2011 KBC Annual Report

KBC Group

2011

KBC

rapport jaar

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annual report

KBC group passport

Area of operation

KBC is an integrated bancassurance group, 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.

Shareholders

KBC Ancora	23%
Cera	7%
MRBB	13%
Other core shareholders	11%
KBC group companies	5%
Free float	41%
Total	100%

Customers (estimates for Belgium and the four Central and Eastern European home markets)

Customers (estimates for Belgium and the four Central and Eastern European home markets)	9 million

Number of staff[1]

Total (in FTEs)	47 530

Bank branches

Belgium	844
Central and Eastern Europe (four home markets)	806

Insurance network

Belgium	492 tied agencies
Central and Eastern Europe (four home markets)	various distribution channels

Long-term credit ratings[2] (29-02-2012)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A-	A1	A-
KBC Insurance NV	A-	–	A-
KBC Group NV	A-	A2	BBB+

Information

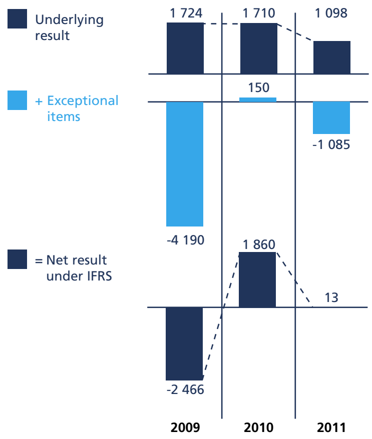
Website	www.kbc.com
KBC-Telecenter	kbc.telecenter@kbc.be

Data relates to year-end 2011, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

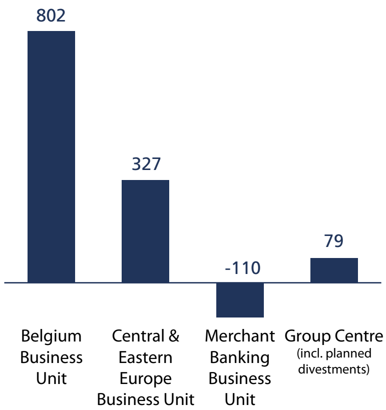
1 Not including companies that fell within the scope of IFRS 5 at balance sheet date (Fidea, KBL EPB, WARTA).

2 Outlook/watch/review data for these ratings is given elsewhere in this report.

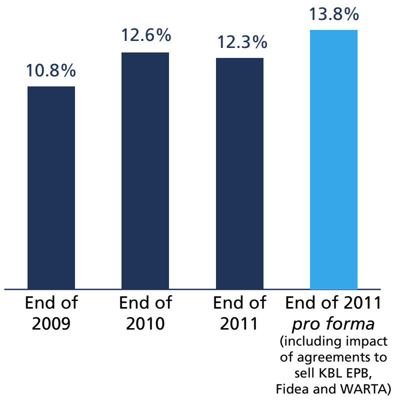
Results
(in millions of EUR)



Breakdown of underlying net result by business unit
(2011, in millions of EUR)



Group tier-1 ratio (Basel II)



Key financial figures

	2007	2008	2009	2010	2011
Consolidated balance sheet and assets under management, end of period (in millions of EUR)					
Total assets	355 597	355 317	324 231	320 823	285 382
Loans and advances to customers	147 051	157 296	153 230	150 666	138 284
Securities	105 023	94 897	98 252	89 395	65 036
Deposits from customers and debt securities	192 135	196 733	193 464	197 870	165 226
Technical provisions and liabilities under investment contracts, insurance	26 833	26 724	29 951	29 948	26 928
Total equity (including non-voting core-capital securities)	18 487	15 376	17 177	18 674	16 772
Risk-weighted assets at group level (Basel II)	146 998	155 291	143 359	132 034	126 333
Assets under management	230 890	206 842	205 234	208 813	192 795
Consolidated income statement according to IFRS (in millions of EUR)					
Total income	9 802	4 827	4 625	8 378	7 310
Operating expenses	-5 219	-5 600	-4 779	-4 436	-4 344
Impairment	-267	-2 234	-2 725	-1 656	-2 123
Net result, group share	3 281	-2 484	-2 466	1 860	13
Basic earnings per share (in EUR)	9.46	-7.31	-7.26	3.72	-1.93
Diluted earnings per share (in EUR)	9.42	-7.28	-7.26	3.72	-1.93
Consolidated underlying[1] results (in millions of EUR)					
Total income	9 481	9 172	9 111	8 744	8 182
Operating expenses	-5 164	-5 591	-4 888	-4 832	-4 686
Impairment	-191	-743	-1 913	-1 525	-1 909
Net result, group share	3 143	2 270	1 724	1 710	1 098
Basic earnings per share (in EUR)	9.06	6.68	5.08	3.28	1.26
Diluted earnings per share (in EUR)	9.02	6.66	5.08	3.28	1.26
Net result per business unit					
Belgium	–	–	–	1 051	802
Central & Eastern Europe (four home markets)	–	–	–	570	327
Merchant Banking	–	–	–	133	-110
Group Centre (including planned divestments)	–	–	–	-44	79
KBC share					
Number of shares outstanding, end of period ('000)	355 115	357 753	357 918	357 938	357 980
Parent shareholders' equity per share, end of period (in EUR)	50.7	31.5	28.4	32.8	28.7
Highest share price for the financial year (in EUR)	106.2	95.0	39.4	38.0	32.6
Lowest share price for the financial year (in EUR)	85.9	18.2	5.5	25.5	7.7
Average share price for the financial year (in EUR)	95.8	65.2	20.9	32.6	22.3
Share price at year-end (in EUR)	96.2	21.5	30.4	25.5	9.7
Gross dividend per share (in EUR)[2]	3.78	0.0	0.0	0.75	0.01
Equity market capitalisation, end of period (in billions of EUR)	34.2	7.7	10.9	9.1	3.5
Ratios					
Return on equity	21%	-18%	-23%	12%	-6%
Return on equity (based on underlying profit)	20%	16%	16%	11%	5%
Cost/income ratio, banking (based on underlying profit)	57%	64%	55%	56%	60%
Combined ratio, non-life insurance	96%	95%	101%	100%	92%
Credit cost ratio, banking	0.13%	0.70%	1.11%	0.91%	0.82%
Tier-1 ratio, group (Basel II)	8.8%	8.9%	10.8%	12.6%	12.3%

For definitions and comments, please see the detailed tables, analyses and glossary of ratios in this report.

1 The underlying results are explained in the 'Results in 2011' section. Given that the breakdown by business unit was changed in 2011, the reference figures for 2010 have been restated retroactively.

2 Dividend for 2011 subject to the approval of the General Meeting of Shareholders.

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3 Company annual accounts

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To the reader

Company name 'KBC', 'the group' or 'the KBC group' as used in this annual report refer to the consolidated entity, i.e. KBC Group NV plus all the group companies (subsidiaries and sub-subsidiaries, etc.) included in the scope of consolidation. 'KBC Group NV' refers solely to the parent company. KBL European Private Bankers is abbreviated in this annual report to 'KBL EPB'.

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

Forward-looking statements The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments. By their nature, forward-looking statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future. Various factors, including, but not limited to, those described in the context of such forward-looking statements in this annual report, could cause actual results and developments to differ materially from those expressed in or implied by such statements.

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

Articles 96 and 119 of the Belgian Companies Code These articles specify the minimum content of company and consolidated annual reports required by law. This information has been incorporated into the different sections of the 'Report of the Board of Directors', which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this brochure. Pursuant to Article 119, KBC Group NV has combined the reports for its company and consolidated annual accounts. The Risk Report and CSR Report referred to in certain sections do not form part of the annual report.

1 Report of the Board of Directors

Main events in 2011

March

- Agreement is reached for the sale of Centea to Landbouwkrediet.
- Announcement that the sale of KBL EPB to the Hinduja group will not go ahead. The sales process is restarted and an agreement is reached with Precision Capital in October.

April

- Agreement is reached with Value Partners Ltd. for the sale of KBC's stake in KBC Concord Asset Management Co. in Taiwan.

May

- Luc Popelier succeeds Luc Philips as Group CFO. Luc Gijsens is appointed CEO of the Merchant Banking Business Unit.
- Publication of first-quarter results for 2011: consolidated net profit of 821 million euros. Adjusted for exceptional items, 'underlying' net profit comes to 658 million euros.

July

- The European Commission approves the amended strategic plan. The most important changes concern the planned sale of Kredyt Bank and WARTA in Poland, and the cancellation of the IPOs of minority stakes in ČSOB in the Czech Republic and K&H Bank in Hungary.
- The results of the European stress tests confirm that KBC Bank meets the required target.

August

- Publication of second-quarter results for 2011: consolidated net profit of 333 million euros. Adjusted for exceptional items, 'underlying' net profit comes to 528 million euros. The results also include impairment charges on Greek sovereign bonds.
- Management buyouts of KBC Securities' Serbian and Romanian activities.

September

- A new generation of Mobile Banking apps is launched for KBC customers in the Belgian market.

October

- Agreement is reached with Precision Capital for the sale of KBL EPB.
- Agreement is reached with J.C. Flowers & Co. for the sale of Fidea.
- Thomas Leysen succeeds Jan Huyghebaert as Chairman of the Board of Directors.
- KBC Bank meets the new core tier-1 target set by the European banking regulator.

November

- Publication of third-quarter results for 2011: consolidated net loss of -1 579 million euros. Adjusted for exceptional items, the 'underlying' net loss comes to -248 million euros. The results are negatively influenced by the decline in value of CDOs, divestment losses, loan loss provisioning in Hungary, Bulgaria and Ireland, impairment on shares and the impact of Greece. On the other hand, holdings of Southern European government bonds are significantly reduced and the exposure to CDOs/ABS lowered.

December

- The results of the European stress tests reaffirm that KBC Bank meets the required target.
- The new, group-wide Climate Change Policy is approved.
- Announcement that 0.5 billion euros' worth of core-capital securities will be repaid to the Belgian Federal Government on 2 January 2012.

Main events at the start of 2012

- January 2012: agreement is reached with Talanx for the sale of WARTA in Poland.
- February 2012: publication of fourth-quarter results for 2011: consolidated net profit of 437 million euros. Adjusted for exceptional items, 'underlying' net profit comes to 161 million euros. For 2011 as a whole, the result totals 13 million euros, or 1 098 million euros on an underlying basis.
- February 2012: Banco Santander SA and KBC sign an agreement regarding the merger of their Polish banking subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA.
- February 2012: announcement that Jan Vanhevel (Group CEO) will retire after the General Meeting of 3 May 2012. He will be succeeded by Johan Thijs, who wil remain CEO of the Belgium Business Unit until that date. Daniel Falque will then replace Johan Thijs as CEO of the Belgium Business Unit.
- March 2012: agreement is reached with Value Partners Ltd. for the sale of KBC's stake in KBC Goldstate in China.
- March 2012: implementation of agreement on Greek debt (see Note 48 of the 'Consolidated financial statements' section).

More detailed information on the main events summarised above can be found in the relevant sections of this report.

2011 was another highly turbulent year on both the economic and financial fronts. The turmoil generated by the sovereign debt crisis, the uncertainty surrounding the euro, the falling stock markets and the deteriorating economic situation all had a significant impact on our results. Even so, we ended the year in profit, albeit a very modest one. More importantly, we made decisive progress in implementing our divestment plan, a major part of which was realised by the opening months of 2012. At the same time, we succeeded in further lowering our risk profile in a number of areas.

Our consolidated net result for 2011 came to just 13 million euros. Although the figure is considerably lower than in 2010, the decrease is largely attributable to non-operating items, such as valuation losses on our portfolio of structured products and the negative impact of several major divestments. If we disregard the principal non-operating items, our underlying result came to 1.1 billion euros in 2011, compared with 1.7 billion euros a year earlier. Among the positive elements within that underlying figure are a good level of net interest income, excellent technical insurance results and ongoing rigorous cost control. Negative elements included high provisioning in Hungary, Bulgaria and Ireland, higher impairment on shares, and the impact of the sovereign debt crisis, particularly in Greece. The fact that our underlying result came to 1.1 billion euros, in spite of factors that were largely shaped externally, demonstrates that our business model is fundamentally sound. Indeed, when the impact of Greece and the new Hungarian law relating to the repayment of foreign-currency mortgages are excluded, our underlying net profit would be at the same level as in 2010. Given the modest net result, the Executive Committee decided in November to forego its variable remuneration for financial year 2011.

2011 was a decisive year in terms of the further implementation of our strategic plan, which aims to make us an even more focused, regional European player with a lower risk profile. This plan also entails the divestment of several group companies and a number of other measures that – together with organic profit generation – are needed to build up the funds that will enable us to redeem the core-capital securities subscribed by the Belgian State and the Flemish Region within a reasonable period of time. We began that process at the start of 2012, when we repaid 0.5 billion euros plus a 15% penalty to the Belgian State.
We announced a change in this strategic plan in mid-2011. A number of measures, including the planned IPO of a minority stake in our Czech banking subsidiary ČSOB, were cancelled and replaced by others, such as the sale of our Polish subsidiaries, Kredyt Bank and WARTA. This move was largely prompted by regulatory amendments that had rendered the originally planned measures less effective. We were able to announce as early as the start of 2012 that an agreement had been signed for the sale of WARTA. And at the end of February 2012, we announced that we had concluded an agreement with Banco Santander with regard to the merger of our respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank, ultimately with the aim of selling our stake in the merged bank. Of course, the remaining measures in the original strategic plan continued to be implemented in 2011. The second half of the year turned out to be a particularly busy period as far as divestments were concerned, with sale agreements being reached for important entities like Centea, Fidea and KBL EPB. As a result, we had completed the bulk of our divestment programme by the opening months of 2012.

We also continued to work on other risk-mitigating measures. For instance, we further scaled back our exposure to Southern European and Irish government bonds, reducing it from just over 10 billion euros at the beginning of the financial year to 4.8 billion euros at year-end. What's more, our CDO and ABS exposure continued to be lowered, with almost 7 billion euros being trimmed from it in the space of a year.

At the end of 2011, our *pro-forma* tier-1 capital ratio – including the impact of the sale agreements for WARTA, Fidea and KBL EPB – was a solid 13.8%, according to Basel II rules and including the remaining core-capital securities subscribed by the government. In our view, that represents a comfortable capital position, especially since the Belgian regulator has confirmed that these core-capital securities qualify as common equity under the current CRD4 proposal. Our liquidity position – a long-standing strength of our group – also remains robust and is underpinned by a stable, retail customer deposit base in our home markets.

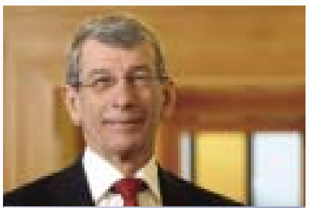
In addition to our financial goals, we paid close attention in our business operations to our role in society. This was reflected in the numerous initiatives we took in the past year in relation to community involvement and the environment. One example in this regard was the approval and implementation of a new Climate Change Policy for the entire group. You can find full details of these initiatives in our *Corporate Social Responsibility Report*.

It is far from easy in turbulent times to make a statement regarding economic developments in the near future. In saying that, we are fully aware of the many challenges that lie ahead of us. There is still uncertainty about the direction the global economy will take and the sovereign debt crisis in the euro area continues to take centre stage. However, the downward economic spiral would appear to have ended and business confidence indicators are even pointing towards a gradual economic recovery. We have, moreover, demonstrated over the past two years that, thanks to the persistent efforts of our employees, we have bounced back. We are more focused than ever on pursuing our core bancassurance business in a number of carefully selected countries and we are making good progress in dealing with the legacies of the past.

We would like to thank all our customers, employees, shareholders and all other stakeholders, including the Belgian Federal and Flemish Regional governments, for the confidence they have placed in our group. Although we are well aware that the financial sector is a frequent target for criticism within the current social debate, we will continue to do everything in our power to strengthen trust in the group. In closing, we would like to extend a special word of thanks to Jan Huyghebaert, who ended his career at KBC in September 2011. He was *the* architect behind the current KBC group, keeping it on track for many years as Chairman of the Board of Directors, and doing so with authority and style in both calm times and the more challenging ones of the past few years. KBC owes him a huge debt of gratitude for his unrelenting work.

Jan Vanhevel,
President of the Executive Committee

Thomas Leysen,
Chairman of the Board of Directors



Jan Vanhevel

Thomas Leysen

Strategy and company profile

We announced our new strategic plan at the end of 2009. This plan formed the basis of the reform plan approved by the European Commission in respect of the financial support received from the authorities. In mid-2011, we announced a few changes to this plan, more details of which are covered in this section. However, the basic principle remains the same, i.e. to make our group an even more focused, regional European bancassurer which has a lower risk profile and which retains past strengths, notably the successful bancassurance concept and a presence in Central and Eastern Europe.

Pillars of the strategy

- Integrated bancassurer.
- Focus on retail, SME and mid-cap customers.
- Focus on the home markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.
- Differentiated approach per country or market.
- Optimum global efficiency based on a judicious choice between local and centralised solutions.
- Streamlined collaboration between distribution channels and product developers by means of a partnership model.
- Responsible use of available capital within a generally conservative risk profile.

The KBC group focuses on providing financial services to retail, SME and mid-cap customers in several home markets, namely Belgium and selected countries in Central and Eastern Europe (the Czech Republic, Slovakia, Hungary and Bulgaria). Its presence outside these home markets is geared primarily towards catering for network customers, i.e. customers who also use KBC's services or who are linked with it in its home markets. The bulk of its activities in the other remaining countries will be run down or sold (see below).

We are very firmly embedded in our home markets and prefer a modified approach to each market. 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. We will continue to operate as a bancassurer in all our home markets, but it remains the intention that the bank and the insurance company individually remain profitable in each home market.

Products and services are developed centrally or locally, depending on which is the most efficient. The product providers 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. Under Basel II, the core tier-1 ratio must come to at least 11% for the group as a whole.

As a major player in our home markets, we also attach considerable importance to the social and environmental aspects of our activities, as well as to their profitability and efficiency. In practice, this is reflected in the relationship of respect we have with our customers and employees, and in a variety of projects and initiatives relating to the environment and to community involvement, several examples of which are given in this annual report. This area is dealt with in more detail in our *Corporate Social Responsibility Report*, which is available at www.kbc.com.

Implementation of the divestment programme

The group's focus also means that a substantial proportion of its non-core activities and its presence in non-core countries have been or will be run down. Therefore, the group's strategic plan includes a summary of the group companies and activities that need to be divested.

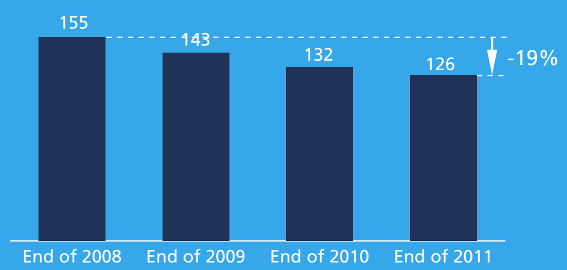
That plan was adjusted somewhat in mid-2011, due in part to the fact that the impact of certain changes in the regulatory environment – especially Basel III and the draft IFRS rules on leases – had reduced the effectiveness of some measures. In light of this situation, the European Commission agreed that the originally planned IPOs of minority stakes in ČSOB Bank in the Czech Republic and K&H Bank in Hungary, as well as the sale and lease back of KBC's head office in Belgium, could be cancelled and that the Polish banking and insurance subsidiaries, Kredyt Bank and WARTA, could be divested and selected ABS and CDO assets sold or unwound instead.

The following schematic contains a simplified overview of the main elements of the divestment programme and the current status. More details can be found in the sections devoted to the individual business units.

Implementation of divestment programme (simplified)

Project	Situation* (up to beginning of March 2012)	
Sale of complementary distribution channels in Belgium	✓✓✓	Centea sold mid-2011. Agreement for the sale of Fidea signed in October 2011.
Sale, termination or run-down of various specialised non-core activities (chiefly investment banking)	✓✓	Sold in 2010: Secura, KBC Peel Hunt, KBC Securities Baltic Investment Company, KBC Asset Management's British and Irish operations, KBC Business Capital, many of KBC Financial Products' activities. Sold in 2011 and at the start of 2012: stake in KBC Concord Asset Management (Taiwan) and in KBC Goldstate (China), KBC Securities' Romanian and Serbian operations. Awaiting divestment: Antwerp Diamond Bank, KBC Bank Deutschland, and a number of other activities (private equity, real estate development).
Run-down of a significant proportion of the loan portfolios outside the home markets	✓✓	Largely completed. The risk-weighted assets of the corporate banking operations have been reduced by more than 9 billion euros in the space of two years.
Sale of the European private banking network	✓✓✓	Agreement for the sale of KBL EPB reached in October 2011.
Divestment of Polish subsidiaries Kredyt Bank and WARTA	✓✓	Agreement for the sale of WARTA signed at the start of 2012. Announcement at the end of February 2012 that KBC had concluded an agreement with Banco Santander with regard to the merger of the two groups' respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank. KBC ultimately aims to sell its stake in the merged bank.
Sale of the activities in Russia, Serbia and Slovenia	–	Planned for 2012/2013.
Sale or run-down of certain CDO and ABS assets	✓✓✓	CDO and ABS exposure reduced by a nominal amount of almost 7 billion euros in 2011, ahead of the figure set out in the plan (see 'Further improvement in the risk profile' below).
The graph shows the change in the group's risk-weighted assets (RWA). Although this change is also influenced by other factors (including changes in the activities to be retained, new regulations (CRD III, etc.)), the significant reduction reflects primarily the divestments already completed and activities already run down.		

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



* ✓✓✓ = virtually completed; ✓✓ = largely completed; ✓ = partially completed. Based on reaching a sales agreement, not on closure of the deal (some deals still have to be closed).

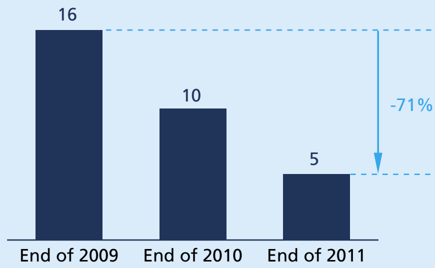
Further improvement in the risk profile

In addition to the measures set out in the divestment plan, the group continued to lower its overall risk profile through a number of other measures. These included:

- reducing the portfolio of sovereign bonds issued by riskier Southern European countries and Ireland by a total of almost 5.5 billion euros in 2011 (or -53%), bringing it to 4.8 billion euros at year-end 2011;
- scaling back the CDO and ABS portfolios to a greater extent than envisaged in the plan. Holdings of CDOs and ABS were trimmed by a nominal amount of nearly 7 billion euros in 2011 (or -25%) and the exposure to CDOs further reduced by approximately 1.7 billion euros (nominal amount) at the start of 2012. The aim is to continue reducing the exposure to CDOs and ABS.

Both subjects are discussed at greater length in the 'Value and risk management' section.

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



'End of 2009' relates to 31-03-2010.

Core-capital securities sold to the government

Following the aforementioned repayment of 0.5 billion euros and payment of a 15% penalty (on 2 January 2012 and recognised at year-end 2011 – see comments to the 'Consolidated statement of changes in equity' table in the 'Consolidated financial statements' section), the capital base still includes 6.5 billion euros in core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009. More information about this and the CDO guarantee agreement concluded with the Belgian State in 2009 can be found in the 'Additional information' section of this report.

KBC intends to redeem all the remaining core-capital securities within a reasonable period of time. It is continuing its efforts to ensure that the 4.7 billion euros in state aid is reimbursed (before penalties) by the end of 2013, as set out in the European plan.

- Original 7 billion euros' worth of core-capital securities sold to the Belgian State and Flemish Region (3.5 billion euros each) in 2008 and 2009.
- First 0.5 billion euros repaid on 2 January 2012 (+15% penalty).

Structure and management

Structure

The legal structure of the group is shown below in simplified form. Essentially, it comprises one holding company – KBC Group NV – in control of two large underlying companies, viz. KBC Bank and KBC Insurance. KBL EPB is no longer included in light of the sale agreement reached in October 2011. Each of these companies has several subsidiaries and sub-subsidiaries, the most important of which are listed in Note 44 of the 'Consolidated financial statements' section.

in simplified form

Business units

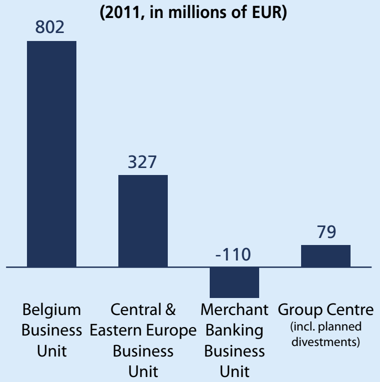
The group's management structure has been built around a number of business units, which are discussed separately in this report. The breakdown into business units is based on geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail 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.

Each business unit is managed by its own management committee, which operates under the group's Executive Committee. Each one of these committees is chaired by a Chief Executive Officer (CEO), except at the Shared Services & Operations Business Unit, where it 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.

The results by segment or business unit that are dealt with in this report are based on the business units, 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.
- All group companies earmarked for sale under the strategic plan are allocated to the Group Centre. The Group Centre also includes the results of the holding company and certain head-office services, as well as costs that cannot be allocated.

Breakdown of underlying net result by business unit
(2011, in millions of EUR)



The segments were adjusted slightly in 2011 to take account of the changes made to the strategic plan in the middle of that year. The results for Kredyt Bank and WARTA were transferred from the Central & Eastern Europe Business Unit to the Group Centre, where the other businesses scheduled for divestment are grouped, while the portion of the results for ČSOB in the Czech Republic, which related to the originally planned IPO of a minority interest in that company – and which had been recognised under Group Centre – has now been reallocated to the Central & Eastern Europe Business Unit. These changes have been made retroactively to preserve comparability.

Belgium Business Unit	Central & Eastern Europe Business Unit[1]	Merchant Banking Business Unit	Shared Services & Operations Business Unit
Brief description			
Retail and private bancassurance in Belgium	Retail and private bancassurance 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 group companies or services (Excluding the activities earmarked for sale or run-down (these are listed in the sections dealing with the individual business units))			
KBC Bank (retail and private banking activities), KBC Insurance, CBC Banque, KBC Asset Management, ADD, KBC Lease (retail), KBC Group Re, KBC Consumer Finance, VAB	ČSOB and ČSOB Pojišťovna (Czech Republic), ČSOB and ČSOB Poisťovňa (Slovakia), K&H Bank and K&H Insurance (Hungary), CIBANK and DZI Insurance (Bulgaria)	KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij, KBC Securities	Asset management, payments, consumer finance, trade finance, ICT, leasing, organisation
Network			
818 retail and private banking branches, 492 insurance agencies, various electronic channels	806 bank branches in the four home markets, insurance sales via different channels, various electronic channels	26 branches in Belgium, 24 branches outside Belgium[2], various electronic channels	–
Contribution to the group's underlying net result in 2011 (excluding Group Centre, which accounted for 79 million euros)			
802 million euros	**327 million euros**	**-110 million euros**	–
Financial ratios based on underlying results (definitions in the 'Glossary of ratios used')			
Return on allocated capital: 27% Cost/income ratio: 63% Credit cost ratio: 0.10% Combined ratio: 90%	Return on allocated capital: 11% Cost/income ratio: 54% Credit cost ratio: 1.59% Combined ratio: 93%	Return on allocated capital: -3% Cost/income ratio: 46% Credit cost ratio: 1.36%	–
More information			
Belgium Business Unit section	Central & Eastern Europe Business Unit section	Merchant Banking Business Unit section	Shared Services & Operations Business Unit section

1 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, this business unit is referred to as the 'Central & Eastern Europe Business Unit' throughout this annual report.
2 Branches belonging to KBC Bank, KBC Bank Deutschland and KBC Bank Ireland.

Group Executive Committee

Information on the management of KBC (Board of Directors, Executive Committee, etc.) can be found in the 'Corporate governance statement'. On 31 December 2011, the Group Executive Committee comprised seven members.

Jan Vanhevel

°1948

Doctorate in Law and Master's Degree in Notarial Sciences (KU Leuven)

Joined KBC in 1971

Group CEO

Danny De Raymaeker

°1959

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

Joined KBC in 1984

Chief Operating Officer

Luc Gijsens

°1953

Master's Degree in Law (KU Leuven)

Joined KBC in 1977

CEO of the Merchant Banking Business Unit

John Hollows

°1956

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

Joined KBC in 1996

Chief Risk Officer

Luc Popelier

°1964

Master's Degree in Applied Economic Sciences (Universiteit Antwerpen)

Joined KBC in 1988

Chief Financial Officer

Johan Thijs

°1965

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

Joined KBC in 1988

CEO of the Belgium Business Unit

Marko Voljč

°1949

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

Joined KBC in 2004

CEO of the Central & Eastern Europe Business Unit

KU Leuven: Katholieke Universiteit Leuven (Belgium).

Jan Vanhevel, President of the Executive Committee and Group CEO, expressed his intention to retire with effect from the General Meeting of 3 May 2012. At that time, he will have spent his entire career of almost 41 years at KBC, 16 of which as a member of its Executive Committee. He will be succeeded by Johan Thijs, who will remain CEO of the Belgium Business Unit until that date.

Thomas Leysen, Chairman of the Board of Directors: 'KBC owes an enormous debt of gratitude to Jan Vanhevel. He was prepared to take the helm in exceedingly difficult circumstances in 2009, postponing the retirement he had been planning to take that year. Since then, he has shown unconditional dedication to the group in leading the development and implementation of a far-reaching restructuring plan. With the most challenging phase of divestments now drawing to a close, the Board of Directors has acceded to Jan's wish to hand over control to a new CEO.'

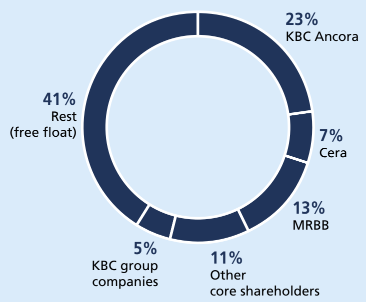
Information for shareholders and bondholders

Shareholders

The shareholder structure of KBC Group NV is given in the table below. For the core shareholders, this is the situation stated in the most recent notifications made under the transparency rules or (if more recent) disclosures made under the law on public takeover bids. For KBC group companies, this is the situation on 31 December 2011. Notifications of shareholdings that were received in 2011 and information on treasury shares held by group companies are listed in the 'Corporate governance statement' and 'Company annual accounts'.

Shareholder structure on 31-12-2011	Number of ordinary shares	%
KBC Ancora	82 216 380	23%
Cera	26 127 166	7%
MRBB	46 289 864	13%
Other core shareholders	39 202 997	11%
Subtotal for core shareholders	**193 836 407**	**54%**
KBC group companies	18 169 054	5%
Free float	145 974 852	41%
Total	**357 980 313**	**100%**

Shareholder structure on 31-12-2011



Credit ratings

The table shows the long-term and short-term credit ratings of KBC Group NV, KBC Bank NV and KBC Insurance NV. The ratings were revised as follows in the course of 2011 and at the start of 2012:

- In September 2011, Moody's lowered the long-term rating of KBC Group NV from A1 to A2 and the long-term rating of KBC Bank from Aa3 to A1. It also revised the outlook from negative to stable. The outlook was revised back to negative in November. In February 2012, the ratings were placed under review for downgrade.
- In December 2011, Standard & Poor's lowered KBC Group NV's long-term rating from A- to BBB+, KBC Bank's from A to A- and KBC Insurance's from A to A-. It also lowered KBC Bank's short-term rating from A1 to A2.
- Fitch placed the long-term ratings of KBC Bank, KBC Insurance and KBC Group NV on negative watch in December 2011 and lowered their ratings from A to A- (with stable outlook) on 31 January 2012.

Credit ratings* on 29-02-2012	Long-term rating	Outlook/watch/review	Short-term rating
Fitch			
KBC Bank NV	A-	(Stable outlook)	F1
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	F1
Moody's			
KBC Bank NV	A1	(Under review for downgrade)	P-1
KBC Group NV	A2	(Under review for downgrade)	P-1
Standard & Poor's			
KBC Bank NV	A-	(Stable outlook)	A-2
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	BBB+	(Stable outlook)	A-2

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

Dividend

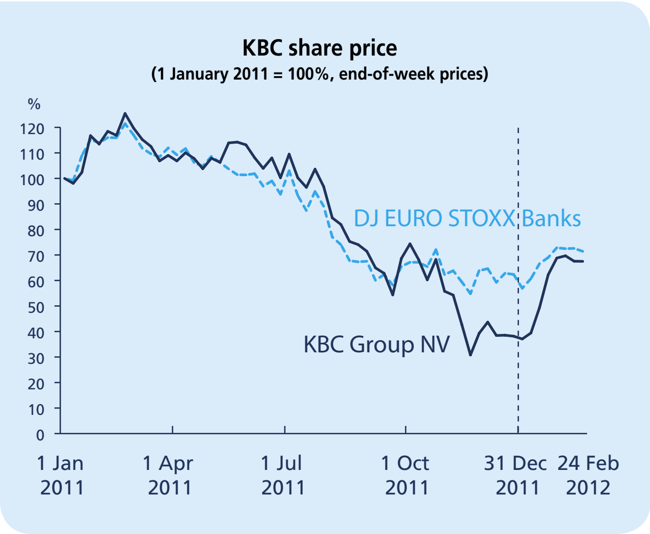
A gross dividend of 0.01 euros per share entitled to dividend will be proposed for financial year 2011 (payment in 2012), subject to the approval of the General Meeting of Shareholders on 3 May 2012. Payment of a coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments is related to payment of a dividend on ordinary shares. For financial year 2011, therefore, a total of 595 million euros (8.5% of 7 billion euros) will be paid in this regard to the relevant governments in 2012. The accounting treatment under IFRS is comparable with that for dividends.

KBC share in 2011

	2010	2011
Number of shares outstanding at year-end (in millions)	357.9	358.0
Change in the number of shares in 2011		Increase of 42 120 due to capital increase reserved for staff[1]
Number of shares entitled to dividend at year-end (in millions)	344.6	344.6
Share details[2]		
Highest share price for the financial year (in EUR)	38.0	32.6
Lowest share price for the financial year (in EUR)	25.5	7.7
Average share price for the financial year (in EUR)	32.6	22.3
Closing share price for the financial year (in EUR)	25.5	9.7
Difference between share price at the beginning and end of the financial year	-16%	-62%
Equity market capitalisation at year-end (in billions of EUR)	9.1	3.5
Average daily volume traded (NYSE Euronext Brussels – source: Bloomberg)		
millions of shares	0.74	0.89
millions of EUR	24.2	19.3
Equity per share (in EUR)	32.8	28.7

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

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



Financial calendar and contact details

The financial calendar and contact details can be found under 'Additional information'. For the most up-to-date version of the financial calendar, see www.kbc.com/InvestorRelations.

Results in 2011

- ✓ Good level of underlying net interest income and an increase in the technical insurance result and realised gains, but lower net fee and commission income, trading and fair value income and other net income.
- ✓ Underlying expenses down slightly.
- ✓ Impairment up: high loan losses in Ireland, Hungary and Bulgaria and significant impairment on Greek government bonds and on shares.
- ✓ Overall, underlying net result of 1.1 billion euros; including all exceptional and non-operating items, net result under IFRS of 13 million euros.
- ✓ Total equity of 16.8 billion euros.

Overview of the income statement

Consolidated income statement, KBC group (in millions of EUR)	2010	IFRS 2011	Underlying result 2010	Underlying result 2011
Net interest income	6 245	5 479	5 603	5 404
Interest income	10 542	11 883	[1]	[1]
Interest expense	-4 297	-6 404	[1]	[1]
Earned premiums, insurance (before reinsurance)	4 616	4 119	4 621	4 122
Non-life	1 916	1 861	1 916	1 861
Life	2 700	2 258	2 705	2 261
Technical charges, insurance (before reinsurance)	-4 261	-3 541	-4 281	-3 556
Non-life	-1 249	-996	-1 249	-996
Life	-3 012	-2 545	-3 031	-2 560
Ceded reinsurance result	-8	-44	-9	-44
Dividend income	97	85	73	74
Net result from financial instruments at fair value through profit or loss	-77	-178	855	509
Net realised result from available-for-sale assets	90	169	98	191
Net fee and commission income	1 224	1 164	1 666	1 535
Fee and commission income	2 156	2 043	[1]	[1]
Fee and commission expense	-932	-878	[1]	[1]
Other net income	452	56	118	-52
Total income	**8 378**	**7 310**	**8 744**	**8 182**
Operating expenses	-4 436	-4 344	-4 832	-4 686
Impairment	-1 656	-2 123	-1 525	-1 909
on loans and receivables	-1 483	-1 333	-1 481	-1 335
on available-for-sale assets	-31	-417	-34	-453
on goodwill	-88	-120	0	0
other	-54	-253	-10	-121
Share in results of associated companies	-63	-58	-61	-57
Result before tax	**2 224**	**786**	**2 326**	**1 530**
Income tax expense	-82	-320	-587	-397
Net post-tax result from discontinued operations	-254	-419	0	0
Result after tax	**1 888**	**47**	**1 739**	**1 133**
Result after tax, attributable to minority interests	28	34	29	35
Result after tax, attributable to equity holders of the parent	**1 860**	**13**	**1 710**	**1 098**
Breakdown by business unit				
Belgium Business Unit	1 187	421	1 051	802
Central & Eastern Europe Business Unit[2]	609	289	570	327
Merchant Banking Business Unit	172	-208	133	-110
Group Centre[2]	-107	-489	-44	79
Return on equity	12%	-6%	11%	5%
Cost/income ratio, banking	56%	61%	56%	60%
Combined ratio, non-life insurance	100%	92%	100%	92%
Credit cost ratio, banking	0.91%	0.82%	0.91%	0.82%

For a definition of the ratios, see 'Glossary of ratios used'. The underlying results are defined in this section of the report.

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

2 The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the modified strategy. See the 'Structure and management' section.

This section of the annual report deals with the consolidated results. A 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 certain exceptional and non-operating 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 underlying results are an important element in assessing and managing the business units. The statutory auditor has audited the segment reporting presentation as part of the consolidated financial statements.

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 2010 and 2011 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, changes in the value of CDOs, impairment on goodwill, etc.)	Included	Excluded
Interest on ALM hedging instruments	Under 'Net result from financial instruments at fair value' until year-end 2010 (Under 'Net interest income' as of 2011)	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'
Contribution to results from discontinued operations	Under 'Net post-tax result from discontinued operations'	Under the different result components

* Dealt with in more detail under 'Notes on segment reporting'.

Overview of items excluded from the underlying result (in millions of EUR, after tax)	2010	2011
Changes in fair value of ALM hedging instruments	-179	-273
Gains/losses relating to CDOs	1 027	-416
Fee for government guarantee scheme to cover CDO-related risks	-68	-52
Impairment on goodwill and associated companies	-118	-115
Result from legacy structured derivatives business (KBC Financial Products)	-372	50
Changes in fair value of own debt instruments	39	359
Results on divestments	-176	-640
Other	-4	0
Total exceptional items	**150**	**-1 085**

The -0.6-billion-euro impact of divestments in 2011 was accounted for primarily by KBL EPB and Fidea.
The -0.4 billion euros relating to CDOs in 2011 was due mainly to widening credit spreads on corporate bonds and ABS, which caused the value of our CDO position to decline. More information about this and the other items excluded from the underlying result is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC group (in millions of EUR)	**2010**	**2011**
Total assets	320 823	285 382
Loans and advances to customers	150 666	138 284
Securities (equity and debt instruments)	89 395	65 036
Deposits from customers and debt securities	197 870	165 226
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	29 948	26 928
Risk-weighted assets	132 034	126 333
Total equity*	18 674	16 772
Parent shareholders' equity	11 147	9 756
Non-voting core-capital securities	7 000	6 500
Minority interests	527	516
Parent shareholders' equity per share (in EUR)	32.8	28.7
Tier-1 ratio, group (Basel II)	12.6%	12.3%
Core tier-1 ratio, group (Basel II)	10.9%	10.6%

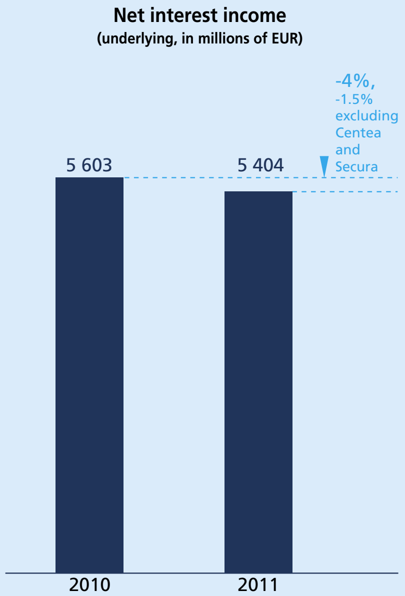
* For movements in equity, see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section. For changes in capital, treasury shares held by the company, etc., see the 'Company annual accounts' section.

Additional information

- The comparison of results between 2010 and 2011 is affected by the ongoing divestment programme:
  - Realised gains and losses on completed divestments (and impairment charges on divestments for which an agreement has been signed but not yet completed) are treated as exceptional items and have, therefore, been excluded from the underlying results.
  - The results for the divested group companies themselves are included in both the IFRS and underlying group results until the moment of sale. An indication of the period for which the results of the most important of these companies are recognised in the group result can be found in the table, 'Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations', in the 'Consolidated financial statements' section.
  - The assets and liabilities of divested companies no longer appear, of course, in the balance sheet. At year-end 2011, sale agreements had been signed but not yet finalised – or negotiations were at an advanced stage – for a number of group companies (KBL EPB, Fidea and WARTA, whereas it was only KBL EPB in 2010). Divestments like this fall under the scope of IFRS 5, which means that the entities' assets and liabilities are grouped together under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. The reference figures have not been restated.
  - Moreover, KBL EPB was recognised as a discontinued operation in 2010 and 2011 and so all the relevant headings have been combined under 'Net post-tax result from discontinued operations' in the IFRS figures. KBL EPB's results are still recognised under all the relevant headings in the underlying results.
- 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 (Notes 1b, 5 and 18-29 among others) and in the 'Value and risk management' section.
- The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the modified strategy. See the 'Structure and management' section.

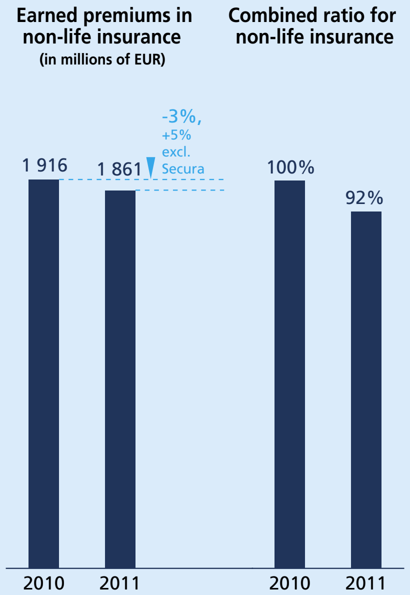
Net interest income

Net interest income came to 5 479 million euros in 2011. On an underlying basis, the figure was 5 404 million euros, roughly on a par with its year-earlier level when Centea (sold in mid-2011) and Secura (sold at the end of 2010) are excluded. At 1.96%, the underlying net interest margin of the banking activities was roughly 4 basis points higher than in 2010. On a comparable basis, the total volume of credit outstanding rose by 2% in the course of 2011. Implementation of the refocused strategy meant that loan portfolio growth (+6%) at the Belgium and Central & Eastern Europe business units was partially cancelled out by the ongoing deliberate reduction in international loan portfolios outside the home markets (-1% at the Merchant Banking Business Unit and -1% at the Group Centre). On a comparable basis, the total volume of deposits went up by 5% in the Belgium Business Unit and by 4% in the Central & Eastern Europe Business Unit, but fell by 45% in the Merchant Banking Business Unit, owing to a decline in (volatile) short-term deposits from corporate and institutional entities outside the home markets (see the Merchant Banking Business Unit section).



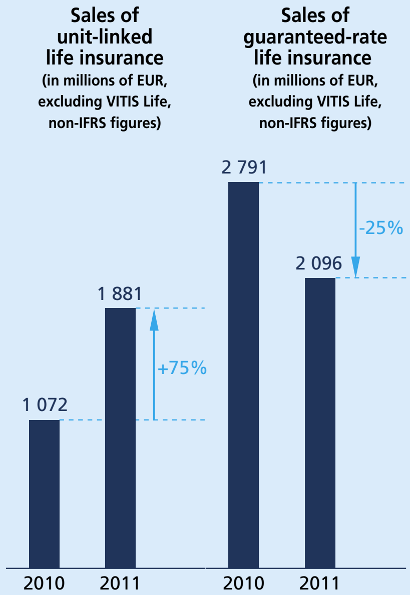
Non-life insurance premiums

Earned premiums in non-life insurance came to 1 861 million euros in 2011, up 5% on the year-earlier figure (excluding Secura, which was sold in 2010). As in previous years, premium income again increased in Belgium, going up by 2% (excluding Secura), while it rose by 4% in organic terms in the four Central and Eastern European core markets combined, and by almost 10% in the Group Centre, thanks to WARTA. The combined ratio at group level improved from 100% to 92%. It was an excellent 90% in Belgium, a further improvement on the 95% recorded in 2010, due primarily to fewer big claims and storms in 2011. The ratio stood at 93% in Central and Eastern Europe (for the four home markets combined), a significant improvement on the 103% for 2010, which had been adversely affected by storms and flooding, among other things.



Life insurance premiums

Earned premiums in life insurance came to 2 258 million euros in 2011. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled approximately 4 billion euros (excluding VITIS Life), 3% higher than the figure for 2010. There was an increase in both Belgium and Central and Eastern Europe, with lower sales of guaranteed-interest products being offset by increased sales of unit-linked products in each case. Overall, products offering guaranteed rates still accounted for about 53% of premium income from the life insurance business, and unit-linked products for 47%. On 31 December 2011, the group's life reserves came to 22.3 billion euros for the Belgium Business Unit and to 1.6 billion euros for the Central & Eastern Europe Business Unit.

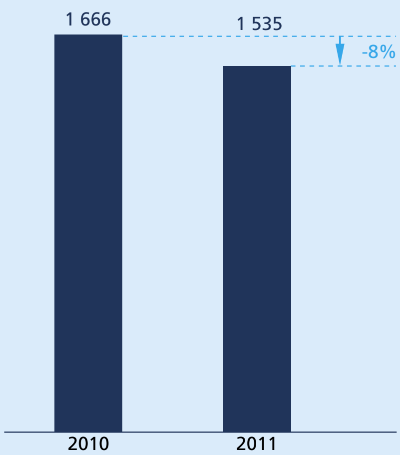


Net fee and commission income

Net fee and commission income came to 1 164 million euros in 2011. On an underlying basis, it was 1 535 million euros, down 8% on the previous year's figure. In addition to the divestments, this was attributable to a number of other factors, including a decline in fee and commission income from asset management activities, which was due in part to the fall in the group's assets under management and to investors' diminished appetite for risk. On the other hand, the higher contribution made by unit-linked life insurance products and the commission received on the sale of Belgian state notes in Belgium were positive factors.

At the end of 2011, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 193 billion euros, 8% less than the year-earlier figure, due to a combination of lower volumes and prices. The Belgium Business Unit was responsible for the bulk of assets under management (138 billion euros) at year-end 2011, while the Central & Eastern Europe Business Unit accounted for roughly 11 billion euros and the Group Centre (KBL EPB) for approximately 44 billion euros.

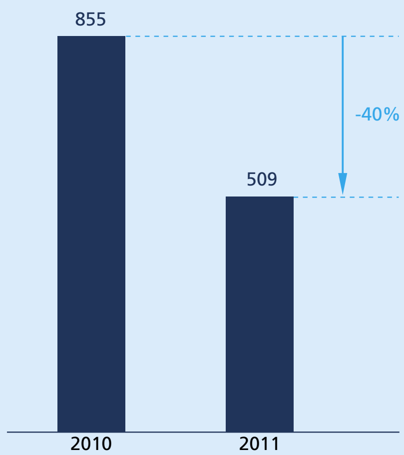
Net fee and commission income
(underlying, in millions of EUR)



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 -178 million euros in 2011, compared with -77 million euros in 2010. This item was significantly influenced by various exceptional and non-operating items, including valuation markdowns on CDOs (-0.4 billion euros in 2011), adjustments to the value of certain government bonds used for the fair value option (-0.3 billion euros in 2011) and changes in fair value of own debt instruments. 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 509 million euros in 2011, compared with 855 million euros a year earlier, partly reflecting a less robust performance in the dealing rooms, a lower contribution by companies earmarked for divestment and negative counterparty valuation adjustments for derivative financial instruments in 2011.

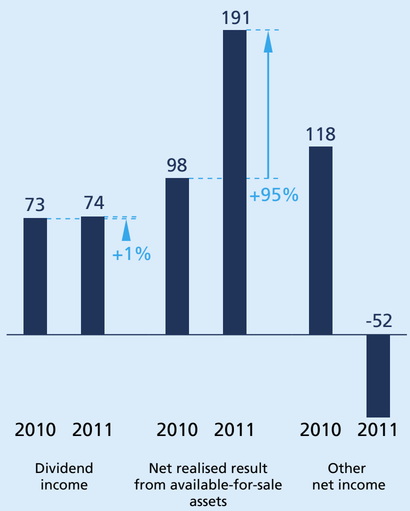
Trading and fair value income
(underlying, in millions of EUR)



Other income

Dividends, realised gains and other net income came to an aggregate 310 million euros in 2011. On an underlying basis, they amounted to 213 million euros, down 76 million euros on the figure for 2010. The difference is primarily attributable to the combination of higher realised gains from available-for-sale shares and bonds, and a significantly lower level of other net income. The latter item had been adversely affected by the recognition of 175 million euros for irregularities at KBC Lease UK in 2010. In 2011, it was negatively impacted by the recognition of 334 million euros for the 5-5-5 investment product (partly related to Greece; more information about this product can be found in Note 8 of the 'Consolidated financial statements' section).

Other income items
(underlying, in millions of EUR)

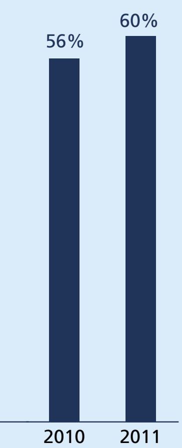


Operating expenses

Operating expenses came to 4 344 million euros in 2011, or 4 686 million euros on an underlying basis. This underlying figure is 3% down on its year-earlier level, due in part to divestments and a reduction in activities (reflected primarily in the Group Centre), despite inflationary pressures pushing up staff expenses slightly. It should also be noted that the figures for both 2010 and 2011 include additional expenses (58 and 6 million euros) relating to the new bank tax in Hungary. The lower figure for 2011 was accounted for by the partial compensation of losses related to the new legislation on foreign-currency mortgage loans in Hungary. The underlying cost/income ratio for the group's banking activities (operating expenses/total income) was roughly 60% in 2011, or 57% excluding the impact of the 5-5-5 investment products, slightly up on its year-earlier level of 56%. It was 63% for the Belgium Business Unit, 54% for the Central & Eastern Europe Business Unit, and 46% for the Merchant Banking Business Unit.

Operating expenses
(underlying, in millions of EUR)

Cost/income ratio: banking
(underlying)

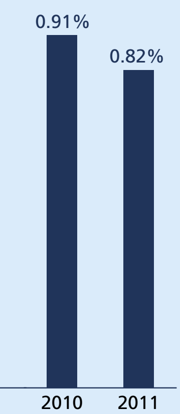


Impairment on loans and receivables

Impairment on loans and receivables (loan loss provisions) amounted to 1.3 billion euros in 2011, compared with 1.5 billion euros in 2010. This fall resulted from lower provisioning in a number of countries, including Poland, Russia, the Czech Republic and Slovakia, and lower provisioning for US asset-backed securities, partially offset by higher provisioning in Hungary (chiefly related to the new legislation on foreign-currency loans) and Bulgaria, while loan loss provisions in Ireland remained relatively high (510 million euros in 2011, compared with 525 million euros in 2010). Overall, the group's credit cost ratio improved from 91 basis points in 2010 to 82 basis points in 2011 (136 basis points at the Merchant Banking Business Unit, 159 basis points at the Central & Eastern Europe Business Unit and a very favourable 10 basis points at the Belgium Business Unit). The proportion of non-performing loans in the total loan portfolio was 4.9% at year-end 2011, compared with 4.1% in 2010.

