# KBC annual report | 2008




KBC

# Contents



**Where can I find information about ...**


- the group's shareholder structure:
  Structure, strategy and shareholder information, under 'Shareholders'
- the capital-strengthening transaction with the Belgian State:
  Consolidated annual accounts, Note 35
- the capital-strengthening transaction with the Flemish Regional Government:
  Consolidated annual accounts, Note 42
- the group's credit ratings:
  Structure, strategy and shareholder information, under 'Credit ratings'
- the group's exposure to structured investments:
  Value and risk management under 'Investments in structured credit products'
- the group's solvency:
  Value and risk management, under 'Solvency and economic capital'
- the remuneration granted to the members of the Executive Committee:
  Corporate governance, under 'Remuneration granted to members of the Executive Committee'

Area of operation KBC is an integrated bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. It occupies leading positions on its home markets of Belgium and Central and Eastern Europe, where it specialises in retail bancassurance and asset management activities, as well as in the provision of services to businesses. The group is also active in a selection of other countries in Europe in private banking and services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions.

## Key non-financial figures, 31-12-2008 *

| | |
|---|---|
| **Shareholders** | |
| KBC Ancora | 23% |
| Cera | 7% |
| MRBB | 12% |
| Other core shareholders | 11% |
| KBC group companies | 5% |
| Free float | 42% |
| Total | 100% |
| **Customers (estimate)** | |
| Belgium | 3.9 million |
| Central & Eastern Europe and Russia | 8.5 million |
| **Bank branches** | |
| Belgium | 879 |
| Central & Eastern Europe and Russia | 1 411 |
| **Insurance agencies** | |
| Belgium | 530 |
| Central and Eastern Europe | 14 114 |
| **Number of staff (in FTEs)** | |
| Belgium | 18 149 |
| Central & Eastern Europe and Russia | 35 583 |
| Rest of the world | 5 547 |
| Total | 59 279 |

| **Credit ratings (18 March 2009)** | KBC Bank (long-term rating) | KBC Insurance (claims-paying ability) | KBC Group NV (long-term rating) |
|---|---|---|---|
| Fitch | A+ | AA- | A+ |
| Moody's | Aa3 | – | A1 |
| Standard & Poor's | A | A | A- |

* For definitions and comments, see the detailed tables and analyses in this annual report.

TO THE READER
'CEER' as it appears in this annual report refers to 'Central & Eastern Europe and Russia', as in the name of our CEER Business Unit.
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 including its subsidiaries and sub-subsidiaries. 'KBC Group NV' refers solely to the parent company. 'KBC Bank and Insurance Holding Company' refers to KBC before the merger with Almanij.
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, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

## Key financial figures[1]

| Balance sheet and assets under management, end of period (in millions of EUR) | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Total assets | 285 163 | 325 801 | 325 400 | 355 597 | 355 317 |
| Loans and advances to customers | 111 177 | 119 475 | 127 152 | 147 051 | 157 296 |
| Securities | 98 862 | 125 810 | 111 959 | 105 023 | 94 897 |
| Deposits from customers and debt securities | 157 712 | 171 572 | 179 488 | 192 135 | 196 733 |
| Gross technical provisions and liabilities under investment contracts, insurance | 17 190 | 22 394 | 25 121 | 26 833 | 26 724 |
| Parent shareholders' equity | 12 328 | 15 751 | 17 219 | 17 348 | 14 210 |
| Risk-weighted assets, banking (Basel I to end of 2006, Basel II since 2007) | 105 768 | 117 730 | 128 968 | 135 146 | 141 370 |
| Assets under management | 156 677 | 196 358 | 208 560 | 230 890 | 206 842 |
| **Income statement (in millions of EUR)** | | | | | |
| Total income | 7 632 | 8 370 | 9 650 | 9 802 | 4 827 |
| Operating expenses | -4 944 | -4 914 | -4 925 | -5 219 | -5 600 |
| Impairment | -365 | -103 | -175 | -267 | -2 234 |
| Net profit, group share | 1 615 | 2 249 | 3 430 | 3 281 | -2 484 |
| Basic earnings per share (in EUR) | 4.48 | 6.26 | 9.68 | 9.46 | -7.31 |
| Diluted earnings per share (in EUR) | 4.39 | 6.15 | 9.59 | 9.42 | -7.28 |
| **Underlying results[2] (in millions of EUR)** | | | | | |
| Total income | 7 632 | 8 323 | 8 738 | 9 481 | 9 172 |
| Operating expenses | -4 944 | -4 794 | -4 976 | -5 164 | -5 591 |
| Impairment | -365 | -54 | -175 | -191 | -743 |
| Net profit, group share | 1 615 | 2 306 | 2 548 | 3 143 | 2 270 |
| Basic earnings per share (in EUR) | 4.48 | 6.42 | 7.19 | 9.06 | 6.68 |
| Diluted earnings per share (in EUR) | 4.39 | 6.27 | 7.13 | 9.02 | 6.66 |
| Net profit per business unit | | | | | |
| Belgium | – | 1 096 | 1 104 | 1 364 | 1 145 |
| Central & Eastern Europe and Russia (CEER) | – | 327 | 426 | 641 | 687 |
| Merchant Banking | – | 821 | 871 | 965 | 418 |
| European Private Banking | – | 190 | 181 | 211 | 161 |
| Group Centre | – | -127 | -33 | -36 | -140 |
| **KBC share** | | | | | |
| Number of shares outstanding, end of period ('000) | 310 849 | 366 567 | 363 217 | 355 115 | 357 753 |
| Equity per share, end of period (in EUR) | 33.6 | 43.8 | 49.2 | 50.7 | 31.5 |
| Highest share price for the financial year (in EUR) | 59.8 | 79.0 | 93.3 | 106.2 | 95.0 |
| Lowest share price for the financial year (in EUR) | 37.3 | 56.0 | 76.2 | 85.9 | 18.2 |
| Average share price for the financial year (in EUR) | 49.2 | 66.4 | 85.9 | 95.8 | 65.2 |
| Share price at year-end (in EUR) | 56.5 | 78.7 | 92.9 | 96.2 | 21.5 |
| Gross dividend per share (in EUR) | 1.84 | 2.51 | 3.31 | 3.78 | 0.0 |
| Equity market capitalisation, end of period (in billions of EUR) | 17.6 | 28.8 | 33.7 | 34.2 | 7.7 |
| **Ratios** | | | | | |
| Return on equity | 14% | 18% | 24% | 21% | -18% |
| Return on equity (based on underlying profit) | 14% | 18% | 18% | 20% | 16% |
| Cost/income ratio, banking | 65% | 60% | 53% | 56% | 104% |
| Cost/income ratio, banking (based on underlying profit) | 65% | 58% | 58% | 57% | 64% |
| Combined ratio, non-life insurance | 95% | 96% | 96% | 96% | 95% |
| Credit cost ratio, banking | 0.20% | 0.01% | 0.13% | 0.13% | 0.70% |
| Credit cost ratio, banking (based on underlying profit) | 0.20% | 0.01% | 0.13% | 0.13% | 0.46% |
| Tier-1 ratio, banking (Basel I to end of 2006, Basel II since 2007) | 10% | 9% | 9% | 9% | 10% / 11%[3] |
| Solvency ratio, insurance | 347% | 385% | 374% | 265% | 188% |

1 For definitions and comments, see the detailed tables and analyses in this annual report. The figures for 2004 are based on a combined KBC-Almanij entity (except for 'Number of shares outstanding' and 'Equity market capitalisation', which relate solely to the KBC Bank and Insurance Holding Company). Moreover, the IAS 32, IAS 39 and IFRS 4 standards were not applied to the 2004 figures, and underlying profit was equated to net profit, which means the figures are not fully comparable with those for subsequent years. Due to the fact that the definition of 'Total income' and 'Underlying results' was changed in 2008, the corresponding figures for previous years have been adjusted retroactively.

2 The underlying results do not take account of exceptional items, fair value changes in certain ALM hedging instruments and, from 2007 on, the direct impact of the financial crisis. See the 'Group results for 2008' section for more information.

3 *Pro forma* following the transaction that was concluded with the Flemish Regional Government in January 2009 to strengthen the group's capital base.

# Main events in 2008

**April**

- Richelieu Finance, a French asset management company, is acquired.

**May**

- Danny De Raymaeker is appointed to succeed Frans Florquin as member of the Group Executive Committee and CEO of the Belgium Business Unit.

**June**

- The KBC group celebrates its tenth anniversary, marking the merger of the Kredietbank, CERA Bank and ABB-insurance to form a single, integrated bancassurance group.
- The importance of Central and Eastern Europe and Russia to the group is reaffirmed at the Investor Day in Moscow.

**July**

- KBC acquires Istrobanka in Slovakia, raising KBC's share of that market to its target of 10%.
- KBC substantially increases the base interest rate on traditional savings accounts in Belgium.
- KBC is honoured as best Belgian bank at the *Euromoney Awards for Excellence*.

**August**

- The new corporate website (www.kbc.com) is launched.

**September**

- Problems at Lehman Brothers send a shock wave through the financial markets, resulting in a collapse of mutual trust between banks.

**October**

- Substantial markdowns are taken against CDOs after Moody's lowers the ratings of some of these notes, causing the group to suffer its first-ever quarterly loss.
- Market demands for higher capital ratios for financial institutions prompt KBC to strengthen its core capital by issuing 3.5 billion euros' worth of capital instruments to the Belgian State.

**November**

- KBC shares the prize for 'Best Corporate Social Responsibility Report' with Umicore.
- *The Banker* nominates the group as 'Best Bank' in Belgium and in Hungary.
- A joint venture agreement is signed for asset management activities in India.
- The group's ratings are downgraded by Standard & Poor's.

**December**

- The agreement with the Belgian State on measures to strengthen the group's capital base is finalised.
- Fitch downgrades the group's ratings.
- The interest rate on traditional savings accounts and mortgages is lowered in response to the European Central Bank cutting its key rate.
- KBC responds to the deteriorating economic situation by announcing proactive, internal cost-savings.
- Further substantial markdowns are taken against CDOs following Moody's decision to lower the ratings of some of these notes.

**Post-balance-sheet events:**

**January 2009**

- Agreement is reached with the Flemish Regional Government on additional measures to bolster the group's capital structure, which results in the core capital being strengthened by 2 billion euros and a stand-by facility being provided for an additional 1.5 billion euros.
- The group's ratings are downgraded by Moody's.

**March 2009**

- The group's ratings are downgraded by Standard & Poor's.

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

After a relatively long period of robust growth, the global economy experienced a series of upheavals in 2008, including sharp swings in the price of oil, food and other commodities, unstable exchange rates and, from the end of September onwards, the most severe financial crisis in decades.

Our group had no liquidity problems whatsoever at the height of this crisis, while our solvency position – reflected in measures such as our tier-1 ratio – had been considered exceptionally strong until just before the crisis erupted in the second half of September. So much so, in fact, that there was a long-standing perception among many investors and analysts that we were over-capitalised.
However, within a relatively short period, a large number of our immediate competitors were able to increase their capital buffers substantially, thanks to government intervention in one form or another. As a result, the market began to view higher solvency ratios as the norm, placing our leading position in terms of solvency under threat. We therefore decided at the end of October to further strengthen our core capital ratios via a transaction with the Belgian government, entailing the issue of 3.5 billion euros' worth of capital instruments to the Belgian State. At the start of 2009, however, a second shock wave hit the stock markets, which – together with the ever worsening economic outlook – exerted additional pressure on us to strengthen our capital structure again. On 22 January 2009, we announced that we had concluded a similar transaction with the Flemish Regional Government, this time for 2 billion euros, and agreed an additional stand-by facility worth 1.5 billion euros.

Despite our sound fundamentals, our published results were not immune to the crisis. For the first time in our history, we have to report a net loss of approximately 2.5 billion euros, although this is attributable largely to value markdowns of 4 billion euros (before tax) being taken on our CDO portfolio. We have recorded these markdowns in our income statement, whereas many of our competitors have charged them directly to equity, with the result that they do not have an impact on their published net earnings. This reflects the fact that our CDOs – unlike those of many other financial institutions – do not comprise 'physical bonds' but rather derivatives, even though this amounts to virtually the same thing in economic terms.

The crisis also prompted a change in investor behaviour, which had a number of repercussions, including reduced sales of investment funds and certain investment-type insurance. We also had to set aside higher loan loss provisions, particularly with regard to US and Icelandic banks that have found themselves in difficulty. At the same time, the stock market crash led to substantial value markdowns being taken on the equity portfolio of our insurance business.

However, if we adjust for the direct impact of the financial crisis on our results (value markdowns on bonds issued by specific US and Icelandic banks, on structured products and on equities) and for a number of other exceptional items, our group continued to perform creditably, generating an 'underlying' net profit of 2.3 billion euros. This was attributable mainly to our CEER Business Unit, which contributed 687 million euros in the year under review, up 7% on the record figure for 2007. The underlying results of the other business units all declined, with the Belgium Business Unit coming to 1 145 million euros, the Merchant Banking Business Unit to 418 million euros and the European Private Banking Business Unit to 161 million euros.

No one can predict how long the after-effects of the crisis will continue to hurt the markets. Successive forecasts of their scale and impact have rapidly been overtaken by reality. It is highly likely, however, that 2009 will be a difficult year. Changes in investor behaviour will put pressure on our fee and commission income, which will only be alleviated when confidence is restored. What's more, our results remain sensitive to fluctuations in equity prices and there can be little doubt that the damage inflicted on the real economy will lead to increased loan losses, although that is hardly surprising, given the exceptionally low level of such losses in recent years. The financial environment in which we operate is bound to look rather different in the future. Indeed, we need look no further than our first home market, Belgium, to see just how much the financial landscape can change in the short term. We will therefore have to take the necessary measures – and we have already begun to do so – to reposition and strengthen our group in the new environment, primarily by building on our existing strengths. What that means specifically is that we will focus even more than in the past on controlling the growth of our assets, on keeping costs strictly under control and on re-evaluating non-strategic activities.


The credit crisis has tended to deflect attention from the fact that 2008 was a special year for our group for other, more positive reasons: it marked our tenth anniversary. Back in June 1998, the merger of the Kredietbank, CERA Bank and ABB-insurance led to the creation of a prominent European bancassurance group. The strong expansion in Central and Eastern Europe that followed, and the subsequent merger with our then parent company, Almanij, allowed us to more than double our total assets, treble our workforce and increase our assets under management fivefold in the space of a decade. Today, our group employs almost 60 000 people, caters for no fewer than 12 million customers in over 30 countries, and has become what is probably Europe's most integrated bancassurance group.

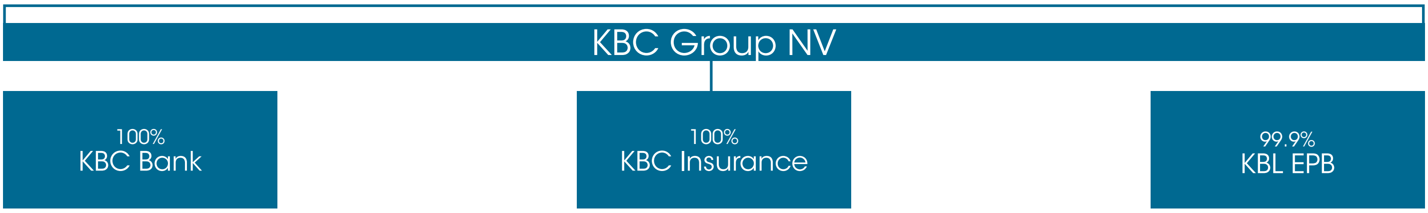
It is more appropriate than ever that we should conclude this statement by thanking our customers, who have remained loyal to us in the turbulent financial climate in which we find ourselves. It goes without saying that we are also sincerely grateful to our employees, whose professionalism and commitment have contributed so much to our group's ability to hold firm in such tumultuous times. Our final word of thanks goes to our shareholders, who have continued to support us in what has been one of the stock market's most difficult years ever. We assure them that we will do everything in our power to continue to live up to that confidence and to further strengthen our position.

| | |
|---|---|
| André Bergen,<br>President of the Executive Committee<br>of KBC Group | Jan Huyghebaert,<br>Chairman of the Board of Directors<br>of KBC Group |

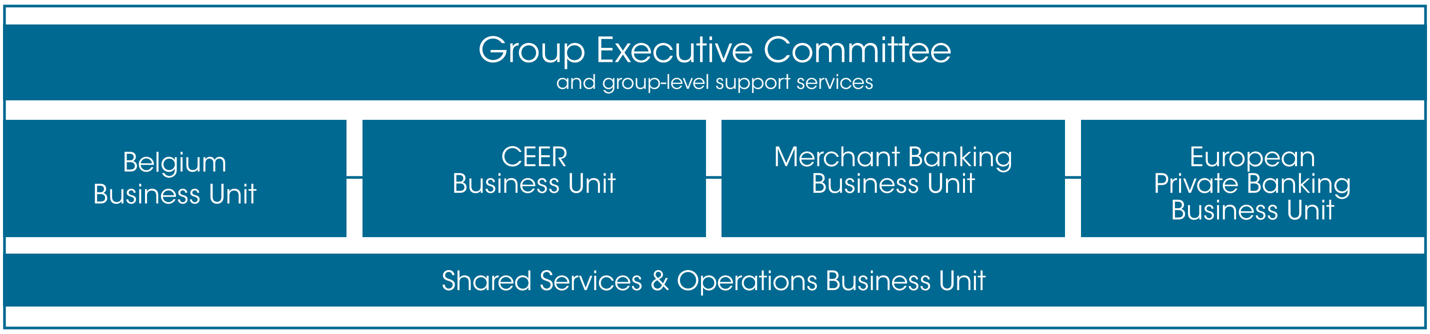
# Structure, strategy and shareholder information

# Legal and management structure

The group's legal structure is shown in the schematic. The group comprises a holding company – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL European Private Bankers (KBL EPB). Each of these companies has several subsidiaries and sub-subsidiaries.




The group's management structure has been built around five business units. Each is managed by its own management committee, which operates under the Group Executive Committee and oversees both the banking and the insurance activities. The management committees are chaired by a Chief Executive Officer (CEO), except at the Shared Services & Operations Business Unit, where the management committee is chaired by the Chief Operations Officer (Group COO). Together with the Group Chief Executive Officer (Group CEO) and the Group Chief Financial and Risk Officer (Group CFRO), these individuals constitute the Group Executive Committee. A description of each business unit can be found in the relevant sections of this annual report.



# Strategic focus

1 AN INTEGRATED BANCASSURANCE GROUP ... The KBC group is an integrated bancassurer. This is illustrated by the fact that its banking and insurance activities are not managed separately but in a fully integrated manner via business units that encompass both types of activity. The product offering is not controlled from a separate banking or insurance perspective either, but is based on the needs of the customer, who can choose the banking or insurance product that best suits his or her individual needs.

2 ... CATERING MAINLY FOR RETAIL CUSTOMERS, PRIVATE BANKING CLIENTELE AND SMALL AND MEDIUM-SIZED ENTERPRISES ... The KBC group focuses on providing the widest possible range of bank, insurance and wealth management products and services to retail customers, private banking clients and SMEs. It also provides services to larger companies and engages in market activities.

3 ... WITH A GEOGRAPHIC FOCUS ON BELGIUM AND CENTRAL AND EASTERN EUROPE ... KBC concentrates on Belgium and Central and Eastern Europe, where it aims to engage in the full range of activities and serve all the targeted customer groups.

The group is one of the top three financial institutions in Belgium, occupying a leading position in certain fields, such as investment. Its strategy is to maintain these market positions and, where necessary, to consolidate them.

KBC ranks among the top five financial institutions in Central and Eastern Europe. Its presence in this growth region consists primarily of significant positions in the banking and insurance markets of the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. The aim is to maintain or develop a fully fledged bancassurance presence in all these markets. In addition, KBC has a limited presence in Romania and Serbia. The group has also been present in the Russian banking market since 2007 and intends to develop that presence in a controlled way in the longer term.

4 ... AND A SELECTIVE PRESENCE IN THE REST OF THE WORLD Outside its home markets of Belgium and Central and Eastern Europe and Russia, the group is active in various other countries in Europe, the United States and Southeast Asia. These activities are carried out by a number of KBC Bank branches and subsidiaries, specialising in corporate banking and certain niche activities. The group also operates a network of private banking boutiques in selected European countries.


1 KBC or one of its predecessors (Kredietbank, CERA Bank, ABB, KBL, Gevaert).
2 Between 1980 and 2003, André Bergen worked for Generale Bank (now Fortis Bank) and Agfa-Gevaert, among other companies.
3 The Group Executive Committee's responsibilities are divided up among its members (see table), but this does not detract from their collective responsibility.

Abbreviations: K.U.Leuven: Katholieke Universiteit Leuven (Belgium); UGent: Ghent University (Belgium); UCL: Université catholique de Louvain (Belgium).

The Group Executive Committee, which is responsible for managing the group in line with the general strategy set by the Board of Directors, is chaired by the Group CEO and has seven members. The members of the Group Executive Committee are appointed by the Board of Directors and some also sit on the Board as executive directors. More information on the management of KBC is available in the 'Corporate governance' section.


| 1 | **Chris Defrancq** • Date of birth 1950 • Master's Degree in Mathematics (UGent) and in Actuarial Sciences (K.U.Leuven) • Joined KBC[1] in 1998 • Group COO[3] | 2 | **Jan Vanhevel** • Date of birth 1948 • Doctorate in Law and Master's Degree in Notarial Sciences (K.U.Leuven) • Joined KBC[1] in 1971 • CEO CEER Business Unit[3] | 3 | **Etienne Verwilghen** • Date of birth 1947 • Civil Engineering Degree (UCL) • Joined KBC[1] in 1983 • CEO European Private Banking Business Unit[3] | 4 | **Herman Agneessens** • Date of birth 1949 • Doctorate in Law (K.U.Leuven) • Joined KBC[1] in 1971 • Group CFRO[3] | 5 | **André Bergen** • Date of birth 1950 • Master's Degree in Economic Sciences (K.U.Leuven) • Joined KBC[1] in 1977 and 2003[2] • Group CEO[3] | 6 | **Guido Segers** • Date of birth 1950 • Master's Degree in Applied Economic Sciences (K.U.Leuven) • Joined KBC[1] in 1974 • CEO Merchant Banking Business Unit[3] | 7 | **Danny De Raymaeker** • Date of birth 1959 • Master's Degree in International Auditing (University of Antwerp) • Joined KBC[1] in 1984 • CEO Belgium Business Unit[3]

## Shareholders, 31-12-2008[1]

| | Date of disclosure or update | Number | % |
|---|---|---|---|
| **Ordinary shares** | | | |
| KBC Ancora | 1 September 2008 | 82 216 380 | 23% |
| Cera | 1 September 2008 | 25 903 183 | 7% |
| MRBB | 1 September 2008 | 42 562 675 | 12% |
| Other core shareholders | 1 September 2008 | 39 867 989 | 11% |
| **Subtotal** | – | **190 550 227** | **53%** |
| KBC group companies | 31 December 2008 | 18 216 385 | 5% |
| Free float | – | 148 986 210 | 42% |
| **Total** | **31 December 2008** | **357 752 822** | **100%** |
| of which entitled to dividend[2] | 31 December 2008 | 341 819 369 | |
| **Mandatorily convertible bonds (MCBs)[3]** | **31 December 2008** | **0** | |

1 The figures are based on the value date and the most recent disclosures on or prior to the balance sheet date (and, in the case of KBC group companies, the situation on the balance sheet date).

2 No dividend will be paid for 2008.

3 All remaining MCBs were converted into shares in November 2008. More information in this regard is available in the 'Company annual accounts' section.

## Credit ratings, 18-03-2009

| | Long-term rating (+ outlook) | | Short-term rating |
|---|---|---|---|
| **Fitch** | | | |
| KBC Bank | A+ | (Negative) | F1 |
| KBC Insurance (claims-paying ability) | AA- | (Negative) | – |
| KBC Group NV | A+ | (Negative) | F1 |
| **Moody's** | | | |
| KBC Bank | Aa3 | (Negative) | P-1 |
| KBC Group NV | A1 | (Negative) | P-1 |
| **Standard & Poor's** | | | |
| KBC Bank | A | (Stable) | A1 |
| KBC Insurance (claims-paying ability) | A | (Stable) | – |
| KBC Group NV | A- | (Stable) | A2 |

Main developments related to long-term ratings in 2008 and in the opening months of 2009:

- In February 2008, Moody's revised the ratings outlook for KBC Bank and KBC Group NV from 'stable' to 'negative'.
- In October 2008, Standard & Poor's and Fitch placed the ratings of KBC Group NV, KBC Bank and KBC Insurance on 'negative watch'.
- In November 2008, Standard & Poor's lowered the ratings of KBC Group NV, KBC Bank and KBC Insurance by one notch.
- In December 2008, Fitch lowered the ratings of KBC Group NV, KBC Bank and KBC Insurance by one notch.
- In January 2009, Moody's lowered the ratings of KBC Group NV and KBC Bank by one notch.
- In March 2009, Standard & Poor's lowered the ratings of KBC Group NV, KBC Bank and KBC Insurance by one notch.

## Financial calendar

| | |
|---|---|
| 2008 financial year | Earnings release: 12 February 2009 |
| | Publication of the embedded value in the life insurance business: 2 April 2009 |
| | Annual Report, Corporate Social Responsibility Report and Risk Report for 2008 available: 9 April 2009 |
| | AGM: 30 April 2009 |
| 1Q 2009 | Earnings release: 14 May 2009 |
| 2Q 2009 | Earnings release: 6 August 2009 |
| 3Q 2009 | Earnings release: 13 November 2009 |
| 4Q 2009 | Earnings release: 11 February 2010 |

For the most up-to-date version of the financial calendar, see the KBC website (www.kbc.com).

## Contact details for investors, analysts and the press

| | |
|---|---|
| **Investor Relations Office** | |
| E-mail | investor.relations@kbc.com |
| Website | www.kbc.com |
| Address | KBC Group NV, Investor Relations Office – IRO, 2 Havenlaan, 1080 Brussels, Belgium |
| **Press** | |
| Press Office | Viviane Huybrecht (General Manager of Group Communication/Company Spokesperson) |
| Tel. | + 32 2 429 85 45 |
| E-mail | pressofficekbc@kbc.be |
| Website | www.kbc.com |
| Address | KBC Group NV, Group Communication – GCM, 2 Havenlaan, 1080 Brussels, Belgium |

**Share details**

| Ticker codes | | | |
|---|---|---|---|
| Bloomberg | | | KBC BB |
| Datastream | | | B:KB |
| Reuters | | | KBC.BR |

| Share | 2006 | 2007 | 2008 |
|---|---|---|---|
| Number of shares outstanding at year-end (in '000) | 363 217 | 355 115 | 357 753 |
| Number of shares entitled to dividend at year-end (in '000) | 352 870 | 342 568 | 341 819 |
| Highest share price for the financial year (in EUR) | 93.3 | 106.2 | 95.0 |
| Lowest share price for the financial year (in EUR) | 76.2 | 85.9 | 18.2 |
| Average share price for the financial year (in EUR) | 85.9 | 95.8 | 65.2 |
| Closing share price for ,financial year (in EUR) | 92.9 | 96.2 | 21.5 |
| Equity market capitalisation at year-end (in billions of EUR) | 33.7 | 34.2 | 7.7 |
| Average daily volume traded (number of shares) | 670 652 | 784 602 | 1 035 638 |
| Average daily volume traded (in millions of EUR) | 57.6 | 75.2 | 67.5 |
| Equity per share | 49.2 | 50.7 | 31.5 |

| Annual return (including dividends) | KBC Group NV | BEL 20 | DJ EURO STOXX Banks |
|---|---|---|---|
| 1 year (2007–2008) | -76% | -52% | -61% |
| 3 years (2005–2008) | -32% | -16% | -23% |
| 5 years (2003–2008) | -7% | 0% | -8% |

**Dividend: no dividend will be paid for the 2008 financial year.**

| Change in the number of KBC Group NV treasury shares | |
|---|---|
| Total number of treasury shares held by KBC Group NV at year-end 2007 | 11 474 207 |
| Treasury shares sold in 2008 for employees exercising options on KBC shares | -144 970 |
| Treasury shares repurchased under the 3-billion-euro share buyback programme* | 2 924 265 |
| Total number of treasury shares held by KBC Group NV at year-end 2008 | 14 253 502 |

* This programme was suspended on 15 May 2008.

# Group results for 2008

# Highlights

- As a result of the financial crisis, particularly the impairment charges relating to the structured credit portfolio, the equity portfolios and troubled US and Icelandic banks, the group recorded a net loss of 2.5 billion euros in 2008.

- Underlying net profit (i.e. disregarding the direct impact of the financial crisis and other exceptional items) amounted to 2.3 billion euros, down 28% on the year-earlier figure.

- Net interest income continued to hold up well (underlying growth of 10%). Premium income from the non-life insurance business rose by 4% on a comparable basis, and the non-life combined ratio came to an excellent 95%. However, the financial crisis led to a significant increase in valuation losses on the equity portfolio (1.1 billion euros before tax in 2008, compared with 75 million euros in 2007) and on structured investments (4 billion euros in 2008, compared with 0.2 billion euros in 2007). Loan loss provisions also went up, causing the credit cost ratio to increase from 13 basis points to 70 basis points (46 basis points, when impairment charges relating to troubled US and Icelandic banks are excluded). Another effect of the crisis was to reduce sales of investment funds and unit-linked life insurance products, which was reflected in lower net fee and commission income (-18% on an underlying basis).

- Due in part to lower income-related employee remuneration, costs – on a comparable basis – remained at the same level as in 2007, despite the effect of inflation, the expansion of the branch networks in Central and Eastern Europe, and restructuring provisions. The underlying cost/income ratio came to 64%. Additional measures were taken at group level to achieve more cost-savings and to lower the risk profile further, without jeopardising income flows.

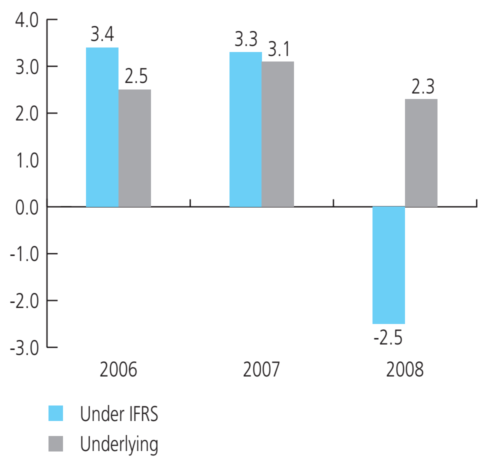
- Underlying net profit was up 7% in the CEER Business Unit, which remained the main engine for growth within the group. The underlying profit contribution of the other business units fell (-16% for Belgium, -57% for Merchant Banking, and -24% for European Private Banking).

- The deposit base expanded by 2% and the loan portfolio by 8% (both on an organic basis), while the outstanding life reserves remained virtually unchanged.

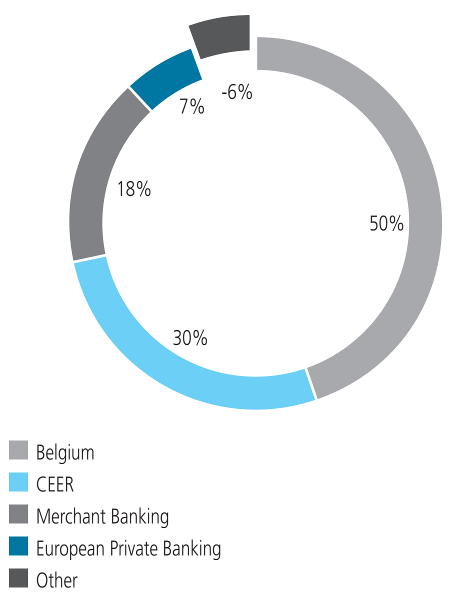
- Group solvency was bolstered by a transaction with the Belgian State in December 2008 and with the Flemish Regional Government in January 2009. At the end of 2008, the *pro forma* tier-1 ratio (including the impact of both operations) for the banking activities came to 11.2%, and the solvency ratio for the insurance activities to 188%.

***Net result***

*In billions of EUR*




***Breakdown of underlying net result by business unit***



# Overview

## Income statement, KBC group

| In millions of EUR | IFRS 2007 | IFRS 2008 | Underlying result* 2007 | Underlying result* 2008 |
|---|---|---|---|---|
| Net interest income | 4 089 | 4 992 | 4 459 | 4 910 |
| Gross earned premiums, insurance | 3 989 | 4 585 | 3 989 | 4 585 |
| Gross technical charges, insurance | -3 404 | -3 883 | -3 404 | -3 883 |
| Ceded reinsurance result | -64 | -72 | -64 | -72 |
| Dividend income | 256 | 259 | 176 | 196 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 642 | -3 481 | 1 275 | 933 |
| Net realised gains from available-for-sale assets | 682 | 95 | 461 | 343 |
| Net fee and commission income | 1 993 | 1 714 | 2 140 | 1 755 |
| Other net income | 619 | 618 | 450 | 404 |
| **Total income** | **9 802** | **4 827** | **9 481** | **9 172** |
| Operating expenses | -5 219 | -5 600 | -5 164 | -5 591 |
| Impairment | -267 | -2 234 | -191 | -743 |
| on loans and receivables | -185 | -822 | -185 | -641 |
| on available-for-sale assets | -75 | -1 333 | 0 | -44 |
| Share in results of associated companies | 56 | -1 | 56 | 13 |
| **Profit before tax** | **4 373** | **-3 007** | **4 181** | **2 850** |
| Income tax expense | -970 | 629 | -916 | -470 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **3 403** | **-2 379** | **3 265** | **2 381** |
| Profit after tax, attributable to minority interests | 123 | 105 | 123 | 111 |
| **Profit after tax, attributable to equity holders of the parent** | **3 281** | **-2 484** | **3 143** | **2 270** |
| Risk-weighted assets, banking (period-end) (Basel II) | 135 146 | 141 370 | 135 146 | 141 370 |
| Capital (period-end) | 17 348 | 14 210 | 17 348 | 14 210 |
| Return on equity (ROE) | 21% | -18% | 20% | 16% |
| Cost/income ratio, banking | 56% | 104% | 57% | 64% |
| Combined ratio, non-life insurance | 96% | 95% | 96% | 95% |
| Credit cost ratio, banking | 0.13% | 0.70% | 0.13% | 0.46% |

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

* More information on how the underlying figures are calculated appears below.

The 'Consolidated annual accounts' section contains a complete overview of (*inter alia*) the income statement, which has been prepared in accordance with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS).

To provide a better insight into the underlying performance, KBC has also provided information relating to the 'underlying result'. This information is not subject to review by the external auditor and differs from the IFRS information, viz.:

- In the IFRS figures, income from market activities (i.e. currency dealing, securities trading, corporate finance, private equity, derivatives trading, etc.) is divided up among different components: realised and unrealised capital gains appear under 'Net (un)realised gains from financial instruments at fair value through profit or loss' ('Net gains from financial instruments at fair value'), whereas the funding costs and the fee and commission expense relating to this income appear under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, a portion of the amounts appearing under various other income headings also relates to market activities. In the underlying figures, all market-activity-related components have been grouped together under 'Net gains from financial instruments at fair value'.
- In the IFRS figures, many of the ALM hedging instruments (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are regarded as trading instruments and, consequently, interest relating to these instruments appears under 'Net gains from financial instruments at fair value', whereas interest relating to the underlying assets appears under 'Net interest income'. Interest on the relevant ALM hedging instruments has, therefore, been moved to 'Net interest income' in the underlying figures.
- Under IFRS, changes in the fair value of the above ALM hedging instruments appear under 'Net gains from financial instruments at fair value', whereas most underlying assets are not recognised at fair value. Therefore, these fair value changes are eliminated in the underlying figures (see table).
- The underlying figures do not take account of any exceptional items (i.e. items that do not occur regularly in the normal course of business). These items also include the direct impact of the financial crisis (as this had not been factored into last year's annual report, the figures for 2007 have been adjusted retroactively), more particularly valuation losses relating to the CDO notes held in portfolio, the equity portfolio and the exposure to troubled banks (Washington Mutual, Lehman Brothers and the Icelandic banks). Lastly, the result related to changes in the fair value of own debt instruments is also classified as an exceptional item (see table for more information).

## Reconciliation of profit according to IFRS and underlying profit

| In millions of EUR | Business Unit | Main heading(s) in the income statement | 2007 | 2008 |
|---|---|---|---|---|
| Profit after tax, attributable to equity holders of the parent (IFRS) | | | 3 281 | -2 484 |
| Fair value changes in ALM hedging instruments | Various | Net (un)realised gains from financial instruments at fair value | 177 | -454 |
| Sale of Intesa Sanpaolo shares (Italy) | Group Centre | Net realised gains from available-for-sale assets | 207 | – |
| Sale of Banca KBL Fumagalli Soldan (Italy) | European Private Banking | Other net income | 14 | – |
| Sale of GBC (bank card clearing house in Hungary) | CEER | Other net income | 35 | – |
| Change in staff hospitalisation insurance (Belgium) | Group Centre | Operating expenses | -64 | – |
| Impairment on Irish Life & Permanent shares (Ireland) | Group Centre | Impairment | – | -66 |
| Revaluation gain on participating interest in NLB following capital increase (Slovenia) | CEER | Other net income | – | 40 |
| Sale of stake in Prague Stock Exchange (Czech Republic) | Merchant Banking | Other net income | – | 33 |
| Loss relating to discontinuation of certain derivative trading activities at KBC Financial Products | Merchant Banking | Net (un)realised gains from financial instruments at fair value | – | -245 |
| Changes in fair value of own debt instruments | Group Centre | Net (un)realised gains from financial instruments at fair value | – | 371 |
| Value markdowns on CDOs held in portfolio* | Various | Net (un)realised gains from financial instruments at fair value | -195 | -4 004 |
| Valuation losses on equity portfolio | Various | Impairment, Net realised gains from available-for-sale assets | -75 | -1 101 |
| Impairment charges relating to troubled US and Icelandic banks | Various | Impairment | 0 | -439 |
| Other exceptional items | – | – | 42 | 9 |
| Taxes and minority interests relating to the above items | – | Income tax expense and Profit after tax, attributable to minority interests | -2 | 1 104 |
| Profit after tax, attributable to equity holders of the parent (underlying) | – | – | 3 143 | 2 270 |

* Including 147 million euros relating to other Asset Backed Securities in 2008.

The main changes to the scope of consolidation in 2008 are given in Note 41 in the ‘Consolidated annual accounts’ section. The overall impact on the group’s net result of these changes and of fluctuations in the exchange rates of the main non-euro currencies was limited (roughly +65 million euros on a net result of -2 484 million euros).

# Analysis of total income

## Total income, KBC group

| In millions of EUR | IFRS 2007 | IFRS 2008 | Underlying result* 2007 | Underlying result* 2008 |
|---|---|---|---|---|
| Net interest income | 4 089 | 4 992 | 4 459 | 4 910 |
| Gross earned premiums, insurance | 3 989 | 4 585 | 3 989 | 4 585 |
| Non-life | 1 826 | 2 052 | 1 826 | 2 052 |
| Life | 2 163 | 2 533 | 2 163 | 2 533 |
| Gross technical charges, insurance | -3 404 | -3 883 | -3 404 | -3 883 |
| Non-life | -1 085 | -1 205 | -1 085 | -1 205 |
| Life | -2 319 | -2 678 | -2 319 | -2 678 |
| Ceded reinsurance result | -64 | -72 | -64 | -72 |
| Dividend income | 256 | 259 | 176 | 196 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 642 | -3 481 | 1 275 | 933 |
| Net realised gains from available-for-sale assets | 682 | 95 | 461 | 343 |
| Net fee and commission income | 1 993 | 1 714 | 2 140 | 1 755 |
| Banking (including holding company activities) | 2 363 | 2 185 | 2 507 | 2 226 |
| Insurance | -370 | -471 | -368 | -471 |
| Other net income | 619 | 618 | 450 | 404 |
| **Total income** | **9 802** | **4 827** | **9 481** | **9 172** |
| Belgium Business Unit | 3 775 | 2 247 | 3 675 | 3 548 |
| CEER Business Unit | 2 395 | 2 469 | 2 345 | 3 002 |
| Merchant Banking Business Unit | 2 535 | -480 | 2 661 | 2 145 |
| European Private Banking Business Unit | 772 | 411 | 774 | 674 |
| Group Centre | 324 | 180 | 26 | -196 |

* Definition changed in 2008; figures for 2007 adjusted retroactively.

Net interest income came to 4 992 million euros in 2008. On an underlying basis, the figure was 4 910 million euros, a rise of 10% on the previous year. Besides the impact of new acquisitions and exchange differences, this increase was also partly due to the higher volume of loans and deposits within the group. Over the year, loans and deposits rose by 8% and 2%, respectively. The increase in the Central & Eastern Europe and Russia (CEER) Business Unit was particularly striking (even disregarding the positive impact of new acquisitions and exchange rate fluctuations, loans were up 25% and deposits 8%), as was the rise in deposits in Belgium (up 6%). Moreover, the average net interest margin widened by 12 basis points in Central and Eastern Europe. On the other hand, the higher rate of interest paid on deposits had a negative impact in Belgium, more particularly the increase in the base rate paid on savings deposits from 1 July 2008. As a result, the net interest margin for the banking activities of the group as a whole narrowed by four basis points to 1.68%.

As in the past few years, gross earned premiums in non-life insurance continued to grow, coming to 2 052 million euros, an annual increase of 4% on a comparable basis. In non-life insurance, a solid technical result was recorded in all business units, with a combined ratio for the whole group of 95%, compared with 96% in 2007. In fact, this ratio remained below 100% for all business units (96% for the Belgium Business Unit, 95% for the CEER Business Unit and 87% for the Merchant Banking Business Unit). The claims reserve ratio stood at 165% in 2008. The ceded reinsurance result was a negative 72 million euros, compared with a negative 64 million euros a year earlier.

In compliance with IFRS, reported premium income in life insurance (2 533 million euros) does not include certain types of life product (mostly unit-linked products). If the premium income from such products is included, premium income amounted to 4.2 billion euros in 2008 (3.2 billion euros for non-linked products and 1 billion euros for unit-linked products), almost one-fifth higher than in 2007, despite the increased rate of interest paid on traditional bank deposit products. In 2008, the life reserves (at 23 billion euros) remained at roughly the same level as year-end 2007.

Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) came to a negative 3 481 million euros in 2008, compared with a positive 1 642 million euros in 2007. If (i) the fair-value adjustments of ALM hedging instruments – whose underlying is not measured at fair value under IFRS – are excluded, (ii) all trading-related income recorded under IFRS in various other income headings are included in trading profit, and (iii) the one-off loss resulting from the discontinuation of certain derivative trading activities at KBC Financial Products, the positive effect of changes in the fair value of own debt instruments and the negative impact of the value markdowns on the CDOs held in portfolio (see below) are all excluded, underlying trading and fair value income amounted to 933 million euros, compared with 1 275 million euros in 2007.

As already mentioned, changes in the market value of CDOs held in portfolio are not included in the underlying result, but they are in the IFRS figures. In 2007, the downward adjustment in the market value of these instruments amounted to -0.2 billion euros before tax. This was -4 billion euros in 2008, owing to the downgrading of CDO tranches, increased counterparty exposure to monoline insurers and wider credit spreads. KBC also acted proactively and fully wrote down the value of all mezzanine CDO notes (i.e. all CDO notes with the exception of the super senior tranches) of CDOs originated by KBC Financial Products, so that fluctuations in the value of these notes would no longer affect future results.

Whereas many competitors charge these markdowns to equity – without this having any impact on their net earnings – most of the losses recorded at KBC have a direct impact on net earnings. This is due to the fact that, unlike the situation at many sector peers, the CDOs held in portfolio at KBC comprise few 'physical bonds', but rather derivatives. In accordance with prevailing accounting rules, movements in the value of such derivatives are recorded in the income statement. Fluctuations in the value of the bulk of the other Asset Backed Securities (ABS) are, however, taken to equity at KBC and totalled -1.4 billion euros in 2008 (-0.1 billion euros in 2007). More information on the portfolio of structured investments (CDOs and other ABS) is provided in KBC's *Risk Report*, which is available at www.kbc.com.

Net realised gains from available-for-sale assets (*realised gains*) came to 95 million euros in 2008, or 343 million euros on an underlying basis. The assets in question were primarily shares in the insurer's investment portfolio. These gains are lower than in 2007, which is of course attributable to the sharp fall in stock market prices.

Net fee and commission income amounted to 1 714 million euros (down 18% year-on-year on an underlying basis). The trend in net fee and commission income cannot be separated from the financial and stock market crisis, which prompted investors to turn their backs on investment funds and certain investment-type insurance, and to opt instead for traditional deposit products. As a result, fee and commission income in the banking business fell by 11%. Conversely, fees and commission paid (primarily to insurance agents) went up by 28%, due to increased sales of insurance and new acquisitions. In 2008, total assets under management by the group decreased by approximately 10% to 207 billion euros, which was attributable entirely to the decline in value of the assets in question (-12 percentage points) and a limited inflow of assets (+1 percentage point).

Dividend income amounted to 259 million euros, or 196 million euros on an underlying basis, up approximately 11% on the year-earlier figure. Other net income amounted to 618 million euros, unchanged on the figure for 2007. The main items classed as exceptional in 2007 and 2008 and included under this heading appear in the table entitled 'Reconciliation of profit according to IFRS and underlying profit' in this section. Excluding these exceptional items, underlying other net income amounted to 450 million euros in 2007 and 404 million euros in 2008. This difference is almost entirely accounted for by the fact that the 2007 figure was favourably influenced by a refund of 44 million euros from the Belgian deposit protection scheme.

# Analysis of operating expenses

## Operating expenses, KBC group

| | IFRS | | Underlying result* | |
|---|---|---|---|---|
| **In millions of EUR** | **2007** | **2008** | **2007** | **2008** |
| Staff expenses | -3 148 | -3 139 | -3 094 | -3 131 |
| General administrative expenses | -1 740 | -1 984 | -1 740 | -1 984 |
| Depreciation and amortisation of fixed assets | -361 | -392 | -361 | -392 |
| Provisions for risks and charges | 31 | -84 | 31 | -84 |
| **Total operating expenses** | **-5 219** | **-5 600** | **-5 164** | **-5 591** |
| Belgium Business Unit | -1 849 | -2 029 | -1 849 | -2 029 |
| CEER Business Unit | -1 490 | -1 878 | -1 490 | -1 878 |
| Merchant Banking Business Unit | -1 313 | -1 199 | -1 323 | -1 191 |
| European Private Banking Business Unit | -487 | -487 | -487 | -487 |
| Group Centre | -80 | -7 | -15 | -7 |

* Definition changed in 2008; figures for 2007 adjusted retroactively.

At first glance, operating expenses for 2008 were around 7% higher than the year-earlier figure. However, on an underlying basis and disregarding the impact of exchange rate fluctuations and new acquisitions, costs remained more or less the same as the previous year. The positive effect of lower variable employee remuneration was partly cancelled out by inflation, costs associated with the expansion of the branch network in Central and Eastern Europe, and various one-off items such as restructuring provisions and early retirement provisions.

The underlying cost increase came to 10% for the Belgium Business Unit (more than half of which was attributable to non-recurring factors), to 7% for the CEER Business Unit (disregarding the impact of exchange rate fluctuations and new acquisitions), while costs fell by 10% for the Merchant Banking Business Unit, and by 6% for the European Private Banking Business Unit (on a comparable basis).

In 2008, the underlying cost/income ratio for the banking activities came to 64%. For the business units, this ratio was 71% for Belgium, 60% for CEER, 57% for Merchant Banking, and 73% for European Private Banking.

Given the uncertainty on the financial markets and the deteriorating economic situation, the group announced at the end of 2008 that it would be taking measures to reduce the cost base even more, while ensuring that the main income flows would not be undermined. These measures include a recruitment freeze throughout the group, a review of variable pay components in Belgium, a reduction in the number of people employed in the investment banking and private banking divisions and – more generally – a thorough evaluation of all operations outside the home markets of Belgium and Central and Eastern Europe, an exercise to ascertain whether or not these operations belong to KBC's core activities, generate sufficient return or use up too much capital.

