 December 2010, due primarily to the deliberate run-down of loan portfolios not linked to the group's home markets and to divestments made. As in 2009, the main products on the asset side of the balance sheet were 'Loans and advances to customers' (151 billion euros in loans at the end of 2010) and 'Securities' (67 billion euros, 96% of which were debt instruments). On a comparable basis (and excluding reverse repos), lending was down 2%, due mainly to the scaling back of international loan portfolios outside the home markets. In the home markets, though, it remained more or less stable (Belgium Business Unit +5%, Central & Eastern Europe Business Unit -3%). The main credit products were again term loans (72 billion euros) and home loans (61 billion euros). On a comparable basis, total customer deposits rose by 7% to 202 billion euros at group level, with growth being recorded in all business units (Belgium, Central & Eastern Europe and Merchant Banking). As in 2009, the main products were time deposits (62 billion euros), demand deposits (49 billion euros) and savings deposits (40 billion euros, i.e. an increase of 1.6 billion euros in 2010).

Solvency

On 31 December 2010, the group's total equity came to 14.1 billion euros. This figure includes parent shareholders' equity (13.2 billion euros) and minority interests (0.9 billion euros). On balance, total equity grew by 1.1 billion euros in 2010, due primarily to the inclusion of net annual profit of +1.5 billion euros (including minority interests) and the 0.4-billion-euro decrease in the revaluation reserve for available-for-sale financial assets. As a result, the group's tier-1 ratio stood at a robust 12.4% at year-end 2010.
For a detailed overview of changes in equity, see the 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section. Information on the non-voting core-capital securities that KBC Group NV (KBC Bank's parent company) sold to the Belgian and Flemish governments is provided in the 'Additional information' section.

Review of the business units

Net results per business unit

Consolidated income statement, KBC Bank: breakdown of result after tax, attributable to equity holders of the parent (in millions of EUR)

	2009	2010
IFRS result	-2 491	1 395
Underlying result	1 082	1 174
Belgium Business Unit	616	622
Central & Eastern Europe Business Unit	106	393
Czech Republic*	237	317
Slovakia	7	44
Hungary	58	75
Poland	-36	36
Bulgaria	-1	0
Rest (funding cost of goodwill, etc.)	-159	-81
Merchant Banking Business Unit	303	130
Group Centre (including scheduled divestments)	56	30

* (Based on a working assumption that) 40% of the net result of ČSOB Bank has been reallocated to the Group Centre.

When adjusted for exceptional items, the underlying result stood at 622 million euros for the Belgium Business Unit, 393 million euros for the Central & Eastern Europe Business Unit (considerably higher than the 2009 figure, thanks in part to lower loan losses), 130 million euros for the Merchant Banking Business Unit (less than in 2009, due in part to higher loan losses in Ireland and the impact of irregularities at a group company), and 30 million euros for the Group Centre. An overview of all the items not included in the underlying results is given in the previous section.

A complete overview of the underlying results and a brief commentary for each business unit is provided in the ‘Consolidated financial statements’ section, under ‘Notes on segment reporting’.

Belgium Business Unit

The Belgium Business Unit brings together all the group's retail and private banking activities in Belgium. The main group companies that belonged to this unit in 2010 were CBC Banque, KBC Asset Management, KBC Bank (Belgian retail and private banking activities) and KBC Lease (Belgian retail activities).
Centea – which is divested under the strategic plan – also belongs to this business unit. However, its results have been allocated to the Group Centre (which incorporates the results of all group companies scheduled for divestment).

Facts and figures, Belgium Business Unit	2009	2010	2010 excluding Centea
Network			
Retail bank branches, KBC Bank and CBC Banque[1]	809	793	793
Private banking branches, KBC Bank and CBC Banque	26	26	26
Bank agencies, Centea	687	667	-
Market share (estimates)			
Loans	23%	23%	21%
Deposits	18%	18%	17%
Investment funds	39%	39%	37%
E-payments indicators – Belgium			
Percentage of payment transactions via electronic channels	94%	94%	94%
Number of KBC- and CBC-Matic ATMs	1 254	1 246	1 246
Number of cash withdrawals at KBC-Matic and CBC-Matic ATMs per month (in millions)	4,7	4,7	4,7
Active subscribers to KBC Internet and PC banking facilities	884 000	992 000	879 000
Customer satisfaction			
Percentage of customers surveyed who gave their KBC Bank branch a score of 'good' or 'very good' (min. 8/10)	74%	74%	-

1 Including branches catering for the social profit segment; excluding CBC Banque's main branches (*succursales*), which are covered in the Merchant Banking Business Unit section.

Macroeconomic trends in 2010 and forecasts

On the back of very robust growth in Germany, real GDP growth in Belgium reached 2.1%, twice as strong as forecast in early projections at the beginning of the year. Although the recovery in activity was driven primarily by exports, domestic demand also gained momentum in 2010, thanks in part to the surprising upturn in the labour market. The Belgian public deficit was restricted to 4.6% in 2010, below the target set by the European Union and specified in the Stability Programme. In 2011, KBC expects growth to be supported by a continued improvement in domestic demand, whereas exports will probably expand somewhat slower on account of the slightly less vigorous world economy. However, with GDP projected to grow at 2% in 2011, the Belgian economy will probably expand slightly faster than the European Monetary Union as a whole (1.9%).

Strategy and Net 3.0

The strategy pursued by the Belgium Business Unit builds on success formulas from the past. The most important in this regard is the strong local responsiveness, based on the provision of relationship bancassurance products and services through a close-knit network of bank branches and insurance agencies (belonging to KBC Insurance, the KBC Bank's sister company), backed up by a complementary online channel. The unique and successful model of co-operation between bank branches and insurance agencies (belonging to KBC Insurance, the KBC Bank's sister company) in micro markets also contributes significantly to the good performance of this business unit. The model enables the KBC group to provide its customers with a comprehensive product offering, which is aligned to their individual needs and which also stimulates cross-selling. In 2010, for example, the KBC group sold a home insurance policy with roughly eight out of every ten home loans granted, and loan balance insurance with around three quarters of them. Bank branches accounted for some 80% of life insurance sales of the KBC group in Belgium in 2010. Insurance agents were the principal sales channel for non-life insurance policies (responsible for around two-thirds of sales), with bank branches accounting for approximately one-fifth.

A programme was launched in 2010 to further optimise the commercial network in Belgium, with the goal of safeguarding KBC's position within a highly competitive and constantly changing environment. This project is known as Net 3.0 in Flanders and Brussels and will be rolled out early in 2011. With this project, KBC is making a three-fold commitment to its customers, viz. (i) providing relationship management services that are tailored to each customer; (ii) offering readily available expertise to each customer; and (iii) enhancing proximity and accessibility via a multi-channel network. New elements of the model include (for the whole KBC group):

- further expansion of online services;
- longer opening hours and appointments with relationship managers outside normal working hours;
- more comprehensive relationship management for SMEs, local businesses, the self-employed and members of the liberal professions;
- the creation of KBC Corporate Insurance to provide an even better insurance service to companies above a certain size;
- a new KBC Premium Banking service for retail customers with assets invested at KBC of between 250 000 euros and 1 million euros;
- the creation of a wealth management branch within the private banking segment for clients with assets of 5 million euros or more;
- further investment in the expansion of the insurance agency network.

In Brussels and Wallonia, CBC Banque & Assurance caters for local businesses and (wealthy) clientele, focusing on personal banking for customers with assets between 75 000 euros and 500 000 euros, and on private banking for wealthy individuals with assets of over 500 000 euros.

Sales process for Centea

The group's strategic plan includes the divestment of certain entities as part of the focus on core activities and the generation of funds to pay back the financial support received from the government. In Belgium's case, that relates to Centea (and Fidea, the subsidiary of KBC Insurance), for which a considerable amount of preparatory work was performed in 2010. Separation was completed in the middle of 2010, following which preparations began for the actual sales process. Early in March 2011, an agreement was reached with Crédit Agricole for the sale of Centea (additional information is provided in the 'Group Centre' section). The deal is expected to be finalised later in the year.

Expansion of direct channels

The Internet also occupies an important place within the updated distribution network, functioning as a support channel with particular emphases for specific customer groups. A series of sales applications were added to the www.kbc.be website in 2010. Thousands of share and fund transactions are carried out on it every month and countless applications submitted for loans, accounts, cards and insurance. The KBC website receives over 20 million visits a month and almost 2 million unique visitors. Alongside the standard website, a mobile site (m.kbc.be) was launched in 2010, which can be accessed from a wide range of smartphones. KBC-Online was further expanded, too. Security, for instance, was further enhanced by the addition of extra protection when customers are transferring large amounts. At year-end, KBC-Online and CBC-Online had almost 900 000 active subscribers in total, another considerable increase on the previous year.

Market shares

Despite the stock-market recovery, most customers continued to opt for low-risk investments. The volume on savings accounts rose to 40 billion euros, and customers showed a heightened interest in time deposit accounts, which grew significantly as a result. As far as investment products were concerned, customers also had little appetite for taking risks. Once again, various innovative investment funds and investment-type insurance were launched.
Within a highly competitive environment, KBC's market share (based on provisional data) remained fairly stable, coming to approximately 17% for deposits and 21% for lending (excluding Centea in each case). As in previous years, the group recorded a very high share – an estimated 37% (excluding Centea) – of the investment fund market.

Customer and employee satisfaction

KBC's relationship bancassurance approach was again rewarded with a high level of customer satisfaction. The most recent survey relating to the bank branches confirmed once more that customers are generally more than satisfied (95% of customers are 'satisfied', with as many as 74% describing themselves as 'very satisfied', i.e. they gave their branch a score of eight or more out of ten).
KBC also scored very well with its staff. The most recent survey found that no less than 96% of employees rated themselves as 'satisfied' and 'very satisfied', in line with the results in previous years. This solid score was confirmed by the 'Best Employer' survey conducted by Vlerick Leuven Gent Management School and the Great Place to Work® Institute, in collaboration with the recruitment publication *Vacature.* As in previous years, KBC was proclaimed one of the 'Best Employers in Belgium' in 2010.

KBC attaches great importance not only to its relationship with customers and employees, but also to its role in society in general. This is expressed through a range of initiatives in areas like patronage and combating social deprivation and exclusion (for instance, working with the *Bonnevie* and *Foyer* neighbourhood centres), the environment, the products offered (e.g., green home loans, socially responsible investment funds) and social engagement (e.g., blood donation drives for members of staff). Further details of KBC's corporate social responsibility initiatives can be found in its dedicated CSR Report, available from www.kbc.com.

Central & Eastern Europe Business Unit

The Central & Eastern Europe Business Unit comprises all group activities pursued in Central and Eastern Europe. The main companies that belonged to this unit in 2010 were CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), K&H Bank (Hungary) en Kredyt Bank (Poland).
Absolut Bank (Russia) and Nova Ljubljanska banka (Slovenia, minority interest) – all earmarked for divestment under the strategic plan – also belong to this business unit, but their results are recognised under the Group Centre.

Facts & figures, Central & Eastern Europe Business Unit, 31-12-2010	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Serbia[1]	Russia[1]
Network							
Group banks	ČSOB	ČSOB	K&H Bank	Kredyt Bank	CIBANK	KBC Banka	Absolut Bank
Bank branches	301	129	252	381	118	63	71
Market share (estimate based on provisional data)							
Traditional bank products (average share of loans and deposits)	23%[2]	10%	9%	4%	3%	>1%	<1%
Investment funds	32%	11%	20%	5%	–	–	–

1 The results for these companies have been recognised under Group Centre, as have the results relating to the minority interest in Nova Ljubljanska banka. KBC Banka (Serbia) is a subsidiary of KBC Insurance.
2 Includes 100% of the share of the loans and deposits market held by CMSS (55% joint venture). Taking only 55% into account, the estimated market share comes to between 20% and 21%.

Macroeconomic trends in 2010 and forecasts

KBC's home markets in Central Europe grew by an aggregate 3% in real terms in 2010. As in Belgium, the recovery was sparked by Germany – the region's most important trading partner – with exports acting as the major driver of economic growth. Having been the only EU Member State able to avoid a recession, Poland is again expected to perform relatively strongly in 2011 and to record the highest growth (an estimated 4%). Hungary's economy is forecast to expand by around 2.7% in 2011, driven primarily by external demand. KBC projects that real GDP for its five home markets combined will increase by 3.5% in 2011 (real growth in Russia, which is not one of the home markets, was roughly 4% in 2010 and is expected to be just over 4% in 2011). KBC believes that Central and Eastern Europe will continue to drive growth for the group going forward. This is based on the expectation that the region's economies will steadily converge towards the Western European level, not only in terms of GDP per capita, but also as regards the penetration of financial products.

Strategy

As already mentioned, KBC's focus in Central and Eastern Europe is on a number of home markets (Czech Republic, Slovakia, Hungary, Poland and Bulgaria). Group strategy in each country depends on KBC's position in that specific market. In some cases, the group positions itself among the market leaders, adopting a general, broad-based approach to the market. In others, the group aims to be more of a selective champion under its new strategy, focusing on specific customer segments, products or both.
The KBC group's bancassurance model is underpinned in its Central European home markets – as it is in Belgium – by close collaboration between the group's banking and insurance networks. Whereas KBC works with a network of tied agents in Belgium, the group's insurers in Central and Eastern Europe also co-operate with other distribution channels, including insurance brokers and multi-agents. Bancassurance in Central and Eastern Europe has a regional dimension, too. The staff responsible for distribution there are brought together in a structured way to supervise the implementation of local action plans.

The presence in Central and Eastern Europe is also tested against the group's efficiency targets and policy. Where it is more efficient to develop products locally, that is what will happen. Where central product development makes more sense, it will be done by group-wide product developers. The product developers will make individual, clear and result-oriented agreements with the distributors (bank branches, etc.).

Planned divestments

As part of its refocused strategy, the group has decided to sell its holdings in Serbia (KBC Banka, a subsidiary of KBC Insurance), Russia (Absolut Bank) and Slovenia (minority interest in Nova Ljubljanska banka) when the best possible market conditions arise. The group also plans to sell Żagiel in Poland (consumer credit via a specialist model).
As part of the strategic plan, a public offering is planned in Prague, meanwhile, for a minority interest in ČSOB, KBC's Czech banking subsidiary. Detailed preparations for this IPO were made in 2010.
Under the new strategy, the group will not make any significant acquisitions in the region in the years ahead. That said, however, KBC's interest in Bulgaria's CIBANK was increased to 100% in 2010, due to the agreement with the minority shareholder, who exercised the put option agreed with KBC some years ago. The transaction had no material impact on the group's capital position.

Market shares

KBC's share of the market for loans and deposits (average of the two) remained largely unchanged in 2010 (approximately 23% in the Czech Republic (including CMSS' share at 100%), 10% in Slovakia, 9% in Hungary, 4% in Poland and 3% in Bulgaria). Its market share in Serbia and Russia is limited (see table).
As in Belgium, the share of the market in investment funds is greater than that of the market in traditional deposit products. At year-end 2010, the share of the market in investment funds was estimated at 32% in the Czech Republic, at 11% in Slovakia, at 20% in Hungary, and at 5% in Poland. The group's total assets under management in the region stood at 13 billion euros at the end of 2010.

Corporate social responsibility and awards

As a major financial player in Central and Eastern Europe, KBC sets great store – as it does in Belgium – by the role it plays in society. The new K&H head office in Budapest (operational end 2011), in which green technology and sustainability were important considerations, is a good example of an initiative showing KBC's ecological commitment. Examples of social involvement, meanwhile, include the option of extending repayment terms for consumer credit and other actions to help the victims of the red mud disaster in Hungary, as well as the installation of ATMs with facilities for visually impaired customers in the Czech Republic. Further details of KBC's corporate social responsibility initiatives can be found in its dedicated CSR Report, available from www.kbc.com.

As in previous years, various group companies won a range of prestigious international prizes in 2010. For instance, several Central European group companies were among the winners once again when *Global Finance* magazine announced its annual 'Best Bank' awards. ČSOB was named 'Best Bank', 'Best Trade Finance Bank', 'Best Foreign Exchange Provider' and 'Best Sub-Custodian Bank' in the Czech Republic. K&H Bank and ČSOB Slovakia also picked up *Global Finance* awards.

Merchant Banking Business Unit

The Merchant Banking Business Unit comprises corporate banking (the services provided to larger SME and corporate customers), as well as market activities in Belgium and abroad (apart from those in Central and Eastern Europe). The main group companies belonging to this business unit in 2010 were KBC Bank (merchant banking activities and foreign branch network), KBC Commercial Finance, KBC Bank Ireland, KBC Clearing, KBC Credit Investments, KBC Lease (corporate lease activities), KBC Internationale Financieringsmaatschappij, KBC Real Estate, KBC Private Equity (where various participations have already been sold as part of the strategic plan) and KBC Securities. Antwerp Diamond Bank, KBC Bank Deutschland, KBC Finance Ireland (global trade and project finance), KBC Financial Products (various activities already sold), KBC Peel Hunt (already sold) – which have been earmarked for divestment under the strategic plan – also belong to this business unit, but their results have been allocated to the Group Centre (which incorporates the results of all group companies scheduled for divestment).

Facts and figures, Merchant Banking Business Unit	2009	2010
Network		
Corporate branches in Belgium, including CBC Banque *succursales*	26	26
Bank branches outside the home markets[1], including representative offices	32	28
Market share (estimates)		
Corporate lending (Belgium)	24%	25%

1 For the corporate branches of KBC Bank NV, KBC Bank Deutschland and KBC Bank Ireland.

Strategy

Under the new strategy, the Merchant Banking Business Unit will concentrate on corporate banking (lending, cash management, payments, trade finance, leasing, etc.) and market activities (treasury services, capital market products, stockbroking, corporate finance, etc.) for customers linked to KBC's home markets in Belgium and Central and Eastern Europe. Activities with other professional or institutional counterparties will depend in future on the degree to which they support the group's core activities.

This focus means that much of the merchant banking activities that are not related to the home markets will be scaled back. Various activities were already sold in 2010 (e.g., the Global Convertible Bonds and Asian Equity Derivatives businesses, KBC Peel Hunt and KBC Business Capital). The results of the companies to be divested have been transferred to the results for the Group Centre. More information on the divestments completed in 2010 can be found in the 'Group Centre' section.
A number of activities at foreign branches have also been run down. The loan portfolio of those branches is located primarily in Western Europe (excluding Belgium), the US and Southeast Asia, and a substantial proportion of that relates to purely local foreign corporate clients or niche activities, which have no natural link with KBC's customer base in its core markets. Loans of this kind will be terminated when they mature or, where possible, sold before then. The group had made good progress by year-end 2010 with the run-down of this international loan portfolio, and that has helped reduce the risk-weighted assets of the corporate banking activities by some 7 billion euros in the space of a year. A number of foreign branches were also closed in 2010. The intention here, too, is to adapt the network of branches abroad in such a way that KBC can provide optimum support to its customers and operations in its home markets.

Activities

If the higher loan provisions for Ireland and the impact of irregularities at KBC Lease UK are disregarded, the merchant banking business performed relatively well in 2010.
The dealing rooms in Belgium and elsewhere put in a good performance, though they fell short of the exceptional results achieved in 2009. Excluding certain exceptional items, KBC Securities generated slightly less income on account of lower transaction volumes in Hungary, lower trading results and pressure on margins in general. However, its retail customer base continued to expand in all the core countries where an online trading platform is offered (Bolero in Belgium, Equitas in Hungary and Patria Direct in the Czech Republic). The corporate finance teams turned in very strong performances in Belgium and the Czech Republic, and professional services offered to third parties were further expanded. In Belgium, institutional brokerage continued to strengthen its position and KBC Securities was named 'First Brokerage House for Cash Markets' by Euronext Brussels.
Corporate banking operations in Belgium did equally well, underpinned by higher fee and commission income and cost control. Thanks in part to significantly lower loan losses and despite continuing to be run down, loan portfolios abroad also generated solid results. The situation in Ireland is discussed under a separate heading below.

Ireland

The international portfolio also includes an Irish loan portfolio of around 17 billion euros at KBC Bank Ireland. Most of this portfolio (approximately 75%) relates to mortgage loans, 13% are SME and business loans and the remainder (11%) are loans related to real estate investment and development. At the end of 2010, around 10% of the total Irish loan portfolio was non-performing. In the year under review, the group set aside 0.5 billion euros, on balance, in additional provisions for this portfolio, which equates to a credit cost ratio of 298 basis points. Consequently, the cover ratio for the Irish portfolio was 42% at year-end 2010 (all provisioning relative to the non-performing loan portfolio). The increase in provisioning naturally reflects the difficult economic situation in Ireland.
Although Ireland does not belong to the group's core geographic territory, no decision has been made in the group's strategic plan regarding the activities of KBC Bank Ireland, again because of the difficult economic climate in that country.

Shared Services & Operations Business Unit

This business unit provides support to and serves as a product provider for the other business units. It encompasses a number of divisions that provide products and services to the entire group. The main divisions belonging to this unit in 2010 were Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

The mission of the Shared Services & Operations Business Unit is to provide its internal customers (e.g., the group's distribution channels) with quality service at a competitive price. Consequently, several initiatives are being taken to improve efficiency and reduce costs. To help achieve this goal, the 'Lean' project was launched in 2010 and implemented as a pilot project in a number of divisions. The aim is to roll this project out in all the divisions of the business unit by the end of 2012.

Payments

As was the case in 2009, further measures were taken in relation to the Single Euro Payments Area (SEPA) with the launch of the SEPA Direct Debit in Belgium and Slovakia. ATMs in Poland were made EMV-smart (Europay, MasterCard, Visa). The Payments Division also began work on the integration of activities in Bulgaria, drawing on best practices from the group's other home markets. The division's integrated and group-wide approach also ensures that the best service possible is provided at all times in all the relevant countries, and that cross-border synergies and collaboration are achieved. Examples in this area include the connection of the Central European group companies to a central SWIFT hub and developments relating to the connection of the Czech Republic and Slovakia to the group platform for cross-border payments. The priority for the Payments Division in the years ahead will be to further consolidate all SEPA payment products on group platforms, to develop a high-performance organisation through efficient process improvement proposals and – in implementation of the new group strategy – to conclude co-operation agreements with the sales network, with a view to offering the right products even more effectively in each market.

Trade Finance

The first integrated modules of the new group-wide processing platform for trade finance were successfully rolled out in 2010, and plans are in place to connect all trade finance divisions in the Central European home markets in 2011. Customers' pursuit of greater security and their rediscovery of traditional trade finance products (documentary credit) and financing products (forfaiting) meant that the revival of the world economy resulted in a record year in terms of the number of processed trade transactions and volumes. That also naturally reflected the approach adopted by this division, which combines an intense customer focus with rapid and accurate processing of import and export transactions. For its approach to trade finance, KBC was again rewarded with the accolade of 'Best Trade Finance Bank' by *Global Finance* magazine for its operations in Belgium (KBC Bank), the Czech Republic (ČSOB) and Hungary (K&H Bank).

Asset Management

In 2010, KBC Asset Management focused its investment strategy on the gradual economic recovery in the West and on the strong growth of emerging markets, and devoted particular attention to building safety mechanisms into portfolios. The most popular products were those that monitor the floor (by placing a lower limit under the capital to reduce potential losses). On the institutional market, new mandates were concluded with pension and reserve funds and other mandates renewed by a tender process. KBC Asset Management's institutional index funds are an especially competitive product. In addition, more and more institutional players are demanding the socially responsible screening of their investments, a field to which KBC Asset Management is strongly committed and in which it occupies an important position.
The strategy pursued by KBC Asset Management is wholly aligned with that of the KBC group, which means that the focus is on Belgium and Central Europe. In Belgium, KBC remained far and away the leader for fund sales, with a market share of approximately 39% in 2010. In Central and Eastern Europe, too, the group is in a strong position as regards its asset management activities (estimated market shares of 32% in the Czech Republic, 11% in Slovakia, 20% in Hungary and 5% in Poland). In addition to these core markets, KBC Asset Management is present in a number of emerging markets. In this regard, it joined forces with Union Bank of India and opened Union KBC Asset Management in India at the end of March 2010. The presence elsewhere in the world is being scaled back in accordance with the KBC group's refocused strategy, as illustrated by the agreement concluded in June for the sale of KBC Asset Management's British and Irish activities.

Leasing

The KBC Lease Group provides financial and operating leasing solutions and full-service leasing for cars through a number of channels. As is the case for other group companies, the activities and strategy of the KBC Lease Group were further adjusted in line with and embedded in the new KBC group strategy. This entails a clear refocusing on the group's core customers and core segments in Belgium and in Central and Eastern Europe, and the run-down of activities elsewhere. The fine-tuning of the business model has already generated good results, especially in Belgium, the Czech Republic and also in Slovakia, where the share of the market rose from around 13% to 16%.
Internal audits at KBC Lease UK in the fourth quarter revealed irregularities in certain contracts it had concluded with third parties. The necessary amounts were recognised to cover the maximum potential net cost of these irregularities. KBC has taken certain preventive legal measures that it deems necessary to protect its interests and to recover as much of this amount as possible. It has also submitted an insurance claim aimed at recovering the amount at risk.

Consumer Finance

The focus in terms of consumer finance is on selling products via the group's banking channels. With this in mind, the intention is to sell Żagiel, the consumer finance specialist in Poland (the business will be continued and developed, with the aim of making it more attractive to potential buyers). The group's new geographical focus has also resulted in a decision to cease consumer finance activities in Romania and only to manage the existing portfolio there.
Despite the after-effects of the crisis, the group's consumer finance operations turned in a good performance in 2010, due in part to reasonable volume growth, combined with effective cost and risk control. An exceptional amount of attention was also devoted – as it was at the business unit's other divisions – to achieving synergies and spreading best practices throughout all markets. One example was the introduction in the Czech Republic of the popular 'credit card with extended warranty' that had been launched in Belgium. Similar launches are also planned in due course in Slovakia, Poland and Hungary.

Organisation

Organisation, in collaboration with the other group divisions involved, concentrated in 2010 on drawing up and executing the group's new strategy. In practice, this entailed active involvement in the preparation of a new model for the retail and private bancassurance network in Belgium, the definition of a new branch model, and support for the further integration into the group of the Central European entities. As in previous years, the division also played a leading role in improving the service provided to internal and external customers by enhancing processes, strengthening customer focus, supporting synergy projects and establishing a culture of sustainable quality service provision.

ICT

ICT, too, is a key player in the group's new strategy, particularly in terms of its contribution to achieving optimum efficiency.
A number of major optimisation projects were launched once again in 2010, including a project to update the banking platforms in the Czech Republic and Poland. In Hungary, the construction of new twin data centres in the Budapest area was completed (with the aim of centralising ICT processing for all the group's Central and Eastern European companies there, rather than at various centres in each country) and the programme to standardise work stations was launched at CEE group companies.

Research & Development

New products and services are constantly being developed within the group in order to match the range offered as closely as possible with market demand. Most departments have their own product development units, and any products and services developed must be approved by one of the committees established for that purpose. A project has been launched to optimise and harmonise the approval process for new and updated products and services within the group. Products and services that no longer meet current market needs are also regularly examined and adapted or even scrapped, where necessary.
Various examples of new product developments in 2010 are provided in this annual report, such as the new mobile site and new processing systems. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 30 of the 'Consolidated financial statements'.

Group Centre

The Group Centre includes a small portion (not attributable to the other business units) of the results of KBC Bank NV and elimination of intersegment transactions. With effect from this annual report, the Group Centre also contains the results of companies designated for divestment under the strategic plan. The most important of these are Centea, Absolut Bank, the minority interest in Nova Ljubljanska banka, Żagiel, KBC Financial Products, KBC Peel Hunt, KBC Finance Ireland (global trade and project finance), Antwerp Diamond Bank and KBC Bank Deutschland. Sale agreements were signed or completed for several of these divestments in 2010.

As indicated, the Group Centre's results consist primarily of the results of the main companies scheduled for divestment under the strategic plan. The divestment programme is already under way and a number of companies and activities were already sold in 2010. A brief description of the sales completed in 2010 is set out below. Although a number of companies belong to business units other than the Group Centre, they are also included here for the sake of completeness.

Sale of KBC Financial Products activities

Various activities at KBC Financial Products were sold in 2010, including the US reverse mortgage portfolio, the Japanese cash equity business (BNP Paribas retained a substantial number of the staff employed in this domain) and the US Life Settlement portfolio (to certain funds managed by Fortress Group companies). Each of these deals had a limited financial impact.

The Global Convertible Bonds and Asian Equity Derivatives businesses were sold to Daiwa Capital Markets for a total consideration of approximately 1.2 billion US dollars, releasing approximately 0.2 billion US dollars in capital for KBC and boosting the group's tier-1 ratio by roughly 12 basis points. In addition, exposure to credit derivatives was reduced sharply in the first half of the year as part of the restructuring of KBC Financial Products. All the transactions listed above were completed before year-end 2010.

Management buyout for KBC Peel Hunt

At the end of July, KBC and KBC Peel Hunt reached agreement on a management buyout of KBC Peel Hunt for a total consideration of 74 million pounds Sterling. KBC Peel Hunt is a respected player on the UK market in areas including corporate finance advice, research, brokerage and market-making for mid- and small caps). The agreement received the support of KBC Peel Hunt staff and a group of external investors. The deal will have only a small impact on KBC's capital and its income statement. The deal was completed on 29 November 2010.

Other sales in 2010

An agreement was concluded in the first half of 2010 for the sale of KBC Asset Management's British and Irish activities. The management buyout transaction for the British operations was concluded on 1 June 2010. The Irish activities were sold to RHJ International in a transaction completed on 11 October 2010. The impact of both sales on KBC's results and capital was negligible. In July, KBC Securities concluded an agreement for a management buyout of its Latvian corporate finance subsidiary, KBC Securities Baltic Investment Company. The deal was completed on 7 July 2010. In September, the group signed an agreement for the sale of KBC Business Capital, its British unit specialising in asset-based lending, to the PNC Financial Services Group. The deal was completed on 22 November 2010. In both instances, the sale had a negligible financial impact for the group.

2011: sale agreement for Centea

Early in March 2011, KBC reached an agreement with Crédit Agricole for the sale of Centea for a total consideration of 527 million euros. This deal will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC's tier-1 ratio by around 0.5% (impact calculated on at year-end 2010). The gain on this deal is negligible. Crédit Agricole, Centea and Fidea have agreed that, in an initial phase, Fidea will continue to offer its life and non-life insurance products through Centea's agents, as well as through Crédit Agricole's network. This co-operation model will, therefore, open up prospects and growth opportunities for Fidea. Finalisation of the deal depends on the customary approval of the regulator(s).

Corporate social responsibility

Corporate social responsibility (CSR) is a long-term process which requires ongoing adaptation of and improvement in the way a company conducts its business, not only for the purpose of making a financial profit, but in response to the increasing demands for transparency and accountability placed on the company by its stakeholders (employees, customers, shareholders, suppliers, etc.) and by society as a whole.

KBC's vision on CSR is embedded in its mission statement, and more specific commitments are set out in its *Principles for Socially Responsible Business*. For a number of years now, the KBC group has also been publishing an annual *Corporate Social Responsibility Report*, which deals with its vision and achievements in this area. This report provides group-wide information on CSR, including quantitative data on KBC staff and the group's ecological footprint. It is compiled in accordance with the reporting requirements set out in the Global Reporting Initiative *G3 Guidelines* and the United Nations *Global Compact* principles, and is available at www.kbc.com.

Examples of initiatives on the CSR front in 2010

As in previous years, KBC embarked on various new initiatives in the field of CSR in 2010, more details of which appear in our CSR Report. A few examples of the initiatives taken and the awards received for environmental and community involvement are listed below.

- Following on from its success in 2009, KBC was again awarded the prestigious Solidaritest® Champions label. Solidaritest® is an annual survey into the efforts that Belgian companies actually make in the field of social solidarity. In KBC's case, it relates to a number of areas, including its active involvement in the *Levenslijn* campaign for young victims of traffic accidents, its work with *De Sleutel* – a drug prevention centre – and with *Solidariteitsplan,* which provides support to employees participating in local social projects.
- In Belgium, KBC achieved good market penetration in respect of financing renewable energy projects, including biogas installations and solar panels for industrial projects. A special renewable energy team has been collecting information and providing support to the network and decision-makers since 2007. It has 20 members active in different areas within KBC.
- KBC pursues a restrictive policy with regard to companies manufacturing controversial weapons. In the autumn of 2010, KBC Asset Management acted on a proposal made by the External Advisory Board for Sustainability Analysis and duly compiled a new extensive black list of such companies. The list contains 49 companies involved in the development, testing, storage or manufacture of (essential components of) controversial weapons systems. All of these companies are excluded from KBC investment funds. The list has been drawn up partly on the basis of information provided by Ethix SRI Advisors, an SRI consultancy.
- For some years now, ČSOB has been running volunteer days for its staff in the Czech Republic, giving them the opportunity to carry out voluntary work for non-profit organisations. In the summer of 2010, they lost no time in joining in the wave of solidarity that swept the country in response to the extensive damage caused by floods. ČSOB's employees were given the chance to help with the clean-up operation.
- In September, CIBank – in co-operation with MasterCard – launched a charity drive in Bulgaria to collect funds for children with serious kidney disorders. The proceeds are being used to purchase modern equipment for the Clinic of Nephrology and Haemodialysis at the University Children's Hospital.
- In June, KBC joined forces with the educational publisher Van In and launched two new financial education packages in Belgium to replace previous educational brochures. The first package is designed for pupils in years five and six at Dutch-speaking primary schools, and the second for pupils in years one and two at Dutch-speaking secondary schools. Both packages are called *Een bank vooruit! Je klare kijk op geld (en verzekeringen)* (Top of the Class in Banking and Insurance) and meet the ever-growing need of schools for teaching material on financial topics.
- In Hungary, K&H has provided its support to paediatric hospitals for many years as part of the K&H Medi-Magic Programme. During a month-long campaign in 2010, 22 K&H branches throughout the country collected more than 5 000 books and toys and distributed them to children in various paediatric hospitals.
- To move towards a greener vehicle fleet, KBC Autolease participated in the 'Cleaner Car Contracts' programme, which was established by a group of six international environmental organisations, including the *Bond Beter Leefmilieu* in Belgium. KBC Autolease has accepted the 'Gold Fleet' challenge to reduce the average CO_2 emissions of newly ordered lease cars to a maximum of 120 g/km by 2012.

Environmental efficiency data for the KBC group in Belgium (per FTE[1])	2009	2010
Energy consumption (in GJ)		
Electricity	24,8	24,3
Provided by renewable energy sources	100%	100%
Fossil fuels (gas and heating oil)	14,5	15,0
Distances travelled (in km)		
Commuter travel	10 427	9 542
Business travel	7 202	5 294
Paper and water consumption, waste		
Paper (in tonnes)	0,17	0,17
Water (in m^3)	12,9	9,3
Waste (in tonnes)	0,23	0,23
Greenhouse gas emissions (in tonnes)	2,2	2,2

1 Based on available data for Belgium (roughly 16 300 FTEs in 2010); methodological information is given in the group's CSR Report.

Our employees

At KBC, our employees are crucial to our group's success. We therefore wish to offer them every opportunity to develop both professionally and personally.
Employee satisfaction is important for attracting and keeping motivated staff.
In an external survey organised by the Vlerick Leuven Gent Management School and the Great Place to Work® Institute in 2010, KBC was again recognised as one of the 10 'Best Employers in Belgium'. KBC also regularly conducts employee satisfaction surveys of its own and uses the findings to take selective measures.
Through continual assessment and by adjusting its remuneration policy to take account of the latest labour-market trends, KBC aims to increase its employees' potential for development and to pay them a salary that is commensurate with their performance. It also devotes attention to updating the job classification system, to the career growth path of new junior managers, and to alternative remuneration schemes such as the 'cafeteria plan', where staff can opt for a salary-only package or a salary package plus benefits they choose themselves. Sensitive to its employees' mobility problems, the KBC group runs projects for staff to work locally or from home, organises free shuttle buses between railway stations and head office buildings, facilitates carpooling, cycling and the use of public transport, and is making the vehicle fleet more environmentally friendly.
In its staff regulations, its selection and promotion policy, as well as in its performance appraisal systems, KBC does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation. Equal treatment of employees is also addressed in the *KBC Code of Conduct* and in the various anti-discrimination manifestos and charters KBC has endorsed.
The group devotes considerable attention to the training of its employees and offers them an extensive range of development opportunities. They can choose from a number of training programmes which complement and reinforce each other (conventional learning, individual study, e-learning, learning on the job and mentoring). Developmental needs are also an important element in the annual performance appraisal interviews held between employees and their managers.
The KBC group works very closely with the employee organisations, holding talks with the works council and its committees, and consulting with the health and safety committees and union representatives. Representatives from its establishments in Central and Eastern Europe also participate in the European Works Council. At the end of November 2010, a new Collective Labour Agreement (CLA) was concluded with the social partners for the variable pay for financial years 2011 and 2012. This CLA builds on previously agreed basic principles such as income security, sustainability and transparency.

Note 10 in the 'Consolidate financial statements' section contains information on the average number of persons employed at KBC Bank. At the end of 2010, the breakdown of the workforce at KBC Bank was as follows: 38% men/62% women; 87% in full-time employment/13% in part-time employment; average age of 39; and average seniority of 10.9 years.

Value and risk management

Mainly active in banking and asset management, KBC Bank is exposed to a number of typical industry-specific risks and uncertainties such as – but not exclusively – credit default risk (including country risk), movements in interest rates, capital markets risk, currency risk, liquidity risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. Moreover, it is exposed to business risk where not only the macroeconomic environment, but also the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels. Obviously, the activities of a large financial group are inherently exposed to other risks that only become apparent with the benefit of hindsight. This section of the annual report focuses on KBC's risk governance and most of the material risks it faces, namely credit risk, market risk, liquidity risk, operational risk, as well as its solvency.

The information in this section that is part of the IFRS annual accounts has been audited by the statutory, viz.:

- the entire 'Risk governance' section;
- parts of the 'Credit risk' section, namely the introduction, 'Managing credit risk', the 'Loan and investment portfolio, KBC Bank' table (audited parts are indicated in the footnote to the table), the 'Other credit exposure' table, 'Overview of exposure to sovereign bonds (banking and insurance portfolios combined)', 'Details relating to the loan portfolio of KBC Bank Ireland' and 'Details relating to the loan portfolio of K&H Bank (Hungary)';
- parts of the 'Market risk in non-trading activities' section, namely the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 100 basis points increase in the yield curve for the KBC' and 'Foreign exchange risk';
- the entire 'Liquidity risk' section;
- the entire 'Market risk in trading activities' section;
- parts of the 'Solvency and economic capital' section, namely the introduction, 'Managing solvency', the table in 'Solvency at KBC Bank (consolidated)' (audited parts are indicated in the footnote to this table) and 'Economic capital'.

Risk governance

At KBC Group, a group-wide approach is taken to value and risk management, implying that the value and risk management of KBC Bank, as a subsidiary of KBC Group, is encompassed by this approach and inextricably linked to the value and risk management of other subsidiaries (such as KBC Insurance and KBP EPB). The section below focuses on the risk management of the banking activities.

During 2010, KBC's risk management underwent significant changes with regard to governance and structure. The ultimate goal of these changes was to further improve the group's ability to deal decisively with major economic events in the future by creating an adjusted and comprehensive integrated model that aligns all dimensions of risk, capital and value management.

The risk governance model is characterised primarily by:

- the Board of Directors (assisted by the Audit, Risk and Compliance Committee) which sets the risk appetite each year.
- an integrated, Executive-Committee-centred architecture that links risk appetite, strategy and performance goal setting via capital allocation to limits and targets. Along with a consequential monitoring process, this creates the parameters for the business to take risks autonomously within the overall strategic choices of the group.
- the Group Risk and Capital Oversight Committee and the Group Risk Management Committee (see below), two risk committees that leverage the time of the Executive Committee.
- a single, independent, group-wide risk function that comprises the Group Chief Risk Officer (Group CRO who sits on the Executive Committee), local CROs, and group and local risk functions.
- risk-oriented business people, who have the awareness and skill to make the right risk-return trade-offs and who act as the first line of defence for conducting sound risk management in the group. The Risk and Compliance functions act as the second line of defence, while Internal Audit is the third line.