Impairment on loans and receivables
(underlying, in millions of EUR)

Credit cost ratio



Other impairment charges

Other impairment charges in 2011 related chiefly to the recognition of 0.4 billion euros for Greek government bonds, which were marked down to fair value (this corresponds to an impairment of roughly 71%). Due to the fall in stock market prices, a further impairment of 114 million euros was recognised on shares in investment portfolios. Impairment on goodwill in respect of certain subsidiaries and associated companies (goodwill markdowns of this kind have been eliminated from the underlying results) came to 120 million euros, and related primarily to Bulgaria. In compliance with IFRS 5, the impairment on goodwill relating to the divestment of KBL EPB has been recognised under 'Net post-tax result from discontinued operations' and excluded from the underlying figures.

Impairment on available-for-sale securities
(underlying, in millions of EUR)

Impairment on other
(underlying, in millions of EUR)

Net results per business unit

The group's net result under IFRS in 2011 breaks down as follows among its different business units: Belgium 421 million euros, Central & Eastern Europe 289 million euros, Merchant Banking -208 million euros and the Group Centre (which also includes the results of group companies earmarked for divestment) -489 million euros. When adjusted for exceptional items, the underlying result stood at 802 million euros for the Belgium Business Unit (down 24% on the figure for 2010, due almost entirely to provisioning for the 5-5-5 product and to impairment charges relating to Greece), 327 million euros for the Central & Eastern Europe Business Unit (down 43% year-on-year, due primarily to additional impairment charges in Hungary and Bulgaria and for Greece), -110 million euros for the Merchant Banking Business Unit (243 million euros less than in 2010, owing in part to the lower level of income generated by the dealing room, the impact of the 5-5-5 product and relatively high loan loss provisioning for Ireland), and 79 million euros for the Group Centre.

An overview of all the items not included in the underlying results is given towards the start of this section. A further analysis of the results for each business unit can be found in the relevant sections of this annual report.

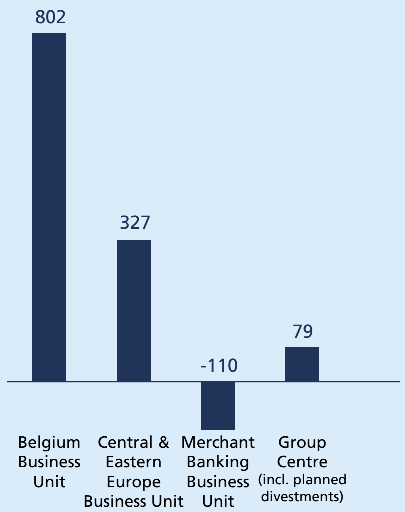
Balance sheet and solvency

At the end of 2011, the KBC group's consolidated total assets came to 285 billion euros, down 11% year-on-year. Risk-weighted assets fell by 4% to 126 billion euros in 2011, a trend that is accounted for primarily by the ongoing deliberate run-down of loan portfolios not linked to the home markets and divestments.

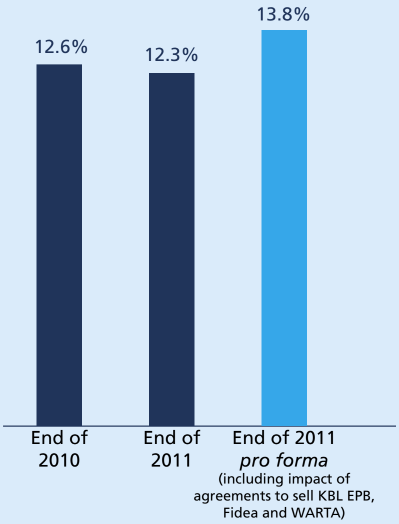
'Loans and advances to customers' (137 billion euros in loans at the end of 2011, not including reverse repos) and 'Securities' (65 billion euros, 96% of which were debt instruments) continued to be the main products on the assets side of the balance sheet. On a comparable basis, lending was up 2%, due to the scaling back of loan portfolios outside the home markets, combined with an increase at the Belgium Business Unit (+6%) and the Central & Eastern Europe Business Unit (+6%). The main credit products (including reverse repos) were again term loans (64 billion euros) and mortgage loans (57 billion euros, up 3% year-on-year). On a comparable basis, total customer deposits (excluding repos) fell by 14% to 149 billion euros at group level. Although there was an increase in deposits at the Belgium Business Unit (+5%) and the Central & Eastern Europe Business Unit (+4%), there was a significant decline at the Merchant Banking Business Unit (-45%, see 'Net interest income' above). As in 2010, the main products (including repos) were time deposits (59 billion euros), demand deposits (37 billion euros) and savings deposits (33 billion euros). Technical provisions and liabilities under the insurer's investment contracts totalled 27 billion euros at year-end 2011.

On 31 December 2011, the group's total equity came to 16.8 billion euros. This figure included parent shareholders' equity (9.8 billion euros), minority interests (0.5 billion euros) and non-voting core-capital securities sold to the Belgian Federal and Flemish Regional governments (6.5 billion euros). On balance, total equity fell by 1.9 billion euros in 2011, due primarily to the combined effect of the 0.3-billion-euro decrease in the revaluation reserve for available-for-sale financial assets and the cashflow hedge reserve, the dividend and coupon payments on the core-capital securities sold to the governments in respect of 2010 (an aggregate -0.85 billion euros), and repayment of 0.5 billion euros (plus a 15% penalty) to the Belgian State. At year-end 2011, the group's tier-1 ratio amounted to 12.3% (core tier-1 ratio of 10.6%). For a detailed overview of changes in equity, see the 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

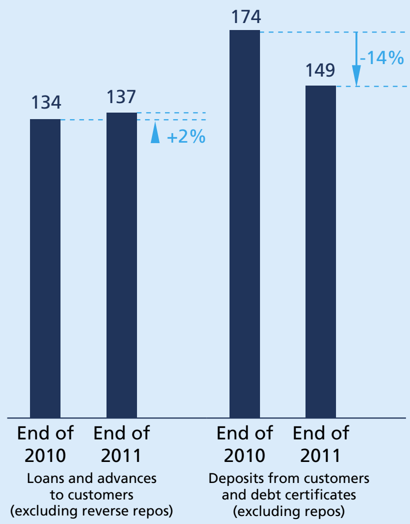
Breakdown of underlying net result by business unit
(2011, in millions of EUR)



Group tier-1 ratio
(Basel II)



Loans and customer deposits
(in billions of EUR, on a like-for-like basis)



Belgium Business Unit

Description

The Belgium Business Unit brings together all the group's **retail and private bancassurance** activities **in Belgium**. The main group companies that belonged to this unit in 2011 were ADD, CBC Banque, KBC Asset Management, KBC Bank (Belgian retail and private banking activities), KBC Insurance, KBC Lease (Belgian retail activities), KBC Group Re, KBC Consumer Finance and VAB Group. Secura was sold in 2010. Centea and Fidea, which were or will be divested under the strategic plan, also belong or belonged to this business unit until the completion of sale. However, their results have been allocated to the Group Centre, which incorporates the results of all group companies scheduled for divestment.

Market position in 2011*

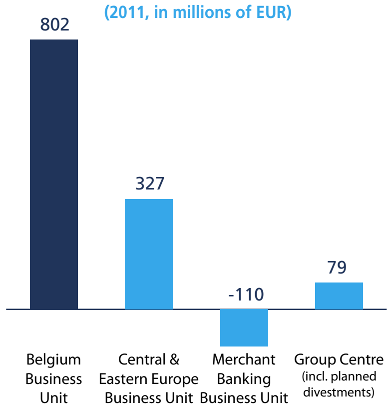
- **818** retail and private banking branches and **492** insurance agencies
- Estimated market share of **19%** for traditional bank products, **39%** for investment funds, **16%** for life insurance and **8%** for non-life insurance
- **3.4 million** customers
- Loan portfolio of **55 billion euros** and deposits of **71 billion euros**

Contribution to results

- Net result under IFRS of **421** million euros
- Underlying net result of **802** million euros, **73%** of the group total

* All figures excluding Fidea.
Market shares and customer numbers: based on own estimates.
Market shares for traditional bank products: average estimated market share for loans and deposits.
Market share for life insurance: guaranteed-interest and unit-linked products (combined).
Loan portfolio: amount drawn down, excluding reverse repos.
Deposits: excluding repos.

Breakdown of underlying net result by business unit
(2011, in millions of EUR)



Contribution to group results

Belgium Business Unit* (in millions of EUR)	**2010**	**IFRS 2011**	**2010**	**Underlying 2011**
Net interest income	2 496	2 320	2 243	2 320
Earned premiums, insurance (before reinsurance)	2 886	2 135	2 886	2 135
Technical charges, insurance (before reinsurance)	-2 851	-2 025	-2 851	-2 025
Ceded reinsurance result	-11	-24	-11	-24
Dividend income	50	52	50	52
Net result from financial instruments at fair value through profit or loss	-252	-512	60	45
Net realised result from available-for-sale assets	51	98	51	98
Net fee and commission income	770	700	770	700
Other net income	248	-31	119	-39
Total income	**3 388**	**2 712**	**3 318**	**3 260**
Operating expenses	-1 703	-1 790	-1 702	-1 790
Impairment	-109	-316	-104	-312
on loans and receivables	-82	-59	-82	-59
on available-for-sale assets	-23	-230	-23	-230
on goodwill	-6	-4	0	0
other	0	-22	0	-22
Share in results of associated companies	0	0	0	0
Result before tax	**1 576**	**607**	**1 513**	**1 159**
Income tax expense	-384	-183	-457	-355
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**1 192**	**423**	**1 056**	**804**
attributable to minority interests	5	2	5	2
attributable to equity holders of the parent	**1 187**	**421**	**1 051**	**802**
Banking	599	297	725	534
Insurance	588	124	326	268
Risk-weighted assets (period-end) (Basel II)	28 744	28 929	28 744	28 929
Allocated capital (period-end)	2 751	2 746	2 751	2 746
Return on allocated capital	42%	13%	37%	27%
Cost/income ratio, banking	59%	74%	55%	63%
Combined ratio, non-life insurance	95%	90%	95%	90%

* The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the 'Results in 2011' section and the reconciliation table below.

Reconciliation of IFRS and underlying figures[1] (in millions of EUR)	**2010**	**2011**
Result after tax, attributable to equity holders of the parent (underlying)	1 051	802
Changes in fair value of ALM hedging instruments	-143	-251
Gains/losses relating to CDOs	205	-118
Fair value of CDO guarantee and commitment fees[2]	-11	-9
Impairment on goodwill and associated companies	-6	-4
Results on divestments	79	0
Other	11	0
Result after tax, attributable to equity holders of the parent (IFRS)	1 187	421

1 A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

2 For more information, see Note 5 of the 'Consolidated financial statements'.

In 2011, the Belgium Business Unit generated a net result of 421 million euros, compared with 1 187 million euros a year earlier. At 802 million euros, the underlying figure was 249 million euros lower than in 2010, though it was due almost entirely to impairment recorded on Greek government bonds and the recognition of a provision for the 5-5-5 investment product (an aggregate impact of -213 million euros after tax). As mentioned above, the results of divested companies or companies scheduled for divestment have been reallocated to the Group Centre.

Net interest income totalled 2 320 million euros in 2011. On an underlying basis and excluding Secura, which was sold in 2010, that figure was 5% up on the previous year's level and was attributable primarily to higher income related to lending and deposits. Although the net interest margin at KBC Bank fell slightly – by 4 basis points to 1.42% – loan and deposit volumes went up by 6% and 5%, respectively, in the space of a year. Net interest income was also positively influenced by the higher return from the bond portfolio of the insurance business.

Earned insurance premiums came to 2 135 million euros, 1 263 million euros of which related to life insurance and 872 million euros to non-life insurance. On a comparable basis (excluding Secura), non-life insurance premiums rose by roughly 2%, a continuation of the steady growth of recent years. The combined ratio amounted to an excellent 90%, which was a further improvement of 5 percentage points on the 2010 figure, due in part to the lower level of claims (fewer large claims, fewer storms, etc.) in 2011.

Sales of life insurance – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance policies), which are excluded from the IFRS figures – ended the year at 2.6 billion euros. That was a little higher than in 2010 and chiefly reflects an increase in sales of unit-linked products (e.g., KBC Life MI Interest products – see below) that more than compensated for the drop in sales of guaranteed-interest products. Overall, products offering guaranteed rates thus accounted for 48% of life insurance sales in 2011, and unit-linked products for 52%. At year-end 2011, the outstanding life reserves in this business unit totalled 22 billion euros, up 3% on the year-earlier figure.

Net fee and commission income amounted to 700 million euros, down 9% on the figure for 2010 (-12% excluding Secura). This decline was accounted for by several factors, including lower fee and commission *income* from asset management activities (cf. reduced entry and management fees for investment funds), and reflects the more difficult investment climate. It was only partially offset by a higher contribution from the sale of unit-linked products (under IFRS, the margin on these products is included in this income item) and commission on the sale of the Belgian state notes. At 138 billion euros, assets under management fell by 6% year-on-year, due to the combined effect of lower volumes and, to a lesser extent, lower prices.

As regards the other income items, the net realised result from available-for-sale assets stood at 98 million euros (+47 million euros, with an increase for both shares and bonds), dividend income amounted to 52 million euros, the net result from financial instruments at fair value through profit or loss came to -512 million euros (or 45 million euros on an underlying basis, i.e. after excluding certain exceptional and non-operating items, among other things), and other net income came to -31 million euros. The latter was 279 million euros less than in 2010, which had benefited from the capital gain on the sale of Secura, whereas 2011 was negatively influenced by the recognition of -167 million euros for the 5-5-5 investment product (see Note 8 in the 'Consolidated financial statements' section).

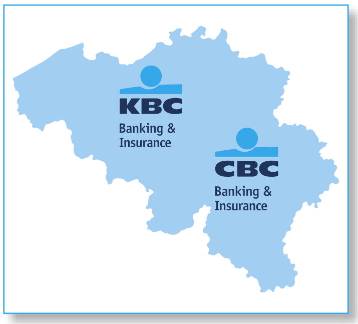
Operating expenses totalled 1 790 million euros in 2011. That is roughly 5% more than a year earlier (+6% excluding Secura), attributable in part to the increased contribution to the Belgian deposit protection fund, higher staff expenses and inflation in general. The underlying cost/income ratio of the banking activities amounted to 63%. Excluding the provision for the 5-5-5 product, the figure came to 59%, compared with 55% in 2010.

Impairment recorded on loans and receivables amounted to a low 59 million euros in 2011. As in previous years, this resulted in a very favourable credit cost ratio of 10 basis points (15 basis points in 2010). Approximately 1.5% of the Belgian retail loan portfolio was non-performing at year-end 2011, unchanged from the year-earlier figure. The other impairment charges related primarily to shares (-97 million euros in 2011, owing to the general decline in stock market prices) and to Greek government bonds (-156 million euros in 2011, on account of the decrease in the market value of these bonds).

Macroeconomic trends in 2011 and forecasts

The downturn that set in after the spring of 2011 pushed the Belgian economy back into recession in the second half of the year. The budgetary austerity measures introduced by the government will adversely affect household income and consumption in 2012. On the other hand, the business climate is gradually improving. With limited, export-driven growth of around 0.2%, 2012 will be a lean year, although this weak figure is still better than the 0% projected for the euro area as a whole. These figures are based on forecasts made in early March 2012. The actual figures could, therefore, differ (considerably).

Strategy and Net 3.0



The strategy pursued by the Belgium Business Unit is based on being deeply embedded locally through a close-knit network of bank branches and insurance agencies, backed up by a complementary online channel. At the end of 2011, this network consisted of around 800 KBC Bank and CBC Banque retail and private banking branches, and some 500 tied KBC Insurance and CBC Assurances agencies.

The focus is on relationship bancassurance, tailored to each customer and offering them readily available expertise. KBC's approach is also characterised by a unique model of co-operation between KBC Bank branches and KBC Insurance agencies in so-called micro markets. This model enables KBC to provide its customers with a comprehensive product offering, which is aligned to their individual needs, while stimulating cross-selling of bank and insurance products. In recent years, for instance, a fire insurance policy from the group has been sold with 70-80% of home loans granted, as has been the case with loan balance insurance and home loans.

Bank branches accounted for some 87% of life insurance sales in 2011. Generating around 75% of sales, insurance agents were the principal channel for non-life insurance policies, with bank branches accounting for more than 20%. Centea and Fidea are excluded from these figures.

A programme was launched in 2010 to optimise the commercial network in Belgium, with the goal of safeguarding KBC's position within a highly competitive and constantly changing environment (see the annual report for 2010 for further information). The project is called 'Net 3.0' in Flanders and Brussels and was rolled out in early 2011. In 2011, the structures were put in place to support the business, premium and private-banking customer segments. For example, a Wealth Office was established specifically to cater for private banking clients with more than 5 million euros' worth of assets under management at KBC. As of 2012, this office will offer specific services from a Brussels-based competence centre that will work closely with the group's existing private banking branches in Belgium.

Sale of Centea and Fidea

The group's strategic plan includes the divestment of certain group companies. In Belgium's case, that relates to the sale of Centea and Fidea. In March 2011, an agreement was reached with Landbouwkrediet for the sale of Centea, and the deal was finalised on 1 July 2011. An agreement for the sale of Fidea was reached with J.C. Flowers & Co. in October 2011. Additional information and a summary of all the divestments are provided in the 'Group Centre' section.

Expansion of direct channels

The Internet has an important place within the new distribution network, functioning as a support channel with particular emphases on specific customer groups. Another series of sales applications were added to the 'www.kbc.be' website in 2011, during which the site received over 1.4 million unique visitors a month. New functionalities were added to KBC-Online, too. It is now possible, for instance, to order cash (euros or foreign currency) through this channel. At year-end 2011, KBC-Online and CBC-Online had roughly 950 000 active subscribers in total, an increase of about 8% on the year-earlier figure.

In 2011, KBC introduced mobile banking for smartphones, iPads, etc., an extra service for KBC-Online users. This means that they can now also use their smartphone or tablet to check their account balance, perform credit transfers and review their statements. With its new range of mobile products, KBC is responding to the constantly changing needs of its customers, who are indicating an ever greater desire to bank whenever they want and on whatever platform they choose to use. In February 2012, the KBC Mobile Banking app won the public vote in the 'Financial Services' category of Accenture's Innovation Award. Other mobile applications were developed as well, including the KBC Home Project app, which guides customers through their building and renovation plans. KBC also launched a first on the Belgian market in 2011 with its 'scashing' (scan & cash) mobile function. Scashing is a simple way of transferring money via a smartphone using a QR (scash) code.

Products and market share

It goes without saying that KBC constantly adjusts its product offering to the evolving needs of its customers and to social trends. A good example is KBC Insurance's launch in April 2011 of a guaranteed-interest savings scheme to pre-finance the KBC Hospitalisation Insurance policy. Known as the KBC Hospitalisation Plan, this scheme extends life-long, tailored cover to customers, while ensuring that the insurance remains affordable as they get older. Other examples include the introduction of optional dog cover within the KBC Family Insurance policy, thus offering additional protection to dog-owners, the launch of KBC Life MI Inflation (investment-type insurance whose return is linked to the euro area's Harmonised Index of Consumer Prices excluding Tobacco) and the new electronic applications mentioned above.

Based on provisional data and in-house projections, KBC's share of the market in 2011 remained fairly stable on a comparable basis (excluding Centea and Fidea), i.e. roughly 21% in lending and just over 17% in deposits (where there was a shift from savings accounts to various savings and investment products offered by the group, including time deposit accounts, investment funds, and investment type insurance, and to the Belgian state note issued in December 2011).

Its share of the insurance market came to an estimated 16% for life insurance (guaranteed-interest and unit-linked products, combined) and a little more than 8% for non-life insurance (a slight increase on its 2010 share). As in previous years, the group did very well on the investment fund market with an estimated share of almost 40%.

Customer and employee satisfaction

Given its importance within a relationship bancassurance approach, KBC tracks customer satisfaction very closely. The half-yearly surveys on bank branches conducted in 2011 confirmed the trend of recent years, which is that customers continue to show a high level of satisfaction. In statistical terms, 96% of customers are satisfied compared with 95% a year earlier.

KBC also scored very well in terms of employee satisfaction. Moreover, the company was proclaimed one of the 'Best Employers in Belgium' for the sixth year in a row in the survey conducted by the Great Place to Work® Institute in collaboration with Vlerick Leuven Gent Management School. KBC also won the 2011 'Best Bank in Belgium' award from *Global Finance* magazine.

The group 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, combating social deprivation and exclusion, the environment, its product offering and social engagement. Further details of KBC's corporate social responsibility initiatives can be found in its dedicated *CSR Report*, available from www.kbc.com.

Focus on the future

- ✓ Continuing to implement the optimisation programme for the Belgian distribution network.
- ✓ Keeping focused on the role in the community and on customer-orientedness.
- ✓ Defending market shares and ensuring profitable growth in the 'Local Businesses and Liberal Professions' segment.
- ✓ Further developing services provided through remote channels (KBC Mobile Banking, KBC-Online, text messaging, contact centres, etc.).
- ✓ Continuing to build on the segmented customer approach (wealthy individuals, businesses and private customers).

Central & Eastern Europe Business Unit

Description

The Central & Eastern Europe Business Unit comprises all group **activities** pursued **in Central and Eastern Europe**. The main group companies that belonged to this unit in 2011 were CIBANK and DZI Insurance (Bulgaria), ČSOB and ČSOB Poist'ovňa (Slovakia), ČSOB and ČSOB Pojišt'ovna (Czech Republic), and K&H Bank and K&H Insurance (Hungary). Absolut Bank (Russia), KBC Banka (Serbia), NLB Vita (Slovenia), Nova Ljubljanska banka (Slovenia, minority interest) and Kredyt Bank and WARTA (Poland) – all 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).

Position in home markets in 2011*

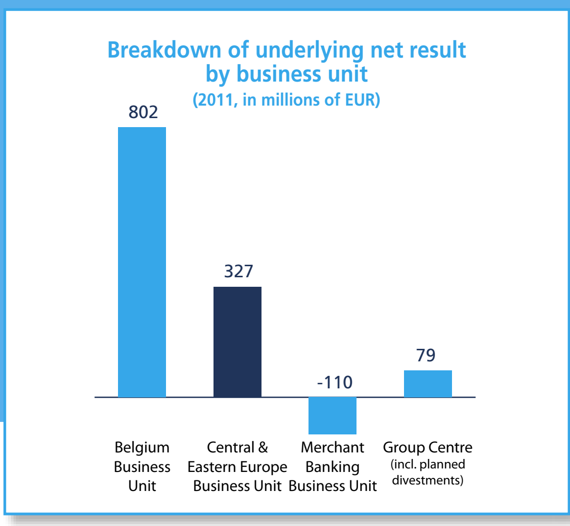
- Home markets: **Czech Republic, Slovakia, Hungary and Bulgaria**
- **806** bank branches; insurance sold through various channels
- **6 million** customers
- Loan portfolio of **26 billion euros** and deposits of **35 billion euros**
- **Market share:**

	bank products	investment funds	life insurance	non-life insurance
Czech Republic	20%	31%	13%	6%
Slovakia	10%	10%	5%	2%
Hungary	9%	20%	3%	5%
Bulgaria	3%	–	13%	13%

Contribution to results

- Net result under IFRS of **289** million euros
- Underlying net result of **327** million euros, **30%** of the group total

* Market shares and customer numbers: based on own estimates.
Market shares for traditional bank products: average estimated market share for loans and deposits (the *pro rata* market share of the 55% joint venture with CMSS has been taken into account for the Czech Republic).
Market shares for life insurance: guaranteed-interest and unit-linked products (combined).
Loan portfolio: amount drawn down, excluding reverse repos.
Deposits: excluding repos.
Bank branches by country: 314 in the Czech Republic (ČSOB Bank and Postal Savings Bank), 129 in Slovakia, 246 in Hungary, and 117 in Bulgaria (plus an aggregate total of some 500 branches in the non-home markets of Poland, Serbia and Russia).
Loan portfolio by country (in billions of EUR): 17 in the Czech Republic, 4 in Slovakia, 5 in Hungary, 0.5 in Bulgaria.



Contribution to group results

Central & Eastern Europe Business Unit* (in millions of EUR)	IFRS 2010	IFRS 2011	Underlying 2010	Underlying 2011
Net interest income	1 549	1 524	1 527	1 524
Earned premiums, insurance (before reinsurance)	657	745	657	745
Technical charges, insurance (before reinsurance)	-504	-548	-504	-548
Ceded reinsurance result	-11	-21	-11	-21
Dividend income	2	2	2	2
Net result from financial instruments at fair value through profit or loss	146	131	154	74
Net realised result from available-for-sale assets	13	32	12	32
Net fee and commission income	308	329	308	329
Other net income	58	32	30	38
Total income	**2 219**	**2 226**	**2 175**	**2 175**
Operating expenses	-1 184	-1 192	-1 184	-1 192
Impairment	-350	-694	-350	-619
on loans and receivables	-340	-477	-340	-477
on available-for-sale assets	0	-127	0	-127
on goodwill	0	-75	0	0
other	-9	-14	-9	-14
Share in results of associated companies	1	1	1	1
Result before tax	**686**	**341**	**643**	**365**
Income tax expense	-77	-53	-73	-38
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**609**	**289**	**570**	**327**
attributable to minority interests	0	0	0	0
attributable to equity holders of the parent	**609**	**289**	**570**	**327**
Banking	578	266	540	291
Insurance	31	23	30	36
Risk-weighted assets (period-end) (Basel II)	24 771	26 128	24 771	26 128
Allocated capital (period-end)	2 065	2 184	2 065	2 184
Return on allocated capital	24%	9%	22%	11%
Cost/income ratio, banking	52%	52%	53%	54%
Combined ratio, non-life insurance	103%	93%	103%	93%

* The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the 'Results in 2011' section and the reconciliation table below. The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the amendment of the strategic plan in mid-2011. See the 'Structure and management' section.

Reconciliation of IFRS and underlying figures* (in millions of EUR)	2010	2011
Result after tax, attributable to equity holders of the parent (underlying)	570	327
Changes in fair value of ALM hedging instruments	10	43
Gains/losses relating to CDOs	29	-1
Impairment on goodwill and associated companies	0	-75
Results on divestments	0	-5
Other	0	0
Result after tax, attributable to equity holders of the parent (IFRS)	609	289

* A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

In 2011, the Central & Eastern Europe Business Unit generated a net profit of 289 million euros, compared with 609 million euros in 2010. Underlying net profit was 327 million euros, 43% lower than the year-earlier figure, due primarily to impairment recorded on Greek government bonds and additional loan loss provisioning in Hungary and Bulgaria.

Exchange rate fluctuations have been omitted when calculating *organic* growth. As already mentioned, the results of group companies scheduled for divestment under the strategic plan (amended mid-2011) have been reallocated to the Group Centre. Consequently, in addition to those of Absolut Bank, KBC Banka and the NLB group, the results of Kredyt Bank and WARTA have now also been reallocated to the Group Centre, while 100% of ČSOB's results have once again been included in the net profit of the Central & Eastern Europe Business Unit (40% had previously been allocated to the Group Centre). The reference figures for 2010 have also been restated.

On an underlying basis, net interest income totalled 1 524 million euros in 2011, a year-on-year organic decline of 2%. In organic terms, the business unit's loan portfolio grew by 6% in 2011, with substantial growth in the Czech Republic and Slovakia and a decline primarily in Hungary. The total volume of deposits in the region went up by 4% in 2011 (attributable mainly to the Czech Republic). The average interest margin was 3.29% in 2011, virtually unchanged from its 2010 level.

Earned insurance premiums came to 745 million euros, 411 million euros of which related to life insurance and 334 million euros to non-life insurance. Non-life premiums rose by around 4% on an organic basis in 2011, and were generated chiefly in the Czech Republic which was good for 159 million euros. The combined ratio improved sharply to 93%, following a relatively high 103% in 2010, which had been adversely affected by storms and flooding in the region. Moreover, the ratio remained below 100% in the Czech Republic, Slovakia and Hungary, and came to 100% in Bulgaria.

Earned life insurance premiums, including premiums on certain life insurance products which – as required under IFRS – are not recognised under earned premiums, totalled 0.4 billion euros in 2011, almost 25% more than in 2010. Growth among unit-linked products (in the Czech Republic in particular) more than compensated for lower sales of guaranteed-rate products. Most of the total premium income from life insurance was earned in the Czech Republic (333 million euros). At year-end, outstanding life reserves for the four home markets combined stood at approximately 1.6 billion euros.

Net fee and commission income came to 329 million euros in 2011, a year-on-year increase in organic terms of 5% that was attributable to a number of factors, including a rise in fee and commission income from payments. Assets under management in the business unit stood at around 11 billion euros at the end of the year. As regards the other income items, the net realised result from available-for-sale assets totalled 32 million euros, dividend income amounted to 2 million euros, the net result from financial instruments at fair value through profit or loss stood at 131 million euros (the underlying figure totalled 74 million euros), and other net income came to 32 million euros.

Operating expenses amounted to 1 192 million euros. On an organic basis, that is more or less the same as in the previous year, with various factors cancelling each other out. For instance, the expense item also included the special bank tax in Hungary, which had an adverse effect of 58 million euros in 2010 and 6 million euros in 2011 (the latter figure was lower because it was possible to set off some of the loan loss provisions for foreign-currency mortgage loans (see below) against the special bank tax). The underlying cost/income ratio for the banking activities of this business unit stood at 54%, in line with the 53% recorded in 2010.

Impairment on loans and receivables (loan loss provisions) came to 477 million euros, compared with 340 million euros in 2010. Loan loss provisions in the Czech Republic and Slovakia were down on their 2010 level. However, there was a significant increase in Bulgaria (106 million euros in 2011) and Hungary (288 million euros in 2011, more than twice as much as the previous year owing mainly to a new law that allows foreign-currency loans to be repaid in local currency at a preferential exchange rate; see below). Consequently, the overall credit cost ratio rose from 116 basis points in 2010 to 159 basis points in 2011. At year-end 2011, around 5.6% of the loan portfolio in the four home markets combined was non-performing, compared with 5.3% a year earlier. Other impairment charges related primarily to Greek government bonds (129 million euros in 2011 on account of the decrease in the market value of these bonds) and to goodwill (75 million euros, largely related to Bulgaria in 2011, and excluded from the underlying figures).

Contribution to underlying results by country

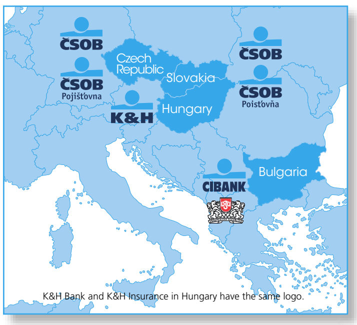
Breakdown by country of the underlying results of the Central & Eastern Europe Business Unit	**Czech Republic**		**Slovakia**		**Hungary**		**Bulgaria**		**Other***	
(in millions of EUR)	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
Result after tax, attributable to equity holders of the parent	**534**	**481**	**51**	**78**	**78**	**-19**	**4**	**2**	**-97**	**-215**
Banking	500	452	44	66	75	-26	0	-3	-81	-198
Insurance	34	28	7	12	3	7	3	5	-17	-17
Risk-weighted assets (period-end) (Basel II)	13 496	14 869	4 142	4 261	6 219	6 123	877	848	–	–
Allocated capital (period-end)	1 127	1 241	341	352	510	507	84	82	–	–
Return on allocated capital	37%	33%	10%	18%	10%	-9%	-19%	-22%	–	–
Cost/income ratio, banking	44%	46%	57%	62%	57%	48%	69%	76%	–	–
Combined ratio, non-life insurance	96%	90%	106%	81%	111%	96%	109%	100%	–	–

* The 'Other' heading comprises the funding for the goodwill paid for companies in this business unit and certain items not allocated to individual countries/companies.

Macroeconomic trends in 2011 and forecasts

KBC's four Central European home markets had a mixed record in 2011. Whereas economic growth came to 3.3% in Slovakia, it was slower in Bulgaria (1.9%), the Czech Republic (1.7%) and Hungary (1.7%). This divergence will continue in 2012. Weak growth in the euro area, combined with austerity measures to cut the budget deficit, will ensure that growth in the Czech Republic will fluctuate around 0%. Slovakia and Bulgaria are doing better and will record positive figures, whereas Hungary's economy is likely to contract on account of structural domestic problems, which are putting pressure on household spending and investment. KBC expects that growth in the region – excluding Hungary – will outpace the European Monetary Union area again, starting in 2013. This stronger economic growth and the anticipated continued catch-up in the penetration of bank and insurance products mean that KBC's presence in these markets can be viewed as a genuine growth driver for the group. Please note that these figures are based on forecasts made in early March 2012. The actual figures could of course differ (considerably).

Adjusted strategy



K&H Bank and K&H Insurance in Hungary have the same logo.

As already mentioned, KBC focuses on a number of home markets in Central and Eastern Europe. Since the approval of the amended strategic plan in mid-2011, the focus has been on the Czech Republic, Slovakia, Hungary and Bulgaria. In each of these four countries, the group owns a bank and an insurer that work closely together. Whereas KBC works exclusively 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.

The changes made to the strategic plan in mid-2011 are described in the 'Strategy and company profile' section. As far as the Central & Eastern Europe Business Unit is concerned, these changes mean that the planned IPOs of a minority stake in ČSOB Bank (Czech Republic) and K&H Bank (Hungary) have been replaced by the sale of the Polish subsidiaries Kredyt Bank and WARTA. The main reasons for doing this were regulatory changes (most notably the treatment of minority interests under Basel III), which rendered the plan less effective, and the introduction of the special bank tax in Hungary, which made a successful IPO of a minority stake in K&H Bank more difficult. As early as the start of 2012, an agreement was reached to sell WARTA. At the end of February 2012, KBC concluded an agreement with Banco Santander SA with regard to the merger of the two groups' respective Polish subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. Following the merger, KBC ultimately aims to sell its remaining shareholding in the merged bank (see the 'Group Centre' section below).

Planned divestments

In addition to the aforementioned planned divestments of the Polish activities, it is still the intention – as stated in the original strategic plan – to sell the KBC operations in Russia (Absolut Bank), Serbia (KBC Banka) and Slovenia (NLB Vita and a minority interest in Nova Ljubljanska banka).

Under the new strategy, the group will not, in principle, make any acquisitions in the region in the years ahead. However, KBC Bank and International Finance Corporation (IFC) signed an agreement that enabled KBC Bank to take over a large part of IFC's 5% stake in Absolut Bank. The deal came about after IFC exercised the put option it had agreed with KBC Bank in 2007. Consequently, KBC Bank now has a 99% stake in Absolut Bank. Following a public bid, KBC also strengthened its shareholding in the Bulgarian insurer, DZI Insurance, raising it from 90.35% to 99.95% at the end of 2011. Neither transaction had a material impact on KBC's capital position.

Market shares

KBC's estimated market share in traditional bank products (average of both loans and deposits) remained more or less unchanged in 2011, coming to roughly 20% in the Czech Republic, almost 10% in Slovakia, just under 9% in Hungary and practically 3% in Bulgaria.

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, it was estimated at 31% in the Czech Republic, 10% in Slovakia and 20% in Hungary, again comparable with the percentages in 2010.

The respective shares of the life and non-life insurance markets were an estimated 13% and 6% in the Czech Republic (an increase on the 2010 figures), 5% and 2% in Slovakia (more or less unchanged), 3% and 5% in Hungary (up on the year-earlier figures) and 13% and 13% in Bulgaria (as per 2010).

Estimated shares for traditional bank products in the non-home markets were just over 1% in Serbia, less than 1% in Russia and between 3% and 4% in Poland. WARTA's estimated share of the Polish insurance market was 8% for the life business and 9% for the non-life business.

Hungary

An overview of K&H Bank's loan portfolio can be found in the 'Value and risk management' section. A specific feature of the retail portion of this portfolio is the relatively large share of foreign-currency loans, in particular in Swiss francs. A new law came into force in Hungary in 2011 which, simply put, gives customers the option for a limited period of time to pay off foreign-currency mortgage loans in Hungarian forints at an exchange rate that is more favourable to them, and which obliges the banks to cover the difference between this rate and the actual market rate. In the last quarter of 2011, additional measures were taken, including those for defaulted mortgage loans that have not been converted into Hungarian forints.

KBC recorded additional impairment charges of 173 million euros on K&H Bank's mortgage portfolio in 2011 (based on an assessment that 30% of borrowers opt to redeem their foreign-currency loans early), bringing total impairment on loans in Hungary to a relatively high pre-tax figure of 288 million euros for the year, which represents a credit cost ratio of 438 basis points (175 basis points excluding the impact of the law on foreign-currency mortgage loans). At year-end, roughly 10.5% of the loan portfolio was classified as non-performing.

K&H Bank and K&H Insurance again had to pay the special bank tax in 2011. However, following an agreement between the banking sector and Hungarian government at the end of 2011, 30% of the cost attendant on the new legislation on foreign-currency mortgage loans could be deducted from the tax due. Consequently, the special bank tax came to 6 million euros on balance, compared with 58 million euros in 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. Examples of environmental and community involvement initiatives are provided in the group's *CSR Report*, which is available at www.kbc.com.

As in previous years, *Global Finance* magazine announced its awards in 2011 for the best banks, including one for ČSOB in the Czech Republic. K&H Bank, meanwhile, was named 'Bank of the Year in Hungary' by *The Banker*. The group's insurers also pick up awards on a regular basis. In Bulgaria, for instance, DZI was named 2011 'Insurer of the Year' for non-life insurance in a competition organised by the Higher School of Insurance and Finance, the Association of Bulgarian Insurers, the Bulgarian Association of Supplementary Pension Security Companies, and the Professor Veleslav Gavriiski Foundation. *World Finance* magazine awarded ČSOB Poist'ovňa the title of 'Insurance Company of the Year 2011' in Slovakia.

Focus on the future

- ✓ Continuing to implement divestments in the non-home markets of Russia, Serbia and Slovenia.
- ✓ Continuing to implement the 'Market leader versus selective champion' strategy (see the 'Strategy and company profile' section) in respect of all relevant entities in the Central and Eastern European home markets.
- ✓ Continuing to optimise the bancassurance model in the four home markets.
- ✓ Closely monitoring the situation and legislative framework in Hungary.

Merchant Banking Business Unit

Description

The Merchant Banking Business Unit comprises **corporate banking** (the services provided to larger SME and corporate customers) and **market activities** in **Belgium and abroad** (apart from those in Central and Eastern Europe). The main group companies belonging to this business unit in 2011 were KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij and KBC Securities. Antwerp Diamond Bank, KBC Bank Deutschland, 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. However, their results have been allocated to the Group Centre, which incorporates the results of all group companies scheduled for divestment.

Market position in 2011*

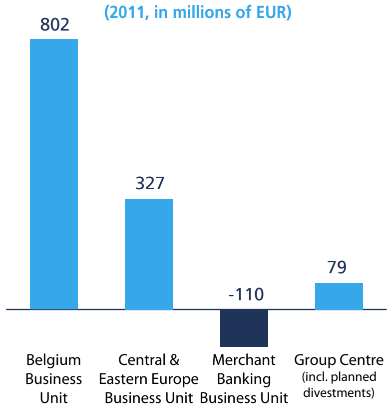
- **26** branches in Belgium, **24** abroad
- Estimated **24%** share of the corporate loan market in Belgium
- Loan portfolio of **42 billion euros** and deposits of **34 billion euros**

Contribution to results

- Net result under IFRS of **-208** million euros
- Underlying net result of **-110** million euros, **-10%** of the group total

* Market shares: based on own estimates.
Loan portfolio: amount drawn down, excluding reverse repos. The loan portfolios of companies scheduled for divestment have been reallocated to the Group Centre.
Deposits: excluding repos.
The number of corporate branches in Belgium includes CBC Banque's main branches (*succursales*). The number of corporate branches abroad relates to bank branches and representative offices of KBC Bank, KBC Bank Deutschland and KBC Bank Ireland.

Breakdown of underlying net result by business unit
(2011, in millions of EUR)



Contribution to group results

Merchant Banking Business Unit* (in millions of EUR)	**2010**	**IFRS** **2011**	**2010**	**Underlying** **2011**
Net interest income	1 428	944	836	663
Earned premiums, insurance (before reinsurance)	0	0	0	0
Technical charges, insurance (before reinsurance)	0	0	0	0
Ceded reinsurance result	0	0	0	0
Dividend income	21	18	6	7
Net result from financial instruments at fair value through profit or loss	-21	-3	539	405
Net realised result from available-for-sale assets	7	31	3	35
Net fee and commission income	206	194	225	202
Other net income	-15	-36	-70	-76
Total income	**1 626**	**1 148**	**1 540**	**1 236**
Operating expenses	-580	-576	-576	-569
Impairment	-823	-785	-796	-768
on loans and receivables	-789	-725	-789	-725
on available-for-sale assets	-7	-6	-7	-6
on goodwill	-27	-17	0	0
other	1	-37	1	-37
Share in results of associated companies	0	0	0	0
Result before tax	**223**	**-214**	**168**	**-101**
Income tax expense	-35	20	-19	6
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**188**	**-194**	**149**	**-95**
attributable to minority interests	16	14	16	15
attributable to equity holders of the parent	**172**	**-208**	**133**	**-110**
Banking	166	-212	127	-114
Insurance	6	4	6	4
Risk-weighted assets (period-end) (Basel II)	47 317	42 126	47 317	42 126
Allocated capital (period-end)	3 785	3 370	3 785	3 370
Return on allocated capital	4%	-6%	3%	-3%
Cost/income ratio, banking	36%	50%	37%	46%

* The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the 'Results in 2011' section and the reconciliation table below.

Reconciliation of IFRS and underlying figures* (in millions of EUR)	**2010**	**2011**
Result after tax, attributable to equity holders of the parent (underlying)	133	-110
Changes in fair value of ALM hedging instruments	-23	-58
Gains/losses relating to CDOs	113	-7
Impairment on goodwill and associated companies	-27	-17
Results on divestments	-9	-17
Other	-15	0
Result after tax, attributable to equity holders of the parent (IFRS)	172	-208

* A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

In 2011, the Merchant Banking Business Unit generated a net result of -208 million euros, compared with 172 million euros a year earlier. The underlying figure came to -110 million euros, compared with 133 million euros in 2010. The performance in 2011 was adversely affected by provisioning for the 5-5-5 investment product in Belgium, the weaker performance of the dealing room and – as was the case in 2010 – relatively high loan loss provisions for Ireland. Excluding Ireland, the underlying net result for the business unit would have been in the region of 212 million euros for the year. As already mentioned, the results of group companies scheduled to be divested or already divested under the strategic plan have been reallocated to the Group Centre.

Total income amounted to 1 148 million euros. On an underlying basis, it came to 1 236 million euros, down 20% on the figure for 2010.

Net interest income totalled 944 million euros in 2011, which – on an underlying basis – was 21% less than its year-earlier level, attributable in part to the loan portfolio (which has been scaled back by 14% in the space of two years). The decline in the size of the loan portfolio reflects the group's strategy of refocusing on its home markets, which resulted in a run-down of the international loan portfolios not related to those markets. The volume of deposits fell sharply (by 45%), primarily on account of a drop in institutional and corporate deposits outside the home markets, arising from risk aversion in some foreign markets to the euro area and the downgrading by Standard & Poor's of KBC Bank's short-term rating.

The net result from financial instruments at fair value through profit or loss came to -3 million euros. After including all trading-relating income – which is recognised in various other income items under IFRS – and excluding exceptional items, the underlying result stood at 405 million euros, a year-on-year decline of some 25% which is attributable to a weaker performance in the dealing room and the negative trend in credit value adjustments on derivatives.

Net fee and commission income totalled 194 million euros, down 10% on an underlying basis, and again related largely to the run-down of activities (including the sale of a number of entities of KBC Securities). As regards the other income items, the net realised result from available-for-sale assets stood at 31 million euros, dividend income amounted to 18 million euros, and other net income came to -36 million euros (-15 million euros in 2010). The latter item was adversely affected in 2010 by the recognition of -175 million euros for a case of irregularities at KBC Lease UK, and in 2011 by the recognition of -167 million euros for the 5-5-5 investment product (see Note 8 in the 'Consolidated financial statements' section).

Operating expenses at this business unit came to 576 million euros, virtually unchanged on an underlying basis from the year-earlier figure (with the impact of a reduction in activities, slightly higher staff expenses and a number of other factors offsetting each other). The underlying cost/income ratio ended the year at 46% – or 41% excluding the impact of the provision for the 5-5-5 product – compared with 37% in 2010.

Impairment recorded on loans and receivables amounted to 725 million euros, lower than the 789 million euros recorded in 2010. This decrease was accounted for mainly by KBC Bank in Belgium, and related in particular to US asset-backed securities. As in 2010, relatively high impairment charges were recorded at KBC Ireland for the Irish loan portfolio (510 million euros in 2011 compared with 525 million euros in 2010; see below). Nevertheless, at business unit level, the credit cost ratio fell slightly to 136 basis points in 2011, compared with 138 basis points in 2010. Excluding Ireland, those figures would have been 59 basis points and 67 basis points for 2011 and 2010, respectively. At year-end 2011, around 7.8% of the business unit's loan portfolio was non-performing, compared with 5.2% a year earlier. Other impairment charges amounted to 60 million euros in 2011, which related, among other things, to Greek government bonds (18 million euros for the year, on account of the decrease in the market value of these bonds) and to investment property (21 million euros).

Contribution to underlying results by activity

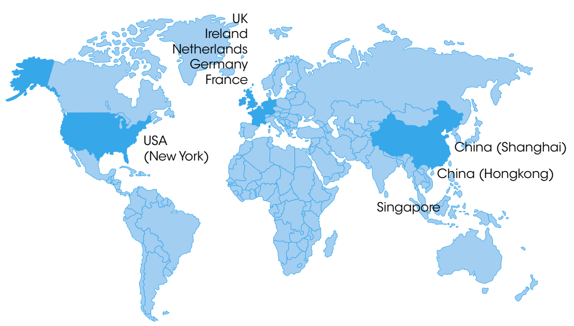
The following table contains the business unit's underlying net result, broken down into corporate banking (the services provided to SMEs and larger companies) and market activities (e.g., currency dealing, securities trading and corporate finance).

Breakdown by activity of the underlying results of the Merchant Banking Business Unit (in millions of EUR)	**Corporate banking (figure between brackets excludes Ireland)**		**Market activities**	
	2010	**2011**	**2010**	**2011**
Result after tax, attributable to equity holders of the parent	**-149 [62]**	**-229 [93]**	**281**	**119**
Banking	-155 [56]	-233 [89]	281	119
Insurance	6 [6]	4 [4]	0	0
Risk-weighted assets (period-end) (Basel II)	32 993	31 065	14 324	11 061
Allocated capital (period-end)	2 639	2 485	1 146	885
Return on allocated capital	-6%	-9%	26%	12%
Cost/income ratio, banking	39%	41%	35%	58%

Strategy and activities

The Merchant Banking Business Unit comprises both the market activities (money market activities, capital market products, stockbroking, corporate finance, etc.) and corporate banking (lending, cash management, payments, trade finance, leasing, factoring, etc.) for customers in Belgium and abroad, provided there is a link with KBC's home markets in Belgium or Central Europe. Activities with other professional or institutional counterparties depend on the degree to which they support the group's core activities.

Services are provided via a network of 26 branches in Belgium (13 KBC Bank corporate centres and 13 CBC Banque *succursales*), 24 establishments abroad (slightly fewer than at year-end 2010) and various specialist service-providers and subsidiaries. KBC Bank Ireland also belongs to the Merchant Banking Business Unit, but its activities are discussed separately below. KBC's share of the Belgian corporate credit market is estimated at about 24%.



KBC Bank corporate branches abroad (outside the home markets), year-end 2011

Operations abroad have been reoriented to the maximum possible extent to supporting customers from the home markets. Any activities falling outside that remit have been either terminated or scaled back. Various activities have already been sold in 2010 and 2011 (including KBC Peel Hunt, certain subsidiaries of KBC Securities and various activities of KBC Financial Products, KBC Business Capital, etc.) and the portfolio of KBC Private Equity continued to be divested. The results of companies scheduled for divestment have been reallocated to the results for the Group Centre. More information on the divestments already completed can be found in the 'Group Centre' section.

A number of activities at branches abroad have also been or will be run down, since a considerable portion of the loan portfolio of those branches related to purely local foreign corporate clients or to niche activities which had no natural link with KBC's customer base in its home markets. The group had made exceptionally good progress by year-end 2011 with the reduction of this international loan portfolio, and that has helped reduce the risk-weighted assets of the corporate banking activities by some 9 billion euros in the space of two years. A number of branches abroad have also been closed in the past few years. An overview of KBC Bank's remaining corporate branches abroad (including KBC Bank Deutschland and KBC Bank Ireland) at year-end 2011 is provided in the diagrammatic map.

In addition to its presence in Belgium, KBC Securities – a subsidiary of KBC specialising in stockbroking, securities services and corporate finance – has a number of establishments in Central and Eastern Europe, where it is one of the larger regional players. However, as part of the group's strategic refocus on its home markets, management buyouts were agreed in 2011 for KBC Securities' Serbian and Romanian activities. Innovation is very important to KBC Securities. Mid-2011, for instance, saw the launch in Belgium of the completely revamped KBC Securities Trader platform, featuring rapid order routing and the possibility of integration with the existing Bolero platform. Innovation and the ability to adapt are also of paramount importance to the business unit's other departments. For instance, as a major Belgian bank, KBC is increasingly involved in Public Private Initiatives. Examples include participation in the construction of the world's biggest lock, the Deurganckdok lock in Antwerp, and a number of medium-sized projects, such as the building of regional road links.

The Deurganckdok lock will improve access to the docks on the left bank of the river Scheldt in Antwerp. It will be equal in size to the existing Berendrecht lock – currently the world's largest – but the new lock will be deeper. KBC is jointly funding its construction.

Ireland

The international portfolio includes an Irish loan portfolio of around 17 billion euros at KBC Bank Ireland. Most of this portfolio (approximately three quarters) relates to mortgage loans, and the rest is more or less equally divided across SME and corporate loans and loans related to real estate investment and development.

Ireland's domestic market did not recover as well as expected in 2011 and the austerity measures are putting pressure on Irish households. This – in combination with the difficult economic situation – means that the climate on the credit market remains challenging. The situation is exacerbated by the unrelenting downward pressure on underlying asset values and by mounting financing costs which in turn are leading to higher interest rates, which are exerting pressure on borrowers. This led on balance to additional loan loss provisions of about 0.5 billion euros being set aside in 2011, on top of the 0.5 billion euros in 2010. At the end of 2011, some 17.7% of the total Irish loan portfolio was non-performing, compared with 10% at year-end 2010. The credit cost ratio came to 301 basis points in 2011 and the cover ratio for the Irish portfolio (all loan loss provisioning relative to the non-performing loan portfolio) to 42%. The group is also taking account of relatively high impairment charges for the Irish portfolio in 2012.

Focus on the future

- ✓ Facilitating sustainable growth and developing merchant banking operations in the core markets.
- ✓ Defending the strong corporate banking position in the Belgian market.
- ✓ Optimising the product offering based on customer needs, the capital charge and the impact on liquidity.
- ✓ Continuing to run down and critically evaluate non-core activities in implementation of the group's strategic plan.
- ✓ Close monitoring of the situation in Ireland.

Shared Services & Operations Business Unit

Description

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 2011 were Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

Position in 2011[1]

- Share of the market for investment funds: **39%** in Belgium, **31%** in the Czech Republic, **10%** in Slovakia, **4%** in Poland and **20%** in Hungary
- **More than 1 billion** payment transactions in the home markets
- Share of the market for documentary credit: **27%** in Belgium, **26%** in the Czech Republic, **16%** in Slovakia and **16%** in Hungary
- Share of the lease market: **13%**[2] and **20%**[3] in Belgium, **13%** in the Czech Republic, **15%** in Slovakia and **3%** in Hungary
- Share of the consumer finance market: **7%** in Belgium, **8%** in the Czech Republic, **4%** in Slovakia, **4%** in Hungary

Contribution to results

- No result is reported for this business unit as all its income and expenses are allocated to the group's other units.