# Analysis of impairment

## Impairment, KBC group

| In millions of EUR | 2007 | IFRS 2008 | Underlying result* 2007 | Underlying result* 2008 |
|---|---|---|---|---|
| Impairment on loans and receivables | -185 | -822 | -185 | -641 |
| Impairment on available-for-sale assets | -75 | -1 333 | 0 | -44 |
| Impairment on goodwill | 0 | -25 | 0 | -15 |
| Impairment on other assets | -7 | -54 | -7 | -43 |
| **Total impairment** | **-267** | **-2 234** | **-191** | **-743** |
| Belgium Business Unit | -80 | -652 | -59 | -46 |
| CEER Business Unit | -91 | -413 | -90 | -322 |
| Merchant Banking Business Unit | -55 | -877 | -7 | -330 |
| European Private Banking Business Unit | -39 | -223 | -33 | -43 |
| Group Centre | -2 | -69 | -2 | -2 |

* Definition changed in 2008; figures for 2007 adjusted retroactively.

In 2008, impairment *on loans and receivables* amounted to 822 million euros, a significant increase on the 185 million euros recorded in 2007. This was a clear reflection of the worsening economic climate and had a particularly marked impact on the Merchant Banking Business Unit (mainly business credit abroad) and also to a certain extent on the CEER Business Unit. On the other hand, the Belgian retail business still had extremely low levels of loan losses.

Impairment on available-for-sale assets (1 333 million euros) includes value markdowns on shares and bonds in the investment portfolio. The markdowns on shares – primarily in the investment portfolios of the group's insurers – came to 918 million euros in 2008, a markedly higher level than in 2007 (66 million euros) triggered by the slump in share prices in 2008. The markdowns on bonds rose from 9 million euros to 415 million euros. Most of this increase was accounted for by Lehman Brothers, Washington Mutual and the Icelandic banks. The valuation losses incurred on shares and the impairment charges on bonds issued by troubled US and Icelandic banks are classified as exceptional items and, therefore, eliminated from the underlying result.

The credit cost ratio (which includes impairment on loans and on corporate and bank bonds) went up from an extremely low 13 basis points in 2007 to 70 basis points in 2008, or to 46 basis points on an underlying basis (i.e. disregarding Lehman Brothers, Washington Mutual and the Icelandic banks). Since loan losses lag the general economic cycle to a certain extent, KBC has taken account of this ratio increasing further in the year ahead. The underlying credit cost ratio came to 9 basis points for the Belgium Business Unit (13 basis points in 2007), to 73 basis points for the CEER Business Unit (26 basis points in 2007), and to 48 basis points for the Merchant Banking Business Unit (2 basis points in 2007).

On average, loan quality remained relatively good in 2008, as illustrated by the non-performing-loan ratio, which amounted to 1.8% (or 1.7% on an underlying basis), compared with 1.5% at the end of 2007. Given that a lag effect exists here, too, this ratio could deteriorate in the future. At year-end 2008, the percentage of cover for non-performing loans afforded by (all) loan loss provisions came to 94%.

Most of the other impairment charges relate to restructuring in the investment banking division and includes an amount of 25 million euros in relation to goodwill (zero in 2007) and 54 million euros in relation to other assets (7 million euros in 2007).

# Analysis of the other components of the results

## Other components of the results

| In millions of EUR | 2007 | IFRS 2008 | Underlying result* 2007 | Underlying result* 2008 |
|---|---|---|---|---|
| Share in results of associated companies | 56 | -1 | 56 | 13 |
| Income tax expense | -970 | 629 | -916 | -470 |
| Profit after tax, attributable to minority interests | 123 | 105 | 123 | 111 |

* Definition changed in 2008; figures for 2007 adjusted retroactively.

The share in the results of associated companies came to -1 million euros in 2008, and related (as in previous years) primarily to the contribution of the minority interest in Nova Ljubljanska banka in Slovenia (accounted for using the equity method).

Income tax expense amounted to a positive 629 million euros, which was of course due to the negative result before tax.

Profit after tax attributable to minority interests totalled 105 million euros, in line with the year-earlier figure, despite the sharp decline in total net profit. This is mainly down to the fact that minority interests also include the (positive) result attributable to preference shares.

# Breakdown of profit by business unit and according to the group's legal structure

## Profit after tax, attributable to equity holders of the parent

| In millions of EUR | IFRS | | Underlying result* | |
|---|---|---|---|---|
| **Breakdown by business unit** | **2007** | **2008** | **2007** | **2008** |
| Belgium Business Unit | 1 402 | -397 | 1 364 | 1 145 |
| CEER Business Unit | 664 | 188 | 641 | 687 |
| Merchant Banking Business Unit | 833 | -2 164 | 965 | 418 |
| European Private Banking Business Unit | 210 | -153 | 211 | 161 |
| Group Centre | 172 | 41 | -36 | -140 |
| **Profit after tax, attributable to equity holders of the parent** | **3 281** | **-2 484** | **3 143** | **2 270** |
| **Breakdown according to the group's legal structure** | | | | |
| Banking | 2 364 | -1 272 | 2 193 | 1 454 |
| Insurance | 741 | -987 | 801 | 744 |
| European Private Banking | 205 | -146 | 204 | 155 |
| Holding-company activities | -29 | -79 | -55 | -83 |
| **Profit after tax, attributable to equity holders of the parent** | **3 281** | **-2 484** | **3 143** | **2 270** |

* Definition changed in 2008; figures for 2007 adjusted retroactively.

The results of the various business units are detailed in the ensuing sections (note that the results of the Shared Services & Operations Business Unit are allocated virtually entirely to the other business units). The results of the Group Centre, which include the holding company's debt-service charges and certain charges not allocated to other business units, appear in the summary table and are given in more detail in the *Extended Quarterly Report – KBC Group, 4Q 2008*, which can be downloaded from www.kbc.com.

A complete breakdown of the income statement according to the group's legal structure is given under 'Notes to segment reporting' in the 'Consolidated annual accounts' section.

# Balance sheet, solvency and assets under management

## Selected balance-sheet and solvency items, KBC group

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total assets | 355 597 | 355 317 |
| Loans and advances to customers | 147 051 | 157 296 |
| Securities | 105 023 | 94 897 |
| Deposits from customers and debt securities | 192 135 | 196 733 |
| Gross technical provisions and liabilities under investment contracts, insurance | 26 833 | 26 724 |
| Parent shareholders' equity | 17 348 | 14 210 |
| Equity per share (in EUR) | 50.7 | 31.5 |
| Tier-1 ratio, banking (KBC Bank and KBL EPB, Basel II calculation method) | 8.7% | 9.7% (*pro forma** 11.2%) |
| Core tier-1 ratio | 7.4% | 7.2% (*pro forma** 8.6%) |
| Solvency ratio, insurance | 265% | 188% |

* Including the impact of the 2-billion-euro transaction to bolster the group's capital position, concluded with the Flemish Regional Government after 31 December 2008 (viz. in January 2009).

At the end of 2008, the KBC group's total assets came to 355 billion euros, roughly the same as a year earlier. As in 2007, loans and advances to customers (157 billion euros at the end of 2008) and securities (95 billion euros) were the main products on the asset side of the balance sheet. On a like-for-like basis, loans and advances to customers (not including the volume of reverse repurchase agreements, exchange rate movements and new acquisitions) were up 8% on the end of 2007, with the biggest increase in the CEER Business Unit (+25%). The main credit products were term loans (78 billion euros) and home loans (56 billion euros). Deposit products grew by 2% on an organic basis (on a comparable basis and excluding the volume of repurchase agreements) to 197 billion euros, with time deposits (69 billion euros), demand deposits (45 billion euros) and savings deposits (29 billion euros) the main products in this category.

Technical provisions and liabilities under the insurer's investment contracts totalled 27 billion euros, which is broadly the same as at the end of 2007. Most of this figure (23 billion euros) was accounted for by the life insurance reserves, which remain at virtually the same level as a year earlier.

At year-end 2008, investment funds managed by KBC (funds do not appear on the balance sheet, but afford customers an alternative to, for instance, traditional bank deposits, which do appear on the balance sheet) came to 151 billion euros. Total assets under management (which, aside from investment funds, also include the assets managed for private and institutional investors) amounted to 207 billion euros, down 10% on the year-earlier figure. This was due entirely to the sharp decline in the value of the assets themselves, since there was even slight net growth in terms of volume (1%) (see table for breakdown of total assets under management).

On 31 December 2008, parent shareholders' equity came to 14 billion euros. In accordance with IFRS, this amount includes the unrealised gains and losses on available-for-sale assets (-1.1 billion euros at year-end). The main changes in equity compared with year-end 2007 relate to the inclusion of the net result for the financial year (-2.5 billion euros), the dividends for 2007 that were paid out in 2008 (-1.3 billion euros), the change in the revaluation reserve for available-for-sale assets (-1.9 billion euros), the treasury shares repurchased under the share buyback programme that was suspended in May 2008 (-0.3 billion euros) and the impact of the measures agreed with the Belgian State in October 2008 to strengthen the group's capital base (+3.5 billion euros). Underpinned by this transaction with the government, the solvency position at the end of 2008 was reflected in a tier-1 ratio for the banking activities of 9.7% (under Basel II), and a solvency ratio for the insurance activities of 188%. Including the impact of the second operation to strengthen the group's capital base, which was concluded with the Flemish Regional Government in mid-January 2009, the *pro-forma* tier-1 ratio for the banking activities stood at 11.2% at year-end 2008.

## Assets under management, KBC group

| In millions of EUR | 2007* | 2008 |
|---|---|---|
| **By business unit** | | |
| Belgium | 162 538 | 151 037 |
| CEER | 12 999 | 11 729 |
| Merchant Banking | 891 | 36 |
| European Private Banking | 54 462 | 44 040 |
| **Total** | **230 890** | **206 842** |
| **By product or service** | | |
| Investment funds for private individuals | 93 507 | 79 674 |
| Assets managed for private individuals | 81 874 | 68 825 |
| Assets managed for institutional investors | 38 344 | 39 832 |
| Group assets managed by KBC Asset Management | 17 165 | 18 510 |
| **Total** | **230 890** | **206 842** |

* Restated figures.

# Business Units

## Belgium

## Central & Eastern Europe and Russia

## Merchant Banking

## European Private Banking

## Shared Services & Operations

Business Units

# Belgium

Central & Eastern Europe and Russia

Merchant Banking

European Private Banking

Shared Services & Operations

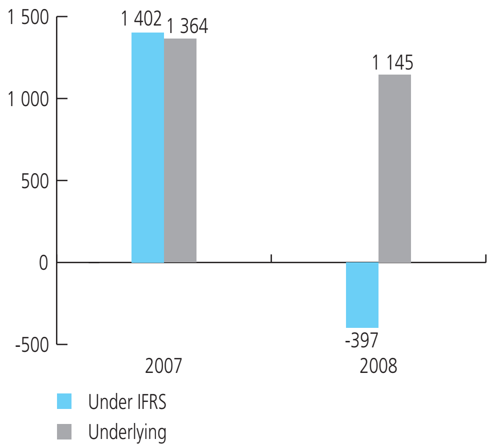
This business unit brings together all the group's banking and insurance activities in Belgium. More specifically, it comprises the Belgian retail and private banking activities of KBC Bank, the Belgian activities of KBC Insurance and the activities of a number of Belgian subsidiaries. The main group companies belonging to this unit are ADD, CBC Banque, Centea, Fidea, KBC Asset Management, KBC Bank (Belgian retail and private banking activities), KBC Insurance and VAB Group.

## 2008 highlights

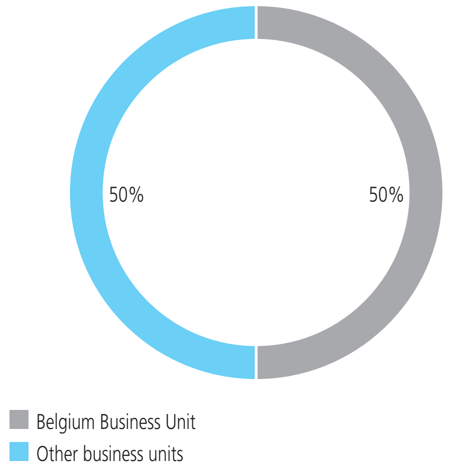
- Excluding the direct impact of the financial crisis (primarily the valuation markdowns relating to the portfolio of equities and structured investments) and other exceptional items, this business unit contributed 1 145 million euros to underlying group profit.
- Including the direct impact of the financial crisis and other exceptional items, the business unit recorded a net loss of 397 million euros.
- Underlying net profit was down 16% year-on-year, due chiefly to the higher rate of interest paid on deposits in the second half of the year and to changes in investor behaviour, which resulted in lower sales of investment funds and certain investment-type insurance.
- Sales of non-life insurance (up 5%) outperformed the market, while sales of life insurance offering a guaranteed rate of interest soared by no less than 19% year-on-year.
- Costs were kept under control: excluding one-off and technical items, they went up by just 4%, in line with the annual rate of inflation. Additional cost-saving measures were taken towards the end of 2008.
- Impairment on loans and receivables remained very low (credit cost ratio of just 0.09%) in spite of the deteriorating economic situation.
- Despite the difficult economic conditions, net growth was recorded in both lending (+8%) and deposits (+6%), while life insurance reserves remained at more or less the same level.
- Customer satisfaction with KBC Bank branches remained at a high level.

### *Belgium Business Unit: net result*

*In millions of EUR*




### *Belgium Business Unit: share in underlying net result of the group (2008)*



# Contribution to group results

## Results, Belgium Business Unit

| In millions of EUR | IFRS 2007 | IFRS 2008 | Underlying result* 2007 | Underlying result* 2008 |
|---|---|---|---|---|
| Net interest income | 1 996 | 1 997 | 1 951 | 1 983 |
| Gross earned premiums, insurance | 2 678 | 3 053 | 2 678 | 3 053 |
| Gross technical charges, insurance | -2 618 | -2 918 | -2 618 | -2 918 |
| Ceded reinsurance result | -13 | -21 | -13 | -21 |
| Dividend income | 129 | 148 | 129 | 148 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 120 | -1 031 | 64 | 47 |
| Net realised gains from available-for-sale assets | 369 | 119 | 369 | 355 |
| Net fee and commission income | 915 | 724 | 915 | 724 |
| Banking | 1 086 | 925 | 1 086 | 925 |
| Insurance | -171 | -200 | -171 | -200 |
| Other net income | 198 | 177 | 199 | 177 |
| **Total income** | **3 775** | **2 247** | **3 675** | **3 548** |
| Operating expenses | -1 849 | -2 029 | -1 849 | -2 029 |
| Impairment | -80 | -652 | -59 | -46 |
| on loans and receivables | -59 | -46 | -59 | -46 |
| on available-for-sale assets | -21 | -600 | 0 | 0 |
| Share in results of associated companies | 0 | 0 | 0 | 0 |
| **Profit before tax** | **1 846** | **-434** | **1 767** | **1 473** |
| Income tax expense | -440 | 35 | -399 | -326 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **1 406** | **-398** | **1 368** | **1 147** |
| attributable to minority interests | 4 | -2 | 4 | 2 |
| **attributable to equity holders of the parent** | **1 402** | **-397** | **1 364** | **1 145** |
| Banking | 789 | 167 | 709 | 474 |
| Insurance | 614 | -563 | 655 | 671 |
| Risk-weighted assets, banking (period-end) (Basel II) | 23 512 | 23 380 | 23 512 | 23 380 |
| Allocated capital (period-end) | 2 980 | 3 134 | 2 980 | 3 134 |
| Return on allocated capital | 47% | – | 46% | 36% |
| Cost/income ratio, banking | 56% | 87% | 58% | 71% |
| Combined ratio, non-life insurance | 98% | 96% | 98% | 96% |

* Definition changed in 2008; figures for 2007 adjusted retroactively. For information on how the underlying figures are calculated, see 'Group results for 2008' and the reconciliation table in this section.

## Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and underlying figures)

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Profit after tax, attributable to equity holders of the parent (IFRS) | 1 402 | -397 |
| Less: | | |
| valuation losses on CDOs (after tax) | -23 | -505 |
| valuation losses on shares (after tax) | -21 | -833 |
| valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax) | 0 | -2 |
| other exceptional items* (after tax) | 82 | -202 |
| Profit after tax, attributable to equity holders of the parent (underlying) | 1 364 | 1 145 |

* Including changes in the fair value of certain ALM hedging instruments.

In 2008, the Belgium Business Unit generated a net loss of 397 million euros, compared with a net profit of 1 402 million euros a year earlier. Underlying net profit (see table) amounted to 1 145 million euros, down 16% on 2007. In 2008, 22% (or 3.1 billion euros) of group capital was allocated to this business unit.

Net interest income totalled 1 997 million euros in 2008. On an underlying basis, it came to 1 983 million euros, slightly higher (+2%) than the year-earlier figure in spite of the negative impact (roughly -170 million euros) of the higher base rate paid on savings deposits in the second half of the year. This came about mainly as a result of the rising volume of loans (+8%) and customer deposits (+6%). Besides being driven by the higher base rate, the increase in customer deposits also reflected a shift in investor preference towards traditional bank deposits and away from investment funds and unit-linked life insurance products. The net interest margin for the business unit narrowed from 1.76% in 2007 to 1.47% in 2008, due largely to the higher rate of interest paid on savings deposits since the middle of the year under review.

Gross earned insurance premiums amounted to 3 053 million euros. For non-life insurance, the corresponding figure came to 923 million euros, an increase of 5% compared with 2007 and, like then, a better performance than the market as a whole. Moreover, the combined ratio for the non-life insurance activities amounted to a favourable 96%, up 2 percentage points on the previous year, though 2007 had been adversely affected by exceptional storm damage.

In the life insurance business, premium income came to 2 130 million euros but, as required under IFRS, this figure does not reflect investment contracts without a discretionary participation feature (DPF) (these can be more or less equated to unit-linked life insurance policies). For these products, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). Including the premium income from such products, total premium income for the life insurance activities in Belgium amounted to 2.8 billion euros, 6% more than the year-earlier figure, despite the difficult investment climate. Unit-linked products accounted for 0.7 billion euros (-20% compared with 2007) of this figure and guaranteed-rate products 2.1 billion euros (+19%). At year-end 2008, the outstanding life reserves in this business unit totalled 19.6 billion euros, unchanged from the previous year.

Net fee and commission income amounted to 724 million euros. Fee and commission *income* in the banking business fell by 15%, due primarily to lower sales of investment funds, whereas fees and commission *paid* (primarily to agents in the insurance business) went up by 17%, thanks in part to increased sales of insurance products. Assets under management in the Belgium Business Unit (investment funds and assets managed on an advisory and discretionary basis) fell by 7%, slipping from 163 billion euros at year-end 2007 to 151 billion euros a year later. This decline was attributable entirely to the fall in value of the assets themselves, combined with a minor net inflow of assets (1%).

Net realised gains from available-for-sale assets came to 119 million euros. On an underlying basis, the figure was 355 million euros, a decline of 4% on the year-earlier figure. This mainly related to capital gains on the sale of shares from the insurer's investment portfolio, the bulk of which were realised in the first quarter of the year.

Dividend income came to 148 million euros in 2008, which was 19 million euros more than the previous year. Other net income amounted to 177 million euros, down 22 million euros on the 2007 figure, which had been boosted by a refund from the deposit protection scheme of 44 million euros.

Net (un)realised gains from financial instruments at fair value through profit or loss (fair value income) came to a negative 1 031 million euros, compared with a positive 120 million euros in 2007. This was due largely to markdowns on CDO notes (0.8 billion euros in 2008, 33 million euros in 2007), triggered by wider credit spreads and the downgrading of certain CDO notes. On an underlying basis – i.e. excluding factors such as the impact of CDOs – fair value income amounted to 47 million euros, 17 million euros less than in 2007.

The operating expenses of the Belgium Business Unit (2 029 million euros) rose by just under 10% year-on-year, but they do include a number of one-off items such as new early retirement provisions and increased pension fund provisions. Excluding these items, costs went up by around 4%, barely above the annual rate of inflation. The underlying cost/income ratio for the banking activities of this business unit came to 71%, compared with 58% in 2007.

Impairment recorded on *loans and receivables* was 46 million euros, compared with 59 million euros a year earlier. Impairment recorded on *available-for-sale assets* rose from 21 million euros to 600 million euros, which was clearly due to the considerable increase in value markdowns on equities arising from the stock-market crash. The credit cost ratio (which includes impairment on both loans and bonds, but not markdowns on equities) ended the year at 9 basis points, an extremely favourable level compared with the already very low 13 basis points for 2007.

# Facts and figures

## Belgium Business Unit

| Customers (estimates) | 2007 | 2008 |
|---|---|---|
| Total (in millions) | 3.8 | 3.9 |
| **Network** | | |
| Retail bank branches, KBC Bank and CBC Banque* | 830 | 826 |
| Private banking branches, KBC Bank and CBC Banque | 25 | 26 |
| Bank agencies, Centea | 712 | 696 |
| Insurance agencies, KBC Insurance | 552 | 530 |
| **Assets under management (in billions of EUR)** | | |
| Investment funds for private individuals | 79.9 | 68.9 |
| Assets managed for private individuals | 40.8 | 34.3 |
| Assets managed for institutional investors | 24.7 | 29.4 |
| Group assets managed by KBC Asset Management | 17.2 | 18.5 |
| Total | 162.5 | 151.0 |
| **Market share (estimates)** | | |
| Loans | 22% | 23% |
| Deposits | 19% | 20% |
| Investment funds | 35% | 37% |
| Life insurance | 11% | 14% |
| Non-life insurance | 9% | 9% |
| **Cross-selling indicators** | | |
| Life insurance sold via the bank channel | 77% | 79% |
| Non-life insurance sold via the bank channel | 15% | 17% |
| **E-payments indicators** | | |
| Percentage of payment transactions via electronic channels | 93% | 94% |
| Number of KBC- and CBC-Matic ATMs | 1 277 | 1 272 |
| Number of cash withdrawals at KBC- and CBC-Matic ATMs per month (in millions) | 3.9 | 4.0 |
| Active subscribers to KBC Internet and PC banking facilities | 580 000 | 675 000 |
| **Customer satisfaction** | | |
| Percentage of customers surveyed who gave their KBC Bank branch a score of ‘good’ or ‘very good’ (min. 8/10) | 72% | 70% |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR) | 58 | 62 |
| Share of the total loan portfolio | 28% | 28% |

* Including branches catering for the social profit segment; excluding CBC’s main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the Merchant Banking Business Unit section. The figure for 2007 has been restated.

DANNY DE RAYMAEKER

# Key messages from the CEO of the Belgium Business Unit

**Group approach to fierce competition in the savings account market in 2008** We responded to market trends by raising the base rate on our savings accounts from 1.75% to 4% in July. This higher rate applied to balances of up to 40 000 euros on all KBC Savings Accounts held by private customers. When the European Central Bank slashed its official interest rates in a series of cuts in the autumn, economic logic required the group to follow suit, and so we lowered the savings interest rate again, together with the rates applying to other products, including home loans.

2008 was an extremely good year for the group in terms of deposit-taking, thanks in part to the higher base rate on savings accounts. In Belgium, customer deposits rose by a total of around 4.6 billion euros.

**Favourable trend in customer satisfaction ratings** Customer loyalty and satisfaction are always crucial, but even more so when times are tough. At a time when stock markets are in turmoil and the financial sector is undergoing a sea change, it is extremely important that our customers receive the best possible care. That isn't always easy. Who could honestly have predicted, for instance, that the stock market would fall so sharply in the space of just a year or that the Belgian financial landscape would change so dramatically in such a short time?

However, our group has always focused strongly on customers' experiences, which is why we measure customer satisfaction every year. The results of the 2008 survey remain encouraging. No less than 70% of customers were very satisfied with the service they received. In other words, they gave their branch a score of eight or more out of ten. That's broadly the same as the previous year's figure of 72%, and is actually eight percentage points higher than in 2004. Although the survey was carried out in the May-June period, the group continued to do well in terms of customer confidence in the months that followed. That was clear, for instance, from an external study carried out by the organisation *Research Solution* into customers' confidence in their bank, which gave KBC the second highest rating of all the Belgian banks.

Furthermore, KBC Bank received the Belgian 'Bank of the Year 2008' award from *The Banker* magazine.

**Change in customers' saving and investment behaviour triggered by the financial crisis** The impact of the crisis on investor behaviour made itself felt primarily in a *shift* between products. For example, sales of investment funds and unit-linked investment-type insurance were down, but this was offset by growth mainly in traditional bank deposit products. This trend was obviously attributable in part to the higher interest paid on these traditional products.

Our group's share of the market increased slightly in 2008. The net inflow of deposits strengthened our share of the deposit market, which went up from 19% in 2007 to 20% in 2008. More specifically, our market share for *savings accounts* came to just over 18%. The estimated share of the Belgian life insurance market was around 14%, more specifically 12% for guaranteed-rate products and 32% for unit-linked products. Lastly, our share of the market in investment funds, which in the past few years has grown virtually without interruption, rose to no less than 37% in 2008 and means that KBC remains the leader in Belgium for this type of product.

**Limited loan losses on the Belgian retail portfolio** Despite the deteriorating economic situation in 2008, the KBC group still turned in a very respectable performance in terms of loan losses in Belgium. The loan losses incurred on the Belgian retail portfolio remained extremely low, with a credit cost ratio of 0.09%, which even represents an improvement on the already very favourable 0.13% the group reported in 2007. Needless to say, KBC will remain vigilant – loan losses tend to lag the economic cycle somewhat – and we have taken account of a downturn in this ratio in the near future.

**New developments on the electronic bancassurance front** As part of the ongoing improvement of e-services, the KBC-Matic ATM network was further modernised in 2008 and the range of e-banking and e-insurance services offered via KBC-Online expanded once again with the addition of various new applications, including the new *SEPA Credit Transfer* and *Zoomit* functions. *Zoomit* allows users to view incoming invoices in electronic form and to pay them with just a few clicks of the mouse. The success of KBC's online bancassurance systems is reflected in the continuously rising number of users. At the end of 2008, KBC-Online, CBC-Online and Centea-Online had more than 675 000 active subscribers in total, 16% more than in the previous year.

What's more, since April 2008, KBC has been running an entirely new website for private customers in Belgium (www.kbc.be). The information and advisory sections of the site are structured around the customer's basic financial needs of savings and investments, loans, insurance and day-to-day banking and payments. At the same time, it is being developed as a fully fledged sales channel that is available 24 hours a day. A new website for young customers was also launched in 2008. It is structured around the key moments in the lives of this target group and covers such areas as higher education, graduation, a first salary and a place of one's own. These channels are intended to complement the group's network of bank branches and insurance agencies in Belgium, which will naturally remain the cornerstone of our service provision.

A totally revamped corporate website – www.kbc.com – was also launched in 2008, where customers and investors can find all sorts of non-sales-related information about the KBC group. We opted for a clear and straightforward navigation structure and for a restrained layout. The information has been rearranged and set out in such a way to help users locate everything they want to know about our group faster and more efficiently. The global financial crisis has, after all, amply demonstrated the importance of openness and providing clear and up-to-date communication.

## Further initiatives in the field of corporate social responsibility

Most of our attention has obviously been devoted to managing the consequences of the global crisis. Nevertheless, there has been no let-up in our efforts in the field of corporate social responsibility.

To give a few examples, KBC has been using 100% green energy since 1 March 2008. All of the group's companies in Belgium are now using this source of sustainable energy, which has had an immediate impact of reducing greenhouse gas emissions by an estimated 47%. The group is also continuing to work on reducing its energy consumption. The Executive Committee has decided that our Belgian operations must achieve a climate-neutral footprint by 2010. To meet that objective, a large number of projects – many of them suggested by our own employees – have already been launched.

On 3 November, KBC and Umicore were jointly awarded the prize for 'Best Corporate Social Responsibility Report' in Belgium. This fine achievement is just recognition of the commitment of the entire KBC group to improve and render even more transparent its performance in the area of corporate social responsibility.

## Objectives and focus for the years ahead

It is clear that 2009 is going to be a difficult year. Given that context and the fact that revenue levels will come under pressure, it makes sense to focus even more intensely on efficiency and keeping costs well under control, without of course undermining our commercial clout. To that end, an agreement on cost-saving measures has been signed with the social partners. It deals with a number of areas, including a review of variable pay components.

As a financial institution, the group also needs to find a healthy balance between margins on savings and loans, so that its core function of providing financial intermediation services is reasonably compensated.

Lastly, great care will be taken to ensure that customer and employee satisfaction remain at the centre of our focus. After all, these are the most important factors underpinning our long-term growth and profitability.

Business Units

Belgium

# Central & Eastern Europe and Russia

Merchant Banking

European Private Banking

Shared Services & Operations

The Central & Eastern Europe and Russia (CEER) Business Unit comprises all group banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe and Russia. The main group companies belonging to this unit are Absolut Bank (Russia), CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), ČSOB Poist'ovňa (Slovakia), ČSOB Pojišt'ovna (Czech Republic), DZI Insurance (Bulgaria), Istrobanka (Slovakia), K&H Bank (Hungary), K&H Insurance (Hungary), KBC Banka (Serbia), Kredyt Bank (Poland), NLB Vita (Slovenia), Nova Ljubljanska banka (Slovenia, minority interest) and WARTA (Poland).

# 2008 highlights

- Excluding the direct impact of the financial crisis (primarily the valuation markdowns relating to troubled banks in the US and Iceland and to the portfolio of equities and structured investments) and other exceptional items, this business unit contributed 687 million euros to underlying group profit, 3% more than in the previous year. Including the effect of changes in the scope of consolidation and exchange rate fluctuations, the increase was no less than 7%.

- Including the direct impact of the financial crisis and other exceptional items, net profit came to 188 million euros. Positive earnings figures were recorded in all core countries (the Czech Republic, Slovakia, Hungary and Poland) and also in Russia.

- Underlying total income went up by 11% on a comparable basis, due primarily to the sharp rise in net interest income resulting from volume growth and wider margins.

- Costs were kept well under control, increasing by just 7% on an organic basis, despite inflation and the expansion of the sales networks.

- Loan losses rose by 228 million euros, resulting in an underlying credit cost ratio of 0.73% for the region as a whole.

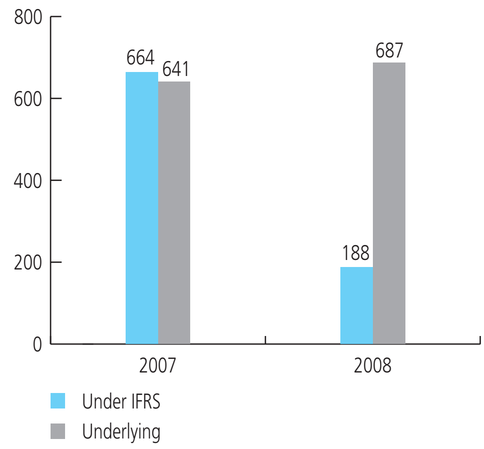
- In spite of the difficult economic situation, there was robust organic growth in lending (+25%), deposit-taking (+8%) and life insurance reserves (+28%). The assets managed by this business unit amounted to almost 12 billion euros.

- KBC is now the largest fund manager in the region.

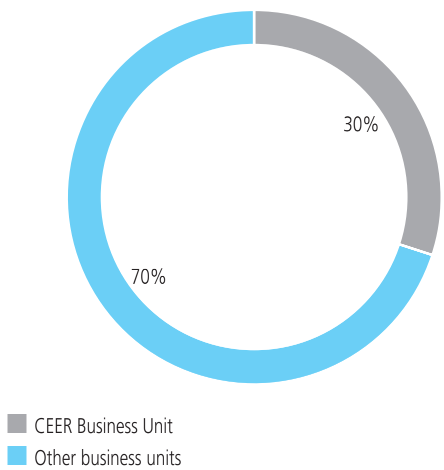
- Acquisition activity was limited in 2008. Following high levels of activity in 2007, fresh acquisitions in the region were confined to Istrobanka (Slovakia).

***CEER Business Unit: net result***

*In millions of EUR*




***CEER Business Unit: share in underlying net result of the group (2008)***



# Contribution to group results

## Results, CEER Business Unit

| | | IFRS | | Underlying result[1] |
|---|---|---|---|---|
| **In millions of EUR** | **2007** | **2008** | **2007** | **2008** |
| Net interest income | 1 228 | 1 745 | 1 237 | 1 782 |
| Gross earned premiums, insurance | 1 018 | 1 285 | 1 018 | 1 285 |
| Gross technical charges, insurance | -574 | -786 | -574 | -786 |
| Ceded reinsurance result | -32 | -38 | -32 | -38 |
| Dividend income | 6 | 13 | 6 | 13 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 263 | -239 | 237 | 315 |
| Net realised gains from available-for-sale assets | 27 | -7 | 27 | -8 |
| Net fee and commission income | 324 | 301 | 324 | 301 |
| Banking | 472 | 535 | 472 | 535 |
| Insurance | -148 | -234 | -148 | -234 |
| Other net income | 135 | 195 | 100 | 136 |
| **Total income** | **2 395** | **2 469** | **2 345** | **3 002** |
| Operating expenses | -1 490 | -1 878 | -1 490 | -1 878 |
| Impairment | -91 | -413 | -90 | -322 |
| on loans and receivables | -85 | -313 | -85 | -313 |
| on available-for-sale assets | -1 | -80 | 0 | 0 |
| Share in results of associated companies | 51 | 10 | 51 | 23 |
| **Profit before tax** | **865** | **187** | **815** | **824** |
| Income tax expense | -173 | 23 | -146 | -115 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **692** | **210** | **669** | **710** |
| attributable to minority interests | 28 | 22 | 28 | 23 |
| **attributable to equity holders of the parent** | **664** | **188** | **641** | **687** |
| Banking | 587 | 190 | 564 | 641 |
| Insurance | 76 | -1 | 76 | 46 |
| Risk-weighted assets, banking (period-end) (Basel II) | 31 486 | 38 380 | 31 486 | 38 380 |
| Allocated capital (period-end) | 2 371 | 2 922 | 2 371 | 2 922 |
| Return on allocated capital | 26% | 3% | 25% | 22% |
| Cost/income ratio, banking | 61% | 75% | 63% | 60% |
| Combined ratio, non-life insurance | 95% | 95% | 95% | 95% |
| **Profit after tax, attributable to equity holders of the parent[2]** | **664** | **188** | **641** | **687** |
| Czech Republic | 368 | 79 | 414 | 525 |
| Slovakia | 29 | 35 | 28 | 38 |
| Hungary | 155 | 131 | 127 | 126 |
| Poland | 123 | 94 | 123 | 129 |
| Russia | 12 | 10 | 12 | 10 |
| Other | -23 | -160 | -64 | -142 |

1 Definition changed in 2008; figures for 2007 adjusted retroactively. For information on how the underlying figures are calculated, see 'Group results for 2008' and the reconciliation table in this section.

2 Full income statements reflecting underlying results for each country are provided at the end of this section.

## Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and underlying figures)

| **In millions of EUR** | **2007** | **2008** |
|---|---|---|
| Profit after tax, attributable to equity holders of the parent (IFRS) | 664 | 188 |
| Less: | | |
| valuation losses on CDOs (after tax) | -22 | -337 |
| valuation losses on shares (after tax) | -1 | -72 |
| valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax) | 0 | -39 |
| other exceptional items* (after tax) | 47 | -51 |
| Profit after tax, attributable to equity holders of the parent (underlying) | 641 | 687 |

* Including changes in the fair value of certain ALM hedging instruments.

In 2008, the CEER Business Unit generated a net profit of 188 million euros, compared with 664 million euros a year earlier. Underlying net profit (see table) amounted to 687 million euros, up 7% on 2007. In 2008, 21% (or 2.9 billion euros) of group capital was allocated to this business unit.

In the following analysis, the impact of new acquisitions and fluctuations in exchange rates has been disregarded when calculating organic growth.

Net interest income totalled 1 745 million euros in 2008. On an underlying basis, the figure was 1 782 million euros, again up considerably on the year-earlier figure (organic growth of 20%), primarily as a result of the strong volume growth in the region. On an organic basis, for instance, lending rose by no less than 25% and deposits by 8% in 2008. In addition, the average interest margin in the region came to 3.16%, 12 basis points higher than the figure for 2007. This increase was due in part to the fact that the most recent acquisitions were made in countries with higher average interest margins.

Gross earned insurance premiums amounted to 1 285 million euros. For non-life insurance, the corresponding figure came to 937 million euros, an increase of almost one-third compared with 2007, which was largely attributable to the acquisition of DZI Insurance (on an organic basis, the increase came to 8%). The bulk of the premium income from non-life insurance was generated in Poland (559 million euros) and in the Czech Republic (157 million euros). The combined ratio for the non-life insurance activities in the region amounted to an excellent 95%, on a par with the year-earlier figure.

Gross earned life insurance premiums came to 348 million euros, but, as required under IFRS, this figure does not reflect unit-linked life insurance policies. For these products, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). Including the premium income for such products, total premium income for the life insurance activities amounted to some 1.2 billion euros, almost double the figure for 2007 on an organic basis, thanks mainly to the sharp increase in sales of life insurance products in Poland. Most of the premium income from life insurance was earned in Poland (835 million euros) and in the Czech Republic (217 million euros). At the end of 2008, outstanding life reserves came to 1.8 billion euros, reflecting organic growth of 28% compared with 2007.

Net fee and commission income amounted to 301 million euros. Fee and commission *income* generated by the banking activities totalled 535 million euros, more or less the same as the previous year on an organic basis. At the same time, there was a sharp rise (30% on an organic basis) in fees and commission *paid* to agents in the insurance business due to increased sales of insurance products. Assets under management in the business unit reached almost 12 billion euros by the end of 2008.

Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) came to a negative 239 million euros, compared with a positive 263 million euros in 2007. This was attributable chiefly to valuation markdowns on CDOs to the tune of 0.4 billion euros (29 million euros in 2007) and triggered by wider credit spreads and the downgrading of ratings for certain CDO notes. Underlying trading and fair value income (i.e. disregarding these markdowns and other items) went up to 315 million euros, an increase of roughly 27% on an organic basis.

Net realised gains on available-for-sale assets came to -7 million euros, 34 million euros less than the year-earlier figure, while dividend income amounted to 13 million euros, which was 8 million euros more than in 2007. A number of factors, including the recognition of a 40-million-euro revaluation gain on the participating interest in Nova Ljubljanska banka in Slovenia (classified as an exceptional item and therefore excluded from the underlying figures), boosted other net income by 60 million euros, taking it to 195 million euros.

Operating expenses came to 1 878 million euros. Despite inflationary pressure and the expansion of the branch network in the region, the organic year-on-year increase in expenses was restricted to 7% (or 6%, when other one-off items – chiefly additions to and reversals of various provisions for expenses – are also disregarded). The underlying cost/income ratio for the banking activities of this business unit ended the year at 60%, compared with 63% in 2007.

Impairment on *loans and receivables* amounted to 313 million euros, 228 million euros more than in 2007. Impairment on *securities* came to 80 million euros, up 79 million euros on the year-earlier figure. This particular increase was attributable to the sharp rise in valuation markdowns on equities (triggered by the stock-market crash) and higher impairment charges on bonds (in this case, bonds issued by troubled banks in the US and Iceland). This pushed up the credit cost ratio (which includes impairment on both loans and bonds) from 26 basis points in 2007 to 83 basis points in 2008. Leaving aside the impairment charges related to troubled banks in the US and Iceland, the underlying credit cost ratio fell to 73 basis points in 2008. This breaks down as follows: 38 basis points in the Czech Republic, 82 basis points in Slovakia, 41 basis points in Hungary, 95 basis points in Poland and 240 basis points in Russia (175 basis points, excluding generic impairment losses calculated on a portfolio basis).

In 2008, the contribution to the underlying profit of the group made by the Czech Republic came to 525 million euros, by Slovakia to 38 million euros, by Hungary to 126 million euros, by Poland to 129 million euros and by Russia to 10 million euros. The full income statements reflecting underlying results for each country are provided at the end of this section. The 'Other' heading comprises the results of the group companies in Slovenia, Bulgaria, Serbia and Romania, the funding for the goodwill on acquisitions, allocated overheads and minority interests in the group companies that come under the CEER Business Unit.

# Facts and figures

## CEER Business Unit, 31-12-2008

| Network | Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Serbia | Russia |
|---|---|---|---|---|---|---|---|
| Principal group companies | ČSOB, ČSOB Pojišt'ovna | ČSOB, ČSOB Poist'ovňa, Istrobanka | K&H Bank, K&HInsurance | Kredyt Bank, WARTA | CIBANK, DZI Insurance | KBC Banka | Absolut Bank |
| Bank branches[1] | 309 | 167 | 256 | 401 | 139 | 65 | 74 |
| Tied insurance agents | 1 237 | 364 | 540 | 2 968 | 9 005 | – | – |
| **Customers (estimates)** | | | | | | | |
| Bank customers (in millions) | 3.0 | 0.4 | 0.9 | 1.0 | 0.3 | 0.1 | 0.2 |
| Insurance customers (in millions) | 0.8 | 0.2 | 0.5 | 2.1 | 0.8 | – | – |
| **Amount, acquisitions** | | | | | | | |
| Total (excluding capital increases, in billions of EUR) | 2.0 | 0.4[2] | 0.9 | 1.1 | 0.6 | 0.1 | 0.7 |
| **Assets under management** | | | | | | | |
| Total (in billions of EUR) | 5.8 | 0.8 | 2.3 | 2.1 | – | – | – |
| **Market share (estimate)** | | | | | | | |
| Traditional bank products (loans and deposits) | 22% | 10% | 9% | 4% | 3% | 0.7% | 0.6% |
| Investment funds | 34% | 13% | 22% | 5% | – | – | – |
| Life insurance | 9% | 4% | 3% | 6% | 16% | – | – |
| Non-life insurance | 5% | 2% | 4% | 10% | 13% | – | – |
| **E-payment indicators** | | | | | | | |
| Number of proprietary ATMs | 683 | 228 | 410 | 410 | 138 | 50 | 167 |
| Active subscribers to Internet and PC banking facilities | 560 000 | 65 000 | 90 000 | 200 000 | 2 000 | 2 000 | 12 000 |
| **Loan portfolio** | | | | | | | |
| Amount granted (in billions of EUR) | 24.2 | 5.1 | 8.6 | 8.4 | 0.8 | 0.1 | 3.9 |
| Share of the total loan portfolio | 11% | 2% | 4% | 4% | 0.4% | 0.1% | 2% |

1 Corporate branches are counted separately, even if located in a retail branch.

2 Excluding acquisition of ČSOB (recognised in full under the Czech Republic).

# Key messages from the CEO of the CEER Business Unit

**Limited acquisition activity in Central and Eastern Europe in 2008** As announced, the group is not planning to make any more major acquisitions in the region in the foreseeable future on account of the current financial and economic situation. In fact, KBC had already decided in 2008 that it would be limiting itself to making relatively smaller, add-on acquisitions and achieving organic growth, primarily in countries where market share is less than the set target of 10%. The acquisition of Istrobanka for approximately 350 million euros at the start of 2008 fits in perfectly with that approach, as it enables the group to considerably strengthen its position in the Slovakian banking market, where KBC was already present through ČSOB. The deal has increased KBC's share of the Slovakian market from 7% to roughly 10%, which is in line with our targets. It also creates the situation where we can achieve cost synergies and boost insurance sales in that country.

At the same time, we continued to work on structuring our presence in the region. For instance, 2008 marked the spin-off of ČSOB's Slovakian activities, a move which should allow us to adjust both the bancassurance concept and our general strategy to the specific conditions prevailing in Slovakia. The structured process to sell our 31% minority stake in Nova Ljubljanska banka in Slovenia was also started up, although the financial crisis has naturally slowed its implementation. In Serbia, A Banka changed its name to KBC Banka and continued to expand and modernise its product offering, systems and network. Economic and Investment Bank followed suit and changed its name to CIBANK on 1 January 2009. Overall, the group extended its branch network in the region by around 120 branches in 2008 (not including Istrobanka), meaning that the bulk of the branch-opening programme has now been completed.

**Central and Eastern Europe and the financial crisis** For KBC, the situation regarding Central and Eastern Europe is as follows. First of all, our Central European exposure is largely concentrated in the countries that have been most resilient to the financial crisis. By that we mean the Czech Republic, Slovakia and Poland, which together account for three-quarters of the loan portfolio in the region. In Hungary, we own the country's second-largest bank. However, the combination of IMF support measures and the fact that the group has pursued a prudent lending policy in recent years means that the Hungarian operations have continued to perform well. What's more, stress tests clearly indicate that the KBC group's exposure in terms of foreign currency lending in that country is under control. The exposure to countries where the situation is less clear – the Balkan states and Russia – is limited to 10% of our Central European loan portfolio and accounts for just 2% of the group's total portfolio.

Growth forecasts for the economies of the Central and Eastern European countries in which we are present have been lowered, as they have for virtually every other country. These revised forecasts could, of course, impact the profit contribution of our group companies there. However, if the elements that relate specifically to the financial crisis are excluded, we are still convinced that the region will make an extremely sizeable contribution to group earnings. Given the specific situation in Russia, KBC has decided to freeze growth of the risk-weighted exposure amount – the loan portfolio – and to monitor the portfolio even more strictly. In fact, throughout the region, credit growth has been restricted in the riskiest segments and sectors and the loan portfolio is being monitored more rigorously.

**Robust growth of investment funds** Sales of investment funds remained buoyant, despite the financial crisis. So much so, in fact, that it's fair to say that, at the end of 2008, the group was the largest fund manager in the region comprising the Czech Republic, Slovakia, Hungary and Poland. To be more specific, our share of the investment fund market in the Czech Republic grew from 28% to 34%. In Slovakia, it rose from 12% to 13%, while in Hungary and Poland, it went up from 17% and 4% to 22% and 5%, respectively. Assets under management in the region now total roughly 12 billion euros.

**More prestigious international prizes for the group** As in 2007, various group companies won a range of prestigious international prizes. For instance, our Hungarian subsidiary K&H Bank was named 'Bank of the Year 2008' in Hungary by *The Banker*, just as KBC Bank was in Belgium. Meanwhile, *Global Finance* magazine chose ČSOB as its 'Best Bank in the Czech Republic', and Nova Ljubljanska banka won the equivalent prize for Slovenia.

The group's companies in Central and Eastern Europe also performed well in terms of corporate social responsibility. For instance, the new headquarters in the Czech Republic earned a LEED Gold certification for being one of the most ecologically friendly buildings in Europe. And KBC's Hungarian banking subsidiary was runner-up in the national heats of the European Energy Trophy. More about these achievements can be found in our *Corporate Social Responsibility Report*, which is available at www.kbc.com.

JAN VANHEVEL

**Objectives and focus for the years ahead** As already stated, Central Europe remains one of the group's most important drivers of growth, certainly in the longer term. What's more, our presence in the region is still one of the main foundations on which our group strategy is built. As such, we will focus on further consolidating our positions in the Czech Republic, Slovakia, Poland, Hungary and Bulgaria, based on selective organic growth and a modest increase in our loan portfolio. As far as Russia is concerned, we will maintain a conservative approach whilst the uncertain macroeconomic situation persists.

KBC will continue to set itself apart from its competitors through the ongoing development and refinement of the bancassurance concept in the region, particularly in the Czech Republic, Slovakia, Poland, Hungary and Bulgaria. Moreover, we will keep focusing on the retail segment – private individuals and SMEs – and pay heightened attention to deposit-taking and the sale of products that offer protection of customers' assets, such as insurance and capital-protected asset management products. We are also setting up a cost-control programme for the region as a whole and intensifying our focus on risk control, solvency and liquidity. Indeed, the cost-control and distribution strategies have likewise been drawn up at regional level.