To achieve the above objectives:

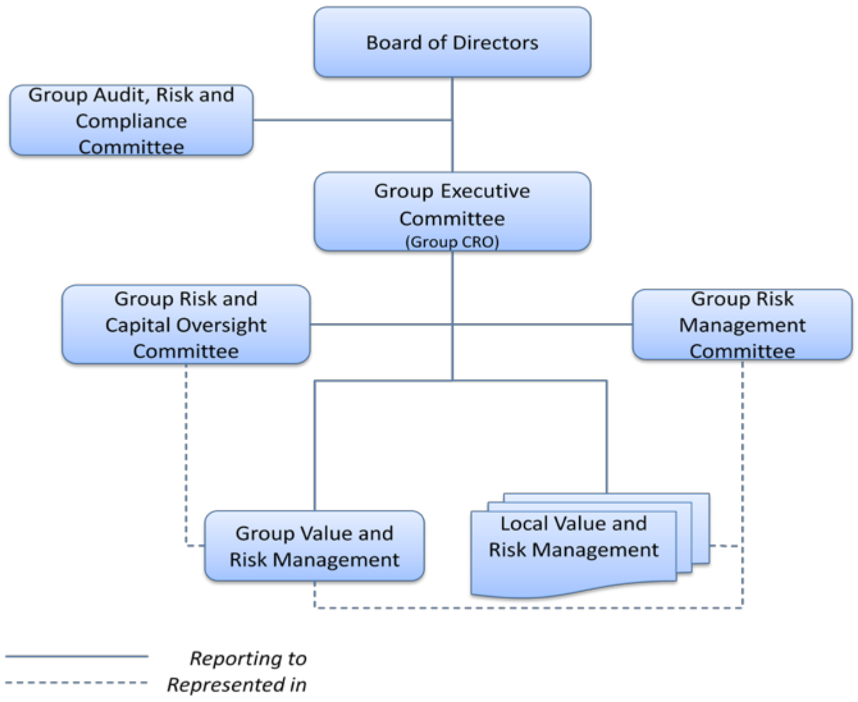
- KBC put forward the *Group Executive Committee* as a single integrating committee for risk and capital management, entrusting it with major tasks such as:
    - making proposals to the Board of Directors about risk and capital strategy, and about risk appetite;
    - agreeing on the risk and capital governance framework to be implemented throughout the group;
    - allocating capital to activities in order to maximise the risk-adjusted return;
    - monitoring the group's major risk exposure to ensure conformity with the risk appetite.
- KBC set up a *Group Risk and Capital Oversight Committee (GRCOC)* which, among other things:
    - monitors the integrated risk profile (combining, for instance, market context, solvency, liquidity, performance) to ensure consistency with risk limits and risk appetite, and identifies hidden risks;
    - if risk exposure exceeds limits, recommends mitigating actions to the Group Executive Committee to bring the risk exposure back in line;
    - advises the Group Executive Committee on all decisions or matters that (may) involve material risks and takes autonomous decisions on less material risks.
    - The permanent committee members are the Group CRO and Group Chief Finance Officer (both members of the Group Executive Committee), the senior general managers of the Group Value and Risk Management Directorate and Group Finance, the Group Treasurer and the general manager of the Group Strategy Unit. The committee also provides a platform for the business entities by inviting the relevant senior business managers to attend meetings dealing with topics in their field of expertise.
- KBC set up a *Group Risk Management Committee (GRMC)* which, among other things:
    - monitors and ensures the adequacy of risk and capital governance, and informs the Group Executive Committee on gaps and inefficiencies;
    - makes recommendations to the Group Executive Committee about material changes to the risk and capital governance frameworks, and decides on non-material changes to these frameworks on an autonomous basis;
    - actively promotes risk governance throughout the group (by means of education, communication, etc.);
    - manages and supervises model frameworks and their implementation;
    - The permanent members of this committee are the Group CRO, the senior general manager of the Group Value and Risk Management Directorate and local CROs. Here too, the voice of the business is heard via the local CROs or by inviting the relevant senior managers themselves to provide input on all topics and/or frameworks that affect them.
- KBC installed *Local Chief Risk Officers* (LCROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO. The LCROs have a number of responsibilities, including:
    - assisting the business on a day-to-day basis to identify, quantify and manage risks within their organisation;
    - monitoring the local integrated risk profile and compliance with local limits;
    - assuring a direct flow of information to the group on locally emerging risks;

- o making recommendations and advising the group risk function on *inter alia* frameworks to support a fit at local level.

- KBC abolished its specific risk committees (including the group credit risk committee, group trading risk committee, group ALCO) which were organised as *risk silos*. All responsibilities and open 'ToDos' were transferred to the new committees at group level or moved to the local level (via the LCRO). The process of abolishing the former local risk committees is still ongoing.

The new model has not changed the role of:

- the group risk function (the Group Value and Risk Management Directorate), which among other things monitors risks and capital at an overarching group-wide level, develops risk models (while business models are developed by business), performs independent (thus segregated from the modelling staff) validations of all the risk and business models developed, develops group-wide frameworks and advises/reports on issues handled by the Group Executive Committee and the risk committees.
- the group's Internal Audit Division. It is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.



Credit risk

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

Managing credit risk

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that there are sound procedures, processes and applications (systems, tools) in place to identify and measure the risks before and after accepting individual credit exposures. Limits are set to determine the maximum credit exposure allowed. Managing the risk at portfolio level encompasses *inter alia* periodic measuring of and reporting on risk embedded in the consolidated loan and investment portfolios, monitoring limit discipline, conducting stress tests under different scenarios, taking risk mitigating measures and optimising the overall credit risk profile.

Credit risk management at transactional level

Acceptance. Sound acceptance policies and procedures are in place for all kinds of credit risk exposure. The description here is limited to exposures related to traditional loans to businesses and to lending to individuals, as these account for the largest part of the group's credit risk exposure.

As regards lending to businesses, unless a small amount or a low risk is involved, a proposal submitted by a commercial entity is accompanied by a recommendation made by a loan adviser. In principle, significant decisions are then taken jointly by two or more managers. The level at which decisions should be taken is determined by matrices that take account of such parameters as the group risk total (the total risk run by the entire KBC group vis-à-vis the group the counterparty belongs to), the risk class (determined primarily on the basis of internally developed rating models) and the type of counterparty (financial institutions, sovereign entities, corporate entities, etc.).

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia, where credit in foreign currency is often provided on account of the significant gap between interest rates in the local currency and interest rates in other currencies. In recent years, there has been a growing awareness of the inherent risk stemming from fluctuations in exchange rates, resulting in a very cautious approach towards this particular type of lending.

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

In order to determine the risk class, KBC has developed various rating models for measuring how creditworthy borrowers are and to estimate the expected loss of various types of transactions. A number of uniform models are used throughout the group (models for governments, banks, large companies, project finance, etc.), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group.

The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. A defaulted obligor is assigned an internal rating ranging from PD 10 to PD 12. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. Class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), yet are still performing and do not meet the criteria for classification as PD 11 or PD 12. For the larger loans, an overview of all obligors in default is submitted to the Group Executive Committee every quarter.

Loans to large corporations are reviewed at least once a year, with the internal rating being updated, as a minimum. If ratings are not updated in good time, a penalty is incurred. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). Loans to individuals are screened periodically at aggregate level for review purposes.

Credit decisions are also monitored, with a member of a credit committee checking decisions taken at the decision level immediately below to see if they are consistent with the lending policy.

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

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, a decision can be taken to renegotiate its loans. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or some other appropriate measure. If a renegotiation stems from a deterioration in the obligor's financial situation and the payment terms are altered, a PD class 9 or higher will be assigned. In cases where renegotiation includes a (full or partial) charge-off of the financial asset, a PD class of at least 10 will be assigned. For the retail portfolio, the assigned PD class is determined on the basis of the behavioural score. In such cases, the resulting PD may be lower than 9. After renegotiation, the obligor's situation will be re-assessed one year later (in principle) and the obligor can return to a better class than PD 9 if the assessment turns out to be positive. In this case, the obligor is no longer considered as being in 'renegotiated status'.

At the end of 2009, loans that were renegotiated to avoid impairment accounted for some 2.2% of the total loan portfolio (amount outstanding). This figure had risen to 2.5% by the end of 2010 (see table below for a further breakdown). As regards the Merchant Banking Business Unit, most of the renegotiated exposure is accounted for by KBC Bank Ireland where nearly 9.0% of its total portfolio was renegotiated at the end of 2010 (5.8% at the end of 2009).

Renegotiated loans avoiding impairment (as a % of the total portfolio of renegotiated loans)	31-12-2009	31-12-2010
Belgium Business Unit	16%	16%
Central & Eastern Europe Business Unit	23%	20%
Czech Republic	3%	4%
Slovakia	3%	2%
Hungary	10%	10%
Poland	1%	1%
Bulgaria	7%	3%
Merchant Banking Business Unit	53%	61%
Group Centre (including scheduled divestments)	7%	3%
Total	100%	100%
(in billions of EUR)	3.7	4.0

Credit risk management at portfolio level

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

Whereas some limits are still in notional terms, concepts such as 'expected loss' and 'loss given default' are being used as well. Together with the 'probability of default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Basel II Internal Rating Based (IRB) Approach.

The switch to the Basel II IRB approach is taking place in stages, with KBC Bank NV and most of its main subsidiaries having already switched over to the IRB Foundation approach in 2007. Of the material group companies, K&H Bank switched to the Basel II standardised approach in 2008 and will adopt the IRB Foundation approach in 2011, while others – such as Kredyt Bank and ČSOB Slovakia – will adopt it at a later date (subject to regulatory approval). The non-material entities of the KBC group adopted the Basel II standardised approach in 2008 and will continue to implement it. Further moves to adopt the IRB Advanced approach are envisaged, starting in 2012.

Overview of credit risk exposure in the banking activities

The main source of credit risk is the loan and investment portfolio (see table). This portfolio is the result of what can be considered as pure, traditional lending activities. It includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government debt securities in the investment books of the group's bank entities.
Besides this particular aspect, credit risk arises in other banking activities. Trading activities, for instance, result in exposure to issuer risk, while interprofessional transactions (deposits with professional counterparties and derivatives trading) carry counterparty risk. International trade finance is also a source of credit risk, entailing short-term exposure to

financial institutions. Lastly, government bonds in the investment portfolio, mainly held for ALM and liquidity reasons, carry credit risk, as well.

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in the 'Consolidated financial statements' section, Note 14 (this item, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit lines or corporate and bank bonds, but does include repurchase transactions with non-banks). The loan and investment portfolio is broken down according to different criteria in the table below.

Loan and investment portfolio, KBC Bank	31-12-2009	31-12-2010
Total loan portfolio (in billions of EUR)		
Amount granted	198.1	191.9
Amount outstanding	163.2	161.1
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium	29%	31%
Central & Eastern Europe	22%	23%
Merchant Banking	40%	36%
Group Centre (including scheduled divestments)	9%	10%
Total	100%	100%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)		
Loans and guarantee credit	95%	96%
Corporate and bank bonds	5%	4%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]		
Private individuals	34%	37%
Financial and insurance services	9%	7%
Governments	3%	3%
Corporates	54%	52%
Non-financial services	10%	10%
Retail and wholesale trade	8%	8%
Real estate	7%	7%
Construction	5%	5%
Electricity	3%	2%
Food industry	2%	2%
Automotive	2%	2%
Agriculture, farming & fishing	2%	2%
Chemicals	2%	2%
Other[2]	13%	13%
Total	100%	100%

Loan portfolio breakdown by region (as a % of the portfolio of credit granted)[1]		
Western Europe	67%	68%
Central & Eastern Europe (including Russia)	23%	24%
North America	6%	5%
Latin America	1%	1%
Middle East	0%	1%
Asia	2%	2%
Africa	0%	0%
Oceania	1%	1%
International institutions	0%	0%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit granted)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	22%	25%
PD 2 (0.10% – 0.20%)	12%	12%
PD 3 (0.20% – 0.40%)	17%	18%
PD 4 (0.40% – 0.80%)	16%	15%
PD 5 (0.80% – 1.60%)	14%	11%
PD 6 (1.60% – 3.20%)	9%	7%
PD 7 (3.20% – 6.40%)	5%	6%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	3%	3%
Total	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	8 732	10 928
Impairment	3 696	4 686
Portfolio-based impairment	323	351
Credit cost ratio		
Belgium Business Unit	0.15%	0.15%
Central & Eastern Europe Business Unit	1.70%	1.22%
Czech Republic	1.12%	0.75%
Slovakia	1.56%	0.96%
Hungary	2.01%	1.98%
Poland	2.59%	1.45%
Bulgaria	2.22%	2.00%
Merchant Banking Business Unit	1.19%	1.38%
Group Centre (including scheduled divestments)	2.52%	1.10%
Total	1.12%	0.91%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	5 427	6 531
Specific impairment for non-performing loans	2 657	3 273
Non-performing ratio		
Belgium Business Unit	1.5%	1.5%
Central & Eastern Europe Business Unit	4.1%	5.6%
Merchant Banking Business Unit	3.9%	5.2%
Group Centre (including scheduled divestments)	5.1%	5.3%
Total	3.3%	4.1%
Cover ratio		
[Specific impairment for non-performing loans]/[outstanding non-performing loans]		
Total	49%	50%
Total excluding mortgage loans	59%	60%
[Specific and portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]		
Total	74%	77%
Total excluding mortgage loans	89%	96%

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

1 Audited figures.

2 Individual sector shares not exceeding 2%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 17 of the 'Consolidated financial statements' section, due to differences in scope.

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

Short-term commercial transactions. This activity involves export or import finance and only entails exposure to financial institutions. It includes documentary credit, pre-export and post-import finance and related transactions with a term to maturity of no more than two years. Despite the relatively high proportion of non-investment-grade banks in this exposure (roughly 24%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

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

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. Deposits account for slightly more than 20% of the total amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Close-out netting and collateral techniques are also used. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Government securities in the investment portfolio. Exposure to governments is measured in terms of nominal or book value and is accounted for mainly by EU states (particularly Belgium). Limiting caps are set by the Executive Committee for this type of credit exposure, more specifically for so-called non-home country sovereign bond exposure, and these are supplemented by 'warning signals' for the home country sovereign bond exposure (i.e. exposure to Belgium, the Czech Republic, Slovak Republic, Hungary, Poland and Bulgaria). More details on the exposure of the combined banking and insurance activities to government bonds is provided in a separate section below.

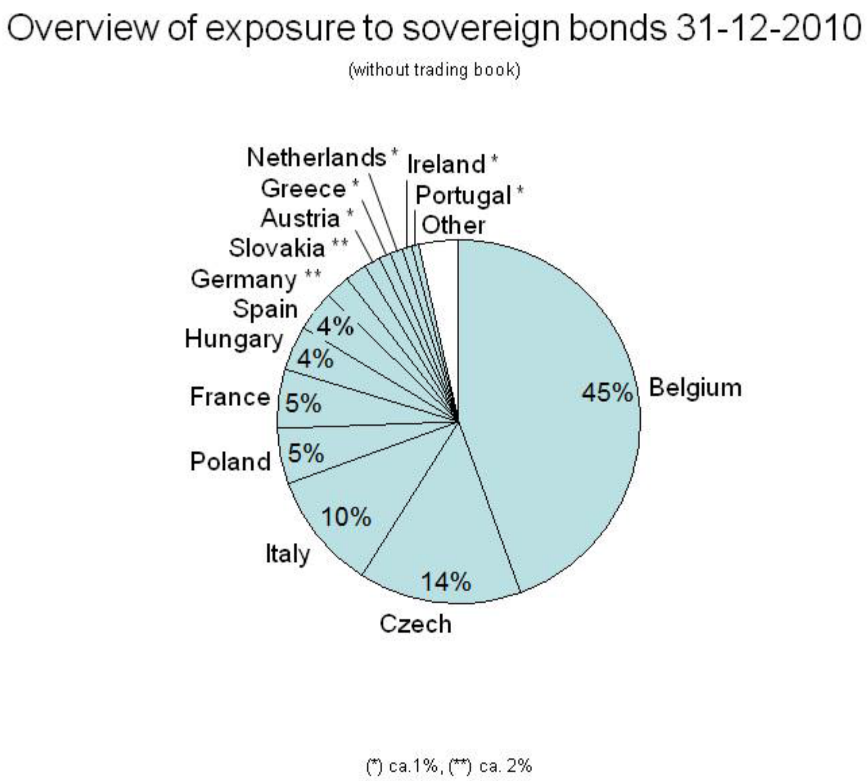
Other credit exposure (in billions of EUR)	31-12-2009	31-12-2010
Short-term commercial transactions	2.0	2.5
Issuer risk[1]	0.8	0.4
KBC Financial Products	0.1	0.0
Other entities	0.6	0.4
Counterparty risk in interprofessional transactions[2]	17.3	12.7
Government bonds in the investment portfolio	44.3	49.1

1 Excluding OECD government bonds with an 'A-' rating or higher.

2 After deduction of collateral received and netting benefits.

Overview of exposure to sovereign bonds (banking and insurance portfolios combined – KBC Group)

The KBC-group holds around 60 billion euros' worth of investments in government bonds ('available-for-sale', 'held-to-maturity' and 'designated at fair value through profit or loss', but excluding the trading book), primarily as a result of the significant excess liquidity position and the reinvestment of insurance reserves into fixed instruments. A breakdown per country is provided for the situation at year-end 2010 in the following graph and table (the figures in the graph do not include KBL EPB and VITIS Life, which together account for approximately 3.5% of the total).



The table below provides details of exposure to the government bonds of a number of Southern European countries and Ireland at year-end 2010, at the level of KBC Group.

Sovereign bond exposure in selected European countries, 31-12-2010 (in billions of EUR, carrying amounts)[1]

	Total			Banking and insurance book		
	Banking and insurance book[2]	Trading book	Total	Amounts maturing in 2011	Amounts maturing in 2012	Amounts maturing after 2012
Greece	0.6	0.0	0.6	0.1	0.1	0.4
Portugal	0.3	0.0	0.3	0.0	0.1	0.2
Spain	2.2	0.1	2.3	0.1	0.5	1.6
Italy	6.4	0.2	6.6	0.9	0.4	5.1
Ireland	0.5	0.0	0.5	0.0	0.0	0.5

1 Including KBL EPB and VITIS Life.
2 Bonds classified as 'available-for-sale', 'held-to-maturity' and 'designated at fair value through profit or loss', with the following amounts relating to KBC Bank: Greece 0.4 billion euros, Portugal 0.2 billion euros, Spain 1.3 billion euros, Ireland 0.3 billion euros and Italy 5.3 billion euros.

The turbulence on the market for sovereign bonds has not had any relevant impact on KBC's liquidity position and strategy. All sovereign bonds remain eligible as collateral at the European Central Bank. No impairment charges were recorded for these bonds. For full-year 2010, KBC recognised a total of -303 million euros (before tax) in fair value changes in profit and loss for sovereign bonds classified as 'designated at fair value through profit or loss' (-200 million euros of which related to Italy and -98 million euros to Greece; impact includes the fair value change of related ALM derivatives), and also recorded a trading result of -31 million euros. KBC booked a total net loss of 25 million euros on sales of available-for-sale sovereign bonds.

Details relating to the loan portfolio of KBC Bank Ireland

Due to the difficult situation on the Irish market, specific information on the loan portfolio of KBC Bank Ireland is provided below.

KBC Bank Ireland – loan portfolio[1]	31-12-2009	31-12-2010
Total portfolio (outstanding, in billions of EUR)	18	17
Breakdown by loan type		
Home loans	74%	76%
SME & corporate loans	15%	13%
Real estate investment and real estate development	11%	11%
Breakdown by risk class		
Low risk (PD 1-4)	44%	38%
Medium Risk (PD 5-7)	38%	35%
High Risk (PD 8-9)	11%	13%
Impaired, still performing (PD 10)	1%	3%
Impaired, non-performing (PD 11+12)	6%	10%
Credit cost ratio[2]	0.96%	2.98%
Cover ratio [total impairments]/[outstanding non-performing loans]	20%	42%
Renegotiated distressed loans [3, 4]	6%	9%

1 For a definition, see 'Overview of credit risk exposure in the banking activities'.
2 Unaudited.
3 Special attention has also been given to renegotiated distressed loans, i.e. credit that has avoided impairment status by having its terms renegotiated. The table shows that this part of the portfolio is growing, due mainly to the economic situation in Ireland (e.g., high levels of unemployment).
4 Besides distressed loan renegotiations, it has been a traditional commercial feature at KBC Homeloans (as is generally the case in the Irish and UK mortgage markets) that customers may be offered the possibility of paying interest only for a limited period of time.

Details relating to the loan portfolio of K&H Bank (Hungary)

K&H Bank – loan portfolio[1]	31-12-2009	31-12-2010
Total portfolio (outstanding, in billions of EUR)	7	7
Breakdown by loan type		
Retail loans	47%	53%
FX mortgage loans	32%	35%
SME & corporate loans	53%	47%
Breakdown by risk class		
Low risk (PD 1-4)	58%	52%
Medium Risk (PD 5-7)	24%	25%
High Risk (PD 8-9)	10%	9%
Impaired, still performing (PD 10)	3%	3%
Impaired, non-performing (PD 11+12)	5%	8%
Unrated	0%	3%
Credit cost ratio[2]	2.01%	1.98%
Cover ratio [total impairments]/[outstanding non-performing loans]	80%	71%
Renegotiated distressed loans	5%	6%

1 For a definition, see 'Overview of credit risk exposure in the banking activities'.
2 Unaudited.

Overview of structured credit exposure (banking and insurance portfolios combined – KBC Group)

In the past, KBC Group acted as an *originator* of structured credit transactions and also *invested* in such structured credit products itself.

- KBC Group (via its subsidiary KBC Financial Products) acted as an originator when structuring CDO deals (based on third-party assets) for itself or for third-party investors. For several transactions, protection was bought from credit insurers, mainly MBIA, a US monoline insurer ('Hedged CDO-linked exposure' in the table).
- KBC Group invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by KBC itself ('Unhedged CDO exposure' in the table) and in other ABS ('Other ABS' in the table). The main objective at that time was to diversify risk and to enhance the yield for the re-investment of the insurance reserves and bank deposits it held and was not using for lending purposes.

Structured credit exposure (CDOs and other ABS)*, 31-12-2010 (in billions of EUR, pre-tax), KBC Group	Hedged CDO-linked exposure (insured by credit insurers)	Unhedged CDO exposure	Other ABS
Total nominal amount	14.9	7.7	4.7
Initial write-downs on equity and junior CDO pieces	–	-0.6	–
Cumulative value adjustments	-1.2	-4.2	-1.0

* Including KBL EPB.

Between the beginning of 2010 and 7 January 2011, the unhedged CDO positions held by KBC Group have incurred *effective* losses totalling 1.1 billion euros, caused by *settled credit events* in the lower tranches of the CDO structure. These have had no further impact on the income statement, because complete value markdowns for these CDO tranches had already been absorbed in the past.

The total nominal amount outstanding in the unhedged portfolio dropped by 2.2 billion euros, due to the 'Aldersgate' CDO reaching maturity. This had no significant impact on the income statement.

More information on the valuation of CDOs can be found in Note 22 of the 'Consolidated financial statements'.

Hedged CDO exposure

As stated above, KBC Group bought credit protection for a large part of the (super senior) CDOs it originated. A relatively limited portion of this insurance was bought from Channel and the bulk from MBIA, a US monoline insurer. In February 2009, MBIA announced a restructuring plan, which included a spin-off of valuable assets, provoking a steep decline in its creditworthiness. The increase in the market value of the underlying swap, combined with the higher counterparty risk, resulted in significant additional negative value adjustments at KBC Group. The remaining risk related to MBIA's insurance coverage is to a large extent mitigated as it is included in the scope of the guarantee agreement that was agreed with the Belgian State on 14 May 2009 (see the 'Additional information' section for more details).

Hedged CDO-linked exposure[1] (insurance for CDO-linked risks received from credit insurers), 31-12-2010
(in billions of EUR), KBC Group

Total insured amount (notional amount of super senior swaps)	
- MBIA	14.4
- Channel	0.4
Impact of settled credit events[2]	-0.3
Details for MBIA insurance coverage	
- Total insured amount (notional amount of the super senior swap)	14.7
- Fair value of insurance coverage received (modelled replacement value, after taking the guarantee agreement[3] into account)	1.7
- Credit value adjustment for counterparty risk, MBIA	-1.2
(as a % of fair value of insurance coverage received)[4]	70%

1 Including KBL EPB.
2 Up to 7 January 2011.
3 The amount insured by MBIA is included in the guarantee agreement with the Belgian State.
4 Taking into account translation differences accrued over time.

Unhedged CDO exposure and other ABS

This heading relates to CDOs which KBC Group bought for investment purposes and which are not 'insured' by credit protection from MBIA or other external credit insurers ('Unhedged CDO exposure' in the table below) and other ABS in portfolio ('Other ABS' in the table). As regards the CDOs, KBC Group has already made significant negative value adjustments to date. It should be noted that their remaining risk is mitigated, as the unhedged super senior CDO tranches are included under the guarantee agreement concluded with the Belgian State (see the 'Additional information' section for more details).
It should also be noted that value adjustments to KBC Group's CDOs are accounted for via profit and loss (instead of directly via shareholders' equity), since the group's CDOs are mostly of a synthetic nature (meaning that the underlying assets are derivative products such as credit default swaps on corporate names). Their synthetic nature is also the reason why KBC Group's CDOs are *not* eligible for accounting reclassification under IFRS in order to neutralise their impact.

Until 2008, value adjustments to other ABS were largely accounted for via shareholders' equity. At the end of 2008, KBC Group reclassified most of the ABS portfolio as 'loans and receivables'. Since then, they have been included in the scope of the impairment procedure for the loan portfolio (such impairments have an impact on the income statement).

Unhedged CDO exposure and other ABS, 31-12-2010 (in billions of EUR), KBC Group	Unhedged CDO exposure	Other ABS
Total nominal amount	7.7	4.7
Initial write-downs on equity and junior CDO pieces	-0.6	–
Impact of settled credit events[1]	-0.7	–
Total nominal amount, net of provisions for equity and junior pieces and net of settled credit events	6.4	4.7
- super senior tranches (included under guarantee agreement with Belgian State)	3.6	–
- non-super senior tranches	2.8	–
Cumulative value adjustments	-4.2	-1.0

1 Until 7 January 2011 (excluding the effect of the provision for equity and junior pieces).

Details of the underlying assets of the CDOs and ABS

Details of the underlying assets of the CDOs and ABS can be found in the *Risk Report* (available at www.kbc.com), where the nominal value of the hedged CDO exposure, the unhedged CDO exposure (net of initial write-downs of junior and equity CDO pieces) and the ABS in portfolio are broken down according to the nature and rating of the underlying assets.

Market risk in non-trading activities

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

'Structural exposure' encompasses all exposure inherent in the commercial activity of KBC or the long-term positions held by the group. Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad).

Managing market risk in non-trading activities

A team in the Group Value and Risk Management Directorate provides support to the GRCOC and helps to develop ALM. Similar teams exist at the different business units. Risk management responsibilities for the life insurance business are also included in the scope of ALM.

The ALM strategy is co-ordinated by the newly created Group Treasury function and implemented locally by front-office units. In the past this was done by a central investment function.

The main building blocks of KBC's ALM framework are:

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity.
- the use of a uniform ALM measurement methodology for banking and insurance activities based on fair value models that forecast the value of a product group under different market scenarios and that are translated into replicating portfolios (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk).
- the use of a Value-at-Risk (VAR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VAR measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level as a result of movements in interest rates and other fluctuations in market risk factors. Some risk parameters (i.e. inflation estimates, real-estate-risk estimates and correlations linked to these risk categories) are based on expert opinion.
- the definition of an ALM VAR limit at group level and the breakdown of this limit into various types of risk and entities.
- the use of VAR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio.
- VAR is supplemented by other risk measurement methods such as Basis-Point-Value (BPV), notional amounts, etc.

KBC Bank non-trading market risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR) (in billions of EUR)[1]	31-12-2009	31-12-2010
Interest rate risk	0.77	0.93
Equity risk	0.23	0.15
Real estate risk	0.05	0.03
Other risks[2]	-0.03	-0.01
Total diversified VAR (group)	1.02	1.09

1 Excluding a number of small group companies. The VAR in this table does not capture the following risks: corporate credit spread, sovereign credit spread and cyclical prepayment options embedded in mortgage loans.
2 Foreign exchange risk and inflation risk.

Interest rate risk

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

The group-wide sensitivity to interest rate movements is reported on a regular basis. The table illustrates the impact of an increase of 100 basis points in the yield curve, given the positions at the reporting date.

Impact of a parallel increase of 100 basis points in the yield curve for KBC Bank[1]
(in millions of EUR)

	Impact on net profit (IFRS)		Impact on value[2]	
	2009	2010	2009	2010
KBC Bank	-110	-56	-478	-504

1 Excluding a number of small group companies.
2 Full market value, regardless of accounting classification or impairment rules.
.

The ALM interest rate positions of KBC Bank are managed via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique – reviewed on a dynamic basis – for products without a fixed maturity date (e.g., current and savings accounts).

The bank's capital and reserves are invested in fixed assets, strategic shareholdings and government. The bank may also take interest rate positions through government bonds, with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds.

The table shows how the bank's exposure to interest rate risk developed over the course of 2009 and 2010.

BPV of the ALM book, KBC Bank
(in millions of EUR)

Average, 1Q 2009	-84
Average, 2Q 2009	-90
Average, 3Q 2009	-81
Average, 4Q 2009	-64
31-12-2009	-59
Maximum in 2009	-93
Minimum in 2009	-59
Average, 1Q 2010	-63
Average, 2Q 2010	-68
Average, 3Q 2010	-69
Average, 4Q 2010	-62
31-12-2010	-55
Maximum in 2010	-69
Minimum in 2010	-55

In line with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book, this risk came to 4.48% of total capital and reserves, at year-end 2010 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

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

Interest sensitivity gap of the ALM book (including derivatives), KBC Bank*
(in millions of EUR)

	≤ 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Non-interest-bearing	Total
31-12-2009	1 648	7 789	-3 839	924	5 681	3 251	-15 489	0
31-12-2010	-5 133	-576	628	1 503	5 231	3 851	-5 503	0

* Excluding a number of small group companies.

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

Equity risk

Equity portfolios within the group are held by KBC Bank, KBC Asset Management and KBC Private Equity.

Accounting techniques and the impairment procedure for equity are described in Note 1b of the 'Consolidated financial statements'. Each quarter, an impairment committee meets to determine whether impairment charges need to be recognised, with the decision it takes being based on a set of coherent indicators.

Equity risk is monitored using a VAR technique (99% one-sided confidence interval, one-year time horizon), with a limit being set for the total equity exposure of the group's ALM activities. Please note that the equity positions of the banking entities are also incorporated into the Basel II pillar 1 calculation for credit risk.

The tables below present more information on total non-trading equity exposures at KBC. All minority shareholdings are treated as equity exposures (e.g., the participation in Nova Ljubljanska banka). The first table breaks down the total equity exposure into listed and unlisted components, while the second provides an overview of concentration according to sector.

The table provides an overview of the total equity portfolio of KBC Bank.

Equity portfolio of KBC Bank*
(in billions of EUR)

	31-12-2009	31-12-2010
Total equity exposure	1.3	1.1
of which unlisted	0.6	0.5

* Excluding a number of small group companies.
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The table provides an overview of the total equity portfolio of KBC Bank, broken down by sector.

Equity portfolio of KBC Bank[1, 2]
(breakdown by sector, in %)

	31-12-2009	31-12-2010
Financial	22%	46%
Consumer non-cyclical	29%	15%
Communication	5%	2%
Energy	10%	5%
Industrial	8%	5%
Utilities	5%	4%
Consumer cyclical	7%	7%
Materials	6%	8%
Other	8%	8%

1 Excluding a number of small group companies.
2 A number of unlisted participations (the most material one being Nova Ljubljanska banka) were included in the scope of reporting since 2010, which accounts for the significant year-on-year increase for the 'Financial' sector (under 'Banking activities').

The table provides an overview of the sensitivity of income and economic value to fluctuations in the equity markets. The figures include the sensitivity of unlisted equity in the different portfolios.

Impact of a 12.5% drop in equity prices, KBC Bank
(in millions of EUR)

	Impact on net profit (IFRS)		Impact on value	
	2009	2010	2009	2010
	-29	-27	-136	-142

The table provides an overview of the realised and unrealised gains on the equity portfolio.

Non-trading equity exposures, KBC Bank

(in millions of EUR)	31-12-2009		31-12-2010	
	Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)	Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)
	34	121	21	91

Real estate risk

A limited real estate investment portfolio is held by the group's real estate businesses with a view to realising capital gains over the long term. The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 12.5% drop in real estate prices, KBC Bank
(in millions of EUR)

	Impact on value	
	2009	2010
	-93	-80

Foreign exchange risk

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

Liquidity risk

Liquidity risk is the risk that an organisation may not be able to fund increases in assets or meet obligations as they fall due, unless at an unreasonable cost.

The principal objective of KBC's liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee. At industry level, increased demand for long-term wholesale or retail funding is expected to create upward pressure on financial institutions' funding costs.

KBC is preparing for the Basel III era by gradually incorporating Basel III concepts into its liquidity and funding framework, as well as into its financial planning. Awareness of liquidity risk throughout the organisation is ensured not only through limit setting, but also through incorporating liquidity costs into the group's funds transfer pricing mechanism.

Managing liquidity risk

The liquidity management framework and group liquidity limits are set by the Board of Directors. Liquidity management is organised within the Group Treasury unit, which centralises collateral management and the acquisition of long-term funding. Primary responsibility for operational liquidity management lies with the respective group companies, since they know best the specific features of their local products and markets and deal directly with local regulators and other officials. However, the liquidity contingency plan requires all significant local liquidity problems to be escalated to group level. The group-wide operational liquidity risks are also aggregated and monitored centrally on a daily basis and are reported periodically to the GRCOC, the Group Executive Comittee and the Audit, Risk and Compliance Committee.

KBC's liquidity framework is based on the following pillars:

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.).
  The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.

- *Structural liquidity risk*. The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on wholesale funding. Therefore, the forecasted structure of the balance sheet is reviewed regularly and the appropriate funding strategies and options developed and implemented. Measures comparable to the Basel III concepts have been monitored since the end of 2009.
  The table below illustrates structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. At year-end 2010, KBC had attracted 44 billion euros' worth of funding from the professional market. Netted with interbank lending, funding attracted through the professional market fell to 18 billion euros.

- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. The most volatile components of the balance sheet are monitored on a daily basis by the Group Treasury unit, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Structural liquidity risk data

Liquidity risk at year-end (excluding intercompany deals)[1]

(in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Not defined	Total
31-12-2009								
Total inflows	**55**	**13**	**23**	**70**	**42**	**40**	**45**	**288**
Total outflows[1, 2]	**69**	**22**	**23**	**29**	**7**	**3**	**136**	**288**
Professional funding	**34**	**9**	**13**	**1**	**0**	**1**	**0**	**59**
Customer funding	**22**	**7**	**7**	**6**	**1**	**1**	**91**	**135**
Debt certificates	**9**	**6**	**3**	**21**	**6**	**1**	**0**	**46**
Other[3]	**4**	**0**	**0**	**0**	**0**	**0**	**45**	**49**
Liquidity gap (excl. undrawn commitments)	-14	-8	-1	41	35	37	-91	0
Undrawn commitments	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	-17	–
Net liquidity gap (incl. undrawn commitments)	-14	-8	-1	41	35	37	-142	-51
31-12-2010								
Total inflows	**49**	**12**	**23**	**64**	**44**	**46**	**37**	**276**
Total outflows[1, 2]	**65**	**16**	**14**	**31**	**6**	**2**	**141**	**276**
Professional funding	**36**	**5**	**1**	**1**	**0**	**0**	**0**	**44**
Customer funding	**17**	**8**	**8**	**13**	**3**	**2**	**99**	**149**
Debt certificates	**8**	**4**	**5**	**17**	**3**	**0**	**0**	**36**
Other[3]	**4**	**0**	**0**	**0**	**0**	**0**	**43**	**47**
Liquidity gap (excl. undrawn commitments)	-16	-4	9	34	38	44	-105	0
Undrawn commitments	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	-12	–
Net liquidity gap (incl. undrawn commitments)	-16	-4	9	34	38	44	-151	-46

1 Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. No inflows/outflows are reported that arise from margin calls posted/received for MtM positions in derivatives. The aim of the table is to present contractually determined flows, while potential flows arising from margin calls depend on future MtM trends.
2 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos.
3 MtM derivatives are reported in the 'not defined' bucket.

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

Market risk in trading activities

Market risk is defined as the potential negative deviation from the expected economic value of a financial instrument caused by fluctuations in market prices, i.e. interest rates, exchange rates and equity or commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk, country risk and liquidity risk. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book and of the insurer's positions are all included in ALM exposure.

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

KBC is exposed to market risk via the trading books of the dealing rooms in Western Europe, Central and Eastern Europe, the United States and Asia. The traditional dealing rooms, with the dealing room in Brussels accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, and activity on the forex markets has traditionally been limited. The dealing rooms abroad focus primarily on providing customer service in money and capital market products, on funding local bank activities and engage in limited trading for own account in local niches.

KBC continued to divest trading activities in its specialised subsidiaries in 2010 (viz. KBC Financial Products and KBC Peel Hunt). KBC Peel Hunt was sold through a management buyout, while the following KBC Financial Products business lines were sold during the year: Insurance Derivatives, Japanese Cash Equity, Convertible Bonds, Asian Equity Derivatives and US Reverse Mortgages. The exotic equity derivatives business has been almost completely hedged away or allowed to mature. KBC Financial Products has continued to wind down its remaining business lines, including the fund derivatives and credit derivatives businesses.

Managing market risk

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

Risk concentrations are monitored via a series of secondary limits, the most important being a three-dimensional scenario limit (based on movements in spot prices, volatilities and credit spreads). Other secondary limits include equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk. In addition, risks inherent in options (the so-called 'greeks') or the specific risk associated with a particular issuer or country are also subject to concentration limits. Complex and/or illiquid instruments, which are not included in HVAR calculations, are subject to nominal or scenario limits.

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

One of the building blocks of sound risk management is prudent valuation. A daily independent middle-office valuation of front-office positions is performed. Whenever the independent nature or the reliability of the valuation process is not guaranteed, a parameter review is performed. Where applicable, adjustments to the fair value are made to reflect close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.

In addition to the parameter review, periodic risk controls are performed, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, a business case is set up for every new product or activity in order to analyse the risks and the way in which they will be managed (measured, mitigated, monitored and reported). Every new product business case must be accompanied by written advice from the group or local value and risk management function before being submitted to the New and Active Product Committee (NAPC).

Risk analysis and quantification

An overall VAR is calculated for each specialised subsidiary and for all trading entities worldwide. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms. KBC Financial Products' VAR is also shown in the table. At the end of 2010, the VAR for KBC Securities amounted to 0.3 million euros (not shown in the table). The calculation is based on a one-day holding period.

The HVAR for KBC Financial Products comprises all trading business lines. Business lines that are of a more illiquid character and that have more of a credit nature, such as fund derivatives, fall outside the scope of HVAR. The fund derivatives business is considered to be a legacy activity (i.e. no new trading activity is carried out) and is monitored on the basis of Key Performance Indicators relating to, for example, strike and redemption trends.

Both KBC Bank and KBC Financial Products have been authorised by the Belgian regulator to use their respective VAR models to calculate regulatory capital requirements for part of their trading activities. ČSOB (Czech Republic) has also received approval from the local regulator to use its VAR model for capital requirement purposes.

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

An overview of the derivative products is given under Note 25 in the 'Consolidated financial statements' section.

Market risk (VAR, 1-day holding period) (in millions of EUR)	KBC Bank[1, 2]	KBC Financial Products[3]
Average, 1Q 2009	10	14
Average, 2Q 2009	8	15
Average, 3Q 2009	6	9
Average, 4Q 2009	6	10
31-12-2009	5	11
Maximum in 2009	13	21
Minimum in 2009	5	6
Average, 1Q 2010	6	9
Average, 2Q 2010	8	9
Average, 3Q 2010	6	8
Average, 4Q 2010	5	8
31-12-2010	4	7
Maximum in 2010	15	13
Minimum in 2010	4	6

1 Excluding 'specific interest rate risk' (measured using other techniques) and 'swap basis risk'.
2 Integrated HVAR (KBL EPB included in 2009, but excluded in 2010). As KBL EPB is active mainly in client facilitation services, and not in proprietary trading, it makes only a slightly contribution to the HVAR for KBC Bank.
3 Excluding the Avebury CDO and Fund Derivatives business line.

Operational and other non-financial risks

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

Information on legal disputes can be found in Note 31 of the 'Consolidated financial statements' section.

Managing operational risk

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

The development and implementation of this framework is supported by an extensive operational risk governance model. Covering all entities of the group, the framework was redesigned in 2010 and will gradually be implemented in 2011-2012.

The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with business' line management, which receives support from local operational risk managers, and is supervised by local independent risk functions.

The Group Risk Management Committee (GRMC) advises the Group Executive Committee on the group-wide framework for managing operational risks, and the Group Risk and Capital Oversight Committee (GRCOC) oversees the main operational risks.

Besides these group committees, there are a variety of risk committees at business-unit level and at various group companies. They keep close track of the practical implementation of the operational risk management framework and also take concrete measures either directly or via line management. All departments that are involved in one way or another in managing operational risks can gain access to the risk committees whenever they feel it is necessary.

The Group Value and Risk Management Directorate is primarily responsible for defining the operational risk management framework for the entire group. This framework is submitted to the GRMC and the Group Executive Committee for approval. The directorate is also responsible for overseeing the practical implementation by line management of this framework. In addition, it supervises the quality of the risk management process, analyses the main risk data and reports to the GRCOC.

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

The building blocks for managing operational risks

KBC uses a number of building blocks for managing operational risks, which cover all aspects of operational risk management. These are:

- *The Loss Event Database*. All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the GRCOC, the Executive Committee and the Audit, Risk and Compliance Committee.
- *Risk Scans (bottom-up and top-down)*. These *self-assessments* focus on actual (= residual) key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level
- *Group Key Controls*. Around 25 Group Standards have been developed into Group Key Controls to ensure that key operational risks are managed uniformly throughout the group. Each group entity has to translate these key controls into specific procedures that are adapted to the local situation. The various risk committees monitor the proper implementation of the controls and may allow exceptions to be made (subject to the observance of a strict waiver procedure). Adherence to Group Key Controls is subject to reviews by Group Value and Risk Management and Internal Audit.
- *Case-Study Assessments*. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. One such assessment was used to test the internal controls for preventing and identifying rogue trading practices.
- *Key Risk Indicators*. These help monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.

Operational risk and regulatory capital requirements

KBC uses the Standard Approach to calculate operational risk capital under Basel II. At the end of 2010, operational risk capital for KBC Bank at the consolidated level totalled 860 million euros.

Other non-financial risks

Reputation risk

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

The pro-active and re-active management of reputation risk is the responsibility of the business, supported by many specialist units (e.g., the Press Office, Investor Relations). A dedicated knowledge centre for reputation risk management is being established to further develop the current framework for managing this type of risk across the group.

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

Business risk

Business risk is the potential negative deviation from the expected economic value arising from changes in the macroeconomic environment, the financial services industry and/or the market for products and services, as well as from inadequacies relating to business resources that impact on business potential.

Risk factors that are taken into consideration include macroeconomic conditions, changes to the law or regulations, competitor actions, changes in distribution channels or distribution models, changed customer needs, human resources issues and ICT resources. Business risk is assessed on the basis of structured risk scans.