1 Market shares and number of payment transactions are based on own estimates. Payment transactions: card and cash transactions, domestic and cross-border credit transfers and international cash management. Share of the consumer finance market: the figure for Belgium is solely for revolving credit cards.
2 Full-service car leasing.
3 General leasing.

Strategy and divestments

The mission of the Shared Services & Operations Business Unit is to provide its internal customers (e.g., the group's distribution channels) and external customers with quality service at a competitive price. Consequently, initiatives are constantly being taken to increase efficiency and the quality of service on the one hand, and to reduce costs on the other. To achieve this goal, the 'Lean' project was launched in mid-2010. Lean aims to create a culture of continuous improvement, where everybody takes responsibility for identifying and eliminating waste, so that ultimately maximum value is generated for the customer. The objective is that all the relevant divisions operate according to the project's principles by the end of 2012.

In accordance with group strategy, this unit's geographical focus is on the home markets in Belgium and in Central and Eastern Europe, with activities elsewhere being largely run down. Examples include the sale of KBC Asset Management's Irish and UK operations in 2010, and the sale of KBC Asset Management's stake in the Taiwanese asset manager KBC Concord in 2011 and of its stake in KBC Goldstate in China at the start of 2012. KBC Lease Group sold its operations in Romania (INK), Spain and Italy. As part of the scheduled divestment of Kredyt Bank and WARTA in Poland, KBC Asset Management signed an agreement with both companies to acquire their shares (30% in each case) in Polish asset manager, KBC TFI. This deal means that KBC Asset Management has become the sole owner of KBC TFI and will continue to operate on the Polish market.

Product and process optimisation

Like the group's other entities, the divisions belonging to this business unit continually strive to improve service by exploiting synergies and sharing best practices. At Payments, for instance, certain Central and Eastern European countries have been connected to a central SWIFT hub and to the group platform for international payments, while a shared service centre has been established at Brno in the Czech Republic to centralise a number of activities and processes that are currently carried out at various locations across the group. The launch of the new twin data centre near Budapest, which will gradually replace the group's 20-plus data centres in Central and Eastern Europe, is a good example at ICT.

The product offering is also regularly screened and optimised in consultation between the product developers in this business unit and the distribution network in the different countries and markets in which the group is active. This collaboration is set out in concrete service level agreements, with clear commitments and objectives. Asset Management once again developed numerous innovative investment products, among them the KBC Participation Flexible Portfolio formula, an investment strategy that chooses in a highly active and controlled way between equity and bond investments. Another example is the KBC Life MI Inflation product range, which generates an inflation-linked return on top of a fixed return. Consumer Finance also launched several new products, including the KBC Visa Vision and KBC MasterCard Globe cards in Belgium. Its successful business model (focusing on sales through banks) – which had already been rolled out in Belgium, the Czech Republic and Poland – was also implemented in Hungary and launched in Slovakia in 2011.

The business unit's approach has proved successful, as illustrated for instance by persistently strong shares of the investment fund market in Belgium and Central and Eastern Europe, where the group performs much better than with traditional loan and deposit products. The group also picked up another set of awards in 2011, including *Global Finance* magazine's 'Best Trade Finance Provider Belgium' title for KBC Bank. KBC Asset Management's funds also featured regularly among fund awards in Belgium and elsewhere. And KBC won the 'best Belgian distributor' prize at the 2011 Euromoney Structured Retail Products Awards.

Research & Development

New products and services are constantly being developed within the group to align the offering as closely as possible with market demand. That was also the case in 2011. A new process was rolled out across the group to support research and development of new products even more effectively. This process enhances the efficiency with which approval is sought for new product launches and entails a thorough analysis of all relevant risks, with actions proposed where appropriate to avoid or manage those risks. Moreover, all products are subject to regular review, so that existing products can be adapted to evolving customer needs and changing market conditions.

Besides the projects and products mentioned in this section, various examples of new product developments in 2011 are provided in the other sections of this annual report, and include KBC Securities Trader, the launch of the guaranteed-interest savings scheme to pre-finance a KBC Hospitalisation Insurance policy in Belgium, and several new mobile banking applications. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 34 of the 'Consolidated financial statements'.

Focus on the future

- ✓ Continuing to implement the Lean optimisation programme in Consumer Finance, Payments, Asset Management, Lease and ICT, with full implementation by the end of 2012.
- ✓ Achieving groupwide synergies, including by means of extending the Shared Service Centre to certain operational activities within the group.
- ✓ Establishing a distributed operating model for grouping together similar sub-activities of various group entities (e.g., contract management and transfer pricing management).

Group Centre

Description

The Group Centre includes the results of the holding company **KBC Group NV, KBC Global Services, a small portion of the results** of KBC Bank NV and KBC Insurance NV not attributable to the other business units, and elimination of intersegment transactions.

The Group Centre also contains the **results of companies designated for divestment under the strategic plan**. The most important of these are Centea, Fidea, Absolut Bank, KBC Banka, NLB Vita and the minority interest in Nova Ljubljanska banka, Kredyt Bank, WARTA, KBC Financial Products, KBC Peel Hunt, Antwerp Diamond Bank, KBC Bank Deutschland and the KBL EPB group. Sale agreements were reached or completed for several divestments in 2010 and 2011.

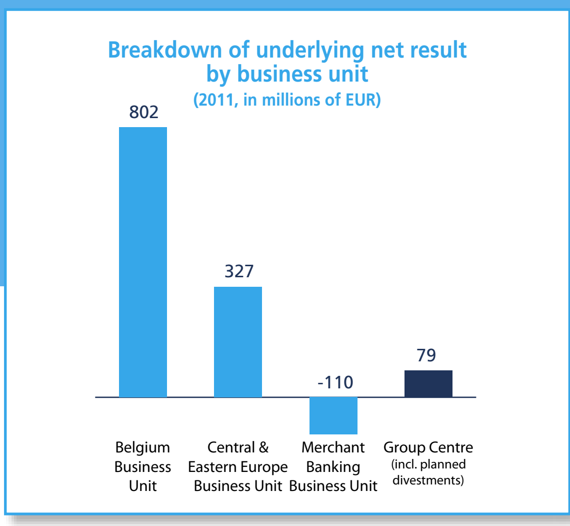
Status in 2011*

- **Agreed or completed sales:** various specialised merchant banking activities of KBC Financial Products, KBC Peel Hunt, Secura, the UK and Irish operations of KBC Asset Management, KBC Securities Baltic Investment Company, KBC Business Capital, Centea, Fidea, KBC Concord Asset Management, KBC Goldstate (2012), the Serbian and Romanian activities of KBC Securities, KBL EPB, WARTA (2012), Kredyt Bank (2012; see below).
- Based on figures at year-end 2011, the main companies and activities still to be divested account for a loan portfolio of **14 billion euros** and deposits of **10 billion euros**.

Contribution to results

- Net result under IFRS of **-489** million euros
- Underlying net result of **79** million euros, **148** million euros of which attributable to companies and activities not yet divested

* Loan portfolio: amount drawn down, excluding reverse repos.
Deposits: excluding repos.
In both cases, KBL EPB is excluded.



Contribution to group results

Group Centre* (in millions of EUR)	**2010**	**IFRS** **2011**	**2010**	**Underlying** **2011**
Net interest income	772	691	997	897
Earned premiums, insurance (before reinsurance)	1 073	1 239	1 077	1 241
Technical charges, insurance (before reinsurance)	-906	-969	-926	-984
Ceded reinsurance result	13	1	13	0
Dividend income	25	13	15	13
Net result from financial instruments at fair value through profit or loss	50	206	101	-15
Net realised result from available-for-sale assets	18	8	32	26
Net fee and commission income	-60	-57	363	304
Other net income	161	92	39	26
Total income	**1 146**	**1 224**	**1 711**	**1 510**
Operating expenses	-968	-786	-1 370	-1 135
Impairment	-374	-328	-276	-210
on loans and receivables	-272	-71	-270	-73
on available-for-sale assets	-1	-54	-4	-90
on goodwill	-55	-24	0	0
other	-46	-180	-2	-47
Share in results of associated companies	-64	-59	-62	-58
Result before tax	**-261**	**51**	**2**	**106**
Income tax expense	414	-104	-38	-10
Net post-tax result from discontinued operations	-254	-419	0	0
Result after tax	**-101**	**-471**	**-36**	**97**
attributable to minority interests	7	18	7	18
attributable to equity holders of the parent	**-107**	**-489**	**-44**	**79**
Banking	172	139	-45	96
Insurance	50	-127	27	38
Holding-company activities	-329	-501	-26	-55
Risk-weighted assets (period-end) (Basel II)	31 202	29 149	31 202	29 149
Allocated capital (period-end)	2 650	2 491	2 650	2 491

* The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the 'Results in 2011' section and the reconciliation table below. The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the amendment of the strategic plan in mid-2011. See the 'Structure and management' section.

Reconciliation of IFRS and underlying figures[1] (in millions of EUR)	**2010**	**2011**
Result after tax, attributable to equity holders of the parent (underlying)	-44	79
Changes in fair value of ALM hedging instruments	-23	-7
Gains/losses relating to CDOs	680	-290
Fair value of CDO guarantee and commitment fees[2]	-57	-43
Impairment on goodwill and associated companies	-86	-19
Result from legacy structured derivatives business (KBC Financial Products)	-372	50
Changes in fair value of own debt instruments	39	359
Results on divestments	-246	-618
Other	0	0
Result after tax, attributable to equity holders of the parent (IFRS)	-107	-489

1 A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.
2 For more information, see Note 5 of the 'Consolidated financial statements'.

In 2011, the Group Centre generated a net loss of 489 million euros, compared with a loss of 107 million euros a year earlier. Excluding exceptional items, the underlying net result totalled 79 million euros (-44 million euros in 2010). As already mentioned, the changes to the strategic plan in mid-2011 have also been incorporated into the figures retroactively. In concrete terms, that means that the results of ČSOB in the Czech Republic are now fully recognised in the Central & Eastern Europe Business Unit (40% had previously been allocated to the Group Centre) and that the results of Kredyt Bank and WARTA in Poland (previously reported under the Central & Eastern Europe Business Unit) are now recognised under the Group Centre. The reference figures have been restated in each case.

The impact of items classified as exceptional is set out in the table. These items concern primarily CDO-related value adjustments, fees for the guarantee agreement with the Belgian Federal Government for the CDO exposure (see Note 5 of the 'Consolidated financial statements' section), gains or losses on the legacy structured derivatives business of KBC Financial Products, divestments, impairment on goodwill and associated companies and the valuation of own credit risk. After excluding these items, the bulk of the Group Centre's underlying net result was attributable to companies scheduled for divestment under the strategic plan. Together, they accounted for an underlying result of 148 million euros in 2011, compared with 42 million euros in 2010. The positive impact of significantly lower loan loss provisions (197 million euros fewer than in 2010) at Absolut Bank, Kredyt Bank and Antwerp Diamond Bank, among others, was offset partly by the negative effect of impairment losses recorded on Greek government bonds held at several entities (aggregate total of -98 million euros) and by the deconsolidation of certain other entities (e.g., Centea).

Breakdown of underlying result after tax, attributable to equity holders of the parent

(in millions of EUR), Group Centre	**2010**	**2011**
Result of group companies scheduled for divestment under the strategic plan	42	148
Formerly recognised under Belgium Business Unit (Centea – stated in the results until sold in mid-2011 – and Fidea)	108	39
Formerly recognised under Central & Eastern Europe Business Unit (chiefly Absolut Bank, KBC Banka, NLB group, Kredyt Bank, WARTA)	-62	111
Formerly recognised under Merchant Banking Business Unit (Antwerp Diamond Bank, KBC Deutschland, etc.)	16	18
Formerly recognised under European Private Banking Business Unit (KBL EPB)	75	54
Other (mainly funding costs of goodwill relating to the companies scheduled for divestment)	-94	-74
Other results*	-86	-69
Total	-44	79

* Comprises chiefly the results of the holding company, KBC Group NV, the results of KBC Global Services, and several results that cannot be allocated to the other business units.

Divestments

A brief description of the divestments completed in 2010 and 2011 under the group's new, more focused strategy 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.

The main activities and group companies that were sold in 2010 were:
- KBC Peel Hunt
- Various specialist merchant banking activities of KBC Financial Products (e.g., convertible bonds, Asian equity derivatives, insurance derivatives and reverse mortgages)
- Secura (reinsurance company)
- KBC Asset Management's UK and Irish operations
- KBC Securities Baltic Investment Company
- KBC Business Capital

The main activities and group companies sold in 2011 and the start of 2012 were (some sales are not yet finalised, see below):
- Centea
- Fidea
- KBL EPB
- KBC Concord Asset Management and KBC Goldstate
- KBC Securities' Serbian and Romanian activities
- WARTA

For details on Kredyt Bank, see below.

In the middle of 2011, KBC Group NV and Landbouwkrediet Group finalised the sale of Centea for 527 million euros. In addition to the sale price, KBC received a dividend of 66 million euros from Centea for financial year 2010. The deal freed up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which boosted its tier-1 ratio by some 0.4%. The gain on this deal was limited.

It was announced in March 2011 that the original agreement the group had reached with the Hinduja Group regarding the sale of KBL EPB would not go ahead (see the annual report for 2010 for more details). The sale process was subsequently restarted and KBC reached an agreement with Precision Capital in October 2011 regarding the sale of KBL EPB for around 1 billion euros. The deal entails the sale of KBC's entire holding in KBL EPB and includes all KBL EPB's private banking subsidiaries and its custody and life insurance businesses. The deal will free up a total of around 0.7 billion euros of capital for KBC, boosting its tier-1 ratio by some 0.6%. It also had a negative impact of approximately 0.4 billion euros, which was recognised in the income statement in the third quarter of 2011. KBC will continue to provide private banking services in Belgium and Central and Eastern Europe under the KBC brand name. At the time the annual report went to print, the deal had not yet been finalised.

In October 2011, KBC reached agreement to sell Fidea to private equity group J.C. Flowers & Co. for around 0.2 billion euros. In total, this deal will free up some 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 1.8 billion euros, but has also had a negative impact of approximately 0.1 billion euros on the group's income statement. It will boost KBC's tier-1 ratio by around 0.1%. At the time the annual report went to print, the deal had not yet been finalised.

In January 2012, an agreement was reached with Talanx International AG for the sale of WARTA (the group's Polish insurance company) for 770 million euros, a figure which will be adjusted to take account of changes in the net asset value between 30 June 2011 and the date of completion. Based on figures at 30 September 2011, it is expected to release almost 0.7 billion euros of capital for KBC and boost its tier-1 ratio by just under 0.7%. When completed, the deal will have a positive impact of around 0.3 billion euros on KBC's income statement. At the time the annual report went to print, the deal had not yet been finalised.

In February 2012, Banco Santander SA and KBC announced that they had agreed to merge Bank Zachodni WBK SA and Kredyt Bank SA in Poland. With almost 900 branches and more than 3.5 million retail customers, the merged bank will be Poland's third largest in terms of deposits, loans, number of branches and profit. Following the proposed merger, Banco Santander will own approximately 76.5% of the merged bank and KBC around 16.4%. Banco Santander has undertaken to help KBC reduce its stake in the merged bank from 16.4% to below 10% immediately after the merger. In addition, KBC intends to sell its remaining stake. Following the deconsolidation of Kredyt Bank as a result of the proposed merger, and after the committed reduction of KBC's holding to below 10% shortly after registration of the merger, approximately 0.7 billion euros' worth of capital will be released (based on market valuations at the time the deal was announced), predominantly based on a reduction in risk-weighted assets. This will have a positive impact on KBC's tier-1 capital of around 0.8%, or 0.9% when the group sells its entire shareholding (both percentages calculated at year-end 2011). Moreover, based on market valuations at the time it was announced, the deal will positively affect KBC's income statement by some 0.1 billion euros, which will be recognised when it is completed. The merger is subject to independent evaluation by Bank Zachodni WBK and Kredyt Bank, and to obtaining regulatory approval from the Polish Financial Supervision Authority and relevant competition clearance. Banco Santander has also undertaken to acquire Żagiel, KBC's consumer finance operation in Poland, at adjusted net asset value and likewise subject to obtaining competition clearance. For additional information, see the press release at www.kbc.com. The legal information and disclaimer provided in that press release apply in full.

Other sales

A sale agreement was reached in April 2011 with Value Partners Ltd. concerning KBC Asset Management's 55.46% stake in KBC Concord Asset Management Co. Ltd. in Taiwan. The deal was completed on 10 August 2011. Early in 2012, another agreement was reached with Value Partners Ltd., this time for the sale of KBC Asset Management's 49% shareholding in KBC Goldstate in China. In August 2011, KBC Securities completed the divestment of its operations in Serbia and Romania, by concluding buy-out deals with the local management teams. The impact of these sales on KBC's profit and capital was negligible.

Main group companies still to be divested

Much of the reduction in risk-weighted assets originally planned was completed by the beginning of 2012, due to the divestments listed above and the run-down of the international loan portfolio. The 'Strategy and company profile' section contains a graph depicting the total risk-weighted assets of the KBC group.

The principal divestments still to be carried out concern Absolut Bank (Russia), KBC Banka (Serbia), NLB Vita and the minority interest in Nova Ljubljanska banka (Slovenia), Antwerp Diamond Bank (Belgium), KBC Bank Deutschland (Germany) and a number of other activities (private equity, real estate development). Preparatory work for most of these projects has already started. Moreover, an agreement was reached with the European Commission to extend the original deadline for the sale of Antwerp Diamond Bank and KBC Bank Deutschland.

Corporate social responsibility

Corporate social responsibility at the KBC group

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 *KBC's Principles for Socially Responsible Business*.

For a number of years now, the 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 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.

At the beginning of 2012, the group decided it would publish a broader 'report to society', dealing with all the society-related themes encountered in its business operations of the past year.

Examples of initiatives on the CSR front in 2011

As in previous years, KBC embarked on various new initiatives in the field of CSR in 2011, more details of which appear in the *CSR Report*. A few examples of the initiatives taken and the awards received for environmental and community involvement are listed below.

- At the end of 2011, a new *Climate Change Policy* was approved for the entire group, illustrating KBC's commitment to reduce its impact on the environment. In its daily operations, for instance, the group aims to focus on energy efficiency, offsetting greenhouse gases emitted by its fleet of lease cars used for commuting, monitoring new trends in science and technology, and encouraging its employees to be more environmentally aware. It also wants to devote more attention to its impact on climate change through its choice of suppliers and its offering of products and services. The *Climate Change Policy* is part of the CSR Action Plan approved at the start of 2011.
- KBC Belgium was among the world's 100 greenest companies, coming 98th in *Newsweek*'s 2011 'Green Rankings' and making it the highest placed of any Belgian company.
- Through its social sponsorship activities, KBC focuses on projects in the area of health and road safety, with the emphasis on prevention. It has partnered the Belgian road safety campaigns *Levenslijn* and *Mobiel 21* for some years now. In 2011, KBC also became the partner of 'Velocitie' – a new cycling project initiated by *Stichting Vlaamse Schoolsport* that encourages youngsters to use their bikes actively and safely.
- The 'Foundation Programme of Education' at KBC's Czech subsidiary ČSOB supported a number of projects to promote financial literacy. One million Czech koruna were shared by 11 relevant projects submitted in 2011.
- KBC teamed up with the University of Antwerp to launch an initiative focusing on financial risk management, a topical issue in the financial sector. The result of this collaboration saw the creation of the KBC Chair in Risk Management in February 2011. The group also focuses attention on financial education in its other home markets. In Hungary, for instance, K&H Bank organised 'K&H Ready, Steady, Money', a nationwide competition to test students' financial knowledge.
- To strengthen team spirit, KBC's entities and branches in Belgium organise an annual team event. Under the KBC4Society initiative launched in September 2011, rather than organising the usual type of event, they can now dedicate their allocated time and budget to a project offering added social, cultural or ecological value. KBC is working on this initiative with Time4Society, a non-profit organisation that has been involved with projects of this kind at other companies for some time now.
- As in previous years, KBC again collaborated with the Red Cross in a blood donation campaign (Give blood, give life), organising a number of blood donation sessions at its head offices in Belgium.

KBC4Society

Environmental efficiency data for the KBC group in Belgium (per FTE)	2010	2011
Energy consumption (in GJ)		
Electricity	24.3	21.3
Provided by renewable energy sources	100%	100%
Fossil fuels (gas and heating oil)	15.0	12.6
Distances travelled (in km)		
Commuter travel	9 542	9 175
Business travel	5 294	5 388
Paper and water consumption		
Paper (in tonnes)	0.17	0.14
Water (in m³)	9.3	8.2
Greenhouse gas emissions (in tonnes)	2.2	1.9

Employees

BEST EMPLOYER BELGIUM 2006-2011

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 2011, KBC was again recognised as one of the ten 'Best Employers in Belgium'. It also received a Lifelong Learning award for its training initiatives. KBC conducts annual employee satisfaction surveys of its own, too, and uses the findings to take selective measures.

By continually assessing and 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. In 2011, KBC embarked on a thorough updating of its HR policy in Belgium, which it called 'HRinEvolution'. Progress was made on updating the job classification system, on a new policy on developing talent, on the career growth path of new junior managerial staff and on alternative remuneration schemes. An example in this particular area is the 'cafeteria plan', where staff can opt for a salary-only package or a salary package plus benefits they choose themselves. The updated HR policy will be rolled out to managerial staff in 2012. Sensitive to its employees' mobility problems, KBC runs projects for staff to work locally or from home, organises free shuttle buses between railway stations and head office buildings, encourages carpooling, cycling and the use of public transport, and is working on making its vehicle fleet more environmentally friendly.

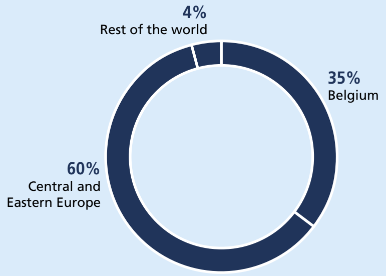
In its staff regulations, its selection and promotion policy, as well as in its performance appraisal systems, the group does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation. Equal treatment of employees is also addressed in the *KBC Code of Conduct* and in the various anti-discrimination manifestos and charters KBC has endorsed.

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, including conventional training courses, individual study, e-learning, learning on the job and mentoring. Developmental needs are also an important element in the annual performance appraisal reviews held between employees and their managers.

KBC 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. This consultation led, for example, to collective labour agreements for the period 2012-13 on purchasing power and employment. Representatives from its establishments in Central and Eastern Europe also participate in the European Works Council.

The table provides an overview of the total workforce and a breakdown into various categories. In 2011, the total number of employees in the group fell further to 47 530 full-time equivalents (FTEs). This total excludes companies that fell under the scope of IFRS 5 at year-end (i.e. companies for which a sale agreement has been signed but the sale has not yet been finalised). Additional information on staff expenses, employee stock options and the average number of persons employed can be found in Notes 12 and 13 of the 'Consolidated financial statements' section.

Breakdown of workforce by region
(FTEs, end of 2011)



Number of staff, KBC group	31-12-2010	31-12-2011
In FTEs*	**50 494 (excluding KBL EPB)**	**47 530 (excluding KBL EPB, Fidea and WARTA)**
In %		
Belgium	35%	35%
Central & Eastern Europe and Russia	61%	60%
Rest of the world	4%	4%
Belgium Business Unit	23%	24%
Central & Eastern Europe Business Unit	31%	33%
Merchant Banking Business Unit	6%	6%
Shared Services & Operations Business Unit	17%	18%
Group Centre (scheduled divestments)	23%	18%
Men	40%	41%
Women	60%	59%
Full-time	84%	84%
Part-time	16%	16%
Average age	40	40
Average seniority	11.5	11.6

* The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the amendment of the strategic plan in mid-2011.

Value and risk management

Mainly active in banking, insurance and asset management, KBC 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 and exchange rates, liquidity risk, insurance underwriting risk, operational risks, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. Moreover, it is exposed to business risks 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, technical insurance risk, operational risk, as well as its capital adequacy.

The information in this section that forms part of the IFRS financial statements has been audited by the statutory auditor, viz.:
- the entire 'Risk governance' section;
- parts of the 'Credit risk' section, namely the introduction, 'Managing credit risk', the 'Loan and investment portfolio, banking' table (audited parts are indicated in the footnote to the table), the tables regarding the loan and investment portfolio of KBC Bank Ireland and K&H Bank, the 'Other credit exposure, banking' table, the 'Investment portfolio of KBC group insurance entities' table, the table entitled 'Credit exposure to (re)insurance companies by risk class' and 'Overview of exposure to sovereign bonds (banking and insurance portfolios combined)';
- parts of the 'Market risk in non-trading activities' section, namely the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 100-basis-point increase in the yield curve for the KBC group' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table) and 'Foreign exchange risk';
- the 'Liquidity risk', 'Market risk in trading activities' and 'Technical insurance risk' sections in their entirety;
- parts of the 'Capital adequacy' section, namely the introduction, 'Managing solvency', the tables in 'Solvency at group level' and 'Solvency, KBC Bank and KBC Insurance separately' (audited parts are indicated in the footnote to these tables) and 'Economic capital' (except for the table).

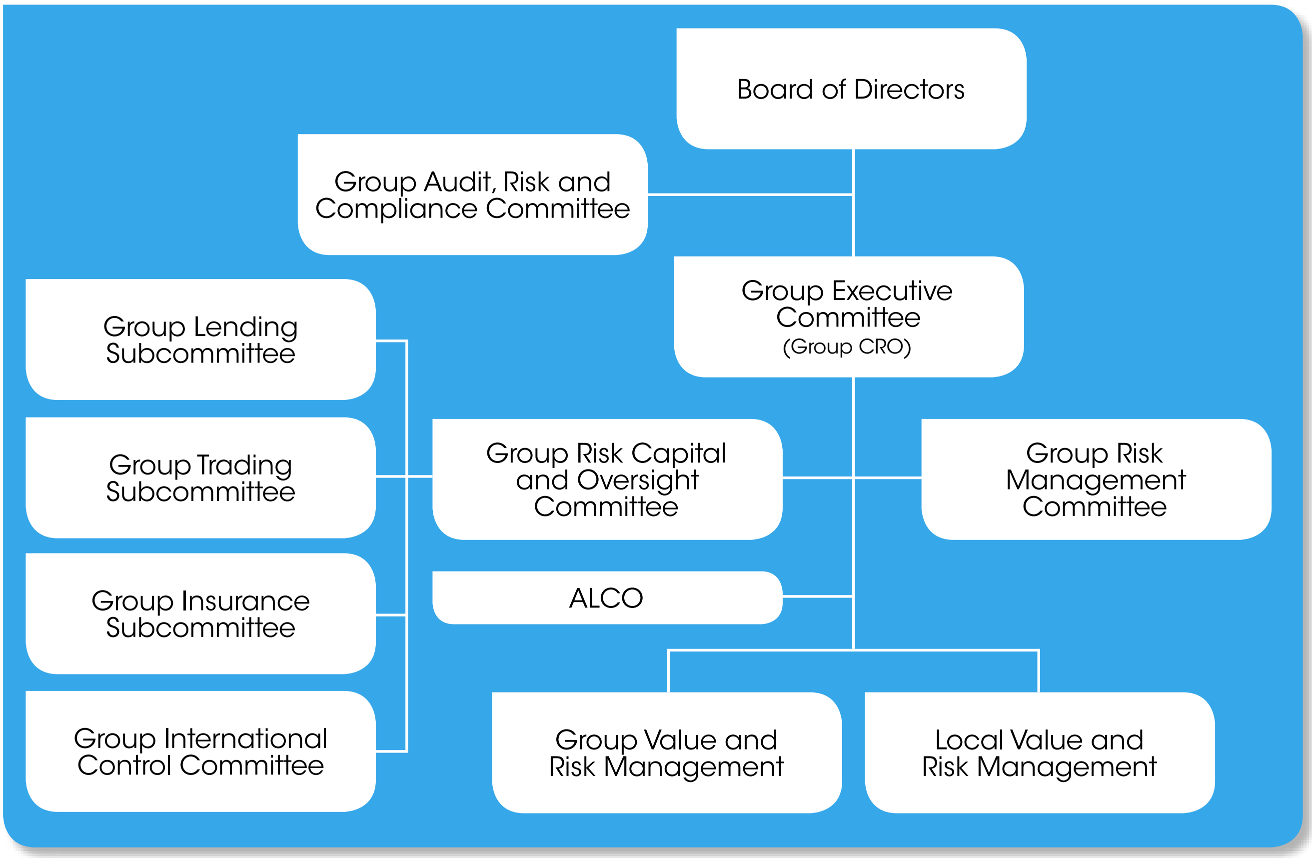
Please note:
- Unless otherwise stated, KBL EPB (in 2010 and 2011), Fidea (2011) and WARTA (2011), which have been recognised as 'disposal groups' under IFRS 5, have been excluded from the various tables (information has been provided separately in footnotes) in order to maintain consistency with their treatment in the balance sheet.
- Following the change to the strategic plan in mid-2011 (see the 'Strategy and company profile' section), the breakdown of some figures into business units has been changed with retroactive effect in order to enhance comparability.

Extensive information regarding KBC's value and risk management can be found in the *Risk Report for 2011* at www.kbc.com.

Risk governance

KBC's risk governance model is characterised primarily by:
- the Board of Directors (assisted by the Audit, Risk and Compliance Committee (ARC Committee)) which sets the risk appetite each year, monitors risks and proposes action, where necessary. More information on the Board of Directors and the ARC Committee can be found in the section entitled 'Corporate governance statement';
- 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 within the overall strategic choices and risk appetite of the group;
- the Group Risk and Capital Oversight Committee, the activity-based Asset/Liability Management Committee (ALCO), the Group Risk Management Committee and activity-based risk subcommittees that leverage the time of the Executive Committee;
- a single, independent, group-wide risk function that comprises the Group Chief Risk Officer (CRO), local CROs, and group and local risk functions;
- risk-aware business people, 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.

Relevant risk management bodies and control functions:
- *Group Executive Committee*:
  - makes proposals to the Board of Directors about risk and capital strategy, and about risk appetite;
  - agrees on the risk and capital governance framework to be implemented throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- *Group Risk and Capital Oversight Committee (GRCOC)*:
  - monitors the integrated risk profile to ensure consistency with risk limits and risk appetite, and recommends mitigating actions to the Group Executive Committee when the risk exposure is not in line with these limits or risk appetite;
  - 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, the senior general managers of the Group Value and Risk Management Directorate and Group Finance, the Group Treasurer, the general manager of the Group Strategy Unit and senior business managers.
  - Four activity-based risk subcommittees (lending, trading, insurance and internal control) support the GRCOC in its tasks. At least one member of the Group Executive Committee sits on each subcommittee, with the Group CRO acting as chairman. Besides comprising members of the Group Executive Committee, the subcommittees contain the senior general manager of the Group Value and Risk Management Directorate and the (senior) managers of the relevant business activities. These subcommittees have been granted decision rights.
- *Group Risk Management Committee*:
  - 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;
  - 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. The business is heard via the local CROs or by inviting the relevant senior managers to provide input on all topics and/or frameworks that affect them.
- *Local Chief Risk Officers (LCROs)* are situated throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since the LCROs take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO.
- *Group risk function (within 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, gathers group-wide warnings and observations for the GRCOC, and advises/reports on issues handled by the Group Executive Committee and the risk committees.
- *Group Internal Audit Division*, which 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.
- *New and Active Product Process*, which establishes a smooth, but robust and transparent process for approving new products and (regularly) reviewing existing products, whereby commercial issues are balanced against risk and operational issues.



Credit risk

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

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

Credit risk management at transactional level

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.

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

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

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

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 time, a capital add-on is imposed. 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.

For credit linked to defaulted 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 non-defaulted 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. At the end of 2011, loans that were renegotiated to avoid impairment accounted for some 2.6% of the total loan portfolio (amount outstanding), compared with 2.5% at the end of 2010. More details in this regard can be found in the *Risk Report for 2011*, which is available at www.kbc.com.

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. In addition, the largest risk concentrations are 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), 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 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Basel II Internal Rating Based (IRB) approach. Consequently, the main group entities now adopt an IRB Foundation approach and are scheduled to shift to the IRB Advanced approach. Other entities are still preparing for the IRB Foundation and Advanced approaches, while 'non-material entities' will continue to adopt the Basel II Standardised approach.

Overview of credit risk exposure in the banking activities

Credit risk arises in both the banking and insurance activities of the group. The credit risk related to the insurance activities, KBC's investments in structured credit products, government bonds, and KBC's Irish and Hungarian portfolios are examined in greater detail in separate sections below.

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio, as summarised in the following table. This portfolio is mainly the result of what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the group's bank entities. The table excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds. These items are described separately below.

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in Note 18 of the 'Consolidated financial statements' section (that particular heading, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, 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, banking	**31-12-2010[5]**	**31-12-2011[5]**
Total loan portfolio (in billions of EUR)		
Amount granted	192.2	186.1
Amount outstanding	161.3	155.9
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium	31%	34%
CEE	18%	19%
Merchant Banking	36%	37%
Group Centre (including planned divestments)	15%	10%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]		
Private individuals	37%	36%
Financial and insurance services	7%	6%
Governments	3%	4%
Corporates	52%	54%
Non-financial services	10%	10%
Retail and wholesale trade	8%	8%
Real estate	7%	7%
Construction	5%	5%
Other[2]	22%	23%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit granted)[1]		
Western Europe	68%	68%
Central and Eastern Europe (including Russia)	25%	25%
North America	4%	4%
Other	3%	3%
Total	100%	100%

Loan and investment portfolio, banking (continued)	31-12-2010[5]	31-12-2011[5]
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%)	25%	27%
PD 2 (0.10%–0.20%)	12%	12%
PD 3 (0.20%–0.40%)	18%	17%
PD 4 (0.40%–0.80%)	15%	15%
PD 5 (0.80%–1.60%)	11%	11%
PD 6 (1.60%–3.20%)	8%	7%
PD 7 (3.20%–6.40%)	6%	5%
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	10 950	11 234
Specific impairment	4 696	4 870
Portfolio-based impairment (i.e. based on PD 1 to 9)	353	371
Credit cost ratio		
Belgium Business Unit	0.15%	0.10%
CEE Business Unit	1.16%	1.59%
Czech Republic	0.75%	0.37%
Slovakia	0.96%	0.25%
Hungary	1.98%	4.38%
Bulgaria	2.00%	14.73%
Merchant Banking Business Unit	1.38%	1.36%
Group Centre (including planned divestments)	1.17%	0.36%
Total	0.91%	0.83%[6]
Non-performing loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	6 551	7 580
Specific impairment for non-performing loans	3 283	3 875
Non-performing ratio		
Belgium Business Unit	1.5%	1.5%
CEE Business Unit	5.3%	5.6%
Merchant Banking Business Unit	5.2%	7.8%
Group Centre (including planned divestments)	5.8%	5.5%
Total	4.1%	4.9%
Cover ratio		
[Specific impairment for non-performing loans] / [outstanding non-performing loans]		
Total	50%	51%
Total excluding mortgage loans	60%	62%
[Specific & portfolio-based impairment for performing and non-performing loans] / [outstanding non-performing loans]		
Total	77%	69%
Total excluding mortgage loans	96%	89%

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

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

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

5 Excluding entities classified as 'disposal groups' under IFRS 5. At year- end 2011, they accounted for 3.1 billion euros' worth of credit granted, 2.9 billion euros of which is outstanding (3.1 billion euros in 2010, 2.9 billion euros of which was outstanding) and is concentrated mainly in the financial services and private individuals sectors. KBL EPB's non-performing ratio amounts to 1.9% (4.0% in 2010), while 68% of its portfolio of non-performing loans is covered by specific impairment (93% in 2010).

6 Including KBL EPB: 0.82%.

The following additional information has been provided for the loan and investment portfolios in Ireland and Hungary, due to the specific situation on these markets.

	31-12-2010	31-12-2011
KBC Bank Ireland (Ireland) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	17	17
Breakdown by loan type		
Home loans	76%	77%
SME & corporate loans	13%	12%
Real estate investment and real estate development	11%	11%
Breakdown by risk class		
Normal performing (PD 1-9)	87%	78%
Impaired, still performing (PD 10)	3%	4%
Impaired, non-performing (PD 11+12)	10%	18%
Credit cost ratio[2]	2.98%	3.01%
Cover ratio [total impairment (for both performing and non-performing loans)] / [outstanding non-performing loans]	42%	42%
Renegotiated distressed loans[3]	9%	9%
K&H Bank (Hungary) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	7	6
Breakdown by loan type		
Retail loans	53%	50%
FX mortgage loans	35%	33%
SME & corporate loans	47%	50%
Breakdown by risk class		
Normal performing (PD 1-9)	86%	88%
Impaired, still performing (PD 10)	3%	2%
Impaired, non-performing (PD 11+12)	8%	10%
Unrated	3%	0%
Credit cost ratio[2]	1.98%	4.38%
Cover ratio [total impairments (for both performing and non-performing loans)] / [outstanding non-performing loans]	71%	77%
Renegotiated distressed loans	6%	8%

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

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. Besides distressed loan renegotiations, it has been a traditional commercial feature at KBC Ireland 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.

For K&H Bank, an important issue is the historical forex mortgage lending portfolio, which amounted to 1.9 billion euros at year-end 2011. This portfolio was subject to local legislation that permitted such mortgages to be repaid in full at a fixed exchange rate that was unfavourable for the bank. As a result, additional impairment charges of 173 million euros were taken in 2011 (95 million euros of which for losses incurred in 2011 and the remainder for further losses in the near term).

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 (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. 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, but is reported separately (see the 'Overview of outstanding structured credit exposure' section).

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. Risks are curtailed by setting limits per counterparty. 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).

Government securities in the investment portfolio of banking entities. Exposure to governments is measured in terms of nominal value and book value and relates mainly to EU states (particularly Belgium). Limiting caps are in place for so-called non-home-country sovereign bond exposure. They had been supplemented by 'warning signals' for the home country sovereign bond exposure (i.e. exposure to Belgium and the core countries in Central and Eastern Europe), but these signals were replaced by limits in 2012. 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, banking[1] (in billions of EUR)	**31-12-2010**	**31-12-2011**
Short-term commercial transactions	2.5	2.8
Issuer risk[2]	0.4	0.3
Counterparty risk in interprofessional transactions[3]	12.7	11.6
Government bonds in the investment portfolio	49.1	34.1

1 Excluding entities classified as 'disposal groups' under IFRS 5. Their exposure to issuer risk is approximately 0.8 billion euros (0.13 billion euros in 2010) and their counterparty risk exceeds 1.6 billion euros (over 1 billion euros in 2010). They also hold about 1.9 billion euros' worth of government bonds in their investment portfolios (1.8 billion euros in 2010).

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

3 After deduction of collateral received and netting benefits.

Overview of credit risk exposure in the insurance activities

Where the insurance activities are concerned, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. Guidelines for the purpose of controlling credit risk within the investment portfolio are in place with regard to, for instance, portfolio composition and ratings. The table provides an overview of the total investment portfolio of the group's insurance entities.

Investment portfolio of KBC group insurance entities[1] (in millions of EUR, market value)

Per balance sheet item	**31-12-2010**[5]	**31-12-2011**[5]
Securities	22 677	18 447
Bonds and other fixed-income securities	21 139	17 490
Held to maturity	3 483	3 518
Available for sale	17 448	13 912
At fair value through profit or loss and held for trading	136	49
As loans and receivables	72	9
Shares and other variable-yield securities	1 534	948
Available for sale	1 531	946
At fair value through profit or loss and held for trading	3	2
Other	4	8
Loans and advances to banks	87	20
Property and equipment and investment property	566	381
Investment contracts, unit-linked[2]	7 329	7 652
Other	298	326
Total	30 957	26 824
Details for bonds and other fixed-income securities		
By rating[3, 4]		
Investment grade	97%	98%
Non-investment grade	0%	1%
Unrated	3%	1%
Total	100%	100%
By sector[3]		
Governments	66%	66%
Financial	18%	23%
Other	16%	11%
Total	100%	100%
By currency[3]		
Euro	92%	94%
Other European currencies	8%	5%
US dollar	0%	0%
Total	100%	100%
By remaining term to maturity[3]		
Not more than 1 year	7%	8%
Between 1 and 3 years	22%	22%
Between 3 and 5 years	20%	14%
Between 5 and 10 years	34%	34%
More than 10 years	16%	21%
Total	100%	100%

1 The total carrying value amounted to 26 613 million euros at year-end 2011 (excluding VITIS Life, Fidea and WARTA) and to 30 732 million euros at year-end 2010 (excluding VITIS Life). See note at the start of this section.

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

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

4 External rating scale.

5 Excluding entities classified as 'disposal groups' under IFRS 5. In 2011, their investment portfolios amounted to 6.5 billion euros (2.2 billion euros at VITIS Life, 3.1 billion euros at Fidea and 1.2 billion euros at WARTA), compared with 2.3 billion euros in 2010 (relates solely to VITIS Life's investment portfolio). The scope has changed since the annual report for 2010 and, therefore, the amounts for 2010 have been duly adjusted (intercompanies with both banking and insurance entities have been filtered out in the figures for 2011, whereas only insurance intercompanies were eliminated in 2010).

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

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	**EAD 2010**	**EL 2010**	**EAD 2011**	**EL 2011**
AAA up to and including A-	423	0.07	309	0.06
BBB+ up to and including BB-	137	0.13	150	0.17
Below BB-	0	0.00	0	0
Unrated	15	0.34	5	0.10
Total	**576**	**0.54**	**463**	**0.33**

1 Based on internal ratings when available. Otherwise external ratings.

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

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

The group holds a significant portfolio of government bonds, primarily as a result of the considerable excess liquidity position and the reinvestment of insurance reserves into fixed instruments. A breakdown per country is provided in the following table.

Overview of exposure to sovereign bonds at year-end 2011, carrying value[1] (in billions of EUR)

Total	**Banking and insurance book**				**Held for trading**	**Total**	**For comparison purposes: total at year-end 2010**	**Breakdown by remaining term to maturity**		
	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables				**Amounts maturing in 2012**	**Amounts maturing in 2013**	**Amounts maturing in 2014 and later**
PIIGS countries										
Greece	0.1	0.0	0.0	0.0	0.0	0.2	0.6	0.1	0.0	0.1
Portugal	0.1	0.1	0.0	0.0	0.0	0.1	0.3	0.0	0.0	0.1
Spain	1.7	0.2	0.0	0.0	0.0	1.9	2.3	0.5	0.4	1.0
Italy	1.6	0.4	0.0	0.0	0.0	2.1	6.6	0.2	0.3	1.5
Ireland	0.1	0.3	0.0	0.0	0.0	0.4	0.5	0.0	0.0	0.4
KBC home countries										
Belgium	17.7	1.7	3.2	0.0	0.3	22.9	28.6	1.6	4.0	17.4
Czech Rep.	2.1	5.3	0.2	0.0	0.9	8.6	9.7	0.6	0.6	7.3
Hungary	0.5	1.3	0.1	0.2	0.2	2.2	3.3	0.3	0.6	1.4
Slovakia	0.6	0.6	0.0	0.0	0.1	1.3	1.8	0.1	0.2	1.0
Bulgaria	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Other countries										
France	2.1	1.4	0.0	0.0	0.0	3.4	3.3	0.2	0.2	3.0
Poland	1.9	0.9	0.0	0.1	0.0	2.8	3.8	0.4	0.4	2.0
Germany	0.9	0.3	0.0	0.0	1.0	2.1	2.5	0.7	0.2	1.2
Austria	0.3	0.5	0.0	0.0	0.0	0.8	0.9	0.2	0.1	0.6
Netherlands	0.5	0.2	0.0	0.0	0.0	0.7	0.9	0.1	0.0	0.6
Finland	0.2	0.1	0.0	0.0	0.0	0.3	0.4	0.0	0.0	0.3
Rest[2]	2.3	0.5	0.1	0.0	0.4	3.3	4.1	1.4	0.1	1.8
Total	**32.7**	**13.8**	**3.6**	**0.3**	**3.1**	**53.5**	**69.7**	**6.5**	**7.3**	**39.7**

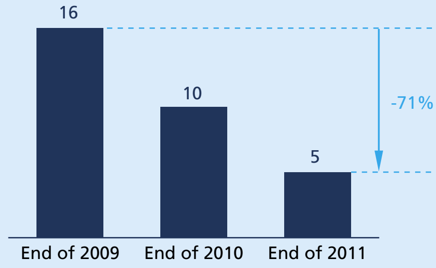
1 Including entities classified as 'disposal groups' under IFRS 5 (Fidea, KBL EPB and WARTA, accounting for an aggregate 4 billion euros at year-end 2011 and 1.6 billion euros (KBL EPB only) at year-end 2010). Excludes exposure to supranational entities of selected countries. The figures for 2010 have been restated from notional to carrying amounts to better represent the actual situation.

2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2011.

The turbulence on the market for sovereign bonds has not had any relevant impact on KBC's liquidity position and strategy.

As of the second quarter of 2011, KBC considered Greek government bonds to be impaired. As a result of the decrease in traded volumes in the third quarter of 2011, KBC decided that a level 1 classification was no longer appropriate for these instruments. However, it was still possible to determine the fair value of these bonds using observable inputs. Therefore, KBC reclassified its portfolio of Greek government bonds (carrying value of 0.3 billion euros at 30 September 2011) from level 1 to level 2 (see Note 25 of the 'Consolidated financial statements' for more information).

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



'End of 2009' relates to 31-03-2010.

For full-year 2011, the following impairment was recorded on Greek government bonds:

- For the available-for-sale portfolio, impairment was calculated as the difference between the amortised cost and the fair value at year-end 2011. This resulted in an impairment loss of 330 million euros (before taxes) being recognised in the income statement.
- For the held-to-maturity portfolio, impairment was calculated as the difference between the amortised cost and fair value at year-end 2011, which resulted in an impairment loss of 71 million euros (before taxes) being recognised in the income statement.
- In total, the carrying value of Greek government bonds on 31 December 2011 averaged 29% of the nominal amount of these bonds in the available-for-sale and held-to-maturity portfolios.
- The bonds held in the designated-at-fair-value-through-profit-or-loss and held-for-trading portfolios had already been recorded at fair value through profit or loss, which meant no additional adjustment was needed.

No impairment losses were recognised on the sovereign bonds of other European countries, since there was no evidence at the time that the future cashflows of these securities would be negatively impacted.

For full-year 2011, KBC recognised a total of -201 million euros in fair value changes in profit or loss on sovereign bonds 'designated at fair value through profit or loss' (-114 million euros for Italy, -81 million euros for Greece, 14 million euros for Spain, 6 million euros for Portugal and -23 million euros for Belgium). KBC also recorded -55 million euros on the realised results for the sale of available-for-sale sovereign bonds and -12 million euros on the sale of held-to-maturity sovereign bonds. At 31 December 2011, the carrying values of available-for-sale government bonds incorporated a negative revaluation. Totalling -162 million euros (after tax), this effect has been included in the revaluation reserve for available-for-sale financial assets (-95 million euros for Italy, -23 million euros for Portugal, -53 million euros for Spain, -22 million euros for Ireland, -46 million euros for Hungary, and 76 million euros for Belgium).

The table below provides sensitivity analysis information on the government bond portfolio.

Impact of a parallel 10-basis-point upward shift in government bond yield curves (31-12-2011) (in millions of EUR)	**Impact on equity**	**Impact on profit or loss***	**Weighted average duration (in years)**
Total	-123	-14	4.7
of which Belgium	-74	-13	4.4

* This impact was largely eliminated as most of the government bonds classified as 'designated at fair value through profit or loss' were used to hedge the mark-to-marking effect of interest rate swaps.

Overview of outstanding structured credit exposure (banking – including KBL EPB – and insurance portfolios combined)

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

- KBC (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 outstanding transactions, protection was bought from MBIA, a US monoline credit insurer ('hedged CDO exposure' in the table).
- KBC 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 exposure' in the table). The main objective at that time was to differentiate risk and to enhance the yield for the reinvestment of the insurance reserves and bank deposits it held and was not using for lending purposes.

The figures exclude all expired, unwound and terminated CDOs.

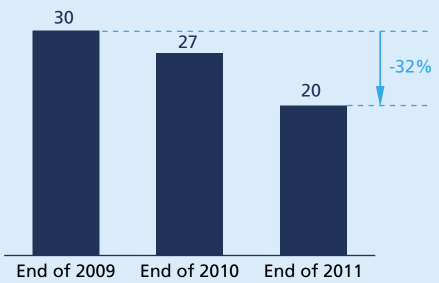
KBC investments in structured credit products (CDOs and other ABS)* (in billions of EUR)	**31-12-2010**	**31-12-2011**
Total nominal amount	**27.2**	**20.4**
hedged CDO exposure	14.9	10.9
unhedged CDO exposure	7.7	6.4
other ABS exposure	4.7	3.1
Cumulative value markdowns (mid-2007 to date)*	**-6.3**	**-5.5**
of which value markdowns	-5.2	-4.5
for unhedged CDO exposure	-4.2	-4.1
for other ABS exposure	-1.0	-0.4
of which Credit Value Adjustment (CVA) on MBIA cover	-1.2	-1.0

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

In 2011, there was a total notional reduction of 6.8 billion euros, due mainly to the:

- Chiswell CDO reaching maturity (-1.4 billion euros of hedged CDO exposure and -0.2 billion euros of unhedged exposure).
- Sale of the Avebury CDO (-0.5 billion euros of unhedged CDO exposure).
- Lancaster CDO being unwound (-0.4 billion euros of hedged CDO exposure covered by Channel, and -0.1 billion euros of unhedged exposure).
- Early termination of the Fulham Road CDO (-1.7 billion euros of hedged exposure and -0.3 billion euros of unhedged exposure).
- Sale of KBC's exposure to the Wadsworth CDO (-0.5 billion euros of hedged exposure).
- Sale of the underlying ABS assets for the expired Aldersgate and Chiswell CDOs (-0.3 billion euros).
- Sale of impaired assets in the former Atomium portfolio, along with some minor sales, amortisations and prepayments (-1.4 billion euros of other ABS and CDO exposure).

CDOs and ABS
(nominal amount, in billions of EUR)



Nominal amount (excluding deduction of value adjustments); it should be noted that a significant portion of the exposure to CDOs is covered by the guarantee arrangement with the Belgian State.

In the meantime, KBC is continuing its de-risking strategy for its CDO and structured credit exposures, reflected in the collapse (i.e. de-risking) of two CDOs in January 2012. More details in this regard can be found in Note 48 of the 'Consolidated financial statements' section.

Since the inception, the unhedged CDO positions held by KBC have experienced net effective losses, caused by claimed credit events until 9 January 2012 in the lower tranches of the CDO structure for a total amount of -2.1 billion euros. Of these, -1.8 billion euros' worth of events have been settled. These have had no further impact on P/L because complete value markdowns for these CDO tranches had already been absorbed in P/L in the past.

Protection for CDO exposure
As stated above, KBC bought credit protection from MBIA for a large part of the (super senior) CDOs it originated. 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 – in combination with the increased counterparty risk – resulted in significant additional negative value adjustments at KBC. KBC and other institutions filed court cases after MBIA announced its restructuring plan. After reaching an out-of-court settlement with MBIA, KBC dropped out of the litigation on 6 September 2011. However, this had no impact on the protection bought from MBIA for the still outstanding CDOs.

Moreover, the remaining risk related to MBIA's insurance coverage is largely mitigated, as it is included in the scope of the guarantee agreement that was agreed with the Belgian State on 14 May 2009. At 31 December 2011, this agreement related to a nominal value of 13.9 billion euros, 10.9 billion euros of which relates to the exposure insured by MBIA. The remaining 3.0 billion euros of exposure covered by the agreement with the Belgian State relates to the unhedged element. Of this portfolio (i.e. CDO exposure not covered by credit protection bought from MBIA), the super senior assets have also been included in the scope of the guarantee agreement with the Belgian State. More details in this regard can be found in the 'Additional information' section of this report.