As far as results are concerned, the emphasis will be on achieving sustainable earnings growth, based on above-average income, and keeping expenses in line with inflation and credit charges firmly under control.

# Breakdown by country of the underlying results of the CEER Business Unit

## Underlying results of the CEER Business Unit by country

| In millions of EUR | Czech Republic 2007 | Czech Republic 2008 | Slovakia 2007 | Slovakia 2008 | Hungary 2007 | Hungary 2008 | Poland 2007 | Poland 2008 | Russia 2007 (6 months) | Russia 2008 | Other 2007 | Other 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 695 | 894 | 94 | 150 | 259 | 306 | 254 | 331 | 56 | 226 | -120 | -125 |
| Gross earned premiums, insurance | 248 | 292 | 58 | 65 | 90 | 92 | 584 | 663 | 0 | 0 | 39 | 174 |
| Gross technical charges, insurance | -109 | -188 | -43 | -46 | -64 | -63 | -329 | -354 | 0 | 0 | -29 | -135 |
| Ceded reinsurance result | -3 | -12 | -1 | -1 | 0 | 1 | -26 | -21 | 0 | 0 | -1 | -5 |
| Dividend income | 2 | 6 | 0 | 0 | 0 | 4 | 3 | 3 | 0 | 0 | 0 | 0 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 43 | 62 | 26 | 33 | 115 | 115 | 44 | 93 | 1 | 2 | 8 | 11 |
| Net realised gains from available-for-sale assets | 7 | -1 | 0 | 0 | 1 | 1 | 15 | -10 | 0 | 0 | 4 | 1 |
| Net fee and commission income | 206 | 231 | 25 | 32 | 112 | 99 | -25 | -75 | 7 | 11 | -1 | 3 |
| Banking | 234 | 265 | 29 | 37 | 120 | 107 | 82 | 84 | 7 | 11 | 0 | 31 |
| Insurance | -28 | -34 | -4 | -5 | -8 | -8 | -107 | -159 | 0 | 0 | -1 | -28 |
| Other net income | 34 | 77 | 12 | 7 | 11 | 19 | 41 | 43 | 2 | -2 | 0 | -7 |
| **Total income** | **1 122** | **1 361** | **171** | **239** | **524** | **574** | **561** | **673** | **67** | **237** | **-101** | **-83** |
| Operating expenses | -551 | -650 | -113 | -158 | -312 | -352 | -399 | -440 | -48 | -146 | -67 | -133 |
| Impairment | -31 | -94 | -21 | -32 | -46 | -30 | 13 | -61 | -2 | -73 | -3 | -31 |
| on loans and receivables | -31 | -90 | -21 | -30 | -44 | -30 | 15 | -59 | -2 | -73 | -3 | -31 |
| on available-for-sale assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share in results of associated companies | 0 | 0 | 0 | 0 | 3 | 2 | 0 | 0 | 0 | 0 | 48 | 21 |
| **Profit before tax** | **540** | **618** | **37** | **49** | **169** | **194** | **175** | **172** | **16** | **19** | **-122** | **-226** |
| Income tax expense | -119 | -90 | -9 | -11 | -42 | -67 | -31 | -24 | -4 | -8 | 58 | 85 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Profit after tax** | **421** | **527** | **28** | **38** | **127** | **126** | **144** | **148** | **12** | **11** | **-64** | **-141** |
| attributable to minority interests | 7 | 2 | 0 | 0 | 0 | 0 | 21 | 19 | 1 | 1 | 0 | 1 |
| **attributable to equity holders of the parent** | **414** | **525** | **28** | **38** | **127** | **126** | **123** | **129** | **12** | **10** | **-64** | **-142** |
| Banking | 371 | 494 | 26 | 33 | 117 | 113 | 82 | 76 | 12 | 10 | -43 | -85 |
| Insurance | 44 | 31 | 3 | 6 | 10 | 13 | 41 | 53 | 0 | 0 | -21 | -57 |
| Risk-weighted assets, banking (period-end) (Basel II) | 14 160 | 14 569 | 2 599 | 5 164 | 5 326 | 6 709 | 5 806 | 7 453 | 3 014 | 3 454 | – | – |
| Allocated capital (period-end) | 1 011 | 1 050 | 181 | 350 | 374 | 464 | 548 | 706 | 192 | 220 | – | – |
| Return on allocated capital | 49% | 41% | 13% | 8% | 22% | 17% | 21% | 17% | – | – | – | – |
| Cost/income ratio, banking | 50% | 47% | 65% | 67% | 59% | 62% | 70% | 63% | 72% | 61% | – | – |
| Combined ratio, non-life insurance | 97% | 92% | 88% | 104% | 93% | 88% | 96% | 95% | – | – | – | – |

Business Units

Belgium

Central & Eastern Europe and Russia

# Merchant Banking

European Private Banking

Shared Services & Operations

The Merchant Banking Business Unit comprises the services provided to larger SME and corporate customers, as well as all market activities, apart from the merchant banking activities performed by the group companies in Central and Eastern Europe and Russia (recorded under the CEER Business Unit). Specifically, this business unit encompasses the merchant banking activities of KBC Bank in Belgium, its branches abroad and the specialised merchant banking subsidiaries of KBC Bank, as well as the activities of the reinsurance companies and a number of financing companies.

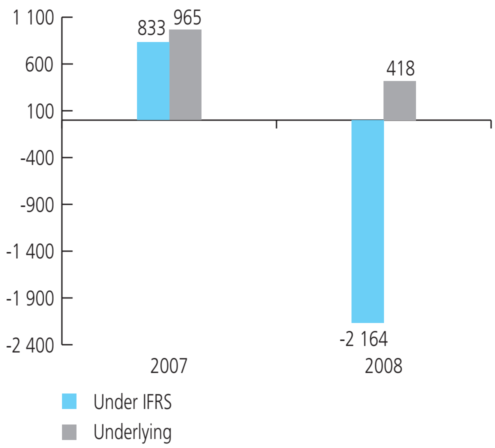
The main group companies belonging to this business unit are Antwerp Diamond Bank (various countries), Assurisk (Luxembourg), KBC Commercial Finance (Belgium), KBC Bank (merchant banking activities), KBC Bank Deutschland (Germany), KBC Bank Ireland (Ireland), KBC Bank Nederland (Netherlands), KBC Clearing (Netherlands), KBC Credit Investments (Belgium), KBC Finance Ireland (Ireland), KBC Financial Products (various countries), KBC Lease (various countries), KBC Internationale Financieringsmaatschappij (Netherlands), KBC Peel Hunt (UK), KBC Private Equity (Belgium), KBC Securities (various countries) and Secura (Belgium).

## 2008 highlights

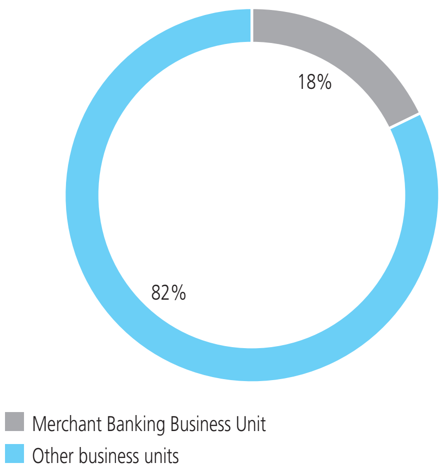
- This business unit was hit hardest by the financial crisis, recording a net loss of 2.2 billion euros in 2008.
- Excluding the direct impact of the financial crisis (the valuation markdowns relating to troubled banks in the US and Iceland and to the portfolio of equities and structured investments), the loss incurred by discontinuing certain activities at KBC Financial Products, and other exceptional items, this business unit made a positive contribution of 418 million euros to underlying group profit, compared with 965 million euros in 2007.
- The year-on-year decline of 547 million euros in underlying net profit was partly due to higher loan losses, lower net fee and commission income and much lower trading and fair value income. A number of market activities will be scaled down as part of the refocus on core operations.
- Costs were down 10%, owing in part to lower result-based expenses and the initial reduction in certain activities.
- Impairment charges on securities and loans rose as a consequence of substantial write-downs related to troubled US and Icelandic banks and on equities. However, when these exceptional items are excluded, the credit cost ratio remained at an acceptable 48 basis points.

### Merchant Banking Business Unit: net result

*In millions of EUR*




### Merchant Banking Business Unit: share in underlying net result of the group (2008)



# Contribution to group results

## Results, Merchant Banking Business Unit

| In millions of EUR | IFRS 2007 | IFRS 2008 | Underlying result[1] 2007 | Underlying result[1] 2008 |
|---|---|---|---|---|
| Net interest income | 596 | 1 121 | 1 105 | 1 002 |
| Gross earned premiums, insurance | 290 | 373 | 290 | 373 |
| Gross technical charges, insurance | -169 | -263 | -169 | -263 |
| Ceded reinsurance result | -32 | -24 | -32 | -24 |
| Dividend income | 101 | 82 | 21 | 19 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 330 | -2 329 | 916 | 582 |
| Net realised gains from available-for-sale assets | -1 | -19 | -2 | -9 |
| Net fee and commission income | 250 | 259 | 396 | 301 |
| Banking | 307 | 315 | 453 | 356 |
| Insurance | -57 | -56 | -57 | -56 |
| Other net income | 169 | 321 | 136 | 165 |
| **Total income** | **2 535** | **-480** | **2 661** | **2 145** |
| Operating expenses | -1 313 | -1 199 | -1 323 | -1 191 |
| Impairment | -55 | -877 | -7 | -330 |
| on loans and receivables | -6 | -407 | -6 | -279 |
| on available-for-sale assets | -48 | -421 | 0 | -6 |
| Share in results of associated companies | 2 | -12 | 2 | -12 |
| **Profit before tax** | **1 168** | **-2 568** | **1 333** | **613** |
| Income tax expense | -245 | 489 | -277 | -109 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **923** | **-2 079** | **1 056** | **503** |
| attributable to minority interests | 91 | 85 | 91 | 86 |
| **attributable to equity holders of the parent** | **833** | **-2 164** | **965** | **418** |
| Banking | 784 | -1 796 | 905 | 349 |
| Insurance | 49 | -367 | 60 | 68 |
| Risk-weighted assets, banking (period-end) (Basel II) | 73 537 | 73 702 | 73 537 | 73 702 |
| Allocated capital (period-end) | 4 766 | 4 777 | 4 766 | 4 777 |
| Return on allocated capital | 17% | – | 20% | 9% |
| Cost/income ratio, banking | 53% | – | 51% | 57% |
| Combined ratio, non-life insurance | 91% | 87% | 91% | 87% |
| Profit after tax, attributable to equity holders of the parent[2] | 833 | -2 164 | 965 | 418 |
| Corporate banking | 548 | -211 | 612 | 368 |
| Market activities | 285 | -1 953 | 353 | 49 |

1 Definition changed in 2008; figures for 2007 adjusted retroactively. For information on how the underlying figures are calculated, see 'Group results for 2008' and the reconciliation table in this section.

2 Full income statements reflecting underlying results for corporate banking and market activities are provided at the end of this section.

## Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and underlying figures)

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Profit after tax, attributable to equity holders of the parent (IFRS) | 833 | -2 164 |
| Less: | | |
| valuation losses on CDOs[1] (after tax) | -74 | -2 038 |
| valuation losses on shares (after tax) | -48 | -108 |
| valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax) | 0 | -250 |
| other exceptional items[2] (after tax) | -9 | -184 |
| Profit after tax, attributable to equity holders of the parent (underlying) | 965 | 418 |

1 Including limited valuation losses on other Asset Backed Securities (ABS) recognised in the income statement.

2 Including changes in the fair value of certain ALM hedging instruments and a loss of 245 million euros related to the discontinuation of certain activities at KBC Financial Products.

In 2008, the Merchant Banking Business Unit generated a net loss of 2 164 million euros, compared with a net profit of 833 million euros in the previous year. Underlying net profit (see table) amounted to 418 million euros, down 57% on 2007. 34% (or 4.8 billion euros) of group capital was allocated to this business unit in 2008.

Net interest income for the year totalled 1 121 million euros. On an underlying basis, the figure was 1 002 million euros and was accounted for entirely by corporate banking activities. In 2008, the methodology for reporting income related to leasing and ALM derivatives was changed, which resulted in a decline in net interest income. Excluding this item, underlying net interest income was up slightly (+3%) on the 2007 figure.

Net fee and commission income came to 259 million euros in 2008, or 301 million euros on an underlying basis. This represents a decrease of 24% on the previous year, and is partly attributable to reduced income from stockbroking and corporate finance activities, which clearly reflects the difficult financial and economic situation. Net realised gains from available-for-sale assets came to a negative 19 million euros, 18 million euros less than in 2007, obviously owing to a large extent to the sharp fall in share prices. Premium income from reinsurance activities amounted to 373 million euros in 2008. At 87%, the combined ratio at year-end was even better than the excellent figure achieved in 2007 (91%).

Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) came to a negative 2 329 million euros, compared with a positive 1 330 million euros a year earlier. This was due chiefly to considerably higher valuation markdowns on CDOs (2.4 billion euros in 2008, compared with 0.1 billion euros for the previous year). These much higher markdowns were triggered by wider credit spreads, increased exposure to monoline insurers and rating downgrades on certain CDO notes held in portfolio. KBC also acted proactively and fully wrote down the value of all mezzanine CDO notes (i.e. all CDO notes with the exception of the super senior tranches) of CDOs originated by KBC Financial Products, so that fluctuations in the value of these notes would no longer affect the future results. Moreover, trading and fair value income in 2008 included a one-off loss of 245 million euros related to the discontinuation of certain activities at KBC Financial Products. On an underlying basis – i.e. excluding factors such as the impact of CDOs and the above loss stemming from activities being discontinued – trading and fair value income fell from 916 million euros in 2007 to 582 million euros in 2008.

Operating expenses amounted to 1 199 million euros, or 1 191 million euros on an underlying basis, down 10% on the year-earlier figure. This was largely attributable to lower income-related remuneration (mainly related to a number of market activities) and the depreciation of the US dollar. In addition, initial restructuring measures and the scaling down of certain activities had already led to a reduction in the number of staff. The underlying cost/income ratio for this business unit ended the year at 57%, compared with 51% in 2007.

Impairment losses came to 877 million euros, compared with 55 million euros a year earlier. As a result of the deteriorating economic situation, impairment *on loans* rose to 407 million euros, compared with only 6 million euros the previous year. Impairment charges on securities (*available-for-sale assets*) totalled 421 million euros, compared with the year-earlier figure of 48 million euros. This figure includes the substantially higher value markdowns both on shares (106 million euros in 2008; 42 million euros in 2007) and on bonds (315 million euros in 2008; 5 million euros in 2007). The latter is largely attributable to impairment recognised on bonds issued by troubled banks in Iceland and the US (Lehman Brothers and Washington Mutual). Consequently, the credit cost ratio (which includes impairment on loans and bonds) went up from an extremely low 2 basis points in 2007 to 90 basis points in 2008. However, the underlying credit cost ratio (excluding impairment on the US and Icelandic banks) remained at an acceptable 48 basis points.

The Merchant Banking Business Unit encompasses corporate banking (the services provided to SMEs and larger companies), which accounted for 368 million euros of the business unit's underlying net profit in 2008, and market activities (e.g., currency dealing, securities trading, derivatives trading, corporate finance and private equity), which generated underlying net profit of 49 million euros. A detailed income statement for each of these activities is provided at the end of this section.

# Facts and figures

## Merchant Banking Business Unit

| **Customers (estimate)** | **2007** | **2008** |
|---|---|---|
| Corporate banking (Belgium) | 19 000 | 19 000 |
| **Network** | | |
| KBC Bank corporate branches in Belgium, including CBC Banque *succursales* | 29 | 27 |
| KBC Bank branches in the rest of the world[1], including representative offices | 36 | 33 |
| **Assets under management** | | |
| Total (in billions of EUR) | 0.9[2] | 0.04 |
| **Market share (estimate)** | | |
| Corporate lending (Belgium) | 23% | 23% |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR) | 102 | 100 |
| Share of the total portfolio | 49% | 46% |

1 Excluding Central and Eastern Europe; relates solely to corporate branches of KBC Bank or its subsidiaries, KBC Bank Nederland, KBC Bank Deutschland and KBC Bank Ireland.

2 Restated figures.

GUIDO SEGERS

# Key messages from the CEO of the Merchant Banking Business Unit

## Impact of the financial crisis on the business unit's results

Without any shadow of doubt, the financial crisis made itself felt most directly in our portfolio of structured products, whose value was marked down on account of wider credit spreads, increased counterparty exposure to monoline insurers and the rating downgrades of the CDO tranches in our investment portfolio. To safeguard its future results, the group also opted to take a proactive approach and mark down to zero all CDO notes it held, with the exception of the most secure category, the super senior tranches. Because the majority of the CDO notes held by the group are located in companies belonging to the Merchant Banking Business Unit, we have been worst affected by these markdowns.

## Merchant banking activities in 2008

The corporate banking operations in Belgium – which are conducted through the network of KBC and CBC corporate branches – actually did very well. Loan losses were generally limited, and the outstanding volume of business credit continued to grow in the first half of the year, before levelling off. This was a common trend in virtually all the market segments in which KBC operates, including project finance and finance for the diamond trade. There was even some growth in real estate services, factoring and reinsurance activities.

KBC Bank's dealing room also turned in a strong performance in terms of its currency dealing and bond trading activities in 2008. It goes without saying that the results linked to securities trading, private equity activities and corporate finance were not as good, with the corporate finance results weakening due to a virtual absence of IPO activity. The mergers and acquisitions business held up reasonably well. Central and Eastern European operations accounted for a notably larger proportion of earnings stemming from the stock brokerage and corporate finance businesses. Indeed, the lion's share of KBC Securities' net profit now comes from this region. Lastly, a number of specialised market activities relating to equity and credit derivatives – which are concentrated at our subsidiary, KBC Financial Products – generated a negative net result in 2008.

## Measures to adapt merchant banking operations to the new market conditions

Given the exceptional market conditions, and as part of a general group-wide exercise, merchant banking operations have been thoroughly reviewed. One outcome of this has been the winding up of our hedge fund manager, KBC Alternative Investment Management. And other specialised activities are being run down as well, including those conducted by KBC Financial Products on the derivatives market (see above).

Additionally, all merchant banking activities related to equities trading, IPOs, mergers and acquisitions, convertible bonds, equity derivatives, etc., will now be grouped under KBC Securities. That will bring the operations of the subsidiaries, KBC Financial Products, KBC Peel Hunt and KBC Securities into a single structure.

Generally speaking, when it comes to allocating available resources, the group will give priority to its home markets of Belgium and Central Europe (primarily the Czech Republic, Slovakia, Hungary and Poland). A similar focus will be given to our pure corporate finance activities, possibly at the expense of our lending activities in other markets, for example, lending to multinationals that are not linked to our home markets.

## Objectives and focus for the years ahead

The primary aim is to consolidate and, where possible, further strengthen our already very strong position in the Belgian corporate market. That means giving priority to our home markets when allocating the available resources. In the case of merchant banking, that is Belgium, where we intend to step up lending to our traditionally sound customers. Credit growth outside our home markets will therefore be limited and will depend more than ever on weighing up and evaluating the capital required and the profitability of each activity.

# Breakdown by activity of the underlying results of the Merchant Banking Business Unit

## Underlying results of the Merchant Banking Business Unit, by activity

| | Corporate banking | | Market activities | |
|---|---|---|---|---|
| **In millions of EUR** | **2007** | **2008** | **2007** | **2008** |
| Net interest income | 1 105 | 1 002 | 0 | 0 |
| Gross earned premiums, insurance | 290 | 373 | 0 | 0 |
| Gross technical charges, insurance | -169 | -263 | 0 | 0 |
| Ceded reinsurance result | -32 | -24 | 0 | 0 |
| Dividend income | 21 | 19 | 0 | 0 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | -9 | -30 | 926 | 612 |
| Net realised gains from available-for-sale assets | -2 | -9 | 0 | 0 |
| Net fee and commission income | 90 | 111 | 307 | 189 |
| Banking | 146 | 167 | 307 | 189 |
| Insurance | -57 | -56 | 0 | 0 |
| Other net income | 136 | 165 | 0 | 0 |
| **Total income** | **1 429** | **1 343** | **1 233** | **802** |
| Operating expenses | -537 | -585 | -786 | -606 |
| Impairment | -5 | -236 | -2 | -94 |
| on loans and receivables | -4 | -235 | -2 | -44 |
| on available-for-sale assets | 0 | 0 | 0 | -6 |
| Share in results of associated companies | 0 | 0 | 2 | -12 |
| **Profit before tax** | **887** | **523** | **446** | **89** |
| Income tax expense | -187 | -71 | -91 | -38 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **700** | **452** | **356** | **51** |
| attributable to minority interests | 88 | 84 | 2 | 2 |
| **attributable to equity holders of the parent** | **612** | **368** | **353** | **49** |
| Banking | 552 | 300 | 353 | 49 |
| Insurance | 60 | 68 | 0 | 0 |
| Risk-weighted assets, banking (period-end) (Basel II) | 54 994 | 51 908 | 18 543 | 21 794 |
| Allocated capital (period-end) | 3 584 | 3 388 | 1 182 | 1 389 |
| Return on allocated capital | 19% | 11% | 22% | 5% |
| Cost/income ratio, banking | 39% | 45% | 64% | 76% |
| Combined ratio, non-life insurance | 91% | 87% | – | – |

Business Units

Belgium

Central & Eastern Europe and Russia

Merchant Banking

# European Private Banking

Shared Services & Operations

This business unit comprises the activities of both the KBL European Private Bankers group (KBL EPB) and the insurance company VITIS Life Luxembourg SA. The main group companies belonging to this unit are Brown Shipley & Co Limited (UK), KBL EPB (Luxembourg), KBL Richelieu Banque Privée (France), KBL Monaco Private Bankers (Monaco), KBL Swiss Private Banking (Switzerland), Merck Finck & Co (Germany), Puilaetco Dewaay Private Bankers SA (Belgium), Theodoor Gilissen Bankiers NV (Netherlands) and VITIS Life Luxembourg SA (Luxembourg)

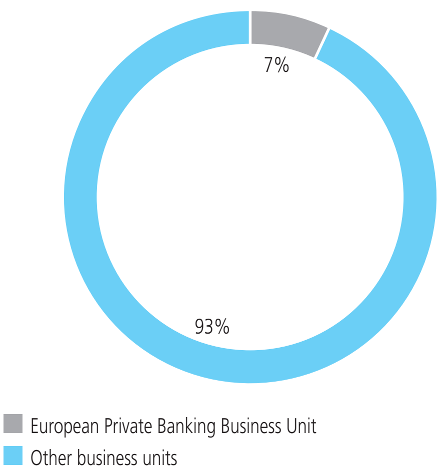
## 2008 highlights

- Excluding the direct impact of the financial crisis (primarily the valuation markdowns relating to troubled banks in the US and Iceland, and to the portfolio of equities and structured investments) and other exceptional items, this business unit contributed 161 million euros to underlying group profit.
- Including the direct impact of the financial crisis and other exceptional items, the business unit recorded a net loss of 153 million euros.
- Underlying net profit fell 24% year-on-year, due primarily to the negative stock market climate, which drove down fee and commission income.
- Costs were kept well under control once again, declining by 6% on a comparable basis, despite the effect of inflation and additional provisioning to cover restructuring costs.
- Impairment charges increased significantly (up 184 million euros), the bulk of which was attributable to valuation markdowns on shares and value markdowns relating to the exposure to Icelandic and US banks.
- There was a fall in assets under management, due almost entirely to the decline in the value of the assets themselves. The net outflow came to less than 1% on a comparable basis, and there was even a 3% net inflow of onshore private banking assets.
- KBL EPB continued to pick up awards, receiving the 'Best Banking Group in Luxembourg' prize from *World Finance* magazine.

***European Private Banking Business Unit: net result***

*In millions of EUR*


***European Private Banking Business Unit: share in underlying net result of the group (2008)***



# Contribution to group results

## Results, European Private Banking Business Unit

| In millions of EUR | IFRS 2007 | IFRS 2008 | Underlying result* 2007 | Underlying result* 2008 |
|---|---|---|---|---|
| Net interest income | 273 | 236 | 169 | 248 |
| Gross earned premiums, insurance | 42 | 29 | 42 | 29 |
| Gross technical charges, insurance | -66 | -43 | -66 | -43 |
| Ceded reinsurance result | 0 | 0 | 0 | 0 |
| Dividend income | 13 | 9 | 13 | 9 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | -56 | -258 | 64 | -11 |
| Net realised gains from available-for-sale assets | 66 | 2 | 66 | 5 |
| Net fee and commission income | 467 | 422 | 467 | 422 |
| Banking | 461 | 418 | 461 | 418 |
| Insurance | 6 | 4 | 6 | 4 |
| Other net income | 32 | 13 | 17 | 13 |
| **Total income** | **772** | **411** | **774** | **674** |
| Operating expenses | -487 | -487 | -487 | -487 |
| Impairment | -39 | -223 | -33 | -43 |
| on loans and receivables | -33 | -56 | -33 | -2 |
| on available-for-sale assets | -5 | -166 | 0 | -39 |
| Share in results of associated companies | 3 | 2 | 3 | 2 |
| **Profit before tax** | **249** | **-297** | **257** | **147** |
| Income tax expense | -39 | 144 | -46 | 14 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **210** | **-153** | **211** | **161** |
| attributable to minority interests | 0 | 0 | 0 | 0 |
| **attributable to equity holders of the parent** | **210** | **-153** | **211** | **161** |
| Banking | 202 | -149 | 202 | 152 |
| Insurance | 8 | -4 | 9 | 9 |
| Risk-weighted assets, banking (period-end) (Basel II) | 6 610 | 5 703 | 6 610 | 5 703 |
| Allocated capital (period-end) | 486 | 410 | 486 | 410 |
| Return on allocated capital | 36% | – | 36% | 31% |
| Cost/income ratio, banking | 64% | 121% | 64% | 73% |

* Definition changed in 2008; figures for 2007 adjusted retroactively. For information on how the underlying figures are calculated, see 'Group results for 2008' and the reconciliation table in this section.

## Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and underlying figures)

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Profit after tax, attributable to equity holders of the parent (IFRS) | 210 | -153 |
| Less: | | |
| valuation losses on CDOs (after tax) | -13 | -181 |
| valuation losses on shares (after tax) | -4 | -53 |
| valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax) | 0 | -37 |
| other exceptional items* (after tax) | 15 | -43 |
| Profit after tax, attributable to equity holders of the parent (underlying) | 211 | 161 |

* Including changes in the fair value of certain ALM hedging instruments.

In 2008, the European Private Banking Business Unit generated a net loss of 153 million euros, compared with a net profit of 210 million euros in the previous year. Underlying net profit (see table) amounted to 161 million euros, down 24% on 2007. In 2008, 3% (or 0.4 billion euros) of group capital was allocated to this business unit.

Percentage organic growth in the following analysis is based on figures that do not include Richelieu Finance, the French asset management company acquired in 2008.

The business unit's net interest income came to 236 million euros in 2008. On an underlying basis, the figure was 248 million euros, a considerable increase on the previous year (organic growth of 45%). This growth was accounted for mainly by the group's treasury operations and to a large extent reflected KBL EPB's positive liquidity position, combined with the strong market demand for liquidity.

The increase in net interest income was not enough to offset the decline in net fee and commission income (422 million euros), which fell by 18% on an organic basis. This was a direct consequence of the poor stock market climate, which resulted in lower fees and commissions on both new sales and existing assets under management. The fall in assets under management (from 55 billion euros at the end of 2007 to 44 billion euros at year-end 2008) was, however, almost entirely attributable to the decline in the value of the assets themselves (-22% on average). In fact, the volumes remained intact: they were virtually unchanged (excluding Richelieu Finance) and there was even a net inflow of 3% (including Richelieu Finance). The main component of the assets under management, namely onshore private banking assets

(22 billion euros at year-end 2008) recorded a net inflow of 3% (excluding Richelieu Finance) or 11% (including Richelieu Finance).

Other net income fell from 32 million euros to 13 million euros (the 2007 figure was favourably impacted by the 14-million-euro capital gain realised on the sale of Banca KBL Fumagalli Soldan in Italy), net realised gains from available-for-sale assets dropped from 66 million euros to 2 million euros (on account of the poorer stock market climate) and gross earned life insurance premiums declined from 42 million euros to 29 million euros. The latter figure, as required under IFRS, does not reflect unit-linked life insurance. For these products, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). If the premium income from such products is included, total premium income for the life insurance activities came to roughly 175 million euros, compared with 239 million euros a year earlier. Outstanding life reserves stood at approximately 1.1 billion euros at year-end 2008.
Lastly, net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) were down 202 million euros year-on-year, due chiefly to the rise in valuation markdowns on CDO notes (252 million euros, compared with 18 million euros in 2007). Underlying trading and fair value income amounted to -11 million euros in 2008 (+64 million euros a year earlier).

On an comparable basis (i.e. excluding Richelieu Finance, which was acquired in 2008), operating expenses in the European Private Banking Business Unit (at 487 million euros) were 6% lower than in 2007, thanks in part to cost-savings at various group companies and lower variable pay. The 2008 figures also include new provisions for expenses (including roughly 10 million euros set aside for restructuring) and reversals of earlier provisions (for *inter alia* legal disputes and early retirement schemes, good for just over 30 million euros in total). Even when these items are disregarded, net expenses still fell by about 2%. The underlying cost/income ratio for the banking activities of this business unit amounted to 73%, compared with 64% in 2007.

At 223 million euros, impairment charges were up 184 million euros on their 2007 level. They included impairment on shares (77 million euros in 2008), on troubled US and Icelandic banks (51 million euros in total) and on capital notes (60 million euros).

# Facts and figures

## European Private Banking Business Unit

| **Network** | **2007** | **2008** |
|---|---|---|
| Number of countries in which the group is present | 8 | 8 |
| **Assets under management (in billions of EUR)** | | |
| Onshore private banking | 25.5 | 21.6 |
| Offshore private banking | 15.6 | 13.0 |
| Other (institutional and other assets) | 13.4 | 9.5 |
| Total | 54.5 | 44.0 |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR) | 4 | 4 |
| Share of the total loan portfolio | 2% | 2% |

ETIENNE VERWILGHEN

# Key messages from the CEO of the European Private Banking Business Unit

**Minimal outflow of assets under management despite the difficult market conditions** At year-end 2008, the business unit had about 44 billion euros' worth of assets under management. At first sight, that's a decline of just over 10 billion euros compared with the previous year. However, this was due entirely to the decline in the value of the relevant assets under management, which came about as a result of the collapse in asset prices. In other words, there was little sign of an actual net outflow of assets. Indeed, even when Richelieu Finance (which was acquired in 2008) is disregarded, the net outflow comes to just 0.5%, which is an excellent performance under the circumstances.

What's more, in line with the policy of focusing on onshore private banking assets, we even managed to achieve a net inflow for this category (3% on a comparable basis), which accounted for roughly 22 billion euros of assets under management at year-end 2008. The rest of these assets consist of assets managed in the offshore private banking business (13 billion euros), institutional assets (7 billion euros) and other assets (2 billion euros).

**Costs well under control** On a like-for-like basis, the business unit's costs fell by 6% in 2008, despite a provision being set aside to cover restructuring costs. Several factors lay behind this fine performance, including the achievement of synergies – such as those generated in Belgium by the merger of Puilaetco and Dewaay – the implementation of cost-saving plans at a number of group companies and lower variable pay. We will continue to pursue this strategy, reducing costs further in 2009, wherever possible.

**Geographic focus of the European private banking network** Geographically, the business unit focuses on the Benelux and certain other Western European countries. At the moment, we are present via our group companies in Germany, France, the United Kingdom, Switzerland, Monaco, Luxembourg, the Netherlands and Belgium.

In April 2008, we acquired the renowned French asset management company, Richelieu Finance, merging it with KBL France, which was already operating in that country. As far as Western Europe is concerned, we are not planning any further acquisitions there in the near future. Of course, we are tracking the market closely and may expand our positions further in the somewhat longer term – if the right opportunities present themselves – with a view mainly to building up sufficient critical mass wherever needed.

We don't yet have a presence in Central and Eastern Europe, but we intend – when the financial storm has died down again – to open private banking boutiques there on a selective basis. In fact, we've already started preparations for establishing a presence in Poland.

**Kredietbank Luxembourgeoise renamed KBL European Private Bankers** This new name, which fits perfectly into the KBC group's business unit structure, emphasises our group's core strategy and development, namely that we are a network of local affiliated banks in Europe, whose core business is private banking. The important thing here is that we respect the specific culture and the name of each of our group companies. We assume, after all, that our local staff and management are much better placed to identify the specific needs of each of their markets. Consequently, our networks are firmly anchored at local level and enjoy a solid reputation in each of their home markets. This allows us to set ourselves apart from the big private banking players in these countries. Naturally, our group companies can call on the services of our hub centre, which provides administrative and ICT support to the entire group.

**Best Banking Group in Luxembourg in 2008** Following on the success of 2007, when *The Banker* named KBL 'Bank of the Year 2007 in Luxembourg', the jury at *World Finance* magazine voted our group 'Best Banking Group in Luxembourg' in 2008, an accolade we were obviously delighted to receive.

**Objectives and focus for the years ahead** As already mentioned, our aim is to gradually extend our private banking boutique concept to countries in Central and Eastern Europe, an approach which is in line with the overall strategy of the KBC group. We will also continue to focus on achieving synergies within the group. The further development of the hub in Luxembourg and the newly established hub in Poland will have an important part to play in that regard.

As far as the immediate future is concerned, we – like the rest of the group – will remain exceedingly vigilant regarding our costs and our risk exposure. Our aim is to align our cost base with the forecast reduction in income, while simultaneously continuing to lower our risk profile. In this regard, we will be looking to cut costs substantially in 2009 and to reduce our own investment portfolio, among other things.

Business Units

Belgium

Central & Eastern Europe
and Russia

Merchant Banking

European Private Banking

# Shared Services
& Operations

This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire group. Most of the expenses and income of the Shared Services & Operations Business Unit are passed on to the other business units and consequently reflected in their results. The main divisions belonging to this unit are Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

## 2008 highlights

- The Operational Excellence programme proceeded as planned, with a great many process improvement projects already under way.
- KBC continued to lead the Belgian market in investment funds and made considerable progress in most of the group's Central European home markets.
- Several divisions continued to expand their operations in Central and Eastern Europe, among them Leasing, Consumer Finance and Trade Finance.
- The migration to a common processing platform of all the card transactions of our subsidiaries in the Czech Republic, Slovakia, Hungary and Poland was successfully completed.
- KBC Asset Management and Union Bank of India signed an agreement to create a joint venture asset management company.
- ICT systems and resources were successfully migrated in Slovakia to facilitate the switch to the euro.

# Facts and figures

### Shared Services & Operations Business Unit

| Asset Management | 2007 | 2008 |
|---|---|---|
| Assets managed in Belgium (in billions of EUR) | 162.5 | 151.0 |
| Assets managed in Central and Eastern Europe (in billions of EUR) | 13.0 | 11.7 |
| Assets managed in the rest of the world (primarily the KBL EPB network, in billions of EUR) | 55.4 | 44.1 |
| Estimated share of the investment fund market in Belgium | 35% | 37% |
| Estimated share of the investment fund market in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland) | 28%, 12%, 17%, 4% | 34%, 13%, 22%, 5% |
| **Payments (in millions)** | | |
| Number of payment transactions* in Belgium | 500 | 518 |
| Number of payment transactions* in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland) | 348 | 375 |
| **Leasing** | | |
| Capital outstanding under leasing contracts in Belgium (in billions of EUR) | 2.5 | 2.7 |
| Capital outstanding under leasing contracts in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania; in billions of EUR) | 2.7 | 3.2 |
| Capital outstanding under leasing contracts in the rest of the world (Western Europe excluding Belgium; in billions of EUR) | 1.6 | 1.7 |
| Estimated share of the leasing market in Belgium (general leasing, car leasing) | 22%, 11% | 21%, 12% |
| Estimated share of the leasing market in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania) | 15%, 17%, 8%, 1%, 4% | 15%, 16%, 4%, 1%, 4% |

* Card and cash transactions, domestic and cross-border transfers, and international cash management.

# Key messages from the CEO of the Shared Services & Operations Business Unit

## Main events in the areas of consumer finance, leasing, payments and trade finance

As far as payments are concerned, the group successfully migrated all the card transactions of its subsidiaries in the Czech Republic, Slovakia, Hungary and Poland to a common platform. This has resulted in clear economies of scale in processing costs, while also offering benefits in terms of responding to new market developments. Other important events in the area of payments included transferring the processing of our Hungarian subsidiary's international payments to FinForce, building a new ICT processing chain to handle SEPA payment transactions, and launching a programme to optimise our SWIFT infrastructure.

In trade finance, we built on the success in Belgium of the transparent service that KBC provides for a number of major products and on the popularity of its Internet tool, KBC-Flexims. The roll-out of this unique offering in Central Europe clearly helped to drive growth in the region in 2008. In addition to the mono-bank portal, KBC-Flexims, we broadened our range of services to include a multi-bank portal, Misys Trade Portal. This has enabled the group to forge a leading position in Belgium and Central Europe, an achievement recognised by *Global Finance* magazine, which named KBC 'Best Trade Finance Provider' in Belgium and ČSOB 'Best Trade Finance Provider' in the Czech Republic and Slovakia.

The consumer finance line of business grew robustly, increasing in a number of areas, including the credit card segment. We also continued to expand our Polish sales network, which we've developed into a fully fledged multi-product and multi-channel business.

The group's leasing operations also expanded in Central Europe, thanks in part to the launch of KBC Autolease in Poland. Leasing, as a product factory for the entire group, continued to align processes and integrate all the group's leasing companies.

## Asset management activities

There have been a number of important developments for the group in this area, one of which was the signing of an agreement between KBC Asset Management and Union Bank of India to set up a joint venture asset management company. In China, the joint venture KBC Goldstate Fund Management launched a new trust fund and a balanced fund. KBC Asset Management also received the 'Best in Central and Eastern Europe' award for 2008 from the specialist magazine, *Structured Products*, in recognition of the way it has become the most successful company in capital-protected investment funds in four key Central European markets.

It goes without saying that the crisis-driven shift in investor behaviour has had an impact on the asset management business. Across the group, for instance, there has been a decline in sales of investment funds and unit-linked investment-type insurance, and a shift towards traditional bank deposit products. Nevertheless, KBC continued to lead the Belgian market by some way in fund sales. In fact, we even succeeded in expanding our market share to 37%. We also managed to increase our share in most of our Central and Eastern European markets, especially in the Czech Republic, where our estimated share of the market rose from 28% to 34%, and in Hungary, where we were up from 17% to almost 22%.

In fact, the total amount of assets managed by the group remained relatively stable, with the nominal decline being accounted for entirely by the fall in the value of the assets themselves. That was a good performance under difficult market conditions, and bears testament to – among other things – KBC's leading position in the market for capital-protected funds, a broad product offering which is adapted to all market conditions, and our creative and innovative approach.

## Successful implementation of the Operational Excellence programme

Clear progress in terms of operational excellence has been made since the launch of this programme, which is co-ordinated by the Group Organisation division. This can be seen in the unflagging drive to create a universal business culture of continuous improvement through, for example, the many process improvement projects and the development of a business architecture framework in 2008. This will enable us to meet our target of saving over 200 million euros by the end of 2009.

## Developments on the ICT front

As in previous years, a lot of attention has been paid to promoting integration and to exploiting synergies within the group in terms of technology and know-how. For instance, more and more applications have gradually been rolled out across the entire group. A good example is the branch application, which is already being used at ten group companies in five different countries.

Once again, a variety of new ICT initiatives and projects were launched in 2008. Some examples that are worth mentioning include the decision to build a shared data centre in Hungary for all our Central European group

CHRIS DEFRANCQ

companies; the initial roll-out in Belgium and the Czech Republic of a standardised, European workstation; the integration into a number of different systems of Istrobanka, a company which the group acquired in 2008; and the successful migration of ICT systems and resources in Slovakia to facilitate the switch to the euro.

## Objectives and focus for the years ahead

The Shared Services & Operations Business Unit is, of course, actively involved in many of the group-wide initiatives to lower the cost base. To mention just one example, it was decided that, given the current financial and economic situation, the Enterprise Systems Programme – a large-scale investment programme intended to construct shared applications for the group – should not be rolled out for the time being. Our business unit has also been impacted by the sharper focus on core activities and core markets throughout the group. This means that we, too, will have to take a close look at whether non-core activities need to be adjusted or, in some cases, even scaled down. However, despite the more difficult economic situation, we will continue to pursue operational excellence at every level. New initiatives to that end will be aimed at areas like distribution, the product factories and the group's support activities, so that additional benefits can be gained in the relatively short term.

# Value and risk management

The business of bancassurance is exposed to a number of typical risks, such as credit risk, market risk and liquidity risk, as well as technical insurance risk, operational risk, reputation risk, and business and strategic risk. Controlling all these risks is one of the most crucial tasks of management. This section of our annual report provides an overview of how we approach value and risk management in our group. For KBC and for the financial industry as a whole, 2008 will be remembered as a turbulent year, one highlighting the importance of sound and prudent risk management to support decision-making and to identify problems at group level.

# Vision and principles

At KBC, the essential characteristics of value and risk management are as follows:

- Value, risk and capital management are inextricably linked to one another. Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead. To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.

- Risk management is approached from a comprehensive, group-wide angle, taking into account all the risks a company is exposed to and all the activities it engages in.

- Primary responsibility for value and risk management lies with line management, while a separate Group Value and Risk Management Directorate, operating independently of line management, performs an advisory, supporting and supervisory role.

- The group's risk governance model is also, where relevant, duplicated at the level of the business units and subsidiaries.

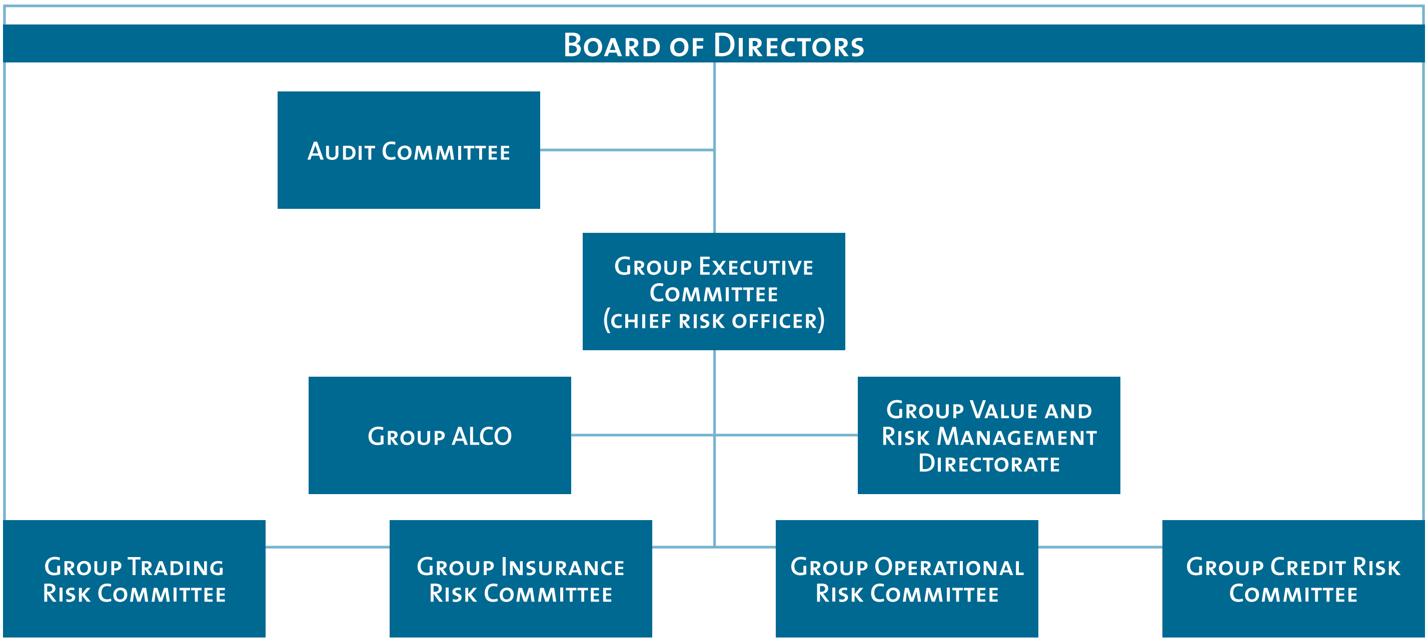
The information in this section has been audited by the statutory auditor only where required under IFRS, viz.:

- the entire 'Vision and principles' section;
- the entire 'Risk governance model' section;
- parts of the 'Credit risk management' section, namely 'Description', 'Managing credit risk, banking', the 'Loan portfolio' table (audited parts are indicated in the footnote to the table), the 'Other credit exposure' table, and the table entitled, 'Credit exposure to (re)insurance companies by risk class, in Exposure at Default (EAD) and Expected Loss (EL)';
- parts of the 'Asset/Liability management' section, namely 'Description', 'Managing ALM risk', 'Interest rate risk' (except for the 'Impact of a parallel 1% increase in the yield curve for the KBC group' table), 'Credit risk in the investment portfolios', 'Foreign exchange risk', 'Liability adequacy in the life insurance business' (the first paragraph), and 'Embedded Value in the life insurance business';
- the entire 'Liquidity risk management' section;
- the entire 'Market risk management' section;
- the entire 'Technical insurance risk management' section;
- parts of the 'Solvency and economic capital' section, namely 'Description', 'Managing solvency', the table in 'Solvency, banking activities (KBC Bank and KBL EPB combined)' (audited parts are indicated in the footnote to the table), the table in 'Solvency, insurance activities (KBC Insurance)' (audited parts are indicated in the footnote to the table), and 'Economic capital' (the first three paragraphs).

# Risk governance model

KBC's risk governance model defines the responsibilities and tasks required to manage value creation and all the associated risks. The governance model is organised in different tiers:

- *The Board of Directors (assisted by the Audit Committee), the Group Executive Committee and the Group Asset/Liability Management Committee (ALCO).* These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full board sets the risk tolerance limits. The Group Executive Committee is responsible for the implementation of the value, risk and capital management strategy defined by the Board of Directors and outlines the structure of such management. The Chief Financial and Risk Officer (CFRO), a member of the Group Executive Committee, supervises risk management. The Group ALCO defines the strategic investment and funding mixes and also monitors the relevant risk exposure. In 2008, the tactical investment decisions previously taken by the Group ALCO were entrusted to a newly established investment committee.
- *Specialised group risk committees.* These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various group committees are shown in the schematic.
- Depending on the materiality of specific risk types, local risk committees and local value and risk management units have been put in place at a lower level (e.g., business unit, country and subsidiary) to roll out the risk management framework.
- The Group Model Committee (GMC) uses reports drawn up by independent validation units to decide on the validity of quantitative and operational risk aspects (such as model usage, monitoring activities, etc.) of all the risk models developed and/or used within the group.
- The Group Internal Audit division 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.
- Line management has primary responsibility for value and risk management. It ensures that the risk management framework relating to the business is embedded in the business through policies and procedures. It is also entrusted with the task of developing transactional models.
- The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. It is also responsible for developing portfolio models, as well as for validating all models (both transactional and portfolio models). In this respect, there is a clear segregation of responsibilities within this directorate, as *validating staff* is different from *modelling staff.*




# Credit risk management

DESCRIPTION Credit risk is the potential negative deviation from the expected value of a financial instrument consequent on non-payment or non-performance by a borrower (of a loan), an issuer (of a debt instrument), a guarantor or re-insurer, or a counterparty (to a professional transaction), due to that party's insolvency or lack of willingness to pay or perform, or due to events or measures taken by the political or monetary authorities of a particular country.