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

Solvency and economic capital

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

Managing solvency

KBC calculates and reports its solvency on the basis of IFRS figures and the relevant guidelines issued by the Belgian regulator.

Regulatory minimum solvency targets were amply exceeded in 2010, not only at year-end, but also throughout the entire year.

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

Capital-strengthening measures with the Belgian State and Flemish Regional Government

In 2008 and 2009, a number of capital-strenghthening measures were taken, whereby non-voting core-capital securities were issued by the KBC – group to the Belgian State and the Flemish Region, and a guarantee agreement signed with the Belgian State for the remaining CDO risks (see the 'Additional information' section for more details).

Solvency at KBC Bank (consolidated)

The table below shows the tier-1 and CAD ratios calculated under Basel II for KBC Bank. More information on the solvency of KBC Bank can be found in KBC's *Risk Report*, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Solvency, KBC Bank (in millions of EUR)	31-12-2009	31-12-2010
(consolidated, Basel II)		
Total regulatory capital, after profit appropriation	17 761	18 552
Tier-1 capital[1]	13 440	13 809
Tier-2 and tier-3 capital	4 320	4 743
Total weighted risks	123 074	111 711
of which credit risk	107 133	97 683
of which market risk[2]	5 062	3 279
of which operational risk	10 879	10 749
Tier-1 ratio	10.9%	12.4%
of which core tier-1 ratio	9.0%	10.5%
CAD ratio	14.4%	16.6%

1 Audited figures.
2 Counterparty risk was retroactively shifted from market risk to credit risk.

European stress tests

The results of the EU stress tests were published on 23 July 2010. These tests were co-ordinated by the Committee of European Banking Supervisors (CEBS), in co-operation with the European Central Bank, the CBFA (Belgian supervisory authority) and the National Bank of Belgium. As regards KBC, the stress test focused on KBC Bank at the consolidated level. The exercise was conducted using the scenarios, methodology and key assumptions provided by CEBS (see the aggregate report published at www.eba.europa.eu).
As a result of the assumed shocks under the adverse scenario, the estimated consolidated tier-1 capital ratio would drop to 9.8% in 2011 compared with 10.9% at the end of 2009. KBC is satisfied that the outcome of the stress test proves that, even under these stress scenarios, the bank adequately meets the legal and market requirements in terms of solvency. More information in this regard is provided in the press release of 23 July 2010, which is available at www.kbc.com.
The European Banking Authority (EBA), the newly established European authority that officially took over the tasks of CEBS on 1 January 2011, has planned to conduct new stress tests in 2011.

Basel III

The so-called Basel III agreement, which introduces new, more stringent capital requirements for financial institutions, was published on 16 December 2010. Under this agreement, the legal minimum tier-1 ratio, which stood at 4% under Basel II, will be increased to 4.5% in 2013, and gradually increase to 6% in 2015 (with a common equity ratio of 4.5%). On top of this, a so-called ‘conservation buffer’ (0% in 2013, gradually rising to 2.5% in 2019), a ‘countercyclical buffer’ (of between 0% and 2.5%, to be determined by the national regulatory authority) and an extra charge for global systemic banks will be applied. Certain elements used in the calculation of regulatory capital will be gradually phased out or changed. The capital injections received from the government (for KBC Group, the 7 billion euros’ worth of core capital securities sold to the Belgian State and Flemish Regional Government in 2008 and 2009) will be classified as additional tier-1 capital and will be grandfathered until 2018. As regards the current Basel III proposals, KBC Bank will – based on estimates and barring any unforeseen circumstances – be compliant with the new capital and liquidity standards currently being contemplated.

Economic capital

An economic capital model is used to measure the overall risk KBC is exposed to through its various activities, taking the different risk factors into consideration. The estimates generated by this model are reported on a quarterly basis to the GRCOC, the Group Executive Committee, the Audit, Risk and Compliance Committee and the Board of Directors.

KBC defines economic capital as the amount of capital required to cover unexpected losses in fair value that the group might incur over a one-year period, in line with the risk appetite set by the Board of Directors. Economic capital is calculated per risk category using a common denominator (the same time horizon of one year and the same confidence interval) and then aggregated. Since it is extremely unlikely that all risks will materialise at the same time, an allowance is made for diversification benefits when aggregating the individual risks.

As mentioned previously, economic capital is used as a major building block for ICAAP (Basel II, pillar 2). In addition, it provides essential input for internal valuation models, such as the Market Consistent Embedded Value model (see below).

Corporate governance statement

Composition of the Board of Directors

Composition of the Board of Directors on 31 December 2010

NAME	Position	Period served on the Board in 2010	Expiry date of current term of office
HUYGEBAERT Jan	Chairman	Full year	2014
VANHEVEL Jan	Charman Executive Committee / Executive Director[1]	Full year	2014
DE RAYMAEKER Danny	Executive Director[1]	Full year	2012
DEFRANCQ Chris	Executive Director[1]	Until 28 April 2010	
HOLLOWS John	Executive Director[1]	Full year	2013
PHILIPS Luc	Executive Director[1]	Full year	2014
POPELIER Luc	Executive Director[1]	Full year	2013
THIJS Johan	Executive Director[1]	Full year	2013
VERWILGHEN Etienne	Executive Director[1]	Until 15 November 2010	
VOLJČ Marko	Executive Director[1]	As from 28 April 2010	2014
DE JONG Jan Maarten	Independent Director	Full year	2013
DE WILDE Julien	Independent Director	Full year	2014
DEPAEMELAERE Jean-Pierre	Independent Director	Full year	2013
DE BECKER Sonja	Non-Executive Director	Full year	2013
DEPICKERE Franky	Non-Executive Director	Full year	2011
DISCRY Luc	Non-Executive Director	As from 2 September 2010	2014
KONINGS Pierre	Non-Executive Director	Full year	2013
NONNEMAN Walter	Non-Executive Director	Full year	2012
ORLENT-HEYVAERT Marita	Non-Executive Director	Full year	2013
PEETERS Paul	Non-Executive Director	Until 30 August 2010	
SAP Gustaaf	Non-Executive Director	Full year	2013
VANDEN AVENNE Patrick	Non-Executive Director	Full year	2013
VAN OEVELEN Guido	Non-Executive Director	As from 2 September 2010	2014
VANTIEGHEM Germain	Non-Executive Director	Until 13 August 2010	
WAUTERS Dirk	Non-Executive Director	Full year	2013
WITTEMANS Marc	Non-Executive Director	Full year	2014

[1] member of the Executive Committee

Appointments and resignations

At the general meeting of 28 April 2010:

- Chris Defrancq, executive director, relinquished his seat on the Board and took retirement. On the advice of the Nomination Committee, Marko Voljč was appointed to succeed him as director for a period of four years.
- Jan Huyghebaert, Julien De Wilde, Germain Vantieghem and Marc Wittemans, non-executive directors, were re-appointed on the advice of the Nomination Committee for a further period of four years, i.e. until after the AGM of 2014.
- Luc Philips, Jan Vanhevel and Etienne Verwilghen, executive directors, were re-appointed on the advice of the Nomination Committee for a further period of four years, i.e. until after the AGM of 2014.

Later in the financial year, Germain Vantieghem, non-executive director, took retirement on 13 August 2010. On 2 September 2010 and on the advice of the Nomination Committee, Luc Discry was appointed by the general meeting to succeed Mr Vantieghem for a period of four years. In addition, Paul Peeters, non-executive director, resigned on 30 August 2010 and – on the advice of the Nomination Committee – Guido Van Oevelen was appointed by the general meeting to succeed him on 2 September 2010 for a period of four years. Etienne Verwilghen, executive director, relinquished his seat on the Board with effect on 15 November 2010.

At the General Meeting of 27 April 2011:

- Luc Philips, executive director, will relinquish his seat on the Board and – on the advice of the Nomination Committee – it will be proposed that Luc Gijsens be appointed to succeed him as director for a period of four years.
- the term of office of Franky Depickere, non-executive director, will come to an end. On the advice of the Nomination Committee, it will be proposed to the general meeting that he be re-appointed for a further period of four years, i.e. until after the AGM of 2015
- It will be proposed that Piet Vanthemse be appointed on the advice of the Nomination Committee as director for a period of four years, i.e. until after the AGM of 2015; in replacement of mrs. Sonja De Becker, who will resign after current AGM.
- it will be proposed that Thomas Leysen be appointed on the advice of the Nomination Committee as director for a period of four years, i.e. until after the AGM of 2015.

Brief CVs for the new executive directors are given below:

Luc Gijsens

Born in Leuven, in 1953.
Master's Degree in Law (KU Leuven).
Joined the company in 1977.
Since joining the company, Luc Gijsens has held a variety of positions over of the years. In 1981, he took up the post of representative at Kredietbank Hong Kong, before taking charge of Kredietbank's Bahrain branch in 1984. He became Agency Manager of Kredietbank Los Angeles in 1986 and then General Manager of Kredietbank's Antwerpen Corporate Office in 1994. In 2000, he was appointed Senior General Manager of KBC Bank's Investment Banking Directorate, before going on to become Senior General Manager of the Corporate and Institutional Banking Directorate in 2001, Senior General Manager of the Corporate Banking Directorate in 2006 and Senior General Manager of the Corporate Services Directorate in 2009. He has been a member of the Management Committee of the Merchant Banking Business Unit since 2006. He also chairs the Boards of the Antwerp Diamond Bank, KBC Real Estate, KBC Finance Ireland and KBC Commercial Finance.

Thomas Leysen

Born in Wilrijk, in 1960.
Master's Degree in Law (KU Leuven, 1983).
Thomas Leysen was CEO of the Transcor Group (1983-1988). After joining Umicore, he took a seat on the Executive Committee (1993-1998) and went on to become Executive Vice President (1998-2000), CEO (2000-2008) and finally Chairman (2008 to date). He was a member of the Board of Directors of KBC Bank and Insurance Holding Company NV (1997-2002). He is Chairman of the Board of Directors of Corelio and a member of the Boards of Directors of CMB, UCB and Etex Group. He also sits on the Supervisory Board of Bank Metzler in Frankfurt. He is Chairman of the Federation of Enterprises in Belgium (until March 2011), President of the Belgium-Japan Association, a member of the Trilateral Commission and a member of the European Round Table of Industrialists.

Piet Vanthemsche

Born in Kortrijk, in 1955
Ph.D in Veterinary Science (Ghent University)
Between 1986 and 2000, Piet Vanthemsche worked for the Veterinary Services of the Belgian Ministry of Agriculture, filling senior management positions – from 1992 on – in that Ministry and in the Cabinet of the Minister of Agriculture. Between 2000 and 2002, he ran his own consultancy firm, before taking up various management posts for the Federal Government (2002–2007), including Managing Director of the Belgian Food Agency and Managing Director of the Belgian Medicines Agency. In 2007, he became Vice-Chairman of the Boerenbond (Belgian Farmers' Union) and, in 2008, its Chairman and Chairman of MRBB CVBA.

Main features of the internal control and risk management systems

In application of the provisions of the Belgian Companies Code and the Belgian Corporate Governance Code, the main features of the internal control and risk management systems at KBC are set out below.
Part 1 contains a general description of the internal control and risk management systems, while Part 2 deals specifically with the internal control measures applying to the financial reporting process.

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

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

The strategy pursued by the KBC group is dealt with briefly on page 9 of this annual report.

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

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

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

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

Specific information on the composition of both management bodies is provided in this ‘Corporate governance statement’.

2. Integrity and ethical behaviour are embedded in KBC’s corporate culture

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

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

The most important among the guidelines relating to the integrity policy are:

- The *Code of Conduct for KBC Group Employees*, a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. As such, it forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level.
- Special group-wide compliance rules drawn up with regard to:
    - combating money laundering and the funding of terrorism;
    - preventing fiscal irregularities including special mechanisms for tax evasion;
    - protecting the investor and preventing conflicts of interest (MiFID);
    - preventing market abuse and insider trading;
    - protecting privacy, confidentiality of information and the professional duty of discretion.
- Ethics and combating fraud:
    - The ethical behaviour of employees is inextricably linked to the code of conduct and various other policy guidelines already referred to in this section.

- Various departments such as Compliance, Inspection, Internal Audit – but also KBC's business side – engage in the prevention and detection of fraud. It is the business side that deals primarily with external product-related fraud. Checks and investigations are carried out by departments not related to the business side when it comes to fraud or ethical offences committed by employees. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The *Policy for the Protection of Whistleblowers at KBC Group* ensures that employees who act in good faith to report fraud and gross malpractice are protected.

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

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

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

3.1 The business side assumes responsibility for managing its own risks.

As the first line of defence, the business operations side is responsible for being aware of the risks in its own domain and for having adapted and effective controls in place, including a suitable delegation policy. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. In this regard, it can call upon the services of a number of support departments, including Inspection, Value and Risk Management, Compliance, Legal and Tax units, Human Resources, Accounting and Internal Audit.

3.2 As independent control functions, Value and Risk Management and Compliance constitute the second line of defence.

Independent of the business side and following advanced industry standards, Value and Risk Management is tasked with drawing up a group-wide framework for value, risk and capital management, monitoring implementation of the framework, and assisting line management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.

KBC has installed Local Chief Risk Officers (LCROs) at various levels within the organisation. They work closely with the business operations since they participate in the local decision-making process. They also report to the Group CRO, which guarantees their independence.

The Compliance function is an independent function within KBC, protected by its modified status (as described in the Compliance Charter), its place in the organisation chart (hierarchically under the President of the Executive Committee) and its reporting lines (reporting to the ARC Committee as the highest body). Its mission is to prevent KBC Bank from incurring any financial, legal or reputational loss/damage or sanctions due to non-compliance with applicable laws, decrees and in-house standards, or failure to measure up to the lawful expectations of customers, staff and society in general, particularly in those areas assigned to it in the integrity policy.

3.3 As independent third line of defence, Internal Audit provides support to the Executive Committee and ARC (Audit, Risk and Compliance) Committee in monitoring the effectiveness and efficiency of the internal control and risk management system.

Internal Audit checks whether the risks faced by KBC Bank are managed adequately and, where necessary, whether they are being restricted or eliminated. It is responsible for ensuring that business processes and collaboration throughout the organisation occur in an efficient and effective manner and for guaranteeing continuity of operations.

Internal Audit's scope covers all legal entities, activities and departments, including the various control functions, within KBC Bank.

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the group, and outsourcing of internal audit activities are set out in the *Audit Charter* of KBC Bank NV. This charter complies with the stipulations of CBFA Circular D1 97/4.

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

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

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

The ARC Committee supervises, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management in place – as set up under the Executive Committee – paying special attention to correct financial reporting. The committee also follows the procedures set up by the company to comply with the law and other regulations.

The role, composition, activities and qualifications of its members are laid down in the ARC Committee charter, the last one of which was approved by the Board of Directors of KBC Bank NV on 18 November 2010. More information on the ARC Committee is provided elsewhere in this section of the annual report.

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

At KBC Bank NV, periodic reporting at company level is based on a documented accounting process A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are linked to underlying inventories. The result of these controls can be demonstrated.
Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the CBFA Resolution of 17 October 2006.

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

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

Pursuant to the Act of 15 May 2007 (amending the Act of 22 March 1993), the Executive Committee of KBC Bank NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The existence of monitored Group Standard Accounting Controls is one of the mainstays in the internal control of the corporate accounting process.
These controls set the rules for managing the main operational risks attached to the corporate accounting process and involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.
An ongoing project to embed group-wide a formal risk matrix (Key Risks <-> Key Risk Drivers <-> Key Risk Controls <-> Key Risk Indicators), which will be assessed each year, will encourage KBC companies to effectively and continuously manage the end-to-end risks in their financial reporting process. The annual assessment of the internal control system will be based on this risk matrix and how it changes over time.

The group-wide roll-out of 'fast close' procedures, the monitoring of intercompany transactions within the group, and permanent monitoring of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) have all helped raise the quality of the financial reporting process. Establishing and following up self-assessments also helps ensure that there is a continuous concern to improve the internal control system.

The external reporting process at both company and consolidated level is audited end-to-end by KBC Bank's Internal Audit function at least once every three years.

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

Shareholder structure on 31 December 2010

The Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions, does not apply to KBC Bank because the securities it issues that carry voting rights are not included on a regulated market.

At 31 December 2010, the shareholder structure of KBC Bank NV was.

	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007

Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code. There were no such conflicts of interest during the 2010 financial year.
- Discharge to directors and to the auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2010.
- Audit Committee. The members of the Audit Committee of KBC Bank:
    - Julien De Wilde, Independent Director within the meaning of and in line with the criteria set out in Article 526 *ter* of the Companies Code, who holds a Master's Degree in Civil Engineering (KU Leuven), with rich and extensive experience in industry and management – including as CEO of Alcatel Bell (1995-1998), Vice-President of the Executive Committee of Alcatel in Paris, where he was responsible for Europe, the Middle East, Latin America, India and Africa (1999-2002) and CEO of the Bekaert Group (2002-2006) – and currently chairs the Boards of Directors of the Agfa Gevaert Group and Nyrstar, and is a board member at Vanbreda International, Telenet and J&L Partners;
    - Franky Depickere, Director, who holds a double Master's Degree in Trade & Finance and in Corporate Financial Management, is a Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee of Cera CVBA, core shareholder in KBC Group NV;
    - Patrick Vanden Avenne, Director, who holds a Master's Degree in Law, a Bachelor's Degree in Economics, as well as an MBA from Stanford University (US), and is CEO or director of a number of industrial companies;
    - Marc Wittemans, Director, who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, core shareholder in KBC Group NV;

  possess the requisite individual and collective expertise in the activities conducted by KBC Bank NV and in the areas of accounting and auditing, based on their education and extensive business experience.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those functions performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

External offices held by the executive managers and directors of KBC Bank, 31-12-2010

Company name	Registered office	Sector	Position	Listed (N= no)	Share of capital held (N= none)
Sonja De Becker, Director					
Aktiefinvest cvba	Belgium	real estate	Chairman of the Board of Directors	N	N
SBB Accountants en Belastingconsulenten cvl	Belgium	accountancy & consulting	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten cvba	Belgium	accountancy & consulting	Chairman of the Board of Directors	N	N
Maatschappij voor Roerend Bezit v/d Belgische Boerenbond cvba	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Acerta Consult cvba	Belgium	services sector	Director	N	N
Agri Investment Fund (AIF) cvba	Belgium	investment company	Director	N	N
BB-patrim cvba	Belgium	holding company	Director	N	N
Agriflora cvba	Belgium	organisation of fairs	Director	N	N
Gimv-Agri+ Investment Fund nv	Belgium	investment fund	Director	N	N
Jan Maarten de Jong, onafhankelijk bestuurder					
Heineken nv	Netherlands	breweries	Member of the Supervisory Board	Y	N
Nutreco Holding nv	Belgium	food	Member of the Supervisory Board	N	N
AON Groep Nederland bv	Netherlands	risk management	Member of the Supervisory Board	N	N
CRH Plc	Ireland	construction	Non-Executive Director	Y	N
Onderlinge Levensverzekeringsmaatschappij 's-Gravenhage	Netherlands	life insurance	president-commissaris	N	Y
Julien De Wilde, onafhankelijk bestuurder					
Nyrstar nv	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Telenet Group Holding nv	Belgium	holding company	Independent Director	Euronext	N
Arseus	Netherlands	services sector	bestuurder	Euronext	N
Agfa-Gevaert nv	Belgium	technology	Chairman of the Board of Directors	Euronext	N
Franky Depickere, bestuurder					
Almancora Beheersmaatschappij nv	Belgium	management	Executive Director	N	N
Cera cvba	Belgium	management	Executive Director	N	N
Miko NV	Belgium	foods/plastics	Independent Director	NYSE Euronext	N
Cera Beheersmaatschappij nv	Belgium	management	Executive Director	N	N
Luc Discry, bestuurder					
Almancora Beheersmaatschappij nv	Belgium	management	Director + Executive Director	N	N
Cera cvba	Belgium	management	Director	N	N
Cera Beheersmaatschappij nv	Belgium	management	Executive Director	N	N
Pierre Konings, bestuurder					
BD-World sa	Belgium	distribution	Director	N	N
E-Capital II sa	Belgium	private equity fund	Chairman of the Board of Directors	N	N
Capricorn Cleantech Fund Investments Comm. VA	Belgium	investment company	Chairman	N	N
Control Tab nv	Belgium	holding company	Director	N	N
Immosem nv	Belgium	family holding company	Executive Director	N	N
Walter Nonneman, onafhankelijk bestuurder					
Cera Beheersmaatschappij nv	Belgium	management	Independent Director	N	N
Fluxys nv	Belgium	operator of gas transmission network	Independent Director	N	N
Marita Orlent-Heyvaert, bestuurder					
INKAO-INVEST	Belgium	real estate	Executive Director	N	N
ROBOR nv	Belgium	real estate	Director	N	N
Luc Philips, bestuurder					
Gemma Frisiusfonds K.U. Leuven nv	Belgium	financial sector	Director	N	36,00%
Norkom Group Ltd	Ireland	holding company	Non-Executive Director	ISE / AIM	N
J. Zinner nv	Belgium	real estate	Director	N	13,11%
ThromboGenics nv	Belgium	biopharmaceuticals	Non-Executive Director	Euronext	N
Gustaaf Sap, bestuurder					
Cecan nv	Belgium	holding company	Chairman of the Board of Directors	N	N
Cecan Invest nv	Belgium	financial sector	Director	N	N
Corelio nv	Belgium	media	Permanent representative	N	N
Patrick Vanden Avenne, bestuurder					
Calibra Poultry nv	Belgium	poultry processing	Chairman of the Board of Directors	N	N
Biopower cvba	Belgium	industry	Vice-Chairman of the Board of Directors	N	N
Bens nv	Belgium	food	Executive Director	N	N
Sininvest nv	Belgium	poultry	Director	N	N
Vanden Avenne - Vrieshuis nv	Belgium	holding company + refrigeration	Executive Director	N	N
Vanden Avenne - Ooigem nv	Belgium	compound feed	Executive Director	N	N
Lacotrans nv	Belgium	transport	Executive Director	N	N
Euro-Silo nv	Belgium	transfer and storage of grain	Director	N	N
Isarick nv	Belgium	management	Director	N	N
Harpaca nv	Belgium	management	Director	N	N
Larinvest nv	Belgium	holding company	Director	N	N
Ispahan nv	Belgium	management	Director	N	N
Bavarco bvba	Belgium	stockbreeding	Business manager	N	N
Bens Voeders nv	Belgium	transport	Director	N	N
BBQ NV	Belgium	investment company	Director	N	N
Bens Retail nv	Belgium	meat factory & wholesale	Executive Director	N	N
Vebo nv	Belgium	meat factory & wholesale	Executive Director	N	N
Alia² cvba	Belgium	live stock feed	Executive Director	N	N

Dirk Wauters, bestuurder					
Jala bvba	Belgium	management	Executive Director	N	N
Immo Falconis nv	Belgium	immobiliën	Director	N	N
Berkenstede nv	Belgium	real estate	Director	N	N
Marc Wittemans, bestuurder					
Agro - Services cvba	Belgium	temping agency	Director	N	N
Aktiefinvest cvba	Belgium	real estate	Director	N	N
Arda Immo nv	Belgium	real estate	Chairman of the Board of Directors	N	19,06%
SBB Accountants en Belastingconsulenten bv cvba	Belgium	accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	holding company	Executive Director	N	N
Agri Investment Fund cvba	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Covalis nv	Belgium	abbattoirs & meat processing	Director	N	N
Acerta Consulting cvba	Belgium	HR services	Director	N	N
Luc Gijsens, algemeen directeur					
Real Estate participation nv	Belgium	real estate	Director	N	50,00%
KBC Vastgoedportefeuille België nv	Belgium	real estate	Director	N	100,00%
Immo-Basilix nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	95,00%
Immo-Marcel Thiry nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	95,00%
Immo-Zenobe Gramme nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
Immo-Kolonel Bourgstraat nv	Belgium	real estate	Director	N	50,00%
Vastgoed Ruimte Noord nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
KBC Real Estate Luxembourg sa	Luxemburg	real estate	Director+Chairman of the Board of Directors	N	100,00%
KBC Real Estate nv	Belgium	real estate	Director	N	100,00%
Prague Real Estate nv	Belgium	real estate	Director	N	50,00%
Old Broad Street Invest nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
Apitri nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
Brussels North Distribution nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
Covent Garden Real Estate nv	Belgium	real estate	Director	N	50,00%
Immo Antares nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
KBC Vastgoedinvesteringen nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
Luxembourg North Distribution sa	Luxemburg	real estate	Director+Chairman of the Board of Directors	N	100,00%
Mechelen City Center nv	Belgium	real estate	Director+Chairman of the Board of Directors	N	100,00%
Immo Lux-Airport NV	Luxemburg	real estate	Director+Chairman of the Board of Directors	N	100,00%
Immobiliare Novoli SpA	Italy	real estate	Director	N	45,00%
Guido Poffé, algemeen directeur					
Groep VTB-VAB nv	Belgium	road breakdown assistance	Director	N	74,81%
VTB-VAB nv	Belgium	road breakdown assistance	Director	N	74,81%
Omnia nv	Belgium	travel agency	Director	N	100,00%

Consolidated financial statements

Ernst & Young
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TRANSLATION

Statutory auditor's report to the general meeting of shareholders of KBC Bank nv on the consolidated financial statements for the year ended 31 December 2010

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the consolidated financial statements as well as the required additional comments.

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Bank nv and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cashflow statement and the consolidated statement of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 276.723 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 1.395 million.

Responsibility of the board of directors for the preparation and fair presentation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Ernst & Young

Audit report dated 24 March 2011 on the consolidated financial statements of KBC Bank nv for the year ended 31 December 2010

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren).* Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.
The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the Group and the presentation of the consolidated financial statements, taken as a whole. Finally, we have obtained from the board of directors and the Group's officials the explanations and information necessary for executing our audit procedures.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the Group's financial position as at 31 December 2010 and of the results of its operations and its cashflows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

The preparation and the assessment of the information that should be included in the directors' report on the consolidated financial statements are the responsibility of the board of directors.

Audit report dated 24 March 2011 on the consolidated financial statements of KBC Bank nv for the year ended 31 December 2010

Our responsibility is to include in our report the following additional comments, which do not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements deals with the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the entities included in the consolidation are facing, and on their financial situation, their foreseeable evolution or the significant influence of certain facts on their future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 24 March 2011

Ernst & Young Réviseurs d'Entreprises sccrl
Statutory auditor
represented by

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

11PVDB0063

Consolidated income statement

In millions of EUR	Note	2009	2010
Net interest income	3	4 920	5 279
Interest income		10 821	9 621
Interest expense		- 5 901	- 4 341
Dividend income	4	80	51
Net result from financial instruments at fair value through profit or loss	5	- 3 126	- 277
Net realised result from available-for-sale assets	6	174	45
Net fee and commission income	7	1 545	1 638
Fee and commission income		2 141	2 222
Fee and commission expense		- 595	- 584
Other net income	8	313	259
TOTAL INCOME		3 907	6 995
Operating expenses	9	- 4 241	- 3 861
Staff expenses	10	- 1 973	- 1 864
General administrative expenses		- 2 040	- 1 790
Depreciation and amortisation of fixed assets		- 228	- 208
Impairment	11	- 2 400	- 1 635
on loans and receivables		- 1 901	- 1 485
on available-for-sale assets		- 84	- 12
on goodwill		- 402	- 85
on other		- 14	- 54
Share in results of associated companies	12	- 11	- 54
RESULT BEFORE TAX		- 2 745	1 445
Income tax expense	13	237	88
Net post-tax result from discontinued operations		0	0
RESULT AFTER TAX		- 2 508	1 533
Attributable to minority interest		- 17	139
Attributable to equity holders of the parent		**- 2 491**	**1 395**

- The group unveiled an updated strategic plan at the end of 2009, which the European Commission used to decide whether KBC Group would be able to repurchase the securities sold to government within a reasonable timeframe. The European Commission approved the plan at the end of November 2009. The group's new strategy is dealt with in more detail in the 'Strategy' section (which has not been reviewed by the statutory auditor).
- For changes in the presentation of the income statement, see Note 1a.
- It will be proposed that the total dividend to be paid will amount to 623 million euros, subject to the approval of the General Meeting.

Consolidated statement of comprehensive income

In millions of EUR	2009	2010
RESULT AFTER TAX	- 2 508	1 533
attributable to minority interest	- 17	139
attributable to equity holders of the parent	- 2 491	1 395
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve (AFS assets) - Equity	116	- 28
Fair value adjustments before tax	107	- 19
Deferred tax on fair value changes	0	1
Transfer from reserve to net profit	10	- 10
Impairment losses	13	3
Net gains/losses on disposal	- 4	- 12
Deferred income tax	0	0
Net change in revaluation reserve (AFS assets) - Bonds	728	- 337
Fair value adjustments before tax	702	- 745
Deferred tax on fair value changes	- 285	253
Transfer from reserve to net profit	311	156
Impairment losses	21	- 54
Net gains/losses on disposal	121	22
Amortization & impairment re assets transferred to L&R	242	284
Deferred income tax	- 72	- 97
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Impairment losses	0	0
Net gains/losses on disposal	0	0
Deferred income tax	0	0
Net change in hedging reserve (cash flow hedge)	- 26	- 72
Fair value adjustments before tax	- 58	- 136
Deferred tax on fair value changes	10	56
Transfer from reserve to net profit	21	8
Gross amount	27	10
Deferred income tax	- 5	- 2
Net change in translation differences	- 139	76
Gross amount	- 149	12
Deferred taxes on income	10	64
Other movements	4	1
TOTAL COMPREHENSIVE INCOME	**- 1 824**	**1 174**
attributable to minority interest	- 14	150
attributable to equity holders of the parent	- 1 810	1 025

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2009	31-12-2010
Cash and cash balances with central banks		6 943	15 236
Financial assets	14-25	265 523	252 035
Held for trading	14-25	40 791	30 898
Designated at fair value through profit or loss	14-25	22 892	18 560
Available for sale	14-25	32 878	34 690
Loans and receivables	14-25	160 144	157 109
Held to maturity	14-25	8 605	10 495
Hedging derivatives	14-25	213	284
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		253	218
Tax assets	27	1 787	2 305
Current tax assets	27	190	70
Deferred tax assets	27	1 597	2 235
Non-current assets held for sale and assets associated with disposal groups		71	54
Investments in associated companies	28	638	542
Investment property	29	461	457
Property and equipment	29	2 382	2 358
Goodwill and other intangible assets	30	1 774	1 711
Other assets	26	1 782	1 807
TOTAL ASSETS		281 613	276 723

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2009	31-12-2010
Financial liabilities	14-25	264 592	258 577
Held for trading	14-25	29 613	24 074
Designated at fair value through profit or loss	14-25	23 828	27 985
Measured at amortised cost	14-25	210 129	205 394
Hedging derivatives	14-25	1 022	1 124
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		0	0
Tax liabilities	27	417	368
Current tax liabilities	27	322	281
Deferred tax liabilies	27	95	87
Liabilities associated with disposal groups		0	0
Provisions for risks and charges	31	572	554
Other liabilities	32,33	3 015	3 081
TOTAL LIABILITIES		268 596	262 580
Total equity		13 016	14 142
Parent shareholders' equity	34	12 168	13 193
Minority interests		849	950
TOTAL LIABILITIES AND EQUITY		281 613	276 723

- For changes in the presentation of the balance sheet, see Note 1a.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
2009											
Balance at the beginning of the period	5 698	2 490	0	0	- 857	- 352	3 957	- 209	10 728	1 610	12 338
Net result for the period	0	0	0	0	0	0	- 2 491	0	- 2 491	- 17	- 2 508
Other comprehensive income for the period	0	0	0	0	840	- 22	3	- 140	681	3	684
Total comprehensive income	**0**	**0**	**0**	**0**	**840**	**- 22**	**- 2 488**	**- 140**	**- 1 810**	**- 14**	**- 1 824**
Dividends	0	0	0	0	0	0	0	0	0	0	0
Capital increase	3 250	1	0	0	0	0	0	0	3 251	0	3 251
Change in minorities	0	0	0	0	0	0	0	0	0	- 747	- 748
Total change	**3 250**	**1**	**0**	**0**	**840**	**- 22**	**- 2 488**	**- 140**	**1 440**	**- 761**	**679**
Balance at the end of the period	**8 948**	**2 492**	**0**	**0**	**- 17**	**- 374**	**1 468**	**- 349**	**12 168**	**849**	**13 016**
of which revaluation reserve for shares					121						
of which revaluation reserve for bonds					- 139						
of which revaluation reserve for other assets than bonds and shares					0						
of which relating to non-current assets held for sale and disposal groups					0	0		0	0	0	0
2010											
Balance at the beginning of the period	8 948	2 492	0	0	- 17	- 374	1 468	- 349	12 168	849	13 016
Net result for the period	0	0	0	0	0	0	1 395	0	1 395	139	1 533
Other comprehensive income for the period	0	0	0	0	- 369	- 72	1	70	- 370	11	- 358
Total comprehensive income	**0**	**0**	**0**	**0**	**- 369**	**- 72**	**1 396**	**70**	**1 025**	**150**	**1 175**
Dividends	0	0	0	0	0	0	0	0	0	0	0
Capital increase	0	- 1 269	0	0	0	0	1 269	0	0	0	0
Impact business combinations (IFRS 3)	0	0		0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	- 49	- 49
Total change	**0**	**- 1 269**	**0**	**0**	**- 369**	**- 72**	**2 665**	**70**	**1 025**	**101**	**1 126**
Balance at the end of the period	**8 948**	**1 222**	**0**		**- 386**	**- 446**	**4 134**	**- 279**	**13 193**	**950**	**14 142**
of which revaluation reserve for shares					91						
of which revaluation reserve for bonds					- 477						
of which revaluation reserve for other assets than bonds and shares					0						
of which relating to non-current assets held for sale and disposal groups					0	0		0	0	0	0

- For information on the number of shares, see Note 34.
- At the annual meeting of 28 April 2010, it was decided to carry out a capital reduction at KBC Bank through the incorporation of losses carried forward.

Consolidated cashflow statement

In millions of EUR	2009	2010
Operating activities		
Result before tax	- 2 745	1 445
Adjustments for:	- 1 664	1 567
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	727	358
Profit/Loss on the disposal of investments	- 14	- 101
Change in impairment on loans and advances	1 901	1 485
Change in other provisions	35	0
Other non realised gains or losses[1]	- 4 323	- 229
Income from associated companies	11	54
Cashflows from operating profit before tax and before changes in operating assets and liabilities	- 4 409	3 012
Changes in operating assets (excl. cash & cash equivalents)	25 818	11 004
Held for trading	8 986	9 133
Designated at fair value through profit or loss	- 5 973	4 243
Available for sale	24 694	- 2 487
Loans and receivables	- 1 953	323
Hedging derivatives	63	- 208
Non-current assets held for sale and assets associated with disposal groups	0	0
Changes in operating liabilities (excl. cash & cash equivalents)	- 27 204	2 234
Deposits from credit institutions at amortised cost	- 3 857	2 472
Debt certificates at amortised cost	2 241	- 138
Financial liabilities held for trading	- 12 620	- 4 358
Financial liabilities designated at fair value through P&L	- 13 113	4 156
Liability-derivatives hedge accounting	145	102
Operating liabilities associated with disposal groups	0	0
Income taxes paid	- 195	- 279
Net cash from (used in) operating activities	- 5 990	15 972

Investing activities		
Purchase of held-to-maturity securities	- 1 818	- 3 409
Proceeds from the repayment of held-to-maturity securities at maturity	1 516	1 480
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	0	- 112
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	123	905
Purchase of shares in associated companies	0	0
Proceeds from the disposal of shares in associated companies	0	0
Dividends received from associated companies	3	14
Purchase of investment property	- 1	- 17
Proceeds from the sale of investment property	6	10
Purchase of intangible fixed assets (excl. goodwill)	- 55	- 37
Proceeds from the sale of intangible fixed assets (excl. goodwill)	18	8
Purchase of property and equipment	- 461	- 423
Proceeds from the sale of property and equipment	206	159
Net cash from (used in) investing activities	- 464	- 1 423
Financing activities		
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	- 1 267	- 1 313
Proceeds from or repayment of subordinated liabilities	- 288	539
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	3 251	0
Proceeds from non-voting core-capital securities	0	0
Proceeds from the issuance or repayment of preference shares	0	0
Dividends paid	- 183	0
Net cash from (used in) financing activities	1 513	- 774
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	- 4 941	13 775
Cash and cash equivalents at the beginning of the period	8 740	3 518
Effects of exchange rate changes on opening cash and cash equivalents	- 280	357
Cash and cash equivalents at the end of the period	3 518	17 650
Additional information		
Interest paid	- 5 901	- 4 341
Interest received	10 821	9 621
Dividends received (including equity method)	83	65
Components of cash and cash equivalents		
Cash and cash balances with central banks	6 942	15 235
Loans and advances to banks repayable on demand and term loans to banks < 3 months	7 325	6 934
Deposits from banks repayable on demand and redeemable at notice	- 10 749	- 4 519
Total	3 518	17 650
of which not available	0	0

[1] Amount in 2009 concerns primarily valuation differences in the portfolio of structured credit (CDOs), including the related fees that have been recognised for the guarantee provided by the Belgian State to cover this portfolio, most of which is unrealised and therefore does not represent cashflow.

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and divestments of consolidated subsidiaries and activities are commented on below. All (material) acquisitions and divestments of group companies or activities were paid for in cash.

	2009		2010
in millions of EUR	KBC International Portfolio	KBC Peel Hunt	Global convertible bond & Asian equity derivative divisions
Purchase or sale	Sale	Sale	Sale
Percentage of shares bought (+) or sold (-) in the relevant year	100,00%	100,00%	
Total share percentage at the end of the relevant year	0,00%	0,00%	
For business unit/segment	Merchant-banking	Group Centre	Group Centre
Deal date (month and year)	june 2009	november 2010	november 2010
Purchase price or sale price	123	86	866
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	123	75	824
Assets & liabilities bought or sold			
Cash and cash balances with central banks	0	0	0
Financial assets			
Held for trading	0	26	864
Designated at fair value through profit or loss	0	0	0
Available for sale	- 240	2	0
Loans and receivables	- 37	483	42
Held-to-maturity investments	0	0	0
Hedging derivatives	0	0	0
of which: cash and cash equivalents	0	11	42
Financial liabilities			
Held for trading	0	15	391
Designated at fair value through profit or loss	0	0	0
Measured at amortised cost	0	389	0
Hedging derivatives	0	0	0
of which: cash and cash equivalents	0	0	0

Notes on the accounting policies

Note 1a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 24 March 2011 by the Board of Directors of KBC Bank NV.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million.

The following IFRS standards became effective on 1 January 2010 and have been applied in this report:
- The revised IFRS 3 (Business Combinations) and amendments to IAS 27 (Consolidated and Separate Financial Statements). These revisions and amendments are the result of a joint project between the IASB and FASB, aimed at achieving a higher degree of convergence between IFRS and US GAAP. The revised version of IFRS 3 will be applied prospectively and may have a considerable impact on the way in which business combinations and changes in shareholdings are recognised in the future.

The following IFRS standards became effective on 1 January 2010 and do not have any impact on this report:
- Amendments to IFRS 2 (Share-based Payment) relating to group cash-settled transactions.
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement) relating to eligible hedged items.
- IFRIC 17 (Distribution of Non-Cash Assets to Owners).
- IFRIC 18 (Transfers of Assets from Customers).

The following IFRS standards and IFRIC interpretations were issued but not yet effective for KBC Bank at year-end 2010. KBC will apply these standards and interpretations when they become mandatory:
- IAS 24 (Related Party Disclosures). The definition of a related party has been simplified and a partial exemption from the disclosure requirements of IAS 24 provided for government-related entities. However, where a reporting entity is exempt from the general disclosure requirements, other information (identity, nature of the related party relationship, nature and amount of the transaction) will have to be disclosed in future reports.
- In November 2009, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial assets, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). This new standard will become effective on 1 January 2013. However, the standard has still not been adopted for use in the European Union. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments).

Changes in the presentation of the income statement in 2010:

- 'Provisions for risks and charges' ceased to be a sub-heading of 'Operating expenses'. From now on, amounts allocated to and reversed from 'Provisions for risks and charges' on the balance sheet will be recognised in the income statement under the heading where the future cost of the provision will be recorded ('Staff expenses', 'General administrative expenses, 'Income tax expense' and 'Other net income'). In the reference figures, the amounts previously stated under 'Provisions for risks and charges' in the income statement have been added to 'General administrative expenses'.
- The accounting presentation of certain income and expense items has been harmonised further in the group, causing a slight difference in comparability between the figures for 2009 and 2010. Had the changes in the accounting presentation been applied to 2009, then 'Net fee and commission income' in that year would have been 37 million euros lower, 'Other net income' 25 million euros higher, and 'Operating expenses' 12 million euros less negative.

- A number of headings in the income statement have been renamed for the sake of clarity and simplicity:

Previous name	New name
Net (un)realised gains from financial instruments at fair value through profit or loss	Net result from financial instruments at fair value through profit or loss
Net realised gains from available-for-sale assets	Net realised result from available-for-sale assets
Profit before tax	Result before tax
Profit after tax	Result after tax
Net post-tax income from discontinued operations	Net post-tax result from discontinued operations

Changes in the presentation of segment reporting in 2010:

- Following the restructuring plan, which was approved by the European Commission at the end of 2009, the results of all the business units will be significantly affected in the years ahead by the planned divestments. The segment reporting format has been changed to create more transparency and to prevent the results of the business units from being seriously distorted. This new format covers the Belgium Business Unit, the Central & Eastern Europe Business Unit, the Merchant Banking Business Unit and the Group Centre, a unit which now comprises the former Group Centre plus all companies earmarked for divestment under the strategic plan. Consequently, the results of the new business units will not be distorted by future divestments. The figures for 2009 have been restated to make them comparable.