Details on the hedged CDO exposure (insurance for CDO-linked risks received from MBIA) (in billions of EUR)	**31-12-2010**	**31-12-2011**
Total insured amount (notional amount of super senior swaps)[1]		
- MBIA	14.4	10.9
- Channel	0.4	0.0
Impact of settled credit events[2]	-0.3	-0.2
Details for MBIA insurance coverage		
- Fair value of insurance coverage received (modelled replacement value, after taking the guarantee agreement into account)	1.7	1.4
- CVA for counterparty risk, MBIA	-1.2	-1.0
(as a % of fair value of insurance coverage received)	70%	70%

1 The amount insured by MBIA is included in the guarantee agreement with the Belgian State (14 May 2009).
2 Until 9 January 2012.

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 for 2011* (available at www.kbc.com).

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 (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:
- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

Managing market risk in non-trading activities

Market risk in non-trading activities is managed by the ALCO, which is supported by the Group Treasury function, the first line of defence with regard to this activity. The second line of defence, i.e. risk control, is the responsibility of a team in the Group Value and Risk Management Directorate. This team supports the GRCOC and Group Executive Committee by providing advice and drawing up reports. Similar teams exist at the different business units.

The Group Treasury function develops and implements the ALM strategies, which have been approved by the ALCO, within the boundaries of the ALM Risk Management Framework developed by the Group Value and Risk Management Directorate.

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

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity;
- the use of a uniform ALM 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;
- the definition of an ALM VAR limit at group level and the breakdown of this limit into various types of risk and entities;
- the use of VAR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio;
- the use of other risk measurement methods, such as Basis-Point-Value (BPV), notional amounts, etc., to supplement VAR.

KBC group non-trading market risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR)[1] (in billions of EUR)	**31-12-2010**	**31-12-2011**
Interest rate risk	0.90	0.67
Equity risk	0.57	0.19
Real estate risk	0.10	0.06
Other risks[2]	0.11	0.05
Total diversified VAR (group)	1.68	0.96

1 Excluding a number of small group companies. The VAR in this table does not yet capture the following (material) risks: corporate credit spread, sovereign credit spread and cyclical prepayment options embedded in mortgage loans. Excluding entities classified as 'disposal groups' under IFRS 5. Their impact on the group's ALM VAR was 90 million euros at year-end 2010 and 89 million euros at year-end 2011.

2 Foreign exchange risk and inflation risk.

Interest rate risk

Two main techniques are used to measure interest rate risks: 10 BPV and VAR (see above). The 10 BPV measures the extent to which the value of the portfolio would change if interest rates were go up by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). 10 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.

In addition, the group-wide IFRS sensitivity to interest rate movements is reported on a regular basis and includes both the banking and insurance activities. The table illustrates the impact of a 100-basis-point increase in the yield curve, given the positions at the reporting date.

Impact of a parallel 100-basis-point increase in the yield curve for the KBC group[1]

(in millions of EUR)	Impact on net profit (IFRS) 2010	2011	Impact on value[2] 2010	2011
Insurance	-5	-8	-67	55
Banking	-56	-27	-504	-315
Total	-61	-35	-572	-260

1 Entities classified as 'disposal groups' under IFRS 5 have been excluded. A 100-basis-point increase in the yield curve would have a very limited impact on the net profit of these entities (-0.6 million euros) and the impact on the market value would be -25 million euros (in 2010, the figures were -0.65 million euros and -23 million euros, respectively).
2 Full market value, regardless of accounting classification or impairment rules.

Banking activities

The ALM interest rate positions of the banking entities 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 takes interest rate positions mainly through government bonds, with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds.

The table shows the bank's exposure to interest rate risk in terms of 10 BPV.

BPV (10 basis points) of the ALM book, banking activities* (in millions of EUR)	2010	2011
Average for 1Q	-63	-61
Average for 2Q	-68	-62
Average for 3Q	-69	-58
Average for 4Q	-62	-45
As at 31 December	-55	-40
Maximum in year	-69	-65
Minimum in year	-55	-40

* Excluding entities classified 'as disposal groups' under IFRS 5 (including these entities would lead to an overall BPV for the banking activities of -57 million euros at year-end 2010 and -34 million euros at year-end 2011).

In line with the Basel II guidelines, a 200-basis-point 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 at KBC group level (excluding KBL EPB), this risk came to 11% of total capital and reserves at year-end 2011 (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), banking activities*

(in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2010	-5 116	-558	626	1 513	5 226	3 852	-5 542	0
31-12-2011	-8 138	3 220	2 563	7 107	2 822	2 900	-10 474	0

* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (figures for these entities are given below).

31-12-2010	-140	55	88	528	140	18	-689	0
31-12-2011	-114	43	125	580	129	15	-777	0

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

Insurance activities

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

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

Unit-linked life insurance investments (class 23) are not dealt with here, since this activity does not entail any market risk for KBC.

The table summarises the exposure to interest rate risk in KBC's life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted), life insurance activities*

(in millions of EUR)	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2010						
Fixed-income assets backing liabilities, guaranteed component	12 353	7 245	2 250	1 504	1 074	24 425
Liabilities, guaranteed component	9 814	6 287	2 140	1 723	2 560	22 524
Difference in expected cashflows	2 539	958	109	-219	-1 487	1 901
Mean duration of assets						5.40 years
Mean duration of liabilities						6.36 years
31-12-2011						
Fixed-income assets backing liabilities, guaranteed component	12 408	6 197	1 842	1 333	753	22 534
Liabilities, guaranteed component	10 020	4 330	1 751	1 341	1 945	19 387
Difference in expected cashflows	2 388	1 867	91	-7	-1 192	3 147
Mean duration of assets						5.44 years
Mean duration of liabilities						6.03 years

* Excluding a number of small group companies. Entities classified 'as disposal groups' under IFRS 5 have also been excluded (they accounted for 3 552 million euros in fixed-income assets backing 3 643 million euros' worth of guaranteed liabilities at year-end 2011 (573 and 508 million euros, respectively, at year-end 2010)).

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities[1]	**31-12-2010**	**31-12-2011**
5.00% and higher[2]	3%	3%
More than 4.25% up to and including 4.99%	11%	6%
More than 3.50% up to and including 4.25%	7%	11%
More than 3.00% up to and including 3.50%	33%	33%
More than 2.50% up to and including 3.00%	22%	24%
2.50% and lower	19%	22%
0.00%	5%	2%
Total	100%	100%

1 Excluding a number of small group companies. VITIS Life, WARTA and Fidea, which accounted for 15.2% of total nominal exposure (19% of their exposure is in the 'More than 2.50% up to and including 3.00%' category) at year-end 2011, have also been excluded.

2 Contracts in Central and Eastern Europe.

Equity risk

The main exposure to equity is within the insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the DPF of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities (e.g., KBC Bank, KBL EPB, KBC Asset Management and KBC Private Equity). The tables below present more information on total non-trading equity exposures at KBC.

Equity portfolio of the KBC group*	**Banking activities**		**Insurance activities**		**Group**	
(breakdown by sector, in %)	**31-12-2010**	**31-12-2011**	**31-12-2010**	**31-12-2011**	**31-12-2010**	**31-12-2011**
Financial	46%	32%	21%	19%	32%	21%
Consumer non-cyclical	15%	9%	8%	14%	11%	11%
Communication	2%	2%	6%	3%	4%	3%
Energy	5%	0%	8%	10%	7%	8%
Industrial	5%	28%	10%	18%	8%	18%
Utilities	4%	3%	5%	3%	4%	4%
Consumer cyclical	7%	3%	20%	8%	15%	7%
Basic materials	8%	13%	9%	8%	8%	8%
Other and not specified	8%	10%	13%	15%	11%	21%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	1.1	0.2	1.4	0.9	2.6	1.6
of which unlisted	0.5	0.1	0.1	0.0	0.6	0.2

* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (at year-end 2011, their equity portfolios came to 0.39 billion euros (0.28 billion euros a year earlier), 28% of which was invested in unlisted equities (32% a year earlier)). The equity portfolio of KBC Pension Fund (0.5 billion euros) has only been included in the 'Group' columns and not in the 'Banking activities' or 'Insurance activities' columns in 2011, whereas it was reported under 'Banking activities' in 2010. The participation in Nova Ljubljanska banka (financial sector) was treated as equity exposure in 2010, but has not been included in the 2011 figures.

The table provides an overview of the sensitivity of income and economic value to fluctuations in the equity markets.

Impact of a 12.5% drop in equity prices[1]	**Impact on net profit (IFRS)**		**Impact on value**	
(in millions of EUR)	**2010**	**2011**	**2010**	**2011**
Insurance activities	-13	-36	-100	-57
Banking activities	-27	-28	-142	-26
Total[2]	-40	-67	-242	-145

1 Entities classified as 'disposal groups' under IFRS 5 have been excluded. A 12.5% drop in equity prices at year-end 2011 would have an impact of -6 million euros on the net profit of these entities and -37 million euros on economic value.

2 The total in 2011 includes KBC Pension Fund, which had an impact of -3 million euros on net profit and -61 million euros on economic value.

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

Non-trading equity exposure[1]		**31-12-2010**		**31-12-2011**
(in millions of EUR)	**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)**
KBC group[2]	64	377	106	202
Banking entities	21	91	31	29
Insurance entities	45	338	74	171

1 Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded. For these entities, net unrealised gains amounted to 71 million euros (recognised in equity) (58 million euros in 2010) and the losses on year-end exposure came to 4 million euros (recognised in the income statement) (0 million euros in 2010).

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

Real estate risk

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. KBC Insurance also holds a diversified real estate portfolio, which is held as an investment for non-life reserves and long-term life activities. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios.

The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 12.5% drop in real estate prices[1]	**Impact on value**	
(in millions of EUR)	**2010**	**2011**
Bank portfolios	-80	-68
Insurance portfolios	-30	-43
KBC group[2]	-110	-124

1 Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (for Fidea, a 12.5% drop in real estate prices had an impact of -8 million euros in 2011).

2 In 2011, KBC Pension Fund was included in the KBC group line and not in 'Bank portfolios' or 'Insurance portfolios'. In 2010, it was reported under 'Bank portfolios'.

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 will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.

The liquidity risk management framework within the KBC group covers banking entities only. Banking activities usually involve assets that have a longer tenor than corresponding liabilities, which creates liquidity risk. Insurance entities typically have more stable liabilities. An insurance entity's liquidity is managed by matching cashflows and ensuring that sufficient investments are made in liquid assets, thereby guaranteeing that unexpectedly high lapses can be covered by selling or 'repoing' liquid assets.

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.

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.

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 function, which is responsible for the overall liquidity and funding management of the KBC group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. The local treasuries in the subsidiaries implement these policies and report to the Group Treasury function, which in turn further centralises collateral management and the acquisition of long-term funding. The local treasuries are directly responsible for liquidity management in their respective entities. However, the liquidity contingency plan requires all significant local liquidity issues to be escalated to group level. The group-wide liquidity risks are also aggregated and monitored centrally on a daily basis and are reported periodically to the GRCOC, Group Executive Committee and ARC Committee.

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

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

- *Structural liquidity risk*. 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 short-term wholesale funding. The structural funding position is managed as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, KBC's strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III LCR and NSFR requirements via a new funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

  The table on the next page 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 2011, KBC had attracted 43 billion euros' worth of funding from the professional interbank and repo markets. Please note that US dollar funding obtained from these markets amounted to approximately 7 billion euros on the position at year-end (total US dollar funding of 13 billion euros).

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

Structural liquidity risk data

Liquidity risk at year-end (excluding intercompany deals)*

(in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Not defined	Total
31-12-2010								
Total inflows	49	12	23	64	44	46	37	276
Total outflows	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	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
31-12-2011								
Total inflows	32	11	17	55	40	36	50	241
Total outflows	51	17	12	36	5	2	118	241
Professional funding	28	10	1	4	0	0	0	43
Customer funding	17	6	8	11	3	1	77	123
Debt certificates	3	2	3	20	2	1	1	31
Other	3	0	0	0	0	0	40	43
Liquidity gap (excl. undrawn commitments)	-20	-6	5	19	36	34	-68	0
Undrawn commitments	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	-12	–
Net liquidity gap (incl. undrawn commitments)	-20	-6	5	19	36	34	-114	-46

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (balance sheet total for KBL EPB: 12.6 billion euros). 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos.

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.

Despite the challenging market conditions regarding liquidity, KBC still has a solid liquidity position. Historically, KBC has always had a substantial amount of liquid assets. At year-end 2011, KBC Bank (at the consolidated level) had 48 billion euros' worth of central bank eligible assets, 34 billion euros of which in the form of liquid government bonds. Some 15 billion euros were used as collateral for attracting repo funding.

The loan-to-deposit ratio of KBC Bank amounted to 94% at the end of 2011, compared to 81% at the end of 2010. The increase is the result of an outflow of some volatile short-term corporate and institutional deposits – mainly outside our core markets – due to the short-term rating of KBC Bank being lowered by Standard and Poor's (from A1 to A2 in December 2011) and to risk aversion towards the European market in general. The corporate and retail deposit base in the core markets remained stable.

During 2011, KBC Bank used its EMTN programme to raise 4.3 billion euros in long-term funding. Due to the success of this programme and the robust issuance of long-term funding in the retail network (KBC Bank and CBC Banque: 6.7 billion euros for 2011), sufficient long-term funding is available to cover the repayment of long-term funding that will mature in the course of 2012. In addition, new regulations allowing the issuance of covered bonds in Belgium is likely to increase the ability to attract long-term funding on the wholesale market.

KBC participated in the ECB's long-term refinancing operations (LTRO) of December 2011 and February 2012, borrowing a total of 8.67 billion euros.

Market risk in trading activities

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

The objective of market risk management is to measure 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, while activity on the FX 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 subsidiaries by, *inter alia*, selling KBL EPB, continuing to wind down the remaining business lines at KBC Financial Products, and selling or unwinding selected ABS and CDO assets.

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. Complex and/or illiquid instruments, which are not included in HVAR calculations, are subject to nominal or scenario limits.

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. The specific risk associated with a particular issuer or country is also subject to concentration limits. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks').

In addition to the daily HVAR calculations, 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, 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.

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 2011, the VAR for KBC Securities amounted to 0.6 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, do not lend themselves to VAR modelling and therefore 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. These models will also be used for the calculation of Stressed VAR, which is one of the new CRD III Regulatory Capital charges entering into effect at year-end 2011. The calculation of a Stressed VAR measure is based on the normal VAR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is based on recent history and is calibrated regularly.

In addition, KBC Financial Products has implemented models (as required by CRD III) to calculate and report an Incremental Risk Charge (IRC) for credit risk positions that carry default and migration risks (i.e. the single name corporate CDS). The risk is measured as a 99.9% loss over a one-year holding period for a constant level of risk (constant position). The liquidity horizon for the portfolio in scope is set to one year. Furthermore, a Comprehensive Risk Measure is calculated to cover all price risks in the bespoke CDO tranches. The risk attached to ABS and retained CDO positions follows the (re-)securitisation framework.

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 29 in the 'Consolidated financial statements' section.

Market risk (VAR)[1]

(in millions of EUR)	**2010** KBC Bank	**2010** KBC Financial Products	**2011** KBC Bank	**2011** KBC Financial Products	**2011** SVAR[2] KBC Bank	**2011** SVAR[2] KBC Financial Products
Holding period	1 day	1 day	1 day	1 day	10 days	10 days
Average for 1Q	6	9	4	6	–	–
Average for 2Q	8	9	4	5	–	–
Average for 3Q	6	8	4	8	–	–
Average for 4Q	5	8	8	3	46	14
As at 31 December	4	7	9	6	36	17
Maximum in year	15	13	10	11	60	19
Minimum in year	4	6	3	1	24	11

1 KBC Bank: excluding 'specific interest rate risk' (measured using other techniques); swap basis risk has only been included since 22 October 2011. KBC Financial Products: excluding Avebury and the fund derivatives business line.

2 SVAR (stressed VAR) calculated only as of the fourth quarter of 2011. Unaudited figures.

Technical insurance risk

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

Managing technical insurance risk

The Insurance Risk Centre of Excellence in the Group Value and Risk Management Directorate develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries.

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

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

Risk modelling

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

Stress testing

In 2011, the sensitivity of the technical insurance risks to extreme events was analysed mainly through participation in the European Insurance and Occupational Pensions Authority stress tests (see the 'Capital adequacy' section). The goal of these tests was to identify and quantify the impact of different stress scenarios on the financial position of the insurance group and included catastrophic and severe insurance events for both the life and non-life businesses.

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

For the life insurance business, a sensitivity analysis is typically performed within the framework of the annual calculation of the market consistent embedded value. The results for three types of sensitivity to insurance risk are reported, viz. 'mortality rate: plus and minus 5%', 'lapses: plus and minus 10%', 'expenses: plus and minus 10%'.

Reinsurance

The insurance portfolios are protected against the impact of serious claims or the accumulation of losses (due, for instance, to a concentration of insured risks) by means of reinsurance. These reinsurance programmes are broken down into three main groups, i.e. property insurance, liability insurance and personal insurance, and are re-evaluated and renegotiated every year.

Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of serious claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes, especially with a view to creating shareholder value. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk.

Technical provisions and loss triangles

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

In addition, 'Liability Adequacy Tests' (LAT) that meet local and IFRS requirements are conducted by various group companies for the life technical provisions. Calculations are made using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and extra market-value margins are built in to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were recorded by year-end 2011, there was no need for a deficiency reserve to be set aside within the KBC group.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, Fidea (up to and including financial year 2010), ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic, from financial year 2008), DZI Insurance (from financial year 2008), K&H Insurance, Secura (up to and including financial year 2009), KBC Group Re (from financial year 2005) and WARTA (from financial year 2004 up to and including financial year 2010). All provisions for claims to be paid at the close of 2011 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. The amounts were restated to reflect exchange rates at year-end 2011.

Loss triangles, KBC Insurance

(in millions of EUR)	Year of occurrence 2002	Year of occurrence 2003	Year of occurrence 2004[1]	Year of occurrence 2005[2]	Year of occurrence 2006	Year of occurrence 2007	Year of occurrence 2008[3]	Year of occurrence 2009	Year of occurrence 2010	Year of occurrence 2011[4]
Estimate at the end of the year of occurrence	925	769	1 048	1 077	1 159	1 230	1 360	1 436	1 420	808
1 year later	813	778	950	981	1 048	1 140	1 305	1 144	1 033	–
2 years later	818	746	907	946	1 022	1 098	1 141	987	–	–
3 years later	811	726	893	945	1 008	966	1 051	–	–	–
4 years later	801	711	884	926	874	892	–	–	–	–
5 years later	787	683	880	839	821	–	–	–	–	–
6 years later	781	676	821	803	–	–	–	–	–	–
7 years later	776	637	778	–	–	–	–	–	–	–
8 years later	744	609	–	–	–	–	–	–	–	–
9 years later	719	–	–	–	–	–	–	–	–	–
Current estimate	719	609	778	803	821	892	1 051	987	1 033	808
Cumulative payments	-662	-556	-714	-709	-729	-776	-896	-801	-763	-322
Current provisions	57	54	64	94	91	116	155	186	270	486

1 From financial year 2004, WARTA's figures have been included. If this company had not been taken into account, the following amounts would have been arrived at for financial year 2004 (amount and year of occurrence): 773 for 2002; and 684 for 2003.

2 From financial year 2005, KBC Group Re's figures have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2005 (amount and year of occurrence): 803 for 2002; 744 for 2003; and 922 for 2004.

3 From financial year 2008, the figures for ČSOB Poist'ovňa (Slovakia) and DZI Insurance (Bulgaria) have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2008 (amount and year of occurrence): 780 for 2002; 681 for 2003; 882 for 2004; 928 for 2005; 1 005 for 2006 and 1 097 for 2007.

4 For financial year 2011, the figures for WARTA and Fidea have been excluded. If these figures had been taken into account, the following amounts would have been arrived at for financial year 2011 (amount and year of occurrence): 736 for 2002; 633 for 2003; 812 for 2004; 838 for 2005; 861 for 2006; 958 for 2007; 1 129 for 2008; 1 074 for 2009; 1 255 for 2010; and 1 251 for 2011.

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

Operational and other non-financial risks

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

Information on legal disputes can be found in Note 36 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 Group Value and Risk Management Directorate is primarily responsible for defining the operational risk management framework for the entire group. The development and implementation of this framework is supported by an extensive operational risk governance model covering all entities of the group. This framework was redesigned in 2010 and will gradually be implemented (with full implementation in 2014).

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.

In 2011 specific attention was given to the structured set-up of process-based Group Key Controls, which will gradually replace the former Group Standards. These Controls are policies containing top-down basic control objectives and are used to mitigate key and killer risks inherent in the processes of KBC entities. As such, they are an essential building block of the Operational Risk Management Framework.

A first set was approved in 2011 for the Credit, Life, Non-life, Personal Financial Advice, Legal, Tax, Business Continuity Management and Risk & Capital Management processes. These Group Key Controls are assessed by the business and (local) control functions. The risk self-assessments are consolidated at the Group Value and Risk Management Directorate and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. KBC has created an objective management tool to evaluate its internal control environment and to benchmark the approach across its entities.

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

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

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

Operational risk and regulatory capital requirements

KBC uses the Standard approach to calculate operational risk capital under Basel II. Operational risk capital for KBC Bank at the consolidated level totalled 862 million euros at the end of 2011, compared with 860 million euros at the end of 2010 (the figures exclude KBL EPB, which had contributed approximately 78 million euros to the total operational risk capital of the KBC group at year-end 2011 and 72 million euros at year-end 2010).

Other non-financial risks

Reputation risk

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

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

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

Business risk
Business risk is the 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.

Capital adequacy

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

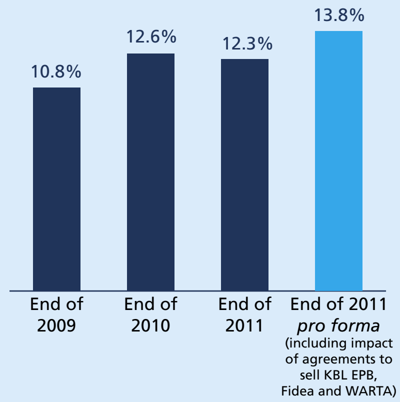
Managing solvency

KBC reports its solvency at group, banking and insurance level, calculating it on the basis of IFRS figures and the relevant guidelines issued by the Belgian regulator.

For group solvency, the so-called 'building block' method is used. This entails comparing group regulatory capital (i.e. parent shareholders' equity adjusted for a number of items; see table), with the sum of the separate minimum regulatory solvency requirements for KBC Bank, KBL EPB and the holding company (after deduction of intercompany transactions between these entities) and KBC Insurance. The total risk-weighted volume of insurance companies is calculated as the required solvency margin under Solvency I divided by 8%.

The KBC group's tier-1 solvency target under Basel II is 11%.

Group tier-1 ratio (Basel II)



Regulatory minimum solvency targets were amply exceeded in 2011, 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 to compare these requirements with the capital available to cover risks. The ICAAP examines both the current and future capital situation. To assess the latter situation, a three-year forecast is drawn up for required and available capital, 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.

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

Solvency at group level

Solvency at group level (consolidated, including KBL EPB, WARTA and Fidea, under Basel II)

(in millions of EUR)	31-12-2010	31-12-2011
Total regulatory capital, after profit appropriation	**21 726**	**19 687**
Tier-1 capital[1]	**16 656**	**15 523**
Parent shareholders' equity	11 147	9 756
Non-voting core-capital securities	7 000	6 500
Intangible fixed assets (-)	-429	-446
Goodwill on consolidation (-)	-2 517	-1 804
Innovative hybrid tier-1 instruments	598	420
Non-innovative hybrid tier-1 instruments	1 689	1 690
Minority interests	161	145
Equity guarantee (Belgian State)	446	564
Revaluation reserve, available-for-sale assets (-)	-66	117
Hedging reserve, cashflow hedges (-)	443	594
Valuation differences in financial liabilities at fair value – own credit risk (-)	-190	-550
Minority interests in available-for-sale reserve and hedging reserve, cashflow hedges (-)	-3	-3
Equalisation reserves (-)	-128	-139
Dividend payout (-)[2]	-854	-598
IRB provision shortfall (50%) (-)[3]	0	0
Limitation of deferred tax assets	-243	-384
Items to be deducted (-)[4]	-397	-338
Tier-2 and tier-3 capital	**5 069**	**4 164**
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	30	30
Revaluation reserve, available-for-sale shares (at 90%)	392	246
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	0	0
IRB provision shortfall (50%) (-)[3]	0	0
IRB provision excess (+)[3]	132	403
Subordinated liabilities	4 730	3 778
Tier-3 capital	182	45
Items to be deducted (-)[4]	-397	-338
Total weighted risks	**132 034**	**126 333**
Banking	116 129	110 355
Insurance[5]	15 676	15 791
Holding-company activities	264	286
Elimination of intercompany transactions between banking and holding-company activities	-34	-100
Solvency ratios		
Tier-1 ratio	12.6%	12.3%
Core tier-1 ratio	10.9%	10.6%
CAD ratio	16.5%	15.6%

1 Audited figures (except for 'IRB provision shortfall/excess').
2 Includes the dividend on ordinary shares and the coupon on non-voting core-capital securities sold to the Belgian State and Flemish Region.
3 Excess/shortfall is defined as the (positive/negative) difference between the actual loan loss impairment recognised and the 'expected loss' calculation.
4 Items to be deducted, which are split 50/50 over tier-1 and tier-2 capital, include mainly participations in and subordinated claims against financial institutions in which KBC has between a 10% and 50% share (primarily Nova Ljubljanska banka).
5 Weighted risks for insurance are calculated by multiplying capital under Solvency I by a factor of 12.5 (8% rule similar to the relationship between RWA and capital for banking).

Please note that:

- The *pro forma* tier-1 ratio, including the impact of the sale of KBL EPB, WARTA and Fidea, amounted to approximately 13.8% at year-end 2011.
- Total weighted risks include the (increasing) effect of the higher risk weighting for market risks of the banking activities following implementation of CRD III (some 6 billion euros).
- KBC reimbursed 0.5 billion euros (and paid a 15% penalty) to the Belgian State on 2 January 2012. This was taken into account in the balance sheet at year-end 2011, and hence in the solvency calculation, as well (with 0.5 billion euros shifting from equity to liabilities, and the penalty being deducted from equity by presenting it as a liability).
- The Belgian regulator has confirmed that the non-voting core-capital securities will be fully grandfathered as common equity under the current CRD IV proposal.

Solvency, KBC Bank and KBC Insurance separately

The table below shows the tier-1 and CAD ratios calculated under Basel II for KBC Bank, as well as the solvency ratio of KBC Insurance. More detailed information on the solvency of KBC Bank and KBC Insurance can be found in their consolidated financial statements and in KBC's *Risk Report for 2011*, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Solvency, KBC Bank and KBC Insurance separately (in millions of EUR)	**31-12-2010**	**31-12-2011**
KBC Bank (consolidated, Basel II)		
Total regulatory capital, after profit appropriation	18 552	16 364
of which tier-1 capital*	13 809	12 346
Total weighted risks	111 711	106 256
Tier-1 ratio	12.4%	11.6%
of which core tier-1 ratio	10.5%	9.6%
CAD ratio	16.6%	15.4%
KBC Insurance (consolidated, Solvency I)		
Available capital*	2 712	2 533
Required solvency margin	1 254	1 263
Solvency ratio (%)	216%	201%
Solvency surplus	1 458	1 270

* Audited figures.

As part of the Europe-wide capital adequacy exercises, KBC participated in the 2011 stress tests conducted by the European Banking Authority (EBA) and the European Insurance and Occupational Pension Authority. Based on the outcome of the stress tests, KBC is adequately capitalised and achieved a satisfactory core tier-1 ratio and solvency ratio.

Basel III

The Basel III agreement and corresponding draft European CRD IV Directive and Regulation will introduce new, more stringent capital requirements for financial institutions. According to these proposals, 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. Under the current CRD IV draft, the capital injections received from the government (for KBC, the 7 billion euros' worth of core-capital securities sold to the Belgian State and Flemish Region in 2008 and 2009) will be classified as common equity tier-1 capital and will be grandfathered until 2018. Agreed in July 2009, Basel 2.5 enhances the measurement of risks related to securitisation and trading book exposures, and introduces higher capital requirements for this type of exposure. Basel 2.5 came into force at year-end 2011.

Solvency II

Solvency II is the new regulatory solvency regime for all EU insurance and reinsurance companies. Whereas the current insurance solvency requirements (Solvency I) are volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and deliver a supervisory system that is consistent across all EU Member States. Solvency II was intended to come into effect at the start of 2013, but the European authorities have proposed that the date for its full implementation should be postponed until 1 January 2014, because of delays in the development and adoption of the regulatory framework.

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 ARC Committee and the Board of Directors.

KBC defines economic capital as the amount of capital required to absorb very severe losses, expressed in terms of the potential reduction in the economic value of the group (i.e. the difference between the current economic value and the worst-case economic value over a one-year time horizon and at a certain confidence level), in line with the risk appetite set by the Board of Directors. 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 risk-adjusted performance measurement and internal valuation models, such as the Market Consistent Embedded Value model.

The breakdown of KBC's economic capital per risk type is provided in the table. The noticeable movement in the distribution of economic capital across the different risk types is only partly related to changes in risk exposures. Differences also arise from changes being made to the economic capital model. Indeed, the model – which is the result of an internal assessment – is reviewed on a regular basis.

Economic capital distribution, KBC group*	**2010**	**2011**
Credit risk	69%	68%
Non-trading market risk	12%	12%
Trading market risk	3%	2%
Business risk	6%	8%
Operational risk	5%	6%
Technical insurance risk	3%	3%
Funding cost and bid/offer spread risk	2%	1%
Total	**100%**	**100%**

* All percentages relate to figures at the end of September. Excluding entities classified as 'disposal groups' under IFRS 5 and whose contribution to KBC's economic capital was around 5% in 2011 (4% in 2010).

Corporate governance statement

Corporate governance at our group and the applicable code

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

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

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

Unless otherwise indicated, the period dealt with runs from 1 January 2011 to 31 December 2011.

The Statement also contains other information required by law.

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

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

Developments in corporate governance at the KBC group

In 2011, KBC gave serious thought to how it wanted group corporate governance to develop going forward, with the aim of increasing the strength and efficiency of the management bodies.

The Board currently comprises 25 members, a figure that is much higher than what is stipulated in present-day corporate governance principles. The Board also lacks non-executive directors who have a solid background in our Central European home markets, and the number of female Board members is far from the targeted quota.

In consultation with its Nomination Committee, the Board has decided to reduce its membership from 25 to 22 persons at the General Meeting of 3 May 2012, and intends to reduce the number further in the years ahead. Messrs Borghgraef, Naert, Soete and Van Wymeersch were prepared to step down voluntarily – and in the exclusive interests of the group – as directors a year before their current (renewable) terms of office come to an end. The Board is extremely grateful to these gentlemen for their decision, which will speed up and facilitate the thorough modernisation of the group's management structure, and wishes to express its sincere thanks to them for their contribution over the years to the Board.

In addition, Ms Vladimira Papirnik will be nominated as a new independent director (see below). In the coming years, the group will continue to actively seek and appoint additional independent directors, which will strengthen the Board's international dimension. At the same time, it will gradually take the necessary steps to ensure that women account for one-third of the Board's membership, as required by law. While achieving these targets, the Board will endeavour to attract a number of non-executive directors with a thorough knowledge of the banking and/or insurance business.

In order to further optimise the efficiency of the decision-making process within the group in its capacity as an integrated bancassurer, the decision was also taken to make the composition of the Boards of KBC Group NV, KBC Bank and KBC Insurance the same, apart from the independent directors. In principle, these Boards will hold joint meetings. To accommodate this, all the non-executive directors of KBC Bank and KBC Insurance – apart from the independent directors and the non-executive directors who also sit on the Board of KBC Group NV – will resign voluntarily from their respective Boards at the next General Meeting. The non-executive directors of KBC Group NV – apart from independent and government-appointed directors – will then be appointed in their place. The Board also wishes to extend its sincere gratitude to the outgoing directors for their willingness to facilitate the accelerated streamlining of these management bodies.

These fundamental changes to the group's management structure will undoubtedly significantly increase the efficiency and strength of the group as an integrated bancassurer, which will be in the interests of all its stakeholders.

Composition of the Board and its committees

The table on the next page shows the members of the Board and its committees on 31 December 2011. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director.

Composition of the Board on 31 December 2011

Name	Primary responsibility	Period served on the Board in 2011	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Government-appointed directors	Members of the EC	ARC Committee	Nomination Committee	Remuneration Committee
Number of meetings in 2011				16						10	6	9
Thomas Leysen	Chairman of the Board[2]	8 months	2015	10	■						0[2]	
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2013	14	■	■					5	
Jan Vanhevel	President of the EC and Executive Director	Full year	2014	16					■[1]		6	
Paul Borghgraef	Director of various companies	Full year	2013	15	■	■						
Alain Bostoen	Managing Director, Christeyns NV	Full year	2014	14	■	■						
Jo Cornu	Director of various companies	Full year	2012	14	■		■				4	9[1]
Marc De Ceuster	Professor, Accounting and Finance Department, Universiteit Antwerpen	Full year	2014	16	■			■		10		
Tom Dechaene	Director of various companies	7 months[3]	2012	8	■			■		2		
Franky Depickere	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA	Full year	2015	16	■	■				10[1]	6	9
Luc Discry	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA	Full year	2015	15	■	■						
Frank Donck	Managing Director, 3D NV	Full year	2015	14	■	■						
Jean-Pierre Hansen	Member of the Executive Committee of GDF SUEZ	Full year	2014	12	■			■			4	
Dirk Heremans	Professor Emeritus at the Faculty of Business and Economics, Katholieke Universiteit Leuven (KUL)	Full year	2013	14	■		■			9		6
John Hollows	Executive Director	8 months	2015	10					■			
Lode Morlion	Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2012	16	■	■						
Philippe Naert	Director of various companies	Full year	2013	15	■		■			10		7
Luc Popelier	Executive Director	8 months	2015	8					■			
Theodoros Roussis	CEO, Ravago Plastics NV	Full year	2012	13	■	■				8		
Hendrik Soete	CEO, Aveve Group, and Director, MRBB CVBA	Full year	2013	16	■	■						
Eric Stroobants	Honorary Secretary-General of the Flemish Regional Government, holder of various offices	Full year	2014	14	■			■				9
Alain Tytgadt	Managing Director, Metalunion CVBA	Full year	2013	15	■	■						
Ghislaine Van Kerckhove	Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2012	13	■	■						
Charles Van Wymeersch	Full professor at the Facultés Universitaires Notre-Dame de la Paix (Namur) and the Louvain School of Management	Full year	2013	13	■	■						
Piet Vanthemsche	Chairman of the Boerenbond and MRBB CVBA	Full year	2014	13	■	■					6	
Marc Wittemans	Managing Director, MRBB CVBA	Full year	2014	16	■	■				10		

Auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and/or Peter Telders.

Secretary to the Board: Tom Debacker.

1 Chairman of this committee.

2 Chairman with effect from 1 October 2011.

3 Four months of which as representative of the Flemish Regional Government. Co-opted as director with effect from 1 October 2011.

Changes in the composition of the Board in 2011

- At the General Meeting of 28 April 2011:
  - Luc Philips relinquished his seat on the Board.
  - Luc Discry was duly appointed as director for a period of four years.
  - Franky Depickere and Frank Donck were re-appointed as directors for a period of four years.
  - Thomas Leysen, John Hollows and Luc Popelier were appointed as directors for a period of four years.
- After the General Meeting of 28 April 2011:
  - Jan Huyghebaert (Chairman of the Board) retired on 1 October 2011 and was succeeded as of that date by Thomas Leysen.
  - On 11 May 2011, Tom Dechaene was appointed to sit on the Board as an observer representing the Flemish Regional Government. On 22 September 2011 and following the advice of the Nomination Committee, the Board co-opted him as director with effect from 1 October 2011.

Changes in the composition of the committees of the Board in 2011

- On 28 January 2011 and following the advice of the Nomination Committee, the Board appointed Jean-Pierre Hansen (director and representative of the Belgian Federal Government) to the Nomination Committee.
- On 28 February 2011 and following the advice of the Nomination Committee, the Board appointed Dirk Heremans (independent director) to the Remuneration Committee.
- On 22 September 2011 and following the advice of the Nomination Committee, the Board co-opted Tom Dechaene (representative of the Flemish Regional Government) as director with effect from 1 October 2011. He was also appointed to the ARC Committee on the same date.

Changes in the composition of the Board proposed to the General Meeting of 3 May 2012

- Jan Vanhevel, Executive Director and President of the EC, has expressed his intention to retire with effect from the General Meeting, and will therefore relinquish his seat on the Board.
- On the advice of the Nomination Committee, Johan Thijs (member of the EC and CEO of the Belgium Business Unit) be appointed to succeed Jan Vanhevel as director, and – as a member of the EC – hold the office of executive director.
- On the advice of the Nomination Committee, Tom Dechaene be duly appointed as director for a period of four years.
- On the advice of the Nomination Committee, Lode Morlion, Theodoros Roussis and Ghislaine Van Kerckhove – whose terms of office end at the General Meeting – be re-appointed as directors for a further period of four years.
- On the advice of the Nomination Committee, Jo Cornu – whose term of office (as independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Corporate Governance Code) ends at the General Meeting – be re-appointed as independent director according to these criteria for a further period of four years.
- In the exclusive interests of the group, Paul Borghgraef, Philippe Naert, Hendrik Soete and Charles Van Wymeersch to step down voluntarily as directors a year before their current (renewable) terms of office come to an end.
- On the advice of the Nomination Committee, Vladimira Papirnik be appointed as an independent director for a period of four years, within the meaning of and in line with the criteria set ot in Article 526*ter* of the Belgian Companies Code and in the Corporate Governance Code.

Brief CVs for new directors

Johan Thijs
Born in Genk (Belgium), in 1965.
Master's Degrees in Applied Mahematics (KU Leuven, 1987) and in Actuarial Sciences (KU Leuven, 1989).
Joined the company in 1988 (ABB Insurance).
Starting his career at ABB Insurance in 1988, Johan Thijs held various actuary positions in the life and non-life businesses. He filled a number of increasingly senior positions between 1990 and 2000 before being appointed Senior General Manager of Non-Life Insurance. In 2006, he also became a member of the Management Committee of the Belgium Business Unit, where he dealt with both banking and insurance matters. In 2009 he took a seat on the EC and was appointed CEO of the Belgium Business Unit, taking overall charge of all retail and insurance activities in KBC's biggest market.

Tom Dechaene
Born in Schoten (Belgium), in 1959.
Master's Degree in Law (Central Exams Commission, 1985), Master's Degree in Applied Economics (UFSIA Antwerp, 1986) and MBA (INSEAD Fontainebleau, 1991).

Tom Dechaene started his career at Bank Brussel Lambert (1986-1990), gaining experience in a number of departments, including Corporate Finance, where he worked for his last three years. In 1991, he joined Morgan Grenfell & Co Ltd in London to take up a position in the Corporate Finance department. His last three years in that company were spent in charge of the European Telecoms, Media & Technology Transactions Team. In 1998, he left Morgan Grenfell and joined Deutsche Bank in London where he worked until 1999 as director of the Principal Investments Group. He was a co-founder and CFO of SurfCast Inc., SurfCast (UK) Ltd, SurfCast (Denmark) ApS (2000-2001). At present, he is a non-executive/independent director of Agenus, Transics International NV, SurfCast Inc. and Bourn Hall International Ltd.

Vladimira Papirnik
Born in Kolín (Czech Republic), in 1956.
Juris Doctor Degree (Northwestern University (US), 1982), combined Bachelor's and Master's Degrees in German and German Literature (Northwestern University (US), 1978).
Ms Papirnik started her career at the Hopkins & Sutter law firm in Chicago, practising as a finance lawyer (1982-1989) before going on to become a partner in the firm (1989-1995). She then joined the Chicago law firm of Squire Sanders as a partner and, after moving to the Czech Republic in 1995, became managing partner of the Prague office (1996 to 2011). Since 2011, she has been working for Squire Sanders in both Prague and Chicago, focusing her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance). She has served on the Board of Directors of the American Chamber of Commerce in the Czech Republic and was a member of its Executive Committee (1999-2008). She was a member of the Board of Trustees of the International School of Prague and head of its corporate governance committee for four years. She was also a member of the Board of Trustees of the CMC School of Business for three years.

Changes in the composition of the committees of the Board in 2012

- On 19 March 2012 and following the advice of the Nomination Committee, the Board appointed Dirk Heremans (independent director) to the Nomination Committee.
- After her appointment as independent director and following the advice of the Nomination Committee, Vladimira Papirnik will be appointed by the Board to succeed Philippe Naert as a member of the Audit Committee.
- After his appointment as executive director and following the advice of the Nomination Committee, Johan Thijs will be appointed by the Board to succeed Jan Vanhevel as a member of the Nomination Committee.

Agenda for the General Meeting of 3 May 2012

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

Composition of the EC

The table shows the members of the EC on 31 December 2011. More information in this regard can be found in the 'Structure and management' section of this report and at www.kbc.com.

Name	Period on the EC in 2011
Members of the EC on 31 December 2011	
Jan Vanhevel (President)	Full year
Danny De Raymaeker	Full year
Luc Gijsens	As from 1 May
John Hollows	Full year
Luc Popelier	Full year
Johan Thijs	Full year
Marko Voljč	Full year
Members of the EC who left in 2011	
Luc Philips	Until end-April

Changes in the composition of the EC in 2011

- After stepping down as a director at the General Meeting of 28 April 2011, Luc Philips (Group CFO) also resigned from the EC. He was replaced by Luc Popelier as Group CFO.
- Luc Gijsens assumed Luc Popelier's former position as CEO of the Merchant Banking Business Unit (a brief CV for Mr Gijsens appeared in the 2010 annual report).

Changes in the composition of the EC in 2012

- Jan Vanhevel, President of the EC and Group CEO, has expressed his intention to retire with effect from the General Meeting of 3 May 2012, and will therefore relinquish his seat. At that time, he will have spent his entire career of almost 41 years at KBC, 16 of which as a member of its EC. It will be proposed that he be succeeded as President by Johan Thijs.

Thomas Leysen, Chairman of the Board of Directors: 'In his capacity as a member of the Group Executive Committee and, more specifically, as CEO of the Belgium Business Unit, Johan Thijs has guided KBC's operations in its largest market through turbulent times. Following the advice of the Nomination Committee, the Board of Directors has chosen an energetic leader with a proven track record throughout his career. Together with his colleagues on the Executive Committee, he will take KBC to a new level of performance.'

- Following the advice of the Nomination Committee, Daniel Falque to succeed Johan Thijs as CEO of the Belgium Business Unit and to be duly appointed to the EC. A brief CV for Mr Falque is given below.

Daniel Falque
Born in Mol (Belgium), in 1963.
Master's Degree in International Relations, Faculty of Economic, Social and Political Sciences (Université catholique de Louvain, 1989). Mr Falque started his career at De Vaderlandsche NV insurance company, where he was a production inspector (1989-1991). He then joined Deutsche Bank AG (Belgium) as a credit analyst in 1991, before taking up the post of Corporate Relationship Manager for SMEs (1991-1997), Vice-President responsible for Medium-Sized Enterprises (1997-1999), Director responsible for Large Corporations and Co-ordination Centres (1999-2001), Managing Director, Head of Corporate and Investment Banking (2001-2004). He then moved to Deutsche Bank AG, Frankfurt/(Brussels), serving as Managing Director, Head of Global Transaction Banking Western & Eastern Europe and the Middle East, with responsibility for cash management, trade finance, capital markets sales, trust & securities services and corporate relationship management (2004-2009). In 2009, he joined CBC Banque & Assurance, where he was Executive Director, President of the Executive Committee and a member of the KBC Management Committee for Belgium (2009 to date).

Report on the activities of the Board

For composition, number of meetings and attendance figures in 2011, see the table at the start of this section.

Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the ARC Committee, Nomination Committee and Remuneration Committee, and handling and taking decisions on the dossiers submitted by these committees, the Board also dealt with the following matters in 2011:

- the audit of the operations of management bodies;
- the report by senior management regarding the assessment of the internal control system;
- the *Integrated Group Risk Report* (monthly);
- the annual evaluation of the operations of the Board of Directors;
- the annual evaluation of interaction with the Executive Committee;
- the monthly evaluation of the status regarding implementation of the European restructuring plan;
- the sale of KBL EPB;
- the sale of Centea;
- the sale of Fidea;
- the repayment of 500 million euros to the Belgian Federal Government;
- succession of the Chairman of the Board of Directors;
- appointments to the various committees;
- relinquishment of office as executive director – appointment of an executive director – appointment of a member of the EC;
- the *Value and Risk Management Annual Report*;
- the *Business Continuity Management Annual Report*;
- the market consistent embedded value of the life insurance business for financial year 2010;
- the remuneration policy;

- the Risk Appetite Framework and Statements;
- ICAAP reports;
- the EBA's Europe-wide bank stress test;
- Greek sovereign bonds;
- the changes to accounting policies;
- updating the *KBC Group Dealing Code*;
- the annual assessment of the *Incompatibility Code*;
- the KBC rating.

The EC also reported monthly on the trend in the results and the general course of business at the group's various business units. It also paid regular attention to the strategy and specific challenges for the different areas of activity.

Report on the activities of the committees of the Board

Audit, Risk and Compliance Committee (ARC Committee)

For composition, number of meetings and attendance figures in 2011, see the table at the start of this section.

The ARC Committee met in the presence of the President of the EC, the Group Chief Risk Officer, the Group Chief Financial Officer, the internal auditor and the compliance officer. The meetings were also attended by the statutory auditors. The report of the internal auditor, the report of the compliance officer and the report of the risk function were fixed agenda items. The periodic reports from the risk function primarily covered developments regarding the ALM, liquidity, market, credit, operational and insurance risks of the KBC group, as well as the group's capital requirements. The internal auditor's report provided an overview of recent audit reports, including the most important audit reports for the underlying group entities. The ARC Committee also reviewed the implementation of the 2011 audit plan, and approved the 2012 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations.

On 9 February 2011, the ARC Committee reviewed the consolidated and non-consolidated financial statements for the year ended 31 December 2010, and approved the press release. The auditor explained the key audit findings. On 11 May, 8 August and 9 November 2011, the auditors explained their key findings following their review of the accounts for the quarters ending 31 March, 30 June and 30 September, respectively. The ARC Committee also approved the respective press releases.

During the course of the year, the ARC Committee discussed several special reports concerning the statement of effective management with regard to the assessment of internal control systems, the annual report on value and risk management, implementation of the new risk organisation (Harbour), the annual report on business continuity management, the status regarding the run-down of activities at KBC Financial Products, Asset-Liability Management, Solvency II, setting of risk appetite, scaling back the CDO portfolio, CEBS stress tests, and KBC's strategic plan for 2012.

Nomination Committee

For composition, number of meetings and attendance figures in 2011, see the table at the start of this section.

The main matters dealt with were:
- appointments and re-appointments to the Board and various committees;
- reviewing appointments of senior general managers;
- the composition of the Remuneration Committee;
- succession of the Chairman of the Board;
- composition of the EC;
- succession planning for the President of the EC.

Remuneration Committee

For composition, number of meetings and attendance figures in 2011, see the table at the start of this section.

The Remuneration Committee usually met in the presence of the Chairman of the Board and the President of the EC. The head of Group HR also regularly attended the meetings.

The main matters dealt with were:
- the evaluation of the activities of the Remuneration Committee;
- the fixed remuneration paid to directors;
- the application of and exceptions to the *Remuneration Policy*;
- the CEBS *Guidelines on Remuneration Policies and Practices* and their implementation;
- the evaluation of the activities of the EC throughout 2010;
- the remuneration for the Chairman of the Board;
- the remuneration package for members of the EC;
- the accelerated vesting of deferred compensation upon retirement;
- the Phantom Stock Rules;
- KBC's position in the public debate on bonuses;
- the staff retention and incentivisation plan for WARTA, Kredyt Bank and Absolut Bank;
- the practical application of the staff retention plan for KBL EPB;
- the implementation of a quantitative risk alignment framework for key identified staff;
- contact with the CBFA/NBB regarding the *Remuneration Policy*.

For a more general description of the activities of the Board and its committees, see sections 5 and 6 of the *Corporate Governance Charter* of KBC Group NV (at www.kbc.com).

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

The ARC Committee of KBC Group NV has two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Corporate Governance Code.
Dirk Heremans, who holds a Ph.D in Law, a Master's Degree in Notarial Law and a Master's Degree in Economics from the Katholieke Universiteit Leuven. He also has a Post-Graduate Degree in Etudes supérieures sciences économiques (advanced economics) from the Université de Paris (Sorbonne) and a M.A., C. Phil. and Ph.D. in Economics from the University of California (U.C.L.A.). He is Professor Emeritus at the Faculty of Business and Economics at the Katholieke Universiteit Leuven. In the past, he has been an adviser to the cabinets of the Minister of Economic Affairs and of the Minister of Finance, as well as an expert for the European Commission. He is an honorary Board member of the former Belgian Banking and Finance Commission. He has been an independent director of KBC Group NV since 2005.
Philippe Naert, who holds a Master's Degree in Electrical Engineering from the Katholieke Universiteit Leuven, a Post-Graduate Diploma in Management Science from the University of Manchester (UK) and a Ph.D. in Business Administration from Cornell University (US). Besides having been director of The Intercollegiate Centre for Management Science and of the European Institute for Advanced Studies in Management, he was dean of INSEAD, of the Universiteit van Nyenrode and of the TiasNimbas Business School of the Universiteit van Tilburg and the Technische Universiteit Eindhoven. He has also worked as a consultant for numerous companies. He has been an independent director of KBC Group NV since 2005.
On the basis of the preceding information, it can be concluded that both of these directors – as members of the ARC Committee – meet the criteria set out in Article 96 §1 9° of the Companies Code relating to independence and to expertise in the area of accounting and auditing.

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

The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. It has been incorporated into the *Corporate Governance Charter* of KBC Group NV (see www.kbc.com). This arrangement did not have to be used in 2011.

Measures regarding insider dealing and market manipulation

In accordance with Directive 2003/6/EC on insider dealing and market manipulation (market abuse), and following publication of the Royal Decree of 24 August 2005 to amend, with respect to the provisions regarding market manipulation, the Act of 2 August 2002 on the supervision of the financial sector and financial services, the Board of KBC Group NV drew up a Dealing Code which, among other things, requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA). The principles of this code have been appended to the *Corporate Governance Charter* of KBC Group NV. The code entered into effect on 10 May 2006 and an updated version was approved by the Board on 8 August 2011.

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

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

On the initiative of the Chairman of the Board, any director who is nominated for re-appointment is subject to an appraisal that focuses on the individual's commitment and effectiveness within the Board (including active attendance at Board meetings and training sessions, and critical contributions). Non-executive directors meet once a year in the absence of the executive directors to appraise how they interact with them.

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

When their terms of office as a director are renewed, the chairmen of the committees are subject to an individual appraisal by the other committee members, who focus primarily on their co-ordination skills, specialised knowledge, insight and communication skills.

On renewal of their terms of office, the President of the EC and the other executive directors are evaluated under the leadership of the Chairman of the Board.

Remuneration report for the 2011 financial year

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

General

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

Board

Each year, on the advice of the Remuneration Committee, the Board sets aside a certain amount of net profit that is based on the established remuneration policy and that lies within the limit laid down in the Articles of Association. That amount (the fixed remuneration) is submitted to the General Meeting and, once approved, distributed among the members of the Board, with account being taken of the number of months in which they performed their offices.

EC

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

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

The Remuneration Committee declares the following:

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

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

The following applies to non-executive directors:

- Their remuneration consists solely of an annual fixed component (non-performance-related) and a fee per meeting attended. Fixed remuneration is taken from the net profit for that year, whereas attendance fees are charged as expenses to that year. On the proposal of the Board, this fixed remuneration is approved each year by the General Meeting within the limits specified by law, the Articles of Association and the remuneration policy set by the Remuneration Committee. It is the intention – starting in 2012 – to fundamentally reform the remuneration package for non-executive directors by limiting the fixed component and increasing the attendance fees. To ensure that the fixed remuneration component is completely separated from the company's results, it will no longer be appropriated from profit, but – like the attendance fees – be charged as an expense. While the attendance fees would be increased, if meetings were to coincide with Board meetings of KBC Bank and/or KBC Insurance, these fees would be paid just the once to directors sitting on more than one of these Boards. Not only will this generate savings, it also puts the group in a stronger position to comply with the recommendation set out in the Code not to pay any results-based remuneration to non-executive directors.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the ARC Committee receive additional remuneration (attendance fees) for the work they performed in that regard. The chairman of this committee likewise receives an extra fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- KBC Group NV does not grant loans or guarantees to directors. Such loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 28 of the Banking Act, meaning that loans may be granted at terms applying to customers.