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

**Credit risk management at transactional level**

*Acceptance.* Credit proposals are submitted in writing by a commercial entity. Unless a small amount or a low risk is involved, a loan adviser makes a recommendation. In principle, significant loan decisions are taken jointly by two or more managers. The level at which decisions should be taken is determined by matrices that take account of such parameters as the group risk total (the total risk run by the entire KBC group vis-à-vis the group the counterparty belongs to), the risk class (determined primarily on the basis of internally developed rating models) and the type of counterparty (financial institutions, sovereign entities, companies, etc.).

Lending to individuals (e.g., home loans) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia, where credit in foreign currency is provided on account of the significant gap between interest rates in the local currency and interest rates in other currencies. During 2008, there was a growing awareness of the inherent risk stemming from fluctuations in exchange rates, resulting in a tempering of foreign currency lending by year-end. A cautious approach has been adopted towards this particular type of lending for some considerable time, as reflected *inter alia* in an additional buffer (in terms of the loan-to-value ratio, net disposable income thresholds and shorter maturities) and close monitoring by means of stress tests. Moreover, if the remaining currency risk is still too high, it is hedged at group level.

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

The 'normal' loan portfolio is split up into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD and – in a few buckets – for the LGD. Loans to large corporations are reviewed at least once a year, with the internal rating being updated, as a minimum. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). Moreover, a member of a credit committee will supervise decisions taken at the decision level immediately below, by checking whether the decision is consistent with lending policy. Loans to individuals are screened periodically at aggregate level for review purposes.

PD class 10 is for 'still performing' borrowers, i.e. borrowers with loans for which interest payments and principal repayments are not more than 90 days in arrears or overdrawn, but for which there is reason to believe that they are unlikely to pay (on time), for instance, because they are in arrears or overdrawn 45 or more days (but no more than 90 days).

Classes 11 and 12 are for 'non-performing' borrowers. Class 11 groups borrowers that are more than 90 days in arrears or overdrawn, while class 12 comprises borrowers whose credit has been cancelled or which are in danger of going bankrupt. For the larger loans, an overview of all borrowers in default is submitted to the Group Executive Committee every quarter.

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

A credit committee decides whether loans can be renegotiated in order to avoid a situation where an obligor facing financial difficulties ends up defaulting. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or some other appropriate measure. In early 2009, KBC adopted a new policy for such renegotiations and its method for evaluating the risk and hence the classification of the obligor. If a loan renegotiation stems from a deterioration in the obligor's financial situation and the payment terms are altered, a PD class 9 or higher will be assigned. The obligor's situation will then be reassessed one year later and the obligor can return to a better class than PD 9 if the assessment turns out to be positive. In this case, the obligor is no longer considered as being in 'renegotiated status'. However, obligors involved in more than two subsequent renegotiations cannot return as soon to a better class than PD 9.

In 2008, a limited percentage of exposure was renegotiated and impairment avoided. When account is taken of a materiality threshold of 1% of the entity's outstanding portfolio, renegotiations occurred mostly at Absolut Bank, where an estimated 176 million euros was restructured, thus avoiding impairment.

**Credit risk management at portfolio level** Monitoring is also conducted on a portfolio basis, *inter alia* by means of quarterly reports on the consolidated loan portfolio in order to ensure that lending policy and limits are being respected. The largest risk concentrations are, in addition, monitored via periodic and *ad hoc* reports. Limits are in place at borrower/guarantor, issuer or counterparty level, at sector level and for specific activities or geographic areas. Whereas some limits are still in notional terms, concepts (such as 'expected loss' and 'loss given default') are increasingly being used. The scope of monitoring in terms of name concentration has been widened over the past few years, enabling the credit risk stemming from lending, investment and derivatives activities to be captured. Moreover, stress tests are performed on certain types of credit (for instance, mortgages, loans provided to specific business sectors), as well as on the full scope of credit risk.

As part of the credit function, the portfolio management desk actively manages and monitors the loan portfolio. Using a model, this unit pinpoints risk concentrations and enhances the diversification of the loan portfolio.

## OVERVIEW OF THE LOAN PORTFOLIO, BANKING

The loan portfolio includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government securities in the investment books of the group's banking entities. It excludes government bonds, trading book securities, interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) and intragroup transactions. The loan portfolio therefore differs significantly from 'Loans and advances to customers' in the 'Consolidated annual accounts' section, Note 18 (this item, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit or corporate and bank bonds, but does include repurchase transactions with non-banks).

The loan portfolio is broken down according to different criteria in the table.

## Loan portfolio

| Total loan portfolio (in billions of EUR) | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Amount granted | 208.2 | 217.2 |
| Amount outstanding | 163.5 | 178.0 |
| **Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)** | | |
| Belgium | 28% | 28% |
| CEER | 21% | 24% |
| Merchant Banking | 49% | 46% |
| European Private Banking | 2% | 2% |
| **Total** | **100%** | **100%** |
| **Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)** | | |
| Loans | 87% | 87% |
| Guarantee credit | 5% | 6% |
| Corporate bonds | 5% | 5% |
| Bank bonds | 3% | 2% |
| **Total** | **100%** | **100%** |
| **Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]** | | |
| Private individuals | 27% | 30% |
| Financial and insurance services | 15% | 12% |
| Governments | 4% | 4% |
| Corporates | 54% | 54% |
| Non-financial services | 9% | 9% |
| Retail and wholesale trade | 8% | 8% |
| Real estate | 7% | 7% |
| Construction | 4% | 4% |
| Automobile industry | 3% | 2% |
| Chemical industry | 2% | 2% |
| Electricity | 2% | 2% |
| Agriculture, stock farming and fishing | 2% | 2% |
| Food industry | 2% | 3% |
| Metals | 2% | 2% |
| Other | 13% | 13% |
| **Total** | **100%** | **100%** |
| **Loan portfolio breakdown by risk class (part of the portfolio[2], as a % of the portfolio of credit granted)[1]** | | |
| PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%) | 26% | 25% |
| PD 2 (0.10%–0.20%) | 14% | 16% |
| PD 3 (0.20%–0.40%) | 13% | 14% |
| PD 4 (0.40%–0.80%) | 16% | 18% |
| PD 5 (0.80%–1.60%) | 17% | 13% |
| PD 6 (1.60%–3.20%) | 7% | 7% |
| PD 7 (3.20%–6.40%) | 4% | 4% |
| PD 8 (6.40%–12.80%) | 1% | 2% |
| PD 9 (highest risk, 12.80%–100.00%) | 1% | 1% |
| **Total** | **100%** | **100%** |
| **Impaired loans[3] (PD 10 + 11 + 12; in millions of EUR or %)** | | |
| Impaired loans | 3 446 | 5 118 |
| Specific impairment | 2 048 | 2 790 |
| Portfolio-based impairment | 186 | 266 |
| Credit cost ratio | | |
| Belgium Business Unit | 0.13% | 0.09% |
| CEER Business Unit | 0.26% | 0.83% |
| Czech Republic | 0.18% | 0.57% |
| Slovakia | 0.96% | 0.82% |
| Hungary | 0.62% | 0.41% |
| Poland | -0.34% | 0.95% |
| Russia | 0.21% | 2.40% |
| Merchant Banking Business Unit | 0.02% | 0.90% |
| European Private Banking Business Unit | 1.03% | 4.02% |
| **Total** | **0.13%** | **0.70%** |

## Loan portfolio (continued)

| Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %) | | |
|---|---|---|
| Amount outstanding | 2 386 | 3 239 |
| Specific impairment for non-performing loans | 1 505 | 1 949 |
| Non-performing ratio | | |
| Belgium Business Unit | 1.6% | 1.7% |
| CEER Business Unit | 2.1% | 2.1% |
| Merchant Banking Business Unit | 1.0% | 1.6% |
| European Private Banking Business Unit | 1.7% | 4.9% |
| **Total** | **1.5%** | **1.8%** |
| **Cover ratio** | | |
| Specific impairment for non-performing loans/outstanding non-performing loans | 63% | 60% |
| Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans | 94% | 94% |

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

1 Figures reviewed by the statutory auditor.

2 Since some parts of the portfolio have not yet been broken down by risk class (in particular, the loan portfolio of Absolut Bank), they have been excluded.

3 Figures differ from the figures appearing in the 'Consolidated annual accounts' section, Note 20, due to differences in scope.

OTHER CREDIT EXPOSURE IN BANKING Besides the credit risks in the loan portfolio, credit risks arise in other bank activities. The main ones are shown in the table.

*Short-term commercial transactions*. This activity involves export or import finance and only entails exposure to financial institutions. It includes documentary credit, pre-export and post-import finance and related transactions with a term to maturity of no more than two years. Despite the relatively high proportion of non-investment-grade banks in this exposure (roughly 35%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

*Trading book securities*. These securities carry an issuer risk (potential loss on default by the issuer). At KBC Financial Products (KBC FP), issuer risk is measured on the basis of the estimated loss given default by the issuer, based on the prevailing market value less the amount expected to be recovered depending on the type of issue (guaranteed or not). Only counterparty risk arising with net long positions is taken into account at KBC FP, meaning that issuers in respect of which a short position exists on balance are not accounted for in credit risk reporting. The issuer risk exposure of other entities (aside from KBC FP) is measured on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposure to asset-backed securities and collateralised debt obligations in the trading book is not included in the figures shown in the table (see the 'Investments in structured credit products' section).

*Counterparty risk in interprofessional transactions* (deposits with professional counterparties and derivatives trading). The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. Deposits account for slightly less than 20% of the total amount. The bulk of the deposits are due from banks with an investment-grade rating.

Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Close-out netting and collateral techniques are also used. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

*Government securities in the investment portfolio*. Exposure to governments is measured in terms of book value and is accounted for mainly by EU states (particularly Belgium), which pose a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.4 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see the 'Asset/Liability management' section). Limits are in place for this type of credit exposure, as well, especially for governments with a lower than 'AA' internal rating.

## Other credit exposure[1]

| In billions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Short-term commercial transactions | 1.8 | 2.3 |
| Issuer risk[2] | 3.8 | 3.0 |
| Counterparty risk in interprofessional transactions[3] | 34.5 | 22.7 |
| Government bonds in the investment portfolio, incl. KBL EPB | 34.8 | 39.9 |

1 The 2007 figures do not include Absolut Bank, CIBANK and KBC Banka, except those for 'Government bonds in the investment portfolio'. The 2008 figures include Absolut Bank and KBC Banka.

2 Excluding OECD government bonds.

3 After deduction of collateral and netting benefits.

**INTERNAL CREDIT RISK MODELS AND BASEL II** In order to quantify credit risks, KBC has developed various rating models for determining how creditworthy borrowers are and to estimate the expected loss of various types of transactions. These models support credit risk management in pricing, the credit process (acceptance and monitoring) and determining portfolio-based impairment. A number of models are uniform throughout the group (the models for governments, banks, large companies, project finance, etc.), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group.
These models also form the building blocks for calculating the regulatory capital requirements for credit risk. KBC has in other words opted to use the Internal Rating Based (IRB) Approach.

The switch to the Basel II IRB approach is taking place in stages, with KBC Bank NV and most of its main subsidiaries having already switched over to the IRB Foundation approach in 2007. A number of other material group companies (K&H Bank, Kredyt Bank, KBL EPB, Absolut Bank, Centea and Antwerp Diamond Bank) switched to the Basel II standardised approach in 2008 and will adopt the IRB Foundation approach in 2009–2010 (subject to regulatory approval). In fact, Antwerp Diamond Bank obtained such approval in early 2009. The non-material entities of the KBC group adopted the Basel II standardised approach in 2008 and will continue to implement it. A further switch to the IRB Advanced approach is envisaged, starting in 2011.

**CREDIT RISK, INSURANCE** Where the insurance activities are concerned, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies.

Guidelines exist with regard to the investment portfolio for the purpose of controlling credit risk. There are standards, for instance, that stipulate what percentage of the portfolio has to be invested in securities issued by governments of OECD countries, as well as standards that require issuers to have a certain minimum rating, and so on (see also the 'Asset/Liability Management' section).

KBC is 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. The credit risk at KBC is measured by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply, as defined by a credit committee. 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 45%.

## Credit exposure to (re)insurance companies by risk class, in Exposure at Default (EAD) and Expected Loss (EL)*

| In millions of EUR | EAD 2007 | EAD 2008 | EL 2007 | EL 2008 |
|---|---|---|---|---|
| AAA up to and including A- | 401.7 | 311.5 | 0.06 | 0.05 |
| BBB+ up to and including BB- | 21.5 | 164.2 | 0.04 | 0.08 |
| Below BB- | 0.0 | 1.4 | 0.00 | 0.05 |
| Unrated | 49.4 | 13.9 | n.a. | n.a. |
| **Total** | **472.6** | **491.1** | **0.10** | **0.18** |

n.a. = not applicable.
* EAD: audited figures; EL: unaudited figures.

**INVESTMENTS IN STRUCTURED CREDIT PRODUCTS** Aggregate information on KBC's investments in structured credit products (including a small position held for trading) is provided in the table. KBC's investments in these products include collateralised debt obligations (CDOs) and other asset-backed securities (ABS). At the end of 2008, the total nominal amount (excluding the initial write-downs of junior and equity CDO pieces) of these investments was 15.2 billion euros, 8.7 billion euros of which in CDOs and 6.4 billion euros in other ABS.

With further adverse developments on the financial markets impacting KBC's investments in structured credit products, KBC was moved to take firm action. On 22 January 2009, it decided to fully write down all non-super-senior CDO notes in portfolio which had been originated by KBC FP. As a result, the total impact of the financial crisis on all structured products since the beginning of the crisis (mid-2007) came to 6.5 billion euros (including the initial write-downs of junior and equity CDO pieces), 5.0 billion euros of which was taken to profit or loss (P/L) and 1.5 billion euros recognised in equity. The effect of fair value adjustments to CDOs manifests itself predominantly through P/L, due to the fact that more than 95% of KBC's CDOs are synthetic and classified as 'other assets at fair value through profit or loss' under IFRS.

## KBC investments in structured credit products (CDOs and other ABS)

| In billions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Total nominal amount** | **17.0** | **15.9**[1] |
| Initial write-downs of junior and equity CDO pieces[2] | -0.8 | -0.8 |
| **Subtotal** | **16.2** | **15.2** |
| Impact[3] since the beginning of the crisis (mid-2007 to date) | -0.3 | -5.7 |
| - impact recognised in P/L | -0.2 | -4.2 |
| - impact recognised directly in shareholders' equity | -0.1 | -1.5 |

1 Year-on-year decrease due in part to sales of RMBS and amortisation.
2 The initial write-down of junior and equity CDO pieces had already been recognised through P/L when the CDOs were issued.
3 Includes further value markdowns on CDOs and ABS held in portfolio, and the financial impact of other measures, such as provisioning for monoline insurers.

The table shows a breakdown of the structured credit portfolio according to the rating of the notes held.

Further detailed information on KBC's investments in structured credit products and KBC's involvement in securitisation activities can be found in KBC's *Risk Report*, which is available at www.kbc.com. This report has not been audited by the statutory auditor.

Besides investing in CDOs for its own account, KBC also issued CDOs (through KBC Financial Products) and sold them on the market. To cover the risks, credit insurance in the form of super senior credit swaps was taken out with monoline insurers, primarily the US insurer, MBIA, whose creditworthiness has come under pressure. On 31 December 2008, KBC increased the provision for counterparty exposure to MBIA to 642 million euros (40% of the replacement value of the swap contracts). The total amount insured through MBIA (i.e. the notional value of the super senior swaps concluded with MBIA) came to 14 billion euros on 31 December 2008.

| 31-12-2008 | Super Senior | Aaa | Aa | A | Baa | Ba | B | Caa | <=Caa3 | Unrated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Amounts at nominal value (net of initial write-downs of junior and equity CDO pieces) | | | | | | | | | | | |
| CDO | 5 386 | 323 | 322 | 204 | 736 | 574 | 267 | 684 | 166 | 66 | 8 726 |
| Other ABS | n.a. | 5 768 | 334 | 41 | 45 | 115 | 14 | 63 | 0 | 59 | 6 439 |
| **Total** | **5 386** | **6 090** | **656** | **245** | **781** | **689** | **281** | **747** | **166** | **125** | **15 166** |

n.a. = not applicable.

# Asset/Liability management

**DESCRIPTION** Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include:

- interest rate risk,
- equity risk,
- real estate risk,
- foreign exchange risk,
- inflation risk,
- credit risk (limited to the investment portfolios).

'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 ALM RISK** The main purpose of ALM is to optimise the risk/return profile of the group, subject to the risk tolerance limits set by the Board of Directors. ALM risks are managed and monitored by the Group ALCO, which is responsible for establishing a group-wide framework for identifying, measuring and overseeing ALM activities and for taking strategic investment decisions for the entire group. At the subsidiaries outside the euro area, local ALCOs have been set up.

A team in the Group Value and Risk Management Directorate provides support to the Group ALCO and helps to develop ALM risk management. Similar teams exist at the subsidiaries outside the euro area. Risk management responsibilities for the life insurance business (including the tasks of the certifying actuary for the life insurance business and embedded value modelling) are also included in the scope of ALM risk management.

The ALM strategy is implemented locally by front-office units, co-ordinated by a central investment function which is responsible for co-ordinating the various ALM strategies.

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

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity;
- the use of a uniform ALM measurement methodology for banking and insurance activities based on 'fair value models' that forecast the behaviour of 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 (99% quantile) as a result of movements in interest rates and other fluctuations in market risk factors. Some risk parameters (i.e. inflation estimates and real-estate-risk estimates, correlations linked to these risk categories) are based on expert opinion;
- the definition of an ALM VAR limit at group level and the breakdown of this limit into various types of risk and entities;
- the use of VAR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio;
- VAR is supplemented by other risk measurement methods such as Basis-Point-Value, notional amounts, economic value, etc.

The group VAR limit framework is translated into pragmatic risk limits for the various group companies and individual ALM positions (see below).

## KBC group ALM risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR)*

| In billions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Interest rate risk | 0.37 | 1.41 |
| Equity risk | 1.70 | 1.03 |
| Real estate risk | 0.16 | 0.15 |
| Other risks | 0.09 | 0.17 |
| **Total diversified VAR (group)** | **2.31** | **2.76** |

* The figures for 2007 exclude Absolut Bank, DZI Insurance, KBC Banka and a number of small group entities. The figures for 2008 include Absolut Bank and KBC Banka, but still exclude DZI Insurance and a number of small group entities.

INTEREST RATE RISK The bank's ALM interest rate positions 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., demand and savings accounts).

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

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

The table shows how the bank's exposure to interest rate risk developed over the course of 2007 and 2008. Interest rate expectations for 2009 onwards changed during the year and a tactical position was opened to capitalise on this development, thus resulting in a higher interest rate risk position.

## BPV of the ALM book of KBC group banks*

| In millions of EUR | |
|---|---|
| Average, 1Q 2007 | 70 |
| Average, 2Q 2007 | 54 |
| Average, 3Q 2007 | 44 |
| Average, 4Q 2007 | 46 |
| 31-12-2007 | 48 |
| Maximum in 2007 | 74 |
| Minimum in 2007 | 42 |
| Average, 1Q 2008 | 59 |
| Average, 2Q 2008 | 74 |
| Average, 3Q 2008 | 76 |
| Average, 4Q 2008 | 76 |
| 31-12-2008 | 84 |
| Maximum in 2008 | 84 |
| Minimum in 2008 | 48 |

* The 2007 figures exclude Absolut Bank, CIBANK, KBC Banka and a number of small group entities. The 2008 figures include Absolut Bank, CIBANK and KBC Banka, but still exclude a number of small group entities.

In keeping with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against capital and reserves. At the level of the KBC Bank group, this risk came to 7% at year-end 2008 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which leads to a higher regulatory capital charge).

In the table, the carrying value of assets and liabilities is broken down according to either the contractual repricing date or the maturity date, whichever is earlier, so as to obtain an indication of the length of time for which interest rates are fixed. Derivative financial instruments, which are used mainly to reduce exposure to interest rate movements, are included on the basis of their notional amount and repricing date.

## Interest sensitivity gap of the ALM book (including derivatives), KBC group banks

| In millions of EUR | ≤ 1 month | 1–3 months | 3–12 months | 1–5 years | 5–10 years | > 10 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007*** | | | | | | | | |
| Cash inflows | 42 116 | 19 569 | 31 710 | 65 179 | 32 023 | 17 079 | 25 123 | 232 799 |
| Cash outflows | 65 448 | 22 301 | 31 171 | 59 208 | 21 259 | 7 144 | 26 268 | 232 799 |
| Derivatives (interest-linked) | 11 456 | 6 857 | 39 | -6 268 | -6 158 | -5 926 | 0 | – |
| Interest sensitivity gap | -11 877 | 4 125 | 578 | -298 | 4 606 | 4 010 | -1 145 | 0 |
| **31-12-2008** | | | | | | | | |
| Cash inflows | 52 253 | 28 199 | 29 470 | 73 229 | 38 478 | 21 935 | 5 467 | 249 032 |
| Cash outflows | 70 327 | 36 248 | 33 371 | 62 142 | 23 118 | 8 707 | 15 121 | 249 032 |
| Derivatives (interest-linked) | 18 070 | 10 630 | 1 078 | -14 915 | -6 854 | -8 008 | – | – |
| Interest sensitivity gap | -4 | 2 581 | -2 822 | -3 828 | 8 507 | 5 220 | -9 654 | 0 |

* The 2007 figures exclude CIBANK and a number of small group entities. The 2008 figures include CIBANK, but still exclude a number of small group entities.

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-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. For the single premium life savings products (which constitute the major part of the existing reserves and new production), this cashflow matching is combined with derivative strategies. The lapse risk and the expected profit-sharing policies are managed with a mixed investment portfolio of fixed-income investments and equities.

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

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. DPFs are not included in this table because they are subject to an annual discretionary decision. These features, however, tend to increase along with interest rates, reducing the overall effective duration of reserves with DPF.

## Expected cashflows (not discounted), KBC group life insurance*

| In millions of EUR | 0–5 years | 5–10 years | 10–15 years | 15–20 years | > 20 years | Total |
|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 6 808 | 5 038 | 1 819 | 1 118 | 1 093 | 15 876 |
| Liabilities, guaranteed component | 5 014 | 5 487 | 1 703 | 1 564 | 2 525 | 16 294 |
| Difference in expected cashflows | 1 794 | -449 | 116 | -447 | -1 432 | -418 |
| Mean duration of assets | | | | | | 6.30 years |
| Mean duration of liabilities | | | | | | 7.98 years |
| **31-12-2008** | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 9 401 | 6 102 | 1 952 | 1 399 | 979 | 19 833 |
| Liabilities, guaranteed component | 7 114 | 4 947 | 1 817 | 1 621 | 2 521 | 18 020 |
| Difference in expected cashflows | 2 287 | 1 155 | 134 | -222 | -1 542 | 1 813 |
| Mean duration of assets | | | | | | 6.58 years |
| Mean duration of liabilities | | | | | | 7.70 years |

* The 2007 figures exclude DZI Insurance and a number of small group entities. The 2008 figures include DZI Insurance, but still exclude a number of small group entities.

The group-wide sensitivity to interest rate movements is reported on a regular basis and at the same time for both the banking and the insurance activities. The table illustrates the impact of a 1% increase in the yield curve, given the positions at the reporting date.

## Impact of a parallel 1% increase in the yield curve for the KBC group[1]

| In millions of EUR | Impact on net profit (IFRS) | | Impact on economic value[2] | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Insurance | -33 | -8 | 2 | -98 |
| Banking | 61 | -37 | -506 | -874 |
| **Total** | **28** | **-45** | **-504** | **-972** |

1 The 2007 figures exclude Absolut Bank, DZI Insurance, KBC Banka and a number of small group entities. The 2008 figures include Absolut Bank and KBC Banka, but still exclude DZI Insurance and a number of small group entities.

2 Full market value, regardless of accounting classification or impairment rules.

EQUITY RISK KBC's equity exposure is concentrated in the investment portfolios of KBC Insurance. Given the negative trend on the equity markets during 2008 and increased volatility, further investments in equities were put on hold. This was also the case for the modest equity portfolio in Central and Eastern Europe. Smaller equity portfolios are also held by KBC Bank, KBL EPB, KBC Asset Management and KBC Private Equity.

Equity risk is monitored using a VAR technique (99% one-sided confidence interval, one-year time horizon), with a limit being set for the total equity exposure of the group's ALM activities. The table provides an overview of the sensitivity of income and IFRS equity to fluctuations in the equity markets. This exposure includes the sensitivity of unlisted equity in the different portfolios.

## Impact of a 12.5% drop in the equity markets[1,2]

| In millions of EUR | Impact on net profit (IFRS) | | Impact on IFRS equity (after tax) | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Insurance | -23 | -243 | -455 | 14 |
| Banking | -53 | -44 | -43 | -24 |
| Total | -76 | -287 | -498 | -10 |

## Impact of a 25% drop in the equity markets[2,3]

| In millions of EUR | Impact on net profit (IFRS) | | Impact on IFRS equity (after tax) | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Insurance | – | -541 | – | 84 |
| Banking | – | -88 | – | -51 |
| Total | – | -629 | – | 33 |

1 The 2007 figures exclude Absolut Bank, DZI Insurance, KBC Banka and a number of small group entities.
2 The 2008 figures include Absolut Bank, DZI Insurance and KBC Banka, but still exclude a number of small group entities.
3 Comparable figures not available for 2007.

CREDIT RISK IN THE INVESTMENT PORTFOLIOS In 2008, the corporate bond component of the Belgian insurance portfolios was stepped up under strict quality conditions and guidelines, partly to compensate for the fact that investments were no longer being made in equities. The increase in corporate bond investments led to a higher credit risk exposure in the ALM portfolios of KBC Insurance, which is monitored under the group credit risk framework described above.

The table provides an overview of the total investment portfolios of the group's insurance entities.

## Investment portfolio of KBC group insurance entities

| **In millions of EUR** | | **Market value[3]** |
|---|---|---|
| **Per balance sheet item** | **31-12-2007** | **31-12-2008** |
| Securities | 19 013 | 18 249 |
| Bonds and other fixed-income securities | 14 666 | 15 709 |
| Held to maturity | 2 768 | 2721 |
| Available for sale | 10 272 | 12 768 |
| At fair value through profit or loss (FIFV & HFT) | 1 626 | 220 |
| Shares and other variable-yield securities | 4 328 | 2 385 |
| Available for sale | 4 122 | 2 202 |
| At fair value through profit or loss (FIFV & HFT) | 206 | 183 |
| Other | 20 | 155 |
| Loans and advances to customers | 156 | 203 |
| Loans and advances to banks | 1 732 | 3 204 |
| Property and equipment and investment property | 384 | 472 |
| Investments in associated companies | 3 | 18 |
| Other | 109 | 97 |
| Investment contracts, unit-linked | 9 099 | 6 948 |
| **Total** | **30 495** | **29 192** |
| **Bonds and other fixed-income securities, portfolio details** | | |
| By rating[1] | | |
| AA- and higher | 74% | 66% |
| A- and higher | 98% | 97% |
| BBB- and higher | 100% | 100% |
| By sector[1] | | |
| Governments[2] | 73% | 65% |
| Financial | 19% | 24% |
| Other | 7% | 11% |
| **Total** | **100%** | **100%** |
| By remaining tenor[1] | | |
| Not more than 1 year | 7% | 6% |
| Between 1 and 3 years | 14% | 15% |
| Between 3 and 5 years | 21% | 26% |
| Between 5 and 10 years | 34% | 31% |
| More than 10 years | 25% | 22% |
| **Total** | **100%** | **100%** |
| **Shares and other variable-yield securities, portfolio details** | | |
| By sector[1] | | |
| Financial | 29% | 16% |
| Consumer non-cyclical | 15% | 16% |
| Communication | 7% | 11% |
| Energy | 8% | 9% |
| Industrial | 7% | 12% |
| Utilities | 10% | 11% |
| Consumer cyclical | 9% | 8% |
| Basic materials | 7% | 7% |
| Other | 7% | 10% |
| **Total** | **100%** | **100%** |

1 In certain cases, based on extrapolations and estimates. The 2007 figures exclude investments for unit-linked life insurance and DZI Insurance. The 2008 figures include DZI Insurance.

2 Government bonds amounted to 11.2 billion euros at 31 December 2008.

3 The total carrying value amounts to 30 417 million euros at end-December 2007 and 28 904 million at end-December 2008.

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 10% drop in real estate prices*

| | Impact on economic value | |
|---|---|---|
| In millions of EUR | 2007 | 2008 |
| Bank portfolios | -73 | -85 |
| Insurance portfolios | -51 | -36 |
| Total | -124 | -121 |

* The 2007 figures exclude Absolut Bank, DZI Insurance, KBC Banka and a number of small group companies. The 2008 figures include Absolut Bank, DZI Insurance and KBC Banka, but still exclude a number of small group companies.

**FOREIGN EXCHANGE RISK** KBC pursues a prudent policy as regards its structural currency exposure, essentially seeking to avoid currency risk. FX 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 FX 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.

**LIABILITY ADEQUACY IN THE LIFE INSURANCE BUSINESS** KBC adheres to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and has built up sizeable supplementary reserves, primarily for products that are most susceptible to interest rate risk. For instance, in Belgium (which accounts for the bulk of the life insurance reserves), technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a discount rate of 4%. In addition, supplementary provisions have been accumulated under a 'flashing lights' system since 2000. This system requires KBC Insurance and Fidea to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on ten-year government bonds). Although the regulator allows exceptions to the flashing lights system to be applied for, KBC has never resorted to this option.
The various group companies conduct 'liability adequacy tests' (LAT) that meet local and IFRS requirements. 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. Deficiencies were recorded only for the life insurance businesses in the Czech Republic, and a deficiency reserve has been set aside for this (since 2004). At year-end 2008, the outstanding deficiency reserve at KBC group level amounted to 20.2 million euros.

**EMBEDDED VALUE IN THE LIFE INSURANCE BUSINESS** The value of the life insurance portfolio is expressed by embedded value. This is the sum of the Adjusted Net Asset Value, or ANAV, of KBC Insurance and the present value of all future cash flows coming in from the existing portfolio (Value of Business in Force or VBI), account taken of the risk-based capital required for this activity. Any form of goodwill – or value of future business – is not taken into account.
KBC applies the 'Market-Consistent Embedded Value' technique, which results in a valuation of the insurance portfolio that is consistent with the market and takes into account such factors as the cost of the embedded options provided to the customer. This calculation method is also being used to analyse the added value of new contracts (Value of New Business or VNB) and to check the profitability of products under development (Profit Testing).
Detailed embedded value information for year-end 2008 will be published in April 2009.

## Breakdown of the reserves for non-linked life insurance by interest guarantee, KBC group insurance entities

| In % | 31-12-2007 | 31-12-2008 |
|---|---|---|
| 5.00% and higher* | 4% | 3% |
| More than 4.25% up to and including 4.99% | 17% | 14% |
| More than 3.50% up to and including 4.25% | 18% | 10% |
| More than 3.00% up to and including 3.50% | 30% | 41% |
| More than 2.50% up to and including 3.00% | 13% | 12% |
| 2.50% and lower | 13% | 15% |
| 0.00% | 2% | 2% |
| Other | 4% | 3% |
| Total | 100% | 100% |

* Contracts in Central and Eastern Europe.

# Liquidity risk management

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

The principal objective of KBC's liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances.

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

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

- Contingency liquidity risk
  Contingency liquidity 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 and (ii) a period that is required for markets to stabilise after a general market event. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.

- Structural liquidity risk
  The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on wholesale funding. Therefore, the forecast structure of the balance sheet is reviewed regularly and the appropriate funding strategies and options developed and implemented.

  The table illustrates structural liquidity risk by grouping the assets and liabilities at year-end 2008 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'. In 2008, KBC attracted 69 billion euros' worth of funding from the professional market. When interbank lending is also taken into account, net funding attracted through the professional market fell to 28 billion euros.

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

## Liquidity risk at year-end[1,2]

| In billions of EUR | <= 1 month | 1–3 months | 3–12 months | 1–5 years | 5–10 years | > 10 years | not defined | Total |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007 (including intercompany deals)** | | | | | | | | |
| Total inflows | 99 | 44 | 43 | 65 | 33 | 27 | 48 | 361 |
| Total outflows | 115 | 46 | 33 | 35 | 11 | 10 | 159 | 409 |
| Net liquidity gap in 2007 | -15 | -3 | 10 | 31 | 22 | 17 | -111 | -48 |
| **31-12-2008 (excluding intercompany deals)** | | | | | | | | |
| Total inflows | 105 | 23 | 26 | 69 | 40 | 45 | 16 | 323 |
| Total outflows[3] | 128 | 32 | 25 | 27 | 7 | 10 | 94 | 323 |
| Professional funding | 49 | 12 | 4 | 1 | 0 | 1 | 0 | 68 |
| Customer funding | 26 | 12 | 15 | 6 | 1 | 6 | 76 | 142 |
| Debt certificates | 5 | 7 | 6 | 20 | 6 | 3 | 0 | 47 |
| Other[4] | 48 | – | – | – | – | – | 18 | 66 |
| Liquidity gap in 2008 (excl. undrawn commitments) | -23 | -9 | 0 | 42 | 33 | 35 | -78 | 0 |
| Undrawn commitments | – | – | – | – | – | – | -43 | – |
| Net liquidity gap in 2008 (incl. undrawn commitments) | -23 | -9 | 0 | 42 | 33 | 35 | -122 | -43 |

1 Absolut Bank and CIBANK included for the first time in the 2008 figures.
2 Differences with Note 18 of the 'Consolidated annual accounts' section stem from differences in scope: non-material banking entities and insurance entities are not included in the table.
3 Professional funding includes all deposits from credit institutions and investment firms, as well as all repos with other customers. Savings certificates are included in the 'Customer funding' category, whereas they are included under 'Debt certificates' in Note 18.
4 'Other' in the first time bucket comprises mainly derivatives with negative fair value. These are compensated by derivatives with positive fair value incorporated into inflows.

**IMPACT OF THE FINANCIAL CRISIS ON KBC'S LIQUIDITY POSITION** KBC has always had a strong customer deposit base and this was no different during the financial crisis, owing to the continued steady inflow of deposits. As the deposit overhang is almost entirely invested in securities pledgeable at the ECB, KBC has a large liquidity buffer. Compared to its European competitors, KBC's reliance on interbank funding is relatively low. However, during the crisis, more recourse was had to short-term interbank funding, as market conditions prevented maturing debt issues from being replaced by new long-term funding. Despite the severe liquidity crisis, KBC's liquidity buffer has remained within pre-set limits.

# Market risk management

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

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

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

Through its specialised subsidiaries (KBC Financial Products (KBC FP), KBC Securities and KBC Peel Hunt), the group also engages in trading in equities and their derivatives. KBC FP also sells and deals in structured credit derivatives (services for hedge funds and the launch and management of collateralised debt obligations) and was involved in the seeding and management of Alternative Investment Management (AIM) hedge funds. However, KBC FP has been downsizing its activities in response to the current market situation: the proprietary trading and alternative investment management business lines are being closed down completely, while secured advances to hedge funds will be run down as rapidly as possible.

RISK GOVERNANCE Market risk tolerance is determined by the Board of Directors through an annual limit review. The Group Value and Risk Management Directorate and the Group Trading Risk Committee advise on limits before they are submitted to the Board.

Decisions relating to trading risk management are taken by the Group Trading Risk Committee, which is chaired by the Group CFRO and includes representatives from line management, risk management and top management. This committee manages market risk and deals with counterparty and operational risk related to the trading activities. It also keeps track of structural trends, monitors group-wide risk limits and may order corrective action to be taken. The development of portfolio models, the measurement of the risk position, and monitoring and reporting tasks are all performed centrally and at group level. The Group Model Committee is responsible for the mathematical and operational risk aspects of all market risk models developed and/or used within the KBC group.

The centralisation of trading risk management entails close co-operation between all value and risk management units at both group and local level. In the Group Value and Risk Management Directorate, risk co-ordinators are the first contact point for the group's local trading entities when they have questions relating to market risk. The responsibilities of the risk co-ordinators are clearly set out in risk protocols. Local risk management policy and procedures are described in the risk management framework document.

MANAGING MARKET RISK The principal tool for measuring and monitoring market risk exposures in the trading book is the Value-at-Risk (VAR) 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). The VAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years.

The VAR model is supplemented by extensive stress tests. Whereas the VAR 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. During the second half of 2008, KBC also developed stress tests for KBC FP's CDO portfolio, based on the loss assumptions published by rating agencies for ABS and CDOs.

Risk concentrations are monitored via a series of secondary limits, the most important being a three-dimensional scenario limit (based on movements in spot prices, volatilities and credit spreads). Other secondary limits include equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk. In addition, risks inherent in options (the so-called 'greeks') or the specific risk associated with a particular issuer or country are also subject to concentration limits.

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 of the valuation process is not guaranteed (for instance, when no reliable independent data are available), a parameter review is performed. Where applicable, adjustments to the fair value are made to reflect close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.

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

RISK ANALYSIS AND QUANTIFICATION An overall VAR is calculated for each specialised subsidiary and for all trading entities. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms, including those at KBL EPB, but excluding those at KBC Securities and KBC Peel Hunt. KBC Financial Products' VAR is also shown in the table. The calculation is based on a one-day holding period.

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 trading activities. ČSOB Czech Republic has received approval from the local regulator to use its VAR model for capital requirement purposes. In the other trading entities, the standardised method is used.

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. As a consequence of the financial crisis, this back-test has produced more outlier values than the year before for both KBC Bank and KBC Financial Products.

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 25.

## Market risk (VAR, 1-day holding period)

| In millions of EUR | KBC Bank[1] | KBC Financial Products[2] |
|---|---|---|
| Average, 1Q 2007 | 4 | 10 |
| Average, 2Q 2007 | 4 | 10 |
| Average, 3Q 2007 | 4 | 13 |
| Average, 4Q 2007 | 5 | 15 |
| 31-12-2007 | 5 | 13 |
| Maximum in 2007 | 7 | 19 |
| Minimum in 2007 | 3 | 4 |
| Average, 1Q 2008 | 5 | 15 |
| Average, 2Q 2008 | 7 | 11 |
| Average, 3Q 2008 | 7 | 15 |
| Average, 4Q 2008 | 13 | 24 |
| 31-12-2008 | 10 | 15 |
| Maximum in 2008 | 17 | 30 |
| Minimum in 2008 | 3 | 9 |

1 Excluding 'specific interest rate risk' measured using other techniques.

2 Excluding Atomium, fund derivatives and insurance derivatives businesses.

# Operational risk management

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

**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 standards,
- one methodology,
- one set of centrally developed ICT applications, and
- centralised and decentralised reporting.

The development and implementation of this framework is supported by an extensive operational risk governance model. The framework covers all banking and insurance entities of the group, as well as all supporting activities and services offered by group entities. The framework is gradually being implemented in all the new entities of the KBC group.

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

A Group Operational Risk Committee (GORC) advises the Group Executive Committee on the group-wide framework for managing operational risks, monitors the implementation of this framework and oversees the main operational risks. The Group CFRO chairs the GORC.

Besides the GORC, there are a variety of operational risk committees at business-unit level and at various group companies. They keep close track of the practical implementation of the operational risk management framework and also take concrete measures either directly or via line management. All departments that are involved in one way or another in managing operational risks can gain access to the risk committees whenever they feel it is necessary. In addition, representatives from the internal audit, legal and compliance divisions sit on the operational risk committees as observers.

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

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). Assisting this directorate are the local value and risk management units – which are likewise independent of the business – in the main bank and insurance subsidiaries.

**THE BUILDING BLOCKS FOR MANAGING OPERATIONAL RISKS** KBC uses a number of building blocks for managing operational risks, which cover all aspects of operational risk management. These are:

- *The Loss Event Database*: All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database includes all legal claims filed against group companies. Twice a year, a consolidated loss report is submitted to the GORC, the Executive Committee and the Audit Committee.
- *Risk Self-Assessments*: These focus on actual (= residual) key operational risks at critical points in the process/organisation that are not properly mitigated.
- *Group Standards*: Some 40 Group Standards have been defined to ensure that important operational risks are managed uniformly throughout the group. Each group entity has to translate these group standards into specific procedures. The various operational risk committees monitor the

proper implementation of group standards and may allow exceptions to be made (subject to the observance of a strict waiver procedure). Adherence to group standards is subject to internal audit reviews.

- *Recommended Practices*: These help sharpen the internal controls against key risks that (i) were identified during Risk Self-Assessments, (ii) are inherent in new activities started by a group entity, (iii) have manifested themselves through a significant loss event, or (iv) were identified by Internal Audit during an audit assignment.
- *Case-Study Assessments*: These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. One such assessment was used to test the internal controls for preventing and identifying rogue trading practices.
- *Key Risk Indicators*: These help monitor the exposure to certain operational risks.

OPERATIONAL RISK AND BASEL II KBC uses the Standard Approach to calculate operational risk capital under Basel II. The operational risk capital for the group's banking and insurance entities totalled 1.2 billion euros at the end of 2008.

# Technical insurance risk management

DESCRIPTION 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, thanks to appropriate acceptance, pricing, claims reserve, reinsurance and claims control policies of line management and to independent insurance risk management.

MANAGING TECHNICAL INSURANCE RISK The management of insurance risk is founded on the principle that primary responsibility for risk control lies with line management, and that the entities responsible for value and risk management should operate independently of line management. The mission of the Insurance Risk Management Division in the Group Value and Risk Management Directorate is to develop a group-wide framework for managing insurance risks. The insurance companies have local value and risk management entities that report to the member of the local executive committee in charge of value and risk management. At group level, the Insurance Risk Management Division is responsible for providing support for local implementation and organisation processes and for the functional direction of the insurance risk management process of these subsidiary entities. Since risk management responsibilities overlap those of the certifying actuary to a considerable extent, this actuary is generally employed in the central or local risk management unit.

RISK MODELLING KBC develops models gradually, 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 The sensitivity of the actual technical insurance results to extreme events is tested, for instance, under the International Monetary Fund's 'Financial Sector Assessment Program'. This program is used to estimate the impact, on a gross and net of reinsurance basis, of claims that are twice as large as the ones generated by the most significant natural disaster of the last 20 years (the Daria wind storm of 1990).

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 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 by means of reinsurance. These reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and re-negotiated 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, NON-LIFE As part of its mission to independently monitor insurance risks, the Group Value and Risk Management Directorate regularly carries out in-depth studies. They confirm that there is a high degree of probability that the technical provisions at subsidiary level are adequate. These liability adequacy tests are performed per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, Fidea, ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic, from financial year 2008), DZI Insurance (from financial year 2008), K&H Insurance, Secura, Assurisk (from financial year 2005) and WARTA (from financial year 2004). These companies combined account for 100% of the total provisions for claims to be paid at the close of 2008. 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 2008.

## Loss triangles, KBC Insurance

| In millions of EUR | Year of occurrence 2001 | 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] |
|---|---|---|---|---|---|---|---|---|
| Estimate at the end of the year of occurrence | 810 | 922 | 772 | 1 066 | 1 096 | 1 178 | 1 250 | 1 383 |
| 1 year later | 754 | 811 | 788 | 968 | 1 000 | 1 068 | 1 159 | – |
| 2 years later | 704 | 819 | 756 | 925 | 965 | 1 040 | – | – |
| 3 years later | 722 | 813 | 736 | 911 | 964 | – | – | – |
| 4 years later | 714 | 803 | 720 | 902 | – | – | – | – |
| 5 years later | 703 | 788 | 692 | – | – | – | – | – |
| 6 years later | 709 | 782 | – | – | – | – | – | – |
| 7 years later | 705 | – | – | – | – | – | – | – |
| Current estimate | 705 | 782 | 692 | 902 | 964 | 1 040 | 1 159 | 1 383 |
| Cumulative payments | -561 | -639 | -540 | -688 | -679 | -679 | -688 | -497 |
| Current provisions | 144 | 143 | 152 | 214 | 285 | 362 | 472 | 886 |

1 From the 2004 financial year, 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): 690 for 2001; 771 for 2002; and 687 for 2003.

2 From the 2005 financial year, Assurisk'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): 709 for 2001; 804 for 2002; 754 for 2003; and 940 for 2004.

3 From the 2008 financial year, the figures for ČSOB Poist'ovňa (Slovak Republic) 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): 704 for 2001; 781 for 2002; 690 for 2003; 900 for 2004; 947 for 2005; 1 024 for 2006 and 1 117 for 2007.

# Solvency and economic capital

**DESCRIPTION** 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.

**MANAGING SOLVENCY** KBC reports its banking solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator. The regulatory minimum is 8% for the CAD ratio and 4% for the tier-1 ratio. KBC reports its insurance solvency calculated according to IFRS figures and the new guidelines issued by the Belgian regulator in 2008. Although the regulatory minimum for the solvency ratio is 100%, KBC has much higher in-house solvency targets for both the banking and insurance activities. Consequently, regulatory minimum solvency targets were amply exceeded, not only at year-end, but also throughout the entire year.

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

**CAPITAL-STRENGTHENING TRANSACTION WITH THE BELGIAN STATE AND THE FLEMISH REGIONAL GOVERNMENT** In October 2008, KBC and the Belgian government reached an agreement to further strengthen KBC's financial position. Signed at the end of December 2008, the transaction entailed KBC issuing 3.5 billion euros' worth of non-transferable, non-voting core-capital securities to the Belgian State. KBC has used the proceeds of the transaction to increase its core tier-1 capital in the banking business by 2.25 billion euros and to bolster the capital base of the insurance business by 1.25 billion euros, resulting in a further and significant strengthening of its banking and insurance solvency ratios. More detailed information on this transaction is provided in the 'Consolidated annual accounts' section, Note 35.

In January 2009, KBC's capital base was further strengthened by a similar transaction with the Flemish Regional Government, this time for 2 billion euros, plus a supplementary stand-by facility of 1.5 billion euros. More detailed information on this transaction is provided in the 'Consolidated annual accounts' section, Note 42.

The Belgian Banking, Finance and Insurance Commission has confirmed that the securities issued in both transactions (for an amount of 3.5 billion euros and 2 billion euros, respectively) qualify as core tier-1 capital.

**SOLVENCY, BANKING ACTIVITIES (KBC BANK AND KBL EPB COMBINED)** The table shows the tier-1 and CAD ratios calculated under Basel II. It should be noted that Basel II rules have been implemented in all entities throughout the group since 2008 (this was not yet the case at 31 December 2007, the end of the transition year). Primarily the Basel II IRB Foundation approach is being used (for about 70% of the weighted risks), while the weighted risks of the other companies (roughly 30% of such risks) are calculated according to the standardised method.

In order to strengthen the solvency ratios of KBC Bank and with a view to optimising the use of those hybrid instruments allowed by the regulator, KBC Bank issued so-called non-innovative hybrid tier-1 capital instruments worth 2 billion euros in the second quarter of 2008. In Belgium, banks may issue both innovative and non-innovative hybrid capital instruments which qualify for a maximum 25% of tier-1 capital (with additional limits for the innovative hybrid component). To be classified as non-innovative, the instrument must have a number of features, viz. they need to be subordinated, should not provide for any step-up in dividends, should be perpetual (no general redemption right for investors) and may be converted to ordinary shares subject to certain limits and approvals.