Changes in the content and layout of the notes in 2010:

- Owing to the inclusion of additional information, and with the general aim to present information in an even more transparent manner, a number of notes have been adjusted in terms of layout and content (for example, the notes concerning financial instruments, related-party transactions, etc.) and also renumbered.
- The financial statements also include specific information on risk management. In this regard, Note 41 refers to the ‘Value and risk management’ section.

Note 1 b: Summary of significant accounting policies

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

All (material) entities (including Special Purpose Entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation.
(Material) companies over which joint control is exercised, directly or indirectly, are consolidated according to the method of proportionate consolidation.
(Material) investments in associates, i.e. companies over which KBC has significant influence, are accounted for using the equity method.
As allowed under IAS 28 (Investments in Associates) and IAS 31 (Interests in Joint Ventures), investments held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit or loss).
Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

b Effects of changes in foreign exchange rates

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

Differences arising from the use of one exchange rate for assets and liabilities, and another for net assets (together with the exchange rate differences – net of deferred taxes – on loans concluded to finance participating interests in foreign currency) are recognised in equity, commensurate with KBC's share.

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

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

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

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

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

- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets.

- *Other financial liabilities*. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.

- *Hedging derivatives.* These are derivatives used for hedging purposes.

Financial instruments are reported according to the dirty price convention. Accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
- When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.
  Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities.* Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the

acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year.

- *Derivatives*. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

- *Amounts owed*. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

- *Embedded derivatives*. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from interest rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  Fair value hedges for a portfolio of interest rate risk (portfolio hedge of interest rate risk) are applied by KBC to hedge the interest rate risk for a portfolio of loans with interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from

interest rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts.* These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  - the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  - the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments ('market value adjustments').* Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements and counterparty exposures.

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested at least once a year for impairment. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.
If the capitalisation criteria are met, software is recognised as an intangible asset. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment (including investment property)

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

f Pension liabilities

Pension liabilities are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.
Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.
The pension obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.

Actuarial gains and losses are recognised according to the 'corridor approach'. Any excess actuarial gains and losses are recognised as income or an expense over the average expected remaining working lives of the participating employees.

g Tax liabilities

This heading includes current and deferred tax liabilities.
Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.
Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate. Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

h Provisions

Provisions are recognised in the balance sheet:
- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event, and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

i Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules:
The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. The difference is recognised either as an asset (goodwill) or in the income statement (negative goodwill).

j Exchange rates used

	Exchange rate at 31-12-2010		Exchange rate average in 2010	
	1 EUR = ... currency	Change from 31-12-2009 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = ... currency	Change relative to average in 2009 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	25.06	6%	25.32	5%
GBP	0.861	3%	0.857	4%
HUF	278.0	-3%	276.2	2%
PLN	3.975	3%	4.010	8%
USD	1.336	8%	1.325	5%

k Changes made to accounting policies in 2010

No material changes were made to the accounting policies compared with 2009.

Notes on segment reporting

Note 2a: Segment reporting based on the management structure

The group's segments or business units

KBC Bank's management structure has been built around a number of segments called 'business units', namely: Belgium, Central & Eastern Europe, Merchant Banking, and Shared Services & Operations. This breakdown is based on a combination of geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail banking or merchant banking). The Shared Services & Operations Business Unit includes a number of entities that provide support and products to the other business units (in the areas of ICT, leasing, payments, asset management, etc.).

Segment reporting (see below) is based on this format, but:
- The Shared Services & Operations Business Unit is not disclosed as a separate segment, since all its income and expenses are passed on to the other business units and reflected in their results.
- The business units are supplemented by a Group Centre segment, which – in addition to certain non-allocable results (see below and elsewhere in this report) – also brings together all those group companies that are scheduled to be sold under the new strategic plan. In this way, a clear picture is provided in the results as far as future divestments are concerned, but also as regards the long-term activities.

For reporting purposes, therefore, the composition of the segments or business units is as follows:
- Belgium (retail banking, asset management, private banking in Belgium; companies earmarked for divestment under the strategic plan are recognised under Group Centre).
- Central & Eastern Europe (retail banking, asset management, private banking and merchant banking in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria; companies in other countries that have been earmarked for divestment are recognised under Group Centre, as is the planned IPO of the minority stake in ČSOB).
- Merchant Banking (corporate banking and market activities in Belgium and in a selection of countries in Europe, North America and Southeast Asia; companies earmarked for divestment are recognised under Group Centre).
- Group Centre (all companies earmarked for divestment (and the planned IPO of a minority stake in ČSOB), and certain allocated results for KBC Bank NV (that cannot reliably be allocated to the segments)).

It should be noted that:
- In principle, a group company is assigned in its entirety to one specific segment. Major exceptions to this rule are only made for those charges that cannot clearly be allocated to a specific segment (such charges are grouped together and recognised under Group Centre) and KBC Bank NV (which is assigned to various segments and to Group Centre using a set of allocation rules).
- The funding cost of goodwill related to participating interests held by KBC Bank is allocated to the segment to which the relevant participating interest belongs.
- Transactions are conducted among the different segments at arm's length.
- When segment information is recorded, 'Net interest income' is not divided up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- No information is provided on income from sales to external customers per product or per service (or group of products or services), since the information is prepared at consolidated level chiefly for each business unit, and not per customer group or product group.

Underlying results by segment

The figures in the segment reporting presentation have been prepared in accordance with the general accounting method used at KBC (see Note 1) and, therefore, comply with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS). A number of changes have been made to this methodology in order to provide a better insight into the underlying business activities. The results generated in this way are referred to as 'underlying results' and these form an important element in the internal assessment and management of the business units. The differences between the IFRS figures and the underlying figures are as follows:
- Exceptional items that do not regularly occur during the normal course of business are eliminated in the underlying results. For instance, these items also include exceptional losses and gains relating to investments in CDOs (including the cost associated with the CDO guarantee agreement), to exposure to troubled banks (Lehman Brothers, Washington Mutual, Icelandic banks), to trading positions that were unwound due to the discontinuation of activities of KBC Financial Products, and to actual divestments (for example, related gains). In view of their exceptional nature and materiality, it is important to separate out these items in order to gain a full understanding of the results trend.
- In the IFRS figures, many of the ALM hedging derivatives (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are regarded as trading instruments and, consequently,

interest relating to these instruments appears under ‘Net result from financial instruments at fair value’, whereas interest earned on the related assets appears under ‘Net interest income’. In the underlying figures, interest on these derivatives has therefore been moved to ‘Net interest income’ (the heading under which interest income generated by the related assets is recognised), without this having any impact on the net result.

- Moreover, the fair value changes (due to marking-to-market) of the above ALM hedging instruments appear under ‘Net result from financial instruments at fair value’, whereas most underlying assets are not recognised at fair value (i.e. not marked-to-market). To limit the volatility arising from the marking-to-market of these instruments, a (government) bond portfolio was classified as ‘measured at fair value through profit or loss’ (fair value option). The remaining volatility stemming from the fair value changes of these ALM hedging derivatives relative to the fair value changes in the relevant bond portfolio is excluded from the underlying results.
- In the IFRS figures, income from professional market activities is divided up among different components. While trading profit is recognised under ‘Net result from financial instruments at fair value’, the funding costs and the fees and commission paid to realise this trading profit are recognised under ‘Net interest income’ and ‘Net fee and commission income’, respectively. Moreover, some ‘Dividend income’, ‘Net realised result from available-for-sale assets’ and ‘Other net income’ also relates to market activities. In the underlying figures, all market-activity-related components have been moved to ‘Net result from financial instruments at fair value’, without this having any impact on the net result.
- The IFRS figures take into account the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss. The resultant valuation adjustments have an impact on the reported net result. Since this is a non-operating item, its impact is excluded from the underlying figures.

Reconciliation of IFRS-based results and underlying results

Reconciliation of IFRS-based results and underlying results	Foot-note	Main heading(s) concerned in the income statement	2009	2010
Result after tax, attributable to equity holders of the parent (underlying)			**- 2 491**	**1 395**
- Changes in fair value of ALM hedging instruments	1	Net result from financial instruments at fair value	54	- 287
- Changes in fair value of own debt instruments		Net result from financial instruments at fair value	44	53
- Gains/losses relating to CDOs	2	Net result from financial instruments at fair value	- 1 669	391
- Fee for government guarantee scheme to cover CDO-related risks	3	Net result from financial instruments at fair value	- 1 164	- 86
- Valuation losses on available-for-sale shares	4	Impairment, Net realised result from available-for-sale assets	- 77	0
- (Reversal of) impairment relating to troubled banks in the US and Iceland	5	Impairment, Net result from financial instruments at fair value, Net realised result from available-for-sale assets	59	13
- Loss on legacy structured derivatives business (KBC Financial Products)		Net result from financial instruments at fair value	- 1 078	- 260
- Impairment on goodwill and associated companies	6	Impairment on goodwill and on other	- 387	- 116
- Gain on repurchase of hybrid tier-1 securities	7	See footnote	128	0
- Results on divestments	8	Other net income	0	82
- Other		-	- 80	- 37
- Taxes and minority interests relating to the above items	9	Income tax expense and Result after tax, attributable to minority interests	597	468
Result after tax, attributable to equity holders of the parent (IFRS)			1 082	1 174

1. See explanation in text above. The negative credit environment in 2010 caused the fair value of certain government bonds to decline (see widening credit spreads in PIIGS and other countries).
2. Relates primarily to changes in the fair value of CDO exposures (value: see Note 22), change in provisions for and payment of CDO-related claims.
3. Relates to the CDO guarantee agreement concluded with the Belgian State in 2009 (see 'Additional information').
4. The negative figure in 2009 was due primarily to plummeting share prices in the first quarter.
5. Relates to Lehman Brothers, Washington Mutual and various Icelandic banks.
6. In 2009, mainly group companies in Russia, Bulgaria and Slovakia. In 2010, chiefly group companies in Poland and Romania, and associated companies in Slovenia.
7. In the third quarter of 2009, KBC Bank initiated a programme to buy back a number of outstanding tier-1 securities at 70% of their nominal value. The programme was closed on 13 October 2009. The after-tax gain realised on the repurchase of the hybrid securities issued by KBC Bank Funding Trust was deducted from 'Result after tax, attributable to minority interests' and included under 'Result after tax, attributable to equity holders of the parent'.
8. In 2010, primarily the sale of the Global Convertible Bonds and Asian Equity Derivatives business lines at KBC Financial Products.
9. Includes the recognition of a deferred tax asset of 0.4 billion euros in the second quarter of 2010 (see Note 13).

Underlying results by segment (business unit)

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre excluding interseg-ment eliminations	Inter-segment eliminations	Total KBC Bank
INCOME STATEMENT - underlying results - 12M 2009						
Net interest income	1 411	1 563	830	567	0	4 372
Dividend income	17	8	10	1	0	36
Net result from financial instruments at fair value through profit or loss	53	68	550	197	0	868
Net realised result from available-for-sale assets	75	11	57	18	0	161
Net fee and commission income	856	466	201	98	0	1 622
Other net income	26	75	121	6	0	228
TOTAL INCOME	**2 439**	**2 191**	**1 769**	**888**	**0**	**7 286**
Operating expenses[a]	- 1 381	- 1 292	- 580	- 589	0	- 3 841
Impairment	- 75	- 641	- 814	- 366	0	- 1 895
on loans and receivables	- 75	- 630	- 812	- 363	0	- 1 880
on available-for-sale assets	0	0	0	- 1	0	- 1
on goodwill	0	0	0	0	0	0
on other	0	- 11	- 1	- 2	0	- 14
Share in results of associated companies	0	15	0	- 26	0	- 11
RESULT BEFORE TAX	**983**	**273**	**375**	**- 92**	**0**	**1 538**
Income tax expense	- 297	- 27	- 3	- 7	0	- 334
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**686**	**246**	**372**	**- 99**	**0**	**1 205**
attributable to minority interests	69	140	69	- 156	0	123
attributable to equity holders of the parent	**616**	**106**	**303**	**56**	**0**	**1 082**
[a] Of which non-cash expenses:	- 69	- 157	- 60	26	0	- 259
Depreciation and amortisation of fixed assets	- 46	- 141	- 38	0	0	- 224
Other	- 23	- 16	- 22	26	0	- 35
Acquisitions of non current assets*	36	181	314	27	0	557
INCOME STATEMENT - underlying results - 12M 2010						
Net interest income	1 456	1 759	836	434	- 2	4 483
Dividend income	11	2	6	0	0	19
Net result from financial instruments at fair value through profit or loss	48	168	539	11	0	766
Net realised result from available-for-sale assets	19	11	3	4	0	37
Net fee and commission income	960	462	225	51	1	1 699
Other net income	36	64	- 83	7	- 10	14
TOTAL INCOME	**2 531**	**2 466**	**1 526**	**507**	**- 11**	**7 019**
Operating expenses[a]	- 1 376	- 1 324	- 564	- 513	11	- 3 767
Impairment	- 86	- 464	- 796	- 162	0	- 1 507
on loans and receivables	- 82	- 452	- 789	- 162	0	- 1 485
on available-for-sale assets	- 4	0	- 7	0	0	- 12
on goodwill	0	0	0	0	0	0
on other	0	- 11	1	0	0	- 10
Share in results of associated companies	0	10	0	- 64	0	- 54
RESULT BEFORE TAX	**1 069**	**688**	**166**	**- 232**	**0**	**1 692**
Income tax expense	- 333	- 84	- 20	59	0	- 378
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**736**	**604**	**146**	**- 172**	**0**	**1 314**
attributable to minority interests	114	211	16	- 202	0	140
attributable to equity holders of the parent	**622**	**393**	**130**	**30**	**0**	**1 174**
[a] Of which non-cash expenses:	- 42	- 110	- 33	- 19	0	- 205
Depreciation and amortisation of fixed assets	- 44	- 110	- 29	- 21	0	- 204
Other	1	0	- 4	1	0	- 1
Acquisitions of non current assets*	31	169	275	23	0	498

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

Review of the underlying results by business unit

Belgium Business Unit

Underlying net profit in this business unit came to 622 million euros, in line with the figure for the previous year, despite higher costs related to the deposit protection scheme. As mentioned above, the results of companies scheduled for divestment have been reallocated to the Group Centre.

Net interest income amounted to 1 456 million euros in 2010, an improvement of 3% on the year-earlier figure. Although the net interest margin narrowed by 12 basis points to 1.46%, this was offset by rising volumes (loans were up by 5% – reflecting the gradual economic recovery – and deposits rose by some 8% in the space of a year).

Net fee and commission income amounted to 960 million euros. The recovery of fee and commission *income* that began in the second quarter of 2009 continued in 2010, resulting in a significant 12% year-on-year increase, thanks primarily to rising fee and commission income from asset management activities. Assets under management edged up by 1% to 146 billion euros (excluding Centea).

As regards the other income items, the net realised result from available-for-sale assets totalled 19 million euros (less than the year-earlier figure, which was boosted by gains on the sale of a bond portfolio), dividend income from equity investments amounted to 11 million euros, the net result from financial instruments at fair value through profit or loss stood at 48 million euros, while other net income came to 36 million euros.

Operating expenses stood at 1 376 million euros. That is the same level as in 2009, despite higher costs (+47 million euros) related to the deposit protection scheme. As a result, the cost/income ratio of the banking activities came to a good 54% (57% in 2009).

Impairment recorded on loans and receivables amounted to 82 million euros. As in 2009, this duly generated a very favourable credit cost ratio (15 basis points in 2010, virtually unchanged from the previous year). Approximately 1.5% of the Belgian retail loan portfolio was non-performing at year-end 2010, which is again comparable with the year-earlier figure. Impairment on available-for-sale assets remained negligible at 4 million euros in 2010 (none in 2009).

Central & Eastern Europe Business Unit

The Central & Eastern Europe Business Unit generated underlying net profit of 393 million euros in 2010, almost four times more than in 2009.

The influence of exchange rate fluctuations has been omitted when calculating *organic* growth. As already mentioned, the results of group companies scheduled for divestment under the strategic plan have been reallocated to the Group Centre, as have those of the minority interest in ČSOB (Czech Republic) that is planned to be listed on the stock exchange as part of the strategic plan.

Net interest income amounted to 1 759 million euros in 2010, reflecting organic growth of 8% compared with 2009. The loan portfolio for the region as a whole contracted by 3% in 2010, with the largest relative decline in Hungary (-11%). The total volume of deposits in the region went up by 3% (attributable mainly to Poland and the Czech Republic). The average interest margin was 3.23% in 2010, up 21 basis points on the year-earlier figure.

Net fee and commission income came to 462 million euros in 2010. While at first glance that would appear to be a year-on-year organic decline of 5%, the decrease was in fact the result of a reclassification in 2010 of the distribution fees paid to Czech Post, whereby these fees were moved from the expenses heading to 'Fees and commission *paid*' (around 35 million euros). Disregarding this reclassification, organic net fee and commission income would have gone up by roughly 3%. Assets under management in the business unit reached around 13 billion euros by the end of 2010.

As regards the other income items, dividend income amounted to 2 million euros, the net result from financial instruments at fair value through profit or loss stood at 168 million euros (a considerable improvement on 2009), while other net income came to 64 million euros.
Operating expenses amounted to 1 324 million euros. On an organic basis and excluding the aforementioned reclassification from expenses to fees and commission *paid*, that represents a small year-on-year increase, which, incidentally, was more than entirely accounted for by the new bank tax in Hungary (impact of 52 million euros). The underlying cost/income ratio for the banking activities of this business unit improved from 59% in 2009 to 54% in 2010.

Impairment on *loans and receivables* (loan loss provisions) came to 452 million euros in 2010, significantly better than the 630 million euros recorded in 2009. The decline was concentrated mainly in the Czech Republic and Poland (the 2009 figure for Poland had included a substantial amount relating to consumer credit). On balance, provisions of 133 million euros were set aside in Hungary in the year under review. Foreign-currency mortgage loans accounted for around 14% of the business unit's total loan portfolio and were granted mainly in Poland and Hungary. The overall credit cost ratio fell from 170 basis points in 2009 to 122 basis points in 2010 (75 basis points in the Czech Republic, 96 basis points in Slovakia, 198 basis points in Hungary, 145 basis points in Poland and 200 basis points in Bulgaria). At year-end, around 5.6% of the loan portfolio in the home markets in Central and Eastern Europe was non-performing, compared with 4.1% a year earlier,

Merchant Banking Business Unit

The Merchant Banking Business Unit generated underlying net profit of 130 million euros in 2010, compared with 303 million euros a year earlier. As already mentioned, the results of group companies scheduled for divestment under the strategic plan have been reallocated to the Group Centre,

Total income amounted to 1 526 million euros, 14% lower than its 2009 level. At 836 million euros, net interest income remained more or less the same as a year earlier. The 13% decline in the size of the loan portfolio at this business unit in 2010 reflects the group's strategy of refocusing on its home markets, which resulted in a contraction in the international loan portfolios not related to those markets. The net result from financial instruments at fair value through profit or loss came to 539 million euros, down 2% year-on-year. At 225 million euros, net fee and provision income went up by 12%. As regards the other income items, the net result from available-for-sale assets came to 3 million euros (significantly less than the year-earlier figure, which was boosted by gains on the sale of a bond portfolio), dividend income totalled 6 million euros and other net income amounted to -83 million euros (considerably lower than in 2009, due in part to the recognition of -175 million euros for irregularities at KBC Lease UK).

This business unit's operating expenses came to 564 million euros, down 3% on the year-earlier figure. The underlying cost/income ratio ended the year at 37%, compared with 33% in 2009.

Impairment recorded on *loans and receivables* amounted to 789 million euros in 2010, virtually the same as the year-earlier figure. The 2010 figure was the result of an increase in provisioning for the Irish loan portfolio (525 million euros set aside in 2010) and a decrease for the loan portfolios of the branches abroad and for US asset backed securities. The credit cost ratio rose from 119 basis points in 2009 to 138 basis points in 2010 (67 basis points excluding Ireland). At year-end, around 5.2% of the business unit's loan portfolio was non-performing, compared with 3.9% recorded a year earlier.

At 6 million euros, the remaining impairment was again relatively limited (1 million euros in 2009).

The Merchant Banking Business Unit encompasses corporate banking (the services provided to SMEs and larger companies), which recorded a net result of -153 million euros in 2010, and market activities (e.g., currency dealing, securities trading and corporate finance), which generated a net result of 283 million euros.

Group Centre

Underlying net profit amounted to 30 million euros in 2010, compared with 56 million euros in 2009.

The bulk of the Group Centre's underlying net result was attributable to the underlying results of companies scheduled for divestment under the strategic plan, including the results of companies that were already divested in 2010, up to the moment of sale. Together, they accounted for an underlying result of 82 million euros, which can be broken down by former business unit as follows:

- 58 million euros for Belgium (Centea).
- 102 million euros for Central & Eastern Europe, most notable in this figure being the vastly improved results of Absolut Bank (from -107 million euros in 2009 to -5 million euros in 2010, thanks largely to lower loan losses). The results relating to the minority interest in ČSOB that is planned to be listed on the Prague Stock Exchange as part of the strategic plan are also included in the Group Centre.
- 16 million euros for Merchant Banking.
- -94 million euros (primarily funding costs of goodwill relating to the companies scheduled for divestment).

Balance-sheet information by segment (business unit)

The table below presents some of the main on-balance-sheet products by segment.

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre	Total KBC Bank
Balance sheet information 31-12-2009					
Total loans to customers	49 743	33 848	52 639	16 071	152 301
Of which mortgage loans	24 957	12 075	13 383	8 257	58 672
Of which reverse repos	0	3 177	3 444	0	6 620
Customer deposits	67 140	42 728	64 643	13 993	188 504
Of which repos	320	3 138	9 741	0	13 199
Balance sheet information 31-12-2010					
Total loans to customers	51 892	35 781	49 120	14 532	151 326
Of which mortgage loans	26 890	14 506	12 809	7 231	61 436
Of which reverse repos	0	4 057	5 932	0	9 989
Customer deposits	70 122	44 826	75 613	11 445	202 007
Of which repos	0	3 219	12 179	0	15 398

Note 2 b: Segment reporting based on geographic area

This segment reporting format is based on geographic areas, reflecting KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('Rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).
The geographic segmentation is based on the location where the services are rendered. Since at least 95% of customers are local, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.
This segment reporting format differs considerably from segment reporting based on business units, partly due to the fact that different allocation methodologies are used and that the Belgium geographic segment includes not only the Belgium Business Unit, but also the Belgian activities of the Merchant Banking Business Unit.

More details on the geographic breakdown of balance sheet figures can be found in the various notes to the balance sheet. The breakdown in this note is based on the geographic location of the counterparty.

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	Total KBC Bank
12M 2009				
Total income from external customers (underlying)	3 301	2 575	1 409	7 286
Total assets (period-end)	179 912	55 840	45 861	281 613
Total liabilities (period-end)	160 771	50 425	57 400	268 596
Acquisitions of non-current assets (period end) [1]	299	209	49	557
12M 2010				
Total income from external customers (underlying)	3 104	2 731	1 183	7 019
Total assets (period-end)	183 692	58 184	34 846	276 723
Total liabilities (period-end)	171 337	52 667	38 576	262 580
Acquisitions of non-current assets (period end) [1]	264	179	55	498

[1] including Non-current assets held for sale and disposal groups, IP, PPE, investments associated companies, goodwill & other intangible assets

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2009	2010
Total	**4 920**	**5 279**
Interest income	**10 821**	**9 621**
Available-for-sale assets	1 246	1 218
Loans and receivables	7 420	6 682
Held-to-maturity investments	344	419
Other assets not at fair value	39	25
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*9 048*	*8 344*
of which : impaired financial assets	50	90
Financial assets held for trading	589	352
Hedging derivatives	416	333
Other financial assets at fair value through profit or loss	767	592
Interest expense	**- 5 901**	**- 4 341**
Financial liabilities measured at amortised cost	- 4 472	- 3 225
Other	- 15	- 5
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	- 4 488	- 3 230
Financial liabilities held for trading	- 90	- 85
Hedging derivatives	- 765	- 774
Other financial liabilities at fair value through profit or loss	- 559	- 253

Note 4: Dividend income

In millions of EUR	2009	2010
Total	80	51
Breakdown by type	80	51
Held-for-trading shares	41	31
Shares initially recognised at fair value through profit or loss	1	3
Available-for-sale shares	38	16

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

In millions of EUR	2009	2010
Total	- 3 126	- 277
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	- 3 576	- 290
Other financial instruments initially recognised at fair value through profit or loss	178	- 298
Of which: gains/losses own credit risk	44	53
Foreign exchange trading	275	311
Fair value adjustments in hedge accounting	- 4	0
Microhedge	- 2	2
Fair value hedges	- 1	2
Changes in the fair value of the hedged item	18	35
Changes in the fair value of the hedging derivatives, including discontinuation	- 19	- 33
Cashflow hedges	- 1	1
Changes in the fair value of the hedging derivatives, ineffective portion	- 1	1
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	- 2	- 2
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	84	35
Changes in the fair value of the hedging derivatives, including discontinuation	- 84	- 35
Cashflow hedges of interest rate risk	- 2	- 2
Changes in the fair value of the hedging instrument, ineffective portion	- 2	- 2

- Changes in the value of CDOs: 'Net result from financial instruments at fair value through profit or loss' also includes the effect of value changes in CDOs held in portfolio. In 2009, this effect amounted – on balance – to a negative 2.5 billion euros (also incorporating the impact of the acquired government guarantee, including the relevant fees charged – see below – and the negative effect of increasing cover from 40% to 70% for the CDO-related counterparty exposure to MBIA, the US monoline insurer). In 2010, the improvement in the market price for corporate credit – as reflected in credit default swap spreads – had a positive impact on the value of CDOs held by KBC (roughly 0.3 billion euros).
- CDO guarantee agreement concluded with the Belgian State: in May 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan basically comprises a notional amount that initially totalled 20 billion euros, with 5.5 billion euros relating to the notional value of the unhedged super senior CDO investments and 14.4 billion euros to the notional value of the counterparty exposure to MBIA. Against payment of a fee, KBC has purchased a State guarantee which covers 90% of the risk of default, after a first-loss tranche in which KBC bears any loss in full. As a CDO reached maturity in 2010, the initial amounts have been changed (with the total now coming to 18.1 billion euros). Two million euros of this guarantee relates to the exposure to CDOs at Assurisk SA (subsidiary of KBC Insurance).
  More detailed information on this agreement can be found in 'Additional information'.
- Cost associated with the CDO guarantee agreement concluded with the Belgian State: the total fee to be paid by KBC Group to the Belgian State for the third tranche (*the cash guarantee*) is approximately 1.1 billion euros (present value at the time the agreement entered into effect and recognised upfront in 2009). There was also a positive effect on the mark-to-market value of the guaranteed positions. In addition, KBC Group has to pay the Belgian State a commitment fee of roughly 60 million euros per half year for the second tranche (*the equity guarantee*). That contract, including the fee due, is measured at fair value through profit or loss.

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (in millions of EUR, before tax), KBC Bank	2009	2010
Cash guarantee (for the third tranche)		
Recognised upfront in 2009	-923	0
Fair value change	-104	-30
Equity guarantee (for the second tranche)	-137	-56
Total recognised in the income statement	-1 164	-86

The impact of changes in the fair value of PIIGS sovereign bonds is dealt with in more detail under 'Credit risk' in the 'Value and risk management' section.

- 'Foreign exchange trading' results in the table comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- Impact of changes in own credit risk: see Note 23.

  Use of ALM derivatives: except for micro-hedging derivatives, which are used to only a limited extent in the group, the interest for ALM derivatives classified under 'Portfolio hedge of interest rate risk' is recognised under 'Net interest income'. Changes in the fair value of these derivatives are recognised under 'Net result from financial instruments at fair value through profit or loss', but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of this heading is zero. For other ALM derivatives, the interest in question is recognised under 'Net result from financial instruments at fair value through profit or loss' (-288 and -425 million euros in 2009 and 2010, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, the *dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%-125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%-125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Movements in deferred day 1 profit can be summarised as follows:

In millions of EUR	2009	2010
Deferred day 1 profits, opening balance on 1 January	86	27
New deferred day 1 profits	0	0
Day 1 profits recognised in profit or loss during the period		
Amortisation of day 1 profits	- 49	- 15
Financial instruments no longer recognised	- 4	- 4
Exchange differences	- 6	2
Deferred day 1 profits, closing balance on 31 December	27	11

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

In millions of EUR	2009	2010
Total	174	45
Breakdown by portfolio		
Fixed-income securities	140	24
Shares	34	21

Note 7: Net fee and commission income

In millions of EUR	2009	2010
Total	1 545	1 638
Fee and commission income	2 141	2 222
Securities and asset management	1 054	1 114
Commitment credit	270	251
Payments	494	521
Other	323	336
Fee and commission expense	- 595	- 584
Commission paid to intermediaries	- 76	- 124
Other	- 519	- 461

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).

Note 8: Other net income

In millions of EUR	2009	2010
Total	313	259
Of which net realised result following		
The sale of loans and receivables	10	4
The sale of held-to-maturity investments	- 5	1
The sale of financial liabilities measured at amortised cost	1	0
Other:	308	254
Irregularities in KBC Lease UK	0	- 175
Income concerning leasing at the KBC Lease-group	74	76
Income from consolidated private equity participations	56	54
Realised gains or losses on divestments	0	111

- During the fourth quarter of 2010, an internal audit at KBC Lease UK identified irregularities in a number of contracts concluded with third parties. The necessary amounts have been recognised to cover the maximum potential net cost of these irregularities.
- Gains on divestments relate to the sale of the KBC Financial Products' Global Convertible Bonds & Asian Equity Derivatives businesses.

Note 9: Operating expenses

In millions of EUR	2009	2010
Total	- 4 241	- 3 861
Breakdown by type		
Staff expenses	- 1 973	- 1 864
Share based payment: equity settled	- 1	0
Share based payment: cash settled	1	0
General administrative expenses	- 2 040	- 1 790
Depreciation and amortisation of fixed assets	- 228	- 208

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. The figure for 2010 includes expenses related to the new special tax imposed on financial institutions in Hungary (52 million euros for 2010, deductible expense) and the higher costs attached to the Belgian deposit protection scheme.
- Share-based payments are included under staff expenses.
  The main equity-settled share-based payments are described below.

  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans for all or certain members of staff of the company and various subsidiaries. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels.
  The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares. Any options that were still outstanding at Peel Hunt were exercised in the course of 2010.
  KBC Group NV has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.

  IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.

  An overview of the number of stock options for staff is shown in the table. The average price of the KBC share was 32.60 euros during 2010. In 2010, no new KBC share options for personnel were issued.

	2009		2010	
Options	Number of options[1]	Average exercise price	Number of options[1]	Average exercise price
Outstanding at beginning of period	884 558	47,83	882 253	48,09
Granted during period	0	-	0	-
Exercised during period	0	0,00	- 4 527	28,41
Expired during period	- 2 305	42,58	- 268 096	44,47
Outstanding at end of period [2]	882 253	48,09	609 630	50,70
Exercisable at end of period	821 228	44,03	595 030	49,82

[1] In share equivalents

[2] 2009: range of exercise prices: 27,8-97,94 euros; w eighted average residual term to maturity: 27 months

2010: range of exercise prices: 27,8-97,94 euros; w eighted average residual term to maturity: 17 months

In 2010, there was a capital increase reserved for KBC group employees, who could buy shares at 33.10 euros per share. This did not result in the recognition of an employee benefit as the issue price was higher than the market price (as opposed to 1 million euros in 2009).

Note 10: Personnel

	2009	2010
Total average number of persons employed (in full-time equivalents)	**40 735**	**38 972**
Breakdown by employee classification		
Blue-collar staff	492	731
White-collar staff	39 410	37 321
Senior management	833	920

Note 11: Impairment (income statement)

In millions of EUR	2009	2010
Total	- 2 400	- 1 635
Impairment on loans and receivables	- 1 901	- 1 485
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 1 808	- 1 452
Specific provisions for off-balance-sheet credit commitments	- 14	- 19
Portfolio-based impairments and provisions	- 78	- 14
Impairment on available-for-sale assets	- 84	- 12
Breakdown by type		
Shares	- 82	- 12
Other	- 1	0
Impairment on goodwill	- 402	- 85
Impairment on other	- 14	- 54
Intangible assets, other than goodwill	0	0
Property and equipment and investment property	- 7	- 4
Held-to-maturity assets	- 2	0
Associated companies (goodwill)	0	- 31
Other	- 4	- 18

- ‘Impairment on loans and receivables’ are accounted for primarily by loans and advances to customers. In 2010, impairment charges in the Merchant Banking Business Unit included 0.5 billion euros for lending activities in Ireland, due to the economic situation in that country (especially on the real estate market). That could lead to high(er) unemployment and an increase in arrears and defaults on mortgage loans.
- Impairment on available-for-sale assets. Impairment on shares fell on account of the improved stock market climate (and the reduced size of the share portfolio).
- Impairment on goodwill. In 2009, this heading had included *inter alia* 318 million euros for group companies in Central and Eastern Europe (primarily Russia, Bulgaria and Slovakia). In 2010, it included *inter alia* 52 million euros for group companies in Central and Eastern Europe (Poland and Romania). In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use.
- Impairment on other. In 2009, this heading had included *inter alia* impairment charges on property and equipment (7 million euros) and on held-to-maturity securities (2 million euros). Impairment always relates to the difference between the carrying value before impairment and the value in use of the assets in question. In 2010, it included impairment charges of 31 million euros for the minority shareholding in Nova Ljubljanska banka (Slovenia, based on higher loan losses) and impairment charges on property and equipment (4 million euros).
- For information on total impairment recognised in the balance sheet, see Note 17.

Note 12: Share in results of associated companies

In millions of EUR	2009	2010
Total	- 11	- 54
of which NLB	- 27	- 64

- Impairment on (goodwill on) associated companies is included in 'Impairment' (see Note 11). The share in results of associated companies does not therefore take this impairment into account.

Note 13: Income tax expense

In millions of EUR	2009	2010
Total	237	88
Breakdown by type	237	88
Current taxes on income	- 195	- 279
Deferred taxes on income	432	367
Tax components		
Profit before tax	- 2 745	1 445
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	933	- 491
Plus/minus tax effects attributable to	- 696	579
Differences in tax rates, Belgium - abroad	80	142
Tax-free income	100	223
Adjustments related to prior years	90	19
Adjustments, opening balance of deferred taxes due to change in tax rate	2	4
Unused tax losses and unused tax credits to reduce current tax expense	10	0
Unused tax losses and unused tax credits to reduce deferred tax expense	53	558
Reversal of previously recognised deferred tax due to tax losses	- 4	- 13
Other (mainly non-deductible expenses)	- 1 028	- 355
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized*	433	398

[1] Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed).

- For information on tax assets and tax liabilities, see Note 27.
- In 2009, KBC recorded a negative result of 2.5 billion euros largely on account of (fair value) losses incurred on its CDO portfolio and related activities. It did not recognise a tax effect on the bulk of these losses until 31 March 2010, given that they occurred at subsidiaries where future taxable profits would be insufficient to offset this effect. To recapitalise one of the main subsidiaries involved, KBC proposed to the local regulator and the Belgian tax authorities that it would issue a debt waiver for that particular subsidiary. At the end of April 2010, the Belgian tax authorities ruled positively and confirmed the general principle that a debt waiver was tax deductible when certain criteria were met. In practice, this meant that KBC was able to recognise deferred tax income of 0.4 billion euros in the second quarter of 2010. This deferred tax asset was justified by the fact that enough taxable profit would be available in the quite near future (estimated future profits are based on macroeconomic assumptions and take account of conservative scenarios).

Notes on the financial assets and liabilities on the balance sheet

To further enhance transparency, the following notes on financial assets and liabilities have been expanded and rearranged since last year's annual report.

Financial assets and liabilities are grouped into categories. These categories are defined and relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.

Whenever reference is made in the tables or text to the category 'Designated at fair value', this should be taken to mean 'Designated at fair value through profit or loss' (fair value option).

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

In millions of EUR	Held for trading	Designated at fair value[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2009								
Loans and advances to credit institutions and investment firms [a]	566	3 975	0	13 850	-	-	-	18 391 [c]
Loans and advances to customers [b]	3 328	6 355	0	142 618	-	-	-	152 301
Discount and acceptance credit	0	9	0	105	-	-	-	114
Consumer credit	0	0	0	4 939	-	-	-	4 939
Mortgage loans	0	2 349	0	56 323	-	-	-	58 672
Term loans	3 328	3 824	0	64 482	-	-	-	71 634
Finance leasing	0	0	0	5 569	-	-	-	5 569
Current account advances	0	0	0	4 738	-	-	-	4 738
Other	0	173	0	6 462	-	-	-	6 635
Equity instruments	2 940	18	821	-	-	-	-	3 778
Debt instruments issued by	12 343	12 301	31 498	3 208	8 400	-	-	67 749
Public bodies	8 031	11 183	27 007	3	8 032	-	-	54 256
Credit institutions and investment firms	2 460	285	2 772	0	300	-	-	5 817
Corporates	1 852	832	1 720	3 205	68	-	-	7 677
Derivatives	21 414	-	-	-	-	165	-	21 579
Total carrying value excluding accrued intrest income	40 591	22 648	32 319	159 676	8 400	165	0	263 799
Accrued interest income	200	244	559	468	205	48	0	1 724
Total carrying value including accrued interest income	40 791	22 892	32 878	160 144	8 605	213	0	265 523
[a] *Of which reverse repos* [2]								*4 187*
[b] *Of which reverse repos* [2]								*6 620*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*7 325*
FINANCIAL ASSETS, 31-12-2010								
Loans and advances to credit institutions and investment firms [a]	696	1 808	0	13 044	-	-	-	15 548 [c]
Loans and advances to customers [b]	4 173	6 953	0	140 200	-	-	-	151 326
Discount and acceptance credit	0	0	0	119	-	-	-	119
Consumer credit	0	0	0	4 273	-	-	-	4 273
Mortgage loans	0	380	0	61 056	-	-	-	61 436
Term loans	4 173	6 507	0	61 454	-	-	-	72 135
Finance leasing	0	0	0	4 909	-	-	-	4 909
Current account advances	0	0	0	4 801	-	-	-	4 801
Securitised loans	0	0	0	0	-	-	-	0
Other	0	66	0	3 588	-	-	-	3 654
Equity instruments	1 717	16	613	-	-	-	-	2 346
Debt instruments issued by	7 708	9 591	33 455	3 405	10 246	-	-	64 405
Public bodies	5 806	8 833	29 634	109	10 009	-	-	54 390
Credit institutions and investment firms	739	247	2 442	224	178	-	-	3 830
Corporates	1 162	511	1 379	3 073	58	-	-	6 184
Derivatives	16 304	-	-	-	-	211	-	16 515
Total carrying value excluding accrued interest income	30 598	18 368	34 068	156 649	10 246	211	0	250 140
Accrued interest income	300	192	621	459	250	73	0	1 895
Total carrying value including accrued interest income	30 898	18 560	34 690	157 109	10 495	284	0	252 035
[a] *Of which reverse repos* [2]								*2 284*
[b] *Of which reverse repos* [2]								*9 989*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*6 934*

1 Loans and advances in the 'Designated at fair value' column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.

[2] A 'reverse repo' transaction is a transaction where one party (KBC) buys securities from another party and undertakes to resell these securities at a designated future date at a set price. In most cases, reverse repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The reverse repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for the counterparty. The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2009								
Deposits from credit institutions and investment firms [a]	211	6 778	-	-	-	-	36 997	43 987 [c]
Deposits from customers and debt certificates [b]	834	16 961	-	-	-	-	170 709	188 504
Deposits from customers	0	13 175	-	-	-	-	127 460	140 635
Demand deposits	0	150	-	-	-	-	39 617	39 767
Time deposits	0	13 013	-	-	-	-	44 442	57 455
Savings deposits	0	0	-	-	-	-	38 645	38 645
Special deposits	0	0	-	-	-	-	3 677	3 677
Other deposits	0	11	-	-	-	-	1 080	1 091
Debt certificates	834	3 786	-	-	-	-	43 249	47 869
Certificates of deposit	0	287	-	-	-	-	15 663	15 950
Customer savings certificates	0	0	-	-	-	-	2 579	2 579
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	834	3 218	-	-	-	-	16 444	20 495
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	282	-	-	-	-	8 564	8 845
Derivatives	26 100	0	-	-	-	831	-	26 931
Short positions	2 072	0	-	-	-	-	-	2 072
in equity instruments	451	0	-	-	-	-	-	451
in debt instruments	1 621	0	-	-	-	-	-	1 621
Other	250	0	-	-	-	-	1 536	1 785
Total carrying value excluding accrued interest expense	29 467	23 739	-	-	-	831	209 242	263 279
Accrued interest expense	146	89	-	-	-	191	887	1 313
Total carrying value including accrued interest expense	29 613	23 828	-	-	-	1 022	210 128	264 592
[a] *Of which repos* [1]								*10 437*
[b] *Of which repos* [1]								*13 199*
[c] *Of which deposits from banks repayable on demand*								*10 749*
FINANCIAL LIABILITIES, 31-12-2010								
Deposits from credit institutions and investment firms [a]	21	6 920	-	-	-	-	21 643	28 584 [c]
Deposits from customers and debt certificates [b]	648	20 991	-	-	-	-	180 368	202 007
Deposits from customers	0	17 089	-	-	-	-	138 766	155 855
Demand deposits	0	57	-	-	-	-	48 588	48 645
Time deposits	0	17 032	-	-	-	-	44 631	61 663
Savings deposits	0	0	-	-	-	-	40 260	40 260
Special deposits	0	0	-	-	-	-	4 005	4 005
Other deposits	0	0	-	-	-	-	1 282	1 282
Debt certificates	648	3 902	-	-	-	-	41 602	46 152
Certificates of deposit	0	22	-	-	-	-	15 408	15 430
Customer savings certificates	0	0	-	-	-	-	2 155	2 155
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	648	3 600	-	-	-	-	14 935	19 183
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	280	-	-	-	-	9 104	9 384
Derivatives	22 263	0	-	-	-	849	-	23 112
Short positions	1 119	0	-	-	-	-	-	1 119
in equity instruments	10	0	-	-	-	-	-	10
in debt instruments	1 110	0	-	-	-	-	-	1 110
Other	0	0	-	-	-	-	2 594	2 594
Total carrying value excluding accrued interest expense	24 051	27 911	-	-	-	849	204 605	257 416
Accrued interest expense	23	74	-	-	-	276	789	1 161
Total carrying value including accrued interest expense	24 074	27 985	-	-	-	1 124	205 394	258 577
[a] *Of which repos* [1]								*8 212*
[b] *Of which repos* [1]								*15 398*
[c] *Of which deposits from banks repayable on demand*								*4 519*

[1] A 'repo' transaction is a transaction where one party buys securities from another party (KBC) and undertakes to resell these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 15: Financial assets and liabilities, breakdown by portfolio and geographic location

	Held for trading	Designa-ted at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2009								
Belgium	4 169	8 627	14 272	74 787	986	70	-	102 909
Central and Eastern Europe and Russia	7 358	831	9 532	35 517	6 617	141	-	59 997
Rest of the world	29 263	13 434	9 074	49 841	1 003	2	-	102 617
Total carrying value, including accrued interest income	40 791	22 892	32 878	160 144	8 605	213	-	265 523
FINANCIAL ASSETS, 31-12-2010								
Belgium	3 505	7 141	16 761	75 535	706	103	-	103 751
Central and Eastern Europe and Russia	8 439	596	9 224	35 990	8 680	180	-	63 109
Rest of the world	18 954	10 823	8 704	45 584	1 109	0	-	85 175
Total carrying value, including accrued interest income	30 898	18 560	34 690	157 109	10 495	284	-	252 035
FINANCIAL LIABILITIES, 31-12-2009								
Belgium	4 287	1 511	-	-	-	760	87 630	94 189
Central and Eastern Europe and Russia	950	4 979	-	-	-	133	42 780	48 842
Rest of the world	24 376	17 338	-	-	-	130	79 718	121 561
Total carrying value, including accrued interest expense	29 613	23 828	-	-	-	1 022	210 128	264 592
FINANCIAL LIABILITIES, 31-12-2010								
Belgium	3 175	1 208	-	-	-	929	89 948	95 260
Central and Eastern Europe and Russia	1 143	5 299	-	-	-	124	44 456	51 022
Rest of the world	19 755	21 478	-	-	-	72	70 990	112 295
Total carrying value, including accrued interest expense	24 074	27 985	-	-	-	1 124	205 394	258 577

Note 16: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

In millions of EUR	Held for trading	Designa-ted at fair value[1]	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2009								
Not more than one year	9 502	9 190	7 271	52 563	1 368	-	-	79 895
More than one year	6 383	13 684	24 793	103 549	7 237			155 646
Without maturity*	24 906	18	814	4 032	0	213	-	29 983
Total carrying value, incl.accrued interest	40 791	22 892	32 878	160 144	8 605	213	-	265 523
FINANCIAL ASSETS, 31-12-2010								
Not more than one year	6 333	9 437	6 323	47 089	1 331	-	-	70 514
More than one year	2 213	9 106	9 243	106 053	9 164			135 778
Without maturity*	22 351	16	19 124	3 967	0	284	-	45 743
Total carrying value, incl.accrued interest	30 898	18 560	34 690	157 109	10 495	284	-	252 035
FINANCIAL LIABILITIES, 31-12-2009								
Not more than one year	1 868	19 939	-	-	-	-	134 710	156 517
More than one year	1 141	3 888					36 235	41 265
Without maturity*	26 604	1	-	-	-	1 022	39 183	66 810
Total carrying value, incl.accrued interest	29 613	23 828	-	-	-	1 022	210 128	264 592
FINANCIAL LIABILITIES, 31-12-2010								
Not more than one year	1 317	23 830	-	-	-	-	129 816	154 964
More than one year	480	4 153					34 812	39 445
Without maturity*	22 277	2	-	-	-	1 124	40 766	64 168
Total carrying value, incl.accrued interest	24 074	27 985	-	-	-	1 124	205 394	258 577

*Maturity date has not been specified or there is no point in classifying the financial asset or liability in terms of when it matures. Financial assets that do not have a specified maturity date concern primarily hedging derivatives ('Hedging derivatives' column), derivatives and shares held for trading ('Held-for-trading' column), shares available for sale ('Available-for-sale' column) and current account advances and irrecoverable or doubtful receivables ('Loans and receivables' column). Financial liabilities that do not have a specified maturity date relate mainly to savings deposits ('Measured at amortised cost' column), hedging derivatives ('Hedging derivatives' column) and derivatives held for trading ('Held-for-trading' column).