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

- The Board determines their remuneration on the basis of advice obtained from the Remuneration Committee and the President of the EC.
- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - a variable annual emolument (the amount of which depends on the consolidated result of KBC Group NV);
  - a variable annual emolument based on work performed (assessed on the basis of pre-agreed criteria);
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- Moreover, a quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the results-based variable remuneration. The mechanism comprises a number of capital and liquidity parameters that have to be met before any such remuneration may be awarded. The actual parameters are set each year by the Board. If one or more of these parameters are not met, not only will results-based variable remuneration not be awarded, but payment of deferred amounts relating to previous years will also be suspended until a subsequent year. If the risk gateway is not met for three years in succession, any deferred amounts still outstanding will not be paid.
- Performance-related variable remuneration is set by the Board on the advice of the Remuneration Committee, based on an evaluation of several pre-agreed criteria. For 2011, these were:
  - the further implementation of the restructuring plan agreed with the European Commission;
  - relations with the government within the context of repaying the financial support received: a stable plan for repaying the governments;
  - implementation of the risk framework;
  - maintenance of employee and customer satisfaction;
  - the work of the EC as a collective body.
- The total amount of remuneration calculated in this way for the President of the EC may not exceed the remuneration paid to other members of the EC by more than 25%.

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

Relative importance of the different components of remuneration
The members of the EC received only a fixed emolument during financial year 2011. Given the loss recorded in the third quarter of 2011 and despite the positive result for the year as a whole, the members of the EC decided to forego all forms of variable remuneration for financial year 2011.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares
The total amount of annual variable remuneration (i.e. both the results-based and performance-related components) for members of the EC is paid over four years, with 50% being paid in the first year and the rest spread equally over the next three years. Furthermore, 50% of the total variable remuneration is awarded in the form of equity-related instruments called phantom stocks, whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a four-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. Specifically in 2011, members of the EC received 25% of their total annual variable remuneration for 2010 in the form of phantom stocks, based on a price of 28.69 euros per share. These stocks will be converted into cash in April 2012 using the average price of the KBC share for the first three months of 2012. They are subject to the allocation and acquisition conditions described under 'Clawback provisions' below.

Information regarding the remuneration policy for the next two financial years
As regards the remuneration paid to non-executive directors, the aim is to take the fixed remuneration component, which is currently taken from net profit, and to convert it into a genuine type of non-performance-related and non-results-based fixed remuneration, which – like attendance fees – will be charged as an expense. At the same time, the ratio of the fixed remuneration component to the attendance fees will be reviewed, with the intention being to reduce the former and increase the latter.

As for members of senior management, the remuneration policy was approved by the Board on the advice of the Remuneration Committee and is described in the *Remuneration Policy.* The policy contained a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:
- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group) and a performance-related component;
- at least 50% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway and its payment is to be spread over a period of three years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the ratio of fixed to variable remuneration components be set at a maximum one to one for the vast majority of the group;
- variable remuneration be capped at 750 000 euros.

Besides the risk gateway, a 'Risk-Adjusted Performance Measurement Framework' policy will also be introduced to set results-based variable remuneration for performances as from financial year 2012. The basic idea behind this policy used for capital allocation is that neither economic capital nor regulatory capital is suitable as a single driver for capital allocation. Regulatory capital is limited in terms of risk types and only partially reflects the specific characteristics of KBC. Although economic capital comprises more types of risk and reflects KBC's estimation of its own risk profile, it is not available at the same detailed level at the moment. Given these limitations, the decision was taken to allocate capital on the basis of a risk-weighted asset (RWA) coefficient that reflects the aspects of economic capital. This policy introduces the concept of risk-adjusted profit (RAP) as the (absolute) measure of company profitability, but with an inherent adjustment for capital and risk-related factors. For certain categories of key identified staff for whom the competent control function has assessed that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk. The aim is to evaluate how this new framework works after one year and to adjust it, where necessary. Furthermore, the breakdown between the fixed and variable components of the total remuneration package will again be critically examined on the basis of an objective market comparison and adjusted, where necessary.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are to be retained for a period of one year. The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.

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

- there is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks);
- there is a significant deterioration in the financial performance of the KBC group, due to decisions taken in the year in which the variable remuneration was awarded;
- it is ascertained that there are major shortcomings in risk management at the KBC group;
- there are significant changes in the economic or regulatory capital base of the institution.

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

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

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

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

Given the very modest profit posted by KBC for 2011 and the fact that, as a direct consequence, only a symbolic dividend will be paid for that year, neither KBC Group NV nor any other KBC group company in Belgium or abroad in which certain non-executive directors of KBC Group NV held office during 2011, will pay a fixed remuneration out of profits to these directors for the 2011 financial year. However, the directors in question are paid attendance fees in proportion to the number of meetings they attended of the Board of KBC Group NV and, where relevant, of the other companies of the KBC group in Belgium or abroad. As mentioned above, the chairmen of the Board and the ARC Committee both receive the remuneration specifically related to their office.

Remuneration per individual director (on a consolidated basis, in EUR)	**Remuneration (for FY 2011)**	**Remuneration for ARC Committee members (for FY 2011)**	**Attendance fees (for FY 2011)**
Thomas Leysen[1]	137 500	0	30 000
Paul Borghgraef	0	0	37 500
Alain Bostoen	0	0	35 000
Jozef Cornu	0	0	35 000
Marc De Ceuster	0	30 000	40 000
Tom Dechaene[2]	0	6 000	20 000
Franky Depickere	0	187 000	176 250
Luc Discry	0	0	75 000
Frank Donck	0	0	41 250
Jean-Pierre Hansen	0	0	30 000
Dirk Heremans	0	27 000	35 000
Lode Morlion	0	0	40 000
Philippe Naert	0	30 000	37 500
Theodoros Roussis	0	24 000	32 500
Hendrik Soete	0	0	40 000
Eric Stroobants	0	0	35 000
Alain Tytgadt	0	0	37 500
Ghislaine Van Kerckhove	0	0	32 500
Charles Van Wymeersch	0	0	40 000
Piet Vanthemsche	0	0	50 000
Philippe Vlerick	0	0	105 000
Marc Wittemans	0	60 000	60 000
Jan Huyghebaert[3]	311 000	0	101 500

1 Chairman of the Board as from 1 October 2011. The figures stated here relate to the fixed remuneration he received as chairman from 1 October 2011 and the attendance fees he received from the time of his appointment to the office of director on 28 April 2011 until 1 October 2011.

2 Observer since 11 May 2011 and director since 1 October 2011.

3 Chairman of the Board until 1 October 2011.

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

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

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

For members of the EC, results-based variable remuneration is set as a percentage of the net result recorded by KBC Group NV (at the consolidated level), while performance-related variable remuneration is set as a percentage of the fixed remuneration component (between 0% and 30%), after the work they have performed has been evaluated on the basis of several pre-agreed criteria. The members of the EC forego all forms of variable remuneration for 2011.

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

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

The aggregate remuneration paid by KBC Group NV and its direct and indirect subsidiaries to members of the EC of KBC Group NV other than the President of the Committee for the 2011 financial year is also shown in the table. A number of changes were made to the composition of the EC during the course of 2011, some of which had an impact on the total amount of remuneration. Consequently, the following was included in the total amounts:

- the remuneration received by Luc Gijsens after he took his seat on the EC;
- the remuneration received by Luc Philips until he retired;
- the remuneration received by Danny De Raymaeker, Marko Voljč, Luc Popelier, Johan Thijs and John Hollows for 2011 as a whole.

Remuneration paid to the EC of KBC Group NV during 2011 (in EUR)	**Jan Vanhevel (full financial year)**	**Other members of the Executive Committee (combined)**
Employment status	Self-employed	Self-employed
Basic remuneration (fixed)	727 605	3 151 949
Results-based remuneration for financial year 2011 (variable)	0	0
Performance-related remuneration for financial year 2011 (variable)	0	0
Results-based remuneration for previous financial years[1] (variable)	0	372 059
Performance-related remuneration for previous financial years[1] (variable)	0	116 956
Total	727 605	3 640 964
Pension[2]		
Supplementary defined-benefit pension plan (service cost)	106 321	637 927
Supplementary defined-contribution pension plan (contribution transferred to pension fund) for 2011	0	0
Other benefits[3]	167	89 028

1 Results-based and performance-related variable remuneration was awarded for financial year 2010. Usually, half of the cash component (which accounts for 50% of total variable renumeration) would be paid in 2011, with payment of the other half being spread over financial years 2012, 2013 and 2014. At the start of 2011, however, the EC decided to move the vesting period for the first tranche back by one year and to link it to the repayment of government support, which meant that both the first tranche and the first portion of the deferred tranche were acquired in 2011 (payment in 2012). Consequently, the amount stated here is 66.66% of the cash component of variable remuneration for 2010. Jan Vanhevel (President of the EC) decided to further postpone payment of the (results-based and performance-related) variable remuneration due to him for financial year 2010.

2 The pension scheme for members of the EC comprises a small *defined-contribution* pension plan and the main *defined-benefit* pension plan. The defined-contribution plan applies to all members of the EC as from the year following the year in which the member in question has sat on the EC for three years. It is funded by KBC via an annual contribution (to the KBC pension fund), the size of which is expressed as a percentage of KBC's consolidated net profit. This percentage depends on the trend in earnings per share. Given the very modest level of consolidated net profit, no contributions were paid during 2011. The defined-benefit plan applies to members of the EC as soon as they take a seat on the committee. Entitlement to a full supplementary retirement pension is acquired after 25 years' service in the KBC group, at least six of which as a member of the EC. Each supplementary pension (unless built up through personal contributions) – the right to which has been acquired elsewhere in the group in whatever capacity (self-employed or employee) – is taken into account when calculating this retirement pension, i.e. no accumulation is possible.

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

Long-term cash bonus paid

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

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

As described above, half of the total annual variable remuneration is awarded in the form of phantom stocks that are to be retained for a period of one year. Due to the fact that the EC forewent all forms of variable remuneration for 2011, no phantom stocks were awarded for that financial year.

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

Given that the phantom stock plan was launched only in 2011 (for financial year 2010), the first phantom stocks will only be converted into cash in 2012.

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

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

Main features of the internal control and risk management systems

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

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

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

The strategy and organisational structure of the KBC group are dealt with in the 'Strategy and company profile' and 'Structure and management' sections 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 EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the EC appoints a chief financial officer (CFO) and chief risk officer (CRO) from among its ranks.

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

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

KBC conducts its activities in compliance with both the letter and the spirit of prevailing laws and regulations, whilst also taking account of changing societal norms and ensuring that its activities contribute towards economic, social and environmental advancement in its areas of operation. KBC gives priority to the needs and interests of its 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 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. 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 for:
  - combating money laundering and the funding of terrorism, and observing embargoes;
  - preventing fiscal irregularities including special mechanisms for tax evasion;
  - protecting the investor and preventing conflicts of interest (MiFID);
  - preventing market abuse, including 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 – as well as KBC's business side – engage in the prevention and detection of fraud. It is the business side that deals primarily with external product-related fraud. 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.
  - The *Anti-Corruption Policy* affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. One element of this is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour.

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 EC – under its responsibility and the supervision of the Board – has implemented a multi-layered internal control system. This system is commonly known as the 'Three Lines of Defence' model.

3.1 The business side assumes responsibility for managing its own risks

As the first line of defence, the business operations side is responsible for being aware of the risks in its own domain and for having adapted and effective controls in place. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. In this regard, 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 report to the Group CRO, which guarantees their independence.

The Compliance function is an independent function within the KBC group, protected by its modified status (as described in the Compliance Charter), its place in the organisation chart (hierarchically under the President of the EC) and its reporting lines (reporting to the ARC Committee as the highest body). Its mission is to prevent the KBC group 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 EC and ARC Committee in monitoring the effectiveness and efficiency of the internal control and risk management system

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

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

In accordance with international professional audit standards, 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 EC and ARC Committee within their remit of supervising and assessing Internal Audit.

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

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

The ARC Committee supervises, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management in place – as set up under the EC – 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 on 23 September 2010. More information on the ARC Committee is provided elsewhere in this section.

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

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

At KBC, 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. The relevant senior financial managers (CFOs) of the subsidiaries certify to the accuracy and completeness of the financial figures reported in accordance with group accounting policies. The Approval Committee chaired by the Senior General Manager of Group Finance monitors compliance with IFRS accounting policies.

Pursuant to the Act of 15 May 2007, the EC of KBC Group 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 (since 2006) 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.

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

The internal control and risk management system embedded in the financial reporting process was completed in 2011 by the development and implementation of the Reporting Framework. This framework defines a robust governance structure and clearly describes all the roles and responsibilities of the various players, with the aim to unambiguously demonstrate how the risks specific to the financial reporting process are kept under control. Each year (and for the first time relating to 2011), all CFOs of the entities in question are required to submit their Entity Accountability Excel sheets and the underlying Departmental Reference documents [RACIs] to the Expert Local Operational Risk Manager of Group Finance in preparation for the group-wide assessment of the internal control system. In this way, they formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end financial reporting process have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

During 2012, the essence of the internal control and risk management system will be safeguarded in the Financial Reporting Group Key Control. Using the assessment system of the Group Value and Risk Management Directorate, each entity will have to evaluate whether or not the Group Key Control has been complied with. This will ensure that such assessments become easier to follow up.

The external reporting process at both company and consolidated level is audited end-to-end by KBC Internal Audit 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.

Non-compliance with the Code

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

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

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

At year-end 2011, the ARC Committee was composed of seven non-executive directors, two of whom were independent, two were appointed by the Belgian Federal and Flemish Regional governments (one each) and three who represented the core shareholders. Independent directors are, therefore, in the minority on this committee.

On 31 December 2011, the Nomination Committee was composed of seven non-executive directors, one of whom was the Chairman of the Board, one an independent director, one appointed by the government, one executive director and three representatives of the core shareholders. Independent directors are, therefore, in the minority on this committee. On 19 March 2012 and following the advice of the committee, the Board appointed Dirk Heremans (independent director) to this committee.

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

Gender diversity

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

At present, one woman and twenty-four men sit on the Board. Committed to the principles of gender diversity, the Board is endeavouring to achieve a greater representation of women among its ranks. At present, preparations are being made to gradually increase the number of female directors to the required quota by no later than 2017.

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

There were no conflicts of interest during the 2011 financial year that required the application of Article 523 or 524 of the Belgian Companies Code.

Statutory auditor

At the General Meeting of KBC Group NV of 29 April 2010, the mandate granted to Ernst & Young Bedrijfsrevisoren BCVBA – represented by Pierre Vanderbeek and/or Peter Telders – was renewed for a period of three years.
Details of the statutory auditor's remuneration are provided in Note 43 of the 'Consolidated financial statements' section (consolidated figures for the entire group) and in Note 6 of the 'Company annual accounts' section (for KBC Group NV alone).

Shareholder structure on 31 December 2011 based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10bis of the Articles of Association of KBC Group NV (available at www.kbc.com) stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2011, based on all the notifications received by 31 December 2011. The 'Company annual accounts' section also contains an overview of notifications received in 2010 and 2011. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

Shareholder structure on 31-12-2011 (based on the most recent notifications received pursuant to the Act of 2 May 2007)

	Notification relating to	Address	Number of KBC shares (as a % of the sum of the outstanding number of shares at the time of disclosure)
KBC Ancora Comm.VA[1]	1 September 2008	Philipssite 5, box 10, 3001 Leuven, Belgium	82 216 380 (23.15%)
Cera CVBA[1]	1 September 2008	Philipssite 5, box 10, 3001 Leuven, Belgium	25 903 183 (7.29%)
MRBB CVBA[1]	1 September 2008	Diestsevest 40, 3000 Leuven, Belgium	42 562 675 (11.99%)
Other core shareholders[1]	1 September 2008	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	39 867 989 (11.23%)
KBC group companies	1 September 2008	Havenlaan 2, 1080 Brussels, Belgium	18 240 777 (5.14%)
BlackRock Inc.[2]	2 December 2011	12 Throgmorton Avenue, EC2N 2DL London, United Kingdom	10 518 102 (2.94%)[2]

1 Of these shares, the following quantities were contributed by the entities and individuals acting in concert: 32 634 899 by KBC Ancora Comm.VA, 10 080 938 by Cera CVBA, 26 436 213 by MRBB CVBA and all 39 867 989 by other core shareholders. These shares were the subject of a separate notification.

2 Notification of a change in shareholding to below the 3% notification threshold. More information is provided in the 'Company annual accounts' section.

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market

1 Capital structure on 31 December 2011

The share capital was fully paid up and was represented by 357 980 313 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts' section.

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

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the reference price stated in the issue terms, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. At year-end 2011, no shares were blocked in this regard.

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

3 Holders of any securities with special control rights

None.

4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries have been suspended. At 31 December 2011, these rights were suspended for 18 169 054 shares, i.e. 5.08% of the number of shares in circulation at that time.

6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

A group of legal entities and individuals act in concert and constitute the core shareholders of KBC Group NV. As indicated in their disclosure, the number of voting rights held by these entities and individuals on 1 September 2008 was:

- KBC Ancora Comm.VA: 32 634 899;
- Cera CVBA: 10 080 938;
- MRBB CVBA: 26 436 213;
- Other core shareholders: 39 867 989.

That is a total of 109 020 039 shares carrying voting rights, or 30.70% of the total number of such shares (including those suspended: see above) on 1 September 2008 (355 122 707 shares in total). That is 30.45% compared with the total number of shares carrying voting rights on 31 December 2011 (357 980 313). A shareholder agreement was concluded between these parties in order to support and co-ordinate the general policy of KBC Group NV and to supervise its implementation. The agreement provides for a contractual shareholder syndicate. The shareholder agreement includes stipulations on the transfer of securities and the exercise of voting rights within the shareholder syndicate.

When KBC Group NV issued 3.5 billion euros' worth of securities to the Federal Holding and Investment Company in mid-December 2008 in an operation to bolster the group's core capital, the core shareholders of KBC Group NV entered into a number of commitments, including the following one. They formally undertook not to offer their shares if a voluntary or mandatory public takeover bid were to be made for all of KBC's shares nor, as the case may be, to sell a quantity of KBC shares that could trigger a mandatory bid, nor to transfer their shares prior to the start of, during or after a public takeover bid to (a) (future) bidder(s) or related party nor grant any right to that end, without obtaining a formal commitment on the part of the (future) bidder(s) that, when the bid is closed, it (they) would compel KBC to redeem all outstanding core-capital securities (subject to the approval of the NBB) or it (they) would buy all outstanding core-capital securities itself (themselves), in both cases at a price equal to 44.25 euros per security. The core shareholders gave the same undertaking when KBC Group NV issued 3.5 billion euros' worth of securities in a second operation that was subscribed by the Flemish Region in mid-July 2009.

7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Appointment and replacement of members of the Board

Following the advice of the NBB, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held. When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Companies Code.

The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment.

If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term when making the definitive appointment.

Amendment of the Articles of Association

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Companies Code).

If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. A statement of assets and liabilities drawn up no longer than three months previously must be included in this report and be reported on separately by the statutory auditors. Copies of the reports in question can be obtained in accordance with Article 535 of the Companies Code. If these reports do not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions in a valid manner if those present not only represent half of the share capital (…). If this condition is not satisfied, a second convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast. (…) (excerpt from Article 559 of the Companies Code).

8 Powers of the Board with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board until 21 May 2014 to increase, in one or more steps, the share capital by a total amount of 900 million euros, in cash or in kind, by issuing shares or convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise). Under this authorisation, the Board can suspend or restrict pre-emptive rights, subject to the limits laid down by law and the Articles of Association. The Board can exercise this authorisation, pursuant to the conditions and within the limits laid down in the Companies Code, even after the date of receipt of notification from the FSMA that it has been apprised of a public takeover bid for the company's shares. This special authorisation is valid until 28 April 2014. On 31 December 2011, the amount by which capital may be increased came to 899 208 331 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2011, a maximum of 258 393 198 new shares can still be issued, i.e. 72.2% of the number of shares in circulation at that time. On 22 September 2011, the Board decided to use its authorisation to increase capital by issuing shares without pre-emptive rights to employees at a price of 14.63 euros per share and with a limit of 49 shares per employee. On 25 November 2011, the issued share capital was increased by 146 577.60 euros (represented by 42 120 new shares).

The authorisation granted by the General Meeting to the boards of KBC Group NV and its direct subsidiaries to acquire and take in pledge KBC Group NV treasury shares (subject to certain conditions), lapsed on 23 October 2009 and was not renewed. However, the boards of KBC Group NV and its direct subsidiaries have been authorised until 27 May 2013 to purchase or sell KBC Group NV shares, whenever their purchase or sale is necessary to prevent KBC Group NV from suffering serious imminent disadvantage. One of the proposals to the Extraordinary General Meeting of Shareholders on 3 May 2012 will be to renew this authorisation for a period of three years, starting from the time the decision to renew it is announced.

Lastly, the General Meeting authorised the aforementioned Boards of Directors to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 5%. One of the proposals to the General Meeting of 3 May 2012 will be to increase this percentage to 10%. On 31 December 2011, KBC Group NV and its direct subsidiaries held a total of 18 168 752 KBC Group NV shares (i.e. 5.075% of the number of shares in circulation at that time) primarily for the purpose of the buyback programmes approved by the General Meeting and for hedging KBC's employee stock option plans.

9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

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

Within the framework of this law, KBC Group NV received a number of updated disclosures in 2011. This information has been incorporated into the table of disclosures received. The entities and individuals referred to below act in concert. However, the quantities of shares stated are not necessarily all contributed by these entities and individuals acting in this way: some quantities may also include free shares.

A Disclosures by
a legal entities
b individuals holding 3% or more of securities carrying voting rights[1]
c legal entities with control over the legal entities referred to under a
d individuals who, via control over the legal entities referred to under a, indirectly hold 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Controlling individual/ entity	Shareholder	Shareholding (quantity)	%[2]	Controlling individual/ entity
KBC Ancora Comm.VA	82 216 380[3]	22.97%	Cera CVBA	Algimo NV	320 816[3]	0.09%	Individual(s)
MRBB	46 289 864[3]	12.93%	HBB vzw	Rodep Comm.VA	303 000[3]	0.08%	Individual(s)
Cera CVBA	26 127 166[3]	7.30%	–	SAK Berkenstede	268 970[3]	0.08%	–
SAK AGEV	12 354 695[3]	3.45%	–	Robor NV	238 988[3]	0.07%	Individual(s)
Plastiche NV	3 189 482[3]	0.89%	Individual(s)	Efiga Invest sprl	233 806[3]	0.07%	Moulins de Kleinbettingen SA
3D NV	2 323 085[3]	0.65%	SAK Iberanfra	La Pérégrina	220 588[4]	0.06%	ING Trust
Setas SA	1 626 401[3]	0.45%	SAK Setas	Promark International NV	189 008[3]	0.05%	Individual(s)
SAK Pula	1 434 250[3]	0.40%	–	Hermes Invest NV	180 225[3]	0.05%	–
Vrij en Vrank CVBA	1 335 258[3]	0.37%	SAK Prof. Vlerick	SAK Hermes Controle en Beheersmij	148 527[3]	0.04%	–
De Berk BVBA	1 138 208[3]	0.32%	Individual(s)	Lineago Trust	148 400[3]	0.04%	–
De Lelie GCV	1 000 000[3]	0.28%	–	Tradisud NV	146 500[4]	0.04%	–
Rainyve SA	941 958[3]	0.26%	–	SAK Iberanfra	121 273[3]	0.03%	–
Stichting Amici Almae Matris	912 731[3]	0.26%	–	Sinfonia Investments NV	115 839[3]	0.03%	SAK Hermes Controle en Beheersmaatschappij
Basil Finance SA	860 000[3]	0.24%	–	I.B.P. Ravago Pensioenfonds	115 833[3]	0.03%	–
Van Holsbeeck nv	770 837[3]	0.22%	Individual(s)	Inkao-Invest bvba	113 679[3]	0.03%	Robor NV
Ceco c.v.a.	568 849[3]	0.16%	Individual(s)	Meralpa NV	98 577[4]	0.03%	–
Nascar Finance SA	560 000[3]	0.16%	–	Edilu NV	70 000[4]	0.02%	–
Partapar SA	559 818[3]	0.16%	Individual(s)	Wilig NV	42 472[4]	0.01%	–
Cordalia SA	425 250[3]	0.12%	Individual(s)	Mercurius Invest NV	40 230[3]	0.01%	–
Mapicius SA	425 250[3]	0.12%	Individual(s)	Bevek Vlam 21	39 006[4]	0.01%	ABN Amro
Cecan Invest NV	397 563[3]	0.11%	SAK Prof. Vlerick	Filax Stichting	38 529[3]	0.01%	Individual(s)
Plastiche Holding Sarl	375 000[3]	0.10%	–	Lycol NV	31 939[4]	0.01%	–
Mercator NV	366 427[3]	0.10%	Bâloise-holding	Van Vuchelen en Co CVA	27 785[4]	0.01%	–
VIM CVBA	361 562[3]	0.10%	Individual(s)	Asphalia NV	14 241[3]	0.00%	Individual(s)
Sereno SA	333 408[3]	0.09%	Individual(s)	Kristo Van Holsbeeck bvba	6 950[3]	0.00%	Individual(s)
Colver NV	322 099[4]	0.09%	–	Christeyns NV	3 271[3]	0.00%	–

B Disclosures by individuals holding less than 3% of securities carrying voting rights (the identity of the individuals concerned does not have to be disclosed)[5]

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
330 803[3]	0.09%	48 800[3]	0.01%	15 132[3]	0.00%	4 549[4]	0.00%
274 839[3]	0.08%	48 141[3]	0.01%	15 132[3]	0.00%	3 759[4]	0.00%
235 000[3]	0.07%	46 441[3]	0.01%	15 000[3]	0.00%	3 375[4]	0.00%
141 466[3]	0.04%	46 200[3]	0.01%	15 000[3]	0.00%	3 375[4]	0.00%
107 500[3]	0.03%	45 441[3]	0.01%	15 000[3]	0.00%	3 375[4]	0.00%
96 903[3]	0.03%	43 200[3]	0.01%	14 522[3]	0.00%	3 375[4]	0.00%
96 903[3]	0.03%	39 264[4]	0.01%	13 905[4]	0.00%	3 375[4]	0.00%
96 903[3]	0.03%	33 069[4]	0.01%	13 905[4]	0.00%	3 240[4]	0.00%
84 078[3]	0.02%	32 994[3]	0.01%	12 539[4]	0.00%	2 800[3]	0.00%
82 263[3]	0.02%	32 994[3]	0.01%	11 042[4]	0.00%	2 295[4]	0.00%
75 000[3]	0.02%	32 978[3]	0.01%	11 039[4]	0.00%	2 025[3]	0.00%
69 500[3]	0.02%	32 978[3]	0.01%	10 992[4]	0.00%	1 350[4]	0.00%
67 500[3]	0.02%	25 500[4]	0.01%	9 761[4]	0.00%	1 269[4]	0.00%
67 500[3]	0.02%	24 725[4]	0.01%	8 850[4]	0.00%	1 000[3]	0.00%
63 599[4]	0.02%	22 611[4]	0.01%	8 556[4]	0.00%	877[4]	0.00%
64 550[3]	0.02%	22 343[4]	0.01%	8 484[4]	0.00%	774[4]	0.00%
57 841[3]	0.02%	22 343[4]	0.01%	8 316[4]	0.00%	513[4]	0.00%
56 950[3]	0.02%	22 342[4]	0.01%	8 212[4]	0.00%	500[3]	0.00%
55 406[4]	0.02%	21 897[3]	0.01%	8 212[4]	0.00%	324[4]	0.00%
54 986[4]	0.02%	20 007[4]	0.01%	7 884[3]	0.00%	243[4]	0.00%
52 499[3]	0.01%	19 546[4]	0.01%	6 993[4]	0.00%	228[4]	0.00%
52 000[3]	0.01%	16 733[4]	0.00%	6 540[4]	0.00%	27[3]	0.00%
49 600[3]	0.01%	16 000[3]	0.00%	4 590[4]	0.00%	24[3]	0.00%

1 No such disclosures were received.

2 Total outstanding number of shares on 30 June and 1 September 2011: 357 938 193.

3 Situation as at 30 June 2011.

4 Situation as at 1 September 2011.

5 Some of these shareholdings have been reported as being in bare ownership without voting rights and some as being held in usufruct with voting rights.

2 Consolidated financial statements

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TRANSLATION

Statutory auditor's report to the general meeting of shareholders of KBC Group nv on the consolidated financial statements for the year ended 31 December 2011

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 Group nv and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 December 2011, 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 2011, 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 € 285.382 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 13 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.

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,

Société civile ayant emprunté la forme d'une société coopérative à responsabilité limitée
Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
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Banque - Fortis - Bank 210-0905900-69

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 2011 give a true and fair view of the Group's financial position as at 31 December 2011 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.

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, 19 March 2012

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

Pierre Vanderbeek
Partner
12PVDB0078

Peter Telders
Partner

2

Consolidated income statement

(in millions of EUR)	Note	2010	2011
Net interest income	3	6 245	5 479
Interest income	3	10 542	11 883
Interest expense	3	-4 297	-6 404
Earned premiums, insurance (before reinsurance)	9	4 616	4 119
Non-life	11	1 916	1 861
Life	10	2 700	2 258
Technical charges, insurance (before reinsurance)	9	-4 261	-3 541
Non-life	9	-1 249	-996
Life	9	-3 012	-2 545
Ceded reinsurance result	9	-8	-44
Dividend income	4	97	85
Net result from financial instruments at fair value through profit or loss	5	-77	-178
Net realised result from available-for-sale assets	6	90	169
Net fee and commission income	7	1 224	1 164
Fee and commission income	7	2 156	2 043
Fee and commission expense	7	-932	-878
Other net income	8	452	56
TOTAL INCOME		**8 378**	**7 310**
Operating expenses	12	-4 436	-4 344
Staff expenses	12	-2 529	-2 569
General administrative expenses	12	-1 546	-1 449
Depreciation and amortisation of fixed assets	12	-361	-326
Impairment	14	-1 656	-2 123
on loans and receivables	14	-1 483	-1 333
on available-for-sale assets	14	-31	-417
on goodwill	14	-88	-120
other	14	-54	-253
Share in results of associated companies	15	-63	-58
RESULT BEFORE TAX		**2 224**	**786**
Income tax expense	16	-82	-320
Net post-tax result from discontinued operations	46	-254	-419
RESULT AFTER TAX		**1 888**	**47**
attributable to minority interests		28	34
of which relating to discontinued operations		*0*	*0*
attributable to equity holders of the parent		**1 860**	**13**
of which relating to discontinued operations		*-254*	*-419*
Earnings per share (in EUR)			
Basic	17	3.72	-1.93
Diluted	17	3.72	-1.93

- The group unveiled a new strategic plan towards the end of 2009, which the European Commission used to decide whether KBC 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. A number of adjustments were made to this plan in mid-2011, more information on which can be found in the 'Strategy and company profile' section (which has not been audited by the statutory auditor).
- KBL EPB has been classified as a discontinued operation since 2010. As a consequence of this and in accordance with IFRS 5, the results of KBL EPB have no longer been recorded under various headings in the income statement, but have been grouped together instead under 'Net post-tax result from discontinued operations'. An agreement had originally been signed in May 2010 for the sale of KBL EPB, but it was announced in March 2011 that the sale would not go through. The sales process was later restarted and an agreement with Precision Capital was reached in October 2011. All the information required under IFRS 5 can be found in Note 46.
- It will be proposed that a gross dividend of 0.01 euros per share entitled to dividend be paid for the 2011 financial year, subject to the approval of the General Meeting. The total dividend to be paid will accordingly amount to 3.4 million euros. Payment of a coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments (see 'Additional information') is related to payment of a dividend on ordinary shares. Consequently, a total coupon of 595 million euros will be paid in 2012 to these governments for the 2011 financial year (the accounting treatment under IFRS is comparable with that of ordinary dividends (deducted from equity in 2012)). It should be noted that this coupon is included in the calculation of earnings per share (see Note 17).
- The main items in the income statement are dealt with under 'Results in 2011' in the 'Report of the Board of Directors' section, and in the subsequent sections on the business units (which have not been audited by the statutory auditor).

Consolidated statement of comprehensive income

(in millions of EUR)	2010	2011
RESULT AFTER TAX	**1 888**	**47**
attributable to minority interests	28	34
attributable to equity holders of the parent	1 860	13
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve for shares	49	-162
Fair value adjustments before tax	105	-171
Deferred tax on fair value changes	-7	12
Transfer from reserve to net result	-48	-3
Impairment	9	40
Net gains/losses on disposal	-60	-43
Deferred taxes on income	3	0
Net change in revaluation reserve for bonds	-427	-32
Fair value adjustments before tax	-874	-251
Deferred tax on fair value changes	297	48
Transfer from reserve to net result	151	171
Impairment	-54	158
Net gains/losses on disposal	17	-22
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables'	284	81
Deferred taxes on income	-96	-46
Net change in revaluation reserve for other assets	1	-1
Fair value adjustments before tax	1	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	-1
Impairment	0	0
Net gains/losses on disposal	0	-1
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	-68	-150
Fair value adjustments before tax	-131	-336
Deferred tax on fair value changes	54	127
Transfer from reserve to net result	8	58
Gross amount	10	89
Deferred taxes on income	-2	-32
Net change in translation differences	63	-154
Gross amount	-6	-40
Deferred taxes on income	70	-114
Other movements	-1	1
TOTAL COMPREHENSIVE INCOME	**1 505**	**-451**
attributable to minority interests	35	21
attributable to equity holders of the parent	1 470	-471

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2010	31-12-2011
Cash and cash balances with central banks		15 292	6 218
Financial assets	18–29	281 240	249 439
Held for trading	18–29	30 287	26 936
Designated at fair value through profit or loss	18–29	25 545	13 940
Available for sale	18–29	54 143	39 491
Loans and receivables	18–29	157 024	153 894
Held to maturity	18–29	13 955	14 396
Hedging derivatives	18–29	286	782
Reinsurers' share in technical provisions, insurance	35	280	150
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	218	197
Tax assets	31	2 534	2 646
Current tax assets	31	167	201
Deferred tax assets	31	2 367	2 445
Non-current assets held for sale and disposal groups	46	12 938	19 123
Investments in associated companies	32	496	431
Investment property	33	704	758
Property and equipment	33	2 693	2 651
Goodwill and other intangible assets	34	2 256	1 898
Other assets	30	2 172	1 871
TOTAL ASSETS		**320 823**	**285 382**

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2010	31-12-2011
Financial liabilities	18–29	260 582	225 804
Held for trading	18–29	24 136	27 355
Designated at fair value through profit or loss	18–29	34 615	28 678
Measured at amortised cost	18–29	200 707	167 842
Hedging derivatives	18–29	1 124	1 929
Technical provisions (before reinsurance)	35	23 255	19 914
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	0	4
Tax liabilities	31	468	545
Current tax liabilities	31	345	255
Deferred tax liabilities	31	123	290
Liabilities associated with disposal groups	46	13 341	18 132
Provisions for risks and charges	36	600	889
Other liabilities	37	3 902	3 322
TOTAL LIABILITIES		**302 149**	**268 611**
Total equity	**39**	**18 674**	**16 772**
Parent shareholders' equity	39	11 147	9 756
Non-voting core-capital securities	39	7 000	6 500
Minority interests	–	527	516
TOTAL LIABILITIES AND EQUITY		**320 823**	**285 382**

- In accordance with IFRS 5, the assets and liabilities of a number of divestments have no longer been recorded under various headings in the balance sheet, but have been grouped together instead under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. The information required under IFRS 5 can be found in Note 46.

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (available-for-sale assets)	Hedging reserve (cash-flow hedges)	Reserves	Translation differences	Parent shareholders' equity	Non-voting core-capital securities	Minority interests	Total equity
2010											
Balance at the beginning of the period	1 245	4 339	-1 560	457	-374	5 894	-339	9 662	7 000	515	17 177
Net result for the period	0	0	0	0	0	1 860	0	1 860	0	28	1 888
Other comprehensive income	0	0	0	-379	-69	-1	58	-390	0	7	-383
Subtotal	0	0	0	-379	-69	1 860	58	1 470	0	35	1 505
Dividends	0	0	0	0	0	0	0	0	0	0	0
Capital increase	0	1	0	0	0	0	0	1	0	0	1
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	1	0	1	0	0	1
Results on (derivatives on) treasury shares	0	0	31	0	0	0	0	31	0	0	31
Effect of business combinations	0	0	0	0	0	-6	0	-6	0	0	-6
Change in minority interests	0	0	0	0	0	0	0	0	0	-23	-23
Change in scope	0	0	0	-12	0	0	0	-12	0	-1	-13
Total change	0	1	31	-391	-69	1 855	58	1 485	0	12	1 497
Balance at the end of the period	1 245	4 340	-1 529	66	-443	7 749	-281	11 147	7 000	527	18 674
of which revaluation reserve for shares	–	–	–	435	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	-370	–	–	–	–	–	–	–
of which revaluation reserve for other assets than bonds and shares	–	–	–	1	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	3	0	–	10	12	–	0	12
2011											
Balance at the beginning of the period	1 245	4 340	-1 529	66	-443	7 749	-281	11 147	7 000	527	18 674
Net result for the period	0	0	0	0	0	13	0	13	0	34	47
Other comprehensive income	0	0	0	-194	-151	1	-141	-484	0	-13	-498
Subtotal	0	0	0	-194	-151	14	-141	-471	0	21	-451
Dividends	0	0	0	0	0	-851	0	-851	0	0	-851
Capital increase	0	0	0	0	0	0	0	1	0	0	1
Redemption of non-voting core-capital securities	0	0	0	0	0	-75	0	-75	-500	0	-575
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Effect of business combinations	0	0	0	0	0	-6	0	-6	0	0	-6
Change in minority interests	0	0	0	0	0	0	0	0	0	-32	-32
Change in scope	0	0	0	11	0	0	0	11	0	0	11
Total change	0	0	0	-183	-151	-917	-141	-1 391	-500	-11	-1 902
Balance at the end of the period	1 245	4 341	-1 529	-117	-594	6 831	-422	9 756	6 500	516	16 772
of which revaluation reserve for shares	–	–	–	274	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	-391	–	–	–	–	–	–	–
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	–	7	7	–	0	7

- For information on the number of shares, see Note 39.
- For information on the capital-strengthening transactions concluded with the Belgian Federal Government and the Flemish Region, see 'Additional information'.
- For information on the shareholder structure, see Note 3 in the 'Company annual accounts' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- Besides the gross dividend for financial year 2010 (258 million euros, 4 million euros of which relating to treasury shares), the 'Dividends' heading in 2011 includes the coupon paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments (595 million euros, i.e. 8.5% of 7 billion euros).
- KBC repaid 0.5 billion euros (and paid a 15% penalty) to the Belgian Federal Government on 2 January 2012. This was recognised in the balance sheet at year-end 2011 (with 0.5 billion euros shifting from equity to liabilities and the penalty being deducted from equity by presenting it as a liability).

Consolidated cashflow statement

(in millions of EUR)	2010	2011
Operating activities		
Result before tax	2 224	786
Adjustments for:		
Result before tax from discontinued operations	66	19
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	603	1 274
Profit/Loss on the disposal of investments	-192	-130
Change in impairment on loans and advances	1 481	1 335
Change in technical provisions (before reinsurance)	2 436	1 038
Change in the reinsurers' share in the technical provisions	-83	-4
Change in other provisions	-49	352
Other unrealised gains or losses	-136	30
Income from associated companies	61	57
Cashflows from operating profit before tax and before changes in operating assets and liabilities	6 411	4 756
Changes in operating assets (excluding cash and cash equivalents)	8 933	21 133
Financial assets held for trading	9 516	7 255
Financial assets at fair value through profit or loss	4 983	10 659
Available-for-sale assets	430	12 345
Loans and receivables	2 167	-4 964
Hedging derivatives	-204	-734
Operating assets associated with disposal groups	-7 959	-3 427
Changes in operating liabilities (excluding cash and cash equivalents)	2 056	-26 858
Deposits measured at amortised cost	-6 232	-14 922
Debts represented by securities measured at amortised cost	-1 485	-10 548
Financial liabilities held for trading	-5 031	3 352
Financial liabilities at fair value through profit or loss	3 305	-5 937
Hedging derivatives	38	806
Operating liabilities associated with disposal groups	11 461	390
Income taxes paid	-363	-328
Net cash from or used in operating activities	17 037	-1 296
Investing activities		
Purchase of held-to-maturity securities	-3 975	-2 913
Proceeds from the repayment of held-to-maturity securities at maturity	2 039	1 521
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	-108	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	1 194	498
Purchase of shares in associated companies	0	0
Proceeds from the disposal of shares in associated companies	0	0
Dividends received from associated companies	1	1
Purchase of investment property	-18	-31
Proceeds from the sale of investment property	20	26
Purchase of intangible fixed assets (excluding goodwill)	-142	-145
Proceeds from the sale of intangible fixed assets (excluding goodwill)	34	10
Purchase of property and equipment	-533	-634
Proceeds from the sale of property and equipment	293	244
Net cash from or used in investing activities	-1 194	-1 423
Financing activities		
Purchase or sale of treasury shares	1	0
Issue or repayment of promissory notes and other debt securities	-1 686	-964
Proceeds from or repayment of subordinated liabilities	547	-1 460
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	1	0
Redemption of non-voting core-capital securities	0	-575
Proceeds from the issuance of preference shares	0	0
Dividends paid	0	-851
Net cash from or used in financing activities	-1 137	-3 850
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	14 706	-6 568
Cash and cash equivalents at the beginning of the period	5 487	20 557
Effects of exchange rate changes on opening cash and cash equivalents	364	9
Cash and cash equivalents at the end of the period	20 557	13 997

Consolidated cashflow statement (continuation)

(in millions of EUR)	2010	2011
Additional information		
Interest paid	-4 577	-6 533
Interest received	11 053	12 163
Dividends received (including equity method)	104	90
Components of cash and cash equivalents		
Cash and cash balances with central banks	15 292	6 217
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	6 866	11 721
Deposits from banks repayable on demand	-4 449	-8 472
Cash and cash equivalents belonging to disposal groups	2 849	4 532
Total	20 557	13 997
of which not available	0	0

- KBC uses the indirect method to report on cashflows from operating activities.
- As stated in Note 46, KBL EPB, Fidea and WARTA qualify as 'disposal groups'. The main impact these divestments will have on cashflows relating to investing activities is as follows: receipt of the sales price: approximately 1 billion euros for KBL EPB, 0.2 billion euros for Fidea, and 0.8 billion euros for WARTA. Reduction in cash and cash equivalents belonging to disposal groups: 4.5 billion euros for KBL EPB, 10 million euros for WARTA and 32 million euros for Fidea (amounts at 31 December 2011).
- 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.
- More information on the main divestments can be found under 'Group Centre' in the 'Report of the Board of Directors' section (not audited by the statutory auditor).

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations

Year	2010	2010	2010	2011
(in millions of EUR)	**Secura**	**KBC Peel Hunt**	**Global Convertible Bonds & Asian Equity Derivatives businesses**	**Centea**
Purchase or sale	Sale	Sale	Sale	Sale
Percentage of shares bought (+) or sold (-) in the relevant year	100%	100%	–	100%
Total share percentage at the end of the relevant year	0%	0%	–	0%
For business unit/segment	Belgium	Group Centre	Group Centre	Group Centre
Deal date (month and year)	November 2010	November 2010	November 2010	July 2011
Results of the relevant company/business recognised in the group result up to and including:	30-09-2010	30-09-2010	19-11-2010	30-06-2011
Purchase price or sale price	315	86	866	527
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	290	75	824	498
Assets and liabilities bought or sold				
Cash and cash balances with central banks	0	0	0	23
Financial assets	753	511	906	9 856
Held for trading	0	26	864	0
Designated at fair value through profit or loss	0	0	0	1 233
Available for sale	639	2	0	1 200
Loans and receivables	0	483	42	7 424
Held to maturity	114	0	0	0
Hedging derivatives	0	0	0	0
of which cash and cash equivalents	*25*	*11*	*42*	*30*
Financial liabilities	0	402	392	8 637
Held for trading	0	15	392	0
Designated at fair value through profit or loss	0	0	0	0
Measured at amortised cost	0	387	0	8 637
Hedging derivatives	0	0	0	0
of which cash and cash equivalents	*0*	*0*	*0*	*0*
Technical provisions (before reinsurance)	862	0	0	0

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 19 March 2012 by the Board of Directors of KBC Group NV.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information.

All amounts are shown in millions of euros and rounded to the million.

The following IFRS standards became effective on 1 January 2011 and have been applied in this report. The amendments in question do not have any material impact.

- IAS 24 (Related Party Disclosures). The definition of a related party has been clarified and a partial exemption from the disclosure requirements 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) has to be disclosed.
- IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments (to be measured at fair value)).
- Improvements to existing standards (published in May 2010): a set of amendments to existing standards and interpretations.

The following IFRS standards and IFRIC interpretations were issued but not yet effective for the KBC group at year-end 2011. KBC will apply these standards and interpretations when they become mandatory:

- 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). The mandatory effective date of this new standard has recently been postponed until 1 January 2015. However, the European Union has still to endorse the standard for use in its territory. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- Amendment to IAS 12 (Income tax – Deferred Tax: Recovery of Underlying Assets). No impact due to the fact that KBC measures investment property at cost.
- Amendment to IFRS 7 (Financial Instruments: Disclosures – Transfers of Financial Assets), which becomes effective on or after 1 January 2012. More detailed disclosures are required for transferred financial assets that are derecognised in their entirety, but where the entity has a continuing involvement in them (for instance, collateral provided for such assets) or for assets that have not been derecognised in their entirety.
- IFRS 10, 11 and 12 are the new consolidation standards that will become effective on or after 1 January 2013. IFRS 10 includes a new definition of control, which can lead to changes in the scope of consolidation. Under IFRS 11 (Joint Arrangements), it is specified that *joint ventures* must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and *structured entities* (the new name for Special Purpose Entities). It is expected that this will lead to a limited change in KBC's scope of consolidation.
- IFRS 13 (Fair Value Measurement) provides guidance on how the fair value of an asset or liability should be measured when required by another IFRS standard. The standard will become effective on 1 January 2013. KBC expects that there will only be a minor change in the way that fair values are determined. The main consequence for KBC will be the requirement of expanded disclosures.
- Amendment to IAS 19 (Employee Benefits), which will become effective on or after 1 January 2013. The main change concerns the elimination of the corridor, which – under the current standard – permits actuarial gains and losses to be spread over several years. From that point on, such gains and losses will have to be recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures will also be changed and expanded.

Changes in the presentation of the income statement in 2011:

- To increase transparency, interest on ALM hedging derivatives (i.e. those that do not qualify for fair value hedge accounting for a portfolio of interest rate risk) will be presented as from 2011 as 'Net interest income' whereas in previous periods it was recorded under 'Net result from financial instruments at fair value'. Since the interest earned on the related assets appears under 'Net interest income', interest on ALM hedging derivatives will also be presented under this heading from 2011 on (but not retroactively). The net interest income on ALM hedging derivatives included under 'Net interest income' amounted to -0.4 billion euros in 2011.

Changes to the notes to the balance sheet in 2011:

- Note 22: as a result of amendments to IFRS 7, maximum credit exposure now also has to be presented on a net basis, account taken of any collateral or credit enhancement held.
- Note 29: the presentation of the notional amounts of derivatives has changed, i.e. they are now referred to as 'Notional amounts purchased' on the assets side and 'Notional amounts sold' on the liabilities side. This change applies solely to options. The reference figures have also been restated.
- Note 40: non-financial assets are no longer included under 'Guarantees/collateral received'. The distinction between financial and non-financial guarantees has also been modified, with personal guarantees and credit insurance now classified as financial guarantees. Information about the carrying value of financial assets pledged by KBC as collateral is now included under this note, whereas it had previously been recorded under Note 22. The reference figures have also been restated.

Changes in the presentation of segment reporting in 2011:

- See 'Notes on segment reporting'.

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

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

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

c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.
All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

- *Loans and receivables (L&R).* These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- *Held-to-maturity assets (HTM).* These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.
- *Financial assets at fair value through profit or loss.* This category includes *held-for-trading (HFT) assets* and any *other financial assets designated at fair value through profit or loss (FIFV). Held-for-trading assets* are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets designated at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use the fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.
- *Available-for-sale assets (AFS).* These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.
- *Held-for-trading liabilities.* These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated as effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.
- *Financial liabilities designated at fair value through profit or loss (FIFV).* These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.
- *Other financial liabilities.* These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.
- *Hedging derivatives.* These are derivatives used for hedging purposes.

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

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.

Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.

- Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
- Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.

• When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.
Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

• *Securities.* Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

• *Derivatives.* All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated as 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 assets 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.
KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from 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 for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.

If the capitalisation criteria are met, software is recognised as an intangible asset. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment (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 all the activities necessary to prepare the asset for its intended use or sale are complete.

f Technical provisions

Provisions for unearned premiums and unexpired risk

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums. For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own experience regarding the evolution of the risk over time. The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc. In principle, this provision is calculated separately for every insurance contract. For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.
Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

- *Valuation according to the prospective method*. This method is applied for the provisions for conventional non-unit-linked life insurance policies, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- *Valuation according to the retrospective method*. This method is applied for the provision for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

Provision for profit sharing and rebates

This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

Liability adequacy test

A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Ceded reinsurance and retrocession

The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

g Insurance contracts measured in accordance with IFRS 4 – phase 1

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying amount of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the assets side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying amount of the liability.
Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying amount of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h 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.

i Tax liabilities

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

j Provisions

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

k Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules:
- The non-voting core-capital securities (also referred to as yield-enhanced securities or YES) issued to the Belgian Federal and Flemish Regional governments are considered an equity instrument, with the coupon being accounted for directly in equity. Since payment of the coupon on the YES is conditional upon payment of a dividend on ordinary shares, coupons are recognised at the same time as dividends on ordinary shares (i.e. the coupon is not accrued in equity).
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on KBC shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000-2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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

l Exchange rates used*

	Exchange rate at 31-12-2011		Exchange rate average in 2011	
	1 EUR = ... currency	Change from 31-12-2010 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = ... currency	Change relative to average in 2010 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	25.79	-3%	24.57	+3%
GBP	0.8353	+3%	0.8723	-2%
HUF	314.6	-12%	279.1	-1%
PLN	4.458	-11%	4.118	-3%
USD	1.294	+3%	1.402	-5%

* Rounded figures.

m Changes made to accounting policies in 2011

No material changes were made to the accounting policies compared with 2010.

Note 2 a: Segment reporting based on the management structure

The group's segments or business units

The KBC group'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 bancassurance 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, etc.).

Segment reporting 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.

Owing to the change in the group's strategic plan (see the 'Strategy and company profile' section), segment reporting was adjusted in 2011 and the reference figures restated retroactively:

- The (40%) portion of ČSOB's results in the Czech Republic, which relates to the originally planned public offering of a minority stake in that company – and which had previously been recognised under Group Centre – was reallocated to the Central & Eastern Europe Business Unit.
- The results of Kredyt Bank and WARTA (both in Poland), which had previously been included in the Central & Eastern Business Unit, have now been moved to Group Centre (to join the other companies earmarked for divestment).
- Due to the retroactive adjustment of these figures, the 'underlying result after tax, attributable to equity holders of the parent' was as follows in 2010:
  - Central & Eastern Europe Business Unit: 406 million euros in the previous annual report, 570 million euros in this one;
  - Group Centre: 120 million euros in the previous annual report, -44 million euros in this one;
  - The results for the other business units and for the group as a whole remained unchanged.