For more detailed information on the capital-strengthening transaction concluded with the Belgian State in December 2008, see the 'Consolidated annual accounts' section, Note 35. This transaction has been fully incorporated into the figures in the table. For more detailed information on the capital-strengthening transaction concluded with the Flemish Regional Government in January 2009, see the 'Consolidated annual accounts' section, Note 42. A *pro forma* tier-1 ratio, which includes the impact of the 2-billion-euro transaction, has been added to the table.

| In millions of EUR | 31-12-2007 Basel II | 31-12-2008 Basel II |
|---|---|---|
| **Total regulatory capital, after profit appropriation** | **17 170** | **19 028** |
| **Tier-1 capital[1]** | **11 823** | **13 643** |
| Parent shareholders' equity | 13 650 | 11 576 |
| Intangible fixed assets (-) | -244 | -169 |
| Goodwill on consolidation (-) | -2 053 | -2 451 |
| Innovative hybrid tier-1 instruments | 1 815 | 1 652 |
| Non-innovative hybrid tier-1 instruments | 0 | 1 793 |
| Minority interests | 584 | 599 |
| Mandatorily convertible bonds and other tier-2 instruments (-) | -204 | -18 |
| Revaluation reserve, available-for-sale assets (-) | 7 | 946 |
| Hedging reserve, cashflow hedges (-) | -73 | 352 |
| Valuation differences in financial liabilities at fair value – own credit risk (-) | 0 | -245 |
| Minority interests in available-for-sale reserve and hedging reserv, cashflow hedges (-) | 2 | 1 |
| Dividend payout (-) | -1 077 | 0 |
| Items to be deducted (-) | -583 | -395 |
| **Tier-2 and tier-3 capital** | **5 347** | **5 385** |
| Mandatorily convertible bonds | 186 | 0 |
| Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital) | 599 | 820 |
| Revaluation reserve, available-for-sale shares (at 90%) | 233 | 29 |
| Minority interests in revaluation reserve, available-for-sale shares (at 90%) | 2 | -7 |
| IRB provision excess (+) | 139 | 209 |
| Subordinated liabilities | 4 754 | 4 586 |
| Tier-3 capital | 18 | 144 |
| Items to be deducted (-) | -583 | -395 |
| **Total weighted risks** | **135 146** | **141 370** |
| Credit risk | 113 415 | 108 038 |
| Market risk | 12 984 | 20 333 |
| Operational risk[3] | 8 747 | 12 999 |
| **Solvency ratios** | | |
| Tier-1 ratio | 8.7% | 9.7% (*pro forma* 11.2%[2]) |
| of which core tier-1 ratio | 7.4% | 7.2% (*pro forma* 8.6%[2]) |
| CAD ratio | 12.7% | 13.5% (*pro forma* 14.9%[2]) |

1 Audited figures.

2 Includes the impact of the 2-billion-euro transaction concluded with the Flemish Regional Government in January 2009 to strengthen the group's capital base.

3 The substantial increase is due mainly to the fact that, as of 1 January 2008, the scope of Basel II was extended to all KBC group entities, including those that had not previously been subject to Basel II regulations.

## SOLVENCY, INSURANCE ACTIVITIES (KBC INSURANCE)

KBC Insurance has followed the regulator's new guidelines and been applying new rules to calculate the solvency ratio since 30 September 2008. More information on these guidelines can be found in KBC's *Risk Report*, which is available at www.kbc.com. This report has not been audited by the statutory auditor.

For more detailed information on the capital-strengthening transaction concluded with the Belgian State, see the 'Consolidated annual accounts' section, Note 35. This transaction has been fully incorporated into the figures in the table.

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Available capital*** | **2 641** | **2 117** |
| Share capital | 29 | 59 |
| Share premium | 122 | 1 842 |
| Reserves | 2 600 | 796 |
| Revaluation reserve, available-for-sale investments | 953 | -176 |
| Translation differences | 37 | 5 |
| Dividend payout (-) | -617 | 0 |
| Minority interests | 35 | 56 |
| Subordinated liabilities | 0 | 0 |
| Intangible fixed assets (-) | -24 | -32 |
| Goodwill on consolidation (-) | -495 | -485 |
| Elimination | | |
| Revaluation reserve, available-for-sale investments | – | 176 |
| Equalisation reserve | – | -123 |
| **Required solvency margin** | **997** | **1 127** |
| Non-life and industrial accident (legal lines) | 301 | 341 |
| Annuities | 8 | 8 |
| Subtotal, non-life insurance | 308 | 349 |
| Class-21 life insurance | 661 | 756 |
| Class-23 life insurance | 24 | 14 |
| Subtotal, life insurance | 685 | 770 |
| Other | 4 | 8 |
| **Solvency ratio and surplus** | | |
| Solvency ratio (%) | 265% | 188% |
| Solvency surplus (in millions of EUR) | 1 643 | 990 |

* Audited figures.

## SOLVENCY AT GROUP LEVEL

KBC reports its group solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator, using the so-called 'building block' method. This entails comparing group regulatory capital (i.e. parent shareholders' equity less intangible assets and a portion of the revaluation reserve for available-for-sale assets, plus subordinated debt, etc.) 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.

For more detailed information on the capital-strengthening transactions concluded with the Belgian State and the Flemish Regional Government, see the 'Consolidated annual accounts' section, Note 35 and Note 42. The transaction with the Belgian State has been fully incorporated into the figures in the table.

### Solvency, KBC group

| In millions of EUR | 31-12-2007<br>Basel II<br>Solvency I | 31-12-2008<br>Basel II<br>Solvency I |
|---|---|---|
| Total regulatory capital | 19 194 | 19 370 |
| Required minimum regulatory capital | 11 760 | 12 423 |
| Surplus above minimum regulatory capital | 7 434 | 6 946 |

ECONOMIC CAPITAL An economic capital model is used to measure the overall risk KBC is exposed to through its various activities, with consideration given to a variety of risk factors. The figures generated by this model are reported regularly at meetings of the Group ALCO, the Group Executive Committee, the Audit Committee and once a year to the Board of Directors.

KBC defines economic capital as the amount of capital required to cover unexpected losses in fair value that the group might incur over a one-year period, with a confidence level of 99.96% (i.e. with a degree of certainty of 99.96%). Economic capital is calculated per risk category using a common denominator (the same time horizon of one year and the same confidence interval) and then aggregated. Since it is extremely unlikely that all risks will materialise at the same time, an allowance is made for diversification benefits when aggregating the individual risks.

As mentioned previously, economic capital is used as a major building block for ICAAP (Basel II, pillar 2). In addition, it provides essential input for internal valuation models, such as the Market Consistent Embedded Value model (see the 'Asset/Liability management' section).
The breakdown of KBC's economic capital per risk type is provided in the table.

## Economic capital distribution, KBC group*

| | 2007 | 2008 |
|---|---|---|
| Credit risk | 41% | 45% |
| ALM risk | 29% | 27% |
| Market risk | 4% | 4% |
| Business risk | 11% | 11% |
| Operational risk | 8% | 8% |
| Insurance risk | 6% | 5% |
| **Total** | **100%** | **100%** |

* All percentages relate to figures at the end of September.

# Corporate Social Responsibility

# Corporate social responsibility at KBC

Corporate social responsibility (CSR) refers to a set of policies and guidelines that a company should abide by in order to enable it to operate as a responsible actor within society as a whole.

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.

Indeed, CSR should be embedded in the various areas relating to the financial and non-financial activities of a bancassurer, such as lending, investment, the environment, social policy (in terms of human rights and HR policy), corporate governance, business ethics and relations with customers, suppliers and other stakeholders.

KBC has incorporated all of these areas into a clear internal CSR policy framework, which is translated into a number of specific guidelines and commitments.

Moreover, as a signatory to national and international CSR principles (including the United Nations *Global Compact* and the Luxembourg *Charte d'entreprise pour la responsabilité sociale et le développement durable*), KBC continues to build on its proactive commitment vis-à-vis its stakeholders.

As a modern and international financial group, KBC fosters awareness of CSR and encourages relevant initiatives in all the countries in which it operates. Moreover, KBC's vision and achievements in the area of CSR are published separately in an annual *Corporate Social Responsibility Report* (CSR Report). This report provides group-wide information on CSR – including quantitative data on KBC staff and the group's ecological footprint – and is available at www.kbc.com.

In November, KBC and Umicore jointly received the prize for 'Best Corporate Social Responsibility Report' from the *Belgisch Instituut van de Bedrijfsrevisoren* (Belgian Institute of Auditors). This fine achievement is recognition of the commitment of the entire KBC group to improve and render even more transparent its performance in the area of corporate social responsibility.


A complete overview of our principles and achievements in corporate social responsibility can be found in our *Corporate Social Responsibility Report*, available at www.kbc.com.

# Examples of achievements on the CSR front in 2008

As in previous years, various new initiatives were taken in the field of CSR in 2008, more details of which appear in our CSR Report. A few examples of initiatives taken in relation to the environment and community involvement are listed below.

- In Belgium, KBC aims to be a carbon-neutral company by 2010. An important step towards achieving this objective was taken in March 2008, when the Belgian entities – with a total workforce of approximately 19 000 employees – switched to 100% green energy, a move which reduced greenhouse gas emissions directly by 47%.
- During the first half of 2008, new 'Green Building Guidelines' were drafted for all new buildings and for major renovation work to existing buildings in Belgium to ensure more efficient use of energy and to reduce greenhouse gas emissions.
- In Hungary, K&H Bank opened its first 'green' retail branch, running exclusively on renewable energy.
- KBC continued its policy of gradually switching its vehicle fleet to the GreenLease concept, a total concept offered by KBC Autolease that is built on three key pillars: a range of less-polluting (green) lease cars, a programme for offsetting carbon emissions, and eco-friendly driving lessons. The concept earned KBC a runners-up place in the 'Green Fleet Award'.
- KBC further strengthened and formalised its ties with the *Belgian Raiffeisen Foundation* (BRS), an organisation which supports microfinance projects in the developing world. BRS also received input from many different employees throughout the KBC group.
- An employee engagement project called 'Helping Together' was launched in the Czech Republic to encourage members of staff to support local and international charities.
- The WARTA and Kredyt Bank Foundation – a non-profit body run jointly by the group's Polish bank and insurance subsidiaries – joined forces with a national CSR network to raise awareness of CSR initiatives in Poland.
- A number of important decisions were also taken in the area of socially responsible investment (SRI). For instance, oil, gas and mining companies operating in certain 'controversial countries' have now been excluded from the group's SRI funds.

The group's work in the field of CSR was duly recognised in 2008 when it received several awards, including:

- the prize for the 'Best Corporate Social Responsibility Report' in Belgium;
- LEED Gold certification for ČSOB's new head office building in the Czech Republic;
- second prize for Hungarian subsidiary, K&H Bank, in the national heats of the 'European Energy Trophy'.

# Some CSR facts and figures

A selection of environmental efficiency data on energy consumption, distances travelled, paper and water consumption, and greenhouse gas emissions is shown in the table.

KBC's employees are one of the group's most important stakeholders. The following table provides an overview of the total workforce and a breakdown into various categories. More information on the group's employees can also be found in the CSR Report for 2008.

## Environmental efficiency data for the KBC group in Belgium

| Per FTE* | 2008 |
|---|---|
| **Energy consumption (in GJ)** | |
| Electricity | 24.5 |
| Fossil fuels (gas and heating oil) | 14.0 |
| **Distances travelled (in km)** | |
| Commuter travel | 9 474 |
| Business travel | 8 143 |
| **Paper and water consumption, waste** | |
| Paper (in tonnes) | 0.16 |
| Water (in $m^3$) | 11.6 |
| Waste (in tonnes) | 0.23 |
| **Greenhouse gas emissions** | |
| Greenhouse gas (in tonnes) | 3.41 |

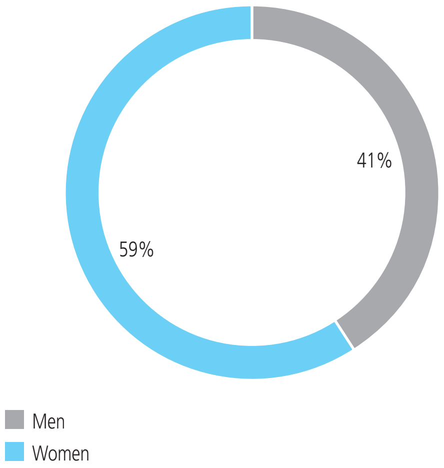
* Based on data for Belgium (17 218 FTEs); methodological information is given in the group's CSR Report.

## Number of staff, KBC group

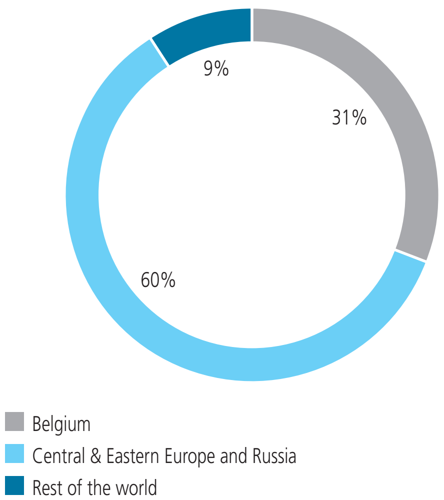
| | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **In FTEs*** | **56 715** | **59 279** |
| % | | |
| Banking | 73% | 75% |
| Insurance | 14% | 13% |
| European private banking | 5% | 5% |
| Holding-company activities | 7% | 7% |
| Belgium | 34% | 31% |
| Central & Eastern Europe and Russia | 56% | 60% |
| Rest of the world | 10% | 9% |
| Senior management | 3% | 3% |
| Junior and middle management | 34% | 33% |
| Administrative staff | 63% | 63% |
| Men | 42% | 41% |
| Women | 58% | 59% |
| Full-time | 84% | 85% |
| Part-time | 16% | 15% |

* KBC Bank, KBC Insurance, KBL EPB and KBC Group NV (the holding company), including the principal subsidiaries in which they have a majority shareholding. The figures do not include the distribution network of the insurance companies.

***Breakdown of workforce by gender (31-12-2008)***




***Breakdown of workforce by country/region (31-12-2008)***



# Corporate Governance

# Corporate governance information

The Belgian Code on Corporate Governance (the 'Code') seeks to ensure transparency in corporate governance by requiring every listed company to disclose information in two separate documents: the *Corporate Governance Charter* (the 'Charter') and the Corporate Governance Section (the 'Section') of the annual report.

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 Section in the annual report contains more factual information regarding the company's corporate governance, including any changes to it, any relevant events during the year under review and reasons for any non-compliance with the Code. All points that must be disclosed under the Code are covered below, as are a number of other disclosures required by law. Unless otherwise indicated, the period dealt with in this Section runs from 1 January 2008 to 31 December 2008.

# Composition of the Board of Directors and its committees

The table shows the members of the Board of Directors (the Board) and its committees on 31 December 2008, as well as the number of meetings held in 2008 and the attendance record.

In 2008, the following changes occurred in the composition of the Board:
- At the General Meeting of 24 April 2008, Guido Van Roey and Xavier Liénart stepped down as directors and Ghislaine Van Kerckhove and Lode Morlion were appointed to replace them. A brief CV for both these individuals can be found on page 109 of the 2007 annual report.
- Herwig Langohr died on 28 May 2008. A member of the Board of Directors of KBC Group NV since 1997, he drew on his abundant knowledge and experience as professor of Finance and Banking at INSEAD (Fontainebleau) to provide valuable support to the group in his capacity *inter alia* as member of the Audit Committee.
- Under the terms of the agreements that KBC reached with the Belgian Federal Government at the end of October 2008 and with the Flemish Regional Government in January 2009 to issue non-dilutive securities that qualify as core capital, two representatives from each government will take a seat on the Board of Directors of KBC Group NV, with one representative from each government sitting on the Audit Committee, the Remuneration Committee and the Nomination Committee. Pending the nomination of these four new directors at the General Meeting of 30 April 2009, Pierre Wunsch has been sitting on the Board of Directors as an observer for the Belgian State since 19 December 2008.

It will be proposed to the General Meeting of 30 April 2009 that the following directors whose terms of office end at this meeting be re-appointed:
- for a further period of four years: Philippe Vlerick, Etienne Verwilghen, Paul Borghgraef, Noël Devisch, Dirk Heremans, Philippe Naert, Hendrik Soete and Alain Tytgadt;
- for a further period of one year (given that they will reach the age limit within the coming twelve months): Paul Bostoen and Luc Debaillie.

Luc Philips, Jean-Marie Géradin, Christian Leysen and Jozef Van Waeyenberge will relinquish their seats on the Board, when their terms of office also come to an end at this meeting.

Luc Philips will join the Executive Committee of KBC immediately after the General Meeting and take up the position of Chief Financial and Risk Officer, replacing Herman Agneessens who has decided to retire with effect from the General Meeting of 2009.

It will be proposed to the General Meeting that Charles Van Wymeersch be appointed for a period of four years to replace Jean-Marie Géradin. Born in 1946, Charles Van Wymeersch graduated with a Civil Engineering Degree from the Katholieke Universiteit Leuven in 1969, before obtaining a Master's Degree in Economics from the Université catholique de Louvain and an MBA from Cornell University in New York. After working for a number of years in the International Department of the former Bank Brussel Lambert, he embarked on an impressive academic career at various universities and colleges of further education, and still holds the chair in the Faculty of Economics at the Université Notre-Dame de la Paix in Namur. He specialises in financial reporting, financial analysis and financial risk management. He has been a director of Cera Beheersmaatschappij NV since 2006.

A list of the external offices held by members of the Board of Directors is provided, as stipulated by the Belgian supervisory authority, on the website of KBC Group NV (www.kbc.com).

## Composition of the Board of Directors on 31 December 2008

| Name | Primary responsibility | Period served on the Board in 2008 | End, current term of office | Board meetings attended | Non-executive directors | Core shareholders' representatives | Independent directors | Members of the Executive Committee | Audit Committee | Nomination Committee | Remuneration Committee | Agenda Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Number of meetings in 2008:** | | | | 15 | | | | | 5 | 3 | 3 | 10 |
| **Jan Huyghebaert** | Chairman of the Board of Directors | Full year | 2012 | 14 | ■ | | | | | 3* | 3 | 8* |
| **Philippe Vlerick** | Deputy Chairman of the Board of Directors CEO of B.I.C. Carpets NV | Full year | 2009 | 14 | ■ | ■ | | | | 2 | | |
| **André Bergen** | President of the Executive Committee and Executive Director | Full year | 2011 | 15 | | | | ■* | | 2 | | 10 |
| **Etienne Verwilghen** | Executive Director | Full year | 2009 | 10 | | | | ■ | | | | |
| **Paul Borghgraef** | Director of various companies | Full year | 2009 | 15 | ■ | ■ | | | | | | |
| **Paul Bostoen** | Managing Director, Christeyns NV and Algimo NV | Full year | 2009 | 15 | ■ | ■ | | | | | | |
| **Jo Cornu** | CEO, Agfa-Gevaert NV | Full year | 2012 | 14 | ■ | | ■ | | | 3 | 3* | |
| **Luc Debaillie** | Chairman and Managing Director, Voeders Debaillie NV | Full year | 2009 | 14 | ■ | ■ | | | | | | |
| **Chris Defrancq** | Executive Director | Full year | 2011 | 13 | | | | ■ | | | | |
| **Franky Depickere** | Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA | Full year | 2011 | 15 | ■ | ■ | | | 5 | 3 | | |
| **Noël Devisch** | Director, MRBB CVBA | Full year | 2009 | 14 | ■ | ■ | | | | 3 | | |
| **Frank Donck** | Managing Director, 3D NV | Full year | 2011 | 13 | ■ | ■ | | | | | | |
| **Jean-Marie Géradin** | Lawyer and Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV | Full year | 2009 | 13 | ■ | ■ | | | | | | |
| **Dirk Heremans** | Professor Emeritus at the Faculty of Business and Economics, Katholieke Universiteit Leuven (KUL) | Full year | 2009 | 14 | ■ | | ■ | | 5 | | | |
| **Christian Leysen** | CEO of Ahlers NV and AXE Investments NV | Full year | 2009 | 11 | ■ | ■ | | | | | | |
| **Lode Morlion** | Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV | 9 months | 2012 | 12 | ■ | ■ | | | | | | |
| **Philippe Naert** | Director of various companies | Full year | 2009 | 14 | ■ | | ■ | | 5 | | 3 | |
| **Luc Philips** | Director | Full year | 2009 | 14 | ■ | | | | 5* | 2 | | 10 |
| **Theodoros Roussis** | CEO, Ravago Plastics NV | Full year | 2012 | 11 | ■ | ■ | | | 4 | | | |
| **Hendrik Soete** | CEO, Aveve Group, and Director, MRBB CVBA | Full year | 2009 | 15 | ■ | ■ | | | | | | |
| **Alain Tytgadt** | Managing Director, Metalunion CVBA | Full year | 2009 | 15 | ■ | ■ | | | | | | |
| **Ghislaine Van Kerckhove** | Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV | 9 months | 2012 | 12 | ■ | ■ | | | | | | |
| **Germain Vantieghem** | Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA | Full year | 2010 | 15 | ■ | ■ | | | | | | |
| **Jozef Van Waeyenberge** | Director, De Eik NV | Full year | 2009 | 14 | ■ | ■ | | | | | | |
| **Marc Wittemans** | Managing Director, MRBB CVBA | Full year | 2010 | 15 | ■ | ■ | | | 5 | | | |

* Chairman of the committee.

Auditor: Ernst & Young, Bedrijfsrevisoren BCV, represented by Jean-Pierre Romont and/or Pierre Vanderbeek.

Secretary to the Board of Directors: Tom Debacker.

Under the terms of the agreement signed by KBC and the Belgian Federal Government (Federale Participatie- en Investeringsmaatschappij NV, a company governed by public law) on 19 December 2008 to strengthen the core capital of the group, meetings of the Board of Directors have been attended by Pierre Wunsch, who has been acting as an observer for the Belgian State.

# Composition of the Executive Committee

The table shows the members of the Executive Committee on 31 December 2008. For more information on the members of the Executive Committee, see the 'Structure, strategy and shareholder information' section or click 'Corporate Governance' at www.kbc.com.

As announced in last year's annual report, there was one change in the composition of the Executive Committee in 2008. At the end of 2007, Frans Florquin expressed his intention to retire from KBC on 1 May 2008. The Board decided to appoint Danny De Raymaeker to succeed Frans Florquin as a member of the Executive Committee of KBC Group NV. The appointment took effect on 1 May 2008. Mr De Raymaeker's CV appears in the 2007 annual report.
At the end of 2008, Herman Agneessens expressed his intention to retire on 1 May 2009. The Board of Directors of KBC Group NV would like to express its sincere gratitude for his dedication and unstinting efforts over the years – including his work as Group Chief Financial and Risk Officer – which have been instrumental in helping KBC grow into a leading bancassurance group. After establishing that he was willing to accept the post, the Board decided to appoint Luc Philips, non-executive director of KBC Group NV, to succeed Herman Agneessens as member of the Executive Committee and as KBC Group CFRO, with effect from 1 May 2009. On the same date, Mr Philips will relinquish his seat on the Board of KBC Group NV. Born in 1951, Luc Philips joined the former Kredietbank in 1971 as a graduate in Commercial and Financial Sciences from the *Hoger Instituut voor Bestuurs- en Handelswetenschappen* (College of Management and Commercial Sciences) in Brussels. During his career there, he worked in a number of different positions in the domestic and international networks (including New York) and at head office until his appointment as executive director in 1997. Following the merger of the Kredietbank and CERA Bank in 1998, he became Executive Director of the KBC Bank and Insurance Holding Company NV and of KBC Bank NV. In 2003, he gave up this office to become Executive Director of Almanij NV. When the KBC Bank and Insurance Holding Company NV merged with Almanij NV in 2005, he was appointed Chairman of the Board of Directors of KBC Insurance NV, Deputy Chairman of the Board of Directors of KBC Bank NV and Director of KBC Group NV, as well as Chairman of the Audit Committees of both KBC Group NV and KBC Bank NV.

| **Name** | **Period on the Executive Committee in 2008** |
|---|---|
| André Bergen (President) | Full year |
| Herman Agneessens | Full year |
| Chris Defrancq | Full year |
| Danny De Raymaeker | From 1 May 2008 |
| Guido Segers | Full year |
| Jan Vanhevel | Full year |
| Etienne Verwilghen | Full year |

# Meetings of the Board of Directors

The Board of Directors met fifteen times in 2008. The meetings were always attended by virtually all members (see table). Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the Audit, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2008:
- activities of the Audit Committee;
- corporate social responsibility;
- KBC Securities in Central Europe;
- HR policy;
- Risk management;
- Absolut Bank and its development;
- economic capital and capital planning;
- internal governance;
- business continuity management;
- interest paid on savings deposits;
- KBC's position in Slovenia (NLB);
- construction of a data centre in Central Europe;
- the situation on the financial markets;
- CDOs;
- the situation regarding the group's capital;
- labour cost savings.

The Executive Committee also reported on a monthly basis on the trend in the results and the general course of business at the group's various business units.

# Meetings of the committees of the Board of Directors

AUDIT COMMITTEE The Audit Committee met five times in the presence of the president or a member of the Executive Committee and the internal auditor. The meetings were also attended by the statutory auditors.

The report of the internal auditor and the report of the Group Value and Risk Management Directorate (WRB) were two fixed agenda items.

The periodic reports from WRB primarily covered the changes and methodological developments regarding value and capital management, as well as the ALM, market, credit, operational and insurance risks of the group. In this regard, particular attention was devoted to the characteristics of CDO-linked products and the method used to value them.
The internal auditor's report provided an overview of recent audit reports, including the most important audit reports for the underlying group entities. The Audit Committee also reviewed the implementation of the 2008 audit plan, and approved the 2009 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations and – as is customary each year – was provided with the report containing the opinion on the quality of the internal control of the KBC group.

On 13 February, the Audit Committee reviewed the consolidated and non-consolidated annual accounts for the year ended 31 December 2007, and approved the press release. The Board of Auditors explained their key audit findings. On 14 May, 6 August and 5 November, the auditors explained their key findings following their limited review of the accounts as at 31 March, 30 June and 30 September, respectively. The Audit Committee also approved the respective press releases.

During the course of the year, the Audit Committee also reviewed several special reports concerning the economic capital programme, organisation and internal controls, the development of the consumer finance business, the compliance monitoring programme, CDO activities, liquidity and solvency management, and the CFRO's annual report. Senior managers were regularly invited to provide explanations on specific subjects within their remit that were under discussion.

NOMINATION COMMITTEE In 2008, the Nomination Committee met three times, each time to discuss the matter of succession within the Executive Committee and the re-appointment of members of the Board of Directors.

REMUNERATION COMMITTEE The Remuneration Committee met three times in 2008 to discuss the following matters:

- the remuneration package of the members of the Executive Committee;
- variable emoluments paid to members of the Executive Committee in 2008;
- severance packages for members of the Executive Committee;
- options allocated to members of the Executive Committee;
- the remuneration package of the members of the Executive Committee of KBL.

AGENDA COMMITTEE In 2008, the Agenda Committee met ten times, on each occasion prior to a meeting of the Board of Directors in order to set the relevant agenda. It also decided how the various topics would be presented to the Board of Directors, and what documentation would be made available to the Board. Furthermore, it ensured that the questions raised by the Board were adequately answered at the following meeting. It prepared a list of topics to be covered in the upcoming periods for the continuous education of members of the Board of Directors on financial and technical subjects.

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

The Board of Directors of KBC Group NV drew up regulations governing transactions and other contractual ties between the company (including its associated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. These regulations have been incorporated into the Charter of KBC Group NV. No such conflicts of interest arose at KBC Group NV during the course of 2008.

# 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 Directors 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 Banking, Finance and Insurance Commission (CBFA). The principles of this code have been appended to the Charter of KBC Group NV. The code entered into effect on 10 May 2006.

# Remuneration granted to non-executive directors

The remuneration awarded by KBC Group NV to its non-executive directors during 2008 for financial year 2007 can be split into fixed remuneration that is deducted from net profit for that year and attendance fees charged as expenses to that year.

The directors sitting on the Audit Committee of KBC Group NV received additional remuneration for the work they performed in that regard. No additional remuneration was paid to directors sitting on either the Nomination Committee or the Remuneration Committee.

In addition, other group companies in Belgium or abroad paid remuneration to certain non-executive directors for offices they had held at those companies in the course of 2007.

Consequently, there are differences in the individual remuneration paid to directors and there would be no value added by listing these divergent amounts in a separate table. Moreover, given the specific composition of the Board of Directors, providing this information in such a table is not considered appropriate for privacy reasons. Hence, as was the case last year, it has been replaced by disclosure of the total consolidated remuneration paid in 2008 by KBC Group NV and its direct and indirect subsidiaries to the eligible non-executive directors: a total of 2 564 458 euros. As Jan Huyghebaert and Luc Philips receive a separate remuneration package, their remuneration has not been included in these figures. The total remuneration package of Mr Philips is equivalent to that of an executive director of KBC Bank. Jan Huyghebaert received a sum of 49 000 euros in the first half of 2008 to rectify an error made when remuneration was being paid for 2007. Hence, his total earnings as Chairman of the Board of Directors of KBC Group NV came to 620 000 euros in 2007. He received the exact same amount in 2008.

# Remuneration granted to members of the Executive Committee

The remuneration paid by KBC Group NV and its direct and indirect subsidiaries to the members of the Executive Committee of KBC Group NV for financial year 2008 is disclosed in the table.

The Executive Committee 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 the provisions of the Code on Corporate Governance, the individual remuneration paid to the president of the Executive Committee is shown, as is the total remuneration paid to the seven other persons who were members of the Executive Committee in 2008.

If members of the Executive Committee are also members of the Board of Directors, they do not receive any fixed remuneration for the latter office. For the rest, members of the Executive Committee enjoy the same supplementary benefits as other employees of the KBC group (hospitalisation insurance, assistance insurance, etc.). Members of the Executive Committee are also entitled to a company car, which is not solely for the use of the Executive Committee members, however.

Under the terms of the agreements that KBC signed with the Federale Participatie- en Investeringsmaatschappij NV in 2008 and with the Flemish Regional Government in 2009 to bolster the core capital of the group, if an individual's term of office as a member of the Executive Committee is terminated otherwise than through retirement, remuneration will be paid equal to the fixed portion of the annual remuneration, save upon resignation or dismissal for cause.

| | | **Amount paid for 2008 to** |
|---|---|---|
| **Type of remuneration** | **President of the Executive Committee (in EUR)** | **Other members of the Executive Committee (combined, in EUR)** |
| Basic remuneration (fixed) | 676 992 | 3 062 400 |
| Profit bonus for financial year 2008 (variable) | 0 | 0 |
| Supplementary pension scheme[1] (premiums paid) | 800 422 | 2 961 017 |
| Additional defined-contribution pension plan[2] (contribution transferred to pension fund) for 2007 | 51 365 | 205 460 |
| Options on KBC shares[3] for 2007, allocated in 2008 (quantity) | 7 300 options | 0 options |

1 When funding the supplementary pension for the members of the Executive Committee, account is taken of the pension benefits to which they may already have been entitled as an employee of a group company, as well as of their age at the time of their appointment to the Executive Committee. As a result, the group insurance premiums paid are different.

2 An additional defined-contribution pension plan was launched in 2007, with the size of the annual contribution depending on the change in the group's earnings per share.

3 The number of options allocated to the President of the Executive Committee for 2007: the exercise price was 74.75 euros and the options can be exercised from June 2012 to July 2015. Since these options originate from the decision taken by the Board of Directors of the KBC Bank and Insurance Holding Company NV in 2002 allowing share options for existing KBC shares to be allocated until 2012, no authorisation is required from the General Meeting.

# Comments

*Provision 5.2./1. of the Belgian Code on Corporate Governance (the Code) stipulates that the Board of Directors should set up an audit committee composed exclusively of non-executive directors. At least a majority of its members should be independent. Provision 5.3./1. of the Code stipulates that the Board of Directors should set up a nomination committee composed of a majority of independent non-executive directors.*

Following the death of Herwig Langohr in May, the Audit Committee of KBC Group NV is now (year-end 2008) composed of six non-executive directors, two of whom are independent. These independent directors, therefore, are in the minority on this committee. The Nomination Committee of KBC Group NV is composed of six non-executive directors, of whom one is independent, and of one executive director. When selecting the members of the Audit and Nomination Committees, as is also the case with the Board of Directors, 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.

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

In 2008, there were no conflicts of interest falling within the scope of Article 523 or 524 of the Belgian Companies Code.

# 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

**CAPITAL STRUCTURE AT 31 DECEMBER 2008** At year-end 2008, the fully paid-up share capital of KBC was represented by 357 752 822 shares of no nominal value. There were no subordinated mandatorily convertible bonds (MCBs) in circulation, due to the fact that – after reaching maturity on 30 November 2008 – all the remaining MCBs were converted automatically into KBC Group NV shares on 1 December 2008.

**POWERS OF THE BOARD OF DIRECTORS WITH REGARD TO THE ISSUE AND REPURCHASE OF TREASURY SHARES**

The General Meeting has authorised the Board of Directors until 17 June 2012 to increase, in one or more steps, the share capital by a total amount of 200 million euros, in cash or in kind, by issuing shares and 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 CBFA that it has been apprised of a public takeover bid for the company's shares. This special authorisation is valid until 25 April 2010. On 31 December 2008, the amount by which capital may be increased came to 199 446 593 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2008, a maximum of 57 312 239 new shares can still be issued, i.e. 16.02% of the number of shares in circulation at that time.

The General Meeting has authorised the Boards of Directors of KBC Group NV and its direct subsidiaries to acquire and take in pledge KBC Group NV treasury shares, as long as the par value of these shares does not exceed 10% of KBC Group NV's issued capital. The shares may be acquired at a price per share that may not be lower than one euro or higher than the last closing price on Euronext Brussels before the date of acquisition, plus 10%. This authorisation is valid until 23 October 2009. The aforementioned Boards of Directors are also authorised to sell 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%. On 31 December 2008, KBC Group NV and its direct subsidiaries held a total of 18 171 347 KBC Group NV shares (i.e. 5.08% of the number of shares in circulation at that time) primarily for the purpose of the buyback programme approved by the General Meeting and for hedging KBC's employee stock option plans. The Boards of Directors of KBC Group NV and its direct subsidiaries have also been authorised until 17 June 2010 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.

**LEGAL RESTRICTION ON TRANSFERRING SECURITIES AND EXERCISING VOTING RIGHTS** Each year, KBC Group NV carries out a capital increase reserved for KBC employees, who are free to subscribe to it. These new shares are blocked on behalf of the employees concerned by KBC for two years, starting from the payment date. At year-end 2008, a total of 159 025 shares were blocked in this way, 110 871 of which will be released before the end of 2009.

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 annual accounts' section.

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries have been suspended. At 31 December 2008, these rights were suspended for 18 216 385 shares, i.e. 5.09% of the number of shares in circulation at that time.

**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).

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 Federale Participatie- en Investeringsmaatschappij NV 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 CBFA) 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 2-billion-euros' worth of securities to the Flemish Regional Government in a second operation, which was agreed in January 2009.

## Disclosure under Article 74 of the Belgian Act of 1 April 2007 on public takeover bids

Within the framework of the above-mentioned legislation, KBC Group NV received a number of updated disclosures in 2008, before the date required by law (i.e. 1 September). This information has been incorporated into the table of disclosures received.

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

**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] | 23.15% | Cera CVBA | Efiga Invest SPRL | 233 806[3] | 0.07% | Moulins de Klein-bettingen SA |
| MRBB | 42 562 675[3] | 11.99% | HBB vzw | La Pélégrina | 220 588[4] | 0.06% | ING Trust |
| Cera CVBA | 25 903 183[3] | 7.29% | – | Robor NV | 216 162[3] | 0.06% | Individual(s) |
| SAK AGEV | 14 914 440[3] | 4.20% | – | Hermes Invest NV | 180 225[3] | 0.05% | – |
| Plastiche NV | 2 989 482[3] | 0.84% | Individual(s) | I.B.P. Ravago Pensioen-fonds | 165 633[3] | 0.05% | – |
| SAK Pula | 2 229 250[3] | 0.63% | – | Tradisud NV | 157 774[4] | 0.04% | – |
| 3D NV | 1 995 161[3] | 0.56% | SAK Iberanfra | SAK Hermes Controle en Beheersmaatschappij | 148 527[3] | 0.04% | – |
| Cultura Fonds NV | 1 849 500[3] | 0.52% | Individual(s) | Lineago Trust | 148 400[3] | 0.04% | – |
| Vrij en Vrank CVBA | 1 740 258[3] | 0.49% | SAK Prof. Vlerick | Promark International NV | 127 000[3] | 0.04% | Individual(s) |
| Setas SA | 1 626 401[3] | 0.46% | SAK Setas | SAK Iberanfra | 120 107[3] | 0.03% | – |
| Stichting Amici Almae Matris | 904 524[3] | 0.25% | – | Spero NV | 105 500[3] | 0.03% | Individual(s) |
| Rainyve SA | 900 000[3] | 0.25% | – | Cobeton NV | 99 304[3] | 0.03% | SAK Hermes Con-trole en Beheers-maatschappij |
| Van Holsbeeck NV | 640 885[3] | 0.18% | Individual(s) | Meralpa NV | 98 577[4] | 0.03% | – |
| Partapar SA | 559 291[3] | 0.16% | Individual(s) | Inkao-Invest BVBA | 91 179[3] | 0.03% | Robor NV |
| Ceco CVA | 555 734[3] | 0.16% | Individual(s) | Edilu NV | 70 000[4] | 0.02% | – |
| Sopaver SA | 450 000[3] | 0.13% | – | Kreusch en Co NV | 67 823[4] | 0.02% | – |
| C.G.S. NV | 437 865[3] | 0.12% | – | 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 | 394 737[3] | 0.11% | SAK Prof. Vlerick | Filax Stichting | 38 529[3] | 0.01% | Individual(s) |
| Mercator NV | 366 427[3] | 0.10% | Bâloise-holding | Lycol NV | 31 939[4] | 0.01% | – |
| VIM CVBA | 361 562[3] | 0.10% | Individual(s) | Paton BVBA | 30 000[3] | 0.01% | Individual(s) |
| Sereno SA | 330 000[3] | 0.09% | Individual(s) | Van Vuchelen en Co CVA | 27 785[4] | 0.01% | – |
| Colver NV | 322 099[4] | 0.09% | – | Asphalia NV | 13 631[3] | 0.00% | Individual(s) |
| Algimo NV | 310 316[3] | 0.09% | Individual(s) | Kristo Van Holsbeeck BVBA | 7 500[3] | 0.00% | Individual(s) |
| Rodep Comm.VA | 302 500[3] | 0.09% | Individual(s) | Schacol, in liquidation | 5 437[4] | 0.00% | – |
| SAK Berkenstede | 243 000[3] | 0.07% | – | Immidi NV | 3 480[4] | 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] |
|---|---|---|---|---|---|---|---|
| 295 000[3] | 0.08% | 48 141[3] | 0.01% | 12 500[4] | 0.00% | 3 375[4] | 0.00% |
| 290 709[3] | 0.08% | 46 441[3] | 0.01% | 11 003[4] | 0.00% | 3 375[4] | 0.00% |
| 274 023[3] | 0.08% | 46 200[3] | 0.01% | 11 000[4] | 0.00% | 3 240[4] | 0.00% |
| 274 022[3] | 0.08% | 45 441[3] | 0.01% | 10 953[4] | 0.00% | 2 628[4] | 0.00% |
| 141 466[3] | 0.04% | 43 200[3] | 0.01% | 8 850[4] | 0.00% | 2 613[4] | 0.00% |
| 107 500[3] | 0.03% | 39 264[4] | 0.01% | 8 556[4] | 0.00% | 2 295[4] | 0.00% |
| 84 078[3] | 0.02% | 33 069[4] | 0.01% | 8 484[4] | 0.00% | 2 025[3] | 0.00% |
| 75 000[3] | 0.02% | 32 994[3] | 0.01% | 8 316[4] | 0.00% | 1 350[4] | 0.00% |
| 68 500[3] | 0.02% | 32 994[3] | 0.01% | 8 212[4] | 0.00% | 1 269[4] | 0.00% |
| 67 500[3] | 0.02% | 32 978[3] | 0.01% | 8 212[4] | 0.00% | 1 000[3] | 0.00% |
| 67 500[3] | 0.02% | 32 978[3] | 0.01% | 6 993[4] | 0.00% | 877[4] | 0.00% |
| 63 599[4] | 0.02% | 25 500[4] | 0.01% | 6 733[4] | 0.00% | 774[4] | 0.00% |
| 60 493[3] | 0.02% | 24 725[4] | 0.01% | 6 330[4] | 0.00% | 621[4] | 0.00% |
| 57 841[3] | 0.02% | 22 611[4] | 0.01% | 4 590[4] | 0.00% | 513[4] | 0.00% |
| 56 400[3] | 0.02% | 21 897[3] | 0.01% | 4 558[4] | 0.00% | 324[4] | 0.00% |
| 56 100[3] | 0.02% | 19 546[4] | 0.01% | 4 549[4] | 0.00% | 270[4] | 0.00% |
| 55 406[4] | 0.02% | 16 733[4] | 0.00% | 4 100[4] | 0.00% | 243[4] | 0.00% |
| 54 986[4] | 0.02% | 16 000[3] | 0.00% | 3 759[4] | 0.00% | 189[4] | 0.00% |
| 49 999[3] | 0.01% | 13 905[4] | 0.00% | 3 375[4] | 0.00% | 154[4] | 0.00% |
| 49 600[3] | 0.01% | 13 905[4] | 0.00% | 3 375[4] | 0.00% | | |
| 48 300[3] | 0.01% | 12 956[4] | 0.00% | 3 375[4] | 0.00% | | |

1 No such disclosures were received.

2 Total outstanding number of shares on 30 June and 1 September 2008: 355 122 707.

3 Situation as at 30 June 2008.

4 Situation as at 1 September 2008.

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.

# Consolidated annual accounts

# '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 2008

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 2008, 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 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 € 355.317 million and the consolidated statement of income shows a loss for the year, share of the Group, of € 2.484 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, 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 2008 give a true and fair view of the Group's financial position as at 31 December 2008 and of the results of its operations and its cash flows 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, 30 March 2009

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

Jean-Pierre Romont
Partner

Pierre Vanderbeek
Partner

*Ref: 09JPR0059'*

# Consolidated income statement

| In millions of EUR | Note | 2007 | 2008 |
|---|---|---|---|
| Net interest income | 3 | 4 089 | 4 992 |
| Interest income | 3 | 15 396 | 17 353 |
| Interest expense | 3 | -11 307 | -12 360 |
| Gross earned premiums, insurance | 9 | 3 989 | 4 585 |
| Non-life | 11 | 1 826 | 2 052 |
| Life | 10 | 2 163 | 2 533 |
| Gross technical charges, insurance | 9 | -3 404 | -3 883 |
| Non-life | 9 | -1 085 | -1 205 |
| Life | 9 | -2 319 | -2 678 |
| Ceded reinsurance result | 9 | -64 | -72 |
| Dividend income | 4 | 256 | 259 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 5 | 1 642 | -3 481 |
| Net realised gains from available-for-sale assets | 6 | 682 | 95 |
| Net fee and commission income | 7 | 1 993 | 1 714 |
| Fee and commission income | 7 | 3 149 | 2 848 |
| Fee and commission expense | 7 | -1 155 | -1 134 |
| Other net income | 8 | 619 | 618 |
| **TOTAL INCOME** | | **9 802** | **4 827** |
| Operating expenses | 12 | -5 219 | -5 600 |
| Staff expenses | 12 | -3 148 | -3 139 |
| General administrative expenses | 12 | -1 740 | -1 984 |
| Depreciation and amortisation of fixed assets | 12 | -361 | -392 |
| Provisions for risks and charges | 12 | 31 | -84 |
| Impairment | 14 | -267 | -2 234 |
| on loans and receivables | 14 | -185 | -822 |
| on available-for-sale assets | 14 | -75 | -1 333 |
| on goodwill | 14 | 0 | -25 |
| other | 14 | -7 | -54 |
| Share in results of associated companies | 15 | 56 | -1 |
| **PROFIT BEFORE TAX** | | **4 373** | **-3 007** |
| Income tax expense | 16 | -970 | 629 |
| Net post-tax income from discontinued operations | | 0 | 0 |
| **PROFIT AFTER TAX** | | **3 403** | **-2 379** |
| attributable to minority interests | | 123 | 105 |
| **attributable to equity holders of the parent** | | **3 281** | **-2 484** |
| Earnings per share (in EUR) | | | |
| Basic | 17 | 9.46 | -7.31 |
| Diluted | 17 | 9.42 | -7.28 |

- As announced following the transaction with the Belgian State to strengthen the capital base, the Board of Directors will propose that no dividend be paid out for the 2008 financial year.
- Basic earnings per share at 31 December 2008 were calculated on the basis of 340 million shares (period average). For this purpose, the number of treasury shares held was deducted from the number of ordinary shares. Diluted earnings per share were calculated on the basis of 341 million shares (period average). In this case, the number of outstanding share options was included. See Note 17 for more information.
- For changes in the presentation of the income statement, see Note 1 a.

# Consolidated balance sheet

## Assets

| In millions of EUR | Note | 31-12-2007 | 31-12-2008 |
|---|---|---|---|
| Cash and cash balances with central banks | | 4 613 | 4 454 |
| Financial assets | 18–25 | 340 522 | 337 203 |
| Held for trading | 18–25 | 73 907 | 73 557 |
| Designated at fair value through profit or loss | 18–25 | 46 212 | 28 994 |
| Available for sale | 18–25 | 46 750 | 46 371 |
| Loans and receivables | 18–25 | 160 607 | 177 029 |
| Held to maturity | 18–25 | 12 320 | 10 973 |
| Hedging derivatives | 18–25 | 725 | 279 |
| Reinsurers' share in technical provisions, insurance | 31 | 291 | 280 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | – | -223 | 169 |
| Tax assets | 27 | 919 | 2 453 |
| Current tax assets | 27 | 138 | 363 |
| Deferred tax assets | 27 | 781 | 2 090 |
| Non-current assets held for sale and disposal groups | – | 41 | 688 |
| Investments in associated companies | 28 | 634 | 27 |
| Investment property | 29 | 593 | 689 |
| Property and equipment | 29 | 2 234 | 2 964 |
| Goodwill and other intangible assets | 30 | 3 501 | 3 866 |
| Other assets | 26 | 2 473 | 2 525 |
| **TOTAL ASSETS** | | **355 597** | **355 317** |

## Liabilities and equity

| In millions of EUR | Note | 31-12-2007 | 31-12-2008 |
|---|---|---|---|
| Financial liabilities | 18, 19, 21, 25 | 311 422 | 313 931 |
| Held for trading | 18, 19, 21, 25 | 41 298 | 44 966 |
| Designated at fair value through profit or loss | 18, 19, 21, 25 | 45 774 | 42 228 |
| Measured at amortised cost | 18, 19, 21, 25 | 223 858 | 225 821 |
| Hedging derivatives | 18, 19, 21, 25 | 492 | 916 |
| Gross technical provisions, insurance | 31 | 17 905 | 19 523 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | – | 0 | -4 |
| Tax liabilities | 27 | 816 | 503 |
| Current tax liabilities | 27 | 481 | 384 |
| Deferred tax liabilities | 27 | 335 | 119 |
| Liabilities associated with disposal groups | – | 0 | 59 |
| Provisions for risks and charges | 32 | 456 | 619 |
| Other liabilities | 33, 34 | 6 511 | 5 309 |
| **TOTAL LIABILITIES** | | **337 110** | **339 941** |
| Total equity | – | 18 487 | 15 376 |
| Parent shareholders' equity | 35 | 17 348 | 14 210 |
| Minority interests | – | 1 139 | 1 165 |
| **TOTAL LIABILITIES AND EQUITY** | | **355 597** | **355 317** |

- For changes in the presentation of the balance sheet, see Note 1 a.
- At year-end 2008, 'Non-current assets held for sale and disposal groups' related primarily to Nova Ljubljanska banka, an associated company in Slovenia.