- The difference between short-term financial assets and short-term financial liabilities reflects, among other things, the fundamental operation of a bank, i.e. converting short-term deposits into long-term loans. Consequently, the volume of deposits at not more than one year (recognised under financial liabilities) is greater than loans at not more than one year (recorded under financial assets), a ratio that indicates liquidity risk. Group-wide liquidity risks are aggregated and monitored centrally on a daily basis, and reported regularly to the Group Risk and Capital Oversight Committee, the Executive Committee and the Audit, Risk and Compliance Committee. More information on liquidity risk and how it is monitored is provided in the 'Value and risk management' section.

Note 17: Financial assets, breakdown by portfolio and quality

Impaired financial assets

in millions of EUR	Held for trading	Designa-ted at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2009							
Unimpaired assets	40 791	22 892	32 519	155 619	8 605	213	260 638
Impaired assets	-	-	692	8 359	6	-	9 057
Impairment	-	-	- 334	- 3 833	- 6	-	- 4 172
Total carrying value incl.accrued interest	40 791	22 892	32 878	160 144	8 605	213	265 523
FINANCIAL ASSETS, 31-12-2010							
Unimpaired assets	30 898	18 560	34 474	151 499	10 495	284	246 210
Impaired assets	-	-	488	10 520	0	-	11 008
Impairment	-	-	- 273	- 4 910	0	-	- 5 183
Total carrying value incl.accrued interest	30 898	18 560	34 690	157 109	10 495	284	252 035

- The concept of ‘impairment’ is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis, using a formula based on the internal rating based (IRB) advanced models (or an alternative method if an IRB advanced model is not yet available).
- KBC has developed various rating models to determine the PD class. A number of uniform models are used throughout the group (models for governments, banks, large companies, project finance, etc.), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). A defaulted debtor is assigned an internal rating ranging from PD 10 to PD 12. PD 12 is assigned when either one of the debtor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD 11 groups debtors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD 10 is assigned to debtors for which there is reason to believe that they are unlikely to pay (on time), yet are still performing and do not meet the criteria for classification as PD 11 or PD 12.

Impairment details

in millions of EUR	Available for sale		Held to maturity	Loans and receivables		Provision, off-balance-sheet credit commit-ments*
	Fixed-income securities	Shares	Fixed-income securities	Specific impairment	Portfolio-based impairment	
IMPAIRMENTS 31-12-2009						
Opening balance	235	400	19	2 216	241	110
Movements with an impact on results						
Impairment recognised	1	82	2	2 443	161	113
Impairment reversed	0	0	0	- 635	- 82	- 99
Movements without an impact on results						
Write-offs	0	0	- 15	- 460	0	0
Change in the scope of consolidation	0	0	0	- 6	0	0
Transfer to or from non-current assets held for sale and disposal groups						
Other	- 165	- 219	- 1	- 23	- 22	- 15
Closing balance	71	263	6	3 535	298	109
IMPAIRMENTS 31-12-2010						
Opening balance	71	263	6	3 535	298	109
Movements with an impact on results						
Impairment recognised	0	12	0	2 898	210	117
Impairment reversed	- 1	0	0	- 1 446	- 193	- 101
Movements without an impact on results						
Write-offs	- 50	- 11	0	- 391	0	0
Change in the scope of consolidation	0	6	- 5	- 16	0	0
Transfer to or from non-current assets held for sale and disposal groups						
Other	- 12	- 5	0	4	11	- 10
Closing balance	8	265	0	4 585	325	115

* These impairment losses are recognised on the liabilities side of the balance sheet, whereas changes in them are recorded under 'Impairment on loans and receivables' in the income statement.

- For information regarding the impact of changes in impairment on the income statement, see Note 11.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Value and risk management' section.

Past due, but not impaired assets

in millions of EUR	less then 30 days past due	30 days or more, but less then 90 days past due
FINANCIAL ASSETS, 31-12-2009		
Loans & advances	3 696	1 234
Debt instruments	8	4
Derivatives	0	0
Total	3 704	1 238
31-12-2010		
Loans & advances	3 677	1 316
Debt instruments	0	1
Derivatives	0	0
Total	3 677	1 317

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
- Financial assets that are 90 days or more past due are always considered 'impaired'.

Guarantees received

- See Note 35.

Renegotiated loans avoiding impairment

- See 'Credit risk' in the 'Value and risk management' section.

Overview of KBC's exposure to structured credit and government bonds

- See 'Credit risk' in the 'Value and risk management' section.

Note 18: Maximum credit exposure

in millions of EUR	31-12-2009	31-12-2010
Maximum credit exposure		
Equity	3 778	2 346
Debt instruments	67 749	64 405
Loans & advances	170 692	166 874
Of which designated at fair value through profit or loss	10 330	8 761
Derivatives	21 579	16 515
Other (including accrued interest)	35 586	36 669
Total	299 386	286 808
Carrying value of financial assets pledged as collateral for		
Liabilities	39 734	29 972
Contingent liabilities	5 425	4 151

- The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees already granted and other irrevocable commitments. These amounts are included in the table under ‘Other’.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, comprehensive information on the composition and quality of the loan portfolio is provided under ‘Credit risk’ in the ‘Value and risk management' section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 19: Fair value of financial assets and liabilities – general

- In line with the IFRS definition, KBC defines fair value as 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced trades are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity- or client-driven.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs. When calculating market value adjustments for the counterparty risk relating to derivatives (excluding MBIA), the group also takes account of its own credit risk for derivatives with a negative fair value.
- In accordance with IFRS requirements, account was taken of the effect of changes in own funding spreads when measuring the fair value of financial liabilities designated at fair value. For the presentation in the balance sheet of the fair value of financial instruments not designated at fair value (see table), no account was taken of changes in credit spreads or prepayment risks.
- The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.
- Financial assets and liabilities that are measured at fair value are those classified as 'available-for-sale', 'held for trading', 'designated at fair value' and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not designated in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial instruments which are not recognised at fair value in the balance sheet, in millions of eur	Loans and advances		Financial assets held to maturity		Financial liabilities at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2009						
Loans and advances to credit institutions and investment firms	13 850	13 907	-	-	-	-
Loans and advances to customers	142 618	144 733	-	-	-	-
Debt instruments	3 208	3 325	8 400	8 667	-	-
Accrued interest	468	468	205	205	-	-
Total, incl.accrued interest	160 144	162 434	8 605	8 872	-	-
FINANCIAL ASSETS, 31-12-2010						
Loans and advances to credit institutions and investment firms	13 044	13 214	-	-	-	-
Loans and advances to customers	140 200	141 322	-	-	-	-
Debt instruments	3 405	3 464	10 246	10 437	-	-
Accrued interest	459	459	250	250	-	-
Total, incl.accrued interest	157 109	158 460	10 495	10 686	-	-
FINANCIAL LIABILITIES, 31-12-2009						
Deposits from credit institutions and investment firms	-	-	-	-	36 997	38 282
Deposits from customers and debt certificates	-	-	-	-	170 709	173 130
Other	-	-	-	-	1 536	1 536
Accrued interest	-	-	-	-	887	887
Total, incl.accrued interest	-	-	-	-	210 128	213 835
FINANCIAL LIABILITIES, 31-12-2010						
Deposits from credit institutions and investment firms	-	-	-	-	21 643	22 065
Deposits from customers and debt certificates	-	-	-	-	180 368	181 951
Other	-	-	-	-	2 594	2 594
Accrued interest	-	-	-	-	789	789
Total, incl.accrued interest	-	-	-	-	205 394	207 399

Note 20: Fair value of financial assets and liabilities – fair value hierarchy

In millions of EUR				31-12-2009				31-12-2010
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading								
Loans and advances to credit institutions	0	566	0	566	0	686	10	696
Loans and advances to customers	0	3 328	0	3 328	0	4 173	0	4 173
Equity instruments	1 103	1 765	72	2 940	537	187	993	1 717
Debt instruments	10 238	1 959	146	12 343	5 669	1 424	614	7 708
Derivatives	124	17 139	4 151	21 414	63	13 783	2 458	16 304
Accrued interest				200				300
Designated at fair value								
Loans and advances to credit institutions	0	3 975	0	3 975	0	1 808	0	1 808
Loans and advances to customers	0	6 355	0	6 355	0	6 927	26	6 953
Equity instruments	2	15	0	18	0	15	1	16
Debt instruments	11 279	880	141	12 301	9 079	237	274	9 591
Accrued interest				244				192
Available for sale								
Equity instruments	457	9	356	821	369	35	210	613
Debt instruments	29 234	2 102	162	31 498	31 703	1 420	332	33 455
Accrued interest				559				621
Hedging derivatives								
Derivatives	0	165	0	165	0	211	0	211
Accrued interest				48				73
Total, incl.accrued interest	52 437	38 258	5 029	96 774	47 419	30 907	4 919	84 431
Financial liabilities measured at fair value								
Held for trading								
Deposits from credit institutions	0	211	0	211	0	0	21	21
Deposits from customers and debt certificates	0	729	105	834	0	624	24	648
Derivatives	90	20 498	5 512	26 100	44	15 850	6 369	22 263
Short positions	1 826	226	20	2 072	1 076	44	0	1 119
Other	0	250	0	250	0	0	0	0
Accrued interest				146				23
Designated at fair value								
Deposits from credit institutions	0	6 778	0	6 778	0	6 920	0	6 920
Deposits from customers and debt certificates	0	13 547	3 414	16 961	0	17 185	3 806	20 991
Other	0	0	0	0	0	0	0	0
Accrued interest				89				74
Hedging derivatives								
Derivatives	0	831	0	831	0	849	0	849
Accrued interest				191				276
Total, incl.accrued interest	1 916	43 070	9 051	54 463	1 120	41 471	10 220	53 183

- The IAS 39 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.

  1. The fair value hierarchy gives the highest priority to 'level 1 inputs'.

  This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.

  2. If there are no price quotations available, an entity establishes fair value by using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.

  Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.

  Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.

- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.

- Transfers between the various levels are dealt with below.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spot, exchange traded financial futures, exchange traded options, exchange traded stocks, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets)
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS) FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS	Option pricing model based on observable inputs (e.g., volatilities)
		Credit default swaps (CDS)	CDS model based on credit spreads
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Asset backed securities	Medium liquid asset backed securities	Third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, Bermudan swaptions, digital interest rate options, quanto digital FX options, FX Asian options, FX simple/double European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (CDOs: notes and super senior tranches, including the related guarantee from the Belgian State)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on EVCA (European Private Equity & Venture Capital Association)
	Illiquid bonds/asset backed securities	Illiquid bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis based on unobservable inputs (funding spread)

Note 21: Fair value of financial assets and liabilities – transfers between levels 1 and 2

In 2010, there were a number of significant transfers between levels 1 and 2 of the IAS 39 fair value hierarchy. These transfers were brought about by a group-wide refinement of the classification method and by the fact that the financial markets became more active. The reported reclassifications relate entirely to debt instruments. In particular, certain bond portfolios were traded more actively in 2010 than in the previous year, leading to transfers from level 2 to level 1. In addition, refining the classification method resulted in certain portfolios of debt instruments (e.g., ABS) – that were mostly allocated to a single level in 2009 – being spread across the various levels of the hierarchy. Consequently, positions with a combined value of around 1.1 billion euros were transferred out of level 2 and into level 1 at year-end 2010. Moreover, positions totalling some 0.05 billion euros were reclassified from level 1 to level 2.

Note 22: Fair value of financial assets and liabilities – focus on level 3

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **31-12-2009**, in millions of EUR

LEVEL 3 FINANCIAL ASSETS

	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instru-ments	Debt instru-ments	Deriva-tives	Loans and advances	Equity instru-ments	Debt instru-ments	Equity instru-ments	Debt instru-ments	Derivatives
Opening balance	0	121	74	6 631	0	0	91	386	147	0
Total gains/losses	0	- 29	- 91	- 2 808	0	0	70	- 5	11	0
in profit and loss[1]	0	- 29	- 91	- 2 808	0	0	70	0	17	0
in other comprehensive income	0	0	0	0	0	0	0	- 5	- 6	0
Acquisitions	0	19	164	744	0	0	41	44	4	0
Sales	0	- 34	- 1	- 66	0	0	- 60	- 66	0	0
Settlements	0	0	0	- 349	0	0	0	- 2	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	- 5	0	0	0	0	0	0	0	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0
Closing balance	0	72	146	4 151	0	0	141	356	162	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	0	73	- 2 107	0	0	101	- 3	0	0

LEVEL 3 FINANCIAL LIABILITIES

	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit institu-tions	Deposits from custo-mers and debt certifi-cates	Deriva-tives	Short positions	Other	Deposits from credit institu-tions	Deposits from custo-mers and debt certifi-cates	Other	Derivatives
Opening balance	0	291	6 336	106	0	0	4 859	0	0
Total gains/losses	0	25	1 161	- 83	0	0	- 85	0	0
in profit and loss	0	25	1 161	- 83	0	0	- 85	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	35	- 1 833	10	0	0	0	0	0
Repurchases/disposals	0	- 246	- 151	- 13	0	0	- 1 360	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Closing balance	0	105	5 512	20	0	0	3 414	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	25	1 225	- 73	0	0	- 8	0	0

[1] Recognised mainly in 'Net result from financial instruments at fair value through profit or loss', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **31-12-2010**, in millions of EUR

LEVEL 3 FINANCIAL ASSETS

	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instru-ments	Debt instru-ments	Deriva-tives	Loans and advances	Equity instru-ments	Debt instru-ments	Equity instru-ments	Debt instru-ments	Derivatives
Opening balance	0	72	146	4 151	0	0	141	356	162	0
Total gains/losses	8	20	-22	-671	-2	0	87	-6	1	0
in profit and loss[1]	8	20	-22	-671	-2	0	87	-9	9	0
in other comprehensive income	0	0	0	0	0	0	0	3	-8	0
Acquisitions	0	21	140	8	0	1	6	103	0	0
Sales	0	-14	-135	-6	0	0	-60	-15	0	0
Settlements	0	0		-1 838	0	0	2	0	-1	0
Transfers into level 3	2	902	479	505	28	0	43	1	170	0
Transfers out of level 3	0	0		-29	0	0	0	-228	0	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0
Translation differences	0	-8	8	337	0	0	2	0	0	0
Changes in scope	0	0	0	0	0	0	53	0	0	0
Closing balance	10	993	614	2 458	26	1	274	210	332	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	8	20	117	-848	0	0	70	0	0	0

LEVEL 3 FINANCIAL LIABILITIES

	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit institu-tions	Deposits from custo-mers and debt certifi-cates	Deriva-tives	Short positions	Other	Deposits from credit institu-tions	Deposits from custo-mers and debt certifi-cates	Other	Derivatives
Opening balance	0	105	5 512	20	0	0	3 414	0	0
Total gains/losses	0	-89	-1 425	0	0	0	-149	0	0
in profit and loss	0	-89	-1 425	0	0	0	-149	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	33	0	0	0	630	0	0
Repurchases/disposals	0	-1	-533	-22	0	0	-105	0	0
Transfers into level 3	28	0	2 496	0	0	0	0	0	0
Transfers out of level 3	0	0	-45	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Translation differences	-7	9	331	2	0	0	17	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Closing balance	21	24	6 369	0	0	0	3 806	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	-89	-1 134	0	0	0	-2	0	0

[1] Recognised mainly in 'Net result from financial instruments at fair value through profit or loss', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'

- The procedure for classifying financial instruments in the fair value hierarchy was fine tuned in 2010, based on the activity of the market (availability and frequency of price quotations and transactions, availability of bid and offer sizes, and stale prices) and the observability of the underlying inputs. This exercise, combined with a change in the observability of inputs in 2010, resulted in the following reclassification. Illiquid asset back securities (ABS), bonds and credit default swaps (CDS) – whose respective markets are inactive – were transferred out of level 2 and into level 3. Highly liquid asset back securities and bonds for which quoted prices are available on a daily basis were transferred out of level 2 and into level 1. Asset backed securities, bonds and credit default swaps that are based, for example, on indicative prices whose reliability has been corroborated using observable alternative market data (e.g., alternative prices, spread analyses) were kept in level 2. All transfers out of level 2 and into levels 1 and 3 were caused chiefly by the fine-tuning of the classification procedure.
- Since 2009, KBC has been using a Gaussian Copula Mixture model to value its CDOs. This model models the distribution of default moments and probabilities of the underlying corporate and ABS names. The asset default trigger in the model is derived from the credit default spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and is, therefore, simulated. By discounting the cashflows resulting from the default curves, the value for a specific CDO tranche is determined. The model also ensures that the inner tranches are valued in line with the market, through the calibration with CDX and iTraxx credit spread indices.
- The CDO notes are valued at the lower of: (1) the value of the CDO notes based on the Gaussian Copula Mixture model (after market value adjustments for illiquidity) and (2) the expected fundamental value (after market value adjustments for illiquidity) of the CDO notes at year-end. This valuation method was used to reflect a reserve for model risk relating to unobservable inputs.
- Results of profit/loss sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads of the underlying assets are shifted are given in the table below. Correlation changes have not been included. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope includes all exposure in the unhedged and hedged CDO portfolio, excluding CDOs in run-off (not structured by KBC Financial Products), super senior tranches of CDOs hedged by Channel, Aldersgate (matured), Avebury and Wadsworth (valuation based on Residential Mortgage Loss model rather than on Gaussian Copula Mixture model).

Profit/loss sensitivity test based on corporate and ABS credit spread indices, 31-12-2010 (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010	0.6	0.2	0.1	-0.1	-0.2	-0.4

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined impact of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope includes the entire CDO portfolio (hedged and unhedged), excluding CDOs in run-off (not structured by KBC Financial Products), Aldersgate (matured), Chiswell and Lancaster (valuation based on Single Tranche model rather than on the Gaussian Copula Mixture model). A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.3 billion euros, whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.5 billion euros.
- The next table depicts the results of the profit/loss sensitivity tests performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 70%.

Profit/loss sensitivity analysis based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA, 31-12-2010 (in billions of EUR)*	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
MBIA 60%	0.9	0.4	0.3	0.1	0.0	-0.3
MBIA 70%	0.4	0.2	0.1	-0.1	-0.1	-0.3
MBIA 80%	0.3	0.0	-0.1	-0.3	-0.3	-0.5
MBIA 90%	0.2	-0.1	-0.2	-0.4	-0.5	-0.7
MBIA 100%	0.1	-0.3	-0.4	-0.6	-0.7	-1.0

* Note that the results reflect only the impact on the MBIA value adjustment. The impact of changes in credit spreads on KBC Financial Products' own CDO positions is not included.

- Since the liquidity discount factor is an important input for calculating the current reserve for fund derivatives, a profit/loss sensitivity analysis was carried out for this purpose (on positions at 15 February 2011). The current liquidity discount factor is 20%. If this factor was to fall to 15%, 0.02 billion euros would have to be released from the current reserve (with a positive impact on results). If it were to increase to 25%, an additional reserve of 0.01 billion euros would have to be set aside (adversely affecting results).
- For more information on the structured credit portfolio (CDOs and other ABS), see the 'Value and risk management' section.
- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in KBC's subordinated credit default swap spread and in the fair value of the hedged super senior exposure since the guarantee agreement entered into effect. If the fair value of the super senior positions was to improve by 10% on its year-end 2009 and year-end 2010 levels, this would lead to lead to an additional charge of 9 million euros and 4 million euros, respectively, while the same improvement in KBC's subordinated credit spread would lead to an additional charge of 7 million euros in both cases.
- Changes in own credit risk are also largely determined using a level 3 technique (see Note 23).

Note 23: Changes in own credit risk

In millions of EUR (+: gain, -: loss, amounts before tax)	
OWN EMISSIONS VALUED AT FAIR VALUE, **31-12-2009**	
Impact of change in own creditspread on the income statement	44
Total cumulated impact on date of balance sheet	204
OWN EMISSIONS VALUED AT FAIR VALUE, **31-12-2010**	
Impact of change in own creditspread on the income statement	53
Total cumulated impact on date of balance sheet	258

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. Most of the financial liabilities designated at fair value through profit or loss relates to IFIMA issues. The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 3.8 billion euros on 31 December 2010. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues at year-end 2010 is given in the table below.

Profit/loss sensitivity based on a relative shift in the funding spread
31-12-2010 (in billions of EUR)

Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
-0.2	-0.07	-0.04	+0.04	+0.07	+0.2

- If no account is taken of the effect of changes in own credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros.

Note 24: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008 (in millions of EUR) - situation at 31-12-2010

Carrying value			2 746
Fair value			2 776
	If not reclassifed (available for sale)	After reclassifica- tion (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 479	- 519	- 40
Impact on income statement, before taxes	- 18	- 62	- 44

- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. These amendments were endorsed by the European Union on 15 October 2008. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008.

- The reclassification had a negative impact of 40 million euros on equity (and a positive impact on retained earnings regarding the income statement for 2009) and a negative impact of 44 million euros on the income statement (besides specific impairment, 8 million euros was also set aside for portfolio-based impairment on loans and receivables). On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.

Note 25: Derivatives

	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
in millions of EUR	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2009																
Total	21 414	26 100	899 090	890 684	43	144	3 849	3 817	119	434	18 773	18 757	3	253	7 996	7 996
Breakdown by type																
Interest rate contracts	11 165	13 248	558 163	558 698	43	144	3 849	3 817	72	425	18 287	18 287	3	253	7 996	7 996
Interest rate swaps	10 352	12 769	493 616	494 590	43	144	3 849	3 817	72	425	18 287	18 287	3	253	7 996	7 996
Forward rate agreements	15	14	9 563	9 715	0	0	0	0	0	0	0	0	0	0	0	0
Futures	13	4	10 740	7 322	0	0	0	0	0	0	0	0	0	0	0	0
Options	786	459	44 238	47 056	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	2	5	15	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 530	1 522	179 083	181 707	0	0	0	0	47	8	486	470	0	0	0	0
Forward foreign exchange operations/Currency forwards	227	200	79 084	80 809	0	0	0	0	0	2	30	32	0	0	0	0
Currency and interest rate swaps	1 056	1 175	83 389	84 421	0	0	0	0	47	3	266	224	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	247	147	16 610	16 477	0	0	0	0	1	4	190	214	0	0	0	0
Equity contracts	3 034	3 682	33 409	42 036	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 383	958	24 206	24 228	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	14	1	26	7	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	5	76	213	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 631	2 691	9 094	15 016	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	5	28	7	2 573	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	5 635	7 620	128 233	108 040	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	5 635	7 620	128 233	108 040	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	51	28	202	202	0	0	0	0	0	0	0	0	0	0	0	0

* including hedges of a net investment in a foreign operation

	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
in millions of EUR	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2010																
Total	16 304	22 263	707 833	714 928	30	101	4 466	4 466	176	529	19 788	19 757	5	218	5 457	5 457
Breakdown by type																
Interest rate contracts	8 865	10 585	435 830	445 364	30	101	4 466	4 466	130	523	19 369	19 369	5	218	5 457	5 457
Interest rate swaps	7 811	10 013	378 541	376 097	30	101	4 466	4 466	130	523	19 369	19 369	5	218	5 457	5 457
Forward rate agreements	4	3	6 207	13 266	0	0	0	0	0	0	0	0	0	0	0	0
Futures	12	0	6 558	8 000	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 038	510	44 513	47 739	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	59	10	262	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 586	1 833	199 896	200 432	0	0	0	0	46	6	418	387	0	0	0	0
Forward foreign exchange operations/Currency forwards	192	268	100 757	100 189	0	0	0	0	0	1	34	34	0	0	0	0
Currency and interest rate swaps	1 163	1 333	75 597	76 651	0	0	0	0	46	5	304	262	0	0	0	0
Futures	0	0	17	17	0	0	0	0	0	0	0	0	0	0	0	0
Options	231	233	23 525	23 576	0	0	0	0	0	1	81	91	0	0	0	0
Equity contracts	2 160	2 775	29 696	36 195	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 114	963	22 476	22 477	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	9	1	13	4	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 030	1 782	7 200	9 610	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	6	28	6	4 104	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	3 645	7 035	41 834	32 360	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	3 578	7 035	41 028	31 554	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	67	0	806	806	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	48	35	577	577	0	0	0	0	0	0	0	0	0	0	0	0

* including hedges of a net investment in a foreign operation

- The carrying values given in the tables are dirty prices for derivatives held for trading and clean prices for hedging derivatives. The accrued interest income on hedging derivatives amounted to 48 million euros in 2009 and 73 million euros in 2010, while the accrued interest expense came to 191 million euros in 2009 and 276 million euros in 2010.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
    - Portfolio hedges of interest rate risk: used to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
    - Financial assets and liabilities designated at fair value through profit or loss (the fair value option): used to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid the remaining accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs and certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some KBC IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
    - Fair value hedges: used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
    - Cashflow hedges: used primarily to swap floating-rate notes for a fixed rate.
    - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option' and the 'portfolio hedge of interest rate risk' according to the carved-out version.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- For information on fair value adjustments in hedge accounting, see Note 5.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down is given in the table.

Estimated cashflows from the cashflow hedging derivatives (in millions of EUR)	Inflow	Outflow
Not more than three months	24	-30
More than three but not more than six months	53	-72
More than six months but not more than one year	108	-183
More than one but not more than two years	255	-436
More than two but not more than five years	765	-1 015
At more than five years	2 388	-2 612

Notes on other balance sheet items

Note 26: Other assets

in millions of EUR	31-12-2009	31-12-2010
Total	1 782	1 807
Breakdown by type	1 782	1 807
Income receivable (other than interest income from financial assets)	505	824
Other	1 277	983

Note 27: Tax assets and tax liabilities

in millions of EUR	31-12-2009	31-12-2010
CURRENT TAXES		
Current tax assets	190	70
Current tax liabilities	322	281
DEFERRED TAXES	**1 502**	**2 148**
Tax assets by type of temporary difference	3 113	3 339
Employee benefits	195	189
Losses carried forward	650	879
Tangible and intangible fixed assets	69	70
Provisions for risks and charges	51	62
Impairment for losses on loans and advances	328	445
Financial instruments at fair value through profit or loss and fair value hedges	954	751
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	792	869
Other	74	74
Unused tax losses and unused tax credits	1 245	980
Deferred tax liabilities by type of temporary difference	1 611	1 191
Employee benefits	16	14
Losses carried forward	0	0
Tangible and intangible fixed assets	104	108
Provisions for risks and charges	21	35
Impairment for losses on loans and advances	120	110
Financial instruments at fair value through profit or loss and fair value hedges	682	506
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	505	271
Other	162	147
Recognised in the balance sheet as follows:		
Deferred tax assets	1 597	2 235
Deferred tax liabilities	95	87

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- In 2010, the Belgian tax authorities decided that a waiver of intercompany debt, related to losses on a CDO portfolio incurred in the past year, was tax deductible, provided certain conditions were met. In practice, this meant that KBC was able to recognise deferred tax income of 0.4 billion euros in the second quarter of 2010.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (+646 million euros) breaks down as follows:
  - increase in deferred tax assets: +226 million euros;
  - decrease in deferred tax liabilities: -420 million euros.
- The increase in deferred tax assets is accounted for by:
  - the increase via the income statement: +450 million euros (owing primarily to losses carried forward – account taken of the company model for the recoverable period – (+233 million euros); impairment relating to losses on loans and advances (+117 million euros); financial instruments at fair value through profit or loss and fair value hedges +88 million euros));
  - the increase in deferred tax assets consequent on the fall in the market value of cashflow hedges: +59 million euros;
  - other items: -283 million euros (accounted for chiefly by a reclassification between deferred tax assets and deferred tax liabilities).
- The decrease in deferred tax liabilities is made up of the following:

- the decrease in deferred tax liabilities consequent on the fall in the market value of available-for-sale securities: -152 million euros;
- the increase via the income statement: +84 million euros (accounted for mainly by financial instruments at fair value through profit or loss and fair value hedges);
- other items: -352 million euros (accounted for chiefly by a reclassification between deferred tax assets and deferred tax liabilities).

Note 28: Investments in associated companies

in millions of EUR	31-12-2009	31-12-2010
Total	**638**	**542**
Overview of investments including goodwill		
NLB	582	488
Other	56	54
Goodwilll on associated companies		
Gross amount	210	210
Accumulated impairment	0	- 31
Breakdown by type		
Unlisted	638	542
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2009**	**2010**
Opening balance (1 January)	44	638
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	- 11	- 54
Dividends paid	- 3	- 14
Share of gains and losses not recognized in the income statement	9	4
Translation differences	0	1
Changes in goodwill	0	- 31
Transfer to or from non-current assets held for sale and disposal groups	601	0
Other movements	- 2	- 3
Closing balance (31 December)	638	542

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies.
- Associated companies relate primarily to Nova Ljubljanska banka (group), which has the following key figures (taken from the latest available annual report – 2009): total assets of 19.6 billion euros, total liabilities of 18.4 billion euros, total income of 0.6 billion euros and a result after tax (group share) of -0.1 billion euros.
- Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). In 2010, impairment on goodwill related to Nova Ljubljanska banka (also see Note 11).

Note 29: Property and equipment and investment property

in millions of EUR	31-12-2009	31-12-2010
Property and equipment	**2 382**	**2 358**
Investment property	**461**	**457**
Rental income	37	36
Direct operating expenses from investments generating rental income	1	1
Direct operating expenses from investments not generating rental income	2	5

MOVEMENTS TABLE	**Land and buildings**	**IT equipment**	**Other equipment**	**Total property and equipment**	**Investment property**
2009					
Opening balance	1 412	81	989	2 482	467
Acquisitions	69	34	358	461	1
Disposals	-23	-5	-175	-202	-6
Depreciation	-73	-40	-51	-164	-14
Impairment					
recognised	-1	-2	0	-3	-6
reversed	0	0	0	0	2
Transfer to or from non-current assets held for sale and disposal groups	0	-16	-15	-31	0
Translation differences	8	0	1	9	1
Changes in the scope of consolidation	-1	0	-6	-7	3
Other movements	-1	4	-167	-163	12
Closing balance	1 391	56	935	2 382	461
of which accumulated depreciation and impairment	903	211	213	1 326	75
of which expenditure on items in the course of construction	5	0	7	12	
of which finance lease as a lessee	0	0	1	1	
Fair value 31-12-2009					507
2010					
Opening balance	1 391	56	935	2 382	461
Acquisitions	75	25	323	423	17
Disposals	-17	-1	-141	-159	-10
Depreciation	-73	-33	-44	-150	-13
Impairment					
recognised	-3	0	-1	-4	-1
reversed	2	0	0	2	0
Transfer to or from non-current assets held for sale and disposal groups	-5	0	0	-5	-1
Translation differences	21	1	7	30	4
Changes in scope of consolidation	-2	0	-3	-5	0
Other movements	-3	-2	-149	-155	1
Closing balance	1 386	45	927	2 358	457
of which accumulated depreciation and impairment	949	228	693	1 870	90
of which expenditure on items in the course of construction	2	0	5	8	
of which finance lease as a lessee	0	0	1	1	
Fair value 31-12-2010					522

- KBC applies the following annual rates of depreciation to property, equipment and investment property: mainly 3% for buildings (including investment property), 33% for IT equipment, between 10% and 33% for other equipment. No depreciation is charged for land.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- Most investment property is valued annually by in-house specialists based on:
  - the current annual rental per building;
  - an individual capitalisation rate per building.

Note 30: Goodwill and other intangible assets

in millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2009					
Opening balance	2 127	9	79	33	2 248
Acquisitions	24	2	43	10	79
Disposals	0	0	- 1	- 18	- 18
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 1	- 37	- 12	- 50
Impairment					
recognised	- 402	0	0	0	- 402
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	- 1	- 1	- 1
Translation differences	- 11	0	0	1	- 11
Changes in the scope of consolidation	- 72	- 6	- 1	0	- 79
Other movements	- 2	0	- 8	18	9
Closing balance	1 664	3	75	31	1 774
of which accumulated amortisation and impairment	421	1	360	36	817
2010					
Opening balance	1 664	3	75	31	1 774
Acquisitions	4	2	22	13	41
Disposals	0	0	- 1	- 7	- 8
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 1	- 34	- 9	- 45
Impairment					
recognised	- 85	0	0	0	- 85
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	27	0	1	1	29
Changes in the scope of consolidation	- 19	0	0	0	- 19
Other movements	19	1	- 5	8	23
Closing balance	1 611	5	59	36	1 711
of which accumulated amortisation and impairment	506	1	336	42	885

- ‘Goodwill’ includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies is included in the nominal value of ‘Investments in associated companies’ shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). Given the volatility of the markets, the test was carried out in each quarter of 2009 and 2010 (instead of annually).
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
- The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows (i.e. projections for a number of years ahead (varying from 5 to 20), and the terminal value of the business at the end of the specific projection period). The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate, which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.
- The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the

comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).

- The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.
- The main group companies to which goodwill relates are listed in the table (the consolidated entity in each case, i.e. including subsidiaries).

Goodwill outstanding (in millions of EUR)	31-12-2009	31-12-2010
Absolut Bank	352	375
K&H Bank	255	248
ČSOB (Czech Republic)	287	301
ČSOB (Slovakia)	188	188
CIBank	171	170
Kredyt Bank	72	69
Rest	339	260
Total	1 664	1 611

Note 31: Provisions for risks and charges

in millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2009						
Opening balance	57	329	32	419	110	528
Movements with an impact on result						
Amounts allocated	13	179	6	199	113	312
Amounts used	- 24	- 84	- 8	- 116		- 116
Unused amounts reversed	- 17	- 24	- 7	- 47	- 99	- 147
Transfer to or from non-current liabilities regarding disposal groups						
Change in consolidation scope						
Other movements	0	7	2	9	- 15	- 6
Closing balance	29	408	26	463	109	572
2010						
Opening balance	29	408	26	463	109	572
Movements with an impact on result						
Amounts allocated	25	37	7	68	117	185
Amounts used	- 20	- 77	- 5	- 102		- 102
Unused amounts reversed	- 1	- 9	- 4	- 14	- 101	- 115
Transfer to or from non-current liabilities regarding disposal groups						0
Change in consolidation scope						0
Other movements	- 6	27	3	24	- 10	14
Closing balance	27	386	26	439	115	554

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Restructuring provisions were set aside mainly for (the consolidated entity in each case, i.e. including subsidiaries) KBC Financial Products (2009: 21 million euros; 2010: 16 million euros) and the Central and Eastern European subsidiaries of KBC Bank (combined total of 3 million euros in 2009 and 5 million euros in 2010).
- As regards provisions for taxes and pending legal disputes, the remaining amount of the provision for commercial disputes involving CDOs came to 0.1 billion euros at the end of 2010.
- ‘Other provisions’ included those set aside for miscellaneous risks and future expenditure.
- As regards the most significant legal disputes pending, claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. ‘probable outflow’, ‘possible outflow’ or ‘remotely probable outflow’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’). No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category.

The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.

- Probable outflow:
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer.
  - From the end of 1995 until the beginning of 1997, KBC Bank NV and KB Consult NV were involved in the transfer of cash companies. KBC Bank NV and/or KB Consult NV were joined to proceedings in a number of cases. In addition, KB Consult NV, together with KBC Bank NV and KBC Group NV, was summoned to appear in the proceedings before the Bruges court sitting in chambers, which will hold various hearings on the case during 2011. A provision of 48 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank NV and KB Consult NV immediately took the necessary measures to preclude any further involvement with these parties.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin NV (now KBC Real Estate NV, a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal Vastgoedmaatschappij contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. A provision of 26 million euros has been set aside to cover potential damages.
- Remotely probable outflow:
  - In the criminal proceedings that began on 3 April 2009 against eleven current and former directors and staff members of KBC Bank NV and KBL European Private Bankers SA (KBL) accused of co-operation in tax evasion committed by customers of KBC Bank NV and KBL, the Brussels criminal court ruled on 8 December 2009 that the criminal proceedings were inadmissible. The Court judged that, given the extraordinary and doubtful circumstances in which the documents submitted by the public prosecutor came into the hands of the judicial authorities, they could not be used as evidence in legal proceedings. Following a close investigation into the way in which the disputed documents were incorporated into the proceedings, the court ruled that the criminal investigation had not been carried out in a fair and impartial manner. On 10 December 2010, the Brussels Court of Appeal confirmed the initial ruling and stressed that the investigating judge had not acted impartially. The Public Prosecutor's Office has appealed this decision.
  - ČSOB (and KBC Bank NV in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of 62 million euros plus interest. The Czech government had filed a counterclaim, provisionally estimated at the equivalent of 1 billion euros plus interest. On 29 December 2010, an arbitral decision was issued in which ČSOB's claim was allowed and the Czech government's counterclaim dismissed in full.

Note 32: Other liabilities

in millions of EUR	31-12-2009	31-12-2010
Total	**3 015**	**3 081**
Breakdown by type		
Retirement benefit plans or other employee benefits	965	916
Accrued charges (other than from interest expenses on financial liabilities)	674	745
Other	1 376	1 420

- For more information on retirement benefit obligations, see Note 33.