For reporting purposes, therefore, the composition of the segments or business units after these adjustments is as follows:

- Belgium (retail bancassurance, asset management, private banking in Belgium; companies earmarked for divestment under the strategic plan are recognised under Group Centre).
- Central & Eastern Europe (retail bancassurance, asset management, private banking and merchant banking in the Czech Republic, Slovakia, Hungary and Bulgaria; companies in other countries that have been earmarked for divestment are recognised under Group Centre).
- 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, KBC Group NV, KBC Global Services NV and certain allocated results for KBC Bank NV and KBC Insurance 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 (see Note 44). Exceptions are only made for those charges that cannot clearly be allocated to a specific segment (such charges are recognised under Group Centre) and KBC Bank (which is assigned to various segments and to Group Centre using allocation rules).
- The funding cost of goodwill related to participating interests held by KBC Bank and KBC Insurance is allocated to the segment to which the relevant participating interest belongs. The funding cost in respect of leveraging at KBC Group NV level is recognised under Group Centre and not allocated any further.
- Transactions among the different segments are reported 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 (such as losses and gains relating to investments in CDOs, to trading positions that were unwound due to the discontinuation of activities of KBC Financial Products, and to actual divestments). 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) were – up to and including 2010 – regarded as trading instruments and, consequently, interest relating to these instruments appeared 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. As of 2011, however, interest on ALM hedging derivatives has also been included in the IFRS figures under 'Net interest income' (see Note 1a).
- The fair value changes (due to marking-to-market) of the above ALM hedging instruments appear under 'Net result from financial instru-

ments at fair value', whereas most of the related assets are not recognised at fair value. 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, a portion of the other income items 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 risk 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 net result. Since this is a non-operating item, its impact is excluded from the underlying figures.
- In the IFRS figures, discontinued operations (KBL EPB only) are recognised in accordance with IFRS 5. This means that all the results relating to such operations are moved from their various headings and grouped together under 'Net post-tax result from discontinued operations'. In the underlying figures, discontinued operations are treated in the same way as other companies earmarked for divestment. This means that they continue to be included under all the different headings (after having been adjusted to take account of the aforementioned items).

The results for each business unit are dealt with the 'Report of the Board of Directors' section, which also contains a table for each business unit providing a reconciliation of the IFRS-based results and the underlying results. The auditor has not audited these sections. A reconciliation of the figures at group level is given in the table below.

Reconciliation of IFRS results and underlying results

Reconciliation of IFRS results and underlying results (in millions of EUR)	**Footnote**	**Main heading(s) concerned in the income statement**	**2010**	**2011**
Result after tax, attributable to equity holders of the parent (*underlying*)			1 710	1 098
Changes in fair value of ALM hedging instruments	1	Net result from financial instruments at fair value, Income tax expense	-179	-273
Gains/losses relating to CDOs	2	Net result from financial instruments at fair value, Income tax expense	1 027	-416
Fair value of CDO-related guarantee and commitment fees	3	Net result from financial instruments at fair value, Income tax expense	-68	-52
Impairment on goodwill and associated companies	4	Impairment on goodwill and on other	-118	-115
Result from legacy structured derivatives business (KBC Financial Products)		Net result from financial instruments at fair value, Income tax expense	-372	50
Changes in fair value of own debt instruments (due to own credit risk)	5	Net result from financial instruments at fair value, Income tax expense	39	359
Results on divestments	6	Other net income, Net post-tax result from discontinued operations	-176	-640
Other		–	-4	0
Result after tax, attributable to equity holders of the parent (IFRS)			1 860	13

It should be noted that with effect from this annual report, amounts stated are after tax and minority interests.

1 See explanation in the third bullet point under 'Underlying results by segment'. 2011 figure due primarily to widening credit spreads on certain sovereign bonds.

2 Relates primarily to changes in the fair value of CDO exposures (see Notes 5 and 26), changes in provisions for and payment of CDO-related claims. Also includes the recognition of a deferred tax asset of 0.4 billion euros in 2010 (see Note 16).

3 Relates to the CDO guarantee agreement concluded with the Belgian State in 2009 (see 'Additional information').

4 In 2010, mainly group companies in Poland and Romania, and associated companies in Slovenia. In 2011, Bulgaria among other countries.

5 The positive figure in 2011 relates to heightened risk aversion to European banks (hence including KBC), which caused the market value of own debt instruments designated at fair value through profit or loss, to decline.

6 In 2010, -0.3 billion euros relating to the original sale of KBL EPB to the Hinduja Group that in the end did not go through. A new agreement was reached with Precision Capital in October 2011 on the sale of KBL EPB and -0.4 billion euros was recognised. On balance, this item also includes +0.2 and -0.2 billion euros relating to other divestments in 2010 and 2011, respectively.

Underlying results by segment (business unit)

(in millions of EUR)	Belgium Business Unit	Central & Eastern Europe Business Unit	Merchant Banking Business Unit	Group Centre (excl. intersegment eliminations)	Intersegment eliminations	KBC group
UNDERLYING INCOME STATEMENT, 2010						
Net interest income	2 243	1 527	836	997	0	5 603
Earned premiums, insurance (before reinsurance)	2 886	657	0	1 170	-93	4 621
Technical charges, insurance (before reinsurance)	-2 851	-504	0	-994	68	-4 281
Ceded reinsurance result	-11	-11	0	-8	21	-9
Dividend income	50	2	6	15	0	73
Net result from financial instruments at fair value through profit or loss	60	154	539	101	0	855
Net realised result from available-for-sale assets	51	12	3	32	0	98
Net fee and commission income	770	308	225	363	0	1 666
Other net income	119	30	-70	51	-12	118
TOTAL INCOME	**3 318**	**2 175**	**1 540**	**1 726**	**-16**	**8 744**
Operating expenses[a]	-1 702	-1 184	-576	-1 386	16	-4 832
Impairment	-104	-350	-796	-276	0	-1 525
on loans and receivables	-82	-340	-789	-270	0	-1 481
on available-for-sale assets	-23	0	-7	-4	0	-34
on goodwill	0	0	0	0	0	0
other	0	-9	1	-2	0	-10
Share in results of associated companies	0	1	0	-62	0	-61
RESULT BEFORE TAX	**1 513**	**643**	**168**	**2**	**0**	**2 326**
Income tax expense	-457	-73	-19	-38	0	-587
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**1 056**	**570**	**149**	**-36**	**0**	**1 739**
attributable to minority interests	5	0	16	7	0	29
attributable to equity holders of the parent	**1 051**	**570**	**133**	**-44**	**0**	**1 710**
a Of which non-cash expenses	-57	-92	-39	-206	0	-394
Depreciation and amortisation of fixed assets	-59	-91	-35	-197	0	-381
Other	1	-1	-4	-9	0	-12
Acquisitions of non-current assets*	65	141	275	255	0	736
UNDERLYING INCOME STATEMENT, 2011						
Net interest income	2 320	1 524	663	897	0	5 404
Earned premiums, insurance (before reinsurance)	2 135	745	0	1 301	-60	4 122
Technical charges, insurance (before reinsurance)	-2 025	-548	0	-1 028	44	-3 556
Ceded reinsurance result	-24	-21	0	-11	12	-44
Dividend income	52	2	7	13	0	74
Net result from financial instruments at fair value through profit or loss	45	74	405	-15	0	509
Net realised result from available-for-sale assets	98	32	35	26	0	191
Net fee and commission income	700	329	202	304	0	1 535
Other net income	-39	38	-76	33	-8	-52
TOTAL INCOME	**3 260**	**2 175**	**1 236**	**1 521**	**-11**	**8 182**
Operating expenses[a]	-1 790	-1 192	-569	-1 146	11	-4 686
Impairment	-312	-619	-768	-210	0	-1 909
on loans and receivables	-59	-477	-725	-73	0	-1 335
on available-for-sale assets	-230	-127	-6	-90	0	-453
on goodwill	0	0	0	0	0	0
other	-22	-14	-37	-47	0	-121
Share in results of associated companies	0	1	0	-58	0	-57
RESULT BEFORE TAX	**1 159**	**365**	**-101**	**106**	**0**	**1 530**
Income tax expense	-355	-38	6	-10	0	-397
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**804**	**327**	**-95**	**97**	**0**	**1 133**
attributable to minority interests	2	0	15	18	0	35
attributable to equity holders of the parent	**802**	**327**	**-110**	**79**	**0**	**1 098**
a Of which non-cash expenses	-54	-86	-25	-200	0	-365
Depreciation and amortisation of fixed assets	-54	-79	-18	-198	0	-348
Other	0	-7	-8	-2	0	-18
Acquisitions of non-current assets*	64	205	343	200	0	812

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

Balance-sheet information by segment (business unit)

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

(in millions of EUR)	Belgium Business Unit	Central & Eastern Europe Business Unit	Merchant Banking Business Unit	Group Centre	KBC group
BALANCE SHEET, 31-12-2010					
Total loans to customers	51 961	28 960	48 202	21 543	150 666
of which mortgage loans	26 952	10 503	12 809	11 313	61 577
of which reverse repos	0	4 035	5 450	1	9 486
Deposits from customers*	67 663	38 192	73 538	18 477	197 870
of which repos	0	3 219	12 179	0	15 398
BALANCE SHEET, 31-12-2011					
Total loans to customers	55 254	25 648	43 832	13 550	138 284
of which mortgage loans	29 417	10 533	12 288	5 194	57 431
of which reverse repos	0	16	1 413	0	1 429
Deposits from customers	71 156	38 216	46 168	9 687	165 226
of which repos	0	3 209	12 633	0	15 841

* The breakdown of 'Deposits from customers' at year-end 2010 has been adjusted as a result of the changes to the way in which deposits at KBC Bank NV are allocated to the Belgium and Merchant Banking Business Units.

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 – and its selective presence in the rest of the world (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.

(in millions of EUR)	Belgium	Central & Eastern Europe (and Russia)	Rest of the world	KBC group
2010				
Total income from external customers (underlying)	3 889	3 000	1 855	8 744
Total assets (period-end)	209 103	61 269	50 452	320 823
Total liabilities (period-end)	194 672	55 030	52 447	302 149
Acquisitions of non-current assets* (period-end)	460	226	49	736
2011				
Total income from external customers (underlying)	3 576	3 091	1 515	8 182
Total assets (period-end)	181 036	60 898	43 448	285 382
Total liabilities (period-end)	171 262	55 189	42 159	268 611
Acquisitions of non-current assets* (period-end)	525	251	35	812

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

Note 3: Net interest income

(in millions of EUR)	2010	2011
Total	**6 245**	**5 479**
Interest income	**10 542**	**11 883**
Available-for-sale assets	1 949	1 791
Loans and receivables	6 706	6 600
Held-to-maturity investments	567	633
Other liabilities not at fair value	28	34
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*9 251*	*9 059*
of which impaired financial assets	*90*	*84*
Financial assets held for trading*	351	1 779
Hedging derivatives	338	528
Other financial assets at fair value through profit or loss	603	517
Interest expense	**-4 297**	**-6 404**
Financial liabilities measured at amortised cost	-3 173	-3 235
Other liabilities not at fair value	-3	-12
Investment contracts at amortised cost	0	0
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-3 175*	*-3 247*
Financial liabilities held for trading*	-85	-2 026
Hedging derivatives	-794	-788
Other financial liabilities at fair value through profit or loss	-243	-344

* Including interest on hedging derivatives from 2011 on (1 506 million euros in interest income and -1 943 million euros in interest expense). For additional information, see Note 1a.

Note 4: Dividend income

(in millions of EUR)	2010	2011
Total	**97**	**85**
Shares held for trading	31	13
Shares initially recognised at fair value through profit or loss	3	2
Available-for-sale shares	63	70

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

(in millions of EUR)	2010	2011
Total	**-77**	**-178**
Trading instruments (including interest* and fair value changes in trading derivatives)	-145	-478
Other financial instruments initially recognised at fair value through profit or loss	-250	15
of which gains/losses on own credit risk	*53*	*484*
Foreign exchange trading	317	365
Fair value adjustments in hedge accounting	0	-80
Micro hedge	2	3
Fair value hedges	2	0
Changes in the fair value of the hedged items	35	-117
Changes in the fair value of the hedging derivatives, including discontinuation	-33	117
Cashflow hedges	1	3
Changes in the fair value of the hedging derivatives, ineffective portion	1	3
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	-2	0
Fair value hedge of interest rate risk	0	0
Changes in the fair value of the hedged items	35	-25
Changes in the fair value of the hedging derivatives, including discontinuation	-35	25
Cashflow hedges of interest rate risk	-2	0
Changes in the fair value of the hedging derivatives, ineffective portion	-2	0
Discontinuation of hedge accounting in the event of cashflow hedges	0	-82

* Excluding interest on hedging derivatives from 2011 on (see Note 3).

- Changes in the value of CDOs: this results component also includes the effect of value changes in CDOs held in portfolio. 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 +0.4 billion euros). On balance, there was a deterioration in 2011 which resulted in a negative value adjustment (of approximately -0.4 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 (details of which can be found in 'Additional information'). Associated cost: the total fee to be paid by KBC 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 has to pay a commitment fee of roughly 60 million euros per half year for the second tranche (*the equity guarantee*). The contract, including the fee due, is measured at fair value through profit or loss.

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)	**2009**	**2010**	**2011**
Cash guarantee (for the third tranche)			
Recognised upfront in 2009	-1 121	–	–
Change in fair value	-126	-36	-25
Equity guarantee (for the second tranche)	-162	-67	-53
Total recognised in the income statement	-1 409	-103	-79

- The impact of changes in the fair value of government bonds of selected European countries 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 27.
- 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 also 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 will be recognised under 'Net interest income' from 2011 on (recognised under 'Net result from financial instruments at fair value through profit or loss' until 2010, when it came to -431 million euros). The fair value changes are recognised under 'Net result from financial instruments at fair value through profit or loss', but are curtailed in part 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 are summarised as follow:

(in millions of EUR)	**2010**	**2011**
Deferred day 1 profits, opening balance on 1 January	27	11
New deferred day 1 profits	0	0
Day 1 profits recognised in profit or loss during the period		
Amortisation of day 1 profits	-15	-3
Financial instruments no longer recognised	-4	0
Exchange differences	2	0
Deferred day 1 profits, closing balance on 31 December	11	8

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

(in millions of EUR)	2010	2011
Total	**90**	**169**
Fixed-income securities	26	59
Shares	64	110

Note 7: Net fee and commission income

(in millions of EUR)	2010	2011
Total	**1 224**	**1 164**
Fee and commission income	**2 156**	**2 043**
Securities and asset management	1 118	898
Margin on life insurance investment contracts without DPF (deposit accounting)	28	50
Commitment credit	252	302
Payments	522	577
Other	236	215
Fee and commission expense	**-932**	**-878**
Commission paid to intermediaries	-489	-470
Other	-443	-408

- 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)	2010	2011
Total	**452**	**56**
of which gains or losses on		
Sale of loans and receivables	4	-29
Sale of held-to-maturity investments	1	-14
Repurchase of financial liabilities measured at amortised cost	0	-3
Other, including:	447	102
Income from (mainly operational) leasing activities, KBC Lease Group	76	96
Income from consolidated private equity participations	54	48
Income from VAB Group	65	65
Gains and losses on divestments	191	68
Irregularities at KBC Lease UK	-175	15
Provision for 5-5-5 product	0	-334

- Gains and losses on divestments. In 2010, this item had related to the sale of Secura and to the sale of KBC Financial Products' Global Convertible Bonds and Asian Equity Derivatives businesses. In 2011, it related primarily to Centea (a gain of 63 million euros; the sale also generated a net result from financial instruments at fair value through profit or loss of -85 million euros relating to the reduction in cashflow hedges that had an economic link with Centea).
- Internal audits conducted at KBC Lease UK in 2010 revealed irregularities in a significant number of contracts that had been introduced by a particular broker. The necessary amounts have been recognised to cover the maximum potential net cost of these irregularities. KBC Lease UK has engaged in a number of actions to recover amounts from various sources.
- Provision for the 5-5-5 investment product. In April and May 2008, KBC Bank and its Belgian subsidiaries sold 670 million euros' worth of structured 5-5-5 first-to-default bonds (scheduled to mature in April and May 2013) to customers. These bonds are linked to the creditworthiness of Belgium, France, Spain, Italy and Greece. An ISDA-defined credit event in one of these countries would adversely affect the invested capital and no further coupons would be paid. As a result of the Greek financial crisis, KBC Bank decided to reassure all retail customers holding 5-5-5 bonds and announced its intention to purchase the bonds at a price equal to the invested capital less any coupons paid by the issuer (all amounts before charges and taxes) should a credit event occur. At balance sheet date, no credit event had occurred. At the end of 2011, the financial markets estimated that the probability of a credit event occurring before May 2013 in one of those five countries was higher than 50%, which prompted KBC to recognise a provision of 334 million euros through profit or loss. For more information, see Note 48 (Post-balance-sheet events).

Note 9: Insurance results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2010				
Technical result	-424	345	35	-43
Earned premiums, insurance (before reinsurance)	2 705	1 937	0	4 642
Technical charges, insurance (before reinsurance)	-3 012	-1 250	0	-4 262
Net fee and commission income	-115	-339	39	-415
Ceded reinsurance result	-2	-2	-4	-8
Financial result	885	176	228	1 288
Net interest income	–	–	1 002	1 002
Dividend income	–	–	47	47
Net result from financial instruments at fair value through profit or loss	–	–	195	195
Net realised result from available-for-sale assets	–	–	44	44
Allocation to the technical accounts*	885	176	-1 060	0
General administrative expenses	-136	-364	-9	-509
Internal claims settlement expenses	-8	-75	0	-83
Indirect acquisition costs	-38	-89	0	-127
Administrative expenses	-90	-201	0	-291
Investment management fees	0	0	-9	-9
Other net income	–	–	95	95
Impairment	–	–	-19	-19
Share in results of associated companies	–	–	0	0
RESULT BEFORE TAX	**325**	**157**	**329**	**811**
Income tax expense	–	–	–	-142
Net post-tax result from discontinued operations	–	–	–	11
RESULT AFTER TAX	**–**	**–**	**–**	**679**
attributable to minority interests	–	–	–	4
attributable to equity holders of the parent	**–**	**–**	**–**	**675**
2011				
Technical result	-401	499	42	140
Earned premiums, insurance (before reinsurance)	2 262	1 880	0	4 142
Technical charges, insurance (before reinsurance)	-2 548	-1 007	0	-3 555
Net fee and commission income	-112	-333	42	-403
Ceded reinsurance result	-2	-42	0	-44
Financial result	690	137	152	979
Net interest income	–	–	1 019	1 019
Dividend income	–	–	55	55
Net result from financial instruments at fair value through profit or loss	–	–	-178	-178
Net realised result from available-for-sale assets	–	–	83	83
Allocation to the technical accounts*	690	137	-827	0
General administrative expenses	-150	-376	-1	-527
Internal claims settlement expenses	-10	-81	0	-92
Indirect acquisition costs	-53	-108	0	-161
Administrative expenses	-87	-187	0	-274
Investment management fees	0	0	-1	-1
Other net income	–	–	10	10
Impairment	–	–	-473	-473
Share in results of associated companies	–	–	0	0
RESULT BEFORE TAX	**139**	**260**	**-270**	**129**
Income tax expense	–	–	–	-85
Net post-tax result from discontinued operations	–	–	–	-17
RESULT AFTER TAX	**–**	**–**	**–**	**27**
attributable to minority interests	–	–	–	2
attributable to equity holders of the parent	**–**	**–**	**–**	**25**

* Also includes the allocation of impairment losses.

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts.
- As a bancassurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank, KBL EPB and KBC Insurance. For the purpose of this note, information is provided on the insurance results alone. The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business.
- Additional information on the insurance business is provided separately in the following notes and sections:

- Earned premiums, life insurance (Note 10).
- Non-life insurance per class of business (Note 11).
- Technical provisions, insurance (Note 35).
- List of principal subsidiaries and associated companies (Note 44, KBC Insurance section).
- Overview of credit risk exposure in the insurance activities (under 'Credit risk' in the 'Value and risk management' section).
- Interest rate risk, equity risk and real estate risk for insurance activities (under 'Market risk in non-trading activities' in the 'Value and risk management' section).
- Technical insurance risk (under 'Technical insurance risk' in the 'Value and risk management' section).
- Level of solvency at KBC Insurance (under 'Capital adequacy' in the 'Value and risk management' section).

Note 10: Earned premiums, life insurance

(in millions of EUR)	2010	2011
Total	**2 700**	**2 258**
Breakdown by IFRS category		
Insurance contracts	1 112	1 223
Investment contracts with DPF	1 588	1 035
Breakdown by type		
Accepted reinsurance	27	1
Primary business	2 673	2 258
Breakdown of primary business		
Individual versus group		
Individual premiums	2 131	1 938
Premiums under group contracts	542	320
Periodic versus single		
Periodic premiums	910	945
Single premiums	1 763	1 313
Non-profit-sharing versus profit-sharing contracts		
Premiums from non-profit-sharing contracts	214	235
Premiums from profit-sharing contracts	2 134	1 545
Other	325	477

- As required under IFRS, deposit accounting is used for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under 'Earned premiums, insurance (before reinsurance)' (and 'Technical charges, insurance (before reinsurance)'), but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2010 accounted for premium income of 1.8 billion euros and in 2011 for premium income of 2.0 billion euros (including VITIS Life).

Note 11: Non-life insurance per class of business

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2010					
Total	**1 937**	**-1 278**	**-628**	**-2**	**28**
Accepted reinsurance	185	-156	-33	4	-1
Primary business	1 752	-1 122	-595	-6	29
Accident & health (classes 1 & 2, excl. industrial accidents)	140	-51	-57	1	33
Industrial accidents (class 1)	76	-58	-16	-1	1
Motor, third-party liability (class 10)	505	-334	-158	1	13
Motor, other classes (classes 3, 7)	314	-208	-101	0	5
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	43	-25	-11	-7	-1
Fire and other damage to property (classes 8, 9)	478	-332	-183	17	-20
General third-party liability (class 13)	114	-70	-43	-16	-16
Credit and suretyship (classes 14, 15)	8	-1	-2	-1	4
Miscellaneous pecuniary losses (class 16)	13	-13	-5	2	-2
Legal assistance (class 17)	43	-23	-12	0	9
Assistance (class 18)	17	-6	-8	-1	2
2011					
Total	**1 880**	**-1 039**	**-637**	**-42**	**163**
Accepted reinsurance	37	6	-7	-10	26
Primary business	1 843	-1 046	-629	-32	136
Accident & health (classes 1 & 2, excl. industrial accidents)	146	-61	-51	0	33
Industrial accidents (class 1)	72	-52	-17	0	3
Motor, third-party liability (class 10)	549	-370	-172	-3	4
Motor, other classes (classes 3, 7)	328	-196	-103	0	28
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	42	-32	-10	9	8
Fire and other damage to property (classes 8, 9)	505	-224	-204	-29	49
General third-party liability (class 13)	118	-65	-44	-4	5
Credit and suretyship (classes 14, 15)	5	0	-2	-1	1
Miscellaneous pecuniary losses (class 16)	16	-9	-7	-3	-3
Legal assistance (class 17)	45	-26	-13	0	7
Assistance (class 18)	19	-10	-7	0	2

- The figures include intragroup insurance contracts concluded between the insurance and banking businesses (see Note 9).

Note 12: Operating expenses

(in millions of EUR)	2010	2011
Total	**-4 436**	**-4 344**
Staff expenses	-2 529	-2 569
of which share-based payment (equity-settled)	0	0
of which share-based payment (cash-settled)	0	-4
General administrative expenses	-1 546	-1 449
Depreciation and amortisation of fixed assets	-361	-326

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. The figure includes expenses related to the special tax imposed on financial institutions in Hungary (58 million euros for 2010 and 6 million euros for 2011, deductible expense. The amount was lower in 2011, because a portion of the losses incurred by the group as a result of the new law on foreign-currency mortgages could be set off against the bank tax due in Hungary (see below)).
- 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. 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.

Options	2010 Number of options[1]	2010 Average exercise price	2011 Number of options[1]	2011 Average exercise price
Outstanding at beginning of period	978 045	48.09	666 596	49.89
Granted during period	0	–	0	–
Exercised during period	-4 527	28.41	0	–
Expired during period	-306 922	44.47	-35 600	41.98
Forfeited during period	0	–	0	–
Outstanding at end of period[2]	**666 596**	**49.89**	**630 996**	**50.34**
Exercisable at end of period	**651 996**	**49.07**	**623 696**	**50.05**

1 In share equivalents.
2 2010: range of exercise prices: 27.8–97.94 euros; weighted average residual term to maturity: 25 months.
2011: range of exercise prices: 27.8–97.94 euros; weighted average residual term to maturity: 14 months.

Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts' section. As was the case in 2010, this did not result in the recognition of an employee benefit as the issue price was not lower than the market price.
Information regarding the (highest, lowest, average) price of the KBC share can be found under 'Information for shareholders and bondholders' in the 'Report of the Board of Directors' section.
The main cash-settled share-based payment arrangements concern 4 million euros in costs related to a phantom stock plan (included under 'Staff expenses' for 2011).

Note 13: Personnel

	2010	2011
Total average number of persons employed (in full-time equivalents)	**52 110**	**51 127**
Breakdown by legal entity		
KBC Bank	38 972	37 663
KBC Insurance	7 496	7 377
KBC Group NV (holding company)	5 642	6 087
Breakdown by employee classification		
Blue-collar staff	1 022	928
White-collar staff	50 693	49 835
Senior management	395	364

- KBL EPB is excluded from the figures.
- The figures in the table are annual averages and may differ from the end-of-year totals shown in the 'Corporate social responsibility' section (where the figures for the workforce also exclude Fidea and WARTA, and members of staff who have been inactive for more than one year).

Note 14: Impairment (income statement)

(in millions of EUR)	2010	2011
Total	**-1 656**	**- 2 123**
Impairment on loans and receivables	**-1 483**	**-1 333**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-1 452	-1 316
Provisions for off-balance-sheet credit commitments	-19	17
Portfolio-based impairment	-12	-33
Breakdown by business unit		
Belgium	-82	-59
Central & Eastern Europe	-340	-477
Merchant Banking	-789	-725
Group Centre	-272	-71
Impairment on available-for-sale assets	**-31**	**-417**
Breakdown by type		
Shares	-32	-114
Other	0	-303
Impairment on goodwill	**-88**	**-120**
Impairment on other	**-54**	**-253**
Intangible fixed assets, other than goodwill	0	-7
Property and equipment (including investment property)	-4	-30
Held-to-maturity assets	0	-66
Associated companies (goodwill)	-31	0
Other	-18	-150

- 'Impairment on loans and receivables' are accounted for primarily by loans and advances to customers.
  - Impairment charges in the Merchant Banking Business Unit included 0.5 billion euros (in both 2010 and 2011) for lending activities in Ireland, due to the economic situation in that country (especially on the real estate market).
  - In the Central & Eastern Europe Business Unit (477 million euros, compared to 340 million euros in 2010), impairment charges in 2011 amounted to 72 million euros in the Czech Republic (2010: 138 million euros), 10 million euros in Slovakia (2010: 52 million euros), 288 million euros in Hungary (2010: 133 million euros; the figure for 2011 was adversely affected by the new law on foreign-currency mortgages (see under 'Hungary' in the 'Central & Eastern Europe Business Unit' sub-section of the 'Report of the Board of Directors' section), 106 million euros in Bulgaria (2010: 15 million euros; the figure for 2011 was negatively impacted by additional provisioning for the legacy portfolio).
  - In 2011, impairment in the Group Centre included a net reversal of 41 million euros at Absolut Bank (2010: a net allocation of 21 million euros), 39 million euros at Kredyt Bank (2010: 112 million euros) and 25 million euros at Antwerp Diamond Bank (2010: 70 million euros).
- Impairment on available-for-sale assets and on held-to-maturity assets. In 2011, these headings included mainly impairment on shares (114 million euros, owing to the changing stock market climate) and impairment on Greek sovereign bonds (401 million euros, 30 million euros of which was recorded at KBL EPB and therefore recognised under 'Net post-tax result from discontinued operations'). No impairment was recognised on sovereign bonds issued by other European countries, due to the fact that there was no evidence on balance sheet date to suggest that future cashflows relating to these securities would be adversely affected. Impairment on Greek sovereign bonds was calculated as follows for 2011:
  - available-for-sale portfolio: the difference between amortised cost and fair value at year-end 2011, which resulted in a pre-tax impairment of 330 million euros being recognised in the income statement;
  - held-to-maturity portfolio: the difference between amortised cost and fair value at year-end 2011, which resulted in a pre-tax impairment of 71 million euros being recognised in the income statement;
  - consequently, the carrying value of Greek sovereign bonds at year-end 2011 was an average 29% of the nominal amount of the bonds in these portfolios;
  - bonds held in the trading book and the portfolio designated at fair value through profit or loss: already recorded at fair value, so no additional adjustment is required.

- Impairment on goodwill. In 2011, this heading included *inter alia* 68 million euros in relation to Bulgaria (due to the deteriorated economic situation and the lower estimated cashflows from Bulgarian activities discounted at a higher discount rate). In 2010, it had included *inter alia* 54 million euros for group companies in Poland and Romania. In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use. It should be noted that impairment on goodwill in relation to KBL EPB was recognised under 'Net post-tax result from discontinued operations', as required under IFRS 5. For more information on goodwill, see Note 34.
- Impairment on other. In 2010, this heading had included primarily impairment charges of 31 million euros for the minority shareholding in Nova Ljubljanska banka (based on higher loan losses). In 2011, it included 138 million euros relating to the agreement to sell Fidea below its carrying value. As regards Fidea's available-for-sale portfolio, parent shareholders' equity included an unrealised gain of 41 million euros (after tax) at year-end 2011, which will be transferred from equity to profit or loss when the sale is completed (at the latest).
- For information on total impairment recognised in the balance sheet, see Note 21.

Note 15: Share in results of associated companies

(in millions of EUR)	2010	2011
Total	**-63**	**-58**
of which Nova Ljubljanska banka	-64	-59

- Impairment on (goodwill on) associated companies is included in 'Impairment' (see Note 14). The share in results of associated companies does not therefore take this impairment into account.

Note 16: Income tax expense

(in millions of EUR)	2010	2011
Total	**-82**	**-320**
Breakdown by type		
Current taxes on income	-358	-328
Deferred taxes on income	276	7
Tax components		
Result before tax	2 224	786
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-756	-267
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	162	104
tax-free income	323	466
adjustments related to prior years	18	9
adjustments, opening balance of deferred taxes due to change in tax rate	4	-5
unused tax losses and unused tax credits to reduce current tax expense	0	11
unused tax losses and unused tax credits to reduce deferred tax expense	604	72
reversal of previously recognised deferred tax assets due to tax losses	-13	-37
other (mainly non-deductible expenses)	-425	-672
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised*	**687**	**692**

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

- For information on tax assets and tax liabilities, see Note 31.
- 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.

Note 17: Earnings per share

(in millions of EUR)	2010	2011
Basic earnings per share		
Result after tax, attributable to equity holders of the parent	1 860	13
Coupon/penalty premium on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-595	-670
Net result used to determine basic earnings per share	1 265	-657
Weighted average number of shares outstanding ('000 of units)	339 737	339 774
Basic earnings per share (in EUR)	3.72	-1.93
Diluted earnings per share		
Result after tax, attributable to equity holders of the parent	1 860	13
Coupon/penalty premium on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-595	-670
Net result used to determine diluted earnings per share	1 265	-657
Weighted average number of shares outstanding ('000 of units)	339 737	339 774
Dilutive potential shares ('000 of units)*	4	0
Weighted average number of shares for diluted earnings ('000 of units)	339 741	339 774
Diluted earnings per share (in EUR)	3.72	-1.93

* No account taken of employee stock options (630 996 in 2011 and 662 875 in 2010) which are still outstanding and could have a dilutive impact if the market price exceeds the exercise price.

- For a definition of basic earnings per share and diluted earnings per share, see the 'Glossary of ratios used'.
- Overview of dilutive instruments:
  - freely convertible bonds: none;
  - options on KBC Group NV shares allocated to staff members: for more detailed information, see Note 12.

Notes on the financial assets and liabilities on the balance sheet

Financial assets and liabilities are grouped into categories. These categories are defined and relevant valuation rules provided under the heading 'Financial assets and liabilities (IAS 39)' in Note 1b. Whenever reference is made in this section to the category 'Designated at fair value', this should be taken to mean '*Designated at fair value through profit or loss*' (fair value option).

Following implementation of IFRS 5, the various balance sheet items of companies subject to this standard (see Note 46) have been reallocated to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). However, the reference figures have not been restated, which means that comparability of the figures has been slightly affected. This relates to KBL EPB in 2010 and to KBL EPB, Fidea and WARTA in 2011. To preserve comparability, a separate column has been added in Note 18, containing figures for reference date 31 December 2010 that exclude the divestments concluded in 2011 and divestments that fall under the scope of IFRS 5.

Note 18: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	Held for trading	Designated at fair value[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total	Total, excluding divestments in 2011[2]
FINANCIAL ASSETS, 31-12-2010									
Loans and advances to credit institutions and investment firms[a]	696	1 808	0	12 998	–	–	–	15 502[c]	15 487
Loans and advances to customers[b]	4 109	6 471	0	140 087	–	–	–	150 666	143 183
Discount and acceptance credit	0	0	0	119	–	–	–	119	114
Consumer credit	0	0	0	4 274	–	–	–	4 274	4 024
Mortgage loans	0	380	0	61 198	–	–	–	61 577	55 517
Term loans	4 109	6 025	0	61 548	–	–	–	71 681	70 750
Finance leasing	0	0	0	4 909	–	–	–	4 909	4 909
Current account advances	0	0	0	4 456	–	–	–	4 456	4 376
Other	0	66	0	3 583	–	–	–	3 649	3 494
Equity instruments	1 717	19	2 098	–	–	–	–	3 833	3 576
Investment contracts (insurance)	–	7 329	–	–	–	–	–	7 329	7 036
Debt instruments issued by	7 709	9 727	51 020	3 477	13 629	–	–	85 562	79 681
Public bodies	5 806	8 852	40 612	132	12 712	–	–	68 114	63 284
Credit institutions and investment firms	731	266	5 075	224	584	–	–	6 879	6 508
Corporates	1 172	610	5 333	3 122	333	–	–	10 569	9 890
Derivatives	15 758	–	–	–	–	213	–	15 970	15 968
Accrued interest income	299	192	1 025	463	325	73	–	2 378	2 246
Carrying value including accrued interest income	30 287	25 545	54 143	157 024	13 955	286	–	281 240	267 178
a of which reverse repos[3]								*2 284*	*2 284*
b of which reverse repos[3]								*9 486*	*9 486*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*6 866*	*6 857*
FINANCIAL ASSETS, 31-12-2011									
Loans and advances to credit institutions and investment firms[a]	4 600	305	0	14 253	–	–	–	19 158[c]	
Loans and advances to customers[b]	203	1 879	0	136 201	–	–	–	138 284	
Discount and acceptance credit	0	0	0	137	–	–	–	137	
Consumer credit	0	0	0	3 910	–	–	–	3 910	
Mortgage loans	0	178	0	57 253	–	–	–	57 431	
Term loans	203	1 531	0	61 880	–	–	–	63 614	
Finance leasing	0	11	0	4 647	–	–	–	4 658	
Current account advances	0	0	0	4 876	–	–	–	4 876	
Other	0	159	0	3 499	–	–	–	3 659	
Equity instruments	1 028	28	1 446	–	–	–	–	2 501	
Investment contracts (insurance)	–	7 652	–	–	–	–	–	7 652	
Debt instruments issued by	4 286	3 997	37 299	2 890	14 063	–	–	62 535	
Public bodies	3 101	3 594	29 183	224	13 365	–	–	49 467	
Credit institutions and investment firms	647	204	3 862	211	491	–	–	5 415	
Corporates	538	199	4 255	2 455	207	–	–	7 653	
Derivatives	16 750	–	–	–	–	624	–	17 375	
Accrued interest income	69	79	746	549	334	158	–	1 934	
Carrying value including accrued interest income	26 936	13 940	39 491	153 894	14 396	782	–	249 439	
a of which reverse repos[3]								*5 982*	
b of which reverse repos[3]								*1 429*	
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*11 721*	

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 Total excluding divestments finalised in 2011 (Centea) and announced divestments that already fall under the scope of IFRS 5 in 2011 (to enable comparison with the figures for 31 December 2011).
3 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	Total, excluding divestments in 2011[1]
FINANCIAL LIABILITIES, 31-12-2010									
Deposits from credit institutions and investment firms[a]	21	6 911	–	–	–	–	20 924	27 856[c]	27 802
Deposits from customers and debt securities[b]	648	20 971	–	–	–	–	176 252	197 870	189 518
Demand deposits	0	57	–	–	–	–	48 189	48 246	47 571
Time deposits	0	17 012	–	–	–	–	42 131	59 142	58 957
Savings deposits	0	0	–	–	–	–	40 245	40 245	34 056
Special deposits	0	0	–	–	–	–	4 005	4 005	4 005
Other deposits	0	0	–	–	–	–	1 281	1 281	1 276
Certificates of deposit	0	22	–	–	–	–	14 965	14 987	14 987
Customer savings certificates	0	0	–	–	–	–	2 155	2 155	858
Convertible bonds	0	0	–	–	–	–	0	0	0
Non-convertible bonds	648	3 600	–	–	–	–	14 427	18 674	18 674
Convertible subordinated liabilities	0	0	–	–	–	–	0	0	0
Non-convertible subordinated liabilities	0	280	–	–	–	–	8 854	9 134	9 134
Liabilities under investment contracts	–	6 514	–	–	–	–	179	6 693	6 463
Derivatives	22 317	–	–	–	–	849	–	23 166	23 165
Short positions	1 119	–	–	–	–	–	–	1 119	1 119
In equity instruments	10	–	–	–	–	–	–	10	10
In debt instruments	1 110	–	–	–	–	–	–	1 110	1 110
Other	0	145	–	–	–	–	2 564	2 709	2 644
Accrued interest expense	31	74	–	–	–	276	789	1 169	1 125
Carrying value including accrued interest expense	24 136	34 615	–	–	–	1 124	200 707	260 582	251 837
a of which repos[2]								*8 265*	*8 212*
b of which repos[2]								*15 398*	*15 398*
c of which deposits from banks repayable on demand								*4 449*	*4 449*
FINANCIAL LIABILITIES, 31-12-2011									
Deposits from credit institutions and investment firms[a]	843	3 831	–	–	–	–	21 259	25 934[c]	
Deposits from customers and debt securities[b]	4 288	17 565	–	–	–	–	143 373	165 226	
Demand deposits	0	0	–	–	–	–	37 472	37 472	
Time deposits	3 774	13 277	–	–	–	–	42 010	59 061	
Savings deposits	0	0	–	–	–	–	32 624	32 624	
Special deposits	0	0	–	–	–	–	3 887	3 887	
Other deposits	0	0	–	–	–	–	1 417	1 417	
Certificates of deposit	0	20	–	–	–	–	4 597	4 617	
Customer savings certificates	0	0	–	–	–	–	710	710	
Convertible bonds	0	0	–	–	–	–	0	0	
Non-convertible bonds	514	4 167	–	–	–	–	12 694	17 375	
Convertible subordinated liabilities	0	0	–	–	–	–	0	0	
Non-convertible subordinated liabilities	0	101	–	–	–	–	7 961	8 063	
Liabilities under investment contracts	–	7 014	–	–	–	–	0	7 014	
Derivatives	21 699	–	–	–	–	1 601	–	23 300	
Short positions	497	–	–	–	–	–	–	497	
In equity instruments	4	–	–	–	–	–	–	4	
In debt instruments	493	–	–	–	–	–	–	493	
Other	0	173	–	–	–	–	2 408	2 581	
Accrued interest expense	27	94	–	–	–	328	801	1 251	
Carrying value including accrued interest expense	27 355	28 678	–	–	–	1 929	167 842	225 804	
a of which repos[2]								*6 574*	
b of which repos[2]								*15 841*	
c of which deposits from banks repayable on demand								*8 472*	

1 Total excluding divestments finalised in 2011 (Centea) and announced divestments that already fall under the scope of IFRS 5 in 2011 (to enable comparison with the figures for 31 December 2011).

2 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 19: Financial assets and liabilities, breakdown by portfolio and geographic location

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2010								
Belgium	3 342	7 189	21 742	75 261	1 407	105	–	109 046
Central & Eastern Europe (including Russia)	8 439	986	10 694	36 327	9 172	180	–	65 799
Rest of the world	18 506	17 370	21 707	45 436	3 376	0	–	106 395
Carrying value including accrued interest income	30 287	25 545	54 143	157 024	13 955	286	–	281 240
FINANCIAL ASSETS, 31-12-2011								
Belgium	2 798	4 841	17 527	72 705	1 626	556	–	100 052
Central & Eastern Europe (including Russia)	7 907	808	7 213	37 562	8 575	226	–	62 290
Rest of the world	16 232	8 292	14 751	43 626	4 196	0	–	87 097
Carrying value including accrued interest income	26 936	13 940	39 491	153 894	14 396	782	–	249 439
FINANCIAL LIABILITIES, 31-12-2010								
Belgium	3 279	7 491	–	–	–	929	87 282	98 981
Central & Eastern Europe (including Russia)	1 142	5 501	–	–	–	124	44 234	51 001
Rest of the world	19 715	21 623	–	–	–	72	69 191	110 600
Carrying value including accrued interest expense	24 136	34 615	–	–	–	1 124	200 707	260 582
FINANCIAL LIABILITIES, 31-12-2011								
Belgium	1 301	9 455	–	–	–	1 750	78 407	90 913
Central & Eastern Europe (including Russia)	5 880	955	–	–	–	128	43 265	50 227
Rest of the world	20 174	18 268	–	–	–	52	46 170	84 663
Carrying value including accrued interest expense	27 355	28 678	–	–	–	1 929	167 842	225 804

Note 20: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2010								
At not more than one year	6 336	9 003	7 836	47 023	1 653	–	–	71 851
At more than one year	2 229	9 291	25 413	106 369	12 301	–	–	155 602
Not specified*	21 723	7 252	20 894	3 633	0	286	–	53 788
Total carrying value (including accrued interest income)	30 287	25 545	54 143	157 024	13 955	286	–	281 240
FINANCIAL ASSETS, 31-12-2011								
At not more than one year	6 768	2 064	5 165	52 631	1 345	–	–	67 971
At more than one year	2 390	4 228	32 709	97 330	13 052	–	–	149 709
Not specified*	17 779	7 648	1 617	3 933	0	782	–	31 759
Total carrying value (including accrued interest income)	26 936	13 940	39 491	153 894	14 396	782	–	249 439
FINANCIAL LIABILITIES, 31-12-2010								
At not more than one year	1 325	23 822	–	–	–	–	127 623	152 770
At more than one year	94	5 477	–	–	–	–	32 110	37 681
Not specified*	22 717	5 317	–	–	–	1 124	40 974	70 132
Total carrying value (including accrued interest expense)	24 136	34 615	–	–	–	1 124	200 707	260 582
FINANCIAL LIABILITIES, 31-12-2011								
At not more than one year	5 369	16 857	–	–	–	–	100 403	122 629
At more than one year	284	7 089	–	–	–	–	32 439	39 812
Not specified*	21 702	4 732	–	–	–	1 929	35 000	63 363
Total carrying value (including accrued interest expense)	27 355	28 678	–	–	–	1 929	167 842	225 804

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

- The difference between short-term financial assets and short-term financial liabilities reflects, among other things, the fundamental operation of a bank, i.e. converting short-term deposits into long-term loans. Consequently, the volume of deposits at not more than one year (recognised under financial liabilities) is greater than loans at not more than one year (recorded under financial assets), a ratio that indicates liquidity risk. More information on liquidity risk and how it is monitored is provided in the 'Value and risk management' section.

Note 21: Financial assets, breakdown by portfolio and quality

Impaired financial assets

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2010							
Unimpaired assets	30 287	25 545	53 825	151 403	13 955	286	275 301
Impaired assets	–	–	572	10 543	0	–	11 114
Impairment	–	–	-254	-4 921	0	–	-5 175
Total carrying value (including accrued interest income)	30 287	25 545	54 143	157 024	13 955	286	281 240
FINANCIAL ASSETS, 31-12-2011							
Unimpaired assets	26 936	13 940	39 196	148 229	14 377	782	243 461
Impaired assets	–	–	735	10 814	75	–	11 623
Impairment	–	–	-440	-5 149	-56	–	-5 645
Total carrying value (including accrued interest income)	26 936	13 940	39 491	153 894	14 396	782	249 439

- 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. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). More information is provided under ‘Credit risk’ in the ‘Value and risk management’ section.

Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for off-balance-sheet credit commitments*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2010						
Opening balance	127	280	6	3 667	302	111
Movements with an impact on results						
Impairment recognised	0	32	0	2 906	214	119
Impairment reversed	-1	0	0	-1 454	-199	-104
Movements without an impact on results						
Write-offs	-50	-11	0	-391	0	0
Changes in the scope of consolidation	0	-23	-5	-16	-2	0
Transfers to/from non-current assets held for sale and disposal groups	-55	0	0	-122	0	0
Other	-13	-32	0	4	11	-11
Closing balance	9	245	0	4 594	327	116
IMPAIRMENT, 31-12-2011						
Opening balance	9	245	0	4 594	327	116
Movements with an impact on results						
Impairment recognised	305	114	66	2 495	354	91
Impairment reversed	-1	0	0	-1 179	-311	-117
Movements without an impact on results						
Write-offs	0	-40	0	-642	0	0
Changes in the scope of consolidation	-3	-8	0	-75	-3	0
Transfers to/from non-current assets held for sale and disposal groups	-42	-34	-10	0	0	0
Other	-1	-104	0	-399	-12	-1
Closing balance	267	173	56	4 795	354	89

* These impairment losses are recognised on the liabilities side of the balance sheet. Changes in impairment losses of this kind are recorded under 'Impairment on loans and receivables' in the income statement.

- As regards 'Other' in 2011, the -104 million euros recorded under the 'Shares' column related to shares which were sold, and for which impairment charges had already been booked, while the -399 million euros recognised in the 'Individual impairment' column related largely to the reversal of impairment on the sale of Atomium bonds.
- For information regarding the impact of changes in impairment on the income statement, see Note 14.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Value and risk management' section.

Past due, but not impaired assets

(in millions of EUR)	Less than 30 days past due	30 days or more, but less than 90 days past due
31-12-2010		
Loans and advances	3 677	1 316
Debt instruments	0	1
Derivatives	0	0
Total	3 677	1 317
31-12-2011		
Loans and advances	3 643	2 039
Debt instruments	0	0
Derivatives	0	0
Total	3 643	2 039

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

Guarantees received

- See Notes 22 and 40.

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

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

Note 22: Maximum credit exposure

(in millions of EUR)			31-12-2010			31-12-2011
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	3 833	1	3 832	2 501	0	2 501
Debt instruments	85 562	0	85 562	62 535	0	62 535
Loans and advances	166 167	84 124	82 043	157 442	78 303	79 139
of which designated at fair value	8 279	7 935	344	2 185	1 904	281
Derivatives	15 970	1 536	14 434	17 375	1 485	15 889
Other (including accrued interest)	37 076	9 276	27 799	35 824	7 936	27 889
Total	**308 609**	**94 938**	**213 671**	**275 678**	**87 724**	**187 954**

- 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.
- Collateral received is recognised at market value and is limited to the outstanding amount of the relevant loans.

Note 23: 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 transactions are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity or client-driven.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and operating expenses. 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 measured 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 (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.
- Financial assets and liabilities that are measured at fair value are those classified as 'available-for-sale', 'held for trading', 'designated at fair value' and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not measured in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet (in millions of EUR)	**Loans and receivables**		**Financial assets held to maturity**		**Financial liabilities measured at amortised cost**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS, 31-12-2010						
Loans and advances to credit institutions and investment firms	12 998	13 168	–	–	–	–
Loans and advances to customers	140 087	141 209	–	–	–	–
Debt instruments	3 477	3 536	13 629	13 920	–	–
Accrued interest income	463	463	325	325	–	–
Total (including accrued interest income)	157 024	158 375	13 955	14 245	–	–
FINANCIAL ASSETS, 31-12-2011						
Loans and advances to credit institutions and investment firms	14 253	14 503	–	–	–	–
Loans and advances to customers	136 201	140 897	–	–	–	–
Debt instruments	2 890	2 868	14 063	14 347	–	–
Accrued interest income	549	549	334	334	–	–
Total (including accrued interest income)	153 894	158 818	14 396	14 681	–	–
FINANCIAL LIABILITIES, 31-12-2010						
Deposits from credit institutions and investment firms	–	–	–	–	20 924	21 347
Deposits from customers and debt securities	–	–	–	–	176 252	177 834
Liabilities under investment contracts	–	–	–	–	179	179
Other	–	–	–	–	2 564	2 564
Accrued interest expense	–	–	–	–	789	789
Total (including accrued interest expense)	–	–	–	–	200 707	202 713
FINANCIAL LIABILITIES, 31-12-2011						
Deposits from credit institutions and investment firms	–	–	–	–	21 259	21 206
Deposits from customers and debt securities	–	–	–	–	143 373	149 337
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 408	2 408
Accrued interest expense	–	–	–	–	801	801
Total (including accrued interest expense)	–	–	–	–	167 842	173 752

Note 24: Financial assets and liabilities measured at fair value – fair value hierarchy

(in millions of EUR)				31-12-2010				31-12-2011
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value								
Held for trading								
Loans and advances to credit institutions and investment firms	0	686	10	696	0	4 600	0	4 600
Loans and advances to customers	0	4 109	0	4 109	0	203	0	203
Equity instruments	537	187	993	1 717	170	108	749	1 028
Debt instruments	5 651	1 443	614	7 709	2 981	1 108	198	4 286
Derivatives	63	13 622	2 073	15 758	22	11 737	4 991	16 750
Accrued interest income	–	–	–	299	–	–	–	69
Designated at fair value								
Loans and advances to credit institutions and investment firms	0	1 808	0	1 808	0	305	0	305
Loans and advances to customers	0	6 445	26	6 471	0	1 852	27	1 879
Equity instruments	2	15	1	19	2	18	8	28
Investment contracts (insurance)	7 325	4	0	7 329	7 636	16	0	7 652
Debt instruments	9 097	256	373	9 727	3 642	218	136	3 997
Accrued interest income	–	–	–	192	–	–	–	79
Available for sale								
Equity instruments	1 665	35	398	2 098	1 111	76	259	1 446
Debt instruments	48 677	1 845	497	51 020	33 595	3 207	498	37 299
Accrued interest income	–	–	–	1 025	–	–	–	746
Hedging derivatives								
Derivatives	0	213	0	213	0	624	0	624
Accrued interest income	–	–	–	73	–	–	–	158
Total (including accrued interest income)	73 017	30 668	4 986	110 261	49 160	24 072	6 866	81 149
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	0	21	21	0	843	0	843
Deposits from customers and debt securities	0	624	24	648	0	4 285	4	4 288
Derivatives	44	15 868	6 406	22 317	56	12 201	9 442	21 699
Short positions	1 076	44	0	1 119	493	4	0	497
Other	0	0	0	0	0	0	0	0
Accrued interest expense	–	–	–	31	–	–	–	27
Designated at fair value								
Deposits from credit institutions and investment firms	0	6 911	0	6 911	0	3 831	0	3 831
Deposits from customers and debt securities	0	17 165	3 806	20 971	0	16 213	1 352	17 565
Liabilities under investment contracts	6 514	0	0	6 514	7 014	0	0	7 014
Other	0	0	145	145	0	0	173	173
Accrued interest expense	–	–	–	74	–	–	–	94
Hedging derivatives								
Derivatives	0	849	0	849	0	1 601	0	1 601
Accrued interest expense	–	–	–	276	–	–	–	328
Total (including accrued interest expense)	7 634	41 459	10 402	59 875	7 563	38 979	10 970	57 962

- 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
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, 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 the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

Note 25: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

In 2010, there were a number of substantial 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 the year before – 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, and positions totalling some 0.1 billion euros were reclassified from level 1 to level 2.