# Consolidated statement of changes in equity

| In millions of EUR | Issued and paid up share capital | Share premium | Subordinated mandatorily convertible bonds | Treasury shares | Revaluation reserve (AFS assets) | Hedging reserve (cashflow hedges) | Reserves | Translation differences | Parent shareholders' equity | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | | | | |
| **Balance at the beginning of the period** | 1 235 | 4 150 | 183 | -1 111 | 1 968 | 46 | 10 651 | 98 | 17 219 | 1 234 | 18 453 |
| Fair value adjustments before tax | 0 | 0 | 0 | 0 | -522 | 82 | 0 | 0 | -440 | – | -440 |
| Deferred tax on fair value changes | 0 | 0 | 0 | 0 | 182 | -42 | 0 | 0 | 139 | – | 139 |
| Transfer from revaluation reserve to net profit | | | | | | | | | | | |
| Impairment losses | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 6 | – | 6 |
| Net gains/losses on disposal | 0 | 0 | 0 | 0 | -904 | 0 | 0 | 0 | -904 | – | -904 |
| Deferred taxes on income | 0 | 0 | 0 | 0 | 79 | 0 | 0 | 0 | 79 | – | 79 |
| Transfer from hedging reserve to net profit* | | | | | | | | | | | |
| Gross amount | 0 | 0 | 0 | 0 | 0 | -16 | 0 | 0 | -16 | – | -16 |
| Deferred taxes on income | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | 4 | – | 4 |
| Effect of changes in accounting policies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 |
| Currency translation differences | 0 | 0 | 0 | 0 | 2 | 0 | 0 | -51 | -49 | – | -49 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | -4 | 0 | -4 | – | -4 |
| **Subtotal, recognised directly in equity** | 0 | 0 | 0 | 0 | -1 158 | 28 | -4 | -51 | -1 186 | – | -1 186 |
| Net profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 3 281 | 0 | 3 281 | 123 | 3 403 |
| **Total income and expense for the period** | 0 | 0 | 0 | 0 | -1 158 | 28 | 3 276 | -51 | 2 094 | 123 | 2 217 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | -1 158 | 0 | -1 158 | – | -1 158 |
| Capital increase | 0 | 11 | -1 | 0 | 0 | 0 | 0 | 0 | 10 | – | 10 |
| Purchases of treasury shares | 0 | 0 | 0 | -1 000 | 0 | 0 | 0 | 0 | -1 000 | – | -1 000 |
| Sales of treasury shares | 0 | 0 | 0 | 128 | 0 | 0 | 0 | 0 | 128 | – | 128 |
| Results on (derivatives on) treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 54 | 0 | 54 | – | 54 |
| Cancellation of treasury shares | 0 | 0 | 0 | 698 | 0 | 0 | -698 | 0 | 0 | – | 0 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -217 | -217 |
| **Total change** | 0 | 11 | -1 | -174 | -1 158 | 28 | 1 474 | -51 | 129 | -95 | 34 |
| **Balance at the end of the period** | 1 235 | 4 161 | 181 | -1 285 | 810 | 73 | 12 125 | 47 | 17 348 | 1 139 | 18 487 |
| of which revaluation reserve for shares | – | – | – | – | 1 200 | – | – | – | – | – | – |
| of which revaluation reserve for bonds | – | – | – | – | -389 | – | – | – | – | – | – |
| 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 | – | – | – | 0 | 0 | 0 | – | 0 | 0 | 0 | 0 |

* Net (un)realised gains from financial instruments at fair value through profit or loss.

| In millions of EUR | Issued and paid up share capital | Share premium | Subordinated mandatorily convertible bonds | Core-capital instruments without voting rights | Treasury shares | Revaluation reserve (AFS assets) | Hedging reserve (cashflow hedges) | Reserves | Translation differences | Parent shareholders' equity | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | | | | | |
| **Balance at the beginning of the period** | **1 235** | **4 161** | **181** | **0** | **-1 285** | **810** | **73** | **12 125** | **47** | **17 348** | **1 139** | **18 487** |
| Fair value adjustments before tax | 0 | 0 | 0 | 0 | 0 | -2 620 | -616 | 0 | 0 | -3 236 | 0 | -3 236 |
| Deferred tax on fair value changes | 0 | 0 | 0 | 0 | 0 | 436 | 199 | 0 | 0 | 635 | 0 | 635 |
| Transfer from revaluation reserve to net profit | | | | | | | | | | | | |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 628 | 0 | 0 | 0 | 628 | 0 | 628 |
| Net gains/losses on disposal | 0 | 0 | 0 | 0 | 0 | -375 | 0 | 0 | 0 | -375 | 0 | -375 |
| Deferred taxes on income | 0 | 0 | 0 | 0 | 0 | -10 | 0 | 0 | 0 | -10 | 0 | -10 |
| Transfer from hedging reserve to net profit* | | | | | | | | | | | | |
| Gross amount | 0 | 0 | 0 | 0 | 0 | 0 | -10 | 0 | 0 | -10 | 0 | -10 |
| Deferred taxes on income | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 0 | 2 |
| Effect of changes in accounting policies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -231 | -231 | 0 | -231 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| **Subtotal, recognised directly in equity** | **0** | **0** | **0** | **0** | **0** | **-1 941** | **-425** | **1** | **-231** | **-2 597** | **0** | **-2 597** |
| Net profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2 484 | 0 | -2 484 | 105 | -2 379 |
| **Total income and expense for the period** | **0** | **0** | **0** | **0** | **0** | **-1 941** | **-425** | **-2 483** | **-231** | **-5 081** | **105** | **-4 975** |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -1 283 | 0 | -1 283 | 0 | -1 283 |
| Capital increase | 9 | 174 | -181 | 3 500 | 0 | 0 | 0 | 0 | 0 | 3 501 | 0 | 3 501 |
| Purchases of treasury shares | 0 | 0 | 0 | 0 | -254 | 0 | 0 | 0 | 0 | -254 | 0 | -254 |
| Sales of treasury shares | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 8 | 0 | 8 |
| Results on (derivatives on) treasury shares | 0 | 0 | 0 | 0 | -31 | 0 | 0 | 0 | 0 | -31 | 0 | -31 |
| Cancellation of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -79 | -79 |
| **Total change** | **9** | **174** | **-181** | **3 500** | **-277** | **-1 941** | **-425** | **-3 766** | **-231** | **-3 138** | **26** | **-3 112** |
| **Balance at the end of the period** | **1 244** | **4 335** | **0** | **3 500** | **-1 561** | **-1 131** | **-352** | **8 359** | **-184** | **14 210** | **1 165** | **15 376** |
| of which revaluation reserve for shares | – | – | – | – | – | -63 | – | – | – | – | – | – |
| of which revaluation reserve for bonds | – | – | – | – | – | -1 068 | – | – | – | – | – | – |
| 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 | -11 | 0 | – | -4 | -15 | 0 | -15 |

* Net (un)realised gains from financial instruments at fair value through profit or loss.

- For information on the total number of shares and the capital-strengthening transaction concluded with the Belgian State, see Note 35.
- For the shareholder structure at balance sheet date, see Note 4 in the 'Company annual accounts' section.
- At present, KBC does not face any operational or legal constraints to transfer capital, or to repay debt, between parent companies and their subsidiaries, nor are any such constraints expected in the future.

# Consolidated cashflow statement

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| **Operating activities** | | |
| Profit before tax | 4 373 | -3 007 |
| Adjustments for: | | |
| Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities | 444 | 1 804 |
| Profit/Loss on the disposal of investments | -132 | -129 |
| Change in impairment on loans and advances | 185 | 822 |
| Change in gross technical provisions, insurance | 1 728 | 771 |
| Change in the reinsurers' share in the technical provisions | -33 | -32 |
| Change in other provisions | -31 | 84 |
| Unrealised foreign currency gains and losses and valuation differences | -1 304 | -3 332 |
| Income from associated companies | -56 | 1 |
| Cashflows from operating profit before tax and before changes in operating assets and liabilities | 5 173 | -3 018 |
| Changes in operating assets[1] (excluding cash and cash equivalents) | -21 073 | -12 759 |
| Changes in operating liabilities[2] (excluding cash and cash equivalents) | 8 923 | 5 129 |
| Income taxes paid | -877 | -339 |
| **Net cash from or used in operating activities** | **-7 854** | **-10 987** |
| **Investing activities** | | |
| Purchase of held-to-maturity securities | -1 196 | -1 228 |
| Proceeds from the repayment of held-to-maturity securities at maturity | 1 442 | 2 256 |
| Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held) | -1 162 | -300 |
| Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held) | 81 | -2 |
| Purchase of shares in associated companies | -69 | 0 |
| Proceeds from the disposal of shares in associated companies | 0 | 26 |
| Dividends received from associated companies | 15 | 4 |
| Purchase of investment property | -34 | -47 |
| Proceeds from the sale of investment property | 3 | 16 |
| Purchase of intangible fixed assets (excluding goodwill) | -172 | -226 |
| Proceeds from the sale of intangible fixed assets (excluding goodwill) | 10 | 35 |
| Purchase of property and equipment | -435 | -956 |
| Proceeds from the sale of property and equipment | 134 | 393 |
| **Net cash from or used in investing activities** | **-1 383** | **-30** |
| **Financing activities** | | |
| Purchase or sale of treasury shares | -872 | -277 |
| Issue or repayment of promissory notes and other debt securities | 6 916 | -4 481 |
| Proceeds from or repayment of subordinated liabilities | 1 317 | 2 155 |
| Principal payments under finance lease obligations | 0 | 0 |
| Proceeds from the issuance of share capital | 10 | 3 501 |
| Proceeds from the issuance of preference shares | 0 | 0 |
| Dividends paid | -1 172 | -1 290 |
| **Net cash from or used in financing activities** | **6 200** | **-390** |
| **Change in cash and cash equivalents** | | |
| Net increase or decrease in cash and cash equivalents | -3 037 | -11 407 |
| Cash and cash equivalents at the beginning of the period | 23 635 | 20 738 |
| Effects of exchange rate changes on opening cash and cash equivalents | 140 | 130 |
| Cash and cash equivalents at the end of the period | 20 738 | 9 461 |
| **Additional information** | | |
| Interest paid | -11 307 | -12 360 |
| Interest received | 15 396 | 17 353 |
| Dividends received (including equity method) | 271 | 274 |
| **Components of cash and cash equivalents** | | |
| Cash and cash balances with central banks | 4 605 | 4 447 |
| Loans and advances to banks repayable on demand and term loans to banks at not more than three months | 30 696 | 20 898 |
| Deposits from banks repayable on demand | -14 564 | -15 885 |
| Total | 20 738 | 9 461 |
| Of which not available | 0 | 0 |

1 Including loans and receivables, available-for-sale assets, held-for-trading assets, financial assets designated at fair value through profit or loss, derivative hedging assets, and non-current assets held for sale and disposal groups.
2 Including deposits from banks, debts represented by securities, financial liabilities held for trading, financial liabilities designated at fair value through profit or loss, derivative hedging liabilities, and liabilities associated with disposal groups.

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and divestments of consolidated subsidiaries are commented on below. For a more detailed list, see Note 41. All (material) acquisitions and divestments of group companies in 2007 and 2008 were paid for in cash.

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

| In millions of EUR | Absolut Bank (Russia) | KBC Banka (Serbia) | DZI Insurance (Bulgaria) | CIBANK (Bulgaria) | KBC Commercial Finance (Belgium) | Banca KBL Fumagalli Soldan (Italy) | Istrobanka (Slovakia) | Richelieu Finance (France) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 2007 | | 2008 |
| Purchase or sale | Purchase | Purchase | Purchase | Purchase | Purchase | Sale | Purchase | Purchase |
| Percentage of shares bought (+) or sold (-) in the relevant year | +95.00% | +100.00% | +89.37% | +75.58% | +50.00% | -100.00% | 100.00% | 100.00% |
| Total share percentage at 31-12-2008 | 95.00% | 100.00% | 89.53% | 77.09% | 100.00% | 0.00% | 100.00% | 100.00% |
| For IFRS segment | Banking | Insurance | Insurance | Banking | Banking | European private banking | Banking | European private banking |
| For business unit | CEER | CEER | CEER | CEER | Merchant Banking | European Private Banking | CEER | European Private Banking |
| Deal date (month and year) | 07-2007 | 06-2007 | 08-2007 | 12-2007 | 06-2007 | 04-2007 | 07-2008 | 04-2008 |
| Purchase price or sale price | 698 | 97 | 333 | 297 | 36 | 43 | 350 | 127 |
| Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold | -636 | -56 | -332 | 123 | -36 | 36 | -172 | -129 |
| Assets and liabilities bought or sold | | | | | | | | |
| Cash and cash balances with central banks | 74 | 39 | 0 | 130 | 0 | 0 | 145 | 0 |
| Financial assets | | | | | | | | |
| Held for trading | 226 | 0 | 23 | 34 | 0 | 0 | 0 | 0 |
| Designated at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 0 |
| Available for sale | 25 | 0 | 95 | 5 | 0 | -17 | 67 | 140 |
| Loans and receivables | 2 024 | 45 | 141 | 668 | 355 | -10 | 823 | 1 |
| Held to maturity | 0 | 0 | 0 | 0 | 0 | 0 | 117 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which cash and cash equivalents | 74 | 42 | 0 | 424 | 0 | -8 | 181 | 1 |
| Financial liabilities | | | | | | | | |
| Held for trading | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Designated at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Measured at amortised cost | 1 623 | 72 | 0 | 835 | 315 | -36 | 924 | 3 |
| Hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which cash and cash equivalents | -12 | -1 | 0 | -3 | 0 | 0 | 2 | 3 |
| Gross technical provisions, insurance | 0 | 0 | 85 | 0 | 0 | 0 | 0 | 0 |

# Notes on the accounting policies

## NOTE 1 A: STATEMENT OF COMPLIANCE

The consolidated annual accounts, including all the notes, were authorised for issue on 26 March 2009 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 and IFRICs were issued but not yet effective at year-end 2008. The KBC group will apply these standards as of their effective date:

- IFRS 8 (Operating Segments): the group will apply this standard from 1 January 2009, its effective date. It replaces IAS 14 (Segment Reporting) and will have an impact on the current segment reporting in Note 2.
- IFRIC 11 (Group and Treasury Share Transactions).
- Amendments to IAS 1: the revised version of IAS 1 changes a number of requirements regarding the presentation of financial statements and requires additional disclosure. This standard became effective on 1 January 2009.
- Amendments to IAS 23 (Borrowing Costs): this standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This standard became effective on 1 January 2009.
- Amendment to IFRS 2 (Share-based Payment): the revised version of IFRS 2 clarifies the term 'vesting conditions' and specifies the treatment of 'non-vesting conditions' and the cancellation of share-based payment transactions. This standard became effective on 1 January 2009.

KBC has adopted the amendments to IAS 39. These amendments, which were approved by the European Commission in the fourth quarter of 2008, permit the reclassification of certain financial instruments. For more information on the scope and implementation of these amendments, see Note 18.

The following changes have been made in the presentation of the balance sheet and the income statement as of 2008 (adjustments have been made retroactively to the reference figures for 2007):

- Balance sheet: whereas in previous years, 'accrued interest income' and 'accrued interest expense' were disclosed separately in the balance sheet, they are as of 2008 included in the corresponding line items of the financial assets and financial liabilities. Total 'accrued interest income' and 'accrued interest expense' is still disclosed in Note 18. Changes have also been made to a number of notes to correspond with the changes made to the way in which the balance sheet is presented.
- Income statement: the headings, 'Gross technical charges, insurance' and 'Ceded reinsurance result' have been moved as of 2008 to just below 'Gross earned premiums, insurance' in the presentation, thus ensuring that the net technical result for the insurance business (premiums less technical charges and the reinsurance result) is a component of 'Total income'. Moreover, the 'Net interest income' heading has been further broken down into 'Interest income' and 'Interest expense'.

The requisite information relating to the nature and amount of risk exposure (according to IFRS 4 and IFRS 7) and the information relating to capital (according to IAS 1) has been included in those parts of the 'Value and risk management' section that have been audited by the statutory auditor.

## 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 held by venture capital organisations are classified as 'held for trading' (measured at fair value through 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.
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 assets initially recognised at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use this fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.
- *Available-for-sale assets (AFS)*. These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.
- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.
- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. 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. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9.
    IBNR losses are based on the IRB Advanced models (PD X LGD X EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
    When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective

interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.
Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

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

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

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

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

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

- *Day 1 profits.* 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. Day 1 profit is recognised for a number of activities, including CDO and insurance derivative activities. However, a portion is reserved and is released in profit or loss during the life and until the maturity of the CDO.

## d Goodwill and other intangible assets

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

## e Property and equipment (including investment property)

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

## f 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, net of commission.
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, 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 bonuses related to participation features and rebates**

This heading includes the provision for bonuses related to participation features that have been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

**Liability adequacy test**

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

**Ceded reinsurance and retrocession**

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

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

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

## h 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'. The portion of actuarial gains and losses exceeding 10% of the greater of the fair value of plan assets or the gross pension obligation will be recognised as income or expense, spread over a period of five years.

## 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 transaction concluded between KBC and the Belgian State to strengthen the group's core capital base is considered an equity instrument under the terms of the deal (see Note 35).
- 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 treasury shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on treasury 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 31-12-2008 | | Exchange rate average in 2008 | |
|---|---|---|---|---|
| | 1 EUR = … currency | Change from 31-12-2007 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR) | 1 EUR = … currency | Change relative to average in 2007 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR) |
| CZK | 26.88 | -1% | 25.03 | 11% |
| GBP | 0.953 | -23% | 0.793 | -14% |
| HUF | 266.7 | -5% | 250.5 | 0% |
| PLN | 4.154 | -13% | 3.504 | 8% |
| SKK | 30.13 | 11% | 31.35 | 8% |
| USD | 1.392 | 6% | 1.476 | -7% |

### m Changes made to accounting policies in 2008

No material changes were made to the accounting policies compared with 2007.

# Notes on segment reporting

## NOTE 2: REPORTING BASED ON THE LEGAL STRUCTURE AND BY GEOGRAPHIC SEGMENT

Under IFRS, the primary segment reporting format used by KBC is based on the group's legal structure:
- Banking: KBC Bank and its subsidiaries;
- Insurance: KBC Insurance and its subsidiaries;
- European private banking (KBL EPB): KBL European Private Bankers SA and its subsidiaries;
- Holding-company activities: KBC Group NV (on a non-consolidated basis) and KBC Global Services NV.

Transactions are conducted between the different primary segments at arm's length. As a number of items are reported on a net basis (e.g., Net interest income), the balance of the intragroup transactions for these items is limited. Intersegment transfers are measured on the basis actually used to price the transfers.

The figures for the holding-company activities also include the 'cost-sharing structure', which comprises a number of common support services such as marketing, logistics, IT and communication. Costs incurred by this cost-sharing structure are paid by KBC Global Services NV and afterwards charged to the other segments. Hence, these amounts are shown both under expenses and under income (income from costs that have been passed on) in the 'holding-company activities' segment, and under expenses in the other segments.

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).

The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.

More detailed geographic segmentation figures for balance sheet items are provided in the various Notes to the balance sheet. The breakdown here is made based on the geographic location of the counterparty.

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|---|
| **INCOME STATEMENT, 2007** | | | | | | |
| Net interest income | 3 179 | 669 | 244 | 0 | -3 | 4 089 |
| Gross earned premiums, insurance | 0 | 3 989 | 0 | 0 | 0 | 3 989 |
| Non-life | 0 | 1 826 | 0 | 0 | 0 | 1 826 |
| Life | 0 | 2 163 | 0 | 0 | 0 | 2 163 |
| Gross technical charges, insurance | 0 | -3 402 | 0 | 0 | -2 | -3 404 |
| Non-life | 0 | -1 085 | 0 | 0 | 0 | -1 085 |
| Life | 0 | -2 317 | 0 | 0 | -2 | -2 319 |
| Ceded reinsurance result | 0 | -64 | 0 | 0 | 0 | -64 |
| Dividend income | 109 | 136 | 11 | 0 | 0 | 256 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 767 | -74 | -56 | 5 | 0 | 1 642 |
| Net realised gains from available-for-sale assets | 136 | 484 | 61 | 0 | 0 | 682 |
| Net fee and commission income | 1 897 | -368 | 461 | -2 | 5 | 1 993 |
| Other net income | 410 | 69 | 31 | 801 | -693 | 619 |
| **TOTAL INCOME** | **7 498** | **1 439** | **753** | **804** | **-693** | **9 802** |
| Operating expenses[a] | -4 136 | -567 | -476 | -733 | 693 | -5 219 |
| Impairment | -204 | -25 | -38 | -1 | 0 | -267 |
| on loans and receivables | -148 | -4 | -33 | 0 | 0 | -185 |
| on available-for-sale assets | -50 | -21 | -4 | 0 | 0 | -75 |
| on goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| other | -6 | -1 | 0 | -1 | 0 | -7 |
| Share in results of associated companies | 53 | 0 | 3 | 0 | 0 | 56 |
| **PROFIT BEFORE TAX** | **3 212** | **847** | **243** | **70** | **0** | **4 373** |
| Income tax expense | -731 | -102 | -38 | -99 | 0 | -970 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **PROFIT AFTER TAX** | **2 482** | **746** | **205** | **-29** | **0** | **3 403** |
| attributable to minority interests | 118 | 5 | 0 | 0 | 0 | 123 |
| **attributable to equity holders of the parent** | **2 364** | **741** | **205** | **-29** | **0** | **3 281** |
| a Of which non-cash expenses | -195 | -23 | -33 | -80 | 0 | -331 |
| Depreciation and amortisation of fixed assets | -222 | -32 | -28 | -80 | 0 | -361 |
| Other | 27 | 9 | -5 | 0 | 0 | 31 |

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|---|
| **INCOME STATEMENT, 2008** | | | | | | |
| Net interest income | 4 020 | 798 | 212 | -38 | -1 | 4 992 |
| Gross earned premiums, insurance | 0 | 4 608 | 0 | 0 | -23 | 4 585 |
| Non-life | 0 | 2 075 | 0 | 0 | -23 | 2 052 |
| Life | 0 | 2 533 | 0 | 0 | 0 | 2 533 |
| Gross technical charges, insurance | 0 | -3 885 | 0 | 0 | 2 | -3 883 |
| Non-life | 0 | -1 206 | 0 | 0 | 1 | -1 205 |
| Life | 0 | -2 679 | 0 | 0 | 1 | -2 678 |
| Ceded reinsurance result | 0 | -72 | 0 | 0 | 0 | -72 |
| Dividend income | 116 | 135 | 7 | 0 | 0 | 259 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | -2 099 | -1 130 | -259 | 7 | 0 | -3 481 |
| Net realised gains from available-for-sale assets | -13 | 103 | 5 | 0 | 0 | 95 |
| Net fee and commission income | 1 769 | -471 | 418 | -4 | 1 | 1 714 |
| Other net income | 538 | 99 | 12 | 787 | -817 | 618 |
| **TOTAL INCOME** | **4 332** | **185** | **396** | **751** | **-837** | **4 827** |
| Operating expenses[a] | -4 440 | -662 | -476 | -859 | 837 | -5 600 |
| Impairment | -1 281 | -740 | -210 | -3 | 0 | -2 234 |
| on loans and receivables | -760 | -7 | -56 | 0 | 0 | -822 |
| on available-for-sale assets | -455 | -725 | -153 | 0 | 0 | -1 333 |
| on goodwill | -19 | -6 | 0 | 0 | 0 | -25 |
| other | -48 | -2 | -1 | -3 | 0 | -54 |
| Share in results of associated companies | -3 | 0 | 2 | 0 | 0 | -1 |
| **PROFIT BEFORE TAX** | **-1 391** | **-1 217** | **-288** | **-111** | **0** | **-3 007** |
| Income tax expense | 228 | 227 | 142 | 31 | 0 | 629 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **PROFIT AFTER TAX** | **-1 163** | **-990** | **-146** | **-79** | **0** | **-2 379** |
| attributable to minority interests | 109 | -4 | 0 | 0 | 0 | 105 |
| **attributable to equity holders of the parent** | **-1 272** | **-987** | **-146** | **-79** | **0** | **-2 484** |
| a Of which non-cash expenses | -324 | -42 | -22 | -90 | 0 | -477 |
| Depreciation and amortisation of fixed assets | -240 | -42 | -23 | -87 | 0 | -392 |
| Other | -83 | 0 | 2 | -3 | 0 | -84 |

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | KBC group |
|---|---|---|---|---|---|
| **BALANCE SHEET, 31-12-2007** | | | | | |
| Cash and cash balances with central banks | 2 906 | 87 | 1 620 | 0 | 4 613 |
| Financial assets | 297 014 | 28 460 | 15 034 | 14 | 340 522 |
| Held for trading | 73 220 | 55 | 632 | 0 | 73 907 |
| Designated at fair value through profit or loss | 35 093 | 10 719 | 401 | 0 | 46 212 |
| Available for sale | 26 547 | 14 536 | 5 664 | 3 | 46 750 |
| Loans and receivables | 151 931 | 356 | 8 310 | 10 | 160 607 |
| Held to maturity | 9 525 | 2 795 | 0 | 0 | 12 320 |
| Hedging derivatives | 698 | 0 | 27 | 0 | 725 |
| Reinsurers’ share in technical provisions, insurance | 0 | 291 | 0 | 0 | 291 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | -223 | 0 | 0 | 0 | -223 |
| Tax assets | 679 | 215 | 21 | 4 | 919 |
| Current tax assets | 102 | 32 | 1 | 3 | 138 |
| Deferred tax assets | 577 | 183 | 20 | 1 | 781 |
| Non-current assets held for sale and disposal groups | 41 | 0 | 0 | 0 | 41 |
| Investments in associated companies | 620 | 0 | 14 | 0 | 634 |
| Investment property | 448 | 106 | 39 | 0 | 593 |
| Property and equipment | 1 760 | 215 | 190 | 69 | 2 234 |
| Goodwill and other intangible assets | 1 866 | 509 | 433 | 692 | 3 501 |
| Other assets | 1 341 | 858 | 130 | 144 | 2 473 |
| **TOTAL ASSETS** | **306 453** | **30 741** | **17 481** | **923** | **355 597** |
| Financial liabilities | 283 699 | 9 045 | 17 858 | 820 | 311 422 |
| Held for trading | 40 899 | 0 | 399 | 0 | 41 298 |
| Designated at fair value through profit or loss | 36 812 | 8 962 | 0 | 0 | 45 774 |
| Measured at amortised cost | 205 550 | 83 | 17 405 | 820 | 223 858 |
| Hedging derivatives | 438 | 0 | 54 | 0 | 492 |
| Gross technical provisions, insurance | 0 | 17 905 | 0 | 0 | 17 905 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | 0 | 0 | 0 | 0 | 0 |
| Tax liabilities | 469 | 177 | 95 | 76 | 816 |
| Current tax liabilities | 388 | 59 | 33 | 1 | 481 |
| Deferred tax liabilities | 81 | 118 | 62 | 75 | 335 |
| Liabilities associated with disposal groups | 0 | 0 | 0 | 0 | 0 |
| Provisions for risks and charges | 401 | 16 | 40 | 0 | 456 |
| Other liabilities | 5 267 | 742 | 322 | 180 | 6 511 |
| **TOTAL LIABILITIES** | **289 835** | **27 884** | **18 315** | **1 076** | **337 110** |
| Acquisitions of property and equipment and intangible assets, including goodwill | 1 471 | 356 | 33 | 130 | 1 990 |

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | KBC group |
|---|---|---|---|---|---|
| **BALANCE SHEET, 31-12-2008** | | | | | |
| Cash and cash balances with central banks | 3 410 | 73 | 972 | 0 | 4 454 |
| Financial assets | 303 772 | 25 205 | 8 196 | 30 | 337 203 |
| Held for trading | 72 817 | 10 | 730 | 0 | 73 557 |
| Designated at fair value through profit or loss | 21 509 | 7 317 | 169 | 0 | 28 994 |
| Available for sale | 26 292 | 15 027 | 5 038 | 15 | 46 371 |
| Loans and receivables | 174 524 | 235 | 2 256 | 15 | 177 029 |
| Held to maturity | 8 356 | 2 616 | 0 | 0 | 10 973 |
| Hedging derivatives | 275 | 0 | 3 | 0 | 279 |
| Reinsurers' share in technical provisions, insurance | 0 | 280 | 0 | 0 | 280 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | 169 | 0 | 0 | 0 | 169 |
| Tax assets | 1 823 | 433 | 180 | 17 | 2 453 |
| Current tax assets | 224 | 87 | 34 | 17 | 363 |
| Deferred tax assets | 1 599 | 346 | 146 | 0 | 2 090 |
| Non-current assets held for sale and disposal groups | 625 | 64 | 0 | 0 | 688 |
| Investments in associated companies | 12 | 0 | 14 | 0 | 27 |
| Investment property | 467 | 185 | 38 | 0 | 689 |
| Property and equipment | 2 482 | 198 | 200 | 84 | 2 964 |
| Goodwill and other intangible assets | 2 106 | 502 | 515 | 742 | 3 866 |
| Other assets | 1 439 | 897 | 103 | 85 | 2 525 |
| **TOTAL ASSETS** | **316 304** | **27 836** | **10 219** | **959** | **355 317** |
| Financial liabilities | 290 966 | 7 478 | 14 182 | 1 305 | 313 931 |
| Held for trading | 44 349 | 97 | 520 | 0 | 44 966 |
| Designated at fair value through profit or loss | 35 378 | 6 850 | 0 | 0 | 42 228 |
| Measured at amortised cost | 210 362 | 530 | 13 623 | 1 305 | 225 821 |
| Hedging derivatives | 877 | 0 | 39 | 0 | 916 |
| Gross technical provisions, insurance | 0 | 19 523 | 0 | 0 | 19 523 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | 0 | 0 | -4 | 0 | -4 |
| Tax liabilities | 360 | 98 | 5 | 40 | 503 |
| Current tax liabilities | 306 | 74 | 2 | 2 | 384 |
| Deferred tax liabilities | 54 | 24 | 3 | 38 | 119 |
| Liabilities associated with disposal groups | 0 | 59 | 0 | 0 | 59 |
| Provisions for risks and charges | 528 | 63 | 25 | 3 | 619 |
| Other liabilities | 4 052 | 756 | 308 | 194 | 5 309 |
| **TOTAL LIABILITIES** | **295 906** | **27 977** | **14 517** | **1 542** | **339 941** |
| Acquisitions of property and equipment and intangible assets, including goodwill | 1 199 | 198 | 113 | 191 | 1 700 |

| In millions of EUR | Belgium | Central & Eastern Europe and Russia | Rest of the world | Interseg-ment elim-inations | KBC group |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Total income | 4 859 | 2 488 | 2 455 | 0 | 9 802 |
| Total assets (period-end) | 191 319 | 52 031 | 112 247 | – | 355 597 |
| Total liabilities (period-end) | 184 762 | 47 144 | 105 203 | – | 337 110 |
| Acquisitions of property and equipment and intangible assets, including goodwill (period-end) | 412 | 1 491 | 87 | – | 1 990 |
| **2008** | | | | | |
| Total income | 2 381 | 2 761 | -315 | 0 | 4 827 |
| Total assets (period-end) | 211 646 | 56 465 | 87 206 | – | 355 317 |
| Total liabilities (period-end) | 194 256 | 51 211 | 94 474 | – | 339 941 |
| Acquisitions of property and equipment and intangible assets, including goodwill (period-end) | 1 077 | 283 | 341 | – | 1 700 |

# Notes to the income statement

## NOTE 3: NET INTEREST INCOME

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 4 089 | 4 992 |
| **Interest income** | **15 396** | **17 353** |
| Available-for-sale assets | 1 957 | 2 038 |
| Loans and receivables | 8 352 | 10 054 |
| Held-to-maturity investments | 516 | 485 |
| Other assets not at fair value | 141 | 279 |
| *Subtotal, interest income from financial assets not measured at fair value through profit or loss* | *10 966* | *12 856* |
| *of which impaired financial assets* | *10* | *9* |
| Financial assets held for trading | 1 609 | 1 602 |
| Hedging derivatives | 737 | 989 |
| Other financial assets at fair value through profit or loss | 2 084 | 1 905 |
| **Interest expense** | **-11 307** | **-12 360** |
| Financial liabilities measured at amortised cost | -8 287 | -9 017 |
| Other liabilities not at fair value | -15 | -9 |
| Investment contracts at amortised cost | 0 | 0 |
| *Subtotal, interest expense for financial assets not measured at fair value through profit or loss* | *-8 302* | *-9 026* |
| Financial liabilities held for trading | -480 | -332 |
| Hedging derivatives | -680 | -878 |
| Other financial liabilities at fair value through profit or loss | -1 846 | -2 124 |

## NOTE 4: DIVIDEND INCOME

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 256 | 259 |
| Shares held for trading | 81 | 64 |
| Shares initially recognised at fair value through profit or loss | 23 | 21 |
| Available-for-sale shares | 152 | 173 |

## NOTE 5: NET (UN)REALISED GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 1 642 | -3 481 |
| Trading instruments (including interest and fair value changes in trading derivatives) | 1 557 | -4 925 |
| Other financial instruments initially recognised at fair value through profit or loss | -35 | 979 |
| Foreign exchange trading | 115 | 462 |
| Fair value adjustments in hedge accounting | 6 | 3 |
| Micro hedge | 2 | -4 |
| Fair value hedges | 2 | -1 |
| Changes in the fair value of the hedged items | -11 | 123 |
| Changes in the fair value of the hedging derivatives, including discontinuation | 13 | -123 |
| Cashflow hedges | 0 | -3 |
| Changes in the fair value of the hedging derivatives, ineffective portion | 0 | -3 |
| Hedges of net investments in foreign operations, in effective portion | 0 | 0 |
| Portfolio hedge of interest rate risk | 4 | 7 |
| Fair value hedge of interest rate risk | 0 | -1 |
| Changes in the fair value of the hedged items | -48 | 391 |
| Changes in the fair value of the hedging derivatives, including discontinuation | 48 | -392 |
| Cashflow hedges of interest rate risk | 4 | 7 |
| Changes in the fair value of the hedging derivatives, ineffective portion | 4 | 7 |

- With regard to the ALM derivatives (except for micro-hedging derivatives, which are used to only a limited extent in the group), the following applies:
  - For ALM derivatives classified under 'Portfolio hedge of interest rate risk', the interest concerned is recognised under 'Net interest income'. Changes in the fair value of these derivatives are recognised under 'Net (un)realised gains from financial instruments at fair value through profit or loss', but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of this heading is zero.
  - For other ALM derivatives, the interest in question is recognised under 'Net (un)realised gains from financial instruments at fair value through profit or loss' (a negative 71 and a positive 47 million euros in 2007 and 2008, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, the *dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the

basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to 120 million euros for 2007 and to 392 million euros for 2008. These are included in the 115 and 462 million euros shown in the table.
- 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, day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Day 1 profit is recognised for a number of activities, including CDO and insurance derivative activities. Movements in deferred day 1 profit can be summarised as follows (in millions of euros):

| | |
|---|---|
| - Deferred day 1 profits, opening balance on 1 January 2007 | 72 |
| - New deferred day 1 profits | 134 |
| - Day 1 profits recognised in profit or loss during the period | |
| • Amortisation of day 1 profits | -32 |
| • Financial instruments no longer recognised | -63 |
| • Exchange differences | -7 |
| - Deferred day 1 profits, closing balance on 31 December 2007 | 104 |
| - New deferred day 1 profits | 70 |
| - Day 1 profits recognised in profit or loss during the period | |
| • Amortisation of day 1 profits | -72 |
| • Financial instruments no longer recognised | -20 |
| • Exchange differences | 4 |
| - Deferred day 1 profits, closing balance on 31 December 2008 | 86 |

## NOTE 6: NET REALISED GAINS FROM AVAILABLE-FOR-SALE ASSETS

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 682 | 95 |
| Fixed-income securities | -152 | -12 |
| Shares | 834 | 107 |

## NOTE 7: NET FEE AND COMMISSION INCOME

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 1 993 | 1 714 |
| **Fee and commission income** | **3 149** | **2 848** |
| Securities and asset management | 2 153 | 1 730 |
| Margin on life insurance investment contracts without DPF (deposit accounting) | 37 | 31 |
| Commitment credit | 184 | 234 |
| Payments | 425 | 529 |
| Other | 350 | 325 |
| **Fee and commission expense** | **-1 155** | **-1 134** |
| Commission paid to intermediaries | -422 | -477 |
| Other | -733 | -658 |

- 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 | 2007 | 2008 |
|---|---|---|
| Total | 619 | 618 |
| Of which gains or losses on | | |
| Sale of loans and receivables | 18 | -2 |
| Sale of held-to-maturity investments | 1 | 0 |
| Sale of financial liabilities measured at amortised cost | 0 | -1 |
| Other: | 600 | 622 |
| Sale of Banca KBL Fumagalli Soldan | 14 | – |
| Refund from the Belgian Deposit Protection Fund | 44 | – |
| Sale of GBC shareholding | 35 | – |
| Sale of stake in Prague Stock Exchange | – | 40 |
| Impact of change in ownership percentage of Nova Ljubljanska banka | – | 54 |
| Income from (mainly operational) leasing activities, KBC Lease Group | 12 | 46 |
| Income from consolidated private equity participations | 24 | 94 |
| Income from VAB Group | 48 | 64 |

- The amount reported under 'Other net income' includes income from operating leases, amounts recovered under guarantees, rental income, realised gains or losses on property and equipment and investment property, and amounts recovered on loans that have been written off in full and realised gains or losses on the sale of held-to-maturity investments, loans and receivables and financial liabilities measured at amortised cost.

## NOTE 9: TECHNICAL ACCOUNTS, INSURANCE

| In millions of EUR | Insurance contracts, life | Insurance contracts, non-life | Insurance contracts, total | Investment contracts with DPF, life | Investment contracts without DPF, life | Non-technical account | Total |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| Net interest income | 0 | 0 | 0 | 0 | 0 | 669 | 669 |
| Gross earned premiums, insurance | 804 | 1 826 | 2 630 | 1 359 | 0 | 0 | 3 989 |
| Gross technical charges, insurance | -689 | -1 085 | -1 774 | -1 635 | 7 | 0 | -3 402 |
| Ceded reinsurance result | 0 | -59 | -59 | 0 | 0 | -5 | -64 |
| Dividend income | 0 | 0 | 0 | 0 | 0 | 136 | 136 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | -74 | -74 |
| Net realised gains from available-for-sale assets | 0 | 0 | 0 | 0 | 0 | 484 | 484 |
| Net fee and commission income | -86 | -315 | -402 | -28 | 19 | 43 | -368 |
| Other net income | 0 | 0 | 0 | 0 | 0 | 69 | 69 |
| **TOTAL INCOME** | **27** | **368** | **395** | **-303** | **26** | **1 322** | **1 439** |
| Operating expenses | -88 | -359 | -447 | -31 | -18 | -71 | -567 |
| Impairment | 0 | 0 | 0 | 0 | 0 | -25 | -25 |
| Share in results of associated companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allocation to the technical accounts | 425 | 293 | 718 | 382 | 0 | -1 100 | 0 |
| **PROFIT BEFORE TAX** | **364** | **301** | **665** | **48** | **8** | **125** | **847** |
| Income tax expense | – | – | – | – | – | – | -102 |
| Net post-tax income from discontinued operations | – | – | – | – | – | – | 0 |
| **PROFIT AFTER TAX** | – | – | – | – | – | – | **746** |
| attributable to minority interests | – | – | – | – | – | – | 5 |
| **attributable to equity holders of the parent** | – | – | – | – | – | – | **741** |
| **2008** | | | | | | | |
| Net interest income | 0 | 0 | 0 | 0 | 0 | 798 | 798 |
| Gross earned premiums, insurance | 855 | 2 075 | 2 930 | 1 678 | 0 | 0 | 4 608 |
| Gross technical charges, insurance | -737 | -1 206 | -1 943 | -1 921 | -22 | 0 | -3 885 |
| Ceded reinsurance result | -2 | -63 | -65 | 0 | 0 | -6 | -72 |
| Dividend income | 0 | 0 | 0 | 0 | 0 | 135 | 135 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | -1 130 | -1 130 |
| Net realised gains from available-for-sale assets | 0 | 0 | 0 | 0 | 0 | 103 | 103 |
| Net fee and commission income | -100 | -387 | -487 | -37 | 12 | 40 | -471 |
| Other net income | 0 | 0 | 0 | 0 | 0 | 99 | 99 |
| **TOTAL INCOME** | **17** | **419** | **436** | **-280** | **-9** | **38** | **185** |
| Operating expenses | -99 | -391 | -490 | -33 | -18 | -122 | -662 |
| Impairment | 0 | 0 | 0 | 0 | 0 | -740 | -740 |
| Share in results of associated companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allocation to the technical accounts | -123 | 88 | -35 | -125 | 0 | 160 | 0 |
| **PROFIT BEFORE TAX** | **-205** | **116** | **-89** | **-438** | **-27** | **-663** | **-1 217** |
| Income tax expense | – | – | – | – | – | – | 227 |
| Net post-tax income from discontinued operations | – | – | – | – | – | – | 0 |
| **PROFIT AFTER TAX** | – | – | – | – | – | – | **-990** |
| attributable to minority interests | – | – | – | – | – | – | -4 |
| **attributable to equity holders of the parent** | – | – | – | – | – | – | **-987** |

- In conformity with IFRS, the figures relating to gross earned premiums do not include investment contracts without DPF (which largely correspond to unit-linked contracts). See Note 10.

## NOTE 10: GROSS EARNED PREMIUMS, LIFE INSURANCE

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 2 163 | 2 533 |
| **Breakdown by type** | | |
| Accepted reinsurance | 23 | 26 |
| Primary business | 2 140 | 2 507 |
| **Breakdown of primary business** | | |
| Individual versus group | | |
| Individual premiums, including unit-linked insurance | 1 867 | 2 191 |
| Premiums under group contracts | 273 | 316 |
| Periodic versus single | | |
| Periodic premiums | 724 | 810 |
| Single premiums | 1 416 | 1 697 |
| Non-bonus versus bonus contracts | | |
| Premiums from non-bonus contracts | 213 | 212 |
| Premiums from bonus contracts | 1 819 | 2 208 |
| Unit-linked | 108 | 87 |

- 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 the gross earned premiums (and gross technical charges) heading, 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 2007 accounted for premium income of 1.25 billion euros and in 2008 for premium income of 1 billion euros.

## NOTE 11: OVERVIEW OF NON-LIFE INSURANCE PER CLASS OF BUSINESS

| In millions of EUR | Gross earned premiums | Gross claims incurred | Gross operating expenses | Ceded reinsurance | Total |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Total | 1 826 | -1 120 | -590 | -59 | 57 |
| Accepted reinsurance | 245 | -128 | -62 | -28 | 28 |
| Primary business | 1 581 | -992 | -527 | -32 | 30 |
| Accident & health (classes 1 & 2, excl. industrial accidents) | 123 | -66 | -35 | -2 | 19 |
| Industrial accidents (class 1) | 80 | -50 | -16 | 1 | 15 |
| Motor, third-party liability (class 10) | 489 | -373 | -150 | 0 | -36 |
| Motor, other classes (classes 3, 7) | 256 | -144 | -80 | -1 | 31 |
| Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 47 | -28 | -13 | -7 | -1 |
| Fire and other damage to property (classes 8, 9) | 420 | -200 | -171 | -21 | 29 |
| General third-party liability (class 13) | 100 | -104 | -41 | 6 | -39 |
| Credit and suretyship (classes 14, 15) | 8 | 1 | -3 | -2 | 5 |
| Miscellaneous pecuniary losses (class 16) | 12 | 1 | -4 | -6 | 3 |
| Legal assistance (class 17) | 37 | -25 | -10 | 0 | 2 |
| Assistance (class 18) | 9 | -4 | -3 | -1 | 1 |
| **2008** | | | | | |
| Total | 2 052 | -1 198 | -562 | -63 | 230 |
| Accepted reinsurance | 227 | -141 | -51 | -13 | 22 |
| Primary business | 1 826 | -1 057 | -511 | -50 | 207 |
| Accident & health (classes 1 & 2, excl. industrial accidents) | 158 | -56 | -26 | 9 | 86 |
| Industrial accidents (class 1) | 83 | -63 | -13 | -1 | 5 |
| Motor, third-party liability (class 10) | 527 | -368 | -149 | -10 | -1 |
| Motor, other classes (classes 3, 7) | 341 | -200 | -99 | 0 | 42 |
| Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 53 | -39 | -14 | -8 | -9 |
| Fire and other damage to property (classes 8, 9) | 469 | -215 | -152 | -22 | 79 |
| General third-party liability (class 13) | 109 | -85 | -37 | -3 | -16 |
| Credit and suretyship (classes 14, 15) | 20 | 0 | -2 | -11 | 7 |
| Miscellaneous pecuniary losses (class 16) | 15 | -6 | -5 | -1 | 3 |
| Legal assistance (class 17) | 39 | -21 | -9 | 0 | 9 |
| Assistance (class 18) | 12 | -4 | -4 | -1 | 3 |

## NOTE 12: OPERATING EXPENSES

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | -5 219 | -5 600 |
| Staff expenses | -3 148 | -3 139 |
| of which share-based payment (equity-settled) | -1 | 0 |
| of which share-based payment (cash-settled) | -25 | 30 |
| General administrative expenses | -1 740 | -1 984 |
| Depreciation and amortisation of fixed assets | -361 | -392 |
| Provisions for risks and charges | 31 | -84 |

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes and utilities.
- Share-based payments are included under staff expenses, and can be broken down as follows:
  A. Main cash-settled share-based payment arrangements
  KBC Financial Products established a phantom equity plan in 1999 as a means of keeping its senior executives. One million phantom shares were issued between 1999 and 2002. Since only one million shares can be issued under the plan, all new participants must acquire shares from existing members of the plan. The shares are valued based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees will be paid out over a four-year period ending in March 2009. At the end of 2008, KBC Financial Products recognised an outstanding liability of 7 million euros in this regard (88 million euros at year-end 2007).
  B. Main equity-settled share-based payments
  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans. The share options have been granted to all or to certain members of staff of the company and various subsidiaries. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels.
  The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares.
  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.
- In 2008, there was a capital increase reserved for KBC group employees, who could buy shares at 29.12 euros per share. This did not result in the recognition of an employee benefit (in 2007, this employee benefit came to 1.3 million euros and was recognised as a staff expense).
- An overview of the number of stock options for staff is shown in the table. The average price of the KBC share came to 65.20 euros during 2008. In 2008, no new KBC share options for personnel were issued.

| | 2007 | | 2008 | |
|---|---|---|---|---|
| Options | Number of options[1] | Average exercise price | Number of options[1] | Average exercise price |
| Outstanding at beginning of period | 2 480 200 | 43.31 | 1 126 413 | 47.12 |
| Granted during period | 7 300 | 97.94 | 0 | – |
| Exercised during period | -1 285 437 | 40.80 | -144 970 | 42.29 |
| Expired during period | -75 650 | 34.50 | -18 | 37.50 |
| Forfeited during period | – | – | – | – |
| Outstanding at end of period[2] | 1 126 413 | 47.12 | 981 425 | 47.83 |
| Exercisable at end of period | 921 583 | 42.24 | 807 845 | 43.59 |

1 In share equivalents.
2 2007: range of exercise prices: 28.3–97.94 euros; weighted average residual term to maturity: 46 months.
2008: range of exercise prices: 28.3–97.94 euros; weighted average residual term to maturity: 35 months.

## NOTE 13: PERSONNEL

| | 2007 | 2008 |
|---|---|---|
| **Total average number of persons employed (in full-time equivalents)** | **55 888** | **59 150** |
| **Breakdown by legal entity** | | |
| KBC Bank | 41 059 | 43 784 |
| KBC Insurance | 8 394 | 8 460 |
| KBL EPB | 2 668 | 2 810 |
| KBC Group NV (holding company) | 3 767 | 4 096 |
| **Breakdown by employee classification** | | |
| Blue-collar staff | 939 | 1 059 |
| White-collar staff | 53 298 | 55 920 |
| Senior management | 1 651 | 2 171 |

- The figures in the table refer to the total average workforce in 2007 and 2008. Due in part to the amount of acquisition activity during the year, they may differ from the end-of-year totals shown in the 'Corporate social responsibility' section.