Note 33: Retirement benefit obligations

in millions of EUR	31-12-2009	31-12-2010
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 612	1 662
Current service Cost	95	94
Interest cost	82	69
Plan amendments	- 18	- 6
Actuarial gain/(loss)	- 3	- 146
Benefits paid	- 95	- 118
Exchange differences	- 1	2
Curtailment	0	- 2
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	0	- 20
Other	- 9	- 8
Defined benefit obligation at end of the period	1 662	1 527
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 037	1 203
Actual return on plan assets	159	92
Employer contributions	75	72
Plan participant contributions	19	17
Benefits paid	- 93	- 110
Exchange differences	3	2
Settlements	0	0
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	0	- 22
Other	3	- 1
Fair value of plan assets at the end of the period	1 203	1 253
of which financial instruments issued by the group	13	11
Reconciliation of the fair value of reimbursement rights		
Fair value of reimbursement rights at the beginning of the period	54	54
Actual return on plan assets	3	3
Employer contributions	2	2
Plan participant contributions	0	0
Benefits paid	- 3	- 3
Exchange differences	0	0
Settlements	0	0
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	0	0
Fair value of reimbursement rights at the end of the period	56	56
Funded Status		
Plan assets in excess of defined benefit obligations	- 403	- 226
Unrecognised net actuarial gains	- 52	- 228
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	- 11	- 2
Unfunded accrued/prepaid pension cost	- 467	- 456
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 476	- 467
Net periodic pension cost	- 73	- 70
Employer contributions	77	72
Exchange differences	- 1	0
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	0	- 2
Other	6	10
Unfunded accrued/prepaid pension cost at the end of the period	- 467	- 456

Amounts recognised in the balance sheet		
Prepaid pension cost	4	25
Reimbursement rights	0	- 3
Accrued pension liabilities	- 471	- 479
Unfunded accrued/prepaid pension cost	- 467	- 456
Amounts recognised in the income statement		
Current service cost	95	94
Interest cost	82	69
Expected return on plan assets	- 62	- 66
Adjustments to limit prepaid pension cost	- 1	0
Amortisation of unrecognized prior service costs	- 18	- 2
Amortisation of unrecognized net (gains)/losses	- 6	- 6
Employee contributions	- 18	- 1
Curtailments	0	- 17
Settlements	0	- 2
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	73	70
Actual return on plan assets (in %)	**15,3%**	**7,8%**
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	5,2%	4,0%
Expected rate of return on plan assets	5,4%	5,3%
Expected rate of salary increase	3,5%	3,4%
Rate of pension increase	0,4%	0,4%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	0

(*) included under 'staff expenses' (see 'Note 12: operating expenses)

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank NV, KBC Insurance NV (since 2007) and most of their Belgian subsidiaries. The assets of these plans are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- The expected return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1.75%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the long-term returns from shares and real estate.

- Additional information is provided in the table.

Additional information retirement benefit obligations, in millions of euro

Evolution main items shown in the table	2006	2007	2008	2009	2010
Defined benefit obligations	1 484	1 528	1 612	1 662	1 527
Fair value of plan assets and reimbursement rights	1 298	1 307	1 090	1 259	1 309
Unfunded accrued or prepaid pension cost	-451	-475	-476	-467	- 456
Composition of the main defined benefit plans of the group		**shares**	**bonds**	**real estate**	**cash**
31-12-2009					
KBC Pension fund		40%	48%	9%	3%
31-12-2010					
KBC Pension fund		43%	45%	9%	3%
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities*	**2006**	**2007**	**2008**	**2009**	**2010**
Impact on plan assets	1	-1	0	0	0
Impact on gross liabilities	-40	-7	-86	-18	-84
Expected contributions in 2011					
KBC Pension fund					58

* From defined benefit plans. A plus sign indicates a positive impact, a minus sign a negative impact, this relates to all pension schemes combined.

Note 34: Parent shareholders' equity

in number of shares	31-12-2009	31-12-2010
Ordinary shares	915 228 482	915 228 482
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares		
Other information		
Par value per ordinary share (in euros)	9,78	9,78
Number of shares issued but not fully paid up	0	0

MOVEMENTS TABLE, in number of shares	Ordinary shares
2009	
Opening balance	582 917 643
Issue of shares/core-capital securities	332 310 839
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482
2010	
Opening balance	915 228 482
Issue of shares/core-capital securities	0
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2010, 915 228 482 ordinary shares were in circulation, of which 915 228 481 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV.
- For information on the authorisation to increase capital, see the 'Company annual accounts' section.
- Preferred trust securities (357 million at year-end 2009; 366 million at year-end 2010) are not included in 'Parent shareholders' equity', but in 'Minority interests'. These instruments meet the IAS 32 definition of equity instruments. However, as they are not owned by the shareholders, they are presented under 'Minority interests'.
- Non-voting core-capital securities: since the end of 2008, KBC Group NV (KBC Bank's parent company) has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was finalised in July 2009. KBC used the proceeds of these transactions to strengthen the core capital of its banking activities by a total of 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV). The other features of the transactions are dealt with under 'Capital transactions and guarantee agreements between KBC Group and the government in 2008 and 2009' in the 'Additional information' section.

Other notes

Note 35: Commitments and guarantees granted and received

in millions of EUR	**31-12-2009**	**31-12-2010**
Credit commitments - undrawn amount		
Given	33 813	33 740
Irrevocable	19 956	22 206
Revocable	13 858	11 534
Received	90	678
Financial guarantees		
Given	13 120	12 438
Guarantees received / collateral	151 775	150 318
For impaired and past due assets	7 886	7 781
Non-financial assets	3 750	4 408
Financial assets	4 136	3 373
For assets that are not impaired or past due assets	143.889	142 536
Non-financial assets	116 958	120 534
Financial assets	26 932	22 003
Other commitments		
Given	787	130
Irrevocable	787	130
Revocable	0	0
Received	160	0

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Group NV irrevocably and unconditionally guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2010 listed in Section 5 (c) of the Irish Companies (Amendment) Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:
  - KBC Financial Services (Ireland) Limited
  - Eperon Asset Management Limited.

  Since both companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table). Collateral obtained by taking possession is not material. Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).

Collateral held (which may be sold or repledged in the absence of default by the owner)	Fair value of collateral held		Fair value of collateral sold or repledged	
in millions of EUR	31-12-2009	31-12-2010	31-12-2009	31-12-2010
Financial assets	14 791	15 423	8 068	9 015
Equity instruments	47	37	0	0
Debt instruments	14 596	15 199	8 068	9 015
Loans & advances	140	184	0	0
Cash	8	4	0	0
Non-financial assets	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession during the period	31-12-2009	31-12-2010
Non-current assets held-for-sale	0	0
Property and equipment	27	4
Investment property	0	0
Equity and debt instruments	54	43
Cash	174	218
Other	81	15
Total	337	281

Note 36: Leasing

In millions of EUR	31-12-2009	31-12-2010
Finance lease receivables		
Gross investment in finance leases, receivable	6 682	5 790
At not more than one year	2 047	1 668
At more than one but not more than five years	3 286	2 814
At more than five years	1 349	1 308
Unearned future finance income on finance leases	1 054	836
Net investment in finance leases	5 601	4 915
At not more than one year	1 749	1 440
At more than one but not more than five years	2 858	2 461
At more than five years	994	1 014
Of which unguaranteed residual values accruing to the benefit of the lessor	18	12
Accumulated impairment for uncollectable lease payments receivable	187	192
Contingent rents recognised in income	15	105
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	744	859
Not more than one year	243	311
More than one but not more than five years	486	519
More than five years	14	28
Contingent rents recognised in income	0	2

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leasing: most finance leasing is carried out via separate companies operating mainly in Belgium and Central Europe. KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leasing is typically sold through KBC group’s branch network.
- Operational leasing involves primarily full service car leasing, which is sold through the network of KBC Bank NV and CBC Banque NV branches and through an internal sales team. Full service car leasing activities are being developed in Central Europe, too.

Note 37: Related-party transactions

Transactions with related parties, excluding key management personnel[1] (in millions of EUR)

	2009								2010							
	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other[2]	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other	Total
Assets	153	298	279	62	23 434	750	2 817	27 793	404	382	145	107	24 050	929	2 608	28 625
Loans and advances	0	48	153	36	103	0	1 638	1 978	240	55	97	73	71	0	1 938	2 474
Current accounts	0	1	0		4		434	439	240	2	1	0	0		511	753
Term loans		47	153	36	99		1 204	1 539	0	53	96	73	71		1 425	1 718
Finance leases							0	0							0	0
Consumer credit								0							0	0
Mortgage loans							0	0							2	2
Equity instruments	131	172	27	19	0	0	9	357	106	194	30	26	0	0	13	368
Trading securities	12	45	5				1	62	6						12	18
Investment securities	119	127	22	19			8	295	100	194	30	26			0	350
Other receivables	22	79	98	8	23 331	750	1 170	25 458	58	133	18	8	23 980	929	658	25 784
Liabilities	331	138	244	12	299	0	6 160	7 184	298	915	172	32	264	0	5 971	7 652
Deposits	55	133	204	12	226	0	4 341	4 973	24	886	132	32	176	0	3 862	5 112
Deposits	55	132	80	12	226		4 341	4 848	14	885	131	32	176		3 841	5 079
Other		1	124					125	10	1	1				21	33
Other financial liabilities	250	1	30	0	0	0	1 442	1 723	250	23	20	0	0	0	1 808	2 101
Debt certificates		1	30				1 442	1 473		1	20				1 807	1 828
Subordinated liabilities	250						0	250	250	22					0	273
Share based payments, granted								0								0
Share based payments, exercised								0								0
Other liabilities (including accrued expense)	25	4	9		72		377	488	24	6	21	0	88		301	439
Income statement	- 18	12	10	4	729	10	- 822	- 76	- 7	10	- 2	2	659	23	- 767	- 82
Net interest income	- 7	10	4	3	728	10	- 228	521	- 4	8	- 1	2	659	23	- 99	588
Earned premiums, insurance (before reinsurance)								0								0
Dividend income		3	7	1				11		2	4					6
Net fee and commission income	0	3	0	0			133	136	0	0	- 3	0			141	139
Other income		2	1	1	0		38	42		1	0	0			7	8
Other expenses	- 11	- 6	- 2	0			- 766	- 785	- 3	- 1	- 2	0			- 816	- 823
Guarantees																
Guarantees issued by the group								0								0
Guarantees received by the group								0								0

[1]Key management personnel: members of the Board of Directors and the Executive Committee of KBC Group

[2]Restated figures (in the annual report 2009, assets ad 1,7 billion euros were not included)

Transactions with key management personnel[1], in millions of EUR	31-12-2009	31-12-2010
Total[2]	6	5
Breakdown by type of remuneration		
Short-term employee benefits	3	3
Post-employment benefits	2	2
Defined benefit plans	2	2
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	1	0
Share-based payments	0	0
Share options, in units		
At the beginning of the period	111 600	52 100
Granted	0	0
Exercised	0	0
Changes in composition of directors	- 59 500	- 17 000
At the end of the period	52 100	35 100
Advances and loans granted to the directors and partners	**3**	**1**

[1]Key management personnel: members of the Board of Directors and the Executive Committee of KBC Group

[2] Remuneration to directors or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis

- The ‘Other’ heading in the first table comprises primarily KBC Ancora, Cera CVBA, MRBB, KBC Insurance Group and KBL Group.
- All related-party transactions occur at arm’s length.
- There were no material transactions with associated companies other than shown in the table.
- Key management comprises the members of the Board of Directors and Group Executive Committee of KBC Bank NV.
- In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the 2010 results of KBC Bank is the related cost (86 million euros) which is recognised in ‘Net result from financial instruments at fair value through profit or loss’.

Note 38: Auditor’s remuneration

In 2010, KBC Bank NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 10 879 376 euros for standard audit services. Remuneration paid for other services came to 2 213 612 euros in 2010, viz.: other certifications: 977 610 euros; tax advice: 96 735 euros; other non-audit assignments: 1 139 267 euros.

Note 39: List of subsidiaries and associated companies

Name	Registered office	National identification number	Capital held at group (%)
KBC Bank: subsidiaries that are fully consolidated			
Commercial bank "Absolut Bank" (ZAO)	Moscow - RU	--	95,00
Absolut Capital (Luxembourg) SA	Luxembourg - LU	--	95,00
Absolut Finance SA	Luxembourg - LU	--	95,00
Limited liability company "Absolut Leasing"	Moscow - RU	--	95,00
Limited liability company Leasing company "Absolut"	Moscow - RU	--	95,00
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100,00
ADB Asia Pacific Limited	Singapore - SG	--	100,00
Radiant Limited Partnership	Jersey - GB	--	80,00
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100,00
CBC BANQUE SA	Brussels - BE	0403.211.380	100,00
CENTEA NV	Antwerp - BE	0404.477.528	99,56
Ceskoslovenska Obchodna Banka a.s.	Bratislava - SK	--	100,00
CSOB Asset Management, spáv. spol., a.s.	Bratislava - SK	--	100,00
CSOB d.s.s. a.s.	Bratislava - SK	--	100,00
CSOB Factoring a.s.	Bratislava - SK	--	100,00
CSOB Leasing a.s.	Bratislava - SK	--	100,00
CSOB Leasing Poisťovaci Maklér s.r.o.	Bratislava - SK	--	100,00
CSOB stavebná sporitel'na a.s.	Bratislava - SK	--	100,00
Istrofinance s.r.o.	Bratislava - SK	--	100,00
Ceskoslovenska Obchodni Banka a.s.	Prague - CZ	--	100,00
Auxilium a.s.	Prague - CZ	--	100,00
Bankovni Informacni Technologie s.r.o.	Prague - CZ	--	100,00
Centrum Radlická a.s.	Prague - CZ	--	100,00
CSOB Asset Management a.s.	Prague - CZ	--	61,77
CSOB Factoring a.s.	Prague - CZ	--	100,00
CSOB Investicni Spolecnost a.s.	Prague - CZ	--	95,58
CSOB Investment Banking Service a.s.	Prague - CZ	--	100,00
CSOB Leasing a.s.	Prague - CZ	--	100,00
CSOB Leasing Pojisťovaci Maklér s.r.o.	Prague - CZ	--	100,00
CSOB Penzijní fond Progres a.s.	Prague - CZ	--	100,00
CSOB Penzijní fond Stabilita a.s.	Prague - CZ	--	100,00
CSOB Property Fund a.s.	Prague - CZ	--	71,44
Merrion Properties a.s.	Prague - CZ	--	71,44
Property Skalika s.r.o.	Bratislava - SK	--	71,44
Hypotecni Banka a.s.	Prague - CZ	--	100,00
CIBANK AD	Sofia - BG	--	100,00
IIB Finance Ireland	Dublin - IE	--	100,00
KBC Finance Ireland	Dublin - IE	--	100,00
K & H Bank Zrt.	Budapest - HU	--	100,00
K & H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100,00
K & H Equities Rt.	Budapest - HU	--	100,00
K & H Ertékpapir Befektetési Alapkezelö Rt.	Budapest - HU	--	100,00
K & H Factor Zrt.	Budapest - HU	--	100,00
K & H Pannonlizing Rt.	Budapest - HU	--	100,00
K & H Alkusz Kft.	Budapest - HU	--	100,00
K & H Autófinanszirozó Pénzügyl Szolgátató Rt.	Budapest - HU	--	100,00
K & H Autópark Bérleti és Szolg Kft.	Budapest - HU	--	100,00
K & H Eszközfinanszirozó Rt.	Budapest - HU	--	100,00
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft.	Budapest - HU	--	100,00
K & H Ingatlanlizing Kft.	Budapest - HU	--	100,00
K & H Lizing Zrt.	Budapest - HU	--	100,00

Name	Registered office	National identification	Capital held at group (%)
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86
Eperon Asset Management Limited	Dublin - IE	--	51,86
KBC Participations Access	Luxembourg - LU	--	51,86
KBC Asset Management SA	Luxembourg - LU	--	51,86
KBC Conseil Service SA	Luxembourg - LU	--	51,86
KBC Participations Bonds SA	Luxembourg - LU	--	51,86
KBC Participations Cash SA	Luxembourg - LU	--	51,86
KBC Participations Districlick SA	Luxembourg - LU	--	51,86
KBC Participations Equity SA	Luxembourg - LU	--	51,86
KBC Participations Invest SA	Luxembourg - LU	--	51,86
KBC Participations Life SA	Luxembourg - LU	--	51,86
KBC Participations Money SA	Luxembourg - LU	--	51,86
KBC Participations Partners SA	Luxembourg - LU	--	51,86
KBC Participations Renta SA	Luxembourg - LU	--	51,86
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsawa - PL	--	44,74
KBC Bank Deutschland AG	Bremen - DE	--	100,00
KBC Bank Funding LLC II	New York - US	--	100,00
KBC Bank Funding LLC III	New York - US	--	100,00
KBC Bank Funding LLC IV	New York - US	--	100,00
KBC Bank Funding Trust II	New York - US	--	100,00
KBC Bank Funding Trust III	New York - US	--	100,00
KBC Bank Funding Trust IV	New York - US	--	100,00
KBC Bank Ireland Plc.	Dublin - IE	--	100,00
Bencrest Properties Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100,00
Danube Holdings Limited	Dublin - IE	--	100,00
Glare Nominee Limited	Dublin - IE	--	100,00
IIB Finance Limited	Dublin - IE	--	100,00
IIB Asset Finance Limited	Dublin - IE	--	100,00
IIB Commercial Finance Limited	Dublin - IE	--	100,00
IIB Leasing Limited	Dublin - IE	--	100,00
Lease Services Limited	Dublin - IE	--	100,00
IIB Homeloans and Finance Limited	Dublin - IE	--	100,00
Cluster Properties Company	Dublin - IE	--	100,00
Demilune Limited	Dublin - IE	--	100,00
KBC Homeloans and Finance Limited	Dublin - IE	--	100,00
Premier Homeloans Limited	Surrey - GB	--	100,00
Intercontinental Finance	Dublin - IE	--	100,00
Irish Homeloans and Finance Limited	Dublin - IE	--	100,00
KBC Nominees Limited	Dublin - IE	--	100,00
KBC Mortgage Finance	Dublin - IE	--	100,00
Linkway Developments Limited	Dublin - IE	--	100,00
Maurevel Investment Company Limited	Dublin - IE	--	100,00
Meridian Properties Limited	Dublin - IE	--	100,00
Merrion Commercial Leasing Limited	Surrey - GB	--	100,00
Merrion Equipment Finance Limited	Surrey - GB	--	100,00
Merrion Leasing Assets Limited	Surrey - GB	--	100,00
Merrion Leasing Finance Limited	Surrey - GB	--	100,00
Merrion Leasing Industrial Limited	Surrey - GB	--	100,00
Merrion Leasing Limited	Surrey - GB	--	100,00
Merrion Leasing Services Limited	Surrey - GB	--	100,00
Monastersky Limited	Dublin - IE	--	100,00
Needwood Properties Limited	Dublin - IE	--	100,00
Perisda Limited	Dublin - IE	--	100,00
Phoenix Funding 2 Limited	Dublin - IE	--	100,00
Phoenix Funding 3 Limited	Dublin - IE	--	100,00
Phoenix Funding 4 Limited	Dublin - IE	--	100,00
Quintor Limited	Dublin - IE	--	100,00
Rolata Limited	Douglas - IM	--	100,00
Staple Properties Limited	Dublin - IE	--	100,00
Stepstone Mortgage Services Limited	Dublin - IE	--	100,00

Name	Registered office	National identification	Capital held at group (%)
KBC Clearing NV	Amsterdam - NL	--	100,00
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100,00
KBC Consumer Finance IFN sa	Bucarest - RO	--	99,95
KBC Consumer Finance NV	Brussels - BE	0473.404.540	60,01
KBC Credit Invesments NV	Brussels - BE	0887.849.512	100,00
KBC Financial Products UK Limited	London - GB	--	100,00
Baker Street Finance Limited	Jersey - GB	--	100,00
Baker Street USD Finance Limited	Jersey - GB	--	100,00
Dorset Street Finance Limited	Jersey - GB	--	100,00
Hanover Street Finance Limited	Jersey - GB	--	100,00
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100,00
Pembridge Square Limited	Jersey - GB	--	100,00
Picaros Funding Plc.	Dublin - IE	--	100,00
Picaros Purchasing no.3 Limited	Dublin - IE	--	100,00
Regent Street Finance Limited	Jersey - UK	--	100,00
Sydney Street Finance Limited	Jersey - UK	--	100,00
KBC Financial Holding Inc.	Wilmington - US	--	100,00
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100,00
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100,00
Corona Delaware LLC	Wilmington - US	--	100,00
KBC Financial Products USA Inc.	Wilmington - US	--	100,00
Pacifica Group LLC	Wilmington - US	--	100,00
Equity Key LLC	Wilmington - US	--	100,00
Equity Key Real Estate Option LLC	San Diego, CA - US	--	100,00
EK002 LLC	San Diego, CA - US	--	100,00
EK003 LLC	San Diego, CA - US	--	100,00
EK045 LLC	San Diego, CA - US	--	100,00
Lonsdale LLC	Wilmington - US	--	100,00
Midas Life Setllements LLC	Delaware - US	--	100,00
Upright RM Holdings LLC	New York - US	--	100,00
Reverse Mortgage Trust I	New York - US	--	100,00
Upright Holdings FP Inc.	New York - US	--	100,00
World Alliance Financial Corporation	New York - US	--	100,00
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100,00
KBC Consultancy Services (Shenzhen) Limited	Shenzhen - CN	--	100,00
KBC Investments Asia Limited	Hong Kong - HK	--	100,00
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100,00
KBC Investments Cayman Islands V Limited	George Town - KY	--	100,00
KBC Investments Limited	London - GB	--	100,00
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100,00
KBC Lease Holding NV	Leuven - BE	0403.272.253	100,00
Fitraco NV	Leuven - BE	0425.012.626	100,00
INK Consultanta - Broker de Asigurare SRL	Bucharest - RO	--	100,00
KBC Autolease NV	Leuven - BE	0422.562.385	100,00
KBC Bail Immobilier France sas	Paris - FR	--	100,00
KBC Immolease NV	Leuven - BE	0444.058.872	100,00
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100,00
KBC Autolease Polska Sp z.o.o.	Warsawa - PL	--	100,00
KBC Lease France SA	Lyon - FR	--	100,00
KBC Bail France sas	Lyon - FR	--	100,00
KBC Lease (Nederland) BV	Bussum - Nl	--	100,00
Cathar BV	Bussum - Nl	--	100,00
Gooieen BV	Bussum - Nl	--	100,00
Hospiveen BV	Bussum - Nl	--	100,00
Mercala 1 BV	Bussum - Nl	--	100,00
Mercala 2 BV	Bussum - Nl	--	100,00
KBC Lease (UK) Limited	Surrey - GB	--	100,00
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg - DE	--	92,00
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg - DE	--	92,00
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg - DE	--	92,00
KBC Vendor Finance (Deutschland) GmbH	Kronberg - DE	--	92,00
Protection One Service GmbH	Kronberg - DE	--	92,00
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg - DE	--	76,00
KBC Lease España SA	Madrid - ES	--	100,00
KBC Lease Italia S.p.A.	Verona - IT	--	100,00
KBC Lease (Luxembourg) SA	Strassen - LU	--	100,00
Romstal Leasing IFN SA	Bucharest - RO	--	99,83
Securitas sam	Nandrin - MC	--	100,00

Name	Registered office	National identifi	ital held at group (%)
KBC North American Finance Corporation	New York - US	--	100,00
KBC Private Equity NV	Brussels - BE	0403,226,228	100,00
Boxco NV	Harelbeke - BE	0874.529.234	100,00
Allbox NV	Harelbeke - BE	0417.348.339	100,00
Degen Emballages SA	Herstal - BE	0425.206.230	100,00
Verkoopkantoor Allbox en Desouter NV	Harelbeke - BE	0419.278.540	100,00
Descar NV	Harelbeke - BE	0405.322.613	100,00
Dynaco Group NV	Moorsel - BE	0893.428.495	89,54
Dynaco Europe NV	Moorsel - BE	0439.752.567	89,54
Dynaco USA Inc.	Mundelein - US	--	89,54
KBC ARKIV NV	Brussels - BE	0878.498.316	52,00
Novaservis a.s.	Brno - CZ	--	91,58
2 B Delighted NV	Roeselare - BE	0891.731.886	99,58
ILLUM BV	Leimuiden - NL	--	99,58
Wever & Ducré NV	Roeselare - BE	0412.881.191	99,58
Asia Pacific Trading & Investment Co Limited	Hong Kong - HK	--	99,58
Dark NV	Roeselare - BE	0472.730.389	99,58
Limis beyond light NV	Roeselare - BE	0806.059.310	99,58
Wever & Ducré Asia Pacific Limited	Hong Kong - HK	--	99,58
Wever & Ducré BV	Den Haag - NL	--	99,58
Wever & Ducré GmbH	Herzogenrath - DE	--	99,58
Wever & Ducré Iluminacion SL	Madrid - ES	--	99,58
Wever & Ducré Shanghai Limited	Shanghai - CY	--	99,58
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100,00
KBC Real Estate NV	Brussels - BE	0404.040.632	100,00
Almafin Real Estate NV	Brussels - BE	0403.355.494	100,00
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100,00
Immo Arenberg NV	Brussels - BE	0471.901.337	100,00
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	99,00
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100,00
KBC Rusthuisvastgoed NV	Brussels - BE	0864.798.253	100,00
Novoli Investors BV	Amsterdam - NL	--	83,33
Poelaert Invest NV	Zaventem - BE	0478.381.531	100,00
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	100,00
KBC Securities NV	Brussels - BE	0437.060.521	100,00
KBC Equitas LLC	Budapest - HU	--	100,00
KBC Securitas a.d. Beograd	Belgrade - RS	--	100,00
KBC Securities Romania SA	Bucarest - RO	--	100,00
SAI Swiss Capital Asset Management SA	Bucarest - RO	--	100,00
Patria Finance a.s.	Prague - CZ	--	100,00
Patria Direct a.s.	Prague - CZ	--	100,00
Kredyt Bank SA	Warsawa - PL	--	80,00
Kredyt Lease SA	Warsawa - PL	--	80,00
Kredyt Trade Sp z.o.o.	Warsawa - PL	--	80,00
Reliz SA	Katowice - PL	--	80,00
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100,00
Old Broad Street Invest NV	Brussels - BE	0871.247.565	100,00
111 OBS Limited Partnership	London - GB	--	100,00
111 OBS (General Partenr) Limited	London - GB	--	100,00
Quasar Securitisation Company NV	Brussels - BE	0475.526.860	100,00
Zagiel SA	Warsawa - PL	--	100,00

Name	Registered office	National identifi	tal held at group (%)
KBC Bank: subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited (1)	London - GB	--	100,00
2 B delighted Italia Srl (1)	Torino - IT	--	99,58
Absolut Capital Trust Limited (1)	Limasol - CY	--	95,00
ADB Private Equity Limited (1)	Jersey - GB	--	80,00
ADB Private Equity Research BVBA (1)	Antwerp - BE	0894.314.363	80,00
Aldersgate Finance Limited (1)	Jersey - GB	--	100,00
Almaloisir & Immobilier sas (1)	Nice - FR	--	100,00
Apicinq NV (1)	Brussels - BE	0469.891.457	97,99
Apitri NV (1)	Diegem - BE	0469.889.873	99,98
Applied Maths Inc. (1)	Austin - US	--	65,92
Applied Maths NV (1)	St Martens Latem -	0453.444.712	65,92
Avebury Limited (1)	Dublin - IE	--	100,00
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. (1)	Warsawa - PL	--	80,00
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	99,05
Chiswell Street Finance Limited (1)	Jersey - GB	--	100,00
City Hotels NV (1)	Zaventem - BE	0416.712.394	85,51
Clifton Finance Street Limited (1)	Jersey - GB	--	100,00
CSOB Foundation	Bratislava - SK	--	100,00
Dala Beheer BV (1)	Amsterdam - NL	--	100,00
Dala Property Holding III BV (1)	Amsterdam - NL	--	100,00
Dala Property Holding XV BV (1)	Amsterdam - NL	--	100,00
Di Legno Interiors NV (1)	Genk - BE	0462.681.783	62,50
DLI International NV (1)	Genk - BE	0892.881.535	62,50
Eurincasso s.r.o. (1)	Prague - CZ	--	100,00
Fulham Road Finance Limited (1)	Jersey - GB	--	100,00
Gie Groupe KBC Paris (1)	Paris - FR	--	100,00
Gulliver Kereskedelmi és Szolgátáto Kft (1)	Budapest - HU	--	100,00
Immo-Antares NV (2)	Brussels - BE	0456.398.361	100,00
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	95,00
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50,00
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52
Immo Genk-Zuid NV (1)	Zaventem - BE	0464.358.497	100,00
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	50,00
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100,00
Immo-Llan NV (2)	Brussels - BE	0448.079.820	99,56
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100,00
Immo Marcel Thiry NV (2)	Brussels - BE	0450.997.441	95,00
Immo-Quinto NV (1)	Brussels - BE	0466.000.470	100,00
Immo Zenobe Gramme NV (2)	Brussels - BE	0456.572.664	99,99
IPCOS BV (1)	Boxtel - NL	--	60,00
IPCOS NV (1)	Heverlee - BE	0454.964.840	60,00
Julienne S.à.r.l. (1)	Bertrange - LU	--	100,00
Julienne Holdings S.à.r.l. (1)	Luxembourg - LU	--	90,00
Julie LH BVBA (1)	Brussels - BE	0890.935.201	90,00
Juliette FH BVBA (1)	Brussels - BE	0890.935.397	90,00
KB-Consult NV (1)	Brussels - BE	0437.623.220	100,00
KBC Alternative Investment Management Belgium NV (1)	Brussels - BE	0883.054.940	100,00
KBC Alternative Investment Management Limited (1)	London - UK	--	100,00
KBC Alternative Investment Management (USA) Inc. (1)	Delaware - US	--	100,00
KBCAM Australia Limited (1)	Sydney - AU	--	26,45
KBC Concord Asset Management Co.Limited (1)	Tapei - TW	--	28,76
KBC Diversified Fund (part of KBC AIM Master Fund) (1)	George Town - KY	--	100,00
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100,00
KBC International Finance NV (1)	Rotterdam - NL	--	100,00
KBC Life Harvest Capital Fund (1)	Dublin - IE	--	34,24
KBC Life Opportunity Fund (1)	Dublin - IE	--	51,86
KBC Participations Frequent SA (1)	Luxembourg - LU	--	51,86
KBC Private Equity Advisory Services Limited Liability Company (1)	Budapest - HU	--	100,00
KBC Private Equity Advisory Services Sp.z.o.o. (1)	Warsawa - PL	--	100,00
KBC Securities Corporate Finance LLC (1)	Belgrade - RS	--	60,00
KBC Securities LLC (1)	Moscow - RU	--	100,00
KBC Structured Finance Limited (1)	Sydney - AU	--	100,00

Name	Registered office	National identifi	Capital held at group (%)
Kredietfinance Corporation (June) Limited (1)	Surrey - GB	--	100,00
Kredietfinance Corporation (September) Limited (1)	Surrey - GB	--	100,00
Kredietlease (UK) Limited (1)	Surrey - GB	--	100,00
Kredyt Bank SA i TUiR WARTA SA (1)	Warsawa - PL	--	90,00
Lancaster Place Finance Limited (1)	Jersey - GB	--	100,00
Lancier LLC (1)	Delaware - US	--	100,00
Ligeva NV (1)	Mortsel - BE	0437.002.519	100,00
Limited liability company "Absolut Capital" (1)	Moscow - RU	--	95,00
LIZAR Sp z.o.o. (1)	Warsawa - PL	--	80,00
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	99,11
Mechelen City Center NV (1)	Heffen - BE	0471.562.332	100,00
Mezzafinance NV (1)	Brussels - BE	0453.042.260	100,00
Motokov a.s. (1)	Prague - CZ	--	69,10
Newcourt Street Finance Limited (1)	Jersey - GB	--	100,00
NV ACTIEF NV (1)	Brussels - BE	0824.213.750	66,67
Oxford Street Finance Limited (1)	Jersey - GB	--	100,00
Parkeergarage De Panne NV (1)	Brussels - BE	0881.909.548	90,00
Patria Finance CF a.s. (1)	Prague - CZ	--	100,00
Patria Finance Slovakia a.s. (1)	Bratislava - SK	--	100,00
Patria Online a.s. (1)	Prague - CZ	--	100,00
Pericles Invest NV (1)	Brussels - BE	0871.593.005	49,50
Picaros Purchasing No.1 Limited (1)	Dublin - IE	--	100,00
Picaros Purchasing No.2 Limited (1)	Dublin - IE	--	100,00
Property LM s.r.o. (1)	Prague - CZ	--	71,44
Quercus Scientific NV (1)	St Martens Latem -	0884.920.310	65,92
Risk Kft. (1)	Budapest - HU	--	100,00
Servipolis Management Company NV (1)	Zaventem - BE	0442.552.206	70,00
Sicalis BV (1)	Amsterdam - NL	--	100,00
TEE Square Limited (1)	Road Town - VG	--	100,00
Tormenta Investment Sp.z.o.o. (1)	Warsawa - PL	--	100,00
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	100,00
Weyveld Vastgoedmaatschappij NV (1)	Brussels - BE	0425.517.818	100,00
Willowvale Company (1)	Dublin - IE	--	100,00
ZIPP SKUTERY Sp.z.o.o. (1)	Przasnysz - PL	--	100,00
KBC Bank: joint subsidiaries that are proportionally consolidated			
Ceskomaravská Stavebni Sporitelna a.s.	Prague - CZ	--	55,00
Immobiliare Novoli S.p.A.	Firenze - IT	--	44,80
KBC Goldstate Fund Management Co. Limited	Sjanghai - CN	--	25,41
UNION KBC Asset Mangement Private Limited	Mumbai - IN	--	25,41
KBC Bank: joint subsidiaries that are not proportionally consolidated (1)			
Atrium Development SA	Luxembourg - LU	--	25,00
Barbarahof NV	Leuven - BE	0880.789.197	30,00
Consorzio Sandonato Est	Firenze - IT	--	20,24
Covent Garden Development NV	Brussels - BE	0892.236.187	25,00
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50,00
Flex Park Prague s.r.o.	Prague - CZ	--	50,00
FM-A Invest NV	Diegem - BE	0460.902.725	50,00
Jesmond Amsterdam NV	Amsterdam - NL	--	50,00
Miedziana Sp z.o.o.	Warsawa - PL	--	47,75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St Niklaas - BE	0437.938.766	50,00
Amdale Holdings Limited NV	Diegem - BE	0452.146.563	50,00
Pakobo NV	Diegem - BE	0474.569.526	49,99
Rumst Logistics NV	Machelen - BE	0862.457.583	49,99
Perifund NV	Brussels - BE	0465.369.673	50,00
Prague Real Estate NV	Zaventem - B	0876.309.678	50,00
Real Estate Participation NV	Zaventem - BE	0473.018.817	50,00
Resiterra NV	Leuven - BE	0460.925.588	50,00
Rumst Logistics II NV	Machelen - BE	0880.830.076	50,00
Rumst Logistics III NV	Machelen - BE	0860.829.383	50,00
Sandonato Parcheggi Srl	Firenze - IT	--	44,80
Sandonato Srl	Firenze - IT	--	44,80
UNION KBC Trustee Company Private Limited	Mumbai - IN	--	25,41
Val d'Europe Holding NV	Zaventem - BE	0808.932.092	45,00
Val d'Europe Invest sas	Paris - FR	--	45,00
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou - CY	--	49,79

Name	Registered office	National identificati	Capital held at group (%)
KBC Bank: companies accounted for using the equity method			
CSOB Pojistovna a.s.	Pardubice - CZ	--	25,00
Giro Elszámolásforgáltátó Rt.	Budapest - HU	--	20,99
HAGE Hajdúsági Agráripari Résvényatársaság	Budapest - HU	--	25,00
K & H Lizingház Rt. (under liquidation)	Budapest - HU	--	100,00
Kvantum Követeléskezelõ és Befektetési Rt. (under liquidation)	Budapest - HU	--	100,00
Nova Ljubljanska Banka d.d.	Ljubljana - SI	--	30,57
KBC Bank: companies not accounted for using the equity method (1)			
Banking Funding Company NV	Brussels - BE	0884.525.182	20,93
BCC Corporate NV	Brussels - BE	0883.523.807	23,95
Bedrijvencentrum Noordoost-Antwerpen NV	Antwerp - BE	0455.474.485	21,28
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22,22
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33,33
Brand and Licence Company NV	Brussels - BE	0884.499.250	20,00
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20,00
Etoiles d'Europe sas	Paris - FR	--	45,00
Isabel NV	Brussels - BE	0455.530.509	25,33
Justinvest NV	Antwerp - BE	0476.658.097	33,33
Kattendijkdok NV	Antwerp - BE	0863.854.482	39,00
Prvni Certifikacni Autorita a.s.	Prague - CZ	--	23,25
Rabot Invest NV	Antwerp - BE	0479.758.733	25,00
Sea Gate Logistics NV	Aalst - BE	0480.040.627	25,00
Xenarjo cvba	Mechelen - BE	0899.749.531	24,99

Reason for exclusion : (1) exclusion based on limited importance
(2) real estate companies and certificates w here the result is not allocated to the Group

Companies qualifying for consolidation are also effectively included in the consolidated accounts if tw o of the follow ing criteria are met:
- if the Group interest in capital and reserves exceed 2,5 million euro
- if the Group interest in the result exceeds 1 million euro
- if the balance sheet total exceed 100 miliion euro

The aggregated total balance sheet of the companies excluded from consolidation may not exceed 1 % of the consolidated balance sheet total.

Note 40: Main changes in the scope of consolidation

Holding company	Company	Consolidation method	Ownership percentage at KBC Group level		Comments
			2009	2010	
Additions					
None					
Exclusions					
KBC Bank	KBC Peel Hunt Ltd.	Full	100,00%	------	Sold in 4Q2010
KBC Bank	KBC Financial Products Group	Full	100,00%	100%	Sale of a number of activities
Changes in ownership percentage and internal mergers					
KBC Bank	Cibank AD	Full	81,69%	100,00%	Increase ownership percentage

Apart from the gains realised on the sale of a number of companies and activities (mainly the Global Convertible Bonds and Asian Equity Derivatives businesses – see Note 8), changes in the scope of consolidation had only a limited impact on both the income statement and balance sheet in 2010.

Note 41: Risk management

The information required in relation to the nature and amount of risks (in accordance with IFRS 7) and the information regarding capital (pursuant to IAS 1) is provided in those parts of the 'Value and risk management' section that have been audited by the auditor. The section also includes information on exposure to the government bonds of a selection of countries and on the portfolio of structured credit (see under 'Credit risk').

Note 42: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2010) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting events after balance sheet date were:

- Early in March 2011, KBC Bank NV reached an agreement with Crédit Agricole SA for the sale of Centea NV for a total consideration of 527 million euros. This deal will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC Bank's tier-1 ratio by around 0.5% (impact calculated at year-end 2010). The gain on this deal is negligible. Crédit Agricole SA, Centea NV and Fidea NV have agreed that, in an initial phase, Fidea NV will continue to offer its life and non-life insurance products through Centea's agents, as well as through Crédit Agricole's network. Finalisation of the deal depends on the customary approval of the regulator(s).

Note 43: General information (IAS 1)

Name	KBC Bank NV
Incorporated	17 March 1998
Country of incorporation	Belgium
Registered office	Havenlaan 2, 1080 Brussels, Belgium
VAT	BE0462.920.226
RLP	Brussels
Legal form	*Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company that is subject to the prudential supervision of the Committee for Systemic Risks and System-related Financial Institutions (CSRSFI). As of 1 April 2011, prudential supervision will be carried out by the National Bank of Belgium.
Life	Indefinite.
Object	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The financial statements have been filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office and/or can be downloaded from www.kbc.com. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place designated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a public holiday, at 11 a.m. on the business day immediately before it.
In order to be admitted to the General Meeting, the holders of bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the company's registered office or at another place designated in the convening notice.
The owners of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of bonds and warrants are entitled to attend the General Meeting, but they have only advisory voting capacity.
Holders of book-entry bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.
Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.

Company annual accounts

10				9	EUR	
NAT .	Date Filed	N° .	P.	E .	D .	**VOL-inst 1.1**

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSEL
Land: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussel
Internet address*: http://www.kbc.be

Company Number 0462.920.226

Date 12/05/2010 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 27/04/2011

concerning the financial year covering the period from 01/01/2010 till 31/12/2010

Previous period from 01/01/2009 till 31/12/2009
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2010	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Jan HUYGHEBAERT, Prins van Oranjelaan 10, 1180 Brussel	entire year	2014
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Jan VANHEVEL, Max Hermanlei 8, 2930 Brasschaat	entire year	2014

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service::

Signature (name and position)	Signature (name and position)
J. VANHEVEL	J. HUYGHEBAERT
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement.
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continued from previous page)

Members:

Mrs. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	entire year	2013
Mr. Jan Maarten DE JONG, P.C. Hooftstraat 175B, NL 1071 BW Amsterdam	entire year	2013
Mr. Danny DE RAYMAEKER, Brabançonnestraat 84, 3000 Leuven	entire year	2012
Mr. Julien DE WILDE, Jabekestraat 49, 9230 Wetteren	entire year	2014
Mr. Chris DEFRANCQ, Zonnelaan 23, 3070 Kortenberg	till April 28th 2010	
Mr. Jean-Pierre DEPAEMELAERE, Zeedijk (ODK) 450/0401, 8670 Koksijde	entire year	2013
Mr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2011
Mr. Luc DISCRY, Bosduifdreef 4, 2970 Schilde	from September 2nd 2010	2014
Mr. John HOLLOWS, Vlaamse Gaaienlaan 11, 3080 Tervuren	entire year	2013
Mr. Pierre KONINGS, Prins van Oranjelaan 178, 1180 Brussel	entire year	2013
Mr. Walter NONNEMAN, Molenstraat 245, 9150 Kruibeke	entire year	2012
Mrs. Marita ORLENT-HEYVAERT, Richard Orlentstraat 2, 2070 Zwijndrecht	entire year	2013
Mr. Paul PEETERS, Molenstraat 2A, 2811 Mechelen (Leest)	till August 30rd 2010	
Mr. Luc PHILIPS, Platanenlaan 14, 1820 Perk	entire year	2014
Mr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2013
Mr. Gustaaf SAP, Stationsstraat 70, 8730 Beernem	entire year	2013
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2013
Mr. Patrick VANDEN AVENNE, Desselgemsestraat 15, 8710 Ooigem	entire year	2013
Mr. Germain VANTIEGHEM, Dalemstraat 9, 3078 Everberg	till August 13th 2010	
Mr. Guido VAN OEVELEN, Franslaan 130, 8620 Nieuwpoort	from September 2nd 2010	2014
Mr. Marko VOLJČ, Winston Churchilllaan 161, PB 15, 1180 Ukkel	from April 28th 2010	2014
Mr. Etienne VERWILGHEN, 149 av. de la Faiencerie, LU 1511 Luxembourg	till November 15th 2010	
Mr. Dirk WAUTERS, Bovenbosstraat 17, 3052 Blanden	entire year	2013
Mr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2014

AUDITOR:

ERNST & YOUNG Bedrijfsrevisoren BCVBA, De Kleetlaan 2, 1831 Diegem
represented by mrs.Christel WEYMEERSCH and/or Pierre VANDERBEEK

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions .

The annual accounts have not been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts .

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement .

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate .

** Optional disclosure .

BALANCE SHEET AFTER APPROPRIATION

ASSETS

	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	7.619.285.107,06	4.690.484.689,12
II. Treasury bills eligible for refinancing at central banks		10200	870.317.904,43	2.031.157.562,51
III. Loans and advances to credit institutions	5.1	10300	37.606.914.135,95	32.657.548.279,52
A. Repayable on demand		10310	2.846.786.432,93	2.286.044.977,07
B. Other loans and adv. (with agreed maturity dates)		10320	34.760.127.703,02	30.371.503.302,45
IV. Loans and advances to customers	5.2	10400	78.155.963.631,12	83.613.738.691,03
V. Debt securities and other fixed-income securities	5.3	10500	39.639.690.686,87	44.791.797.075,92
A. Issued by public bodies		10510	26.545.268.222,73	29.684.492.972,41
B. Issued by other borrowers		10520	13.094.422.464,14	15.107.304.103,51
VI. Shares and other variable-yield securities	5.4	10600	503.629.901,15	525.687.543,30
VII. Fiancial fixed assets	5.5/ 5.6.1	10700	15.738.845.397,40	15.345.703.161,39
A. Participating interests in affiliated enterprises		10710	13.670.739.635,28	13.445.799.680,86
B. Participating interests in other enterprises linked by participating interests		10720	488.996.049,75	488.996.049,75
C. Other shares held as financial fixed assets		10730	76.028.818,76	74.276.706,48
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	1.503.080.893,61	1.336.630.724,30
VIII. Formation expenses and intangible fixed assets	5.7	10800	748.796,47	990.778,41
IX. Tangible fixed assets	5.8	10900	691.105.816,33	710.839.154,03
X. Own shares		11000		
XI. Other assets	5.9	11100	2.088.784.403,25	1.736.038.950,03
XII. Participating interests in affiliated enterprises	5.10	11200	12.817.647.948,04	14.265.577.171,11
TOTAL ASSETS		19900	195.732.933.728,07	200.369.563.056,37

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	185.515.935.475,60	190.186.534.826,64
I. Amounts owed to credit institutions	5.11	20100	22.939.910.671,94	34.305.792.710,69
A. Repayable on demand		20110	3.528.284.455,83	5.543.350.910,48
B. Amounts owed as a result of the rediscounting of trade bills		20120		
C. Other debts with agreed maturity dates or periods of notice		20130	19.411.626.216,11	28.762.441.800,21
II. Amounts owed to customers	5.12	20200	122.684.276.178,86	111.581.619.296,18
A. Savings deposits		20210	30.432.311.094,84	29.611.402.258,03
B. Other debts		20220	92.251.965.084,02	81.970.217.038,15
1. repayable on demand		20221	29.888.712.946,74	28.110.481.077,70
2. with agreed maturity dates or periods of notice		20222	62.363.252.137,28	53.859.735.960,45
3. as a result of the rediscounting of trade bills		20223		
III. Debts evidenced by certificates	5.13	20300	12.797.161.903,75	12.925.686.487,91
A. Debt securities andother fixed-income securities in circulation		20310	1.550.586.000,52	1.669.679.056,55
B. Other		20320	11.246.575.903,23	11.256.007.431,36
IV. Other liabilities	5.14	20400	2.173.919.398,94	1.349.282.738,44
V. Accrued charges and deferred income	5.15	20500	14.619.047.589,95	17.301.192.014,92
VI. Provisions and deferred taxes		20600	376.795.383,46	3.365.099.979,32
A. Provisions for liabilities and charges		20610	367.485.093,78	3.355.975.890,78
1. Pensions and similar obligations		20611	52.448.416,67	67.287.229,82
2. Taxation		20612		5.996.611,32
3. Other liabilities and charges	5.16	20613	315.036.677,11	3.282.692.049,64
B. Deferred taxes		20620	9.310.289,68	9.124.088,54
VII. Fund for general banking risks		20700		
VIII. Subordinated liabilities	5.17	20800	9.924.824.348,70	9.357.861.599,45
OWN FUNDS		209/213	10.216.998.252,47	10.183.028.229,46
IX. CAPITAL	5.18	20900	8.948.439.652,39	8.948.439.652,39
A. Subscribed capital		20910	8.948.439.652,39	8.948.439.652,39
B. Uncalled capital (-)		20920		
X. Share premium account		21000	1.221.582.682,87	2.490.814.213,35
XI. Revaluation surpluses		21100		
XII. Reserves		21200	46.870.807,98	2.575.598.278,63
A. Legal reserve		21210	33.881.377,81	403.011.004,38
B. Reserves not available for distribution		21220		
1. In respect of own shares held		21221		
2. Other		21222		
C. Untaxed reserves		21230	12.989.430,17	13.005.894,20
D. Reserves available for distribution		21240		2.159.581.380,05
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	105.109,23	-3.831.823.914,91
TOTAL LIABILITIES		29900	195.732.933.728,07	200.369.563.056,37

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	38.424.219.103,07	48.180.292.499,44
A. Non-negotiated acceptances		30110	49.589.773,95	38.682.326,84
B. Guarantees serving as direct credit substitutes		30120	5.024.489.317,33	3.986.098.185,30
C. Other guarantees		30130	31.514.154.894,04	42.657.496.266,61
D. Documentary credits		30140	1.835.985.117,75	1.498.015.720,69
E. Assets charged as collateral security on behalf of third parties		30150		
II. Commitments which could give rise to a risk	5.22	30200	32.656.847.413,03	45.897.642.829,37
A. Firm credit commitments		30210	3.302.529.981,03	2.367.575.079,44
B. Commitments as a result of spot purchases of transferable or other securities		30220	68.928.761,11	1.435.761.861,00
C. Undrown margin on confirmed credit lines		30230	29.276.267.968,00	42.087.190.798,00
D. Underwriting and placing commitments		30240	9.120.702,89	7.115.090,93
E. Commitments as a result of open-ended sale and repurchase agreements		30250		
III. Assets lodged with the credit institution		30300	196.787.806.750,27	197.198.590.988,33
A. Assets held by the credit institution for fiduciary purposes		30310	3.260.725.930,77	3.109.200.874,52
B. Safe custody and equivalent items		30320	193.527.080.819,50	194.089.390.113,81
IV. Uncalled amounts of share capital		30400	36.749.818,55	36.779.818,55

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	4.643.105.355,32	5.569.217.919,53
A. Of which : from fixed-income securities			40110	1.644.540.379,03	1.744.623.777,47
II. Interest payable and similar charges			40200	3.192.088.731,62	3.974.970.963,56
III. Income from variable-yield securities		5.23	40300	1.315.643.765,86	451.261.966,38
A. From shares and other variable-yield securities			40310	15.941.176,43	14.152.657,96
B. From participating interests in affiliated enterprises			40320	1.294.006.033,62	426.592.519,38
C. From participating interests in other enterprises linked by participating interests			40330	3.124.586,32	6.667.434,44
D. From other shares held as financial fixed assets			40340	2.571.969,49	3.849.354,60
IV. Commissions receivable		5.23	40400	1.026.419.919,06	970.679.640,84
A. Brokerage and related commissions			40410	551.606.356,15	535.826.474,42
B. Management, consultancy and conservation commissions			40420	36.244.483,40	29.270.856,19
C. Other commissions received			40430	438.569.079,51	405.582.310,23
V. Commissions payable			40500	230.218.670,74	219.251.180,35
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	15.478.876,79	-820.814.885,82
A. On trading of securities and other financial instruments			40610	-27.734.686,45	-655.499.916,77
B. On disposal of investment securities			40620	43.213.563,24	-165.314.969,05
VII. General adminsitrative expenses			40700	1.694.141.290,01	1.894.021.000,80
A. Remuneration, social security costs and pensions			40710	769.128.690,36	748.562.324,07
B. Other administrative expenses			40720	925.012.599,65	1.145.458.676,73
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	44.747.796,00	46.980.876,36
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	-1.803.254.799,47	-365.985.321,09
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-81.236.035,77	-508.225.629,93
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the offbalance sheet captions	(+)/(-)		41100	3.497.873.451,53	91.982.819,54
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	75.994.791,85	2.966.516.558,10
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	319.139.938,21	654.352.165,65
XV. Other operating charges		5.23	41500	42.589.062,48	61.052.902,53
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	3.653.390.128,83	-3.120.324.806,60

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	580.556.427,88	151.470.595,47
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	1.440.090,32	
B. Adjustments to write-downs on financial fixed assets			41720	577.503.430,47	37.827.414,52
C. Adjustments to provisions for extraordinary liabilities and charges			41730	517.788,24	1.797.377,43
D. Gain on disposal of fixed assets			41740	555.115,78	111.594.730,78
E. Other extraordinary income		5.25	41750	540.003,07	251.072,74
XVIII. Extraordinary charges			41800	-3.620.720.850,28	1.035.304.407,99
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810		
B. Write-downs on financial fixed assets			41820	-3.424.023.786,85	1.011.855.682,78
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	-4.732.186,38	
D. Loss on disposal of fixed assets			41840	-190.212.787,86	21.427.726,56
E. Other extraordinary charges		5.25	41850	-1.752.089,19	2.020.998,65
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	613.225.706,43	-4.004.158.619,12
XIXbis. A. Transfert to deferred taxes			41921	4.234.220,77	95.359.835,72
B. Transfer from deferred taxes			41922	114.718.420,25	
XX. Income taxes	(+/-)	5.26	42000	46.223.886,39	-74.668.735,14
A. Income taxes			42010	65.800.997,22	27.841.091,25
B. Adjustement of income taxes and write-back of tax provisions			42020	19.577.110,83	102.509.826,39
XXI. Profits (Losses) for the period	(+/-)		42100	677.486.019,52	-3.834.130.048,28
XXII. Transfer to untaxed reserves	(+/-)		42200	141.536,72	2.306.133,37
XXIII. Profit (Losses) for the period available for approbation	(+/-)		42300	677.627.556,24	-3.831.823.914,91

APPROBATION ACCOUNT

		Code	Current period	Previous period
A. Profits (Losses) to be appropriated	(+)/(-)	49100	-3.154.196.358,67	-3.831.823.914,91
1. Profits (Losses) for the period available for approbation	(+)/(-)	(42300)	677.627.556,24	-3.831.823.914,91
2. Profit (Losses) brought forward	(+)/(-)	(21300P)	-3.831.823.914,91	
B. Transfers from capital and reserves		49200	3.831.823.914,91	
1. From capital and share premium account		49210	1.269.231.530,48	
2. From reserves		49220	2.562.592.384,43	
C. Appropriations to capital and reserves		49300	33.881.377,81	
1. To capital and share premium account		49310		
2. To legal reserve		49320	33.881.377,81	
3. to other reserves		49330		
D. Result to be carried forward	(+)/(-)	49400	105.109,23	-3.831.823.914,91
E. Shareholders' contribution in respect of losses		49500		
F. Distribution of profits		49600	643.641.069,20	
1. Dividends		49610	622.355.367,76	
2. Director's entitlements		49620	771.849,32	
3. Other allocations		49630	20.513.852,12	

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	37.606.914.135,95	32.657.548.279,52
1. Loans and advances to affiliated enterprises	50101	25.172.255.781,94	19.246.602.165,78
2. Loans and advances to other enterprises linked by participating interests	50102	21.696.505,29	67.198.514,90
3. Subordinated loans and advances	50103	5.746.070,56	8.056.763,51
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	34.760.127.703,02	30.371.503.302,45
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Analysis according to the remaining maturity			
a. 3 months and under	50105	29.160.184.377,32	
b. Over 3 months up to 1 year	50106	2.973.143.834,48	
c. Over 1 year up to 5 years	50107	2.178.474.348,95	
d. Over 5 years	50108	367.262.639,80	
e. Undated	50109	81.062.502,55	

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

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	18.472.743.928,93	25.632.520.060,40
2. Loans to other enterprises linked by participating interests	50202	64.721.208,95	75.581.021,20
3. Subordinated loans	50203	1.762.490.440,40	253.522.538,32
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Analysis according to the remaining maturity :			
a. 3 months and under	50205	33.008.874.102,18	
b. over 3 months up to 1 year	50206	3.991.657.137,64	
c. over 1 year up to 5 years	50207	9.681.951.983,54	
d. over 5 years	50208	27.538.468.273,86	
e. undated	50209	3.935.012.133,90	
6. Analysis of customer loans based on the type of debtor			
a. Claims on government	50210	1.377.189.644,79	1.270.739.581,86
b. Retail exposures	50211	16.710.579.371,80	14.544.722.849,76
c. Claims on enterprises	50212	60.068.194.614,53	67.798.276.259,41
7. Analysis by type :			
a. trade bills (including own acceptance)	50213	67.734.826,79	
b. loans and advances as a result of leasing and similar agreements	50214	445.919.400,26	
c. fixed-rate loans	50215	976.770.782,31	
d. mortgage loans	50216	12.241.977.140,71	
e. other term loans with a maturity over 1 year	50217	35.755.164.619,62	
f. other loans and advances	50218	28.668.396.861,91	
8. Geographical analysis			
a. Belgian origin	50219	51.860.912.050,53	
b. Foreign	50220	26.295.051.580,59	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. principal sums initially lent	50221		
b. reconstitution fund and mathematical reserves relating to these loans	50222		
c. net amount outstanding (a-b)	50223		

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

	Code	Current period	Previous period
A. GENERAL	(10500)	39.639.690.686,87	44.791.797.075,92
1. Securities issued by affiliated enterprises	50301	11.240.885.431,14	12.034.932.651,49
2. Securities issued by enterprises with which exist a linked participating interest	50302	4.935.000,00	4.831.000,00
3. Securities representing subordinated loans	50303	319.122.287,22	367.311.702,18
4. Country analysis of the securities issued			
a. by public bodies	50304	16.622.765.715,88	
b. by other borrowers	50305	9.922.502.506,85	
c. Belgian issuers other than public bodies	50306	8.808.079.396,86	
d. Foreign issuers other than public bodies	50307	4.286.343.067,28	
5. Listing			
a. Book value of listed securities	50308	39.242.303.677,92	
b. Market value of listed securities	50309	39.088.440.493,56	
c. Book value of unlisted securities	50310	397.387.008,95	
6. Maturities			
a. Remaining maturity of up to one year	50311	4.303.358.485,33	
b. Remaining maturity of over one year	50312	35.336.332.201,54	
7. Analysis by portfolio			
a. Trading portfolio	50313	3.171.474.222,84	
b. Investment portfolio	50314	36.468.216.464,03	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	30.803.813,02	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316		
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	1.953.938.693,09	
b. Difference between redemption value (if lower) and carrying value	50318	1.017.747.576,38	

		Codes	Bookyear	Previous period
B. Analysis of the carrying value of investment securities				
1 . As at end of preceding period		50323P	xxxxxxxxxxxxxxx	38.993.475.039,87
2 . Movements during the period		50319	-2.036.051.603,27	
a . Acquisitions		50320	8.782.311.620,89	
b . Sales		50321	11.715.270.535,97	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	896.907.311,81	
3 . Acquisition cost as at end of period		50323	36.957.423.436,60	
4 . Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324		
b . Transfers from the trading portfolio to the investment portfolio		50325		
c . Impact on result		50326		
5 . Write-Downs as at end of period		50332P	xxxxxxxxxxxxxxx	727.333.908,97
6 . Movements during the period		50327	-238.126.936,40	
a . Recorded		50328	313.900.653,94	
b . Excess written back		50329	229.765.619,83	
c . Cancellations		50330	16.187.515,26	
d . Transfers from one caption to another	(+/-)	50331	-306.074.455,25	
7 . Write-downs as at end of period		50332	489.206.972,57	
8 . Carrying value as at end of period		(50314)	36.468.216.464,03	

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

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	503.629.901,15	525.687.543,30
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	1.074.752,38	1.076.609,37
b. Foreign issuers	50402	502.555.148,77	524.610.933,93
2. Listing			
a. Carrying value	50403	490.947.703,70	
b. Market value	50404	493.606.328,97	
c. Carrying value of unlisted securities	50405	12.682.197,45	
3. Analysis by portfolio			
a. Trading portfolio	50406	479.399.003,16	
b. Investment portfolio	50407	24.230.897,99	
4. Trading portfolio			
a. difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	36.121.976,28	
b. difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409		

		Code	Current period	Previous period
B. Analysis of the carrying value of investment securities				
1. Acquisition cost as at the end of period		5041P	xxxxxxxxxxxxxxx	19.754.056,14
2. Movements during the period		50410	9.429.709,24	
a. Acquisitions		50411	21.531.242,71	
b. Sales		50412	12.185.612,22	
c. Other adjustments	(+/-)	50413	84.078,75	
3. Acquisition cost as at end of period		50414	29.183.765,38	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415		
b. Transfers from the trading portfolio to the investment portfolio		50416		
c. Impact on result		50417		
5. Write-downs as per end of period		50423P	xxxxxxxxxxxxxxx	7.745.593,53
6. Movements during the period		50418	-2.792.726,14	
a. Recorded		50419	798.427,28	
b. Excess written back		50420	3.697.425,62	
c. Cancellations		50421	0,00	
d. Transfers from one caption to another	(+)/(-)	50422	106.272,20	
7. Write-downs as at end of period		50423	4.952.867,39	
8. Carrying value as at end of period		(50407)	24.230.897,99	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

	Codes	Current period	Previous period
A. GENERAL			
1. Analysis of Assets captions by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	7.069.897.281,72	6.853.871.280,99
b. Participating interests in enterprises that are not credit institutions	50502	6.600.842.353,56	6.591.928.399,87
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	467.450.761,86	467.450.761,86
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	21.545.287,89	21.545.287,89
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	5.738.297,06	12.623.442,10
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	70.290.521,70	61.653.264,38
g. Subordinated loans in linked enterprises that are credit institutions	50507	1.341.251.903,36	953.623.317,00
h. Subordinated loans in linked enterprises that are not credit institutions	50508	84.624.788,95	308.007.407,30
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	75.000.000,00	75.000.000,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	2.204.201,30	0,00
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	852.211.766,95	
b. Participating interests in affiliated not listed enterprises	50512	12.818.527.868,33	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	10.799.436,22	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	478.196.613,53	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	54.715.375,55	
f. e. Other shares held as financial fixed assets in enterprises that are not listed	50516	21.313.443,21	
g. Amount of subordinated loans represented by listed securities .	50517		

	Codes	Current period	Previous period
B. Analysis of the carrying value of assets in enterprises linked by participating interests			
1. Acquisition cost at the end of period	50522P	xxxxxxxxxxxxxxx	15.734.555.641,90
2. Movements during the period	50518	3.082.201.861,71	
a. Acquisitions	50519	3.348.326.858,25	
b. Sales and disposals	50520	266.124.996,54	
c. Transfers from one caption to another (+/-)	50521		
3. Acquisition cost as at the end of the period	50522	18.816.757.503,61	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	50523		
a. Recorded	50524		
b. Acquisitions from third parties	50525		
c. Cancellations	50526		
d. Transfers from one caption to another (+/-)	50527		
6. Revaluation surpluses as at the end of period	50528	0,00	
7. Write-downs as at the end of period	50535P	xxxxxxxxxxxxxxx	2.288.755.961,04
8. Movements during the period	50529	2.857.261.907,29	
a. Recorded	50530	3.424.023.786,85	
b. Excess written back	50531	440.761.879,24	
c. Acquisitions from third parties	50532		
d. Cancellations	50533	126.000.000,32	
e. Transfers from one caption to another (+/-)	50534		
9. Write-downs as at end of period	50535	5.146.017.868,33	
10. Net carrying value as at the end of period	10710	13.670.739.635,28	

		Codes	Current period	Previous period
C. ANALYSIS OF THE CARRYING VALUE OF ASSETS IN OTHER LINKED ENTERPRISES				
1. Acquisition cost as at end of period		50540P	xxxxxxxxxxxxxxx	509.079.931,66
2. Movements during the period		50536	0,00	
a. Acquisitions		50537	0,00	
b. Sales and disposals		50538	0,00	
c. Transfers from one caption to another	(+/-)	50539	0,00	
3. Acquisition cost as at end of period		50540	509.079.931,66	
4. Revaluation surpluses at the end of period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of period		50546	0,00	
7. Write-downs as at the end of period		50553P	xxxxxxxxxxxxxxx	20.083.881,91
8. Movements during the period		50547	0,00	
a. Recorded		50548	0,00	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	0,00	
e. Transfers from one caption to another	(+/-)	50552	0,00	
9. Write-downs as at the end of period		50553	20.083.881,91	
10. Net carrying value as at end of period		10720	488.996.049,75	

D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES PART OF FINANCIAL ASSETS

		Codes	Current period	Previous period
1. Acquisition cost as at end of period		50558P	xxxxxxxxxxxxxxx	94.257.068,64
2. Movements during the period		50554	-8.989.439,09	
a. Acquisitions		50555	10.066.567,97	
b. Sales and disposals		50556	19.056.007,06	
c. Transfers from one caption to another	(+/-)	50557		
3. Acquisition cost as at end of period		50558	85.267.629,55	
4. Revaluation surpluses at the end of period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to another	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of period		50564	0,00	
7. Write-downs as at end of period		50571P	xxxxxxxxxxxxxxx	19.980.362,16
8. Movements during the period		50565	-10.741.551,37	
a. Recorded		50566	0,00	
b. Excess written back		50567	10.741.551,37	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	0,00	
e. Transfers from one caption to another	(+/-)	50570	0,00	
9. Write-downs as at end of period		50571	9.238.810,79	
10. Net carrying value as at end of period		10730	76.028.818,76	

E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS ON LINKED ENTERPRISES

		Codes	Current period	Previous period
1. Net carrying value as at end of period		50579P	xxxxxxxxxxxxxxx	1.261.630.724,30
2. Movements during the period		50572	164.245.968,01	
a. Additions		50573	127.000.000,00	
b. Reimbursements		50574	35.997.263,49	
c. Write-downs		50575		
d. Amounts written back		50576		
e. Realized exchange gains/losses	(+)/(-)	50577	75.447.067,34	
f. Other	(+)/(-)	50578	-2.203.835,84	
3. Net carrying value as at end of period		50579	1.425.876.692,31	
4. Accumulated write-downs as at end of period		50580		

E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS ON LINKED ENTERPRISES

		Codes	Current period	Previous period
1. Net carrying value as at end of period		50588P	xxxxxxxxxxxxxxx	75.000.000,00
2. Movements during the period		50581	2.204.201,30	
a. Additions		50582		
b. Reimbursements		50583		
c. Write-downs		50584		
d. Amounts written back		50585		
e. Realized exchange gains/losses	(+)/(-)	50586		
f. Other	(+)/(-)	50587	2.204.201,30	
3. Net carrying value as at end of period		50588	77.204.201,30	
4. Accumulated write-downs as at end of period		50589		

VI LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATION INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in wich the enterprise holds a participating interest within the meaning of the Royal Decree of 23 September 1992 and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued .

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held by				Information from the most recent period for which annual accounts are available			
	directly			subsidiaries	Annual accounts to	Monetary units	Capital reserves	Net result
	Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises								
Antwerpse Diamantbank NV Antwerpen BE, 0404.465.551	Ordinary	7.686.400	100,00	0,00				
CBC BANQUE SA Brussel BE, 0403.211.380	Ordinary	1.838.956	100,00	0,00				
CENTEA NV Antwerpen BE, 0404.477.528	Ordinary	184.561	99,56	0,00				
Ceskoslovenska Obchodná Banka a.s. Bratislava SK,-	Ordinary	5.000	100,00	0,00				
Ceskoslovenska Obchodni Banka a.s. Praag CZ,-	Ordinary	292.750.000	100,00	0,00				
CIBANK AD Sofia, BG -	Ordinary	7.937.421	100,00	0,00				
Commercial bank "Absolut Bank" Moskou RU -	Ordinary	175.255.720	95,00	0,00				
Covent Garden Real Estate NV Zaventem, BE, 0872.941.897	Ordinary	750	50,00	0,00	31-dec-09	EUR	2.449	67
Gebema NV Brussel BE, 0461.454.338	Ordinary	1	0,01	0,00	31-dec-09	EUR	13.944	228
IIB Finance Ireland Dublin IE,-	Ordinary	2.166.999	99,99	0,00				
	Ordinary AUD	700.000	100,00	0,00				
	Ordinary EUR	366.000.000	100,00	0,00				
	Ordinary GBP	104.000.000	100,00	0,00				
	Ordinary USD	116.000.000	100,00	0,00				
K & H Bank Zrt. Budapest HU,-	Reg. Sh. HUF 2000	73.709.164.412	100,00	0,00				
KB Consult NV Brussel BE, 0437.623.220	Ordinary	364.543	99,95	0,00	31-dec-09	EUR	904	-52
KBC Alternative Investment Management Belgium NV Brussel BE, 0883.054.940	Ordinary	4.700.000	100,00	0,00	31-dec-09	EUR	3.365	47
KBC Alternative Investment Management Limited Londen BE, -	Ordinary	4.000.000	100,00	0,00	31-dec-09	USD	4.655	254
KBC Asset Management NV Brussel BE, 0469.444.267	Class A	2.730.644	47,35	4,51				
KBC Bank Deutschland AG Bremen DE,-	Ordinary	567.300	100,00	0,00				
	Genusrechte	97.791.500	100,00	0,00				
KBC Bank Funding LLC II New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding LLC III New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding Trust II New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding Trust III New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Ireland Plc Dublin IE,-	Ordinary	372.038.509	100,00	0,00				
KBC Clearing NV Amsterdam NL,-	Ordinary	30.491	100,00	0,00				
KBC Commercial Finance NV Brussel BE, 0403.278.488	Ordinary	119.999	99,99	0,01				

KBC Consumer Finance IFN sa Boekarest BG,-	Ordinary	133.934	99,95	0,00				
KBC Consumer Finance NV Brussel BE, 0473.404.540	Ordinary	2.980	52,72	7,29				
KBC Credit Investments NV Brussel, BE 0887.849.512	Ordinary	4.999.999	99,99	0,00				
KBC Financial Holding Inc. Wilmington US,-	Ordinary	100	100,00	0,00				
KBC Financial Products UK Limited Londen GB,-	Ordinary	350.100.000	100,00	0,00				
KBC Groep NV Brussel, BE, 0403.227.515	Ordinary	3.917.845	1,10	0,00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10.585	100,00	0,00				
KBC Investments Hong Kong Limited Hong Kong, HK,-	Ordinary	130.000.000	100,00	0,00				
KBC Investments Limited Londen, UK,-	Ordinary	1.305.000.000	100,00	0,00				
KBC Lease Holding NV Leuven BE, 0403.272.253	Ordinary	167.595	99,99	0,01				
KBC Lease (UK) Limited Guildford GB,-	Ord. Shares of 1 GBP	7.327.865	34,00	66,00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1.000	100,00	0,00				
KBC Private Equity NV Brussel BE, 0403.226.228	Ordinary Ordinary - 25% volstort	445.416 73.502	100,00 100,00	0,00 0,00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99.947	99,95	0,05				
KBC Real Estate NV Brussel BE, 0404.040.632	Ordinary	638.358	100,00	0,00				
KBC Securities NV Brussel BE, 0437.060.521	Ordinary	1.898.517	99,95	0,05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500.000	100,00	0,00	31-dec-09	AUD	469	107
KBC Verzekeringen NV Leuven BE, 0403.552.563	Ordinary	1	0,00	0,00				
Kredyt Bank SA Warschau PL,-	Ordinary PLN	217.327.103	80,00	0,00				
Ligeva NV Brussel BE, 0437.002.519	Ordinary	1	0,02	99,98	31-dec-09	EUR	57.217	325
Mezzafinance NV Brussel BE, 0453.042.260	Ordinary	1	0,02	99,98	31-dec-09	EUR	11.537	500
NV ACTIEF NV Brussel BE, 0824.213.750	Cat "A"	600	80,00	0,00	opr.	EUR	90	0
Old Broad Street Invest NV Brussel, BE, 0871.247.565	Ordinary	503.000	99,41	0,59				
Omnia CVBA Leuven BE, 0413.646.305	Ordinary	1	0,01	0,00	31-dec-09	EUR	1.054	7
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	500	50,00	0,00	31-dec-09	EUR	6.270	1.310
Valuesource NV Brussel, BE, 0472.685.453	Ordinary	1	0,01	0,00	31-dec-09	EUR	2.346	694
Zagiel a.s. Lublin PL,-	Ordinary	479.281	100,00	0,00				
2. Enterprises linked by participating interests >=20% en <= 50%								
Banking Funding Company NV Brussel BE, 0884.525.182	Ordinary	12.870	20,93	0,00	31-dec-09	EUR	747	64
BCC Corporate NV Brussel BE, 0883.523.807	Ordinary	5.747	23,95	0,00	31-dec-09	EUR	2.398	0
Bedrijvencentrum Regio Roeselare NV	Ordinary	500	22,22	0,00	31-dec-09	EUR	542	21

Roeselare BE, 0428.378.724								
Bedrijvencentrum Rupelstreek NV Aartselaar BE, 0427.329.936	Ordinary	5.000	33,33	0,00	31-dec-09	EUR	355	78
Brand and Licence Company NV Brussel BE, 0884.499.250	Ordinary	123	20,00	0,00	31-dec-09	EUR	150	19
Isabel NV Brussel BE, 0455.530.509	Ordinary	253.322	25,33	0,00	31-dec-09	EUR	11.171	1.884
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2.722.634	30,57	0,00				
Xenarjo cvba Mechelen BE, 0899.749.531	Ordinary	1.009	24,99	0,00	31-dec-09	EUR	263	-439
3. Enterprises linked by participating interests >=10% en <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE, 0428.014.676	Ordinary	40	9,52	0,00	31-dec-09	EUR	2.071	24
Bedrijvencentrum Vilvoorde NV Vilvoorde BE, 0434.222.577	Ordinary	338	9,31	0,00	31-dec-09	EUR	1.290	24
Bedrijvencentrum Westhoek NV Ieper BE, 0430.383.258	Ordinary	200	11,85	0,00	31-dec-09	EUR	464	-12
Bedrijvencentrum Zaventem NV Zaventem BE, 0426.496.726	Ordinary	350	11,64	0,00	31-dec-09	EUR	212	17
BEM NV Brussel BE, 0461.612.904	Ordinary	1.500	6,47	0,00	31-dec-09	EUR	4.193	-105
BH-Capital a.s. Prostejov CZ,-	Ordinary	717.300	14,06	0,00	31-dec-09	CZK	519.381	9.209
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16,34	0,00	31-dec-09	EUR	130	0
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	10,84	0,00	31-dec-09	EUR	2.135	82
Europay Belgium CV Brussel BE, 0434.197.536	Ordinary	4.857	14,19	1,82	31-dec-09	EUR	1.316	4.242
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347.886	6,87	1,58	31-mrt-10	EUR	194.401	12.719
Visa Belgium CVBA Brussel BE, 0435.551.972	Ordinary	22	12,29	2,24	30-sep-10	EUR	8.159	5.431

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter .

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 68/151/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the
Royal Decree of 23 September 1992 on the consolidated accounts of credit institutions .

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

	Codes	Current period	Previous period
A. Formation expenses			
1. Net carrying value as at the end of period	50705P	xxxxxxxxxxxxxxx	
2. Movements during the period	50701		
a. New expenses incurred	50702		
b. Amortization	50703		
c. Other (+)/(-)	50704		
3. Net carrying value as at the end of the period	50705		
4. Of Which			
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses	50706		
b. Reorganization costs	50707		

		Codes	Current period	other
B. GOODWILL				
1. Acquisition cost as at end of period		50712P	xxxxxxxxxxxxxxx	1.677.855,24
2. Movements during the period		50708	-426.980,56	
a. Acquisitions, including own construction		50709		
b. Sales and disposals		50710		
c. Transers from one caption to another	(+)/(-)	50711	-426.980,56	
3. Acquisition cost as at end of period		50712	1.250.874,68	
4. Amortizations and write-downs as at the end of period		50719P	xxxxxxxxxxxxxxx	1.677.855,24
5. Movements during the period		50713	-426.980,56	
a. Recorded		50714		
b. Excess written back		50715		
c. Acquisitions from third parties		50716		
d. Cancellations		50717		
e. Transfers from one caption to another	(+/-)	50718	-426.980,56	
6. Amortizations and write-downs as at end of period		50719	1.250.874,68	
7. Net carrying value as at end of period		50720	0,00	

C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS

		Codes	Current period	other
1. Acquisition cost as at end of period		50725P	xxxxxxxxxxxxxxx	
2. Movements during the period		50721		
a. Acquisitions, including own construction		50722		
b. Sales and disposals		50710		
c. Transers from one caption to another	(+)/(-)	50724		
3. Acquisition cost as at end of period		50725		
4. Amortizations and write-downs as at end of period		50732P	xxxxxxxxxxxxxxx	
5. Movements during the period		50726		
a. Recorded		50727		
b. Excess written back		50728		
c. Acquisitions from third parties		50729		
d. Cancellations		50730		
e. Transfers from one caption to another	(+)/(-)	50731		
6. Amortizations and write-downs as at end of period		50732		
7. Net carrying value as at end of period		50733		

		Codes	Current period	other
D. OTHER INTANGIBLE ASSETS				
1. Acquisition cost as at end of period		50738P	xxxxxxxxxxxxxxx	2.065.099,10
2. Movements during the period		50734	71.871,94	
a. Acquisitions, including own construction		50735	71.871,94	
b. Sales and disposals		50736		
c. Transers from one caption to another	(+)/(-)	50737		
3. Acquisition cost as at end of period		50738	2.136.971,04	
4. Amortizations and write-downs as at end of period		50745P	xxxxxxxxxxxxxxx	1.074.320,69
5. Movements during the period		50739	313.853,88	
a. Recorded		50740	358.455,05	
b. excess written back		50741		
c. Acquisitions from third parties		50742		
d. Cancellations		50743		
e. Transfers from one caption to another	(+)/(-)	50744	-44.601,17	
6. Amortizations and write-downs as at end of period		50745	1.388.174,57	
7. Net carrying value as at end of period		50746	748.796,47	

VIII. Tangible fixed assets (Assets caption IX)

		Codes	Current period	Previous period
A. Land and buildings				
1. Acquisition cost as at end of period		50805P	xxxxxxxxxxxxxxx	1.132.450.038,48
2. Movements during the period	(+)/(-)	50801	14.291.211,19	
a. Acquisition, including own construction		50802	22.447.275,10	
b. Sales and disposals		50803	8.081.219,87	
c. Transfers from one caption to another	(+)/(-)	50804	-74.844,04	
3. Acquisition cost as at end of period		50805	1.146.741.249,67	
4. Revaluation surpluses as at end of period		50811P	xxxxxxxxxxxxxxx	65.659.451,22
5. Movements during the period	(+)/(-)	50806	-293.560,81	
a. Recorded		50807		
b. Acquisitions from third parties		50808		
c. Cancellations		50809	293.560,81	
d. transfers from one caption to another	(+)/(-)	50810		
6. Revaluation surpluses as at end of period		50811	65.365.890,41	
7. Amortizations and write-downs as at end of period		50818P	xxxxxxxxxxxxxxx	631.756.305,77
8. Movements during the period	(+)/(-)	50812	22.462.316,83	
a. Recorded		50813	28.598.066,36	
b. Excess written back		50814	1.440.090,32	
c. Acquisitions from third parties		50815		
d. Cancellations		50816	4.961.385,66	
e. Transfers from one caption to another	(+)/(-)	50817	265.726,45	
9. Amortizations and write-downs as at end of period		50818	654.218.622,60	
10. Net carrying value as at end of period		50819	557.888.517,48	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at end of period		50824P	xxxxxxxxxxxxxxx	14.354.817,75
2. Movements during the period	**(+)/(-)**	50820	-698.490,43	
a. Acquisition, including own construction		50821	1.224.001,70	
b. Sales and disposals		50822	1.922.492,13	
c. Transfers from one caption to another	(+)/(-)	50823		
3. Acquisition cost as at end of period		50824	13.656.327,32	
4. Revaluation surpluses as at end of period		50830P	xxxxxxxxxxxxxxx	
5. Movements during the period	**(+)/(-)**	50825		
a. Recorded		50826		
b. Acquisitions from third parties		50827		
c. Cancellations		50828		
d. Transfers from one caption to another	(+)/(-)	50829		
6. Revaluation surpluses as at end of period		50830		
7. Amortization and write-downs as at end of period		50837P	xxxxxxxxxxxxxxx	13.084.876,86
8. Movements during the period	**(+)/(-)**	50831	-526.559,36	
a. Recorded		50832	1.141.661,29	
b. Excess written back (-)		50833		
c. Acquisitions from third parties		50834		
d. Cancellations		50835	1.668.220,65	
e. Transfers from one caption to another	(+)/(-)	50836		
9. Amortizations and write-downs as at end of period		50837	12.558.317,50	
10. Net carrying value as at end of period		50838	1.098.009,82	

		Codes	Current period	Previous period
C. FOURNITURE AND VEHICULES				
1. Acquisition cost as at end of period		50843P	xxxxxxxxxxxxxxx	75.262.627,03
2. Movements during the period	**(+)/(-)**	50839	-13.495.137,85	
a. Acquisition, including own construction		50840	1.006.223,83	
b. Sales and disposals		50841	14.501.361,68	
c. Transfers from one caption to another	(+)/(-)	50842		
3. Acquisition cost as at end of period		50843	61.767.489,18	
4. Revaluation surpluses as at end of period		50849P	xxxxxxxxxxxxxxx	
5. Movements during the period	**(+)/(-)**	50844		
a. Recorded		50845		
b. Acquisitions from third parties		50846		
c. Cancellations		50847		
d. Transfers from one caption to another	(+)/(-)	50848		
6. Revaluation surpluses as at end of period		50849		
7. Amortizations and write-downs as at end of period		50856P	xxxxxxxxxxxxxxx	49.339.960,56
8. Movements during the period	**(+)/(-)**	50850	-10.886.192,76	
a. Recorded		50851	3.571.328,97	
b. Excess written back		50852		
c. Acquisitions from third parties		50853		
d. Cancellations		50854	14.457.521,73	
e. Transfers from one caption to another	(+)/(-)	50855		
9. Amortizations and write-downs as at end of period		50856	38.453.767,80	
10. Net carrying value as at end of period		50857	23.313.721,38	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at end of period		50862P	xxxxxxxxxxxxxxx	14.747.040,00
2. Movements during the period	(+)/(-)	50858	489.483,00	
a. Acquisition, including own construction		50859	489.483,00	
b. Sales and disposals		50860		
c. Transfers from one caption to another	(+)/(-)	50861		
3. Acquisition cost as at end of period		50862	15.236.523,00	
4. Revaluation surpluses as at end of period		50868P	xxxxxxxxxxxxxxx	
5. Movements during the period	(+)/(-)	50863		
a. Recorded		50864		
b. Acquisitions from third parties		50865		
c. Cancellations		50866		
d. Transfers from one caption to another	(+)/(-)	50867		
6. Revaluation surpluses as at end of period		50868		
7. Amortizations and write-downs as at end of period		50875P	xxxxxxxxxxxxxxx	1.684.081,50
8. Movements during the period	(+)/(-)	50869	665.352,00	
a. Recorded		50870	665.352,00	
b. Excess written back		50871		
c. Acquisitions from third parties		50872		
d. Cancellations		50873		
e. Transfers from one caption to another	(+)/(-)	50874		
9. Amortizations and write-downs as at end of period		50875	2.349.433,50	
10. Net carrying value as at end of period		50876	12.887.089,50	
11. Of Which				
a. Land and buildings		50877	12.887.089,50	
b. Plant, machinery and equipment		50878		
c. Fourniture and vehicules		50879		

		Codes	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of period		50884P	xxxxxxxxxxxxxxx	213.721.712,32
2. Movements during the period	(+)/(-)	50880	-1.971.738,94	
a. Acquisition, including own construction		50881	2.966.988,99	
b. Sales and disposals		50882	5.013.571,97	
c. Transfers from one caption to another	(+)/(-)	50883	74.844,04	
3. Acquisition cost as at end of period		50884	211.749.973,38	
4. Revaluation surpluses as at end of period		50890P	xxxxxxxxxxxxxxx	
5. Movements during the period	(+)/(-)	50885		
a. Recorded		50886		
b. Acquisitions from third parties		50887		
c. Cancellations		50888		
d. Transfers from one caption to another	(+)/(-)	50889		
6. Revaluation surpluses as at end of period		50890		
7. Amortizations and write-downs as at end of period		50897P	xxxxxxxxxxxxxxx	109.491.308,10
8. Movements during the period	(+)/(-)	50891	6.340.187,12	
a. Recorded		50892	10.412.932,04	
b. Excess written back		50893		
c. Acquisitions from third parties		50894		
d. Cancellations		50895	4.089.076,94	
e. Transfers from one caption to another	(+)/(-)	50896	16.332,02	
9. Amortizations and write-downs as at end of period		50897	115.831.495,22	
10. Net carrying value as at end of period		50898	95.918.478,16	