In 2011, KBC reclassified a number of bond positions from level 1 to level 2, due to the decrease in traded volumes. These positions totalled 1.2 billion euros, 0.2 billion euros of which relate to Greek bonds (figures exclude disposal groups). KBC believes that the fair value of Greek sovereign bonds can still be determined on the basis of observable inputs, due to the fact that prices are still being set by various market participants and those prices are in line with each other. In addition, the prices are updated regularly and bid and offer sizes are still being quoted. Furthermore, a small volume of bonds (approximately 0.1 billion euros' worth) was transferred out of level 2 and into level 1.

Note 26: Financial assets and liabilities measured at fair value – focus on level 3

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 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 instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	72	0	146	4 150	0	0	0	231	325	162	0
Gains or losses	8	20	0	-22	-671	-2	0	0	102	-6	1	0
in profit or loss*	8	20	0	-22	-671	-2	0	0	102	-9	9	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	3	-8	0
Purchases	0	21	0	140	9	0	1	0	7	121	0	0
Disposals	0	-14	0	-135	-6	0	0	0	-60	-32	0	0
Settlements	0	0	0	0	-1 838	0	0	0	2	0	-1	0
Transfers into level 3	2	902	0	479	116	28	0	0	43	100	335	0
Transfers out of level 3	0	0	0	0	-28	0	0	0	0	-109	0	0
Transfers into/out of non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	-8	0	8	341	0	0	0	2	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	46	0	0	0
Closing balance	10	993	0	614	2 073	26	1	0	373	398	497	0
Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period	8	20	0	117	-848	0	0	0	84	-3	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Other	Derivatives
Opening balance	0	105	0	5 579	20	0	0	3 414	0	168	0
Gains or losses	0	-89	0	-1 439	0	0	0	-149	0	-23	0
in profit or loss*	0	-89	0	-1 439	0	0	0	-149	0	-23	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	16	0	0	0	630	0	0	0
Repurchases	0	-1	0	-533	-22	0	0	-105	0	0	0
Transfers into level 3	28	0	0	2 496	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	-45	0	0	0	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	-7	9	0	331	2	0	0	17	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Closing balance	21	24	0	6 406	0	0	0	3 806	0	145	0
Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period	0	-89	0	-1 134	0	0	0	-2	0	0	0

* Recognised primarily in 'Net result from financial instruments at fair value', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2011
(in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	10	993	0	614	2 073	26	1	0	373	398	497	0
Gains or losses	0	-183	0	47	1 694	3	-1	0	-90	-7	-1	0
in profit or loss[1]	0	-183	0	47	1 694	3	-1	0	-90	0	5	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	-7	-5	0
Purchases	0	9	0	3	309	0	0	0	58	22	57	0
Disposals	-10	-72	0	-321	-428	-2	0	0	-1	-99	0	0
Settlements	0	0	0	-132	-1 245	0	0	0	-224	0	-28	0
Transfers into level 3	0	0	0	0	14	0	0	0	68	41	172	0
Transfers out of level 3	0	0	0	0	0	0	0	0	-43	0	-14	0
Transfers into/out of non-current assets held for sale	0	-8	0	0	0	0	8	0	-10	-75	-20	0
Translation differences	0	10	0	-14	74	1	1	0	5	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0	0
Other[2]	0	0	0	0	2 500	0	0	0	0	-21	-166	0
Closing balance	0	749	0	198	4 991	27	8	0	136	259	498	0
Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period	0	-127	0	-46	2 041	3	-1	0	0	0	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Other	Derivatives
Opening balance	21	24	0	6 406	0	0	0	3 806	0	145	0
Gains or losses	0	-14	0	520	0	0	0	-237	0	28	0
in profit or loss[1]	0	-14	0	520	0	0	0	-237	0	28	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	1 087	0	0	0	856	0	0	0
Repurchases	0	0	0	-1 527	0	0	0	0	0	0	0
Settlements	-20	-6	0	-405	0	0	0	-267	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	-2 806	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	-1	-1	0	150	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other[2]	0	0	0	3 211	0	0	0	0	0	0	0
Closing balance	0	4	0	9 442	0	0	0	1 352	0	173	0
Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period	0	-1	0	834	0	0	0	0	0	28	0

1 Recognised primarily in 'Net result from financial instruments at fair value', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.
2 The 'Other' amounts in the 'Derivatives' column under 'Held-for-trading' relate to an adjustment resulting from a refinement of the method for transferring derivatives on the balance sheet to the level 3 movements table. Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures given in the table.

- KBC uses a Gaussian Copula Mixture model to value all the remaining CDOs of KBC Financial Products. This model models the distribution of default moments and probabilities of the underlying corporate and ABS names. The asset default trigger in the model is derived from the credit default spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and is, therefore, simulated. The value for a CDO tranche is determined by discounting the cash-flows associated with the various default curves. 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 (including expected discounted coupons for the next six quarters) 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 the entire remaining (hedged and unhedged) portfolio of CDOs structured by KBC Financial Products. CDOs that have reached maturity or been sold or unwound are not included.

Profit/loss sensitivity test based on corporate and ABS credit spread indices (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010	0.9	0.3	0.2	-0.1	-0.3	-0.6
31-12-2011	0.8	0.3	0.1	-0.1	-0.2	-0.5

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined influence of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope of this test is the same as in the above table. A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.3 billion euros whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.8 billion euros (a loss of 0.4 billion euros and a gain of 0.7 billion euros, respectively, for 2010).
- 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 tests based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA* (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010						
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
31-12-2011						
MBIA 60%	0.5	0.3	0.2	0.1	0.0	-0.1
MBIA 70%	0.5	0.2	0.1	-0.1	-0.1	-0.3
MBIA 80%	0.4	0.0	-0.1	-0.2	-0.3	-0.5
MBIA 90%	0.3	-0.1	-0.2	-0.4	-0.4	-0.6
MBIA 100%	0.2	-0.2	-0.3	-0.5	-0.6	-0.8

* 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 test was carried out for this purpose (on positions at 31 December 2011). The current liquidity discount factor is 20%. If this factor were to fall to 15%, 0.01 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 0.02 billion euros would have to be set aside (adversely affecting results). (The equivalent figures for 2010 were 0.02 billion euros and 0.01 billion euros, respectively).
- 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 were to improve by 10% on its year-end 2010 and year-end 2011 levels, this would lead to an additional charge of 5 million euros and 2 million euros, respectively, while a similar improvement in KBC's subordinated credit spread would lead to an additional charge of 8 million euros and 6 million euros respectively.

Note 27: Changes in own credit risk

(in millions of EUR) ((+) profit (-) loss; amounts before tax)

OWN DEBT ISSUES DESIGNATED AT FAIR VALUE, 31-12-2010	
Impact of change in own credit spreads on the income statement	53
Total cumulative impact at balance sheet date	258
OWN DEBT ISSUES DESIGNATED AT FAIR VALUE, 31-12-2011	
Impact of change in own credit spreads on the income statement	484
Total cumulative impact at balance sheet date	742

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. Most of the financial liabilities designated at fair value through profit or loss relates to KBC IFIMA issues. The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 3.9 billion euros on 31 December 2011. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues is given in the table below.

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

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010	-0.2	-0.07	-0.04	+0.04	+0.07	+0.2
31-12-2011	-0.4	-0.15	-0.08	+0.08	+0.15	+0.4

- The main difference in profit/loss sensitivity between the end of 2010 and the end of 2011 was caused by the width of the spreads. The spread averaged 200 basis points at year-end 2010, whereas it was 480 basis points at year-end 2011. Consequently, the impact of a percentage increase or decrease in these spreads was much greater in 2011 than in 2010.
- If no account is taken of the effect of changes in own credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 28: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' (in millions of EUR) – situation at 31-12-2011

Carrying value			2 287
Fair value			2 071
	If not reclassified (available for sale)	**After reclassification (loans and receivables)**	**Impact**
Impact on the revaluation reserve (available-for-sale assets), before tax	-541	-353	188
Impact on the income statement, before tax	-14	5	19

- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.
- In 2011, 0.2 billion euros' worth of Hungarian municipal bonds were reclassified out of the 'available for sale' category into the 'loans and receivables' category.
- The above reclassifications had a combined positive impact of 188 million euros on equity and 19 million euros on the income statement (where – besides reversals of specific impairment – 5 million euros was also reversed for portfolio-based impairment on loans and receivables).
- Also in 2011, 1.9 billion euros' worth of high-rated government bonds were reclassified out of the 'available for sale' category into the 'held to maturity' category.

(in millions of EUR)	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2010																
Total	**15 758**	**22 317**	**716 047**	**696 729**	**30**	**101**	**4 466**	**4 466**	**178**	**529**	**19 938**	**19 907**	**5**	**218**	**5 457**	**5 457**
Breakdown by type																
Interest rate contracts	8 788	10 436	426 561	411 750	30	101	4 466	4 466	132	523	19 519	19 519	5	218	5 457	5 457
Interest rate swaps	7 734	9 894	373 901	371 458	30	101	4 466	4 466	132	523	19 519	19 519	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	39 885	18 765	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	29	10	262	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 566	1 829	198 207	199 446	0	0	0	0	46	6	418	387	0	0	0	0
Forward foreign exchange operations/currency forwards	191	267	100 451	99 908	0	0	0	0	0	1	34	34	0	0	0	0
Currency and interest rate swaps	1 144	1 329	74 560	75 623	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	23 180	23 899	0	0	0	0	0	1	81	91	0	0	0	0
Equity contracts	2 155	2 760	48 090	51 108	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 109	950	22 216	22 217	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	1 781	25 854	24 783	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	3 201	7 256	42 622	33 859	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	3 134	7 256	41 817	33 053	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	47	35	567	567	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2011																
Total	**16 750**	**21 699**	**593 601**	**572 961**	**212**	**350**	**6 209**	**6 209**	**406**	**1 058**	**24 495**	**24 490**	**6**	**194**	**4 497**	**4 497**
Breakdown by type																
Interest rate contracts	8 964	9 581	365 443	349 721	212	350	6 209	6 209	380	1 054	24 244	24 259	6	194	4 497	4 497
Interest rate swaps	7 865	8 998	285 443	285 526	212	350	6 209	6 209	380	1 054	24 244	24 259	6	194	4 497	4 497
Forward rate agreements	8	11	8 681	12 644	0	0	0	0	0	0	0	0	0	0	0	0
Futures	13	0	10 179	7 676	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 078	521	61 140	43 504	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	51	0	370	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 676	1 429	151 987	153 820	0	0	0	0	25	4	251	232	0	0	0	0
Forward foreign exchange operations/currency forwards	415	314	72 576	72 570	0	0	0	0	2	0	25	25	0	0	0	0
Currency and interest rate swaps	1 005	883	61 121	61 664	0	0	0	0	23	4	226	206	0	0	0	0
Futures	0	0	170	170	0	0	0	0	0	0	0	0	0	0	0	0
Options	255	233	18 120	19 416	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	2 629	3 507	40 708	43 277	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 400	1 856	35 074	35 445	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	4	1	4	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	1 224	1 639	5 630	7 336	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	1	12	1	492	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	3 453	7 162	34 956	25 639	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	3 453	7 162	34 956	25 639	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	28	19	507	504	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

- 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 73 million euros in 2010 and 158 million euros in 2011, while the accrued interest expense came to 276 million euros in 2010 and 328 million euros in 2011.
- The notional amounts (and the carrying values) exclude KBL EPB in 2010 and KBL EPB, WARTA and Fidea in 2011 (cf. IFRS 5). For additional information, see Note 46.
- 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 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 liabilities 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	51	-58
More than three but not more than six months	94	-106
More than six months but not more than one year	176	-236
More than one but not more than two years	333	-487
More than two but not more than five years	890	-1 128
More than five years	1 963	-2 571

Notes on other balance sheet items

Following implementation of IFRS 5, the various balance sheet items of companies subject to this standard (see Note 46) have been reallocated to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). However, the reference figures have not been restated, which means that comparability of the figures has been slightly affected. This relates to KBL EPB in 2010 and to KBL EPB, Fidea and WARTA in 2011.

Note 30: Other assets

(in millions of EUR)	31-12-2010	31-12-2011
Total	**2 172**	**1 871**
Debtors arising out of primary insurance operations	293	123
Debtors arising out of reinsurance operations	22	18
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	13	10
Income receivable (other than interest income from financial assets)	1 033	694
Other	811	1 026

Note 31: Tax assets and tax liabilities

(in millions of EUR)	31-12-2010	31-12-2011
CURRENT TAXES		
Current tax assets	167	201
Current tax liabilities	345	255
DEFERRED TAXES	**2 243**	**2 155**
Deferred tax assets by type of temporary difference	3 678	3 653
Employee benefits	230	205
Losses carried forward	960	982
Tangible and intangible fixed assets	83	82
Provisions for risks and charges	71	175
Impairment for losses on loans and advances	448	395
Financial instruments at fair value through profit or loss and fair value hedges	859	811
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	884	897
Technical provisions	62	45
Other	81	61
Unused tax losses and unused tax credits	980	1 441
Deferred tax liabilities by type of temporary difference	1 435	1 498
Employee benefits	33	36
Losses carried forward	0	0
Tangible and intangible fixed assets	128	116
Provisions for risks and charges	41	36
Impairment for losses on loans and advances	110	116
Financial instruments at fair value through profit or loss and fair value hedges	558	615
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	357	423
Technical provisions	27	10
Other	180	146
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	2 367	2 445
Deferred tax liabilities	123	290

- 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 (-88 million euros in 2011) breaks down as follows:
  - decrease in deferred tax assets: -26 million euros;
  - increase in deferred tax liabilities: +62 million euros.
- The change in deferred tax assets is accounted for by:
  - the increase in deferred tax assets via the income statement: +83 million euros (due primarily to losses carried forward (+25 million euros); provisions for risks and charges (+110 million euros); impairment relating to losses on loans and advances (-17 million euros); financial instruments at fair value through profit or loss (+13 million euros); employee benefits (-20 million euros); other (-31 million euros));
  - the increase in deferred tax assets consequent on the fall in the market value of cashflow hedges: +147 million euros;
  - the decrease in deferred tax assets due to changes in the scope of consolidation: -142 million euros;
  - the decrease in deferred tax assets on account of a significant rise in the market value of hedges of net investments in foreign operations: -101 million euros.

- The change in deferred tax liabilities is made up of the following:
  - the increase in deferred tax liabilities via the income statement: +75 million euros (owing primarily to financial instruments at fair value through profit or loss (+104 million euros); other (-25 million euros));
  - the increase in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +30 million euros;
  - the increase in deferred tax liabilities due to the increase in the market value of cashflow hedges: +23 million euros;
  - the decrease in deferred tax liabilities on account of changes in the scope of consolidation: -71 million euros.
- The deferred tax liabilities presented in the balance sheet are attributable primarily to KBC Bank and KBC Credit Investments. At the latter, they relate partially to the notional deduction of interest. A proposal to amend the law on notional interest deduction is currently being discussed. If the proposal is approved as it is currently formulated, KBC Credit Investments will have to accelerate the reduction of its deferred tax liabilities rather than gradually reducing them as it is currently doing. This would have a negative impact of around 55 million euros on the income statement in 2012 (based on figures calculated at year-end 2011; the actual amount will depend on the quarter in which the proposal is approved), although the negative effect would be neutralised in 2013 and 2014 as a gradual reduction would no longer be necessary.

Note 32: Investments in associated companies

(in millions of EUR)	31-12-2010	31-12-2011
Total	**496**	**431**
Overview of investments, including goodwill		
Nova Ljubljanska banka	488	424
Other	8	7
Goodwill on associated companies		
Gross amount	210	210
Accumulated impairment	-31	-31
Breakdown by type		
Unlisted	496	431
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2010**	**2011**
Opening balance (1 January)	608	496
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	-63	-58
Capital increase	0	5
Dividends paid	-1	-1
Share of gains and losses not recognised in the income statement	1	-12
Translation differences	0	2
Changes in goodwill	-31	0
Transfers to or from non-current assets held for sale and disposal groups	-15	0
Other movements	-3	0
Closing balance (31 December)	496	431

- 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 – 2010): total assets of 17.9 billion euros, total liabilities of 16.9 billion euros, total income of 0.6 billion euros and a result after tax (group share) of -0.2 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 14).

Note 33: Property and equipment and investment property

(in millions of EUR)	31-12-2010	31-12-2011
Property and equipment	**2 693**	**2 651**
Investment property	**704**	**758**
Rental income	60	63
Direct operating expenses from investments generating rental income	15	56
Direct operating expenses from investments not generating rental income	5	4

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2010					
Opening balance	1 712	176	1 003	2 890	762
Acquisitions	110	110	331	550	19
Disposals	-19	-19	-148	-186	-12
Depreciation	-82	-89	-52	-223	-24
Impairment					
Recognised	-3	0	-1	-4	-1
Reversed	2	0	0	2	0
Transfers to or from non-current assets held for sale and disposal groups	-158	-16	-30	-204	-39
Translation differences	23	2	8	32	4
Changes in the scope of consolidation	-3	0	-6	-10	-5
Other movements	-3	-2	-150	-154	1
Closing balance	1 579	160	954	2 693	704
of which accumulated depreciation and impairment	1 031	615	728	2 374	196
of which expenditure on items in the course of construction	45	0	6	52	–
of which finance lease as a lessee	0	0	1	1	–
Fair value 31-12-2010	–	–	–	–	862
2011					
Opening balance	1 579	160	954	2 693	704
Acquisitions	126	80	429	634	31
Disposals	-33	-1	-151	-185	-16
Depreciation	-84	-81	-43	-207	-28
Impairment					
Recognised	0	0	0	0	-30
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-11	-3	-2	-17	-29
Translation differences	-25	-2	-11	-38	-7
Changes in the scope of consolidation	-16	0	-25	-41	113
Other movements	-20	-2	-166	-187	20
Closing balance	1 516	150	985	2 651	758
of which accumulated depreciation and impairment	995	621	704	2 320	222
of which expenditure on items in the course of construction	46	0	7	53	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2011	–	–	–	–	892

- 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 5% and 33% for other equipment. No depreciation is charged for land.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on:
  - the current annual rental per building and projected changes in it;
  - an individual capitalisation rate per building.

Note 34: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2010					
Opening balance	2 918	201	155	42	3 316
Acquisitions	11	58	79	19	167
Disposals	0	0	-27	-9	-36
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-41	-62	-11	-115
Impairment					
Recognised	-88	0	0	0	-88
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-994	-10	-5	-1	-1 009
Translation differences	28	0	2	1	30
Changes in the scope of consolidation	-20	0	0	0	-20
Other movements	6	1	-2	6	11
Closing balance	1 861	208	140	47	2 256
of which accumulated amortisation and impairment	634	299	586	74	1 594
2011					
Opening balance	1 861	208	140	47	2 256
Acquisitions	2	69	58	17	147
Disposals	0	-1	-1	-7	-10
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-55	-52	-12	-119
Impairment					
Recognised	-120	0	-3	-4	-127
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-160	0	-1	-1	-162
Translation differences	-41	0	-4	-3	-48
Changes in the scope of consolidation	-2	0	0	0	-2
Other movements	-38	1	-3	3	-37
Closing balance	1 502	222	134	40	1 898
of which accumulated amortisation and impairment	754	189	584	0	1 527

- '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). This test is performed at least once a year and on a quarterly basis for investments where there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36 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, 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 (generally 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 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)	**31-12-2010**	**31-12-2011**	**Discount rates throughout the specific period of cashflow projections (31-12-2011)**
Absolut Bank	379	362	16.9%–10.3%
K&H Bank	248	219	16.6%–10.3%
ČSOB (Czech Republic)	267	254	*
ČSOB (Slovakia)	191	191	12.2%–10.1%
CIBANK	170	117	14.4%–10.3%
WARTA	159	–	–
DZI Insurance	145	130	14.4%–10.5%
Kredyt Bank	69	66	*
Rest	233	163	–
Total	**1 861**	**1 502**	**–**

* Via fair value analysis.

- The period to which the cashflow budgets and projections relate is primarily 20 years. This longer period is used to reflect the dynamism of the Central and Eastern European economies.
- The growth rate used to extrapolate the cashflow projections after the 20-year period is usually 2% above an inflation rate of 2%.
- A discount rate sensitivity analysis was performed. The discount rate for the first year was increased by 2% in absolute terms. Pursuant to the way in which discount rates (or changes in discount rates) are modelled, the increase in the discount rate for the first year is gradually and diminishingly carried forward as higher discount rates for the years ahead. Apart from the entities for which impairment had already been recorded in 2011 (CIBANK and DZI Insurance), only one entity from the above list (ČSOB in Slovakia) would be subject to impairment based on the additional stress scenario (the recoverable value would equal the carrying amount if the discount rate in the first year were to increase by an absolute rate of 0.4% and if this increase were to be gradually and diminishingly carried forward to the discount rates for subsequent years).

Note 35: Technical provisions, insurance

(in millions of EUR)	31-12-2010	31-12-2011
Technical provisions (before reinsurance) (i.e. gross figures)	**23 255**	**19 914**
Insurance contracts	10 425	8 156
Provision for unearned premiums and unexpired risk	532	342
Life insurance provision	6 580	5 194
Provision for claims outstanding	3 095	2 163
Provision for profit sharing and rebates	32	10
Other technical provisions	186	447
Investment contracts with DPF	12 830	11 758
Life insurance provision	12 768	11 674
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	62	83
Reinsurers' share	**280**	**150**
Insurance contracts	280	150
Provision for unearned premiums and unexpired risk	20	1
Life insurance provision	3	0
Provision for claims outstanding	257	148
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	**Gross**	**2010 Reinsurance**	**Gross**	**2011 Reinsurance**
INSURANCE CONTRACTS, LIFE				
Opening balance	5 904	16	6 678	4
Deposits excluding fees	980	0	686	0
Provisions paid	-524	0	-431	0
Accretion of interest	185	0	167	0
Cost of profit sharing	43	0	7	0
Exchange differences	38	0	-50	0
Transfers out of/into liabilities associated with disposal groups	-68	0	-1 344	-1
Changes in the scope of consolidation	-71	-14	0	0
Other movements	191	2	-91	0
Closing balance	6 678	4	5 623	3
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	4 340	268	3 746	276
Change in the provision for unearned premiums	28	5	-8	0
Payments regarding claims of previous years	-402	-27	-262	-9
Surplus/shortfall of claims provision in previous years	-238	-2	-174	10
Provisions for new claims	587	39	281	15
Transfers	0	0	0	0
Exchange differences	32	5	-41	-4
Transfers out of/into liabilities associated with disposal groups	0	0	-1 234	-121
Changes in the scope of consolidation	-726	-81	0	0
Other movements	124	69	209	0
Closing balance	3 746	276	2 533	147
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	11 768	0	12 830	0
Deposits excluding fees	1 492	0	782	0
Provisions paid	-469	0	-649	0
Accretion of interest	407	0	344	0
Cost of profit sharing	106	0	1	0
Exchange differences	3	0	-2	0
Transfers out of/into liabilities associated with disposal groups	-430	0	-1 297	0
Other movements	-47	0	-251	0
Closing balance	12 830	0	11 758	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are valued according to IAS 39 (deposit accounting). These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 18).
- Life insurance provisions are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical parameters that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key parameters:
  - Mortality and morbidity rates are based on standard mortality tables and adapted where necessary to reflect the group's own experience.
  - Expense assumptions are based on current expense levels and expense loadings.
  - The discount rate is generally equal to the technical interest rate (3–5%) and remains constant throughout the life of the policy, in some cases adjusted to take account of legal requirements and internal policy decisions.
- Assumptions for non-life claims provisioning are based on past claims experience (including assumptions in respect of claim numbers, claim payments, and claims handling costs), and adjusted to take account of such factors as anticipated market experience, claims inflation, and external factors such as court awards and legislation. Non-life provisions are generally not discounted except when long-term obligations and/or annuities (e.g., hospitalisation, industrial accidents) are involved.
- In 2011, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 36: Provisions for risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Provisions for off-balance-sheet credit commitments	Total
2010						
Opening balance	37	419	84	539	111	651
Movements with an impact on results						
Amounts allocated	25	37	11	73	119	192
Amounts used	-20	-79	-6	-106	0	-106
Unused amounts reversed	-1	-10	-5	-16	-104	-119
Transfers out of/into liabilities associated with disposal groups	-8	-3	-15	-26	0	-26
Changes in the scope of consolidation	0	0	0	0	0	0
Other movements	-6	23	2	20	-11	9
Closing balance	27	387	70	484	116	600
2011						
Opening balance	27	387	70	484	116	600
Movements with an impact on results						
Amounts allocated	24	382	21	427	91	518
Amounts used	-20	-39	-2	-61	0	-61
Unused amounts reversed	-3	-9	-3	-15	-117	-132
Transfers out of/into liabilities associated with disposal groups	0	-1	-7	-8	0	-8
Changes in the scope of consolidation	0	0	0	0	0	0
Other movements	-1	-26	-1	-28	-1	-29
Closing balance	27	695	78	800	89	889

- 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 (2010: 16 million euros, 2011: 16 million euros), the Central and Eastern European subsidiaries of KBC Bank (2010: 5 million euros in total, 2011: 1 million euros in total) and KBC Lease Deutschland (2010: 0 million euros, 2011: 6 million euros).
- As regards provisions for taxes and pending legal disputes:
  - the remaining amount of the provision for commercial disputes involving CDOs came to 0.06 billion euros at the end of 2011;
  - see Note 8 for information relating to the 5-5-5 product;
  - see the information on legal disputes in the bullet points below.
- '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 and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult, together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the Bruges court sitting in chambers. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court. However, the Belgian State has since lodged an appeal with the Indictment Division. 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 and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal 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 Kredietbank Luxembourgeoise (KBL European Private

Bankers SA, abbreviated to KBL EPB) accused of co-operation in tax evasion committed by customers of KBC Bank NV 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. On 31 May 2011, the Court of Cassation handed down a judgment confirming the decision of the Court of Appeal in Brussels. Consequently, the criminal case is now closed.

Note 37: Other liabilities

(in millions of EUR)	31-12-2010	31-12-2011
Total	**3 902**	**3 322**
Breakdown by type		
Retirement benefit obligations or other employee benefits	993	886
Deposits from reinsurers	93	69
Accrued charges (other than from interest expenses on financial liabilities)	839	727
Other	1 978	1 640

- For more information on retirement benefit obligations, see Note 38.

Note 38: Retirement benefit obligations

(in millions of EUR)	31-12-2010	31-12-2011
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 997	1 645
Current service cost	101	88
Interest cost	74	80
Plan amendments	-8	0
Actuarial gain (loss)	-156	129
Benefits paid	-133	-117
Exchange differences	2	4
Curtailments	-2	-2
Transfers under IFRS 5	-183	-11
Changes in the scope of consolidation	-28	-2
Other	-20	9
Defined benefit obligations at the end of the period	1 645	1 823
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 529	1 439
Actual return on plan assets	105	95
Employer contributions	82	125
Plan participant contributions	17	18
Benefits paid	-133	-117
Exchange differences	2	1
Settlements	0	-2
Transfers under IFRS 5	-115	-7
Changes in the scope of consolidation	-26	-1
Other	-22	6
Fair value of plan assets at the end of the period	1 439	1 557
of which financial instruments issued by the group	11	4
Funded status		
Plan assets in excess of defined benefit obligations	-204	-265
Unrecognised net actuarial gains	-231	-104
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	-2	0
Unfunded accrued/prepaid pension cost	-437	-372
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-512	-437
Net periodic pension cost	-74	-51
Employer contributions	82	125
Exchange differences	0	0
Transfers under IFRS 5	63	1
Changes in the scope of consolidation	2	0
Other	3	-11
Unfunded accrued/prepaid pension cost at the end of the period	-437	-372
Amounts recognised in the balance sheet		
Prepaid pension cost	75	80
Accrued pension liabilities	-512	-452
Unfunded accrued/prepaid pension cost	-437	-372
Amounts recognised in the income statement		
Current service cost	101	88
Interest cost	74	80
Expected return on plan assets	-73	-80
Adjustments to limit prepaid pension cost	-2	-1
Amortisation of unrecognised prior service costs	-8	0
Amortisation of unrecognised net gain (loss)	-1	-16
Employee contributions	-17	-18
Curtailments	-2	-2
Settlements	0	-1
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	74	51
Actual rate of return on plan assets	**6.9%**	**6.6%**

(in millions of EUR)	31-12-2010	31-12-2011
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	3.8%	4.6%
Expected rate of return on plan assets	5.2%	5.5%
Expected rate of salary increase	3.4%	3.1%
Rate of pension increase	0.5%	0.4%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	0

* Included under staff expenses (see Note 12).

- The pension claims of the staff of the various KBC group companies are covered by pension funds and group insurance schemes, the most important of which are defined benefit plans. The main defined benefit plans are those managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC which cover KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, and the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007). The assets of these first two plans are managed chiefly 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 leading up to his/her retirement. The annual funding requirements for these plans are determined based on standard actuarial cost methods.
- The expected return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the strategic asset allocation for the assets under management.
  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 anticipated long-term returns from shares and real estate.

Additional information regarding retirement benefit obligations (in millions of EUR)

Changes in main headings in the main table	**2007**	**2008**	**2009**	**2010**	**2011**
Defined benefit obligations	1 786	1 884	1 997	1 645	1 823
Fair value of plan assets	1 520	1 293	1 529	1 439	1 557
Unfunded accrued/prepaid pension cost	-508	-512	-512	-437	-372
Composition of the group's largest pension plans		**shares**	**bonds**	**real estate**	**cash**
31-12-2010					
KBC pension fund		43%	45%	9%	3%
KBC Insurance group insurance scheme		8%	89%	2%	1%
31-12-2011					
KBC pension fund		33%	52%	9%	6%
KBC Insurance group insurance scheme		32%	51%	9%	8%
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities*	**2007**	**2008**	**2009**	**2010**	**2011**
Impact on plan assets	-1	0	0	0	0
Impact on gross liabilities	-7	-88	-18	-84	-76
Contributions expected in 2012					
KBC pension fund					92
KBC Insurance group insurance scheme					7

*Arising from defined benefit plans. A plus sign signifies a positive impact, a minus sign a negative impact; relates to all pension plans combined in the above section.

Note 39: Parent shareholders' equity and non-voting core-capital securities

In number of shares	31-12-2010	31-12-2011
Ordinary shares	357 938 193	357 980 313
of which ordinary shares that entitle the holder to a dividend payment	*344 557 548*	*344 619 736*
of which treasury shares	*18 171 795*	*18 169 054*
Mandatorily convertible bonds	0	0
Non-voting core-capital securities	237 288 134	220 338 982
Additional information		
Par value per share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0

MOVEMENTS TABLE In number of shares	**Ordinary shares**	**Non-voting core-capital securities**
2010		
Opening balance	357 918 125	237 288 134
Issue of shares/core-capital securities	20 068	0
Conversion of mandatorily convertible bonds into shares	0	0
Other movements	0	0
Closing balance	357 938 193	237 288 134
2011		
Opening balance	357 938 193	237 288 134
Issue of shares/core-capital securities	42 120	-16 949 152
Conversion of mandatorily convertible bonds into shares	0	0
Other movements	0	0
Closing balance	357 980 313	220 338 982

- Ordinary shares: the share capital of KBC Group NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- Treasury shares: at year-end 2011, the companies belonging to the KBC group held 18 169 054 ordinary KBC shares in portfolio. These were primarily treasury shares repurchased under the earlier share buy-back programmes and treasury shares needed for the employee stock option plans. The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended.
- For information on stock option plans, see Note 12.
- For information on the authorisation to increase capital and on the capital increase for personnel, see the 'Company annual accounts' section.
- Preference shares (366 million euros at year-end 2010; 370 million euros at year-end 2011) are not included in 'Parent shareholders' equity', but in 'Minority interests'. These instruments meet the IAS 32 definition of equity instruments. 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 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 Flemish Region (each in the amount of 3.5 billion euros). The other features of the transactions are dealt with under 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section. On 2 January 2012, KBC made a first repayment to the Belgian State of 0.5 billion euros (plus a 15% penalty). This was recognised in the balance sheet at year-end 2011 (with 0.5 billion euros shifting from equity to liabilities and the penalty being deducted from equity by presenting it as a liability).

Note 40: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2010	31-12-2011
Credit commitments – undrawn amount		
Given	32 422	33 218
Irrevocable	20 799	21 291
Revocable	11 623	11 927
Received	1 139	1 090
Financial guarantees		
Given	12 180	12 456
Guarantees/collateral received	53 975	47 790
For impaired and past due assets	4 808	3 981
For assets that are not impaired or past due	49 167	43 809
Other commitments		
Given	144	147
Irrevocable	140	143
Revocable	4	4
Received	105	93
Carrying value of financial assets pledged bij KBC as collateral		
For liabilities	30 419	46 963
For contingent liabilities	4 151	4 682

- The definition of financial guarantees was changed in 2011 and the reference figures restated (see Note 1a).
- The fair value of financial guarantees is based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2011 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;
  - KBC Fund 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 received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	**Fair value of collateral received**		**Fair value of collateral sold or repledged**	
	31-12-2010	31-12-2011	31-12-2010	31-12-2011
Financial assets	15 423	10 470	9 015	7 018
Equity instruments	37	12	0	0
Debt instruments	15 199	10 255	9 015	7 018
Loans and advances	184	202	0	0
Cash	4	1	0	0
Other	0	4	0	0
Property and equipment	0	4	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession (in millions of EUR)	**31-12-2010**	**31-12-2011**
Non-current assets held for sale	0	0
Property and equipment	4	0
Investment property	0	170
Equity instruments and debt securities	43	0
Cash	218	237
Other	15	8
Total	281	414

Note 41: Leasing

(in millions of EUR)	**31-12-2010**	**31-12-2011**
Finance lease receivables		
Gross investment in finance leases, receivable	5 790	5 489
At not more than one year	1 668	1 464
At more than one but not more than five years	2 814	2 690
At more than five years	1 308	1 335
Unearned future finance income on finance leases	836	826
Net investment in finance leases	4 915	4 659
At not more than one year	1 440	1 277
At more than one but not more than five years	2 461	2 340
At more than five years	1 014	1 043
of which unguaranteed residual values accruing to the benefit of the lessor	12	10
Accumulated impairment for uncollectable lease payments receivable	192	191
Contingent rents recognised in income	105	104
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases*	856	430
At not more than one year	309	146
At more than one but not more than five years	519	260
At more than five years	28	23
Contingent rents recognised in income	2	0

* As from 2011, the residual values of operating leases have no longer been included in future aggregate minimum rentals (in 2010, 426 million euros).

- 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, and that channel is becoming increasingly important in Central Europe, too.
- Operational leasing involves primarily full service car leasing, which is sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 42: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)

	2010							2011						
	Subsidiaries	Associated companies	Joint ventures	Belgian State	Flemish Region	Other	Total	Subsidiaries	Associated companies	Joint ventures	Belgian State	Flemish Region	Other	Total
Assets	618	228	110	28 958	1 198	1 148	32 260	263	268	122	23 142	1 280	1 164	26 238
Loans and advances	55	107	73	71	0	1 119	1 425	58	154	85	762	0	1 137	2 196
Current account advances	2	1	0	0	0	367	369	2	1	0	0	0	379	381
Term loans	53	107	73	71	0	753	1 056	56	153	85	762	0	759	1 815
Finance leases	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	283	32	29	0	0	0	344	115	36	28	0	0	0	178
Trading securities	34	0	0	0	0	0	34	0	0	0	0	0	0	0
Investment securities	250	32	29	0	0	0	310	115	36	28	0	0	0	178
Other amounts receivable	280	88	8	28 888	1 198	28	30 490	91	78	9	22 380	1 280	26	23 864
Liabilities	934	174	32	294	0	23	1 457	741	146	30	166	0	25	1 109
Deposits	902	133	32	176	0	22	1 266	733	134	30	0	0	25	922
Deposits	902	132	32	176	0	22	1 264	732	133	30	0	0	25	920
Other	1	1	0	0	0	0	2	1	1	0	0	0	0	2
Other financial liabilities	23	20	0	0	0	0	43	5	0	0	0	0	0	5
Debt certificates	1	20	0	0	0	0	21	0	0	0	0	0	0	0
Subordinated liabilities	22	0	0	0	0	0	22	5	0	0	0	0	0	5
Share-based payments (granted)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share-based payments (exercised)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	9	21	0	118	0	1	148	3	12	0	166	0	0	182
Income statement	-14	0	2	951	39	39	1 018	12	0	4	957	42	42	1 056
Net interest income*	15	3	2	951	39	40	1 050	16	0	2	957	42	43	1 061
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	4	5	0	0	0	0	9	3	4	1	0	0	0	9
Net fee and commission income	-1	-3	0	0	0	-2	-5	0	-1	0	0	0	-2	-3
Other net income	3	0	0	0	0	1	4	4	0	0	0	0	1	6
General administrative expenses	-35	-5	0	0	0	0	-40	-12	-3	0	0	0	-2	-17
Guarantees														
Guarantees issued by the group							0							0
Guarantees received by the group							0							0

* Amount in the 'Other' column has been restated for 2010 (net interest income had not been included).

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV)*

(in millions of EUR)	2010	2011
Total*	**10**	**12**
Breakdown by type of remuneration		
Short-term employee benefits	7	6
Post-employment benefits	3	6
Defined benefit plans	3	6
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	52 100	35 100
Granted	0	0
Exercised	0	0
Composition-related changes	-17 000	-14 800
At the end of the period	35 100	20 300
Advances and loans granted to key management and partners	1	1

* 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' column in the first table comprises primarily KBC Ancora, Cera and MRBB. The recoverability of the claims outstanding in respect of Cera and KBC Ancora depends in part on the performance of the KBC group.
- All related-party transactions occur at arm's length.
- The Belgian State and Flemish Region are considered in the strict sense only (i.e. excluding companies controlled by these parties).
- 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. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- 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 2011 results is the related cost (-79 million euros) which is recognised in 'Net result from financial instruments at fair value through profit or loss'.
- In 2011, KBC paid a coupon on the non-voting core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009 (595 million euros). KBC repaid 0.5 billion euros in principal (and paid a 15% penalty) to the Belgian Federal Government on 2 January 2012. This was recognised in the balance sheet at year-end 2011 (with 0.5 billion euros shifting from equity to liabilities and the penalty being deducted from equity by presenting it as a liability).

Note 43: Statutory auditor's remuneration

In 2011, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 15 530 397 euros for standard audit services (15 659 361 euros in 2010). Remuneration paid for other services came to 4 105 087 euros in 2011 (3 041 628 euros in 2010), viz.: other certifications: 1 282 382 euros; tax advice: 174 338 euros; other non-audit assignments: 2 648 367 euros (1 058 666, 143 773 and 1 839 189 euros, respectively, in 2010).

Note 44: Principal subsidiaries and associated companies at year-end 2011

Company	Registered office	Ownership percentage at group level	Business unit*	Activity
KBC BANK				
Fully consolidated subsidiaries				
Absolut Bank	Moscow – RU	99.00	GC	Credit institution
Antwerp Diamond Bank NV	Antwerp – BE	100.00	GC	Credit institution
CBC Banque SA	Brussels – BE	100.00	B	Credit institution
CIBANK AD	Sofia – BG	100.00	CEE	Credit institution
ČSOB a.s. (Czech Republic)	Prague – CZ	100.00	CEE	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100.00	CEE	Credit institution
KBC Asset Management NV	Brussels – BE	100.00	B	Asset management
KBC Bank NV	Brussels – BE	100.00	B/MB/GC	Credit institution
KBC Bank Deutschland AG	Bremen – DE	100.00	GC	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	MB	Issuance of trust preferred securities
KBC Bank Ireland Plc	Dublin – IE	100.00	MB	Credit institution
KBC Clearing NV	Amsterdam – NL	100.00	MB	Clearing
KBC Commercial Finance NV	Brussels – BE	100.00	MB	Factoring
KBC Consumer Finance NV	Brussels – BE	100.00	B	Consumer finance
KBC Credit Investments NV	Brussels – BE	100.00	MB	Investment in credit-related securities
KBC Finance Ireland	Dublin – IE	100.00	GC	Lending
KBC Financial Products (group)	Various locations	100.00	GC	Equities and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	MB	Issuance of bonds
KBC Lease (group)	Various locations	100.00	MB/CEE/B	Leasing
KBC Private Equity NV	Brussels – BE	100.00	MB	Private equity
KBC Real Estate NV	Brussels – BE	100.00	MB	Real estate
KBC Securities NV	Brussels – BE	100.00	MB	Stock exchange broker, corporate finance
K&H Bank Rt.	Budapest – HU	100.00	CEE	Credit institution
Kredyt Bank SA (see Note 48)	Warsaw – PL	80.00	GC	Credit institution
Associated companies				
Nova Ljubljanska banka d.d. (group)	Ljubljana – SI	25.00	GC	Credit institution
KBC INSURANCE				
Fully consolidated subsidiaries				
ADD NV	Heverlee – BE	100.00	B	Insurance company
ČSOB Pojišťovna (Czech Republic)	Pardubice – CZ	100.00	CEE	Insurance company
ČSOB Poisťovňa a.s. (Slovak Republic)	Bratislava – SK	100.00	CEE	Insurance company
DZI Insurance	Sofia – BG	99.95	CEE	Insurance company
Fidea NV (sale agreement signed)	Antwerp – BE	100.00	GC	Insurance company
VAB Group	Zwijndrecht – BE	74.81	B	Automobile assistance
K&H Insurance Rt.	Budapest – HU	100.00	CEE	Insurance company
KBC Banka A.D.	Belgrade – RS	100.00	GC	Credit institution
KBC Group Re SA (formerly Assurisk)	Luxembourg – LU	100.00	B	Insurance company
KBC Insurance NV	Leuven – BE	100.00	B	Insurance company
TUiR WARTA S.A. (sale agreement signed)	Warsaw – PL	100.00	GC	Insurance company
Proportionately consolidated subsidiaries				
NLB Vita d.d.	Ljubljana – SI	50.00	GC	Insurance company
KBL EPB (sale agreement signed)				
Fully consolidated subsidiaries				
Brown, Shipley & Co. Limited	London – GB	99.91	GC	Credit institution
KBL Richelieu Banque Privée	Paris – FR	99.91	GC	Credit institution
KBL European Private Bankers SA	Luxembourg – LU	99.91	GC	Credit institution
KBL (Switzerland) Ltd.	Geneva – CH	99.90	GC	Credit institution
Merck Finck & Co.	Munich – DE	99.91	GC	Credit institution
Puilaetco Dewaay Private Bankers SA	Brussels – BE	99.91	GC	Credit institution
Theodoor Gilissen Bankiers NV	Amsterdam – NL	99.91	GC	Credit institution
VITIS Life SA	Luxembourg – LU	99.91	GC	Insurance company
KBC GROUP NV (other direct subsidiaries)				
Fully consolidated subsidiaries				
KBC Global Services NV	Brussels – BE	100.00	GC	Group service provider
KBC Group NV	Brussels – BE	100.00	GC	Holding company

* Business unit abbreviations (for presentation in the results): B = Belgium; CEE = Central & Eastern Europe; MB = Merchant Banking; GC = Group Centre.

- As set out in the accounting policies, all (material) entities (including special purpose entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation. To assess whether or not special purpose entities have to be consolidated, KBC uses the principles set out in SIC 12, as well as materiality thresholds. Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (a) the group's share in equity exceeds 2.5 million euros (b) the group's share in the results exceeds 1 million euros (c) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total. A number of special purpose entities meet only one of these criteria, which means that (as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total) these entities are not effectively consolidated. This relates chiefly to the special purpose entities set up for CDO activities. Please note that these special purpose entities only exceed one of the materiality thresholds (balance sheet total) since their equity and net results are always very limited. However, the CDO-related results are recorded under KBC Financial Products, which is, of course, consolidated. Consequently, excluding these special purpose entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.
- For a complete list of the companies included in or excluded from the scope of consolidation, as well as the associated companies, as at 31 December 2011, see 'Additional information' and www.kbc.com.

Note 45: Main changes in the scope of consolidation

Company	Parent company	Consolidation method	Ownership percentage at group level		Comments
			31-12-2010	31-12-2011	
Additions					
None					
Exclusions					
Centea	KBC Bank	Full	100.00	–	Sold on 1 July 2011
Name changes					
Assurisk became KBC Group Re SA	KBC Insurance	Full	100.00	100.00	–
Changes in ownership percentage and internal mergers					
Nova Ljubljanska banka	KBC Bank	Equity	30.57	25.00	5.57% decrease
Absolut Bank	KBC Bank	Full	95.00	99.00	4.00% increase
KBC Consumer Finance NV	KBC Bank	Full	60.01	100.00	39.99% increase
DZI Insurance	KBC Insurance	Full	90.35	99.95	9.61% increase

Apart from the effect of the sale of Centea, changes in the scope of consolidation had only a limited impact on both the income statement and balance sheet in 2011. The sale of Centea was finalised on 1 July 2011, which means that the group results only include Centea's results for the first six months of 2011 (16 million euros after tax). Also see Note 8.

Note 46: Non-current assets held for sale and discontinued operations (IFRS 5)

- IFRS 5 specifies that a non-current asset (or disposal group) is to be classified as held for sale if its carrying amount will be recovered primarily through a sales transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. To assess whether a sale is highly probable, IFRS 5 sets out a number of conditions that have to be met before it can be applied, viz.:
  1 Management is committed to a plan to sell.
  2 An active programme to locate a buyer and complete the plan is initiated.
  3 The target price is reasonable in relation to its current fair value.
  4 The sale is within 12 months of classification.
  5 It is unlikely that the plan will be significantly changed or withdrawn.
- If all five of the above conditions are met, the assets and liabilities of the divestments are presented under a separate heading in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). As permitted under IFRS, the reference figures have not been restated. If the disposal groups are also classified as discontinued operations, their results (and the reference figures) are recognised under a single heading in the income statement, i.e. 'Net post-tax result from discontinued operations'.
- The following companies fell under the scope of IFRS 5 (major divestments not yet completed):
  - At year-end 2010: KBL EPB;
  - At year-end 2011: KBL EPB, Fidea, WARTA;
  - Please note that KBL EPB is also classified as a 'discontinued operation'.
- The other participating interests qualifying for divestment had not met the relevant conditions at year-end. For some, the sale is not planned to take place within 12 months, and/or the sales project has not yet been initiated, and/or it is too early to ascertain whether the targeted sales price is feasible given the current volatility on the financial markets, which means that significant changes could still be made to the plan. Please also note that IFRS 5 does not apply either to the discontinuation of activities through gradual run-down (e.g., the part of the international loan portfolios that is being run down).
- The following information relates to divestment(s) that fell within the scope of IFRS 5 at year-end 2011.

KBL EPB
Activity: Credit institution
Segment: Group Centre
Description: It was announced in March 2011 that the original agreement the group had reached with the Hinduja Group regarding the sale of KBL EPB would not go ahead. The sales process was subsequently restarted and KBC reached an agreement with Precision Capital in October 2011 for the sale of KBL EPB for around 1 billion euros. The deal will free up a total of around 0.7 billion euros of capital for KBC, boosting its tier-1 ratio by some 0.6%. It also had a negative impact of approximately 0.4 billion euros, which was recognised in the income statement in the third quarter of 2011. KBC will continue to provide private banking services in Belgium and in Central and Eastern

Europe under the KBC brand name. At the time the annual report went to print, the deal had not yet been finalised.

Fidea
Activity: Insurance company
Segment: Group Centre
Description: In October 2011, KBC reached an agreement to sell Fidea to private equity group J.C. Flowers & Co. for around 0.2 billion euros. In total, this deal will free up some 0.1 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 1.8 billion euros, but also had a negative impact on KBC's results of about 0.1 billion euros. The deal will boost KBC's tier-1 ratio by around 0.1%. At the time the annual report went to print, the deal had not yet been finalised.

WARTA
Activity: Insurance company
Segment: Group Centre
Description: In January 2012, an agreement was reached with Talanx International AG for the sale of WARTA in Poland for 770 million euros, a figure which will be adjusted to take account of changes in the net asset value between 30 June 2011 and the date of completion. Based on the figures at 30 September 2011, it is expected to release almost 0.7 billion euros of capital for KBC and boost its tier-1 ratio by just under 0.7%. When completed, the deal will have a positive impact of around 0.3 billion euros on KBC's income statement. At the time the annual report went to print, the deal had not yet been finalised.

(in millions of EUR)	**31-12-2010**	**31-12-2011**
A DISCONTINUED OPERATIONS		
Income statement		
Income statement, KBL EPB		
Net interest income	159	151
Net fee and commission income	381	349
Other net income	62	63
Total income	602	563
Operating expenses	-495	-437
Impairment	-42	-107
Share in results of associated companies	2	1
Result before tax	66	19
Income tax expense	-19	6
Result after tax	47	25
Result from sale agreement for KBL EPB		
Impairment recognised on remeasurement to fair value less costs to sell	-301	-444
Tax income relating to remeasurement to fair value less costs to sell (deferred taxes)	0	0
Result from sale (after taxes)	-301	-444
Net post-tax result from discontinued operations	**-254**	**-419**
Cashflow statement, KBL EPB	**2010**	**2011**
Net cash from or used in operating activities	202	2 200
Net cash from or used in investing activities	-84	-8
Net cash from or used in financing activities	-33	-569
Net cash inflows/outflows	85	1 623
Earnings per share from discontinued operations, KBL EPB	**2010**	**2011**
Basic	-0.75	-1.23
Diluted	-0.75	-1.23
Commitments, KBL EPB	**31-12-2010**	**31-12-2011**
Credit commitments – undrawn amount (given)	2 774	3 053
Credit commitments – undrawn amount (received)	2 621	2 682
Financial guarantees (given)	4 403	3 378
Financial guarantees (received)	3 982	5 218
Other commitments (given)	594	39
Other commitments (received)	0	0

(in millions of EUR)

Derivatives – notional amounts, KBL EPB	2010 assets/liabilities	2011 assets/liabilities
Held for trading		
Interest rate contracts	17 857 / 17 857	12 810 / 12 810
Foreign exchange contracts	5 244 / 5 267	8 392 / 8 326
Equity contracts	2 847 / 2 847	2 597 / 2 597
Credit contracts	1 / 1	2 / 2
Commodity and other contracts	15 / 15	19 / 19
Micro hedging: fair value hedge		
Interest rate contracts	553 / 553	1 235 / 1 235
Foreign exchange contracts	7 / 9	7 / 10
Equity contracts	0 / 0	0 / 0
Portfolio hedge of interest rate risk		
Interest rate contracts	168 / 168	171 / 171

B NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS

Balance sheet (figures between brackets relate to discontinued operations)	31-12-2010	31-12-2011
Assets		
Cash and cash balances with central banks	437 (437)	1 076 (1 076)
Financial assets	11 359 (11 299)	16 797 (12 523)
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	7 (7)	12 (12)
Tax assets	83 (83)	110 (95)
Investments in associated companies	14 (14)	13 (13)
Investment property and other equipment	240 (234)	278 (224)
Goodwill and other intangible assets	690 (690)	352 (196)
Other assets	109 (101)	485 (103)
Total assets	12 938 (12 863)	19 123 (14 242)
Liabilities		
Financial liabilities	12 489 (12 489)	12 901 (12 710)
Technical provisions (before reinsurance)	466 (466)	4 533 (424)
Tax liabilities	11 (11)	38 (6)
Provisions for risks and charges	28 (28)	30 (22)
Other liabilities	349 (348)	631 (304)
Total liabilities	13 341 (13 341)	18 132 (13 466)
Other comprehensive income	**2010**	**2011**
Available-for-sale reserve	9 (8)	-81 (-72)
Deferred tax on above reserve	-6 (-6)	29 (20)
Translation differences	10 (10)	7 (7)
Total	12 (12)	-45 (-46)

Note 47: Risk management

The information required in relation to the nature and amount of risks (in accordance with IFRS 4 and 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 statutory auditor. The section also includes information on exposure to the sovereign bonds of a selection of countries and on the portfolio of structured credit (see under 'Credit risk').