## NOTE 14: IMPAIRMENT (INCOME STATEMENT)

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | -267 | -2 234 |
| **Impairment on loans and receivables** | **-185** | **-822** |
| Breakdown by type | | |
| Specific impairment, on-balance-sheet lending | -207 | -801 |
| Specific impairment, off-balance-sheet credit commitments | -17 | -6 |
| Portfolio-based impairment | 39 | -15 |
| Breakdown by business unit | | |
| Belgium | -59 | -46 |
| CEER | -85 | -313 |
| Merchant Banking | -6 | -407 |
| European Private Banking | -33 | -56 |
| **Impairment on available-for-sale assets** | **-75** | **-1 333** |
| Breakdown by type | | |
| Shares | -66 | -918 |
| Other | -9 | -415 |
| **Impairment on goodwill** | **0** | **-25** |
| **Impairment on other** | **-7** | **-54** |
| Intangible fixed assets, other than goodwill | -4 | -32 |
| Property and equipment | -1 | -7 |
| Held-to-maturity assets | 1 | -15 |
| Associated companies (goodwill) | 0 | 0 |
| Other | -4 | -1 |

- 'Impairment on loans and receivables' was accounted for primarily by loans and advances to customers (mainly term loans).
- Impairment on available-for-sale assets. The sharp increase in impairment on shares was, of course, related to plummeting share prices, but also to tighter rules for recognising impairment on the portfolio of listed shares. The much higher level of impairment in the 'Other' category was accounted for mainly by bonds that had been issued by Washington Mutual, Lehman Brothers and the Icelandic banks.
- Impairment on goodwill. In 2007, 0 million euros had been posted under this heading. In 2008, it included *inter alia* an amount of 15 million euros for a KBC Financial Products group company (Merchant Banking Business Unit). In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use.
- Impairment on other. In 2007, this heading had included primarily a 4-million-euro allocation to impairment for various intangible assets in the KBC group. In 2008, it included primarily impairment charges on intangible fixed assets (32 million euros), on property and equipment (7 million euros) and on held-to-maturity securities (15 million euros), due to the lower creditworthiness of the issuers of these securities. Impairment always relates to the difference between the carrying value before impairment and the value in use of the property and equipment and the intangible fixed asset in question.

## NOTE 15: SHARE IN RESULTS OF ASSOCIATED COMPANIES

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | 56 | -1 |
| Of which Nova Ljubljanska banka | 48 | 8 |

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

## NOTE 16: INCOME TAX EXPENSE

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| Total | -970 | 629 |
| **Breakdown by type** | | |
| Current taxes on income | -877 | -339 |
| Deferred taxes on income | -92 | 968 |
| **Tax components** | | |
| Profit before tax | 4 373 | -3 007 |
| Income tax at the Belgian statutory rate | 33.99% | 33.99% |
| Income tax calculated | -1 486 | 1 022 |
| Plus/minus tax effects attributable to | | |
| differences in tax rates, Belgium – abroad | 158 | 29 |
| tax-free income | 590 | 519 |
| adjustments related to prior years | 19 | 56 |
| adjustments, opening balance of deferred taxes due to change in tax rate | -3 | -3 |
| unused tax losses and unused tax credits to reduce current tax expense | 17 | 52 |
| unused tax losses and unused tax credits to reduce deferred tax expense | 1 | 1 |
| reversal of previously recognised deferred tax assets due to tax losses | 0 | -30 |
| other (mainly non-deductible expenses) | -265 | -1 018 |
| 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* | 997 | 919 |

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

- For information on tax assets and tax liabilities, see Note 27.

## NOTE 17: EARNINGS PER SHARE

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| **Basic earnings per share** | | |
| Net profit attributable to equity holders of the parent | 3 281 | -2 484 |
| Weighted average number of shares outstanding ('000 of units) | 346 833 | 339 985 |
| Basic earnings per share (in EUR) | 9.46 | -7.31 |
| **Diluted earnings per share** | | |
| Net profit attributable to equity holders of the parent | 3 281 | -2 484 |
| Elimination of interest expense on freely convertible debt (net of tax effect) | 0 | 0 |
| Net profit used to determine diluted EPS | 3 281 | -2 484 |
| Weighted average number of shares outstanding ('000 of units) | 346 833 | 339 985 |
| Dilutive potential shares ('000 of units) | 1 565 | 1 028 |
| Weighted average number of shares for diluted earnings ('000 of units) | 348 398 | 341 014 |
| Diluted earnings per share (in EUR) | 9.42 | -7.28 |

- 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 to the balance sheet

## NOTE 18: FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT

### Financial assets

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| Loans and advances to credit institutions and investment firms[a] | 16 098 | 15 881 | 0 | 21 865 | – | – | – | 53 843[2] |
| Loans and advances to customers[b] | 2 067 | 7 730 | 0 | 137 254 | – | – | – | 147 051 |
| Discount and acceptance credit | 0 | 0 | 0 | 718 | – | – | – | 718 |
| Consumer credit | 0 | 0 | 0 | 3 893 | – | – | – | 3 893 |
| Mortgage loans | 0 | 3 254 | 0 | 43 871 | – | – | – | 47 125 |
| Term loans | 2 067 | 4 269 | 0 | 66 378 | – | – | – | 72 714 |
| Finance leasing | 0 | 0 | 0 | 6 883 | – | – | – | 6 883 |
| Current account advances | 0 | 0 | 0 | 7 853 | – | – | – | 7 853 |
| Securitised loans | 0 | 0 | 0 | 264 | – | – | – | 264 |
| Other | 0 | 207 | 0 | 7 396 | – | – | – | 7 603 |
| Equity instruments | 17 008 | 219 | 4 979 | – | – | – | – | 22 207 |
| Investment contracts (insurance) | – | 9 066 | – | – | – | – | – | 9 066 |
| Debt instruments issued by | 16 697 | 12 982 | 41 095 | – | 12 041 | – | – | 82 816 |
| Public bodies | 5 268 | 9 269 | 21 507 | – | 10 858 | – | – | 46 902 |
| Credit institutions and investment firms | 4 131 | 1 735 | 8 152 | – | 811 | – | – | 14 829 |
| Corporates | 7 298 | 1 979 | 11 436 | – | 372 | – | – | 21 085 |
| Derivatives | 21 689 | – | – | – | – | 544 | – | 22 232 |
| **Total carrying value** | **73 559** | **45 878** | **46 075** | **159 119** | **12 041** | **544** | – | **337 215** |
| Accrued interest income | 348 | 334 | 676 | 1 488 | 279 | 181 | – | 3 307 |
| Carrying value including accrued interest income | 73 907 | 46 212 | 46 750 | 160 607 | 12 320 | 725 | – | 340 522 |
| Fair value | 73 907 | 46 212 | 46 750 | 159 782 | 12 222 | 725 | – | 339 598 |
| *a Of which reverse repos* | | | | | | | | *33 503* |
| *b Of which reverse repos* | | | | | | | | *6 339* |
| **31-12-2008** | | | | | | | | |
| Loans and advances to credit institutions and investment firms[a] | 8 288 | 4 544 | 0 | 23 964 | – | – | – | 36 796[2] |
| Loans and advances to customers[b] | 4 297 | 4 281 | 0 | 148 718 | – | – | – | 157 296 |
| Discount and acceptance credit | 0 | 0 | 0 | 153 | – | – | – | 153 |
| Consumer credit | 0 | 0 | 0 | 4 625 | – | – | – | 4 625 |
| Mortgage loans | 0 | 3 215 | 0 | 52 356 | – | – | – | 55 571 |
| Term loans | 4 297 | 910 | 0 | 72 708 | – | – | – | 77 915 |
| Finance leasing | 0 | 0 | 0 | 6 728 | – | – | – | 6 728 |
| Current account advances | 0 | 0 | 0 | 6 718 | – | – | – | 6 718 |
| Securitised loans | 0 | 0 | 0 | 0 | – | – | – | 0 |
| Other | 0 | 156 | 0 | 5 429 | – | – | – | 5 585 |
| Equity instruments | 5 533 | 193 | 3 419 | – | – | – | – | 9 145 |
| Investment contracts (insurance) | – | 6 948 | – | – | – | – | – | 6 948 |
| Debt instruments issued by | 16 480 | 12 648 | 42 058 | 3 805 | 10 761 | – | – | 85 752 |
| Public bodies | 8 947 | 10 961 | 28 581 | 20 | 9 727 | – | – | 58 235 |
| Credit institutions and investment firms | 3 849 | 316 | 7 867 | 21 | 751 | – | – | 12 804 |
| Corporates | 3 684 | 1 372 | 5 609 | 3 765 | 283 | – | – | 14 713 |
| Derivatives | 38 559 | – | – | – | – | 241 | – | 38 800 |
| **Total carrying value** | **73 157** | **28 615** | **45 476** | **176 487** | **10 761** | **241** | – | **334 737** |
| Accrued interest income | 400 | 379 | 895 | 543 | 212 | 38 | – | 2 466 |
| Carrying value including accrued interest income | 73 557 | 28 994 | 46 371 | 177 029 | 10 973 | 279 | – | 337 203 |
| Fair value | 73 557 | 28 994 | 46 371 | 179 713 | 11 108 | 279 | – | 340 021 |
| *a Of which reverse repos* | | | | | | | | *11 214* |
| *b Of which reverse repos* | | | | | | | | *3 838* |

1 Designated at fair value through profit or loss (fair value option).

2 Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months amounted to 30 696 million euros in 2007 and 20 898 million euros in 2008.

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| Deposits from credit institutions and investment firms[c] | 7 409 | 15 028 | – | – | – | – | 50 667 | 73 104[2] |
| Deposits from customers and debt certificates[d] | 2 452 | 21 373 | – | – | – | – | 168 310 | 192 135 |
| Deposits from customers | 0 | 13 932 | – | – | – | – | 123 415 | 137 347 |
| Demand deposits | 0 | 1 415 | – | – | – | – | 41 073 | 42 488 |
| Time deposits | 0 | 12 516 | – | – | – | – | 50 840 | 63 357 |
| Savings deposits | 0 | 0 | – | – | – | – | 27 079 | 27 079 |
| Special deposits | 0 | 0 | – | – | – | – | 3 444 | 3 444 |
| Other deposits | 0 | 0 | – | – | – | – | 979 | 979 |
| Debt certificates | 2 452 | 7 441 | – | – | – | – | 44 895 | 54 788 |
| Certificates of deposit | 0 | 2 239 | – | – | – | – | 15 699 | 17 937 |
| Customer savings certificates | 0 | 0 | – | – | – | – | 2 956 | 2 956 |
| Convertible bonds | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible bonds | 2 452 | 4 156 | – | – | – | – | 19 716 | 26 324 |
| Convertible subordinated liabilities | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible subordinated liabilities | 0 | 1 046 | – | – | – | – | 6 524 | 7 570 |
| Liabilities under investment contracts | – | 8 928 | – | – | – | – | – | 8 928 |
| Derivatives | 26 042 | – | – | – | – | 155 | – | 26 197 |
| Short positions | 4 845 | – | – | – | – | – | – | 4 845 |
| In equity instruments | 3 724 | – | – | – | – | – | – | 3 724 |
| In debt instruments | 1 120 | – | – | – | – | – | – | 1 120 |
| Other | 243 | 34 | – | – | – | – | 3 848 | 4 126 |
| **Total carrying value** | **40 992** | **45 362** | – | – | – | **155** | **222 826** | **309 335** |
| Accrued interest expense | 307 | 412 | – | – | – | 337 | 1 032 | 2 087 |
| Carrying value including accrued interest expense | 41 298 | 45 774 | – | – | – | 492 | 223 858 | 311 422 |
| Fair value | 41 298 | 45 774 | – | – | – | 492 | 223 426 | 310 990 |
| *c Of which repos* | | | | | | | | *21 979* |
| *d Of which repos* | | | | | | | | *8 284* |
| **31-12-2008** | | | | | | | | |
| Deposits from credit institutions and investment firms[c] | 461 | 17 676 | – | – | – | – | 42 465 | 60 602[2] |
| Deposits from customers and debt certificates[d] | 1 354 | 17 431 | – | – | – | – | 177 948 | 196 733 |
| Deposits from customers | 0 | 10 786 | – | – | – | – | 136 179 | 146 964 |
| Demand deposits | 0 | 847 | – | – | – | – | 43 892 | 44 739 |
| Time deposits | 0 | 9 927 | – | – | – | – | 58 655 | 68 582 |
| Savings deposits | 0 | 0 | – | – | – | – | 28 951 | 28 951 |
| Special deposits | 0 | 0 | – | – | – | – | 3 546 | 3 546 |
| Other deposits | 0 | 12 | – | – | – | – | 1 135 | 1 147 |
| Debt certificates | 1 354 | 6 645 | – | – | – | – | 41 770 | 49 768 |
| Certificates of deposit | 0 | 1 382 | – | – | – | – | 13 740 | 15 122 |
| Customer savings certificates | 0 | 0 | – | – | – | – | 3 077 | 3 077 |
| Convertible bonds | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible bonds | 1 354 | 4 426 | – | – | – | – | 16 063 | 21 843 |
| Convertible subordinated liabilities | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible subordinated liabilities | 0 | 836 | – | – | – | – | 8 889 | 9 726 |
| Liabilities under investment contracts | – | 6 749 | – | – | – | – | 452 | 7 201 |
| Derivatives | 39 785 | – | – | – | – | 683 | – | 40 469 |
| Short positions | 2 960 | – | – | – | – | – | – | 2 960 |
| In equity instruments | 394 | – | – | – | – | – | – | 394 |
| In debt instruments | 2 566 | – | – | – | – | – | – | 2 566 |
| Other | 244 | 101 | – | – | – | – | 3 739 | 4 085 |
| **Total carrying value** | **44 805** | **41 957** | – | – | – | **683** | **224 604** | **312 049** |
| Accrued interest expense | 161 | 272 | – | – | – | 232 | 1 216 | 1 882 |
| Carrying value including accrued interest expense | 44 966 | 42 228 | – | – | – | 916 | 225 821 | 313 931 |
| Fair value | 44 966 | 42 228 | – | – | – | 916 | 227 562 | 315 672 |
| *c Of which repos* | | | | | | | | *18 647* |
| *d Of which repos* | | | | | | | | *7 855* |

1 Designated at fair value through profit or loss (fair value option).

2 Of which deposits from banks repayable on demand amounted to: 14 564 million euros in 2007 and 15 885 million euros in 2008.

- Financial assets and liabilities are grouped into categories. These categories are defined and relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- Changes in 2008: As of 1 January 2008, full service car leases have qualified as operational leases instead of finance leases. As a result, 529 million euros has been reclassified out of loans and advances to customers (finance leasing) to property and equipment. Depreciation related to this leasing activity amounted to 125 million euros in 2008 (recorded under 'Other movements' in Note 29).
- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Endorsed by the European Union on 15 October 2008, these amendments permit an entity to reclassify financial assets in particular circumstances. Certain non-derivative financial assets measured at fair value through profit or loss (other than those classified under the fair value option) may be reclassified to 'held to maturity', 'loans and receivables' or 'available for sale' in certain cases. Assets classified as 'available for sale' may be transferred to 'loans and receivables', likewise in certain cases. The amendments to IFRS 7 also impose additional disclosure requirements if the reclassification option is used. 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.

| In millions of EUR, 31-12-2008 | Carrying value | Fair value |
|---|---|---|
| Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008 | 3 633 | 3 633 |

In 2007 and 2008, unrealised losses of 107 million euros and 1 338 million euros, respectively, on these positions were recognised in equity. In the same period, impairment of 0 million euros and 85 million euros was recognised in the income statement for these positions. 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%. Since the assets were only reclassified on 31 December 2008, solely the way they are presented has changed, not their value.

- Fair value is defined as 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced trades are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity- or client-driven.
- Financial assets and liabilities at fair value (available for sale, held for trading, designated at fair value through profit or loss) are valued according to the valuation hierarchy provided in IAS 39. This hierarchy serves as a basis for considering market participant assumptions in fair value measurements.
  1. '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. Revaluation is obtained by comparing prices; no model is involved.
  2. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique, based on directly observable or unobservable parameters:
     a. 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. Examples of observable valuation parameters are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include using discounted cashflow analysis, reference to the current fair value of another instrument that is substantially the same and third-party pricing.
     b. 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). For example, proxies and correlation factors can be considered to be unobservable in the market.

  The fair value measurement of commonly used financial instruments is summarised in the table.

| | 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, government bonds, other liquid bonds | Mark-to-market |
| Level 2 | Plain vanilla/liquid derivatives | (Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, reverse floaters, range floaters, bond future options, interest rate future options | Discounted cash flow analysis based on cash and derivative curves |
| | | 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 parameters |
| | | Credit default swaps (CDS) | CDS model based on credit spreads |
| | Linear financial instruments (without optional features) | Loans & deposits, simple cash flows, repo transactions, commercial paper | Discounted cash flow analysis based on cash and derivative curves |
| | Illiquid bonds, structured notes | Illiquid bonds, structured notes | Third-party pricing or valuation model based on observable parameters |
| | Asset backed securities | Asset backed securities (ABS) | Third-party pricing |
| 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, Amercian and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals | Option pricing model based on unobservable parameters |
| | Illiquid credit-linked instruments | Collateralised debt obligations (CDO) | Valuation model based on relative weighted movements of credit spread indices |
| | Private equity investments | Private equity and non-quoted participations | Based on EVCA (European Private Equity & Venture Capital Association) |

- The total change in fair value taken to the income statement in 2008, using a level 3 valuation technique, was almost entirely accounted for by CDOs held in portfolio at group level and amounted to a negative 3.8 billion euros in 2008 (a negative 0.2 billion euros in 2007). Stress tests performed on the current model for CDOs originated by KBC Financial Products – in which it is assumed that credit spreads will widen by another 25% (and all non-super-senior notes have been written down to zero) – result in an additional negative fair value adjustment of 274 million euros.
- Fair value adjustments (market value adjustments) are recognised on all positions that are measured at fair value, with fair value changes being reported in the income statement or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
- The following also applies to financial assets:
  - Most of the changes in the market value of loans and advances initially designated at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit exposure is negligible.
  - Most of the loans and advances designated at fair value through profit or loss are accounted for by reverse repo transactions and a limited portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
- In addition, the following applies to financial liabilities:
  - In accordance with IFRS requirements, account was taken of the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss. In 2008, the effect on fair value of such changes amounted to a gain of 371 million euros (the amount in 2007 was negligible).
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - If the effect of changes in own credit spreads is disregarded, the difference between the carrying value and the repayment price of the financial liabilities designated at fair value through profit or loss was small.
  - A 'repo' transaction is a transaction where one party (the buyer) sells securities to another party and undertakes to repurchase 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

### Financial assets

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| Belgium | 2 963 | 6 192 | 9 609 | 69 800 | 3 784 | 435 | – | 92 784 |
| Central & Eastern Europe and Russia | 9 012 | 1 737 | 5 467 | 33 463 | 5 555 | 67 | – | 55 301 |
| Rest of the world | 61 584 | 37 949 | 30 999 | 55 855 | 2 702 | 42 | – | 189 130 |
| Total carrying value | 73 559 | 45 878 | 46 075 | 159 119 | 12 041 | 544 | – | 337 215 |
| Accrued interest income | 348 | 334 | 676 | 1 488 | 279 | 181 | – | 3 307 |
| **Carrying value including accrued interest income** | **73 907** | **46 212** | **46 750** | **160 607** | **12 320** | **725** | **–** | **340 522** |
| **31-12-2008** | | | | | | | | |
| Belgium | 5 584 | 6 440 | 12 649 | 71 523 | 2 512 | 141 | – | 98 849 |
| Central & Eastern Europe and Russia | 9 897 | 1 996 | 8 365 | 39 189 | 5 621 | 120 | – | 65 189 |
| Rest of the world | 57 676 | 20 179 | 24 462 | 65 774 | 2 628 | -21 | – | 170 699 |
| Total carrying value | 73 157 | 28 615 | 45 476 | 176 487 | 10 761 | 241 | – | 334 737 |
| Accrued interest income | 400 | 379 | 895 | 543 | 212 | 38 | – | 2 466 |
| **Carrying value including accrued interest income** | **73 557** | **28 994** | **46 371** | **177 029** | **10 973** | **279** | **–** | **337 203** |

* Designated at fair value through profit or loss.

### Financial liabilities

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| Belgium | 2 971 | 11 306 | – | – | – | 77 | 76 491 | 90 844 |
| Central & Eastern Europe and Russia | 665 | 3 462 | – | – | – | 38 | 39 176 | 43 341 |
| Rest of the world | 37 356 | 30 595 | – | – | – | 40 | 107 160 | 175 150 |
| Total carrying value | 40 992 | 45 362 | – | – | – | 155 | 222 826 | 309 335 |
| Accrued interest expense | 307 | 412 | – | – | – | 337 | 1 032 | 2 087 |
| **Carrying value including accrued interest expense** | **41 298** | **45 774** | **–** | **–** | **–** | **492** | **223 858** | **311 422** |
| **31-12-2008** | | | | | | | | |
| Belgium | 2 778 | 12 755 | – | – | – | 558 | 81 604 | 97 695 |
| Central & Eastern Europe and Russia | 1 547 | 3 790 | – | – | – | 27 | 40 628 | 45 993 |
| Rest of the world | 40 479 | 25 411 | – | – | – | 98 | 102 372 | 168 361 |
| Total carrying value | 44 805 | 41 957 | – | – | – | 683 | 224 604 | 312 049 |
| Accrued interest expense | 161 | 272 | – | – | – | 232 | 1 216 | 1 882 |
| **Carrying value including accrued interest expense** | **44 966** | **42 228** | **–** | **–** | **–** | **916** | **225 821** | **313 931** |

* Designated at fair value through profit or loss.

## NOTE 20: FINANCIAL ASSETS, BREAKDOWN BY PORTFOLIO AND QUALITY

### Financial assets

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| Unimpaired assets | 73 907 | 46 212 | 45 993 | 159 159 | 12 320 | 725 | – | 338 317 |
| Impaired assets | – | – | 1 217 | 3 573 | 0 | – | – | 4 791 |
| Impairment | – | – | -460 | -2 125 | 0 | – | – | -2 585 |
| **Total carrying value including accrued interest income** | **73 907** | **46 212** | **46 750** | **160 607** | **12 320** | **725** | **–** | **340 522** |
| **31-12-2008** | | | | | | | | |
| Unimpaired assets | 73 557 | 28 994 | 45 496 | 175 179 | 10 970 | 279 | – | 334 474 |
| Impaired assets | – | – | 1 996 | 4 447 | 22 | – | – | 6 465 |
| Impairment | – | – | -1 120 | -2 597 | -19 | – | – | -3 736 |
| **Total carrying value including accrued interest income** | **73 557** | **28 994** | **46 371** | **177 029** | **10 973** | **279** | **–** | **337 203** |

* Designated at fair value through profit or loss.

### 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 |
|---|---|---|
| **31-12-2007** | | |
| Loans and advances | 3 680 | 578 |
| Debt instruments | 0 | 0 |
| Derivatives | 18 | 0 |
| **Total** | **3 698** | **578** |
| **31-12-2008** | | |
| Loans and advances | 4 671 | 1 141 |
| Debt instruments | 0 | 0 |
| Derivatives | 32 | 1 |
| **Total** | **4 703** | **1 142** |

* Financial assets that are 90 days or more past due are always considered 'impaired'.

- 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.
- Fixed-income financial assets are impaired when impairment is identified on an individual basis. The concept of 'impairment' is relevant for all financial assets that are not measured at fair value through profit or loss. For loans, impairment is identified on an individual basis if the loan has a probability of default (PD) rating of 10, 11 or 12. Since PD ratings relate to counterparties, so too does the concept of impaired.
- Information on 'maximum credit exposure' is provided in the table. The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39.

### Maximum credit exposure

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Equity instruments | 22 207 | 9 145 |
| Debt instruments | 82 816 | 85 752 |
| Loans and advances | 200 894 | 194 092 |
| of which designated at fair value through profit or loss | 23 611 | 8 826 |
| Derivatives | 22 232 | 38 800 |
| Other (including accrued interest) | 58 099 | 57 488 |
| **Total** | **386 248** | **385 276** |

### Carrying value of financial assets pledged by KBC as collateral

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| For liabilities | 41 084 | 50 772 |
| For contingent liabilities | 2 317 | 7 450 |

- Information on collateral held is provided in the following table. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table).
- Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owners) in its original form, or possibly in cash.

## Collateral held (which may be sold or repledged in the absence of default by the owner)

| | Fair value of collateral held | | Fair value of collateral sold or repledged | |
|---|---|---|---|---|
| | 31-12-2007 | 31-12-2008 | 31-12-2007 | 31-12-2008 |
| Financial assets | 45 648 | 19 131 | 18 608 | 6 868 |
| Equity instruments | 245 | 75 | 0 | 0 |
| Debt instruments | 45 025 | 18 675 | 18 608 | 6 868 |
| Loans and advances | 197 | 206 | 0 | 0 |
| Cash | 182 | 175 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Property and equipment | 0 | 0 | 0 | 0 |
| Investment property | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |

- Collateral obtained by taking possession is not material.

# NOTE 21: FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND REMAINING TERM TO MATURITY

## Financial assets

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| At not more than one year | 24 142 | 23 442 | 6 456 | 67 371 | 2 470 | – | – | 123 882 |
| At more than one but not more than five years | 3 538 | 6 870 | 18 526 | 24 661 | 5 358 | – | – | 58 954 |
| At more than five years | 7 530 | 8 136 | 16 732 | 67 569 | 4 492 | – | – | 104 460 |
| Without maturity | 38 697 | 7 763 | 5 036 | 1 006 | 0 | 725 | – | 53 227 |
| **Total carrying value** | **73 907** | **46 212** | **46 750** | **160 607** | **12 230** | **725** | **–** | **340 522** |
| **31-12-2008** | | | | | | | | |
| At not more than one year | 19 973 | 8 093 | 7 026 | 70 039 | 1 824 | – | – | 106 954 |
| At more than one but not more than five years | 6 844 | 6 544 | 19 628 | 27 987 | 4 541 | – | – | 65 544 |
| At more than five years | 4 669 | 8 812 | 16 188 | 74 944 | 4 608 | – | – | 109 221 |
| Without maturity | 42 072 | 5 546 | 3 530 | 4 059 | 0 | 279 | – | 55 485 |
| **Total carrying value** | **73 557** | **28 994** | **46 371** | **177 029** | **10 973** | **279** | **–** | **337 203** |

* Designated at fair value through profit or loss.

## Financial liabilities

| 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 |
|---|---|---|---|---|---|---|---|---|
| **31-12-2007** | | | | | | | | |
| At not more than one year | 10 131 | 31 536 | – | – | – | – | 164 632 | 206 299 |
| At more than one but not more than five years | 3 034 | 1 839 | – | – | – | – | 21 623 | 26 496 |
| At more than five years | 1 935 | 4 655 | – | – | – | – | 9 709 | 16 299 |
| Without maturity | 26 199 | 7 743 | – | – | – | 492 | 27 894 | 62 328 |
| **Total carrying value** | **41 298** | **45 774** | **–** | **–** | **–** | **492** | **223 858** | **311 422** |
| **31-12-2008** | | | | | | | | |
| At not more than one year | 3 953 | 29 727 | – | – | – | – | 163 954 | 197 635 |
| At more than one but not more than five years | 864 | 1 549 | – | – | – | – | 23 234 | 25 648 |
| At more than five years | 260 | 5 382 | – | – | – | – | 8 406 | 14 047 |
| Without maturity | 39 889 | 5 570 | – | – | – | 916 | 30 227 | 76 601 |
| **Total carrying value** | **44 966** | **42 228** | **–** | **–** | **–** | **916** | **225 821** | **313 931** |

* Designated at fair value through profit or loss.

## NOTE 22: IMPAIRMENT ON FINANCIAL ASSETS THAT ARE AVAILABLE FOR SALE

| | 2007 | | 2008 | |
|---|---|---|---|---|
| **In millions of EUR** | **Fixed-income securities** | **Shares** | **Fixed-income securities** | **Shares** |
| Opening balance | 14 | 65 | 28 | 431 |
| Movements with an impact on results | | | | |
| Impairment recognised | 9 | 66 | 420 | 918 |
| Impairment reversed | -1 | 0 | -6 | 0 |
| Movements without an impact on results | | | | |
| Write-offs | 0 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | -8 | 0 | -2 |
| Other | 6 | 309 | -111 | -560 |
| **Closing balance** | **28** | **431** | **333** | **788** |

## NOTE 23: IMPAIRMENT ON FINANCIAL ASSETS HELD TO MATURITY

### Fixed-income securities

| **In millions of EUR** | **2007** | **2008** |
|---|---|---|
| Opening balance | 1 | 0 |
| Movements with an impact on results | | |
| Impairment recognised | 0 | 15 |
| Impairment reversed | -1 | 0 |
| Movements without an impact on results | | |
| Write-offs | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 |
| Other | 0 | 4 |
| **Closing balance** | **0** | **19** |

## NOTE 24: IMPAIRMENT ON LOANS AND RECEIVABLES (BALANCE SHEET)

| **In millions of EUR** | **31-12-2007** | **31-12-2008** |
|---|---|---|
| **Total** | **2 233** | **2 709** |
| **Breakdown by type** | | |
| Specific impairment, on-balance-sheet lending | 1 963 | 2 352 |
| Specific impairment, off-balance-sheet credit commitments | 84 | 91 |
| Portfolio-based impairment | 186 | 266 |
| **Breakdown by counterparty** | | |
| Impairment on loans and advances to banks | 6 | 128 |
| Impairment on loans and advances to customers | 2 119 | 2 469 |
| Specific impairment, off-balance-sheet credit commitments | 108 | 112 |

| **MOVEMENTS TABLE** | **Specific impairment, on-balance-sheet lending** | **Specific impairment, off-balance-sheet credit commitments** | **Portfolio-based impairment** | **Total** |
|---|---|---|---|---|
| Opening balance 01-01-2007 | 1 934 | 67 | 222 | 2 224 |
| Movements with an impact on results | | | | |
| Loan loss expenses | 688 | 62 | 173 | 923 |
| Loan loss recoveries | -481 | -45 | -212 | -738 |
| Movements without an impact on results | | | | |
| Write-offs | -238 | -1 | 0 | -239 |
| Changes in the scope of consolidation | 59 | 0 | 0 | 59 |
| Other | 2 | 1 | 2 | 5 |
| **Closing balance 31-12-2007** | **1 963** | **84** | **186** | **2 233** |
| Opening balance 01-01-2008 | 1 963 | 84 | 186 | 2 233 |
| Movements with an impact on results | | | | |
| Loan loss expenses | 1 329 | 46 | 156 | 1 531 |
| Loan loss recoveries | -528 | -39 | -141 | -708 |
| Movements without an impact on results | | | | |
| Write-offs | -270 | -2 | 0 | -272 |
| Changes in the scope of consolidation | 9 | 0 | 15 | 25 |
| Other | -151 | 2 | 49 | -99 |
| **Closing balance 31-12-2008** | **2 352** | **91** | **266** | **2 709** |

| | 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 | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **31-12-2007** | | | | | | | | | | | | | | | | |
| Total | 21 689 | 26 042 | 1 066 844 | 1 054 773 | 52 | 57 | 2 665 | 2 652 | 269 | 89 | 11 912 | 11 749 | 223 | 9 | 11 862 | 11 862 |
| **Breakdown by type** | | | | | | | | | | | | | | | | |
| Interest rate contracts | 5 453 | 7 461 | 654 616 | 649 666 | 36 | 43 | 2 421 | 2 421 | 197 | 81 | 10 451 | 10 451 | 223 | 9 | 11 862 | 11 862 |
| Interest rate swaps | 4 865 | 6 974 | 561 194 | 560 593 | 36 | 43 | 2 421 | 2 421 | 197 | 81 | 10 451 | 10 451 | 223 | 9 | 11 862 | 11 862 |
| Forward rate agreements | 49 | 43 | 33 957 | 29 042 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 26 | 3 | 9 845 | 9 750 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 513 | 433 | 47 064 | 49 900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 0 | 9 | 2 555 | 382 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange contracts | 1 385 | 1 464 | 215 552 | 217 139 | 15 | 14 | 235 | 222 | 73 | 8 | 1 461 | 1 299 | 0 | 0 | 0 | 0 |
| Forward foreign exchange operations/currency forwards | 508 | 599 | 123 758 | 125 294 | 0 | 0 | 7 | 0 | 0 | 0 | 20 | 20 | 0 | 0 | 0 | 0 |
| Currency and interest rate swaps | 620 | 612 | 63 913 | 64 187 | 15 | 14 | 229 | 222 | 66 | 8 | 1 276 | 1 134 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 14 | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 257 | 253 | 27 867 | 27 644 | 0 | 0 | 0 | 0 | 6 | 1 | 166 | 145 | 0 | 0 | 0 | 0 |
| Equity contracts | 9 559 | 13 937 | 64 126 | 61 529 | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity swaps | 1 899 | 282 | 32 179 | 32 177 | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 8 | 1 | 10 | 184 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 22 | 32 | 1 146 | 386 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 7 396 | 13 028 | 29 924 | 28 324 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warrants | 234 | 594 | 867 | 457 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit contracts | 5 060 | 3 165 | 132 287 | 126 148 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit default swaps | 5 060 | 3 165 | 132 287 | 126 148 | 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 | 232 | 15 | 263 | 292 | 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 | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **31-12-2008** | | | | | | | | | | | | | | | | |
| Total | 38 559 | 39 785 | 1 077 232 | 1 048 887 | 111 | 118 | 2 234 | 2 230 | 111 | 396 | 15 333 | 15 271 | 19 | 169 | 9 647 | 9 647 |
| **Breakdown by type** | | | | | | | | | | | | | | | | |
| Interest rate contracts | 13 031 | 12 665 | 662 390 | 662 469 | 106 | 117 | 2 168 | 2 168 | 44 | 385 | 14 901 | 14 888 | 19 | 169 | 9 647 | 9 647 |
| Interest rate swaps | 12 130 | 11 999 | 570 717 | 570 166 | 106 | 116 | 2 168 | 2 168 | 44 | 385 | 14 877 | 14 888 | 19 | 169 | 9 647 | 9 647 |
| Forward rate agreements | 129 | 144 | 30 518 | 28 060 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 57 | 52 | 11 682 | 12 756 | 0 | 0 | 0 | 0 | 1 | 0 | 24 | 0 | 0 | 0 | 0 | 0 |
| Options | 715 | 467 | 49 469 | 50 865 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 0 | 4 | 5 | 622 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange contracts | 3 073 | 2 765 | 224 699 | 225 986 | 4 | 2 | 59 | 55 | 67 | 12 | 431 | 383 | 0 | 0 | 0 | 0 |
| Forward foreign exchange operations/currency forwards | 995 | 960 | 114 901 | 116 262 | 0 | 0 | 0 | 0 | 2 | 0 | 30 | 29 | 0 | 0 | 0 | 0 |
| Currency and interest rate swaps | 1 328 | 1 251 | 77 955 | 78 465 | 4 | 2 | 59 | 55 | 64 | 4 | 351 | 297 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 750 | 554 | 31 842 | 31 259 | 0 | 0 | 0 | 0 | 1 | 8 | 50 | 57 | 0 | 0 | 0 | 0 |
| Equity contracts | 9 716 | 11 889 | 50 313 | 54 958 | 0 | 0 | 7 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity swaps | 2 653 | 3 451 | 31 081 | 31 214 | 0 | 0 | 7 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 25 | 1 | 8 | 29 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 4 | 11 | 357 | 219 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 7 027 | 8 036 | 18 837 | 22 625 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warrants | 7 | 389 | 30 | 870 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit contracts | 12 634 | 12 351 | 138 612 | 104 230 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit default swaps | 12 634 | 12 351 | 138 612 | 104 230 | 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 | 105 | 115 | 1 217 | 1 245 | 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 181 million euros in 2007 and 38 million euros in 2008, while the accrued interest expense came to 337 million euros in 2007 and 232 million euros in 2008.
- 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: KBC uses this technique 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 so-called 'fair value' option): KBC uses this option to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid other 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 with embedded derivatives.
    Moreover, the fair value option is used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some 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. This type of hedge accounting is 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. This technique is used primarily to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in foreign operations. The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option and the port-folio 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.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down as follows (in millions of euro):

| | Inflow | Outflow |
|---|---|---|
| - Not more than three months: | 59 | -21 |
| - More than three but not more than six months: | 104 | -70 |
| - More than six months but not more than one year: | 144 | -193 |
| - More than one but not more than two years: | 331 | -479 |
| - More than two but not more than five years: | 950 | -1 069 |
| - More than five years: | 2 437 | -2 689 |

## NOTE 26: OTHER ASSETS

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Total | 2 473 | 2 525 |
| Debtors arising out of primary insurance operations | 273 | 272 |
| Debtors arising out of reinsurance operations | 128 | 117 |
| Other debtors and called capital as yet unpaid | 0 | 0 |
| Deposits with ceding companies | 109 | 97 |
| Income receivable (other than interest income from financial assets) | 451 | 419 |
| Other | 1 512 | 1 620 |

## NOTE 27: TAX ASSETS AND TAX LIABILITIES

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **CURRENT TAXES** | | |
| Current tax assets | 138 | 363 |
| Current tax liabilities | 481 | 384 |
| **DEFERRED TAXES** | **446** | **1 971** |
| Deferred tax assets by type of temporary difference | 1 783 | 3 919 |
| Employee benefits | 273 | 253 |
| Losses carried forward | 34 | 249 |
| Tangible and intangible fixed assets | 70 | 85 |
| Provisions for risks and charges | 47 | 59 |
| Impairment for losses on loans and advances | 222 | 260 |
| Financial instruments at fair value through profit or loss and fair value hedges | 431 | 1 423 |
| Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations | 496 | 1 329 |
| Technical provisions | 87 | 86 |
| Other | 120 | 175 |
| Unused tax losses and unused tax credits | 60 | 240 |
| Deferred tax liabilities by type of temporary difference | 1 337 | 1 948 |
| Employee benefits | 27 | 37 |
| Losses carried forward | 0 | 0 |
| Tangible and intangible fixed assets | 113 | 125 |
| Provisions for risks and charges | 43 | 54 |
| Impairment for losses on loans and advances | 105 | 127 |
| Financial instruments at fair value through profit or loss and fair value hedges | 357 | 775 |
| Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations | 443 | 606 |
| Technical provisions | 104 | 103 |
| Other | 142 | 120 |
| Recognised in the balance sheet as follows: | | |
| Deferred tax assets | 781 | 2 090 |
| Deferred tax liabilities | 335 | 119 |

- 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.
- The total net increase in deferred taxes (1 526 million euros) breaks down as follows:
  - increase in deferred tax assets: 2 136 million euros;
  - increase in deferred tax liabilities: 610 million euros.
- The increase in deferred tax assets is accounted for primarily by:
  - the increase via the income statement: +1 397 million euros (chiefly losses carried forward (+228 million euros), tangible and intangible fixed assets (+15 million euros), impairment for losses on loans and advances (+37 million euros) and financial instruments at fair value through profit or loss and fair value hedges (+1 050 million euros);
  - the increase in deferred tax assets consequent on the drop in the market value of available-for-sale securities: +604 million euros;
  - the increase in negative fair value changes in cashflow hedges: +212 million euros;
  - the remaining decrease (-77 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.
- The increase in deferred tax liabilities is made up primarily of the following:
  - the increase via the income statement: +430 million euros (chiefly tangible and intangible fixed assets (+12 million euros), provisions for risks and charges (+11 million euros), impairment for losses on loans and advances (+20 million euros) and financial instruments at fair value through profit or loss and fair value hedges (+406 million euros);
  - the increase in deferred tax liabilities due to the rise in the market value of available-for-sale securities: +177 million euros;
  - the increase in positive fair value changes in cashflow hedges: +11 million euros;
  - the remaining decrease (-8 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.

## NOTE 28: INVESTMENTS IN ASSOCIATED COMPANIES

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Total | 634 | 27 |
| **Overview of investments, including goodwill** | | |
| Nova Ljubljanska banka | 568 | 0 |
| Other | 66 | 27 |
| **Goodwill on associated companies** | | |
| Gross amount | 210 | 0 |
| Accumulated impairment | 0 | 0 |
| **Breakdown by type** | | |
| Unlisted | 634 | 27 |
| Listed | 0 | 0 |
| Fair value of investments in listed associated companies | 0 | 0 |
| **MOVEMENTS TABLE** | **2007** | **2008** |
| Opening balance (1 January) | 522 | 634 |
| Acquisitions | 69 | 0 |
| Carrying value, transfers | 0 | -26 |
| Share in the result for the period | 56 | -1 |
| Dividends paid | -15 | -4 |
| Share of gains and losses not recognised in the income statement | 2 | 0 |
| Translation differences | 0 | -1 |
| Changes in goodwill | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | -576 |
| Other movements | 0 | 0 |
| Closing balance (31 December) | 634 | 27 |

- 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.
- 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 2008, the shareholding in Nova Ljubljanska banka (NLB) was transferred to 'Non-current assets held for sale and disposal groups', due to the start of the structured process to sell this shareholding.

## NOTE 29: PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Property and equipment | 2 234 | 2 964 |
| Investment property | 593 | 689 |
| Rental income | 54 | 73 |
| Direct operating expenses from investments generating rental income | 17 | 19 |
| Direct operating expenses from investments not generating rental income | 14 | 5 |

| MOVEMENTS TABLE | Land and buildings | IT equipment | Other equipment | Total property and equipment | Investment property |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Opening balance | 1 242 | 123 | 541 | 1 906 | 413 |
| Acquisitions | 170 | 98 | 166 | 435 | 34 |
| Disposals | -37 | -18 | -90 | -145 | -4 |
| Depreciation | -67 | -73 | -83 | -223 | -24 |
| Impairment | | | | | |
| Recognised | 0 | 0 | 0 | 0 | -1 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 59 |
| Translation differences | 12 | 1 | 5 | 17 | 5 |
| Changes in the scope of consolidation | 93 | 6 | 11 | 110 | 72 |
| Other movements | 199 | 18 | -83 | 133 | 37 |
| Closing balance | 1 612 | 154 | 468 | 2 234 | 593 |
| of which accumulated depreciation and impairment | 913 | 627 | 217 | 1 756 | 140 |
| of which expenditure on items in the course of construction | 25 | 0 | 18 | 42 | – |
| of which finance lease as a lessee | 4 | 0 | 0 | 4 | – |
| Fair value 31-12-2007 | – | – | – | – | 690 |
| **2008** | | | | | |
| Opening balance | 1 612 | 154 | 468 | 2 234 | 593 |
| Acquisitions | 361 | 125 | 470 | 956 | 47 |
| Disposals | -143 | -9 | -210 | -362 | -16 |
| Depreciation | -86 | -83 | -81 | -250 | -23 |
| Impairment | | | | | |
| Recognised | -2 | -1 | -4 | -7 | -1 |
| Reversed | 1 | 0 | 0 | 1 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | -43 | -5 | -13 | -60 | -8 |
| Changes in the scope of consolidation | 39 | 4 | 14 | 56 | 100 |
| Other movements | -8 | -4 | 407 | 395 | -3 |
| Closing balance | 1 732 | 182 | 1 051 | 2 964 | 689 |
| of which accumulated depreciation and impairment | 1 016 | 639 | 238 | 1 894 | 160 |
| of which expenditure on items in the course of construction | 17 | 1 | 13 | 31 | – |
| of which finance lease as a lessee | 2 | 4 | 0 | 6 | – |
| Fair value 31-12-2008 | – | – | – | – | 837 |

- KBC applies the following annual rates of depreciation to property, equipment and investment property: between 3% and 10% for land and buildings, between 30% and 33% for IT equipment, between 10% and 33% for other equipment, and between 3% and 5% for investment property.
- 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.
- 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 parameters available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- For changes in 2008 regarding full service car leasing, see Note 18.

## NOTE 30: GOODWILL AND OTHER INTANGIBLE ASSETS

| In millions of EUR | Goodwill | Software developed inhouse | Software developed externally | Other | Total |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Opening balance | 1 692 | 93 | 165 | 38 | 1 988 |
| Acquisitions | 1 350 | 45 | 91 | 36 | 1 522 |
| Disposals | -8 | 0 | -10 | -1 | -19 |
| Adjustment resulting from subsequent identification | 0 | 0 | 0 | 0 | 0 |
| Amortisation | 0 | -29 | -74 | -11 | -114 |
| Impairment | | | | | |
| Recognised | 0 | -2 | 0 | -2 | -4 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | -9 | -1 | 1 | -1 | -9 |
| Changes in the scope of consolidation | 0 | 0 | 1 | 54 | 55 |
| Other movements | 69 | -4 | -4 | 20 | 82 |
| Closing balance | 3 094 | 103 | 171 | 133 | 3 501 |
| of which accumulated amortisation and impairment | 12 | 120 | 520 | 195 | 847 |
| **2008** | | | | | |
| Opening balance | 3 094 | 103 | 171 | 133 | 3 501 |
| Acquisitions | 471 | 107 | 99 | 20 | 697 |
| Disposals | 0 | -23 | -6 | -5 | -34 |
| Adjustment resulting from subsequent identification | 0 | 0 | 0 | 0 | 0 |
| Amortisation | 0 | -44 | -67 | -10 | -120 |
| Impairment | | | | | |
| Recognised | -25 | -3 | 0 | -29 | -57 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | -108 | 0 | -2 | -2 | -113 |
| Changes in the scope of consolidation | 0 | 0 | 4 | 13 | 17 |
| Other movements | 48 | 43 | -50 | -66 | -25 |
| Closing balance | 3 479 | 183 | 149 | 55 | 3 866 |
| of which accumulated amortisation and impairment | 37 | 229 | 556 | 74 | 896 |

- The 'goodwill' column includes the goodwill paid on companies included in the scope of consolidation. 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).
- 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 cash flow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cash flow method calculates the recoverable amount of an investment as the present value of all future free cash flows of the business. This method is based on long-term projections about the company's business and the resulting cashflows. The present value of these future cashflows is calculated using an annual discount rate. Free cashflows of banks and insurance companies are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.
- At the end of 2008, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) KBL EPB (1 016 million euros), Absolut Bank (461 million euros), ČSOB (271 million euros), K&H Bank (258 million euros), CIBANK (290 million euros) and DZI Insurance (209 million euros), WARTA (156 million euros) and Kredyt Bank (93 million euros), and Istrobanka (243 million euros). At the end of 2007, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) KBL EPB (932 million euros), Absolut Bank (516 million euros), ČSOB (274 million euros), K&H Bank (271 million euros), CIBANK (221 million euros) and DZI Insurance (212 million euros), and WARTA (165 million euros) and Kredyt Bank (95 million euros).