		Codes	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at end of period		50903P	xxxxxxxxxxxxxxx	
2. Movements during the period	(+)/(-)	50899		
a. Acquisition, including own construction		50900		
b. Sales and disposals		50901		
c. Transfers from one caption to another	(+)/(-)	50902		
3. Acquisition cost as at end of period		50903		
4. Revaluation surpluses as at end of period		50909P	xxxxxxxxxxxxxxx	
5. Movements during the period	(+)/(-)	50904		
a. Recorded		50905		
b. Acquisitions from third parties		50906		
c. Cancellations		50907		
d. Transfers from one caption to another	(+)/(-)	50908		
6. Revaluation surpluses as at end of period		50909		
7. Amortization and write-downs as at end of period		50916P	xxxxxxxxxxxxxxx	
8. Movements during the period	(+)/(-)	50910		
a. Recorded		50911		
b. Excess written back		50912		
c. Acquisitions from third parties		50913		
d. Cancellations		50914		
e. Transfers from one caption to another	(+)/(-)	50915		
9. Amortizations and write-downs as at end of period		50916		
10. Net carrying value as at end of period		50917		

IX. OTHER ASSETS (Assets caption XI)

	Current period
Analysis (if the amount in this caption is significant)	
Options	1.534.157.020,26

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

	Code	Current Period
1. Deferred charges	51001	25.134.771,68
2. Accrued income	51002	12.792.513.176,36

X.bis EMPLOYMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

	Code	Current Period	Previous period
1. Amounts due to affiliated enterprises	51101	2.003.028.368,44	2.615.051.015,92
2. Amounts due to other enterprises linked by participating interests	51102	718.937,12	72.219.137,06
3. Breakdown of debts other than on sight according to their residual term .			
a. 3 months and under	51103	18.037.467.720,07	
b. Over 3 months up to 1 year	51104	868.419.327,88	
c. Over 1 year up to 5 years	51105	497.300.268,61	
d. Over 5 years	51106	3.438.899,55	
e. undated	51107	5.000.000,00	

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

	Code	Current Period	Previous period
1. Affiliated enterprises	51201	30.313.854.707,19	32.013.336.695,75
2. Other enterprises linked by participating interests	51202	129.060.852,62	130.100.473,23
3. Analysis according to the remaining maturity			
a. Repayable on demand	51203	29.888.712.946,74	
b. 3 months and under	51204	30.707.327.933,74	
c. Over 3 months up to 1 year	51205	7.626.751.269,71	
d. Over 1 year up to 5 years	51205	19.833.194.425,27	
e. Over 5 years	51207	4.193.186.458,39	
f. Undated	51208	30.435.103.145,01	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	3.156.919.555,14	2.874.524.448,34
b. Debt owed to private persons	51210	38.448.780.202,38	36.175.420.450,55
c. Debt owed to enterprises	51211	81.078.576.421,34	72.531.674.397,29
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	62.468.504.852,62	
b. Of foreign origin	51213	60.215.771.326,24	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

	Codes	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies .	51301	550.000,01	1.753.195.573,22
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests .	51302	19.906.621,46	29.885.737,49
3. Breakdown of debt represented by certificates in accordance to residual maturity.			
a. 3 months and under	51303	11.680.552.898,38	
b. Over 3 months up to 1 year	51304	333.691.606,59	
c. Over 1 year up to 5 years	51305	364.560.599,20	
d. Over 5 years	51306	418.356.799,58	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Codes	Current period
1. Taxes, remuneration and social security due to the tax authorities	51401	126.410.439,87
a. Overdue debts	51402	
b. Unmatured debts	51403	126.410.439,87
2. Taxes, remuneration and social security due to the National Social Security Office	51404	
a. Overdue debts	51405	
b. Unmatured debts	51406	
3. Taxes		
a. Taxes payable	51407	61.748.677,76
b. Estimated tax liabilities	51408	64.661.762,11
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Holiday allowance, remuneration and other personnel costs to be paid		186.509.244,03
Dividends to be paid		622.355.367,76
Option contracts		1.077.083.678,15
Other		161.560.669,13

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

	Codes	Current period
1. Accrued charges	51501	14.543.024.711,49
2. Deferred income	51502	76.022.878,46

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

	Current period
Breakdown of Liabilities VI.A.3 if amounts in this caption are significant	
Provision for positions in derivatives and securities	22.598.962,45
Credit commitments	63.312.111,07
Litigation and operational disputes	143.924.892,38
Provision for various risks and future expenses	2.245.172,88
Provision for disability payments	8.410.903,26
Other	74.544.635,07

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	4.385.419.881,05	3.779.511.235,51
2. Subordinated debts due to other enterprises linked by participating interests	51702		

	Codes	Current period
3. Charges as a result of subordinated liabilities	51703	488.848.144,91

4. For each subordinated loan, the following: reference number, the ISO code of the currency, the amount of borrowing in the currency of the loan, the remuneration arrangements, timing and, if due determined, terms of duration, if the circumstances under which the institution is obligated to repay in advance the conditions of subordination, and if the conditions of convertibility in capital or some other form of liability

Reference-number	Currency	Amount (in 000)	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) Conditions for the subordination c) Conditions for the conversion into capital
0001	GBP	41.897	19/12/2003-perpetual Issued by KBC Bank Hybrid Tier 1 - emission	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank shares in case of Supervisory Event
0002	EUR	1.246.297	14/05/2008-perpetual Issued by KBC Bank Hybrid Tier 1 - emission	a) Fiscal requalification Repayment possible from 14/05/2013 c) Call option after 5 years, yearly onwards
0003	EUR	250.000	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification
0004	EUR	700.000	27-06-2008 - perpetual Issued by KBC Bank Hybrid Tier 1 - emission	a) Fiscal requalification Repayment possible from 27/06/2013 c) Call option after 5 years, yearly onwards
0005	HUF	1.704.148	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0006	EUR	3.097.699	Subordinated Certificates Issued by KBC Bank On-tap	a) Unconditional
0007	EUR	197.211	Subordinated Time Deposits Issued by KBC Bank On-tap	a) Unconditional
0008	USD	311.172	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0009	USD	5.826	On-tap Deposits originated by KBC International Finance	a) Fiscal requalification
0010	EUR	2.435.835	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0011	EUR	300.000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0012	EUR	17.637	On-tap Deposits originated by KBC International Finance	a) Fiscal requalification
0013	CZK	2.500.000	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA (2.500 million CZK)	a) Fiscal requalification
0014	EUR	99.582	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA (3.000 million SKK)	a) Fiscal requalification
0015	EUR	48.131	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA (1.450 million SKK)	a) Fiscal requalification
0016	EUR	280.000	30/06/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0017	EUR	300.000	10/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0018	USD	600.000	02/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test

Reference-number	Currency	Amount (in 000)	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) Conditions for the subordination c) Conditions for the conversion into capital
0019	USD	150.000	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

	Codes	Current period	Previous period
A. CAPITAL			
1. Subscribed capital			
a. Subscribed capital as at end of preceding period	20910P	xxxxxxxxxxxxxx	8.948.439.652,39
b. Subscribed capital as at end of period	(20910)	8.948.439.652,39	

	Codes	Amounts	Number of shares
c. Changes during the period			
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		8.948.439.652,39	915.228.482
f. Registered shares	51801	xxxxxxxxxxxxxx	915.228.482
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	

	Codes	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)		xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	
c. Shareholders still owing capital payment			

	Codes	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	
* Corresponding number of shares	51805	
b. Held by its subsidiaries		
* Amount of capital held	51806	
* Corresponding number of shares	51807	
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	
* Amount of capital to be subscribed	51809	
* Maximum corresponding number of shares to be issued	51810	
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	
* Amount of capital to be subscribed	51812	
* Maximum corresponding number of shares to be issued	51813	
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Codes	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	
* Number of votes	51816	
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	
* Number of parts held by its subsidiaries	51818	

B. SHAREHOLDER STRUCTURE OF THE ESTABLISHMENT ON THE DATE OF ITS CLOSING ACCOUNTS, FOLLOWING STATEMENTS RECEIVED BY THE ESTABLISHMENT

KBC Groep NV	Number of shares: 915.228.481
KBC Verzekeringen NV	Number of shares: 1

XIX. BREAKDOWN OF BALANCE SHEET IF IT IS MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

	Codes	Current Period
1. Total Assets		
a. In Euro	51901	156.139.846.301,95
b. In foreign currency (equivalent in EUR)	51902	39.593.087.426,12
2. Total liabilities		
a. In Euro	51903	152.100.301.872,05
b. In foreign currency (equivalent in EUR)	51904	43.632.631.856,02

XX. FIDUCIARY TRANSACTIONS WITHIN THE MEANING OF ARTICLE 27TER §1 PARAGRAPH 3

	Period
Concerned assets and liabilities items	

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Period
MORTGAGES (amount of enrollment or carrying amount of the immovable buildings, if this is less)	
1. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheets	
2. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Period
B. THE COMMERCIAL REAL ESTATE FUND (total enrollment)	
1. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheets	
2. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Period
C. Pledging of other assets (book value of pledged assets)	
1. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	18.251.408.273,10
Fixed pledge in respect of European Investment Bank credit facility	382.635.760,25
National Bank of Belgium pledge	16.907.420,44
Asset Pledge requirement KBC New York	56.057.102,38
b. Off-balance sheets	
2. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	
Options and futures	4.161.073.584,23

D. SECURITY OFFICE TO FUTURE ASSETS (total assets in question)

	Period
1. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheets	
2. Real guarantees provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off-balance-sheet I and II)

1. Total contingent liabilities on behalf of affiliated companies	52202	29.515.582.948,27	37.682.649.288,73
2. Total contingent liabilities on behalf of firms linked by participating interests	52202	70.217.090,51	84.292.368,67
3. Total commitments with a potential credit risk to affiliated companies	52203	15.921.892,90	7.115.000,00
4. Total commitments with a potential risk with regard to enterprises linked by participating interests	52204	0,00	0,00

XXIII. Operating results (items I to XV of the income statement)

	Codes	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	4.643.105.355,32	5.569.217.919,53
* Belgian sites	52301	4.643.105.355,32	4.679.950.574,46
* Foreign offices	52302	0,00	889.267.345,07
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)		14.152.657,96
* Belgian sites	52303	15.941.176,43	14.134.637,37
* Foreign offices	52304		18.020,59
c. Income from fixed-income securities: investments in associated companies	(40320)	1.294.006.033,62	426.592.519,38
* Belgian sites	52305	1.294.006.033,62	426.592.519,38
* Foreign offices	52306		0,00
d. Income from fixed-income securities: shares in enterprises linked by participating interests	(40330)	3.124.586,32	6.667.434,44
* Belgian sites	52307	3.124.586,32	6.667.434,44
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities of other shares held as financial fixed assets	(40340)	2.571.969,49	3.849.354,60
* Belgian sites	52309	2.571.562,66	3.848.892,91
* Foreign offices	52310	408,83	461,69
f. Commissions received	(40400)	1.026.419.919,06	970.679.640,84
* Belgian sites	52311	952.707.863,80	895.317.949,28
* Foreign offices	52312	73.712.055,26	75.361.691,57
g. Profit on financial transactions	(40600)	15.478.876,79	-820.814.885,82
* Belgian sites	52313	15.478.876,79	-852.030.779,25
* Foreign offices	52314	0,00	31.215.893,43
h. Other operating income	(41400)	319.139.938,21	654.352.165,65
* Belgian sites	52315	266.624.446,89	649.694.298,36
* Foreign offices	52316	52.515.491,32	4.657.867,29
2. Employees on the personnel register			
a. Total number at the closing date	52317	10.514	10.817
b. Average number of employees in full-time equivalents	52318	9.521	9.924
* Management Personnel	52319	80	95
* Employees	52320	9.440	9.829
* Workers	52321		
* Other	52322		
c. Number of actual worked hours	52323	13.722.235	13.893.865
3. Personnel			
a. Remuneration and direct social benefits	52324	532.899.096,63	522.437.770,25
b. Employers' social security	52325	146.664.719,29	152.714.135,47
c. Employers' premiums for extra statutory insurance	52326	51.185.894,84	40.837.591,47
d. Other personnel	52327	33.932.466,08	29.228.413,32
e. Retirement and survivors' pensions	52328	4.446.513,52	3.344.413,56
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	17.993.296,57	48.549.790,64
b. Decrease (-)	52330	32.830.626,91	33.260.722,63

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
6. Other operating expenses			
a. Corporate taxes	52331	39.214.994,95	38.366.420,97
b. Other	52332	3.374.067,53	22.686.481,56
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating Revenue from affiliates	52333	4.705.187.591,11	4.606.244.434,63
8. Operating costs relating to associated companies	52334	3.232.155.128,78	4.393.559.092,93

XXIV. STATEMENT OF OFF-BALANCE SHEET OPERATIONS ON SECURITIES, FOREIGN CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK WITHIN THE MEANING OF HEADING II OFF-BALANCE SHEET ITEMS

	Codes	Period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	
* of which: not intended for hedging purposes	52402	
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	94.879.727.856,20
* of which: not intended for hedging purposes	52404	94.879.018.596,00
b. Currency and interest rate swaps	52405	68.890.442.285,40
* of which: not intended for hedging purposes	52406	68.890.442.285,40
c. Currency futures	52407	
* of which: not intended for hedging purposes	52408	
d. Options on currencies	52409	22.846.462.205,00
* of which: not intended for hedging purposes	52410	22.846.462.205,00
e. Forward exchange contracts	52411	
* of which: not intended for hedging purposes	52412	
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	429.235.578.754,00
* of which: not intended for hedging purposes	52414	428.816.853.707,00
b. Interest futures transactions	52415	14.944.792.861,38
* of which: not intended for hedging purposes	52416	14.944.792.861,38
c. Future Interest rate Agreements	52417	958.221.860,19
* of which: not intended for hedging purposes	52418	958.221.860,19
Interest rate options	52419	101.997.528.816,91
* of which: not intended for hedging purposes	52420	101.997.528.816,91
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	11.507.885.185,61
* of which: not intended for hedging purposes	52422	11.507.885.185,61
f. Other futures transactions	52423	
* of which: not intended for hedging purposes	52424	
g. Other forward purchases and sales	52425	343.847.470,12
* of which: not intended for hedging purposes	52426	0,00

		Codes	Period
B. NUMBERING OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE INTEREST RATE FUTURES OPERATIONS			
1. Interest rate futures in the context of the treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	9.549.616.559,00
b. Difference between market value and book value	(+)/(-)	52428	318.946.677,00
2. Interest rate futures in the context of the ALM			
a. Nominal / notional reference amount on the closing date of accounts		52429	13.038.124.075,00
b. Difference between market value and book value	(+)/(-)	52430	-1.106.088.230,00
3. Futures trading interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	10.114.679.317,00
b. Difference between market value and book value	(+)/(-)	52432	-467.792.862,00

XXV. EXTRAORDINARY RESULTS

	Codes	Period
1. Realised gains on disposal of fixed assets to related companies	52501	
2. Capital losses on disposal of fixed assets to related companies	52502	
3. Detail of other exceptional results if the position represents a significant amount		
4. Breakdown of other extraordinary costs if this represents a significant amount		

XXVI. INCOME TAXES

	Codes	Period
1. Income taxes for the year	52601	55.781.909,07
a. Taxes and withholding taxes due or paid	52602	39.847.834,96
b. Excess of income tax prepayments and	52603	-526.985,54
c. Estimated additional charges for income taxes	52604	16.461.059,65
2. Income taxes for previous years	52605	10.019.088,15
a. Additional income taxes due or paid	52606	4.290.088,84
b. Additional charges for income taxes, estimated (included in liabilities	52607	5.728.999,31
3. Main sources of differences between the profit before tax, as stated in the financial statements and estimated taxable income		
Mouvements in taxable reserves and provisions		-2.796.662.428,65
The specific tax system applicable to gains and losses on shares		3.036.132.701,13
The application of the foreign tax credit scheme on dividends recieved		-698.548.126,06
Disallowed expenses (other than write-downs, losses on shares and corporation tax)		53.548.646,09

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-189.631.622,00
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		-2.486.520.356,38

	Codes	Period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	1.358.799.154,13
* Accumulated tax losses deductible from future taxable profits	52609	1.358.799.154,13
* Other deferred tax assets		
b. Passive deferrals	52610	
* Breakdown of the passive deferrals		

XXVII. OTHER TAXES AND TAXES SUPPORTED BY THIRD PARTIES

	Codes	Current period	previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	7.684.028,44	8.413.224,61
b. By the reporting institution	52702	27.259.597,49	27.589.119,71
2. Amounts withheld on behalf of third parties under			
a. Payroll withholding taxes	52703	154.043.480,36	158.907.208,49
b. Withholding taxes on investment income	52704	148.320.129,82	162.541.333,98

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS AND TRANSACTIONS WITH RELATED PARTIES

A. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS

	Codes	Period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Significant litigation and other significant commitments

Significant disputes pending:

Claims filed against KBC Bank and its companies are treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether the outflow is ‘probable’, ‘possible’ or ‘remotely probable’).

Provisions are set aside for ‘probable outflow’ cases.

No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).

All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported.

The most significant cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.

Probable outflow:

In March 2000, Rebeo NV and Trustimmo NV, two subsidiaries of Almafin NV (a subsidiary of KBC Bank NV), together with four former directors of Broeckdal Vastgoedmaatschappij NV (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal Vastgoedmaatschappij NV contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. A provision of 26 million euros has been set aside to cover potential damages.

Remotely probable outflow:

In the criminal proceedings that began on 3 April 2009 against eleven current and former directors and staff members of KBC Bank and KBL European Private Bankers SA (KBL EPB) accused of co-operation in tax evasion committed by customers of KBC Bank and KBL EPB, the Brussels criminal court ruled on 8 December 2009 that the criminal proceedings were inadmissible. The court judged that, given the extraordinary and doubtful circumstances in which the documents submitted by the public prosecutor came into the hands of the judicial authorities, they could not be used as evidence in legal proceedings. Following a close investigation into the way in which the disputed documents were incorporated into the proceedings, the court ruled that the criminal investigation had not been carried out in a fair and impartial manner. On 10 December 2010, the Brussels Court of Appeal confirmed the initial ruling and stressed that the investigating judge had not acted impartially. The Public Prosecutor’s Office has appealed this decision.

ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of 62 million euros plus interest. The Czech government had filed a counterclaim, provisionally estimated at the equivalent of 1 billion euros plus interest. On 29 December 2010, an arbitral decision was issued in which ČSOB’s claim was allowed and the Czech government’s counterclaim dismissed in full.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2010 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV
KBC Securities NV
Antwerp Diamond Bank NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

All members of staff are covered by supplementary pension schemes that include retirement pensions, death benefit, survivors' pensions and orphans' pensions. The amount covered under these schemes (which are defined benefit schemes) depends on the average final salary, number of years of service and age at the time of retirement.

These pension schemes are financed entirely by the employer through annual contributions that are recognised in the income statement. These contributions, calculated on an actuarial basis using the aggregate cost method, are transferred to the Pensioenfonds KBC OFP (KBC pension fund for employees) and the Pensioenfonds Senior Management KBC OFP (KBC pension fund for senior management), whose specific task is to manage the accrued reserves, to pay out the supplementary pension benefit and to carry out the necessary administration.

Members of the Executive Committee also benefit from a supplementary pension scheme that is based on similar principles.

In addition, staff may contribute to a supplementary pension scheme (capitalisation system). It is based solely on members' personal contributions which are deducted directly from their salaries. The bank guarantees capitalisation of the amounts contributed at an interest rate of 4.75% per year for the period up to and including 30 June 1999, and a rate of 3.75% for the period from 1 July 1999, up to the time the benefit is paid out. Management of the reserves accrued in this way, their payment and associated administration is the responsibility of the Penioenfonds KBC OFP and Pensioenfonds Senior Management KBC OFP.

5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past

Bases and methods of estimation

Code	Period
52801	

6. Nature and business purpose of off-balance sheet arrangements

**Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution;
where appropriate, the financial consequences of these operations for the facility must also be mentioned:**

KBC Bank NV is a member of a VAT grouping.

	Period
B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS	
Mention of such transactions if they are significant, including the amount of these transactions, the nature of relationships with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:	
Transactions with affiliated companies were all concluded in line with the prevailing market conditions.	

XXIX. FINANCIAL RELATIONS WITH

	Codes	Period
DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL DIRECTLY OR INDIRECTLY THE ESTABLISHMENT WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	1.167.302,00
a. Conditions on amounts receivable		
2. Guarantees provided in their favor	52902	
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favor	52903	
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in the income results, provided that such disclosure does not concern exclusively or mainly to the situation of a single identifiable person		
a. To directors and managers	52904	3.232.392,82
b. To former directors and former managers	52905	2.080.284,98

	Codes	Period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) ATTACHED TO		
1. Remuneration of the auditor(s)	52906	2.982.153,00
2. Fees for exceptional services or special missions executed within the company by the auditor(s)		
a. Other attestation missions	52907	345.896,36
b. Tax advisory	52908	4.739,00
c. Other missions external to the audit	52909	683.652,00
3. Fees for exceptional services or special missions executed within the company by persons with whom the auditor(s) is(are) connected		
a. Other attestation missions	52910	
b. Tax advisory	52911	
c. Other missions external to the audit	52912	

4. Terms under Article 133, § 6 of the Companies Code

XXX. POSITIONS ON FINANCIAL INSTRUMENTS

	Codes	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	9.119.145.091,60
2. Financial instruments to be delivered by the institution to clients	53002	7.719.455.786,92
3. Financial instruments of clients held for safekeeping	53003	193.066.658.300,63
4. Financial Instruments from clients given in custody by the institution	53004	136.730.610.816,35
5. Financial Instruments from clients held as collateral by the institution	53005	1.518.849.666,87
6. Financial Instruments from clients given as guarantee by the institution	53006	0,00

XXXI. Derivative instruments not estimated at fair value

	Current period
Estimated fair value of each class of derivative instruments not measured at fair value, with information on the nature and volume of these instruments	
Forward foreign exchange transactions	-705.765,00
Currency and interest rate swaps	-413.487.133,00
Interest rate swaps agreements	-903.272.352,00
Other option transactions	-54.000,00

XXXII. Declaration on consolidated accounts

A. To be completed by all credit institutions

The credit institution draws up annual accounts and a consolidated annual report*

The enterprise has drawn up publiced a consolidated annual statement of accounts and a management report*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of 23 September 1992:

Name and full address of the registered office and, for enterprises governed by Belgian law, the enterprise number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. To be completed by credit institutions which ar solely or jointly-held subsidiaries

Name and full address of the registered office and, for enterprises governed by Belgian law, the enterprise number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where inapplicable

** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) LINKED TO: Mention related to article 133, paragraph 6 from the Companies Law

	Codes	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) LINKED TO: Mentions related to article 134, paragraphs 4 and 5 from the Companies Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	
2. Fees for exceptional services or special missions executed in this group by the auditor(s)		
a. Other attestation missions	53202	
b. Tax consultancy	53203	
c. Other missions external to the audit	53204	
3. Fees for the people they are linked to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	
4. Fees for exceptional services or special missions executed in this group by the people they are linked to the auditor(s)		
a. Other attestation missions	53206	
b. Tax consultancy	53207	
c. Other missions external to the audit	53208	

SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period and the previous period	Codes	1. Full-time	2. Part-time	3. Total (T) or total of full-time equivalents (FTE)		3P.Total (T) or total of full-time equivalents (FTE)	
		(current period)	*(current period)*	*(current period)*		*(previous period)*	
Average number of employees	100	6.376	3.545	8.839	(FTE)	9.168	(FTE)
Number of hours actually worked	101	9.073.575	2.970.970	12.044.545	(T)	12.445.349	(T)
Personnel costs	102	513.838.963,00	168.246.839,00	682.085.802,00	(T)	663.797.794,00	(T)
Advantages in addition to wages	103	xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx	16.319.309,00	(T)	15.757.451,00	(T)

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	6.422	3.490	8.861,30
By nature of the employment contract				
Contract for an indefinite period	110	6.421	3.489	8.859,50
Contract for a definite period	111	1	1	1,80
Contract for the execution of a specifically assigned work	112			
Replacement contract	113			
According to the gender and by level of education				
Male	120	4.126	749	4.624,90
primary education	1200			
secondary education	1201	780	357	1.005,40
higher education (non-university)	1202	2.337	320	2.561,20
university education	1203	1.009	72	1.058,30
Female	121			4.236,40
primary education	1210			
secondary education	1211	361	946	973,60
higher education (non-university)	1212	1.365	1.414	2.400,40
university education	1213	570	381	862,40
By professional category				
Management staff	130	76	2	77,30
Employees	134	6.346	3.488	8.784,00
Workers	132			
Other	133			

HIRED TEMPORARY STAFF AND PERSONNEL PLACED AT THE ENTERPRISE'S DISPOSAL

During the current period	Codes	1. Temporary personnel	2. Persons placed at the disposal of the enterprise
Average number of employees	150		
Number of hours actually worked	151	289	
Charges of the enterprise	152	10.257,00	

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	464	33	489,00
By nature of the employment contract				
Contract for an indefinite period	210	463	32	487,20
Contract for a definite period	211	1	1	1,80
Contract for the execution of a specifically assigned work	212			
Replacement contract	213			

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	336	320	526,50
By nature of the employment contract				
Contract for an indefinite period	310	336	327	526,50
Contract for a definite period	311			
Contract for the execution of a specifically assigned work	312			
Replacement contract	313			
According to the reason for termination of the employment contract				
Retirement	340	105	234	233,40
Early retirement	341			
Dismissal	342	32	4	34,70
Other reason	343	199	82	258,40
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350			

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	2.897	5811	2.828
Number of training hours	5802	78.799	5812	79.847
Costs for the company	5803	7.622.997,50	5813	7.441.434,90
of which gross costs directly linked to the training	58031	7.438.663,80	58131	7.261.491,70
of which paid contributions and deposits in collective funds	58032	184.333,60	58132	179.943,20
of which received subsidies (to be deducted)	58033		58133	
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	4.151	5831	4.307
Number of training hours	5822	63.921	5832	73.964
Costs for the company	5823	4.073.640,70	5833	4.226.733,40
Total number of initial professional training projects at company expense				
Number of participating employees	5841		5851	
Number of training hours	5842		5852	
Costs for the company	5843		5853	

Valuation rules

1. General

The accounting principles and valuation rules conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.
Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.
Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions awarded by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.
If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the ‘uncertain outcome’ portfolio that might become ‘doubtful’) and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.
Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to ‘Net interest income’ on an accruals basis.

Deferred taxes are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base, except for deferred tax assets on tax losses or notional interest deductions carried forward, which are not recognised due to the principle of prudence. Deferred taxes to be recognised are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*
Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*
Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: ‘Profit (Loss) on financial transactions’.

FINANCIAL FIXED ASSETS

Included in KBC Bank’s holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.
Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Global Services NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- *Taxation*
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;

- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

Notes to the annual accounts.

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

Balance sheet

KBC Bank NV (x1 000 EUR)	**31-12-2010**	**31-12-2009**	**Difference**
Assets	**195 732 934**	**200 369 563**	**-4 636 629**
Cash at central banks and in hand	8 489 603	4 690 485	3 799 118
Amounts receivable from credit institutions	37 606 914	32 657 548	4 949 366
Amounts receivable from customers	78 155 964	83 613 739	-5 457 775
Bonds and other fixed-income securities	39 639 691	46 822 955	-7 183 264
Shares and other variable-yield securities	503 630	525 687	-22 057
Financial fixed assets	15 738 845	15 345 703	393 142
Formation expenses, intangible and tangible fixed assets	691 855	711 830	-19 975
Other assets	2 088 784	1 736 039	352 745
Deferred charges and accrued income	12 817 648	14 265 577	-1 447 929
Liabilities	**195 732 934**	**200 369 563**	**-4 636 629**
Amounts payable to credit institutions	22 939 911	34 305 793	-11 365 882
Amounts payable to customers	122 684 276	111 581 619	11 102 657
Debts represented by securities	12 797 162	12 925 686	-128 524
Other amounts payable	2 173 919	1 349 283	824 636
Accrued charges and deferred income	14 619 049	17 301 192	-2 682 143
Provisions for risks and charges and deferred taxes	376 795	3 365 100	-2 988 305
Subordinated loans	9 924 824	9 357 862	566 962
Equity	10 216 998	10 183 028	33 970

Total assets

Total assets fell by 4.6 billion euros to 195.7 billion euros. Efforts to reduce the balance sheet total were continued in 2010, with the aim of decreasing the risk-weighted assets and limiting the amount of capital required. Most of the reduction in 2010 involved scaling down activities at the branches abroad and reducing financing for the KBC Financial Products group achieved also through cutting back activities.

At the end of 2010, assets held abroad accounted for 50.4% of total assets (53.4% at the end of 2009). The foreign branches held 16% of the bank's total assets, down 2 percentage points year-on-year.

Transactions with credit institutions

The amounts receivable from credit institutions went up by 4.9 billion euros to 37.6 billion euros, while amounts payable to credit institutions fell by 11.4 billion euros to 22.9 billion euros. As a result, net lending to credit institutions amounted to 14.7 billion euros at year-end 2010 as opposed to a net borrowing from credit institutions in previous years (1.6 billion euros at year-end 2009). As regards liquidity management, this turnaround has made KBC less dependent on the volatile interbank market.

Amounts receivable from customers

Amounts receivable from customers fell by 5.5 billion euros to 78.2 billion euros. This decrease was attributed mainly to the impact of scaling down activities at foreign branches and reducing financing for the KBC Financial Product group (-8.7 billion euros). On top of this, the reverse repos increased by 2.5 billion euros and 1.5 billion euros’ worth of new loans was granted. Lending to companies stabilised.

Bonds and other fixed-income securities

The total portfolio of fixed-income securities fell by 7.2 billion euros to 39.6 billion euros. Securities issued by public authorities represent 67% of the portfolio.

The investment portfolio decreased by 1.8 billion euros to 36.5 billion euros on account chiefly of the drop in the value of the notes of the Loan Invest securitisation vehicle. Bonds issued by public authorities also went down by 0.6 billion euros (primarily Italian and Belgian securities).

The investment portfolio contains collateral debt obligations (CDOs) for which, in accordance with Belgian accounting policies, a write-down was provisioned for the full acquisition cost. Some still have a fair value which amounted to a total of 46 million euros at year-end 2010.

The trading portfolio, made up primarily of government bonds and securities issued by credit institutions, went down by 3.4 billion euros to 3.2 billion euros. This involved primarily the reduction in securities from the so-called PIIGS countries and Belgian securities.

Financial fixed assets

Financial fixed assets grew by 393 million euros to 15.7 billion euros, as a result of capital increases at subsidiaries and write-downs carried out on participations in subsidiaries , mainly of the KBC Financial Products group. Provisions were already set aside for this in 2009 (see profit and loss account).

Other asset items

The ‘Shares and other variable-yield securities’ heading consists primarily of a trading portfolio.

Other assets went up by 0.4 billion euros to 2.1 billion euros. This heading comprises mainly the revaluation of the trading foreign currency and interest rate options.

Deferred charges and accrued income includes primarily the accrued interest and the revaluation of derivatives. This heading went down as a result of the decrease in the volume of assets and outstanding derivatives (among other things the mark-to-market valuation).

Amounts payable to customers and debts represented by securities

Total customer deposits went up by 11 billion euros to 135.5 billion euros at year-end 2010, as a result of various movements.
For private customers, particularly the term deposit accounts increased. As regards liquidity management, steps have been taken to shift current customer assets with a more variable term to customer assets with a longer fixed term.
For the corporate and market segments there was also a slight increase despite the scaling back of activities in branches abroad.
This heading also includes the repos with non-credit institution counterparties which were up 3.8 billion euros on the year-earlier figure.

Provisions for other risks and charges and deferred taxes

Provisions for risks and charges fell sharply in 2010 by 3 billion euros to 0.4 billion euros, due chiefly to the use of the provisions for losses incurred at subsidiaries following the financial crisis (see profit and loss account).

Subordinated loans

Total subordinated loans outstanding rose slightly to 9.9 billion euros and included
- non-convertible bonds: 6.1 billion euros;
- other subordinated term borrowings: 3.8 billion euros.

Equity

The equity of 10.2 billion euros remained more or less unchanged compared with year-end 2009. The limited increase is the result of the profit appropriation which provides for the full payout of the result for the financial year.

It was noted that the loss to be carried forward for financial year 2009 was incorporated in the reserves available and share premium.

Other liability headings

Other liabilities mainly include liabilities relating to options premiums, taxation, remuneration and social security charges.

Accrued charges and deferred income – which comprises mainly interests payable and the revaluation of derivatives – fell on account of the decrease in the volume of liabilities and outstanding derivatives (among other things the mark-to-market valuation).

Off-balance-sheet headings

Contingent liabilities

The 9.8-billion-euro decrease in contingent liabilities to 38.4 billion euros was accounted for almost entirely by the reduction of, in particular, guarantees granted to the subsidiaries (e.g., the KBC Financial Products group).

Commitments carrying a potential credit risk

The undrawn margin on confirmed credit lines fell sharply by 12.8 billion euros to 29.3 billion euros, owing also to the removal from the books of credit lines in favour of the subsidiaries (e.g., the KBC Financial Products group).

Profit and loss account

KBC Bank NV (x1 000 EUR)	**31-12-2010**	**31-12-2009**	**Difference**
Gross income from ordinary activities	3 578 340	1 976 123	1 602 217
Operating charges	-1 462 337	-1 347 703	-114 634
Write-downs and provisions	1 537 387	-3 748 745	5 286 132
Profit on ordinary activities	3 653 390	-3 120 325	6 773 715
Extraordinary result	-3 040 165	-883 834	-2 156 331
Taxes	64 403	172 335	-107 932
Result for the period to be appropriated	**677 628**	**-3 831 824**	**4 509 452**

Profit for the financial year totalled 678 million euros, a recovery following the challenging 2008 and 2009 years when the result was heavily impacted by factors relating to the financial crisis.

(x1 000 EUR)	**31-12-2010**	**31-12-2009**	**Difference**
Net interest income	1 451 016	1 594 247	-143 231
Income from variable-yield securities	1 315 644	451 262	864 382
Net fee and commission income	796 201	751 429	44 772
Results from financial transactions	15 479	-820 815	836 294
Gross income from ordinary activities	**3 578 340**	**1 976 123**	**1 602 217**

Gross income from ordinary activities came to 3 578 million euros, almost double that of the previous year, owing primarily to the higher dividend income from affiliated companies and an improvement in the results from financial transactions, due mainly to the absence of specific negative elements linked to the financial crisis which had a serious adverse impact on the heading in 2009.

Interest income fell by 9%. Within KBC Belgium, volumes generated a positive effect. However, the interest margin remained under pressure in 2010 and adversely affected the interest result. In addition, the decreased activity in the branches abroad also resulted in a smaller contribution to the interest result.

Compared with 2009, customers' confidence in investments improved in 2010 which led to a rise in the commission income from investment funds and life insurance products. Other fee-driven activities also generated higher income (such as payments, securitisation operations). However, this increase was offset in part by a drop in income from issue activities.

(x1 000 EUR)	31-12-2010	31-12-2009	Difference
General administrative charges	-1 694 140	-1 894 021	199 881
Depreciation of intangible and tangible fixed assets	-44 748	-46 981	2 233
Other operating charges	-42 589	-61 053	18 464
Other operating income	319 140	654 352	-335 212
Operating charges	**-1 462 337**	**-1 347 703**	**-114 634**

Operating charges (including 'depreciation of intangible and tangible fixed assets', 'other operating charges' and 'other operating income') rose in 2010 by -115 million euros or +8.5% to -1 462 million euros, on account chiefly of the decrease in 'other operating income' that included 393 million euros' worth of one-off items in 2009. Aside from this, costs continue to fall in 2010 (+220 million euros) consequent on the stringent control that KBC Bank has been implementing over all its cost components since 2009. These declining costs were levelled off in part by the higher contribution to the deposit guarantee scheme which came to 57 million euros (compared with 18 million euros in 2009).

(x1 000 EUR)	31-12-2010	31-12-2009	Difference
Write-downs on credit	-1 803 255	-365 985	-1 437 270
Write-downs on securities portfolio	-81 236	-508 226	426 990
Provisions	3 421 878	-2 874 534	6 296 412
Write-downs and provisions	**1 537 387**	**-3 748 745**	**5 286 132**

In 2010, the write-downs and provisions heading still included significant items relating to the finalisation of loan losses at the KBC Financial Products group for which a provision was set aside in 2009. This provision was reversed in 2010 and offset the loan losses recognised. In addition, the reversed provision also offset the write-downs recorded on the capital increases that were carried out in 2010 at the KBC Financial Products group (see extraordinary charges).

The write-downs on loans, adjusted for the KBC Financial Products group, edged down to -304 million euros and related mainly to the corporate portfolio. The write-downs on loans to Belgian retail customers and local businesses remained stable at a low level.

The negative extraordinary results in 2010 (-3 040 million euros) related primarily to net write-downs on participating interests of the KBC Financial Products group following the capital increases carried out in 2010. Provisions for this were set aside in 2009 so that the impact on the 2010 result was neutralised (see above).

Income taxes remained limited, on account chiefly of the recovery of losses carried forward.

Branch network

At the end of 2010, KBC had a network of 710 branches in Belgium. In addition, KBC Bank has 16 branches abroad of which six are in the process of being closed as a result of implementing the 2014 strategic plan. The main foreign branches are based in New York, London, Paris, Rotterdam, Singapore, Hong Kong and Shanghai.

The information required by article 96 of the Belgian Companies Code that has not been provided above appears in the 'Report of the Board of Directors' section'

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TRANSLATION

Statutory auditor's report to the general meeting of shareholders of KBC Bank nv on the financial statements for the year ended 31 December 2010

In accordance with the legal and statutory requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the financial statements as well as the required additional comments.

Unqualified opinion on the financial statements

We have audited the financial statements for the year ended 31 December 2010, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 195.732.933.728,07 and a profit for the year of € 677.486.019,52.

Responsibility of the board of directors for the preparation and fair presentation of the financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren*). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we have considered internal control 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 internal control.
We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the company and the presentation of the financial statements, taken as a whole. Finally, we have obtained from the board of directors and the company's officials the explanations and information necessary for executing our audit procedures. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2010 give a true and fair view of the company's financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

Additional comments

The preparation and the assessment of the information that should be included in the directors' report and the company's compliance with the requirements of the Company Code (*Wetboek van vennootschappen/Code des sociétés*) and its articles of association are the responsibility of the board of directors.

Our responsibility is to include in our report the following additional comments and information, which do not modify the scope of our opinion on the financial statements:

- The directors' report deals with the information required by law and is consistent with the financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.

- We do not have to report any transactions undertaken or decisions taken in violation of the company's articles of association or the Company Code. The appropriation of the results proposed to the shareholders' meeting complies with the legal and statutory provisions.

Brussels, 24 March 2011

Ernst & Young Reviseurs d'Entreprises sccrl
Statutory auditor
Represented by

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

11PVDB0064

Additional information

Capital transactions and guarantee agreements between KBC Group and the government in 2008 and 2009

In order to maintain its capital base at a sufficiently high level, KBC Group NV issued securities to the Belgian State and to the Flemish Regional Government in 2008 and 2009. In addition, KBC signed a guarantee agreement with the Belgian State in 2009 in respect of CDO and MBIA-related exposure.

7 billion euros' worth of core-capital securities sold to the Belgian State and the Flemish Region

Since the end of 2008, KBC Group NV has issued a total of 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was signed in July 2009. The KBC group used the proceeds of these transactions to strengthen the core capital of its banking activities by 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV).

Other features of the transactions (simplified):

- Issue price: 29.50 euros per security.
- Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 (coupon payment in 2010) and 125% for 2010 and subsequent years (coupon payments in 2011 and later). No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
- Exchange option (only valid for the transaction with the Belgian State): after three years (i.e. in December 2011), KBC Group NV may at any time exchange all or some of the securities for ordinary shares on a one-for-one basis. Should KBC Group NV decide to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% of the issue price as of the fourth year and will increase each subsequent year by 5 percentage points (with a cap at 150%).

Guarantee agreement in respect of CDO and MBIA-related exposure

In May 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan basically comprises a notional amount that initially totalled 20 billion euros, with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA. The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan). As one of the CDOs (Aldersgate) reached maturity in 2010, the initial amounts have been changed.

- First tranche of 3.1 (initially 3.2) billion euros: KBC Group bears any credit losses in full.
- Second tranche of 1.9 (initially 2) billion euros: KBC Group bears any credit losses. It has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value, for 90% of the loss in this tranche (KBC Group continues to bear 10% of the risk).
- Third tranche of 13.0 (initially 14.8) billion euros: 90% of any credit losses will be compensated in cash by the State (KBC Group continues to bear 10% of the risk).

This agreement largely mitigates the potential negative impact of the relevant MBIA and CDO exposure. Nevertheless, the results will remain volatile to a certain degree in the future, since rising market values, for instance, could lead to existing valuation losses being reversed (which would have a positive impact on the results). If, however, the market value of the products in question were then to decline once again, fresh valuation losses would have to be recorded. Whatever the case, the guarantee agreement will cap the cumulative total of valuation losses (and, as stated, KBC will have to bear part of the risk).

KBC Group has to pay a fee for this guarantee agreement. More information on the impact on the income statement in 2009 and 2010 can be found in Note 5 in the 'Consolidated financial statements' section.

EU approval

On 30 September 2009, KBC Group submitted a detailed plan to the European Commission in respect of the support it had received from government. In addition to the renewed strategy, the plan included a repayment schedule for the aforementioned core-capital securities. The European Commission approved the plan on 18 November 2009.

Management certification

‘I, Luc Philips, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.’