Note 48: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2011) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

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

- On 20 January 2012, agreement was reached for the sale of WARTA (Poland). For more information, see Note 46.
- On 23 January 2012, another part of KBC Private Equity's portfolio was divested. KBC Private Equity and the other shareholders of Dynaco Group NV (Dynaco) reached an agreement with Assa Abbloy AB for the acquisition of Dynaco. The deal is expected to be completed in the first half of 2012, following approval by the relevant anti-trust authorities. It will not have any significant impact on KBC's results or capital.
- In January 2012, two CDOs were unwound, which reduced the notional CDO exposure by a further 1.7 billion euros. This did not lead to any significant capital savings and had a negative post-tax impact of roughly 0.1 billion euros on the income statement.
- On 28 February 2012, Banco Santander SA and KBC announced that they had agreed to merge Bank Zachodni WBK SA and Kredyt Bank SA in Poland. With almost 900 branches and more than 3.5 million retail customers, the merged bank will be Poland's third largest in terms of deposits, loans, number of branches and profit. Following the proposed merger, Banco Santander will own approximately 76.5% of the merged bank and KBC around 16.4%. Banco Santander has undertaken

to help KBC reduce its stake in the merged bank from 16.4% to below 10% immediately after the merger. In addition, KBC intends to sell its remaining stake. Following the deconsolidation of Kredyt Bank as a result of the proposed merger, and after the committed reduction of KBC's holding to below 10% shortly after registration of the merger, approximately 0.7 billion euros' worth of capital will be released (based on market valuations at the time the deal was announced), predominantly based on a reduction in risk-weighted assets. This will have a positive impact on KBC's tier-1 capital of around 0.8%, or 0.9% when the group sells its entire shareholding (both percentages calculated at year-end 2011). Moreover, based on market valuations at the time it was announced, the deal will positively affect KBC's income statement by some 0.1 billion euros, which will be recognised when it is completed. The merger is subject to independent evaluation by Bank Zachodni WBK and Kredyt Bank, and to obtaining regulatory approval from the Polish Financial Supervision Authority and relevant competition clearance. Banco Santander has also undertaken to acquire Żagiel, KBC's consumer finance operation in Poland, at adjusted net asset value and likewise subject to obtaining competition clearance. For additional information, see the press release at www.kbc.com. The legal information and disclaimer provided in that press release apply in full.

- On 8 March 2012, an agreement was reached with Value Partners Ltd for the sale of KBC Asset Management's 49% stake in KBC Goldstate (China). The deal has yet to be approved by China's Ministry of Commerce and will not have any material impact on KBC's earnings or capital.
- On 8 March 2012, the Greek government sealed a debt swap deal with the private sector. The impact this will ultimately have on KBC's results – bearing in mind that KBC had already taken impairment charges on Greek sovereign bonds (-71% at year-end 2011) – depends on the fair value of the new bonds received in exchange for the old securities. This value will be determined in part by the market rate for Greek bonds when the exchange takes place. On 9 March 2012, the ISDA declared that Greece's debt restructuring was a credit event for CDS contracts, because the Greek government had used the collective-action clause to force unwilling bond holders to participate. Due to KBC's commitment towards retail customers holding 5-5-5 bonds, the group had already set aside a provision of 334 million euros by year-end 2011 (see Note 8). The final impact on KBC's results depends partly on the outcome of the auction being organised by the ISDA on 19 March for settling CDS contracts.

Note 49: General information (IAS 1)

- Name: KBC Group.
- Incorporated: 9 February 1935 as Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Legal form: *Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company that is subject to the prudential supervision of the National Bank of Belgium.
- Life: Indefinite.
- Object: The company is a financial holding company which has as its object the direct or indirect holding and management of participating interests in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions. The company also has as its object the provision of support services to third parties, as mandatary or otherwise, in particular to companies in which the company has a participating interest – either directly or indirectly (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 and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium. These documents can also be obtained from the company's registered office or downloaded from www.kbc.com. Decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the *Belgian Official Gazette*, in the financial press, in the media and on www.kbc.com.
- General Meeting of Shareholders: A General Meeting is held annually at the registered office of the company or at any other place indicated in the convening notice, at 10 a.m. on the first Thursday of May, or, if this day is a statutory public holiday or bank holiday, at 10 a.m. on the business day immediately preceding it.
- The right of a shareholder to attend the General Meeting and to exercise voting rights at said meeting is granted solely on the basis of the accounting record of the shares in the name of the shareholder on the record date, i.e. at midnight (Belgian time) on the fourteenth day before the General Meeting, either by entering the shares in the share register, by entering them on the accounts of a recognised account holder or clearing house, or by presenting any bearer shares to a financial intermediary, and this regardless of the number of shares that the shareholder possesses on the day of the General Meeting. The right of a holder of bonds, warrants or certificates issued in co-operation with the company, to attend the General Meeting is similarly granted solely on the basis of the accounting record of these securities in his/her name on the record date. Every shareholder and every holder of bonds, warrants or certificates issued in co-operation with the company, who wishes to attend the General Meeting, must, by no later than the sixth day before the day of the General Meeting, inform the company or a person so designated by the company of his/her intention to attend and also indicate the number of securities he/she wishes to represent. Holders of bearer or book-entry securities wishing to attend the General Meeting must also ensure that the company or a person so designated by the company, receives on the same day at the latest, a certificate supplied by the financial intermediary, the recognised account holder or the clearing house, which states the number of bearer or book-entry securities – submitted or registered in their name on their accounts on the registration date – they wish to represent when attending the General Meeting. The provisions of this Article also apply to the holders of profit-sharing certificates – which must be in registered or book-entry form – in the cases where such holders have the right to attend the General Meeting.

3 Company annual accounts

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 3 May 2012.

As required by law, the company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge on request from KBC Group NV, Investor Relations – IRO, Havenlaan 2, 1080 Brussels, Belgium. They can be consulted at www.kbc.com after they have been filed.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2010	31-12-2011
Fixed assets	**16 928**	**16 493**
Financial fixed assets	16 928	16 493
Affiliated companies	16 918	16 482
Participating interests	16 668	16 232
Amounts receivable	250	250
Companies linked by participating interests	11	11
Participating interests	1	1
Amounts receivable	10	10
Current assets	**431**	**1 907**
Amounts receivable within one year	25	21
Trade debtors	0	0
Other amounts receivable	25	20
Investments	370	1 849
Own shares	369	154
Other investments	0	1 695
Cash at bank and in hand	26	28
Deferred charges and accrued income	10	9
Total assets	**17 359**	**18 400**
Equity	**8 198**	**10 016**
Capital	1 245	1 245
Issued capital	1 245	1 245
Share premium account	4 336	4 337
Reserves	1 445	1 445
Legal reserve	124	125
Reserves not available for distribution	371	156
Untaxed reserves	190	190
Reserves available for distribution	760	975
Profit (Loss(-)) carried forward	1 171	2 989
Amounts payable	**9 162**	**8 384**
Amounts payable at more than one year	7 633	6 901
Financial debts	7 633	6 901
Subordinated loans	7 000	6 500
Non-subordinated bonds	633	401
Amounts payable within one year	1 491	1 457
Amounts payable at more than one year falling due within the year	200	730
Financial debts	424	113
Credit institutions	240	0
Other loans	184	113
Trade debts	1	6
Taxes, remuneration and social security charges	1	1
Remuneration and social security charges	1	1
Other amounts payable	865	607
Accrued charges and deferred income	37	26
Total liabilities	**17 359**	**18 400**

Company profit and loss account (B-GAAP)

(in millions of EUR)	31-12-2010	31-12-2011
Operating income	3	2
Other operating income	3	2
Operating charges	31	57
Services and other goods	27	52
Remuneration, social security charges and pensions	4	5
Operating profit (loss (-))	**-28**	**-56**
Financial income	45	3 226
Income from financial fixed assets	33	3 216
Income from current assets	4	8
Other financial income	7	3
Financial charges	709	921
Debt charges	641	706
Write-downs on current assets: increase (decrease (-))	67	215
Other financial charges	1	1
Profit (Loss (-)) on ordinary activities, before tax	**-693**	**2 249**
Extraordinary income	0	6
Gains on disposal of fixed assets	0	6
Extraordinary charges	266	434
Amounts written down on financial fixed assets	266	434
Profit (Loss (-)) for the period, before tax	**-959**	**1 821**
Income taxes	0	0
Profit (Loss (-)) for the period	**-959**	**1 821**
Profit (Loss (-)) for the period to be appropriated	**-959**	**1 821**

In this lay-out, charges are also depicted with a plus sign, as opposed to the way they are presented in the consolidated income statement.

Company profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2010	31-12-2011
Profit (Loss (-)) to be appropriated	**1 431**	**2 992**
Profit (Loss (-)) for the period to be appropriated	-959	1 821
Profit (Loss (-)) carried forward from the previous period	2 390	1 171
Transfers to equity	**0**	**0**
To the legal reserve	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**1 171**	**2 989**
Profit to be distributed	**260**	**3**
Dividends	258	3
Directors' entitlements	1	0
Other beneficiaries, employee profit-sharing	0	0

It will be proposed to the General Meeting of Shareholders that the profit for appropriation for the 2011 financial year be distributed as shown in the table. If this proposal is approved, the gross dividend will come to 0.01 euros per share entitled to dividend for the 2011 financial year. At present, Belgian withholding tax amounts to 25% (with 21% being charged for dividends paid on VVPR shares). In calculating the number of shares entitled to dividend (344 619 736), account was taken of the fact that dividends on 13 360 577 shares repurchased under the previous buyback programmes are suspended.

Note 1: Financial fixed assets (B-GAAP; non-consolidated)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2010	16 668	250	1	10
Acquisitions in 2011	0	0	0	0
Disposals in 2011	-2	0	0	0
Other changes in 2011	-434	0	0	0
Carrying value at 31-12-2011	**16 232**	**250**	**1**	**10**

KBC Group NV's participating interests in affiliated companies comprise mainly the shareholdings in:

- KBC Bank NV (99.99%);
- KBC Insurance NV (99.99%);
- KBC Asset Management NV (48.14%);
- KBL European Private Bankers SA (KBL EPB) (99.91%; agreement for the sale of this entity was reached in October 2011, but has not yet been finalised);
- KBC Global Services NV (99.99%).

The main change in 2011 related to an additional write-down of 434 million euros on the shareholding in KBL EPB.

The amounts receivable from affiliated companies are related to a subordinated perpetual loan of 250 million euros to KBC Bank NV. The amounts receivable from companies linked by participating interests are accounted for by the portion of a bond issued in 2005 by Nova Ljubljanska banka that KBC Group NV subscribed to.

Note 2: Changes in equity (B-GAAP; non-consolidated)

(in millions of EUR)	31-12-2010	Capital increase for staff	Appropriation of results	31-12-2011
Capital	1 245	0	0	1 245
Share premium account	4 336	0	0	4 337
Reserves	1 445	0	0	1 445
Profit (Loss) carried forward	1 171	0	1 818	2 989
Equity	**8 198**	**1**	**1 818**	**10 016**

At year-end 2011, the company's issued share capital amounted to 1 245 126 541.75 euros, represented by 357 980 313 shares. The share capital is fully paid up. In 2011, the share capital increased by 146 577.60 euros and the number of shares by 42 120. These new VVPR shares were issued as a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, and were reserved exclusively for the staff of KBC Group NV and some of its Belgian subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 14.63 euros and are not blocked, since the issue price was not less than the market price of the KBC share. By carrying out this capital increase, KBC Group NV aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2011 will also be entitled to dividend from the 2011 financial year (payment in 2012).

At year-end 2011, the number of VVPR strips issued came to 58 346 625 (a VVPR strip gives entitlement to the reduced rate of withholding tax on dividends).

The authorisation to increase capital may be exercised until 21 May 2014 for an amount of 899 208 331.32 euros. Based on a par value of 3.48 euros a share, a maximum of 258 393 198 new KBC Group NV shares can therefore be issued under this authorisation.

Note 3: Shareholders

Notifications received

The table below gives an overview of the notifications received in 2010 and 2011 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market. Article 10bis of the *Articles of Association* of KBC Group NV (which can be viewed at www.kbc.com) stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

Notifications* received in 2010 and 2011	Notification relating to	Explanation	Number of KBC shares (= voting rights) on date concerned	% of total voting rights on date concerned
BlackRock Inc.	2 February 2010	Size of holding moves below the 3% notification threshold	10 709 212	2.99%
BlackRock Inc.	4 August 2010	Size of holding exceeds the 3% notification threshold	10 810 030	3.02%
BlackRock Inc.	12 August 2010	Size of holding moves below the 3% notification threshold	10 693 173	2.99%
BlackRock Inc.	15 September 2010	Size of holding exceeds the 3% notification threshold	11 047 165	3.09%
BlackRock Inc.	2 March 2011	Size of holding moves below the 3% notification threshold	10 701 448	2.99%
BlackRock Inc.	6 June 2011	Size of holding exceeds the 3% notification threshold	10 833 173	3.03%
BlackRock Inc.	23 June 2011	Size of holding moves below the 3% notification threshold	10 392 675	2.90%
BlackRock Inc.	11 July 2011	Size of holding exceeds the 3% notification threshold	10 840 797	3.03%
BlackRock Inc.	2 December 2011	Size of holding moves below the 3% notification threshold	10 518 102	2.94%

* More detailed information can be found in the respective notification forms available at www.kbc.com.

Shareholder structure on 31 December 2011

The ‘Corporate governance statement’ section contains an overview of the shareholder structure at year-end 2011, based on all the notifications received pursuant to the Belgian Act of 2 May 2007.

Own shares held by KBC group companies

KBC shares held by	Address	Number of KBC shares
KBC Group Re SA (Assurisk)	5, Place de la Gare, 1616 Luxembourg, Grand Duchy of Luxembourg	300
KBC Bank NV*	Havenlaan 2, 1080 Brussels, Belgium	3 919 045
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2
Total		3 919 347
As a percentage of the total number of shares		*1.1%*
KBC Group NV itself	Havenlaan 2, 1080 Brussels, Belgium	14 249 707
Grand total		18 169 054
As a percentage of the total number of shares		*5.1%*

* Direct subsidiary.

The average par value of the KBC share came to 3.48 euros during 2011. The number of own shares held by group companies changed only slightly in 2011 (a decrease of 2 741 shares, par value of 0.009 million euros, or 0.0008% of the issued capital; sales price of the transferred shares: 0.1 million euros).
Please note that the number of shares shown in the table may differ from the number stated in the notifications pursuant to the Belgian Act of 2 May 2007, as a change in the number of shares held does not always give rise to a new notification.

Note 4: Balance sheet

At year-end 2011, total assets came to 18 400 million euros. 'Financial fixed assets' are discussed in Note 1. Listed under 'Current assets', 'Investments' came to 1 849 million euros, a year-on-year increase of 1 479 million euros relating to the short-term investment of the interim dividend received from KBC Bank in December 2011. 'Equity' amounted to 10 016 million euros and is dealt with in Note 2. At 8 384 million euros, 'Amounts payable' were down 778 million euros on their year-earlier level. The shifts between long-term and short-term debt categories within this heading arose because of the repayment of a 230-million-euro non-subordinated bond in 2012 and the agreed redemption of 500 million euros' worth of core-capital securities subscribed by the Belgian Federal Government (repaid in January 2012). The main reasons for the decline in total amounts payable were dividends to be paid (-255 million euros), the repayment of a non-subordinated bond (-200 million euros), the settlement of an advance in current account (-240 million euros) and the payment of an outstanding debt to a subsidiary (-101 million euros).

Note 5: Profit and loss account

KBC Group NV generated a net profit of 1 821 million euros in 2011, as opposed to a net loss of 959 million euros a year earlier.

The main financial income items and charges in 2011 were:

- dividend receipts from financial fixed assets totalling 3 210 million euros (just 28 million euros a year earlier);
- write-downs of 215 million euros, due to the marking to market of own shares in portfolio;
- the coupon payment on the core-capital securities issued to the Belgian Federal and Flemish Regional governments (595 million euros);
- the (15%) penalty (75 million euros) paid to the Belgian Federal Government in relation to the redemption of 500 million euros' worth of core-capital securities.

The main extraordinary charges in 2011 concerned an additional write-down of 434 million euros on KBL EPB.

Note 6: Statutory auditor's remuneration

In 2011, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 81 200 euros for standard audit services. Remuneration paid for non-audit services came to 269 032 euros, viz.: other certifications: 9 516 euros and other non-audit assignments: 259 516 euros.

Note 7: Branch offices

KBC Group NV does not have any branch offices (either in Belgium or abroad).

Note 8: Additional information

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, which also includes the 'Corporate governance statement' required by law.

4 Additional information

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. KBC used the proceeds of these transactions to strengthen the core capital of its banking activities by 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV).

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. from 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% (i.e. a 15% penalty) of the issue price as of the fourth year and will increase each subsequent year by 5 percentage points (with a cap at 150%).

On 2 January 2012, KBC paid an initial 500 million euros to the Belgian Federal Government, along with a 15% penalty (see the 'Exchange option' feature above). The Flemish Regional Government has agreed to waive its *pari passu* rights in respect of that repayment and in respect of additional repayments that are carried out before the end of 2012. The repayment of 2 January 2012 was recorded in the balance sheet at year-end 2011 (with 0.5 billion euros being moved from 'Equity' to 'Amounts payable' and the penalty being deducted from 'Equity' by presenting it as a debt).

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 (now 13.9 billion euros, see below), with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA. The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan). It should be noted at this point that, since the agreement was signed, the CDO exposure has been reduced and, therefore, the initial amounts have now changed. Amounts at year-end 2011 and the initial amount are presented in each case below.

- First tranche of 1.9 billion euros (initially 3.2 billion euros): KBC bears any credit losses in full.
- Second tranche of 1.6 billion euros (initially 2.0 billion euros): KBC 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 continues to bear 10% of the risk).
- Third tranche of 10.3 billion euros (initially 14.8 billion euros): 90% of any credit losses will be compensated in cash by the Belgian State (KBC continues to bear 10% of the risk).

This agreement mitigates a substantial part of the potential negative impact of the relevant MBIA and CDO exposure. Nevertheless, the results will remain volatile in the future, since rising or falling market values, for instance, could lead to existing valuation losses being reversed or fresh valuation losses being 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 has to pay a fee for this guarantee agreement. More information on its impact on the income statement can be found in Note 5 in the 'Consolidated financial statements' section.

Glossary of ratios used

Basic earnings per share
[result after tax, attributable to equity holders of the parent] / [average number of ordinary shares, less treasury shares]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

CAD ratio
[regulatory capital] / [total weighted risks]. For detailed calculations, see the 'Value and risk management' section.

Combined ratio (non-life insurance)
[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (after reinsurance in each case).

Cost/income ratio
[operating expenses of the banking activities] / [total income of the banking activities].

Cover ratio
[impairment on loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing loan ratio'. Where appropriate, the numerator may be limited to individual impairment on non-performing loans.

Credit cost ratio
[net changes in impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section (for example, governments bonds are not included).

Diluted earnings per share
[result after tax, attributable to equity holders of the parent, adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, less treasury shares, plus the dilutive effect of options (number of stock options allocated to staff with an exercise price less than the market price) and non-mandatorily convertible bonds]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

Equity market capitalisation
[closing price of KBC share] x [number of ordinary shares].

Net interest margin of the group
[underlying net interest income of the banking activities] / [average interest-bearing assets of the banking activities].

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].

Parent shareholders' equity per share
[parent shareholders' equity] / [number of ordinary shares, less treasury shares (at period-end)].

Return on allocated capital for a particular business unit
[result after tax (including minority interests) of a business unit, adjusted to take account of allocated capital instead of actual capital] / [average allocated capital of the business unit]. The result of a business unit is the sum of the net result recorded by all the companies in that business unit, adjusted to take account of allocated central overheads and the funding cost of goodwill paid. The capital allocated to a business unit is based on the risk-weighted assets for the banking activities and risk-weighted asset equivalents for the insurance activities.

Return on equity
[result after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

Solvency ratio (insurance)
[available solvency capital] / [minimum regulatory solvency capital].

(Core) Tier-1 ratio
[tier-1 capital] / [total weighted risks]. For detailed calculations, see the 'Value and risk management' section. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian Federal and Flemish Regional governments).

Management certification

'I, Luc Popelier, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

List of companies included in or excluded from the scope of consolidation, and associated companies as at 31 December 2011

Name	Registered office	National identification number	Share of capital held at group level (in %)*
KBC Bank: subsidiaries that are fully consolidated			
KBC Bank NV	Brussels – BE	0462.920.226	100
Commercial bank 'Absolut Bank' (ZAO)	Moscow – RU	–	99
Limited liability company 'Absolut Leasing'	Moscow – RU	–	99
Limited liability company Leasing company 'Absolut'	Moscow – RU	–	99
Antwerp Diamond Bank NV	Antwerp – BE	0404.465.551	100
ADB Asia Pacific Limited	Singapore – SG	–	100
Banque Diamantaire (Suisse) SA	Geneva – CH	–	100
CBC Banque SA	Brussels – BE	0403.211.380	100
Československá Obchodná Banka a.s.	Bratislava – SK	–	100
ČSOB Asset Management, správ. spol., a.s.	Bratislava – SK	–	100
ČSOB Factoring a.s.	Bratislava – SK	–	100
ČSOB Leasing a.s.	Bratislava – SK	–	100
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava – SK	–	100
ČSOB Stavebná Sporitel'ňa a.s.	Bratislava – SK	–	100
Istrofinance s.r.o.	Bratislava – SK	–	100
Československá Obchodní Banka a.s.	Prague – CZ	–	100
Auxilium a.s.	Prague – CZ	–	100
Bankovní Informační Technologie s.r.o.	Prague – CZ	–	100
Centrum Radlická a.s.	Prague – CZ	–	100
ČSOB Asset Management a.s.	Prague – CZ	–	100
ČSOB Factoring a.s.	Prague – CZ	–	100
ČSOB Investiční Společnost a.s.	Prague – CZ	–	100
ČSOB Investment Banking Service a.s.	Prague – CZ	–	100
ČSOB Leasing a.s.	Prague – CZ	–	100
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague – CZ	–	100
ČSOB Penzijní fond Stabilita a.s.	Prague – CZ	–	100
ČSOB Property Fund a.s.	Prague – CZ	–	100
Merrion Properties a.s.	Prague – CZ	–	100
Property Skalika s.r.o.	Bratislava – SK	–	100
Hypoteční Banka a.s.	Prague – CZ	–	100
CIBANK AD	Sofia – BG	–	100
Management of Assets for Sale – 2 EOOD	Sofia – BG	–	100
Katarino Spa Hotel EAD	Sofia – BG	–	100
IIB Finance Ireland	Dublin – IE	–	100
KBC Finance Ireland	Dublin – IE	–	100
KBC Asset Management NV	Brussels – BE	0469.444.267	100
KBC Asset Management SA	Luxembourg – LU	–	100
KBC Fund Management Limited	Dublin – IE	–	100
KBC Participations Renta B	Luxembourg – LU	–	100
KBC Participations Renta C	Luxembourg – LU	–	100
KBC Participations Renta SA	Luxembourg – LU	–	100
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warszawa – PL	–	94
KBC Bank Deutschland AG	Bremen – DE	–	100
KBC Bank Funding LLC II	New York – US	–	100
KBC Bank Funding LLC III	New York – US	–	100
KBC Bank Funding LLC IV	New York – US	–	100
KBC Bank Funding Trust II	New York – US	–	100
KBC Bank Funding Trust III	New York – US	–	100
KBC Bank Funding Trust IV	New York – US	–	100
KBC Bank Ireland Plc.	Dublin – IE	–	100
Bencrest Properties Limited	Dublin – IE	–	100
Boar Lane Nominee (Number 1) Limited	Dublin – IE	–	100
Boar Lane Nominee (Number 2) Limited	Dublin – IE	–	100
Boar Lane Nominee (Number 3) Limited	Dublin – IE	–	100
Danube Holdings Limited	Dublin – IE	–	100
Fermion Limited	Dublin – IE	–	100
Glare Nominee Limited	Dublin – IE	–	100
IIB Finance Limited	Dublin – IE	–	100
IIB Asset Finance Limited	Dublin – IE	–	100
IIB Commercial Finance Limited	Dublin – IE	–	100
IIB Leasing Limited	Dublin – IE	–	100
Lease Services Limited	Dublin – IE	–	100
IIB Homeloans and Finance Limited	Dublin – IE	–	100
Cluster Properties Company	Dublin – IE	–	100
Demilune Limited	Dublin – IE	–	100
KBC Homeloans and Finance Limited	Dublin – IE	–	100

Name	Registered office	National identification number	Share of capital held at group level (in %)*
Premier Homeloans Limited	Surrey – GB	–	100
Intercontinental Finance	Dublin – IE	–	100
Irish Homeloans and Finance Limited	Dublin – IE	–	100
KBC Mortgage Finance	Dublin – IE	–	100
KBC Nominees Limited	Dublin – IE	–	100
Linkway Developments Limited	Dublin – IE	–	100
Maurevel Investment Company Limited	Dublin – IE	–	100
Merrion Commercial Leasing Limited	Surrey – GB	–	100
Merrion Equipment Finance Limited	Surrey – GB	–	100
Merrion Leasing Assets Limited	Surrey – GB	–	100
Merrion Leasing Finance Limited	Surrey – GB	–	100
Merrion Leasing Industrial Limited	Surrey – GB	–	100
Merrion Leasing Limited	Surrey – GB	–	100
Merrion Leasing Services Limited	Surrey – GB	–	100
Monastersky Limited	Dublin – IE	–	100
Needwood Properties Limited	Dublin – IE	–	100
Phoenix Funding 2 Limited	Dublin – IE	–	100
Phoenix Funding 3 Limited	Dublin – IE	–	100
Phoenix Funding 4 Limited	Dublin – IE	–	100
Quintor Limited	Dublin – IE	–	100
Rolata Limited	Douglas – IM	–	100
KBC Clearing NV	Amsterdam – NL	–	100
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100
KBC Consumer Finance NV	Brussels – BE	0473.404.540	100
KBC Credit Investments NV	Brussels – BE	0887.849.512	100
KBC Financial Products UK Limited	London – GB	–	100
Baker Street Finance Limited	Jersey – GB	–	100
Baker Street USD Finance Limited	Jersey – GB	–	100
Dorset Street Finance Limited	Jersey – GB	–	100
Hanover Street Finance Limited	Jersey – GB	–	100
KBC Financial Products Hong Kong Limited	Hong Kong – HK	–	100
Pembridge Square Limited	Jersey – GB	–	100
Regent Street Finance Limited	Jersey – GB	–	100
Sydney Street Finance Limited	Jersey – GB	–	100
KBC Financial Holding Inc.	Wilmington – US	–	100
KBC Financial Products (Cayman Islands) Limited 'Cayman I'	George Town – KY	–	100
KBC Financial Products USA Inc.	Wilmington – US	–	100
Pacifica Group LLC	Wilmington – US	–	100
Equity Key LLC	Wilmington – US	–	100
Equity Key Real Estate Option LLC	San Diego – US	–	100
EK002 LLC	San Diego – US	–	100
EK003 LLC	San Diego – US	–	100
EK045 LLC	San Diego – US	–	100
Lonsdale LLC	Wilmington – US	–	100
Midas Life Settlements LLC	Delaware – US	–	100
Upright RM Holdings LLC	New York – US	–	100
Reverse Mortgage Trust I	New York – US	–	100
Upright Holdings FP Inc.	New York – US	–	100
World Alliance Financial Corporation	New York – US	–	100
KBC Financial Products International Limited 'Cayman III'	George Town – KY	–	100
KBC Investments Hong Kong Limited	Hong Kong – HK	–	100
KBC Investments Asia Limited	Hong Kong – HK	–	100
KBC Investments Cayman Islands Limited 'Cayman IV'	George Town – KY	–	100
KBC Investments Cayman Islands V Limited	George Town – KY	–	100
KBC Investments Limited	London – GB	–	100
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	–	100
KBC Lease Holding NV	Leuven – BE	0403.272.253	100
Fitraco NV	Leuven – BE	0425.012.626	100
KBC Autolease NV	Leuven – BE	0422.562.385	100
KBC Bail France sas	Lyon – FR	–	100
KBC Bail Immobilier France sas	Paris – FR	–	100
KBC Immolease NV	Leuven – BE	0444.058.872	100
KBC Lease Belgium NV	Leuven – BE	0426.403.684	100
KBC Autolease Polska Sp z.o.o.	Warszawa – PL	–	100
KBC Lease France SA	Lyon – FR	–	100
KBC Lease (Nederland) BV	Bussum – NL	–	100
KBC Lease (UK) Limited	Surrey – GB	–	100
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg – DE	–	92
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg – DE	–	92
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg – DE	–	92

Name	Registered office	National identification number	Share of capital held at group level (in %)*
KBC Vendor Finance (Deutschland) GmbH	Kronberg – DE	–	92
Protection One Service GmbH	Kronberg – DE	–	92
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg – DE	–	76
KBC Lease España SA	Madrid – ES	–	100
KBC Lease Italia S.p.A.	Verona – IT	–	100
KBC Lease (Luxembourg) SA	Bertrange – LU	–	100
Romstal Leasing IFN SA	Bucharest – RO	–	100
Securitas sam	Monaco – MC	–	100
KBC North American Finance Corporation	New York – US	–	100
KBC Private Equity NV	Brussels – BE	0403.226.228	100
Boxco NV	Harelbeke – BE	0874.529.234	95
Allbox NV	Harelbeke – BE	0417.348.339	95
Degen Emballages SA	Herstal – BE	0425.206.230	95
Verkoopkantoor Allbox en Desouter NV	Harelbeke – BE	0419.278.540	95
Descar NV	Harelbeke – BE	0405.322.613	95
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
2 B Delighted NV	Roeselare – BE	0891.731.886	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 BV	The Hague – NL	–	99.58
Wever & Ducré GmbH	Herzogenrath – DE	–	99.58
Wever & Ducré Iluminación SL	Madrid – ES	–	99.58
KBC Real Estate Luxembourg SA	Luxembourg – LU	–	100
KBC Real Estate NV	Brussels – BE	0404.040.632	100
Almafin Real Estate NV	Brussels – BE	0403.355.494	100
Almafin Real Estate Services NV	Brussels – BE	0416.030.525	100
Immo Arenberg NV	Brussels – BE	0471.901.337	100
Julienne Holdings S.à.r.l.	Luxembourg – LU	–	93
Julie LH BVBA	Brussels – BE	0890.935.201	93
Juliette FH BVBA	Brussels – BE	0890.935.397	93
KBC Vastgoedinvesteringen NV	Brussels – BE	0455.916.925	100
KBC Vastgoedportefeuille België NV	Brussels – BE	0438.007.854	100
KBC Rusthuisvastgoed NV	Brussels – BE	0864.798.253	100
Novoli Investors BV	Amsterdam – NL	–	83.33
Poelaert Invest NV	Brussels – BE	0478.381.531	100
Vastgoed Ruimte Noord NV	Brussels – BE	0863.201.515	100
KBC Securities NV	Brussels – BE	0437.060.521	100
Patria Finance a.s.	Prague – CZ	–	100
Patria Direct a.s.	Prague – CZ	–	100
K&H Bank Zrt.	Budapest – HU	–	100
K&H Csoportszolgáltató Központ Kft.	Budapest – HU	–	100
K&H Equities Consulting Private Limited Company	Budapest – HU	–	100
K&H Értékpapir Befektetési Alapkezelő Zrt.	Budapest – HU	–	100
K&H Factor Zrt.	Budapest – HU	–	100
K&H Alkusz Kft.	Budapest – HU	–	100
K&H Autófinanszirozó Pénzügi Szolgáltató Zrt.	Budapest – HU	–	100
K&H Autópark Bérleti és Szolgáltató Kft.	Budapest – HU	–	100
K&H Eszközfinanszírozó Zrt.	Budapest – HU	–	100
K&H Eszközlizing Gép-és Thrgj. Bérleti Kft.	Budapest – HU	–	100
K&H Ingatlanlizing Zrt.	Budapest – HU	–	100
K&H Lizing Zrt.	Budapest – HU	–	100
Kredyt Bank SA	Warszawa – PL	–	80
Kredyt Lease SA	Warszawa – PL	–	80
Kredyt Trade Sp z.o.o.	Warszawa – PL	–	80
Reliz SA	Katowice – PL	–	80
Loan Invest NV 'Institutional company for investment in receivables under Belgian law'	Brussels – BE	0889.054.884	100
Old Broad Street Invest NV	Brussels – BE	0871.247.565	100
111 OBS Limited Partnership	London – GB	–	100
111 OBS (General Partner) Limited	London – GB	–	100
Żagiel SA	Warszawa – PL	–	100
KBC Bank: subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited[1]	London – GB	–	100
2 B Delighted Italia Srl[1]	Torino – IT	–	99.58
Aldersgate Finance Limited[1]	Jersey – GB	–	100
Almaloisir & Immobilier sas[1]	Nice – FR	–	100

Name	Registered office	National identification number	Share of capital held at group level (in %)*
Apicinq NV[1]	Brussels – BE	0469.891.457	100
Apitri NV[1]	Brussels – BE	0469.889.873	100
Applied Maths Inc.[1]	Austin – US	–	65.92
Applied Maths NV[1]	Sint-Martens-Latem – BE	0453.444.712	65.92
Avebury Limited[1]	Dublin – IE	–	100
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o.[1]	Warszawa – PL	–	80
Brussels North Distribution NV[1]	Brussels – BE	0476.212.887	100
Clifton Finance Street Limited[1]	Jersey – GB	–	100
ČSOB Nadácia[1]	Bratislava – SK	–	100
Dala Beheer BV[1]	Amsterdam – NL	–	100
Dala Property Holding III BV[1]	Amsterdam – NL	–	100
Dala Property Holding XV BV[1]	Amsterdam – NL	–	100
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
Fulham Road Finance Limited[1]	Jersey – GB	–	100
Gulliver Kereskedelmi és Szolgáltató Kft.[1]	Budapest – HU	–	100
Immo-Antares NV[2]	Brussels – BE	0456.398.361	100
Immo-Basilix NV[2]	Brussels – BE	0453.348.801	100
Immo-Beaulieu NV[2]	Brussels – BE	0450.193.133	50
Immobilière Distri-Land NV[2]	Brussels – BE	0436.440.909	87.52
Immo Genk-Zuid NV[2]	Brussels – BE	0464.358.497	100
Immo Kolonel Bourgstraat NV[2]	Brussels – BE	0461.139.879	50
Immolease-Trust NV[1]	Brussels – BE	0406.403.076	100
Immo Lux-Airport SA[2]	Luxembourg – LU	–	100
Immo Marcel Thiry NV[2]	Brussels – BE	0450.997.441	100
Immo NamOtt NV[2]	Brussels – BE	0840.412.849	100
Immo NamOtt Tréfonds NV[1]	Brussels – BE	0840.620.014	100
Immo-Quinto NV[1]	Brussels – BE	0466.000.470	100
Immo Zenobe Gramme NV[2]	Brussels – BE	0456.572.664	100
IPCOS BV[1]	Boxtel – NL	–	60
IPCOS NV[1]	Heverlee – BE	0454.964.840	60
IPCOS (UK) Ltd.[1]	Cambridge – GB	–	60
IPCOS Engineering Solutions Pvt. Ltd.[1]	Chandigarh – IN	–	60
KB-Consult NV[1]	Brussels – BE	0437.623.220	100
KBC Alternative Investment Limited[1]	London – GB	–	100
KBC Diversified Fund (part of KBC AIM Master Fund)[1]	George Town – KY	–	100
KBC Financial Services (Ireland) Limited[1]	Dublin – IE	–	100
KBC International Finance NV[1]	Rotterdam – NL	–	100
KBC Life Harvest Capital Fund[1]	Dublin – IE	–	67.92
KBC Life Opportunity Fund[1]	Dublin – IE	–	100
KBC Private Equity Advisory Services Limited Liability Company[1]	Budapest – HU	–	100
KBC Private Equity Advisory Services Sp.z.o.o.[1]	Warszawa – PL	–	100
KBC Securities LLC[1]	Moscow – RU	–	100
KBC Structured Finance Limited[1]	Sydney – AU	–	100
Kredietfinance Corporation (June) Limited[1]	Surrey – GB	–	100
Kredietfinance Corporation (September) Limited[1]	Surrey – GB	–	100
Kredietlease (UK) Limited[1]	Surrey – GB	–	100
Kredyt Bank SA i TUiR WARTA SA[1]	Warszawa – PL	–	90
Lancier LLC[1]	Delaware – US	–	100
Limited liability company 'Absolut Capital'[1]	Moscow – RU	–	95
LIZAR Sp z.o.o.[1]	Warszawa – PL	–	80
Luxembourg North Distribution SA[1]	Luxembourg – LU	–	100
Mechelen City Center NV[1]	Brussels – BE	0471.562.332	100
Mezzafinance NV[1]	Brussels – BE	0453.042.260	100
Motokov a.s.[1]	Prague – CZ	–	69.10
Newcourt Street Finance Limited[1]	Jersey – GB	–	100
NV ACTIEF NV[1]	Brussels – BE	0824.213.750	57.14
Oxford Street Finance Limited[1]	Jersey – GB	–	100
Patria Finance CF a.s.[1]	Prague – CZ	–	100
Patria Finance Online a.s.[1]	Prague – CZ	–	100
Patria Finance Slovakia a.s.[1]	Bratislava – SK	–	100
Pericles Invest NV[1]	Brussels – BE	0871.593.005	100
Property LM s.r.o.[1]	Bratislava – SK	–	100
Quasar Securitisation Company NV[1]	Brussels – BE	0475.526.860	100
Quercus Scientific NV[1]	Sint-Martens-Latem – BE	0884.920.310	65.92
Radiant Limited Partnership[1]	Jersey – GB	–	80
Risk Kft.[1]	Budapest – HU	–	100
Servipolis Management Company NV[1]	Zaventem – BE	0442.552.206	70
Sicalis BV[1]	Amsterdam – NL	–	100

Name	Registered office	National identification number	Share of capital held at group level (in %)*
TEE Square Limited[1]	Virgin Islands – VG	–	100
Tormenta Investment Sp.z.o.o.[1]	Warszawa – PL	–	100
Vermögensverwaltungsgesellschaft Merkur mbH[1]	Bremen – DE	–	100
Weyveld Vastgoedmaatschappij NV[1]	Brussels – BE	0425.517.818	100
Willowvale Company[1]	Dublin – IE	–	100
Zipp Skutery Sp.z.o.o.[1]	Przasnysz – PL	–	100
KBC Bank: joint subsidiaries that are proportionately consolidated			
Českomoravská Stavební Spořitelna (CMSS)	Prague – CZ	–	55
Immobiliare Novoli S.p.A.	Firenze – IT	–	44.98
KBC Goldstate Fund Management Co. Limited	Shanghai – CN	–	49
Union KBC Asset Management Private Limited	Mumbai – IN	–	49
KBC Bank: joint subsidiaries that are not proportionately consolidated[1]			
Atrium Development SA	Luxembourg – LU	–	25
Barbarahof NV	Leuven – BE	0880.789.197	30
Consorzio Sandonato Est.	Firenze – IT	–	20.32
Covent Garden Development NV	Brussels – BE	0892.236.187	25
Covent Garden Real Estate NV	Zaventem – BE	0872.941.897	50
Flex Park Prague s.r.o.	Prague – CZ	–	50
FM-A Invest NV	Diegem – BE	0460.902.725	50
Jesmond Amsterdam NV	Amsterdam – NL	–	50
Miedziana Sp z.o.o.	Warszawa – PL	–	47.75
Panton Kortenberg Vastgoed NV 'Pako Vastgoed'	Sint-Niklaas – BE	0437.938.766	50
Amdale Holdings Limited NV	Diegem – BE	0452.146.563	50
Pakobo NV	Diegem – BE	0474.569.526	50
Rumst Logistics NV	Diegem – BE	0862.457.583	50
Perifund NV	Brussels – BE	0465.369.673	50
Prague Real Estate NV	Zaventem – BE	0876.309.678	50
Real Estate Participation NV	Zaventem – BE	0473.018.817	50
Resiterra NV	Leuven – BE	0460.925.588	50
Rumst Logistics II NV	Diegem – BE	0880.830.076	50
Rumst Logistics III NV	Diegem – BE	0860.829.383	50
Sandonato Parcheggi Srl	Firenze – IT	–	44.98
Sandonato Srl	Firenze – IT	–	44.98
UNION KBC Trustee Company Private Limited	Mumbai – IN	–	49
Val d'Europe Holding NV	Zaventem – BE	0808.932.092	45
Val d'Europe Invest sas	Paris – FR	–	45
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou – CN	–	49.79
KBC Bank: companies accounted for using the equity method			
Giro Elszámolásforgáltátó Rt.	Budapest – HU	–	20.99
HAGE Hajdúsági Agráripari Részvénytársaság	Nádudvar – HU	–	25
K&H Lizingház Zrt. (under liquidation)	Budapest – HU	–	100
Nova Ljubljanska banka d.d.	Ljubljana – SI	–	25
KBC Bank: companies not accounted for using the equity method[1]			
Bancontact-MisterCash NV	Brussels – BE	0884.499.250	20
Banking Funding Company NV	Brussels – BE	0884.525.182	20.93
BCC Corporate NV	Brussels – BE	0883.523.807	23.95
Bedrijvencentrum Regio Roeselare NV	Roeselare – BE	0428.378.724	22.22
Bedrijvencentrum Rupelstreek NV	Aartselaar – BE	0427.329.936	33.33
Czech Banking Credit Bureau a.s.	Prague – CZ	–	20
Etoiles d'Europe sas	Paris – FR	–	45
Isabel NV	Brussels – BE	0455.530.509	25.33
Justinvest NV	Antwerp – BE	0476.658.097	33.33
První Certifikačni Autorita a.s.	Prague – CZ	–	23.25
Rabot Invest NV	Antwerp – BE	0479.758.733	25
Sea Gate Logistics NV	Aalst – BE	0480.040.627	25
Xenarjo cvba	Mechelen – BE	0899.749.531	22.95
KBC Insurance: subsidiaries that are fully consolidated			
KBC Verzekeringen NV	Leuven – BE	0403.552.563	100
ADD NV	Heverlee – BE	0406.080.350	100
KBC Group Re SA	Luxembourg – LU	–	100
Anglesea Financial Products Limited	Dublin – IE	–	100
KBC Financial Indemnity Insurance SA	Luxembourg – LU	–	100
ČSOB Pojišťovna a.s.	Pardubice – CZ	–	100
ČSOB Poisťovňa a.s.	Bratislava – SK	–	100
Double U Building BV	Rotterdam – NL	–	100
DZI Insurance Plc.	Sofia – BG	–	99.95
DZI – General Insurance JSC	Sofia – BG	–	99.95
DZI – Health Insurance AD	Sofia – BG	–	99.95
Fidea NV	Antwerp – BE	0406.006.069	100
Groep VAB NV	Zwijndrecht – BE	0456.267.594	74.81

Name	Registered office	National identification number	Share of capital held at group level (in %)*
VAB Rijschool NV	Sint-Niklaas – BE	0448.109.811	74.81
VAB NV	Zwijndrecht – BE	0436.267.594	74.80
K&H Biztosító Zrt.	Budapest – HU	–	100
KBC Banka A.D. Beograd	Belgrado – RS	–	100
KBC Life Fund Management SA	Luxembourg – LU	–	100
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam – NL	–	100
Towarzystwo Ubezpieczeń i Reasekuracji WARTA SA	Warszawa – PL	–	100
KBC Alpha SFIO	Warszawa – PL	–	100
PTE Warta SA	Warszawa – PL	–	100
Towarzystwo Ubezpieczeń na Życie WARTA SA	Warszawa – PL	–	100
KBC Insurance: subsidiaries that are not fully consolidated[1]			
Almarisk NV	Merelbeke – BE	0420.104.030	100
Brika 2000 NV	Hoboken – BE	0471.300.531	74.81
Car Dent Benelux NV	Zwijndrecht – BE	0460.861.351	74.81
ČSOB Insurance Service Limited	Pardubice – CZ	–	100
Depannage 2000 NV	Hoboken – BE	0403.992.429	74.81
Fundacja WARTA	Warszawa – PL	–	100
Gdynia America Shipping Lines (London) Limited	London – GB	–	73.68
Immo Campus Blairon NV	Brussels – BE	0475.910.902	100
KBC Life Fund Management Ireland Limited	Dublin – IE	–	99
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100
Maatschappij voor Brandherverzekering cvba	Leuven – BE	0403.552.761	90.55
Net Fund Administration Sp z.o.o.	Warszawa – PL	–	99.22
Omnia NV	Leuven – BE	0413.646.305	100
Probemo Dubbele Bedieningen NV	Sint-Niklaas – BE	0435.357.180	74.81
Rijscholen Sanderus NV	Mechelen – BE	0413.004.719	74.81
Rij Wijs BVBA	Zwijndrecht – BE	0861.204.701	74.81
VAB Fleet Services NV	Zwijndrecht – BE	0866.583.053	52.19
WARTA Finance SA	Warszawa – PL	–	100
WARTA 24 Plus Sp.z.o.o.	Warszawa – PL	–	100
WARTA Nieruchomości Sp.z.o.o.	Warszawa – PL	–	100
24+ NV	Zwijndrecht – BE	0895.810.836	87.40
KBC Insurance: joint subsidiaries that are proportionately consolidated			
NLB Vita d.d.	Ljubljana – SI	–	50
KBC Insurance: joint subsidiaries that are not proportionately consolidated[1]			
Sepia NV	Brussels – BE	0403.251.467	50
KBC Insurance: companies accounted for using the equity method			
–			
KBC Insurance: companies not accounted for using the equity method[1]			
AIA-Pool cvba	Brussels – BE	0453.634.752	33.47
AssurCard NV	Leuven – BE	0475.433.127	33.33
Optimobil Belgium NV	Brussels – BE	0471.868.277	25.33
KBL EPB: subsidiaries that are fully consolidated			
KBL European Private Bankers SA	Luxembourg – LU	–	99.91
Brown, Shipley & Co. Limited	London – GB	–	99.91
Cawood Smithie & Co.	London – GB	–	99.91
Fairmount Pension Trustee Limited	London – GB	–	99.91
Fairmount Trustee Services Limited	Leatherhead – GB	–	99.91
Slark Trustee Company	Leatherhead – GB	–	99.91
The Brown Shipley Pension Portfolio Limited	London – GB	–	99.91
White Rose Nominee Limited	London – GB	–	99.91
Fidef Ingénierie Patrimoniale SA	La Rochelle – FR	–	99.91
Financière et Immobilière SA	Luxembourg – LU	–	99.91
KB Lux Immo SA	Luxembourg – LU	–	99.91
Centre Europe SA	Luxembourg – LU	–	99.91
Rocher Limited	Douglas – IM	–	99.91
sci KB Luxembourg Immo III (Monaco)	Monaco – MC	–	99.91
KBL Beteiligungs AG	Mainz – DE	–	99.91
Merck Finck & Co.	Munich – DE	–	99.91
Merck Finck Pension Fund	Munich – DE	–	99.91
Merck Finck Treuhand AG	Munich – DE	–	99.91
Modernisierungsgesellschaft Lübecker Strasse	Mainz – DE	–	78.99
KBL Monaco Private Bankers SA	Monaco – MC	–	99.91
sci KB Luxembourg Immo I (Monaco)	Monaco – MC	–	99.91
KBL Monaco Conseil et Courtage en Assurance	Monaco – MC	–	99.91
KBL Richelieu Banque Privée SA	Paris – FR	–	99.91
KBL France Gestion	Paris – FR	–	99.91
S.E.V.	Paris – FR	–	68.92
Kredietbank Informatique GIE	Luxembourg – LU	–	99.91
KBL (Switzerland) Ltd.	Geneva – CH	–	99.90

Name	Registered office	National identification number	Share of capital held at group level (in %)*
Privagest SA	Geneva – CH	–	99.90
Kredietrust Luxembourg SA	Luxembourg – LU	–	99.91
Puilaetco Dewaay Private Bankers SA	Brussels – BE	0403.236.126	99.91
Banque Puilaetco Luxembourg SA	Luxembourg – LU	–	99.91
Theodoor Gilissen Bankiers NV	Amsterdam – NL	–	99.91
Lange Voorbehout BV	Amsterdam – NL	–	99.91
Stroeve Asset Mangement BV	Amsterdam – NL	–	99.91
TG Fund Management BV	Amsterdam – NL	–	99.91
TG Ventures BV	Amsterdam – NL	–	99.91
Theodoor Gilissen Global Custody BV	Amsterdam – NL	–	99.91
Theodoor Gilissen Trust BV	Amsterdam – NL	–	99.91
Wereldeffect BV	Amsterdam – NL	–	99.91
VITIS Life SA	Luxembourg – LU	–	99.91
KBL EPB: subsidiaries that are not fully consolidated[1]			
Data Office	Leuven – BE	0413.719.252	99.91
Plateau Real Estate Limited	Douglas – IM	–	99.91
sci KB Luxembourg Immo II (Monaco)	Monaco – MC	–	99.91
Steubag Gesellschaft für Betriebswirtschafts- und Bankendienstleistungsberatung in Rheinland-Pfalz mbH Mainz	Mainz – DE	–	99.91
KBL EPB: joint subsidiaries that are proportionately consolidated			
–			
KBL EPB: joint subsidiaries that are not proportionately consolidated[1]			
–			
KBL EPB: companies accounted for using the equity method			
EFA Partners SA	Luxembourg – LU	–	52.65
European Fund Administration SA	Luxembourg – LU	–	51.09
European Fund Administration France sas	Paris – FR	–	52.65
KBL EPB: companies not accounted for using the equity method[1]			
Damsigt scp	Utrecht – NL	–	24.56
Forest Value Management Investment SA	Luxembourg – LU	–	26.67
KBC Group: subsidiaries that are fully consolidated			
KBC Groep NV	Brussels – BE	0403.227.515	100
KBC Bank NV	Brussels – BE	0462.920.226	100
KBC Global Services NV	Brussels – BE	0465.746.488	100
KBC Verzekeringen NV	Brussels – BE	0403.552.563	100
KBL European Private Bankers SA	Luxembourg – LU	–	99.91
Kredietcorp SA	Luxembourg – LU	–	100
RTI Invest Kft.	Budapest – HU	–	100
ValueSource NV	Brussels – BE	0472.685.453	100
ValueSource Technologies Private Limited	Alwarpet – IN	–	100
KBC Group: subsidiaries that are not fully consolidated[1]			
Gebema NV	Brussels – BE	0461.454.338	100
KBC Group: joint subsidiaries that are proportionately consolidated			
–			
KBC Group: joint subsidiaries that are not proportionately consolidated[1]			
–			
KBC Group: companies accounted for using the equity method			
–			
KBC Group: companies not accounted for using the equity method[1]			
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* In the overview of subsidiaries, Special Purpose Vehicles (SPVs) established by KBC are presented as 'having a share of capital held at group level' of 100% if they comply with IFRS consolidation rules (SIC 12). Among other things, these rules take account of the decision-making powers of the management body of these SPVs.

Reason for exclusion:
1 Insignificant.
2 Real estate certificates and companies whose results are not allocated to the group.

Companies qualifying for consolidation are also effectively included in the scope of consolidation if two of the following criteria are met:

- Group share in equity exceeds 2.5 million euros.
- Group share in the results exceeds 1 million euros.
- The balance sheet total exceeds 100 million euros.

The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.

The most recent version of this list is available at www.kbc.com.

Contact details and financial calendar

Contact details

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Communication with shareholders

KBC aims to communicate as openly and transparently as possible with its shareholders. To that end, the group facilitates meetings between management and the investors/shareholders during the financial year by organising *inter alia* investor events, conferences and road shows or by arranging Investor Days to discuss specific matters. These events are organised by the Investor Relations Office, which also deals with questions from investors throughout the year. In addition, the group provides information all year round, such as by issuing press releases, giving presentations and publishing quarterly, half-year and annual reports when the results are announced. This information is available at www.kbc.com, as are various notifications required by law (including those relating to AGMs), general company information and specific reports, such as risk and corporate social responsibility reports.

Financial calendar

The most up-to-date version of the financial calendar is available at www.kbc.com.

2011 financial year	Earnings release: 9 February 2012 Publication of the *Annual Report* and the *Risk Report for 2011:* 3 April 2012 Publication of the *CSR Report for 2011:* 2 May 2012 AGM: 3 May 2012 (agenda available at www.kbc.com) Ex-coupon date/record date/dividend payment: 9/11/14 May 2012
1Q 2012	Earnings release: 10 May 2012
2Q 2012	Earnings release: 7 August 2012
3Q 2012	Earnings release: 8 November 2012
4Q 2012	Earnings release: 14 February 2013

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KBC