## NOTE 31: TECHNICAL PROVISIONS, INSURANCE

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Gross technical provisions** | **17 905** | **19 523** |
| Insurance contracts | 9 474 | 9 699 |
| Provisions for unearned premiums and unexpired risk | 509 | 510 |
| Life insurance provision | 4 968 | 5 222 |
| Provision for claims outstanding | 3 557 | 3 586 |
| Provision for bonuses and rebates | 29 | 20 |
| Other technical provisions | 411 | 361 |
| Investment contracts with DPF | 8 431 | 9 824 |
| Life insurance provision | 8 367 | 9 813 |
| Provision for claims outstanding | 0 | 0 |
| Provision for bonuses and rebates | 64 | 11 |
| **Reinsurers' share** | **291** | **280** |
| Insurance contracts | 291 | 280 |
| Provisions for unearned premiums and unexpired risk | 21 | 17 |
| Life insurance provision | 3 | 6 |
| Provision for claims outstanding | 266 | 256 |
| Provision for bonuses 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 bonuses and rebates | 0 | 0 |

| | | 2007 | | 2008 |
|---|---|---|---|---|
| **MOVEMENTS TABLE** | **Gross** | **Reinsurance** | **Gross** | **Reinsurance** |
| **Insurance contracts, Life** | | | | |
| Opening balance | 5 018 | 16 | 5 367 | 14 |
| Net payments received/premiums receivable | 660 | -2 | 649 | 85 |
| Gross payments made | -383 | 0 | -429 | -12 |
| (Theoretical) risk premiums | -99 | -1 | -158 | -1 |
| Accretion of interest | 177 | 0 | 173 | 0 |
| Profit share allocated | 40 | 0 | 29 | 0 |
| Purchase/sale of portfolio | 0 | 0 | 0 | 0 |
| Exchange differences | 0 | 0 | 0 | 0 |
| Other movements | -45 | 1 | -83 | -69 |
| Closing balance | 5 367 | 14 | 5 547 | 17 |
| **Insurance contracts, Non-life** | | | | |
| Opening balance | 3 810 | 274 | 4 106 | 277 |
| Payments regarding claims of previous years | -397 | -24 | -425 | -16 |
| Surplus/shortfall of claims provision in previous years | -165 | 10 | -195 | -5 |
| New claims | 632 | 26 | 683 | 28 |
| Purchase/sale of portfolio | 12 | 0 | 4 | 1 |
| Transfers | 0 | 0 | 0 | 0 |
| Exchange differences | -4 | 0 | -6 | 0 |
| Other movements | 218 | -10 | -16 | -21 |
| Closing balance | 4 106 | 277 | 4 152 | 263 |
| **Investment contracts with dpf, Life** | | | | |
| Opening balance | 7 138 | 0 | 8 431 | 0 |
| Net payments received/premiums receivable | 1 272 | 0 | 1 584 | 0 |
| Gross payments made | -331 | 0 | -520 | 0 |
| Theoretical risk premiums | -47 | 0 | 0 | 0 |
| Accretion of interest | 398 | 0 | 332 | 0 |
| Profit share allocated | 95 | 0 | 64 | 0 |
| Purchase/sale of portfolio | 0 | 0 | 0 | 0 |
| Exchange differences | 0 | 0 | 0 | 0 |
| Other movements | -93 | 0 | -67 | 0 |
| Closing balance | 8 431 | 0 | 9 824 | 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 the unit-linked contracts, which are included in 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. Because IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions at present, 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.

## NOTE 32: PROVISIONS FOR RISKS AND CHARGES

| In millions of EUR | Provision for restructuring | Provision for taxes and pending legal disputes | Other | Subtotal | Impairment, off-balance-sheet credit commitments | Total |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| Opening balance | 28 | 241 | 143 | 413 | 80 | 493 |
| Movements with an impact on results | | | | | | |
| Amounts allocated | 4 | 66 | 18 | 88 | 80 | 168 |
| Amounts used | -2 | -18 | -65 | -85 | 0 | -85 |
| Unused amounts reversed | -1 | -24 | -9 | -34 | -54 | -88 |
| Other movements | -11 | 6 | -28 | -34 | 3 | -31 |
| **Closing balance** | **18** | **270** | **60** | **348** | **108** | **456** |
| **2008** | | | | | | |
| Opening balance | 18 | 270 | 60 | 348 | 108 | 456 |
| Movements with an impact on results | | | | | | |
| Amounts allocated | 67 | 153 | 11 | 232 | 59 | 291 |
| Amounts used | -1 | -11 | -17 | -29 | 0 | -29 |
| Unused amounts reversed | -8 | -94 | -16 | -118 | -57 | -175 |
| Other movements | -3 | 18 | 59 | 74 | 3 | 76 |
| **Closing balance** | **72** | **337** | **97** | **506** | **113** | **619** |

- Restructuring provisions were set aside mainly for a number of companies in the KBC Financial Products group (45 million euros at year-end 2008), in the KBL EPB group (12 million euros at year-end 2008) and in certain Central and Eastern European subsidiaries of KBC Bank (9 million euros in total at year-end 2008).
- In 2008, the provision for taxes and pending legal disputes went up by 67 million euros, largely on account of the amounts set aside for commercial disputes involving activities in Central and Eastern European and the merchant banking business. The main provisions for legal disputes are discussed below.
- 'Other provisions' include those set aside for miscellaneous risks and future expenditure.
- Specific impairment for off-balance-sheet credit commitments includes impairment for guarantees, etc.
- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- The most significant legal disputes pending are discussed below. 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. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable').
  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 annual accounts 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 has also provided 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, heavy criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision. On balance, 90 million euros' worth of provisions have been set aside for the claims still outstanding (including 84 million euros for the biggest case, known as DBI Kft. (Betonut)).
  - 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 28 cases. Besides KB Consult (placed under suspicion by an investigating magistrate in 2004), KBC Bank and KBC Group NV were also summoned to appear in the proceedings before the Bruges court sitting in chambers (*Raadkamer*). The hearing has been adjourned until 27 May 2009. A provision of 50 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.
- Possible outflow:
  - In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.
- Remotely probable outflow:
  - On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and KBL European Private Bankers (formerly Kredietbank SA Luxembourgeoise) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. On 24 September 2008, the Indictment Division confirmed the decision rendered by the court sitting in chambers. The case will be heard on 3 April 2009 in the Brussels criminal court, which – based on the merits of the case – will decide whether these persons are guilty or whether they should be acquitted.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

## NOTE 33: OTHER LIABILITIES

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Total | 6 511 | 5 309 |
| **Breakdown by type** | | |
| Retirement benefit plans or other employee benefits | 1 775 | 1 530 |
| Deposits from reinsurers | 93 | 98 |
| Accrued charges (other than from interest expenses on financial liabilities) | 2 037 | 1 269 |
| Other | 2 605 | 2 412 |

• For more information on retirement benefit plans or other employee benefits, see Note 34.

## NOTE 34: RETIREMENT BENEFIT OBLIGATIONS

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **DEFINED BENEFIT PLANS** | | |
| **Reconciliation of defined benefit obligations** | | |
| Defined benefit obligations at the beginning of the period | 1 717 | 1 786 |
| Current service cost | 98 | 107 |
| Interest cost | 83 | 93 |
| Plan amendments | 15 | 33 |
| Actuarial gain (loss) | -91 | -16 |
| Benefits paid | -102 | -113 |
| Exchange differences | -6 | -11 |
| Curtailments | 0 | -1 |
| Changes in the scope of consolidation | 0 | 0 |
| Other | 71 | 7 |
| Defined benefit obligations at the end of the period | 1 786 | 1 884 |
| **Reconciliation of the fair value of plan assets** | | |
| Fair value of plan assets at the beginning of the period | 1 497 | 1 520 |
| Actual return on plan assets | 4 | -230 |
| Employer contributions | 89 | 109 |
| Plan participant contributions | 17 | 18 |
| Benefits paid | -102 | -113 |
| Exchange differences | -5 | -6 |
| Settlements | 0 | -3 |
| Changes in the scope of consolidation | 0 | 0 |
| Other | 20 | -3 |
| Fair value of plan assets at the end of the period | 1 520 | 1 293 |
| of which financial instruments issued by the group | 42 | 10 |
| **Funded status** | | |
| Plan assets in excess of defined benefit obligations | -266 | -580 |
| Unrecognised net actuarial gains | -242 | 69 |
| Unrecognised transaction amount | 0 | 0 |
| Unrecognised past service cost | 0 | 0 |
| Unrecognised assets | -1 | -1 |
| Unfunded accrued/prepaid pension cost | -508 | -512 |
| **Movement in net liabilities or net assets** | | |
| Unfunded accrued/prepaid pension cost at the beginning of the period | -474 | -508 |
| Net periodic pension cost | -131 | -121 |
| Employer contributions | 89 | 109 |
| Exchange differences | 1 | 0 |
| Changes in the scope of consolidation | 0 | 0 |
| Other | 7 | 8 |
| Unfunded accrued/prepaid pension cost at the end of the period | -508 | -512 |
| **Amounts recognised in the balance sheet** | | |
| Prepaid pension cost | 66 | 77 |
| Accrued pension liabilities | -575 | -589 |
| Unfunded accrued/prepaid pension cost | -508 | -512 |

## NOTE 34: RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Amounts recognised in the income statement** | | |
| Current service cost | 98 | 107 |
| Interest cost | 83 | 93 |
| Expected return on plan assets | -84 | -88 |
| Adjustments to limit prepaid pension cost | 2 | 1 |
| Amortisation of unrecognised prior service costs | 80 | 33 |
| Amortisation of unrecognised net gains/unrecognised net losses | -31 | -8 |
| Employee contributions | -17 | -18 |
| Curtailments | 0 | -1 |
| Settlements | 0 | 3 |
| Changes in the scope of consolidation | 0 | 0 |
| Actuarially determined net periodic pension cost* | 131 | 121 |
| **Actual rate of return on plan assets** | **0.3%** | **-15.1%** |
| **Principal actuarial assumptions used (based on weighted averages)** | | |
| Discount rate | 4.6% | 5.1% |
| Expected rate of return on plan assets | 5.2% | 5.7% |
| Expected rate of salary increase | 3.3% | 3.4% |
| Rate of pension increase | 0.5% | 0.9% |
| **DEFINED CONTRIBUTION PLANS** | | |
| Expenses for defined contribution plans | 7 | 7 |

* Included under staff expenses (see Note 12, 'Operating expenses').

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007) and KBL EPB's pension plans (which include both group insurance and pension funds). The assets of these first two plans are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- Past figures for the main items shown in the table (figures for year-end 2004, 2005, 2006, 2007 and 2008, in millions of euros):
  - Defined benefit obligations: 1 694, 1 922, 1 717, 1 786, 1 884;
  - Fair value of plan assets: 1 267, 1 478, 1 497, 1 520, 1 293;
  - Unfunded accrued or prepaid pension cost: -523, -604, -474, -508, -512.
- The expected return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1.75%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the long-term returns from shares and real estate.
- At year-end 2008, the assets of the group's biggest pension plans were as follows:
  - KBC pension fund: 33% shares, 54% bonds, 10% real estate and 3% cash (in 2007: 51% shares, 39% bonds, 8% real estate and 2% cash);
  - KBC Insurance group insurance scheme (including Fidea): 13% shares, 86% bonds and 1% real estate (in 2007 20% shares, 77% bonds and 3% real estate);
  - KBL EPB pension plan: 9% shares, 67% bonds and 24% cash (in 2007: 17% shares, 62% bonds and 21% cash).
- The following contributions are expected to be made to these plans in 2009:
  - KBC pension fund: 77 million euros;
  - KBC Insurance group insurance scheme (including Fidea): 4 million euros;
  - KBL EPB pension plan: 12 million euros.
- Changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities from defined benefit plans had the following impact on plan assets (a plus sign indicates a positive impact, a minus sign a negative impact, this relates to the three pension schemes mentioned in the preceding paragraph, combined): +1 million euros in 2004, +2 million euros in 2005, +1 million euros in 2006, -1 million euros in 2007, and 0 million euros in 2008. The impact on pension liabilities came to +9 million euros, +16 million euros, -40 million euros, -7 million euros, and -88 million euros, respectively.

## NOTE 35: PARENT SHAREHOLDERS' EQUITY

| In number of shares | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Ordinary shares | 355 115 321 | 357 752 822 |
| Mandatorily convertible bonds | 2 589 347 | 0 |
| Non-voting core-capital securities | 0 | 118 644 067 |
| *of which ordinary shares that entitle the holder to a dividend payment* | *342 568 138* | *341 819 369* |
| *of which treasury shares* | *15 441 530* | *18 216 385* |
| **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<br>In number of shares | Ordinary shares | Mandatorily convertible bonds | Non-voting core-capital securities |
|---|---|---|---|
| **2007** | | | |
| Opening balance | 363 217 068 | 2 606 452 | 0 |
| Issue of shares | 110 871 | 0 | 0 |
| Conversion of mandatorily convertible bonds into shares | 17 105 | -17 105 | 0 |
| Other movements | -8 229 723 | 0 | 0 |
| **Closing balance** | **355 115 321** | **2 589 347** | **0** |
| **2008** | | | |
| Opening balance | 355 115 321 | 2 589 347 | 0 |
| Issue of shares | 48 154 | 0 | 118 644 067 |
| Conversion of mandatorily convertible bonds into shares | 2 589 347 | -2 589 347 | 0 |
| Other movements | 0 | 0 | 0 |
| **Closing balance** | **357 752 822** | **0** | **118 644 067** |

- 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. On 1 December 2008, all remaining mandatorily convertible bonds were converted into ordinary shares.
- At year-end 2008, the companies belonging to the KBC group held 18 216 385 KBC shares in portfolio. This figure includes the shares needed for the employee stock option plans (892 925 shares on 31 December 2008) and the (13 360 577) shares repurchased under the 3-billion-euro share buyback programme that was initially scheduled to run between 2007 and 2009, but has now been suspended. In 2008, this programme saw a total of 2 924 265 shares being bought back in the open market at an average price of 86.60 euros.
- At 31 December 2008, there were no freely convertible bonds outstanding.
- Preference shares are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- For information on stock option plans, see Note 12. For information on the authorisation to increase capital, see the 'Company annual accounts' section.
- Non-voting core-capital securities: on 19 December 2008, KBC signed an agreement with the Belgian Federal Government to bolster the group's financial position. Under the agreement, KBC issued 3.5 billion euros' worth of non-transferable core-capital instruments with no voting rights to the Belgian State, with the proceeds of the transaction being used to strengthen the core (tier-1) capital of its banking activities by 2.25 billion euros and to increase the solvency margin of its insurance activities by 1.25 billion euros. Features of the transaction:
  - Issuer: KBC Group NV.
  - Subscriber: Belgian State (Federale Participatie- en Investeringsmaatschappij).
  - Type of securities: fully paid-up new type of non-transferable, non-voting securities qualifying as core capital.
  - Classification: equal ranking (*pari passu*) with ordinary shares.
  - 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 and 125% for 2010 and subsequent years. No coupon will be paid if there is no dividend.
  - Term: perpetual.
  - Buyback option: subject to the approval of the financial regulator, KBC 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: after three years, KBC may at any time exchange the securities for ordinary shares on a one-for-one basis. Should KBC opt to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% of the issue price as of the fourth year, and will increase each subsequent year by 5 percentage points (with a cap at 150%).
  - The issued securities will constitute part of parent shareholders' equity, as recorded in the balance sheet under IFRS.
- On 22 January 2009, KBC signed an agreement with the Flemish Regional Government to further strengthen the group's financial position. For more information on this transaction, see Note 42.

# Other notes

## NOTE 36: COMMITMENTS AND CONTINGENT LIABILITIES

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Credit commitments – undrawn amount** | | |
| Given | 42 256 | 43 320 |
| Irrevocable | 35 478 | 36 388 |
| Revocable | 6 779 | 6 932 |
| Received | 3 456 | 3 442 |
| **Financial guarantees** | | |
| Given | 18 125 | 18 009 |
| Guarantees received/collateral | 204 843 | 190 159 |
| For impaired and past due assets | 4 619 | 5 191 |
| Non-financial assets | 4 306 | 4 012 |
| Financial assets | 313 | 1 179 |
| For assets that are not impaired or past due | 200 224 | 184 968 |
| Non-financial assets | 135 453 | 145 253 |
| Financial assets | 64 770 | 39 715 |
| **Other commitments** | | |
| Given | 134 | 650 |
| Irrevocable | 92 | 625 |
| Revocable | 42 | 25 |
| Received | 69 | 238 |

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Group NV irrevocably and unconditionally guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2008 listed in Section 5c 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 Asset Management International Limited
  - KBC Asset Management Limited
  - KBC Financial Services (Ireland) Limited
  - KBC Fund Managers Limited
  - Eperon Asset Management Limited.

## NOTE 37: LEASING

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Finance lease receivables** | | |
| Gross investment in finance leases, receivable | 7 873 | 8 004 |
| At not more than one year | 2 385 | 2 416 |
| At more than one but not more than five years | 4 087 | 4 204 |
| At more than five years | 1 401 | 1 384 |
| Unearned future finance income on finance leases | 988 | 1 200 |
| Net investment in finance leases | 6 883 | 6 765 |
| At not more than one year | 2 101 | 2 057 |
| At more than one but not more than five years | 3 726 | 3 704 |
| At more than five years | 1 055 | 1 004 |
| of which unguaranteed residual values accruing to the benefit of the lessor | 9 | 7 |
| Accumulated impairment for uncollectable lease payments receivable | 35 | 108 |
| Contingent rents recognised in income | 17 | 16 |
| **Operating lease receivables** | | |
| Future aggregate minimum rentals receivable under non-cancellable leases | 91 | 698 |
| At not more than one year | 26 | 212 |
| At more than one but not more than five years | 55 | 453 |
| At more than five years | 9 | 33 |
| Contingent rents recognised in income | 0 | 2 |

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

## NOTE 38: RELATED-PARTY TRANSACTIONS

| In millions of EUR | 2007 | 2008 |
|---|---|---|
| **TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS** | | |
| **Assets** | **1 698** | **23 385** |
| Loans and advances | 738 | 1 015 |
| Current account advances | 0 | 24 |
| Term loans | 738 | 991 |
| Finance leases | 0 | 0 |
| Consumer credit | 0 | 0 |
| Mortgage loans | 0 | 0 |
| Equity instruments | 246 | 208 |
| Trading securities | 6 | 5 |
| Investment securities | 240 | 203 |
| Other amounts receivable | 713 | 22 162 |
| **Liabilities** | **557** | **1 878** |
| Deposits | 541 | 501 |
| Deposits | 536 | 376 |
| Other borrowings | 5 | 125 |
| Other financial liabilities | 2 | 1 |
| Debt certificates | 2 | 1 |
| Subordinated liabilities | 0 | 0 |
| Share-based payments | 0 | 0 |
| Granted | 0 | 0 |
| Exercised | 0 | 0 |
| Other liabilities | 15 | 1 376 |
| **Income statement** | **-49** | **739** |
| Net interest income | 8 | 737 |
| Gross earned premiums | 0 | 0 |
| Dividend income | 6 | 13 |
| Net fee and commission income | -8 | 1 |
| Other net income | 9 | 24 |
| General administrative expenses | -64 | -36 |
| **Guarantees** | | |
| Guarantees issued by the group | 0 | 0 |
| Guarantees received by the group | 0 | 0 |
| **TRANSACTIONS WITH DIRECTORS** | | |
| 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 | 12 | 8 |
| **Breakdown per director** | | |
| Members of the Group Executive Committee | 5 | 3 |
| Other members | 7 | 5 |
| **Breakdown by type of remuneration** | | |
| Short-term employee benefits | 10 | 5 |
| Post-employment benefits | 3 | 2 |
| Defined benefit plans | 3 | 2 |
| Defined contribution plans | 0 | 0 |
| Other long-term employee benefits | 0 | 0 |
| Termination benefits | 0 | 0 |
| Share-based payments | 0 | 0 |
| **Share options, in units** | | |
| At the beginning of the period | 67 800 | 62 700 |
| Granted | 4 600 | 7 300 |
| Exercised | -9 700 | -6 000 |
| Changes in directors | 0 | 0 |
| At the end of the period | 62 700 | 64 000 |
| **Advances and loans granted to directors and partners** | **4** | **3** |

- After the elimination of transactions with consolidated subsidiaries, the transactions that remain are primarily with associated companies (including with NLB for around 0.5 billion euros in receivables and around 4 million euros in debt), transactions with non-consolidated special purpose vehicles, transactions with KBC Ancora, Cera CVBA, MRBB, the pension funds and the directors of the group, and – since 2008 – the transaction with the Belgian State (see Note 35) for around 22.5 billion euros in receivables and some 1.5 billion euros in debt instruments.
- All related-party transactions occur 'at arm's length'.
- There were no material transactions with associated companies other than shown in the table.

## NOTE 39: AUDITOR'S REMUNERATION

- In 2008, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren fees amounting to a total of 13 802 658 euros for standard audit services. Remuneration paid for other services came to 2 824 339 euros, viz:
  - other certifications: 1 250 402 euros;
  - tax advice: 381 907 euros;
  - other non-audit assignments: 1 192 030 euros.

## NOTE 40: LIST OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES

| Company | Registered office | Ownership percentage at group level | Business unit[1] | Activity |
|---|---|---|---|---|
| **KBC BANK** | | | | |
| Fully consolidated subsidiaries | | | | |
| Absolut Bank | Moscow – RU | 95.00 | CEER | Credit institution |
| Antwerp Diamond Bank NV | Antwerp – BE | 100.00 | MB | Credit institution |
| CBC Banque SA | Brussels – BE | 100.00 | B | Credit institution |
| Centea NV | Antwerp – BE | 99.56 | B | Credit institution |
| CIBANK AD (formerly Economic and Investment Bank AD) | Sofia – BG | 77.09 | CEER | Credit institution |
| ČSOB a.s. (Czech Republic) | Prague – CZ | 100.00 | CEER | Credit institution |
| ČSOB a.s. (Slovak Republic) | Bratislava – SK | 100.00 | CEER | Credit institution |
| Fin-Force NV | Brussels – BE | 90.00 | GC | Processing financial transactions |
| Istrobanka a.s. | Bratislava – SK | 100.00 | CEER | Credit institution |
| KBC Asset Management NV | Brussels – BE | 100.00 | B | Asset Management |
| KBC Bank NV | Brussels – BE | 100.00 | B and MB | Credit institution |
| KBC Bank Deutschland AG | Bremen – DE | 100.00 | MB | Credit institution |
| KBC Bank Funding LLC & Trust (group) | New York – US | 100.00 | MB | Issuance of trust preferred securities |
| KBC Bank Ireland Plc (formerly IIB Bank Plc.) | Dublin – IE | 100.00 | MB | Credit institution |
| KBC Bank Nederland NV | Rotterdam – NL | 100.00 | MB | Credit institution |
| KBC Clearing NV | Amsterdam – NL | 100.00 | MB | Clearing |
| KBC Commercial Finance | Brussels – BE | 100.00 | MB | Factoring |
| KBC Credit Investments NV | Brussels – BE | 100.00 | MB | Investment in credit-related securities |
| KBC Finance Ireland | Dublin – IE | 100.00 | MB | Lending |
| KBC Financial Products (group) | Various locations | 100.00 | MB | Equities and derivatives trading |
| KBC Internationale Financieringsmaatschappij NV | Rotterdam – NL | 100.00 | MB | Issuance of bonds |
| KBC Lease (group) | Various locations | 100.00 | MB | Leasing |
| KBC Peel Hunt Limited | London – GB | 99.99 | MB | Stock exchange broker, corporate finance |
| KBC Private Equity NV | Brussels – BE | 100.00 | MB | Private equity |
| KBC Real Estate NV | Zaventem – 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 | CEER | Credit institution |
| Kredyt Bank SA | Warsaw – PL | 80.00 | CEER | Credit institution |
| Associated companies | | | | |
| Nova Ljubljanska banka d.d. (group)[2] | Ljubljana – SI | 30.57 | CEER | Credit institution |
| **KBC INSURANCE** | | | | |
| Fully consolidated subsidiaries | | | | |
| ADD NV | Heverlee – BE | 100.00 | B | Insurance company |
| Assurisk SA | Luxembourg – LU | 100.00 | MB | Insurance company |
| ČSOB Pojišťovna (Czech Republic) | Pardubice – CZ | 100.00 | CEER | Insurance company |
| ČSOB Poisťovňa a.s. (Slovak Republic) | Bratislava – SK | 100.00 | CEER | Insurance company |
| DZI Insurance | Sofia – BG | 89.53 | CEER | Insurance company |
| Fidea NV | Antwerp – BE | 100.00 | B | Insurance company |
| VAB Group | Zwijndrecht – BE | 74.81 | B | Automobile assistance |
| K&H Insurance Rt. | Budapest – HU | 100.00 | CEER | Insurance company |
| KBC Banka A.D. (formerly A Banka A.D.) | Belgrade – RS | 100.00 | CEER | Credit institution |
| KBC Insurance NV | Leuven – BE | 100.00 | B | Insurance company |
| Secura NV | Brussels – BE | 95.04 | MB | Insurance company |
| VITIS Life Luxembourg SA | Luxembourg – LU | 99.99 | EPB | Insurance company |
| TUiR WARTA S.A. | Warsaw – PL | 100.00 | CEER | Insurance company |
| Proportionately consolidated subsidiaries | | | | |
| NLB Vita d.d. [2] | Ljubljana – SI | 50.00 | CEER | Insurance company |

## NOTE 40: LIST OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

| Company | Registered office | Ownership percentage at group level | Business unit[1] | Activity |
|---|---|---|---|---|
| **KBL EPB** | | | | |
| Fully consolidated subsidiaries | | | | |
| Brown, Shipley & Co. Limited | London – GB | 99.91 | EPB | Credit institution |
| KBL Richelieu Banque Privée (following merger of KBL France SA with Richelieu Finance) | Paris – FR | 99.91 | EPB | Credit institution |
| KBL European Private Bankers SA (formerly Kredietbank SA Luxembourgeoise) | Luxembourg – LU | 99.91 | EPB | Credit institution |
| Kredietbank (Suisse) SA | Geneva – CH | 99.90 | EPB | Credit institution |
| Merck Finck & Co. | Munich – DE | 99.91 | EPB | Credit institution |
| Puilaetco Dewaay Private Bankers SA | Brussels – BE | 99.91 | EPB | Credit institution |
| Theodoor Gilissen Bankiers NV | Amsterdam – NL | 99.91 | EPB | Credit institution |
| **KBC GROUP NV (other direct subsidiaries)** | | | | |
| Fully consolidated subsidiaries | | | | |
| KBC Global Services NV (formerly KBC Exploitatie NV) | Brussels – BE | 100.00 | GC | Cost-sharing structure |
| KBC Group NV | Brussels – BE | 100.00 | GC | Holding company |

1 Abbreviations: B = Belgium; CEER = Central & Eastern Europe and Russia; MB = Merchant Banking; EPB = European Private Banking; GC = Group Centre.

2 Included under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' in the balance sheet.

- For a complete list of the companies included in or excluded from the scope of consolidation, as well as all associated companies, as at 31 December 2008, see www.kbc.com (Group profile/organisational structure).

## NOTE 41: MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

| Parent company | Company | Consolidation method | Ownership percentage at group level | | Comments |
|---|---|---|---|---|---|
| | | | 31-12-2007 | 31-12-2008 | |
| Additions | | | | | |
| KBC BANK | Absolut Bank | Full | 95.00 | 95.00 | Recognised in income statement from 2H 2007 |
| KBC BANK | CIBANK AD | Full | 75.58 | 77.09 | Recognised in income statement from 2008 |
| KBC BANK | ČSOB a.s. (Slovakia) | Full | – | 100.00 | Spun-off from ČSOB in Czech Republic from 2008 |
| KBC BANK | Istrobanka a.s. | Full | – | 100.00 | Recognised in income statement from 2H 2008 |
| KBL EPB | Richelieu Finance | Full | – | 99.91 | Recognised in income statement from 2Q 2008; merged with KBC France to form KBL Richelieu Banque Privée |
| Exclusions | | | | | |
| None | | | | | |
| Changes in ownership percentage | | | | | |
| KBC BANK | Nova Ljubljanska banka | Equity | 34.00 | 30.57 | Reduced shareholding percentage following capital increase in which KBC did not participate |

## NOTE 42: POST-BALANCE-SHEET EVENTS

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date 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:

- 22 January 2009: the further strengthening of the capital base of the banking activities through the issue of 2-billion-euros' worth of non-dilutive securities qualifying as core capital. The Flemish Regional Government will subscribe to the entire issue and has also undertaken to provide an additional standby facility of 1.5 billion euros, which may be used to bolster the capital base of either the group's banking activities or its insurance activities. Features of the 2-billion-euro transaction:
  - Issuer: KBC Group NV.
  - Subscriber: Flemish Region (or a legal entity controlled by the Flemish Regional Government).
  - Type of securities: fully paid up, non-transferable, non-voting debt securities *sui generis* that qualify as core capital.
  - Classification: equal ranking (*pari passu*) with ordinary shares and with the issue of 3.5 billion euros' worth of core-capital securities to the Federale Participatie- en Investeringsmaatschappij in December 2008.
  - 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 financial year 2009 (coupon payment in 2010) and 125% of the dividend paid on ordinary shares for financial year 2010 and subsequent financial years (coupon payments in 2011 and later). No coupon will be paid if there is no dividend.
  - Term: perpetual.
  - 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.
  - The issued securities will constitute part of the equity of KBC Group NV, as recorded in the balance sheet under IFRS.

# NOTE 43: GENERAL INFORMATION (IAS 1)

| | |
|---|---|
| **Name** | KBC Group NV |
| **Incorporated** | 9 February 1935 as Kredietbank NV; the present name dates from 2 March 2005. |
| **Country of incorporation** | Belgium |
| **Registered office** | 2 Havenlaan, 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 registered with the Belgian Banking, Finance and Insurance Commission. |
| **Life** | Indefinite |
| **Object** | The company is a financial holding company which has as object the direct or indirect ownership and management of shareholdings in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions.<br>The company also has as object to provide support services to third parties, as mandatary or otherwise, in particular to companies in which the company has an 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. The annual accounts have been filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have requested a copy. |
| **General Meeting of Shareholders** | A General Meeting is held every year at the company's registered office or at any other place designated in the convening notice, at 11 a.m. on the last Thursday of April, or, if this day is a public holiday, at 4 p.m. on the business day immediately before it.<br>In order to be admitted to the General Meeting, the holders of bearer shares, bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice.<br>The owners of registered shares, bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting.<br>Holders of book-entry shares, bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the shares, bonds, warrants or certificates until the date of the General Meeting.<br>Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.<br><br>In derogation from what has been set out above, the Board of Directors may decide that the holders of shares, bonds, warrants or certificates issued in co-operation with the company, in order to gain access to the General Meeting, have to prove that they hold these securities at midnight on the registration date, regardless of the number of shares they hold on the day of the General Meeting. This registration date may not be earlier than fifteen days and not later than five business days prior to the General Meeting. In a register designated by the Board of Directors, the number of securities held by each holder of securities at midnight on the registration date will be entered. The registration date will be specified in the convening notice for the General Meeting, along with the way in which the holders of securities can register. |

# Company annual accounts

# Background

The company annual accounts of KBC Group NV are presented here in abridged form. As required by law, the company annual accounts, the report of the Board of Directors and the 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
2 Havenlaan, 1080 Brussels, Belgium

The 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 annual report.

# Company balance sheet, profit and loss account, and profit appropriation (B-GAAP)

## Company balance sheet after profit appropriation, according to B-GAAP

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Fixed assets** | **9 532** | **13 771** |
| Financial fixed assets | 9 532 | 13 771 |
| Associated companies | 9 521 | 13 760 |
| Participating interests | 9 266 | 13 510 |
| Amounts receivable | 254 | 250 |
| Companies linked by participating interests | 11 | 11 |
| Participating interests | 1 | 1 |
| Amounts receivable | 10 | 10 |
| **Current assets** | **1 289** | **371** |
| Stocks and contracts in progress | 11 | 0 |
| Amounts receivable within one year | 76 | 2 |
| Trade debtors | 43 | 0 |
| Other amounts receivable | 33 | 2 |
| Investments | 1 115 | 317 |
| Own shares | 1 020 | 317 |
| Other investments | 95 | 0 |
| Cash at bank and in hand | 70 | 33 |
| Deferred charges and accrued income | 14 | 19 |
| **Total assets** | **10 822** | **14 142** |
| **Capital and reserves** | **8 271** | **9 251** |
| Capital | 1 235 | 1 244 |
| Subscribed capital | 1 235 | 1 244 |
| Share premium account | 4 158 | 4 332 |
| Reserves | 1 335 | 1 445 |
| Legal reserve | 123 | 124 |
| Reserves not available for distribution | 1 021 | 318 |
| Untaxed reserves | 189 | 190 |
| Reserves available for distribution | 0 | 812 |
| Profit brought forward | 1 543 | 2 230 |
| **Provisions and deferred taxes** | **7** | **0** |
| Provisions for liabilities and charges | 7 | 0 |
| **Creditors** | **2 543** | **4 890** |
| Amounts payable at more than one year | 858 | 4 732 |
| Financial debts | 858 | 4 732 |
| Subordinated loans | 0 | 3 500 |
| Non-subordinated bonds | 351 | 782 |
| Credit institutions | 0 | 0 |
| Other loans | 507 | 450 |
| Amounts payable within one year | 1 645 | 110 |
| Amounts payable at more than one year falling due within the year | 20 | 0 |
| Financial debts | 199 | 84 |
| Other loans | 199 | 84 |
| Trade debts | 13 | 2 |
| Amounts owed because of taxation, remuneration and social security charges | 66 | 2 |
| Taxes | 0 | 1 |
| Remuneration and social security charges | 66 | 2 |
| Other creditors | 1 346 | 22 |
| Accrued charges and deferred income | 40 | 48 |
| **Total liabilities** | **10 822** | **14 142** |

## Company profit and loss account, according to B-GAAP

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| **Charges** | | |
| A Interest and other debt charges | 62 | 79 |
| B Other financial charges | 3 | 1 |
| C Services and sundry goods | 80 | 44 |
| D Remuneration, social security charges and pensions | 294 | 8 |
| F Depreciation, amortisation, amounts written down and provisions for liabilities and charges | 0 | 0 |
| G 1) Write-downs on financial fixed assets | 18 | 0 |
| 2) Write-downs on current assets | 14 | 952 |
| I Losses on sale of financial fixed assets | 0 | 0 |
| K Taxes | 37 | 5 |
| L Profit for the period | 2 425 | 797 |
| Total | 2 933 | 1 886 |
| N Profit for the period available for appropriation | 2 425 | 797 |
| **Income** | | |
| A Income from financial fixed assets | 2 504 | 1 843 |
| B Income from current assets | 54 | 30 |
| C Other financial income | 3 | 2 |
| D Operating income | 364 | 2 |
| G 1) Reversals of write-downs on financial fixed assets | 3 | 0 |
| H Reversals of provisions for liabilities and charges | 2 | 7 |
| I 2) Gains on sale of financial fixed assets | 3 | 2 |
| J Extraordinary income | 0 | 0 |
| [M Transfer from untaxed reserve] | 0 | 0 |
| Total | 2 933 | 1 886 |

## Appropriation account, according to B-GAAP

| In millions of EUR | 31-12-2007 | 31-12-2008 |
|---|---|---|
| Profit to be appropriated | 3 794 | 2 340 |
| Profit for the period available for appropriation | 2 425 | 797 |
| Profit brought forward from the previous financial year | 1 369 | 1 543 |
| Appropriations to capital and reserves | 933 | 110 |
| To the legal reserve | 0 | 1 |
| To other reserves | 933 | 109 |
| Profit (Loss) to be carried forward | 1 543 | 2 230 |
| Profit to be paid out | 1 318 | 0 |
| Dividends | 1 295 | 0 |
| Directors' entitlements | 1 | 0 |
| Other parties entitled to a share in profit, employee profit-sharing | 22 | 0 |

It will be proposed to the general meeting of shareholders that the profit for appropriation of 2 340 million euros for the 2008 financial year be appropriated as shown in the table. No dividend will be paid for 2008.

# Notes to the company annual accounts (B-GAAP)

## NOTE 1: FINANCIAL FIXED ASSETS (B-GAAP, NON-CONSOLIDATED)

| In millions of EUR | Participating interests in associated companies | Amounts receivable from associated companies | Participating interests in companies linked by participating interests | Amounts receivable from companies linked by participating interests |
|---|---|---|---|---|
| Carrying value at 31-12-2007 | 9 266 | 254 | 1 | 10 |
| Acquisitions in 2008 | 4 286 | 0 | 0 | 0 |
| Disposals in 2008 | -43 | -4 | 0 | 0 |
| Other changes in 2008 | 0 | 0 | 0 | 0 |
| **Carrying value at 31-12-2008** | **13 510** | **250** | **1** | **10** |

KBC Group NV's participating interests in associated companies comprise mainly the shareholdings in KBC Bank NV (99.99%), KBC Insurance NV (99.99%), KBL European Private Bankers SA (91.49% – excluding the KBL EPB shares held by Kredietcorp SA), KBC Global Services NV (99.99%) and KBC Asset Management NV (48.14%). The main changes compared with year-end 2007 relate to the subscription to capital increases carried out at KBC Bank NV (2 250 million euros), at KBC Insurance NV (500 million euros and 1 250 million euros) and at KBC Global Services NV (100 million euros), the capital increase carried out at KBC Bank NV through the contribution of the debt claims arising from the redemption of mandatorily convertible bonds (MCBs) that had reached maturity (186 million euros) and the sale of KBC Real Estate NV to KBC Bank NV (-43 million euros).

The amounts receivable from associated 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 loan issued in 2005 by Nova Ljubljanska banka that KBC Group NV subscribed to.

## NOTE 2: CHANGES IN CAPITAL AND RESERVES (B-GAAP; NON-CONSOLIDATED)

| In millions of EUR | 31-12-2007 | Capital increase for staff | Conversion of MCBs and exercise of warrants | Other | Retained profit | 31-12-2008 |
|---|---|---|---|---|---|---|
| Capital | 1 235 | 0 | 9 | 0 | 0 | 1 244 |
| Share premium account | 4 158 | 1 | 173 | 0 | 0 | 4 332 |
| Reserves | 1 335 | 0 | 0 | 109 | 1 | 1 445 |
| Profit (Loss) brought forward | 1 543 | 0 | 0 | -109 | 796 | 2 230 |
| **Capital and reserves** | **8 271** | **1** | **182** | **0** | **797** | **9 251** |

## NOTE 3: DETAILS OF CHANGES IN CAPITAL AND THE SHARE PREMIUM ACCOUNT (B-GAAP; NON-CONSOLIDATED)

At year-end 2008, the company's issued share capital amounted to 1 244 334 873 euros. The share capital is fully paid up and increased by 9 178 503 euros during the course of the financial year. On 31 December 2008, it was represented by 357 752 822 shares. The number of VVPR strips issued came to 58 119 134 at that time. Of the 2 637 501 shares issued in 2008, 2 572 876 will only be entitled to dividend from the 2009 financial year.

| In EUR | Date | Capital | Share premium account | Number of shares |
|---|---|---|---|---|
| Contribution of 1998–2008 MCBs | 30-03-2007 | 1 234 732 276 | 4 149 003 198 | 363 223 178 |
| Cancellation of own shares | 27-04-2007 | 1 234 732 276 | 4 149 003 198 | 354 993 455 |
| Contribution of 1998–2008 MCBs | 29-06-2007 | 1 234 751 743 | 4 149 375 478 | 354 999 049 |
| Contribution of 1998–2008 MCBs | 28-09-2007 | 1 234 767 668 | 4 149 680 010 | 355 003 625 |
| Capital increase for staff | 28-12-2007 | 1 235 153 499 | 4 158 143 903 | 355 114 496 |
| Contribution of 1998–2008 MCBs | 31-12-2007 | 1 235 156 370 | 4 158 198 806 | 355 115 321 |
| Contribution of 1998–2008 MCBs | 31-03-2008 | 1 235 168 055 | 4 158 422 282 | 355 118 679 |
| Contribution of 1998–2008 MCBs | 30-06-2008 | 1 235 182 073 | 4 158 690 345 | 355 122 707 |
| Contribution of 1998–2008 MCBs | 30-09-2008 | 1 235 381 264 | 4 162 499 601 | 355 179 946 |
| Contribution of 1998–2008 MCBs | 01-12-2008 | 1 244 167 297 | 4 330 519 850 | 357 704 668 |
| Capital increase for staff | 31-12-2008 | 1 244 334 873 | 4 331 754 518 | 357 752 822 |

The main changes in 2008 are as follows:

- As a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, 48 154 new VVPR shares were issued that were reserved exclusively for the personnel 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 29.12 euros and will be blocked for two years. Through this capital increase, the group aims to strengthen its ties with personnel. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.
- Further, during the course of the financial year, 64 625 new VVPR shares were created through the contribution (on 31 March 2008, 30 June 2008 and 30 September 2008) of an equal number of subordinated 1998–2008 MCBs redeemable in KBC Group NV shares. These MCBs reached maturity on 30 November 2008. In accordance with the issue conditions, all 2 524 722 MCBs still outstanding were contributed to the capital of KBC Group NV on 1 December 2008. Consequently, a total of 2 589 347 new VVPR shares were created during the 2008 financial year and the number of MCBs reduced to zero.

The authorisation to increase capital may be exercised until 17 June 2012 for an amount of 199 446 593 euros. Consequently, based on a par value of 3.48 euros a share, a maximum of 57 312 239 new KBC Group NV shares can be issued under this authorisation.

## NOTE 4: SHAREHOLDERS

The table shows the shareholder structure based on the notifications received pursuant to:
- the Belgian Act of 2 May 2007 on the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market;
- Articles 631 and 632 of the Belgian Companies Code.

### Shareholder structure (notifications in accordance with 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 notification) |
|---|---|---|---|
| KBC Ancora Comm.VA | 1 September 2008 | 5 Philipssite, box 10, 3001 Leuven, Belgium | 82 216 380 (23.15%) |
| Cera CVBA | 1 September 2008 | 5 Philipssite, box 10, 3001 Leuven, Belgium | 25 903 183 (7.29%) |
| MRBB CVBA | 1 September 2008 | 40 Diestsevest, 3000 Leuven, Belgium | 42 562 675 (11.99%) |
| Other core shareholders | 1 September 2008 | C/o Ph. Vlerick, 2 Ronsevaalstraat, 8510 Bellegem, Belgium | 39 867 989 (11.23%) |
| KBC group companies | 1 September 2008 | 2 Havenlaan, 1080 Brussels, Belgium | 18 240 777 (5.14%) |

### Shareholder structure on 31-12-2008 (notification in accordance with the Belgian Companies Code)

| | Address | Number of KBC shares |
|---|---|---|
| Assurisk SA | 8-10 avenue de la Gare, 1610 Luxembourg, Grand Duchy of Luxembourg | 300 |
| KBC Bank NV | 2 Havenlaan, 1080 Brussels, Belgium | 3 920 845 |
| KBC Investments Limited | 111 Old Broad Street, EC2N 1FP London, United Kingdom | 20 459 |
| KBC Securities NV | 12 Havenlaan, 1080 Brussels, Belgium | 18 879 |
| VITIS Life Luxembourg SA | 7 boulevard Royal, postbox 803, 2018 Luxembourg, Grand Duchy of Luxembourg | 2 400 |
| **Total** | | **3 962 883** |
| *As a percentage of the total number of shares* | | *1.1%* |

Information on (changes in) KBC shares held by KBC Group NV is provided in the 'Structure, strategy and shareholder information' section under the heading, 'KBC share in 2008'. The average par value of the KBC share came to 3.48 euros during 2008.

### KBC Group NV own shares, 31-12-2008

| | Address | Number of KBC shares |
|---|---|---|
| KBC Group NV | 2 Havenlaan, 1080 Brussels, Belgium | 14 253 502 |

## NOTE 5: BALANCE SHEET

'Investments' came to 317 million euros at year-end 2008. The year-on-year decrease (-798 million euros) was consequent on a decline in term investments (-95 million euros) and in own shares (-703 million euros). The fall in own shares is due primarily to 2 924 265 own shares being repurchased (+253 million euros) and to the total portfolio being marked down according to the lower of cost or market (LOCOM) rule (-952 million euros).
On balance, 'Amounts payable at more than one year' rose by 3 874 million euros, chiefly due to the Belgian Federal Government (through Federale Participatie- en Investeringsmaatschappij NV) subscribing to 3 500-million-euros' worth of yield-enhanced securities issued by KBC Group NV, and the issue of a credit-linked bond loan for 300 million euros.
'Financial debts payable within one year' fell by 115 million euros, primarily on account of a reduction in the issue of commercial paper (-160 million euros). The decrease in the 'Other creditors' heading (-1 324 million euros) is mainly attributable to the dividend payment made during the 2008 financial year.

## NOTE 6: PROFIT AND LOSS ACCOUNT

At the start of 2008, a VAT group was set up for the KBC group, with KBC Global Services NV acting as the representative member. Consequently, the cost-sharing structure that had previously operated within KBC Group NV was discontinued and the activities transferred to KBC Global Services NV. The employees of the cost-sharing structure were therefore also transferred from KBC Group NV to KBC Global Services NV. This structural change accounts for the considerable reduction in both operating expenses and operating income.

KBC Group NV made a net profit of 797 million euros in 2008. The main income items were dividend receipts totalling 1 827 million euros from KBC Bank NV, KBC Insurance NV, KBC Asset Management NV, KBL European Private Bankers SA, Kredietcorp SA and Gebema NV. The year-on-year decrease of 664 million euros was due primarily to the lower dividend paid by KBC Bank NV and KBL European Private Bankers SA.
The main expense items were impairment on own shares (952 million euros) and debt-service charges (79 million euros).

## NOTE 7: AUDITOR'S REMUNERATION

In 2008, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 76 628 euros for standard audit services. Remuneration paid for other services came to 339 306 euros, viz:
- other certifications: 25 055 euros;
- other non-audit assignments: 314 251 euros.

## NOTE 8: CONFLICTS OF INTEREST

Please see the 'Corporate governance' section, under 'Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code'.

## NOTE 9: SHARE BUYBACK PROGRAMMES

Please see the 'Structure, strategy and shareholder information' section under the heading, 'KBC share in 2008'.

## GLOSSARY OF RATIOS USED

**Basic earnings per share**
[profit after tax, attributable to equity holders of the parent] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares].

**CAD ratio (banking)**
[regulatory capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management' section.

**Claims reserve ratio (insurance)**
[average net provision for claims outstanding, non-life] / [net earned premiums, non-life].

**Combined ratio (non-life insurance)**
[net claims incurred / net earned premiums] + [net expenses / net written premiums].

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

**Cost/income ratio**
[operating expenses of the banking activities] / [total income of the banking activities]. The banking activities are defined as the sum of the banking business and the European private banking business.

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

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

**Diluted earnings per share**
[profit 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, plus mandatorily convertible bonds, less treasury shares, plus the dilutive effect of options and non-mandatorily convertible bonds].

**Dividend per share**
[amount of dividend paid out] / [number of shares entitled to dividend at period-end].

**Equity market capitalisation**
[closing price of KBC share] x [number of ordinary shares].

**Equity per share**
[parent shareholders' equity excluding the core-capital instruments without voting rights] / [number of ordinary shares and mandatorily convertible bonds, less treasury shares (at period-end)].

**Gearing ratio**
[sum of the consolidated equity of KBC Bank, KBC Insurance, KBL EPB, KBC Global Services and KBC Asset Management (the portion held by the KBC group)] / [consolidated equity of the KBC group].

**Non-performing 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].

**Return on allocated capital for a particular business unit**
[profit 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 net profit of a business unit is the sum of the net profit made 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 a tier-1 ratio of 8.5% (under Basel II) for the banking activities and a solvency ratio of 200% for the insurance activities. For the banking activities, the allocated tier-1 capital comprises core capital (75%) and hybrid capital (25%). For the insurance activities, the allocated solvency capital comprises solely core capital. In calculating the return on allocated capital, only core capital is taken into account in the denominator.

**Return on equity**
[profit after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets and core-capital instruments without voting rights].

**Solvency ratio (group)**
[solvency capital available to the KBC group] / [minimum regulatory solvency capital of KBC Bank, KBL EPB, and the holding-company activities (net of intercompany transactions between these entities) and KBC Insurance combined].

**Solvency ratio (insurance)**
[available solvency capital] / [minimum regulatory solvency capital]. For detailed calculations, see the 'Value and risk management' section.

Information on products, services and publications of the KBC group can be obtained from the KBC-Telecenter
on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m.
Tel. + 32 78 152 153 (Dutch) or + 32 78 152 154 (French, English, German)
E-mail kbc.telecenter@kbc.be

Shareholders and the press can also contact KBC's Press Office and Investor Relations Office,
whose contact details appear in the 'Structure, strategy and shareholder information' section,
along with a financial calendar.

Editor-in-chief: Investor Relations – IRO, 2 Havenlaan, 1080 Brussels, Belgium
Sub-editing, translation, concept and design: Communication Division – CMM, 100 Brusselsesteenweg, 3000 Leuven, Belgium
Photos: www.gregsmolders.be
Printer: Van der Poorten, 624 Diestsesteenweg, 3010 Leuven, Belgium
Publisher: KBC Group NV, 2 Havenlaan, 1080 Brussels, Belgium.

This annual report has been printed on environmentally-friendly paper.